FINANCIAL CAPITAL REVIEW

OVERVIEW

One of the strategic strengths of Aitken Spence is the depth of the financial capital available to the Group and the acumen the Group possesses for the professional management of this resource. The Financial Capital Review details the structure of the financial capital of the Group, its management, the key outcomes and its movement as a result of the operations during the year.

Key Inputs		2017/2018	2016/2017
Total equity	(Rs. Mn)	56,284.7	50,793.4
Net working capital	(Rs. Mn)	5,814.8	6,736.3
Capital expenditure on property, plant and equipment	(Rs. Mn)	7,237.0	5,843.7
Non-current interest bearing liabilities	(Rs. Mn)	19,683.4	17,191.0
Current portion of interest bearing liabilities	(Rs. Mn)	5,780.9	4,829.7
Bank overdrafts and other short term borrowings	(Rs. Mn)	9,157.5	8,427.3
Cash & short-term deposits	(Rs. Mn)	9,636.4	6,032.6

VALUE DRIVERS

	Indicator	2017/2018	2016/2017	Significance
Profitability	Revenue growth	14.9%	76.7%	Generation of revenue is the primary source of ensuring the sustainable growth and wealth creation of the Group. Hence it is vital that the Group secures a continuous enhancement of its revenue streams. The unusually high increase in the previous year was due to the recommencement of the 100 MW thermal power plant which was non-operational in 2015/16.
Profitability	Operating profit margin	13.4%	12.5%	Cost leadership and efficient use of resources is vital in obtaining a competitive edge in dynamic industries. This coupled with high quality products and services, facilitate the Group in its achievement of operating profits.
Profitability	Return on equity accounted investments	4.9%	4.9%	This indicates the return obtained by the Group for its investments in joint ventures and associate companies. Due to some of these investments still being in their early stages and therefore not yielding positive returns, the net return received by the Group has not yet reached its full potential.
Asset Management	Enhancement of total asset base and its utilization	Total assets of Rs. 107.8 billion. Asset turnover ratio of 0.52 times	Total assets of Rs. 95.3 billion. Asset turnover ratio of 0.54 times	The asset base of the Group and its appropriate expansion is a direct reflection of its stability and strength while the maximum utilization of assets for the generation of revenue ensures the sustainability and viability of business operations.
Asset Management	Current ratio	1.21	1.27	Denotes effective working capital management, ensuring that Group's business has adequate liquidity for its day to day operations. The higher ratio in the previous year was due to the property, plant and equipment of the Group's thermal power plant being included under current assets. However, this was transferred to non-current assets as at end of the financial year 2017/18 due to the power purchase agreement extension received by the thermal power plant.
Asset Management	Debtors collection	94.5% of debtor balances less than 90 days	95.7% of debtor balances less than 90 days	An optimum debtors collection period ensures that the Group's cash is not unnecessarily tied up hampering the liquidity of the company. The quick conversion of revenue to cash enables a more beneficial operating cycle. The decline in the percentage of debtor balances less than 90 days is due to the delayed payments of the Group's single largest debtor had in the power generation segment, which is a Government institution.

Key Outcomes		2017/2018	2016/2017
Profit from operations	(Rs. Mn)	7,080.9	5,757.6
Cash generated from operating activities	(Rs. Mn)	7,140.5	15.8
Employee costs	(Rs. Mn)	8,044.4	7,474.2
Net finance expense	(Rs. Mn)	989.6	895.1
Net profit attributable to shareholders	(Rs. Mn)	3,560.3	2,890.0
Total dividends	(Rs. Mn)	812.0	710.5
Return on equity	(%)	8.4	7.6
Market capitalisation	(Rs. Mn)	20,543.4	22,817.0

FINANCIAL CAPITAL PHILOSOPHY

Effective and efficient management of the financial resources, leveraging on the best mix between debt and equity for future growth and expansion to ensure consistent positive economic value creation for all stakeholders.

VALUE DRIVERS

	Indicator	2017/2018	2016/2017	Significance
Financial Leverage	Interest cover	8.29 times	7.29 times	An indication of the Group recording an adequate operating profit to finance its net interest liabilities on long-term and short-term debt facilities.
	Debt to equity	0.35	0.34	Highlights the mix between debt and equity, indicating the financial leverage of the Group and its ability to fund its future expansions through debt. The increase in the ratio for the current year was due to the loans obtained to fund the construction of Heritance Aárah.
Treasury Management	Net cash flow from operating activities	Rs. 7,140.5 million	Rs. 15.8 million	The most important indicator for the Group is the cash it generates through its business activities and its adequacy to meet the financing and investing activities. A positive net cash flow from operations is a clear gauge on the Group's ability to perform as a going concern.
	Foreign currency exposure management	Net gain of Rs. 138.8 million	Net gain of Rs. 46.8 million	The Group due to its many activities is exposed to the fluctuation of the Sri Lankan rupee vis-à-vis foreign currencies in terms of its revenue streams, its cost base and foreign exchange denominated borrowings. The effective management of this exposure and the matching of inflows to outflows enables the Group to record a positive impact through its foreign currency transactions.
Shareholder Returns	Return on equity	8.4%	7.6%	A key outcome of the wealth creation process of the Group is the return it generates for its shareholders. This being measured by the return on equity, provides shareholders with a basis for comparison between investment options.
	Market price per share	Rs. 50.60	Rs. 56.20	Increases in the market price per share directly contribute towards the enhancement of wealth of the shareholder and the increase of the enterprise value of the company. Positive market sentiments on the potential of earnings growth enhances the market value, however non-conducive external environmental factors had a negative impact on the share price at the end of the year.
	Dividends per Share	Rs. 2.00	Rs. 1.75	A healthy payout of dividends increases the return on investment for a shareholder while reducing the portfolio risk. An investor would most often always benefit more by investing in a company that has a consistent dividend declaration.
	Economic value addition	Rs. 19.2 billion. Growth of 12.1%	Rs. 17.1 billion. Growth of 32.0%	Highlights the total economic value addition created by the Group through all its activities during the year. The continuous improvement in the value added over the years depicts the growth in the Group's economic activity.

