WINNING

Ceylon Cold Stores PLC | Annual Report 2016/17

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WINNING

Ceylon Cold Stores PLC now counts over 150 years in business. In that time, we have continuously evolved our products and processes and empowered our team to ensure that technology, industry expertise and innovation will keep us at the forefront of our business sector for many years.

The year under review was a remarkable one, where CCS delivered excellence in financial and operational performance. Equally exciting are our plans for the year ahead - strategies that will see your company maximise its potential, as we start work on several significant new projects and investments that we have described in greater detail further along in this report.

Our vision of what is best for both your company and the thousands of stakeholders we serve is driven by our desire to achieve greater business diversity to keep your company vibrant, and by our indomitable will to win.

We are making

HISTORY

In 150 years, we have continuously evolved our products and processes and empowered our team to stay at the forefront of our business sector.

227,000+

www.facebook.com/ElephantHouseIceCream
Elephant House Ice Cream Facebook fan page gets over 227,000 likes.

www.elephanthouse.lk

VISION

Our passion is to deliver pleasure and nutrition throughout people's lives, through exciting and superior products, whenever and wherever they choose to eat and drink.

OUR VALUES

Innovation

Changing constantly, re-inventing and evolving

Integrity

Doing the right thing always

Excellence

Constantly raising the bar

Caring

Fostering a great place to work

Trust

Building strong relationships based on openness and trust

MAXIMISING OUR **POTENTIAL**

INTRODUCTORY INFORMATION

Our unique strengths which include a diverse product portfolio, extensive market reach and ability to respond to emerging customer needs have allowed our brands to develop into much-loved household names

GRI-G4 • G4-15, G4-17, G4-28, G4-31

ABOUT THIS REPORT

Our Integrated Annual Report for the financial year ending 31st March 2017 aims to provide an assessment of our strategy, key opportunities as well as risks in the market and our performance against financial and non-financial objectives. As our primary method of communication to shareholders, this Report demonstrates the Group's commitment to developing and directing strategy in a manner that balances the competing interests of our stakeholders through material, relevant and reliable information.

Scope and boundary

This Report covers the operations of Ceylon Cold Stores PLC ("CCS") and its subsidiaries Jaykay Marketing Services (Pvt) Ltd and The Colombo Ice Company (Pvt) Ltd (herein referred to as "Group") for the period from 01st of April 2016 to 31st March 2017. The Colombo Ice Company (Pvt) Ltd is still not in operation as the manufacturing facility located at Seethawaka BOI zone is under construction. In this report the Manufacturing segment is represented by Ceylon Cold Stores PLC and the Colombo Ice Company (Pvt) Ltd and the Retail segment is represented by Jaykay Marketing Services (Pvt) Ltd.

We adopt an annual reporting cycle and this Report builds on the Group's previous annual report for the period ending 31st March 2016. The materiality of the information presented has been determined based on the findings of our ongoing engagement with stakeholders as well as emerging opportunities and risks in the operating landscape against the backdrop of our current business operations. The material aspects are a combination of those prescribed by GRI and those specific to our industry, stakeholder needs, value creation model and strategy.

Reporting standards and external assurance

	Integrated Report	Annual Financial Statements	Corporate Governance Risk Management Report	Sustainability Performance
Standards and Principles	• Integrated Reporting Framework of the International Integrated Reporting Council (IIRC)	• Sri Lanka Financial Reporting Standards • Companies Act No. 7 of 2007 • Listing Requirements of the Colombo Stock Exchange	• Code of Best Practice on Corporate Governance issued by the ICASL and SEC	• GRI- G4 guidelines(Core) • GRI-G4 food processing sector disclosure
Assurance		Messrs. Ernst and Young, Chartered Accountants		We have not sought assurance on our sustainability reporting

Key concepts

In preparing this Report, we have given due consideration to the following principles which ensure the quality of the Report

- **Completeness:** The Report includes material issues arising from our stakeholder engagement, which are both within and outside the control of the Group. The issues we have covered reflect our significant economic, social and environmental impacts which we believe could have a substantial impact on the decisions of our investors.
- **Consistency:** The integrity of our data gathering processes are ensured through in-built internal controls and are verified by Internal Audit. External assurance has been obtained on the financial information.
- **Balance:** We strive to present a balanced view of our operations and have included material trends and aspects that may not necessarily be interpreted as favourable to the Group.

Feedback

We understand that Integrated Reporting is a journey, and welcome your comments, suggestions and queries regarding this Report. To provide feedback please contact;

Sector Financial Controller
Ceylon Cold Stores PLC
148, Vauxhall Street
Colombo 2
nelindra.ccs@keells.com

Navigation Icons

Sustainable growth

Empowered team

Value chain and community development

Fulfilling the customer promise

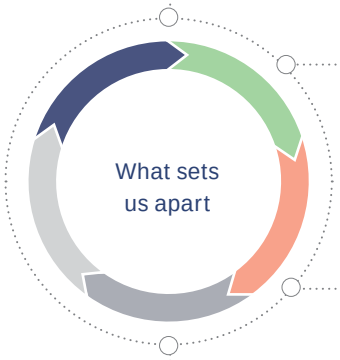
Preserving the planet

CEYLON COLD STORES

We are the market leader in Sri Lanka's carbonated soft drinks and ice cream markets with a heritage of over 150 years in delighting customers and creating moments of pleasure. Our unique strengths which include a diverse product portfolio, extensive market reach and ability to respond to emerging customer needs and extensive market reach have allowed our brands to develop into much-loved household names. Our retail arm, Jaykay Marketing Services (Pvt) Ltd ("JMSL") operates the Keells Supermarkets chain, which through its network of 64 branches has redefined modern trade industry standards in customer convenience and service quality. Our newly incorporated subsidiary The Colombo Ice Company (Pvt) Ltd (CICL) was set up to enhance the production capabilities and capacity of ice cream products.

"We are the market leader in Sri Lanka's carbonated soft drinks and ice cream markets with a heritage of over 150 years in delighting customers and creating moments of pleasure."

The CCS Group comprises of CCS and its fully owned subsidiaries JMSL, and CICL with CCS contributing approximately 68% and 66% to the Group's profits and assets respectively. The Company also has an investment of 23.54% in Waterfront Properties (Pvt) Ltd which is accounted as an Associate. The Company is listed on the main board of the Colombo Stock Exchange with a market capitalisation of Rs. 77.08 billion as at end-March 2017. Headquartered in Colombo, Sri Lanka, the Group is part of John Keells Holdings PLC, Sri Lanka's premier diversified conglomerate and the most valuable listed entity in the country in terms of market capitalisation.



Brands

We produce and sell some of the country's most recognised and loved brands.

Both the Elephant House and Keells Super brands are among Sri Lanka's top 20 brands*

Reach

Our products are distributed to consumers in all districts through a multi-channel network comprising of general trade outlets, modern trade outlets as well as hotels and restaurants.

Innovation

An innovation-led product strategy has resulted in a portfolio of 24 soft drink flavours and 37 flavours of ice cream.

In retail, we have redefined industry standards in quality and convenience.

Approach

Sustainability is embedded in our daily operations and we offer a holistic value proposition to our suppliers, farmers, customers, investors and other stakeholders.

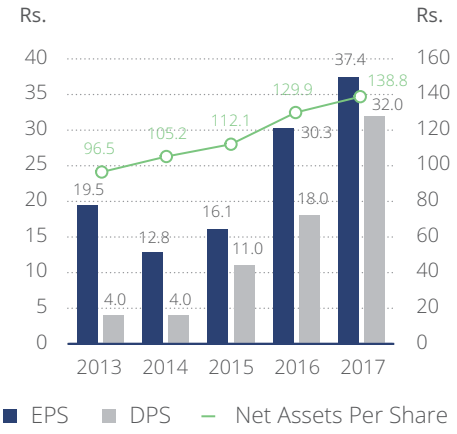
**Source: LMD - Sri Lanka Business Magazine*

INVESTMENT CASE

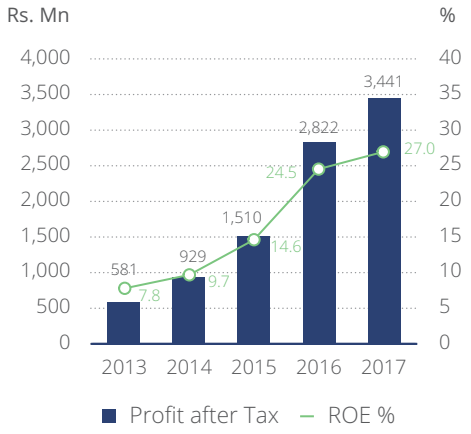
Highest ever dividend paid

Consistent and attractive shareholder returns

EPS ,DPS vs Net Assets Per Share

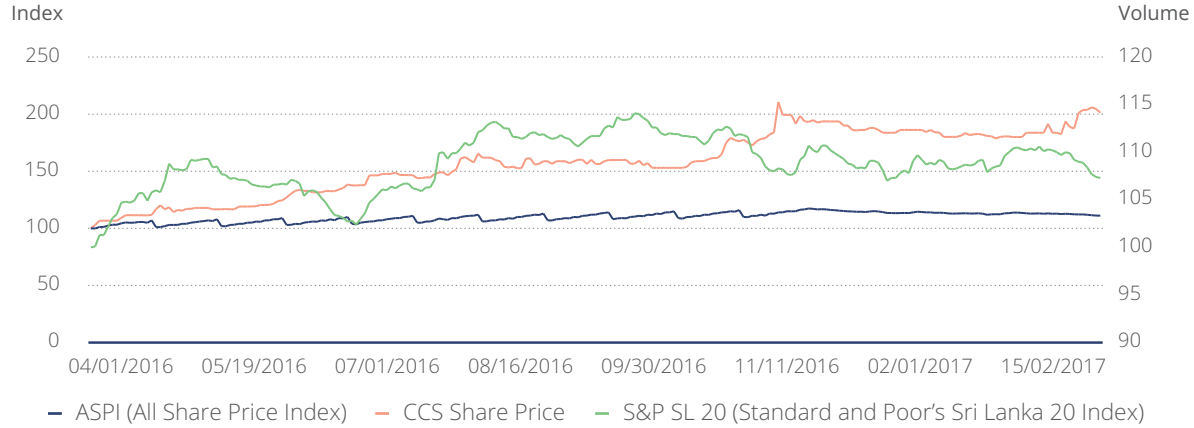


*Profit after Tax vs ROE



**Excluding IP Gains and Gains from Lease right foregone*

CCS - Share price movement vs ASPI and S&P SL 20 (Indexed)



Shareholder returns as measured through Earnings Per Share (EPS), Dividends Per Share (DPS) and Net Assets Per Share (NAPS) has recorded consistent growth while the Group's profit after tax has increased by a compound annual growth rate of 17.63% over the last five years. Meanwhile, the CCS share grew by 89% during the period to close at Rs. 811 on the 31st of March 2017, outperforming the broad market which remained flat during the same period. The share traded between Rs. 400.10 (April) and Rs. 865.00 (November).

"Market leader in the carbonated soft drinks and ice cream markets offering a diverse range of flavours catering to all segments of the market"

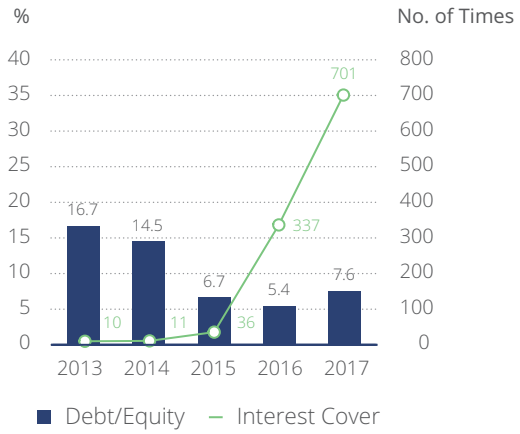
Strong balance sheet

- Total assets grew by a CAGR of 10.93% over the past five years
- Low gearing levels
- Strong debt protection metrics (Debt / Equity, interest cover)

Dominant market positions

- Market leader in the carbonated soft drinks and ice cream markets offering a diverse range of flavours catering to all segments of the market
- Strong pipeline of products to cater to emerging customer needs and trends in the market
- Rapidly growing modern retail network

Leverage and Debt Protection



Strong leadership and governance

- Robust governance frameworks formulated on the John Keells Group's structures and frameworks centered on integrity, transparency and highest ethical conduct
- Young, dynamic and professional leadership team
- Unique employee value proposition and a performance-driven culture

Responsible corporate citizen

- Farmer outreach programme that empowers 4,768 farmers island-wide through sourcing fresh produce and several key ingredients which are used in our manufacturing process
- Ongoing investments in reducing the Group's environmental footprint including energy efficiency, water usage and reduced carbon emissions
- Nurtured sustainable relationships with communities through ongoing engagement initiatives

PERFORMANCE HIGHLIGHTS OF 2016/17

"We have changed the way we present our Annual Report and Financial Statements so we can describe strategic information and our business model in a way that we believe is easier to understand."

Rs. 3.55bn

Group profit after tax

24% Increase from Rs. 2.87 billion in 2015/16

89%

Increase in share price

The year began with Rs. 430.00 per share and closed at Rs. 811.00 per share

Rs. 32.00

Dividend per share

Historically highest dividend paid resulted a payout of 86%

35%

Return on capital employed

Increased by 3% compared to previous year of 32%

Rs. 77.08bn

Market capitalisation

An increase of 89% compared to previous year and became the sixth most valuable company in the CSE

Rs. 5.6bn

Total taxes, levies and duties paid

An increase of Rs. 696 million over the previous year

During the financial year, the price of CCS share increased by 89% from Rs. 430.00 to Rs. 811.00, with a market capitalisation of Rs. 77.1 billion as at 31st March 2017. CCS is amongst the top 10 corporates in terms of market capitalisation and accounts for 3% of the total market capitalisation of the Colombo Stock Exchange and occupies this position alongside multinationals, conglomerates and banks.

Consolidated profit before tax increased to Rs. 5.1 billion maintaining its growth trajectory supported by strong cashflows, efficient management of working capital and increasing value of investment properties.

"The strength of an organization lies in how deeply connected it is to the community in which it operates as every connection is a pulse point for feedback."

4,116

Number of employees

Created 746 new employment opportunities during the year

164,549

Training Hours

An increase of 92% which resulted in an average training hours per employee of 40

5

New flavours

Introduced five flavours each in soft drinks and ice cream category

Rs. 40mn

On CSR activities

An allocation of over 1% of group profit after tax

Rs. 35.8bn

Total payments to suppliers

Payments to suppliers has Increased by 32% over last year

15

New Keells Super outlets

Outlet base increased to 64

110,000

Retail outlets

Over 110,000 retailers ensure that the consumers have continued access to our products

Rs. 22.5bn

Total assets

The 13% increase in total assets. The return on assets increased to 17% from 16%

PERFORMANCE HIGHLIGHTS OF 2016/17

GROUP

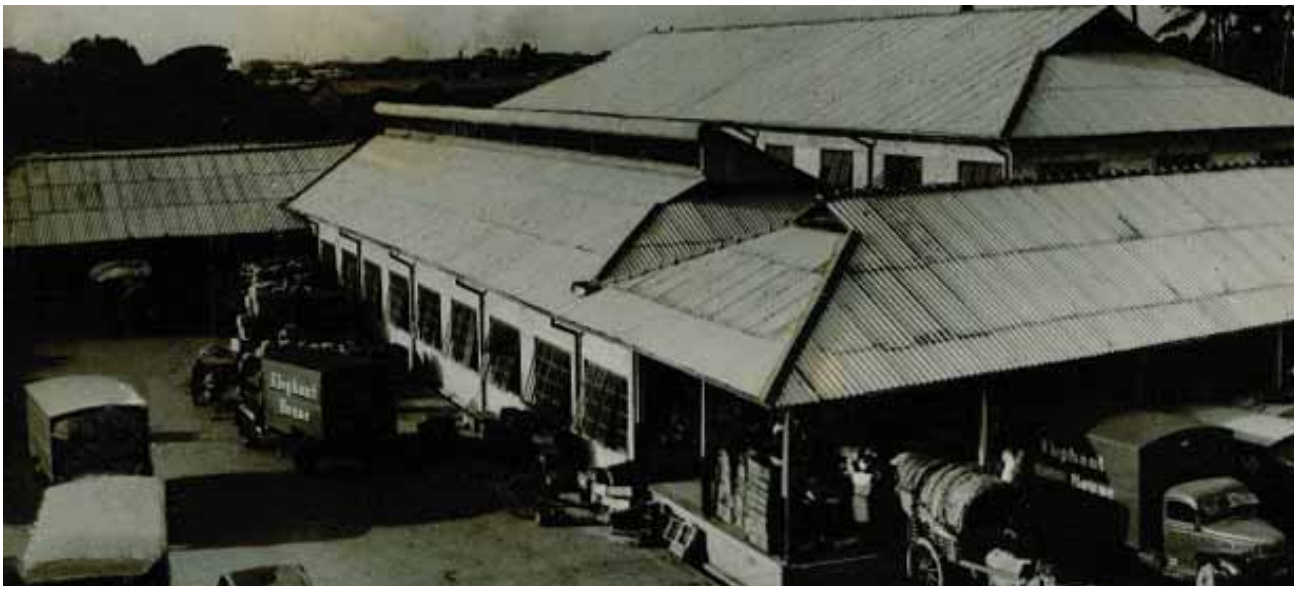
	Metric		2017	2016	Change
FINANCIAL CAPITAL	**STRATEGIC PRIORITY: SUSTAINABLE GROWTH**				
	Revenue	Rs '000s	43,518,688	34,497,327	26%
	Operating Profit	Rs '000s	4,788,129	3,928,389	22%
	Profit Before Tax	Rs '000s	5,089,748	4,052,469	26%
	Profit After Tax	Rs '000s	3,552,903	2,874,873	24%
	Total Assets	Rs '000s	22,455,005	19,831,369	13%
	Total Liabilities	Rs '000s	9,265,607	7,485,638	24%
	Shareholders' Funds	Rs '000s	13,189,398	12,345,731	7%
	Performance and balance sheet ratios				
	Return on Assets	%	16.80	15.83	0.97
	Return on Capital Employed	%	35.06	31.93	3.13
	Debt/Equity	%	7.57	5.41	2.16
	Interest cover	No. of Times	701.08	336.57	364.51
	Shareholder information				
	Earnings Per share	Rs.	37.38	30.25	7.13
	Dividends Per share	Rs.	32.00	18.00	14.00
	Net asset value Per share	Rs.	138.78	129.90	8.88
	Closing Price	Rs.	811.00	430.00	381.00
	Price Earnings Ratio	No. of Times	21.70	14.21	7.49
	Dividend Payout	%	85.61	59.50	26.11
	Dividend Yield	%	3.95	4.19	(0.24)
MANUFACTURED CAPITAL	Property, plant and equipment	Rs '000s	8,107,133	6,122,560	32%
	Capital expenditure	Rs '000s	2,600,303	1,374,731	89%
	Retail outlets (Keells Super)	No.	64	50	14

GROUP

	Metric		2017	2016	Change
HUMAN CAPITAL	**STRATEGIC PRIORITY: EMPOWERED TEAM**				
	Total employees	No.	4,116	3,370	746
	Payments to employees	Rs. million	3,691	3,186	505
	Employee retention rate	%	25	39	14
	Female representation	%	36	32	4
	Investment in training	Rs. million	47	51	4
	Total training hours	Hours	164,549	85,533	79,016
	Average training hours/employee	Hours	39.98	25.38	14.60
	Workplace injuries	No.	74	85	(11)
	Graduates from JMSL training academy	No.	218	155	63
SOCIAL AND RELATIONSHIP CAPITAL	**STRATEGIC PRIORITY: FULFILLING THE CUSTOMER PROMISE**				
	New products launched	No.	17	16	1
	New outlets opened (Keells Super)	No.	15	6	9
	Non-compliance to product responsibility regulations	No.	Nil	Nil	Nil
	STRATEGIC PRIORITY: VALUE CHAIN AND COMMUNITY DEVELOPMENT				
	Payments to suppliers	Rs. million	35,826	27,047	32%
	Investment in supplier development	Rs. million	1.56	2.10	(26%)
	Participants in farmer training programmes	No.	48	18	30
	Investment in CSR	Rs. million	40	26	54%
	Volunteer hours	No.	1,389	2,308	(919)
NATURAL CAPITAL	**STRATEGIC PRIORITY: PRESERVING THE PLANET**				
	Energy consumption	GJ	152,359	129,854	17%
	Water consumption	M^3	675,351	644,957	5%
	Solid waste	MT	3,565	2,784	28%
	Effluents	M^3	206,777	210,257	(2%)
	Carbon footprint	tCO2e	29,244	25,116	16%
	Energy intensity - Manufacturing	GJ/1,000 Ltrs	0.488	0.509	(4%)
	Emission intensity - Manufacturing	tCO2e/1,000 Ltrs	0.099	0.103	(3%)
	Energy intensity - Retail	GJ/Sqft	0.175	0.173	1%
	Emission intensity - Retail	tCO2e/Sqft	32.39	32.44	0%

HISTORY AT A GLANCE - CEYLON COLD STORES PLC

The story that shaped us into winners of the present.



Elephant House factory years ago

1866

Founded and managed by the illustrious Arthur Von Possner, as the Colombo Ice Company, which imported and used the country's first ice making machine. Commencing operations in ice business at the time, the Colombo Ice Company began with an initial capital of £ 1,600, a considerable amount at the time with a staff of 22 people and 2 steam engines for productions.

1883

Introduced Aerated Water with the distinctive "Elephant" trademark on the bottles, which remains a popular household name for the brand.

1894

Tom Walker, owner of a competitive company bought Colombo Ice Company and merged two companies under the name New Colombo Ice Company.

1921

Introduction of crown corks to the Aerated Water business.

1925

The Company moved on to build cold storage for frozen products of all kinds.

1932

In 1932, Ceylon Creameries Limited was acquired to produce and distribute reconstituted fresh milk and ice cream.

1934

New Colombo Ice Company purchases Ceylon Ice and Cold Storage Company. Cafe established at Fountain house.

The Cafe at Fountain House

1935

Carbonic acid gas plant being installed in 1935 to make Carbon dioxide and dry ice. Ice Cream in bulk form was produced in four gallon buckets.

1941

In 1941, New Colombo Ice Company changed its name to Ceylon Cold Stores Limited.

1950

New soft drinks factory opened.

1965

Re-introduction of Ice Palam.

1970

In January, the Company was quoted in the Colombo Stock Exchange.

1991

The Company came under the umbrella of John Keells Holdings Limited with the acquisition of the Whittalls Group in 1991.

1998

The Company enhanced its production capacity considerably by installing a modern bottling plant at the Kaduwela factory.

2010

The Elephant House Brand Relaunched on 25th July
Introduction of KIK Cola in December

2011

CCS Introduced new bottle shape

2013

CCS Relocation of the Justice Akbar Mawatha offices to Vauxhall Street.

2016

CCS celebrated its 150th Anniversary in 2016.

2017

Incorporation of The Colombo Ice Company (Pvt) Ltd, a fully owned subsidiary of Ceylon Cold Stores PLC. The Colombo Ice Company (Pvt) Ltd laid the foundation stone for the new factory in the BOI zone in Seethawaka.

The Foundation stone laying ceremony at The Colombo Ice Company Seethawaka BOI zone

HISTORY AT A GLANCE - JAYKAY MARKETING SERVICES PRIVATE LIMITED

Over the years, JMSL has redefined modern trade industry standards in customer convenience and service quality.

A contemporary Keells Outlet

1991

1st Outlet opened at Liberty Plaza.

First Outlet opening of JMSL

2002

Launched www.keellssuper.com, the first ever online supermarket in Sri Lanka.

2011

Reached Rs. 10 billion annual turnover

2013

Kumar and Yehali Sangakkara appointed as brand ambassadors.

Relocation of the Glennie Street Head office to Vauxhall Street.

2014

Launched Nexus Mobile, Sri Lanka's first and only platform independent card-less lifestyle loyalty programme.

2015

Nexus Network (Pvt) Ltd merged its operations with JMSL.

Reached Rs. 20 billion annual turnover

2016

JMSL celebrated its 25th Anniversary
Reached 50 stores with the opening of Keells Super Pepiliyana.

2017

JMSL opened 15 new stores during the year
Reached Rs. 30 billion annual turnover.

KEELLS SUPER
SODA
Horlicks

YEAR AT A GLANCE

APRIL \ 2016

Events

CCS launched "Avurudu Beema" campaign for Sinhala and Tamil new year.

JMSL Outlet opened

Pittugala

MAY

Sirasa Wesak Kalapaya - CCS Group partnered with Capital Maharaja organization for the 3rd consecutive year for this initiative

CCS paid a final dividend of Rs. 10.00 per share for financial year 2015/16 with a total pay pout of Rs. 950 million

AUGUST

JMSL Outlet opened

Athurugiriya

Kelaniya

CCS installed two new bulk freezers in Ice Cream Plant at Ranala

SEPTEMBER

JMSL Outlet opened

Mahabage

CCS launched "Sword" an extruded Ice Cream product to the market

> WON GOLD AWARD

Category - Manufacturing Sector of the SLBCC Awards 2016.

> WON SILVER AWARD

at NCE Awards under confectionary and beverage category

DECEMBER

JMSL Outlets opened

Kalalgoda

Kerawalapitya

CCS launched the Fruit Drinks - FITO in two flavours, Mango and Orange.

JMSL partnered with Little Hearts Project, and Keells Super customers have contributed Rs. 2.2 million by 31st March 2017

> WON SILVER AWARD

CCS Annual Report 2015/16 won the silver award for the Consumer Foods Category at the Annual Reports Awards conducted by the Institute of Chartered Accountants of Sri Lanka.

JANUARY \ 2017

CCS launched Coconut Ice Cream in 90ml Cup

The Colombo Ice Company (Pvt) Ltd, laid the foundation stone for New Ice Cream Factory at Seethawaka

CCS installed two new Aging VATs at the Ranala factory

JUNE

JMSL Outlets opened

CCS launched Watalappan Ice Cream in 90ml a Cup as a limited edition

Rajagiriya
Maharagama
Pannipitya
Rathmalana

JULY

JMSL Outlet opened

Homagama

CCS rang the opening bell to commence trading at the Colombo Stock Exchange (CSE) on 1st July 2016

OCTOBER

JMSL Partnered with "Trail" Sri Lanka where Keells Super customers contributed Rs. 525,000/-

CCS won two Awards at JKH Chairman's Awards 2016

- Sustainability Award
- Digitisation Award for DMS Mobile

CCS held its annual Dealer Convention with its distributors and sales team

NOVEMBER

JMSL Outlet opened

Kottawa

CCS paid 1st interim dividend for year 2016/17 of Rs. 8.00 per share with a total payout of Rs. 760 million

CCS conducted Executive Outbound Training

> OVERALL WINNER

CCS was the Overall Winner of the National Business Excellence awards

FEBRUARY

JMSL Outlet opened

Ratnapura

CCS launched two new Beverage variants, Lemoki in 350ml pack and Chaze in both 400ml and 2 Ltr pack

JMSL launched Fresh Chicken at Keells Super

JMSL "Partner Power Convention" was held with its business partners to create a win-win situation

MARCH

JMSL Outlets opened

Kiribathgoda
Enderamulla

CCS won the "Peoples Beverage Brand of the Year and "Peoples Youth Choice Beverage Brand of the year" for EH Cream Soda

CCS paid the 2nd interim dividend of Rs. 14.00 per share for year 2016/17 with a total payout of Rs. 1,331 million

> WON SILVER AWARD

JMSL won at the Sri Lanka Human Capital Awards 2016 hosted by HRP Sri Lanka

AWARDS & ACCOLADES

This year, our company won awards as well as hearts for the products and services we deliver.

SLIM NASCO Awards \ July 2016

*The Sri Lanka Institute of Marketing-National Sales Congress

Category:

FMCG Beverages	FMCG Frozen Confectionery
GOLD Sales-Executive Front Liner	**GOLD** Sales-Executive Front Liner
SILVER Sales Executive Front Liner	**2 SILVERS** Front Liner
BRONZE Front Liner Territory Manager	**BRONZE** Territory Manager

NCE* Awards \ Sep 2016

*National Chamber of Exporters

Confectionery & Beverage Sector - **SILVER**

Institute of Chartered Accountants of Sri Lanka- annual reports awards 2016

PEOPLES Awards \ Mar 2017

PEOPLES Beverage Brand of the Year

PEOPLES Youth Choice Beverage Brand

PEOPLES Awards 2017

SLBCC* Awards \ Sep 2016

*Sri Lanka - China Business Cooperation Council Business Award

Manufacturing Sector - **GOLD**

ICASL* - Annual Report Awards \ Dec 2016

*Institute of Chartered Accountants Sri Lanka

Consumer Foods Sector - **SILVER**

National Business Excellence Awards \ Nov 2016

CCS won the following awards for our high standards of business practices:

Manufacturing Extra-Large Category in the Food and Beverage Sector: Winner

Excellence in Corporate Governance: Merit

Extra Large Category: 2nd Runner Up

Overall Placing: **BRONZE**

Sri Lanka Human Capital Awards \ Mar 2017

Consumer Foods Sector - **SILVER**

CERTIFICATION Awards & Continuity in FY \ 2016-17

Halal certification for Ice cream

SLS 223 : 1989	EH brand Ice Chocks
SLS 223 : 1989	EH brand Ice Cream
SLS 967 : 1992	EH brand Ice Palam
SLS 183 : 2013	EH brand carbonated beverages
ISO 9001: 2008	QMS for both Ice cream & soft drink plants
ISO 22000: 2005	Food Safety Management System for both Ice cream & soft drink plants
OHSAS 18001:2007	Occupational Health and Safety

EXCITING PLANS FOR THE **YEAR AHEAD**

LEADERSHIP

CCS and JMSL both have plans for accelerated growth in the year that has commenced, significantly driving our top line and bottom line.

Elephant House
Fit O
FLAVOURED
MANGO DRINK
200 ml
Serve Chilled
Elephant House
Fit O
FLAVOURED
ORANGE DRINK
200 ml

CHAIRMAN'S MESSAGE

A year of great achievement

Dear Shareholder,

It is with pleasure that I present the Integrated Annual Report and Financial Statements of Ceylon Cold Stores PLC (CCS) for the year ended 31st March 2017, which provides an insight as to how we continue to raise the bar on your Company's performance.

I am pleased to note that CCS and its fully owned subsidiary, Jaykay Marketing Services (Pvt) Limited (JMSL), continued to deliver strong operational and financial results in the financial year 2016/17, recording a revenue and profit after tax growth of 26 % and 24%, respectively at a consolidated level. Elephant House beverages and ice creams and the Keells Super brand are amongst the country's top 20 brands, reflecting the Group's innovation capability, commitment to excellence in operations and understanding and adapting to the needs and concerns of our key stakeholders.

Strategy, sustainability and performance

The growth in earnings and market share achieved by both CCS and JMSL is commendable in view of the challenges in the operating environment experienced during the reporting period. The increase in inflation from 2.6% in March 2016 to 7.3% in March 2017, as well as the increases in interest rates and the value-added tax (VAT) rate resulted in a moderation of the growth rate of consumer spending in the final quarter.

Despite these challenges, consolidated revenue increased to Rs. 43.5 billion with CCS accounting for one third of the revenue and JMSL accounting for the balance. CCS delivered a top line growth of 15% supported by both beverages and frozen confectionery through portfolio expansion, production efficiencies and enhanced availability of products. JMSL's top line growth of 32% was driven by aggressive growth in the number of stores which increased from 50 to 64 during the year whilst also increasing same store sales through innovative promotions and a strong commitment to our customer promise.

"Elephant House beverages and ice creams and the Keells Super brand are amongst the country's top 20 brands, reflecting the Group's innovation capability, commitment to excellence in operations and understanding and adapting to the needs and concerns of our key stakeholders."

The consolidated operating profit grew by 22% to Rs. 4.8 billion as margins were maintained through efficient management of supply chains and a strong sustainability culture nurtured within the Group that gave rise to innovative and multifaceted solutions that addressed stakeholder concerns in a pragmatic manner. During the year, CCS introduced new products into its portfolio, including a range of fruit drinks and successfully replaced sugar with natural sweeteners. CCS also implemented initiatives to improve its carbon footprint and water usage, all of which enabled improved operating margins. This was achieved despite seeing a rise in input costs as a result of the depreciation of the Sri Lankan Rupee against the US Dollar and the VAT rate increase during the year. JMSL witnessed strong growth in operating profits as the addition of stores coupled with the growth in footfall in same stores drove revenue and profits. JMSL also increased shelf space for fresh produce, enhancing the range of

healthy options for consumers while supporting livelihoods of farmers through a comprehensive programme which includes capacity building. Expansion of "K-Choice", our private label was also key to maintaining margins as consumer acceptance of our products showed encouraging growth during the year. CCS remains the key contributor to operating profits accounting for 68% of total operating profit while JMSL accounting for the balance 32%.

Consolidated profit before tax increased to Rs. 5.1 billion maintaining its growth trajectory supported by strong cashflows, efficient management of working capital and increasing value of investment properties. It is noteworthy that the profit margins of JMSL were maintained despite accelerated growth of Keells Super stores which is attributable to a combination of improved service quality, wider range of product offerings and increased consumer awareness. Taxation at a consolidated level amounted to Rs. 1.5 billion increasing in line with profit before tax with an effective tax rate of 30%. Consequently, consolidated profit after tax increased by 24% to Rs. 3.6 billion for the year under review with earnings per share increasing from Rs. 30.25 in the previous year to Rs. 37.38 which is an increase of 24%.

Investments in capacity expansion in CCS and store expansion at JMSL has significantly increased the future earnings potential of the Group as reflected in the consolidated financial statements. Total asset growth of 13% to Rs. 22.4 billion was financed through a prudent mix of debt and equity.

Value delivered to Shareholders

Your Board has approved the payment of a final dividend of Rs 8.00 per share in addition to the first interim dividend of Rs. 8.00 per share, paid in November 2016, and a second interim dividend of Rs. 14.00 per share, paid in March 2017, resulting in a total dividend per share of Rs. 30.00 for the financial year 2016/17. The total pay-out for the financial year will amount to Rs. 2.8 billion which is a dividend pay-out ratio of 80%.

During the financial year, the price of CCS share increased by 89% from Rs. 430.00 to Rs. 811.00, with a market capitalisation of Rs. 77.1 billion as at 31 March 2017. CCS is amongst the top 10 corporates in terms of market capitalisation and accounts for 3 % of the total market capitalisation of the Colombo Stock Exchange and occupies this position alongside multinationals, conglomerates and banks.

"CCS is amongst the top 10 corporates in terms of market capitalisation and accounts for 3% of the total market capitalisation of the Colombo Stock Exchange"

Value delivered to Employees

Our value has been driven by a talented and motivated team of 4,116 employees who have produced the exceptional results set out in this Annual Report. The intrinsic value of our share and its growth stand testimony to the vibrant performance culture and high levels of employee engagement in the two companies. Our ability to attract and retain the best of talent is the key to our success and we are encouraged by the progress made in this regard. Total monetary value delivered to employees during the year amounted to Rs. 3.7 billion including remuneration, welfare, training and development costs. We strongly believe that the non-monetised value delivered such as empowerment, mentoring and alignment to personal values and goals are key contributors to employee retention.

Value delivered to other stakeholders

The strength of an organisation lies in how deeply connected it is to the community in which it operates as every connection is a pulse point for feedback. We serve an island wide network of over 110,000 retail outlets, 164 distributors and source from 4,461 farmers and 2,297 other suppliers who are our closest business partners. Robust mechanisms for constructive engagement, capacity building and compliance with high standards have fostered mutual growth as true partners in business at corporate, SME and micro entrepreneurial levels. Total value distributed to these stakeholders amounted to Rs. 35.8 billion.

Our customers and consumers have been our greatest inspiration and we have upheld our covenants of quality, value for money, availability and convenience without compromise for over 150 years of operations in the country. The Group turnover is testimony to the value delivered to them and also the value they created for us, driving our growth.

CHAIRMAN'S MESSAGE

A year of great achievement

The Road Ahead

Despite the moderation in the growth rate of consumer discretionary spending in the last quarter we remain confident that the evolving product range and the efficacy of our distributor network, which ensures availability of our soft drinks and ice creams, will continue to drive top line growth, supported by the contribution from the rapid growth in our conforming store model.

CCS and JMSL will continue to pro-actively cater to changing consumer needs and lifestyles, creating value for our customers. A strong balance sheet and cashflows, a portfolio of household brands, a team with a proven track record and profitable businesses provide an exceptionally strong foundation for growth. In light of the opportunities that lie ahead, CCS is committing to enhancing capacity with investments of Rs. 3.8 billion in constructing a new ice cream factory and a further investment of Rs. 2.5 billion in a new bottling facility for beverages. JMSL will continue to rapidly expand its outlet footprint, whilst constructing a new distribution centre, at an estimated investment of approximately Rs. 3.2 billion. The new distribution centre will consolidate both dry and fresh produce, enabling the business to further improve its offering to our customers, achieve significant scale benefits as well as deliver operational excellence. Our goals are lofty as we expect to deliver on not just financial performance but on sustainability goals such as supporting livelihoods, reduced intensity of emissions, water usage and waste.

At our Associate Company Waterfront Properties (Pvt) Ltd, the construction of the integrated resort "Cinnamon Life" is progressing with pre sales of both the residential and commercial space continuing to be encouraging.

Acknowledgements

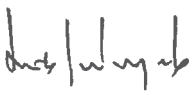
I wish to welcome Ms. Sharmini Ratwatte and Dr. Shanthi Wilson in to the Board as Independent Non-Executive Directors.

Mr. A R Rasiah who has served the Board for over 11 years and being over 70 years of age, has informed us that he would not be seeking re-election in terms of Section 210 of the Companies Act No 7 of 2007. I would like to place on record our sincere appreciation for the valuable contribution made by him during his tenure as a member of the Board as well as the Chairman of the Audit Committee and wish him all the best in his future endeavours.

I take this opportunity to congratulate the management teams of CCS and JMSL along with their teams for a commendable performance in a challenging year for a job well done.

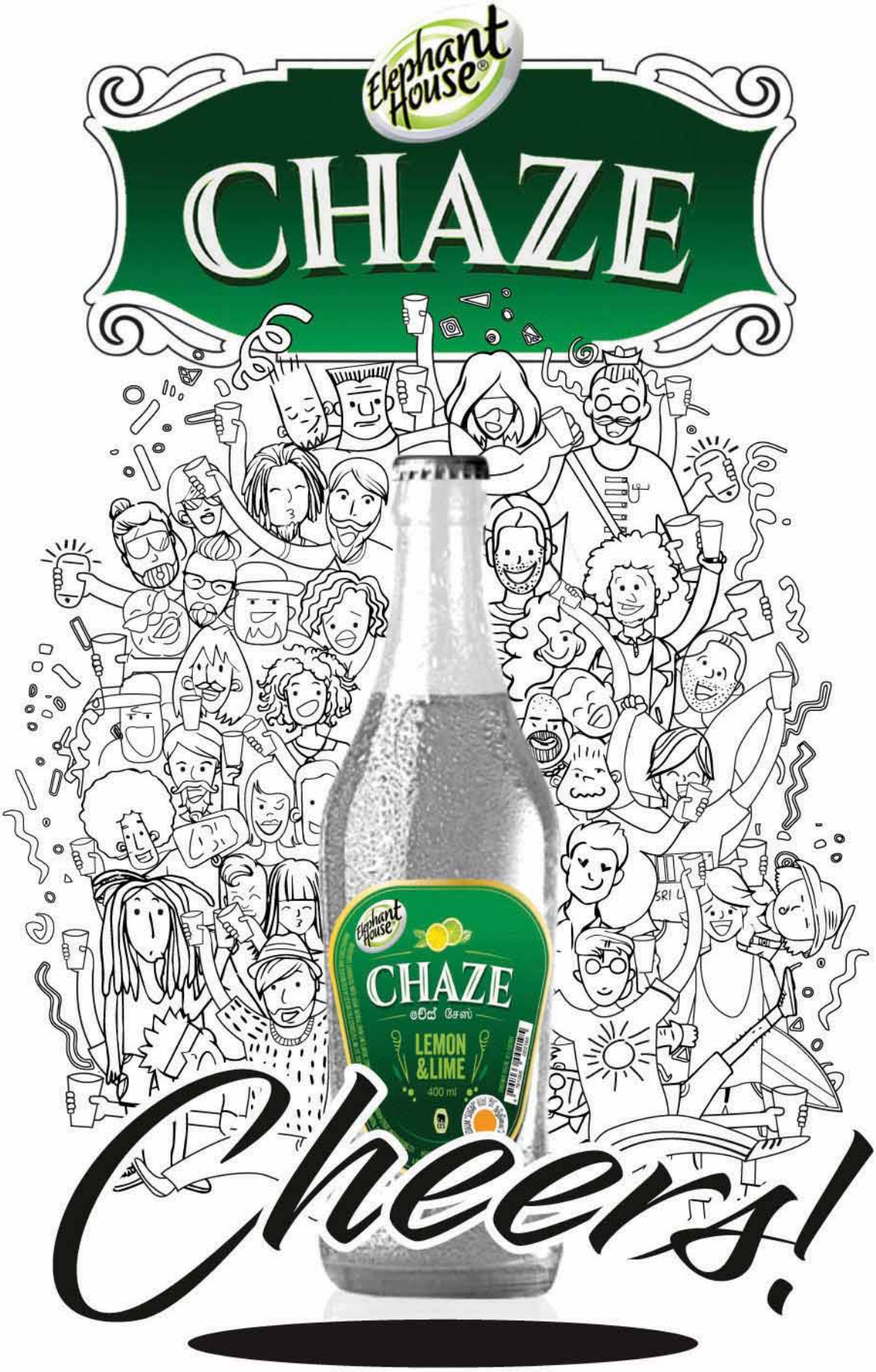
I am deeply appreciative of the support provided by our distributors and suppliers who play a key role in enabling us to uphold our customer promise. I am indeed grateful to our consumers who have been loyal to our products, brands and stores. I also wish to acknowledge the strategic inputs, inspiring deliberations and wise counsel provided by my colleagues on the Board. I thank the shareholders for the confidence placed in the Board to deliver value and look to your continued support in the coming year.

As you will note the 120th Annual General Meeting of the Shareholders is being held on the 7th of June 2017 which is a significant improvement over last year. I would like to commend the efforts of the Finance teams of the Company and the Subsidiary, our External Auditors and the Audit Committee of CCS for their efforts in facilitating the early release of the Annual Report.



Susantha Ratnayake
Chairman

16th May 2017


Elephant House
CHAZE
CHAZE
LEMON
&LIME
400 ml
Cheers!

FROZEN CONFECTIONERY

"During the period the frozen confectionery category achieved revenue and profit growth of 14% and 17% respectively."

5

New products
Introduced 5 new products during the year

Rs. 6bn

Revenue
14% revenue growth over last year

BEVERAGES

"The Beverages category performed commendably during the year recording a revenue and profit growth of 15% and 21% respectively."

12

New products
Introduced 12 new products during the year

Rs. 8bn

Revenue
15% revenue growth over last year

RETAIL

"The Retail sector continued to demonstrate strong growth, achieving revenue and bottom line growth of 32%."

15

Keells Super new outlets

Rs. 30bn

Revenue

32% revenue growth over last year

Taste the Good Life

Swirls of rich chocolate, decadent chocolate chips and creamy ice cream, for the most luxurious experience ever.

COFFEE | COOKIE CREAM | VERY BERRY | ROCKY ROAD | STRAWBERRY SEDUCTION | RUM & CHOC | FRENCH VANILLA

Like us on facebook
www.facebook.com/ImorichIceCream

Elephant House

THE BOARD OF DIRECTORS

Susantha Ratnayake
Non Independent - Non Executive Director - Chairman

Mr. Ratnayake was appointed to the Board of Ceylon Cold Stores PLC on 01st October 2002.

Susantha Ratnayake was appointed as the Chairman and CEO of John Keells Holdings PLC (JKH) in January 2006 and has served on the JKH Board since 1992/1993 and has 40 years of management experience, all of which is within the John Keells Group. He is a past Chairman of the Sri Lanka Tea Board, Ceylon Chamber of Commerce, and the Employers' Federation of Ceylon.

Ajit Gunewardene
Non Independent - Non Executive Director

Mr. Gunewardene was appointed to the Board of Ceylon Cold Stores PLC on 01st October 2002.

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

Ronnie Peiris
Non Independent - Non Executive Director

Mr. Peiris was appointed to the Board of Ceylon Cold Stores PLC on 01st June 2003.

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

He has over 41 years of finance and general management experience in Sri Lanka and abroad. He is a Fellow of the Chartered Institute of Management Accountants, UK, Association of Chartered Certified Accountants, UK, and the Society of Certified Management Accountants, Sri Lanka and holds an MBA from the University of Cape Town, South Africa. Previously, the Chairman of the Sri Lanka Institute of Directors, he is currently a member of the Committee of the Ceylon Chamber of Commerce.

Jitendra Gunaratne
Non Independent - Executive Director

Mr. Gunaratne, is the President of the Consumer Foods Sector of the John Keells Group and was appointed to the Board of Ceylon Cold Stores PLC on 1st July 2004.

Jitendra Gunaratne is responsible for the Consumer Foods sector. Prior to his appointment as President, he oversaw the Plantations and Retail sectors. His 36 years of management experience in the Group also covers Leisure and Property. He is a Director of Ceylon Cold Stores PLC and Keells Food Products PLC and is also the President of the Beverage Association of Sri Lanka. He is a member of the Council of the Employers' Federation of Ceylon and a member of the Food Advisory Committee of Health.

Rasakantha Rasiah
Independent - Non Executive Director

Mr. Rasakantha Rasiah was appointed to the Board of Ceylon Cold Stores PLC, on 1st July 2005.

He is the Chairman of the Audit Committee of the Board of Directors. He is a graduate of the University of Ceylon and a Fellow of the Institute of Chartered Accountants of Sri Lanka. He brings to the Board a wealth of experience in the FMCG industry. He has wide experience of over 42 years

in the industry, both locally and overseas. He was the former Finance Director of Nestle Lanka PLC, holding the position for over a decade. He was also a visiting lecturer in "Finance and Accounts" for Nestle SA (international) for Africa-Asia Oceania region. He is a former President of the Benevolent Society of the Institute of Chartered Accountants of Sri Lanka. He is also a Director of MTD Walkers PLC, EB Creasy Group of Companies, Hela Clothing Ltd and Chairman of Atlas Axillia Co, Ltd. He is a former Director of Nations Trust Bank PLC. He was a visiting Lecturer in Finance at the Postgraduate Institute of Management (PIM). A keen sportsman, he represented Sri Lanka at table tennis.

Muhammed Hamza

Independent - Non Executive Director

Mr. Hamza was appointed to the Board of Ceylon Cold Stores PLC, on 15th May 2015.

He has over 30 years of managerial experience in the FMCG industry. Currently, he is the CEO/ Director at Atlas Axillia Co, Ltd, the leading school and office stationary company in Sri Lanka. Prior to this, he had a 28 year career with Nestle, holding Senior Marketing and General Management positions in Sri Lanka, India, Pakistan and Indonesia. From 2008 to 2013, Mr. Hamza was Senior Vice President responsible for all the Business units, Marketing Services , Exports and the Sales Division at Nestle Lanka. In this capacity, he played a significant role in transforming the Nestle business in Sri Lanka to achieve sustainable and profitable growth. From 2005 to 2008, Mr. Hamza was seconded to the Nestle regional office in Gurgaon, India as the General Manager responsible for the Coffee and Beverages Business across South Asia. In this capacity, he was also a member of the Nestle Asia Leadership team. During his long career with Nestle Lanka, he has been instrumental in developing strong brands such as Nestomalt and Milo, which are today the flagship brands of Nestle in Sri Lanka. He holds a B.Com degree from the University of Peradeniya- (Sri Lanka), an MBA from The American University in Washington DC and a Post Graduate degree in General Management from IMD, Switzerland.

Dr. Shanthi Wilson

Independent - Non Executive Director

Dr. Shanthi Wilson was appointed to the Board of Ceylon Cold Stores PLC, on 17th June 2016.

Dr. Wilson graduated from University College London with a B.Sc Hons, degree in Microbiology and obtained her PhD from the University of Cambridge, specialising in plant pathology and post-harvest technology. She was Head of the Food Technology Section and subsequently Additional Director Research and Development at the ITI (Former CISIR). She was the country representative for IAEA supported food irradiation programmes and has been a visiting scholar at Cornell University, RIKILT, Netherlands, The University of Hawaii, The University of Cambridge and The University of Guelph. She has served on the Board of Directors of the Atomic Energy Agency, and was Chairman of the Institute of Post-Harvest Technology. She serves on the Editorial Board of the Journal of the National Science Foundation and is currently, ITI Project Manager and Consultant to an International collaborative project sponsored by the Government of Canada. In January 2017 she was appointed to the International Advisory Board of the "Feed the Future - Horticulture Innovation Lab", at the University of California, Davis.

Sharmini Ratwatte

Independent - Non Executive Director

Ms. Sharmini Ratwatte was appointed to the Board of Ceylon Cold Stores PLC, on 17th of June 2016.

Sharmini Ratwatte is a Fellow of the Chartered Institute of Management Accountants, UK and also holds a Masters in Business Administration from the University of Colombo. Sharmini Ratwatte holds Non-Executive directorships in MAS Investments (Pvt) Ltd, the non-apparel investment arm of MAS Holdings, is a Trustee of Sunera Foundation, a non-profit organisation empowering differently-abled persons using the performing arts and is a Trustee of RECOFTC, the Centre for People And Forests, an international non- profit organisation that believes local people hold the key to healthy forests. She is a Founding Trustee and former Chairperson of the Federation of Environmental Organisations, which works to support environmental organisations operating in Sri Lanka.

MANAGEMENT TEAM

Ceylon Cold Stores PLC
(In alphabetical order)

Belindra Weerasinghe
Vice President

Belindra is the Head of the Frozen Confectionery category of Ceylon Cold Stores PLC since 2014. Belindra has over 17 years of experience in the FMCG sector having previously worked for Ceylon Tobacco Company and Coca Cola Beverages Sri Lanka. During his career, he has held key roles in Sales, Marketing and Research. Belindra holds an MBA from Edith Cowan University, Australia.

Buddhika Abayakoon
Assistant Vice President

Buddhika is the Head of International Marketing for the Consumer Foods Sector. He has more than 15 years of experience in the Pharmaceutical and FMCG industry and has extensive experience working in international markets in his previous work experiences with Dilmah and Tealia teas. Buddhika is a certified professional marketer of Asia Marketing Federation (AMF) and holder of a post graduate diploma in marketing. He is also a member of the Sri Lanka Institute of Marketing.

Daminda Gamlath
Vice President

Daminda is the Head of the Beverages category of Ceylon Cold Stores PLC. He joined the John Keells Group in 2002 and was the Sector Financial Controller of the IT Sector and then the Consumer Foods Sector until he was appointed as the Head of Beverages in 2013. Prior to joining the JKH Group he worked at Hayleys Group. Daminda holds a B.Sc (Eng) degree from the University of Moratuwa, an MBA from the University of Colombo and is an Associate Member of the Chartered Institute of Management Accountants of UK.

Irsula Rajakaruna
Assistant Vice President

Irsula is the Head of Engineering of Ceylon Cold Stores PLC and joined the John Keells Group in 2015. Prior to that he worked at Unilever Sri Lanka for 8 years in the engineering function. He is an Associate of the Institute of Engineers Sri Lanka and holds a B.Sc Engineering degree from University of Moratuwa and an MBA in Management of Technology from University of Moratuwa.

Jitendra Gunaratne
President /Director

Jitendra Gunaratne is responsible for the Consumer Foods sector. Prior to his appointment as President, he oversaw the Plantations and Retail sectors. His 36 years of management experience in the Group also covers Leisure and Property. He is a Director of Ceylon Cold Stores PLC and Keells Food Products PLC and is also the President of the Beverage Association of Sri Lanka. He is a member of the Council of the Employers' Federation of Ceylon and a member of the Foods Advisory Committee, Ministry of Health.

Mahendra Amarasinghe
Assistant Vice President

Mahendra is the Head of Sales for the Frozen Confectionery category. He joined Ceylon Cold Stores PLC in 1991 and has 26 years' experience in sales function in both Soft Drinks and Ice Cream categories.

