

Our Mission

We are committed to delivering to our Shareholders the best ever returns a listed Company has given over the first seven years of listing. For our Employees, we are committed to creating exciting new opportunities and a rising share of wealth. For our Business Partners, we will be a winner to grow with. To our Customers, from all quarters, we will deliver excellence... every time. We are a responsible corporate citizen close to the lives of the Community. To the State, we are a future winner with the nation at heart.

Our Core Values

- Passion for customer
- Obsession for performance
- Driven by innovation
- Concern for people

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group profile

Hemas was born in 1948 when Sheikh Hasannally Esufally (MBE) formed a company named Hemas (Drugs) Limited to trade in pharmaceuticals and chemicals in the newly independent Sri Lanka. The company began diversifying its operations as opportunities emerged in the 1960s, first in the manufacture of toiletries in collaboration with a French company.

With the liberalization of commerce in Sri Lanka in the late 1970s, the Group ventured into travel & tourism, commodity exports, apparel, power, and transportation. Hemas Holdings, the parent company of the Group went public in 2003.

Today, Hemas Holdings has a solid reputation as one of Sri Lanka's foremost business houses, built around traditional values, a dynamic management team with futuristic vision, a highly competitive family of employees, and a steadfast commitment to quality and service to the community.

FMCG

The largest sector of Hemas, the FMCG Sector is involved in the development, manufacture, marketing and distribution of a vast range of consumer products, most of which have become household names over the decades. Backed by an ISO 9001 certified production facility, the FMCG sector has a distribution reach across the length and breadth of Sri Lanka.

Healthcare

Our Healthcare Sector is built on the foundation of nearly 60 years' experience with the world's leading pharmaceutical products, and we currently represent more than 30 multinational companies from around the world. For pharmaceutical distribution, Hemas is the market leader in the private sector.

Leisure

Hemtours is one of Sri Lanka's best known tour operators, with long-term relationships with some of the leading travel operators in Europe and Asia. Our hotel properties, namely Hotel Serendib, Club Hotel Dolphin and Hotel Sigiriya, are popular tourist destinations that are located along the coastal belt and in the cultural triangle.

Transportation

Our Transportation Sector provides a diverse range of services. Whilst we have the largest share in the market for Airline Representation, we are also engaged in Travel Retailing, Freight Management and Courier Services.

Strategic Investments

The strategic investment in the Power Sector we made two years ago through the Heladhanavi Power Plant at Puttalam has thus far proven to be a successful one. With this experience, now we are exploring investment opportunities in mini hydro power generation.

In the Property Sector, we make our presence through Hemas House, owned and managed by Hemas Developments, which has been achieving healthy growth year on year. Hemas House is a 11 storied office complex with modern facilities that caters to a high profile clientele.



Year Ended 31st March	2006	2005	% Change	2004
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Operating Results

Group Revenue	Rs'000s	9,429,767	8,797,881	7.2	6,485,422
Profit before Interest and Tax *	Rs'000s	1,540,433	1,213,220	27.0	915,824
Profit before Tax *	Rs'000s	1,258,604	1,057,678	19.0	867,184
Profit after Tax *	Rs'000s	976,766	832,535	17.3	687,116
Profit attributable to the Group *	Rs'000s	969,829	836,973	15.9	645,514
Dividends	Rs'000s	248,747	237,185	4.9	147,500
Cash from Operations	Rs'000s	1,035,785	1,182,366	(12.4)	574,317

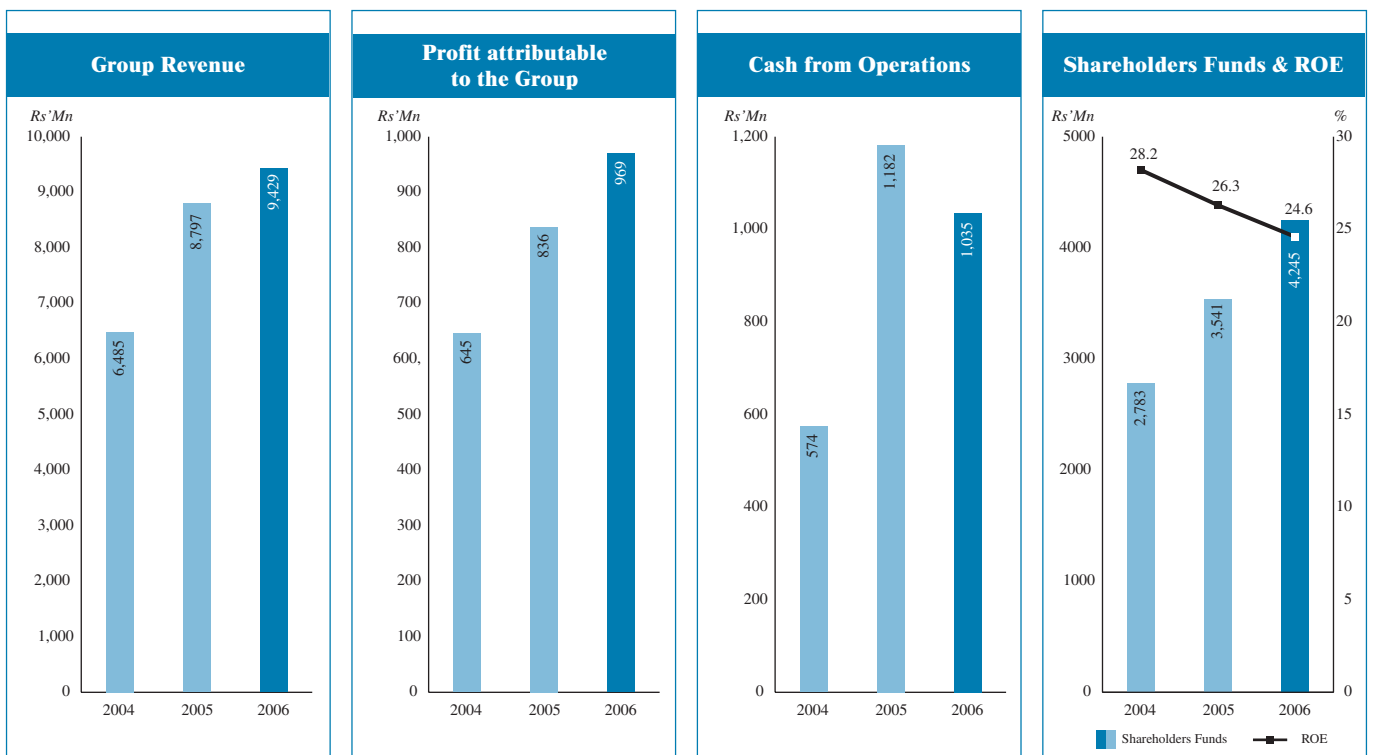
Balance Sheet Highlights

Total Assets *	Rs'000s	10,024,762	9,651,969	3.9	8,028,986
Total Shareholders' Funds *	Rs'000s	4,245,947	3,541,973	19.9	2,783,416
No. of Shares	'000s	99,801	79,130	26.1	78,000
Debt to Equity *	%	62.6	82.6	(24.3)	92.1

Shareholder Information

Return on Equity *	%	24.6	26.3	(6.4)	28.2
Earnings per Share *	Rs.	9.63	8.43	14.2	6.98
Dividends per Share	Rs.	2.5	3.0	(16.7)	2.5
Dividend Payout *	%	26.0	28.5	(9.0)	22.9
Net Assets per Share *	Rs.	42.5	35.8	18.7	27.0
Market Capitalisation	Rs'000s	11,052,988	8,625,121	28.1	6,883,500
Price Earnings Ratio	Times	11.5	10.8	6.5	10.7
Market Price as at 31st March	Rs.	110.75	109.00	1.6	88.25

* Restated



potential is the possibility that lies within. to potentiate is to harness existing potential and achieve maximum returns.

at hemas we harness the potential latent within our people, equipping them with the tools to succeed. in turn they potentiate every opportunity available to them at the workplace.

**This is the mark of a true team.
This is the formula of our success.**

potentiate

verb [trans.] technical

increase the power, effect, or likelihood of (something, esp. physiological reaction)

ORIGIN early 19th cent.: from POTENT, on the pattern of *substantiate*.

passion for customer

At Hemas, customers aren't just customers. They are our passion. As one of our four core values, 'passion for customer' has been a cornerstone of the success story of Hemas over the years. By inculcating this core value across all our employees, we unlock the potential that lies within them to find new and better ways to serve our customers. The spectacular success story of re-launching our flagship brand, Baby Cheramy, underlines the manner in which Hemas provides the drive for its employees to unlock this latent potential.

One of the leading brands in the country, Baby Cheramy, had gained an image as an old, traditional brand. Amid a new and glamorous range of competing brands, Baby Cheramy needed a

makeover, a change in image to stay ahead in the market. Hemas' Baby Cheramy team decided to give it a fresh image, yet one that was not so radically different as to discourage customers who had placed their faith in Baby Cheramy for generations.

The team embarked on an extensive research and testing process that saw each member of the team harnessing his or her potential to the fullest. Thus, the new Baby Cheramy image was born, and its success is evident in its remarkable growth subsequent to the re-launch.

Passion for customer.... A way of life at Hemas

Our Core Values

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- Obsession for performance
- Driven by innovation
- Concern for people



obsession for performance

At Hemas, performance is our obsession. The desire for continuous improvement cuts across all our activities in the Group, from manufacturing to sales to finance. Not satisfied with what was already an impressive performance, we needed a tool that could redefine our performance boundaries.

Thus came Project Genesis, which introduced a technology that has brought about a transformation of the entire Group, integrating core business processes. Project Genesis - the implementation of an ERP system on an SAP platform - is the single largest project carried out at Hemas. Whilst the final aim of the project was to enhance our overall performance, the fact that we successfully completed the project in record time is a true reflection of our 'obsession for performance'.

Project Genesis brought together hundreds of people from different businesses and different functions across the Group. Delivering exceptional performance by tapping into the fullest potential of such a highly diverse team of individuals was indeed a great achievement. The project was all about training, unlearning obsolete work habits and learning new ones, bringing out the hidden potential in people and laying a firm foundation for teamwork.

The common thread that runs across all our people to work as one and deliver superior results is the Hemas culture that is obsessed for performance.

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driven by innovation

To be 'driven by innovation' is one of our four core values that are instilled across the Group. In every business we are engaged in, we endeavor to innovate with a view to enhancing our overall performance. To this end, product innovation, market innovation and business model innovation are part and parcel of each and every business within our Group. As a core value, innovation is a day-to-day thought and action process which cuts across all levels at Hemas.

The success of our past innovations, such as Clogard Toothpaste, Kumarika Hair Oil and Pro-Sport & Gold Hair Gel Sachets is reflected in the strong market shares enjoyed by these products in the respective categories. These successes were possible as a result

of innovative, out-of-the-box thinking backed by market intelligence and research & development.

The benefits of inculcating an innovative culture are multi-faceted. Whilst it enhances product & service qualities, improves efficiencies and helps satisfy unmet customer needs, it also offers unforeseen potential for business growth for the Group and personal development for our people. As such, harnessing the full potential of our people through a culture driven by innovation is a mandate that is taken on by the top management at Hemas.

Innovation has been a part of Hemas throughout its history, and going forward it will no doubt be a key factor in our future success.

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concern for people

Harnessing the potential of the Hemas Group and its employees goes beyond business activities and personal careers. 'Concern for people' has been a distinguishing virtue in the Hemas way.

Hemas' employees used their extensive experience in previous social responsibility projects throughout the island to the maximum possible use, touching the lives of thousands and just as importantly, providing hope to entire communities that the world around them did care about their plight and was willing to help.

Among the devastation brought by the Tsunami was the destruction of large numbers of pre-schools throughout the country's coastal districts. Sadly, although there was a rush to rebuild schools for older

children from primary to advanced levels, pre-schools did not receive much attention from the outside world.

This is where the staff of Hemas stepped in and firmly took upon themselves a leadership role among private sector organizations.

Thousands of children of pre-school age who were traumatized with the loss of their homes and their families now have a place where they can once again begin to experience a semblance of normalcy - the warmth and caring of a pre-school environment.

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chairman's review

As the first independent non-executive Chairman of Hemas Holdings Ltd, I thought it would be appropriate to reflect on the past, the present, and the future.

One of the interesting features of our economy during the last two or three decades is that innovation and true enterprise have come from the small family business. Many have now grown to become large and successful companies. The old established public companies have largely grown through acquisitions of other private companies and from acquiring the assets sold by the Government.

To accelerate the growth of our economy in the 21st century, it would be most beneficial if the family firms now owning large and successful companies, convert them into Public Quoted Companies.

This will enable the public to invest in them and share their prosperity, and it will also open new avenues of capital to these companies that will facilitate further investment and growth.

process moved seamlessly from around the family breakfast table to a consensus process around the Board table, with inputs from the two non-family executive directors, and the wisdom of the three non-executive directors, all of them with their vast and varied experience.

An Audit Committee and a Remuneration Committee were established, and are both chaired by non-executive directors. The final act of consummating the move from private to public was the appointment of an independent non-executive Chairman. I feel honoured to be elected Chairman and pleased to have been associated with the process of making Hemas a public company.

The expectations of the public investors of the shares of Hemas I believe have been amply met. Sales in the last full year before the public offering in September 2003 was Rs. 5,290 million, and the profits Rs. 401 million. At the end of 2005/06, sales were Rs. 9,430 million and profits were Rs. 970 million. This is a performance that should please all our shareholders.

“ The expectations of the public investors of the shares of Hemas I believe have been amply met. ”

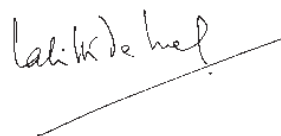
Sadly, very few have gone down this route, and those that remain in their private family firm garb should be alive to the sickness that seems to affect many of them when the business moves to the third generation of the founding father.

Hemas is a textbook example of a small entrepreneurial family business growing to become a large and successful conglomerate. They have now taken the next laudable step of becoming a public quoted company. When the public was invited to subscribe for the shares they had to make a risk return assessment while knowing relatively little about the past except for what was stated in the prospectus. Hemas as a family firm had however clearly created the right vibrations and the share issue was oversubscribed 11 times.

Then began the journey as a public company. It was not adequate for the new company to put on the vestments of good corporate governance. There had to be both form and substance, and I believe that this firm has achieved both. The decision-making

The entire Board reviewed the plans for the coming year and the longer term strategies in April, and we were all impressed with the enthusiasm of the management, and their confidence in the future. The CEO will deal comprehensively with the company's performance in his review, and therefore I will say no more.

I would like to thank my colleagues on the Board for their support, and I thank all employees for their fine contribution to the success of Hemas Holdings Ltd in 2005/06.



Lalith de Mel
Chairman



ceo's review

It gives me great pleasure to present the Annual Report of your Company for the year ended 31st March 2006. The country's economy once again proved its resilience in the face of adversity, with increased economic growth and reduced inflation in a year when a significant part of the nation was rebuilding from the devastation of the Tsunami. Overall economic activity recorded a significant increase in 2005, with a GDP growth of 6.2% compared to a GDP growth of 5.4% in the previous year. This coupled with single digit inflation and a stable exchange rate, helped boost industry growth in both our FMCG and Healthcare businesses. The post-Tsunami recovery of the tourism industry was slower than anticipated although there are signs that the worst is over. An aggressive and effective promotion of Sri Lanka as a destination will be vital for the Industry to get back on its feet and realize its full potential.

Group Earnings approach Rs 1 Billion

Your Company performed well to record Earnings of Rs 970Mn, up from Rs 837Mn the previous year. This reflects an Earnings growth of 15.9%. Group Turnover increased by 7.2% over the year, closing at Rs 9.4Bn.

Cheramy which recorded significant gains in market share. In order to accelerate growth without diluting focus on our core Personal care business, the Sector restructured its activities by forming a dedicated Division to focus on Foods & Homecare where it has increased its presence largely through acquisitions. The Sector intends to take advantage of the incentives offered under the Government's program to encourage industries to set up outside Colombo & Gampaha provinces.

The Healthcare Sector continued to show good progress with healthy growth in both Turnover and Profits. The pharmaceuticals business maintained its leadership position in the private-sector market with the year-end market share standing at 15.8%. In line with its ambition to enter the fast growing Healthcare services industry, the Sector made a strategic acquisition of a 25% stake in eChannelling Ltd, which controls the doctor reservation system at most leading private hospitals in the country. The Sector has identified a need gap in the provision of good quality Healthcare services outside Colombo and hopes to finalize its model in the coming year.

" In the lengthy success story of Hemas, the biggest success factor has been our people - our management team and our staff. "

A key philosophy at Hemas is that long term shareholder value is best created through delivering a superior Return on Equity (ROE) by way of sustained earnings growth. In this respect, for the year under review we have achieved an ROE of 24.6%, which is the same as our average ROE over the last 5 years. The challenge your Company faces going forward is how to maintain these high returns whilst pursuing accelerated growth.

Hemas share price closed on 31st March 2006 at Rs 110.75. During the financial year under review, Hemas shares delivered a total return of 29.9%.

Key Sectors perform strongly

The FMCG sector had a great year although the incidence of higher taxation took the shine off post tax Earnings. Strong Industry growth coupled with Market share gains helped Revenues grow by 10.2%. Earnings grew at a faster rate of 11.8%, despite higher taxation on account of the disallowance of 50% of all advertising & promotional expenditure. Most of our key brands did well, especially Baby

The Transportation Sector, which consists of airline representation, travel agency, and freight management, achieved an excellent profit in the year under review, with growth being driven by the expansion of passenger and cargo traffic into and through Sri Lanka. The Sector diversified its activities through the acquisition of ACX Courier which is a well known brand in the courier business. The regional expansion efforts of our freight management arm is set to gain momentum this year with operational infrastructure being setup in Mumbai, Chennai and Karachi. Our freight management business was further strengthened last year, through our joint venture partnership with Hellmann Worldwide Logistics.

Low occupancies in resort hotels during most parts of last year evidenced the slower than expected post-tsunami recovery. Some resurgence was evident towards the end of the winter season which gives room for optimism. Not surprisingly, the low arrivals adversely impacted Sector performance. Given the current instability, the Sector has postponed plans to develop a new 5 star hotel in Tangalle

and instead is focusing on repositioning its existing properties in collaboration with a foreign operator.

Heladhanavi, our 100 MW power generation plant in Puttalam, successfully completed its first full financial year of operations delivering 698.5Mn KWh to the national grid. The depreciation policy for Heladhanavi has been revised by its board of directors to better reflect the useful life of the plant. As a result there would be a considerable reduction in the annual depreciation charge from 2005/06 onwards.

Focusing on developing Talent

In the lengthy success story of Hemas, the biggest success factor has been our people - our management team and our staff. The theme we have chosen for this year's cover is 'potentiate' which means to "increase the power, effect, or likelihood of ...". At Hemas we groom our people to potentiate opportunities. We believe this makes the difference between success and mediocrity.

This year we placed the Talent management function under a Board Director and boosted investment in Training & Development. Several of our Managers attended Executive education programs overseas and a senior management team attended a 3 day program focusing on 'Strategies for Growth' at ISB in Hyderabad. A 360° feedback program was also conducted to assist senior managers in their Personal development.

We continue to fine tune our Performance Management System to strengthen alignment between business objectives and individual performance, and to improve our performance-based rewarding mechanism. Coupled with an assessment against our Values and an assessment of Potential, there is now an established basis to help evaluate and develop each individual.

Project Genesis

An all important milestone for the year under review was Project Genesis. The first phase of the project was the implementation of the SAP R/3 ERP System, which was completed in a record time of five and a half months due to the combined team effort of staff members across the Group. The second phase involved the setting up of a Business Warehouse & Enterprise Portal to support decision making, whilst the third phase comprised of a group-wide transformation of the finance organization into a knowledge-based Shared Services Unit for Accounting & Finance.

The expected benefits are already evident, among which are operational excellence across the Group being redefined at a higher

level, and improved decision-making for the senior management team. We are confident that the investment of Rs 120 million for this project will pay back in the near future

Commitment towards our nation's children

A large part of our social responsibility efforts are directed towards Early Childhood Care & Development. We continued to support our Piyawara program which supports 10 preschools throughout the island in partnership with the Ministry of Social Welfare & Development.

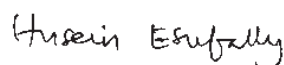
Following the Tsunami, we set up the Hemas Tsunami Foundation which is now a registered non-governmental organization with an independent Board of Trustees. The foundation was successful in raising commitments in excess of Rs 100 million, Rs 25 million of which was from your Company. Through this, the Foundation has been able to construct 20 preschools in the Tsunami affected areas and these efforts are more fully described under the section on Community Relations.

Looking ahead

Despite the uncertain business outlook, your Company is optimistic about the long term prospects for its core businesses which have proved resilient. Our FMCG Sector continues to outperform the market and we are constantly looking for opportunities to grow through acquisition in a manner that would enhance shareholder value. Your Company sees Healthcare as a high growth area and entering the Hospital space would considerably strengthen our presence in this Sector. Tourism of course remains Sri Lanka's best long term opportunity, but, your Company has to consider the prevailing situation in its investment decisions.

In the coming year, our endeavors to improve customer satisfaction and operational excellence will continue unabated, and through this we will strive to continue to deliver exceptional returns to our shareholders.

I would like to take this opportunity to thank all our Stakeholders for the trust and confidence placed in us over the years. Let me also thank our incoming Chairman, my fellow Board members and all members of the Hemas Team for their support and commitment without which we would not be able to deliver these results.



Husein Esufally

Director and Chief Executive Officer



**business
potentiation**

fmcg

sector operational review

Hemas FMCG (Fast Moving Consumer Goods) Sector is primarily engaged in the manufacture, marketing and distribution of Personal Care, Personal Wash, Household and Food products. Whilst Sector revenues are dominated by the Personal Care category, for which Hemas has the second largest market share in the country, we have been gradually increasing our exposure to the wider FMCG industry by entering new categories.

The financial year under review began on a cautious note as the market growth was threatened by unfavorable economic conditions which prevailed at the time. However, over the year, as macroeconomic conditions began to improve, especially with declining inflation and a stable rupee, consumer demand picked up resulting in a healthy market growth. Most of our brands outperformed their competitors as they managed to increase their market shares in the respective categories.

For the year under review, the Sector posted a turnover of Rs 3,192Mn, a growth of 10.2%. Sector profits were Rs 393Mn, reflecting a growth of 11.8%. Profit growth was impacted by the



increased taxation due to 50% of the advertising spend being disallowed for tax purposes.

Our flagship brand, Baby Cheramy, which was re-launched two years ago, has achieved remarkable success in terms of market performance and profitability. Over the last year, Baby Cheramy was able to grow its market share considerably, and the fact that this was achieved in the midst of competing international brands demonstrates the strong brand equity associated with Baby Cheramy. In the Oral Care category, Clogard continues to maintain its market share as the largest 'local brand', in the presence of severe competition coming from both local and international players.

Baby Cheramy
pure love



During the year under review, the entire range of Goya perfumes was re-launched and the results have been impressive in terms of top-line performance. The new look and packaging are more in line with the other international brands that dominate this category. In the Hair Oil category, Kumarika Hair Oil has emerged as the market leader subsequent to its re-launch two years ago. We entered the Adult Soap category in February last year with the brand Velvet and thus far the Sector has been enjoying satisfactory results with this new brand.

The year under review has seen significant moves by Hemas to enter new categories such as snack foods and paper. Foods & homecare categories have grown to a size that justifies dedicated resources in order to provide greater focus. In view of this, we established a new division for foods & homecare during last year. The launch of Rockers potato chips and the subsequent brand acquisition of Mr Pop is an excellent platform for Hemas to grow in the snack foods category. We are currently in the process of widening our presence in the foods category by entering the confectionery (boiled sweets) market. In the paper category Hemas made its entry at the beginning of the financial year by acquiring

the brand Nimex and the fixed assets of Nimesha Enterprises. To-date the brand has been performing in line with initial expectations.

One of the key focus areas for the coming year is the expansion of international business. In view of this, a separate division for International Business is now being formed, and we are currently in the process of allocating the required resources for the division. With the positive signs we have seen with some of our products in the Southeast Asian markets, we are confident that this is an area with good prospects. Another key initiative by the Sector is to take advantage of incentives offered by the Government for business activities outside the Western Province. With this in mind, we are planning to relocate our factory to the neighboring Northwestern Province. This move, whilst enabling us to streamline production and upgrade the process, will entitle the company for a 5-year tax holiday and preferential rates thereafter.

Long-term growth of the FMCG industry is highly correlated with the general economic conditions of the country. Looking ahead over the medium-term future, we are confident that the Sector has good prospects.



healthcare

sector operational review

The main business line in the Healthcare Sector is the distribution of Pharmaceutical products, for which Hemas is the market leader in the private sector. The Sector is also engaged in the distribution of Surgical, Diagnostic and Veterinary products, where we have a relatively small but a growing presence.

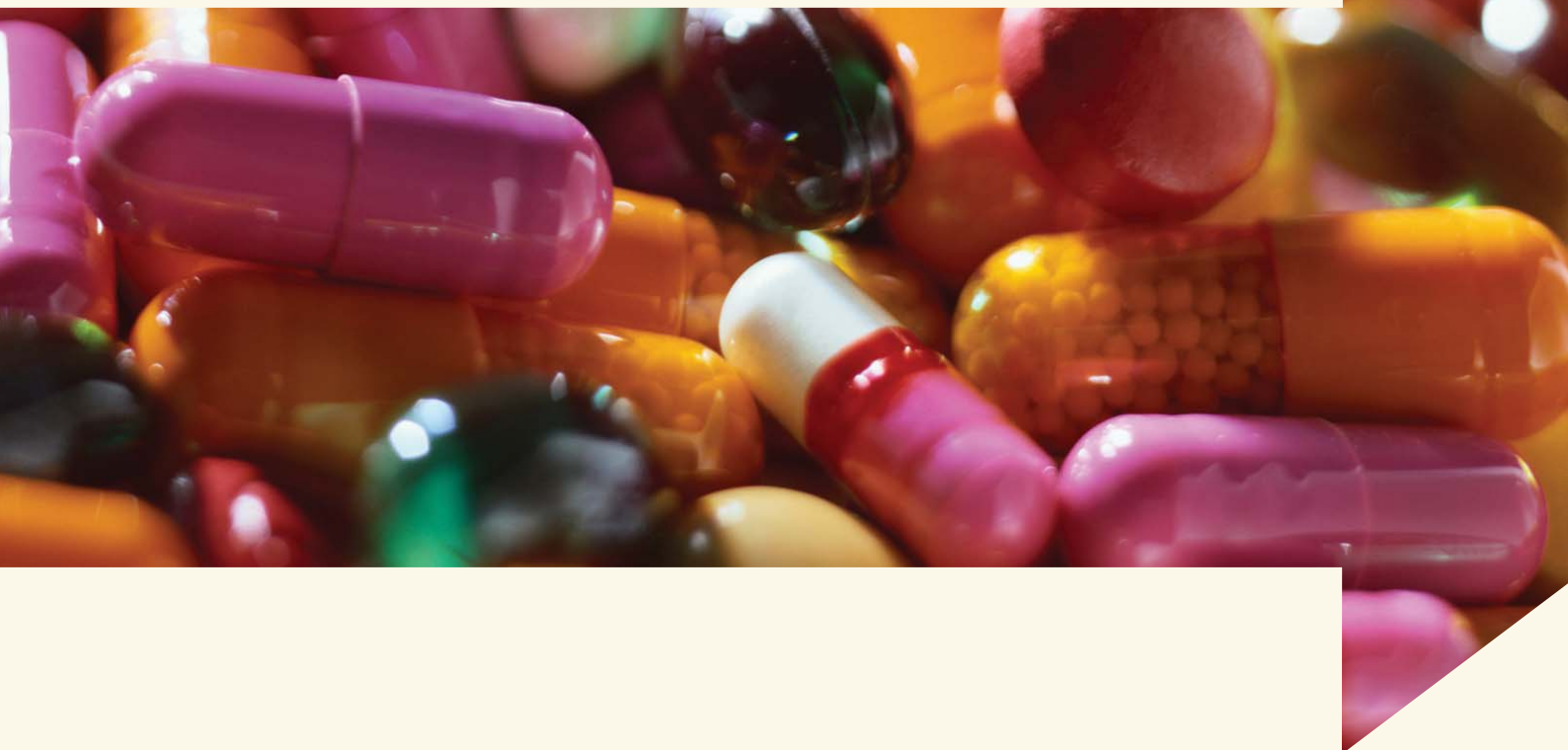
During the year 2005, the total market for pharmaceuticals (excluding SPC sales) grew at a rate of 10.0%, compared to a 14.0% growth during 2004. Our agency operations have been able to maintain a 15.3% growth for 2005, increasing its market share from 14.1% to 14.8% over the year. The market share in our own branding operations declined during the year from 1.7% to 1.0%, due to a gradual exit from the market. As a result, our total market share in pharmaceutical operations remained stable at 15.8% (market information is based on IMS data).