Details of each of the value drivers above are discussed at length in the financial capital review under the relevant headings.

FINANCIAL CAPITAL REVIEW

Material Topics (As per GRI)				
Revenue growth	High	High	High	High
Operating profit margin	High	High	High	High
Return on equity accounted investments	High	High	High	Medium
Interest cover	High	Low	High	Low
Debt to equity	High	Low	High	Low
Enhancement of total asset base and its utilization	High	High	High	Medium
Current ratio	High	High	High	High
Debtors collection	High	High	High	High
Net cash flow from operating activities	High	High	High	High
Foreign currency exposure management	High	Medium	High	High
Return on equity	High	High	High	High
Market price per share	High (Group)			
Dividends per Share	High (Group)			
Economic value addition	High	High	High	High

High significance. Considered a priority for action

Medium significance. Adequate action is required to control potential impacts

Low significance. Adequate measures are in place or the impact is outside our control

PROFITABILITY

Group Revenue

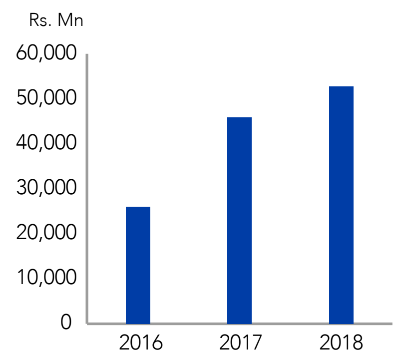
Signifying the consistent increase in the economic operations of Aitken Spence, the financial year 2017/18 witnessed a 14.9% increase in the revenue generated by the Group. This increase is significant as it came on the back of a 76.7% increase in the revenue recorded during the previous year and highlights the consistency in the expansion of the Group's business. The unusual increase in 2016/17 was due to the recommencement of operations of the 100 MW thermal power plant which was non-operational in 2015/16.

The total revenue generated by the Group including inter segment and equity accounted investees revenue stood at Rs. 57.0 billion and the total revenue from external customers was Rs. 52.7 billion.

In keeping with the Group's distribution of its investments to the four main sectors, the largest contributor towards the Group revenue was from the Tourism sector. A revenue of Rs. 25.7 billion was recorded by the Tourism sector during financial year which was a 25.8% growth over the previous year. The first full year of operations of Hotel RIU, enhanced revenue generations from the premier Heritance branded properties of Heritance Kandalama and Heritance Tea Factory and the steady performance by the Maldivian resorts segment contributed towards this revenue growth. Despite still not reaching its full potential the Indian and Oman hotel segments also recorded healthy increases in revenue. The destination management segment which is a consistent performer in the sector recorded a year on year increase of 7.5% in revenue. The impact to the sector revenue from the growth in the destination management segment was higher as the decision to consolidate Aitken Spence Travels Ltd., due to the control demonstrated by the Group on the company, as opposed to treating it as an equity accounted investee was made mid last year.

Revenue

for the year ended 31st March



The second largest contributor towards the consolidated revenue, the Strategic Investments sector recorded a revenue of Rs. 16.8 billion accounting for 31.8% of the total Group's revenue. The apparel manufacturing segment witnessed the highest increase in revenue generation of 22.4% while the power generation, the largest segment in this sector recorded a marginal increase of 2.6% over the previous year. However, the printing and packaging segment had a disappointing year witnessing a 4.2% dip in revenue due to the slowdown of the volumes of the FMCG and tobacco industries.

The impressive growth in revenue of the elevators segment which witnessed a growth of over 30.3% resulted in the Services sector achieving a 18.2% higher revenue than the previous year. The insurance segment and MMBL Money Transfer (Pvt) Ltd., were also able to record healthy growth in revenue of 8.1% and 10.3% respectively.

Profit from Operations

The year under review saw the Group recording a total profit from operations of Rs. 7.1 billion which was a 23.0% increase over the previous year and amounted to an operating profit margin of 13.4%, up from 12.5% the previous year.

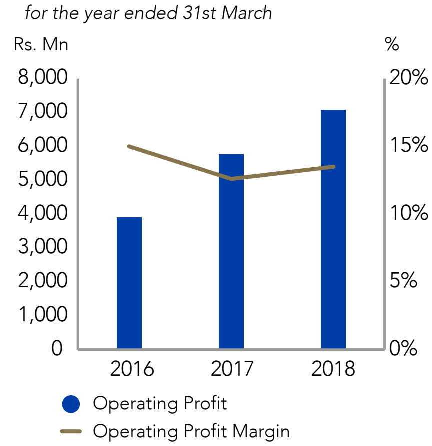
The highest profit from operations was generated by the Tourism sector, which also witnessed an improvement in the operating profit margin from 13.4% the previous year to 14.8%. Apart from the operational improvements recorded by all segments within the sector, the profit on the disposal of Hotel Hilltop amounting to Rs. 307.6 million boosted the sectors' performance. The Sri Lanka hotels segment recorded a substantial improvement in operating profit for the year as a result of improvements in the performances of the established Heritance brand properties, and the newly launched property Hotel RIU, although yet recording a net loss, achieving progress in its operations. A 4.2% and a 13.9% increase in the profit from operations was witnessed by the Maldivian resorts segment and the destination management segment respectively. The Indian hotels segment, although incurring losses, tabled an encouraging improvement in performance. The operational profitability of the Al Falaj hotel was negatively impacted due to the economic downturn and political unrest in the Middle Eastern region.

