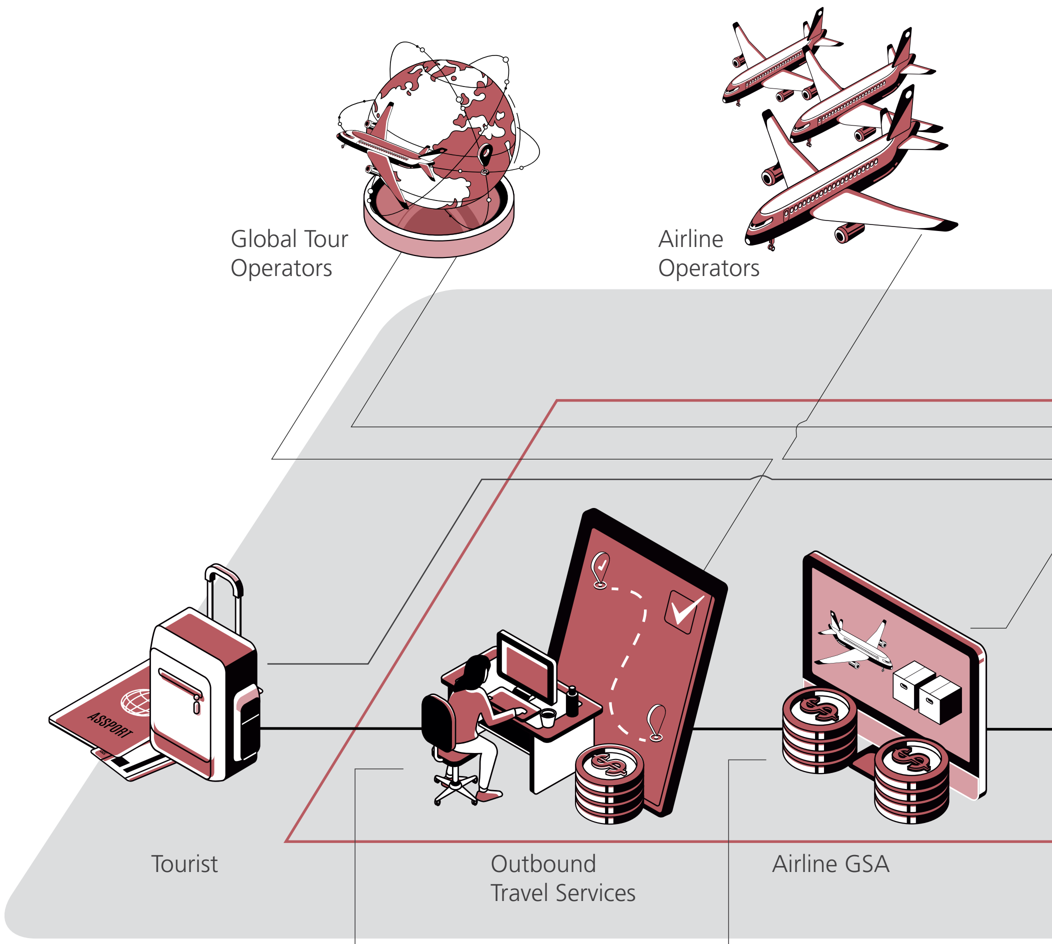
TOURISM

Sri Lanka's undisputed leader in the industry, this Sector plays a vital role in promoting Sri Lanka as a destination to revive the country's beleaguered tourism industry. The establishment of a strong presence that links various components of the value chain generates significant synergies and competitive advantages, fueling the growth of diverse segments within the industry. The geographical diversity of the Sector builds resilience against downturns in the country as witnessed in the past few years. However, the Sector is yet to return to its pre-pandemic prosperity levels which is reflected in its performance.

Our presence along the value chain (GRI 2-6)



Destination Management

Aitken Spence Travels is the largest Inbound Tour Operator in the country and represents TUI, the largest tour operator in the world.

Locations of Operation

Sri Lanka, Maldives, Myanmar

Airline GSA

This segment comprises the representation for Singapore Airlines, Jazeera Airlines in Sri Lanka and Sri Lankan Airlines in the Maldives.

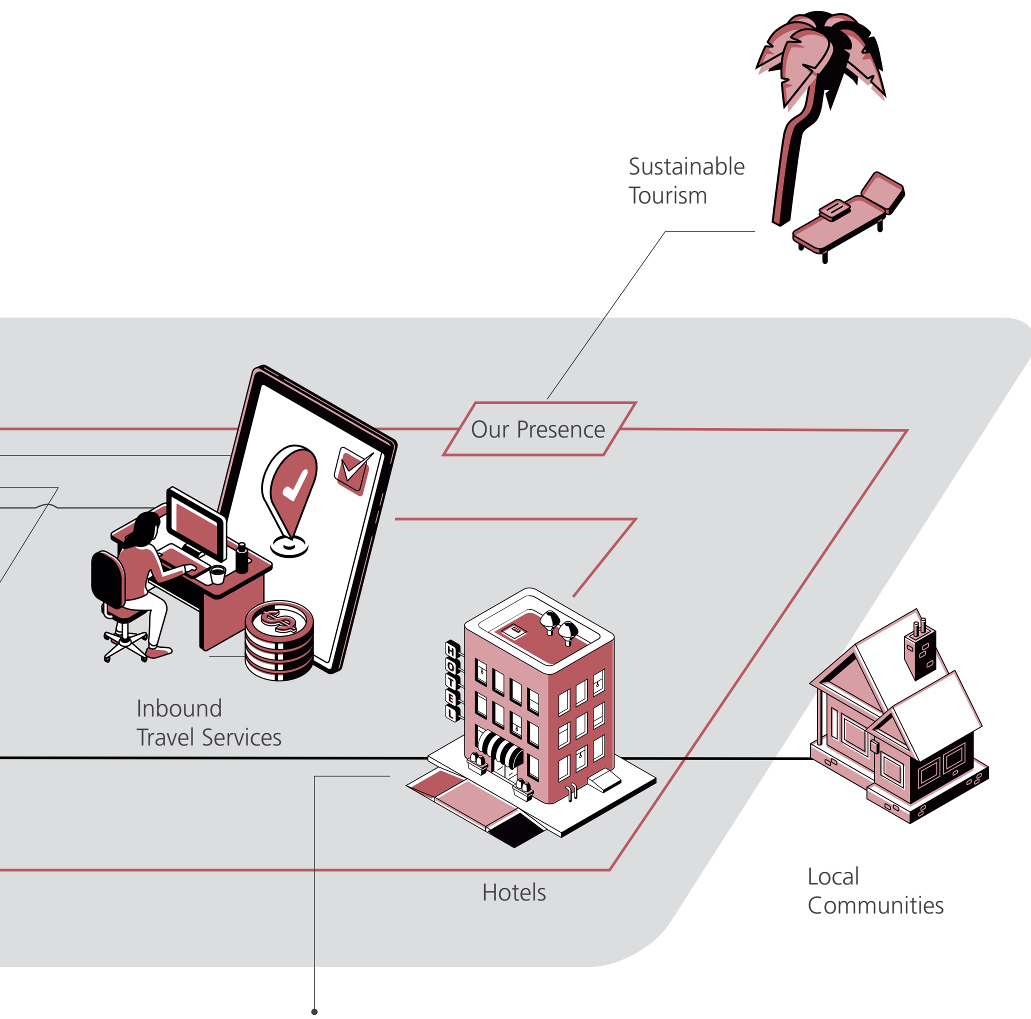
Locations of Operation

Sri Lanka, Maldives

Revenue
Rs. 56.1 Bn

EBITDA
Rs. 14.2 Bn

Profit Before Tax
Rs. 2.3 Bn



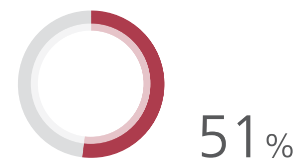
Hotels

Aitken Spence Hotels segment is among the largest operators in Sri Lanka, with hotels and resorts in three other countries. It is the only company in Sri Lanka with such an extensive presence, that also operates its own hotel school to nurture talent.

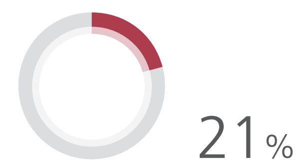
Locations of Operation
Sri Lanka, Maldives, Oman, India

Relevance to Group

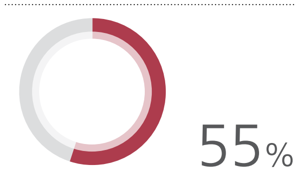
Revenue



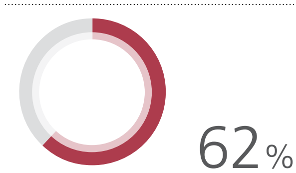
Profit Before Tax



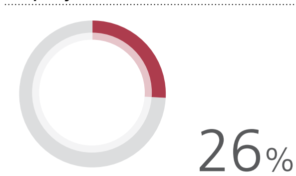
Total Assets



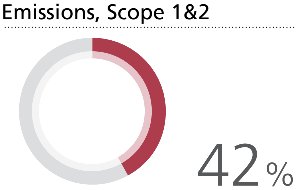
Total Liabilities



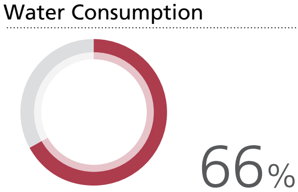
Employees



Emissions, Scope 1&2



Water Consumption



SECTOR REVIEWS
TOURISM

Operating Context

Sri Lanka

Properties: 09

Operations: Hotels, Destination Management and Airlines GSA

Market Overview:

The first half of the year saw travel advisories issued by a number of countries as well as a high level of negative media on the social unrest in Sri Lanka. As a result, tourist arrivals decimated to pandemic levels, undoing months of investments and work to revive this industry that had been dormant. Domestic tourism also declined in the first half due to the fuel shortage in the country, which deterred inland travel. India was the main source market in 2022 with Russia, UK and Germany ranking, thereafter, collectively accounting for 49.3% of total arrivals. Following the gradual economic and social stability achieved by the country, the first four months of 2023 have been encouraging for the industry with it recording 26% increase in arrivals over the corresponding period in 2022 with the same markets in the top four slots although Russia became the largest source market with India a close second.

Sri Lanka has a diverse offering with maritime provinces, the cultural triangle, its hill country with stunning landscapes, spectacular train journeys and adventure tourism, each with its own vibe. The holistic wellness offering is gaining traction leveraging centuries of ayurveda and spiritual journeys. The shortage of imported raw materials in food and beverage has seen much innovation of the culinary offering facilitating a more authentic local food experience. Sri Lanka though having embraced sustainable tourism as a concept, needs greater progress and commitment by regulatory authorities to further unleash its potential.

Maldives

Properties: 05

Operations: Hotels, Destination Management and Airlines GSA Market Overview:

Market Overview:

Tourist arrivals in Maldives increased by 27% in 2022 with the same line up of top generating markets as in Sri Lanka, accounting for 60.7% of tourist arrivals collectively. The country has seen a 57% increase in the number of beds as all categories of beds increased in capacity. It is noteworthy that guest houses which accounted for 17% of bed capacity in 2021 now account for 22.6% reflecting the growth of this category. The share of beds in the resort category declined from 74.2% to 69.5% reflecting the changes in accommodation. Despite the increased capacity, the average occupancy rate improved from 56.1% to 58.9%. The average duration of stay declined from 8.8 days to 8.1 days.

Maldives was able to maintain a healthy growth rate in arrival of 21.4% in the first three months of 2023. Italy has overtaken Germany to become the 4th largest source market for Maldives while Russia, India and UK remain in place as the main markets. The pristine beaches, the charming hospitality and the underwater life of the resorts make this destination an unforgettable haven for connecting with nature.

India

Properties: 01

Operations: Hotels

Market Overview:

India has grown in stature as it became the most populous country and the 5th largest economy. Its leadership of a number of global forums and sustained growth rate makes it an exciting era to be in this market that has re-defined its future as a technology hub.

In 2022, there were 6.5 Mn tourist arrivals, a fourfold increase over 2021 arrivals of 1.5 Mn. The country also has a vibrant domestic tourism industry which accounts for the bulk of activity in this market.

Oman

Properties: 01

Operations: Hotels

Market Overview:

The tourism sector in Oman is gathering momentum. Its articulated vision of making the tourism industry one of its largest sectors in the economy has seen new players enter the market with a resultant expansion in inventory. Competition has intensified as room capacity has grown at a faster pace than occupancy. It has attracted the high-end chains to the market which has been a disadvantage to the established players.

Oman offers stunning landscapes, warm hospitality and adventure. Its rich cultural heritage and strategic location makes it a unique holiday destination.

Significance of External Factors (PESTEL) on Business Activities

LOW MEDIUM HIGH

Political

Political Stability

Geo Political Tensions

Policies and Reforms

Economic

Economic Outlook

Inflation

Interest Rates

Commodity Prices

Exchange rate & Liquidity

Social

Pressure on Wages

Talent Retention

Technological

Rate of Innovation of Industry

Automation of Processes

Environmental

Impacts of climate change

Resource Depletion

Innovation Opportunity

Legal

Compliance

Socioeconomic Impact (GRI 201-1,203-1,2)

83,741
Inbound Tourists

Rs. 14.7 Bn
Facilitation of Foreign Exchange Generation to the country Exchange

Rs. 6.6 Bn
Taxes Paid (Direct & Indirect) to the Governments

3,349
Offered Employment

Delivering Strategy

As in the previous year, the Tourism Sector made a strong recovery in the fourth quarter recording pre-tax earnings of Rs. 2.3 billion with all key segments making a positive contribution. The performance of the fourth quarter was sufficient to wipe out the losses of the previous three quarters reflecting, once again demonstrating the ability of this Sector to bounce back even with a moderately favourable operating environment. Revenue nearly doubled and reflected the highest level of synergies within the Group with the Sector recording an intra-segmental revenue of Rs. 4.3 billion which was an increase 136.5% over the previous year. Despite the troubles in Sri Lanka, the sector recorded healthy growth of EBITDA of 67.6% to Rs.14.2 billion reflecting the efforts in driving a cost-conscious operation in lean times. Finance expenses increased by 154.1% to Rs.6.5 billion compared to Rs.2.5 billion in the previous year, which is largely attributable to the increase in interest rates as the increase in borrowings was a moderate. As a result, the profit before tax amounted to Rs.2.3 billion.

The rise in income tax rates from 14% to 30% during the latter half of the year led to a significant increase in the deferred tax

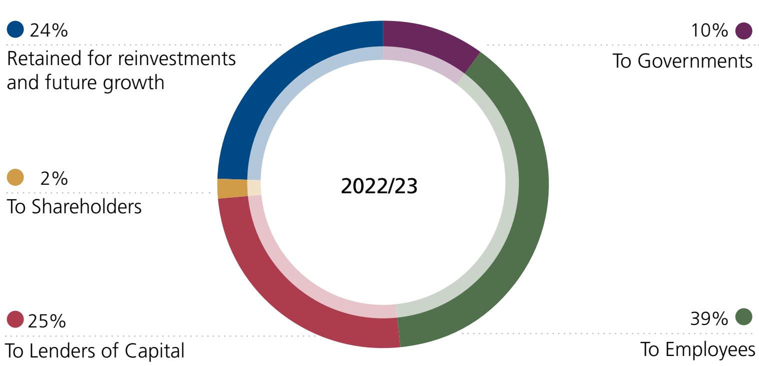
SECTOR REVIEWS
TOURISM

liability as well as an increase in the current income tax expense. As a result, the overall income tax expense was Rs. 1.6 billion for the year. Consequently, Profit after tax declined by 48.8% to Rs.735.4 million, which is a commendable performance given the challenges faced in Sri Lanka and Oman.

Turyaa India turned around for the first time since inception, recording 83% average occupancy as India's tourist arrivals doubled. Competition intensified in the Maldives with both guest houses and large players entering the market. Maldives also faced increased competition from destinations that opened up during the year such as Bali and Thailand. Costs increased significantly as energy prices and inflation spiked during the year. Staff costs also increased in this sector, dampening profitability. Raafushi island was sold as we wished to manage the exposure in the Maldives. Sri Lanka demonstrated encouraging growth in the last quarter but made a loss during the year due to the high inflation, interest rates, energy hikes and wage pressures. The "Dream Again with Us" campaign was launched to further support the revival of this sector amongst a host of other initiatives. Oman also recorded a loss as competition from large chains resulted in increased price competition. The Group's reputation for excellence in food and beverages has supported its popularity among the local clientele.

Aitken Spence Travels accounted for the highest number of tourist arrivals in the country. leading competitors by more than 50%. It has increased its market share of the cruise lines market from 50% prior to the pandemic to 75% in the current financial year. Royal Spence Aviation also increased profitability as did the Airline agency in the Maldives.

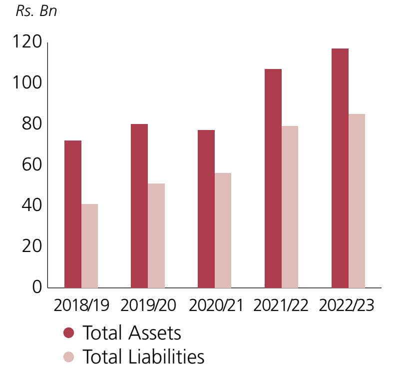
Value added statement (GRI 201-1)



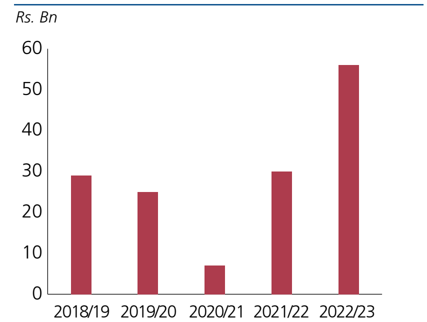
The growth of 65.3% recorded in the profit from operations enabled the Tourism Sector to enhance its value creation for the year to Rs. 24.1 billion. The largest part of this value created amounting to 39% of the total was distributed to the most essential asset had by the Sector being its employee base who are vital for the service excellence achieved by the Sector.

Owing to the capital-intensive nature of the operations and as a significant component of these investments were funded through debt, 25% of the value created by the Sector was distributed to its lenders of capital. The Sector retained approximately 24% of the value created within its business segment to promote future growth and fund its future operations.

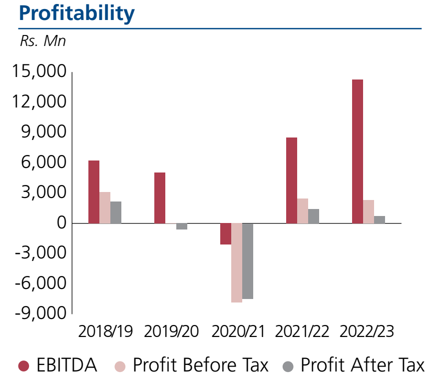
Stability



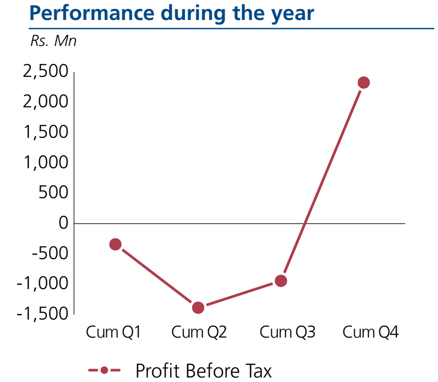
Revenue



Profitability



Performance during the year



Value to Stakeholders

912,240
Guest Nights

Rs. 9.3 Bn
Value Created for Employees

Rs. 588.6 Mn
Dividends paid to shareholders

10.9%
of the total tourist arrivals to the country handled by the destination management segment

Rs. 32.2 Bn
Payments to suppliers

Rs. 26.1 Mn
Total funds channelled for community development

Airline GSA operations for Singapore airlines celebrated their 50th anniversary and also managed to increase capacity during the year with more scheduled from October 2023.

Sustainability thrives in this sector which is responsible for initiating many of the best practices within the Group. Sri Lankan hotels re-engineered menus to reflect cuisine made from local ingredients supporting sustainable tourism. The "Travel Kindly" initiative of Aitken Spence Travels continues to increase awareness of sustainability among tourists.

Nurturing Our Capitals

Financial Capital

» The Sector recorded a profit of Rs.735.4 million, contributing positively to the Group's bottom line. Total Assets of the sector increased by 9.7% to Rs.116.9 bn.

Social & Relationship Capital

» Across all four regions of operation, the sector effectively handled 900,000 guest nights, while also facilitating the arrival of 83,741 tourists to Sri Lanka.

Human Capital

» With a boost in tourist activity, the Sector witnessed a team expansion of 59 members. Our efforts included offering 103,603 hours of training, cultivating talent pools for global careers. A substantial investment of Rs. 11.2 Mn was made, ensuring that each employee received more than 31 hours of training.

Natural Capital

» The Sector maintains 43 diverse management systems to ensure environmental sustainability, out of which 15 systems are certified aligned to global benchmarks.

Intellectual Capital

» The Sector operates three brands, Heritance, Adaaran and Turyaa with distinctive value propositions for each brand

Manufactured Capital

» Property plant & equipment increased by 7.8% to Rs.72.9 Bn

SECTOR REVIEWS

TOURISM

Statement of Financial and ESG performance (GRI 201-1; 203-1; 302-1; 303-3,4; 305-1,2; 306-5)

	2022/23	2021/22	YoY (%)
Revenue (Rs. Mn)	56,145	29,711	89
EBITDA (Rs. Mn)	14,235	8,495	68
Profit before tax (Rs. Mn)	2,327	2,452	(5)
Profit after tax (Rs. Mn)	735	1,436	(49)
Total Assets (Rs. Mn)	116,904	106,554	10
Total Liabilities (Rs. Mn)	85,392	79,079	8
SDGs towards which the Sector's performance contributes:			
Targets: 4.3, 4.4, 4.7, 5.1, 5B, 8.5, 8.6, 8.9			
Number of Employees	3,349	3,290	2
Employee female representation	13%	13%	-
Employee benefits paid (Rs. Mn)	9,270	5,311	75
Training hours per employee	31	24	29
SDGs towards which the Sector's performance contributes:			
Targets: 4.3, 4.4, 4.7, 5B, 12.b, 8.6, 8.9, 12.2, 12.6, 12.b			
Investment in training (Rs. '000)	11,181	9,835	14
Brand stewardship	6	6	-
Number of Certifications	28	34	(18)
SDGs towards which the Sector's performance contributes:			
Targets: 8.9, 9.1, 12.6, 12.8, 12.b			
Number of airline GSA relationship	5	5	-
Number of joint venture/equity partnerships	7	7	-
Number of suppliers screened on ESG within the year	144	84	71
Total funds channelled for community development (Rs. Mn)	26	5	444
SDGs towards which the Sector's performance contributes:			
Targets: 8.4, 9.4, 12.2, 12.5, 12.6, 12.8, 12.b, 14.1, 14.2			
Total energy consumption (GJ) *(Note: Direct energy consumption for the Sector for 2021/22 has been restated due to recalibration of data)*	390,794	353,148	11
Total energy consumed from renewable sources (GJ)	12,646	6,880	84
Scope 1 emissions (tCO2e) *(Note: Scope 1 emissions for the Sector for 2021/22 has been restated due to recalibration of data)*	21,708	20,600	5
Scope 2 emissions (tCO2e)	17,699	14,099	26
Emissions reduced or offset (tCO2e)	1,229	792	55
Total water withdrawn (m3)	728,845	646,692	13
Total volume of water treated for reuse or safe disposal (m3)	610,206	520,547	17
Total amount of solid waste kept away from landfills			
(Tonnes)	1,207	1,427	(15)
(Units)	0	5,942	(100)
Litres, waste oil)	3,285	3,285	-
Total investment in sustainability driven processes (Rs. Mn)	59	36	65
SDGs towards which the Sector's performance contributes:			
Targets: 9.1, 9.4			
Property Plant and Equipment (Rs. Mn)	72,925	67,652	8
Investment in manufactured capital (Rs. Mn)	2,010	771	161
Number of Keys owned and managed	2,633	2,826	(7)

Navigating the Future: Strategic Outlook for Growth

The outlook for the sector is positive despite the moderating economic outlook. Tourist arrivals are expected to increase by 30% although they are unlikely to reach pre-pandemic levels even this year due to the forecast moderation in economic growth. The issues that prevailed during 2022 are expected to continue into 2023 as well. These include rising costs, labour shortages and increasing energy costs which increase the operating expenses.

Hotels

The Hotels sector is positive about the outlook as we seek to revive the industry in Sri Lanka which has 54% of the Group's room inventory. Despite facing margin pressures due to the emergence of new destinations and capacity expansion within the country, Maldives maintains a positive outlook. India demonstrates a positive outlook for both international and domestic tourism. In Oman, there is a preference for international hotel chains, and existing players must revitalise their offerings to stay competitive.

Destination Management

The outlook for destination management is also positive supported by the forecast increase in tourist arrivals. Developing new source markets while holding onto the existing markets will be key to success. As different countries have divergent path of recovery, this becomes a key imperative as affordability of travel will become an increasingly important factor.

Airline GSA

As airlines are expected to become profitable and increase capacity in the year ahead, the outlook for Airlines GSA is positive. There is scope for increasing partnerships and growing existing relationships.

Expansion

Hotels

» Increase occupancy rates
» Targeted marketing
» Continued efforts to exemplify sustainable tourism through architecture and leisure practices that coexist with nature

Destination Management

» Promoting destination 'Sri Lanka' integrating sustainable tourism across all aspects
» Developing new source markets
» Protecting existing source markets

Airline GSA

» Increase seat capacity
» Joint promotions with hotels and destination management
» Core team members sensitised on DRR

Alignment to SDGs (GRI 3-3,203-1)

Quality education

» Training, education and leadership development initiatives enabled to employees

Gender equality

» Employee engagement and strategic interventions across the Sector to promote gender equality as well as diversity, equity, and inclusivity

Decent work and economic growth

» Highest labour standards maintained across the sector
» Management systems maintained to increase resource efficiency and prevent pollution

Industry innovation and infrastructure

» The sector provides crucial infrastructure required for economic growth in the country by connecting the tourism industry in Sri Lanka with global markets while ensuring environmental and social impact control

Responsible consumption and production

» Aligned to the 7R Principles, the Sector works to ensure zero waste dumping to landfills and increase resource efficiency to contribute towards a circular economy

Life under Water (SDG aligned at Sector level)

» 100% wastewater and effluents are treated for reuse or safe disposal
» Coral reef restoration projects maintained by hotels in the Maldives.

Life on land

» Engagement with supply chains for ecosystem and biodiversity conservation
» Strategic interventions to restore and protect habitats and create carbon sinks

Please refer to more details provided in pages 387 to 394 and the overview of the integrated sustainability policy and its alignment to the SDG given in the annexures of this report.

