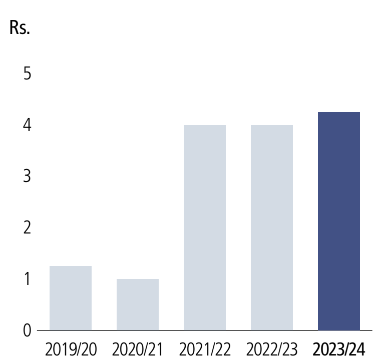
CHAIRMAN'S MESSAGE

Deshamanya D.H.S. Jayawardena
Chairman

58.9 %
Dividend Payout Ratio

Dividend per Share



> "Our strategy remains focused on sustaining growth and enhancing shareholder value through prudent financial management and strategic investments."

Aitken Spence PLC delivered a resilient performance for the financial year ending 31st March 2024 despite being challenged by a complex and unpredictable external operating environment, both globally and more particularly in Sri Lanka.

With a presence in 12 countries and operations across 16 diverse business segments, we have evolved beyond our roots as a Sri Lankan corporate to become a truly global Company. Generating over 60% of our revenue from international markets, our identity and influence are now unmistakably global.

GLOBAL MACRO LANDSCAPE

The World Bank's Global Economic Prospects report indicates that the global economy grew by 2.6% in 2023. This represents a significant slowdown from the 3.0% growth observed in 2022. The sharp deceleration is attributed to several factors, including elevated inflation, higher interest rates, reduced investment, and the ongoing disruptions caused by geopolitical tensions, particularly the conflict in Ukraine and instability in the Middle East. Despite these challenges, certain sectors have demonstrated remarkable resilience and growth, particularly international tourism.

International tourism experienced a robust resurgence in 2023, growing by 34% to reach 1.3Bn international tourist arrivals. This resurgence revitalised a crucial sector of the global economy. Sri Lanka's tourism industry in particular, benefited significantly, achieving an extraordinary 106.6% growth, rebounding strongly from a prolonged period of reduced arrivals. However the ongoing global conflicts are having an impact on the dynamics of source markets while also having a knock-on effect on the tourism industry of Sri Lanka.

Global trade volumes moderated and capacity issues were resolved, restoring efficiency to supply chains and stabilising freight rates. Given that a significant portion of international trade is sea-borne, any adverse developments in maritime trade affect global supply chains. Despite some improvement expected in the Panama Canal's drought conditions, which created delays in crossings between the Atlantic and Pacific oceans, uncertainties stemming from the Red Sea crisis continue to impact shipping routes between Europe and the Far East. Sri Lanka's ports, strategically located in the Indian Ocean, serve as crucial nodes in the global supply chain, offering alternatives to mitigate some of the disruptions, enhancing trade resilience. By capitalising on its strategic position, Sri Lanka plays a pivotal role in maintaining the stability and efficiency of global supply chains amidst regional challenges.

The year under review witnessed a decline of FDI flows from advanced economies to developing economies, with adverse impacts on the economic growth and financial stability of vulnerable nations. While it is imperative that developing countries should implement strategies to attract more FDIs by creating favourable investment climates and consistent policies.

ECONOMIC RECOVERY AND STABILITY

In 2022, Sri Lanka faced significant economic challenges, marked by a deterioration of key economic indicators. However, through the concerted efforts of monetary and fiscal policy measures supported by the implementation of the International Monetary Fund (IMF)-supported External Funding Facility programme, we witnessed a remarkable economic turnaround in the latter part of the year under review.

The targeted monetary policy interventions have been instrumental in curbing inflation, which decreased dramatically from 50.3% in March 2023 to 0.9% by March 2024. Additionally, the implementation of the IMF-recommended reforms has led to a notable improvement in the Government revenue to GDP ratio, from 8.2% to 11.0% in 2023. Domestic interest rates, which had reached unprecedented levels, declined following policy rate decreases of 700 basis points.

The Sri Lankan rupee appreciated by 8.2%, supported by a revival in tourism, increased remittances from migrant workers, and a restriction on imports which resulted in a reduction in the trade deficit. These factors have contributed to the country recording a current account surplus for the first time since 1977. Global experiences have indicated that following a major economic setback such as a Balance of Payment (BOP) crisis, the subsequent policy correction will lead to an immediate surplus in the current account. As a nation, it is imperative that the authorities ensure the continued momentum of policy corrections for the country to achieve long-term economic stability.

The current account and the fiscal deficit in the past were the main causes that precipitated the economic crisis in 2022. The main reason for the twin deficits was the persistent lack of good governance and the discipline to continue with a well-structured framework of economic policies and strategies. In order for the country to achieve a sustainable BOP in the future, it is essential that the reforms we have embarked upon with the guidance of the IMF are continued in a socially conscious manner with a minimum impact on the middle and low-income earners in society, while revisiting the national export strategy to achieve a strong export economy with appropriate bilateral free trade agreements being implemented with international trading partners.