The sector also benefited from a higher net gain on foreign exchange derived by the destination management segment and a lower translation loss on the foreign currency borrowings in the sector as a result of the comparatively lower devaluation of the Rupee against the USD and Euro compared to last year.

The performance of the Maritime and Logistics sector during the year was dragged down by the poor performance of the brokerage and express courier divisions. A total operating profit of Rs. 1.5 billion was recorded by the sector which was a 0.5% decline over the previous year. The sector's operating profit margin also recorded a drop from 18.3% last year to 17.0% for the current year. However, both the maritime and integrated logistics segments had an impressive year recording 13.8% and 16.8% increases in operational profit respectively. Improved performances in the Fiji port operations due to increased volumes and operating efficiencies, and the increased volumes handled by the ship agency business in Sri Lanka contributed towards the growth recorded in the maritime segment. The integrated logistics segment's performance was led by the special operations, distribution services and mobile storage businesses.

Operating Profit & Operating Profit Margin

for the year ended 31st March



Operating Profit Margin (%)	2017/2018	2016/2017
	13.4%	12.5%
	14.8%	13.4%
	17.0%	18.3%
	9.3%	8.2%
	15.7%	17.5%

An operational profit of Rs. 1.6 billion was recorded by the Strategic Investments sector compared to Rs. 1.3 billion recorded in the previous year. Its operating profit margin also recorded an improvement of 13.6% over the previous year. Operational efficiencies recorded by the power generation segment and the recovery in performance by the apparel manufacturing segments were the highlights in this performance. However, the printing and packaging segment reported a disappointing performance stemming from the decline in revenue witnessed during the year.

The operational profit of the Services sector stood at Rs. 256.7 million, an increase of 6.1%. Despite the revenue increases in the key segments of elevators, insurance and MMBL Money Transfer, the operational profits of these segments did not record similar increases. This was due to the higher operational costs in the elevators segment and lower foreign exchange gains recorded by MMBL Money Transfer and the insurance segments, coupled with a one-off gain of a profit on sale of fixed assets had by the insurance segment in the previous year. This resulted in the operating profit margin of the sector declining from 17.5% to 15.7%.

The year on year increase of 32.7% of the Group's direct operational expenses was mainly due to the impact of Aitken Spence Travels Ltd (ASTL) being consolidated for the entire year. The decision to treat ASTL as a subsidiary as opposed to an equity accounted investee, due to the control demonstrated by the Group in the company was made during the second half of the previous financial year. The current year being the first full year of operations of Hotel RIU was also a key factor in the increase seen in operating costs and depreciation. The Group's total depreciation, amortization and impairment expenses increased by 10.2% to Rs. 2.6 billion for the financial year under review. The total expenditure incurred by the Group on employee benefits stood at Rs. 8.0 billion for the year compared to Rs. 7.5 billion expended the previous year.

Share of Profits from Equity Accounted Investees

The Group's share of profits from equity accounted investees witnessed a decline of 20.3% to Rs. 306.5 million compared to Rs. 384.4 million achieved the previous year.

The decline in profit share from equity accounted investees was due to the deferred tax adjustment of Rs. 56.7 million in Elpitiya Plantations PLC which arose due to change in the tax rate for agriculture business with the enactment of Inland Revenue Act No. 24 of 2017. As per Sri Lanka Accounting Standards 12 – Income Taxes (LKAS 12) the deferred tax impact due to a change in the tax rate should be accounted in the current year's income statement even though the deferred tax component would comprise of a brought forward timing difference which has no relevance to the current year's profits. As the Accounting Standard specifies this tax treatment, the adjustment has been carried out as specified although the Group strongly believes this distorts the financial statements of a company.

The other main reason for this decline is that Aitken Spence Travels Ltd., had been treated as an equity accounted investee until mid last year when it was decided to consolidate the company due to the control demonstrated by the Group.

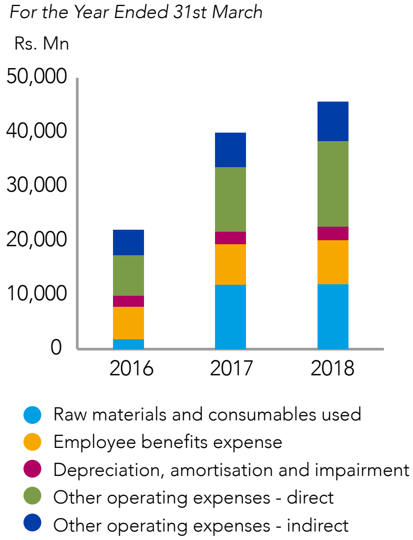
Excluding these two factors the share of profits of equity accounted investees increased by 36.8% during the year under review.

Similar to the previous financial year, the largest contributor towards the profits from equity accounted investees was the Maritime and Logistics sector although the level of profits recorded a comparative decline. This decline was due to the performance of CINEC being below expectations as a result of the difficulties faced by the campus in obtaining cadet placements for some of its maritime courses, a set-back which is being resolved at present. Elpitiya plantations which is an equity accounted investee in the Strategic Investments sector recorded an impressive performance before taxation. The share of profits before taxation of the plantations segment achieved a growth of 24.5% over the previous year.