Hotels

Aitken Spence Hotels encompass an extensive and diverse portfolio of hotels and continues to be the largest overseas presence in hotels by a Sri Lankan company. The segment owns 15 properties in South Asia and the Middle East and manages a further 3 properties with a room capacity of 1,411 in Sri Lanka, 735 in the Maldives,140 in India and 341 in Oman. The hotels operate under the well-established brand names of Heritance, Adaaran and Turyaa, offering unparalleled experiences for its guests through its uniquely designed properties. The hotels carry a long-standing reputation for sustainable tourism, excellence in hospitality and service as well as exceptional and award-winning culinary experiences.

Locations

Sri Lanka

9 Properties : 1,411 Keys

Certifications

- 2 ISO 14001 certified hotels
- 3 LEED certified hotels
- 4 ISO 50001 certified hotels
- 5 Travelife Gold certified hotels
- 5 ISO 22000/ HACCP certified hotels

Maldives

5 Properties : 735 Keys

Certifications

- 1 LEED Certified hotel
- 1 Scuba Schools International (SSI) Diamond Status Certified hotel
- 5 ISO 22000/ HACCP certified hotels

India

1 Property : 140 Keys

Oman

03 Properties : 341 Keys

Industry Overview

Global Tourism

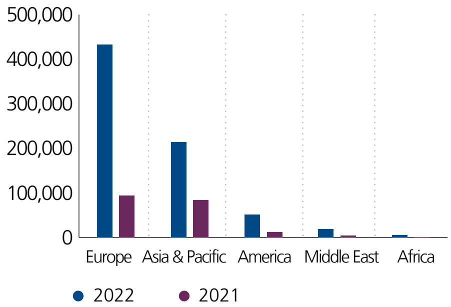
In 2022, global tourism witnessed a significant recovery, with more than 900 million international tourists traveling, marking a 100% increase compared to 2021. This number accounted for approximately 63% of the pre-pandemic travel figures. Looking ahead to 2023, it is projected that international tourist arrivals will range from 80% to 95% of the pre-pandemic levels, depending on factors such as the global economic slowdown and geopolitical tensions.

The Middle East experienced a robust recovery, with tourist arrivals reaching almost 83% of pre-pandemic levels. Conversely, the Asia Pacific region had a slower recovery rate of only 23% due to prolonged travel restrictions and a gradual post-COVID recovery. However, the lifting of travel restrictions in China, which was the largest outbound market before the pandemic, is anticipated to have a significant positive impact on the recovery of tourism in the Asia Pacific region.

Sri Lanka

Despite facing significant challenges such as social tensions, fuel shortages, power outages, and travel advisories, Sri Lanka experienced a steady recovery in tourist arrivals in 2022. This recovery was attributed to several factors including high global vaccination rates and the country's attractive positioning as a

Tourist Arrivals to Sri Lanka by Region



destination. It was also aided by a notable exchange rate depreciation. International arrivals in Sri Lanka demonstrated a strong recovery recording a 270% increase, with numbers rising from 194,495 in 2021 to 719,978 in 2022. This was also 31% of the arrivals pre-2019. The arrivals from the largest source market, Europe, recorded a strong improvement with numbers at 42.5% of pre-pandemic levels attributed to pent-up demand and easing of travel restrictions.

A majority of tourists arrivals from key markets: Poland (92.1%), Russia (69.3%), France (69.3%), Germany (68.8%) India (56%): were for the purpose of leisure. While the total number of rooms have increased from 47,337 in 2021 to 48,120 in 2022, the annual room occupancy rates also recorded an increase from 18.9% in 2021 to 30.4% in 2022. Hence, the revenue earned from tourism increased from USD 506.9 million in 2021 to USD 1,136 million in 2022.

Maldives

Maldives recorded a 26.7% increase in tourist arrivals reaching 1.6 million in 2022 from 1.3 million in 2021. The arrivals between January to March 2023 surpassed the arrivals between January to March 2022 by 21% to stand at 523,928 compared to 431,567 visitors.

There were 1,114 tourist establishments inclusive of resorts, marinas, guesthouses, safari vessels and hotels that were in operation in 2022, an increase from the 780 establishments in operation in 2021. Occupancy rates saw a similar upward trend with an increase of 56.1% in 2021 to 58.9% in 2022. The largest source markets to Maldives continued to be India (19.1%), Russia (15.7%) and the United Kingdom (15.1%).

India

Tourism numbers saw a 305% increase in 2022 with arrivals increasing from 1.52 million in 2021 to 6.19 million in 2022.

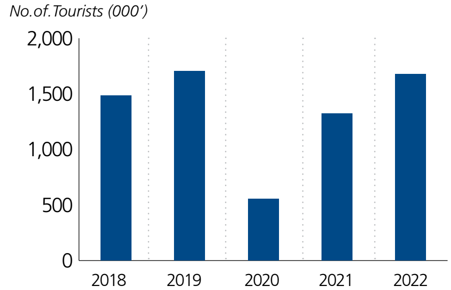
The foreign exchange earnings from tourism also saw an increase of 92.4% up to USD 16.92 million in 2022. The top source markets were the United States of America, Bangladesh, and the United Kingdom.

Oman

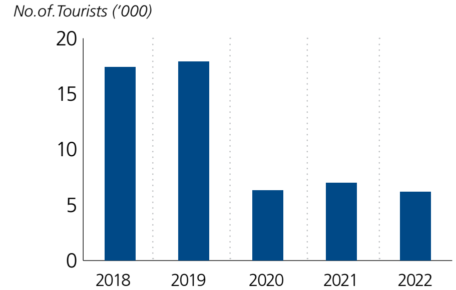
Oman recorded a 348% increase in tourist arrivals of 2.9 million in 2022 in comparison to 2021. There was a significant increase in revenue of hotels with 3-5 star ratings of 91.7% as at November 2022 reaching OMR 161.26Mn. Similarly, occupancy rates increased by 18.2% in 2022 with guest numbers in hotels with 3-5 star ratings also increasing by 33.9% from 1.08Mn. guests in 2021 to 1.45Mn. guests in 2022.

Oman is currently ranked seventh in the world as an important tourist destination as per Lonely Planet.

Tourists Arrival For Maldives



Tourists Arrivals in India



Awards and Achievements

- Aiken Spence Hotels and Resorts proudly represented Heritance Aarah at the esteemed culinary world cup EXPOGAST 2022. Their exceptional team achieved remarkable success, securing a total of 13 medals, including 5 Gold, 4 Silver, and 4 Bronze medals, across 15 categories.
- Adaaran Prestige Vadoo achieved recognition as the Most Outstanding Culinary Organisation of 2022 by Food and Hospitality Asia Maldives (FHAM). They demonstrated exceptional culinary skills at the FHAM International Culinary Challenge Exhibition, earning an impressive 13 gold medals, 6 silver medals, and 9 bronze medals.
- Aitken Spence Maldives resorts excelled at SATA Awards 2022. Adaaran Select Hudhuranfushi won for leading surf hotel, Meedhupparu for diving, Heritance Aarah for all-inclusive and wellness.
- The Intellectual Capital report provides a comprehensive overview of all the awards and recognition earned by the segment.

SECTOR REVIEWS
TOURISM

Delivering Strategy

Sri Lanka

The Sri Lankan hotel segment witnessed a robust 90.0% growth in revenue. However, profitability remained a challenge due to the impact of rising inflation on food and energy costs. Additionally, the segment had to deal with a significant increase in interest rates during the financial year, further exacerbating the profitability challenges. The higher borrowing costs, combined with inflationary pressures on operating expenses, constrained the segment's ability to generate a net profit. The elevated interest rates burdened the financial structure, resulting in decreased margins and reduced profitability. Furthermore, the segment faced operational complexities due to the loss of skilled employees through migration.

To mitigate these risks, the segment prioritised succession planning by providing continuous training, coaching, and cross-exposure in local and foreign properties, as well as job rotation. The introduction of the 'Heritance Rise' programme offered new entrants the opportunity to develop a career path leading to the position of General Manager within 10 years. Encouragingly, efforts were made to increase female participation within the Group, with improvements seen in the intake of females at the segment's hotel school. The segment also emphasised process automation and digital marketing to enhance international promotion of the hotels.

Maldives

Despite the intense competition from other tourism destinations such as Thailand, Bali and Philippines the hotels recorded a revenue growth against the previous financial period of 83.3% with a profit before tax growth of 30.6%. There was a substantial increase in energy and fuel costs as well as freight costs, which propelled overall costs upwards. Additionally, the hotel sector faced a 40% increase in payroll expenses due to the implementation of a minimum wage policy within the country. Interest costs also saw an increase as LIBOR rates increased although there was a substantial exchange gain during 2022. As a result, overhead costs increased by 25% during the period. The impact of these factors resulted in a decline in profitability in US dollars compared to the previous period. Cashflow and liquidity were affected as the 4 year moratorium period came to an end. In an effort to minimise investment exposure in the Maldives, the segment divested the Raafushi property. The segment focused on more experience based tourist excursions and activities by engaging industry experts.

India

Turyaa Chennai underwent a noteworthy turnaround, reflecting the resurgence of the Indian economy, as it achieved profitability for the first time. The company witnessed a substantial surge in revenue, highlighting significant growth in its financial performance. Additionally, there was notable growth in pre-tax profits, further solidifying the company's market position. The property experienced an impressive increase in Average Daily Rate (ADR) compared to pre-pandemic levels, underscoring its robust recovery and sustained expansion.

During this period, the company reported an occupancy of over 42,000 room nights, marking it a 20% growth over pre-pandemic levels, with an average occupancy rate of over 80%. The company's increased focus on digital marketing and enhancing its online presence proved fruitful, as sales through digital platforms doubled during this period. Moreover, the introduction of a new revenue management and pricing model by the hotel contributed to its overall success and growth.

Oman

The revenue of Al Falaj hotel increased during the year, however, the increase in room revenue grew at a lower rate due to the excess of hotel room inventory in the country as competition from new entrants reduced room rates drastically. Nevertheless, the hotel properties including the managed properties operated at a 43% occupancy since the pandemic and room night rates increased by 24% during the period. There was an increase in overhead costs at the same time stemming from hikes in payroll related costs due to the labour intensive nature of operations. The revenue from F&B operations increased by 15% as the footfall after the pandemic gained momentum. The segment commenced on the refurbishment of the Al Falaj property which is expected to be completed in 2023 as a part of an effort to meet customer expectations and in turn increase revenue. Nevertheless, the financial cost experienced a substantial increase due to higher borrowing costs on both existing loans and the new loan obtained to finance the refurbishment.

Challenges and Risks

Sri Lanka

The volatility of the tourism industry was further exacerbated by the economic and political instability making recovery a slow process. The migration of talented employees and the resultant replacement with new employees have been challenging. The industry also experienced substantial hikes in inflation and costs along with power, fuel, and gas scarcities. Finance costs saw an increase due to the increase in the interest rates and an increase in borrowings resulting from the capitalisation of interest during the loan moratorium period. Within the industry, there exists the risk of rising energy, finance, and food costs, which is further compounded by the potential restrictions on imported food items.

Maldives

The easing of travel restrictions globally increased the competition from cheaper travel destinations such as Thailand and Indonesia. The ongoing issues in key source markets have been a challenge as arrivals from China have not resumed to its pre-pandemic numbers, whilst the conflict between Russia and Ukraine also continues to have an impact.

India

Throughout the year under review, the hotel industry encountered difficulties due to the increase in energy costs and interest rates. The ongoing challenge lies in anticipating and adapting to the evolving demands of post-pandemic consumers. Furthermore, the industry faced substantial obstacles such as high staff turnover and a shortage of trained personnel. Additionally, the industry remains vulnerable to global inflation and a lack of consumer confidence, which pose as risk factors.

Oman

The Government's initiative in promoting tourism has increased investments in new hotel chains which has driven down room rates, despite increase in operational costs post pandemic. The country has a high electricity tariff which makes off season sustenance a challenge. The high taxes on beverages has restricted tourist spending which is a key income earner in other segments. The continuation of the Russia-Ukraine tensions carry the risk of rising operating expenses along with increasing cost of funds due to the appreciation of the US dollar and high interest rates.

Key Initiatives Implemented

Sri Lanka

- 'Dream again with us' campaign for the local and international market following the economic conflict to encourage travel
- Affiliating with Wellness Ceylon to expand the reach within the UK senior citizen's market
- Promotions through social media influencers: Alexina Anatole, BBC Masterchef Tony Filoni, Youtuber Mark Chirstopher, Harrods Magazine, architect Anjalendran, Local influencers Sushmita Wijeratne and Shiny Nethikumara

Maldives

- Employee empowerment programmes: Outbound training for 230 employees, extensive 10 day certification programme for butlers, Essence of Mixology programme for food and beverage associates, wine training in partnership with MMI Wirainer covering 71 associates
- Fancy a Cuppa - Stassen Tea training and competition for 108 associates.
- International Women's Day 2023 programme for 42 female associates on "Significance of mental health and well-being of women."
- Hackathon Project which led to the development on two apps: Duty Manager Application and Disclaimer App.

India

- Turyaa(Chennai) organised a beach cleaning event in Chennai involving hotel staff, NCCR volunteers, and the public. They collected 80kg of waste in 90 minutes to promote sustainable tourism and cleaner beaches
- Turyaa(Chennai) implemented water recycling and reuse methods for gardening and cooling towers, significantly reducing water consumption.

Oman

- Delved into the realm of large-scale outdoor catering activities and accomplished a commendable level of success.
- Al Falaj Hotel accomplished the remarkable feat of creating the tallest Christmas tree in Muscat, showcasing their steadfast commitment to sustainability initiatives by constructing it entirely from recycled materials such as cans and bottles.
- Launched a kebab restaurant in the 'Autobahn' night club

11,647 GJ
of Energy from renewable sources

Water bottling plant at Adaaran Maldives eliminates the use of over 300,000 single use plastic bottles per year from each property

More than 20 types of waste streams are managed across the hotels, in accordance with the 7R principle, as part of the company's commitment to achieving zero waste to landfill

Coral reef restoration programmes to protect and conserve marine bio diversity in the Maldives

100% of wastewater is treated for safe re use or disposal

Over 2,998 employees from over 20 diverse nationalities

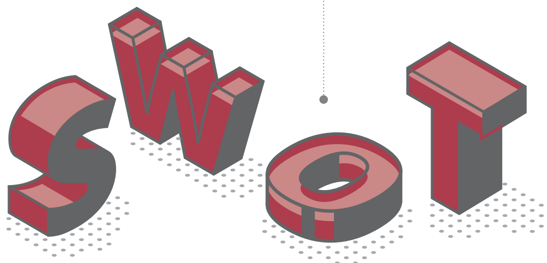
SECTOR REVIEWS
TOURISM

WEAKNESSES

- Constantly evolving market
- Labour-intensive industry
- Need for constant refurbishment and maintenance of properties
- High dependence on employee skills and interactions
- Shortage of workers due to migration

OPPORTUNITIES

- Easing of travel restrictions in China and Far East
- Growing regional tourism
- Promotion of tourism by respective Governments
- Good airline connectivity to destinations
- Traveller preference for reputed hotel chains



STRENGTHS

- Strategic locations of hotels
- Experienced and skilled teams
- Unique hotel architecture
- Group synergies and strong brand
- Diversified hotel and destination experiences

THREATS

- Increasing competition
- Risk of geopolitical instability
- Impacts of climate change
- Capital intensive industry and impact of increasing finance costs
- Increasing cost of airfares

Navigating the Future: Strategic Outlook for Growth

Overall, the outlook for the industry is positive although there are concerns regarding the impact of persistent inflation and moderating global economic outlook. The hotel segment will focus on strengthening its business strategy with a greater emphasis on its branding.

Sri Lanka

The hotels in Sri Lanka will continue to leverage on its Group synergies and secure visitors from India, Eastern Europe, Australia, Middle East and well as China in the short term. The resurgence of European tourist is expected to be slow until winter 2023 due to the recession and depreciation of the Euro against the USD. As airline capacity improves and seasonal tourism trends undergo changes, the industry is projected to experience growth by the end of 2023. Interestingly, the effect of post pandemic changes has seen an increase in remote working tourists leveraging on hybrid work models. The hotels will continue to cater to this segment through long-stay packages, reliable internet facilities and designated workspaces. The industry is witnessing a noticeable increase in the trend of online bookings, although the uncertainties experienced in recent years have also contributed to the continued reliance on tour operators and agents. Hotels will persist in utilising these channels to facilitate bookings and ensure operational stability. The retention of skilled employees will be a key concern as would the management of expenses and retaining liquidity amidst the continuous requirement for refurbishment. The segment will continue to prioritise environmental conscientiousness and sustainability as a part of its daily operations.

Maldives

The hotel industry in Maldives is poised for growth with the easing of travel restrictions in China. Addressing infrastructure challenges, particularly the capacity of the airport, is crucial to minimise airline waiting times. The increase in the number of tourist accommodations may prove to be a challenge along with the competition from cheaper tourist destinations which need to be addressed with more sustainable and unique experiences. Additionally, this will hamper the ability to increase rates to counteract the cost hikes and minimum wage increases. The hotels will continue to set higher benchmarks in attaining world-renowned accolades and obtaining global standards such as the LQA (Leading Quality Assurance) standard. Improving guest experiences will continue as a key priority as the hotels continue the digitisation processes and conduct regular training and development of team members.

India

The segment sees potential for further growth in the hotel industry against the backdrop of the positive economic outlook in India, particularly in Chennai. The segment will focus on building a diverse and skilled team through continuous training and development.

Oman

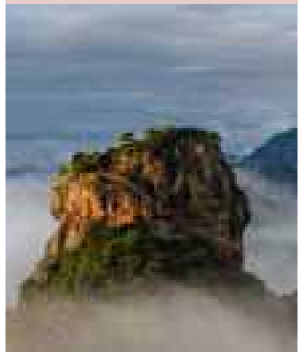
The tourism development plan "Oman Vision 2040" will continue to promote tourism in the country, with an investment if USD 51 billion in an attempt to diversify from oil related activities and is expected to provide further growth opportunities for the hotel sector. At the same time, there is an expectation of large corporate entrants into the hotel industry which will drive prices down as competition grows. The refurbishment of Al Falaj Hotel is expected to help the segment maintain its competitiveness and stride alongside market growth in the medium term. The hotel will leverage on its excellent food and beverage offering and develop its catering arm and banquet facilities further with planned investments to upgrade and to re-obtain the 4-star status. A mixed-development project on hotel land is planned to increase the footfall and revenue to the Hotel.

Destination Management

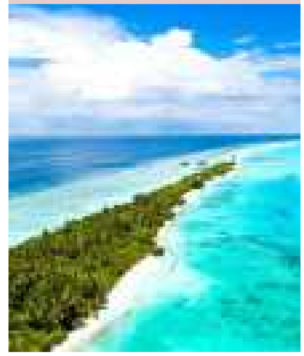
Aitken Spence Travels is Sri Lanka's leading destination management company with 45 years of experience and excellence in the industry. The segment is backed by its longstanding partnership with TUI, the largest integrated travel company in the world, as it continues to provide comprehensive travel services to a global clientele. The tourism sector is continuously adapting and transforming to meet the changing needs of the industry, with a primary focus on providing customer-centric travel experiences that surpass expectations. The sustained growth of this industry relies on the conservation of nature and culture. As a result, the segment places significant importance on sustainable tourism practices that involve local communities and ensure that development does not harm the environment. These areas remain the primary focus. The operations of Aitken Spence Travels currently span across Sri Lanka, Maldives and Myanmar.

Locations

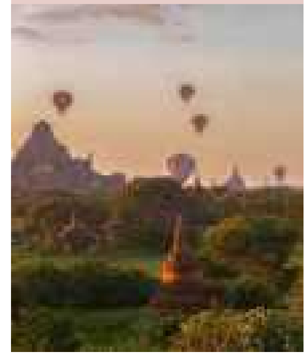
Sri Lanka



Maldives



Myanmar

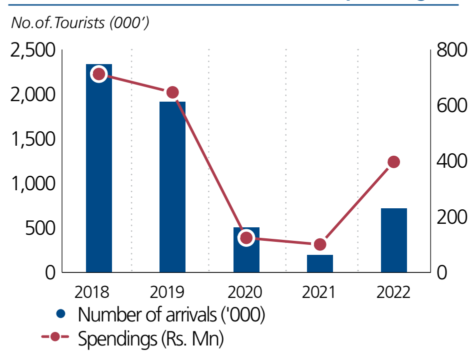


Certified for

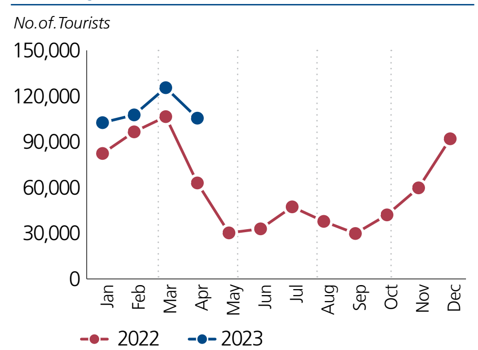
» Travelife
» ISO 9001: 2015
» ISO 14001: 2015
» ISO 45001: 2018

Industry Overview

Tourist Arrivals to Sri Lanka and Spending



Monthly Tourist Arrivals



In 2022, Sri Lanka witnessed a significant surge in international travellers, with a remarkable increase of 270%. The number of visitors rose from 194,495 in 2021 to 719,978, driven by the relaxation of travel restrictions, widespread vaccinations, and increased consumer confidence, particularly in air travel. The country experienced a setback in its fragile recovery during the second and third quarters of 2022 due to political and economic turmoil. However, a return to normalcy led to the resurgence of the tourism sector in the fourth quarter of 2022, which continued into the first quarter of 2023. In 2022, key source markets included India, Russia, and the UK, with Russia surpassing India in 2023. Notably, the first quarter of 2023 saw 335,679 tourist arrivals, which is 17% higher than the total arrivals during the same period in 2022, indicating a significant revival of this crucial sector.

Earnings from tourist spending increased from USD 100 million to USD 362 million between 2021 to 2022, although the average length of stay has reduced from 15.1 to 9.3 nights during the same period.

Airline capacity increased during the year, while there is still room for improvement.

SECTOR REVIEWS

TOURISM

Achievements

Aitken Spence Travels (Pvt) Ltd was recognised as the most sustainable DMC at the "Sustainability Awards 2022," organised by the AHK (Delegation of German Industry and Commerce in Sri Lanka), together with the Friedrich Naumann Foundation in December 2022

Delivering Strategy (GRI 3-3,413-1)

The segment experienced a significant growth in top-line revenue, with an increase of 120.1%, driven by a rise in tourist arrivals, particularly from Russia. Profit before tax also saw a substantial increase of 56.6%. The first half of the year was challenging, with travel advisories deterring tourists and operations being hampered by fuel and power shortages, as well as social unrest. However, the second half of the year witnessed the restoration of order and greater policy stability, leading to the normalisation of economic and leisure activities in the country. The improved management of the economy resulted in the appreciation of the rupee against the dollar in March 2023, which had a negative impact on the segment's operations.

The segment broadened its presence into new markets, with high potential source markets such as Russia, Eastern Europe and CIS areas, and handled 83,741 foreign tourist arrivals during 2022/23. The segment maintained its position as the leading destination management company, accounting for 10.9% of arrivals in the country. Furthermore, the segment saw an increase in local tourist numbers and cruise passengers supported by continuous campaigns, augmented with an increase in outbound tourist numbers despite restrictions on foreign currency. The segment continued to upgrade its digital infrastructure through investments in AI and market specific booking systems.

The segment's focus on sustainability with a comprehensive programme of awareness and support continued during the period. The “Travel Kindly” initiative reviews the sustainability practices of hotels and other key suppliers with a view to promoting responsible practices and greening the tourism supply chains. This year, checklists were developed to evaluate and monitor the sustainability practices of our operation and products. Additionally, we conducted baseline assessments annually to identify gaps, and on-site visits to selected properties and ancillary suppliers. Our criterion includes evaluating aspects such as health and safety, human rights, child labour, sustainable use of resources and service excellence. The segment engages with local communities by involving drivers, guides, and trackers from within the community, which plays a pivotal role in supporting livelihoods and providing economic opportunities to the locals.

Key Initiatives Implemented

Economic

- Accessed new source markets such as Kazakhstan and Bulgaria with charter operations.
- Chartered bi-weekly flights from Uzbekistan and Russia.
- Promoting cruise vacations resulted in more than 12,000 cruise clients visiting Sri Lanka.

Efficiencies

- Investment in market-specific booking systems such as Unihotels that cater specifically to the Russian and CIS market segments.

Employees

- Contribution towards a green workforce through education on the Travelife standard for 100% of the employees and engagement initiatives within the segment.

Environmental and Social

- Cascading the segment’s ESG and sustainability benchmarks within the extended supply chain.
- The Art of Giving to assist the Serupitiya Maha Vidyalaya and the village, with 51children receiving education supplies and dry rations distributed among 157 low income families.

Transforming Lives and uplifting livelihoods of stakeholders

A strategic intervention to support sustainable tourism through engaging supply chain partners and influencing sustainable customer behaviour.

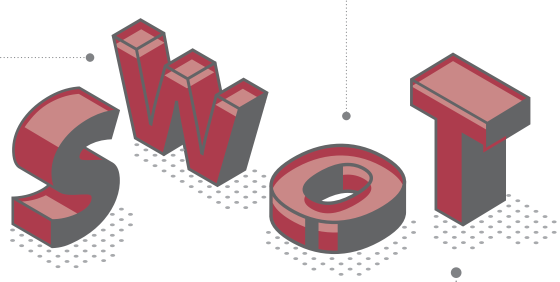
Anagi, the second baby elephant adopted at 'Ath Athuru Sewana', after Bhanu was released back into the wild.

Provided financial assistance for turtle conservation project at Rekawa

Drivers operating safari vehicles in national parks educated year on year on sustainable tourism practices to protect ecosystems and biodiversity

Supporting local communities by including local community members in the supply chain.

200 hand-made reed bags purchased each month from a village as a gift pack for tourists, preserving the traditional crafts



WEAKNESSES

» Highly labour-intensive sector
» Seasonality of demand
» High dependence on employee skills and interactions
» Shortages of workers due to migration

STRENGTHS

» Over four decades of experience
» Joint venture partnerships
» Strong brand name and reputation
» Experienced and multi-lingual employees
» Strong network of guides and chauffeurs
» Wide footprint in the tourism industry: tour operations, cruise and outbound tours, luxury and sports tourism.
» Group synergies

OPPORTUNITIES

» Easing of travel restrictions in China and Far East markets
» Ability to tap into growing markets as air routes open up.
» Regional expansion of UNIHOTEL system
  » Opportunities in untapped eastern European markets, CIS regions

THREATS

» Escalation of the Russian-Ukraine war
» Global economic instability and recession
» Increasing airfares to long haul destinations
» Possible political and economic instability in the country
» Price sensitive industry

Challenges and Risks

The tourism industry encountered significant difficulties throughout the year, including political instability, the implementation of emergency laws, fuel and energy shortages, and negative publicity. These factors led to travel advisories and a decline in tourist arrivals. One of the key challenges faced by the industry as it strives to regain momentum is the migration of skilled and trained employees, as the country struggles to retain talent.

