FINANCIAL CAPITAL

Aitken Spence PLC recorded strong revenue growth of 79.4% to Rs.98.1 billion reflecting its determination to drive performance, gaining market share across sectors in a year of seismic movements on multiple aspects of the economy. The impact of tightening monetary and fiscal policy is reflected across all profitability indicators as a result of inflation, interest rates, exchange rates, and taxation moving in tandem to exert pressure on margins. The volatility and uncertainty in the business climate during the year necessitated careful management of multiple stakeholder concerns while constantly recalibrating liquidity, returns and growth to adjust to realities of the macroeconomic environment.

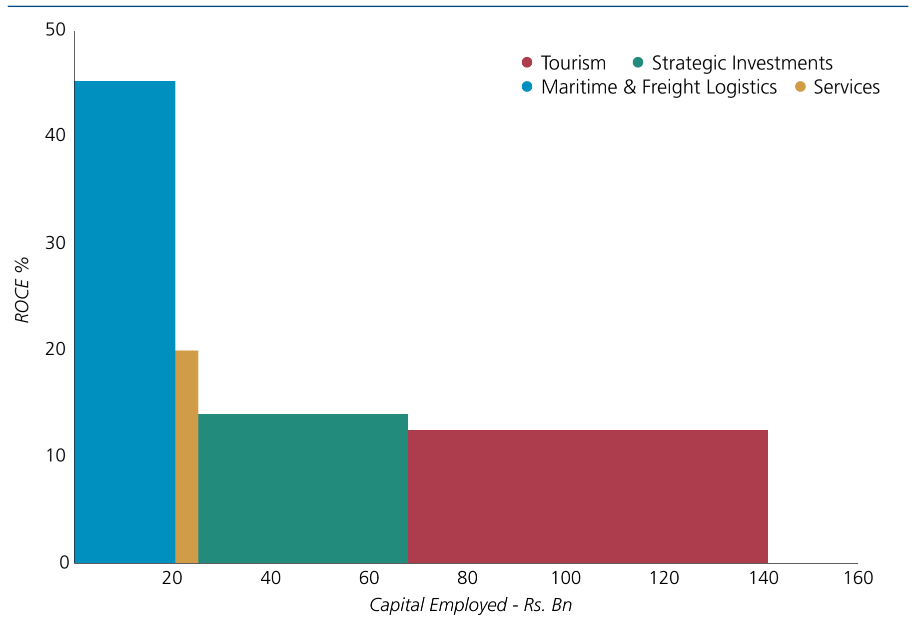
Strategic Priorities	Key Achievements 2022/23	Future Focus
» Concentration of Investments in priority sectors of the economy such as renewable energy » Diversification into new geographical locations and new business segments » Ensuring investments meet identified hurdle rate of the Group » Management of cost structures. » Annual average YoY sustainable profit growth of 10% by the Group	» Acquisition of Sagasolar Power (Pvt) Ltd., a ground mounted solar power plant for Rs. 1.4 billion » Repayment of interest bearing loans and borrowings of Rs. 9.5 billion » Increase of 15.8% in profit from operations » Return on Equity of 9.5% » Improvement in the debt to equity ratio by 14.4%	» Maintaining a constant emphasis on liquidity and foreign exchange management to maximise the Group's pre-tax profit. » Sustaining investments in ventures that will drive the Group's growth and meet the identified hurdle rate » Implementing operational transformations to enhance efficiency and productivity across all business segments, thereby improving operational profits

Investment Philosophy

Aitken Spence PLC invests primarily in projects that are aligned with the country's priority sectors and sectors of strategic importance to Sri Lanka. The projects are typically linked to increasing foreign exchange earnings or solutions to the country's infrastructure needs. Investment decisions are dependent on the investment climate and expected returns above hurdle rates.

Aitken Spence prides itself on having acquired its investments through transparent bidding processes, based on competitive bids where requests for proposals have been issued. Additionally, the Group has maintained a prudent dividend policy for the past 25 years, retaining sufficient funds for growth aspirations, without recourse to new funds from shareholders.