The return on the total investment made in equity accounted investees remains below expectations primarily due to the investment made in the recently launched Heritance Negombo not yielding the expected returns although recording healthy improvements to its operational profit before interest during the year. The net profit of Heritance Negombo has been adversely impacted by the high interest cost which is linked to

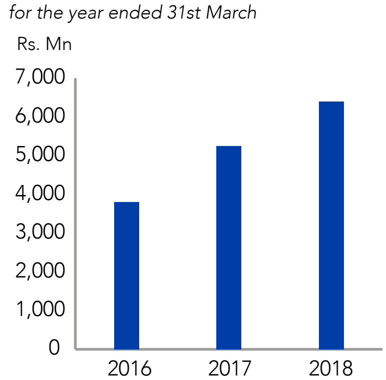
Operating Expenses

For the Year Ended 31st March



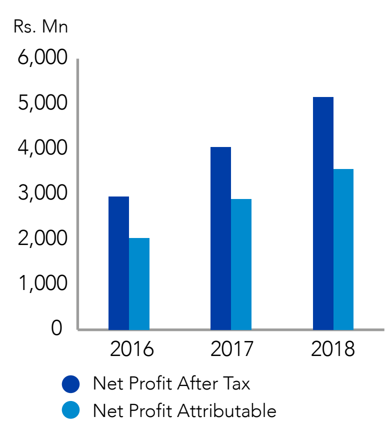
Profit Before Tax

for the year ended 31st March



Net Profit After Tax & Net Profit Attributable

for the year ended 31st March



market rates, on term loans taken to fund the construction of the hotel.

Earnings for the Year

The Group recorded its highest ever profit before tax of Rs. 6.4 billion during the year under review. This was a growth of 21.9% from the profit before tax of Rs. 5.2 billion reported in the previous year. The profit after tax recorded for the year under review of Rs. 5.1 billion was also the highest recorded in the history of the Group.

The Tourism sector contributed 46.2% of the Group's profit after tax while the second highest contributor, the Maritime and Logistics sector accounted for 26.7%. The Strategic Investments sector brought in 24.2% of the Group's profit after tax for the year with the Services sector's contribution being 2.9%.

The net profit attributable to equity holders of the company amounting to Rs 3.6 billion was 23.2% higher than the previous year. Although the Group was able to achieve its highest ever profit after tax, it was unable to extend this achievement to its net profit attributable to equity holders as the profit attributable to non-controlling interest increased substantially by 37.5% over the previous year to Rs. 1.6 billion.

Taxation

The profit before tax of the Group increased by 21.9% to Rs 6.4 billion. The income tax expense charge for the year was Rs 1.2 billion an increase of 3.9% which is lower than the growth reported in profit before tax. The net profit after tax increased to Rs 5.1 billion reflecting a growth of 27.3% resulting in the effective tax rate reducing from 22.9% to 19.5% despite the additional provisions being made for deferred taxes.

The income tax expense recorded in the income statement comprises of income tax on profits, the deferred tax provision, withholding tax from inter-company dividends and under or over provision of income tax for the previous years.

The effective tax rate on income tax on profits declined during the year because higher percentage of profits were contributed by Companies having brought forward losses for the year and due to the turnaround of loss making operations.

The deferred tax for the year is a reversal of Rs. 11.1 million, which is the net impact of the deferred tax asset of Rs. 44.3 million arising mainly from tax losses and the deferred tax liability of Rs. 33.2 million which is the impact of change in tax rates. With the introduction of the Inland Revenue Act No. 24 of 2017, the concessionary tax rates / exemptions enjoyed by the SBU's increased from 10% and 12% to 14%.

The Inland Revenue Act No. 24 of 2017 introduced a tax on capital assets (land and building) either used in business or held for investment purposes at the point of sale. With the introduction of tax on the disposal of capital assets Group after identifying business assets has adjusted for the deferred tax of Rs. 997.5 million arising on revalued land in the statement of other comprehensive income in accordance with the requirements of the Sri Lanka Accounting Standards.

	Net Profit before tax Rs. Mn	Tax recognized in the income statement Rs. Mn	Net profit after tax Rs. Mn
	6,397.8	1,248.3	5,149.5
	3,127.1	748.6	2,378.5
	1,758.9	382.1	1,376.8
	1,278.4	31.5	1,246.9
	233.4	86.0	147.3

Tax recognized in the income statement	2017/2018 Rs.Mn	2016/2017 Rs.Mn
Income Tax Provision	1,064.3	948.0
Deferred tax provision	(11.1)	61.7
Withholding tax on dividends paid by SBU's	25.2	27.0
Under /over provision in respect of previous years	169.9	164.8
Total	1,248.3	1,201.4

	Capital Expenditure (Rs. Million)					
	Freehold Buildings	Plant, Machinery & Equipment	Motor Vehicles	Furniture & Fittings	Capital Work-in-Progress	Total
	291.6	657.5	257.1	149.6	5,881.2	7,237.0
	252.7	509.4	204.6	130.6	4,232.4	5,329.7
	36.0	58.4	28.3	14.5	90.6	227.8
	1.2	74.2	24.1	1.9	1,558.1	1,659.5
	1.6	15.4	0.2	2.7	-	20.0

ASSET MANAGEMENT

Total Assets

The total asset base of the Group surpassed the Rs. 100 billion mark during the year to reach Rs. 107.8 billion as at the end of the financial year, an increase of Rs. 12.5 billion over the previous year. Rs. 73.9 billion of these assets were non-current assets while Rs. 33.8 billion were current assets.

The largest component of the non-current assets is property, plant and equipment which amounts to Rs. 59.3 billion, and 80.2% of the total. The total capital expenditure incurred by the Group under property, plant and equipment for the year was Rs. 7.2 billion, while the freehold land held by the Group was revalued at the end of the financial year in keeping with the Group policy resulting in a value increase of Rs. 2.9 billion. Trade and other receivables represented the largest portion of current assets amounting to Rs. 13.6 billion.

	Asset Turnover ratio (times)	
	2017/2018	2016/2017
	0.52	0.54
	0.43	0.45
	0.90	0.90
	0.62	0.73
	0.44	0.43

The Tourism sector held Rs. 64.0 billion of the total assets of the Group with an increase of Rs. 7.4 billion over the last year. The increase was mainly due to the investments made by the sector amounting to Rs. 4.2 billion for the construction of Heritance Aárah' in the Maldives. The Strategic Investments sector laid claim to Rs. 29.5 billion of the total assets recording a Rs. 4.9 billion increase over the previous year. Costs incurred during the year on the initial construction work of the waste-to-energy power plant amounting to Rs. 1.6 billion, the impact of the land revaluation of Rs. 1.5 billion and an increase of trade and other receivables of the power generation segment were the main contributors towards this increase.