Nalaka Umagiliya
Vice President

Nalaka is the Head of Business Systems for Consumer Foods and Retail Sector of the JKH Group. He joined the John Keells Group in 1997 and has 20 years of industry experience in Retail, Consumer Foods, Supply Chain and Loyalty domains. He holds a B.Sc in Information Systems and a MSc in Information Technology from University of Keele (UK) and MA in International Relations from University of Colombo. Nalaka is a Member of the British Computer Society (MBCS), Chartered Information Technology Professional (CITP) and a member of the Project Management Institute of USA (MPMI). Apart from the above responsibilities, Nalaka also Heads the Nexus Mobile, the pioneering lifestyle loyalty programme in Sri Lanka.

Nelindra Fernando
Vice President

Nelindra is the Sector Financial Controller of Ceylon Cold Stores PLC and Keells Food Products PLC and joined the John Keells Group in 2013. Prior to that she worked at the MAS Group for over 9 years. Nelindra is an Associate of the Chartered Institute of Management Accountants (UK) as well as the Institute of Chartered Accountants of Sri Lanka.

Nisansala Paranayapa
Assistant Vice President

Nisansala is the Head of Employee Relations of Ceylon Cold Stores PLC and Keells Food Products PLC and joined the John Keells Group in 2015. Prior to that she worked at Ceylon Grain Elevators PLC and Ansell Lanka Pvt Limited. She is a life member of the Bar Association of Sri Lanka, Associate of Institute of Personnel Management (Sri Lanka) and life member of MBA Alumni Association of University of Colombo. She holds a LL.B (Hons) degree from University of Colombo, Attorney at Law from Sri Lanka Law College and an MBA in Human Resource Management from University of Colombo.

Sanjeewa Jayasundara
Vice President

Sanjeewa is the Head of Supply Chain Management of Ceylon Cold Stores PLC and joined the John Keells Group in 2010. Prior to that, he worked at Unilever Sri Lanka for 14 years in different areas of the Supply Chain. He is an Associate of the Institute of Engineers, Sri Lanka, and holds a B.Sc Engineering degree from the University of Peradeniya and an MBA in Management of Technology from the University of Moratuwa.

Sanjeewa Jayaweera
Executive Vice President

Sanjeewa is the Chief Financial Officer of Ceylon Cold Stores PLC, Jaykay Marketing Services (Pvt) Ltd and Keells Food Products PLC, all of which are part of the John Keells Consumer Foods and Retail Industry Group. He joined the John Keells Group in 1993 and was attached to the John Keells Resort Hotels sector of which he was the Sector Financial Controller from 1998 until 2005. Thereafter, he was appointed as the CFO of the Consumer Foods and Retail Group. Prior to joining the John Keells Group, Sanjeewa was based in the United Kingdom and worked for several years as an Audit Manager. Since July 2005 he has been a member of the John Keells Group Operating Committee (GOC).

Sathish Ratnayake
Assistant Vice President

Sathish is the Head of Marketing for the Beverage category of Ceylon Cold Stores PLC. He has over 20 years' experience in sales and marketing functions in diverse industry sectors. Prior to the current appointment, he was attached to Unilever Sri Lanka Ltd for 14 years covering sales, marketing, customer & trade marketing functions. He has also worked for Pure Beverages Ltd, Cargills Ceylon PLC and Heineken Asia Pacific. Sathish holds a Master's degree from Cardiff Metropolitan University (UK) and Diploma in Marketing from Chartered Institute of Marketing (UK).

MANAGEMENT TEAM

Wasantha Malwattege
Assistant Vice President

Wasantha is the Head of Procurement of Ceylon Cold Stores PLC since 2010, He joined the John Keells Group in 1991 and worked in the Transportation Sector of the John Keells Group in a senior management position. He is an Associate Member of the Institute of Chartered Accountants of Sri Lanka and is the treasurer of the Dairy Association of Sri Lanka and Assistant Treasurer of the Organisation of Professional Association of Sri Lanka.

Wasanthalal Fernando
Assistant Vice President

Wasanthalal joined Ceylon Cold Stores PLC in 1981 and currently holds the position of Head of National Sales of the Beverage category. He is a Member of the Judging panel of the Sri Lanka Institution of Marketing National Sales Congress and is a committee member of Umpire's Committee of Sri Lanka Cricket.

JayKay Marketing Services (Pvt) Ltd
(In alphabetical Order)

Aravinda Wanniarachchi
Vice President

Aravinda is the Sector Financial Controller of Jaykay Marketing Services (Pvt) Ltd and joined the John Keells Group in 2007. He was attached to the Corporate Finance and Strategy team of the JKH Group prior to joining the Retail Sector. He is an Associate of the Chartered Institute of Management Accountants (UK) and holds a BBA Marketing (Sp) degree from University of Colombo.

Ashan Ransilige
Assistant Vice President

Ashan is the Head of Human Resources of Jaykay Marketing Services (Pvt) Ltd and joined the John Keells Group in 2016. He was attached to Dialog Axiata PLC, Human Resources Management as a Human Resources Manager before moving to John Keells. He holds a Diploma in Teaching and Learning from the Institute of City and Guilds of London and also is a certified Training Programme Assessor of SHL training academy UK and holds an MBA from the University of Derby UK.

Chandima Wickramathunge
Assistant Vice President

Chandima is the Head of Marketing at Jaykay Marketing Services (Pvt) Ltd and has been with the John Keells Group since 2011. With over 12 years' experience in Advertising and Marketing Services behind him, he joined the retail sector in 2011 . He holds a Diploma in Marketing by the Chartered Institute of Marketing (UK) and an MBA by the Cardiff Metropolitan University (UK).

Charitha Subasinghe
Executive Vice President

Charitha is the Sector Head of the Retail Sector and has been with the John Keells Group since 2003. He was the Sector Financial Controller of the Retail sector, before being appointed as the Chief Executive Officer in 2005. He was attached to Aitken Spence Hotel Management as the Sector Financial Controller before moving to John Keells. He is an Associate Member of the Chartered Institute of Management Accountants (UK) as well as a Diploma Holder of the Chartered Institute of Marketing (UK). He also holds an MBA from the University of Colombo. He was appointed as a member of John Keells Group Operating Committee (GOC) in 2015.

Hishan Singhawansa
Vice President

Hishan is the Head of Supply Chain of Jaykay Marketing Services (Pvt) Ltd and joined the John Keells Group in 2008. He was attached to the category management department before taking over as the Head of supply chain. He is an Associate of the Chartered Institute of Management Accountants (UK), and holds a B.Sc Engineering (Honours) degree from the University of Moratuwa (Sri Lanka). He also holds an MBA from the University of Wales.

Kanchana Bamunuarachchi
Assistant Vice President

Kanchana is the Head of Commercial of Jaykay Marketing Services (Pvt) Ltd and joined the John Keells Group in 2007. She was attached to the New Business Development & Group Initiatives Department of John Keells Holdings before joining the category management department of JMSL. She holds a B.Sc (Honours) degree in Management & Information Technology from the University of Kelaniya (Sri Lanka) and an MBA from the Edith Cowan University (Australia).

Gihan Cooray
Executive Director

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

Mifrah Ismail
Assistant Vice President

Mifrah is the Head of Fresh Food of Jaykay Marketing Services (Pvt) Ltd and joined the John Keells Group in 2011. He was attached to the category management department before joining the fresh food team. He is an Associate Member of the Chartered Institute of Management Accountants (UK) as well as a Diploma Holder of the Chartered Institute of Marketing (UK). He also holds a BBA Finance (Sp) degree from the University of Colombo.

Nalaka Umagiliya
Vice President

Refer page 35

Nilush Cooray
Vice President

Nilush is the Head of Operations of Jaykay Marketing Services (Pvt) Ltd and has been with the John Keells Group since 2003. He was the Head of Human Resources of the Retail sector, before being appointed as the Head of Operations in July 2011. He was also employed at Carsons Group of companies for 4 years in the Human Resources function. He holds a Diploma in Human Resources Management from the Institute of Personnel Management, Sri Lanka and an MBA from the University of Southern Queensland, Australia.

Sanjeewa Jayaweera
Executive Vice President

Refer page 35

CONTINUOUS
EVOLUTION

STRATEGY AND OPERATING CONTEXT

The Group's capabilities in effectively identifying and responding to emerging customer needs is underpinned on its ability to navigate evolving industry trends as well as shifts in market conditions.

Elephant House
Wonder Cone
VANILLA FLAVOURED ICE CREAM
Wonder Bar
VANILLA ICE CHOC
CHOCOLATE ICE CHOC
SRI LANKA CONSUMER HOTLINE: 011 2303800

GRI-G4 • G4-9, G4-12

VALUE CREATION MODEL

Our integrated value creation model graphically illustrates the capitals and relationships we depend on and the activities we engage in and the capital transformation process that underpins the creation of sustainable value to our stakeholders.

CAPITAL INPUTS

Financial Capital

Rs. 13,189 mn
Shareholders' Funds

Rs. 998 mn
Debt

Manufactured Capital

Rs. 8,107 mn
Property Plant and Equipment

64
Retail outlets

Human Capital

4,116
Employees

Social and Relationship Capital

2,297
Supplier Relationships

3,393
Out-growers

37 Elephant House Ice Cream Flavours

24 Elephant House Beverage Flavours

64 Keells Super Stores
Brands

164
Distributors

Intellectual Capital

Tacit knowledge
Systems, processes and standards

Recipes in our Library

Natural Capital

29,244 tCO2e
Carbon footprint

675,351 M^3
Water use

152,359 GJ
Energy consumption

VALUE CREATING ACTIVITIES

Business Categories

Soft Drinks and Ice Cream

- Procurement
- Manufacturing and Packaging
- Quality Assurance
- Distribution
- Sales and Marketing

Retail

- Procurement
- Distribution Centres
- Sales and Marketing
- Modern Retail Outlets
- Online Shopping

Value Drivers

- Smart Strategy
- Finance and Planning
- Research and Development
- Information Technology
- Risk Management
- People Management
- Supply Chain
- Legal

Our Strategy

- Sustainable growth
- Empowered team
- Fulfilling the customer promise
- Supply chain and community development
- Responsible organisation

Risk Management (pages 92 to 99)

Corporate Governance (pages 54 to 91)

OUTPUTS AND OUTCOMES

Rs. 3,553 mn
Net profit:

Rs. 3,691 mn
Payments to employees

164,549
Training hours

Rs. 36 bn
Payments to suppliers

Rs. 40 mn
Spent on CSR

VALUE SHARED

Shareholders:

The profits we generate create value, converts to dividends and increases in share price (pages 114 to 120)

Customers:

Our innovative products are aimed at delighting customers and creating moments of pleasure. Our chain of supermarkets deliver unparalleled quality and convenience. (pages 139 to 142)

Employees:

Our employee value proposition comprises of engaging, developing and rewarding employees (pages 125 to 134)

Suppliers and business partners:

We support and develop individuals and businesses across our value chain (pages 142 to 146)

Communities:

We uplift communities through job creation, CSR engagement and minimization of environmental impacts (pages 158 to 161)

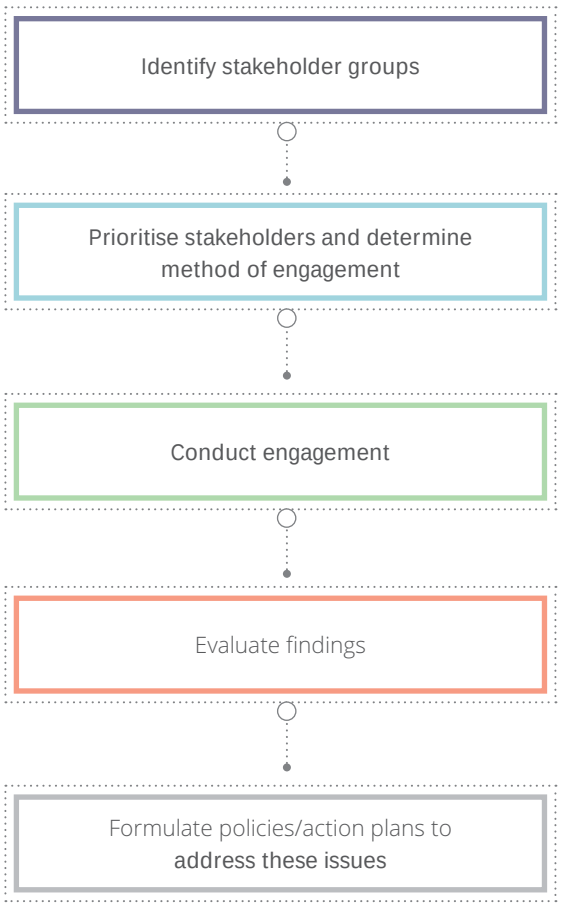
GRI-G4 • G4-15, G4-24, G4-25, G4-26, G4-27

STAKEHOLDER ENGAGEMENT

Proactive stakeholder engagement is critical in identifying issues which matter most to our stakeholders and support our drive towards integrating sustainability into our daily business operations. We engage with stakeholders who potentially have the most significant impact on our value creation process and those who are affected most by our activities. Nurturing such relationships enable us to understand stakeholder rights and expectations and ensure alignment with our strategic agenda.

Group's key stakeholder groups, engagement methods and areas of interest during the year are set out in the following pages.

Stakeholder engagement process



SHAREHOLDERS

Stakeholder profile: The Group's principal shareholder is John Keells Holdings PLC and other JKH Group companies which hold a share of 81.36%. The remainder is held by approximately 1,912 public and institutional investors.

Management approach: We aim to provide our shareholders with timely, relevant and complete information to facilitate effective and informed decision making:

Strategic relevance:

Engagement methods:

- Annual General Meeting and publication of Annual Report (annually)
- Interim financial statements (quarterly)
- Announcements to the Colombo Stock Exchange (continuous basis)
- Corporate website (continuous basis)
- Press releases (continuous basis)
- One-to-one engagement (when required)

Key issues of interest in 2016/17:

- Sustainable growth in financial, social and environmental performance
- Return on investment
- Adequate risk return balance
- Corporate governance and risk management frameworks
- Corporate reputation
- Transparency and credibility of disclosures

CUSTOMERS-DISTRIBUTORS AND RETAILERS

Stakeholder profile: Our network of 164 island-wide distributors and over 110,000 retailers ensure that consumers have continued access to our products.

Management approach: We strive to develop a partnership approach and nurture long-term relationships with our distributors and retailers

Strategic relevance:

Engagement methods:

- Distributor Management System - DMS (continuous on line real time)
- Distributor conventions (annual)
- Audits and site visits (periodic)
- Trade monitoring surveys on cooler and freezer purity (periodic)
- Sales team engagement with retailers on an on-going basis

Key issues of interest in 2016/17:

- Sustainable growth in distributor/retailer earnings
- Continuous supply of products
- Acceptable credit terms
- Ethical business conduct
- Recognition and rewards
- Capacity building

CUSTOMERS-CONSUMERS

Stakeholder profile: Our products are accessible to consumers in all districts of the country. Our retail outlets serve customers mainly in Colombo suburbs and main cities outside Colombo.

Management approach: We offer innovative product choice, convenience and superior service to suit their emerging needs

Strategic relevance:

Engagement methods:

- Customer satisfaction surveys (periodic)
- One-to-one engagement (continuous)
- Customer hotline (continuous)
- Social media interactions (continuous)
- Website
- Marketing communications (continuous)

Key issues of interest in 2016/17:

- Product quality
- Value for money
- Compliance with all applicable food safety standards
- New product development aligned to customer health, nutritional and lifestyle expectations
- Consumer promotions
- Loyalty programme
- Stores that are designed deliver best in class shopping experience to customers
- Excellence in customer service at our retail stores

GRI-G4 • G4-15, G4-24, G4-25, G4-26, G4-27

STAKEHOLDER ENGAGEMENT

EMPLOYEES

Stakeholder profile: Our team consists of 4,116 high-performing employees who facilitate the customer experience.

Management approach: We offer opportunities for development in a dynamic and rewarding work environment.

Strategic relevance:

Engagement methods:

- Performance appraisals (annual)
- Employee satisfaction surveys -Voice of Employee and Great Place to Work (annual)
- Work-life balance initiatives
- Open door communication policy (continuous)
- Staff intranet (continuous)
- Training initiatives (continuous)
- Ombudsperson
- Direct access to the Chairman
- GPTW Survey
- Climate Survey

Key issues of interest in 2016/17:

- Remuneration and benefits
- Job security
- Conducive work environment
- Skill and knowledge development
- Health and Safety
- Dignity of labour
- Career progression and succession
- Collective Bargaining
- Career Committee

SUPPLIERS

Stakeholder profile: We source from over 2,297 suppliers which include corporates, SMEs and farmers.

Management approach: We strive to establish mutually beneficial relationships through multi-faceted capacity building programs and encourage them to engage in socially and environmentally.

Strategic relevance:

Engagement methods:

- Site visits and audits (periodic)
- Supplier selection process (as required)
- Ongoing dialog through formal meetings, telephone and electronic communication
- Training programmes (ongoing)
- Suppler conventions (annual)

Key issues of interest in 2016/17:

- Equitable and on-time payments
- Sustainable demand for products
- Capacity building and financial support
- Competency development

GRI-G4 • G4-15, G4-24, G4-25, G4-26, G4-27

GOVERNMENT

Stakeholder profile: Our regulators include the Consumer Affairs Authority, Central Environment Authority, Inland Revenue Department, Sri Lanka Customs, Central Bank etc.

Management approach: We engage in a productive and constructive dialogue with our regulators and the government to ensure a conducive industry environment.

Strategic relevance:

Engagement methods:

- On-site surveillance and factory visits (periodic)
- Directives and circulars (periodic)
- One-to-one engagement (when required)
- Press releases (continuous)

Key issues of interest in 2016/17:

- Compliance with relevant regulations and guidelines
- Payment of taxes on a full and timely basis
- Contribute towards community development
- Environmental preservation

COMMUNITIES

Stakeholder profile: We engage directly with the communities who live adjacent to our operational sites.

Management approach: Having a cordial and mutually respectful relationship with the communities we operate in is critical to our success.

Strategic relevance:

Engagement methods:

- Community engagement initiatives (continuous)
- Public events (continuous)
- Social media interactions and press releases (continuous)

Key issues of interest in 2016/17:

- Creation of direct and indirect employment opportunities
- Livelihood and community development
- CSR initiatives
- Compliance to all relevant food safety and environmental regulations

MARKET DYNAMICS

The Group's capabilities in effectively identifying and responding to emerging customer needs is underpinned on its ability to navigate evolving industry trends as well as shifts in market conditions. These mega trends therefore, continue to shape our strategy and drive our people to deliver sustainable solutions. The ensuing discussion focuses on several of these key mega trends and the Group's strategic response to the same;

INCREASED CONSUMER PROPENSITY TOWARDS HEALTHY CHOICES

Health and wellness trends have gained momentum with consumers increasingly seeking out healthy alternatives. The demand for food and beverages which use natural ingredients and/or have a lower calorie count has resultantly continued to increase over the past few years. Governments are also increasing focusing on health and nutritional aspects to have a healthier nation and to reduce public expenditure on health care.

OUR RESPONSE

Beverages:

- Reduction of sugar calories with the substitution of sugar with a natural sweetener extracted from the Stevia plant.
- We have continued to broaden our product range with the launch of healthier alternatives such as the fruit juice range (FITO), Isotonic range (F5), fruit flavour based green tea (Twistee) and expanded the lemon and lime segment (Lime Crush, Lemoki, Chaze) as well.
- Launched a sugar-free variant of Wild Elephant.
- Increase in non Carbonated Soft Drink (CSD) range.

Frozen confectionary:

- Sugar free variants-Vanilla Lite and Choco Lite.
- Launched green tea ice cream.

Retail

- A range of organic fresh fruit and vegetables is now being sold in 39 stores.
- A range of organic groceries is now being introduced in eleven stores during the year.

RISING DEMAND FOR IMPULSE PRODUCTS IN FROZEN CONFECTIONARY

Globally, the impulse ice cream segment dominates the market with an estimated share of around 60% - 70%. Although traditionally dominated by bulk containers, Sri Lanka has also seen a gradual shift in demand towards impulse products led by the rise in demand for small portion snacking options.

OUR RESPONSE

- Launch of cups (impulse offering) in the premium IMORICH range.
- The new factory in Seethawaka BOI zone will facilitate a significant increase in impulse production capabilities and capacities.

"Reduction of sugar calories with the substitution of sugar with a natural sweetener extracted from the Stevia plant."

CUSTOMER SOPHISTICATION

Sri Lanka's transition to a middle-income earning country, rising disposable incomes and the growing middle class has resulted in increased customer sophistication. This has resulted in rising demand for premium products and retail services. In the food and beverages industry. There is growing preference for non-price characteristics such as convenience, quality and dietary diversity.

In the retail sector, Sri Lanka's penetration of modern trade has increased to 16% although relatively lower than its regional counterparts.

OUR RESPONSE

Beverages:

- Market segmentation and launch of new products catering to different customer needs

Frozen confectionary:

- Rebranding the premium range (IMORICH) and the addition of 5 new flavours, including green tea.

Retail

- Opened 15 new outlets during the year with 40 more planned in 2017/18

RISING DEMAND FOR PET BOTTLES

As consumers seek out more convenience as there is an emerging trend of increasing preference for beverages presented in plastic packaging (PET bottles) as opposed to glass packaging.

OUR RESPONSE

The Group has been compelled to increase capacity of PET bottles due to market dynamics.

The environmental impacts will be mitigated to some extent by an integrated recycling project to be launched by the JKH Group in the near term

INCREASING STRINGENCY OF REGULATIONS

Due to the increasing prevalence of diabetes in Sri Lanka, the Health Ministry introduced a traffic light labelling system for sugar content in all beverages.

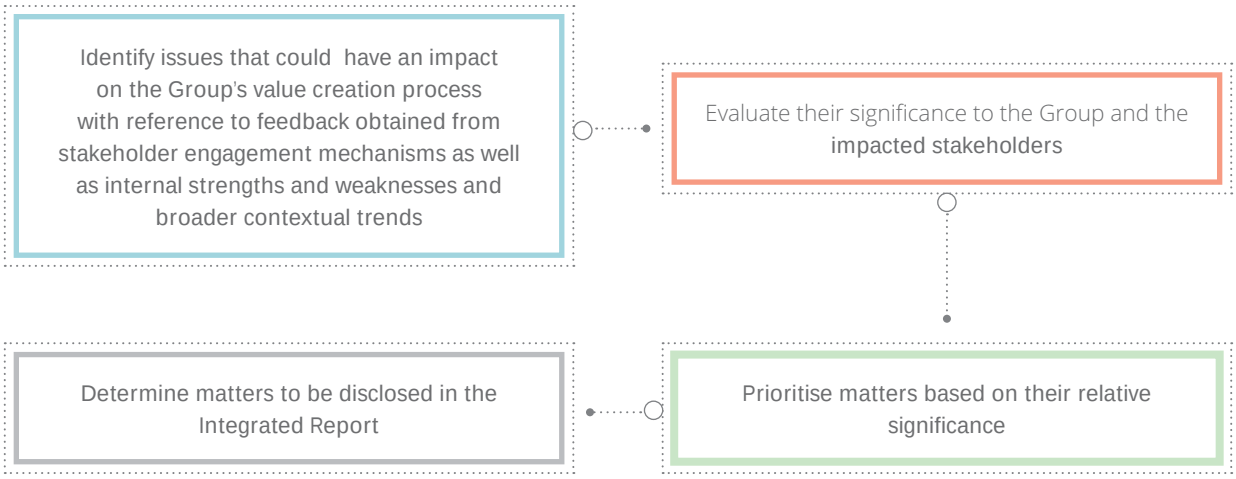
OUR RESPONSE

We engage in responsible labelling practices and the company comply with this requirement.

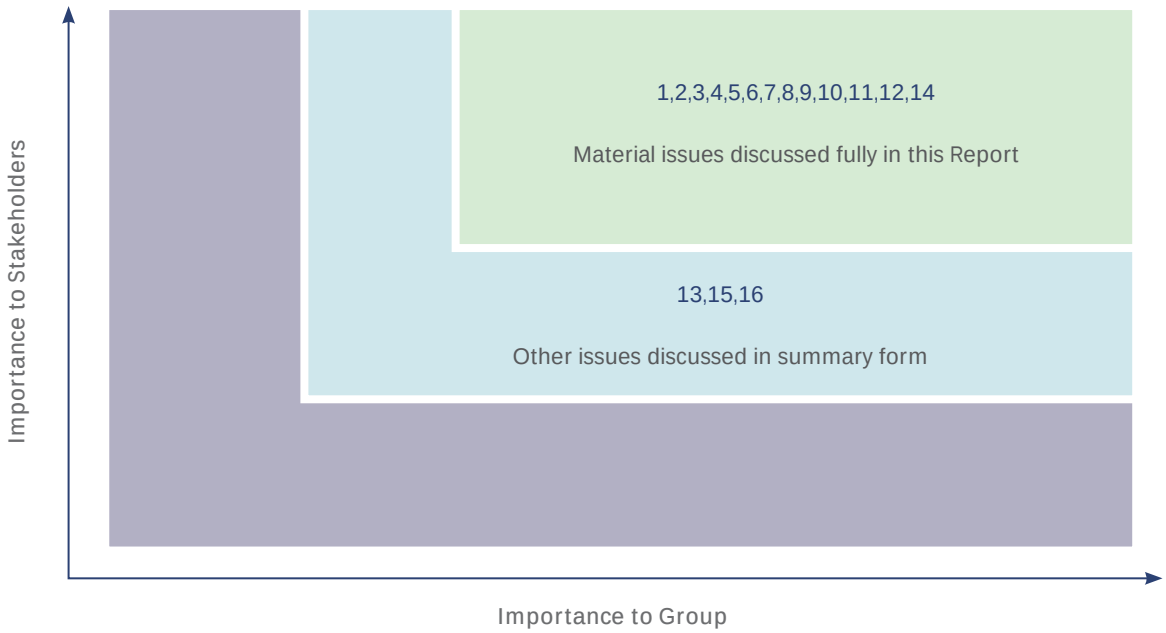
Currently the majority of our beverages products are in the amber and green categories (sugar content less than 11 grams per 100 millilitres).

REPORTING WHAT MATTERS

The content included in this Report has been selected through a comprehensive and structured process which ensures that the sustainability metrics we track and manage are aligned with our business strategy and the needs of our stakeholders. The Material aspects also reflect changes and trends in our operating environment, risks and opportunities that could affect our value creation process and the Group's overall strategic objectives



MATERIAL ASPECTS



The following table lists the Group's key material aspects for the year under review, and how these issues relate to our strategy. We have also clearly disclosed how our material aspects below correspond to the disclosures recommended by GRI on pages 163 to 167 of this Report.

No.	Material Aspect	Materiality Compared to last year	Relevance to Strategy
1	Market leadership	–	
2	Financial performance	–	
3	Remunerations and benefits	▲	
4	Employee health and safety	–	
5	Providing value for money with quality products	–	
6	Product Labelling and market communication compliance	–	
7	Market reach	–	
8	Customer health and safety	–	
9	Provide best in class customer service in retail	–	
10	Innovation to promote health, nutrition and lifestyle changes	–	
11	Efficient distributor network	–	
12	Sustainable and ethical procurement practices	–	
13	Developing livelihoods through improving community infrastructure	–	
14	Compliance and good governance	–	
15	Reduce carbon footprint	–	
16	Managing natural inputs and outputs	–	

Sustainable growth | Empowered team | Value chain and community development | Fulfilling the customer promise | Preserving the planet

OUR INTEGRATED STRATEGY

CCS's vision is to deliver pleasure and nutrition throughout people's lives, through exciting and superior products whenever and wherever they choose to eat and drink. JMSL's vision is to enhance the quality of life of our nation by giving affordability to all. Our integrated strategy is designed to achieve just that, and takes into consideration the findings of our stakeholder engagement mechanisms, our value creation process and emerging opportunities and risks in the operating landscape. The five pillars of the Group's strategic agenda (as detailed below) calls for co-ordinated thinking across the organisation and ensures that competing interests of stakeholders are managed in a way that ultimately results in the responsible creation of shared value.

OUR COMMITMENTS TO THE SUSTAINABLE DEVELOPMENT GOALS (SDG)

The SDGs set out clear goals and targets to galvanise global efforts to end poverty, promote prosperity and protect the environment. Governments, the Private sector and communities will play a vital role in achieving these goals and as an organisation we are exploring how we can contribute most effectively ourselves. The infogram below lists out the goals which are of greatest relevance to us and how we are currently contributing towards these targets.

High

Relevance to our operations

Low

We continue to place emphasis on diversifying our beverage portfolio to **include healthy choices** and have substituted the use of sugar with natural sweeteners to bring down the calorie count. In retail we have introduced **organic fresh shelves** in all our outlets (refer pages 140 to 141)

Multiple measures for the efficient use of energy and water in manufacturing, as well as responsible labelling and sales mechanisms are in place (refer to pages 153 to 154)

Through our network of 64 retail outlets, **we provide access to fresh produce, meat, seafood, dry rations** and other food products to Sri Lankan families (refer pages 140 to 144)

We **provide a rewarding and dynamic work environment** to 4,116 employees and invest in their training and development and career progression (refer pages 125 to 134)

During the year we introduced a number of **mechanisms to reduce our energy consumption** in the manufacturing facilities. Resultantly, the carbon footprint intensity declined by 3% in 2016/17 (refer to pages 152 to 157)

Our **extensive farmer outgrower programmes** (both in manufacturing and retail) support livelihoods of over 4,400 farmers, allowing them to generate a sustainable and secure source of income (refer pages 142 to 145)

Through a ginger out-grower project in Akmeemana, **we empower 20 differently abled persons** by providing inputs for manufacturing, technical support and buy-back guarantees (refer pages 108,142 to 145)

We **cleaned 123 wells adjacent to our operational sites**, following the contamination of water after the floods. This is expected to have benefitted close to 500 people (refer pages 158 to 161)

We are an **employer of equal opportunity**, and our female representation rate amounted to 36% in 2016/17. At management level, female representation was at 14% (refer pages 128 to 129)

A STRONG
FOUNDATION

STEWARDSHIP

Over the years, the Group has focused on developing a strong corporate governance foundation to complement its efforts in creating and maintaining a sustainable business model.

Elephant House
Lime Crush
Elephant House
Lime Crush

CORPORATE GOVERNANCE REPORT

Executive Summary

Ceylon Cold Stores PLC and its subsidiaries Jaykay Marketing Services (Pvt) Ltd (JMSL) and The Colombo Ice Company (Pvt) Ltd are referred to as the "Group" in this report. Over the years, the Group has focused on developing a strong corporate governance foundation to complement its efforts in creating and maintaining a sustainable business model.

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

The report below demonstrates in detail how CCS has embraced, and complied with all the mandatory provisions of the Companies Act of No. 7 of 2007, Listing Rules of the Colombo Stock Exchange (CSE) and the Securities and Exchange Commission (SEC) of Sri Lanka and all other legislation and rules relevant to the businesses of the Group. Further, it highlights the efforts made by the Group in ensuring that its practices are in line, where relevant and appropriate, with the Code of Best Practices on Corporate Governance jointly advocated by the SEC and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). All systems and procedures are continuously reviewed to provide transparency, accountability and are continuously updated, to adhere to the stipulated guidelines.

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

Highlights of the 119th Annual General Meeting held on 16th June 2016

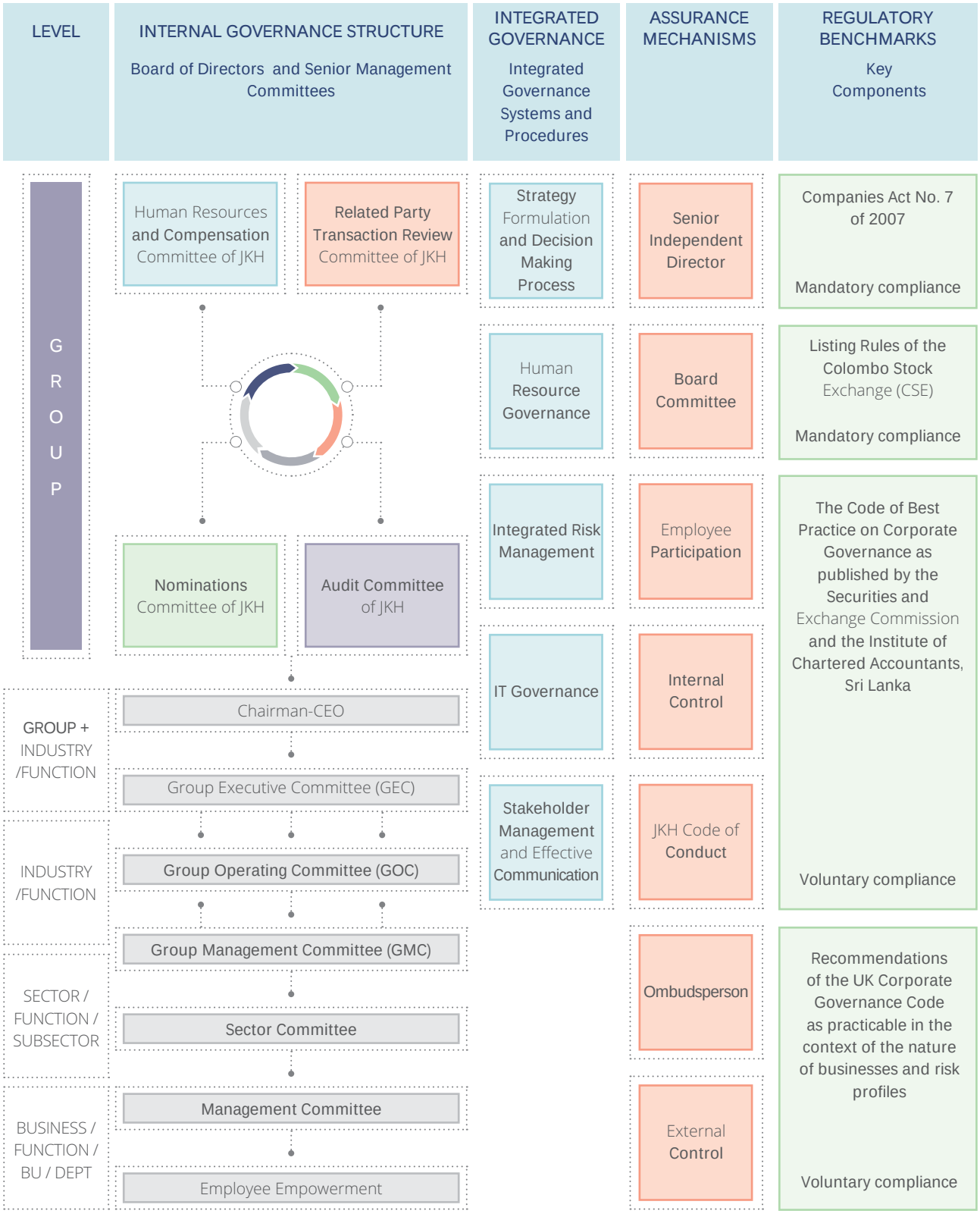
- Mr. A.D Gunawardene who retired in terms of Article 84 of the Articles of Association of the Company, was re-elected as a Director of the Company.
- Mr. A.R Rasiah who retired in terms of section 210 of the Companies Act No 7 of 2007 was re-elected as a Director of the Company.
- M/s. Ernst and Young was re-appointed as the External Auditors of the CCS Group.

Key Corporate Governance Initiatives Undertaken by the Group for the Year 2016/17

- Plans of succession of various Key Management Personnel who are due to retire within the next two years were announced in February 2017.
- As digitisation initiatives, CCS invested in a Distributor Management System (DMS Mobile). The Company sales staff across the country was provided with hand held devices for online invoicing of secondary sales resulting in online real time to monitor outlet productivity and route fulfilment. This initiative won the JKH Chairman's award for best digitisation project within the JKH Group as it positively impacted the business.
- A digital forensic tool, Forestpin, was implemented to analyse transactional data from key systems using techniques such as standard deviations, Z-scores, and time series analysis in detecting outliers and raising alerts for management actions and responses. It further serves to enhance the internal audit function by providing a platform for management reporting around existing processes and controls that safeguard stakeholder interest for improved assurances.
- During the year, the "Great Place to Work (GPTW)" survey was conducted across the CCS Group. Following its conclusion, the management discussed the resultant report. The Management agreed on action plans geared towards addressing the findings of the survey.

The Corporate Governance System

JKH Corporate Governance System within a Sustainability Development Framework



CORPORATE GOVERNANCE REPORT

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

1. INTERNAL GOVERNANCE STRUCTURE

The Internal Governance Structure contains information about the committees which formulate, execute and monitor strategies, initiatives, policies and processes, and procedures employed throughout the JKH Group.

2. INTEGRATED GOVERNANCE SYSTEMS AND PROCEDURES

The Integrated Governance Systems and Procedures describe the over arching frameworks which govern the key functions of the Group, which support businesses in conducting their activities more effectively and efficiently in keeping with best practices and in line with ethical and transparent corporate conduct.

3. ASSURANCE MECHANISMS

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

4. REGULATORY AND PERFORMANCE BENCHMARKS

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

1 INTERNAL GOVERNANCE STRUCTURE

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

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

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

1.1 The Board of Directors

1.1.1 Board Responsibilities

Notwithstanding the functioning of the Board Committees, the Board of Directors is collectively responsible for the decisions and actions taken by the Board Sub-Committees

The Board's key responsibilities include:

- Providing direction and guidance to the Group in the formulation of high-level medium, and long term strategies which are aimed at promoting the sustainable long term success of the Group;
- Reviewing and approving annual plans, and longer term business plans;
- Tracking actual progress against plans;
- Reviewing HR processes with emphasis on succession planning for the top management;
- Appointing and reviewing the performance of the President/CEO of the Group;
- Monitoring systems of governance and compliance;
- Overseeing systems of internal control, risk management and establishing whistle-blowing conduits;
- Determining any changes to the discretions/ authorities delegated from the Board to the executive levels;
- Reviewing and approving major acquisitions, disposals and capital expenditure;
- Approving any amendments to constitutional documents;
- Approving in principle, the issue of equity/debt securities.

Some of the key decisions made by the Board during the year under review included:

- Increased the dividend paid by 78% YOY. Dividend paid in the financial year 2016/17 was Rs. 32 per share whereas Rs. 18 per share was paid in 2015/16.
- Approved construction of two production facilities, an ice cream plant in the Seethawaka Export Processing Zone under newly formed subsidiary, The Colombo Ice Company (Pvt) Ltd and a PET bottling plant in Ranala.
- Approved obtaining a long-term loan facility of Rs. 3.8 billion from a commercial Bank to fund the proposed ice cream plant in Seethawaka.

1.1.2 Board Composition

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

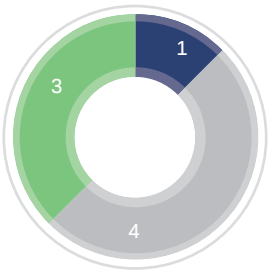
As at 31st March 2017, the Board comprised of 8 Directors, with 4 of them being Non-Executive Independent, 3 of them being Non-Executive Non Independent and one being Executive Non Independent.

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

- Mr. P S Jayawardena PC resigned from the Board with effect from 16th June 2016 after serving the Board for over 9 years.
- Ms. S T Ratwatte and Dr. R S Wilson Wijeratnam were appointed to the Board on 17th June 2016.

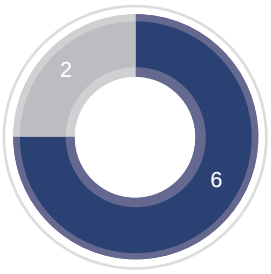
Accordingly, the current composition of the Board is illustrated as follows:

Designation



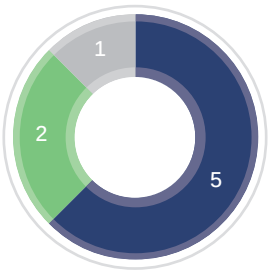
Executive-Non Independent (ED/NI)
Non-Executive Independent (NED/I)
Non-Executive Non Independent (NED/NI)

Gender



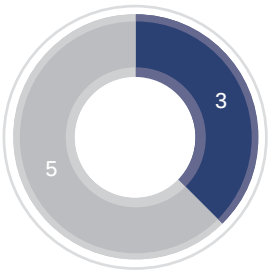
Male Female

Age Group



50 - 60 Years 61 - 70 Years
71 Years & Over

Board Tenure



Less than 9 years
More than 9 years

CORPORATE GOVERNANCE REPORT

1.1.3 Board Skills

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

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

The following skills and exposure are currently represented on the CCS Board;

- Large multinational and international organisational exposure and experience
- Portfolio management including mergers and acquisitions skills
- Expertise in FMCG Industry and Food technology
- Chambers of Commerce and industry associations exposure and experience
- HR Management and Industrial Relations skills
- Accounting, Auditing and Risk Management skills
- Sales and Marketing skills

The Board consists of three qualified Accountants with significant experience in the corporate sector and possess the necessary knowledge and expertise to offer the Board of Directors guidance on matters of finance. One Director serves as the Finance Director of the Parent Company, one as the Chairman of the Audit Committee and the other as a member of the Audit Committee.

1.1.4 Board Meeting

1.1.4.1 Regularity of Meeting and Pre-Board Meetings

During the financial year under review, four pre-scheduled Board meetings, and one special meeting were convened. Pre-Board meetings serve as a forum to discuss issues of strategic importance requiring extensive discussions. The Board also communicates regularly on routine matters depending on the need.

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

Name of Director	Date of Board Meeting and Attendance				
	27/04/2016	20/07/2016	24/10/2016	14/12/2016*	26/01/2017
Mr. S C Ratnayake	Present	Present	Excused	Excused	Present
Mr. A D Gunewardene	Present	Present	Present	Present	Present
Mr. J R F Peiris	Present	Present	Present	Present	Present
Mr. J R Gunaratne	Present	Present	Present	Present	Present
Mr. A R Rasiah	Present	Present	Present	Present	Present
Mr. M Hamza	Present	Present	Present	Excused	Present
Mr. Prasanna Jayawardena +	Present	-	-	-	-
Ms. S T Ratwatte **	-	Present	Present	Present	Excused
Dr. R S Wilson Wijeratnam **	-	Present	Present	Excused	Present

* Special Board Meeting

\+ Resigned during the year

** Appointed during the year

1.1.4.2 Board Agenda

The Chairman ensured that all Board proceedings were conducted in a proper manner, approving the agenda for each meeting prepared by the Board Secretary. The typical Board agenda in 2016/2017 was:

- Confirmation of previous minutes
- Ratification of Circular Resolutions
- Audit Committee reports and other matters exclusive to the Board
- Matters arising from the previous minutes
- Status updates of major projects
- Review of performance - in summary, and in detail, including high level commentary on actuals and outlook
- Summation of strategic issues
- Approval of quarterly and annual Financial Statements
- Ratification of capital expenditure and donations
- Ratification of the use of the company seal and share certificates issued
- Review of Group risks, sustainability/ CSR, HR practices/updates, tax and treasury updates
- New resolutions and any other business

1.1.4.3 Timely Supply of Information

In order to ensure robust discussion, informed deliberation and effective decision making, the Directors are provided with the necessary information in advance to carry out their duties and responsibilities effectively and efficiently with updates from management on topical matters, new regulations and best practices.

Further information from third parties such as External and Internal Auditors and other external professional services and are made available to the Board.

1.1.4.4 Board Secretary

There is a Secretary to the Board. In addition to maintaining Board minutes and Board records, the Board Secretary provides support in ensuring that the Board receives timely and accurate information relating to corporate governance matters, Board procedures and applicable rules and regulations during the year. All concerns raised and wished to be recorded have been documented in sufficient detail.

1.1.5 Board Directors Delegation of Authority

The Board has delegated some of its functions to Board committees while retaining final decision rights pertaining to matters under the purview of these committees. The Board has, subject to pre-defined limits, delegated its executive authority to the President-CEO who exercises this authority through the Group Management Committee (GMC), which is headed by him.

1.1.6 Board Evaluation

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

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

The results of the evaluation revealed that the Board has improved in all areas mentioned above in comparison to the previous year, and consequently, improved Board dynamics.

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

CORPORATE GOVERNANCE REPORT

1.1.7 Director Remuneration

1.1.7.1 Executive Director Remuneration

The remuneration of the Executive Director/CEO is determined as per the remuneration principles of the JKH Group. At the Director Level, the benchmark weightage between individual and organisational performance in establishing compensation is 20:80 reflecting the direct relationship between Executive Director Remuneration and shareholder value creation.

The remuneration of the Executive Director has a significant element which is variable. This variability is linked to the peer adjusted consolidated Group bottom line and expected returns on shareholder funds. The fixed to variable ratio is approximately 1:1, when the performance at both individual and organisational levels exceed expectations.

The Executive Director, like any other employee is eligible to receive Employee Share Options (ESOP) of John Keells Holdings PLC based on actual performance. Accordingly, the number of options so awarded is recommended to the Board by the Human Resources & Compensation Committee of JKH. Such options are awarded at the volume weighted average share price taking into consideration all transactions of John Keells Holding PLC during the 30 market days immediately preceding the award date. As prescribed by the Sri Lanka Accounting Standards (SLFRS / LKAS) all ESOPs are charged to the income statements of the employing companies of the respective employees with effect from 01st July 2014 being the date of the first award after introduction of the accounting standard.

The Executive Director does not get involved in influencing or determining his own compensation package. For the purposes of this Report, the terms 'compensation' and 'remuneration' have been used in reference to cash and non-cash benefits received in consideration of employment (excluding statutory entitlements such as Employees Provident Fund and Employees Trust Fund contributions), unless otherwise qualified. The 'Cash' compensation element of remuneration comprises salary, pension contributions, short term incentive plans and other non-share based benefits. Executive Director Remuneration is reviewed periodically against Market Comparators.

1.1.7.2 Non-Executive Director Remuneration (NED)

Compensation of NEDs is determined in reference to fees paid to other NEDs of comparable companies and is adjusted where necessary in keeping with the Group complexity. The fees received by NEDs are determined by the Board and reviewed annually. NEDs do not receive any performance/incentive payments and are not eligible to participate in any of the Group's share option plans. Non-Executive fees are not subject to time spent or defined by a maximum/minimum number of hours committed to the Group per annum, and hence are not subject to additional/lower fees for additional/lesser time devoted.

1.1.7.3 Compensation for Early Termination

In the event of an early termination of a Director there are no compensation commitments other than for;

(1) Executive Director - as per employment contract like any other employee.

(2) NEDs - Director Fees payable, if any, in terms of contract.

1.1.8 Directors' Responsibilities

The Statement of Directors' Responsibilities in relation to financial reporting is given in the Financial Information section of the Annual Report. The Directors' interests in contracts of the Company are addressed in the Annual Report of the Board of Directors. The Board of Directors, in consultation with the Audit Committee have taken all reasonable steps in ensuring the accuracy and timeliness of published information and in presenting an honest and balanced assessment of results in the quarterly and annual Financial Statements.

As discussed in the shareholder relations section of this Report, all price sensitive information has been made known to the Colombo Stock Exchange, shareholders and the press in a timely manner and in keeping with the regulations.

1.1.9 Going Concern

The Board of Directors upon the recommendation of the Audit Committee is satisfied that the Group has sufficient resources to continue its operation for the foreseeable future. In the event that the net assets of the Group fall below a half of shareholders' funds, shareholders would be notified and an extraordinary resolution passed on the proposed way forward.

The going concern principle has been adopted in preparing the financial statements. All statutory and material declarations are highlighted in the Annual Report of the Board of Directors in the Annual Report. Financial statements are prepared in accordance with the Sri Lanka Financial Reporting Standards (SLFRS) and Lanka Accounting Standards (LKAS), including all the new standards introduced during the subject year, and International Accounting Standards (IAS), as applicable.

Information in the Financial Statements of the Annual Report is supplemented by a detailed 'Business Review Report' which explains to shareholders the strategic, operational, investment and risk related aspects of the Company and the subsidiaries that have translated into the reported financial performance and are likely to influence future results.

1.1.10 Time Spent by Non-Executive Directors and Support Given

Every member of the Board has dedicated adequate time and effort for the affairs of the CCS Group by attending Board meetings, Board Sub-Committee meetings and by making decisions via circular resolutions. In addition, the Board members have meetings and discussions with Management when required. The Board met on five occasions during the Year and the Chairman and all Directors attended all meetings unless they had excused themselves from the meeting. The Board is satisfied that the Chairman and the Non-Executive Directors committed sufficient time during the year to fulfil their duties.

1.1.11 Board Induction and Training

In instances where Non-Executive Directors are newly appointed to the Board, they are apprised of the: Values and culture, operations of the CCS Group and its strategies, operating model, policies, governance framework and processes, responsibilities as a Director in terms of prevailing legislation, the code of conduct demanded by the CCS Group and brief on important developments in the business activities of the Group. The Board policy on Directors' training is to provide adequate opportunities for continuous development, subject to requirement and relevance for each Director. The Directors are constantly updated on the latest trends and issues facing the CCS Group and the industry in general.

1.1.12 Access to Independent Professional advice

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

Accordingly, the Board obtains independent professional advice on areas such as impacts on business operations of the current and emerging economics, Legal, Tax and accounting aspects, market surveys, architectural and engineering advisory services, actuarial valuation of retirement benefits and valuation of property including that of investment property, information technology consultancy services and domain knowledge for identified project feasibilities and evaluations. Additionally, individual Directors are encouraged to seek expert opinion and/or professional advice on matters where they may not have full knowledge or expertise.

1.1.13 Managing Conflicts of Interests and Ensuring Independence

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

CORPORATE GOVERNANCE REPORT

Prior to Appointment	Once Appointed	During Board Meetings
Nominees are requested to make known their various interests	Directors obtain Board clearance prior to: • Accepting a new position • Engaging in any transaction that could create or potentially create a conflict of interest All NEDs are required to notify the Chairman of any changes to their current Board representations or interests and a new declaration is made every financial year	Directors who have an interest in a matter under discussion: • Excuse themselves from deliberations on the subject matter • Abstain from voting on the subject matter (abstention from decisions are duly minuted)

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

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

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

***Compliant by assessment and resolution - Mr. A R Rasiah have completed more than 9 consecutive years as a Non-Executive Independent Director of Ceylon Cold Stores PLC. However, the Board consider him independent given the objective and unbiased approach to matters of the Board.*

Name of Director	Executive / Non Executive	Independent / Non Independent	Involvement/ Interest in Shareholding	Involvement/ Interest in Management	Involvement/ Interest in Supply Contracts	Continuously served for 9 years
Mr. S C Ratnayake – Chairman	Non Executive	Non Independent	Yes	No	No	Yes
Mr. A D Gunewardene	Non Executive	Non Independent	Yes	No	No	Yes
Mr. J R F Peiris	Non Executive	Non Independent	Yes	No	No	Yes
Mr. J R Gunaratne	Executive	Non Independent	Yes	Yes	No	Yes
Mr. M Hamza	Non Executive	Independent	Yes	No	No	No
Mr. A R Rasiah	Non Executive	Independent	Yes	No	No	Yes*
Ms. S T Ratwatte	Non Executive	Independent	No	No	No	No
Dr. R S Wilson Wijeratnam	Non Executive	Independent	No	No	No	No

**Compliant by assessment and resolution - Mr. A R Rasiah has completed more than 9 consecutive years as a Non-Executive Independent Director of Ceylon Cold Stores PLC. However, the Board consider him independent given the objective and unbiased approach to matters of the Board.*

1.1.14 Board Appointment

Board appointments follow a structured and formal process within the purview of the Nominations Committee. Details of new Directors are disclosed to the shareholders at the time of their appointment by way of public announcement as well as in the Annual Report (refer Board Profiles section of the Report). The Directors are required to report any substantial changes in their professional responsibilities and business associations to the Nominations Committee, which will examine the facts and circumstances and make recommendations to the Board.

1.1.15 Board Tenure, Retirement and Re-election

The Executive Directors are appointed and recommended for re-election subject to their prescribed Company retirement age whilst Non-Executive Directors are appointed and recommended for re-election subject to the age limit as per statutory provisions at the time of re-appointment. At each Annual General Meeting one third of the Directors retire by rotation on the basis prescribed in the Articles of Association of the Company and are eligible for re-election. The Directors who retire are those who have been longest in office since their appointment / re-appointment. In addition, any new Director who was appointed to the Board during the year is required to stand for re-election at the next Annual General Meeting.

The re-election of Directors ensures that shareholders have an opportunity to reassess the composition of the Board. The names of the Directors submitted for re-election are provided to the shareholders in advance to enable them to make an informed decision on their election. The names of the retiring Directors eligible for re-election this year are mentioned in the Notice of the Annual General Meeting of the Company. Further, all Directors who are over the age of 70 years are re-elected to the Board annually as per Section 210 of the Companies Act No. 7 of 2007.

