CHAIRMAN'S MESSAGE

Deshamanya D.H.S. Jayawardena
Chairman

While 2022 was an exceptionally difficult year in our domestic market, Aitken Spence PLC was able to deliver a commendable performance for the financial year ending 31st March 2023 due to its industry and geographic diversification. Throughout this period of economic turmoil, our team has demonstrated unwavering dedication, strategic decision-making, and a commitment to delivering value to our stakeholders.

The Sri Lankan economy experienced its most challenging year since gaining independence. The nation faced considerable pressure on its balance of payments, a scarcity of foreign exchange liquidity, a strained exchange rate, soaring inflation and diminished economic activity. Additionally, the country's sovereign rating was downgraded which further complicated its ability to access external finance.

Despite the above challenges, our Group managed to achieve a Revenue of Rs. 98.1 billion, a 79.4% increase over the previous year's Rs. 54.7 billion. Profit from operations excluding exchange gain increased by 85.2% to Rs. 17.1 billion compared to Rs.9.2 billion in the previous year. The strong performance made by operations managed to withstand the impact of the significant increase in interest rates, tax rates, and the volatility of exchange rates; and produce a profit after tax of Rs. 8.1 billion compared to Rs. 12.2 billion in the previous year. This reflects the resilience of the Group during a year marked by high levels of uncertainty and volatility.

Overseas operations account for 76.0% of profit after tax with strong bottom-line growth demonstrated by the Maritime & Freight Logistics and the Tourism sectors. Performance of Sri Lankan operations was also commendable as it contributed Rs.7.7 billion to profit from operations (EBIT) although this was largely whittled down by the tightening monetary and fiscal policy to a profit after tax of Rs.1.9 billion.

Industry diversification was important as EBIT growth in the Tourism and Maritime & Freight Logistics Sectors absorbed the margin pressures in the Strategic Investments Sector. The strong performance of the Maritime & Freight Logistics Sector cushioned the impact of increasing interest rates and taxation of other sectors of the Group. The diversification of our business model built over 154 years enabled the Group to deliver positive returns to shareholders even in the face of significant challenges within our operating environment.

Navigating turbulence

The first half of the year saw Sri Lanka work through its most troubled times since independence, absorbing the shocks of policy interest rates moving up which resulted in the AWPLR moving up by 1,610 basis points, currency devaluation of 23.8% and inflation moving up to 73.7% by end September 2022 as well as a change in leadership of the country. Since then, there has been an encouraging trend as inflation, exchange rates and interest rate movements were reined in through more targeted policy interventions, paving the way for a gradual recovery to positive GDP growth in 2024. Approval of the IMF extended Fund Facility of USD 3.3 billion was a positive signal and the government adhering to its terms and conditions is critical for staying on the path to recovery. While external and domestic debt optimisation is work in progress yet, there is confidence that a plausible solution

REVENUE
Rs.**98.1** bn
2021/22 : Rs. 54.7 bn
79.4%

PROFIT FROM OPERATIONS BEFORE EXCHANGE GAINS
Rs.**17.1** bn
2021/22 : Rs. 9.2 bn
85.2%

SHAREHOLDERS FUNDS
Rs.**74.4** bn
2021/22 : Rs. 65.9 bn
12.8%

TOTAL SHAREHOLDER RETURN
83.2 %
2021/22 : 40.0%
107.9%

will be worked out, supporting economic stability in the country.

The global economy also entered rocky terrain due to the prolonged Russian Ukraine war, persistent inflation and a number of developing economies also facing high levels of vulnerability. However, India is a bright spot with the highest forecast growth rate of 5.9% for 2023, a country where we have a footprint reflecting the Group's potential for growth.

As in the case of every progressive nation, the local private sector could be a catalyst in driving economic growth and the related national agenda. The challenges faced by the Sri Lankan economy including twin deficits, balance of payment crisis, fiscal liquidity issues, unemployment and challenges faced by the youth cannot be alleviated by solitary policy measures. It is apparent that extensive reforms addressing the root causes of the crisis, establishment of a robust and forward-thinking national economic policy, accompanied by a strong implementation mechanism and a sense of commitment amongst its people is also required. Further, the government must take firm action to ensure that the right people are in the right positions to fulfil its ambitious program. Promoting transparency and accountability throughout the process will contribute to rectifying the situation and establishing a more effective and sustainable framework. Our company is ready to play its part in this national effort.