As a nation, we must learn from past mistakes and ensure we do not repeat them for the country's future. It is crucial to foster good governance and discipline in implementing economic policies. It is imperative that Sri Lanka implements the priority recommendations outlined by the IMF in the governance diagnostic assessment report, which identifies sixteen key areas for improving governance. These recommendations focus on critical risks, including addressing gaps in existing legal frameworks, and strengthening the regulations in combating corruption and ensuring the provision of essential information for effective public oversight and monitoring. In light of these priorities, the focus should remain on fostering good governance and pursuing sustainable reforms that promote inclusive growth while minimising the impact on vulnerable populations.

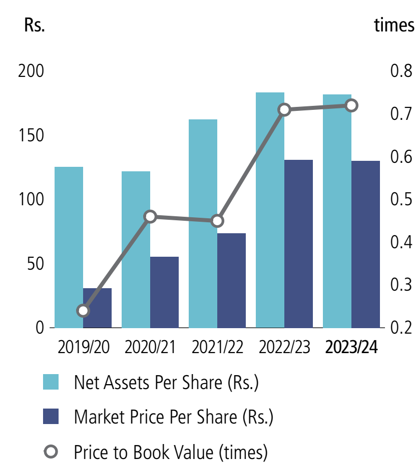
The fiscal and monetary reforms that were implemented under the guidance of the IMF, such as increased taxes and the withdrawal of energy sector subsidies, although having resulted in strengthening the fiscal landscape, have exerted significant pressure on household budgets and disposable incomes of the population. Additionally, the past year saw a downturn in trade volumes, reflecting the volatility of the business landscape. Despite these challenges, Sri Lanka has steadily moved towards recovery in a stabilising global economy.

This period of economic recovery underscores the resilience and adaptability achieved through disciplined policy measures and international cooperation. The nation's focus should remain on sustaining this recovery and building a robust economy through sound policy measures and strategic reforms combined with a proper governance framework.

PERFORMANCE FOR THE YEAR

The Group reported a revenue of Rs. 97.5 Bn, which is a slight decrease from the previous year. The Tourism Sector significantly supported the Group's revenue, while other sectors experienced declines due to exchange rate fluctuations and industry-specific challenges. Given that most of our revenue streams are dollar-denominated or dollar-linked, the appreciation of the rupee against the US dollar over the past year adversely impacted revenue growth and also resulted in a significant decline in Group Profits.

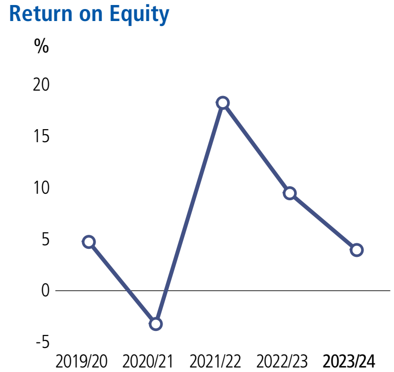
Net Assets Per Share, Market Price Per Share & Price to Book Value



The share price of the Company remained stable throughout the year, with an opening price of Rs.131.00 and a marginal adjustment to close the year at Rs.130.25. In recognition of our shareholders' continued support, the Board has proposed a first and final dividend of Rs.4.25 per share representing a 6.3% increase in dividends per share compared to the previous year, with a dividend payout ratio of 58.9% for the year. This increase highlights our unwavering commitment to delivering substantial returns to our shareholders, even in a demanding economic climate. Our strategy remains focused on sustaining growth and enhancing shareholder value through prudent financial management and strategic investments.

The Aitken Spence Group has been a significant contributor to foreign exchange inflows, supporting the country's economic growth and stability. However, recent fluctuations in exchange rates have significantly increased the complexity of the Group's operational and investment decision-making processes. This heightened volatility demands more advanced risk management strategies and meticulous oversight to ensure sustainable growth and stability.

Return on Equity



A PORTFOLIO VIEW

Tourism sector

The resurgence in global tourism sustained the performance of the sector which recorded 19.7% top-line growth and accounted for 68.5% of total Group revenue. Top-line growth was driven by the Sri Lankan sector which recorded a strong recovery. The sector faced intense price competition in the Maldives due to the expansion of the informal sector, while Oman experienced increased competitive pressures within the market. The Group's extensive presence across the value chain played a crucial role in our success. Notably, the destination management segment achieved a remarkable milestone by handling the highest number of tourist arrivals in the company's history. The Tourism Sector accounts for 55.1% of the Group's total assets, and 3,678 of the employees reflecting the resource intensity of the sector. The sector is also strengthened by long-standing partnerships with global players who are invaluable in developing source markets.

The Tourism sector faces significant challenges primarily due to the substantial increase in refurbishment costs necessary to maintain the competitiveness of our resorts within the region. Additionally, the costs of operational inputs and funding have risen sharply. Climate change has exacerbated these difficulties, leading to operational disruptions. To overcome these financial and environmental challenges, the tourism industry must be viewed beyond the scope of traditional tourism. This broader perspective should encompass sustainable practices, innovative technology, and diversified offerings to meet the evolving demands of modern travellers.

Maritime & Freight Logistics sector

The Maritime & Freight Logistics sector contributed 15.8% of the total Group revenue and was the highest contributor to the Group's profit for the year, reflecting the resilience and importance of the sector. The decline in freight rates, combined with the appreciation of the Rupee, dampened the growth of both revenue and profit before tax. A broad presence across the value chain and a collaborative approach support customer acquisition, retention, and growth, while the CINEC Campus plays a supporting role in building knowledge capacity in the country. As a capital-efficient sector, Maritime & Freight Logistics accounts for 11.2% of the Group's total assets.