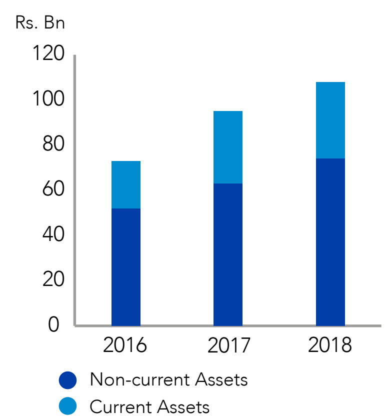
The Maritime and Logistics sector held Rs. 10.2 billion and the Services sector held Rs. 4.1 billion of the Group's total assets respectively as at year end.

Asset Turnover

The asset turnover ratio represents the degree of the utilization of the assets held in the generation of revenue. The Group asset turnover ratio for the year was 0.52 times, a slight decline from 0.54 achieved during the previous year. The decline was mainly the result of investments made on assets which have not yet reached the operational stage.

The Tourism sector asset turnover ratio marginally declined due to the investments made for the construction of Heritance Aárah' in the Maldives which is expected to come into operations in the winter of the following financial year. The asset turnover ratio of the Strategic Investments sector had a two-fold impact with the increase in the asset base due to the costs incurred on the preliminary work of the waste-to-energy power project, and due to the decline in the revenue of the printing and packaging segment. This resulted in a 14.9% dip in the asset turnover ratio of the sector which in turn negatively impacted the Group.

Total Assets
as at 31st March



	Current Ratio		Quick Asset Ratio	
	2017/2018	2016/2017	2017/2018	2016/2017
	1.21	1.27	1.15	1.20
	1.10	1.05	1.07	1.02
	1.41	1.33	1.35	1.29
	1.18	1.38	1.12	1.31
	1.26	1.31	1.14	1.13

Current Ratio

The total net working capital of the Group at the end of the current year stood at Rs. 5.8 billion, compared to Rs. 6.7 billion as at the end of the previous year. The current ratio declined marginally to 1.21 from 1.27 and the quick asset ratio to 1.15 from 1.20 at the year-end although remaining at very stable levels indicating the healthy liquidity position of the Group.

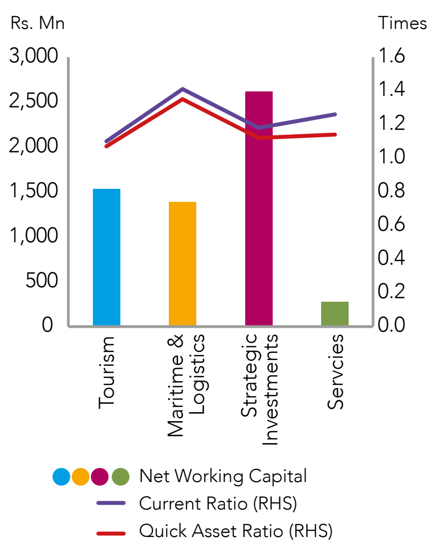
The Tourism sector recorded improvements in its working capital and its liquidity ratio for the year. However in the case of the Strategic Investments sector the working capital as at year end declined by Rs. 2.1 billion with the current ratio dropping from 1.38 to 1.18 times. This decline in the Strategic Investments sector which also had an impact on the Group ratio was due to the property, plant and equipment of the 100 MW thermal power plant which was reflected in current assets in 2016/2017 being transferred to non-current assets at the end of the financial year 2017/2018 consequent to the three year extension of the power purchase agreement entered into with the Ceylon Electricity Board.

The higher current ratio of the Maritime and Logistics sector is due to very low short-term borrowings of the sector, while the Tourism sector had the lowest liquidity ratios of the Group due to its high short-term borrowings and the current portion of interest bearing liabilities. The decline seen in the current ratio of the Services sector is due to an increase in the short term borrowings recorded in its elevators segment.

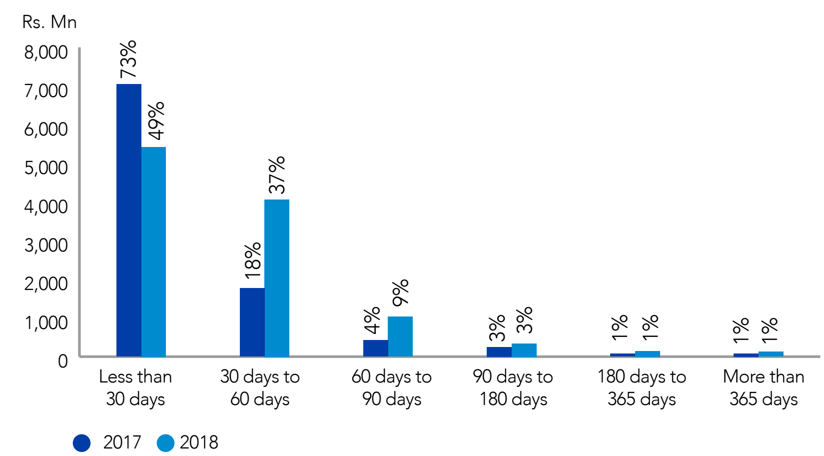
Debtors collection

The Group places strict emphasis on the timely collection of its trade receivables acknowledging that it is a vital part in the effective management of its working capital and liquidity. The total trade receivables of the Group stood at Rs. 11.1 billion as at the end of the financial year compared to Rs. 9.7 billion as at the end of the previous year. Rs. 10.5 billion of these trade receivables were due in less than 90 days indicating the effective collection policy practiced by the Group. The Group's exposure to a single customer is only from the power generation segment serving a state-owned enterprise thereby minimising the risk to the Group. As at end of the financial year 38.7% of the Group's total receivables amounting to Rs. 4.3 billion were from this state-owned enterprise.