The country's economic and political instability and its impact on traveller confidence remain major concerns as the nation aims to establish a more stable growth trajectory. The moderation of the global economic outlook and the decrease in disposable income among travellers are additional obstacles that are likely to hinder growth.

Navigating the Future: Strategic Outlook for Growth

The tourism sector holds immense potential for growth in the countries where we operate, especially with the lifting of restrictions in China and the Far East. Sri Lanka has regained its position as a popular tourist destination, as recognised by esteemed accolades such as Forbes' list for 2023 and the Condé Nast Traveller Readers' Choice Awards for 2022. Similarly, the Maldives continues to maintain its popularity among travellers.

While airline capacity has improved, there is still a need for further enhancement due to high demand and limited availability, which in turn increases prices. Short-haul travel appears more attractive due to affordability concerns amidst global inflation. Technology will play a pivotal role in engaging customers, attracting them to our offerings, and providing innovative experiences beyond their stay. Advancements in this area have the potential to revolutionise the industry in the future.

The segment will concentrate on expanding its presence in key source markets such as India, Russia, the CIS, and China, with a particular focus on increasing charter flight operations from these regions. Recent expansions in flights and new routes will strengthen this endeavour, further supported by anticipated local economic stability. However, geopolitical tensions in key markets, along with political instability, continue to pose risks to the industry, in addition to its vulnerability to global recessions and decreased consumer spending. Government-led campaigns to support tourism, coupled with marketing efforts by private sector players in the country, are expected to have a positive impact on the industry.

Sustainability will be a significant area of focus, with the segment aiming to increase carbon-free excursion options and reduce overall carbon emissions associated with tourism activities. Furthermore, a 10% increase in combined transfers will be pursued to further minimise carbon emissions. The goal is to fully offset all carbon emissions from transport operations by 2024.

The segment is poised for strong growth in the upcoming year with its reputation for service excellence, global partnerships, and Group synergies.

Airline GSA

The Airlines General Sales (GSA) segment has built a reputation for maintaining global standards and service excellence and is one of the leading GSA representatives for both passenger and cargo movements in Sri Lanka with passenger operations in the Maldives. With a longstanding partnership of over five decades, the segment proudly holds the title of the oldest GSA for the prestigious Singapore Airlines through Aitken Spence Aviation (Pvt) Ltd. This partnership stands as a testament to the segment's professionalism and the quality of service, which has also facilitated growth with other partners. Singapore Airlines flies to Sri Lanka four times per week and recently upgraded the service with the introduction of Boeing B787-10 Dreamliner aircrafts.

Ace Aviation Services (Maldives) (Pvt) Ltd acts as the GSA for Sri Lankan Airlines in the Maldives, where the airline holds a significant share of the outbound market. Sri Lankan Airlines is the exclusive international carrier operating in the Maldives, serving Male and Gan airports with three daily flights on the 'Male - Colombo - Male' route and two weekly flights on the Gan - Colombo - Gan route. Royal Spence Aviation (Pvt) Ltd holds the GSA for Jazeera Airlines in Sri Lanka which flies regularly on the Kuwait – Colombo route.

The segment's significance in the tourism supply chain cannot be overstated. It plays a pivotal role in facilitating the expansion of cargo volumes and seat capacity within the country, thereby making substantial contributions to the overall advancement of the economy.

GSA for Singapore Airlines (SIA) - Cargo and Passenger

GSA for Sri Lankan Airlines in Maldives

GSA for Jazeera Airlines in Sri Lanka

Industry Overview

	2018	2019	2020	2021	2022
Passenger Departures	5,389,082	4,970,184	1,231,939	708,076	2,878,370
Passenger Arrivals	5,409,587	4,930,455	1,140,989	792,002	2,624,169
Aircraft Movements	66,175	60,883	19,442	18,738	35,917
Inbound Cargo(MT)	162,011	151,547	86,327	111,463	103,357
Outbound Cargo(MT)	106,485	94,859	49,766	72,676	63,612

Overall, both passenger departures and arrivals saw an increase over 2021 in 2022 as travel restrictions were lifted in many countries. However, 2022 proved to be a challenging year for airline operations to and from Sri Lanka, as fuel shortages saw airlines reducing seat capacity by 53% during the middle of the year. As per Aviation Worldwide Limited, airline seat capacity to the country declined by 27.6% year on year to 313,358 by June 2022. Whilst the Bandaranaike International Airport has the capacity to hold 7.8 million litres of Jet-A1 fuel and Mattala International Airport has the capacity to hold 3 million litres, the currency crisis led to a severe shortage of jet fuel for airlines, reducing the flights per day at the airports from 90 to 42.

In 2022, there was a decrease in both inbound and outbound cargo movement as many airlines chose to suspend transporting cargo to and from the country. Instead, they opted for "tankering," which involved carrying extra fuel required for return flights. This decision led to a reduction in both payloads and revenue in the cargo sector. Some of the airlines such as Sri Lankan Airlines and Jazeera Airlines opted to refuel at nearby locations such as South India despite the additional costs involved. There was a hike in air ticket prices during the year of between 27% to 40% as the rupee depreciated heavily against the US dollar. The shortage of foreign exchange also led to difficulties for GSA's operating in Sri Lanka to remit funds from sales of airline tickets to principals.

SECTOR REVIEWS
TOURISM

Socioeconomic Impact (GRI 201-1,203-1,2)

Provided emergency lighting and dry goods for children at Lady Ridgeway Hospital

Provided 180 balanced meals through a community kitchen in Colombo

Employees volunteered, supplying shoes and dry rations to meet the needs of residents at the child development center and orphanage.

SIA helped alleviate medicine shortage in Sri Lanka by transporting 600 kg of donated medicines on a complimentary basis, easing the situation at Inginiyagala Divisional Hospital.

Delivering Strategy

Despite the tumultuous year experienced by the industry, the segment was able to record a significant increase in net profit before tax, supported by a growth in revenue, as demand for travel increased along with higher yields.

Singapore Airlines reduced capacity from 9 flights a week to 4 flights during the first quarter of the financial year as the economic crisis deepened. As at the end of the financial year, this has seen an improvement with capacity being increased by 11% as Singapore Airlines launched the Boeing B787-10 Dreamliner, with a capacity of 337 seats. The segment persevered with its marketing and promotion campaigns, effectively addressing the challenges faced during the year, including the shortage of foreign exchange. To mitigate this issue, the segment encouraged passengers to remit funds directly to the airline, ensuring a smoother transaction process.

Despite a 36% reduction in cargo tonnage handled during the year caused by capacity cuts and decreased global demand for garments and general cargo, the segment successfully diversified into perishables like seafood, ornamental fish, and foliage. This diversification resulted in a 5% increase in revenue from cargo movements.

As the GSA for Jazeera Airways the airline has achieved impressive progress in the market, overcoming fuel-related challenges during the second and third quarters of the year. With an average load factor of 91% per flight, Jazeera Airways has enhanced its operational reliability. By expanding distribution channels and reaching agents beyond the commercial capital points. The airline has successfully tapped into previously untapped areas, generating sales. This strategic approach has enabled Jazeera Airways to enter emerging markets like Hajj and Umrah, as well as the CIS markets, resulting in a significant increase in their market share. Their success has disrupted the long-standing dominance of legacy carriers that persisted for over a decade.

Key Initiatives Implemented

Expansion

» Increased focus on developing direct distribution channels and digital platforms.

» Capitalised on perishable loads through proactive marketing.

» Enhanced customer experience through the introduction of Boeing B787-10.

» Focused on direct shipper business on cargo for additional revenue.

Efficiency

» Exercised rate differentiation on low utilisation flights to propel overall load factor to revenue.

» The focus was on optimising loads with higher profitability.

» Focused on direct shipper business on cargo for additional revenue.

Achievements

» Singapore Airlines Colombo Team won the GRIT Awards from SIA for its resilient performance in

» Ace Aviation Services (Maldives) (Pvt) Ltd was recognised as the "Leading GSA" at the South Asian Travel Awards consecutively for the last four years.

Challenges and Risks

The reduction on seat and cargo capacity, fuel crisis and the shortage of foreign exchange were significant challenges for the segment. The cargo segment experienced a substantial reduction in yields post-COVID and a reduction in outbound demand as global demand for garments and general cargo reduced, along with a reduction in inbound cargo demand due to import restrictions. The reduction of apparel exports and the impact of political and economic tensions on tourism continue to be risk factors for the segment.

The tourism industry faced a significant number of challenges during the year. The political instability, implementation of emergency law, fuel and energy shortages resulted in travel advisories that led to a decline in tourist arrivals. The increasing migration of skilled and trained employees continues to be a key challenge.

Navigating the Future: Strategic Outlook for Growth.

The segment is cautiously optimistic about its growth prospects as the demand for global travel shows a rising trend. It anticipates that the current operating conditions will lead to a continued increase in airline capacity, with a return to normalcy expected by October 2023.

Moreover, the air freight industry is projected to gradually expand, supported by the strengthening of the rupee, and increased foreign investments. However, the segment acknowledges the challenge of maintaining yields as competition in the market becomes more intense. Despite this, the segment remains mindful of the potential for growth.

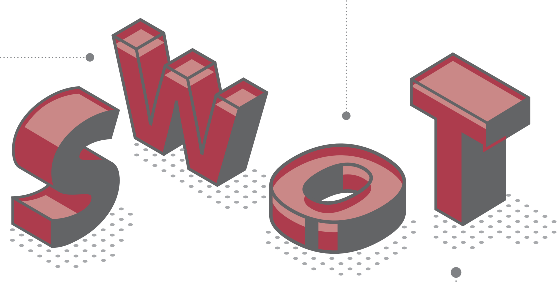
In light of the changing dynamics and obstacles in the industry, the airline GSA segment demonstrates a cautious stance towards expansion, aiming to navigate through the circumstances and seize growth opportunities.

WEAKNESSES

- High fixed overheads
- Increasing cost of air travel
- Seasonality of demand

OPPORTUNITIES

- Potential to expand into new markets such as the Far East segment
- Growth potential in air cargo capacity
- Diversification of cargo items



STRENGTHS

- Increase in demand for travel and re-opening of international borders
- Brand value and reach of the principal airlines with high passenger and cargo capacity

THREATS

- Competition from low cost airlines
- Capacity limitations to Sri Lanka
- Limited resources for expansion

MARITIME & FREIGHT LOGISTICS

The Group's Maritime & Freight Logistics Sector, a pioneer of the industry in Sri Lanka, provides a comprehensive range of services in cargo handling, freight forwarding, integrated logistics and maritime operations. Built on a foundation of more than a century of experience, the Sector continues to set benchmark standards for the industry. The scope of our operation enables the Sector to offer seamlessly integrated solutions utilising state of the art facilities and unparalleled service excellence forged through close customer relationships. Spanning across three continents leveraging on trusted global partnerships, the Sector has consistently recorded robust growth.

The team's commitment towards operational excellence has propelled profits resulting a 69.8% contribution to the Group's profit before tax for the year under review.

Our presence along the value chain (GRI 2-6)

Integrated Container Services

Aitken Spence Logistics provides an extensive range of logistical solutions, which include a specialised container freight station and a mobile storage facility spanning over 45 acres, inland container terminal services, warehousing and distribution, reefer storage and transportation services which comes with a fully equipped fleet of heavy vehicles and equipment.

Locations of Operation in Sri Lanka

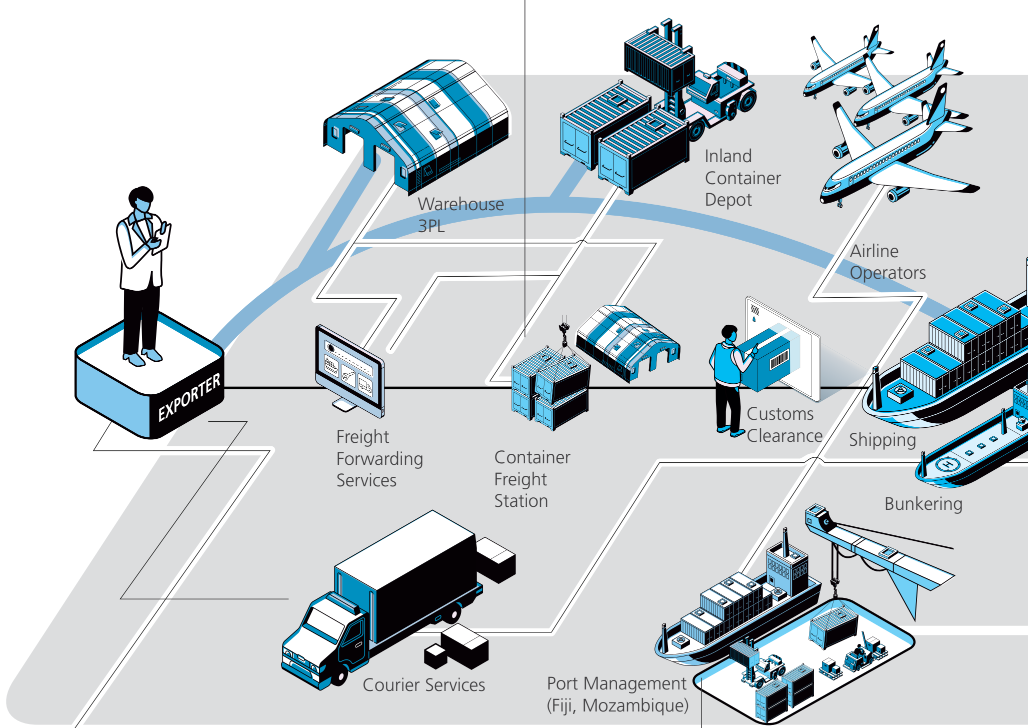
Wattala, Mabole, Welisara, Katunayake, Mattakkuliya

Airline GSA (Cargo)

Represents air cargo general sales agencies for Qatar Airways in Sri Lanka.

Locations of Operation

Sri Lanka



Freight Forwarding & Courier

Aitken Spence Freight covers a wide spectrum of operations, including air and sea freight operations, customs house agencies, express courier service and represents international networks.

Locations of Operations

Sri Lanka , Maldives, Myanmar, Bangladesh and Cambodia

Revenue
Rs. 29.0 Bn

EBITDA
Rs. 9.0 Bn

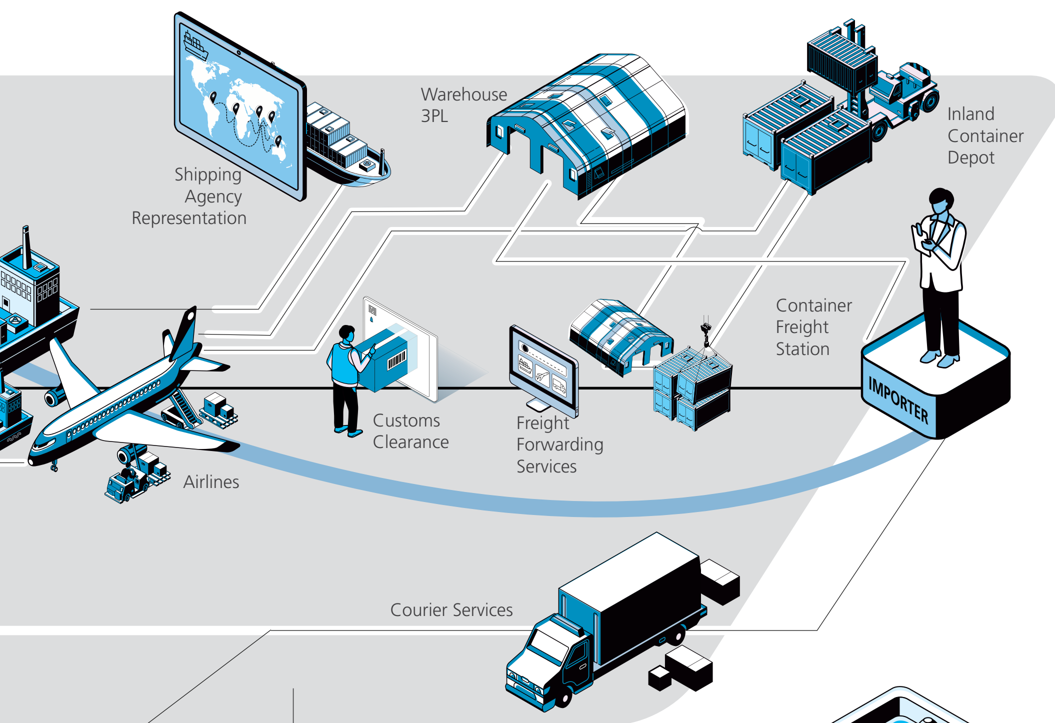
Profit Before Tax
Rs. 7.8 Bn

Education

CINEC Campus which commenced as a private maritime academy, is now one of the largest higher education institutions in Sri Lanka that offers undergraduate, postgraduate and doctorate degree programmes in fields of maritime, management, engineering, aviation and health science to name a few. Vocational training in the maritime and engineering fields are also offered by CINEC Campus which are highly commended by industry specialists. CINEC Campus currently manages the maritime academies in Fiji and Seychelles.

Locations of Operations

> Sri Lanka (Malabe, Nugegoda, Trincomalee and Jaffna)
> Fiji and Seychelles

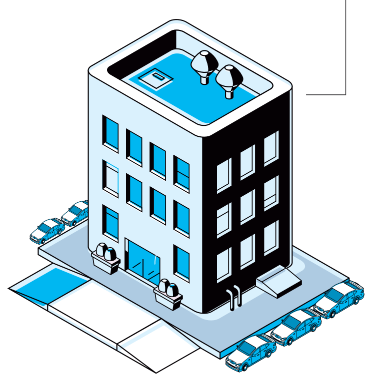


Port and Shipping Services

Aitken Spence Port and Shipping services combine a range of specialised services in the maritime segment including ship agency, bunkering services and port management services in Fiji and Mozambique. Aitken Spence's pioneering spirit has played a significant role in elevating Sri Lanka's reputation for effectively managing and enhancing port productivity.

Locations of Operations

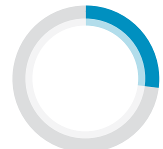
Sri Lanka, Fiji and Mozambique



CINEC Campus

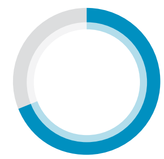
Relevance to Group

Revenue



27%

Profit Before Tax

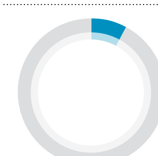


70%

Total Assets

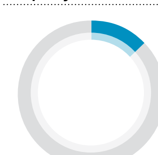
11%

Total Liabilities



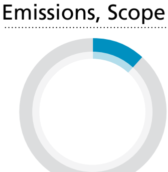
8%

Employees



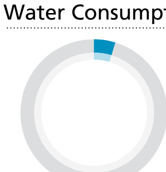
13%

Emissions, Scope 1&2



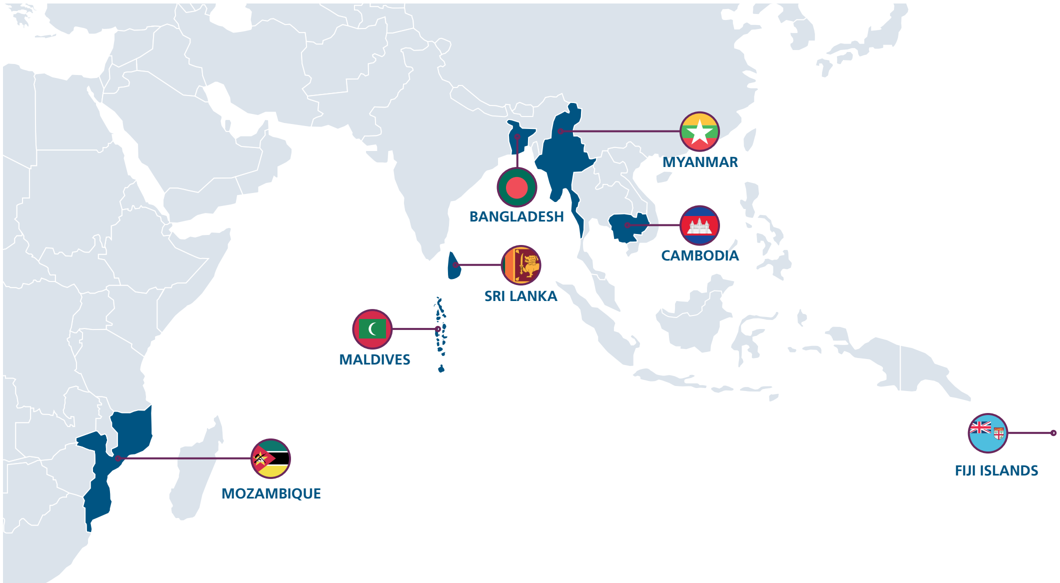
12%

Water Consumption



5%

Locations of Operations



Port and Liner Services

Sri Lanka, Fiji and Mozambique

Certifications

- ISO 14001:2015
- ISO 9001:2015

Fiji Ports Terminal Ltd

- ISO 9001 – 2015
- ISO 14001 – 2015

Freight Forwarding, Courier

Sri Lanka , Maldives, Myanmar, Bangladesh and Cambodia

Certifications

- ISO 9001:2015
- ISO 14001:2015

Integrated Container Services

Wattala, Mabole, Welisara, Katunayake, Mattakkuliya

Certifications

- ISO 9001:2015
- ISO 14001:2015
- ISO 45001:2018

CINEC Campus

Sri Lanka *(Malabe, Nugegoda, Trincomalee and Jaffna)*
Fiji and Seychelles

Certifications

- ISO 9001:2015

Airline GSA (Cargo)

Sri Lanka

Value to Stakeholders

Rs. 2.5 Bn
Dividends paid to Shareholders

Rs. 2.5 Bn
Value Created for Employees

Rs. 12.9 Bn
Payments to suppliers and business partners

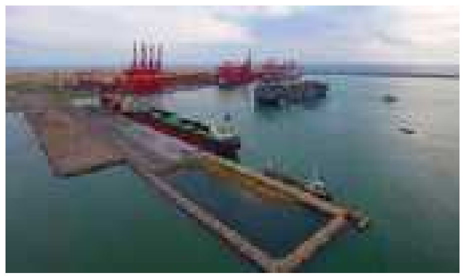
Rs. 1.7 Mn
Investment in Sustainability Processes

Rs. 2.1 Bn
Taxes paid to Governments (Direct and Indirect)

Highlights of Value Created for Key Stakeholders

Safe workplace provided for all employees

Environmental impact controls implemented across all operations



Putting Sri Lanka on the map with our expertise in port management

The dominant lines serving the South Pacific declaring Fiji as their preferred transshipment hub

Socioeconomic Impact (GRI 201-1,203-1,2)

Rs. 587.1 Mn
Investment in Infrastructure

Rs. 7.8 Bn
Facilitation of Foreign Exchange Generation to the Country

19,694
Number of student registrations at CINEC

1,751
Employment generated

Rs. 12.3 Bn
Total Value Added

1,599
New Customers Served

16%
Female Participation in labour force

Rs. 13.5 Mn
Investment in Training and Development

132,567 Kwh
Renewable energy generated

SECTOR REVIEWS
MARITIME & FREIGHT LOGISTICS

Operating Context

Sri Lanka

Operations: Integrated Container Services, Port and Shipping Services, Airline GSA (Cargo), Freight Forwarding & Courier and Education.

Market Overview:

The Port of Colombo experienced a decline in overall volumes, with a total decrease of 5% to 6.8 million TEUs compared to 2021. Specifically, transshipment volumes fell by 200,000 TEUs, while imports and exports declined by 100,000 TEUs and 16,000 TEUs, respectively. This decrease in volumes can be attributed to the import restrictions imposed by the government. The drop in transshipment volumes was due to shipping lines calling directly at other regional ports as well as lines changing their transshipment locations due to vessel rescheduling/ space constraints on vessels calling at the Port of Colombo. Volatility in freight rates also reduced the competitive advantage gained due to the rupee devaluation for exports in the global arena. Void sailings were triggered by space and capacity constraints as well as delays in other ports. With a drop in cargo volumes and demand dropping, lines increased their number of void sailings during certain weeks which affected the number of vessel calls at Colombo. The sector also had to deal with foreign exchange liquidity and exchange rate volatility issues, which added to the operational challenges. The energy crisis in the country during 2022 adversely impacted export volumes as vessels were compelled to carry extra fuel needed for onwards journeys from the Colombo Port. Additionally, labour disruptions at the Port of Colombo impacted the reliability of operations, exacerbating the challenges faced.

Mozambique

Operations: Port Operations

Market Overview:

The economic growth of Mozambique is expected to accelerate by 2025 as per the World Bank after a contraction in 2020. Imports consisting mainly of oils, mineral wax and cereals reached an all time high of USD10,839 million during the third quarter of 2022. Exports too showed an increase from USD 2163 million in the third quarter to USD 6,058 million in the fourth quarter of 2022. Mozambique has 5 major ports with Nacala, where Aitken Spence performs management and efficiency enhancement operations, being the third largest with 8 warehousing facilities and handling mainly coal, cotton, tea, and tobacco cargo.

Bangladesh

Operations: Freight Forwarding

Market Overview:

The Bangladesh freight and logistics market is estimated at a USD 28.7 billion. It remains a highly competitive market with over 1,000 local and over 20 international logistics operations and freight forwarders vying for business. As per the Central Bank of Bangladesh (Bangladesh Bank) exports have grown from USD 38,758 million in 2021 to USD 52,082 million in 2022. The largest export category comprises of apparel exports to the United States of America and Europe, with Bangladesh being the second largest exporter of apparel after China. However, the country is facing a confluence of concerns as retailers are deferring shipments due to soaring inflation, coupled with internal issues ranging from unfavourable trade policies, higher cost of imported inputs and an energy crisis. The import market has also grown from USD 51,063 million in 2021 to USD 75,770 million in 2022 with the largest imports being petroleum products and raw material for the apparel industry.