Agile & Responsive

Our strategy needed to be agile and responsive to the changing dynamics of the country's economic landscape to deliver value to our key stakeholders. It is worth noting the Group's contribution to the socioeconomic recovery made during the year with a few examples. Aitken Spence Travels was by far the largest promoter of Sri Lanka as a destination for tourists, accounting for the largest number of tourist arrivals during the year as it developed new source markets and revived traditional ones to drive growth in this Sector that is vital to restore foreign currency inflows. Our Money Transfer segment facilitated foreign exchange inflows to the country while also supporting livelihoods of a network of over 2,000 sub-agents. Directly and indirectly, plantations and apparels and printing segments facilitated foreign exchange inflows of a further USD 27.6 million in the Strategic Investments sector. The power and plantations segments contributed 164,002 MWh of renewable energy to the main grid during the year, contributing to the country's energy security.

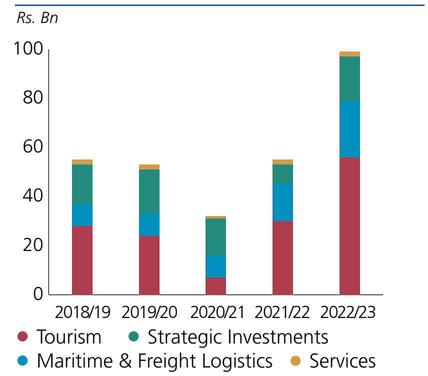
Delivering Sustainable Value to Investors

Aitken Spence PLC recorded 79.4% growth in revenue and 85.2% growth in Profit from operations excluding exchange gain amidst converging challenges that prevailed during the first half of the year. The impact of tightened monetary and fiscal policies reduced this to a Profit after tax of Rs. 8.1 billion during the year, reflecting the resilience of the Group.

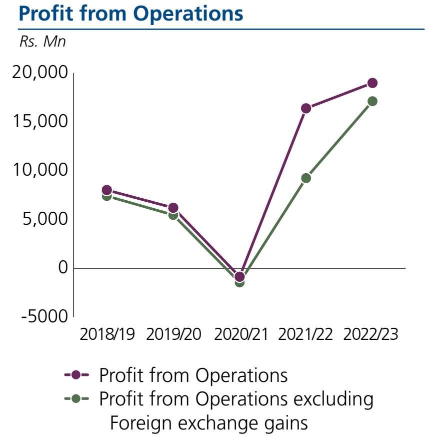
The effective tax rate increased significantly from 14.5% to 27.9% reflecting the impact of increased tax rates on the second half of the year as well as its impact on deferred tax balances. Accordingly, the tax charge increased to Rs.3.1 billion compared to Rs.2.1 billion in the previous year. Profit after tax of Rs. 8.1 billion clearly reflects the impact of tightening monetary policy and fiscal policy as it decreased by 33.6% from Rs.12.2 billion recorded in 2021/22.

The profit attributable to equity holders was Rs. 6.6 billion resulting in an earnings per share of Rs. 16.36 compared to Rs. 25.96 achieved the previous year. Shareholder wealth increased by 12.8% to Rs. 74.4 billion. The total shareholder return for the year was 83.2% as the price per share increased from Rs. 73.70 in 2021/22 to Rs.131.00 as at 31st March 2023 along with

Revenue



Profit from Operations



a proposed dividend declaration of Rs. 4.00 per share for the year. Market capitalisation increased to Rs. 53.2 billion with the Group accounting for 1.36% of the country's total market capitalisation.

Total assets of the Group increased by 8.6% to Rs.214.3 billion largely due to foreign currency conversion of the Group's hotels portfolio as capital expenditure was curtailed to what was necessary given the fluidity of policies regarding investment and the high interest costs. The current ratio remains healthy at 1.28 times reflecting prudent management of working capital across multiple industries and countries. Financial leverage has been maintained at 2.52 times in line with the previous year reflecting a prudent risk appetite for funding risk.

A Portfolio View

The Group's portfolio is actively managed by the parent company through oversight by the Board, the Audit Committee and the Group Supervisory Board who have remained vigilant throughout the year as risks evolved and converged. They were a vital link to driving synergies and implementing harmonised policies across the 16 operating segments of the Group as segment management teams dealt with multiple operational challenges. The able leadership provided by segment CEOs in delivering the results this year is commendable as we navigated a turbulent year that impacted internal and external stakeholders in numerous ways.

