

MANUFACTURED CAPITAL REPORT



OVERVIEW

The Group's Manufactured Capital consists of the physical assets that enable each of the diverse businesses to create value for their respective stakeholders.

Manufactured capital plays a vital role in many of the Group's businesses, namely hotels, printing and packaging, logistics and warehousing, port management, apparel manufacture, plantations and power generation. Comparatively the significance of Manufactured capital is less in service-related businesses such as destination management, airline GSA, freight forwarding, elevators, insurance and money transfer.



GROUP MANUFACTURED CAPITAL PHILOSOPHY

Develop a high-quality asset base that would provide a distinctive competitive advantage, which would in turn secure the long-term growth prospects of the Group and to ensure that all assets are maintained at optimal levels always to eliminate downtime or re-work.

KEY COMPONENTS

Segment	As at 31st March 2018 Rs.'000	Additions during the year Rs.'000
Hotels	41,504,626	5,469,601
Printing and Packaging	1,232,747	36,776
Logistics	4,525,075	145,851
Port Operations and Management	496,454	58,531
Power Generation	3,849,710	1,561,774
Apparel Manufacture	366,472	14,119
Plantations	828,626	110,020
Other	7,223,701	241,272

OUR MANUFACTURED CAPITAL PORTFOLIO



The largest hotel room inventory owned by a Sri Lankan resort company



316 Fleet of transport vehicles used in business



Warehouse capacity of 320,977 sqft



Power plants (renewable/non-renewable)



Manufacturing facilities



Office space of 195,784 sqft in the heart of Colombo's business hub



Technology and equipment



Green architecture and infrastructure

HOW WE HAVE MADE A MARK IN THE INDUSTRIES WE OPERATE IN THROUGH MANUFACTURED CAPITAL;



1st LEED certified building outside USA and the 1st hotel to obtain the certification



Heritage Hotels was the 1st resort chain to obtain the ISO 50001:2011 certification for energy management



