INDUSTRY GROUP REVIEW

Designing *Strategy*

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)

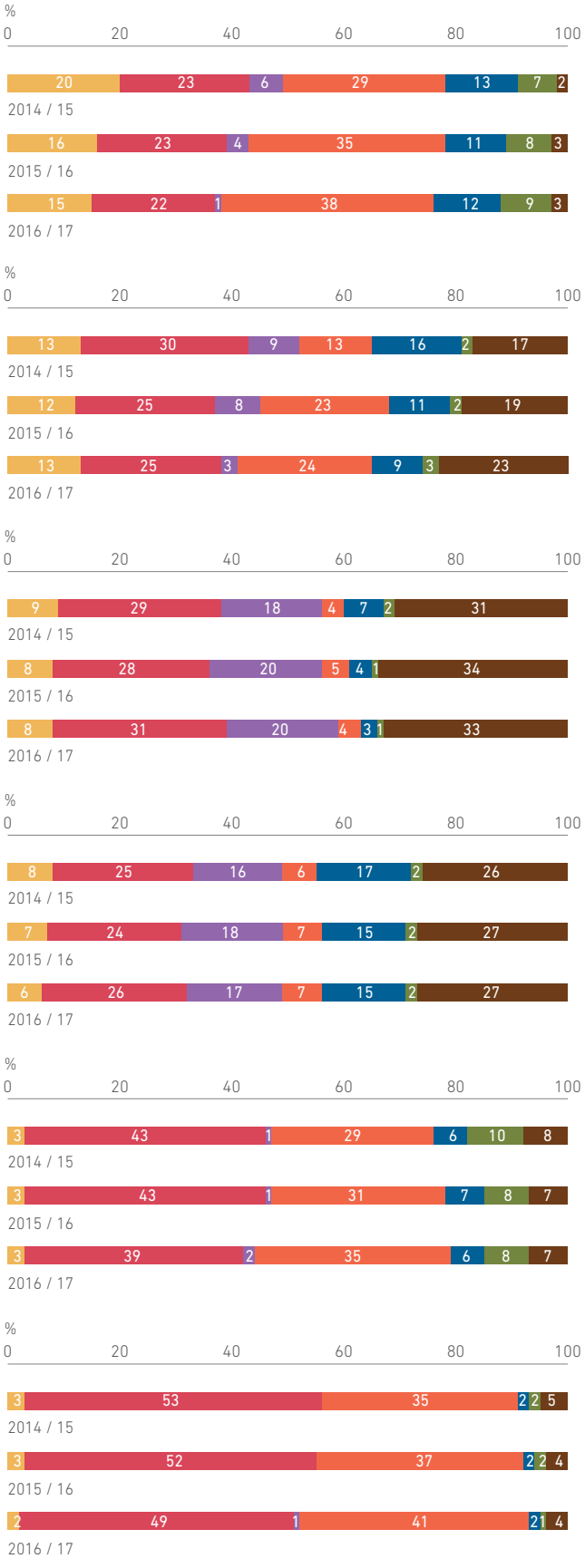
	TRP	Leisure	Property	CF&R	Fin Ser	IT	Other
2014/15	16.66	55.40	34.89	12.95	37.13	3.75	57.31
2015/16	17.16	57.65	43.93	15.86	35.88	4.12	66.37
2016/17	18.06	72.00	48.33	18.28	41.72	4.78	74.10

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



TRP	Transportation	CF&R	Consumer Foods and Retail	IT	Information Technology
Leisure	Leisure	Fin Ser	Financial Services	Other	Other including Plantation Services
Property	Property				

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_2
0.15 MT per Rs.mn revenue

Sectors	Ports and Shipping	Transportation
The business within the sector	• 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) • Associate stake in Maersk Lanka, agents in Sri Lanka and the Maldives for Maersk Line and Safmarine	• 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
Key external/ internal variables impacting the business	• 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 • 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 • Improved prospects in the ports and shipping industry in Colombo and Hambantota for private sector participation	• Prospects for further private sector participation in the bunkering industry • Growth in demand for 3PL offerings on the back of more local businesses aspiring to global benchmarks and significant shifts to organised retail • Increase in capacity in the airline industry through the entry of new players and intensified competition from existing players • 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
Key developments during the financial year	• SAGT recognised as the "Best Terminal in South Asia", awarded by the Global Ports Forum in February 2017	• LMS maintained its market leadership position in the bunkering industry • JKLL launched "Store4u", an online storage solution for individuals and SMEs

Key Indicators

Inputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Total assets	18,065	17,163	5	16,656
Total equity	14,841	15,028	(1)	14,232
Total debt	1,754	878	100	1,255
Capital employed[1]	16,595	15,905	4	15,486
Employees (number)[2]	385	349	10	326

Outputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Turnover[3]	18,438	16,829	10	20,114
EBIT	3,124	2,517	24	2,412
PBT	3,098	2,495	24	2,359
PAT	2,979	2,454	21	2,335
EBIT per employee[4]	8.1	7.2	13	7.4
Carbon footprint (MT)[2]	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 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.

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.

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;

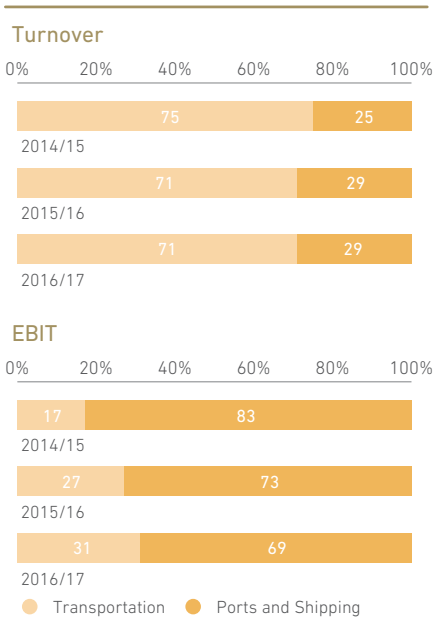
Sectors	Ports and Shipping	Transportation
Financial and Manufactured Capital - revenue and growth	Rs.5.42 billion, 10 per cent increase	Rs.13.01 billion, 9 per cent increase
Financial and Manufactured Capital - EBIT and growth	Rs.2.16 billion, 18 per cent increase	Rs.965 million, 42 per cent increase
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.