For the financial year under review, the Sector achieved a turnover of Rs 2,461Mn and a profit of Rs 131Mn. Both the Sector turnover and profits increased by 13.1% over the previous year.



The latest addition to our agency portfolio of global pharmaceutical suppliers is 'Torrent', which commenced operations in May last year. With this addition, we currently manage 19 agencies in the pharmaceutical category and 12 agencies in surgical, diagnostics and veterinary categories. We continue to add value to our principals by investing in infrastructure and support services to facilitate their business. The implementation of SAP has streamlined processes and information flow and we are confident of obtaining business benefits in time to come.

In line with our vision to expand from being a pharmaceutical company to a fully fledged provider of healthcare products and



services, Hemas invested in a 25% stake in e-Channelling Ltd, at a cost of Rs 43Mn. Although e-Channelling is primarily engaged in providing an electronic means for channeling the doctors, its long-term objective is to become a total provider of Healthcare Technology Solutions.

Another initiative aimed at getting closer to our Healthcare Sector Vision is the entry into the Hospital Industry. Currently we are in the process of evaluating several opportunities, and are confident of making substantial progress towards this end in the coming year. Hospital entry will be a key focus area for the year ahead. In addition the company will be placing greater focus on the allied

categories - surgicals, diagnostics and veterinary, with a view to becoming a leading player in the years to come.

As in the past, this year too, we have been playing a key role in adding value to the medical profession in various ways. Whilst we continue to support the key activities of various colleges attached to the field of medicine, the Hemas e-Resource Centre, which was setup in November 2004 in collaboration with the Sri Lanka Medical Association, has been a great success. Increasing numbers of doctors of different specialities have been using the e-Resource Centre for their educational needs.



leisure

sector operational review

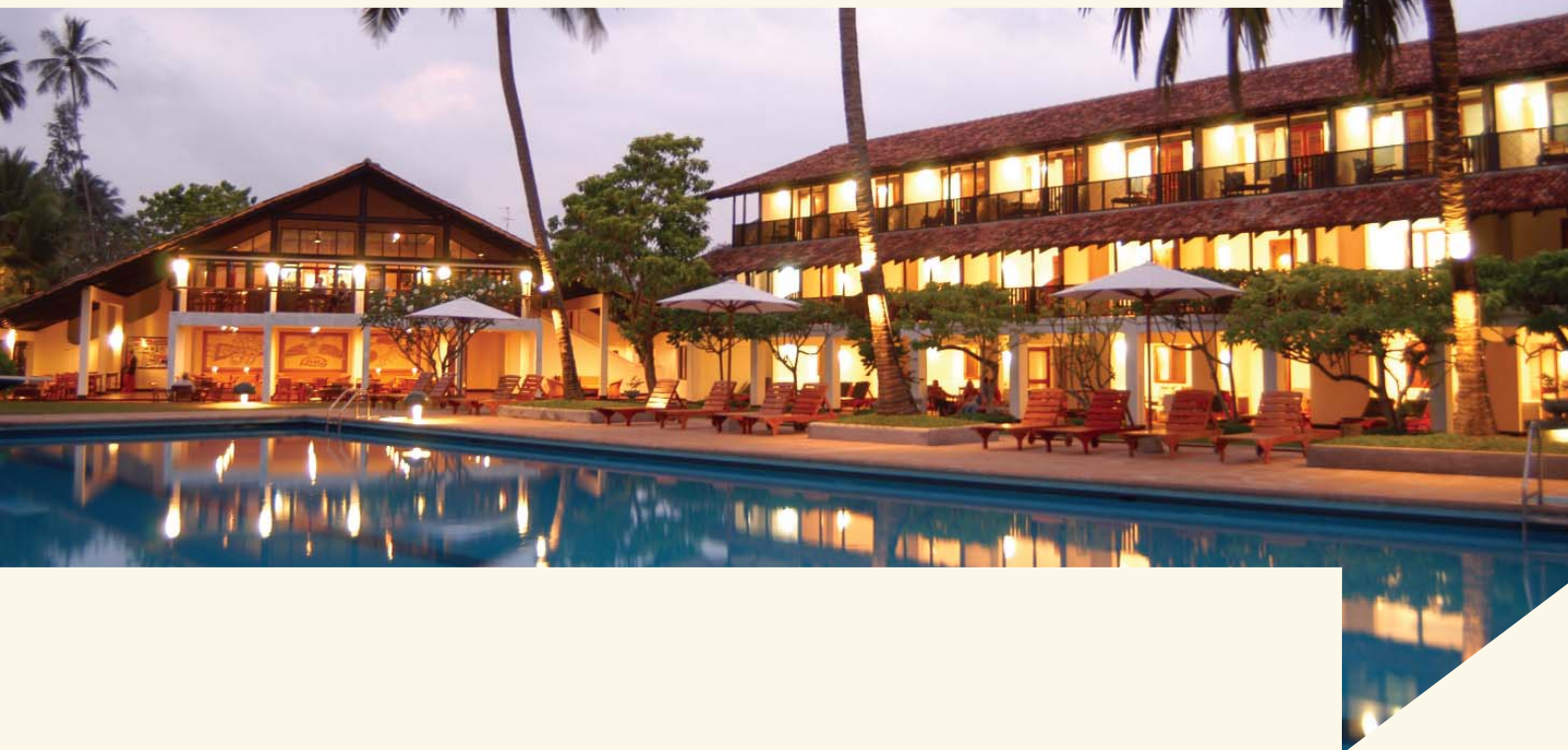
In the Leisure Sector, Hemas is engaged in the businesses of Destination Management, Travel Centre Operations and Ownership & Management of Resort Hotels. Whilst Destination Management and Travel Centre Operations are run by our fully owned subsidiary, Hemtours (Pte) Ltd, we make our presence in the Hotel Industry through Serendib Hotels Limited, in which we have a controlling shareholding.

Post-tsunami recovery in the tourism industry was slower than expected and as a result the first half of the financial year was somewhat lackluster for the entire industry. Resort occupancies in the summer season were far below the usual levels and this had a considerable impact on industry profitability. However, during the latter half of the financial year, industry prospects improved steadily, and the industry made a comeback in the winter season, during which most resorts enjoyed high occupancies. Whilst some of the long-haul markets such as Germany continued to be sluggish, arrivals from the UK grew strongly.



The Sector recorded a turnover of Rs 443Mn and a profit of Rs.38 Mn for the financial year under review. During the year we exited from our investment in Associated Hotels Ltd, with a capital gain of Rs 29Mn.

In Destination Management, Hemtours is aggressively pursuing short-haul markets in the Asian region. 'First Choice', our strategic partner in the UK, and a leading international operator, has commenced a regular charter service to Sri Lanka from this summer in response to the increasing demand for Sri Lanka from the UK market. The role of the Internet in the business of leisure is becoming more and more significant, and we are investing in IT



capabilities to offer sophisticated web-based services to our customers in the near future. This area is expected to become a key revenue earner for the company in the future. Our revenue streams will be further enhanced by the re-entry into the event management sector, where there are high growth prospects. Whilst the local market is a key market segment, we will be targeting foreign markets as well, in view of Sri Lanka's growing reputation as a value for money MICE (meetings, incentives, conventions and exhibitions) destination.

Our three hotels, Hotel Serendib, Club Hotel Dolphin and Hotel Sigiriya performed creditably throughout the year, given the post-tsunami situation. Whilst the hotel industry offers good growth

prospects over the long-term, we have postponed our plans to develop the property in Tangalle in view of the current uncertain outlook. This year our main focus will be to reposition and brand the three existing hotels. The objective here is to enhance shareholder value by improving hotel yields through higher product & service qualities.

The prospects for 2006/07 look promising, and we expect the tourist arrivals and the resort occupancies to build on the recovery that took place during the latter part of the financial year. Peace and stability in Sri Lanka will be a pre-requisite for the strong growth of the Leisure Sector businesses.



transportation

sector operational review

The range of businesses in the Hemas Transportation Sector includes, Airline Representation, Passenger Travel, Freight Management and Courier Services.

The highly competitive industry scenarios across all transportation businesses we are engaged in continued to prevail during the last financial year. Nevertheless, industry growth was evident in terms of increasing passenger and cargo traffic.

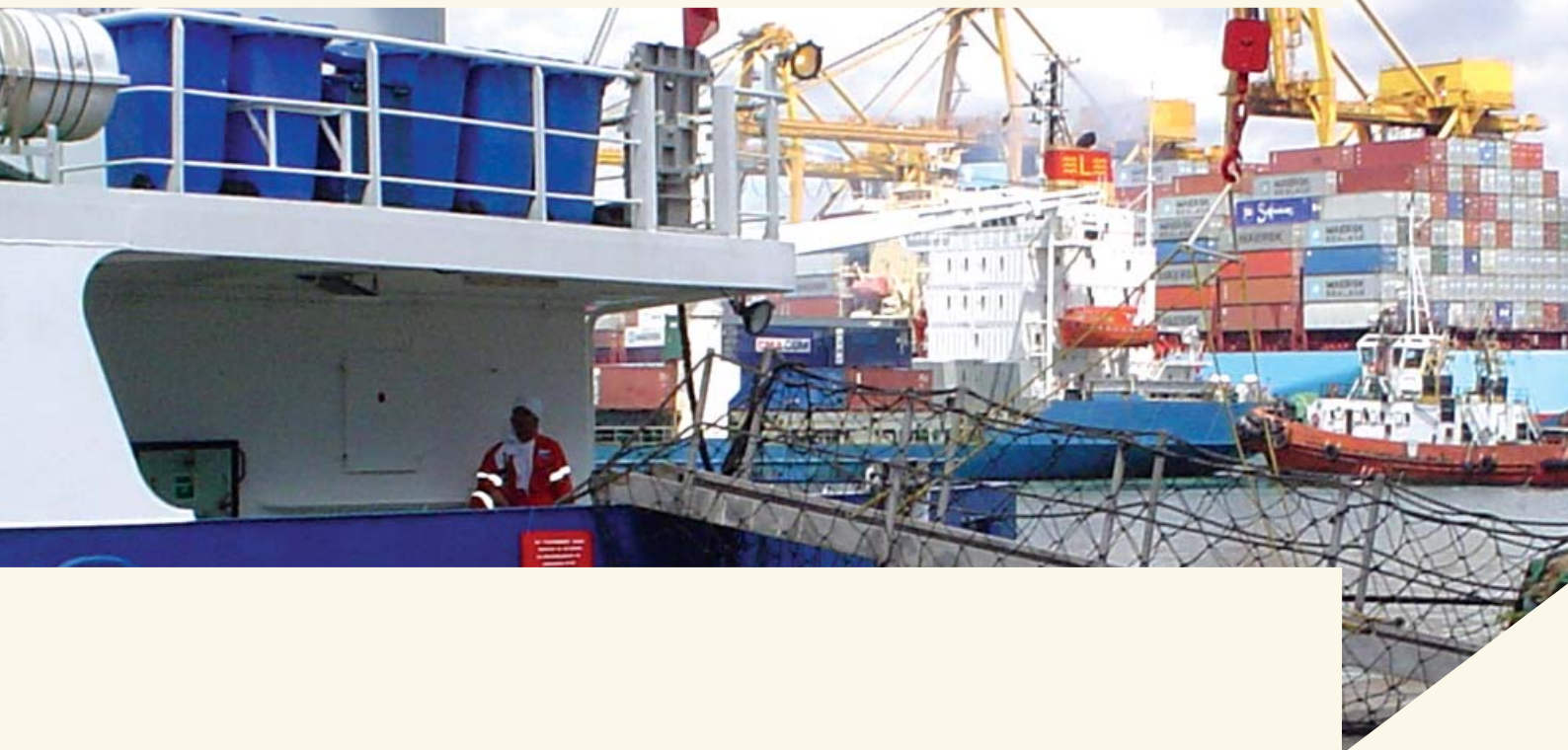
During the financial year under review, the Sector achieved a turnover of Rs 418Mn, up 16.6% from previous year, and a profit of Rs 106Mn, up 23.0%.

Our Airline General Sales Agency (GSA) Operations continued to see positive growth during the year. As market leaders in this segment, for both Passenger and Cargo, our airline partners continue to strengthen their operations. Hemas celebrated a decade long GSA relationship with Emirates, which coincided with the airline's 20th year in operation. These twin events were celebrated



by offering a variety of special airfares and package deals to the general public. An open skies agreement was signed by Sri Lanka and Malaysia during the year, paving the way for greater frequency of flights between the two countries. We expect this to have a positive influence on Malaysia Airlines in the future. The GSA's of Alitalia and Kenya Airways, both grew significantly during the year, while that of LTU declined due to the decrease in frequency to Colombo.

Hemas Travels, our Outbound Travel Operator has performed exceptionally well during the year under review. The focused plan



of offering greater value added services in a wide variety of areas ranging from hotels, packaged tours, to travelers cheques and insurance was a key element in this success. As pilot agents to the new Bank Settlement Plan (BSP) introduced to the passenger market, the company had taken initiatives to manage tighter working capital requirements that arise within this environment.

Our Freight Management arm achieved significant growth during last year, and we see many opportunities for further development in this business. An important step was the initiation of our regional operations through strategic partnerships with global networks. This initial step towards a regional presence in the Sector will be enhanced considerably later this year. There was also significant expansion of our network partners. Hemas entered a joint-venture

partnership with Hellmann, a leading global network. This joint-venture company is expected to be an important revenue earner for Hemas in the future.

In line with our objective of expanding the Logistics value chain, the acquisition of one of Sri Lanka's well-known courier companies 'ACX International' was concluded towards the end of the financial year. Subsequent to the acquisition, our initial steps were the reorganization of the company's management team and a focused development of global network partners. Whilst the company has seen improved performance since the takeover, we expect the impact of these strategic changes to be fully visible in the next financial year.



strategic investments

sector operational review

Power

We have our presence in the Power Generation Sector through Heladhanavi, a joint venture between Hemas Power (Pte) Ltd and Lakdhanavi Ltd that was created to set up the 100MW Thermal Power Plant in Puttlam. The Power Plant commenced commercial operations in October 2004, and for the year ended 31st March 2006, we have successfully completed its first full financial year of operations.

This strategic investment has provided Hemas with yet another solid foundation, since the Group has a 10 year contract with the Ceylon Electricity Board to provide power to the national grid up to December 2014.

For the year under review, Heladhanavi achieved a turnover of Rs 5,788Mn and a profit of Rs 525Mn, out of which 50% is attributable to Hemas. The depreciation policy was revised by the board of directors of Heladhanavi, to better reflect the useful life of the plant. As a result the annual depreciation charge on Heladhanavi is reduced considerably.



Banking on the expertise obtained with the Heladhanavi operations, Hemas continuously seeks other opportunities in the power generation sector. In the thermal power generation sector, we would be interested in exploring the possibility of setting up new plants like Heladhanavi, should the government decide to expand its power purchase program from the private sector.

In addition, Hemas is now exploring the possibility of entering the small hydro / mini hydro power generation sector. We have already begun discussions with various parties and are in the process of identifying suitable locations where year-round water streams are abundant.



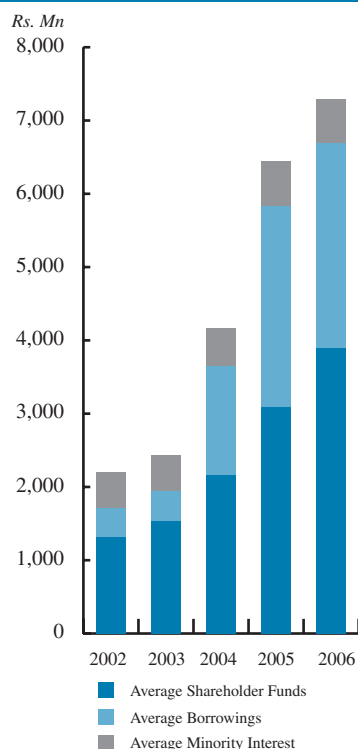
Property

Our presence in the Property Sector is through Hemas Development (Pte) Ltd, a fully owned subsidiary of Hemas Holdings. Hemas Developments is the owner and operator of Hemas House located at Braybrooke Place. Hemas House is a 11 storied office complex with modern facilities that attracts prestigious local and international corporate clients.

Throughout the year ended 31 March 2006, Hemas House managed to maintain its occupancy at 100%. Hemas Developments has been maintaining consistent profit growth in the past, and this trend is set to continue into the future.



Capital Employed



For the year ended 31st March 2006, Hemas Group recorded Earnings of Rs. 970Mn, reflecting an Earnings growth of 16% over the previous year and an increase in shareholders' funds of 20%.

History and Status

The Company was listed on the Colombo Stock Exchange on 15th October 2003 with an issued share capital of Rs. 780Mn. The following year Hemas share was also included in the Milanka Index. In July 2005 a bonus issue of shares was granted to its shareholders in the ratio of one ordinary share for every four shares held. This together with the share options exercised by the employees increased the share capital to Rs. 998Mn as at 31st March 2006.

Revenue

The group achieved a consolidated revenue of Rs. 9.4Bn for the year ended 31st March 2006, up 7% from the previous year. The reduction in revenue to the extent of Rs.1.5Bn due to the sale of 70% shares in the apparel business was compensated by the additional revenue from Heladhanavi Ltd, which completed one full financial year of operations.

Operating Profits

Earnings Before Interest and Tax (EBIT) grew by 27% to Rs.1,540Mn, and Net Profit after Tax for the year was Rs 970Mn, a 16% growth. Whilst EBIT growth was mainly driven by FMCG, Transportation and Power, the higher tax exposure from FMCG and higher finance expenses in Power hampered overall growth in net profits.

Performance

Earnings per share (EPS) for the year under review increased by 14% to Rs 9.63, after adjusting the previous year's EPS for the dilution from the bonus issue.

Segmental Contribution (Rs Mn)

	Turnover	Profit after Tax
FMCG	3,192	393
Healthcare	2,461	131
Leisure	443	38
Transportation	418	106
Strategic - Power	2,894	263
- others	176	46
Total	9,585	977

Joint Venture

The commercial operations of the Power Plant commenced in October 2004. A full financial year's performance is included in the financials compared to six months operations last year. The proportions of Heladhanavi's financials incorporated into the overall Group financials reflects our 50% stake in the JV.

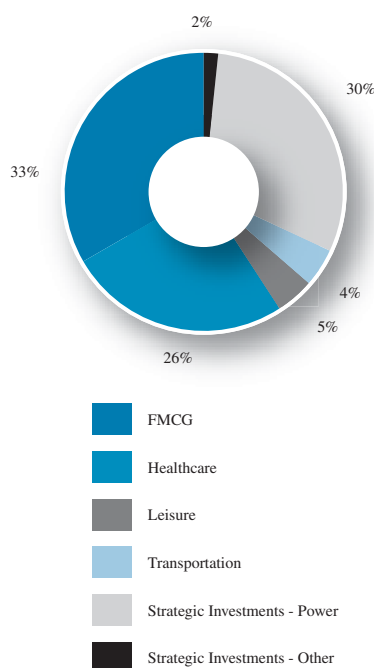
Finance Expenses

The finance expenses of the group increased by 81% to Rs 282Mn compared to the previous year. A complete year of operations in Heladhanavi Limited compared to the six months in the previous year and additional borrowings by Serendib Hotels has resulted in the increase in finance expenses during the year.

Taxation

Group provision for taxation for the year under review increased to Rs282Mn, from Rs 225Mn, in the previous year. Advertising and promotions being an intrinsic part of our Group activities, the 50% disallowance on these expenses has had a significant impact on our overall taxes.

Segmental Contribution Turnover



Dividends

First and second interim dividends was declared during the year in October 2005 and March 2006, totaling Rs 2.50 per share. The dividend cover is 4.1 times against 3.5 the previous year.

Investments / Divestments

The group Invested Rs 349Mn in increasing its stakes in Leisure Asia investments, Serendib Hotels ,Peace Haven Resorts Ltd and Exchange & Finance Investments Ltd. It also acquired the Nimex Business, a 25% stake in eChannelling Limited and 100% ownership in a courier company ACX International (Pvt) Ltd.

The Group Divested its 47% stake held in Associated Hotels Ltd and the 40% stake held in an associated company, Brushco (Pte) Ltd, earning capital gains of Rs 32Mn.

Cash Flows

The Group generates sustainable cash flows and the net cash flows during the year from operating activities was Rs 1036Mn. The marginal decline from the previous year was mainly due to increased finance costs during the year.

Accounting Standards & Policies

The Company adopted the Accounting Standard SLAS 40 'Investment Property', on 1st April 2005 for the financials of Hemas Development Pte Ltd. Investment Properties are now recorded in the Balance sheet at fair value with changes in fair value included in other operating income. The Depreciation policy was changed by the Directors of Heladhanavi Ltd to better reflect the useful life of the

Power plant, which has resulted in a reduction of Rs 97Mn in the annual depreciation charge for Hemas Group.

Funding & Liquidity

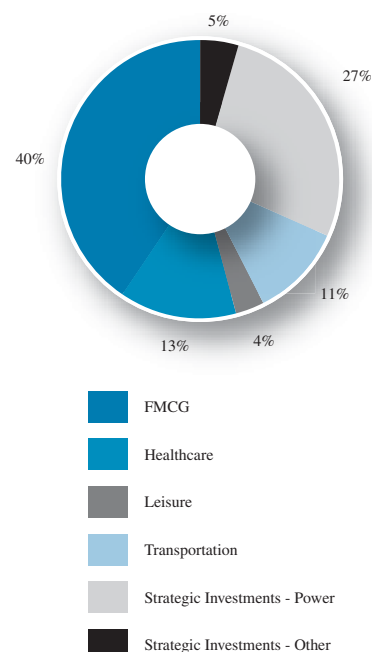
The total long & short term debt of the Group reduced from Rs 2.9Bn to Rs 2.6Bn during the year. Loans obtained by Heladhanavi Limited amounted to Rs 4.4Bn and 50% accounted as per the JV accounting was Rs 2.2Bn.

With the exception of Heladhanavi Ltd, there have been an increase in trade receivables reflecting an increase in overall business activity.

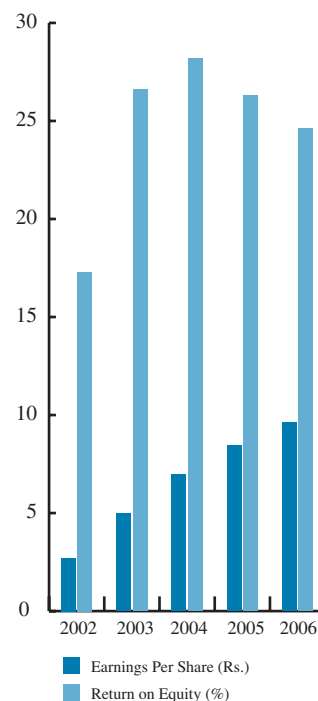
Group Financial Processes

Group financials were migrated to SAP systems on 1st October 2005. We further leveraged on this by subsequently centralizing our financial processing & reporting under a Shared Services Center, to achieve efficiencies and best practices.

Segmental Contribution Profit



Earnings per Share & Return on Equity



At Hemas, the use of Information Technology is considered, on one hand, to be an important tool to unfold the potential of its employees and on the other hand, a means to provide timely business information for decision making, thereby ensuring that the Group's businesses are IT enabled and can achieve their fullest potential. This obsession for use of technology has led our team to constantly explore the latest innovations that can be acquired, and adopt them whenever possible in enabling business through IT, ensuring that the Group is always equipped with cutting-edge technology.

One of the most important initiatives of the past financial year in the entire Group was the successful execution of Project Genesis, which brought together two hundred employees from all sectors of the Group, exemplifying quality teamwork to achieve the targeted objectives that would have an immediate and a far-reaching continued effect on the performance of the businesses and the employees of Hemas.

We at Hemas took Project Genesis much more than a mere set up of a software System. The program became the first-ever one to bring cross sector teams to strive for common objectives. More than the business integration, the challenge was to have integration of minds & thoughts of people. Program Genesis tapped into the mental, physical, emotional & spiritual quotient of individuals on the Project. It began with the outbound adventure based learning program at Koslanda's Hills & rough terrains. Genesis at its end had aptly unleashed the potential that had lain undiscovered in the people it was touching!!

Project Genesis involved the implementation of an ERP system from SAP (Systems, Applications & Products), the world's largest ERP solutions provider, at an investment of Rs. 120 million. The system integrates core business processes across the Group, including manufacturing, sales, and finance. The successful execution of the project spoke volumes of efforts by every member of the Genesis team in their desire to provide the Group with a tool & knowledge that could maximize its potential, working day and night under high pressure to meet tight deadlines.

The many advantages of Project Genesis include establishing common processes across the Group, increased customer satisfaction, empowering employees by redefining job roles, providing the opportunity to work with cutting-edge technology, and managing performance through key performance indicators.

The three-phased project involved in its Phase I integrating & enabling business processes through the implementation of the my SAP ERP system across all the locations of the Group from Hills of Kandy to the Factory at Welisara to the Sales Counter at Colombo

in Phase I, followed by Phase II of performance management system setup through the Business Warehouse & Enterprise Portal to support business decision-making. Phase III involved the group-wide transformation of finance organization into a knowledge-based Shared Services Unit for Accounting & Finance. Phase I of the Project, implementation of my SAP, went live on the 3rd of October 2006, in a record time of five and a half months.

Significantly, the project turned out to be as much about building the bonds of friendship and teamwork throughout the Group, than it was about the introduction of a revolutionary technology. Members of the staff and management from the many and diverse sectors of Hemas who barely knew each other beforehand came together to work in unison and turn Project Genesis into a resounding success.