Portfolio Returns

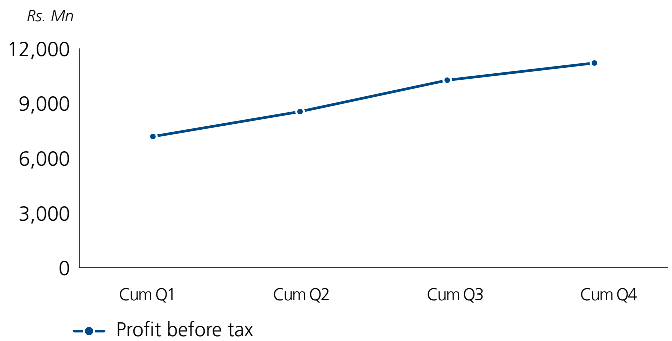


Value To Shareholders

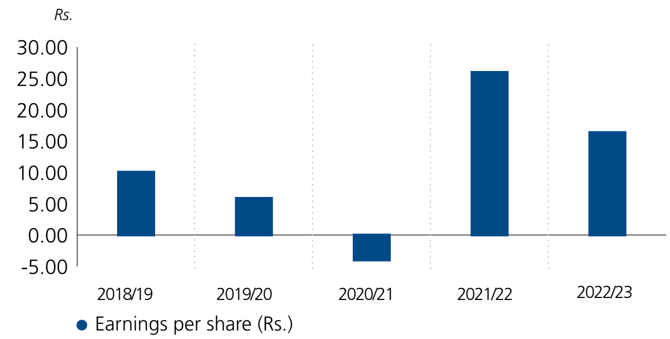
The Group has successfully maintained momentum in providing positive returns to its shareholders, albeit at a lower level than the previous year, due to unprecedented economic factors that affected the country during the reviewed period. The economic crisis that unfolded during the year, along with the resultant tightening of monetary and fiscal policies, heightened inflation, increased interest rates, and shortages of essential energy sources, had an inevitable knock-on effect on business sentiment. Import restrictions and a moderating outlook in advanced economies also resulted in a slowdown in some key sectors of the country's economy. Despite facing numerous constraints, the Group was able to successfully defend its market share in businesses where it remains a dominant player, positioning itself well for future growth.

Earnings

Performance during the year

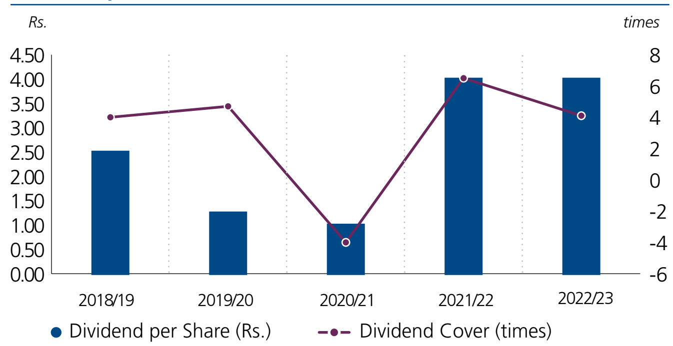


Earnings per Share

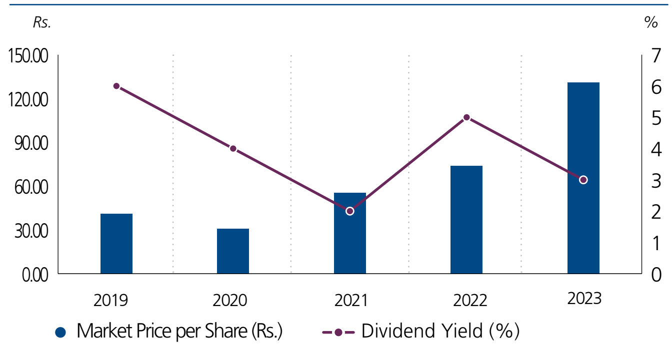


Dividends

Dividend per Share and Dividend Cover

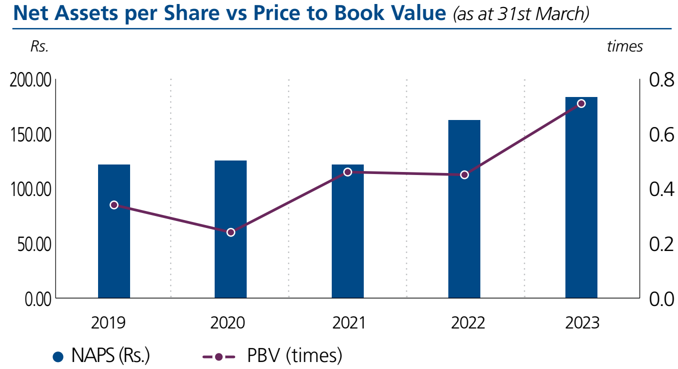


Dividend to Market Price *(as at 31st March)*

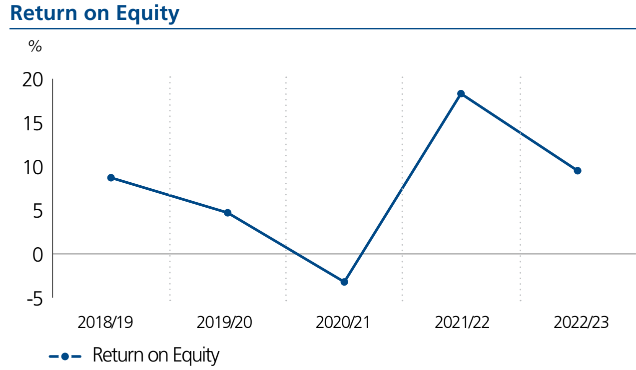


Growth

Net Assets per Share vs Price to Book Value *(as at 31st March)*



Return on Equity



Revenue

Group revenue increased by 79.4% to reach Rs. 98.1 billion, with the Tourism, Maritime & Freight Logistics, and Strategic Investment sectors experiencing robust growth rates of 89.2%, 55.5%, and 108.4% respectively. However, the Services Sector saw a slight decline in revenue, primarily due to the sluggish performance of the elevators segment, masking the strong growth achieved by the insurance and money transfer segments.

The significant devaluation of the Sri Lankan rupee played a crucial role in bolstering revenue, while key segments such as Maldivian hotels, apparel manufacture, liner shipping businesses and overseas port operations played pivotal roles in driving this growth.

