

**SRI LANKA MONTHLY BUSINESS REVIEW: APRIL/MAY 2010****Ambitious Investments on Tourism and  
Construction Continue****BY****ANANDA JAYAWARDANE**

"Sri Lanka"- means 'resplendent isle' and the natural charms of this pear-shaped island in the Indian Ocean that nearly kisses the southeast tip of India are indeed splendid."

This is how Sri Lanka has been described in the National Geographic website, which has ranked the country as the second best on its list of 20 best tourist destinations. With the end of the civil war in mid 2009, tourism has revived with a month-on-month increase in the number of tourists visited the country. Tourist arrivals in February this year was around 57,000 which is an increase of 67 per cent compared to the same period in 2009. The figure for March- 52,352- is an increase of 53.7 percent as against the same period last year. The tourism industry is targeting 2.5 million visitors per year by 2016.

The number of hotel rooms in the country at present is around 14,000. This will be grossly inadequate to cater to the expected arrivals. There are a number of other areas also to be addressed. In this context, tourism and construction have emerged as attractive areas for investment. According to property development companies in the country, the property market has shown an upward trend with interest shown by both foreigners and local parties to invest in luxury resorts and other tourism-related projects in the North Western, Eastern and the Northern provinces. A leading hotel chain, John Keels Hotels has just completed upgrading of their Trincomalee hotel and initiated action to upgrade the 140-room Cinnamon Lodge Hotel at Habarana, to a five-star hotel, with an investment of 2.5 million US Dollars. Bangkok-based Minor International has expressed their interest to buy or build beach resorts in Sri Lanka. Minor, which runs 'Anantara' branded hotels, is Thailand's biggest hotel and fast food chain operator. A Project Implementation Unit has been set up to implement the projects and activities recommended in the "Eastern Province Tourism Development Action Plan 2010-2012". A tripartite agreement was signed between the Sri Lanka Institute of Architects, Design Consortium Ltd., and Sri Lanka Tourism Development Authority (SLTDA) for the preparation of a detailed Master Plan for the proposed National Holiday Resort at Passikudah. The proposed National Holiday Resort at Kuchchavelli will be built on 500 acres of land and the investors have already been selected. According to the President of the Tourist Hotels Association of Sri Lanka (THASL), the government should recognize the potential of the tourism industry and provide a conducive environment to strengthen the private public partnerships. He expresses hopes that the government will be committed towards this.

Sri Lanka's export earnings from the European region could come under pressure as the euro fell to a four-year low on a severe debt crisis that began in Greece and is spreading to Spain, Portugal and Ireland. The euro fell almost 20 percent against the rupee in recent weeks causing a drop in the earnings of the exporters to the European Union. This will be further aggravated as the affected consumers are likely to cut down on their spending on non-essential items. Sri Lankan exporters to India have repeatedly complained that India's state taxes raise the cost of products, despite tariffs being removed under the Indo-Lanka Free Trade Agreement (FTA). India has positively responded by exploring a unified tax system in place of a multitude of state taxes, according to recent remarks by an Indian diplomat. He disclosed that a proposal for a Goods and Services Tax is in advanced stages of consideration by the Indian government. When implemented, it will lead to one tax for the entire country replacing the multitude of state taxes.

Financial performance of leading companies indicates that the business environment has been both favourable and unfavourable depending on their respective operational systems. The business giant Hayleys announced that their net profit shot up by 471 percent to 1.8 billion rupees in 2009/2010 financial year as its core businesses recovered from recession, loss-making sectors turned around and it sold stakes in hotels. Nestle Lanka's profit for the quarter ended March 2010 rose by 3.6 percent to 482.4 million rupees. Profits of the HDFC Bank for the same period increased to 224 million rupees turning around from a loss of 52 million rupees a year earlier. Another business giant John Keells Group announced that their profits for the year ended March 2010 increased by 10 percent to 5.2 billion rupees. Profits of Lanka Tiles for the quarter ended March 2010 rose by 43 percent to 152.6 million rupees. Aviva NDB Insurance has incurred a loss of 80 million rupees during the quarter ended March 2010. The profits of Central Finance Company Limited (CFCL) group for the same quarter reduced by 11 percent to 298.2 million rupees. PABC Bank's net profit for the March 2010 quarter fell by 27 percent to 67.5 million rupees from a year earlier.

In the above business environment, several key steps have been taken by Sri Lankan business organizations, both within Sri Lanka and outside Sri Lanka, as outlined below. Sri Lankan apparel exporter Brandix has opened a 1,000-acre 'Apparel Park' in India to serve as a hub for manufacturers and suppliers in the south Asian region. This facility near the eastern Indian port city of Vishakhapatnam when fully occupied will accommodate up to 20 apparel manufacturing plants, three fabric mills, eight accessories manufacturers and a finishing plant. Sri Lankan information technology companies are trying to attract business process outsourcing (BPO) work from European small businesses. Orion City recently announced the arrival of the subsidiary of global giant Hewlett-Packard Group (HP) - Mphasis, India's 7th largest global software provider, which is set to commence operations at this IT Park. They will provide employment opportunities to over 2,000 IT professionals over the next three years. Sri Lanka's Overseas Realty Ceylon, a unit of Singapore's Shing Kwan group, is pushing ahead with Colombo's largest property project amid renewed buying interest in

apartments. Overseas Realty owns Colombo's World Trade Centre building which houses the Colombo Stock Exchange and is jointly developing Havelock City, an 18-acre block of land with state-run Bank of Ceylon.

A Sri Lankan business group with palm oil plantations in East Asia has said that the demand for the edible oil is likely to grow, driven mainly by China and India, with prices having stabilized at more realistic levels. The Carson Cumberbatch group controls palm oil plantations in Indonesia and Malaysia through the Singapore-based Goodhope Asia Holdings under which comes four Malaysian plantation firms, Indo- Malay, Selinsing, Good Hope, and Shalimar Malay. The Planters' Association of Ceylon says that diversification by Regional Plantation Companies (RPCs) into non-traditional areas such as palm oil cultivation and processing, is showing good results. The AEN palm oil processing mill, a joint venture between Agalawatte, Elpitiya and Namunukula Plantations, is one such project that has shown impressive results in terms of high productivity, improved value addition and export capability and higher ROIs for the plantation companies while also benefiting domestic consumers. Sri Lanka's Sampath Bank has sold majority of its stake in a Bangladesh finance firm- Lanka Bangala Finance.

Hemas Manufacturing recently won the Silver and Gold awards at the annual Taiki Akimoto 5S Awards. It won the Taiki Akimoto Gold Award for the Best 5S Implementation in the Manufacturing Sector and the Taiki Akimoto Silver Award for the Best 5S implementation Overall beating several other local manufacturing companies. In the running for the awards were nearly 50 organizations from the public and private sectors, and representing the Manufacturing, Service, Print Media, Banking, Apparel, Telecommunication and Hydro Power Project sectors. Twelve out of Unilever Sri Lanka's 26 brands have been honoured among the Brand Finance's Top 100 Brand Index.

Sri Lanka has also made a name for software piracy, according to an industry report. Software piracy costs technology companies more than 50 billion US dollars around the world, with Asia accounting for the largest share of losses. In Asia, Bangladesh had the highest software piracy rate, followed by Sri Lanka, Indonesia and Vietnam, with China and India also among the most prominent culprits.