Net Working Capital, Current Ratio & Quick Asset Ratio
as at 31st March



Trade Debtor Aging
as at 31st March



FINANCIAL CAPITAL REVIEW

Non-current interest-bearing borrowings (Rs. Million)	2017/2018	2016/2017
	19,683.4	17,191.0
	18,154.1	14,275.7
	-	-
	1,529.3	2,915.3
	-	-

FINANCIAL LEVERAGE

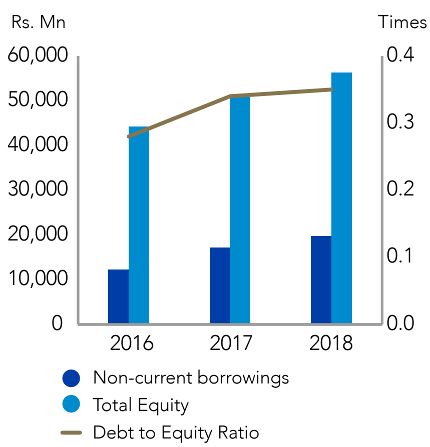
Debt to equity

The Group constantly monitors its gearing position to ensure that a healthy mix of debt to equity is maintained, enabling the Group to maximize the return on shareholders' funds whilst maintaining financial flexibility in meeting its debt obligations. Although the Group has the options of raising debt and new equity capital, the Group has not opted for the latter in the recent past. As such, Group relies mainly on internally generated funds and debt to fund its investments.

The Group's non-current interest-bearing borrowings increased to Rs. 19.7 billion from Rs.17.2 billion in the previous year. Majority of the Group's debt was taken up by the Tourism sector, accounting for 92.2% of the total, whilst Strategic investments sector accounted for the balance 7.8%. New loans obtained during the year was entirely from the Tourism sector, and mainly accounted for the draw-downs in line with the project financing requirement of the 5-star resort under-construction in the Maldives, expected to be opened in winter 2018.

Debt to Equity Comparison

as at 31st March



The Group has opted to borrow mostly in foreign currency for the subsidiaries that has foreign exchange income to take advantage of relatively low interest rates while ensuring that there is a natural hedge against the currency devaluation. The Group has foreign currency denominated debt in the Tourism sector, the holding company and printing and packaging segments as the foreign currency revenue streams and dividend income from overseas provides a natural hedge against exchange fluctuations. Out of the total non-current borrowings of the Group 56.7% are in USD, 34.1% in Euro, 2.1% in Indian Rupees, whilst the balance 7.1% is in Sri Lankan Rupees.

The Group's total equity increased by 10.8% to Rs. 56.3 billion on the back of higher earnings during the year and increased reserves mainly due to the revaluation of freehold land.

The debt to equity ratio witnessed a marginal increase from 0.34 times in the previous year to 0.35 times. This was well within the acceptable level of the Group and highlights the flexibility to increase its leverage to fund future investments if required.

Interest cover

The Group's interest cover improved to 8.29 times for the year under review, from 7.29 times in the previous year. This is owing to the 23.0% increase in operating profit, despite the increase in net interest cost by 10.6%, indicating the Group's strong capability in meeting its debt servicing obligations to its lenders.

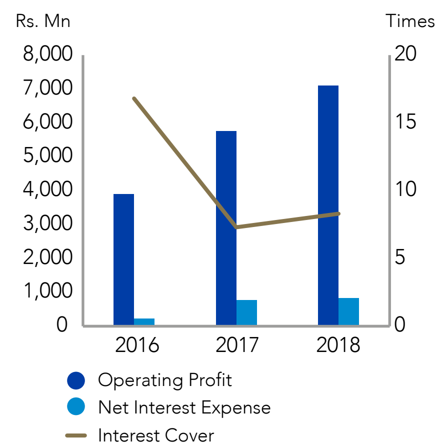
Finance income of the Group declined by 2.4% to Rs. 743.5 million whilst the finance cost increased by 4.6% to Rs.1.7 billion, resulting in net interest cost increasing to Rs. 989. 6 million.

The increase in net finance cost was driven by a 20.4% increase in Strategic Investments, mainly attributable to the increase in short-term borrowings. Further, the Maritime & Logistics sector saw an increase in its net interest cost mainly due to short-term facilities being utilized to fund the negative cash position of the brokerage and express segments as a result of its poor performance.

Local interest rate environment in 2017/2018 proved to be moderately volatile with a downward inclination. The Monetary Board of the Central Bank maintained its stance on a stable policy rate corridor while reiterating the importance of being data driven and allowing the market dynamics to adjust to their natural phase. Average Weighted Prime Lending Rate (AWPLR), an indicator of the cost of capital for the private sector, ended the period at 11.55% after ranging from a low of 10.82% to a high of 12.26% and in contrast the risk free one-year treasury bill rate was at 9.69%

Net Interest Expense & Interest Cover

for the year ended 31st March



at the end of the financial year 2017/2018 leaving a comfortable risk-reward premium of nearly two hundred basis points to work as a conservative catalyst.

The most commonly used benchmark for United States Dollar (USD) denominated debt, LIBOR, changed rapidly during the period under review. Federal Open Market Committee introduced three rate hikes at regular intervals from June 2017 to March 2018. Both EURIBOR and the interest rate environment in the United Kingdom remains bearish with no major threat of upward adjustment as at present.

The Group treasury continues to analyse current trends in both local and global financial spheres and will remain prepared to deploy risk mitigation strategies as and when required.

