

# Corporate *Craftsmanship*



John Keells Holdings PLC  
Annual Report 2016/17



# Corporate *Craftsmanship*

The John Keells Group is and has always been, a benchmark of corporate excellence in Sri Lanka, with diversified investments across several key growth sectors that have made us the largest listed conglomerate on the Colombo Stock Exchange. Over the years we have crafted your Company to be a model of business excellence; deepening our local sector expertise, strengthening our partnerships with the communities and people whose lives we touch and developing a reputation for delivering to the highest of standards with innovation, creativity and finesse.

We have honed our tradecraft, applying our own distinctive management skills to the design and administration of our portfolio, using our wide experience to execute the right decisions at the right time; strategically entering and exiting markets while ensuring that our vision and virtuosity remain the guiding principles of all that we do.

Today we are a multi-faceted organisation possessing the imagination, insight and understanding required to keep such a complex group of companies vibrant and strong. We have selectively shaped the strengths and synergies that now set us apart; the talent and flair of our human capital, the focus on triple bottom line performance, the inspired management of our portfolio and the principles of good governance we now exemplify.

Our commitment to long-term partnerships, entrepreneurship and sustainable growth remains strong. Our desire to constantly renew our capabilities and stay relevant is obsessive, as we continuously evolve our chain of value to accelerate the Group into the future. Now, we look forward to crafting the future by unleashing our potential for growth and expansion in the years ahead; setting the standards in all that we undertake to do.



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## About Us

John Keells Holdings PLC (JKH) is one of the largest listed firms on the Colombo Stock Exchange, with business interests in Transportation, Leisure, Property, Consumer Foods and Retail, Financial Services, Information Technology and Plantations among others.

Started in the early 1870s as a produce and exchange broking business by two Englishmen, Edwin and George John, the Group has been known to constantly re-align, re-position, and re-invent itself in pursuing growth sectors of the time.

JKH was incorporated as a public limited liability company in 1979, and listed on the Colombo Stock Exchange in 1986. By way of issuing Global Depository Receipts (GDRs) on the Luxembourg Stock Exchange, the firm subsequently went on to become the first Sri Lankan company to be listed overseas. Today, the firm's market capitalisation exceeds USD 1.5 billion.

The Group's investment philosophy is based on a positive outlook, bold approach, commitment to delivery, and flexibility to change. JKH is also committed to maintaining integrity, ethical dealings, sustainable development, and greater social responsibility in a multi-stakeholder context. JKH is a full member of the World Economic Forum and a member of the UN Global Compact.

The Holding Company of the Group - John Keells Holdings PLC, is based at 117, Sir Chittampalam A. Gardiner Mawatha, Colombo 2, and has offices and businesses located across Sri Lanka, India, and the Maldives.



# Introduction to this Report

We are pleased to present our second Integrated Report in accordance with the Integrated Reporting Framework of the International Integrated Reporting Council (IIRC).

This report reflects on:

- The value creation model of the Group which combines different forms of Capital in the short, medium, and long term
- Governance, risk management, and sustainability frameworks entrenched within the John Keells Group
- Financial, operational, environmental, and social review, together with the results of the Group

In keeping this Report concise and pertinent to the year under review, whilst being comprehensive and detailed, we have ensured that the commentaries in certain sections are limited to a helicopter view of the events and progress within the year, whilst the Group's standard policies, operating guidelines and management approaches are available on the corporate website.

## Scope and Boundary

The John Keells Annual Report 2016/17 is a reflection of the Group's integrated approach of management (during the period from 1 April 2016 to 31 March 2017), and strives to deliver a balanced and relevant report that will bring clarity and detail to the complex task of reporting a year of diverse business operations across multiple industry groups. Material events post this reporting period, up to the sign off date by the Board of Directors on 26 May 2017, have been included in this Report, ensuring a more relevant and up to date Report.

All Group subsidiary and equity accounted investees were considered in capturing its financial performance. For the purpose of reporting its sustainability performance, the Group has considered the companies in its sphere of influence which are the legal entities for which the Group remains accountable and has direct control. The companies not included for reporting on sustainability performance are companies in which the Group does not exercise significant management control, non-operational companies, investment companies, and companies owning only land. Such companies have been clearly

## Standards and Principles Reporting

- Integrated Reporting Framework of the International Integrated Reporting Council (IIRC)

## Governance, Risk Management and Operations

- Laws and regulations of the Companies Act No. 7 of 2007
- Listing Rules of the Colombo Stock Exchange (CSE) and subsequent revisions to date
- Code of Best Practices on Corporate Governance jointly advocated by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)
- UK Corporate Governance Code (formerly known as the Combined Code of 2010)

## Financial Reporting

- Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

## Sustainability and Corporate Social Responsibility Reporting

- 'in accordance' -core option of the Global Reporting Initiative GRI G4 Sustainability Reporting Guidelines
- United Nations Sustainable Development Goals
- United Nations Global Compact Active Principles

identified in the reporting boundary specified in the Group Directory 2016/17. In expanding its sustainability scope, going forward, the Group will also seek to report on companies over which it does not exercise significant management control, where relevant.

## Adoption of the Integrated Reporting Guidelines

In keeping with our attempts to achieve a more cohesive and efficient approach to corporate reporting, the Group voluntarily adopted the Integrated Reporting Framework of the IIRC. Given the complex task of reporting a year of operations of a conglomerate, the Group has strived to deliver a comprehensive, balanced and relevant Report, while adhering to the recommendations of the IIRC.

The seven guiding principles in integrated reporting; strategic focus and future orientation, connectivity of information, stakeholder relationships, materiality, conciseness, reliability and completeness, consistency and comparability; have been given due consideration when preparing and presenting this Report.

The seven guiding principles in integrated reporting; strategic focus and future orientation, connectivity of information, stakeholder relationships, materiality, conciseness, reliability and completeness, consistency and comparability; have been given due consideration when preparing and presenting this Report.

**Determining Materiality**

Materiality analysis is a key process that enables the Group to define key triple bottom line issues that are of greatest significance to our businesses and stakeholders, both internal and external, in the short, medium and long term. Our focus on materiality, through emphasis on 26 material aspects recognised by both internal and external stakeholders, is vital as we drive performance, improve our sustainability framework, and institutionalise the Group’s corporate governance philosophy at all levels.

The Group conducts an independent external stakeholder engagement every three to four years to ascertain aspects material to its significant stakeholders. In addition, materiality is also assessed internally in ascertaining the aspects material to the Group and to fine-tune and streamline its strategy and processes to manage these material issues. The outcome of these studies are prioritised using a materiality matrix, representing the level of significance to the Group and its external stakeholders, and is then disclosed as per the clearly defined aspects under the GRI G4 guidelines, as further described in the Materiality and Stakeholder Relationships section of this Report.

While the matrix, as illustrated above, indicates the prioritisation of these material aspects, the Group continues to assess its internal and external materiality and disclose the performance of such aspects. Its reporting scope will be expanded as and when an aspect becomes material to the Group and its stakeholders.



**Information Verification**

The accuracy and reliability of information contained in this report has been reviewed, as applicable, by:

- The Board of Directors
- The Group Executive Committee
- Audit Committee of the Company
- An independent auditor confirming the accuracy of the annual financial statements
- An independent assurance engagement for the non-financial information prepared 'in-accordance' -core option on GRI G4 guidelines

**Disclaimer for the Publication of Forecast Data**

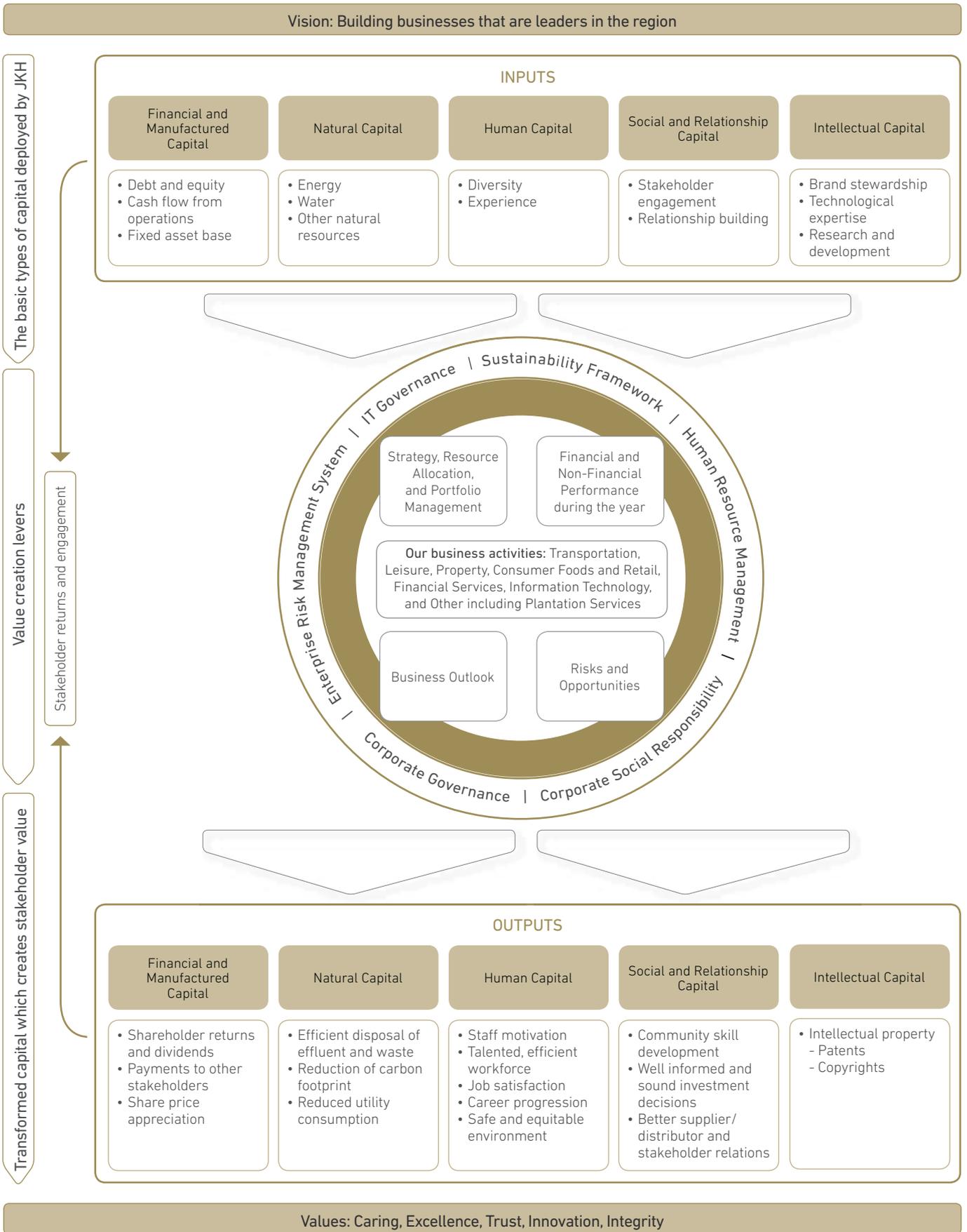
The Report contains information about the plans and strategies of the Group for the medium and long term, and represents the management’s view of the Group. The plans are forward-looking in nature and their feasibility depends on a number of economic, political and legal factors, which are outside the influence of the Group and Company, such as global and domestic financial, economic and political situations, the situation of key markets, changes in tax, customs and environmental legislation and so forth. Given this, the actual performance of

indicators in future years may differ from the forward-looking statements published in this Report. The reader is advised to seek expert professional advice in all such respects.

As you flip through the pages of this Report, we trust you will find a relevant, transparent and noteworthy value proposition entrenched within the John Keells Group that strives to achieve the highest form of stakeholder satisfaction.

**Contact with Stakeholders**  
Preparation of this Report took place in cooperation with stakeholders in order to improve transparency, accountability and the process in which materiality of disclosed information is viewed. Feedback is gathered through questionnaires, a dedicated mail-box, one-on-one meetings and stakeholder engagement fora.

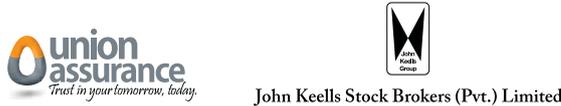
# Our Business Model



	Inputs	Activities	Outputs	Outcomes
<b>Financial and Manufactured Capital</b>				
<ul style="list-style-type: none"> <li>Financial Capital: The pool of funds that is available for use in the production of goods or the provision of services.</li> <li>Manufactured Capital: Manufactured physical objects that are available to the Group for use in the production of goods or the provision of services</li> </ul>	<ul style="list-style-type: none"> <li>Shareholder funds and debt</li> <li>Cash flow from operations</li> <li>Land bank</li> <li>Machinery and equipment</li> </ul>	<ul style="list-style-type: none"> <li>Effective and responsible investments of shareholder funds</li> <li>Business development activities</li> <li>Cost reduction initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Shareholder returns and dividends</li> <li>Payments to other stakeholders</li> <li>Share price appreciation</li> </ul>	<ul style="list-style-type: none"> <li>Financial stability</li> <li>Financial growth</li> <li>Creation of wealth</li> </ul>
<b>Natural Capital</b>				
All renewable and non-renewable environmental stocks that provide goods and services for the Group	<ul style="list-style-type: none"> <li>Energy</li> <li>Water</li> <li>Other natural resources</li> </ul>	<ul style="list-style-type: none"> <li>Adoption of Global Goals</li> <li>Environmental impact assessments and mitigation of impact</li> <li>Roll-out of carbon footprint and energy initiatives</li> <li>Strengthening of water and waste management processes</li> </ul>	<ul style="list-style-type: none"> <li>Disposal of all effluent and waste efficiently</li> <li>Reduction of carbon footprint</li> <li>Reduced resource consumption through better monitoring</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable natural resource utilisation</li> <li>Bio-diversity preservation</li> </ul>
<b>Human Capital</b>				
The employees' competencies, capabilities and experience, including their ability to understand, develop and implement the Group's strategy. This encompasses their motivation for improving processes, goods and services, and their ability to lead, manage and collaborate	<ul style="list-style-type: none"> <li>Employee diversity</li> <li>Experience</li> </ul>	<ul style="list-style-type: none"> <li>Channelling of employee skills and expertise for business growth</li> <li>Training and development of employee cadre</li> <li>Performance management and appraisals</li> <li>Employee survey initiatives</li> <li>Structured career development programmes</li> </ul>	<ul style="list-style-type: none"> <li>Staff motivation</li> <li>Talented and efficient workforce</li> <li>Job satisfaction</li> <li>Career progression</li> <li>Safe and equitable environment</li> </ul>	<ul style="list-style-type: none"> <li>Alignment of workforce with Group vision</li> <li>Profitable businesses through improved productivity and efficiency</li> </ul>
<b>Social and Relationship Capital</b>				
The institutions and relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being. Social and relationship capital includes key relationships, and the trust and loyalty that the Group has developed and strives to build and protect with customers, suppliers and business partners	<ul style="list-style-type: none"> <li>Occupational health and safety initiatives</li> <li>Dedicated CSR team within the Group</li> <li>Community development</li> <li>Investor relations and stakeholder management</li> </ul>	<ul style="list-style-type: none"> <li>Investment in community and livelihood development</li> <li>Regular dialogue with investors, analysts and other stakeholders</li> <li>Social impact assessments</li> <li>Identification of key stakeholders and material aspects in relation to them</li> <li>Awareness creation and engagement of suppliers through the Supplier Management Framework</li> <li>Social needs assessment based on Sustainable Development Goals (SDGs) /UN Global Compact/national agenda</li> </ul>	<ul style="list-style-type: none"> <li>Community skill development</li> <li>Well informed and sound investment decisions</li> <li>Better supplier/distributor and stakeholder relations</li> </ul>	<ul style="list-style-type: none"> <li>Brand visibility and reputation</li> <li>Strengthened supply chain</li> <li>Adherence to UN SDGs</li> </ul>
<b>Intellectual Capital</b>				
Intangibles that provide competitive advantage, including: <ul style="list-style-type: none"> <li>Intellectual property, such as patents, copyrights, software systems, procedures and protocols</li> <li>The intangibles that are associated with the brand and reputation that the Group has developed over time</li> </ul>	<ul style="list-style-type: none"> <li>Brand stewardship</li> <li>Research and development</li> <li>Technological expertise</li> </ul>	<ul style="list-style-type: none"> <li>Development of intangible infrastructure, processes and procedures to improve efficiency</li> <li>New product development</li> <li>Innovation</li> </ul>	<ul style="list-style-type: none"> <li>Intellectual property products <ul style="list-style-type: none"> <li>- Patents</li> <li>- Copyrights</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Evolving businesses to suit the ever changing, dynamic consumer</li> <li>An organisation better prepared to face disruptive business models</li> </ul>

# Organisational Structure

## INDUSTRY GROUPS, SECTORS AND PRIMARY BRANDS

<p><b>TRANSPORTATION</b></p> <p>Ports and Shipping Transportation</p>	
<p><b>LEISURE</b></p> <p>City Hotels Sri Lankan Resorts Maldivian Resorts Destination Management Hotel Management</p>	
<p><b>PROPERTY DEVELOPMENT</b></p> <p>Property Development Real Estate</p>	
<p><b>CONSUMER FOODS AND RETAIL</b></p> <p>Consumer Foods Retail</p>	
<p><b>FINANCIAL SERVICES</b></p> <p>Insurance Banking and Leasing Stock Broking</p>	
<p><b>INFORMATION TECHNOLOGY</b></p> <p>Information Technology Office Automation IT Enabled Services</p>	
<p><b>OTHER INCLUDING PLANTATION SERVICES</b></p> <p>Plantation Services Other</p>	

### Centre Functions

Corporate Communications	Group Human Resources	Legal and Secretarial
Corporate Finance and Strategy	Group Tax	New Business Development
Group Business Process Review and Insurance	Group Treasury	Strategic Group Information Technology
Group Finance	John Keells Research	Sustainability, Enterprise Risk Management and Group Initiatives



Empowering the Nation for Tomorrow  
John Keells Foundation

## Year at a Glance 2016/17

### June 2016

- JKH announced a subdivision of shares, whereby 7 of its existing shares were subdivided into 8 shares
- "John Keells X: Open Innovation Challenge 2016" was launched, creating a unique platform for disruptive and innovative solutions. The challenge provides the initial investments required for start-up businesses and technologies with the goal of empowering startups and local entrepreneurs



### September 2016

- The second residential tower of the "Cinnamon Life" project, "The Suites at Cinnamon Life", comprising of 196 apartment units was launched



### November 2016

- In line with the succession plan of the Group, Messrs. Krishan Balendra and Gihan Cooray were appointed as Executive Directors to the Board of John Keells Holdings PLC

- JKH concluded the conversion of 57.4 million 2016 Warrants in to ordinary shares and received Rs.3.18 billion from 21.3 million 2016 Warrants that were exercised and accepted

### December 2016

- John Keells Research filed for its first patent for a novel energy source material that was developed through a research project undertaken in collaboration with the National Metallurgical Lab of the Council for Scientific and Industrial Research (CSIR-NML) in India



- The premium ice cream range of Elephant House ice creams was relaunched as "Imorich"

- JKH was awarded the Gold award for "Overall Excellence in Annual Financial Reporting" at the 52nd Annual Report Awards Ceremony organised by the Institute of Chartered Accountants of Sri Lanka



### January 2017

- Union Assurance PLC launched "GOYO", an app based personal health advisor that provides rewards to customers for achieving fitness goals



### February 2017

- JKH emerged as the "Overall Sustainability Reporting Award" winner at the ACCA Sri Lanka Sustainability Awards 2017



- SAGT was awarded "The Best Terminal in South Asia" by the Singapore based Global Ports Forum

### March 2017

- JKH conducted its first e-auction for Group Initiatives on the newly launched online sourcing platform
- JKH Group revenue exceeded Rs.100 billion for the first time in the Company's 147 year operating history

## Financial Achievements and Goals

Indicator (%)	Goal	Achievement		
		2016/17	2015/16	2014/15
EBIT growth	>20	15.5	5.0	16.3
EPS growth (fully diluted)	>20	12.6	(15.3)	15.7
Cash EPS growth (fully diluted)	>20	(1.0)	(6.2)	13.9
Long term return on capital employed (ROCE)	15	11.5	11.1	11.5
Long term return on equity (ROE)	18	9.8	9.6	11.0
Net debt (cash) to equity	50	(28.5)	(30.8)	(28.8)

# Performance Highlights

## FINANCIAL HIGHLIGHTS - THREE YEAR PERFORMANCE

Year ended 31 March		2016/17	2015/16	(%)	2014/15
<b>Earnings highlights and ratios</b>					
Group revenue - consolidated	Rs. million	106,273	93,710	13	91,852
Group revenue - including equity accounted investees	Rs. million	119,623	105,183	14	98,090
Group profit before interest and tax (EBIT)	Rs. million	23,324	20,192	16	19,226
Group profit before tax	Rs. million	22,888	19,198	19	18,557
Group profit after tax	Rs. million	18,117	15,792	15	15,746
Group profit attributable to shareholders	Rs. million	16,275	14,070	16	14,348
Dividends <sup>1</sup>	Rs. million	7,280	8,038	(9)	3,476
Diluted earnings per share	Rs.	11.84	10.52	13	12.41
Cash earnings per share	Rs.	13.89	14.03	(1)	14.96
Interest cover	No. of times	52.8	51.5	3	27.7
Return on equity (ROE)	%	9.8	9.6	2	11.0
Pre-tax return on capital employed (ROCE)	%	11.5	11.1	4	11.5
<b>Balance sheet highlights and ratios</b>					
Total assets	Rs. million	277,272	240,975	15	218,086
Total debt	Rs. million	22,766	20,750	10	23,934
Net debt (cash) <sup>2</sup>	Rs. million	(55,309)	(51,849)	7	(43,224)
Total shareholders' funds	Rs. million	178,635	154,982	15	137,798
No. of shares in issue	Millions	1,387	1,189	17	997
Net assets per share <sup>3</sup>	Rs.	128.75	111.70	15	99.32
Debt/equity	%	11.7	12.3	(5)	15.9
Net debt (cash)/ equity <sup>2</sup>	%	(28.5)	(30.8)	(7)	(28.8)
Debt/total assets	%	8.2	8.6	(5)	11.0
<b>Market / shareholder information</b>					
Market price of share as at 31 March (actual)	Rs.	137.90	148.00	(7)	199.40
Market price of share as at 31 March (diluted)	Rs.	137.90	129.50	6	152.67
Market capitalisation	Rs. million	191,332	176,032	9	198,899
Enterprise value <sup>2</sup>	Rs. million	136,022	124,182	10	155,675
Total shareholder return <sup>4</sup>	%	10.0	(12.2)	-	(12.0)
Price earnings ratio (PER) (diluted)	No. of times	11.6	12.3	(6)	12.3
Dividend announced for the financial year	Rs.	6.00	7.00	(14)	3.50
Dividend payout for the financial year <sup>1</sup>	%	45.9	46.7	(2)	33.5
Dividend paid per share <sup>1</sup>	Rs.	5.50	7.00	(21)	3.50
Dividend yield <sup>1</sup>	%	3.99	5.41	(26)	2.29

1 Cash dividends paid during the year

2 Customer advances in the Property Development sector and cash and cash equivalents relating to the UA Life fund has been excluded

3 Net assets per share have been calculated, for all periods, based on the number of shares in issue as at 31 March 2017

4 Includes the proportionate impact arising from the ownership of the 2015 and 2016 Warrants

## NON FINANCIAL HIGHLIGHTS - THREE YEAR PERFORMANCE

Indicator	2016/17	2015/16	2014/15
<b>FINANCIAL CAPITAL</b>			
EC1 Economic value retained (Rs. million)	12,731	9,873	14,589
<b>NATURAL CAPITAL</b>			
EN3 Energy consumption - non renewable sources (GJ)	220,911	213,747 <sup>1</sup>	223,321
Energy consumption - non renewable sources (GJ) per Rs. million of revenue	2.05	2.26	2.40
Energy consumption - renewable sources (GJ)	101,112	111,061	130,067
Energy consumption - renewable sources (GJ) per Rs. million of revenue	0.94	1.18	1.40
Purchased energy - national grid	350,486	332,961 <sup>1</sup>	311,263
Purchased energy - national grid (GJ) per Rs. million of revenue	3.24	3.52 <sup>1</sup>	3.4
EN15 Direct greenhouse gas emissions - scope 1 (MT)	16,134	15,621 <sup>1</sup>	16,332
Greenhouse gas emissions from combustion of biomass	11,181	12,284	14,254
EN16 Indirect greenhouse gas emissions - scope 2 (MT)	66,359	63,041 <sup>1</sup>	58,933
Total carbon footprint (MT)	82,492	78,661 <sup>1</sup>	75,264
Total carbon footprint (MT) per Rs. million of revenue	0.76	0.83	0.82
EN8 Water withdrawal (m <sup>3</sup> )	2,021,739	1,995,008 <sup>1</sup>	1,803,061
Water withdrawal (m <sup>3</sup> ) per Rs. million of revenue	18.72	21.11 <sup>1</sup>	19.72
EN22 Water discharge (m <sup>3</sup> )	1,460,799	1,439,138 <sup>1</sup>	1,390,650
EN23 Volume of hazardous waste generated (MT)	329	285	134
Volume of non - hazardous waste generated (MT)	8,517	7,967	7,669
Waste recycled/reused by Group companies and through third party contractors (%)	42	43	43
EN29 Significant environmental fines <sup>4</sup>	Nil	Nil	Nil
<b>HUMAN CAPITAL</b>			
Total workforce (employees and contractors' staff)	20,100	19,522	18,981
EC3 Employee benefit liability as of 31 March (Rs. million)	1,880	1,650	1,495
LA1 Total attrition (%)	24	21	24
New hires (%)	55	50	45
LA6 Number of injuries and diseases	213	217	199
Injury rate (number of injuries per 100 employees)	1.06	1.11	1.05
Lost day rate (%)	0.04	0.05	0.05
Number of people educated on serious diseases <sup>5</sup>	199,802	21,384	16,323
LA9 Average hours of training per employee	41	35	40
LA11 Employees receiving performance reviews (%)	100	100	100
HR5 Incidents of child labour (below age 16)	Nil	Nil	Nil
Incidents of young workers (aged 16-18) <sup>2</sup>	Nil	Nil	Nil
HR6 Incidents of forced labour during the year	Nil	Nil	Nil
<b>SOCIAL AND RELATIONSHIP CAPITAL</b>			
EC7 Community services and infrastructure projects (Rs. million)	150	105	58
EC9 Proportion of purchases from suppliers within Sri Lanka (%)	83	81	81
S01 Community engagement (number of persons impacted) <sup>3</sup>	1,010,200	855,364	59,278
Sustainability integration awareness (number of business partners)	80	80	80
Business partners screened for labour, environment and human rights	90	100	90
PR3 Proportion of labels carrying ingredients used (%)	81	81	80
Proportion of labels carrying information on disposal (%)	93	76	60
Proportion of labels carrying sourcing of components (%)	1	1	1
PR7 Voluntary standards relating to advertising	Group policy based on ICC code		
PR9 Significant fines for product/service issues <sup>4</sup>	Nil	Nil	Nil
S02 Proportion of businesses analysed for risk of corruption (%)	100	100	100
S08 Significant fines for violation of laws/regulations <sup>4</sup>	Nil	Nil	Nil

1 Figure has been restated

2 Young workers are employed under the guidelines of the Employers' Federation of Ceylon

3 This excludes people impacted indirectly and includes the commuters using the Slave Island Railway Station

4 Significant fines are defined as fines over Rs.1 million

5 Significant increase due to islandwide awareness programme conducted by UA

# Chairman's Message

Vision and virtuosity remain the guiding principles of all that we do....

I am pleased to present the Integrated Annual Report and the Financial Statements for the financial year ended 31 March 2017.

This is the second Annual Report prepared in conformance with the Integrated Reporting Framework of the International Integrated Reporting Council. This year's Report strives to provide our stakeholders with an in-depth understanding of the Group's value creation process and the strategies in managing the diverse portfolio of businesses towards driving sustainable growth. The integrated nature of this report exemplifies the stakeholder centric strategies and actions which are founded on the principles of compliance, conformance, governance, ethical conduct and sustainable development.

The Group profit before tax (PBT) increased by 19 per cent to Rs.22.89 billion for the financial year ended 31 March 2017. The profit attributable to equity holders of the parent was Rs.16.28 billion, representing an increase of 16 per cent over the Rs.14.07 billion recorded in the previous year.



Rs.22.89 Bn  
Group PBT  
A growth of 19 per cent

Given our strong balance sheet and anticipated robust cash generation, the Group is currently evaluating significant investment opportunities across its industry groups, some of which are more fully described in the Industry Group Review section, and Strategy, Resource Allocation and Portfolio Management sections of this Report.

Summarised below are the key financial highlights of our operating performance during the year under review.

- Group revenue increased by 13 per cent to Rs.106.27 billion
- Group profit before tax increased by 19 per cent to Rs.22.89 billion. Recurring profit before tax, excluding the impacts of fair value gains on investment property, increased by 18 per cent to Rs.22.40 billion
- Profit attributable to equity holders of the parent increased by 16 per cent to Rs.16.28 billion. Recurring profit attributable to equity holders of the parent increased by 15 per cent to Rs.15.86 billion
- Net cash flow from operating activities was Rs.21.02 billion
- Return on capital employed (ROCE) increased to 11.5 per cent from 11.1 per cent in the previous year
- Return on equity (ROE) increased to 9.8 per cent from 9.6 per cent in the previous year
- The adjusted ROCE and the ROE are 14.4 per cent and 11.5 per cent respectively, as explained below
- Debt to equity ratio decreased to 11.7 per cent compared with 12.3 per cent in the previous financial year
- The Company PBT decreased by 3 per cent to Rs.17.25 billion
- Diluted earnings per share increased by 13 per cent to Rs.11.84
- Cash earnings per share decreased by 1 per cent to Rs.13.89
- The total shareholder return (TSR) in 2016/17 was 10.7 per cent
- The carbon footprint per one million rupees of revenue decreased by 8 per cent to 0.76 metric tons

As was highlighted last year, the investment in the "Cinnamon Life" project which is under construction and the regular revaluation of assets under fair value accounting principles have short to medium term implications on our ROCE and ROE ratios. This is discussed in detail in the Group Consolidated Review section of this Report. The ROCE and the ROE, adjusted for these impacts and other one-off non-operating incomes are 14.4 per cent and 11.5 per cent respectively. We remain confident that the investments which we are making today, and the strategies we are employing, in pursuing a sustainable long term future will result in improved returns on our capital employed, and our shareholder funds, in the medium to long term.

Despite the policy uncertainty which prevailed during the period with regards to taxation and other reforms, I am pleased to state that your Group remained agile and adapted to the

changing conditions, with the administration and operating expenses increasing by less than market norms despite the increased activity and the resultant 13 per cent growth in revenue. The increased contribution from the Consumer Foods and Retail industry group to overall revenue and profitability has resulted in a more balanced portfolio. In this context, it is pleasing to note that with the exception of Leisure and Property, where monetisation of property assets have a "lag" effect, all industry groups achieved ROCE's in excess of the Group's hurdle rate of 15 per cent. Given our strong balance sheet and anticipated robust cash generation, the Group is currently evaluating significant investment opportunities across its industry groups, some of which are more fully described in the Industry Group Review section, and Strategy, Resource Allocation and Portfolio Management sections of this Report.

The Annual Report contains discussions on the macro-economic factors and its impact on our businesses as well as a detailed discussion and analysis of each of the industry groups. As such, I will focus on a high level summation of the performance of each industry group during the financial year 2016/17.

### Transportation Industry Group

The Transportation industry group reported revenues, including the share of revenues from the equity accounted investees, of Rs.18.44 billion and a PAT of Rs.2.98 billion, contributing 15 per cent and 16 per cent to Group revenue and PAT respectively. The 2016/17 PAT increased by 21 per cent over the previous year. The significant increase in profitability is mainly attributable to the Ports and Shipping, and Bunkering businesses.

During the financial year, volumes at the Port of Colombo witnessed a year on year growth of 9 per cent whilst South Asia Gateway Terminals (SAGT) recorded an encouraging throughput increase of 22 per cent. You will be pleased to note that SAGT was recognised as the "Best Terminal in South Asia", awarded by the Global Ports Forum in February 2017. Since the expansion of capacity with the commissioning of the South Container Terminal, the overall capacity utilisation of the Port of Colombo is now in excess of 70 per cent, demonstrating the strong potential for capacity led growth. In this context, timely development of the deep-draft East Container Terminal (ECT) is critical to ensure that capacity continues to be enhanced towards attracting further volumes and sustain continued growth at the Port. Subsequent to the Expression of Interest submitted in September 2016 in this regard, the Group will look to leverage on this investment opportunity considering the overall prospects for the Port of Colombo.

Revenue and profitability of the Group's Bunkering business improved as a result of the increase in base fuel prices during the year and growth in volumes. The Logistics business recorded a strong performance due to an increase in throughput in its warehouse facilities while DHL Keells improved its market leadership position in the year under review.



Since the expansion of capacity with the commissioning of the South Container Terminal, the overall capacity utilisation of the Port of Colombo is now in excess of 70 per cent, demonstrating the strong potential for capacity led growth. In this context, timely development of the deep-draft East Container Terminal (ECT) is critical to ensure that capacity continues to be enhanced towards attracting further volumes and sustain continued growth at the Port.

[Read more on Transportation on page 116](#)

### Leisure Industry Group

The Leisure industry group reported revenues, including share of revenues from equity accounted investees, of Rs.26.14 billion and a PAT of Rs.5.01 billion, contributing 22 per cent and 28 per cent to Group revenue and PAT respectively. The 2016/17 PAT increased by 15 per cent over the previous year. During the calendar year 2016, arrivals to Sri Lanka reached 2,050,832, representing a year-on-year growth of 14 per cent. China and India, being the two largest source markets, recorded a 24 per cent and 13 per cent increase in arrivals in 2016, respectively, whilst arrivals from other regions also demonstrated encouraging growth.



In keeping with the present growth opportunities within the sector, better physical infrastructure such as enhanced connectivity through road networks and the expansion of the passenger handling capacity of the airport by expediting the planned new terminal, is a priority. The partial closure of the Bandaranaike International Airport to resurface and expand the runway was handled commendably by the authorities demonstrating the capability to handle the growth in the volume of traffic.

The increased room inventory arising out of entrants into the 3-5 star segments of the market, and the resultant competitive pricing, exerted pressure on the city sector's average room rates during the period under review. However, with this capacity being gradually absorbed during the financial year, overall occupancy in the city was strong and this is an encouraging trend. Despite the aforementioned increase in competition, the Group's City Hotels sector witnessed an increase in both occupancy and average room rates compared to the previous financial year. The profitability of the City Hotels sector for the year under review included a full year of operations for Cinnamon Lakeside, which was partially closed for refurbishment for six months in 2015/16. Cinnamon red continued to perform beyond expectations.

The Group will seek to optimise the returns of its Leisure business by re-evaluating the effective capital deployed in its existing hotel portfolio, and, where relevant, following an asset light investment model in new projects.

With new capacity expected to come in over the next few years, especially into the city, there is an urgent need for the country to enhance its product and entertainment offering to attract the higher spending tourists.

The Sri Lankan Resorts segment recorded an overall improvement in occupancy and average room rates, despite the increase in competition within the sector, particularly in the coastal areas of the island.

Tourist arrivals to the Maldives displayed signs of a recovery with an increase of 4 per cent during the calendar year 2016. Despite increased activity in the informal sector, the

The Group will seek to optimise the returns of its Leisure business by re-evaluating the effective capital deployed in its existing hotel portfolio, and, where relevant, following an asset light investment model in new projects.

[Read more on Leisure on page 124](#)

## Chairman's Message

Maldivian Resorts segment experienced growth on the back of improved occupancy, which was well above the industry average, and improved average room rates.

Bentota Beach by Cinnamon will be closed for construction of a new hotel. Construction is planned in a manner to conserve the original structure designed by Geoffrey Bawa. This, together with the partial closure of Cinnamon Ellaidhoo and Dhonveli for the refurbishment of rooms, details of which are more fully described in the Leisure Industry Group Review section of this Report, will impact profitability in 2017/18.

### Property Industry Group

The Property industry group reported revenues of Rs.1.12 billion and a PAT of Rs.623 million, contributing 1 per cent and 3 per cent to Group revenue and PAT respectively. The 2016/17 PAT decreased by 61 per cent over the previous year. The decline is on account of the revenue recognition cycle, where the majority of the revenue of the "7th Sense" on Gregory's Road residential project was recorded in the previous financial year.

The Group is cognizant of the fact that revenue recognition in the Property industry group has shown volatility in the past years due to the lack of a robust pipeline of projects. Given the opportunities arising from landmark infrastructure projects such as Port City Colombo and the Western Region Megapolis Planning Project, the Group will seek to establish a continuum of projects, in both commercial and residential spaces. In this light, land parcels in the city and the suburbs have been identified and negotiations and due diligence exercises are

The Group has entered into a Memorandum of Understanding with a partner in relation to one such prospective property development project in central Colombo. Subject to the finalisation of the concept, cost parameters and other approvals, the project is expected to be launched in early 2018.

Read more on Property on page 136

currently under way. More specifically, the Group has entered into a Memorandum of Understanding with a partner in relation to one such prospective property development project in central Colombo. Subject to the finalisation of the concept, cost parameters and other approvals, the project is expected to be launched in early 2018.

The construction of the "Cinnamon Life" project is progressing with encouraging momentum, where much of the complex sub structural work has been completed. The construction of the six lane bridge, which will be the main access point to the project, was commissioned during the year, and work is in progress. The demand for the residential and commercial buildings of the project remains encouraging. The second residential building, "The Suites at Cinnamon Life", comprising of 196 units, was launched in September 2016.

### Consumer Foods and Retail Industry Group

The Consumer Foods and Retail industry group recorded revenues of Rs.45.81 billion and a PAT of Rs.3.90 billion, contributing 38 per cent and 22 per cent to Group revenue and PAT respectively. The 2016/17 PAT increased by 21 per cent over the previous year, with both the Consumer Foods sector and Retail sector contributing to the improved performance. However, a tapering of demand was witnessed in the last quarter, and continues so, in the face of subdued consumer discretionary spending arising from the increases in value added tax, interest rates and inflation.

Profitability of the Beverage and Frozen Confectionery businesses was driven by robust volume growth combined with the expansion of the product portfolio in line with evolving consumer tastes and preferences. Continued focus on the distribution network, production efficiencies and cost control further contributed towards this growth. In order to cater to the envisaged demand and address existing capacity constraints, an investment of approximately Rs.3.80 billion in a new frozen confectionery plant



**Rs. 3.90 Bn**

Consumer Foods and Retail PAT

A growth of 21 per cent

The penetration of modern Fast Moving Consumer Goods (FMCG) retail in the country is still low, compared to more developed regional countries, and this presents a significant opportunity for growth. With a number of new locations having been already identified, the sector will continue to strategically expand its store network and distribution capabilities in gaining market share.

Read more on Consumer Foods and Retail on page 144

was approved and construction is currently underway with expected completion in the first quarter of 2018/19. Similarly, the installation of a new bottling line at a cost of approximately Rs.2.50 billion is expected to commence shortly.

The Retail sector recorded a strong performance on the back of significant growth driven by contributions from newly opened outlets and an encouraging growth in footfall. The continued emphasis on improving the service quality, and product offering, is contributing towards enhancing the overall shopping experience. It is pleasing to note that the outlets opened in recent years are performing above expectations. The penetration of modern Fast Moving Consumer Goods (FMCG) retail in the country is still low, compared to more developed regional countries, and this presents a significant opportunity for growth. With a number of new locations having been already identified, the sector will continue to strategically expand its store network and distribution capabilities in gaining market share. It is with a view to complementing its growth plans and further improving its productivity and product offering that the sector plans to shortly commence construction of a new distribution centre, which is expected to be operational in the first half of the calendar year 2019. This distribution centre will be operated in collaboration with the Group's logistics arm, John Keells Logistics. The Nexus mobile loyalty programme, which enables the business to identify key trends in

customers and shopping lifestyles using data analytics, proved to be a key tool in retaining and attracting customers and in enhancing customer experience. During the year under review, the loyalty programme membership exceeded the 650,000 mark.

### Financial Services Industry Group

The Financial Services industry group recorded revenues, including the share of revenues from equity accounted investees, of Rs.14.06 billion and a PAT of Rs.2.04 billion, contributing 12 per cent and 11 per cent to Group revenue and PAT. The 2016/17 PAT increased by 19 per cent over the previous year.



During the year under review, Union Assurance PLC (UA) continued to record encouraging double digit growth in Gross Written Premiums (GWP).

The banking industry recorded healthy growth driven mainly by the strong credit demand stemming from both the private and public sectors. However, performance was dampened, to an extent, by the increased pressure on net interest margins due to rising funding costs and intensified competitive pressures. Notwithstanding the challenging operating environment, Nations Trust Bank (NTB) recorded a double digit growth in both deposits and credit, which trended above the industry average.

### Information Technology Industry Group

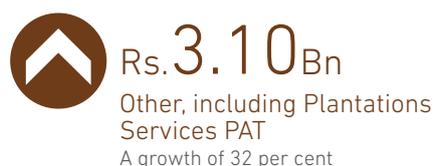
The Information Technology industry group recorded revenues of Rs.11.11 billion and a PAT of Rs.468 million, contributing 9 per cent and 3 per cent to Group revenue and PAT respectively. The 2016/17 PAT increased significantly over the previous year. The Office Automation (OA) business improved its market share in both the mobile and copier markets, driven by increased volumes and revenue from new products. The increase in consumer purchasing power, particularly in the early part of the financial year, coupled with the increased substitution of feature phones with smart phones drove volumes in the Mobile Phone segment. The OA business's extensive dealer network also enabled a growth in the market share of the Copier segment.



### Other including Plantation Services

The Plantation Services sector recorded revenues of Rs.2.80 billion and a PAT of Rs.245 million, contributing 2 per cent and 1 per cent to Group revenue and PAT respectively. The 2016/17 PAT increased significantly over the previous year. The Plantation Services sector recorded an improvement in profitability as a result of improved tea prices and other operational efficiencies.

Other, comprising of the Holding Company and other investments, and the Plantation Services sector, together, recorded revenues of Rs.2.95 billion and a PAT of Rs.3.10 billion for 2016/17, contributing 2 per cent and 17 per cent to Group revenue and PAT respectively. The 2016/17 PAT increased by 32 per cent over the previous year. The increased PAT is mainly attributable to the interest income generated on the Group's Rupee and US Dollar portfolios and exchange gains recorded at the Company on its foreign currency denominated cash holdings.



### Research and Innovation

The year under review marked a significant development for John Keells Research (JKR), the research and development arm of the Group, which was established to drive science based innovation in the Group with a view to creating a portfolio of projects with intellectual property. In this light, JKR filed for its first patent for a novel energy source material that was developed through a research project undertaken in collaboration with the National Metallurgical Lab of the Council for Scientific and Industrial Research (CSIR-NML) in India, based on an idea generated by JKR. The patent application which was filed at the Indian patent office in December 2016 is in respect of a composite nanomaterial which could be used in energy storage. The composite material has the

unique advantages of biocompatibility and a lower cost per unit of power stored. JKR is in the process of building a prototype energy storage device that utilises the patented technology to enhance the Technology Readiness Level (TRL) of the intellectual property and assess the commercial viability of a prototype product.

During the year under review, the Group made a concerted effort to drive a culture of disruptive innovative amongst our employees and businesses. To this end, the Group launched "John Keells X: An Open Innovation Challenge 2016", to create a conducive ecosystem for young entrepreneurs to thrive, and to encourage businesses at JKH to engage in a model of open sourced innovation. An award on Disruptive Innovation was presented for the inaugural time at the JKH Chairman's Awards 2016, to recognise businesses which have made disruptive innovation an integral part of their operating culture and have formulated successful responses to address current, and emerging, business disruption.

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## Chairman's Message

The Group has, over the years, developed a substantial pool of young, talented individuals and I am confident that the depth of leadership augurs well for the Group's future.

### Retirement and Succession

As you are aware, in November 2016, we announced plans for the succession of the Deputy Chairman and the Group Finance Director, who retire at the end of December 2017, and myself, as I am due to retire at the end of December 2018. In addition, plans for succession of various Key Management Personnel who are due to retire by the end of the calendar year 2018 were internally announced in February 2017. I am delighted to say that the announcements were well received amongst our employees and other stakeholders. The Group has, over the years, developed a substantial pool of young, talented individuals and I am confident that the depth of leadership augurs well for the Group's future.

### Employees

As we mark the conclusion of a successful year, I wish to acknowledge with gratitude the contribution and commitment of our employees during a year which saw many challenges and opportunities. Our employees are an integral part of our success and a key pillar of our Corporate Governance System. We will continue to implement processes by which we attract, and retain talent, as an employer of choice. During the year, the Group carried out the Great Place to Work (GPTW) survey and it is pleasing to note improvements in the scores on every dimension.

The Corporate Governance Commentary and the Group Consolidated Review sections of this Report explain in further detail the best practices, policies and procedures that are in place to ensure that John Keells is "More Than Just a Work Place".

### Corporate Governance

I am pleased to state that there were no departures from any of the mandatory provisions of the Code of Business Conduct and Ethics of the Code of Best Practice of

Corporate Governance, jointly advocated by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. Further details on compliance can be found in the Corporate Governance Commentary of this Report.

### Sustainability

As in the previous years, this Integrated Annual Report has been prepared 'in accordance'-core option of the GRI (G4) Guidelines and has successfully completed the GRI Materiality Disclosures service. The Report contains the overall sustainability strategy, framework and performance of the Group and has also been independently assured by DNV GL which is represented in Sri Lanka by DNV Business Assurance Lanka (Private) Limited.

This year, I am pleased to announce that the Group has established energy and water reduction goals for the first time, as a pivotal stride in its sustainability journey. These goals have been set on the basis of empirical evidence gathered through in-depth energy and water audits carried out across, approximately, 90 operational sites. As a goal, the Group will strive to achieve a 12 per cent reduction in its energy usage and a 6 per cent reduction in its water usage by the year 2020, against its 2015/16 baseline figures.

As part of its sustainability strategy, and alongside its comprehensive risk management process, the Group continuously seeks to conserve energy and water, dispose of waste responsibly, provide training and development, maintain a safe working environment and ensure the highest standards of product stewardship. This has extended to its value chain in recent years through ongoing engagements and awareness creation with key suppliers

through regular fora, and the supplier code of conduct and on-site assessments. During the year under review, the Group's proven central sourcing process was shifted to an online platform which facilitated increased effectiveness, reduced paper usage, enabled information retention and provided our significant supply chain partners access to an international market place.

I am pleased to announce that this year, too, we made significant progress on the agenda items reported in last year's Integrated Annual Report. Although the Group's carbon footprint increased by 5 per cent to 82,492 MT, in absolute terms, as a result of higher levels of operational activity during the year under review, key industry groups such as Leisure and Consumer Foods and Retail experienced a combined reduction of 8 per cent in carbon footprint per million rupees of revenue, reflecting the positive results of the initiatives embarked upon in these areas. Similarly, although the water withdrawal, during the year under review, increased by 1 per cent to 2,021,739 cubic meters in these key industry groups, there was a reduction of 11 per cent in water withdrawal per million rupees of revenue. Waste generated increased by 7 per cent to 8,846 MT due to the aforementioned increase in operational activity across the Group.

From an employee perspective, 213 incidents of occupational injuries and diseases were recorded this year, whilst Group employees received, on average, 41 hours of training per person. It should be noted that the training hours for employees are determined on a needs basis, where business specific training gaps are identified in respect of both operating and roof competencies in keeping with the Group Learning and Development policy guidelines.

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Our CSR activities continue to be on six key areas, namely, Education, Health, Environment, Livelihood Development, Arts and Culture and Disaster Relief. During the year, focused initiatives in the form of “Promises” were established in respect of each of these areas, towards enabling strategic focus.

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### Corporate Social Responsibility

The John Keells Group is fully committed to our responsibility to make a positive difference in the communities that we operate in. Corporate Social Responsibility (CSR) is an integral part of our business ethos, permeating naturally throughout the organisation and is now a part of the DNA of our employees. Staff volunteerism is a key component of our CSR, and has enabled our staff to enrich their personal experiences through community involvement and service.

Our CSR activities continue to be on six key areas, namely, Education, Health, Environment, Livelihood Development, Arts and Culture and Disaster Relief. During the year, focused initiatives in the form of “Promises” were established in respect of each of these areas, towards enabling strategic focus. All projects undertaken are inspired and sustained by our CSR vision of “Empowering the Nation for Tomorrow”. The CSR initiatives of the Group are centrally planned and implemented by John Keells Foundation (Foundation), a company limited by guarantee which is also registered as a “Voluntary Social Service Organisation” with the Ministry of Social Welfare. The Foundation is also a participant of the United Nations Global Compact and ensures that its activities are aligned to the Sustainable Development Goals and national priorities. Whilst further details are available under the Group Consolidated Review and Industry Group Review sections of this Report, some of the highlights of the Foundation’s work during the year are listed below.

#### English Language Scholarship Programme

A total of 1,148 school children completed courses under the foundation, pre-intermediate and intermediate levels. A customised programme for the senior students of the School for the Blind in Ratmalana was also initiated.

#### Promoting Science Education amongst School Children

The Foundation, in collaboration with the Sri Lanka Association for the Advancement of Science, conducted 7 Science Day Programmes (SDPs) aimed at promoting an interest in science among school children. The SDPs were conducted in Anuradhapura, Monaragala, Ratnapura, Jaffna, Ampara and Vavuniya, and benefitted 1,536 students from approximately 94 schools.

#### Project WAVE (Working Against Violence through Education)

This project, aimed, particularly, at combating gender based violence and child abuse through awareness raising, made substantive strides in its third year, sensitising a total of 6,269 persons including Group staff, police officers and lawyers. A public awareness campaign targeting sexual harassment on public transport was also initiated with the support of Group volunteers involving the pasting of 2,300 stickers (in Sinhala and Tamil) inside 1,150 buses, as well as depot precincts, and the distribution of over 30,000 information cards to commuters.

#### The John Keells Vision Project

A total of 133 eye camps were conducted resulting in the completion of 1,185 cataract surgeries. Under the School Screening Programme in the Colombo District, collaboration between Ceylon Cold Stores PLC and the Ministry of Health, vision screening was conducted in 103 schools, testing over 54,600 school children whilst 3,465 spectacles were donated.

#### HIV and AIDS Awareness Campaign

A total of 23,758 persons were sensitised on HIV and AIDS, including over 10,243 trainees of the National Cadet Corps. The Foundation’s HIV and AIDS e-learning platform, which provides awareness free of charge via its website, attracted more than 622 visitors with 125 persons completing the module.

#### Village Adoption

The construction of a 3-classroom block at Iranaipalai R.C.M.V. in the Mullaitivu District was completed, while a family empowerment programme was initiated, in collaboration with Sri Lanka Red Cross Society (SLRCS), for low income families in Iranaipalai and Puthumathalan GS Divisions. In the Morawewa North GS Division, rehabilitation work of a tank was completed towards addressing the water scarcity in the area. The Foundation also initiated a youth empowerment programme, in collaboration with SLRCS, for school dropouts, towards guiding them in embarking on livelihoods.

#### Chronic Kidney Disease (CKD) Prevention

The Foundation continued its partnership with the National Water Supply and Drainage Board (NWSDB) by funding two more Reverse Osmosis (RO) filtration systems in the Anuradhapura District as part of an overall plan to address CKD issues.

#### Project Leopard

This long-term project, done in collaboration with Cinnamon Nature Trails, has made significant strides, being selected as a finalist for the World Travel and Council Award during the reporting period. The project involves a simple, yet effective, way of minimising the human - leopard conflict through the donation of steel cattle pens to farmers in areas adjacent to the Yala National Park. This has facilitated the safeguarding and uplifting of livelihoods of cattle farmers.

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## Chairman's Message

### Our Volunteers

During the year in review, the Foundation recorded a total of 7,649 hours of CSR volunteerism by 1,008 staff volunteers across the John Keells Group in respect of activities conducted by the Group. This number excludes the substantial volunteer activities at the business or sector level.

### Dividends

Your Board declared a third and final dividend of Rs.2.00 per share to be paid on 16 June 2017. The first and second interim dividends for the year of Rs.2.00 per share, each, were paid in October 2016 and February 2017, respectively.

The Company increased its dividend per share to Rs.6.00, paid out of profits for the financial year 2016/17, from Rs.3.50 per share (excluding the special dividend of Rs.3.50 per share which was paid on account of the cash inflow of Rs.4.14 billion to the Company from the share repurchase of Union Assurance PLC), paid out of profits in the previous year. The Group believes that a higher dividend per share is warranted given the current, and anticipated, robust cash flows of the businesses.

From a cash flow perspective, excluding the special dividend paid in the financial year 2015/16 (Rs.3.50 per share), the total dividend payout in the financial year 2016/17 (Rs.5.50 per share) increased significantly by 88 per cent to Rs.7.28 billion from Rs.3.88 billion recorded in the previous year.

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**The total dividend payout in the financial year 2016/17 was Rs.7.28 billion.**

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### 2016 Warrant

Subsequent to the exercise and conversion of the 2016 Warrant, 21,279,672 voting shares of the Company were listed on the Colombo Stock Exchange on 1 December 2016. Based on the final conversion of 2016 Warrants into ordinary shares, the Company received a sum of Rs.3.18 billion. The equity and debt financing requirement for the Cinnamon Life Project remains secured with the conclusion of the required debt financing for the Project

and the availability of cash reserves to meet equity commitments through the capital raised via the 2013 Rights Issue, 2015 and 2016 Warrants and internally generated cash.

### Subdivision of Shares

Subsequent to receiving shareholder approval on 24 June 2016, the Company completed the subdivision of its ordinary shares whereby seven shares were subdivided into eight shares.

### Resignation and Appointment of Directors

Dr. Indrajit Coomaraswamy resigned from the Board with effect from 3 July 2016 consequent to his appointment as the Governor of the Central Bank of Sri Lanka. I would like to place on record our deep appreciation of the invaluable contribution made by Dr. Coomaraswamy during his tenure on the Board.

I welcome Dr. Hans Wijasuriya who was appointed to the Board with effect from 4 October 2016 and Messrs. Krishan Balendra and Gihan Cooray who were appointed to the Board with effect from 5 November 2016.

### Conclusion

In conclusion, on behalf of the Board of Directors and all employees of the John Keells Group, I thank all our stakeholders for the support extended to the Group during the year.

Finally, I thank my colleagues on the Board and the Group Executive Committee for their guidance and support extended to me during the year.



**Susantha Ratnayake**  
Chairman

26 May 2017

## GOVERNANCE

# Shaping *Success*

This section introduces the Board of Directors and Senior Management Committees that oversee the Group of Companies. It also offers a detailed analysis of the John Keells Group governance framework; the mandatory requirements complied with as well as the Group's own internal benchmarks of good governance.



## Board of Directors

### Susantha Ratnayake\* Chairman

Susantha Ratnayake was appointed as the Chairman and CEO of John Keells Holdings PLC (JKH) in January 2006 and has served on the JKH Board since 1992/1993 and has 38 years of management experience, all of which is within the John Keells Group. He is a past Chairman of the Sri Lanka Tea Board, Ceylon Chamber of Commerce, and the Employers' Federation of Ceylon.

### Ajit Gunewardene\* Deputy Chairman

Ajit Gunewardene is the Deputy Chairman of John Keells Holdings PLC and has been a member of the Board for over 24 years. He is a Director of several companies in the John Keells Group and is the Chairman of Union Assurance PLC. He is a member of the Board of SLINTEC, a company established for the development of nanotechnology in Sri Lanka under the auspices of the Ministry of Science and Technology. He is also a member of the Tourism Advisory Committee appointed by the Minister of Tourism Development. He has also served as the Chairman of the Colombo Stock Exchange and Nations Trust Bank PLC. Ajit has a degree in Economics and brings over 34 years of management experience.

### Ronnie Peiris\* Group Finance Director

Appointed to the John Keells Holdings PLC Board during 2002/03, Ronnie, as Group Finance Director, has overall responsibility for the Group's Finance and Accounting, Taxation, Corporate Finance and Strategy, Treasury, and the Information Technology functions. He is also a Director of several companies in the John Keells Group. He was previously the Managing Director of Anglo American Corporation (Central Africa) Limited in Zambia.

He has over 40 years of finance and general management experience in Sri Lanka and abroad. He is a Fellow of the Chartered Institute of Management Accountants, UK, Association of Chartered Certified

Accountants, UK, and the Society of Certified Management Accountants, Sri Lanka and holds an MBA from the University of Cape Town, South Africa. Previously, the Chairman of the Sri Lanka Institute of Directors, he is currently a member of the Committee of the Ceylon Chamber of Commerce.

### Krishan Balendra\* Executive Director

Krishan Balendra has responsibility for the Leisure industry group and John Keells Stock Brokers. He also serves as the Chairman of Nations Trust Bank PLC and is the Hon. Consul General of the Republic of Poland in Sri Lanka. He is a former Chairman of the Colombo Stock Exchange. He started his professional career at UBS Warburg, Hong Kong, in investment banking, focusing primarily on equity capital markets. After a four year stint in Hong Kong, he continued his career in corporate finance at Aitken Spence PLC, Sri Lanka prior to joining JKH. Krishan holds a law degree (LLB) from the University of London and an MBA from INSEAD.

### Gihan Cooray\* Executive Director

Gihan Cooray is responsible for the Retail sector, the Corporate Finance and Strategy division, Group Treasury function, John Keells Capital - the investment banking arm of the Group and John Keells Research. He is also a Non-Executive Director of Nations Trust Bank PLC. Gihan holds an MBA from the Jesse H. Jones Graduate School of Management at Rice University, Houston, Texas. He is an Associate member of the Chartered Institute of Management Accountants, UK, a certified management accountant of the Institute of Certified Management Accountants, Australia and has a Diploma in Marketing from the Chartered Institute of Marketing, UK. He serves as a member of the Economic Planning Steering Committee of the Ceylon Chamber of Commerce.

### Amal Cabraal Non-Executive Director

Appointed a Director on 1 November 2013, Amal Cabraal is a former Chairman and Chief Executive Officer of Unilever Sri Lanka. He has over 3 decades of business experience in general management, marketing and sales in Sri Lanka, the United Kingdom, India and Bangladesh. He is presently the Non-Executive Chairman of CIC Feeds (Private) Limited and an Independent Non-Executive Director of Hatton National Bank PLC, Ceylon Beverage Holdings PLC, Lion Brewery (Ceylon) PLC, Silvermill Investment Holdings (Pvt) Ltd and a member of the Supervisory Board of Associated Motorways (Private) Ltd. He has recently been appointed to the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka and is a committee member of the Ceylon Chamber of Commerce and also serves on the Management Committee of the Mercantile Services Provident Society. A Chartered Marketer by profession and a Fellow of the Chartered Institute of Marketing - UK, he holds a MBA from the University of Colombo and is an alumnus of INSEAD-France.

### Nihal Fonseka Non-Executive Director

Nihal Fonseka is a career banker and served as the Chief Executive Officer/Ex-Officio Director of DFCC Bank from 2000 until his retirement in 2013. He is currently a Member of the Monetary Board of the Central Bank of Sri Lanka, Non-Executive Director of Phoenix Ventures Pvt Ltd, Chairman of the Group Audit Committee of Brandix Lanka Limited and President of the Sri Lanka National Advisory Council of the Chartered Institute of Securities and Investments, UK.

Prior to joining the DFCC Bank, he was the Deputy Chief Executive of HSBC Sri Lanka. He is a past Chairman of the Colombo Stock Exchange and the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP). He has also served as a Director of the Employees' Trust Fund Board and as a member of the Presidential Commission on Taxation (2009), National Procurement Commission and Strategic Enterprise Management Agency (SEMA). He holds a BSc from the University of Ceylon, Colombo, is a Fellow of the Institute of Financial Studies, (FIB) UK and a member of the Chartered Institute of Securities and Investments, (MCSI) UK.

\* Refer Group Directory for Directorships held by Executive Directors in other Group companies

## Board of Directors

### Ashroff Omar

#### Non-Executive Director

Ashroff Omar is the Chief Executive Officer of the Brandix Group. He also serves as a Director on numerous corporate Boards including subsidiaries under the umbrella of Phoenix Ventures, and the national body of the Sri Lanka Institute of Nanotechnology (SLINTEC). He also serves as a Member of the Board of Directors of the United States-Sri Lanka Fulbright Commission.

He is the Founder Chair of the Joint Apparel Association Forum (JAAF), the apex body of the Sri Lankan apparel industry, in addition to chairing the Advisory Committee on Garments of the Sri Lanka Export Development Board and being a frequent spokesperson for the apparel industry both in Sri Lanka and abroad. He has also spearheaded the Sri Lanka Apparel Exporters Association as its Chair.

### Premila Perera

#### Non-Executive Director

Premila Perera was appointed to the Board of the Company with effect from 1 July 2014 as an Independent Non-Executive Director. Premila Perera, formerly a Partner, KPMG in Sri Lanka, also served as the Global Firms Regional Tax Director for ASPAC in 2000/01, as a member of the Global Task Force commissioned in 1998, to advise the International Board of KPMG on future directions in determining long term strategic plans, and faculty of the KPMG International Tax Business School.

She also served a period of secondment with the US Firm's National Tax Office in Washington DC, and was a participant at the KPMG-INSEAD International Banking School programme. She is a Fellow of the Institute of Chartered Accountants of Sri Lanka, currently serves as an Independent Director and Chairperson of the Audit Committee of Ceylon Tobacco Company PLC, and served as a Non-Executive Director of Holcim (Lanka) Limited until August 2016.

### Dr Hans Wijayasuriya

#### Non-Executive Director

In his capacity as the Regional CEO for South Asia, Dr. Hans Wijayasuriya heads the South Asian Operations of the Axiata Group Bhd., spanning Bangladesh, Nepal, Sri Lanka, Pakistan and India. Axiata is Asia's second largest Telecommunications Group.

Up to and including the year 2016, he additionally functioned as the Group Chief Executive of Dialog Axiata PLC. He is a past Chairman of GSM Asia Pacific - the regional interest group of the GSM Association, and also serves on the Board of the TM Forum (TMF), and was also honoured by the GSM Association as the first recipient of the "Outstanding Contribution to the Asian Mobile Industry" Award in 2016.

Dr. Wijayasuriya graduated from the University of Cambridge, UK in 1989. He subsequently obtained his PhD in Digital Mobile Communications from the University of Bristol UK in 1994. A Chartered Engineer and Fellow of the Institute of Engineering Technology UK, Dr. Wijayasuriya also holds an MBA from the University of Warwick, UK.

Dr. Wijayasuriya has published widely on the subject of digital mobile communications, including research papers in publications of the Institute of Electrical and Electronic Engineers (IEEE) USA, Royal Society and the Institute of Engineering Technology (IET) UK.

## Group Executive Committee

### **Dilani Alagaratnam** **President**

Dilani Alagaratnam is a member of the Group Executive Committee of John Keells Holdings PLC, the President with overall responsibility for Human Resources, Legal and Secretarial, Corporate Communications, Sustainability and Enterprise Risk Management, and Group Initiatives functions of the Group. She is also a Director of Union Assurance PLC and several unlisted companies within the John Keells Group. A Lawyer by profession, she has been with John Keells Holdings PLC since 1992 and is a law graduate and a holder of a Masters' Degree in Law. Currently, she is the Chairperson of the Legislation Sub Committee of the Ceylon Chamber of Commerce, member of the National Labour Advisory Committee, and a Council member of the Sri Lanka Institute of Directors.

### **Romesh David** **President**

Romesh David leads the Transportation industry group of JKH. He has been with the JKH Group for 37 years during which he has served in the Leisure, Domestic and International Trade and IT sectors of the Group in addition to Transportation. He presently serves as a Vice President of the Indo-Lanka Chamber of Commerce and Co-Chair of the CCC National Agenda Committee on Logistics and Transport. He is a Chartered member of the Chartered Institute of Logistics and Transport and serves on the International Management Committee of the Institute as International Vice President for South Asia. He is a past Chairman of the Chartered Institute of Logistics and Transport - Sri Lanka, the Sri Lanka Logistics and Freight Forwarders Association and the Council for Business with Britain.

### **Jitendra Gunaratne** **President**

Jitendra Gunaratne is responsible for the Consumer Foods sector. Prior to his appointment as President, he oversaw the Plantations and Retail sectors. His 37 years of management experience in the Group also covers Leisure and Property. He is a Director of Ceylon Cold Stores PLC and Keells Food Products PLC and is also the President of the Beverage Association of Sri Lanka. He is a member of the Council of the Employers' Federation of Ceylon and a member of the Food Advisory Committee of the Ministry of Health.

### **Suresh Rajendra** **President**

Suresh Rajendra is responsible for the Property industry group of the John Keells Group and also serves as a Director of Union Assurance PLC and Asian Hotels and Properties PLC. He has over 22 years of experience in the fields of finance, property and real estate, travel and tourism, and business development acquired both in Sri Lanka and overseas. Prior to joining the Group, he was the head of commercial and business development for NRMA Motoring and Services in Sydney, Australia, Director/General Manager of Aitken Spence Hotel Managements (Private) Limited, and also served on the Boards of the hotel companies of the Aitken Spence Group. Suresh is a Fellow of the Chartered Institute of Management Accountants, UK.

## Group Operating Committee

### Zafir Hashim Executive Vice President

Zafir Hashim is the Head of the Transportation Sector and has been with the Group for 14 years. He joined the Group in 2003, seconded to Lanka Marine Services where he served as CEO from 2005-2015. He has also served as a member of the Transportation Sector Committee from 2005. During the last 13 years he has held the position of CEO at John Keells Logistics Lanka Ltd., for a short time, and Mackinnons Mackenzie Shipping Co. Ltd. He has an MSc in Chemical Engineering from the University of Birmingham (UK).

### Sanjeewa Jayaweera Executive Vice President

Sanjeewa Jayaweera, Chief Financial Officer for the Consumer Foods and Retail industry group, has been with the Group for 24 years, during which he served in the Resort Hotels sector of the Leisure industry group and was the Sector Financial Controller for Resort Hotels from 1998 to 2005. Prior to joining the Group, Sanjeewa was based in the United Kingdom and worked for several years as an Audit Manager.

### Rohan Karunarajah Executive Vice President

Rohan Karunarajah, Sector Head of the City Hotels sector, currently overlooks the management of the Cinnamon Grand, Cinnamon Lakeside and Cinnamon red. A career hotelier counting over three decades, both in the local and international hospitality industry; he held the position of General Manager in several hotels in the United Kingdom, lastly being the Marriott Marble Arch, London. He is a Director of Asian Hotels and Properties PLC and Trans Asia Hotels PLC. He read for his Masters in Hospitality and Business Studies from the Thames Valley University, London.

### Vasantha Leelananda Executive Vice President

Vasantha Leelananda is Head of the Destination Management sector and counts over 38 years in the Leisure industry group with the John Keells Group. He served as the Managing Director of Walkers Tours from 1997 to 2005 and heads inbound travel operations in Sri Lanka. Vasantha holds an MBA from the University of Leicester.

He is a past President of the Sri Lanka Association of Inbound Tour Operators (SLAITO), a Board member of the Sri Lanka Convention Bureau from 2003 to 2007, Board member of the Sri Lanka Institute of Tourism and Hotel Management from 2007 to 2010 and served as a Board member of American Chamber of Commerce (AMCHAM) from 2012 to 2014. He is currently a Board member of the Responsible Tourism Partnership which is affiliated to the Travel Foundation UK, Board member of the Sri Lanka Tourism Promotion Bureau (SLTPB) and a Director of Sri Lanka Business and Biodiversity Platform.

### Chandrika Perera Executive Vice President

Chandrika Perera was appointed as the Chief Financial Officer of the Leisure industry group in March 2005 and has been with the Group for 34 years. She was the Group Financial Controller from 1999 to 2005. She has also held the position of Sector Financial Controller in Food and Beverage, Property Development and Consumer Foods. She is a member of the Group Management Committee for the Leisure industry group. A Fellow of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Society of Certified Management Accountants, Sri Lanka, she holds an MBA (Finance) from the University of Southern Queensland, Australia. She is currently serving on the Technical Committee for the National Conference of Chartered Accountants.

### Mano Rajakariar Executive Vice President

Mano Rajakariar, has been the Group Financial Controller since April 2005. He has been with the Group for over 21 years in many capacities including serving as the Sector Financial Controller of the Plantations sector and heading the Shared Services implementation within the Group. He has over 28 years of experience in audit, finance and general management acquired both in Sri Lanka and overseas. Mano is a Fellow member of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Chartered Institute of Management Accountants, UK. He currently serves as a member of the Statutory Accounting Standards Committee, the Financial Reporting Standards Implementation and Interpretation Committee, the IFRS Education Committee, the Tax Faculty and the Examinations Committee of the Institute of Chartered Accountants of Sri Lanka. He also serves in the Board of Management of the Integrated Reporting Council of Sri Lanka. Mano is also a member of the Taxation sub-committee of the Ceylon Chamber of Commerce. He also serves in the Finance Committee of the Sri Lanka Cancer Society.

### Waruna Rajapaksa Executive Vice President

Waruna Rajapaksa, Head of New Business Development for the John Keells Group and Head of Operations for the "Cinnamon Life" integrated project, has over 30 of experience in Sri Lanka and in the UK, primarily in management consultancy, project infrastructure, finance, and audit. Prior to joining the Group in 2002, he worked for the Government as an Executive Director at the Bureau of Infrastructure Investment, Informatics International Limited (UK) and at Ernst & Young. He is a member of the Board of Directors of South Asia Gateway Terminals (Private) Limited. Waruna is a Fellow member of the Chartered Institute of Management Accountants, UK, and an Associate member of the Institute of Chartered Accountants of Sri Lanka. He also holds an MBA from City University Cass Business School, London, UK.

### **Sunimal Senanayake** Executive Vice President

Sunimal Senanayake is an Executive Vice President of the John Keells Group and the Sector Head of the Resorts sector (Sri Lanka and Maldives). He is also a member of the Group Operating Committee and has over 30 years of experience in the Leisure Industry, both in Hotels and Inbound Tourism. He served as the Managing Director of Walkers Tours Limited from 1991 - 1997. He is a past President of the Sri Lanka Association of Inbound Tour Operators (SLAITO) and has held many positions in travel trade related associations and committees. He has also been a member of the Tourist Hotels Classification Committee and Chairman / Member of the Advisory Board of the Sri Lanka Institute of Tourism and Hotel Management.

### **Ramesh Shanmuganathan** Executive Vice President

Ramesh Shanmuganathan is the Group's Chief Information Officer, a member of the Group Management Committee for the Information Technology industry group as well as Chief Executive Officer of John Keells IT (JKCS cum SGIT). He has over 21 years of experience in the ICT industry both in Sri Lanka and the USA, with over 16 years in C-level management. Ramesh is a Hayes-Fulbright Scholar and holds to his credit a MSc (Information Technology and Computer Science) with Phi Kappa Phi Honours from Rochester Institute of Technology (New York, USA), Master of Business Administration from Postgraduate Institute of Management, University of Sri Jaywardenepura, Bachelor of Science in Electronics and Telecommunications Engineering with First Class Honours from the University of Moratuwa. He is reading for his Doctor of Business Administration (DBA) at the International School of Management, Paris at present. He is a Chartered Engineer, Chartered IT Professional and a Fellow of the British Computer Society. He has active memberships in several other professional institutions and is a visiting faculty member for several post-graduate programmes. He is also the Chair of the Sri Lanka SAP User Group (SLSUG) and is actively involved with the ICTA, SLASSCOM as well as other bodies in steering IT to greater heights within the country. He is also a member of the Gartner Research Circle.

### **Charitha Subasinghe** Executive Vice President

Charitha Subasinghe is the Sector Head of the Retail sector. He has been with the John Keells Group since 2003. He was the Sector Financial Controller of the Retail sector, before being appointed as the Chief Executive Officer in 2005. He was also employed at Aitken Spence Hotel Management as the Sector Financial Controller before moving over to John Keells. He is an Associate Member of the Chartered Institute of Management Accountants (UK) as well as a Diploma Holder of the Chartered Institute of Marketing (UK). He also holds a MBA from the University of Colombo.

### **Nadija Tambiah** Executive Vice President

Nadija Tambiah, Head of Legal and Secretarial is a law graduate from the University of Manchester, United Kingdom, a Barrister at Law (Middle Temple), UK and is also qualified an Attorney at Law in Sri Lanka. She also heads the Corporate Social Responsibility arm of John Keells Holdings PLC. She has been involved in most of the strategic transactions of the John Keells Group during her 21 year tenure. She serves as a member of the Steering Committee on Arbitration and Mediation at the Ceylon Chamber of Commerce.

### **Devika Weerasinghe** Executive Vice President

Devika Weerasinghe, Chief Financial Officer of the Transportation industry group previously held the position of Sector Financial Controller of the Transportation sector. She also served as the Sector Financial Controller of the Airlines SBU of the Transportation sector during the period 1998-2004. An Associate member of the Chartered Institute of Management Accountants UK, Devika also holds a Bachelor's Degree in Business Administration, from the University of Sri Jayawardenepura.

### **Suran Wijesinghe** Executive Vice President

Suran Wijesinghe, joined the Group in January 2004 as the Sector Financial Controller of the Financial Services industry group and was appointed as the Chief Financial Officer of the same industry group in July 2010. He is a Director of Nations Trust Bank PLC and has over 30 years of experience in the fields of auditing and financial and general management which has been acquired while serving in organisations both locally and overseas. Suran is a Fellow member of both the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Chartered Institute of Management Accountants, UK.

# Corporate Governance Commentary

## Executive Summary

The corporate governance framework at John Keells Holdings PLC (JKH) is built on the core principles of accountability, participation and transparency and is the bedrock for the creation, enhancement and maintenance of a sustainable business model. It has been institutionalised across all levels through a strong set of Corporate Values, a written Code of Conduct, a well articulated Operating Model and a proven Performance Management System and is designed to be a working structure for principled actions, effective decision making and appropriate monitoring of both compliance and performance.

Against this backdrop, the Group confirms that it is fully compliant with all the mandatory provisions of the Companies Act, Listing Rules of the Colombo Stock Exchange (CSE) and the Securities and Exchange Commission of Sri Lanka Act (SEC) and all

### Highlights of the 37th Annual General Meeting held on 24 June 2016

- Mr. R Peiris, who retired in terms of Article 84 of the Articles of Association of the Company, was re-elected as a Director of the Company
- Mr. A Omar, who retired in terms of Article 84 of the Articles of Association of the Company, was re-elected as a Director of the Company
- Ernst & Young were re-appointed as the External Auditors of the Company

other legislation and rules applicable to the businesses of the Group. Further, the Group's practices are in line with the Code of Best Practices on Corporate Governance jointly advocated by the SEC and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). All systems and procedures are continuously reviewed to provide transparency and accountability, and as such, are continuously updated to adhere to the stipulated guidelines.

The ensuing sections will describe in greater detail, where material and relevant, the components of the JKH Corporate Governance System; the mechanisms in place to ensure strict adherence to the Group's governance policy and gain assurance of its disciplined application and effectiveness, and an outlook and summation of the emerging challenges in the area of corporate governance.

### Key corporate governance initiatives undertaken at JKH for the year 2016/17

- Plans of succession of the Deputy Chairman, and the Group Finance Director, who retire at the end of December 2017, and the Chairman, who retires at the end of December 2018, were announced in November 2016
- Plans of succession of various Key Management Personnel who are due to retire by the end of the calendar year 2018 were announced in February 2017
- In line with the Group's digitisation initiatives, as elaborated in last year's Report, the Group businesses invested in information technology systems. As a step towards supporting the digitisation drive, the Strategic Group Information Technology division of the Group revamped its service offerings for the financial year 2016/17. The "John Keells X - Open Innovation Challenge 2016" was also launched, as part of a broader digitisation drive with the aim of providing a platform for innovative ideas that can disrupt traditional business models and open new avenues for enhancing customer experiences
- The Group Business Process Review division implemented a digital forensic tool, Forestpin, to analyse transactional data from key systems using techniques such as standard deviations, Z-scores, and time series analysis in detecting outliers and raising alerts for management actions and responses. It further serves to enhance the internal audit function by providing a platform for regular management reporting around existing processes and controls that safeguard stakeholder interest for improved assurances
- The Group has embarked on the first steps of the "Framework for Improving Critical Infrastructure Cybersecurity" as developed by the National Institute of Standards and Technology (NIST) in addressing cyber risks. Approval has been received, and funds have been allocated, to address security in a systematic manner, within a culture of enhanced security awareness, to facilitate an environment which supports the Group's ongoing digitisation initiatives. The Group is in the process of establishing a Managed Security Operations Centre (MSOC). This will strengthen our present layered security filters and ensure that our critical IT assets, concentrated in our data centers and cloud platforms, are optimally protected from cyber threats and intrusions
- A new automated, centralised procurement platform was implemented to assist in enhancing the sourcing, contracting and supplier management initiatives
- The Group engaged a global software company, to provide a software solution for its Enterprise Risk, Audit and Incident Management processes. As the system offers real-time and online visibility of the risks and audit framework across the companies within the Group, this platform will enable the Group to move towards a digitally driven internal audit function

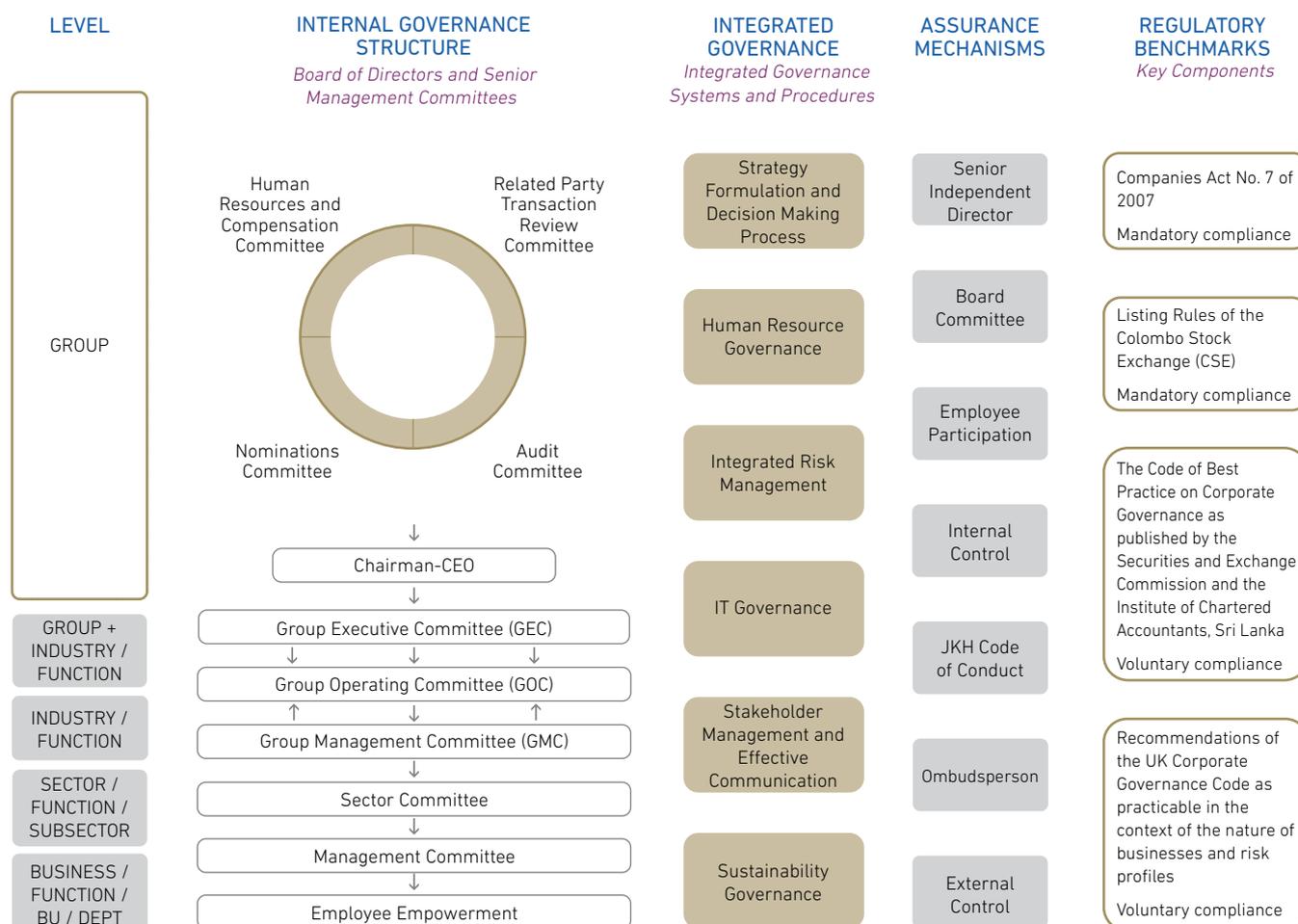


This Corporate Governance Commentary is available on our corporate website at [www.keells.com/governance](http://www.keells.com/governance)

In order to ensure a clear dissemination of information, a two-tier structure has been employed in authoring this Commentary. As such, key details with regard to the JKH corporate governance framework will be discussed in the ensuing sections, whilst, detailed regulatory related information will be discussed in the compliance tables that follow this Commentary.

## The Corporate Governance System

### JKH Corporate Governance System within a Sustainability Development Framework



- All 4 Board Sub-Committees are chaired by Independent Directors appointed by the Board
- The Chairman-CEO attends the Human Resource and Compensation Committee with the Group Finance Director and President - HR as frequent attendees
- The Audit Committee is attended by Chairman-CEO, Group Finance Director, Group Financial Controller, Head of Group Business Process Review and External Auditors
- The Group Operating Committee (GOC) acts as the glue binding the various businesses within the Group towards identifying and extracting Group synergies and driving Group initiatives
- Only the key components are depicted in the diagram due to space constraints

The diagram above depicts the key components of the JKH Corporate Governance System and their inter-linkages. The Corporate Governance Commentary is broadly sequenced in keeping with this diagram as follows:

#### Internal Governance Structure

Section 1 of this Commentary - Internal Governance Structure, discusses and contains information about the committees which formulate, execute and monitor strategies, initiatives, policies and processes, and procedures employed throughout the Group.

#### Integrated Governance Systems and Procedures

Section 2 of this Commentary - Integrated Governance Systems and Procedures, discusses the overarching frameworks which govern the key functions of the Group, which support businesses in conducting their activities more effectively and efficiently in keeping with best practices and in line with ethical and transparent corporate conduct.

#### Assurance Mechanisms

Section 3 of this Commentary - Assurance Mechanisms, discusses the "bodies and mechanisms" which are employed in enabling regular review of progress against objectives, with a view to highlighting deviations and quick redress, and in providing assurance that actual outcomes are in line with expectations. Where appropriate, and relevant, best practices are sought, proposed and implemented.

# Corporate Governance Commentary

## Regulatory and Performance Benchmarks

Section 4 of this Commentary - Regulatory and Performance Benchmarks, summates, among others, the regulations which govern all JKH corporate activities from the Companies Act to the Listing Rules of the CSE and the rules of the SEC. It also indicates, where relevant, the benchmarks set for the Group in working towards local and global practices.

### 1. Internal Governance Structure

This section details the components that are embedded within the Group, and as a result, have an impact on the execution, and monitoring of all governance related initiatives, systems and processes. The Internal Governance Structure encompasses:

- i. The Board of Directors
- ii. Board Sub Committees
- iii. The Combined Role of the Chairman-CEO
- iv. Group Executive Committee, Group Operating Committee and other Management Committees
- v. Employee Empowerment

As depicted in the Governance framework, the above components in the structure are strengthened and complemented by internal policies, processes and procedures such as strategy formulation and decision making, human resource governance, integrated risk management, IT governance, stakeholder management, and effective communication.

#### 1.1 The Board of Directors

##### 1.1.1 Board Responsibilities

The Board's key responsibilities include:

- Providing direction and guidance to the Group in the formulation of high-level medium, and long term strategies which are aimed at promoting the sustainable long term success of the Group
- Reviewing and approving annual plans, and longer term business plans
- Tracking actual progress against plans
- Reviewing HR processes with emphasis on succession planning for the top management
- Appointing and reviewing the performance of the Chairman-CEO
- Monitoring systems of governance and compliance

- Overseeing systems of internal control, risk management, and monitoring and establishing whistle-blowing conduits
- Determining any changes to the discretions/authorities delegated from the Board to the executive levels
- Reviewing and approving major acquisitions, disposals and capital expenditure
- Approving any amendments to constitutional documents
- Approving in principle the issue of JKH equity/debt securities

#### Key decisions made by the Board during the year under review included:

- In May 2016, the Board recommended an increase of the number of shares of the Company in issue by way of a share sub division whereby seven (7) existing ordinary shares were divided into eight (8) ordinary shares
- Increasing the dividend pay-out ratio (excluding any special dividends) by declaring higher than previously declared dividends per share in the first and second interim dividends for the financial year 2016/17, in October 2016 and February 2017 respectively
- Submission of an Expression of Interest (EOI) for the East Container Terminal of the Port of Colombo
- Consideration of a proposal from its subsidiary, John Keells Hotels PLC, to extend the head lease on the Dhonveli Island in Maldives
- Consideration of proposals from its subsidiary, Ceylon Cold Stores PLC, to construct two production facilities: an ice cream plant in the Seethawaka Export Processing Zone, and a bottling line in Ranala
- Recommendation to shareholders for the issue of share options under an Employee Share Option Plan 9, in which the shares on offer will be a maximum of 2.25 per cent of the issued shares of the Company, of which not more than 0.75 per cent will be issued annually over a period of three years

### 1.1.2 Board Composition

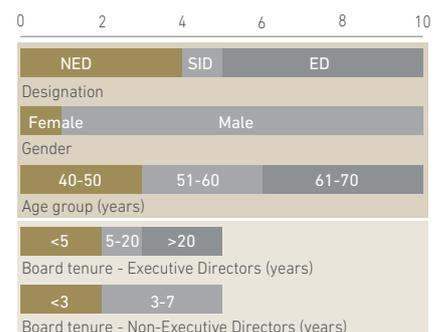
The Group's policy is to maintain a healthy balance between the Executive, Non-Executive and Independent Directors with the Executive Directors bringing in deep knowledge of the businesses, and Non-Executive Independent Directors bringing in experience, objectivity, and independent oversight.

As at 26 May 2017, the Board comprised of 10 Directors, with 5 of them being Non-Executive and Independent. The current Board composition will change on 31 December 2017, following the retirement of the Deputy Chairman and the Group Finance Director. Thereafter, the composition of the Board will comprise of a majority of NEDs, similar to previous years.

During the year under review, the Board membership changed as follows:

- Mr. F Amerasinghe and Mr. T Das, who are over the age of 70 years, and who have served the Company for over 9 years, did not offer themselves for re-election and accordingly ceased to be Board Directors with effect from 24 June 2016
- Dr. I Coomaraswamy resigned from the Board with effect from 3 July 2016, in order to assume duties as the Governor of the Central Bank of Sri Lanka
- Dr. H Wijayasuriya was appointed as a Non-Executive Director to the Board with effect from 4 October 2016
- In keeping with the succession plans approved by the Board, Mr. K Balendra and Mr. G Cooray were appointed as Executive Directors with effect from 5 November 2016

Accordingly, the composition of the Board as at the end of the financial year is illustrated as follows:



### 1.1.3 Board Skills

Collectively, the Board brings in a wealth of diverse exposure in the fields of business, finance, economics, banking, marketing, tax, IT, and human resources, which facilitates constructive and challenging discussions in the Board room. Further details of their qualifications and experience are provided under the Board Profiles section of this Annual Report.

In choosing Directors, the Group seeks individuals who have a very high level of integrity, business savviness, shareholder orientation and a genuine interest in JKH. The Group is conscious of the need to maintain an appropriate mix of skills and experience in the Board, and thus, a regular review of the Board is conducted to ensure that the skills representation is in alignment with the current and future needs of the Group.

### 1.1.4 Board Meetings

During the financial year under review, four pre-scheduled Board meetings, and three special meetings were convened. All pre-scheduled Board meetings are generally coupled with a Pre-Board meeting, which is usually held on the day prior to the formal Board meeting. Pre-Board meetings serve as a forum to discuss issues of strategic importance requiring extensive discussions. The Board also communicates regularly on routine matters depending on the need.

The attendance at the Board meetings held during the financial year 2016/17 was as follows:

	Year of appointment to the Board	Board meeting attendance								Eligible to attend	Attended
		24/05/2016	25/05/2016	28/07/2016	04/10/2016	04/11/2016	26/01/2017	16/03/2017			
<b>Executive</b>											
S Ratnayake - Chairman-CEO	1992/93	✓	✓	✓	✓	✓	✓	✓	7	7	
A Gunewardene - Deputy Chairman	1992/93	✓	✓	✓	✓	✓	✓	✓	7	7	
R Peiris - Group Finance Director	2003/04	✓	✓	✓	✓	✓	✓	✓	7	7	
K Balendra*	2016/17					✓	✓	✓	3	3	
G Cooray*	2016/17					✓	✓	✓	3	3	
<b>Senior Independent Non-Executive</b>											
F Amerasinghe*	1999/00	✓	✓						2	2	
N Fonseka	2013/14	✓	✓	✓	✓	✓	✓	✓	7	7	
<b>Independent Non-Executive</b>											
A Cabraal	2013/14	✓	✓	✓	✓	x	✓	✓	7	6	
I Coomaraswamy*	2010/11	✓	✓						2	2	
T Das*	2000/01	x	x						2	0	
A Omar	2012/13	✓	✓	✓	✓	✓	✓	✓	7	7	
P Perera	2014/15	✓	✓	✓	By Phone	By Phone	✓	✓	7	7	
H Wijayasuriya*	2016/17					✓	✓	By Phone	3	3	

▪ Ceased to be a Director during the year 2016/17

\* Resigned from the Board during the year 2016/17

+ Appointed to the Board during the year 2016/17

#### 1.1.4.1 Board Agenda

The Chairman-CEO ensured that all Board proceedings were conducted in a proper manner, approving the agenda for each meeting prepared by the Board Secretary. The typical Board agenda in 2016/17 was:

- Confirmation of previous minutes
- Ratification of Circular Resolutions
- Matters arising from the previous minutes
- Board Sub-Committee reports and other matters exclusive to the Board
- Status updates of major projects
- Review of performance - in summary, and in detail, including high level commentary on actual performances and outlook
- Summation of strategic issues discussed at Pre-Board meetings
- Approval of quarterly and annual financial statements
- Ratification of capital expenditure and donations
- Ratification of the use of the company seal and share certificates issued
- New resolutions
- Report on corporate social responsibility
- Review of Group Risks, Sustainability/ CSR, HR practices/updates, Tax and Treasury updates
- Any other business

## Corporate Governance Commentary

### 1.1.5 Board Evaluation

The Board conducted its annual Board performance appraisal for the financial year 2016/17. This formalised process of individual appraisal enabled each member to self-appraise, on an anonymous basis, the performance of the Board under the areas of:

- Role clarity and effective discharge of responsibilities
- People mix and structures
- Systems and procedures
- Quality of participation
- Board image

The results of the evaluation revealed that the Board has improved in all areas mentioned above in comparison to the previous year, and consequently, improved Board dynamics. There was however, a lack of clarity amongst few Non-Executive Directors regarding the Board’s decision rights and the Group Executive Committee’s (GEC) decision rights. The “Decision Rights Matrix” was circulated among all Directors subsequently.

We believe in a diverse workforce to serve our diverse consumer base. Inclusion is the foundation of a sustainable, strong culture. We want our people to feel confident, comfortable and able to reach their potential regardless of gender, age, ability, background or sexual preference. The Board acknowledges the need for diversity and is committed to make progress in improving the gender diversity of the Board and the senior management.

### 1.1.6 Access to Independent Professional Advice

In order to preserve the independence of the Board, and also to strengthen its decision making, the Board encourages its members to seek independent professional advice, in furtherance of their duties, at the Group’s expense. This is coordinated through the Board Secretary as and when requested.

We believe in a diverse workforce to serve our diverse consumer base. Inclusion is the foundation of a sustainable, strong culture.

### 1.1.7 Managing Conflicts of Interests and Ensuring Independence

In order to avoid potential conflicts or biases, the Directors make a general disclosure of interests, as illustrated below, at the time of appointment, at the beginning of every financial year, and during the year as required. Potential conflicts are reviewed by the Board from time to time to ensure the integrity of the Board’s independence.

Prior to appointment	Once appointed	During Board meetings
Nominees are requested to make known their various interests	Directors obtain Board clearance prior to: <ul style="list-style-type: none"> <li>• Accepting a new position</li> <li>• Engaging in any transaction that could create or potentially create a conflict of interest</li> </ul> All NEDs are required to notify the Chairman-CEO of any changes to their current Board representations or interests and a new declaration is made every financial year	Directors who have an interest in a matter under discussion: <ul style="list-style-type: none"> <li>• Excuse themselves from deliberations on the subject matter</li> <li>• Abstain from voting on the subject matter (abstention from decisions are duly minuted)</li> </ul>

The independence of all its Non-Executive Directors was reviewed on the basis of criteria summarised below.

Definition	Status of conformity
1. Shareholding carrying not less than 10 per cent of voting rights	None of the individual EDs or NED/IDs shareholding exceeds 1 per cent
2. Director of another company*	None of the NED/IDs are Directors of another related party company as defined
3. Income/non cash benefit equivalent to 20 per cent of the Director’s income	NED/ID income/cash benefits are less than 20 per cent of individual Director’s income
4. Employment at JKH two years immediately preceding appointment as Director	None of the NED/IDs are employed or have been employed at JKH or any of its subsidiaries
5. Close family member who is a Director, CEO or a Key Management Personnel	No family members of the EDs or NED/IDs is a Director or CEO of a related party company
6. Has served on the Board continuously for a period exceeding nine years from the date of the first appointment	No NED has served on the Board for more than nine years from the date of their first appointment

\* Other companies in which a majority of the other Directors of the listed company are employed, or are Directors or have a significant shareholding, or have a material business relationship.

In addition to the profiles of the Directors provided in the Report, the following table illustrates the total number of Board seats (excluding Group Board seats on the basis of subsidiary or equity accounted investees) held in other listed companies outside the Group by each serving Director as at the end of the financial year 2016/17.

Name of Director	Directorship status at JKH	Board seats held in other listed Sri Lankan companies	
		Executive capacity	Non-Executive capacity
<b>Executive</b>			
S Ratnayake	Chairman-CEO	N/A	Ceylon Tobacco Company PLC
A Gunewardene	Executive Director	N/A	Nil
R Peiris	Executive Director	N/A	Nil
K Balendra	Executive Director	N/A	Nil
G Cooray	Executive Director	N/A	Nil
<b>Senior Independent Non-Executive</b>			
N Fonseka	Non-Executive Director	N/A	DFCC Bank PLC
<b>Independent Non-Executive</b>			
A Cabraal	Non-Executive Director	Nil	Ceylon Beverage Holdings PLC Hatton National Bank PLC Lion Brewery (Ceylon) PLC
A Omar	Non-Executive Director	Nil	Textured Jersey Lanka PLC
P Perera	Non-Executive Director	Nil	Ceylon Tobacco Company PLC
H Wijayasuriya	Non-Executive Director	Nil	Dialog Axiata PLC

## 1.2 Board Sub-Committees

The Board has delegated some of its functions to the Board Sub-Committees, whilst retaining final decision rights. Members of these Sub-Committees are able to focus on their designated areas of responsibility and impart knowledge and oversight in areas where they have greater expertise.

The four Board Sub-Committees are as follows:

- Audit Committee
- Human Resources and Compensation Committee
- Nominations Committee
- Related Party Transaction Review Committee

During the year, Board Sub-Committees were reconstituted in order to accommodate new appointments to, and resignations from, the Board. The current membership of the four Board Sub-Committees is as follows:

The Board has delegated some of its functions to the Board Sub-Committees, whilst retaining final decision rights.

Board Sub-Committee Membership (as at 31 March 2017)	Audit Committee	Human Resources and Compensation Committee	Nominations Committee	Related Party Transaction Review Committee
<b>Executive</b>				
S Ratnayake - Chairman-CEO			•	•
A Gunewardene - Deputy Chairman				
R Peiris - Group Finance Director				
K Balendra				
G Cooray				
<b>Senior Independent Non-Executive</b>				
N Fonseka	◆			•
<b>Independent Non-Executive</b>				
A Cabraal	•	◆		•
A Omar		•	◆	
P Perera	•		•	◆
H Wijayasuriya		•	•	

- ◆ Committee Chair
- Committee Member

## Corporate Governance Commentary

### 1.2.1 Audit Committee

<b>Composition</b>	<p>All members to be exclusively Non-Executive, Independent Directors with at least one member having significant, recent and relevant financial management and accounting experience and a professional accounting qualification.</p> <p>The Chairman-CEO and the Group Finance Director are permanent invitees for all Committee meetings. The Group Financial Controller is also present at discussions relating to Group reporting.</p>
<b>Mandate</b>	<p>Monitor and supervise management’s financial reporting process in ensuring:</p> <ul style="list-style-type: none"> <li>• Accurate and timely disclosure</li> <li>• Transparency, integrity and quality of financial reporting</li> </ul>
<b>Scope</b>	<ol style="list-style-type: none"> <li>1. Confirm and assure: <ul style="list-style-type: none"> <li>• Independence of External Auditor</li> <li>• Objectivity of Internal Auditor</li> </ul> </li> <li>2. Review with independent auditors the adequacy of internal controls and quality of financial reporting</li> <li>3. Regular review meetings with management, Internal Auditor and External Auditors in seeking assurance on various matters</li> </ol>

Designate, Group Financial Controller and the External Auditors attended most parts of these meetings by invitation. The Internal Auditors carrying out outsourced assignments and other officials of the Company and the Group also attended these meetings on a needs basis. The Committee engaged with management to review key risks faced by the Group as a whole and the main sectors, with a view to obtaining assurances that appropriate and effective risk mitigation strategies were in place.

The activities and views of the Committee have been communicated to the Board of Directors quarterly through verbal briefings, and by tabling the minutes of the Committee’s meetings.

#### Financial Reporting

The Audit Committee has reviewed and discussed the Group’s quarterly and annual financial statements, prior to publication, with management and the External Auditors. The review included ascertaining compliance of same with the Sri Lanka Accounting Standards, the appropriateness and changes in accounting policies and material judgemental matters. The Committee also discussed with the External Auditors and management, any matters communicated to the Committee by the External Auditors in their reports to the Committee on the audit for the year.

The External Auditors were also engaged to conduct a limited review of the Group’s interim financial statements for the six months ended 30th September 2016. The results of this review were discussed with the External Auditors and management.

#### Internal Audit, Risks and Controls

The Committee reviewed the adequacy of the Internal Audit coverage for the Group and the Internal Audit Plans for the Group with the Head of the Group BPR division and management. The Internal Audit function of most Group companies is outsourced to leading professional firms under the overarching control of the Group BPR division.

The Group BPR division regularly reported to the Committee on the adequacy and effectiveness of internal controls in the Group and compliance with laws and regulations and established policies and procedures of the Group. Reports from the outsourced Internal Auditors on the operations of the Company

#### Report of the Audit Committee Role of the Committee

The role of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities in relation to the integrity of the financial statements of the Company and the Group, the internal control and risk management systems of the Group and its compliance with legal and regulatory requirements, the External Auditors’ performance, qualifications and independence, and, the adequacy and performance of the Internal Audit function, undertaken by the Group Business Process Review division (Group BPR). The scope of functions and responsibilities are adequately set out, in the terms of reference of the Committee which has been approved by the Board and is reviewed annually.

The Committee’s responsibilities pertain to the Group as a whole and in discharging its responsibilities, the Committee places reliance on the work of other Audit Committees in the Group without prejudicing the independence of those Committees. However, to the extent, and in a manner it considers appropriate, the Committee provides feedback to those entities for their consideration and necessary action. An interactive forum with the participation of members of Audit Committees of Group

entities was held to discuss ways and means of improving coordination with Group BPR and to exchange information on best practices.

The effectiveness of the Committee is evaluated annually by each member of the Committee and the results are communicated to the Board.

#### Composition of the Committee and Meetings

There was a change in the composition of the Committee during the financial year whereby Dr. I Coomaraswamy resigned, effective 3 July 2016. Thereafter the Audit Committee comprised the undersigned and the following Independent Non-Executive Directors:

A Cabraal  
P Perera

The Head of the Group BPR division served as the Secretary to the Audit Committee.

The Audit Committee convened seven times during the financial year. Information on the attendance at these meetings by the members of the Committee is given in the ensuing section. The Chairman-CEO, the Group Finance Director, Group Finance Director-

and some of the unquoted direct subsidiaries of the Company were also reviewed by the Committee. Follow-up action taken on the recommendations of the outsourced Internal Auditors and any other significant follow-up matters were documented and presented to the Committee on a quarterly basis by the Head of Group BPR.

During the year, the Group BPR division successfully implemented a digital forensic project across the entire Group, for analysing transactional data, to report on outliers for management oversight and continuously improve controls to enhance assurances in relation to establishing the integrity of data used for reporting purposes.

The Sustainability and Enterprise Risk Management division (SRM) reported to the Committee on the process of identification, evaluation and management of all significant risks faced by the Group. The report covered the overall risk profile of the Group for the year under review in comparison with that for the previous year, and the most significant risks from a Group perspective together with the remedial measures taken to manage them.

Formal confirmations and assurances were obtained from the senior management of Group companies on a quarterly basis, regarding the efficacy and status of the internal control systems and risk management systems, and compliance with applicable laws and regulations.

The Committee reviewed the whistleblowing arrangements for the Group and had direct access to the Ombudsperson for the Group.

The effectiveness and resource requirements of the Group BPR division were reviewed and discussed with management and changes were effected where considered necessary.

#### External Audit

The External Auditors' Letter of Engagement, including the scope of the audit, was reviewed and discussed by the Committee with the External Auditors and management prior to the commencement of the audit.

The External Auditors kept the Committee advised on an on-going basis regarding matters of significance that were pending resolution. Before the conclusion of the Audit,

the Committee met with the External Auditors and management to discuss all audit issues and to agree on their treatment. This included the discussion of formal reports from the External Auditors to the Committee. The Committee also met the External Auditors, without management being present, prior to the finalisation of the financial statements.

The External Auditors' reports on the audit of the Company and Group financial statements for the year, were discussed with management and the auditors.

The Committee is satisfied that the independence of the External Auditors has not been impaired by any event or service that gives rise to a conflict of interest. Due consideration has been given to the nature of the services provided by the Auditors and the level of audit and non-audit fees received by the Auditors from the John Keells Group. The Committee also reviewed the arrangements made by the Auditors to maintain their independence and confirmation has been received from the Auditors of their compliance with the independence guidance given in the Code of Ethics of the Institute of Chartered Accountants of Sri Lanka.

The performance of the External Auditors has been evaluated and discussed with the senior management of the Company and the Committee has recommended to the Board that Ernst & Young be re-appointed as the Lead/Consolidation Auditors of the Group for the financial year ending 31 March 2018, subject to approval by the shareholders at the Annual General Meeting.



**N Fonseka**  
Chairman of the Audit Committee

26 May 2017

#### Audit Committee Meeting Attendance

	17.05.2016	24.05.2016	27.07.2016	24.10.2016	03.11.2016	25.01.2017	27.03.2017	Eligible to attend	Attended
A Cabraal	✓	✓	✓	✓	X	✓	✓	7	6
I Coomaraswamy*	✓	✓						2	2
N Fonseka	✓	✓	✓	✓	✓	✓	✓	7	7
P Perera	✓	✓	✓	✓	✓	✓	✓	7	7
<b>By Invitation</b>									
S Ratnayake	✓	✓	✓	X	✓	✓	✓	7	6
R Peiris	✓	✓	✓	✓	✓	✓	✓	7	7

\* Resigned during the year 2016/17

## Corporate Governance Commentary

### 1.2.2 Human Resources and Compensation Committee

<b>Composition</b>	The Chairperson must be a Non-Executive Director. Committee should comprise exclusively of Non-Executive Directors, a majority of whom shall be independent.  The Chairman-CEO and Group Finance Director are present at all Committee meetings unless the Chairman-CEO or Executive Director remuneration is under discussion respectively. The President, Human Resources and Legal, is also present at all meetings.
<b>Mandate</b>	Determine the quantum of compensation (including stock options) for Chairman and Executive Directors, conduct performance evaluation of Chairman-CEO, review performance evaluation of the other Executive Directors and key Executives and establish a Group Remuneration Policy
<b>Scope</b>	<ol style="list-style-type: none"> <li>Determine and agree with the Board a framework for remuneration of the Chairman and Executive Directors</li> <li>Consider targets, and benchmark principles, for any performance related pay schemes</li> <li>Within terms of agreed framework, determine total remuneration package of each Executive Director, keeping in view; <ul style="list-style-type: none"> <li>Performance</li> <li>Industry trends</li> <li>Past remuneration</li> </ul> </li> <li>Succession planning of Key Management Personnel</li> <li>Determining compensation of Non-Executive Directors will not be under the scope of this Committee</li> </ol>

ESOPs were executed in accordance with the approvals given by the Board on the basis of discussions conducted between the Committee and Management.

The performance of the Chairman-CEO was evaluated and remuneration determined as per the methodology set out by the Board. The Chairman-CEO's evaluation of the performance of the Executive Directors, and the members of the Group Executive Committee was considered by the Committee and accepted. The remuneration of the Executive Directors and the other Members of the Group Executive Committee was determined on the basis of performance, market comparators, and in line with Company C&B policy.

I wish to note that Mr. F Amerasinghe and Dr. I Coomaraswamy served until June 2016 and July 2016 respectively. I thank Mr. F Amerasinghe for the leadership and guidance given to the Committee during his tenure as Chairman.

I wish to thank my colleagues for their valuable inputs in guiding the Committee in its deliberations, and the President responsible for Human Resources of the Group for enabling fruitful interactions at the meetings of the Committee.



**A Cabraal**  
Chairman of the Human Resources and Compensation Committee

26 May 2017

#### Report of the Human Resources and Compensation Committee

The Committee met twice during the year. The Committee, together with the other Board members, reviewed the outcomes of the Group-wide "Great Place to Work" Employee Survey (GPTW survey) which was conducted in the third quarter of 2016/17. It was noted that, at the Executive level, the survey has shown a significant improvement in every dimension when compared with the overall GPTW survey results of 2014, and that such improvement has brought the organisation closer to the global benchmarks. Whilst this augurs well for the company, issues which require attention were noted for further action.

An important task that was carried out during the year was the deliberation of plans for succession at the senior management level. These plans were announced in November 2016 and in the quarter ended 31 March 2017. It is to be noted that further plans for succession to senior positions will be announced in a phased manner over the next two years.

A report from the Chairman of the Committee continues to be a standing agenda item at the quarterly Board meetings. The Chairman of the Committee reports on the developments

which have taken place since the last Board meeting, if any, and also updates the Board on various matters, as requested and as relevant.

The Committee wishes to report that the Company has complied with the Companies Act in relation to remuneration of Directors. The annual appraisal scheme, the calculation of short term incentives, and the award of

#### Human Resources and Compensation Committee Meeting Attendance

	23.06.2016	31.03.2017	Eligible to attend	Attended
F Amerasinghe*	✓		1	1
A Cabraal	✓	✓	2	2
I Coomaraswamy*	✓		1	1
N Fonseka	✓		1	1
A Omar	✓	✓	2	2
H Wijayasuriya		✓	1	1
<b>By invitation</b>				
S Ratnayake	✓	✓	2	2
R Peiris	✓	✓	2	2

■ Ceased to be a Director during the year 2016/17

\* Resigned during the year 2016/17

During the year 2016/17, the Great Place to Work (GPTW) survey was conducted across the entire Group. Following its conclusion, the resultant report was placed before the Board. The management also briefed the Committee of an action plan geared towards addressing the findings of the survey at the meeting held on the 31 March 2017. Please see Section 3.4.1 for more information.

### 1.2.3 Nominations Committee

<b>Composition</b>	The Chairperson must be a Non-Executive Director. The Chief Executive Officer should be a member.
<b>Mandate</b>	Define and establish the nomination process for Non-Executive Directors, lead the process of Board appointments and make recommendations to the Board on the appointment of Non-Executive Directors.
<b>Scope</b>	<p>i. Assess skills required on the Board given the needs of the businesses</p> <p>ii. From time to time assess the extent to which the required skills are represented on the Board</p> <p>iii. Prepare a clear description of the role and capabilities required for a particular appointment</p> <p>iv. Identify and recommend suitable candidates for appointments to the Board.</p> <p>v. Ensure, on appointment to Board, Non-Executive Directors receive a formal letter of appointment specifying clearly</p> <ul style="list-style-type: none"> <li>• Expectation in terms of time commitment</li> <li>• Involvement outside of the formal Board meetings</li> <li>• Participation in Committees</li> </ul> <p>The appointment of Chairperson and Executive Directors is a collective decision of the Board</p>

The Committee was also apprised, regularly, by the Chairman - JKH PLC, of the succession plans in respect of Susantha Ratnayake, Ajit Gunewardene and Ronnie Peiris. As a part of such succession plan, the Chairman nominated Krishan Balendra and Gihan Cooray to the Board of the Company, and also as successors to Ajit Gunewardene and Ronnie Peiris, respectively, who retire at the end of December 2017. The Nominations Committee, in discussion with the Board, considered the Chairman's recommendation and agreed with the same.

The Committee, with the undersigned abstaining, recommended to the Board that Mr. Ashroff Omar be reappointed as a Non-Executive Director for a further period of 3 years commencing 1 March 2016. The Board ratified its acceptance of such recommendation at its meeting of 25 May 2016.

#### Report of the Nominations Committee

The Nominations Committee, as of 31 March 2017, consisted of the following.

- A Omar
- P Perera
- S Ratnayake
- H Wijayasuriya

The mandate of the Committee remains;

- To identify suitable persons who could be considered for appointment to the Board of JKH PLC or other Listed Company in the Group as Non-Executive Directors
- To recommend to the Board the process of selecting the Chairman and Deputy Chairman.
- Make recommendations on matters referred to it by the Board.

During the period under review, the Committee had one formal meeting, with all members in attendance, and several other informal discussions.

During the year, the Committee recommended the following appointments to the various JKH PLC subsidiaries.

Name of subsidiary	Name of appointee
Keells Food Products PLC	Shehara de Silva Indrajit Samarajiva Pravir Samarasinghe Amal Sanderatne
Ceylon Cold Stores PLC	Sharmini Ratwatte Dr. Shanthi Wilson
John Keells Hotels PLC	Anarkali Moonasinghe
John Keells PLC	Anandhiy Gunawardhana Aruni Rajakariar Charitha Wijewardene
Tea Smallholder Factories PLC	Manjula de Silva

These recommendations were accepted by the Board.



**A Omar**

Chairman of the Nominations Committee

26 May 2017

#### Nominations Committee Meeting Attendance

	28.07.2016	Eligible to attend	Attended
A Cabraal*	✓	1	1
A Omar	✓	1	1
P Perera	✓	1	1
S Ratnayake	✓	1	1
H Wijayasuriya*		0	0

\* The Committee was re-constituted during the year 2016/17

## Corporate Governance Commentary

### 1.2.4 Related Party Transaction Review Committee

<b>Composition</b>	The Chairperson must be a Non-Executive Director. Must include at least one Executive Director.  The Chairman-CEO, Group Finance Director and Group Financial Controller are permanent invitees for all Committee meetings.
<b>Mandate</b>	To ensure on behalf of the Board that all related party transactions of JKH and its listed subsidiaries are consistent with the Code of Best Practices on related party transactions issued by the SEC.  Whilst the above requisitions the minimum required by the CSE, the Group has broadened the mandate to include senior decision makers in the list of Key Management Personnel, whose transactions with Group companies are also reviewed by the Committee.
<b>Scope</b>	<ol style="list-style-type: none"> <li>Develop and recommend for adoption by the Board of Directors of JKH and its listed subsidiaries, a Related Party Transaction Policy which is consistent with the operating model and the delegated decision rights of the Group.</li> <li>Update the Board on related party transactions of each of the listed companies of the Group on a quarterly basis.</li> <li>Define and establish threshold values for each of the subject listed companies in setting a benchmark for related party transactions, related party transactions which have to be pre-approved by the Board, related party transactions which require to be reviewed annually and similar issues relating to listed companies.</li> </ol>

The Committee reviewed and pre-approved all proposed non recurrent RPTs of the parent, John Keells Holdings PLC, and all its listed subsidiaries, namely: John Keells PLC, Tea Smallholder Factories PLC, Asian Hotels and Properties PLC, Trans Asia Hotels PLC, John Keells Hotels PLC, Ceylon Cold Stores PLC, Keells Food Products PLC, and Union Assurance PLC. Further, recurrent RPTs were reviewed annually by the Committee. Other significant transactions of non-listed subsidiaries were presented to the Committee for information.

In addition to the Directors, all Presidents, Executive Vice Presidents, Chief Executive Officers, Chief Financial Officers and Financial Controllers of respective companies/sectors were designated as KMPs in order to increase transparency and enhance good governance. Annual disclosures from all KMPs setting out any RPTs they were associated with, if any, were obtained and reviewed by the Committee.

The Committee held four meetings during the financial year. Information on the attendance of these meetings by the members of the Committee is given below.

The activities and views of the Committee have been communicated to the Board of Directors, quarterly through verbal briefings, and by tabling the minutes of the Committee's meetings.



**P Perera**  
Chairperson of the Related Party Transaction Review Committee

28 April 2017

### Report of the Related Party Transaction Review Committee

The undersigned and the following Directors served as members of the Committee during the financial year:

F Amerasinghe (ceased to be a Board member with effect from 24 June 2016)  
A Cabraal  
N Fonseka  
S Ratnayake

In addition, the Group Finance Director Mr. Ronnie Peiris, the Group Finance Director - Designate Mr. Gihan Cooray and the Group Financial Controller Mr. Mano Rajakariar attended meetings by invitation, and the Head of Group Business Process Review, served as the Secretary to the Committee.

The objective of the Committee is to exercise oversight on behalf of the Board, of John Keells Holdings PLC and its listed Subsidiaries, to ensure compliance with the Code on Related Party Transactions, as issued by the Securities and Exchange Commission of Sri Lanka ("The Code") and with the Listing Rules of the Colombo Stock Exchange (CSE). The Committee has also adopted best practices as recommended by the Institute of Chartered Accountants of Sri Lanka and the CSE.

The Committee in discharging its functions primarily relied on processes that were validated from time to time and periodic reporting by the relevant entities and Key Management Personnel (KMP) with a view to ensuring that:

- there is compliance with the Code;
- shareholder interests are protected; and
- fairness and transparency are maintained

### Related Party Transaction Review Committee Meeting Attendance

	24.05.2016	27.07.2016	24.10.2016	25.01.2017	Eligible to attend	Attended
F Amerasinghe*	X				1	0
A Cabraal	✓	✓	✓	✓	4	4
N Fonseka	✓	✓	✓	✓	4	4
P Perera	✓	✓	✓	✓	4	4
S Ratnayake	✓	✓	X	✓	4	3
<b>By Invitation</b>						
R Peiris	✓	✓	✓	✓	4	4

- Ceased to be a Director during the year 2016/17

### 1.3 The Combined Role of the Chairman-CEO

The Group’s Chairman continued to play the role of the CEO during the financial year 2016/17. The Board deems that combining the two roles is more appropriate, for the Group at present, in meeting stakeholder objectives.

As the head of the Group Executive Committee, the Chairman-CEO provides the overall direction and policy execution framework for the Board’s decisions via this structure.

Experience has proved that the healthy balance of the JKH Board composition coupled with the role of the Senior Independent Director, and other supporting Board dynamics, enable him to effectively balance his role as the Chairman of the Board and the CEO of the Company and Group.

Given the above, the Chairman-CEO does not come up for re-election as is the case with other Executive and Non-Executive Directors. It should be noted that the Articles of Association of the Company allow for this. In order to bolster the Board’s, and by extension, the Group’s adherence to corporate governance best practices, the Senior Independent Director acted as the independent party to whom concerns could be voiced on a confidential basis.

#### 1.3.1 Chairman-CEO Appraisal

The Human Resources and Compensation Committee, chaired by the Senior Independent Director together with all other Independent Directors, appraised the performance of the Chairman-CEO on the basis of pre-agreed goals for the Group, set in consultation with the Board, covering the following broad aspects:

- Creating and adding shareholder value
- Achievement of financial goals
- Execution of sustainability developments and green agenda
- Success in identifying and implementing projects
- Sustaining a first class image
- Developing human capital
- Promoting collaboration and team spirit
- Building sustainable external relations
- Leveraging Board members and other stakeholders
- Ensuring good governance and integrity in the Group

### 1.4 Group Executive Committee and Other Management Committees

The Group Executive Committee and the other Management Committees met regularly as per a time table communicated to the participants 6 months in advance. In the absence of a compelling reason, attendance at these Committee meetings is mandatory for the Committee members. All the Committees carried out their specific tasks as expected.

Whilst the Chairman-CEO and Presidents are ultimately accountable for the Company/ Group and the industry groups, businesses and functions respectively, all decisions are taken on a committee structure as described below.

#### 1.4.1 Group Executive Committee (GEC)

As at 26 May 2017, the 9 member GEC consisted of the Chairman-CEO, the Deputy Chairman, the Group Finance Director and the Presidents of each business/function. The GEC is the overlay structure that implements, under the leadership and direction of the Chairman-CEO, the strategies and policies determined by the Board. The GEC manages through delegation and empowerment, the business and affairs of the Group, makes portfolio decisions and prioritises the allocation of capital and technical and human resources. A key responsibility of the members of the GEC is to act as enablers of the Operating Model of the Group. The members of the GEC are well equipped to execute these tasks and bring in a wealth of experience and diversity to the Group in terms of their expertise and exposure (refer the GEC Profiles section of this Annual Report for more details).

#### 1.4.2 Group Operating Committee (GOC)

As at 26 May 2017, the 22 member GOC consisted of the Chairman-CEO, the Deputy

Chairman, the Group Finance Director, the Presidents and Executive Vice Presidents. The GOC provided a forum to share learnings, and identify synergies, across industry groups, sectors, business units and functions. The GOC is instrumental in preserving a common group identity across diverse business units (refer the GOC Profiles section of this Annual Report for more details).