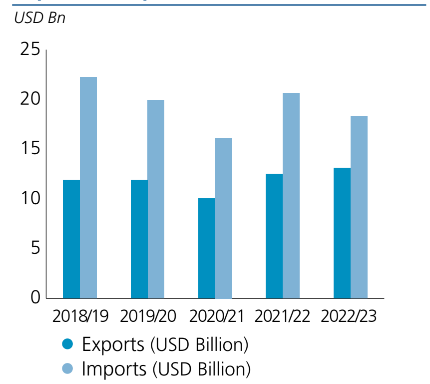
Fiji

Operations: Maritime & Port Services

Market Overview:

Fiji is well poised for a strong economic recovery as per the IMF with GDP rebounding by 16% in 2022 driven by large tourist inflows. Predictions are for a growth of 6.3% in 2023.

Exports & Imports



Fiji has also seen a growth in exports for the larger part of 2022. A majority of exports comprise of bottled water and sugar cane, while the country also re-exports petroleum products and industrial machinery. Imports in Fiji consists of consumer goods such as food and beverages, to intermediate goods such as raw materials, chemicals, petroleum products and machinery. The Company manages the two largest ports in Fiji; Suva with a container handling capacity of 100,000 TEUs and Lautoka with a container handling capacity of 40,000 TEUs.

Maldives

Operations: Freight Forwarding

With 6 principal cargo ports, Maldives has seen a steady increase of import volumes as per the Maldives Monetary Authority: imports between January to December of 2022 were at USD 3.38 billion, which is 31% higher than the value of imports during the same period of 2021. The largest volume of imports were petroleum products followed by food items. Exports also displayed a similar upward trend as volumes picked up by 40% between January to December 2022 at USD 399.6 million compared to the same period of the previous year. The largest export volume comes from fish exports and the largest export market being Thailand.

Myanmar

Operations: Freight Forwarding

Market Overview

The current political situation in Myanmar led to a slowdown in the manufacturing sector. However, apparel manufacturing activity continues at a slower pace. This is expected to improve in the second half of 2023 with more orders expected to be placed in Myanmar. Ace Aviation Myanmar is well placed in Myanmar to provide a variety of logistics solutions.

Cambodia

Operations: Freight Forwarding

Market Overview

This is the newest destination in the Aitken Spence footprint. Cambodia is an emerging market for manufacturing, with many buyers turning their attention toward the cost benefits of manufacturing in Phnom Penh. It's strategic location between Vietnam and Thailand also allows them to use land transport options thereby giving them more logistical flexibility. Textile exports has driven much of Cambodia's growth over the past several years. The textile sector relies on exports to the United States and European Union.

With apparel businesses shifting into Cambodia from countries such as Bangladesh, Vietnam and Sri Lanka, more orders can be expected in time to come. Furthermore, due to the tax benefit between Cambodia and US many manufacturers from China are relocating to Cambodia further increasing the business potential by boosting the number of exports.

Operations in Cambodia are set to commence in the second quarter of 2023.

Achievements

Aitken Spence Cargo (Pvt) Ltd representing the freight segment was awarded as the Category Winner in 'Transport, Logistics, Shipping and Shipping Related Services' and recognised among the overall 'Top 10 Companies' at the Best Management Practices Company Awards 2023 organised by the Institute of Chartered Professional Managers of Sri Lanka.

The segment also received an award for "Outstanding Revenue Contribution 2022" by a global network at an awards ceremony held in Singapore in February 2023. The segment was also recognised at the American Airlines Certificate of Appreciation March 2023 and awarded the Silver Award in the Large Freight Forwarders category at the National Logistics Award 2022.

DBS Logistics Ltd

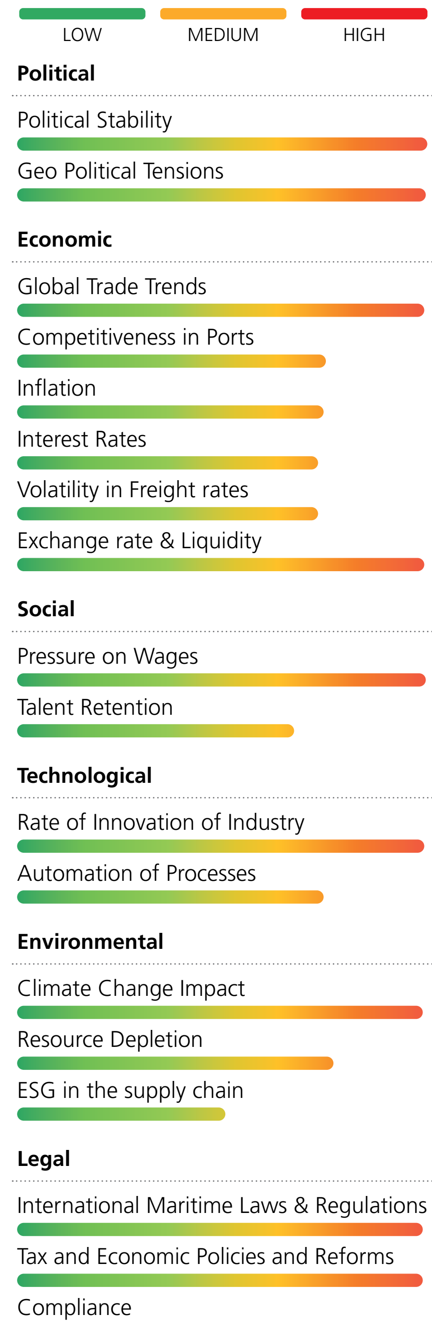
» The Silver Award was bestowed upon them by the National Chamber of Exporters, recognising their commitment to excellence in exports.

» Bronze Award at the National Logistics Awards, highlighting their outstanding achievements in logistics.

» Their exceptional performance and dedication in the cargo sector were acknowledged through the Singapore Airlines and Gulf Air Top 10 Cargo Agents Awards.

» The company received the Appreciation Award from American Airlines, further solidifying their reputation as a trusted and top-performing cargo agent.

Significance of External Factors (PESTEL) on Business Activities



SECTOR REVIEWS

MARITIME & FREIGHT LOGISTICS

Key Initiatives Implemented

Expansion

- Digitalising processes in all facets of port operations in Fiji
- Embarking on a capacity expansion project by investing in a new 100,000 square feet container freight station in Mabole
- Expanding our freight forwarding operations to Cambodia

Employees

- Building talent and succession planning through focused mentoring and career development programmes
- Enhancement of team cohesiveness through inhouse and outbound training programmes and community projects
- Integrated Container services maintain occupational health & safety (OHS) management systems aligned to the ISO 45001:2018 system standard with one operation obtaining the certification
- All operations reviewed for OHS and labour standards.
- Security personnel were provided a refresher briefing on human rights at the workplace

Efficiency

- Faster Vessel turnaround time by improving efficiency through automation and use of technology in the Fiji Ports
- Modernise our workflows with RPA automation in liner shipping segment
- Implementation of RPA (Robotic Process Automation) technology in the Container Freight Station Segment (CFS) automating all documentation processes.

Environment

- Collective efforts implemented across the sector to reduce indirect resource consumption, especially energy (grid energy).
- Integrated logistics segment which has a higher water and energy consumption within the sector strengthened efforts with a new target to reduce water consumption by 10% and expedited systemic interventions to reduce grid energy consumption by 15% by the end of December 2023.
- In the packing warehouse of the freight segment 7% of the packing material used is repurposed materials.
- Maritime segment carried out several employee engagement initiatives to create greater environmental awareness among employees towards building a Green Workforce within the organisation.

Delivering Strategy (GRI 3-3,413-1)

The Sector recorded an increase in revenue of 46.5% from Rs. 19.8 billion in 2021/22 to Rs. 29.0 billion in 2022/23 as it leveraged on the growth of global shipping prices and the devaluation of the rupee, despite the slow trajectory of volumes. The Sector reported the highest ever profits in its history with a record increase in net profit before tax of 58.5% from Rs. 4.9 billion to Rs. 7.8 billion during the financial year.

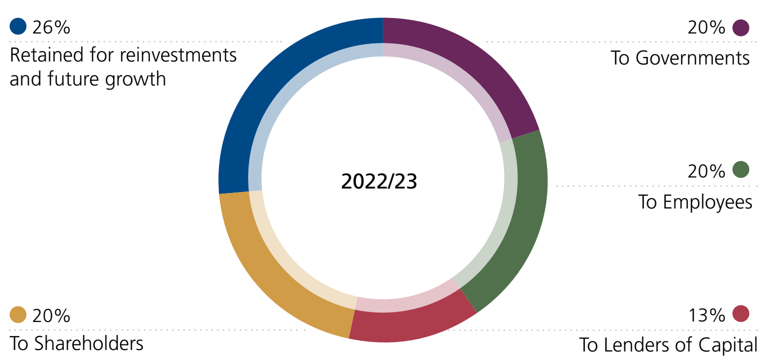
The growth in the sector over the years can be attributed to the strategic investments made in geographical expansions. These investments resulted in substantial foreign exchange earnings for Sri Lanka during an extremely challenging economic period. Moreover, our latest diversification into Cambodia presents a significant opportunity for further growth and expansion. We are confident that this move will help us to sustain our growth trajectory and contribute positively to the economy of Sri Lanka. The geographical diversification of the sector facilitated the generation of Rs. 7.8 billion in foreign exchange to the country during the financial year in review.

During the period under review, the freight segment, GSA Cargo operation, shipping services and integrated container freight operation in Sri Lanka demonstrated outstanding performance by generating the highest ever profits, thereby making a substantial contribution to the overall Sector's success.

The results were primarily driven by the steep increase in freight rates during the first three quarters and the shortening of the working capital cycle resulting from active management of receivables by the Sector. Global supply chain sluggishness, due to capacity restrictions and extended ramifications of the pandemic, resulted in a substantial growth in shipping rates despite global and local economic turbulence. The Sector was able to drive efficiencies across business verticals, honing in on improving order lead times, better utilisation of funds, debtor and cash management processes and improving the customer value proposition through dexterous re-strategising and agile decision making. The Sector also drove concerted efforts towards energy efficiencies and adopting industry best practices in congruence with our well-established sustainable management practices.

The economic headwinds in Sri Lanka during the year raised a confluence of concerns and overshadowed the post pandemic recoveries made during the previous years. However, the Sector was able to capitalise on cross segment synergies and provide uninterrupted end-to-end services. This played a critical role in ensuring the uninterrupted operation of the exports sector, as well as the continued movement of essentials across the country. This supply chain resilience was fortified by the Sector's financial strength which enabled accessibility to fuel and energy as the country experienced shortages during the period. Long-standing relationships with our business partners supported the Sector throughout this unprecedented period as we worked together to overcome challenges. The shortage of fuel and energy had a significant business impact as cold storage and reefer container plugging facilities, employee movements, transportation of goods as well as customer volumes were heavily impacted. The Sector re-evaluated the growth priorities against the ongoing economic backdrop and curtailed all discretionary expenses.

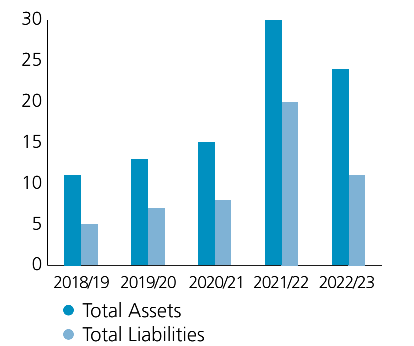
Value added statement (GRI 201-1)



The operations of the Maritime & Freight Logistics Sector in the year 2022/23 resulted in a total value creation of Rs. 12.3 billion. This value was distributed equally among governments, shareholders, and employees, with each category receiving 20%. Additionally, the sector retained 26% of the total value for future activities. However, due to the sector's limited debt funding, only 13% was allocated to lenders of capital.

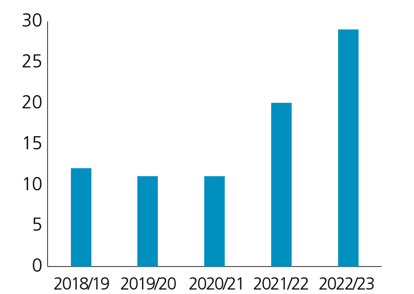
Stability

Rs. Bn



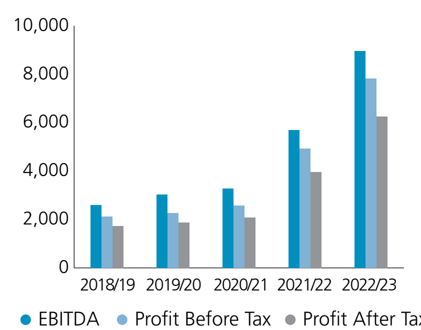
Revenue

Rs. Bn



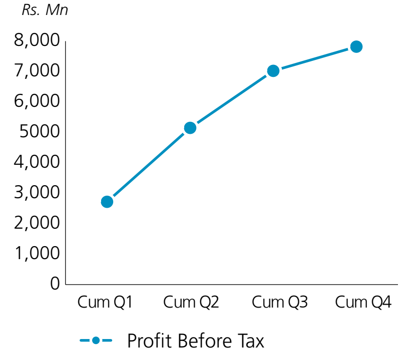
Profitability

Rs. Mn



Performance during the year

Rs. Mn



SECTOR REVIEWS
MARITIME & FREIGHT LOGISTICS

Risks & Challenges

Some of the challenges faced by the Sector include the impact of the global economic slowdown stemming from the Russia-Ukraine conflict, prolonged lockdowns in China, the tightening of monetary policies in advanced economies and the resultant plateauing of demand and trade volumes. This may also be exacerbated by the reduction of bunkering prices and the freight rates due to the slowdown in demand in leading western markets.

Disruptions to global supply chains ensuing from port congestions, escalating fuel prices and rising costs continue to be potential risks although currently the abatement of these incidents has led to a gradual normalisation of freight rates towards the end of the year.

Changes in Sri Lankan government policies and higher taxation as the country grapples with economic turbulence and issues stemming from fuel and energy security issues, and foreign exchange liquidity will have a significant impact on the operations of this Sector. Competition from new state of the art freight and cargo hubs being developed by regional competitors, could lead to the country losing its present competitive advantage as the transshipment hub of South Asia, unless upgrades to local port infrastructure is brought in without delay.

Economic vulnerabilities in countries where the sector operates can present significant operational challenges as witnessed during the year in Sri Lanka which led to acute shortages of fuel and energy as well as declining volumes. Other operational priorities include the drive to continually improve on its socially and environmentally sustainable practices which would require higher investments.

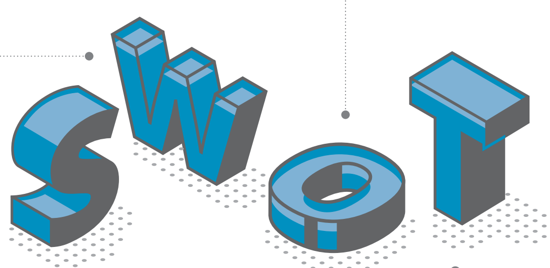
Extreme weather conditions and its potential impact pose risks to the Sector as well as to the health and safety of employees.

WEAKNESSES

- » Shortages of skilled labour.
- » The need to upgrade machinery and infrasturcture at regular intervals.
- » Functions highly dependant on principals, suppliers and service providers.
- » Sensitivity of freight rates to global economic and inflationary pressures.

OPPORTUNITIES

- » Accessible, growing market segments and high growth potential markets.
- » Increasing demand for cold rooms, over dimensional cargo handling and warehousing in the region.
- » Probable capacity enhancements of the Colombo Port and Katunayake Airport creating further opportunities for growth.
- » High potential for the recovery of the Sri Lankan economy and lifting of import restrctions.
- » New opportunities in bunkering, 3PL, MCC operations outside the port and plans for developing additional container freight station space.
- » Opportunities to enhance the customer value proposition through the expansion of capacity and service provision.



STRENGTHS

- » Long standing industry experience and market leadership.
- » Trusted partnerships with strong, international brands principals.
- » Diversified portfolio covering the entire value chain
- » Potential to unlock in-house synergies.
- » Skilled, experienced and committed employees.
- » Financial stability of the Group.

THREATS

- » Political instability and inconsistent policy decisions.
- » Ongoing economic downturn and the possibility of a slow recovery.
- » Expansions in competing regional ports.

Statement of Financial and ESG performance (GRI 201-1; 203-1; 302-1; 303-3,4; 305-1,2; 306-5)

	2022/23	2021/22	YoY (%)
Revenue (Rs. Mn)	28,972	19,771	47
EBITDA (Rs. Mn)	8,958	5,688	57
Profit before tax (Rs. Mn)	7,818	4,933	58
Profit after tax (Rs. Mn)	6,255	3,954	58
Total Assets (Rs. Mn)	23,771	29,977	(21)
Total Liabilities (Rs. Mn)	11,105	19,739	(44)
SDGs towards which the Sector's performance contributes:			
Targets: 4.3, 4.4, 4.7, 5.1, 5B,			
Number of Employees	1,751	1,641	7
Employee female representation	16%	17%	(6)
Employee benefits paid (Rs. Mn)	2,520	1,829	38
Training hours per employee	7	5	33
SDGs towards which the Sector's performance contributes:			
Targets: 4.3, 4.4, 4.7, 5.1, 5B, 12.b			
Investment in Training (Rs.'000)	13,549	1,020	1228
Number of student registrations at CINEC campus	19,694	15,893	24
Brand stewardship	4	4	-
Number of certifications	13	14	(7)
Number of joint venture/equity partnerships	10	10	-
Number of suppliers screened on ESG within the year	576	402	43
SDGs towards which the Sector's performance contributes:			
Targets: 8.4, 9.4, 12.2, 12.5, 12.6, 12.8, 12.b, 14.1, 14.2			
Total energy consumption (GJ)	86,812	74,848	16
Renewable energy generated (GJ)	477.2	664	(28)
Scope 1 emissions (tCO2e)	8,011	7,070	13
Scope 2 emissions (tCO2e)	2,748	2,996	(8)
Emissions reduced or offset (tCO2e)	94	131	(28)
Total water withdrawn (m3)	53,730	35,798	50
Total volume of water treated for reuse or safe disposal (m3)	6,336	6,336	-
Total amount of solid waste kept away from landfills			
(Tonnes)	767	2,162	(65)
(Units)	864	1,238	(30)
Total amount of effluents safely disposed (Liters)	6,048	6,019	-
Total investment in sustainability driven processes (Rs. Mn)	2	2	(10)
SDGs towards which the Sector's performance contributes:			
Targets: 9.1, 9.4			
Property, Plant & Equipment (Rs. Mn)	7,578	6,205	22
Warehouse space (sqft)	299,602	280,302	7
Yard capacity	104,500	104,500	-
Transportation fleet	111	111	-
Investment in manufactured capital (Rs. Mn)	587	278	111
Depreciation	839	571	47

SECTOR REVIEWS
MARITIME & FREIGHT LOGISTICS

Nurturing Our Capitals (GRI 3-3,203-1)

Financial Capital

- Investments in equity accounted investees of Rs. 7.1 Bn
- Net assets (including investments in equity accounted investees) of Rs. 19.7 Bn

Social & Relationship Capital

- Retained all business partners despite the deterioration on sovereign ratings
- Goodwill and trust of business partners proved invaluable in a year of political, social and economic instability

Human Capital

- Team was strengthened during the year adding 110 new positions to the cadre
- Rs. 13.5 Mn invested in training and development

Natural Capital

- Strategic interventions in the pipeline to increase energy efficiency and reduce energy consumption from non-renewable sources towards the Group's targets to reach a state of net zero emissions

Intellectual Capital

- 24 Management systems maintained for environmental and social sustainability
- Efficiencies improved across all locations contributing to bottom line growth

Manufactured Capital

- Investments in Property Plant and Equipment Rs.587.1 Mn
- Expanded container handling capacity by 21.7%

Alignment to SDGs (GRI 3-3,203-1)

Quality education

- Training, education and leadership development initiatives enabled to employees
- Quality education made accessible to students in Sri Lanka through CINEC Campus

Gender equality

- Employee engagement across the Sector to promote gender equality as well as diversity, equity, and inclusivity

Decent work and economic growth

- Highest labour standards maintained across the sector
- Management systems maintained to increase resource efficiency and prevent pollution

Industry innovation and infrastructure

- The sector provides crucial infrastructure required for economic growth in the country connecting trade with global markets while ensuring environmental and social impact control

Responsible consumption and production

- Aligned to the 7R Principles, the Sector works to ensure zero waste dumping to landfills and increase resource efficiency to contribute towards a circular economy

Life under Water (SDG aligned at Sector level)

- While the operations treat wastewater and effluents to control impacts on natural water bodies and the ocean, the Sector also engages with employees to increase awareness about marine ecosystem conservation.

Please refer to more details provided in pages 387 to 394 and the overview of the integrated sustainability policy and its alignment to the SDG given in the annexures of this report.

Navigating the Future: Strategic Outlook for Growth

The Maritime & Freight Logistics Sector is facing new challenges with the weaker global economic outlook and the resulting possibility of a contraction in cargo movements. Operations in economies with elevated levels of debt are likely to slow down as high interest rates increase the debt service burden, dampening opportunities for new investments and growth. The easing of supply chain pressures post-pandemic facilitated the normalisation of freight rates, and this may impact the profitability of the sector as it emerges from a period of high margins. Aitken Spence Group will leverage its networks and expertise to grow its operations, expanding its presence geographically, as well as expanding the services in its countries of operation.

Operations in Fiji are poised for growth as the country positions itself as a main transshipment hub in the Pacific. The expected relocation of Port Suva into a more modernised, state-of-the-art port facility will also uplift its prospects, although downside risks remain as the country's levels of debt are high. The sector also foresees an increasing demand for its ship repair facilities in the ensuing years.

The container freight sector is also positioned for growth, with expectations of capitalising on the strategic expansions of its container freight station within the financial year. The sector plans to expand the trucking fleet by 10% and increase the capacity of the Welisara container depot by 3,500 TEUs (3.5 acres). It also plans to expand its operations in Bangladesh with cold room warehousing and general warehousing facilities while also diversifying into the handling of higher volumes of over-dimensional cargo.

The new company in Cambodia will focus on providing efficient and reliable logistics solutions for the growing demand in the region, catering to both local and international clients. The expansion into Cambodia demonstrates the Sector's commitment to expanding its operations in strategic markets and diversifying its services to meet the evolving needs of its customers.

The Sector will continue to place emphasis on greener operations, with a five-year plan in place to phase in more efficient and environmentally friendly equipment and operations. This will begin with the replacement of forklifts, investments in electricity capacitor banks to increase energy efficiency, and the implementation of solar energy generation.

The increasing demand from customers both locally and globally for end-to-end third-party logistics supports the growth of strategic businesses of the sector. Additional growth is also expected to stem from organisations looking to outsource their logistics functions and concentrate on core business activities. While the overall metrics may moderate, this sector will continue to seek opportunities for growth by enhancing the value proposition to the customer to find win-win solutions that set new benchmarks for the industry.

Expansion

Ports

- Expand operations overseas

Integrated Container Services

- Expand Welisara container depot capacity
- Expand container freight station capacity
- Expand capacity in cold room warehousing and general warehousing
- Expand operations to handle over dimensional cargo

Greening Operations

The sector has initiated a five-year plan to promote greening operations, placing immediate emphasis on

- Investments in electricity capacitor banks,
- Solar energy generation
- Wastewater treatment plants.

These investments aim to foster sustainable and eco-friendly practices.

STRATEGIC INVESTMENTS

This Sector comprises of the Group's investments in strategically important growth areas such as plantations, power generation, apparel manufacture and printing and packaging. The sector is typically capital and labour intensive with potential for significant socioeconomic and environmental impact as well as sustainable value creation. While the ventures in power generation, apparel manufacture and printing and packaging are subsidiaries, the plantation segment comprises mainly of associate companies. These segments are leading players in their respective industries and have contributed towards further synergies with expansion, driving performance and growth.

Our presence along the value chain (GRI 2-6)

Power Generation

This is a vital industry for the nation's development and the segment continues to work with the government to support energy security in the country. As a long-standing private power producer, the segment has expertise in dealing with multiple technologies such as thermal, wind, solar, hydro, and waste to energy.

As this is a capital intensive segment, the capacity to invest is a critical factor in addition to having the expertise in project management and modern technologies.

Apparel

This segment has been in operation for three decades gaining a reputation for sustainably manufactured quality products in specialised areas such as children's clothing. Working with international brands to exacting specifications has supported its journey in productivity and efficiency, significantly improving performance. Care for the employees has been a continuing area of focus that has enabled the segment to retain and develop its employees, underpinning its reputation for quality.

Revenue	EBITDA	Profit Before Tax
Rs. 21.5 Bn	Rs. 6.2 Bn	Rs. 0.5 Bn

Printing

Aitken Spence Printing is reputed for its high-quality printing, customer service excellence and commitment to sustainability. Working with global and local brands, it has the capability to deliver printing and packaging requirements to exacting requirements.

It also engages in printing books at the high end of the value spectrum, which is a specialised field. Increasing levels of value addition drive the growth and performance of this segment.

Plantations

The plantation segment is a leading producer of tea, rubber, and oil palm. In recent years it has moved into crop diversification as well as non-agricultural diversification to optimise the segment's resources. This has seen the launch of the cultivation of four types of berries and a range of value-added products under its own brands.

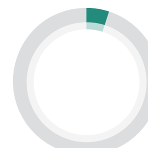
With its diversification strategy, the plantations with estates in the high, mid, and low elevations, has immense potential for growth.