TREASURY MANAGEMENT

Cashflow

The Group's net cash generated from operations for the year under review was Rs. 7.1 billion, a significant increase compared to the previous year. The higher profits recorded for the year contributed to this increase, with the more effective management of the Group's working capital resulting in a significant increase in the net cash generated through operating activities for the year.

Net cash outflow from investing activities amounted to Rs. 5.5 billion mainly due to the capital expenditure incurred, negated to an extent by the proceeds from sale of an investment, interest income earned and liquidation of short term deposits. Net cash inflow from financing activities was Rs.1.2 billion for the year under review, which reflects the proceeds from long-term borrowing net of repayments and dividends to shareholders of the Company.

As a result, the cash and cash equivalents of the Group which stood at a negative Rs. 2.4 billion as at the end of the previous year increased by Rs. 2.9 billion, to record Rs. 479.0 million as at the end of the current year. The Group's net cash position including short-term deposits over 90 days and investments in Government securities of Rs. 7.2 billion included under other current assets in the statement of financial position, amounted to Rs. 7.7 billion compared to Rs. 6.5 billion the previous year.

(Rs. Million)	2017/2018	2016/2017
Profit before tax	6,397.8	5,246.9
Non-cash adjustments	3,350.9	3,218.4
Changes in working capital	310.0	(5,502.4)
Payment of Interest, Income tax, retirement benefit obligations	(2,918.2)	(2,947.1)
Net cash generation from/(used in) operating activities	7,140.5	15.8
Net cash flow from/(used in) investing activities	(5,473.6)	(3,994.7)
Net cash flow from/(used in) financing activities	1,196.9	(1,640.7)
Net increase/(decrease) in cash & cash equivalents	2,863.8	(5,619.6)

Liquidity management remains the primary function of the Group treasury owing to the large number of subsidiary companies and their diverse working capital requirements. Traditional risk elements such as interest rate volatility, settlement risk, counter party risk and more recent developments such as cyber-attacks and identity thefts make the process an ongoing challenge.

Interbank liquidity remained limited in supply with overnight market liquidity not surpassing Rs.60 billion throughout the period under review with selective participants intermittently gaining access to surplus funds at cheaper costs without an apparent pattern. The Group treasury was able to overcome these challenges by paying close attention to internal cash flows, working capital requirements and maintaining a continuous dialogue with market participants. The Group treasury has several short-term funding facilities available which are availed interchangeably to ensure competitive pricing.

Foreign Currency Exposure Management

The Group benefited from a significantly higher gain on foreign exchange for the year, with a net gain on foreign exchange of Rs. 138.8 million as opposed to the net gain of Rs. 46.8 million recorded for the previous year.

The highest gain was recorded from the Tourism sector mainly from the operations of the destination management segment and the lower unrealized loss on the conversion of foreign currency borrowings of the sector due to the comparatively lower devaluation of the Sri Lankan Rupee (LKR) during the year. This also positively impacted the Strategic Investment sector to record lower losses on the conversion of its foreign currency loans while it negatively impacted the Services sector with lower gains received through its operational activities.

Net Gain on Foreign Exchange (Rs. Million)	2017/2018	2016/2017
	138.8	46.8
	107.1	(11.0)
	(10.9)	7.9
	(8.4)	(21.5)
	51.0	71.4

Financial year 2017/2018 witnessed a stronger local currency during the April new year holidays, a period during which there is an increased demand for the Rupee. Traditionally the LKR appreciates during this period due to the increase in worker remittances and exporter conversions, although the margin by which the currency appreciates has diminished over the last couple of years. Overall, the USD/LKR exchange rate moved very much in tandem with the interest rate environment other than in the last quarter of the financial year. USD/LKR rate peaked to 156.16 during March 2018 prior to closing the year at 155.97. During the first three quarters of the financial year the currency depreciated by only LKR 1.27 (approximately) against the USD while the last quarter saw a sharp decline of over LKR 2.50 averaging over LKR 0.80 a month. The lowest point of 151.60 for the pair was recorded during the month of April 2017. Compared to most regional currencies the LKR has fared well against a backdrop of almost no foreign direct investments and mediocre investor appetite. Qualitative more than quantitative factors contributed to this favourable outcome of the LKR with the Central Bank of Sri Lanka playing a lead role in directing the market to a more robust and fundamentally correct path.

The Group consists of several subsidiaries that generate a substantial amount of foreign exchange through their operations. Strategically building a foreign exchange reserve emancipates the Group from translation losses arising due to having foreign exchange denominated debt in its books to great extent. The Group has also been careful to limit foreign exchange borrowings to specific projects with future cash flows in foreign currencies to benefit from a natural currency hedge.

	Net Profit Margin		Asset Turnover		Financial Leverage		ROE
2017/2018	6.8%	x	0.52	x	2.41	=	8.4%
2016/2017	6.3%	x	0.54	x	2.22	=	7.6%

SHAREHOLDER RETURNS

Return on equity

The return on equity is a function of net profit margin, asset turnover and financial leverage. The Group closely monitors these ratios and management decisions are directed at improving them, with the intention of optimizing the use of shareholder funds to generate adequate returns.

The Group's return on equity for the year under review was 8.4%, a notable increase from the 7.6% recorded for the previous year. The increase was driven by the higher financial leverage ratio and net profit margin.

Investments made by the Group saw its total asset base grow by 13.2% to Rs. 107.8 billion at the end of the financial year. Although a marginal drop was witnessed in the asset turnover ratio from 0.54 times to 0.52 times, the Group's revenue grew by 14.9%, achieved through the utilization of the expanded asset base.

Financial leverage increased to 2.41 times compared to 2.22 times in the previous year, indicating that the increased average asset base has been funded through a higher mix of external financing.