#### 1.4.3 Other Management Committees

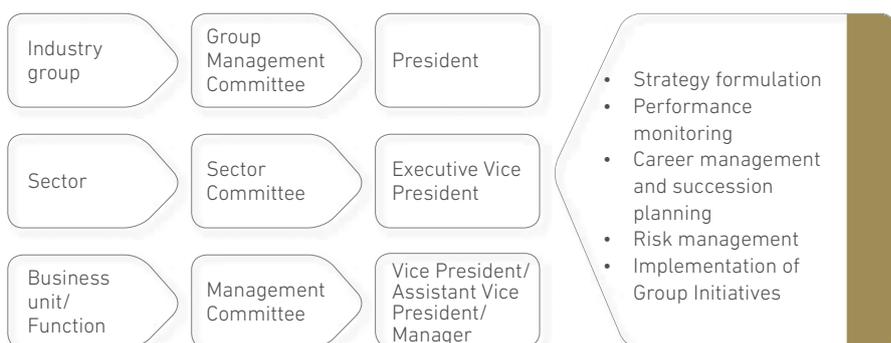
These include the Group Management Committee, Sector Committee and Management Committee which are responsible at the industry group level, sector level and business unit level respectively. The underlying intention of forming these Committees is to encourage the respective business units to take responsibility and accountability at the grass-root level via suitably structured Committees and teams in a “Management by Objectives (MBO)” setting.

Illustrated below is the structure of the three Committees.

### 1.5 Employee Empowerment

Given the importance the Group places on its employees for the growth of the organisation, policies, processes and systems are in place to ensure effective recruitment, development and retention of this vital stakeholder. The bedrock of these policies is the Group’s competency framework. To support these policies, the Group continued with, and further strengthened, the following practices.

- Top management and other senior staff are mandated to involve, as appropriate, all levels of staff in formulating goals, strategies and plans
- Decision rights were defined for each level of employment in order to instil a sense of ownership, reduce bureaucracy and speed-up the decision making process



## Corporate Governance Commentary

- A bottom-up approach was taken in the preparation of annual and long-term plans and the Group also ensured employee involvement in strategy, and thereby empowerment, in the process
- Organisational and Committee structures are designed to enable, and facilitate, high accessibility of all employees to every level of management
- Open, honest and constructive communication was encouraged at all levels. The Group strongly believes that constructive disagreement is essential for optimal decision making

Moreover, the Group provides a safe, secure and conducive environment for its employees, allows freedom of association and collective bargaining, prohibits child labour, forced or compulsory labour and any discrimination based on gender, race, religion, gender identity or sexual orientation, and promotes workplaces which are free from physical, verbal or sexual harassment. In furtherance of this, the Group continued its CSR initiative, Project WAVE (Working Against Violence through Education), aimed at combating gender based violence and child abuse through awareness creation. Approximately 10,000 Group employees have been sensitised under the project as at 31 March 2017. During the year, the Group continued its project to sensitise employees regarding gender identity and sexual orientation towards building a truly inclusive culture within the Group. Additionally, the Group strives to incorporate these practices, where relevant, in its sourcing initiatives undertaken by the Group.

### 2. Integrated Governance Systems and Procedures

Listed below are the main governance systems and procedures of the Group. These systems and procedures strengthen the elements of the JKH Internal Governance Structure, and are benchmarked against industry best practices.

- Strategy formulation and decision making process
- Human resource governance
- Integrated risk management
- IT governance
- Stakeholder management and effective communications
- Sustainability governance

### 2.1 Strategy Formulation and Decision Making Processes

The Group’s investment appraisal methodology and decision making process ensures the involvement of all key stakeholders that are relevant to the evaluation of the decision.

In this manner:

- Several views, opinions and advice are obtained prior to making an investment decision
- A holistic view is taken on the commercial viability and potential of any project, including operational, financial, funding, legal, risk, sustainability and tax implications
- All investment decisions are consensual in nature, made through the aforementioned management committee structure where no single individual has unfettered decision making powers over investment decisions
- The ultimate responsibility and accountability of the investment decision rests with the Chairman-CEO

The illustration below depicts the Group’s strategy formulation process:

The following section further elaborates on the Group’s project appraisal and execution process.

#### 2.1.1 Project Approval Process

Projects undertaken at the Group follow a detailed feasibility report covering key business considerations under multiple scenarios, within a framework of sustainability. The feasibility stage is not restricted to a financial feasibility only, but encompasses a wider scope of work covering risk management, sustainable development and HR considerations.

Subsequent to the project satisfying the Group’s investment criteria, the final approval to proceed will be granted by the Board. When appropriate, the GEC is empowered to approve such proposals in terms of the delegated decision rights with the Board being kept informed.



The aforementioned project appraisal framework flow is illustrated below:



For succession planning at senior management levels, a sub-committee of the Board - the Human Resources and Compensation Committee, is mandated to review the performance evaluation of Executive Directors and key Executives, apart from establishing the Group remuneration policy. The scope of this committee entails succession planning of Key Management Personnel.

Annually, the Executive Directors and the Group Executive Committee are evaluated based on measurable criteria, which have been pre-agreed on an individual basis. The evaluation involves the closer examination of achieved results in a background of controllable and/or non-controllable external conditions which have impacted performance either favourably or adversely. Further, the senior management holds regular talent discussions to further develop and identify "talent".

### 2.2 Human Resource Governance

The Group human resource governance framework is designed in a manner that enables high accessibility by any employee to every level of management. Constant dialogue and facilitation are also maintained ranging from work related issues to matters pertaining to general interest that could affect employees and their families. The Group follows an open door policy for its employees and this is promoted at all levels of the Group.

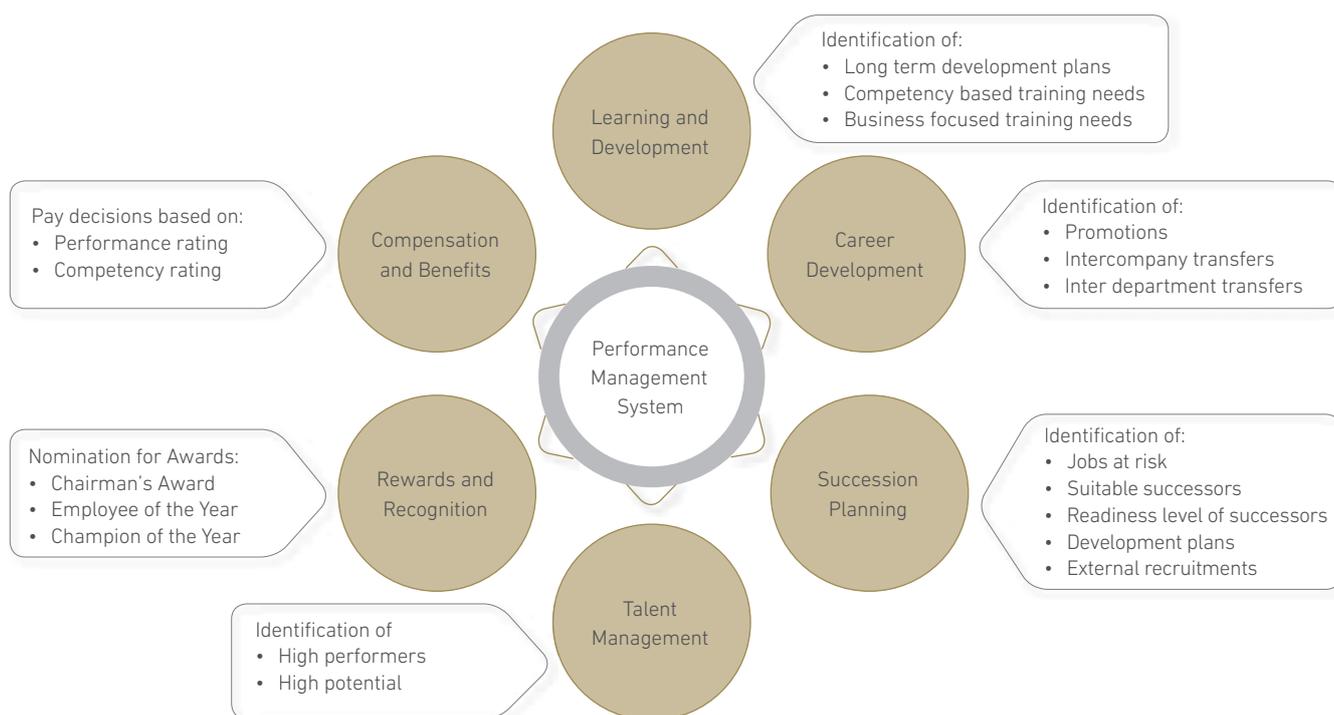
The Group performance management dynamics and compensation policy is explained in the ensuing sections.

#### 2.2.1 Performance Management

The Performance Management System, as illustrated below, is at the heart of many supporting human resource management processes such as learning and development, career development, succession planning, talent management, rewards/recognition and compensation/benefits.

#### 2.2.2 Succession Planning

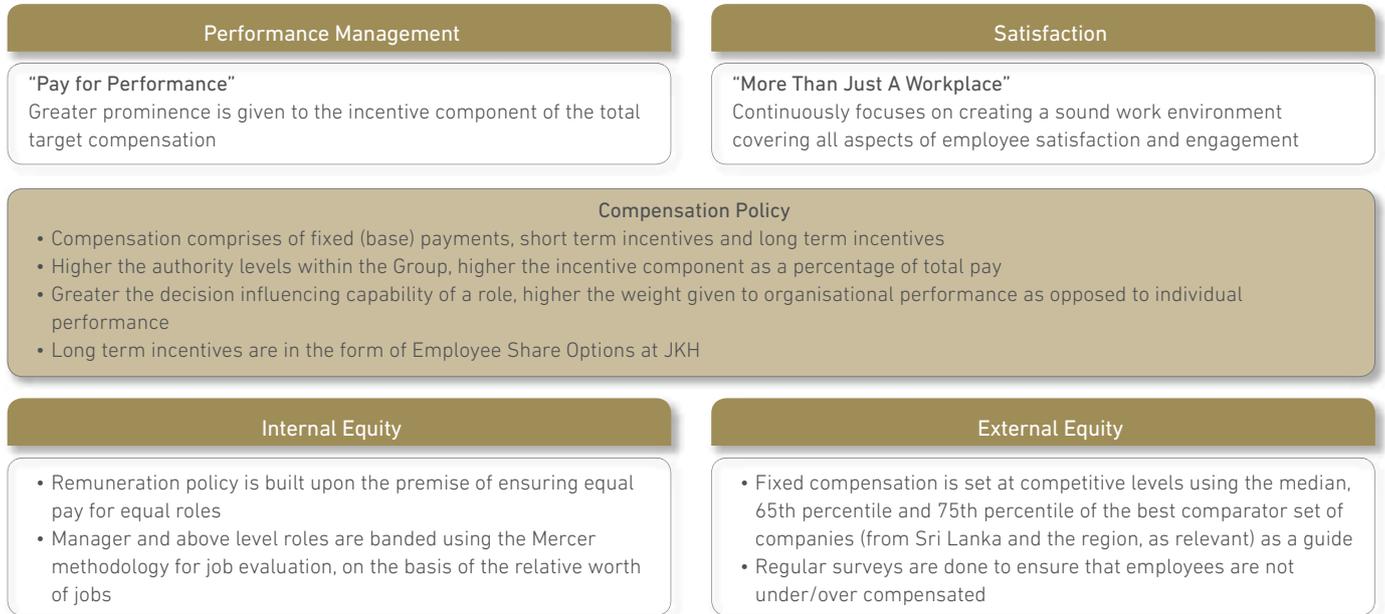
Our Board has in place plans to ensure the progressive renewal of the Board. As part of the Group's talent identification initiative, the Group has continuously introduced innovative and effective ways of focusing on promising talent.



## Corporate Governance Commentary

### 2.2.3 Performance Based Compensation Philosophy

The JKH Group Compensation Policy is as follows:



#### 2.2.3.1 Equity Sharing

Employee Share Option Plans are offered at defined career levels based on pre-determined criteria which are uniformly applied across the eligible levels and performance levels. These long term incentives have been instrumental in inculcating a deep sense of ownership in the recipients. Share options are awarded to individuals on the basis of their immediate performance and potential importance of their contribution to the Group’s future plans.

### 2.3 Integrated Risk Management

JKH’s Group-wide risk management programme focuses on wider sustainability development, to identify, evaluate and manage significant Group risks and to stress-test various risk scenarios. The programme ensures that a multitude of risks, arising as a result of the Group’s diverse operations, are effectively managed in creating and preserving stakeholder wealth.

The steps taken towards promoting the Group’s integrated risk management process are:

- Integrating and aligning activities and processes related to planning, policies/procedures, culture, competency, internal audit, financial management, monitoring and reporting with risk management;

- Supporting executives/managers in moving the organisation forward in a cohesive, integrated and aligned manner to improve performance, while operating effectively, efficiently, ethically and legally, within the established limits for risk taking. The risk management programmes have allowed greater visibility and understanding of risk appetite

Please refer the Risks, Opportunities and Internal Controls section and Notes to the Financial Statements of the Annual Report for a detailed discussion on the Group’s Integrated Risk Management process and the key risks identified in achieving the Group’s strategic business objectives.

### 2.4 Information Technology (IT) Governance

IT governance stewardship roles are governed through layered and nested committees, cascading from the GEC to the Group IT Management Committee to the Group IT Operation Committee with well-defined roles and responsibilities at a Group, sector and business unit level.

The IT governance framework used within the Group leverages best practices and industry leading models such as CoBIT (Control Objectives for Information and Related Technology), ISO 35800, ISO27001, ISO 9000:2008, COSO (Committee of Sponsoring Organisations of the Treadway Commission)/BCP (Business Continuity Planning), ITIL (Information Technology Infrastructure Library), in providing a best of breed framework.

A comprehensive audit of the IT structure covering the entire Group was performed during the year to highlight both strengths, and weaknesses. A priority-based action plan has been formulated to address issues of concern that stemmed from the audit.

### 2.5 Stakeholder Management and Effective Communication

Following are the key stakeholder management methodologies adopted by the Group. Please refer the Materiality and Stakeholder Relationship section of the Annual Report for a detailed discussion.



### 2.5.1 Annual General Meeting

The Group adheres to the following procedures and makes use of the AGM constructively to enhance relationships with shareholders.

- Notice of the AGM and related documents are sent to the shareholders along with the Annual Report, within the specified time
- Summary of procedures governing voting at general meetings are clearly communicated
- All Executive and Non-Executive Directors are present at the meeting to answer queries
- The Chairman-CEO ensures that the relevant senior managers are also available at the AGM to answer specific queries
- Separate resolutions are proposed for each item
- Proxy votes, those for, against, and withheld are counted

### 2.6 Sustainability Governance

The John Keells Group places importance on sustainable development. The Group believes that its financial performance and brand image are closely aligned with sound corporate governance practices, product and service excellence, a productive workforce, environmental stewardship and social responsibility. Please refer the Materiality

and Stakeholder Relationships section of the Report for a detailed discussion of the Group's strategy of entrenching sustainability within its business operations, and the scope and boundary of its sustainability content.

During the year under review, a new procurement platform was implemented to streamline the Group's sourcing, and supplier management initiatives. The current Group Initiatives process, though robust, is manually driven. Through this new platform it will be transformed in its entirety to an online, real-time platform, where the entire sourcing process from supplier identification, requesting for proposals, submission of proposals, evaluation, contracting and supplier management for products and services sourced from the Group Initiatives Division will be performed on the platform. This will enable the Group to have clear visibility of the sourcing process in real time, shorten contracting life cycles and have the ability to make better supplier related decisions based on better and more accurate analytics. The Group intends to enable Business Units of the Group to use this platform in the near future.

Furthermore, the Group has contracted a global software developer and vendor, to provide a solution to manage the Group's Enterprise Risk, Audit, and Incident Management processes. The solution is able to aid the Group's Risk Management

functions, by providing the ability to maintain live, dynamic risk registers which are linked to business goals and responsible personnel - along with the provision of timely alerts on action plans, and escalation processes for over-due risks. Key Management Personnel at all levels (CEOs, Sector Heads, and Presidents) will have visibility of the structure under management in terms of risk management, mitigation, and action plans for better monitoring and control. It will also enable visibility across sectors, and the Group, on risk mitigation and knowledge sharing best practices.

### 3. Assurance Mechanisms

The Assurance Mechanisms comprise of the various supervisory, monitoring, and benchmarking elements of the Group Corporate Governance System which are used to measure "actuals" against "plan" with a view to signalling the need for quick corrective action, when necessary. These mechanisms also act as "safety nets" and internal checks in the Governance system, which are discussed in detail in the ensuing section.

## Corporate Governance Commentary

### 3.1 The Code of Conduct

#### JKH CODE OF CONDUCT

- Allegiance to the Company and the Group
- Compliance with rules and regulations applying in the territories that the Group operates in
- Conduct all business in an ethical manner at all times in keeping with acceptable business practices
- Exercise of professionalism and integrity in all businesses and "public" personal transactions

The objectives of the Code of Conduct are strongly affirmed by a strong set of corporate values which are well institutionalised at all levels within the Group through structured communication. The degree of employee conformance with corporate values and their degree of adherence to the JKH Code of Conduct are the key elements of reward and recognition schemes.

The Group Values are found in the About Us section of the Annual Report, and are continuously and consistently referred to by the Chairman-CEO, Presidents, Sector and Business Unit Heads during employee and other key stakeholder engagements, in order to instill these values in the hearts and DNA of all employees.

### 3.2 Senior Independent Director

Considering the combined role of the Chairman-CEO, the presence of the Senior Independent Director is important in ensuring that no one person has unfettered decision making powers, and that matters discussed at the Board level are done so in an environment which facilitates independent thought by individual Directors.

The Senior Independent Director meets with other Non-Executive Directors, without the presence of the Chairman-CEO, at least twice every year to evaluate the effectiveness of the Chairman-CEO and has regular meetings with the other Non-Executive Directors on matters relating to the effectiveness of the Board as appropriate. The Senior Independent Director is also kept informed by the Ombudsperson of any matters in respect of the JKH Code of Conduct which has come to his attention.

#### Report of the Senior Independent Director Independent Directors

F Amerasinghe - *(ceased to be a Board member w.e.f. 24 June 2016)*  
 A Cabraal  
 I Coomaraswamy - *(resigned w.e.f. 3 July 2016)*  
 T Das - *(ceased to be a Board member w.e.f. 24 June 2016)*  
 N Fonseka  
 A Omar  
 P Perera  
 H Wijayasuriya - *(appointed w.e.f. 4 October 2016)*

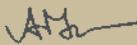
All Independent Directors serving at present have been Directors for less than nine years from their date of first appointment. The undersigned was appointed by the Board as the Senior Independent Director on 24 June 2016, succeeding Mr F Amerasinghe.

Apart from unstructured and informal contacts, the Independent Directors had two formal meetings to discuss matters relevant to their responsibilities as Non-Executive Directors. These meetings concluded with a wrap up session with the Chairman-CEO, who provided responses to matters raised, or agreed to provide further information or clarification at Board meetings. A matter that received the special attention of the Non-Executive Directors was senior management succession. A plan was approved by the Board during the year and implementation has commenced.

The meeting minutes of the Group Executive Committee (GEC) are circulated to the Non-Executive Directors and this ensures that there is a high degree of transparency and interaction between the Executive and Non-Executive members of the Board.

The Ombudsperson has reported to me that no issues have been brought to his attention that indicate mismanagement, unfair treatment or justified discontent on the part of any employee or ex-employee during the financial year.

The Independent Directors thank the Executive Directors, the GEC, Sector Heads and members of the management team for their openness and co-operation on all matters where their input was sought by the Non-Executive Directors.



N Fonseka  
Senior Independent Director

26 May 2017

### 3.3 Board Sub-Committees

The Board Sub-Committees play an important supervisory and monitoring role by focusing on the designated areas of responsibility passed to it by the Board. For more information on the Board Sub-Committees, refer Section 1.2 of this Commentary.

### 3.4 Employee Participation in Assurance

The Group is continuously working towards introducing innovative and effective ways of employee communication and employee awareness. The importance of communication - top-down, bottom-up, and lateral, in gaining employee commitment to organisational goals has been conveyed extensively through various communications issued by the Chairman-CEO and the management. Whilst employees have many opportunities to interact with the senior management, the Group has created formal channels for such communication through feedback as listed below.

- Skip Level meetings
- Exit interviews
- Young Forum meetings
- 360 degree evaluation
- Employee surveys
- Monthly staff meetings
- Ombudsperson
- Confidential access to Chairman on “Chairman Direct”
- Access to Senior Independent Director
- Continuously reiterating the “Open-Door” policy

Additionally, the Group continued with its whistle-blower policy and securities trading policy. The Group has witnessed an increased level of communication flow from employees. Such communication and feedback received from the employees by the management are recorded, irrespective of the level of anonymity, and subsequently discussed and followed up. The respective outcomes are duly recorded.

#### 3.4.1 Great Place to Work

During the year, the Group conducted the “Great Place To Work” (GPTW) survey among all its employees. GPTW is conducted by the Great Place To Work Institute and seeks to provide a comprehensive insight into how employees perceive the culture, structure, and management of an organisation, among others. The feedback received from this exercise will be used towards crafting a better and more cohesive workplace, which will in turn drive productivity across the Group. The Group’s management considers the objective of an engaging, inspiring workplace which enables, and empowers people, to be a strategic priority, in keeping with JKH’s goal to be “More Than Just A Workplace”.

### 3.5 Internal Controls

The Board has taken necessary steps to ensure the integrity of the Group’s accounting and financial reporting systems, and that internal control systems remain robust and effective via the review and monitoring of such systems on a periodic basis.

#### 3.5.1 Internal Compliance

A quarterly self-certification programme requires the Presidents, Sector Heads and Chief Financial Officers of industry groups, to confirm compliance with statutory and other regulatory procedures, and also identify any significant deviations from the expected norms.

#### 3.5.2 System of Internal Control

The Board has, through the involvement of the Group Business Process Review function, taken steps to obtain assurance that systems designed to safeguard the Company’s assets, maintain proper accounting records and provide management information, are in place, are robust, and are functioning according to expectations.

The risk review programme covering the internal audit of the whole Group is outsourced. Reports arising out of such audits are, in the first instance, considered and discussed at the business and functional unit levels, and after review by the Sector Head and the President of the industry group, are forwarded to the relevant Audit Committee on a regular basis. Further, the Audit Committees also assess the effectiveness of the risk review process and systems of internal control on a regular basis.

#### 3.5.3 Segregation of Duties (SoD) under Sarbanes-Oxley (SOX) Guidelines

As discussed in the Corporate Governance Commentary section of the JKH Annual Report 2015/16, the Group reviewed the Segregation of Duties (SoD) under Sarbanes-Oxley (SOX) guidelines, and developed a revised SoD matrix. During the financial year ended 31 March 2017, the Group took steps to review and streamline the roles of each user on its Enterprise Resource Planning (ERP) system. Furthermore, in line with JKH’s digitisation initiatives, an authentication application was developed to enable a more efficient and transparent process in assigning roles to users of the ERP system.

#### 3.5.4 Internal Audit

The Group internal audit process is conducted by outsourced parties at regular intervals, and coordinated by the Group Business Process Review function (GBPR) of the Group. GBPR ensures that the internal audit plan adequately covers the significant risks of the Group, reviews the important internal audit findings and follow-up procedures.

Towards this end, an Internal Audit Process Facilitation tool is being adopted across the Group. It is envisaged that this solution, in addition to enabling a digitally driven internal audit function, will help increase internal efficiencies, transparency, accountability, and build synergy between participating entities, in order to optimise delivery of impactful process outcomes.

The Group is currently engaged with its External Auditors to jointly understand the extent of realigning the scope of the Auditor’s report in keeping with reporting best practices associated with the disclosure of Key Audit Matters (KAM) to the shareholders. The proposed revisions to the Auditor’s Report are expected to enhance the communicative value and relevance of the report via reinforced transparency, and will come into effect together with other applicable financial reporting requirements, on or after 31 March 2018.

### 3.6 The Ombudsperson

An Ombudsperson is available to report any complaints from employees of alleged violations of the published Code of Conduct if the complainant feels that the alleged violation has not been addressed satisfactorily by the internally available mechanisms.

The findings and the recommendations of the Ombudsperson, subsequent to an independent inquiry, is confidentially communicated to the Chairman-CEO or to the Senior Independent Director upon which the involvement duty of the Ombudsperson ceases.

On matters referred to him by the Ombudsperson, the Chairman-CEO or the Senior Independent Director, as the case may be, will place before the Board:

- the decision and the recommendations
- action taken based on the recommendations
- in the event the Chairman-CEO or the Senior Independent Director disagrees with any or all of the findings and or the recommendations thereon, the areas of disagreement, and the reasons therefore

In situation (iii), the Board is required to consider the areas of disagreement and decide on the way forward. The Chairman-CEO or the Senior Independent Director is expected to take such steps as are necessary to ensure that the complainant is not victimised, in any manner, for having invoked this process.

## Corporate Governance Commentary

### Report of the Ombudsperson Mandate and Role

For purposes of easy reference, I set out below, the Ombudsperson's mandate and role:

- (a) legal and ethical violations of the Code of Conduct for employees, but in an appellate capacity, when a satisfactory outcome using existing procedures and processes has not resulted or when the matter has been inadequately dealt with;
- (b) violations referred to above by individuals at the Executive Vice President, President and Executive Director levels, including that of the Chairman/CEO, in which case the complainant has the option of either complaining to the Ombudsperson in the first instance, or first exhausting the internal remedies;
- (c) sexual harassment, in which event the complainant has the option of either complaining to the Ombudsperson in the first instance, or first exhausting the internal remedies

The mandate excludes disciplinary issues from the Ombudsperson's responsibilities. The right to take disciplinary action is vested exclusively in the Chairman/CEO and those to whom this authority has been delegated.

No issues were raised by any member of the companies covered during the year under review.

#### Ombudsperson

26 May 2017

### 3.7 External Audit

Ernst & Young are the External Auditors of the Company as well as many of the Group companies. The individual Group companies also employed KPMG Ford, Rhodes, Thornton & Co, PriceWaterhouseCoopers, and Luthra and Luthra, India as External Auditors. The appointment/re-appointment of these auditors was recommended by the individual Audit Committees to their respective Boards of Directors. The audit fees paid by the Company and Group to its auditors are separately classified in the Notes to the Financial Statements of the Annual Report.

### 4. Regulatory and Accounting Benchmarks

The Board, through the Group Legal division, the Group Finance division and its other operating structures, strived to ensure that the Company and all of its subsidiaries and associates complied with the laws and regulations of the countries they operated in.

The Board of Directors also took all reasonable steps to ensure that all financial statements were prepared in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the requirements of the CSE and other applicable authorities. Information contained in the financial statements of the Annual Report is supplemented by a detailed Management Discussion and Analysis which explains to shareholders, the strategic, operational, investment, sustainability and risk related aspects of the Company, and the means by which value is created and how it was translated into the reported financial performance and its likely influence on future results.

JKH and its subsidiaries are fully compliant with all the mandatory rules and regulations stipulated by the:

- Corporate Governance Listing Rules published by the CSE; and
- Companies Act No. 7 of 2007

Please refer section 6 of this Commentary for the compliance summary. The Group has also given due consideration to the Best Practice on Corporate Governance Reporting guidelines jointly set out by CA Sri Lanka and the SEC, and have in all instances, barring a few, embraced such practices voluntarily, particularly if such practices have been identified as relevant and value adding. In the very few instances where the Group has not adopted such best practice, the rationale for such non adoption is articulated.

### 5. Outlook and Emerging Challenges

In an ever changing and dynamic world of corporate governance, JKH is acutely aware of the need to remain vigilant and geared to meet the emerging governance needs of the Group, its stakeholders and the environment in which the Group operates. As is evident from the aforesaid Commentary, the Group has continued to endeavour, in the year under

review, to stay abreast of best practices in the area of corporate governance.

Summarised below are the more significant challenges, amongst many others, being addressed by JKH.

#### 5.1 Gender Diversity on the Board

JKH believes a wide range of people and experiences is beneficial to achieving a high performance culture, which enables innovation and thereby helps us deliver excellence. Given that women comprise a significant proportion of the customer and employee populations, the Group recognises the value of capitalising on our inclusive culture to attract, develop, and retain a talent mix to fuel our competitive advantage.

We acknowledge the challenges of increasing diversity within our industry, and the Group will make greater efforts to attract appropriately qualified women to add to the diversity of the Board.

#### 5.2 Board Effectiveness and Refreshment

There is increasing pressure for Boards to improve effectiveness, maintain the right combination of skills and experience, and enhance transparency and accountability. Our Board strives to take a balance of the two viewpoints of tenured Directors and the fresh perspectives of new members. With the change in Board composition, the average age of the Board is 57 years as of 31 March 2017, in comparison to an average age of 63 years as at 31 March 2016. JKH continues to take steps to seek Directors with great diversity of knowledge and experience in order to match boardroom talent with evolving business strategies.

#### 5.3 Activist Investors

As stated during the last financial year, investors around the globe are increasingly active and are asking questions on issues that matter most to them - enterprise risk, strategy and execution. This has primarily led to Directors being held increasingly accountable and responsible for the company's performance, and the Group expects this trend to continue. As a result, effective communication is emerging and designated Directors are fully prepared to engage directly with investors on appropriate matters. The Board will continue to focus on improving shareholder communication with a greater level of engagement.

#### 5.4 Cyber Security

Along with the organisation becoming more data driven, there is a significant increase in the organisation's reliance on technology. In such a backdrop, securing and protecting JKH's most valuable assets becomes a priority. The Board accepts that the risk of a security breach needs to be continually managed, and that one needs to be well aware of where the vulnerabilities lie. During

the year under review, necessary steps have been taken to help curtail the exposure to cyber-attacks by reducing the threat surface and any potentially exploitable vulnerabilities.

#### 5.5 Talent Risk Management

As new and complex opportunities and risks emerge with evolving strategies and growth markets, having the right people to execute on strategies is imperative for success. Boards

recognise the crucial role they play in human capital matters since talent and culture are arguably the biggest drivers of competitive advantage. Boards will play an important role in ensuring that the leadership stays focused on building the right talent strategy. The Board will focus on how to prepare for generational transitions in their organisations and anticipate the changing dynamics at the boardroom and management levels.

## 6. Compliance Summary

### 6.1 Statement of Compliance under Section 7.6 of the Rules of the Colombo Stock Exchange (CSE) on Corporate Governance

CSE Rule 7.6		Compliance status	Reference in the JKH Annual Report 2016/17
(i)	Names of persons who were Directors of the Entity during the financial year	Complied	Board of Directors
(ii)	Principal activities of the Entity and its subsidiaries during the year, and any changes therein	Complied	Management Discussion and Analysis
(iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Complied	Share and Warrant Information
(iv)	The public holding percentage	Complied	Share and Warrant Information
(v)	A statement of each Director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of each financial year	Complied	Share and Warrant Information
(vi)	Information pertaining to material foreseeable risk factors of the Entity	Complied	Risk, Opportunities and Internal Controls
(vii)	Details of material issues pertaining to employees and industrial relations of the Entity	During the year 2016/17, there were no material issues pertaining to employees and industrial relations of the Company	
(viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties	Complied	Group Real Estate Portfolio
(ix)	Number of shares representing the Entity's stated capital	Complied	Share and Warrant Information
(x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	Complied	Share and Warrant Information
(xi)	Financial ratios and market price information	Complied	Share and Warrant Information
(xii)	Significant changes in the Company's or its subsidiaries' fixed assets, and the market value of land, if the value differs substantially from the book value as at the end of the year	Complied	Notes to the Financial Statements
(xiii)	Details of funds raised through a public issue, rights issue and a private placement during the year	Complied	Share and Warrant Information
(xiv)	Information in respect of Employee Share Ownership or Stock Option Schemes	Complied	Share and Warrant Information
(xv)	Disclosures pertaining to corporate governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules	Complied	Corporate Governance Commentary
(xvi)	Related party transactions exceeding 10 per cent of the equity or 5 per cent of the total assets of the Entity as per audited financial statements, whichever is lower	Complied	Corporate Governance Commentary

## Corporate Governance Commentary

### 6.2 Statement of Compliance under Section 7.10 of the Rules of the Colombo Stock Exchange (CSE) on Corporate Governance

(Mandatory provisions - fully complied)

CSE Rule	Compliance status	JKH action
<b>7.10 Compliance</b>		
a./ b./ c.	Compliance with corporate governance rules	Complied JKH is in full compliance with the corporate governance rules. Any deviations are explained where applicable
<b>7.10.1 Non-Executive Directors (NED)</b>		
a./ b./ c.	At least two members or one third of the Board, whichever is higher should be NEDs	Complied 5 out of 10 Board members are NEDs <b>Corporate Governance Commentary - Section 1.1.2</b>
<b>7.10.2 Independent Directors</b>		
a.	Two or one third of NEDs, whichever is higher shall be "independent"	Complied All NEDs are independent as of 31 March 2017
b.	Each NED to submit a signed and dated declaration of his/her independence or non-independence	Complied The independence of the Directors has been determined with reference to the CSE Listing Rules. The 5 Independent NEDs have submitted signed confirmations of their independence
<b>7.10.3 Disclosures Relating to Directors</b>		
a./ b.	Board shall annually determine the independence or otherwise of NEDs	Complied Each NED discloses a formal declaration to the Board of all their interests on an annual basis <b>Corporate Governance Commentary - Section 1.1.7</b>
c.	A brief resume of each Director should be included in the Annual Report including the Directors' experience	Complied <b>JKH Annual Report 2016/17 - Board of Directors</b>
d.	Provide a resume of new Directors appointed to the Board along with details	Complied The new appointments of Mr. K Balendra, Mr. G Cooray and Dr. H Wijayasuriya were announced to the CSE along with the profiles of the Directors
<b>7.10.4 Criteria for Defining Independence</b>		
a. to h.	Requirements for meeting the criteria to be an Independent Director	Complied <b>Corporate Governance Commentary - Section 1.1.7</b>
<b>7.10.5 Remuneration Committee</b>		
a.	Remuneration Committee shall comprise of NEDs, a majority of whom will be independent	Complied The Human Resources and Compensation Committee (equivalent of the Remuneration Committee with a wider scope) only comprises of Independent NEDs <b>Corporate Governance Commentary - Section 1.2.2</b>
	One NED shall be appointed as Chairman of the Committee by the Board of Directors	Complied The Senior Independent NED is the Chairman of the Committee
b.	Remuneration Committee shall recommend the remuneration of the CEO and the Executive Directors	Complied The remuneration of the Chairman-CEO and the Executive Directors is determined as per the remuneration principles of the Group, and as recommended by the Human Resources and Compensation Committee
c.	The Annual Report should disclose:	Complied <b>Corporate Governance Commentary - Section 1.2.2</b>
	(i) The names of Remuneration Committee members	Complied <b>Corporate Governance Commentary - Section 1.2.2</b>
	(ii) A Statement of Remuneration policy	Complied <b>Corporate Governance Commentary - Section 1.2.2</b>
	(iii) The aggregate remuneration paid to Executive and Non-Executive Directors	Complied Total aggregate of remuneration paid to the Executive Directors for the year was Rs.154 million of which Rs.41 million was variable based on performance Total aggregate of remuneration for Non-Executive Directors for the year was Rs.17 million

CSE Rule	Compliance status	JKH action
<b>7.10.6 Audit Committee</b>		
a.	Audit Committee (AC) shall comprise of NEDs, a majority of whom should be independent	Complied The Audit Committee comprises only of Independent NEDs <b>Corporate Governance Commentary - Section 1.2.1</b>
	A NED shall be appointed as Chairman of the committee	Complied The Chairman of the Audit Committee is an Independent NED
	CEO and CFO shall attend Audit Committee meetings	Complied The Chairman-CEO, Group Finance Director, and the Group Financial Controller are permanent invitees to all Audit Committee meetings <b>Corporate Governance Commentary - Section 1.2.1</b>
	The Chairman or one member of the Audit Committee should be a member of a professional accounting body	Complied One member of the Audit Committee holds membership in a professional accounting body
b.	The functions of the Audit Committee as set in the CSE Listing Rules 7.10.6	Complied <b>Corporate Governance Commentary - Section 1.2.1</b>
	Overseeing the preparation, presentation and adequacy of disclosures in the financial statements in accordance with SLFRS/LKAS	Complied The Audit Committee assists the Board in fulfilling its oversight responsibilities in ensuring the integrity of the financial statements of the Company and the Group
	Overseeing compliance with financial reporting requirements, and information requirements as per laws and regulations	Complied The Audit Committee has the overall responsibility for overseeing the preparation of financial statements in accordance with the laws and regulations of the country, and also recommending to the Board, the adoption of suitable accounting policies
	Ensuring that internal and risk management controls are adequate, to meet the requirements of the SLFRS/LKAS	Complied The Audit Committee assesses the role and the effectiveness of the Group Business Process Review division, which is largely responsible for the internal control and risk management process
	Assessment of the independence and performance of the Entity's External Auditors	Complied The Audit Committee assesses the External Auditor's performance, qualifications and independence
	Make recommendations to the Board pertaining to External Auditors	Complied The Committee is responsible for the appointment, re-appointment, and removal of External Auditors, and also the approval of remuneration and terms of engagement
c.	Names of Audit Committee members shall be disclosed	Complied <b>Corporate Governance Commentary - Section 1.2.1</b>
	Audit Committee shall make a determination of the independence of the External Auditors	Complied <b>Corporate Governance Commentary - Section 1.2.1</b>
	Report on the manner in which Audit Committee carried out its functions	Complied <b>Corporate Governance Commentary - Section 1.2.1</b>

## Corporate Governance Commentary

### 6.3 Companies Act No. 7 of 2007

Rule 168	Compliance status	Reference - JKH Annual Report 2016/17
(1) (a)	The nature of the business of the Group and the Company together with any change thereof during the accounting period	Complied Group Directory
(1) (b)	Signed financial statements of the Group and the Company for the accounting period completed	Complied Financial Statements
(1) (c)	Auditors' Report on financial statements of the Group and the Company	Complied Independent Auditors' Report
(1) (d)	Accounting policies and any changes therein	Complied Notes to the Financial Statements
(1) (e)	Particulars of the entries made in the Interests Register during the accounting period	Complied Annual Report of the Board of Directors
(1) (f)	Remuneration and other benefits paid to Directors of the Company during the accounting period	Complied Notes to the Financial Statements
(1) (g)	Corporate donations made by the Company during the accounting period	Complied Notes to the Financial Statements
(1) (h)	Information on the Directorate of the Company and its subsidiaries during and at the end of the accounting period	Complied Group Directory
(1) (i)	Amounts paid/payable to the External Auditor as audit fees and fees for other services rendered during the accounting period	Complied Notes to the Financial Statements
(1) (j)	Auditors' relationship or any interest with the Company and its subsidiaries	Complied Financial Statements
(1) (k)	Acknowledgement of the contents of this Report and signatures on behalf of the Board	Complied The Statement of Director's Responsibility

### 6.4 Code of Best practice of Corporate Governance Issued Jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA - Sri Lanka)

Voluntary provisions - fully complied

#### A. Directors

Rule	Reference
<b>A.1 The Board</b>	
A.1.1	Need for the Board to meet regularly <b>Corporate Governance Commentary - Section 1.1.4</b>
A.1.2	The Board should be responsible for matters including implementation of business strategy, skills and succession of the management team, integrity of information, internal controls and risk management, compliance with laws and ethical standards, stakeholder interests, adopting appropriate accounting policies, fostering compliance with financial regulations and fulfilling other Board functions <b>Corporate Governance Commentary - Section 1.1.1</b>
A.1.3	Act in accordance with the laws of the country and obtain independent professional advice where necessary, at the Company's expense The Group is in full compliance with Corporate Governance rules, and other forms of applicable legislation in the country it conducts its business. In order to preserve the independence of the Board and to strengthen decision making, the Board seeks independent professional advice. This is coordinated through the Board Secretary as and when required <b>Corporate Governance Commentary - Section 1.1.6</b>

Rule		Reference								
A.1.4	All Directors should have access to the advice and services of the Company Secretary	The Group ensures that all Directors have access to the advice and services of the Company Secretary at all times. The President HR, Legal and Secretarial is the Secretary to the Board. In addition to maintaining Board minutes and Board records, the Board Secretary has provided support in ensuring that the Board receives timely and accurate information, advice relating to corporate governance matters and that Board procedures and applicable rules and regulations are complied with during the year								
A.1.5	All Directors should bring independent judgment	All Directors possess the necessary mix of skills, expertise and knowledge complemented with a high sense of integrity and independent judgment on issues of strategy, performance, resources and standard of business conduct. Non-Executive Directors are responsible for providing independent judgment for the proposals made by the Chairman and Executive Directors <b>Corporate Governance Commentary - Section 1.1.3</b> <b>JKH Annual Report 2016/17 - Board of Directors</b>								
A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and Company	Directors dedicated sufficient time before Board meetings to review Board papers and request additional material and information for further clarification as deemed necessary. This is supplemented by time allocation for discussions of issues of strategic importance It is estimated that Non-Executive Directors each devoted a minimum of 30 full time equivalent days to the Group during the year <table border="1"><thead><tr><th>Category</th><th>Percentage</th></tr></thead><tbody><tr><td>Strategy and performance</td><td>50%</td></tr><tr><td>Assurance and risk management</td><td>35%</td></tr><tr><td>Other board matters</td><td>15%</td></tr></tbody></table>	Category	Percentage	Strategy and performance	50%	Assurance and risk management	35%	Other board matters	15%
Category	Percentage									
Strategy and performance	50%									
Assurance and risk management	35%									
Other board matters	15%									
A.1.7	Board induction and training	When Directors are newly appointed to the Board, they undergo a comprehensive induction where they are apprised, inter-alia, of the Group values and culture, its operating model, policies, governance framework and processes, the Code of Conduct and the operational strategies of the Group The Directors are encouraged to adopt a mind-set of continuous learning in order to keep abreast of the Group, its dynamic business units, and even their own areas of expertise The Board of Directors recognises the need for continuous training and expansion of knowledge and undertakes such professional development as required in assisting them to carry out their duties as Directors								
<b>A.2 Chairman and Chief Executive Officer (CEO)</b>										
A.2.1	Justification for combining the roles of the Chairman and the CEO	The appropriateness of combining the two roles has been established after rigorous evaluation and debate internally and externally. The appropriateness continues to be discussed periodically, and at minimum, at least once per year. These discussions are supported by international best practices accessed through consultancy services and experts <b>Corporate Governance Commentary - Section 1.3</b>								
<b>A.3 Chairman's Role</b>										
A.3.1	The Chairman should ensure Board proceedings are conducted in a proper manner	The Chairman, together with the Board Secretary continues to ensure that Board proceedings are conducted in a proper manner								
<b>A.4 Financial Acumen</b>										
A.4	The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance	The present Board possesses the financial acumen, and knowledge to offer guidance on matters pertaining to finance <b>Corporate Governance Commentary - Section 1.1.3</b> <b>JKH Annual Report 2016/17 - Board of Directors</b>								

## Corporate Governance Commentary

Rule		Reference
<b>A.5 Board Balance</b>		
A.5.1	In the event the Chairman and CEO is the same person, NEDs should comprise a majority of the Board	As at 26 May 2017, the Board comprised of 10 Directors, with 5 of them being Non-Executive and Independent. The current Board composition will change by December 2017, following the retirement of the Deputy Chairman and the Group Finance Director <b>Corporate Governance Commentary - Section 1.1.2</b>
A.5.2	Where the constitution of the Board of Directors includes only two NEDs, both such NEDs should be "independent"	N/A
A.5.3	Definition of Independent Directors	All Independent Directors of the Group conform to a set of pre-defined criteria, which JKH recognises as global best practice <b>Corporate Governance Commentary - Section 1.1.7</b>
A.5.4	Declaration of Independent Directors	All Directors make a formal declaration of all their interests on an annual basis
A.5.5	Board determinations on independence or non-independence of NEDs	In order to avoid potential conflicts or biases, the Directors make a general disclosure of interests, at the time of appointment, at the beginning of every financial year and during the year as required. Any potential conflicts are reviewed by the Board from time to time to ensure the integrity of the Board's independence <b>Corporate Governance Commentary - Section 1.1.7</b>
A.5.6	If an Alternate Director is appointed by a NED such Alternate Director should not be an Executive of the company	N/A
A.5.7	In the event the Chairman and CEO is the same person, the Board should appoint one of the Independent NEDs to be the Senior Independent Director (SID)	Given the combined role of the Chairman-CEO, the Senior Independent Director, as part of his role, ensures adherence to the principles of corporate governance, and acts as the independent party to whom concerns could be voiced on a confidential basis <b>Corporate Governance Commentary - Section 3.2</b>
A.5.8	The SID should make himself available for confidential discussions with other Directors who may have concerns	The Senior Independent Director continues to make himself available to meet with other Non-Executive Directors, without the presence of the Chairman-CEO (when required), and evaluates the effectiveness of the Chairman-CEO <b>Corporate Governance Commentary - Section 3.2</b>
A.5.9	The Chairman should hold meetings with the NEDs only, without the presence of EDs	The Chairman-CEO conducts direct discussions with the Non-Executive Directors at meetings with the Non-Executive Directors, convened by the Senior Independent Director. Issues arising from these discussions are taken up for consultation with the relevant parties
A.5.10	Where Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should ensure their concerns are recorded in the Board minutes	The Secretary to the Board is responsible for maintaining Board minutes and Board records. All concerns raised and unresolved are recorded and have been documented in sufficient detail
<b>A.6 Supply of Information</b>		
A.6.1	Management should provide the Board with appropriate and timely information	Members of the corporate and senior management team continue to have independent contact with the Directors and where necessary, make presentations to the Directors on important issues relating to strategy, risk management, investment proposals, re-structuring and system procedures
A.6.2	Timely submission of the minutes, agenda and papers required for the Board Meetings	The Board is provided with the necessary information well in advance (at least 2 weeks prior to the meeting), by way of Board papers and proposals for all Board meetings, in order to ensure robust discussions, informed deliberation and effective decision making
<b>A.7 Appointments to the Board</b>		
A.7.1	Nomination Committee to make recommendations on new Board appointments	Board appointments follow a structured and formal process within the purview of the Nominations Committee, which identifies and recommends suitable candidates for appointment to the Board

Rule		Reference
A.7.2	Assessment of the capability of the Board to meet strategic demands of the company	The Board works closely with the Nominations Committee to assess the skills required on the Board, given the needs of the businesses. In the event a "skills gap" is identified, a formal document stating a clear description of the role and required capabilities is prepared. Following this, the Committee identifies and recommends suitable candidates  The skills inventory of the company is also discussed by the Board during the Annual JKH Board Evaluation
A.7.3	Disclosure of new Board member profiles and interests	All new Board members are required to submit their profiles and interests.  Details of new Directors are disclosed to the shareholders at the time of their appointment by way of public announcement as well as in the Annual Report. The Directors are required to report any substantial changes in their professional responsibilities and business associations to the Nominations Committee, which will examine the facts and circumstances and make recommendations to the Board  <b>JKH Annual Report 2016/17 - Board of Directors</b> <b>Corporate Governance Commentary - Section 1.1.7</b>
<b>A.8 Re-Election</b>		
A.8.1	Non-Executive Directors should be appointed subject to re-election and to the provisions in the Companies Act relating to the removal of a Director	All Non-Executive Directors are appointed for a period of three years, and are eligible for re-election by shareholders at the first AGM following their appointment  Non-Executive Directors can serve up to a maximum of three successive terms unless an extended Board tenure is necessitated by the exigencies of the Group
A.8.2	All Directors including the Chairman, should be subject to election by shareholders at the first opportunity after their appointment	The Executive Directors, including the Chairman-CEO, are re-elected by shareholders at the first opportunity after their appointment
<b>A.9 Appraisal of Board Performance</b>		
A.9.1	The Board should annually appraise itself on its performance in the discharge of its key responsibilities	The Board conducted its annual Board performance appraisal for the financial year 2016/17, to ensure that it is carrying out its responsibilities effectively and on a timely basis  <b>Corporate Governance Commentary - Section 1.1.5</b>
A.9.2	The Board should also undertake an annual self-evaluation of its own performance and that of its Committees	The Board's annual performance appraisal covers both the Board's own performance and that of the Board Sub-Committees  <b>Corporate Governance Commentary - Section 1.1.5</b>
A.9.3	The Board should state how such performance evaluations have been conducted	Each member self-appraises, on an anonymous basis, the performance of the Board. The scoring and open comments are collated by the Senior Independent Director, and the results are analysed to give the Board an indication of its effectiveness as well as areas that required addressing and/or strengthening  Despite the original anonymity of the remarks, the open and frank discussions that follow include some Directors identifying themselves as the person making the remark reflecting the openness of the Board
<b>A.10 Disclosure of Information in Respect of Directors</b>		
A.10.1	Profiles of the Board of Directors and Board meeting attendance	<b>JKH Annual Report 2016/17 - Board of Directors</b> <b>Corporate Governance Commentary - Section 1.1.4</b>
<b>A.11 Appraisal of the Chief Executive Officer</b>		
A.11.1/ A.11.2	Appraisal of the CEO against the set strategic targets	The Human Resources and Compensation Committee, chaired by the Senior Independent Director, appraised the performance of the Chairman-CEO on the basis of pre-agreed goals for the Group, set in consultation with the Board  <b>Corporate Governance Commentary - Section 1.3.1</b>

## Corporate Governance Commentary

### B. Directors Remuneration

Rule		Reference															
<b>B.1 Remuneration Procedure</b>																	
B.1.1	The Board of Directors should set up a Remuneration Committee	The Board has created a Human Resources and Compensation Committee, which comprises entirely of Non-Executive Directors <b>Corporate Governance Commentary - Section 1.2.2</b>															
B.1.2	Remuneration Committees should consist exclusively of NEDs	All members of the Remuneration Committee are Non-Executive Directors and are appointed by the Board															
B.1.3	The Chairman and members of the Remuneration Committee should be listed in the Annual Report each year	<b>Corporate Governance Commentary - Section 1.2.2</b>															
B.1.4	Determination of the remuneration of Non-Executive Directors	The compensation of Non-Executive Directors is determined in reference to that of other comparable companies. They are paid additional fees for either chairing or being a member of a Sub-Committee and do not receive any performance/incentive payments or share option plans. The total aggregate remuneration of Non-Executive Directors amounted to Rs.17 million															
B.1.5	The Remuneration Committee should consult the Chairman-CEO about its proposals relating to the remuneration of other Executive Directors	The Human Resource and Compensation Committee consults the Chairman-CEO about any proposals relating to the remuneration of Executive Directors, other than that of the Chairman-CEO															
<b>B.2 The Level and Make Up of Remuneration</b>																	
B.2.1	The Remuneration Committee should provide the packages needed to attract, retain and motivate Executive Directors	The Committee determines the total remuneration package of each Executive Director in line with market trends, performance and past remuneration															
B.2.2	The Remuneration Committee should judge where to position levels of remuneration of the Company, relative to other companies	The Human Resources and Compensation Committee understands the value of retaining high calibre talent within the organisation and thus determines a framework for remuneration based on industry trends															
B.2.3	The Remuneration Committee should be sensitive to remuneration and employment conditions elsewhere in the Company or Group	The "Pay for Performance" scheme is monitored and the CEO-Chairman and President of Human Resources brief the Human Resources and Compensation Committee regularly on employee compensation <b>Corporate Governance Commentary - Section 2.2.3</b>															
B.2.4	The performance-related elements of remuneration of Executive Directors should be designed to align their interests with those of the Company and main stakeholders	<p>The remuneration of Executive Directors has an element which is variable, linked to the expected return of shareholder funds and the peer adjusted consolidated Group bottom line</p> <p>Excluding the Employee Share Options (ESOP) granted, the total aggregate remuneration paid to Executive Directors for the year under review was Rs.154 million, of which Rs.41 million was the variable portion linked to the performance benchmark as described above. This is in comparison to the total remuneration paid in 2015/16 amounting to Rs.163 million, of which Rs.76 million was the variable portion. The decline in the variable component, paid in June 2016, arises from the Group not meeting certain performance benchmarks for 2015/16. In addition, the fixed component of pay was impacted due to the inclusion of the proportionate fixed remuneration of the two new Executive Directors who were appointed to the Board with effect from November 2016</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Fixed (%)</th> <th>Variable (%)</th> </tr> </thead> <tbody> <tr> <td>2013/14</td> <td>53%</td> <td>47%</td> </tr> <tr> <td>2014/15</td> <td>53%</td> <td>47%</td> </tr> <tr> <td>2015/16</td> <td>53%</td> <td>47%</td> </tr> <tr> <td>2016/17</td> <td>73%</td> <td>27%</td> </tr> </tbody> </table> <p style="text-align: right;">■ Fixed ■ Variable</p>	Year	Fixed (%)	Variable (%)	2013/14	53%	47%	2014/15	53%	47%	2015/16	53%	47%	2016/17	73%	27%
Year	Fixed (%)	Variable (%)															
2013/14	53%	47%															
2014/15	53%	47%															
2015/16	53%	47%															
2016/17	73%	27%															
B.2.5	Executive share options should not be offered at a discount	Employee Share Options are valued using a binomial pricing model, and are granted at a price that is deemed fair and equitable <b>JKH Annual Report 2016/17 - Share and Warrants</b>															

Rule		Reference
B.2.6	Designing schemes of performance-related remuneration	The Human Resources and Compensation Committee considers targets, and benchmark principles for any performance related pay schemes <b>Corporate Governance Commentary - Section 2.2.3</b>
B.2.7 / B.2.8	Compensation commitments in the event of early termination of the Directors	In the event of an early termination of a Director, there are no compensation commitments other than for: Executive Directors: as per their employment contract similar to any other employee Non-Executive Director: accrued fees payable, if any, as per the terms of their contract
B.2.9	Level of remuneration of NEDs	The compensation of Non-Executive Directors is determined in reference to that of other comparable companies
<b>B.3 Disclosure of Remuneration</b>		
B.3.1	Disclosure of remuneration policy and aggregate remuneration	The aggregate remuneration paid to Executive and Non-Executive Directors amounted to Rs.171 million <b>JKH Annual Report 2016/17 - Notes to the Financial Statements</b> <b>Corporate Governance Commentary - Section 1.2.2</b>

### C. Relations with Shareholders

<b>C.1 Constructive Use of the Annual General Meeting and Conduct of General Meetings</b>		
C.1.1	Counting of proxy votes	Complied at the Annual General Meeting (AGM)/Extraordinary General Meeting (EGM)
C.1.2	Separate resolution to be proposed for each substantially separate issue and adoption of Annual Report and accounts	The Group ensures that separate resolutions are proposed for each issue that is taken up at the AGM and shareholders are given an opportunity to vote on each issue separately
C.1.3	Heads of Board Sub-Committees to be available to answer queries	The Chairpersons of the Audit, Human Resources and Compensation, Nomination and Related Party Transaction Review Committees are available to answer all shareholder queries
C.1.4	Notice of Annual General Meeting to be sent to shareholders with other papers	Notice of the AGM and related documents are sent to the shareholders along with the Annual Report 30 days prior to the meeting
C.1.5	Procedures governing voting at General meetings to be informed	The Group ensures that a summary of procedures governing voting is sent to the shareholders, along with every notice of a general meeting
C.2.1	Channel to reach all shareholders to disseminate timely information	The Group makes sure that timely information reaches all shareholders by way of announcements to the CSE, press releases, the AGM and copies of the Annual Report, and Quarterly Reports
<b>C.2 Communication with Shareholders</b>		
C.2.1	Channel to reach all shareholders of the company to disseminate timely information	The Group has "Board approved" policies of communication with shareholders. The primary channel of communication is by means of the AGM
C.2.2	Disclose the policy and methodology of communication with shareholders	The Group focuses on open communication and fair disclosure, with emphasis on integrity, timeliness, relevance. The Group announcements are made to the CSE, SEC, and the press as and when appropriate, in compliance with any applicable regulatory and statutory timelines
C.2.3	Disclose how the above policy is implemented	Information is provided to shareholders prior to the AGM to give them an opportunity to raise any issues relating to the businesses of the Group. Shareholders are provided with the Annual Report of JKH in CD form and may at any time elect to receive it in printed form, free of charge Announcements to the CSE and SEC are directed to the said bodies as and when required, while adhering to established protocol
C.2.4	Disclose details of the contact person for such disclosure	Questions, comments and requests are addressed to the Company Secretary
C.2.5	Awareness of Directors on major issues and concerns of shareholders	Shareholders may, at any time, direct questions, and provide comments and suggestions to Directors or management of the Group by contacting the Secretaries, the Senior Independent Director or the Chairman. The Investor Relations team also contributes towards keeping the Board informed of shareholder concerns

## Corporate Governance Commentary

Rule		Reference
C.2.6	Contact person for shareholders	Shareholders may contact the Company Secretary for queries and in addition, the Investor Relations team of the Group is responsible for maintaining dialogues and discussions with shareholders to share highlights of the Group's performance as well as to obtain constructive feedback
C.2.7	Process for responding to shareholders	The Group has a communication policy approved by the Board
<b>C.3 Major And Material Transactions</b>		
C.3.1	Disclosure of all material facts involving all material transactions including related party transactions	There were no major or material transactions that materially affected the Group's asset base <b>Corporate Governance Commentary - Section 1.2.4</b> <b>JKH Annual Report 2016/17 - Notes to the Financial Statements</b>
<b>D. Accountability and Audit</b>		
<b>D.1 Financial Reporting</b>		
D.1.1	The Board should present interim and other price-sensitive public reports to regulators.	The Board of Directors, in conjunction with the Audit Committee, is responsible to ensure the accuracy and timeliness of published information and in presenting a true and fair view of the results in the quarterly and annual financial statements All price sensitive information about the Group is promptly communicated to the CSE and such information is also released to employees, the press and shareholders. The Group ensures that information is communicated accurately and in such manner as to avoid the creation, or continuation of a false market
D.1.2	The Directors' Report, which forms part of the Annual Report, should contain declarations by the Directors	<b>JKH Annual Report 2016/17- The Annual Report of the Board of Directors</b>
D.1.3	The Annual Report should contain statements by Directors and Auditors on responsibilities towards financial reporting	<b>JKH Annual Report 2016/17 - The Statement of Directors' Responsibility</b> <b>JKH Annual Report 2016/17 - The Independent Auditors' Report</b> <b>JKH Annual Report 2016/17 - The Annual Report of the Board of Directors</b>
D.1.4	The Annual Report should contain a Management Discussion and Analysis section	<b>JKH Annual Report 2016/17 - Management Discussion and Analysis</b>
D.1.5	The Directors should report that the business is a going concern	The Directors are satisfied that the Group, its subsidiaries and associates, have adequate resources to continue in operational existence for the foreseeable future This is further justified, by adopting a going concern basis in preparing the financial statements <b>JKH Annual Report 2016/17 - The Statement of Directors' Responsibility</b>
D.1.6	In the event of a serious loss of capital the Directors shall summon an extraordinary general meeting to notify the shareholders of the position	In the unlikely event that the net assets of the Group fall below half of shareholder funds, shareholders would be notified and the requisite resolutions would be passed on the proposed way forward
D.1.7	The Board should adequately and accurately disclose Related Party Transactions in its Annual Report	<b>JKH Annual Report 2016/17 - Notes to the Financial Statements</b>
<b>D.2 Internal Control</b>		
D.2.1	The Directors should conduct a review of internal controls at least annually	The Board has taken necessary steps to ensure that internal control systems remain robust and effective, via the review and monitoring of such systems on a periodic basis <b>Corporate Governance Commentary - Section 3.5</b>
D.2.2	Companies should have an Internal Audit function	The Group internal audit process is conducted by outsourced parties at regular intervals, and is managed by the Group Business Process Review (GBPR) function according to an internal audit plan

Rule		Reference
D.2.3	The Audit Committee should review the process and effectiveness of risk management and internal controls	The Audit Committee receives regular reports on the adequacy and effectiveness of internal controls, and compliance with laws and regulations of the Group The Audit Committee carries out regular review meetings with the management and External Auditors to seek assurance on various matters including internal controls, risk management systems of the Group and quality of financial reporting along with independent auditors <b>Corporate Governance Commentary - Section 1.2.1</b>
D.2.4	Responsibilities of Directors in maintaining a sound system of internal control and content of Statement of Internal Control	<b>JKH Annual Report 2016/17 - The Statement of Directors Responsibility</b>
<b>D.3 Audit Committee</b>		
D.3.1	The Audit Committee should be comprised of a minimum of two independent NEDs or exclusively by NEDs, a majority of whom should be independent, whichever is higher	As at 31 March 2017, all members including the Chairman of the Audit Committee are independent NEDs <b>The Corporate Governance Commentary - Section 1.2.1</b>
D.3.2	The duties of the Audit Committee should include keeping under review the scope and results of the audit and the independence and objectivity of the auditors	<b>Corporate Governance Commentary - Section 1.2.1</b>
D.3.3	The Audit Committee should have a written Terms of Reference, dealing clearly with its authority and duties	The Committee has access to a written version of its Terms of Reference, which sets out clearly its mandate and duties <b>Corporate Governance Commentary - Section 1.2.1</b>
D.3.4	Disclosure of the Audit Committee Report and memberships	<b>Corporate Governance Commentary - Section 1.2.1</b>
<b>D.4 Code of Business Conduct and Ethics</b>		
D.4.1	Availability of a Code of Business Conduct and Ethics	The Group abides by the JKH Code of Conduct, which is part of the company's culture, and is followed by personnel at all levels <b>Corporate Governance Commentary - Section 3.1</b>
D.4.2	The Chairman must certify that he/she is not aware of any violation of any of the provisions of this Code	The Chairman has certified that he/she is not aware of any violation <b>JKH Annual Report 2016/17 - Chairman's Message</b>
<b>D.5 Corporate Governance Disclosures</b>		
D.5.1	The Directors should include in the Company's Annual Report, a Corporate Governance Report	A Corporate Governance Report, setting out the manner and extent to which the company has complied, has been included <b>JKH Annual Report 2016/17- Corporate Governance Commentary</b>
<b>E. Institutional Investors</b>		
<b>E.1 Shareholder Voting</b>		
E.1.1	Need to conduct regular and structured dialogue with shareholders based on a mutual understanding of objectives	The Group communicates with its shareholders via announcements made to the CSE, Annual Reports, Quarterly Reports, and the AGM. The Investor Relations team is primarily responsible for such activities <b>Corporate Governance Commentary - Section 2.5</b>
<b>E.2 Evaluation of Governance Disclosures</b>		
E.2	When evaluating Companies' governance arrangements, particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention	The Group prides itself in its widely acclaimed approach to corporate governance and as such, encourages investors of all types to give weight to all relevant factors brought to their attention

## Corporate Governance Commentary

### F. Other Investors

Rule		Reference
<b>F.1 Investing /Divesting Decision</b>		
F.1	Individual shareholders, investing directly in shares of companies should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions	The Investor Relations team aids investors, both local and foreign, to carry out adequate analysis on the Group and its subsidiaries. Portfolio managers, and analysts covering the Group, are given the freedom to conduct structured discussions with the senior management, through which they are able to obtain all necessary information in order to form a sound, and accurate view of the economic prospects of the Group, and the industries it operates in
<b>F.2 Shareholder Voting</b>		
F.2	Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights	The Group encourages all shareholders to participate in the AGM/EGM, and exercise their voting rights

### G. Sustainability Reporting

<b>G. 1 Principles of Sustainability Reporting</b>		
G.1.1 / G.1.7	Disclosure on adherence to sustainability principles	The Group places great importance on sustainable development. During the 2016/17 financial year, the Group took steps to realign its approach on sustainability to support the Sustainable Development Goals adopted by the United Nations in 2015  JKH Annual Report 2016/17 - Management Discussion and Analysis

## MANAGEMENT DISCUSSION & ANALYSIS

# Crafting the *Future*

This section of the Report is subdivided into the Group Consolidated Review and the Industry Group Review. The Group Consolidated Review analyses Group performance whilst the Industry Group Review details the performance of each industry group in the year under review.



GROUP CONSOLIDATED REVIEW

Inspiring  
*Excellence*

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# Group Consolidated Review

## THE ECONOMY

This is the second Integrated Report of John Keells Holdings PLC in accordance with the Integrated Reporting Framework of the International Integrated Reporting Council. The Report is centered on the theme “Corporate Craftsmanship”, which resonates with how the Group has built its portfolio of businesses. The continuous enhancement of our sector expertise, partnerships with communities and people whose lives we touch, and our reputation for delivering to the highest of standards with innovation, creativity and finesse, come together to craft the John Keells Group to be a model of business excellence.

The following is a discussion on the movement of the primary macro-economic variables during the year under review and the resultant impacts on the performance of the Group’s businesses. A detailed discussion on the performance of the Sri Lankan economy is found under the Supplementary Information section of this Report. A more comprehensive discussion of the strategies and risks pertaining to the industry groups are covered in the Chairman’s Message, Industry Group Review and Risks, Opportunities and Internal Controls sections of this Report.

In order to provide our stakeholders with an insightful view of the Group’s operations, the Management Discussion and Analysis (MD&A) section of this Report consists of the following:

- Group Consolidated Review
- Industry Group Review

Whilst the Group Consolidated Review is a helicopter view of the Group’s performance, the Industry Group Review section provides a detailed discussion on each of the industry group’s performance during the year under review.

The Group Consolidated Review consists of the following sections:

- The Economy
- Capital Management Review
- Outlook
- Strategy, Resource Allocation and Portfolio Management
- Materiality and Stakeholder Relationships
- Risks, Opportunities and Internal Controls
- Share and Warrant Information

### The Economy

The Sri Lankan economy grew by 4.4 per cent for the calendar year 2016, compared to 4.8 per cent GDP growth recorded in 2015, primarily as a result of unfavourable weather conditions, tightening of monetary policy, measures to contain the fiscal deficit,

heightened volatility and policy uncertainty due to unanticipated outcomes of global economic and political developments. Increased investment expenditure, particularly in the construction sector, drove economic growth during the year, which was off-set by the notable decline in agricultural activity as a result of supply side disruptions on account of the aforementioned adverse weather conditions that prevailed during the year.

A notable development in June 2016 was the approval by the International Monetary Fund (IMF) for a three year USD 1.50 billion Extended Fund Facility (EFF) to support the country’s Balance of Payments (BOP) position and the economic reform agenda of the Government. The Government’s reform programme, supported by the IMF, aims to reduce the fiscal deficit, rebuild foreign exchange reserves, and introduce a simpler, more equitable tax system to restore macro-economic stability and promote inclusive growth. Under the recommendations of the IMF, the CBSL is also expected to adopt and move towards a flexible inflation targeting (FIT) monetary framework from the previous monetary targeting framework. It is expected that the FIT framework for the conduct of monetary policy would ensure price stability in the economy on a sustainable basis, thereby creating an enabling environment for businesses by boosting confidence, leading to prospects of higher economic growth.

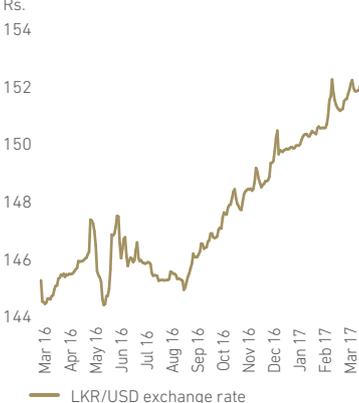
➤ See page 268 for a discussion on the **Sri Lankan Economy**.

This is complemented with a 7 year summary of key economic indicators.

Movement	Cause	Impact to JKH
<p><b>GDP growth</b></p> <p>Sri Lanka's GDP grew by 4.4 per cent in 2016 compared to 4.8 per cent in 2015.</p>	<p>The economic growth in 2016 was mainly supported by the Industries sector, which recorded a significant growth of 6.7 per cent. Services related activities also contributed positively to the growth during the year, expanding by a modest 4.2 per cent compared to 5.7 per cent in the previous year. The Agriculture sector witnessed a sizeable decline of 4.2 per cent from the positive growth of 4.8 per cent recorded in the previous year. Sri Lanka sustained its economic growth momentum despite challenging global and domestic environments which resulted in reduced export earnings and an increase in foreign outflows from Government securities. The growth in 2016 was largely driven by increased investment expenditure, whilst consumption expenditure witnessed a slowdown in response to the policy environment in place.</p>	<p>Whilst the overall performance of the Group demonstrated significant growth over the previous year, the slow-down in economic growth impacted consumer and business sentiment leading to a certain moderation of business activity, particularly during the fourth quarter of the year.</p>
<p><b>Inflation</b></p> <p>Year-on-year headline inflation, based on the NCPI, increased to 8.6 per cent in March 2017 from 2.2 per cent in March 2016. Year-on-year core inflation, based on the NCPI increased to 7.0 per cent in March 2017 from 5.0 per cent in March 2016.</p>	<p>Inflationary pressures during the year were compounded by the impact of domestic supply side disruptions, particularly due to prevailing adverse weather conditions, increase in value added tax (VAT) and rising international commodity prices. Core inflation, which measures the underlying inflationary pressures in the economy, reflected an upward trend in 2016 indicating a possible sign of demand pressures on the economy.</p>	<p>Although overall growth for the consumer focused businesses remained positive for the year, the rising inflationary trend during the financial year partially impacted consumer discretionary spending which led to a moderation in the growth of the Consumer Foods and Retail industry group during the fourth quarter of the financial year. There was no impact on the margins of the businesses, as there were no significant impacts on the price levels of raw materials.</p>
<p><b>Domestic interest rates</b></p> <p>AWPLR increased to 11.79 per cent in March 2017 compared to 9.19 per cent in the previous year. The three month Government T-bill rate was 9.63 per cent in March 2017 compared to 8.90 per cent in March 2016.</p>	<p>The rise in market interest rates since July 2016 reflected the monetary tightening measures that were adopted in early 2016 in view of rising inflationary pressures and the pressure on market interest rates due to foreign selling of Government securities. At the March 2017 Monetary Board meeting, it was decided that the SDFR and the SLFR will be increased by 25 basis points each, to 7.25 per cent and 8.75 per cent, respectively, as a precautionary measure in order to contain the build-up of adverse inflation expectations and the possible acceleration of demand side inflationary pressures through continued monetary and credit expansion.</p>	<p>The Group witnessed an overall increase in finance income due to the higher interest rates and unrealised gains recorded from short term equity investments made by Union Assurance PLC. However, the Group's finance expense decreased on account of the previous year including an unrealised mark-to-market loss which is not reflected in finance expense in the current year. The interest expense of the Group increased primarily on account of higher interest rates and the increase in overall debt. During the latter half of the year, the Group took initiatives to invest in more medium term investments (12 months and below) based on the Group's rate outlook for the year.</p>

## Group Consolidated Review

### THE ECONOMY

Movement	Cause	Impact to JKH
<p><b>Global interest rates</b></p>  <p>3 month USD LIBOR increased to 1.15 per cent in March 2017 from 0.63 per cent in March 2016.</p>	<p>The 3 month USD LIBOR was generally stable for the first few months of 2016 and averaged 0.63 per cent. Although the US Federal Reserve delayed policy rate hikes, a run-up in the rate was witnessed since June 2016 due to a mix of structural changes in the form of regulatory reform in the US money market fund industry and financial system uncertainties. As anticipated, the Federal Reserve Open Market Committee voted to raise the federal fund rate by a quarter percentage point to between 0.5 per cent and 0.75 per cent in December 2016, which was followed by a further rate hike in March 2017, to between 0.75 per cent and 1 per cent; which reflects its confidence in the US economy on the back of strengthening labour market conditions and inflation firming up towards policy makers' 2 per cent target.</p>	<p>The steady rise of 3 month US Dollar LIBOR rates during most part of the calendar year was as expected by the Group. Given the likelihood of further rate increases in 2017 and beyond by the Federal Reserve, and the pricing based on the interest rate swap curve, the Group maintains a partial hedge on the USD 395 million syndicated loan facility as a prudent measure to mitigate the Group's exposure to rate fluctuations. The Group also consciously invested its US Dollar cash holdings in floating rate deposits which helped more than off-set the negative impacts arising from the rise in LIBOR during the year.</p>
<p><b>Exchange rates</b></p>  <p>The Rupee depreciated to Rs.151.99 as at 31 March 2017 against the US Dollar compared to its closing rate of Rs.144.69 as at March 2016.</p>	<p>The exchange rate was maintained at relatively stable levels during the first half of 2016, with support from the supply of foreign exchange liquidity which depleted the reserves of the CBSL. However, the Rupee depreciated at a higher rate in the second half of the year on the back of Dollar demand from higher imports and net foreign outflows from Government securities, which was driven by the expectation and the subsequent increase in interest rates by the US Federal Reserve Bank, amidst which, the CBSL adopted a more flexible exchange rate policy.</p>	<p>The depreciation of the Rupee had a positive financial impact on businesses having Dollar denominated income streams, particularly in the Leisure industry group. However, due to differences of timing, there were short term impacts on the translation on foreign currency debt in Leisure. Given the higher reliance on imported inputs, the Consumer Foods and Office Automation businesses took proactive steps to mitigate exchange rate risks. The Consumer Foods sector was impacted to an extent in the last two quarters of the financial year under review, due to increased global commodity prices towards the latter part of 2016, although the impacts were not material in the context of the Group. In addition to implementing foreign exchange exposure management strategies, the Group continued to maintain, or where relevant, create a "natural hedge" to manage the volatility of the foreign exchange markets. It is noted that the exchange rate exposure arising from the "Cinnamon Life" project is mitigated to an extent since the functional currency of the project company, Waterfront Properties (Private) Limited, is in US Dollars.</p>

Note: AWPLR - Average Weighted Prime Lending Rate; CBSL - Central Bank of Sri Lanka; GDP - Gross Domestic Product; LIBOR - London Inter-Bank Offered Rate; NCPI - National Consumer Price Index; SDFR rate - Standing Deposit Facility Rate; SLFR rate - Standing Lending Facility Rate; SRR - Statutory Reserve Ratio

# Group Consolidated Review

## CAPITAL MANAGEMENT REVIEW

### Financial and Manufactured Capital Review

#### Revenue

In the year under review, Group revenue increased by 13 per cent to Rs.106.27 billion [2015/16: Rs.93.71 billion] with primary contributions from the Consumer Foods and Retail (CF&R), Leisure and Transportation industry groups. The significant revenue growth of CF&R, particularly from the Retail sector, offset the decrease in revenue from the Property industry group. The revenue decline in the Property industry group is on account of the revenue recognition cycle, where the majority of the revenue of the "7th Sense" on Gregory's Road residential project was recorded in the previous financial year. Revenue emanating from domestic sources was Rs.81.78 billion [2015/16: Rs.79.2 billion].

Group revenue inclusive of equity accounted investees increased by 14 per cent to Rs.119.62 billion [2015/16: Rs.104.75 billion]. Revenue from equity accounted investees increased by 16 per cent to Rs.13.35 billion compared to the Rs.11.47 billion in the previous year. With the exception of Maersk Lanka, all equity accounted investees recorded an increase in revenue. The primary increases were from South Asia Gateway Terminals (SAGT) and Fairfirst Insurance Limited (previously known as Union Assurance General Limited).

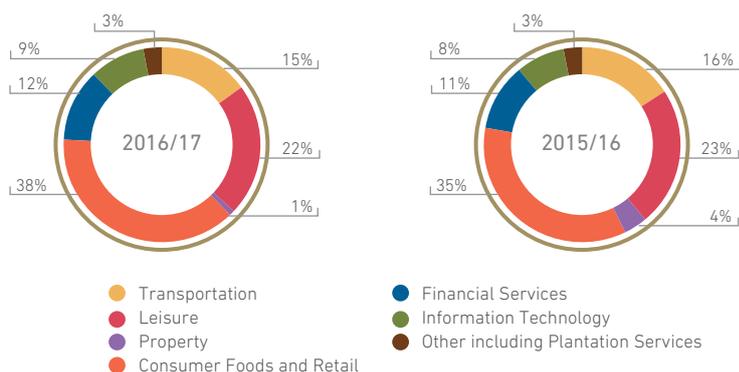
 **Rs.23.32Bn**  
**Group EBIT**  
 A growth of 16 per cent

Fair value gains on investment property were recorded at Rs.484 million in 2016/17, comprising of gains of Rs.290 million, Rs.101 million and Rs.92 million at Property, Other including Plantation Services and CF&R, respectively. This compares with a total of Rs.263 million recorded in the previous year.

In terms of composition of EBIT, Leisure was the primary contributor with a 25 per cent contribution, followed by CF&R and Other including Plantation Services with contributions of 24 per cent and 23 per cent, respectively.

The graph that follows illustrates the Group EBIT, EBITDA and EBIT margins; indicating its overall upward trend over the five year period, demonstrating the robust business performance of the Group.

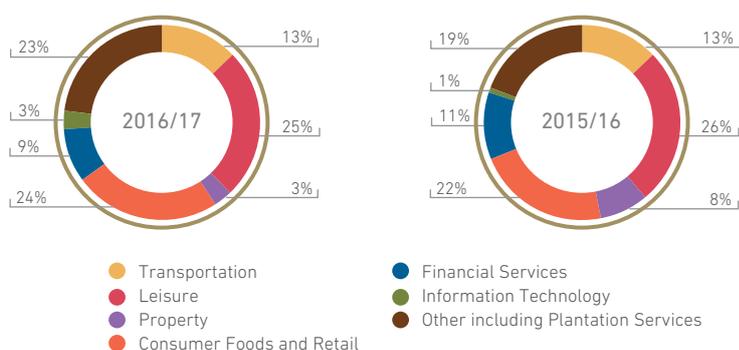
Group revenue composition



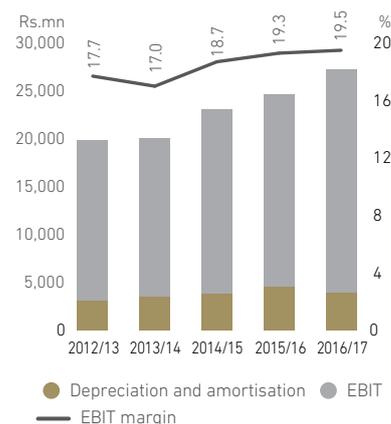
### Earnings Before Interest and Tax

During the year under review, the earnings before interest and tax (EBIT) increased by 16 per cent to Rs.23.32 billion [2015/16: Rs.20.19 billion] driven by increases in contributions from the Other including Plantation Services and CF&R industry groups.

Group EBIT composition



Group EBIT, EBITDA and EBIT margins



## Group Consolidated Review

### CAPITAL MANAGEMENT REVIEW

EBIT margins (%)	Reported		Recurring	
	2016/17	2015/16	2016/17	2015/16
Transportation	16.9	15.0	16.9	15.0
Leisure	22.7	21.1	22.7	21.1
Property	61.6	38.6	35.7	34.1
Consumer Foods and Retail	12.0	12.3	11.8	12.3
Financial Services	14.9	19.3	14.9	19.3
Information Technology	5.6	1.9	5.6	1.9
Other including Plantation Services	182.3	146.7	178.8	144.8
Group	19.5	19.3	19.1	19.0

In addition to the discussion on the financial performance as reported, the Group Consolidated Review will also analyse the Group performance at a recurring level where the impacts of fair value gains on investment property will be excluded, as these do not arise as a result of the Group's ongoing core operations. Accordingly, the recurring EBIT for the year under review increased by 15 per cent to Rs.22.84 billion compared to Rs.19.93 billion in the previous year.

The above table illustrates the reported and recurring EBIT margins for each industry group. The recurring Group EBIT margin increased marginally to 19.1 per cent from 19.0 per cent in the previous year. With the exception of Consumer Foods and Retail and Financial Services, all other industry groups achieved a growth in recurring EBIT margins. For detailed discussions on the growth in EBIT for the respective industry groups, refer the Industry Group Review section of this Report.

The increase in the recurring EBIT margin in the Other including Plantation Services industry group is driven by the increase in interest income generated on the Group's Rupee and US Dollar portfolios, as a result of improved interest rates. The increase in the EBIT margin of Information Technology is mainly due to a bad debt provision that

was recorded in the previous year, arising out of the termination of business with a key client in the BPO business because of non-settlement. In spite of the CF&R industry group recording a significant improvement in overall performance, its EBIT margin is comparatively lower than the other industry groups as the Retail industry, which is increasingly a more significant contributor to Group performance, is in general characterised by low EBIT margins, both locally and globally.

#### Finance Income

During the period under review, the finance income of the Group increased by 25 per cent to Rs.10.03 billion [2015/16: Rs.8.01 billion], of which the composition is given in the table below.

Interest income relating to Union Assurance PLC (UA) of Rs.3.10 billion [2015/16: Rs.2.57 billion], net of related costs, is classified under operating segment results on the basis that interest income from the life insurance funds is considered as operational income. The increase in interest income of the Group, including UA, to Rs.9.02 billion is mainly due to higher interest rates. The decrease in other finance income to Rs.1.02 billion is mainly attributable to a decrease in exchange rate gains on the Company's foreign currency denominated cash holdings to Rs.583 million from Rs.1.61 billion recorded in the previous

year. Further details on finance income can be found in the Notes to the Financial Statements section of the Annual Report.

#### Finance Expense

The finance expense, which includes interest expense, of the Group decreased to Rs.436 million from Rs.994 million recorded in the previous year. Finance expense in 2015/16 included mark-to-market losses amounting to Rs.602 million on short term financial instruments of the life insurance fund at Union Assurance PLC, with no corresponding figure for 2016/17. For the year under review, a mark-to-market gain of Rs.267 million is classified under finance income. Excluding the aforementioned loss from the previous year, the increase in interest rates had a negative impact on finance expenses arising from an increase in interest expense this year particularly with the increase in total Group debt.

Leisure accounted for approximately 47 per cent of the total finance expense, followed by Other including Plantation Services with 35 per cent, and Property and Transportation contributing equal amounts of 6 per cent each, respectively.

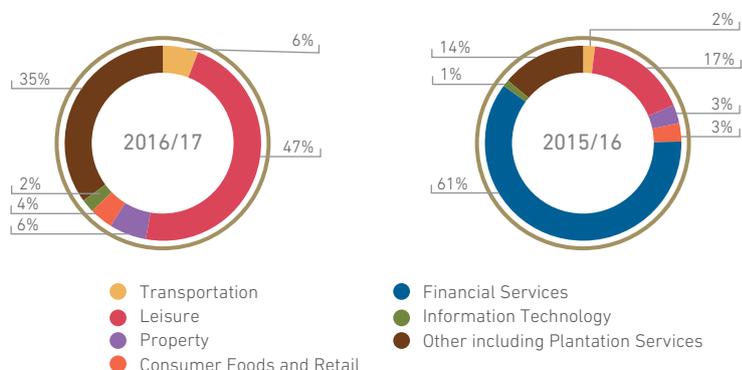
During the year, Property and Leisure contributed to an increase in Group debt, which was off-set to an extent by the decline in Other including Plantation Services. Finance expense incurred under the syndicated project development facility of "Cinnamon Life" is capitalised as work-in-progress, in accordance with the Group accounting policy and in keeping with accounting standards, under other non-current assets. The interest cover of the Group, excluding unrealised gains and losses from mark-to-market investments, increased to 52.8 times from 51.5 times in the previous year, on account of an increase in earnings.

The recurring EBIT for the year under review increased by 15 per cent to Rs.22.84 billion compared to Rs.19.93 billion in the previous year.

Finance income (Rs.'000s)	2016/17	2015/16
Interest income from life insurance policy holder funds at UA*	3,110,973	2,566,963
Interest income of Group excluding UA	5,905,843	3,659,192
Capital gains from disposals of private equity investments of JKH	9	82,406
Other finance income	1,016,456	1,702,391
Total	10,033,281	8,010,952

\* UA - Union Assurance PLC

**Group finance expense**



**Interest expense and interest coverage**



**Taxation**

During the year under review, Group tax expense increased by 40 per cent to Rs.4.77 billion [2015/16: Rs.3.41 billion]. The Group tax expense comprised primarily of Rs.3.82 billion from income tax on Group profits and Rs.954 million from withholding tax from inter-company dividends.

The increase in the tax expense of Rs.1.36 billion was mainly on account of an increase in the income tax on Group profits and dividend tax amounting to Rs.1.23 billion and Rs.130 million respectively. The increase in income tax was primarily on account of the higher taxes at the Holding Company and the CF&R industry group. The Holding Company recorded an increase in interest income on account of higher interest rates whilst CF&R recorded an increase in profits, both of which are taxed at a higher effective tax rate.

The profit attributable to equity holders of the parent increased by 16 per cent to Rs.16.33 billion [2015/16: Rs.14.07 billion]. The net profit margin of the Group increased marginally to 13.6 per cent from 13.4 per cent in the previous year.

Accordingly, the effective tax rate on Group profits increased to 20.8 per cent as against 17.7 per cent in the previous year.

Other including Plantation Services, CF&R and Leisure were the highest contributors to the Group tax expense with Rs.2.13 billion, Rs.1.57 billion and Rs.713 million respectively. For further details on tax impacts of the Group refer to the Notes to the Financial Statements section of the Annual Report.

**Profit After Tax**

For the year under review, the Group profit after taxation (PAT) was Rs.18.12 billion [2015/16: Rs.15.79 billion]. Of the industry groups, Leisure, CF&R and Other including Plantation Services were the highest contributors to PAT with contributions of Rs.5.01 billion [2015/16: Rs.4.37 billion], Rs.3.90 billion [2015/16: Rs.3.23 billion] and Rs.3.10 billion [2015/16: Rs.2.34 billion], respectively. Excluding the gains on investment property, the recurring Group PAT increased by 14 per cent to Rs.17.63 billion from Rs.15.53 billion in the previous year.

**Non-Controlling Interest**

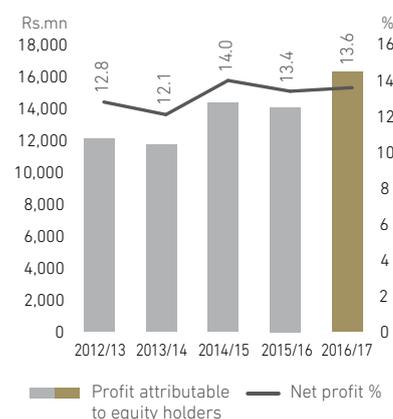
Non-controlling interest (NCI) increased by 7 per cent to Rs.1.84 billion [2015/16: Rs.1.72 billion] mainly due to the increase in profits at Ceylon Cold Stores PLC (CCS), which also includes the profits from its 100 per cent owned subsidiary JayKay Marketing Services Limited, where there is a relatively higher non-controlling interest. The NCI share of PAT for 2016/17 is 10 per cent against 11 per cent in the previous year.

**Profit Attributable to Equity Holders of the Parent**

The profit attributable to equity holders of the parent increased by 16 per cent to Rs.16.28 billion [2015/16: Rs.14.07 billion]. The net profit margin of the Group increased marginally to 13.6 per cent from 13.4 per cent in the previous year.

The recurring net profit attributable to equity holders increased by 15 per cent to Rs.15.86 billion from Rs.13.85 billion in the previous year whilst the recurring net profit margin of the Group increased to 13.3 per cent against 13.2 per cent in the previous year.

**Profit attributable to equity holders and net profit ratio**



## Group Consolidated Review

### CAPITAL MANAGEMENT REVIEW

#### Contribution to the Sri Lankan Economy

The following economic value statement depicts the generation of wealth and its distribution among the stakeholders in all business and social activities throughout the entire value chain. It also reveals the amounts reinvested for the replacement of assets and retained for the growth and development of operations. An overview of the Group's total purchases of goods and raw materials from its local community is found in the ensuing Social and Relationship Capital discussion and Industry Group Review section of the Report.

Economic value statement (Rs. million)	2016/17	2015/16
<b>Direct economic value generated</b>		
Revenue	106,273	93,710
Finance income	10,033	8,011
Share of results of equity accounted investees	3,303	2,781
Profit on sale of assets and other income	1,765	2,132
Valuation gain on investment property	484	263
	121,858	106,896
<b>Economic value distributed</b>		
Operating costs	81,548	69,820
Employee wages and benefits	12,746	11,623
Payments to providers of funds	8,339	10,763
Payments to Government	6,285	4,694
Community investments	144	125
	109,062	104,838
<b>Economic value retained</b>		
Depreciation	2,875	2,782
Amortisation	926	1,059
Profit after dividends	8,995	6,032
	12,796	9,873

 **Rs. 259.12 Bn**  
Average Group asset base  
A growth of 13 per cent

During the year under review, the Group return on capital employed (ROCE) increased to 11.5 per cent in comparison with the previous year, driven by an improved EBIT margin and higher capital structure ratio. The asset turnover ratio remained static at 0.46. The top line growth was 13 per cent in the year under review, whilst the average asset base of the Group increased by 13 per cent to Rs.259.12 billion [2015/16: Rs.229.53 billion]. The increase in the average asset base stemmed mainly from the revaluation gain on property, plant and equipment amounting to Rs.10.03 billion, the inclusion of work-in-progress costs relating to the "Cinnamon Life" project amounting to Rs.5.93 billion and the increase in short term investments by Rs.6.54 billion. For further details on the ROCE of each of the industry groups, refer the Strategy, Resource Allocation and Portfolio Management and the Industry Group Analysis sections of the Report.

#### Quarterly Performance at a Glance

(Rs. million)	2016/17				
	Q1	Q2	Q3	Q4	Total
Net revenue	22,732	25,756	27,937	29,848	106,273
PBT	3,584	5,171	6,725	7,408	22,888
Transportation	711	668	845	875	3,098
Leisure	558	1,364	1,362	2,437	5,721
Property	57	52	196	359	665
Consumer Foods and Retail	1,302	1,603	1,287	1,274	5,466
Financial Services	196	244	1,140	517	2,097
Information Technology	25	162	195	230	612
Other including Plantation Services	735	1,079	1,700	1,716	5,229
Profit attributable to equity shareholders	2,371	3,769	5,145	4,990	16,275
Total assets	241,123	247,411	260,255	277,272	277,272
Total equity	168,526	173,371	181,402	194,330	194,330
Total debt	20,501	19,896	22,582	22,766	22,766

#### Return on Capital Employed

	Reported ROCE (%)	=	EBIT margin (%)	x	Asset turnover	x	Capital structure leverage
2016/17	11.5	=	19.5	x	0.46	x	1.28
2015/16	11.1	=	19.3	x	0.46	x	1.26

## Return on Equity

	Reported ROE (%)	=	Return on assets (%)	x	Common earnings leverage	x	Capital structure leverage
2016/17	9.8	=	7.0	x	0.90	x	1.55
2015/16	9.6	=	6.9	x	0.89	x	1.57

The Group return on equity (ROE) marginally increased to 9.8 per cent compared to 9.6 per cent recorded in 2015/16, due to similar impacts as discussed under Group ROCE.

## Adjusted ROCE and ROE

Similar to the previous years, in order to provide our readers with further insight on the Group's ROCE and ROE movements, the following adjustments are considered in re-assessing the ratios.

## ROCE

When considering the Group capital employed for 2016/17, the following items are eliminated from the capital base, given the long gestation period.

- i. Equity and debt funding of the "Cinnamon Life" project:
  - Rs.34.25 billion received from the 2013 Rights Issue, and, 2015 and 2016 Warrant Issues.
  - Syndicated project development facility amounting to Rs.12.37 billion drawn directly by Waterfront Properties (Private) Limited.
- ii. The cumulative finance income portion of Rs.4.92 billion received during the period 2013/14 to 2016/17 on account of the funds from the 2013 Rights Issue and 2015 and 2016 Warrants Issue.
- iii. Investment property gains amounting to Rs.796 million for the period 2014/15 to 2016/17.
- iv. Revaluation of property, plant and equipment amounting to Rs.13.41 billion for the period 2014/15 to 2016/17.

Similarly, the Group EBIT recorded for the year 2016/17 is adjusted for the following items:

- i. Finance income of Rs.1.87 billion received from the investment of the 2013 Rights Issue, and, 2015 and 2016 Warrants Issue funds.
- ii. Investment property gains of Rs.484 million.

Based on the above, the adjusted industry group and overall Group ROCE is as illustrated in the table below.

	Reported ROCE (%)		ROCE adjusted for Rights and Warrants Issue and Cinnamon Life debt (%)		ROCE adjusted for Rights and Warrant Issue, Cinnamon Life debt, investment property, gains and revaluations (%)	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
Transportation	19.2	16.0	19.2	16.0	19.3	16.1
Leisure	10.0	10.0	10.0	10.0	11.4	11.5
Property	1.7	4.8	4.3	10.3	2.6	10.0
Consumer Foods and Retail	60.4	55.7	60.4	55.7	61.4	63.1
Financial Services	28.0	24.2	28.0	24.2	28.2	26.2
Information Technology	26.9	6.8	26.9	6.8	26.9	6.8
Other including Plantation Services	7.9	6.6	7.9	7.0	7.7	7.0
Group	11.5	11.1	13.9	13.4	14.4	14.3

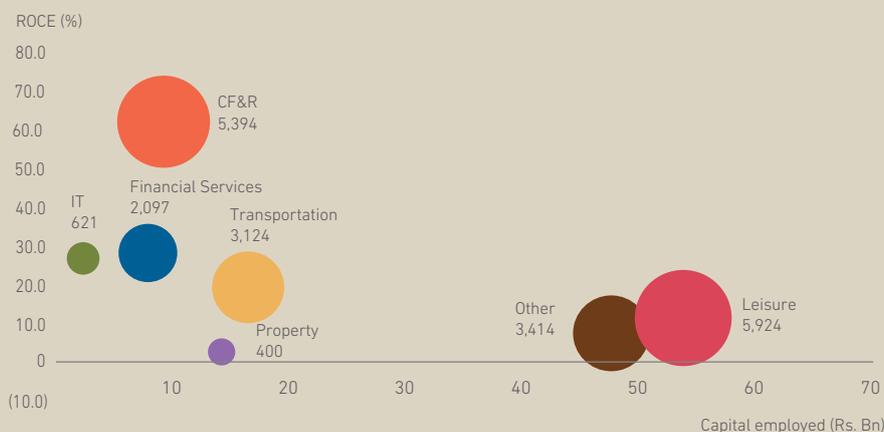
The Group ROCE post the aforementioned adjustment is further analysed as follows:

	Adjusted ROCE (%)	=	EBIT margin (%)	x	Asset turnover	x	Capital structure leverage
2016/17	14.4	=	17.5	x	0.59	x	1.38
2015/16	14.3	=	17.8	x	0.58	x	1.37

## Group Consolidated Review

### CAPITAL MANAGEMENT REVIEW

Adjusted ROCE, capital employed and EBIT  
(Size of bubble represents the relative contribution to EBIT in Rs. million)



#### ROE

Similarly, when adjusted for the above described impacts, the adjusted ROE for the Group is;

	Reported ROE (%)		ROE adjusted for Rights and Warrants Issue and Cinnamon Life debt (%)		ROE adjusted for Rights and Warrant Issue, Cinnamon Life debt, investment property, gains and revaluations (%)	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
Group	9.8	9.6	11.2	11.1	11.5	11.8

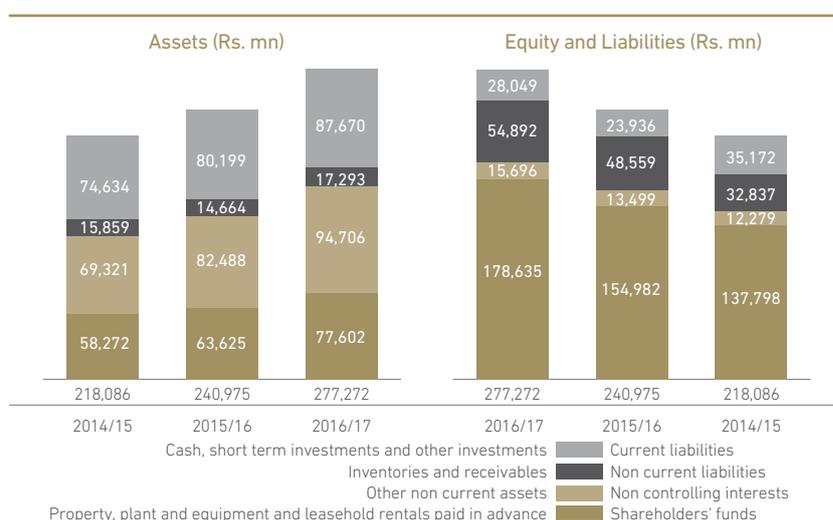
A Du-pont analysis of the adjusted Group ROE is as follows;

	Adjusted ROE (%)	=	Return on assets (%)	x	Common earnings leverage	x	Capital structure leverage
2016/17	11.5	=	7.8	x	0.91	x	1.62
2015/16	11.8	=	8.0	x	0.90	x	1.65

The adjusted ROE declined to 11.5 per cent compared with the previous year due to a decrease in the return on assets and the relative leverage. The need for a higher debt/equity ratio has been recognised with a view to improving the ROE.

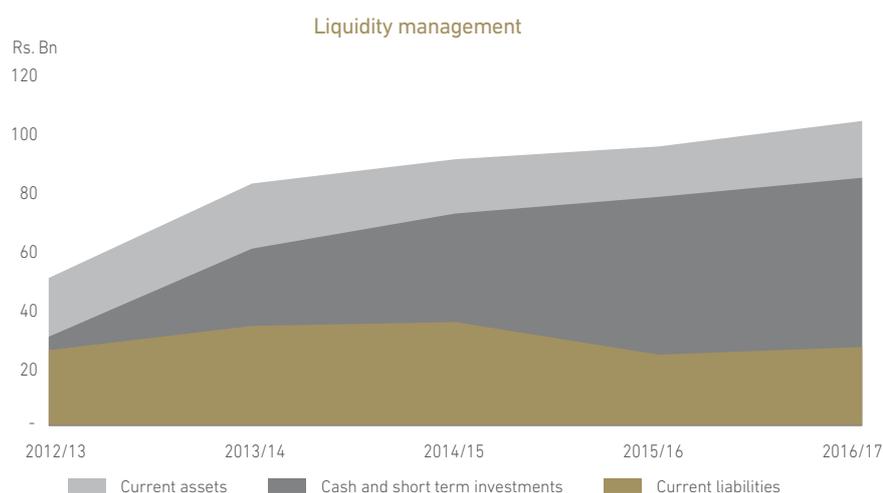
#### Financial Position

For the period under review, the Group's total assets increased by Rs.36.30 billion to Rs.277.27 billion [2015/16: Rs.240.98 billion], mainly on account of additions to property, plant and equipment, other non-current assets and short term investments. The increase in other non-current assets was mainly on account of work-in-progress costs relating to the "Cinnamon Life" project and the lease rental advance paid for Cinnamon Dhonveli Maldives. The cash and short term investments increased to Rs.84.29 billion [2015/16: Rs.77.76 billion], mainly on account of the cash earnings generated during the year and the cash infusion from the 2016 Warrant Issue.



During the year under review, despite an increase in overall Group debt and the cash equity infusion of Rs.4.34 billion to the "Cinnamon Life" project, net cash of the Group increased to Rs.55.31 billion from the Rs.51.85 billion recorded in 2015/16. Net cash, excludes short term investments of life fund of Union Assurance PLC and customer advances from "Cinnamon Life".

### Working Capital/Liquidity



Net working capital of the Group increased to Rs.76.91 billion as at 31 March 2017 [2015/16: Rs.70.93 billion]. Current assets recorded an increase on account of the aforementioned cash infusion from the 2016 Warrant Issue. Current liabilities also recorded an overall increase primarily due to an increase in trade and other payables and bank overdrafts.

Considering its strong financial position, the Group is confident of its ability to comfortably meet its short and medium term funding and debt repayment obligations, pursue organic and acquisitive growth opportunities and to meet other obligations. In terms of the composition of the liquid assets of the Group, Other including Plantation Services accounted for more than half of the cash and cash equivalents, of which a majority of assets are in the Holding Company, followed by the Financial Services and Leisure industry groups.

### Cash Flow

Cash and cash equivalents decreased by Rs.755 million to Rs.47.64 billion by the end of the current financial year [2015/16: Rs.48.40 billion] due to a change in the maturity profile of investments. Cash and cash equivalents in the Statement of Cash Flows comprise of cash, short-term investments with a maturity of three months or less and net of outstanding bank overdrafts.

Net cash from operating activities increased by Rs.507 million to Rs.21.02 billion as at 31 March 2017, mainly due to an increase in finance income amounting to Rs.1.42 billion. Net cash used in investing activities increased to Rs.17.67 billion mainly due to the increase in the purchases of short term investments of the life fund of UA and an extension of the head lease of Cinnamon Dhonveli Maldives. Net cash used in financing activities was Rs.4.11 billion in 2016/17 compared against the Rs.7.72 billion in the previous financial year. The decrease was primarily due to the increase in proceeds from short term borrowings coupled with an increase in debt drawdown for the "Cinnamon Life" project and cash infusion from the 2016 Warrant Issue.

### Leverage and Capital Structure Capital Structure

A higher proportion of the Group's total assets at Rs.277.27 billion were funded by shareholder's funds (64 per cent) whilst the remainder was funded by a combination of non-controlling interests (6 per cent), long term creditors (20 per cent) and short term creditors (10 per cent). The long term funding of assets at Rs.249.22 billion contributed to 90 per cent of total assets.

### Debt

The consolidated debt of the Group increased to Rs.22.77 billion from Rs.20.75 billion in the previous year. The Property and Leisure

 **Rs.22.77 Bn**  
**Group debt**  
A growth of 10 per cent

industry groups continued to account for a majority of the Group's total debt with Rs.13.44 billion and Rs.5.87 billion respectively.

Where businesses have foreign currency denominated incomes, borrowings in foreign currency are effected to take advantage of the comparatively lower cost of foreign currency debt. This strategy has been practiced in the Leisure industry group, in particular, where foreign currency receipts are regularly monitored to proactively evaluate the borrowing capacity of the business. Currently, approximately Rs.15.30 billion of the overall debt of the Group is denominated in foreign currency, primarily due to the increased debt of "Cinnamon Life". The exchange rate exposure arising from the "Cinnamon Life" project is mitigated to an extent since the functional currency of Waterfront Properties (Private) Limited, its project company, is in US Dollars.

The Other including Plantation Services industry group was the highest contributor to the decrease in Group debt as a result of the loan balance of the USD 10 million IFC facility being fully repaid as of 31 March 2017. Except for Other including Plantation Services, all other industry groups recorded an increase in debt.

The debt to equity ratio of the Group reduced to 11.7 per cent in the current year from 12.3 per cent in the previous year. The net debt (cash) cash to equity ratio was a negative 28.5 per cent as against a negative 30.8 per cent in the previous year. The debt to EBITDA cover of the Group stood largely unchanged at 0.8 times compared to the 0.8 times in the previous year. This underscores the Group's ability to increase its leverage, as and when required, to fund its future investment pipeline. Notwithstanding the significant cash reserves of the Group, which is earmarked for equity commitments of the "Cinnamon Life" project and other investments in the pipeline, the Group is cognizant of the ability to increase its leverage and optimise equity returns. The capital structure of recent investments have been on the basis of increased leverage at a project company level, although these investments have been relatively lower in the context of the assets of the Group.

## Group Consolidated Review

### CAPITAL MANAGEMENT REVIEW

	2016/17	2015/16
Current ratio (times)	3.7	4.0
Quick ratio (times)	3.5	3.8
Net working capital (Rs. mn)	76,914	70,927
Asset turnover (times)	0.5	0.5
Capital employed (Rs. mn)	217,096	189,230
Total debt (Rs. mn)	22,766	20,750
Net debt (cash) (Rs. mn)	(55,309)	(51,849)
Debt/equity ratio (%)	11.7	12.3
Net debt (cash)/equity ratio (%)	(28.5)	(30.8)
Long-term debt to total debt (%)	62.4	66.1
Debt/total assets (%)	8.2	8.6
Liabilities to tangible net worth	0.4	0.4
Debt/EBITDA (times)	0.8	0.8
Net debt/EBITDA	(2.0)	(2.1)

The Group long term debt to total debt decreased to 62.4 per cent from 66.1 per cent primarily due to a 22 per cent increase in short term debt in the year under review.

#### Statement of Changes in Equity

Total equity of the Group increased by Rs.25.90 billion to Rs.194.33 billion [2015/16: 168.48 billion]. The main increases were on account of the profit after tax of Rs.18.12 billion, other comprehensive income of Rs.11.69 billion and the funds generated from the exercise of the 2016 Warrant amounting to Rs.3.18 billion, which were partially offset by the dividends paid during the year amounting to Rs.7.28 billion.

Concluding on the Group's Financial and Manufactured Capital Review, the section which follows discusses the third aspect of Capital Management, this being the Natural Capital. This section will discuss the Group's management of its environmental impacts as well as the outcomes and value creation processes through its sustainability and corporate social responsibility agenda, respectively.

#### Natural Capital Review

The management strategy of Natural Capital is of vital importance for the long term and sustainable value creation to the Group. The Group is committed to establishing policies and procedures that enable sustainable and efficient business operations whilst also growing the bottom line. The Group has a comprehensive environmental management system in place through which its efforts in efficient energy and water usage, waste management and conservation of biodiversity and wildlife continued throughout the year, as discussed in detail in the ensuing sections.

During the year under review, and in furtherance of its commitment to managing its Natural Capital with increasing productivity,

the Group established sustainability goals aimed at conserving energy and optimisation of water usage - both of which are material areas. The Group liaised with external consultants who conducted in-depth studies to ascertain optimisation strategies and technologies for the setting of environmental goals for the Group to be achieved by the end of the financial year 2020. The year 2015/16 was established as the baseline for the goal setting process. The goal setting process commenced with the Leisure and CF&R industry groups as they account for a majority of resource utilisation in the areas of energy and water. The feasibility of the proposed strategies was analysed, followed by a commitment by the business units and sectors to deliver on the actions agreed upon, after which the Group arrived at the goal for the financial year 2020. The monitoring of progress on achievement of goals will be as follows.

Sustainability goal for 2019/20	Monitoring of quarterly progression	Monitoring of annual progression
Achieve 12 per cent reduction in energy consumption by March 2020	Monitor and update progression of committed initiatives internally	Disclose progression of committed initiatives in the Annual Report to stakeholders each year
Achieve 6 per cent reduction in water usage by March 2020		

The Group liaised with external consultants who conducted in-depth studies to ascertain optimisation strategies and technologies for the setting of environmental goals for the Group to be achieved by the end of the financial year 2020.

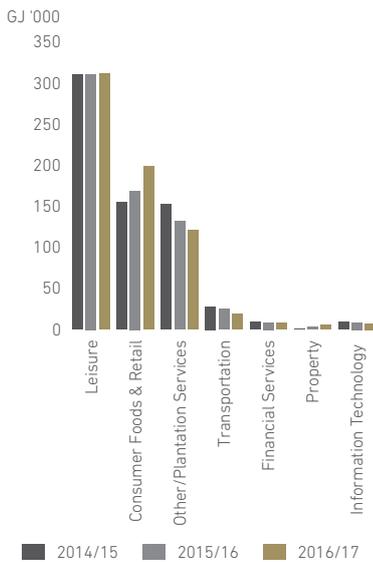
#### Energy and Carbon Footprint

During the year under review, the total energy consumption within the Group was 672,508 GJ [2015/16: 657,770 GJ] which was derived from non-renewable and renewable energy sources and the national grid.

Total power consumed in GJ	2016/17	2015/16	2014/15
1 Energy consumption from non-renewable sources	220,911	213,747	223,321
Fossil fuel			
Diesel	135,227	135,288	138,740
Petrol	16,861	15,009	21,361
Furnace oil	40,405	37,057	38,638
LPG	28,418	26,393	24,717
2 Energy consumption from renewable sources	101,112	111,061	130,067
3 Purchased energy - national grid	350,486	332,961	311,263
Total energy consumption	672,509	657,769	664,651

The Leisure and CF&R industry groups were the largest consumers of energy, accounting for over 75 per cent of the energy consumed and 89 per cent of the carbon footprint of the Group.

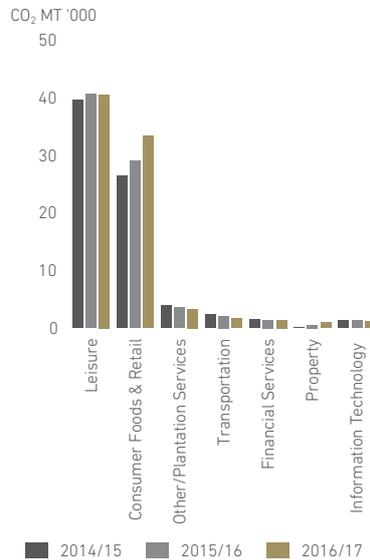
**Energy consumption by industry group/sector**



The Plantation Services sector accounted for 18 per cent of the Group's total energy consumption. However, the sector contributed only 3 per cent to the Group's carbon footprint, primarily due to its continued usage of renewable energy generated through biomass. Tea Smallholder Factories PLC (TSF PLC) was the largest consumer of power in the Plantation Services sector, obtaining 64 per cent of its energy through renewable energy. In addition, during the year under review, Group companies saved approximately 5,855 GJ, with a resultant estimated saving of 1,108 MT of carbon, through various energy conservation initiatives, details of which can be found in the Industry Group Review section of the Report.

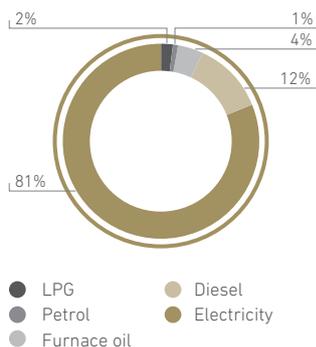
Overall, the Group generated 6.6 million kWh of power from renewable energy sources such as firewood purchased from the surrounding communities and solar power, constituting 6 per cent of its total energy requirement. Whilst such practices have enabled the Group to reduce its environmental impact and cost of operations, it has also provided a means of livelihood for the surrounding communities.

**Carbon footprint by industry group/sector**



The main contributor to the Group's carbon footprint was electricity from the national grid followed by diesel and furnace oil. Given that Sri Lanka's national grid is hydro power based, the resultant carbon footprint is lower in comparison to countries producing power solely through fossil fuels.

**Carbon footprint by energy type**

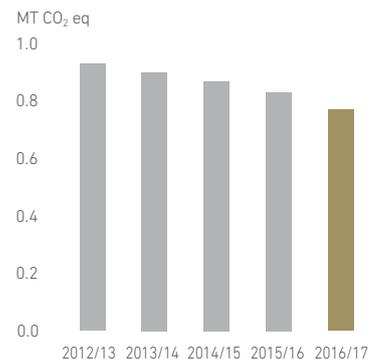


Notwithstanding the increased operational activity of the Group due to a full year's operations at Rajawella Holdings Limited (RHL), the opening of 15 new Keells Super outlets resulting in a significant increase in the square footage and increased production volumes in the Consumer Foods sector, the Group demonstrated continuous improvement in carbon efficiency as it recorded an increase of only 5 per cent in its carbon footprint amounting to 82,492

The Group generated 6.6 million kWh of power from renewable energy sources

MT [2015/16: 78,661 MT]. The scope 1, direct energy carbon footprint amounted to 16,134 MT, while scope 2, indirect energy carbon footprint amounted to 66,359 MT. The movement over the past five years' carbon footprint in metric tons per million rupees of revenue illustrates an overall declining trend as depicted in the chart below.

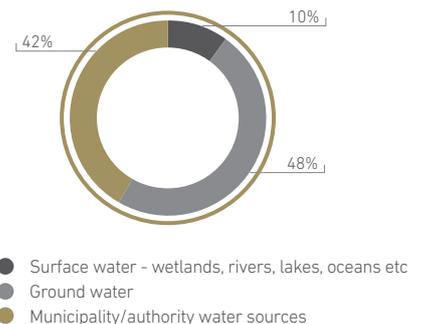
**Carbon footprint per Rupees million of revenue**



**Water Management**

As part of its Natural Capital management strategy, the Group monitors and measures water from all sources, which include ground water, inland surface water bodies, oceans, pipe-borne water from the National Water Supply and Drainage Board and rainwater harvesting.

**Water withdrawal by source**

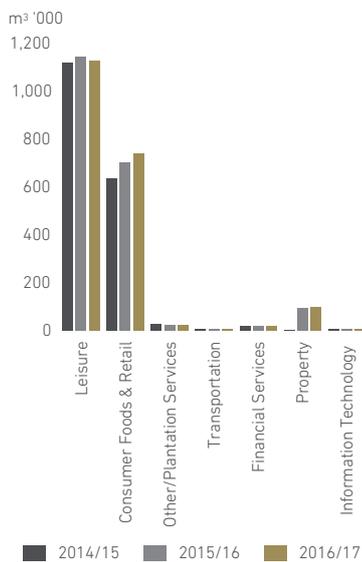


## Group Consolidated Review

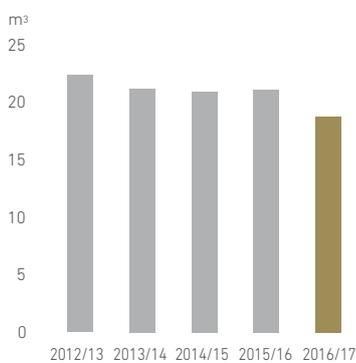
### CAPITAL MANAGEMENT REVIEW

The Group withdrew a total of 2,021,739 cubic meters of water, resulting in a 1 per cent increase of consumption from the previous year. This was mainly due to the increase in operational activity across all sectors of the Group. Where feasible, the Group seeks to fulfil part of its requirement from green water sources through rainwater harvesting. Given the nature of its operations, the Leisure and CF&R industry groups account for the highest proportion of water consumed, with approximately 92 per cent of the Group's water consumed by these industry groups.

Water withdrawn by industry group/sector



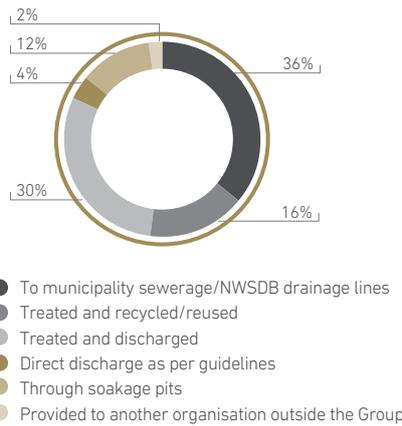
Water usage per Rupees million of revenue



Where feasible the Group makes best efforts to reduce its water requirement through the recycling of treated effluent and be brought to an acceptable quality. In

any event the Group ensures compliance with regulatory standards, mentioned in relevant Environmental Protection Licences (EPL) when returning such water to the environment.

Water discharge by method



During the reporting period, the Group discharged 1,460,799 cubic meters of effluent. Of all water discharged to the environment, 46 per cent was treated through on-site sewerage treatment plants at the various operational locations, 36 per cent was discharged to municipal sewerage

treatment systems, whilst 16 per cent of water was completely recycled by operations, which as a percentage of water withdrawn was 11 per cent. Such water was utilised for general cleaning, gardening and flushing mechanisms.

Business units also carry out a range of initiatives such as awareness campaigns and installation of water saving fixtures and equipment. A detailed discussion of water withdrawal and discharge by industry group, as well as water saving initiatives, can be found in the industry group review section of the Report.

### Waste Management

Due to increased operational activity across the Group, waste generated increased to 8,846 MT from 8,251 MT in the previous year. Of this, 328 MT was classified as hazardous waste and disposed of through specialised third party contractors. Of the total waste produced, 42 per cent was recycled or reused by the Group's business units or through selected third party contractors. The Leisure and CF&R industry groups contributed to over 94 per cent of the waste generated by the Group. Further details of how such waste was generated, reused and recycled are available in the industry group review section of the Report.

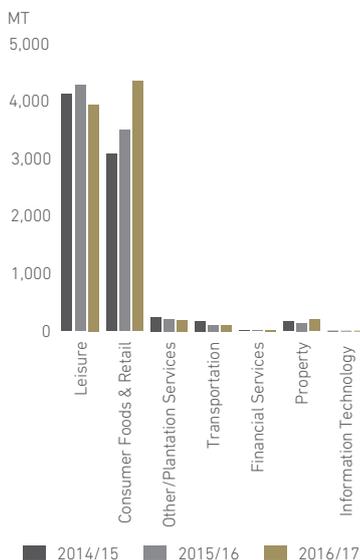


Composting yard at Cinnamon Citadel Kandy

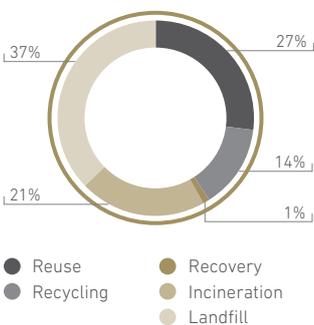
### Progress Review on Sustainability Commitments

Targets for 2016/17	Comment on Progress
The Group will strive to outperform selected international benchmarks for carbon footprint, energy consumption and water usage whilst also seeking to better its own performance on said aspects	The Group outperformed both the selected international benchmarks as well as its own performance of the previous year.

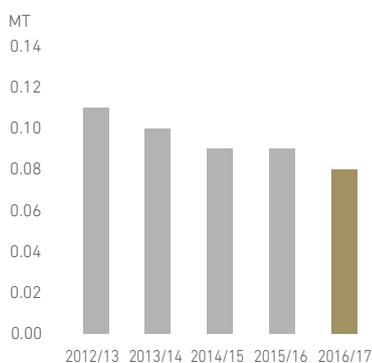
**Waste generated by industry group/sector**



**Waste disposal by method**



**Waste generated per Rupees million of revenue**



**Corporate Social Responsibility Projects**

Recognising the importance of conserving our environment for future generations, the John Keells Group makes a conscious and collective effort to protect and enhance the environment via its social responsibility arm, John Keells Foundation (“Foundation”). Following are a few of the key initiatives undertaken by the Foundation. Other key environmental projects such as Project Leopard, elephant data gathering and forestry project can also be found in the industry group review section of the report.

**Nature Field Centre, Rumassala**

The Central Environmental Authority (CEA), in collaboration with the Foundation, established the Nature Field Centre in

Rumassala in 2008 to facilitate experiential learning on the environment and bio-diversity conservation, particularly among school children. As per the CEA’s report, a total of 2,625 visitors, of which 2,469 were school children, participated in the CEA’s awareness programmes during the year in review. The Foundation also initiated discussions with the CEA on means of making the Centre self-sufficient and sustainable.