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.

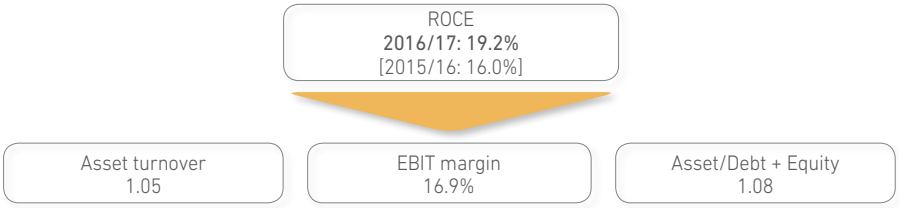
Borrowings and Finance Expense

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

Return on Capital Employed



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_2 (kg per MT of bunkers sold)	5.3	5.7
JKLL CO_2 (kg per m^2 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^2 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

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.

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 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

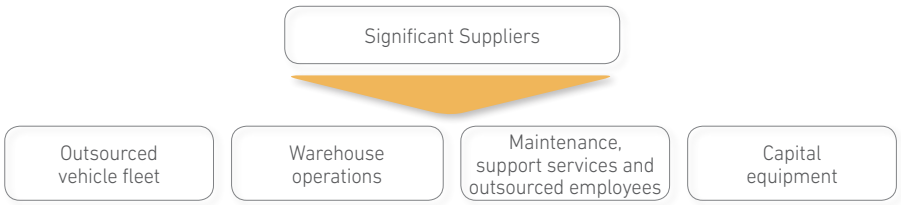
Industry Group Review

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.



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.

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

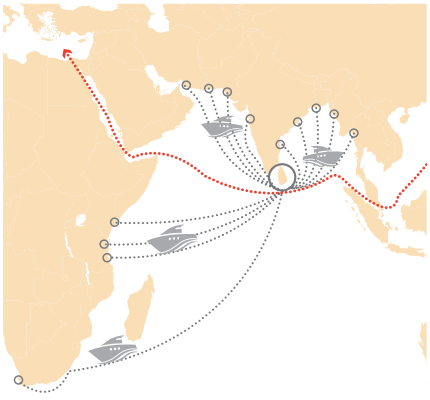
- JKLL became the first logistics company in Sri Lanka to be awarded the ISO 9001:2015 certification
- DHL won the Stevie International Business Award for Customer Service

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 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 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



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

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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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_2
1.47 MT per Rs.mn revenue

Sectors	City Hotels	Resorts		Destination Management
		Sri Lankan	Maldivian	
The business within the sector	• Cinnamon Grand - 501 rooms • Cinnamon Lakeside - 346 rooms • Cinnamon red - 240 rooms	• 8 resort hotels in Sri Lanka - 1,000 rooms	• 3 resort hotels in the Maldives - 340 rooms	• Walkers Tours and Whittall Boustead Destination Management operations in Sri Lanka
Key external/ internal variables impacting the business	• Increased room inventory, particularly in the 3-4 star hotel segment in the prior years • Encouraging growth in overall tourist arrivals to the City Hotel sector	• Increase in room inventory, particularly in the west and southern coastal areas of the island • Increase in competition from the informal sector	• Recovery post the political instability seen last year • Increased duty on tobacco and carbonated drinks and a new expatriate remittance tax	• Significant influx of tourists from China, India and the United Kingdom • Arrivals from China grew 26 per cent during the calendar year 2016
Key developments during the financial year	• Cinnamon Grand maintained its position as the market leader	• Ongoing roll-out of "Cinnamon" branding initiatives	• Extension of the head lease of Cinnamon Dhonveli Maldives by 15 years	• Witnessed a significant growth in volumes from web based sales • Introduction of new web based portal

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
Total assets	71,996	57,653	25	55,403
Total equity	60,690	47,782	27	45,764
Total debt	5,874	4,664	26	4,826
Capital employed[1]	66,564	52,446	27	50,590
Employees (number)[2]	5,041	5,073	(1)	5,147

Outputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Turnover[3]	26,136	24,306	8	23,422
EBIT	5,924	5,134	15	5,737
PBT	5,721	4,968	15	5,505
PAT	5,008	4,367	15	4,855
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 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.

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.

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. 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 off-set 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.

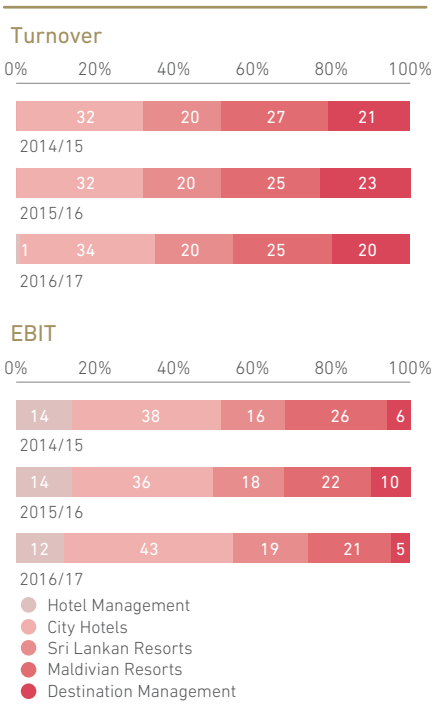
Financial performance

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 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.

Rs.26.14Bn

Leisure industry group revenue

A 8 per cent increase



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.

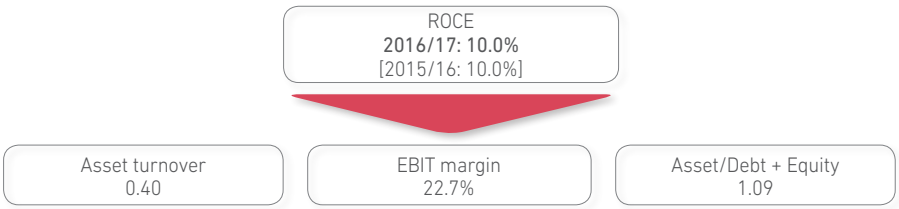
Borrowings and Finance Expense

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:

Energy, emissions, water and waste	Financial implications, stakeholder expectations of sustainable tourism practices, regulatory requirements, brand image and reputation of the industry group's businesses
Water and effluent management	Financial implications as well as regulatory and brand reputation implications
Waste management	Regulatory and brand reputation implications
Bio diversity	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^2)	Extent of site (km^2)	Protected through legislation/ IUCN/ UNESCO etc	Status of EPL being obtained
Bentota Beach by Cinnamon	Marine ecosystems	Adjacent	Nil	0.0446	Flora and Fauna Protection Ordinance 1937 IUCN Category II - National Park	Yes
Cinnamon Bey Beruwala	Marine ecosystems	Adjacent	Nil	0.0450		Yes
Trinco Blu by Cinnamon	Marine ecosystems	Adjacent	Nil	0.0500		Yes
Hikka Tranz by Cinnamon	Marine ecosystems	Adjacent	3,600	0.0176		Yes
Habarana Village by Cinnamon	Minneriya tank sanctuary	15 km	Nil	0.0340		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^3)	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_2 kg per guest night	22.77	23.07
Maldivian Resorts segment CO_2 kg per guest night	31.15	31.22
City Hotels sector CO_2 kg per guest night	56.89	55.92
Destination Management sector CO_2 kg per client serviced	7.72	7.54

* Restated

Water withdrawal per operational intensity factor

	2016/17	2015/16
Sri Lankan Resorts segment CO_2 kg per guest night	937	968
Maldivian Resorts segment CO_2 kg per guest night	603	611
City Hotels sector CO_2 kg per guest night	1,226	1,217

Waste generated per operational intensity factor

	2016/17	2015/16
Sri Lankan Resorts segment CO_2 kg per guest night	2.31	2.50
Maldivian Resorts segment CO_2 kg per guest night	4.44	5.86
City Hotels sector CO_2 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:

Talent management	Retaining talent and upgrading skills of existing staff towards delivering superior customer service and quality levels
Health and safety	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:

Supply chain and sustainable sourcing	Assessing and educating significant suppliers to ensure the mitigation of negative impacts in environmental, labour and human rights aspects
Community development	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

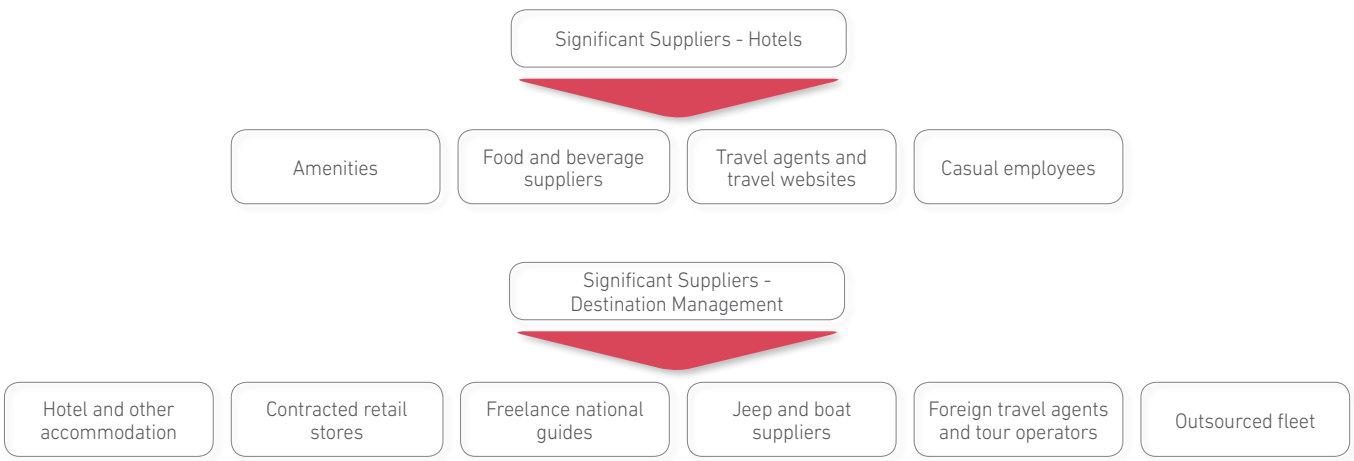
Impact through CSR initiatives:

- Cinnamon Colomboscope 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	• 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 • 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 • 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 • 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
Miss Intercontinental	• Largest beauty and fashion pageant to be held in Sri Lanka with the participation of 72 countries • Held in collaboration with a local media platform in August 2016
Cinnamon TV Commercial	• A lifestyle oriented brand Television commercial was launched in the financial year on all SriLankan Airlines flights to enhance the "Cinnamon" brand visibility
Travel bloggers Conference and Awards ceremony	• Conceptualised by "Cinnamon", the first travel bloggers' conference was held in June with the participation of over 60 bloggers from across 14 countries
Awards/Accolades and measures undertaken for quality assurance	
Walkers Tours Limited	• Adjudged the best performing TourCert check Company due to its commitment to practicing of responsible tourism
Cinnamon Grand	• Awarded the Bronze award at Sri Lanka National Energy Efficiency Awards 2016 • Received an "A *" food grading for Excellence in Food Safety and Hygiene issued by the CMC
Cinnamon Lakeside	• Received an "A" food grading for Excellence in Food Safety and Hygiene
Sri Lanka Resorts	• Cinnamon Wild Yala awarded the Presidential Bronze Award at the National Occupational Health and Safety Awards (NIOSH) • Sector Award - Tourism and Merit Award claimed by Cinnamon Bey and Cinnamon Lodge respectively • Cinnamon Hotels and Resorts was awarded the Gold Award at the 2016 Human Capital Management (HCM) Awards and the category award for Talent Acquisition

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 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.

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.

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 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.