CORPORATE GOVERNANCE REPORT

1.2 Board Sub-Committees

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

The four Board Sub-Committees are as follows:

i. Audit Committee
ii. Human Resources and Compensation Committee of the Parent Company -John Keells Holdings PLC
iii. Nominations Committee of the Parent Company -John Keells Holdings PLC
iv. Related Party Transaction Review Committee of the Parent Company -John Keells Holdings PLC

1.2.1 The Audit Committee of the Company

Composition	All members to be exclusively Non-Executive, Independent Directors with at least one member having significant, recent and relevant financial management and accounting experience and a professional accounting qualification. The President-CEO, the Chief Financial Officer and the Sector Financial Controller are permanent invitees for all Committee meetings.
Mandate	Monitor and supervise management's financial reporting process in ensuring; • Accurate and timely disclosure • Transparency, integrity and quality of financial reporting
Scope	i. Confirm and assure: • Independence of External Auditor • Objectivity of Internal Auditor ii. Review with Independent Auditors the adequacy of internal controls and quality of financial reporting iii. Regular review meetings with Management, Internal Auditor and External Auditors in seeking assurance on various matters

The CCS Audit Committee comprise of 4 Non-Executive Independent Directors with two of them having current membership of a reputed accountancy body. The CCS Audit Committee had four meetings during the year and attendance of the Audit Committee members are indicated in the Audit Committee Report.

1.2.2 The Human Resources and Compensation Committee of the Parent Company- JKH PLC

Composition	The Chairperson must be a Non-Executive Director. Committee should comprise exclusively of Non-Executive Directors, a majority of whom shall be independent. The Chairman-CEO and Group Finance Director are present at all Committee meetings unless the Chairman-CEO or Executive Director remuneration is under discussion respectively. The President, Human Resources and Legal, is also present at all meetings.
Mandate	Determine the quantum of compensation (including stock options) for Chairman and Executive Directors, conduct performance evaluation of Chairman and CEO, review performance evaluation of the other Executive Directors and key Executives and establish a Group Remuneration Policy

Scope	i. Determine and agree with the Board a framework for remuneration of the Chairman and Executive Directors ii. Consider targets, and benchmark principles, for any performance related pay schemes iii. Within terms of agreed framework, determine total remuneration package of each Executive Director, keeping in view; • Performance • Industry trends • Past remuneration iv. Succession planning of Key Management Personnel v. Determining compensation of Non-Executive Directors will not be under the scope of this Committee

The Human Resources and Compensation Committee as of 31st March 2017, consisted of the following.

1. Mr. D A Cabraal - Chairman
2. Mr. M A Omar
3. Dr. H Wijayasuriya

During the year 2016/17, the "Great Place to Work (GPTW)" survey was conducted across the entire Group. Following its conclusion, the Committee met with the Board to receive and discuss the resultant report.

1.2.3 The Nominations Committee of the Parent Company -JKH PLC

Composition	The Chairperson must be a Non-Executive Director. The Chief Executive Officer should be a member.
Mandate	Define and establish the nomination process for Non-Executive Directors, lead the process of Board appointments and make recommendations to the Board on the appointment of Non-Executive Directors.
Scope	i. Assess skills required on the Board given the needs of the businesses ii. From time to time assess the extent to which the required skills are represented on the Board iii. Prepare a clear description of the role and capabilities required for a particular appointment iv. Identify and recommend suitable candidates for appointments to the Board v. Ensure, on appointment to Board, Non-Executive Directors receive a formal letter of appointment specifying clearly • Expectation in terms of time commitment • Involvement outside of the formal Board meetings • Participation in Committees The appointment of Chairperson and Executive Directors is a collective decision of the Board

CORPORATE GOVERNANCE REPORT

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

1. Mr. M A Omar - Chairman
2. Ms. M P Perera
3. Dr. H Wijayasuriya
4. Mr. S C Ratnayake

The mandate of the Committee remains;

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

1.2.4 The Related Party Transaction Review Committee of the Parent Company - JKH PLC

Composition	The Chairperson must be a Non-Executive Director. Must include at least one Executive Director. The Chairman-CEO, Group Finance Director and Group Financial Controller are permanent invitees for all Committee meetings.
Mandate	To ensure on behalf of the Board that all related party transactions of JKH and its listed subsidiaries are consistent with the Code of Best Practices on Related Party Transactions issued by the SEC. Whilst the above requisitions are the minimum required by the CSE, the Group has broadened the mandate to include senior decision makers in the list of key management personnel, whose transactions with Group companies are also reviewed by the Committee.
Scope	i. Develop and recommend for adoption by the Board of Directors of JKH and its listed subsidiaries, a Related Party Transaction Policy which is consistent with the operating model and the delegated decision rights of the JKH Group. ii. Update the Board on Related Party Transactions of each of the listed companies of the Group on a quarterly basis. iii. Define and establish threshold values for each of the subject listed companies in setting a benchmark for Related Party Transactions, Related Party Transactions which have to be pre-approved by the Board, related party transactions which require to be reviewed annually and similar issues relating to listed companies.

Report of the Related Party Transaction Review Committee

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

Mr. F Amerasinghe (retired with effect from 24 June 2016)

Mr. A Cabraal

Mr. N Fonseka

Mr. S Ratnayake

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

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

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

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

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

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

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

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

P Perera
Chairperson of the Related Party Transaction Review Committee

28th April 2017

	24.05.2016	27.07.2016	24.10.2016	25.01.2017	Eligible to attend	Attended
F Amerasinghe*	X	-	-	-	1	0
A Cabraal	✓	✓	✓	✓	4	4
N Fonseka	✓	✓	✓	✓	4	4
P Perera	✓	✓	✓	✓	4	4
S Ratnayake	✓	✓	X	✓	4	3

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

CORPORATE GOVERNANCE REPORT

1.3 Role of Chairman of the Board and Separation of Chairman and CEO

Roles

The Chairman is a Non-Executive Non Independent Director. The Chairman conducts Board Meetings ensuring effective participation of all Directors. The Chairman is responsible for providing leadership to the Board and ensuring that proper order and effective discharge of Board functions are carried out at all times by the Board Members. The roles of the Chairman and the President / Chief Executive Officer (CEO) are separate with a clear distinction of responsibilities between them. The executive responsibility for the functioning of the Group's business including implementation of strategies approved by the Board and developing and recommending to the Board the business plans and budgets that support the Group's strategy has been entrusted to the CEO.

In accordance with the best practices the positions of Chairman and CEO are separated to ensure a balance of power and authority and to prevent any one individual from possessing unfettered decision making authority.

1.3.1 CEO Appraisal

The Chairman and the Non-Executive Non Independent Directors appraise the performance of the CEO of the Company and the CEO of the subsidiaries on the basis of pre agreed objectives for the Company and the subsidiaries set in consultation with the Board, covering the following aspects.

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

1.4 Group Executive Committee and Other Management Committees

The Group Executive Committee and the other Management Committees met regularly as per a time table communicated to the participants 6 months in advance. In the absence of a compelling reason, attendance at these Committee meetings is mandatory for the Committee members. All the Committees carried out their specific tasks as expected. Whilst the Chairman and Presidents are ultimately accountable for the Group and the Industry Groups, businesses and functions respectively, all decisions are taken on a committee structure as described below.

1.4.1 Group Executive Committee (GEC)

As at 31st March 2017, the 9 member GEC consisted of the Chairman-CEO, the Deputy Chairman, the Group Finance Director and the Presidents of each business/function. The GEC is the overlay structure that implements, under the leadership and direction of the Chairman-CEO, the strategies and policies determined by the Board. The GEC manages through delegation and empowerment, the business and affairs of the Group, makes portfolio decisions and prioritises the JKH Group allocation of capital, technical and human resources. A key responsibility of the members of the JKH Group GEC is to act as enablers of the operating model of the Group. The members of the JKH Group GEC are well equipped to execute these tasks and bring in a wealth of experience and diversity to the Group in terms of their expertise and exposure.

1.4.2 Group Operating Committee (GOC)

As at 31st March 2017, the 22 member GOC consisted of the Chairman , the Deputy Chairman, the Group Finance Director, the Presidents and Executive Vice Presidents. The GOC provided a forum to share learnings, and identify synergies, across Industry Groups, Sectors, Business Units and functions. The GOC meets once a month during the year and is instrumental in preserving a common group identity across diverse business units.

1.4.3 Group Management Committee (GMC)

The GMC's of the Consumer Foods and Retail sectors operate under the leadership of the respective Presidents and are dedicated and focused towards implementing strategies and policies determined by the Board and designing, implementing and monitoring the best practices in

their respective functions, strategic business units or even at departmental level where appropriate and material.

1.4.3.1 Key Objectives of the GMC

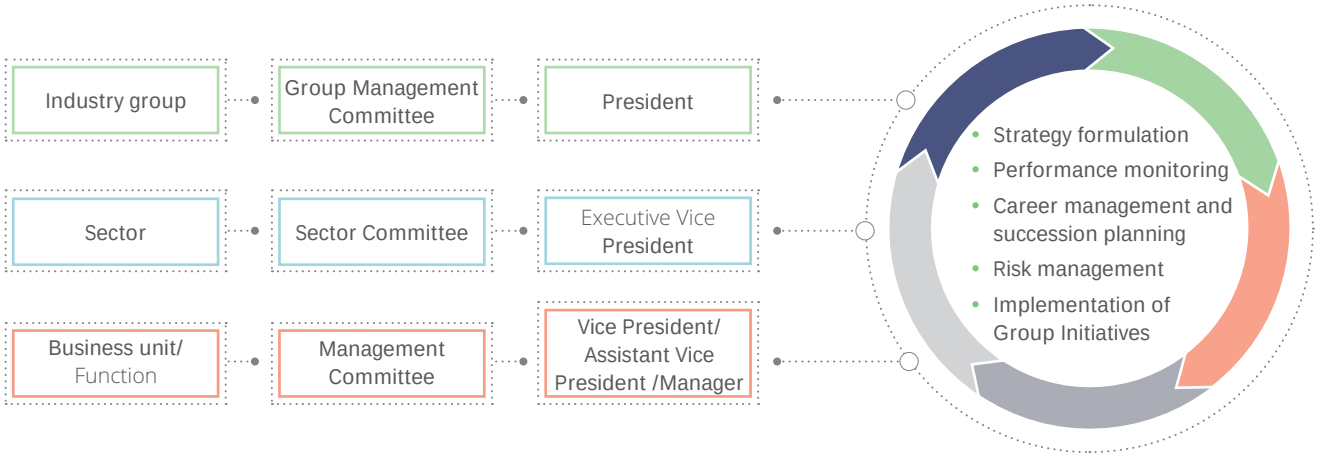
The underlying intention of the GMC is to encourage the respective business units to take responsibility and accountability to the lowest possible level, via suitably structured committees and teams in a management by objectives setting.

1.4.3.2 Scope of the GMC

The agenda of the GMC is carefully structured to avoid duplication of effort and ensures that discussions and debate are complementary, both in terms of a bottom-up and top-down flow of accountabilities and information. Responsibility and accountability of the effective functioning of the GMC is vested upon the President, the functional heads and the profit centre/function Managers as applicable.

The GMC focus is aligned to headline financial and non-financial indicators, strategic priorities, risk management, implement the strategies and policies determined by the Board, the use of IT as a tool of competitive advantage, new business development, continuous process improvements, Management of human resource and managing through delegation and empowerment, the business affairs of the respective sectors. Responsibility for monitoring and achieving plans as well as ensuring compliance with Group policies and guidelines rests with the Presidents, the functional heads and the profit centre/functional Managers where applicable.

Illustrated below is the structure of the three Committees:



1.5 Employee Empowerment

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

- Top management and other senior staff are mandated to involve, as appropriate, all levels of staff in formulating goals, strategies and plans.
- Decision rights were defined for each level of employment in order to instil a sense of ownership, reduce bureaucracy and speed-up the decision making process.
- A bottom-up approach was taken in the preparation of annual and long-term plans and the Group also ensured employee involvement in strategy, and thereby empowerment, in the process.
- Organisational and Committee structures are designed to enable and facilitate high accessibility of all employees to every level of management.
- Open, honest, frank and constructive communication was encouraged at all levels. The Group strongly believes that constructive disagreement is essential for optimal decision making.

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

2 INTEGRATED GOVERNANCE SYSTEMS AND PROCEDURES

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

i. Strategy formulation and decision making process

ii. Human resource governance, employee performance and people and talent management

iii. Integrated risk management

iv. IT governance

v. Stakeholder management and effective communications

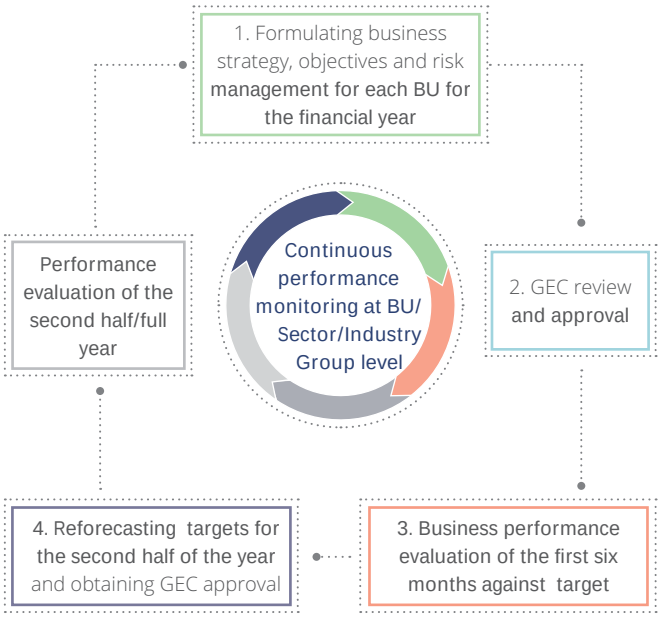
vi. Sustainability governance

2.1 Strategy Formulation and Decision Making Processes

The Group's investment appraisal methodology and decision making process ensures the involvement of all key stakeholders that are relevant to the evaluation of the decision. In this manner:

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

JKH Group's strategy formulation process -



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

2.1.1 Project Approval Process

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

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

The aforementioned project appraisal framework flow is illustrated below:

Project Appraisal Framework

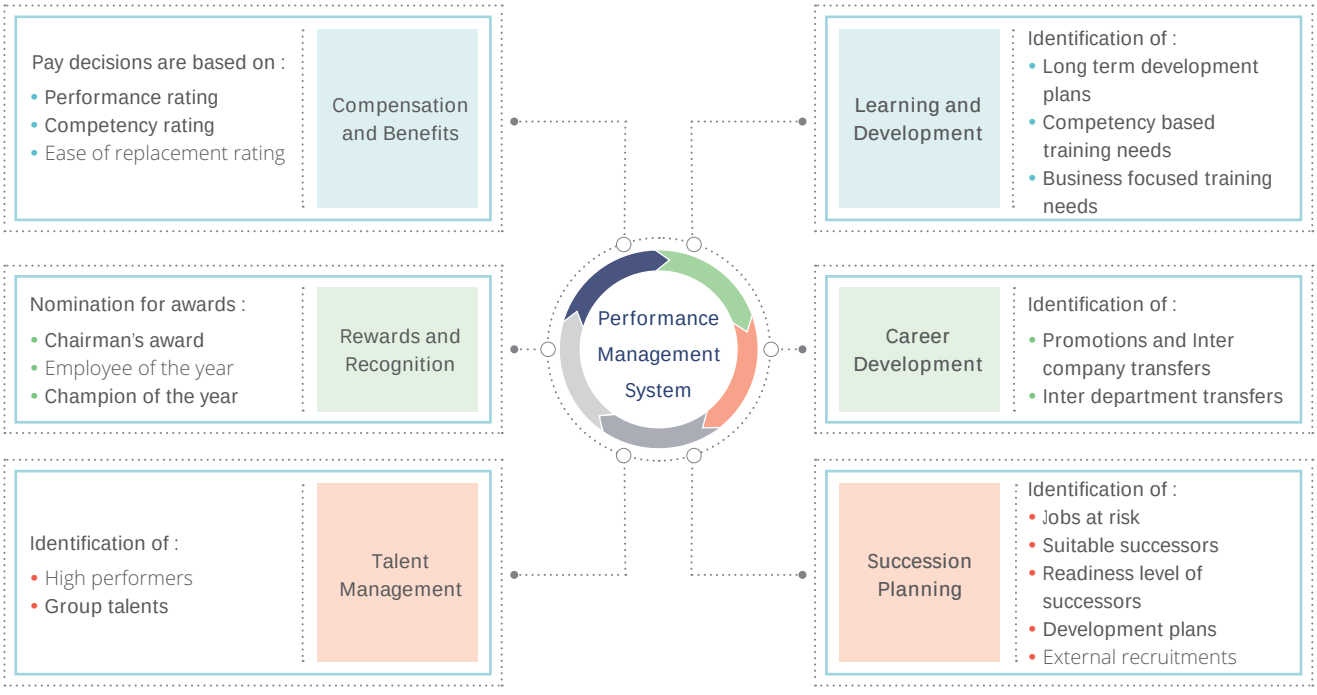
2.2 Human Resource Governance

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

2.2.1 Performance Management

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

JKH Performance Management System



CORPORATE GOVERNANCE REPORT

2.2.1.1 Succession Planning

As part of the Group's talent identification initiative, the Group has continuously introduced innovative and effective ways of unearthing promising talent.

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

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

2.2.2 Performance Based Compensation Philosophy

The JKH Group Compensation Policy is as follows:

JKH Group Compensation Policy

Performance Management

"Pay for performance"

Greater prominence is given to the incentive component of the total target compensation

Satisfaction

"More than just a workplace"

Continuously focuses on creating a sound work environment covering all aspects of employee satisfaction and engagement

Compensation Policy

- Compensation comprises of fixed (base) payments, short term incentives and long term incentives.
- Higher the authority levels within the Group, higher the incentive component as a percentage of total pay.
- Greater the decision influencing capability of a role, higher the weight given to organisational performance as opposed to individual performance.
- Long term incentives are in the form of Employee Share Options.

Internal Equity

- Remuneration policy is built upon the premise of ensuring equal pay for equal roles
- Manager and above level roles are banded using the Mercer methodology for job evaluation, on the basis of the relative worth of jobs

External Equity

- Fixed compensation is set at competitive levels using the median, 65th percentile and 75th percentile of the best comparator set of companies (from Sri Lanka and the region, as relevant) as a guide
- Regular surveys are done to ensure that employees are not under / over compensated

2.2.2.1 Equity Sharing

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

2.2.2.2 People and Talent Management

CCS Group believes that shareholders' long term interests are well served by involving employees actively in safeguarding the Corporate Governance framework, where the employees are encouraged and empowered to positively contribute towards upholding the principles of Corporate Governance. Having considered its employees as its greatest

asset, CCS Group engages employees at various levels to the Internal Governance structure and in recognition of the same, policies, processes and systems are in place to ensure effective recruitment, development and retention as CCS Group is committed to hiring, developing and promoting individuals who possess the required competencies.

Moreover, CCS Group provides a safe, secure and conducive environment for its employees, allows freedom of association and collective bargaining, prohibits child labour, forced or compulsory labour and any discrimination based on gender, race or religion, and promotes workplaces which are free from physical, verbal or sexual harassment, all of which compliment effective Corporate Governance.

2.2.2.2.1 Employee Involvement and Empowerment

- Top management and other senior staff are mandated to involve, as appropriate, all levels of staff in formulating goals, strategies and plans.
- Decision rights are defined for each level in order to instil a sense of ownership, reduce bureaucracy and speed-up the decision making process.
- A bottoms-up approach is taken in the preparation of annual and five year plans and the Group also ensures employee involvement and empowerment in the process.
- Employee relations are designed to enable and facilitate, high accessibility by all employees to every level of management.

2.3 Integrated Risk Management

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

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

- Integrating and aligning activities and processes related to planning, policies/procedures, culture, competency, internal audit, financial management, monitoring and reporting with risk management.
- Supporting executives/managers in moving the organisation forward in a cohesive, integrated and aligned manner to improve performance, while operating effectively, efficiently, ethically and legally, within the established limits for risk taking. The risk management programmes have allowed greater visibility and understanding of risk appetite.

Please refer the Enterprise Risk Management section for a detailed discussion on the Group's Integrated Risk Management process and the key risks identified in achieving the Group's strategic business objectives.

2.4 Information Technology (IT) Governance

IT Governance stewardship roles are governed through layered and nested committees, cascading from the GEC to the Group IT Management Committee to the Group IT Operation Committee with well-defined roles and responsibilities at a Group, Sector and Business Unit level.

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

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

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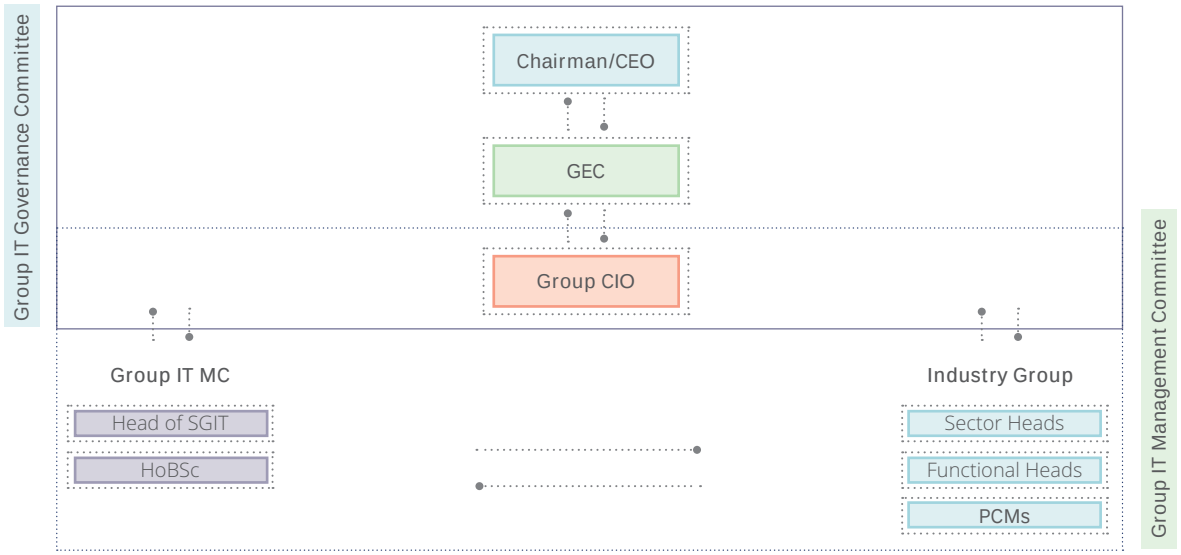
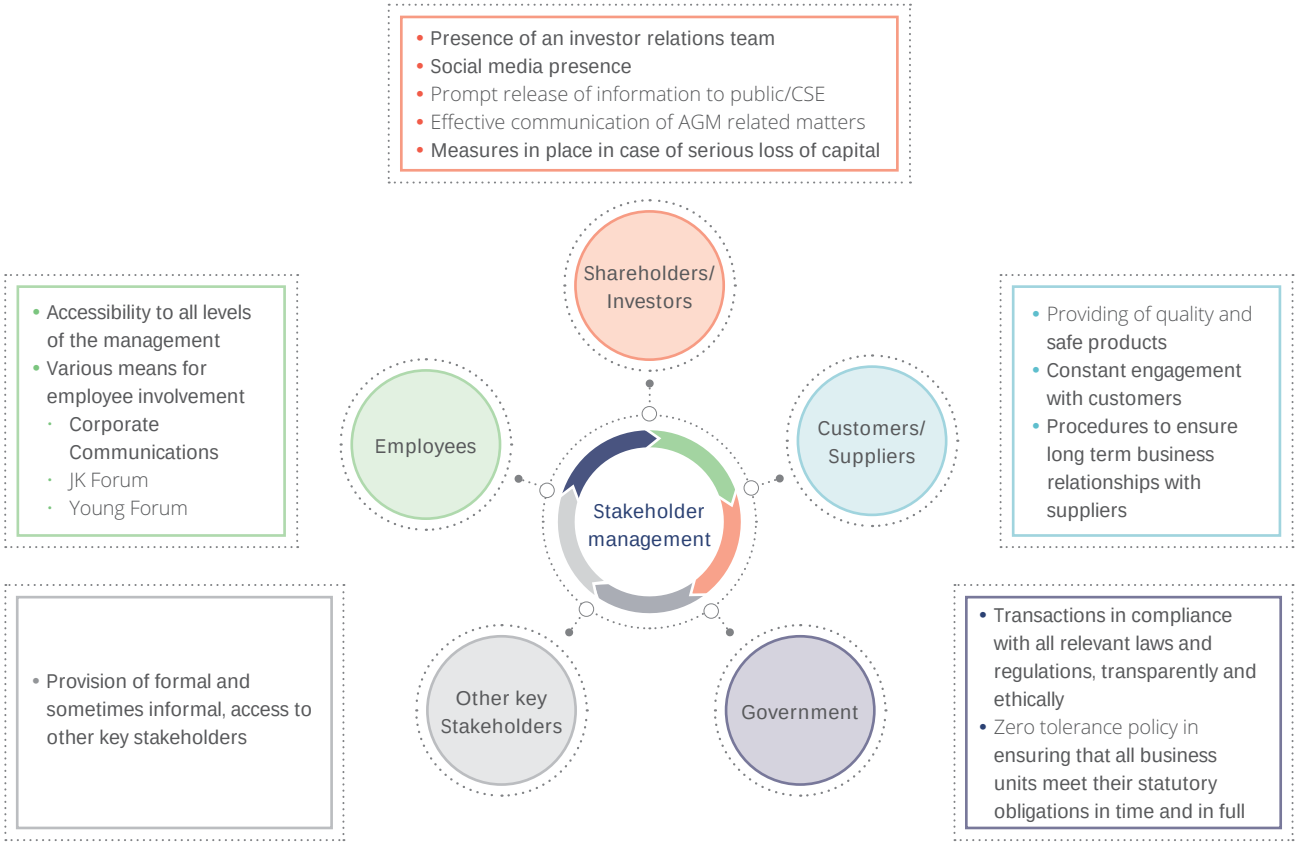
JKH Group IT Structure



2.5 Stakeholder Management and Effective Communication

Following are the key stakeholder management methodologies adopted by the Group. Please refer the strategy & Materiality and Stakeholder Engagement sections of the Annual Report for a detailed discussion.

Shareholder Management Process



2.5.1 Annual General Meeting

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

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

2.5.2 Employee Relations

HR units are designed in a manner that enables high accessibility by any employee to every level of management. Constant dialogue and facilitation are also maintained relating to work-related issues as well as matters pertaining to general interest that could affect employees and their families. Therefore, the Group follows open-door policies for its employees and key stakeholders and this is promoted at all levels of the Group. The Group also has skip level meetings where an employee can discuss matters of concern with superiors who are at a level higher than their own immediate supervisor in an open but confidential environment.

2.5.3 Channels to Reach All Shareholders of the Company

The primary modes of communication between the Company and the shareholders are through the Annual Report, Quarterly Reports and the Annual General Meeting (AGM).

The Investor Relations team has regular discussions with shareholders as and when applicable, to share highlights of the Group's performance as well as to obtain constructive feedback. Shareholders may, at any time, direct questions, request for publicly available information and provide comments and suggestions to Directors or management of the Group by contacting the Investor Relations team, Secretaries and the Senior Independent Director or the Chairman. Further, individual shareholders are encouraged to carry out adequate analysis or seek independent advice on their investing and holding or divesting decisions at all times.

2.5.4 Release of Information to the Public and CSE

The Board of Directors, in conjunction with the Audit Committee where applicable, is responsible in ensuring the accuracy and timeliness of published information and in presenting an honest and balanced assessment of results in the quarterly and annual financial statements. All other material and price sensitive information about the Company is promptly communicated to the CSE and such information is also released to employees, press and shareholders.

2.5.5 Serious Loss of Capital

In the unlikely event that the net assets of the Company fall below half of shareholder funds, shareholders would be notified and the requisite resolutions would be passed on the proposed way forward.

2.6 Sustainability Governance

Group places great importance on sustainable development. The Group believes that its financial performance and brand image are closely aligned with sound Corporate Governance practices, product and service excellence, a productive workforce, environmental stewardship and social responsibility. Please refer the Strategy & Materiality and Stakeholder Engagement section of the Report for a detailed discussion of the Group's strategy of entrenching sustainability within its business operations, and the scope and boundary of its sustainability content.

During the year under review, the distributor Management system (DMS) was further enhanced with CCS sales force being equipped with hand held devices in order to monitor online real time sales information. This will enable the company to have clear visibility of secondary sales data in order to maximize root fulfilment and outlet productivity across the country.

3 ASSURANCE MECHANISMS

The Assurance Mechanisms comprise of the various supervisory, monitoring, and benchmarking elements of the Group Corporate Governance System which are used to measure "actuals" against "plan" with a view to signalling the need for quick corrective action, when necessary. These

CORPORATE GOVERNANCE REPORT

mechanisms also act as "safety nets" and internal checks in the Governance system, which are discussed in detail in the ensuing section.

3.1 The Code of Conduct

CODE OF CONDUCT

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

3.1.2 Group Values

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

The Chairman has confirmed that there has been no instances of violation of the Code of Conduct during the year.

3.2 Independent Directors

Independent Directors represent more than one third of the Non-Executive Directors in the Board to preserve the corporate governance as stakeholders need an independent party to voice their concerns on a confidential note.

3.3 JKH Board Sub-Committees

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

3.4 Employee Participation in Assurance

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

- Skip Level meetings
- Exit interviews
- Young Forum meetings
- 360 Degree evaluation
- Employee surveys
- Monthly staff meetings
- Ombudsperson
- Continuously reiterating the "Open-Door" policy

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

3.4.1 Great Place to Work™

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

3.5 Internal Controls

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

3.5.1 Internal Compliance

A quarterly self-certification programme requires the President, Sector Head and Sector Financial Controller of the Group, to confirm compliance with statutory and other regulatory procedures, and also identify any significant deviations from the expected norms.

3.5.2 System of Internal Control

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

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

The CCS Group reviewed the Segregation of Duties (SoD) under Sarbanes-Oxley (SOX) guidelines, and developed a revised SoD matrix. During the financial year ended 31st March 2017, the Group took steps to review and streamline the roles of each user on its Enterprise Resource Planning (ERP) system. Furthermore, in line with Group digitisation initiatives, an authentication application was developed to enable a more efficient and transparent process in assigning roles to users of the ERP system.

3.5.4 Internal Audit

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

The risk review programme covering the internal audit of the whole Group is outsourced to Messrs'. PricewaterhouseCoopers (PwC) Limited, a firm of Chartered Accountants and that of the subsidiary, Jaykay Marketing Services (Pvt) Ltd is outsourced to Binder Dijker Otte (BDO) Partners – Chartered Accountants. Reports arising out of such audits are, in the first instance, considered and discussed at the business and functional unit levels, and after review by the Sector Head and the President of the industry group, are forwarded to the relevant Audit Committee on a regular basis. Further, the Audit Committees also assess the effectiveness of the risk review process and systems of internal control on a regular basis .

3.5.5 Data Analytics

Traditionally, Internal Auditing followed an approach which was based on a cyclical process that involves manually identifying control objectives, assessing and testing controls, performing tests, and sampling only a relatively small population of the data set to measure control effectiveness and operational performance. Today, the CCS Group operates in a complex and dynamic business environment where the transaction numbers have increased exponentially over the years and the traditional cyclical/sample based Internal Auditing techniques are becoming less effective. Therefore, during the year under review, the Company commenced "bigdata analysis" techniques on the total data.

3.6 Ombudsperson

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

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

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

i. The decision and the recommendations

ii. Action taken based on the recommendations

iii. Where the Chairman or the Senior Independent Director disagrees with any or all of the findings and or the recommendations thereon, the areas of disagreement and the reasons therefore In situation.

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

3.7 External Audit

M/s. Ernst & Young is the External Auditor of the Company as well as of the Subsidiaries. They also audit the consolidated financial statements of the Group.

In addition to the normal audit services, M/s. Ernst and Young and the other External Auditors also provided certain non-audit services to the Group. However, the lead/ consolidating auditor would not engage in any services which are in the restricted category as defined by the CSE for External Auditors. All such services have been provided with the full knowledge of the Audit Committee and are assessed to ensure that there is no compromise of External Auditor independence.

The Board has agreed that, such non-audit services should not exceed the value of the total audit fees charged by the subject auditor within the relevant geographic territory. The External Auditors also provide a certificate of independence on an annual basis.

The Audit and non-audit fees paid by the Company and Group to its Auditors are separately classified in the notes to the financial statements of the Annual Report.

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

4 REGULATORY AND ACCOUNTING BENCHMARKS

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

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

CCS Group is fully compliant with all the mandatory rules and regulations stipulated by the:

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

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

5 OUTLOOK AND EMERGING CHALLENGES

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

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

5.1 Gender Diversity on the Board

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

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

5.2 Board Effectiveness and Refreshment

There is increasing pressure for Boards to improve effectiveness, maintain the right combination of skills and experience, and enhance transparency and accountability. The Board strives to take a balance of the two viewpoints, of tenured Directors, with the fresh perspectives of new members. Group continues to take steps to seek Directors with great diversity of knowledge and experience in order to match boardroom talent with evolving business strategies.

5.3 Activist Investors

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

5.4 Cyber Security

Along with the organisation becoming more data driven, there is a significant increase in the organisation's reliance on technology. In such a backdrop, securing and protecting the CCS Group's most valuable assets becomes a priority. The Board accepts that the risk of a security breach needs to be continuously managed, and that one needs to be well aware of where the vulnerabilities lie. During the year under review, necessary steps have been taken to help curtail the exposure to cyber-attacks by reducing the threat surface and any potentially exploitable vulnerabilities.

5.5 Talent Risk Management

As new and complex opportunities and risks emerge with evolving strategies and growth markets, having the right people to execute on strategies is imperative for success. The Board recognises the crucial role they play in human capital matters since talent and culture are arguably the biggest drivers of innovation, growth and the ability to outperform competition. The Board will play an important role in ensuring that the leadership stays focused on building the right talent strategy. The Board will focus on how to prepare for generational transitions in their organisations and anticipate the changing dynamics at the boardroom and management levels.

5.6 Board Independence

In Corporate Governance, independence is important in a number of contexts. The Group understands the importance of the independence of External Auditors and similarly, the Company's internal audit process is conducted by outsourced parties in regular intervals, coordinated by the JKH Group Business Process Review function (GBPR) of the Group. Further Non-Executive Directors have a degree of independence from their executive colleagues on the Board. The Group will, as stated before, strike a right balance between continuous Board refreshment, which in general, is thought to facilitate independence, tenured and experienced Board members, who are perceived as having lesser independence because of their extended tenure on the Board.

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5.7 Greater Employee Involvement in Governance

The Group acknowledges, and recognises the role played by all its employees in reinforcing an effective governance system. Going forward, the Group will encourage employee participation through;

- A further strengthened performance management process
- Engagement and empowerment via greater authority
- Enhanced training and development
- Increased communication and collaboration
- Adoption of differentiated means of communication based on the age dynamics of employee segments.

6 COMPLIANCE SUMMARY

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

	CSE Rule 7.6	Compliance status	Reference in the CCS Annual Report 2016/2017
(i)	Names of persons who were Directors of the entity during the financial year	Yes	Annual report of Board of Directors
(ii)	Principal activities of the entity and its subsidiaries during the year, and any changes therein	Yes	Business Review Report, Annual Report of Board of Directors and Financial Statements
(iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Yes	Your Share in Detail
(iv)	The public holding percentage	Yes	Your Share in Detail
(v)	A statement of each Director's holding in shares of the Entity at the beginning and end of each financial year	Yes	Annual Report of Board of Directors
(vi)	Information pertaining to material foreseeable risk factors of the Entity	Yes	Enterprise Risk Management Report
(vii)	Details of material issues pertaining to employees and industrial relations of the Entity	During the year 2016/17, there were no material issues pertaining to employees and industrial relations of the CCS Group	
(viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties	Yes	Group Real Estate Portfolio
(ix)	Number of shares representing the Entity's stated capital	Yes	Your Share in Detail
(x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	Yes	Your Share in Detail
(xi)	Financial ratios and market price information	Yes	Your Share in Detail
(xii)	Significant changes in the Company's or its subsidiaries' fixed assets, and the market value of land, if the value differs substantially from the book value as at the end of the year	Yes	Notes to the Financial Statements

	CSE Rule 7.6	Compliance status	Reference in the CCS Annual Report 2016/2017
(xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules	Yes	Corporate Governance Report
(xvi)	Related Party Transactions exceeding 10 percent of the equity or 5 percent of the total assets of the Entity as per Audited Financial Statements, whichever is lower	Yes	Annual Report of Board of Directors

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

(Mandatory provisions - fully complied)

	CSE Rule	Compliance status	Reference in the CCS Annual Report 2016/17
7.10	**Compliance**		
a./ b./ c.	Compliance with Corporate Governance Rules	Yes	CCS is in full compliance with the Corporate Governance Rules. Any deviations are explained where applicable
7.10.1	Non-Executive Directors (NED)		
a./ b./ c.	At least two members or one third of the Board, whichever is higher should be NEDs	Yes	7 out of the 8 Board members are NEDs. CCS is conscious of the need to maintain an appropriate mix of skills and experience in the Board and to refresh progressively its composition over time in line with needs
7.10.2	Independent Directors		
a.	Two or one third of NEDs, whichever is higher shall be "independent"	Yes	4 out of the 7 NEDs are independent
b.	Each NED to submit a signed and dated declaration of his/her independence or non-independence	Yes	Independence of the Directors has been determined in accordance with CSE Listing Rules, and all 4 Independent NEDs have submitted signed confirmation of their independence
7.10.3	Disclosures Relating to Directors		
a./ b.	Board shall annually determine the independence or otherwise of NEDs	Yes	Each NED discloses a formal declaration to the Board of all their interests on an annual basis
c.	A brief resume of each Director should be included in the annual report including the Directors' experience	Yes	Annual Report of Board of Directors
d.	Provide a resume of new Directors appointed to the Board along with details	Yes	Board of Directors
7.10.4	Criteria for Defining Independence		
a. to h.	Requirements for meeting the criteria to be an Independent Director	Yes	Corporate Governance Report - Section - Managing Conflicts of Interests and Ensuring Independence

CORPORATE GOVERNANCE REPORT

	CSE Rule	Compliance status	Reference in the CCS Annual Report 2016/17
7.10.5 Remuneration Committee			
a.	Remuneration Committee shall comprise of NEDs, a majority of whom will be independent	Yes	The Human Resources and Compensation Committee of the Parent Company JKH only comprises of Independent NEDs
	One NED shall be appointed as Chairman of the Committee by the Board of Directors	Yes	The Senior Independent NED of the Parent is the Chairman of the Committee
b.	Remuneration Committee shall recommend the remuneration of the Executive Directors	Yes	The Remuneration of the President and the Executive Directors of the Company and that of the President and CEO of the subsidiary are determined as per the remuneration principles of the JKH Group, and as recommended by the Human Resources and Compensation Committee
C	The Annual Report should disclose: (i) The names of Remuneration Committee members	Yes	Corporate Governance Report - The Human Resources and Compensation Committee
	(ii) A Statement of Remuneration policy	Yes	Corporate Governance Report - The Human Resources and Compensation Committee
	(iii) The aggregate remuneration paid to Executive and Non-Executive Directors	Yes	Annual Report of the Board of Directors
7.10.6 Audit Committee			
a.	Audit Committee (AC) shall comprise of NEDs, a majority of whom should be independent	Yes	The Audit Committee comprises only of Independent NEDs
	A NED shall be appointed as Chairman of the committee	Yes	The Chairman of the Audit Committee is an Independent NED
	CEO and CFO shall attend Audit Committee meetings	Yes	The President/ CEO, Chief Financial Officer, and the Sector Financial Controller are permanent invitees to all Audit Committee meetings
	The Chairman or one member of the Audit Committee should be a member of a professional accounting body	Yes	The Chairman of the Audit Committee and another member is a member of a professional accounting body
b.	The Functions of the Audit Committee as set in the CSE Listing Rules 7.10.6		
	i. Overseeing the preparation, presentation and adequacy of disclosures in the financial statements in accordance with SLFRS/LKAS	Yes	The Audit Committee Report
	ii. Overseeing compliance with financial reporting requirements, and information requirements as per laws and regulations	Yes	The Audit Committee Report

	CSE Rule	Compliance status	Reference in the CCS Annual Report 2016/17
	iii. Ensuring the internal and risk management controls are adequate, to meet the requirements of the SLFRS/LKAS	Yes	The Audit Committee Report
	iv. Assessment of the independence and performance of the Entity's External Auditors	Yes	The Audit Committee Report.
	v. Make recommendations to the Board pertaining to External Auditors	Yes	The Audit Committee Report
C.	Names of Audit Committee members shall be disclosed	Yes	The Audit Committee Report
	Audit Committee shall make a determination of the independence of the external auditors	Yes	The Audit Committee Report
	Report on the manner in which Audit Committee carried out its functions.	Yes	The Audit Committee Report

6.3 Companies Act No. 7 of 2007

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

CORPORATE GOVERNANCE REPORT

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

Voluntary provisions - fully complied

A. Directors

	Rule	Compliance Status	Reference in the CCS Annual Report 2016/17
A.1	**The Board**		
A.1.1	Need for the Board to meet regularly	Yes	Corporate Governance Report - Board Meetings
A.1.2	The Board's should be responsible for matters including implementation of business strategy, skills and succession of the management team, integrity of information, internal controls and risk management, compliance with laws and ethical standards, stakeholder interests, adopting appropriate accounting policies and fostering compliance with financial regulations and fulfilling other Board functions	Yes	Corporate Governance Report - Strategy Formulation and Decision Making Processes
A.1.3	Act in accordance with the laws of the country and obtain independent professional advice where necessary, at the Company's expense	Yes	Corporate Governance Report - The Board of Directors
A.1.4	All Directors should have access to the advice and services of the Company Secretary	Yes	Corporate Governance Report - The Board of Directors
A.1.5	All Directors should bring independent judgment	Yes	Corporate Governance Report - The Board of Directors
A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and Company	Yes	Corporate Governance Report - The Board of Directors
A.1.7	Board induction and training	Yes	Corporate Governance Report - The Board of Directors
A.2	**Chairman and Chief Executive Officer (CEO)**		
A.2.1	Division of responsibilities between the Chairman and CEO.	Yes	Corporate Governance Report - The Board of Directors
A.3	**Chairman's Role**		
A.3.1	The Chairman should ensure Board proceedings are conducted in a proper manner	Yes	Corporate Governance Report - The Board of Directors
A.4	**Financial Acumen**		
A.4.1	The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	Yes	Corporate Governance Report - The Board of Directors
A.5	**Board Balance**		
A.5.1	In the event the Chairman and CEO is the same person, NEDs should comprise a majority of the Board	N/A	N/A

	Rule	Compliance Status	Reference in the CCS Annual Report 2016/17
A.5.2	Where the constitution of the Board of Directors includes only two NEDs, both such NEDs should be "independent"	N/A	N/A
A.5.3	Definition of Independent Directors	Yes	Corporate Governance Report - The Board of Directors
A.5.4	Declaration of Independent Directors	Yes	Corporate Governance Report - The Board of Directors
A.5.5	Board determinations on independence or non-independence of NEDs	Yes	Corporate Governance Report - The Board of Directors
A.5.6	If an Alternate Director is appointed by a NED such Alternate Director should not be an Executive of the company	N/A	N/A
A.5.7	In the event the Chairman and CEO is the same person, the Board should appoint one of the Independent NEDs to be the "Senior Independent Director" (SID)	N/A	N/A
A.5.8	The SID should make himself available for confidential discussions with other Directors who may have concerns	Yes	
A.5.9	The Chairman should hold meetings with the NEDs only, without the presence of EDs	Yes	The Chairman-CEO conducts direct discussions with the Non-Executive Directors at meetings. Issues arising from these discussions are taken up for consultation with the relevant parties
A.5.10	Where Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should ensure their concerns are recorded in the Board minutes	Yes	Corporate Governance Report - The Board of Directors
A.6	**Supply of Information**		
A.6.1	Management should provide the Board with appropriate and timely information	Yes	Corporate Governance Report - The Board of Directors
A.6.2	Timely submission of the minutes, agenda and papers required for the Board Meetings	Yes	Corporate Governance Report - The Board of Directors
A.7	**Appointments to the Board**		
A.7.1	Nomination Committee to make recommendations on new Board appointments	Yes	Corporate Governance Report - The Board of Directors
A.7.2	Assessment of the capability of the Board to meet strategic demands of the company	Yes	The Board works closely with the Nominations Committee to assess the skills required on the Board, given the needs of the businesses. In the event a "skills gap" is identified, a formal document stating a clear description of the role and required capabilities is prepared. Following this, the Committee identifies and recommends suitable candidates.
A.7.3	Disclosure of new Board member profiles and interests	Yes	Board of Directors

CORPORATE GOVERNANCE REPORT

	Rule	Compliance Status	Reference in the CCS Annual Report 2016/17
A.8	**Re-Election**		
A.8.1	Non-Executive Directors should be appointed subject to re-election and to the provisions in the Companies Act relating to the removal of a Director	Yes	All Non-Executive Directors are appointed for a period of three years, and are eligible for re-election by shareholders Non-Executive Directors can serve up to a maximum of three successive terms unless an extended Board tenure is necessitated by the exigencies of the Group
A.8.2	All Directors including the Chairman, should be subject to election by shareholders at the first opportunity after their appointment	Yes	All Directors are subject to re-election by the shareholders at the nest AGM after their appointment.
A.9	**Appraisal of Board Performance**		
A.9.1	The Board should annually appraise itself on its performance in the discharge of its key responsibilities	Yes	Corporate Governance Report - The Board of Directors
A.9.2	The Board should also undertake an annual self-evaluation of its own performance and that of its Committees	Yes	Corporate Governance Report - The Board of Directors
A.9.3	The Board should state how such performance evaluations have been conducted	Yes	Each member self-appraises, the performance of the Board. The scoring and open comments are collated by an Independent Director, and the results are analysed to give the Board an indication of its effectiveness as well as areas that required addressing and/or strengthening
A.10	**Disclosure of Information in Respect of Directors**		
A.10.1	Profiles of the Board of Directors and Board meeting attendance	Yes	Corporate Governance Report - The Board of Directors
A.11	**Appraisal of the Chief Executive Officer**		
A.11.1/ A.11.2	Appraisal of the CEO against the set strategic targets	Yes	Corporate Governance Report - The Board of Directors
B	**Directors Remuneration**		
B.1	**Remuneration Procedure**		
B.1.1	The Board of Directors should set up a Remuneration Committee	Yes	Corporate Governance Report - Board Sub Committees

	Rule	Compliance Status	Reference in the CCS Annual Report 2016/17
B.1.2	Remuneration Committees should consist exclusively of NEDs	Yes	Corporate Governance Report - Board Sub Committees
B.1.3	The Chairman and members of the Remuneration Committee should be listed in the Annual Report each year	Yes	Corporate Governance Report - Board Sub Committees
B.1.4	Determination of the remuneration of Non-Executive Directors	Yes	Corporate Governance Report - The Board of Directors
B.1.5	The Remuneration Committee should consult the Chairman-CEO about its proposals relating to the remuneration of other Executive Directors	Yes	Corporate Governance Report - The Board of Directors
B.2	**The Level and Make Up of Remuneration**		
B.2.1	The Remuneration Committee should provide the packages needed to attract, retain and motivate Executive Directors	Yes	The Committee determines the total remuneration package of the Executive Director in line with market trends, performance and past remuneration
B.2.2	The Remuneration Committee should judge where to position levels of remuneration of the Company, relative to other companies.	Yes	The Human Resources and Compensation Committee understands the value of retaining high calibre talent within the organisation and thus determines a framework for remuneration based on industry trends
B.2.3	The Remuneration Committee should be sensitive to remuneration and employment conditions elsewhere in the Company or Group	Yes	The "pay for performance" scheme is monitored and the CEO and President of Human Resources brief the Human Resources and Compensation Committee regularly on employee compensation
B.2.4	The performance-related elements of remuneration of Executive Directors should be designed to align their interests with those of the Company and main stakeholders	Yes	The remuneration of Executive Directors has a significant element which is variable, linked to the expected return of shareholder funds and the peer adjusted consolidated group bottom line to give these Directors the appropriate incentives to perform at highest levels.
B.2.5	Executive share options should not be offered at a discount	N/A	N/A
B.2.6	Designing schemes of performance-related remuneration	Yes	The Human Resources and Compensation Committee considers targets, and benchmark principles for any performance related pay schemes
B.2.7	Compensation commitments in the event of early termination of the Directors	Yes	Corporate Governance - Board of Directors
B.2.8	Level of remuneration of NEDs	Yes	Corporate Governance - Board of Directors
B.3	**Disclosure of Remuneration**		
B.3.1	Disclosure of remuneration policy and aggregate remuneration		The aggregate remuneration paid to Executive and Non-Executive Directors is Rs. 68.5 million

CORPORATE GOVERNANCE REPORT

	Rule	Compliance Status	Reference in the CCS Annual Report 2016/17
C.	**Relations with Shareholders**		
C.1	**Constructive Use of the Annual General Meeting and Conduct of General Meetings**		
C.1.1	Counting of proxy votes	Yes	Complied at the Annual General Meeting (AGM)/Extraordinary General Meeting (EGM)
C.1.2	Separate resolution to be proposed for each substantially separate issue and adoption of annual report and accounts	Yes	The Group ensures that separate resolutions are proposed for each issue that is taken up at the AGM and shareholders are given an opportunity to vote on each issue separately
C.1.3	Heads of Board Sub-Committees to be available to answer queries	Yes	The Chairmen of the Audit Committee is available to answer all shareholder queries
C.1.4	Notice of Annual General Meeting to be sent to shareholders with other papers	Yes	Notice of the AGM and related documents are sent to the shareholders along with the Annual Report 30 days prior to meeting
C.1.5	Procedures governing voting at General Meetings to be informed.	Yes	The Group ensures that a summary of procedures governing voting is sent to the shareholders, along with every notice of a general meeting
C.2	**Communication with Shareholders**		
C.2.1	Channel to reach all shareholders of the company to disseminate timely information.	Yes	Corporate Governance Report - Stakeholder management and effective communications
C.2.2	Disclose the policy and methodology of communication with shareholders	Yes	The Group focuses on open communication and fair disclosure, with emphasis on integrity, timeliness, relevance. The Group announcements are made to the CSE, SEC, and the press as and when appropriate
C.2.3	Disclose how the above policy is implemented	Yes	Information is provided to shareholders prior to the AGM to give them an opportunity to raise any issues relating to the businesses of the Group. Shareholders are provided with the Annual Report of CCS in CD form and may at any time elect to receive it in printed form, free of charge Announcements to the CSE and SEC are directed to the said bodies as and when required, while adhering to established protocol
C.2.4	Disclose the contact person for such disclosure	Yes	Questions, comments and requests are addressed to the Company Secretary

	Rule	Compliance Status	Reference in the CCS Annual Report 2016/17
C.2.5	Awareness of Directors on major issues and concerns of shareholders	Yes	Shareholders may, at any time, direct questions, and provide comments and suggestions to Directors or management of the Group by contacting the Secretaries or the Chairman. The Investor Relations team of JKH also contributes towards keeping the Board informed of shareholder concerns
C.2.6	Contact person for shareholders	Yes	Shareholders can contact the Company Secretary for queries and in addition, the management for maintaining dialogues and discussions with shareholders to share highlights of the Group's performance as well as to obtain constructive feedback
C.2.7	Process for responding to shareholders	Yes	The Group has a communication policy approved by the Board
C.3	**Major And Material Transactions**		
C.3.1	Disclosure of all material facts involving all material transactions including related party transactions	Yes	There were no major or material transactions that materially affected the Group's asset base
D.	**Accountability and Audit**		
D.1	**Financial Reporting**		
D.1.1	The Board should present interim and other price-sensitive public reports to regulators.	Yes	The Board of Directors, in conjunction with the Audit Committee, is responsible to ensure the accuracy and timeliness of published information and in presenting an honest and balanced assessment of results in the quarterly and annual financial statements. All price sensitive information about the Group is promptly communicated to the CSE and such information is also released to employees, the press and shareholders. The Group ensures that information is communicated accurately and in such a way as to avoid the creation, or continuation of a false market
D.1.2	The Directors' Report, which forms part of the Annual Report, should contain declarations by the Directors	Yes	The Annual Report of the Board of Directors
D.1.3	The Annual Report should contain statements by Directors and Auditors on responsibilities towards financial reporting	Yes	The Statement of Directors' Responsibility The Independent Auditors' Report
D.1.4	The Annual Report should contain a Management Discussion and Analysis section.	Yes	Business Review

CORPORATE GOVERNANCE REPORT

	Rule	Compliance Status	Reference in the CCS Annual Report 2016/17
D.1.5	The Directors should report that the business is a going concern	Yes	Annual Report of Board of Directors
D.1.6	In the event of a serious loss of capital the Directors shall summon an extraordinary general meeting to notify the shareholders of the position	Yes	Annual Report of Board of Directors
D.1.7	The Board should adequately and accurately disclose Related Party Transactions in its Annual Report	Yes	Notes to the Financial Statements
D.2	**Internal Control**		
D.2.1	The Directors should conduct a review of internal controls at least annually	Yes	Corporate Governance - Internal Control
D.2.2	Companies should have an Internal Audit function	Yes	Corporate Governance - Internal Control
D.2.3	The Audit Committee should review the process and effectiveness of risk management and internal controls	Yes	Corporate Governance - Internal Control
D.2.4	Responsibilities of Directors in maintaining a sound system of internal control and content of Statement of Internal Control	Yes	Corporate Governance - Internal Control
D.3	**Audit Committee**		
D.3.1	The Audit Committee should be comprised of a minimum of two independent NEDs or exclusively by NEDs, a majority of whom should be independent, whichever is higher	Yes	Corporate Governance – Audit Committee
D.3.2	The duties of the Audit Committee should include keeping under review the scope and results of the audit and the independence and objectivity of the auditors.	Yes	Corporate Governance - Audit Committee
D.3.3	The Audit Committee should have a written Terms of Reference, dealing clearly with its authority and duties	Yes	Corporate Governance - Audit Committee
D.3.4	Disclosure of the Audit Committee Report and memberships	Yes	Audit Committee Report
D.4	**Code of Business Conduct and Ethics**		
D.4.1	Availability of a Code of Business Conduct and Ethics	Yes	Corporate Governance - The Code of Conduct
D.4.2	The Chairman must certify that he/she is not aware of any violation of any of the provisions of this Code	Yes	Corporate Governance - The Code of Conduct
D.5	**Corporate Governance Disclosures**		
D.5.1	The Directors should include in the Company's Annual Report, a Corporate Governance Report	Yes	A Corporate Governance Report, setting out the manner and extent to which the Company has complied, has been included

	Rule	Compliance Status	Reference in the CCS Annual Report 2016/17
E.	**Institutional Investors**		
E.1	**Shareholder Voting**		
E.1.1	Need to conduct regular and structured dialogue with shareholders based on a mutual understanding of objectives	Yes	The Group communicates with its shareholders via announcements made to the CSE, Annual Reports, Quarterly Reports, and the AGM. The Investor Relations team is primarily responsible for such activities
E.2	**Evaluation of Governance Disclosures**		
E.2	When evaluating Companies' governance arrangements, particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention	Yes	The Group prides itself in its widely acclaimed approach to Corporate Governance and as such, encourages investors of all types to give weight to all relevant factors brought to their attention
F.	**Other Investors**		
F.1	**Investing /Divesting Decision**		
F.1	Individual shareholders investing directly in shares of companies should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions	Yes	The Company has regular discussions with shareholders as and when applicable, to share highlights of the Group's performance
F.2	**Shareholder Voting**		
F.2	Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights	Yes	The Group encourages all shareholders to participate in the AGM/EGM, and exercise their voting rights
G.	**Sustainability Reporting**		
G. 1	**Principles of Sustainability Reporting**		
G.1.1– G.1.7	Disclosure on adherence to sustainability principles	Yes	The Group places great importance on sustainable development. During the 2016/17 financial year, the Group took steps to realign its approach to sustainability to support the Sustainable Development Goals adopted by the United Nations in 2015

ENTERPRISE RISK MANAGEMENT

The underlying premise of Enterprise Risk Management practiced in the Group is to provide value for its stakeholders. The Group faces uncertainty and challenges in its operating environment and such uncertainty presents risks as well as opportunities, with the potential to erode or enhance value for the stakeholders. Enterprise Risk Management enables management to effectively deal with uncertainty and associated risks whilst trying to create value through capitalising on business opportunities.