**Paper Conservation**

During the year in review, waste paper continued to be collected from each of the business locations for shredding and recycling. The impact of this initiative during the reporting period is summarised as follows:

Waste paper collected (kg)	Payment (Rs.)	Savings (indirect impact)				
		Trees (Nos)	Water (Litres)	Electricity (kWh)	Oil (Litres)	Landfill (m <sup>3</sup> )
48,942	342,594	834	1,555,378	195,768	85,891	147

Concluding the Group’s Natural Capital Review, the following section discusses Human Capital Review the fourth aspect of Capital Management.



Sewerage treatment plant at Cinnamon Bay Beruwala

**Human Capital Review**

The Group’s Human Capital is the primary component of its earning potential, productivity and long term sustainability. The Group’s holistic approach to the management of its Human Capital founded on the core building blocks of inspiring people, caring for people and leadership, encompasses ensuring diversity, encouraging and facilitating innovation and excellence whilst always maintaining the integrity of the Group Values.

**Employee Diversity**

As an equal opportunity employer the Group encourages workplace diversity in all its forms; it promotes and celebrates innovative thinking whilst raising the bar in everything they do, as individuals or in teams. The Group prides it self in continuously updating and upgrading what it does to create an enabling environment which promotes a content and productive workforce.

# Group Consolidated Review

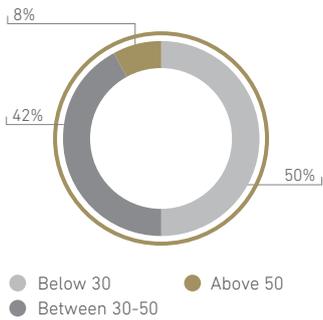
## CAPITAL MANAGEMENT REVIEW

The workforce as at 31 March 2017 was 20,100 of which 12,835 were employees and 7,265 were outsourced personnel (neither staff employees or seasonal workers). Of the Group's total employees, 495 are placed in the Maldives and 484 in India, with the remainder stationed in Sri Lanka.

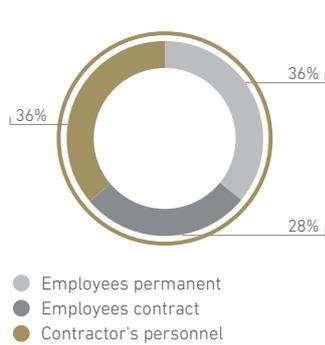
The Group monitors the diversity of its workforce based on age and gender as illustrated by the following diagrams. The Group has seen the demographics of the workforce changing with 50 per cent of its employees being less than 30 years, bringing with it the opportunity, dynamism and challenges. The Group has also

seen an increase in the female population of the Group during the reporting period which will no doubt augur well for the Group.

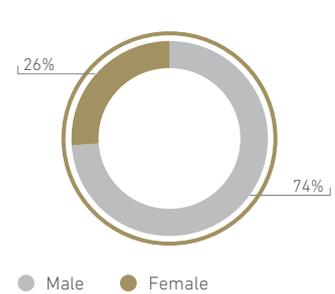
Total employees by age



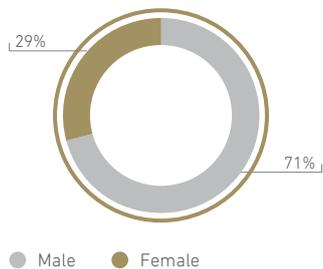
Workforce by type of employment



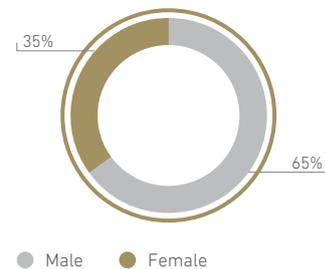
Total employees by gender



Workforce by gender



Contractor's personnel by gender



As an equal opportunity employer, the overall Non-Discrimination Policy, which commits to maintaining a workplace that is free from physical and verbal harassment and discrimination on the basis of race, religion, gender, age, nationality, social origin, disability, political affiliation or opinion, was expanded in the previous year to include sexual orientation and gender identity. The Group completed its Group wide awareness campaign to sensitise its employees on the areas of non-discrimination, with special emphasis on non-discrimination based on sexual orientation and gender identity.

Of the ten Board Directors of JKH as at 31 March 2017, three members are between the ages of 30-50 and seven members are over the age of 50, with one female Director. Of the 9 Group Executive Committee (GEC) members, one GEC member is female, whilst seven members are over 50 years of age and two members are between the ages of 30-50 years. Excluding the GEC members, of the thirteen members of the Group Operating Committee (GOC), four are between the ages of 30-50, and nine are over the age of 50, with three GOC members being female.

### Talent Management

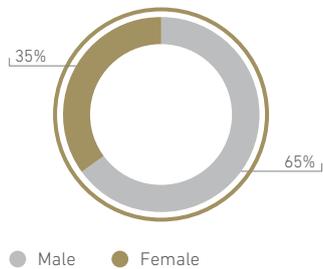
The Group continuously monitors its employee retention and, in particular, seeks to address staff attrition in typically high attrition industry groups through proactive initiatives that engage employees. During the year under review, the Great Place to Work (GPTW) survey was conducted for all Group employees which provided insights to identify, create and sustain the Group as a great workplace. The results from the survey were presented to the GEC in January 2017. Subsequently, action plans were drawn up and incorporated into business plans at a Group level and business unit level.



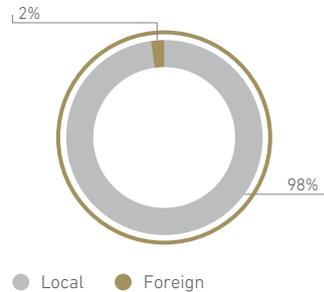
Diversity at the work place

The Group's total attrition (for executives and non-executives) and new hire attrition rate, excluding the IT Enabled and Retail sectors, where staff turnover is expected to be high and is an industry norm, was 24

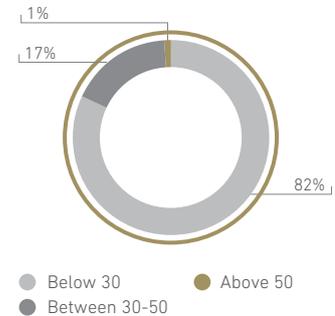
Attrition by gender



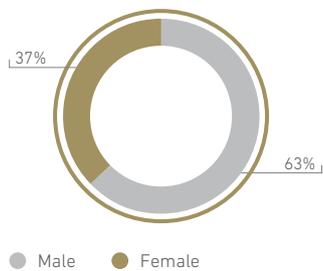
Attrition by region



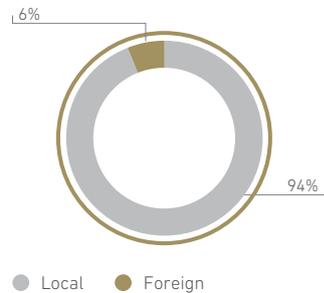
Attrition by age breakdown



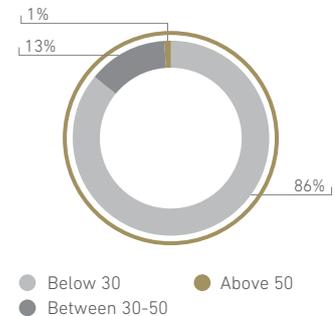
New hires by gender



New hires by region



New hires by age group



per cent and 6 per cent respectively. With increased supply of hotel rooms, some pressure on staff retention was faced by the Sri Lankan Resorts and City Hotels contributing to a higher attrition rate. Multi pronged approaches have been put in place to manage this and the Group is confident of achieving the desired results. With respect to staff identified as "Talent", the attrition has been negligible with senior management continuing to place extra emphasis on developing and nurturing them. The executive level attrition continues to be relatively lower than attrition at non-executive levels. Further, recruitment based on profile mapping was continued in certain businesses to ensure a better fit with the needs of the organisation and thereby ensuring longer retention. This has paid dividends as reflected in the new hire attrition rate.

**Performance Appraisals**

The Group's performance management cycle ensures that all employees of the Group undergo regular appraisals. Formal feedback is provided on a bi-annual basis to the executive cadre and once a year to all others, whilst continuous feedback is encouraged. Recognition of employees is actively encouraged and special budgetary allocations are made for this purpose. Several employee

recognition schemes are in place at a Group level and at business unit level, reflecting business specific requirements. During the year under review, the "Disruptive Innovation Award" was introduced and awarded at the presentation of Chairman's Award held annually to support the Group's thrust in the digital business space.

**Learning and Development**

The Group's learning and development programmes are key policy components of talent retention and ensuring a sustainable

competitive advantage, with a total of 529,468 training hours [2015/16: 418,726 hours] provided to Group employees. Each year, training for employees are determined on a needs basis, aligning the business specific requirements. Through the performance management system, employees can request for training when conducting self-appraisals while supervisors also can nominate employees for training based on the needs taking advantage of the Group's extensive training calendar. The learning is also facilitated via digital platforms such as



Employees participating in a Development Centre

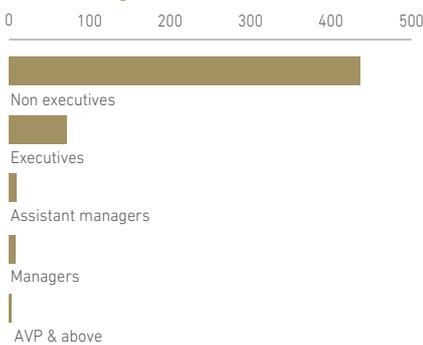
## Group Consolidated Review

### CAPITAL MANAGEMENT REVIEW

Yammer, the Group Intranet, and experience sharing sessions. On average, 41 hours of training were provided per employee, with average training hours per annum amounting to 41 hours for males and 42 hours for females.

In the year under review, the Group undertook initiatives to create a “coaching culture” by identifying individuals at sector level and business unit level to be trained and developed as “People Coaches”. This was the fourth phase of the Team Leader Workshop series, which was introduced in the year 2015/16 for all team leaders in the executive cadre.

Total training hours ('000)



As part of its career development strategy, the Group carried out leadership development programmes, management development programmes, and Development Centres in collaboration with reputed international and local institutes. In addition, “Young Fora” are continued with the intention of developing management skills in executive and above levels through interactions with the business leaders of the Group. The Group continues its career support initiatives to ensure that its employees achieve their full potential.

#### Collective Bargaining

The Group engages with trade unions on an ongoing basis through Joint Consultative Committees and other mechanisms. Formal agreements are found in the CF&R industry group, covering over 706 employees amounting to 6 per cent of the Group’s total employee count. TSFL follows the wage structures of the plantation industry of the country and the Resort Hotels have entered into a Memorandum of Understanding with staff representatives from one trade union.

#### Health and Safety

The Group places the highest importance on ensuring a safe working environment for all its employees, taking steps to ensure that health and safety concerns are prioritised and addressed across the Group. All business units within the Group have been empowered to undertake any measure it may deem necessary to ensure that it is a “Safe Place to Work”. As part of its Human Capital management strategy, incidents are logged, recorded and tracked on a continuous basis. There were no fatalities reported during the year under review.

	2016/17	2015/16
Number of staff affected by occupational injuries and diseases	213	217
Gender wise occupational injuries (male: female)	158:55	166:51
Gender wise occupational diseases (male: female)	-	-
Region-wise occupational injuries (in Sri Lanka: outside Sri Lanka)	211:02	206:11
Region-wise occupational diseases (in Sri Lanka: outside Sri Lanka)	-	-
Occupational injuries per 100 workforce	1.06	1.11
Total man days lost per 100 workforce days	0.035	0.050
Total absentee days per 100 workforce days	0.0011	0.0022

#### Employee Benefit Plans

In Sri Lanka, employees are eligible for the Employees’ Provident Fund (EPF) and the Employees’ Trust Fund (ETF) contributions. Employees who are Maldivian nationals or employed in the Maldives are eligible for the Maldives Retirement Pension Scheme (MRPS) contributions, whilst employees based in India are eligible for Employees’ Provident Fund (EPF) contributions according to the terms of the Employees’ Provident Fund and Miscellaneous Provisions Act in India. The total contribution made to the trust funds for the reporting year was Rs.142 million (3 per cent of salary contributed by employer) while the total contribution made to the provident fund was Rs.643 million (12-20 per cent of salary contributed by employer and 8-15 per cent of salary contributed by employee). In Sri Lanka and India, employees are also entitled to retirement gratuity. The employee benefit liability as at 31 March 2017 was Rs.1.88 billion.

#### Corporate Social Responsibility Projects Staff Volunteerism

Staff volunteerism is at the heart of the Group’s community engagement strategy. Most projects carried out by the Foundation are supported by the Group’s staff volunteers. This volunteer network enables employees to reach beyond their day-to-day work to contribute to the community and the environment, while the Group’s volunteer leave policy enables staff to be released for CSR activities with minimum restraint.

During the year, over 1,008 staff volunteers engaged in projects undertaken by the Foundation, recording over 1,954 volunteer instances and clocking over 7,649 hours, excluding CSR initiatives that occur at a sector/business level.

Concluding the Human Capital Review, the following section discusses the Social and Relationship Capital, the fifth aspect of Capital Management.



JKH volunteers participating in a tree planting initiative in Cinnamon Wild Yala

### Social and Relationship Capital Review Product Responsibility

The Group strives to ensure and maintain the highest standards for its products and services by adhering to all statutory and regulatory requirements, local and international, as well as global best practices. Group companies ensure the highest quality in processes, responsible marketing and communications, as well as consumer and employee health and safety through robust quality management processes and quality assurance. The ongoing ISO 9001, ISO 22000, ISO 14000 and OHSAS 18001 certifications by the relevant Group companies are testimony to the Group's commitment in this regard.

### Social Responsibility

The Group understands the value of building Social and Relationship Capital for the long term sustainability of any business and thus strives to create and uphold trust and reciprocity among its key stakeholders, whilst creating long term value.

83 per cent of the Group's economic value distributed was spent on goods, services and utilities locally, with Sri Lanka being defined as local based on the number of operations and revenue and being the significant location of operations. Mutually beneficial relationships are sought in relevant industries through sustainable sourcing, with Rs.3.35 billion spent on purchases, mainly fresh produce, by the Consumer Foods and Retail industry group and the Sri Lankan Resorts segment, stimulating local economies and encouraging small businesses to help fulfil the supply chain requirements of the Group.

Group companies also undertake corporate social responsibility initiatives in locations of operations, across six key areas of national focus. During the year, through these initiatives, 1,010,200 people were impacted, while Rs.150 million was expended in carrying out community service and infrastructure projects. Training and awareness on serious diseases such as HIV and AIDS, dengue, thalassemia and diabetes was also carried out, with a total of 199,802 persons educated during the year. There has been a significant increase in persons educated due to a increasing number of awareness programmes conducted.



Diabetes screening programme conducted by UA

As a testament to its commitment to responsible business, the Group had no environmental, product related or any other significant fines during the reporting year and did not have any non-compliance with regard to marketing communications.

### Supply Chain Management

The Group believes that striving to entrench sustainability along its supply chain helps create long term value and business sustainability for all parties. The Group works closely with its key suppliers to create awareness and disseminate knowledge on sustainability best practices, with supplier fora being carried out for over 80 Group sourced suppliers in Sri Lanka as well as significant suppliers in the Maldives.

The Group's significant suppliers are reviewed in terms of labour practices, upholding of human rights and environmental impacts and assessed for key sustainability impacts, based on the Group's supply code of conduct, legal and other requirements. Approximately 90 existing suppliers were assessed during the year, while all new suppliers are assessed,

prior to being contracted as a pre-requisite to carrying out business.

The Group Initiatives process also ensures further integration of sustainability within the value chain. Tenders and bids received for high value items sourced by the Group are assessed not only for quality and price but also for social and environmental aspects and impacts.

During the year under review, a new procurement platform was implemented to streamline the Group's sourcing initiatives. Supplier identification, request for proposals, submission of proposals, evaluation, contracting and supplier management for products and services sourced from the central sourcing division will now be performed on the platform. This will enable the Group to have clear visibility of the sourcing process in real time, shorten contracting life cycles and have the ability to make better supplier related decisions based on more accurate analytics. In addition, the potential sourcing of business needs too will be carried out through this platform in the near future.

### Progress Review on Sustainability Commitments

Targets for 2016/17	Comment on progress
Seek to entrench sustainability and risk management practices across its significant value chain partners in an effort to promote responsible corporate citizenship in its supply chain whilst reducing the risk of operations for the John Keells Group	During the year, the Group carried out reviews of over 90 significant value chain partners on all areas of the triple bottom line, whilst also carrying out sustainability awareness through supplier fora for 80 group suppliers

# Group Consolidated Review

## CAPITAL MANAGEMENT REVIEW

### Corporate Social Responsibility Projects

The Group's CSR initiatives represent how the Group's values, corporate culture and operations are intrinsically intertwined and connected to social, economic and environment concerns. All initiatives carried out by the John Keells Foundation ("Foundation") are medium to long term strategic and sustainable projects that fall into one of six focus areas; Education, Health, Environment, Livelihood Development, Arts and Culture and Disaster Relief and is inspired by the Group's CSR vision "Empowering the Nation for Tomorrow".

During the year in review, the focus area entitled "Community and Livelihood Development" was renamed as "Livelihood Development". In addition, "Promises" in respect of each of the Group's CSR focus areas were developed, towards enabling strategic focus and alignment across the Group. All industry groups of the John Keells Group also commenced review of their CSR strategies towards aligning them to the Foundation's "Promises" and incorporating them in their long-term business plans.

At the Foundation, CSR initiatives are aligned to national priorities and Sustainable Development Goals (SDGs) to ensure a collective and targeted focus towards addressing key universal needs for the development of all people, focusing on the three dimensions of sustainable development: economic growth, social inclusion and environmental protection.

The diagram below indicates our CSR vision, focus areas and respective promises, aligned to the SDGs along with the impact and total investment of the Foundation during the financial year.



**English Language Scholarship Programme**  
This project is aimed at enhancing English language skills of school children and youth from socially and economically disadvantaged backgrounds throughout the country in order to improve their opportunities for higher learning and sustainable employment. The main focus is "English for Teens"- with over 1,000 scholarships on offer each year to students aged 12-14 years from disadvantaged Government schools throughout the Island, while high-performing students have the opportunity to progress to the next level of the scholarship scheme. In the reporting year, a total of 1,296 youth registered under the English Language Scholarship programme in 24 locations covering 7 provinces while a



Performance by English scholars of Kurunegala at English Day 2016

Further details of the Corporate Social Responsibility projects are available on <http://www.johnkeellsfoundation.com/>



I have gained better skills in writing and speaking after the completion of this course. I believe that this programme has improved my knowledge more than enough to get through my examinations easily  
- *Thaksila Dilhara, scholar from Welimada*

total of 1,148 scholars completed the course in keeping with attendance requirements. A speech and drama course for Grades 1-4 students of the School for the Blind in Ratmalana was introduced during the year in review. A cumulative total exceeding 13,000 scholarships have been awarded since project inception in 2005.

#### Neighbourhood Schools Development Programme

This project, in collaboration with Cinnamon Grand and Cinnamon Lakeside, aims to uplift the quality of education of five disadvantaged Government schools in Colombo 2. The following initiatives were conducted in the reporting year:

- Infrastructure and facility development amounting to Rs.1.2 million.
- 1,521 students benefited from English Language and IT scholarship programmes and revision classes in preparation for public examinations.
- 34 post-Ordinary Level students benefitted from a personal effectiveness and career guidance workshop, including an overview on career prospects available within the John Keells Group.
- Youth who were not eligible to pursue Advanced Level studies were offered vocational training in either the hospitality or retail industry.
- A teacher training workshop was organised in collaboration with the Zonal Education Office towards enhancing soft skills and interaction with students.

#### Soft Skills for University Undergraduates

Although workshops were planned to be held during the reporting year in the Universities of Ruhuna and Sri Jayewardenepura, the events could not be conducted due to union activities and student unrest affecting the Universities.



*Teacher training workshop organised by JKF*

#### Promoting Science Education Amongst School Children

The Foundation continued its collaboration with Sri Lanka Association for the Advancement of Science in conducting Science Day Programmes (SDPs), aimed at promoting an interest among school children in pursuing higher education and career aspirations in science contributing to the national development. 7 SDPs were conducted, benefitting 1,536 students and 101 teachers from 94 schools in six disadvantaged districts.

#### The John Keells Vision Project

This is an island-wide cataract project aimed at addressing Sri Lanka's biggest cause of preventable blindness. During the year in review, the Foundation continued its collaboration with the Ministry of Health and other partner organisations in relation to the following initiatives:

- Funding and volunteer support for a total of 133 eye camps in all 9 provinces, resulting in the screening of 1,770 patients and completion of 1,185 cataract surgeries. The cumulative number of cataract surgeries since the launch of the project in 2004 is 12,144.
- Funding and volunteer support for the School children's Vision Screening and Spectacles Programme in the Colombo District conducted in collaboration with the Department of Health Services and Ceylon Cold Stores PLC. During the reporting year, vision screening was conducted in 103 schools, testing over 54,670 school children and donating 3,465 eye glasses free of charge, resulting in a cumulative project total of 8,528 eye glasses.
- Donation of Rs.2 million towards the purchase of a phaco-emulsifier machine for the use of a mobile eye unit planned to be operated by the Vision 2020 Secretariat of the Ministry of Health.



*JKH volunteers assisting in a school eye screening programme*

## Group Consolidated Review

### CAPITAL MANAGEMENT REVIEW

#### John Keells HIV and AIDS Awareness Campaign

The Foundation continued its long-term drive against the spread of HIV and AIDS as well as the stigma and discrimination associated with the disease. During the year in review, a total of 23,758 persons were sensitised on HIV and AIDS, resulting in a cumulative total of 117,268 persons since project inception in 2005. The awareness sessions are conducted by John Keells volunteer trainers, with some of the sessions featuring testimonies by HIV positive persons as a means of effectively addressing aspects of stigma and discrimination, while enabling such persons to develop economic independence. World AIDS Day was commemorated through a variety of Group wide activities including inter-business poster and quiz competitions and various awareness programmes.

The Foundation continued to host its e-learning platform on its website which is a comprehensive and interactive learning tool that covers critical information on HIV and AIDS. It is accessible free of charge by any member of the public over the age of 18 years. During the reporting year, 125 persons completed the e-module while a total of 622 persons visited the platform.

#### Project WAVE (Working Against Violence through Education)

This project is aimed at combating gender based violence (GBV) and child abuse through education and awareness creation in the context of increasing numbers of reported incidents in this regard. Since project launch in 2014, awareness sessions have been conducted across all sectors of the John Keells Group, covering almost all staff as at 31 March 2017 (11,456 persons). External awareness sessions were conducted sensitising 225 lawyers and 793 police officers in the reporting year.

In addition, the following initiatives were introduced during the year:

- A public awareness campaign against sexual harassment targeting commuters of public transport, in commemoration of the International Day for the Elimination of Violence Against Women. 124 John Keells volunteers actively participated in the campaign carried out at four of the busiest bus depots in Colombo. 2,300 stickers (in Sinhala and Tamil) were pasted inside 1,150 buses as well as depot precincts while 30,000 information cards were distributed throughout the day, estimated to impact



HIV and AIDS awareness session conducted at the Kurunegala Army camp

Many of the bus drivers and conductors were very supportive towards our campaign. They said harassment on buses is very common. I believe this is a very valuable awareness campaign that was not only meaningful but fun to be a part of - *Husnun Nazeeyl, Management Trainee, John Keells Holdings*

over 100,000 persons. 150 stickers were also provided to trishaw drivers for display. The campaign received encouraging support of the Sri Lanka Transport Board, the Western Province Provincial Road Passenger Transport Authority as well as bus drivers, conductors and commuters. Parallel to the public campaign, an internal campaign involving awareness posters, a staff pledge board and pinning of the white ribbon was undertaken across the Group as a demonstration of staff commitment to building a workplace free of harassment.

- A two day workshop on gender sensitisation and communication skills was conducted in collaboration with The Asia Foundation for police officers in Mullaitivu SSP Division towards enhancing their response towards sensitive issues concerning women and children. Police officers who participated in the programme will be guided towards conducting community outreach programmes on gender sensitivity towards building rapport, confidence and trust between the community and the police.

- A five year plan for Project WAVE was developed incorporating planned and potential key activities under 4 pillars comprising of Prevention, Capacity building, Interventions and Campaigning.

#### Village Adoption

This flagship initiative of John Keells Foundation is aimed at poverty alleviation at grass root level through an integrated and sustainable development programme. Initiatives are decided upon through constructive dialogue with all the relevant stakeholders, translating into a range of development activities generally spanning 5-10 years towards fostering the spirit of independence, self-reliance and entrepreneurship. Currently, 3 villages are in development including Iranaipalai and Puthumathalan in Mullaitivu District and Morawewa North in Trincomalee District. Below are some of the key activities carried out during the reporting year:

- **Livelihood Development:** Three workshops on cattle rearing, family empowerment and youth empowerment were conducted towards enhancing skills for diversified livelihood and income generation opportunities.
- **Education:** Construction of a new school building in Iranaipalai and revision classes for public examinations, benefiting an estimated 844 students.
- **Infrastructure Development:** Rehabilitation work on 'D8' Tank in Morawewa was completed while the construction of a fisheries community centre in Puthumathalan was initiated for the benefit of approximately 1,300 persons.



Visitors purchasing a painting at Kala Pola

- **Gender Empowerment:** A leadership and team building workshop was conducted for women in Morawewa towards promoting peace, unity and entrepreneurial skills within the community.
- Further interventions will be decided following a needs assessment commissioned via World Vision.

Meanwhile, an impact assessment was commissioned via the Centre for Poverty Analysis (CEPA), following the closure of the Foundation’s development activities in Halmillewa, its first adopted village, in the Anuradhapura District, after more than a decade’s engagement with the transfer of total responsibility for the village to the villagers. CEPA commended the Foundation’s vision, courage and efforts in undertaking this very ambitious project amidst a challenging environment, where JKF used a bottom-up approach and was able to develop rapport and trust with the villagers which made this intervention a very successful initiative.

**Safe Drinking Water Initiatives**

The following two key projects aimed at providing access to safe drinking water were undertaken in the reporting year:

- **Collaboration with the National Water Supply and Drainage Board (NWSDB) to address Chronic Kidney Disease (CKD)** - Continuing the success of the pilot project in Trincomalee District to provide two Reverse Osmosis (RO) filtration systems enabling access to good quality water for drinking and cooking purposes in areas known to be at risk of CKD, the Foundation released funding for

two more RO filtration systems in the Anuradhapura district.

- **United Nations Global Compact (UNGC)’s Water Stewardship** - The pilot project to provide equitable access to safe drinking water in the Badulla District was completed during the reporting year, which is estimated to directly benefit approximately 1,100 persons, including 4 schools.

**Kala Pola and Digital Art Gallery**

John Keells believes in safeguarding and promoting the cultural heritage of Sri Lanka through increased engagement in, and exposure to the arts, whilst also boosting livelihood opportunities of artists.

Kala Pola, an open air art fair, enabling artists and sculptors from across the country to showcase and sell their art, was successfully

conducted for the 24th year, with the participation of 327 registered artists and an estimated 22,115 visitors, generating over Rs.12 million in estimated sales revenue. 145 child artists participated in the Children’s Art Corner at the event.

The Foundation continued to maintain and enhance the “Sri Lankan Art Gallery”, a free digital online gallery established as a means for visual artists to showcase and market their creations throughout the year. Currently the website has registered over 813 artists with over 1,300 artwork pieces on display. During the reporting year, approximately 24,000 visitors visited the site.

**Flood Relief**

In the wake of the severe floods and landslides in several parts of the country in May 2016, destroying homes and displacing thousands, the John Keells Group provided immediate relief by funding 8,000 relief packs through the Sirasa Shakthi John Keells Sahana Yathra. Over 250 John Keells volunteers were mobilised throughout a 24-hour period to sort and pack relief items, while staff of Group businesses located in affected areas were involved in distribution of relief items estimated to benefit over 86,000 persons.

The Group also undertook a mass well-cleaning programme towards facilitating the resettlement of affected persons in the Colombo and Gampaha districts in collaboration with Sri Lanka Red Cross Society, Jinasena Private Limited and Ceylon Cold Stores PLC. 1,252 wells were cleaned under this initiative.



Community members gather round for their first collection of water from the Reverse Osmosis Plant donated by JKF

## Group Consolidated Review

### CAPITAL MANAGEMENT REVIEW

#### Intellectual Capital Review

The Group strongly believes that Intellectual Capital is a vital source of competitive advantage, which, in the long term, will result in a value premium for JKH through innovation and disruption of business models, ultimately serving the needs of an evolving and emerging consumer. Where possible and relevant, the Group strives to dynamically manage its Intellectual Capital, interweaving it to the Group's strategic management process. Following are the key components of the Group's Intellectual Capital. Refer to the Industry Group Analysis section of the Report for further details.

Whilst the Group undertakes research and development at the business unit level, John Keells Research (JKR), the research and development arm of the Group, was established in an attempt to create sustainable value through innovation to enhance the Intellectual Capital base of the Group. JKR's collaborative research project with the Human Genetics Unit of the University of Colombo is in its final phase. Further, the article titled "Whole genome sequencing and analysis of Godawee, a salt tolerant indica rice variety", which was reported in the previous Annual Report, was accepted and published in the Journal of Rice Research.

The year under review marked a significant milestone for JKR as it filed for its first patent for a novel energy source material that was developed through a research project undertaken in collaboration with the National Metallurgical Lab of the Council for Scientific and Industrial Research (CSIR-NML) in India. The patent application which was filed at the Indian patent office in December 2016 is related to a composite nanomaterial which could be used in energy storage. Biocompatibility and low cost per unit of power stored are the advantages of the material. JKR is currently in the process of building prototypes of energy storage devices which utilises the patented technology to enhance the Technology Readiness Level (TRL) of the intellectual property and to examine the commercial viability of a prototype product.

During the year under review, JKR relocated to the Technology Incubation Centre at the Nanotechnology and Science Park in Pitipana, Homagama, comprising of an in-house laboratory providing access to sophisticated equipment and analytical services to ensure sole ownership of intellectual property by



*The newly established laboratory of John Keells Research*

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The year under review marked a significant milestone for JKR as it filed for its first patent for a novel energy source material that was developed through a research project undertaken in collaboration with the National Metallurgical Lab of the Council for Scientific and Industrial Research (CSIR-NML) in India.

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JKH. The relocation to the Science Park is expected to provide greater opportunities for technical collaboration, while contributing towards creating and nurturing an ecosystem of innovation. JKR currently collaborates with leading universities and research institutes in Sri Lanka and also has projects with a leading research institute in India and a university in the United States.

The Group is home to many brands which have gained recognition in their respective spheres over many years. The range of brands under each of the industry groups are depicted in the Organisational Structure of this Report. In addition to routine strategies executed by each of the businesses to strengthen their respective brands, the Leisure industry group has placed significant emphasis on systematically executing the "Cinnamon" brand strategy. The "Cinnamon" brand development initiative was continued in the year under review as an ongoing effort to create value and brand equity through the hosting of signature events. Several brand

development initiatives were pioneered in the operational year to create and enhance opportunities and offerings to our diverse stake holders, in keeping with the changing dynamics and ever evolving trends of the travel and leisure industry.

During the year under review, the Group continued to identify emerging or current disruptive business innovations, focused on developing the digital quotient (DQ) of individuals and businesses. This is believed to increase the productivity and efficiency of businesses through the employment of digital technologies and disruptive business models, which in turn would create sustainable value to stakeholders. To this end, an award on Disruptive Innovation was introduced at the JKH Chairman's Awards 2016, to recognise businesses that have made disruptive innovation an integral part of the organisation and formulated successful responses to emerging or current business disruption. In addition, the Group launched "John Keells X - Open Innovation Challenge 2016" to create a conducive ecosystem for young entrepreneurs to thrive and encourage businesses at JKH to engage in open innovation. The inaugural JKH challenge was well received where a total of 148 applications were received with ten of these applicants being shortlisted for the final pitch. Considering the success of the inaugural challenge, the second open innovation challenge will be launched in May 2017.

While concluding the Group Capital Management Review, the ensuing sections will discuss the overall strategy and outlook for the Group, followed by a materiality and risk management discussion.

# Group Consolidated Review

## OUTLOOK

Following is a discussion on the economic outlook for Sri Lanka in the short to medium term, the high level impacts to our businesses and the overall business strategy of the Group. For a detailed discussion on the strategy and outlook for each industry group, refer the Industry Group Review section of this Report.

The acceleration in global growth and the resultant increase in global interest rates could have diverse effects on the Sri Lankan economy. The increase in oil prices, as well as prices of other commodities, will weigh negatively in aggregate on the Balance of Payments (BOP) and domestic price indices, while stagnant growth in the Middle East could reduce income from tea exports and remittances by migrant workers.

The Sri Lankan economy is projected to continue its current growth momentum in 2017, driven by expansion in the Industry and Services sectors, with growth in sub sectors such as construction, utilities, wholesale and retail trade involving SMEs, financial services, accommodation and food and beverage services and housing expected to spearhead economic expansion. The continuation of the prevailing drought conditions in the country, delays and the lack of decisive policy implementation, developments externally in the global economy due to Brexit, volatility in oil prices and the after effects of the US election are headwinds that the private sector will have to navigate in the short term. The higher value added tax (VAT) rate introduced in November 2016, the increase in interest rates and inflation, and the increased emphasis on improving tax collection for 2017 is likely to result in a moderation in consumer discretionary spending compared to the previous years. Whilst such short term moderations in growth and consumption are expected, given the challenges in balancing fiscal adjustments and growth oriented policies, the long term benefits will establish a favourable and sustainable disposition for the overall economy.

The re-commencement of large scale infrastructure projects such as the Port City Colombo and continued investments in infrastructure including expansion of the country's network of expressways have spurred economic activity. The execution of proposed Free Trade Agreements as well as planned development activities such as the development of the Hambantota Port,

the Western Region Megapolis Planning Project and development of industrial zones in Hambantota, Trincomalee and the North Western Province will provide fresh impetus to the private sector.

The Government has stated an interest in exiting non-core public owned interests to enable private sector driven investments, both directly and through public-private partnerships. Although no firm steps have been taken in this regard, this should augur well for the private sector, in general, and for our Group, in particular.

Sri Lanka entered into an Extended Fund Facility with the International Monetary Fund (IMF-EFF) in order to support the BOP and the Government's reform agenda. Further, the external current account deficit is expected to improve steadily with the projected developments in the external sector. An improvement in exports is projected to emanate in the medium term from higher export oriented domestic production supported through improved trade linkages, including the reinstating of GSP Plus concessions, and proposed free trade and economic partnership agreements. Whilst the Government's efforts, with the support of the IMF, to formulate policy frameworks to address the emerging challenges are commendable, it is essential that such policies are implemented swiftly and in consultation with key stakeholders. The higher dependency on imports of petroleum products for electricity generation amid severe drought conditions and an environment of volatile prices in oil can pose challenges in narrowing the trade deficit.

The pressure on the exchange rate is expected to continue in the short term due to the substantial increase in import expenditure, prevailing trade deficit and contracting earnings from merchandise exports with the drop in both international commodity prices and export volumes. However, the pressure on the Rupee is

expected to ease through the Government's proposed fiscal framework which is embedded in the IMF-EFF arrangement, aimed at strengthening fiscal sustainability in the medium term. Further, the conclusion of a 10 year sovereign bond in April 2017, raising USD 1.50 billion, underscores investor confidence in Sri Lanka and their positive outlook on overall growth prospects for the country. Whilst, the depreciation of the Rupee negatively impacted businesses with higher reliance on imported inputs, the Group also benefitted through its individual subsidiaries which have direct and indirect Dollar denominated income streams, in addition to the positive impact due to its foreign currency denominated cash holdings. The Group's risk strategy of maintaining "natural hedges", where relevant and feasible, will mitigate to a great extent, the volatility arising from possible fluctuations in the exchange rate.

The Consumer Foods sector will continue to focus on expanding its portfolio, remaining relevant to its consumers by understanding evolving consumer trends and needs. Whilst the moderation of consumer spending witnessed in the fourth quarter of 2016/17 is likely to continue in the short term given the Government's fiscal consolidation efforts and prevailing inflationary pressures, the long term growth potential for the business remains strong considering the low penetration levels in the country. Taking into account the strong growth in the previous year, and the anticipated growth in the ensuing years, the Consumer Foods sector has commissioned sizeable capacity enhancements which are expected to come into effect in due course. These expansions, coupled with the enhancements in the dealer management systems, are expected to create a platform for growth through the increase in production capacity and widened portfolio offering to consumers and, provide more real time information which will result in increased productivity and efficiency of operations. The Group's Retail sector will capitalise on the low penetration of modern retail in the country,

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Taking into account the strong growth in the previous year, and the anticipated growth in the ensuing years, the Consumer Foods sector has commissioned sizeable capacity enhancements which are expected to come into effect in due course.

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## Group Consolidated Review

### OUTLOOK

by strategically expanding its retail footprint. The business continues to seek opportunities in strategically placed locations to go well beyond the 15 stores opened in 2016/17, with an even more aggressive roll out plan over the next few years. Towards this end, the sector will be commissioning a state-of-the-art centralised distribution centre to maximise on operational efficiencies and to further improve productivity of the business whilst also enhancing the offering to its customers.

The Leisure industry group is well positioned to capitalise on the growth momentum of tourist arrivals to the country under the umbrella of the "Cinnamon" brand. The encouraging growth momentum of arrivals is expected to continue given the favourable fundamentals of the tourism offering in Sri Lanka, such as diverse experiences within close proximity, increasing awareness of the destination, stability in the country, increasing flight connectivity and gradually improving tourism infrastructure. The Leisure industry group will continue to evaluate expansion opportunities to complete the round trip offering of its portfolio of hotel. However, the Group is mindful of the return profile of hospitality investments and the resultant impact to the overall returns of the Group portfolio. To this end, asset light expansion models will synergise well to manage the effective capital deployed in the industry group whilst increasing its room inventory under management. The Leisure industry group will continue to harness the benefits of the branding initiative which was undertaken in the previous years for a more effective management of room inventory, yield management, enhanced guest experiences and in deriving synergies on common costs which lend themselves to centralisation. Further, in the medium to long term, the opportunity of the Meetings, Incentives, Conferences and Exhibitions (MICE) market, particularly from India, will enable the Group to attract the high spending segment of tourists which Sri Lanka has hitherto been unable to satisfy. To this end, "Cinnamon Life" is uniquely placed to cater to the emerging requirements of the contemporary tourist and the increasing MICE traffic, positioning Colombo as a hub for business and leisure travel.

Given the strategic location of the country and the inherent advantage Sri Lanka possesses as a maritime hub, the Ports, Logistics and

Bunkering businesses are expected to benefit from the increase in traffic with further infrastructure expected to support this traffic. It is pertinent to note that the overall capacity utilisation of the Port of Colombo is in excess of 70 per cent within a relatively short time span since the commissioning of the South Container Terminal. Given the strong potential and need for capacity led growth in the Port of Colombo, the Transportation industry group will continue to evaluate opportunities, particularly considering any developments based on the Government's interests in private-public partnerships, such as with the East Container Terminal of the Port of Colombo and bunkering and related services at Hambantota.

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The Leisure industry group is well positioned to capitalise on the growth momentum of tourist arrivals to the country under the umbrella of the "Cinnamon" brand. The encouraging growth momentum of arrivals is expected to continue given the favourable fundamentals of the tourism offering in Sri Lanka, such as diverse experiences within close proximity, increasing awareness of the destination, stability in the country, increasing flight connectivity and gradually improving tourism infrastructure.

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In line with Sri Lanka progressing towards an upper middle income country with growing urbanisation rates, the Property industry group will continue to identify unique product propositions within the residential and commercial property market, leveraging on the Group's sizeable land bank and its reputation as a leading developer which also creates opportunities in entering into partnerships with independent land owners. The Group is cognizant of the fact that revenue recognition in the Property industry group has demonstrated a volatile trend based on the projects completed, and as discussed in the Property industry group review, the business is taking steps to develop a more robust pipeline of projects.

The Insurance business will continue to capitalise on the opportunities made available by the significantly low life insurance penetration levels within the country, leveraging on its strong brand presence, cost efficient processes and differentiated offerings. Nations Trust Bank, although facing challenges with the narrowing of net interest margins, will continue to focus on

initiatives in relation to customer centricity, and incorporate more technology platforms and solutions for its customers. The Bank will also focus on continuing to increase its market share in the SME sector.

In the year under review, the Group embarked on a target setting process for key material impacts such as carbon and water, against baseline figures. The targets were based on systematic audits, assessments and benchmarking carried out for industry groups such as Leisure and CF&R which contribute significantly to the Group's total energy and water usage. The Group will continue to strive to outperform selected international benchmarks for carbon foot prints, energy

consumption and water usage, whilst also seeking to improve its own performance on the said aspects.

The Group will also continue to integrate its risk management process with its sustainability strategy through consistent tracking and reporting of key risk indicators on areas such as green-house gas emissions, talent attrition, third party claims, non-compliance and stakeholder concerns with regards to the Group's operations. While maintaining the robust sustainability performance management framework, the Group will also work to ensure that sustainability and risk management practices are further entrenched across its significant value chain partners through the implementation of responsible sourcing practices, where practical and relevant.

# Group Consolidated Review

## STRATEGY, RESOURCE ALLOCATION, AND PORTFOLIO MANAGEMENT

The Strategy, Resource Allocation and Portfolio Management section of this Annual Report is aimed at providing the stakeholders of the Group with an insightful view of the manner in which decisions pertaining to investments of the Group are made.

As such, the ensuing pages will explain in detail, the following aspects:

- Strategy of the Group
- Resource allocation and portfolio management
- Portfolio movements

### Strategy

The Group's vision of "Building businesses that are leaders in the region" is the cornerstone of all resource allocation, portfolio evaluation and operational decisions of the business units. In pursuing its vision, the Group is mindful of the governing principles which form the foundation of all strategies and initiatives that have been planned, are being implemented, or have been implemented, towards achieving the medium to long term objectives of the Group. These principles are primarily: a stakeholder focused business model; a corporate governance philosophy which emphasises performance, in addition to compliance and conformance; a risk identification process and management philosophy based on a sound enterprise risk management framework, and a sustainability development framework which are all in line with international best practices.

As evident from the past, the Group strives to constantly align its portfolio of businesses with the growth sectors of the economy, both current and futuristic, and continuously endeavours to ensure that capital resources are efficiently employed in a manner that will expand the reach of the portfolio, ensure relevance and give the ability to compete at the relevant levels, both globally and internationally. The Consumer Foods and Retail, Financial Services, Leisure, Property and Transportation industry groups are all poised to grow in the medium to long term in a local economic environment which is expected to be progressive, and, in the region, where we have accumulated competence in the relevant industry.

The Group's ambitions are facilitated by an Operating Model where each business unit is granted operational autonomy within a framework of delegated decision rights

The Group's vision of "Building businesses that are leaders in the region" is the cornerstone of all resource allocation, portfolio evaluation and operational decisions of the business units. In pursuing its vision, the Group is mindful of the governing principles which form the foundation of all strategies and initiatives that have been planned, are being implemented, or have been implemented, towards achieving the medium to long term objectives of the Group.

approved by the Group Executive Committee or Board of Directors, as applicable, in ensuring speed of decision making, accountability and agility in responding to the needs of the market. Given the diversity and scale of the Group, and the multiple management layers within it, the agendas, scope and role of these committees and their positions are carefully structured to ensure the efficient flow of information, ethical and responsible implementation of strategic initiatives, minimisation of duplication of effort, and adherence to the Group's values.

The Group Executive Committee, which gets its high level direction from the Board and has a macro focus of the overall direction of the Group, is accountable for the overall performance of varied businesses/industry groups/sectors, and acts as an enabler of the Operating Model of the Group. The support functions at the Centre complement and assist the businesses through a common pool of knowledge, if and when required. These knowledge centres are able to complement the business units, as required from time to time, and are an effective synergising force across the Group. Thus, the Operating Model of the Group is designed to create a value premium, where the Group, as a whole, creates more value to JKH stakeholders than the sum of each business taken individually.

Strategy mapping exercises concentrating on the short, medium and long term aspirations of each business, are conducted annually and are reviewed at a minimum, quarterly/bi-annually, or as and when a situation so demands.

This exercise entails the following key aspects, among others.

- Progress and deviation report of the strategies formed in the prior year and current year
- Competitor analysis and competitive positioning
- Analysis of key risks and opportunities
- Talent Management
- Management of stakeholders such as suppliers and customers
- Key sustainability related initiatives
- Disruptive innovation and digitisation initiatives
- Value enhancement through initiatives centred on the various forms of Capital under an integrated reporting framework

The strategies of the various business units operating in diverse industries and markets will always revolve around the Group's strategy, while considering their domain specific factors. The prime focus always is to enhance value for all stakeholders.

When allocating funds for various investments, the project evaluation model, discussed in detail in the ensuing sections, strives to strike a balance between optimising immediate portfolio returns and preserving medium to long term growth objectives, whilst ensuring investments will be EPS accretive in the long term.

The strategies of the various business units operating in diverse industries and markets will always revolve around the Group's strategy, while considering their domain specific factors. The prime focus always is to enhance value for all stakeholders.

## Group Consolidated Review

### STRATEGY, RESOURCE ALLOCATION, AND PORTFOLIO MANAGEMENT

Similar to the previous year, the Group continued to encourage all businesses to engage in “disruptive innovation” challenging the traditional ways of doing business by utilising current and emerging technology. As a result, several business units and functions within the Group have conceptualised and implemented digitally enabled workflow and process optimisation solutions into their key business processes, with the goals of enhancing the customer experience, internal productivity and organisational efficiency.

Further details on the strategy formulation and decision making process can be found under the Corporate Governance Commentary of this Report. Group-wide strategies are discussed in detail under the Strategy and Outlook section of each of the industry group reviews.

#### Resource Allocation and Portfolio Management

Resource allocation and portfolio management is an imperative action in creating value to all stakeholders through an evaluation of the Group’s fundamentals, which are centred on the forms of Capital. Whilst the Group is frequently presented with opportunities in diverse industries, it continues to follow its structured four-step methodology indicated below in evaluating, and managing its portfolio.

#### Regular Assessment of Risk and Reward

All verticals and businesses within each industry group are regularly assessed on key dimensions such as customer orientation and bargaining power, supplier concentration and power, JV partner affiliations and dependence, cyclical, regulatory structure, performance against the industry and the Sri Lankan economy, and economic, procedural,

regulatory or technological factors that obstruct or restrict operations, entry or exit of both the unit and competitors, et cetera.

The capital structures for new ventures are stress tested under varied scenarios, which often leads to taking proactive measures, particularly in managing potential risks, especially those relating to foreign exchange and taxation during both the development and operating phases. Further, ongoing projects are regularly tested and evaluated in partnership with independent and recognised parties to ensure clear, impartial judgement on matters relating to capital structure, economic implications and other key operating risks.

#### JKH’s Hurdle Rate/Required Rate of Return

The present hurdle rate of JKH is at 15 per cent, which is a function of the weighted average cost of capital (WACC). The WACC is derived from the Group’s cost of equity, cost of debt, target capital structure, tax rates, and the value creation premium required over and above the WACC. Whilst the cost of debt has increased towards the end of the period under review, the hurdle rate has not been revised on the basis that it is a long term target, and any revision would be warranted only if the above factors are expected to sustain over the long term.

Even though this hurdle rate is utilised as the initial benchmark rate in evaluating feasibility and opportunity in all projects of the Group, project specific modifiers are also used in order to get a holistic view of the project under consideration. As such, a country specific risk modifier would be applied for investments with a high proportion of foreign currency investment costs and operational cash flows,

through the use of a project specific cost of debt and a foreign currency denominated equity return benchmark commensurate with the investment, which in turn, would be comparatively analysed against projects with similar risk profiles.

#### Conceptualising Portfolio Performance

The Group aims to strike a balance between optimising immediate portfolio returns against returns in the future. As such, emphasis is placed on both return generating capabilities of the business against its capital employed, and the earnings potential of the business or project. The Group is conscious of the quantum of capital deployed to businesses, and to this end, places a strong emphasis on evaluating projects in such manner which optimises capital efficiency, especially in capital intensive businesses such as Leisure. In order to manage the effective quantum of capital deployed, the Group will continue to explore investment structuring options such as asset-light investment models for future hotel projects.

Being a portfolio of businesses, the Group has benefitted from contributions from different businesses at varying points of time based on their growth cycle and correlation with overall economic growth in the country. Over the last few years the Group has witnessed a shift in the composition of its earnings with a greater contribution from higher ROCE earning industry groups such as Consumer Foods and Retail, and Financial Services. The conscious and planned strategies of driving growth in these industry groups will, all things being equal, contribute towards an improvement in the ROCE for the Group, whilst concurrently driving absolute earnings growth.

Financial filter	Cornerstone of the decision criteria based on the JKH hurdle rate
Growth filter	Evaluates the industry attractiveness and growth potential based on the industry lifecycle
Strategic fit	Evaluates the long term competitive advantage of a business/industry by closely evaluating the competitive forces, specific industry/business risks, ability to control value drivers and the competencies and critical success factors inherent to the Group
Complexity filter	Considers factors such as senior management time and the risk to brand image and reputation in conjunction with the anticipated returns

Further to the discussion in the Group Consolidated Review section of this Report, the ensuing section discusses the return on capital employed (ROCE) under two key modifiers.

#### Modifier I - Adjustment for land re-allocations

Properties that are not under the operational banner of the non-property related business units, and are excess to their current and foreseeable operational requirements, have been allocated to the Property industry

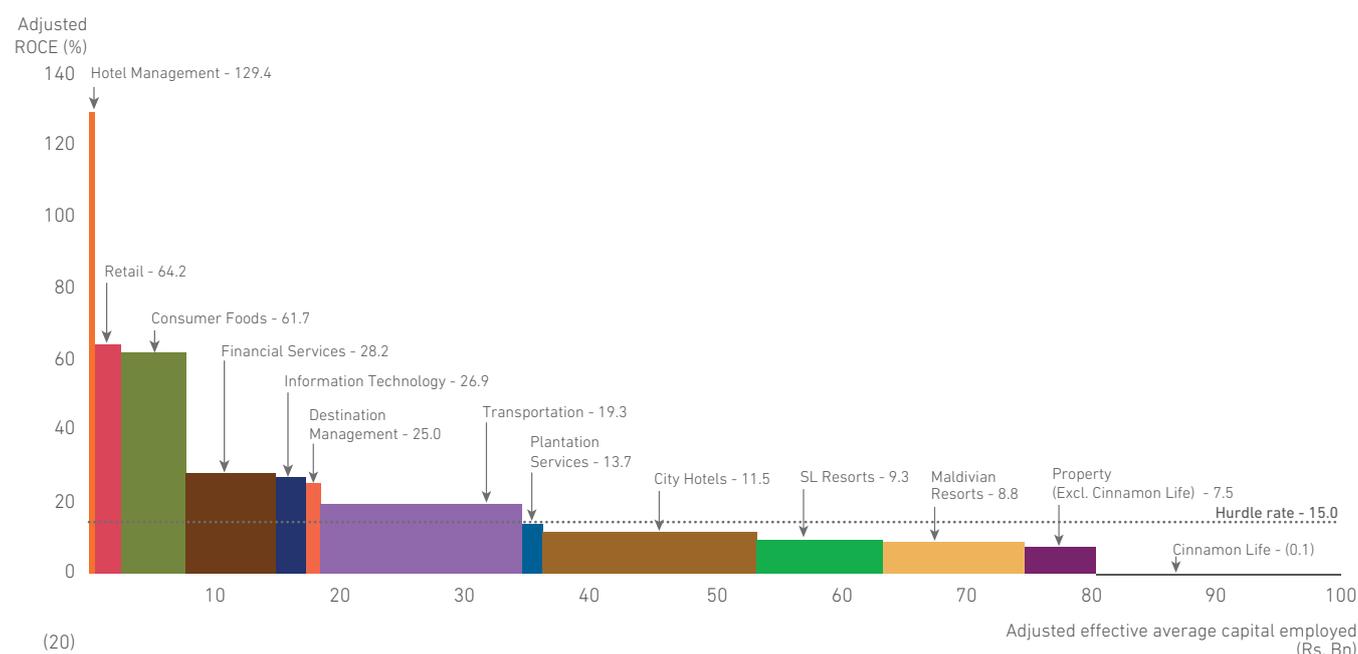
group along with the corresponding income. However, it is noted that real estate belonging to the Sri Lankan Resorts segment is excluded as such properties constitute the land bank of the segment for future hotel developments. The properties re-allocated will be a part of a "property play" and plans for development and operation are the responsibility of the Property industry group. "Cinnamon Life" is recognised as a stand-alone play.

#### Modifier II - Adjustment for investment property and revaluations

Properties which have been re-rated in keeping with the principle of fair value accounting have been adjusted for the preceding three years in order to obtain a clear and un-skewed view of the ROCE. The need for such a modifier is exacerbated as a result of the significant increase in the value of land in the recent few years, where monetisation of such properties would have a time lag.

	2016/17			2015/16	2014/15
	Unadjusted ROCE (%)	ROCE after modifier I (%)	ROCE after modifier I and II (%)	ROCE after modifier I and II (%)	ROCE after modifier I and II (%)
Hotel Management	129.4	129.4	129.4	91.0	76.6
City Hotels	8.5	8.9	11.5	10.2	11.6
Sri Lankan Resorts	8.6	8.6	9.3	8.1	8.5
Destination Management	25.0	25.0	25.0	46.2	46.2
Maldivian Resorts	8.8	8.8	8.8	9.6	9.6
Transportation	19.2	19.2	19.3	16.3	16.4
Consumer Foods	59.2	60.6	61.7	65.0	77.5
Retail	63.5	63.5	64.2	61.8	61.9
Financial Services	28.0	28.0	28.2	24.5	24.5
Property (Excl. Cinnamon Life)	12.5	10.3	7.5	19.4	13.1
Cinnamon Life	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
Information Technology	26.9	26.9	26.9	6.8	6.8
Plantation Services	14.3	15.4	13.7	0.8	1.5

The adjusted ROCE following the two modifiers is graphically depicted below. Key highlights of the graph are discussed in the ensuing section.



## Group Consolidated Review

### STRATEGY, RESOURCE ALLOCATION, AND PORTFOLIO MANAGEMENT

During the year under review, the adjusted ROCE of the City Hotels increased to 11.5 per cent, compared to 10.2 per cent for the previous year. The sector's performance was driven by higher Average Room Rates (ARR) and improved occupancy levels. The previous year's profitability was impacted by the partial closure of Cinnamon Lakeside. The Sri Lankan resorts segment also recorded a growth in ARRs, and thus recorded an improvement in adjusted ROCE at 9.3 per cent compared to 8.1 per cent for the previous year.

It is pertinent that, as part of its future expansion plans, the asset base of the Sri Lankan Resorts segment includes a large land bank earmarked for development of hotel properties. While monetisation of these properties in the future will be based on development potential, their effects on the capital base due to re-rating have been adjusted for, as mentioned above under the "Modifier II" section. For further details on the land bank refer the Group Real Estate Portfolio section of this Report.

Given its service oriented disposition, the Hotel Management sector and the Destination Management sector continued to record ROCEs well above the hurdle rate. The Hotel Management sector witnessed an increase in its adjusted ROCE to 129.4 per cent [2015/16: 91.0 per cent], primarily due to a decline in the capital base.

The strong long term growth prospects for tourism in the country present the Leisure industry group with expansion opportunities, which the Group intends to capitalise on through an asset light expansion model. It is envisaged that this would result in an optimal deployment of capital that is accretive to Group portfolio returns.

The Destination Management sector on the other hand, witnessed a decline in its ROCE to 25.0 per cent [2015/16: 46.2 per cent], which is attributable to a reduction in its EBIT due to increasing competition in the industry. Consequently, EBIT margins came under pressure, and declined to 6.0 per cent compared to 9.0 per cent for the previous year.

The Maldivian Resorts segment has been included in the aforementioned graph and the ROCE analysis, to ensure capturing of all sectors/industry groups. However, it should

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**The Group is cognizant of the fact that revenue recognition in the Property industry group has demonstrated a volatile trend based on the projects completed, and as discussed in the Property industry group review, the business is taking steps to develop a more robust pipeline of projects.**

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be noted that the return generated from the Maldivian Resorts segment should be appraised against a return of a comparable dollar financed asset as opposed to the Group rupee hurdle rate of 15 per cent which is based on the rupee risk free rate. As shown above, the return of the segment declined to 8.8 per cent [2015/16: 9.6 per cent], which can be attributed to an increase in the capital base due to the extension of the head lease of Cinnamon Dhonveli Maldives.

The adjusted ROCE of the Transportation segment increased to 19.3 per cent from 16.3 per cent in the previous year. This increase stemmed from a growth in EBIT, which outstripped growth in capital employed, primarily due to improved operational performances of the businesses, as discussed under the Transportation industry group review.

The Property industry group, excluding "Cinnamon Life", witnessed a decline in adjusted ROCE to 7.5 per cent [2015/16: 19.4 per cent], mainly attributable to the revenue recognition cycle of its residential apartments. During the year under review, the Property industry group's revenue primarily comprised of rental income from its shopping malls. This is in contrast to previous years where a significant portion of revenue comprised of income from apartment sales. As defined above under "modifier 1",

properties that are not under the operational banner of the non-property related business units, and are excess to its current and foreseeable operational needs, have been included under this segment. Despite the re-rating of the properties under this segment, the Group is of the view that there is a lag effect in returns adjusting for the increased capital base of such properties and thus, warrants it impossible to employ such properties in immediate return generating projects. Hence such revaluations, as defined under "modifier 2", have been adjusted for in calculating the adjusted ROCE. The Group is cognizant of the fact that revenue recognition in the Property industry group has demonstrated a volatile trend based on the projects completed, and as discussed in the Property industry group review, the business is taking steps to develop a more robust pipeline of projects.

Unlike the analysis done on adjusted ROCE under the Group Consolidated Review section of the Report, debt and equity infused in to "Cinnamon Life" have not been adjusted, as the project is separately evaluated in the ensuing section.

During the year, Rs.4.34 billion of cash equity and Rs.1.22 billion of debt was infused to "Cinnamon Life" to finance the development costs of the project. As at 31 March 2017, the cumulative figures stood at Rs.15.00 billion and Rs.12.37 billion for cash equity and debt respectively. The aforementioned cash equity investment at "Cinnamon Life" excludes the land transferred by JKH and its subsidiaries. Note that all project related costs, unless explicitly mentioned as above, are capitalised in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS). Additionally, it is highlighted that the revenue from the "Cinnamon Life" project will only be recognised post the commencement of operations.

The Consumer Foods sector recorded a decrease in the adjusted ROCE to 61.7 per cent from 65.0 per cent in the previous year.

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**The strong long term growth prospects for tourism in the country present the Leisure industry group with expansion opportunities, which the Group intends to capitalise on through an asset light expansion model. It is envisaged that this would result in an optimal deployment of capital that is accretive to Group portfolio returns.**

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This decrease is attributable to an expansion in the capital base as a result of borrowings undertaken to fund new investments, such as the new ice cream manufacturing facility. The growth in the capital base was partially off-set by the increase in profitability driven by double digit volume growth and changes made to the sales mix which positively impacted profit margins.

The Retail sector continued its strong growth trajectory with a significant increase in profitability owing to higher overall footfall, coupled with incremental turnover from newly opened outlets. As such, the adjusted ROCE increased to 64.2 per cent [2015/16: 61.8 per cent] despite an increase in capital

employed resulting from the opening of fifteen new outlets during the year.

The Financial Services sector recorded an adjusted ROCE of 28.2 per cent compared to 24.5 per cent recorded in the previous financial year. The increase in the ratio is partly stemming from the decline in the average capital base of the industry group attributable to the UA share repurchase which took place in September 2015.

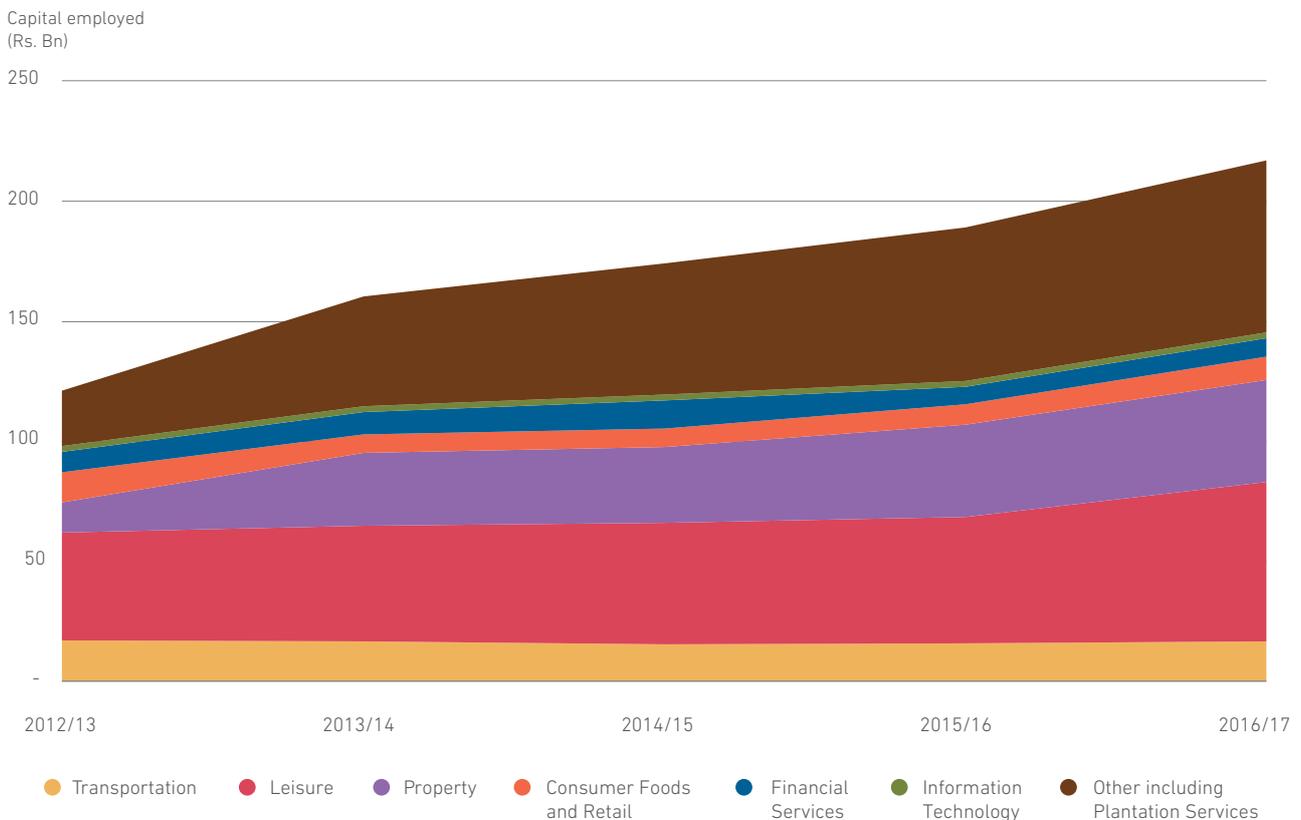
The adjusted ROCE of the Information Technology industry group increased to 26.9 per cent [2015/16: 6.8 per cent] primarily stemming from the performance of the Office Automation business, which witnessed

a significant increase in sales volumes of mobile phones. Operational efficiencies in the BPO business also contributed towards the improved profitability of the industry group.

The adjusted ROCE of the Plantations Services sector increased to 13.7 per cent compared to 0.8 per cent recorded in the previous financial year. This marked increase is attributed to an increase in EBIT on account of higher prices due to a tighter supply of leaf tea, as crop yields declined due to the unfavourable weather conditions prevailing in the country.

### Portfolio Movements

Portfolio movements over the past five years are illustrated in the graph below.



## Group Consolidated Review

### STRATEGY, RESOURCE ALLOCATION, AND PORTFOLIO MANAGEMENT

#### Significant Movements of the Portfolio and in Capital Employed

	2013/14	2014/15	2015/16	2016/17
Investments	JKH raised Rs.23.10 billion through a Rights issue to fund the equity contribution of the "Cinnamon Life" Project	Invested Rs.113 million in Saffron Aviation (Private) Limited, the operating company of the domestic aviation operation Cinnamon Air	Invested Rs.4.73 billion in Waterfront Properties (Private) Limited	Invested Rs.4.34 billion in Waterfront Properties (Private) Limited
	KHL invested Rs.899 million in the ITHL Rights Issue to infuse equity to Cinnamon Bey	Invested Rs.100 million in John Keells Properties Ja-ela (Private) Limited	Invested Rs.243 million in Saffron Aviation (Private) Limited, the operating company of the domestic aviation operation Cinnamon Air	Invested Rs.12.06 million in John Keells Stock Brokers (Private) Limited
	JKH infused Rs.32 million equity to Saffron Aviation (Private) Limited, the operating company of the domestic aviation operation Cinnamon Air	Invested Rs.585 million in Waterfront Properties (Private) Limited	JKH, together with its subsidiaries, increased its shareholding in Rajawella Holdings Limited (RHL) from 16.9 per cent to 51.0 per cent. The total investment in RHL of Rs.1.04 billion comprised of a release of an existing sublease of land held by the JKH Group in exchange for shares, a partial buyout from existing shareholders and cash infusions into RHL on a staggered basis	Invested Rs.43.17 million in Saffron Aviation (Private) Limited, the operating company of the domestic aviation operation Cinnamon Air
		KHL invested Rs.199 million for the acquisition of a 426 perch land in Nuwara Eliya		
		Entered into a lease agreement with MOT to acquire Kekuraalhuveli Island next to Hakuraa, in the Maldives		
Divestments	JKH disposed its 24.6 per cent stake in Central Hospital (Private) Limited for a consideration of Rs.1.59 billion	JKH disposed its 4.3 per cent stake in Expolanka Holdings PLC which resulted in a capital gain of Rs.389 million		
	JKH divested its 49 per cent stake in Information Systems Associates (ISA) for a consideration of Rs.384 million	JKH disposed its 4.0 per cent stake in Access Engineering PLC which resulted in a capital gain of Rs.593 million		
		Union Assurance PLC (UA) sold a 78 per cent stake of Union Assurance General Limited for a consideration of Rs.3.66 billion which resulted in a capital gain of Rs.1.22 billion		
Mergers and restructuring/other		JKH's 100 per cent stake in Nexus Networks (Private) Limited was divested to JayKay Marketing Services (Private) Limited, resulting in an amalgamation, with the surviving entity being JayKay Marketing Services (Private) Limited.	Share repurchase by Asia Power (Private) Limited resulted in a capital gain of Rs.82 million	
			90.44 million shares held by JKH were repurchased by John Keells Residential Properties (JKRP) at a value of Rs.1.60 billion	
			24.66 million shares held by JKH were repurchased by UA at a value of Rs.4.14 billion	

# Group Consolidated Review

## MATERIALITY AND STAKEHOLDER RELATIONSHIPS

### Sustainability Integration

Over the years, the John Keells Group which operates in seven industry groups, has placed great importance on sustainable development. The Group has an integrated approach to ensuring the interlinks between its financial performance and brand image, its sound corporate governance, product and service excellence, productive workforce, environmental stewardship and social responsibility.

The following section provides an overview of the Group's strategy of entrenching sustainability within its business operations, the policies and methodologies in place for sustainability reporting and defining material sustainability aspects and the scope and boundary of the sustainability content.

Group Sustainability Policy

- The Group will strive to conduct its activities in accordance with the highest standards of corporate best practice and in compliance with all applicable local and international regulatory requirements and conventions
- The Group monitors and assesses the quality and environmental impact of its operations, services and products whilst striving to include its supply chain partners and customers, where relevant and to the extent possible
- The Group is committed to transparency and open communication about its environmental and social practices in addition to its economic performance. It seeks dialogue with its stakeholders in order to contribute to the development of global best practice, while promoting the same commitment to transparency and open communication from its partners and customers
- The Group strives to be an employer of choice by providing a safe, secure and non-discriminatory working environment for its employees whose rights are fully safeguarded and who can have equal opportunity to realise their full potential. All Group companies will abide by national laws and wherever possible will strive to emulate global best practice governing the respective industry groups, seeking continuous improvement of health and safety in the workplace
- The Group will promote good relationships with all communities of which we are a part and enhance their quality of life and opportunities while respecting people's culture, ways of life and heritage

### Sustainability Management Framework

The Group's Sustainability Management framework includes strategies for entrenchment of sustainability, facilitated by a sustainability organisational structure, management information processes for benchmarking, gap analysis and reporting as well as awareness creation and sustainability assurance.

This comprehensive management framework is constantly updated and improved to take into consideration the operational requirements of the various companies of

the Group, and includes Standard Operating Procedures, common IT platforms for tracking key sustainability indicators and key risk indicators, internal sustainability assurance in addition to internal audit and external assurance processes.

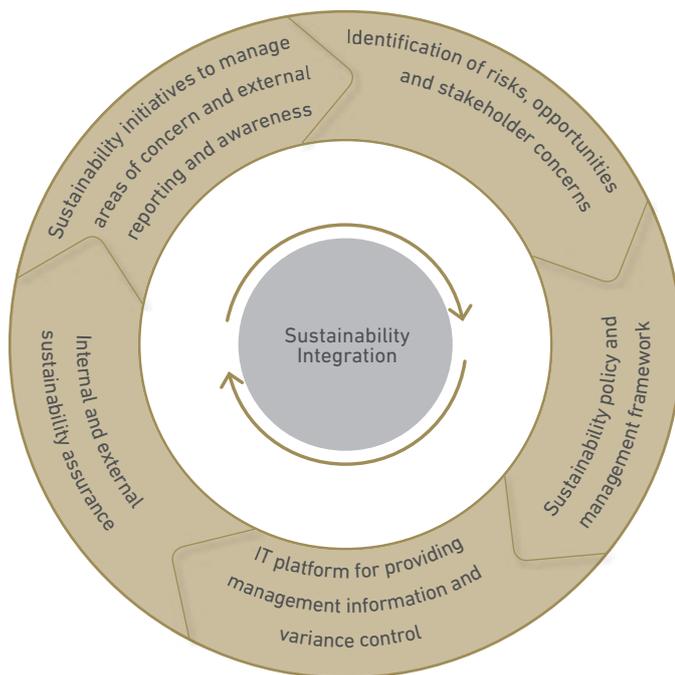
The Group's sustainability performance is tracked on a quarterly basis, compared against local and international benchmarks and then reported internally and externally. This has become a proactive process in assessing a group company's sustainability performance, identification of areas of risk and providing management with timely information for corrective action.

The Group's Sustainability Management framework is also synchronised with the various management systems including environmental management, human resources, health and safety and product quality as well as business processes such as risk management, internal audit, legal and statutory compliance and corporate social responsibility initiatives.

### Sustainability Organisational Structure

The Sustainability, Enterprise Risk Management and Group Initiatives Division, along with the Group Executive Committee and the Group Sustainability Committee

Sustainability Integration Process



## Group Consolidated Review

### MATERIALITY AND STAKEHOLDER RELATIONSHIPS

formulates the Group sustainability strategy. The Division is responsible for the operationalisation of the Group's Sustainability Management Framework under which business units carry out their specific sustainability strategies and initiatives.

The Division is also responsible for the process by which the Group identifies its significant stakeholders, the identification of materiality issues and sharing of best practices, carrying out risk reviews and the overall review and monitoring of the sustainability drive. Awareness campaigns are carried out on a regular basis, with one annual Group-wide awareness campaign being carried out to broadbase knowledge and to inculcate a culture of sustainability.

The Group has in place a robust sustainability structure with oversight from the Group Executive Committee and the Group Sustainability Committee, while task groups for each sustainability aspect are headed by a member of the Group Operating Committee. Additionally, each business unit has a dedicated Sustainability Champion responsible for sustainability initiatives and the overall sustainability performance, under the supervision of their respective Sector Heads and Heads of Business Units. This structure is used in integrating sustainability within the business operations as well as assessing and developing the value chain in sustainable practices.

The strategic planning process and annual plan cycle of Group companies are now based on a holistic approach and include an

**The Group will strive to achieve a 12 per cent reduction in its energy usage and a 6 per cent reduction in its water usage by the year 2020, against its 2015/16 baseline figures.**

integrated strategy of considering all aspects of the triple bottom line whilst striving for optimised financial performance. Business units identify their material impacts and commit to medium-term strategies to minimise such impacts. This has enabled the Group to further integrate their sustainability strategies with their business strategies and has created the need for business units to assess the hidden costs of operations and include sustainability initiatives and other green projects in to their annual objectives. With business unit strategies and goals aligned to triple bottom line results, this has in turn resulted in employee objectives being aligned to such results, which has enabled the Group to truly entrench sustainability into the organisational culture of the Group.

The Group has commenced a focused strategy of encouraging its significant suppliers to embrace sustainability as part of their operations. As such, the Group currently has in place processes to assess risks of environmental, labour and social impacts emanating from its value chain and to carry out internal assessments of supply chain partners. An annual drive to create awareness through supplier fora for the

Group's significant supply chain partners is also carried out and a Code of Conduct for all significant suppliers bidding for the Group's centrally sourced goods and services has been introduced.

#### Sustainability Goal Setting Process

During the year under review, the Group, for the very first time, established energy and water reduction goals for the year 2020, as an innovative stride in its sustainability journey. The Group engaged expert international consultants to conduct in-depth energy and water audits which were carried out effectively covering approximately 90 operational sites over a span of nine months, in order to ascertain reduction strategies and technologies for the setting of the 2020 environmental goals for the Group. The year 2015/16 was established as the baseline for the goal setting process, with the Leisure, Consumer Foods and Retail sectors being identified as the sectors which account for a majority of resource utilisation in the areas of energy and water, and as a result aptly represent the Group's resource utilisation. The feasibility of the proposed strategies were then analysed, with over 300 initiatives being committed by business units and industry groups in delivering internal targets, after which the Group arrived at the final goal for 2020.

As such, the Group will strive to achieve a 12 per cent reduction in its energy usage and a 6 per cent reduction in its water usage by the year 2020, against its 2015/16 baseline figures. These goals represent 15.8 Mn kWh of energy reduction and 188,000 m<sup>3</sup> of water reduction respectively.

#### John Keells Group Sustainability Goals for 2020



## Report Content

The annual report is one of the primary methods used by the Group to respond to stakeholder concerns during the financial year. The process of recognising key sustainability related risks, significant stakeholders, assessment of the material aspects based on relative importance to both the Group and stakeholders, and to formulate policies and management approaches to manage and mitigate these aspects have become an integral part of defining this report.

Engagement of Significant Stakeholders section of this Report explains the process adopted by the Group in determining the information requirements of its stakeholders, prioritisation of issues and establishing materiality. The section titled 'Key Sustainability Concerns' explain the outcomes of the stakeholder engagement process and establishes the relevance of the material aspects and key sustainability indicators that the Group has reported on.

This Report is the Group's second Integrated Annual Report, and has been structured as per the Integrated Reporting framework of the International Integrated Reporting Council, and strives to discuss the inter connections between the six capitals, the Group's business model and the creation of value. Every year, this report provides a holistic overview including the Group's overall strategy, corporate governance framework, risk management processes and financial and non-financial performance covering all aspects of the triple bottom line. Prior to this, the Group published stand-alone sustainability reports, which has gradually evolved over the past four years to reports that strive to disclose relevant information to all stakeholders. During the last four years, the integrated report evolved from a group-centric approach to an approach which provided a sectorial analysis and presentation of relevant material aspects for each industry group. The report which provided the highlights of the triple bottom line performance of each industry group, also provided similar information from a Group-wide perspective. This year, as was the case the previous year, the Report was prepared 'in accordance' -core option of the Global Reporting Initiative GRI G4 Guidelines.

The John Keells Group has been a part of the United Nations Global Compact (UNGC) since 2002 and this report serves as a communication on progress. It also reinforces the commitment to implement the 10 principles of the UNGC initiative. Further enhancing its disclosures to stakeholders, the group has mapped all of its projects carried out by the John Keells Foundation, Group Sustainability, Human Resources division as well as individual businesses, to the Sustainable Development Goals, in turn aligning these with the six Capitals of Integrated Reporting.

This year, each industry group section and the Group Financial and Sustainability Review also strives to capture the interrelationships between identified material aspects and the significance of these aspects in areas such as financial performance, human capital and relationships with community and the environment with a view to providing information with regard to risks and opportunities and strategy going forward.

This annual report strives to provide a clear, concise and balanced overview to all significant stakeholders identified in the Engagement of Significant Stakeholder section of this Report, providing year on year comparisons for both financial and non-financial information relevant to such identified stakeholders. In keeping with the reporting principles for defining report content, and in addition to aspects such as stakeholder inclusiveness and materiality which are further explained in this Report, the disclosures also ensure completeness and contextual information, not only with regards to the Group's performance, but also on sectorial performance of the material aspects identified for each industry group as disclosed in the Industry Group Analysis section of this Report. The Group's material aspects and its aspect boundaries are also covered in the Identification of Sustainability Aspects section of the Report.

The Report, which is published annually, has been externally verified and assured through an independent assurance process undertaken by DNV GL represented in Sri Lanka by DNV GL Business Assurance Lanka (Private) Limited. The data measurement techniques, calculation methodologies, assumptions and estimations applied in the

compilation of the sustainability indicators contained in this Report, are in accordance with standard industry practices and indicator protocols provided under the GRI G4 Guidelines included in the Reporting Principles and Standard Disclosures and the Implementation Manual. Such data measurement techniques, methodologies, assumptions and estimations are detailed in the relevant Disclosures of Management Approach section and can be found online at [www.keells.com/sustainability-and-csr](http://www.keells.com/sustainability-and-csr).

The GRI content index has been utilised to refer to specific information and disclosures required by the GRI framework. The John Keells Group has been a part of the United Nations Global Compact (UNGC) since 2002 and this Report serves as a Communication on Progress. It also reinforces our commitment to implement the 10 principles of the UNGC initiative. Further enhancing its disclosures to stakeholders, the Group has mapped all of its projects carried out by the John Keells Foundation, Group Sustainability, Human Resources division as well as individual businesses, to the Sustainable Development Goals, in turn aligning these with the six Capitals of Integrated Reporting.

A year on year comparison is possible subject to the explanations provided with respect to the divestments mentioned previously as well as changes in operational activity as mentioned in the Industry Group Review sections in this Report. In terms of restatements in comparison to the previous year 2015/16, the numbers and statements have been re-arranged wherever necessary to conform to the present year's presentation.

# Group Consolidated Review

## MATERIALITY AND STAKEHOLDER RELATIONSHIPS

### Scope and Boundary

84 legal entities of the John Keells Group create the financial reporting boundary of this report of which, 75 companies are directly controlled by the Group. The remaining 9 have not been included for sustainability reporting, as they do not fall within direct control of the Group. Of the 75 companies, 27 have been excluded for reporting purposes as they do not carry out any operations that significantly interact with the environment or society at large. Such companies are either non-operational entities, investment entities, land-only holding companies, managing companies or companies that rent out office spaces. The other 48 companies have been listed in the Group Directory and any other exclusions made have been clearly explained under the relevant sustainability aspects. Apart from Rajawella Holdings Limited (RHL) and 15 new Keells Super outlets being included in the reporting scope during the reporting period, no other significant changes were made to the reporting scope regarding the organisation's size, structure, ownership, or its supply chain, during the year under review.

### Engagement of Significant Stakeholders

The Group conducts its commercial operations in several industry sectors of the economy across different geographical markets. This diversity necessitates developing and sustaining relationships with various stakeholder groups. Stakeholder expectations of the Group would be diverse and numerous considering the large number of stakeholders that the Group engages with. The Group has therefore considered only the stakeholders who have a significant influence over the Group, or who would be significantly impacted by the Group's operations. These groups are identified in the diagrams in the ensuing sections.

The Group engages with its significant stakeholders through formal and informal consultations, participation, negotiations, communication, mandatory and voluntary disclosures, certification, and accreditation. The various methods of engagement and frequency of engagement with significant suppliers have been shown below:

The Report has been externally verified and assured through an independent assurance process undertaken by DNV GL represented in Sri Lanka by DNV Business Assurance Lanka (Pvt) Ltd.

#### Customers - individual, corporate B2B

**Expectations** - Meeting customer expectations on product and service features, ensuring high quality and safe products and services delivered in an environmentally and socially responsible manner.

Frequency	Methods of engagement
Annually	Road shows, trade fairs and field visits
Bi-annually	One-on-one meetings, discussion forums, progress reviews
Quarterly	Customer satisfaction surveys
On-going	Through information dissemination through printed reports, telephone, SMS, e-mail, corporate website, workshops and business development activities

#### Society, media, pressure groups, NGOs, environmental groups

**Expectations** - Carrying out operations in accordance with social norms, prevailing culture, with minimal impact on society and environment, whilst adhering to all relevant laws and regulations and operating as a responsible corporate citizen adopting sound corporate governance practices

Frequency	Methods of engagement
On-going	Website, press releases, media briefings, correspondence, disclosures, media coverage, participation in NGO forums, certification and accreditation

#### Institutional investors, fund managers, analysts, leaders, multilateral lenders

**Expectations** - Consistent economic performance leading to greater economic value generation

Frequency	Methods of engagement
Annually	Annual reports, disclosures and reviews
Quarterly	Quarterly reports
Regularly	Investor road shows
On-going	Phone calls, e-mail, written communication, websites, one-on-one meetings

#### Community - neighbours, community, community leaders, society

**Expectations** - Stimulating local economy through procurement and providing direct and indirect employment whilst carrying out operations with minimal impact on shared natural resources.

Frequency	Methods of engagement
One-off	Engagement with the community is carried out prior to entry into the community area and on exit via one-on-one meetings, workshops, forums
Monthly	Engagement is then carried out on a monthly basis while operating via one-on-one meetings, workshops, forums
On-going	Corporate Social Responsibility programmes, creating awareness and education

**Employees - Directors, executives, non-executives**

**Expectations** - Providing a safe and enabling environment, equal opportunity and a culture of meritocracy, enhancement of skills and knowledge, continuous engagement, providing feedback and encouraging work-life balance

Frequency	Methods of engagement
Annually	Employee satisfaction surveys and dip stick surveys such as Great Place To Work (GPTW), VOE (Voice of Employee), Group-wide year end get-together.
Bi-annually	Formal performance reviews, skip level meetings
Regularly	Intranet communications through JK Connect and My Portal
On-going	Professional training, development activities and team building through internal and external programmes, joint consultative committees, open door policy at all management levels, sports events, Corporate Social Responsibility programmes

**Government, government institutions and departments**

**Expectations** - Contribution to the country's economy through strategic investments, creating direct and indirect employment, timely payment of taxes and levies and stimulating local economies

Frequency	Methods of engagement
Quarterly	The senior management are members of chambers and industry associations who meet at least on a quarterly basis
On-going	Engagement with the government is carried out on an on-going basis through meetings, business forums, newsletters, circulars, presentations and briefings, advisory meetings of industry associates

**Industry peers and competition**

**Expectations** - Carrying out operations in a fair and ethical manner, active participation in business councils and committees and discouraging anti-competitive behaviour

Frequency	Methods of engagement
Quarterly	The senior management are members of chambers and industry associations who meet at least on a quarterly basis
Regularly	Communication through membership of trade associations, conferences, discussion forums

**Business partners, principals, suppliers**

**Expectations** - Fostering long term business relations and benefitting from the growth of the Group, adherence to contractual obligations, knowledge sharing and active representation in business councils and committees in the relevant industry sectors

Frequency	Methods of engagement
Annually	Distributor conferences, contract renegotiations and reviews, road shows, supplier assessments, supplier fora
Quarterly	Supplier review meetings, one-on-one meetings
Regularly	Market reports
On-going	Conference calls, e-mails, circulars, corporate website and sourcing, contracting and supplier management platform

**Legal and regulatory bodies**

**Expectations** - Carrying out operations in compliance with all relevant laws and regulations and operating as a responsible corporate citizen adhering to sound corporate governance practices

Frequency	Methods of engagement
Quarterly	The senior management are members of chambers and industry associations who meet at least on a quarterly basis
On-going	Engagement with the legal and regulatory bodies is carried out on an on-going basis through meetings, periodic disclosures, correspondence with bodies such as local authorities, municipal councils and other institutions such as Consumer Affairs Authority, Department of Inland Revenue, Customs Department, Securities and Exchange Commission, Colombo Stock Exchange and the Tourist Board of Sri Lanka

## Group Consolidated Review

### MATERIALITY AND STAKEHOLDER RELATIONSHIPS

#### Key Sustainability Concerns

There is a strong confidence among stakeholders on the Group's corporate and sustainability strategies and performance based on the fact that no adverse reports relating to environmental and social concerns pertaining to the operations of the Group or its companies have been highlighted during the reporting year. This conclusion has been reached by the Group through continuously monitoring print and electronic media throughout the period, which also now forms part of the Group's process of tracking key risk indicators.

Once in every two years, a group-wide comprehensive "Great Place to Work" survey is carried out to obtain timely feedback from employees, while the Group conducts a 'Voice of Employee' survey which is an in-house dip stick study, administered online by an external party to ensure transparency and confidentiality. The findings of the survey are incorporated into an action plan and are used in evaluating manager effectiveness, influencing policy and process changes, employee motivation and morale. In 2016 a VOE survey was conducted to ensure the employee satisfaction status post the GPTW held in 2014. The survey was based on four key drivers namely - Caring, Credibility, Equality and Pride which are assessed through 16 statements. The Group also constantly engages with its employees, identifying areas such as employee welfare, training and retention of talent as focus areas.

The supplier assessments carried out during this year helped us identify material environmental and social concerns emanating from our value chain partners, effectively taking the Group's sustainability focus to our value chain partners as well. In addition, supplier performance management aspects such as quality checks in ensuring that suppliers adhere to regulations and best practices are carried out. In instances where anomalies were found, stakeholder engagements were carried out to ensure the development of such suppliers processes to minimise repetition.

The supplier assessments carried out during this year helped us identify material environmental and social concerns emanating from our value chain partners, effectively taking the Group's sustainability focus to our value chain partners as well. In addition, supplier performance management aspects such as quality checks in ensuring that suppliers adhere to regulations and best practices is carried out.

During the year, the Group has responded to customer feedback in a structured and consistent manner, driven by the centrally developed Corporate Communications policies, especially with regards to social media platforms.

The primary concern of shareholders is to ensure not only return on their investment but consistent returns for the long run. However in addition to the overall economic performance of the company, such investors would also consider the sustainability of the organisation with regards to its environmental performance, social performance and corporate governance. Through its annual reports the Group has responded to concerns raised by stakeholders during the year. During the financial year the Group has strengthened its policy frameworks and management approach, where it has become vital to address its material aspects and identify potential frontier risks.

Stakeholders such as society, pressure groups and regulatory authorities constantly assess the operations of corporate with regard to the responsible utilisation of resources, conservation of bio diversity and environmental protection and these will continue to be high priority areas for the Group.

The John Keells Group has always placed great importance in developing the communities within which it operates. The Group's corporate philosophy has always been to be a responsible corporate citizen; and will continue to do so as done over the years.

#### Identification of Sustainability Aspects

Taking into consideration the key sustainability concerns of significant stakeholder groups, the Group assesses its material aspect boundary as follows. The Group considers its business units and employees as internal stakeholders whilst its external stakeholder consist of shareholders, investors, lenders, customers, suppliers, business partners, government and regulatory authorities, peers, pressure groups media and the community. Continuing from the previous year, this year too, the Group provided greater focus to suppliers and distribution networks in an attempt to assess the risks faced by the Group through its value chain.



**Aspect Grouping**

Internal	External	
		Economic Performance
		Procurement Practices, Indirect Economic Impact
		Energy and Emissions
		Water, Effluents and Waste
		Biodiversity and Environmental Compliance
		Employment, Diversity and Equal Opportunity, Labour Relations, Freedom of Association, Training, Occupational Health and Safety
		Non-discrimination, Prevention of Child Labour, Prevention of Forced and Compulsory Labour
		Local Communities
		Anti-corruption and Regulatory Compliance
		Supplier Assessment (Environmental and Labour)
		Product Quality and Compliance, Labelling, Marketing Communications

# Group Consolidated Review

## MATERIALITY AND STAKEHOLDER RELATIONSHIPS

In defining report content, the Group sought to prioritise the material impacts based on their relative importance to internal and external stakeholders. This prioritisation and identification of material aspects for reporting is shown below.



Colour Code of Category	Material Aspects	Management Approach
Economic	Economic performance, procurement practices, indirect economic impacts	Our Investors
Environment	Energy, water, biodiversity, emissions, effluents, waste, compliance	Our Environment
Employees	Employment, training and development, diversity and equal opportunity, occupational health and safety	Our People
Ethical business and human rights	Anti-corruption, compliance, prevention of child labour, prevention of forced and compulsory labour, freedom of association	Our Ethics
Product responsibility	Product labelling, responsible advertising, product compliance, customer health and safety	Our Products
Supplier assessment	Assessment of suppliers for environment stewardship, labour practices and human rights	Our Supply Chain
Social responsibility	Local community	Our Community

Any clarifications regarding this Report may be obtained from the:

Sustainability, Enterprise Risk Management and Group Initiatives Division, John Keells Holdings PLC  
 186, Vauxhall Street, Colombo 2, Sri Lanka  
 Email : sustainability@keells.com  
 Website : www.keells.com/sustainability-and-csr



Disclosures of Management Approach can be found on the corporate website at [www.keells.com/sustainability-and-csr](http://www.keells.com/sustainability-and-csr).

## Management Approach of Identified Material Aspects

A detailed description of the strategies and approach adopted by the Group in managing its material aspects are contained in the Disclosure of Management Approach section hosted on the Group website [www.keells.com/sustainability-and-csr](http://www.keells.com/sustainability-and-csr). A summary of this management approach to the Group's economic performance, ethics and human capital, environmental responsibility, product stewardship, supply chain management and social responsibility is contained below.

### Our People

Human resources is an appreciating asset bringing continuous returns and constitutes the catalyst for world class performance. Being in predominantly service based industries, productivity, efficiency, customer focus, and skills are of vital importance in obtaining a competitive advantage.

The Group is committed to being "More than just a Workplace" while the foundation of its HR philosophy is to be an equal opportunity employer.

The Group has in place policies with regard to human resources covering all aspects of employment.

- All Group companies adhere to all relevant local labour laws and regulations.
- The Group does not discriminate its employees on the basis of gender, race, nationality, age, social origin, disability, religion, or any other basis.
- The Group recognises the rights of employees and provides forums, support groups and policies to address their concerns and resolve issues and conflicts in a fair and transparent manner.

➤ Details of the Group's human capital can be found in the **Capital Management Review** section.

### Our Environment

The Group has significant operations in various sectors which have high environmental impacts such as energy, water consumption, emissions, waste and effluents and bio diversity. The Group is aware that it is a custodian of the environment for future generations and as such take best efforts to minimise negative environmental impacts and comply with all applicable laws and regulations. The Group is also aware of the importance of preserving the country's natural resources which in turn would enhance the unique value proposition of the Group's products and services.

The John Keells Group is committed to promoting sound environmental practices within our key businesses, through the establishment of policies and practices that enable us to conduct our operations in a sustainable and environmentally sound manner.

- The John Keells Group places great importance on the management and reduction of energy, water consumption, carbon emissions, waste generation and effluent discharge in the areas of operations.
- Complementing the overall Environment Policy, the Group has in place several other policies such as its Energy Management Policy, Water Management Policy as well as policies such as the Hazardous Waste Management Policy covering waste management.

➤ The Group's environmental performance can be found in the **Capital Management Review** section.

### Our Investors

The Group's continued success is dependent on its triple bottom line performance, by providing economic value addition, financial value through to its shareholders, pay back on investment to its investors, payment of debt financing to its financiers and benefits to its employees, whilst also maintaining its social license to operate.

The John Keells Group is committed to delivering sustainable economic performance and growth to all its diverse stakeholders.

The Group's sound financial management is based on a diversified approach aiming to increase economic value whilst ensuring stringent internal controls and robust Enterprise Risk Management processes.

- Employees are targeted through a performance centric compensation culture which results in high levels of efficiency and productivity.
- The Group seeks to stimulate the economies through its commitment to developing and working with local suppliers.

➤ The Group's economic performance can be found in the **Capital Management Review** section.

### Our Ethics

The Group is committed to upholding the universal human rights of all its stakeholders whilst maintaining the highest ethical standards in all its business operations.

The John Keells Group places the highest value on ethical practices and has promulgated a zero tolerance policy towards corruption and bribery in all its transactions.

- All business units and functions of the Group are required to include and analyse the risk of corruption as a part of their risk management process.
- The Group employs stringent checks during its recruitment process to ensure the minimum age requirements are met.
- The Group ensures that all companies are educated on the possible sources of forced and compulsory labour.
- The Group has zero tolerance for physical or verbal harassment based on gender, race, religion, nationality, age, social origin, disability, political affiliations or opinion.

➤ The Group's governance mechanism and internal control procedures can be found in the **Governance** section.

## Group Consolidated Review

### MATERIALITY AND STAKEHOLDER RELATIONSHIPS

#### Our Products

The delivering of optimal levels of quality and ensuring maximum satisfaction to all its customers and clients has always been imperative and material to the Group.

The John Keells Group strives to maintain products and services at the highest standards in line with all relevant local and international statutory and regulatory requirements in the markets we serve.

- The Group develops and markets products and services that meet customer requirements and meet the highest product quality standards which ensure customer health and safety.
- The Group follows the ICC Code of Advertising and Marketing Communication for all its products and services
- The Group adheres to all product labelling requirements specified in all relevant laws and regulations in the countries it operates.

➤ The Group's product related information can be found in the relevant **Industry Group Review** section.

#### Our Supply Chain

Engaging with a vast number of business partners across its various industry groups, the Group recognises the importance of entrenching sustainability across its value chain towards promoting responsible businesses whilst reducing risk.

The Group engages with its significant suppliers in ensuring that their working conditions are safe, workers are treated with respect and dignity, and that operations are carried out in an environmentally responsible manner.

- The Group has introduced a comprehensive Supplier Management Framework including a Supplier Code of Conduct.
- Awareness creation and engagement of suppliers are carried out through supplier fora.
- Significant suppliers are assessed annually on labour practices, human rights and environmental impacts through an internally developed supplier checklist.

➤ Details of the Group's supplier engagements can be found in the **Capital Management Review** and the **Disclosures of Management Approach** found on the corporate website at [www.keells.com/sustainability-and-csr](http://www.keells.com/sustainability-and-csr).

#### Our Community

The Group aims to be good neighbours and proactively contributes to the development of the nation through aligning its focus areas to the Sustainability Development Goals (SDGs) adopted by Sri Lanka.

The Group abides by the values of caring, trust and integrity through demonstrating our commitment to the community and environment we operate in staying in line with our CSR Vision "empowering the nation for tomorrow".

- The Group focuses on education, health, environment, community and livelihood development, arts and culture and disaster relief.
- The Group has contributed towards the development of society through infrastructure, public services and local community engagement initiatives.

➤ The Group's social responsibility initiatives can be found in the **Capital Management Review** and the **Industry Group Review** section.



Disclosures of Management Approach can be found on the corporate website at [www.keells.com/sustainability-and-csr](http://www.keells.com/sustainability-and-csr)

# Group Consolidated Review

## RISKS, OPPORTUNITIES AND INTERNAL CONTROLS

### Enterprise Risk Management Process Overview

#### Business Unit/ Sector/ Industry Group Risks

Each group company carries out its respective enterprise risk identification and review process quarterly, bi-annually and annually, based on a pre-agreed structure. As such, company specific related risks as well as sector and industry group common risks are analysed and reviewed at various fora such as the monthly Group Management Committees, the quarterly Board Meetings, and finally at the bi-annual comprehensive risk identification and review carried out centrally by the Sustainability, Enterprise Risk Management and Group Initiatives unit and by the Group Executive Committee. Risks covered at these various levels, include operational risks, cyber risks, hazard risks, financial risks, fraud and corruption, labour related risks, natural disasters, environmental pollution and supply chain risks. Each Group company also identifies its core sustainability risks, which, though having a relatively low probability of occurrence could have a significant impact on the sustainability of its operations.

All business unit risks, once validated and reviewed at the industry group level Group Management Committees, are then presented to the Audit Committees of all listed companies and to the Boards of the unlisted companies, together with risk mitigation plans, at least once a quarter.

The Group's robust corporate governance structure which encompasses the self-linking of risk management, sustainability, corporate social responsibility and internal audit processes ensures that the impacts of all risks identified for both the business unit and the Group are proactively managed. Continuous horizon scanning helps the Group identify both risks and opportunities with regard to global and regional trends.

All business unit risks, once validated and reviewed at the industry group level Group Management Committees, are then presented to the Audit Committees of all listed companies and to the Boards of the unlisted companies, together with risk mitigation plans, at least once a quarter. Business units are the ultimate owners of the risks of that business and are responsible for reviewing and monitoring the agreed risk control measures on an ongoing basis. Some components of the agreed risk control

measures are often subject to audit by the internal audit team which reports to the respective Audit Committee of the listed companies and to the Audit Committee of John Keells Holdings PLC with respect to all Group companies.

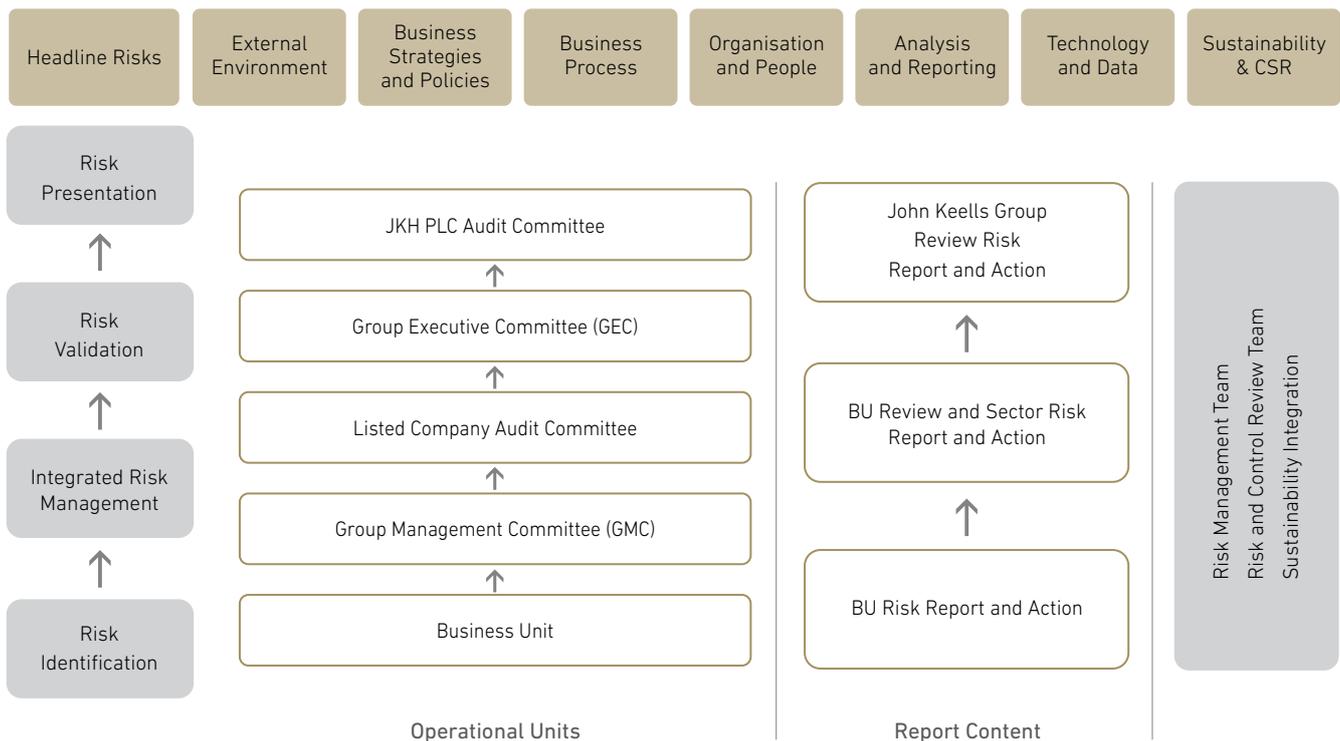
#### Group Risks

Risks pertaining to the Group, and the identified critical operating risks at business unit level, are reviewed bi-annually by the Group Executive Committee. The risk management cycle is concluded with an annual Group Risk Report containing a Group wide risk status, analysis and profile which is presented to the Group Audit Committee and any policy level decisions stemming from this review are incorporated in the next risk review cycle.

#### Risk Management Process

The risk management process and information flow is depicted below.

John Keells Risk Management Process Flow



## Group Consolidated Review

### RISKS, OPPORTUNITIES AND INTERNAL CONTROLS

During the reporting year, the Group also enhanced its risk management process by introducing an IT solution to manage its Enterprise Risk, Audit, and Incident Management processes. The IT solution makes the Group's Risk Management functions live and virtual, by enabling the maintenance of live, dynamic risk registers which are linked to business goals and responsible personnel - along with the provision of timely alerts on action plans, and escalation processes for risks where action plans are over-due. Key management personnel at all levels (CEOs, Sector Heads, and Presidents) will have virtual visibility of the risks relevant to them. The platform will also facilitate the sharing of best practices across the group. The Risk Universe, which frames the categorisation of risks, has also been updated for relevance during the year to reflect topical and emerging risks.

#### Key Impacts, Risks and Opportunities

Risk management is a firmly entrenched component of the corporate governance process of the John Keells Group and has been instrumental in successful corporate craftsmanship and the long term sustenance of the Group. The structured process for risk management further enhances the Group's value creation process for all its significant stakeholders by ensuring that Group companies effectively identify and mitigate a range of operational, structural, financial and strategic risks. The Group's risk management process also identifies aspects from a triple bottom line perspective, covering risks and impacts to the Group arising from the socio-economic environment it operates in, as well as the risks and impacts emanating from its own operations as well as that of its value chain. Good risk management has enabled the Group to undertake new projects where the reward to risks factor is optimal.

The Group remains positive about the future of Sri Lanka's economy, and members of its senior management actively participate in key policy making bodies, committed to supporting the Government in its efforts towards creating sustainable and equitable economic growth.

The Group's operational decisions are also influenced by the "Precautionary Principle" and accordingly from an environmental perspective, the Group considers resource consumption, environmental pollution, environmental degradation and its impacts on the local community, as areas of high priority.

As such, the Group focused its attention on key areas such as attracting and retaining necessary skills, maintaining good labour relations, enhancing its product responsibility, contribution to the community through infrastructure projects and the overall creation of value for all internal and external stakeholders, during the year.

The Group's operational decisions are also influenced by the "Precautionary Principle", particularly, from an environmental perspective. As such, the Group considers resource consumption, environmental pollution, environmental degradation and its impacts on the local community, as areas of high priority. As a part of this process, the Group tracks Key Risk Indicators such as natural disasters, emissions, climate change and impacts to biodiversity, ensuring a minimum impact on the environment within which it operates.

Given the pervasive nature of risks, discussion of the same, at a Group Level, are contained inter alia, in the Capital Management section of the Group Consolidated Review section, the Industry Group Review section and the Financial Statements of this Report. Details on risks, opportunities and internal controls specific to business units, sectors and industry groups are discussed in the Industry Group Review section of this Report.

#### Headline Risks

##### Macro-economic and Political Environment

	2016/17	2015/16	2014/15
Risk rating	Low	Low	Moderate

Policy uncertainty and the volatility of the economic environment - both locally and globally - continued during the year. Despite the current lack of clarity, and definition on some of the economic policies, the Group and the Business Community remain positive about the future of Sri Lanka's economy. Several senior management staff actively participate in key policy making bodies,

committed to supporting the Government in its efforts to create sustainable and equitable economic growth. The conditions in the Maldives improved, with the Group working closely with the authorities to support its economic growth. For the aforesaid reasons, this risk remains a Low.

##### Regulatory Environment

	2016/17	2015/16	2014/15
Risk rating	High	High	Ultra High

A degree of uncertainty and volatility still prevails as a result of transitioning legal, regulatory and tax structures. The prolonged prevalence of this uncertainty and impact of the same on our businesses result in the risk rating remaining at a High. The Group's operating model, together with its internal processes, aims to ensure flexibility with, and adaptability to, any unexpected changes in the legal framework. Participation of the Group's senior executives in various industry associations and industry chambers helps to bring clarity and consistency to Government policies and regulations.

##### Financial Exposure

	2016/17	2015/16	2014/15
Risk rating	Low	Low	Low

The central Treasury Division, supported by the Executive and Finance functions of the businesses, is responsible for the management of financial risks through ongoing monitoring. Hedging mechanisms, liquidity management strategies, capital structuring, and other Board approved strategies, where relevant, are applied across the Group. Given the volatility and uncertainty in the global and local macro-economic environment as witnessed in the previous financial year, the ensuing sub-section elaborates on the key elements of financial exposure, the state of the Group's readiness and the general outlook relating to such elements.

### Currency / Exchange Rate

#### Risk rating - Medium

After a volatile move in the first half of the financial year, the USD/LKR exchange rate depreciated at a steady pace in the latter half. The Group adopted prudent measures to manage the financial impacts arising from currency fluctuations, underscoring the importance of matching liabilities with corresponding inflows and constantly evaluating such positions. Some of the initiatives for managing the currency risk included matching routine foreign currency conversions with import bill settlements; matching of Dollar revenue streams with Dollar denominated debt to architect "natural hedges"; accumulation of foreign currency funds, where allowed, and the deferral of conversions; premature settlement of forex denominated trade liabilities; and the regular review of rates and related contractual pricing in the context of competitiveness.

### Interest Rate

#### Risk rating - Low

The Rupee interest rates saw a steady upward movement throughout the year as a result of the Central Bank's revision of policy rates twice during this period. However, this did not have a material impact on the Group since the Rupee share of debt declined for most part of the year. Interest cost did however increase in the last quarter which was commensurate with the increase in short-term debt for premature settlement of USD trade liabilities. This was a more economical alternative to currency hedges. The Group continued its strategy of maintaining floating Dollar denominated debt facilities for a majority of the currency debt where the operations of the subject business unit produced forex denominated revenues. Even so, it continued to evaluate and enter into hedge instruments, where feasible, including the creation of a natural hedge against Dollar denominated short-term deposits on variable rates of return.

Given the current outlook for interest rates in relation to the USD 395 million syndicated loan facility, obtained by Waterfront Properties (Private) Limited for the development of "Cinnamon Life" project, the Group entered

into a partial hedge during the previous year, as a measure to mitigate the interest rate exposure of the Group. The Group will continue to monitor its LIBOR exposure in relation to the syndicated loan facility, make periodic updates and recommendation to the Board as necessary, and take required action to mitigate exposure and potential risks.

### Credit and Counterparty

#### Risk rating - Low

The Group continued to liaise with only reputed creditworthy counterparties. All clients are subject to credit verification procedures. They are required to submit bank guarantees/performance bonds/counter guarantees, where applicable. These clients are regularly appraised and the subject arrangements are frequently reviewed. Internally set up exposure limits mitigate the concentration risk in any single counterparty is mitigated due to internally set exposure limits.

### Liquidity

#### Risk rating - Low

The Group strived to ensure that a product-mix of short-term investments and undrawn committed facilities are sufficient to meet the short, medium and long term capital and funding requirements, unforeseen obligations as well as unanticipated opportunities. The daily cash management processes including active cash flow forecasts, matches the duration and profiles of assets and liabilities, thereby ensuring a prudent balance between liquidity and earnings.

*Note - For further details and quantification of the aforementioned risks, refer the Notes to the Financial Statements*

### Information Technology

	2016/17	2015/16	2014/15
Risk rating	High	High	Low

The majority of the Group's IT systems are centralised to ensure uniformity and standardisation across the Group. Whilst

most servers have now been consolidated into the Group's central data centre, as such increasing utilisation and reduces unit costs, this however also increases the risk of concentration. Such risks are mitigated via strict IT protocols, firewalls, business continuity plans and disaster recovery sites and processes. While the Group is comfortable with the risk management of the aforesaid area, the overall score of the risk remains at a High due to the implications of contextual and potential risks such as cyber security. As a preliminary step, the Group has engaged a reputed third party service provider to establish and manage an "Intelligence Managed Security Operations Center." While the initial commissioning is due in the first quarter of 2017/18, the completion will take place in the second quarter. The Group recognizes that it has to employ new technologies in gaining productive improvements and marketing sales advancements. However this increases the risk element. Given the same, the risk rating remains a High.

### Global Competition

	2016/17	2015/16	2014/15
Risk rating	Low	Low	Low

In the face of the numerous foreign investments taking place in Sri Lanka, especially by international players, the Group remains alert with regard to ensuring its competitiveness. The Group has sought to match global standards through benchmarking its businesses to global best practices and maintaining the highest quality levels in terms of both products and services. Further, in an effort to keep abreast of digital advancements, the Group is proactively relooking at disruptive and innovative business models, customer engagement and business processes and has put in place a Digitisation Steering Committee to further study emerging practices. In addition, 2016/17 saw the introduction of a Chairman's Award for Disruptive Innovation, for which one of the major criteria was the

Given the current outlook for interest rates in relation to the USD 395 million syndicated loan facility, obtained by Waterfront Properties (Private) Limited for the development of "Cinnamon Life" project, the Group entered into a partial hedge during the previous year, as a measure to mitigate the interest rate exposure of the Group.

#### Refer Note 10 of the Note to the Financial Statements

for further details and quantification of the aforementioned risks under Financial Exposure

## Group Consolidated Review

### RISKS, OPPORTUNITIES AND INTERNAL CONTROLS

The Group, over the years, has placed a strong emphasis on retaining key talent through performance recognition and reward schemes, succession planning, leadership and career development programmes, ensuring that high quality employees are retained, despite the highly competitive labour environment.

benchmarking of practices against the best in class, both internationally and locally. The risk rating remains at a Low.

#### Human Resources and Talent Management

	2016/17	2015/16	2014/15
Risk rating	Low	Low	Low

The Group, over the years, has placed a strong emphasis on retaining key talent through performance recognition and reward schemes, succession planning, leadership and career development programmes, ensuring that high quality employees are retained, despite the highly competitive labour environment. Additionally, talent attrition is also tracked as a Key Risk Indicator on a quarterly basis and reported to the Group Executive Committee. The Group conducts many surveys internally to better understand its employee needs and aspirations. Whilst the Group has a robust non-discrimination policy and an effective grievance handling mechanism, it maintains a culture of continuous engagement and dialogue with employees. In addition, the Group's engagement with unions is on a partner basis and this has resulted in better performance oriented outcomes. The Group significantly improved its scores on the GPTW Survey.

Improving competencies and skills is recognised as a vital factor in maintaining current standards and matching global best practice levels. The Group achieves this through targeted, business focused training and development programmes available to all employees across the Group on a needs basis, allowing the Group to retain its ability to position itself as a preferred employer. As a result of these measures, and based on the empirical evidence of past year, the rating for this risk remains a Low.

#### Environment and Health and Safety

	2016/17	2015/16	2014/15
Risk rating	Low	Low	Low

The Group has in place a robust Environmental Management System with emphasis on socio environmental policies with respect to energy, emissions, water, discharge, waste and bio diversity. All companies are required to ensure zero violations of the country's environmental laws and regulations and are encouraged to go beyond compliance, where practicable, in keeping with global best practices such as ISO 14000 Environmental Management certification. The Group continuously strives to reduce its energy consumption, carbon footprint and water consumption and as such, Group companies are encouraged to constantly seek out renewable sources of energy and install energy and water efficient equipment. Responsible waste disposal is a key aspect under management focus, and is carried out through training and awareness, converting of waste to energy and the continuous incremental evolution of processes and systems in reducing/reusing/recycling waste.

The Group makes every effort to ensure a safe working environment for its employees, consumers, customers and third parties, in keeping with its commitment to be a responsible corporate, contributing to the improvement of morale, productivity and efficiency. Whilst the provision of safe and healthy products/services for its customers is a top priority for the Group, where relevant, Group companies have obtained OHSAS 8001 Occupational Health and Safety, HACCAP certification and ISO 22000 certification on food safety management systems. Against this background, the risk of Environment and Health and Safety remains a Low.

#### Reputation and Brand Image

	2016/17	2015/16	2014/15
Risk rating	Low	Low	Low

The Group's Code of Conduct is the foundation of its uncompromising approach to ethical and transparent business conduct with a "zero tolerance" attitude to any Code of Conduct violations. This is further supplemented and strengthened, through the presence of an independent Ombudsperson, Whistleblower mechanisms and Chairman Direct conduits amongst other measures, supporting the governance structure of the Group.

The Group also identifies and mitigates potential brand reputation risks through the tracking and monitoring of such under a sustainability development framework. The numerous strategic infrastructure and community development projects carried out by the John Keells Foundation contributes to further strengthening its stakeholder engagement process. In addition, stringent quality assurance and product standards are maintained and product quality is continually monitored and tracked. In the few instances where public discontent has been identified, the Group took immediate steps to explain the circumstances. All marketing, and public communications, are vetted in ensuring conformance with the Group Marketing and Communications Policy, based on the ICC Code of Advertising and similar. In this light, the Group is confident that the rating of this risk remains a Low.

The Group makes every effort to ensure a safe working environment for its employees, consumers, customers and third parties, in keeping with its commitment to be a responsible corporate, contributing to the improvement of morale, productivity and efficiency.

Refer Section 5.5 of the Corporate Governance Commentary for further details on Internal Controls

### Supply Chain Risk

	2016/17	2015/16	2014/15
Risk rating	Low	Low	Low

With a strong focus on integrating best practices within its value chain, the Group believes a comprehensive risk management process must also extend to its value chain partners, through regularly assessing risks associated with its supply chain. As such, supplier performance is reviewed on an annual basis with regard to compliance with labour, environmental and other relevant operating regulations of the country. Concurrently, the Group also provides training and knowledge transfer through supplier fora held annually both in Sri Lanka and the Maldives, for its significant value chain partners, assisting to further entrench sustainability within their own business operations, resulting in cost benefits as well as enhancement of their own brand image. The Group's Supplier Code of Conduct also educates suppliers on the expectations of the Group with regards to sustainable and ethical business practices. As a result of these proactive steps taken by the Group, the risk rating remains at a Low.

#### Risks - the interlinkages

Given the interrelationships between risk management and sustainability, the Capital Management Review of the Consolidated Review section of this Report details the Group's performance with regard to all pillars of the triple bottom line. This is further

reinforced through the Group's corporate governance framework, which in turn ensures a strong focus on compliance to regulatory and ethical guidelines, helping the Group operate in line with the principles of sustainable development continued to focus its efforts on supporting local economies in the geographical areas of its operations. Its sustainable sourcing initiatives ensure, whenever possible and practical, that raw materials for the Group's Consumer Foods sector and goods for the Retail sector are procured locally. This has resulted in the Group contributing to uplifting livelihoods and promoting industry in its areas of operation.

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Concurrently, the Group also provides training and knowledge transfer through supplier fora held annually both in Sri Lanka and the Maldives, for its significant value chain partners, assisting to further entrench sustainability within their own business operations, resulting in cost benefits as well as enhancement of their own brand image.

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# Group Consolidated Review

## SHARE AND WARRANT INFORMATION

The following is an overview of the market conditions which prevailed during the year under review, both globally and locally. The section concludes with a discussion on JKH share related information.

### Global Review

The year under review was characterised by significant market volatility and uncertainty, mainly ascribed to global political developments such as Brexit and the US Presidential election. The first quarter of the financial year saw a gradual recovery of global stock markets from a depressed start in 2016, mainly fuelled by China's slowing economic growth and the depreciating Renminbi. Furthermore, the commodities market had a challenging start to the year, as oil prices fell due to worldwide oversupply, which was subsequently resolved by the agreement between OPEC nations in November 2016 to curtail output in 2017.

The UK's decision to exit the European Union (EU) in a landmark referendum in June 2016 marked the first of the unexpected political developments during the year. Global financial markets reacted to the decision through a rapid sell down of its GBP holdings, fueled by concern over the future of British trade, the City of London's position as the main financial services centre in Europe, and the British economy, as a whole. As a result, the GBP depreciated by 10 per cent against the US dollar in a single day's trading post Brexit, marking a 31-year low for the currency.

The outcome of the US Presidential election in November 2016 where President Donald J. Trump Jr. emerged victorious resulted in highly volatile markets given the anticipation of a fundamentally different policy approach as markets priced in rapid execution of deregulation, a stronger US dollar, lowering of corporate taxes and increased infrastructure spending, among others. This momentum carried on into 2017 with the Dow Jones Industrial Average crossing and closing above 20,000 points for the first time in its history. However, the strong performance was not limited to industries, with all major US equity categories making gains in the 4th quarter, with the S&P 500 and NASDAQ Composite cruising to records off the back of upbeat earnings releases from heavyweights.

Heightened volatility and uncertainty in equity markets influenced IPOs in the year under review. The calendar year 2016 saw the most

Total number of shares in issue as at 31/03/2017	1,387,467,137
Global Depository Receipts (GDR) as at 31/03/2017	1,320,942
Public shareholding as at 31/03/2017	97.53%
Stock symbol	JKH.N0000
<b>Newsire codes of the JKH Share</b>	
Bloomberg	JKH.SL
Dow Jones	PJKH
Reuters	JKH.CM



challenging year for global IPOs since 2003, with new issues marking a decrease of 40 per cent compared to the previous year.

Despite the aforementioned challenges, regional peer equity markets enjoyed promising results during the financial year as valuations tended to be comparatively attractive. India's S&P BSE SENSEX Index (SENSEX) witnessed a strong year posting a growth of 17.2 per cent over the financial year. Furthermore, the Jakarta Composite Index (JKSE) and Singapore's Strait Times Index (STI) both had a positive year, enjoying double digit growth of 15.0 and 12.7 per cent, respectively. Malaysia's FTSE Bursa Malaysia KLCI (KLSE) exhibited slower growth for the year and expanded by 1.7 per cent.

### Local Stock Market Review

During the period under review, the All Share Price Index (ASPI) of the Colombo Stock Exchange (CSE) fell marginally by 0.2 per cent to 6,061.94 points [2015/2016: 6,071.88]. The Standard and Poor's Sri Lanka 20 Index (S&P SL 20), which is the weighted average index of selected counters of the CSE based on market capitalisation, liquidity and financial thresholds, stood at 3,438.88 points as at 31 March 2017, recording an increase of 7 per cent against the previous financial year [2015/16: 3,204.44]. The overall market capitalisation of the CSE was Rs.2,662.86 billion as at the end of the financial year compared to Rs.2,586.16 billion in the previous year, recording an overall increase of 3 per cent. The subdued performance of the CSE, in comparison to regional peers, was a result of dampened investor sentiment due to domestic economic conditions and tax and policy uncertainty, which was exacerbated by global market volatility.