The sector is currently facing significant challenges, primarily driven by geopolitical tensions. These tensions are causing extensive disruptions to supply chains, leading to fluctuating freight rates that negatively impact operations. To mitigate these challenges, it is essential to diversify supply sources, negotiate stable freight rates, invest in technology for real-time supply chain visibility, develop a robust risk management framework, and emphasise on sustainable business operations. These measures will enhance resilience and adaptability, ensuring more stable and efficient operations. Capitalising on the country's strategic location, enhancing the capacity of our ports sector to attract additional transshipment cargo from the region would significantly boost our regional competitiveness.

Strategic Investments sector

Comprising of the Group's investments in power, apparel, plantations, printing and packaging, this sector is diverse and has significant potential for growth. Sector revenue was dampened by lower net sales value for key crops such as tea and rubber stemming from the appreciation of Sri Lankan Rupee while apparel exports and the printing & packaging segment were affected by subdued demand due to depressed exports and lower consumer spending.

The apparel manufacture, plantations, printing & packaging segments positively contributed to the Group's net profit. However, the power segment and the exchange loss recorded by the parent company negatively impacted the overall performance, resulting in a sector loss. The Strategic Investment sector constitutes 30.3% of the Group's total assets.

The Group remains one of the key private sector generators of renewable energy contributing towards the country's ambitious targets of sustainable energy. The cost-reflective pricing reforms implemented by the CEB resulted in an improvement in collections from the CEB for the power segment. It is noteworthy that the waste to energy power plant of the Group provides a significant social benefit to the city of Colombo as well as being a landmark project for the country by enabling a sustainable solution for waste management. The current tariff paid by the CEB to the only operating waste-to-energy plant in the country is insufficient to cover operational costs, leading to significant financial losses to the power segment. The power purchase agreement's tariff structure was established before the severe economic crisis, which has significantly impacted exchange and interest rates. Consequently, the operational costs of the power plant have escalated to unprecedented levels.

The Group's renewable power plants in Sri Lanka, along with other existing renewable energy facilities, are facing significant challenges due to the current tariff structures. It is imperative to revise these tariffs to align with the current rates offered to new waste-to-energy and renewable energy plants. We are hopeful that the Government will acknowledge this need and adjust the tariffs in light of the current economic context.

Services sector

The sector's overall performance remained consistent with the previous year, despite shifts in segment contributions. The insurance segment had an exceptional year, achieving its highest profits ever and becoming the top contributor to the sector's profitability. Although money transfer operations experienced high activity levels, the Rupee's appreciation throughout the year dampened profitability. The elevators segment posted a profit for the year, overcoming systemic challenges. The property segment also saw increased profitability. This sector is asset-light, with its primary asset being the iconic head office building.

FOUNDATION FOR THE FUTURE

Aitken Spence is diversified across both geographical regions and industry sectors, deriving 44.0% of its revenue and 74.5% of its operational profits from overseas operations. The Group is also a net foreign exchange earner for the country, with a substantial portion of its revenue directly or indirectly linked to foreign currency. Consequently, this USD-linked exposure resulted in the Group experiencing adverse transactional and translational impacts on its profitability due to the appreciation of the Sri Lankan Rupee during the year.

Aitken Spence continues to pursue its journey of diversified growth, completing investments of Rs.5.5 Bn during the year under review. The Maritime & Freight Logistics sector completed the construction of a 100,000 sq.ft., state of the art container freight station at an investment of Rs.1.6 Bn which will be operated in partnership with an international shipping line. This sector has also expanded its operations internationally, extending its expertise to Cambodia, Singapore and the United Arab Emirates, positioning the sector for strong growth and enhancing the sector's integration throughout the value chain.

The apparel manufacturing segment expanded its capacity by acquiring two manufacturing plants in the Koggala BOI Zone, enabling it to diversify its operations into knitwear. This move will broaden the segment's capabilities for the future. The plantations segment invested in a research and development venture aimed at transforming the country's agriculture sector through targeted, technology-based solutions.

Aitken Spence also extended its operations to the Colombo Port City under the newly enacted regulations with an investment in a BPO joint venture that will expand operations of the Services sector while creating significant employment opportunities for Sri Lankans.

AN INDOMITABLE TEAM

Our values, spirit, and heritage of over 155 years, marked by daring to dream the impossible and embracing transformation, are kept alive across the globe through generations of Spensonians, who are the most valuable asset of the Group. The Group continues to invest in our multicultural and multigenerational team, supporting professional and tertiary qualifications with reimbursements to support lifelong learning, which differentiates the Group as an employer. Executive training and development are supported by the Aitken Spence School of Management, building a strong talent pipeline as we advance in our transformation journey to navigate the fifth industrial revolution.

(GRI 2-22)

More recently, the Group invested in developing leadership and skills development with emphasis on behavioural competencies, preparing the next generation of leaders. We hope they will, in turn, inspire and impact their colleagues and the upcoming leaders of Generation Z, who are the first digital natives entering the workforce.