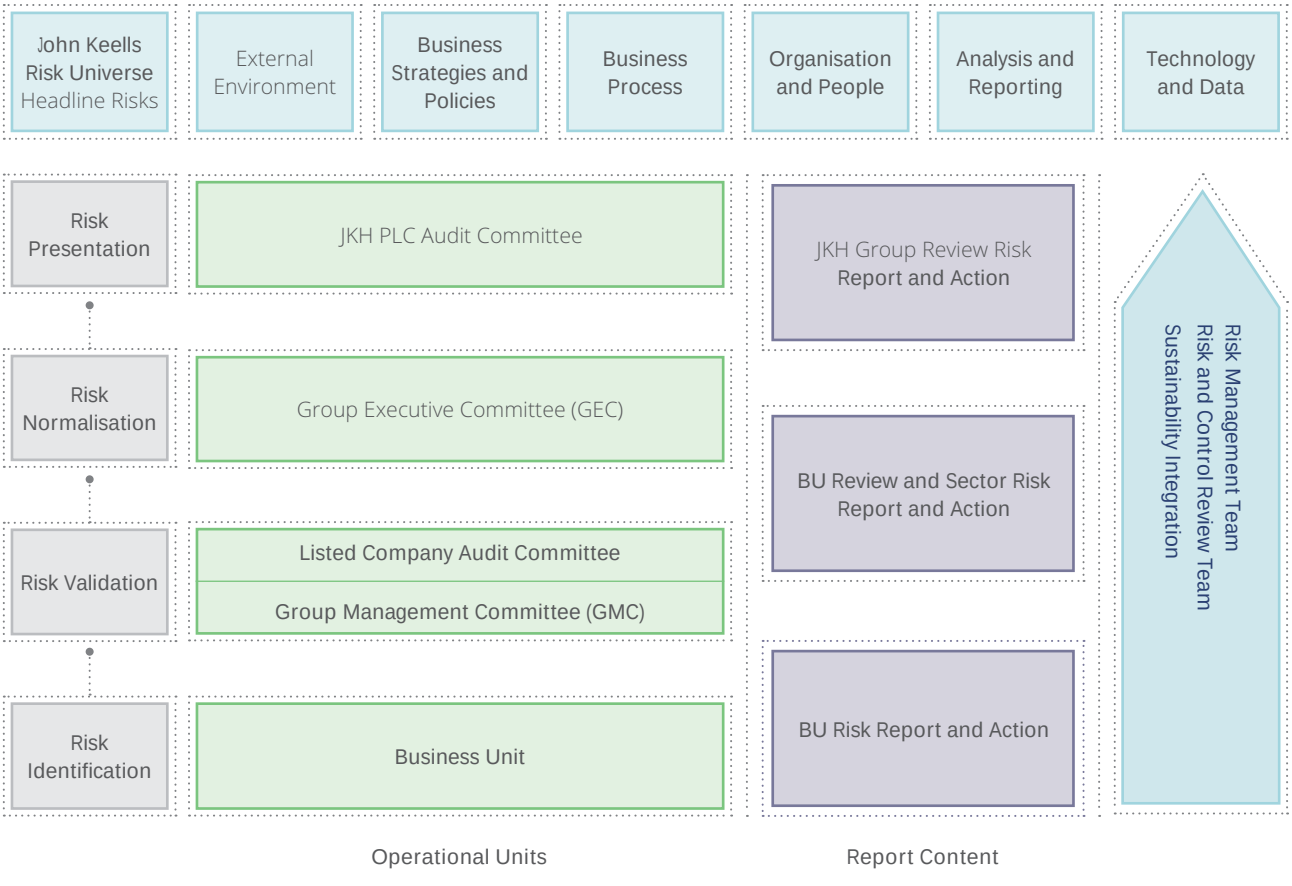
Risk management is an integral part of the strategic decision making process. The annual Risk Management cycle begins with a detailed discussion and identification of risks, impacts and preventive, detective and corrective mitigation plans in conjunction with the John Keells Group enterprise Risk Management (ERM) division. Risks are identified and assessed through a Risk Control Self- Assessment (RCSA) document of the John Keells Group. The Company rates its level of risk for each identified risk event using an evaluation of the expected severity of impact of the risk event, the likelihood of its occurrence and the velocity of impact of the risk event, which is the speed at which the risk event will impact the Company. The Company carries out quarterly Risk reviews and ensure the Risk review process is an ongoing robust system in sync with changing risk environment.

Individual Business units are the ultimate owners of its risks and are responsible for reviewing their RCSA forms on a quarterly basis. Identified risks are then validated at the Group Management Committees and presented to the Audit Committee on bi-annual basis. The risk management cycle is concluded with the distribution of a Group Risk Report containing risk profiling and analysis to the John Keells Group Audit Committee.

The outcomes of the Company risk review is considered by the JKH ERM division in consolidating risks for the John Keells Group.

The risk management process and information flow adopted by JKH Group is depicted below in table 1.

TABLE 1- JKH GROUP RISK MANAGEMENT PROCESS



The ERM Framework adopted by the John Keells Group and implemented by the Company and the Subsidiaries involves following three steps:

i. Identification of Types of Risk

A Risk event - Any event with a degree of uncertainty which, if it occurs, may result in the Organisation or Business Unit failing to meet its stated objectives.

Core Sustainability Risks - Core Sustainability Risks are defined as those risks having a catastrophic impact to and from the organisation, but may have a very low or nil probability of occurrence.

ii. Establishment of Risk Grid with Likelihood of Occurrence and Severity of Impact

Using JKH Group Guidelines, a risk grid is established for the Company and the Subsidiaries. Every risk is analysed in terms of Likelihood of Occurrence and Severity of Impact assigning a number ranging from 1 (low probability/impact) to 5 (high probability/impact) to signify the probability of occurrence and the level of impact to the organisation.

Please see Table 2 for further details.

iii. Establishment of Level of Risk based on the Risk Grading Grid

Based on the values assigned for each individual risk, using the matrix given in Table 2, a level of risk is established by multiplying the Likelihood of Occurrence with Severity of Impact.

TABLE 2- GUIDELINE FOR RATING RISKS

Impact /Severity		Rare/Remote to occur (1)	Unlikely to occur (2)	Possible to occur (3)	Likely to occur (4)	Almost certain to occur (5)
Catastrophic/ Extreme Impact	5	5	10	15	20	25
Major/ Very High Impact	4	4	8	12	16	20
Moderate/ High Impact	3	3	6	9	12	15
Minor Impact	2	2	4	6	8	10
Low/ Insignificant Impact	1	1	2	3	4	5

Occurrence/Likelihood

Priority Level	1	2	3	4	5
Colour Code	Ultra high	High	Medium	Low	Insignificant
Score	15-25	9-14	4-8	2-3	1

ENTERPRISE RISK MANAGEMENT

REVIEW OF THE RISKS IDENTIFIED USING RISK FRAMEWORK BY THE COMPANY

It is the responsibility of the President/CEO to ensure that each risk item is tracked over the course of the year and that the mitigation actions identified during the risk review process are being carried out adequately. This results in a dynamic risk document that is updated based on internal and external environment.

All risks are validated at the Company level by the Company Management Committees and risks are profiled, analysed and reported to the Audit Committee of the Group on a bi-annual basis.

SUSTAINABLE RISK MANAGEMENT

Risk Management process of the Group is intrinsically interwoven with sustainability and CSR and forms the foundation for the engagements with internal and external Stakeholders. The Risk Management process extends to its value chain as the Group seeks a holistic approach of management and mitigation of risk entrenching it with Global Reporting Initiative (GRI) indicators and guidelines. Risk Management is therefore extends beyond managing the operational and financial risk faced by the Company and encompasses macro-economic, environmental, community, employees, value chain and other risks related to the triple bottom-line approach of the Company.

RISK MANAGEMENT DURING THE REPORTING YEAR

The Enterprise Risk Management cycle begins during the second quarter of the year with the annual risk review of all Business Units. The John Keells Group's Enterprise Risk Management (ERM) Division assisted the heads of Business Units and the respective heads of Departments to comprehensively assess, rate and set mitigation plans for any structural, operational, financial and strategic risks relevant to each Business Unit, based on past information and horizon scanning.

All high level risks and Core Sustainability Risks were then reviewed by the Company Management Committee headed by the President of the Industry Group as a means of validating the risk process at Business Unit level. The significant risk areas that impacts the achievement of the strategic business objectives of the Group and the measures taken to address these risks are discussed below.

RISK UNIVERSE

The Risk Universe is the categorisation of each risk identified and analysed into six broad themes as defined by the John Keells Group. The Risk Universe of the Company and the Subsidiary is tabulated in the Table 3.

TABLE 3 – RISK UNIVERSE – CCS GROUP

External Environment	Business Strategies and Policies	Business Process	Organisation and People	Analysing and Reporting	Technology and Data
Political	Reputation and Brand Image	Internal Business Process	Leadership	Performance Measurement and Reporting	Technology Infrastructure, Architecture
Competitor	Capital and Finance	Operations – Planning, Production and Process	Skills/ Competency/ Motivation	Budgeting, Financial Planning	Data Relevance and Integrity
Catastrophic Loss	Strategy and Innovation	Strategy and Operations – Technology, Design, Execution and Continuity	Change Readiness	Accounting, Tax Information	Data Processing Integrity
Customer Expectations	Business/Product Portfolio	Resource, Capacity and Allocation	Communication	External Reporting and Disclosures	Technology Reliability and Recovery

External Environment	Business Strategies and Policies	Business Process	Organisation and People	Analysing and Reporting	Technology and Data
Macro Economic	Organisation Structure	Vendor/Partner Reliance	Performance Incentives	Pricing , Margins	IT Security
Foreign Exchange and Interest Rates	Stakeholders	Channel Effectiveness	Accountability	Market Intelligence	IT Processes
Weather and Climate	Investment, Mergers and Acquisitions	Interdependency	Fraud and Abuse	Contract Commitment	Cyber Risk
	Environment, Health and Safety	Customer Satisfaction	Knowledge, Intellectual Capital	Insurable Risks	
		Legal, Regulatory Compliance and Privacy	Change Integration		
		Innovation	Labour Relations		
		Property and Equipment Damage	Attrition		
		Liability			

1. Macro-Economic Environment, Changes in Interest Rates, Exchange Rates, Taxes and Tariffs

The macro economic factors, interest rates, exchange rates, taxes and tariffs have a direct impact on cost and consumer spending which can reduce the sales and increase the costs of the Company.

For CCS the cost of production is largely dependent upon the cost of raw materials sourced from overseas suppliers and the exchange rate impact, duties and taxes imposed on imported raw material will have an impact on cost. In the case of JMSL, negative impacts from unexpected changes in tariffs, government policies and regulatory requirements which cannot be passed on to the customer can affect the profitability.

We have addressed this risk by continuous review of macro-economic conditions and consumer behaviours through market surveys, development of alternative suppliers for raw materials, lobbying for stable government policies by maintaining ongoing dialogue with the government policies, taxes and levies along with other market players.

The Company's policy is to manage its interest rate risk using a mix of fixed and variable rate debt taking advantage of the changes in the market rates and forward booking for imports to hedge against exchange rate fluctuations. Guidance received from JKH Group Treasury division with respect to forecasting of exchange rates, interest rates etc has been of immense value in management of this interest risk exposure.

Risk item	Headline Risk	2016/17 Risk Rating	2015/16 Risk Rating
Macro - Economic Environment, Changes in Interest Rates, Exchange Rates, Taxes and Tariffs	External Environment	High	High

ENTERPRISE RISK MANAGEMENT

2. Product Liability

For CCS, Product Liability which can arise due to faults in the product is a core risk. The Company has taken several steps over the years to mitigate this risk that includes certifying the manufacturing processes in ISO 9001(2008) and ISO 22000, comprehensive quality assurance processes, adherence to Good Manufacturing Practices (GMP) and Food Safety Standards, compliance to all Consumer Affairs Authority rules and regulations, and other statutory regulations. Further, the Company has established a hotline to receive complaints/suggestions and an internal mechanism is in place to promptly address such communications. The company possesses comprehensive product traceability and product recall processes in case of an event warranting such actions.

For JMSL, erosion of brand value due to food poisoning and expired items on shelf is a core risk. Expiry tracking process, daily Chiller/Freezer temperature monitoring, routine inspections by Freshness Officers and Store Managers on quality and freshness of fresh produce, sharing the best practices of "quality management" with the suppliers for poultry and seafood items, systematic monitoring of all customer complaints by the management, regular internal audits to monitor compliance to laid down procedure, and continuous training and education of the staff are the mitigation strategies adopted by the Company.

Risk item	Headline Risk	2016/17 Risk Rating	2015/16 Risk Rating
Product Liability Risk	Business Process	Medium	Medium

3. Natural Disasters and Fire

The Company's manufacturing facilities are exposed to the risk of a catastrophic fire or a natural disaster which may render the facility inoperable for a significant period of time. Although the likelihood of such an event is low, the impact would be significant to the Company. We mitigate this risk by having the right processes to minimise the risk of fire, infrastructure to detect and extinguish fires, carrying out periodic fire drills being registered with the fire brigade for a quick response and third party audits on fire safety. In addition to the above, the Company has a comprehensive Business Continuity Plan (BCP) to face such extreme events and adequate insurance covers.

For JMSL, this risk is indeed diluted as the stores are spread across a wide geographical area. Nevertheless, each store and the central warehouse of the Company have the right infrastructure to extinguish fires and all facilities are covered under business interruption insurance.

Risk item	Headline Risk	2016/17 Risk Rating	2015/16 Risk Rating
Product Liability Risk	Business Process	Medium	Medium

4. Price Volatility of Raw Materials

The Company's manufacturing costs are largely dependent upon the cost of raw materials sourced. In the recent past, the Company has seen significant price volatility in the world market as well as in the local market in respect to certain key ingredients. We have mitigated some of the risks associated with price volatility as well as availability by entering into long term agreements for key ingredients and substitutes, where possible, with local materials without compromising the quality. Further, we have built a strong relationship with farmer communities and other local suppliers through our CSR initiatives to ensure continuous supply at stable price levels.

Risk item	Headline Risk	2016/17 Risk Rating	2015/16 Risk Rating
Price Volatility of Raw Materials	Business Process	Medium	Medium

5. Human Resource, Labour Relations, Loss of Talent and Health and Safety

For CCS, deterioration of labour relations could result in a significant increase of labour costs, disruption to operations and production down times and impact to the image of the Company. With a view to address concerns, the Company maintains on going proactive dialogue with unionised employees to maintain cordial industrial relations.

Deficiencies in skills and knowledge amongst existing staff cadre is an area for improvement and the Company continues to engage them with specialised training programmes. Further, the Company conducts employee satisfaction surveys on an annual basis to obtain feedback from our employees to improve our ways of working.

Limited availability of specialised staff in the market is also a matter of concern. The Company believes in succession planning to overcome this risk and has in place various personal development programmes to develop skills and capabilities of internal staff to take over higher responsibilities and challenges.

For JMSL, superior customer service and focus on quality and freshness are integral components of the skills set instilled in employees. Hence, the Company invests heavily in uplifting the service standards and process knowledge of the staff. Therefore, retention of the skilled staff is a key priority of the company. In order to mitigate the risk of losing skilled employees, the Company has established reward and recognition schemes and compensation aligned to market levels. The Company continues to invest in training and development via the Keells Retail Academy to train the new recruits as well as continuous refresher training for specialised staff. Other risk mitigation strategies include, developing a robust talent pipeline to fill the vacancies and identify reasons for labour turnover via exit interviews to take corrective measures.

For CCS, ensuring a safe working environment for its employees, suppliers and customers remains a top priority for the Company, as it believes this improves motivation, productivity and reduction accidents at the work place. The company has obtained OHSAS certification, streamlining the organisational processes, with continuous monitoring and process improvement to ensure safe working conditions for its employees. This is an important area of attention for JMSL and the Company provides required safety equipment based on the work roles and conducts training on usage of the same. Number of injuries are systematically recorded and analysed in order to identify high risk areas to help formulate corrective actions.

Risk item	Headline Risk	2016/17 Risk Rating	2015/16 Risk Rating
Human Resource, Labour Relations , Loss of Talent a Health and Safety	Organisation and People	Medium	Medium

6. Ensuring Safety within the Supermarket Premises

For JMSL, the risk of injuries to customers and suppliers within the supermarket premises is a significant risk.

As a risk mitigation strategy, the Company builds and maintains all new stores as per the “Outlet Design Manual” that specifies layout of the outlet to provide adequate circulation space for unhindered movement, adequate ventilation, and minimum specifications of equipment. As a proactive measure, all outlets are protected with comprehensive insurance.

Risk item	Headline Risk	2016/17 Risk Rating	2015/16 Risk Rating
Ensuring customer safety within the supermarket premises	Business Strategies and Policies	Medium	Medium

ENTERPRISE RISK MANAGEMENT

7. Supplier Stability, Compliance and Assessment

CCS depends on suppliers for the main raw material items due to the cost advantage, quality and ease of supply. Any adverse impact on the sustainability of these suppliers will create a disturbance to the manufacturing process. We have developed the alternate suppliers and are in the process of diluting the dependency on key suppliers whilst managing the cost impact optimally. In most instances the Company has entered into contracts with suppliers securing volumes for the year.

The Company regularly conducts supplier audits to ensure that the raw materials comply with stipulated standards. We have successfully addressed this risk by periodic audits, monitoring and tracking supplier performance, periodically and ensuring guaranteed supply of materials through contractual agreements. We also encourage and assist the suppliers to obtain ISO / HACCP certification and the Company gives the preference to the suppliers who have obtained such standards.

During the year a supplier impact assessment was carried out to determine whether the major suppliers of the Company had effective controls in Environment policy and Environment management systems, energy consumption, water consumption and discharge, waste management, emissions, noise impact, biodiversity health, compliance with relevant laws and safety and welfare of the supplier's employees. Questionnaires on details of the above areas were given to the suppliers during site visits and feedback was received in the affirmative. The main suppliers of the company are assessed bi-annually by the Company.

JMSL has a supplier base of more than thousand suppliers and it is a challenge to liaise with all these suppliers in order to meet delivery schedules, standards of quality and to manage the impact to the environment. Failure in such areas will lead to bad image, negative perceptions and dissatisfied customers.

To mitigate this risk, long-term agreements are signed with the suppliers on trading terms such as minimum fill rate commitments, product return policy and credit terms etc. Suppliers are required to have quality certifications/ approvals according to their respective product categories as well as comply with all labour regulations. The Company believes in fostering strong relationships with suppliers in order to mitigate such risks with mutual benefit and respect being considered important values of the Company.

JMSL holds annual Supplier Conventions where the future plans, expectations and values of the company are shared with a cross section of the suppliers and best performing suppliers are recognised.

Risk item	Headline Risk	2016/17 Risk Rating	2015/16 Risk Rating
Supplier Risk, Stability, Compliance and Assessment	Business strategies and policies	Low	Low

8. Stability of Distribution Channels

CCS depends on to third parties to distribute its products to the market place in order to reach its end consumers. Stability of distribution channel is largely dependent on the effective and consistent performance of the distributors. The Company has a stringent process for selection of distributors and monitors the distributor performance on a real time basis. Further, the Company guide and supports them to ensure the viability and growth of their business. CCS holds an Annual distributor convention where the distributor performance is recognised and where Company expectations are shared.

Regular monitoring of distributor profit and loss accounts, incentives to efficient distributors, guidance and ongoing dialogue with the distributors has enabled the company to manage this risk.

Risk item	Headline Risk	2016/17 Risk Rating	2015/16 Risk Rating
Stability of Distribution Channels	Business strategies and policies	Low	Low

9. Vulnerabilities from IT Related Risks

Information Technology is a vital component of the operations of the Group. The Group recognises the need for stringent internal controls and IT governance policies and to this effect, the JKH Group's IT governance structures and policies are followed. Comprehensive Disaster Recovery plans are in place to ensure continuity of business operations. A dedicated team of IT professionals manage the IT related risks by maintaining up to date virus definition files and firewalls, "onsite" and "offsite" data backups, and cloud storage for all users.

Considering its relevance and contextual importance, cyber security was identified as a risk relevant to the Group.

Risk item	Headline Risk	2016/17 Risk Rating	2015/16 Risk Rating
Vulnerabilities from IT Related Risks	Technology and Data	Low	Low

10. Meeting Quality Expectations

The food manufacturing industry is subject to general risks of food spoilage or contamination, consumer concerns with respect to nutrition and health, and governmental regulations. These risks, if materialised, may impact company reputation, loss of market share, possible litigations and claims from the consumers.

Our quality assurance system, manned by qualified specialists trained in international best practices considers deliberate product and process innovations necessary to maintain the Company's competitive edge and avoid any regulatory or health and nutrition related concerns. The Company employs a food nutritionist who validates the nutritional standards of all the products. The Company ensures only ingredients that satisfy international standards are used in its product formulation in order to mitigate the risk of Governmental regulations. The Company also ensures compliance to the quality certifications of HACCP manufacturing practices, ISO 22000/ISO 9001 certification and continuous process improvement with the conduct of regular internal and external audits as applicable to the industries and product lines we operate in.

Risk item	Headline Risk	2016/17 Risk Rating	2015/16 Risk Rating
Meeting Quality Expectations	Business Process	Medium	Medium

11. Exposure to Credit Risk

Credit facilities are offered to the Company's customers in keeping with normal business practices. This may expose the Company to default of payments and increased cost of operations due to bad debts. The Company mitigates such risk by distributor financing system, careful credit evaluation of dealers, holding bank guarantees from dealers and stringent credit approval process approval of additional credit by senior management based on creditworthiness of the customer.

Risk item	Headline Risk	2016/17 Risk Rating	2015/16 Risk Rating
Exposure to Credit Risk	Business strategies and policies	Medium	Low

12. Competitor Activities

CCS faces stiff competition from other producers of thirst quenchers and Frozen Confectionery products. JMSL competes with other modern trade chains in addition to the widespread general trade outlets. The Group focuses on brand development, quality of the products, range of products offered and availability, competitive pricing, effective communications, and superior customer service to differentiate from the competition. There is a continuous improvement in each area of business to keep ahead of the competition.

Risk item	Headline Risk	2016/17 Risk Rating	2015/16 Risk Rating
Competitor Activities	External Environment	Low	Low

EXCELLENCE IN **PERFORMANCE**

BUSINESS REVIEW

DELIVERING OUR STRATEGY

CCS maintained its market leadership position both in the beverages and frozen confectionary categories, achieving commendable volume growth. In retail, JMSL pursued aggressive expansion of its network adding 15 outlets during the year.

LEMOKI
LEMON & KIWI FLAVOURED
350 ml
Elephant House™

ECONOMIC AND INDUSTRY ENVIRONMENT

F&B sector contracted by 2.5% during the year

Sri Lanka's GDP grew by 4.4% in 2016 (2015: 4.8%) supported by the expansion in the industrial and services sectors while the agriculture sector contracted in comparison to the previous year. Industrial sector growth picked up to 6.7%, from 2.1%. The previous year led by the recovery of the construction sub-sector. The Services sector expanded by 4.2% upheld by growth in financial services, wholesale and retail trade and transportation and continued to be the largest contributor to GDP with a share of 57%. Performance of the Agriculture sector was affected by erratic weather conditions which adversely impacted the cultivation of both paddy and export crops.

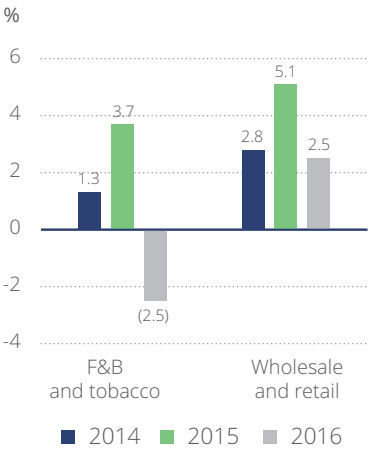
The Food and Beverages (F&B) industry is the second largest sub-sector of the Industrial sector contributing a share of approximately 22%. The F&B sector contracted by 2.5% during the year, reflecting a moderation in consumer spending against the backdrop of the increase in VAT as well as the increase in exchange and interest rates. Meanwhile, the factory industry production index also recorded a significant decrease in both the Food and Beverage sectors. The growth of wholesale and retail trade, which is a sub-sector of the Services sector slowed to 3.0% during the year reflecting volatilities on agricultural and industrial production as well as imports.

Household consumption expenditure which accounts for 69% of the Gross Domestic Expenditure was relatively stagnant during the year, increasing marginally by 0.7% during the year. The slowdown reflects revisions to tax structures and the resultant decline in disposable income as well as adverse weather conditions such as the floods as well as the drought which impacted consumer spending. Meanwhile expenditure on food and non-alcoholic beverages was also flat during the year.

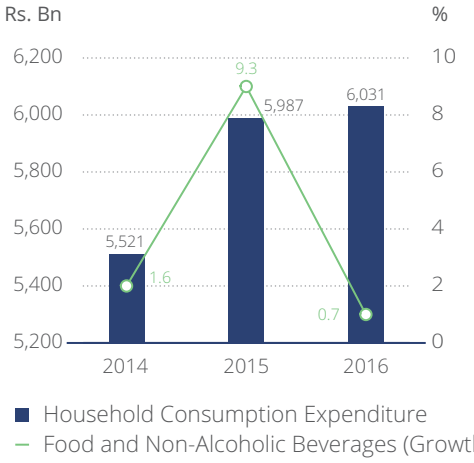
The Central Bank adopted a tightening monetary policy stance in 2016 and in the first quarter of 2017 with the aim of curbing inflationary pressures and supporting the balance of payments. Policy rates were raised twice in 2016 and once so far in 2017, in response to which market interest rates have continued to trend upwards. Inflation levels have accelerated during the first few months of 2017 due to the impact of the prevalent drought as well as adjustments to the tax structure. Resultantly, core inflation (based on the NCPI) remained relatively high at 7.1% in February 2017.

Sector-wise GDP Growth

Growth in the F&B and Trade Sectors



Trends in Consumption Expenditure



Source: Dept. of Census and Statistics

OUR STRATEGIC PERFORMANCE IN 2016/17

CCS maintained its market leadership position in both categories

Strategic Objective	Sustainable Growth	Fulfilling the Customer Promise
Strategic drivers	• Strong financial performance • Market leadership • Market reach	• Innovation • Customer experience • Customer health and safety
Developments in 2016/17	CCS maintained its market leadership position in both the beverages and frozen confectionary categories, achieving commendable volume growth. In retail, JMSL pursued aggressive expansion of its network adding 15 outlets during the year	• CCS launched 5 new beverage flavours including a fruit juice range and 5 new ice cream flavours during the year. • The premium ice cream range was re-launched as IMORICH. • Complied with government regulations on sugar content disclosures in beverages. • Ongoing efforts to substitute sugar with natural sweetener thereby bringing down the calorie count.
Risks and challenges in 2016/17	• Sharp slow-down in consumer demand towards the latter part of the year • Increased competition in both Sectors	• Increased regulatory stringency • Customer propensity towards healthier alternatives
Key performance indicators	• Revenue growth of 26% contributed by manufacturing sector (20%) and retail sector (80%) • Profit growth of 24% • Total Asset growth of 13%	• No of new products launched: 17 • 83% of beverage products in the Amber and Green range • Keells Supermarkets ranked ahead of competition in convenience and quality (based on the Customer Pulse Survey)
Outlook for 2017/18	JMSL intends to further expand its network with 40 outlets to be added in the next financial year. The Manufacturing sector will expand production capacity following the opening of the Seethawaka factory and beverages capacity will be increased at the new facility in Kaduwela.	Ongoing focus on expanding our product range with a strong pipeline for new products in the coming financial year. We are also pursuing ways of substituting artificial ingredients with natural/local ingredients wherever possible

OUR STRATEGIC PERFORMANCE IN 2016/17

Strategic Objective	Empowered Team	Supply Chain and Community Development	Preserving the Planet
Strategic drivers	• Talent development • Health and safety • Employee relations	• Capacity building of suppliers/farmers • Supplier scalability • Community engagement	• Enhancing energy efficiency • Reducing carbon footprint • Water re-use and recycling
Developments in 2016/17	Training focus on leadership development and soft skills. We revamped value proposition in the retail sector in order to enhance retention levels. Increased investments were also directed towards ensuring a healthy and safe working environment.	We invested Rs. 1.56 million in farmer/supplier development during the year. Expanded our out-grower program to support disabled persons and increased payments to suppliers by 32% during the year.	Multiple initiatives towards enhancing energy efficiency and increasing amount of water recycled. In the Retail sector, we engaged customers in our environmental commitment through encouraging the use of the Red Bag and Bring Your Own Bag (BYOB) initiative.
Risk and challenges in 2016/17	• High employee turnover among non-executive staff in the retail sector	• Adverse weather conditions affecting crops • Scalability and availability of suppliers	
Key performance indicators	• Staff satisfaction rate: CCS - 58% JMSL - 80% • Total training hours: 164,549 • Employee retention rate : 25% • No. of promotions : 58 • Workplace injuries : 74	• Number of farmers benefited increased during the year • Investments in CSR amounted to Rs. 40 million	Energy consumption of CCS decreased by 4% whilst JMSL marginally increase by 1% Water intensity of CCS improved by 4% and JMSL by 12% Carbon footprint of CCS declined by 3% and JMSL by 0.1%
Outlook for 2017/18	We will continue to enhance our employee value proposition with the objective of improving retention and providing a dynamic and challenging environment for our employees	Developing farmers/suppliers to enable them to cater to our growing needs is a key priority and we will continue to invest in providing technical guidance, supporting them to obtain certifications and facilitating sustainable growth in operations.	We engaged an international consultant to provide guidance on improving water and energy efficiency, following which 24 doables have been identified. These will be carried out in the next financial year.

DELIVERING STRATEGY THROUGH BUSINESS LINES

Manufacturing

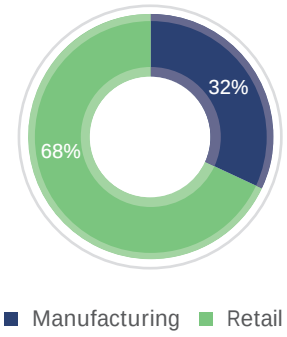
Consists of the manufacture and distribution of ,

- Beverages which include carbonated soft drinks, fruit flavoured tea and an isotonic drink (under the Elephant House brand) energy drinks (under the Wild Elephant brand) and fruit juices (under the brand Fit o)
- Frozen confectionary under the Elephant House and IMORICH brands

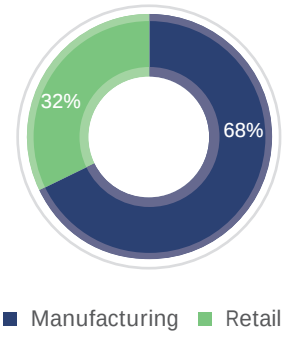
Retail

The Group's supermarket network comprising of 64 outlets operated through JMSL, a fully-owned subsidiary

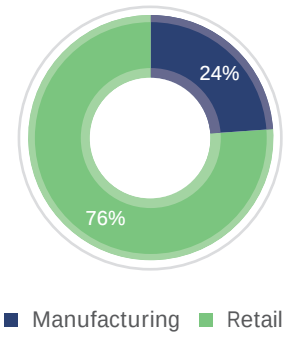
Revenue Composition 2016/17



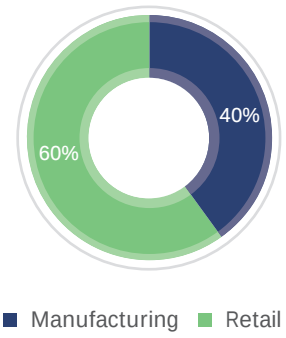
Profit after Tax Composition 2016/17



Number of Employees 2016/17



Carbon Footprint 2016/17



MANUFACTURING

The Manufacturing sector turned in a year of strong performance achieving revenue and profit growth of 15% and 22% respectively, despite a slowdown in consumer demand during the last quarter of the year. Top line growth was driven by focused measures to ensure product availability and access to customers. Substantial improvements in efficiencies across the supply chain and the optimisation of the product mix enabled the sector to widen its operating margins. Overall the sector's profit after tax increased by 22% to Rs. 2,430 million during the year under review.

	2016/17	2015/16
Revenue (Rs. mn)	13,971	12,191
Operating profit (Rs. mn)	3,166	2,658
Operating margin (%)	23	22
Profit after tax (Rs. mn)	2,430	1,990
Assets (Rs. mn)	8,322	7,632
Debt (Rs. mn)	500	252
Employees (No)	983	963
Profit per employee (Rs. mn)	2.47	2.07
Payments to farmers (Rs. mn)	158	178
Carbon footprint (tCO2e)	11,569	11,139

DELIVERING STRATEGY THROUGH BUSINESS LINES

Manufacturing Strategic Focus areas in 2016/17

Strategic Focus	Activities During the Year
	• Launch of several new products in both manufacturing categories to cater to diverse consumer needs • Focus on optimising the product mix and ensuring product availability through insights gained from the Company's Distributor Management System (DMS) • Enhanced customer reach through more proactive social media engagement
	• Product innovation providing a variety of choices to discerning consumers • Increased focus on healthy alternatives in product formulations • High level of customer engagement through numerous events
	• Increased emphasis on sales force training • Targeted training towards developing leadership skills and soft skills
	• Supporting distributors through providing access to market insights and real-time information • Investments in enhancing retailer's infrastructure including the provision of freezers and coolers • Expansion of the farmer out-grower program with the launch of a new initiative in the Galle district for differently abled persons
	• Multiple initiatives to drive energy efficiency including the use of energy efficient equipment and lighting • Water recycling

BEVERAGES

The Beverage category performed commendably during the year recording a revenue and profit growth of 15% and 21% respectively. Volume growth was supported by the strong performance of the Elephant House flagship brands such as Necto and Cream Soda and Elephant House Ginger Beer (EGB) while market response to the new products such as Fit o (Fruit Juice), F5 (Isotonic Drink) and Wild Elephant (Energy Drink), Twistee (Tea based Beverages) has also been very encouraging.

Resultantly, CCS maintained its market leadership position in the carbonated soft drinks market space despite intense competitive pressures from international brands. Profitability was also upheld by strategic initiatives aimed at improving productivity and efficiency across our distribution chain.

INDUSTRY SNAPSHOT

Industry Snapshot-Carbonated Soft Drinks (CSD)

- Estimated at 216 million litres annually with per capita consumption of approximately 10 litres
- The CSD market grew by an estimated 15% during the year although the growth rate slowed in the last quarter
- Intensified competition between industry players

Product Range

We strive to fulfil the evolving needs of our customers through providing the right products for the right occasion. We have placed continuous emphasis on widening our product portfolio, which includes 3 new flavours of carbonated soft drinks, 2 fruit juice flavours, 2 fruit flavoured tea options, an isotonic drink and 2 variants of an energy drink

Responding to health and wellness trends

In responding to the increasing consumer propensity and government thrust towards healthier beverage options, we have leveraged on our research and development capabilities to offer healthier formulations and product varieties. Substituting calorific sugar with natural sweeteners has enabled us to achieve an average 30% reduction in the calorie count of carbonated soft drinks. We also offer sugar-free/light variants for 6 drinks, including Wild Elephant which was launched during the year. Providing healthier options

Indicator	No. of beverages
	4
	17
	3

to consumers is an ongoing priority for the Company and our R&D efforts are also focused towards using more natural and local ingredients in our product formulations. We complied with the Government's traffic light colour coding system for displaying the sugar content in drinks and currently, the majority of our portfolio is in amber and green range.

An effective market segmentation strategy

Our product strategy for the year centered on remaining relevant to the customer through effectively identifying and catering to different consumer needs through the right product. With the launch of 12 new flavours and pack sizes during the year our portfolio has seen increasing diversity in recent years. Our marketing efforts also focused on consumer occasions and we strived to encourage the consumption of our products during cultural events/celebrations through targeted promotional campaigns. Our brands continue to lead the market in popularity and volumes with Cream Soda winning the People's Beverage brand of the year and Youth Beverage brand of the year at the SLIM Nielsen Awards in 2016.

New products launched in 2016/17

- Fit o fruit juice range in Orange and Mango flavours (2 pack sizes)
- Lemoki - part of the fast growing lemon and lime range
- Chase-targeting the hotels and restaurants channel
- Sugar free variant of Wild Elephant

DELIVERING STRATEGY THROUGH BUSINESS LINES

The right packaging and the right channel

Our customer value proposition is centered on providing products in packaging to suit the right occasion while ensuring that freshness is consistently maintained. As consumer demand for PET bottles have continued to rise, we have been compelled to increase our PET capacities; we are aware of the resultant environmental implications and hope to mitigate this through an integrated recycling project to be launched in the near term by our parent entity. Strategic emphasis was also placed on capturing market share through the right channels; during the year the grocery channel recorded strong growth. The launch of 'Chaze' during the year is also expected to support expansion in the Hotels and Restaurants channel.

Strengthening distribution capabilities and efficiencies

The successful completion of the "DMS Mobile" (Distributor Management System on Mobile) enabled us to achieve significant improvements in distribution capabilities, efficiencies and productivity. Accordingly the manual secondary billing process was converted to an automated mobile app resulting in a near doubling of sales force efficiency and productivity. Access to real time and online information on distributor routes, product availability and customer preferences have allowed us to deploy our sales force more effectively in improving customer access and product availability. The system also allows the tracking of a range of distributor performance indicators, including cost structures, profitability and cash management which have contributed towards enhancing the overall effectiveness of distributors' decision making thereby driving business growth. We introduced an easy-payment scheme for distributors to obtain hand-held devices and also provided 3,550 of training hours covering 157 distributor sales representatives on the effective use of the DMS.

Our beverage products are sold in over 80,000 retail outlets island-wide and we continue to support these businesses through strengthening infrastructure and storage capacity. During the year we invested Rs. 22 million in shop boards for outlets.

Empowering farmers

The entirety of our ginger requirement is purchased from local farming communities in the Kandy district and individuals farmers in the Kurunegala,Kaluthara, Puttalam and Gampaha districts. Our value proposition to these farmers includes providing inputs/technical support, propagating Good Agricultural Practices and buy-back guarantees which ensure a sustainable source of income (Refer to pages 142 to 145 for further information). During the year, we further expanded our ginger sourcing initiative through a unique project targeted towards empowering differently abled persons. As a pilot project in partnership with the Sahanoda Foundation of Galle, we distributed 10,000 empty sugar bags and 500 kilograms of seeds to 10 differently abled persons (coupled with 10 abled persons). The project also included technical support and access to finance. Given the success of the pilot project we hope to expand this initiative to 100 persons in the Galle district over the short to medium term.

The processing and inspection of the vanilla beans

Ginger sourcing project to empower differently abled persons

- Carried out in partnership with Sahanoda Foundation
- Distributed 10,000 empty sugar bags and 500 kg of seeds
- 10 differently abled persons
- Technical support from the Export Agriculture Department
- Access to finance by facilitating loan facility of Rs. 300,000 each as capital from Regional Development Bank
- Buy-back guarantees.

FROZEN CONFECTIONARY

The Frozen confectionary category achieved revenue and profit growth of 14% and 17% respectively during the period. Performance was supported by the effective segmentation of the market, increased focus on the premium range, improved distribution capabilities and efficiencies as well targeted promotional campaigns to drive both dessert and occasion based consumption. We continued to maintain our market leadership in Sri Lanka's frozen confectionary market, further widening our premium and impulse range products.

Product Range

Our frozen confectionary range consists of 28 flavours under the Elephant-House brand and 9 flavours under the premium IMORICH brand. Products are offered in several stock keeping units (SKUs); bulk containers, cups and sticks.

Industry snapshot-Frozen confectionary

- Estimated at 40 million litres per annum, while per capita ice cream consumption is around 2 litres, still below regional counterparts
- The market have grown by 10% during the year under review.
- The ice cream market comprises of the take home (bulk packs) and impulse segments (cups, sticks, cones). In Sri Lanka, the take home segment dominates sales although over recent years there has been strong growth in the impulse segment.
- Customer transition from basic to value added products and subsequently to premium range products.

Market segmentation to drive volume growth

In line with the Company's overall strategy of providing a differentiated product proposition, we re-launched our premium range of ice cream as IMORICH offering 10 variants in 3 SKUs. The brand characterises irresistible indulgence focusing on occasion and special moment-based consumption. An innovative product launch including the IMORICH taste challenge which allowed consumers to identify their favourite flavour based on brain activity and targeted promotional activities resulted in strong penetration of this range and we see tremendous potential for growth in this market segment.

In our Elephant House range, we unveiled two limited edition products during the year, the Watalappam flavour and Coconut ice cream. In this range, we also launched the 'Athurupasa Chaarithraya' campaign during the year with the objective of fortifying our position in the dessert space through nurturing product attributes of quality and trust. In effectively catering to the millennials we rebranded our Wonder Bar range through modern and innovative packaging and a targeted marketing campaign characterising 'funspiration'. The response to this range has also been extremely encouraging and the Wonder Bar range has emerged as one our most profitable product propositions.

DELIVERING STRATEGY THROUGH BUSINESS LINES

Product launches/re-branding in 2016/17

- Re-launch the premium range as IMORICH
- Launched two limited edition products - Watalappam and Coconut ice cream
- Rebranded the Wonder Bar range with modern packaging

Expanding the customer reach through social media

During the year we focused on expanding our customer reach and improving communication with customers through enhancing our social media presence. Accordingly, our key brands activated separate Facebook pages and The Elephant House Ice Cream page on Facebook has emerged as one of the most popular FMCG pages, being just one of 4 to accumulate over 227,000 likes. Social media platforms are used for product promotions, raising awareness on events and competitions among others and have driven substantial improvements in consumer engagement.

Driving efficiencies in distribution

As discussed in a previous section of this Report, the DMS Mobile has accrued numerous benefits in terms of enhancing distribution efficiency and productivity. The market insights gained from the DMS has enabled us to redefine routes to gain more productivity and put in place the necessary disciplines and controls to ensure optimum efficiencies. We also moved into a model of pre-selling thereby allowing better predictability of volumes an optimum product mix which ensures availability of products to customers.

We also continued to support our dealers through capacity building initiatives and infrastructure support. Our products are sold through an island-wide network of over 30,000 retail outlets and around 350 three-wheeler units which make up our mobile distribution arm. Availability of the necessary infrastructure including freezers and an uninterrupted power supply is vital in preserving our products and we continued to support our distributors. During the year we distributed 750 freezers and 1,000 coolers to our outlets driving availability of our products. We also engaged our mobile dealers in 920 hours of training and distributor sales representatives in over 1,000 hours of training.

Supporting farmers

The entirety of the agriculture based ingredients (excluding sugar) which are input to the production of ice cream is heavily sourced locally. Accordingly, we procure vanilla, treacle, ginger and cashew from an island-wide network of 2,957 farmers. Our value proposition to these farmers include guaranteed purchasing agreements, technical advice and training on sustainable agricultural practices, as well as provision of financial assistance during periods of crop failure. During the year, total payments to these suppliers amounted to Rs. 158 million, a decrease of 12% in comparison to the previous year mainly due to reduction in ginger crop. (Refer to pages 142 to 145 for further information on Supplier Development)

Way forward

As disposable income increase in line with economic growth, Sri Lanka's per capita consumption of soft drinks and ice creams which is still low in comparison to regional and developed economies is anticipated to gradually increase. We remain optimistic on the growth potential presented by these trends and will continue to focus our efforts on enhancing customer experience through the launch of exciting new flavours and healthy variants in both our product categories. We hope to double the capacity of our ice cream production following the commissioning of our new Seethawaka facility in April 2018. State of the art machinery and technology, which is in line with international standards, will allow us to manufacture different product variants to cater to emerging needs. A new soft-drinks production facility will also be commissioned in Ranala, which is expected to double the capacity of PET bottles.

RETAIL

The Retail sector continued to demonstrate strong growth, achieving revenue and bottom line growth of 32%. The sector's contribution to consolidated profits has resultantly grown in proportion, accounting for 32% of profit after tax in 2016/17. Performance was upheld by organic growth, reflected by an increase in same store sales as well as and inorganic growth as the till Sector added 15 new outlets to its network. Ongoing emphasis on enhancing process efficiencies and improving productivity through optimal workforce allocations enabled the Sector to maintain the profitability margins during the year. Overall, the Retail sector achieved a record-high profit after tax of Rs. 1,196 million during the year with almost all stores generating profits. Keells Super outlets continue to lead the market in quality and convenience, as evinced by customer satisfaction surveys which rank supermarkets ahead of competition.

"The Retail sector continued to demonstrate strong growth, achieving revenue and bottom line growth of 32%"

	2016/17	2015/16
Revenue (Rs. mn)	29,814	22,574
Operating profit (Rs. mn)	1,600	1,237
Operating margin (%)	5	5
Profit after tax (Rs. mn)	1,196	905
Assets (Rs. mn)	7,825	6,130
Debt (Rs. mn)	498	415
Employees (No)	3,133	2,407
Profit per employee (Rs. mn)	0.38	0.38
Retail outlets (No)*	64	50
Payments to farmers (Rs. mn)	1,678	1,313
Carbon footprint (tCO2e)	17,674	13,976

**15 new outlets / 1 closed outlet*

Retail Strategic Focus Areas in 2016/17

Strategic Focus	Activities During the Year
	• Aggressive network expansion with the addition of 15 outlets during the year, including an outlet outside the Western Province • Ongoing focus on enhancing quality standards, accessibility and convenience to the customer
	• Strengthened mechanisms to ensure freshness and superior quality of fresh fruit, vegetables, meat and seafood • Introduced organic fresh produce in 39 supermarkets and organic dry products in 11 outlets • Engaging customers on environmental conservation initiatives
	• Numerous formal and informal platforms to facilitate employee engagement including an year-round event calendar • Strengthening the learning and development proposition to employees • Enhanced rewards and recognition mechanisms
	• Ongoing support to fresh produce suppliers through technical support on Good Agricultural Practices (GAP) and buy back mechanisms • Continuous demand planning and forecasting support to other suppliers • Ongoing support to private label suppliers through audits, capacity building and training programmes
	• Engaging employees and customers on limiting the use of plastic bags • Recycling cardboard waste

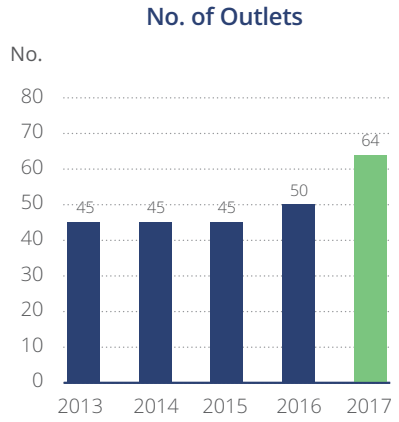
DELIVERING STRATEGY THROUGH BUSINESS LINES

Expanding our presence

JMSL continued to expand its geographical footprint, adding 15 new outlets during the year, one of the most rapid expansions in the country's modern retail trade industry. The sector now operates a total of 64 outlets, in Colombo suburbs and 6 main cities outside Colombo. To ensure effective management of the expanding network, JMSL appointed 6 area managers, who are in turn responsible for 10-15 outlets each. Having refined its operating model, JMSL intends to pursue further expansion of its network with approximately 40 outlets expected to be added to the network in 2017/18.

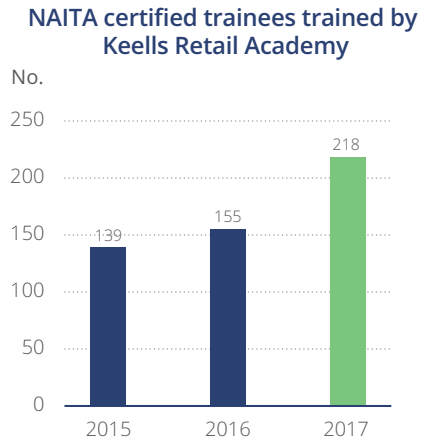
Enhancing the customer experience

The Keells Super outlets embrace international standards in merchandising, product display as well as store layout. We have placed emphasis on enhancing the overall customer experience through improvements in structure, design, construction as well as hygiene, cleanliness, air quality, temperature and lighting among others. Standard audit formats have been developed for each department and monthly audits are conducted by a dedicated audit team to ensure consistency and compliance to relevant standards. Most of our stores have also obtained some form of external certification, thereby providing assurance on our processes and operations.



