

Aitken Spence PLC

fast forward!

Off to a quick start...

Managing Director's review



The Group achieved a noteworthy growth during the year 2009/10 despite the many challenges and obstacles placed in its path by both the global and local operating environments, demonstrating the strength and resourcefulness of a resilient organisation which was driven by a clear vision, strategic foresight and a spirit of endurance.

The net profit attributable to shareholders increased by 1.8% to Rs. 2.08 billion, although there was a decline in revenue from Rs. 29.3 billion to Rs. 24.4 billion. The reduction in revenue was primarily due to the lower tariff rates applicable to the companies in the power generation segment of the Group. The operating profits for the year declined by 2.0 % to Rs. 4.0 billion while the net profit after tax declined by 2.1 % to Rs. 3.0 billion compared to the previous year.

The share price in your Company as at the year end stood at Rs. 1,373.75 which represents a growth of 336.1%, when compared to the price as at the previous year end, which is a true reflection of the value of the Company. The Total Shareholder Return (TSR) which reflects the total returns received by a shareholder was a positive of 339.3% for the financial year 2009/10.

Revenue
Rs. 24.4 bn

Profit before tax
Rs. 3.4 bn

Net assets per share
Rs. 700.12

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An indepth analysis of the financial statements is given in the operational and financial reviews.

The prolonged downturn of the global economy influenced the Group's operations during the year, necessitating us to think beyond conventional markets and strategies so as to ensure a continued enhancement of shareholder value. It was heartening to note that many of our businesses – in particular the Cargo Logistics sector – vastly benefited from the diversity of products and services offered within the Group. The prudent and strategic diversification over the years has thus borne fruit, giving the Company the strength to be resilient

on the future of the country and our conviction of the potential of the tourism industry, merited a shift of focus towards the expansion of the Group's resort portfolio within Sri Lanka. Having expanded our footprint in the leisure sector across the region and beyond in recent years, the time is now opportune to capitalise on the new opportunities available in Sri Lanka.

Tourism

With the prospects of a growing Sri Lankan market triggering a shift of emphasis towards strengthening our presence in the country, we have fast tracked the Group's expansion plans in the tourism sector. As a corporate that

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With the ending of the three decade long war, Sri Lanka is optimistic of being able to exploit the advantages of a peaceful, stable and unified nation amidst widespread global pessimism. As expected, the dawn of peace led to a resurgence of economic activity across the country, including the North and East, and improved international investor confidence in the ability of Sri Lanka to achieve high economic growth. This improved confidence is clearly evidenced by the fact that Sri Lanka has been listed by several leading global publications as one of the best destinations to visit in 2010.

The dramatic change in the investment climate resulting from the end of the war, coupled with renewed optimism

has pioneered innovative tourism product offerings in Sri Lanka with ten award winning properties, Aitken Spence is uniquely positioned to reap rich dividends from the expected boom of tourist arrivals to Sri Lanka. In view of these developments, we are optimistic and confident that the Tourism sector will be the key engine of growth for the Group over the next few years.

Emphasising our confidence in the future of the tourism sector, the holding company of the Group's hotels, Aitken Spence Hotel Holdings PLC., successfully concluded a rights issue to raise equity funding of Rs. 2.5 billion in order to finance some of the high priority expansion projects including those in the North and East. In addition to the projects in Sri Lanka, a small portion of the funds will be utilised for the development of a unique

resort with floating villas in Kerala, South India, in a joint venture with an Indian partner.

Our Heritage properties as well as most of our other properties in Sri Lanka were refurbished and maintained at optimum levels even when the industry was in the doldrums. The Tea Factory was brought under the Heritage brand during the year following a complete upgrade. As such, Aitken Spence is well prepared and poised to take advantage of the expected increase in tourist arrivals during 2010/11.

Key projects rolled out during the year include the conversion of Neptune Hotel, the Group's first ever resort property, into a sixty four roomed specialised ayurveda and wellness resort, due to open in December 2010. The Group acquired the ninety four roomed Ramada Resort, formerly known as Golden Sun Resort, in Kalutara which was managed by us since 1998. This resort will be refurbished and upgraded in the near future so that it can command a higher price for the excellent value it offers to the traveller. We also intend developing the 100 acre beachfront property at Nilaveli as a priority project. We are in the process of evaluating a number of options before deciding on the final development plan at Nilaveli which would be aimed at harnessing the maximum value of this prime property. Also in the pipeline is a hotel in Jaffna where there is presently a dearth of high quality accommodation for both international and domestic travellers.

The tourism industry is vitally important to the economy both as a source of direct and indirect employment for a large number of Sri Lankans and as a valuable foreign exchange generator for the country. Therefore, it is desirable that both the government and the private sector work hand in hand to ensure the sustainable growth of the tourism industry. The increased arrivals can be translated to long term growth only through a well planned and cohesive tourism development strategy. The responsibility for the implementation of this strategy

should be jointly shouldered by the government and the private sector. Further, the country's infrastructure ought to be improved in tandem to support the demands of the modern traveller, while the construction of large scale properties providing quality accommodation should be encouraged via investment incentives, in order to gain economies of scale.

