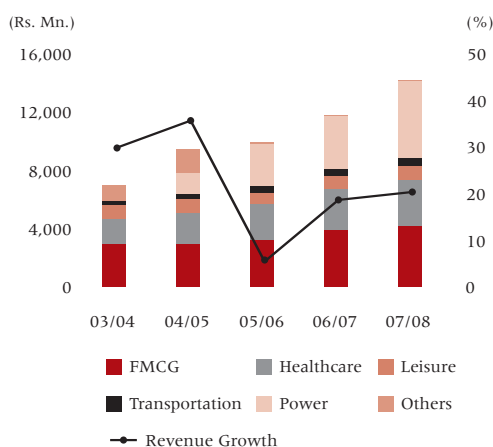


Management Discussion and Analysis

Group Financial Review



Revenue

Consolidated revenue for the year-ended 31 March 2008 was Rs. 14.16Bn, up 20.3% from previous year. Whilst revenue growth was similar to previous year's growth of 20.4%, unlike the past, top-line growth was almost entirely driven by the Power Sector, which grew by 44.5% on the back of increasing fuel prices that was passed through to revenue as per the power purchase agreement with CEB. As a result the Power Sector accounted for 68.0% of total revenue growth. In other words, 13.8% of the total 20.3% growth is due to the increase in Power Sector revenues.

Our core business sectors, FMCG and Healthcare survived a challenging year, grappling with a sluggish consumer market hit by escalating inflation. Whilst both sectors improved their top-line growth during the second half of the year, they ended up recording modest growth rates for the full year. The Leisure Sector posted a growth of 9.5% for the year, helped by discounted hotel rates in a lackluster domestic tourism market. Transportation Sector growth of 12.5% is well below its average revenue growth

Revenue Analysis	Revenue Mix	Growth	Contribution to Growth		Revenue Mix
	06/07	07/08	Absolute	% of Total	07/08
FMCG	32.6%	8.8%	2.9%	14.1%	29.5%
Healthcare	24.2%	9.8%	2.4%	11.8%	22.1%
Leisure	7.3%	9.5%	0.7%	3.4%	6.7%
Transportation	4.3%	12.5%	0.5%	2.7%	4.0%
Power	30.9%	44.5%	13.8%	68.0%	37.2%
Other	0.5%	0.5%	0.0%	0.0%	0.5%
Group	100.0%	20.3%	20.3%	100.0%	100.0%

Management Discussion and Analysis

of 23.1% over the previous three years. Although sales throughput of the sector increased by as much as 26.0%, deteriorated yields especially in the passenger airline division, has resulted in a moderate revenue growth.

As a new business which entered the Hemas portfolio three years ago, the Power sector has grown by 25.9% and 44.5% over the last two years, whereas the existing businesses have grown by only 18.1% and 9.4% during the respective years. These disparate growth rates in Power revenues vis-à-vis existing business revenues over the last few years has resulted in a 37.2% revenue share for Power within a relatively short period of time, making it the biggest sector in the Group in terms of revenue, overtaking FMCG for the first time.

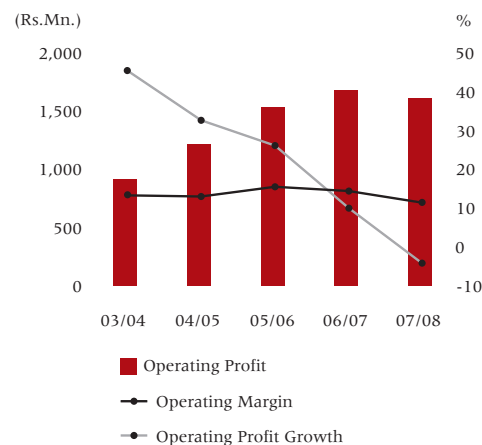
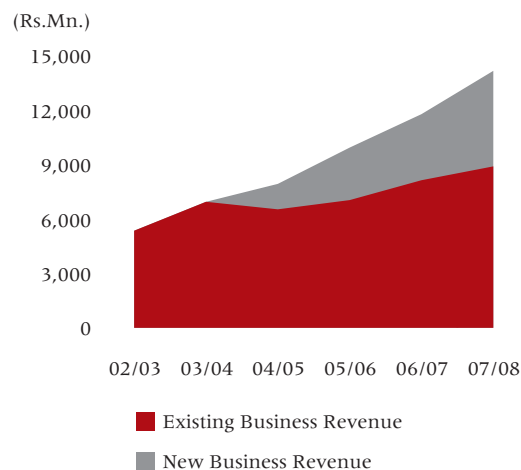
Profitability

Operating Profit

A drop in operating margins from 14.3% to 11.3%, despite a revenue growth of 20.3%, has caused a 4.4% decline in operating profits during the year under review. Over the previous three years, the average growth in operating profits has been 22.8%, and the average operating margin during the same period was 14.3%.