Strategic focus on employee retention

Employee retention at supermarket level is one of our key challenges and high labour migration to other industries has resulted in relatively high attrition rates. During the year, we focused on strengthening our employee value proposition with emphasis on more attractive rewards and remuneration, a high level of employee engagement which includes an year-round event calendar and fast-tracking the career progression of high-performing employees. The JMSL Retail Academy is a fully integrated training facility which provides the opportunity for ambitious, young individuals to obtain training on all aspects required to succeed in the retail industry. The comprehensive 18-month course consists of lectures, workshops and practical training and is certified by National Apprentice and Industrial Training Authority (NAITA) and National Vocational Qualification (NVQ). Successful trainees are absorbed to our permanent cadre with numerous opportunities for career progression. Over the past three years, over 500 trainees have successfully completed the course (refer to pages 131 to 132 for further information)



First retail chain to obtain a Certificate of Conformity Supermarket Management Systems by SLSI

Keells Retail Academy - a fully integrated training faculty

Stringent audit controls and checks

35 stores are SLS certified

"The JMSL Retail Academy is a fully integrated training facility which provides the opportunity for ambitious, young individuals to obtain training on all aspects required to succeed in the retail industry."

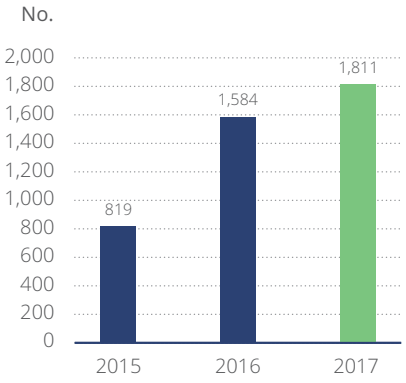
Environmental commitment

Our extensive customer reach places us in a unique position to engage a large base of customers in our environmental commitment. We have introduced multiple initiatives to reduce the use of polythene bags in our outlets; customers are encouraged to purchase the re-usable, bio-degradable Keells Red Bag, and are enticed to re-use the bags through a point system which provides discounts on the total bill value. In February 2017 we also launched a 'Bring your own bag' initiative in 25 stores which also provides the opportunity to accumulate Nexus points. Meanwhile, multiple mechanisms are in place to ensure energy efficiency and responsible disposable of waste (refer to pages 151 to 157 for further information).

Creating value to our suppliers

Enhancing the scalability and product availability of suppliers is a key priority as we seek to further expand our network. During the year, we carried out a comprehensive supplier scalability study to identify suppliers' ability to meet the potential increase in demand and continue to engage with them in supporting business expansion through demand planning. JMSL also expanded its fresh produce supplier base and now sources from a network of over 1,800 farmers through 7 collection centres across the island. Total value creation to these farmers (in the form of purchases) increased by 28% to Rs. 1.68 billion during the year. Our value proposition also includes the ongoing provision of technical knowledge, including the training and propagation of (GEP) Good Environmental Practices aimed at improving the quality, quantity and sustainability of production. (Please refer pages 142 to 145 for further details on the Group's supply chain partners)

Farmers Supported-Fresh Produce



269,659

No of Keells red bags sold

674,903

No. of red bags re-used

Nexus mobile program

Membership in JMSL's loyalty program, Nexus Mobile continued to grow with the active member base increasing by 39% while the total volume and value of transactions also grew by a respective 72% and 87%. While enabling us to strengthen our value proposition through special offers, discounts and promotions the platform has also facilitated the accumulation of valuable data on customer behaviour, providing inputs in further improving our product propositions.

Way forward

We believe there is significant potential for growth in the country's modern retail trade industry, particularly given rising disposable incomes, urbanisation and the increasing need for convenience and accessibility. Having refined our operating model and new-format supermarkets, we have built a strong platform for growth and intend to pursue rapid expansion of our network with the addition of around 40 more supermarkets in the coming financial year. Employee retention and supplier scalability will be the key challenges in this expansion and as discussed above strategic emphasis has been placed on enhancing our value proposition to these stakeholders.

CREATING VALUE FOR OUR CAPITAL INPUTS

Financial Capital

24% increase in earnings per share

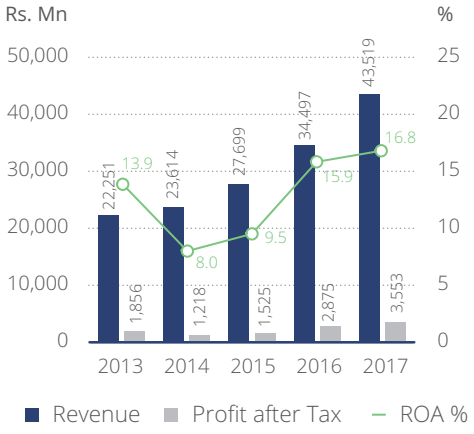
Relevance of our Financial Capital: Effective management of our financial capital is vital in funding our growth aspirations, achieving our strategic objectives and ultimately creating sustainable value for our shareholders.

Rs. million	2016/17	2015/16	Y-O-Y %
Inputs			
Shareholder's funds	13,189	12,346	7
Debt	998	667	50

Activities during the year

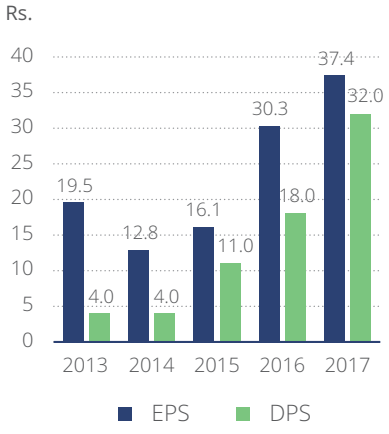
- Pursuing opportunities for process and cost efficiencies
- Focused on maximising returns on cash resources
- Business strategies driven towards preserving profitability margins
- Capital expenditure of Rs. 2.6 billion in capacity expansions

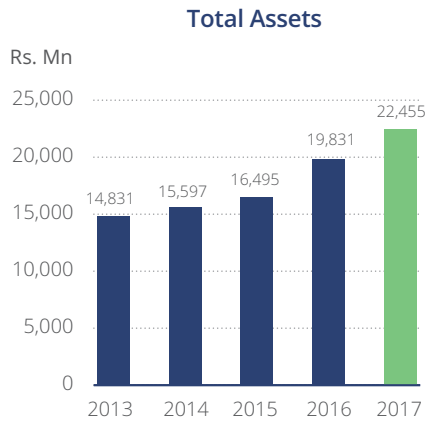
Revenue Trends



	2016/17	2015/16	Y-O-Y %
Outputs			
Revenue (Rs. mn)	43,519	34,497	26
Gross profit (Rs. mn)	7,039	5,925	19
Results from operating activities (Rs. mn)	4,788	3,928	22
Profit before Tax (Rs. mn)	5,090	4,052	26
Profit for the year (Rs. mn)	3,553	2,875	24
Earnings per share (Rs.)	37.4	30.3	24
Dividend per share (Rs.)	32.0	18.0	78

Shareholder Returns

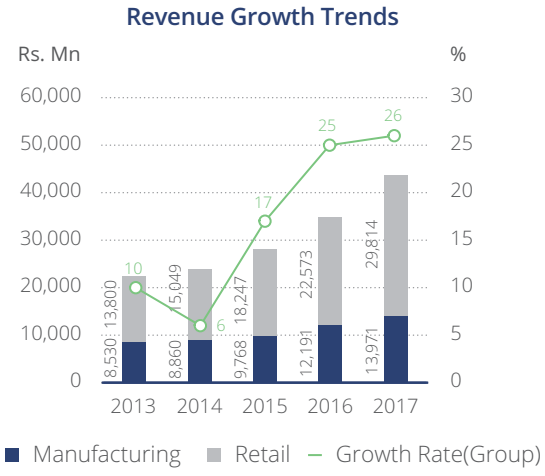




FINANCIAL PERFORMANCE

Revenue

The CCS Group's top line expansion was strong during the year, with revenue growing by 26% to Rs. 43.52 billion. Revenue growth was upheld by both the manufacturing and retail segments which performed commendably, despite a slowdown in consumer demand towards the second half of the year. Manufacturing sector revenue grew by 15%, supported by volume growth in our flagship brands as well as increasing market popularity of our new products in both the beverage and frozen confectionary categories. The Retail segment continued to demonstrate strong growth, with top line expanding by 32% supported by new store openings as well as increased customer footfall at same store level. The Retail sector's contribution to the Group's top line increased during the year, accounting for 68% of consolidated revenue.



Material issues

- Financial performance

Key Challenges/Risks

- Slowdown in consumer demand in the second half of the year
- Increasing interest rate scenario
- Rising cost pressures

Key Achievements

- Revenue and profit growth of 26% and 24% despite the slowdown in consumer demand in the second half of the year
- The retail sector crossed the Rs. 1.0 billion profit mark
- Significant growth in dividend payments with a Rs. 32 per share, total payment of 3.04 billion and a dividend pay-out ratio of 86%.

Gross profit

Consolidated gross profit increased by 19% to Rs. 7.04 billion with a GP margin of 16%. Despite the increase in direct cost due to labour and wage increases and energy cost increases, the Group managed to maintain its profitability margins by stringent cost controls in other variable costs. Meanwhile other operating income increased by 12% to Rs. 1.29 billion due a increase in promotional income at JMSL.

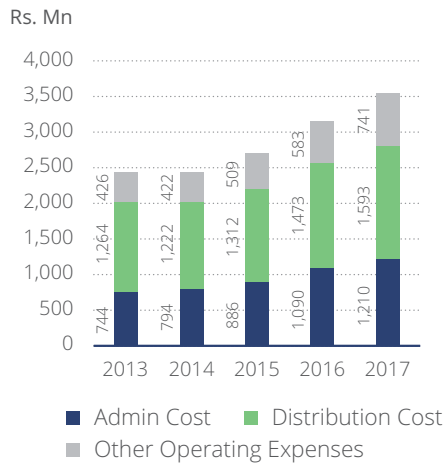
Operating expenses

Group operating expenses increased by 13% to Rs. 3.54 billion during the year, reflecting increases in administrative expenses (+11%), selling and distribution expenses (+8%) and other operating expenses (+27%). The increase in selling and distribution expenses was contained due to substantial distribution efficiencies stemming from the Company's integrated Distributor Management System. Administration expenses increased due to the expansion of our physical infrastructure in the retail segment which saw an additional 15 outlet openings during the year. The increase in other operating expenses was resultant from a 22% increase in Nation Building Tax and stock loss due to floods which was recovered through insurance.

CREATING VALUE FOR OUR CAPITAL INPUTS

Financial Capital

Overhead Expenses Trend



Profit from operations

Consolidated operating profit increased by 22% to Rs. 4.79 billion, with the manufacturing and retail segments contributing a respective 66% and 34% to the Group. Manufacturing sector operating profit increased by 19% supported by volume growth, increased sales of premium products and distribution efficiencies. The Sector's operating profit margin also widened to 23% from 22% in 2015/16. In the Retail sector, operating profit surged by 29% to Rs. 1.60 billion supported by increased contributions from the new outlets. The Group operating profit margin remained relatively unchanged at 11% during the year.

Net finance income/expenses

Finance cost for the year declined to Rs. 6.80 million from Rs. 11.56 million the year before, despite an increase in borrowings. The Group's strong financial position and healthy cash flow allows it to obtain funding at relatively favourable interest rates. Interest income for the year increased by 63% to Rs. 227.57 million resulting from higher interest rates on government securities. At net level, the Group generated a net finance income of Rs. 220.77 million, compared to a net finance income of Rs. 128.32 million the year before.

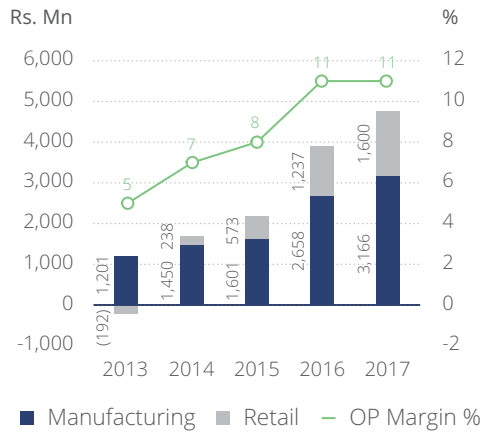
Taxation

Total tax expense for the year increased by 31% to Rs. 1.54 billion resulting from the increase in profitability. The effective tax rate increased marginally to 30% from 29% the year before. The Manufacturing and Retail sectors contributed Rs. 967.36 million and Rs. 486.59 respectively to the Group's tax expense during the year.

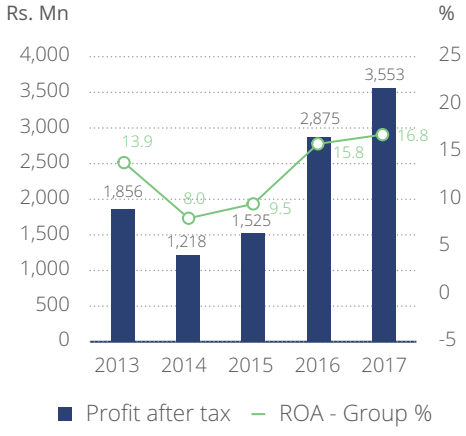
Profit after tax

Consolidated profit after tax for the year increased by 24% to reach a record high of Rs. 3.55 billion upheld by respective profit growth of 22% and 32% in the Manufacturing and Retail sectors. The Retail sector crossed the Rs. 1.0 billion profit mark and contributed 32% to Group profits. Overall, the Group's Return on Assets (ROA) widened to 16.80%, from 15. 83% in 2015/16.

Operating Profit Trends



Profitability Trends



Cash flow

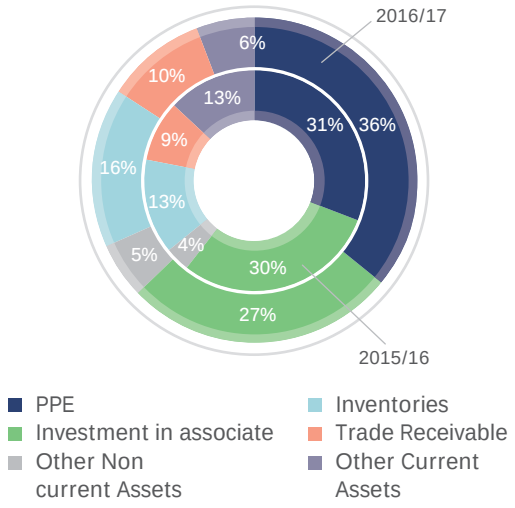
Operational cash flow generation remained healthy, although declining in comparison to the previous year due to higher working capital requirements. Net cash inflow from operating activities declined to Rs. 3.84 billion from Rs. 4.44 billion the year before. Net cash outflow from investing activities increased during the year, resulting from capital expenditure (CAPEX) in both sectors. CAPEX in the Manufacturing sector amounted to Rs. 852 million. Meanwhile new store openings resulted in CAPEX of Rs. 1.75 billion in the retail sector.

FINANCIAL POSITION

Total assets

Total assets increased by 13% to Rs. 22.45 billion as at end-March 2017, reflecting additions to property, plant and equipment as well as higher working capital. The manufacturing and retail sectors recorded respective asset growth of 9% and 28%. Net investments in working capital increased to Rs. 963 million from 427 million primarily due to increased inventory holding in the retail sector in line with its expansion. The Group's asset composition tilted more towards long term assets and working capital in comparison to the previous year.

Asset Composition



Investments in subsidiaries and associates

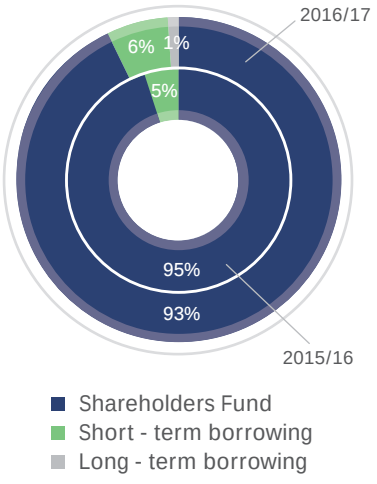
The Colombo Ice Company (Private) Limited (CICL) was incorporated as a fully-owned subsidiary of CCS during the year and represents the Group's new ice cream factory in Seethawaka which is expected to commence operations in April 2018. The Company's equity infusion in CICL amounted to Rs. 270 million. CCS holds an associate stake of 23.5% in the JKH Group's mixed development project Waterfront Properties (Pvt) Ltd which is currently in the construction stage.

> "The Colombo Ice Company (Private) Limited (CICL) was incorporated as a fully-owned subsidiary of CCS during the year"

Funding structure and gearing

The funding structure is dominated by shareholders' equity, which funded 59% of the Group's total assets as at end-March 2017. Shareholders' funds increased by 6.8% supported by strong profit generation during the year. Despite a 50% increase in borrowings to Rs. 997.80 million, the Group's gearing ratio remained low at 7.57% (end-March 2016: 5.41%). The Group intends to fund further investments in its new ice cream factory and beverages line through borrowings, which is expected to result in an increase in its gearing levels. However, the Group's strong cash flow generation is expected to mitigate potential risks arising from increased debt levels.

Funding Composition



CREATING VALUE FOR OUR CAPITAL INPUTS

Financial Capital

ROCE decomposition

Return on capital employed	
35.06%	31.93%
2016/17	2015/16

PROFITABILITY		EFFICIENCY		FINANCIAL LEVERAGE	
EBIT Margin		Asset Turnover		Equity Multiplier	
10.956%	11.282%	2.058	1.899	1.555	1.490
2016/17	2015/16	2016/17	2015/16	2016/17	2015/16

SHAREHOLDER RETURNS AND INVESTOR RELATIONS

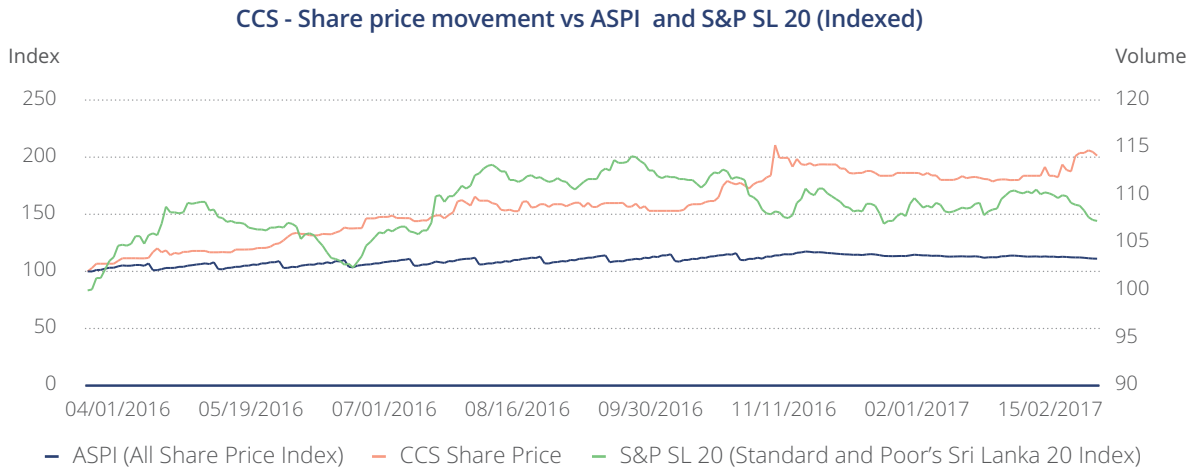
The CCS share emerged as one of the best performing shares of the year, ending the year as the 6th most valuable listed company in the country. The share significantly outperformed its' peers and the overall market which witnessed a relatively lackluster performance during the year under review. The ensuing discussion provides an overview of the Company's share performance, shareholder returns and other share related information.

"CCS's market capitalisation amounted to Rs. 77.08 billion by end-March 2017 an increase of 89% compared to the previous year. The share also emerged as the 6th most valuable company in the CSE"

Performance of the Colombo Stock Exchange (CSE)

The Colombo Stock Exchange (CSE) was volatile during the first half of the year ending 31st March 2017 before recording a gradual yet persistent decline from October 2016. The All Share Price Index (ASPI) clocked between a low of 5,974.9 (March 2017) and a high of 6,708.4 (May 2016) to close the year at 6,061.9 points as at end-March 2017. Overall the ASI remained flat in March 2017, compared to April 2016 although there was some volatility in the interim period. Meanwhile the overall market capitalisation increased marginally to Rs 2,662.9 million while the average daily turnover levels declined to Rs. 766.5 million.

The relatively weak performance during the year is attributed to a tightening of monetary policy which resulted in higher interest rates on fixed income securities, policy instability which led to weaker investor sentiments as well as uncertainty in the global economic environment. Dramatic shifts in the political landscapes in the USA and the European region and the global ramifications of potential policy changes have caused global investors to seek safe havens for investments. Resultantly, the CSE also experienced selling pressure with foreign investors being net sellers during the year.



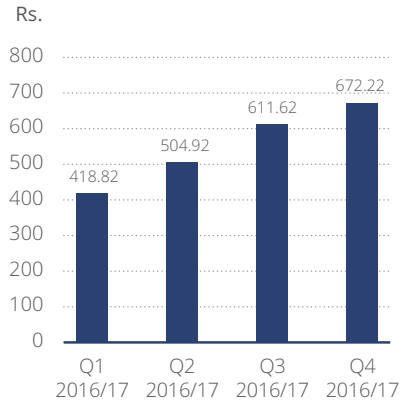
Performance of the CCS share

The CCS share emerged as one of the best performing stocks in the market, increasing by nearly 90% to close the year at Rs. 811.0 despite the decline in the broader market. The share traded between a low of Rs. 400.10 (in April 2016) and a high of Rs. 865 (in November 2016) during the period. The share gained consistently throughout the year, reflecting continuing improvements in the Group's fundamentals. The improvement in the share price was backed by the Group's strong financial performance and resultant investor expectations of healthy dividends and underscores positive investor sentiment on the growth opportunities presented by expansions in all three major product/service categories.

Meanwhile, the share's net book value of Rs. 138.78 as at end-March 2017 reflects an intrinsic value of Rs. 672.22 per share (FY Mar-2016: Rs. 300.1) representing the strength of our non-monetised capital including brand equity, innovation capability, strong supply chains, best-in industry talent as well as robust governance and risk management frameworks. The intrinsic value of the share also showed consistent improvements during the year.

Performance of CCS share at a glance	End-March 2017
6th most valuable company on CSE based on market capitalisation	
Increase in share price	88.6%
Closing price (Rs.)	811.00
Market capitalisation (Rs. bn)	77.08
Intrinsic value of a share (Rs.)	672.22

Intrinsic value of CCS Shares



Liquidity and market capitalisation

CCS's market capitalisation amounted to Rs. 77.08 billion by end-March 2017 an increase of 89% compared to the previous year. The share also emerged as the 6th most valuable company in the CSE, just behind large conglomerate and multi-national organisations. By the end of the year, our share represented 3% of the CSE's total market capitalisation. Meanwhile, 1,964,122 shares changed hands during the year while the average daily turnover of the share amounted to Rs. 5.8 million.

CCS rang the opening bell to commence trading at the Colombo Stock Exchange (CSE) on 1st of July 2016.

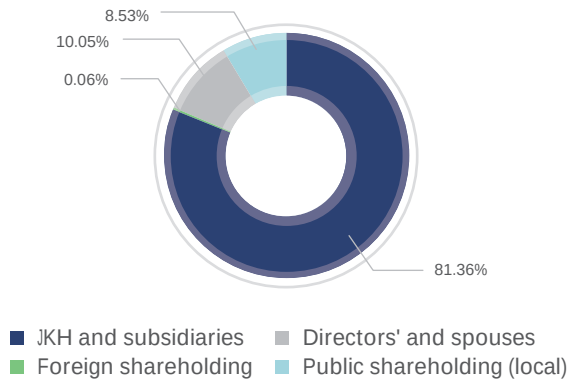
CREATING VALUE FOR OUR CAPITAL INPUTS

Financial Capital

Shareholder composition

The shareholder composition remained relatively unchanged in comparison to the previous year with the public stake (local and foreign) clocking in at 18.59%, held by 1906 shareholders. The share of JKH Group was also unchanged at 81.36%.

Shareholder Composition



Shareholder returns

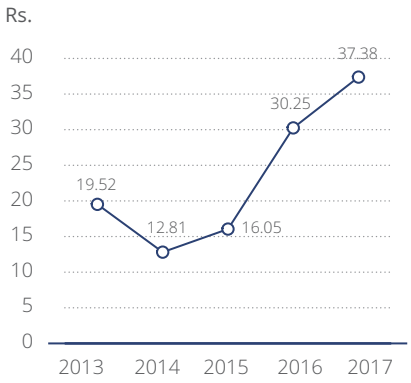
	End-March 2017	End-March 2016
Earnings per share (Rs.)	37.38	30.25
Dividend per share (Rs.)	32.00	18.00
Dividend payout (%)	85.60	59.51
Closing price (end-March 2017) (Rs.)	811.00	430.00
Net asset value per share (Rs.)	138.78	129.90
P/E ratio(times)	21.70	14.21
Price to book value ratio (Types)	5.84	3.31

Earnings per share: The basic EPS for the year under review increased by 24% to Rs. 37.38 resulting from a corresponding increase in the profit attributed to equity holders. Over the past 5 years, the EPS has increased by a CAGR of 18%, underscoring sustainable shareholder value creation. It is noteworthy that this increase purely represents improvements in the Group's core business operations.

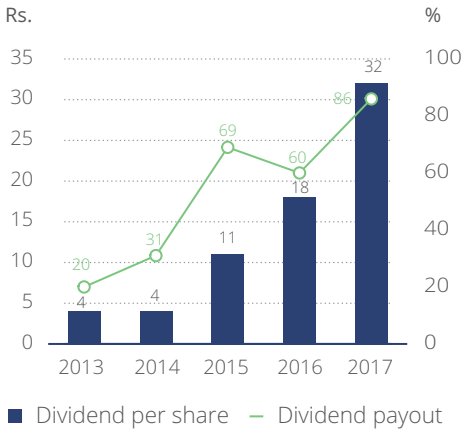
Dividends per share: CCS's dividend policy aims to strike a suitable balance between retaining adequate funds for growth aspirations and ensuring a return which corresponds to the risk undertaken by our valuable shareholders. During the year, the total dividend payment increased by 78% to Rs. 32.0 per share supported by strong profit generation. Resultantly total payments to shareholders in the form of dividends amounted to Rs. 3.04 billion. The dividend payout surged to 86% during the year, the highest payout ratio in the Company's recent history.

Net assets per share: The Group's net asset value per share (NAVPS) also increased by 7% to Rs. 138.78 supported by increased profit generation. Over the past five years the NAVPS has increased by nearly 1.5 times.

Earnings per Share



Dividend Payout



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PREMIUM ICE CREAM

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YOUR NEW GUILTY PLEASURE

LIMITED EDITION

Taste the Good Life

The intense yet delicate essence of green tea, sourced from the mountains, blended in premium creamy ice cream for the most indulgent experience ever.

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CREATING VALUE FOR OUR CAPITAL INPUTS

Manufactured Capital

Capital expenditure of Rs. 2.6 bn in 2016/17

Relevance of our Manufactured Capital: Our manufactured capital consists of the buildings, machinery and equipment used in our manufacturing facilities as well as the physical infrastructure of its supermarket network. Effective management of this vital input is crucial to the continuity of our operations as it determines the Group's ability to manufacture products that meet the quality standards and preferences of our customers. In retail, the quality and form of our infrastructure plays a vital role in attracting customers to our outlets.

Rs. million	2016/17	2015/16	Y-O-Y %
Inputs (Opening Assets value)			
Land and building	2,241	1,869	20
Plant and machinery	2,020	2,033	(1)
Equipment and fittings	453	426	6
Others (freezers, coolers etc.)	1,408	1,037	36

Activities during the year

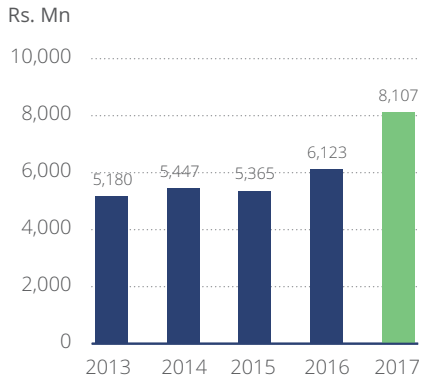
- Capital expenditure of Rs. 2.6 billion during the year
- Ongoing investments in energy efficient equipment and machinery
- Distribution of freezers, coolers and crates

Rs. million	2016/17	2015/16	Y-O-Y %
Outputs (Closing Assets value)			
Land and building	3,352	2,241	50
Plant and machinery	2,418	2,020	20
Equipment and fittings	630	453	39
Others (freezers, coolers etc.)	1,706	1,408	21

Material issues

- Reducing carbon footprint
- Managing natural inputs and outputs
- Market reach (Retail)
- Employee health and safety

Property, plant and equipment



"The Group's immediate term CAPEX will be focused on the completion of the factory in Seethawaka, capacity expansions in the beverages category as well as further expansion of the supermarket infrastructure"

Key Achievements

- Commenced construction of the new ice cream manufacturing facility in Seethawaka
- Commenced capacity expansion in the PET line for beverages
- Ongoing investments in employee health and safety within the factory premises

- 15 new retail outlets opened during the year

Key Challenges/Risks

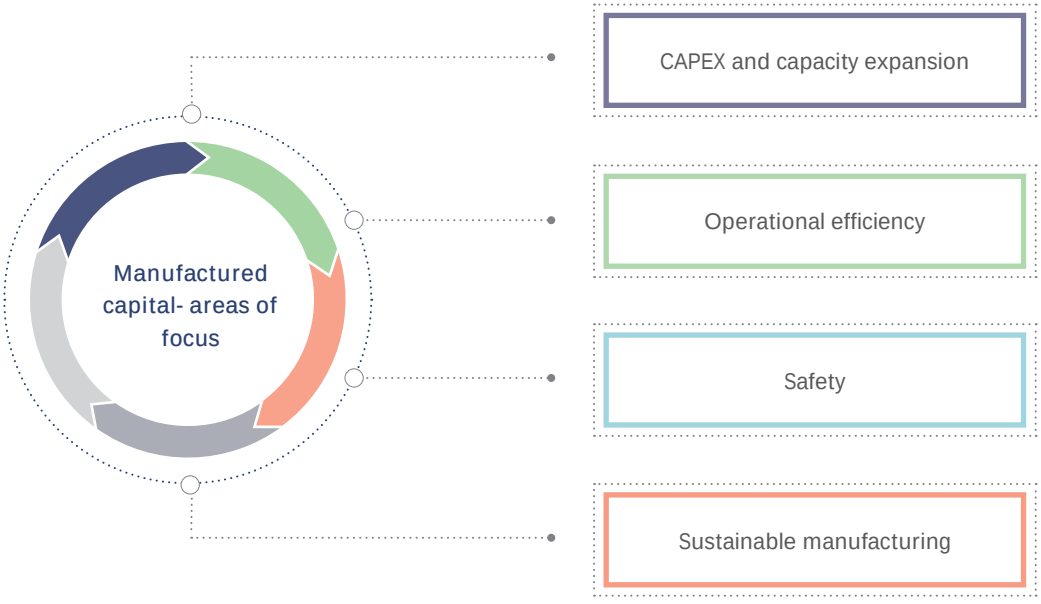
- Capacity limitations in the PET bottle line
- Capacity limitations for the production of the impulse range in frozen confectionary

Capital expenditure

Rs. 852.2 mn
Manufacturing

Rs. 1.75 bn
Retail

During the year, we focused on the priority areas listed below to achieve improvements in the quality, capacity and safety of our Manufactured Capital

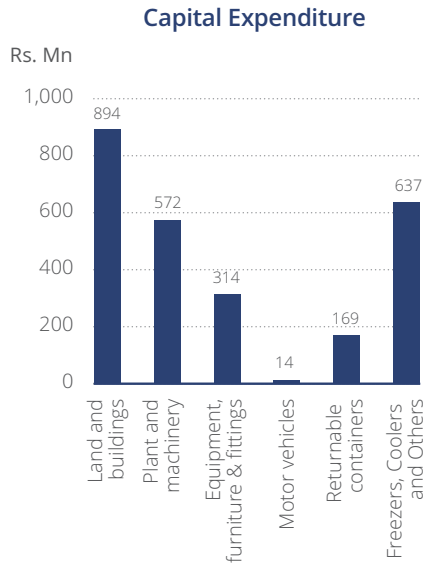


CREATING VALUE FOR OUR CAPITAL INPUTS

Manufactured Capital

Capital expenditure and capacity enhancements

In 2016/17, the Group incurred Rs. 2.6 billion in capital expenditure, primarily in expanding the retail network and capacity expansions in the Manufacturing sector. CAPEX in the Retail sector thus amounted to Rs. 1.75 billion, with the balance reflecting investments in CCS's new ice cream manufacturing facility and capacity expansions in the existing factory. We also invested Rs. 194 million in providing high-capacity freezers, coolers and crates to our dealer network. Other key CAPEX included investments in increasing hardening tunnel capacity, as well as expanding the new product development and essence operations in the Ranala factory. The Group's immediate term CAPEX will be focused on the completion of the factory in Seethawaka, capacity expansions in the beverages category as well as further expansion of the supermarket infrastructure.



Safety in the manufacturing facilities

We strive to nurture a strong safety culture in our manufacturing and operating facilities to ensure an injury-free, safe working environment in which the risk of occupational diseases are minimised. Compliance to the OHSAS certification, internal safety policies and standards and regular checks on the machinery and equipment ensure the highest standards of safety. Factory employees are mandated to wear personal protective equipment (including boots and helmets) and safety training is conducted on a regular basis. Regular location risk assessments enable the identification of potential hazard areas while medical services and a dedicated ambulance services are available at all times. In our retail outlets, audits

Ice Cream mixing plant

are conducted to ensure safety of building structures (refer pages 97 and 133 for further information)

Operational efficiency

Efficiency of our Manufactured capital (particularly in the factories) is measured regularly through a range of indicators including Overall Equipment Efficiency (OEE), line utilisation, line efficiency as well as product yields and cost variances. Performance is evaluated and brought to the attention of the management at monthly meetings, enabling the identification of inefficiencies and constraints to production.

Sustainable manufacturing methods

In line with our overall strategic objective of preserving our natural capital, the Group engaged in multiple initiatives aimed at reducing the overall carbon footprint of its operations. This included energy efficient equipment, lighting and resource optimisation a few of which are listed below. Please refer to pages 152 to 157 for detailed information on our environmental impacts.

- Investment in a 90KW air compressor for blowing 500ml and below PET bottles which had been previously carried out using a 225KW compressor. Use of the smaller air compressor facilitates optimal energy efficiency.
- Replacing low capacity freezer trucks with higher capacity trucks with the objective of reducing fuel consumption.
- Replaced metal halides and CFL bulbs with energy-efficient LED solutions.
- Initiated an energy and kaizen programme to identify energy saving opportunities. The total investment is Rs. 3.3 million.

Human Capital

Rewards and remunerations to employees Rs. 3.7 bn

Relevance of our Human Capital: Our human capital comprises our valuable team of 4,116 employees who are the architects of our strategies, facilitate our customer experience and ensure the long-term sustainability of our business.

	2016/17	2015/16	Y-O-Y %
Inputs			
No. of employees	4,116	3,370	22

Values, attitudes and skills of our employees

A safe, injury-free work environment

Multiple platforms for employee engagement

Activities during the year

- Rs. 47 million in training and development, translating to 164,549 training hours
- 58 promotions

	2016/17	2015/16	Y-O-Y %
Outputs			
Rewards and remuneration (Rs. mn)	3,691	3,186	16
Employee retention (%)	25	39	14
Productivity (net profit per employee) (Rs.)	863,193	853,078	1

Material issues

- Remuneration and benefits
- Employee health and safety

Key Achievements

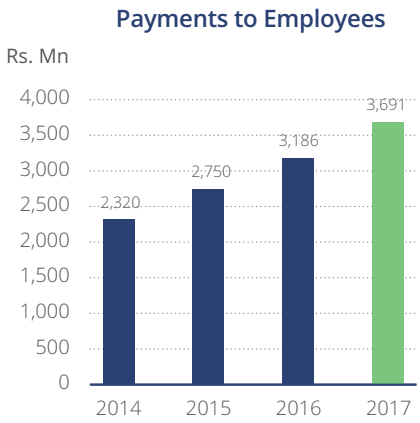
- Focused training on soft skills and leadership development
- Improvements in employee productivity
- Better health and safety indicators
- No disruptions due to industrial actions

Key Challenges/Risks

- Employee retention in the Retail sector

CREATING VALUE FOR OUR CAPITAL INPUTS

Human Capital



"We are an equal opportunity employer and do not discriminate on gender, age, ethnicity or sexual orientation"

36 %

Overall female participation

14 %

Female participation at management level

Approach to people management

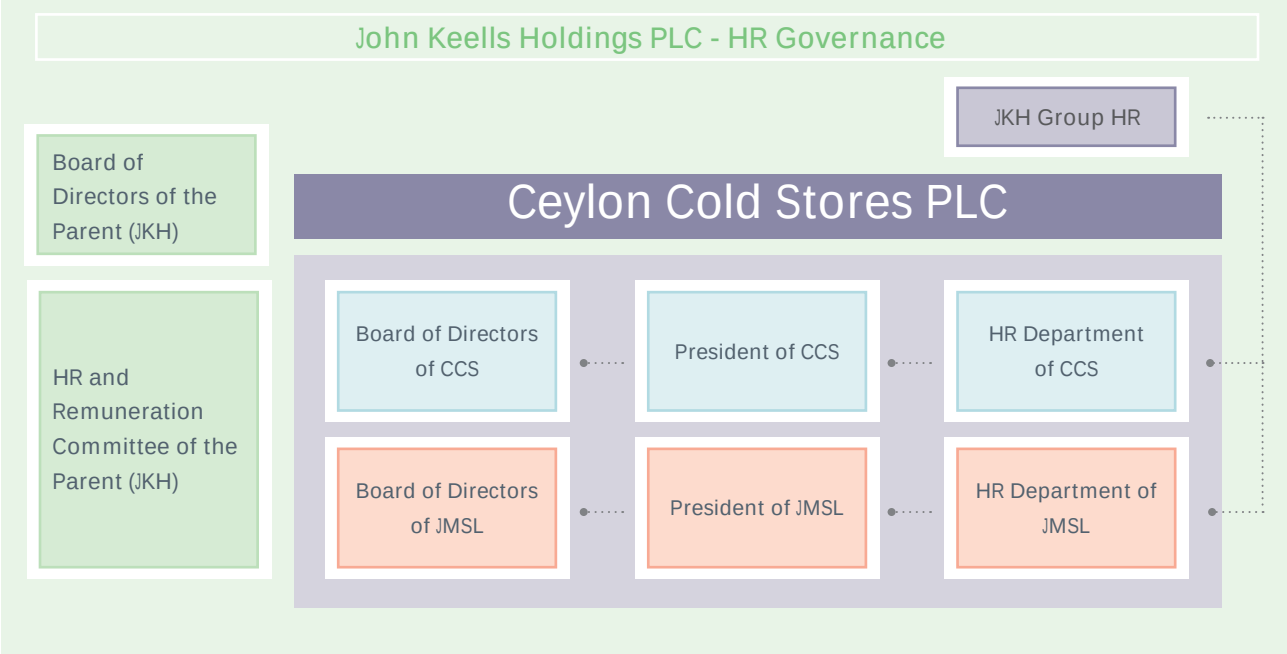
The Group's people strategy is aimed at developing an empowered resource pool and forms a vital part of the Group's overall strategy. Our overall approach towards managing our human capital is centered on preserving the dignity of labour, nurturing a high-performance culture and creating opportunities for talent development and career progression.

Out bound training for CCS staff at Thulhiriya

Out bound training for CCS staff at Thulhiriya

Governance and policy framework

The Group's comprehensive HR policy framework is aligned to that of John Keells Holdings PLC and covers all aspects of people management including recruitment, rewards and recognition, performance management, industrial relations and grievance mechanisms among others. The policies ensure compliance with regulatory requirements including the prohibition of child labour and forced/compulsory labour. Employees are also governed by the John Keells Group's Code of Conduct which is communicated to all employees during orientation and through the staff intranet. We are an equal opportunity employer and do not discriminate on gender, age, ethnicity or sexual orientation. The HR governance structure of the Organisation is as follows;



Our People Strategy in 2016/17

The people strategy for 2016/17 was formulated with the objectives of effectively addressing the skill gaps and employee concerns that were revealed through the Climate Survey conducted in previous year. Accordingly, focus was placed on nurturing leadership, management and communication skills while refining and reformulating career progression paths.

In Retail, strategic emphasis was placed on enhancing the overall employee value proposition through training, comprehensive reward structures and engagement, with a view to increasing retention levels. As a component of its sustainability agenda, the Manufacturing and Retail Sectors developed 5 'People promises', articulating its long-term commitment to employee value creation.

Our People Promises - Manufacturing

1. Supervisor that supports and encourages you
2. Help colleagues and develop
3. Trust, respect and care for each other
4. Exciting and rewarding jobs
5. Everyone's ideas and opinions matter

Our People Promises - Retail

1. A boss that teaches me
2. Treated with trust and respect
3. Fair reward
4. I can grow and develop
5. My ideas matter

CREATING VALUE FOR OUR CAPITAL INPUTS

Human Capital

Profile of our team

Our human capital comprises the skills, values and attitudes of 4,116 employees, including 983 in the Manufacturing Sector and 3,133 in the Retail arm. In addition, we also engage 831 personnel through outsourced operations such as janitorial, security services and contract labour, primarily at JMSL. The Group's total female representation level amounted to 36% during the year, compared to 32% the year before.

Employment by contract and gender

	2016/17			2015/16		
	Male	Female	Total	Male	Female	Total
Permanent	1,614	591	2,205	1,465	492	1,957
Contract/Outsourced	1,014	897	1,911	834	579	1,413
Total	2,628	1,488	4,116	2,299	1,071	3,370

Employment by type and gender

	2016/17			2015/16		
	Male	Female	Total	Male	Female	Total
AVP and above	19	3	22	19	3	22
Managers	47	7	54	42	7	49
Assistant Managers	112	12	124	98	7	105
Executives	341	97	438	316	70	386
Non-Executives	2,109	1,369	3,478	1,824	984	2,808
Total	2,628	1,488	4,116	2,299	1,071	3,370

Employment by Province

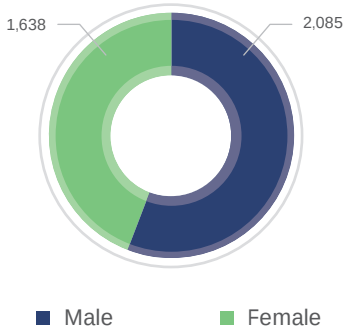
	2016/17			2015/16		
Region	Male	Female	Total	Male	Female	Total
Western	1,401	488	1,889	1,229	353	1,582
Central	305	188	493	301	166	467
Southern	338	316	654	314	240	554
North Central	65	49	114	65	36	101
Northern	29	8	37	21	2	23
North Western	147	108	255	125	87	212
Eastern	32	18	50	25	8	33
Sabaragamuwa	155	193	348	120	103	223
Uva	156	120	276	99	76	175
Total	2,628	1,488	4,116	2,299	1,071	3,370

GRI-G4 • G4-9, G4-10, G4-LA1

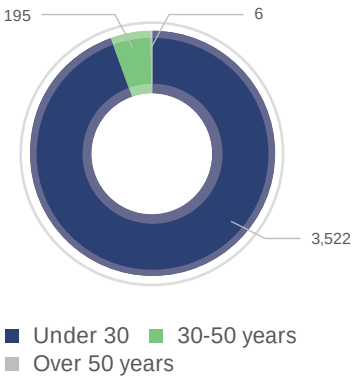
Talent attraction

We are an equal opportunity employer and do not discriminate based on gender, age or ethnicity. Our strong brand name and excellence track record of over 150 years enabled us to attract and retain the industry's top talent. A formalised and comprehensive recruitment process ensures that all applicants are assessed for the required skills in a fair manner. During the year, we added 3,723 new employees to our team comprising of 3,617 to the Retail sector and 106 to the Manufacturing sector. When recruiting, we strive to attract individuals from the respective localities thereby contributing towards job creation and regional socio economic progress. During the year, we hired 2,523 individuals from the outstation regions including 131 from the North and Eastern provinces.

New employees by gender

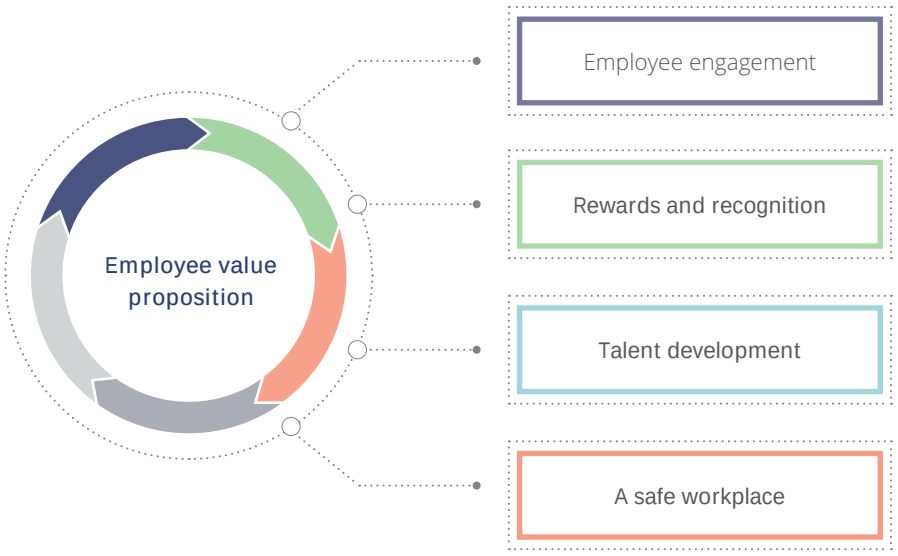


New Employees by age



New Recruits	
Western	1,200
Central	465
Southern	717
North Central	138
Northern	51
North Western	307
Eastern	80
Sabaragamuwa	440
Uva	325
Total	3,723

Employee value proposition



Great Place to Work Survey:
CCS 58% satisfaction score
JMSL 80% satisfaction score

Total payments to employees:
Rs. 3.7 bn
(2015/16: Rs. 3.2 bn)

Total training hours: 164,549
Number of training hours per employee: 40

Workplace injuries: 74

CREATING VALUE FOR OUR CAPITAL INPUTS

Human Capital

Employee engagement

Multiple employee engagement initiatives (refer page 44 for full list of engagement mechanisms) and an open door policy guarantees ongoing two-way communication between the Group's leadership and its employees while ensuring that employee concerns are clearly understood and addressed. A year-round event calendar including religious and cultural celebrations and community engagement initiatives ensure work-life balance and nurture a sense of camaraderie and team spirit.

Satisfaction surveys

CCS engaged in the GPTW survey during the year, the findings of which have been crucial in formulating the HR strategy for the coming year. CCS achieved a score of 58% in this Survey and JMSL of 80%, highlighting areas in which the employee value proposition required improvements. In the Retail segment a quarterly survey enables the management to identify performance against the five specific people promises.

Industrial relations

As an organisation, we are cognizant of our employees' right to freedom of association and our employees are represented by two unions, namely the Sri Lanka Nidahas Sevaka Sangamaya, and the Inter Company Employees' Union. Approximately 55% of our employee in the Manufacturing sector is represented by these unions. Collective agreements which specify remuneration, benefits working conditions and health and safety aspects among others are in place with renegotiation due in September 2018. During the year we maintained cordial relationships with the unions and there were no disruptions to work or lost days resulting from industrial disputes.

Grievance mechanism

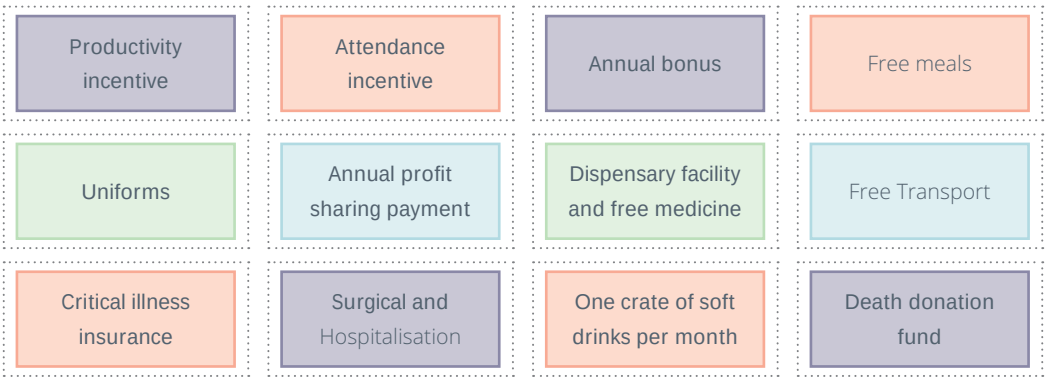
The Group's formalised and structured employee grievance mechanism is in line with that of the parent company and ensures anonymity and equitable treatment of reasonable grievances. In the event that the resolution presented is not to the satisfaction of the employee, he/she has access to an Ombudsman.

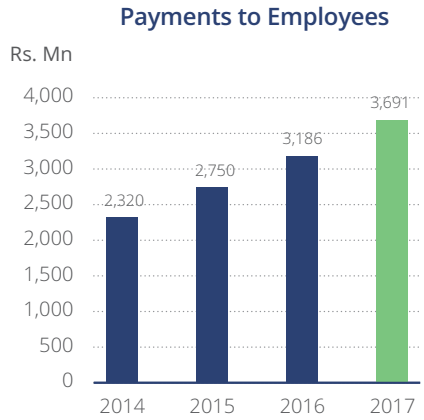
Grievances filed	0
Grievances resolved during the year	0
Grievances filed in the previous period and resolved during this period	0

Rewards and recognition

A formalised Remuneration policy ensures that reward structures foster high performance and employee retention while balancing the interests of other stakeholders. Our rewards and recognition, opportunities for training and career progression are all linked to the annual performance appraisal, which is carried out for 100% of our executive cadre. Remuneration comprises of guaranteed and variable pay; guaranteed pay is determined by collective agreements or individual employment contracts and is in line with industry standards for similar category jobs whilst variable pay is based on the performance of the individual and the organisation as a whole. Employees above the Assistant Manager grade are also eligible for Employee Share Options. In addition to remuneration, the benefits presented in the infogram below are also provided to employees. During the year, total payments to employees increased by 15 % to Rs. 3,691 million.

Benefits given to our employee





High performing employees are identified through performance appraisals and provided opportunities for career progression with the objective of grooming the next generation of leaders within the Group. Accordingly, we have nurtured a strong talent pipeline through a comprehensive talent development framework. During the year under review, we promoted 58 employees, which included 41 executive level promotions.

Training and development

As an employer of choice, we offer a unique talent development proposition to all our employees consisting of structured and on the job training programmes as well as life-long skill development initiatives. Training needs are assessed through annual performance reviews which allow managers to clearly identify areas for further improvement. In addition to technical training, we also place emphasis on developing the leadership and soft skills of our employees. Manual and clerical workers undergo extensive on-the-job training on an ongoing basis allowing them to transition from the unskilled category to semi-skilled and skilled labour. In the Retail sector, we have focused on increasing exposure to e-learning; 18 training modules have been converted to online platforms while video based training have been introduced in outlets.

In 2016/17, special focus was placed on transforming attitudes, developing leadership skills and nurturing a performance-oriented culture. Total investment in training and development amounted to Rs. 47 million during the year, which translated to 39.98 training hours per employee on average (compared to 25.38 hours per employee in 2015/16). Key training initiatives carried out during the year are included in the adjacent table.