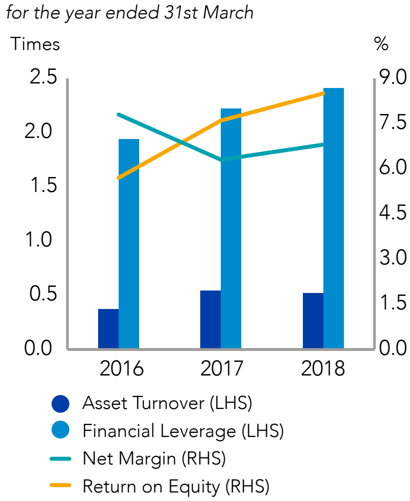
The net profit margin for the Group for the year under review increased to 6.8% from 6.3%, despite the higher net finance cost stemming from the increased financial leverage. The improvement in the operating profit margin discussed in the profitability section, followed through to the net profit margin with the Tourism and Strategic Investment sectors showing improvements over the previous year.

Market Price per share

The Company's market price closed 10.0% lower as at the end of the financial year at Rs. 50.60 compared to Rs. 56.20 recorded in the previous year. The share traded between a high of Rs.71.80 and a low of Rs. 49.80, with 34.6 million shares being traded during the year. The market capitalization of the Company stood at Rs. 20.5 billion, which accounted for 0.68% of the total

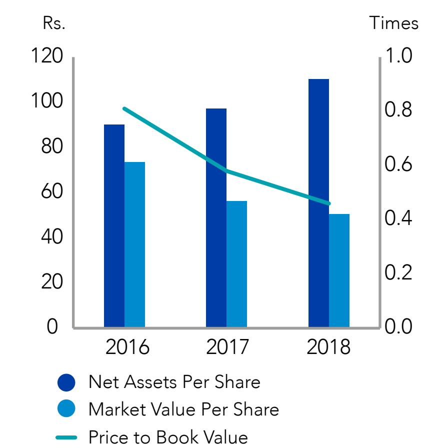
DuPont Analysis

for the year ended 31st March

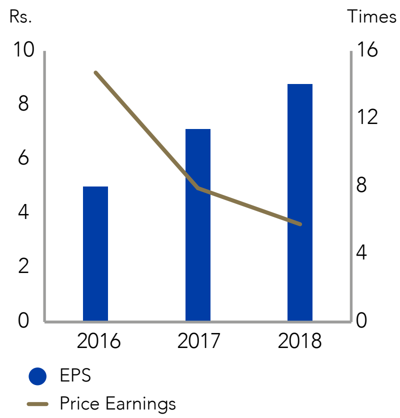


Net Assets Per Share, Market Value Per Share & Price to Book

as at 31st March



EPS & Price Earnings Ratio
as at 31st March



market capitalization of the Colombo Stock Exchange.

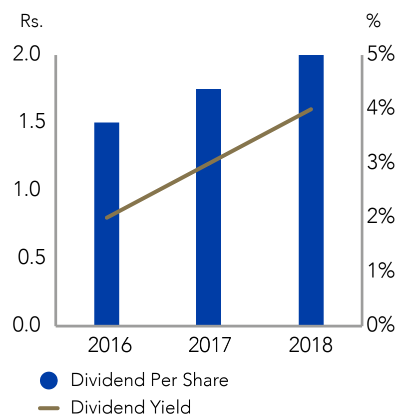
The Company's net asset value per share stood at Rs. 110.35, an increase of 13.5% over the previous years' net assets per share of Rs. 97.24. The price to book value dropped to 0.46 times compared to the 0.58 times recorded in the previous year, due to the increase in net assets per share and decline in market price.

The earnings per share for the year under review was Rs. 8.77, an impressive 23.2% growth over last year. The price earnings multiple declined to 5.77 times from 7.90 times recorded in the previous year, with the increase in earnings per share and decline in market price.

Dividend per share

Company's dividend policy is aimed at striking a balance between providing a consistent return to its shareholders whilst maintaining adequate funds to meet future capital expenditure requirements. Following the exceptional results reported for the financial year 2017/2018, the Board has recommended a first and final dividend of Rs. 2.00 per share, keeping in line with the Company's commitment to provide strong shareholder returns. This is an increase of 14.3% over the dividend per share of Rs.1.75 declared in the previous year and amounts to a pay-out of 22.8%.

Dividend Per Share & Dividend Yield
for the year ended 31st March

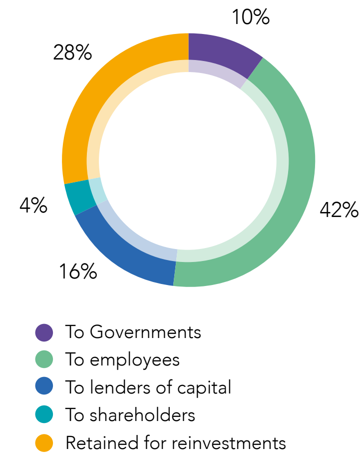


Economic Value Added Statement

Creation of positive economic value is a fundamental priority of the Group's operations. Over the years the Group has been consistent in achieving this objective.

During the year under review, a positive value creation of Rs. 19.2 billion was generated, which was a 12.1% increase

Distribution of wealth created - 2017/18



over the previous year. Of this economic value created the largest portion of 42.0% was distributed amongst the employees of the Group while 16.6% was incurred for servicing the lenders of capital. 9.6% was paid out as taxes to governments while 4.2% was declared as dividends to shareholders. The balance of 27.6% of the total value generated was retained by the Group for future investments.

The detail workings of the value added statement of the Group for the year 2017/2018 is provided on page 16.

GRI This section of the report contains disclosures for GRI 201 Economic Standards

To peruse more details of the Group's practices, please follow the link www.aitkenspence.com/annualreport/

A comprehensive shareholder feedback form is available at the end of the report to obtain feedback about this report so that the disclosures in future reports can be improved to suit the reader's needs better. Please let us know if the information in this section on how we manage social and relationship capital was useful to make decisions about Aitken Spence.