The year under review was characterised by unfavourable macro-economic variables for the local equities market. In the first half of the financial year, the Central Bank of Sri Lanka raised both the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) by 50 basis point each, to 7.00 per cent and 8.50 per cent, respectively, to curb excessive demand to pre-empt the escalation of inflationary pressures and support the balance of payments. This rise in base interest rates made local equities a less lucrative proposition. Alongside the balance of payment pressures, investor concerns over the outlook of the Sri Lankan Rupee and diminishing foreign reserves also contributed to subdued investor participation.

The latter part of the financial year saw yet another interest rate hike with both base rates being raised by a further 25 basis points in March 2017. Government measures to increase revenue collection, which are required for the long-term sustenance of the economy, such as the increase in the value added tax (VAT) from 11 to 15 per cent, and further uncertainty on proposed taxation as part of the Government's fiscal consolidation programme impacted market sentiment. Consequently, the average daily turnover levels declined by 31 per cent over the corresponding period last year to Rs.728 million for the financial year under review.

The CSE recorded 12 corporate debenture issues through which a total of Rs.68.50 billion rupees was raised compared to Rs.83.41 billion raised in the previous financial year. Furthermore, primary activities on the CSE continued to be bleak, with only 1 IPO during the year, raising Rs.75 million [2015/16: Rs.329 million].

### JKH Share

The JKH share appreciated by 6 per cent to Rs.137.90 as at 31 March 2017 from Rs.129.50 on 31 March 2016 (adjusted for the share sub division in June 2016). Furthermore, JKH traded with a strong correlation to the ASPI in the period under review, as illustrated in the adjacent graph. The beta of the JKH share as of 31 March 2017, stood at 1.27 (the beta is calculated on daily JKH share and market movements measured by the ASPI for the five-year period commencing 1 April 2012 to 31 March 2017). On an adjusted basis, the share traded between the range of Rs.128.00 (in April 2016) and Rs.159.00 (in August 2016).

Despite the subdued local market, the JKH share contributed 16 per cent to total market turnover [2015/16: 14 per cent], emphasising its consistency as a preferred instrument with liquidity and as a proxy to the local economy.

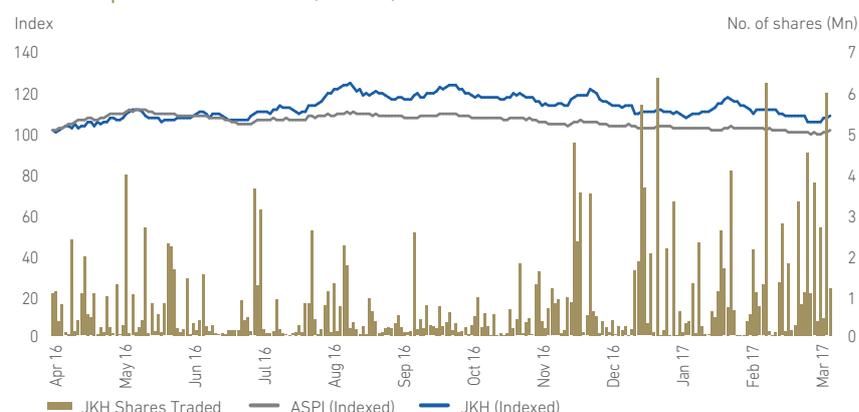
Foreign ownership of the JKH share remained relatively constant during the period under review, as foreign holdings were 52 per cent as at the end of the financial year as against 51 per cent at the commencement of the year. The compounded annual growth rate (CAGR) of the JKH share on a capital basis over the 5 year period stood at 0.4 per cent, compared to that of the market which stood at 2 per cent for the same period.

### 2016 Warrant

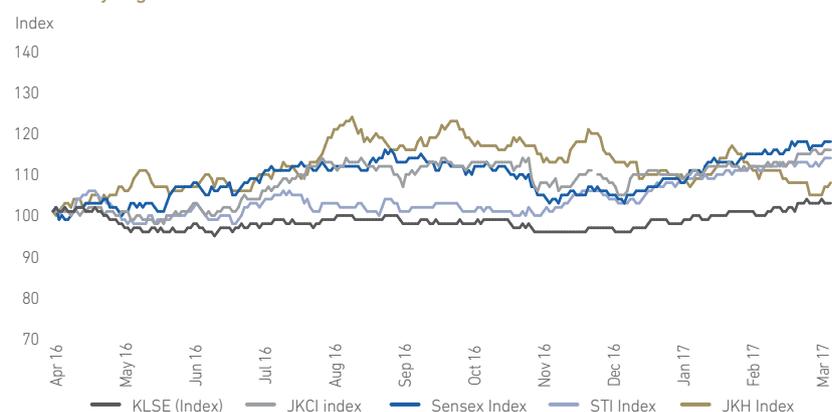
The 2016 Warrant (ticker: W0023) ceased trading on the CSE on 27 September 2016, and was exercisable till 11 November 2016. A total of 57,464,155 2016 Warrants were due to expire in November 2016, of which 21,279,672 Warrants were exercised and accepted at a purchase price of Rs.149.29 per ordinary share (adjusted for the ordinary share subdivision of the Company on 24 June 2016). The Company received a sum of Rs.3.18 billion through the conversion of the 2016 Warrants.

The allotment of the 21,279,672 Ordinary Shares of the Company, and the uploads to the CDS, were completed within the time frames stipulated in the Notice of Exercise and the Shareholder circular dated 5 September 2013.

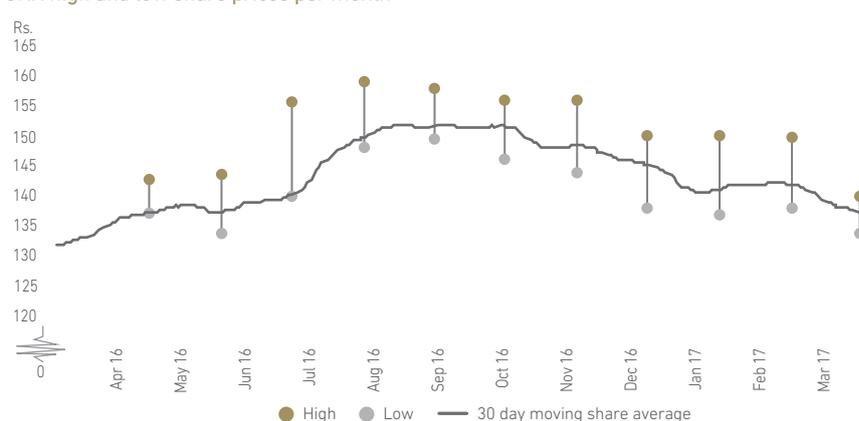
JKH share performance vs ASPI (indexed)



JKH vs key regional indices



JKH high and low share prices per month



### Issued Share Capital

The number of shares in issue by the Company increased to 1,387,467,137 as at 31 March 2017 from 1,189,403,549 as at 31 March 2016. The increase in the share capital was an outcome of the share subdivision, as discussed later in the ensuing section,

the conversion of the 2016 Warrant and the exercise of employee share options (ESOPs).

ESOPs of 7 million equivalent shares were exercised during the financial year. Moreover, out of the 35 million shares equivalent of unexercised ESOPs as at 31 March 2017,

## Group Consolidated Review

### SHARE AND WARRANT INFORMATION

#### Unexpired Employee Share Options

Expiring year	Granted Shares (adjusted)	Outstanding		End/current price
		Vested	To be vested	
2018/19	9,959,017	6,948,058	1,818,312	191.65
2019/20	9,573,018	4,967,439	3,662,626	176.04
2020/21	8,819,207	2,747,662	5,474,817	149.84
2021/22	9,948,581	381,833	9,415,197	142.83
Total	38,299,823	15,044,992	20,370,952	

15 million unexercised ESOPs were eligible for immediate exercise whilst the balance 20 million unexercised ESOPs will be vested based on performance based conditions in accordance with the terms of the Award. The year also marked the conclusion of ESOP Plan 7 which was initiated in 2011 at a grant price of Rs.172.10. Further details of the Company's ESOP plans are found in the ensuing section of this discussion. The Global Depository Receipts (GDRs) balance in ordinary share equivalents increased to 1,320,942 as at the end of the financial year [2015/16: 1,282,364].

#### Subdivision of Shares

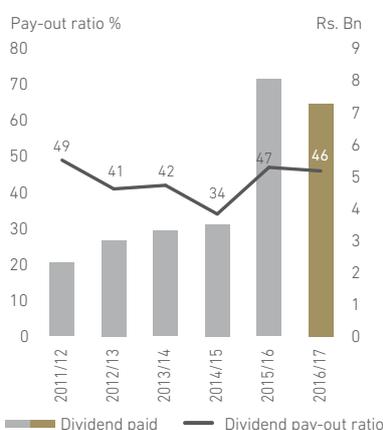
The Company received approval to subdivide 7 ordinary shares in existence into 8 ordinary shares at the Extraordinary General Meeting held on 24 June 2016. On this basis, the 1,189,403,549 shares in issue as at 24 May 2016 were subdivided into 1,359,318,342 shares. Consequently, the ESOP awards granted, and the number of Warrants accruing to the holders of the 2016 Warrant, and their respective exercise prices, were adjusted to reflect the aforementioned subdivision of shares.

#### Dividend

The Company's dividend policy seeks to ensure a dividend payout that corresponds with growth in profits, whilst ensuring that the Company maintains adequate funds to support its investment pipeline and optimise its capital structure, thus ensuring the creation of sustainable shareholder wealth in the short, medium and long term.

At this juncture, the Group believes that a higher dividend per share is warranted given the current, and anticipated, robust cash flows of the businesses. It is pertinent to note that the Group has a sufficient cash balance available to deploy in the funding of new projects, combined with its ability to leverage, if required, even after taking into account the equity commitments of the "Cinnamon Life" project and other investments in the pipeline.

#### Distributions to shareholders and payout ratio



To this end, the Company increased its dividend per share, paid out of profits for the financial year 2016/17, to Rs.6.00 from Rs.3.50 per share (excluding the special dividend of Rs.3.50 per share which was paid on account of the cash inflow of Rs.4.14 billion to the Company from the share repurchase of Union Assurance PLC) paid out of profits in the previous year. Excluding the special dividend paid in the financial year 2015/16 (Rs.3.50 per share), from a cash flow perspective, the total dividend paid in the financial year 2016/17 (Rs.5.50 per share) increased significantly by 88 per cent to Rs.7.28 billion from Rs.3.88 billion in the previous year.

It should be noted that the Company profits in 2016/17 included a one-off gain of Rs.2.58 billion pertaining to the exercise undertaken to rationalise the Group's shareholding structure, which is discussed in detail in the Other including Plantation Services Industry Group Review section of the Report. Excluding this gain, the dividend payout ratio for 2016/17 stands at 55.8 per cent.

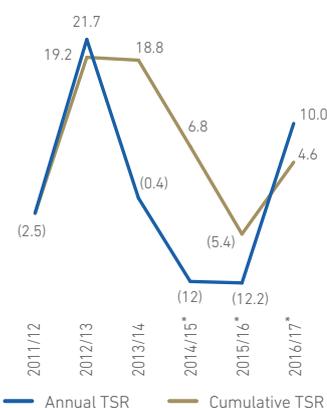
#### Earnings Per Share

The fully diluted earnings per share (EPS) for the financial year, adjusted for the share subdivision in June 2016, increased by 13 per cent to Rs.11.84 per share [2015/16: Rs.10.52 per share] due to an increase in total profit attributable to equity holders. On a recurring earnings basis, the diluted EPS after adjusting for changes in fair value of investment property, has decreased marginally to Rs.10.31 in the period under review from Rs.10.94 (after adjusting for the share subdivision) recorded in the previous financial year. The items affecting the rise in profitability are discussed in depth in the Group Consolidated Review and Industry Group Review sections of this Report.

#### Total Shareholder Return

As discussed previously, the ASPI fell marginally by 0.2 per cent and the JKH share increased by 6 per cent. The total shareholder return (TSR) of the JKH share stood at 10.7 per cent for the period under review, which outperformed the market with the total return index of the ASPI recording a return of 0.1 per cent.

#### Total shareholder return (%)



\* Includes the proportionate impact arising from the ownership of Warrants

TSR for a holder of a single share after the rights issue in 2013 with proportionate ownership over the 2015 and 2016 Warrant, assuming full conversion of the 2015 and 2016 warrants, improved to 10.0 per cent [2015/16: negative 12.2 per cent]. This was caused by the aforementioned rise in the JKH share price on an adjusted basis along with the increase in the standard dividend per share.

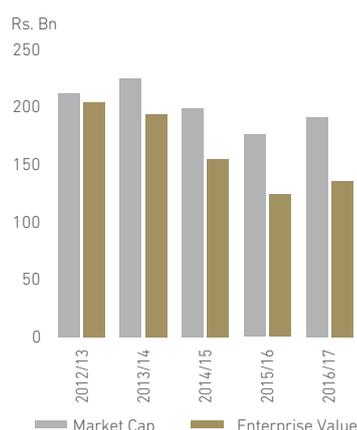
On a cumulative basis, over a five-year holding period, the share inclusive of dividends and warrants issued posted an annualised total return of 1.4 per cent.

## Market Capitalisation and Enterprise Value

The market capitalisation of the Company increased by 9 per cent to Rs.191.33 billion as at 31 March 2017 [2015/16: Rs.176.03 billion]. At the financial year end, JKH represented 7.2 per cent of the total market capitalisation of the CSE [2015/16: 6.8 per cent].

The enterprise value of the Group increased by 10 per cent to Rs.136.02 billion [2015/16: Rs.124.18 billion] as at 31 March 2017. This increase was caused by the previously discussed increase in market capitalisation that outweighed the effects of the Company's strengthened cash position consequent to the 2016 warrant conversion.

### Market capitalisation and enterprise value



## Price to Earnings Ratio

The price to earnings ratio (PER) of the JKH share was 11.6 times as at the end of the current financial year compared to 12.3 times recorded in the previous financial year. The decrease in PER was attributable to the 13 per cent increase in earnings per share that was only partially offset by the increase in share price. The JKH share, which has historically traded at a premium, was at a discount compared to the market PER of the CSE of 11.9 times as at the end of the financial year [2015/16: 15.3 times].

Given the domestic economic conditions that prevailed during the year, the CSE traded at a PER that was significantly lower than its regional peers. At the end of the financial year, the SENSEX Mumbai traded at 17.9 times, Kuala Lumpur's FTSE Bursa Malaysia KLCI was 16.6 times, Jakarta's Composite Index was 16.2 times and Singapore's STI was 14.8 times.

## Price to Book

The price to book value of the Group as at the financial year end was 1.0 times [2015/16: 1.1 times].

The ratio decreased on account of the increase in the net asset per share to Rs.140.06 [2015/2016: Rs.130.30], which was only partially offset by the increase in share price.

## Liquidity

During the financial year, 191 million shares changed hands over 30,106 transactions as against 177 million shares over 37,000 transactions in the previous financial year. The average daily turnover of the JKH share was Rs.115 million, in comparison to the Rs.132 million recorded in the previous financial year.

The average daily turnover of the JKH share represented 16 per cent of the average daily turnover at the CSE during the financial year. The share turnover ratio for the financial year decreased to 0.14 from 0.16 because of market conditions.

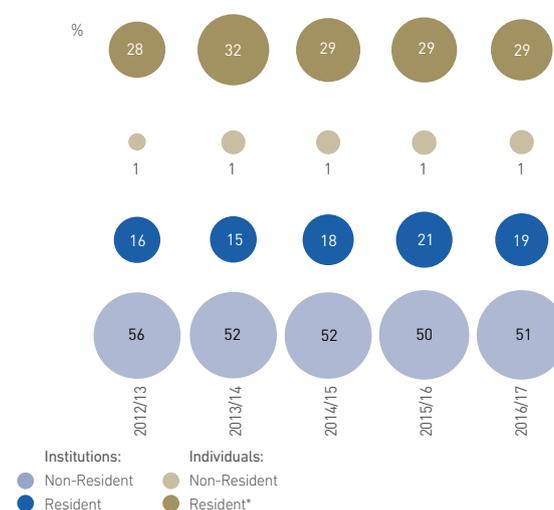
	2016/17	2015/16	2014/15
Market cap (Rs. bn)	191.3	176.0	198.9
Enterprise value (Rs. bn)	136.0	124.2	155.7
Market value added (Rs. bn)	12.7	21.1	61.1
EV/EBITDA (times)	5.0	5.0	6.6
Diluted EPS (Rs.)	11.8	10.5	12.4
PER (diluted)	11.6	12.3	12.3
Price to book (times)	1.0	1.1	1.4
Price/cash earnings (times)	9.9	10.6	13.3
Dividend yield (%)	4.0	5.4	2.3
Dividend payout ratio (per cent)	45.9	46.7	33.5
TSR (%)	10.0	(12.2)	(12.0)

## Distribution and Composition of Shareholders

The total number of shareholders of JKH as at 31 March 2017 increased to 11,988 from 11,515 recorded at the end of the previous financial year. Out of the total number of shares, 98 per cent of the shares were held by the public whilst the remaining 2 per cent were held by Directors, spouses and other connected parties.

In terms of residency of the shareholders, 46 per cent of the free float was held by 11,574 resident shareholders whilst the remainder was held by 406 non-resident shareholders, of which most shares were owned by institutional shareholders.

### Trend in composition of shareholders



\* Includes Directors, spouses and connected parties

## Group Consolidated Review

### SHARE AND WARRANT INFORMATION

#### Composition of Shareholders

	31 March 2017			31 March 2016		
	Shareholders	No. of shares	(%)	Shareholders	No. of shares	(%)
<b>Institutions:</b>						
Non-Resident	147	714,471,877	51	137	592,427,458	50
Resident	710	265,969,422	19	681	247,554,155	21
<b>Individuals:</b>						
Non-Resident	259	9,246,781	1	272	8,551,053	0
Resident*	10,872	397,779,057	29	10,425	340,870,883	29
<b>Total</b>	<b>11,988</b>	<b>1,387,467,137</b>		<b>11,515</b>	<b>1,189,403,549</b>	

\* Includes Directors, spouses and connected parties

#### Distribution of Shareholders

	31 March 2017				31 March 2016			
	Number of Shareholders	(%)	Number of shares held	(%)	Number of Shareholders	(%)	Number of shares held	(%)
Less than or equal to 1,000	6,801	57	1,591,711	0	6,692	58	1,635,940	0
1,001 to 10,000	3,373	28	11,918,429	1	3,191	28	11,329,474	1
10,001 to 100,000	1,395	12	41,300,569	3	1,258	11	36,392,126	3
100,001 to 1,000,000	281	2	87,123,469	6	242	2	73,799,873	6
1,000,001 and over	138	1	1,245,532,959	90	132	1	1,066,246,136	90
<b>Total</b>	<b>11,988</b>	<b>100</b>	<b>1,387,467,137</b>	<b>100</b>	<b>11,515</b>	<b>100</b>	<b>1,189,403,549</b>	<b>100</b>

#### Market Information of the Ordinary Shares of the Company

	2016/17	Q4	Q3	Q2	Q1	2015/16
<b>Share information</b>						
High	165.00	150.00	158.00	159.00	165.00	170.80*
Low	133.90	133.90	143.00	135.00	135.00	122.50*
Close	137.90	137.90	145.00	154.00	135.00	129.50*
Dividends paid (per share)	5.50	2.00	2.00	0.00	1.50	7.00
<b>Trading statistics of the JKH share</b>						
Number of transactions	30,106	8,290	6,896	8,618	6,302	37,287
Number of shares traded ('000)	191,372	86,828	35,606	32,560	36,378	177,182
Value of all shares traded (Rs. mn)	27,955	12,157	5,341	4,804	5,653	31,391
Average daily turnover (Rs. mn)	115	196	88	79	94	132
Total market turnover (%)	15.7	26.7	12.9	10.0	13.3	13.8
Market capitalisation (Rs. mn)	191,332	191,332	200,970	209,155	183,310	176,032
Total market capitalisation (%)	7.2	7.2	7.3	7.5	6.8	6.8

\* Adjusted for the 2016 share subdivision

## Director's Shareholding

	31 March 2017	31 March 2016
S. Ratnayake	9,241,144	7,177,893
A. Gunewardene*	10,989,350	8,721,491
R. Peiris	2,966,800	2,074,755
K. Balendra*	10,914,400	8,019,934
G. Cooray	207,105	121,654
H. Wijayasuriya	-	-
A. Omar	-	-
N. Fonseka	-	-
A. Cabraal	137	120
P. Perera	-	-

\* Includes shares owned by related parties

## Director's Share Dealings

	No. of 2016 Warrants converted to shares	No. of ESOPs converted to shares
S. Ratnayake	366,101	671,737
A. Gunewardene*	434,166	587,768
R. Peiris	91,858	503,794
K. Balendra	364,139	377,851
G. Cooray	4,162	63,910
H. Wijayasuriya	-	-
A. Omar	-	-
N. Fonseka	-	-
A. Cabraal	-	-
P. Perera	-	-

\* Includes Warrants converted by related parties

## Executive Director's Shareholding in Group Companies

	Number of shares as at 31 March 2017				
	S. Ratnayake	A. Gunewardene	R. Peiris	K. Balendra	G. Cooray
Ceylon Cold Stores PLC	3,344	30,800	668	80,232	-
Trans Asia Hotels PLC	400	400	400	-	1,200
John Keells Hotels PLC	142,877	-	-	-	-
Asian Hotels and Properties PLC	20,000	-	-	-	10,600
Keells Foods Products PLC	-	-	-	-	-
Union Assurance PLC	-	8,562	-	-	-

## Top Twenty Shareholders of the Company

	31 March 2017		31 March 2016	
	Number of shares	(%)	Number of shares	(%)
Mr. S.E Captain	149,425,524	10.77	119,937,442	10.08
Broga Hill Investments Limited	141,854,717	10.22	124,122,878	10.44
Paints & General Industries Limited	96,064,501	6.92	92,726,824	7.80
Schroder International Selection Fund	53,706,223	3.87	38,491,960	3.24
Melstacorp PLC	52,023,842	3.75	43,616,626	3.67
Lux-Aberdeen Global Asia Pacific Equity Fund	31,257,908	2.25	26,234,282	2.21
Aberdeen Institutional Commingled Funds, LLC	29,706,813	2.14	23,772,318	2.00
HWIC Asia Fund	29,164,753	2.10	25,519,159	2.15
Lux-Aberdeen Global-Asian Smaller Companies Fund	26,913,338	1.94	28,979,913	2.44
Lux-Aberdeen Global-Emerging Markets Smaller Companies Fund	25,263,481	1.82	19,932,286	1.68
Employees Trust Fund Board	23,366,748	1.68	16,438,392	1.38
Mr. K. Balendra	19,606,476	1.41	18,111,218	1.52
London-Edinburgh Dragon Trust PLC	17,947,390	1.29	15,062,970	1.27
Deutsche Bank AG-London	15,837,770	1.14	35,868,199	3.02
London-Aberdeen Asia Pacific Equity Fund	14,891,083	1.07	12,497,857	1.05
Edgbaston Asian Equity Trust	13,971,919	1.01	-	-
Norges Bank Account 2	13,746,333	0.99	-	-
Mrs. C. S. De Fonseka	12,894,788	0.93	11,282,940	0.95
Mrs. S.A.J. De Fonseka	12,825,666	0.92	11,069,333	0.93
Somerset Small Mid Cap Em All Country Fund LLC	11,591,877	0.84	10,558,280	0.89

## Group Consolidated Review

## SHARE AND WARRANT INFORMATION

## Employee Share Option Plan as at 31 March 2017

Date of grant	Employee category	Shares granted	Expiry date	Option grant price (Rs.)	Shares adjusted <sup>2</sup>	Vested	Exercised	Cancelled		Expired	Outstanding	End/ current** price (Rs.)
								Due to resignations	Due to performance			
PLAN 7		6,306,182	06.12.2016	172.10	9,246,138	-	8,254,798	336,308	-	655,032	-	-
	GEC <sup>1</sup>	2,602,482			4,075,093	-	4,075,093	-	-	-	-	-
	Other Executives	3,703,700			5,171,045	-	4,179,705	336,308	-	655,032	-	-
PLAN 8 <sup>3</sup>		6,426,719	30.06.2018	265.18	9,959,017	6,948,058	-	969,884	222,763	-	8,766,370	191.65
Award 1	GEC <sup>1</sup>	2,712,919			4,276,837	3,287,565	-	-	69,580	-	4,207,257	-
	Other Executives	3,713,800			5,682,180	3,660,493	-	969,884	153,183	-	4,559,113	-
PLAN 8 <sup>4</sup>		7,428,128	30.06.2019	229.93	9,573,018	4,967,439	-	854,868	88,085	-	8,630,065	176.04
Award 2	GEC <sup>1</sup>	2,816,845			3,654,358	2,127,797	-	-	-	-	3,654,358	-
	Other Executives	4,611,283			5,918,660	2,839,642	-	854,868	88,085	-	4,975,707	-
PLAN 8 <sup>5</sup>		6,781,282	24.06.2020	195.71	8,819,207	2,747,662	3,224	542,198	51,306	-	8,222,479	149.84
Award 3	GEC <sup>1</sup>	2,244,342			2,931,378	1,109,733	-	-	-	-	2,931,378	-
	Other Executives	4,536,940			5,887,829	1,637,929	3,224	542,198	51,306	-	5,291,101	-
PLAN 9 <sup>6</sup>		9,948,581	14.08.2021	142.83	9,948,581	381,833	-	151,551	-	-	9,797,030	142.83
Award 1	GEC <sup>1</sup>	2,625,000			2,625,000	250,000	-	-	-	-	2,625,000	-
	Other Executives	7,323,581			7,323,581	131,833	-	151,551	-	-	7,172,030	-
Total		36,890,892			47,545,961	15,044,992	8,258,022	2,854,809	362,154	655,032	35,415,944	-

1 GEC comprises of the Executive Directors and Presidents

2 Adjusted for bonus issues/right issues/subdivisions

3 Plan 8 (Award 1) - 75% of the options had vested as at 31 March 2017 with the exception of retirees

4 Plan 8 (Award 2) - 50% of the options had vested as at 31 March 2017 with the exception of retirees

5 Plan 8 (Award 3) - 25% of the options had vested as at 31 March 2017 with the exception of retirees

6 Plan 9 (Award 1) - None of the options had vested as at 31 March 2017 with the exception of retirees

## Options Available to Executive Directors Under the Employee Share Option Plan

Expiring year	S. Ratnayake			A. Gunewardene			R. Peiris			K. Balendra			G. Cooray		
	Granted shares <sup>1</sup>	Immediately vesting	To be vested	Granted shares <sup>1</sup>	Immediately vesting	To be vested	Granted shares <sup>1</sup>	Immediately vesting	To be vested	Granted shares <sup>1</sup>	Immediately vesting	To be vested	Granted shares <sup>1</sup>	Immediately vesting	To be vested
2018/19	685,167	513,875	171,292	599,523	449,642	149,881	513,875	385,406	128,469	385,405	289,053	96,352	111,844	83,883	27,961
2019/20	606,377	303,188	303,188	530,580	265,290	265,290	454,784	227,392	227,392	341,086	170,543	170,543	105,710	52,855	52,855
2020/21	446,686	111,671	335,015	390,851	97,712	293,139	335,014	83,753	251,261	251,261	62,815	188,446	251,261	62,815	188,446
2021/22	350,000	-	350,000	325,000	-	325,000	300,000	-	300,000	300,000	-	300,000	300,000	-	300,000
Total	2,088,230	928,734	1,159,496	1,845,954	812,644	1,033,310	1,603,673	696,551	907,122	1,277,752	522,411	755,341	768,815	199,553	569,262

1 Adjusted for share subdivisions

## Share Capital

Year ended 31 March	Number of shares in issue (million)
2005	331.63
2006	400.00
2007	552.94
2008	635.99
2009	611.35
2010	619.47
2011	629.69
2012	844.12
2013	857.24
2014	990.29
2015	997.49
2016	1,189.40
2017	1,387.47

## GDR History (in terms of ordinary shares, million)

Year ended 31 March	Opening balance	Issued*	Converted/repurchased	Closing balance
2005	0.65	0.06	-	0.71
2006	0.71	0.14	-	0.85
2007	0.85	0.12	-	0.97
2008	0.97	0.14	-	1.11
2009	1.11	-	0.12	0.99
2010	0.99	-	0.01	0.98
2011	0.98	-	0.03	0.95
2012	0.95	0.32	0.08	1.19
2013	1.19	-	0.06	1.13
2014	1.13	-	0.01	1.12
2015	1.12	-	-	1.12
2016	1.12	0.16	-	1.28
2017	1.28	0.18	0.14	1.32

1 GDR is equivalent to 2 ordinary shares

\* First issued in FY1994 and subsequently increased along with bonus issues and subdivision of shares

## Dividend

Year ended 31 March	DPS* (Rs.)	Dividends (Rs. '000)
2005	3.00	1,027,497
2006	3.00	1,199,460
2007	3.00	1,412,306
2008	5.00	3,176,302
2009	3.00	1,883,442
2010	3.00	1,843,642
2011	3.00	1,868,707
2012	3.00	2,313,519
2013	3.50	2,982,421
2014	3.50	3,266,718
2015	3.50	3,475,947
2016	7.00	8,037,790
2017	5.50	7,280,497

\* Includes special dividends where applicable

## History of Scrip Issues, Rights and Repurchases

Year ended 31 March	Issue	Basis	Number of shares (million)	Ex-date
2005	Bonus	1:10	30	13 May 2004
2006	Bonus	1:5	66	11 May 2005
2007	Bonus	1:7	57	13 June 2006
2007	Rights @ Rs.140*	1:5	92	23 January 2007
2007	Bonus	1:7	79	13 March 2007
2009	Repurchase	1:25	26	11 October 2008
2012	Sub division	4:3	210	30 June 2011
2013	Rights @ Rs.175*	2:13	132	3 October 2013
2015	Share subdivision	8:7	143	3 July 2015
2016	Share subdivision	8:7	170	30 June 2016

\* Unadjusted prices

## 2016/17 Financial Calendar

	Date
Interim Financial Statements	
Three months ended 30 June 2016	28 July 2016
Six months ended 30 September 2016	4 November 2016
Nine months ended 31 December 2016	26 January 2017
First interim dividend paid on	24 October 2016
Second interim dividend paid on	16 February 2017
Final dividend proposed to be paid on	16 June 2017
Annual Report 2016/17	31 May 2017
38th Annual General Meeting	30 June 2017

## 2017/18 Financial Calendar

	Date
Interim Financial Statements	
Three months ended 30 June 2017	On or before 27 July 2017
Six months ended 30 September 2017	On or before 2 November 2017
Nine months ended 31 December 2017	On or before 25 January 2018
Annual Report 2017/18	On or before 1 June 2018
39th Annual General Meeting	On or before 29 June 2018

INDUSTRY GROUP REVIEW

Designing  
*Strategy*

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116 Transportation • 124 Leisure • 136 Property • 144 Consumer Foods and Retail  
• 154 Financial Services • 160 Information Technology • 166 Other including Plantation Services

# Industry Group Review

## INDUSTRY GROUP FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

### Revenue\* (Rs. billion)

	TRP	Leisure	Property	CF&R	Fin Ser	IT	Other
2014/15	20.11	23.42	5.69	29.76	12.99	7.21	3.47
2015/16	16.83	24.31	4.34	36.46	11.90	8.26	2.66
2016/17	18.44	26.14	1.12	45.81	14.06	11.11	2.95

\* Revenue is inclusive of the Group's share of equity accounted investees revenue

### EBIT (Rs. billion)

	TRP	Leisure	Property	CF&R	Fin Ser	IT	Other
2014/15	2.41	5.74	1.64	2.57	3.08	0.38	3.41
2015/16	2.52	5.13	1.68	4.50	2.30	0.16	3.91
2016/17	3.12	5.92	0.69	5.49	2.10	0.62	5.38

### Capital Employed (Rs. billion)

	TRP	Leisure	Property	CF&R	Fin Ser	IT	Other
2014/15	15.49	50.59	31.66	7.54	11.78	2.41	54.54
2015/16	15.91	52.45	38.59	8.62	7.24	2.29	64.14
2016/17	16.59	66.56	42.54	9.54	7.73	2.33	71.81

### Total Assets (Rs. billion)

	TRP	Leisure	Property	CF&R	Fin Ser	IT	Other
2014/15	16.66	55.40	34.89	12.95	37.13	3.75	57.31
2015/16	17.16	57.65	43.93	15.86	35.88	4.12	66.37
2016/17	18.06	72.00	48.33	18.28	41.72	4.78	74.10

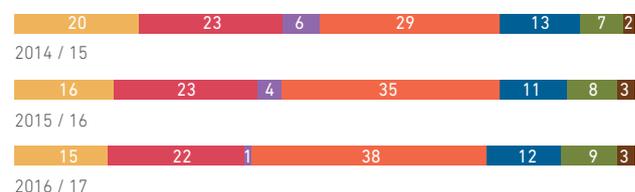
### Employees (number)

	TRP	Leisure	Property	CF&R	Fin Ser	IT	Other
2014/15	326	5,147	107	3,427	718	1,224	941
2015/16	349	5,073	102	3,692	803	985	882
2016/17	385	5,041	244	4,446	814	1,075	830

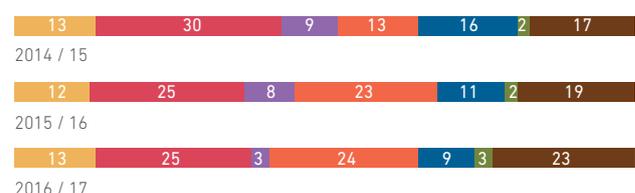
### Carbon Footprint (MT)

	TRP	Leisure	Property	CF&R	Fin Ser	IT	Other
2014/15	2,313	39,698	59	26,441	1,550	1,309	3,898
2015/16	2,091	40,767	525	29,060	1,407	1,269	3,543
2016/17	1,690	40,670	924	33,407	1,391	1,076	3,334

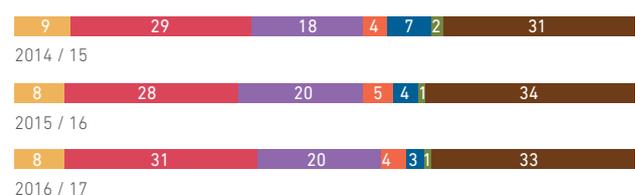
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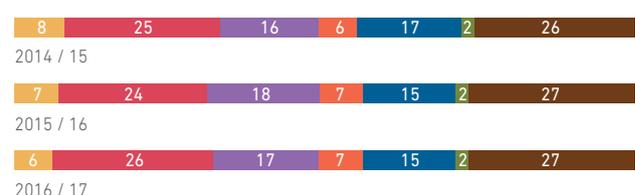
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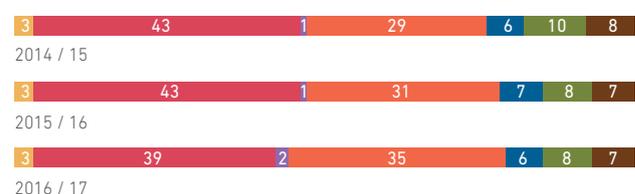
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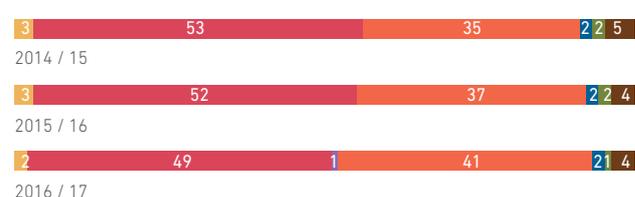
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TRP	Transportation
Leisure	Leisure
Property	Property

CF&R	Consumer Foods and Retail
Fin Ser	Financial Services

IT	Information Technology
Other	Other including Plantation Services

# Industry Group Review

## TRANSPORTATION

### Our Business Model

#### Vision and Scope

The vision of the Transportation industry group is to be recognised as a leading provider of transportation solutions and related services through a diversified portfolio of businesses in selected

markets. These operations comprise of a container terminal in the Port of Colombo, a marine bunkering business, joint venture/ associations with leading shipping, logistics and air transportation multinationals, as well as travel and airline services in Sri Lanka and the Maldives.

### Contribution to JKH Group



15%  
Revenue



13%  
EBIT



8%  
Capital employed



2%  
Carbon footprint



A wide array of transportation solutions including container handling at SAGT, logistics by JKLL, and air transportation services. SAGT was also recognised as the "Best Terminal in South Asia" by the Global Ports forum in February 2017.



Ports and Shipping



Transportation



CO<sub>2</sub>  
0.15 MT per  
Rs.mn revenue

Sectors	Ports and Shipping	Transportation
The business within the sector	<ul style="list-style-type: none"> <li>Operation of a container terminal in the Port of Colombo as a public-private partnership on a build, operate and transfer (BOT) basis through South Asia Gateway Terminals (SAGT)</li> <li>Associate stake in Maersk Lanka, agents in Sri Lanka and the Maldives for Maersk Line and Safmarine</li> </ul>	<ul style="list-style-type: none"> <li>Logistics services include the operation of DHL air express in Sri Lanka, a joint venture with Deutsche Post, third party logistics (3PL), warehousing, trucking and freight forwarding solutions under the John Keells Logistics brand and a joint venture with XPO Logistics (referred to as NDO), marine bunkering and related services under Lanka Marine Services (LMS) as well as airline, aviation, travel and related services through Saffron Aviation (owners and operators of Cinnamon Air), Mack Air and Mackinnons American Express</li> </ul>
Key external/internal variables impacting the business	<ul style="list-style-type: none"> <li>The total volume through the Port of Colombo for the financial year 2016 grew by 9 per cent, with transshipment and domestic volumes growing by 9 per cent and 16 per cent respectively, although the performance of the regional shipping and ports industry declined</li> <li>Possibility of further consolidation of global shipping lines through mergers, acquisitions and alliances to benefit from greater operational efficiencies through cost pooling and strengthened purchasing power</li> <li>Improved prospects in the ports and shipping industry in Colombo and Hambantota for private sector participation</li> </ul>	<ul style="list-style-type: none"> <li>Prospects for further private sector participation in the bunkering industry</li> <li>Growth in demand for 3PL offerings on the back of more local businesses aspiring to global benchmarks and significant shifts to organised retail</li> <li>Increase in capacity in the airline industry through the entry of new players and intensified competition from existing players</li> <li>Continued strong occupancies on the East coast and significant hotel developments on the Southern coast of Sri Lanka increasing the opportunities for domestic air transport</li> </ul>
Key developments during the financial year	<ul style="list-style-type: none"> <li>SAGT recognised as the "Best Terminal in South Asia", awarded by the Global Ports Forum in February 2017</li> </ul>	<ul style="list-style-type: none"> <li>LMS maintained its market leadership position in the bunkering industry</li> <li>JKLL launched "Store4u", an online storage solution for individuals and SMEs</li> </ul>

### Key Indicators

Inputs (Rs.mn)	2016/17	2015/16	(%)	2014/15	Outputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Total assets	18,065	17,163	5	16,656	Turnover <sup>3</sup>	18,438	16,829	10	20,114
Total equity	14,841	15,028	(1)	14,232	EBIT	3,124	2,517	24	2,412
Total debt	1,754	878	100	1,255	PBT	3,098	2,495	24	2,359
Capital employed <sup>1</sup>	16,595	15,905	4	15,486	PAT	2,979	2,454	21	2,335
Employees (number) <sup>2</sup>	385	349	10	326	EBIT per employee <sup>4</sup>	8.1	7.2	13	7.4
					Carbon footprint (MT) <sup>2</sup>	1,690	2,091	(19)	2,313

1 For equity accounted investees the capital employed is representative of the Group's equity investment in these companies

2 Excludes SAGT, DHL, Maersk Lanka, NDO and Cinnamon Air

3 Turnover is inclusive of the Group's share of equity accounted investees

4 As per the sustainability reporting boundary

## Industry Group Review

### TRANSPORTATION

#### External Environment and Operational Review

The Port of Colombo recorded a growth in volumes of 9 per cent during the financial year under review [2015/16: 6 per cent], despite the muted performance of the global ports and shipping industry and other regional ports such as Singapore, Shanghai and Hong Kong; underscoring the strategic location and potential of the Port of Colombo. The overall growth was mainly driven by the existence of deep water terminal facilities which can cater to new generation container vessels, combined with its strategic link to key trade routes.

During the financial year, the Group's Port business, South Asia Gateway Terminals (SAGT), recorded encouraging growth of 22 per cent, handling 1.70 million twenty foot equivalent units (TEUs) with transshipment volumes accounting for 80 per cent of total volumes, in comparison to the 1.40 million TEUs handled during the previous year, where transshipment volumes contributed to 77 per cent of total volumes. The increased activity witnessed across the Port of Colombo enabled SAGT to increase its market share in 2016/17.

During the year under review, SAGT continued to focus on improving the productivity of its operations through various cost management initiatives and productivity enhancing measures. SAGT's continued effort to improve productivity and performance proved fruitful with it being recognised as the "Best Terminal in South Asia" by the Global Ports Forum in February 2017.

The Port of Colombo operated at a capacity in excess of 70 per cent during the calendar year, highlighting the need for an increase in capacity to facilitate growth. Growth in deep draft handling capacity is a current and crucial requirement at the Port of Colombo, especially considering its strategic location along the East-West sea route, and the growth opportunities Sri Lanka can capitalise on in the context of regional growth led by India and the "Belt and Road" initiative launched by China. In keeping with addressing the need for growth, the Sri Lanka Ports Authority (SLPA) called for Expressions of Interest (EOI) in developing and operating the East Container Terminal (ECT) in June 2016. The Group, together with its consortium partners, APM Terminals and CONCOR (Container Corporation of India), submitted



- ▶ During the financial year, the Group's Port business, South Asia Gateway Terminals recorded a throughput growth of 22 per cent

The Port of Colombo recorded a growth in volumes of 9 per cent during the financial year under review [2015/16: 6 per cent], despite the muted performance of the global ports and shipping industry.

an expression of interest in September 2016. However, a decision on the EOIs and the next steps regarding the development of ECT is still being awaited.

Lanka Marine Services (LMS), the Group's Bunkering business, maintained its position as the market leader despite price competition from bunker suppliers operating in Colombo, and, to a lesser extent, India. The year under review witnessed a significant increase in the base prices of bunker fuels compared to the previous year, which resulted in an improved top line of the business. LMS recorded promising volume growth during the fourth quarter, aided by the overall growth in the Port of Colombo.

LMS continued to leverage on its market leadership position and reputation to improve its procurement strategy and supplier relationships. During the year under review, the company contracted to install flow meters to its bunker barges to improve service and quality standards offered to its customers. The meters are expected to be installed in the first quarter of 2017/18, which will provide LMS a first mover advantage for higher service quality within the Sri Lankan market. Furthermore, LMS will upgrade its delivery infrastructure in the ensuing year when "MT Lanka Marine Mahaweli", a new 2,200 MT barge is commissioned in April 2017.

John Keells Logistics Limited (JKLL) recorded an increase in total throughput managed, driven by the growth in volumes handled for its existing customers and the rise in demand from domestic companies, increasingly seeking to outsource components of their supply chain. During the year under review, JKLL's focus on improving productivity across its facilities led to a 42 per cent increase in total throughput managed. Leveraging on the cross sectoral opportunities within the Group, JKLL, together with Jay Kay Marketing Services - the operators of the Keells Super chain of supermarkets, developed and finalised the feasibility for a state-of-the-art distribution centre for its business. Further details on the distribution centre can be found in the Consumer Foods and Retail Industry Group Review section of this Report.

 **Rs. 3.10 Bn**  
Transportation industry group PBT  
A 24 per cent growth

DHL Keells witnessed promising growth in the year under review with inbound and outbound volumes experiencing a healthy growth of 9 per cent over the previous year. During the year under review, the company recorded an increase in market share, stemming from a number of new marketing initiatives which were rolled out during the year. As part of its continuous efforts to maintain its position as the service provider of choice, and operate at a higher level of productivity and efficiency, DHL Keells invested in a fleet of new vehicles.

The Airline SBU witnessed significant growth in the year, as expected, with double digit growth in both cargo and passenger segments of the business. KLM, Gulf Air and Mega Maldives Airlines, represented by Mack Air (MAL) as general sales agents, commenced "on-line" operations with multiple weekly flights, during the 2016/17 financial year. This translated into significant volume increases in both the passenger and cargo segments of the business with total volumes increasing by 24 per cent and 36 per cent respectively in the year.

Cinnamon Air witnessed double-digit growth in passenger volumes from both scheduled and charter flight operations, primarily on account of the 14 per cent increase in tourist arrivals to Sri Lanka during the calendar year 2016. Despite facing a few challenges

as a result of the restriction in operations due to the resurfacing and expansion of the runway of the Bandaranaike International Airport (BIA) from January to April 2017 and the sporadic unavailability of its amphibious aircraft during peak season, Cinnamon Air managed its operations successfully with minimal schedule disruptions.

The Freight Forwarding business, NDO Lanka (NDO) continued to grow its project cargo vertical to target emerging infrastructure and real estate projects. NDO was successful in acquiring large scale opportunities in this vertical, including a project in Northern Sri Lanka, among others.

The travel business, Mackinnons American Express (MAET), invested in an online booking application in the year under review in order to compete in the online travel market space. Further investments were undertaken in order to increase staff productivity and enable scalability.

### Capital Management Review

Further to the external environment and operations review, this section outlines the forms of Capital available for the execution of the businesses' near, medium and long term strategies in creating value and discusses the performance of the sectors under each form of Capital.

Key indicators under each form of Capital are as follows;

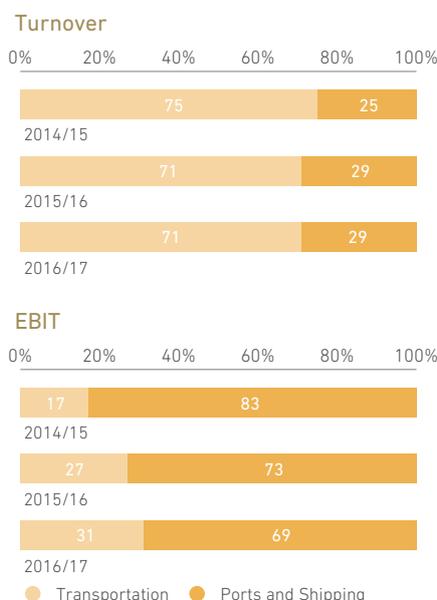
Sectors	Ports and Shipping	Transportation
Financial and Manufactured Capital - revenue and growth	Rs.5.42 billion, 10 per cent increase	Rs.13.01 billion, 9 per cent increase
Financial and Manufactured Capital - EBIT and growth	Rs.2.16 billion, 18 per cent increase	Rs.965 million, 42 per cent increase
Natural Capital - carbon footprint	Not within the boundary of sustainability reporting	1,690 MT
Human Capital - number of employees	Not within the boundary of sustainability reporting	385

### Financial and Manufactured Capital

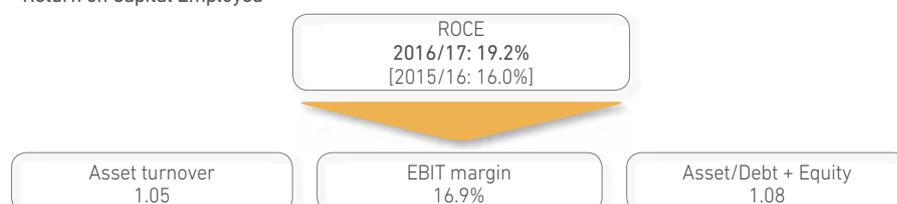
As at 1 April 2016, the Transportation industry group had total assets amounting to Rs.17.16 billion, debt amounting to Rs.878 million and an opening equity capital of Rs.15.03 billion.

### Financial Performance

Revenue of the Transportation industry group increased by 7 per cent to Rs.11.11 billion compared to the Rs.10.34 billion recorded in the previous financial year, primarily due to the Bunkering business, Lanka Marine Services, arising from a significant increase in the base price of bunker fuels in addition to the double digit volume growth. Revenue, including equity accounted investees, increased by 10 per cent to Rs.18.44 billion [2015/16: Rs.16.83 billion], attributable to the growth in TEUs handled by the Group's Ports business and the aforementioned revenue increase in the Bunkering business.



### Return on Capital Employed



EBIT of the industry group increased by 24 per cent to Rs.3.12 billion compared to the Rs.2.52 billion recorded in 2015/16. The growth in volumes in the Bunkering business, improved performance at DHL Keells and full utilisation of the warehousing facility in the Logistics business contributed towards the improved performance. The PBT of the Transportation industry group, which amounted to Rs.3.10 billion [2015/16: Rs.2.50 billion], mirrored the growth of EBIT at 24 per cent.

### Borrowings and Finance Expense

Total debt as at 31 March 2017 stood at Rs.1.75 billion [2015/16: Rs.878 million]. The finance expense for the financial year increased by 17 per cent to Rs.25 million [2015/16: Rs.22 million]. The marginal increase in the finance expense was mainly attributable to the increase in short term debt facilities obtained by LMS as a result of increasing working capital finance requirements. The disproportionate increase of the finance expense on a large debt base is also attributable to LMS being able to negotiate the cost of borrowing on several of its loans.

### Return on Capital Employed

- The ROCE of the industry group increased to 19.2 per cent from the 16.0 per cent recorded in the previous financial year, driven by the aforementioned increase in EBIT, partially offset by the increase in the capital base of the industry group as a result of the aforementioned increase in the total debt level
- The EBIT margin of the industry group was 16.9 per cent as at the end of the financial year [2015/16: 15.0 per cent]
- The asset turnover stood at 1.05 times in comparison to 1.00 times in the previous financial year, as a result of the aforementioned increase in turnover. It should also be noted that the asset base of the industry group increased by 5 per cent to Rs.18.06 billion inclusive of revaluation gains amounting to Rs.62 million

## Industry Group Review

### TRANSPORTATION

#### Natural Capital

Transportation infrastructure, connectivity and adherence to international standards are prerequisites for economic growth and value creation in the country, and therefore it is necessary that the industry ensures it is environmentally responsible and actively seeks to minimise any negative impacts on the country's Natural Capital. Within this framework, the Transportation industry group operates under the Group's Environment and Energy Management policy, as a means of managing its environmental footprint.

The material impacts for the industry group are classified below:

Energy and emissions management	Financial implications and environmental responsibility
Waste management	Regulatory and environmental responsibility

#### Energy and Emissions Management

##### Targets:

- Internal fuel efficiency targets for vehicle and aircraft fleet to reduce fuel consumption and emissions

##### Initiatives:

- Daily monitoring of fuel consumption and ongoing analysis of sales routes for route optimisation to increase efficiency

#### Waste Management

##### Targets:

- Adherence to Marine Environmental Pollution Authority (MEPA) and other best practices

##### Initiatives:

- JKLL disposes FMCG waste, recycles stretch film and cardboard waste generated in its operations through certified third party contractors ensuring responsible disposal of waste
- LMS conducts monthly drills on prevention of oil spillages for its employees to minimise the resulting impact in the event of an accidental spill
- Waste on barges resulting from bunkering operations are disposed through a MEPA certified third party contractor to ensure responsible disposal of waste

#### Performance

The carbon footprint of the Transportation industry group (excluding SAGT, DHL, Maersk Lanka, NDO and Cinnamon Air, which are beyond the sustainability reporting boundaries) was 1,690 MT, a 19 per cent reduction from the previous year. No significant spillages were reported during the year under review.

	2016/17	2015/16	(%)
Carbon footprint (MT)	1,690	2,091	(19)
Waste disposed (kg)	124,371	109,243	14

#### Carbon footprint scope 1 and 2 per operational intensity factor

	2016/17	2015/16
LMS CO <sub>2</sub> (kg per MT of bunkers sold)	5.3	5.7
JKLL CO <sub>2</sub> (kg per m <sup>2</sup> of warehouse area managed)	2.4	4.5

#### Waste generated per operational intensity factor

	2016/17	2015/16
LMS waste generated (kg per MT of bunkers sold)	0.3	0.3
JKLL waste generated (kg per m <sup>2</sup> of warehouse area managed)	0.3	0.3

#### Human Capital

The Transportation industry group places significant emphasis on health and safety, given the nature of some of its businesses which have a greater propensity towards accidents at warehouses, other facilities and road accidents among others. The Group's health and safety policy strives to create awareness at an industry group level and provide training on occupational safety to ensure a safe and healthy work environment to its employees.

In keeping with the progressive changes in demand by key players and customers, the

industry group encourages the growth of the overall industry by investing in people, thereby producing qualified professionals in the logistics and transportation fields. This continuous investment has led to the industry group's higher inclination towards service quality and dependability from a purely cost-centric platform. To meet such demands, and to sustain and capitalise on the envisaged momentum in growth, investment in Human Capital is considered vital, alongside the investment in infrastructure, processes and systems.



Health and safety practices at JKLL

The material impacts for the industry group are classified as follows:

Talent management	The need to retain and continuously upgrade skills of existing staff, while developing a resource base of professionals for the country's transportation industry
Health and safety	Labour and productivity concerns as the Group places significant emphasis on providing a safe working environment for its employees and stakeholders



University of Moratuwa undergraduates participating in an English immersion camp sponsored by the Transportation industry group

### Talent Management

#### Targets:

- Continuous training and skill development
- Build a resource base of qualified transportation and logistics professionals

#### Initiatives:

- The Transportation industry group provided 2,490 hours of training to its employees, in line with its strategy of increased focus on staff training and development, to further the capacity and efficiency across operationally critical areas
- The Transportation industry group continued to sponsor the scholarship programme for undergraduates reading for the Bachelor of Science in Transport and Logistics Management at the University of Moratuwa
- Internship opportunities were provided for students in the aforesaid scholarship programme to provide on-the-job training and career development opportunities with the aim of identifying and absorbing new talent into the Group upon graduation

#### Impact through CSR initiatives:

The Moratuwa University Transport and Logistics degree programme was continued in the year under review. The programme aims to address the skills mismatch within the industry by developing the knowledge and skills of undergraduates in the fields of aviation, shipping, logistics and supply chain management among others. An aggregate of 23 scholarships were awarded during the

The Moratuwa University Transport and Logistics degree programme aims to address the skills mismatch within the industry by developing the knowledge and skills of undergraduates in the fields of aviation, shipping, logistics and supply chain management.

year, on both a need and merit based scheme. Additionally, the industry group continues to sponsor and support tailor-made English language training programmes through the Gateway Language Centre to first year undergraduates and a mentoring programme run by the Transport and Logistics Management Department for 51 and 57 undergraduates respectively. Six graduates from the degree programme were offered employment opportunities within the Group from the inception of the programme while 5 students (currently studying in the programme) were offered internship opportunities and industry exposure during the financial year.

### Health and Safety

#### Target:

- Ensuring no more than one warehouse injury and less than five major road accidents with impact to third parties, per month

#### Initiatives:

- JKLL and LMS continued to maintain OHSAS 18001 certification on health and safety practices and conducts fire and safety training for employees on a regular basis resulting in a safe work environment and maximising productivity
- LMS organised a first aid training programme conducted by Red Cross certified trainers, with invitations extended to businesses from the entire Transportation industry group. At present, the industry group has seventeen Red Cross certified first aiders

### Performance

The industry group provided staff with 7 hours of training per employee, while 2 injuries were recorded during the year under review.

	2016/17	2015/16	(%)
Injuries and diseases (number)	2	1	100
Total hours of training	2,490	1,761	41

## Industry Group Review

### TRANSPORTATION

#### Social and Relationship Capital

The Transportation industry group, through its numerous business offerings, connects multiple entities across and within the borders of the country. The Port of Colombo, within which the Group's Port business SAGT operates, is strategically positioned on the main global East-West shipping route enabling better connectivity for the South and East Asian markets with Africa, Europe, and the East Coast of the US, providing ideal connections for trading in the Indian sub-continent.

The Bunkering business has continued to enhance its mutually beneficial procurement contract with a leading petroleum company in India. In order to ensure healthy relationships with stakeholders and to mitigate any negative sustainability impacts, companies assess all significant suppliers, including suppliers providing janitorial and other outsourced services.

of the Port of Colombo is now in excess of 70 per cent within a relatively short time span since the expansion of capacity with the commissioning of the South Container Terminal, demonstrating the strong potential for capacity led growth in the Port of Colombo. In this context, the development of the deep-draft East Container Terminal (ECT) is critical to ensure volume led growth is sustained at the Port. Subsequent to the Expression of Interest submitted in September 2016 in this regard, the Group will look to leverage on this investment opportunity considering the overall prospects for the Port of Colombo. The ability for the ECT to cater to larger vessels will complement the operations of SAGT considering its back to back location.



The expected growth in regional and international trade, combined with focused infrastructure development, is expected to transform Sri Lanka beyond a container transshipment hub into a regional logistics hub in the medium term. Sri Lanka is uniquely positioned to capture this growth given the comparatively lower costs, skilled labour and ease of access to the ever growing subcontinent markets.

The Bunkering business will continue to invest in strengthening its delivery infrastructure and leverage on its strong brand and existing relationships, with both customers and suppliers alike, to maintain its position as the market leader in the face of increasing competition. The Group will explore avenues to capitalise on the opportunities within the Port of Hambantota, which are expected to materialise in the near term.

The expected growth in regional and international trade, combined with focused infrastructure development, is expected to transform Sri Lanka beyond a container transshipment hub into a regional logistics

#### Intellectual Capital

Product and service quality standards are of significant importance to the Transportation industry group. The following initiatives were undertaken during the year under review, and as a result, certain accolades were received.

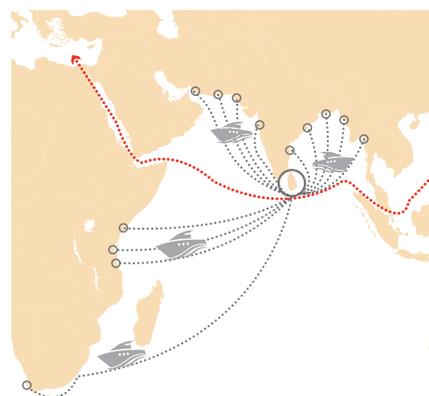
- The businesses within the Transportation industry will continue to strive towards developing a competitive advantage over traditional logistics companies by focusing on innovative and technology led solutions for its customers - characteristics that would be vital in long term operations. To this end, digitisation initiatives were rolled out across the industry group in an effort to differentiate and keep pace with the dynamic demands of the consumers and key stakeholders
- Real time stock turn updates, integrated SAP and warehouse management software systems have enhanced the service offering within the industry group

The following initiatives were taken by the businesses within the industry group.

- Mackinnons Travels Limited invested in an online booking application towards becoming more competitive in the online travel market space
- NDO developed a mobile application to provide shipment status updates for import clearance customers
- JKLL became the first logistics company in Sri Lanka to be awarded the ISO 9001:2015 certification
- DHL won the Stevie International Business Award for Customer Service

#### Strategy and Outlook

The Port of Colombo is expected to continue its growth trajectory, given its positioning as a leading maritime hub in the region and the availability of some capacity. However, the overall capacity utilisation



- The Port of Colombo is strategically positioned on the main global East-West shipping route, linking the Far East with Africa, Europe, and the East Coast of the US, providing ideal connections for trading in the Indian sub-continent

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The Logistics business will continue to engage with key clients and evaluate the potential for purpose built and anchored facilities. JKLL will focus on expanding its footprint and customer base to include long term integrated customer relationships. The business will also continue to engage with the Group's Retail sector with regard to the development of a state-of-the-art distribution centre, which can handle a variety of dry, fresh and chilled supplies to its growing base of outlets.

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hub in the medium term. Sri Lanka is uniquely positioned to capture this growth given the comparatively lower costs, skilled labour and ease of access to the ever growing subcontinent markets.

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Furthering the digitisation drive within the industry group, JKLL is in the process of developing an online interface for small and medium enterprises (SMEs). The online interface, "store4u", which is expected to be launched in the latter half of the ensuing financial year, is expected to gain momentum within the SME sector as a comparatively cheaper and safe alternative for the storage and transport components of their supply chains. The interface will showcase the

availability of world class storage spaces in the SME owners' vicinity for rent. The interface is expected to gain momentum, since affordable warehousing space is currently a scarcity within this sector.

Mack Air (MAL) will leverage on the online airlines represented by the company to improve overall market share in both passenger and cargo volumes. MAL will also focus on strengthening its network of airlines, to expand selling to long-haul sectors. The positive outlook in tourist arrivals provides opportunities for Sri Lanka to become a network destination for the Airline segment. Based on the current trend in tourist arrivals, with greater emphasis on the South and East Asian markets to Sri Lanka, both MAL and Cinnamon Air will focus on creating industry and customer awareness through multiple channels. The convenience of faster connectivity between cities, Sri Lanka's growing popularity as a destination for shorter stays and attracting more upscale leisure and corporate tourists are expected to contribute towards improved performance of the Airline segment.

Mackinnons American Express Travels will focus on growing market share in the expanding outbound travel sector through increased on-line offerings while NDO Lanka will focus on continually developing its core competencies in customs clearance and cargo management solutions towards maintaining its position as one of the top 5 customs brokerage and project cargo management service providers in the country.

# Industry Group Review

## LEISURE

### Our Business Model

#### Vision and Scope

Representing JKH's largest asset exposure, the Leisure industry group comprises of two city hotels that offer approximately 39 per cent of the current 5-star room capacity in Colombo, a select service hotel, in Colombo,

eight resort hotels spread across prime tourist locations in Sri Lanka and three resorts in the Maldives, offering beaches, mountains and cultural splendour under the brand "Cinnamon Hotels and Resorts". The Leisure industry group also operates a destination management business in Sri Lanka.

### Contribution to JKH Group



22%  
Revenue



25%  
EBIT



31%  
Capital employed



49%  
Carbon footprint



The design and facilities of our hotels cater to the evolving lifestyles of our guests which exemplifies the vitality and vibrancy of the "Cinnamon" brand.



City Hotels



Resorts



Destination Management



Hotel Management



CO<sub>2</sub>  
1.47 MT per  
Rs.mn revenue

Sectors	City Hotels	Resorts		Destination Management
		Sri Lankan	Maldivian	
The business within the sector	<ul style="list-style-type: none"> <li>• Cinnamon Grand - 501 rooms</li> <li>• Cinnamon Lakeside - 346 rooms</li> <li>• Cinnamon red - 240 rooms</li> </ul>	<ul style="list-style-type: none"> <li>• 8 resort hotels in Sri Lanka - 1,000 rooms</li> </ul>	<ul style="list-style-type: none"> <li>• 3 resort hotels in the Maldives - 340 rooms</li> </ul>	<ul style="list-style-type: none"> <li>• Walkers Tours and Whittall Boustead Destination Management operations in Sri Lanka</li> </ul>
Key external/internal variables impacting the business	<ul style="list-style-type: none"> <li>• Increased room inventory, particularly in the 3-4 star hotel segment in the prior years</li> <li>• Encouraging growth in overall tourist arrivals to the City Hotel sector</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in room inventory, particularly in the west and southern coastal areas of the island</li> <li>• Increase in competition from the informal sector</li> </ul>	<ul style="list-style-type: none"> <li>• Recovery post the political instability seen last year</li> <li>• Increased duty on tobacco and carbonated drinks and a new expatriate remittance tax</li> </ul>	<ul style="list-style-type: none"> <li>• Significant influx of tourists from China, India and the United Kingdom</li> <li>• Arrivals from China grew 26 per cent during the calendar year 2016</li> </ul>
Key developments during the financial year	<ul style="list-style-type: none"> <li>• Cinnamon Grand maintained its position as the market leader</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing roll-out of "Cinnamon" branding initiatives</li> </ul>	<ul style="list-style-type: none"> <li>• Extension of the head lease of Cinnamon Dhonveli Maldives by 15 years</li> </ul>	<ul style="list-style-type: none"> <li>• Witnessed a significant growth in volumes from web based sales</li> <li>• Introduction of new web based portal</li> </ul>

### Hotel Management Sector

In addition to the sectors in the aforementioned table, Cinnamon Hotel Management Limited (CHML) functions as the hotel management arm of the Leisure industry group.

### Key Indicators

Inputs (Rs.mn)	2016/17	2015/16	(%)	2014/15	Outputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Total assets	71,996	57,653	25	55,403	Turnover <sup>3</sup>	26,136	24,306	8	23,422
Total equity	60,690	47,782	27	45,764	EBIT	5,924	5,134	15	5,737
Total debt	5,874	4,664	26	4,826	PBT	5,721	4,968	15	5,505
Capital employed <sup>1</sup>	66,564	52,446	27	50,590	PAT	5,008	4,367	15	4,855
Employees (number) <sup>2</sup>	5,041	5,073	(1)	5,147	EBIT per employee	1.2	1.0	16	1.1
					Carbon footprint (MT)	40,670	40,767	0	39,698

1 For equity accounted investees the capital employed is representative of the Group's equity investment in these companies

2 As per the sustainability reporting boundary

3 Turnover is inclusive of the Group's share of equity accounted investees

## Industry Group Review

### LEISURE

#### External Environment and Operational Review

Sri Lanka has become one of the more sought after tourism destinations in the South East Asian region as evidenced through the growth in arrivals and the recognition received through numerous well reputed travel sites and magazines. The diverse product offering, which is centered on its pristine beaches, natural diversity and cultural heritage, has driven growth in arrivals over the past few years. The tourism industry is thereby recognised as one of the key growth industries of the country considering its impact on the economy, employment generation and the multiplier effect it results in.

Sri Lanka recorded 2,050,832 tourist arrivals for the calendar year 2016, a growth of 14 per cent against the previous year [CY2015: 1,798,380 tourists]. The tourism industry recorded receipts of USD 3.52 billion, an increase of 18 per cent against the last year.

The two largest source markets for tourist arrivals to Sri Lanka, Western Europe and South Asia, grew by 17 per cent and 12 per cent to 643,333 and 513,536 arrivals respectively. India and China were the largest country-wise contributors to tourist arrivals, recording a growth of 13 per cent (356,729 arrivals) and 24 per cent (271,577 arrivals) respectively. The Chinese market continued to be a key thrust market, with many initiatives being rolled out at a national policy level. These efforts, together with the continuing increase in flight connectivity resulted in the aforesaid increase in arrivals from China, which accounted for 13 per cent of total arrivals to Sri Lanka in 2016. Arrivals for the year were particularly strengthened by the growth in arrivals from Eastern and Western Europe, predominantly from the British and German markets, which grew by 16 per cent and 15 per cent respectively.

 **2.05Mn**  
Tourist arrivals  
A 14 per cent growth

Arrivals in the first quarter of the calendar year 2017 recorded a growth of only 6 per cent largely due to the partial closure of the Bandaranaike International Airport (BIA) from January till April 2017 to resurface and



- ▶ 4 month partial closure of BIA till April 2017 for resurfacing of the runway

In the year under review, tourist arrivals to Colombo recorded an encouraging increase, primarily driven by double digit growth in the leisure and Meetings, Incentives, Conferences and Events (MICE) segments albeit off a relatively lower base. The noteworthy growth in the MICE segment demonstrates the significant potential to position Colombo as a MICE hub.

expand the runway which resulted in many flights being cancelled during this period. The operations of the airport resumed usual activities from 7 April 2017 onwards and it is encouraging that arrivals for the month of April 2017 grew by 18 per cent against the previous year.

In the year under review, tourist arrivals to Colombo recorded an encouraging increase, primarily driven by double digit growth in the leisure and Meetings, Incentives, Conferences and Events (MICE) segments, albeit off a relatively lower base. The noteworthy growth in the MICE segment demonstrates the significant potential to position Colombo as a MICE hub. The corporate segment recorded a marginal growth but maintained its position as the largest contributor to overall arrivals into Colombo.

Cinnamon Grand (CG) maintained its market leadership position amongst the city hotels in 2016/17. CG maintained average room rates in line with the previous year, but recorded a reduction in occupancy mainly on account of the increasingly competitive operating environment, particularly within the corporate segment. Cinnamon Lakeside

recorded an increase in occupancy on account of an increase in the leisure segment arrivals and due to the previous year's occupancy being lower as the hotel was partially closed for refurbishment for six months during 2015/16. Cinnamon red recorded increases in both occupancy and average room rates, despite the aforementioned increase in room inventory and the growth in the informal sector.

During the year under review, the Sri Lankan Resorts segment recorded an improvement in performance driven by an increase in occupancy. The segment maintained moderately higher average room rates, despite the increased supply of rooms in the informal sector as well as the graded sector, particularly during the latter half of the financial year.

Sri Lankan Resorts gave significant prominence to online led revenue generation and implemented various social media led volume strategies, to drive growth through its online platform, [www.cinnamonhotels.com](http://www.cinnamonhotels.com). In keeping with the trends in tourist arrivals to Sri Lanka, the segment implemented focused strategies to develop and retain the Indian and Chinese markets. Further initiatives were launched targeting the high arrivals growth from the Scandinavian markets which witnessed growth towards the latter part of the financial year.

The depreciation of the Sri Lankan Rupee had a positive impact on the foreign currency denominated revenue streams emanating within Sri Lanka, which was offset to an extent due to the negative impact on the translation of its foreign currency denominated debt during the year under review.

The brand exercises implemented in the previous financial year had a resonating effect in enhancing the "Cinnamon" brand voice, which aided the consolidation of the brand and its physical infrastructure in all 11 properties across Sri Lanka and the Maldives. In working towards enhancing the Cinnamon brand equity, "Bentota Beach by Cinnamon" will be closed for construction of a new hotel. Construction will take place while architecturally conserving the original structure and heritage elements of the main building, designed by the legendary architect Geoffrey Bawa. The construction is expected to be completed by 2019/20.

During the calendar year 2016, 1,286,135 tourists visited the Maldives, a growth of 4 per cent against the previous year [CY2015: 1,234,248 arrivals].

During the calendar year 2016, 1,286,135 tourists visited the Maldives, a growth of 4 per cent against the previous year [CY2015: 1,234,248 arrivals]. Although China, the largest source market to the Maldives, witnessed an overall decline of 10 per cent, the growth in arrivals from other traditional markets such as Central and Northern Europe negated the slowdown in Chinese arrivals. The Indian and British markets grew 28 per cent and 10 per cent respectively, albeit off a lower base showcasing the possibility of further market development through focused marketing efforts.

The Maldivian Resorts segment continued to record encouraging occupancies, well above the industry average of 76 per cent. The increasing number of guest houses being offered for tourist accommodation, intensified competition from the informal sector and has exerted pressure on average room rates. Continued focus on streamlining operational efficiencies through lean management strategies and cost management initiatives such as the reduction of energy costs and procurement costs, among others, proved fruitful during the year.

During the year under review, the head lease of the Dhonveli island was extended for a further 15 years until 2045.

The performance of the Destination Management sector was in line with expectations, despite the significant competition from the informal sector and tour operators. However, strategies to differentiate through product offering and modern digital channels came to fruition in the year with the sector achieving recognition as Sri Lanka's leading Destination Management Company at the World Travel Awards held in Vietnam in October 2016.

### Capital Management Review

Concluding the external environment and operational review of the Leisure industry group, the ensuing sections will discuss the different forms of Capital available and elaborates on the manner in which each form of Capital is managed to create value to all stakeholders concerned.

### Financial and Manufactured Capital

As at 1 April 2016, the Leisure industry group had total assets of Rs.57.65 billion, debt of Rs.4.66 billion and an opening equity capital of Rs.47.78 billion.

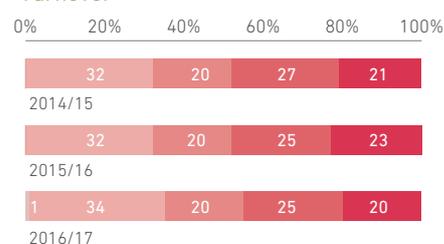
### Financial performance

Revenue of the Leisure industry group increased by 8 per cent to Rs.26.14 billion [2016/17: Rs.24.31 billion]. The City Hotels sector recorded a 14 per cent growth in revenue in comparison to the previous financial year as a result of a full year of operations at Cinnamon Lakeside, which was partially closed for refurbishment in 2015/16, and an improvement in average room rates across all three city hotels. The revenue of the Sri Lankan Resorts segment increased by 12 per cent on account of higher average room rates across a majority of the resort properties and a modest improvement in occupancies. Revenue growth was also

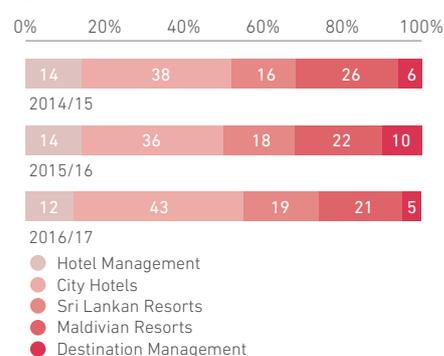
 **Rs.26.14Bn**  
Leisure industry group  
revenue  
A 8 per cent increase

aided by the depreciation of the Rupee since a majority of contracts are priced in US Dollars. The revenue of the Maldivian Resorts segment increased by 5 per cent driven by higher occupancies which were above the industry average. However, the revenue of the Destination Management sector decreased by 5 per cent as a result of the challenging market conditions experienced during the year.

### Turnover



### EBIT



Key performance indicators for the industry group, under each of the sectors are summarised as follows:

Sectors	City Hotels	Resorts		Destination Management	Hotel Management
		Sri Lankan	Maldivian		
Financial and Manufactured Capital - revenue and growth	Rs.8.84 billion, 14 per cent increase	Rs.5.40 billion, 12 per cent increase	Rs.6.49 billion, 5 per cent increase	Rs.5.24 billion, 5 per cent decrease	Rs.157 million, 2701 per cent increase
Financial and Manufactured Capital - EBIT and growth	Rs.2.55 billion, 36 per cent increase	Rs.1.14 billion, 23 per cent increase	Rs.1.21 billion, 8 per cent increase	Rs.313 million, 37 per cent decrease	Rs.704 million, 0.24 per cent decrease
Natural Capital - carbon footprint	19,235 MT	13,741 MT	6,940 MT	515 MT	239 MT
Human Capital - number of employees	2,175	1,980	495	242	149

## Industry Group Review

### LEISURE

The EBIT of the industry group grew by 15 per cent to Rs.5.92 billion [2015/16: Rs.5.13 billion] primarily as a result of improved performance in the City Hotel sector and the Sri Lankan Resort segment. The PBT of the industry group increased by 15 per cent to Rs.5.72 billion.

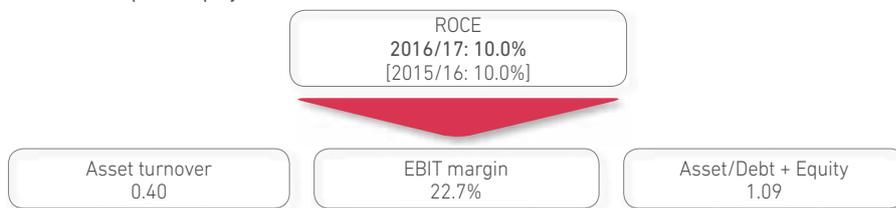
#### Borrowings and Finance Expense

Total debt as at 31 March 2017, was Rs.5.87 billion. The finance expense of the industry group increased by 23 per cent to Rs.204 million in comparison to Rs.166 million recorded in the previous financial year, mainly attributable to the US Dollar denominated debt obtained for the head lease extension of Cinnamon Dhonveli Maldives.

#### Return on Capital Employed

- ROCE of the industry group held constant at 10.0 per cent from the previous financial year. Whilst EBIT recorded an increase in 2016/17, the capital base of the industry group increased by Rs.14.12 billion to Rs.66.56 billion. The capital base of the industry group increased as a result of a gain of Rs.9.84 billion arising from the revaluation of land, particularly from Asian Hotels and Properties PLC (AHPL), and the extension of the head lease of the Maldivian island amounting to Rs.2.51 billion. As discussed under the Strategy, Resource Allocation and Portfolio Management section of this Report, the asset base is adjusted for the revaluation gains arising in the preceding three years in order to calculate the adjusted ROCE. On this basis, the adjusted ROCE is 11.4 per cent compared to 11.5 per cent in the previous year
- The EBIT for the industry group increased by 15 per cent as a result of the aforementioned improvement in performance across all sectors except for the Destination Management sector
- The asset turnover decreased marginally to 0.40 times compared to the 0.43 times recorded in the previous financial year, as a result of the aforementioned increase in the asset base due to revaluation gains and the head lease extension detailed above

#### Return on Capital Employed



#### Natural Capital

Sri Lanka's rich bio diversity and natural resources, amongst many other aspects, have fast become the signature brand building tools for the tourism industry in the country. As the largest graded hotel operator in the country, and given its reliance on natural resources to create value, the industry group places a strong focus on operational and environmental efficiencies to operate with minimal impact to the environment.

The Leisure industry group's strategy with regard to management of its Natural Capital is underscored through both the John Keells Group's sustainability policy and the "Cinnamon" brand's sustainability strategy.

The industry group is conscious of the fact that long term value creation can only be achieved through responsible management of impacts and outputs, resulting in sustainable outcomes. Business units operate within this principle, with conservation and preservation of the environment as business priorities, achieved through environmentally friendly business practices with the intention of minimising any negative impact on natural resources. All operational units proactively monitor and seek to improve outcomes of key environmental indicators such as energy consumption, water withdrawal and discharge, waste generation and responsible disposal.

The material impacts for the industry group are classified as follows:

<b>Energy, emissions, water and waste</b>	Financial implications, stakeholder expectations of sustainable tourism practices, regulatory requirements, brand image and reputation of the industry group's businesses
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<b>Water and effluent management</b>	Financial implications as well as regulatory and brand reputation implications
<b>Waste management</b>	Regulatory and brand reputation implications
<b>Bio diversity</b>	Regulatory and brand reputation implications

The ensuing section discusses the key targets under the identified material aspects and its corresponding impacts. The section also includes a summarised discussion on the various initiatives undertaken with a view to achieving said targets.

#### Energy and Emissions Management: Targets:

- Energy conservation and reduction of carbon footprint through energy efficient equipment and practices to replace or upgrade equipment with energy efficient alternatives where required
- Continuous monitoring of the carbon footprint and utilisation of renewable energy sources to reduce the carbon footprint where feasible
- Alignment with international benchmarks for all hotel properties with respect to carbon emissions and energy consumption
- Ensure that quality of emissions are within the tolerance levels stipulated by the Environmental Protection License (EPL)

#### Initiatives:

- As part of the continued initiatives undertaken by all hotels to conserve energy, the city and resort hotels replaced existing lighting with LED lighting in guest and staff areas, resulting in annualised savings of over 195,000 kWh
- All resort hotels continued the replacement of less efficient standard

air conditioners with energy efficient inverter type air conditioning units as a means of conserving energy

- Cinnamon red installed variable frequency drive (VFD) panels, which regulate speed and torque of chill water primary pumps, resulting in annualised savings of 630,966 kWh, whilst the installation of a new condenser water line at Cinnamon Grand resulted in savings of 109,500 kWh during the year
- Optimisation of energy usage through the continued use of its Building Management System (BMS) to control and time outdoor and indoor lighting and setting of automatic and efficient temperature and laundry air-conditioning units running with variable frequency drives at Cinnamon Lakeside (CL)
- Walkers Tours (WTL) increased the number of hybrid vehicles in its fleet in order to reduce fuel consumption. WTL is certified as carbon neutral by Carbon Neutral UK as a result of investing in foreign and local renewable energy projects to offset its carbon footprint, keeping in line with their "Carbon Conscious" awareness campaign
- Maintaining ISO 14001 environmental management certification across all hotel properties
- Resort hotels are currently in the process of installing a utility management system which will enable real time central monitoring of utilities such as electricity and water consumption at all Resorts. This will facilitate identification of consumption fluctuations in real time to generate solutions in order to operate more efficiently and minimise wastage

**Water and Effluent Management**

**Targets:**

- Reduce the Leisure industry group's withdrawal of water
- Ensure that international benchmarks for all hotel properties on water consumption are met
- Ensure all effluents meet the requisite water quality standards
- Install on-site effluent treatment plants for all hotels which are unable to discharge effluent into common municipal sewerage lines



*Variable frequency drive (VFD) panels installed at Cinnamon red*

Resort hotels are currently in the process of installing a utility management system which will enable real time central monitoring of utilities such as electricity and water consumption at all Resorts. This will facilitate identification of consumption fluctuations in real time to generate solutions in order to operate more efficiently and minimise wastage

**Initiatives:**

- Cinnamon Grand (CG) continued its rainwater harvesting initiative whilst shower water was recycled for flushing purposes in order to reduce the volume of water withdrawn. CG also continued to install sensor taps for wash rooms as a conservation initiative
- Upgrading of steam traps (eliminates the continuous use of water to generate steam) at CL and CG and installation of water flow restrictors in guest rooms at selected Sri Lanka resorts was carried out as an effort to reduce the overall water consumption
- Cinnamon red also conducted improvements in guest rooms to reduce wastage of water resulting in savings of 576 cubic meters of water annually. The automation of the cooling tower's fan motor operation in accordance with ambient temperature resulted in annual savings of 1,800 cubic meters of water

**Waste Management**

**Targets:**

- Strive to achieve zero waste to landfill status as a long term goal through comprehensive waste management

strategies including monitoring classification, segregation, recycling, composting and initiatives such as bio gas recovery

**Initiatives:**

- All city hotels and resorts continued to segregate waste prior to disposal as a part of promoting the concept of "reduce, reuse and recycle"
- Cinnamon Wild Yala, Cinnamon Citadel Kandy and Habarana Village by Cinnamon generated biogas using 96,101 kg of food waste generated during the year, thereby reducing the usage of non-renewable energy
- In order to minimise the environmental impact from the use of plastic, all Sri Lankan and Maldivian resorts have taken the initiative to provide plastic straws with drinks only upon request and not as a part of the general service standard
- Cinnamon Grand substituted the use of 500ml plastic water bottles with water filters within staff areas. The initiative eliminated the disposal of approximately 75 PET bottles per day and 56kg of plastic disposals per month

## Industry Group Review

### LEISURE

Name of resort hotel and geographic location	Biodiversity value of protected area in proximity to site	Distance from site	Subsurface land at site (m <sup>2</sup> )	Extent of site (km <sup>2</sup> )	Protected through legislation/ IUCN/ UNESCO etc	Status of EPL being obtained
Bentota Beach by Cinnamon	Marine ecosystems	Adjacent	Nil	0.0446		Yes
Cinnamon Bey Beruwala	Marine ecosystems	Adjacent	Nil	0.0450		Yes
Trinco Blu by Cinnamon	Marine ecosystems	Adjacent	Nil	0.0500	Flora and Fauna Protection	Yes
Hikka Tranz by Cinnamon	Marine ecosystems	Adjacent	3,600	0.0176	Ordinance 1937 IUCN Category	Yes
Habarana Village by Cinnamon	Minneriya tank sanctuary	15 km	Nil	0.0340	II - National Park	Yes
Cinnamon Wild Yala	Yala national park	Adjacent	Nil	0.0440		Yes
Cinnamon Lodge Habarana	Minneriya tank sanctuary	15 km	Nil	0.1031		Yes
Cinnamon Citadel Kandy	Mahaweli river and freshwater ecosystems	Adjacent	Nil	0.0234	Flora and Fauna Protection Ordinance 1937, IUCN Category IV - Habitat / Species Management Area	Yes
Cinnamon Dhonveli Maldives	Marine ecosystems	Adjacent	Nil	0.0670	The Environmental Protection and Preservation Act	Yes
Ellaidhoo Maldives by Cinnamon	Marine ecosystems	Adjacent	Nil	0.0556		
Cinnamon Hakuraa Huraa Maldives	Marine ecosystems	Adjacent	Nil	0.0543		

### Biodiversity

#### Targets

- Minimal impact to important biodiverse areas to ensure long term value creation, given the proximity of resorts to biologically diverse areas
- Impact assessments are regularly conducted to ascertain any impacts on biodiversity and the environment resulting from operations

#### Impact through CSR initiatives:

- Project Leopard aims to minimise the human-leopard conflict while safeguarding and uplifting the livelihoods of cattle farmers. During the reporting year, a total of 5 stainless steel pens were donated to cattle farmers (74 pens since project inception). Zero calf deaths and zero retaliatory killings of leopards have been reported after donation of the pens, allowing farmers to experience a significant increase in average monthly income; an estimated increase of 23.4 per cent for each year when the pen was in use
- The Cinnamon Elephant data gathering project at Cinnamon Lodge Habarana conducted in collaboration with John Keells Foundation and the Centre for Conservation and Research, aims to study elephants for long term conservation whilst also enhancing tourists' experience through greater exposure and access to information regarding elephant viewing. 72 adult males have been identified and photo IDs have been created. The Elephant Research Center at Cinnamon Lodge Habarana provides visitors with the photo IDs of the elephants, while a Facebook group facilitates online tracking



Installation of a cattle pen in Yala by Cinnamon Nature Trails team

### Performance

The Leisure industry group's carbon footprint during the reporting year was 40,670 MT. Additionally, 1,126,765 cubic meters of water was withdrawn while 3,952,477 kg of waste was generated by the industry group.

#### Indicators

	2016/17	2015/16	(%)
Carbon footprint (MT)	40,670	40,767*	(0.2)
Water withdrawn (m <sup>3</sup> )	1,126,765	1,143,664	(1)
Waste disposed (kg)	3,952,477	4,280,841	(8)

#### Carbon Footprint scope 1 and 2 per operational intensity factor

	2016/17	2015/16
Sri Lankan Resorts segment CO <sub>2</sub> kg per guest night	22.77	23.07
Maldivian Resorts segment CO <sub>2</sub> kg per guest night	31.15	31.22
City Hotels sector CO <sub>2</sub> kg per guest night	56.89	55.92
Destination Management sector CO <sub>2</sub> kg per client serviced	7.72	7.54

\* Restated

**Water withdrawal per operational intensity factor**

	2016/17	2015/16
Sri Lankan Resorts segment CO <sub>2</sub> kg per guest night	937	968
Maldivian Resorts segment CO <sub>2</sub> kg per guest night	603	611
City Hotels sector CO <sub>2</sub> kg per guest night	1,226	1,217

**Waste generated per operational intensity factor**

	2016/17	2015/16
Sri Lankan Resorts segment CO <sub>2</sub> kg per guest night	2.31	2.50
Maldivian Resorts segment CO <sub>2</sub> kg per guest night	4.44	5.86
City Hotels sector CO <sub>2</sub> kg per guest night	4.57	4.31

All Group hotels continue to maintain OHSAS 18001 certification in addition to maintaining ISO 22000 certification for food safety. Hazard Analysis and Critical Control Points (HACCP) was carried out for relevant staff and ISO Internal auditor training was conducted by SGS Lanka for all City Hotels

**Human Capital**

Given the importance of service delivery and quality, the Leisure industry group leverages on its Human Capital in creating an unparalleled service offering for its customers and other key stakeholders. A motivated and professionally trained staff cadre is managed through ongoing investments in its people, through training in industry specific and general management skills, thereby improving productivity and quality. The Group places importance in providing a safe working environment for its employees through constant education and training on safe practices in the workplace.

The material impacts for the industry group are identified as follows:

<b>Talent management</b>	Retaining talent and upgrading skills of existing staff towards delivering superior customer service and quality levels
<b>Health and safety</b>	The businesses within the sector need to ensure safe working conditions

**Talent Management****Targets:**

- Maintenance of "Cinnamon" brand standards through provision of a target number of training hours and on-going training, resulting in a skilled workforce
- Retention of talent within a highly competitive labour market

**Initiatives:**

- 20 per cent of the executive vacancies in the Sri Lankan Resorts segment were filled with internal talent through

the Talent Acceleration Programme (TAP), while 10 per cent of supervisor level vacancies were filled through the Management Acceleration Programme (MAP)

- All resorts continue to offer classroom and on the job training to all employees to improve skills, productivity, service quality and value. Within the Group, the Leisure industry group offers the highest number of training hours to its employees with 48 hours of training provided per employee

**Health and Safety****Targets:**

- Minimal occupational health and safety incidents through safe working conditions and practices

**Initiatives:**

- All Group hotels continue to maintain OHSAS 18001 certification in addition to maintaining ISO 22000 certification for food safety. Hazard Analysis and Critical Control Points (HACCP) was carried out

for relevant staff and ISO Internal auditor training was conducted by SGS Lanka for all City Hotels

- Food hygiene, first aid, fire awareness and emergency evacuation training was carried out within the businesses on a regular basis contributing to higher service levels
- WTL inducted the second batch of trained chauffeurs through a comprehensive training programme with emphasis on environmentally friendly behaviour and safe driving habits. 16 selected individuals underwent the certification programme conducted by the Destination Management sector of the Group
- WTL trained 210 chauffeurs on defensive driving skills. The training was conducted by a ROSPA certified trainer, whilst first aid training was conducted for 22 Safari jeep drivers in Udawalawe
- 450 WTL drivers obtained medical screening services to ensure the health and safety standards were met by tour drivers

**Performance**

A total of 88 occupational health and safety incidents were recorded this year, while a total of 289,431 hours of training was provided to employees within the industry group.

**Indicators**

	2016/17	2015/16	(%)
Injuries and diseases (number)	88	89	(1)
Total hours of training	289,431	243,514	19

## Industry Group Review

### LEISURE

#### Social and Relationship Capital

The Leisure industry group recognises the importance of building relationships and fostering trust and cooperation with key stakeholders, such as the communities within which it operates as well as its value chain partners.

Ongoing corporate social responsibility projects and activities carried out by the businesses further assist in improving the quality of life of local communities and groups to build a strong foundation for the continuance of healthy relationships and business operations. The Social and Relationship Capital is further enhanced through mutually beneficial relationships created through sustainable sourcing, training and dissemination of knowledge on sustainability and other best practices. These practices stimulate local economies, assist small time entrepreneurs and assist in creating value and improving the quality of Sri Lanka's tourism industry as a whole.

The material impacts for the industry group are classified as follows:

<b>Supply chain and sustainable sourcing</b>	Assessing and educating significant suppliers to ensure the mitigation of negative impacts in environmental, labour and human rights aspects
<b>Community development</b>	Need to work closely with surrounding communities and maintain good relations

Cinnamon Lodge Habarana fulfils 10 per cent of its monthly vegetable requirement from the organic farm operated by the hotel. This farm also provides organic produce for the production of organic yogurt and milk which are served to guests

#### Supply Chain and Community Engagement Targets:

- Engagement with significant supply chain partners to encourage environmentally friendly and socially responsible activities
- Community engagement to stimulate local economies through sourcing of fresh produce and other outsourced services

#### Initiatives:

- Regular audits on food safety and supplier awareness programmes were carried out on the significant suppliers identified by the hotels' central purchasing office (CPO). This is in addition to the supplier impact assessments carried out to ensure suppliers maintain the sustainable best practices and maintain overall food safety standards
- Cinnamon Lodge Habarana fulfils 10 per cent of its monthly vegetable requirement from the organic farm operated by the hotel. This farm also provides organic produce for the production of organic yogurt and milk which are served to guests
- WTL conducted bi-annual inspections of all ancillary suppliers to ensure consistency in quality and signing of agreements to ensure adherence of minimum quality standards and mitigation of risks

- WTL also conducted sustainability awareness programmes among the supply chain targeting hoteliers and accommodation providers island-wide in 5 phases through communication of sustainable practices throughout the value chain and addressing key areas of improvement

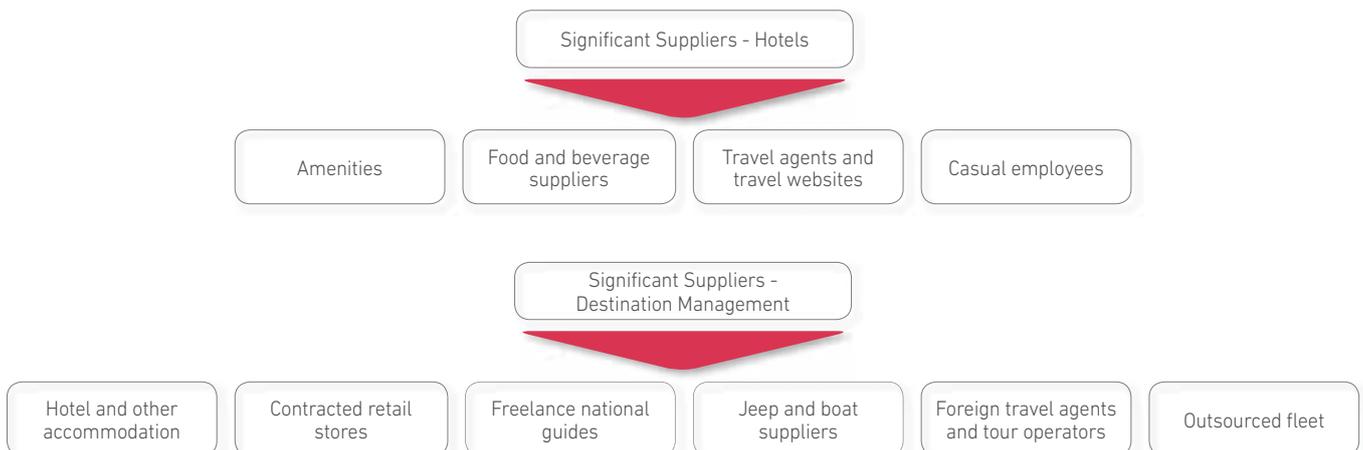
#### Impact through CSR initiatives:

- Cinnamon Colomscope 2016 - a contemporary and multidisciplinary arts festival was conducted by the Leisure industry group in collaboration with John Keells Foundation. 10 Sri Lankan artists were sponsored by John Keells Foundation as a means of creating a platform for knowledge exchange between local and foreign artists. Further details on this initiative can be found under the ensuing Intellectual Capital discussion

#### Intellectual Capital

The "Cinnamon" brand development initiative of the Leisure industry group continued in the year under review as an ongoing effort to create value and brand equity through the hosting of signature events. Several brand development initiatives were pioneered in the operational year to create and enhance opportunities and offerings to our diverse stakeholders, in keeping with the changing dynamics and ever evolving trends of the travel and leisure industry.

The significant suppliers within the industry group are illustrated below:



A summary of the brand initiatives held, awards and accolades won in assuring service and quality standards in the year under review follows;

Brand awareness initiative	Brief description
Cinnamon Colomboscope	<ul style="list-style-type: none"> <li>The fourth edition of Colomboscope was held in September 2016, hosted by Cinnamon Hotels and Resorts in collaboration with the European Union National Institute for Culture (EUNIC) and John Keells Foundation</li> <li>Conceptualised as a means of creating a premier platform for young and budding artists, the event was titled "Testing Grounds": Art and Digital Cultures in South Asia and Europe, and was curated by Dr. Susanne Jaschko, a renowned expert in the field of media arts</li> <li>Consisted of film screenings, audio-visual performances, the main exhibition and an online exhibition. This also included a series of workshops, artists' talks and thematic conversations</li> <li>10 Sri Lankan artists sponsored by John Keells Foundation were commissioned to conceptualise and produce artwork which included the use of electronic and digital media for the festival</li> </ul>
Miss Intercontinental	<ul style="list-style-type: none"> <li>Largest beauty and fashion pageant to be held in Sri Lanka with the participation of 72 countries</li> <li>Held in collaboration with a local media platform in August 2016</li> </ul>
Cinnamon TV Commercial	<ul style="list-style-type: none"> <li>A lifestyle oriented brand Television commercial was launched in the financial year on all SriLankan Airlines flights to enhance the "Cinnamon" brand visibility</li> </ul>
Travel bloggers Conference and Awards ceremony	<ul style="list-style-type: none"> <li>Conceptualised by "Cinnamon", the first travel bloggers' conference was held in June with the participation of over 60 bloggers from across 14 countries</li> </ul>

#### Awards/Accolades and measures undertaken for quality assurance

Walkers Tours Limited	<ul style="list-style-type: none"> <li>Adjudged the best performing TourCert check Company due to its commitment to practicing of responsible tourism</li> </ul>
Cinnamon Grand	<ul style="list-style-type: none"> <li>Awarded the Bronze award at Sri Lanka National Energy Efficiency Awards 2016</li> <li>Received an "A*" food grading for Excellence in Food Safety and Hygiene issued by the CMC</li> </ul>
Cinnamon Lakeside	<ul style="list-style-type: none"> <li>Received an "A" food grading for Excellence in Food Safety and Hygiene</li> </ul>
Sri Lanka Resorts	<ul style="list-style-type: none"> <li>Cinnamon Wild Yala awarded the Presidential Bronze Award at the National Occupational Health and Safety Awards (NIOSH)</li> <li>Sector Award - Tourism and Merit Award claimed by Cinnamon Bey and Cinnamon Lodge respectively</li> <li>Cinnamon Hotels and Resorts was awarded the Gold Award at the 2016 Human Capital Management (HCM) Awards and the category award for Talent Acquisition</li> </ul>

## Strategy and Outlook

Tourists arrivals to the country are expected to continue its current growth trajectory towards achieving the 4.5 million arrivals target set by the Sri Lanka Tourism Development Authority (SLTDA) for 2020. Although arrivals for the calendar year 2016 fell short of the set target of 2.2 million arrivals, the influx of room inventory into the industry during the last few years has been steadily absorbed considering the robust year on year growth in arrivals. Sri Lanka is well positioned to meet its long term growth targets considering the increasing trend of outbound travel in the region, in particular

**Tourists arrivals to the country are expected to continue its current growth trajectory towards achieving the 4.5 million arrivals target set by the Sri Lanka Tourism Development Authority (SLTDA) for 2020.**

from India and China. The proximity to India, the increasing flight connectivity from China and the value proposition offered by Sri Lanka as a destination, where diverse attractions catering to a multitude of tourist needs can be accessed within a short time horizon, will be key drivers in attracting arrivals.

Inbound arrivals will also be supported by the addition of necessary infrastructure such as with the expansion of the Bandaranaike International Airport with the expected development of a new terminal. While existing capacity will be stretched till such time the new terminal is operational, it is

## Industry Group Review

### LEISURE

heartening to note that the operations of the airport were well managed by the authorities during the partial closure of the airport with measures to improve efficiency.

Notwithstanding the considerable improvement in the existing infrastructure in recent years, in keeping with the present growth opportunities within the sector, the need for better physical infrastructure such as enhanced connectivity through road networks and access to digital infrastructure, amongst others, is more pronounced. Through such enhancements, the value proposition offered can be significantly improved to position Sri Lanka as a regionally competitive tourist destination.

The industry recorded a significant supply of room inventory in the year under review, both in the city hotels and resort hotels. Approximately 13,000 rooms in the 3 and 4-5 star categories are expected to enter the market in the short term. Although a similar supply expansion of this magnitude is not expected in the near term, Sri Lanka will require a further enhancement in room inventory, in the medium to long term, to support the targeted number of tourist arrivals. Although the supply in room inventory was mainly driven by the graded category, competition is also increasing from the informal sector which is priced attractively considering the lower cost base and different service offering. Provisions for a suitable regulatory framework for the registration and regulation of the informal

Considering the long term growth prospects for tourism in the country, the Leisure industry group is currently evaluating several investments to expand its portfolio of hotels whilst being conscious of the impact on the JKH Group portfolio considering the return profile of hospitality investments. The model for expansion will primarily be on an asset light model where the Group will seek partners for select hotel investments to manage its effective capital deployed in the industry group whilst increasing its share of rooms under management and hotel management income.

sector will be imperative to ensure that tourism services provided in the country are of a minimum regulated standard. It will also ensure that leisure operators are on an equal platform in terms of regulations and taxes and other levies, which currently deprive the Government of much needed tax revenue.

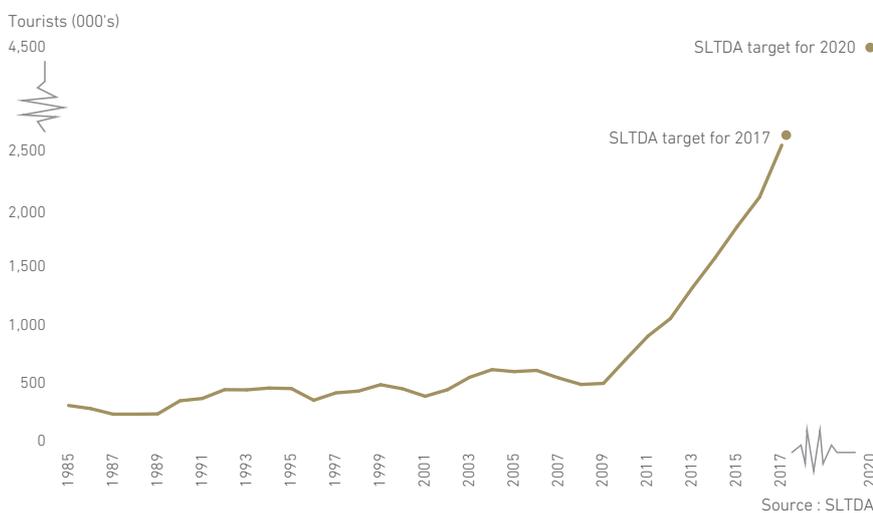
The tax framework in the Budget 2017 proposed an increase in the corporate tax rates from 12 to 28 per cent on the registered service providers of the leisure industry, which will have an impact on the profitability of the hotels in Sri Lanka. The increases in the value added tax (VAT) rate to 15 per cent and the increase in corporate tax rates, amongst other tax increases, will affect Sri Lanka's competitiveness in the region, where Sri Lanka is already priced on par with several key tourism destinations. Being identified as one of the key thrust areas of the Sri Lankan economy and given the industry's

growth trajectory, it is imperative that Sri Lanka remains competitive regionally whilst also ensuring that investment in expanding inventory is not discouraged due to higher taxes. The implementation of an amendment in the corporate tax rate is yet to be enacted (however, as at the time of publishing this Report, indications were that the corporate tax rate may change to 14 per cent).

Considering the long term growth prospects for tourism in the country, the Leisure industry group is currently evaluating several investments to expand its portfolio of hotels whilst being conscious of the impact on the JKH Group portfolio considering the return profile of hospitality investments. The model for expansion will primarily be on an asset light model where the Group will seek partners for select hotel investments to manage its effective capital deployed in the industry group whilst increasing its share of rooms under management and hotel management income. In light of the above, the Group will explore options for the investment structure of the Nuwara Eliya and Maldivian hotel projects - subject to feasibilities on the cost parameters and expected returns. The Leisure industry group will also look to improve its process efficiency and productivity, and more importantly, its ability to cater to evolving customer preferences and requirements for convenience by leveraging on its newly implemented information technology platforms whilst embarking on several digitisation initiatives.

The City Hotel sector is expected to witness continued growth in the corporate and leisure segments. Business arrivals are expected to be strengthened further with the recommencement of the Port City Colombo (PCC) project which is also expected to create transformational change within the

Annual tourist arrivals to Sri Lanka



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In keeping with current consumer trends and developments, it is vital that the industry works in collaboration with the regulatory authorities to create entertainment options in the city in order for the industry to remain a key growth area of the economy into the foreseeable future.

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Colombo city limits, converting the city into a modern mini city in the South Asian region with state-of-the-art facilities, entertainment and attractions in terms of a marina and a beach. Additionally, catering to a greater influx of tourists in the future, the current strategies of the City Hotel sector focuses on the need for in-city based entertainment. In keeping with current consumer trends and developments, it is vital that the industry works in collaboration with the regulatory authorities to create entertainment options in the city in order for the industry to remain a key growth area of the economy into the foreseeable future.

The Sri Lankan Resorts segment will continue to drive occupancy through volume driven strategies with added focus on web sales and local and foreign partnerships. The impending closure of "Bentota Beach by Cinnamon", for the construction of the new hotel is expected to have a non-cash impact because of the acceleration of depreciation on assets of approximately Rs.200 million in 2017/18, subject to final verification by the Auditors.

The segment will continue to place emphasis on cost management initiatives, staff development programmes and productivity enhancement strategies.

The political stability in the Maldives has improved, albeit at a slower rate than expected. The Maldivian Resorts segment

will continue to follow a tactical pricing strategy whilst driving volume through direct bookings and online sales. The segment will also be targeting new source markets to offset the negative impact of arrivals from Russia and Ukraine.

Cinnamon Dhonveli Maldives and Ellaidhoo Maldives by Cinnamon will be partially closed for a planned refurbishment in FY2017/18 for a period of approximately six months. A total of 62 rooms will be refurbished at Ellaidhoo while the entire room inventory of Dhonveli will undergo refurbishment in phases in the ensuing year.

The Destination Management sector will leverage on its presence in the European and Middle Eastern markets and continue to focus on China and India as the main drivers of growth. As with the other sectors across the industry group, cost management and productivity improvements will remain an important area of focus. The sector will further consolidate its position in recently established markets which have demonstrated potential whilst concentrating on new markets. The establishment of a digital platform from the second half of 2017/18 onwards is expected to improve process efficiency, scalability of operations and enhance productivity which is a key medium to long term strategy for the business in catering to evolving customer needs.

# Industry Group Review

## PROPERTY

### Our Business Model

#### Vision and Scope

The property arm of the Group consists of the Property Development and Real Estate sectors. The Property Development sector is currently engaged in the development of the "Cinnamon Life" integrated resort project.

The Real Estate sector includes the property division of Asian Hotels and Properties PLC - the developers of "The Crescat Residencies", "The Monarch", "The Emperor", and the up-market shopping mall "Crescat Boulevard". The sector operations also includes "K-Zone" malls in Moratuwa and Ja-Ela and the

management of the 18 hole championship standard golf course in Rajawella along with its land bank. The sector has also successfully developed and sold properties such as the "OnThree20" and the recently completed "7th Sense" project on Gregory's Road.

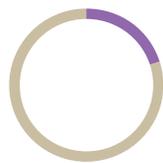
### Contribution to JKH Group



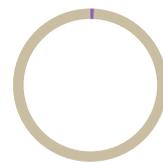
1%  
Revenue



3%  
EBIT



20%  
Capital employed



1%  
Carbon footprint



Construction of the "Cinnamon Life" project is progressing well whilst sales of the residential apartments and commercial space remain encouraging. Property has a land bank of over 500 acres in Digana, Kandy, where it operates a scenic 18-hole Donald Steele designed golf course.



Property Development



Real Estate



CO<sub>2</sub>  
2.60 MT per  
Rs.mn revenue

Sectors	Property Development	Real Estate
The business within the sector	<ul style="list-style-type: none"> <li>Development and sale of residential and commercial properties</li> </ul>	<ul style="list-style-type: none"> <li>Renting of commercial office spaces and the management of the Group's real estate within the city</li> <li>Owning and operating the "Crescat Boulevard" mall and "K-Zone" malls in Moratuwa and Ja-Ela</li> <li>Operating the 18 hole champion standard golf course and managing the land bank in Rajawella, Kandy</li> </ul>
Key external/internal variables impacting the business	<ul style="list-style-type: none"> <li>Increasing supply of residential apartment units</li> <li>The recommencement of the Port City Colombo project and the ongoing Western Region Megapolis Planning project are expected to position the Western region as an urban economic base, thereby stimulating demand for residential and commercial spaces</li> </ul>	<ul style="list-style-type: none"> <li>Land (Restrictions on Alienation) Act, No. 38 of 2014, was amended to discontinue the levy of land lease taxes from foreign individuals or companies with effect from 8 January 2017</li> <li>The increase in the per capita income of households enhanced consumer discretionary spending, thereby increasing demand for retail spaces</li> <li>Development of new shopping malls within the city and the suburbs will increase the supply of commercial space, and thereby, result in a more competitive market</li> <li>The Government proposal to develop the Colombo - Kandy expressway, thus improving connectivity to the Rajawella site in Digana, Kandy</li> </ul>
	<ul style="list-style-type: none"> <li>Exchange rate pressures contributed towards an increase in the cost of construction</li> <li>Acute shortage of skilled and unskilled manpower</li> <li>Increase in value added tax (VAT) rate from 11 per cent to 15 per cent which will impact construction costs</li> <li>Exemption of value added taxes on the sale of residential apartments</li> <li>Subsequent to the Budget 2017, although yet to be legislated, it was proposed to reintroduce a 10 per cent capital gains tax on immovable property</li> </ul>	
Key developments during the financial year	<ul style="list-style-type: none"> <li>All units were handed over to the buyers and 100 per cent of revenue of "7th Sense" on Gregory's Road was recognised</li> </ul>	<ul style="list-style-type: none"> <li>Course irrigation system and other machinery were upgraded at the golf course at Rajawella, Kandy</li> <li>"Crescat Boulevard" continued to record near full occupancy during the year under review, whilst the occupancies at the two "K-Zone" malls exceeded 80 per cent</li> </ul>

### Key Indicators

Inputs (Rs.mn)	2016/17	2015/16	(%)	2014/15	Outputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Total assets	48,329	43,935	10	34,891	Turnover	1,121	4,342	(74)	5,689
Total equity	29,097	26,947	8	18,539	EBIT	690	1,675	(59)	1,638
Total debt	13,439	11,647	15	13,125	PBT	665	1,643	(60)	1,516
Capital employed	42,536	38,594	10	31,664	PAT	623	1,585	(61)	1,427
Employees (number)	244	102	139	107	EBIT per employee	2.8	16.4	(83)	15.3
					Carbon footprint	924	525	76	59

All numbers above are inclusive of Rajawella Holdings Limited

## Industry Group Review

### PROPERTY

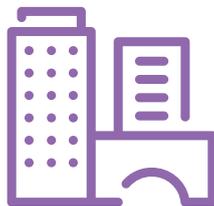
#### External Environment and Operational Review

In the year under review, the overall property market witnessed strong growth in the construction of condominiums across all market segments on the back of continuing urbanisation in peripheral Colombo and its suburbs. The lack of development of public transportation infrastructure and the increasing traffic congestion into the city of Colombo has created a need to live in proximity to the city which has resulted in a spate of residential condominium developments, in the upper-to-mid-end of the market. This has resulted in a sharp increase in the prices of land in the last year with prices in prime locations, among others, increasing by 50 per cent or more.

Despite the policy uncertainty which prevailed, particularly with regard to taxation and the weakening of the Sri Lankan Rupee, demand in the overall property market remained encouraging in the upper and mid end of the market. In light of the encouraging demand, the performance of the Property industry group which currently targets the luxury segment of the market, where the residential apartments of "Cinnamon Life" are positioned, was in line with expectations.

As a predominantly supply led market, it is important that the Government of Sri Lanka incentivise and facilitate investment in real estate for both local and foreign buyers. This particular need was addressed by the Government Budget 2017 in November, where it was announced that the Government will relax restrictions on foreign borrowings for the purpose of purchasing property and proposed that residential permits be granted for foreigners investing in the country. Further, initiatives to ease the process of inward remittances of foreign currency to facilitate investments were proposed, which in turn is expected to create a conducive environment for the introduction of a structure to establish real estate investment trusts (REITs), amongst others. Amendments were also made to the Land (Restrictions on Alienation) Act to discontinue land lease taxes on foreign individuals or companies with effect from January 2017.

Policy uncertainty in the country, especially regarding the tax regime, impacted investor sentiment during the year under review. Although all residential developments were



▶ The Port City Colombo project recommenced in the financial year 2016/17

The "Crescat Boulevard" mall in Colombo maintained its position as a leading retail destination within Colombo. The 145,000 square foot mall also maintained occupancy levels near full capacity throughout the financial year.

declared exempt from VAT, the proposed implementation of a capital gains tax (CGT) was announced in the Budget 2017. Affordability of many developments will also be affected by the constant pressure on exchange rates, which affects the pre-existing issue of high cost of construction, and the rise in interest rates.

In spite of the policy uncertainties, an estimated 8,000 semi-luxury and luxury apartment units are expected to enter the market by 2019/20 backed by demand created through the lack of transportation infrastructure and the growth in migration to the city as detailed above. Residential apartments from "Cinnamon Life", "Altair", "Havelock City-Phase 3", "Shangri-La", "Twin Peaks", "Lunar Tower" and "Prime Grand" will contribute to the envisaged increase.

The Port City Colombo (PCC) project, spanning 269 hectares of reclaimed land from the sea, recommenced during the year under review with work progressing at a rapid pace. The PCC will be an extension to the central business district of Colombo, with the development expected to comprise of five different precincts including a financial district, central park living, island living, a marina and an international island. Once completed the PCC will be one of the prime locations in Colombo due to the facilities and planned infrastructure.

During the year under review, revenue recognition of the recently concluded "7th Sense" on Gregory's Road was completed in the second half of the year. Further details on the particulars of the revenue recognition cycle can be found in the Financial Capital discussion of this industry group report.

The Property industry group's mall operations witnessed steady growth in the year under review, where all properties increased occupancies coupled with increased footfall during the year. The increase in footfall during the said period is mainly on account of various events, promotional happenings and other complementary activities which differentiated the product offering and the overall experience for consumers within all three properties. The "Crescat Boulevard" mall in Colombo maintained its position as a leading retail destination within Colombo. The 145,000 square foot mall also maintained occupancy levels near full capacity throughout the financial year. "K-Zone" Moratuwa maintained an average occupancy of 85 per cent (2015/16: 84 per cent) while "K-Zone" Ja-Ela maintained an average occupancy of 80 per cent (2015/16: 76 per cent) in the year under review.

Rajawella Holdings Limited, which comprises of over 500 acres of land in Digana and an 18-hole Donald Steele designed golf course, refurbished its existing chalets to incorporate new kitchens, water tanks and facilities for differently abled persons. The course irrigation system and other machinery were also upgraded in the year for the up keep and maintenance of the course. A total of 10 tournaments were held in the golf course during the financial year.

The construction of "Cinnamon Life" is progressing with encouraging momentum. Much of the complex sub structural work of the project was completed during the year. The main structure of the hotel building is now at level 6 and the construction of the other buildings too are well underway. The construction of the six lane bridge, which will be the main access point to "Cinnamon Life", was commissioned during the year and work is progressing well.

The demand for the residential and commercial buildings of the project remain encouraging, recording approximately 40 per cent of pre-sales for both segments, respectively. The second residential building; "The Suites at Cinnamon Life", comprising of 196 units was launched in September 2016.

Key performance indicators for the industry group, under each of the sectors are summarised below;

Sectors	Property Development	Real Estate
Financial and Manufactured Capital - revenue and growth	Rs.891 million, 78 per cent decrease	Rs.230 million, 16 per cent increase
Financial and Manufactured Capital - EBIT and growth	Rs.443 million, 71 per cent decrease	Rs.248 million, 53 per cent increase
Natural Capital - carbon footprint	59 MT	864 MT

### Financial and Manufactured Capital

As at 1 April 2016, the Property industry group had total assets of Rs.43.93 billion, debt of Rs.11.65 billion and an opening equity capital of Rs.26.95 billion.

### Financial Performance

The Property industry group revenue declined by 74 per cent to Rs.1.12 billion [2015/16: Rs.4.34 billion] compared to the previous year, mainly attributable to the revenue recognition cycle of its residential apartments. Whilst the final revenue tranche from "7th Sense" on Gregory's Road, was recognised in the year under review, the previous year's revenue included a relatively high proportion from the project. It should be noted that the revenue from the "Cinnamon Life" project will only be recognised post the commencement of operations, hence exacerbating the gap in revenue in Property.

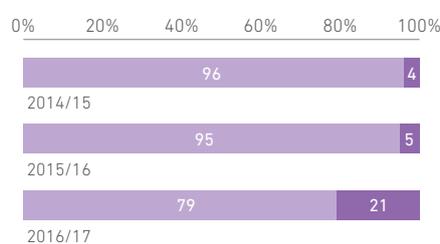
Correspondingly, the EBIT of the industry group decreased by 59 per cent to Rs.690 million [2015/16: Rs.1.68 billion]. The EBIT under consideration includes investment property gains from "Crescat Boulevard" and a few other properties under the industry group amounting to Rs.290 million. The recurring EBIT of the industry group, excluding the impact of the investment property gain, decreased to Rs.400 million [2015/16: Rs.1.48 billion], compared to the previous financial year. The PBT of the industry group declined by 60 per cent to

### Capital Management Review

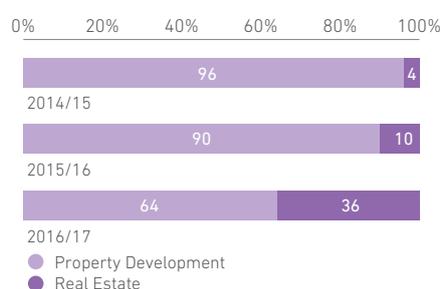
Following the review of the external environment and operations, the ensuing section entails a discussion on the different forms of Capital available within the industry group in order to create value for our stakeholders, and, above all, discusses the performance of the sectors under each form of Capital.

Rs.665 million [2015/16: Rs.1.64 billion] while the recurring PBT declined by 74 per cent to Rs.374 million.

### Turnover



### EBIT



### Borrowings and Finance Expense

Total debt as at 31 March 2017 stood at Rs.13.44 billion, which primarily comprised of the borrowings relating to "Cinnamon Life". The finance expenses of the industry group declined by 20 per cent to Rs.26 million compared to Rs.32 million recorded in the previous year, due to the repayment of loans

 **Rs.48.33Bn**  
Property industry group  
asset base  
A 10 per cent growth

obtained for the construction of "7th Sense" on Gregory's Road. It should be noted that interest during construction on "Cinnamon Life" is capitalised in to the project cost in accordance with the accounting standards, and therefore, is not reflected under finance expenses.