> "Total investment in training and development amounted to Rs. 47 million during the year, which translated to 39.98 training hours per employee on average (compared to 25.38 hours per employee in 2015/16)"

41

Executive level promotions

17

Non-Executive level promotions

Type of skill developed	Training program
Soft skills	Motivational speech
	Professional grooming and dining etiquette
	Effective presentation skills
	English competency development for Executives and Assistant Managers
Leadership skills	Management development program
	Outbound training
	Leadership training
	Career and life goal setting
	Coaching and mentoring skills
Sales and marketing	Annual sales conference with OBT
	"Sales Worrier to Warrior"
Technical skills	Study tour to Thailand for 7 high performing supply chain employees
	IMORICH brand introduction-product knowledge
	Operating training workshop
Others	AIDS Awareness
	Equal ground awareness training

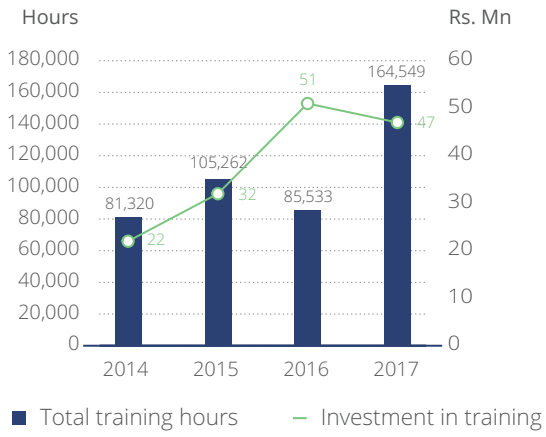
CREATING VALUE FOR OUR CAPITAL INPUTS

Human Capital

Average training hours per employee

	Total Head Count	Total Training Hrs	Total Training Hrs / per Head
AVP & above	22	182	8.25
Manager	54	1,270	23.52
Assistant Manager	124	2,758	22.24
Executive	438	11,975	27.34
Non Executive	3,478	148,365	42.66
Total	4,116	164,549	39.98

Training Details

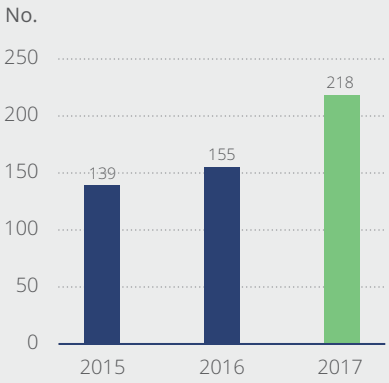


The Retail Academy-JMSL

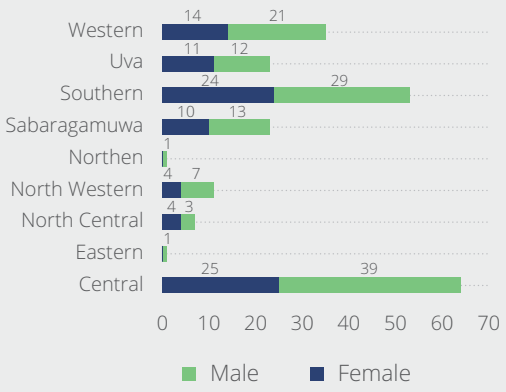
The Retail Academy is a dedicated training centre operated by JMSL, which provides the opportunity for thousands of rural youth to develop skills required to obtain employment in the retail industry. Trainees are provided a comprehensive 18-month course on all operational aspects in the retail industry through lectures, workshops and practical training. Students are attracted through local Assistant Government Agents (AGA) offices and allow us to directly contribute towards regional skill development. During the course, trainees are provided with accommodation, food and clothing.

The course is accredited by National Apprentice and Industrial Training Authority (NAITA) and National Vocational Qualification (NVQ) and supports the skill development and life-long learning of its young trainees. Upon completion of the course, trainees are absorbed to our supermarket cadre and also have the opportunity of progressing to manager-grade through a fast-track development program. Since inception in 2006, the Academy has successfully trained over 3,781 individuals during the year under review, 218 students completed the program of which 183 were from outstations.

NAITA certified trainees trained by Keells Retail Academy



Regional and gender composition of trainees



A safe workplace

As an organisation operating manufacturing facilities, we are cognisant of the vital importance of maintaining a safe and hazard free work environment. The Group's occupational health and safety policy includes guidelines on preventive safety measures to minimise the occurrence of work-related injuries, scope and responsibilities of the Safety Committee as well as the importance on improving worker awareness on safety aspects. We have also obtained and continue to comply with requirements of OHSAS 18001 standards for Occupational Health and Safety Management. During the year we further strengthened our safety mechanisms through the following initiatives;

Glass line filler operator

- Introduced a safety induction process for all contract workers
- SPILL KITS — Introduction of spill kits to areas with the risk of oil and hazardous chemical spillage
- Fire hydrant system for new warehouse
- Improved ventilation system in the ginger extraction plant and general stores
- NH_3 — Introduction of an ammonia leak detection system
- Eye wash and shower unit introduced in areas which could expose employees to corrosive materials/chemicals
- Self-contained breathing apparatus units for Emergency Response in all oxygen deficient atmospheres

Health and safety performance during the year

	Male	Female	Total
Occupational injuries and diseases	41	33	74
Total No. of lost days due to occupational injuries/diseases	469	138	606
Health and safety training hours	1,186	297	1,483

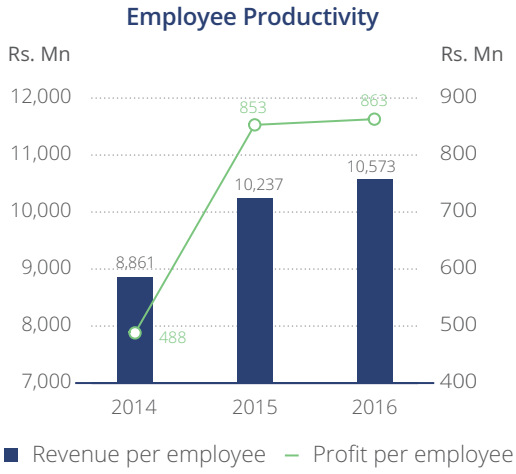
CREATING VALUE FOR OUR CAPITAL INPUTS

Human Capital

"Our training and development initiatives and performance management systems are designed to ensure the creation of a high-performing culture in which, employee efficiency and productivity is optimised"

Employee productivity

Our training and development initiatives and performance management systems are designed to ensure the creation of a high-performing culture in which, employee efficiency and productivity is optimised. At a Group level, productivity is measured through revenue generated per employee and profit generated per employee.



Employee retention

Retaining non-executive staff in the retail sector continues to be one of our key challenges as intense competition for young talent in the retail industry and high labour migration has resulted in relatively high attrition levels. In effectively responding to this challenge, we have consistently sought to strengthen our non-executive staff value proposition through investment in training and skill development, high employee engagement and attractive remuneration. Overall the Group's employee turnover levels are skewed by the attrition of the non-executive staff and the total turnover rate increased to 75% during the year, from 61% the previous year. Employee attrition as a percentage of new hires amounted to 76% during the year under review.

Employee attrition

	Male		Female		Total	
	Number	Rate (%)	Number	Rate (%)	Number	Rate (%)
Assistant Vice President and above	2	0.11	-	-	2	0.09
Managers	1	0.02	-	-	1	0.02
Assistant Managers	3	0.03	1	0.11	4	0.03
Executives	61	0.19	13	0.16	74	0.18
Non-Executives	1,583	0.80	1,147	0.97	2,730	0.87
Total	1,650	0.67	1,161	0.91	2,811	0.75

Intellectual Capital

Elephant House and Keells Super is in the top 20 most valuable brands

LMD brand annual publication 2016/17

Relevance of our Intellectual Capital: Intellectual capital consists of the Group's tacit knowledge, organisational capital and the strength of its brands which ultimately determines its competitiveness.

Inputs

Business processes and management systems

Our brands and related intangibles

Tacit knowledge of our talented employees

Activities during the year

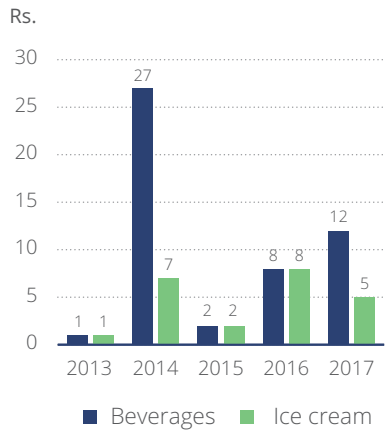
- Investment in R&D of Rs. 37 million
- Upgradation of CCS R&D lab by investing Rs. 27 million
- Initiatives to drive a high-performance driven culture
- Ongoing engagement between the marketing, production and R&D teams

Outputs

Launch of several new products during the year

Maintained market leadership in both beverages and frozen confectionary categories

No. of new products launched



Material issues

- Innovation

Key Achievements

- Launch of 5 new beverage flavours and 5 new ice cream flavours
- Keells Super and Elephant House both recognised among Sri Lanka's top 20 brands

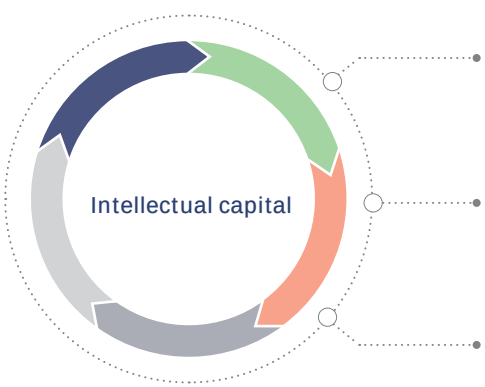
Key Challenges/Risks

- Increasing regulation on nutritional aspects
- Increased customer sophistication and prevalence towards more healthy options

CREATING VALUE FOR OUR CAPITAL INPUTS

Intellectual Capital

The Group's intellectual capital can be broadly categorised as follows;



Brands	Elephant House and Keells Super are among Sri Lanka's top 20 brands (LMD)
Research and development capabilities	In-house developed portfolio of 24 beverage flavours and 37 frozen confectionary flavours
Organisational knowledge	Processes that conform to international standards and the tacit knowledge of our workforce

Brands

The Elephant House brand is synonymous with quality and trust, attributes that have been ingrained in local consumers since the Company's early beginnings. The strength of its brands have enabled the Group to retain market leadership positions in both beverages and frozen confectionary, despite intense competitive pressures from international counterparts. In recent years, the Company has sought to nurture new brands with different attributes in order to cater to emerging customer needs. We understand that our reputation relies on the product quality we offer and we invest substantial time and effort in ensuring that our commitment to quality is maintained throughout our supply chain and distribution channels.

Our products are featured recognised as the country's leading beverage brands, while overall Elephant House and Keells Super rank among the country's top 20 brands, based on the LMD Brands Annual Publication. In 2017, Elephant House notched up 5 ranks to emerge as the 15th most valuable brand in the country, while Keells Super ranked as 20th most valuable brand in the country.

15th most valuable brand in Sri Lanka with an estimated brand value of Rs. 8.3 billion and a brand rating of AAA- (LMD)

20th most valuable brand in Sri Lanka with an estimated brand value of Rs. 6.5 billion and a brand rating of AA+ (LMD)

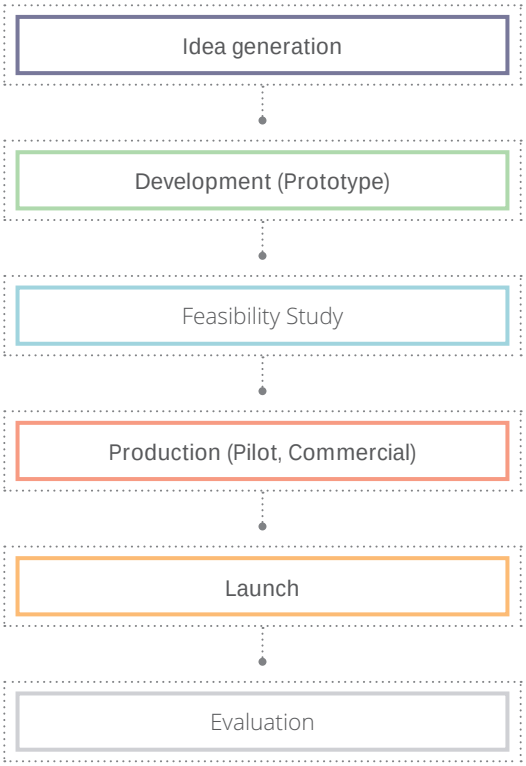
Beverage brand of the year for the 11th consecutive year (Neilsen People's Awards)

Youth Beverage brand of the year (Neilsen People's Awards)

Research and development capabilities

CCS's sophisticated R&D capabilities enable us to effectively respond to emerging customer needs through innovative new flavours and product formulations. Our talented R&D team is equipped with state of the art technology and unmatched intellectual capital to facilitate new product development which is vital in maintaining our market leadership position.

New product development is an ongoing process and is a result of the collective efforts of the R&D team, marketing personnel, quality assurance and brand personnel and production managers, among others. During the year, we invested approximately Rs. 37 million in R&D activities including upgrading our R&D lab by investing Rs. 27 million on infrastructure; in the beverages category, we launched 5 new flavours including Lemoki in the rapidly growing lime and lemon range and a fruit juice range. In the frozen confectionary category we launched 2 limited edition products, one flavour in our premium IMORICH brand and two imported products. We have also placed emphasis on providing healthier options to consumers through the use of natural ingredients with lower sugar calorific values. CCS has an extensive recipe library and a strong pipeline of products, some of which will be launched in the coming financial year.



"CCS's track record of over 150 years in serving the Sri Lankan consumer has allowed us to nurture an invaluable base of organisational knowledge."

Systems, processes and organisational knowledge

CCS's track record of over 150 years in serving the Sri Lankan consumer has allowed us to nurture an invaluable base of organisational knowledge. We have refined our systems, production methods and management processes facilitating adaptability to changing market conditions and allowing us to maintain our market leadership position despite the entry of international players. Compliance to international quality and safety certifications has also allowed us to develop best practices in all aspects of our operations.

Elephant House Cream Soda won Peoples Beverage Brand of the Year

CCS won the silver award (Consumer Food Category) at Annual Report Awards ceremony conducted by CA Sri Lanka

CREATING VALUE FOR OUR CAPITAL INPUTS

Social and Relationship Capital

Total payments to suppliers amounted to Rs. 35.8 bn

Relevance of our Social and Relationship Capital: Our Social and Relationship Capital consist of our stakeholder relationships which are fundamental in our value creation process and provide us the social license to operate.

Rs. million	2016/17	2015/16	Y-O-Y %
Inputs			
No. of farmers	4,788	4,834	(1)
No. of suppliers	2,297	1,924	19
No. of distributors	164	157	4
No. of Keells Super retail outlets	64	50	28

Activities during the year

- Rs. 1.56 million investment in farmer/ supplier capacity development
- Ongoing engagement with our end-consumers

Rs. million	2016/17	2015/16	Y-O-Y %
Outputs			
JMSL ranking - customer pulse survey*	1	1	0
Payments to suppliers (Rs. mn)	35,826	27,047	32
Commission paid to distributors (Rs. mn)	101	144	(30)

**Customer pulse: Quarterly survey done across 500+ households in 5 geographical locations to gauge consumer & customer perceptions & attitudes.*

Material issues

Customer health and safety, Market reach, Product quality, Customer service, Sustainable procurement

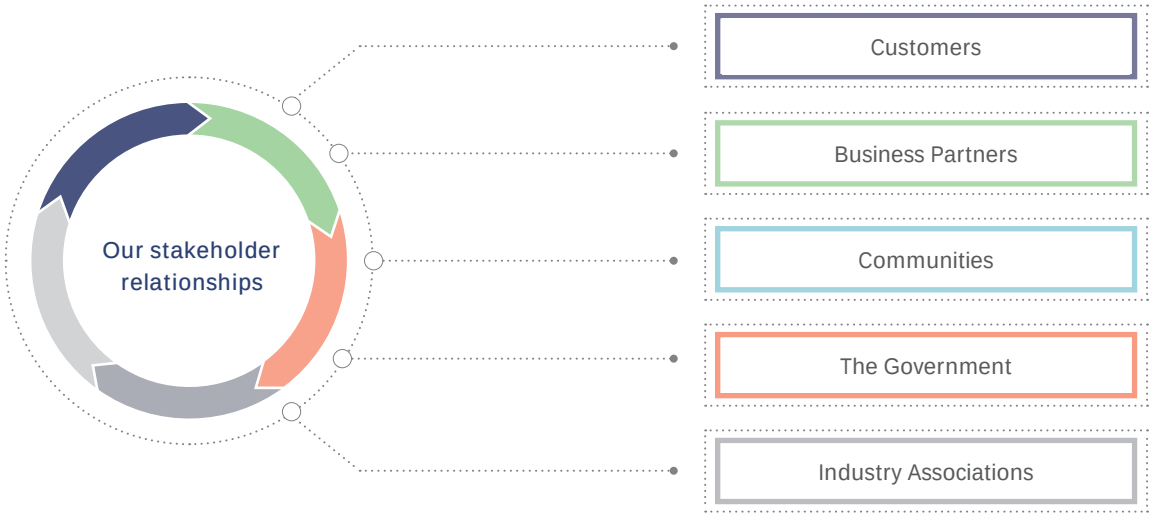
Key Achievements

- Keells Super outranked other supermarket chains in customer satisfaction (Customer Pulse Survey)
- Soft drinks and ice cream maintained market leadership position
- Launched a new out-grower program to support disabled persons in Galle

Key Challenges/Risks

- Increased competition in all categories
- Scalability and availability of suppliers

The primary Social and Relationship capitals that are input to our value creation process are the long-term relationships we have nurtured with our key stakeholder groups which include consumers, business partners, communities, industry associations as well as the government. Business partners are further classified as farmers, other suppliers, distributors and retailers.

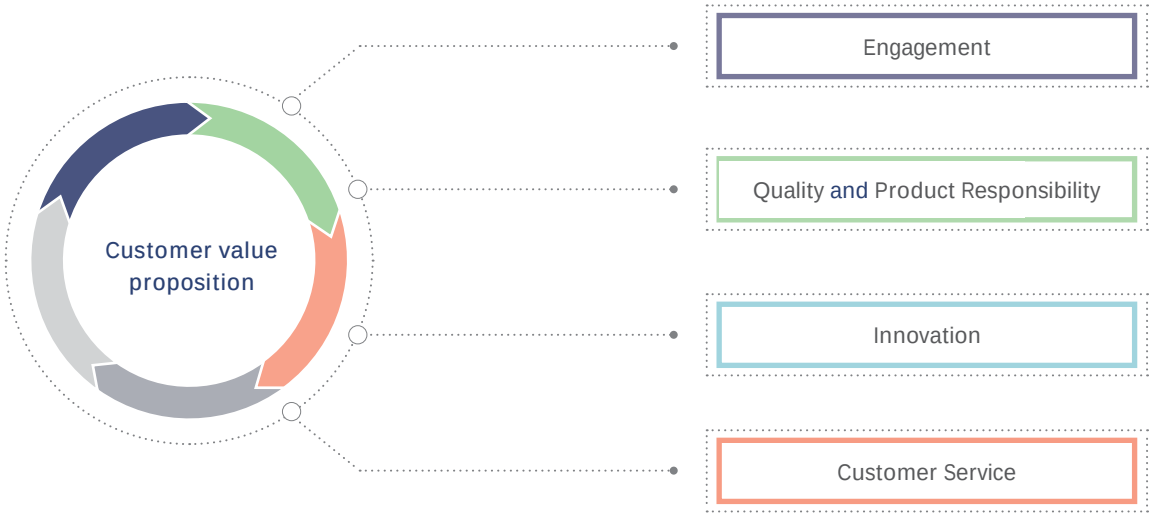


Customer relationships

Our customers consist of the end-consumers of our beverage and ice cream products and the patrons of our supermarket network. We are committed towards effectively responding to changing customer preferences through delivering the products and services our customers expect, at the right time and price. Key principles of our customer management framework include excellent customer service, responsible advertising and marketing and a high level of product traceability. The Retail Sector has also articulated its customer value proposition through 6 customer promises which are listed in the infogram below; customer responses/ feedback to each of these promises is measured regularly.

Our Customer Promises-Retail

1. Shopping is easy and enjoyable
2. I can find everything I want easily
3. I know its fresh everyday
4. I get the best deals and prices
5. Staff are great
6. I get my money's worth



CREATING VALUE FOR OUR CAPITAL INPUTS

Social and Relationship Capital

Customer Engagement

Customer engagement is facilitated through regular satisfaction surveys, which enable us to understand disposition towards our brands, customer behaviour and trends which form a key input to our marketing strategy. Other engagement mechanisms include face to face meetings, interaction through social media and a dedicated hotline. Customer complaints are tracked and addressed to the Manager-Quality and Compliance who ensures an effective response/resolution. During the year, the Retail sector engaged with approximately 3,750 customers as part of multi-faceted satisfaction surveys facilitated through the following;

- Exit surveys: Satisfaction survey conducted to 30 customers per store covering all stores
- Customer pulse: Quarterly survey done across 500+ households in 5 geographical locations to gauge consumer & customer perceptions & attitudes.
- Mystery shopper: All stores audited on a monthly basis
- Focus groups

Key results revealed from JMSL customer engagements are summarised below;

What's good		Areas for improvement	
Polite and friendly staff		Relatively expensive fresh produce	
Cleanliness		Long queues	
Accuracy in billing		Freshness of fish	
Vegetables are fresh		Unavailability of certain brands	
High savings from Nexus		Slow checkout	

Meanwhile, based on the Customer Pulse Surveys carried out for the year under review, the Keells Supermarkets outperformed all other major supermarket chains consistently for 4 quarters.

Quality and Product Responsibility

Product quality is a vital element of our brand reputation and competitive advantage. In addition to stringent internal quality standards and policies, the following external certifications and internal policies provide assurance to stakeholders regarding the quality of our products and services.

ISO 22000:2005 Food safety management: Demonstrates ability to control food safety hazards to ensure that food is safe for human consumption

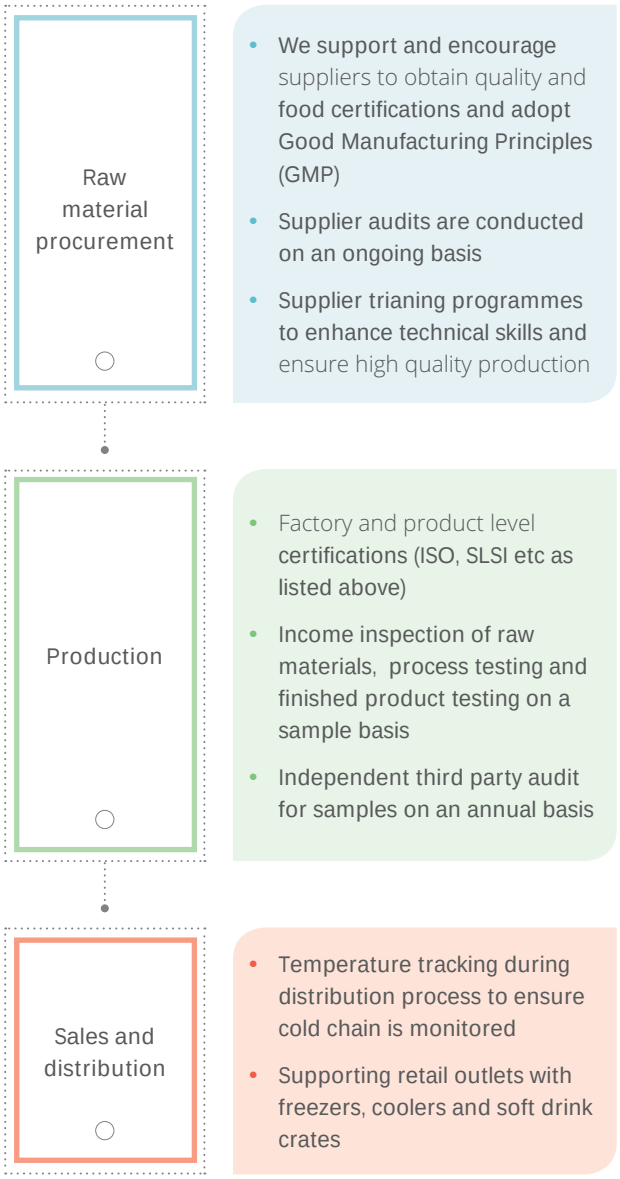
ISO 9001: Quality management: Ensures that products and services meet customers quality requirements

OHSAS 18001: Occupational health and safety-Ensures that the occupational health and safety management systems eliminate or minimise risk to employees and other interested parties who may be exposed to occupational health and safety risks associated with its activities

SLSI certifications: for individual product formulations in frozen confectionary and beverages. Kik cola is also the only local cola to have SLS 183 certification

SLSI certifications: for 31 retail outlets

- **Manufacturing Sector:** Quality is assured at each stage of production, starting from the point of raw material procurement up to the point of sales. Employees are provided regular training on quality aspects including periodic training on Good Manufacturing Principles (GMP), quality concept training for shop floor employees and external quality training for executive employees.



"We are committed to the use of the highest quality of ingredients which conform to all regulatory requirements as well as global best practices"

- **Retail sector:** Internal standards and processes are in place to ensure the quality of all products being sold at our supermarkets. Minimal touch points and quality checks across the supply chain process ensure that the quality of fresh fruits and vegetables sold at our outlets are of the highest standards. We also work closely with our private label product manufacturers, conducting capacity building programmes and regular audits to ensure compliance to all regulations and SLIS parameters.

Customer health and safety

The beverages and frozen confectionary categories are governed by the Food Act No. 26 of 1980 and subsequent amendments thereto. The Company is also fully compliant with the Flavouring substances and Flavour enhancers guidelines prescribed by the Food Advisory Committee of the Ministry of Health. We are committed to the use of the highest quality of ingredients which conform to all regulatory requirements as well as global best practices. As an ongoing focus area, we have also continued to harness our research capabilities to respond effectively to customers' increasing propensity towards healthy and nutritious food and all categories of our products were assessed for potential improvements in health and safety aspects. During the year, there were no incidents of non-compliance with regulations and voluntary codes concerning health and safety aspects of products.

	Beverages
% of sales volume that are lower in added sugar	59

CREATING VALUE FOR OUR CAPITAL INPUTS

Social and Relationship Capital

Responsible marketing practices

Product labelling requirements are governed by the Food (Labelling and Advertising) regulation of 2005. Information to be disclosed includes date of manufacture and expiry, complete list of ingredients, batch number and instructions for storage. During the year, regulations were also introduced requiring the demonstration of the sugar content in beverages using a colour code system. In addition to the mandatory disclosures, we have also voluntarily displayed the nutritional composition of our soft drinks on the PET bottles and in a range of cans. During the year under review, there were no incidents of fines/ penalties imposed on the Group due to the non-compliance of any product labelling regulations or marketing practices.

Number of products	Ingredients used	Sourcing of components	Content or substances with environmental and social impact	Safe use of product or service	Disposal of the product
Soft drinks	100%	0%	0%	8%	69%
Ice Cream	100%	0%	0%	8%	69%
Retail	59%	2%	0%	76%	100%

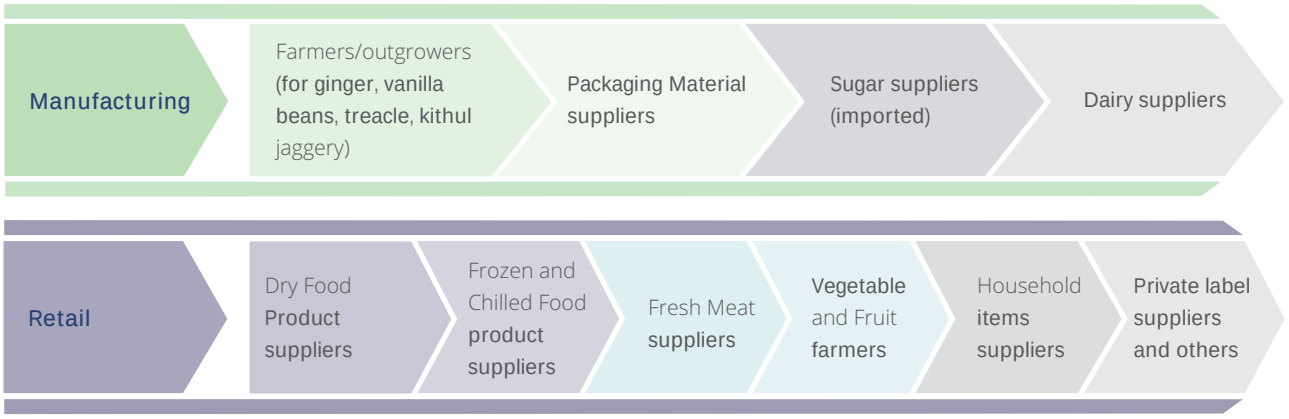
Business partners

Our key business partners include farmers, other suppliers, distributors and retailers who play a vital role in ensuring the continuity of our business and our value creation model.

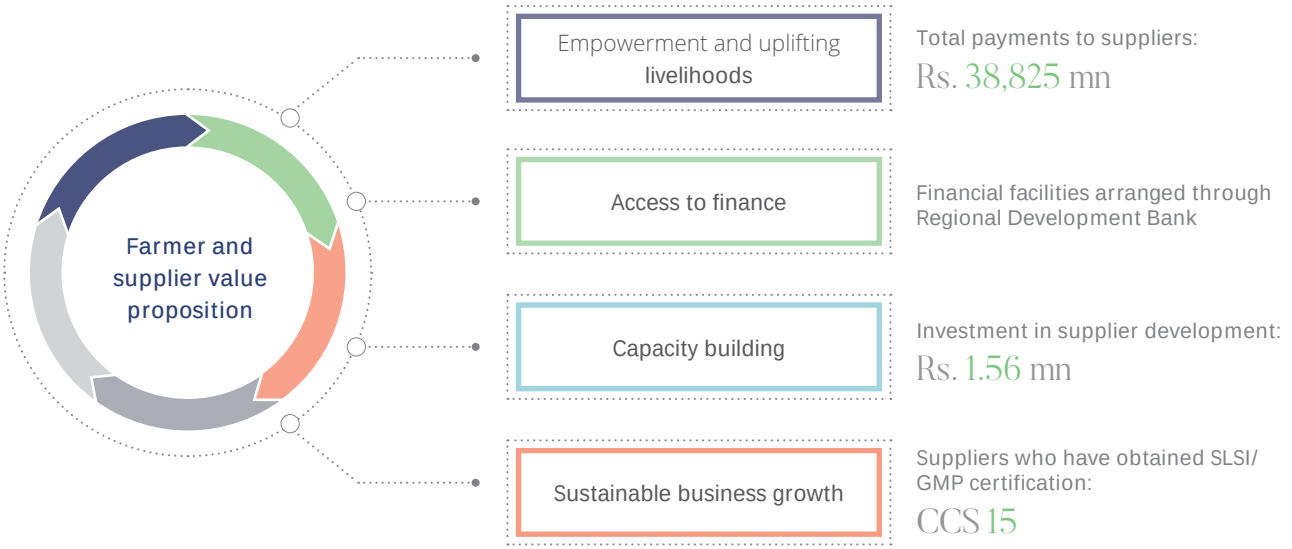
Farmers and other suppliers

We source raw materials, packaging material and trading goods from over 7,000 local and international suppliers and farmers. Agriculture based ingredients including vanilla, ginger and cashew which are inputs in the manufacture of beverages and ice creams are sourced locally in its entirety. Rs. 556 million was incurred on raw materials which are procured locally, including the entirety of agriculture based ingredients and fresh milk which are inputs in the manufacture of beverages and ice creams. In the Retail Sector JMSL sources fresh produce from a network of 1,811 farmers. In addition to the farmer community, JMSL is dependent on its supplier base of close to 1,200 suppliers to provide the rest of the range of products in our outlets. The scale of the suppliers range from multinational entities to SMEs and cottage industries. Ensuring the scalability and availability of our suppliers is fundamental as we pursue aggressive growth in the Retail Sector and we continue to work closely with our suppliers to develop their capacity and contribute towards growing their businesses.

The Group's key suppliers can be categorised as follows;



Our value proposition to these farmers and suppliers can be graphically illustrated as follows;



- **Farmer empowerment and uplifting livelihoods**

In the Manufacturing sector, the Group supports the livelihoods of over 2,900 farmers through the purchase of Ginger, Vanilla Beans, Treacle, Kithul, Jaggery and Cashew nuts. Assured pricing through forward contracts, even during periods of crop failure has ensured a relatively steady income stream for farmers, supporting their socio economic progress and enabling the Group to nurture sustainable, mutually beneficial relationships. During the year, we further expanded our out-grower program to empower differently abled persons in the Galle district (please refer to page 108 for further details). In 2016/17 total payments to out-grower farmers of manufacturing sector amounted to Rs. 49 million.

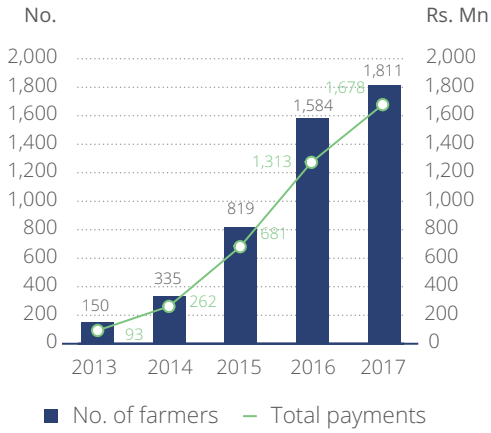
Produce	No. of beneficiary farmers	Volume purchased (KG)	Total payments (LKR)
MANUFACTURING			
Ginger			
Sourced from farmers in the Kandy District as well as Colombo, Gampaha and Kalutara	382	40,425	40,425,400
Vanilla			
Sourced from the several Kandy suburban areas in partnership with the Kandy Vanilla Growers Association	1,200	446	8,920,000
Treacle			
Sourced from Waralla and Deniyaya	15	34,800	4,524,000
Jaggery			
Sourced from the Agriculture Self Employment Society of Neluwa	60	39,480	24,104,711
Cashew Nuts			
Collected from Wanathawilluwa, Galewella, Adiyagama,Chilaw, Serukele and processed in Kuliyapitiya and Ja-Ela	1,300	41,159	79,607,500
TOTAL	2,957	156,310	157,581,211

CREATING VALUE FOR OUR CAPITAL INPUTS

Social and Relationship Capital

In the Retail sector, JMSL sources fresh fruits and vegetables from an island-wide network of over 1,800 farmers through 7 collection centres. The collection centre model has provided local communities a consistent buyer of produce with fair trading terms and prices and during the year under review, we purchased over 14 million kilograms of vegetables with total payments exceeding over Rs. 1.68 billion. In parallel to our expanding network, we have increased sourcing from these centers and payments to these suppliers have increased by more than 15-fold over the past 5 years

Fresh produce procurement from farmers-JMSL



- **Capacity building**

We have partnered with the Department of Agriculture and Export Agriculture Board in propagating Good Agricultural Practices with the objective of ensuring long-term agricultural productivity of our farmer networks and minimising the degradation of natural resources. We also provide agricultural machinery, fertilizers and technical guidance on new cultivation methods to enhance the quality of the produce. Training programmes are conducted on an ongoing basis to ensure adherence of Good Agricultural Practices (GAP) and we encourage and support our farmers to obtain the GAP certification. Our dedicated team of extension officers also carries out regular audits to ensure the quality of the produce is in line with our expectations. In retail we work closely with our private label suppliers to support and encourage compliance to the GMP certification through structured training programmes and workshops. During the year under review, the Group's total investment in such supplier development programmes amounted to Rs. 1.56 million with a total participant base of over 7,000 farmers and other suppliers.

RETAIL	No. of beneficiary farmers	Volume purchased (KG)	Total payments (LKR)
Thambuttegama collection centre Purchased from farmers in Mahaweli H region. Big onions are purchased from farmer associations in the North Central Province, through a project initiated by the US AID	180	3,213,910	245,485,257
Suriyawewa collection centre Source low country vegetables and fruits from Walawa Mahaweli region in the Southern Province	160	3,166,472	289,482,929
Nuwara Eliya collection centre A vegetable collection centre operated by the Nuwara Eliya Agricultural Cooperative Society	590	2,216,373	361,188,247
Jaffna Sourcing of fruits, vegetables and fruits	75	914,659	85,393,587
Sigiriya	50	1,631,061	160,211,276
Puttalam	126	919,336	146,519,800
Bandarawela	630	2,763,235	389,619,531
TOTAL	1,811	14,825,046	1,677,900,628

"Our partnership allows suppliers to sustainably grow their business and we continue to support them with obtaining compliance to GAP and GMP certifications"

Community engagement

Sample of training programmes conducted for farmers

Crop management	Sustainable agricultural practices	Product quality
Post-harvest technologies	Introduce SL-GAP	Selection process of Keells Centres
Hybrid seeds and varieties	Soil reports and improvements	Improving quality of the products
Chemical and fertilizer solutions	Best practices in agriculture	
Pest and disease control	Plant protection	

- **Supplier engagement and sustainable business growth**

We maintain a high level of engagement with all our suppliers. During the year under review we carried out an online survey for 115 suppliers to identify avenues for further improvement in our mutual value creation process. We also conduct periodic supplier conventions which are an effective platform in sharing ideas and nurturing our relationships. Our partnership allows suppliers to sustainably grow their business and we continue to support them with obtaining compliance to GAP and GMP certifications. We also engage with technical partners, to provide solutions for issues with yields and soil degradation. In retail we carried out a supplier capability study and continue to support our suppliers through demand planning and forecasting tools.

Supplier screening

The Group's Supplier Assessment Criteria is line with that of the JKH Group where suppliers are assessed for labour practices (including working conditions, child/forced labour, occupational health and safety), environmental impacts and human rights.

Distributors and retailers

The CCS Company's distribution network comprises of 164 distributors, who supply our products to over 90,000 retailers island-wide. CCS's approach towards distributor management is based on mutually beneficial relationships and provision of guidance and advice to ensure their viability and sustainable performance. They create an effective platform for engagement with our end-customers and form an integral part of our Relationship Capital. We have successfully nurtured long-term relationships with our distributors, with the average length of relationship spanning over 9 years.

Length of Relationship	Number of Distributors
< 2 years	27
3-10 years	78
11-20 years	46
21-50 years	12
>50 years	1

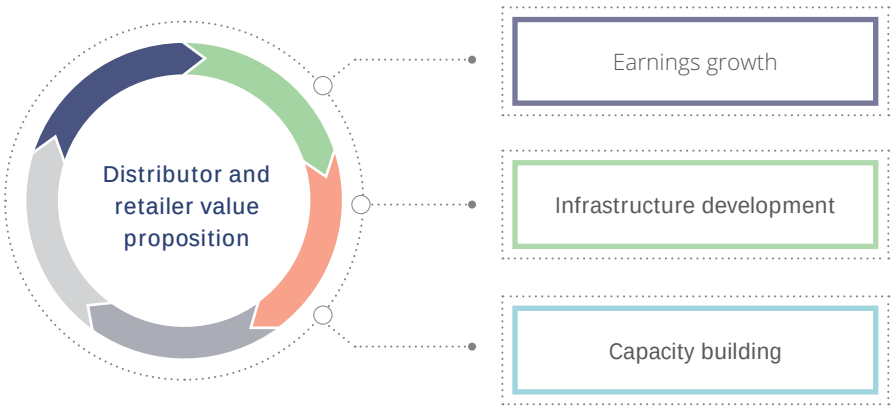
CREATING VALUE FOR OUR CAPITAL INPUTS

Social and Relationship Capital

Distributors by Provinces

Region	Soft Drinks	Ice Cream	Total
Western	42	32	75
Central	8	7	15
Southern	9	9	18
North Central	4	3	7
Northern	7	3	10
North Western	8	5	13
Eastern	6	4	10
Sabaragamuwa	5	4	9
Uva	3	4	7
Total	92	72	164

The effective implementation of the Distributors Management System (DMS) has facilitated real-time data sharing with our distributors, who now have access to the information required to ensure that the right product is being distributed to the retail outlets at the right time. Consistent monitoring of their KPIs through the Distributors Management System (DMS) also ensures that we remain aware of the efficiency and effectiveness of our distributor network. In addition, we continue to conduct structured training programmes and workshops to our distributors regarding new product launches, consumer preferences and the use of the Distributors Management System (DMS) system. During the year, we conducted 18 such programmes with a total beneficiary base of 164 distributors. Supporting retailers with improved infrastructure was a key priority during the year and we distributed 750 freezers and 1,000 coolers to improve stock holding capability of the retail outlets.



Total sales to distributors: Rs. 14 bn

Freezers: 750 Units
Coolers: 1,000 Units

Investment in training: Rs. 2.5 mn
Total training hours: 3,550

The Government and Regulators

The CCS Group is required to comply with the product labelling requirements specified in the Food Act No. 26 of 1980, the regulations contained in the Food (labelling and advertising) Regulations 2005, the Consumer Affairs Authority Act No. 9 of 2003, and the ICC code of Advertising and Marketing Communications for all our products. In addition, we contribute to the National Exchequer by way of income tax payments, which for the year under review amounted Rs. 1.54 billion. Through active membership in several industry bodies and associations, we also proactively engage with the government and regulators in enhancing industry infrastructure and promoting Sri Lanka's competitive position on an international platform.

Industry Associations in which CCS holds membership

- Beverage Association of Sri Lanka
- Ceylon Chamber of Commerce
- Employers' Federation of Ceylon (EFC)
- National Chamber of Commerce
- Export Development Boards
- National Chamber of Exporters
- Sri Lanka - Maldives Bilateral Business Council
- Lanka Confectionery Manufacturers Association
- Sri Lanka Association of Testing Laboratories
- Customer Goods Forum

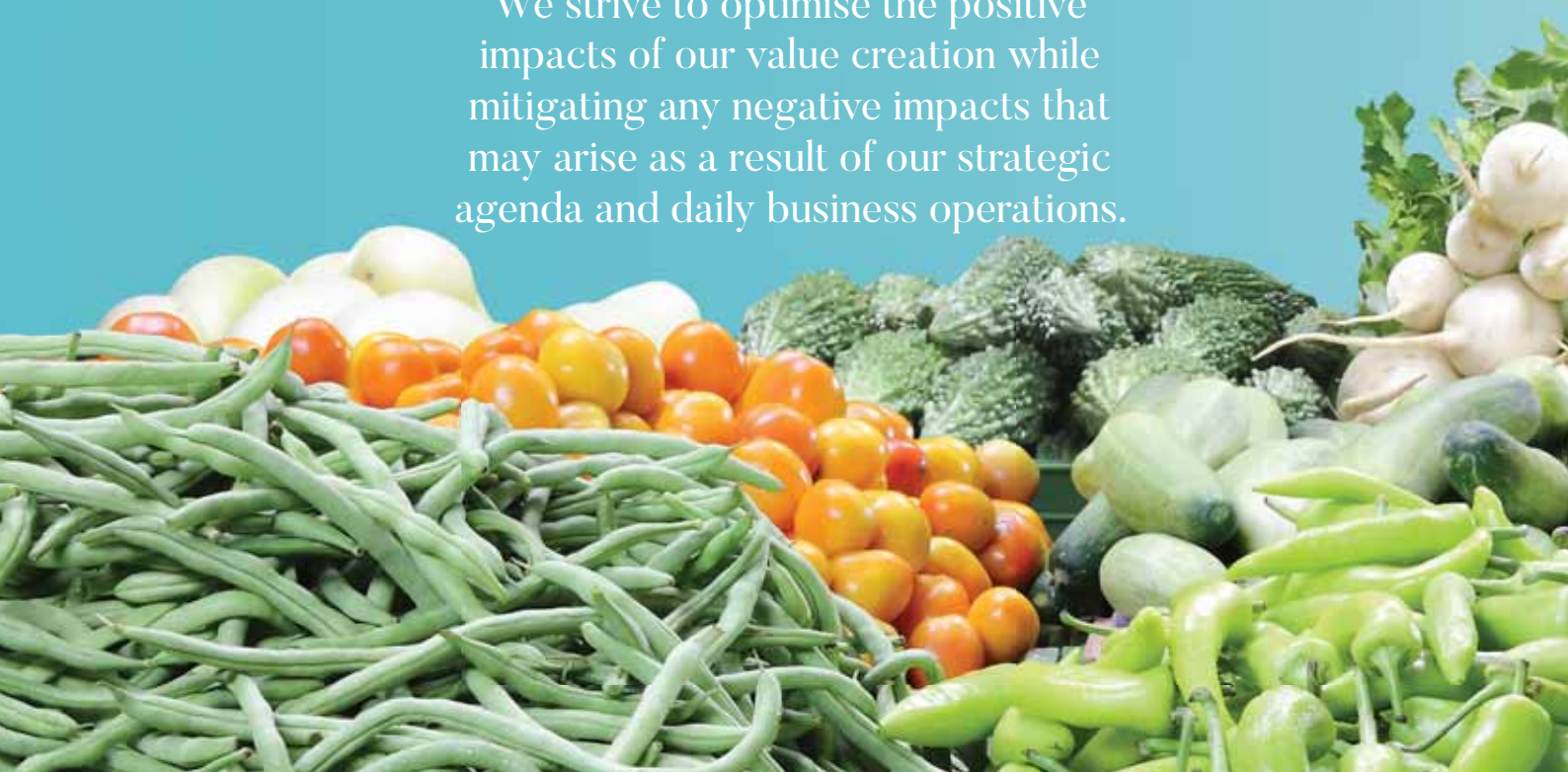
Fit O
FLAVOURED
MANGO DRINK
200 ml
Fit O
FLAVOURED
ORANGE DRINK
200 ml

OPTIMISING VALUE CREATION

BUSINESS REVIEW

MANAGING OUR IMPACTS

We strive to optimise the positive impacts of our value creation while mitigating any negative impacts that may arise as a result of our strategic agenda and daily business operations.



MANAGING OUR IMPACTS

Economic Impact

Our total contribution to the Government in the form of Taxes, Duties and Levies amounted to Rs. 5.6 bn

We strive to optimise the positive impacts of our value creation while mitigating any negative impacts that may arise as a result of our strategic agenda and daily business operations. We understand the importance of measuring and managing both our positive and negative impacts. The following discussion aims to present a summarised, yet balanced overview of our economic, social and environmental impacts.

Economic impact

As Sri Lanka's leading soft drinks and ice cream manufacturer and retail chain as well as a responsible corporate citizen, the Group's impact on the Sri Lankan economy is sizable. In addition to generating sustainable value to our stakeholders, we also contribute to economic growth through tax payments to the government and indirect employment across our supply chain. Our economic performance is discussed in the Financial Capital Report on pages 114 to 120 and the following table demonstrates our value creation and distribution during the year under review.

Taxation: We contribute to government revenue on an annual basis in the form of turnover related taxes, VAT, Customs duties, levies and stamp duty on specific transactions. During the year under review, our contribution to the government in the form of taxes, duties and levies amounted to Rs. 5.6 billion, an increase of 14% over the previous year.

Indirect employment: We also provide opportunities for indirect employment across our entire supply chain. Within the Manufacturing Sector, we continue to procure raw materials from local suppliers thereby empowering and uplifting their livelihoods. In the Retail sector we support an island-wide network of SMEs, farmers and small entrepreneurs by facilitating a platform to reach end-consumers.

Economic Value Statement	2016/17	2015/16
Direct Economic value generated		
Revenue	43,518,688	34,497,327
Finance Income	227,566	139,888
Equity accounted investees	(11,151)	(21,191)
Other Operating Income	1,293,045	1,150,198
Valuation gain on investment property	92,005	16,947
Economic Value Distributed		
Operating cost	33,224,279	25,252,840
Employee wages and benefits	3,690,909	3,186,240
Payments to providers of fund	3,048,081	1,717,521
Payments to Government*	4,016,268	3,315,305
Community Investment	39,816	26,261
Economic Value retained		
Depreciation	732,609	646,994
Amortisation	10,720	10,859
Profit after Dividend	357,471	1,627,149

*Excluding VAT (Value Added Tax)

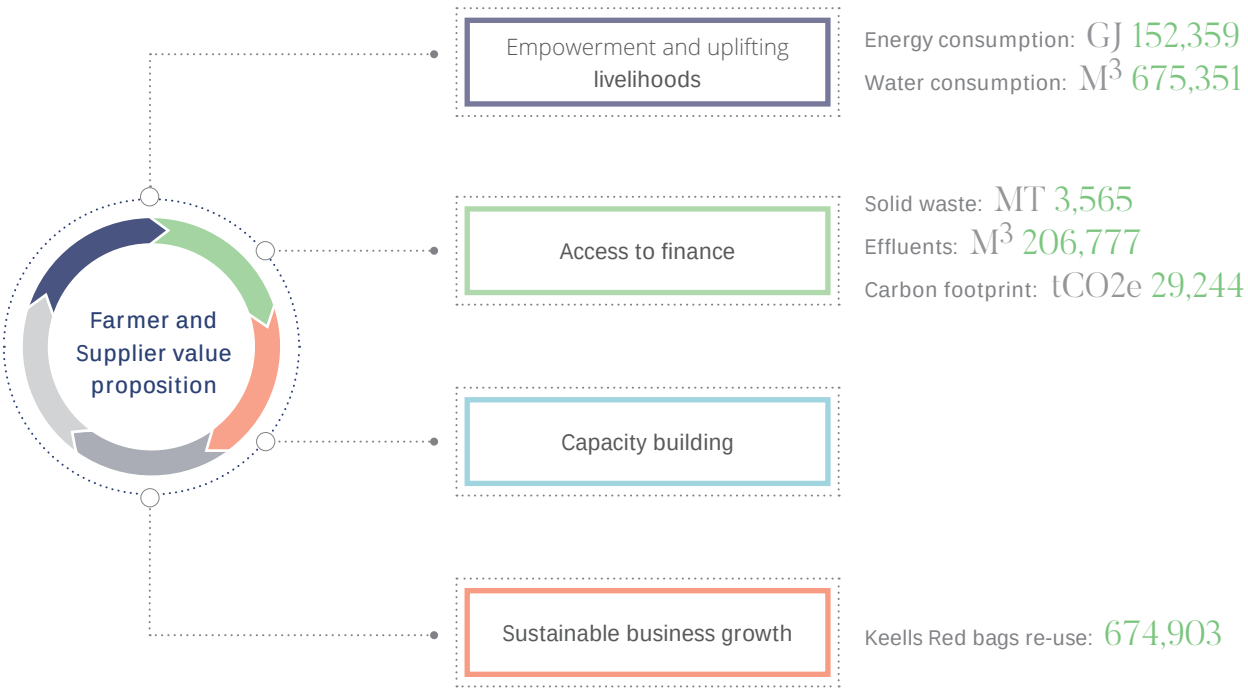
Environmental Impact

Emission intensity reduced by 3% and 0.1% respectively for CCS and JMSL

Relevance of our Natural Capital: As an organisation engaged in manufacturing activities we consume natural resources and impact the natural environment through waste, effluents and emissions. We are cognisant of our responsibility in minimising the environmental impact of our operations and ensuring that natural resources are preserved for a sustainable future.

Our Management Approach

Our approach towards environmental management is underpinned on the conservation of natural resources in every stage of our business which is facilitated by specific environmental targets and key performance indicators to measure continuous improvement as well as communication of our environmental commitment to all employees and customers. With the effects of climate change being felt more pronouncedly, its impact on our business will be felt primarily in the sourcing of agriculture based raw materials and changing demand profile for our products.



MANAGING OUR IMPACTS

Environmental Impact

Managing our inputs

Raw materials

The key raw materials consumed in our manufacturing process are sugar, milk, agriculture based products and packaging materials. In addition to ensuring the quality of the raw materials that are input to our manufacturing process we are also constantly pursuing ways of reducing the environmental impact of our packaging. For instance, we are currently formulating and developing new product designs for our PET bottles which will require relatively lower plastic content. Similarly, for ice cream tubs we are evaluating the option of using a new material with lower plastic content. Meanwhile, glass bottles are recycled and re-used on an average of 8-10 times.

Purchase of vegetables from our farmers

Type of material	2016/17	2015/16	2014/15
Fresh Milk (Litres)	4,640,621	4,146,869	4,868,053
SMP (Kgs)	831,900	687,975	647,050
Sugar (Kgs)	10,542,800	11,615,000	9,157,150
Vegetable Fat (Kgs)	921,680	851,180	639,840
Whey Powder (Kgs)	345,000	208,275	238,450

Energy

Our key sources of energy are electricity, LP gas, diesel and furnace oil. As a manufacturing organisation, the energy intensity of our operations is relatively high and we have implemented integrated energy management mechanisms to reduce our overall energy footprint. Over the medium to long-term, we will also strive to reduce our dependency on non-renewable energy sources through gradually transitioning to the use of renewable energy. Key energy-reduction initiatives carried out during the year are;

- Investment in a 90KW air compressor for blowing 500 ml PET bottles which had been previously carried out using a 225KW compressor. Use of the smaller air compressor facilitates optimal energy efficiency.
- Replacement of metal halides and fluorescent lights with LED solutions
- Replacement of low capacity freezer trucks with high-capacity freezer trucks to reduce specific diesel consumption
- Deployed integrated operating solutions to generate efficiencies on the production floor

"Water intensity declined by 4% and 12% for manufacturing and retail respectively during the year"

Group's energy consumption

Energy Consumption - Group	2016/17	2015/16	2014/15
Direct energy consumption (KwH)			
Diesel (Litres)	779,871	478,602	500,762
Furnace Oil (Litres)	93,799	68,575	57,746
LPG (kg)	47,458	40,858	37,448
Indirect energy consumption (KwH)			
Purchased from CEB (Units consumed)	30,145,865	26,970,390	24,045,227
Purchased from LECO (Units consumed)	9,651,449	7,833,160	7,408,216

During the year the Group's total energy consumption increased by 17% to GJ 152,359 led by respective increases of 3% and 28% in the Manufacturing and Retail sectors. Energy intensity (defined as energy consumed per produced Litre in manufacturing and energy consumed per square foot in retail) declined by 4% and increase by 1% for manufacturing and retail respectively, reflecting our ongoing efforts to enhancing energy efficiency.