Health and safety remain a key concern and are addressed comprehensively through structures and processes that are fit for purpose. The Group made progress in ensuring a safe and supportive working environment for all Spensonians through our initiatives in Diversity, Equity, and Inclusion (DE&I), 'Voice of Spensonians' surveys, and initiatives like the 'Spence Kids' childcare facility, and the extended maternity and paternity leave. Furthermore, the Group continues to implement the semi-virtual mobility programme, allowing employees to work from home. This initiative has enhanced flexibility and job satisfaction, reduced commuting time and costs, and lowered our carbon footprint. By providing a modern and adaptable working environment, we aim to attract and retain top talent, thereby strengthening our workforce.

The migration of skilled and unskilled labour is a key challenge encountered across all segments of the Group as Sri Lankans seek greener pastures. It is imperative that the country's economy is stabilised, and opportunities are created for people. This demographic shift presents potential challenges for the future stability of the country's labour market, especially given the dynamic and disruptive business environments driven by rapid technological advancements such as Artificial Intelligence (AI), the Internet of Things (IoT), and the convergence of AI and IoT (AIoT).

It is crucial for policymakers and businesses to collaborate in addressing these issues, ensuring sustainable economic growth and retaining talent within the country. Investing in local talent development, improving working conditions, and offering competitive remuneration are essential steps to mitigate the adverse effects of this migration trend and secure the country's long-term economic prosperity.

CORPORATE GOVERNANCE

The Board appointed Ms. D.S.T. Jayawardena as Joint Deputy Chairperson and Joint Managing Director during the year and also re-categorised Mr. J.M.S. Brito as a Non-Executive Independent Director. Mr. M.A.N.S. Perera, the Managing Director of the Group's parent company was also appointed to the Board as a Non-Executive Director, strengthening the governance of the Group.

Corporate governance remains the bedrock on which corporate longevity is founded and the Board is conscious of the need to adapt to evolving issues. The Board consciously introduces training to bring in new perspectives, skills, and experiences essential for navigating the Group through contemporary challenges.

STRATEGIC ESG INTEGRATION

We remain steadfast in our commitment to supporting the UN Global Compact, the Women's Empowerment Principles and the achievement of the Sustainable Development Goals. Accordingly, the company supported the national delegation to COP28 with senior leadership joining the Sri Lankan delegation as participants as well, which shows our commitment to supporting national contributions towards local and global development priorities.

The Company is committed to working towards achieving net zero by 2030 with our teams discussing targets and pathways. One of the biggest challenges foreseen across all industries is the impact of climate change and the Group has taken it as a critical issue and a priority in investment and business decisions.

RISK MANAGEMENT

Risk management is gaining increasing importance, and we have launched a comprehensive programme to establish a robust system across all entities that make up the Group. The primary challenges involve aligning perceptions and knowledge throughout the Group and anchoring them to reliable key risk indicators for more precise impact measurement. By aiming to link financial and non-financial impacts, this programme facilitates the integration of ESG principles into every aspect of the organisation, ensuring a clear understanding of the short, medium, and long-term impacts of our decisions.

LOOKING AHEAD

The World Bank projects the world economy to grow at 2.6% in 2024 and 2.7% in 2025, while South Asia is poised to grow by 6.2% in both 2024 and 2025, driven primarily by the robust performance of India which is set to grow by 6.6% in 2024 and 6.7% in 2025. It is notable that our largest trade partner and nearest neighbour, India, has the highest growth rate among all major economies, which we should leverage to drive our own growth. However, ongoing geopolitical conflicts, such as those between Russia and Ukraine, tensions in the Middle East and the Red Sea, and tensions between China and Taiwan, have the potential to disrupt global supply chains and increase costs.

We are encouraged by the domestic debt optimisation which was concluded last year and the recent successful negotiations with bilateral lenders to restructure long-term debt on concessionary terms. The Government has reached an understanding with the holders of international sovereign bondholders regarding the restructure of the bonds.

The recent BOP crisis imposed severe constraints on import-related trading activities, significantly affecting the livelihood of Micro, Small, and Medium Enterprises (MSMEs). These enterprises, which rely heavily on imports for their operations, faced substantial challenges in sourcing materials, products, and equipment necessary for their businesses. The gradual easing of such trade-related restrictions on imports may also boost consumption, which in turn will assist in the growth of our GDP. Whilst the fiscal deficit has been a major burden on the economy, the approach to bridging this has been through increasing taxes, placing a significant burden on the people. It is crucial to prioritise the reduction and control of public expenditure to address this issue more effectively.

There is a significant disparity between the foreign direct investment (FDI) that Sri Lanka attracts, and the higher levels received by other countries in the region. This gap presents a tremendous opportunity for Sri Lanka to accelerate FDI inflows, particularly upon the completion of the external debt restructuring programme. To capitalise on this opportunity, it is imperative for the country to make a concerted effort to implement a single-window approval system, ensuring a streamlined and efficient process for investors. Additionally, maintaining policy consistency is crucial to building investor confidence and fostering a stable investment environment. The Government should cultivate a supportive environment with policy consistency to attract essential investments and refrain from influencing commercial business decisions or making statements that might deter potential investors.