Along with Project Genesis came the introduction of Hemas Shared Services, which is incorporated as Vishwa BPO (Pvt) Ltd, an important innovation which brought about a radical shift in the Group's financial operations. Hemas Shared Services took over all low-end to high-end financial processes across all sectors under one umbrella to standardise & streamline them.

Making full use of the technology platform SAP R/3 provided by Project Genesis, Hemas Shared Services is fully equipped to handle everything from order to cash, procure to pay, bank operations, general ledger closures, management accounts, analysis reports etc.

Starting with two of the Group's main sectors, Pharmaceuticals and Leisure, Hemas Shared Services was launched in December 2005, two months after Genesis went live. Within a very short time, the success of Hemas Shared Services was extended to other sectors of the Group.

The birth of Hemas Shared Services has an immediate impact on the Group's bottomline and also its utilization of resources. Whereas the combined staff strength of individual finance operations throughout the Group's various sectors was a total of 60, Hemas Shared Services operates with just 25 people, a remarkable increase in efficiency that brought immediate benefits to the Group in terms of cost effectiveness, economies of scale, and common processes. This provided the Group with the opportunity to utilize the remaining staff in bolstering other operations, most notably in the important area of front office operations.



**human
potentiation**



Community Relations

The Piyawara Project focuses on promoting Early Childhood Care and Development (ECCD) through the establishment of pre-schools across Sri Lanka. In the wake of the tsunami in December 2004, Hemas drew on the experience it had garnered in the field of ECCD as a result of Piyawara, to develop a project that would be targeted at young children who were affected by the disaster.

Tsunami Reconstruction

Following the tsunami, several projects were undertaken to rebuild schools that offered education from primary to advanced levels, yet very little attention was being paid to the reconstruction of pre-schools. With 150 pre-schools destroyed or damaged by the tsunami, new centres for early childhood education were essential to provide learning fundamentals to students between the ages of 2-5 years.

The Hemas Tsunami Disaster Relief Task Force and Hemas Tsunami Foundation was set up in the immediate aftermath of the tsunami, with the objective of constructing pre-schools across the southern and eastern coastal regions of the country. The project was undertaken with funding from Hemas and its business partners around the world. The key donors to the fund were LTU Touristik, DRV (German Travel Association) and Hemas Holdings Ltd.

The first phase of the project involved the establishment of 27 temporary pre-schools at the makeshift camps that housed people who had lost their homes to the tsunami. There was an urgent need for these temporary schools, as it was envisaged that the displaced people would continue to inhabit these camps for at least a year. The pre-schools were therefore essential in ensuring a continuous education for young children despite their extenuating circumstances. Hemas equipped the pre-schools with furniture, books and educational tools, and playgrounds were constructed with the participation of those living in the camps. A 5-day residential programme in trauma counselling was also conducted in Colombo for the teachers at the camps and a monthly allowance was paid to them. These centres were monitored by the Ministry of Child Development & Women's Empowerment along with the Hemas staff.

Next the Hemas Tsunami Disaster Relief Task Force embarked on an extensive programme to construct 20 permanent pre-schools in the south and east of Sri Lanka. They are located from Panadura to Hambantota in the southern coast and Ampara district in the eastern region. Each school would have facilities that include 4 classrooms serving 25 children in each class room, junior toilets and wash areas, a staff room and a pantry, a sick room, a lobby, storage area and a landscaped garden.



To-date, 18 pre-schools have been built, at an investment of approximately Rs. 85 million. Each pre-school cost almost Rs. 5 million. The pre-schools are 3,400 square feet in size with a student population of 100. As such the programme has directly uplifted the lives of 1,800 children already. The buildings consist of colourful interiors and murals that depict a 'child's world'. The classrooms are well-equipped with furniture and special educational equipment.

The Piyawara Pre-schools

The Piyawara Project was initially launched in 2002, and has been instrumental in upgrading of existing pre-schools in several districts. Currently there are 12 Piyawara pre-schools stretching from Matara in the south to Jaffna in the north. The pre-schools located in Polonnaruwa, Matale and Jaffna also serve as training centres for teachers.

Piyawara is conducted in partnership with the Ministry of Child Development & Women's Empowerment. The Ministry collaborates with the provincial councils, to oversee the state-run pre-schools in Sri Lanka. MOUs are signed with the local councils, with roles and responsibilities detailed for each of the project partners, to ensure continued monitoring and evaluation of the pre-schools.

Piyawara goes beyond simply equipping pre-schools with furniture and books. The project extends to the entire concept of ECCD, and creates awareness on the importance of early childhood education.



Each of the Piyawara schools is carefully constructed with attention being paid to design and décor. The aim is to create environments that are child-friendly and conducive to learning. Piyawara has played a large role in modernizing the pre-school system in several districts, while retaining several traditional elements. A "Learning through Activity" approach was adopted at the schools - using vivid colours for teaching aids, and raising children's consciousness on the importance of nature and the environment.

Our Mission

To create child friendly pre schools island wide for children between the ages of 3-5 years in order to provide a sound foundation for life long learning.



One such initiative was a tree planting project, where 3000 pre-schoolers were provided with trees to plant in their home gardens. The children are expected to take care of the plants, with parents and teachers monitoring progress.

Teacher training is an important aspect of the Piyawara project, and several on-site and residential training programs are held in partnership with the Ministry of Child Development and the University of Colombo. Special programmes are conducted in all centres to educate parents on the importance of early childhood and these programmes are well attended by the parents and senior citizens of the village. Parent-Teacher Associations have also been set up at the schools in order to foster greater parent participation and to encourage the sustainability of pre-schools.

During the year 2005, the Piyawara Project made excellent progress towards achieving many of its goals. Three more districts were added to the programme - Puttalam, Anuradhapura, and Trincomalee, which are in the Northwestern, North-Central, and Eastern Provinces, with three new schools being refurbished and opened for operations in January 2006.

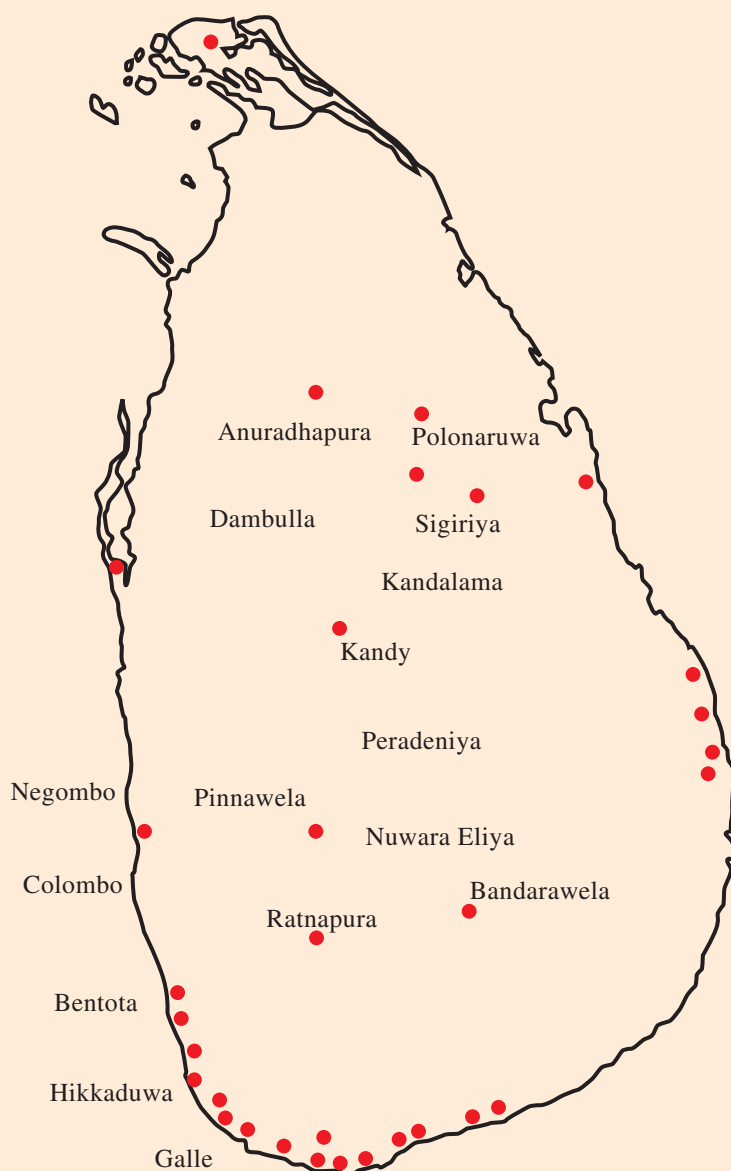
Teachers from the new districts were provided with 5-day residential programmes that were co-ordinated by the Ministry, spending three days in

a workshop environment in Colombo, and two days at Piyawara centres in Matale and Polonnaruwa. Teachers in all Piyawara Centres were provided further training with a hands-on training programme in Matale and Polonnaruwa. A ceremony was held in November 2005 to felicitate the dedication and hard work put in by the Piyawara pre school teachers islandwide. Schools in Polonnaruwa, Matale & Jaffna won the awards.

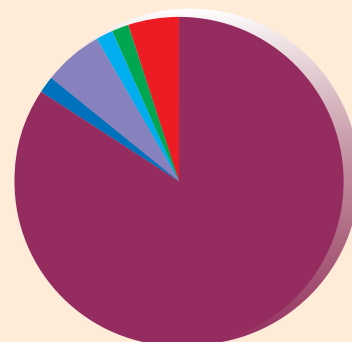
Piyawara community in eight existing centres were enlarged by each centre fostering three more under-developed pre-schools in their respective areas, all by courtesy of funding from Hemas. The enlargement of the programme include the construction of special play areas at each of these new schools. This sharing of knowledge and expertise that has already been gained through the Piyawara programme, served to touch the lives of many more children.

Our main focus for the coming year will be on training and awareness. This will immensely benefit the children and parents alike. Though the challenges ahead are infinite, we at Hemas are determined to champion the cause of Early Childhood Care & Development, as an investment in the future generations of Sri Lanka.

Hemas assisted ECCD Centres islandwide

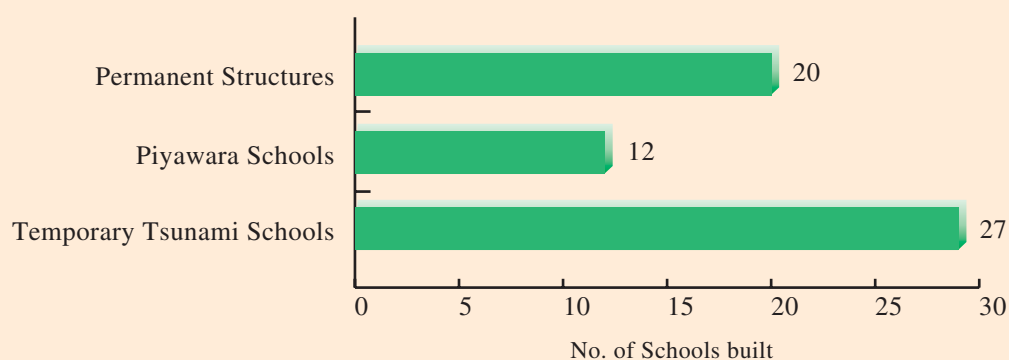


Cost Categorisation of the Pre School Project



	Rs.
Other Costs	5.1 Mn
Training and Sustainability Cost	1.7 Mn
Cost of Temporary Pre Schools	1.8 Mn
Furniture and Fittings	6.4 Mn
Educational Material	1.8 Mn
Building Cost	90 Mn
Total	107 Mn

Schools built through our CSR Projects





Going Beyond Early Childhood...

In keeping with the Hemas tradition of caring for children, the staff at Nimex Tissue Company, which is now a part of the Hemas Group saw an immediate need to renovate the Doluwa Maha Vidyalaya located in the vicinity of the factory. The school has a student population of approximately 750 - 800.

This was a school where 80% of Nimex employees had once studied and their siblings still attend this school. There was much enthusiasm from the employees and villages when Hemas decided to renovate the school. The most significant was the setting up of a computer laboratory where new computers were donated by Hemas. The school buildings were renovated,

toilets re-done, broken doors and windows replaced, and roofs and gutters re-constructed. Light fittings were installed and where necessary re-wiring was undertaken.

Today, the children of this school are enjoying their new surroundings and are eagerly acquiring much needed IT skills. The bond between the students, villages and Hemas staff has strengthened and together they are now planning various initiatives such as special IT educational programmes, English Language courses to further enrich the lives of the students at Doluwa Maha Vidyalaya.



Employee Relations

The Hemas family of employees has been the traditional key to the Group's success. This relationship, naturally, is a two-way street. While the commitment, dedication and hard work of our staff moves the Group forward, building success upon success, the company believes in providing bountiful opportunities for our employees to explore and achieve their fullest potential within the Group.

Towards this end, Hemas is constantly seeking modern systems and techniques by which we can further encourage and empower our staff.

Performance is Key

In the financial year under review, we introduced a new Performance Management System, a bell-curve based system that rapidly identifies the best performers. It involves goal-based evaluation that measures performance on the output of each employee in addition to his or her competencies.

The company has also developed a Fast Track where Management Trainees are recruited with clear career paths by which they will occupy managerial positions within a few years. This has helped us to identify and recruit some of the finest talent in the corporate sector for our junior management positions.

In order to align competency, development and awareness needs of our key executives with Hemas' strategic focus in the mid term, a tailor-made course on 'Strategies for Growth' was designed in collaboration with the Indian School of Business in Hyderabad. A senior management team consisting of 23 members attended this 3 day program. This helped the management to create a common definition and understanding of Hemas' perspective on growth among the key senior executives.

Open-Door Policy

A key feature of Hemas is that it is not a hierarchical organization. The management expects inputs from everyone in the company and promotes a culture that is open and transparent, with even senior management maintaining an open-door policy so that any member of the staff can walk in and air their views. This simple, flexible environment has been deliberately instituted so that employees can speak their minds, and it will be taken in the best interests of the company. This enables the maximum utilization of ideas, which are an important aspect of capitalizing on opportunities for the company.

Another aspect of this philosophy is the presence of Joint Consultative Committees in our factories, comprising both management and workers from all different grades and sections. The company's 'Suggestion Box'



scheme in factories has also been quite successful, as workers have enthusiastically taken advantage of the opportunity to participate in decision-making.

Supporting Our Employees

The company also encourages employees to improve their skills in their chosen fields of expertise and to be in a constant learning process. Towards this end, we provide educational loans irrespective of the stage of employment. This philosophy is also extended to the family members of the staff, especially the children. We have planned to launch a scholarship fund to support the children of our employees in their educational quests.

Rewards

The Group also believes in abundant rewards for all its employees and business partners. Among the many such activities are an Achievers Night at which we honour the finest agents in our FMCG, Pharmaceuticals, and Travels sectors; and a Long Service Awards Night at which we honour those who have provided many years of dedicated service to the company.

Employee Communications

The company uses a plethora of communication tools to keep its employees fully aware of issues and happenings in the Group. This is essential in a Group as large and as diverse as Hemas which employs many different levels of staff. These communication tools include the use of Intranet, e-mail, a quarterly newsletter 'Unison', sectoral meetings, and one-on-one meetings between employees and managers. The aim is to keep an open flow of information about different sections of the company and encourage upward as well as downward communication between staff and management.



Customer & Supplier Relations

At Hemas, an important part of achieving our full potential lies in utilizing our relationships with our diverse range of customers and suppliers.

A fine example of this passion for building strong relationships is the success of our e-Resource Centre for doctors, which is based at the headquarters of the Sri Lanka Medical Association (SLMA). This facility enables doctors to research the Internet, which has proved to be a crucial tool in advancing the knowledge by sharing the wisdom of medical professionals around the world. Our facility also subscribes to leading medical journals on the Internet, which doctors can access. In addition, Hemas is quick to support any aspect of medical education such as the Annual Sessions of the SLMA. We also understand the benefits of maintaining long-term relationships with our business partners, and to this end, we have focused efforts to build strong partnerships with our pharmaceutical principals.

This passion for customers and suppliers envelopes all sectors of the Group. In the FMCG Sector we have long-term relations with our key business partners, especially our key suppliers, both local and overseas, to ensure sustainable value creation along the supply chain.

Our long-established relationships with global airlines have played a key role in shaping our success in our GSA operations. Recently we celebrated our 10-year relationship with Emirates Airlines, one of the world's finest international airlines, and our strong partnership with Malaysia Airlines, another renowned international carrier, is in its 12th year. The freight management arm has made good progress in its regional expansion plan and the strong relationships it has with its global network partners will play a vital role in making this plan a success.

Our relationships with some of the leading international tour operators, such as REWE and First Choice, dates back over a decade, and these partnerships have proven fruitful over the years, as these operators have shown resilience in a volatile tourism industry. The Leisure Sector is a good example of how these relationships can go beyond core business areas to the benefit of the entire society. In the aftermath of the tsunami, these business partners accounted for the majority of the funding, in our rebuilding efforts. Their kind gestures were not merely limited to finances, as our partners came down to Sri Lanka and worked along side us in making our rebuilding efforts a success.



Environment

Our commitment to the environment is evident at the Heladhanavi power-plant site in Puttalam. The power-plant is located right in the centre of a 66-acre coconut plantation and the entire site is embraced by the lush green landscaping making the existence of the power plant literally unnoticeable to the outside world. 66-acre land extent is far in extent of the 8 acres stipulated by the government's environmental regulations.

At the periphery of the site a 'Green Belt' comprising 3,000 acacia trees is grown. The trees have already grown to heights of 15 metres, barring the sight of the power-plant to the neighbourhood, and also enabling an

effective noise buffer zone. The green belt and all the landscaping are managed by a professional estate management company.

Complementing with the site's breathtaking aesthetics is the two lakes at the perimeter. The lakes collect all the rain water harvested through a drainage-network that runs through out the site and uses for watering the plants and the garden.

The power-plant's emissions are so tightly controlled that there is absolutely no smoke evident out of the smokestack.



Economic Performance

A business has a better purpose for its existence when it has something to offer to the overall economic development of a country in addition to creating shareholder value. In many ways, Hemas has contributed to the economic growth of the country and the enrichment of the lives of many.

Being the largest Sri Lankan company for personal care products, Hemas has played a key role in shaping the local consumer market over the years. Through continuous improvement and innovation, our product range, which consists of a variety of categories, offers affordability, value for money and novelty to our consumers. It is noteworthy that Hemas has been consistently supplying its products to all parts of the country, including the northeast despite the logistic issues encountered in doing so. In the aftermath of the tsunami, we stretched our resources to ensure that our essential products were available in all affected areas.

An important aspect in raising the quality of our healthcare system is ensuring that the finest drugs and the best medical equipment are available in all parts of the country. In this regard, the contribution of our pharmaceutical distribution business to the economic wellbeing of the country is immense. Further, we believe that our initiatives to support and add value to the medical profession will also help improve healthcare in Sri Lanka.

Providing approximately 7% of the total installed capacity for power generation, the Heladhanavi Power Plant is a significant contributor to the overall economic activity of the country. During the year ended 31 March 2006, the Power Plant supplied 698.5Mn KWh to the national grid.

Given the business mix of Hemas, our success is largely interdependent with the economic growth of the country and the quality of life of its people.



board of directors

Husein Esufally

Serena Fonseka

Imtiaz Esufally

Debu Bhattacharya

Simon Scarr

Maithri Wickremesinghe

Murtaza Esufally

Abbas Esufally

Lalith de Mel

Executive Directors

Husein Esufally

Chief Executive Officer

Mr. H.N. Esufally holds a Bachelor of Science (Honours) degree in Electronics from the University of Sussex, U.K. He was appointed as the Chief Executive Officer in 2001 and has management experience of over 20 years. He was instrumental in building the FMCG business to its current status.

Serena Fonseka

Group Finance Director

Ms. M.S. Fonseka is a Fellow of the Chartered Institute of Management Accountants, U.K. and a Member of the Certified Management Accountants, Australia. She has management experience of over 20 years, both in Sri Lanka and overseas. She is also the Managing Director of Hemas Corporate Services, the company providing centralised services to the Group.

Abbas Esufally

Mr. A.N. Esufally is a Fellow of the Institute of Chartered Accountants of England and Wales, and a Fellow of the Institute of Chartered Accountants of Sri Lanka and an All Island Justice of Peace. He is the Head of the Leisure Sector and Chairman of Serendib Hotels Ltd. He has experience of over 25 years in Sri Lanka and overseas and has been in the forefront of the leisure industry in Sri Lanka. He is the Honorary Consul General of Bhutan in Sri Lanka.

Imtiaz Esufally

Mr. I. A. H. Esufally holds a Bachelor of Arts (Honours) degree in Accounting and Economics from the University of Kent, UK. He heads the Group's Transportation Sector and has over 20 years sector specific experience in Sri Lanka and overseas. He is one of the Past Presidents of the International Association of Travel Agents and has held many industry related positions.

Debu Bhatnagar

Mr. D. Bhatnagar is a Graduate in Mechanical Engineering from the Indian Institute of Technology, Kanpur, India with an MBA in Marketing from the Indian Institute of Management, Calcutta, India. He has over 25 years of experience with multinational companies such as Unilever, Benckiser, Phillips and ICI. He heads the FMCG Sector of the Group.

Murtaza Esufally

Mr. M.A.H. Esufally holds a Bachelor of Law degree from University of Essex, UK. He is a Barrister-at-Law (Lincoln's Inn) and is an Attorney-at-Law of the Supreme Court of Sri Lanka. He has over 10 years experience in the Apparel Industry. He is a Director of the Centre for Poverty Analysis.

Non Executive Directors

Lalith de Mel

Chairman

Mr. L. de Mel has a Master of Arts Degree from Cambridge University, UK. He counts over 40 years Board experience having served as a Director of several companies in Sri Lanka and abroad. He has served most of his career at Reckitt Benckiser Plc, UK and was the Global Director -Pharmaceuticals before his retirement in 1999. He has served as the Chairman of the Board of Investment and the Chairman of Sri Lanka Telecom Limited. He holds directorships in many other companies.

Simon Scarff

Mr. S. Scarff is a British National with wide international experience in several multinational companies operating in the consumer/healthcare business. He has served as Managing Director of Glaxo Smithkline Consumer Health Care Ltd, India. He was awarded the MBE in 1984 for his services to the British community in India and an OBE in 1999 for his service to British industry. He continues to serve on the boards of several other companies and trusts.

Maithri Wickremesinghe

Mr. M. E. Wickremesinghe is an Honours Graduate in Law from the University of Colombo, an Attorney-at-Law of the Supreme Court of Sri Lanka and a Fellow of the Chartered Institute of Management Accountants of the United Kingdom. He is a practicing Attorney-at-Law specialising in Corporate Law with extensive experience in Corporate Finance and Financial Structuring. He has lectured at the Faculty of Law of the University of Colombo, at the University of Moratuwa and the Kotalawela Defense Academy.



Nevile Ruwanpathirana



Abbas Esufally



Jude Fernando



Edward Fernando



Irshad Halaldeen



Husein Esufally



Kishan Nanayakkara



Debu Bhatnagar



Serena Fonseka



Murtaza Esufally



Srilal Miththapala



Kasturi Chellaraja Wilson



Manoj Arora



Suren R Rajanathan



Harith Perera



Imtiaz Esufally



Malinga Arsakularatne

group management committee

group management committee profile

Neville Ruwanpathirana

Director – Foods & Homecare

Mr N Ruwanpathirana holds an MBA from the University of Colombo and a BSc (Special Degree in Chemistry) from the University of Peradeniya. He holds a Postgraduate Diploma from the Chartered Institute of Marketing (CIM), UK and is also a Chartered Chemist. He has over 25 years of management experience ranging from Technical, Marketing to Sales both in Hemas and in Unilever.

Jude Fernando

Director – Supply Chain Management

Mr Jude Fernando is a Fellow Member of the Chartered Institute of Management Accountants (CIMA), UK, and holds a Postgraduate Diploma from the Chartered Institute of Marketing (CIM), UK. He accounts for 14 years of management experience in the field of Finance, Supply Chain Management and International Marketing.

Irshad Halaldeen

Director – Human Resources

Mr I Halaldeen holds an MSc in Industrial Management specializing in Organizational Development, from the Norwegian University of Science and Technology. He has over 15 years of experience in the Manufacturing and Financial Services Industries. He is also a member of the Association of Human Resource Professionals in Sri Lanka

Kishan Nanayakkara

Managing Director – Hemas Power (Pte) Ltd

Mr K Nanayakkara is a Fellow Member of the Chartered Institute of Management Accountants (CIMA), UK, and holds an MSc in Finance from the Birmingham Business School of the University of Birmingham, UK. He has held several senior management positions in companies ranging from manufacturing to financial services. He also heads the Corporate Venture Fund of the Group.

Harith Perera

Managing Director – Hemtours (Pte) Ltd

Mr H Perera holds a Postgraduate Diploma in Marketing (CIM), UK. He counts nearly 16 years of Sales and Marketing experience in both Financial Services & FMCG. He was a guest lecturer at Sri Lanka Institute of Marketing (SLIM) & was also an Executive Committee member of SLIM for 04 years.

Kasturi Chellaraja Wilson

Head - Shared Services

Ms Kasturi Chellaraja Wilson is an Associate Member of the Chartered Institute of Management Accountants (CIMA), UK. She has 18 years of experience in Auditing, Consulting and Finance. Her management experience spans the industries of Financial Services, Hospitality, Courier and Freight Forwarding.

Murtaza Esufally

Director

Profile on page 43

Serena Fonseka

Director and Group Finance Director

Profile on page 43

Abbas Esufally

Director

Profile on page 43

Edward Fernando

Managing Director – Hemas International Freight (Pte) Ltd

Mr E Fernando holds a Postgraduate Diploma in Marketing (CIM), UK. He counts 15 years of sales and marketing experience in the Airline industry both locally and overseas, 3 years in the freight management industry. He is a member of the Executive Committee of the Sri Lanka Freight Forwarders' Association, and the past Deputy Chairman of the Sri Lanka Association of Airline Representatives.

Husein Esufally

Director and Chief Executive Officer

Profile on page 43

Debu Bhatnagar

Director

Profile on page 43

Malinga Arsakularatne

Business Strategist

Mr M Arsakularatne is a Chartered Financial Analyst and an Associate Member of the Chartered Institute of Management Accountants (CIMA), UK. He also holds an MSc in Investment Management from the City University Business School, UK, a BSc in Computer Science & Engineering from the University of Moratuwa, Sri Lanka, and a Postgraduate Diploma in Marketing from the

Chartered Institute of Marketing (CIM), UK. He has 8 years of experience in the fund management industry.

Imtiaz Esufally

Director

Profile on page 43

Manoj Arora

Chief Information Officer

Mr. M Arora is a Post Graduate in Computer Science and holds an MBA from the University of Delhi, India, He has 15 years of experience in the field of Information Systems Management including SAP (ERP) implementation in India and across Asia-Pacific with multinational companies such as Becton Dickenson & Lucent Technologies.