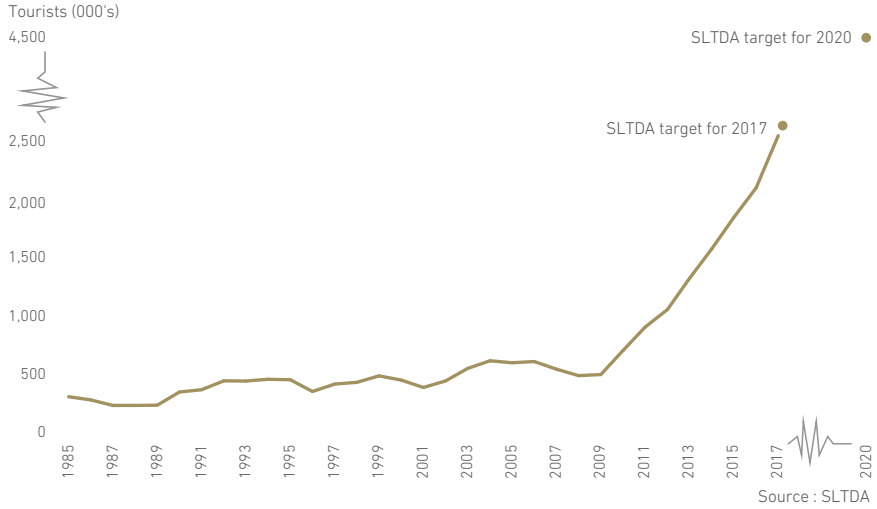
Considering the long term growth prospects for tourism in the country, the Leisure industry group is currently evaluating several investments to expand its portfolio of hotels whilst being conscious of the impact on the JKH Group portfolio considering the return profile of hospitality investments. The 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.

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



Source : SLTDA

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.

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

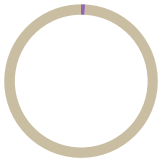
Our Business Model

Vision and Scope

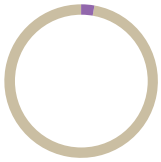
The property arm of the Group consists of the Property Development and Real Estate sectors. The Property Development sector is currently engaged in the development of the "Cinnamon Life" integrated resort project.

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.

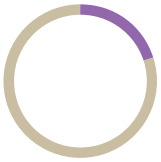
Contribution to JKH Group



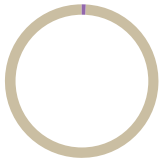
1%
Revenue



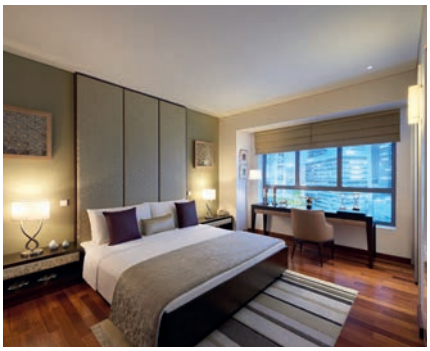
3%
EBIT



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_2
2.60 MT per Rs.mn revenue

Sectors	Property Development	Real Estate
The business within the sector	• Development and sale of residential and commercial properties	• Renting of commercial office spaces and the management of the Group's real estate within the city • Owning and operating the "Crescat Boulevard" mall and "K-Zone" malls in Moratuwa and Ja-Ela • Operating the 18 hole champion standard golf course and managing the land bank in Rajawella, Kandy
Key external/ internal variables impacting the business	• Increasing supply of residential apartment units • 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	• 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 • The increase in the per capita income of households enhanced consumer discretionary spending, thereby increasing demand for retail spaces • 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 • The Government proposal to develop the Colombo - Kandy expressway, thus improving connectivity to the Rajawella site in Digana, Kandy
	• Exchange rate pressures contributed towards an increase in the cost of construction • Acute shortage of skilled and unskilled manpower • Increase in value added tax (VAT) rate from 11 per cent to 15 per cent which will impact construction costs • Exemption of value added taxes on the sale of residential apartments • 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	
Key developments during the financial year	• All units were handed over to the buyers and 100 per cent of revenue of "7th Sense" on Gregory's Road was recognised	• Course irrigation system and other machinery were upgraded at the golf course at Rajawella, Kandy • "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

Key Indicators

Inputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Total assets	48,329	43,935	10	34,891
Total equity	29,097	26,947	8	18,539
Total debt	13,439	11,647	15	13,125
Capital employed	42,536	38,594	10	31,664
Employees (number)	244	102	139	107

Outputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Turnover	1,121	4,342	(74)	5,689
EBIT	690	1,675	(59)	1,638
PBT	665	1,643	(60)	1,516
PAT	623	1,585	(61)	1,427
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 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.

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.

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.

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.

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

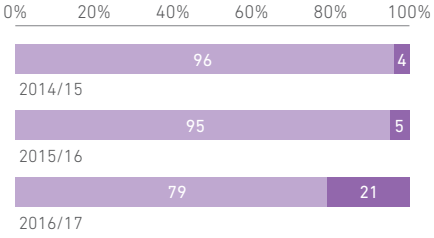
As at 1 April 2016, the Property industry group had total assets of Rs.43.93 billion, debt of Rs.11.65 billion and an opening equity capital of Rs.26.95 billion.

Financial Performance

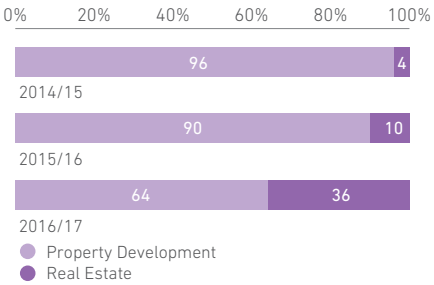
The Property industry group revenue declined by 74 per cent to Rs.1.12 billion [2015/16: Rs.4.34 billion] compared to the previous year, mainly attributable to the revenue recognition cycle of its residential apartments. Whilst the final revenue tranche from "7th Sense" on Gregory's Road, was recognised 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 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 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.

Rs.48.33Bn
Property industry group asset base
A 10 per cent growth

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

ROCE
2016/17: 1.7%
[2015/16: 4.8%]

Asset turnover	EBIT margin	Asset/Debt + Equity
0.02	61.6%	1.14

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.

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	• Compliance with Government regulations, industry regulations and prerequisites of lending agencies • Implications on brand image and the environment

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
- 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 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

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;

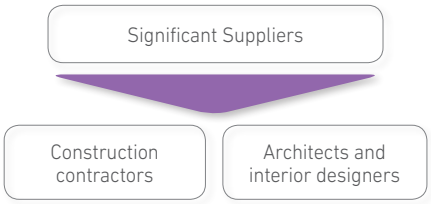
- Environmental and social impact assessments prior to the commencement of new projects
- Effluent and waste management
- Requirement to engrain sustainability in its supply chain through supplier engagement and assessment, for both its existing operations and new projects, to reduce the operational and reputational risks to the business

The Slave Island railway station was renovated and is maintained by the Property industry group

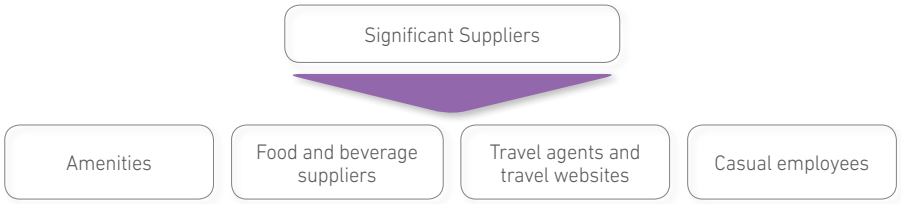
Industry Group Review

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 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

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.