Moreover, continuous training and development initiatives are essential to close existing skill gaps and enhance the capabilities of the local workforce. By addressing these key areas, Sri Lanka can significantly improve its attractiveness as an investment destination, fostering economic growth and development. The establishment of a robust and investor-friendly framework will not only help bridge the current FDI gap but also position Sri Lanka as a competitive player in regional and global markets.

The restructuring of the State-Owned Enterprises (SOEs) needs to be completed as soon as possible and with adequate transparency, so the benefits accrue to the people of Sri Lanka. In the process of restructuring SOEs, we need to address the root cause of the crisis, which is mismanagement in the public sector. SOEs that contribute towards economic growth should be driven through public-private partnerships.

Achieving sustainable economic growth and stability requires building a broad consensus across political parties and ensuring public support for reforms. In Sri Lanka, 2024 is marked as a year of elections and if the country is to move forward, it is important that the elections do not disrupt normalcy. Irrespective of the outcomes of the elections, there should be consistency and continuity of the economic policies and reforms introduced.

From the perspective of the Group, we would continue to invest in growth industries taking into account the importance of climate change-related risks and opportunities that we are facing as a company and a country. We are working to shift our operations towards a low-emission economy. The Group continues to identify the sustainability-related risks and opportunities required by the International Financial Reporting Standards (IFRS) to keep in line with the governance frameworks that are stipulated for the future.

We have completed a risk analysis of our business segments. Based on this analysis and the current state of our 16 business segments, we are actively developing a customised transformation strategy for each segment.

The Aitken Spence Group is undergoing a strategic transformation to address risks from technological advancements and competitive trends. This initiative focuses on four key objectives: strengthening core business areas, exploring innovative ventures, enhancing operations through digitalisation and sustainability, and fostering a culture of adaptability. The first phase has been successfully completed, and we are now progressing with the second phase, demonstrating our commitment to long-term viability and success in an evolving business landscape.

ACKNOWLEDGEMENTS

I commend the Spensonian team wholeheartedly for their unwavering dedication in achieving our strategic goals, tackling challenges with creativity and finding effective solutions along the way. To our strategic and business partners, your steadfast support during challenging times has been invaluable. The collaboration and cooperation we have received truly strengthened our efforts.

A special thank you goes to our Board members for their objective and professional insights, which have been instrumental in guiding our decisions. I also express my gratitude to the leadership team for their diligence and commitment to excellence.

I extend my sincere appreciation to our shareholders. Your unwavering confidence in our ability to deliver sustainable returns ethically continues to inspire and drive us forward. Together, we are poised to navigate future challenges and seize opportunities with determination and purpose.

Deshamanya D.H.S. Jayawardena
Chairman

Ms. D.S.T. Jayawardena
Joint Deputy Chairperson and
Joint Managing Director

10th July 2024
Colombo

DEPUTY CHAIRMAN AND MANAGING DIRECTOR'S MESSAGE

Dr. Parakrama Dissanayake
Deputy Chairman and Managing Director

Rs. **17.1** Bn

Earnings before Interest and Foreign Exchange Impact

"If your actions inspire others to dream more, learn more, do more and become more, you are a leader."

John Quincy Adams, the sixth President of the United States

Aitken Spence is committed to the ideal of one life influencing another: our efforts are geared towards inspiring others to dream, learn, and 'be' more.

SHAPING OUR FUTURE

The Aitken Spence Group continues to expand its geographical footprint, adding two more countries to its portfolio as we leveraged our considerable expertise to increase shareholder value by seeking new investment opportunities to enhance our influence within diverse business sectors. The Group is committed to align interests of more than 13,000 individuals to its growth aspirations, maintaining high retention rates by creating a positive, inclusive and safe working environment with extensive support for diversity through operational policies. Our customer and partner relationships are crucial for serving a global audience. As we continue to build enduring partnerships and collaborate, we create value along global supply chains.

The Group is a leader in sustainability with well-established systems that measure, monitor and manage our impacts with over 190 environmental and social management systems across our business segments that also support product and service integrity. We are also recalibrating our portfolio to more environmentally friendly investments by being a catalyst for introducing pioneering technologies to countries we operate in. The Group operates Sri Lanka's only waste-to-energy power plant and has recently invested in drone technology to transform the agriculture industry. These initiatives reflect our strong commitment to ecological and social stewardship.

RENEWED CONFIDENCE

The volatile economic conditions that prevailed in Sri Lanka during the past financial year had a significant impact on the financial performance of the Group. Encouragingly, Sri Lanka's recovery from these challenges was faster than anticipated, supported by implementation of stringent policy reforms and enactment of new legislation focused on fiscal responsibility.

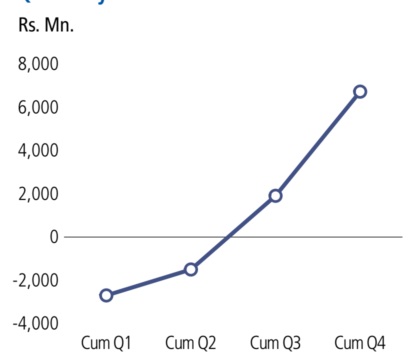
Stabilisation of the macroeconomic environment significantly reduced volatility, renewing confidence in brighter economic prospects for Sri Lanka.