Relevance to Group

Revenue

20%

Profit Before Tax



5%

Total Assets

31%

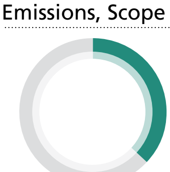
Total Liabilities

28%

Employees

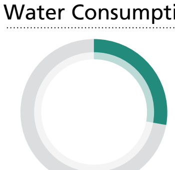
59%

Emissions, Scope 1&2



37%

Water Consumption



28%

SECTOR REVIEWS
STRATEGIC INVESTMENTS

Significance of External Factors (PESTEL) on Business Activities

LOW MEDIUM HIGH

Political
- Political Stability
- Geo Political Tensions
- Policies and Reforms

Economic
- Growth Outlook for the Economy
- Inflation
- Interest Rates
- Commodity Prices
- Exchange rate & Liquidity

Social
- Pressure on Wages
- Talent Retention
- Demography
- Employment Health & Safety

Technological
- Rate of Innovation of Industry
- Automation of Processes

Environmental
- Climate Change Impact
- Resource Depletion
- Scope for ecosystem & biodiversity conservation
- ESG in the supply chain

Legal
- Tax and Economic Policies and Reforms
- Compliance

Advancing towards the Group Goals with unwavering commitment

Sustainable Profit Growth	Highest-ever profits in the apparel manufacture, plantations, and printing & packaging segments
Geographical Expansion	Setting up operations in Singapore for business expansion
Diversify in to new business segments	Expanded product ranges and diversified customer base to explore untapped export markets in the printing and packaging, apparel manufacture and plantations segment
Reduce resource footprint and achieve net zero emission status	Powering sustainability with renewable energy and reducing the country's carbon footprint The ground mounted solar project acquired by the segment during the year added 10MW to segment's renewable energy portfolio
Employer of choice	Empowering our employees through skill development, career enrichment, succession planning, extensive training, and fair remuneration

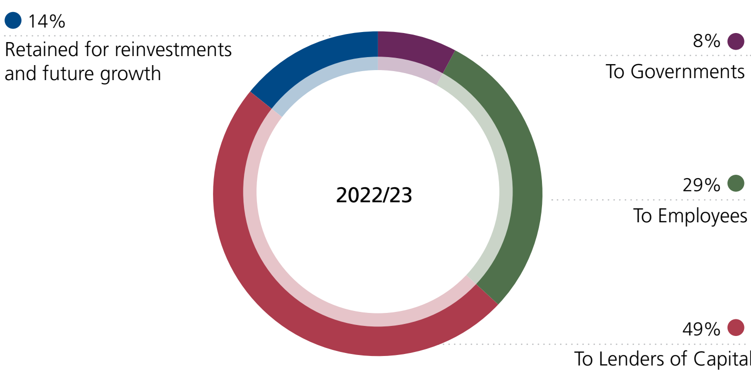
Delivering Strategy

The Strategic Investments Sector delivered a strong performance with plantations, apparel and printing segments recording the highest revenue and profits since inception. The top line increased by 97.5% to Rs.21.5 billion reflecting the results of implementing innovative strategies to seize opportunities that arose despite the economic downturn in the country. A global contraction in production resulted in increased tea and rubber prices. The rupee devaluation also supported the top line growth. However, there was a decline in sales volumes. The plantations segment launched a range of non-traditional produce varying from berries to cinnamon while venturing into value-added brands. The apparel segment also benefited from a strong order book as well as the devaluation of the rupee. The printing segment recorded strong top-line growth as it moved into new markets while also increasing its share of business from existing customers. The new ground mounted solar project acquired by the segment during the year added 10MW to segment's renewable energy portfolio. The power generation segment's performance was negatively affected by the burden of high interest costs on project loans, leading to a loss being reported for the year.

Sector reported a profit before tax of Rs. 543.5 million supported by increased employee productivity in most segments through digitalisation, automation and increased capacity utilisation. The apparel, plantations and printing segments gained significant efficiencies through improvement of workflows, implementation of innovative processes and employee training. Margins came under pressure due to increased costs of electricity and fuel as well as imported raw materials. The power generation segment's profitability was severely impacted due to high interest costs on project loans, long delays in payments from the Ceylon Electricity Board, and a sharp increase in interest rates. To overcome these challenges, the industry is exploring various strategies, such as optimising the supply chain and implementing efficient cost management practices. Significant operational challenges were overcome due to the Group's financial stability and the Spensonian grit, which contributed towards better performance.

The sector facilitated the equivalent of Rs. 9.4 billion in foreign exchange earnings to the country and created economic value of Rs.9.5 billion for its stakeholders.

Value added statement (GRI 201-1)



The Strategic Investments sector contributed towards the Group value creation with a positive generation of value of Rs. 10.0 billion for the year.

The high cost of borrowings had by the sector due to its capital intensive investments and the increase in interest rates resulted in 49% of the total value created being distributed amongst its lenders of capital. This high allocation to its lenders of capital and the requirement to retain a portion of its value for future activities resulted in no allocation being made to its shareholders for the year. The sector retained 14% of its total value created for future activities while distributing 29% to its employees and 8% to Governments in the form of taxes.

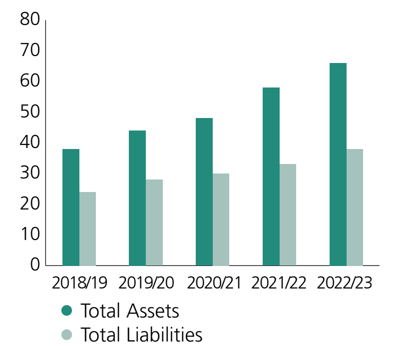
Expanded Renewable Energy Portfolio

81% increase in the renewable energy generation capacity since 2020

12% YoY increase in the renewable energy generated.

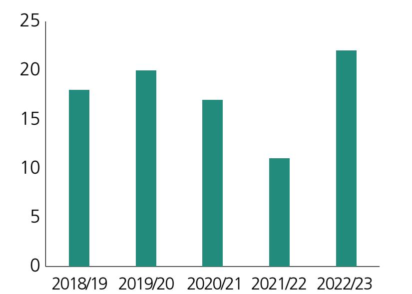
Stability

Rs. Bn



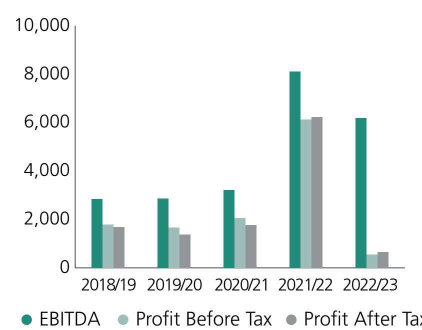
Revenue

Rs. Bn



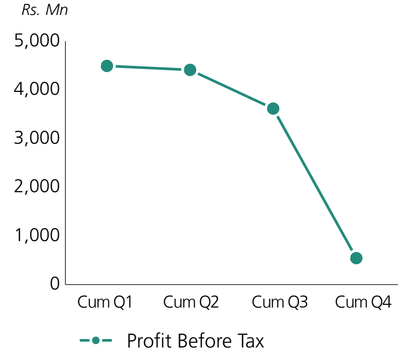
Profitability

Rs. Mn



Performance during the year

Rs. Mn



SECTOR REVIEWS
STRATEGIC INVESTMENTS

Nurturing Our Capitals (GRI 3-3,203-1)

Financial Capital

- Revenue growth of 97.5%
- Net assets (including investments in equity accounted investees) of Rs. 30.1 Bn

Human Capital

- Rs. 15.0 Mn invested in training and development

Intellectual Capital

- Digitalisation and improved workflows
- Plantations introduced new products under new brands

Natural Capital

- Reduction of 22% in the energy consumption per unit revenue from 2021/22
- 68% of the water consumed sourced from harvested rainwater
- 100% effluents treated for safe disposal

Social & Relationship Capital

- Growth in customer base and channels
- Strengthening supply chains and supporting their sustainability journeys

Manufactured Capital

- Investments in property plant & equipment Rs. 2.2 Bn.
- Diversification in plantations and power through acquisitions and investment

Alignment to SDGs (GRI 3-3,203-1)

Quality education

- Training, education and leadership development initiatives enabled to employees
- Support extended to children and youth in local communities to access and continue education

Gender equality

- Employee engagement and systemic interventions across the Sector to promote gender equality as well as diversity, equity, and inclusivity

Clean water and sanitation

- Employee engagement and systemic interventions across the Sector to promote gender equality as well as diversity, equity, and inclusivity

Decent work and economic growth

- Highest labour standards maintained across the Sector
- Management systems maintained to increase resource efficiency and prevent pollution

Industry innovation and infrastructure

- The sector has made significant investments to strengthen the renewable energy portfolio in the country
- Systemic interventions in place to ensure sustainable industrial growth

Responsible consumption and production

- Investment in infrastructure to support a circular economy
- Aligned to the 7R Principles, the Sector works to ensure zero waste dumping to landfills and increase resource efficiency

Life on land

- Contributing to carbon sequestration by maintaining green cover spanning over 8,000ha
- Preservation of animal corridors through buffer zones developed at the estates

Access to affordable and sustainable energy
(SDG aligned at Sector level)

- The plantations segment is committed to support the country's development priorities by working towards achieving net zero emission status through targeted investments in renewable energy while also maintaining carbon sinks

Climate action

- The plantations segment was an early adopter of strategic interventions to identify climate change related risks and strengthen resilience and adaptive capacity to climate-related hazards and natural disasters

Please refer to more details provided in pages 387 to 394 and the overview of the integrated sustainability policy and its alignment to the SDG given in the annexures of this report.

Statement of Financial and ESG performance (GRI 201-1; 203-1; 302-1; 303-3,4; 305-1,2; 306-5)

	2022/23	2021/22	YoY (%)
Revenue (Rs. Mn)	21,509	10,888	98
EBITDA (Rs. Mn)	6,192	8,080	(23)
Profit before tax (Rs. Mn)	543	6,132	(91)
Profit after tax (Rs. Mn)	657	6,227	(89)
Total Assets (Rs. Mn)	66,287	57,880	15
Total Liabilities (Rs. Mn)	38,316	32,548	18
SDGs towards which the Sector's performance contributes:			
Targets: 4.3, 4.4, 4.7, 5.1, 5B, 8.5			
Number of Employees	7,681	7,410	4
Employee female representation	60%	58%	3
Employee benefits paid (Rs. Mn)	2,857	2,218	29
Training hours per employee	4	7	(43)
SDGs towards which the Sector's performance contributes:			
Targets: 4.3, 4.4, 4.7, 8.4, 8.8, 12.2, 12.6, 12.8			
Investment in training (Rs. '000)	15,031	8,151	84
Brand stewardship	7	7	-
Number of management systems	68	60	13
Number of certified management systems	33	31	6
SDGs towards which the Sector's performance contributes:			
Targets: 4.3, 4.4, 4.6, 8.5, 8.6, 9.1, 12.8			
Number of joint venture/equity partnerships	6	6	-
Number of Suppliers	3,103	3,103	-
Number of suppliers screened on ESG within the year	112	662	(83)
Total funds channelled for community development (Rs. Mn)	231.6	112	107
SDGs towards which the Sector's performance contributes:			
Targets: 6.3, 6.4, 7.2, 8.4, 9.4, 12.2, 12.5, 12.6, 12.8, 12.b, 15.2, 15.5			
Total energy consumption (GJ)	399,598	278,158	44
Total energy consumed from non-renewable sources and indirect energy (GJ)	177,552	52,046*	241
Total energy consumed from renewable sources (GJ)	222,046	192,518	15
Total energy generated from renewable sources (GJ)	690,030	618,042	12
Scope 1 emissions (tCO2e)	29,005	14,438	101
Scope 2 emissions (tCO2e)	5,940	6,368*	(7)
Emissions reduced or offset (tCO2e)	94,006	95,563	(2)
Total water withdrawn (m3)	306,404	107,742	184
Total volume of water treated for reuse or safe disposal (m3)	34,683	26,104	33
Total amount of solid waste kept away from landfills			
(Tonnes)	31,331	38,945	(20)
(Units)	764	763	2
(Liters, waste oil)	104,761	51,961	102
Total investment in sustainability driven processes (Rs. Mn)	29.3	38	(23)
SDGs towards which the Sector's performance contributes:			
Targets: 9.1, 9.4			
Property Plant and Equipment (Rs. Mn)	21,766	19,122	14
Investment in manufactured capital (Rs. Mn)	2,230	1,867	19

(Note: Indirect and renewable energy consumption and accordingly, scope 2 emissions and emissions reduced for the Sector for 2021/22 has been restated due to recalibration of data.

SECTOR REVIEWS
STRATEGIC INVESTMENTS

Value to Stakeholders

194,172
MT Residual Municipal Solid Waste from Colombo district converted to energy

Rs. 2.9 Bn
Value Created for Employees

Rs. 11.9 Bn
Payments to Suppliers and Business Partners

Rs. 29.3 Mn
Investments in Sustainability Processes

Rs. 231.6 Mn
in Funds Channelled for Community Development

Socioeconomic Impact (GRI 201-1,203-1,2)

Rs. 2.2 Bn
Investment in Infrastructure

Rs. 9.4 Bn
Facilitation of Foreign Exchange Generation to the Country

Rs. 494 Mn
Taxes Paid to Governments

7,681
Employment generated

Rs. 10.0 Bn
Total Value Added

130
New Customers Served

60%
Female Participation in labour force

Rs. 15.0 Mn
Investment in Training and Development

690,030 GJ
Renewable energy generated

Navigating the Future: Strategic Outlook for Growth

The Strategic Investments Sector has been a key driver of the Group's growth in recent years, with a focus on long-term value creation and strategic partnerships. Despite the challenges posed by macroeconomic uncertainties, the sector's resilient performance and ability to adapt to changing market conditions have positioned it for continued success. With a broad portfolio of investments spanning multiple industries, the sector is well-positioned to capitalise on emerging trends and technologies, while also mitigating risk through portfolio diversification. As the Group continues to prioritise sustainable value creation, the Strategic Investments Sector will play a critical role in driving innovation, fostering strategic collaborations, and creating long-term value for stakeholders. The Strategic Investments Sector is poised for growth despite the challenges ahead. Its diverse nature offers significant opportunities for diversification, which bodes well for sustainable value creation for stakeholders and the Group.

To gain a thorough and detailed understanding of the future prospects within the Strategic Investment Sector, we highly recommend referring to the specific segment reviews. These reviews offer an extensive and comprehensive overview of each segment, providing valuable insights into their potential growth, emerging trends, market dynamics, and other relevant factors that will significantly impact their trajectory in the future.

Power generation

Our Purpose

To ensure that all the Aitken Spence power plants are maintained at an optimum operating condition to generate maximum electricity to the national grid.

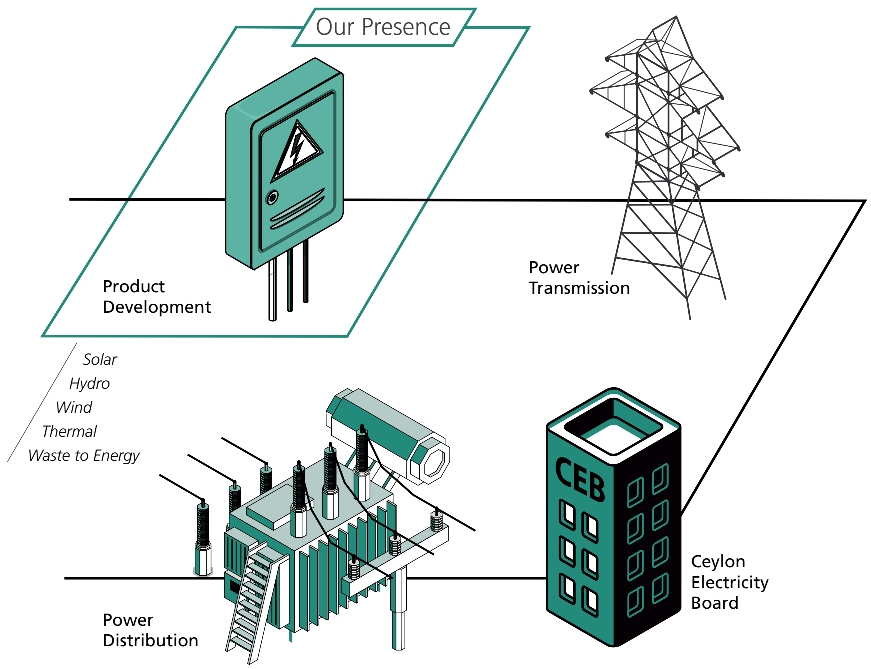
A leader in the renewable power energy generation in Sri Lanka, Aitken Spence has a diversified portfolio of solar, hydro, wind and waste to energy power generation facilities contributing actively towards the Country's non-conventional renewable energy capacity. The Ceylon Electricity Board is the sole customer with long term power purchase agreements governing the contractual arrangements between the parties. Energy security is critical for the socioeconomic progress of the country and Aitken Spence has a proven track record of successfully introducing new technologies to the country, one of which being the landmark development and commissioning of the country's first ever waste to energy power plant which has now been in successful operation for the past two years. The Group's renewable energy power plants have contributed to roughly 1% of Sri Lanka's annual total electricity demand.

Industry Overview

Global concerns over climate change and pressure from stakeholders are driving a change towards affordable and clean renewable energy. Global investments in renewable energy are expected to exceed USD 1.4 trillion accounting for 75% of total investments in energy.

Sri Lanka's Long Term Generation Expansion Plan 2023 – 2042 seeks to generate 70% of power generation through renewable energy sources by 2030 and achieve carbon neutrality in power generation by 2050. According to the plan, the annual increase in solar and wind power will be 500 MW and 150 MW respectively.

Our presence along the value chain (GRI 2-6)



Our Portfolio

Thermal Power	Wind Power	Solar Power	Hydro Energy	Waste Energy	Total Power supplied to the National Grid
100 MW	3.0 MW	10.7 MW	9.1 MW	10 MW	132.8 MW

Energy security was a critical concern during the year with scheduled power outages implemented to manage the shortfall. The foreign currency liquidity constraints hindered continuous generation of power through coal and fuel. Hydropower generation which approximates to 34% of the total generation , is insufficient to meet the shortfall although rainfall patterns were relatively favourable. There was a notable reduction of the private sector energy sales to the CEB from 4,004 GWh to 3,672 GWh from 2021 to 2022, largely due to the inability to transmit power generated from renewable energy plants during the power outages.

Devaluation of the rupee and the increase in interest rates moderated returns on investments in power generation projects as the CEB feed-in-tariffs were not revised to reflect the changes in investment costs and financing costs. Delayed settlements of outstanding dues to private sector power generators have caused severe strain in the continuation of the operations as well as dampen investment sentiments hindering new investments in power generation.

SECTOR REVIEWS
STRATEGIC INVESTMENTS

Locations of Operations

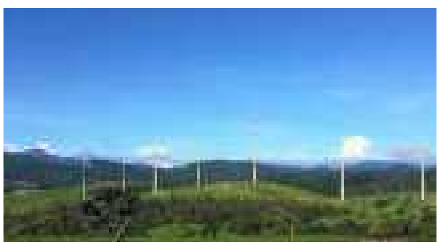
Ace Power Embilipitiya (Private) Limited

Capacity 100 MW – Thermal power plant
Location – Emblipitiya, Rathnapura

Western Power Company (Private) Limited

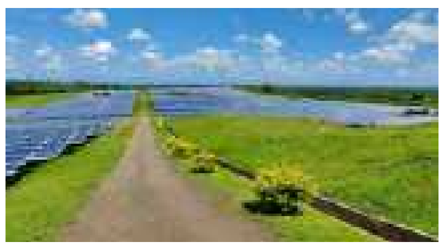
Capacity 10 MW- Waste to energy power plant
Location -Wattala, Gampaha

Ace Wind Power (Private) Limited



Capacity 3 MW- Wind power plant
Location- Ambewela, Nuwara Eliya

Sagasolar Power (Private) Limited



Capacity 10 MW- Ground mounted solar power plant
Location: Hambanthota

Waltrim Energy Limited

Elgin Hydropower (Private) Limited
Upper Waltrim Hydropower (Private) Limited
Waltrim Hydropower (Private) Limited
Capacity 6.6 MW – Hydro Power Plant
Location – Lindula, Nuwara Eliya

Branford Hydropower (Private) Ltd

Capacity 10 MW- hydro power plant
Location: Hambanthota

Key Initiatives Implemented

Investments

- Acquisition of Sagasolar Power (Private) Ltd for Rs.1.4 billion adding 10MW of ground mounted solar power capacity to the Group's portfolio

Employees

- Training and upskilling employees.
- Wage adjustments, reimbursements and transport options to help employees cope with inflationary market conditions.

Efficiency

- Enhanced efficiency of power plants
- Digitising of spare parts inventory
- Continuous monitoring of emissions and enhancing filtration to reduce impacts

Environment and social

- The tree belt maintained at our power plant in Embilipitiya is home to six bee colonies and over 25,000 trees.
- Helping neighbouring communities during the flood and shramadana campaign
- We collaborated with several providers of non- toxic industrial waste to transform their waste into green energy

158 Mn kWh

Generated and supplied 158 Mn kWh of renewable energy to the national grid

Delivering Strategy

In July 2022, the Group acquired Sagasolar Power (Pvt) Ltd., expanding the capacity of its non-conventional renewable energy by 10 MW making this the largest solar project managed by the Group.

This is the country's first utility scale solar farm extending over forty-five acres of leased land and has the ability to generate 18 million kWh to the national grid annually. Processes are being implemented to align with the Group's certifications to ensure that systems are in line with international best practices.

The segment generated 158 million kWh of electricity during the financial year which is 21.5% higher than 130 million kWh generated in the previous financial year. Renewable energy accounted for 78% of total power generated during the year under review. The waste to energy facility Western Power Company Ltd., processed 195,562 metric tonnes of residual municipal solid waste, making a significant impact in reducing pollution through landfills and protecting sensitive wetland ecosystems. In addition, the waste to energy power plant is assisting the manufacturing plants to safely dispose of nontoxic industrial waste contributing to the circular economy in Sri Lanka. Performance of the wind power operations witnessed similar generation levels as last year with hydro power generation recording a marginal drop of 4.7%. The thermal power plant was idle for the larger part of the year as the power purchase agreement was not renewed after September 2022.

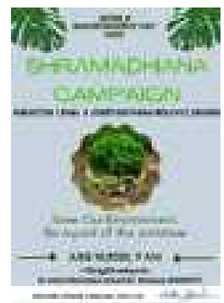
The segment's profitability was dampened by the increased interest costs as the finance expenses increased significantly on the borrowings for the waste to energy power plant and the cost of working capital funding due to delayed settlements from the CEB. While we recorded strong balance sheet growth, receivables from CEB increased by over 100% to approximately Rs. 7.5 billion part of which is outstanding for over ten months although a provision has not been made in the financial statements as it is a due contractually payable as per the power purchase agreement signed with a state owned enterprise.

Risks

The main risk is the dependency on a single customer as transmission and distribution of power in the country is vested only with the Ceylon Electricity Board. The overdue balances are a key concern as interest costs have increased sharply, eroding profitability. Interest costs also impact investments and a revision in the tariff is needed for the industry to cover significantly increased operating costs.

Highlights of value created to stakeholders

Keeping the Western Province clean for all stakeholders, converting municipal solid waste to renewable energy



Contributing to conservation of sensitive ecosystems while reducing the country's carbon footprint from energy

Investments to strengthen the country's renewable energy generation capacity

194,172MT
municipal solid waste diverted from landfills

A tree belt maintained at the Embilipitya power plant with over 25,000 trees

850 plants distributed from the plant nursery in Embilipitiya

Renewable energy generation capacity increased by 30% from 2022

Rs.1.4 billion
Investment in Renewable Energy

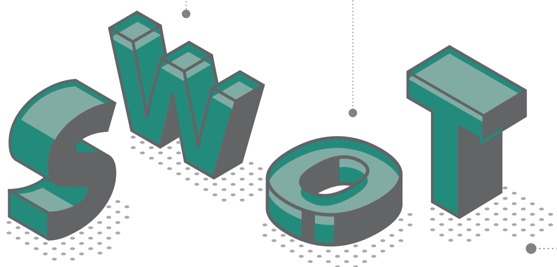
SECTOR REVIEWS
STRATEGIC INVESTMENTS

WEAKNESSES

- Having to finance new investments primarily through borrowings in a high interest rate environment.
- The need for regular overhauling and maintenance of power plants which requires expensive imported spare parts.
- Shortcomings/ high cost of required infrastructure for effective generation of power

OPPORTUNITIES

- Introduction of the Feed-in-Tariff for new renewable energy projects.
    - Close proximity to countries with growing GDPs that may provide investment opportunities.
    - Increasing demand for renewables as the country faces a foreign exchange shortage.



STRENGTHS

- Long standing expertise in both thermal and renewable energy power generation.
- Trained, skilled and experienced staff with technical knowledge and capabilities.
- The only operator in the country to successfully commission a large scale waste to energy plant.
- Strength of the manufactured capital of Aitken Spence to be utilised for rooftop solar
- Capacity to generate capital for investments in renewable energy

THREATS

- Increased staff turnover and migration.
- Uncertainty in Government policies on the power sector.
- Susceptibility of hydro and wind power projects to changes in the weather and climate change.
- Difficulty in making overseas investments due to the present economic environment in the country.

Navigating the Future: Strategic Outlook for Growth

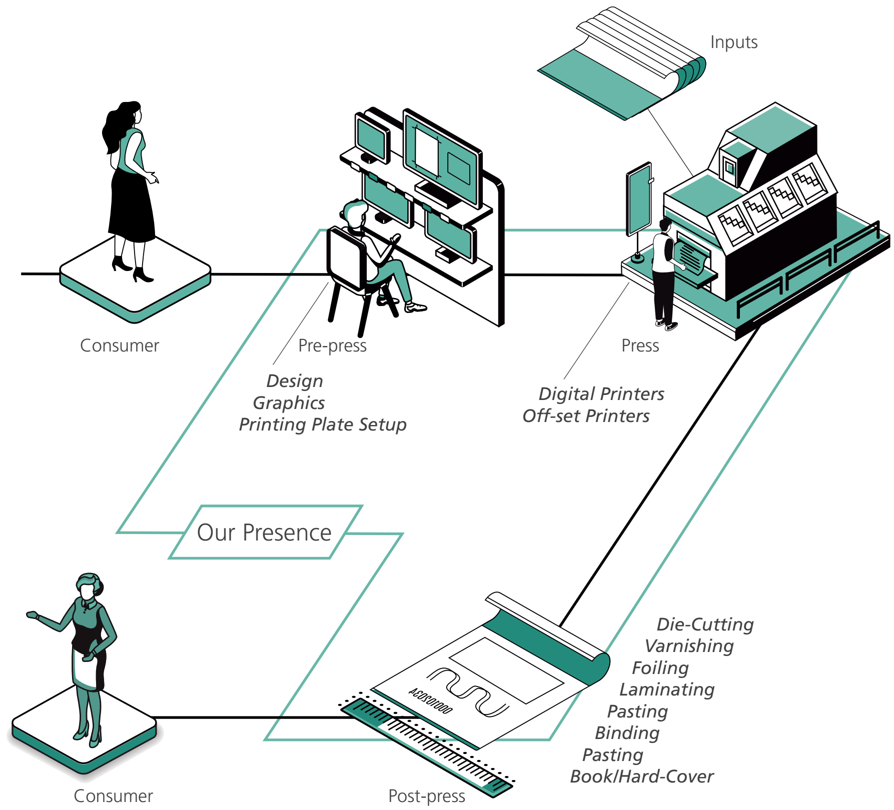
The Group's dedication to making a positive contribution to the country's renewable energy goals creates growth potential within the segment. A significant opportunity exists for expanding the Group's renewable energy portfolio, aligning with the country's long-term focus on wind and solar energy. However, the expansion of the sector domestically will depend on resolving the liquidity shortage within the CEB as regular payments are essential for the private sector power producers to reduce high interest and operating costs to a sustainable level. Future expansion plans will focus on non-conventional renewable energy in line with the sustainability commitments of the Aitken Spence Group, provided the tariffs are revised to reflect increased costs. New projects are dependent on the CEB who will float tenders for their upcoming projects. Changing tariff structures will be a concern as some of the existing projects move from higher tariff structures at the beginning of the period to lower tariff structures towards the latter years.