Srilal Miththapala

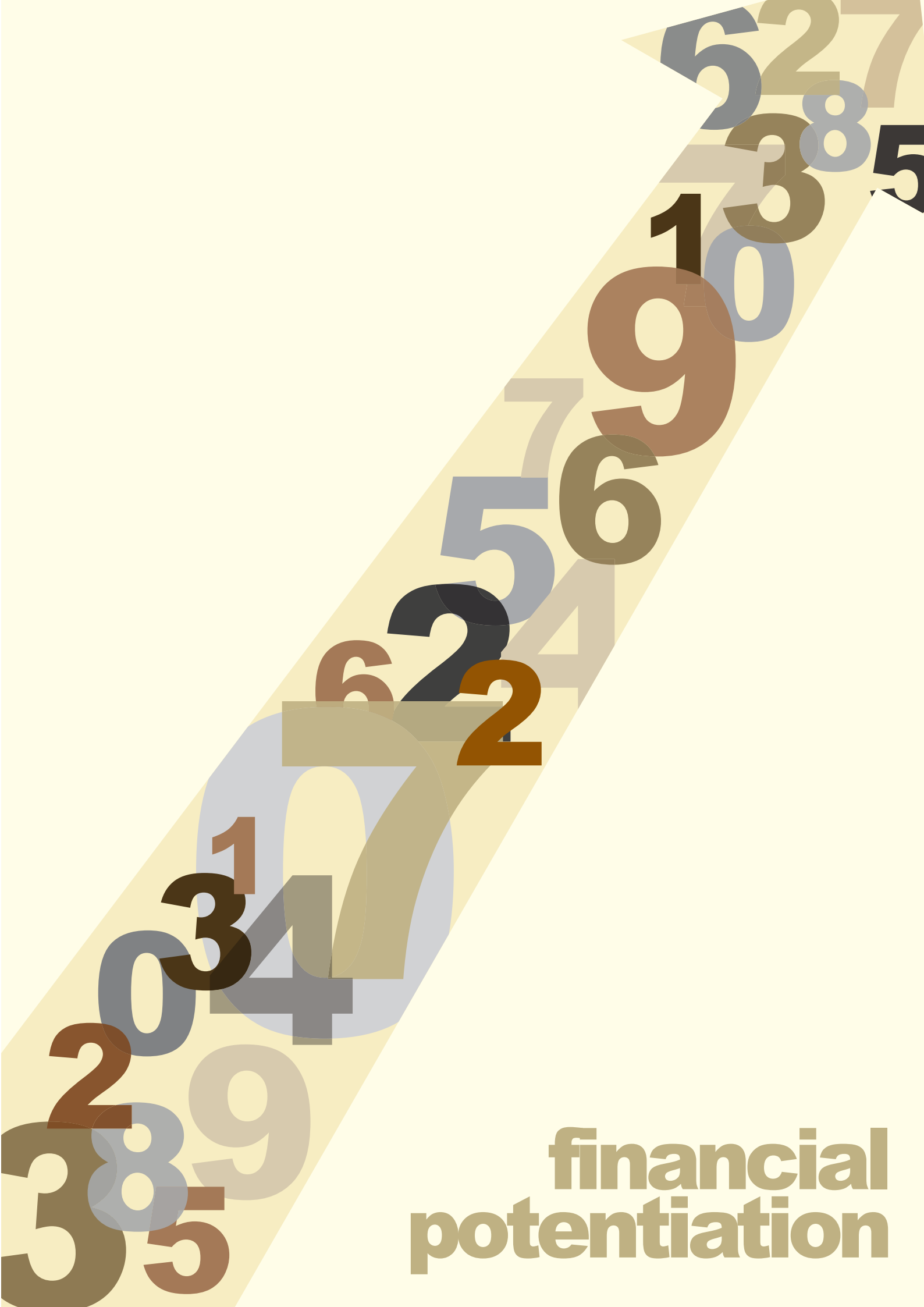
CEO – Serendib Leisure Management Ltd

Mr Srilal Miththapala holds a BSc (Electrical Power Engineering) from the University of Moratuwa. He is a Chartered Electrical Engineer and a member of the Institute of Electrical Engineers, London and British Institute of Management. He has over 20 years of management experience in the mercantile sector in Sri Lanka at several senior management positions and directorships. He is the currently the Vice President of the Tourist Hotels Association of Sri Lanka (THASL)

Suren R. Rajanathan

Managing Director – Hemas Pharmaceuticals (Pte) Ltd and Hemas Healthcare (Pte) Ltd

Mr Suren R. Rajanathan holds an MBA from the Postgraduate Institute of Management, University of Sri Jayawardenepura. He is the Chairman of The Chartered Institute of Marketing Sri Lanka Region and is a Chartered Marketer. He has over 18 years of experience in leading multinational companies like Pfizer, Smithkline Beecham, 3M and General Electric.



**financial
potentiation**

Commitment to the highest standards of ethics and integrity has been an uncompromising principle of the Hemas Group. The objective of establishing a good governance structure within the Group is to foster entrepreneurial drive within a system of accountability to ensure maximum returns to our stakeholders.

While it is debatable whether consensus can be reached on what is 'Best Practice' in terms of Corporate Governance, considering the structure, complexity and diversity of organizations, our corporate governance practices are based on the recommendations made by the Institute of Chartered Accountants SL, in its Code of Best Practice on Corporate Governance.

A. BOARD OF DIRECTORS

The Directors acknowledge that the primary responsibility for good governance lies with the Board of Directors and therefore is committed to establishing good governance practices across the different business sectors and among all levels of the Group.

Composition - The Board, comprising of 6 Executive and 3 Non-Executive Directors is responsible for strategy and direction to ensure profitable performance and sustainable growth. The profiles of the directors are given on page 43 of this report. 1/3rd of the Board comprises of Non-Executive Directors, who are well respected individuals who's diverse expertise and experience enables them to make a valuable contribution to the decision making process.

Board Meetings - The Board meets once in 2 months on a regular basis and additionally if the need arises. Board Meetings are scheduled in advance for a calendar year and this ensures regular attendance by Board Members. During the year under review the Board met on 6 occasions. There is a formal schedule of matters reserved for Board deliberations and guidelines as to matters which require prior approval of the Board.

Board papers containing accurate, clear information are forwarded in advance, enabling Board Members to contribute constructively at meetings in giving well-considered views, and take decisions objectively in the interest of the company. The services of the Company Secretary is available to all Board Members.

Independent Judgment - All directors carry out their duties with professionalism and integrity and free of any undue influence. The directors have adopted a Code of Ethics as a set of guidelines to assist them in the independent performance and conduct of duties.

Balance of Power - With the appointment of Mr. Lalith De Mel as Chairman of the Board, the roles of Chairman and CEO were made distinct, providing for a clear division of responsibilities and balance of power.

Financial Acumen - The Board comprises of 3 Financial Professionals. The Group FD who is a member of the Board plays a lead role in providing guidance on financial related matters. All other directors also possess the necessary financial acumen to understand, interpret and contribute to financial related matters.

Appointments - Decisions with regard to directors' appointments are taken by the Board as a whole. New appointments to the Board are disclosed to the CSE and shareholders.

Retirement & Re-Election - As per the provisions of the Company's Articles, 1/3rd of the directors including the Chairman retire by rotation annually and their re-election is subject to shareholder approval at the AGM.

Non-Executive Directors are appointed for a 3 year term of office and their re-appointment is decided by the Board. All Non-Executive Directors are also subject to retirement by rotation.

Appraisal of Board Performance - The Board undertakes a formal annual evaluation of its own performance, its sub-committees and also of its individual directors.

Appraisal of CEO's Performance - Financial and Non-Financial Goals and targets in terms of Corporate Vision, Value and Goals are set as a part of CEO's performance criteria at the beginning of each financial year, and a self assessment report of his performance against set targets is provided by the CEO for the Board's review at the end of the financial year.

B. DIRECTORS REMUNERATION

Remuneration Committee - Overall remuneration strategy and policy is set by the Remuneration Committee. The remuneration of Executive Directors is performance linked to factors such as new business growth, achievement of personal goals and bottom line performance. This enables aligning their interests with those of shareholders. The remuneration of Non-Executive Directors are determined by the Board.

The Remuneration Committee makes recommendations to the Board on performance management systems, fixed and variable pay schemes, benefits, share option schemes, succession planning, performance bonus etc.

Disclosure of Remuneration - The Remuneration of the Board is disclosed under Directors Emoluments in this Annual Report.

C. SHAREHOLDER RELATIONS

Constructive Use of AGM - The AGM is held within 3 months of the end of the financial year and all shareholders are invited to attend and participate. A review of the Company's operations and performance during the financial year is given in the Annual Report, and shareholders are given the opportunity to seek clarifications and obtain further information at the AGM.

The Chairman of all Sub-Committees of the Board including Audit & Remuneration Committees are present at the AGM to answer shareholder questions.

Notice - The Annual Report including the Notice of Meeting is circulated to shareholders 21 clear days before the date of the AGM.

Major Transactions - The Company complies with the disclosure requirements of the CSE Listing Rules and timely and accurate disclosure is made on material matters.

D. ACCOUNTABILITY & AUDIT

Financial Reporting - The Directors are responsible for preparation and presentation of the financial statements under the going concern concept.

The financial statements are prepared in accordance with the SL Accounting Standards and are presented in compliance with the formats stipulated. Additional information requirements stipulated by the CSE listing rules and the Company's Act are also complied with.

The CEO's review in the Annual Report and the Interim Statements circulated to shareholders give an analysis of the company's performance and future growth and development plans.

Price sensitive information is released to the CSE for dissemination on a priority basis.

Internal Controls - Internal control procedures covering financial, operational, compliance and risk management is implemented and their effectiveness and adequacy is monitored by the internal auditors and their findings are reviewed by the Audit Committee.

Audit Committee - The Audit Committee comprising of 2 Non-Executive Directors reports to the Board and has a written terms of reference. The Committee meets once a quarter to review the quarterly results before submission to the Board and dissemination to the shareholders. The CEO and Group Finance Director attend meetings of the Audit Committee.

The Audit Committee reviews and approves the internal and external audit plans and monitors the effectiveness of the company's external and internal audits.

risk management

Being a diversified group exposed to many areas of business, we realize the importance of having an effective Risk Management Framework in place, in order to manage the various types of risks such as strategic, operational, financial and hazard risks. The effective management of risk through a systematic framework results in an improved risk profile, which enhances the shareholder value.

Risk management at Hemas is intertwined with the strategic and business planning framework. The key objective of risk management at Hemas is to improve decision making and hence Group profitability by having a framework, which ensures that only justifiable risks are taken whilst unjustifiable risks are avoided. This mechanism also ensures that the speed of decision making is not adversely affected by unnecessary controls.

The risk management process of the Group covers the areas of business strategy & operations, finance, legal & regulatory, credit management, treasury management, human resource management and information technology, and consists of the following key components:

- Risk identification and assessment at the annual planning stage
- Review of policy, processes & compliance reporting by the Internal Audit Division
- Centralized treasury function to monitor and manage exposures of interest rate and exchange rate risks
- A provisioning policy to adequately provide for doubtful realization of current assets
- A central function to ensure that Group assets are properly insured
- A process to ensure the security and reliability of IT systems

As the Hemas Group looks to diversify into new areas whilst maintaining a steady growth in its current businesses, and given the increasing dynamism in the business environment, we strive for continuous improvements in our risk management process with a view to delivering better value to our stakeholders.

The Directors of Hemas Holdings Limited present their Report together with the Audited Consolidated Financial Statements for the year ended 31st March, 2006.

GROUP ACTIVITIES AND BUSINESS REVIEW

The group is engaged in diverse business activities which are described on pages 18 to 27 of this report. The principal activities of the Holding Company is disclosed in the financial accounts., note 1.2 on page 60. A review of Group's operations during the year with the comments on operational results and future prospects is contained in the CEO's statement, Sector Reports and the Financial Review.

GROUP TURNOVER & PROFITS

The turnover of the group excluding associate companies was Rs. 9,430 Mn. The group profit before taxation was Rs. 1,259 Mn and after taxation, extra ordinary items & minority interest the net profit attributable to the group was Rs. 970 Mn.

The sector contributions to the group turnover and net profit is stated in the Financial Review on page 28 & 29.

DIVIDENDS

The Company paid a 1st Interim Dividend of 12.5% in November 2005 and a 2nd Tax Free Interim Dividend of 12.5% in April 2006.

PROPERTY, PLANT & EQUIPMENT

The details relating to the movement in property, plant & equipment are given in Note. 10 to the financial statements.

INVESTMENTS

The information relating to the investments is given in notes 11, 13, 14 & 15.

SHARE CAPITAL

The total issued and paid up ordinary share capital of the Company as at 31st March 2006 was Rs. 998,012,490/- which is an increase of Rs. 206,716,990 over the issued ordinary share capital as at 31st March 2005. The increase in share capital is attributable to the bonus issue of 19,877,925 Shares and options exercised by employees in respect of 793,774 shares.

RESERVES

The total group reserves amounted to Rs. 3,247 Mn, the details are disclosed in the Statement of Changes in Equity on page 58.

SHARE INFORMATION

Information relating to earnings, dividends, net assets, market value per share is disclosed in the Financial Highlights, in this report.

DIRECTORS

Names and profiles of the Directors of the Company appear on pages 43 of this report. Messrs. Lalith de Mel, Simon Scarff and Maithri Wickremasinghe are non executive directors. All directors held office throughout the year.

Mr. Lalith de Mel was appointed Chairman of the Board w.e.f 1st April 2006.

DIRECTOR'S SHAREHOLDING

Direct and indirect shareholdings of Directors of the Company and their spouses are as follows:

	As at 31/03/06	As at 31/03/05
H N Esufally	18,446,582	16,323,366
M S Fonseka (Ms)	158,605	125,000
A N Esufally	19,283,700	17,026,960
I A H Esufally	18,382,750	16,255,600
D Bhatnagar	10,300	4,000
M A H Esufally	18,287,133	16,224,907
L De Mel	17,500	4,400
S J Scarff	Nil	Nil
M E Wickremasinghe	2,250	1,800

EMPLOYEE SHARE OPTION PLAN (ESOP)

Details of the ESOP is disclosed in note 2.6 to the financial statements.

EVENTS AFTER THE BALANCE SHEET DATE

There are no material post balance sheet events, that have arisen which would require adjustments to the financial statements as at 31st March, 2006.

report of the directors

GOING CONCERN

On the basis of current financial position and performance and projections and facilities available, the Directors are confident that the company has adequate resources to continue business operations. Accordingly the Directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 48 & 49.

STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief are satisfied that all statutory obligations due to the Government and employees have been paid or adequately provided for in the financial statements.

AUDITORS

The Financial Statements for the period under review were audited by M/s Ernst & Young Chartered Accountants, who offer themselves for re-appointment at the AGM. The re-appointment of the Auditors have been recommended by the Audit Committee and approved by the Board of Directors.

By Order of the Board

HEMAS HOLDINGS LIMITED

Hemas Corporate Services (Private) Limited

Secretaries

24th May, 2006

statement of directors' responsibilities

The responsibilities of the directors in relation to the financial statements of the Company and the Group differ from the responsibilities of the Auditors which are set out in their report appearing on page 55.

The Companies Act No. 17 of 1982 requires the Directors to prepare financial statements for each financial year, giving a true and fair view of the state of affairs of the Company and the Group as at end of the financial year, and of the profit or Loss of the Company and the Group for the financial year. In preparing the financial statements, appropriate accounting policies have been selected and applied consistently, reasonable and prudent judgments and estimates have been made and applicable accounting standards have been followed.

The Directors are responsible for ensuring that the companies within the Group keep sufficient accounting records to disclose with reasonable accuracy the financial position of the company and the Group and for ensuring that the financial statements have been prepared and presented in accordance with Sri Lanka Accounting

standards and provide the information required by the Companies Act No. 17 of 1982. They are also responsible for taking reasonable measures to safeguard the assets of the Group, and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

The Directors are confident that they have discharged their responsibilities as set out in this statement. The Directors also confirm that to the best of their knowledge, all statutory dues payable by the Group as at the Balance Sheet date have been paid or where relevant, provided for.

By Order of the Board

HEMAS HOLDINGS LIMITED

Hemas Corporate Services (Private) Limited
Secretaries

24th May, 2006

report of the remuneration committee

The Remuneration Committee is chaired by a Non-Executive Director. The CEO and Director HR attend committee meetings on invitation. The Remuneration Committee met 3 times during year.

The terms of reference under which the committee has been appointed sets out its scope and responsibilities. Special focus is given to the following areas:

- Remuneration Philosophy
- Top Management performance evaluation & appraisal system, employment contracts, remuneration, development and succession planning.
- Incentive Schemes including Employee Share Option Schemes

Remuneration Philosophy

The Committee decided that the right positioning for the company with regard to remuneration policy was important to bring about external competitiveness and attract the right talent. In this respect the Committee decided to carryout a salary/benefits survey for key jobs.

In order to bring about internal job equity, the committee initiated an internal job worth evaluation process to establish job bands and assign appropriate salary scales and benefits commensurate with job worth.

Performance Evaluation

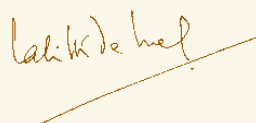
The Committee initiated a 360 -degree evaluation process for top management to provide independent feedback for their improvement.

Succession Planning Policy

The Committee decided to develop a succession plan policy and identify potential aspirants to key senior jobs across the Group and initiate a suitable training and development plan.

Incentive Schemes & Bonus Policy

The incentive scheme & bonus policies of top management was reviewed by the Committee to ensure a balanced approach in rewarding performance.



Lalith de Mel

Chairman - Remuneration Committee

24th May, 2006

report of the audit committee

The Audit Committee, which is a sub-committee of the Board, comprises of 2 Non-executive Directors. The Company Secretary functions as the Secretary to the Committee. The CEO and Group Finance Director attend Committee meetings by invitation. The Committee meets once a quarter.

The terms of reference under which the committee has been appointed sets out its scope and responsibilities and enables it to operate with appropriate authority, independence and objectivity. In view of the importance attached to good financial governance, special focus is given to the following areas.

- Financial Reporting
- Business Risk
- Internal Controls
- Statutory / Regulatory Compliance
- Internal & External Audits

Financial Reporting

The Committee places special attention to the quality and integrity of the company's financial statements in order to present a balanced and understandable assessment of the company's position & prospects and also clarity and completeness of the disclosures made.

The interim and audited financial statements of the company are reviewed by the Committee before submission to the Board and circulation to shareholders.

Business Risk

The Committee pays special emphasis to 'Business Risk' and regularly monitors the risk management measures in place for identifying, evaluating and management of business risks in all areas of operations.

Internal Control

The Committee reviews the adequacy of internal financial controls established to maintain accountability for all transactions entered into by the Group. The Committee ensures that there are clearly defined authority limits within the management structure and established authorization and documentation procedures for all transactions.

Statutory/Regulatory Compliance

The Committee reviews the company's compliance with statutory, regulatory and disclosure requirements and adequacy of controls established to ensure that all statutory payments in relation to the employees and government have been made or adequately provided for.

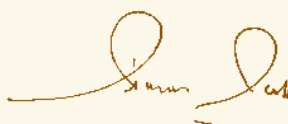
Internal & External Audits

The Committee approves the annual work plan of the Internal Auditors and directs the internal auditors in carrying out special assignments within the Group. The Committee also monitors the effectiveness of the internal audit process by reviewing the internal audit reports and making recommendations to management on the significant findings highlighted therein.

The Committee approves the overall audit plan of the external auditors, their terms of engagement and remuneration for audit services. The adequacy of the audit team in terms of the audit engagement is evaluated to ensure that a comprehensive audit is carried out and the Management Letter issued by the external auditors, highlighting significant findings during the course of the audit is reviewed and appropriate recommendations are made to management.

The Committee approves the scope and extent of non-audit services provided by the external auditors in order to ensure that such services do not impair the independence or objectivity of the auditors.

Having reviewed the effectiveness of the external audit, the Committee has recommended to the Board the re-appointment of M/s Ernst & Young Chartered Accountants as the external auditors of the Company for the ensuing year, subject to the approval of the shareholders at the Annual General Meeting.



Simon Scarff
Chairman - Audit Committee
24th May, 2006



■ **Chartered Accountants**
201 De Saram Place
P. O. Box 101
Colombo 10
Sri Lanka

■ **Telephone** : (0) 11 2463500
Fax : (0) 11 2697369
Gen : (0) 11 5578180
Tax : (0) 11 5578180
E-Mail : eysl@lk.ey.com

AUDITORS' REPORT TO THE MEMBERS OF HEMAS HOLDINGS LIMITED

We have audited the Balance Sheet of Hemas Holdings Limited as at 31 March 2006, the Consolidated Balance Sheet of the Company and its Subsidiaries as at that date, and the related statements of Income, Cash Flows and Changes in Equity for the year then ended, together with the Accounting Policies and Notes as set out on pages 56 to 89.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

Basis of Opinion

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company has maintained proper books of account for the year

ended 31 March 2006, and to the best of our information and according to the explanations given to us, the said balance sheet and related statements of income, cash flows and changes in equity and the accounting policies and notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act, No.17 of 1982 and give a true and fair view of the Company's state of affairs as at 31 March 2006 and its Profit and cash flows for the year then ended.

In our opinion, the consolidated balance sheet and statements of income, cash flows and changes in equity and the accounting policies and notes thereto have been properly prepared and presented in accordance with the Companies Act, No. 17 of 1982 and the Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs as at 31 March 2006 and the profit and cash flows for the year then ended of the Company and its subsidiaries dealt with thereby, so far as concerns the members of the Company.

Directors' Interest in Contracts with the Company

According to the information made available to us, the Directors of the Company were not directly or indirectly interested in contracts with the Company during the year ended 31 March 2006 except as stated in Note 35 to these financial statements.

Colombo
24th May 2006

■ **Partners** : A D B Talwatte FCA FCMA T K Bandaranayake FCA M P D Cooray ACA FCMA
Ms. Y A De Silva ACA W R H Fernando FCA FCMA A P A Gunasekera FCA FCMA
A Herath FCA D K Hulangamuwa ACA FCMA LLB (Lond) A S M Ismail ACA FCMA
H M A Jayasinghe ACA FCMA Ms. G G S Manatunga ACA Ms. L C G Nanayakkara FCA FCMA

income statement

Year ended 31 March 2006

		Note	Group		Company	
			2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
Revenue		3	9,429,767,419	8,797,880,679	67,832,056	54,476,512
Cost of Sales			<u>(6,040,255,090)</u>	<u>(5,878,203,643)</u>	<u>-</u>	<u>-</u>
Gross Profit			3,389,512,329	2,919,677,036	67,832,056	54,476,512
Other Operating Income		4	269,101,291	191,676,600	512,325,431	444,759,276
Distribution Expenses			<u>(908,898,229)</u>	<u>(811,653,977)</u>	<u>-</u>	<u>-</u>
Administrative Expenses			<u>(1,154,023,178)</u>	<u>(1,054,848,026)</u>	<u>(98,738,054)</u>	<u>(66,515,711)</u>
Other Operating Expenses			<u>(57,309,839)</u>	<u>(35,219,171)</u>	<u>-</u>	<u>-</u>
Profit from Operating Activities		5	1,538,382,374	1,209,632,462	481,419,433	432,720,077
Finance Expenses		6	<u>(281,828,704)</u>	<u>(155,542,408)</u>	<u>(11,826,077)</u>	<u>(1,536,455)</u>
Profit from Ordinary Activities Before Tax			1,256,553,670	1,054,090,054	469,593,356	431,183,622
Share of Associate Company Profit			2,050,550	3,587,700	-	-
Share of Profits of Subsidiaries			<u>-</u>	<u>-</u>	<u>457,639,676</u>	<u>130,046,213</u>
Profit Before Taxation			1,258,604,220	1,057,677,754	927,233,032	561,229,835
Income Tax Expenses		7	<u>(281,838,083)</u>	<u>(225,142,584)</u>	<u>(2,925,439)</u>	<u>(3,203,163)</u>
Net Profit after Taxation			976,766,137	832,535,170	924,307,953	558,026,672
Minority Interest			<u>(6,936,962)</u>	6,896,744	-	-
Extra Ordinary Items			-	<u>(2,458,629)</u>	-	-
Net Profit for the year attributable to the Group			<u>969,829,175</u>	<u>836,973,285</u>	<u>924,307,953</u>	<u>558,026,672</u>
Earnings Per Share - Basic		8	9.63	8.43	9.29	5.66
Dividends Per Share - Interim Paid		9	2.50	3.00	2.50	3.00
- Final Proposed		9	-	-	-	-

The Accounting Policies and Notes on pages 60 through 89 form an integral part of the financial statements.

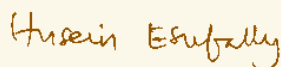
Colombo
24 May 2006

As at 31 March 2006

	Note	Group		Company	
		2006	2005	2006	2005
		Rs.	Rs.	Rs.	Rs.
ASSETS					
Non-Current Assets					
Property, Plant & Equipment - At Cost	10	3,561,679,822	3,823,348,383	75,934,441	67,795,296
- At Valuation	10	1,178,604,779	1,509,958,026	117,055,375	120,942,500
Investment Property	11	570,152,108	-	-	-
Intangible Assets	12	107,267,828	40,335,770	-	-
Loans Due from Related Parties	18	-	-	69,577,642	-
Investments in Subsidiaries	13	-	-	4,255,394,008	3,333,100,870
Investments in Associates	14	102,609,226	195,897,526	43,045,547	83,410,456
Other Investments	15	35,472,908	37,361,308	2,905,000	2,505,000
		<u>5,555,786,671</u>	<u>5,606,901,013</u>	<u>4,563,912,013</u>	<u>3,607,754,122</u>
Current Assets					
Inventories	16	745,361,436	732,935,986	-	-
Trade and Other Receivables	17	2,449,813,447	2,195,110,152	15,290,917	10,940,767
Loans Due from Related Parties	18	-	-	223,146,209	174,504,611
Investments	15	311,237	306,738	48,642	1,094,905
Tax Recoverable		29,903,723	18,885,095	7,971,326	2,703,604
Amounts Due from Related Parties	19	631,489	145,468	82,339,400	383,395,549
Short Term Cash Investments	30	299,365,761	439,752,239	117,249,855	62,743,210
Cash and Bank Balances	30	943,587,755	657,932,581	101,261,849	170,392,257
		<u>4,468,974,848</u>	<u>4,045,068,259</u>	<u>547,308,198</u>	<u>805,774,903</u>
Total Assets		<u>10,024,761,519</u>	<u>9,651,969,272</u>	<u>5,111,220,211</u>	<u>4,413,529,025</u>
EQUITY AND LIABILITIES					
Capital and Reserves					
Issued Share Capital	20	998,012,490	791,295,500	998,012,490	791,295,500
Reserves	21	630,107,876	661,391,413	413,857,165	622,906,729
Share Premium		187,516,403	343,889,834	187,516,403	343,889,834
Accumulated Profits		2,430,310,225	1,745,396,259	2,694,831,126	1,787,933,342
Total Equity		<u>4,245,946,994</u>	<u>3,541,973,006</u>	<u>4,294,217,184</u>	<u>3,546,025,405</u>
Minority Interest		522,620,741	681,897,221	-	-
Non-Current Liabilities					
Non Interest Bearing Loans and Borrowings	22	11,312,854	11,274,897	294,934,285	536,625,644
Interest Bearing Loans & Borrowings	23	1,741,110,718	2,084,462,170	-	-
Deferred Income Tax	24	82,425,635	91,326,474	9,771,300	10,805,541
Other Deferred Liabilities	25	103,702,432	84,083,421	11,221,428	7,036,396
Provisions	26	31,046,917	-	-	-
Negative Goodwill	27	-	11,173,295	-	-
		<u>1,969,598,556</u>	<u>2,282,320,257</u>	<u>315,927,013</u>	<u>554,467,581</u>
Current Liabilities					
Trade and Other Payables	28	2,115,835,861	1,910,273,670	33,175,660	17,576,499
Dividends Payable		126,937,803	133,404,054	124,452,365	131,173,989
Income Tax Liabilities		120,486,221	66,939,018	6,490,159	5,799,774
Amounts Due to Related Parties	29	3,377,623	189,096,330	14,162,132	158,436,813
Non Interest Bearing Loans & Borrowings	22	3,534,220	3,340,285	-	-
Interest Bearing Loans & Borrowings	23	916,423,500	842,725,431	322,795,698	48,964
		<u>3,286,595,228</u>	<u>3,145,778,788</u>	<u>501,076,014</u>	<u>313,036,039</u>
Total Equity, Minority Interest and Liabilities		<u>10,024,761,519</u>	<u>9,651,969,272</u>	<u>5,111,220,211</u>	<u>4,413,529,025</u>

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Signed for and on behalf of the Board by,



Husein Esufally
Chief Executive Officer



Ms. Serena Fonseka
Group Finance Director

The Accounting Policies and Notes on pages 60 through 89 form an integral part of the financial statements.