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.

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.

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.

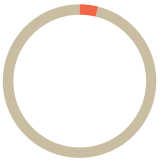
The Consumer Foods sector competes in three major categories namely beverages, frozen confectionery and convenience foods.

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_2
0.73 MT per Rs.mn revenue

Sectors	Consumer Foods	Retail
The business within the sector	• 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 • Keells Food Products (KFP) produces and markets a range of processed meat products under the "Keells-Krest" and "Elephant House" brand names	• JayKay Marketing Services (JMSL) operates the "Keells Super" chain of modern retail outlets and the "Nexus" loyalty programme
Key external/ internal variables impacting the business	• Increase in excise duty and other levies on sugar and other raw materials	• Continued growth in the modern trade penetration of the country • Industry characterised by high employee attrition
	• Revision of value added tax (VAT) from 11 per cent to 15 per cent • Increases in VAT, interest rates and inflation impacted consumer discretionary spending, particularly during the fourth quarter of the financial year 2016/17 • Sri Lanka affected by the worst drought in 40 years impacting 16 districts in total	
Key developments during the financial year	• 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 • Introduction of "Lemoki", a new flavour in the beverage portfolio and "Fit-o", a flavoured fruit drink in orange and mango flavours • Reduction of the calorific sugar content in Carbonated Soft Drinks (CSD) through the introduction of stevia • Capacity expansion through construction of a new ice cream factory in Seethawaka • Expansion of the bottling plant in Ranala to cater to growing demand • 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 • KFP implemented a brand migration exercise in the year where several "Keells" branded products were re-branded as "Keells-Krest"	• 15 new stores were opened during the year under review, increasing the total retail footprint to 64 stores as at 31 March 2017 • JMSL received a satisfaction rating of 4.2/5.0 in the "Voice of Supplier Survey" - a survey conducted among all commercial suppliers of Keells Super • Launch of "Never Frozen" fresh chicken campaign, focusing on fresh food offering • The Nexus Mobile loyalty programme reached a landmark of over 650,000 members • Feasibility studies and conceptual designs for the construction of a new distribution centre were finalised with JKLL, the Group's logistics arm

Key Indicators

Inputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Total assets	18,275	15,862	15	12,945
Total equity	8,414	7,803	8	6,613
Total debt	1,121	812	38	923
Capital employed	9,535	8,616	11	7,536
Employees (number)	4,446	3,692	20	3,427

Outputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Revenue	45,812	36,458	26	29,757
EBIT	5,486	4,497	22	2,566
PBT	5,466	4,472	22	2,498
PAT	3,896	3,229	21	1,804
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 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 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.

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.

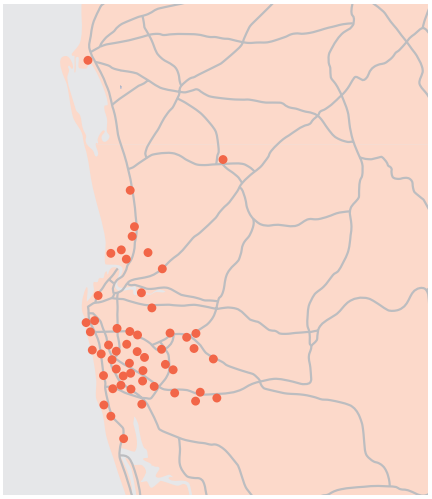
CCS continued to place emphasis on the composition of its portfolio, product mix, the numerous pack sizes and various other cost management measures and productivity enhancing initiatives to drive profitability. In recognition of the high quality standards and the unique taste profile, the operational 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 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.

Rs.5.47Bn

Consumer Foods and Retail industry group PBT

A 22 per cent growth

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.

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

Industry Group Review

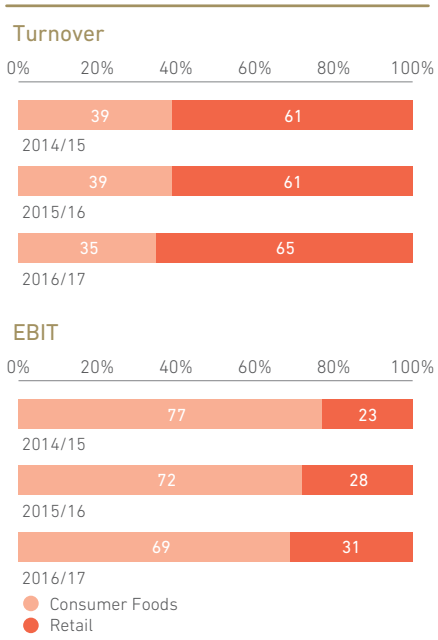
CONSUMER FOODS AND RETAIL

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.



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 afore-mentioned 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:

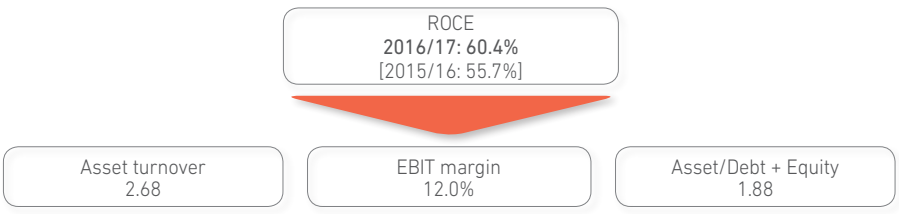
Energy, emissions, water and waste	Financial, regulatory and brand reputation implications

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



Blow moulding air compressor unit at CCS

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

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 foot print, 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 m3/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^3)	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_2 kg per litre produced	0.10	0.10
KFP CO_2 kg per kg of processed meat produced	0.91	0.84
JMSL CO_2 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:

Health and safety/ training and talent retention	The operations within the industry group are labour intensive, with over 4,400 employees in total

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

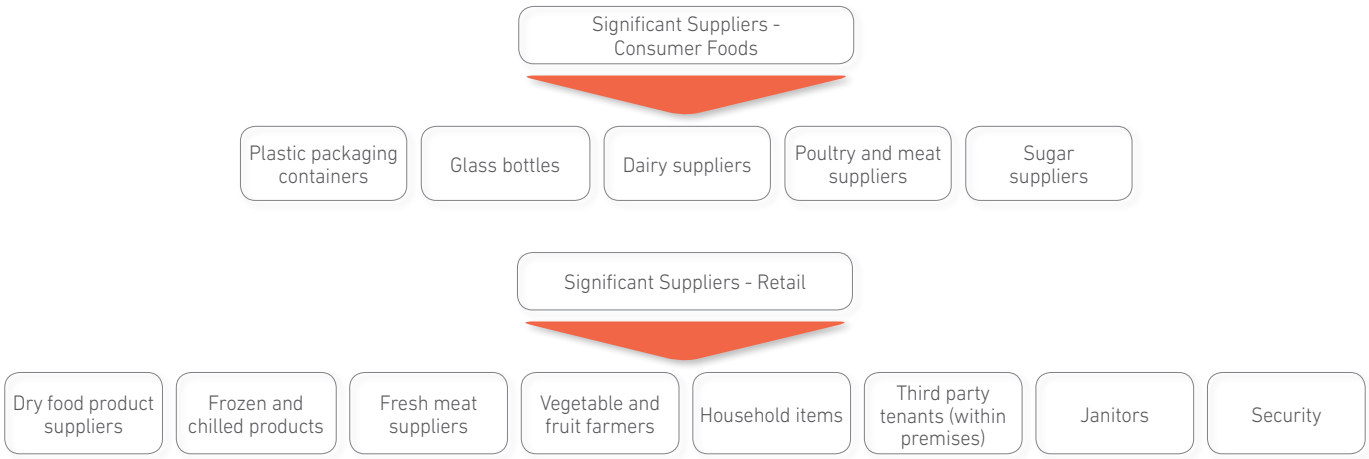
Social and Relationship Capital

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.

Supply chain and sustainable sourcing	Ensure a continuous source of raw materials which reduces risk, enhances brand reputation and benefits local businesses

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:

Product and service quality	Financial, regulatory, brand reputation and business continuity implications
Responsible labelling and marketing communication	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:

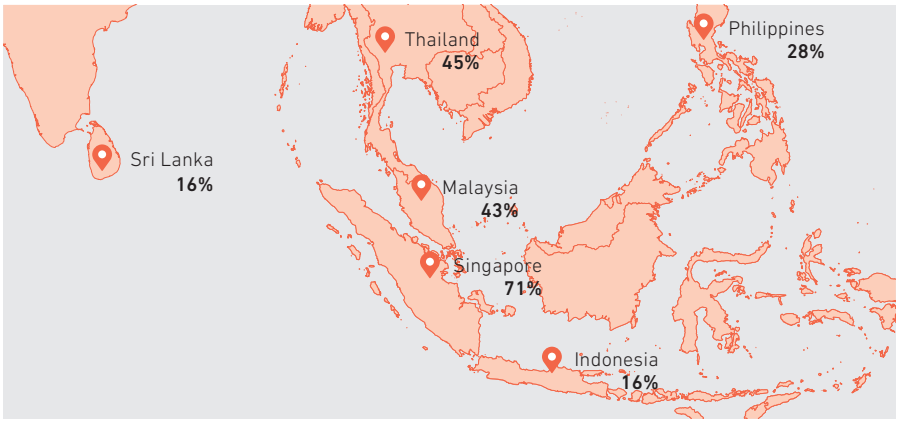
- The calorific sugar content in beverages was reduced through the use of stevia; a natural sweetener with zero calories. The initiative led to a 30 per cent reduction in the total sugar content in selected beverages
- Providing healthy product options to customers at all Keells Super stores and also 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 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 modern trade penetration in the region

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

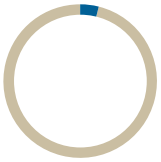
Vision and Scope

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.

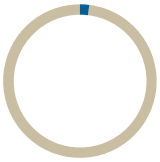
Contribution to JKH Group

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_2
0.17 MT per Rs.mn revenue

Sectors	Insurance	Banking	Stock Broking
The business within the sector	• 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	• 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	• 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
Key external/ internal variables impacting the business	• The insurance industry continued its strong growth, recording a growth of 18 per cent during the financial year	• The banking industry enjoyed strong credit growth amid a rising interest rate environment • 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	• Implementation of mandatory Capital Adequacy Ratios replacing net capital requirements for stock brokers took effect on 1 March 2017 • 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
Key developments during the financial year	• 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"	• Introduction of a cash management platform for mid-level corporates that provides supplier payment services, electronic banking and payroll services among others	• Implementation of cost management initiatives and a new trade execution and back office IT platform

Key Indicators

Inputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Total assets	41,725	35,878	16	37,128
Total equity	7,592	7,135	6	11,698
Total debt	138	106	30	80
Capital employed[1]	7,730	7,240	7	11,778
Employees (number)[2]	814	803	1	718

Outputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Turnover[3]	14,056	11,896	18	12,989
EBIT	2,097	2,301	(9)	3,076
PBT	2,097	1,699	23	3,076
PAT	2,042	1,718	19	3,019
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.

Rs.8.27Bn

Life insurance GWP growth

A 19 per cent growth

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.