1st Carbon neutral, LEED Gold certified printing facility in South Asia

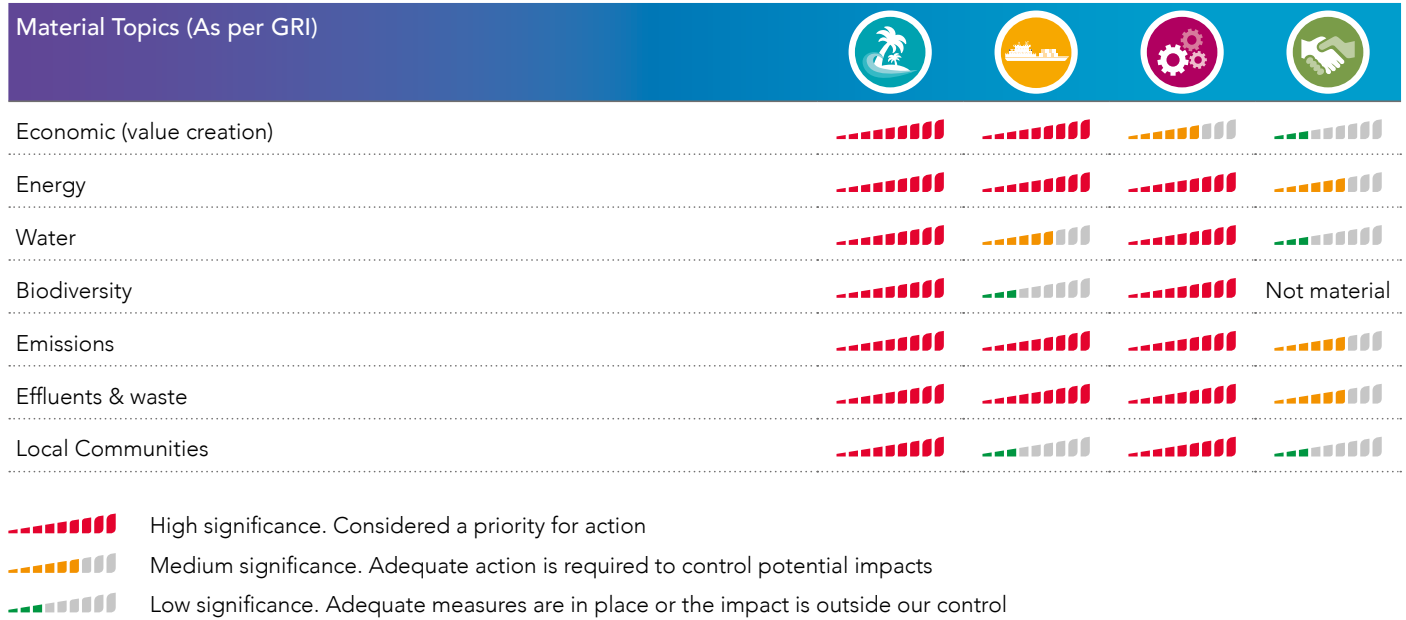


Strategically positioned infrastructure to enhance our value addition to the economy

Our Performance
Over the Year

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Approximated significance of the manufactured capital for the sectors based on the potential to have an impact and/ or the opportunity to create positive influence is shown below;



Impact from our manufactured capital on the natural environment, biodiversity and social systems

GRI 304 – 1, 304 – 2

Our commitment as a sustainable corporate citizen is to control possible adverse impacts on the natural environment and social systems because of our manufactured capital and to enhance the value we add through our operations.

ESSENTIAL

» Every SBU is required to identify potential social and environmental impacts from the operation (manufactured capital) and implement control measures to reduce if not eliminate risk of adverse impacts

» SBUs are required to evaluate potential adverse social and environmental risks from any new investments and/ or projects in keeping with our commitments to preserve sensitive ecosystems and social networks.

EXPECTED

» SBUs are expected to benchmark operational practices and measures for social and environmental impact

control with industry standards and international benchmarks/ best practices.

GRI 302, 303, 304, 305, 306 and 307

The locations of our operations mapped alongside the areas of high biodiversity value can be viewed online. This would show that we do not have any operations inside protected areas or areas of high biodiversity value that could have resulted in direct impact on sensitive ecosystems.



To peruse details of the Group's integrated sustainability policy framework, please follow the link www.aitkenspence.com/annualreport/



Refer to the Natural Capital and Social & Relationship Capital sections for more details about the specific measures for environmental and social impact control.



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Value Drivers		Key Highlights / Activity	Investment Rs. Mn.
Manufactured Capital	Strengthening brand leadership	Construction of Heritance Aarah in the Maldives (Ongoing project due to be completed in 2018-2019)	4,164.2
		Renovation of 45 beach villas and public areas at Adaaran Select Hudhuranfushi (Completed in 2017-2018)	159.6
		Refurbishment of 95 beach rooms at Adaaran Club Rannalhi to upgrade core infrastructure nearing the end of its economically beneficial life span (Ongoing project due to be completed in 2018- 2019)	160.9
		Purchase of 13 brand new luxury vehicles for the transport fleet (Purchased in 2018-2019)	128.1
		Investment in 05 brand new prime movers to the Transport fleet (Installed in 2017-2018)	19.2
		Increasing warehouse capacity by 416 square metres warehouse space (Completed in 2017-2018)	10.8
	Capacity Expansion	Investment in new container handling equipment (Installed in 2017-2018)	326.1
		Purchase of reefer containers for the Mobile Storage Division (Purchased in 2018-2019)	8.7
		Construction of a 10MW waste-to-energy plant in Muthurajawela, equipped to convert between 600 – 800 metric tonnes of daily waste to electricity (Ongoing project due to be completed in third quarter of 2019-2020)	1,214.4
		Investment in a new carton box sample machine (Installed in 2017-2018)	11.1
		Purchase of a carton-breaking machine to increase the speed of the carton breaking process (Purchased in 2017-2018)	5.4
		Purchase of a Konica Minolta Accurio Press C6100 allowing for better colour consistency and printing variety (Installed in 2017-2018)	16.5
Business Process Improvements	Cultivation of 1,497.46 acres of new oil palm extent (Completed in 2017-2018)	173.9	
	Commissioning of a 150-kWp capacity Solar power generation facility at Turyaa Kalutara (Completed 2017-2018)	19.0	
	Yard development activities at the CFS (Ongoing project due to be completed in 2018-2019)	51.2	
	Investment in solar power generation in the integrated logistics segment (Installed in 2017-2018)	9.9	
	Investments in a new digital drone support mechanism to move to precision agriculture (Ongoing project due to be completed in 2018-2019)		
	Setting up a monorail conveyor system to automate the movement of tea leaf to the lofts at the Nayapane factory (Ongoing project due to be completed in 2018-2019)	2.1	
	Installing a CFU (Continuous fermenting unit) to automate the rolling process at Dunsinane estate (Ongoing Project due to be completed in 2018-2019)	3.7	
Business Diversification	Under the Government's Suriya Bala Sangramaya programme two roof top Solar Power projects were commissioned (Completed in 2017-2018)	27.5	
	Diversification to generate power by utilizing municipal waste. (Ongoing project due to be completed in 2019-2020)		