Colombo

24 May 2006

statement of changes in equity

Group	Share Capital	Share Premium	Capital & Revenue Reserve	Preliminary Expenses	Accumulated Profit	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 31 March 2004	780,000,000	297,387,834	28,669,843	(3,678,776)	1,525,508,670	2,627,887,571
Net Profit for the Year	-	-	-	-	836,973,285	836,973,285
Share Options Exercised During the Year	11,295,500	46,502,000	-	-	-	57,797,500
Dividends Paid	-	-	-	-	(317,471,276)	(317,471,276)
Preference Share Dividends	-	-	-	-	(5,950,686)	(5,950,686)
Revaluation Reserve	-	-	326,233,752	-	-	326,233,752
Transferred to/from During the Year	-	-	473,087,818	-	(423,584,958)	49,502,860
Amounts Written Off During the Year	-	-	-	3,678,776	(3,678,776)	-
Effect of adopting SLAS 40						
- Investment Property	-	-	(166,600,000)	-	133,600,000	(33,000,000)
Balance as at 31 March 2005	791,295,500	343,889,834	661,391,413	-	1,745,396,259	3,541,973,006
Net Profit for the Year	-	-	-	-	969,829,175	969,829,175
Share Options Exercised During the Year	7,937,740	42,405,819	-	-	-	50,343,559
Bonus Issue	198,779,250	(198,779,250)	-	-	-	-
Dividends Paid	-	-	-	-	(236,299,809)	(236,775,809)
Preference Share Dividends	-	-	-	-	(11,753,425)	(11,753,425)
Revaluation Reserve	-	-	(1,193,490)	-	-	(1,193,490)
Transferred to/from During the Year	-	-	(30,090,047)	-	(36,861,975)	(66,952,022)
Balance as at 31 March 2006	998,012,490	187,516,403	630,107,876	-	2,430,310,255	4,245,946,994

Company	Share Capital	Share Premium	Capital & Revenue Reserve	Accumulated Profit	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 31 March 2004	780,000,000	297,387,834	1,684,462	1,547,377,945	2,626,450,241
Net Profit for the Year	-	-	-	558,026,672	558,026,672
Dividends Paid	-	-	-	(317,471,275)	(317,471,275)
Share Options Exercised During the Year	11,295,500	46,502,000	-	-	57,797,500
Revaluation Reserve	-	-	41,193,306	-	41,193,306
Share of Capital Reserve of Subsidiary	-	-	580,028,961	-	580,028,961
Balance as at 31 March 2005	791,295,500	343,889,834	622,906,729	1,787,933,342	3,546,025,405
Net Profit for the Year	-	-	-	924,307,593	924,307,593
Dividends Paid	-	-	-	(236,299,809)	(236,775,809)
Share Options Exercised During the Year	7,937,740	42,405,819	-	-	50,343,559
Bonus Share Issue	198,779,250	(198,779,250)	-	-	-
Share of Capital Reserve of Subsidiary	-	-	(209,049,564)	218,890,000	9,840,436
Balance as at 31 March 2006	998,012,490	187,516,403	413,857,165	2,694,831,126	4,294,217,184

The Accounting Policies and Notes on pages 60 through 89 form an integral part of the financial statements.

Colombo
24th May 2006

cash flow statement

Year ended 31 March 2006

	Group		Company	
	2006	2005	2006	2005
	Rs.	Rs.	Rs.	Rs.
Cash flows from Operating Activities				
Net Profit Before Taxation	1,258,604,220	1,057,677,754	927,233,032	561,229,835
Adjustment For				
Goodwill (Net)	(50,133,293)	(1,896,491)	-	-
Depreciation	364,389,117	341,909,515	19,927,981	9,182,177
(Profit)/Loss on Sale of Property, Plant & Equipment	(54,384)	(12,829,359)	-	89,455
Provision for Retiring Gratuity	26,177,496	20,087,254	4,276,032	1,642,426
Impairment of Assets	-	28,472,729	-	-
Finance Cost	281,278,058	155,542,408	11,826,077	1,536,455
Investment Income	-	(10,199,661)	(463,003,700)	(325,587,903)
(Profit)/loss on Associates/ Subsidiaries	(2,050,548)	(3,587,700)	(457,639,676)	(130,046,213)
Change in Fair Value of Investment Property	(22,709,800)	(22,031,451)	-	-
Development Expenditure Written-off	-	19,248,557	-	-
(Profit)/Loss on Sale of Investments	(31,666,250)	(55,397,733)	(14,631,093)	(79,419,739)
Operating Profit Before Working Capital Changes	1,823,834,616	1,516,995,822	27,988,653	38,626,493
(Increase)/Decrease in Receivables	(245,311,291)	(204,001,476)	(4,350,147)	(2,683,303)
(Increase)/Decrease in Inventories	(12,425,450)	48,753,752	-	-
(Increase)/Decrease in Amounts Due from Related Companies	(486,021)	(81,673)	182,836,909	(7,499,746)
Increase/(Decrease) in Amounts Due to Related Companies	(185,718,707)	186,587,397	(144,274,681)	(144,718,870)
Increase/(Decrease) in Creditors and Accruals	174,280,747	32,457,930	15,599,161	9,561,700
Increase/(Decrease) in Provisions	31,046,917	-	-	-
Cash Generated from/(Used in) Operations	1,585,220,811	1,580,711,752	77,799,895	(106,713,726)
Finance Cost Paid	(281,278,058)	(155,542,408)	(11,826,077)	(1,536,455)
Income Tax Paid	(248,210,347)	(230,141,016)	(8,537,017)	(4,631,839)
Gratuity Paid	(6,558,485)	(7,111,161)	(91,000)	(441,688)
Development Expenses paid	(13,388,532)	(5,551,333)	-	-
Net Cash from/(Used in) Operating Activities	1,035,785,389	1,182,365,834	57,345,801	(113,323,708)
Cash Flows from Investing Activities				
Purchase of Property, Plant & Equipment	(337,127,033)	(1,138,619,201)	(37,208,670)	(38,436,256)
Acquisitions & Disposals of Subsidiaries/Associates (Note 31)	13,066,117	60,478,157	-	-
Investment in Subsidiaries / Associates	-	-	(619,378,042)	(172,369,397)
Investment in Brand	(49,000,000)	(25,000,000)	-	-
Other Investments	(4,499)	(2,969)	-	-
Proceeds from Sale of Property, Plant & Equipment	17,214,374	61,223,385	13,028,669	56,600
Proceeds from Disposal of Investments	4,113,682	59,269,656	66,207,278	182,304,148
Redemption of Preference Shares	(8,333,335)	-	154,000,000	188,000,000
Dividends Received from Associates	-	2,520,000	-	-
Investment Income	-	10,199,661	463,003,700	325,587,903
Net Cash from/(Used in) in Investing Activities	(360,070,694)	(969,931,311)	39,652,935	485,142,998
Cash Flows from Financing Activities				
Borrowings (Net)	(391,659,067)	186,315,930	81,104,339	(35,968,665)
Proceeds From Issue of Shares (Net of Issue Expenses)	50,343,559	57,797,500	50,343,559	57,797,500
Proceeds From Issue of Shares and Debentures to Minority	-	42,017,563	-	-
Dividends Paid - To Hemas Share Holders	(242,766,060)	(186,297,287)	(243,021,433)	(186,298,005)
- To Minority Share Holders of Subsidiaries	(11,753,425)	(13,873,401)	-	-
Rental Deposits Received	(1,026,851)	6,368,366	-	-
Finance Lease Paid	(1,158,514)	(435,276)	-	-
Net Cash from/(Used in) used in Financing Activities	(598,020,358)	91,893,395	(111,573,535)	(164,469,170)
Net Increase in Cash and Cash Equivalents	77,694,337	304,327,918	(14,574,799)	207,350,120
Cash & Cash Equivalents at the Beginning of the Year (Note 30)	735,791,589	431,463,671	233,086,503	25,736,383
Cash & Cash Equivalents at the End of the Year (Note 30)	813,485,926	735,791,589	218,511,704	233,086,503

The Accounting Policies and Notes on pages 60 through 89 form an integral part of the financial statements.

notes to the financial statements

Year ended 31 March 2006

1. CORPORATE INFORMATION

1.1 General

Hemas Holdings Limited is a public limited liability company incorporated and domiciled in Sri Lanka.

The registered office and the principal place of business is situated at No. 36, Bristol Street, Colombo 01.

Hemas Holdings Ltd., does not have an identifiable parent of its own.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were carrying out investment activities, and providing management and administration services to other Companies in the group.

1.3 Date of Authorisation for Issue

The financial statements of Hemas Holdings Limited for the year ended 31st March 2006, were authorised for issue, in accordance with a resolution of the Board of Directors on 24th May 2006.

1.4 Number of Employees

The number of employees of the Company at the end of the year was 10 (2005 - 10)

The Group employed 1320 employees as at the end of the year. (2005 - 1171)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 General Policies

2.1.1 Basis of Preparation

The balance sheet, statements of income, changes in equity and cash flows, together with accounting policies and notes, ("Financial Statements") of the Company as at 31st March 2006 and for the year then ended, comply with the Sri Lanka Accounting Standards.

These financial statements presented in Sri Lanka Rupees have been prepared on historical cost basis except for the valuation of certain Property, Plant & Equipment, which are stated at market values.

2.1.2 Consolidation Policy- Principles of Consolidation

(a) Subsidiaries

The financial statements of the Group represent the consolidation of the financial statements of the Company, and its controlled subsidiaries after elimination of all material intra group transactions and unrealized gains arising from intra - group transactions.

Subsidiaries are consolidated from the date the Parent obtains control until such time as control ceases.

The total profits & losses for the period of the Company and of its subsidiaries included in consolidation are shown in the consolidated income statement with the proportion of profit or loss after taxation pertaining to minority shareholders of subsidiaries being deducted as "Minority Interest".

All assets and liabilities of the Company and of its subsidiaries included in consolidation are shown in the consolidated balance sheet. The interest of minority shareholders of subsidiaries in the fair value of net assets of the Group are indicated separately in the consolidated balance sheet under the heading "Minority Interest."

(b) Associate Companies

Associate companies have been accounted for on the equity method.

Associates are those investments in which the Group has a significant influence of 20% to 50% and which are neither subsidiaries nor joint ventures of the Group.

The income statement reflects the Group's share of the results of the operations of each associate.

The related investments are carried forward in the consolidated balance sheet initially at cost and values adjusted to reflect the Group's share of post acquisition profit/(loss) of the associates, net of any dividends paid by such associate.

Unrealized gains arising from transactions with associates are eliminated against the investment in the associate, to the extent of Group's interest in the enterprise.

(c) Joint Ventures

The Group's interests in Joint Ventures is accounted for by proportionate consolidation, whereby the venturers' proportionate share of each of the assets, liabilities, income and expenses of the jointly controlled entity is combined on a line by line basis with similar items in the consolidated financial statements.

(d) Goodwill

Goodwill arising on acquisition represents the excess of cost of the acquisition over the fair value of identifiable net assets of a subsidiary, associate or joint venture as at the date of acquisition.

Goodwill is stated at cost less accumulated amortisation. However any goodwill arising on acquisition of subsidiaries on or after June 01, 2005 is reviewed impairment annually. Amortisation of goodwill arising on acquisition of subsidiaries on or before May 30, 2005 is ceased and the unamortised

Year ended 31 March 2006

goodwill is also reviewed for impairment annually. The resulting impairment losses are dealt within the Income Statement.

Negative Goodwill

Negative goodwill arising on acquisition comprises the excess of the fair value of net identifiable assets acquired over the purchase price or cost of acquisition.

Negative goodwill arising on acquisition of subsidiaries on or after June 01, 2005 and the unamortised negative goodwill arising on acquisition of subsidiaries on or before May 30, 2005 are credited to the Income Statement.

In previous years the negative goodwill was shown as deferred income in the consolidated financial statements.

(e) Changes in Group Companies

ACX International (Pvt) Ltd, was acquired as a subsidiary (100% controlling interest) and the controlling interest in Exchange & Finance Investment Limited, Peace Haven Resorts Limited and Leisure Asia Investment Limited were increased upto 100% from 56%, 95% from 88% and 100% from 61.5% respectively. The stake in Associated Hotels (Associate Company) was disposed and Hemas Commodities (Pte) Limited was liquidated during the year.

(f) Financial Year

All Companies in the Group have a common financial year that ends on 31st March .

(g) Country of Incorporation

All subsidiaries and the associate companies are incorporated in Sri Lanka.

2.1.3 Comparative Information

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year. The previous years' figures and phrases have been rearranged wherever necessary to conform to the current presentation.

2.1.4 Discontinuing Operations

A discontinuing operation is a clearly distinguishable component of the Group's business that is abandoned or terminated pursuant to a single plan, and which represents a separate major line of industry or geographical area of operations.

2.1.5 Changes in Accounting Policies

On April 01, 2005 the group adopted SLAS 40 'Investment Property', using the fair value model. Investment properties are now recorded in the Balance Sheet at fair value, with

changes in fair value included in other operating income.

In accordance with the transitional provisions of SLAS 40, the effect of adopting this standard is shown as an adjustment to the opening balance of retained earnings of the current financial year and the comparative information has been restated.

2.1.6 Foreign Currency Translation

All foreign exchange transactions are converted to Sri Lanka Rupees, which is the reporting currency, at the rates of exchange prevailing at the time the transactions were effected. Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lanka Rupee equivalents using year-end spot foreign exchange rates. Non- monetary assets and liabilities are translated using exchange rates that existed when the values were determined. The resulting gains and losses are accounted for in the Income Statement except when accounting for cash flow hedges.

In respect of transactions which meet the conditions for special hedge accounting in relation to cash flow hedges, the portion of the exchange gain or loss on the hedge instrument that is determined to be an effective hedge is recognized directly in equity through the statement of changes in equity and ineffective portion is recognized in the income statement.

2.1.7 Taxation

a) Current Taxes

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act.

b) Deferred Taxation

Deferred taxation is provided on the liability method. The tax effect of all timing differences which occur where items are allowed for income tax purposes in a period different from that when they are recognised in financial statements is included in the provision for deferred taxation at rates of taxation, which would prevail at the time the difference reverses.

Deferred tax assets are recognised for all deductible timing differences and carry forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible timing differences and carry forward of unused tax losses can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Year ended 31 March 2006

- c) Tax on dividend income from subsidiaries and associates is recognized as an expense in the Consolidated Income Statement.

2.1.8 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred, unless they are incurred in respect of qualifying assets in which case it is capitalized as part of the asset.

2.1.9 Research and Development Costs

Research and development costs are expensed as incurred, except for development costs, which are recognised as an asset to the extent that it is expected that such asset will generate future economic benefits. Where development costs are recognised as an asset, such costs are amortized on a straight-line basis over the period of expected future benefits. At each balance sheet date, the company assesses whether there is any indication of impairment of development costs recognized as assets i.e. whether it is no longer probable that further economic benefits will be generated. If any such indication exists, only the estimated recoverable amount is further amortised.

2.1.10 Other Intangible Assets

Other intangible assets (other than positive and negative goodwill) that are acquired by the Group are stated at cost less accumulated amortisation and any accumulated impairment losses.

2.2 Valuation of Assets and their Measurement Bases

2.2.1 Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items. Net realisable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

The cost incurred in bringing inventories to its present location and conditions are accounted using the following cost formulae:-

Raw Materials - At actual cost on first-in first-out basis / weighted average basis.

Finished Goods & Work-in-Progress - At the cost of direct materials, direct labour and an appropriate proportion of fixed production overheads based on normal operating capacity.

Other Stocks - At actual cost.

2.2.2 Trade and Other Receivables

Trade receivables are stated at the amounts they are estimated to realise net of provisions for bad and doubtful receivables.

Other receivables and dues from Related Parties are recognised at cost less provision for bad and doubtful receivables.

2.2.3 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

2.2.4 Property, Plant and Equipment

a) Cost and Valuation

All items of Property, Plant & Equipment are initially recorded at cost. Where items of Property, Plant and Equipment are subsequently revalued, the entire class of such assets is revalued. Revaluations are made with sufficient regularity to ensure that their carrying amounts do not differ materially from their fair values at the balance sheet date. Subsequent to the initial recognition as an asset at cost, revalued Property, Plant and Equipment are carried at revalued amounts less any subsequent depreciation thereon. All other Property, Plant and Equipment are stated at historical cost less depreciation.

When an asset is revalued, any increase in the carrying amount is credited directly to a revaluation surplus unless it reverses a previous revaluation decrease relating to the same asset, which was previously recognised as an expense. In these circumstances the increase is recognised as income to the extent of the previous write down. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense unless it reverses a previous increment relating to that asset, in which case it is charged against any related revaluation surplus, to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. Any balance remaining in the revaluation surplus in respect of an asset, is transferred directly to Accumulated Profits on retirement or disposal of the asset.

b) Restoration Costs

Expenditure incurred on repairs or maintenance of Property, Plant and Equipment in order to restore or maintain the future economic benefits expected from originally assessed standard of performance, is recognised as an expense when incurred.

Year ended 31 March 2006

c) Depreciation

The provision for depreciation is calculated by using a straight line method (except for Serendib Hotels Ltd, Hotel Sigiriya Ltd, and Stafford Hotels Ltd,) on the cost or valuation of all Property, Plant and Equipment other than freehold, in order to write off such amounts over the estimated useful lives. The principal annual rates used by the companies in the Group are as follows:

Assets	Rate p.a.
Buildings	1.5% - 5%
Furniture & Fittings	7% - 25%
Office & Factory Equipments	10% - 33.33%
Computer Accessories	33 1/3 %
Plant & Machinery	6% - 25%
Motor Vehicles	20% - 25%
Leased Assets	25%
Crockery & Cutlery	50% - 100%
Fire Fighting Equipment	10%

Leasehold land and Buildings on Leasehold Land are depreciated over the remaining lease period (except for Serendib Hotel Ltd and Hotel Sigiriya Ltd)

In Serendib Hotels Ltd, value of the buildings on the leasehold land is amortized in 20 equal annual installments commencing from 1 April 1994 and ending in 31 March 2014. The Company has further obtained an extension of the lease period for 30 years commencing 1 April 2002. Accordingly the balance written down value of leasehold land and buildings as at 1st April 2000 is amortized over a period of 33 years. However, if the lease is not renewed after the date of termination on 31 March 2034, the Company is entitled to compensation for the cost of buildings and landscaping.

Hotel Sigiriya Ltd, has commenced amortizing leasehold property from the year 1994/95, the policy of this Company is to amortize the leasehold buildings over 20 years in equal annual installments i.e. 10 years beyond the expiry of the lease.

No provision is made in the year of purchase and full year's depreciation is provided in the year of sale (except for Heladhanavi Ltd., where provision is made in the year of purchase and none in the year of sale).

2.2.5 Leases

a) Finance Leases

Property, Plant and Equipment on finance leases, which effectively transfer to the Group substantially all of the risk and benefits incidental to ownership of the leased item are capitalised at the inception of the lease at the fair value of leased property or, if lower, at the present value of minimum lease payments. Capitalized leased

assets are disclosed as Finance Leases under Property, Plant and Equipment and depreciated over the period the Group is expected to benefit from the use of the leased assets.

The corresponding principal amount payable to the lessor together with interest payable over the period of lease is shown as a liability. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The interest payable over the period is transferred to an interest in suspense account. The interest element of the rental obligations pertaining to each financial year is charged to income statement over the period of lease.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and depreciated over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is shorter.

b) Operating Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the leased term, are classified as operating leases.

Lease rentals paid under operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term.

2.2.6 Investments

a) Current Investments

Current investments are stated at lower of cost and market value determined on an aggregate portfolio basis.

The cost of an investment is the cost of acquisition inclusive of brokerage fees and stamp duty.

Unrealized gains and losses on current investments carried at market value i.e. reduction to market value and reversals of such reductions required to reflect current investments at the lower of cost and market value, are credited or charged to income statement.

b) Long Term Investments

Quoted and unquoted investments in shares held on a long term basis are stated at cost.

The cost of the investment is the cost of acquisition inclusive of brokerage fees, duties and bank fees.

The carrying amount of long term investments is reduced to recognise a decline other than temporary in the value of investments, determined on an individual investment basis.

In the Company's financial statements, investments in

Year ended 31 March 2006

subsidiaries are accounted for in the equity method and associates are carried at cost, net of any provision for other than temporary diminution in value, under the Company's accounting policy for long term investments.

c) Other Investments

Treasury bills and other interest bearing securities held for resale in the near future to benefit from short term market movements are accounted for at cost plus relevant proportion of the discounts or premiums.

2.3 Liabilities and Provisions

2.3.1 Provisions

Provisions are recognized when the company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2.3.2 Retirement Benefit Obligations

a) Defined Benefit Plan - Gratuity

Gratuity is a Defined Benefit Plan. The Company is liable to pay gratuity in terms of the relevant statute. In order to meet this liability, a provision is carried forward in the balance sheet, equivalent to an amount calculated based on a half month's salary of the last month of the financial year of all employees for each completed year of service, commencing from the first year of service. The resulting difference between brought forward provision at the beginning of a year and the carried forward provision at the end of a year is dealt within the income statement.

In respect of those employees those who have not completed 5 years, the provision required at the end of 5 years is built up on an increasing sum of digit basis and accordingly the retirement benefit cost is charged to the income statement.

The gratuity liability is not externally funded nor actuarially valued. This item is grouped under Other Deferred Liabilities in the Balance Sheet.

However, as per the payment of Gratuity Act No. 12 of 1983 this liability only arises upon completion of 5 years of continued service.

b) Defined Contribution Plans - Employees' Provident Fund & Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Company contributes 12 % and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively. Some employees of the group are eligible for Mercantile Services Provident Society fund, for which the group contributes 12% of gross emoluments of employees.

2.4 Income Statement

2.4.1 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts, value added taxes, and other sales taxes and after eliminating intra-group sales. The following specific criteria are used for the purpose of recognition of revenue.

a) Sale of Goods

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to buyer; with the Company retaining neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

b) Rendering of Services

Revenue from rendering of services is recognised in the accounting period in which the services are rendered or performed.

c) Interest

Interest Income is recognised on an accrual basis.

d) Dividends

Dividend income is recognised on a cash basis (net of dividend tax).

e) Rental Income

Rental income is recognised on an accrual basis. Rental income arising on investment properties is accounted for on a straight line basis over the lease terms.

f) Others

Other income is recognised on an accrual basis.

Net gains and losses of a revenue nature on the disposal of Property, Plant & Equipment and other non current assets including investments have been accounted for in the income statement, having deducted from

Year ended 31 March 2006

proceeds on disposal, the carrying amount of the assets and related selling expenses. On disposal of revalued Property, Plant and Equipment, amount remaining in Revaluation Reserve relating to that asset is transferred directly to Accumulated Profit.

Gains and losses arising from incidental activities to main revenue generating activities and those arising from a group of similar transactions which are not material, are aggregated, reported and presented on a net basis.

2.4.2 Expenditure Recognition

- a) Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency has been charged to income in arriving at the profit for the year.
- b) For the purpose of presentation of income statement the Company has adopted "the function of expenses" method on the basis that it presents fairly the elements of the Company's and Group's performance.

2.5 Business Segment Reporting

A business segment is distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services that is subject to risk and returns that are different from those of other business segments. The accounting policies adopted for segment reporting are the same accounting policies adopted for preparing and presenting consolidated financial statements of the Group.

Inter Segment transfers are based on fair market prices.

2.6 Employee Share Option Plan (ESOP)

The Company has established an Employee Share Option Plan by way of a shareholder resolution passed on 20th August 2003 whereby its Senior Management and Employees are entitle to purchase up to 3,120,000 Ordinary shares of the Company between 1st April 2004 and 31st March 2008. These shares would be allocated at the discretion of the Board. The allocation to the Senior Management would be based on performance criteria. Approvals from the Colombo Stock Exchange and Securities and Exchange Commission have been duly obtained for the scheme.

The allocation to the Senior Management and the Employees, which has taken place and is expected to take place in the future is as follows:

Date of grant of option	Number of options granted	Date by which options have to be exercised	No of options Exercised during the year	No of options Exercised to date
30th August 2003	1,560,000	1st April 2004 - 31st March 2006	425,424	1,521,974
14th September 2004	732,500	14th September 2004 - 31st March 2007	336,350	369,350
28th September 2005	827,500	28th September 2005 - 31st March 2008	32,000	32,000

The first grant took place on 30th August 2003, entitling Senior Management and Employees to subscribe for Ordinary Shares at a price of Rs. 50/- per share. The grant took place on 14th September 2004 to Senior Management at a price of Rs. 90/- per share. Subsequent to the bonus issue of 1 for 4, the exercise price of the two grants were adjusted to Rs 40/- and Rs 72/- respectively.

The third grant took place on 28th September 2005, to Senior Management at a price of Rs. 116/- per share.

notes to the financial statements

Year ended 31 March 2006

	Group		Company	
	2006	2005	2006	2005
	Rs.	Rs.	Rs.	Rs.
3. REVENUE				
3.1 Summary				
Sales	10,127,039,262	9,243,784,928	67,832,056	54,476,512
Less: Sales Taxes:				
Turnover Tax	(38,727,202)	(34,230,474)	-	-
Value Added Tax	(658,544,641)	(411,673,775)	-	-
Revenue	<u>9,429,767,419</u>	<u>8,797,880,679</u>	<u>67,832,056</u>	<u>54,476,512</u>
3.2 Goods and Services Analysis				
Sales of Goods	5,615,046,615	6,532,273,421	-	-
Rendering of Services	3,814,720,804	2,265,607,258	67,832,056	54,476,512
	<u>9,429,767,419</u>	<u>8,797,880,679</u>	<u>67,832,056</u>	<u>54,476,512</u>

Segment information is given in Note 37 to these financial statements.

