

Chairman's Review

A good result in a year under a cloud of uncertainty.

It was a year of uncertainty about the economy. There was a new President with a JVP partner who was drifting apart. Then a much acclaimed bond with the UNP was stillborn. A majority Government was achieved with crossovers but triggered rumbles on both sides. The word cease in ceasefire melted away leaving only fire. The international community was in ever louder tones talking about human rights violations and the need for a political solution. And we heard the opening bars of the chorus that aid will come with peace.

The question that worried business was what all of this will do to the economy.

As the months rolled along the resilience of the economy became apparent. The strategy that began a few years back to inject support to the informal peoples private sector that encompassed all the activities of the rural agricultural sector and the more traditional SME sector produced an economy that ignored the political uncertainties and forged ahead. There was always the nagging question of will it continue and for how long. So far it has been sustained. The international community however refused to close its eyes to the escalating violence and warned its citizens to stay away. Sadly this devastated the leisure industry which can be such a major contributor to the economic well being of the country.

Our results reflect all of this. The sectors that are dependent on the prosperity of the home economy did well and our major investments in Leisure struggled and strained but had to reflect the fact that the tourists did not come.

Overall sales grew by 20.4% and profit before tax by 12.8%. Our CEO will tell you more about the performance in his report.

After mulling it over, your Board decided to proceed with plans for new investments which will generate earnings in the future. This included the plans to build a hospital, the relocation of the factory

and further investment in the Power sector. The tie up with an excellent international Hotel and Spa operator, who has taken an equity stake in Serendib Hotels leaves Hemas well placed to pursue opportunities in the Leisure sector.

The confidence to proceed with our plans was based on the triple foundation of His Excellency the President's repeated commitment to a political solution, the APRC developing a plan for devolution, and the repeated reminders from our friendly neighbour India to evolve a package for a political solution. We saw in our crystal ball the dove of peace approaching.

As I said last year Hemas is a fine example of a long standing successful family firm, going public. The transformation from private to public Board controlled company has been completed with the vigorous support of the family shareholders. All the practices of good governance are now entrenched and we looked to the UK combined code for guidance on corporate governance. There is a robust Audit Committee chaired by Simon Scarff. He has wide international experience and is Chairman of Glaxo Smithkline, India. Maithri Wickremesinghe the well known lawyer who has a financial background as well, is the other member. I chair the Remuneration Committee with the support of Simon Scarff. Like any good public company the Board sets the strategy for management to execute and they seek the approval of the Board on major decisions.

...your Board decided to proceed with plans for new investments which will generate earnings in the future

Chairman's Review

Looking to the future we hope the dove of peace will come sooner rather than later. With peace and tourists, Hemas is well placed to generate significant incremental earnings from its investments in the Leisure sector.

Then all parts of our business will contribute to earnings. Sadly that could not happen this year.



Lalith De Mel

Chairman

23rd May, 2007