The overall revenue generation from the operations in Sri Lanka saw an increase of 73.9% over the previous year mainly owing to the past strategic decisions made by the Group to ensure that most of its local revenue streams are dollar linked.

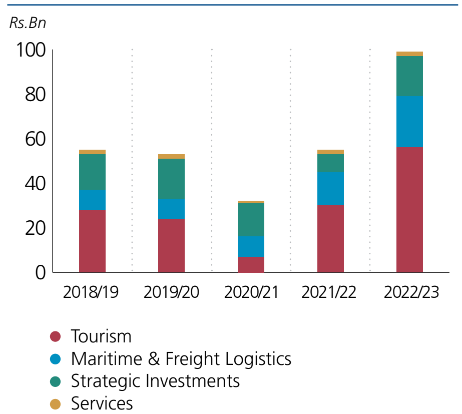
Occupancy of hotels in Sri Lanka plummeted with the onset of social and political instability in the first half of the year, recovering quickly thereafter by the close of the year. Maritime & Freight Logistics sector unlocked value by operating as a unified sector which contributed towards enhancing the customer value proposition.

The share of the revenue generated from operations in Sri Lanka declined from 52.4% of total revenue in 2021/22 to 50.8% in 2022/23 with a corresponding increase in the overseas sectors. The overseas operations contributed to 49.2% of the total revenue of the Group while recording an 85.3% improvement in performance over the previous year. The Maldives and India contributed significantly, representing 40.9% of the Group's revenue, highlighting the benefits of geographical diversification.

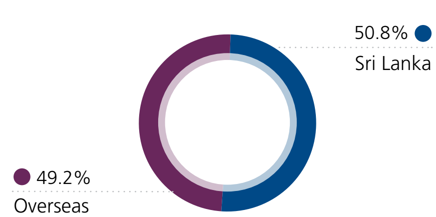
Extract from the consolidated Income Statements

	GROUP	
For the year ended 31st March	2023 Rs. Million	2022 Rs. Million
Revenue	**98,104**	54,696
Revenue taxes	**(1,115)**	(544)
Net revenue	**96,989**	54,152
Other operating income	**2,022**	7,380
Operating expenses	**(80,027)**	(45,145)
Profit from operations	**18,984**	16,387
Finance income	**2,884**	1,161
Finance expenses	**(11,737)**	(4,006)
Net finance expense	**(8,853)**	(2,845)
Share of profit of equity-accounted investees	**1,070**	682
Profit before tax	**11,201**	14,244
Income tax expense	**(3,125)**	(2,068)
Profit for the period	**8,076**	12,156
Earnings per share (Rs)	**16.36**	25.96

Revenue



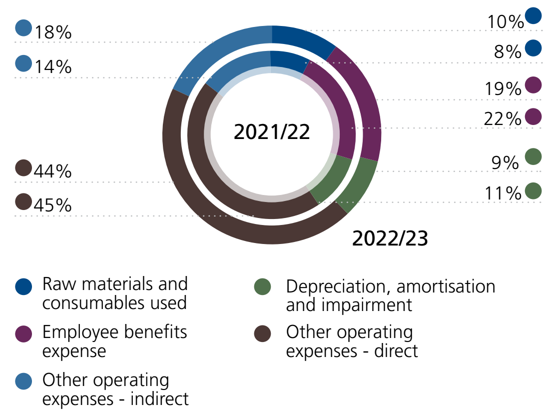
Geographical Analysis of Revenue - 2022/23



Operating Expenses

Operating expenses increased by 77.3% to Rs.80.0 billion during the year as all categories of expenses increased significantly due to inflationary pressures, the price increase in imported raw materials and the conversion impact of dollar-based expenses caused by the steep devaluation of the rupee that was witnessed in the first three quarters of the year. The resumption of normalcy post pandemic, especially in the Tourism Sector, also contributed towards this increase due to higher operational costs being borne as the tourist arrivals increased. The inflationary pressures witnessed during the year remained a cause of concern due to the eroding profit margins that most business segments had to grapple with. However, the financial stability of the Group and its exposure to dollar linked revenue greatly eased the burden of rising costs. Other direct and indirect operating expenses amounting to Rs. 50.0 billion constitute the largest portion of the Group's operating expenses, accounting for 62.5% of the total operating expenses. Employee benefits amounted to 18.9% of the Group's total operating expenditure.