The performance of the Group's resorts in the Maldives was satisfactory during the year as the world recovered from the recession. By the end of the year the Maldives and in particular our resorts, were enjoying heavy demand and high occupancy rates, although the average room rates declined. An increase in average room rates is expected in the coming year. Maldivian authorities are considering a new regime of higher lease rents as well as the introduction of new taxes and as one of the largest international resort operators in the country we hope that conditions conducive to investment and operations will continue in the future.

The destination management segment grew from strength to strength, as tour operators welcomed the dawn of peace in Sri Lanka by increasing their volumes. The segment continues to pursue new markets even as the visitor arrivals from its traditional markets in Europe continued to improve.

Increased tourist arrivals to Sri Lanka have resulted in the hotel industry being able to increase room rates. Whilst this would no doubt benefit the earnings of the hotel industry, it could also result in travellers finding Sri Lanka an unattractive destination in terms of price. In order to preserve its competitiveness as a destination, Sri Lanka has to aspire to be more competitive with regional destinations by giving priority to fine tuning a diversified, high quality tourism product which would tangibly justify the increase in rates, as well as attract an assortment of travellers. We also hope that the government would favourably consider a proposal by the travel industry advocating an open skies policy, which

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would facilitate more airlines and charter flights to the country. It is vital that the world's major airlines fly to Sri Lanka on a regular basis for the long term development of the tourism industry. The country will truly benefit from such a policy and it is essential that it is accompanied by the liberalisation of ground handling and catering services.

The General Sales Agents for Singapore Airlines and Kingfisher Airlines have reported losses during the period. The global financial crisis which compelled airlines to reduce the number of flights as well as the increased operating costs had an adverse impact on the profitability of this segment. We are hopeful of improved performance in the coming year. Singapore Airlines has already introduced daily night flights while Kingfisher Airlines may also add at least one additional destination to its present schedule of one flight per day from Chennai.

Aitken Spence takes pride in managing hotels overseas with a portfolio encompassing five resorts in Oman and five in India. The Indian properties enjoyed a stable year and the Group's sixth managed property in India will commence operations shortly in time to offer its services during the Commonwealth Games. The profitability in the Oman market reduced this year due to the economic uncertainties in the Middle Eastern hub Dubai, with an almost 30% drop in occupancy. The Group continues to explore new opportunities for management of hotels in other regions, including those in which we already have a presence.

Cargo Logistics

A consortium comprising of Aitken Spence and China Merchant Holdings International – one of China's largest port operators and a company listed on the Hong Kong Stock Exchange- was the sole bidder to design, build and operate the South Container Terminal development project at the Port of Colombo. Negotiations with the government of Sri Lanka are now at an advanced stage

and are expected to reach a successful conclusion during the coming year.

Beyond our shores, the maritime sector continues to entrench itself on the African continent; our scope widened during the year with the award of a ship planning contract involving several South African ports, in addition to the existing port efficiency enhancement operations.

The integrated logistics segment enjoyed a successful year, during which it also made several investments in expanding its container freight station and warehousing facilities. This organic growth has set the segment on a strong footing to fast forward its activities in the coming year, as an improved business climate and easing global recession enable an increase of rates and greater volumes.

The freight forwarding segment had a very challenging year with profitability in certain business lines declining which was offset through the exceptional contribution made by the express and supply chain segments. As economic activity accelerates in the North and East the segment's strong credentials of superior terrain knowledge and its experience in the region even during the war years, has made it a preferred choice for those seeking reliable distribution solutions in these areas.

The European Commission's proposal to temporarily withdraw the GSP+ preferential tariff benefits is of much concern to the Group, given the exposure of its Freight and Cargo segments to the apparel, tile and ceramic industries which would be affected. We are hopeful that the government will take necessary steps to prevent the removal of GSP+ thereby preventing any adverse impact on the economy.

Strategic Investments

While our power segment has performed well given the constraints in the industry, we do observe that growth potential in Sri Lanka seems limited in the immediate

future. We are disappointed that despite a government policy of awarding all power projects to private sector independent power producers, no such projects have been initiated over the past 5 years. In light of these developments, we are of the view that the time is appropriate for us to venture overseas and utilise our expertise in the region. In addition, the Group continues to pursue green energy projects and other alternative sources. We have already commenced a 2.5 MW hydropower project in Matale and are developing a wind power plant.

of Talawakelle Teas Estates PLC, to the Hayleys Group who were the managing agents in keeping with our policy of only owning companies in which we have control of management.

The printing segment which has made several enhancements to its technology and capacity, consolidated its strengths during the year. The segment concentrated on high-end printing jobs to complement its packaging and enhanced its marketing activities. A capacity utilisation study was carried out to identify where greater volumes could be achieved. The segment has also recognised the fact that its present location and

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Returns from our plantations companies have been disappointing with heavy pressure on their bottom lines due to a wage increase that took retrospective effect. It is important that to be truly competitive, the industry must be allowed to be driven more by market dynamics than by socio-political influence. The effects of global warming are a growing concern, as changing weather patterns have created havoc with traditional plantation schedules. In addition to its tea and rubber bases, the Group is forging ahead with its palm oil segment, which is likely to deliver a healthy rate of return in the long term. The Group's venture into the palm oil segment has already yielded very encouraging returns.