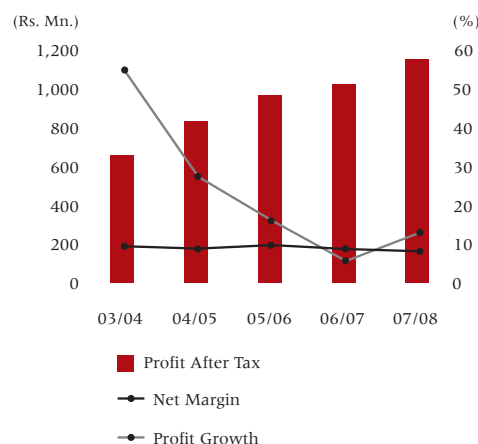
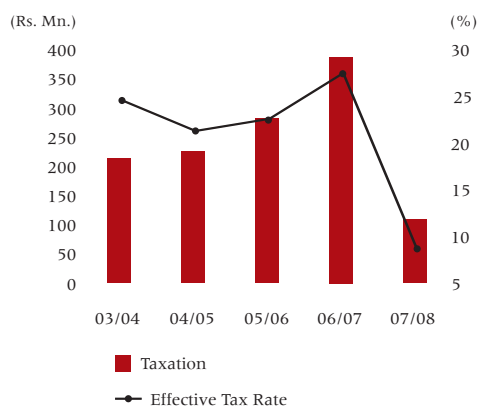
Whilst the drop in margins can be largely attributed to a considerable shift in the revenue mix towards the Power Sector which has relatively low margins, depressed operating margins in the FMCG Business on the back of increased raw material prices, and high administrative costs across the Group have also contributed to the drop in profitability to a great extent.

The operating margin analysis below shows that the overall profitability has declined largely due to depressed margins at business-level, particularly FMCG and Power. Whilst drop in revenue share of Healthcare has had a favorable impact on margins, profitability has suffered due to the increase in revenue share of Power.



Operating Margin Analysis	Revenue Mix		Operating Margins		Margin Impact		
	06/07	07/08	06/07	07/08	Mix	Profitability	Total
FMCG	32.6%	29.5%	16.18%	12.84%	0.04%	-1.09%	-1.05%
Healthcare	24.2%	22.1%	7.94%	8.42%	0.12%	0.12%	0.24%
Leisure	7.3%	6.7%	10.96%	7.88%	0.04%	-0.23%	-0.18%
Transportation	4.3%	4.0%	29.56%	27.54%	-0.04%	-0.09%	-0.12%
Power	30.9%	37.2%	14.34%	10.84%	-0.21%	-1.08%	-1.30%
Other	0.5%	0.5%	100.84%	0.43%	0.01%	-0.54%	-0.53%
Group	100.0%	100.0%	14.23%	11.32%	-0.03%	-2.91%	-2.94%

Management Discussion and Analysis



Finance Cost

Finance cost across the Group has increased by 27.0% during the year, from Rs. 273Mn to Rs. 347Mn and correspondingly interest cover has decreased from 6.1 to 4.6. An increase of 11.6% in borrowings from Rs. 2.88Bn to Rs. 3.22Bn coupled with rising interest rates has brought about this increase in finance costs.

Taxation

Our FMCG Business enjoys a 5-year tax holiday commencing 1 April 2008, as a result of the factory relocation project under the 'Nipayum Sri Lanka' programme. During the year under review there were considerable tax benefits arising out of this project in the form of investment relief on the costs incurred on the project. As a result there has been a significant drop in the tax charge for the year, down 72.0% to Rs. 109Mn from Rs. 388Mn. The effective tax rate for the year has declined to 8.6% from 27.5% in the previous year.

Net Profit

For the year under review, the Group recorded net profits of Rs. 1.14Bn, an increase of 12.9% from the previous year. As shown in the graph, momentum has been slowing down over the four years prior to the year under review. Despite the decline in operating profits and increased financed costs, this year we have been able to reverse the declining trend in profit growth, largely helped by significant tax benefits.