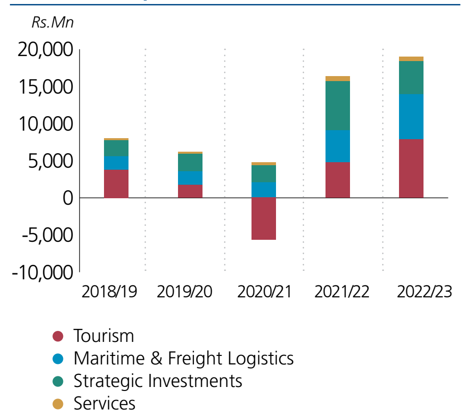
Analysis of Operational Expenses



Operating Profit (EBIT)

The Group recorded an operating profit growth of 15.8% to Rs.19.0 billion. All sectors made a positive contribution to operating profits while the Tourism and the Maritime & Freight Logistics Sectors recorded growth of 65.3% and 40.7% respectively. Operating profits of the Strategic Investments Sector and the Services Sector were impacted owing to the lower foreign exchange gains recorded during the year under review when compared with the significant gains recorded in the previous year. This impact is primarily seen in the Strategic Investments Sector due to the operations of the holding company being included in this sector. The foreign exchange gain at the holding company, that stood at Rs. 4.9 billion the previous year dropped to Rs. 1.7 billion in the year under review due to the comparatively lower devaluation of the rupee. The Group's operating profit, excluding the total foreign exchange gain recorded, witnessed a notable increase of 85.2% compared to the previous year.

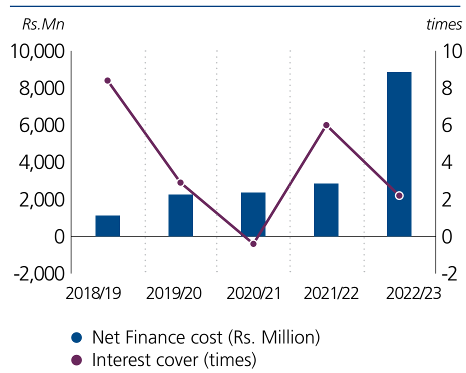
Profit from Operations



Net Finance Costs

Finance income increased by 148.5% to Rs.2.9 billion while finance costs increased by 193.0% to Rs.11.7 billion as interest rates spiked sharply at the beginning of the year and continued to increase during most parts of the year. AWPLR increased from 9.85% in March 2022 to 27.89% in November 2022, gradually declining thereafter to 21.40%. Interest cover decreased to 2.19 times reflecting the impact of high interest rates throughout the financial year. The impact of interest rates was significant on the Tourism Sector as it accounts for 77.9% of the Group's total interest bearing liabilities with the sector accounting for 55.0% of the Group's finance expenses. The Strategic Investments Sector accounted for 41.3% of the Group's finance expenses as higher interest costs on the long term borrowings of the waste to energy plant and extended delays on payments by its sole customer CEB necessitated increased working capital borrowings to manage liquidity.

Net Interest Cost and Interest Cover



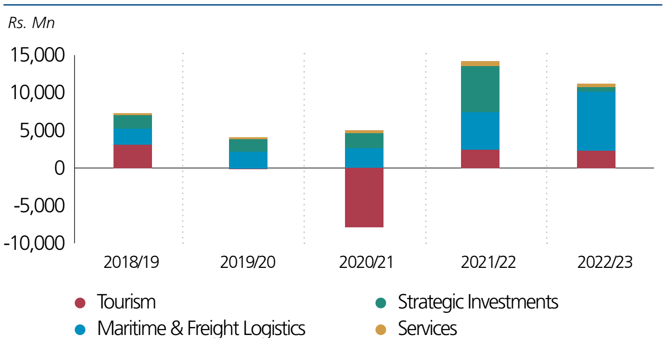
Profit Before Tax

Despite the decline of the Group's pre-tax profit by 21.3% to Rs. 11.2 billion, the positive contributions made by the Tourism and Maritime & Freight Logistics Sectors are worthy of acknowledgement. It is important to note, however, that the Strategic Investments Sector experienced a decrease in pre-tax profit mainly due to the impact of high interest costs and prolonged delays in settlement by the Ceylon Electricity Board and the lower foreign exchange gain reported.

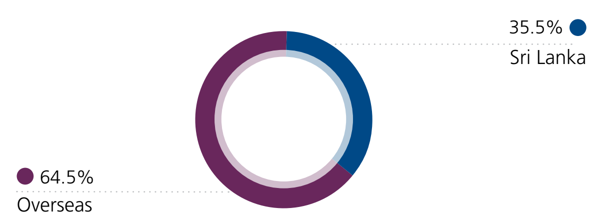
The Tourism Sector recovered in the fourth quarter to deliver a profit before tax of Rs. 2.3 billion as tourist arrivals to Sri Lanka gathered momentum. Though the Sector experienced a decline of 5.1% compared to the PBT of the previous year, it should be noted that this decline was the result of the increase in net finance cost of 143.5%. The primary contributor to the Group's profit before tax was the Maritime & Freight Logistics Sector, representing 69.8% of the total. This sector experienced significant advantages from favourable global conditions that persisted throughout the year. Furthermore, its limited dependence on interest-bearing borrowings protected it from the impact of fluctuating interest rates.

The significant impact of inflation, increased energy costs and rising interest rates is evident in the sharp decline of the proportion of profit before tax attributed to the Sri Lankan sector, which decreased from 64.7% in 2022/22 to 35.5% in 2022/23.