Water

Water is a key natural input in our beverage manufacturing process and our water requirement is sourced primarily from ground water sources. Regular pumping tests are conducted in the deep wells in accordance with the requirements of the National Water Board to ensure that the water quantity we are drawing is in line with regulatory limits and also to ensure that water levels in wells in the neighbouring communities are not impacted by our operations. Achieving efficiencies in our water consumption is an important environmental priority for the Group and during the year, the total water consumption increased by 5% reflecting higher production volumes and increased number of outlets. Water intensity (defined as usage per produced 1,000 Litres in manufacturing and usage per square foot in retail) declined by 4% and 12% for manufacturing and retail respectively during the year.

Initiatives that have been put in place to improve the Company's water footprint include;

- Optimising water usage through replacing a 30KW pump with a 15KW pump in circulating water.
- Recycling and reusing water that is used in pasteurising/ cooling for cleaning and general purpose.
- Recovery of approximately 150,000 of litres per day through a state of the art sewerage system plant. The treated water is used for cleaning of conveyors and floor areas.
- Raising staff awareness on water usage.

Water withdrawal - Volume M^3

Source of water - Group	2016/17	2015/16	2014/15
Ground Water	502,023	507,333	453,116
Municipality Water	173,328	137,617	127,439
Other	-	7	-
Total Water	675,351	644,957	580,555

MANAGING OUR IMPACTS

Environmental Impact

Managing our outputs

Effluents and waste

The key types of waste generated from our operations consist of solid waste and effluents; solid waste includes packaging materials, reject products/wrappers, damaged crates and pallets, among others. Solid waste is segregated and sent for recycling to approved third parties or recycled internally for re-use. In 2016/17 we invested in a dedicated scrap yard to improve the efficiency of our waste segregation.

Meanwhile, all waste water is treated at our in-house effluent treatment plant prior to discharge. We have also installed a state of the art sewerage system plant which treats sewerage water to stringent parameters. During the year we increased the quantity of water recycled with approximately 20% now re-used for general purpose cleaning. The water quality parameters are monitored on an ongoing basis and the quality of water discharged is better than the regulatory levels prescribed by the Central Environmental Authority. Total water discharge for the year increased by 6% during the year in line with increased activity levels.

Water discharge - Volume (litres)

Destination - Group	2016/17	2015/16	2014/15
Municipality sewerage, drainage	26,689	21,771	22,703
ETPs and Recycled	366	753	798
To rivers, lakes after being treated	218,446	222,641	190,650
Direct to rivers, lakes, wetlands, ,marshes	37,030	24,422	22,444
Ground through soakage pits	124,152	113,705	105,663
Provided to another organisation	14,313	12,933	12,515
Total water discharge	420,995	396,225	354,773

Quality of water

Only CCS	2016/17	2015/16	2014/15
Biochemical Oxygen Demand (BOD)			
To Rivers, Lakes after being treated by ETP/STP	10	10	10
Direct to Rivers, Lakes, Wetlands, Marshes	10	10	10
Chemical Oxygen Demand (COD)			
To Rivers, Lakes after being treated by ETP/STP	83	14	66
Direct to Rivers, Lakes, Wetlands, Marshes	116	37	47
Total suspended solids (TSS)			
To Rivers, Lakes after being treated by ETP/STP	15	5	12
Direct to Rivers, Lakes, Wetlands, Marshes	15	7	9
pH Levels			
To Rivers, Lakes after being treated by ETP/STP	8	8	8
Direct to Rivers, Lakes, Wetlands, Marshes	8	8	8
Oil and Grease levels			
To Rivers, Lakes after being treated by ETP/STP	4	2	1
Direct to Rivers, Lakes, Wetlands, Marshes	4	2	2

Waste Management

Group	2016/17	2015/16	2014/15
Total non-hazardous waste (kg)	3,564,667	2,782,993	2,483,784
Reuse (kg)	110,780	101,212	79,171
Recycling (kg)	749,131	643,789	656,931
Incineration (kg)	1,323,350	1,090,600	886,350
Sent to landfill (kg)	1,381,406	947,392	861,332
Total hazardous Waste (kg)	201	704	1,236
Disposed (kg)	201	704	1,236

Carbon footprint

Efforts towards enhancing the Group's energy efficiency have a direct impact on mitigating our carbon footprint. Other initiatives undertaken to reduce the Group's emissions include,

- Commissioning of the bio-mass boiler as a replacement for the furnace oil boiler
- Increased use of higher-capacity vehicles in the fleet to reduce the total kilometers run
- Increased transportation efficiency through the use of larger cold cards to the fleet

The CCS Group's total carbon footprint for the year increased by 16% during the year, although intensity (defined as usage per 1,000 produced in manufacturing and usage per square foot in retail) reduced by 3% and 0.1% respectively for CCS and JMSL.

Carbon Footprint by Source - tCO2e - Group	2016/17	2015/16	2014/15
Direct energy through primary sources (Scope 1)	2,118	1,360	1,373
Indirect energy through primary sources (Scope 2)	27,126	23,756	21,439
Total carbon footprint	29,244	25,116	22,812

Emissions of Ozone depleting substances - Only CCS		2016/17	2015/16	2014/15
Ozone depleting substances released (KG)	R22	476	1,105	731
	R404	3,435	1,635	1,875
Ozone depleting substances used (KG)	Acetylene	23	6	6
	Ammonia	343	10	28
Ozone depleting substances released (CFC - 11 Equivalent) (Kg)	Nitrogen	34	54	51
	R22	26	61	40

Compliance

A host of environmental certifications are a testament to our commitment and ensure that we consistently monitor and manage the usage of natural resources and our impacts on the environment. In addition performance against set environmental objectives including energy consumption, energy intensity, quality and quantity of effluents and waste and status of environmental compliance is reported to the Board Audit Committee at least on a monthly basis. Meanwhile, communities living adjacent to our manufacturing facilities also have the opportunity to present any environmental grievance which is handled through a systematic grievance handling process. During the year, there were no fines or penalties imposed on the Group for non-compliance with environmental regulations or laws.

MANAGING OUR IMPACTS

Environmental Impact

Engaging customers in our environment commitment

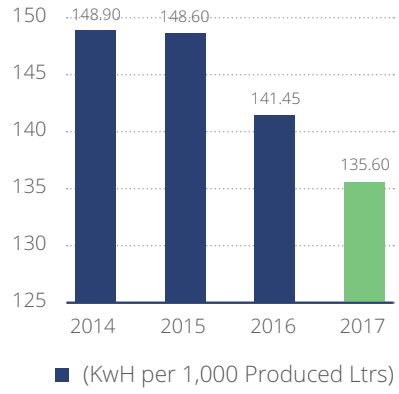
The extensive geographical footprint and customer reach of our retail arm provides us the opportunity to engage our customers in our environmental preservation efforts. Since 2008, Keells Supermarkets under the patronage of the Central Environmental Authority introduced eco-friendly, re-usable and biodegradable shopping bags to be used as an alternative to plastic bags. The bags are available for purchase at a nominal cost and all customers are encouraged to re-use the bags through a point system which provides discounts on the total bill value. During the year we conducted 3 awareness campaigns targeted towards enhancing both employee and customer knowledge on the use the Red bag.

In February 2017, we also launched a "Bring Your Own Bag" initiative in 25 stores which encourages patrons to bring reusable bags and baskets.

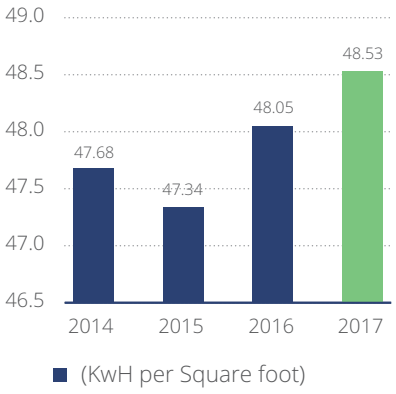
"We launched a "Bring Your Own Bag" initiative in 25 stores which encourages patrons to bring cane/cloth bags and plastic baskets"

No. of red bags used	269,659
No. of red bags re-used	674,903
% of customers using the red bag	10.2%

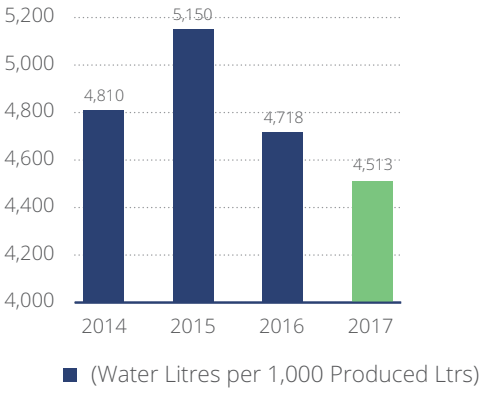
Manufacturing - Energy Intensity



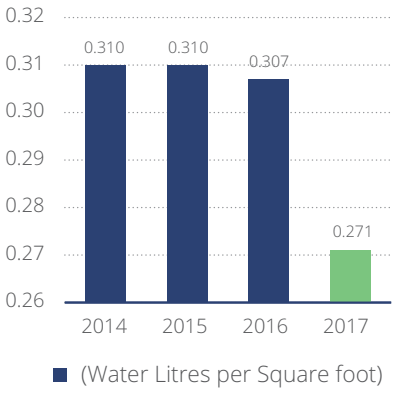
Retail - Energy Intensity



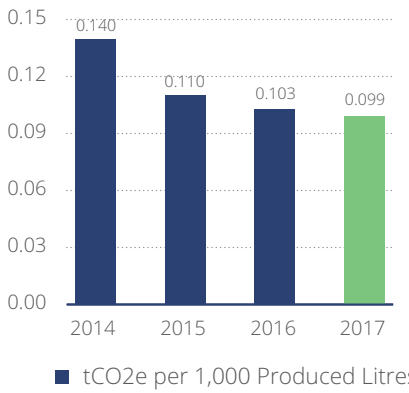
Manufacturing - Water Intensity



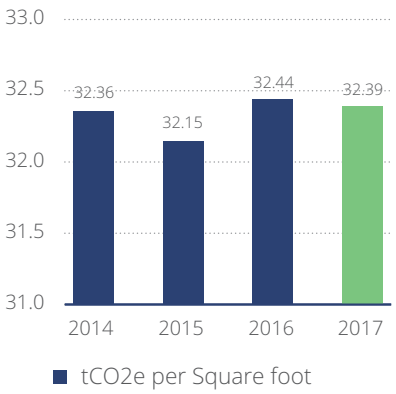
Retail - Water Intensity



Manfacturing - Emission Intensity



Retail - Emission Intensity

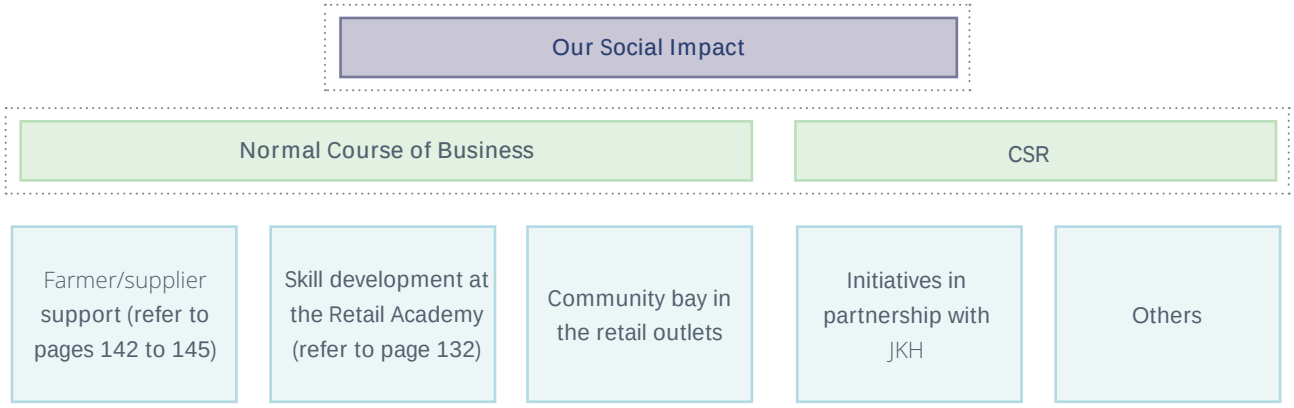


MANAGING OUR IMPACTS

Social Impact

Rs. 40 mn on CSR activities

The Group has nurtured mutually beneficial relationships with the communities it operates in, both as part of its normal business and also through community engagement initiatives. In its normal course of business, the Group empowers and supports the development of farming communities and other suppliers across the island (refer pages 142 to 145 for further information). Meanwhile, it engages in numerous CSR initiatives in partnership with the JKH Group and on a needs basis.



As a subsidiary of John Keells Holdings PLC, our community engagement initiatives are aligned to the strategic Corporate Social Responsibility objectives of our parent entity. As such, all community engagement initiatives are formulated, implemented and monitored by the John Keells Foundation, the JKH Group's dedicated CSR arm. The CCS Group, contributed Rs. 40 million to the activities of the Foundation, which operates with the vision of "Empowering the Nation for Tomorrow". Through its multi-faceted activities, the Foundation has directly empowered over 2.5 million people, with strategic focus on the following areas of development;

Community Bay' at our retail outlets

We aim to empower and support charity organisations and/ or small entrepreneurs by providing a platform to sell their products at our Supermarkets through the introduction of a Community Bay in 6 of our outlets. The pricing of these products do not factor in a profit margin for the Company. The charities we support through this initiative include Mother Sri Lanka and the Chithra Lane School for Differently abled children.

Since	November 2016
Available at	Crescat, Capital Mall, Union Place, Thimbirigasyaya, Havelock Road, Narahenpita
Suppliers	1. Chithra Lane school for the Special child 2. Mother Sri Lanka
Total sale	1. Chithra Lane (From 1st November 2016 to 31st March 2017) - Rs. 278,728 2. MSL (From 1st February 2017 to 31st March 2017) Rs. 65,250

Flood relief

Following the severe floods in May 2016, we engaged with the communities adjacent to our operating facilities to clean over 120 wells which had been contaminated due the floods. This included 2 wells in school premises and in total is expected to have benefitted over 500 individuals residing in these areas. In addition, we provided dry rations, food items and water for individuals displaced by floods in the Kaduwela area.

Through this initiative we also provided support to the Tibet S. Mahinda Vidyaala of Kotikawatta, which was severely affected by the floods. While many other parties had volunteered to provide the essential items required for the school, the need for musical instruments remained unmet. JMSL therefore took the initiative to donate multiple musical instruments together with stationary items and first aid boxes. In subsequent months of the year, we also supported infrastructure development in the school, including renovating the sewerage systems, improving bathroom facilities, construction of a water tank and renovating the walkways that were affected by the floods.

Book donation

During the year we also launched an initiative to donate books to underprivileged schools through conducting a 'donate a book' campaign in the Keells Super outlets. Carried out in partnership with books.lk, our loyal customers and employees we were successful in collecting over 7,500 books which fulfilled the library requirements of 9 underprivileged schools. Customers were engaged in the initiative through digital media and active participation by our outlet employees. The initiative has directly contributed towards inculcating learning habits among primary school children who otherwise may not have had access to such valuable resources.

Partnering "Trail Sri Lanka"

Keells Super partnered Trail 2016 to help raise funds to construct a fully-fledged cancer treatment facility at the Karapitiya Teaching Hospital. We provided a platform for customers to donate towards this worthy cause through Nexis Mobile points while tills were placed at selected stores for customers to donate in cash. We raised around Rs. 525,000 for this worthy cause, supported by contributions from our generous customers.

Chronic Kidney Disease Prevention

Rationale

Chronic Kidney Disease (CKD) is increasing in prevalence in various parts of the country including the North Central, North Western, Uva, Eastern and Northern Provinces. About 50% of the affected population are impoverishes farmers who have little or no access to appropriate treatment and medication. Thus the reliance on the state-run hospitals has resulted in severe financial burden to government health authorities, particularly given the high cost of treatments such as dialysis.

As per the NWSDB's proposal, an extensive study carried out by the WHO/Ministry of Health to determine the cause of CKD attributes the disease to substances such as cadmium and arsenic which could be present in chemical fertilizers, weedicides and pesticides. Furthermore the groundwater contains elevated levels of hardness and fluoride in CKD-affected areas, underpinning the need to supply these areas with good quality water. In 2013, National Water Supply and Drainage Board (NWSDB) launched a systematic program to provide good quality water to CKD affected areas which follows the commissioning of Reverse Osmosis (RO) treatment plants to a small cluster of villages.

Project

As a pilot project John Keells Foundation partnered with NWSDB to install two Reverse osmosis plants in Morawewa North (Morawewa DS Division) and Vilpanakulama (Gomarankadawela DS Division) in the Trincomalee District. JMSL together with John Keells Foundation commissioned two Reverse Osmosis (RO) Filtration systems in collaboration with National Water Supply and Drainage Board in Horowpathana and Galenbidunuwewa DS

MANAGING OUR IMPACTS

Social Impact

Book donation programme

Divisions in the Anuradhpura District providing access to good quality water for drinking and cooking purposes in an area known to have a high prevalence of CKD. The systems will be operated and managed by water-based community organisations in the respective villages with training and technical support of the NWSDB.

WAVE – Women's Day Walk

Project WAVE (Working Against Violence through Education) is an awareness programme aimed at combating gender-based violence and child abuse through education and awareness. The initiative commenced with the employees of the John Keells Group and is designed to progressively encompass various vulnerable communities associated with the Group's business locations and the general public. Since the launch of the project in November 2014, awareness sessions have been conducted in all sectors of John Keells Group businesses as well as strategic external persons including members of the Sri Lanka Bar Association, Police officers in Kalutara and Colombo, School children, University students, and Police officers at the Women's and Child's desk team in Puthukkudiyiruppu, Mullaitivu, sensitising more than 16,200 persons.

In order to ensure a successful outcome in such a complex and pervasive problem, John Keells Foundation emphasises on the importance of multi-sectoral involvement to ensure that a variety of expertise and resources are used. JMSL supported Project WAVE by sponsoring campaigning material (T-shirts and Caps) for an International Women's Day walk titled ' Awakening the Voice of Women' organised by the Ministry of Women and Child Affairs on 1st of March. The walk was held island-wide, occurring in all 25 districts simultaneously with the participation of thousands of people. The march in Colombo was inaugurated by the chief guest Prof Maithree Wickramasinghe, wife of Hon. Prime Minister, Hon. Minister of Child and Women's Affairs Ms. Chandrani Bandara and Hon. Minister for Foreign Employment Ms. Thalatha Athukorala also gave the leadership to the March. Several Non-government organisations and corporates also participated.

"Ceylon Cold Stores PLC and John Keells Foundation at the request of the Ministry of Health pledged to support a school screening programme in the Colombo District enabling early detection of refractive errors and vision impairments in school children."

CCS – Vision Project and Village Adoption (Mullaitivu School)

The John Keells Vision Project is an island-wide cataract project which is aligned with the World Health Organisation's "Vision 2020" Project, supported by CCS. Cataract has been recognised as the primary cause of preventable blindness in Sri Lanka. While most cataract patients have the potential to be productive, they risk reduced employability as financial constraints force many to give in to the progressive blindness which the cataract brings about. However, the risk of progressive blindness can be avoided in most cases if the patient has access to necessary eye care resources. As Sri Lanka reports a high backlog of surgeries due to resource limitations John Keells Vision Project was initiated objective of sponsoring cataract surgeries for disadvantaged persons across the Island. Our objective is to assist deserving individuals regain their vision and thereby their social and economic independence through provision of vision testing and surgery for identified

cataract patients in partnership with Vision 2020 Secretariat of the Ministry of Health and Lions Gift of Sight Hospital.

School Screening Programme

Ceylon Cold Stores PLC and John Keells Foundation at the request of the Ministry of Health pledged to support a school screening programme in the Colombo District enabling early detection of refractive errors and vision impairments in school children. The objective of the Programme is to screen school children and provide spectacles to deserving children free of charge. John Keells Foundation in collaboration with CCS committed to support this cause by providing financial and volunteer assistance at various points including intensive screening of the children with the support of School Health Officers and John Keells staff volunteers, obtaining prescriptions for spectacles and other necessary treatment for visual problems, manufacturing and distributing spectacles to needy children and facilitating treatment for other visual problems.

A total of 133 eye camps and cataract clinics were conducted in all 9 Provinces during the year in review.

Meanwhile, under the School Screening Programme, since commencement of partnership activity in November 2015, vision screening was conducted in 103 schools in the Colombo District, testing 54,670 school children with the help of John Keells volunteers while spectacles were donated to 3,465 school children during the year in review, resulting in a cumulative project total of 8,528 spectacles.

CCS in collaboration with John Keells Foundation also introduced awareness flyers for the benefit of cataract patients detailing post-surgery instructions and best practices for distribution to all patients undergoing cataract surgery through hospitals partnering the John Keells Vision Project. A donation of Rs. 2 million was also given towards the purchase of a phaco machine for primary use of the mobile eye unit which is planned to be operated by the Vision 2020 Secretariat.

"My vision is really bad, I can't see letters or read without wearing glasses. With these spectacles, I can now look forward to my dream of becoming a teacher"

A recipient of eye glasses at the School Screening Programme

Vision 2020 programme

Village Adoption – Iranappalai Mullaitivu (School)

This flagship initiative of John Keells Foundation is aimed at alleviating poverty at grassroots level through an integrated and sustainable development programme. Initiatives are determined following constructive dialogue, translating into a range of development activities generally spanning 5 – 10 years towards fostering the spirit of independence, self-reliance and entrepreneurship. A wide range of development activities including providing access to clean and safe water, developing infrastructure facilities for education, facilitating the development of sustainable and diversified livelihoods and income generation by providing entrepreneurship advice and guidance, and gender empowerment are carried out at each of the villages. Under this project, CCS supported the John Keells Foundation in constructing a 3-classroom block for Iranaippalai R.C.M.V, benefitting an estimated 200 children.

Distribution of dry rations to people who were affected by floods

ELEPHANT HOUSE CREAM SODA IS
THE REAL CREAM SODA
CREAM SODA
Elephant House

GRI CONTENT INDEX TOOL

GENERAL STANDARD DISCLOSURES-G4

Number	Description	Section included	Page reference
Strategy and Analysis			
G4-1	Statement from the most senior decision maker of the Organisation about the relevance of sustainability to the organisation and the organisation's strategy for addressing sustainability.	Chairman's Message	24-26
Organisational Profile			
G4-3	Name of the organisation	Ceylon Cold Stores PLC	Inner Back Cover
G4-4	Primary brands, products, and services	About Us	7, 106-113
G4-5	The location of the organisation's headquarters	Colombo, Sri Lanka	Inner Back Cover
G4-6	Number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report.	Sri Lanka	
G4-7	The nature of ownership and legal form	Corporate Information	Inner Back Cover
G4-8	The markets served (geographic breakdown, sectors served, and types of customers/beneficiaries)	Our Customers	43, 138-141
G4-9	The scale of the organisation, including: • Total number of employees • Total number of operations • Net sales (for private sector organisations) or net revenues (for public sector organisations) • Total capitalization broken down in terms of debt and equity (for private sector organisations) • Quantity of products or services provided	About Us Financial Capital Human Capital Operational Review Value Creation Model	7 114-120 125-134 103-113 40-41
G4-10	a. The total number of employees by employment contract and gender. b. The total number of permanent employees by employment type and gender. c. The total workforce by employees and supervised workers and by gender. d. The total workforce by region and gender. e. Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors. f. Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries).	Human Capital	125-134

GRI CONTENT INDEX TOOL

Number	Description	Section included	Page reference
G4-11	The percentage of total employees covered by collective bargaining agreements	Human Capital	130
G4-12	Describe the organization's supply chain.	Value Creation Model	40-41
G4-13	Any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain, including: • Changes in the location of, or changes in, operations, including facility openings, closings, and expansions • Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organisations) • Changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination	Strategic Performance	103-104
G4-14	Whether and how the precautionary approach or principle is addressed by the organization.	Enterprise Risk Management	92-99
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	About this Report Stakeholder Engagement	6 42-45
G4-16	List memberships of associations (such as industry associations) and national or international advocacy organisations in which the organization is a member	Government and Regulators	146
Identified Material Aspects and Boundaries			
G4-17	a. List all entities included in the organization's consolidated financial statements or equivalent documents. b. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report.	About Us	6-7
G4-18	a. Explain the process for defining the report content and the Aspect Boundaries. b. Explain how the organization has implemented the Reporting Principles for Defining Report Content.	Determining Materiality	48-49
G4-19	List all the material Aspects identified in the process for defining report content.	Determining Materiality	48-49
G4-20	For each material Aspect, the Aspect Boundary within the organization	Determining Materiality	48-49
G4-21	For each material Aspect, report the Aspect Boundary outside the organization	Determining Materiality	48-49
G4-22	The effect of any restatements of information provided in previous reports, and the reasons for such restatements.	Financial Statements	246
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	Determining Materiality	48-49

Number	Description	Section included	Page reference
Stakeholder Engagement			
G4-24	List of stakeholder groups engaged by the organization.	Stakeholder Engagement	42-45
G4-25	The basis for identification and selection of stakeholders with whom to engage.	Stakeholder Engagement	42-45
G4-26	The organization's approach to stakeholder engagement	Stakeholder Engagement	42-45
G4-27	Key topics and concerns that have been raised through stakeholder engagement	Stakeholder Engagement	42-45
Report Profile			
G4-28	Reporting period (such as fiscal or calendar year) for information provided.	About this Report	6
G4-29	Date of most recent previous report (if any).	Financial year ended 31st March 2016	
G4-30	Reporting cycle (such as annual, biennial)	Annual	
G4-31	The contact point for questions regarding the report or its contents.	About this Report	6
G4-32	a. Report the 'in accordance' option the organization has chosen. b. Report the GRI Content Index for the chosen option c. Report the reference to the External Assurance Report, if the report has been externally assured.	Core	163-167
G4-33	a. Report the organization's policy and current practice with regard to seeking external assurance for the report. b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided. c. Report the relationship between the organization and the assurance providers. d. Report whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report.	The Company has not obtained external assurance on this Report.	
Governance			
G4-34	The governance structure of the organization, including committees of the highest governing body.	Corporate Governance	55
Ethics and Integrity			
G4-56	The organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.	Corporate Governance	76

GRI CONTENT INDEX TOOL

SPECIFIC STANDARD DISCLOSURES

Material Aspect	DMA/Indicators	Reference/comments/ Reasons for omission	Page
ECONOMIC ASPECTS			
Economic Performance			
G4-EC1	Direct economic value generated	Economic Impact	150
G4-EC2	Financial implications and other risks and opportunities for the Organisation's activities due to climate change	Environmental Impact	151
G4-EC3	Coverage of defined benefit plan obligations	Financial Statements	238
Procurement Practices			
G4-EC9	Proportion of spending on local suppliers at significant locations of operation	Social and Relationship Capital	143-144
ENVIRONMENTAL ASPECTS			
Materials			
G4-EN1	Materials used by weight or volume	Natural Capital	152
Energy			
G4-EN3	Energy consumption within the organization	Natural Capital	153
G4-EN5	Energy intensity	Natural Capital	153-157
G4-EN6	Reduction of energy consumption	Natural Capital	153-157
Water			
G4-EN8	Total water withdrawal by source	Natural Capital	153
Emissions			
G4-EN15	Direct greenhouse gas (GHG) emissions	Natural Capital	155
G4-EN16	Energy indirect greenhouse gas (GHG) emissions	Natural Capital	155
G4-EN18	Greenhouse gas (GHG) emissions intensity	Natural Capital	155-157
G4-EN21	NOx, SOx and other significant air emissions	Natural Capital	155
Effluents and Waste			
G4-EN 22	Total water discharge by quality destination	Natural Capital	154
G4-EN23	Total weight of waste by type and disposal method	Natural Capital	155
Compliance			
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Natural Capital	155
Environmental Grievance Mechanisms			
G4-EN33	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	No Environmental Grievances filed	155
SOCIAL ASPECTS			
Employment: Labour practices and Decent Work			
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender, and region	Human Capital	129-134
G4-LA2	Benefits provided to full-time employees that are not provided to part-time employees, by significant locations of operations	Human Capital	130
G4-FP3	Percentage of working time lost due to industrial disputes, strikes and/or lock-outs by country	Human Capital	130
Employment: Occupational health and safety			
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Human Capital	133

Material Aspect	DMA/Indicators	Reference/comments/ Reasons for omission	Page
Employment: Training and Education			
G4-LA9	Average hours of training per year per employee by gender, and by employee category	Human Capital	132
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Human Capital	132
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Human Capital	130
Human rights: Child Labour			
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labour	Human Capital, Social and Relationship Capital	145
G4-HR6	Operations and suppliers identified as having significant risk for incidences of forced or compulsory labour	Human Capital, Social and Relationship Capital	145
Society: Local Communities			
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	Social and Relationship Capital	158-161
Compliance			
G4-S08	Monetary value of significant fines and number of non-monetary sanctions for non-compliance with laws and regulations	Natural Report	155
Product Responsibility: Customer Health and Safety			
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	Social and Relationship Capital	107,141
G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	Social and Relationship Capital	141
FP-5	Percentage of production volume manufactured in sites certified by an independent third party according to internationally recognized food safety management system standards	Social and Relationship Capital	140
FP-6	Percentage of total sales volume of consumer products, by product category, that are lowered in saturated fat, trans fats, sodium and added sugars	Social and Relationship Capital	141
Product and Service Labelling			
G4-PR3	Type of product and service information required by the organization's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements	Social and Relationship Capital	142
Marketing Communications			
G4-PR7	Total number of non-compliance with regulations and voluntary codes concerning marketing communications	Social and Relationship Capital	142
Product Responsibility: Compliance			
G4-PR9	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcome	Social and Relationship Capital	141

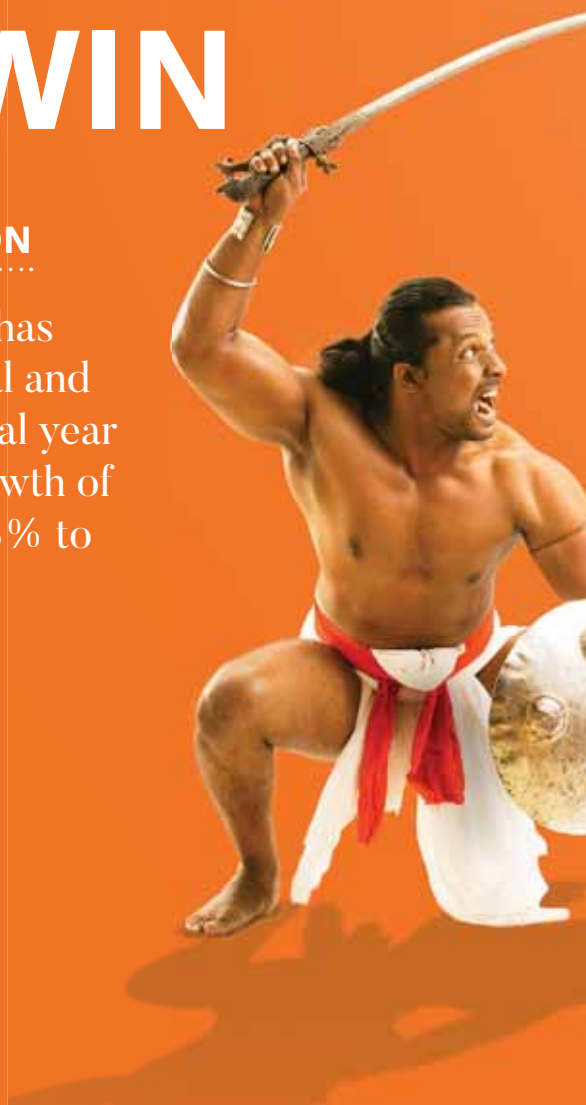
FINANCIAL CALENDAR

	Year Ended 31st March 2017
1st Quarter released on	20th July 2016
2nd Quarter released on	24th October 2016
3rd Quarter released on	26th January 2017
4th Quarter released on	16th May 2017
Annual Reports posted on	16th May 2017
120th Annual General Meeting on	7th June 2017

AN INDOMITABLE **WILL TO WIN**

FINANCIAL INFORMATION

Ceylon Cold Stores PLC has delivered strong operational and financial results in the financial year 2016/17 delivering profit growth of 24% and asset growth of 13% to shareholders.



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EGB
400 ml
Elephant House™

ANNUAL REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of Ceylon Cold Stores PLC has pleasure in presenting their Annual Report which covers the Audited Financial Statements, Chairman's Message, Corporate Governance Report, Sustainability Integration, Risk Management, Corporate Social Responsibilities and all other relevant information for year ended 31st March 2017.

The content of this report has also considered the requirements of the Companies Act, No 7 of 2007, and the relevant Listing Rules of the Colombo Stock Exchange and recommended best reporting practices.

The Company was incorporated in 1866 as the Colombo Ice Company Limited as a limited liability company and in 1941 changed its name to Ceylon Cold Stores Limited. The Company was quoted on the Colombo Stock Exchange in January 1970. Pursuant to the requirements of the new Companies Act, no. 7 of 2007, the Company was re-registered and obtained a new Company number PQ 4 on 15th June 2007.

Corporate Conduct and the Vision of the Company

The Business activities of the Company and its Subsidiaries are conducted with the highest level of ethical standards in achieving the vision. The Company's vision is given on page 3 of the Annual Report.

Principal Activities

Company

The principal activities of the Company, Ceylon Cold Stores PLC, which is manufacture and marketing of Beverages and Frozen Confectionery, remained unchanged.

Subsidiaries

Jaykay Marketing Services (Pvt) Limited

The principal activity of Jaykay Marketing Services (Pvt) Ltd, a 100% owned Subsidiary remained unchanged as that of owning and operating of a chain of supermarkets under the name of "Keells Super" and operating and managing the Nexus loyalty programme.

The Colombo Ice Company (Pvt) Limited

The Colombo Ice Company (Pvt) Limited is a BOI registered Company 100% owned by Ceylon Cold Stores PLC, incorporated in May 2016. The principal activity of The Colombo Ice Company (Pvt) will be to manufacture, market and distribute frozen confectionary products. The Company has not commenced commercial operations as at yet as the manufacturing facility is still under construction.

Associate

Waterfront Properties (Pvt) Ltd

The principal activity of the Associate Company, Waterfront Properties (Pvt) Ltd is developing of Hotels, Apartments and Shopping Malls.

Ultimate Parent

The Company's ultimate Parent and controlling entity is John Keells Holdings PLC, which is incorporated in Sri Lanka.

Review of Operations

A review of the operations of the Company and the Group during the financial year 2016/17 and results of their operations are contained in the Chairman's message (pages 24 to 26) and Business Review section (pages 102 to 146). These reports form an integral part of the Annual Report of the Board of Directors together with the Audited Financial Statements reflect the state of the affairs of the Company and the Group as at 31st March 2017.

Future Developments

An overview of the future developments is given in the Chairman's message (pages 24 to 26) and Business Review section (pages 102 to 146).

Financial Statements and Auditor's Report

The Financial Statements of the Group and the Company duly signed by the Directors are provided on pages 182 to 248 and the Auditors' Report on the Financial Statements is provided on page 181 of this Annual Report. These reports form an integral part of the Annual Report of the Board of Directors and together with the Audited Financial Statements provide a fair review of the performance of the Company and the Group during the financial year ended 31st March 2017.

Going Concern

After considering the financial position, operating conditions, regulatory and other factors the Directors have a reasonable expectation that the Company and the Subsidiaries possess adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

Accounting Policies

The Accounting policies based on the Accounting Standards (SLFRS/ LKAS) issued by the Institute of Chartered Accountants of Sri Lanka are provided in detail in the notes to the Financial Statements on pages 189 to 248.

Financial Results and Appropriations

Revenue

The net revenue generated during the year under review by the Company amounted to Rs. 13,971 million (2015/2016 - Rs. 12,191 million), whilst the consolidated net revenue of the Group amounted to Rs. 43,519 million (2015/2016 - Rs. 34,497 million). An analysis of revenue is given in note 12 to the Financial Statements.

Financial Results

The Company recorded a profit after tax of Rs. 3,177 million for the year (year ended 31st March 2016 - Rs. 2,281 million) whilst the Consolidated profit after tax was Rs. 3,553 million (year ended 31st March 2016 Rs. 2,875 million). A synopsis of the Group's performance is presented below.

For the year ended 31 March	2017	2016
	Rs. '000	Rs. '000
Results from operating activities	4,788,129	3,928,389
Finance cost	(6,801)	(11,564)
Finance income	227,566	139,888
	5,008,894	4,056,713
Change in fair value of investment property	92,005	16,947
Share of results of equity accounted investees	(11,151)	(21,191)
Profit before tax	5,089,748	4,052,469
Provision for taxation including deferred tax	(1,536,845)	(1,177,596)
Profit after tax	3,552,903	2,874,873
Unappropriated profit brought forward from the previous year	9,952,419	8,142,280
Amount available for appropriation	13,505,322	11,017,153
Final dividend paid for the previous year	(950,414)	(570,254)
First Interim dividend paid	(760,320)	(475,200)
Second Interim dividend paid	(1,330,560)	(665,280)
Transfer from General Reserve	-	646,000
Unappropriated profit carried forward	10,464,028	9,952,419
Adjustments	(361,667)	(207,529)
	10,102,361	9,744,890

The Final dividend recommended for this financial year 2016/17 has not been recognised as at the reporting date in compliance with LKAS 10 - Events After the Reporting Period.

Provision for Taxation

Provision for taxation has been computed at the rates given in note 19.9 to the Financial Statements.

Segment Reporting

A segmental analysis of the activities of the Group is given in note 6 to the Financial Statements.

Related Party Transactions

There were no Non Recurrent Related Party Transactions which exceeds the lower of 10% of equity or 5% of the total assets of the Company as per the audited financial statements for the year ended 31st March 2016.

There were no Recurrent Related Party Transactions which in aggregate value exceeds 10% of the consolidated revenue of the Group as per the audited financial statements for the year ended 31st March 2016.

The Directors confirm that transactions with related parties in terms of the Sri Lanka Accounting Standard LKAS 24 - Related Party Disclosure have been detailed in note 42 to the financial statements as well as that the requirements as per the Listing Rules of the Colombo Stock Exchange have been complied with.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

Corporate Donations

During the year the Group made donations amounting to Rs 40 million (2015/16 – Rs. 26 million). The Group made no political donations.

Dividends

A Final Dividend of Rs. 10/- per share for the financial year 2015/2016 (2014/2015 Rs. 6/-) was paid on the 20th May 2016.

A First Interim Dividend of Rs. 8 per share for the financial year 2016/2017 (2015/2016 Rs. 5/-) was paid on the 28th November 2016.

An Second Interim Dividend of Rs. 14/- per share for the financial year 2016/2017 (2015/2016 Rs. 7/-) was paid on the 10th March 2017.

The Board of Directors has now approved a final dividend of Rs. 8/- per share for 2016/2017 to be paid 1st June 2017 to those shareholders on the register as of the 23rd May 2017. In accordance with Sri Lanka Accounting and Reporting Standard 10, Events After the Reporting period, the declared dividend has not been recognised as a liability as at 31st March 2017.

As required by section 56 (2) of the Companies Act, no. 7 of 2007, the Board of Directors has confirmed that the Company satisfies the solvency test in accordance with section 57 of Companies Act, no. 7 of 2007 and a certificate has been obtained from the Auditors, prior to declaring all dividends.

Dividend per share has been computed for all periods based on the number of shares in issue at the time of the dividend payout.

The dividends paid out are out of taxable profits of the Company and will be subjected to a withholding tax at the rate prevailing at the date of payment.

Property, Plant and Equipment

The value of property plant and equipment as at the reporting date amounted to Rs. 8,107 million (2015/2016 Rs. 6,123 million) for the Group. The details of property, plant and equipment of the Company and the Subsidiaries are shown in note 20 (pages 220 to 225) to the Financial Statements.

Capital Expenditure

The total capital expenditure on acquisition of property, plant and equipment of the Company and the Group amounted to Rs. 710 million and Rs. 2,600 million respectively (2015/16 Company Rs. 544 million and Group Rs. 1,375 million) details of which are given in note 20 to the Financial Statements. Capital expenditure approved and contracted but not provided for and capital expenditure approved not contracted and not provided for in the Financial Statements, is given in note 45 to the Financial Statements.

Market Value of Freehold Properties

The land and buildings owned by the Company were re-valued by Messrs. P.B. Kalugalagedara & Associates – Chartered Valuation Surveyors as at 31st March 2017. The Directors are of the opinion that the re-valued amounts are not in excess of the current market values of such properties.

The Investment property in Trincomalee was revalued as at 31st March 2017 by Messrs. P.B. Kalugalagedara & Associates – Chartered Valuation Surveyors. The land was valued at open market value. The details of the revaluation and relevant accounting policies are provided in notes 20 and 22 to the Financial Statements respectively.

Investments

Details of investments held by the Company is disclosed in note 24 and 25 to the Financial Statements. During the year the Company invested Rs. 270 million in The Colombo Ice Company (Pvt) Ltd, the wholly owned subsidiary of the Company.

Stated Capital and Revenue Reserves

In compliance with the Companies Act, no. 7 of 2007, the Financial Statements reflect the Stated Capital of the Company. The Stated Capital is the total of all amounts received by the Company in respect of the issued Share Capital.

The total Stated Capital of the Company as at 31st March 2017 was Rs. 918 million (31st March 2016 - Rs. 918 million), as given in note 32 to the Financial Statements.

Revenue Reserves as at 31st March 2017 for the Company and the Group amounted to Rs. 9,477 million (31st March 2016 - Rs. 9,364 million) and Rs. 10,102 million (31st March 2016 - Rs. 9,745 million) respectively. The movement and the composition of the reserve is disclosed in the Statement of Changes in equity.

Investment in Waterfront Properties (Pvt) Ltd.

During the year, the Company's holding in Waterfront Properties (Pvt) Ltd. (WPL) was diluted to 24 percent as a result of the direct equity infusion in WPL, by the Parent Company, John Keells Holding PLC (JKH) as envisaged at the out set of the project .

Events after the Reporting Period

Events occurring after the reporting period is given in note 47 to the Financial Statements.

Contingent Liabilities and Capital Commitments

There were no material contingent liabilities or capital commitments as at 31st March 2017 except as disclosed in note 44 and 45 to the Financial Statements.

Outstanding Litigation

In the opinion of the Directors and in consultation with the Company lawyers, litigation currently pending against the Company and the Group will not have a material impact on the reported financial results or future operations of the Company and the Group.

Human Resources

The Group employed 4,116 persons as at 31st March 2017 (31st March 2016 - 3,370).

The Group is committed to pursuing various HR initiatives that ensure the individual development of the team as well as facilitating the creation of value for themselves, the Group and all other stakeholders.

There were no material issues pertaining to employees and industrial relations during the year under review.

System of Internal Controls

The Directors acknowledge their responsibility for the system of Internal Controls of the Company and the Subsidiaries and having conducted a review of internal controls covering financial, operational, compliance controls and risk management, have obtained reasonable assurance of their effectiveness and successful adherence for the period up to the date of signing the Financial Statements.

Corporate Governance

Enterprise Governance practices and principles with respect to the management and operations of the Group is set out on pages 54 to 91 of the Annual Report. The Directors confirm that the Group is in compliance with the Rules on Corporate Governance as per the listing rules of Colombo Stock exchange.

The Directors declare that:

- The Company and its Subsidiaries have not engaged in any activities, which contravene laws and regulations.
- The Directors have declared all material interests in contracts involving the Company and its Subsidiaries and refrained from voting on matters in which they were materially involved.
- The Company has made all endeavours' to ensure the equitable treatment of all shareholders.
- A review of internal controls covering financial, operational and compliance controls and risk management has been conducted, and the Directors have obtained a reasonable assurance of their effectiveness and successful adherence.
- The Board of Directors are committed to maintaining an effective Corporate Governance structure and process. A fuller report on Corporate Governance is found on pages 54 to 91.

Risk Management

The Board and the Executive Management of the Company and the Subsidiaries have put in place a comprehensive risk identification, measurement and mitigation process. The Risk Management process is an integral part of the annual strategic planning cycle. A detailed overview of the process is outlined in the Risk Management Report on pages 92 to 99.

BOARD COMMITTEES

Audit Committee

The following Non-Executive Independent Directors of the Board served as members of the Audit Committee during the year.

Mr. A R Rasiah - Chairman

Mr. M Hamza

Ms. S Ratwatte (appointed on 17th June 2016)

Dr. R S Wilson Wijeratnam (appointed on 17th June 2016)

Mr. P S Jayawardena PC (resigned on 16th June 2016)

The report of the Audit Committee is given on pages 177 to 179 of the Annual Report. The Audit Committee has reviewed the other services provided by the external Auditor to the Group to ensure that their independence as Auditor has not been compromised.

Human Resources and Compensation Committee

As permitted by the listing Rules of the Colombo Stock exchange, the Human Resources and Compensation Committee of John Keells Holdings PLC, the Parent Company of Ceylon Cold Stores PLC, functions as the Human Resources and Compensation Committee of the Company. The Human Resources and Compensation Committee of John Keells Holdings PLC comprises of three Independent Non-Executive Directors:

Mr. D A Cabraal - Chairman, Mr. M A Omar,
Dr. H Wijayasuriya

ANNUAL REPORT OF THE BOARD OF DIRECTORS

The Compensation policy is detailed in the Corporate Governance Report of the Annual Report.

Nominations Committee

The Nominations Committee of the Parent Company John Keells Holdings PLC as permitted by the Listing Rules of the Colombo Stock Exchange, functions as the nominations Committee of the Company and its Subsidiaries.

The Nominations Committee members of the Parent Company are as follows;

Mr. M A Omar - Chairman, Mr. S C Ratnayake, Ms. M P Perera, Dr. H Wijayasuriya

The Nomination Committee policy is detailed in the Corporate Governance Report of the Annual Report.

Related Party Transaction Review Committee

Related Party Transaction Review Committee of the Parent Company John Keells Holdings PLC as permitted by the Listing Rules of the Colombo Stock Exchange, functions as Related Party Transactions Review Committee the Company and its Subsidiaries.

The Related Party Transactions Review Committee members of the Parent Company are as follows;

Ms. M P Perera - Chairman, Mr. N A Fonseka, Mr. D A Cabraal, Mr. S C Ratnayake

The Related Party Transactions Review Committee policy is detailed in the Corporate Governance Report of the Annual Report.

Share Information

An Ordinary Share of the Company was quoted on the Colombo Stock exchange at Rs. 811 as at 31st March 2017 (31st March 2016 – Rs. 430). Information relating to earnings, dividends, net assets and market value per share is given in the (Decade at a Glance) on page 252. Information on share trading is given on page 250 of this report.

Shareholdings

There were 1,915 registered shareholders, holding ordinary voting shares as at 31st March 2017 (1,874 registered shareholders as at 31st March 2016). The distribution of shareholdings including the percentage held by the public is given on page 249 of this report.

Equitable Treatment to all Shareholders

The Company has made every endeavour to ensure the equitable treatment of all shareholders and has adopted adequate measures to prevent information asymmetry.

Substantial Shareholdings

The list of top twenty shareholders is given on page 250 of this report.

Information to Shareholders

The Board strives to be transparent and provide accurate information to shareholders in all published material. The quarterly financial information during the year has been sent to the Colombo Stock Exchange in a timely manner.

Directorate

The Board of Directors of Ceylon Cold Stores PLC who served during the year and as at the end of the Financial Year are given below and their brief profiles appear on pages 32 to 33 of the Annual Report.

No other Director held office during the year under review.

Mr. S C Ratnayake (Chairman) (Non - Executive, Non Independent)
Mr. A D Gunewardene (Non - Executive, Non Independent)
Mr. J R F Peiris (Non - Executive, Non Independent)
Mr. J R Gunaratne (Executive - Non Independent)
Mr. A R Rasiah (Non - Executive, Independent)
Mr. M Hamza (Non - Executive, Independent)
Ms. S Ratwatte (Non - Executive, Independent) - appointed to the Board on 17th June 2016
Dr. R S Wilson Wijeratnam (Non - Executive, Independent) - appointed to the Board on 17th June 2016
Mr. P S Jayawardena PC (Non-Executive Independent) - resigned from the Board on 16th June 2016

The Board of Directors of Jaykay Marketing Services (Pvt) Ltd who served during the year and as at the end of the Financial Year are given below. No other Director held office during the period under review.

Mr. S C Ratnayake (Chairman) (Non - Executive, Non Independent)
Mr. A D Gunewardene (Non - Executive, Non Independent)
Mr. K N J Balendra (Executive, Non Independent)
Mr. J G A Cooray (Executive - Non Independent)
Mr. K C Subasinghe (Executive - Non Independent)

The Board of Directors of The Colombo Ice Company (Pvt) Ltd who were appointed on 6th of May 2016 and as at the end of the Financial Year are given below. No other Director held office during the period under review.

Mr. S C Ratnayake (Chairman) (Non - Executive, Non Independent)

Mr. A D Gunewardene (Non - Executive, Non Independent)

Mr. J R F Peiris (Non - Executive, Non Independent)

Mr. J R Gunaratne (Executive - Non Independent)

Responsibility of the Board

Details of the responsibilities of the Board and the manner in which those responsibilities were discharged during the year are disclosed in the Corporate Governance section of the Annual Report.

Retirement and Re-Election of Directors

Accordance with Article 84 of the Articles of Association of the Company, Mr. J R F Peiris retires by rotation and being eligible offers himself for re-election.

In terms of Article 90 of the Articles of Association of the Company Ms. S Ratwatte and Dr. R S Wilson Wijeratnam who were appointed during the year retire and being eligible offer them selves for re-election.

Mr. A R Rasiah, having served as a Director of the Company for more than 9 years and who is over the age of 70 years has requested that he be not considered for re-election. Accordingly, Mr. A R Rasiah will cease to be a Director of the Company with effect from the close of the Annual General Meeting for the financial year 2016/17.

Directors' Interests in Shares

The Directors' individual shareholdings in the Company as at 31st March 2017 and 31st March 2016 were as follows.

Name of the Director	As at 31 March 2017	As at 31 March 2016
Mr. S C Ratnayake (Chairman)	3,344	3,344
Mr. A D Gunewardene	30,800	30,800
Mr. J R F Peiris	668	668
Mr. J R Gunaratne (CEO)	5,080	5,080
Mr. A R Rasiah	13,766	13,766
Mr. M Hamza *	1,000	500
Ms. S Ratwatte (Appointed on 17th June 2016)	-	-
Dr. R S Wilson Wijeratnam (Appointed on 17th June 2016)	-	-
Mr. P S Jayawardena PC (Resigned on 16th June 2016)		81,200

** Mr. M Hamza purchased 500 shares during the year*

Remuneration to Directors

Executive Directors' remuneration is established within a framework approved by the Remuneration Committee. The Directors are of the opinion that the framework assures appropriateness of remuneration and fairness for the Company. The remuneration of the Non-Executive Directors are determined according to scales of payment decided upon by the Board previously. Details of Directors' fees and emoluments paid during the year is disclosed in the note 16 to the Financial Statements.

Directors' Meetings

Details of Directors' meetings is presented on page 58 of the Annual Report.

Interests Register

The Company has maintained an Interests Register. In compliance with the requirements of the Companies Act, no 7 of 2007, this Annual Report contains particulars of entries made in the Interests Register. As the Subsidiaries are Private Limited Companies, who have dispensed the need to maintain an Interests Register, this Annual Report does not contain the particulars of entries made in the Interests Register of the Subsidiaries.

Interest Register is available at the Registered office of the Company in keeping with the requirement of the section 119 (1) (d) of the Companies Act No. 7 of 2007.

Particulars of entries in the Interests Register for the Financial Year 2016/17

a) Interests in Contracts - The Directors have all made a General Disclosure to the Board of Directors as permitted by Section 192 (2) of the Companies Act, no. 7 of 2007 and no additional interests have been disclosed by any Director.

b) Share Dealings: There have been no disclosures of share dealings as at 31st March 2017, except Mr. M Hamza purchasing 500 shares during the year.

c) Indemnities and Remuneration

The Board approved payments to the Executive Director of the Company, namely Mr. J R Gunaratne for the period 01st April 2016 to 31st March 2017, comprising of

- An increment from 1 July 2016 based on the individual performance rating obtained by the executive Director in terms of the Performance Management System of the John Keells Group.
- Short term variable incentive based on individual performance, organisation performance and role responsibility based on the results of the financial year 2015/16, paid in July 2017; and
- Long term Incentive in the nature of ESOP in John Keells Holdings PLC dependent on the aforesaid performance rating, organisational rating and role responsibility granted in July 2016.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

All approval related to indemnities and remuneration have been recommended by the Human Resources and Compensation Committee of John Keells Holdings PLC, keeping with the John Keells Group remuneration Policy.