Management Approach

Investment in manufactured capital is a continuous and ongoing process that aims to safeguard the Group's ability to deliver on its strategy. The key-underpinning factor that determines any investment in manufactured capital is the value it offers towards achieving the strategic objectives of the specific business and also its synergy with the broader Group strategy. Therefore the Group's approach to developing manufactured capital is defined by the Aitken Spence PLC vision of "to achieve excellence in all our activities, establish high growth businesses in Sri Lanka and across new frontiers, and become a globally competitive market leader in the region"

Having understood that the quality of manufactured capital has a direct impact on the Group's ability to achieve its strategic objectives, a conscious thought process goes into all investments in manufactured capital, with the intention of creating a unique technologically superior asset base that also reflects the Group's commitment to be a responsible corporate steward.

Key Principles

Value addition to other Capitals

While strategic alignment remains the key-underpinning factor that determines all investments in manufactured capital, an equally important consideration is the value addition each investment brings to the Group's other capitals, such as natural capital. In this context, Aitken Spence PLC is committed to make investments that demonstrate superior capabilities derived through advanced technology and latest research to assist in minimizing the Group's carbon footprint. For example, in the Tourism sector, the Group has invested in building LEED certified properties that operate on a low-energy consumption model. Similarly, efforts by the plantations and integrated logistics segments to migrate to solar energy emphasize the

commitment to reduce the dependency on non-renewable energy sources, while the recent investment in a carbon neutral printing machine supports the segment's intention to be a carbon neutral.

Contribution to broader economic growth

GRI 203 – 1

The Group strives to ensure that its manufactured capital is developed in such a manner that it not only meets the strategic intent of the business, but also represents broader action for the betterment of the country and its people. In capital-intensive sectors such as tourism, plantations, apparel manufacture, integrated logistics and power generation, the Groups' manufactured capital strategy is designed to take due cognizance of the impact on national progress and alignment with the UN Sustainability Development Goals (SDGs).

Goal 8 (Decent Work and Economic growth)

The Group's hotels, plantations and apparel manufacture contribute towards the above goal through the provision of employment to thousands of employees and thereby support a wider network of local communities.

Goal 9 (Industry Innovation and Infrastructure)

Investments in the integrated logistics contribute to the goal by strengthening the logistics infrastructure, in turn helping reposition the country as a fully-fledged shipping hub in the Asian subcontinent. Being one of the largest private contributors to the national power grid, the Group's power generation segment too makes a significant contribution towards the achievement of the above goal

Goal 7 (Clean and affordable energy)

The Group's investment in the first-ever waste-to-energy project signals the wholehearted commitment by providing a much-needed solution for the garbage crisis in the country and also contributing towards a low-carbon economy.