Profit before Taxation



Geographical Analysis of Profit before Tax - 2022/23



How we manage taxation

The Group operates in many countries and incurs a variety of direct and indirect taxes such as corporate income taxes, sales taxes, customs duties, excise taxes, stamp duties, levies, employment tax and many other business taxes. Accordingly, the Group has established and maintains policies and compliance processes to ensure the integrity, accuracy and timeliness of tax returns in all countries where it operates. Continuous engagement with the local tax authorities facilitates clarification and understanding the consequences of new tax legislation in order to ensure proper compliance, minimising tax risks that arise from unclear laws and regulations and varying interpretations. In complex transactions, expert opinion is sought from external tax professionals to ensure we comply with the applicable laws. We ensure that the staff have the necessary training to manage the tax positions appropriately. The Group is also responsible for collecting and remitting advance income tax, Advance Personal Income Tax and Value Added Tax for which returns are filed in a timely manner. This approach to taxation applies to Sri Lanka and all other countries in which the Group operates.

Taxation

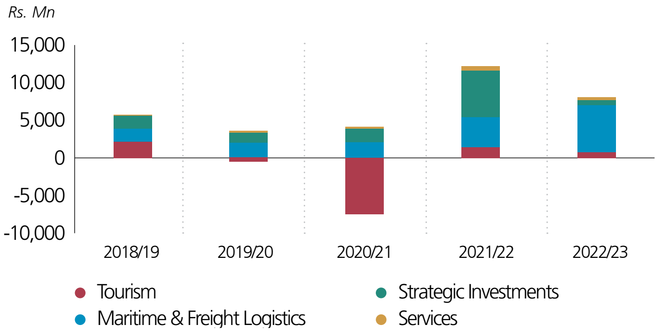
The Group’s tax expense for the year amounted to Rs. 3.1 billion, which is a significant increase of 51.1% over the prior period. This rise can be primarily attributed to a current tax charge of Rs. 2.8 billion and a deferred tax charge of Rs. 336.6 million. As a result, the effective tax rate on Group profits rose to 27.9% from the previous year's rate of 14.5%.

The increase in the Group's tax expenses for the year is primarily due to the implementation of the Inland Revenue (Amendment) Act No. 45 of 2022 in Sri Lanka. This amendment eliminated the concessionary tax rate granted for priority sectors, increasing the tax rate from 14% to 30% in many of the sectors the Group operates. Additionally, the standard tax rate was raised from 24% to 30%. As a result, the effective tax rate on the Group's profits in Sri Lanka rose to 51.1% from the previous year's rate of 9.9%. In order to comply with the Sri Lanka Accounting Standards (LKAS 12 - Income Taxes), the Group adjusted the deferred tax charges based on the new tax rates specified in the Amendment Act. These adjustments take into account the cumulative impact of the tax rate changes for the financial year ending on March 31, 2023. Specifically, the impact of the tax rate change on the opening balance of temporary timing differences amounted to Rs. 1.2 billion.

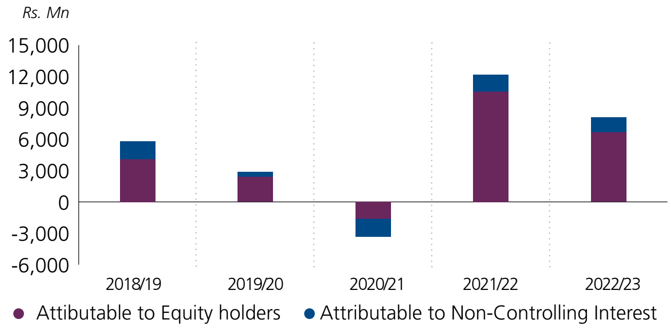
Profit After Tax

The profit after tax experienced a decline of 33.6%, amounting to Rs. 8.1 billion, compared to the previous year's figure of Rs. 12.2 billion, which marked the highest recorded profit in the history of the Group. The Maritime & Freight Logistics Sector emerged as the primary contributor to profit after tax, as depicted in the chart below. This was attributed to the sector's geographical diversification and reduced borrowing, which stabilised its performance and allowed it to benefit from favourable global conditions. On the other hand, the Strategic Investments Sector's contribution to the annual profit was comparatively lower due to a combination of factors such as a decrease in foreign exchange gains during the year and higher interest costs associated with project loans taken for the power segment, and at the parent company..

Profit after Tax



Distribution of Profit After Tax



Growth

The Group's total assets reached Rs. 214.3 billion by March 31st, 2023, indicating a growth of 8.6%. This increase can be primarily attributed to the increase in property, plant, and equipment (PPE). The growth in PPE is mainly a result of the revaluation of assets held in foreign currencies, which amounted to Rs. 9.0 billion at the end of the year. In addition, the revaluation of freehold land and the acquisition of Sagasolar Power (Pvt) Ltd also contributed to the increase in PPE. The Group's inventory also increased to Rs. 5.3 billion from Rs. 3.8 billion, an increase of 36.7%.