Shortly after the year end we divested our stake in Hayleys Plantation Services Ltd, the holding Company

plant do not facilitate long term expansion plans and is therefore considering alternatives for relocation.

The apparel segment enjoyed a successful year as major buyers returned with a substantial volume of orders. The segment renegotiated prices and improved production efficiencies which enabled it to achieve an encouraging performance. The segment's current customer profile consists mostly of US buyers and it is therefore unlikely to face the brunt of a GSP+ withdrawal.

Services

The inward money remittance business recorded an excellent growth in volumes although its profitability declined due to global trends. We are optimistic that

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the year ahead will show an improvement. The North and East which attract large volumes of remittances from Europe and North America have seen increased funds being sent through formal channels with the end of the war. Our expansion plans in the coming year will therefore focus on the newly opened regions.

The Group has seen vast benefits from operation and maintenance (O&M) services provided to the power generation segment, with all three power plants generating significant cost savings. The O&M segment focuses on achieving a high degree of reliability through enhanced technical and operational support. Since this segment is now established and experienced, it is seeking

Internal Strengths

The financial shared services centre launched last year, has made significant progress – with the majority of Gsroup companies now under its umbrella. The synergies of shared services have enabled the Group to achieve cost and operational efficiencies. The centralised division has also enabled greater visibility of subsidiary activities at the corporate centre. Relevant activities in the rest of the subsidiary companies, including overseas operations, will be taken over by the centre during the coming year.

The Group continues to focus on modernising its IT infrastructure and systems; we will constantly seek ways of speeding up group-wide reporting by means

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opportunities to make its services available to third parties both locally and overseas.

Our OTIS elevator agency has consistently bettered its performances year on year, a trend that continued this year. The segment's maintenance contracts comprise a major revenue stream while it is poised to benefit from a boom in small and medium-scale construction projects that are expected in the country.

The Lloyds insurance agency showed steady growth and is optimistic of exploiting the opportunities presented through the impending North and East development. The insurance brokering arm has successfully commenced servicing niche clientele outside the Group.

of automation and technology. As we fast forward our activities in the coming year, priority will be given to an IT strategic plan geared towards creating a paperless office and an improved management information system. Fundamentally, the strategy would integrate more robust IT security controls and an effective disaster recovery plan.

In order to further strengthen our internal control systems, Aitken Spence will also fine tune its internal audit function which would focus on strengthening systems and processes.

I am proud to note that Aitken Spence did not have a requirement to downsize its operations over the past

two years. Moreover, we have persisted with providing ample training and educational assistance to our employees, to ensure their personal and professional development. Today, we have been vindicated as our pool of talent is equipped and eager to deliver the results we seek. I believe that the environment created in our new premises “Aitken Spence Tower II” has also had a positive influence on employee morale. During the year, the majority of the Group’s Colombo-based operations took up residence at the modern, spacious building which has been designed to be environmentally sustainable and built to world class standards.

The Group made a number of strides this year in order to further institutionalise its commitment to sustainable development. We developed an integrated sustainability policy that facilitates the achievement of Millennium Development Goals and the principles of the UN Global Compact. As part of the commitment enshrined in the policy, the Group will include the Global Reporting Initiative’s (GRI) sustainability reporting framework in its Annual Reports from this edition onwards. It is noteworthy that the integrated sustainability policy and its implementation, including the application of the GRI Framework, have been driven exclusively by internal expertise.

Appreciations

During the year, two key members of the management board resigned from the services of the Company, I wish to place on record the yeomen contributions made by Mr. Chethiya Perera who, as the CEO of the Adaaran chain of resorts played a major role in building the Maldivian resort sector and Mr. Indrajit Abeywardene who headed the printing sector of the Group and served the Company for over thirty years. We wish them all success. I warmly welcome Mr. Vipula Gunatilleka as the Chief Corporate Officer who joined us during the year, bringing with him solid corporate credentials.

I must place on record my appreciation of my colleagues on the Board, whose input has been valuable to me and my management team. Our many stakeholders – customers, business partners, suppliers and communities – have placed their faith in Aitken Spence during good times and bad; their confidence in us is indeed heartening to note and rewarding.

Above all, I extend my sincere gratitude to the members of the Aitken Spence team – who have faced one of the most challenging years with an undying spirit and commitment to win. Driven by a shared vision, our employees have amply demonstrated that collective action can and will empower them to reach higher goals.

I look ahead with anticipation to the current year which promises to be an exciting one at Aitken Spence as we fast forward our expansion and lead the country’s emergence into a new era of economic strength.



J.M.S. Brito

Deputy Chairman and Managing Director

26th May 2010