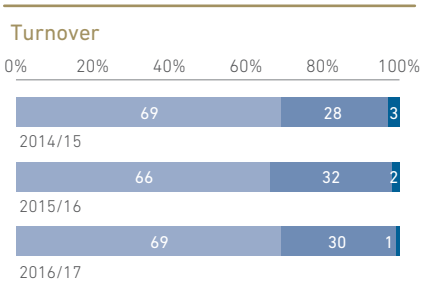
Sectors	Insurance	Banking and Leasing	Stock Broking
Financial and Manufactured Capital - revenue and growth	Rs.9.66 billion, increase of 22 per cent	Rs.4.28 billion, increase of 14 per cent	Rs.115 million, decrease of 40 per cent
Financial and Manufactured Capital - EBIT and growth	Rs.1.23 billion, decrease 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

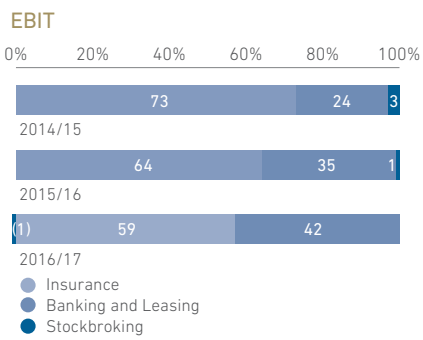
Financial and Manufactured Capital

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

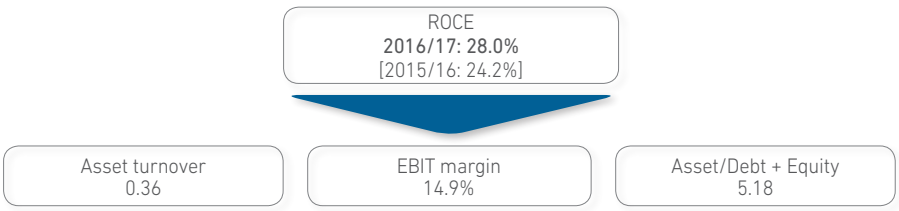
- The industry group ROCE increased to 28.0 per cent against 24.2 per cent recorded in the previous year. The increase in ROCE is partly stemming from the decline in the average capital base of the industry group on account of the UA share repurchase which took place in September 2015
- Total assets 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

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:

Occupational health and safety	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
Talent Management	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 Odessey" 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

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:

Customer satisfaction	Negative impacts on key customer accounts, investor and client confidence
Community engagement	Proactive community engagement contributes to building trust and promotes brand image
Ethics, fraud and corruption	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

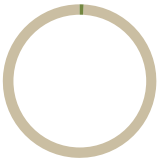
Vision and Scope

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.

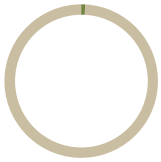
Contribution to JKH Group

9%
Revenue

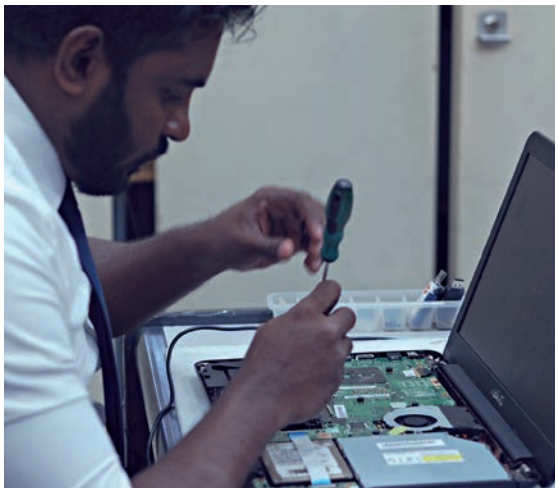
3%
EBIT



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_2
0.10 MT per Rs.mn revenue

Sectors	IT Services	Office Automation	IT Enabled Services
The business within the sector	• John Keells Computer Services (JKCS) offer software products and services to a wide range of clients in Sri Lanka and overseas • Core focus areas are in software engineering services and products targeted at the aviation and leisure industries	• John Keells Office Automation (JKOA) is the authorised distributor for some of the leading office automation brands in the world • Sole distributor for Toshiba B&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	• BPO operations voice vertical through JK BPO, which operates approximately 750 seats in India • 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)
Key external/ internal variables impacting the business	• Increase in wages for skilled engineers due to the dearth of skilled resources • Mandatory requirements of Advanced Passenger Processing (APP) features and Advanced Passenger Information messages for departure control systems in certain international borders	• Depreciation of the Rupee contributed towards increased procurement costs and pressure on margins	• The shift of voice processing services from India to on-shore and near-shore regions • Increased demand for back office, including finance, accounting and knowledge processes in India • Automation and the use of robotics are significant developments in the industry and the move towards higher end knowledge intensive services
Key developments during the financial year	• Work commenced on Zhara Neo which is intended for very small hotels (5-15 rooms) • The Software Engineering and Products verticals secured 4 and 5 new clients, respectively	• JKOA made a conscious effort to focus on the upper end of the market, which encompasses higher margin products • 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	• InfoMate increased its footprint in Australia and the Nordic region • Implementation of "SupplierMate"; an online supplier portal

Key Indicators

Inputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Total assets	4,777	4,116	16	3,750
Total equity	1,983	1,951	2	2,322
Total debt	348	339	3	92
Capital employed[1]	2,331	2,289	2	2,414
Employees (number)[2]	1,075	985	9	1,224

Outputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Turnover	11,107	8,262	34	7,212
EBIT	621	161	286	382
PBT	612	148	312	370
PAT	468	96	389	280
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 Nielsens 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 Nielsens 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

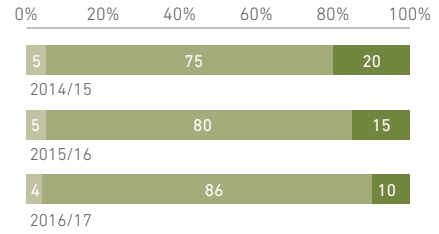
As at 1 April 2016, the Information Technology industry group had total assets of Rs.4.12 billion, debt of Rs.339 million and an opening equity capital of Rs.1.95 billion.