The year began with significant uncertainties across various fronts, as the business operating environment proved to be challenging due to high interest rates and extreme volatility in the Sri Lankan rupee. In the fourth quarter the interest rates declined considerably with the Sri Lankan rupee (LKR) appreciating against the US dollar (USD).

A Stellar performance in Q4

Having reported losses in the first two quarters, the Group recorded a phenomenal performance in the fourth quarter to record profit before tax of Rs. 4.8 Bn, overcoming multiple challenges to deliver earnings growth of 412%. EBITDA and EBIT also increased by 44% and 78% respectively during the same period to Rs.8.8 Bn and Rs.6.4 Bn reflecting strong operational efficiencies which are the key drivers of profitability in capital intensive industries that make up the core of the Group. Profitability received a further boost from lower borrowing costs due to lower interest rates as we reaped the benefits of strengthening every aspect of business in driving top line growth, operational efficiencies and management of capital as the economy stabilised.

Quraterly Performance of Profit before Tax



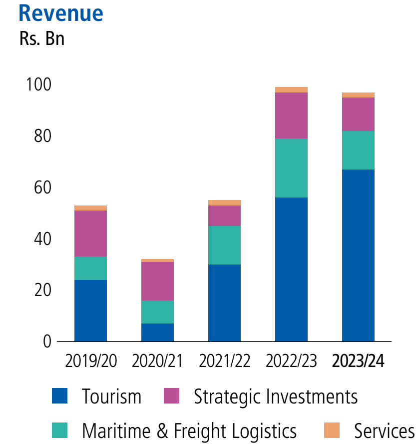
Year at a Glance

Performance

The Group recorded a revenue of Rs.97.5 Bn in 2023/2024, marginally (0.6%) below the Rs.98.1 Bn recorded in 2022/2023 as appreciation of the Sri Lankan rupee impacted the top line. Between 60-70% of revenue is directly or indirectly linked to US dollar denominated income and appreciation of the Sri Lankan rupee by 8.2% during the year had a significant impact on revenue recorded, affecting profitability as well. Revenue was stabilised by the resurgence in tourism in Sri Lanka which cushioned the drop in revenue arising from lower freight rates in the Maritime & Freight Logistics Sector. Equity accounted investees made a contribution of Rs.1.3 Bn to Group profits. The impact of the volatility of the exchange rate, elevated energy costs and interest rates weighed on annual performance resulting in a decrease of 40.0% in profit before tax of Rs.6.7 Bn.

It is noteworthy that Group profit before tax excluding foreign exchange gains/ losses amounted to Rs.9.3 Bn, which was a 0.5% drop compared to the previous year. Accordingly, profit after tax was Rs.4.5 Bn which was a decline from Rs.8.1 Bn. The profit attributable to equity shareholders was Rs.2.9 Bn owing to the share of profit attributable to non-controlling interest increasing by 6.4% to Rs.1.5 Bn.

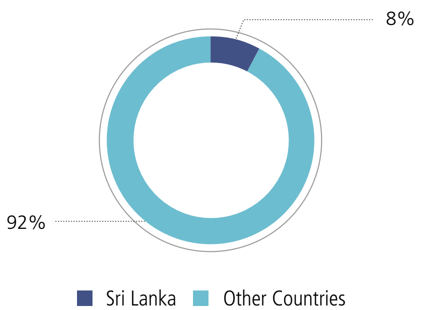
Revenue



Contribution from Overseas Operations

Over the years, the Group has strategically diversified into key overseas markets, which has been pivotal to the success and growth of our sectors. The Group's investments span tourism, freight forwarding, logistics, and port operations across eleven countries. Our total assets include 43.8% held overseas, which also accounted for 44.0% of the Group's total revenue for the year under review. 74.5% of the operational profits of the Group was from our investments overseas with this percentage increasing to 91.7% at profit before tax level.

Geographical Analysis of Profit before Tax



Investments

The Maritime & Freight Logistics Sector invested Rs.1.6 Bn to construct a state-of-the-art warehouse facility catering to increased demand for such facilities by customers while the apparels segment also invested Rs.800 Mn to acquire two manufacturing plants with the intention of diversifying the product range. The Group repaid Rs. 7.5 Bn of loan term longs during the financial year. Accordingly, the Group maintained its liquidity position and improved its debt-to-equity ratio to 0.45 compared to 0.54 last year.

OPERATING CONTEXT

Global growth was 2.6% in 2023 with advanced economies recording 1.5% growth while emerging and developing economies recorded a higher growth rate of 4.2% with India and China recording 8.2% and 5.2% respectively as Asia becomes the epicenter of growth. World trade volumes growth rates moderated from 5% in 2022 to 0.8% in 2023 reflecting a buildup of stocks in advanced economies and high inflation deterring spending which affected exports from countries such as Sri Lanka.