Net margin has declined from 8.7% to 8.1% owing to the same reasons mentioned earlier with regard to the decline in operating margins. However, significant savings in taxes have resulted in a lower drop in net margins vis-à-vis the drop in operating margins.

The biggest contributor to profit growth has been FMCG accounting for 86.7% of the total increase in profits. Evidently, the drag in FMCG operating profits has been translated into a resounding net profit growth as a result of tax efficiencies.

PAT Growth Analysis	PAT Mix	PAT Growth	Contribution to Growth		PAT Mix
	06/07	07/08	Absolute	% of Total	07/08
FMCG	39.2%	28.5%	11.2%	86.7%	44.6%
Healthcare	13.8%	30.9%	4.3%	33.2%	16.0%
Leisure	4.2%	-39.4%	-1.6%	-12.8%	2.2%
Transportation	10.0%	18.4%	1.8%	14.3%	10.5%
Power	29.8%	1.0%	0.3%	2.4%	26.7%
Other	2.9%	-103.9%	-3.1%	-23.8%	-0.1%
Group	100.0%	12.9%	12.9%	100.0%	100.0%

Management Discussion and Analysis

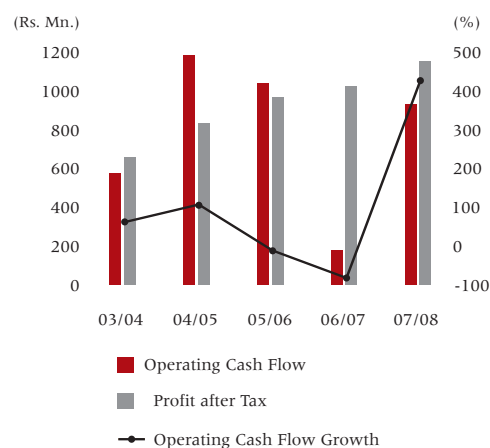
Healthcare and Transportation Sectors too have contributed well with growth rates of 30.9% and 18.4% respectively. In absolute terms FMCG has caused profits to grow by 11.2% while Healthcare has pushed profits up by 4.3% and Transportation by 1.8%, out of a total profit growth of 12.9%. In the case of the Power business where increased revenues largely due to high oil prices result in lower margins, its revenue growth of 44.5% has been translated into a profit growth of only 1.0%.

Net margin analysis given below illustrates how the change in revenue mix and the drop in sector profitability has impacted the overall Group margins. The large shift in the revenue mix favoring the Power Sector has caused net margins to decline by 0.18% and the margin deterioration in the Sector has caused net margins to decline by a further 0.78%. FMCG on the other hand had pushed margins up by 0.62% as a result of higher net profitability, mainly owing to tax benefits despite posting a drop in operating margins. However, the drop in FMCG revenue share has caused a 0.11% drop in Group net margins. The Healthcare Sector has contributed positively in terms of margin impact due to revenue mix as well as margin impact due to profitability - whilst Healthcare Sector net margins have improved by 0.95% during the year leading to a 0.23% improvement in Group margins, the drop in revenue share has caused Group margins to increase by a further 0.06% as Healthcare has been a relatively low margin business.

From a Group perspective, 0.22% can be attributed to the change in revenue mix and 0.31% can be attributed to drop in profitability when analyzing the overall drop of 0.53% in Group net margins during the year.

Cash Flow

In terms of cash flow generation, the Group bounced back from a modest performance of Rs. 177Mn during 2006/7 to a healthy level of Rs. 929Mn. In the previous year cash flow generation was hindered mainly due to working capital build up in the form of increased receivables and inventory. During the period under review our businesses were successful in streamlining the



Net Margin Analysis	Revenue Mix		PAT Margins		Margin Impact		
	06/07	07/08	06/07	07/08	Mix	Profitability	Total
FMCG	32.6%	29.5%	10.39%	12.27%	-0.11%	0.62%	0.50%
Healthcare	24.2%	22.1%	4.94%	5.88%	0.06%	0.23%	0.29%
Leisure	7.3%	6.7%	4.94%	2.74%	0.04%	-0.16%	-0.12%
Transportation	4.3%	4.0%	20.15%	21.21%	-0.03%	0.05%	0.01%
Power	30.9%	37.2%	8.35%	5.84%	-0.18%	-0.78%	-0.95%
Other	0.5%	0.5%	47.16%	-1.83%	0.01%	-0.27%	-0.26%
Group	100.0%	100.0%	8.66%	8.13%	-0.22%	-0.31%	-0.53%

Management Discussion and Analysis

management of working capital and improving cash cycles to very satisfactory levels.