Key Priorities, Moving Forward

In order to satisfy the customer requirements of today as well as in the future the Group plans the investments in manufactured capital by taking into consideration its long term strategic objectives and goals.

Aitken Spence has a long term strategy for growth. Implementation of this strategy requires continuous investments in manufactured capital in the multitude of sectors in which the Group does business. The availability of funds being limited, the allocation of resources is carried out pursuant to careful evaluation of investment opportunities to determine expected returns. Our capital investment decisions are supported by complex financial modelling, thorough sensitivity analysis and legal, financial and technical due diligence. Hurdle rates for the rate of returns are consistently used to both identify and rank suitable investment opportunities. At the evaluation stage for capital investments, financial modelling, sensitivity analysis, and the calculation of internal rate of return (IRR) are carried out either by the Group's corporate finance unit, or the respective Strategic Business Unit (SBU) through which the investment will take place with the assistance of the former.

Board of Directors would review each capital investment against the expected rate of return, urgency and necessity of the investment at the given moment taking into consideration the impact it would have on all other types of capitals.

Once a decision is taken to make a capital investment the Group takes relevant steps

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to ensure that the investment decision is carried out in the optimum manner.

The Group is constantly surveying its strategic business landscape for new opportunities to ensure future growth. Consistent returns to all the stakeholders

of the Group is a key priority and to ensure the continuity of its success investments in manufactured capital is identified and carried out regularly. The Group, over time, had progressively expanded its presence in global markets and, today has investments

in manufactured capital overseas which continue to provide good returns to shareholders. The Group envisages that further expansions would take place in the future and remains committed to meeting its future challenges.

Alignment with Sustainable Development Goals (SDGs)

The Sustainable Development Goals are a universal call to action to achieve development needs of the World. Of the 7 goals the Aitken Spence group has aligned to, these are the targets aligned with our management of manufactured capital. Refer to the remaining sections of this report to review our commitment to other goals.



Goal 6 – Clean water & sanitation:

Decreasing demand on fresh water by managing consumption effectively, by using harvested rain water and treated water

Targets that we hope to contribute towards;

Target 6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity (Indicator for guidance – 6.4.1 Change in water-use efficiency over time)



Goal 8 – Decent work & economic growth:

Ensuring a safe and conducive workplace for the workforce and facilitating economic growth for local suppliers and service providers

Targets that we hope to contribute towards;

Target 8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead (Indicators for guidance – 8.4.1. Material footprint, material footprint per capita)



Goal 9 – Industry, innovation & infrastructure:

Advancing operational priorities through innovation, standardization and systematic improvements driven by sustainability

Targets that we hope to contribute towards;

Target 9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries acting in accordance with their respective capabilities (Indicator for guidance – 9.4.1 CO2 emission per unit of value added)



Goal 12 – Responsible construction & production:

Advancing operational priorities through innovation, standardization and systematic improvements driven by sustainability

Targets that we hope to contribute towards;

Target 12.2 By 2030, achieve the sustainable management and efficient use of natural resources (Indicator for guidance – 12.2.1 Material footprint, material footprint per capita)

Target 12.6 Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle

Target 12B Develop and implement tools to monitor sustainable development impacts for sustainable tourism that creates jobs and promotes local culture and products (Indicator for guidance – 12B.1 Number of sustainable tourism strategies or policies and implemented action plans with agreed monitoring and evaluation tools)



Goal 15 – Life on land:

Working towards contributing positively towards protecting our biodiversity and all ecosystems

Targets that we hope to contribute towards;

Target 15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally (Indicator for guidance – 15.2.1 Progress towards sustainable forest management)

Target 15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species (Indicator for guidance – 15.5.1 IUCN Red List Index)



This section of the report contains information relevant to principle 8 of the United Global Compact on Environment



This section of the report contains disclosures for the following material topics of the GRI Standard for sustainability reporting;

GRI 102 – 4 Locations of the organisation’s operations

GRI 203 – 1 Infrastructure investments and services supported

GRI 304 – Biodiversity



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.