Tourism Sector - By March 2023, global tourist arrivals had rebounded and reached a level only 19% below pre-pandemic levels (2019). This significant recovery enabled the tourism sector allowing this sector to regain its financial strength and build resilience. There are significant synergies within the Group with Destination Management developing source markets and Airlines GSA working with partners to increase passenger seat capacity. The Tourism Sector accounts for 55.1% of the Group's total assets, and 3,349 of the employees reflecting the capital and people intensive nature of the business. The portfolio was rebalanced during the year with the sale of Raafushi Resort to mitigate exposures in the sector.

Maritime & Freight Logistics Sector - The Maritime & Freight Logistics sector recorded yet another stellar year leveraging its broad presence across the value chain. A collaborative approach supported customer acquisition and expanding the share of business as customers became more focused on building resilience in their supply chain logistics. The sector has no interest-bearing liabilities except for bank overdrafts and lease liabilities which buffered it from the impact of interest rates. The CINEC Campus plays a value adding role creating much needed talent pools, paving the way for capacity building in the country. The Sector accounts for 11.0% of the Group's total assets as a more capital efficient sector which is well positioned for growth in established markets as well as new markets.

Strategic Investments Sector - The Strategic Investments sector comprises the Group's investments in power, apparel, printing and plantations. Revenue of the sector reflects buoyant tea prices, diversification within the plantation industry and higher activity levels in Printing and Apparels. Operating profit margins declined due to the volatility in exchange rates and a significant increase in direct and indirect expenses of the power segment. Total assets of the sector increased during the year due to the acquisition of Sagasolar, the Group's first solar power plant and the increase in receivables, with total assets accounting for 31.2% of Group assets.

Services Sector - Performance of the sector was dampened by the downturn in the construction industry which impacted the elevator agency business while other segments turned in healthy improvements in performance. Insurance operations had a stellar year recording the highest ever profits. Money transfer operations witnessed an increase in transaction volumes but profits declined due to the appreciation of the rupee towards the close of the year.

Strategic ESG integration (GRI 2-22)

Our governance structures are built on the commitment to uphold the highest business ethics, in compliance with applicable laws and regulations. This is reinforced through the Employee Code of Ethics and Professional Conduct which is applicable to all employees and directors. The Group's zero tolerance for bribery, corruption and unethical behaviour is clearly articulated in this, ensuring that all employees are informed about the Group's stance as it is part of every employee's orientation.

As an early champion of ESG and sustainability, the Group remains committed to the UN Global Compact and its 10 principles which are integrated into our governance structures, the Group's sustainability policy and implementation framework as well as other Group policies. Moreover, the sustainability mindset which has evolved over more than a decade of formal commitment has created a culture of mindful governance which underpins the key decision-making processes of the Group.

I am delighted to share that our Group has recently invested Rs. 1.4 billion in Sagasolar Power (Private) Ltd, securing ownership of one of Sri Lanka's largest ground-mounted solar power plants which is located at Hambantota. This strategic move is in line with our Group's pledge to invest in renewable energy, supporting our mission to achieve net zero emission status by 2030. This acquisition not only strengthens our portfolio but also demonstrates our unwavering commitment towards reducing our resource consumption to foster a sustainable future. Climate change is one of the most pressing concerns of this generation and we are transforming our businesses and greening our supply chains to meet the net zero emission mandate of the Group. Expansion of our renewable energy portfolio is part of the plan of action towards this. We continue to look beyond managing impacts to making a positive impact through climate change mitigation and adaptation.

Sustaining Stakeholder Value Propositions

Maintaining the balance between the value created for stakeholders and the value derived from stakeholders has been key to our success. Implicit in all our transactions is the concept of fair dealing and ethical business conduct, paving the way for the growth of mutually beneficial relationships across the supply chains of our businesses. Our stakeholders continue to strengthen our business resilience and we are deeply appreciative of their contributions to our growth journey. We wish to thank our bankers, for the support extended in managing both foreign exchange and domestic liquidity as well as the funding support and advice provided. We also wish to acknowledge the confidence placed in us by our strategic business partners who were unwavering in their support.

Spensonian Grit

It was a tough year for Spensonians as we dealt with challenges both at the workplace and in our personal lives as the socioeconomic crisis deepened in the first half of the year. We are immensely grateful for the invaluable contribution of every Spensonian in overcoming the most challenging times, as their resilience and dedication were instrumental in achieving the results outlined in this annual report. The unwavering commitment and generous efforts of each team member have been pivotal to our success. On behalf of the shareholders and the Board, I wish to thank the Spensonians for their steadfast commitment to the Company as we count on their skills and expertise to drive growth in the next year.