These measures have resulted in a 425.0% increase in the net operating cash flow of the Group and we have been successful in moving back towards the historical track record of keeping up the cash flow generation in line with our profits.

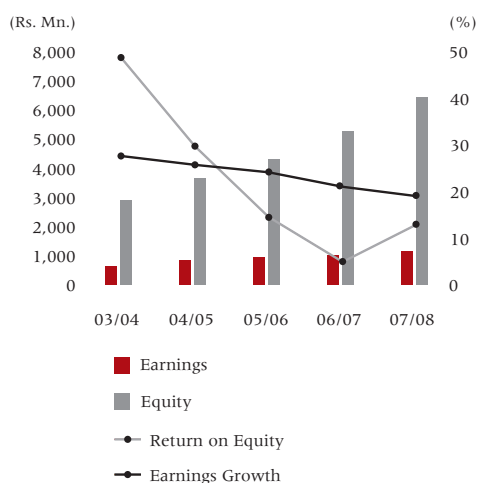
Due to relatively heavy investments in our three main projects - Hospitals, Mini Hydro, and FMCG factory relocation - the total capital expenditure and investment cost for the year increased to Rs.1,189Mn from Rs. 447Mn in the previous year. As a result the free cash flow generated within the Group for the year was a negative Rs. 260Mn.

Investment Returns

Generating high returns on investments is one of the key focus areas at Hemas. The ROCE (Return on Capital Employed) analysis given below indicates that depressed margins have outweighed the favorable impact due to improved asset turnover during the year causing the Group ROCE to decrease from 20.7% to 16.9%.

A 3.8% drop in ROCE is translated into a 1.7% drop in ROE (Return on Equity) as shown in the table below. A deteriorating interest cover from 6.1 to 4.2 coupled with a decreasingly leveraged equity base has had quite a significant adverse impact on the ROE. However, a much improved effective tax rate from 27.5% previous year to 8.6% this year has pulled back the slump in returns to a great extent. As a result ROE has dropped only by 1.7%, from 21.1% in the previous year to 19.4%. The average ROE of Hemas during the previous three years was 23.6%.

Over the years Hemas has been delivering high levels of ROE.



	03/04	04/05	05/06	06/07	07/08
Operating Margin	13.2%	12.9%	15.4%	14.3%	11.3%
Asset Turnover	1.14	1.07	1.01	1.10	1.15
Assets / Capital Employed	1.40	1.34	1.33	1.32	1.29
ROCE	21.0%	18.3%	20.7%	20.7%	16.9%

	03/04	04/05	05/06	06/07	07/08
Interest Cover	18.8	7.8	5.4	6.2	4.6
Effective Tax Rate	24.6%	21.3%	22.6%	27.5%	8.6%
Debt / Equity	88.9%	80.3%	62.9%	54.7%	50.0%
ROE	27.6%	25.7%	24.1%	21.0%	19.4%

Management Discussion and Analysis

Relatively slow earnings growth on an increasing equity base has been a challenge to maintain the high levels of ROE that Hemas has been delivering in the past.

An interim dividend of Rs. 114.0Mn has been paid out in respect of the financial year under review. Since going public, Hemas has maintained a payout ratio between 23% and 29% up to the financial year 2006/7. The Board of Directors of Hemas determines the dividend payment each year taking into consideration factors such as historical payout ratios, medium term investment requirements and market norms.

For the year ended 31 March 2008, Hemas share has generated a negative return of 16.6% vis-à-vis a negative return of 8.6% of the All Share Price Index. In terms of volatility, the standard deviation of the Hemas stock returns has been much higher than that of the All Share Price Index. On 31 March, Hemas closed trading at a share price of Rs. 87.50 which reflects a PER of 7.8, a significant discount to the market PER. The unjustifiably high level of volatility and the relatively low PER of the Hemas stock possibly reflects the low levels of trading activity in the secondary market.

Year ended 31 March 2008	Hemas	ASPI	Excess
Annual Return	-16.6%	-8.6%	-8.0%
Standard Deviation	27.1%	11.5%	15.6%