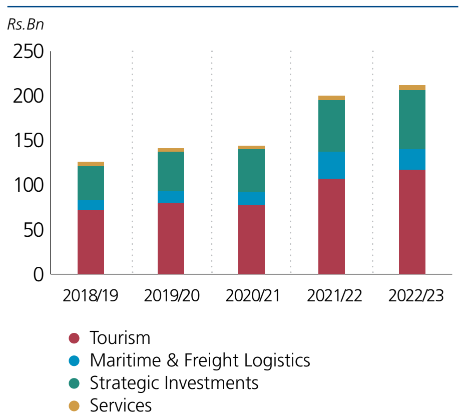
The Group managed liquidity and working capital astutely during the year as credit risks escalated with the economic downturn. Current assets increased by 9.7% to Rs. 74.2 billion as inventories and other current assets increased. The inventories experienced a notable increase, with a significant rise observed in the printing and packaging as well as the apparel manufacturing segments. This increase was due to a conscious management decision taken to mitigate the negative impacts of the import restrictions and the foreign exchange crisis, on supply chain disruptions occurring both locally and globally. Though this increased the cost of stock holding in the respective segments, it proved to be a vital contribution to the uninterrupted continuation of operations during a time where many manufacturers faced difficulties in accessing the required raw materials and foreign exchange for importation.

Effectiveness of controls over credit risk is evident in the marginal movement in trade and other receivables which amounted to Rs. 21.2 billion despite it including the overdue receivables from CEB amounting to Rs. 7.5 billion, without which the number would have decreased significantly. The Group's current ratio remains healthy reflecting the effective management of working capital although it declined from 1.35 to 1.28.

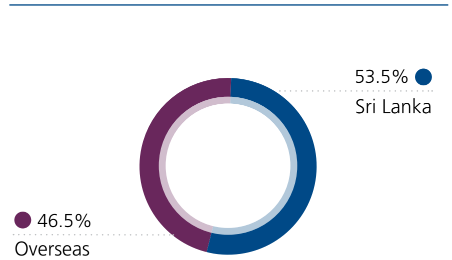
Extracts From Consolidated Statements of Financial Position

As at	31.03.2023 Rs. Million	31.03.2022 Rs. Million
Non-current assets	**139,964**	127,930
Property, plant and equipment	**105,499**	95,810
Right-of-use assets	**19,137**	18,845
Investments in equity-accounted investees	**9,238**	8,564
Current assets	**74,204**	67,664
Inventories	**5,274**	3,859
Trade and other receivables	**21,244**	21,136
Other Current assets	**27,073**	25,128
Cash and short-term deposits	**16,216**	15,344
Assets classified as held for sale	**169**	1,751
Total assets	**214,338**	197,346
Equity Attributable to Shareholders	**74,404**	65,949
Non-controlling interests	**11,812**	11,497
Total equity	**86,216**	77,446
Non-current Liabilities	**69,969**	66,870
Interest-bearing loans and borrowings	**46,949**	49,275
Lease liabilities	**15,714**	15,835
Current liabilities	**58,153**	50,030
Interest-bearing loans and borrowings	**9,619**	8,677
Lease liabilities	**1,831**	1570
Trade and other payables	**22,769**	29,507
Bank overdrafts and other short-term borrowings	**22,791**	9,617
Total equity and liabilities	**214,338**	197,346
Net asset per share (Rs.)	**183.26**	162.44

Total Assets



Geographical Analysis of Total Assets - 2022/23



Resilience

The proportion of total assets represented by equity, including minority interest, was 40.2%, while the total non-current liabilities accounted for 32.6% of the assets. The minority interest specifically represented 5.5% of the total assets. As a result of the efforts taken to reduce its interest costs, the Group's debt-to-equity ratio decreased from 0.64 to 0.54.

As at 31st March	2023	2022
Net Assets Per Share (Rs.)	**183.26**	162.44
Current Ratio	**1.28**	1.35
Quick Asset Ratio	**1.19**	1.28
Interest Cover	**2.19**	6.04
Debt: Equity Ratio	**0.54**	0.64

The Group's current liabilities recorded a 16.2% increase over the previous year. This was mainly derived from the increase in bank overdraft and other short-term borrowings as a result of the increased working capital funding attributable to the Strategic Investments Sector. Despite a slight decline in both the current ratio and quick asset ratio, the Group maintained a healthy liquidity position in both years,

The net exposure to foreign currency assets and liabilities at the balance sheet date are given along side which reflects a prudent net assets position.

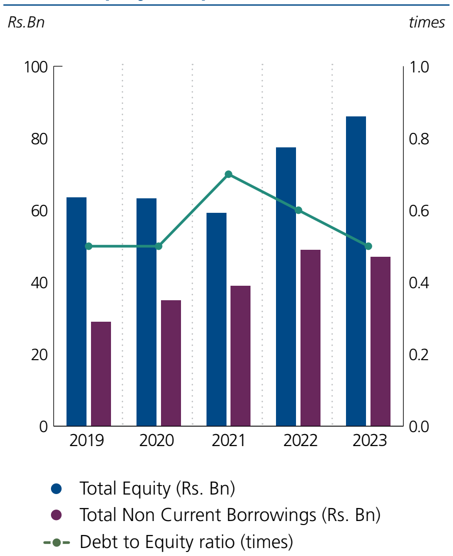
Net Exposures as at 31st March 2023

Assets/(Liabilities)