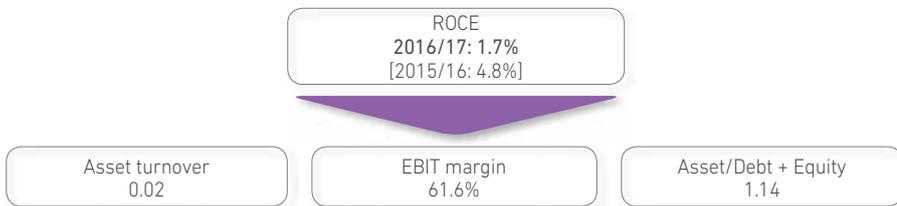
### Return on Capital Employed

- The ROCE of the industry group declined to 1.7 per cent from 4.8 per cent recorded in the previous financial year. The asset base increased to Rs.48.33 billion on account of the infusion of cash equity to Waterfront Properties (Private) Limited, in order to fund the ongoing project expenses associated with the construction of "Cinnamon Life", and the aforementioned gain on investment property
- In order to compute an adjusted ROCE which reflects the return on the current portfolio of the Property industry group, the debt and equity infusions to the "Cinnamon Life" project was eliminated considering the gestation period of the project, in addition to adjusting the investment property and revaluation gains. The adjusted ROCE on this basis is 2.6 per cent [2015/16: 10.0 per cent]. The lower adjusted ROCE is a reflection of the decline in EBIT as discussed previously
- The EBIT margin of the industry group was 61.6 per cent, in comparison to the 38.6 per cent recorded in the previous financial year
- The asset turnover decreased to 0.02 times from the previously recorded 0.11 times as a result of the increase in the asset base. The asset turnover, adjusted for the impacts from "Cinnamon Life", and the aforementioned investment property and revaluation gains is 0.05 times compared to the 0.23 times recorded in the previous financial year. Refer the Strategy, Resource Allocation and Portfolio Management section of this Report for details pertaining to the aforementioned adjustments and calculations

## Industry Group Review

### PROPERTY

#### Return on Capital Employed



Installation of 125kVar power factor correction capacitor bank at Cinnamon Lakeside Commercial Complex in order to reduce energy usage

#### Natural Capital

In engaging in its core business of the development and sale of real estate, while contributing to the national infrastructure and utilities, the industry group places importance in minimising the impact on Natural Capital. This is achieved through the integration of best practices within its operations to reduce energy consumption and waste while ensuring the continuous management and responsible discharge of effluents.

- An active chiller management process consisting of efficient monitoring of temperature levels contributing to energy efficiencies
- Responsible waste segregation at source by providing colour coded bins to cafeterias and garbage collection points in WBL, MKL and the Cinnamon Lakeside Commercial Complex
- Providing training on waste disposal management to "K Zone" Ja-Ela and "Crescat Boulevard" staff leading to streamlining of waste disposal
- Training and awareness creation on water management has been provided to the caretakers and residents at RHL taking into consideration its materiality to the operations

The material impacts for the industry group are classified as follows:

Energy and emissions management	Financial implications and environmental responsibility
Waste management and effluent discharge	<ul style="list-style-type: none"> <li>• Compliance with Government regulations, industry regulations and prerequisites of lending agencies</li> <li>• Implications on brand image and the environment</li> </ul>

The industry group continuously strives to minimise the impact on the environment, as evident in the following table.

#### Indicators

	2016/17	2015/16	(%)
Carbon footprint (MT)	924	525*	76
Waste disposed (kg)	204,437	141,659	44

\* restated

#### Energy, Emissions, Waste and Water Management

##### Targets:

- Reduce energy consumption
- Reduce solid waste below Environmental Protection License (EPL) limits
- Re-use waste water

##### Initiatives:

- Annual energy savings of 39,900kWh was achieved throughout the sector by replacing existing fluorescent lamps with LED lamps and by isolation of light circuits to enable individual control of lamps at identified mall areas
- Installation of a 125kVar power factor correction capacitor bank at Cinnamon Lakeside Commercial Complex in order to reduce energy usage

#### Human Capital

The local construction industry has been experiencing rapid growth in the recent past creating a higher demand for outsourced personnel of both skilled and unskilled labour categories. The shortage of labour within the sector is a primary challenge faced by the industry group. Given the nature of the industry, the health and safety of

its outsourced contractors' personnel is a material aspect, and impacts the well-being and the productivity of the workforce.

The material aspect and impact relating to Human Capital is identified in the ensuing table.



Risk assessment training at "Cinnamon Life" project site

**Occupational health and safety**

Business requirement to monitor occupational health and safety incidents and practices in the supply chain while continuously assessing risks faced by the Property industry group due to its business model of utilising third party construction contractors

Given the rapid expansion of the Sri Lankan property market, the Property industry group seeks to differentiate itself through greater emphasis on its Social and Relationship Capital. The industry group maintains the quality standards of its products, its reputation as a responsible corporate citizen and positions itself as one of the foremost companies in the property market as a means of achieving the said objective.

**Targets:**

- Uphold health and safety standards within the value chain
- Maintain OHSAS 18001:2007 certification at all shopping malls

**Initiatives:**

- All regulatory requirements were met ensuring there were minimal negative impacts on communities and the environment in the vicinity of the "Cinnamon Life" construction site
- Supplier health and safety processes and site safety were monitored through third party consultants and site safety officers on a bi-weekly and monthly basis to ensure a safe working environment for contractor's personnel
- Continued the dengue prevention initiative through the identification of stagnant water areas and installation of drain lines uplifting the quality of construction sites
- All shopping malls obtained OHSAS 18001:2007 certificate and relevant surveillance audits and internal audits were carried out for maintenance, housekeeping and security, in addition to annual management reviews
- Training programmes on first aid, fire safety, food hygiene and basic health and safety were carried out throughout the industry group in order to uplift service quality

**Indicators**

The Property industry group did not have any occupational health and safety incidents involving its own employees in 2016/17. However, there were incidents reported by its construction contractors and as such the industry group continues to engage with its contractors to minimise such instances. In addition, 1,716 hours of training were

provided to the staff within the industry group during the year, showing an increase due to the inclusion of Rajawella Holdings Limited within the sustainability scope.

	2016/17	2015/16	(%)
Injuries and diseases (number)	1	0	-
Total hours of training	1,716	568	202

**Social and Relationship Capital**

Given the rapid expansion of the Sri Lankan property market, the Property industry group seeks to differentiate itself through greater emphasis on its Social and Relationship Capital. The industry group maintains quality standards of its products, its reputation as a responsible corporate citizen and positions itself as one of the foremost companies in the property market as a means of achieving the said objective. The initiatives which are carried out based on the JKH Group's overarching sustainability policies include;

- Environmental and social impact assessments prior to the commencement of new projects
- Effluent and waste management
- Requirement to engrain sustainability in its supply chain through supplier engagement and assessment, for both its existing operations and new projects, to reduce the operational and reputational risks to the business

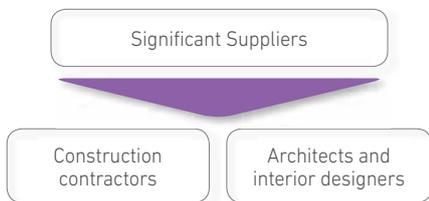


The Slave Island railway station was renovated and is maintained by the Property industry group

## Industry Group Review

### PROPERTY

The significant suppliers within the industry group are illustrated below:



The significant suppliers specific to Rajawella Holdings Limited are depicted below:



All significant suppliers have been assessed for significant negative impacts in environmental, labour and human rights aspects.

#### Initiatives

- Regular meetings held on a monthly basis with representation from Waterfront Properties (Private) Limited (WPL), the contractor and the consultant, to ensure collaboration in ensuring high quality service
- All companies within the industry group reviewed and tested their business continuity plans on a regular basis throughout the year contributing to risk management and adaptability
- All suppliers are required to sign off on a sustainability check-list, where the industry group maintains stringent criteria for pre-qualification of suppliers/contractors

- The Property sector, in collaboration with John Keells Foundation, continued refurbishment and daily maintenance of the Slave Island railway station, enhancing commuter experience and facilities

#### Strategy and Outlook

Property development and real estate have fast become the catalysts of economic development in frontier markets. Growing urbanisation, lifestyle changes and a rising middle class and affluent segment in the country, coupled with significant infrastructure investment in the Western Province, provide scope for continued demand for residential, commercial and retail spaces in the medium to long term. For the calendar year 2016, the growth in GDP in Sri Lanka was 4.4 per cent while per capita income growth was 6.9 per cent. In tandem with this, the growth in the urban population and the inward migration to Colombo from other districts are expected to grow in the medium term, creating further demand for

For the calendar year 2016, the growth in GDP in Sri Lanka was 4.4 per cent while per capita income growth was 6.9 per cent. In tandem with this, the growth in the urban population and the inward migration to Colombo from other districts are expected to grow in the medium term, creating further demand for real estate in terms of affordable housing facilities and gated communities.

real estate in terms of affordable housing facilities and gated communities. The Property industry group will capitalise on these opportunities through its unparalleled service standards where location, price and product are considered key differentiators. Given the increased lifestyle preference towards convenience housing, the Group will continue to identify properties in suitable locations to address the growing demand for residential apartments in the mid to higher end of the market. In light of this, the Group has entered into a Memorandum of Understanding with a partner in relation to a prospective property development project in central Colombo. Subject to the finalisation of the project concept, cost parameters and other approvals, the project is expected to be launched in early 2018. The Group is in discussion for the acquisition and development of other similar properties which it expects to launch in the near future subject to due diligence and meeting commercial considerations.

The Group is cognizant of the fact that revenue recognition in the Property industry group has shown volatility in the past years. Currently, the institute of Chartered Accountants of Sri Lanka allows for the recognition of revenue from apartment sales on a percentage completion method, until the new revenue standard, "SLFRS 15 - Revenue from contracts with customers", comes into effect in 2018. The new standard is being closely studied to explore the possibility of continuing to recognise revenue on a percentage completion method, as practiced in other regional jurisdictions such as

Given the increased lifestyle preference towards convenience housing, the Group will continue to identify properties in suitable locations to address the growing demand for residential apartments in the mid to higher end of the market. In light of this, the Group has entered into a Memorandum of Understanding with a partner in relation to a prospective property development project in central Colombo.

Malaysia and Singapore. If implemented this would enable recognition of revenue on future projects provided they meet the necessary criteria, and help smoothen revenue of the Property industry group.

The proposed Western Region Megapolis Planning project within the Colombo, Kalutara and Gampaha districts is expected to contribute towards better standards of living for the growing middle income population. The growth in living standards and incomes, coupled with the anticipated influx of tourists in the future is expected to drive demand for real estate.

The PCC project, as discussed in the External Environment and Operational Review section above, is expected to be available for development projects within the next few years. The Group will explore prospects for development in the PCC whilst also evaluating opportunities for residential apartment developments considering the emerging landscape of Colombo and the need for housing in proximity to the city. In addition to the prospective project referred to above, the Group will work towards building a stronger pipeline of projects in the short to medium term, catering to different customer segments in the mid to luxury end of the market.

The corporate, leisure and MICE segments grew at higher rates than expected in the last few years, which augurs well for the absorption of the new hotel inventory entering the market. "Cinnamon Life" is expected to capitalise on the envisaged tourism growth trajectory given its unique product offering. Despite the growth momentum of the tourism industry witnessed over the past years, the Group believes that there is significant room to expand arrivals given the strong growth in outbound travel within the region, especially in attracting a higher spend category of tourists. India and China, being the fastest growing markets for MICE

presents a significant opportunity to Sri Lanka given its close proximity and improved flight connectivity.

The Retail penetration in Sri Lanka still remains below that of other regional peers such as Malaysia, Thailand and India and thus presents a significant opportunity to capitalise on in the long term, especially given the forecasted growth in tourism to the country. The Group is confident that the unique selling proposition of "Cinnamon Life" will continue to encourage residential and commercial space sales. "Cinnamon Life" is envisaged to be the epi-center of modern South Asia, taking into account the medium to long term prospects for tourism in the country. Against this backdrop "Cinnamon Life" is uniquely positioned to bridge the current infrastructure and product offering gaps and capitalise on the aforementioned opportunities.

The demand for commercial space is expected to increase in the near and medium term following the growing need for efficient and convenient office space providing further opportunities for the Group to leverage on its expertise and synergies in developing properties at the right price and positioning products to relevant client segments.

Given the land expanse in Rajawella, a master plan is currently being finalised to ensure a unique product proposition for its customers. The proposal by the Government to accelerate the construction of the Colombo-Kandy highway will significantly improve the utilisation of the golf course, and, more importantly, enhance the value of the land bank. The Group will continue to operate the championship golf course and will focus on improving the facilities with the goal of hosting international tournaments. To this end, there will be a drive for continuous improvement of the course and the facilities while also focusing on branding and positioning.

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Given the increased lifestyle preference towards convenience housing, the Group will continue to identify properties in suitable locations to address the growing demand for residential apartments in the mid to higher end of the market. In light of this, the Group has entered into a Memorandum of Understanding with a partner in relation to a prospective property development project in central Colombo.

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# Industry Group Review

## CONSUMER FOODS AND RETAIL

### Our Business Model

#### Vision and Scope

The Consumer Foods sector is home to a portfolio of leading consumer brands including "Elephant House" soft drinks and ice creams, as well as the "Keells-Krest"

range of processed meats; all leaders in their respective categories and supported by a well-established island-wide distribution channel.

The Consumer Foods sector competes in three major categories namely beverages, frozen confectionery and convenience foods.

The Retail sector focuses on modern organised retailing through the "Keells Super" chain of supermarkets and also operates "Nexus", the most successful coalition loyalty programme in the country.

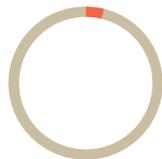
### Contribution to JKH Group



38%  
Revenue



24%  
EBIT



4%  
Capital employed



40%  
Carbon footprint



The Consumer Foods sector continued reinventing its product portfolio with the relaunch of its premium frozen confectionery brand "Imorich". JMSL also continued its expansion, adding 15 new stores during the period under review.



Consumer Foods



Retail



CO<sub>2</sub>  
0.73 MT per  
Rs.mn revenue

Sectors	Consumer Foods	Retail
The business within the sector	<ul style="list-style-type: none"> <li>Ceylon Cold Stores (CCS) produces and markets a portfolio of soft drinks under the "Elephant House" brand, an energy drink under the "Wild Elephant" brand, an isotonic sports drink, "F5", a fruit based tea drink, "Twistee", a fruit flavoured drink "Fit-o" and "Elephant House" (EH) and "Imorich" ice creams and related confectionery products</li> <li>Keells Food Products (KFP) produces and markets a range of processed meat products under the "Keells-Krest" and "Elephant House" brand names</li> </ul>	<ul style="list-style-type: none"> <li>JayKay Marketing Services (JMSL) operates the "Keells Super" chain of modern retail outlets and the "Nexus" loyalty programme</li> </ul>
Key external/internal variables impacting the business	<ul style="list-style-type: none"> <li>Increase in excise duty and other levies on sugar and other raw materials</li> </ul>	<ul style="list-style-type: none"> <li>Continued growth in the modern trade penetration of the country</li> <li>Industry characterised by high employee attrition</li> </ul>
Key developments during the financial year	<ul style="list-style-type: none"> <li>Revision of value added tax (VAT) from 11 per cent to 15 per cent</li> <li>Increases in VAT, interest rates and inflation impacted consumer discretionary spending, particularly during the fourth quarter of the financial year 2016/17</li> <li>Sri Lanka affected by the worst drought in 40 years impacting 16 districts in total</li> </ul>	<ul style="list-style-type: none"> <li>Relaunch of the premium range of ice creams as "Imorich" and the introduction of "Sword", an impulse product to bridge the gap in demand for extruded stick products</li> <li>Introduction of "Lemoki", a new flavour in the beverage portfolio and "Fit-o", a flavoured fruit drink in orange and mango flavours</li> <li>Reduction of the calorific sugar content in Carbonated Soft Drinks (CSD) through the introduction of stevia</li> <li>Capacity expansion through construction of a new ice cream factory in Seethawaka</li> <li>Expansion of the bottling plant in Ranala to cater to growing demand</li> <li>EH Cream Soda won the People's Beverage Brand of the year and People's Youth Choice Beverage Brand of the year for the 11th consecutive year</li> <li>KFP implemented a brand migration exercise in the year where several "Keells" branded products were re-branded as "Keells-Krest"</li> </ul>

### Key Indicators

Inputs (Rs.mn)	2016/17	2015/16	(%)	2014/15	Outputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Total assets	18,275	15,862	15	12,945	Revenue	45,812	36,458	26	29,757
Total equity	8,414	7,803	8	6,613	EBIT	5,486	4,497	22	2,566
Total debt	1,121	812	38	923	PBT	5,466	4,472	22	2,498
Capital employed	9,535	8,616	11	7,536	PAT	3,896	3,229	21	1,804
Employees (number)	4,446	3,692	20	3,427	EBIT per employee	1.2	1.2	1	0.7
					Carbon footprint	33,407	29,060	15	26,441

## Industry Group Review

### CONSUMER FOODS AND RETAIL

#### External Environment and Operational Review

The Consumer Foods sector maintained its growth momentum in the year under review, which augured well for the operations of the industry group as it witnessed a healthy growth in volumes in its core areas of operations. The first half of the financial year saw double digit growth in volumes, particularly in the Consumer Foods sector of the business while there was a relative moderation in growth in the latter half of the financial year. The overall performance of the Consumer Foods and Retail sector demonstrated significant growth over the previous year driven by the rapid growth in the outlet footprint and customer footfall of the Retail business together with robust volume growth in Beverages and Frozen Confectionery as a result of strong execution and leveraging on CCS's wide distribution network for both Beverages and Frozen Confectionery segments of over 90,000 and 70,000 retail outlets respectively (both general and modern trade outlets).

However, the Consumer Foods sector did witness some moderation in the growth in volumes in the second half of the year which was mainly attributable to a dampening of consumer sentiment as a result of the increase in the value added tax (VAT) and other tax policies; the effects of the drought, which affected 16 districts of the country; and rising inflation with the National Consumer Price Index increasing to 6 per cent on an annual average basis as at the end of the financial year 2016/17.

The Frozen Confectionery business witnessed a double digit volume growth of 11 per cent [2015/16: 21 per cent] in the year driven mainly by the growth in bulk confectionery, whilst the impulse segment maintained the expected level of growth in the year. The volume growth witnessed in the year was primarily driven through the general trade outlets and small and medium modern trade (SMMT) outlets across the country. Margins improved during the first half of the year as the segment benefitted from higher operating leverage as well as due to a revision of prices on account of the impending VAT rate hike in May 2016, which became fully operational from November 2016.

In keeping with its growth strategy, and the need to cater to varying consumption occasions, the Frozen Confectionery business



- ▶ The Retail business added 15 new stores during the financial year 2016/17

CCS continued to place emphasis on the composition of its portfolio, product mix, the numerous pack sizes and various other cost management measures and productivity enhancing initiatives to drive profitability.

expanded its product portfolio during the year with the introduction of "Sword"; an impulse product to fill the market demand gap for extruded sticks and a new coconut flavoured impulse product. The business also relaunched the premium range "Imorich" and the "Elephant House Wonder" range in the second half of the year. The special limited edition flavours of "Wattalappan" and "Winter slice" ice creams were introduced, and well received, in the year under review.

The Frozen Confectionery business continued to witness enhanced efficiencies from the pre-selling model implemented in the previous financial year, leading to a 50 per cent increase in the daily bill count which contributed towards its improved performance and higher penetration, particularly in the general trade space. The business continued to maintain its leadership position in the ice cream market in the Maldives.

In keeping with the demand growth in both the export markets and the local market, CCS commenced the construction of a new ice cream factory in the Seethawaka Free Trade Zone. The new factory is expected to be completed within a year with an investment of Rs.3.80 billion.

The Beverage business witnessed a volume growth of 10 per cent compared to the industry growth recorded at 15 per cent in the year under review. The segment experienced strong growth in the first half of the year which gradually tapered off in the second half of the year due to the aforementioned macro-economic conditions. The growth in the Beverage segment was primarily driven by the growth in PET bottle volumes. Volume growth in terms of the can line maintained a high growth momentum, as expected, while the glass line witnessed a marginal decline.

In keeping with the new trends in the market, the company introduced "Fit-o" in December 2016; a fruit drink in mango and orange flavours which was later introduced in a 1 litre tetra pack. CCS also introduced "Lemoki"; a lemon and kiwi hybrid carbonated drink in a 350ml PET bottle in addition to "Lime Crush" which was introduced in two new pack sizes (400ml and 2 litres).

In a proactive step towards reducing the calorific sugar content in beverages, and in keeping with the Governments initiative to provide better guidelines on the daily consumable items in the market, CCS commenced the use of stevia in its manufacturing process. Currently, stevia replaces 30 per cent of the total sugar content of "Orange Crush", "Cream Soda", "Necto" and "Lime Crush". The initiative will be extended to include other flavours in the near term. Currently, a majority of the beverages in the product portfolio are classified as "Moderate" (colour code: amber) in the regulated classification of sugar content issued by the Health Ministry of Sri Lanka.

CCS continued to place emphasis on the composition of its portfolio, product mix, the numerous pack sizes and various other cost management measures and productivity enhancing initiatives to drive profitability. In recognition of the high quality standards and the unique taste profile, the operational and brand efforts of CCS were recognised at the People's Awards of 2016 where Elephant House Cream Soda won the People's beverage brand of the year and the People's youth choice brand of the year for the 11th consecutive time in March 2017.

The export market for beverages grew 12 per cent in the year with CCS entering the UK and the EU markets in October 2016. The formulae of a selected portfolio of beverages were

reformulated to include stevia and approved ingredients in compliance with the health standards imposed by the EU. In keeping with the company's expansion plans for the beverage portfolio, an investment of Rs.2.50 billion has been considered for a bottling line extension within the Ranala manufacturing plant. The installation of the line is expected to have an approximate completion period of 12 months.

Keells Food Products (KFP) witnessed a volume decline of 4 per cent in the year as a result of continuing negative sentiments surrounding the processed meat market. KFP implemented a brand migration exercise as a means of creating brand presence for the "Keells-Krest" brand under the "Elephant House" brand umbrella. KFP also benefitted from a number of productivity improving measures implemented in the year under review, which included the introduction of pre-selling to a majority of distributors and dealers which is expected to create further growth momentum. The export market performance was in line with expectations, barring several regulatory challenges in entering particular markets. The Indian operations commenced through a licensed distributor in the first half of the financial year in Tamil Nadu and Pondicherry.

The strong performance of the Retail sector was on account of the double digit growth in customer footfall witnessed during the year and the notable contribution from the newly opened outlets which have all exceeded expectations. The same store sales growth, which was the primary driver of growth in the Retail sector, witnessed a slight moderation in the year under review. The moderation of growth in same store sales, which was anticipated, was a result of the rapid store expansion plans of the sector and the corresponding "cannibalisation" effect it entails, particularly in instances where new stores are opened in proximity to existing stores. Data insights have proven that this impact on the existing store is temporary, and it benefits from the attraction of new footfall in to the store. During the year under review, 15 new conforming large format stores were opened, with a further 3 stores being opened in April 2017. The new stores were predominantly centered in the Western Province. The total store count stood at 64 as at 31 March 2017.



Retail footprint in Colombo

JayKay Marketing Services Limited (JMSL) continued its emphasis on ensuring value, availability and quality of the goods offered, efficiency of check-out times and providing the "Keells Super" customer a differentiated shopping experience. Further to the "Fresh Campaign" introduced in the previous financial year, JMSL pioneered the launch of "Fresh Chicken" (never frozen chicken) in the year under review. The pioneering initiative by JMSL, included working closely with the supplier base to develop the necessary infrastructure and delivery mechanisms relating to the "Fresh Chicken" campaign, and was launched as a means of ensuring the consumer was offered the best quality products. The initiative also resulted in JMSL creating better relationships with its suppliers and providing them with insights on consumer preferences and trends. JMSL also launched a convenience range of "Heat and Eat" products in selected stores in anticipation of growing consumer demand for pre-prepared convenience food items.

Leveraging on the cross functional relations within the Group, the Retail business together

Key performance indicators for the industry group, under each of the sectors are summarised as follows:

Sectors	Consumer Foods	Retail
Financial and Manufactured Capital - revenue and growth	Rs.16.00 billion, 12 per cent increase	Rs.29.81 billion, 35 per cent increase
Financial and Manufactured Capital - EBIT and growth	Rs.3.80 billion, 18 per cent increase	Rs.1.68 billion, 32 per cent increase
Natural Capital - carbon footprint	15,733 MT	17,674 MT
Human Capital - number of employees	1,326	3,120



Rs.5.47 Bn

Consumer Foods and Retail industry group PBT

A 22 per cent growth

with the Logistics arm of the Group finalised the feasibility study and concept designs for a centralised distribution center (DC) to cater to the rapidly expanding network of stores. The state-of-the-art distribution center will cater to both dry and fresh (for perishable goods) products in addition to chilled produce.

The Nexus Mobile loyalty programme continued to be a key tool in retaining and attracting customers. The membership reached a landmark of 650,000 customers, making it one of the most successful loyalty programmes in the country. As a significant proportion of the Keells Super customers are Nexus members, the sector continued to leverage on its data analytics to better understand consumption patterns and target promotions and offers which will specifically benefit its customer base.

### Capital Management Review

Concluding the external environment and the operational review of the Consumer Foods and Retail industry group, the ensuing section elaborates on the forms of Capital deployed to meet the strategic priorities and the performance of the businesses during the year under review.

The industry group adheres to the John Keells Group's Environmental, Labour and Product policies and continues to monitor employee, environmental and social activities within the Group, whilst marketing its products responsibly when ensuring that value is created across all forms of Capital.

## Industry Group Review

### CONSUMER FOODS AND RETAIL

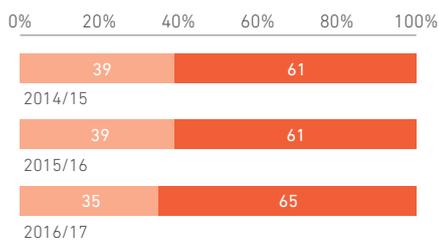
#### Financial and Manufactured Capital

As at 1 April 2016, the Consumer Foods and Retail industry group had total assets of Rs.15.86 billion, debt of Rs.812 million and an opening equity capital of Rs.7.80 billion.

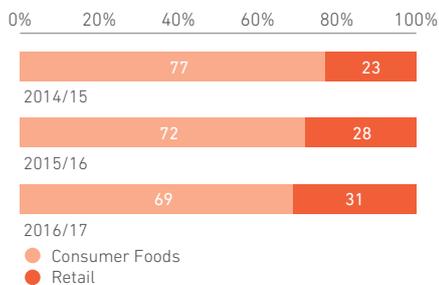
#### Financial Performance

Revenue increased by 26 per cent to Rs.45.81 billion [2015/16: Rs.36.46 billion] in the financial year. Revenue of the Consumer Foods sector grew by 12 per cent driven by double digit sales volume growth in both the Beverages and Frozen Confectionery businesses. The revenue of the Retail sector increased by 35 per cent as a result of higher footfall and incremental revenue generated from newly opened outlets, which have performed beyond expectations, in the year under review.

#### Turnover



#### EBIT



The EBIT of the industry group increased by 22 per cent to Rs.5.49 billion [2015/16: Rs.4.50 billion]. CCS, and JMSL, recorded EBIT growth of 23 per cent and 32 per cent, respectively, on account of the aforementioned revenue growth stemming from higher volumes, efficient execution and management of distribution and dealer networks of CCS and higher foot fall at JMSL. KFP recorded a moderate revenue growth during the year, attributable to the decline in volume growth discussed in the External Environment and Operational Review. The EBIT of the industry group included fair value gains on investment property of Rs.92 million [2015/16: Rs.17 million] pertaining to CCS. The recurring EBIT, excluding the fair value gain on investment property, increased

by 20 per cent to Rs.5.39 billion. The PBT of the industry group increased by 22 per cent to Rs.5.47 billion [2015/16: Rs.4.47 billion] whilst recurring PBT also increased by 21 per cent to Rs.5.37 billion [2015/16: Rs.4.46 billion].

#### Borrowings and Finance Expense

Total debt as at 31 March 2017 increased by 38 per cent to Rs.1.12 billion attributed to the construction of the new ice cream manufacturing plant under Colombo Ice Company (Pvt.) Limited, a fully owned subsidiary of CCS. CCS repaid its existing long term liabilities during the year, while the increase in total debt occurred towards the end of the financial year, and as such, the finance expense for the financial year of the industry group reduced by 23 per cent to Rs.19 million [2015/16: Rs.25 million]. JMSL also increased its short term working capital facilities as a result of higher operational volumes.

#### Return on Capital Employed

The ROCE of the industry group increased to 60.4 per cent in the year under review, in comparison to the 55.7 per cent recorded in the previous financial year. The capital base of the industry group was marginally impacted by the aforementioned fair value gains on investment property and revaluation gains of Rs.199 million [2015/16: Rs.79 million]. As discussed under the Strategy, Resource Allocation and Portfolio Management section of this Report, the capital base has been adjusted for the fair value and revaluation gains arising in the preceding three years in order to calculate the adjusted capital base. On this basis, the adjusted ROCE after eliminating the aforesaid impacts, stands at 61.4 per cent compared to an adjusted ROCE of 63.1 per cent in the prior year

- The EBIT margin was 12.0 per cent compared to the 12.3 per cent recorded in the previous year. The marginal contraction in EBIT was due to related increases in administration and sales

costs in the Consumer Foods sector. The recurring EBIT margin of the industry group which is the operational EBIT, adjusted for the fair value gains, was 11.8 against 12.3 recorded in the previous year. The recurring EBIT margin of the Consumer Foods sector was 23 per cent [2015/16: 22 per cent] while the recurring Retail EBIT held steady within the two year period

- The decrease in the industry group's EBIT margin was expected since the EBIT contribution of the Retail sector has increased by 8 per cent during the year
- The industry group recorded an asset turnover of 2.68 times during the year compared to the 2.53 times recorded in the previous financial year. It should be noted that the expansion of the Retail sector will impact the ratio, since the expansion will have a significant effect on the asset base of the industry group whilst also having a more than proportionate effect on turnover

#### Natural Capital

The Consumer Foods and Retail industry group carries out its operations within the Group's Environmental and Energy Management policy, whilst adhering to, and going beyond, all required environmental laws and regulations through regular monitoring and testing.

The material impacts for the industry group are classified as follows:

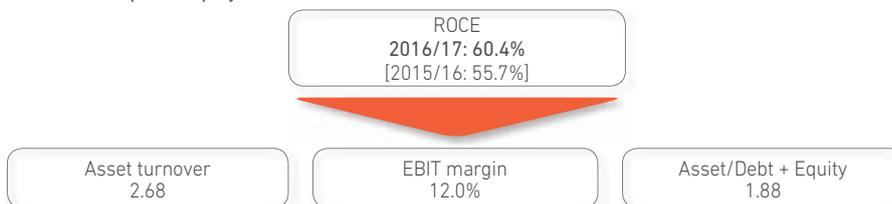
Energy, emissions, water and waste	Financial, regulatory and brand reputation implications
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#### Energy and Emissions Management

##### Targets:

- Reduction of energy consumption and the resultant reduction in carbon footprint through initiatives and better management of infrastructure

#### Return on Capital Employed





Installation of a low capacity, high pressure compressor for the PET bottle blow moulding machine at the CCS factory premises to inflate smaller sized bottles using a lower amount of energy resulting in energy saving

Blow moulding air compressor unit at CCS

#### Initiatives:

- Replacement of old fluorescent and metal halide lights with new LED lights within the factory and administrative premises of CCS and selected JMSL outlets
- CCS continued its process of obtaining its carbon dioxide requirement from overseas, purified from a by-product of a fertilizer manufacturing plant, offsetting the need for the combustion of fossil fuel
- With the aim of reducing its carbon footprint, CCS purchased higher capacity, fuel efficient trucks to reduce the number of distribution runs
- Installation of a low capacity, high pressure compressor for the PET bottle blow moulding machine at the CCS factory premises to inflate smaller sized bottles using a lower amount of energy resulting in energy saving

#### Water Management

##### Initiatives:

- CCS, KFP and selected JMSL outlets continue to treat and reuse waste water through the use of effluent treatment plants for purposes such as gardening and general cleaning in an effort to reduce the total volume of water withdrawn
- CCS continues to use the membrane bioreactor (MBR) based sewerage treatment plant (150 m<sup>3</sup>/day) resulting in better quality discharge, and, thereby, improving quality parameters of its effluent

#### Indicators

The carbon footprint of the Consumer Foods and Retail industry group increased by 15 per cent to 33,407 MT from 29,060 MT in the year under review. Various production efficiencies resulted in a decrease of carbon, water and waste per operational factor at CCS and JMSL.

#### Sustainability indicators

	2016/17	2015/16	(%)
Carbon footprint (MT)	33,407	29,060	15
Water withdrawn (m <sup>3</sup> )	740,255	701,640	6
Waste disposed (kg)	4,352,611	3,498,450	24

#### Carbon footprint scope 1 and 2 per operational intensity factor

	2016/17	2015/16
CCS CO <sub>2</sub> , kg per litre produced	0.10	0.10
KFP CO <sub>2</sub> , kg per kg of processed meat produced	0.91	0.84
JMSL CO <sub>2</sub> , kg per square foot of outlet area	32.39	32.44

#### Water withdrawal per operational intensity factor

	2016/17	2015/16
CCS water withdrawn - litres per litre produced	4.51	4.72
KFP water withdrawn - litres per kg of processed meat produced	14.20	12.13
JMSL water withdrawn - litres per square foot of outlet area	271.38	287.19

#### Waste generated per operational intensity factor

	2016/17	2015/16
CCS waste generated - kg per litres produced	0.02	0.02
KFP waste generated - kg per kg of processed meat produced	0.17	0.15
JMSL waste generated - kg per square foot of outlet area	2.40	2.07

#### Impacts through other initiatives:

- JMSL continued its efforts aimed at reducing the use of polythene through the use of a "Red Bag", a re-usable cloth bag, and corrugated cardboard boxes. The developments relating to this initiative are summarised below
  - JMSL continued its efforts in providing affordable eco-friendly, re-usable bags to customers and promoting the re-use of the bags, leading to the number of re-used red bags doubling compared to the number being sold

## Industry Group Review

### CONSUMER FOODS AND RETAIL

- Encouraging customers to bring their own eco-friendly re-usable bags by introducing a points system based on the Nexus loyalty programme. Currently, this is being piloted at 2 outlets with plans to expand the initiative, if successful
- Responsible disposal of e-waste weighing 1,300 kg by JMSL through a third party supplier
- Recycling of food waste weighing 13,529 kg by KFP from both the Pannala and Ja-Ela plants

#### Human Capital

Given its labour intensive nature, the Consumer Foods and Retail industry group places significant importance on its Human Capital. While the industry group focuses on areas such as health and safety, providing continuous training to develop skills and improve productivity of employees, it also strongly believes in respecting employee rights and maintaining good working conditions

The material impacts are identified as:

<b>Health and safety/ training and talent retention</b>	The operations within the industry group are labour intensive, with over 4,400 employees in total
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#### Targets:

- Provide regular feedback to employees along with performance reviews, and necessary training and development throughout the year
- Maintain a healthy working relationship with employee unions through constant dialogue and joint consultative committees
- Minimise occupational health and safety incidents
- Identify and meet the training needs of the staff and reduce employee attrition
- Encourage healthy labour relations within the industry group's workforce

#### Initiatives:

- CCS and KFP continued to maintain OHSAS certification and streamlined its organisational processes through continuous monitoring and process improvements to ensure a safe working environment



"Bring your own bag (BYOB)" initiative carried out by JMSL

- Videos related to training on health and safety were provided to more than 2,600 JMSL outlet employees, along with safety gear. The employees were also provided with new guidelines on safe use of machinery
- Health and Safety awareness campaigns were conducted for outlet employees through the K-FM radio channel, printed in-store material, distribution of employee pocket calendars and in-store briefing sessions while health and wellness tips were provided to JMSL head office employees performing desk-jobs
- More than 560 training hours on first aid and fire safety were conducted for 187 JMSL supervisors to ensure a safe work environment at outlets
- All companies of the industry group reviewed and tested its business continuity plans regularly throughout the year

#### Indicators

From a labour perspective, 89 injuries were recorded during the reporting year, while 172,981 hours of training were provided to those employed within the industry group. It is pertinent to note that a majority of these injuries were minor in nature and no fatalities were recorded pertaining to the job.

#### Labour indicators

	2016/17	2015/16	(%)
Injuries and diseases (number)	89	91	(2)
Total hours of training	172,981	91,402	89

#### Social and Relationship Capital

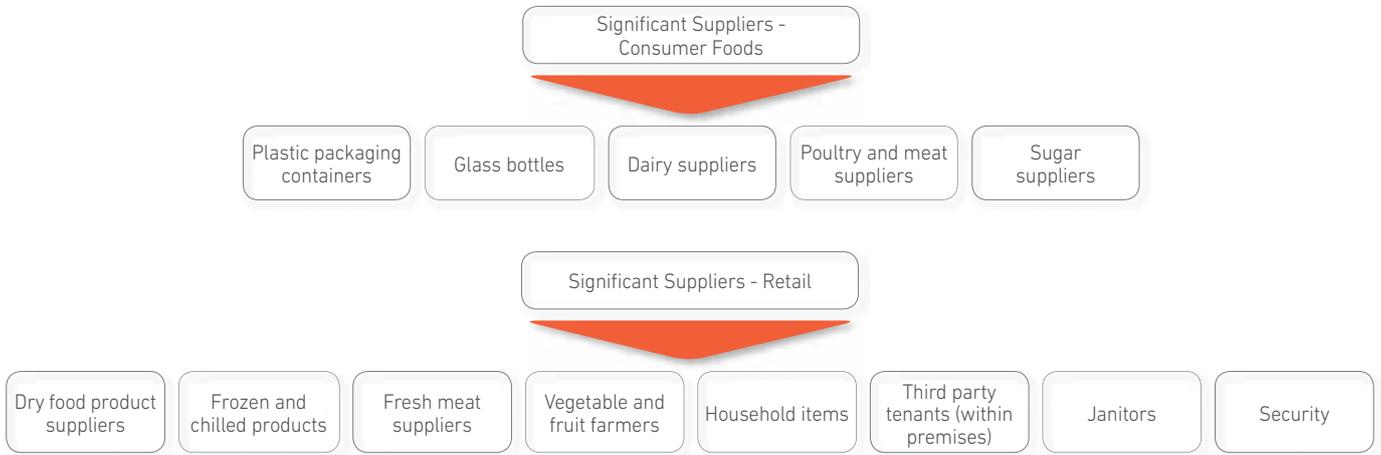
Considering its dependence on sourcing high quality raw materials, the industry group places emphasis on its Social and Relationship Capital. Wherever possible, businesses purchase raw materials locally. The Group proactively engages with its diverse farmer communities, recognising that increased awareness on weather patterns and sustainable agricultural practices are important to ensure sustained yield and efficient operations. Farmers are required to adhere to agricultural practices that are environmentally friendly and produce high yields. The farmers also benefit from

the guaranteed volume and price scheme observed by the ice cream and beverage businesses.

Companies in the industry group assess all significant suppliers, including suppliers providing janitorial and outsourced services, for significant negative sustainability impacts.

<b>Supply chain and sustainable sourcing</b>	Ensure a continuous source of raw materials which reduces risk, enhances brand reputation and benefits local businesses
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The significant suppliers within the industry group are illustrated below:



**Targets:**

- Source all ingredients and produce required within Sri Lanka, with exceptions only due to the shortage of raw materials
- Assess all significant suppliers for environmental, social and labour risks
- Adhere to the Group’s policies on Labour, Child and Forced Labour with the aim of ensuring there are no such instances

**Initiatives:**

- CCS continued its ginger and vanilla “outgrower” programmes through the provision of financial assistance and technical advice to farmers via local authorities. Substantial quantities of ginger were purchased from its out grower programme for its flagship product “Elephant House Ginger Beer” while also extending technical support by introducing compost filled poly-sack bags for ginger farming to enable better utilisation of land. CCS together with the Export Agriculture Department and Kandy Vanilla Growers Association (KVGA) also initiated a project to cultivate 100,000 vanilla plants in identified villages in the Central province. The company also continues its purchase of treacle and jaggery at a guaranteed quantity at a rate above the market, as a means of enhancing farmer livelihood.
- KFP continued its assistance in the expansion of local, mechanised and de-boned meat suppliers while also providing local farmers with a guarantee for the purchase of pork and chicken.

- JMSL facilitated good manufacturing practices (GMP) workshops for small and medium scale suppliers and good agriculture practice programmes (GAP) for farmers in collaboration with the Department of Agriculture for farmers in Thambuttegama, Sooriyawewa and Nuwara Eliya, optimising the production and post-harvest process of fresh produce. JMSL also improved its sustainable sourcing targets within the “fresh” produce supply chain to ensure higher quality produce for its customers
- Hundreds of farmer families benefit from the Retail sector sourcing scheme which provides an assured market for quality produce, technical assistance and exposure to practices adopted in more developed markets. This has also facilitated the business in ensuring a sustainable business model while creating value for the community. Key impacts from these initiatives are summarised below;

Company	Number of farmers	Total annual supply (Kg)	Total annual payment (Rs.)
KFP	5,060	3,284,502	980,561,242
CCS	2,957	156,310	157,581,211
JMSL	1,978	8,876,040	747,396,576



Newly introduced community bay at a Keells Super outlet

## Industry Group Review

### CONSUMER FOODS AND RETAIL

Product	Number of farmers
 Spices	2,500
 Pork	30
 Chicken	2,500
 Vanilla	1,200
 Cashew Nuts	1,300
 Ginger	382
 Vegetables	30
 Kithul Jaggery	60
 Treacle	15

#### Community Engagement:

In addition to the sustainable sourcing initiatives carried out by the industry group, various other community engagement projects were initiated to build ongoing and permanent relationships in order to promote social responsibility and integration within the community. To this end, the following were carried out during the year under review;

- JMSL reiterated its commitment to minimise fresh produce wastage by being the first supermarket in Sri Lanka to donate unused vegetables and fruits to charities, alleviating hunger among the disadvantaged and minimising the amount of food that gets discarded at landfills. The initiative titled “We Donate” is currently being piloted in 13 stores, where approximately 1,847 kg of produce has been donated. Plans are currently underway to expand the initiative to all Keells Super outlets
- JMSL offers ‘Community bays’ for local and medium scale suppliers to display and market their products. This initiative has benefitted organisations such as the Chitra Lane School for Special Children and Mother Sri Lanka, giving disadvantaged and marginalised communities the opportunity to be productive members of society and be economically independent
- As a means of promoting healthy living, Nutri-tips and a wider range of healthy consumption options including organic fresh produce are available for customers

#### Intellectual Capital

The Consumer Foods and Retail industry group continuously strives to ensure high product and service quality. While the Consumer Foods businesses focus on ensuring safe and high quality products, the objective of the Retail sector is to offer a superior customer experience. The industry group’s businesses have obtained international quality standards with assurance obtained annually through third party verifications. Both CCS and KFP adhere to the standards stipulated by the Sri Lanka Standards Institute and are on par with international standards with respect to process excellence.

As testimony to its product excellence, CCS won many awards and accolades during the year such as the National Chamber of Exports awards, PEOPLES Awards 2016, Sri Lanka China Business Cooperation Council Awards 2016, National Business Excellence Awards, Institute of CA Sri Lanka - Annual Report Awards, amongst many others.

The material impacts relating to this Capital are identified as:

<b>Product and service quality</b>	Financial, regulatory, brand reputation and business continuity implications
<b>Responsible labelling and marketing communication</b>	Financial, regulatory and brand reputation implications

#### Targets:

- CCS and KFP look to ensure the quality of raw materials through quality assurance processes and continuous monitoring of its suppliers
- Continuously ensure that all local packaging and labelling requirements are met and that marketing communications are in line with the Marketing Communication Guidelines of the John Keells Group, which is based on the Code of Advertising and Marketing Communications by the International Chamber of Commerce
- CCS and JMSL to assess its sustainability performance against international benchmarks and carry out initiatives to address any gaps that are identified

- Internal short term goals, aligned towards meeting international benchmarks, have also been established by the industry group while JMSL continues a strategy to entrench sustainable practices both at store level and in the value chain
- CCS and KFP will strive to meet internationally recognised quality standards, with both companies obtaining ISO 9001 and ISO 22000 certifications as well as SLS 183 and SLS 223

#### Initiatives:

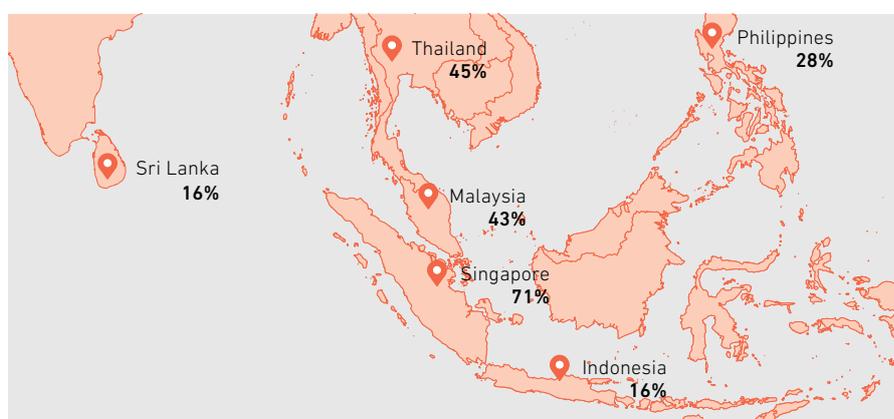
- The calorific sugar content in beverages was reduced through the use of stevia; a natural sweetener with zero calories. The initiative led to a 30 per cent reduction in the total sugar content in selected beverages
- Providing healthy product options to customers at all Keells Super stores and also launching a special organic dry range at selected stores
- Providing organic fresh produce to customers. Rolled out in 36 Keells Super stores to date
- Providing Nutri-tips from a senior dietician to customers via digital media handles such as Facebook and in-store marketing material at JMSL. The tips focused on how different foods provide different health benefits, meal planning for best nutrition and other freshness/nutrition related tips
- JMSL obtained SLS certification for over 40 Keells Super stores and in-store bakeries
- KFP removed total added MSG and nitrite from frozen categories such as sausages, meat balls, formed meat, chinese rolls, ham and bacon. The removal of nitrite resulted in the products carrying the line “No added preservatives” in its packaging
- Of the 519 stock keeping units which are either manufactured by the Consumer Foods sector or obtained via private labelling arrangements at the Retail sector, 81 per cent carried information on the ingredients used, 1 per cent carried information on raw material sourcing, whilst 31 per cent and 93 per cent carried information on the safe use, and responsible disposal of products, respectively

## Strategy and Outlook

The penetration of consumer food products continues to be comparatively low with per capita consumption of carbonated soft drinks and ice creams in Sri Lanka currently standing at 10 liters and 2 litres respectively, significantly below the regional average, highlighting the potential for continued long term growth in these categories. Whilst the tapering of demand witnessed in the fourth quarter of 2016/17 is likely to continue in the short term given the Government's fiscal consolidation efforts and prevailing inflationary pressures, the changes in consumer lifestyles, consumption habits and improving prosperity are expected to provide opportunities for volume growth in the medium to long term. Although off a relatively lower base, the growth from the outskirts of the country is expected to be significantly higher than the growth stemming from the urban markets.

With the ongoing investment in the new manufacturing facility, the Frozen Confectionery businesses will place a greater emphasis on the impulse range to capture an emerging consumer base to ensure a holistic portfolio that can cater to evolving consumers and varying consumption occasions. The company will also continue investments to facilitate growth in the bulk and impulse ranges and to extend in to other verticals such as dairy based products. The business will continue to invest in optimising its processes and procedures relating to its distribution network, expanding freezer penetration and strengthening the mobile distribution channel.

Given the aforementioned low penetration of carbonated soft drinks in Sri Lanka, and as witnessed over the prior years, growth in volumes in the rural areas is expected to exceed that of densely populated areas such as Colombo, Kandy and key suburban cities. As stated in the previous year's Annual Report, the long term growth potential for the carbonated soft drinks industry may moderate, to an extent, due to the emergence of a health conscious consumer. The prospects for the beverage industry continue to be encouraging nevertheless since these health conscious consumers seek alternate beverage options. CCS will continue to explore different possibilities in terms of flavours and other product extensions to create a product offering which has greater variety and convenience to the consumer. CCS will look



*The modern trade penetration in the region*

to cater to this segment of the market with its evolving product portfolio. In doing so, the company will leverage on its brand recognition and trusted reputation. CCS will continue to invest in research and development initiatives to facilitate the use of natural ingredients when re-inventing existing products and developing new products. Given the increasing role of digitisation and its impacts on businesses, CCS will place emphasis on the introduction of digital initiatives aimed at improving efficiencies and managing costs within the company, particularly in relation to the supply chain and in enhancing customer satisfaction.

The expansion of the portfolio in the Convenience Foods business remains a near term priority, with plans to add products mainly in the vegetarian, fish and pork ranges. In the medium to long term, KFP will look to diversify its portfolio through a greater emphasis on the "health conscious" consumer and capitalising on the growing need for "convenient" main meal opportunities. Added focus will also be placed in the ensuing year on KFP's export strategy which is aimed at increasing volumes from markets such as India and the Maldives.

The modern trade share of Sri Lanka's retail industry is approximately 16 per cent, well below that of countries in the region (Singapore: 71 per cent; Malaysia: 43 per cent and Thailand: 45 per cent), indicating the growth potential of Sri Lanka's modern retail sector. The population per store in Sri Lanka is also significantly higher than that of other comparable countries, although this statistic should also be looked at in the context of store format, population density and other country specific factors. The Retail sector

will look to capitalise on this opportunity by strategically expanding its retail footprint in the near and medium term, subject to macro-economic conditions and feasibility. The business continues to seek properties in strategically placed locations in line with its expansion plans with a view to rolling out conforming outlets primarily in the larger format. While a majority of outlets will be concentrated within, and in close proximity to, the Western Province, other locations will also be considered based on certain criteria. Securing land for new conforming stores, particularly in the urban areas, remains the primary challenge. Considering the rapid growth of the store network, recruitment and retention of staff is a key challenge affecting JMSL as well as the retail industry in general. JMSL has implemented various initiatives to enhance the retention of staff in order to ensure it maintains efficiency of operations and delivery of services standards to the expectations of its customers.

In order to complement the growth plans of the business, and to further improve the productivity and efficiency of the company, JMSL will place added focus on constructing and commencing operations of the new distribution centre towards the first half of calendar year 2019, in collaboration with John Keells Logistics, the Group's logistics business. The Retail business will continue to focus on differentiating the shopping experience to the customers through the quality of its produce, particularly in the fresh products ranges whilst also driving service standards and customer care. Nexus Mobile, the loyalty programme of the Retail business, will continue to add value, enabling the business to identify key trends in customers and shopping lifestyles using data analytics.

# Industry Group Review

## FINANCIAL SERVICES

### Our Business Model

#### Vision and Scope

The segment is engaged in a broad range of financial services across insurance, commercial banking, debt trading, fund

management, leasing and stock broking, with a vision of becoming leaders in the respective segments through proactive customer centricity and digital adoption.

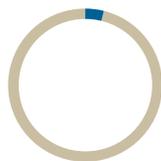
### Contribution to JKH Group



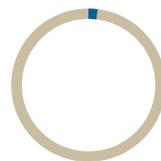
12%  
Revenue



9%  
EBIT



4%  
Capital employed



2%  
Carbon footprint



The Financial Services industry group continued its commitment towards digitisation through the launch of "GOYO", whilst continuing to develop a comprehensive range of financial solutions through state-of-the-art digital platforms.



Insurance



Banking and Leasing



Stock Broking



CO<sub>2</sub>  
0.17 MT per  
Rs.mn revenue

Sectors	Insurance	Banking	Stock Broking
The business within the sector	<ul style="list-style-type: none"> <li>Union Assurance (UA) offers comprehensive insurance solutions in the Life Insurance segment while General Insurance solutions are offered through its equity accounted investee recently renamed Fairfirst Insurance Limited</li> </ul>	<ul style="list-style-type: none"> <li>Nations Trust Bank (NTB) offers complete banking solutions through its network of branches for corporate, retail and SME clients, and is the sole acquirer and the exclusive issuer of the flagship centurion product range of American Express cards in Sri Lanka</li> </ul>	<ul style="list-style-type: none"> <li>John Keells Stock Brokers (JKSB) is one of the leading stock broking companies in Sri Lanka and has a number of trade execution relationships with leading foreign securities houses</li> </ul>
Key external/internal variables impacting the business	<ul style="list-style-type: none"> <li>The insurance industry continued its strong growth, recording a growth of 18 per cent during the financial year</li> </ul>	<ul style="list-style-type: none"> <li>The banking industry enjoyed strong credit growth amid a rising interest rate environment</li> <li>Increasing interest rates including policy rates, narrowing margins, declining CASA ratios, increased VAT rates on financial services and Intense competition were key challenges during the period</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of mandatory Capital Adequacy Ratios replacing net capital requirements for stock brokers took effect on 1 March 2017</li> <li>The All Share Price Index (ASPI) declined by 0.2 per cent, while average daily turnover levels at the CSE declined by 23 per cent in the year under review</li> </ul>
Key developments during the financial year	<ul style="list-style-type: none"> <li>Introduction of "GOYO", a personalised wellness solution that utilises a smart phone application, a wearable device and a network of partners. "GOYO" includes an insurance offering to reward users for engaging in an active lifestyle while acting as a "personal health advisor"</li> </ul>	<ul style="list-style-type: none"> <li>Introduction of a cash management platform for mid-level corporates that provides supplier payment services, electronic banking and payroll services among others</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of cost management initiatives and a new trade execution and back office IT platform</li> </ul>

### Key Indicators

Inputs (Rs.mn)	2016/17	2015/16	(%)	2014/15	Outputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Total assets	41,725	35,878	16	37,128	Turnover <sup>3</sup>	14,056	11,896	18	12,989
Total equity	7,592	7,135	6	11,698	EBIT	2,097	2,301	(9)	3,076
Total debt	138	106	30	80	PBT	2,097	1,699	23	3,076
Capital employed <sup>1</sup>	7,730	7,240	7	11,778	PAT	2,042	1,718	19	3,019
Employees (number) <sup>2</sup>	814	803	1	718	EBIT per employee	2.6	2.9	(10)	4.3
					Carbon footprint (MT)	1,391	1,407	(1)	1,550

1 For equity accounted investees the capital employed is representative of the Group's equity investment in these companies

2 As per the sustainability reporting boundary

3 Revenue is inclusive of the Group's share of equity accounted investees

## Industry Group Review

### FINANCIAL SERVICES

#### External Environment and Operational Review

The financial year 2016/17 marked a successful year of operations for the Group's Financial Services industry group, with both the Insurance and Banking sectors recording encouraging growth.

The year under review marked the first year of operations for the Life Insurance business post its adoption of the Risk Based Capital framework, as directed by the Insurance Board of Sri Lanka (IBSL).

The life insurance industry continued to demonstrate encouraging growth in the year under review. The gross written premiums (GWP) of the Life Insurance business for the calendar year 2016 stood at Rs.8.27 billion, an increase of 19 per cent over the Rs.6.96 billion recorded in the corresponding period in 2015. The growth was predominantly driven by a 23 per cent increase in traditional policies whilst renewal premiums from unit linked products were in line with expectations.



As per the actuarial valuation carried out during the year, the life insurance business generated a surplus of Rs.1.10 billion, a marked increase of 38 per cent against the prior calendar year [CY2015: Rs.800 million].

With its focus on providing continuously evolving and novel products, UA launched "GOYO", a trendy fitness mobile app and wearable fitness tracker, representing wellness and well-being. GOYO includes an eco-system of partners revolving around keeping fit, living healthy, cultivating healthy habits and looking good. Launched in early 2017, GOYO acts as a "Personal Health Advisor" motivating its users towards achieving targeted goals and rewarding each milestone with exclusive offers from its partner base. The app was launched in collaboration with the Group as well, including cross functional tie ups with Cinnamon Hotels and Resorts, Elephant House and Nations Trust Bank.



- ▶ The bank launched a cash management system for mid-tier corporates in June 2016.

The life insurance industry continued to demonstrate encouraging growth in the year under review. The gross written premiums of the Life Insurance business for the calendar year 2016 stood at Rs.8.27 billion, an increase of 19 per cent over the Rs.6.96 billion recorded in the corresponding period in 2015.

The General Insurance business, which was renamed "Fairfirst Insurance Limited" with effect from 28th February 2017, recorded an increase in gross written premiums of 29 per cent in the calendar year ending 2016.

The banking industry recorded healthy growth during the financial year against the backdrop of strong credit demand stemming from the private and public sectors. However, performance was dampened to an extent due to increased pressure on net interest margins (NIMs) arising from rising cost of funds.

Despite a challenging operating environment, Nations Trust Bank (NTB) recorded strong growth in loans, advances and deposits. The growth in loans and advances and deposits during the calendar year was 24 per cent and 17 per cent, above the industry averages of 18 per cent and 17 per cent, respectively. The growth in loans and advances was mainly attributable to growth from the small and medium sized enterprise (SME) segment and corporate book, which also stems from a conscious rebalancing of the loan portfolio.

Deposits recorded a growth of 17 per cent [CY2015: 16 per cent], mainly driven through the mobilisation of term deposits on account of the expectant rise in interest rates during the first half of the year. The current

and savings account (CASA) mix however, decreased to 28 per cent of total deposits from 32 per cent recorded against the prior year due to the increase in interest rates, which resulted in a shift to term deposits.

In line with NTB's focus towards the corporate and SME segments, the Bank launched a cash management system for mid-tier corporates in June 2016. The system offers payroll services, supplier payment facilities amongst others for corporates.

NTB continued its focus on lean management initiatives together with increased automation and greater reliance on digital channels. The lean initiative at NTB has gathered momentum with significant improvements in key areas such as customer lean application and turnaround time among others. The Bank pursued opportunities in extracting value from already existent soft and hard infrastructure, focused on delivering customer centric products and encouraged cross selling to enhance NTB's value proposition during the period under review.

The uncertain external economic environment including expectations of interest rate hikes by the US Federal Reserve resulted in an outflow of capital from many emerging and frontier markets, including Sri Lanka. Policy uncertainty locally, as well as pressure on interest rates and exchange rates exacerbated the negative performance of the Colombo Stock Exchange affecting the Stock Broking business during the year under review. Further details on the overall stock market and its performance can be found in the Share and Warrant Information section of this Report.

Operating within this environment, JKSB focused on aligning its processes and systems with client needs and introduced efficiency enhancing and cost management initiatives, which included a trading platform and an order management system to improve and increase efficiency in front office and back office operations.

The Risk Based Capital Adequacy requirements were approved by the Securities and Exchange Commission of Sri Lanka (SEC) with effect from 1 March 2017. To this end, JK PLC and JKH infused equity in to JKSB to meet this requirement.

## Capital Management Review

Further to the review of the external environment and operations, this section reviews the forms of Capital available for the successful execution of the businesses strategies, the initiatives undertaken during the year to create value, and also discusses the performance of the sectors within the industry group under each form of Capital.

Key performance indicators for the industry group, under each of the sectors are summarised below.

Sectors	Insurance	Banking and Leasing	Stock Broking
Financial and Manufactured Capital - revenue and growth	Rs.9.66 billion, increase of 22 per cent	Rs.4.28 billion, increase of 14 per cent	Rs.115 million, decrease of 40 per cent
Financial and Manufactured Capital - EBIT and growth	Rs.1.23 billion, decrease of 16 per cent	Rs.894 million, increase of 9 per cent	(Rs.25 million), decrease of 263 per cent
Natural Capital - carbon footprint	1,367 MT	Not within the boundary of sustainability reporting	24 MT
Human Capital - number of employees	785	Not within the boundary of sustainability reporting	29

## Financial and Manufactured Capital

As at 1 April 2016, the Financial Services industry group had total assets of Rs.35.88 billion, debt of Rs.106 million and opening equity capital of Rs.7.13 billion.

## Financial Performance

Since the key businesses within the industry group comprise of the Banking and Insurance arms of the Group, the ensuing discussion will be predominantly based on PAT, in order to capture the net earnings of the businesses.

The performance of NTB, which is an equity accounted investee, is reflected in the Group financial statements on an attributable PAT basis as required under the accounting standards.

The PAT of the industry group increased by 19 per cent to Rs.2.04 billion in the year under review, primarily driven by the growth witnessed in UAL. The PAT of the life insurance business grew by 36 per cent during the year as a result of the life insurance surplus transferred to the shareholders amounting to Rs.1.10 billion [CY2015: Rs.800 million] and an increase in the earnings contribution from its general insurance associate company Fairfirst Insurance Ltd. The PAT of NTB grew by 5 per cent during the year under review, stemming from healthy growth in loans and advances. The adverse equity market conditions witnessed throughout the year under review had a significant impact on JKSB, resulting in a loss of Rs.20 million.

## Borrowings and Finance Expense

Total debt pertaining to the Group's subsidiaries in the financial services cluster (UA and JKSB) as at 31 March 2017 stood at Rs.138 million.

## Return on Capital Employed

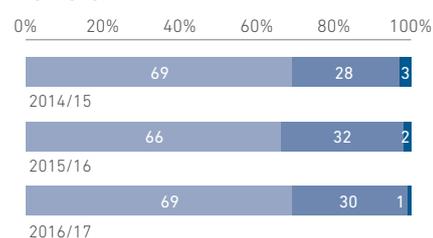
- The industry group ROCE increased to 28.0 per cent against 24.2 per cent recorded in the previous year. The increase in ROCE is partly stemming from the decline in the average capital base of the industry group on account of the UA share repurchase which took place in September 2015
- Total assets at the Financial Services industry group increased by 16 per cent to Rs.41.72 billion
- Asset turnover increased marginally to 0.36 times compared to 0.33 times witnessed in the prior financial year

## Natural Capital

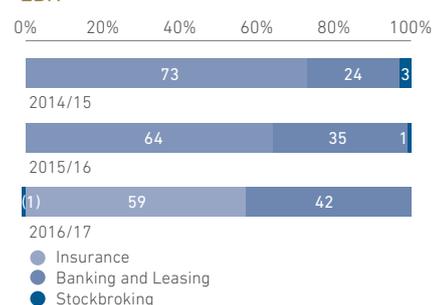
The Financial Services industry group aimed to reduce its environmental impact by aligning itself with global best practices. The key initiatives that were successfully continued into the current financial year of operations are outlined as follows:

- Recycling of toner cartridges in partnership with a third party supplier
- Installation of master key switches in all branches, which enables the automatic shutting down of power once the users leave the premises leaving their computers powered on
- Recycling of used paper during the year, effectively saving 300 fully grown trees
- Replacement of traditional fluorescent lights with LED lighting at branches
- Installation of timer switches in all split and package air conditioners at branch offices to enable automatic shutting down after office hours

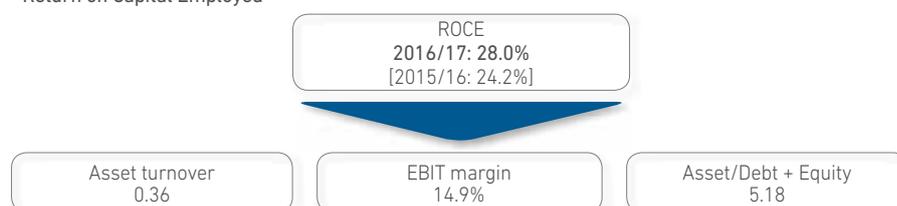
## Turnover



## EBIT



## Return on Capital Employed



## Industry Group Review

### FINANCIAL SERVICES

The continued effort of the industry group to minimise the impact on the environment proved fruitful as evident in the table below.

#### Indicators

	2016/17	2015/16	(%)
Carbon footprint (MT)	1,391	1,407	(1)

#### Human Capital

The Financial Services industry group continued its initiatives to enhance its Human Capital productivity through training and development, especially the sales agents of UA.

The material impacts identified for the industry group are as follows:

<b>Occupational health and safety</b>	Union Assurance sales agents, who account for over 75 per cent of the John Keells Group's total contractor's personnel, are at risk of road side accidents
<b>Talent Management</b>	The need to retain and continuously upgrade the skills of existing staff, while developing a resource base of professionals.

#### Talent Management

During the year under review, UA was recognised as one of the 20 great places to work in Sri Lanka for the fourth consecutive year by the Great Place to Work Institute and was also recognised at the Insurance Industry Awards for Best People Management Practices.

Building a high performing team through training, developing and educating the employee cadre and the agency force is a focal point of UA's current business strategy. Some key initiatives in this regard are summarised below;

- Conducting a bottom-up strategic planning process including representatives from all functions to enhance employee engagement and ensure their buy in and commitment to deliver corporate objectives
- Enhancing of leadership and team building through various training programmes

- Talent development and top management engagement with identified talent pools through projects such as "The Odyssey" and "The Ladder project"
- Conducting "Executive Development Programmes" to prepare young executives for the work environment and to facilitate career building
- Personality development through "Union Transformers" and "Project Emerge" for staff below 30 years of age, and school leavers respectively. (Apprentices of "Project Emerge" were offered permanent employment positions at UA upon completion of the project)

Amidst these personal development initiatives, more focused initiatives such as a comprehensive re-structuring of the bancassurance unit was initiated with the intention of retaining and enhancing the productivity of staff, which is a key contributor towards the overall revenue generation of the business.

#### Health and Safety Initiatives

- Road Safety Awareness Programmes for 469 sales staff were conducted in 5 zones
- The annual fire evacuation drill was carried out at the UA Head office in association with the Colombo Fire Brigade
- UA implemented assessment centre based recruitment processes for all regions, including the bancassurance channel, to enable recruitment of more suitable employees
- Outstanding performers of UA sales staff were rewarded for their performance achieved via digital submission of policies, through the "Digital Quarter 2016" competition
- A Career Progression System (CPS) was introduced to track sales training provided to sales staff

	2016/17	2015/16	(%)
Injuries and diseases (number)	30	29	3
Total hours of training	13,553	11,389	19

#### Indicators

The industry group provided an average of 17 hours of training per person during the reporting period, whilst the total number of injuries increased by 3 per cent.

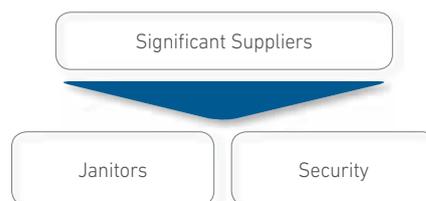
#### Social and Relationship Capital

With the regulatory frameworks governing the financial services industry necessitating that business is carried out in accordance with the highest ethical standards, customer confidentiality and satisfaction is a key factor for the Financial Services industry group. The focus on its Social and Relationship Capital through its sustainability strategy is based upon these material impacts. As such, the Group focuses on strengthening its brand presence among customers through a commitment to high quality products and services, community engagement and employee development with minimal impact on the environment while ensuring that its operations are undertaken in a responsible manner.

The material impacts for the industry group are:

<b>Customer satisfaction</b>	Negative impacts on key customer accounts, investor and client confidence
<b>Community engagement</b>	Proactive community engagement contributes to building trust and promotes brand image
<b>Ethics, fraud and corruption</b>	Fraud and corruption loss of brand reputation and possible regulatory non-compliance

The significant suppliers within the industry group are:



	2016/17	2015/16	(%)
Injuries and diseases (number)	30	29	3
Total hours of training	13,553	11,389	19

## Initiatives

### Anti-Corruption

Corruption and unethical behaviour are covered under the overall risk management process of the Group, particularly considering the relevance to the Financial Services industry group. All employees are expected to abide by the John Keells Group's Code of Conduct and new employees are trained on the expectations of ethical behaviour at induction. The Group has a zero tolerance policy with regards to breaches of its Code of Conduct while Internal reviews and audits are also carried out on a continuous basis as part of the management approach.

Other initiatives include a strategic CSR programme carried out at UA focusing on addressing national concerns with the support of the Ministry of Health. The CSR brand, titled "Union Manushyathwaya", was launched with the aim of creating healthy and happy communities around the country through the dissemination of vital information to the public regarding how to protect themselves from diseases such as thalassemia, dengue and diabetes.

### Health Awareness

- Awareness programmes for the prevention of epidemic diseases (e.g. dengue) were conducted island-wide. An initiative in collaboration with the Divisional Ministry of Health (DMOH) and the Public Health Department (PHD) of the Colombo Municipal Council was undertaken providing personnel and awareness material during house to house visits. UA also organised two island-wide dengue awareness days with the involvement of the PHD and DMOH offices, distributing 162,250 leaflets
- A total of 59 programmes on awareness and prevention of thalassaemia were conducted for teachers, parents and students in partnership with the National Thalassaemia Center impacting 12,611 persons. The awareness programmes also addressed issues such as developing mental concepts of children, child management skills and life skills depending on the target audience
- UA developed diabetes pre-screening programme models with the PHD and the DMOH offices aimed at identifying persons who are potential diabetic patients and channelling them to preventive medical attention. 13 programmes have been carried out throughout the year, reaching 1,058 persons

Number of people screened	Number of potential diabetes patients	Number of diabetes patients
1,058	109	173

### Intellectual Capital

The following initiatives were undertaken during the year under review to strengthen processes and product offerings.

- Launching of "Union Smart Health" an innovative health rider which provides coverage for the policyholder as well as the policyholder's dependents
- UA designed "Union 60 Plus," a policy aimed at providing comfort and ease during the sunset years of a policyholder's life
- Introduction of "GOYO", a wellness proposition which offers benefits beyond conventional protection for which UA partnered with several entities to create an ecosystem in offering benefits with the aim of harnessing the digital revolution
- Enhancement of an automated underwriting rules engine to facilitate speedy acceptance of new proposals digitally which has resulted in a considerable reduction of paper usage
- UA commenced a brand revamping process to include "trust" in re-defining its brand promise

### Strategy and Outlook

The future prospects for the life insurance industry in Sri Lanka continue to be promising. Despite the improving per capita economic indicators and the ageing population, domestic life insurance penetration is significantly lower compared to other regional markets. Life premiums as a percentage of GDP in Sri Lanka are still below 1 per cent, whilst the corresponding figure in India is approximately 6 per cent.

Capitalisation on key customer segments and channels, such as bancassurance, which has demonstrated significant potential, will continue to be a key focus area of the Life Insurance business through the development of innovative products and policies. The requirement for training and development of its agency force continues to be identified by the management as an imperative investment for the long term sustainability and growth of the business. To this end, UA

will focus on developing its agency force to deliver and retain value in a dynamic technologically advanced financial services sphere. UA will leverage on its strong brand presence, differentiated product portfolio and offerings, experienced staff and IT enabled cost effective processes to grow the Life Insurance business.

The dynamics of the banking industry are expected to continuously evolve, driven by disruptive business models and technology with customers increasingly adopting such new platforms and channels, both globally and locally. To this end, NTB will continue to focus on delivering smart banking solutions and creating innovative products for its customers. Big data and analytics will also become focal points for the Bank going forward, with roll out of modern and customised products. This phase of innovation and digital disruption is also expected to create a platform on which the Bank can develop better solutions and product offerings for its consumers, especially for Corporate and SME clients.

The ambiguity in tax policy and lack of policy direction remains a challenge to the banking industry. The policies proposed to be implemented in the forthcoming financial year will likely create operating challenges for the industry at large, despite the industry being identified as one of the thrust areas of the economy. A clearly articulated tax policy, developed in consultation with all stakeholders will augur well for the success of the industry.

The stock broking arm of the Group will continue to pursue foreign tie-ups in order to strengthen its presence in the international markets whilst simultaneously working towards expanding its local client base through continued engagement via customer forums and one-on-one meetings aimed at local corporates, fund managers and high net worth individuals (HNWI). JKSB will also continue to liaise with the CSE and SEC to improve and upgrade the current infrastructure to help better manage risk and enhance trading and settlement efficiencies. To this end, the implementation of the CAR ratio by the regulatory authorities is a positive move which will enhance the industry's stability and risk mitigation strategies.

# Industry Group Review

## INFORMATION TECHNOLOGY

### Our Business Model

#### Vision and Scope

The Information Technology industry group has a vision of providing best in class quality end to end information communication technology (ICT) services ranging from

business process outsourcing (BPO), software services and information integration, to office automation. Having established a strong customer base in Sri Lanka, South Asia, as well as the United Kingdom, Middle East, North America, Scandinavia and the Far East, the IT

industry group is at the forefront of making Sri Lanka an ICT hub in South Asia.

### Contribution to JKH Group



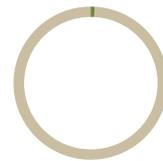
9%  
Revenue



3%  
EBIT



1%  
Capital employed



1%  
Carbon footprint



JKOA is the authorised distributor of many leading communication and automation products including the recently launched "Samsung Galaxy S8 and S8+".



IT Services



Office Automation



IT Enabled Services



CO<sub>2</sub>  
0.10 MT per  
Rs.mn revenue

Sectors	IT Services	Office Automation	IT Enabled Services
The business within the sector	<ul style="list-style-type: none"> <li>John Keells Computer Services (JKCS) offer software products and services to a wide range of clients in Sri Lanka and overseas</li> <li>Core focus areas are in software engineering services and products targeted at the aviation and leisure industries</li> </ul>	<ul style="list-style-type: none"> <li>John Keells Office Automation (JKOA) is the authorised distributor for some of the leading office automation brands in the world</li> <li>Sole distributor for Toshiba B&amp;W and colour digital multi-function printers (MFPs), offering managed print solutions and print now pay later (PNPL) digital copier rental solutions. National distributor for Samsung Smart phones. Authorised distributor for Asus commercial series notebook's, and other office automation products such as Samsung Laser printers, hotel TV's, large format displays (LFD), RISO digital duplicators, RISO Comcolour printers, the world's fastest full colour inkjet printer Posiflex and FEC POS systems, Bixolon receipt and label printers, tabs, accessories, Lava mobiles and Hitachi projectors</li> </ul>	<ul style="list-style-type: none"> <li>BPO operations voice vertical through JK BPO, which operates approximately 750 seats in India</li> <li>Provider of shared service solutions in the finance, accounting, payroll verticals and data entry services to the JKH Group and external clients under InfoMate (operates with approximately 150 seats)</li> </ul>
Key external/internal variables impacting the business	<ul style="list-style-type: none"> <li>Increase in wages for skilled engineers due to the dearth of skilled resources</li> <li>Mandatory requirements of Advanced Passenger Processing (APP) features and Advanced Passenger Information messages for departure control systems in certain international borders</li> </ul>	<ul style="list-style-type: none"> <li>Depreciation of the Rupee contributed towards increased procurement costs and pressure on margins</li> </ul>	<ul style="list-style-type: none"> <li>The shift of voice processing services from India to on-shore and near-shore regions</li> <li>Increased demand for back office, including finance, accounting and knowledge processes in India</li> <li>Automation and the use of robotics are significant developments in the industry and the move towards higher end knowledge intensive services</li> </ul>
Key developments during the financial year	<ul style="list-style-type: none"> <li>Work commenced on Zhara Neo which is intended for very small hotels (5-15 rooms)</li> <li>The Software Engineering and Products verticals secured 4 and 5 new clients, respectively</li> </ul>	<ul style="list-style-type: none"> <li>JKOA made a conscious effort to focus on the upper end of the market, which encompasses higher margin products</li> <li>JKOA launched SAP HYBRIS, the new ERP for technical operations. The project will introduce a state-of-the-art customer support module which is expected to deliver globally renowned service levels to customers</li> </ul>	<ul style="list-style-type: none"> <li>InfoMate increased its footprint in Australia and the Nordic region</li> <li>Implementation of "SupplierMate"; an online supplier portal</li> </ul>

### Key Indicators

Inputs (Rs.mn)	2016/17	2015/16	(%)	2014/15	Outputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Total assets	4,777	4,116	16	3,750	Turnover	11,107	8,262	34	7,212
Total equity	1,983	1,951	2	2,322	EBIT	621	161	286	382
Total debt	348	339	3	92	PBT	612	148	312	370
Capital employed <sup>1</sup>	2,331	2,289	2	2,414	PAT	468	96	389	280
Employees (number) <sup>2</sup>	1,075	985	9	1,224	EBIT per employee	0.6	0.2	254	0.3
					Carbon footprint (MT)	1,076	1,269	(15)	1,309

1 For equity accounted investees the capital employed is representative of the Group's equity investment in these companies

2 As per the sustainability reporting boundary

## Industry Group Review

### INFORMATION TECHNOLOGY

#### External Environment and Operational Review

Digital disruption and technological dynamism have emerged as central themes within a majority of global industries. Innovation and technological know-how has enabled companies to differentiate products and offerings, creating unforeseen opportunities within markets. Over the recent years, Sri Lanka has also witnessed significant growth in connectivity and much needed digital infrastructure. A Nielsen report published in February 2017 reveals a 92 per cent mobile penetration, 32 per cent internet penetration, and, given the growing inclination towards technology and consumer preferences to improve lifestyle and convenience, a 28 per cent smart phone penetration within Sri Lanka.

In light of these developments, during the year under review, John Keells Office Automation (JKOA) recorded encouraging volume growth across all three product categories; mobile phones, notebooks and photo copiers. The mobile phone segment recorded double digit growth in volumes, primarily driven by continued growth in demand for smart phones. During the year, Samsung launched two mobile phone models, "On-5" and "On-7", which were exclusively marketed through on-line channels for the first time in Sri Lanka. JKOA also launched five new e-STUDIO™ series printers to its multifunction printer (MFPs) range. The MFPs are designed to help organisations operate more efficiently and cost effectively, while improving workflow through cloud and mobile printing.

John Keells Computer Services (JKCS), the software engineering and product vertical of the IT Services sector, strengthened its product portfolio through new additions while

A Nielsen report published in February 2017, reveals a 92 per cent mobile penetration, 32 per cent internet penetration, and, given the growing inclination towards technology and consumer preferences to improve lifestyle and convenience, a 28 per cent smart phone penetration within Sri Lanka



- ▶ 32 per cent internet penetration, given the growing inclination towards technology and consumer preferences

successfully expanding into new markets during the financial year 2016/17. The segment expanded its reach to 4 new clients through the operation of several Offshore Dedicated Centers. The Software Engineering product vertical added 3 new clients and expanded its services through the Evinta Departure Control System (DCS) to Moldova, Maldives and the Middle East. During the year, JKCS introduced "Zhara Neo", a single-screen hotel system targeted at the small and informal hotels, which encompasses approximately 40 per cent of the local room

supply. JKCS witnessed growth through "Zhara HS" and "Zhara E-commerce" which was deployed to six hotel properties during the year. In addition to the above, JKCS instilled higher prominence in expanding its software solutions across overseas markets in partnership with Strategic Group Information Technology (SGIT) of the Group.

The Group's BPO operations in Sri Lanka, InfoMate, successfully increased its external client portfolio through an increase of its domestic and foreign payroll customers. During the year, the company rolled out "SupplierMate", an online supplier portal to facilitate supplier payments. Although the Group's BPO operations in India did not secure new customers, the business continued to service its prominent North America based client at a level above expectations as evidenced by the customer satisfaction scores. During the year, JK BPO reviewed and right sized its operation in line with the current operating seats.

#### Capital Management Review

Subsequent to the external environment and the operational review of the Information Technology industry group, the ensuing section elaborates on the forms of Capital deployed to meet the strategic priorities and the performance of the businesses during the period under discussion.

Key performance indicators for the industry group, under each of the sectors, are summarised as follows:

Sectors	IT Services	Office Automation	IT Enabled Services
Financial and Manufactured Capital - revenue and growth	Rs.459 million, 12 per cent increase	Rs.9.52 billion, 45 per cent increase	Rs.1.13 billion, 11 per cent decrease
Financial and Manufactured Capital - EBIT and growth	Rs.19 million, 279 per cent decrease	Rs.471 million, 185 per cent increase	Rs.132 million, 2028 per cent increase
Natural Capital - carbon footprint	159 MT	255 MT	662 MT
Human Capital - number of employees	222	220	633

#### Financial and Manufactured Capital

As at 1 April 2016, the Information Technology industry group had total assets of Rs.4.12 billion, debt of Rs.339 million and an opening equity capital of Rs.1.95 billion.

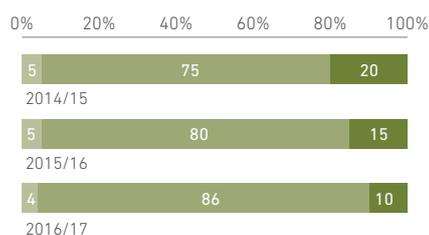
#### Financial Performance

Revenue of the industry group increased by 34 per cent to Rs.11.11 billion against Rs.8.26

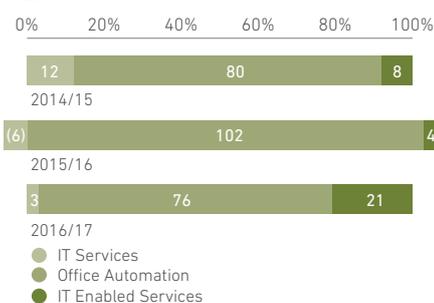
billion recorded in the previous financial year. The revenue of JKOA increased by 45 per cent in the year under review, mainly on account of the higher volumes recorded across all three of its product categories, in particular the mobile phone segment. JK BPO India recorded a decline in revenue of 13 per cent while JKCS recorded a revenue growth of 12 per cent as a result of higher volumes.

The EBIT of the industry group recorded a significant increase of 286 per cent to Rs.621 million during the year. The growth in EBIT was mainly driven by JKOA and JKCS, on account of the significant growth in sales volumes and expansion in to new foreign markets achieved through software products.

**Turnover**



**EBIT**



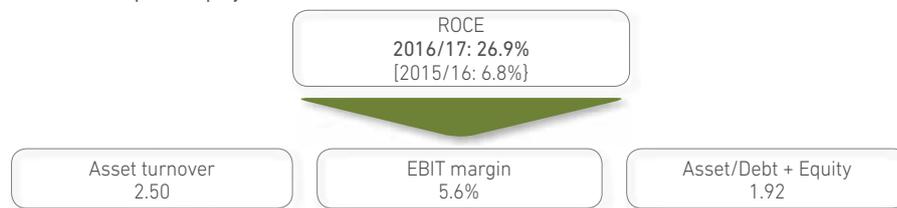
**Borrowings and Finance Expense**

The total debt of the industry group as at 31 March 2017 was Rs.348 million. The moderate increase in debt resulted from JKOA's increased working capital requirements. The finance expense of the industry group declined by 23 per cent to Rs.10 million during the year on account of the growth in sales volumes for the office automation business, thereby reducing the requirement for short term debt financing.

**Return on Capital Employed**

- The ROCE of the industry group increased to 26.9 per cent from the 6.8 per cent recorded in the previous financial year due to the significant improvement in performance which translated to high EBIT growth compared to the growth in the asset base
- The EBIT margin of the industry group increased to 5.6 per cent from 1.9 per cent recorded in the previous year of operations as a result of the high EBIT growth witnessed during the year

**Return on Capital Employed**



- The asset turnover of the industry group increased to 2.50 times from the 2.10 times reported in the previous financial year, despite a 16 per cent increase in the asset base to Rs.4.78 billion on account of higher inventory at JKOA. The increase in the ratio is stemming from the significant increase in revenue as discussed above

**Natural Capital**

Adhering to the John Keells Group's environmental policy, the Information Technology industry group proactively manages its carbon footprint and energy usage by monitoring usage and seeking low energy and energy efficient solutions through new technologies and innovative thinking. Companies are aware of the potential impact from the generation of electronic waste, and are conscientious in ensuring that such waste is disposed of in a responsible manner by working with third parties who reuse and recycle electronic waste.

The material impacts for the industry group are classified as follows:

Energy and emissions management	Financial implications and environmental responsibility
Waste management	Environmental and social responsibility, especially in terms of disposing e-waste and paper

**Performance**

The IT industry group recorded a carbon footprint of 1,076 MT this year, a 15 per cent reduction compared to the previous year.

**Sustainability indicators**

	2016/17	2015/16	(%)
Carbon footprint (MT)	1,076	1,269	(15)

\* Water usage is not shown as it is not material for the industry group

**Energy and Emissions Management**

**Targets:**

- Minimising electricity use by adhering to energy targets, efficient practices and awareness campaigns

**Initiatives:**

- InfoMate and JKOA continued its initiative to replace all personal computer workstations with laptops, resulting in the reduction of energy consumption
- JKCS continued to record savings over the recent years through space rationalisation on particular working days to conserve electricity. A heat insulation initiative was also carried out to improve air conditioning efficiency and thereby reduce energy consumption
- JK BPO implemented a system to automatically shut down personal computers in work stations when not in use

**Waste Management**

**Targets:**

- Responsible disposal and reduction in generation of e-waste and paper waste

**Initiatives:**

- As per the Group's electronic waste policy, businesses responsibly dispose of its electronic waste through the Group's contracted e-waste disposal partner
- All businesses consciously seek to minimise paper usage. Furthermore, paper waste is recycled through a certified partner

# Industry Group Review

## INFORMATION TECHNOLOGY

### Human Capital

Given the competitive nature of the Information Technology industry, sound management of Human Capital is a vital component of the industry group's strategy. Addressing the training and development needs of the current staff are priorities to ensure career development and skill enhancement. Emphasis is also placed on developing a fresh pool of talent from universities by creating relationships with such institutions via the provision of learning and internship opportunities to young people who have the potential to be successfully absorbed into the staff cadre, creating a sustainable solution to the challenges in recruitment.

With the nature of the work in the Information Technology industry group being largely office based, businesses make it a priority to ensure such working conditions are of an acceptable standard for employees. Aspects such as ergonomic concerns, lighting and air quality are all considered with respect to the working environment. Given the 24 hour operations of some of the companies in the industry group, provisions are made to ensure the safe commute of employees.

The material impacts for the industry group are classified as follows:

<b>Talent management</b>	The need to retain and continuously upgrade the skills of existing staff and ensure a pool of quality potential staff given the nature of the industry
<b>Health and safety</b>	Providing a safe and conducive environment given that long hours are spent at work stations

### Talent Management

#### Targets:

- Continuous improvement of training focused on improving skills and knowledge
- Engagement with local universities to build a pool of potential employees with requisite soft skills

#### Initiatives:

- The current staff cadre of the industry group were provided with 41 hours of training per employee

### Labour indicators

	2016/17	2015/16	(%)
Injuries and diseases (number)	0	0	0
Total hours of training	43,556	57,348	(24)

- As part of its recruitment strategy, JKCS continued to engage with local universities and higher education institutes, building its brand presence by providing career guidance and soft skills training
- A number of graduates from the aforementioned initiative were provided with internship opportunities and on-the-job training by JKCS. These graduates will be absorbed into the employee cadre based on capability and performance

### Health and Safety

#### Targets:

- Strive to ensure a safe and healthy working environment in line with the Group's Health and Safety Policy

#### Initiatives:

- Group companies continuously reviewed their business continuity plans (BCPs)
- Fire training and fire teams were appointed for all companies
- Transport was provided to all staff in JKBPO India, given the 24 hour nature of operations, to ensure safety of employees during their commute to and from work

### Indicators

The IT industry group provided a total of 43,556 hours of training to its employees, with 41 hours of training provided per employee.

### Social and Relationship Capital

The benefits and necessity of an IT literate populace are widely accepted in a constantly changing and globalised international economy. Against this backdrop, the IT industry group recognises the benefits that can be reaped from a strategy that strengthens its Social and Relationship Capital with rural

communities whilst providing a platform for cost optimisation and a new pool of talent for recruitment. As the need for IT literacy becomes increasingly more significant, the IT industry group strategy looks to create shared value, grooming youth towards the industry requirements and providing them with employment opportunities and marketable skills.

In line with Group practices, all significant suppliers have been identified as given in the diagram below and have been assessed for any negative impacts on the environment, labour and human rights aspects.

### Impact through CSR initiatives:

InfoMate, in collaboration with John Keells Foundation (JKF) and the Foundation for Advancing Rural Opportunity (FARO), created satellite centers in rural areas for accounting functions, thereby creating sustainable employment opportunities for rural youth.

Currently, three BPO centres run by InfoMate are in operation employing a total of 48 associates. During the year under review, the total earnings of these BPOs recorded an increase of 12 per cent while average associate earnings increased by 13.5 per cent compared to the previous financial year. The BPOs were offered support in terms of training and work volumes, covering of expenses relating to connectivity, generators and health insurance. JKF continued to provide infrastructure support to the BPOs through the donation of computers and office equipment while facilitating general training and sensitisation for the associates. JKF also extended support in terms of other key initiatives such as weekly English language classes to upgrade proficiency and competency of associates to enable access



The benefits and necessity of an IT literate populace is widely accepted in a constantly changing and globalised international economy. Against this backdrop, the IT industry group recognises the benefits that can be reaped from a strategy that strengthens its Social and Relationship Capital with rural communities whilst providing a platform for cost optimisation and a new pool of talent for recruitment.

InfoMate, the Sri Lanka based BPO operation, will continue its current momentum, achieving market share through its high end data entry services. The business will evaluate the possibility of automation of several processes as an efficiency measure.

The digitisation initiative rolled out across the Group in the previous financial year presents a significant opportunity for the businesses within this industry group, particularly with focused attention on IT and digitisation solutions sought within the Group. In order to capitalise on this opportunity, the Group will continue to evaluate cross sale opportunities in order to create synergies across industry groups. This will connect the skills, expertise and infrastructure required to roll out such initiatives which are already resident within the various verticals of the Group. Holistic products and services with end-to-end solutions, as envisioned, are expected to augur well for the Information Technology industry group in the medium to long term.

to more lucrative jobs and opportunities towards uplifting their livelihoods. Associates also benefitted from a one month voluntary consulting initiative by 3 European SAP consultants. The initiative included the study of the current BPO model and a final report. The initiative entailed valuable recommendations and insights from the associates and consultants.

Other key initiatives carried out in within the industry group were as follows;

- JKCS conducted training for 300 undergraduates towards enhancing the quality and employability of graduates and creating awareness on the Information Technology industry group of the John Keells Group
- JKCS also developed a continuous soft skills development programme with Mercury Institute on behalf of InfoMate. The first batch of students underwent a certificate programme on "Unleashing Your Potential" which included soft skills development, career planning, CV writing and interview facing techniques
- During the year under review, 20 CPUs were donated by JKCS to schools and organisations. JKOA donated 5 laptops to the Wildlife and Protection Society Sri Lanka and 6 CPUs to Sondura Kotte Foundation
- JKOA donated water purifiers to a school in Habarana, enabling access to clean drinking water, benefiting approximately 158 students and staff of the school

have immense market opportunities. In light of these developments, the industry group is formulating strategies to create integrated solutions and expand the services' portfolio to include mobility, big data, predictive analytics, artificial intelligence, Internet of Things, smart buildings and cloud services, amongst others.

The demand for smart phones is expected to maintain its current growth trajectory driven by increasing disposable incomes, improved network coverage and data connectivity. The profitability of the mobile phone portfolio of the Office Automation business is likely to improve with the changing trends in consumer preferences towards smartphones. JKOA will continue to capitalise on the more tech-savvy modern customer; capturing market share through lifestyle products which offer greater connectivity and convenience. The business will also invest in internal service delivery channels to provide unparalleled service quality to its customers. Focus will also be placed on driving the sales for both notebooks and tabs in order to achieve market leadership in these product segments. A number of training initiatives and performance based reward programmes are also expected to be introduced in an effort to attract and retain talent. The concept of "Gamification" is also expected to be introduced as a platform to facilitate an environment of "gaming" related to sales targets and incentives.

The software engineering and product vertical, JKCS will work towards enhancing its portfolio through focused attention on mobility, big data, predictive analytics, artificial intelligence and internet of things. JKCS in partnership with the Strategic Group Information Technology (SGIT) function will explore opportunities in establishing a presence in Middle Eastern and North African markets (MENA) in order to accelerate growth of the business in international markets.

### Strategy and Outlook

As indicated in the External Environment and Operational Review, the IT industry group is cognizant of the technological developments that are taking place, both regionally and globally. The Group believes that the core operations within the sector

# Industry Group Review

## OTHER INCLUDING PLANTATION SERVICES

### Our Business Model

#### Vision and Scope

The Plantation Services sector includes the operations of tea factories, tea and rubber broking and pre-auction produce warehousing.

Tea Smallholder Factories PLC (TSF PLC) is among the top manufacturers of orthodox low

grown teas and is also recognised as a top quality producer of CTC teas in Sri Lanka. John Keells PLC is one of the leading tea brokers in the country and its warehousing facility is the largest for pre-auction produce in the country.

The "Other" sector consists of John Keells Holdings PLC including its divisions/Centre

Functions such as John Keells Capital, John Keells Research and Strategic Group Information Technology (SGIT), as well as several auxiliary companies. John Keells Capital is the private equity arm of the Group. SGIT supports the Group's information technology requirements, consulting services and SAP implementation services to external clients.

### Contribution to JKH Group



2%  
Revenue



23%  
EBIT



33%  
Capital employed



4%  
Carbon footprint



The Plantations cluster continued to upgrade its infrastructure with investments in new colour sorter machines. John Keells Research established a new state-of-the-art laboratory during the year.



Plantation Services



Other



CO<sub>2</sub>  
1.02 MT per  
Rs.mn revenue

Sectors	Plantation Services	Other
The business within the sector	<ul style="list-style-type: none"> <li>John Keells PLC - leading tea and rubber broker.</li> <li>John Keells Warehousing - operates a state-of-the-art warehouse for pre-auction produce</li> <li>Tea Smallholder Factories PLC - operates 8 tea factories and is a leading manufacturer of low grown teas in the country, including the CTC variety</li> </ul>	<ul style="list-style-type: none"> <li>JKH and Other businesses (Centre Functions/ divisions)</li> <li>John Keells Capital, a division of JKH, is the private equity arm of the Group</li> <li>Strategic Group Information Technology (SGIT) supports the Group's IT requirements, provides consultancy services and SAP implementation services to external companies</li> </ul>
Key external/ internal variables impacting the business	<ul style="list-style-type: none"> <li>Recovery of tea prices due to the slowdown in production stemming from adverse weather conditions</li> <li>Depreciation of currencies of major tea consuming nations</li> </ul>	<ul style="list-style-type: none"> <li>Depreciation of the rupee had a positive impact on the valuation of net US Dollar holdings of JKH</li> <li>Relative inactivity in private equity markets owing to the availability of credit, particularly in the first half of the year</li> <li>Shortage of SAP resource personnel in the market limiting SGIT's expansion capabilities</li> </ul>
Key developments during the financial year	<ul style="list-style-type: none"> <li>JK PLC automated the client advance system which assists in inventory management and supplier cost optimisation</li> </ul>	<ul style="list-style-type: none"> <li>JKR made significant headway during the year under review through the initiation of several research projects</li> <li>JKR filed for its first patent in December 2016</li> <li>JKH launched "John Keells X - Open Innovation Challenge 2016", as a part of its digitisation initiative</li> <li>SGIT, in partnership with Microsoft and Cisco, established a full-fledged practice in IT/digital consultancy services, predictive analytics and digital services centred around social, mobile, analytics, cloud and "smart buildings"</li> </ul>

### Key Indicators

Inputs (Rs.mn)	2016/17	2015/16	(%)	2014/15	Outputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Total assets	74,105	66,370	12	57,313	Turnover <sup>2</sup>	2,953	2,663	11	3,468
Total equity	71,715	61,835	16	50,910	EBIT	5,381	3,907	38	3,415
Total debt	91	2,304	(96)	3,633	PBT	5,229	3,772	39	3,233
Capital employed <sup>1</sup>	71,805	64,140	12	54,543	PAT	3,101	2,343	32	2,025
Employees (number)	830	882	(6)	941	EBIT per employee	6.5	4.4	46	3.6
					Carbon footprint	3,334	3,543	(6)	3,898

1 For equity accounted investees the capital employed is representative of the Group's equity investment in these companies

2 Revenue is inclusive of the Group's share of equity accounted investees

## Industry Group Review

### OTHER INCLUDING PLANTATION SERVICES

#### External Environment and Operational Review

Global tea production grew by a modest rate of 5 per cent during the year due to adverse weather conditions across key tea producing countries. Sri Lanka, the third largest exporter of tea in the global tea industry, produced 292 million kilograms of tea in 2016, a decline of 11 per cent from the 329 million kilograms produced in 2015. A total of 288 million kilograms of tea were exported during the 2016 calendar year, a 4 per cent decline against the previous year, while also recording a total revenue of Rs.184.77 billion, which is a decline of 4 per cent against the previous calendar year. The reduction in supply was mainly attributable to the reduction of green leaf harvest as a result of the drought which affected the country in the second half of the year. On the back of limited supply, average price at the Colombo Auction increased by 16 per cent to Rs.470 per kilogram and led to the moderate increase in export revenues. The existing market demand for Ceylon tea from traditional export markets and the significant drop in production were the primary drivers of the rise in the average price.

The performance of Tea Smallholder Factories PLC (TSF) improved as a result of the aforementioned increase in the price of tea. The supply of green leaf from the smallholder crops moderated as a result of the extreme weather conditions which affected the country. However, TSF streamlined its cost structures through various efficiency enhancements and monitoring such as the upgrading and replacement of processing equipment to ensure minimum breakdown time. TSF faced heavy competition for green leaf as the market faced a scarcity of supply due to lower production. Focused supplier relation extensions were actively pursued to combat these developments. The business also embarked on a quality drive to improve the standard of the end product, which proved fruitful, with the business being able to command a premium of approximately 1.3 per cent over the low grown elevational average.

During the year under review, the performance of John Keells PLC (JK PLC) was in line with expectations, mainly attributable to the increase in tea prices as discussed above, coupled with the improvement in demand for Sri Lanka's exclusive range of orthodox black teas in the first half of the year. JK PLC launched an advance policy



▶ John Keells X - Open Innovation Challenge was launched in June 2016

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Sri Lanka, the third largest exporter of tea in the global tea industry, produced 292 million kilograms of tea in 2016, a decline of 11 per cent from the 329 million kilograms produced in 2015.

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manual, achieving a significant reduction in over exposure to its lending portfolio and awareness sessions on good manufacturing practices to enhance quality.

The year under review marked a significant development for John Keells Research (JKR), the research and development arm of the Group. JKR filed for its first patent for a novel energy source material that was developed through a research project undertaken in collaboration with the National Metallurgical Lab of the Council for Scientific and Industrial Research (CSIR-NML) in India based on an idea generated by John Keells Research. The patent application which was filed at the Indian patent office in December 2016 relates to a composite nanomaterial which could be used in energy storage. This composite nanomaterial can be synthesised with raw materials found in Sri Lanka. The composite material has the unique advantage of biocompatibility and a lower cost per unit of power stored. JKR is in the process of building a prototype energy storage device that utilises the patented technology to enhance the Technology Readiness Level (TRL) of the intellectual property and to examine the commercial viability of a prototype product.

During the year under review, JKR relocated to the Technology Incubation Centre at the Nanotechnology and Science Park of the Sri Lanka Institute of Nano Technology (SLINTEC) in Pitipana, Homagama, a space which offers greater opportunities for technical

collaboration, while contributing towards creating and nurturing an ecosystem of innovation. The new location gives rise to better opportunities as JKR will have access to sophisticated equipment and analytical services of SLINTEC. In its quest towards enhancing its research capability and developing intellectual property, JKR achieved another milestone by establishing its own laboratory, enabling it to conduct certain research projects in-house, thereby facilitating retention of a higher proportion of intellectual property for JKH.

John Keells Holdings PLC carried out an exercise to restructure the shareholding of the Group's investments in a few of its unlisted subsidiaries to reduce the complexity of the shareholding structure by limiting the ownership to two tiers, where possible. Accordingly, select Group companies holding investments in other subsidiaries transferred its respective investments to JKH, at valuations independently verified by the Group's Auditors. The exercise was completed via a combination of share buybacks between the unquoted entities within the Group and its subsidiaries for a consideration of either cash or owners' shares. The total transaction value of this exercise was Rs.3.71 billion, in cash and non-cash terms.

In furthering the digitisation initiative rolled out within the Group, JKH launched "John Keells X - Open Innovation Challenge 2016". John Keells X (JKX) was created to form a unique platform for disruptive and innovative solutions also designed to provide the initial investments required for start-up businesses and technologies. The inaugural JKX challenge was well received where a total of 148 applications were received with ten of these applicants being shortlisted for the final pitch. The mentoring and access to JKH Group resources prior to the final pitch presentations were valued by the participating teams. Considering the success of the inaugural challenge, the second open innovation challenge was launched in May 2017.

Strategic Group Information Technology (SGIT) continued to grow and consolidate its presence during the year under review, mainly through the acquisition of two strategic MNC accounts for SAP while expanding its services portfolio, leveraging on its partnership with Microsoft and Cisco to address the emerging needs in the digital

space of organisations. SGIT's fully-fledged practice in IT/digital consultancy services covers a broad spectrum of competencies such as mobility, big data, predictive analytics, artificial intelligence, smart buildings and cloud services. SGIT actively promoted its products and services in keeping with its expansion plans, participating in conferences, both locally and regionally.

### Capital Management Review

Subsequent to an operational review of the sectors, the ensuing section summarises the forms of Capital available for the execution of the near, medium and long term strategies of the business in creating value and also deliberates on the Capital-wise performance of the sectors.



Rs. 5.23 Bn

Other including Plantation Services industry group PBT  
A 39 per cent growth

Key indicators under selected forms of Capital are as follows:

Sectors	Plantation Services	Others
Financial and Manufactured Capital - revenue and growth	Rs.2.80 billion, 16 per cent increase	Rs.154 million, 38 per cent decrease
Financial and Manufactured Capital - EBIT and growth	Rs.388 million, 642 per cent increase	Rs.4.99 billion, 30 per cent increase
Natural Capital - carbon footprint	2,777 MT	557 MT
Human Capital - number of employees	655	175

### Financial and Manufactured Capital

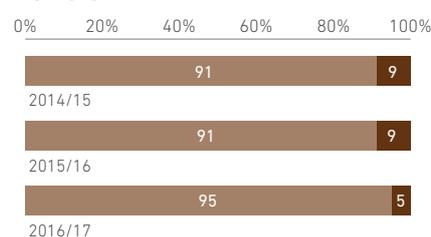
As at 1 April 2016, the Other including Plantations Services industry group had total assets of Rs.66.37 billion, debt of Rs.2.30 billion and an opening equity capital of Rs.61.84 billion.

### Financial Performance

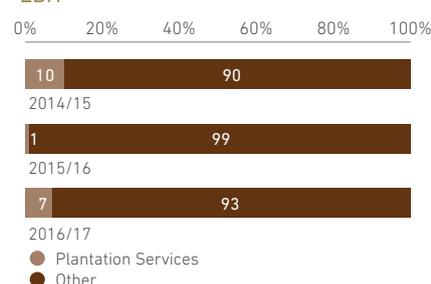
Total revenue of the industry group primarily consisted of the revenue generated from the Plantations Services sector since there were no other significant operating businesses in this cluster. The Other including Plantations Services sector recorded revenues of Rs.2.95 billion, an increase of 11 per cent against last year [2015/16:Rs.2.66 billion]. The increase in revenue was primarily driven by TSF PLC, which grew 21 per cent to Rs.2.31 billion due to the increase in average prices of tea during the year as discussed under the External Environment and Operational Review section.

The total EBIT inclusive of the Holding Company increased by 38 per cent to Rs.5.38 billion [2015/16: Rs.3.91 billion]. The growth is mainly attributable to the interest income generated on the Group's Rupee and US Dollar portfolios and exchange gains recorded at the Company on its foreign currency denominated cash holdings. Interest income increased due to higher interest rates and an increase in the average capital base which included the 2016 Warrant conversion in November 2016 amounting to Rs.3.18 billion.

### Turnover



### EBIT

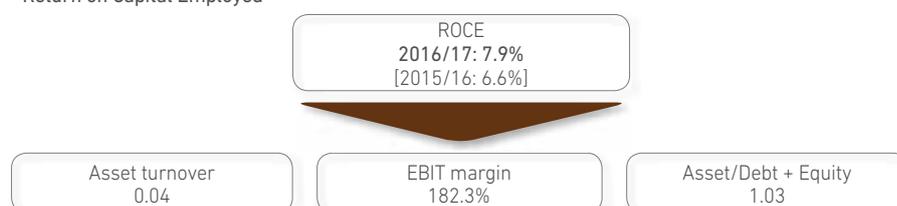


The EBIT of JKH PLC at company level, includes a capital gain of Rs.2.58 billion pertaining to the exercise undertaken to rationalise the Group's shareholding structure. The exercise, as discussed in the External Environment and Operational Review section, was carried out to restructure the shareholding of the Group companies which had multiple layers of ownership. The exercise was executed via a hybrid model which consisted of both share and cash transfers within JKH PLC and its unquoted subsidiaries. It should also be noted that the capital gain was eliminated at a Group consolidated level. The Company also, included an impairment provision of Rs.900 million at EBIT level against the investment in the BPO cluster. However it is pertinent to note that the adjustment is eliminated at a Group consolidation level. The EBIT of the industry group included investment property gains of Rs.101 million emanating from property held by Keells Realtors Limited, JK PLC and Facets (Pvt.) Limited. The recurring EBIT adjusted for the above is 5.28 billion.

### Borrowings and Finance Expense

Total debt as at 31 March 2017 was Rs.91 million [2015/16: Rs.2.30 billion]. The USD 10 million loan balance of the IFC loan facility was repaid during the year. It should also be noted that the Company does not have any long term borrowings subsequent to the repayment of the IFC facility. The finance expense of the industry group increased by 1 per cent during the year on account of the higher working capital expenses of the Plantations sector.

### Return on Capital Employed



## Industry Group Review

### OTHER INCLUDING PLANTATION SERVICES

#### Natural Capital

Given the importance of the effective management of Natural Capital and the vital inputs from natural resources for Sri Lanka's plantations sector, sustainability has become increasingly entrenched within the industry in recent years. Thus, focus has been placed on sustainable practices throughout the supply chain from cultivation to distribution. Ongoing collaboration and partnerships with international conservation bodies help to disseminate international best practices and standards, while recognising that international buyers are increasingly concerned with seeking eco-friendly and sustainable products.

The industry group seeks to reduce its usage of energy within the Centre Functions of the Group, through process efficiencies and monitoring, in meeting the Group's Environmental and Energy Management Policy.

The material impacts for the industry group are classified as follows:

<b>Energy and emissions management</b>	Financial and regulatory implications, environmental and social responsibility
<b>Waste and effluent management</b>	Regulatory implications and environmental responsibility

#### Energy and Emissions Management:

##### Targets:

- Continuously assess existing facilities, machinery and processes for energy efficiency and carry out improvements as required
- Continue to seek process improvements through innovation and strive to reduce emissions whilst maintaining productivity

##### Initiatives:

- Utilisation of renewable energy sources amounting to 65 per cent of the total energy requirement through usage of biomass, contributing to a reduction in carbon footprint
- Increased combustion efficiency of biomass on account of construction of fast drying UV covered firewood sheds and use of dry, split firewood, with damper control, for excess air and flue gas during the drier operations resulting in energy savings

- Usage of energy efficient compressed air by replacing reciprocating air compressors with the installation of screw compressors, resulting in estimated annual savings of 21,000 kWh
- Continued usage of natural lighting through the introduction of transparent roofing sheets resulting in an annual energy saving as well as increased efficiency of lighting systems by replacing fluorescent tube lights with LED lights

#### Performance

The carbon footprint for the Other including Plantation Services industry group improved to 3,334 MT for the year under review from the 3,543 MT recorded in the previous year, while waste generated reduced to 191,986 kg from 210,923 kg.

	2016/17	2015/16	(%)
Carbon footprint (MT)	3,334	3,543	(6)
Waste generated (kg)	191,986	210,923	(9)

#### Carbon footprint scope 1 and 2 per operational intensity factor

	2016/17	2015/16
TSF PLC CO <sub>2</sub> (kg per kg of tea produced)	0.6	0.6
JK PLC and JKW CO <sub>2</sub> (kg per square foot of floor area)	0.8	1.2

#### Impact through CSR initiatives

TSF PLC, in collaboration with John Keells Foundation (JKF) and Carbon Consulting Company (Private) Limited, organised a tree planting initiative to increase the coverage of vegetation in Neluwa in the Galle district. JKF coordinated the participation of 17 staff volunteers from the John Keells Group. Forest saplings and fruit saplings were planted for the long term benefit of the environment as well as the surrounding community.

#### Human Capital

Investment in Human Capital is carried out through training and development activities conducted on a needs-basis, whilst ensuring that workplace health and safety remains a priority.

<b>Health and safety</b>	The respective businesses need to ensure safe working conditions, mainly focusing on occupational health and safety
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#### Waste Management

##### Targets:

- Continuously ensure all waste water from factory cleaning and waste generated from biomass generators are disposed responsibly in line with requirements of the Environmental Protection License (EPL)

##### Initiatives:

- Responsible disposal of wood ash and e-waste through certified third-party

<b>Training and Development</b>	Ensuring functionally skilled and motivated staff at the Centre Functions is considered important in facilitating Group-wide synergies
---------------------------------	--

#### Training and Development

##### Targets:

- Ensure group-wide synergies are created through continuous enhancement of knowledge and skills

##### Initiatives:

- Provided 5,742 hours of training to employees in the industry group, with 6.9 hours of training per employee, resulting in increased productivity



Energy saving screw compressor installed at Neluwa Medagama tea factory

**Health and Safety**

**Targets:**

- Minimising health and safety incidents and provide a safe and healthy working environment for staff

**Initiatives:**

- OHSAS ISO 18001 Certification obtained for 7 out of the 8 smallholder factories
- Training and awareness on worker health and safety was conducted in line with OHSAS 18001 standard resulting in reduced number of injuries and lost days

- Training and awareness programmes on food safety conducted in line with ISO 22000 standard under which 5 factories have been re-certified contributing to higher standards of product quality

**Performance**

The industry group provided 5,742 hours of training to employees in the industry group, compared to 12,744 hours in the previous year. Injuries amounted to 3 incidents, all in the Plantation Services sector.

**Labour indicators**

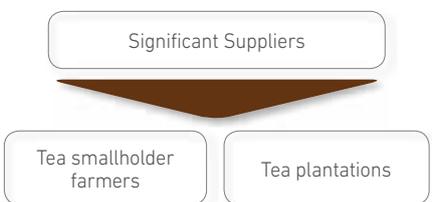
	2016/17	2015/16	(%)
Injuries and diseases (number)	3	8	(63)
Total hours of training	5,742	12,744	(55)

**Social and Relationship Capital**

Social and Relationship Capital is of significant importance to the Plantations Services sector, particularly TSF PLC, given that the surrounding community is an integral part of the company's supply chain. Building trust through ongoing initiatives, such as replanting on unproductive tea lands, community projects which assist in livelihood development and the dissemination of knowledge and best practices through extension services assist the sector in solidifying these mutually beneficial relationships and producing socially desirable outcomes. Such activities are carried out both at a company level and through John Keells Foundation, particularly with regards

to ongoing training and awareness sessions on HIV and AIDS and WAVE programmes.

All significant suppliers are identified and assessed for any negative impacts on environmental, labour and human rights aspects and companies within the sector work closely with their supply chain to improve the sustainability practices throughout the value chain.



The material impacts for the industry group are classified as follows:

<b>Supplier development and social responsibility</b>	Sharing of knowledge and best practices on cultivation with tea smallholders to ensure higher yields and quality green leaf which benefits both the tea factories and the smallholder community
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**Supplier Development and Social Responsibility:**

**Targets:**

- Seek to assist with livelihood development of smallholders through improving yields and providing alternative sources of income while simultaneously improving agricultural practices and environmental conservation
- Ensuring business sustainability through building and maintaining relationships with smallholder communities to ensure a steady supply of green leaf

**Initiatives:**

- TSF PLC, in collaboration with JKF and Carbon Consulting Company (CCC), continued its tree planting projects in multiple locations in the Galle District; Hingalgoda, Neluwa, Kurupanawa and Halvitigala. The project is aimed at establishing plant cover on underutilised farming lands. During the year in review, 3 plant monitoring visits were completed assessing the 3,000 plants that had been previously distributed among 31 pieces of farmland, covering over 15 acres. The project which promotes environmental sustainability has also improved relations among community members and enhanced farmers' livelihoods via the sale of non-timber forest products while empowering and enabling women in the region to become active members of society
- TSF PLC continued its tea replanting project to replant unproductive tea lands, with 5 projects conducted to date, out of which 2 have been completed. A new project was undertaken in 2016/17 where approximately 120,000 plants were planted in a land extent of over 23 acres. The total extent of tea lands replanted, since its inception in 2010 to date, is 170 acres, where 245 smallholders have

## Industry Group Review

### OTHER INCLUDING PLANTATION SERVICES

participated. The project aims to improve supplier livelihood whilst simultaneously retaining the company's supplier bases and developing its brand image

- Introduction of organic compost fertilizer for smallholder tea lands to supplement the inorganic fertilizer to ensure sustainable agricultural practices
- Extension services to disseminate knowledge on good agricultural practices (GAP) were provided to suppliers through seminars/workshops and field advisory visits enhancing their technical skills in terms of best practices
- The sector continues to carry out eye camps, health clinics, and awareness programmes on gender-based violence and serious diseases such as AIDS to its smallholders and residents in the vicinity of their operations, improving their quality of life

#### Intellectual Capital

John Keells Research (JKR), the research and development arm of the Group continuously strives to create sustainable value through research and development, and innovation, to develop the Intellectual Capital of the respective industry groups and sectors. During the year, JKR continued to show progress by reaching significant milestones in its evolution with some key developments, along with an initiative of SGIT, as discussed below.

- JKR successfully filed its first patent for a novel energy storage material
- JKR increased the number of PhDs in its cadre through Post-Doctoral research positions and will continue to invest on Human Capital to enhance scientific innovation capabilities
- JKR signed an agreement with the University of Moratuwa to begin new collaborative projects in digital health
- JKR is in the process of starting a collaborative research project with a second university in the USA to develop novel technologies for the conversion of waste to energy
- JKR's collaborative research project with the Human Genetics Unit, University of Colombo, is in its final phase
- The research project undertaken in collaboration with the Sri Lanka Institute of Nanotechnology to develop novel

**John Keells Research (JKR), the research and development arm of the Group continuously strives to create sustainable value through research and development, and innovation, to develop the Intellectual Capital of the respective industry groups and sectors.**

composite materials has concluded and the parties are in the process of submitting an article titled "Oxidation protection of carbon fiber by sol-gel derived Boron doped Yttria-stabilised Zirconia coatings" for publication

- SGIT was bestowed with the SAP - Partner of the Year - India Sub Continent/ New Markets and an ACE award for the first ever SP S4HANA implementation in the subcontinent

#### Strategy and Outlook

The global demand for tea is expected to continue its current growth momentum in the near term with a relatively stable outlook for oil and other commodities. China, India and Kenya are expected to gain share in the export market following the shortfall in supply witnessed from Sri Lanka in the past year.

The Sri Lankan tea industry is expected to improve in the medium term with buoyant tea prices and relative stability in the commodity markets. However, supply is expected to be impacted to an extent by the withdrawal of fertilizer subsidies from regional plantation companies (RPCs) and the ban on weedicide. Additionally, the political and economic uncertainties in key export markets such as the Russian and the Middle Eastern

markets continue to remain a challenge. The impending promotional activities by the Sri Lanka Tea Board to reposition Ceylon Tea, while retaining market share within traditional export markets, will augur well for the industry. The Group also expects a shift in focus towards China, as a key growth market in black orthodox tea with the potential to double export volumes and earnings.

TSF PLC will continue to work alongside smallholders and RPCs while building brand loyalty and guarantee of continuous supply to the company. The company will focus on the production of high quality green leaf and place significance on processing high quality tea which has the ability to command premium prices at the auctions. In keeping with the digitisation initiatives rolled out within the Group, JK PLC is in the process of developing a system to capture factory dispatches online to improve efficiencies and avoid duplication of work at the warehouses.

JKR will continue to focus on its core areas of research and identified projects. As previously discussed, the research arm of the Group will continue to test the commercial viability and marketability of the energy storage prototype developed. Alongside these developments, JKR will also extend the ongoing collaboration with a leading university in the USA to develop reinforcing material using Sri Lankan agricultural waste.

In an effort to address the increasing emphasis on plastic waste management within the country, the John Keells Group, will spearhead a project to drive change by encouraging reduction and rationalisation of use of single use plastics, supporting responsible disposal and promoting recycling initiatives. The first phase of the project, led by the Consumer Foods and Retail industry group, will be piloted within a identified locality in the city of Colombo in the first half of the ensuing financial year.

SGIT will continue to expand its regional presence through partnerships in Asia and the Middle Eastern and North African (MENA) markets. Towards this end, SGIT is in the process of establishing direct presence in MENA markets together with John Keells Computer Services under the brand "John Keells IT".



- ▶ JKR successfully filed its first patent for a novel energy storage material

## FINANCIAL STATEMENTS

# Building *Value*

The Financial Statements provide the reader with a detailed analysis of performance, results and financial strength.

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# Annual Report of the Board of Directors

The Directors have pleasure in presenting the 38th Annual Report of your Company which covers the audited Financial Statements, Chairman's message, Corporate Governance Commentary, Capital Management Review, Industry Group Review and all the other relevant information for the year ended 31 March 2017. Disclosures which appear in Share and Warrant Information section form a part of the Annual Report of the Board of Directors as it is a requirement of the Companies Act No. 07 of 2007.

## Principal Activities

John Keells Holdings PLC (the Company), the Group's holding Company, manages a portfolio of holdings consisting of a range of diverse business operations, which together constitute the John Keells Group (the Group), and provides function based services to its subsidiaries and equity accounted investees.

The companies within the Group and its business activities are described in the Group Directory under the Supplementary Information section of the Annual Report. There were no significant changes to the principal activities of the Company or its subsidiaries during the year.

## Corporate Vision and Values

A culture of innovation, integrity, excellence, caring and trust has been developed within the Group and by being aligned with them, the Directors and employees conduct their activities to achieve the vision, "Building businesses that are leaders in the region".

## Review of Business Segments

A review of the financial and operational performance and future business developments of the Group, sectors, and its business units are described in the Management Discussion and Analysis section of the Annual Report. Significant changes to business combinations and acquisition of non-controlling interests are provided in note 9 to the financial statements. These reports, together with the audited financial statements, reflect the state of affairs of the Company and the Group. Segment wise contribution to Group revenue, results, assets and liabilities are provided in note 7 to the financial statements.

## Financial Statements

Financial Statements of the Group and Company for the year ended 31 March 2017,

have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) with the inclusion of signatures of the Chairman, Group Finance Director and Group Financial Controller, are given from page 182 to 258 which form a part of the Integrated Annual Report.

## Financial Results and Appropriations

### Revenue

Revenue generated by the Company amounted to LKR. 1,126 million (2016 – LKR 1,108 million), whilst Group revenue amounted to LKR 106,273 million (2016 – LKR 93,710 million). Contribution to Group revenue, from the different business segments is provided in note 7 to the financial statements.