Looking Ahead

In the first four months of 2023, there has been encouraging recovery in the country. However, the country's debt optimisation process is still ongoing and has not been finalised. The approval of the IMF Extended Fund Facility and the initial disbursement of funds have helped alleviate foreign exchange pressures. Import restrictions have contributed to narrowing the external account deficit. While declining exports are a concern, the influx of worker remittances and the growth of the tourism industry have supported foreign exchange liquidity.

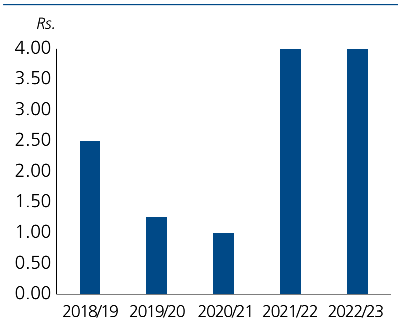
We will continue to explore opportunities in the markets we operate and in the surrounding regions, whilst exploring synergies across our wider group, sister companies and partners to harness greater efficiencies and value to our stakeholders. With resilience and agility, we will continue to re-strategise our businesses to suit the ever-changing market conditions and economic landscape.

Sri Lanka's pursuit of becoming a maritime and logistics hub is promising, and with sustained efforts, the country can further strengthen its position. The country's advantageous size, strategic location, and well-developed port infrastructure provide a strong foundation for its aspirations. With significant expertise in the industry our company is committed to playing its part in seizing the nations potential and help unlock new opportunities for trade and economic growth.

In the hospitality sector this includes re-examination of strategies, business and operating models including experiential product and food & beverage offerings. This includes exploration of design elements to align same to the ever-changing consumer preferences and demands whilst prioritising sustainability, technology, authenticity, and personalisation to stay relevant to our future consumers and stakeholders alike.

With a pioneering spirit, the Group undertook the construction and operation of Sri Lanka's first waste-to-energy facility. This plant has played a crucial role in maintaining the cleanliness of the city of Colombo and reducing the burden on landfills over the past

Dividends per Share



two and half years. However, the long-term sustainability of the project is now at risk due to unprecedented increases in interest rates, significant depreciation of the Rupee, and delays in receiving settlements from the CEB. Adjustments to the tariff structure are necessary to ensure sustainable operations and the project's viability. Additionally, introducing a tipping fee aligns with the established global practice followed by municipalities for proper solid waste disposal.

The Group's renewable power plants, along with other existing renewable energy facilities operating in Sri Lanka face significant challenges under the current tariff structures. It is imperative to revise these structures, considering the prevailing high interest rates and increased costs of operations. These investments struggle to secure financing for the servicing of debt commitments incurred during the project implementation phase. Furthermore, the financial difficulties faced by these companies are exacerbated by the prolonged delays in receiving settlements from the CEB.

Overall, the Group acknowledges the need for strategic adaptation and collaboration to navigate the changing economic conditions. We recognize the importance of aligning with consumer preferences, prioritizing sustainability, and addressing financial challenges to ensure the viability of our projects and operations.

Acknowledgements

On behalf of the Board, I place on record the invaluable contribution made by Mr. G.C. Wickremesinghe, who retired during the year, having served the Group for over 50 years. Although he passed away shortly after retiring, his legacy lives on, leaving a lasting and profound impact within the Group. His exceptional work ethic and conduct set remarkably high standards that continue to resonate throughout the organisation.

I wish to thank the Spensonian team for their unwavering commitment to deliver on strategic goals, overcoming challenges with ingenuity and swift actions. I would like to express my heartfelt gratitude to our strategic and business partners for their unwavering confidence in us, even during times of heightened risks in the country. The support and collaboration we received from them have been invaluable. I am also immensely grateful to our diligent and visionary Board members for their counsel and the leadership team for navigating the challenges of the past year with exceptional skill, resulting in minimal setbacks. Lastly, I extend my sincere thanks to our shareholders, whose trust in our ability to generate sustainable returns ethically continues to inspire us.

Deshamanya D.H.S. Jayawardena
Chairman

Ms. D.S.T. Jayawardena
Executive Director

06th June 2023

Colombo