With the objective of reducing the current high dependency on the local market the segment is also exploring overseas opportunities for renewable energy investments in the solar energy sphere in order to diversify its portfolio, especially given the developments in the scope of Internationally Transferred Mitigation Outcomes (ITMOs). With the expertise the Group has accumulated in this domain it is envisaged that significant offshore expansions would take place in the future which would also enable the country to generate valuable foreign exchange inflows.

Printing and Packaging

Leveraging on approximately seven decades of experience and expertise, the printing and packaging segment is a pioneer and a trusted partner to many leading clientele in the highly competitive printing and packaging industry of Sri Lanka. The segment consists of Aitken Spence Printing and Packaging (Pvt) Ltd and Ace Exports (Pvt) Ltd and carries a reputation for manufacturing premium quality products with short lead times and innovative solutions. The customer-centric,environmental friendly operation provides tailor-made solutions to its customers both in the domestic and global market, with world class capabilities in product design, production and finishing. The comprehensive portfolio of the segment includes printing of packaging material, tags and labels, hard and soft cover books, coffee table publications, magazines, and seasonal products etc.

Our presence along the value chain (GRI 2-6)



Awards

In the Sri Lanka Packaging Awards 'Lanka Star 2022', Aitken Spence Printing received the Platinum Trophy for being the Overall Winner with the highest number of awards, which included 4 Gold and 2 Silver.

Aitken Spence Printing Ltd.

SECTOR REVIEWS

STRATEGIC INVESTMENTS

Highlights of Value Created to Stakeholders

Providing a safe workplace for employees in their own locality

Greening the supply chain with an environmentally friendly manufacturing facility and a green workforce

Connecting Sri Lanka with a global supply chain through our network of customers

Industry Overview

Performance of the printing and packaging industry was encouraging during the first half of the year but moderated during the second half, mirroring the subdued economic conditions of the country. The industry fortunes are impacted significantly by the performance of the FMCG, tea and apparel sectors in the domestic and export markets. Both markets experienced moderation in demand as the economic outlook weakened, with a direct impact on business volumes.

Production

Industry	2021	2022	% change
Food, Beverages & Tobacco Production (Index of Industrial Production)	293.2	303.8	3.6
Tea Production (Mn/Kg)	299.5	251.5	(16.0)
Apparel (Index of Industrial Production)	95.4	100.5	5.3

Exports

Industry	2021	2022	% change
Food, Beverages & Tobacco (USD Mn)	587.0	520.0	(11.4)
Tea Volumes (Mn Kg)	286.0	250.2	(12.5)
Tea (USD Mn)	1,324.4	1,258.8	(5.0)
Apparel (USD Mn)	4,952.0	5,483.1	10.7

Certifications

- LEED Gold Certified facility
- ISO 9001, ISO14001 and ISO 45001 certifications
- Sedex member ethical audit by SMETA
- Intertek certificate for ethical business practices and health and safety.
- FSC Certification

52
New Customers Served

6%
Female Participation in labour force

Rs.1.0 Mn
Investment in Training and Development

17%
reduction on energy

Environmental Initiatives

- Powering Sustainability: 949,595 kWh generated to the national grid from building roofs
- Rs 11.3 Mn Investments in Sustainability Processes

Overall, the index of industrial production for the printing and reproduction of recorded media within the country saw a 5.8% decline, with the import of paper and paperboard also recording a marginal decline of 1.14% in USD terms between 2021 to 2022 as the industry faced converging challenges.

The Russia-Ukraine war and the ensuing trade embargoes disrupted the paper pulp manufacturing industry, with Russia being one of the largest wood suppliers. Capacity constraints in the shipping industry led to escalating freight rates. Additionally, increasing energy costs and shortage of coal supplies stemming from the ongoing war also exacerbated the situation. Against this backdrop, the prices of imported raw materials increased due to the rupee devaluation and increased freight charges. This coupled with the inability for competitive price negotiations due to delays in making payments to foreign suppliers as a result of the foreign exchange shortages led to lower margins.

The situation eased somewhat in the last quarter and prices of paper and board normalised to previous rates. However, the impact of the foreign exchange rate movements continued to have a negative impact on the segment.

Delivering Strategy

The overall performance for the financial year was commendable, recording the highest ever turnover and net profit for the segment. The turnover increased by 87.5% from the previous year and recorded a significant increase in profit before tax. The exceptional growth in profits can be attributed to a focused marketing strategy, cost optimisation, better price planning, and an increase in efficiency in the segment. Combination of these factors led to a significant improvement in the company's financial performance.

The segment's performance was resilient during the first six months of the year in review recording almost 75% of the profits, although the latter half of the year proved to be more challenging. Nevertheless, there was a continuous focus on working capital efficiencies, cost rationalisation and cashflow management. The segment faced an increase in raw material prices by approximately 50% - 60% during the period, due to resource shortages in source markets, coupled with an increase in freight rates. Locally, the cost of operations also led to an increase in prices which required an aggressive focus on cost management. Hence, steps were taken to improve workflow processes with enhanced coordination with customers, with the objective of reducing re-work requirements and customer returns. This included digitisation of processes and development of cutting-edge systems, for workflow management. Further, systems were implemented to identify efficiency levels of machinery to carry out timely maintenance. A fully equipped laboratory center for product testing was set up along with a move to automate quality control processes where possible and replace older machinery and software with more state of the art technology.

The segment's customer-centric strategies included responding to the evolving market needs of current customers to increase their value proposition, as well as diversifying into newer market segments such as rubber products, electrical items and beverages. The turnaround times of orders were reduced by addressing a critical bottle neck by adding further capacity to the pasting section to reduce the post press delays.

Employee training and awareness sessions were conducted regularly alongside regular management reviews, employee engagement

Key Initiatives Implemented

Expansion

- Diversification into 02 new business segments.
- Acquiring 52 new customers and expanding the revenue generated from our existing customer base
- Enhancing our production capacity in the post-press section to alleviate current bottlenecks

Employees

- Training and upskilling of employees.
- Succession planning for key positions.
- Wage adjustments, reimbursements and transport options to help employees cope with inflationary market conditions.

Efficiency

- Digitalisation, process improvements and software and hardware updates.
- Automated quality control and electronic verifications.
- Workflow management system for increased visibility and traceability of operations.

Environment & Social

- The segment made donations of paper to MOH offices and temples due to the paper shortage in the country.
- Water Management: Effluent water from the production plant is reused for gardening and sanitary purposes.
- Zero waste to landfill policy: Solid waste (cotton, ink containers): -sent to the waste to energy power plant operated by the Group; Sludge: sent & treated by a waste management company; Off-cuts: sent to small industries; Cut-pieces: shredded and re-exported to India.

SECTOR REVIEWS
STRATEGIC INVESTMENTS

programmes and performance incentives. The wellbeing of employees remained a priority as expenses and costs due to inflationary pressures were covered through reimbursements and wage adjustments where possible, along with providing carpooling and transport facilities as well as the continuation of the on-site medical facility for employees. As a part of the continuous CSR initiatives the segment contributed paper and printed material to rural hospitals, MOH offices and temples during periods of paper shortages.

Challenges and Risks

Dependency on imported raw materials the cost of which is directly affected by the devaluation of the rupee, supply chain disruptions and fluctuating freight rates due to global factors necessitated upward revision of prices regularly. The market also contracted with the downturn in the economy leading to excess machine capacity. Economic migration of trained staff for overseas employment opportunities proved a challenge across the industry.

Difficulties in planning are exacerbated by the subdued economic conditions which elevates the risk of cancellations and delays in placing orders and reduced order quantities.

Navigating the Future: Strategic Outlook for Growth

The country's economy is forecasted to contract, moderating opportunities for growth as consumption declines in the domestic market. The decline in exports in the fourth quarter is also a key concern, dampening the short and medium term outlook for the industry. Supply constraints of resources stemming from geopolitical tensions also remain a concern, exerting pressure on costs. Positive trends observed include easing of freight rates which are expected to decline in 2023. Relative stability in the economy compared to 2022 and easing of energy and fuel supply issues is encouraging, facilitating higher levels of productivity and an increase in consumer and business sentiments, supporting demand.

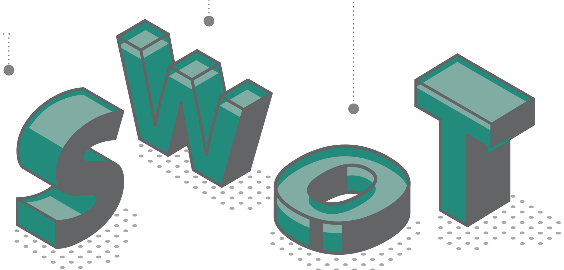
A strong reputation and a proven track record of commitment to quality supports the segment as we pursue opportunities to drive growth within a contracting market. As a part of this, the segment will realign and reinvent the offerings to customers through further value addition while expanding the customer base in sectors with growth potential. Implementing the planned ERP system will provide greater insights into operations, supporting improved management of workflows and costs. Quality control will remain a priority, minimising returns and reworking of orders through stringent quality control and testing processes.

WEAKNESSES

- High dependency on the local market
- Dependence on few high-volume generating customers
- Rapid evolution in printing technology necessitating re-investment
- High average cost for low volume orders
- Declining demand for offset printing

STRENGTHS

- Capacity, short lead times and state of the art equipment
- Skilled and competent workforce
- High level of automation
- Strength of Aitken Spence brand
- Sustainable operations
- Compliance with quality, environmental and safety standards and certifications



OPPORTUNITIES

- Access to regional export markets and wide network through Group's overseas operations
- Opportunities for backward integration and partnerships with suppliers having potential for cross selling
- Growth through optimising capacity utilisation in offset printing, foiling and binding
- Ring fence customers through value addition.
  - Attract premium customers with carbon-neutral, green printing options
  - Opportunity to expand product portfolio to the digital arena

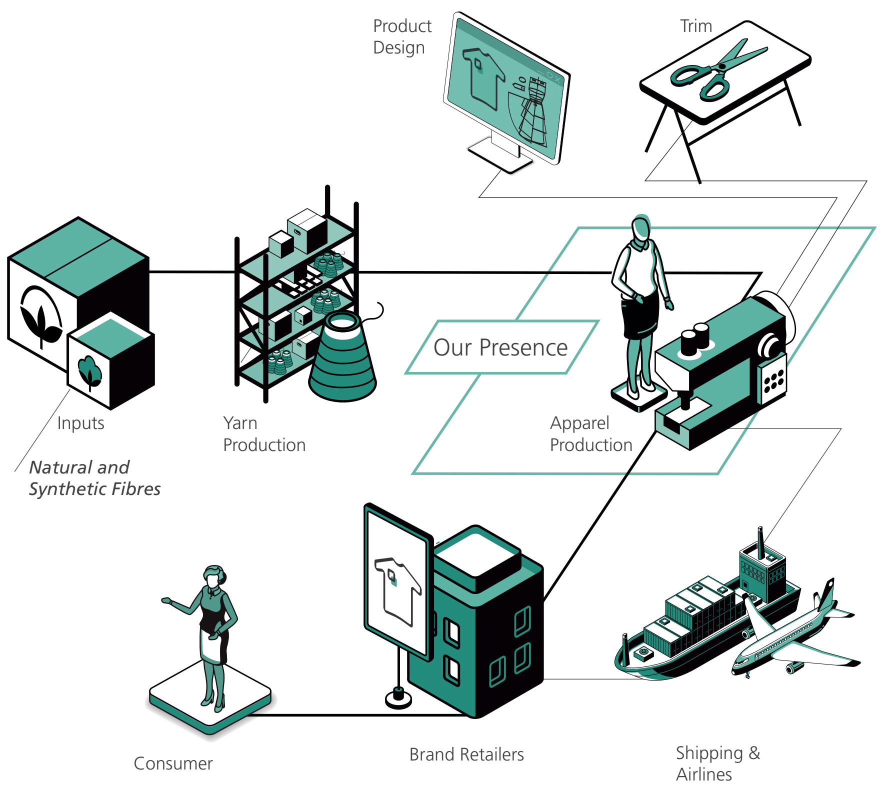
THREATS

- Global and local recession affecting demand conditions
- Fluctuation in exchange rates leading to volatile raw material prices
- Migration of skilled workers
- Customers shifting to digital options

Apparel Manufacture

The Apparel segment is committed to ethical and sustainable apparel manufacture, upholding the high standards of environmental and social due diligence that is a hallmark of the Aitken Spence Group. The segment consists of three companies, located in the Koggala export processing zone and in Matugama, supplying over four million pieces of woven clothing annually to niche clothing markets in the USA, UK, and Germany. The segment's speed-to-market agility, internationally benchmarked manufacturing processes and consistent high quality has made it one of the preferred suppliers for brands such as GAP, Old Navy, LANDS' END, Next and sustainable fast-food range of clothing for the entire EU market of McDonalds. Certified as a Worldwide Responsible Accredited Production (WRAP) organisation, Sedex the segment is renowned for providing a safe workplace that empowers their employees to meet their full potential.

Our presence along the value chain (GRI 2-1,6)



Locations of Operations

Koggala

Certifications

- Compliance+ certification from the EFC
- ISO 9001: 2015 (quality)
- SEDEX Registered Supplier
- Gold Certificate of Compliance – Worldwide Responsible Accredited Production (WRAP)

Matugama

Certifications

- Compliance+ certification from the EFC
- ISO 9001: 2015 (quality)
- SEDEX Registered Supplier
- Gold Certificate of Compliance – Worldwide Responsible Accredited Production (WRAP)

SECTOR REVIEWS
STRATEGIC INVESTMENTS

Highlights of value created to stakeholders

"Ape Rahe Piyasa", an eco-friendly store, launched to sell homegrown produce and homemade food of our employees to inspire their entrepreneurial spirit.

Supporting our employees during the economic crisis by providing both dry rations and financial assistance to weather the storm.

Empowering local youth to seek professional and personal development opportunities in their own locality.

Industry Overview

Sri Lanka's exports of textiles and garments increased by 9.50% to USD 5.9 billion in 2022, holding on to volumes despite a moderating economic outlook in key markets. Earnings from apparels accounted for 45% of total exports reflecting the importance of the industry to the economy. In 2022, USA was the largest market for apparels, totalling to USD 2,344 million, while UK and Italy purchased USD 727 million and USD 512 million, respectively. The industry provides direct employment for over 350,000 people while indirect employment is estimated to be over 1.1 million.

A month-on-month comparison of the value of clothing exports indicate a decline in monthly exports over the previous year. Industry experts attribute this to the global economic slowdown as inflation and subdued customer sentiments have moderated the outlook of key markets.

In terms of global fashion markets, the market capitalisation of global fashion brands moderated during the latter part of 2022, after a strong period of growth from early 2021 through to mid-2022. As per McKinsey and Company forecasts, this subdued growth rate will continue through 2023. Despite record growth rates of 21%

Key Initiatives Implemented

The recent series of transformation sessions conducted by the company had the objective of instilling the essence of "Spensonian Pride" within its employees and redefining their work ethics to align with the current business landscape. The organization firmly believes that its core values play a crucial role in shaping its identity, and its unwavering dedication to these values leads to a prioritisation of the following principles:

1. Placing People First:
2. Driving Results:
3. Embracing an Innovative Approach:
4. Dedication to Essential Human Values:
5. Environmental Sustainability:

By emphasising these principles, the company aims to foster a company culture that genuinely reflects its values and serves as a guiding force in its pursuit of success

Expansion

- The segment expanded its floor space and redesigned it which significantly increased its capacity
- Expanding into new products lines and customers.

Efficiency

- Improved efficiency through better workflows and management systems

Employee engagement

- Regular workshops to upskill and train employees
- Over 2000 employee engagement events carried out including sporting events, graduations, talent shows and other similar events
- "Haritha Kedella" initiative: Expanding the livelihoods of Spensonians beyond the workplace by providing seeds and assistance to cultivate their home gardens. This would garner extra income for their families

Environmental & social

- Carbon footprint quantified, and strategies rolled out to offset the emission for the year to establish a benchmark towards the Group's efforts to achieve a status of net zero emissions by 2030
- Canteen waste reduced by 10 – 15%

11
New Customers Served

85%
Female Participation in labour force

28,292 Man hours in Training and Development

Rs. 4 .6 Bn.
Funds channelled for sustainable environmental and social value creation

increase in revenue during 2021, sales during 2023 are expected to pull back from -2% to +3%. Stemming from the contractions due to currency pressures, inflation and energy concerns, European markets are forecast to shrink between 1% to 4%. On a more positive note, the US clothing market is expected to grow by 1% to 2% during 2023. Similarly, the luxury fashion segment is forecast to grow between 2% to 4% during 2023.

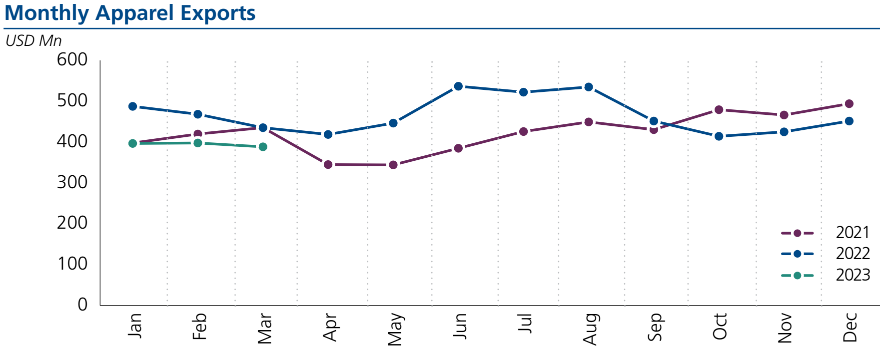
Delivering Strategy

Despite facing significant challenges in supply chains and operations during an unparalleled economic crisis, the apparel segment not only excelled but achieved unprecedented profitability, making it their most successful year to date. This remarkable accomplishment can be attributed to several key factors. Firstly, the segment experienced an over 100% growth in revenue, driven by a combination of increased prices, sales volume, and the favourable effects of rupee devaluation. Additionally, their pre-tax profits soared by an extraordinary 328.0%, reaching an unparalleled high. This outstanding achievement has positioned the apparel segment as the second-largest profit contributor within the Sri Lankan geographical segment of the Group and one of the top four contributors at the Group level, showcasing their vital role in driving overall profitability.

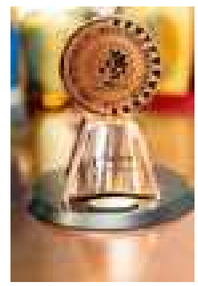
The segment placed significant emphasis on implementing effective cost management strategies amidst the moderating economic outlooks for the country and key export markets. Through their focused efforts, the segment successfully reduced the cost per minute of production by an impressive 23% during the year. Furthermore, they implemented strategic production and warehouse floor planning, along with workflow redesign to eliminate congestion and enhance production scheduling, leading to an 11% improvement in efficiencies. Notably, despite the significant operational challenges faced amidst socio-economic turmoil, the segment managed to increase the number of garments produced by 11%, from 3.8 million units to 4.2 million units.

The apparel segment is widely recognised for its high levels of industry compliance and internationally benchmarked operations, which are reinforced by regular compliance audits and continuous training workshops for employees. Demonstrating their commitment to employee well-being, the segment conducted various engagement activities, including surveys, employee recognition programmes, volunteer initiatives, and providing support such as dry ration packs and financial assistance to production floor employees. As a result of these efforts, the segment achieved a commendable 3.5% reduction in employee absenteeism during the year under review.

Monthly Apparel Exports



Awards & Achievements



Merit Award in the Manufacturing sector – Extra Large category National level at the Ceylon National Chamber of Industries (CNCI) Awards 2022

Milestone of 45 years marked by the segment

Recognised in the Top 10 Best Management Practices companies conducted by Chartered Professional Managers Sri Lanka

SECTOR REVIEWS
STRATEGIC INVESTMENTS

WEAKNESSES

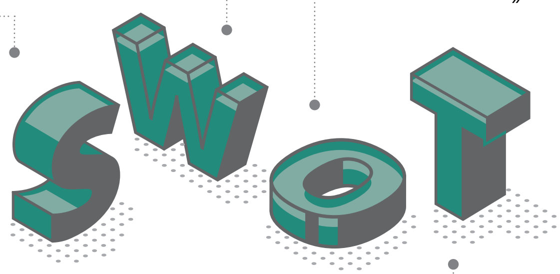
- Rapidly changing technology in the industry necessitating the need to upgrade the plant and machinery equipment
- Need for local infrastructure to be upgraded

OPPORTUNITIES

- Investments in fabric manufacturing
- Converting to direct manufacturing model from contract Manufacturing
- Potential to diversify operations overseas and access new geographical markets and customers
- Expansion of local manufacturing capacity.

STRENGTHS

- Experienced and skilled workforce
- Manufacturing plants strategically located close the Southern highway
- Established customer base consisting of several global brands



THREATS

- Skilled employees migrating for overseas employment prospects.
- Economic instability
- Inflation in major markets which impact consumer demand
- High cost of working capital

Challenges and Risks

The segment faced significant challenges during the year as the country's economic crisis impacted its global supply chains. Downgrading of the country's credit rating resulted in suppliers demanding payments by telegraphic transfer prior to shipping, instead of the regular documentary credit terms which had been the norm, exerting pressure on liquidity as the working capital cycle expanded sharply. This was exacerbated by the foreign exchange liquidity crisis as sourcing foreign exchange to make the advanced payments to suppliers posed a serious challenge.

Increasing inflation exerted a considerable pressure on production and other operational costs, including payroll as employees faced significant challenges with the increase in cost of living. The segment provided economic relief for the employees during the year as inflation reached unprecedented levels. The cost of providing economic relief to employees increased the overall cost structure of the segment although it was viewed as a timely gesture. Further, the increase in fuel and electricity rates exacerbated the overall costs as its impacts were both direct and indirect. Costs of borrowing increased sharply during the year which was a significant challenge as the working capital cycle was expanding at the same time. While these issues have eased to a fair extent, they remain as potential downside risks due to the volatility in the global and the Sri Lankan economy. Additionally, there has been an increasing trend in economic migration of skilled and professional workers as well as unskilled workers and this is expected to pose severe challenges in the years ahead. Other global factors affecting the segment include commodity prices as well as geopolitical factors which can disrupt international supply chains and impact demand.

Navigating the Future: Strategic Outlook for Growth

While the USA market holds a more positive forecast and accounts for a majority of the segment's revenue, the group is actively pursuing market penetration in the UK, EU, Australia, Japan, and emerging markets. However, the global demand forecasts for branded garments in the short to medium term remain subdued. The segment will monitor global demand, and plans are underway to increase capacities as and when required in a cost-effective manner.
In the short term, the segment will make a concentrated effort to increase production efficiency and reduce employee absenteeism through continuous training and development initiatives. The empowerment and uplifting of employees will remain a priority as the segment invests in them and provide them opportunities for growth. Plans are underway to implement an integrated ERP system, "industry 4.0" towards end of 2023 financial year, connecting operational areas to improve visibility and efficiency of processes. The segment will also focus on expanding the customer portfolio through competitive positioning and value addition.

In the medium term, the segment will look to capitalise on the growth expectations of the global fashion industry by increasing production capacity further with steps underway to improve turnover by a significant percentage, within the next five years. The long term plans include overseas expansion to mitigate the risks of depending on one production location. The segment also plans to transform from the contract manufacturing model to one of direct manufacturing for more sustainable growth.

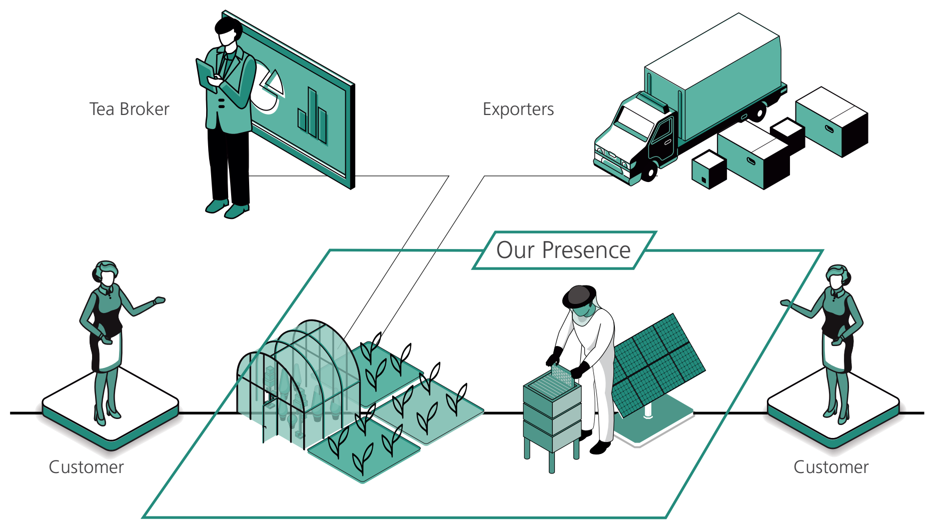
The country's economic recovery will play a key role in attracting customers as well as managing working capital and costs, to deliver increased profitability. The segment continues to focus on managing costs and efficiencies to further refine operations which is aided by the holistic integration of sustainability principles.

Associates:

Plantations

The plantation segment comprises of strategic investments in Elpitiya Plantations PLC and seven other companies. Collectively, this segment focuses on transforming Elpitiya Plantations from commodity-based company into an innovative, entrepreneurial company that creates maximum business and social value. Its operations range from producing tea and rubber to cultivation of oil palm, berries, cinnamon, retailing, renewable energy generation and eco-tourism with several new diversifications in the pipeline.

Our presence along the value chain (GRI 2-1,6)



Highlights of Value Created to Stakeholders

Over 90% of the total energy requirement sourced from renewable energy with 100% of the factory roofs being utilised to generate solar energy generating over 159% of renewable electrical energy demand than our present consumption recording net positive in electrical energy usage.

Quality of life enhanced for employees through targeted projects. These efforts include infrastructure developments, multiple social development interventions and improving access to education and soft skills development for children, youth and women in our communities.

Monumental strides made in the progress of our design 2020 strategy to ensure business growth with a diversification strategy, and an agriculture and processing strategy in order to achieve revenue growth over 25% through sustainable strategic partnerships.

SECTOR REVIEWS

STRATEGIC INVESTMENTS

Achievements

Triple bottom line winner- Environment category Best Corporate Citizen Sustainability Award 2023, organised by the Ceylon Chamber Of Commerce

Runner up in the below 15 billion category Best Corporate Citizen Sustainability Award 2023, organised by the Ceylon Chamber Of Commerce

Runner up in the Sustainability Reporting Awards 2023 conducted by ACCA Sri Lanka.