### Profit and Appropriations

The profit after tax of the Company was LKR 16,152 million (2016 – LKR 17,070 million)

whilst the Group profit attributable to equity holders of the parent for the year was LKR 16,275 million (2016 – LKR 14,070 million).

The Company's total comprehensive income net of tax was LKR 16,123 million (2016 –LKR 17,029 million), and the Group total comprehensive income attributable to parent was LKR 25,694 million (2016 –LKR 17,848 million).

### Dividend and Reserves

As required by Section 56(2) of the Companies Act No 7 of 2007, the Board of Directors has confirmed that the Company satisfies the solvency test in accordance with Section 57 of the Companies Act No 7 of 2007, and has obtained a certificate from the auditors, prior to declaring all dividends. A final dividend will be paid on 16 June 2017 to those shareholders on the register as of 6 June 2017.

Information on dividends and reserves of the Company are given below.

### John Keells Holdings PLC

For the year ended 31 March  
In LKR '000s

	2017	2016
Profit after tax	16,152,442	17,070,114
Other adjustments	(5,309)	(283,784)
Balance brought forward from the previous year	39,337,754	30,877,090
Amount available for appropriation	55,484,887	47,663,420
1st interim dividend of LKR 2.00 per share (2016-LKR 4.50) paid out of dividend received.	(2,721,458)	(5,352,156)
2nd interim dividend of LKR 2.00 per share (2016-LKR 1.00) paid out of dividend received.	(2,774,933)	(1,189,404)
Final dividend Declared of LKR 2.00 per share (2016-LKR 1.50) to be paid out of the dividend received.*	(2,774,933)	(1,784,106)
Balance to be carried forward to the next year	47,213,563	39,337,754

\*In accordance with LKAS 10, Events After the Reporting Period, the final dividend has not been recognised as a liability in the financial statements.

### Accounting Policies

All the significant accounting policies adopted by the Company and the Group are mentioned in note 4 to the financial statements. There have been no changes in the accounting policies adopted by the Group during the year under review. For all periods up to and including the year ended 31 March 2017,

the Group prepared its financial statements in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) which have materially converged with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

## Annual Report of the Board of Directors

### Donations

Total donations made by the Company and the Group during the year amounted to LKR 14 million (2016 - LKR 24 million) and LKR 34 million (2016 - LKR 24 million), respectively. These amounts do not include contributions on account of corporate social responsibility (CSR) initiatives.

### Related Party Transactions

The Company's transactions with Related Parties, given in note 43 to the financial statements, have complied with Colombo Stock Exchange Listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Securities Exchange Commission Directive issued under Section 13(c) of the Securities Exchange Commission Act.

### Corporate Social Responsibility

The John Keells Foundation, which is funded by the Company and its subsidiaries, handles most of the Group's CSR initiatives and activities. The Foundation manages a range of programmes that underpin its key principle of acting responsibly towards its stakeholders. The CSR initiatives, including completed and on-going projects, are detailed in the Capital Management Review section in the Annual Report.

In quantifying the Group's contribution to charities, no account has been taken of in-house costs or management time.

### Capital Expenditure

The Company's and Group's capital expenditure on property, plant and equipment amounted to LKR 11 million (2016 - LKR 30 million) and LKR 4,332 million (2016 -LKR 4,582 million) respectively and all other related information and movements have been disclosed in the note 21 to the financial statements.

Additions to intangible assets of the Company and Group during the year amounted to LKR 7 million (2016 LKR 4 million) and LKR 114 million (2016 LKR 163 million) respectively and all other related movements are disclosed in the note 24 to the financial statements.

### Valuation of Property, Plant & Equipment and Investment Property

All land and buildings owned by Group companies were revalued during the year. All information relating to revaluation is given in note 21.3 to the financial statements.

Investment properties of business units, when significantly occupied by Group companies, are classified as property, plant and equipment in the consolidated financial statements in compliance with LKAS 40.

All investment properties of the Group were revalued as at 31 March 2017, and the carrying value amounted to LKR 5,366 million (2016 -LKR 4,878 million). All information related to revaluation of the investment properties are provided in note 23 to the financial statements.

### Stated Capital

Information on the stated capital of John Keells Holdings PLC is given below;

For the year ended 31 March	2017		2016	
	Number of shares In '000	Value of shares LKR'000	Number of shares In '000	Value of shares LKR'000
<b>Fully paid ordinary shares</b>				
At the beginning of the year	1,189,404	58,701,977	997,486	50,702,701
Share options exercised	6,869	911,261	165	26,516
Subdivision of shares	169,915	-	142,498	-
Exercise of share warrants	21,280	3,176,842	49,255	7,972,760
At the end of the year	1,387,468	62,790,080	1,189,404	58,701,977

### Share Information

The distribution and composition of shareholders and the information relating to earnings, dividends, net assets, market value per share and share trading are given in the Share Information section of the Annual Report. As an additional disclosure, the the Company's Board of Directors' (including their close family members) shareholdings and options available under the employee share option (ESOP) plans as at 31 March 2017, are given in Share and Warrant Information section of the Annual Report.

### Major Shareholders

Details of the twenty largest shareholders of the Company and the percentages held by each of them are disclosed in the Share and Warrant Information section of the Annual Report.

### Equitable Treatment of Shareholders

The Company has at all times ensured that all shareholders are treated equitably.

Details of Group properties as at 31 March 2017 are disclosed in real estate portfolio under the supplementary information section of the Annual Report.

### Investments

Detailed description of the long term investments held as at the reporting date, is given in note 25, 26 and 27 to the financial statements.

### Revenue Reserves

Revenue reserves as at 31 March 2017 for the Company and Group amounted to LKR 49,998 million (2016 - LKR 41,122 million) and LKR 77,193 million (2016 - LKR 67,565 million), respectively. The movement and composition of the reserves are disclosed in the Statement of Changes in Equity.

### The Board of Directors

The Board of Directors of the Company as at 31 March 2017 and their brief profiles are given in the Board of Directors section of the Annual Report.

### Retirement And Re-Election of Directors

In accordance with Article 84 of the Articles of Association of the Company, D A Cabraal and A N Fonseka retire by rotation and being eligible, offer themselves for re-election.

S H H Wijayasuriya was appointed to the Board as an independent, Non Executive Director on 4 October 2016, and

K N J Balendra and J G A Cooray were appointed to the Board as Executive Directors on 5 November 2016. In accordance with Article 91 of the Articles of Association of the Company, S H H Wijayasuriya, K N J Balendra and J G A Cooray are eligible for re-election. Brief profiles of S H H Wijayasuriya, K N J Balendra and J G A Cooray are given in the Board of Directors section of the Annual Report.

### Review of Performance of the Board

The performance of the Board is evaluated through a formalised process, where each individual Director anonymously comments on the dynamics of the Board. The process is described in page 30.

### Board Committees

Information relating to members of the Audit Committee, Human Resources & Compensation Committee, Nominations Committee and the Related Party Transactions Review Committee including reports of each of the committees and attendance of Directors for each of the committee meetings are disclosed under Corporate Governance section of the Annual Report.

### Interests Register and Interests in Contracts

The Company has maintained an Interests Register as contemplated by the Companies Act No 7 of 2007.

This Annual Report also contains particulars of entries made in the Interests Registers of subsidiaries which are public companies and private companies which have not dispensed with the requirement to maintain an Interests Register as permitted by Section 30 of the Companies Act No 7 of 2007.

All the Directors have made a general disclosure relating to share dealings and indemnities and remuneration to the Board of Directors as required by Section 192 (2) of the Companies Act No 7 of 2007 and no additional interests have been disclosed by any Director. The Interest Register is available at the registered head office of the Company, in keeping with the requirements of the section 119(1) (d) of the Companies Act No 7 of 2007.

### Share Dealings

Particulars of the Company Interest Register are disclosed in the Share and Warrant Information section of the Annual Report.

Given below are, the particulars of subsidiaries' interest register;

#### Trans Asia Hotels PLC;

- N L Gooneratne - Sale of 110 shares

#### Ceylon Cold Stores PLC;

- M Hamza - Purchase of 500 shares

#### Tea Smallholder Factories PLC;

- R E Rambukwella - Sale of 4,600 shares

### Indemnities and Remuneration

The Board approved the payment of remuneration of the following Executive Directors for the period of 1 April 2016 to 31 March 2017 comprising of;

An increment from 1 July 2016 based on the individual performance rating obtained by the Executive Directors in line with performance management system of the John Keells Group;

A short term variable incentive based on the individual performance, organization performance and role responsibility based on the results of the financial year 2015/2016, and Long Term Incentive Plan in the form of an Employee Share Options in John Keells Holdings PLC.

#### John Keells Holdings PLC;

- S C Ratnayake
- A D Gunewardene
- J R F Peiris
- K N J Balendra (appointed w.e.f 5 November 2016)
- J G A Cooray (appointed w.e.f 5 November 2016)

#### Asian Hotels and Properties PLC;

- R J Karunarajah
- S Rajendra

#### Ceylon Cold Stores PLC;

- J R Gunaratne

#### John Keells PLC;

- R S Fernando (resigned w.e.f 9 September 2016)

#### Union Assurance PLC;

- A D Pereira

#### Cinnamon Hotel Management Ltd;

- B J S M Senanayake

#### Walkers Tours Ltd;

- V Leelananda

All indemnities and remuneration have been approved by the Boards of the respective companies as recommended by the Human Resources and Compensation Committee. These indemnities and remuneration are structured after considering market comparators, experts views and specific management complexities associated with the John Keells Group.

The contracts and the Directors' fees of the following Non-Executive Directors have been approved/renewed by the Board. The fees are commensurate with the market complexities associated with the John Keells Group.

#### John Keells Holdings PLC;

- S S H Wijayasuriya (appointed w.e.f 4 October 2016)

#### Asian Hotels and Properties PLC;

- K N J Balendra (appointed w.e.f 1 April 2016)

#### Ceylon Cold Stores PLC;

- S Ratwatte (appointed w.e.f 17 June 2016)
- R S Wilson Wijeratnam (appointed w.e.f 17 June 2016)

#### John Keells PLC

- R B A I Rajakarier (appointed w.e.f 29 June 2016)
- A K Gunawardhana (appointed w.e.f 29 June 2016)
- C N Wijewardene (appointed w.e.f 29 June 2016)

#### John Keells Hotels PLC

- N B Weerasesekera
- T L F W Jayasekera
- K N J Balendra (appointed w.e.f 1 April 2016)
- A K Moonesinghe (appointed w.e.f 1 July 2016)

#### Keells Food Products PLC;

- S De Silva (appointed w.e.f 10 June 2016)
- A E H Sanderatne (appointed w.e.f 10 June 2016)
- I Samarajiva (appointed w.e.f 10 June 2016)
- P D Samarasinghe (appointed w.e.f 10 June 2016)

#### Tea Smallholders Factories PLC

- M H De Silva (appointed w.e.f 6 February 2017)

#### Trans Asia Hotels PLC;

- J C Ponniah
- K N J Balendra (appointed w.e.f 1 April 2016)

## Annual Report of the Board of Directors

Fees payable to Non-executive Nominee Directors of John Keells Holdings PLC was paid to John Keells Holdings PLC and not to individual Directors.

### Directors' Remuneration

Details of the remuneration and other benefits received by the Directors are set out in note 43.7 of the financial statements.

### Employee Share Option Plan (ESOP)

At the beginning of the year, the employee share option plan consisted of the seventh, eighth and ninth plans approved by the shareholders on, 7 December 2011, 28 June 2014 and 24 June 2016 respectively.

The Directors confirm that the Company has not granted any funding to employees to exercise options.

Details of the options granted, options exercised, the grant price and the options cancelled or lapsed and outstanding as at the date of the Directors' report as required by the Listing Rules of The Colombo Stock Exchange are given in the Shares and Warrants Information section of the Annual Report.

The highest, lowest and the closing prices of the Company shares during the year were LKR 165.00, LKR 133.90 and LKR 137.90 respectively.

### Corporate Governance

The Board of Directors is committed towards maintaining an effective Corporate Governance Framework and implementing systems and structures required to ensure best practices in Corporate Governance and their effective implementation. The table on page 46 and 47 shows the manner in which the Company has complied with the Section 7.10 of the Rules of the Colombo Stock Exchange (CSE) on Corporate Governance. The Risk Management report is given from page 101 to 105 and the Corporate Governance Commentary is given from page 26 to 56.

### Sustainability

The Group pursues its business goals based on a model of stakeholder governance. Findings of the continuous internal stakeholder engagements have enabled the Group to focus on material issues such as the conservation of natural resources and the environment as well as material issues impacting other

stakeholders such as employees, customers, suppliers and the community. These measures are encapsulated in a Group-wide sustainable development strategy which is continuously evolving. This year, the Group published its second integrated Annual Report, which presents a comprehensive capital's discussion on its financial and non-financial performance, in a bid to provide its stakeholders with holistic information relating to its value creation proposition. The Group has sought independent third-party assurance from DNV GL represented in Sri Lanka by DNV Business Assurance Lanka (Private) Limited in relation to the non-financial information contained in this Report.

The Report has also successfully completed the GRI Materiality Disclosures Service.

### Employment

The Group has an equal opportunity policy and these principles are enshrined in specific selection, training, development and promotion policies, ensuring that all decisions are based on merit. The Group practices equality of opportunity for all employees irrespective of ethnicity, religion, political opinion, gender, marital status or different physical attributes. Employee ownership in the Company is facilitated through the employee share option plan.

Details of the Group's human resource initiatives are detailed in the Human Capital section under Capital Management Review of the Annual Report.

The number of persons employed by the Company and Group as at 31 March 2017 was 162 (2016 - 156) and 13,211 (2016 - 12,035), respectively.

There have been no material issues pertaining to employees and industrial relations of the Company and the Group.

### Supplier Policy

The Group adopts a clear policy of terms and condition including payment as part of the commercial agreements negotiated with suppliers, and endeavours to pay for all items properly charged in accordance with these agreed terms. As at 31 March 2017 the trade and other payables of the Company and Group amounted to LKR 330 million (2016 - LKR 333 million) and LKR 14,136 million (2016 - LKR 12,755 million), respectively.

The Group strives to integrate principles of sustainable practices and policies in its value chain through extensive stakeholder consultations, the findings of which are integrated into work-plans. During the year, a supplier management framework and a supplier code of conduct were implemented. Supplier engagement including various fora and assessments of sites, suppliers were closely engaged with, particularly where the supply is of great importance to the Group.

### Environmental Protection

The Group complies with the relevant environmental laws, regulations and endeavours to comply with best practices applicable in the country of operation. A summary of selected Group activities in the above area is contained in the Sustainability Report.

### Research and Development

The Group has an active approach to research and development and recognizes the contribution that it can make to intellectual property and the Group's operations. Significant investment has been made over the years and substantial efforts will continue to be made to introduce intellectual property rights, new products and processes, enhance the existing products and service offering including improve operational efficiency.

### Statutory Payments

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company and its subsidiaries, all contributions, levies and taxes payable on behalf of, and in respect of the employees of the Company and its subsidiaries, and all other known statutory dues as were due and payable by the Company and its subsidiaries as at the statement of financial position date have been paid or, where relevant provided for, except as specified in note 44 to the financial statements, covering contingent liabilities.

### Enterprise Risk Management

The Board confirms that there is an ongoing process of identifying, evaluating and managing any significant risks faced by the Group, where annual risk reviews are carried out by the Sustainability, Enterprise Risk Management and Group Initiatives Division and the risks are further reviewed each quarter by each business unit. The headline risks of each listed Company is presented

to its respective Board Audit Committee for review by the business unit and in the case of John Keells Holdings PLC, by the Sustainability, Enterprise Risk Management and Group Initiatives Division to the John Keells Board Audit Committee.

#### Internal Controls and Assurance

The Board, through the involvement of the Group Business Process Review Division, takes steps to gain assurance on the effectiveness over the financial, operational and risk management control systems in place. The Audit Committee receives regular reports on the adequacy and effectiveness of internal control in the Group, compliance with laws and regulations and established policies and procedures of the Group. The head of the Group Business Process Review Division has direct access to the chairman of the Audit Committee. Reports of the outsourced internal auditors are also reviewed by the Committee on matters pertaining to the Company.

#### Events after the Reporting Period

There have been no events subsequent to the reporting period, which would have any material effect on the Company or on the Group other than those disclosed in note 48 to the financial statements.

#### Going Concern

The Directors are satisfied that the Company, its subsidiaries and equity accounted investees, have adequate resources to continue in operational existence for the foreseeable future, to justify adopting the going concern basis in preparing these financial statements.

#### Appointment and Remuneration of Independent Auditors

Messrs Ernst & Young, Chartered Accountants, are willing to continue as Auditors of the Company, and a resolution proposing their reappointment will be tabled at the annual general meeting.

The Auditors Report is found in the Financial Information section of the Annual Report.

The Audit Committee reviews the appointment of the Auditor, its effectiveness, its independence and its relationship with the Group, including the level of audit and non-audit fees paid to the Auditor.

The Group works with 3 firms of Chartered Accountants across the Group, namely, Ernst

& Young, KPMG and PricewaterhouseCoopers. Details of audit fees are set out in note 17 of the financial statements. The Auditors do not have any relationship (other than that of an Auditor) with the Company or any of its subsidiaries.

Further details on the work of the Auditor and the Audit Committee are set out in the Audit Committee Report.

#### Compliance with Laws and Regulations

To the best of knowledge and belief of the Directors, the Group/Company has not engaged in any activity, which contravenes laws and regulations of the country.

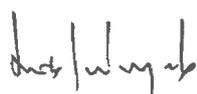
#### Annual Report

The Board of Directors approved the consolidated financial statements on 26 May 2017. The appropriate number of copies of this report will be submitted to the Colombo Stock Exchange and to the Sri Lanka Accounting and Auditing Standards Monitoring Board on 31 May 2017.

#### Annual General Meeting

The annual general meeting will be held at the Institute of Chartered Accountants of Sri Lanka, 30A, Malalasekera Mawatha, Colombo 7, on Friday, 30 June 2017 at 10.00 a.m. The notice of meeting appears in the Supplementary Information section of the integrated Annual Report.

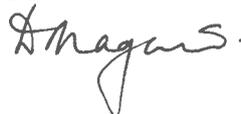
This Annual Report is signed for and on behalf of the Board of Directors  
By Order of the Board



Director



Director



Keells Consultants (Pvt) Ltd.  
Secretaries  
26 May 2017

## The Statement of Directors' Responsibility

The responsibility of the Directors in relation to the financial statements is set out in the following statement. The responsibility of the auditors, in relation to the financial statements prepared in accordance with the provision of the Companies Act No. 7 of 2007, is set out in the Report of the Auditors.

The financial statements comprise of:

- Income statement and statement of comprehensive income of the Company and its subsidiaries, which present a true and fair view of the profit and loss of the Company and its subsidiaries for the financial year.
- A statement of financial position, which presents a true and fair view of the state of affairs of the Company and its subsidiaries as at the end of the financial year; and

The Directors are required to confirm that the financial statements have been prepared:

- Using appropriate accounting policies which have been selected and applied in a consistent manner, and material departures, if any, have been disclosed and explained; and
- Presented in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS); and that reasonable and prudent judgments and estimates have been made so that the form and substance of transactions are properly reflected; and
- Provides the information required by and otherwise comply with the Companies Act and the Listing Rules of the Colombo Stock Exchange.

The Directors are also required to ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements.

Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy the financial position of the Company and of the Group.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and of the Group and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to preventing and detecting fraud and other irregularities.

The Directors are required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections that may be considered being appropriate to enable them to give their audit opinion.

Further, as required by Section 56 (2) of the Companies Act No. 7 of 2007, the Board of Directors have confirmed that the Company, based on the information available, satisfies the solvency test immediately after the distribution, in accordance with Section 57 of the Companies Act No. 7 of 2007, and have obtained a certificate from the auditors, prior to declaring a final dividend of LKR 2.00 per share for this year, to be paid on 16 June 2017.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

### Compliance Report

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company and its subsidiaries, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and its subsidiaries, and all other known statutory dues as were due and payable by the Company and its subsidiaries as at the balance sheet date have been paid, or where relevant provided for, except as specified in note 44 to the financial statements covering contingent liabilities.

By order of the Board



Keells Consultants (Pvt) Ltd.  
Secretaries  
26 May 2017

# Independent Auditors' Report



Ernst & Young  
Chartered Accountants  
201 De Saram Place  
P.O. Box 101  
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Sri Lanka

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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF JOHN KEELLS HOLDINGS PLC

### Report on the Financial Statements

We have audited the accompanying financial statements of John Keells Holdings PLC, ("the Company"), and the consolidated financial statements of the Company and its subsidiaries ("Group"), which comprise the statement of financial position as at 31 March 2017, and the income statement and statement of comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance

about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion, scope and limitations of the audit are as stated above.
- b) In our opinion:
  - we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company,
  - the financial statements of the Company give a true and fair view of its financial position as at 31 March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, and
  - the financial statements of the Company, and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

26 May 2017  
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA  
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

# Income Statement

For the year ended 31 March In LKR '000s	Note	Group		Company	
		2017	2016	2017	2016
<b>Continuing operations</b>					
Sale of goods		68,238,202	58,608,224	-	-
Rendering of services		38,034,899	35,101,730	1,126,353	1,108,095
<b>Revenue</b>	13	106,273,101	93,709,954	1,126,353	1,108,095
Cost of sales		(75,158,110)	(65,057,256)	(564,049)	(541,812)
<b>Gross profit</b>		31,114,991	28,652,698	562,304	566,283
Dividend income	14	-	-	10,469,023	10,260,828
Other operating income	15.1	1,765,187	1,704,123	2,607,861	3,821,890
Selling and distribution expenses		(3,900,667)	(3,615,527)	-	-
Administrative expenses		(11,435,797)	(10,744,227)	(903,969)	(947,588)
Other operating expenses	15.2	(3,170,105)	(3,429,561)	(941,172)	(566,680)
<b>Results from operating activities</b>		14,373,609	12,567,506	11,794,047	13,134,733
Finance cost	16	(436,278)	(993,802)	(89,397)	(81,579)
Finance income	16	10,033,281	8,010,952	5,540,768	4,640,404
Change in insurance contract liabilities	35.2	(4,869,288)	(3,430,533)	-	-
Change in fair value of investment property	23	483,554	262,875	-	-
Share of results of equity accounted investees	26	3,302,955	2,781,233	-	-
<b>Profit before tax</b>	17	22,887,833	19,198,231	17,245,418	17,693,558
Tax expense	20.1	(4,771,068)	(3,406,366)	(1,092,976)	(623,444)
<b>Profit for the year</b>		18,116,765	15,791,865	16,152,442	17,070,114
<b>Attributable to:</b>					
Equity holders of the parent		16,275,158	14,070,009		
Non-controlling interests		1,841,607	1,721,856		
		18,116,765	15,791,865		
		LKR.	LKR.		
<b>Earnings per share</b>					
Basic	18.1	11.85	10.54		
Diluted	18.2	11.84	10.52		
<b>Dividend per share</b>					
	19	5.50	7.00		

Figures in brackets indicate deductions.

The accounting policies and notes as set out in pages 191 to 258 form an integral part of these financial statements.

## Statement of Comprehensive Income

For the year ended 31 March In LKR '000s	Note	Group		Company	
		2017	2016	2017	2016
Profit for the year		18,116,765	15,791,865	16,152,442	17,070,114
<b>Other comprehensive income</b>					
<b>Other comprehensive income to be reclassified to income statement in subsequent periods</b>					
Currency translation of foreign operations		1,089,650	3,009,187	-	-
Net (loss)/gain on cash flow hedges	12.3	331,679	-	-	-
Share of other comprehensive income of equity accounted investees		272,648	576,177	-	-
Net gain / (loss) on available-for-sale financial assets		(302,773)	(521,015)	(24,087)	(38,373)
Net other comprehensive income to be reclassified to income statement in subsequent periods		1,391,204	3,064,349	(24,087)	(38,373)
<b>Other comprehensive income not to be reclassified to income statement in subsequent periods</b>					
Revaluation of land and buildings		10,361,135	1,282,978	-	-
Share of other comprehensive income of equity accounted investees		3,830	40,947	-	-
Re-measurement gain / (loss) on defined benefit plans	37	(110,758)	(44,627)	(5,310)	(2,478)
Net other comprehensive income not to be reclassified to income statement in subsequent periods		10,254,207	1,279,298	(5,310)	(2,478)
Tax on other comprehensive income	20.2	49,444	(52,348)	-	-
<b>Other comprehensive income for the period, net of tax</b>		11,694,855	4,291,299	(29,397)	(40,851)
<b>Total comprehensive income for the period, net of tax</b>		29,811,620	20,083,164	16,123,045	17,029,263
<b>Attributable to :</b>					
Equity holders of the parent		25,694,454	17,848,337		
Non-controlling interests		4,117,166	2,234,827		
		29,811,620	20,083,164		

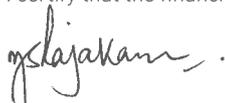
Figures in brackets indicate deductions.

The accounting policies and notes as set out in pages 191 to 258 form an integral part of these financial statements.

# Statement of Financial Position

As at 31 March	Note	Group		Company	
		2017	2016	2017	2016
In LKR '000s					
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	21	64,396,373	52,736,375	93,913	116,039
Lease rentals paid in advance	22	13,206,058	10,888,158	-	-
Investment property	23	5,366,180	4,878,406	-	-
Intangible assets	24	2,118,160	2,337,860	30,801	43,820
Investments in subsidiaries	25	-	-	42,987,395	36,384,646
Investments in equity accounted investees	26	17,718,887	16,949,464	8,910,800	8,867,622
Non-current financial assets	27	27,666,621	22,635,444	2,789,980	507,405
Deferred tax assets	20.4	143,548	129,837	-	-
Other non-current assets	28	41,692,316	35,557,148	16,254	12,414
		172,308,143	146,112,692	54,829,143	45,931,946
<b>Current assets</b>					
Inventories	29	5,605,712	4,664,833	-	-
Trade and other receivables	30	11,687,429	9,998,949	118,076	169,144
Amounts due from related parties	43.1	111,639	133,031	286,735	595,182
Other current assets	31	3,265,327	2,303,431	99,442	128,353
Short term investments	32	79,174,327	72,635,070	60,243,280	56,862,236
Cash in hand and at bank		5,119,185	5,127,463	304,265	178,193
		104,963,619	94,862,777	61,051,798	57,933,108
<b>Total assets</b>		277,271,762	240,975,469	115,880,941	103,865,054
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to equity holders of the parent</b>					
Stated capital	33	62,790,080	58,701,977	62,790,080	58,701,977
Revenue reserves		77,193,184	67,564,513	49,988,495	41,121,860
Other components of equity	33.2	38,651,568	28,715,262	1,504,876	1,084,617
		178,634,832	154,981,752	114,283,451	100,908,454
<b>Non-controlling interest</b>		15,695,543	13,498,570	-	-
<b>Total equity</b>		194,330,375	168,480,322	114,283,451	100,908,454
<b>Non-current liabilities</b>					
Insurance contract liabilities	35	31,700,278	27,205,282	-	-
Interest-bearing loans and borrowings	36	14,202,636	13,706,848	-	-
Deferred tax liabilities	20.4	2,336,241	2,029,371	-	-
Employee benefit liabilities	37	1,880,287	1,660,880	217,910	189,181
Other deferred liabilities	38	838,891	861,802	103,218	371,014
Other non-current liabilities	39	3,933,882	3,095,181	-	-
		54,892,215	48,559,364	321,128	560,195
<b>Current liabilities</b>					
Trade and other payables	40	14,136,040	12,755,466	330,078	332,506
Amounts due to related parties	43.2	10,434	28,982	210,029	102,135
Income tax liabilities	20.3	2,395,379	1,873,472	635,532	345,555
Short term borrowings	41	1,380,238	821,243	-	-
Interest-bearing loans and borrowings	36	2,918,854	2,991,582	-	1,482,508
Other current liabilities	42	2,944,118	2,234,856	16,441	16,289
Bank overdrafts		4,264,109	3,230,182	84,282	117,412
		28,049,172	23,935,783	1,276,362	2,396,405
<b>Total equity and liabilities</b>		277,271,762	240,975,469	115,880,941	103,865,054

I certify that the financial statements comply with the requirements of the Companies Act No. 7 of 2007.



M J S Rajakariar  
Group Financial Controller

The Board of Directors is responsible for the preparation and presentation of these financial statements.



S C Rathnayake  
Chairman



J R F Peiris  
Group Finance Director

26 May 2017

Colombo

The accounting policies and notes as set out in pages 191 to 258 form an integral part of these financial statements.

# Statement of Cash Flows

For the year ended 31 March In LKR '000s	Note	Group		Company	
		2017	2016	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit before working capital changes	A	14,249,210	14,577,471	(143,117)	(183,324)
(Increase) / Decrease in inventories		(940,879)	934,769	-	-
(Increase) / Decrease in trade and other receivables		(1,712,513)	69,939	38,775	(62,627)
(Increase) / Decrease in other current assets		(320,693)	(176,563)	37,903	10,017
(Increase) / Decrease in other non-current assets		(5,008,630)	(6,646,918)	(3,840)	1,393
Increase / (Decrease) in trade, other payables and other non-current liabilities		2,200,730	3,551,730	(3,617)	(99,067)
Increase / (Decrease) in other current liabilities		820,376	(1,033,059)	153	1,406
Increase / (Decrease) in insurance contract liabilities		4,494,996	3,273,316	-	-
<b>Cash generated from operations</b>		<b>13,782,597</b>	<b>14,550,685</b>	<b>(73,743)</b>	<b>(332,202)</b>
Finance income received		9,536,363	8,117,933	4,221,631	4,162,732
Finance cost paid		(302,583)	(955,839)	(63,216)	(78,912)
Dividend received		2,854,182	2,588,485	10,789,765	9,902,966
Tax paid		(4,630,808)	(2,519,947)	(803,000)	(541,130)
Super Gain Tax paid		-	(1,096,780)	-	(235,746)
Gratuity paid		(219,443)	(171,100)	(9,412)	(386)
<b>Net cash flow from operating activities</b>		<b>21,020,308</b>	<b>20,513,437</b>	<b>14,062,025</b>	<b>12,877,322</b>
<b>CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>					
Purchase and construction of property, plant and equipment		(4,331,582)	(4,582,064)	(11,110)	(30,002)
Purchase of intangible assets		(114,398)	(162,608)	(6,746)	(4,196)
Addition to investment property		(4,220)	(6,590)	-	-
Purchase of lease rights		(2,657,012)	(607,155)	-	-
Acquisition of business, net of cash acquired	9.2	-	(12,914)	-	-
Acquisition of associates		-	-	-	(115,407)
Increase in interest in subsidiaries		-	-	(4,840,893)	(5,100,725)
Increase in interest in associates		(44,172)	(40,200)	(43,178)	(40,200)
Proceeds from sale of property, plant and equipment and intangible assets		157,919	592,421	211	8,260
Proceeds from sale of non-current investments		-	-	36,357	5,739,902
Proceeds from sale of financial instruments - fair valued through profit or loss		1,242,075	236,082	-	-
Purchase of financial instruments - fair valued through profit or loss		(1,285,594)	(448,206)	-	-
(Purchase) / disposal of short term investments (net)		(5,443,340)	(39,731)	(1,681,845)	(2,591,480)
(Purchase) / disposal of non current financial assets (net)		(5,270,637)	(4,506,403)	1,311	106,491
Grants received for investing activities		80,800	10,714	-	-
<b>Net cash flow from/(used in) investing activities</b>		<b>(17,670,161)</b>	<b>(9,566,654)</b>	<b>(6,545,893)</b>	<b>(2,027,357)</b>
<b>CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>					
Proceeds from issue of shares		4,088,103	7,999,276	4,088,103	7,999,276
Direct cost on issue of shares		-	(71,189)	-	(45,560)
Changes in non controlling interest		65,660	(23,079)	-	-
Payment of other deferred liabilities		(115,406)	-	-	-
Dividend paid to equity holders of parent		(7,280,497)	(8,037,790)	(7,280,497)	(8,037,790)
Dividend paid to shareholders with non-controlling interest		(1,279,179)	(1,595,872)	-	-
Proceeds from long term borrowings		3,300,907	409,372	-	-
Repayment of long term borrowings		(3,443,821)	(4,623,992)	(1,469,884)	(1,388,100)
Proceeds from (repayment of) other financial liabilities (net)		558,995	(1,773,958)	-	-
<b>Net cash flow from/(used in) financing activities</b>		<b>(4,105,238)</b>	<b>(7,717,232)</b>	<b>(4,662,278)</b>	<b>(1,472,174)</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(755,091)</b>	<b>3,229,551</b>	<b>2,853,854</b>	<b>9,377,791</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING</b>		<b>48,398,696</b>	<b>45,169,145</b>	<b>37,135,335</b>	<b>27,757,544</b>
<b>CASH AND CASH EQUIVALENTS AT THE END</b>		<b>47,643,605</b>	<b>48,398,696</b>	<b>39,989,189</b>	<b>37,135,335</b>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>					
<b>Favorable balances</b>					
Short term investments	32	46,788,529	46,501,415	39,769,206	37,074,554
Cash in hand and at bank		5,119,185	5,127,463	304,265	178,193
<b>Unfavourable balances</b>					
Bank overdrafts		(4,264,109)	(3,230,182)	(84,282)	(117,412)
<b>Total cash and cash equivalents</b>		<b>47,643,605</b>	<b>48,398,696</b>	<b>39,989,189</b>	<b>37,135,335</b>

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short-term deposits with a maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts. Figures in brackets indicate deductions.

The accounting policies and notes as set out in pages 191 to 258 form an integral part of these financial statements.

## Statement of Cash Flows

For the year ended 31 March In LKR '000s	Note	Group		Company	
		2017	2016	2017	2016
<b>A. Profit before working capital changes</b>					
Profit before tax		22,887,833	19,198,231	17,245,418	17,693,558
<b>Adjustments for:</b>					
Finance income		(10,033,281)	(8,010,952)	(5,540,768)	(4,640,404)
Dividend income		-	-	(10,469,023)	(10,260,828)
Finance costs		436,278	993,802	89,397	81,579
Share based payment expense		444,346	395,592	119,822	128,541
Change in fair value of investment property		(483,554)	(262,875)	-	-
Share of results of equity accounted investees		(3,302,955)	(2,781,233)	-	-
(Profit) / loss on sale of non-current investments		-	-	(2,574,003)	(3,792,821)
Depreciation of property, plant and equipment		2,874,071	2,782,315	33,042	33,415
Provision for impairment losses		34,332	215,764	900,419	525,000
(Profit) / loss on sale of property, plant and equipment and intangible assets		41,183	34,050	(17)	(1,656)
Gain on bargain purchase of a subsidiary	9.2	-	(4,088)	-	-
Amortisation of lease rental paid in advance		592,983	738,407	-	-
Amortisation of intangible assets		333,046	320,564	19,765	23,659
Amortisation of other deferred liabilities		(19,669)	(14,984)	-	-
Gratuity provision and related costs		327,633	283,900	32,831	26,633
Unrealised (gain) / loss on foreign exchange (net)		116,964	688,978	-	-
		<b>14,249,210</b>	<b>14,577,471</b>	<b>(143,117)</b>	<b>(183,324)</b>

## Statement of Changes in Equity

COMPANY In LKR '000s	Stated capital	Other capital reserve	Available for sale reserve	Revenue reserve	Total equity
<b>As at 1 April 2015</b>	<b>50,702,701</b>	<b>562,718</b>	<b>164,680</b>	<b>32,373,320</b>	<b>83,803,419</b>
Charge relating to Super Gain Tax	-	-	-	(235,746)	(235,746)
Profit for the year	-	-	-	17,070,114	17,070,114
Other comprehensive income	-	-	(38,373)	(2,478)	(40,851)
Total comprehensive income	-	-	(38,373)	17,067,636	17,029,263
Exercise of share warrants	7,972,760	-	-	-	7,972,760
Exercise of share options	26,516	-	-	-	26,516
Direct cost of issue of shares	-	-	-	(45,560)	(45,560)
Share based payments	-	395,592	-	-	395,592
Final dividend paid - 2014/15	-	-	-	(1,496,230)	(1,496,230)
Interim dividends paid - 2015/16	-	-	-	(6,541,560)	(6,541,560)
<b>As at 31 March 2016</b>	<b>58,701,977</b>	<b>958,310</b>	<b>126,307</b>	<b>41,121,860</b>	<b>100,908,454</b>
Profit for the year	-	-	-	16,152,442	16,152,442
Other comprehensive income	-	-	(24,087)	(5,310)	(29,397)
Total comprehensive income	-	-	(24,087)	16,147,132	16,123,045
Exercise of share warrants	3,176,842	-	-	-	3,176,842
Exercise of share options	911,261	-	-	-	911,261
Share based payments	-	444,346	-	-	444,346
Final dividend paid - 2015/16	-	-	-	(1,784,105)	(1,784,105)
Interim dividends paid - 2016/17	-	-	-	(5,496,392)	(5,496,392)
<b>As at 31 March 2017</b>	<b>62,790,080</b>	<b>1,402,656</b>	<b>102,220</b>	<b>49,988,495</b>	<b>114,283,451</b>

Figures in brackets indicate deductions.

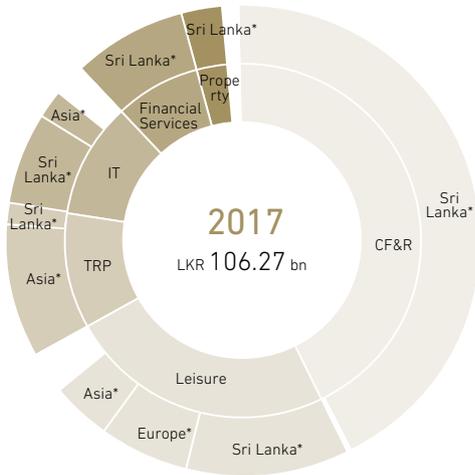
The accounting policies and notes as set out in pages 191 to 258 form an integral part of these financial statements.

## Statement of Changes in Equity

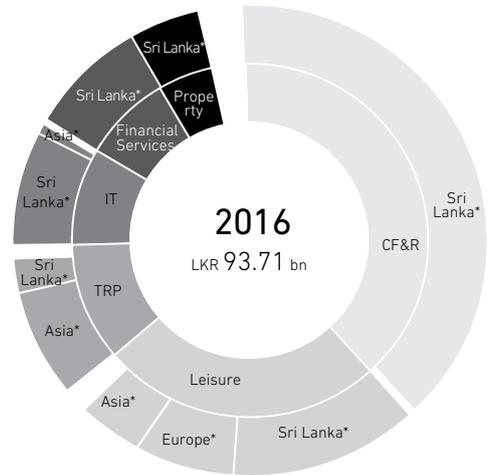
GROUP In LKR '000s	Attributable to equity holders of the parent										Total equity
	Stated capital	Revaluation reserve	Foreign currency translation reserve	Cash flow hedge reserve	Other capital reserve	Available for sale reserve	Revenue reserve	Total	Non controlling interests		
<b>As at 1 April 2015</b>	<b>50,702,701</b>	<b>19,752,411</b>	<b>3,770,496</b>	-	<b>562,718</b>	<b>415,653</b>	<b>62,593,948</b>	<b>137,797,927</b>	<b>12,278,883</b>	<b>150,076,810</b>	
Charge relating to Super Gain Tax	-	-	-	-	-	-	(1,237,546)	(1,237,546)	(104,567)	(1,342,113)	
Profit for the year	-	-	-	-	-	-	14,070,009	14,070,009	1,721,856	15,791,865	
Other comprehensive income	-	1,093,779	3,310,483	-	-	(585,870)	(40,064)	3,778,328	512,971	4,291,299	
Total comprehensive income	-	1,093,779	3,310,483	-	-	(585,870)	14,029,945	17,848,337	2,234,827	20,083,164	
Exercise of share warrants	7,972,760	-	-	-	-	-	-	7,972,760	-	7,972,760	
Exercise of share options	26,516	-	-	-	-	-	-	26,516	-	26,516	
Direct cost of issue of shares	-	-	-	-	-	-	(68,255)	(68,255)	(2,934)	(71,189)	
Re-purchase of subsidiary shares held by NCI	-	-	-	-	-	-	-	-	(23,079)	(23,079)	
Share based payments	-	-	-	-	395,592	-	-	395,592	-	395,592	
Restatement of fully depreciated assets	-	-	-	-	-	-	20,482	20,482	3,900	24,382	
Final dividend paid - 2014/15	-	-	-	-	-	-	(1,496,230)	(1,496,230)	-	(1,496,230)	
Interim dividends paid - 2015/16	-	-	-	-	-	-	(6,541,560)	(6,541,560)	-	(6,541,560)	
Subsidiary dividend to non-controlling interest	-	-	-	-	-	-	307,928	307,928	(1,903,800)	(1,595,872)	
Acquisition, disposal and changes in non-controlling interest	-	-	-	-	-	-	(44,199)	(44,199)	1,015,340	971,141	
<b>As at 31 March 2016</b>	<b>58,701,977</b>	<b>20,846,190</b>	<b>7,080,979</b>	-	<b>958,310</b>	<b>(170,217)</b>	<b>67,564,513</b>	<b>154,981,752</b>	<b>13,498,570</b>	<b>168,480,322</b>	
Profit for the year	-	-	-	-	-	-	16,275,158	16,275,158	1,841,607	18,116,765	
Other comprehensive income	-	8,148,602	1,222,916	312,529	-	(192,087)	(72,664)	9,419,296	2,275,559	11,694,855	
Total comprehensive income	-	8,148,602	1,222,916	312,529	-	(192,087)	16,202,494	25,694,454	4,117,166	29,811,620	
Exercise of share warrants	3,176,842	-	-	-	-	-	-	3,176,842	-	3,176,842	
Exercise of share options	911,261	-	-	-	-	-	-	911,261	-	911,261	
Share based payments	-	-	-	-	444,346	-	-	444,346	-	444,346	
Final dividend paid - 2015/16	-	-	-	-	-	-	(1,784,105)	(1,784,105)	-	(1,784,105)	
Interim dividends paid - 2016/17	-	-	-	-	-	-	(5,496,392)	(5,496,392)	-	(5,496,392)	
Subsidiary dividend to non-controlling interest	-	-	-	-	-	-	659,992	659,992	(1,939,171)	(1,279,179)	
Acquisition, disposal and changes in non-controlling interest	-	-	-	-	-	-	46,682	46,682	18,978	65,660	
<b>As at 31 March 2017</b>	<b>62,790,080</b>	<b>28,994,792</b>	<b>8,303,895</b>	<b>312,529</b>	<b>1,402,656</b>	<b>(362,304)</b>	<b>77,193,184</b>	<b>178,634,832</b>	<b>15,695,543</b>	<b>194,330,375</b>	

Figures in brackets indicate deductions.  
The accounting policies and notes as set out in pages 191 to 258 form an integral part of these financial statements.

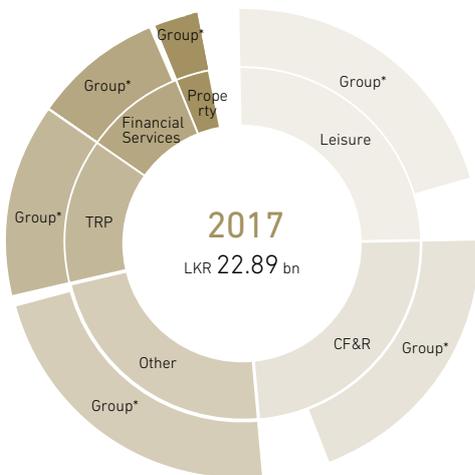
## Performance Highlights



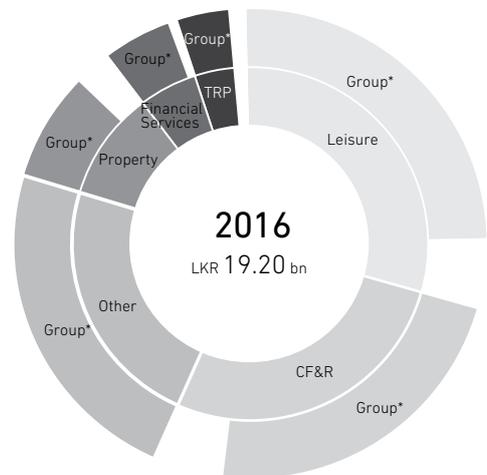
LKR **106.27** bn  
**Group Revenue**  
 A growth of 13 per cent



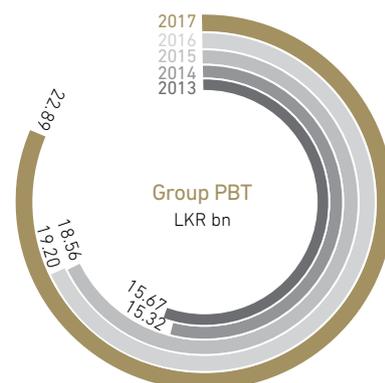
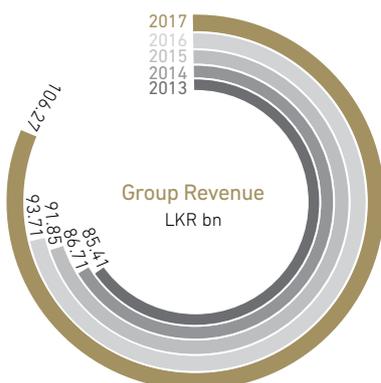
\* Geographical segment analysis by location of customers

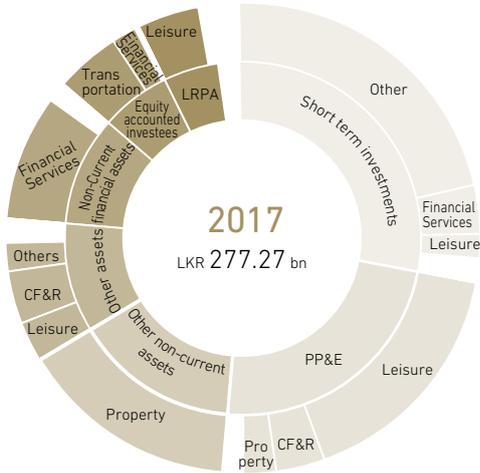


LKR **22.89** bn  
**Group Profit before Tax**  
 A growth of 19 per cent

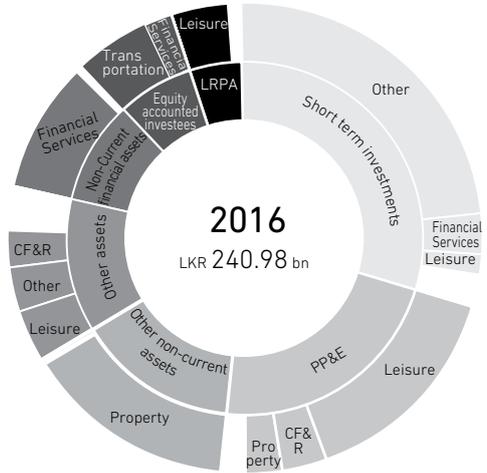


\* Attributable to equity holders of the parent

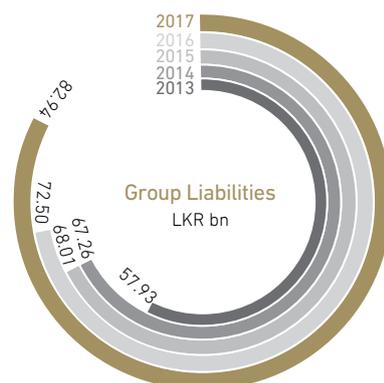
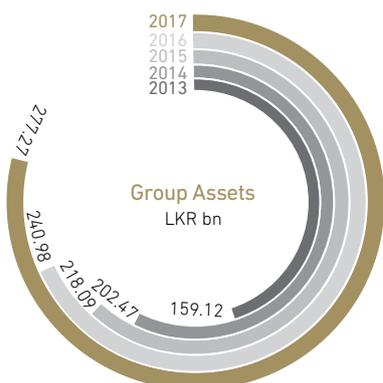
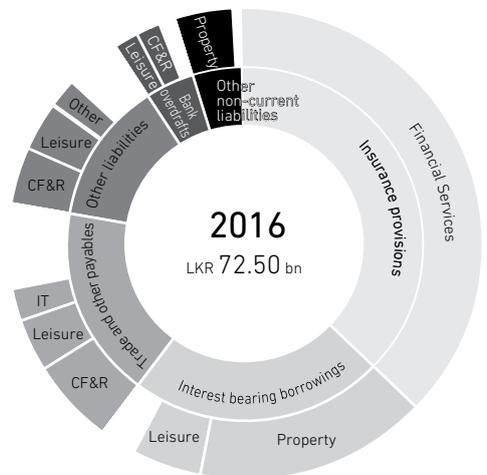




LKR **277.27** bn  
**Group Assets**  
A growth of 15 per cent



LKR **82.94** bn  
**Group Liabilities**  
A growth of 14 per cent



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12 Financial instruments and related policies	211	26 Investment in equity accounted investees	237	45 Capital and other commitments	258
		27 Non current financial assets	240	46 Lease commitments	258
		28 Other non current assets	241	47 Assets pledged	258
		29 Inventories	241	48 Events after the reporting period	258
		30 Trade and other receivables	242		
		31 Other current assets	242		
		32 Short term investments	242		



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### Financial Calendar

	Date
<b>Interim Financial Statements</b>	
Three months ended 30 June 2016	28 July 2016
Six months ended 30 September 2016	4 November 2016
Nine months ended 31 December 2016	26 January 2017
First interim dividend paid on	24 October 2016
Second interim dividend paid on	16 February 2017
Final dividend proposed to be paid on	16 June 2017
Annual Report 2016/17	31 May 2017
38th Annual General Meeting	30 June 2017

	Date
<b>Interim Financial Statements</b>	
Three months ended 30 June 2017	On or before 27 July 2017
Six months ended 30 September 2017	On or before 2 November 2017
Nine months ended 31 December 2017	On or before 25 January 2018
Annual Report 2017/18	On or before 1 June 2018
39th Annual General Meeting	On or before 29 June 2018

# Notes to the Financial Statements

## CORPORATE AND GROUP INFORMATION

### 1. Corporate information

#### Reporting entity

John Keells Holdings PLC is a public limited liability Company incorporated and domiciled in Sri Lanka. The registered office and principal place of business of the Company is located at 117, Sir Chittampalam A Gardiner Mawatha, Colombo 2.

Ordinary shares of the Company are listed on the Colombo Stock Exchange. Global depository receipts (GDRs) of John Keells Holdings PLC are listed on the Luxembourg Stock Exchange. John Keells Holdings PLC became the holding Company of the Group during the financial year ended 31 March 1986.

#### Consolidated financial statements

The financial statements for the year ended 31 March 2017, comprise "the Company" referring to John Keells Holdings PLC as the holding Company and "the Group" referring to the companies that have been consolidated therein.

#### Approval of financial statements

The financial statements for the year ended 31 March 2017 were authorised for issue by the Board of Directors on 26 May 2017.

#### Principal activities and nature of operations of the holding Company

John Keells Holdings PLC, the Group's holding Company, manages a portfolio of investments consisting of a range of diverse business operations, which together constitute the John Keells Group, and provides function based services to its subsidiaries, equity accounted investees.

#### Responsibility for financial statements

The responsibility of the Board of Directors in relation to the financial statements is set out in the Statement of Directors' Responsibility report in the Annual report.

#### Statements of compliance

The financial statements which comprise the income statement, statement of comprehensive income, statement of financial position, statement of changes in equity and the statement of cash flows, together with the accounting policies and notes (the "financial statements") have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the Companies Act No. 7 of 2007.

## 2. Group information

### Subsidiaries, associates and joint ventures

The companies within the Group and its business activities are described in the Group Directory under the Supplementary Information section of the Annual Report.

There were no significant changes in the nature of the principal activities of the Company and the Group during the financial year under review.

## BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

### 3. Basis of preparation

The consolidated financial statements have been prepared on an accrual basis and under the historical cost convention except for investment properties, land and buildings, derivative financial instruments, fair value through profit or loss financial assets and available-for-sale financial assets that have been measured at fair value.

#### Presentation of functional currency

The consolidated financial statements are presented in Sri Lankan Rupees (LKR), which is the primary economic environment in which the holding Company operates. Each entity in the Group uses the currency of the primary economic environment in which they operate as their functional currency.

The following subsidiaries are using different functional currencies other than Sri Lankan Rupees (LKR):

Country of incorporation	Functional Currency	Name of the Subsidiary
Canada	Canadian Dollar (CAD)	John Keells BPO Solutions Canada Inc.
India	Indian Rupee (INR)	John Keells BPO Solutions India (Pvt) Ltd. Serene Holidays (Pvt) Ltd.
Singapore	Singapore Dollar (SGD)	John Keells Singapore (Pte) Ltd.
USA	United States Dollar (USD)	John Keells BPO Solutions US Inc.
Republic of Maldives	United States Dollar (USD)	Fantasea World Investments (Pte) Ltd. John Keells Maldivian Resort (Pte) Ltd. Mack Air Services Maldives (Pte) Ltd. Tranquility (Pte) Ltd. Travel Club (Pte) Ltd.
Mauritius	United States Dollar (USD)	John Keells BPO Holdings (Pvt) Ltd. John Keells BPO International (Pvt) Ltd.
Sri Lanka	United States Dollar (USD)	Waterfront Properties (Pvt) Ltd.

## Notes to the Financial Statements

Each material class of similar items are presented cumulatively in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard-LKAS 1 on 'Presentation of Financial Statements'.

All values are rounded to the nearest rupees thousand (LKR '000) except when otherwise indicated.

The significant accounting policies are discussed with relevant individual notes.

The indicative US Dollar financial statements under Supplementary Information section of the Annual Report do not form a part of the financial statements prepared in accordance with SLFRS/LKAS.

### Comparative information

The presentation and classification of the financial statements of the previous years have been amended, where relevant including the following, for better presentation and to be comparable with those of the current year.

The share of results of equity accounted investees in the income statement and other comprehensive income statement are shown net of all related taxes.

### 4. Summary of significant accounting policies

Summary of significant accounting policies have been disclosed along with the relevant individual notes in the subsequent pages.

Those accounting policies presented with each note, have been applied consistently by the Group.

### Other significant accounting policies not covered with individual notes.

Following accounting policies, which have been applied consistently by the Group, are considered to be significant but not covered in any other sections.

### Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading

- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

### Foreign currency translation, foreign currency transactions and balances

The consolidated financial statements are presented in Sri Lankan Rupees (LKR), which is the Company's functional and presentation currency. The functional currency is the currency of the primary economic environment in which the entities of the Group operate. All foreign exchange transactions are converted to functional currency, at the rates of exchange prevailing at the time the transactions are effected. Monetary assets and liabilities denominated in foreign currency are retranslated to functional currency equivalents at the spot exchange rate prevailing at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. The gain or loss arising on translation of non-monetary items is treated in line with the recognition of gain or loss on changing fair value of the item.

### Foreign operations

The statement of financial position and income statement of overseas subsidiaries

and joint ventures which are deemed to be foreign operations are translated to Sri Lanka rupees at the rate of exchange prevailing as at the reporting date and at the average annual rate of exchange for the period respectively.

The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the income statement.

The Group treated goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition as assets and liabilities of the parent. Therefore, those assets and liabilities are non-monetary items already expressed in the functional currency of the parent and no further translation differences occur.

### 5. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements of the Group require the management to make judgments, estimates and assumptions, which may affect the amounts of income, expenditure, assets, liabilities and the disclosure of contingent liabilities, at the end of the reporting period.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made various judgements. Those which management has assessed to have the most significant effect on the amounts recognised in the consolidated financial statements have been discussed in the individual notes of the related financial statement line items.

The key assumptions concerning the future and other key sources of estimation of uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes to the financial statements. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments,

however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

The line items which have the most significant effect on accounting, judgements, estimates and assumptions are as follows;

a) Valuation of property, plant and equipment and investment property.

b) Impairment of non-financial assets  
c) Share based payments  
d) Taxes  
e) Employee benefit liability  
f) Valuation of insurance contract liabilities

#### 6 Standards issued but not yet effective

The following SLFRS have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date

in the future and have not been applied in preparing these financial statements. Those SLFRS's will have an effect on the accounting policies currently adopted by the Group and may have an impact on the future financial statements.

The Group intends to adopt these standards, if applicable, when they become effective.

Accounting Standard	Summary of the Requirements	Effective Date	Possible Impact on Consolidated Financial Statements
SLFRS 9 - Financial Instruments	SLFRS 9 replaces the existing standard LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.	On or after 1 January 2018 (early adoption permitted)	The Group has performed a high-level impact assessment of all aspects of SLFRS 9. This preliminary assessment is based on currently available information and may be subjected to changes arising from further detailed analysis or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its financial position and equity.
SLFRS 15 - Revenue from Contracts with Customers	SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition standard and guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes	On or after 1 January 2018 (early adoption permitted)	The Group completed a diagnostic phase of SLFRS 15 adaptation in 2016/17 financial year, with the assistance of external consultants. The Group's current study has not revealed a significant change to the revenue recognition patterns. However, the gaps identified will be addressed during 2017/18 financial year, and any impact to the current systems and processes will be modified where necessary.
SLFRS 16 - Leases	SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under LKAS 17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for the users of financial statements to assess the effect that leases have on the financial position.	On or after 1 January 2019 (early adoption permitted)	The Group plans to assess the potential effect of SLFRS 16 on its consolidated financial statements in the financial year 2017/18.
IFRIC 15 - Agreements for the construction of real estate (Deferring Application)	This interpretation clarifies whether LKAS 18, 'Revenue' or LKAS 11 'Construction contracts' should be applied to particular transactions. It also explains the point at which revenue and related expenses from a sale of real estate unit should be recognised, if an agreement between a developer and a buyer is reached before the construction of the real estate unit is completed.	Deferred application until SLFRS 15 Revenue from Contracts with Customers comes into effect	Considering the latest developments in revenue recognition (the "five-step model"), the Institute of Chartered Accountants of Sri Lanka has decided to grant an option for entities to defer application of IFRIC 15 until SLFRS 15 Revenue from Contracts with Customers comes into effect. The Group has not adopted IFRIC 15 which is related to recognition of revenue of construction of real estate. The Group has deferred application of this IFRIC based on the ruling issued by CA Sri Lanka.

The following amendments and improvements are not expected to have a significant impact on the Group's financial statements

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to SLFRS11)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to LKAS 16 and LKAS 38)
- Equity Method in Separate Financial Statements (Amendments to LKAS 27)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to SLFRS 10 and LKAS 28)
- Annual Improvements to SLFRSs 2012–2014 Cycle – various standards
- Investment Entities: Applying the Consolidation Exception (Amendments to SLFRS 10, SLFRS 12 and LKAS 28)
- Disclosure Initiative (Amendments to LKAS 1)

## Notes to the Financial Statements

### GROUP BUSINESS, OPERATIONS & MANAGEMENT

#### 7. Operating segment information

##### Accounting policy

The Group's internal organisation and management is structured based on individual products and services which are similar in nature and process and where the risks and returns are similar. The operating segments represent this business structure.

In addition, segments are determined based on the Group's geographical spread of operations as well. The geographical analysis of turnover and profits are based on location of customers and assets respectively.

The activities of each of the operating business segments of the Group are detailed in the Group directory in the Supplementary section of the Annual report.

As such for management purposes, the Group is organised into business units based on their products and services and has seven operating business segments as follows:

##### Transportation

Business of the transportation operating segment offers an array of transportation related services in Sri Lanka and the region and these operations comprise of South Asia Gateway Terminals (Pvt) Ltd in the port of Colombo, a marine bunkering business, joint

ventures/associations with leading shipping and air transportation multinationals and logistics, travel and airline services in Sri Lanka, India and the Maldives.

##### Leisure

The leisure operating segment encompasses two five star city hotels and a three star city hotel in Colombo and eight resort hotels spread in prime tourist locations across Sri Lanka and three resorts in Maldives offering beaches, mountains, wildlife and cultural splendour under the 'Cinnamon Hotels and Resorts' brand. The leisure operating segment also has destination management businesses in Sri Lanka and India.

#### 7.1. Business segments

For the year ended 31 March In LKR '000s	Transportation		Leisure		Property	
	2017	2016	2017	2016	2017	2016
External revenue	11,109,677	10,342,226	25,873,790	24,072,746	1,121,204	4,341,714
Inter segment revenue	365,421	278,657	27,325	34,540	206,678	197,500
<b>Total segment revenue</b>	<b>11,475,098</b>	<b>10,620,883</b>	<b>25,901,115</b>	<b>24,107,286</b>	<b>1,327,882</b>	<b>4,539,214</b>
Elimination of inter segment revenue						
<b>Net revenue</b>						
<b>Segment results</b>	<b>2,652,278</b>	<b>560,242</b>	<b>5,713,936</b>	<b>5,028,273</b>	<b>540,625</b>	<b>1,620,032</b>
Finance cost	(25,488)	(21,813)	(203,544)	(165,587)	(25,858)	(32,162)
Finance income	117,449	90,903	458,531	309,305	93,077	172,055
Change in fair value of investment property	-	-	-	-	290,341	148,250
Share of results of equity accounted investees	2,274,792	1,868,769	53,473	52,110	-	-
Eliminations / adjustments	(1,920,821)	(2,940)	(301,526)	(255,771)	(233,629)	(265,213)
<b>Profit / (loss) before tax</b>	<b>3,098,210</b>	<b>2,495,161</b>	<b>5,720,870</b>	<b>4,968,330</b>	<b>664,556</b>	<b>1,642,962</b>
Tax expense	(119,057)	(40,738)	(713,304)	(601,123)	(41,058)	(57,793)
<b>Profit/ (loss) for the year</b>	<b>2,979,153</b>	<b>2,454,423</b>	<b>5,007,566</b>	<b>4,367,207</b>	<b>623,498</b>	<b>1,585,169</b>
Purchase and construction of PPE*	95,716	95,190	1,275,820	2,757,569	36,369	43,055
Addition to IA*	9,176	2,398	-	103,373	2,240	1,386
Depreciation of PPE*	101,630	87,953	1,588,847	1,546,807	18,589	14,395
Amortisation of IA*	1,975	1,278	67,092	54,764	661	1,211
Amortisation of LRPA*	-	-	569,140	712,950	20,307	24,282
Gratuity provision and related costs	13,946	12,020	114,363	102,066	3,273	2,939

In addition to segment results, information such as finance costs / income, tax expenses have been allocated to segments for better presentation.

\* PPE - Property, plant and equipment, IA - Intangible assets, LRPA - Lease rentals paid in advance

**Property**

The property operating segment concentrates primarily on development and sale of residential apartments.

**Consumer Foods and Retail**

The consumer foods and retail operating segment competes in the two major categories namely manufacturing and retailing.

**Financial Services**

The financial services operating segment offers a complete range of financial solutions including commercial banking, insurance, stock broking, debt trading, fund management and leasing.

**Information Technology**

The information technology operating segment comprises from BPO, software services and information integration to

office automation which offers end-to-end ICT services and solutions.

**Others**

This operating segment includes plantation services sector which operates tea factories, tea and rubber broking and pre-auction produce warehousing. This segment also consists of John Keells Holdings PLC including its divisions / centre functions such as John Keells Capital and Strategic Group IT (SGIT), as well as other companies providing ancillary services.

Segment information has been prepared in conformity with the accounting policies adopted for preparing and presenting the consolidated financial statements of the Group.

No operating segments have been aggregated to form the reportable operating

segments. An individual segment manager is determined for each operating segment and the results are regularly reviewed by the Board of Directors. The Board of Directors monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the operating segments' information, is measured differently from operating profit or loss in the consolidated financial statements. However, except the Financial Services segment, other segments' financing activities are managed on a Group basis and are not allocated to operating segments. Transfer prices between operating segments are carried out in the ordinary course of business on arm's length basis.

Consumer Foods & Retail		Financial Services		Information Technology		Others		Group Total	
2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
45,812,242	36,886,260	8,296,409	7,142,880	11,107,277	8,261,542	2,952,502	2,662,586	106,273,101	93,709,954
363,698	290,419	110	1	221,044	193,315	767,899	700,966	1,952,175	1,695,398
46,175,940	37,176,679	8,296,519	7,142,881	11,328,321	8,454,857	3,720,401	3,363,552	108,225,276	95,405,352
								(1,952,175)	(1,695,398)
								106,273,101	93,709,954
5,146,899	4,322,498	935,269	717,323	(571,917)	(334,221)	(2,078,119)	(1,681,060)	12,338,971	10,233,087
(19,318)	(25,026)	(194)	(193)	(9,770)	(12,657)	(135,060)	(134,283)	(419,232)	(391,721)
251,544	159,956	187,201	121,088	49,434	43,588	5,559,911	4,652,409	6,717,147	5,549,304
92,005	16,947	-	-	-	-	101,208	97,678	483,554	262,875
	-	974,690	860,354	-	-	-	-	3,302,955	2,781,233
(4,720)	(1,925)	-	-	1,143,772	451,588	1,781,362	837,714	464,438	763,453
5,466,410	4,472,450	2,096,966	1,698,572	611,519	148,298	5,229,302	3,772,458	22,887,833	19,198,231
(1,570,344)	(1,243,488)	(55,140)	19,264	(143,373)	(52,572)	(2,128,792)	(1,429,916)	(4,771,068)	(3,406,366)
3,896,066	3,228,962	2,041,826	1,717,836	468,146	95,726	3,100,510	2,342,542	18,116,765	15,791,865
2,682,990	1,454,411	67,965	25,470	139,532	113,369	33,190	93,000	4,331,582	4,582,064
18,471	1,929	62,807	29,239	14,957	20,088	6,747	4,195	114,398	162,608
830,197	736,013	80,210	89,363	122,090	179,518	132,508	128,266	2,874,071	2,782,315
11,789	11,892	220,609	217,437	11,153	10,323	19,767	23,659	333,046	320,564
2,361	-	-	-	-	-	1,175	1,175	592,983	738,407
91,621	73,365	24,678	24,110	20,138	18,594	59,614	50,806	327,633	283,900

## Notes to the Financial Statements

## 7. Operating segment information (Contd.)

## 7.2. Business segments

As at 31 March In LKR '000s	Transportation		Leisure		Property	
	2017	2016	2017	2016	2017	2016
Property, plant and equipment	500,463	477,027	43,251,774	34,059,483	2,318,107	2,308,494
Lease rentals paid in advance	-	-	11,495,184	9,330,503	245,301	248,040
Investment property	487,000	425,000	2,148,400	1,905,000	5,230,949	4,853,668
Intangible assets	14,072	6,871	374,191	441,284	2,963	363
Non-current financial assets	74,073	48,539	5,710,380	5,507,782	432,679	224,930
Other non-current assets	11,163	5,892	25,343	14,673	41,379,103	35,451,293
<b>Segment non-current assets</b>	<b>1,086,771</b>	<b>963,329</b>	<b>63,005,272</b>	<b>51,258,725</b>	<b>49,609,102</b>	<b>43,086,788</b>
Investments in equity accounted investees	11,118,544	11,263,337	512,143	474,364	-	-
Deferred tax assets						
Goodwill						
Eliminations / adjustments						
<b>Total non-current assets</b>						
Inventories	522,461	161,484	337,494	307,040	15,255	294,659
Trade and other receivables	1,685,506	1,028,910	3,474,959	3,144,535	941,864	1,435,139
Short term investments	2,053,279	1,943,880	8,188,744	5,734,333	987,176	339,545
Cash in hand and at bank	290,699	741,739	2,198,542	2,310,577	973,122	1,046,241
<b>Segment current assets</b>	<b>4,551,945</b>	<b>3,876,013</b>	<b>14,199,739</b>	<b>11,496,485</b>	<b>2,917,417</b>	<b>3,115,584</b>
Other current assets						
Eliminations / adjustments						
<b>Total current assets</b>						
<b>Total assets</b>						
Insurance contract liabilities	-	-	-	-	-	-
Interest-bearing loans and borrowings	-	-	6,650,926	7,376,034	12,548,001	11,360,684
Employee benefit liabilities	84,859	73,018	638,131	562,241	29,435	44,788
Other deferred liabilities	1,640	-	120,007	84,401	558,435	560,220
Other non-current liabilities	10,267	-	-	78,418	3,730,151	2,884,834
<b>Segment non-current liabilities</b>	<b>96,766</b>	<b>73,018</b>	<b>7,409,064</b>	<b>8,101,094</b>	<b>16,866,022</b>	<b>14,850,526</b>
Deferred tax liabilities						
Eliminations / adjustments						
<b>Total non-current liabilities</b>						
Trade and other payables	847,988	1,198,528	2,074,128	3,341,897	1,382,676	1,604,938
Short term borrowings	1,389,643	830,648	3,487,404	2,051,370	-	-
Interest-bearing loans and borrowings	-	-	2,662,075	1,208,978	181,645	145,778
Bank overdrafts	374,011	56,533	1,847,574	1,217,688	709,561	843,340
<b>Segment current liabilities</b>	<b>2,611,642</b>	<b>2,085,709</b>	<b>10,071,181</b>	<b>7,819,933</b>	<b>2,273,882</b>	<b>2,594,056</b>
Income tax liabilities						
Other current liabilities						
Eliminations / adjustments						
<b>Total current liabilities</b>						
<b>Total liabilities</b>						
Total segment assets	5,638,716	4,839,342	77,205,011	62,755,210	52,526,519	46,202,372
Total segment liabilities	2,708,408	2,158,727	17,480,245	15,921,027	19,139,904	17,444,582

Consumer Foods & Retail		Financial Services		Information Technology		Others		Group Total	
2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
9,290,844	7,283,463	1,498,964	1,514,336	260,153	246,979	1,287,795	1,317,211	58,408,100	47,206,993
174,701	-	-	-	-	-	40,679	41,854	11,955,865	9,620,397
207,042	111,404	-	-	-	-	3,434,063	3,215,185	11,507,454	10,510,257
37,685	80,504	891,546	999,848	28,305	25,553	30,802	44,841	1,379,564	1,599,264
226,097	165,973	23,645,619	21,441,579	57,131	30,666	2,827,038	546,718	32,973,017	27,966,187
553,357	376,324	51,378	51,369	15,994	5,496	21,603	17,727	42,057,941	35,922,774
10,489,726	8,017,668	26,087,507	24,007,132	361,583	308,694	7,641,980	5,183,536	158,281,941	132,825,872
-	-	6,088,200	5,211,763	-	-	-	-	17,718,887	16,949,464
								143,548	129,837
								738,596	738,596
								(4,574,829)	(4,531,077)
								172,308,143	146,112,692
3,840,380	2,996,410	14,966	8,672	676,063	701,831	217,483	208,408	5,624,102	4,678,504
2,720,088	2,268,819	1,415,290	731,550	1,938,636	2,044,672	1,084,448	1,012,242	13,260,791	11,665,867
553,219	2,350,084	9,318,833	6,496,141	994,577	726,511	60,565,974	57,095,945	82,661,802	74,686,439
232,360	241,991	336,648	272,029	580,119	235,716	456,679	276,798	5,068,169	5,125,091
7,346,047	7,857,304	11,085,737	7,508,392	4,189,395	3,708,730	62,324,584	58,593,393	106,614,864	96,155,901
								3,265,327	2,303,431
								(4,916,572)	(3,596,555)
								104,963,619	94,862,777
								277,271,762	240,975,469
-	-	31,700,278	27,205,282	-	-	-	-	31,700,278	27,205,282
289,896	98,793	-	-	-	9,621	12,000	192,458	19,500,823	19,037,590
549,079	463,598	138,656	129,058	106,889	91,931	333,238	296,246	1,880,287	1,660,880
55,490	26,336	-	-	-	-	103,991	191,516	839,563	862,473
193,464	131,929	-	-	-	-	-	-	3,933,882	3,095,181
1,087,929	720,656	31,838,934	27,334,340	106,889	101,552	449,229	680,220	57,854,833	51,861,406
								2,336,241	2,029,371
								(5,298,859)	(5,331,413)
								54,892,215	48,559,364
5,293,347	4,503,394	1,955,235	1,254,729	1,994,141	1,694,604	768,391	734,477	14,315,906	14,332,567
-	-	-	-	-	-	12,074	12,074	4,889,121	2,894,092
65,000	119,073	-	-	10,134	35,244	-	1,482,508	2,918,854	2,991,581
766,477	594,225	137,849	105,834	338,122	293,649	90,515	118,912	4,264,109	3,230,181
6,124,824	5,216,692	2,093,084	1,360,563	2,342,397	2,023,497	870,980	2,347,971	26,387,990	23,448,421
								2,395,379	1,873,472
								2,944,118	2,234,856
								(3,678,315)	(3,620,966)
								28,049,172	23,935,783
								82,941,387	72,495,147
17,835,773	15,874,972	37,173,244	31,515,524	4,550,978	4,017,424	69,966,564	63,776,929	264,896,805	228,981,773
7,212,753	5,937,348	33,932,018	28,694,903	2,449,286	2,125,049	1,320,209	3,028,191	84,242,823	75,309,827

## Notes to the Financial Statements

## 7. Operating segment information (Contd.)

## 7.3. Geographical segments, based on the location of assets

	Sri Lanka		Asia (excluding Sri Lanka)		Others		Group Total	
	2017	2016	2017	2016	2017	2016	2017	2016
In LKR '000s								
Segment assets	235,720,710	202,856,785	27,414,975	23,161,826	1,761,120	2,963,162	264,896,805	228,981,773
Segment liabilities	71,369,556	65,998,618	12,855,813	9,271,496	17,454	39,713	84,242,823	75,309,827
Investments in equity accounted investees	17,718,887	16,949,464	-	-	-	-	17,718,887	16,949,464
Segment revenue	98,692,457	86,272,881	7,580,644	7,426,567	-	10,506	106,273,101	93,709,954
Segment results	12,093,968	9,655,632	858,550	756,822	(613,547)	(179,367)	12,338,971	10,233,087
Purchase and construction of property, plant and equipment	3,823,767	3,415,006	505,004	1,167,058	2,811	-	4,331,582	4,582,064
Purchase and construction of intangible assets	114,398	162,608	-	-	-	-	114,398	162,608
Purchase of lease rental paid in advance	177,062	-	2,479,950	607,155	-	-	2,657,012	607,155
Depreciation of property, plant and equipment	2,471,879	2,294,367	402,062	484,523	130	3,425	2,874,071	2,782,315
Amortisation of intangible assets	333,046	320,564	-	-	-	-	333,046	320,564
Amortisation of lease rental paid in advance	39,241	40,854	553,742	697,553	-	-	592,983	738,407
Gratuity provision and related costs	326,106	280,784	1,527	3,116	-	-	327,633	283,900

## 7.4. Business segment analysis

In LKR '000s	Group					
	2017			2016		
	Sale of goods	Rendering of services	Total revenue	Sale of goods	Rendering of services	Total revenue
Transportation	10,275,518	834,159	11,109,677	9,660,391	681,835	10,342,226
Leisure	-	25,873,790	25,873,790	-	24,072,746	24,072,746
Property	587,363	533,841	1,121,204	3,758,466	583,248	4,341,714
Consumer Foods & Retail	45,812,242	-	45,812,242	36,886,260	-	36,886,260
Financial Services	-	8,296,409	8,296,409	-	7,142,880	7,142,880
Information Technology	9,250,749	1,856,528	11,107,277	6,390,265	1,871,277	8,261,542
Others	2,312,330	640,172	2,952,502	1,912,842	749,744	2,662,586
Group revenue	68,238,202	38,034,899	106,273,101	58,608,224	35,101,730	93,709,954

## 7.5. Geographical segment analysis (by location of customers)

In LKR '000s	Group	
	2017	2016
Sri Lanka	81,776,854	71,940,772
Asia (excluding Sri Lanka)	9,225,727	10,266,229
Europe	9,667,726	8,198,612
Others	5,602,794	3,304,341
Total Group external revenue	106,273,101	93,709,954

## 8. Basis of consolidation and material partly owned subsidiaries

### Accounting policy

#### Basis of consolidation

The consolidated financial statements are comprised of the financial statements of the Company and its subsidiaries as at the end of reporting period. Control over an investee is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

#### Control over an investee

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

#### Consolidation of entities in which the Group holds less than a majority of voting rights

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements and;
- The Group's voting rights and potential voting rights

Subsidiaries that are consolidated have been listed in the Group directory under Supplementary section of the annual report.

The following companies, with equity control equal to or less than 50%, have been consolidated as subsidiaries based on above criteria.

	%
	Holding
Rajawella Holdings Ltd.	49.85
Trans-ware Logistics (Pvt) Ltd.	50.00
Mack Air Services Maldives (Pte) Ltd.	49.00
Tea Smallholder Factories PLC.	37.62

The Group re-assesses whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, which is

12 months ending 31 March, using consistent accounting policies.

#### Transactions eliminated on consolidation

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

#### Loss of control

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in the income statement. Any investment retained is recognised at fair value.

The total profits and losses for the year of the Company and of its subsidiaries included in consolidation are shown in the consolidated income statement and consolidated statement of comprehensive income and all assets and liabilities of the Company and of its subsidiaries included in consolidation are shown in the consolidated statement of financial position.

#### Non-controlling interest (NCI)

Non-controlling interest which represents the portion of profit or loss and net assets not held by the Group, are shown as a component of profit for the year in the consolidated income statement and statement of comprehensive income and as a component of equity in the consolidated statement of financial position, separately from equity attributable to the shareholders of the parent.

### 8.1. Material partly-owned subsidiaries

Financial information of subsidiaries that have material non-controlling interests (NCI) are provided below.

For the year ended 31 March In LKR '000s	Leisure		Consumer Foods & Retail	
	2017	2016	2017	2016
<b>Summarised Income Statement for the period ending 31 March</b>				
Revenue	28,134,885	26,829,126	46,834,239	37,366,674
Operating cost	(20,438,667)	(20,789,711)	(40,941,279)	(33,046,101)
Finance cost	(367,870)	(307,424)	(19,318)	(25,026)
Finance income	622,856	451,141	251,544	159,956
Change in fair value of investment property	243,400	126,100	92,005	16,947
Profit before tax	8,194,604	6,309,232	6,217,191	4,472,450
Tax expense	(715,716)	(603,455)	(1,570,344)	(1,243,488)
Profit for the year	7,478,888	5,705,777	4,646,847	3,228,962
Other comprehensive income	9,968,550	690,444	209,357	70,066
Total comprehensive income	17,447,438	6,396,221	4,856,204	3,299,028
Profit/(loss) allocated to material NCI	842,273	682,783	730,983	574,321
Dividend paid to NCI	1,016,875	906,513	717,319	400,602

The above information is based on amounts before inter-company eliminations

## Notes to the Financial Statements

### 8. Basis of consolidation and material partly owned subsidiaries (Contd.)

#### 8.1. Material partly-owned subsidiaries (Contd.)

For the year ended 31 March In LKR '000s	Leisure		Consumer foods & retail	
	2017	2016	2017	2016
<b>Summarised statement of Financial Position as at 31 March</b>				
Current assets	15,147,953	11,368,244	8,033,574	8,098,607
Non-current assets	79,431	66,812,284	17,620,783	14,829,369
<b>Total assets</b>	<b>15,227,384</b>	<b>78,180,528</b>	<b>25,654,357</b>	<b>22,927,976</b>
Current liabilities	11,472,392	8,360,308	7,822,565	6,570,597
Non-current liabilities	8,055,181	8,586,091	2,275,496	1,656,754
<b>Total liabilities</b>	<b>19,527,573</b>	<b>16,946,399</b>	<b>10,098,061</b>	<b>8,227,351</b>
Accumulated balances of material NCI	12,680,462	11,022,992	2,351,519	2,287,966
<b>Summarised cash flow information for year ended 31 March</b>				
Cash flows from operating activities	12,072,010	5,750,329	4,977,847	5,175,631
Cash flows from/(used in) investing activities	(2,900,274)	(2,154,749)	(3,066,146)	(1,415,285)
Cash flows from/(used in) financing activities	(5,534,896)	(4,067,811)	(3,891,090)	(2,465,962)
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>3,636,840</b>	<b>(472,231)</b>	<b>(1,979,389)</b>	<b>1,294,384</b>

The above information is based on amounts before inter-company eliminations

#### Names of material partly-owned subsidiaries and effective holding percentage owned by non-controlling interest:

##### Leisure

Ahungalle Holiday Resorts (Pvt) Ltd. - 19.68% (2016 - 19.68%)  
 Asian Hotels & Properties PLC. - 21.44% (2016 - 21.44%)  
 Beruwala Holiday Resorts (Pvt) Ltd. - 20.22% (2016 - 20.22%)  
 Ceylon Holiday Resorts Ltd. - 20.76% (2016 - 20.76%)  
 Cinnamon Holidays (Pvt) Ltd. - 19.68% (2016 - 19.68%)  
 Fantasea World Investments (Pte) Ltd. - 19.68% (2016 - 19.68%)  
 Habarana Lodge Ltd. - 21.01% (2016 - 21.01%)  
 Habarana Walk Inn Ltd. - 20.66% (2016 - 20.66%)  
 Hikkaduwa Holiday Resorts (Pvt) Ltd. - 20.76% (2016 - 20.76%)  
 International Tourists and Hoteliers Ltd. - 20.22% (2016-20.22%)  
 John Keells Hotels PLC. - 19.68% (2016 - 19.68%)  
 John Keells Maldivian Resorts (Pte) Ltd. - 19.68% (2016 - 19.68%)  
 Kandy Walk Inn Ltd. - 20.97% (2016 - 20.97%)  
 Nuwara Eliya Holiday Resorts (Pvt) Ltd. - 19.68% (2016 - 19.68%)

Rajawella Hotels Company Ltd. - 19.68% (2016 - 19.68%)  
 Resort Hotels Ltd. - 20.76% (2016 - 20.75%)  
 Serene Holidays (Pvt) Ltd. - 1.26% (2016 - 1.26%)  
 Tranquility (Pte) Ltd. - 19.68% (2016 - 19.68%)  
 Trinco Walk Inn Ltd. - 19.68% (2016 - 19.68%)  
 Trans Asia Hotels PLC. - 17.26% (2016 - 17.26%)  
 Travel Club (Pte) Ltd. - 19.68% (2016 - 19.68%)  
 Trinco Holiday Resorts (Pvt) Ltd. - 19.68% (2016 - 19.68%)  
 Walkers Tours Ltd. - 1.49% (2016 - 1.49%)  
 Wirawila Walk Inn Ltd. - 19.68% (2016 - 19.68%)  
 Yala Village (Pvt) Ltd. - 24.67% (2016 - 24.67%)

##### Consumer Foods & Retail

Ceylon Cold Stores PLC. - 18.64% (2016 - 18.64%)  
 JayKay Marketing Services (Pvt) Ltd. - 18.64% (2016 - 18.64%)  
 Keells Food Products PLC. - 11.47% (2016 - 10.35%)  
 The Colombo Ice Company (Pvt) Ltd. - 18.64% (2016 - N/A)

#### Accounting judgements, estimates and assumptions

#### Consolidation of entities in which the Group holds less than a majority of voting right (de facto control)

The Group considers that it controls some subsidiaries even though it owns less than 50% of the voting rights. This is because the

Group is the single largest shareholder of those subsidiaries with equity interest. The remaining equity shares in those subsidiaries are widely held by many other shareholders, and there is no history of the other shareholders collaborating to exercise their votes collectively or to outvote the Group.

Considering the Group balances, none of the individual partly-owned subsidiaries have material non-controlling interest. However, the above information has been presented on the aggregated interests in similar entities namely, the Leisure and Consumer Foods and Retail (CF&R) segment, based on the nature and risks of the products and services.

### 9. Business combinations and acquisitions of non-controlling interests

#### Accounting policy

#### Business combinations & goodwill

Business combinations are accounted for using the acquisition method of accounting. The Group measures goodwill at the acquisition date as the fair value of the consideration transferred including the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

When the fair value of the consideration transferred including the recognised amount of any non-controlling interests in the acquiree is lower than the fair value of net assets acquired, a gain is recognised immediately in the income statement. The Group elects on a transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration which is deemed to be an asset or liability, which is a financial instrument and within the scope of LKAS 39, is measured at fair value with changes in fair value either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted within equity. In instances where the contingent consideration does not fall within the scope of LKAS 39, it is measured in accordance with the appropriate SLFRS/LKAS.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised. The impairment loss is allocated first to reduce the carrying

amount of any goodwill allocated to the unit and then to the other assets pro-rata to the carrying amount of each asset in the unit.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation, goodwill disposed in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### Impairment of goodwill

Goodwill is tested for impairment annually (as at 31 March) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses

relating to goodwill cannot be reversed in future periods.

#### 9.1. Investment in 2016/17

##### Waterfront Properties (Pvt) Ltd.

John Keells Holdings PLC. (JKH) further invested LKR 4,341 mn in Waterfront Properties (Pvt) Ltd. a subsidiary of JKH involving the developing, owning, managing, operating, selling, leasing and renting of a luxury multi/mixed use Integrated Resort.

##### The Colombo Ice Company (Pvt) Ltd.

Ceylon Cold Stores PLC, invested LKR 270 million in The Colombo Ice Company (Pvt) Ltd a subsidiary of the Group, entered in to an agreement with the Board of Investment of Sri Lanka (BOI) for the establishment of an Ice Cream factory.

#### 9.2. Acquisitions in 2015/16

##### Rajawella Holdings Ltd.

In September 2015, the Group has increased its shareholdings in Rajawella Holdings Ltd. (RHL) from 16.9% to 49.85% with a total investment of LKR 1,044 mn over a three year period. Total investment comprises a partial buyout from existing shareholders, an infusion into RHL and release of an existing sublease of land held by the Group.

The fair value of net assets acquired of Rajawella Holdings Ltd. were as follows;

In LKR '000s	Fair value recognised on acquisition
<b>ASSETS</b>	
Cash	145,588
Inventories	10,675
Trade and other receivables	38,767
Other current assets	3,498
Intangible assets	484
Lease rentals paid in advance*	1,507,818
Property, plant and equipment	460,706
<b>LIABILITIES</b>	
Bank overdrafts	(43,501)
Deferred tax liabilities	(954)
Other deferred liabilities	(564,181)
Employee benefit liabilities	(8,435)
Other current liabilities	(14,125)
Trade and other payables	(145,045)
Total identifiable net assets at fair value	1,391,295
Non-controlling interest measured at fair value	(971,141)
Gain on bargain purchase of a subsidiary	(4,088)
Total purchase consideration	416,066
Deferred purchase consideration	(301,065)
Bank overdrafts acquired	(102,087)
Net cash outflow on acquisition of the subsidiary	12,914

\* This represents the fair value on the date of acquisition of the leasehold land right held by Rajawella Holdings Ltd. The fair value has been determined by an external independent chartered valuer.

## Notes to the Financial Statements

### 9. Business combinations and acquisitions of non-controlling interests (Contd.)

#### 9.3. Investment in 2015/16

##### Waterfront Properties (Pvt) Ltd.

John Keells Holdings PLC. (JKH) further invested in LKR 4,732 mn in Waterfront Properties (Pvt) Ltd. a subsidiary of JKH involving the developing, owning, managing, operating, selling, leasing and renting of a luxury multi/mixed use Integrated Resort.

### 10. Financial risk management objectives and policies

The Group has loans and other receivables, trade and other receivables and cash and short-term deposits that arise directly from its operations. The Group also holds other financial instruments such as available for sale and fair value through profit or loss financial instruments and may enter into derivative transactions. The Group's principal financial liabilities, comprise of loans and borrowings, trade and other payables and financial guarantee contracts. The main purpose of these financial liabilities is to finance the Group's operations and to

provide guarantees to support its operations. The financial risk governance framework provides assurance to the Group's senior management that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Group is exposed to market risk, credit risk and liquidity risk.

#### 10.1. Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all clients who wish to trade on

credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, such as cash and cash equivalents, available-for-sale financial investments, investments, and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty. The Group manages its operations to avoid any excessive concentration of counterparty risk and the Group takes all reasonable steps to ensure the counterparties fulfill their obligations.

#### 10.1.1. Risk exposure

The maximum risk positions of financial assets which are generally subject to credit risk are equal to their carrying amounts (without consideration of collateral, if available). Following table shows the maximum risk positions.

		2017						
Notes		Non current financial assets	Cash in hand and at bank	Trade and other receivables	Short term investments	Amounts due from related parties	Total	% of allocation
As at 31 March In LKR '000s								
<b>Group</b>								
	10.1.2	17,750,289	-	-	24,450,907	-	42,201,196	35%
	10.1.3	4,244,764	-	-	1,436,526	-	5,681,290	5%
	10.1.4	3,276,582	-	-	49,853,042	-	53,129,624	44%
	10.1.5	733,037	-	184,626	-	-	917,663	1%
	10.1.6	902,300	-	-	-	-	902,300	1%
	10.1.7	267,275	-	-	-	-	267,275	0%
	10.1.8	331,679	-	-	-	-	331,679	1%
	10.1.9	-	-	11,034,918	-	-	11,034,918	9%
	10.1.10	-	-	214,342	-	-	214,342	0%
	10.1.11	-	-	253,543	-	-	253,543	0%
	10.1.12	-	-	-	-	111,639	111,639	0%
	10.1.13	-	5,119,185	-	-	-	5,119,185	4%
<b>Total credit risk exposure</b>		<b>27,505,926</b>	<b>5,119,185</b>	<b>11,687,429</b>	<b>75,740,475</b>	<b>111,639</b>	<b>120,164,654</b>	<b>100%</b>
	10.3.3.1	-	-	-	3,433,852	-	-	
	10.3.3.2	160,695	-	-	-	-	-	
<b>Total equity risk exposure</b>		<b>160,695</b>	<b>-</b>	<b>-</b>	<b>3,433,852</b>	<b>-</b>	<b>-</b>	
<b>Total</b>		<b>27,666,621</b>	<b>5,119,185</b>	<b>11,687,429</b>	<b>79,174,327</b>	<b>111,639</b>		

## 2017

	Notes	Non current financial assets	Cash in hand and at bank	Trade and other receivables	Short term investments	Amounts due from related parties	Total	% of allocation
As at 31 March In LKR '000s								
<b>Company</b>								
Government securities	10.1.2	-	-	-	16,690,302	-	16,690,302	26%
Corporate debt securities	10.1.3	-	-	-	268,306	-	268,306	0%
Deposits with bank	10.1.4	2,576,339	-	-	43,284,672	-	45,861,011	72%
Loans to executives	10.1.5	71,669	-	18,652	-	-	90,321	0%
Trade and other receivables	10.1.9	-	-	99,424	-	-	99,424	0%
Amounts due from related parties	10.1.12	-	-	-	-	286,735	286,735	1%
Cash in hand and at bank	10.1.13	-	304,265	-	-	-	304,265	1%
<b>Total credit risk exposure</b>		<b>2,648,008</b>	<b>304,265</b>	<b>118,076</b>	<b>60,243,280</b>	<b>286,735</b>	<b>63,600,364</b>	<b>100%</b>
Available-for-sale investments	10.3.3.2	141,972	-	-	-	-	-	
<b>Total equity risk exposure</b>		<b>141,972</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total</b>		<b>2,789,980</b>	<b>304,265</b>	<b>118,076</b>	<b>60,243,280</b>	<b>286,735</b>		

## 2016

	Notes	Non current financial assets	Cash in hand and at bank	Trade and other receivables	Short term investments	Amounts due from related parties	Total	% of allocation
As at 31 March In LKR '000s								
<b>Group</b>								
Government securities	10.1.2	15,287,098	-	-	26,149,799	-	41,436,897	39%
Corporate debt securities	10.1.3	4,939,118	-	-	856,498	-	5,795,616	5%
Deposits with bank	10.1.4	568,198	-	-	42,621,898	-	43,190,096	40%
Loans to executives	10.1.5	618,850	-	167,940	-	-	786,790	1%
Loans to life policyholders	10.1.6	783,373	-	-	-	-	783,373	1%
Preference shares	10.1.7	254,024	-	-	-	-	254,024	0%
Trade and other receivables	10.1.9	-	-	9,482,865	-	-	9,482,865	9%
Reinsurance receivables	10.1.10	-	-	132,298	-	-	132,298	0%
Premium receivable	10.1.11	-	-	215,846	-	-	215,846	0%
Amounts due from related parties	10.1.12	-	-	-	-	133,031	133,031	0%
Cash in hand and at bank	10.1.13	-	5,127,463	-	-	-	5,127,463	5%
<b>Total credit risk exposure</b>		<b>22,450,661</b>	<b>5,127,463</b>	<b>9,998,949</b>	<b>69,628,195</b>	<b>133,031</b>	<b>107,338,299</b>	<b>100%</b>
Financial assets at fair value through P&L	10.3.3.1	-	-	-	3,006,875	-	-	
Available-for-sale investments	10.3.3.2	184,783	-	-	-	-	-	
<b>Total equity risk exposure</b>		<b>184,783</b>	<b>-</b>	<b>-</b>	<b>3,006,875</b>	<b>-</b>	<b>-</b>	
<b>Total</b>		<b>22,635,444</b>	<b>5,127,463</b>	<b>9,998,949</b>	<b>72,635,070</b>	<b>133,031</b>		

## Notes to the Financial Statements

### 10 Financial risk management objectives and policies (Contd.)

#### 10.1.1. Risk exposure (Contd.)

As at 31 March In LKR '000s	Notes	2016					Total	% of allocation
		Non current financial assets	Cash in hand and at bank	Trade and other receivables	Short term invest- ments	Amounts due from related parties		
<b>Company</b>								
Government securities	10.1.2	-	-	-	18,066,890	-	18,066,890	31%
Corporate debt securities	10.1.3	268,366	-	-	-	-	268,366	1%
Deposits with bank	10.1.4	-	-	-	38,795,346	-	38,795,346	67%
Loans to executives	10.1.5	72,980	-	19,823	-	-	92,803	0%
Trade and other receivables	10.1.9	-	-	149,321	-	-	149,321	0%
Amounts due from related parties	10.1.12	-	-	-	-	595,182	595,182	1%
Cash in hand and at bank	10.1.13	-	178,193	-	-	-	178,193	0%
<b>Total credit risk exposure</b>		<b>341,346</b>	<b>178,193</b>	<b>169,144</b>	<b>56,862,236</b>	<b>595,182</b>	<b>58,146,101</b>	<b>100%</b>
Available-for-sale investments	10.3.3.2	166,059	-	-	-	-	-	
<b>Total equity risk exposure</b>		<b>166,059</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total</b>		<b>507,405</b>	<b>178,193</b>	<b>169,144</b>	<b>56,862,236</b>	<b>595,182</b>		

#### 10.1.2. Government securities

As at 31 March 2017 government securities comprise 35% (2016-39%) and 26% (2016-31%) for the Group and Company respectively, which consist of treasury bonds, bills and reverse repo investments. Government securities are usually referred to as risk free due to the sovereign nature of the instrument.

#### 10.1.3. Corporate debt securities

As at 31 March 2017, corporate debt securities comprise 5% (2016-5%) of the total investments in debt securities, out of which 92% (2016 - 94%) were rated "A" or better, or guaranteed by a banking institution with a rating of "A" or better.

As at 31 March	Group			
	2017		2016	
Fitch ratings	In LKR '000s	Rating % of total	In LKR '000s	Rating % of total
AA+	812,063	14%	615,672	11%
AA	25,572	0%	77,505	1%
AA-	1,887,448	35%	2,988,097	52%
A+	1,699,653	30%	1,132,347	20%
A	751,104	13%	562,794	10%
A-	422,857	7%	398,424	6%
BBB+	82,593	1%	20,777	0%
<b>Total</b>	<b>5,681,290</b>	<b>100%</b>	<b>5,795,616</b>	<b>100%</b>

#### 10.1.4 Deposits with bank

Deposits with bank mainly consist of fixed and call deposits.

As at 31 March 2017, fixed and call deposits comprise 92% (2016- 93%) and 95% (2016- 93%) for the Group and Company respectively were rated "A+" or better.

As at 31 March	Group				Company			
	2017		2016		2017		2016	
Fitch ratings*	In LKR '000s	Rating % of total	In LKR '000s	Rating % of total	In LKR '000s	Rating % of total	In LKR '000s	Rating % of total
AAA	98,936	0%	1,003,763	2%	889,560	2%	870,038	2%
AA+	17,584,755	33%	10,200,822	24%	16,964,101	37%	9,382,100	24%
AA	5,204,255	10%	5,110,419	12%	4,833,086	11%	5,097,422	13%
AA-	23,048,321	43%	20,978,876	48%	19,819,906	43%	18,737,328	48%
A+	2,967,207	6%	2,966,941	7%	1,135,939	2%	2,140,013	6%
A	2,612,559	5%	2,929,275	7%	604,828	2%	2,568,445	7%
A-	1,613,591	3%	-	-	1,613,591	3%	-	-
<b>Total</b>	<b>53,129,624</b>	<b>100%</b>	<b>43,190,096</b>	<b>100%</b>	<b>45,861,011</b>	<b>100%</b>	<b>38,795,346</b>	<b>100%</b>

\* rating agencies

#### 10.1.5. Loans to executives

Loans to executive portfolio is largely made up of vehicle loans which are given to staff at assistant manager level and above. The respective business units have obtained the necessary promissory notes as collateral for the loans granted.

#### 10.1.6. Loans to life policyholders

The surrender value of insurance policies considered as the collateral for the loans

given to life policy holders by Union Assurance PLC. System controls are in place to automatically convert a policy to lapse stage when the policy loan amount together with the interest is reaching the surrender value of the policy.

#### 10.1.7. Preference Shares

Cumulative preference share investment which has lien over an assets, redeemable at the option of share holder.

#### 10.1.8. Interest rate swap

The Group has entered into interest rate swap that is a cash flow hedge. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships. Refer note 12.3.

#### 10.1.9. Trade and other receivables

As at 31 March	Group		Company		
	2017	2016	2017	2016	
Neither past due nor impaired	3,357,908	4,974,544	79,574	96,094	
Past due but not impaired					
	0-30 days	4,411,225	2,083,677	9,738	10,089
	31-60 days	1,199,016	958,904	8,914	16,506
	61-90 days	263,358	299,605	-	-
	> 91 days	1,803,411	1,166,135	1,198	26,632
Impaired	1,050,357	1,035,892	-	-	
Gross carrying value	12,085,275	10,518,757	99,424	149,321	
Less: impairment provision					
Individually assessed impairment provision	(418,296)	(564,864)	-	-	
Collectively assessed impairment provision	(632,061)	(471,028)	-	-	
<b>Total</b>	<b>11,034,918</b>	<b>9,482,865</b>	<b>99,424</b>	<b>149,321</b>	

The Group has obtained customer deposit from major customers by reviewing their past performance and credit worthiness, as collateral.

The requirement for an impairment is analysed at each reporting date on an individual basis for major customers. Additionally, a large number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data.

#### 10.1.10. Reinsurance receivables

The Union Assurance PLC operates a policy to manage its reinsurance counterparty exposures by limiting the reinsurers that may be used and applying strict limits each reinsurer.

#### 10.1.11. Premium receivable

Only designated institutions are employed as intermediary parties by Union Assurance PLC.

Agreements have been signed with the intermediaries committing them to settle dues within a specified time period.

## Notes to the Financial Statements

### 10. Financial risk management objectives and policies (Contd.)

#### 10.1.12. Amounts due from related parties

The Group's amounts due from related parties mainly consists of associates and other venture partners' balances.

The Company balance consists of the balances from affiliate companies.

#### 10.1.13. Credit risk relating to cash and cash equivalents

In order to mitigate the concentration, settlement and operational risks related to cash and cash equivalents, the Group consciously manages the exposure to a single counterparty taking into consideration, where relevant, the rating

or financial standing of the counterparty, where the position is reviewed as and when required, the duration of the exposure in managing such exposures and the nature of the transaction and agreement governing the exposure.

#### 10.2 Liquidity risk

The Group's policy is to hold cash and undrawn committed facilities at a level sufficient to ensure that the Group has available funds to meet its short and medium term capital and funding obligations, including organic growth and acquisition activities, and to meet any unforeseen obligations and opportunities. The Group holds cash and undrawn committed

facilities to enable the Group to manage its liquidity risk.

The Group monitors its risk to a shortage of funds using a daily cash management process. This process considers the maturity of both the Group's financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including debentures, bank loans, loan notes, overdrafts and finance leases over a broad spread of maturities.

#### 10.2.1. Net debt/(cash)

As at 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
Short term investments	79,174,327	72,635,070	60,243,280	56,862,236
Cash in hand and at bank	5,119,185	5,127,463	304,265	178,193
Adjustments to liquid assets	(6,218,187)	(5,163,192)	-	-
<b>Total liquid assets</b>	<b>78,075,325</b>	<b>72,599,341</b>	<b>60,547,545</b>	<b>57,040,429</b>
Interest-bearing loans and borrowings (Non-current)	14,202,636	13,706,848	-	-
Short term borrowings	1,380,238	821,243	-	-
Interest-bearing loans and borrowings (Current)	2,918,854	2,991,582	-	1,482,508
Bank overdrafts	4,264,109	3,230,182	84,282	117,412
<b>Total liabilities</b>	<b>22,765,837</b>	<b>20,749,855</b>	<b>84,282</b>	<b>1,599,920</b>
<b>Net debt / (cash)</b>	<b>(55,309,488)</b>	<b>(51,849,486)</b>	<b>(60,463,263)</b>	<b>(55,440,509)</b>

#### 10.2.2. Liquidity risk management

The mixed approach combines elements of the cash flow matching approach and the liquid assets approach. The business units attempt to match cash outflows in each time bucket against a combination of contractual cash inflows plus other inflows that can be generated through the sale of assets, repurchase agreement or other secured borrowing.

#### Maturity analysis

The table below summarises the maturity profile of the Group's financial liabilities at 31 March 2017 based on contractual undiscounted (principal plus interest) payments.

Group In LKR '000s	Within 1 year	Between 1-2 years	Between 2-3 years	Between 3-4 years	Between 4-5 years	More than 5 years	Total
Interest-bearing loans and borrowings	2,969,995	1,040,496	1,149,113	1,141,074	501,146	10,355,654	17,157,478
Trade and other payables	14,136,040	-	-	-	-	-	14,136,040
Amounts due to related parties	10,434	-	-	-	-	-	10,434
Short term borrowings	1,380,238	-	-	-	-	-	1,380,238
Bank overdrafts	4,264,109	-	-	-	-	-	4,264,109
	<b>22,760,816</b>	<b>1,040,496</b>	<b>1,149,113</b>	<b>1,141,074</b>	<b>501,146</b>	<b>10,355,654</b>	<b>36,948,299</b>

The table below summarises the maturity profile of the Group's financial liabilities at 31 March 2016 based on contractual undiscounted (principal plus interest) payments.

Group In LKR '000s	Within 1 year	Between 1-2 years	Between 2-3 years	Between 3-4 years	Between 4-5 years	More than 5 years	Total
Interest-bearing loans and borrowings	3,687,083	1,985,299	1,475,617	827,071	720,891	11,773,215	20,469,176
Trade and other payables	12,755,466	-	-	-	-	-	12,755,466
Amounts due to related parties	28,982	-	-	-	-	-	28,982
Short term borrowings	821,243	-	-	-	-	-	821,243
Bank overdrafts	3,230,182	-	-	-	-	-	3,230,182
	20,522,956	1,985,299	1,475,617	827,071	720,891	11,773,215	37,305,049

#### Maturity analysis

The table below summarises the maturity profile of the Company's financial liabilities on contractual undiscounted (principal plus interest) payments.

Company In LKR '000s	2017 Within 1 year	2016
Interest-bearing loans and borrowings	-	1,482,508
Trade and other payables	330,078	332,506
Amounts due to related parties	210,029	102,135
Bank overdrafts	84,282	117,412
	624,389	2,034,561

### 10.3 . Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises of the following types of risks:

- Interest rate risk
- Currency risk
- Equity price risk
- Commodity price risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The sensitivity analyses in the following sections relate to the position as at 31 March in 2017 and 2016.

The analysis excludes the impact of movements in market variables on the carrying values of other post-retirement obligations, provisions and the non-financial assets and liabilities.

The following assumptions have been made in performing the sensitivity analyses:

- The Statement of Financial Position sensitivity relates to derivatives and available-for-sale debt instruments.
- The sensitivity of the relevant Income Statement item is the effect of the assumed changes in respective market risks.
- This is based on the financial assets and financial liabilities held at 31 March 2017 and 2016.

#### 10.3.1. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument

will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

Most lenders grant loans under floating interest rates. To manage this, the Group enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and Company's profit before tax (through the impact on floating rate borrowings).

For the year ended 31 March	Increase/ (decrease) in basis points		Effect on profit before tax LKR '000s	
	Rupee borrowings	Other currency borrowings	Group	Company
2017	+188	+53	115,552	-
	-188	-53	(115,552)	-
2016	+189	+52	(119,511)	(7,709)
	-189	-52	119,679	7,709

The assumed spread of basis points for the interest rate sensitivity analysis is based on the currently observable market environment changes to base floating interest rates.

## Notes to the Financial Statements

### 10. Financial risk management objectives and policies (Contd.)

#### 10.3.2. Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has exposure to foreign currency risk where it has cash flows in overseas operations and foreign currency transactions which are affected by foreign exchange movements. Group treasury analyses the market condition of foreign exchange and provides market updates to the Group Executive Committee (GEC), with the use of external consultants' advice. Based on the suggestions made by Group treasury the GEC takes decisions on whether to hold, sell, or make forward bookings of foreign currency as per decision rights given by Board of Directors.

#### 10.3.2.1. Effects of currency transaction on forward contract

The following table demonstrates the sensitivity to a reasonably possible change in the USD/LKR exchange rate, with all other variables held constant, of the Group's profit

before tax due to changes in the fair value of the Group's forward exchange contracts. Currently these financial instruments are categorised under trade and other receivables.

For the year ended 31 March	Increase/(decrease) in basis points USD	Effect on profit before tax LKR '000s Group
2017	+4%	(44,617)
	-4%	44,617
2016	+10%	(42,282)
	-10%	42,282

The assumed spread of the exchange rate is based on the current observable market environment.

#### 10.3.2.2. Effects of currency translation

For purposes of JKH's consolidated financial statements, the income and expenses and the assets and liabilities of subsidiaries located outside Sri Lanka are converted into Sri Lankan Rupees (LKR). Therefore, period-to-period changes in average exchange rates may cause currency translation effects that have a significant impact on, for example, revenue, segment results (Earnings Before Interest and Taxes –EBIT) and assets and liabilities of the Group. Unlike exchange rate transaction risk, exchange rate translation risk does not necessarily affect future cash flows. The Group's equity position reflects changes in book values caused by exchange rates.

The Group's exposure to foreign currency changes for all other currencies is not material.

For the year ended 31 March

	Increase/(decrease) in exchange rate USD	Group		Company
		Effect on profit before tax LKR '000s	Effect on equity LKR '000s	Effect on profit before tax LKR '000s
2017	+4%	1,169,224	1,490,189	841,661
	-4%	( 1,169,224 )	(1,490,189)	(841,661)
2016	+10%	3,242,566	3,329,445	1,817,315
	-10%	(3,242,566)	(3,329,445)	(1,817,315)

#### Assumptions

The assumed spread of the exchange rate is based on the current observable market environment.

#### 10.3.3. Equity price risk

The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities.

#### 10.3.3.1. Financial assets at fair value through Profit and loss

The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Board of Directors reviews and approves all equity investment decisions.

As at 31 March	Group			
	2017		2016	
	LKR '000s	%	LKR '000s	%
Banks finance and insurance	1,678,946	49%	1,849,371	62%
Beverage food and tobacco	12,353	0%	364,221	12%
Construction & engineering	116,745	3%	53,844	2%
Diversified holdings	591,424	18%	360,216	12%
Manufacturing	856,378	25%	273,713	9%
Motors	-	-	12,128	0%
Power and energy	-	-	16,058	1%
Other services	-	-	6,651	0%
Telecommunications	178,006	5%	64,641	2%
Healthcare	-	-	6,032	0%
	3,433,852	100%	3,006,875	100%

### 10.3.3.2 Available-for-sale investments

All unquoted equity investments are made after obtaining Board approval.

### 10.3.3.3 Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in the market index, with all other variables held constant, of the Group & Company's profit before tax & equity due to changes in the fair value of the listed equity securities.

For the year ended 31 March

	Change in year-end market price index	Group	
		Effect on profit before tax LKR '000s	Effect on equity LKR '000s
2017	0%	-	-
	0%	-	-
2016	+10%	300,688	32
	-10%	(300,688)	(32)

## 10.4 Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong financial position and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure, and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares, have a rights issue or buy back of shares.

As at 31 March	Group		Company	
	2017	2016	2017	2016
Debt/Equity	11.7%	12.3%	0.1%	1.6%

## 11. Fair value measurement and related fair value disclosures

### Fair value measurement

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are only, disclosed are reflected in this note. Apart from this note, additional fair value related disclosures, including the valuation methods, significant estimates and assumptions are also provided in:

- Investment in unquoted equity shares Note 27.1
- Property, plant and equipment under revaluation model Note 21.3
- Investment properties Note 23
- Financial Instruments (including those carried at amortised cost) Note 12

#### Accounting policy

Fair value is the price that would be received to sell an asset or paid to transfer a liability

in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

## Notes to the Financial Statements

### 11. Fair value measurement and related fair value disclosures (Contd.)

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate for the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based

on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted AFS financial assets, and for

nonrecurring measurement, such as assets held for sale in discontinued operations.

External valuers are involved in the valuation of significant assets, such as land and building and investment properties, and significant liabilities, such as insurance contracts. Selection criteria for external valuers include market knowledge, reputation, independence and whether professional standards are maintained. The Group decides, after discussions with the external valuers, which valuation techniques and inputs to use for individual assets and liabilities.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

#### Fair value hierarchy

#### 11.1 Financial assets and liabilities by fair value hierarchy - Group

The Group held the following financial instruments carried at fair value in the Statement of Financial Position:

#### FINANCIAL ASSETS

As at 31 March In LKR '000s	Level 1		Level 2		Level 3	
	2017	2016	2017	2016	2017	2016
Financial assets held for trading	1,678,122	1,395,201	-	-	-	-
Designated at fair value through profit or loss	2,187,708	2,253,716	132,683	21,160	-	-
Foreign exchange forward contracts	-	-	-	26,732	-	-
Interest rate swap	-	-	331,679	-	-	-
Available for sale	6,478,510	7,018,665	180,722	301,134	160,369	184,456
<b>Total</b>	<b>10,344,340</b>	<b>10,667,582</b>	<b>645,084</b>	<b>349,026</b>	<b>160,369</b>	<b>184,456</b>

#### NON FINANCIAL ASSETS

Note

#### Assets measured at fair value

Land and buildings	21.1				40,092,971	29,953,873
Buildings on leasehold land	21.1				12,522,459	11,541,882
Investment property	23				5,366,180	4,878,406
<b>Total</b>					<b>57,981,610</b>	<b>46,374,161</b>

In determining the fair value, highest and best use of the property has been considered including the current condition of the properties, future usability and associated redevelopment requirements. Also, the valuers have made reference to market evidence of transaction prices for similar properties, with appropriate adjustments for size and location. The appraised fair values are rounded within the range of values.

## 11.2. Financial assets and liabilities by fair value hierarchy - Company

### FINANCIAL ASSETS

As at 31 March In LKR '000s	Level 3	
	2017	2016
Available for sale	141,972	166,059

### 11.3. Reconciliation of fair value measurements of level 3 financial instruments

The Group and Company carries unquoted equity shares as available-for-sale financial instruments classified as Level 3 within the fair value hierarchy. A reconciliation of the beginning and closing balances including movements is summarised below:

In LKR '000s	Available-for-sale financial assets	
	Group	Company
As at 1 April 2016	184,456	166,059
Total gains and losses recognised in OCI	(24,087)	(24,087)
As at 31 March 2017	160,369	141,972

Fair valuation carried at 31 March 2017 for all unquoted equity shares are classified as Level 3 within the fair value hierarchy using discounted cash flow valuation method. Fair value would not significantly vary if one or more of the inputs were changed.

## 12. Financial instruments and related policies

### Accounting policy

#### Financial instruments — Initial recognition and subsequent measurement

##### Financial assets - Initial recognition and measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

##### Financial assets - Subsequent measurement

The subsequent measurement of financial assets depends on their classification. For

purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available for sale financial assets

##### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets at fair value through profit or loss are carried in the Statement of Financial Position at fair value with changes in fair value recognised in finance income or finance costs in the Income Statement.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables,

available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

##### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the Income Statement. The losses arising from impairment are recognised in the Income Statement in finance costs.

##### Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income under the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the

## Notes to the Financial Statements

### 12. Financial instruments and related policies (Contd.)

cumulative loss is reclassified to the Income Statement in finance costs and removed from the available-for-sale reserve. Interest income on available-for-sale debt securities is calculated using the effective interest method and is recognised in the Income Statement.

The Group evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognized in equity is amortised to the Income Statement over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the Income Statement.

#### Financial assets - derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained

substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognised to the extent of the Group's continuing involvement in it.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets

that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Income Statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the Income Statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the Income Statement.

#### AFS financial assets

For available-for-sale financial investments, the group assesses at each reporting date whether there is objective evidence that an investment or a Group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value (less any impairment loss) is removed from other comprehensive income. Impairment losses on equity investments are not reversed through the Income Statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Income Statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Income Statement, the impairment loss is reversed through the Income Statement.

#### Financial liabilities – Initial recognition and measurement

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, carried at amortised cost. This includes directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts and derivative financial instruments.

#### Financial liabilities – Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification. For purposes of subsequent measurement financial liabilities are classified in to two categories:

- Loans and borrowings
- Financial guarantee contracts

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Income Statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortization process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the Income Statement.

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs in case the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

#### Financial liabilities – Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts are recognised in the Income Statement

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position if, and only if, there is a currently enforceable

legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### Derivative financial instruments – Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts, interest rate swaps and forward commodity contracts to hedge its foreign currency risks, interest rate risks and commodity price risks respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of commodity contracts that meet the definition of a derivative as defined by LKAS 39 are recognised in the Income Statement in cost of sales.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the Income Statement.

#### Foreign exchange forward contracts

Foreign exchange forward contracts are fair valued at each reporting date. Gains and losses arising from changes in fair value are included in the Income Statement in the period in which they arise.

#### Cash Flow Hedges

##### Interest rate swaps

The Group has entered into interest rate swap that is a cash flow hedge for the Group's exposure to interest rate risk on its borrowings

These contracts entitle the Group to receive interest at floating rates on notional principal amounts and oblige the Group to pay interest at fixed rates on the same notional principal amounts, thus allowing the Group to raise borrowings at floating rates and swap them with fixed rates.

The fair value changes on the effective portion of interest rate swaps designated as cash flow hedges are recognised in other comprehensive income, accumulated in the fair value reserve and reclassified to profit or loss when the hedged interest expense on the borrowings is recognised in profit or loss. The fair value changes on the ineffective portion of interest rate swaps are recognised immediately in profit or loss.

## Notes to the Financial Statements

### 12.1. Financial assets and liabilities by categories in accordance with LKAS 39

Group	Loans and receivables		Financial assets at fair value through profit or loss	
	2017	2016	2017	2016
As at 31 March LKR '000s				
<b>Financial instruments in non-current assets/non-current liabilities</b>				
Non-current financial assets	9,474,414	2,492,810	96,016	50,452
Interest-bearing loans and borrowings	-	-	-	-
<b>Financial instruments in current assets/current liabilities</b>				
Trade and other receivables/ Payables	11,687,429	9,998,949	-	-
Amounts due from/due to related parties	111,639	133,031	-	-
Short term investments	70,970,351	67,404,837	3,902,497	3,619,625
Cash in hand and at bank	5,119,185	5,127,463	-	-
Short term borrowings	-	-	-	-
Interest-bearing loans and borrowings	-	-	-	-
Bank overdrafts	-	-	-	-
<b>Total</b>	<b>97,363,018</b>	<b>85,157,090</b>	<b>3,998,513</b>	<b>3,670,077</b>

### 12.2. Financial assets and liabilities by categories in accordance with LKAS 39

Company	Financial assets by categories				Financial liabilities by categories			
	Loans and receivables		Available-for-sale financial assets		Total		Financial liabilities measured at amortised cost	
As at 31 March LKR '000s	2017	2016	2017	2016	2017	2016	2017	2016
<b>Financial instruments in non-current assets/non-current liabilities</b>								
Non-current financial assets	2,648,008	341,346	141,972	166,059	2,789,980	507,405	-	-
<b>Financial instruments in current assets/current liabilities</b>								
Trade and other receivables/ Payables	118,076	169,144	-	-	118,076	169,144	330,078	332,506
Amounts due from/due to related parties	286,735	595,182	-	-	286,735	595,182	210,029	102,135
Short term investments	60,243,280	56,862,236	-	-	60,243,280	56,862,236	-	-
Cash in hand and at bank	304,265	178,193	-	-	304,265	178,193	-	-
Interest-bearing loans and borrowings	-	-	-	-	-	-	-	1,482,508
Bank overdrafts	-	-	-	-	-	-	84,282	117,412
<b>Total</b>	<b>63,600,364</b>	<b>58,146,101</b>	<b>141,972</b>	<b>166,059</b>	<b>63,742,336</b>	<b>58,312,160</b>	<b>624,389</b>	<b>2,034,561</b>

## Financial assets by categories

## Financial liabilities by categories

Available-for-sale financial assets		Held-to-maturity investments		Total		Financial liabilities measured at amortised cost	
2017	2016	2017	2016	2017	2016	2017	2016
6,639,029	6,987,250	11,457,162	13,104,932	27,666,621	22,635,444	-	-
-	-	-	-	-	-	14,202,636	13,706,848
-	-	-	-	11,687,429	9,998,949	14,136,040	12,755,466
-	-	-	-	111,639	133,031	10,434	28,982
180,572	517,005	4,120,907	1,093,603	79,174,327	72,635,070	-	-
-	-	-	-	5,119,185	5,127,463	-	-
-	-	-	-	-	-	1,380,238	821,243
-	-	-	-	-	-	2,918,854	2,991,582
-	-	-	-	-	-	4,264,109	3,230,182
6,819,601	7,504,255	15,578,069	14,198,535	123,759,201	110,529,957	36,912,311	33,534,303

For financial assets both at fair value through profit and loss and available-for-sale financial assets the carrying amount and fair value are equal.

The fair value of loans and receivables is not significantly different from the value based on amortised cost methodology. Fair value of held to maturity investments amounts to LKR 14,725 mn (2016 - LKR 15,160 mn) for the Group.