	Group		Company	
	2006	2005	2006	2005
	Rs.	Rs.	Rs.	Rs.
4. OTHER OPERATING INCOME				
Income from Investments with Related Parties				
- Quoted	-	-	-	275,450
- Non Quoted	-	-	462,500,000	324,706,237
Income from Other Investments				
- Quoted	28,141	9,881,209	3,640	106,216
- Non Quoted	847,208	955,837	500,060	500,000
Interest Income - Related Parties	3,073	-	8,035,327	7,367,272
- Others	73,379,610	23,245,416	25,352,121	10,372,077
Profit on Disposal of Investments	31,666,250	21,452,813	14,631,093	12,512,772
Profit on Disposal of Hemas Garments (Pte) Ltd. - 70%	-	53,944,920	-	86,906,967
Surplus on Acquisition (Negative Goodwill)	64,790,304	5,534,929	-	-
Changes in Fair Value of Investment Property	22,709,800	22,031,451	-	-
Rental Income	4,046,801	5,496,713	-	-
Profits on Disposal of Rejected Stocks	-	1,965,605	-	-
Commission Income	6,853,703	12,255,577	-	-
Exchange Gain	20,990,802	2,471,131	-	-
Sundry Income	24,790,792	9,690,365	1,303,190	2,012,285
Travel Counter Income	18,994,807	22,750,634	-	-
	<u>269,101,291</u>	<u>191,676,600</u>	<u>512,325,431</u>	<u>444,759,276</u>

Year ended 31 March 2006

5. PROFIT FROM OPERATING ACTIVITIES

Stated after Charging /(Crediting)

	Group		Company	
	2006	2005	2006	2005
	Rs.	Rs.	Rs.	Rs.
Directors' Emoluments	28,834,880	26,525,034	16,006,390	10,246,746
Auditors' Fees and Expenses	3,123,080	2,576,441	551,362	402,313
Depreciation	455,221,043	352,878,064	19,927,981	9,182,177
Donations	7,144,381	4,759,333	-	-
(Profit)/Loss on Disposal of Property, Plant & Equipment	(54,384)	(12,829,359)	(885,512)	89,455
Bad Debts Written - off	10,275,212	2,082,006	-	21,706
Provision for Doubtful Debts	3,491,561	7,696,657	-	4,525,000
Provision for Obsolete Stocks	6,075,744	-	-	-
Goodwill Written Off	14,657,012	3,638,438	-	-
Staff Costs includes:				
Defined Benefit Plan Cost - Gratuity	25,491,137	20,087,254	4,276,031	1,642,426
Defined Contribution Plan Cost - MSPS/EPF/ETF	52,305,394	63,905,109	3,197,501	1,662,229
Other Staff Costs	551,343,163	541,181,659	15,667,317	6,835,393

6. FINANCE EXPENSES

Interest Expense on Overdrafts	40,470,149	13,624,393	248,229	153,856
Interest Expense on Loans & Borrowings	239,935,914	139,868,299	11,577,848	1,382,599
	280,406,063	153,492,692	11,826,077	1,536,455
Bank Guarantee Charges	871,995	1,394,012	-	-
Finance Charges on Lease Liabilities	550,646	655,704	-	-
	281,828,704	155,542,408	11,826,077	1,536,455

7. INCOME TAX EXPENSE

	Group		Company	
	2006	2005	2006	2005
	Rs.	Rs.	Rs.	Rs.
Current Income Tax				
Current Tax Expense on Ordinary Activities for the Year (7.1)	277,872,295	193,331,283	5,400,000	5,798,706
Under/(Over) Provision of Current taxes				
in respect of prior years	(1,222,775)	(1,845,728)	(1,440,320)	(2,329,794)
Share of Associate Company Income Tax	1,367,548	2,708,874	-	-
Tax on Dividends	12,721,854	29,737,432	-	-
Deferred Income Tax				
Deferred Taxation Charge/(Reversal) (7.2)	(8,900,839)	1,210,723	(1,034,241)	(265,749)
	281,838,083	225,142,584	2,925,439	3,203,163

notes to the financial statements

Year ended 31 March 2006

7.1 Reconciliation between Current Tax Expense/ (Income) and the product of Accounting Profit

	Group		Company	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
Accounting Profit (Profit from Ordinary Activities before Tax)	1,256,553,670	1,054,090,054	469,593,356	431,183,622
Intra Group Adjustment	506,355,840	395,608,053	-	-
	1,762,909,510	1,449,698,107	469,593,356	431,183,622
Aggregate Disallowed Items	399,462,430	169,573,303	39,663,582	18,626,933
Aggregate Allowable Expenses	(453,830,548)	(315,101,442)	(16,791,303)	(8,381,763)
Aggregate Allowable Income	(736,769,109)	(602,181,451)	(459,078,187)	(417,782,954)
Incentives not recognised in the Income Statements	(8,000,000)	(5,813,454)	(4,000,000)	-
Income not subject to Tax	-	(21,837,072)	-	-
Taxable Profit / (Loss)	963,772,283	674,337,991	29,387,448	23,645,838
Tax Losses Brought Forward and Utilized	(16,703,394)	(4,362,727)	(11,685,607)	-
	947,068,889	669,975,264	17,701,841	23,645,838
Current Income Tax Expense	277,872,295	193,331,283	5,400,000	5,798,706

The Group tax expense is based on taxable profit of individual companies of Group.

7.2 Deferred Tax Expense/(Income)

Deferred Tax Expense / (Income) arising due to
Origination and Reversal of Timing Differences

	(8,900,839)	1,210,723	(1,034,241)	(265,749)
	(8,900,839)	1,210,723	(1,034,241)	(265,749)

7.3 Deferred Tax has been computed using current effective tax rates applicable to each Group Company.

7.4 Applicable Tax Rates

As per the Inland Revenue Act, No. 38 of 2000, all resident companies are liable to effective Income Tax of 32.5% (Statutory Tax rate of 30% and Human Resource Endowment Fund rate of 2.5%) (2005 - 32.5%), with the exception of the below stated Companies.

- Trading income of Serendib Hotels Ltd., Hotel Sigiriya Ltd., Stafford Hotels Ltd., Miami Beach Hotels Ltd., Serendib Leisure Management Ltd., Hemas Travels (Pte) Ltd. and Hemtours (Pte) Ltd., is taxed at 15%, while the other income of these Companies are taxed at 30%. (2005 - 30%)
- The profits of Hemas Garments (Pte) Ltd., are exempt from Income Tax under BOI Act No. 4 of 1978 for a period of 15 years reckoned from the year of assessment 1996/1997 in which the Company commences to make profits in relation to its transactions in that year of assessment not later than 15 years from the date of first commercial production or operation of the enterprise whichever occurs earlier. On the expiration of the above tax exemption period the provision of section 85 A of the Inland Revenue Act No. 38 of 2000 shall apply to the Company.
- Hemas Developments (Pte) Ltd., has obtained BOI approval under Section 17 and it enjoys a 7 year tax holiday commencing from the year of assessment 1998/1999 in which the enterprise makes profits in relation to its transactions in that year or not later than 5 years from the date of its first commercial operation whichever is earlier. Thereafter the applicable tax rate would be 2% of Revenue.
- The profits and income of the Hemas Power (Pte) Ltd., (other than from sale of capital assets) is exempted from income tax for a period of 5 years commencing from the year of assessment in which the Company commences to carry on commercial operations, under Section 21H of the Inland Revenue (Amendment) Act, No 37 of 2003 (Provided that the Company, qualifies the criteria specified in the said section). Commercial operations would be deemed to commence in the year in which the issued share capital of the Company reaches Rs. 100 million before 01st April 2008. The issued share capital of the Company as at 31st March 2006, amounted to Rs. 802 million.

Year ended 31 March 2006

- Pursuant to the agreement dated 28th August 2003, entered into with Board of Investment under section 17 of the Board of Investment Law, Heladhanavi Ltd., is exempt from tax for a period of 10 years from the year in which the Company commences to make profits or any year of assessment not later than two years from the date of commencement of commercial operations of the enterprise, whichever is earlier. After the expiration of the said, tax exemption period the income of the enterprise shall be charged at the rate of 15%.
However, other operating income of the Company is liable for income tax in accordance with the provisions of the Inland Revenue Act.
- Companies where the taxable income is less than Rs. 5 million in any year of assessment are liable to income tax at a rate of 20%, in that year.

8. EARNINGS PER SHARE

- 8.1 Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

- 8.2 The following reflects the income and share data used in the basic Earnings Per Share computation.

	Group		Company	
	2006	2005	2006	2005
	Rs.	Rs.	Rs.	Rs.
Amount Used as the Numerator:				
Net Profit for the year	969,829,175	836,973,285	924,307,593	558,026,672
Less: Preference Dividends	(11,753,425)	(5,950,686)	-	-
Net Profit Attributable to Ordinary Shareholders for Basic Earnings Per Share	<u>958,075,750</u>	<u>831,022,599</u>	<u>924,307,593</u>	<u>558,026,672</u>
	2006	2005	2006	2005
	Number	Number	Number	Number
Number of Ordinary Shares Used as Denominator:				
Weighted Average number of Ordinary Shares in issue				
Applicable to basic Earnings Per Share	<u>99,458,976</u>	<u>98,625,000</u>	<u>99,458,976</u>	<u>98,625,000</u>

- 8.3 There were no potentially dilutive ordinary shares outstanding at any time during the year.

9. DIVIDEND PER SHARE - Group / Company

	2006		2005	
	%	Rs.	%	Rs.
9.1 Dividends Paid				
Interim Paid - 1st Interim	12.5	124,471,111	12.5	98,695,562
- 2nd Interim	12.5	124,275,809	17.5	138,489,225
Final Proposed	-	-	-	-
	<u>25.00</u>	<u>248,746,920</u>	<u>30.00</u>	<u>237,184,787</u>
9.2 Dividend Per Share				
- 1st Interim		1.25		1.25
- 2nd Interim		1.25		1.75
- Final Proposed		-		-

- 9.3 The interim dividends has been paid on 28th November 2005 and 28th April 2006.

notes to the financial statements

10. PROPERTY, PLANT & EQUIPMENT

10.1 Group

Gross Carrying Amount	Balance as at 01.04.2005 Rs.	Additions/ Transfers/ Acquisitions Rs.	Disposals/ Transfers Rs.	Reclassified as Investment Property Rs.	Balance as at 31.03.2006 Rs.
At Cost/ Cost incurred since Last Revaluation					
Freehold Land	144,257,747	5,639,000	-	(34,304,100)	115,592,647
Freehold Buildings	172,914,328	21,053,118	-	(165,684,880)	28,282,566
Leasehold Land	-	26,000,000	-	-	26,000,000
Building on Leasehold Land	-	62,152,048	-	-	62,152,048
Plant & Machinery	3,352,366,327	54,589,247	(53,595,478)	(14,277,020)	3,339,083,076
Furniture & Fittings	239,502,574	32,099,882	(15,572,949)	-	256,029,507
Office & Factory Equipment	169,895,214	20,399,369	(18,537,781)	(20,911,860)	150,844,942
Computer & Accessories	122,680,596	147,060,871	(8,849,049)	-	260,892,418
Motor Vehicles	205,962,032	29,580,557	(21,187,177)	-	214,355,412
Crockery & Cutlery	10,316,076	267,274	-	-	10,583,350
Revertment	19,108,922	-	-	-	19,108,922
	<u>4,437,003,816</u>	<u>398,841,366</u>	<u>(117,742,434)</u>	<u>(235,177,860)</u>	<u>4,482,924,888</u>
At Valuation					
Freehold Land	296,186,402	-	(331,820)	(90,695,900)	205,158,682
Freehold Buildings	918,405,629	-	-	(210,734,240)	707,671,389
Leasehold Land	125,361,971	-	-	-	125,361,971
Buildings on Leasehold Land	170,004,024	-	-	-	170,004,024
	<u>1,509,958,026</u>	<u>-</u>	<u>(331,820)</u>	<u>(301,430,140)</u>	<u>1,208,196,066</u>
Assets on Finance Leases	<u>9,430,121</u>	<u>352,350</u>	<u>(71,253)</u>	<u>-</u>	<u>9,711,218</u>
	<u>9,430,121</u>	<u>352,350</u>	<u>(71,253)</u>	<u>-</u>	<u>9,711,218</u>
Total Value of Assets	<u>5,956,391,963</u>	<u>399,193,716</u>	<u>(118,145,507)</u>	<u>(536,608,000)</u>	<u>5,700,832,172</u>
	Balance as at 01.04.2005 Rs.	Charge for the year Rs.	Disposals/ Transfers Rs.	Reclassified as Investment Property Rs.	Balance as at 31.03.2006 Rs.
Depreciation					
At Cost					
Freehold Buildings	1,410,458	684,894	-	-	2,095,352
Plant & Machinery	292,663,050	230,246,194	(31,539,881)	-	491,369,363
Furniture & Fittings	107,550,371	23,522,837	(13,012,886)	-	118,060,322
Office & Factory Equipment	75,008,630	14,759,918	(15,618,124)	-	74,150,424
Computer Accessories	65,759,583	27,132,411	(8,448,516)	-	84,443,478
Motor Vehicles	119,715,426	35,826,831	(13,428,434)	-	142,113,823
Crockery & Cutlery	7,070,354	3,689	-	-	7,074,043
Revertment	6,993,371	948,299	-	-	7,941,670
	<u>676,171,243</u>	<u>333,125,073</u>	<u>(82,047,841)</u>	<u>-</u>	<u>927,248,475</u>
At Valuation					
Freehold Buildings	-	18,855,183	-	-	18,855,183
Leasehold Land	-	1,492,551	-	-	1,492,551
Buildings on Leasehold Land	-	9,243,553	-	-	9,243,553
	<u>-</u>	<u>29,591,287</u>	<u>-</u>	<u>-</u>	<u>29,591,287</u>
Assets on Finance Leases	<u>3,441,017</u>	<u>1,672,757</u>	<u>(35,627)</u>	<u>-</u>	<u>5,078,147</u>
	<u>3,441,017</u>	<u>1,672,757</u>	<u>(35,627)</u>	<u>-</u>	<u>5,078,147</u>
Total Depreciation	<u>679,612,260</u>	<u>364,389,117</u>	<u>(82,083,468)</u>	<u>-</u>	<u>961,917,909</u>
Capital Work-In-Progress	<u>56,526,706</u>	<u>-</u>	<u>(55,156,368)</u>	<u>-</u>	<u>1,370,338</u>
	<u>56,526,706</u>	<u>-</u>	<u>(55,156,368)</u>	<u>-</u>	<u>1,370,338</u>
	2006 Rs.				2005 Rs.
Net Book Values					
At Cost	<u>3,557,046,751</u>				3,817,359,279
At Valuation	<u>1,178,604,779</u>				1,509,958,026
Assets on Finance Lease	<u>4,633,071</u>				5,989,104
Total Carrying Amount	<u>4,740,284,601</u>				<u>5,333,306,409</u>

- 10.1.1** The Land and Buildings of Hemas Holdings Ltd. and Hemas Manufacturing (Pte) Ltd. were revalued during the financial years 1999/2000 & 2004/2005 by Mr. D.S.A. Senaratne (A.I.V.) an independent valuer. The results of such revaluation was incorporated in these financial statements from its effective date which is 31 March 2000 & 31 March 2005. Such assets were valued on an open market value for existing use basis. The surplus arising from the revaluation was transferred to a Revaluation Reserve.
- 10.1.2** Leasehold Property and Furniture and Equipment of Hotel Sigiriya Ltd., were revalued during the financial years in 1991, 1994 and 2004/2005 respectively, by Mr. D.S.A.Senaratne, an Associate of the Institute of Valuers of Sri Lanka. The surplus arising on revaluation was credited to the Revaluation Reserve.
- 10.1.3** The Land and Buildings of Serendib Hotels Ltd., Stafford Hotels Ltd. & Miami Beach Hotels Ltd., were last revalued during the financial years 1995/96 and 2004/2005 by Mr. D.S.A. Senaratne, an Associate of the Institute of Valuers of Sri Lanka. The properties were valued on an open market value for existing use basis. The surplus arising from the revaluation was transferred to a Revaluation Reserve.

Class of Asset	Cost Rs.	Cumulative Depreciation if assets were carried at cost Rs.	Net Carrying Amount 2006 Rs.	Net Carrying Amount 2005 Rs.
Buildings on Freehold Land	325,719,367	30,635,378	295,083,989	299,969,779
Buildings on Leasehold Land	76,835,407	7,921,921	68,913,486	71,241,832
Leasehold Property	31,962,385	14,636,469	17,325,916	18,294,473

- 10.1.4** During the financial year, the Group acquired Property, Plant & Equipment to the aggregate value of Rs.399,200,916/- (2005 - Rs. 3,900,877,825/-) of which Rs. 352,350/- (2005 - Rs. 1,053,800/-) was acquired by means of finance leases. Cash payments amounting to Rs. 337,127,033/- (2005 - Rs. 1,138,619,201/-) was paid during the year for purchases of Property, Plant & Equipment.
- 10.1.5** The useful life of Power Plant of Heladhanavi Ltd. was reviewed and changed by the Directors in consultation with the equipment supplier. Due to these changes in estimation, a reduction in depreciation has resulted in the current year (in comparison to the depreciation charge based on previous estimate). This difference will continue in the future periods for the Power Plant existing as at 31st March 2006, up until any time of disposal in the future.

notes to the financial statements

10. PROPERTY, PLANT AND EQUIPMENT (Contd.)

10.2 Company	Balance As At 01.04.2005 Rs.	Additions/ Transfers/ Acquisitions Rs.	Disposal/ Transfers Rs.	Balance As at 31.03.2006 Rs.
At Cost				
Freehold Land	-	5,292,000	-	5,292,000
Freehold Buildings	-	4,708,000	-	4,708,000
Roadways	4,858,512	-	-	4,858,512
Furniture & Fittings	11,120,382	263,053	(5,313,853)	6,069,582
Office Equipment	8,517,217	1,401,135	(1,025,639)	8,892,713
Computer & Accessories	27,512,431	28,963,868	(292,082)	56,184,217
Motor Vehicles	9,765,257	2,000,000	(1,731,922)	10,033,335
Plant and Machinery	21,613,616	-	(21,613,616)	-
	<u>83,387,415</u>	<u>42,628,056</u>	<u>(29,977,112)</u>	<u>96,038,359</u>
At Valuation				
Freehold Land	43,200,000	-	-	43,200,000
Buildings Transferred from cost	77,742,500	-	-	77,742,500
	<u>120,942,500</u>	<u>-</u>	<u>-</u>	<u>120,942,500</u>
Total Value of Assets	<u>204,329,915</u>	<u>42,628,056</u>	<u>(29,977,112)</u>	<u>216,980,859</u>
Work in Progress	<u>5,419,386</u>	<u>-</u>	<u>(5,419,386)</u>	<u>-</u>
Depreciation	Balance As at 01.04.2005 Rs.	Charge For the Year Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2006 Rs.
At Cost				
Furniture & Fittings	4,427,597	1,117,486	(4,138,841)	1,406,242
Office Equipment	4,711,166	954,117	(843,534)	4,821,749
Computer & Accessories	1,559,931	8,946,936	(287,749)	10,219,118
Motor Vehicles	2,207,705	2,320,615	(871,511)	3,656,809
Plant & Machinery	8,105,106	2,701,702	(10,806,808)	-
	<u>21,011,505</u>	<u>16,040,856</u>	<u>(16,948,443)</u>	<u>20,103,918</u>
At Valuation				
Freehold Buildings	-	3,887,125	-	3,887,125
	<u>-</u>	<u>3,887,125</u>	<u>-</u>	<u>3,887,125</u>
Total Depreciation	<u>21,011,505</u>	<u>19,927,981</u>	<u>(16,948,443)</u>	<u>23,991,043</u>
Net Book Values			2006 Rs.	2005 Rs.
At Cost			75,934,441	62,375,910
At Valuation			117,055,375	120,942,500
Work In Progress			-	5,419,386
Total Carrying Amount			<u>192,989,816</u>	<u>188,737,796</u>

10.2.1 The Land and Buildings of the Company were revalued during the financial years 1999/2000 & 2004/2005 by Mr. D.S.A. Senaratne (A.I.V) an independent valuer. The results of such revaluation was incorporated in these financial statements from its effective date which is 31 March 2000 and 31 March 2005. Such assets were valued on an open market value basis. The surplus arising from the revaluation was transferred to a Revaluation Reserve.

The Carrying amount of revalued assets that would have been included in the financial statements had the assets been carried at cost less depreciation is as follow:

Class of Asset	Cost Rs.	Cumulative Depreciation if assets were Carried at cost Rs.	Net Carrying Amount 2006 Rs.	Net Carrying Amount 2005 Rs.
Freehold Land	9,833,928	-	9,833,928	9,833,928
Buildings	42,722,702	27,586,464	15,136,238	17,272,373
	<u>52,556,630</u>	<u>27,586,464</u>	<u>24,970,166</u>	<u>27,106,301</u>

10.2.2 During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 42,628,056/- (2005 - Rs. 79,629,562/-) of which Rs. 37,208,670/- (2005 - Rs. 38,436,256/-) was acquired by means of cash.

11. INVESTMENT PROPERTY

	Group 2006 Rs.
Reclassified from Property, Plant & Equipment	514,576,549
Change in Fair Value of Investment Properties on adoption of SLAS 40-Investment Property	<u>22,031,451</u>
Investment Properties at Fair Value as of 01/04/05	536,608,000
Additions during the year	10,834,308
Change in Fair value during the Year	<u>22,709,800</u>
Investment Properties at Fair Value as of 31/03/06	<u>570,152,108</u>

The company's policy is to revalue Investment Properties every three years, accordingly the Investment Properties of Hemas Development (Pte) Ltd., were revalued during the financial year 2004/2005 by Mr. D.S.A. Senaratne (A.I.V.) an independent valuer. The results of such revaluation was incorporated in these financial statements from its effective date which is 31 March 2005. Such assets were valued on an open market value for existing use basis. The surplus arising from the revaluation was transferred to a Revaluation Reserve. After adoption of SLAS 40 the surplus was transferred from revaluation reserve to retained earnings.

The Directors have assessed the fair value of the Investment Properties as at 31 March 2006 based on earning growth method and resulting surplus in fair value is included in other operating income.

12. INTANGIBLE ASSETS**12.1 Non Current**

	Group 2006 Rs.	2005 Rs.
Goodwill	14,327,963	9,784,437
Brands	74,000,000	25,000,000
Project Development Expenses	<u>18,939,865</u>	<u>5,551,333</u>
	<u>107,267,828</u>	<u>40,335,770</u>

12.1.1 Goodwill

At the beginning of the year	9,784,437	8,012,700
Acquired during the year	19,200,538	5,410,175
Amounts Written off during the year	<u>(14,657,012)</u>	<u>(3,638,438)</u>
	<u>14,327,963</u>	<u>9,784,437</u>

13. INVESTMENT IN SUBSIDIARIES

	Group Holding		Company Holding		Company	
	%	%	%	%	2006	2005
13.1 Non-Quoted Investments	2006	2005	2006	2005	Rs.	Rs.
Hemas Corporate Services (Pte) Ltd	100%	100%	100%	100%	10,000,010	10,000,010
Hemas Developments (Pte) Ltd	100%	100%	73%	50%	325,000,000	75,000,000
Hemas Power (Pte) Ltd	100%	100%	2.2%	2.2%	18,000,000	172,000,000
Hemas Manufacturing (Pte) Ltd	100%	100%	100%	100%	40,000,000	40,000,000
Hemas Marketing (Pte) Ltd	100%	100%	100%	100%	105,300	105,300
Hemas Foods (Pte) Ltd	100%	100%	100%	100%	20,000,000	20,000,000
Hemas Commodities (Pte) Ltd	-	100%	-	100%	-	2,500,000
Hemas Pharmaceuticals (Pte) Ltd	100%	100%	100%	100%	33,000,000	33,000,000
Hemas Healthcare (Pte) Ltd	100%	100%	100%	100%	18,000,000	18,000,000
Hemas Travels (Pte) Ltd	100%	100%	100%	100%	2,840,112	2,840,112
Hemas International Freight (Pte) Ltd	100%	100%	100%	100%	12,999,960	999,960
Hemas Air Services (Pte) Ltd	100%	100%	100%	100%	4,999,980	4,999,980
Forbes Air Services (Pte) Ltd	100%	100%	100%	100%	37,029,988	37,029,988
Discover the World Marketing (Pte) Ltd	100%	100%	100%	100%	500,000	500,000
Hemas Aviation (Pte) Ltd	100%	100%	100%	100%	500,000	500,000
Exchange & Finance Investment Ltd.	100%	56.0%	100%	56%	12,000,000	5,000,000
Hemtours (Pte) Ltd	100%	100%	100%	100%	30,000,020	30,000,020
Leisure Asia Investments Ltd	100%	61.5%	100%	61.5%	179,213,890	80,663,830
Peace Haven Resorts Ltd	95.5%	88.0%	95.5%	88%	325,580,849	88,671,156
Hemas Shipping (Pte) Ltd	100%	-	100%	-	300,000	-
					<u>1,070,070,109</u>	<u>621,810,356</u>
13.2 Quoted Investments						
Serendib Hotels Ltd	54.0%	29.7%	13.6%	1.4%	93,376,280	86,823,005
Share of Capital Reserves of Subsidiaries					770,309,558	979,359,124
Share of Revenue Reserves of Subsidiaries					<u>2,321,638,061</u>	<u>1,645,108,385</u>
Total					<u>4,255,394,008</u>	<u>3,333,100,870</u>

notes to the financial statements

13.3 The companies with less than 50% voting power are considered as subsidiaries, as control exists over their financial and operating policies in line with SLAS 26.