USD 80.5 Mn

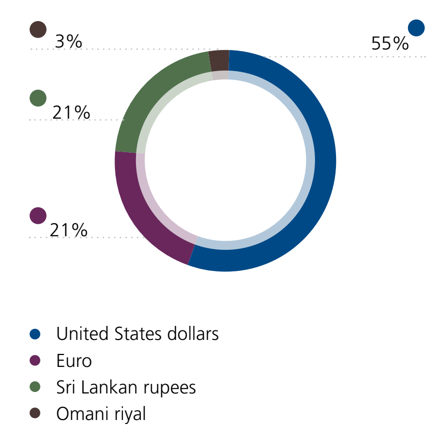
Euro (32.4 Mn)

Debt to Equity Comparison *(as at 31st March)*



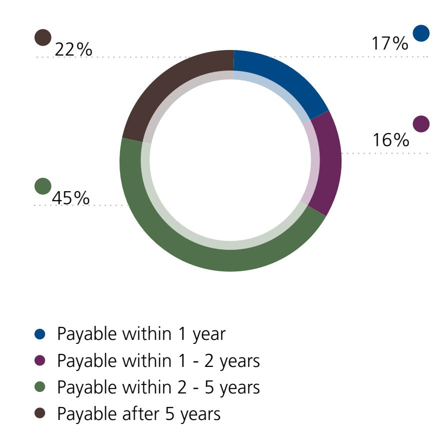
Total Debt Analysed by Currency

as at 31st March 2023



Total Debt Analysed by Repayment Schedule

as at 31st March 2023



Cashflows

Cashflows experienced a decline throughout the year as the economic stress led to tightening credit from suppliers and the increase in receivable from the CEB . As a result, investing activities were controlled, and the increase of debt exposures limited due to high financing costs. Debt repayments increased due to the cessation of some of the loan moratoriums extended by banks particularly to the hotel segment. Consequently, the net cash generated from operating activities decreased significantly from Rs. 21.8 billion in the previous year to Rs. 3.5 billion. The decline can be attributed to the higher interest paid amounting to Rs. 10.2 billion and a decline in the working capital cycle. The net cash outflow from investing activities stood at Rs. 2.1 billion, and the net cash outflow from the repayment of interest-bearing borrowings further impacted the cash and cash equivalents, resulting in a decline from a positive Rs. 5.7 billion to a negative Rs. 6.6 billion by the end of the year.

The Group placed a strong emphasis on efficient cash management and ensuring liquidity in a challenging economic environment, which was compounded by vulnerable external financing, limited availability of foreign currency, and constraints on working capital and trade finance. Recognising the exceptional macroeconomic challenges, the Group maintained a heightened level of vigilance.

Managing the Group's Liquidity Profile

The management of liquidity was considerably challenging during the review period due to elevated interest rates and low liquidity in both USD and Sri Lankan Rupee (LKR) markets. To navigate these conditions and to maintain stability, the Group implemented a strategic approach. By carefully considering interest rates offered by the banks, the Group effectively utilised the approved rupee bank facilities to minimise interest costs and enhance overall financial performance.

A key focus was placed on shortening the working capital cycle to improve liquidity. Diligent efforts were made to follow up with debtors and collect outstanding payments in a timely manner, optimising cash flow and reducing strain on working capital. Despite challenges posed by delayed payments from the CEB, the Group remained resilient and explored alternative solutions to mitigate the impact on its financial health.

Mitigating the Impact of Interest Rate and Forex Movements

The business environment in the early months of the financial year experienced a rapid increase in interest rates and devaluation of the rupee, leading to market uncertainty. Liquidity shortages in both LKR and USD markets further complicated the situation. To address the impact of interest rate fluctuations, the Group closely monitored the interest rate environment and advised its Strategic Business Units (SBU) on appropriate strategies on borrowings. The Group strategically managed foreign currency liabilities to align with foreign currency assets, mitigating the effects of exchange rate fluctuations. However, the utilisation of forward contracts to mitigate foreign exchange risk was limited due to adverse market conditions and regulatory frameworks.

Considering the planned discontinuation of the London Interbank Offered Rate (LIBOR) in 2023, the Group converted a significant portion of its foreign currency-denominated facilities to pricing based on the Secured Overnight Financing Rate (SOFR) during the period.

Value Added to Stakeholders

(GRI 201-1)

The Group through its many diverse activities contributed positively towards the economy of Sri Lanka through a value creation of Rs. 47.6 billion during the year, which was a 42.4% enhancement from the value created the previous year of Rs. 33.5 billion. This growth is directly attributable to the 79.4% increase recorded in Group revenue for the year.