The Group has designated financial assets amounting to LKR 3,999 mn (2016 - LKR 4,010 mn) upon initial recognition, as fair value through profit or loss.

The management assessed that, cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following methods and assumptions were used to estimate the fair values:

Fair value of quoted equities, debentures and bonds is based on price quotations in an active market at the reporting date.

The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Fair value of the unquoted ordinary shares has been estimated using a Discounted Cash Flow (DCF) model. The valuation requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity investments.

## 12.3. Derivative financial instruments

Group	2017		
	Contract notional amount USD ('000)	Fair value (In LKR '000)	
		Asset	Liability
Cash-flow hedges			
Interest rate swaps	75,000	331,679	-

## Accounting judgements, estimates and assumptions

## Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible.

Where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility.

## Notes to the Financial Statements

### 13. Revenue

#### Accounting policy

#### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group, and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and value added taxes, after eliminating sales within the Group.

The following specific criteria are also must be met for recognition of revenue:

#### Sale of goods

Revenue from the sale of goods is recognized when the significant risk and rewards of ownership of the goods have passed to the buyer with the Group retaining neither a continuing managerial involvement to the degree usually associated with ownership, nor an effective control over the goods sold.

### 14. Dividend income

#### Accounting policy

#### Dividend

Dividend income is recognised when the Company's right to receive the payment is established.

For the year ended 31 March  
In LKR '000s

Dividend income from investments in subsidiaries and equity accounted investees

Company	
2017	2016
10,469,023	10,260,828

### 15. Other operating income and other operating expenses

#### Accounting policy

#### Gains and losses

Net gains and losses of a revenue nature arising from the disposal of property, plant and equipment and other noncurrent assets, including investments in subsidiaries, joint ventures and associates, are accounted in the income statement, after deducting the

#### Rendering of services

Revenue from rendering of services is recognised by reference to the stage of completion. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

#### Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

#### Life insurance business - gross written premium

Gross written premiums on life and investment contracts with discretionary participating features (DPF) are recognised as revenue when receivable from the policyholder (policies within the 30 day grace period are considered as due). For single premium business, revenue is recognised on the date on which the policy is effective.

#### Turnover based taxes

Companies in the Group pay turnover based taxes including value added tax in accordance with the respective statutes.

### 13.1. Revenue

For the year ended 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
Gross revenue	106,483,869	93,815,682	1,126,353	1,108,095
Turnover tax	(210,768)	(105,728)	-	-
Net revenue	106,273,101	93,709,954	1,126,353	1,108,095

carrying amount from proceeds on disposal of such assets and the related selling expenses.

Gains and losses arising from activities incidental to the main revenue generating activities and those arising from a group of similar transactions, which are not material are aggregated, reported and presented on a net basis.

Any losses arising from guaranteed rentals are accounted for, in the year of incurring the same. A provision is recognised if the projection indicates a loss.

#### Other income and expenses

Other income and expenses are recognised on an accrual basis.

### 15.1. Other operating income

For the year ended 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
Exchange gains	282,572	236,421	-	-
Profit on sale of property, plant and equipment	-	-	17	1,656
Profit on sale of non current investments	-	-	2,574,003	3,792,821
Promotional income and commission fee	1,062,548	859,218	-	-
Write back of dealer deposits	8,789	12,410	-	-
Sundry income	411,278	596,074	33,841	27,413
	1,765,187	1,704,123	2,607,861	3,821,890

At the Company level, other operating income includes a capital gain of LKR 2,574 mn pertaining to the exercise undertaken to simplify the Group's shareholding structure. This exercise, as discussed in note 43.8, was carried out to restructure the shareholding of the Group companies which had multiple layers of ownership. The exercise was executed via a model which consisted of both share and cash transfers within the Company and its unquoted subsidiaries. It should also be noted that this capital gain was eliminated at the Group consolidation level.

The Company exercised its buy back option of Union Assurance PLC, resultant gain of LKR 3.10 bn has been reported under other operation income in 2015/16 income statement.

## 15.2. Other operating expenses

For the year ended 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
Nation building tax	1,105,567	1,029,657	22,909	22,533
Loss on sale of property, plant and equipment	41,183	34,050	-	-
Impairment losses of non financial assets	34,332	215,764	900,419	525,000
Other overheads	1,989,023	2,150,090	17,844	19,147
	3,170,105	3,429,561	941,172	566,680

The recoverable amount of the investments in the BPO business as at 31 March 2017, has been determined using the "fair value less cost to sell" basis. Accordingly, an impairment loss of LKR 900 mn (2016 - LKR 525 mn) has been recognized in the Company financial statements under other operating expenses. The said loss has been eliminated in the consolidated financial statements.

## 16. Net finance income

### Accounting policy

#### Finance income

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets, fair value gains on financial assets at fair value through profit or loss, gains on the remeasurement to fair value of any pre-existing interest in an acquiree that are recognised in the income statement.

Interest income is recorded as it accrues using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash receipts through the expected life of the

financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the income statement.

#### Finance costs

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, losses on disposal of available-for-sale financial assets, fair value losses on financial assets at fair value through profit or loss, impairment losses recognised on financial assets (other than trade receivables) that are recognised in the income statement.

Interest expense is recorded as it accrues using the effective interest rate (EIR), which is

the rate that exactly discounts the estimated future cash payments through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial liability.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

For the year ended 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
<b>Net finance income</b>				
<b>Finance income</b>				
Interest income	9,016,816	6,226,155	4,908,325	2,935,026
Dividend income on				
Financial assets at fair value through profit or loss	164,269	102,328	-	-
Available-for-sale financial assets	49,289	8,724	49,289	8,724
Investment related expenses	(47,432)	(22,909)	-	-
Net gain on				
Financial assets at fair value through profit or loss	267,176	-	-	-
Available-for-sale financial assets	9	82,406	-	82,406
Exchange gains	583,154	1,614,248	583,154	1,614,248
<b>Total finance income</b>	<b>10,033,281</b>	<b>8,010,952</b>	<b>5,540,768</b>	<b>4,640,404</b>
<b>Finance cost</b>				
Interest expense on borrowings	(436,278)	(391,721)	(89,397)	(81,579)
Net loss on				
Financial assets at fair value through profit or loss	-	(602,081)	-	-
<b>Total finance cost</b>	<b>(436,278)</b>	<b>(993,802)</b>	<b>(89,397)</b>	<b>(81,579)</b>
<b>Net finance income</b>	<b>9,597,003</b>	<b>7,017,150</b>	<b>5,451,371</b>	<b>4,558,825</b>

## Notes to the Financial Statements

### 17. Profit before tax

#### Accounting policy

#### Expenditure recognition

Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the income statement.

For the purpose of presentation of the income statement, the "function of expenses" method has been adopted, on the basis that it presents fairly the elements of the Company's and Group's performance.

For the year ended 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
<b>Profit before tax</b>				
Profit before tax is stated after charging all expenses including the following:				
Remuneration to executive directors	363,411	375,934	154,024	163,099
Remuneration to non executive directors	47,470	51,698	16,920	22,320
Costs of defined employee benefits				
Defined benefit plan cost	327,633	283,900	32,831	26,633
Defined contribution plan cost - EPF and ETF	841,237	775,679	31,571	29,316
Staff expenses	11,166,845	10,135,789	567,671	561,849
Auditors' remuneration				
Audit	44,992	41,014	7,273	6,943
Non-audit	6,654	7,588	3,183	2,753
Depreciation of property, plant and equipment	2,874,071	2,782,315	33,042	33,415
Amortisation of intangible assets	333,046	320,564	19,765	23,660
Amortisation of lease rentals paid in advance	592,983	738,407	-	-
Impairment losses of non financial assets	34,332	215,764	900,419	525,000
Operating lease payments	913,962	1,068,459	-	-
(Profit)/loss on sale of property, plant and equipment and intangible assets	41,183	34,050	(17)	(1,656)
Donations	34,135	24,361	13,505	23,510

### 18. Earnings per share

#### Accounting policy

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting outstanding share option scheme and warrants) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

For the year ended 31 March	Note	Group	
		2017	2016
<b>18.1. Basic earnings per share</b>			
Profit attributable to equity holders of the parent (In LKR '000s)		16,275,158	14,070,009
Weighted average number of ordinary shares (In '000s)	18.3	1,373,936	1,335,196
Basic earnings per share (LKR)		11.85	10.54
<b>18.2. Diluted earnings per share</b>			
Profit attributable to equity holders of the parent (In LKR '000s)		16,275,158	14,070,009
Adjusted weighted average number of ordinary shares (In '000s)	18.3	1,374,525	1,337,984
Diluted earnings per share (LKR)		11.84	10.52

### 18.3. Amount used as denominator

In '000s	2017	2016
Ordinary shares at the beginning of the year	1,189,404	997,486
Bonus element on share split 2015/16	-	142,498
Bonus element on share split 2016/17	169,915	169,915
Effect of share options exercised / warrants exercised	14,617	25,297
Weighted average number of ordinary shares in issue before dilution	1,373,936	1,335,196
Effects of dilution from:		
Employee share option scheme	589	929
Share warrants - 2015/16	-	1,859
Adjusted weighted average number of ordinary shares	1,374,525	1,337,984

### 19. Dividend per share

For the year ended 31 March	Company			
	2017		2016	
	LKR	In LKR'000s	LKR	In LKR'000s
<b>Equity dividend on ordinary shares declared and paid during the year</b>				
Final dividend (Previous years' final dividend paid in the current year)	1.50	1,784,105	1.50	1,496,230
Interim dividend	4.00	5,496,392	5.50	6,541,560
Total dividend	5.50	7,280,497	7.00	8,037,790

### 20. Taxes

#### Accounting policy

#### Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and for items recognised in other comprehensive income shall be recognised in other comprehensive income and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Management has used its judgment on the application of tax laws including transfer pricing regulations involving identification of associated undertakings, estimation of the respective arm's length prices and selection of appropriate pricing mechanism.

The Group has complied with the arm's length principles relating to transfer pricing as prescribed in the Inland Revenue Act, and has complied with the related Gazette notification issued by Ministry of Finance.

#### Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arising from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and unused tax credits and tax losses carried forward, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the unused tax credits and tax losses carried forward can be utilised except:

- Where the deferred income tax assets relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the

time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the year when the asset realises or liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted as at the reporting date.

Deferred tax relating to items recognised outside the income statement is recognised outside the income statement. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

## Notes to the Financial Statements

### 20. Taxes (Contd.)

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxable entity and the same taxation authority.

No deferred tax asset or liability has been recognised in the companies which are

enjoying the Board of Investment (BOI) Tax Holiday period, if there are no qualifying assets or liabilities beyond the BOI period.

#### Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on the purchase of an asset or service is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost

of acquisition of the asset or as part of the expense item as applicable; and

- Where receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

### 20.1. Tax expense

For the year ended 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
<b>Current income tax</b>				
Current tax charge	20.5	3,461,444	2,294,854	1,092,976
Under/(over) provision of current tax of previous years		21,503	23,357	-
Irrecoverable economic service charge	20.7	199	445	-
10% Withholding tax on inter company dividends		943,718	754,194	-
<b>Deferred tax charge/(reversal)</b>				
Relating to origination and reversal of temporary differences	20.2	344,204	333,516	-
	20.6	4,771,068	3,406,366	1,092,976
				623,444

### 20.2. Deferred tax expense

For the year ended 31 March In LKR '000s	Group	
	2017	2016
<b>Income statement</b>		
Deferred tax expense arising from;		
Accelerated depreciation for tax purposes	149,894	102,019
Revaluation of investment property to fair value	26	6,134
Retirement benefit obligations	(38,970)	(1,030)
Reversal/(benefit) arising from tax losses	222,940	156,990
Others	10,314	69,403
Deferred tax charged directly to income statement	344,204	333,516
<b>Other comprehensive income</b>		
Deferred tax expense arising from;		
Actuarial losses on defined benefit obligations	(19,880)	9,710
Revaluation of land and building to fair value	28,237	20,796
Net gain/(loss) on available for sale financial assets	(57,801)	21,842
Total deferred tax charged/(credited) directly to OCI	(49,444)	52,348

Deferred tax has been computed at 28% for all standard rate companies (including listed companies), and at 12% for leisure Group companies and at rates as disclosed in notes 20.10 and 20.11.

Temporary differences associated with the undistributed reserves in subsidiaries for which a deferred tax liability has not been recognised, amounts to LKR 2,117 mn (2016 LKR 3,104 mn). The deferred tax effect on undistributed reserves of subsidiaries has not been recognised since the parent can control the timing of the reversal of these temporary differences.

### 20.3. Income tax liabilities

As at 31 March In LKR '000s	Note	Group		Company	
		2017	2016	2017	2016
At the beginning of the year		1,873,472	1,592,079	345,555	263,240
Charge for the year	20.1	3,482,947	2,318,211	1,092,976	623,444
Payments and set off against refunds		(2,961,040)	(2,036,818)	(802,999)	(541,129)
At the end of the year		2,395,379	1,873,472	635,532	345,555

### 20.4. Deferred tax

As at 31 March In LKR '000s	Group			
	ASSETS		LIABILITIES	
	2017	2016	2017	2016
At the beginning of the year	129,837	108,585	2,029,371	1,625,394
Charge and release	11,591	26,598	306,351	412,462
Acquisition/(disposal) of subsidiary	-	-	-	955
Transfers/exchange translation difference	2,120	(5,346)	519	(9,440)
At the end of the year	143,548	129,837	2,336,241	2,029,371
The closing deferred tax asset and liability balances relate to the following;				
Revaluation of land and building to fair value	-	(642)	229,549	397,497
Revaluation of investment property to fair value	-	(13,670)	51,252	31,188
Accelerated depreciation for tax purposes	59,399	(15,028)	2,155,280	1,755,586
Employee benefit liability	62,620	72,680	(240,655)	(182,131)
Losses available for offset against future taxable income	18,557	83,596	(51,920)	(215,730)
Net gain/loss on available for sale financial assets	-	-	(35,959)	21,842
Others	2,972	2,901	228,694	221,119
	143,548	129,837	2,336,241	2,029,371

The Group has tax losses amounting to LKR 7,045 mn (2016 - LKR 7,287 mn) that are available indefinitely to offset against future taxable profits of the companies in which the tax losses arose.

Deferred tax liability amounting to LKR 230 mn (2016 - LKR 220 mn) for the Group recognised on the impact pertaining to the current year on declared dividends of subsidiaries and the Group's portion of distributable reserves of equity accounted investees.

#### *Accounting judgements, estimates and assumptions*

The Group is subject to income tax and other taxes including VAT. Significant judgment was required to determine the total provision for current, deferred and other taxes due to uncertainties that exist with respect to

the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

Uncertainties also exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. Where the final tax outcome of such matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax amounts in the period in which the determination is made.

The Group has tax losses relating to subsidiaries that have a history of losses that do not expire and may not be used to offset other tax liabilities and where the subsidiaries have no taxable temporary differences nor any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets.

The Group has contingent liabilities amounting to LKR 1,168 mn (2016 - LKR 1,168 mn). These have been arrived at after discussing with independent and legal tax experts and based on information available. All assumptions are revisited at the reporting date. Further details on contingent liabilities are disclosed in note 44 in the financial statement.

## Notes to the Financial Statements

### 20. Taxes (Contd.)

#### 20.5. Reconciliation between current tax charge and the accounting profit

For the year ended 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
Profit before tax	22,887,833	19,198,231	17,245,418	17,693,558
Dividend income from Group companies	14,165,500	12,252,499	-	-
Share of results of equity accounted investees	(3,302,955)	(2,781,233)	-	-
Other consolidation adjustments	3,908,163	3,357,687	-	-
Profit after adjustment	37,658,541	32,027,184	17,245,418	17,693,558
Exempt profits	(1,554,480)	(2,555,264)	(889,488)	(639,902)
Income not liable for income tax	(6,131,108)	(4,545,016)	(2,585,646)	(3,875,227)
Resident dividend	(14,194,939)	(12,285,025)	(10,518,312)	(10,269,552)
Adjusted accounting profit chargeable to income taxes	15,778,014	12,641,879	3,251,972	2,908,877
Disallowable expenses	9,571,337	9,206,717	1,338,095	875,071
Allowable expenses	(4,949,360)	(6,024,919)	(666,521)	(1,694,336)
Utilization of tax losses	(421,603)	(366,929)	-	-
Qualifying payment deductions	(54,692)	(227,614)	(20,059)	(21,900)
Taxable income	19,923,696	15,229,134	3,903,487	2,067,712
Income tax charged at				
Standard rate of 28%	2,885,195	1,842,728	1,092,976	578,959
Other concessionary rates	576,249	452,126	-	-
Current tax charge	3,461,444	2,294,854	1,092,976	578,959

#### 20.6. Reconciliation between tax expense and the product of accounting profit

Adjusted accounting profit chargeable to income taxes	15,778,014	12,641,879	3,251,972	2,908,877
Tax effect on chargeable profits	3,445,175	2,803,964	910,552	814,486
Tax effect on non deductible expenses	493,075	425,968	337,310	221,625
Tax effect on deductions claimed	(156,497)	(645,311)	(172,889)	(467,508)
Net tax effect of unrecognised deferred tax assets for the year	12,426	19,774	18,003	10,356
Net tax effect of unrecognised deferred tax assets for prior years	1,469	(46,025)	-	-
Under/(over) provision for previous years	21,503	23,357	-	44,485
Other income based taxes				
Irrecoverable economic service charge	199	445	-	-
10% Withholding tax on inter company dividends	943,718	754,194	-	-
Deferred tax on withholding tax of inter company dividends	10,000	70,000	-	-
Tax expense	4,771,068	3,406,366	1,092,976	623,444

Group tax expense is based on the taxable profit of individual companies within the Group. At present the tax laws of Sri Lanka do not provide for Group taxation.

#### 20.7. Economic service charge (ESC)

For the year ended 31 March In LKR '000s	Group	
	2017	2016
Irrecoverable economic service charge	199	445
	199	445

## 20.8. Tax losses carried forward

For the year ended 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
Tax losses brought forward	7,287,486	7,572,469	1,230,471	1,230,471
Adjustments on finalisation of liability	178,959	81,946	-	-
Tax losses arising during the year	228,324	319,789	-	-
Utilisation of tax losses	(649,927)	(686,718)	-	-
	7,044,842	7,287,486	1,230,471	1,230,471

## 20.9. Details of investment relief

	Year of investment	Cost of approved investment In LKR '000s	Relief claimed/forgone on investments In LKR '000s	Liability to additional tax on disposal of investment
Ceylon Cold Stores PLC. (CCS)	2011/2012	256,702	256,702	-
	2012/2013	167,091	167,091	-
	2013/2014	72,801	72,801	-
Keells Food Products PLC. (KFP)	2012/2013	457,732	457,732	-
Trans Asia Hotels PLC. (TAH)	2011/2012	81,522	81,522	-

CCS, KFP and TAH are eligible for qualifying payment relief granted under Section 34(2)(s) of the Inland Revenue Act No. 10 of 2006 and amendments thereto. CCS, KFP and TAH have now fully claimed the relief.

## 20.10 Applicable rates of income tax

The tax liability of resident companies are computed at the standard rate of 28% except for the following companies which enjoy full or partial exemptions and concessions.

Company/Sector	Basis	Exemptions or concessions	Period
<b>Exemptions/concessions granted under the Inland Revenue Act</b>			
Ceylon Cold Stores PLC.	Off-shore activities for payment in foreign currency	Exempt	Open-ended
John Keells Computer Services (Pvt) Ltd.	- do -	- do -	- do -
John Keells Office Automation (Pvt) Ltd.	- do -	- do -	- do -
Cinnamon Hotel Management Ltd.	- do -	- do -	- do -
John Keells International (Pvt) Ltd.	- do -	- do -	- do -
InfoMate (Pvt) Ltd.	- do -	- do -	- do -
John Keells Computer Services (Pvt) Ltd.	On-shore activities for payment in foreign currency	- do -	- do -
John Keells Holdings PLC.	- do -	- do -	- do -
Lanka Marine Services (Pvt) Ltd.	Export consignment sales of Petroleum Products	- do -	- do -
John Keells Properties Ja-Ela (Pvt) Ltd.	New Undertaking engaged in construction of commercial buildings	- do -	9 years from 1 April 2015
South Asia Gateway Terminals (Pvt) Ltd.	Operation of any port terminal in Sri Lanka	- do -	Exemption will continue even after the expiry of the BOI exemption
Sancity Hotels & Properties Ltd.	Construction and operation of a tourist hotel	- do -	12 years from 1st year of profit or 2 years from operations
John Keells Warehousing (Pvt) Ltd.	Operation and maintenance of facilities for storage	10%	Open-ended

## Notes to the Financial Statements

### 20. Taxes (Contd.)

#### 20.10. Applicable rates of income tax (Contd.)

Company/Sector	Basis	Exemptions or concessions	Period
John Keells Logistics (Pvt) Ltd. (sites which are not covered by the BOI agreement)	Operation and maintenance of facilities for storage	10%	Open-ended
Leisure sector	Promotion of tourism	12%	- do -
Mackinnons Travels (Pvt) Ltd.	- do -	- do -	- do -
Consumer Foods and Retail sector	Qualified export profits	- do -	- do -
Lanka Marine Services (Pvt) Ltd.	- do -	- do -	- do -
Mackinnons Mackenzie Shipping (Pvt) Ltd.	Provision of services to foreign ships	- do -	- do -

#### Exemptions / concessions granted under the Board of Investment Law

Beruwala Holiday Resorts (Pvt) Ltd.	Construction and operation of a tourist hotel	Exempt	8 years from 1st year of profit or 2 years from operations
Saffron Aviation (Pvt) Ltd.	Domestic Airline	- do -	8 years from 1st year of profit or 2 years from operations
John Keells Residential Properties (Pvt) Ltd.	Real estate developer	- do -	8 years from April 2011
Trinco Holiday Resorts (Pvt) Ltd.	For upgrading and refurbishment of a hotel in the Eastern Province	- do -	10 years from 1st year of profit or 2 years from operations
South Asia Gateway Terminals (Pvt) Ltd.	Port Services at Queen Elizabeth Quay	- do -	20 years from September 1999
British Overseas (Pvt) Ltd.	Infrastructure Development	- do -	9 years from 1st April 2013
Waterfront Properties (Pvt) Ltd.	Integrated super luxury tourist resort	- do -	10 years from 1st year of profit or 3 years from operations
Asian Hotels and Properties PLC.	Construction and operation of office, apartment complex and a hotel	2% of turnover	15 years from 1st April 2014

#### Other miscellaneous concessions

Exemption on interest income earned from foreign currency denominated accounts. Capital gains from sale of shares are excluded from chargeability to income tax. Income/profits from offshore dividends and interest are exempt from income tax.

#### 20.11. Income tax rates of off-shore subsidiaries

Country of incorporation	Company	Rate
India	John Keells BPO Solutions India (Pvt) Ltd.	33% (Max)
	John Keells Foods India (Pvt)Ltd.	30.9%
	Serene Holidays (Pvt) Ltd.	30.9%
Mauritius	John Keells BPO Holdings (Pvt) Ltd.	3%(Effective)
	John Keells BPO International (Pvt) Ltd.	3%(Effective)
Republic of Maldives	Fantasea World Investments (Pte) Ltd.	15%
	Tranquility (Pte) Ltd.	15%
	Travel Club (Pte) Ltd.	15%
	John Keells Maldivian Resorts (Pte) Ltd.	15%
	Mack Air Services Maldives (Pte) Ltd.	15%
Singapore	John Keells Singapore (Pte) Ltd.	17% (Max)
USA	John Keells BPO Solutions US (Pvt) Inc.	35%(Max)
Canada	John Keells BPO Solutions Canada (Pvt) Inc	26.5%

#### 20.12. Income tax exemptions / concessions of off-shore subsidiaries

Company / Sector	Basis	Exemptions or concessions	Exemptions or concessions
John Keells BPO Solutions India (Pvt) Ltd.	Eligible export turnover	Only 50% of relevant profit is taxable	5 years starting Y/A 2015/2016

## 21. Property, plant and equipment

### Accounting policy

#### Basis of recognition

Property, plant and equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be reliably measured.

#### Basis of measurement

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment loss. Such cost includes the cost of replacing component parts of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group derecognises the replaced part, and recognises the new part with its own associated useful life. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment charged subsequent to the date of the revaluation.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Where land and buildings are subsequently revalued, the entire class of such assets is revalued at fair value on the date of revaluation. The Group has adopted a policy of revaluing assets by professional

valuers at least every 5 years, except for properties held for rental and occupied mainly by group companies, which are revalued by professional valuers at least every 3 years.

#### Derecognition

An item of property, plant and equipment is derecognized upon replacement, disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is included in the income statement in the year the asset is derecognised.

#### Depreciation

Depreciation is calculated by using a straight-line method on the cost or valuation of all property, plant and equipment, other than freehold land, in order to write off such amounts over the estimated useful economic life of such assets.

The estimated useful life of assets are as follows:

Assets	Years
Buildings (other than hotels)	50
Hotel buildings	upto 60
Plant and machinery	10 – 20
Equipment	3– 15
Furniture and fittings	2– 15
Motor vehicles	4 – 10
Returnable Containers	10
Vessels	10-25

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### Group as a lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is

no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

#### Impairment of property plant and equipment

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the income statement, except that, impairment losses in respect of property, plant and equipment previously revalued are recognized against the revaluation reserve through the statement of other comprehensive income to the extent that it reverses a previous revaluation surplus.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

## Notes to the Financial Statements

## 21. Property, plant and equipment (Contd.)

## 21.1. Property, plant and equipment - Group

As at 31 March LKR '000s	Land and buildings	Buildings on leasehold land	Plant and machinery	Equipment, furniture and fittings
<b>Cost or valuation</b>				
At the beginning of the year	30,644,715	13,627,625	8,263,213	9,130,300
Additions	217,927	976,691	750,293	973,455
Acquisition/(disposal) of subsidiary	-	-	-	-
Disposals	(63,438)	(14,564)	(60,600)	(536,257)
Revaluations	10,206,472	154,663	-	-
Transfers (from revaluation adjustment)	(256,508)	(55,392)	-	-
Impairment/derecognition	-	(4,133)	(72,250)	(85,033)
Transfers	106,359	138,994	133,791	8,650
Exchange translation difference	22,573	66,401	17,881	30,375
At the end of the year	40,878,100	14,890,285	9,032,328	9,521,490
<b>Accumulated depreciation and impairment</b>				
At the beginning of the year	(690,842)	(2,085,743)	(3,577,489)	(5,465,486)
Charge for the year	(353,762)	(347,129)	(633,647)	(938,299)
(Acquisition)/disposal of subsidiary	-	-	-	-
Disposals	7,669	5,656	49,105	504,378
Revaluations	-	-	-	-
Transfers (from revaluation adjustment)	256,508	55,392	-	-
Impairment / derecognition	-	2,659	60,857	68,801
Transfers	2,079	34,300	653	3,981
Exchange translation difference	(6,781)	(32,961)	(8,488)	(19,717)
At the end of the year	(785,129)	(2,367,826)	(4,109,009)	(5,846,342)
<b>Carrying value</b>				
As at 31 March 2017	40,092,971	12,522,459	4,923,319	3,675,148
As at 31 March 2016	29,953,873	11,541,882	4,685,724	3,664,814

## 21.2. Property, plant and equipment - Company

In LKR '000s	Plant and machinery	Equipment, furniture	Motor vehicles	Total 2017	Total 2016
<b>Cost</b>					
At the beginning of the year	3,704	332,600	77,512	413,816	415,265
Additions	-	11,110	-	11,110	30,002
Disposals	-	(92,374)	-	(92,374)	(31,451)
At the end of the year	3,704	251,336	77,512	332,552	413,816
<b>Accumulated depreciation and impairment</b>					
At the beginning of the year	(3,322)	(270,128)	(24,327)	(297,777)	(289,214)
Charge for the year	(123)	(21,041)	(11,878)	(33,042)	(33,415)
Disposals	-	92,180	-	92,180	24,852
At the end of the year	(3,445)	(198,989)	(36,205)	(238,639)	(297,777)
<b>Carrying value</b>					
As at 31 March 2017	259	52,347	41,307	93,913	
As at 31 March 2016	382	62,472	53,185		116,039

Motor vehicles						Total 2017	Total 2016
Freehold	Leasehold	Returnable containers	Others	Vessels	Capital work in progress		
609,764	13,292	848,129	3,940,867	504,487	511,402	68,093,794	63,142,568
53,629	-	169,276	612,877	-	577,434	4,331,582	4,582,064
-	-	-	-	-	-	-	547,955
(20,471)	-	(12,373)	(210,466)	-	(59,454)	(977,623)	(1,507,360)
-	-	-	-	-	-	10,361,135	1,262,114
-	-	-	-	-	-	(311,900)	(294,393)
-	-	-	(22,108)	-	-	(183,524)	-
319	-	-	9,899	-	(434,390)	(36,378)	(62,802)
1,481	-	-	1,631	-	2,999	143,341	423,648
644,722	13,292	1,005,032	4,332,700	504,487	597,991	81,420,427	68,093,794
(354,924)	(6,857)	(494,688)	(2,534,152)	(147,238)	-	(15,357,419)	(13,579,973)
(67,581)	-	(65,371)	(468,282)	-	-	(2,874,071)	(2,782,315)
-	-	-	-	-	-	-	(87,249)
18,763	-	11,533	181,417	-	-	778,521	889,949
-	-	-	-	-	-	-	315,257
-	-	-	-	-	-	311,900	-
-	-	-	17,926	-	-	150,243	-
-	-	-	(4,635)	-	-	36,378	86,189
(1,000)	-	-	(659)	-	-	(69,606)	(199,277)
(404,742)	(6,857)	(548,526)	(2,808,385)	(147,238)	-	(17,024,054)	(15,357,419)
<b>239,980</b>	<b>6,435</b>	<b>456,506</b>	<b>1,524,315</b>	<b>357,249</b>	<b>597,991</b>	<b>64,396,373</b>	
254,840	6,435	353,441	1,406,715	357,249	511,402		52,736,375

### 21.3. Revaluation of land and buildings

#### *Accounting judgements, estimates and assumptions*

The Group uses the revaluation model of measurement of land and buildings. The Group engaged independent expert valuers, to determine the fair value of its land and buildings. Fair value is determined by reference to market-based evidence of transaction prices for similar properties.

Valuations are based on open market prices, adjusted for any difference in the nature, location or condition of the specific property. These valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimizing the use of unobservable inputs. The date of the most recent revaluation was on 31 March 2017.

The changes in fair value recognised in other comprehensive income and in the statement of equity. The valuer has used valuation techniques such as market values and discounted cash flow methods where there was lack of comparable market data available based on the nature of the property.

## Notes to the Financial Statements

### 21. Property, plant and equipment (Contd.)

#### 21.3. Revaluation of land and buildings

Details of Group's land, building and other properties stated at valuation are indicated below;

Property	Name of the chartered valuation surveyor	Method of valuation*	Significant unobservable inputs		Estimated discount rate	Correlation to fair value
			Estimated price per perch	Estimated price per square foot		
<b>Land</b>						
Ahungalla Holiday Resorts (Pvt) Ltd.	S Fernando	DCC	LKR275,000	-	-	Positive
Resort Hotels Ltd.	P B Kalugalagedara	OMV	LKR125,000	-	-	Positive
Nuwara Eliya Holiday Resorts (Pvt) Ltd.	S Fernando	IM	-	-	10%	Negative
Trinco Walk Inn Ltd.	P B Kalugalagedara	OMV	LKR125,000	-	-	Positive
Wirawila Walk Inn Ltd.	S Fernando	IM	-	-	8%	Negative
<b>Land &amp; Building</b>						
Asian Hotels & Properties PLC.	P B Kalugalagedara	OMV / DCC	LKR10,000,000-LKR15,000,000	LKR2,000-LKR15,000	-	Positive
Beruwala Holiday Resorts (Pvt) Ltd.	-do-	DCC	LKR550,000-LKR700,000	LKR3,000-LKR10,500	-	Positive
Ceylon Cold Stores PLC.	-do-	DCC	LKR125,000-LKR150,000	LKR500-LKR4,500	-	Positive
Kandy Walk Inn Ltd.	S Fernando	OMV	LKR400,000-LKR1,000,000	LKR850-LKR8,000	-	Positive
Keells Food Products PLC.	P B Kalugalagedara	OMV	LKR 350,000	LKR400-LKR1,600	-	Positive
Keells Realtors Ltd. (Ferguson Road, Colombo 15. Lot A IN, SP 2016)*	-do-	OMV	LKR1,700,000	LKR500-LKR1,000	-	Positive
Mackinnons Keells Ltd.	-do-	OMV	LKR6,500,000	LKR1,500	-	Positive
Tea Smallholder Factories PLC.	K T D Tissera	CM	LKR3,000-LKR7,800	LKR500-LKR2,000	-	Positive
Transware Logistics (Pvt) Ltd.	-do-	DCC	LKR175,000-LKR250,000	LKR500-LKR2,250	-	Positive
Trinco Holiday Resorts (Pvt) Ltd.	P B Kalugalagedara	DCC	LKR200,000	LKR1,000-LKR7,000	-	Positive
Union Assurance PLC.	-do-	OMV	LKR10,000,000	LKR500-LKR4,000	-	Positive
Whittal Boustead (Pvt) Ltd. 199, Union Place, Colombo 2	-do-	OMV	LKR5,250,000	LKR1,000-LKR2,000	-	Positive
Whittal Boustead (Pvt) Ltd. 148, Vauxhall Street, Colombo 2	-do-	OMV	LKR4,500,000	LKR1,000-LKR4,000	-	Positive

Property	Name of the chartered valuation surveyor	Method of valuation*	Significant unobservable inputs		Estimated discount rate	Correlation to fair value
			Estimated price per perch	Estimated price per square foot		
Whittal Boustead (Pvt) Ltd. "Ulex Villa",Badulla Road,Nuwara Eliya	P B Kalugalagedara	DCC	LKR1,250,000	LKR500-LKR1,400	-	Positive
<b>Building on leasehold land</b>						
Ceylon Holiday Resorts Ltd.	P B Kalugalagedara	OMV	-	LKR1,000-LKR3,500	-	Positive
Keells Food Products PLC.	- do -	OMV	-	LKR5,000-LKR7,000	-	Positive
Habarana Lodge Ltd.	S Fernando	DCC	-	LKR500-LKR10,250	-	Positive
Habarana Walk Inn Ltd.	-do-	DCC	-	LKR2,500-LKR7,500	-	Positive
Hikkaduwa Holiday Resorts (Pvt) Ltd.	P B Kalugalagedara	DCC	-	LKR1,000-LKR5,250	-	Positive
Jaykay Marketing Services (Pvt) Ltd.	-do-	IM	-	-	6%	Negative
John Keells Warehousing (Pvt) Ltd.	K T D Tissera	CM	-	LKR1,500-LKR2,500	-	Positive
Rajawella Holdings Ltd.	P B Kalugalagedara	DCC	LKR6,250-LKR43,750	-	-	Positive
Trans Asia Hotels PLC.	-do-	DCC	-	LKR350-LKR8,000	-	Positive
Yala Village (Pvt ) Ltd.	S Fernando	OMV	-	LKR1,000-LKR8,000	-	Positive

Effective date of valuation were as at 31 March 2017 except for Union Assurance PLC which was valued as at 31 December 2015.

**\*Summary description of valuation methodologies;**

**Open market value method (OMV)**

Open market value method uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities or a group of assets and liabilities, such as a business.

**Direct capital comparison method (DCC)**

This method may be adopted when the rental value is not available for the property concerned, but there are evidences of sale

price of properties as a whole. In such cases, the capitalized value of the property is fixed by direct comparison with capitalized value of similar property in the locality.

**Contractors method (CM)**

The replacement cost (contractor's) method is used to value properties which do not generally exchange on the open market and for which comparable evidence therefore does not exist. The valuations are based on two components: the depreciated cost of the

building element and the market value of the land. Current build costs and often the land price will be established by comparison.

**Investment method (IM)**

The investment method is used to value properties which are let to produce an income for the investor. Conventionally, investment value is a product of rent and yield. Each of these elements is derived using comparison techniques.

**21.4. The carrying amount of revalued land and buildings if they were carried at cost less depreciation and impairment, would be as follows;**

As at 31 March In LKR '000s	Group	
	2017	2016
Cost	18,226,653	15,028,727
Accumulated depreciation and impairment	(2,796,120)	(2,099,601)
Carrying value	15,430,533	12,929,126

Group land and buildings with a carrying value of LKR 7,331 mn (2016 - LKR 6,925 mn) have been pledged as security for term loans obtained, details of which are disclosed in note 36.3.

Group property, plant and equipment with a cost of LKR 5,983 mn (2016 - LKR 6,517 mn) have been fully depreciated and continue to be in use by the Group. The cost of fully depreciated assets of the Company amounts to LKR 148 mn (2016 - LKR 268 mn).

## Notes to the Financial Statements

### 22. Leases

#### Accounting Policy

#### Leases

The determination of whether an arrangement contains a lease is based on the substance of the arrangement at the inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or

assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

For arrangements entered prior to 1 April 2011, the date of inception is deemed to be 1 April 2011 in accordance with the SLFRS 1.

#### Lease rentals paid in advance

Prepaid lease rentals paid to acquire land use rights, are amortised over the lease term and assessed for impairment whenever there is an indication that the asset may be impaired.

#### 22.1. Lease rentals paid in advance

As at 31 March In LKR '000s	Note	Group	
		2017	2016
At the beginning of the year		10,888,158	8,709,033
Addition for the year		2,657,012	607,155
Acquisition of subsidiary (lease hold right)	9.2	-	1,507,818
Amortisation for the year		(592,983)	(738,407)
Exchange gain/(loss)		253,871	802,559
At the end of the year		13,206,058	10,888,158

Prepaid lease rentals paid in advance to acquire land use rights have been classified as lease rentals paid in advance and are amortised over the lease term in accordance with the pattern of benefits provided.

#### 22.2. Details of lease rentals paid in advance

Property	Land extent (in acres)	Lease period	Amount	
			2017 In LKR '000s	2016 In LKR '000s
Fantasea World Investment (Pte) Ltd. Chaaya Lagoon Hakuraa Huraa, Republic of Maldives	13.42	33 years from 27-08-2014	326,141	327,438
John Keells Warehousing (Pvt) Ltd. Muthurajawela	6.00	50 years from 19-09-2001	36,935	38,024
Rajawella Holdings Ltd. Digana	517.09	99 years from 02-12-1996	1,496,584	1,516,890
Tea Smallholder Factories PLC. Karawita Tea Factory	4.98	50 years from 15-08-1997	2,655	2,741
The Colombo Ice Company (Pvt) Ltd. Avisawella	9.30	50 Years from 18-07-2016	174,701	-
Tranquility (Pte) Ltd. Chaaya Island Dhonveli, Republic of Maldives	18.62	35 Years from 26-08-2010	9,121,221	6,917,044
Trans Asia Hotels PLC. Colombo	7.65	99 years from 07-08-1981	781,452	793,856
Travel Club (Pte) Ltd. Chaaya Reef Ellaidhoo, Republic of Maldives	13.75	14 years from 04-08-2006	1,207,738	1,230,540
Yala Village (Pvt) Ltd. Kirinda	11.25	30 years from 27-11-1997	58,631	61,625
			13,206,058	10,888,158

### 23. Investment property

#### Accounting policy

Investment properties are measured initially at cost, including transaction costs. The carrying value of an investment property includes the cost of replacing part of an existing investment property, at the time

that cost is incurred if the recognition criteria are met, and excludes the costs of day to-day servicing of the investment property. Subsequent to initial recognition, the investment properties are stated at fair values, which reflect market conditions at the reporting date.

Gains or losses arising from changes in fair value are included in the income statement in the year in which they arise. Fair values are evaluated at least every 3 years by an accredited external, independent valuer.

Investment properties are derecognised when disposed, or permanently withdrawn from use because no future economic benefits are expected. Any gains or losses on retirement or disposal are recognised in the income statement in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use

for a transfer from investment property to owner occupied property or inventory (WIP). The deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property or inventory (WIP), the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date

of change in use. Where Group companies occupy a significant portion of the investment property of a subsidiary, such investment properties are treated as property, plant and equipment in the consolidated financial statements, and accounted using Group accounting policy for property, plant and equipment.

As at 31 March In LKR '000s	Group	
	2017	2016
<b>Carrying value</b>		
At the beginning of the year	4,878,406	4,608,941
Additions	4,220	6,590
Change in fair value during the year	483,554	262,875
At the end of the year	5,366,180	4,878,406
Freehold property	5,189,917	4,752,406
Leasehold property	176,263	126,000
	5,366,180	4,878,406
Rental income earned	562,215	517,821
Direct operating expenses incurred	187,545	172,132

*Accounting judgements, estimates and assumptions*

Fair value of the investment property is ascertained by independent valuations carried out by Chartered valuation surveyors, who have recent experience in valuing properties of akin location and category. Investment property is appraised in accordance with LKAS 40, SLFRS 13 and the 8th edition of

International Valuation Standards published by the International Valuation Standards Committee (IVSC) by the independent valuers. In determining the fair value, the current condition of the properties, future usability and associated re-development requirements have been considered. Also, the valuers have made reference to market evidence of transaction prices for similar

properties, with appropriate adjustments for size and location. The appraised fair values are rounded within the range of values.

The changes in fair value recognised in the income statement. The determined fair values of investment properties, using investment method, are most sensitive to the estimated yield as well as the long term occupancy rate.

**Description of valuation techniques used and key inputs to valuation on investment properties:**

Property	Name of the Chartered Valuation Surveyor	* Method of valuation	Significant unobservable inputs			Correlation to Fair Value
			Estimated price per perch	Estimated price per square foot	Estimated discount rate	
<b>Freehold property</b>						
Asian Hotels and Properties PLC. Crescat Boulevard, Colombo 3	P B Kalugalagedara	IM	-	-	6.25%	Negative
Ceylon Cold Stores PLC. Inner Harbour Road, Trincomalee	- do -	OMV/DCC	LKR 1,000,000	LKR 1,000 - LKR 2,000	-	Positive
John Keells Properties Ja-Ela (Pvt) Ltd. Kapuwatte	- do -	DCC	LKR 800,000	LKR 5,500	-	Positive
Keells Realtors Ltd. Ferguson Road, Colombo 15.	- do -	OMV/DCC	LKR 1,700,000	LKR 1,000	-	Positive
John Keells PLC. 17/1, Temple Road, Ekala, Ja-Ela.	- do -	Market comparable method	LKR 350,000 - LKR 450,000	-	-	Positive
Facets (Pvt) Ltd. Ahungalla.	S Fernando	IM	-	-	9.00%	Negative
<b>Leasehold property</b>						
Tea Smallholder Factories PLC. Stores Complex, Peliyagoda	P B Kalugalagedara	OMV/DCC	LKR 900,000	LKR 1,100	-	Positive

\* Summary description of valuation methodologies can be found in property plant and equipment note no 21.3.

## Notes to the Financial Statements

### 24. Intangible assets

#### Accounting policy

#### Basis of recognition

An Intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be reliably measured.

#### Basis of measurement

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets, excluding capitalized development costs, are not capitalised, and expenditure is charged to income statement in the year in which the expenditure is incurred.

#### Useful economic lives, amortisation and impairment

The useful lives of intangible assets are assessed as either finite or indefinite lives. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each

financial year-end and treated as accounting estimates. The amortization expense on intangible assets with finite lives is recognised in the income statement.

Intangible assets with indefinite useful lives and Goodwill are not amortised but tested for impairment annually, or more frequently when an indication of impairment exists either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

#### Present value of acquired in-force business (PVI B)

The present value of future profits on a portfolio of long term life insurance contracts as at the acquisition date is recognised as an intangible asset based on a valuation carried out by an independent actuary. Subsequent to initial recognition, the intangible asset is carried at cost less accumulated amortization and accumulated impairment losses.

The PVI B is amortised over the average useful life of the related contracts in the portfolio. The amortisation charge and any impairment losses would be recognised in the consolidated income statement as an expense.

#### Purchased software

Purchased software is recognised as an intangible asset and is amortised on a straight line basis over its useful life.

#### Software license

Software license costs are recognised as an intangible asset and amortised over the period of the related license.

#### Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised as an intangible asset, when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- its intention to complete and its ability to use or sell the assets,
- how the assets will generate future economic benefits,
- the availability of resources to complete the assets and
- the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure of an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit from the use or expected future sales from the related project. During the period of development, the asset is tested for impairment annually.

A summary of the policies applied to the Group's intangible assets is as follows.

Intangible assets	Useful life	Type	Impairment testing
PVI B	12		
Purchased software	5	Acquired	When indicators of impairment exists. The amortization method is reviewed at each financial year end
Software license	5		
Developed software	5	Internally generated	Annually for assets not yet in use and more frequently when indicators of impairment arise. Assets in use, when indicators of impairment arise. The amortization method is reviewed at each financial year end.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

## Intangible assets

As at 31 March

LKR '000s

	Note	Software					Group		Company			
		Developed	Purchased	Licenses	WIP	PVIB	Goodwill	Other	2017	2016	2017	2016
									Software licenses			
<b>Cost/carrying value</b>												
At the beginning of the year		552,153	181,247	599,337	6,589	2,249,000	738,596	49,500	4,376,422	4,428,071	491,081	486,885
Additions		2,854	74,398	27,286	9,860	-	-	-	114,398	162,608	6,746	4,196
Transfers		9,978	-	-	(9,978)	-	-	-	-	7,384	-	-
Disposal		-	-	-	-	-	-	-	-	(10,400)	-	-
Acquisition/(disposal) of subsidiary	9.2	-	-	-	-	-	-	-	-	4,523	-	-
Impairment		(1,029)	-	-	(23)	-	-	-	(1,052)	(215,764)	-	-
At the end of the year		563,956	255,645	626,623	6,448	2,249,000	738,596	49,500	4,489,768	4,376,422	497,827	491,081
<b>Accumulated amortisation and impairment</b>												
At the beginning of the year		(92,419)	(115,033)	(519,197)	-	(1,311,913)	-	-	(2,038,562)	(1,708,614)	(447,261)	(423,602)
Amortisation		(77,556)	(31,923)	(36,151)	-	(187,416)	-	-	(333,046)	(320,564)	(19,765)	(23,659)
Transfers		-	-	-	-	-	-	-	-	(6,385)	-	-
Disposal		-	-	-	-	-	-	-	-	1,040	-	-
(Acquisition)/(disposal) of subsidiary	9.2	-	-	-	-	-	-	-	-	(4,039)	-	-
At the end of the year		(169,975)	(146,956)	(555,348)	-	(1,499,329)	-	-	(2,371,608)	(2,038,562)	(467,026)	(447,261)
Carrying value												
As at 31 March 2017		393,981	108,689	71,275	6,448	749,671	738,596	49,500	2,118,160	2,337,860	30,801	43,820
As at 31 March 2016		459,734	66,214	80,140	6,589	937,087	738,596	49,500				

## Notes to the Financial Statements

### 24. Intangible assets (Contd.)

#### Present value of acquired in-force business (PVIB)

Upon acquiring a controlling stake in Union Assurance PLC (UA), the Group has recognised in the consolidated financial statements an intangible asset representing the present value of future profits on UA's portfolio of long term life insurance contracts, known as the present value of acquired in-force business (PVIB) at the acquisition date. Further, PVIB recognised at the acquisition date will be amortised over the estimated life of the business acquired and reviewed annually for any impairment in value.

As at 31 March In LKR '000s	Net carrying value of goodwill 2017
Goodwill acquired through business combinations have been allocated to 5 cash generating units (CGU's) for impairment testing as follows;	
Airline Services	5,054
Cinnamon Hotels and Resorts	166,248
Consumer Foods and Retail	299,293
Financial Services	265,360
Logistics, Ports and Shipping	2,641
	738,596

The recoverable amounts of all CGUs have been determined based on the fair value, less cost to sell or the value in use (VIU) calculation.

#### Accounting judgements, estimates and assumptions

##### Impairment of goodwill

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use (VIU). The fair value less costs to sell calculation is based on available data from an active market, in an arm's length transaction, of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, are as follows;

##### Gross margins

The basis used to determine the value assigned to the budgeted gross margins is the gross margins achieved in the year preceding the budgeted year adjusted for projected market conditions.

##### Discount rates

The discount rate used is the risk free rate, adjusted by the addition of an appropriate risk premium.

##### Inflation

The basis used to determine the value assigned to the budgeted cost inflation is the inflation rate based on projected economic conditions.

##### Volume growth

Volume growth has been budgeted on a reasonable and realistic basis by taking into account the growth rates of one to four years, immediately subsequent to the budgeted year based on Industry growth rates. Cash flows beyond the five year period are extrapolated using 0% growth rate.

The recoverable amounts of all CGUs have been determined based on the fair value, less cost to sell or the value in use (VIU) calculation.

### 25. Investment in subsidiaries

#### Accounting policy

Investment in subsidiaries are initially recognised at cost in the financial statements of the Company. Any transaction cost relating to acquisition of investment in subsidiaries is immediately recognised in the income statement. Following initial recognition, Investments in subsidiaries are carried at cost less any accumulated impairment losses.

#### 25.1. Carrying value

As at 31 March In LKR '000s	Note	Company 2017	2016
<b>Investment in subsidiaries</b>			
<b>Carrying value</b>			
Investments in subsidiaries			
Quoted	25.2	19,216,229	19,101,303
Unquoted	25.3	23,771,166	17,283,343
		42,987,395	36,384,646

## 25.2. Cost

As at 31 March	Group		Company			2016 Cost LKR '000s
	2017		2017			
	Number of shares	Effective holding %	Number of shares	Effective holding %	Cost LKR '000s	
<b>Group quoted investments</b>						
Asian Hotels and Properties PLC.	347,824,190	78.56	347,824,190	78.56	5,301,660	5,278,888
Ceylon Cold Stores PLC.	77,321,208	81.36	67,109,128	70.61	1,450,473	1,396,691
John Keells Hotels PLC.	1,169,598,478	80.32	1,169,598,478	80.32	7,102,140	7,102,140
John Keells PLC.	52,834,784	86.90	52,834,784	86.90	458,036	444,745
Keells Food Products PLC.	23,350,658	88.53	19,110,399	74.94	1,052,311	1,040,298
Tea Smallholder Factories PLC.	11,286,000	37.62	11,286,000	37.62	63,466	63,466
Trans Asia Hotels PLC.	184,107,284	82.74	97,284,256	48.64	1,604,606	1,601,482
Union Assurance PLC.	55,344,310	93.92	50,981,538	86.51	2,183,537	2,173,593
					19,216,229	19,101,303

As at 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
<b>Market Value</b>				
<b>Group quoted investments</b>				
Asian Hotels and Properties PLC.	19,304,243	16,625,996	19,304,243	16,625,996
Ceylon Cold Stores PLC.	62,707,500	33,248,119	54,425,503	28,856,925
John Keells Hotels PLC.	11,695,985	14,035,182	11,695,985	14,035,182
John Keells PLC.	2,699,857	3,698,435	2,699,857	3,698,435
Keells Food Products PLC.	3,385,845	3,969,612	2,771,008	3,248,768
Tea Smallholder Factories PLC.	270,864	220,077	270,864	220,077
Trans Asia Hotels PLC.	13,826,457	14,710,172	7,306,048	7,773,012
Union Assurance PLC.	7,858,892	8,849,555	7,239,378	8,151,948
	121,749,643	95,357,148	105,712,886	82,610,343

## 25.3. Group unquoted investments

As at 31 March	Group		Company			2016 Cost LKR '000s
	2017		2017			
	Number of shares	Effective holding %	Number of shares	Effective holding %	Cost LKR '000s	
Ahungalla Holiday Resort (Pvt) Ltd.	13,275,000	80.32	-	-	-	-
Beruwala Holiday Resorts (Pvt) Ltd.	219,725,653	79.78	-	-	1,352	1,192
British Overseas (Pvt) Ltd	61	61.00	61	61.00	-	57,001
Ceylon Holiday Resorts Ltd.	12,119,739	79.24	-	-	2,742	1,707
Cinnamon Hotels Management Services Ltd.	1,000,000	100.00	1,000,000	100.00	161,507	101,313
Cinnamon Holidays (Pvt) Ltd.	20,000	80.32	-	-	-	-
Facets (Pvt) Ltd.	15,000	100.00	15,000	100.00	-	-
Fantasea World Investments (Pte) Ltd.	7,299	80.32	-	-	1,736	1,196
Habarana Lodge Ltd.	12,981,548	78.99	-	-	3,369	2,705
Habarana Walk Inn Ltd.	4,321,381	79.34	-	-	1,643	1,135
Hikkaduwa Holiday Resorts (Pvt) Ltd.	107,596,700	79.24	-	-	1,138	974
InfoMate (Pvt) Ltd.	2,000,000	100.00	2,000,000	100.00	29,488	26,568
International Tourists and Hoteliers Ltd.	38,490,901	79.78	-	-	-	-
J K Packaging (Pvt) Ltd.	1,450,000	100.00	1,450,000	100.00	-	-
JKOA Mobiles (Pvt) Ltd.	800,000	100.00	800,000	100.00	-	-
JayKay Marketing Services (Pvt) Ltd.	282,239,025	81.36	-	-	111,355	73,648
John Keells BPO Holdings (Pvt) Ltd.	19,000,000	100.00	-	-	-	-
John Keells BPO International (Pvt) Ltd.	1,500,000,000	100.00	-	-	-	-
John Keells BPO Investments (Pvt) Ltd.	14,700	100.00	-	-	-	-
John Keells BPO Investments (Pvt) Ltd. - Preference A	57,200,000	-	-	-	-	-

## Notes to the Financial Statements

## 25. Investment in subsidiaries (Contd.)

## 25.3. Group unquoted investments (Contd.)

As at 31 March	Group		Company			2016 Cost LKR '000s
	2017		2017		Cost	
	Number of shares	Effective holding %	Number of shares	Effective holding %	LKR '000s	
John Keells BPO Solutions Canada (Pvt) Ltd.	5,000	100.00	-	-	-	-
John Keells BPO Solutions India (Pvt) Ltd.	34,131,306	100.00	-	-	-	-
John Keells BPO Solutions Lanka (Pvt) Ltd.	32,843,578	100.00	-	-	-	-
John Keells BPO Solutions US (Pvt) Ltd.	5,000	100.00	-	-	-	-
John Keells Computer Services (Pvt) Ltd.	9,650,000	100.00	9,650,000	100.00	115,738	111,664
John Keells Computer Services (UK) Ltd.	100	100.00	100	100.00	9	9
John Keells Foods India (Pvt) Ltd.	8,999,990	89.65	-	-	-	-
John Keells Holdings Mauritius (Pvt) Ltd.	2,303,225	100.00	2,303,225	100.00	-	38,007
John Keells International (Pvt) Ltd.	199,160,000	100.00	199,160,000	100.00	659,292	1,473,635
John Keells Logistics (Pvt) Ltd.	19,999,998	100.00	19,999,998	100.00	209,049	205,652
John Keells Maldivian Resorts (Pte) Ltd.	49,044,238	80.32	-	-	9,934	6,666
John Keells Office Automation (Pvt) Ltd.	500,000	100.00	500,000	100.00	40,291	30,928
John Keells Properties (Pvt) Ltd.	24,000,000	100.00	24,000,000	100.00	192,169	192,169
John Keells Properties Ja-ela (Pvt) Ltd.	95,436,000	100.00	95,436,000	100.00	954,360	954,360
John Keells Residential Properties (Pvt) Ltd.	2,081,698	100.00	2,081,698	100.00	20,817	20,817
John Keells Singapore (Pte) Ltd.	160,000	80.00	160,000	80.00	4,209	4,209
John Keells Stock Brokers (Pvt) Ltd.	1,500,00	90.04	360,000	24.00	46,772	23,162
John Keells Teas Ltd.	12,000	100.00	12,000	100.00	11,903	7,895
John Keells Warehousing (Pvt) Ltd.	12,000,000	86.90	-	-	2,680	1,803
Kandy Walk Inn Ltd.	6,165,484	79.03	-	-	2,291	1,637
Keells Consultants (Pvt) Ltd.	4,621	100.00	4,621	100.00	1,094	2,554
Keells Realtors Ltd.	7,500,000	95.81	5,100,000	68.00	119,124	30,000
Keells Shipping (Pvt) Ltd.	50,000	100.00	50,000	100.00	502	502
Lanka Marine Services (Pvt) Ltd.	34,805,470	99.44	34,805,470	99.44	1,352,042	1,338,947
Mack Air (Pvt) Ltd.	90,133	100.00	90,133	100.00	14,629	50,221
Mack Air Services Maldives (Pvt) Ltd.	4,900	49.00	4,700	47.00	2,021	2,021
Mackinnon Keells Ltd.	806,443	100.00	806,443	90.00	364,476	11,912
Mackinnon Mackenzie and Company (Shipping) Ltd.	139,112	100.00	-	-	-	-
Mackinnon Mackenzie and Company of (Ceylon) Ltd.	2,645	100.00	245	9.26	-	-
Mackinnons Travels (Pvt) Ltd.	499,996	100.00	499,996	100.00	19,888	16,490
Mortlake (Pvt) Ltd.	43	100.00	43	100.00	20,000	327,240
Nuwara Eliya Holiday Resort (Pvt) Ltd.	31,606,252	80.32	-	-	-	-
Rajawella Holdings Ltd.	25,615,561	49.85	11,573,339	45.18	801,707	801,707
Rajawella Hotels Company Ltd.	3,157,384	80.32	-	-	-	-
Resort Hotels Ltd.	106,107	79.24	-	-	-	-
Serene Holidays (Pvt) Ltd.	800,000	98.74	-	-	-	-
The Colombo Ice Company (Pvt) Ltd.	27,000,000	81.36	-	-	-	-
Tranquility (Pte) Ltd.	637,499	80.32	-	-	3,187	2,011
Trans-ware Logistics (Pvt) Ltd.	11,000,007	50.00	11,000,007	50.00	114,577	114,577
Travel Club (Pte) Ltd.	29,059	80.32	-	-	1,811	1,593
Trinco Holiday Resort (Pvt) Ltd.	8,120,005	80.32	-	-	1,684	1,167
Trinco Walk Inn Ltd.	3,000,007	80.32	-	-	-	-
Walkers Tours Ltd.	4,925,577	98.51	4,925,577	98.51	169,351	153,359

As at 31 March	Group		Company			2016 Cost LKR '000s
	2017		2017		Cost	
	Number of shares	Effective holding %	Number of shares	Effective holding %	LKR '000s	LKR '000s
Waterfront Properties (Pvt) Ltd.	2,291,082,423	94.52	1,500,266,262	65.48	15,002,663	10,661,871
Whittall Boustead (Pvt) Ltd.	9,917,823	100.00	9,917,823	73.18	2,904,582	137,790
Whittall Boustead (Travel) Ltd.	25,041,000	100.00	25,040,996	99.70	292,230	288,259
Wirawila Walk Inn Ltd.	1,646,750	80.32	-	-	-	-
Yala Village (Pvt) Ltd.	28,268,000	75.33	-	-	1,754	1,070
Yala Village (Pvt) Ltd.- Non voting preference shares	10,000,000	80.32	-	-	-	-
					23,771,166	17,283,343

## 26. Investment in equity accounted investees

### Accounting policy

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Associate companies incorporated in Sri Lanka of the Group which have been accounted for under the equity method of accounting are:

- Capitol Hotel Holdings (Pvt) Ltd.
- Fairfirst Insurance Ltd. (formally known as Union Assurance General Ltd.)
- Maersk Lanka (Pvt) Ltd.
- Nations Trust Bank PLC.
- Saffron Aviation (Pvt) Ltd.
- South Asia Gateway Terminals (Pvt) Ltd.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Joint ventures incorporated in Sri Lanka entered into by the Group, which have been accounted for using the equity method, are:

- DHL Keells (Pvt) Ltd.
- NDO Lanka (Pvt) Ltd.
- Sentinel Reality (Pvt) Ltd.

The considerations made in determining significant influence or joint control are

similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The income statement reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity.

Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share of results of equity accounted investees' in the income statement.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in income statement.

The accounting policies of associate companies and joint ventures conform to those used for similar transactions of the Group. Accounting policies that are specific to the business of associate companies are discussed below.

Equity method of accounting has been applied for associate and joint ventures using their corresponding/matching 12 month financial period. In the case of associates, where the reporting dates are different to Group reporting dates, adjustments are made for any significant transactions or events up to 31 March.

## Notes to the Financial Statements

## 26. Investment in equity accounted (Contd.)

Investment in equity accounted investees

As at 31 March	Group				Company			
	Number of shares	Effective Holding %	2017 In LKR'000s	2016 In LKR'000s	Number of shares	Effective Holding %	2017 In LKR'000s	2016 In LKR'000s
<b>26.1. Investments in joint ventures</b>								
NDO Lanka (Pvt) Ltd.	7,800,000	60.00	63,041	63,041	7,800,000	60.00	-	-
Sentinel Reality (Pvt) Ltd.	5,931,300	40.16	59,313	58,288				
DHL Keells (Pvt) Ltd.	1,000,000	50.00	10,000	10,000	1,000,000	50.00	10,000	10,000
<b>26.2. Investments in associates</b>								
<b>Quoted</b>								
Nations Trust Bank PLC.	68,951,695	29.90	1,561,355	1,561,355	46,121,532	20.00	1,011,052	1,011,052
<b>Unquoted</b>								
Capitol Hotel Holdings (Pvt) Ltd.	3,254,832	19.47	325,483	325,483	3,254,832	19.47	325,483	325,483
Fairfirst Insurance Ltd. (formally known as Union Assurance General Ltd.)	68,902,870	20.66	689,718	689,718				
Maersk Lanka (Pvt) Ltd.	30,000	30.00	150	150	30,000	30.00	150	150
Saffron Aviation (Pvt) Ltd.	24,887,160	40.00	248,872	248,872	24,887,160	40.00	-	-
Saffron Aviation (Pvt) Ltd. preference shares	21,774,750		217,748	174,570	21,774,750		217,748	174,570
South Asia Gateway Terminals (Pvt) Ltd.	159,826,750	42.19	7,346,367	7,346,367	159,826,750	42.19	7,346,367	7,346,367
Cumulative profit accruing to the Group net of dividend			4,335,610	3,886,868				
Share of net assets of equity accounted investees			2,861,230	2,584,752				
			17,718,887	16,949,464			8,910,800	8,867,622

## Group's shareholding in Nations Trust Bank PLC.

The JKH Group currently holds 29.9% in Nations Trust Bank PLC. (NTB). The Monetary Board had previously directed that the Group reduces its share holdings in NTB to 15% or below by April 2012. The founder shareholders including JKH had written to the Central Bank of Sri Lanka (CBSL) requesting an extension of the deadline and a response is awaited.

## Market Value

As at 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
Quoted				
Nations Trust Bank PLC.	5,102,425	5,116,216	3,412,993	3,422,218

## 26.3 Summarised financial information of equity accounted investees

As at 31 March In LKR '000s	South Asia Gateway Terminals (Pvt) Ltd.		Other associates		Joint ventures		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Group Share of;</b>								
Revenue	4,955,789	4,336,078	6,641,880	5,703,083	1,751,781	1,433,929	13,349,450	11,473,090
Operating expenses including cost of sales	(2,988,281)	(2,680,375)	(5,075,534)	(4,327,546)	(1,543,168)	(1,302,963)	(9,606,983)	(8,310,884)
Net finance income	35,867	23,599	137,738	130,769	11,185	5,402	184,790	159,770
Tax expense	(6,746)	(3,720)	(555,997)	(495,148)	(61,559)	(41,875)	(624,302)	(540,743)
Share of results of equity accounted investees	1,996,629	1,675,582	1,148,087	1,011,158	158,239	94,493	3,302,955	2,781,233

As at 31 March In LKR '000s	South Asia Gateway Terminals (Pvt) Ltd.		Other associates		Joint ventures		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Group share of;								
Total assets	6,900,020	7,036,483	74,855,266	58,297,556	618,552	491,455	82,373,838	65,825,494
Total liabilities	(1,260,608)	(1,298,074)	(67,857,907)	(52,089,069)	(266,426)	(218,877)	(69,384,941)	(53,606,020)
Net assets	5,639,412	5,738,409	6,997,359	6,208,487	352,126	272,578	12,988,897	12,219,474
Goodwill	4,674,278	4,674,278	55,712	55,712	-	-	4,729,990	4,729,990
	10,313,690	10,412,687	7,053,071	6,264,199	352,126	272,578	17,718,887	16,949,464
Contingent liabilities	-	-	-	-	-	-	-	-
Capital commitments	-	-	409,975	593,431	-	-	409,975	593,431
Other commitments and Guarantees	-	-	42,201,702	32,042,386	-	-	42,201,702	32,042,386
Dividend received	2,321,179	2,341,686	383,003	171,799	150,000	75,000	2,854,182	2,588,485

The share of results of equity accounted investees in Income Statement and Other Comprehensive Statement are shown net of all related taxes.

The Group and the Company have neither contingent liabilities nor capital and other commitments towards its associates and joint ventures.

*Significant accounting policies that are specific to the business of equity accounted investees*  
**Nations Trust Bank PLC.**

#### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

#### Interest income and expense

For all financial instruments interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future Impairment losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest Income' for financial assets and 'Interest Expense' for financial liabilities.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest

income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

#### Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

#### Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Credit related fees are deferred and recognised as an adjustment to the EIR of the loan.

#### Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

#### Net trading income

Results arising from trading activities include all gains and losses from changes in fair value.

#### South Asia Gateway Terminals (Pvt) Ltd.

##### Revenue recognition

Stevedoring revenue is recognised on the berthing time of the vessel. Storage revenue is recognised on the issue of delivery advice.

South Asia Gateway Terminals (Pvt) Ltd. uses United States Dollar (USD) as their functional currency.

#### Fairfirst Insurance Ltd. (formally known as Union Assurance General Ltd.)

##### Revenue recognition

#### General insurance business-gross written premium

Gross written premiums comprise the total premiums received/ receivable for the whole period of cover provided by contracts entered into during the accounting period. GWP is generally written upon inception of the policy. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross written premium

#### Insurance contract liabilities - general

Non-life insurance contract liabilities include the outstanding claims provision (Reserve for gross outstanding and incurred but not reported, and incurred and not enough reported - IBNR/ IBNER) and the provision for unearned premium and the provision for premium deficiency.

## Notes to the Financial Statements

## 27. Non current financial assets

As at 31 March In LKR '000s	Note	Group		Company	
		2017	2016	2017	2016
Other quoted equity investments		326	327	-	-
Other unquoted equity investments	27.1	160,369	184,456	141,972	166,059
Other non equity investments	27.2	27,505,926	22,450,661	2,648,008	341,346
		27,666,621	22,635,444	2,789,980	507,405

## 27.1. Other unquoted equity investments

As at 31 March In LKR '000s	Group			Company		
	Number of shares	2017	2016	Number of shares	2017	2016
Asia Power (Pvt) Ltd.	388,527	141,972	166,059	388,527	141,972	166,059
Other equity instruments	-	18,397	18,397	-	-	-
		160,369	184,456		141,972	166,059

## 27.2. Other non equity investments

As at 31 March In LKR '000s	Note	Group		Company	
		2017	2016	2017	2016
Bank deposits		3,154,685	515,657	2,576,339	-
Debentures		4,244,764	4,939,118	-	268,366
Preference shares		267,275	254,024	-	-
Government securities		17,750,289	15,287,098	-	-
Loans to executives	27.3	733,037	618,850	71,669	72,980
Loans to life policyholders		902,300	783,373	-	-
Cash flow hedge		331,679	-	-	-
Deposits		121,897	52,541	-	-
		27,505,926	22,450,661	2,648,008	341,346

## 27.3. Loans to executives

As at 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
At the beginning of the year	786,790	699,330	92,803	82,442
Loans granted/transfers	635,300	433,303	66,469	55,949
Recoveries	(504,427)	(345,843)	(68,951)	(45,588)
At the end of the year	917,663	786,790	90,321	92,803
Receivable within one year	184,626	167,940	18,652	19,823
Receivable between one and five years	733,037	618,850	71,669	72,980
	917,663	786,790	90,321	92,803

## 28. Other non current assets

As at 31 March In LKR '000s	Note	Group		Company	
		2017	2016	2017	2016
Pre paid staff cost		178,726	124,364	16,254	12,414
Work-in-progress - Cinnamon Life project	28.1	41,007,979	35,082,711	-	-
Non current advances		505,611	350,073	-	-
		41,692,316	35,557,148	16,254	12,414
<b>28.1. Work-in-progress - Cinnamon Life project</b>					
Freehold property*		9,598,213	9,329,665		
Leasehold property*		3,618,350	3,506,883		
Other constructions in progress		21,538,694	15,948,350		
Contractor advances		6,252,722	6,297,813		
		41,007,979	35,082,711		

\*The freehold and leasehold properties are located at Glennie Street and Justice Akbar Mawatha, Colombo 2.

Other non-current assets represents the construction work in progress, which mainly consists of freehold land, advance on leasehold land and other project cost incurred. Freehold land included under other non-current asset is carried at cost. Lease prepaid in advance consists of the prepayment made to obtaining the lease land rights for 99 years. Other project cost includes advances paid to contractors, directly attributable cost incurred on the project and capitalised borrowing costs.

### Details of the Cinnamon Life project

The company is engaged in the development and construction of an integrated complex with an approximate area of 4,500,000 square feet, comprising of offices, residential units, service apartments, a hotel and conference centre, retail and associate facilities and a car park.

Details of Freehold Property		
Freehold property:	Land Occupied	Extent: 7A- 0R -16.63P
Details of Leasehold Property		
Leased property:	Land Occupied	Extent: 3A- 0R -6.35P
Lessor:	Board of Investment of Sri Lanka	
Period:	99 years from 12/02/2014	
Lease commitment:	Upfront lease rental of LKR3.03 bn	

## 29. Inventories

### Accounting policy

Inventories are valued at the lower of cost and net realizable value. Net realisable value is the estimated selling price less estimated costs of completion and the estimated costs necessary to make the sale.

The costs incurred in bringing inventories to its present location and condition, are accounted for as follows:

- Raw materials - On a weighted average basis

- Finished goods and work-in-progress - At the cost of direct materials, direct labour and an appropriate proportion of fixed production overheads based on normal operating capacity but excluding borrowing costs

- Other inventories – At actual cost

As at 31 March In LKR '000s	Group	
	2017	2016
<b>Inventories</b>		
Raw materials	527,124	463,186
Finished goods	3,977,944	2,964,930
Produce stocks	216,443	207,349
Other stocks	884,201	1,029,368
Total Inventories at the lower of cost & net realisable value	5,605,712	4,664,833

## Notes to the Financial Statements

## 30. Trade and other receivables

As at 31 March In LKR '000s	Note	Group		Company	
		2017	2016	2017	2016
Trade and other receivables		11,034,918	9,482,865	99,424	149,321
Reinsurance receivables	30.1	214,342	132,298	-	-
Premiums receivable	30.2	253,543	215,846	-	-
Loans to executives	27.3	184,626	167,940	18,652	19,823
		11,687,429	9,998,949	118,076	169,144

## 30.1. Reinsurance receivables

As at 31 March In LKR '000s	Group	
	2017	2016
Reinsurance receivables on outstanding claims	90,342	83,873
Reinsurance receivables on settled claims net of dues	124,000	48,425
Total assets arising from reinsurance contracts	214,342	132,298

## 30.2. Premiums receivable

Premium receivable	Group	
	2017	2016
	253,543	215,846
	253,543	215,846

## 31. Other current assets

As at 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
Prepayments and non cash receivables	1,803,924	962,316	60,301	89,212
Tax refunds	1,461,403	1,341,115	39,141	39,141
	3,265,327	2,303,431	99,442	128,353

## 32. Short term investments

As at 31 March In LKR '000s	Note	Group		Company	
		2017	2016	2017	2016
Quoted equities at market value	32.1	3,433,852	3,006,875	-	-
Debentures		1,381,855	631,846	268,306	-
Bank deposits (more than 3 months and less than 1 year)		23,335,897	17,338,169	20,205,768	15,312,664
Government securities (more than 3 months and less than 1 year)		4,234,194	5,156,765	-	4,475,018
		32,385,798	26,133,655	20,474,074	19,787,682
Debentures (less than 3 months)		54,671	224,652	-	-
Bank deposits (less than 3 months)		26,517,145	25,283,729	23,078,904	23,482,684
Government securities (less than 3 months)		20,216,713	20,993,034	16,690,302	13,591,870
Reported in statement of cash flow		46,788,529	46,501,415	39,769,206	37,074,554
		79,174,327	72,635,070	60,243,280	56,862,236

## 32.1. Quoted equities at market value

As at 31 March	Number of shares		Cost		Market value	
	2017	2016	2017 In LKR'000s	2016 In LKR'000s	2017 In LKR'000s	2016 In LKR'000s
Access Engineering PLC.	4,005,642	1,124,524	105,508	33,898	95,334	23,390
Aitken Spence Hotel Holdings PLC.	364,900	490,393	25,931	34,934	12,844	25,991
Aitken Spence PLC.	125,493	650,890	9,004	76,951	4,418	47,840
Alumex PLC.	3,044,222	-	60,761	-	57,840	-
Asiri Hospital Holdings PLC.	-	251,297	-	5,805	-	6,032
Cargills (Ceylon) PLC.	-	180,968	-	27,335	-	27,145
Central Finance Company PLC.	590,800	285,871	54,445	54,445	50,927	60,033
Ceylinco Insurance PLC.	-	5,530	-	7,669	-	8284
Ceylon Cold Stores PLC.	-	8,133	-	3,278	-	3497
Ceylon Tobacco Company PLC.	-	68,889	-	69,125	-	69,709
Chevron Lubricants Lanka PLC.	942,314	367,677	113,683	80,777	160,193	112,141
Colombo Dockyard PLC.	281,715	281,715	60,500	60,500	21,410	30,454
Commercial Bank of Ceylon PLC. (Non voting)	664,896	654,287	47,645	47,645	68,551	73,935
Commercial Bank of Ceylon PLC.	402,280	2,233,929	41,100	238,932	52,457	280,358
DFCC Bank PLC.	482,072	973,984	81,550	143,891	54,956	133,436
Dialog Axiata PLC.	15,752,754	6,337,348	167,142	59,806	178,006	64,641
Diesel and Motor Engineering PLC.	22,062	22,062	-	33,340	-	12,128
Distilleries Company of Sri Lanka PLC.	-	1,090,930	33,340	233,803	12,353	224,949
Hatton National Bank PLC.	3,306,868	2,896,275	525,175	409,681	662,197	544,433
Hemas Holdings PLC.	1,479,150	839,729	94,808	37,446	160,784	67,682
HNB Assurance PLC.	336,266	336,266	23,645	23,645	19,537	18,158
John Keells Holdings PLC.	1,230,182	1,522,660	188,208	271,431	169,642	225,354
Lanka ORIX Finance Company PLC.	-	275,713	-	20,852	-	19,851
Melstacorp Limited.	4,117,164	-	222,061	-	243,736	-
National Development Bank PLC.	1,087,945	1,544,335	198,072	281,314	151,877	260,683
Nestle Lanka PLC.	-	19,188	-	34,282	-	38,921
People's Insurance Limited.	1,453,951	482,500	25,320	7,238	26,607	8155
Peoples Leasing and Finance PLC.	4,516,116	5,866,532	79,105	112,788	70,451	93,865
Piramal Glass PLC.	14,118,350	2,680,100	84,110	21,502	79,063	13,669
Sampath Bank PLC.	2,013,070	1,540,618	413,261	330,543	521,385	348,180
Textured Jersey Lanka PLC.	6,176,049	1,941,200	203,891	31,534	228,514	61,536
The Bukit Darah PLC.	-	45,881	-	32,017	-	16,058
Tokyo Cement Company (Lanka) PLC.	2,175,777	640,777	99,377	7,817	132,722	23,709
Tokyo Cement Company (Lanka) PLC. (Non voting)	3,736,714	1,939,895	137,786	48,859	198,048	62,658
			3,095,428	2,883,083	3,433,852	3,006,875

Above list mainly comprises of the investments made by Union Assurance PLC. (UA) under the unit linked equity tracker fund, which invests in the companies that comprise the S&P Price Index.

## Notes to the Financial Statements

### 33. Stated capital and other components of equity

#### Accounting policy

The ordinary shares of John Keells Holdings PLC are quoted in the Colombo Stock Exchange and the Global Depository Receipts are listed on the Luxembourg Stock Exchange. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are eligible for one vote per share at General Meetings of the Company. The Group has in place an Employee Share Option Plan. Please refer note 34 for further details.

#### 33.1. Stated capital

As at 31 March	2017		2016	
	Number of shares In '000s	Value of shares In LKR '000s	Number of shares In '000s	Value of shares In LKR '000s
<b>Fully paid ordinary shares</b>				
At the beginning of the year	1,189,404	58,701,977	997,486	50,702,701
Share options exercised	6,869	911,261	165	26,516
Subdivision of shares	169,915	-	142,498	-
Exercise of share warrants	21,280	3,176,842	49,255	7,972,760
At the end of the year	1,387,468	62,790,080	1,189,404	58,701,977

The number of shares in issue as at 31 March 2017, include global depository receipts (GDRs) of 1,320,942 (2016 - 1,282,364). Further information on the composition of shares in issue is given under the Share Information section of the Annual Report.

35,415,944 shares (2016 - 29,959,331) have been reserved to be issued under the employee share option plan as at 31 March 2017.

#### 33.2. Other components of equity

As at 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
Revaluation reserve	28,994,792	20,846,190	-	-
Foreign currency translation reserve	8,303,895	7,080,979	-	-
Other capital reserve	1,402,656	958,310	1,402,656	958,310
Cash flow hedge reserve	312,529	-	-	-
Available for sale reserve	(362,304)	(170,217)	102,220	126,307
	38,651,568	28,715,262	1,504,876	1,084,617

Revaluation reserve consists of the net surplus on the revaluation of property, plant and equipment and present value of acquired in-force business (PVIB).

Foreign currency translation reserve comprises the net exchange movement arising on the currency translation of foreign operations and equity accounted investees into Sri Lankan rupees.

The other capital reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration.

Available for sale reserve includes changes of fair value of financial instruments designated as available for sale financial assets.

### 34. Share-based payment plans

#### Accounting Policy

#### Employee share option plan - Equity-settled transactions

Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The Group applies SLFRS 2 Share Based Payments in accounting for employee remuneration in the form of shares from 1 April 2013 onwards.

The cost of equity-settled transactions are recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in

cumulative expense recognized as at the beginning and end of that period and is recognized in employee benefits expense.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense had the terms not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in note 18.2).

#### Employee Share Option Scheme

Under the John Keells Group's Employees share option scheme (ESOP), share options of the parent are granted to executives of the Group generally with more than 12 months of service. The exercise price of the share options is equal to the 30 day volume weighted average market price of the underlying shares on the date of grant. The share options vest over a period of four years and is dependent on a performance criteria and a service criteria, performance criteria being the minimum performance achievement of "Met Expectations" and service criteria being the employee still being in employment at the time of vesting. The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted.

The contractual term for each option granted is five years. There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these share options.

#### Share-based payment plans

As at 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
Total expense arising from share-based payment transactions	444,346	395,592	119,822	128,541

#### Movements in the year

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

As at 31 March	Group				Company			
	2017		2016		2017		2016	
	No.	WAEP	No.	WAEP	No.	WAEP	No.	WAEP
Outstanding at the beginning of the year	23,372,526	197.46	14,015,893	241.42	7,501,984	198.60	4,508,542	241.42
Granted during the year	9,998,000	142.83	6,781,282	171.25	2,692,274	142.83	1,957,332	171.25
Transfers	-	-	-	-	1,256,175	167.37	206,837	207.75
Adjustment due to sub division of shares	3,301,351	172.59	2,963,779	198.05	1,062,440	173.68	953,197	199.40
Adjustment due to share warrants	136,944	190.96	324,455	219.03	43,309	190.96	110,200	219.03
Exercised during the year	(3,224)	149.84	-	-	-	-	-	-
Expired during the year	(1,340,234)	167.31	(712,883)	202.02	(176,726)	164.93	(234,124)	206.87
Outstanding at the end of the year	35,465,363	164.43	23,372,526	197.46	12,379,456	166.43	7,501,984	198.60
Exercisable at the end of the year	15,044,992	177.30	6,119,220	211.98	5,583,774	178.46	1,910,954	212.82

#### Accounting judgements, estimates and assumptions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions require determination of the most appropriate valuation model, which

is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

The expected life of the share options is based on historical data and current expectations

and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome either.

## Notes to the Financial Statements

### 34. Share-based payment plans (Contd.)

The following information were used and results were generated using binomial model for ESOP.

As at 31 March	2017 Plan no 9 award 1	2016 Plan no 8 award 3	2015 Plan no 8 award 2	2014 Plan no 8 award 1
Dividend yield (%)	2.18	1.44	1.42	2.07
Expected volatility (%)	21.05	19.19	19.34	27.50
Risk free interest rate (%)	11.91	8.13	8.70	11.26
Expected life of share options (Years)	5.00	5.00	5.00	5.00
Weighted average share price at the grant date (LKR)	142.83	171.25	229.93	253.16
Weighted average remaining contractual life for the share options outstanding (Years)	3.00	3.00	3.00	3.00
Weighted average fair value of options (LKR)	56.29	64.62	61.93	81.54
Exercise price for options outstanding at the end of the year (LKR)	142.83	171.25	229.93	253.16
Exercise price for options outstanding at the end of the year (LKR) (adjusted as at 31-03-2017)	142.83	149.84	176.04	191.65

### 35. Insurance contract liabilities

Accounting policy

#### Insurance contract liabilities - life

The Directors agree to the long term and unit link insurance business provisions on the recommendation of the actuary following annual valuation of the life insurance business. The actuarial valuation takes into account all liabilities including contingent liabilities and is based on assumptions recommended by the independent external actuary.

#### 35.1. Insurance contract liabilities

As at 31 March In LKR '000s	Group	
	2017	2016
Insurance contract liabilities	31,161,611	26,704,512
Unclaimed benefits	538,667	500,770
	31,700,278	27,205,282

Long duration contract liabilities included in the life insurance fund, result primarily from traditional participating and non participating life insurance products. Short duration contract liabilities are primarily group term, accident and health insurance products.

The actuarial reserves have been established based on the following:

- Non participating liabilities are discounted using risk free yield curve provided by the Insurance Board of Sri Lanka and the participating liabilities are based on the fund yield of the life fund.

- Mortality rates based on published mortality tables adjusted for actual experience as required by regulations issued by the IBSL.

- Surrender rates based on the actual experience.

The amount of policy holder dividend to be paid is determined annually by the UA. The dividend includes life policy holders' share of net income that is required to be allocated by the insurance contract.

The valuation of the conventional life insurance fund as at The valuation of the conventional life insurance fund as at 31 December 2016 was carried out by Mr. Vivek

Jalan FIA, FIAI of Willis Towers Watson and a sum of LKR 1,100 mn was transferred from the conventional life insurance fund to the shareholders fund for the year 2016. Subsequent to the transfer the conventional life fund stood at LKR 27,703 mn.

Similarly the non unit fund of linked long term business valuation was carried out by Mr. Vivek Jalan FIA, FIAI of Willis Towers Watson and the Non Unit fund as at 31 December 2016 stood at LKR 186 mn. In the opinion of the consultant actuary, the admissible assets of the conventional life insurance fund and the non unit fund of linked long term business as at 31 December 2016 is adequate to cover the liabilities of the funds.

As at 31 December In LKR '000s	Group	
	2016	2015
<b>Conventional life insurance</b>		
Balance as at 1 January	23,581,967	20,308,965
Increase in life insurance fund before surplus transfer to share holders	5,123,562	3,927,534
Transfer to shareholders	(1,100,000)	(760,000)
Net change in unclaimed benefits	97,881	105,468
Balance as at 31 December - Conventional life insurance	27,703,410	23,581,967
<b>Non unit fund of linked life insurance contracts</b>		
Balance as at 1 January	149,271	126,911
Increase in non unit fund of linked life insurance before surplus transfer to share holders	35,396	60,986
Transfer to shareholders	-	(40,000)
Net change in unclaimed benefits	1,605	1,374
Balance as at 31 December - Non unit fund of linked life insurance	186,272	149,271
	27,889,682	23,731,238

### 35.2. Change in life insurance contract liabilities

The results of Union Assurance PLC's (UA) is consolidated into the Group's consolidated income statement. The change in life insurance contract liabilities represents the transfer to the Life Fund, the difference between all income and expenditure attributable to life policy holders during the year.

For the year ended 31 March In LKR '000s	Group	
	2017	2016
Revenue	8,181,868	6,952,717
Cost of sales	(3,262,922)	(2,740,644)
Gross profit	4,918,946	4,212,073
Operating expenses including distribution and administration expenses	(2,331,918)	(2,021,615)
Net finance income	3,556,360	2,044,301
Profit attributable to shareholders of UA	(1,274,100)	(804,226)
Change in insurance contract liabilities	4,869,288	3,430,533

#### Accounting judgements, estimates and assumptions

##### Valuation of insurance contract liabilities and investment contract liabilities – Union Assurance PLC (UA) Insurance operations - Product classification

SLFRS 4 requires contracts written by insurers to be classified as either "insurance contracts" or "investment contracts" depending on the level of insurance risk transferred.

Insurance contracts are contracts under which one party (the Insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Significant insurance risk exists if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect

on the economics of the transaction). The classification of contracts identifies both the insurance contracts UA issues and reinsurance contracts holds by UA.

Contracts where UA does not assume a significant insurance risk is classified as investment contracts.

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during

this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being either with or without discretionary participating features ("DPF").

#### Life insurance contract liabilities

These liabilities are measured by using the net premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or

## Notes to the Financial Statements

### 35. Insurance contract liabilities (Contd.)

#### 35.2. Change in life insurance contract liabilities (Contd.)

calculated using the assumptions established at the time the contract was issued, in which case, a margin for risk and adverse deviation is generally included. Adjustments to the liabilities at each reporting date are recorded in the income statement in 'Increase in life insurance contract liabilities'.

The liability is de-recognised when the contract expires, is discharged or is cancelled.

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate, by using an existing liability adequacy test in accordance with SLFRS 4.

For products containing discretionary participating features (DPF) the amount of the DPF is deemed to be the investment

return on all related assets where the apportionment between the shareholder and the policyholder has not yet been determined. The liability includes certain elements of net unrealized gains/(losses) and retained earnings attributable to the DPF, based on the mandated rates applied to these gains and earnings on the assumption that they had been realised as of the statement of financial position date.

The minimum mandated amounts, which are to be paid to policyholders plus any declared/undeclared additional benefits, are recorded in liabilities.

#### Liability adequacy test (LAT) - Life insurance

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate by using

an existing liability adequacy test as laid out under SLFRS 4. The liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. A number of valuation methods are applied, including discounted cash flows to the extent that the test involves discounting of cash flows, the interest rate applied based on management's prudent expectation of current market interest rates.

Any deficiencies shall be recognized in the income statement by setting up a provision for liability adequacy.

### 36. Interest-bearing loans and borrowings

#### 36.1 Movement

As at 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
At the beginning of the year	16,698,430	9,358,789	1,482,508	2,670,784
Loans obtained	3,300,907	409,372	-	-
Loans transferred	-	10,027,539	-	-
Repayments	(3,443,821)	(4,623,992)	(1,469,884)	(1,388,100)
Amortization of transaction cost	8,992	37,962	8,992	13,629
Exchange difference and interest accrued	556,982	1,488,760	(21,616)	186,195
At the end of the year	17,121,490	16,698,430	-	1,482,508
Repayable within one year	2,918,854	2,991,582	-	1,482,508
Repayable between one and five years	14,202,636	13,706,848	-	-
	17,121,490	16,698,430	-	1,482,508

Group interest bearing borrowings include finance lease obligations amounting to LKR 10 mn (2016 - LKR 45 mn), details of which are disclosed in following note.

## 36.2. Finance leases

As at 31 March In LKR '000s	Group	
	2017	2016
At the beginning of the year	44,865	75,674
Repayments	(38,556)	(32,397)
Adjustments/transfers	3,825	1,588
At the end of the year	10,134	44,865
Finance lease obligations repayable within one year		
Minimum lease payments	10,254	37,740
Finance charges	(120)	(3,691)
Present value of minimum lease payments	10,134	34,049
Finance lease obligations repayable between one and five years		
Minimum lease payments	-	10,928
Finance charges	-	(112)
Present value of minimum lease payments	-	10,816

## 36.3. Security and repayment terms

In LKR '000s	Lending Institution	Nominal Interest rate	Repayment terms	Details of collaterals	2017	2016
John Keells Holdings PLC.	IFC	6 month LIBOR based plus margin	Bi-annual repayments commencing from December 2009	-	-	1,482,508
<b>Group companies</b>						
Beruwala Holiday Resorts (Pvt) Ltd.	HNB	1 month SLIBOR based plus margin	74 quarterly installments commencing from April 2013	LKR 3,395mn Primary floating mortgage bond over hotel property	439,683	559,683
	Sampath Bank	6 month LIBOR based plus margin	20 quarterly installments commencing from July 2013	Corporate guarantee from John Keells Hotels PLC, amount of USD 4 mn	75,950	132,885
	SCB	1 month LIBOR based plus margin	16 quarterly installments commencing from February 2014	Corporate guarantee from John Keells Hotels PLC for LKR equivalent of USD 2 mn	243,040	442,950
Ceylon Cold Stores PLC.	DFCC	3 month AWDR based plus margin	60 equal installments commencing from January 2012	LKR 2,769 mn Kaduwela land, building and machinery of soft drink plant	-	39,073
	DFCC	3 month AWDR based plus margin	60 monthly installments commencing from October 2012	- do -	15,000	45,000
Habarana Lodge Ltd.	Sampath Bank	6 month LIBOR based plus margin	20 quarterly installments commencing from July 2013	Corporate guarantee of John Keells Hotels PLC of USD 2 mn	75,950	132,885
	Habib Bank Limited	1 month LIBOR based plus margin	48 monthly installments commencing from July 2013	Corporate guarantee of John Keells Hotels PLC of USD 0.9 mn	6,076	32,483

## Notes to the Financial Statements

## 36. Interest-bearing loans and borrowings (Contd.)

## 36.3. Security and repayment terms (Contd.)

In LKR '000s	Lending Institution	Nominal Interest rate	Repayment terms	Details of collaterals	2017	2016
Hikkaduwa Holiday Resorts (Pvt) Ltd.	DFCC	1 month AWPLR based plus margin	66 monthly installments commencing from November 2013	Primary mortgage over lease rights of LKR 940 mn and LKR 60 mn over movable plant, machinery and equipment	403,495	568,495
	Sampath Bank	6 month LIBOR based plus margin	20 quarterly installments commencing from October 2013	Corporate guarantee of John Keells Hotels PLC for the LKR equivalent of USD 4 mn	167,280	295,300
John Keells Maldivian Resorts (Pte) Ltd.	Sampath Bank	6 month LIBOR based plus margin	The loan is payable within 90 days	Fixed deposit of USD 4.4 mn	1,477,455	-
John Keells Properties Ja-Ela (Pvt) Ltd.	Commercial Bank	1 month AWPLR based plus margin	60 monthly installments commencing from April 2014 with 1 year grace period	General terms and conditions for LKR 150 mn signed in relation to the term loan	-	125,000
	Commercial Bank	1 month AWPLR based plus margin	60 monthly installments commencing from April 2014	-	-	253,393
	HSBC	1 month COF based plus margin	60 monthly installments commencing from December 2016.	General terms and conditions for LKR 450 mn signed relating to the term loan	394,907	-
Keells Food Products PLC.	DFCC	3 month AWDR plus margin	60 monthly installments commencing from December 2013 with 1 year grace period	Primary mortgage bond on the building and assets at Pannala	83,704	133,793
Kandy Walk Inn Ltd.	HSBC	1 month LIBOR based plus margin	60 monthly installments commencing from October 2013 with 1 year grace period	Land and building value of LKR1,438 mn	91,840	252,933
The Colombo Ice Company (Pvt) Ltd.	HSBC	COF based plus margin	60 monthly installments commencing from February 2016 with 1 year grace period	Corporate guarantee of Ceylon Cold Stores PLC for LKR3.8 bn	256,192	-
Trans Asia Hotels PLC.	HNB	Fixed rate (annually reviewed)	16 quarterly installments commencing from September 2016	-	370,256	442,951
Travel Club (Pte) Ltd.	HSBC	3 month LIBOR based plus margin	8 quarterly installments commencing from December 2014	-	-	99,663
	HSBC	1 month LIBOR based plus margin	12 quarterly installments commencing from September 2017	-	303,800	-
Trinco Holiday Resorts (Pvt) Ltd.	Sampath Bank	6 month LIBOR based plus margin	20 quarterly installments commencing from April 2014	Corporate guarantee of John Keells Hotels PLC for the LKR equivalent of USD 1.158 mn	70,360	102,588
	Sampath Bank	3 month AWPLR based plus margin	83 monthly installments commencing July 2014	Letter of comfort from John Keells Hotels PLC	205,000	216,500

In LKR '000s	Lending Institution	Nominal Interest rate	Repayment terms	Details of collaterals	2017	2016
Waterfront Properties (Pvt) Ltd.	Syndicated loan through SCB	1 month LIBOR based plus margin	13 quarterly installments commencing from September 2019	Freehold and leasehold land of LKR 11.4 bn. Additionally, as a part of the sponsor support, John Keells Holdings PLC has pledged 1.5 bn of its shares in Waterfront Properties (Pvt) Ltd.	12,334,739	11,128,070
Yala Village (Pvt) Ltd.	Habib Bank	1 month AWPLR based minus margin	30 monthly installments commencing from July 2014	-	39,666	67,748
	Sampath Bank	6 month LIBOR based plus margin	20 quarterly installments commencing from July 2013	Corporate guarantee of John Keells Hotels PLC of USD 1.5 mn	56,963	99,664
					17,111,356	16,653,565
JK BPO Solution India (Pvt) Ltd.	DLF Assets (Pvt) Ltd.		Finance lease		10,134	44,865
					17,121,490	16,698,430

### 37. Employee benefit liabilities

#### Accounting Policy

#### Employee contribution plans - EPF/ETF

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective statutes and regulations. The companies contribute the defined percentages of gross

emoluments of employees to an approved Employees' Provident Fund and to the Employees' Trust Fund respectively, which are externally funded.

#### Employee defined benefit plan - gratuity

The liability recognised in the statement of financial position is the present value

of the defined benefit obligation at the reporting date using the projected unit credit method. Any actuarial gains or losses arising are recognized immediately in other comprehensive income this was previously recognized in income statement.

As at 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
<b>Employee benefit liabilities</b>				
At the beginning of the year	1,660,880	1,494,711	189,181	160,456
Current service cost	144,936	133,665	12,967	10,587
Acquisitions	-	8,435	-	-
Transfers	-	-	10,528	5,695
Interest cost on benefit obligation	182,697	150,235	19,864	16,046
Payments	(219,443)	(171,100)	(19,940)	(6,081)
(Gain)/Loss arising from changes in assumptions	110,758	44,627	5,310	2,478
Exchange translation difference	459	307	-	-
At the end of the year	1,880,287	1,660,880	217,910	189,181
The expenses are recognised in the income statement in the following line items;				
Cost of sales	149,829	140,319	11,387	10,890
Selling and distribution expenses	30,862	18,484	-	-
Administrative expenses	146,942	125,097	21,444	15,743
	327,633	283,900	32,831	26,633

#### Accounting judgements, estimates and assumptions

#### Employee benefit liability

The employee benefit liability of the Group is based on the actuarial valuation carried out by Independent actuarial specialists. The actuarial valuations involve making

assumptions about discount rates and future salary increases. The complexity of the valuation, the underlying assumptions and its long term nature, the defined benefit obligation is highly sensitive to changes in these assumptions.

All assumptions are reviewed at each reporting date.

The principal assumptions used in determining the cost of employee benefits were:

## Notes to the Financial Statements

### 37. Employee benefit liabilities (Contd.)

As at 31 March	2017	2016
Discount rate	9.50% - 11.00%	10.50%
Future salary increases	6.00% - 10.00%	6.00% - 9.00%

#### 37.1. Sensitivity of assumptions used

A one percentage change in the assumptions would have the following effects:

As at 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
<b>Discount rate:</b>				
1% Increase	(85,863)	(76,569)	(6,691)	(6,040)
1% Decrease	64,966	68,440	7,363	6,538
<b>Salary Increment rate:</b>				
1% Increase	65,922	72,446	7,863	7,235
1% Decrease	(96,150)	(81,420)	(7,331)	(6,797)

#### 37.2. Maturity analysis of the payments

The following payments are expected on employee benefit liabilities in future years

As at 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
Within the next 12 months	286,965	236,306	60,239	23,236
Between 1 and 2 years	363,244	418,173	65,281	111,308
Between 2 and 5 years	522,475	466,695	21,792	16,948
Between 5 and 10 years	618,230	386,856	58,446	24,863
Beyond 10 years	89,373	152,850	12,152	12,826
<b>Total expected payments</b>	<b>1,880,287</b>	<b>1,660,880</b>	<b>217,910</b>	<b>189,181</b>
Weighted average duration (years) of define benefit obligation	5.41	4.91	10.20	8.67

### 38. Other deferred liabilities

#### Accounting policy

#### Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match to the costs, that it is intended to compensate. Where the grant relates to an asset, the fair

value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments.

Where the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the income statement over the expected useful life and pattern of consumption of

the benefit of the underlying asset by equal annual installments.

#### Deferred revenue

Deferred revenue is the money received for goods or services which have not yet been delivered. According to the revenue recognition principle, it is recorded as a liability until delivery is made, at which time it is converted to revenue.

As at 31 March In LKR '000s	Note	Group		Company	
		2017	2016	2017	2016
Government grants		772	960	-	-
Deferred revenue		838,119	670,286	-	-
Deferred purchase consideration		-	190,556	103,218	190,556
Amounts due to related parties	43.5	-	-	-	180,458
		<b>838,891</b>	<b>861,802</b>	<b>103,218</b>	<b>371,014</b>

### 39. Other non current liabilities

#### Accounting policy

Group classifies all non financial non current liabilities under other current liabilities which include non refundable advances and deposits.

As at 31 March In LKR '000s	Group	
	2017	2016
Advances received	3,740,418	2,963,252
Deposits	193,464	131,929
	3,933,882	3,095,181

### 40. Trade and other payables

#### Accounting policy

Trade payables are the aggregate amount of obligations to pay for goods or services, that have been acquired in the ordinary course of business. Trade payable are classified as current liabilities if payment is due within one year.

As at 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
<b>Trade and other payables</b>				
Trade and other payables	13,665,569	12,392,889	330,078	332,506
Reinsurance payables	277,284	140,358	-	-
Advances and deposits	193,187	222,219	-	-
	14,136,040	12,755,466	330,078	332,506

Trade and other payables are normally non-interest bearing and settled within one year. Reinsurance payables normally settled within one year. For further explanation on the Group's liquidity risk management process refer note 10.2.2.

### 41. Short term borrowings

As at 31 March In LKR '000s	Group	
	2017	2016
Bank loans	1,380,238	821,243
	1,380,238	821,243

### 42. Other current liabilities

#### Accounting policy

Group classifies all non financial current liabilities under other current liabilities.

These include non refundable deposits and other tax payables. These liabilities are recorded at amounts expected to be set-off at the reporting date.

As at 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
<b>Other current liabilities</b>				
Non refundable deposits	1,481,641	1,706,292	2,566	2,566
Other tax payables	1,462,477	528,564	13,875	13,723
	2,944,118	2,234,856	16,441	16,289

### 43. Related party transactions

#### Terms and conditions of transactions with related parties

The Group and Company carried out transactions in the ordinary course of business with the following related entities. The list of Directors at each of the subsidiary, joint venture and associate companies have been disclosed in the Group directory under the Supplementary Information section of the Annual Report.

Transactions with related parties are carried out in the ordinary course of the business. Outstanding current account balances at

year end are unsecured, interest free and settlement occurs in cash.

#### Non-recurrent related party transactions

There were no any non-recurrent related party transactions which aggregate value exceeds 10% of the equity or 5% of the total assets whichever is lower of the Company as per 31 March 2016 audited financial statements, which required additional disclosures in the 2016/17 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Security Exchange Commission Directive issued under Section 13(c) of the Security Exchange Commission Act.

#### Recurrent related party transactions,

There were no any recurrent related party transactions which in aggregate value exceeds 10% of the consolidated revenue of the Group as per 31 March 2016 audited financial Statements, which required additional disclosures in the 2016/17 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Security Exchange Commission Directive issued under Section 13(c) of the Security Exchange Commission Act.

## Notes to the Financial Statements

### 43.1. Amounts due from related parties

As at 31 March In LKR '000s	Note	Group		Company	
		2017	2016	2017	2016
Subsidiaries	43.5			215,115	412,187
Equity accounted investees	43.5	111,639	133,031	71,620	182,995
Key management personnel		-	-	-	-
		111,639	133,031	286,735	595,182

### 43.2. Amounts due to related parties

Subsidiaries	43.6			209,182	102,135
Equity accounted investees		10,434	28,982	847	-
Key management personnel		-	-	-	-
		10,434	28,982	210,029	102,135

### 43.3. Transactions with related parties

As at 31 March In LKR '000s	Note	Group		Company	
		2017	2016	2017	2016
<b>Subsidiaries</b>					
Purchases of goods		-	-	5,004	3,631
Rendering of services	43.5	-	-	701,748	638,140
Receiving of services	43.6	-	-	48,918	51,957
Rent paid		-	-	38,729	34,292
<b>Equity accounted investees</b>					
Sales of goods		12,460	27,229	-	-
Rendering of services	43.5	468,353	412,627	281,929	225,464
Receiving of services		330,436	192,155	193	393
Interest received	43.4	200,565	35,065	87,567	29,589
Interest paid	43.4	7,844	1,794	-	-
<b>Key management personnel (KMP)</b>					
Sales of goods		-	-	-	-
<b>Close family members of KMP</b>					
Sales of goods		-	-	-	-
<b>Companies controlled / jointly controlled / significantly Influenced by KMP and their close family members</b>					
Sales of goods		-	-	-	-
<b>Post employment benefit plan</b>					
Contributions to the provident fund		262,326	232,437	58,907	54,999

### 43.4. Transactions with related parties - Associates

Nations Trust Bank PLC.					
Interest received		200,565	35,065	87,567	29,589
Interest paid		7,844	1,794	-	-

The Group and Company held interest bearing deposits of LKR 2,491mn (2016 - 2,929 mn) and LKR 604 mn (2016 - 2,568 mn) respectively, at Nations Trust Bank PLC as at 31 March 2017.

## 43.5. Transactions and amounts due from related parties

As at 31 March In LKR '000s	Company			
	Rendering of services 2017	2016	Amounts due from 2017	2016
<b>Subsidiaries</b>				
Asian Hotels and Properties PLC.	34,493	32,028	3,109	3,338
Ceylon Cold Stores PLC.	54,234	45,867	58	4,030
Cinnamon Hotel Management Services Ltd.	92,943	94,328	16,170	5,154
InfoMate (Pvt) Ltd.	23,010	19,608	1,789	576
JayKay Marketing Services (Pvt) Ltd.	79,814	66,395	9,268	3,997
John Keells Logistics (Pvt) Ltd.	17,715	15,281	1,208	2,314
John Keells Office Automation (Pvt) Ltd.	28,291	35,084	1,517	4,577
John Keells PLC.	16,323	16,350	-	1,472
Keells Food Products PLC.	22,790	20,938	2,199	2,339
Lanka Marine Services Ltd.	10,129	8,462	1,040	362,781
Mack Air (Pvt) Ltd.	11,422	11,069	879	1,248
Mackinnons Keells Ltd.	2,476	2,476	124,589	-
Mackinnons Travels (Pvt) Ltd.	12,133	10,390	-	-
Trans Asia Hotels PLC.	24,298	22,207	-	-
Union Assurance PLC.	51,396	31,376	32,929	3,164
Walkers Tours Ltd.	34,610	31,597	3,696	615
Waterfront properties (Pvt) Ltd.	37,831	34,596	3,606	4,638
Whittall Boustead (Pvt) Ltd.	16,456	14,791	-	-
Other subsidiaries	131,384	125,297	13,058	11,944
	701,748	638,140	215,115	412,187
<b>Joint ventures</b>	270,305	220,011	70,923	94,431
<b>Associates</b>	11,624	5,453	697	88,564
	281,929	225,464	71,620	182,995

## 43.6. Transactions and amounts due to related parties

As at 31 March In LKR '000s	Company			
	Receiving of services 2017	2016	Amounts due to 2017	2016
<b>Subsidiaries</b>				
<b>Current</b>				
Asian Hotels and Properties PLC.	5,334	4,481	-	-
InfoMate (Pvt) Ltd.	8,157	6,041	-	-
John Keells BPO Solutions India (Pvt) Ltd.	-	-	-	6,724
Mack Air (Pvt) Ltd.	1,809	-	-	-
Mackinnons Travels (Pvt) Ltd.	18,046	23,276	2,221	1,574
Rajawella Holdings Ltd	-	-	203,104	90,300
Trans Asia Hotels PLC.	4,552	6,957	2,176	2,205
Whittall Boustead (Pvt) Ltd.	8,744	7,901	905	678
Other subsidiaries	2,276	3,301	776	654
	48,918	51,957	209,182	102,135
<b>Non-current</b>				
Rajawella Holdings Ltd.	-	-	-	180,458

## Notes to the Financial Statements

### 43. Related party transactions (Contd.)

#### 43.7. Compensation of key management personnel

Key management personnel include members of the Board of Directors of John Keells Holdings PLC and its subsidiary companies.

For the year ended 31st March In LKR '000s	Group		Company	
	2017	2016	2017	2016
Short-term employee benefits	410,881	427,632	170,944	185,419
Post employment benefits	-	-	-	-
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share based payments	133,911	145,481	55,747	65,688
	544,792	573,113	226,691	251,107

#### Directors' interest in the employee share option plan of the Company

As at 31 March 2017, the executive members of the Board of Directors held options to purchase ordinary shares under the employee share option plan as follows;

Expiry date	2017			2016	
	Adjusted exercise price LKR	Outstanding at the end of period	Exercisable at the end of period	Outstanding at the end of period	Exercisable at the end of period
06.12.2016	151.39	-	-	1,517,847	1,517,847
30.06.2018	191.65	2,295,814	1,721,859	1,548,202	769,187
30.06.2019	176.04	2,038,537	1,019,268	1,392,774	348,193
24.06.2020	149.84	1,675,073	418,766	1,025,984	-
14.08.2021	142.83	1,575,000	-	-	-

No share options have been granted to the non-executive members of the Board of Directors under the employee share option plan.

#### 43.8. Gain on share restructure/repurchase transaction - John Keells Holdings PLC

In the current year, the Company carried out an exercise to restructure the shareholding of the Company's investments in a few of its unlisted subsidiaries to reduce the complexity of the shareholding structure. Accordingly, selected companies holding investments in other subsidiaries, transferred its respective investments to the Company, at valuations independently verified with the assistance of external consultants. The exercise was completed via a combination of share buybacks between the unquoted entities within the Group, and its subsidiaries for a consideration of either cash or owners' shares.

In LKR 000's	Transaction value	Gain
<b>Shares bought back from</b>		
Keells Consultants Ltd	380,145	378,140
Mack Air Ltd.	1,007,985	960,978
Mackinnon Keells Ltd.	900,664	897,647
Mackinnon Mackenzie and Company of (Ceylon) Ltd.	239,745	239,745
Mortlake Ltd	378,410	98,074
Whittall Boustead (Pvt) Ltd	1,093	1,071
	2,908,042	2,575,655

### 44. Contingent liabilities

#### Accounting policy

#### Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event,

it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the

reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

All contingent liabilities are disclosed as a note to the financial statements unless the outflow of resources is remote. A contingent liability recognised in a business combination is initially measured at its fair value.

Subsequently, it is measured at the higher of: The amount that would be recognised in accordance with the general guidance for provisions above (LKAS 37) or The amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition (LKAS 18). Contingent assets are disclosed, where inflow of economic benefit is probable.

The contingent liability of the Group and the Company as at 31 March 2017, relates to the following;

#### **John Keells Holdings PLC (JKH)**

The contingent liability of the Company as at 31 March 2017, relates to the following;

#### **GST & VAT Assessments for the year of assessment 2002/03**

The company has filed appeals against these assessments and these are currently pending at the Court of Appeal.

#### **Income tax assessment relating to year of assessment 2006/07**

The company has filed an appeal against this assessment and it is currently pending at the Court of Appeal.

Having discussed with independent legal and tax experts and based on information available, the contingent liability as at 31 March 2017 is estimated at LKR 123 mn.

#### **Lanka Marine Services (Pvt) Ltd. (LMS)**

The contingent liability of LMS as at 31 March 2017, relates to the following:

#### **Post privatisation turnover tax levied by the Western Provincial Council**

The Company has disputed this on the basis that its business activity is that of an export. An appeal has been made by the Company to the Western Provincial Council.

#### **Income tax assessment relating to year of assessment 2001/02**

Assessment was received by the Company based on normal tax rates. The company has appealed against this assessment on the grounds that the sale of bunker to foreign ships is an export, which is liable to concessionary

rates of taxes, but this has been disputed by the Department of Inland Revenue. The appeal made by the company is currently with the Court of Appeal of Sri Lanka.

#### **Income tax assessments relating to years of assessments 2002/03, 2003/04 and 2004/05**

Assessments were received in January 2009, once again based on normal tax rates. It is the view of the Company, based on opinions from independent legal counsel and tax consultants, that the subject years were statutorily time barred as provided in the Inland Revenue Act. The appeals made by the Company to the Board of Review were transferred to the Tax Appeals Commission (TAC). The TAC determined that the assessments raised were time barred. A case stated has been filed with the Court of Appeal by an application made by the CGIR.

#### **Income tax assessments relating to years of assessments 2005/06, 2006/07, 2007/08 and 2008/09**

Assessments were received in August 2008, October 2009 and March 2011, consequent to the Supreme Court judgement, whereby the original BOI concessions granted were annulled. Although the assessments were based on normal tax rates the company computed and paid income taxes at concessionary rates of taxes, based on opinions from independent legal counsel and tax consultants, that the supply of bunkers to foreign vessels is an export and therefore eligible to concessionary rates of taxes as provided in the Inland Revenue Act. Appeals were lodged against the balance taxes assessed and penalties charged by the Inland Revenue and the status of each of the appeals are as follows:

2005/06 and 2006/07 The Tax Appeals Commission determined that it has no jurisdiction in respect of appeals relating to these two years and a case stated has been filed with the Court of Appeal by an application made by the CGIR.

2007/08 – The appeal was determined in favour of the CGIR by the Tax Appeals Commission, and a case stated has been filed with the Court of Appeal by an application made by the company.

2008/09 – The appeal was determined in favour of the CGIR by the Tax Appeals Commission. The company intends to file the case stated with the Court of Appeal.

#### **Income tax Assessments relating to years of assessments 2009/2010, 2010/2011 and 2011/2012**

Assessments were received based on normal tax rates. Appeals have been lodged with the Department of Inland Revenue within the stipulated time period for assessments raised for these years of assessment. All the

above three assessments were confirmed by the Commissioner General of Inland Revenue and the company being aggrieved by the decision has appealed to the Tax Appeals Commission.

#### **Income Tax Assessments relating to years of assessments 2012/2013 and 2013/2014**

Assessments were received based on normal tax rates. Appeals have been lodged with the Department of Inland Revenue within the stipulated time period.

Having discussed with independent legal and tax experts and based on information available, the contingent liability as at 31 March 2017 is estimated at LKR 1,019 mn.

#### **Mackinnons Travels (Pvt) Ltd (MTL)**

The contingent liability of MTL as at 31 March 2017, relates to the following;

#### **VAT Assessments received for years of assessments 2009/10 and 2010/2011**

The company has filed appeals against these assessments with the Inland Revenue Department. The Tax Appeals Commission determined the appeal in favour of the company and upheld the position that the company is entitled to claim zero rated status on its taxable supplies. The Department of Inland Revenue is currently awaiting the case stated from the Tax Appeals Commission to make an application to the Court of Appeal.

Having discussed with independent legal and tax experts and based on information available, the contingent liability as at 31 March 2017 is estimated at LKR 26mn.

#### **Union Assurance PLC (UA)**

The contingent liability of UA PLC as at 31 March 2017, relates to the following;

#### **Income Tax Assessments received for years of assessments 2010/11, 2011/2012, 2012/13 and 2013/14**

The Department of Inland Revenue has raised assessments on Union Assurance PLC for the above years of assessment, assessing the Life insurance business to pay income taxes of LKR 13mn, LKR 132mn, LKR 466mn and LKR 175mn respectively. The company has filed valid appeals against these assessments.

Having discussed with independent legal and tax experts and based on information available, the Directors are of the view that the Company has followed due process and acted in accordance with the prevailing laws in its tax submissions for years of assessment 2010 /11, 2011/12, 2012/13 and 2013/14, and accordingly have concluded that the above assessments have no rationale or basis in law.

## Notes to the Financial Statements

### 45. Capital and other commitments

As at 31 March In LKR '000s	Group		Company	
	2017	2016	2017	2016
Capital commitments approved but not provided for	66,186,343	64,837,411	-	-
Guarantees	180,913	117,000	180,913	167,145
	66,367,256	64,954,411	180,913	167,145

### 46. Lease commitments

As at 31 March In LKR '000s	Group	
	2017	2016
Lease rentals due on non-cancellable operating leases;		
Within one year	562,965	492,294
Between one and five years	1,084,140	1,017,705
After five years	5,391,496	3,739,095
	7,038,601	5,249,094

Company	Lessor	Leased properties
Ceylon Cold Stores PLC.	CISCO Speciality Packaging (Pvt) Ltd.	Pet bottle plant
Ceylon Holiday Resorts Ltd.	Sri Lanka Tourist board	Land occupied
Hikkaduwa Holiday Resort (Pvt) Ltd.	Sri Lanka Tourist board	Land occupied
Fantasea World Investment (Pte) Ltd.	Government of Maldives	Land occupied
Habarana Lodge Ltd.	Kekirawa Divisional Secretariat	Land occupied
Habarana Walk Inn Ltd.	Kekirawa Divisional Secretariat	Land occupied
Jaykay Marketing Services (Pvt) Ltd.	Land owners	Land occupied
Keells Food Products PLC.	Pannala Divisional Secretariat	Land occupied
The Colombo Ice Company (Pvt) Ltd.	Board of Investment of Sri Lanka	Land occupied
Travel Club (Pte) Ltd.	Government of Maldives and a sub lease with Ellaidhoo Investments (Pte) Ltd.	Land occupied
Tranquility (Pte) Ltd.	Government of Maldives	Land occupied
Yala Village (Pvt) Ltd.	Sri Lanka Tourist board	Land occupied
Waterfront properties (Pvt) Ltd.	Board of Investment of Sri Lanka	Land occupied

Extent of lease hold land is given in the Group real estate portfolio in the Supplementary section of the Annual Report.

### 47. Assets pledged

Assets pledged for facilities obtained is given in note 36.3 to the financial statements.

### 48. Events after the reporting period

#### Final dividend

The Board of Directors of the Company has declared a final dividend of LKR 2.00 per share for the financial year ended 31 March 2017. As required by section 56 (2) of the Companies Act No. 07 of 2007, the Board of Directors has confirmed that the Company satisfies the solvency test in accordance with section 57 of the Companies Act No.07 of 2007, and has obtained a certificate from auditors, prior to declaring a final dividend which is to be paid on the 16 June 2017.

In accordance with LKAS 10, Events after the reporting period, the final dividend has not been recognised as a liability in the financial statements as at 31 March 2017.

## SUPPLEMENTARY INFORMATION

# Building *Partnerships*

This section entails additional  
Group related information.

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# History of the John Keells Group

## 1870-1970

- 1870: Two English brothers, George and Edwin John set up E. John & Co, a firm of produce and exchange brokers.
- 1948: The firm merged with two other London based tea brokers, and thereby evolved into a private liability company by the name of E. John, Thompson, White & Company Ltd.
- 1960: Amalgamated with Keell and Waldock Ltd., another long established produce, share and freight broking company. The company changed its name to John Keell Thompson White Ltd.

## 1971-1990

- 1973: Walkers Tours and Travels (Ceylon) Ltd, a leading inbound tour operator, is acquired.
- 1974: The firm became a Rupee quoted public company. Changed its name to John Keells Ltd.
- 1986: A newly incorporated John Keells Holdings (JKH) acquired a controlling stake in John Keells Limited, and obtained a quotation on the Colombo Stock Exchange (CSE) amidst a heavily over-subscribed public share issue.

## 1991-2000

- 1991: Acquired the Whittalls Group of Companies, and thus gained control of Ceylon Cold Stores, Ceylon Holiday Resorts, and Union Assurance. The acquisition was one of the largest deals carried out at the time.
- 1994: JKH became the first Sri Lankan company to obtain a listing abroad, by way of issuing Global Depository Receipts (GDRs) on the Luxembourg Stock Exchange.
- 1996: Velidhu Resort Hotel, an 80 roomed island resort in the Maldives, was acquired. This marked the Group's first major overseas investment.
- 1999: Nations Trust Bank (NTB) was established, in a joint venture with the International Finance Corporation (IFC) and Central Finance Co. Ltd. The South Asia Gateway Terminal (SAGT) commenced operations to own, operate, and develop the Queen Elizabeth Quay at the Port of Colombo.
- 2000: JKH became the first Sri Lankan company to obtain the SL-AAA credit rating from Fitch Ratings. The firm was also admitted as a full member of the World Economic Forum, and was also rated among the best 300 small companies in the world by the Forbes Global magazine.

## 2001-2007

- 2003: JKH acquired Asian Hotels and Properties, thereby gaining control of 40 per cent of the five star room capacity in Colombo.
- 2004: John Keells Hotels Limited (KHL) was created as a holding company for all Group resorts. The Group's CSR arm, The John Keells Social Responsibility Foundation was established as a non-profit.
- 2005: The Group launched its new hotel brands "Cinnamon Hotels & Resorts" and "Chaaya Hotels & Resorts". JKH entered into a MoU to develop a third resort in the Maldives and also acquired 80 per cent of the Yala Village Hotel. Keells Plantations was sold off, thus marking the Group's exit from the ownership of plantations. A joint venture with Raman Roy Associates was embarked upon, to enter the BPO space.
- 2006: A lease was acquired on the Dhonveli Beach and Spa and the Ellaidhoo Tourist Resort in the Maldives. The Group increased its stake in SAGT by 8 per cent to 34 per cent. John Keells Holdings Ltd was renamed as John Keells Holdings PLC.
- 2007: Cinnamon Island Alidhoo commenced operations. The Group signed a long term funding arrangement amounting to USD 75 million with the International Finance Corporation (IFC).