14. INVESTMENTS IN ASSOCIATES

14.1 Group	Holding %		Carrying Value	Increase/ (Decrease) in Investments	Share of Profit in net of Dividends Received	Disposal/ Transfer of Investment	Carrying Value
	2006	2005	2005				2006
Non-Quoted			Rs.	Rs.	Rs.	Rs.	Rs.
Mowbray Hotels Ltd	39.6%	39.6%	8,919,034	2,564,270	(391,213)	-	11,092,091
Brushco (Pvt) Ltd	0%	40.0%	11,303,675	-	2,347,352	(13,651,027)	-
Associated Hotels Ltd	0%	47.0%	131,548,226	-	(5,730,361)	(125,817,865)	-
Hela Clothing (Pte) Ltd	30.0%	30.0%	44,126,591	-	4,457,224	-	48,583,815
e-Channelling Ltd	25.0%	0%	-	42,933,320	-	-	42,933,320
			<u>195,897,526</u>	<u>45,497,590</u>	<u>683,002</u>	<u>(139,468,892)</u>	<u>102,609,226</u>

14.2 Company

	Holding %		No. of Shares		2006	2005
	2006	2005	2006	2005	Rs.	Rs.
Mowbray Hotels Ltd	39.6%	33.3%	2,820,691	1,926,671	13,045,547	5,380,533
Associated Hotels Ltd	-	17.0%	-	1,549,237	-	48,029,923
Hela Clothing (Pte) Ltd	30.0%	30.0%	3,000,000	3,000,000	30,000,000	30,000,000
					<u>43,045,547</u>	<u>83,410,456</u>

15. OTHER INVESTMENTS

Summary		Group		Company	
		2006	2005	2006	2005
Non Current		Rs.	Rs.	Rs.	Rs.
Investments in Equity Securities	(15.1)	15,042,908	16,014,088	-	-
Investments in Equity Securities	(15.2)	-	-	2,905,000	2,505,000
Investments in Debentures	(15.1.1)	-	1,497,220	-	-
Investments in Fixed Deposits		20,430,000	19,850,000	-	-
		<u>35,472,908</u>	<u>37,361,308</u>	<u>2,905,000</u>	<u>2,505,000</u>
Current					
Investment in Equity Securities	(15.1.2)	311,237	306,738	-	-
Investments in Equity Securities	(15.2.1)	-	-	48,642	1,094,905
		<u>311,237</u>	<u>306,738</u>	<u>48,642</u>	<u>1,094,905</u>
Total Carrying Value of Other Investments		<u>35,784,145</u>	<u>37,668,046</u>	<u>2,953,642</u>	<u>3,599,905</u>

15.1 Investments in Equity Securities-Non Current

Group	No of Shares		Carrying Value	Market Value	Carrying Value	Market Value
	2006	2005	2006	2006	2005	2005
a) Quoted			Rs.	Rs.	Rs.	Rs.
Overseas Realty (Ceylon) Ltd	1,000	3,500	10,000	20,000	35,000	28,000
Eden Hotels Lanka Ltd	127	127	861	2,000	861	2,096
Galadari Hotels	2,000	2,000	18,750	29,325	20,000	32,000
Blue Diamond Jewellers Ltd	1,300	1,300	3,900	1,800	15,600	4,875
Royal Palm Beach Hotels	85	85	676	3,379	676	3,485
Diesel Motor Engineering Co Ltd	-	884	-	-	12,390	86,932
Serendib Land Ltd	-	5,400	-	-	262,500	1,620,000
Colombo Land and Developments Ltd	-	3,500	-	-	5,525	22,750
Ceylon Hospitals Ltd	-	50,000	-	-	1,000,000	1,362,500
Lanka Hospitals Ltd	-	3,400	-	-	46,265	54,250
Lanka Walltile Ltd	-	100	-	-	5,000	5,400
Lankem (Ceylon) Ltd	-	1,500	-	-	14,500	105,000
Kotmale Holding Ltd	40,000	-	400,000	540,000	-	-
Unit Trust (NAMAL)	250,000	250,000	2,500,000	3,375,000	2,500,000	3,252,500
Provision for loss for the year			-	-	(12,950)	-
Total Investment in Quoted Equity Securities			2,934,187	3,971,504	3,905,367	6,579,788

b) Non-Quoted	Carrying Value	Carrying Value
	2006	2005
	Rs.	Rs.
Felix Hotels Ltd	1,751,210	1,751,210
Rainforest Ecology (Pvt) Ltd	10,000,000	10,000,000
SLFFA Cargo Services Ltd	357,511	357,511
	12,108,721	12,108,721
Total Equity Investments (Group - Non Current)	15,042,908	16,014,088

15.1.1 Investment in Debentures	No of Debentures		Carrying Value	
	2006	2005	2006	2005
Group			Rs.	Rs.
Ocean View Ltd (6% interest)	149,722	149,722	1,497,220	1,497,220
Less: Provision for fall in value of investments	-	-	(1,497,220)	-
	149,722	149,722	-	1,497,220

notes to the financial statements

15.1.2 Investments in Equity Securities - Current

Group	No of Shares	No of Shares	Carrying	Market	Carrying	Market
			Value 2006 Rs.	Value 2006 Rs.	Value 2005 Rs.	Value 2005 Rs.
a) Quoted	2006	2005				
John Keells Holdings Ltd	726	726	48,642	114,708	48,642	98,373
Aitken Spence & Co. Ltd	133	133	34,000	45,486	34,000	50,208
Lanka Milk Foods Ltd	100	100	3,200	2,600	3,200	1,925
Overseas Realty (Ceylon) Ltd	-	500	-	-	5,000	2,125
Harischandra Mills Ltd	100	100	11,500	40,000	11,500	35,700
Millers Ltd	500	500	24,000	350,000	24,000	225,000
Cargills Ltd	200	200	17,200	112,000	17,200	55,000
Keells Food Products Ltd	100	100	1,875	3,400	1,875	3,800
Elephant Lite Corporation Ltd	100	100	700	725	700	975
Soy Foods (F&W) Ltd	100	100	3,550	8,475	3,550	4,650
Muller & Phipps Ltd	100	100	1,500	130	1,500	975
Chemanex Ltd	174	174	12,975	19,027	12,975	24,012
John Keells Ltd	284	284	13,000	29,252	13,000	41,180
Glaxo Ceylon Ltd	150	150	4,500	-	4,500	4,875
Shaw Wallace Ltd	100	100	6,800	19,500	6,800	13,000
Ceylon Cold Stores Ltd	300	300	4,025	46,200	4,025	36,000
Ceylon Tobacco Ltd	196	196	3,900	11,858	3,900	8,918
Nestle Lanka Ltd	400	400	17,625	71,200	17,625	38,000
Lankem Ceylon Ltd	1,600	100	20,800	86,400	6,300	7,000
E.B. Creasy Ltd	150	150	23,000	39,000	23,000	39,000
J.L. Morisons Ltd	130	130	30,550	66,500	30,550	55,500
Hayleys Ltd	396	396	26,240	40,392	26,240	44,550
Chemical Industries Ceylon Ltd	148	148	11,525	26,492	11,525	23,680
			321,107	1,133,345	311,607	814,446
Less: Provision for fall in Value			(16,745)	-	(11,744)	-
Total Equity Investments (Group - Current)			304,362	1,133,345	299,863	814,446
b) Non Quoted						
Pure Beverages Ltd	100	100	5,275	-	5,275	-
Carsons Marketing Ltd	100	100	1,600	-	1,600	-
			6,875	-	6,875	-
Total Investment			311,237	1,133,345	306,738	814,446

15.2 Investment in Equity Securities - Non Current

Company	No of Shares		Carrying Value	Market Value	Carrying Value	Market Value
	2006	2005	2006	2006	2005	2005
			Rs.	Rs.	Rs.	Rs.
a. Quoted						
Overseas Realty (Ceylon) Ltd	500	500	500	10,000	5,000	4,000
Kotmale Holdings Ltd	40,000	-	400,000	540,000	-	-
Unit Trust (NAMAL)	250,000	250,000	2,500,000	3,375,000	2,500,000	3,252,500
			<u>2,905,000</u>	<u>3,925,000</u>	<u>2,505,000</u>	<u>3,256,500</u>
Total Carrying Value of Equity Investment (Company - Non Current)			<u>2,905,000</u>	<u>3,925,000</u>	<u>2,505,000</u>	<u>3,256,500</u>

15.2.1 Investment in Equity Securities - Current

Company	No of Shares		Carrying Value	Market value	Carrying Value	Market Value
	2006	2005	2006	2006	2005	2005
			Rs.	Rs.	Rs.	Rs.
a. Quoted						
Lanka Hospitals Ltd	-	3,400	-	-	46,263	54,250
Ceylon Hospitals Ltd	-	50,000	-	-	1,000,000	1,362,500
John Keells Holdings Ltd	726	726	48,642	72,419	48,642	98,373
			<u>48,642</u>	<u>72,419</u>	<u>1,094,905</u>	<u>1,515,123</u>
Total Carrying Value of Equity Investment (Company - Current)			<u>48,642</u>	<u>72,419</u>	<u>1,094,905</u>	<u>1,515,123</u>

16. INVENTORIES

	Group	
	2006	2005
	Rs.	Rs.
Raw Materials	83,810,863	167,171,377
Work in Progress	16,143,896	14,867,565
Finished Goods & Other Stock	619,802,921	547,350,381
Goods In Transit	35,356,333	30,446,663
	<u>755,114,013</u>	<u>759,835,986</u>
Less: Provision for Unrealized Profit	<u>(9,752,577)</u>	<u>(26,900,000)</u>
	<u>745,361,436</u>	<u>732,935,986</u>

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	2006	2005
	Rs.	Rs.	Rs.	Rs.
17.1 Summary				
Trade Debtors	1,646,208,415	1,237,120,524	-	-
Ceylon Electricity Board	547,478,218	756,007,926	-	-
Less: Provision for Doubtful Debts	(19,610,404)	(21,432,134)	-	-
	2,174,076,229	1,971,696,316	-	-
Other Debtors	149,040,939	106,345,700	2,982,303	3,931,974
Advances and Prepayments	98,174,134	93,274,930	7,879,473	4,487,535
Less: Provision for Doubtful Debts	(1,038,228)	(1,029,076)	-	-
Loans to Company Officers (17.2)	29,560,373	24,822,282	4,429,141	2,521,258
	2,449,813,447	2,195,110,152	15,290,917	10,940,767

17.2 Loans to Company Officers:

	Group		Company	
	2006	2005	2006	2005
	Rs.	Rs.	Rs.	Rs.
Summary				
Balance as at the beginning of the Year	24,822,282	25,975,043	2,521,258	2,181,676
Loans Granted during the Year	20,114,963	12,169,452	5,796,435	1,772,725
Less: Repayments	(15,376,872)	(13,322,213)	(3,888,552)	(1,433,143)
Balance as at the end of the Year	29,560,373	24,822,282	4,429,141	2,521,258

All non trade receivables from related parties appear under Note 19 to these financial statements.

18. LOANS DUE FROM RELATED PARTIES - COMPANY

		Current 2006 Rs.	Non Current 2006 Rs.	Total 2006 Rs.	Total 2005 Rs.
	Relationship				
Hemas Pharmaceuticals (Pte) Ltd	Subsidiary	22,000,000	11,540,997	33,540,997	55,614,011
Hemas Healthcare (Pte) Ltd	Subsidiary	68,000,000	-	68,000,000	78,310,000
Hemas Corporate Services (Pte) Ltd	Subsidiary	23,746,209	-	23,746,209	28,087,110
Conventions Asia (Pte) Ltd	Subsidiary	-	-	-	500,000
Go Asia Air Lines (Pte) Ltd	Subsidiary	-	-	-	1,993,490
Hemas International Freight (Pte) Ltd	Subsidiary	23,000,000	-	23,000,000	10,000,0000
Hemas Travels (Pte) Ltd	Subsidiary	15,000,000	-	15,000,000	-
Hemas Power (Pte) Ltd	Subsidiary	40,000,000	24,090,783	64,090,783	-
Hemas Development (Pte) Ltd	Subsidiary	31,400,000	-	31,400,000	-
Hemas Marketing (Pte) Ltd	Subsidiary	-	33,945,862	33,945,862	-
		<u>223,146,209</u>	<u>69,577,642</u>	<u>292,723,851</u>	<u>174,504,611</u>

19. AMOUNTS DUE FROM RELATED PARTIES

		Group 2006 Rs.	2005 Rs.	Company 2006 Rs.	2005 Rs.
	Relationship				
SASH Management & Tourism Ltd	Affiliate Company	-	22,783	-	-
Felix Hotels Ltd	Affiliate Company	-	50,587	-	-
Casabah Hotels Ltd	Affiliate Company	-	22,783	-	-
Hemtours (Pte) Ltd	Subsidiary	-	-	4,614,638	2,249,356
Hemas Marketing (Pte) Ltd	Subsidiary	-	-	1,463,875	221,755,409
Hemas International Freight (Pte) Ltd	Subsidiary	-	-	4,473,809	218,059
Spectrum Marketing (Pte) Ltd	Subsidiary	-	-	-	(214,466)
Hemas Pharmaceuticals (Pte) Ltd	Subsidiary	-	-	58,527,940	51,822,014
Hemas Corporate Services (Pte) Ltd	Subsidiary	-	-	1,290,282	139,021
Hemas Developments (Pte) Ltd	Subsidiary	-	-	111,981	24,695,685
Hemas Healthcare (Pte) Ltd	Subsidiary	-	-	-	3,506,918
Hemas Air Services (Pte) Ltd	Subsidiary	-	-	4,891,221	27,711,356
Hela Clothing (Pte) Ltd	Associate	631,489	49,315	544,924	49,315
Hemas Travels (Pte) Ltd	Subsidiary	-	-	6,409,949	6,345,098
Hemas Manufacturing (Pte) Ltd	Subsidiary	-	-	-	7,151,811
Hemas Power (Pte) Ltd	Subsidiary	-	-	-	14,325,783
Forbes Air Services (Pte) Ltd	Subsidiary	-	-	-	18,459,180
Peace Haven Resorts Ltd	Subsidiary	-	-	-	5,174,427
Discover The World Marketing (Pvt) Ltd	Subsidiary	-	-	-	(605)
Exchange and Finance Investment Ltd.	Subsidiary	-	-	10,781	7,188
		<u>631,489</u>	<u>145,468</u>	<u>82,339,400</u>	<u>383,395,549</u>

notes to the financial statements

20. SHARE CAPITAL

		Par Value Rs.	Company 2006 Number	2005 Number
20.1 Authorised				
Number of Shares	Ordinary Shares	10/-	<u>200,000,000</u>	<u>100,000,000</u>
			2006	2005
			Rs.	Rs.
Nominal Value	Ordinary Shares	10/-	<u>2,000,000,000</u>	<u>1,000,000,000</u>

The authorised share capital of the Company was increased by 1,000,000,000 by the resolution passed at the Extra Ordinary General meeting of the shareholders on 30th June 2005.

		Par Value Rs.	At the Beginning of the Year 01.04.2005 Number	Issued for Cash During the Year Number	Issued for Non cash Consideration Number	At the End of the Year 31.03.2006 Number
20.2 Issued and Fully Paid						
Number of Shares	Ordinary Shares	10/-	<u>79,129,550</u>	<u>793,774</u>	<u>19,877,925</u>	<u>99,801,249</u>
			Rs.	Rs.	Rs.	Rs.
Nominal Value	Ordinary Shares	10/-	<u>791,295,500</u>	<u>7,937,740</u>	<u>198,779,250</u>	<u>998,012,490</u>

The issued share capital of the Company was increased by 19,877,925 ordinary shares of Rs.10/- each, by a bonus issue of shares in the proportion of 1:4 to all registered shareholders as at 22 July 2005.

20.3 Rights, Preferences and Restrictions of Classes of Capital

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at a meeting of the Company.

21. RESERVES

Summary	Group		Company	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
(a) Capital Reserve				
Opening Balance as Previously Reported	661,391,413	28,495,558	622,906,729	1,684,462
Transfer to/(from) Revaluation	(1,193,490)	326,233,752	-	41,193,306
Effect of Adopting SLAS 40 (Investment Property)	-	(166,600,000)	-	-
Capital Reserve of Subsidiaries	-	-	(209,049,564)	580,028,961
Transfer from Profit and Loss	(30,090,047)	473,087,818	-	-
	<u>630,107,876</u>	<u>661,217,128</u>	<u>413,857,165</u>	<u>622,906,729</u>
(b) Revenue Reserves	-	174,285	-	-
Total Reserves	<u>630,107,876</u>	<u>661,391,413</u>	<u>413,857,165</u>	<u>622,906,729</u>

The above revaluation surplus consists of net surplus resulting from the revaluation of property, plant and equipment as described in Note 10 to these financial statements.

22. NON INTEREST BEARING LOANS & BORROWINGS	2006	2006	2006	2005	2005	2005
	Amount Repayable Within 1 Year	Amount Repayable After 1 Year		Amount Repayable Within 1 Year	Amount Repayable After 1 Year	
22.1 Group	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rent Deposits/Advances Payable	2,327,220	10,054,111	12,381,331	2,133,285	11,274,897	13,408,182
Other Payable	1,207,000	1,258,743	2,465,743	1,207,000	-	1,207,000
	<u>3,534,220</u>	<u>11,312,854</u>	<u>14,847,074</u>	<u>3,340,285</u>	<u>11,274,897</u>	<u>14,615,182</u>
22.2 Company						
Loans from Related Parties (22.2.1) *	-	294,934,285	294,934,285	-	536,625,644	536,625,644
	<u>-</u>	<u>294,934,285</u>	<u>294,934,285</u>	<u>-</u>	<u>536,625,644</u>	<u>536,625,644</u>
22.2.1 Loans from Related Parties			As at 01.04.2005	Loans Obtained	Repayment During the year	As at 31.03.2006
			Rs.	Rs.	Rs.	Rs.
Forbes Air Services (Pte) Ltd			42,125,121	24,500,000	(34,452,476)	32,172,645
Hemas Marketing (Pte) Ltd			193,291,653	287,524,209	(421,045,180)	59,770,682
Hemtours (Pte) Ltd			97,747,681	32,869,406	(2,427,092)	128,189,995
Hemas Travels (Pte) Ltd			3,183,318	314,683	(3,498,001)	-
Hemas Manufacturing (Pte) Ltd			132,900,000	50,000,000	(142,209,086)	40,690,914
Hemas International Freight (Pte) Ltd			3,105,704	3,993,296	(7,099,000)	-
Hemas Development (Pte) Ltd			30,018,000	-	(19,748,798)	10,269,202
Hemas Air Services (Pte) Ltd			30,454,167	10,300,000	(26,369,030)	14,385,137
Hemas Healthcare (Pte) Ltd			3,800,000	-	(3,800,000)	-
Hemas Corporate Services (Pte) Ltd			-	9,955,710	(500,000)	9,455,710
			<u>536,625,644</u>	<u>419,457,304</u>	<u>(661,148,663)</u>	<u>294,934,285</u>

* Terms of repayment are mutually agreed with relevant related parties.

No securities are kept in respect of these loans.

23. INTEREST BEARING LOANS & BORROWINGS

23.1 Group	2006	2006	2006	2005	2005	2005
	Amount	Amount		Amount	Amount	
	Repayable	Repayable		Repayable	Repayable	
	Within 1 Year	After 1 Year		Within 1 Year	After 1 Year	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Finance Leases	1,282,073	3,225,492	4,507,565	1,243,198	2,105,852	3,349,050
Bank Loans (23.1.1)	476,582,928	1,612,127,652	2,088,710,580	472,770,820	1,939,174,500	2,411,945,320
Debentures	9,090,909	34,090,909	43,181,818	6,818,182	43,181,818	50,000,000
Preference Shares (23.1.2)	-	91,666,665	91,666,665	-	100,000,000	100,000,000
Bank Overdrafts	429,467,590	-	429,467,590	361,893,231	-	361,893,231
	<u>916,423,500</u>	<u>1,741,110,718</u>	<u>2,657,534,218</u>	<u>842,725,431</u>	<u>2,084,462,170</u>	<u>2,927,187,601</u>

23.1.1 Bank Loans

	As at 01.04.2005	Loans Obtained During the Year	Repayments During the Year	As at 31.03.2006
	Rs.	Rs.	Rs.	Rs.
Bank Loans	2,411,945,320	53,804,139	(377,038,880)	2,088,710,580
	<u>2,411,945,320</u>	<u>53,804,139</u>	<u>(377,038,880)</u>	<u>2,088,710,580</u>

23.1.2 Preference Shares

12% Cumulative Redeemable Preference Shares has been issued by Heladhanavi Ltd. the Jointly Controlled Entity to the DFCC bank for initial fund requirement for the construction of the plant.

23.2 Company	2006	2006	2006	2005	2005	2005
	Amount	Amount		Amount	Amount	
	Repayable	Repayable		Repayable	Repayable	
	Within 1 Year	After 1 Year		Within 1 Year	After 1 Year	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Loans from Related Parties (23.2.1)	322,795,698	-	322,795,698	-	-	-
Bank Overdrafts	-	-	-	48,964	-	48,964
	<u>322,795,698</u>	<u>-</u>	<u>322,795,698</u>	<u>48,964</u>	<u>-</u>	<u>48,964</u>

	As at 01.04.2005	Loans Obtained During the year	Repayment During the year	As at 31.03.2006
	Rs.	Rs.	Rs.	Rs.
23.2.1 Loans from Related Parties				
Hemas Marketing (Pte) Ltd	-	40,000,000	-	40,000,000
Spectrum Marketing (Pte) Ltd	-	49,900,000	-	49,900,000
Peace Haven Resorts (Pte) Ltd	-	218,895,698	-	218,895,698
Hemas Air Services (Pte) Ltd	-	14,000,000	-	14,000,000
	<u>-</u>	<u>322,795,698</u>	<u>-</u>	<u>322,795,698</u>

	Group		Company	
	2006	2005	2006	2005
	Rs.	Rs.	Rs.	Rs.
24. DEFERRED INCOME TAX				
Balance as at Beginning of the Year	91,326,474	90,115,751	10,805,541	11,071,290
Provision / (Release) made during the Year	(8,900,839)	1,210,723	(1,034,241)	(265,749)
Balance as at the end of the Year	<u>82,425,635</u>	<u>91,326,474</u>	<u>9,771,300</u>	<u>10,805,541</u>
25. OTHER DEFERRED LIABILITIES				
Retirement Benefit Obligation - Gratuity				
Balance as at Beginning of the Year	84,083,421	78,634,094	7,036,396	5,835,658
Charge for the Year	26,177,496	24,720,172	4,276,032	1,642,426
Payments during the Year	(6,558,485)	(19,270,845)	(91,000)	(441,688)
Balance as at the end of the Year	<u>103,702,432</u>	<u>84,083,421</u>	<u>11,221,428</u>	<u>7,036,396</u>
26. PROVISIONS				
Provision relating to EPC/O&M Contracts	31,046,917	-	-	-
	<u>31,046,917</u>	<u>-</u>	<u>-</u>	<u>-</u>
27. NEGATIVE GOODWILL				
Group				
Balance at the Beginning of the Year	11,173,295	8,019,871	-	-
Adjustments due to Acquisition of Subsidiary	53,617,009	8,688,353	-	-
Transferred to Income Statement	(64,790,304)	(5,534,929)	-	-
Balance at the End of the Year	<u>-</u>	<u>11,173,295</u>	<u>-</u>	<u>-</u>
28. TRADE AND OTHER PAYABLES				
Trade Payables	1,520,463,902	1,342,703,846	23,713,784	7,371,365
Tsunami Rehabilitation Fund	-	5,269,936	-	5,269,936
Sundry Creditors including Accrued Expenses	595,371,959	562,299,888	9,461,876	4,935,198
	<u>2,115,835,861</u>	<u>1,910,273,670</u>	<u>33,175,660</u>	<u>17,576,499</u>

29. AMOUNTS DUE TO RELATED PARTIES

		Group		Company	
		2006	2005	2006	2005
	Relationship	Rs.	Rs.	Rs.	Rs.
Hemas Development (Pte) Ltd.	Subsidiary	-	-	-	30,040,000
Hela Clothing (Pte) Ltd.	Associate	2,515,123	2,508,933	2,508,933	2,508,933
Hemas Air Services (Pte) Ltd.	Subsidiary	-	-	-	30,000,000
Hemas Pharmaceuticals (Pte) Ltd.	Subsidiary	-	-	-	1,752,217
Hemas Corporate Services (Pte) Ltd.	Subsidiary	-	-	1,291,193	671,611
Discover the World Marketing (Pte) Ltd.	Subsidiary	-	-	-	500,000
Hemas Commodities (Pte) Ltd.	Subsidiary	-	-	-	9,183,865
Hemas Healthcare (Pte) Ltd.	Subsidiary	-	-	-	27,268,848
Hemas Travels (Pte) Ltd.	Subsidiary	-	-	902,055	4,388,788
Spectrum Marketing (Pte) Ltd.	Subsidiary	-	-	-	46,200,000
Hemas Marketing (Pte) Ltd.	Subsidiary	-	-	12,000	5,922,551
Hemtours (Pte) Ltd.	Subsidiary	-	-	160,922	-
Peace Haven Resorts (Pte) Ltd.	Subsidiary	-	-	7,422,029	-
Hemas Power (Pte) Ltd.	Subsidiary	-	-	1,865,000	-
Lakdhanavi Ltd.	Joint Venturer	862,500	186,587,397	-	-
		<u>3,377,623</u>	<u>189,096,330</u>	<u>14,162,132</u>	<u>158,436,813</u>

**30. CASH AND CASH EQUIVALENTS
IN CASH FLOW STATEMENT**

		Group		Company	
		2006	2005	2006	2005
		Rs.	Rs.	Rs.	Rs.
Components of Cash and Cash Equivalents					
30.1 Favourable Cash & Cash Equivalents Balances					
Cash & Bank Balances		943,587,755	657,932,581	101,261,849	170,392,257
Treasury Bills and Repo Investments		299,365,761	439,752,239	117,249,855	62,743,210
		<u>1,242,953,516</u>	<u>1,097,684,820</u>	<u>218,511,704</u>	<u>233,135,467</u>
30.2 Unfavourable Cash & Cash Equivalent Balances					
Bank Overdraft (Note 23.1/23.2)		(429,467,590)	(361,893,231)	-	(48,964)
Total Cash and Cash Equivalents for the Purpose of					
Cash Flow Statement		<u>813,485,926</u>	<u>735,791,589</u>	<u>218,511,704</u>	<u>233,086,503</u>

31. ACQUISITIONS OF SUBSIDIARY AND ASSOCIATES DURING THE YEAR - Group

The acquisitions had the following effects on the groups Assets & Liabilities.

	2006 Rs.
a) ACX International (Pvt) Ltd.	
Assets	
Written Down Value of Property, Plant and Equipment	6,565,165
Investments	25,930
Net Current Assets	9,366,076
Cash & Cash Equivalents	997,312
	<u>16,954,483</u>
Liabilities	
Interest Bearing Liabilities	16,507,899
Creditors and Accruals	14,773,545
	<u>31,281,444</u>
Net assets	<u>(14,326,961)</u>
Net Assets Acquired	(14,326,961)
Goodwill Acquired	14,327,963
Cash & cash equivalents	(997,312)
Cash Consideration	<u>(996,310)</u>
(b) Serendib Hotels Ltd.	6,481,219
(c) Leisure Asia Investment Ltd.	98,550,060
(d) Exchange and Finance Investment Ltd.	7,000,000
(e) Investment in Associates	45,497,590
Total Cash Consideration	<u>156,532,559</u>
The disposal of Associate and Subsidiary Companies had the following effect on the Group Assets & Liabilities	
Associated Hotels Ltd.	(154,598,676)
Brushco Ltd.	<u>(15,000,000)</u>
Net Cash Inflows	<u>(13,066,117)</u>

32. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have been no events subsequent to the balance sheet date, which would have any material effect on the Company and the Group.

33. COMMITMENTS AND CONTINGENCIES**33.1 Capital Expenditure Commitments**

The Company and the Group do not have significant capital expenditure commitments as at the balance sheet date.

33.2 Contingencies**(a) Hemas Holdings Limited**

The contingent liability as at 31st March 2006 on guarantees given by Hemas Holdings Ltd., to banks on behalf of subsidiaries and Associates relating to facilities obtained, are as follows:

	Rs.
Hemas Pharmaceuticals (Pte) Limited	88,750,000
Hemas Travels (Pte) Limited	29,000,000
Hemas Air Services (Pte) Limited	4,000,000
Hemas International Freight (Pte) Limited	21,000,000
Hemas Corporate Services (Pte) Limited	5,000,000
Hemas Healthcare (Pte) Limited	15,000,000
Heladhanavi Limited	100,000,000
	<u>262,750,000</u>

(b) Hemas Manufacturing (Pte) Limited

A civil case has been filed against the Company by Colgate Palmolive Company, seeking a declaration that the Company's Registered Trade Mark No. 74941 is null and void and of no force or effect in law from the date of registration of the said mark.