Financial Performance

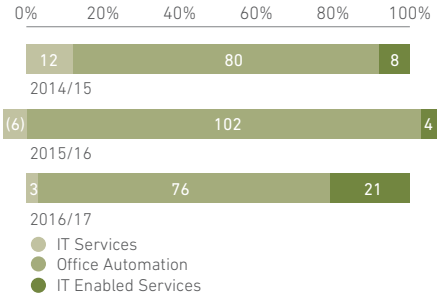
Revenue of the industry group increased by 34 per cent to Rs.11.11 billion against Rs.8.26 billion recorded in the previous financial year. The revenue of JKOA increased by 45 per cent in the year under review, mainly on account of the higher volumes recorded across all three of its product categories, 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



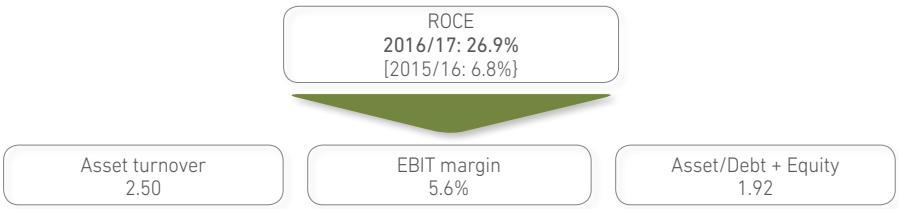
Borrowings and Finance Expense

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

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

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

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:

Talent management	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
Health and safety	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
- 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

Labour indicators

	2016/17	2015/16	(%)
Injuries and diseases (number)	0	0	0
Total hours of training	43,556	57,348	(24)

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

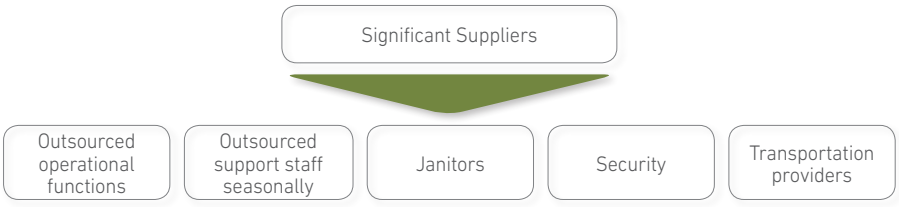
The benefits and necessity of an IT literate populace are widely accepted in a constantly changing and globalised international economy. Against this backdrop, the IT industry group recognises the benefits that can be reaped from a strategy that strengthens its Social and Relationship Capital with rural 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



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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

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 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.

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.

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_2
1.02 MT per Rs.mn revenue

Sectors	Plantation Services	Other
The business within the sector	• John Keells PLC - leading tea and rubber broker. • John Keells Warehousing - operates a state-of-the-art warehouse for pre-auction produce • Tea Smallholder Factories PLC - operates 8 tea factories and is a leading manufacturer of low grown teas in the country, including the CTC variety	• JKH and Other businesses (Centre Functions/ divisions) • John Keells Capital, a division of JKH, is the private equity arm of the Group • Strategic Group Information Technology (SGIT) supports the Group's IT requirements, provides consultancy services and SAP implementation services to external companies
Key external/ internal variables impacting the business	• Recovery of tea prices due to the slowdown in production stemming from adverse weather conditions • Depreciation of currencies of major tea consuming nations	• Depreciation of the rupee had a positive impact on the valuation of net US Dollar holdings of JKH • Relative inactivity in private equity markets owing to the availability of credit, particularly in the first half of the year • Shortage of SAP resource personnel in the market limiting SGIT's expansion capabilities
Key developments during the financial year	• JK PLC automated the client advance system which assists in inventory management and supplier cost optimisation	• JKR made significant headway during the year under review through the initiation of several research projects • JKR filed for its first patent in December 2016 • JKH launched "John Keells X - Open Innovation Challenge 2016", as a part of its digitisation initiative • 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"

Key Indicators

Inputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Total assets	74,105	66,370	12	57,313
Total equity	71,715	61,835	16	50,910
Total debt	91	2,304	(96)	3,633
Capital employed[1]	71,805	64,140	12	54,543
Employees (number)	830	882	(6)	941

Outputs (Rs.mn)	2016/17	2015/16	(%)	2014/15
Turnover[2]	2,953	2,663	11	3,468
EBIT	5,381	3,907	38	3,415
PBT	5,229	3,772	39	3,233
PAT	3,101	2,343	32	2,025
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 manual, achieving a significant reduction in over exposure to its lending portfolio and awareness sessions on good manufacturing practices to enhance quality.

John Keells X - Open Innovation Challenge was launched in June 2016

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.

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.

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

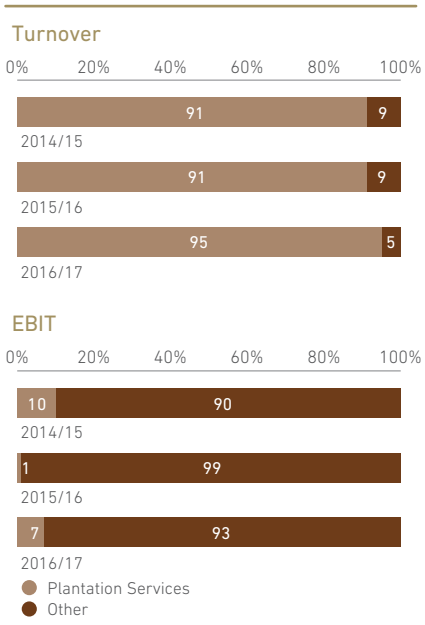
Financial and Manufactured Capital

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.



Rs.5.23Bn

Other including Plantation Services industry group PBT

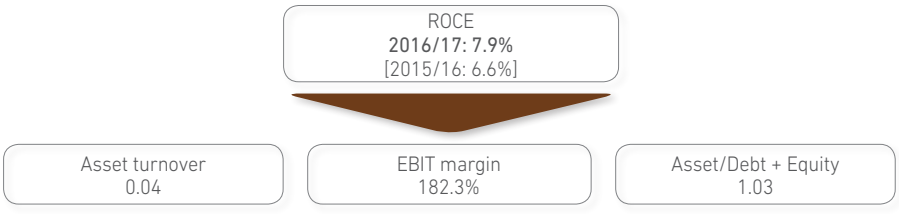
A 39 per cent growth

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:

Energy and emissions management	Financial and regulatory implications, environmental and social responsibility
Waste and effluent management	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

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

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_2 (kg per kg of tea produced)	0.6	0.6
JK PLC and JKW CO_2 (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.

Health and safety	The respective businesses need to ensure safe working conditions, mainly focusing on occupational health and safety
Training and Development	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.

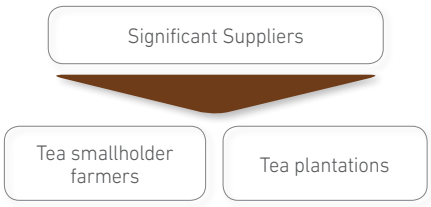
Labour indicators

	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:

Supplier development and social responsibility	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

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 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 Yittria-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

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.

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.

JKR successfully filed its first patent for a novel energy storage material

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".