## 2008-2010

- 2008: JKH acquired a further 8.4 per cent in SAGT and also increased stakes in UA, CCS, JKL and KFPL. The stake in AMW was divested.
- 2009: JKH's market capitalization surpassed USD 1 billion. The Trans Asia Hotel was re-branded, and re-launched as Cinnamon Lakeside. The Group released its first standalone Sustainability Report, in full compliance with the Global Reporting Initiative (GRI-G3) framework.
- 2010: The head lease of Alidhoo Island was divested while the head lease of Dhonveli Island was acquired for a period of 18 years. Construction of "OnThree20", a 475 unit apartment complex in the heart of Colombo commenced. Walkers Tours and Whittall Boustead became the only destination management companies to obtain both ISO 9001 and ISO 14001 certifications. Ceylon Cold Stores added "KIK" as its cola brand in its portfolio of soft drinks. JKH also acquired 5.6 million shares of Union Assurance PLC, and increased its stake to 95.6 per cent.

## 2011-2014

- 2011: "The Emperor" apartment project at Crescat City, Colombo reached completion. Chaaya Tranz Hikkaduwa and Chaaya Wild Yala were re-opened after refurbishment.
- 2012: Cinnamon Bey, a 200 room five star resort was launched. "K-Zone", a 140,000 sq. ft. mall was opened in Ja-Ela, Colombo. Keells Food Products PLC and Union Assurance PLC successfully raised LKR 1.2 billion and LKR 720 million respectively, via rights issues.
- 2013: The market capitalisation of JKH exceeded USD 2 billion for the first time in the Group's history. The "Waterfront" integrated resort project was announced to the public. JKH was recognised as one of the top 15 great places to work in Sri Lanka through a survey conducted by the Great Place to Work Institute.
- 2014: "Cinnamon red", the first lean luxury hotel in Sri Lanka, was launched. The "OnThree20" residential development project was successfully completed. Union Assurance was segregated as per a regulatory directive, and the General Insurance segment was divested. JayKay Marketing Services (Private) Limited merged with Nexus Networks (Private) Limited, with JMSL being the surviving entity. Divested stakes in Expo Lanka Holdings PLC and Access Engineering PLC.

## 2015 – To Present

- 2015: Waterfront Properties (Private) Limited raised the necessary debt funding for the "Cinnamon Life" project, by way of the largest syndicated debt facility obtained by a local firm. A controlling stake in Rajawella Holdings Ltd (RHL) was acquired for LKR 1.04 billion. SAGT was ranked number one in South Asia and number four in the world for terminal productivity by the Journal of Commerce, USA. The refurbishment of Cinnamon Lakeside was completed. The Group raised LKR 8 billion by converting 50 million warrants.
- "7th Sense", a high-end, niche, residential development was completed. JKH is ranked first in the LMD Magazine's "Most Respected Entities in Sri Lanka" survey for the tenth consecutive time, and also tops the Business Today magazine's list of Sri Lanka's Top 25 companies for the second time. The 50th Keells Super outlet was opened.
- 2016: Please refer the "Year at a Glance" section of the JKH Annual Report.

## Economic Value Statement

	Transportation		Leisure		Property		Consumer Foods and Retail		Financial Services	
For the year ended 31 March LKR millions	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<b>Direct economic value generated</b>										
Revenue	11,517	10,725	28,135	26,829	1,459	4,677	46,834	37,795	8,298	7,146
Finance income	242	188	2,849	1,588	591	476	998	451	3,512	2,665
Share of results of associates	2,275	1,869	53	52	-	-	-	-	975	860
Profit on sale of assets & other income	2,009	138	281	93	1,032	380	1,296	1,543	62	55
Valuation gain on IP	-	-	-	-	290	148	92	17	-	-
	16,043	12,920	31,318	28,562	3,372	5,681	49,220	39,806	12,847	10,726
<b>Economic value distributed</b>										
Operating costs	11,210	9,030	12,208	10,654	1,540	1,742	33,428	27,462	9,135	6,621
Employee wages & benefits	451	409	4,569	4,069	390	251	4,078	3,531	851	822
Payments to providers of funds	1,139	863	6,744	6,588	824	2,337	4,507	2,914	514	1,256
Payments to government	168	57	1,352	1,199	69	132	3,155	2,467	63	41
Community investments	3	24	55	54	1	-	43	29	5	14
	12,971	10,383	24,928	22,564	2,824	4,462	45,211	36,403	10,568	8,754
<b>Economic value retained</b>										
Depreciation	102	88	1,589	1,547	19	14	830	736	80	89
Amortisation	2	1	636	768	21	25	14	12	221	217
Profit after dividends	2,968	2,448	4,165	3,684	508	1,179	3,165	2,655	1,978	1,665
Retained for reinvestment / growth	3,072	2,537	6,390	5,999	548	1,218	4,009	3,403	2,279	1,971

Above data has been derived from the audited Financial Statements that were prepared based on Sri Lanka Accounting Standards (SLFRS/LKAS).

Information Technology		Others		Total		Eliminations/ Adjustments		Group Total			
2017	2016	2017	2016	2017	2016	2017	2016	2017	%	2016	%
11,337	8,463	3,757	3,397	111,337	99,032	(5,064)	(5,322)	106,273	87.21	93,710	87.66
52	45	16,152	15,014	24,396	20,427	(14,363)	(12,416)	10,033	8.23	8,011	7.49
-	-	-	-	3,303	2,781	-	-	3,303	2.71	2,781	2.60
71	113	4,060	3,931	8,812	6,253	(7,047)	(4,121)	1,765	1.45	2,132	1.99
-	-	101	98	484	263	-	-	484	0.40	263	0.25
11,460	8,621	24,070	22,440	148,332	128,755	(26,474)	(21,859)	121,858	100.00	106,896	100.00
8,710	6,303	10,622	9,665	86,853	71,477	(5,305)	(1,657)	81,548	66.92	69,820	65.32
1,362	1,461	1,045	1,080	12,746	11,623	-	-	12,746	10.46	11,623	10.87
513	439	7,987	8,530	22,228	22,927	(13,889)	(12,164)	8,339	6.84	10,763	10.07
271	129	1,207	669	6,285	4,694	-	-	6,285	5.16	4,694	4.39
3	4	34	-	144	125	-	-	144	0.12	125	0.12
10,859	8,336	20,895	19,944	128,256	110,846	(19,194)	(13,821)	109,062	89.50	97,025	90.77
122	180	133	128	2,875	2,782	-	-	2,875	2.36	2,782	2.60
11	10	21	25	926	1,058	-	-	926	0.76	1,059	0.99
468	96	3,023	2,343	16,275	14,070	(7,280)	(8,038)	8,995	7.38	6,032	5.64
601	286	3,177	2,496	20,076	17,910	(7,280)	(8,038)	12,796	10.50	9,873	9.23

## Decade at a Glance

31 March LKR Millions	2017*	2016*	2015*	2014*	2013*
<b>OPERATING RESULTS</b>					
Group revenue	106,273	93,710	91,852	86,706	85,408
EBIT	23,324	20,192	19,226	16,537	16,677
Finance cost	(436)	(994)	(668)	(1,217)	(1,081)
Share of results of equity accounted investees	3,303	2,781	2,778	3,089	3,440
Profit before tax	22,888	19,198	18,557	15,320	15,595
Tax expense	(4,771)	(3,406)	(2,812)	(2,362)	(2,162)
Profit after tax	18,117	15,792	15,745	12,958	13,433
<b>Attributable to:</b>					
<b>Equity holders of the parent</b>					
Equity holders of the parent	16,275	14,070	14,348	11,721	12,113
Non-controlling interests	1,842	1,722	1,397	1,237	1,320
	18,117	15,792	15,745	12,958	13,433
<b>CAPITAL EMPLOYED</b>					
Stated capital	62,790	58,702	50,703	49,749	26,480
Capital reserves and other components of equity	38,652	28,715	24,501	21,845	20,635
Revenue reserves	77,193	67,565	62,594	51,304	42,704
	178,635	154,982	137,798	122,898	89,819
Non-controlling interest	15,696	13,499	12,279	11,421	11,152
Total equity	194,331	168,481	150,077	134,319	100,971
Total debt	22,766	20,750	23,934	26,139	20,107
	217,097	189,231	174,011	160,458	121,078
<b>ASSETS EMPLOYED</b>					
Property, plant and equipment (PPE)	64,396	52,737	49,563	47,406	49,200
Non-current assets other than PPE	107,912	93,376	78,030	71,969	59,787
Current assets	104,964	94,863	90,493	82,206	49,934
Liabilities net of debt	(60,175)	(51,745)	(44,075)	(41,123)	(37,843)
	217,097	189,231	174,011	160,458	121,078
<b>CASH FLOW</b>					
Net cash flows from operating activities	21,020	20,513	20,855	8,041	14,568
Net cash flows from / (used in) investing activities	(17,670)	(9,567)	(1,255)	(19,710)	(16,199)
Net cash flows from / (used in) financing activities	(4,105)	(7,717)	(4,838)	25,446	(1,320)
Net increase / (decrease) in cash and cash equivalents	(755)	(3,229)	14,762	13,777	(2,951)
<b>KEY INDICATORS</b>					
Basic earnings per share (LKR)	11.9	10.5	12.6	10.5	10.7
Interest cover (no. of times)	52.8	51.5	27.7	13.6	15.4
Net assets per share** (LKR)	128.7	111.7	99.3	88.6	64.7
Enterprise value (EV)	136,022	124,182	155,675	155,675	203,615
EV / EBITDA	5.0	5.0	6.6	10.0	10.0
ROE (%)	9.8	9.6	11.0	11.0	15.0
Debt / equity ratio (%)	11.7	12.3	15.9	19.5	19.9
TSR (%)	(10.0)***	(12.2)***	(12.0)***	(0.4)***	21.7
Dividend payout (Rs 'millions)	7,280	8,038	3,476	3,267	2,982
Current ratio (no. of times)	3.7	4.0	2.6	2.4	2.0
Market price per share unadjusted (LKR)	137.9	148.0	199.4	227.0	247.0
Market price per share diluted (LKR)	137.9	129.5	152.7	173.8	238.2
Revenue growth rate (%)	13.4	1.6	5.9	4.1	9.7
USD closing rate	151.9	147.7	133.5	130.7	126.8
USD average rate	148.0	139.2	131.2	130.1	129.9

\* The figures are derived from financial statements prepared in accordance with SLFRS/LKAS. Figures for the remaining periods are derived from financial statements prepared in accordance with previous SLASs.

\*\* Net assets per share has been calculated, for all periods, based on the net assets of the Group and number of shares in issue as at 31 March 2017.

\*\*\* Includes the proportionate impact arising from the ownership of warrants.

	2012	2011	2010	2009	2008
	75,924	60,500	47,980	41,023	41,805
	14,192	11,425	7,908	7,986	8,197
	(1,416)	(796)	(1,370)	(1,695)	(1,618)
	2,809	2,641	2,556	2,340	2,243
	12,778	10,629	6,538	6,291	6,579
	(1,827)	(1,566)	(986)	(1,326)	(1,054)
	10,951	9,063	5,552	4,965	5,525
	9,689	8,245	5,201	4,733	5,119
	1,262	818	351	232	406
	10,951	9,063	5,552	4,965	5,525
	25,111	24,612	23,322	22,525	22,464
	13,226	9,560	7,574	7,437	6,019
	33,001	25,415	18,936	15,545	14,914
	71,338	59,587	49,832	45,507	43,397
	8,624	7,608	6,430	4,960	4,770
	79,962	67,195	56,262	50,467	48,167
	20,054	14,641	17,453	21,596	12,667
	100,016	81,836	73,715	72,063	60,834
	34,246	28,628	29,989	29,965	28,381
	52,397	47,436	34,104	33,456	19,128
	47,412	34,228	34,566	28,718	23,440
	(34,039)	(28,456)	(24,944)	(20,076)	(10,115)
	100,016	81,836	73,715	72,063	60,834
	16,476	8,501	9,485	4,146	6,914
	(9,003)	(4,469)	(5,823)	(3,972)	(4,359)
	496	(6,791)	(636)	2,332	(6,262)
	7,969	(2,759)	3,026	2,506	(3,707)
	9.5	8.2	5.2	4.7	5.1
	10.0	14.4	5.8	4.7	5.1
	51.4	43.0	35.9	32.8	31.3
	166,143	175,672	109,548	42,815	76,713
	13.1	13.1	10.9	4.3	7.8
	14.7	15.1	10.9	10.6	12.3
	25.0	21.8	31.0	42.8	26.3
	58.2	204.3	(43.1)	15.7	24.6
	2,314	1,844	1,883	3,176	1,412
	2.0	1.8	2.1	1.8	1.9
	206.0	285.6	184.0	62.8	119.8
	152.6	34.6	66.0	62.0	52.6
	25.5	26.1	17.0	-1.9	27.2
	128.1	110.4	114.0	115.5	107.8
	112.6	112.1	115.0	109.8	110.3

## Indicative US Dollar Financial Statements

### Income Statement for Information Purposes Only

For the year ended 31 March In USD'000s	Group		Company	
	2017	2016	2017	2016
<b>Continuing operations</b>				
Sale of goods	449,231	396,940	-	-
Rendering of services	250,394	237,736	7,415	7,505
<b>Revenue</b>	<b>699,625</b>	<b>634,676</b>	<b>7,415</b>	<b>7,505</b>
Cost of sales	(494,787)	(440,618)	(3,713)	(3,670)
<b>Gross profit</b>	<b>204,838</b>	<b>194,058</b>	<b>3,702</b>	<b>3,835</b>
Dividend income	-	-	68,920	69,494
Other operating income	11,621	11,542	17,168	25,885
Selling and distribution expenses	(25,679)	(24,487)	-	-
Administrative expenses	(75,285)	(72,768)	(5,951)	(6,418)
Other operating expenses	(20,870)	(23,228)	(6,196)	(3,838)
<b>Results from operating activities</b>	<b>94,625</b>	<b>85,117</b>	<b>77,643</b>	<b>88,958</b>
Finance cost	(2,872)	(6,731)	(589)	(553)
Finance income	66,052	54,256	36,476	31,428
Change in insurance contract liabilities	(32,056)	(23,234)	-	-
Change in fair value of investment property	3,183	1,780	-	-
Share of results of equity accounted investees	21,744	18,837	-	-
<b>Profit before tax</b>	<b>150,676</b>	<b>130,025</b>	<b>113,530</b>	<b>119,833</b>
Tax expense	(31,409)	(23,071)	(7,195)	(4,222)
<b>Profit for the year</b>	<b>119,267</b>	<b>106,954</b>	<b>106,335</b>	<b>115,611</b>
<b>Attributable to:</b>				
Equity holders of the parent	107,143	95,292		
Non-controlling interests	12,124	11,662		
	119,267	106,954		
Basic earnings per share	0.08	0.07		
Diluted earnings per share	0.08	0.07		

This information does not constitute a full set of financial statements in compliance with SLFRS/LKAS. The above should be read together with the Auditors' opinion and the notes to the financial statements. Exchange rates prevailing at year end USD/LKR 151.90 (2016 - 147.65) have been used to convert the income statement and statement of financial position.

## Statement of Financial Position for Information Purposes Only

For the year ended 31 March In USD'000s	Group		Company	
	2017	2016	2017	2016
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	423,939	357,172	618	786
Lease rentals paid in advance	86,939	73,743	-	-
Investment property	35,327	33,040	-	-
Intangible assets	13,944	15,834	203	297
Investments in subsidiaries	-	-	282,998	246,425
Investments in equity accounted investees	116,648	114,795	58,662	60,058
Non-current financial assets	182,137	153,305	18,367	3,437
Deferred tax assets	945	879	-	-
Other non-current assets	274,472	240,821	107	84
	1,134,351	989,589	360,955	311,087
<b>Current assets</b>				
Inventories	36,904	31,594	-	-
Trade and other receivables	76,942	67,721	777	1,146
Amounts due from related parties	735	901	1,888	4,031
Other current assets	21,497	15,601	655	869
Short term investments	521,227	491,941	396,598	385,115
Cash in hand and at bank	33,701	34,727	2,003	1,207
	691,006	642,485	401,921	392,368
<b>Total assets</b>	<b>1,825,357</b>	<b>1,632,074</b>	<b>762,876</b>	<b>703,455</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders of the parent</b>				
Stated capital	413,365	397,575	413,365	397,575
Revenue reserves	508,184	457,599	329,088	278,509
Other components of equity	254,454	194,485	9,905	7,349
	1,176,003	1,049,659	752,358	683,433
<b>Non-controlling interest</b>	<b>103,328</b>	<b>91,423</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>	<b>1,279,331</b>	<b>1,141,082</b>	<b>752,358</b>	<b>683,433</b>
<b>Non-current liabilities</b>				
Insurance contract liabilities	208,692	184,255	-	-
Interest-bearing loans and borrowings	93,500	92,833	-	-
Deferred tax liabilities	15,380	13,744	-	-
Employee benefit liabilities	12,378	11,249	1,435	1,281
Other deferred liabilities	5,523	5,837	680	2,513
Other non-current liabilities	25,898	20,963	-	-
	361,371	328,881	2,115	3,794
<b>Current liabilities</b>				
Trade and other payables	93,061	86,390	2,173	2,252
Amounts due to related parties	69	196	1,383	692
Income tax liabilities	15,769	12,689	4,184	2,340
Short term borrowings	9,086	5,562	-	-
Interest-bearing loans and borrowings	19,216	20,261	-	10,041
Other current liabilities	19,382	15,136	108	110
Bank overdrafts	28,072	21,877	555	793
	184,655	162,111	8,403	16,228
<b>Total equity and liabilities</b>	<b>1,825,357</b>	<b>1,632,074</b>	<b>762,876</b>	<b>703,455</b>

This information does not constitute a full set of financial statements in compliance with SLFRS/LKAS. The above should be read together with the Auditors' opinion and the notes to the financial statements. Exchange rates prevailing at year end USD/LKR 151.90 (2016 : 147.65) have been used to convert the income statement and statement of financial position.

## Sri Lankan Economy

Summary indicator	Units	2009	2010	2011	2012	2013	2014	2015	2016
GDP growth (2010 base)	Per cent	-	-	8.4	9.1	3.4	5.0	4.8	4.4
GDP growth (2002 base)	Per cent	3.5	8.0	8.2	6.3	7.2	7.4	5.7	-
GDP(current prices: 2010 base)	Rs. Billion	-	6,414	7,219	8,732	9,592	10,361	10,952	11,839
GDP(current prices: 2002 base)	Rs. Billion	4,835	5,604	6,543	7,579	8,674	9,785	10,660	-
GDP(current prices: 2010 base)	USD Billion	-	56.7	65.3	68.4	74.3	79.4	80.6	81.3
GDP(current prices: 2002 base)	USD Billion	42.1	49.6	59.2	59.4	67.2	74.9	78.4	-
GDP per capita (USD) Growth : 2010 base	Per cent	-	-	14.0	7.1	7.7	5.9	0.6	(0.2)
GDP per capita (USD) Growth : 2002 base	Per cent	2.1	16.7	18.3	3	12	11	8	-
GDP per capita (market prices: 2010 base)	Rs 000	-	310	346	428	466	499	522	558
GDP per capita (market prices: 2002 base)	Rs 000	236	271	314	371	422	471	508	-
GDP per capita (market prices: 2010 base)	USD	-	2,744	3,129	3,351	3,609	3,821	3,843	3,835
GDP per capita (market prices: 2002 base)	USD	2,057	2,400	2,836	2,908	3,265	3,608	3,894	-
Inflation (CCPI 2013=100) annual average	Per cent	-	-	-	-	-	-	2.2	4
Inflation (CCPI 2006/07=100) annual average	Per cent	3.5	6.2	6.7	7.6	6.9	3.3	0.9	3.7
Inflation (NCPI 2013=100) annual average	Per cent	-	-	-	-	-	-	3.8	4
Current account balance	USD Billion	(0.2)	(1.1)	(4.6)	(4.0)	(2.5)	(2.0)	(1.9)	(1.9)
Current account % of GDP*	Per cent	(0.5)	(1.9)	7.1	(5.8)	(3.4)	(2.5)	(2.3)	(2.4)
Population	Million	20.5	20.7	20.9	20.4	20.6	20.8	21.0	21.2
Exchange rate (Annual Average)	Rs/USD	114.9	113.1	110.6	127.6	129.1	130.6	135.9	145.6
Exchange rate change (Annual Average)	Per cent	6.1	(1.6)	(2.2)	15.4	1.2	1.1	4.1	7.1
12m T-Bill yield (yr-end)	Per cent	9.3	7.6	9.3	11.7	8.3	6.0	7.3	10.2
Prime lending rate (yr-end)	Per cent	10.9	9.3	10.8	14.4	10.1	6.3	7.5	11.5
M2b money supply growth	Per cent	18.6	15.8	19.1	17.6	16.7	13.4	17.8	18.4
Exports	USD Billion	7.1	8.6	10.6	9.8	10.4	11.1	10.5	10.3
Imports	USD Billion	10.2	13.5	20.3	19.2	18.0	19.4	18.9	19.4
Balance of payments*	Per cent of GDP	6.5	1.6	(1.6)	0.2	1.3	1.7	(1.8)	(0.6)
Budget deficit*	Per cent of GDP	(9.9)	(7.0)	(6.2)	(5.6)	(5.4)	(5.7)	(7.6)	(5.4)
Unemployment rate	Per cent	5.8	4.9	4.2	4.0	4.4	4.3	4.7	4.4
All Share Index (yr-end)	Points	3,386	6,636	6,074	5,643	5,913	7,299	6,895	6,228
Tourist arrivals	No.' 000	447.9	654.5	856.0	1,006	1,275	1,527	1,798	2,051

\* Uses rebased GDP (2010 base) from 2010 onwards

Sri Lanka's economic growth continued to moderate in 2016, slowing to 4.4 per cent from 4.8 per cent growth in the previous year. Strong growth in the construction sub-segment led a notable rise in the Industrial sector, while the services sector continued to grow at healthy levels, despite recording a slight moderation from the previous year. Nevertheless, overall growth was weighed down by poor performance in the agrarian sector as a result of adverse weather conditions throughout of most of the year. Poor weather conditions also contributed to several food supply disruptions throughout the year which resulted in inflation edging up in 2016, averaging higher at 4.0 per cent (CCPI - 2013 base) compared to the 2.2 per cent average in 2015. In addition to the unfavourable supply side factors, revisions to taxation policies and rates implemented by the Government during the year, such as the VAT revision, also contributed to the rise in inflation.

Given the accelerating pace of growth in private sector credit, coupled with increased import demand and concerns of demand driven inflation pressures, the CBSL maintained a contractionary monetary policy

stance throughout 2016. Following the hike in the Statutory Reserve Ratio in December 2015, the Bank raised key policy rates by 50 basis points each in February and July 2016. Despite these moves, credit demand was slow to respond as it ended the year above the 20 per cent YOY (Year-on-Year) growth target set by the CBSL. This prompted the Bank to raise rates once again in March 2017 by 25 basis points. The tightening stance was further advocated by the International Monetary Fund (IMF) under its Extended Fund Facility (EFF) which was put in place in mid-2016 to support the country's economic reform agenda amid worsening debt levels and external financing conditions. Under the recommendation of the IMF, the CBSL is also expected to move towards an inflation targeting monetary framework from the previous monetary targeting framework.

In line with the tightening monetary stance, key market rates rose significantly during the year with the Average Weighted Prime Lending Rate (AWPLR) rising by 402 basis points to 11.52 per cent by end-2016 from 7.50 per cent at the end of 2015. Similarly, the Average Weighted Deposit Rate (AWDR) rose by 197 basis points to 8.17 per cent by the end of 2016.

Broad money supply continued to accelerate in 2016, rising by 18.4 per cent compared to the 17.8 per cent growth in 2015. This was led primarily by a sizable increase in credit to the private sector which recorded an absolute growth of Rs. 754.8 billion compared to the Rs. 691.4 billion increase in the previous year. Net credit to the Government also contributed to the rise, increasing by 12.1 per cent over the year. Credit to public corporations however recorded a decline of 5.3 per cent during the year.

Sri Lanka's Balance of Payments (BOP) deficit improved in 2016, contracting to US\$ 500 million from the US\$ 1.5 billion deficit seen in the previous year. This was due to an improvement in the Financial Account, despite a marginal expansion in the deficit in the Current Account to 2.4 per cent of GDP. Increased import demand and weak export performance contributed to a widening of the trade deficit to US\$9.1 billion in 2016 from a deficit of US\$ 8.4 billion seen in the previous year. Despite the curtailment of vehicle imports through several administrative measures taken by the Government, a sharp increase in investment goods imports, particularly machinery and equipment saw

overall import expenditure accelerate during the year. Meanwhile, poor global demand conditions and low commodity prices contributed to the decline in export earnings.

Nevertheless, increased tourism earnings and moderately higher workers' remittances resulted in an improvement in the Services account, cushioning the overall fall in the Current Account. Tourist arrivals grew 14 per cent during the year, crossing the 2 million mark, while Tourism earnings increased by 18 per cent to US\$3.5 billion. Workers' Remittance inflows also improved by 3.7 per cent to US\$7.2 billion in 2016, reversing from the 0.5 per cent decline seen in the previous year.

On the external front, Sri Lanka remained largely vulnerable to global volatilities, particularly amid political uncertainties such as Brexit and the U.S presidential election, as well as a heightened global rates environment. With increased outflows being seen from emerging markets in the last quarter of 2016, foreign holdings in the Sri Lankan government securities market were severely impacted, reducing by Rs. 43.6 billion during the year. This added depreciatory pressure on the currency, which weakened by 4.0 per cent against the USD in 2016. In contrast, however, the LKR strengthened by a sizable 13.8 per cent against the GBP during the year, as the GBP weakened following UK's referendum to leave the EU. Foreign Direct Investments also remained subdued in 2016, dropping marginally to US\$ 1.0 billion from US\$ 1.1 billion seen in the previous year.

Sri Lanka's gross official reserves continued to deplete in 2016, falling to US\$ 6.0 billion from US\$ 7.3 billion in the previous year. This was due to several foreign currency debt repayments and defence of the LKR in the first half of 2016. Under the guidance of the IMF, the Central Bank aims to improve the reserve position to US\$7.5 billion by the end of 2017.

According to the Central Bank Annual Report, Sri Lanka achieved its fiscal targets for 2016, reducing the budget deficit to 5.4 per cent of GDP from 7.6 per cent in the previous year. During the year, the Government undertook several measures to improve the country's fiscal status following a revenue-based fiscal consolidation programme. This included several revisions to tax rates, a widening of the tax net and efforts to improve revenue collection. This saw total revenue increase to 14.2 per cent of GDP from 13.3 per cent in 2015, with a commendable growth in non-tax revenue. Supported by reductions in both recurrent and capital expenditure, Total expenditure also declined to 19.7 per cent of GDP in 2016, below the 20.9 per cent seen in the prior year.

#### The Year That Was

The GDP growth for the full year of 2016 was recorded at 4.4 per cent. Out of the three major sub sectors of GDP; Industry and

Services recorded growth rates of 6.7 per cent and 4.2 per cent respectively, while the Agricultural sector recorded a sizable decline of 4.2 per cent.

Growth in the Agricultural sector in 2016 was significantly disturbed by intemperate weather conditions experienced throughout the year, leading to a significant contraction of 4.2 per cent YOY in 2016 – down from the positive growth of 4.8 per cent YOY recorded in the previous year. This was mainly led by rice and tea sub-categories which saw significant declines of 31.0 per cent and 11.2 per cent YOY, respectively. The continued weak performance of the Tea industry was owing to poor demand conditions and lower tea production. Additionally, Rubber also contributed significantly to this decline, falling by 10.7 per cent YOY.

However, vegetables and oleaginous fruits (coconut, king coconut, oil palm) subcategories were less affected by the detrimental weather conditions, recording marginal declines of 2.1 per cent and 0.6 per cent YOY, correspondingly.

The Industrial sector grew at 6.7 per cent in 2016, improving substantially from the previous year's growth of 2.1 per cent YOY. This growth was mainly driven by the construction sub-sector which witnessed a significant upturn of 14.9 per cent YOY, followed by the mining and quarrying sub-category which showed 14.4 per cent growth. Meanwhile, the food, beverages and tobacco sub-sector recorded a marginal decline of 2.5 per cent during the year.

The services sector, the most significant component of GDP registered a growth of 4.2 per cent YOY in 2016, below the 5.7 per cent growth recorded in 2015, reflecting a slowdown in a majority of the service activities. Financial service activities led the service sector growth, rising at 12.4 per cent YOY, followed by transportation and whole and retail trade. Transportation category recorded a YOY growth of 4.2 per cent, while growth in wholesale and retail trade moderated to 2.5 per cent YOY in 2016, from a 5.1 per cent increase recorded in the previous year.

Together with the moderation in overall economic growth, domestic consumption demand in real terms plummeted to 0.9 per cent in 2016 from 8.8 per cent in the previous year (2010 base). This is likely attributable to the tightened monetary environment as well as significant weather disruptions during the year. Total domestic demand in real terms also saw a slight decline to 6.2 per cent from 6.3 per cent a year ago. However, real growth in investment expenditure climbed to 18.1 per cent in 2016, from the 1.2 per cent rise recorded in 2015.

The Department of Census and Statistics (DCS) revised the base year of the CCPI to

2013 from the previous base of 2006/07. According to the new base (2013=100), headline inflation reached an annual average of 4.0 per cent in 2016 – higher than 2.2 per cent average recorded in 2015. Headline inflation picked up significantly during the first half of 2016, peaking at 5.8 per cent YOY in July. Thereafter, it slowed down to around 4.0 per cent levels toward the latter half of the year with a slight uptick in recorded in December. The price movements were largely owing to shortage in food supplies during the year due to severe weather conditions. Several tariff revisions which took place throughout the year also contributed to the upward movement in headline inflation.

On the external front, Sri Lanka's trade account widened considerably during 2016 on account of increasing import expenditure and weak export performance, despite the significant decline in vehicle and fuel imports during the year. Export earnings saw a contraction of 2.2 per cent YOY in 2016, with a slight improvement seen toward the latter part of the year. The decline primarily reflects reduced domestic output and lower commodity prices, particularly in agricultural exports. Exports of transport equipment (due to base effect of higher earnings in 2015), petroleum products, tea and spices were the main contributors to the downturn, recording declines of 46.0 per cent, 23.3 per cent, 5.3 per cent and 16.0 per cent YOY, respectively. However, earnings from textiles and garment exports, a significant component of industrial exports, saw a marginal rise of 1.3 per cent YOY in 2016. Overall import expenditure expanded by 2.5 per cent in 2016, reversing from the 2.5 per cent decline recorded in the previous year. A 13.8 per cent growth in expenditure on Investment goods led the overall increase in imports, mainly due to a notable rise in machinery & equipment and building material imports. Increased expenditure on Intermediate goods also contributed to the expansion in imports, mainly owing to a 17.8 per cent YOY growth in textiles and textile articles imports. However, expenditure on fuel imports continued to decline, contracting by 8.1 per cent YOY due to the reduction in world crude oil prices, despite the increase in import volume toward the latter part of the year. Expenditure on consumer goods recorded a contraction of 8.4 per cent in 2016, caused by a 41.5 per cent YOY decline in personal motor vehicles imports as a result of increased tariffs to curtail vehicle imports.

Net foreign inflows to the Colombo Stock Exchange (CSE) remained moderate during 2016, amounting to US\$ 19.0 million, slightly above the US\$ 4.0 million inflows seen in the previous year. Outflows from the Government securities market reduced during the year, recording a net outflow of US\$ 325 million, compared to the US\$ 1,093.4 million during 2015.

## Group Real Estate Portfolio

Owning company and location	Buildings in (Sq. Ft)	Land in acres		Net book value	
		Freehold	Leasehold	2017 LKR '000s	2016 LKR '000s
<b>PROPERTIES IN COLOMBO</b>					
John Keells Office Automation (Pvt) Ltd. No.90 ,Union Place, Colombo 2.	9,100	-	-	-	76
John Keells PLC. 56/1, 58, 58 1/1 Kirulapone Avenue, Colombo 5.	-	0.08	-	1,249	1,249
Keells Realtors Ltd. 427 & 429, Ferguson Road, Colombo 15.	27,750	1.22	-	311,599	298,192
Mackinnon Keells Ltd. Leyden Bastian Road, York Street, Colombo 1.	31,656	0.45	-	506,083	475,258
Union Assurance PLC. No 20, St. Michaels' Road, Colombo 3.	57,916	0.58	-	1,121,751	1,128,379
Whittall Boustead (Pvt) Ltd. No.199 ,Union Place, Colombo 2. 148, Vauxhall Street, Colombo 2.	14,014 97,128	0.50 3.06	- -	446,800 2,397,687	406,800 2,281,523
	237,564	5.89	-	4,785,169	4,591,477
<b>PROPERTIES OUTSIDE COLOMBO</b>					
Ceylon Cold Stores PLC. Kaduwela.	312,042	27.35	-	1,264,323	1,118,853
Trincomalee.	23,840	1.14	-	207,042	111,404
Facets (Pvt) Ltd. Ahungalla.	-	6.31	-	400,000	367,385
John Keells BPO Solutions India (Pvt) Ltd. Floor 8, Tower B &C, Building No.6, DLF SEZ Cyber City, Phase III, Gurgaon, Haryana.	48,659	-	-	39,822	50,217
John Keells PLC. 17/1, Temple Road, Ekala, Ja-Ela.	-	3.77	-	226,500	181,170
John Keells Properties Ja-Ela (Pvt) Ltd No 525, Colombo Road, Kapuwatta, Ja-Ela.	144,631	6.60	-	1,758,000	1,633,000
John Keells Warehousing (Pvt) Ltd. Muthurajawela.	146,743	-	6.00	315,057	323,024
Keells Food Products PLC. 41, Temple Road, Ekala, Ja-Ela. Gonawila, Pannala	52,569 28,700	3.00 -	1.00 4.08	240,411 222,651	202,730 198,820
Rajawella Holdings Ltd. Mahaberiatenna, Kandy.	3,700	-	517.09	1,915,363	1,925,345
Tea Smallholder Factories PLC. Broadlands. Halwitigala. Hingalgoda. Karawita. Kurupanawa. Neluwa. New Panawenna. Pasgoda. Peliyagoda.	56,478 48,747 63,676 80,364 51,410 48,888 44,568 40,091 31,629	4.14 9.61 17.00 -	- - - 4.98 -	54,000 61,000 83,000 97,655 59,000 67,000 48,000 48,000 176,263	63,000 52,500 84,000 83,741 57,000 60,000 42,000 33,000 153,000

Owning company and location	Buildings in (Sq. Ft)	Land in acres		Net book value	
		Freehold	Leasehold	2017 LKR '000s	2016 LKR '000s
<b>PROPERTIES OUTSIDE COLOMBO (Contd.)</b>					
The Colombo Ice Company (Pvt) Ltd.					
Avisawella	-	-	9.30	174,701	-
Transware-Logistics (Pvt) Ltd.					
Tudella, Ja-Ela.	64,670	17.77	-	476,256	417,292
Union Assurance PLC.					
No 06,Rajapihilla Road, Kurunegala.	27,904	0.20	-	218,834	221,767
Whittall Boustead Ltd.					
150, Badulla Road, Nuwara Eliya.	4,343	0.46	-	96,811	97,368
	1,323,652	132.25	543.43	8,249,689	7,476,616
<b>HOTEL PROPERTIES</b>					
Asian Hotels and Properties PLC.					
Cinnamon Grand Premises, Colombo 3.	648,793	8.03	-	25,159,212	15,910,277
Crescat Boulevard, Colombo 3.	145,196	-	-	2,416,250	2,260,000
Ahungalla Holiday Resorts (Pvt) Ltd.					
Ahungalla.	-	4.63	-	152,790	148,000
Beruwala Holiday Resorts (Pvt) Ltd.					
Cinnamon Bey, Beruwala.	425,684	11.39	-	3,406,000	3,229,000
Ceylon Holiday Resorts Ltd.					
Bentota Beach by Cinnamon, Bentota.	236,524	2.32	11.02	291,173	642,042
Fantasea World Investments (Pte) Ltd.					
Cinnamon Hakuraa Huraa Maldives.	150,412	-	13.42	1,183,395	1,155,217
Habarana Lodge Ltd.					
Cinnamon Lodge, Habarana.	202,999	-	25.48	715,100	669,900
Habarana Walk Inn Ltd.					
Habarana Village by Cinnamon, Habarana	121,767	-	9.34	308,100	291,755
Hikkaduwa Holiday Resorts (Pvt) Ltd.					
Hikka Tranz by Cinnamon, Hikkaduwa.	233,965	0.29	4.36	1,175,799	1,194,996
Kandy Walk Inn Ltd.					
Cinnamon Citadel, Kandy.	173,900	6.39	-	1,438,299	1,293,567
Nuwara Eliya Holiday Resorts (Pvt) Ltd.					
Nuwara Eliya.	-	3.35	-	290,911	259,396
Resort Hotels Ltd.					
Medway Estate, Nilaveli.	4,485	41.73	-	834,500	767,740
Trans Asia Hotels PLC.					
Cinnamon Lakeside, Colombo 2.	448,791	-	7.65	5,688,301	5,519,905
Tranquility (Pte) Ltd.					
Cinnamon Dhonveli Maldives.	246,358	-	18.62	9,690,056	7,414,527
Travel Club (Pte) Ltd.					
Ellaidhoo Maldives by Cinnamon	170,877	-	13.75	1,529,257	1,564,499
Trinco Holiday Resorts (Pvt) Ltd.					
Trinco Blu by Cinnamon, Trincomalee.	120,910	13.24	-	1,015,396	980,796
Trinco Walk Inn Ltd.					
Trincomalee.	-	14.64	-	208,967	197,605
Wirawila Walk Inn Ltd.					
Randunukelle Estate, Wirawila.	-	25.15	-	86,883	86,886
Yala Village (Pvt) Ltd.					
Cinnamon Wild, Yala.	111,529	-	11.25	474,431	485,569
	3,442,190	131.16	114.89	56,064,820	44,071,677
Improvements to Keells Super outlets on leased hold properties	-	-	-	2,087,993	1,122,549
	5,003,406	269.30	658.32	71,187,671	57,262,319

## Memberships Maintained by the Group

Senior management personnel of the Group hold positions in an array of industry, professional and governance bodies and participate to the fullest in realising the objectives of these bodies. The Group views these memberships as a vital part of sustaining its businesses for the long term, especially given the ability of such bodies to recommend policy changes needed to create a better environment for businesses and thereby ensure that stakeholders flourish which no doubt would result in the country benefiting. During the year, the Group's senior management contributed to ongoing dialogue with government bodies by participating in industry led committees

in areas such as constitutional reform, legislation relating to taxation, Right to Information, Sustainable Development, Securities & Exchange Commission and also recommending the way forward relating to macroeconomic matters. In addition, industry specific developments in areas such as transport & logistics and trade, as well as in areas such as food safety towards developing standards and regulations in line with international standards are some of the areas in which the senior management have participated in. This engagement has strengthened the partnerships with such bodies, the government as well as industry peers.

The members of Group Executive Committee hold the following positions:

- Members of Committees of the Ceylon Chamber of Commerce such as Main Committee, Co-Chair of the National Agenda Committee on Logistics & Transport, Chairperson of the Legislation Sub Committee, Sub Committee on Economic, Fiscal and Policy Planning
- Council Member of the Sri Lanka Institute of Directors
- Member of the National Labour Advisory Committee
- Member of the Tourism Advisory Committee
- Member of the Advisory Committee for Investment Promotion
- Member of the Board of SLINTEC (Sri Lanka Institute of Nano Technology)
- Member of the Steering Committee for establishment of the National Science Centre in Sri Lanka
- Council Member, Member of the International Management Council and International Vice President of the Chartered Institute of Logistics & Transport
- Member of the Advisory Council of the Sri Lanka Logistics & Freight Forwarders Association
- Vice President of the Indo-Lanka Chamber of Commerce
- President of the Beverage Association of Sri Lanka
- Member of the Food Advisory Committee of the Ministry of Health

During the year, all business units and sectors maintained their numerous memberships in the respective industry, professional and governance bodies, and contributed their valuable input to these bodies and committees as relevant.

# Independent Assurance Statement on Non-Financial Reporting

**DNV·GL**

## Scope and Approach

DNV GL represented by DNV GL Business Assurance Lanka (Private) Limited has been commissioned by the management of John Keells Holdings PLC ('JKH' or 'the Company') to carry out an independent assurance engagement (Type 2, Moderate level) for the non-financial - qualitative and quantitative information (sustainability performance) reported in JKH's Annual Report 2016/17 ('the Report') in its printed format for the financial year ending 31st March 2017. The sustainability disclosures in this Report is prepared by JKH, based on the 'in accordance' -core option of the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines GRI G4.

We performed our work using Account Ability's AA1000 Assurance Standard 2008 (AA1000 AS) and DNV GL's assurance methodology VeriSustain™, which is based on our professional experience, international assurance best practice including International Standard on Assurance Engagements 3000 (ISAE 3000) Revised\* and GRI G4. Our assurance engagement was planned and carried out in February 2017 – May 2017.

The intended user of this assurance statement is the Management of JKH ('the Management'). We disclaim any liability or responsibility to a third party for decisions, whether investment or otherwise, based on this assurance statement.

The reporting aspect boundary of sustainability performance is based on internal and external materiality assessment carried out by the Company and covers JKH's operations in Sri Lanka, Maldives and India. The Report does not include performance data and information related to the activities of non-operational entities, investment entities and companies holding only land, over which JKH does not exercise significant management control. This is as set out in the Report in the section 'Scope and Boundary'.

We planned and performed our work to obtain the evidence we considered necessary to provide a basis for our assurance opinion and the process did not involve engagement with external stakeholders.

## Responsibilities of the Management of JKH and of the Assurance Providers

The Management of JKH have the sole responsibility for the preparation of the Report as well as the processes for collecting, analysing and reporting the information presented in the Report. In performing our assurance work, our responsibility is to the Management; however, our statement represents our independent opinion and is intended to inform the outcome of our assurance to the stakeholders of the Company. DNV GL was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement.

DNV GL's assurance engagements are based on the assumption that the data and information provided by the client to us as part of our review have been provided in good faith. We were not involved in the preparation of any statements or data included in the Report except for this Assurance Statement. DNV GL expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Assurance Statement.

## Basis of our Opinion

A multi-disciplinary team of sustainability and assurance specialists performed work at JKH's Corporate Office, and as part of assurance we visited sample operations in Sri Lanka. We undertook the following activities:

- Review of JKH's approach to stakeholder engagement and materiality determination process and the outcome as reported in this Report. We did not have any direct engagement with external stakeholders;
- Interviews with selected senior managers responsible for management of sustainability issues and review of selected

evidence to support issues discussed. We were free to choose interviewees and interviewed those with overall responsibility to deliver the Company's sustainability objectives;

- Site visits to sample branch operations - (i) Cinnamon Wild Yala (Cinnamon Hotels and Resorts), (ii) Warehouse at Seeduwa (John Keells Logistics Pvt. Limited), and (iii) Keells Super at Thimbirigasyaya (JayKay Marketing Services) - to review processes and systems for preparing site level sustainability data and implementation of sustainability strategy. We were free to choose sites we visited;
- Review of supporting evidence for key claims and data in the Report;
- Review of the processes for gathering and consolidating the specified performance data and, for a sample, checking the data consolidation. The reported data on economic performance, expenditure towards Corporate Social Responsibility (CSR) and other financial data are based on audited financial statements issued by the Company's statutory auditors;
- An independent assessment of JKH's reporting against the Global Reporting Initiative (GRI) G4 Guidelines and the reporting requirements for its 'in accordance' – Core option.

During the assurance process, we did not come across limitations to the scope of the agreed assurance engagement.

## Opinion

On the basis of the verification undertaken, nothing came to our attention to suggest that the Report does not properly describe JKH's adherence to the GRI G4 reporting requirements including the Principles for Defining Report Content, identified material Aspects, related strategies and Disclosures on Management Approach and Performance Indicators as below:

## Independent Assurance Statement on Non-Financial Reporting



- **General Standard Disclosures:** The reported information on General Standard Disclosure generally meets the disclosure requirements for the 'in accordance' – Core option of reporting.
- **Specific Standard Disclosures:** The Report describes the generic Disclosures on Management Approach (DMA) and Performance Indicators for identified material Aspects presented within the Report as below:

### Economic

- Economic Performance – G4-EC1, G4-EC3;
- Indirect Economic Impacts – G4-EC7;
- Procurement Practices – G4-EC9

### Environmental

- Energy – G4-EN3, G4-EN6;
- Water – G4-EN8;
- Biodiversity – G4-EN11;
- Emissions – G4-EN15, G4-EN16;
- Effluents and Waste – G4-EN22, G4-EN23, G4-EN24;
- Compliance – G4-EN29;
- Supplier Environmental Assessment – G4-EN32;

### Social

Labour Practices and Decent Work

- Employment – G4-LA1;
- Occupational Health and Safety – G4-LA6;
- Training and Education – G4-LA9, G4-LA11;
- Diversity and Equal Opportunity – G4-LA12;
- Supplier Assessment for Labour Practices – G4-LA14;

### Human Rights

- Freedom of Association and Collective Bargaining – G4-HR4;
- Child Labour – G4-HR5;
- Forced or Compulsory Labour – G4-HR6;

### Society

- Local Communities – G4-S01;
- Anti-Corruption – G4-S03;
- Compliance – G4-S08;

### Product Responsibility

- Product and Service Labeling – G4-PR3;
- Marketing Communication – G4-PR7;
- Compliance – G4-PR9.

### Observations

Without affecting our assurance opinion, we also provide the following observations. We have evaluated the Report's adherence to the following principles on a scale of 'Good', 'Acceptable' and 'Needs Improvement':

### Materiality

*The process of determining the issues that is most relevant to an organization and its stakeholders.*

JKH has emphasized 26 material aspects on which an internal and external materiality determination exercise was carried out to prioritise Aspects applicable for the Company as a whole. The materiality of Aspects is fairly explained in the Report along with the management and monitoring systems, and is fairly integrated into JKH's management system, decision making process and strategy. In our opinion, the level at which the Report adheres to this principle is 'Good'.

### Inclusivity

*The participation of stakeholders in developing and achieving an accountable and strategic response to Sustainability.*

JKH has established a documented process to identify and adequately monitor feedback on material issues from diverse stakeholder groups across its industry sectors. The Company is in the process of integrating sustainability within its value chain and has put in place processes to identify key risks associated with its value chain. In our opinion, the level at which the Report adheres to this principle is 'Good'.

### Responsiveness

*The extent to which an organization responds to stakeholder issues.*

JKH has an effective system in place to adequately monitor and respond to feedback from stakeholders on material issues and concerns, through its policies, strategies, management systems and governance mechanisms, and this is reflected within the Report. The Company has set and deployed targets, objectives and action plans for its key material issues especially environmental aspects such as energy, water, compliance etc. In our opinion, the level at which the Report adheres to this principle is 'Good'.

### Reliability

*The accuracy and comparability of information presented in the report, as well as the quality of underlying data management systems.*

The majority of data and information verified at Corporate Office and at sampled operational sites were found to be fairly accurate. Some of the data inaccuracies identified during the verification process were found to be attributable to transcription, interpretation and aggregation errors and the errors have been corrected. JKH has established a systematic process for capturing data related to sustainability performance. Hence in accordance with the AA1000AS (2008) requirements for a Type 2, moderate level assurance engagement, we conclude that sustainability data and information presented in the Report is reliable and acceptable. In our opinion, the level at which the Report adheres to this principle is 'Good'.

### Specific Evaluation of the Information on Sustainability Performance

We consider the methodology and process for gathering information developed by JKH for its sustainability performance reporting to be appropriate, and the qualitative and quantitative data included in the Report was found to be identifiable and traceable; the personnel responsible were able to demonstrate the origin and interpretation of the data and its reliability. We observed that the Report presents a faithful description of the reported sustainability activities for the reporting period.

### Additional principles as per DNV GL

#### VeriSustain

#### Completeness

*How much of all the information that has been identified as material to the organisation and its stakeholders is reported.*

The Report has fairly attempted to disclose General and Specific Standard Disclosures including the disclosure on management approach covering the strategy, management approach, monitoring systems and sustainability performances indicators against GRI G4's – 'in accordance' – Core option, and considers Aspects which are material across JKH's boundary and its

supply chain. In our opinion, the level at which the Report adheres to this principle is 'Good'.

#### Neutrality

*The extent to which a report provides a balanced account of an organization's performance, delivered in a neutral tone.*

The disclosures related to sustainability issues and performances are presented in a neutral tone, in terms of content and presentation; however, the Report may further bring out reasons for underperformance and challenges during the period with respect to

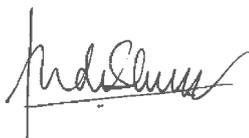
achieving its short, medium and long term targets. In our opinion, the level at which the Report adheres to the principle of Neutrality is 'Acceptable'.

#### Opportunities for Improvement

The following is an excerpt from the observations and further opportunities for improvement reported to the management of JKH and are not considered for drawing our conclusion on the Report; however, they are generally consistent with the Management's objectives:

- JKH may disclose the outcomes of supply chain risk assessment across geolocations and its businesses to further strengthen the disclosures related to supply chain, specially with regard to human rights and labour practices.
- In line with the requirements of GRI G4, JKH may further define all assumptions, calculations and sources of data at each business level.

For DNV GL,



**Rathika de Silva**  
Country Head and Lead Verifier  
DNV GL Business Assurance Lanka (Private)  
Limited, Colombo, Sri Lanka



**Kiran Radhakrishnan**  
Assessor - Sustainability Services  
DNV GL Business Assurance India Private Limited,  
India.



**Prasun Kundu**  
Assurance Reviewer  
Global Service Responsible - Social  
Accountability  
DNV GL Business Assurance India  
Private Limited, India.

25 May 2017 , Colombo, Sri Lanka



**AA1000**  
Licensed Assurance Provider  
000-10

## Group Directory 2016/17

John Keells Holdings PLC has business interests across six industry groups, namely, Transportation, Leisure, Property, Consumer Foods & Retail, Financial Services, Information Technology and Other including Plantation Services. The Group consists of subsidiaries and associates companies with significant business operations in Sri Lanka, India and the Maldives. The holding company is located at No. 117, Sir Chittampalam A. Gardiner Mawatha, Colombo 2. The Group has considered all its subsidiary and associate companies in capturing its financial performance. For the purpose of reporting on its sustainability performance, the Group has considered the companies which are the legal entities and for which the Group is accountable and has direct control. The companies not included for reporting on Sustainability Performance are companies in which the Group does not exercise significant management control, and companies which are non-operational, are investment entities, land only holding companies, investment holding companies, managing companies and rental of office spaces, which do not carry out any operations. Such companies have been clearly identified below.

While all core business activities are carried out in-house, the use of outsourced products and services by Group companies are limited to activities where in it as industry practice to do so, it has been proven to be an efficient and effective business model or a non-core business activity.

The customer base serviced by the John Keells Group of companies can be classified primarily into three sections as illustrated below.

Individuals	Businesses & Corporates	Government
Consumer Foods & Retail, Property, Leisure, Financial Services	IT, Transportation, Leisure, Other (Plantation Services), Financial Services	IT

\* The company is a non-operational company/ investment company/ holding company or owner of real estate

\*\* The company has not been considered for sustainability reporting as the Group does not exercise management control over the entity

### TRANSPORTATION

#### Ports and Shipping

##### Keells Shipping (Pvt) Ltd. (PV 1272) (100%)

*Shipping agency representation & logistics services*

Incorporated in 1996  
No. 11, York Street, Colombo 1  
Tel:2475509

**Directors:** S C Ratnayake- Chairman, R M David, A Z Hashim  
Stated capital: LKR500,000

##### Mackinnon Mackenzie & Co (Shipping) Ltd. (PB 359) (100%)

*Shipping agency representation & logistics services*

Incorporated in 1973  
No. 4, Leyden Bastian Road, Colombo 1  
Tel:2475423

**Directors:** S C Ratnayake- Chairman, R M David, A Z Hashim  
Stated capital: LKR5,000,000

##### Maersk Lanka (Pvt) Ltd. (PV 2550 ) (30%)\*\*

*Shipping agency representation & freight forwarding services*

Incorporated in 1992  
Level 16,"Park Land",33,Park Street, Colombo 2.  
Tel:0114794800

**Directors:** W T Ellawala, Dinesh Lal (Resigned w.e.f (30/03/2014), R M David, Marc Eugene C Gijsbrechts (Resigned w.e.f (08/09/2016)

Franck Dedenis, Arjun Arun Maharaj (Resigned w.e.f (25/03/2016), Sandun Bandara (Appointed w.e.f (08/09/2016) Zeeshan Mukhi (Appointed w.e.f (25/03/2016)

Stated capital: LKR10,000,000

##### South Asia Gateway Terminals (Pvt) Ltd. (PV 326) (42.19%)\*\*

*Ports & shipping services*

Incorporated in 1998  
Port of Colombo, P.O. Box 141, Colombo 1.  
Tel:24575509

**Directors:** S C Ratnayake- Chairman, A D Gunewardene, J R F Peiris, R M David, C K Cheng, A Hassan (Appointed w.e.f 22/09/2016), J M Bevis (Appointed w.e.f 22/09/2016), K N J Balendra, P Sondergaard, P M English (Resigned w.e.f 22/09/2016), S S Jakobsen, R M W B C Rajapaksa A Z Hashim, D C Smith (Resigned w.e.f 22/09/2016)

W L P Perera, D Ranatunga, R S A Soomar  
Stated capital: LKR3,788,485,900

#### Ports and Shipping

##### DHL Keells (Pvt) Ltd. (PV 1307) (50%)\*\*

*International express courier services*

Incorporated in 1986  
No. 148, Vauxhall Street, Colombo 2.  
Tel:2304304 / 4798600

**Directors:** S C Ratnayake- Chairman, R M David alt. A Z Hashim, Y B A Khan, S P Wall

Stated capital: LKR20,000,020

##### John Keells Logistics (Pvt) Ltd. (PV 318) (100%)

*Integrated supply chain management*

Incorporated in 2006  
No. 117, Sir Chittampalam A. Gardiner Mawatha, Colombo 2.  
Tel:2475574

**Directors:** S C Ratnayake-Chairman, A D Gunewardene, R M David, A Z Hashim  
Stated capital: LKR200,000,000

##### N D O Lanka (Pvt) Ltd. (PV 831) (60%)\*\*

*International freight forwarding and clearing & forwarding*

Incorporated in 1980  
No. 11, York Street, Colombo 1  
Tel: 7671671

**Directors:** R M David, H C K Hewamallika (Resigned w.e.f. 01/02/2017), A Z Hashim, C Besset

Stated capital: LKR130,000,000

##### Saffron Aviation (Pvt) Ltd. (PV 84728) (40%)\*\*

*Domestic air line operations*

Incorporated in 2012  
No.11,York Street, Colombo 1.  
Tel:2475502

**Directors:** A D Gunewardene, R M David, B A B Goonetilleke, K Balasundaram, F Omar, R T Abeyasinghe, A Z Hashim  
Stated capital: LKR622,179,000

**Lanka Marine Services (Pvt) Ltd. (PV 475) (99.44%)**

*Importer & supplier of heavy marine fuel oils*  
Incorporated in 1993  
No. 4, Leyden Bastian Road, Colombo 1  
Tel:2475410-421

**Directors:** S C Ratnayake- Chairman,  
A D Gunewardene, R M David, A Z Hashim  
Stated capital: LKR350,000,000

**Mackinnon Mackenzie & Co of Ceylon Ltd. (PB 348) (100%)\***

*Foreign recruitment agents & consultants*  
Incorporated in 1975  
No. 11, York Street, Colombo 1  
Tel:2475509

**Directors:** S C Ratnayake- Chairman,  
R M David  
Stated capital: LKR90,000

**Trans-ware Logistics (Pvt) Ltd. (PV 3134) (50%)\***

*Renting of storage space*  
Incorporated in 1994  
No. 117, Sir Chittampalam A. Gardiner  
Mawatha, Colombo 2.  
Tel:2475537-9

**Directors:** S C Ratnayake- Chairman,  
A Z Hashim K M D Gay (Appointed w.e.f  
27/04/2016), M R B Shafie (Appointed w.e.f  
23/03/2017), R M David, A A Miskon  
(Alt.N A Latif) (Resigned w.e.f 30/09/2016),  
Y K Boo, T H Pang (Resigned w.e.f  
27/04/2016)  
Stated capital: LKR220,000,080

**AIR LINES**

**Mack Air (Pvt) Ltd. (PV 868) (100%)**

*General sales agents for airlines in Sri Lanka*  
Incorporated in 1980  
No. 11, York Street, Colombo 1.  
Tel:2475375/2475335

**Directors:** S C Ratnayake- Chairman,  
R M David, C N Lawrence (Resigned w.e.f.,  
01/02/2017), A Z Hashim  
Stated capital: LKR12,500,000

**Mackinnons Travels (Pvt) Ltd. (PV 1261) (100%)**

*IATA accredited travel agent and travel related services*  
Incorporated in 1971  
No. 186, Vaxhuall Street, Colombo 2.  
Tel:2318600

**Directors:** S C Ratnayake - Chairman,  
A D Gunawardene, R S Fernando (Resigned  
w.e.f 09/09/2016), R M David (Appointed  
w.e.f 02/05/2016),  
A Z Hashim (Appointed w.e.f 02/05/2016)  
Stated capital: LKR5,000,000

**Mack Air Services Maldives (Pvt) Ltd. (C/I 35-2000) (49%)\***

*General sales agents for airlines in the Maldives*  
Incorporated in 2000  
4th Floor, STO Aifaanu Building,  
Boduthakurufaanu Magu, Male 20-05  
Republic of Maldives  
Tel:+9603334708 - 09

**Directors:** S C Ratnayake- Chairman,  
R M David, S Hameed, A Shihab, A Z Hashim,  
Stated capital: USD8,532 (LKR677,892)

**LEISURE**

**Hotel Management**

**Cinnamon Hotel Management Services Ltd. (PB 7) (100%)**

*Operator & marketer of resort hotels*  
Incorporated in 1974  
No.117 Chittampalam A Gardiner Mawatha,  
Colombo 2  
Tel:2306600, 2421101-8

**Directors:** S C Ratnayake – Chairman,  
A D Gunewardene, J E P Kehelpannala,  
B J S M Senanayake,  
R J Karunarajah, K N J Balendra (Appointed  
w.e.f 02/05/2016 & Resigned w.e.f  
28/12/2016)  
Stated capital: LKR19,520,000

**John Keells Hotels PLC. (PQ 8) (80.32%)\***

*Holding company of group resort hotel companies in Sri Lanka & Maldives*  
Incorporated in 1979  
No.117,Chittampalam A Gardiner  
Mawatha,Colombo 2  
Tel:2306600

**Directors:** S C Ratnayake – Chairman,  
A D. Gunewardene, J R F Peiris,  
J E P Kehelpannala, R T Wijesinha (Resigned  
w.e.f 30/06/2016), B J S M Senanyake  
N B Weerasekera,T L F W Jayasekara,  
K N J Balendra (Appointed w.e.f 01/04/2016),  
A.K. Moonasinghe (Appointed w.e.f  
01/07/2016)  
Stated capital: LKR9,500,246,939

**Sentinel Realty (Pvt) Ltd. (PV80706) (41.91%)\*\***

*Investment company for hotel development land*  
Incorporated in 2011  
No.117, Chittampalam A Gardiner  
Mawatha,Colombo 2.  
Tel:2306000

**Directors :** A D Gunewardene (Resigned w.e.f  
12/08/2016), S Rajendra, K N J Balendra  
(Appointed w.e.f 12/08/2016)  
B A B Goonettileke, K Balasundaram  
Stated capital: LKR127,013,480

**City Hotels**

**Asian Hotels and Properties PLC**

**-Cinnamon Grand. (PQ 2) (78.56%)**  
*Owner & operator of the five star city hotel "Cinnamon Grand"*  
Incorporated in 1993  
77, Galle Road, Colombo 3.  
Tel:2437437 /2497442

**Directors:** S C Ratnayake- Chairman,  
A D Gunewardene - Managing Director,  
J R F Peiris, R J Karunarajah,  
S Rajendra, S K G Senanayake,  
S A Jayasekara, K N J Balendra (Appointed  
w.e.f 01/04/2016), C J L Pinto  
Stated capital: LKR3,345,118,012

**Trans Asia Hotels PLC. (PQ 5) (82.74%)**

*Owner & operator of the five star city hotel "Cinnamon Lakeside".*  
Incorporated in 1981  
No. 115, Sir Chittampalam A Gardiner  
Mawatha, Colombo 2.  
Tel:2491000

**Directors:** S C Ratnayake - Chairman,  
A D Gunewardene, J R F Peiris,  
N L Gooneratne, C J L Pinto, J C Ponniah  
E H Wijenaike, R J Karunaraj, K N J Balendra  
(Appointed w.e.f 01/04/2016)  
Stated capital: LKR1,112,879,750

**Capitol Hotel Holdings Ltd. (PB 5013) (19.47%)\***

*Developer of city business hotels*  
Incorporated in 2012  
No.117, Chittampalam A Gardiner Mawatha,  
Colombo 2.  
Tel:2306000

**Directors:** A D Gunewardene, S Rajendra  
(Resigned w.e.f 01/06/2016),  
M S Weerasekera - Chairman  
W R K Wannigama, D A Kannangara,  
M D R Gunatilleke, L C H Leow,  
A J Pathmarajah, K N J Balendra (Appointed  
w.e.f 01/06/2016)  
Stated capital: LKR1,168,800,100

**Resort Hotels - Sri Lanka**

**Beruwala Holiday Resorts (Pvt) Ltd. (PV 69678) (79.78%)**

*Owner & operator of "Cinnamon Bey Beruwala"*  
Incorporated in 2009  
Moragolla Beruwala.  
Tel:2306600, 034-2297000

**Directors:** S C Ratnayake- Chairman,  
A D Gunewardene, B J S M Senanayake  
Stated Capital: LKR2,338,150,000

## Group Directory 2016/17

**Ceylon Holiday Resorts Ltd\* - Bentota Beach Hotel. (PB 40) (79.24%)**  
 Owner & operator of "Bentota Beach by Cinnamon"  
 Incorporated in 1966  
 Galle Road, Bentota.  
 Tel:034-2275176 / 034-2275266  
**Directors:** S C Ratnayake - Chairman,  
 A D Gunewardene, B J S M Senanayake  
 Stated capital: LKR744,517,303

**Nuwara Eliya Holiday Resorts (Pvt) Ltd\* (PV98357) (80.32%)**  
*Owner of real estate*  
 Incorporated in 2014  
 No.117, Chittampalam A Gardiner  
 Mawatha,Colombo 2  
 Tel:2306000  
**Directors:** S C Ratnayake – Chairman,  
 A D Gunewardene, B J S M Senanayake  
 Stated Capital: LKR316,062,520

**Hikkaduwa Holiday Resorts (Pvt) Limited. (PV 71747) (79.24%)**  
*Owner & operator of "Hikka Tranz by Cinnamon"*  
 Incorporated in 2010  
 P.O Box 1, Galle Road, Hikkaduwa  
 Tel:091 2298000  
**Directors:** S C Ratnayake - Chairman  
 A D Gunewardene,  
 B J S M Senanayake  
 Stated capital: LKR1,062,635,460

**Habarana Lodge Ltd. (PB 38) (78.99%)**  
*Owner & operator of "Cinnamon Lodge Habarana"*  
 Incorporated in 1978  
 P.O Box 2, Habarana.  
 Tel:066-2270011-2/ 066-2270072  
**Directors:** S C Ratnayake - Chairman,  
 A D Gunewardene, B J S M Senanayake  
 Stated capital: LKR341,555,262

**Habarana Walk Inn Ltd. (PB 33) (79.34%)**  
*Owner & operator of "Habarana Village by Cinnamon Habarana"*  
 Incorporated in 1973  
 P.O Box 1, Habarana.  
 Tel:066-2270046-7/ 066-2270077  
**Directors:** S C Ratnayake - Chairman,  
 A D Gunewardene, B J S M Senanayake  
 Stated capital: LKR126,350,000

**International Tourists and Hoteliers Ltd. (PB 17) (79.78%)\***  
*Owner of real estate*  
 Incorporated in 1973  
 No.117,Chittampalam A,Gardiner  
 Mawatha,Colombo 2  
 Tel:2306600, 2421101-8  
**Directors:** S C Ratnayake – Chairman,  
 A D Gunewardene, B J S M Senanayake  
 Stated capital: LKR1,939,760,925

**Kandy Walk Inn Ltd. (PB 395) (79.03%)**  
*Owner & operator of "Cinnamon Citadel Kandy"*  
 Incorporated in 1979  
 No.124, Srimath Kuda Ratwatte Mawatha,  
 Kandy.  
 Tel:081 2234365-6/ 081 2237273-4  
**Directors:** S C Ratnayake - Chairman,  
 A D Gunewardene, B J S M Senanayake  
 Stated capital: LKR115,182,009

**Rajawella Hotels Company Ltd. (PB 92) (80.32%)\***  
*Owner of real estate*  
 Incorporated in 1992  
 No.117, Chittampalam A Gardiner Mawatha,  
 Colombo 2  
 Tel: 2306000  
**Directors:** S C Ratnayake – Chairman,  
 A D Gunewardene, J R Gunaratne  
 Stated capital: LKR34,861,762

**Resort Hotels Ltd. (PB 193) (79.24%)\***  
*Owner of real estate*  
 Incorporated in 1978  
 No.117,Chittampalam A Gardiner Mawatha,  
 Colombo 2  
 Tel:2306780, 2421101-8  
**Directors:** S C Ratnayake – Chairman,  
 A D Gunewardene  
 Stated capital: LKR7,439,150

**Trinco Holiday Resorts (Pte) Ltd.(PV 69908) (80.32%)**  
*Owner & operator of "Trinco Blu by Cinnamon"*  
 Incorporated in 2009  
 Alles Garden, Uppuveli, Sampathiv Post,  
 Trincomalee.  
 Tel: 026 2222307 / 026 2221611  
**Directors:** S C Ratnayake - Chairman  
 A D Gunewardene, B J S M Senanayake  
 Stated Capital: LKR357,000,000

**Trinco Walk Inn Ltd. (PB 168) (80.32%)\***  
*Owner of real estate*  
 Incorporated in 1984  
 Alles Garden, Uppuveli, Sampathiv Post,  
 Trincomalee.  
 Tel: 026-2222307 / 011-2306600

**Directors:** S C Ratnayake – Chairman,  
 A D Gunewardene, B J S M Senanayake  
 Stated capital: LKR119,850,070

**Wirawila Walk Inn Ltd. (PB 89) (80.32%)\***  
*Owner of real estate*  
 Incorporated in 1994  
 No.117,Chittampalam A Gardiner Mawatha,  
 Colombo 2.  
 Tel:2306780, 2421101-8  
**Directors:** S C Ratnayake – Chairman,  
 A D Gunewardene, B J S M Senanayake  
 Stated capital: LKR18,674,150

**Ahungalle Holiday Resorts (Pvt) Ltd. (PV 85046) (80.32%)\***  
*Owner of real estate*  
 Incorporated in 2012  
 No.117, Chittampalam A Gardiner  
 Mawatha,Colombo 2  
 Tel:2306000  
**Directors:** S C Ratnayake – Chairman,  
 A D Gunewardene, B J S M Senanayake  
 Stated capital: LKR132,400,000

**Yala Village (Pvt) Ltd. (PV 2868) (75.33%)**  
*Owner & operator of "Cinnamon Wild Yala"*  
 Incorporated in 1999  
 P.O Box 1,Kirinda, Tissamaharama.  
 Tel:047-2239449-52  
**Directors:** M A Perera - Chairman,  
 S C Ratnayake - Deputy Chairman,  
 A D Gunewardene, J A Davis,  
 B J S M Senanayake, K N J Balendra  
 (Appointed w.e.f 02/05/2016)  
 Stated capital: LKR419,427,600

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### Resort Hotels - Maldives

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**Fantasea World Investments (Pte) Ltd. (C 143/97) (80.32%)**  
*Owner & operator of "Cinnamon Hakura Huraa Maldives"*  
 Incorporated in 1997  
 2nd Floor, H.Maizan Building,  
 Sosun Magu, Male, Republic of Maldives.  
 Tel:00960-6720014 / 00960-6720064 /  
 00960 6720065  
**Directors:** S C Ratnayake - Chairman,  
 A D Gunewardene, B J S M Senanayake,  
 S A S Perera (Resigned w.e.f. 31/10/2016),  
 J E P Kehelpannala, K N J Balendra  
 (Appointed w.e.f. 15/07/2016 & Resigned  
 w.e.f. 28/12/2016)  
 Stated capital: LKR341,573,190  
 (USD5,000,000)

**John Keells Maldivian Resorts (Pte) Ltd. (C 208/96) (80.32%)***Hotel holding company in the Maldives*

Incorporated in 1996

2nd Floor, H.Maizan Building,

Sosun Magu, Male, Republic of Maldives.

Tel:00960-3329083 / 00960-3304601 / 00960-3313738

**Directors:** S C Ratnayake - Chairman, A D Gunewardene, B J S M Senanayake, S A S Perera (Resigned w.e.f. 31/10/2016) J E P Kehelpannala, K N J Balendra (Appointed w.e.f. 15/07/2016) Stated capital: LKR3,978,671,681 (USD38,904,010)

**Tranquility (Pte) Ltd. (C 344/2004) (80.32%)***Owner and operator of Cinnamon Dhonveli Maldives"*

Incorporated in 2004

2nd Floor, H.Maizan Building,

Sosun Magu, Male, Republic of Maldives.

Tel: 00960-6640055 / 00960-6640012

**Directors:** S C Ratnayake – Chairman, A D Gunewardene, B J S M Senanayake, S A S Perera (Resigned w.e.f. 31/10/2016), J E P Kehelpannala, K N J Balendra (Appointed w.e.f. 15/07/2016 & Resigned w.e.f. 28/12/2016)

Stated capital: LKR552,519,608 (USD5,000,000)

**Travel Club (Pte) Ltd. (C 121/92) (80.32%)***Operator of "Ellaidhoo Maldives by Cinnamon"*

Incorporated in 1992

2nd Floor, H.Maizan Building,

Sosun Magu, Male, Republic of Maldives

Tel:00960-6660839 / 00960-6660663 / 00960-6660664

**Directors:** S C Ratnayake - Chairman A D Gunewardene, B J S M Senanayake, S A S Perera (Resigned w.e.f. 31/10/2016) J E P Kehelpannala, K N J Balendra (Appointed w.e.f. 15/07/2016 & Resigned w.e.f. 28/12/2016) Stated capital: LKR143,172,000 (USD2,460,000)

**Destination Management****Cinnamon Holidays (Pvt) Ltd. (PV 107427) (80.32%)***Provides inbound and outbound services*

Incorporated in 2015

No.117,Chittampalam A Gardiner Mawatha, Colombo 2

Tel:2306000

**Directors:** S C Ratnayake - Chairman, A D Gunewardene Stated capital: LKR200,000

**Serene Holidays (Pvt) Ltd.****(U63040MH2006PTC164985) (98.74%)***Tour operators*

Incorporated in 2006

110, Bldg 2, Rolex Shopping Centre Premises

CHS Ltd, STN Road, NR Prashant Hotel,

Goregoan (W), Mumbai, Mumbai City, Maharashtra, 400062.

Tel:091-22 42105210 99

**Directors:** A D Gunewardene - Chairman, V Leelananda, C.Somasunderam, K N J Balendra (Appointed w.e.f. 01/07/2016) Stated capital: LKR6,492,000 (INR2,000,000)

**Walkers Tours Ltd. (PB 249) (98.51%)***Inbound tour operators*

Incorporated in 1969

No.117,Chittampalam A Gardiner

Mawatha,Colombo 2

Tel:2306306

**Directors:** S C Ratnayake – Chairman, A D Gunewardene,V Leelananda, K N J Balendra (Appointed w.e.f 02/05/2016) Stated capital: LKR51,374,200

**Whittall Boustead (Travel) Ltd. (PB 112) (100%)***Inbound tour operators*

Incorporated in 1977

No.117, Chittampalam A Gardiner

Mawatha,Colombo 2

Tel:2306384

**Directors:** S C Ratnayake – Chairman A D Gunewardene, V Leelananda Stated capital: LKR250,410,000

**PROPERTY****Property Development****Asian Hotels and Properties PLC - Crescat. Boulevard, The Monarch, The Emperor. (PQ 2) (78.56%)***Developer and manager of integrated properties*

Incorporated in 1993

No.77, Galle Road, Colombo 3.

Tel:5540404

**Directors:** S C Ratnayake - Chairman, A D Gunewardene - Managing Director, J R F Peiris, R J Karunarajah, S Rajendra S K G Senanayake, S A Jayasekara, C J L Pinto, K N J Balendra (Appointed w.e.f 1/4/2016) Stated capital: LKR3,345,118,012

**British Overseas (Pvt) Ltd. (PV 80203) (61%)***Developer of "7th Sense" project*

Incorporated in 2011

No.117, Chittampalam A Gardiner Mawatha, Colombo 2

Tel:2306000

**Directors :** A D Gunewardene, K N J Balendra (Resigned w.e.f 28/12/2016), D C Alagaratnam, S Rajendra, S P G N Rajapakse, J G A Cooray (Appointed w.e.f. 28/12/2016) Stated capital: LKR1,000

**Rajawella Holdings Limited (49.85%) (PB 27)***Operates an 18 hole, Donald Streel designed**Golf course in Digana*

Incorporated in 1991

P.O. Box 7 Rajawella, Kandy.

Tel: 2306000

**Directors:** S C Rathnayake - Chairman A D Gunewardene, J R F Peiris (Resigned w.e.f 21/11/2016), S Rajendra,C B Thornton (Alt. C J Holloway)(Appointed w.e.f. 24/10/2016), G R Bostock Kirk (Alt. E C Oxlade)(Appointed w.e.f. 24/10/2016), S E Captain (Alt. R S Captain)(Appointed w.e.f 09/09/2015), K N J Balendra (Appointed w.e.f 21/11/2016)

Stated Capital: 784,690,140

**John Keells Residential Properties (Pvt) Limited. (PV 75050) (100%)***Developer of "On320" project*

Incorporated in 2010

No.117, Chittampalam A Gardiner

Mawatha,Colombo 2

Tel:2300065

**Directors:** S C Ratnayake – Chairman, A D Gunewardene, S Rajendra, J R F Peiris Stated capital: LKR925,200,000

**John Keells Properties Ja-Ela (Pvt) Ltd. (PV 76068) (100%)***Developer & manager of mall operations*

Incorporated in 2010

No.117, Chittampalam A Gardiner

Mawatha,Colombo 2

Tel:2306000

**Directors:** S C Ratnayake - Chairman A D Gunewardene, S Rajendra Stated capital: LKR954,360,000

**Real estate****John Keells Properties (Pvt) Ltd. (PV 1034) (100%)\****Renting of office space*

Incorporated in 2006

No.117,Chittampalam A Gardiner Mawatha, Colombo 2.

Tel:2306000 /2397263

**Directors:** S C Ratnayake – Chairman, A D Gunewardene, S Rajendra Stated capital: LKR240,000,030

**Keells Realtors Ltd. (PB 90) (95.81%)\****Owner of real estate*

Incorporated in 1977

No.117, Chittampalam A Gardiner Mawatha, Colombo 2.

Tel:2306000 /2397263

**Directors:** S C Ratnayake – Chairman, A D Gunewardene, S Rajendra Stated capital: LKR75,000,000

## Group Directory 2016/17

### Whittall Boustead (Pvt) Ltd - Real Estate Division. (PV 31) (100%)\*

*Renting of office space*

Incorporated in 1958

No. 148, Vauxhall Street, Colombo 2.

Tel: 2397263 / 2327805

**Directors:** S C Ratnayake – Chairman,

A D Gunewardene, S Rajendra

Stated capital: LKR99,188,800

### Waterfront Properties (Pvt) Ltd. (PV 82153) (94.37%)

*Developer of hotels, apartments & shopping malls*

Incorporated in 2011

No.117, Chittampalam A Gardiner Mawatha, Colombo 2

Tel: 2306000

**Directors:** S C Ratnayake - Chairman,

A D Gunewardene, S Rajendra, J R F Peiris,

D C Alagaratnam

Stated capital: LKR22,910,824,230

(USD169,382,764)

### CONSUMER FOODS AND RETAIL

#### Consumer Foods

### Ceylon Cold Stores PLC. (PQ 4) (81.36%)

*Manufacture & marketing of beverages and frozen confectionery and the holding company of JayKay Marketing Services (Pvt) Ltd.*

Incorporated in 1926

No.117, Chittampalam A Gardiner Mawatha, Colombo 2

Tel: 2318798

**Directors:** S C Ratnayake - Chairman,

A D Gunewardene, J R F Peiris,

J R Gunaratne, P S Jayawardena (Resigned

w.e.f 16/06/2016), A R Rasiyah, M Hamza,

R S W Wijeratnam (Appointed w.e.f

17/06/2016), S T Ratwatte (Appointed w.e.f

17/06/2016)

Stated capital: LKR918,200,000

### Colombo Ice Company (Pvt) Ltd. (PV 113758) (81.36%)\*

*Manufacturing and marketing of frozen confectionery*

Incorporated in 2016

No.117, Sir Chittampalam A Gardiner Mawatha, Colombo 2.

Tel: 2306000

**Directors:** S C Ratnayake - Chairman,

A D Gunewardene, J R F Peiris,

J R Gunaratne

Stated capital: LKR270,000,000

### Keells Food Products PLC. (PQ 3) (88.53%)

*Manufacturer and distributor of processed meat, breaded meat and convenience food products.*

Incorporated in 1982

P.O Box 10, No.16, Minuwangoda Road,

Ekala, Ja-Ela.

Tel: 2236317 / 2236364

**Directors:** S C Ratnayake - Chairman,

A D Gunewardene, J R F Peiris,

J R Gunaratne, R Pieris (Resigned w.e.f

09/06/2016), S H Amarasekera (Resigned

w.e.f 09/06/2016), A D E I Perera (Resigned

w.e.f 09/06/2016), M P Jayawardena

(Resigned w.e.f 09/06/2016), S. De Silva

(Appointed w.e.f 10/06/2016),

A E H Sanderatne (Appointed w.e.f

10/06/2016), I. Samarajiva (Appointed w.e.f

10/06/2016), P D Samarasinghe (Appointed

w.e.f 10/06/2016)

Stated capital: LKR1,294,815,000

### John Keells Foods India (Pvt) Ltd.

**(U15122MH2008FTC180902) (88.53%)\***

*Marketing of branded meat and convenience food products*

Incorporated in 2008

Luthra and Luthra Chartered Accountants

A 16 / 9, Vasant Vihar,

New Delhi -110057, India.

Tel: 0091-1142591823, 0091-1126148048,

26151853, 26147365

Fax: +91-11-2614 5222

**Directors:** S C Ratnayake - Chairman,

J R Gunaratne, R S Fernando (Resigned w.e.f.

09/09/2016)

Stated capital: LKR220,294,544

(INR 90,000,000)

#### Retail

### JayKay Marketing Services (Pvt) Ltd.

**(PV 33) (81.36%)**

*Owns and operates the "Keells Super" chain of supermarkets and "Nexus Mobile" loyalty card programme.*

Incorporated in 1980

No.117, Chittampalam A Gardiner

Mawatha, Colombo 2

Tel: 2316800

**Directors:** S C Ratnayake - Chairman,

A D Gunewardene, K N J Balendra

J G A Cooray, K C Subasinghe

Stated capital: LKR1,198,000,000

### FINANCIAL SERVICES GROUP

### John Keells Stock Brokers (Pvt) Ltd. (PV 89) (90.04%)

*Share broking services*

Incorporated in 1979

No. 186, Vauxhall Street, Colombo 2

Tel: +94(0) 11 230 6250, +94(0) 11 234 2066-7

**Directors:** A D Gunewardene - Chairman,

S C Ratnayake, K N J Balendra

Stated capital: LKR57,750,000

### Nations Trust Bank PLC. (PQ 118) (29.9%)\*\*

*Commercial banking and leasing operations*

Incorporated in 1999

No. 242, Union Place, Colombo 2.

Tel: 4313131

**Directors:** K N J Balendra - Chairman,

M Jafferjee, Dr.K De Soysa

D P De Silva, N S Panditharatne,

K O V S M S Wijesinghe,

R N K Fernando, J G A Cooray,

C L K P Jayasuriya, H Raghavan, C D'Souza,

R D Rajapaksa (Appointed w.e.f 29/04/2016),

N I R De Mel (Appointed w.e.f. 06/06/2016)

Stated capital: LKR5,101,368,736

### Union Assurance PLC. (PQ 12) (93.92%)

*Life insurance underwriters*

Incorporated in 1987

No.20, St. Michaels' Road, Colombo 3.

Tel: 2990990

**Directors:** A D Gunewardene - Chairman,

D C Alagaratnam, S Rajendra, A S De Zoysa,

G F C De Saram, H A J De Silva Wijeyeratne

A D Pereira

Stated capital: LKR1,000,000,000

### Fairfirst Insurance Limited (PV 99666) (20.66%)\*\*

*General insurance underwriters*

Incorporated in 2014

No.33, St. Michaels' Road, Colombo 3.

Tel: 2428428

**Directors:** R Athappan- Chairman

A D Pereira, C Ratnaswami, A S Wijesinha

C D Wijegunawardene, S Malhotra, S Jha

(Appointed w.e.f. 9/12/2016)

Stated Capital: LKR3,131,949,000

**INFORMATION TECHNOLOGY****IT Services****John Keells Computer Services (Pvt) Ltd. (PV 652) (100%)***Software services*

Incorporated in 1998

No. 148, Vauxhall Street, Colombo 2.

Tel:2300770-77

**Directors:** A D Gunewardene - Chairman, S C Ratnayake, R S Fernando (Resigned w.e.f 09/09/2016), J R F Peiris (Appointed w.e.f 09/09/2016)

Stated capital: LKR96,500,000

**J K O A Mobiles (Pvt) Ltd. (PV 136) (100%)***Marketer of software packages*

Incorporated in 1992

No. 148, Vauxhall Street, Colombo 2.

Tel:2300770-77

**Directors:** A D Gunewardene - Chairman, R S Fernando (Resigned w.e.f 09/09/2016), D C Alagaratnam, J R F Peiris (Appointed w.e.f 09/09/2016)

Stated capital: LKR8,000,000

**Office Automation****John Keells Office Automation (Pvt) Ltd. (PV 127) (100%)***Distributor/Reseller and services provider in office automation(OA), retail automation (RA) and mobile devices*

Incorporated in 1992

Corporate Office: No. 90 Union Place, Colombo 2.

Technical Services: No. 148 Vauxhall Street, Colombo 2.

Tel: 2313000, 2431576, 2445760

**Directors:** A D Gunewardene - Chairman, R S Fernando (Resigned w.e.f 09/09/2016), J R F Peiris (Appointed w.e.f 09/09/2016), D C Alagaratnam

Stated capital: LKR5,000,000

**IT Enabled Services****InfoMate (Pvt) Ltd. (PV 921) (100%)***IT enabled services*

Incorporated in 2005

No.4, Leyden Bastian Road, Colombo 1.

Tel: (94) 112149700

**Directors:** S C Ratnayake, M J S Rajakarier, R S Fernando (Resigned w.e.f 09/09/2016), J R F Peiris (Appointed w.e.f 09/09/2016)

Stated capital: LKR20,000,000

**John Keells BPO Holdings (Pvt) Ltd. (C 60882) (100%)\****Holding company of BPO companies*

Incorporated in 2006

IFS Court, 28, Cybercity, Ebene, Mauritius

Tel:(230) 467 3000

**Directors:** S C Ratnayake, A D Gunewardene, R S Fernando (Resigned w.e.f. 09.09.2016), K N J Balendra (Resigned w.e.f. 28.12.2016), P Bissoonauth, Z H Niamut

Stated capital: LKR1,988,300,000 (USD 19,000,000)

**John Keells BPO International (Pvt) Ltd. (C 070137) (100%)\****Investment holding company*

Incorporated in 2007

IFS Court, 28, Cybercity, Ebene, Mauritius

Tel:(230) 467 3000

**Directors:** S C Ratnayake - Chairman, A D Gunewardene, R S Fernando (Resigned w.e.f. 09.09.2016), K N J Balendra (Resigned w.e.f. 28.12.2016), P Bissoonauth, Z H Niamut

Stated capital: LKR1,616,700,008 (USD 15,000,000)

**John Keells BPO Solutions Lanka (Pvt) Ltd (PV 3458) (100%)\****BPO operations in Sri Lanka*

Incorporated in 2006

No.4, Leyden Bastian Road, Colombo 1.

Tel: (94) 2300770-77

**Directors:** S C Ratnayake, A D Gunewardene, R S Fernando (Resigned w.e.f 09/09/2016),

Stated capital: LKR335,797,260

**John Keells BPO Solutions US Inc. (PO 8000022353) (100%)\****Provides sales & marketing support for BPO operations in North America*

Incorporated in 2008

9225, Ulmerton Road, Suite H, Largo, Florida 33771, USA.

Tel: +1 727 518 0000

**Director:** M P Gunaratna, R S Fernando (Resigned w.e.f. 09.09.2016), J R F Peiris (Appointed w.e.f. 08.10.2016)

Stated capital: LKR5,277,799 (USD40,000)

**John Keells BPO solutions Canada Inc. (761124-2) (100%)\****BPO operation in Canada*

Incorporated in 2010

1900, 736-6th Avenue S.W., Calgary, Alberta T2P 3T7, Canada.

**Directors:** A D Gunewardene, K N J Balendra (Resigned w.e.f. 28.12.2016), R S Fernando (Resigned w.e.f. 09.09.2016)

R M David, J R Gunaratne, D C Alagaratnam, T E Scott, A S Perera

Stated capital: LKR88,484,008 (USD 1,177,800)

**John Keells BPO Solutions India Private Limited. (U72300DL2006PTC153130) (100%)***BPO operations in India (Formally known as Quattro Business Support Services (Pvt) Ltd)*

Incorporated in 2006

Basement-24, C Block, Community Centre, Janakpuri, New Delhi.

Tel:+91 124 4561000

**Directors:** J R F Peiris, R S Fernando (Resigned w.e.f 09.09.2016), K N J Balendra, C. Somasundaram

Stated capital: LKR138,050,960 (INR350,248,060)

**OTHERS****Plantation Services****John Keells PLC. (PQ 11) (86.90 %)***Produce broking and real estate ownership*

Incorporated in 1960

No 186, Vauxhall street, Colombo 2.

Tel:2306000

**Directors:** S C Ratnayake - Chairman, A D Gunewardene, J R F Peiris, R S Fernando (Resigned w.e.f 09/09/2016), T de Zoysa (Resigned w.e.f 28/06/2016), Y A Hansen (Resigned w.e.f 28/06/2016), S T Ratwatte (Resigned w.e.f 28/06/2016), V A A Perera, A K Gunawardhana (Appointed w.e.f 29/06/2016), C N Wijewardene (Appointed w.e.f 29/06/2016), B A I Rajakarier (Appointed w.e.f 29/06/2016)

Stated capital: LKR152,000,000

**John Keells (Teas) Ltd. (PV 522) (100%)***Manager of eight bought leaf tea factories*

Incorporated in 1979

No.117,Chittampalam A Gardiner Mawatha, Colombo 2.

Tel:2306518

**Directors:** S C Ratnayake- Chairman, A D Gunewardene, R S Fernando (Resigned w.e.f 09/09/2016), J R F Peiris (Appointed w.e.f 09/09/2016)

Stated capital: LKR120,000

**John Keells Warehousing (Pvt) Ltd. (PV 638) (86.90%)***Warehousing of tea and rubber*

Incorporated in 2001

No.93,1st Avenue, Maturajawela, Hendala, Wattala, Maturajawala

Tel:4819560

**Directors:** S C Ratnayake- Chairman A D Gunewardene, R S Fernando (Resigned w.e.f 09/09/2016), J R F Peiris (Appointed w.e.f 09/09/2016)

Stated capital: LKR120,000,000

## Group Directory 2016/17

### Tea Smallholder Factories PLC. (PQ 32) (37.62%)

*Owner and operator of bought leaf factories*  
Incorporated in 1991

No.4, Leyden Bastian Road, Colombo 1.

Tel:2 335 880 / 2149994

**Directors:** S C Ratnayake – Chairman,  
(Alt.Mr J R Gunaratne) A D Gunewardene,  
J R F Peiris, E H Wijenaike, R Seevaratnam,  
R E Rambukwella, A S Jayatilleke,  
J S Ratwatte, R S Fernando (Resigned w.e.f  
09/09/2016), M de Silva (Appointed w.e.f  
6/2/2017

Stated capital: LKR150,000,000

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#### Centre & Others

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### Facets (Pvt) Ltd. (PV1048) (100%)\*

*Owner of real estate*

Incorporated in 1974

No.117, Chittampalam A Gardiner Mawatha,  
Colombo 2

Tel:2306000

**Directors:** S C Ratnayake - Chairman  
D C Alagaratnam

Stated capital: LKR150,000

### John Keells Holdings PLC. (PQ 14)

*Group holding company & function based services*

Incorporated in 1979

No.117, Sir Chittampalam A Gardiner  
Mawatha, Colombo 2

Tel:2306000 /2421101-9

**Directors:** S C Ratnayake - Chairman  
A D Gunewardene - Deputy Chairman,  
J R F Peiris, E F G Amerasinghe (Resigned  
w.e.f 24/06/2016), T Das (Resigned w.e.f  
24/06/2016), Dr I Coomaraswamy (Resigned  
w.e.f 03/07/2016), M A Omar,  
D A Cabraal, A N Fonseka, P Perera,  
K N J Balendra (Appointed w.e.f 05/11/2016),  
J G A Cooray (Appointed w.e.f 05/11/2016),  
S S H Wijesuriya (Appointed w.e.f  
04/10/2016)

Stated capital: LKR62,790,080,573

### John Keells International (Pvt) Ltd. (PV 46) (100%)\*

*Regional holding company providing administrative & function based services*  
Incorporated in 2006

No.117, Chittampalam A Gardiner Mawatha,  
Colombo 2

Tel:2306000 /2421101-9

**Directors:** S C Ratnayake - Chairman  
A D Gunewardene

Stated capital: LKR1,991,600,000

### J K Packaging (Pvt) Ltd. (PV 1265) (100%)\*

*Printing and packaging services provider for the export market*

Incorporated in 1979

No 148, Vauxhall street, Colombo 2

Tel:2475308

**Directors:** S C Ratnayake- Chairman  
R M David, R S Fernando (Resigned w.e.f  
09/09/2016), J R F Peiris (Appointed w.e.f  
09/09/2016)

Stated capital: LKR14,500,000

### John Keells Singapore (Pte) Ltd.

(199200499C) (80%)\*

*International trading services*

Incorporated in 1992

No.16, Collyer Quay, Level 21,

Office Suite 21-38

Singapore-049318

Tel:65 63296409

**Directors:** S C Ratnayake - Chairman,  
Alt. A D Gunewardene, R M David,  
R Ponnampalam, D C Alagaratnam

Stated capital: LKR9,638,000

### Keells Consultants (Pvt) Ltd. (PB 3) (100%)

*Company secretarial services to the group*

Incorporated in 1974

No.117, Chittampalam A Gardiner Mawatha,  
Colombo 2

Tel:2421101-9

**Directors:** S C Ratnayake - Chairman,  
A D Gunewardene, D C Alagaratnam  
N W Tambiah

Stated capital: LKR160,000

### Mackinnons Keells Ltd. (PB 8) (100%)\*

*Rental of office space*

Incorporated in 1952

No. 4, Layden Bastian Road, Colombo 1

Tel:2475102-3

**Directors:** S C Ratnayake- Chairman,  
A D Gunewardene, S Rajendra

Stated capital: LKR10,800,000

### Mortlake Ltd. (PV 756) (100%)\*

*Investment company*

Incorporated in 1962

No. 148, Vauxhall Street, Colombo 2.

Tel:2475308

**Directors:** S C Ratnayake- Chairman  
A D Gunewardene, R M David  
D C Alagaratnam

Stated capital: LKR3,000

# GRI G4 Content Index

This Report is prepared 'in accordance' -core option of the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines.

GENERAL STANDARD DISCLOSURES					
General Standard Disclosures	Page Number (or Link)	External Assurance Indicate if the Standard Disclosure has been externally assured. If yes, include the page reference for the External Assurance Statement in the report.	UNGC Principles	IFC Sustainability Framework Performance Standard	Code of Best Practice on Corporate Governance 2013
STRATEGY AND ANALYSIS					
G4-1	Page 12-18	Yes, 273 - 275	1		7
ORGANISATIONAL PROFILE					
G4-3	Page 3	Yes, 273 - 275	22		
G4-4	Page 8	Yes, 273 - 275	22		
G4-5	Page 3	Yes, 273 - 275	22		
G4-6	Page 3	Yes, 273 - 275	22		
G4-7	Page 3	Yes, 273 - 275	22		
G4-8	Pages 3, 8	Yes, 273 - 275	22		
G4-9	Pages 3, 10-11, 70	Yes, 273 - 275	22		
G4-10	Page 74	Yes, 273 - 275	11, 12		3
G4-11	Page 76	Yes, 273 - 275	11, 12		3
G4-12	Pages 77, 122, 132, 142, 151, 158, 164, 171 Pages 8-9 of <a href="http://www.keells.com/sustainability">www.keells.com/sustainability</a> - and - csr - Disclosure of Management Approach	Yes, 273 - 275	21		
G4-13	Page 9	Yes, 273 - 275	22		
G4-14	Page 102	Yes, 273 - 275	13		2
G4-15	Page 93	Yes, 273 - 275	4		7
G4-16	Pages 272	Yes, 273 - 275			
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES					
G4-17	Pages 4, 276-282	Yes, 273 - 275			
G4-18	Pages 4-5, 93	Yes, 273 - 275	22, 23		6, 7
G4-19	Page 98	Yes, 273 - 275	3		6
G4-20	Page 96-97	Yes, 273 - 275	22, 23		6
G4-21	Page 96-97	Yes, 273 - 275	22, 23		6
G4-22	Page 93	Yes, 273 - 275	22, 23		
G4-23	Pages 4, 94, 98	Yes, 273 - 275	22, 23		
STAKEHOLDER ENGAGEMENT					
G4-24	Pages 94-95	Yes, 273 - 275	3		6
G4-25	Page 94	Yes, 273 - 275	3		6
G4-26	Pages 94-95	Yes, 273 - 275	3		6
G4-27	Page 96	Yes, 273 - 275			6
REPORT PROFILE					
G4-28	Page 4	Yes, 273 - 275	22, 23		
G4-29	Page 93	Yes, 273 - 275	22, 23		
G4-30	Page 93	Yes, 273 - 275	22, 23		7
G4-31	Page 98	Yes, 273 - 275	22, 23		
G4-32	Pages 4, 16, 93, 273-275	Yes, 273 - 275	22, 23		7
G4-33	Pages 93, 16, 273-275	Yes, 273 - 275	24		7
GOVERNANCE					
G4-34	Page 27	Yes, 273 - 275	2		7
ETHICS AND INTEGRITY					
G4-56	Page 42	Yes, 273 - 275	2		

## GRI G4 Content Index

SPECIFIC STANDARD DISCLOSURES								
DMA and Indicators	Page Number (or Link) Information related to Standard Disclosures required by the 'in accordance' options may already be included in other reports prepared by the organisation. In these circumstances, the organisation may elect to add a specific reference to where the relevant information can be found.	Identified Omission(s) In exceptional cases, if it is not possible to disclose certain required information, identify the information that has been omitted.	Reason(s) for Omission(s) In exceptional cases, if it is not possible to disclose certain required information, provide the reason for omission.	Explanation for Omission(s) In exceptional cases, if it is not possible to disclose certain required information, explain the reasons why the information has been omitted.	External Assurance Indicate if the Standard Disclosure has been externally assured.  If yes, include the page reference for the External Assurance Statement in the report.			
<b>CATEGORY: ECONOMIC</b>								
<b>MATERIAL ASPECT: ECONOMIC PERFORMANCE</b>								
G4-DMA	99, www.keells.com/sustainability - and - csr - Disclosure of Management Approach Pages 2, 6				Yes, 273 - 275			1
G4-EC1	Pages 262-263				Yes, 273 - 275			1
G4-EC3	Page 76				Yes, 273 - 275			1
<b>MATERIAL ASPECT: INDIRECT ECONOMIC IMPACTS</b>								
G4-DMA	99, www.keells.com/sustainability - and - csr - Disclosure of Management Approach Pages 9-10				Yes, 273 - 275			4
G4-EC7	Page 77				Yes, 273 - 275			4
<b>MATERIAL ASPECT: PROCUREMENT PRACTICES</b>								
G4-DMA	100, www.keells.com/sustainability - and - csr - Disclosure of Management Approach Pages 8-9				Yes, 273 - 275			1
G4-EC9	Page 77				Yes, 273 - 275			1
<b>CATEGORY: ENVIRONMENTAL</b>								
<b>MATERIAL ASPECT: ENERGY</b>								
G4-DMA	99, www.keells.com/sustainability - and - csr - Disclosure of Management Approach Page 3				Yes, 273 - 275	13, 14	3	2
G4-EN3	Page 70-71				Yes, 273 - 275	15, 16	3	2
G4-EN6	Page 71				Yes, 273 - 275	15, 16	3	2

MATERIAL ASPECT: WATER					
G4-DMA	99, www.keells.com/ sustainability - and - csr - Disclosure of Management Approach Page 3-4	Yes, 273 - 275	13, 14	4	2
G4-EN8	Page 71-72	Yes, 273 - 275	15, 16	4	2
MATERIAL ASPECT: BIODIVERSITY					
G4-DMA	99, www.keells.com/ sustainability - and - csr - Disclosure of Management Approach Page 4	Yes, 273 - 275	13, 14	6	2
G4-EN11	Page 130	Yes, 273 - 275	15, 16	6	2
CATEGORY: ENVIRONMENTAL					
MATERIAL ASPECT: EMISSIONS					
G4-DMA	99, www.keells.com/ sustainability - and - csr - Disclosure of Management Approach Page 3	Yes, 273 - 275	13, 14	3	2
G4-EN15	Page 70-71	Yes, 273 - 275	15, 16	3	2
G4-EN16	Page 70-71	Yes, 273 - 275	15, 16	3	2
MATERIAL ASPECT: EFFLUENTS AND WASTE					
G4-DMA	99, www.keells.com/ sustainability - and - csr - Disclosure of Management Approach Pages 4	Yes, 273 - 275	13, 14	3	2
G4-EN22	Page 72	Yes, 273 - 275	15, 16	3	2
G4-EN23	Page 72-73	Yes, 273 - 275	15, 16	3	2
G4-EN24	Page 120	Yes, 273 - 275	15, 16	3	2
MATERIAL ASPECT: COMPLIANCE					
G4-DMA	99, www.keells.com/ sustainability - and - csr - Disclosure of Management Approach Page 4	Yes, 273 - 275	13, 14		2
G4-EN29	Page 11, 77	Yes, 273 - 275	15, 16		2
MATERIAL ASPECT: SUPPLIER ENVIRONMENTAL ASSESSMENT					
G4-DMA	100, www.keells. com/sustainability - and - csr - Disclosure of Management Approach Page 4	Yes, 273 - 275	15		
G4-EN32	Page 77	Yes, 273 - 275	15		
CATEGORY: SOCIAL					
SUB-CATEGORY: LABOUR PRACTICES AND DECENT WORK					
MATERIAL ASPECT: EMPLOYMENT					
G4-DMA	99, www.keells.com/ sustainability - and - csr - Disclosure of Management Approach Pages 4-7	Yes, 273 - 275	9, 10		3
G4-LA1	Pages 11, 74-75	Yes, 273 - 275	11, 12		3
MATERIAL ASPECT: OCCUPATIONAL HEALTH AND SAFETY					
G4-DMA	99, www.keells.com/ sustainability - and - csr - Disclosure of Management Approach Page 6	Yes, 273 - 275	9, 10		3, 7
G4-LA6	Page 11, 76	Yes, 273 - 275	11, 12		3, 7

## GRI G4 Content Index

<b>MATERIAL ASPECT: TRAINING AND EDUCATION</b>					
G4-DMA	99, www.keells.com/sustainability - and - csr - Disclosure of Management Approach Pages 5-7	Yes, 273 - 275	9, 10		3
G4-LA9	Page 11, 76	Yes, 273 - 275	11, 12		3
G4-LA11	Page 11, 75	Yes, 273 - 275	11, 12		3
<b>MATERIAL ASPECT: DIVERSITY AND EQUAL OPPORTUNITY</b>					
G4-DMA	99, www.keells.com/sustainability - and - csr - Disclosure of Management Approach Pages 5	Yes, 273 - 275	9, 10	2	3
G4-LA12	Page 74	Yes, 273 - 275	11, 12	2	3
<b>MATERIAL ASPECT: SUPPLIER ASSESSMENT FOR LABOUR PRACTICES</b>					
G4-DMA	100, www.keells.com/sustainability - and - csr - Disclosure of Management Approach Pages 6	Yes, 273 - 275	11		
G4-LA14	Page 11, 77	Yes, 273 - 275	11		
<b>SUB-CATEGORY: HUMAN RIGHTS</b>					
<b>MATERIAL ASPECT: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING</b>					
G4-DMA	99, www.keells.com/sustainability - and - csr - Disclosure of Management Approach Page 6	Yes, 273 - 275	9, 10	2	3
G4-HR4	Page 76-77	Yes, 273 - 275	11, 12	2	3
<b>MATERIAL ASPECT: CHILD LABOUR</b>					
G4-DMA	99, www.keells.com/sustainability - and - csr - Disclosure of Management Approach Pages 7	Yes, 273 - 275	5, 6	2	3
G4-HR5	Page 11	Yes, 273 - 275	7, 8	2	3
<b>MATERIAL ASPECT: FORCED OR COMPULSORY LABOUR</b>					
G4-DMA	99, www.keells.com/sustainability - and - csr - Disclosure of Management Approach Pages 7-8	Yes, 273 - 275	5, 6	2	3
G4-HR6	Page 11, 77	Yes, 273 - 275	7, 8	2	3
<b>MATERIAL ASPECT: SUPPLIER HUMAN RIGHTS ASSESSMENT</b>					
G4-DMA	100, www.keells.com/sustainability - and - csr - Disclosure of Management Approach Pages 9	Yes, 273 - 275	7		
G4-HR10	Page 11, 77	Yes, 273 - 275	7		

SUB-CATEGORY: SOCIETY					
MATERIAL ASPECT: LOCAL COMMUNITIES					
G4-DMA	100, www.keells.com/sustainability - and - csr - Disclosure of Management Approach Pages 9-10	Yes, 273 - 275			4
G4-S01	Pages 73, 76, 78 - 81	Yes, 273 - 275			4
MATERIAL ASPECT: ANTI-CORRUPTION					
G4-DMA	99, www.keells.com/sustainability - and - csr - Disclosure of Management Approach Page 7-8	Yes, 273 - 275	17, 18		
G4-S03	11, 101	Yes, 273 - 275	19, 20		
SUB-CATEGORY: SOCIETY					
MATERIAL ASPECT: COMPLIANCE					
G4-DMA	99, www.keells.com/sustainability - and - csr - Disclosure of Management Approach Page 8	Yes, 273 - 275	17, 18		
G4-S08	Page 77	Yes, 273 - 275	19, 20		
SUB-CATEGORY: PRODUCT RESPONSIBILITY					
TOPIC: CUSTOMER HEALTH AND SAFETY					
G4-DMA	99, www.keells.com/sustainability - and - csr - Disclosure of Management Approach Page 11	Yes, 273 - 275			5
MATERIAL ASPECT: PRODUCT AND SERVICE LABELLING					
G4-DMA	99, www.keells.com/sustainability - and - csr - Disclosure of Management Approach Page 11	Yes, 273 - 275			5
G4-PR3	Page 11, 152	Yes, 273 - 275			5
MATERIAL ASPECT: MARKETING COMMUNICATIONS					
G4-DMA	99, www.keells.com/sustainability - and - csr - Disclosure of Management Approach Page 11	Yes, 273 - 275			5
G4-PR7	Page 77	Yes, 273 - 275			5
MATERIAL ASPECT: COMPLIANCE					
G4-DMA	99, www.keells.com/sustainability - and - csr - Disclosure of Management Approach Page 11	Yes, 273 - 275			5
G4-PR9	Page 11, 77	Yes, 273 - 275			5

## Glossary of Financial Terms

### ACCRUAL BASIS

Recording revenues and expenses in the period in which they are earned or incurred regardless of whether cash is received or disbursed in that period.

### ADJUSTED ROCE AND ROE

Adjusted for 2013 Rights Issue, 2015 Warrant Issue, "Cinnamon Life" debt, revaluation of property, plant and equipment and fair value changes on investment property for 2014/15, 2015/16 and 2016/17.

### ASSET TURNOVER

Revenue including associate company revenue divided by average total assets.

### BETA

Covariance between daily JKH share return and market return divided by variance of daily market return, over a 5 year period.

### CAPITAL EMPLOYED

Shareholders' funds plus non-controlling interests and debt.

### CAPITAL STRUCTURE LEVERAGE (CSL)

Average total assets divided by average shareholders' equity.

### CASH EARNINGS PER SHARE

Profit attributable to equity holders of the parent adjusted for non cash items minus share of associate company profits plus dividends from associate companies divided by the weighted average number of ordinary shares in issue during the period.

### COMMON EARNINGS LEVERAGE (CEL)

Profit attributable to equity holders of the parent divided by profit after tax.

### CONTINGENT LIABILITIES

A condition or situation existing as at the date of the Report due to past events, where the financial effect is not recognised because:

1. The obligation is crystallised by the occurrence or non occurrence of one or more future events or,
2. A probable outflow of economic resources is not expected or,
3. It is unable to be measured with sufficient reliability

### CURRENT RATIO

Current assets divided by current liabilities.

### DEBT/EQUITY RATIO

Debt as a percentage of shareholders' funds and non-controlling interests.

### DILUTED EARNINGS PER SHARE (EPS)

Profit attributable to equity holders of the parent divided by the weighted average number of ordinary shares in issue during the period adjusted for options granted but not exercised and outstanding unexpired warrants.

### DIVIDEND PAYABLE

Final dividend per share multiplied by the latest available total number of shares as at the date of the report.

### DIVIDEND PAYOUT RATIO

Dividend paid as a percentage of Company profits adjusted for non-cash gains items.

### DIVIDEND YIELD

Dividends adjusted for changes in number of shares in issue as a percentage of the share price (diluted) at the end of the period.

### EARNINGS PER SHARE (BASIC)

Profit attributable to equity holders of the parent divided by the weighted average number of ordinary shares in issue during the period.

### EBIT

Earnings before interest and tax (includes other operating income).

### EBIT MARGIN

EBIT divided by turnover inclusive of share of associate company turnover.

### EBITDA

Earnings before interest, tax, depreciation and amortisation.

### EFFECTIVE RATE OF TAXATION

Tax expense divided by profit before tax.

### ENTERPRISE VALUE (EV)

Market capitalisation plus net debt/(net cash).

### INTEREST COVER

Consolidated profit before interest and tax over interest costs

### LIABILITIES TO TANGIBLE NET WORTH

Total non current and current liabilities including contingent liabilities divided by tangible net worth.

### LONG TERM DEBT TO TOTAL DEBT

Long term loans as a percentage of total debt.

### MARKET CAPITALISATION

Number of shares in issue at the end of the period multiplied by the market price at the end of the period.

### MARKET VALUE ADDED

Market capitalisation minus shareholders' funds.

### NET ASSETS

Total assets minus current liabilities, long term liabilities, and non-controlling interests.

### NET ASSETS PER SHARE

Net assets as at a particular financial year end divided by the number of shares in issue as at the current financial year end.

### NET DEBT (CASH)

Total debt minus (cash plus short term deposits).

### NET PROFIT MARGIN

Profit after tax attributable to equity holders of the parent divided by total revenue including share of associates.

### NET WORKING CAPITAL

Current assets minus current liabilities.

### PRICE EARNINGS RATIO

Market price per share (diluted) over diluted earnings per share.

### PRICE TO BOOK RATIO

Market price per share (diluted) over net asset value per share.

### PRICE TO CASH EARNINGS

Diluted market price per share divided by diluted cash earnings per share.

### PUBLIC HOLDING

Percentage of shares held by the public calculated as per the Colombo Stock Exchange Listing Rules as at the date of the Report.

### QUICK RATIO

Cash plus short term investments plus receivables, divided by current liabilities.

### RECURRING EBIT/RECURRING PROFIT AFTER TAX/RECURRING PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

Profit, as applicable, adjusted for changes in fair value of investment property and one-off disposal gains or losses accruing through the sale of investments not held under the private equity portfolio of JK Capital.

### RETURN ON ASSETS

Profit after tax divided by the average total assets.

### RETURN ON CAPITAL EMPLOYED (ROCE)

Consolidated profit before interest and tax as a percentage of average capital employed.

### RETURN ON EQUITY (ROE)

Profit attributable to shareholders as a percentage of average shareholders' funds.

### SHARE TURN RATIO

Total volume of shares traded during the year divided by average number of shares in issue.

### SHAREHOLDERS' FUNDS

Total of stated capital, other components of equity and revenue reserves.

### TANGIBLE NET WORTH

Total equity less intangible assets and deferred tax assets.

### TOTAL DEBT

Long term loans plus short term loans and overdrafts.

### TOTAL EQUITY

Shareholders' funds plus non-controlling interest.

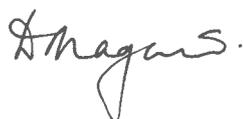
## Notice of Meeting

Notice is hereby given that the Thirty Eighth Annual General Meeting of John Keells Holdings PLC will be held on 30th June 2017 at 10:00 a.m. at The Forum Area (Sixth Floor), The Institute of Chartered Accountants of Sri Lanka, 30A, Malalasekera Mawatha (Longden Place), Colombo 7.

The business to be brought before the meeting will be:

1. to read the notice convening the meeting.
2. to receive and consider the Annual Report and Financial Statements for the Financial Year ended 31st March 2017 with the Report of the Auditors thereon.
3. to re-elect as Director, Mr. D A Cabraal, who retires in terms of Article 84 of the Articles of Association of the Company. A brief profile of Mr. D A Cabraal is contained in the Board of Directors section of the Annual Report.
4. to re-elect as Director, Mr. A N Fonseka, who retires in terms of Article 84 of the Articles of Association of the Company. A brief profile of Mr. A N Fonseka is contained in the Board of Directors section of the Annual Report.
5. to re-elect as Director, Dr. S S H Wijayasuriya, who retires in terms of Article 91 of the Articles of Association of the Company. A brief profile of Dr. S S H Wijayasuriya is contained in the Board of Directors section of the Annual Report.
6. to re-elect as Director, Mr. K N J Balendra, who retires in terms of Article 91 of the Articles of Association of the Company. A brief profile of Mr. K N J Balendra is contained in the Board of Directors section of the Annual Report.
7. to re-elect as Director, Mr. J G A Cooray, who retires in terms of Article 91 of the Articles of Association of the Company. A brief profile of Mr. J G A Cooray is contained in the Board of Directors section of the Annual Report.
8. to re-appoint Auditors and to authorise the Directors to determine their remuneration.
9. to consider any other business of which due notice has been given in terms of the relevant laws and regulations.

By Order of the Board  
JOHN KEELLS HOLDINGS PLC



Keells Consultants (Private) Limited  
Secretaries  
31 May 2017

### Notes:

- i. A member unable to attend is entitled to appoint a Proxy to attend and vote in his/her place.
- ii. A Proxy need not be a member of the Company.
- iii. A member wishing to vote by Proxy at the Meeting may use the Proxy Form enclosed on page 291 of this Report.
- iv. In order to be valid, the completed Proxy Form must be lodged at the Registered Office of the Company not less than 48 hours before the meeting.
- v. If a poll is demanded, a vote can be taken on a show of hands or by a poll. Each share is entitled to one vote. Votes can be cast in person, by proxy or corporate representatives. In the event an individual member and his/her proxy holder are both present at the meeting, only the member's vote is counted. If the proxy holder's appointor has indicated the manner of voting, only the appointor's indication of the manner to vote will be used.

# Corporate Information

## Name of Company

John Keells Holdings PLC

## Legal Form

Public Limited Liability Company  
Incorporated in Sri Lanka in 1979  
Ordinary Shares listed on the Colombo Stock Exchange  
GDRs listed on the Luxembourg Stock Exchange

## Company Registration No.

PQ 14

## Directors

S C Ratnayake - Chairman  
A D Gunewardene - Deputy Chairman  
J R F Peiris - Group Finance Director  
K N J Balendra  
J G A Cooray  
D A Cabraal  
A N Fonseka  
M A Omar  
M P Perera  
S S H Wijayasuriya

## Senior Independent Director

A N Fonseka

## Audit Committee

A N Fonseka - Chairman  
D A Cabraal  
M P Perera

## Human Resources and Compensation Committee

D A Cabraal - Chairman  
M A Omar  
S S H Wijayasuriya

## Nominations Committee

M A Omar - Chairman  
M P Perera  
S S H Wijayasuriya  
S C Ratnayake

## Related Party Transaction Review Committee

M P Perera - Chairperson  
D A Cabraal  
A N Fonseka  
S C Ratnayake

## Registered Office of the Company

117 Sir Chittampalam A. Gardiner Mawatha,  
Colombo 2, Sri Lanka  
Telephone: +94 11 230 6000  
Internet : www.keells.com  
Email : jkh@keells.com

## Secretaries

Keells Consultants (Private) Limited  
117 Sir Chittampalam A. Gardiner Mawatha,  
Colombo 2, Sri Lanka  
Telephone: +94 11 230 6245  
Facsimile : +94 11 243 9037

## Investor Relations

John Keells Holdings PLC  
117 Sir Chittampalam A. Gardiner Mawatha,  
Colombo 2, Sri Lanka  
Telephone: +94 11 230 6161  
Facsimile : +94 11 230 6160  
Email : investor.relations@keells.com

## Sustainability, Enterprise Risk Management and Group Initiatives

186 Vauxhall Street,  
Colombo 2, Sri Lanka  
Telephone: +94 11 230 6182  
Facsimile : +94 11 230 6249  
Email : sustainability@keells.com

## Contact for Media

Corporate Communications Division  
John Keells Holdings PLC  
117 Sir Chittampalam A. Gardiner Mawatha,  
Colombo 2, Sri Lanka  
Telephone: +94 11 230 6191  
Email : jkh@keells.com

## Auditors

Ernst & Young  
Chartered Accountants  
P.O. Box 101  
Colombo, Sri Lanka

## Bankers for the Group

Bank of Ceylon  
Citibank N.A.  
Commercial Bank of Ceylon  
Deutsche Bank A.G.  
DFCC Bank  
Habib Bank  
Hatton National Bank  
Hongkong and Shanghai Banking Corporation  
MCB Bank  
National Savings Bank  
Nations Trust Bank  
NDB Bank  
Pan Asia Banking Corporation  
People's Bank  
Sampath Bank  
Seylan Bank  
Standard Chartered Bank

## Depository for GDRs

Citibank N.A. New York

# Proxy Form

I/We ..... of

being a member/s of John Keells Holdings PLC hereby appoint ..... of  
 ..... or failing him/her

- |   |                |
|---|----------------|
| MR. SUSANTHA CHAMINDA RATNAYAKE           | or failing him |
| MR. AJIT DAMON GUNewardENE                | or failing him |
| MR. JAMES RONNIE FELITUS PEIRIS           | or failing him |
| MR. KRISHAN NIRAJ JAYASEKARA BALENDRA     | or failing him |
| MR. JOSEPH GIHAN ADISHA COORAY            | or failing him |
| MR. MOHAMED ASHROFF OMAR                  | or failing him |
| MR. DAMIEN AMAL CABRAAL                   | or failing him |
| MR. ANTHONY NIHAL FONSEKA                 | or failing him |
| MS. MARIE PREMILA PERERA                  | or failing her |
| DR. SHRIDHIR SARIPUTTA HANSA WIJAYASURIYA |                |

as my/our proxy to represent me/us and vote on my/our behalf at the Thirty Eighth Annual General Meeting of the Company to be held on 30 June 2017 at 10:00 a.m. and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

I/We, the undersigned, hereby direct my/our proxy to vote for me/us and on my/our behalf on the specified Resolution as indicated by the letter "X" in the appropriate cage:

	FOR	AGAINST
To re-elect as Director, Mr. D A Cabraal, who retires in terms of Article 84 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect as Director, Mr. A N Fonseka, who retires in terms of Article 84 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect as Director, Dr. S S H Wijayasuriya, who retires in terms of Article 91 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect as Director, Mr. K N J Balendra, who retires in terms of Article 91 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect as Director, Mr. J G A Cooray, who retires in terms of Article 91 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
To re-appoint Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Signed on this ..... day of ..... Two Thousand and Seventeen

.....  
 Signature/s of Shareholder/s

NOTE:  
 INSTRUCTIONS AS TO COMPLETION OF PROXY FORM ARE NOTED ON THE REVERSE.

**INSTRUCTIONS AS TO COMPLETION OF PROXY**

1. Please perfect the Form of Proxy by filling in legibly your full name and address, signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 117, Sir Chittampalam A Gardiner Mawatha, Colombo 2, not later than 48 hours before the time appointed for the holding of the Meeting.
3. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
4. If the appointer is a company or Corporation, the Form of Proxy should be executed under its Common Seal or by a duly authorised officer of the company or Corporation in accordance with its Articles of Association or Constitution.
5. If this Form of Proxy is returned without any indication of how the person appointed as Proxy shall vote, then the Proxy shall exercise his/her discretion as to how he/she votes or, whether or not he/she abstains from voting.

Please fill in the following details:

Name	:	.....
Address	:	..... ..... .....
Jointly with	:	.....
Share Folio No.	:	.....

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