Sri Lanka recorded positive GDP growth of 1.6% and 4.5% in the 3rd and 4th quarters of 2023, respectively, although the annual figure remained at a negative 2.3%. Headline inflation which was 50.3% YoY as measured by the CCPI in March 2023 declined to single digits by July 2023 and then to 1.3% by September 2023 before moving to 4% by December 2023 which is within target levels. The Sri Lankan rupee appreciated against the US dollar, from Rs.327.14 to Rs.300.44 driven by a resurgence in tourism and increased remittances from migrant workers, which boosted foreign exchange liquidity. The import restrictions in place were gradually eased during the year commencing June 2023 with restrictions in place only for motor vehicles at present. Despite the easing of import restrictions and the subdued performance of exports, Sri Lanka recorded a current account surplus for the first time since 1977. Tightening fiscal policy saw tax rates increase in December 2023 as VAT increased by a further 3%. Energy costs which soared in 2022 remained at high levels despite attempts to reduce the same. Significant steps were taken to stabilise the economy including the domestic debt optimisation completed in June 2023 although the foreign debt restructuring needs to be completed. Sri Lanka is poised for growth of 3% in 2024, sustaining the momentum of the second half of 2023.

ANALYSIS OF THE SECTORAL PERFORMANCE

Activity metrics across most of the segments showed healthy growth, which was not reflected in the Group's top line due to the appreciation of the Sri Lankan rupee affecting all four sectors.

Tourism Sector

The Tourism Sector recorded the highest number of customers handled in the history of the destination management operation. Average occupancy in the Sri Lankan hotels segment experienced a significant increase over the previous year. Occupancy in the Maldives was relatively flat due to intense competition and increase in the resort room and guest house inventory. Performance of India was also encouraging and is expected to improve further given the growth in economic activity in the vicinity of the hotel. However, the properties in Oman were not able to reach the anticipated growth momentum during the year given the economic and geopolitical tensions in the region.

The Sector recorded a revenue increase of 19.7% to Rs. 66.8 Bn boosting operating profits by 16.9% to Rs. 9.2 Bn. Despite the high interest costs on offshore borrowings that prevailed during the year, the Sector recorded a 60.8% increase in profit before tax of Rs. 3.7 Bn. The improvement in profitability of the Sector is largely attributable to the improved performance of the Sri Lankan hotels segment which is expected to maintain the momentum in 2024/2025 as well.

Maritime & Freight Logistics Sector

The Sector faced multiple challenges during the year including the significant decline in freight rates globally, the import restrictions in place in Sri Lanka, the increase in electricity and fuel costs, and the volatility of the exchange rate. As a result, revenue of the Sector declined by 32.2% to Rs. 15.4 Bn, EBIT declined by 39.7% to Rs. 3.7 Bn while the profit before tax of the Sector was Rs. 4.9 Bn which is a decline of 37.1%. Nevertheless, the Sector remains the largest contributor to the Group's profit before tax.

Strategic Investments Sector

The revenue of the Sector declined by 23.4% to Rs.13.4 Bn and recorded a loss before tax of Rs. 2.5 Bn. The loss includes the impact of the Sri Lankan rupee appreciation on the net foreign exchange assets held by Aitken Spence PLC (holding company) of Rs.1.6 Bn. The decline in interest rates during the year benefited the Sector as it carries Rs. 8.9 Bn of long-term debt, mainly due to its investments in power generation.

(GRI 2-22)

The plantations segment had a good year of operation. However, the profitability was impacted due to the net sales average of its main crops declining as a result of the appreciation of the Sri Lankan rupee. The apparel segment, which achieved record-high profits last year, has experienced a significant drop in profitability. Export volumes in Sri Lanka's apparel sector declined by approximately 18%, a trend also observed in the apparel segment of the Group. The economic uncertainty in the USA and Europe, coupled with a decrease in disposable income, led to reduced orders from these regions to Sri Lanka, significantly affecting the profitability of this segment. In the printing segment, both revenue and profitability declined due to a reduction in orders, reflecting heightened cost awareness among customers in the face of uncertain retail demand and a decline in apparel exports. Given the higher debt burden of the power segment, the reduction in interest rates has resulted in lower losses compared to last year. Furthermore, the segment successfully took over the operation and maintenance of the waste-to-energy power plant from the foreign contractor in the fourth quarter of the financial year, which is expected to bring cost savings in the ensuing year.

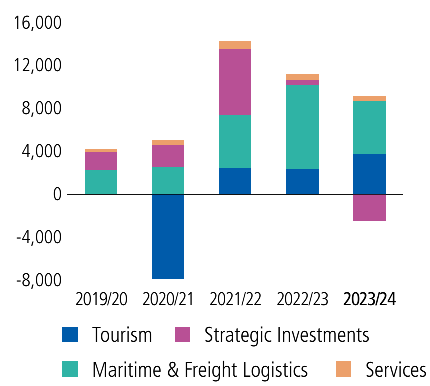
Services Sector

The Services Sector recorded revenue of Rs.1.9 Bn, a decline of 9.3% compared to the previous year, although EBIT improved by 7.0% to Rs. 615.7 Mn. The Sector recorded a marginal growth in profit before tax of 1.7% to Rs. 522.8 Mn.