Awarded Gold at the first ever 'Green Productivity Awards 2021' organised by Sri Association for the advancement of Quality and productivity (SLAAQP)

Winner of a sustainability award for the Agriculture sector (large category) by the German Industry and Commerce in Sri Lanka (AHK Sri Lanka) and the Friedrich Naumann Foundation.

Best sustainability project award winner - Environment Sustainability category for the project 'Living Green Soil'

Best Corporate Citizen Sustainability Award 2023, organised by the Ceylon Chamber Of Commerce

Best sustainability project award winner - Social Sustainability category for the project 'Ready to be Ready'

Best Corporate Citizen Sustainability Award 2023, organised by the Ceylon Chamber Of Commerce

Overall Silver Winner and sector winner (Agriculture & Plantations sector) in the Best Management Practices Excellence Awards category at the Best Management Practices Company Awards 2023 organised by the Institute of Chartered Professional Managers of Sri Lanka

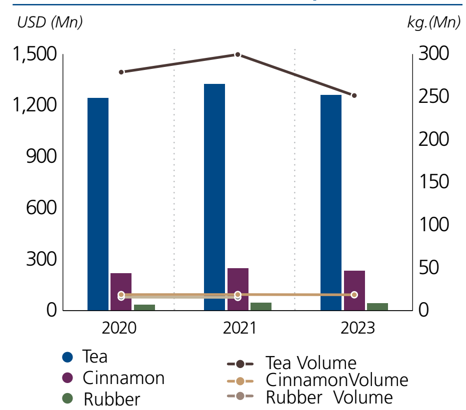
Industry Overview

The plantation sector in Sri Lanka is heavily weighted to the production of tea and rubber which are among the country's highest exports in value. Tea is the principal agricultural export crop while rubber exports are classified as industrial exports. Coconut and spices are also key exports, ranking among the top ten export earnings in the country.

The resource utilisation within the plantation industry which controls large extents of land and other natural resources has been less than optimal. Although crop yields have declined over the past years due to inadequate replanting and the impact of poor policy decisions on fertilizer and agro-chemicals, the export prices remained buoyant for both tea and rubber. This proved favourable as the rupee devalued sharply in 2022, improving the performance of the sector.

A major concern for the sector is the high wages in relation to low labour productivity. The political influence wielded by unionised labour has resulted in wage increases which were not on par with productivity increases, thereby adversely impacting production costs. Inflation added significant pressure on narrow margins which was exacerbated by the increased energy and fuel prices. The shortage of chemical fertiliser following the imposition of organic fertiliser policy resulted in lower yields and hampered other agricultural processes as well, with a knock-on impact on harvests and productivity.

Tea, Cinnamon and Rubber Exports



Key Initiatives Implemented

Expansion

- Initiative has been taken to set up an AgroTech company through a merger with existing R&D company.
- A joint venture partnership for cultivating pineapple.
- A collaboration with a Swedish company for production of biochar which sells carbon credits in overseas markets.
- Expanding the 'Harrow House', our retail chain operation, by moving into Indian Market and expanding the product portfolio
- Berry Much
  - Fresh Strawberries different sized
  - Fresh Blackberries
  - Fresh Raspberries
  - Whole fruit Strawberry Jam
  - Raspberry Jam
- Harrow Ceylon Choice
  - Kithul treacle
  - Coffee beans & powder
  - Wellness range/ Herbal Tea Products (Moringa, Soursop, Ginger, Cinnamon, Coriander)
  - BOPF ziplock pouches
- Tropifrut
  - Mango & strawberry smoothie
  - Tamarind drink
  - Soursop Smoothie
  - Soursop Jam
  - Soursop Strawberry Jam
  - Classic Peanut Milk
  - Mango with Peanut Milk
  - Pineapple with Peanut Milk

Efficiency

- Introduced smart digital weighing system at field level
- Digitalisation of field documentation with smart devices
- Switching from conventional inefficient thermal heaters to efficient steam boilers, which improved productivity and quality.

Employees

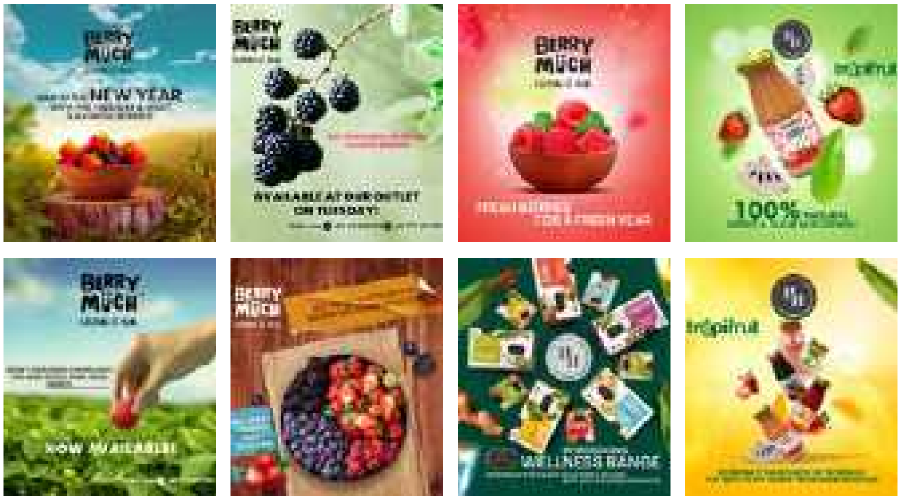
- Annual health camps screening all workers for NCDs spending over Rs 34 million.
- Succession planning and skills development interventions strengthened during the year

Environmental & Social

- Continuing reforestation efforts to increase the green cover in the tea plantations
- Project- 'Get to School' is an ongoing initiative to support 659 students with educational materials at an investment of over Rs. 3.5 million.
- Project- 'Ready to be Ready' supporting the community in plantation with company grown vegetable to ensure the food security and nutrition of the community spending over Rs. 2.5 million.

SECTOR REVIEWS
STRATEGIC INVESTMENTS

Products



Delivering Strategy

The segment recorded the highest revenue and profits since inception supported by increased prices for tea and rubber and the devaluation of the rupee. The non-plantation business performed encouragingly, although many of these ventures are still in the early stages and are yet to reach profitability. The segment now has four brands: Berry Much, under which its berry products are marketed; Tropifrut for its fruit-based line of products; Ceylon Choice through which the plantations own teas are marketed; and Harrow House being the retailing arm of the company's products. The segment has broadened the distribution and marketing channels, venturing into its first overseas market in India. It has also formed joint ventures for the cultivation and processing of pineapple with a renowned manufacturer of food products and for biochar with 'Planboo' which is a Swedish company working with climate-conscious businesses, farmers, land stewards, and biochar producers.

The segment continues to focus on optimising its resources by diversifying beyond traditional businesses by leveraging expertise within the Group. Accordingly, its capital expenditure during the year was mostly focused on diversification while ensuring sustainable value creation through traditional tea and rubber production.

Sustainability continues to be a key priority for the segment which has set its targets for 2030 and is committed to achieving the same. Progress made in this regard is set out below.

As inflation increased pressure on disposable income, the segment facilitated improvements in livelihood for the local community through increased salaries and wages, and a higher level of local purchases.

2030
Environmental Targets

- Match grid energy used with renewable energy generated by **300%**
- Reduce usage of chemical fertiliser by **50%** by **2030**
- Increase green cover by **10%** by **2030**
- Recycle **100%** of plastic waste

Socioeconomic Impact
(GRI 201-1,203-1,2)

206,260 m3 rainwater harvested to recharge soil and irrigation.

17,266.3m3 wastewater treated for safe disposal

Generated 159% of grid energy requirements through renewable sources, moving towards 300% target by 2030.

17,560 tonnes CO2e emissions offset through renewable energy generated through hydro, solar and biomass

Reduced use of chemical fertiliser by 23% in 2022/23 against 2030 target of 50%

16 University Scholarships

10 Advanced Level Scholarships

Composting all biodegradable waste and plant material (4,800 MT) towards improving soil carbon level, soil moisture, nutrients, and biological properties by 2030

Challenges and Risks

While the segment delivered a strong performance, it faced multiple challenges during the year. The increase in inflation, electricity and fuel costs were balanced only due to the higher prices for both tea and rubber and the devaluation of the rupee.

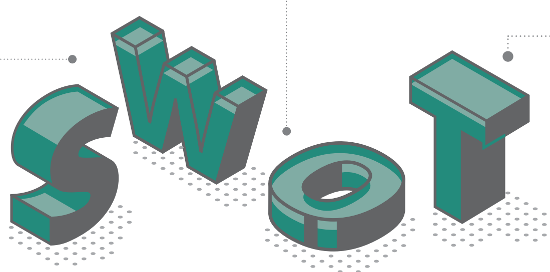
The shortage of fertilizer and agrochemicals continues to hinder steady progress of the sector. The inconsistent policy on oil palm has affected the development of a potentially high foreign exchange earning industry for the country. Favourable climatic conditions were a positive factor in the past year although the weather continues to be an inherent natural risk for the sector. Geopolitics remains a concern as Russia and Ukraine are key buyers for tea.

WEAKNESSES

- Performance is highly dependent on climate and weather
- Highly labour-intensive sector
- Politically influenced labour unions
- Majority of unskilled labour
- Shortage of workers in Low Country

OPPORTUNITIES

- Government support for development of sector
- Crop diversification and rotation
- Global demand for sustainably produced goods
- Higher opportunities in leisure sector



STRENGTHS

- Visionary leadership
- Multi talented human capital
- Availability of land resources in 03 climatic conditions
- Availability of natural resources
- Strong balance sheet
- Well diversified business portfolio
- Strength of partnerships

THREATS

- Inconsistent and uninformed state policies and regulations
- Potential cost increases and withdrawal of subsidies
- Global Warming/ Climate Change
- Unionised Workforce
- High tax rates

Navigating the Future: Strategic Outlook for Growth

The plantation segment is rich in resources which makes it ideally suited to diversify and grow into a multitude of business sectors. As food and energy security become national priorities, there is significant potential for growth for the segment in these areas as well as supporting the recovery of tourism with alternative offerings such as adventure and agro tourism. The recent diversification into these areas is expected to yield positive results over the medium term. Geopolitics which affect the demand for primary export crops and the escalation of production costs present potential downside risks for the segment in addition to the vagaries of climate change. The upside potential includes increased harvests across all three principal crops, tea, rubber and oil palm resulting from the improved availability of fertilizer in the market, albeit at an increased price. We expect the revenue from non-plantation diversifications to grow in the year ahead as we roll out more products in larger quantities through the newly established channels.

Meeting our sustainability targets will continue to be a priority that is driven from the top management with the active involvement of the Board as the industry is vulnerable to climate change and exposed daily to social inequalities. We are expanding our sustainability targets, in-line with global SDGs, going beyond national level to the regional level.

SERVICES

Offering highly specialised services, this Sector operates in areas with immense potential for growth. The Group's longstanding relationships with principals facilitate the expansion of this sector, demonstrating its capability to provide exceptional services to Sri Lankans. Consisting of operations in insurance, elevator agency, facilitation of overseas remittances, and property management, these companies have emerged as prominent players in their respective business segments. The diversification within the sector reinforces steady growth and revenue, as the country progresses towards economic recovery.

Our presence along the value chain (GRI 2-6)

Money Transfer

MMBL Money Transfer plays a vital role in ensuring remittances reach migrant workers' families in a timely manner. Representing three of the largest money transfer franchises, MMBL Money Transfer is the leading player in this segment of national importance.

Principals

- Western Union
- MoneyGram
- Ria

Property Management

This segment owns and manages commercial office premises that provides a safe and pleasant work environment for over 2,000 people.

Revenue
Rs. 2.3 Bn

EBITDA
Rs. 735.6 Mn

Profit Before Tax
Rs. 513.8 Mn

Insurance

This segment provides highly specialised services in surveys for marine cargo insurance as well as claims processing for globally renowned insurers. Additionally, it also provides insurance brokering and consultancy services for corporates.

Principals

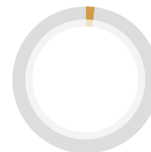
- Lloyds of London
- W. K. Webster
- Tokio Marine & Nichido Fire Insurance Co,
- Mitsui Sumitomo Insurance Group
- PICC Property and Casualty Company Limited

Elevator Agency

The elevator agency segment has over 30 years of experience in providing people-mobility solutions for high rise buildings. A strong reputation and a collaboration with a global leader in elevators and escalators reinforce its leadership in the country's construction sector.

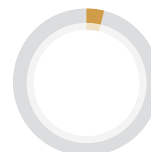
Relevance to Group

Revenue



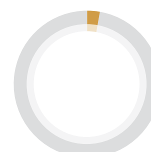
2%

Profit Before Tax



4%

Total Assets



3%

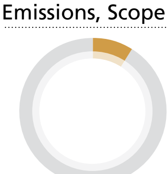
Total Liabilities

2%

Employees

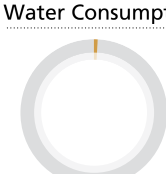
2%

Emissions, Scope 1&2



9%

Water Consumption



1%

SECTOR REVIEWS
SERVICES

Advancing towards the Group Goals with unwavering commitment

Annual average year on year sustainable profit growth

Money Transfer
- Acquire new principals
- Increase number of active sub-agents

Insurance
- Steady growth in activity

Expand Aitken Spence reach into new geographies and new business segments

Elevator Agency
- Large private sector projects being floated
- Growth in equipment maintenance business
- Enhancement of technical talent pool with vocational training launched at the CINEC Campus

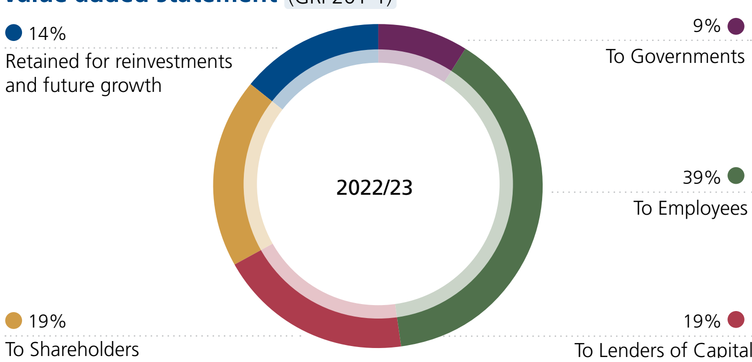
Reduce resource footprint and achieve net zero emission status

- Process digitisation to reduce paper consumption
- Focus on process controls for energy and water efficiency

Employer of choice

- Building a diverse talent pool across all segments to drive business growth and productivity
- Fostering diversity and inclusion among employees to promote a equitable and innovative workplace

Value added statement (GRI 201-1)



In the year, the Services Sector created value of Rs. 1.2 billion. Its labour-intensive operations were evident in the distribution of value, with the highest portion, being 39% of the total, allocated to its employees. Shareholders and lenders of capital received 38% of the value created, divided equally between them at 19% each. Governments were allocated a 9% share.

Socioeconomic Impact (GRI 201-1,203-1,2)

Rs. 50.1 Bn
Facilitation of foreign exchange inflows to the country

Rs. 195 Mn
Taxes paid to Governments

252
Employees

15%
Female Participation in labour force

Rs. 2.6 Mn
Investment in Training and Development

130
New Customers served

Value to Stakeholders

Rs 1.2 Bn
Value Created

Rs 485.8 Mn
Value Created for Employees

Rs. 1.0 Bn
Payments to suppliers and business partners

Rs 236.9 Mn
Dividends Paid to Shareholders

Rs 3.1 Mn
Investments in Sustainability Processes

Delivering Strategy

Within the Service Sector, there was a 3.3% decline in revenue, reaching Rs. 2.3 billion, primarily driven by a decrease in the elevator segment. However, positive growth was observed in the money transfer, insurance, and property segments. As a result, the decline in the top line led to a 27.4% decrease in profit before tax, totalling Rs. 513.8 million, compared to the previous figure of Rs. 708.0 million.

The revenue of the insurance segment grew by 28.3%, leading to the highest profits ever achieved. The increase in the top line was mainly due to the growth in the number of marine insurance surveys handled during the year and the devaluation of the rupee against the USD, resulting in higher premiums for the insurance policies. Additionally, the uncertain socioeconomic climate in the country prompted more individuals to opt for insurance coverage.

The property segment experienced a recovery this year compared to the previous two years as many businesses resumed operations in the offices after remote working.

MMBL observed higher volumes compared to the preceding year, despite experiencing a reduction in pre-tax profits due to foreign exchange losses resulting from the rupee appreciation towards the year-end. Nonetheless, the amplified volumes enabled the company to absorb the losses and generate a substantial profit for the year, albeit lower than the previous year.

The construction industry faced severe challenges throughout the year. This was triggered by import restrictions on construction materials and overall socioeconomic uncertainty in the country, which was worsened by the rupee depreciation. The elevator segment witnessed a revenue decline and incurred losses for the year. The exchange rate volatility, coupled with intense competition, rendered pricing of contracts exceedingly challenging. The prolonged delay in receipts from government contracts further strained the working capital, resulting in increased finance costs.

Nurturing Our Capitals (GRI 3-3,203-1)

Financial Capital

- Revenue of Rs. 2.3 Bn
- Net assets (including investments in equity accounted investees) of Rs. 3.2 billion

Social & Relationship Capital

- Vocational training infrastructure in a specialised field facilitated for the youth of Sri Lanka
- Growth in customer base and channels

Intellectual Capital

- The implementation of digital monitoring for maintenance and repair services
- Digitalisation to drive efficiencies and enhance service levels

Natural Capital

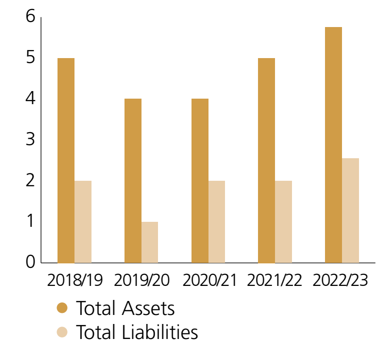
- Focus on energy efficiency within our office premises collaborating with the NCPC

Human Capital

- Investments in creating talent pools
- Staff Training and development of 11,742 hours with an investment of Rs. 2.6Mn

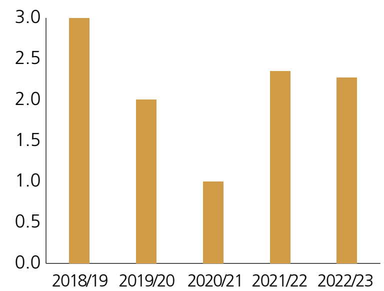
Stability

Rs. Bn



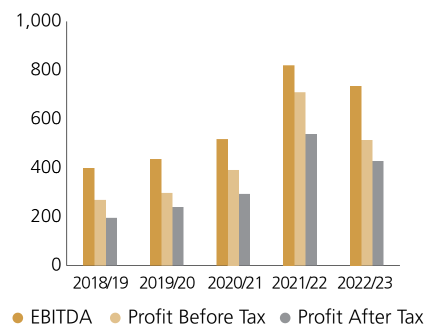
Revenue

Rs. Bn



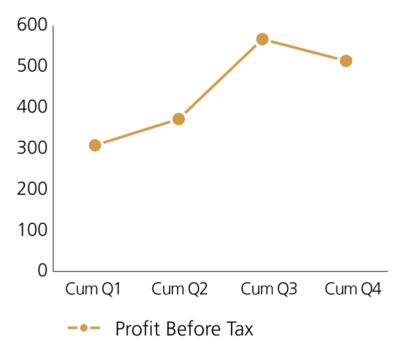
Profitability

Rs. Mn



Performance during the year

Rs. Mn



Statement of Financial and ESG performance (GRI 201-1; 203-1; 302-1; 303-3,4; 305-1,2; 306-5)

	2022/23	2021/22	YoY (%)
Revenue (Rs. Mn)	2,270	2,347	(3)
EBITDA (Rs. Mn)	736	820	(10)
Profit before tax (Rs. Mn)	514	708	(27)
Profit after tax (Rs. Mn)	429	539	(20)
Total assets (Rs. Mn)	5,746	4,752	21
Total liabilities (Rs. Mn)	2,550	1,879	36
SDGs towards which the Sector's performance contributes:			
Targets: 4.3, 4.4, 4.7, 5.1, 5B			
Number of Employees	252	265	(5)
Employee female representation	15%	12%	25
Employee benefits paid (Rs. Mn)	486	403	21
Training hours per employee	47	18	161
SDGs towards which the Sector's performance contributes:			
Targets: 4.3, 4.4, 4.7, 5.1, 5B, 12.b			
Investment in training (Rs. '000)	2619	919	185
Brand stewardship	4	4	-
Number of certifications	3	3	-
SDGs towards which the Sector's performance contributes:			
Targets: 8.5, 8.8, 8.10, 12.b			
Number of joint venture/ equity partnerships	3	3	-
Number of suppliers screened on ESG within the year	61	55	11
SDGs towards which the Sector's performance contributes:			
Targets: 8.4, 9.4, 12.2, 12.5, 12.6, 12.8, 12.b			
Total energy consumption (GJ	9,717	5,848	66
Scope 1 emissions (tCO2e)	6,861	6,817	1
Scope 2 emissions (tCO2e)	1,440	792	82
Emissions reduced or offset (tCO2e)	4	6	(33)
Total water withdrawn (m3)	5,619	5,792	(3)
Total amount of solid waste kept away from landfills			
(Tonnes)	9	17	(47)
(Units)	76	84	(10)
Total investment in sustainability driven processes (Rs. Mn)	3	1	300
SDGs towards which the Sector's performance contributes:			
Targets: 9.1, 9.4			
Property, Plant & Equipment (Rs. Mn)	3,231	2,831	14
Investment in manufactured capital (Rs. Mn)	18	13	38

Alignment to SDGs

Quality education

» Training, education and leadership development initiatives enabled for employees

» Enriched vocational training opportunities enabled for students in the country partnering with CINEC Campus

Gender equality

» Employee engagement across the Sector to promote diversity, equity, and inclusivity

Clean water and sanitation

» Management systems maintained to monitor and manage sustainable water consumption

Decent work and economic growth

» OHS and labour standards maintained across the Sector

» Management systems maintained to increase resource efficiency and prevent pollution

Industry innovation and infrastructure

» The Sector provides support services to develop reliable, sustainable, and resilient infrastructure

Responsible consumption and production

» Aligned to the 7R Principles, the Sector works to ensure zero-waste-dumping to landfills and increase resource efficiency to contribute towards a circular economy

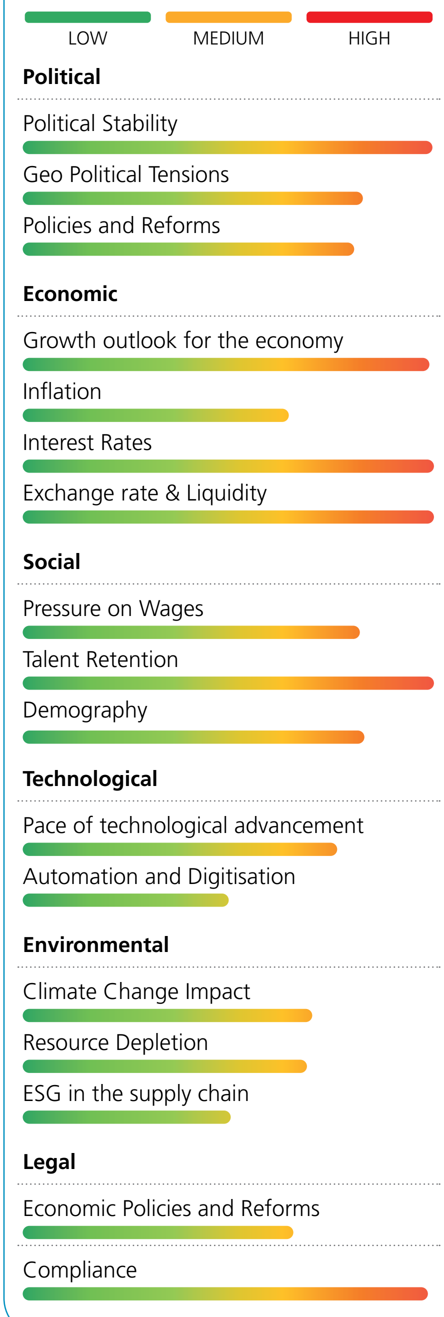
Please refer to more details provided in pages 387 to 394 and the overview of the integrated sustainability policy and its alignment to the SDG given in the annexures of this report.

Navigating the Future: Strategic Outlook for Growth

The disbursement of the first tranche of the IMF loan has improved the economic stability in Sri Lanka, benefiting sectors such as money transfer, insurance, and construction. Higher migration of Sri Lankans moving out of the country is expected to lead to increased money transfer and growth in insurance industry. Additionally, the proposed release of import restrictions is expected to revive the construction industry by providing access to a wider range of construction materials. Overall, the segments are well-positioned for growth in the coming year.

For a more detailed overview of the future outlook relevant to the segments, refer to the respective segment reviews.

Significance of External Factors (PESTEL) on Business Activities



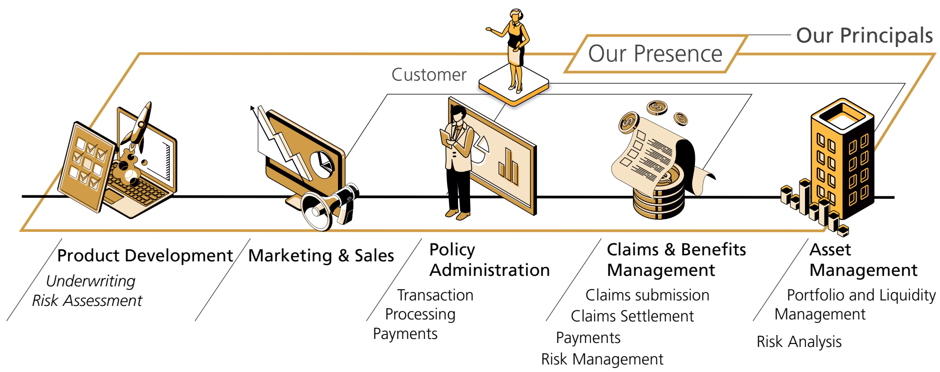
SECTOR REVIEWS
SERVICES

Insurance

The Insurance segment comprises of Aitken Spence Insurance Brokers (Pvt) Ltd., and Aitken Spence International Consulting (Pvt) Ltd., with operations in Sri Lanka and the Maldives. The segment has a long-standing relationship with Lloyd's of London which was initiated in 1876, as well as representing companies such as WK Websters, Tokio Marine & Nichido Fire Insurance Co, Mitsui Sumitomo Insurance Group PICC Property and Casualty Company Limited.

As representatives of international giants in the insurance sphere, the segment carries out marine cargo, hull & machinery inspections survey claim settlements, insurance brokerage, risk management and other ancillary insurance consulting services.