Based on the representations made by the Company Lawyers, the Supreme Court has delivered judgment in favour of the Company.

(c) Hemas Travels (Pte) Limited

(a) The Company has obtained Guarantees from Standard Chartered Bank and HNB favouring airline operators amounting to Rs. 179,300,000/-.

(b) The Company has obtained Guarantee from Standard Chartered Bank favoring "Gullivers Travels" amounting to GBP 10,000.

(d) Hemas Air Services (Pte) Limited.

(a) The Company has obtained Guarantees from HNB and Standard Chartered Bank favouring Malaysian Airline amounting to Rs. 4,146,780/- and USD 200,000.

(b) The Company has obtained Guarantees from HNB and Standard Chartered Bank favouring "Discover The World Marketing" and "Drukair" amounting to USD 70,000 and "Island Aviation" amounting to Rs. 1,000,000/-.

33.3 Commitments and Contingencies of the Jointly Controlled Entity

Heladhanavi Limited - The Group has 50% share of the following:

Operations and Maintenance Agreement with Lakdhanavi Ltd

According to this agreement the fixed fee payable after the final completion date is US\$ 625,000 per annum paid in equal monthly installments for the period of 10 years.

Heladhanavi is liable to pay Lakdhanavi an additional sum of US\$ 2,000,000 for each remaining year of the term or pro rata for part of term upon the early termination of this agreement.

A variable fee, depends on the Net Energy output generated

Fuel Transport Agreement with LTL Projects (Pvt) Ltd

Heladhanavi has entered into a contract during the period with LTL Projects (Pvt) Ltd for the transportation of fuel. According to the arrangement the company need to pay a fixed charge of US \$ 10,500 per month from the commencement of power generation in the plant.

Fuel Supply Agreement with Ceylon Petroleum Corporation

If the company is unable to accept fuel under supply schedule (subject to change) and /or comply with its obligations under this agreement and costs, expenses, damages & losses incurred as a direct and exclusive result of such failure or inability should be paid by the company within 30 days. However company's liability under this agreement is limited to a maximum of US \$ 500,000 per annum.

According to the clause 3.5 (C) of fuel supply agreement, company has establish a letter of Credit at Hatton National Bank in favour of Ceylon Petroleum Corporation to the value of Rs. 280 Mn.

Power Purchase Agreement with Ceylon Electricity Board

If the company fails to supply Minimum Guaranteed Energy Amount (MGEA), which is 698,417,280 kWh per year, the Company would be liable for liquidated damages.

Shortfall	Amount of liquidated damages for each kwh of shortfall
Exceeding 10% of MGEA upto 25% of MGEA	15% of capacity charges
Exceeding 25% of MGEA	25% of capacity charges

34. ASSETS PLEDGED

The following assets have been pledged as security for liabilities as at the balance sheet date.

Name of The Company	Nature of Assets	Nature of Liability	Carrying Amount of the Assets Pledged		Included Under
			2006 Rs.	2005 Rs.	
Forbes Air Services (Pte) Ltd	Trade Receivables	Pledged as a security to the extent of bank facility obtained from Standard Chartered Bank	455,000,000	248,000,000	Trade Debtors
Hemas Manufacturing (Pte) Ltd.	Inventories Trade Receivables	Concurrent Mortgage to the extent of bank facility obtained from HNB & HSBC	193,100,000	172,100,000	Inventories and Trade Debtors
Heladhanavi Ltd (The Group has 50% share of the Assets Pledged)	Immovable Assets (Syndicated Loan Facility)	US\$ 4,000,000	10,884,270	10,190,270	Property, Plant & Equipment
	Mortgage of all movable assets and assignment of book debts of the company		6,163,148,199	7,091,052,089	
	Share certificates of the Company	US\$ 35,000,000 (Syndicated loan Facility)	1,200,000,070	1,200,000,070	Share Capital
	Assignment of project documents				
	Immovable Assets	Rs. 30,769,230 (Rupee Loan Facility)	10,884,270	10,190,270	Property, Plant & Equipment
	Mortgage of all movable assets and assignment of book debts of the company. (Rupee Loan Facility)	Rs.269,230,769	6,163,148,199	7,091,052,089	Property, Plant & Equipment
	Share certificates of the company	Rs.400,000,000 (Working Capital Loan)	1,200,000,070	1,200,000,070	Share Capital
	Assignment of project documents				
Serendib Hotels Ltd	Land and Buildings	Primary Mortgage upto the value of Rs 48 million to Seylan Bank	219,405,933	207,202,952	Property, Plant & Equipment
Stafford Hotels Ltd	Freehold Land	Primary Mortgage upto the value of Rs. 55 million to DFCC bank.	35,534,006	48,180,000	Property, Plant & Equipment
	Receivables	Primary mortgage over existing movable items up to the value of Rs. 5 million to DFCC	38,629,181	13,509,799	Debtors
	Plant and Equipment	Secondary Mortgage upto the value of Rs.3.8 Mn to DFCC Bank	35,200,909	40,180,000	Property, Plant & Equipment
Miami Beach Hotels Ltd	Freehold Land & Buildings	Primary Mortgage upto the value of Rs.65Mn to Seylan Bank	156,704,621	136,825,500	Property, Plant & Equipment
	Plant and Equipment	Primary mortgage over existing movable items up to the value of Rs. 5Mn to DFCC	21,896,329	22,183,498	Property, Plant & Equipment
Hotel Sigiriya Ltd	Leasehold Land	Primary Mortgage upto the value of Rs. 30Mn to Commercial Bank	86,421,859	-	Property, Plant & Equipment

35. DIRECTORS INTEREST IN CONTRACTS AND/OR PROPOSED CONTRACTS WITH THE COMPANY

Messrs: Husein Esufally, Murtaza Esufally, Abbas Esufally, Imtiaz Esufally, Lalith de Mel, Divayaroop Bhatnagar, Simon Scarff, Maithri Wickremesinghe and Ms. Serena Fonseka were Directors of the Company for the year ended 31st March 2006.

During the 2005/2006 Hemas Holdings Ltd., has charged a total of Rs. 52,371,558/- (2005- Rs. 45,153,246/-) in respect of management, consultancy and bank guarantee charges from subsidiary companies within the Group.

All interests in contracts with the Company in respect of ordinary course of business have been declared at Board Meetings by the Directors concerned. The Directors have no direct or indirect personal interest in any other contracts and/or proposed contracts with the Company.

36. RELATED PARTY DISCLOSURES

There were no other related parties transactions other than what is disclosed under Notes 18, 19, 22, 23, 29 and 35 to these financial statements.

36.1 Pricing Policies

Sales and purchases of goods and services to related parties were made at normal trading terms under arms' length basis. management fees, rental income were made at agreed prices, finance charges / income in respect of borrowings are carried at decided rates of interest by the Board of Directors.

37. SEGMENTAL INFORMATION

Information based on the primary segments (Business Segment)

	2006 Total Rs.	2005 Total Rs.
Segment Turnover		
FMCG	3,192,469,554	2,897,597,057
Healthcare	2,460,770,804	2,175,614,198
Leisure	443,265,233	445,431,318
Transportation	417,921,731	358,454,513
Strategic Investment - Power	2,893,892,243	1,402,257,712
- Others	176,280,325	1,665,500,951
	9,584,599,890	8,944,855,749
Inter Sector Sales	(154,832,471)	(146,975,070)
	9,429,767,419	8,797,880,679
Segment Profit		
FMCG	392,809,001	351,502,664
Healthcare	130,976,160	115,850,193
Leisure	38,268,626	3,507,414
Transportation	105,648,057	85,919,579
Strategic Investment - Power	262,732,878	116,686,842
- Others	46,331,415	159,068,478
	976,766,137	832,535,170

Following is included in the Leisure Sector profits.

- Capital gains of Rs. 28.7 Mn, earned from disposal of investment in Associated Hotels Ltd.

- Negative goodwill of Rs. 58.5 Mn from acquisitions in Leisure Asia Investments Ltd and Peace Haven Resorts Ltd.

Power Sector

- The depreciation estimates of Heladhanavi was revised this year. Therefore, the depreciation charge for the 12 months ended 31/03/2006 is proportionately less than that during the 6 months ended 31/03/2005. As per the revised estimates the annual depreciation charge reduces by Rs. 97.3 Mn.

Segment Assets & Liabilities

	Total Assets		Total Liabilities	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
FMCG	2,219,193,823	2,017,091,680	629,654,040	699,808,833
Healthcare	1,231,411,226	1,066,402,958	826,507,233	793,726,316
Leisure	2,100,887,176	1,901,971,887	661,827,191	685,974,151
Transportation	1,543,254,789	1,178,508,617	1,169,774,273	911,162,114
Strategic Investment - Power	3,496,297,969	3,714,738,315	2,521,106,738	2,923,952,495
- Other	6,543,498,945	5,698,579,699	966,551,164	941,016,943
	17,134,543,928	15,577,293,156	6,775,420,639	6,955,640,852
Inter Sector Adjustment	(7,109,782,409)	(5,925,323,884)	(1,519,226,855)	(1,527,541,807)
	10,024,761,519	9,651,969,272	5,256,193,784	5,428,099,045

38. PROPORTIONATE INTEREST IN JOINT VENTURES

The Group's proportionate share (50%) of Heladhanavi Ltd's Income and Expenses, Assets and Liabilities have been included in the Group Income statement and Balance Sheet respectively.

The aggregate amounts so included are as follows;

	Group 2006 Rs.	2005 Rs.
a) Current Assets	859,455,402	882,761,383
b) Non Current Assets	2,636,842,560	2,831,976,932
c) Current Liabilities	896,083,731	984,184,674
d) Non Current Liabilities	1,625,023,009	1,939,767,821
e) Income	2,943,677,033	1,402,691,197
f) Expenses	64,344,163	38,424,113

39. GROUP COMPANIES

	Proportion of Ownership Interest as at 31.03.2006	Proportion of Voting Power as at 31.03.2006	Proportion of Ownership Interest as at 31.03.2005	Proportion of Voting Power as at 31.03.2005
Subsidiaries				
Hemas Travels (Pte) Ltd.	100%	100%	100%	100%
Hemas Manufacturing (Pte) Ltd.	100%	100%	100%	100%
Hemas Commodities (Pte) Ltd.	-	-	100%	100%
Hemas Air Services (Pte) Ltd.	100%	100%	100%	100%
Hemas Healthcare (Pte) Ltd.	100%	100%	100%	100%
Hemas Foods (Pte) Ltd.	100%	100%	100%	100%
Hemas Corporate Services (Pte) Ltd.	100%	100%	100%	100%
Discover the World Marketing (Pte) Ltd	100%	100%	100%	100%
Leisure Asia Investments Ltd	100%	61.5%	100%	61.5%
Hemas Power (Pte) Ltd.	100%	100%	100%	100%
Forbes Air Services (Pte) Ltd	100%	100%	100%	100%
Exchange & Finance Investment (Pte) Ltd.	100%	100%	56%	56%
Hemtours (Pte) Ltd.	100%	100%	100%	100%
Hemas Developments (Pte) Ltd.	100%	100%	100%	100%
Conventions Asia (Pte) Ltd.	100%	100%	100%	100%
Peace Haven Resorts Ltd.	95%	95%	88%	88%
Hemas Marketing (Pte) Ltd.	100%	100%	100%	100%
Spectrum Marketing (Pte) Ltd	100%	100%	100%	100%
Hemas Pharmaceuticals (Pte) Ltd.	100%	100%	100%	100%
Hemas International Freight (Pte) Ltd.	100%	100%	100%	100%
Hemas Aviation (Pte) Ltd.	100%	100%	100%	100%
Go Asia Air Lines (Pte) Ltd.	100%	100%	100%	100%
ACX International (Pvt) Ltd.	100%	100%	-	-
Hemas Clinical Solutions (Pte) Ltd.	100%	100%	-	-

Hotel Sigiriya Ltd., a subsidiary of Leisure Asia Investment Ltd., was audited by PriceWaterhouseCoopers.

Associate Companies

Associated Hotels Ltd.	-	-	47%	47%
Brushco (Pvt) Ltd.	-	-	40%	40%
Hela Clothing (Pte) Ltd.	30%	30%	30%	30%
Mowbray Hotels Ltd.	39.60%	39.60%	39.60%	39.60%

Jointly Controlled Entity

Heladhanavi Ltd.	50%	50%	50%	50%
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five year summary

Year Ended 31st March
Rs'000

	2006	2005	2004	2003	2002
Operating Results					
Group Revenue	9,429,767	8,797,881	6,485,422	5,290,102	4,250,435
Profit Before Taxation*	1,258,604	1,057,678	867,183	589,030	348,608
Taxation	281,838	225,143	180,067	133,243	101,090
Profit After Taxation*	976,766	832,535	687,116	455,786	247,518
Profit Attributable to Hemas Group*	969,829	836,973	645,514	434,199	236,747

Equity & Liabilities

Share Capital	998,012	791,296	780,000	400,000	300,000
Reserves*	817,624	1,005,281	347,986	186,666	296,350
Accumulated Profits*	2,430,310	1,745,396	1,655,430	1,215,519	860,012
Minority Interest	522,621	681,897	546,380	506,803	483,570
Non-Current Liabilities	1,969,599	2,282,320	2,059,218	147,115	161,426
Current Liabilities	3,286,596	3,145,779	2,639,974	1,708,812	1,457,681
	10,024,762	9,651,969	8,028,988	4,164,915	3,559,039

Assets

Property, Plant & Equipment*	5,310,437	5,333,306	4,446,460	1,786,610	1,706,551
Intangible Assets	107,268	40,336	8,013	2,379	4,020
Investments (Associates & Others)	138,082	233,259	195,745	193,734	185,086
Other Receivables	-	-	1,672	567	47,826
Current Assets	4,468,975	4,045,068	3,377,097	2,181,626	1,615,555
	10,024,762	9,651,969	8,028,988	4,164,915	3,559,039

Key Indicators

Earnings Per Share (Rs.)*	9.63	8.43	6.98	4.96	2.71
Effective Rate of Dividend (%)	25.0	30.0	25.0	33.3	25.0
Dividend Cover (No. of Shares)*	4.1	3.5	4.4	4.3	3.2
Interest Cover (No. of Times)*	5.3	7.8	18.5	14.6	6.8
Net Asset Per Share (Rs.)*	42.5	35.8	27.0	17.3	14.2
Cash from Operating Activities (Rs. '000)	1,035,785	1,182,366	574,317	357,025	230,363
Current Ratio (No. of Times)	1.4	1.3	1.3	1.3	1.1
Debt/Equity (%)	62.6	82.6	92.1	22.9	27.5
ROE (%)	24.6	26.3	28.2	26.6	17.3

* Restated

SHARE CAPITAL

Authorised Share Capital - Rs. 2,000,000,000 divided into 200,000,000 Shares of Rs. 10/- each.

Issued & Fully Paid Share Capital - Rs. 998,012,490 divided into 99,801,249 Ordinary Shares of Rs. 10/- each.

The Issued Ordinary Shares of Hemas Holdings Limited are listed on the Colombo Stock Exchange (Official Listing on 15th October 2003)

SHARE DISTRIBUTION

As at 31.03.06

Shareholdings	RESIDENT			NON-RESIDENT			TOTAL		
	Shareholders	Shares	%	Shareholders	Shares	%	Shareholders	Shares	%
1 - 1,000 Shares	3,429	708,148	0.71	20	5,205	0.01	3,449	713,353	0.72
1,001 - 5,000 Shares	364	760,374	0.76	9	21,000	0.02	373	781,374	0.78
5,001 - 10,000 Shares	55	386,979	0.39	2	13,625	0.01	57	400,604	0.40
10,001 to 50,000 Shares	66	1,429,323	1.43	5	139,150	0.14	71	1,568,473	1.57
50,001 to 100,000 Shares	9	652,700	0.65	0	0	0.00	9	652,700	0.65
100,001 to 500,000 Shares	10	2,273,580	2.28	2	950,075	0.95	12	3,223,655	3.23
500,001 to 1,000,000 Shares	0	0	0.00	0	0	0.00	0	0	0.00
Over 1,000,000 Shares	11	80,367,640	80.53	4	12,093,450	12.12	15	92,461,090	92.65
	3,944	86,578,744	86.75	42	13,222,505	13.25	3,986	99,801,249	100.00
As at 31.03.05	3,589	72,696,450	91.86	39	6,433,100	8.14	3,628	79,129,550	100.00

	As at 31.03.06			As at 31.03.05		
	Shareholders	No. of Shares	%	Shareholders	No. of Shares	%
Institutional	250	91,988,635	92.17	214	66,057,633	83.48
Individual	3,736	7,812,614	7.83	3,414	13,071,917	16.52
	3,986	99,801,249	100.00	3,628	79,129,550	100.00

SHARE TRADING

Market Price	2005/06		2004/05	
Highest	145.00	(25.05.05)	110.00	(24.03.05)
Lowest	91.00	(18.01.06)	75.00	(06.04.04)
As at year ended	110.75	(31.03.06)	109.00	(31.03.05)
No. of Trades	3,941		3,868	
No. of Shares traded	17,085,400		7,676,100	
Value of the shares traded - (Rs.)	2,124,548,825		737,670,450	
Market Capitalization (Rs.)	11 Billion	(31.03.06)	8.6 Billion	(31.03.05)

shareholder information

MAJOR SHAREHOLDING

The twenty major shareholders as at 31st March 2006 with comparative figures for 2005.

	2006		2005	
	No. of Shares	%	No. of Shares	%
A Z Holdings (Private) Limited	18,152,575	18.20	14,522,060	18.35
Saraz Investments (Private) Limited	17,279,207	17.32	13,823,366	17.47
Bluberry Investments (Private) Limited	17,156,250	17.20	13,725,000	17.34
Amagroup (Private) Limited	17,156,133	17.20	13,724,907	17.34
HSBC INTL NOM Ltd - Arisaig India Fund Limited	7,535,750	7.56	2,995,500	3.79
Employees Provident Fund	3,518,375	3.53	1,573,700	1.99
HSBC INTL NOM Ltd - Asian Smaller Companies Plus Limited	2,342,000	2.35	1,073,600	1.36
Sri Lanka Insurance Corporation Ltd. - Life Fund	1,249,100	1.25	209,200	0.26
Mr. I.A.H. Esufally	1,226,500	1.23	2,530,600	3.20
DBIL - HSBC Global Investment Funds - Asia Freestyle	1,210,700	1.21	-	-
National Savings Bank	1,200,000	1.20	-	-
Mr. H.N. Esufally	1,167,375	1.17	2,500,000	3.16
Mr. A.N. Esufally	1,131,125	1.13	2,504,900	3.17
Mr. M.A.H. Esufally	1,131,000	1.13	2,500,000	3.16
HSBC Intl. Nominees Ltd - SNFE- CMG First State Global UMBR	1,005,000	1.01	-	-
Bank of New York - Bear Stearns Securities Corporation	500,000	0.50	-	-
Akbar Brothers Limited	478,200	0.48	-	-
Voyager Capital (International) Limited	450,075	0.45	620,300	0.78
Cocoshell Activated Carbon Company Limited	360,975	0.36	318,400	0.40
M.J.F. Exports Limited	341,000	0.34	272,800	0.34
	<u>94,591,340</u>	<u>94.82</u>	<u>72,894,333</u>	<u>92.11</u>
Shares held by the balance shareholders	<u>5,209,909</u>	<u>5.18</u>	<u>6,235,217</u>	<u>7.89</u>
Total Issued Shares	<u>99,801,249</u>	<u>100.00</u>	<u>79,129,550</u>	<u>100.00</u>

As at 31.03.06

25.26%

As at 31.03.05

16.64%

PUBLIC HOLDING

CAPITAL EMPLOYED

Total shareholders' funds plus debt and minority interest.

CAPITAL RESERVES

Reserves identified for specific purposes and considered not available for distribution.

CURRENT RATIO

Current assets divided by current liabilities.

CONTINGENT LIABILITIES

Conditions or situations at the Balance Sheet date, the financial effect of which are to be determined by future events which may or may not occur.

DEBT

Interest bearing long term loans plus short term loans and overdrafts.

DEBT EQUITY RATIO

Total interest bearing borrowings divided by the total of shareholders' funds.

DEFERRED INCOME TAX

The net tax effect on items which have been included in the income statement, which would only qualify for inclusion on a tax return at a future date.

DIVIDEND COVER

Net profit attributable to the ordinary shareholders divided by the total dividend paid and proposed.

ESOP (Employee Share Option Plan)

The right but not the obligation to purchase an accrued number of shares at a fixed price within a pre-determined time period.

EQUITY

Total shareholders' funds.

EARNINGS PER SHARE

Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year.

EBIT

Earnings before interest and tax.

EFFECTIVE RATE OF TAXATION

Income tax, including deferred income tax over profit before tax.

INTEREST COVER

Operating profit before interest and tax divided by the total finance cost.

MARKET CAPITALISATION

The number of ordinary shares in issue multiplied by the market price per share as at the reported date.

MINORITY INTEREST

Part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, through Subsidiaries, by the Parent.

NET ASSETS PER SHARE

Shareholders funds divided by the number of ordinary shares in issue as at the end of the year.

PRICE EARNINGS RATIO

Market price per share divided by the earnings per share.

RETURN ON EQUITY

Profit after tax, minority interest and extra ordinary items divided by average shareholders' funds at the beginning and end of the year.

REVENUE RESERVES

Reserves set aside for future distributions and Investments.

SEGMENT

Constituent business units grouped in terms of similarity of operations and strategy.

SHAREHOLDERS' FUNDS

Total of share capital, capital reserves and revenue reserves less preliminary and deferred Expenses.

notice of meeting

NOTICE IS HEREBY GIVEN that the Third Annual General Meeting of HEMAS HOLDINGS LIMITED, will be held at the Auditorium of the Ceylon Chamber of Commerce, No.50, Nawam Mawatha, Colombo 02, on 29th June, 2006 at 3.30 p.m. for the following purpose:

- To receive, consider and adopt the Report of the Directors and the Statements of Accounts of the Company for the year ended 31st March, 2006, with the Report of the Auditors thereon.
- To re- elect as Director, Mr. Murtaza A H Esufally, who retires by rotation in terms of Article 89 of the Articles of Association of the Company.
- To re- elect as Director, Ms. Serena M Fonseka, who retires by rotation in terms of Article 89 of the Articles of Association of the Company.
- To re- elect as Director, Mr. J.C. Lalith de Mel, who retires by rotation in terms of Article 89 of the Articles of Association of the Company.
- To re- appoint M/s Ernst and Young, Chartered Accountants, as auditors of the Company and authorise the Directors to determine their remuneration.
- To authorize the Directors to determine and make donations to Charities.
- To consider any other business of which due notice has been given.

By Order of the Board

HEMAS HOLDINGS LIMITED

Hemas Corporate Services (Private) Limited

Secretaries

Colombo

24th May, 2006

Note:

1. A member entitled to attend and vote is entitled to appoint a Proxy to attend and vote in his/her place.
2. A Proxy need not be a member of the Company.
3. A Form of Proxy accompanies this notice.

I/We
of

being *a member/ members of HEMAS HOLDINGS LIMITED do hereby appoint one of the following Directors of the Company.

- | | |
|---------------------------|----------------------------|
| 1. Husein Esufally | of Colombo or failing him, |
| 2. Serena Fonseka (Ms) | of Colombo or failing him, |
| 3. Abbas Esufally | of Colombo or failing him, |
| 4. Imtiaz Esufally | of Colombo or failing him, |
| 5. Divyaroop Bhatnagar | of Colombo or failing him, |
| 6. Murtaza Esufally | of Colombo or failing him, |
| 7. Lalith de Mel | of Colombo or failing him, |
| 8. Simon Scarff | of Colombo or failing him, |
| 9. Maithri Wickremasinghe | of Colombo or failing him, |

Mr./Ms

of , as my/ our Proxy to vote for *me/ us and

**..... on my/our behalf at the Third ANNUAL GENERAL MEETING of the Company to be held on 29th June, 2006, and
at any adjournment thereof.

	For	Against
1. To adopt the Report of the Directors and Statements of Accounts of the Company, for the year ended 31st March, 2006, together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re- elect as Director, Mr. Murtaza A H Esufally, who retires by rotation at the AGM.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re- elect as Director, Ms. Serena M Fonseka, who retires by rotation at the AGM.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re- elect as Director, Mr. J.C. Lalith de Mel, who retires by rotation at the AGM.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re- appoint M/s Ernst and Young, Chartered Accountants, as auditors of the Company and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
6. To authorize the Directors to determine and make donations to Charities.	<input type="checkbox"/>	<input type="checkbox"/>

* The Proxy may vote as he thinks fit on any other resolution brought before the meeting.

.....
Signature of Shareholder

Dated

Note:

- * Please delete the inappropriate words.
- Instructions as to completion are indicated on the reverse hereof.
- If you wish your proxy to speak at the meeting you should write the words “ and to speak” at the place marked. **

Instructions to completion

1. Kindly perfect the form of proxy after filling in legibly your name in full and address and by signing in the space as provided. Please fill in the date of signature.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy who need not be a member, to attend and vote instead of him. The proxy may not speak at the meeting unless expressly authorised by the instrument appointing him.
3. In the case of Corporate Members, the Form of Proxy must be completed under its Common Seal, which should be affixed and attested in the manner prescribed by the Articles of Association.
4. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should also accompany the completed Form of Proxy.
5. The completed Form of Proxy should be deposited at No 36, Bristol Street, Colombo 01, not less than forty eight (48) hours before the appointed time for the meeting.

corporate information

Name of the Company	:	Hemas Holdings Limited
Legal Form	:	A Limited Liability Company incorporated in Sri Lanka under the Companies Act No. 17 of 1982 on 27th August, 2003
Company Registration No.	:	PVS 724/PBS
Registered Office	:	No. 36, Bristol Street, Colombo 1.
Directors	:	Lalith De Mel - Chairman Husein Esufally Serena Fonseka Abbas Esufally Imtiaz Esufally Divyaroop Bhatnagar Murtaza Esufally Simon Scarff Maithri Wickremesinghe
Board Audit Committee	:	Simon Scarff Maithri Wickramasinghe
Board Remuneration Committee	:	Lalith De Mel Simon Scarff
Secretaries	:	Hemas Corporate Services (Pte) Ltd. No. 36, Bristol Street, Colombo 1.
Registrars	:	SSP Corporate Services (Pvt) Ltd 546, Galle Road, Colombo 3.
Auditors to the Company	:	Ernst and Young Chartered Accountants No. 201, De Saram Place, P.O. Box 101, Colombo 10.
Lawyers to the Company	:	D L and F de Saram, No. 47, Alexandra Place, Colombo 7.
Bankers to the Company	:	Commercial Bank of Ceylon Ltd. Deutsche Bank Hongkong and Shanghai Banking Corp. Ltd. Hatton National Bank Ltd. Standard Chartered Bank