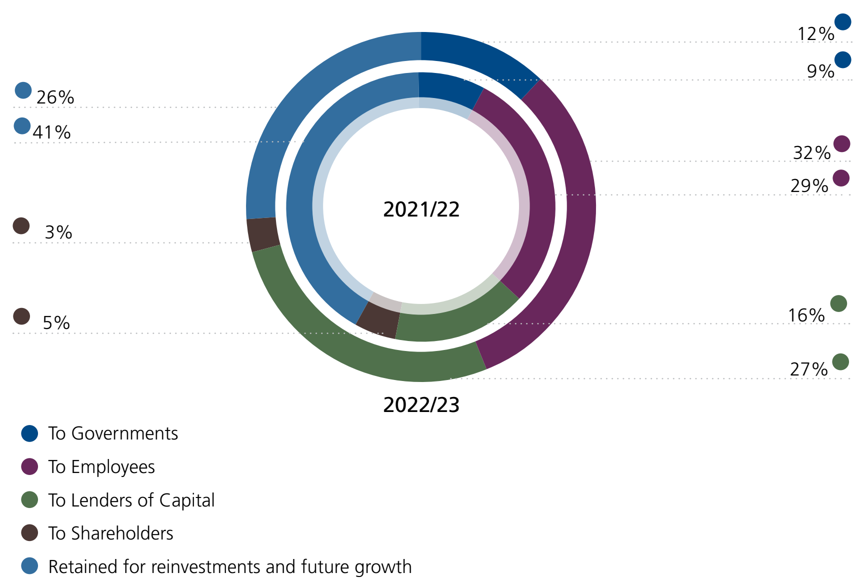
The highest year-on-year increase in the value distribution could be seen in the portion applicable to the lenders of capital which recorded a 134.8% growth over the previous year owing to the substantial increase in interest rates during the period under review. The lenders of capital received a total of Rs. 12.8 billion, amounting to 26.9% of the total value created for the year. The second highest annual increase is seen in the portion distributed to governments which saw a 108.3% increase to stand at Rs. 5.9 billion for the year mainly due to the sharp rise in tax rates in Sri Lanka. This amounted to 12.3% of the total value created by the Group.

A share of 31.8% of the total value created was distributed amongst the Spensonians which was a 55.0% growth over the previous year to amount to a total figure of Rs. 15.1 billion. This increase is mainly seen from the overseas hotels segment due to the post pandemic normalisation of operations and the impact of the devaluation of the rupee increasing the cost at conversion.

The distribution to equity holders was similar to last year, amounting to Rs. 1.6 billion of the total value created with the Group retaining 25.6% of the value created for future expansions..

For the year	2022/23 Rs. Million	2021/22 Rs. Million
Total revenue	98,104	54,696
Purchase of goods and services	(58,055)	(30,660)
	40,049	24,036
Other operating income	2,022	7,380
Interest income	2,884	1,161
Share of profits of equity-accounted investees before tax	2,692	884
Total value added by the Group	47,648	33,461
Distributed as follows		
To governments	5,862	2,814
To employees	15,133	9,761
To lenders of capital	12,827	5,463
To shareholders	1,624	1,624
Retained for reinvestments and future growth	12,202	13,798
	47,648	33,461

Distribution of Group Value Added



Facilitation of Foreign Currency Generation to Sri Lanka

Aitken Spence has been constantly conscious of the importance of the generation of foreign currency through its activities as a vital source to boost the financial stability of the Group and the economic prospects of the country. In keeping with this commitment, the Group has broad based its investments to span nine other countries, with its assets outside Sri Lanka amounting to 46.5% of the Group's total asset base.

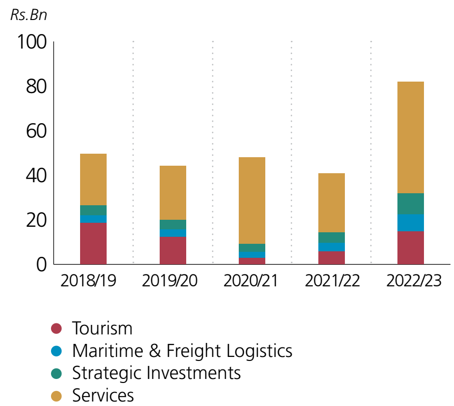
These investments coupled with the business segments that the Group operates in Sri Lanka has continuously facilitated the inflow of foreign exchange to the country. During the year under review the Group's activities contributed towards the inflow of foreign exchange to the equivalent of Rs. 81.9 billion to the country. The largest portion of this was facilitated by the Services Sector which operates the inward money transfer business segment. The Services Sector facilitated the inflow of foreign exchange to the equivalent of Rs. 50.1 billion to the country which was an 88.2% increase over the previous year.

The Sector that was the second largest facilitator of foreign exchange was the Tourism Sector. The revival of tourism during the year was the key factor in this increase recorded. The Sector accounted for an inflow to the equivalent of Rs. 14.7 billion which was an increase of over 150% compared to the previous year.

However, the year-on-year increase in rupee equivalent terms has also been impacted due the sharp devaluation of the rupee which was witnessed during the second and third quarters of the financial year with the exchange rate peaking in December 2022 to gradually ease off by March 2023. The exchange rate during the previous financial year remained fairly stable during the first three quarters of the year with the devaluation occurring in the month of March 2022. The Group's facilitation of foreign exchange to the country in dollar terms was also a growth of approximately 15% over the previous year.

for the year ended 31st March	2023 Rs. Bn	2022 Rs. Bn	2021 Rs. Bn	2020 Rs. Bn	2019 Rs. Bn
Tourism	**14.7**	5.7	2.9	12.2	18.6
Maritime & Freight Logistics	**7.8**	4.0	2.7	3.4	3.3
Strategic Investments	**9.4**	4.5	3.6	4.3	4.5
Services	**50.1**	26.6	38.8	24.4	23.2
	81.9	40.8	48.0	44.3	49.7

Facilitation of Foreign Currency to Sri Lanka



Facilitation of Foreign Currency to Sri Lanka - 2022/23