Our presence along the value chain (GRI 2-6)



Industry Overview

The insurance industry remained resilient despite the turbulence in the operating environment. Gross premiums increased by 13% for both life insurance and general insurance categories. Fire insurance and Marine insurance saw the largest growth between 2021 and 2022 with 45% and 32% increases, respectively. The importance of the insurance industry as a risk absorber was underscored amidst the economic uncertainty and the highly charged political environment during the year, resulting in growth in demand as well as premium rates.

Gross Premiums	2021	2022	% change
Life Insurance	296,698,859	334,170,778	13
General Insurance	269,625,560	308,007,148	14
- Motor Insurance	149,721,516	162,696,624	9
- Fire Insurance	30,074,943	43,507,225	45
- Marine Insurance	7,541,486	9,970,594	32
- Health Insurance	46,698,741	50,042,553	7

Zero
workplace injuries

Zero
non-compliances with laws and regulations

100%
paper waste recycled

Claims during the year also increased with Motor insurance claims being the largest proportion, as travel restored to pre-pandemic levels. Health insurance claims followed closely behind.

Claims	2021	2022	% change
Life Insurance	109,261,350	139,847,115	28
General Insurance	119,494,664	153,669,981	29

The insurance sector saw an increase in profits with the general insurance category seeing a growth of 49% between 2021 to 2022.

Profits	2021	2022	% change
Life Insurance	46,685,943	51,948,485	11
General Insurance	46,616,996	69,384,409	49

Source: Insurance Regulatory Commission of Sri Lanka

Insurance penetration remains relatively low in the country and there is significant potential for growth, provided there is an improvement in disposable income.

Delivering Strategy

The segment delivered a strong performance with a top line growth of 28.3% and profit growth of 47.3% in 2022/23. The increase in revenue was driven by strategies to increase US dollar revenue streams and diversify into new revenue streams. Concerted efforts were also placed to successfully retain 100% of the current client base and increase survey volumes. The dual impact of the devaluation of the rupee and increased asset values provided a boost to gross premiums. Accordingly, the segment increased its share of the survey market to over 60% by leveraging its long-standing reputation and partnerships with global principals. These strengths also assisted in securing the surveying of shipments for a number of global organisations providing humanitarian assistance.

The insurance industry is highly competitive, and the segment has continued to increase its market share through digital marketing and excellent customer service. The segment continues to focus on enhancing the skills and technical knowledge of employees through training programmes and exam accreditations from its global partners as well as local authorities such as the Sri Lanka Insurance Institute and the Ceylon Chamber of Commerce. The emphasis on

Key Initiatives Implemented

Customer Focus

- Customer retention through transparent communication on policy conditions
- Superior cargo claims management - issuing survey reports in line with Principals' Service Level Agreements (SLA)

Employees

- Internal and external training and knowledge sharing sessions conducted by insurers for skills development.
- Cost reduction initiatives such as semi-virtual-mobility and route planning were adopted.

Efficiencies

- Developed SOPs with the support of an external consultant and the Group HR Division.
- Implemented a front-end client management system.

Environmental

- Systemic interventions maintained to reduce resource footprint

Highlights of Value Created to Stakeholders

Safe and conducive workplace enabled for all Spensonians to seek personal and professional growth

Resource efficiency increased through digitalisation and process improvements carried out during the year

Connecting the insurance arena of Sri Lanka with global partners as the agent of Lloyds of London for over 125 years

SECTOR REVIEWS

SERVICES

customer centricity was supported by the upgrading of front-end systems and the development of standard operating procedures (SOPs) for employees with an HR specialist together with the assistance of the Group HR Division. The customer-centric approach also included providing clarity to customers on offerings, continuous assessments of customer satisfaction and the speed of handling cargo claims.

The segment continues to focus on regulatory compliance and on the data protection protocols of its principals. Technical requirements of principals are adhered to by completion of compulsory examinations by our employees and virtual audits of survey reports to ensure that international standards are maintained.

Opportunities

The insurance industry has substantial growth opportunities, as economic uncertainty necessitates the need for reputed and reliable insurance companies to share future risks. This includes overseas re-insurers seeking comprehensive risk profiling and assessments as well as local businesses and individuals looking to mitigate future risks. The recovery of economic activity in the fourth quarter is encouraging and is expected to lead to more opportunities for growth.

Risks

Prolonged import restrictions or further contractions of import items may reduce the demand for Marine insurance. The prevailing risks stemming from the country's socioeconomic and political situation could lead to withdrawals from reinsurers. Less opportunities for insurance brokers may prevail with the consolidation between insurance companies as well as increased levels of digitisation.

Navigating the Future: Strategic Outlook for Growth

The insurance landscape continues to transition as the nature of risks in the local context evolves at this critical juncture for the country. Low penetration rates indicate potential for growth which may be subdued in the short term by the lower disposable incomes as the country seeks to move past the economic crisis. Agile players with strong customer value propositions and lean operations will be able to gain market share even during this period as customers look for safety nets to manage financial risks.

The segment will realign and reinvent its current customer offerings through increased interactions with existing customers. Digital technology continues to gain traction within the industry, empowering customers and driving efficiency and scale. The segment will look to further enhance the efficiency of operations and make process improvements through greater integration. Increased visibility on digital platforms is expected to increase leads, supporting expansion of the customer base.

Customer service and global relationships are the key strengths of the segment which are expected to outweigh the weaknesses. Investments in human capital will continue through the training of current employees and the recruitment of new, skilled employees to penetrate identified market segments for growth.

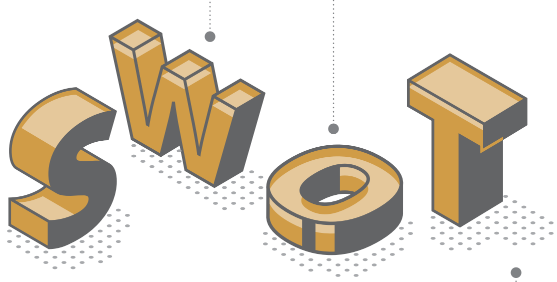
Looking ahead, pricing models will need to reflect a forward view of inflation and global risks. Increased focus on data privacy and cyber security risk management is a potential area for growth as threats escalate. Similarly, the segment sees further potential in indemnity insurance and protection, insurance for ships and opportunities in the exports segment, which will be pursued in the short to medium term.

WEAKNESSES

» Relatively low digitalisation of operations
» Dearth of skills in the talent pool for specialised activities

STRENGTHS

» Reputation and expertise in the insurance industry
» Reputed business partners
» Longstanding relationships
» Strength of parent company
» A qualified and competent team
» Over 60% market share in the survey business



OPPORTUNITIES

» Represent reputed overseas insurance brokers and operate as a reinsurance hub
» Diversification to Maldives leveraging our existing footprint in the country
» Growth in the protection and indemnity insurance spectrum
» Scope to provide insurance services in the area of climate change, risk assessment and disaster risk reduction

THREATS

» Change in guidelines by the insurance regulator may impact the current working model
» High dependency on key accounts
» Loss of agencies

Elevators

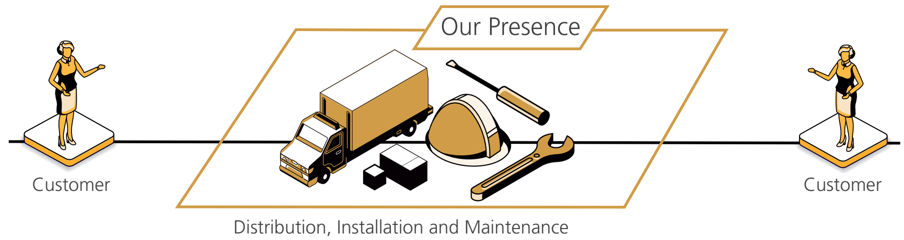
The segment has been the sole distributor of OTIS, the world's leading manufacturer of elevators, escalators and moving walkways, for over 30 years and operates in Sri Lanka and the Maldives. As a long-standing expert in the industry, the segment is accredited to supply, install, and maintain OTIS products. OTIS is renowned worldwide for its quality and high safety standards, which, coupled with the service excellence and customer-oriented processes of Aitken Spence has made the segment one of the top competitors in the industry.

Created an external talent pool of 30 NVQ level 3 certified elevator technicians

Reduced customer waiting time to zero

Zero non-compliances in external recertification audits

Our presence along the value chain (GRI 2-6)



Locations of Operations
Sri Lanka, Maldives

Certifications
ISO 9001 certified for quality
ISO 14001 certified for environmental sustainability
ISO 45001 certified for OHS
EM 1 Certification

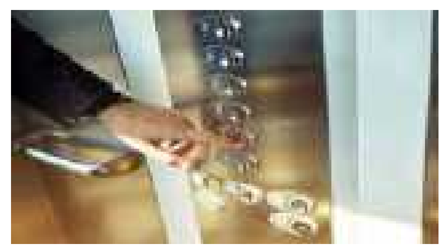
Locations of Operations

Sri Lanka

Certifications

» ISO 9001 certified for quality
» ISO 14001 certified for environmental sustainability
» ISO 45001 certified for OHS
» EM 1 Certification

Maldives



SECTOR REVIEWS
SERVICES

Highlights of Value Created to Stakeholders

Empowering employees with a safe and sustainable workplace conducive to personal and professional growth

Building the next generation of skilled professionals with the elevator training tower

Supporting the infrastructure development of Sri Lanka with state-of-the-art equipment and specialised support services

Industry Overview

Activity in the construction industry in the country declined sharply as the economic crisis unfolded, as it was one of the worst affected industries. Profitability of the industry was affected by import restrictions, high inflation, unavailability of foreign exchange, and exchange rate volatility, which posed a challenge to procure construction materials. Long delays in receiving payment on government contracts resulted in expansion of working capital cycles which proved to be costly as interest rates increased to unprecedented levels. Inflationary pressures on wages, raw materials and other operational costs, power outages and fuel scarcity added to the challenges, making 2022/23 one of the most challenging years in recent history.

The industry was also impacted by the increased manufacturing costs of elevators and spare parts which was worsened by the devaluation of the rupee and increase in freight rates. Due to the prevailing socioeconomic conditions, retaining skilled labour was a challenge as many employees sought opportunities overseas. The pricing of contracts proved to be a significant challenge due to the uncertainty and volatility of multiple factors.

The construction industry faced significant challenges due to government regulations, especially import restrictions, which created uncertainties and a difficult operating environment. Additionally, the industry's fierce competition resulted in price competition, further compounding the situation.

Delivering Strategy

The segment experienced a 13.3% decline in revenue and reported a loss for the year. This was primarily attributed to exchange rate volatility, with the segment starting the year with a foreign exchange loss on the valuation of goods in transit due to the unprecedented depreciation of the rupee in April 2022 and ending the year with an exchange loss on receivables as the rupee appreciated in March 2023. In addition, pricing contracts became increasingly challenging throughout the year, and revenue streams were impacted by reduced demand and increased manufacturing costs of elevators, escalators, and spare parts. However, the segment managed to overcome these challenges with the help of digitalisation and a focus on efficiency. Despite facing increased competition from lower-priced products and services in the market, the segment managed to maintain its position. Managing working capital was critical due to extensive delays in receiving payments, especially from government contracts, and borrowing costs increased significantly due to a rise in interest rates.

Key Initiatives Implemented

Expansion

» New automated, trilingual customer support services unit set up under Aitken Spence Industrial Solutions

Efficiencies

» Integrated all automated systems facilitating workflow automation

» The implementation of digital monitoring for maintenance and repair services resulted in reduced operational inefficiencies and improved customer satisfaction

» Transitioned from a paper-based system to a digital one, where documents are now digitised and stored on a cloud-based document management system.

Employees

» Succession planning and upskilling of employees with the necessary technical knowledge and soft skills

Environment and social

» Contributing towards the development of a green workforce with employee engagement activities to increase social and environmental awareness

Automation of timesheets, maintenance contracts and customer service tracking on the field provided greater insights into operations which resulted in higher productivity. A trilingual call centre was set up to handle customer queries and complaints real time, offering 24/7 customer service which reduced the call back ratio from 4.0 to 3.1. The joint operation with CINEC Campus to create skilled talent pools of elevator technicians became operational and two batches completed their National Vocational Qualifications (NVQ) Level 3 training. Importantly, the 'Spence Way Survey' conducted by Group HR Division revealed that customer satisfaction level was high owing to the customer waiting time being reduced to zero.

Operating in a traditionally male-dominated industry, steps were taken to pave the way to increase female representation. The company launched initiatives such as, leadership training, and flexible working hours to attract and retain female talent, resulting in a more diverse and inclusive workforce.

Navigating the Future: Strategic Outlook for Growth

There is significant uncertainty about the prospects of the construction industry in the country due to the economic situation. However, the segment remains cautiously optimistic, as it has submitted proposals for a few large projects that are expected to be finalised soon. Furthermore, the segment has set a target to achieve 2,000 installations in the country by 2026. To leverage its over 30 years of experience in the industry and brand value, the segment is pursuing diversification into other revenue streams.

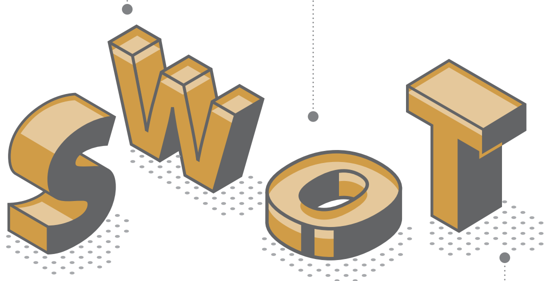
Attracting skilled talent to the industry is a critical factor, and the segment has plans in place to achieve this goal with the support of its collaboration with CINEC Campus. In addition, the segment is exploring further potential to drive efficiencies which is intended to increase profitability. The growth of this segment is driven by a reputed brand coupled with a determined team and is expected to gain greater traction with demographic changes and other favourable market conditions.

WEAKNESSES

- Mass migration of skilled labour
- Requirement for specialised skills

OPPORTUNITIES

- Modernisation of old elevators
- Introducing dumbwaiters
- The shifting demographics in Sri Lanka have led to an increase in the demand for vertical transportation



STRENGTHS

- World reputed brand
- Strength of the parent company
- 30 years of experience in the installation of elevators in high-rise buildings
- Skilled labour
- ISO Certification (9001:2015, 14001:2015,45001:2018)

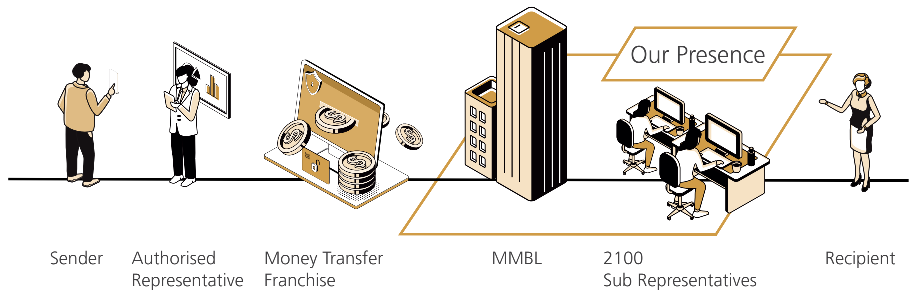
THREATS

- Increase in manufacturing costs
- Exchange rate fluctuation
- Inconsistent industry related policies

Money Transfer

MMBL Money Transfer (Pvt) Ltd., (MMBL) plays a vital role in the economy facilitating the remittance of funds from migrant workers to their families through an island wide network of over 2,000 sub-representatives. The company established in 1995 is the largest representative of industry giant Western Union in Sri Lanka. It also represents MoneyGram and Ria which are trusted global remittance services. MMBL is the only non-banking institution approved for outward remittances with Western Union by the Central Bank of Sri Lanka (CBSL).

Our presence along the value chain (GRI 2-6)



The Money Transfer segment's activities are predominantly determined by the worker remittances which is the principal source of secondary income for the country. Worker remittances has consistently remained a vital source of income and foreign exchange generator to the country

Worker remittances through formal channels declined by 40.2% in USD terms during the year 2021/22 as the CBSL set a ceiling on the rate for converting worker remittances. This resulted in the growth of informal channels, which offered more competitive rates. However, the floating of the rupee and coupled with special incentives offered by the CBSL, supported a gradual increase in worker remittances during the year 2022/23, although they have not yet reached the levels achieved prior to 2021. Typically, the Middle East accounts for over 50% of the total remittances, with the European Union accounting for approximately 18%.

CBSL established the 'Foreign Remittances Facilitation Department' and introduced incentive schemes to facilitate worker remittances through banking channels. Lanka Remit, a mobile application, was launched by Lanka Clear with the participation of most banks.

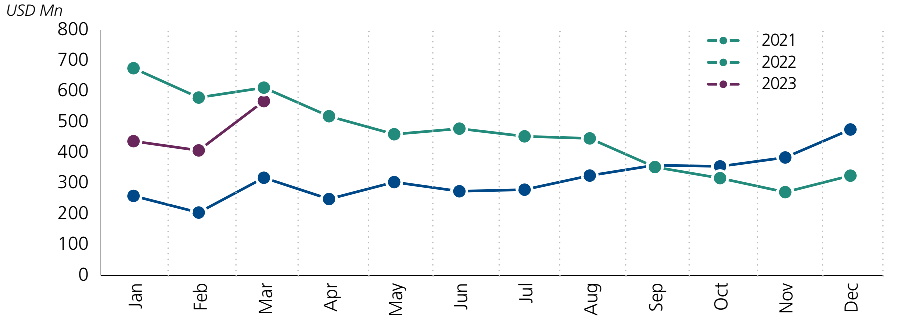
Highlights of Value Created to Stakeholders

MMBL Money Master is the largest inward remittance representative in the country with a nationwide network of over 2,000 distributors.

Empowering migrant workers with easy access to their finances with an extended network of MMBL service touch points as the largest

A fast, convenient, and reliable service to our 45,000+ customers with extended operating hours, including holidays

Foreign Remittances



Source: Central Bank of Sri Lanka

Delivering Strategy

The Money Transfer segment recorded a solid performance despite the growth of the grey market due to the unparalleled network of over 2,100 sub-representatives located in all districts of the country and its linkages with the world's three largest money transfer franchises. Our distributor network comprises of banks, non-banking financial institutions, co-operative rural banks, corporates, money-changers, and retail outlets including agency post offices. However, Despite higher transaction volumes this year compared to the previous year, the profitability of the segment was lower. This was because the segment reported a higher gain on foreign exchange during the previous year, which was a result of a sharp devaluation that occurred in March 2022. In contrast, the rupee appreciated in March 2023, resulting in lower gains on foreign exchange.

MMBL's reputation as a fast, reliable and customer-friendly service provider with convenient access throughout the country is a critical competitive advantage. Overall, the market share increased from 52% to 60% during the financial year. Western Union cash-to-cash transactions declined by nearly 5% during the year while the direct-to-bank operations recorded strong growth of 34%. MoneyGram and Ria recorded growths of 37% and 32% respectively in terms of the number of transactions as the market awareness about these products improved. However, the value per transaction in USD terms declined during the year with the cash to cash channel recording a decline by 24% and 7% in the direct-to-bank channel. The transaction value in USD terms of MoneyGram also declined by 7% during the year while Ria recorded a 63% increase during the year.

The recipients of remittances and our sub-representative network are our main customers. During the year we engaged with the sub representative network to better understand the market dynamics, conduct awareness and motivational programmes and introduce new standard operating procedures (SOP) for improved customer service. The SOPs facilitate a consistent process that will effectively help customer service representatives to provide services efficiently within the stipulated time frames at island wide MMBL Money Master locations. "Money Master Rewards," the mobile application driven sub-representatives' loyalty programme was launched during the year to motivate and reward sub representatives while earning points for special benefits. This was launched at the MMBL Money Master Awards Night which was held in February 2023 to recognise high performing sub-representatives.

MMBL is proud to have partnered with the World Food Programme of the World Food Organisation to transmit remittances to differently abled individuals and nursing mothers in all provinces through the Western Union network. Additionally, MMBL maintains an environmental management system that aligns with the Group's requirements and helps reduce resource consumption.

Key Initiatives Implemented

Efficiencies

- A cloud-based document management system in the pipeline to convert manual files of 2,000 sub-representatives to digital format

Employees

- Strengthening team through succession planning, training needs identification and skills development

Customers

- Newly introduced customer relations call center with 24/7 hotline access
- Introduced a sub-representative loyalty programme
- On boarded new sub-representatives and re-activated inactive sub-representatives

Environmental & Social

- Systemic interventions maintained to increase resource efficiency
- Donation of school supplies to 672 under privileged children in eight locations island wide

Navigating the Future: Strategic Outlook for Growth

With a customer base of over 45,000 island wide, we supply a right next door, fast, convenient, safe and reliable service to the customer with extended operating hours including holidays. As the country's economic crisis resulted in increased economic migration, we expect a significant increase in foreign remittances. Total foreign migrants in 2021 was 122,264 and in 2022 was 311,269 reflecting the growth potential for this segment. However, targeted campaigns are necessary to attract migrant workers and their families to the MMBL networks. To increase the effectiveness of the marketing teams, the segment is in the process of developing a business intelligence tool to monitor sales staff and drive growth. The segment plans to expand the network of sub-representatives to 3,000 from the current 2,100, enhancing service levels and reach. We are also in discussions with new principals to expand our global networks. A customer loyalty programme was introduced in April 2023 to increase the volume and value of transactions processed through MMBL.

The economic importance of this source of foreign currency to the country will support growth of this sector in the years ahead and MMBL is well positioned to capitalise on its growth.

Target : 8.10

500,000 +

Transactions of Inward Remittance

WEAKNESSES

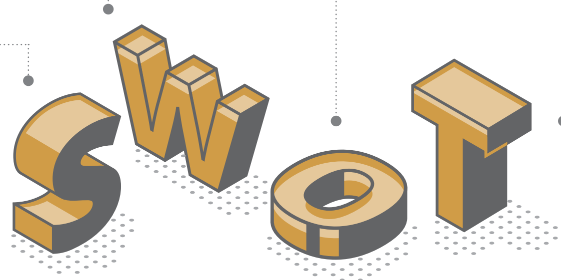
- Upskilling required in the wider networks for digitisation
- Restrictions in operating remotely (MoneyGram/Ria)

OPPORTUNITIES

- Partnerships with other money transfer services
- Growth in districts with high migrant workers
- Diversification in to E-Wallets and E-Commerce platforms.

STRENGTHS

- Representing the top three money transaction services in the world in Sri Lanka
- Largest sub-representative network in the country
- Uninterrupted services
- Expertise in remittance



THREATS

- Informal channels of remittances
- Competition from financial institutions
- Inconsistent policy frameworks.

Property Management

The property management segment owns and operates Aitken Spence Towers which houses the head office of the Group. Comprising of two towers, this premium commercial building has over 194,000 square feet of modern commercial space with over15% leased to third parties outside the Group. The premises are located in the heart of Colombo's commercial district with sufficient parking, in close proximity to all essential services.

Zero
workplace accidents

4.4 tonnes CO2e
emissions reduced
(by recycling paper waste)

8.7 MT and 76 units of waste
safely disposed

02 New customers

Our presence along the value chain (GRI 2-6)

Demand for Colombo's commercial real estate declined due to the continuing economic crisis and an abundance of available space as a significant number of high-quality commercial spaces were added during the past two years. Potential lessees have been deterred due to the devaluation of the rupee that has resulted in an emerging trend of dollar-based rentals. Post lockdowns, there is a decrease in the demand for commercial office spaces which has made this segment highly competitive and price sensitive. At the close of the year, there are a considerable number of commercial spaces that are vacant. There has been a demand for open-office spaces providing flexible, more cost-effective options for business incubator companies, start-ups and subscription-based space rentals for freelance individuals with central facilities provided.

Future projects are likely to have a much higher cost of construction due to the increasing costs of construction materials resulting from the devaluation of the rupee. The prevailing high cost of borrowing has also contributed to increasing construction costs. These factors discourage new entrants and prevent overcrowding of the market in the medium term.

Delivering Strategy

The property management segment had a topline growth of 27.4% and a profit before tax growth of 73.6%. The growth in profit and revenue is an increase from the last financial year, however, is a decline compared to pre-COVID performance. The cost of operating commercial spaces increased significantly during the year as electricity and fuel prices increased sharply. Salaries and wages were increased due to inflationary pressures. The segment continued to drive awareness of the need to conserve energy and increase resource efficiency among employees and tenants. An energy audit was conducted by the National Cleaner Production Centre (NCPC) to identify areas for improvement. Maintenance work was carried out regularly despite the challenges in retaining skilled workers due to

SECTOR REVIEWS

SERVICES

Key Initiatives Implemented

Efficiencies

» Both towers have shown energy consumption per unit area to be below the national benchmark in commercial buildings

Employees

» High standards maintained for occupational health & safety (OHS) and labour standards

» Refresher briefing on human rights at the workplace conducted for security personnel

Environmental & Social

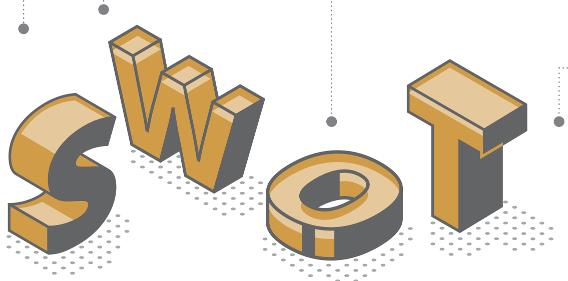
» Energy audit conducted at Aitken Spence Towers

» Resource efficiency enhanced aligned to the 7R Principle assisted by a state-of-the-art Building Management System (BMS)

migration. The segment maintains routine on-site inspections for OHS and works with the Group HR Division to increase awareness among employees and other stakeholders about safety procedures implemented at the premises.

Outlook

As the economy recovers, we expect the demand for commercial space to increase significantly in the medium term. Price competition is likely to intensify but it is likely that the Group's property management segment will benefit from the higher prices demanded by new operators as the market moves to a new equilibrium. Maintenance of interiors, facilities and external appearance will be key to ensuring that we will be able to remain competitive in the market for commercial space. We will continue to monitor developments in this evolving market to position ourselves as a reliable provider of premium commercial real estate.



STRENGTHS

» Strategic location
» State-of-the-art building
» Proximity to Fire Department and General Hospital
» High standards of security procedures
» Strong relationships with existing tenants

WEAKNESSES

» Increased costs of operation
» Increased competition

OPPORTUNITIES

» Open office/ flexible work spaces
» Central positioning of the building and the access to facilities and support services of the segment makes it an attractive commercial space for new market segments

THREATS

» Increase in commercial space availability
» Shortage of skilled labour
» Emergence of hybrid working models subduing demand.