The insurance, property and elevators segments performed notably better than the previous year, overcoming significant challenges. The money transfer operation which was successful in increasing volumes recorded a substantial decline in profitability due to the volatility of the exchange rate.

The insurance segment recorded its highest ever profitability in its over 150 years of operation. The elevators segment had a turnaround in its performance recording a healthy profit compared to the losses recorded in the previous year, despite the contraction of the construction sector. The property segment recorded a 32.3% increase in profitability.

Profit before Tax
Rs. Mn



EMPLOYEES

We recognise that our Spensonians are the most valuable asset in our transformation journey, as they shape and pass down the Aitken Spence values and culture to the next generation. The Group continues to nurture an enthusiastic team, fostering a culture of engagement, productivity, innovation, diversity, equity and inclusion while harnessing the power of multiple generations. The cultural and behavioural transformation within the Group is deeply rooted in the ethos of 'one life touching another', and our leaders and managers are empowered to embody this principle.

The Aitken Spence School of Management is central to talent development, aiming to create a lean and agile organisation through initiatives like the 7S & LEAN competition and prioritising AI and digitalisation. Employee emotions and satisfaction are monitored through a comprehensive survey, 'Voice of Spensonians', which shows a high satisfaction score, with goals to improve it further to establish the Group as a preferred employer.

Diversity, Equity, and Inclusion (DE&I) efforts are structured and driven by a steering committee, with policies and initiatives activated at the SBU level under the theme 'freedom to be me'. Work-life balance is prioritised, with programmes like semi-virtual mobility and the introduction of 'SpenceKids,' a subsidised childcare facility to support employee families. To support diversity, equity, and inclusion, we have extended 100 days maternity leave, 5 days paternity leave, and flexible working. Aitken Spence PLC was among the first entities in the world to become a signatory to the Women's Empowerment Principles in 2011 and remains committed to provide equal access to opportunities across all our operations.

SpenceInnova, a competition for employees to suggest new ideas or improvements, promotes innovation and problem-solving across the organisation. The Group's succession plan ensures leadership continuity and includes efforts to bring fresh perspectives into the talent pool through the revamped Aitken Spence Management Trainee Programme, which prepares future leaders.

SUSTAINABILITY

Aitken Spence marks our 22nd year as a signatory to the UN Global Compact in May of 2024. We remain committed to uphold the Ten Principles of the UNGC and support the realisation of the Sustainable Development Goals through our operations. The Company's senior management joined the national delegation of Sri Lanka at COP28 in November and December 2023 as a private sector participant to show our support to local and global development priorities.

The sections of this annual report describe in detail how sustainability is ingrained within the Group to ensure that identified material topics are addressed systemically. The Group remains steadfast on our zero tolerance policies to bribery, and corruption and work to uphold ethical behaviour across the value chain.

Climate change is a tangible reality affecting all aspects of our operations. Recognising our vulnerability to its risks, the Group is prioritising its commitment to achieve net zero emissions. This commitment is currently a key topic of discussion at the Board level, aimed at implementing significant mitigatory measures.

Our vision extends far beyond mere sustainability. We envision a Sri Lanka flourishing within a low-carbon economy, with Aitken Spence at the forefront. Our Group prides itself on cultivating a skilled, green workforce, fully equipped to navigate the challenges of a rapidly evolving world. We foresee a market demanding sustainable products and services, resilient supply chains rooted in circularity and responsible practices, and communities actively engaged in strengthening our value chain.

FUTURE OUTLOOK

With Sri Lanka on the road to recovery and world trade forecast to pick up pace, the external environment is perhaps the most promising it has been in recent years. Inequalities, climate change and geopolitics remain critical concerns as many countries around the world including Sri Lanka conduct governmental elections this year. The Aitken Spence Group is gearing itself for transformative growth in the year ahead, as we pursue the strategic goals set out in this report.

Implementing a Group-wide transformation strategy

The Group is actively engaged in a strategic transformation initiative, prompted by the recognition of significant risks stemming from rapid technological advancements and competitive shifts within our industries. This proactive approach is crucial to adapt and innovate, ensuring our operations remain competitive and avoid becoming obsolete. Consequently, it is imperative that we develop and implement a comprehensive transformation strategy for the Group. This ongoing endeavour underscores our dedication to ensuring the long-term viability and success of the Aitken Spence Group in an ever-evolving business landscape.

ACKNOWLEDGEMENTS

Navigating the turbulence during the year was possible due to the foresight of our leadership and the continued goodwill and trust of our key stakeholders. I thank the Board for their counsel during testing times and the Chairman, Deshmanaya D.H.S. Jayawardena for his astute leadership, visionary guidance, policy direction and strategic inputs. I extend my gratitude to the Group Supervisory Board, Management Council and Senior Leadership Team for their invaluable support in executing our strategies. I am appreciative of the support of our strategic business partners including customers, principals, joint venture partners, bankers and suppliers during this time.
I thank the team of Spensonians who overcame multiple challenges to deliver a commendable performance in a turbulent year. We count on the continued confidence of shareholders as we pursue our journey to extend our borders and boundaries to create value for all our stakeholders.

Dr. Parakrama Dissanayake
Deputy Chairman and Managing Director

10th July 2024
Colombo