Ms. S Ratwatte and Dr. R S Wilson Wijeratnam were appointed as Non-Executive Directors of Ceylon Cold Stores PLC from 17th June 2016 for three years at the standard Non-Executive fee approved by the Board for Non-Executive Directors, which are commensurate with the market complexities of the Company.

Fees payable to Non-Executive Nominee Directors of John Keells Holdings PLC was paid to John Keells Holding PLC and not to individual Directors.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Company and the Group to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, the Companies Act, no. 7 of 2007 and the Listing Rules of the Colombo Stock Exchange.

Employee Share Option Scheme (ESOP)

The Company does not offers its shares under an ESOP Scheme. The ESOP Scheme made available to the Senior Executive of the Company is from the Parent Company, John Keells Holdings PLC.

The Company has not directly or indirectly provided funds to its employees to purchase shares under ESOP Scheme.

Compliance with Laws and Regulations

The Company and the Group has complied with all applicable laws and regulations. A compliance checklist is signed on a quarterly basis by responsible officers and any violations are reported to the Audit Committee and Board of Directors.

Supplier Policy

The Group endeavours to transact business with reputed organisations capable of offering quality goods and services at competitive prices with a view to building mutually beneficial business relationships.

Statutory Payments

The Directors confirm to the best of their knowledge all taxes, duties and levies payable by the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Group and all other known statutory dues as were due and payable by Group as at the end of the reporting period have been paid or where relevant provided for.

Environment Protection

The Group is conscious of the impact, direct and indirect, on the environment due to its business activities. Every endeavour is made to minimise the adverse effects on the environment to ensure sustainable continuity of our resources.

Independent Auditors Appointment

The Financial Statements for the year has been audited by Messr's. Ernst & Young Chartered Accountants. The retiring Auditor, Messr's. Ernst & Young have intimated their willingness to continue in office and a resolution to re-appoint them as Auditor and authorising the Directors to fix their remuneration; will be proposed at the Annual General Meeting.

The Auditors Report is found on page 181 of the Annual Report.

The Audit Committee reviews the appointment of the Auditor, its effectiveness, independence and its relationship with the Company, including the level of audit and non-audit fees paid to the Auditor.

The details of fees paid to the Auditors for the Company and its Subsidiaries are set out in note 16 to the Financial Statements. As Far as the Directors are aware, the Auditors have no other relationship with the Company and it's Subsidiaries.

Approval of the Financial Statements

The Audited Financial Statements were approved by the Board of Directors on 16th May 2017.

Notice of Annual General Meeting

The notice of Meeting relating to the 120th Annual General Meeting is given on page 255 of the Annual Report.

J. R. Gunaratne
Director

J. R. F. Peiris
Director

Keells Consultants (Pvt) LTD
Secretaries
16th May 2017

AUDIT COMMITTEE REPORT

The powers and responsibilities of the Audit Committee are governed by the Audit Committee Charter which is approved and adopted by the Board. The Terms of Reference comply with the requirements of the Corporate Governance Rules as per Section 7.10 of the Listing Rules of the Colombo Stock Exchange (CSE). The Audit Committee's functions and scope are in compliance with the requirements of the Code of Best Practice on Audit Committee and conducted it's affairs in compliance with the requirements of the Code of Best Practice on Audit Committees.

The Committee is tasked with assisting the Board in fulfilling its oversight responsibility to the shareholders, potential shareholders, the investment community and other stakeholders in relation to the integrity of the Financial Statements of the Group, that a good financial reporting system is in place and is well managed in order to give accurate, appropriate and timely information, that it is in accordance with the Company's Act and other legislative reporting requirements and that adequate disclosures are made in the Financial Statements in accordance with the Sri Lanka Accounting Standards.

The Audit Committee ensures that the internal controls and the risk management process are effective and adequate enough to meet the requirements of the Sri Lanka Auditing Standards and that the Group is in compliance with legal, regulatory and ethical requirements.

The Audit Committee assesses the Group's ability to continue as a going concern in the foreseeable future.

The Committee evaluates the performance and the independence of the Internal Auditors and the External Auditor. The committee is also tasked with the responsibility of recommending to the Board the re-appointment or the change of External Auditor and to recommend their remuneration and terms of engagement.

In fulfilling its purpose, it is the responsibility of the Audit Committee to maintain a free and open communication with the Independent External Auditor, the outsourced Internal Auditors and the Management of the Company and the Subsidiary, and to ensure that all parties are aware of their responsibilities.

The Audit Committee is empowered to carry out any investigations it deems necessary and review all internal control systems and procedures, compliance reports, risk management reports etc. to achieve the objectives as stated above. The Committee has reviewed and discussed with management and the External Auditors, the audited financial statements for the year ended 31st March 2017, the quarterly unaudited Financial Statements as well as matters relating to the Group's internal control over financial reporting, key judgments and estimates in the preparation of financial statements and the processes that support certification of the financial statements by the Directors and the CFO.

Composition of the Audit Committee

The Audit Committee is a sub-committee of the Board of Directors appointed by and responsible to the Board of Directors.

The Audit Committee consists of four Independent, Non Executive Directors in conformity with the listing rules of The Colombo Stock Exchange, who are,

1. Mr. A. R. Rasiah – Chairman
2. Mr. M.Hamza
3. Ms. S. Ratwatte (appointed on 17th June 2016)
4. Dr. R S Wilson Wijeratnam (appointed on 17th June 2016)
5. Mr. P. S. Jayawardena PC (resigned on 16th June 2016)

The Audit Committee comprises of individuals with extensive experience and expertise in the fields of Finance, Corporate Management, Economics, Food Technology and Marketing. The Chairman of the Audit Committee is a Chartered Accountant. A brief profile of each member of the Audit Committee is given on pages 32 to 33 of this report under the section Board of Directors.

Meetings of Audit Committee

The Audit Committee meets as often as may be deemed necessary or appropriate in its judgment, and at least quarterly each year. During the year under review there were four (4) meetings and attendance of the committee members are given below.

The Executive Director / CEO, the Chief Financial Officer, the Sector Financial Controller and the Heads of Categories attended such meetings by invitation and briefed the committee on specific issues. The External Auditor and the Internal Auditors were also invited to attend meetings when necessary. The proceedings of the Audit Committee were reported to the Board of Directors by the Chairman of the Audit Committee.

AUDIT COMMITTEE REPORT

Attendance at Audit Committee Meetings

Name	25th April 2016	15th July 2016	17th October 2016	19th January 2017
Mr. A. R. Rasiah	Y	Y	Y	Y
Mr. M .Hamza	Y	Y	Y	Y
Ms. S. Ratwatte (appointed on 17th June 2016)	-	-	Y	Y
Dr. R S Wilson Wijeratnam (appointed on 17th June 2016)	-	-	Y	Y
Mr. P. S. Jayawardena PC (retired on 16th June 2016)	Y	-	-	-

Summary of Activities during the Financial Year

Oversight of Company and Consolidated Financial Statements

The Committee reviewed with the Independent External Auditors who are responsible for expressing an opinion on the truth and fairness of the audited Financial Statements and their conformity with the Sri Lanka Financial Reporting Standards (SLFRS) and Lanka Accounting Standards (LKAS).

The Committee also reviewed the accounting policies of the Company and the Group and such other matters as are required to be discussed with the Independent External Auditor in compliance with Sri Lanka Auditing Standard 260 – Communication of Audit Matters with those charged with Governance. The quarterly Financial Statements were also reviewed by the Committee and recommended their adoption to the Board.

The Committee also reviewed the process to assess the effectiveness of the internal financial controls that have been designed to provide reasonable assurance to the Directors that the financial reporting system can be relied upon in preparation and presentation of the Financial Statements of the Company and the Group.

Internal Audit

The Committee monitors the effectiveness of the Internal Audit function and is responsible for approving their appointment or removal and for ensuring they have adequate access to information required to conduct their audits.

The internal audit function of the Company has been outsourced to Messrs. PricewaterhouseCoopers (Private) Limited, a firm of Chartered Accountants and that of the Subsidiary, Jaykay Marketing Services (Pvt) Ltd is outsourced to BDO Partners – Chartered Accountants.

The Audit Committee has agreed with the Internal Auditors as to the frequency of audits to be carried out, the scope of the audit and the areas to be covered and the fee to be paid for their services.

During the year under review, the audit committee has met the Internal Auditors to consider their reports, management responses and matters requiring follow up on the effectiveness of internal controls and audit recommendations.

The internal audit frequency depends on the risk profile of each area, higher risk areas being on a shorter audit cycle. The audit committee is of the opinion that the above approach provides an optimal balance between the need to manage risk and the costs thereof.

Risk and Control Review

The Audit Committee has reviewed the Business Risk Management Process and procedures adopted by the Group to manage and mitigate the effects of such risks and observe that the risk analysis exercise had been conducted within the Group. The key risks that could impact operations had been identified and appropriate action has been taken to mitigate their impact to the minimum extent.

External Audit

The External Auditor of the Company and of the Subsidiary, Messrs. Ernest & Young, Chartered Accountants, submitted a detailed audit plan for the financial year 2016/17, which specified, inter alia, the areas of operations to be covered in respect of the Company and the Subsidiary. The audit plan specified 'areas of special emphasis' which had been identified from the last audit and from a review of current operations. The Audit Committee had meetings with the External Auditor to review the scope, timelines of the audit plan and approach for the audits.

The areas of special emphasis had been selected due to the probability of error and the material impact it can have on the Financial Statements. At the conclusion of the audit, the External Auditor met with the Audit Committee to discuss and agree on the treatment of any matters of concern discovered in the course of the audit and also to discuss the Audit Management Letters. Actions taken by the management in response to the issues raised were discussed with the President / CEO. There were no issues of significance during the year under review.

The Audit Committee also reviewed the audit fees of the External Auditors of the Company and of the Subsidiary and recommended its adoption by the Board. It also reviewed the other services provided by the Auditors in ensuring that their independence as Auditor was not compromised.

The Audit Committee has received a declaration from Messrs. Ernst & Young, as required by the Companies Act, No. 7 of 2007, confirming that they do not have any relationship or interest in the company, which may have a bearing on their independence within the meaning of the Code of Conduct and Ethics of the Institute of Chartered Accountants of Sri Lanka.

The Audit Committee has proposed to the Board of Directors that Messrs. Ernst & Young, Chartered Accountants, be recommended for reappointment as Auditor for the year ending 31st March 2018, at the next Annual General Meeting.

Compliance with Financial Reporting and Statutory Requirements

The Audit Committee receives a quarterly declaration from the CEO and the Sector Financial Controller, listing any departures from financial reporting, statutory requirements and Group policies. Reported exceptions, if any, are followed up to ensure that appropriate corrective action has been taken.

With a view of ensuring uniformity of reporting, the Group has adopted the standardised format of Annual Financial Statements developed by the Parent company.

Support to the Committee

The committee received the necessary support and information from the management of the Company and the Subsidiary during the year to enable them carry out its duties and responsibilities effectively.

Evaluation of Committee

The Audit Committee formally evaluated the performance of the Committee as well as the individual contribution of each member. Steps have been taken to address the matters highlighted following such evaluation.

Conclusion

The Audit Committee is satisfied that the effectiveness of the organisational structure of the Company and the Subsidiary in the implementation of the accounting policies and operational controls provide reasonable, assurance that the affairs of the Company and the Subsidiary are managed in accordance with accepted policies and that assets are properly accounted for and adequately safeguarded. The Committee is also satisfied that the Group's internal and external auditors have been effective and independent throughout the period under review.

Rasakantha Rasiah
Chairman, Audit Committee

16th May 2017

STATEMENT OF DIRECTORS' RESPONSIBILITY

Statement of Directors' Responsibility

The responsibility of the Directors, in relation to the Financial Statements, is set out in the following statement. The responsibility of the Auditor, in relation to the Financial Statements prepared in accordance with the provisions of the Companies Act, no. 7 of 2007, is set out in the Independent Auditors Report on page 181 of the Annual Report.

As per the provisions of the Companies Act, no. 7 of 2007 the Directors are required to prepare, for each financial year and place before a General Meeting, Financial Statements which comprise of;

- A Statement of Income, which presents a true and fair view of the profit or loss of the Company for the financial year; and
- A Statement of Other Comprehensive Income; and
- A Statement of Financial position, which presents a true and fair view of the state of affairs of the Company as at the end of the financial year.

The Directors have ensured that, in preparing these Financial Statements:

- Using appropriate accounting policies, which have been selected and applied in a consistent manner, and material departures, if any have been disclosed and explained; and
- All applicable Accounting Standards as relevant have been applied; and
- Reasonable and prudent judgements and estimates have been made so that the form and substance of transactions are properly reflected; and.
- Provides the information required by and otherwise comply with the Companies Act, no. 07 of 2007 and the listing Rules of the Colombo Stock exchange.

The Directors are also required to ensure that the Company and its Subsidiary have adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

Further, the Directors have a responsibility to ensure that the Company and its Subsidiary maintains sufficient accounting records to disclose, with reasonable accuracy the financial position of the Company and of the Group.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and of the Group, and in this regard to give a proper consideration to the establishment of appropriate internal control systems with a view to preventing and detecting fraud and other irregularities.

The Directors are required to prepare the Financial Statements and to provide the Auditor with every opportunity to take whatever steps and undertake whatever inspections they may consider being appropriate to enable them to give their audit opinion.

Further, as required by section 56(2) of the Companies Act No.07 of 2007, the Board of Directors confirm that the Company, satisfies the solvency test in accordance with Section 57 of the Companies Act No.07 of 2007, and has obtained a certificate from the Auditors, prior to declaring the final dividend of Rs. 8.00 per share as well as for all the dividend paid during the year ended 31st March 2017.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

Compliance Report

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company and its Subsidiary, all contributions, levies and taxes payable on behalf of the employees of the Company and its Subsidiary, and all other known statutory dues as were due and payable by the Company and its Subsidiary as at the end of the reporting period have been paid or, where relevant provided for except as specified in note 44 to the Financial Statements covering contingent liabilities.

By Order of the Board

Keells Consultants (Private) Limited
Secretaries

16th May 2017

INDEPENDENT AUDITORS' REPORT

Building a better working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CEYLON COLD STORES PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Ceylon Cold Stores PLC (the "Company"), and the consolidated financial statements of the Company and its Subsidiaries (the "Group") which comprise the statement of financial position as at 31st March 2017, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

The Board of Directors (the "Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31st March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act, no. 07 of 2007, we state the following:

a) The basis of opinion, scope and limitations of the audit are as stated above.

b) In our opinion:

- we have obtained all the information and explanations that were required for the audit and as far as appears from our examination, proper accounting records have been kept by the Company
- the financial statements of the Company give a true and fair view of its financial position as at 31st March 2017, and of its financial performance and
- cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, and the financial statements of the Company and the Group comply with the requirements of sections 151 and 153 of the Companies Act no. 07 of 2007.

16th May 2017

Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayesinghe FCA FCMA Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principal T P M Ruberu FCMA FCCA

INCOME STATEMENT

For the year ended 31st March	Note	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	COMPANY 2017 Rs. '000	COMPANY 2016 Rs. '000
Sale of goods		43,518,688	34,497,327	13,971,391	12,190,925
Revenue	12	43,518,688	34,497,327	13,971,391	12,190,925
Cost of sales		(36,479,220)	(28,572,740)	(8,645,685)	(7,595,030)
Gross profit		7,039,468	5,924,587	5,325,706	4,595,895
Dividend income	13	-	-	746,060	291,023
Other operating income	14.1	1,293,045	1,150,198	115,625	62,206
Selling and distribution expenses		(1,593,112)	(1,473,188)	(1,302,891)	(1,242,054)
Administrative expenses		(1,210,310)	(1,090,011)	(578,693)	(459,707)
Other operating expenses	14.2	(740,962)	(583,197)	(389,100)	(298,541)
Results from operating activities		4,788,129	3,928,389	3,916,707	2,948,822
Finance cost	15	(6,801)	(11,564)	(4,893)	(10,860)
Finance income	15	227,566	139,888	139,638	98,277
Net finance income		220,765	128,324	134,745	87,417
Change in fair value of investment property	22.1	92,005	16,947	92,005	16,947
Share of results of equity accounted investees	25.1	(11,151)	(21,191)	-	-
Profit before tax	16	5,089,748	4,052,469	4,143,457	3,053,186
Tax expense	19.1	(1,536,845)	(1,177,596)	(966,316)	(772,173)
Profit for the year		3,552,903	2,874,873	3,177,141	2,281,013
Attributable to:					
Equity holders of the parent		3,552,903	2,874,873		
		Rs.	Rs.		
Earnings per share					
Basic	17	37.38	30.25		
Dividend per share	18	32.00	18.00		

Figures in brackets indicate deductions.

The accounting policies and notes as set out on pages 189 to 248 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

		GROUP		COMPANY	
For the year ended 31st March		2017	2016	2017	2016
	Note	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Profit for the year		3,552,903	2,874,873	3,177,141	2,281,013
Other comprehensive income					
Other comprehensive income to be reclassified to income statement in subsequent periods					
Share of other comprehensive income of equity accounted investees	25.1	253,835	585,234	-	-
Other comprehensive income not to be reclassified to income statement in subsequent periods					
Actuarial gain/(loss) on employee benefit liabilities	37	(47,025)	(1,611)	(30,630)	4,078
Revaluation of land and buildings	20.1	161,724	58,463	112,844	54,388
Income tax on other comprehensive income	19.2	(7,686)	(9,717)	1,410	(10,168)
Net other comprehensive income not to be reclassified to income statement in subsequent periods		107,013	47,135	83,624	48,298
Other comprehensive income for the year, net of tax		360,848	632,369	83,624	48,298
Total comprehensive income for the year, net of tax		3,913,751	3,507,242	3,260,765	2,329,311
Attributable to:					
Equity holders of the parent		3,913,751	3,507,242	3,260,765	2,329,311

Figures in brackets indicate deductions.

The accounting policies and notes as set out on pages 189 to 248 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

		GROUP		COMPANY	
As at 31st March		2017	2016	2017	2016
	Note	Rs. '000	Rs. '000	Rs. '000	Rs. '000
ASSETS					
Non-current assets					
Property, plant and equipment	20.1	8,107,133	6,122,560	4,122,304	3,715,197
Lease rentals paid in advance	21.1	174,701	-	-	-
Investment property	22.1	207,042	111,404	207,042	111,404
Intangible assets	23.1	151,156	143,404	8,727	7,659
Investments in subsidiaries	24.1	-	-	1,492,892	1,222,892
Investment in equity accounted investees	25.1	6,029,201	5,886,679	5,392,863	5,392,863
Non-current financial assets	26	170,263	130,607	91,078	80,364
Other non-current assets	27	554,337	383,409	20,585	14,053
		15,393,833	12,778,063	11,335,491	10,544,432
Current assets					
Inventories	28	3,540,542	2,719,857	1,192,696	836,303
Trade and other receivables	29	2,227,914	1,746,096	1,720,333	1,414,734
Amounts due from related parties	42.1	5,570	6,194	38,882	42,527
Other current assets	30	668,250	292,546	155,501	113,429
Short term investments	31	415,660	2,064,523	361,746	1,304,905
Cash in hand and at bank		203,236	224,090	73,759	103,103
		7,061,172	7,053,306	3,542,917	3,815,001
Total assets		22,455,005	19,831,369	14,878,408	14,359,433
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the parent					
Stated capital	32	918,200	918,200	918,200	918,200
Revenue reserves	33	10,102,361	9,744,890	9,477,355	9,363,562
Other components of equity	34	2,168,837	1,682,641	1,063,107	903,647
Total equity		13,189,398	12,345,731	11,458,662	11,185,409
Non-current liabilities					
Interest-bearing loans and borrowings	36.2	129,525	15,000	-	15,000
Deferred tax liabilities	19.4	992,308	771,473	611,326	557,425
Employee benefit liabilities	37	471,353	394,377	363,698	314,302
Other non-current liabilities	38	193,465	131,929	193,465	131,929
Other deferred liabilities	39	55,489	26,335	-	-
		1,842,140	1,339,114	1,168,489	1,018,656
Current liabilities					
Trade and other payables	40	4,804,967	4,038,576	1,007,558	976,581
Amounts due to related parties	42.2	155,142	122,639	3,276	1,257
Income tax liabilities	19.3	589,168	686,600	421,821	531,121
Interest-bearing loans and borrowings	36.2	141,667	69,073	15,000	69,073
Other current liabilities	41	1,005,919	646,281	575,216	409,117
Bank overdrafts		726,604	583,355	228,386	168,219
		7,423,467	6,146,524	2,251,257	2,155,368
Total equity and liabilities		22,455,005	19,831,369	14,878,408	14,359,433

I certify that the financial statements comply with the requirements of the Companies Act, No. 7 of 2007.

S. R. Jayaweera
Chief Financial Officer

The Board of directors is responsible for the preparation and presentation of these financial statements.

J. R. Gunaratne
Director

J. R. F. Peiris
Director

The accounting policies and notes as set out on pages 189 to 248 form an integral part of these financial statements.
16th May 2017

STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March	Attributable to equity holders of the parent							
	Stated capital	ESOP reserve	Revaluation reserve	Foreign currency translation reserve	Cash flow hedges reserve	General reserve	Revenue reserves	Total equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
GROUP								
As at 1st April 2015	918,200	104,515	758,421	111,459	-	646,000	8,117,741	10,656,336
Charge relating to Super Gain Tax	-	-	-	-	-	-	(118,873)	(118,873)
Restatement of fully depreciated assets	-	-	-	-	-	-	12,733	12,733
Profit for the period	-	-	-	-	-	-	2,874,873	2,874,873
Other comprehensive income	-	-	48,295	585,234	-	-	(1,159)	632,370
Total comprehensive income	-	-	48,295	585,234	-	-	2,767,574	3,401,103
Transfer	-	-	-	-	-	(646,000)	646,000	-
Share based payment transactions	-	74,717	-	-	-	-	-	74,717
First and final dividend paid - 2014/15	-	-	-	-	-	-	(570,240)	(570,240)
Preference share dividend paid - 2014/15	-	-	-	-	-	-	(14)	(14)
Interim dividends paid 2015/16	-	-	-	-	-	-	(1,140,480)	(1,140,480)
Changes of holding in associate	-	-	-	-	-	-	(75,691)	(75,691)
As at 31st March 2016	918,200	179,232	806,716	696,693	-	-	9,744,890	12,345,731
Profit for the period	-	-	-	-	-	-	3,552,903	3,552,903
Other comprehensive income	-	-	140,872	171,010	82,825	-	(33,859)	360,848
Total comprehensive income	-	-	140,872	171,010	82,825	-	3,519,044	3,913,751
Share based payment transactions	-	91,489	-	-	-	-	-	91,489
Final dividend paid - 2015/16	-	-	-	-	-	-	(950,400)	(950,400)
Preference share dividend paid - 2015/16	-	-	-	-	-	-	(14)	(14)
Interim dividends paid 2016/17	-	-	-	-	-	-	(2,090,880)	(2,090,880)
Changes of holding in associate	-	-	-	-	-	-	(120,279)	(120,279)
As at 31st March 2017	918,200	270,721	947,588	867,703	82,825	-	10,102,361	13,189,398
COMPANY								
As at 1st April 2015	918,200	62,415	752,003			646,000	8,240,028	10,618,646
Charge relating to Super Gain Tax	-	-	-			-	(108,415)	(108,415)
Restatement of fully depreciated assets	-	-	-			-	12,733	12,733
Profit for the period	-	-	-			-	2,281,013	2,281,013
Other comprehensive income	-	-	45,361			-	2,937	48,298
Total comprehensive income	-	-	45,361			-	2,188,268	2,233,629
Transfer	-	-	-			(646,000)	646,000	-
Share based payment transactions	-	43,868	-			-	-	43,868
First and final dividend paid - 2014/15	-	-	-			-	(570,240)	(570,240)
Preference share dividend paid - 2014/15	-	-	-			-	(14)	(14)
Interim dividends paid 2015/16	-	-	-			-	(1,140,480)	(1,140,480)
As at 31st March 2016	918,200	106,283	797,364			-	9,363,562	11,185,409
Profit for the period	-	-	-			-	3,177,141	3,177,141
Other comprehensive income	-	-	105,678			-	(22,054)	83,624
Total comprehensive income	-	-	105,678			-	3,155,087	3,260,765
Share based payment transactions	-	53,782	-			-	-	53,782
Final dividend paid - 2015/16	-	-	-			-	(950,400)	(950,400)
Preference share dividend paid - 2015/16	-	-	-			-	(14)	(14)
Interim dividends paid 2016/17	-	-	-			-	(2,090,880)	(2,090,880)
As at 31st March 2017	918,200	160,065	903,042			-	9,477,355	11,458,662

Figures in brackets indicate deductions.

The accounting policies and notes as set out on pages 189 to 248 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31st March	Note	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	COMPANY 2017 Rs. '000	COMPANY 2016 Rs. '000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before working capital changes	A	5,727,415	4,726,763	4,442,062	3,458,385
(Increase) / decrease in inventories		(820,685)	(337,027)	(356,393)	(188,739)
(Increase) / decrease in trade and other receivables		(481,818)	(265,008)	(305,599)	(161,127)
(Increase) / decrease in amounts due from related parties		624	879	3,645	(7,933)
(Increase) / decrease in other current assets		(375,704)	(39,037)	(42,072)	(390)
(Increase) / decrease in non-current financial assets		(39,656)	(37,817)	(10,714)	(15,847)
(Increase) / decrease in other non-current assets		(170,928)	(96,049)	(6,532)	926
Increase / (decrease) in trade and other payables		766,391	1,056,103	30,977	331,579
Increase / (decrease) in amounts due to related parties		32,503	(3,772)	2,019	(6,842)
Increase / (decrease) in other current liabilities		359,638	40,787	166,099	80,957
Increase / (decrease) in other deferred liabilities		29,154	1,427	-	-
Increase / (decrease) in other non-current liabilities		61,536	13,489	61,536	13,489
Cash generated from operations		5,088,470	5,060,738	3,985,028	3,504,458
Finance income received		227,566	139,888	139,638	98,277
Finance expenses paid		(6,801)	(11,564)	(4,893)	(10,860)
Tax paid	19.3	(1,421,127)	(702,347)	(1,020,305)	(637,406)
Gratuity paid	37	(48,876)	(46,192)	(34,475)	(26,310)
Net cash flow from operating activities		3,839,232	4,440,523	3,064,993	2,928,159
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES					
Purchase and construction of property, plant and equipment	20.1	(2,600,303)	(1,374,731)	(709,928)	(543,567)
Investment in investment properties	22.1	(3,633)	-	(3,633)	-
Investment in subsidiaries	24	-	-	(270,000)	-
Purchase of intangible assets	23.1	(18,472)	(1,668)	(4,581)	(747)
Proceeds from sale of property plant and equipment		1,447	2,122	846	365
Purchase of lease rights	21	(177,062)	-	-	-
Net cash flow used in investing activities		(2,798,023)	(1,374,277)	(987,296)	(543,949)
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES					
Dividend paid to equity holders of parent	18	(3,041,280)	(1,710,720)	(3,041,280)	(1,710,720)
Dividend paid to Preference shareholders	17	(14)	(14)	(14)	(14)
Proceeds from (repayment of) borrowings (net)	36.1	187,119	(101,264)	(69,073)	(101,264)
Net cash flow used in financing activities		(2,854,175)	(1,811,998)	(3,110,367)	(1,811,998)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		(1,812,966)	1,254,248	(1,032,670)	572,212
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		1,705,258	451,010	1,239,789	667,577
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		(107,708)	1,705,258	207,119	1,239,789
ANALYSIS OF CASH AND CASH EQUIVALENTS					
Favourable balances					
Short term investments		415,660	2,064,523	361,746	1,304,905
Cash in hand and at bank		203,236	224,090	73,759	103,103
Unfavourable balances					
Bank overdrafts		(726,604)	(583,355)	(228,386)	(168,219)
Total cash and cash equivalents		(107,708)	1,705,258	207,119	1,239,789

Figures in brackets indicate deductions.

The accounting policies and notes as set out on pages 189 to 248 form an integral part of these financial statements.

For the year ended 31st March	Note	GROUP 2017 Rs. '000	GROUP 2016 Rs. '000	COMPANY 2017 Rs. '000	COMPANY 2016 Rs. '000
A. Profit before working capital changes					
Profit before tax		5,089,748	4,052,469	4,143,457	3,053,186
Adjustments for:					
Finance income	15	(227,566)	(139,888)	(139,638)	(98,277)
Finance cost	15	6,801	11,564	4,893	10,860
Share of results of equity accounted investees	25.1	11,151	21,191	-	-
Change in fair value of investment property	22.1	(92,005)	(16,947)	(92,005)	(16,947)
Depreciation of property, plant and equipment	20.1	732,609	646,994	413,922	395,671
Amortisation of intangible assets	23.1	10,720	10,859	3,513	3,684
Amortisation of lease rentals paid in advance	21.1	2,361	-	-	-
Loss on sale of property, plant and equipment	14.2	10,347	39,511	897	19,922
Impairment of property, plant and equipment	20.1	33,050	-	-	-
Share based payment expense	35	91,489	74,717	53,782	43,868
Realised gain on lease rights forgone	14.1	(20,117)	(36,307)	-	-
Gratuity provision and related costs	37	78,827	62,600	53,241	46,418
		5,727,415	4,726,763	4,442,062	3,458,385

Figures in brackets indicate deductions.

The accounting policies and notes as set out on pages 189 to 248 form an integral part of these Financial Statements.

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NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Reporting entity

Ceylon Cold Stores PLC is a public limited liability company incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The registered office of the Company is located at 117, Sir Chittampalam A. Gardiner Mawatha, Colombo 02. Principal place of business of the Company is located at no 148, Vauxhall Street, Colombo 02. The manufacturing facilities for the production of Beverages and Frozen Confectionery are located at Ranala, Kaduwela.

Ordinary shares of the Company are listed on the Colombo Stock Exchange.

Consolidated Financial Statements

The consolidated financial statements for the year ended 31st March 2017, comprise "the Company" referring to Ceylon Cold Stores PLC as the holding Company and "the Group" referring to the companies whose accounts have been consolidated therein.

Approval of Financial Statements

The financial statements for the year ended 31st March 2017 were authorised for issue by the Directors on 15th May 2017.

Principal Activities and Nature of Operations

Company

The principal activity of the Company is the manufacture and marketing of Beverages and Frozen Confectionery.

Subsidiaries

Jaykay Marketing Services (Pvt) Ltd

The principal activity of the wholly-owned Subsidiary Jaykay Marketing Services (Pvt) Ltd is owing and operating a chain of supermarkets and "Nexus Mobile" loyalty programme .

The Colombo Ice Company (Pvt) Ltd

The Colombo Ice Company (Pvt) Ltd (CICL) was incorporated in May 2016, as a wholly owned subsidiary of Ceylon Cold Stores PLC (CCS). CICL entered into an agreement with the Board of Investment of Sri Lanka (BOI) in July 2016, to lease a land extent of 9 acres for a period of 50 years for the establishment of an ice cream factory. A total of Rs. 270 million has been infused by CCS as equity in CICL, as at the reporting date.

There was no change in the nature of the principal activities of either the Company or the Subsidiaries during the financial year under review other than mentioned above.

Associate

The principal activity of the Associate Company Waterfront properties (Pvt) Ltd is developing of hotels, apartments and shopping malls.

Parent Enterprise and Ultimate Parent Enterprise

The Company's parent undertaking is John Keells Holdings PLC. The Directors are of the opinion that the Company's ultimate parent undertaking and controlling party is John Keells Holdings PLC which is incorporated in Sri Lanka.

Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of these financial statements.

The responsibility of the Directors in relation to the financial statements is set out in the Statement of Directors' Responsibility on page 180 in the Annual Report.

Statement of Compliance

The financial statements which comprise the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and the statement of cash flows, together with the accounting policies and notes (the "Financial Statements") have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs) as issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the requirement of the Companies Act, No. 7 of 2007.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on an accrual basis and under the historical cost convention except for the land, building and investment properties in the statement of financial position.

Presentation and Functional Currency

The consolidated financial statements are presented in Sri Lankan Rupees, the Group's functional and presentation currency, which is the currency of primary economic environment in which the Holding Company operates. Each entity in the Group uses the currency of the primary economic environment in which they operate as their functional currency.

Each material class of similar items is presented cumulatively in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard-LKAS 1 on 'Presentation of Financial Statements'.

All values are rounded to the nearest rupees thousand (Rs. '000) except when otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION (CONTD.)

The significant accounting policies are discussed with relevant individual notes.

Comparative information

The presentation and classification of the financial statements of the previous years have been amended, where relevant for better presentation and to be comparable with those of the current year (Note 43).

The share of results of equity accounted investees in the income statement and other comprehensive income statement are shown net of all related taxes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of significant accounting policies have been disclosed along with the relevant individual notes in the subsequent pages.

Those accounting policies presented with each note have been applied consistently by the Group.

Other significant accounting policies not covered with individual notes

Following accounting policies which have been applied consistently by the Group, are considered to be significant but are not covered in any other sections.

Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is considered as current when it is:

- expected to be realised or intended to be sold or consumed in normal operating cycle
- held primarily for the purpose of trading
- expected to be realised within twelve months after the reporting period, or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non- current.

A liability is considered as current when:

- it is expected to be settled in normal operating cycle
- it is held primarily for the purpose of trading
- it is due to be settled within twelve months after the reporting period, or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities accordingly.

Foreign currency translation, foreign currency transactions and balances

The consolidated financial statements are presented in Sri Lanka Rupees (Rs.), which is the Company's functional and presentation currency. The functional currency is the currency of the primary economic environment in which the entities of the Group operate. All foreign exchange transactions are converted to functional currency, at the rates of exchange prevailing at the time the transactions are effected. Monetary assets and liabilities denominated in foreign currency are re-translated to functional currency equivalents at the spot exchange rate prevailing at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary assets and liabilities are translated using exchange rates that existed when the values were determined. The gain or loss arising on translation of non-monetary items is treated in line with the recognition of gain or loss on changing fair value of the item.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements of the Group require the management to make judgments, estimates and assumptions, which may affect the amounts of income, expenditure, assets, liabilities and the disclosure of contingent liabilities, at the end of the reporting period.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made various judgements. Those which management has assessed to have the most significant effect on the amounts recognised in the consolidated financial statements have been discussed in the individual notes of the related financial statement line items.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes to the financial statements. The Group based its assumptions

and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

The line items which have the most significant effect on accounting, judgements, estimate and assumptions are as follows;

a) Valuation of property, plant and equipment and investment property (Note 20 and 22)
b) Impairment of non-financial assets (Note 20)
c) Share based payments (Note 35)
d) Taxes (Note 19)
e) Employee benefit liabilities (Note 37)

5. SRI LANKA ACCOUNTING STANDARDS (SLFRS/ LKAS) ISSUED BUT NOT YET EFFECTIVE

The following SLFRS have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these financial statements. Those SLFRS's will have an effect on the accounting policies currently adopted by the Group and may have an impact on the future financial statements.

The Group intents to adopt these standards, if applicable when they become effective.

Accounting Standard	Summary of requirement	Effective date	Possible Impact on Consolidated Financial Statements
SLFRS 9 - Financial Instruments	SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from LKAS 39	On or after 1st January 2018 (early adoption permitted)	The JKH Group has performed a high-level impact assessment of all three aspects of SLFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analysis or additional reasonable and supportable information being made available to the JKH Group in the future. Overall, the JKH Group expects no significant impact on its financial position and equity.
SLFRS 15 - Revenue from Contracts with Customers	SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes	On or after 1st January 2018 (early adoption permitted)	The Group completed diagnostic phase of SLFRS 15 adaptation in 2016/17 financial year with the assistance of external consultants. The Group's current study has not revealed a significant change to the revenue recognition patterns.
SLFRS 16 - Leases	SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under LKAS 17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for the users of financial statements to assess the effect that leases have on the financial position.	On or after 1st January 2019 (early adoption permitted)	The Group plans to assess the potential effect of SLFRS 16 on its consolidated financial statements in 2017/18 financial year.

NOTES TO THE FINANCIAL STATEMENTS

5. SRI LANKA ACCOUNTING STANDARDS (SLFRS/LKAS) ISSUED BUT NOT YET EFFECTIVE (CONTD.)

The following amendments and improvements are not expected to have a significant impact on the Group's consolidated financial statements.

- Accounting for acquisitions of interests in joint operations (Amendments to SLFRS 11).
- Clarification of acceptable methods of depreciation and amortisation (Amendments to LKAS 16 and LKAS 38).
- Equity method in separate financial statements (Amendments to LKAS 27).
- Sale or contribution of assets between an investor and its associate or joint venture (Amendments to SLFRS 10 and LKAS 28).
- Annual improvements to SLFRSs 2012– 2014 Cycle – various standards.
- Investment entities: Applying the consolidation exception (Amendments to SLFRS 10, SLFRS 12 and LKAS 28).
- Disclosure initiative (Amendments to LKAS 1).

6. OPERATING SEGMENT INFORMATION

Accounting Policy

The Group's internal organisation and management is structured based on individual products and services which are similar in nature and process and where the risks and returns are similar. The operating segments represent this business structure.

In addition, segments are determined based on the Group's geographical spread of operations as well. The geographical analysis of turnover and profits are based on location of customers and assets respectively.

As such for management purposes, the Group is organised into business units based on their products and services and has two operating business segments as manufacturing and retailing.

The measurement policies the Company uses for segment reporting under SLFRS 8 are the same as those used in its financial statements.

Manufacturing business is carried out by the Company and The Colombo Ice Company (Pvt) Ltd. Retailing is carried out by Jaykay Marketing Services (Pvt) Ltd.

Each of these operating segments are managed by Presidents acting as segment managers namely;

- Manufacturing segment – President, Consumer Foods Sector
- Retailing Segment – President, Retail Sector

These operating segments are monitored and strategic decisions are made on the basis of segment operating results.

Segment Information

Segment information has been prepared in conformity with the Accounting policies adopted for preparing and presenting the consolidated financial statement of the Group.

All Inter-Segment transfers are carried out at arm's length prices.

The following tables present revenue, profit information and segment assets regarding the Group's operating segments.

	Manufacture		Retail		Total	
For the year ended 31st March	2017	2016	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
External Revenue	13,705,031	11,923,667	29,813,657	22,573,660	43,518,688	34,497,327
Inter segment revenue	266,360	267,258	597	-	266,957	267,258
Segment Revenue	13,971,391	12,190,925	29,814,254	22,573,660	43,785,645	34,764,585
Elimination				-	(266,957)	(267,258)
Revenue	13,971,391	12,190,925	29,814,254	22,573,660	43,518,688	34,497,327
Segment operating profit	3,166,434	2,657,799	1,600,258	1,237,114	4,766,692	3,894,913
Finance costs	(4,914)	(10,860)	(1,887)	(704)	(6,801)	(11,564)
Finance income	143,358	98,277	84,208	41,611	227,566	139,888
Change in fair value of investment property	92,005	16,947	-	-	92,005	16,947
Share of results of equity accounted investees	-	-	-	-	(11,151)	(21,191)
Eliminations / adjustments	-	-	-	-	21,437	33,476
Profit before tax	3,396,883	2,762,163	1,682,579	1,278,021	5,089,748	4,052,469
Tax Expense	(967,358)	(772,173)	(486,591)	(373,087)	(1,536,845)	(1,177,596)
Profit/(Loss) for the year	2,429,525	1,989,990	1,195,988	904,934	3,552,903	2,874,873
Reportable Segment Assets	8,322,447	7,632,274	7,824,596	6,130,193	16,103,756	13,718,280
Capital Expenditure	852,212	544,314	1,748,091	832,085	2,600,303	1,376,399
Reportable Segment Liabilities	3,419,746	3,174,024	5,615,506	4,349,232	9,265,607	7,485,638

* Inter-segment revenue and inter-company balances are eliminated on consolidation

* Segment assets do not include goodwill, investment property, investment in Subsidiaries and Investment in Associate.

7. BASIS OF CONSOLIDATION

Accounting Policy

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its Subsidiaries as at 31st March 2017. The Financial Statements of the Subsidiaries are prepared in compliance with the Group's accounting policies unless otherwise stated.

Control over an investee

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

NOTES TO THE FINANCIAL STATEMENTS

7. BASIS OF CONSOLIDATION (CONTD.)

Consolidation of entities in which the Group held less than a majority of voting rights

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The following Companies have been consolidated as subsidiaries based on above criteria.

	Effective Holding
Jaykay Marketing Services (Pvt) Ltd	100%
The Colombo Ice Company (Pvt) Ltd	100%

Subsidiaries

Subsidiaries are fully consolidated from the date of acquisition or incorporation, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the Subsidiaries are prepared for the same reporting period as the Company, which is 12 months ending 31 March, using consistent accounting policies.

The total profits and losses for the year of the Company and of its Subsidiaries included in consolidation are shown in the consolidated Income statement and consolidated statement of comprehensive Income and all assets and liabilities of the Company and of its Subsidiaries included in consolidation are shown in the consolidated statement of financial position.

The consolidated statements of cash flows includes the cash flows of the Company and its' Subsidiaries.

Losses within the Subsidiaries are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a Subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a Subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the Subsidiary.
- De-recognises the carrying amount of any non-controlling interest.
- De-recognises the cumulative translation differences, recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Non-controlling interest which represents the portion of profit or loss and net assets not held by the Group, are shown as a component of profit for the year in the consolidated income statement and statement of comprehensive income and as a component of equity in the consolidated statement of financial position, separately from parent's shareholders' equity.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Common Control Business Combinations

SLFRS 3 – Business Combination scopes out common control business combinations. LKAS 8 – Accounting policies, Changes in Accounting estimates and errors – requires that in the absence of specific guidance in SLFRS, management should use its judgment in developing and applying an accounting policy that is relevant and reliable. Accordingly, The Group selected pooling of interest method as the most appropriate method for accounting the business combinations involving business under common control.

The concept underlying the use of pooling of interest method to account for a business combination is that no acquisition has occurred and there has been a continuation of the risks and benefits to the controlling party (or parties) that existed prior to the business combination.

Under the pooling of interest method, the net assets of the combining entities are consolidated using the existing book values from the controlling parties' perspective. The assets and liabilities of the acquired entity is recorded at the book values as stated in the financial statements of the controlling party.

No amount is recognised as consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination.

8 BUSINESS COMBINATIONS AND GOODWILL

Accounting Policy

Business combinations are accounted for using the acquisition method of accounting. The Group measures goodwill at the acquisition date as the fair value of the consideration transferred including the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

When the fair value of the consideration transferred including the recognised amount of any non-controlling interests in the acquiree is lower than the fair value of net assets acquired, a gain is recognised immediately in the income statement. The Group elects on a transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration which is deemed to be an asset or liability, which is a financial instrument and within the scope of LKAS 39, is measured at fair value with changes in fair value either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be re-measured. Subsequent settlement is accounted within equity. In instances where the contingent consideration does not fall within the scope of LKAS 39, it is measured in accordance with the appropriate SLFRS/LKAS.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

NOTES TO THE FINANCIAL STATEMENTS

8 BUSINESS COMBINATIONS AND GOODWILL (CONTD.)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets pro-rata to the carrying amount of each asset in the unit.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation, goodwill disposed in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

Impairment of goodwill

Goodwill is tested for impairment annually (as at 31 March) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

9 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments held by the Group, principally comprise of cash, loans to executives, trade and other receivables, trade and other payables and borrowings. The main purpose of these financial instruments is to manage the operating, investing and financing activities of the Group.

Risk management is carried out by a central treasury department (JKH Group Treasury) under guidelines of the Group Executive Committee (GEC) of JKH. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The GEC provides guidelines for overall risk management, as well as covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

9.1 Credit risk

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all clients who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, such as cash and cash equivalents, available-for-sale financial investments, investment loan, and certain derivative instruments, the Group's exposure to credit risk arises from default of the counter party. The Group manages its operations to avoid any excessive concentration of counter party risk and the Group takes all reasonable steps to ensure the counter parties fulfil their obligations.

9.1.1 Credit risk exposure

The maximum risk positions of financial assets which are generally subject to credit risk are equal to their carrying amounts (without consideration of collateral, if available).Following table shows the maximum risk positions.

Group		2017						
As at 31st March	Notes	Non-current financial assets Rs. '000	Cash in hand and at bank Rs. '000	Trade and other receivables Rs. '000	Short term investments Rs. '000	Amounts due from related parties Rs. '000	Total Rs. '000	% of allocation %
Government securities	9.1.2	-	-	-	354,897	-	354,897	12%
Deposits with banks	9.1.3	-	-	-	60,763	-	60,763	2%
Loans to executives	9.1.4	170,263	-	52,479	-	-	222,742	7%
Trade and other receivables	9.1.5	-	-	2,175,435	-	-	2,175,435	72%
Amounts due from related parties	9.1.6	-	-	-	-	5,570	5,570	0%
Cash in hand and at bank	9.1.7	-	203,236	-	-	-	203,236	7%
Total credit risk exposure		170,263	203,236	2,227,914	415,660	5,570	3,022,643	100%

Group		2016						
For the year ended 31st March	Notes	Non-current financial assets Rs. '000	Cash in hand and at bank Rs. '000	Trade and other receivables Rs. '000	Short term investments Rs. '000	Amounts due from related parties Rs. '000	Total Rs. '000	% of allocation %
Government securities	9.1.2	-	-	-	1,902,399	-	1,902,399	46%
Deposits with banks	9.1.3	-	-	-	162,124	-	162,124	4%
Loans to executives	9.1.4	130,607	-	42,600	-	-	173,207	4%
Trade and other receivables	9.1.5	-	-	1,703,496	-	-	1,703,496	41%
Amounts due from related parties	9.1.6	-	-	-	-	6,194	6,194	0%
Cash in hand and at bank	9.1.7	-	224,090	-	-	-	224,090	5%
Total credit risk exposure		130,607	224,090	1,746,096	2,064,523	6,194	4,171,510	100%

Company		2017						
As at 31st March	Notes	Non-current financial assets Rs. '000	Cash in hand and at bank Rs. '000	Trade and other receivables Rs. '000	Short term investments Rs. '000	Amounts due from related parties Rs. '000	Total Rs. '000	% of allocation %
Government securities	9.1.2	-	-	-	327,689	-	327,689	14%
Deposits with banks	9.1.3	-	-	-	34,057	-	34,057	1%
Loans to executives	9.1.4	91,078	-	35,280	-	-	126,358	6%
Trade and other receivables	9.1.5	-	-	1,685,053	-	-	1,685,053	74%
Amounts due from related parties	9.1.6	-	-	-	-	38,882	38,882	2%
Cash in hand and at bank	9.1.7	-	73,759	-	-	-	73,759	3%
Total credit risk exposure		91,078	73,759	1,720,333	361,746	38,882	2,285,798	100%

NOTES TO THE FINANCIAL STATEMENTS

9 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

9.1 Credit risk (Contd.)

Company

As at 31st March	Notes	2016 Non-current financial assets Rs. '000	Cash in hand and at bank Rs. '000	Trade and other receivables Rs. '000	Short term investments Rs. '000	Amounts due from related parties Rs. '000	Total Rs. '000	% of allocation %
Government securities	9.1.2	-	-	-	1,142,781	-	1,142,781	39%
Deposits with banks	9.1.3	-	-	-	162,124	-	162,124	5%
Loans to executives	9.1.4	80,364	-	30,588	-	-	110,952	4%
Trade and other receivables	9.1.5	-	-	1,384,146	-	-	1,384,146	47%
Amounts due from related parties	9.1.6	-	-	-	-	42,527	42,527	1%
Cash in hand and at bank	9.1.7	-	103,103	-	-	-	103,103	4%
Total credit risk exposure		80,364	103,103	1,414,734	1,304,905	42,527	2,945,633	100%

9.1.2 Government securities

As at 31st March 2017 investments in government securities consist of treasury bonds, bills and reverse repo investments. Government securities are usually referred to as risk free due to the sovereign nature of the instrument.

9.1.3 Deposits with banks

Deposits with banks consists of call deposits as at 31st March 2017. Call deposits comprise of 100% (2016-100%) and rated "A" or better.

As at 31st March	GROUP 2017 Rs. '000	GROUP Rating % of Total %	GROUP 2016 Rs. '000	GROUP Rating % of Total %	COMPANY 2017 Rs. '000	COMPANY Rating % of Total %	COMPANY 2016 Rs. '000	COMPANY Rating % of Total %
Fitch Rating*								
AA	26,706	44%	-	-	-	-	-	-
AAA	34,057	56%	162,124	100%	34,057	100%	162,124	100%
Total	60,763	100%	162,124	100%	34,057	100%	162,124	100%

**Rating agencies*

9.1.4 Loans to executives

Loans to executive portfolio is largely made up of vehicle loans which are given to staff at assistant manager level and above. The respective business units have obtained the necessary Power of Attorney/promissory notes as collateral for the loans granted.

9.1.5 Trade and other receivables

		GROUP		COMPANY	
As at 31st March		2017	2016	2017	2016
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Neither past due nor impaired					
	days				
	<30	1,876,374	1,459,132	1,504,847	1,203,314
	30–60	218,368	182,543	147,149	135,512
	61–90	62,701	23,322	27,365	11,587
Past due but not impaired					
	91–120	10,944	32,790	4,481	31,925
	121–180	1,301	4,947	1,211	1,808
	> 181	5,747	762	-	-
Impaired		18,081	18,329	15,451	15,857
Gross carrying value		2,193,516	1,721,825	1,700,504	1,400,003
Less: impairment provision					
Individually assessed impairment provision		(18,081)	(18,329)	(15,451)	(15,857)
Total		2,175,435	1,703,496	1,685,053	1,384,146

The Company has obtained Bank guarantee from distributors by reviewing their past performance and credit worthiness, as collateral.

The requirement for an impairment is analysed at each reporting date on an individual basis for major customers. Additionally a large number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively. The calculation is based on actual data.

9.1.6 Amounts due from related parties

The Group's amount due from related parties mainly consists of the balances from affiliate companies and Parent.

9.1.7 Credit risk relating to cash and cash equivalents

In order to mitigate the concentration, settlement and operational risks related to cash and cash equivalents, the Group consciously manages the exposure to a single counter party taking into consideration, where relevant, the rating or financial standing of the counter party, where the position is reviewed as and when required, the duration of the exposure in managing such exposures and the nature of the transaction and agreement governing the exposure. The Group held a negative balance of cash and 'cash equivalents of Rs. 108 million at 31 March 2017 (2016 - positive balance of Rs. 1,705 million)

9.2 Liquidity Risk

The Group's policy is to hold cash and undrawn committed facilities at a level sufficient to ensure that the Group has available funds to meet its medium term capital and funding obligations, including organic growth and acquisition activities, and to meet any unforeseen obligations and opportunities. The Group holds cash and undrawn committed facilities to enable the Group to manage its liquidity risk.

The Group monitors its risk to a shortage of funds using a daily cash management process. This process considers the maturity of both the Group's financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including bank loans, overdrafts over a broad spread of maturities.

NOTES TO THE FINANCIAL STATEMENTS

9 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

9.2 Liquidity Risk (Contd.)

9.2.1 Net (debt)/cash

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Short term investments	415,660	2,064,523	361,746	1,304,905
Cash in hand and at bank	203,236	224,090	73,759	103,103
Total liquid assets	618,896	2,288,613	435,505	1,408,008
Interest-bearing loans and borrowings	129,525	15,000	-	15,000
Current portion of interest-bearing loans and borrowings	141,667	69,073	15,000	69,073
Bank overdrafts	726,604	583,355	228,386	168,219
Total liabilities	997,796	667,428	243,386	252,292
Net (debt) /cash	(378,900)	1,621,185	192,119	1,155,716

9.2.2 Liquidity risk management

The mixed approach combines elements of the cash flow matching approach and the liquid assets approach. The business units attempt to match cash outflows in each time bucket against a combination of contractual cash inflows plus other inflows that can be generated through the sale of assets, repurchase agreement or other secured borrowing.

Maturity analysis

The table below summarises the maturity profile of the Group's financial liabilities at 31st March 2017 based on contractual undiscounted payments.

Group	2017						
As at 31st March	Within 1 year	Between 1-2 years	Between 2-3 years	Between 3-4 years	Between 4-5 years	More than 5 years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial instruments in non-current liabilities							
Interest-bearing loans and borrowings	-	131,248	-	-	-	-	131,248
Financial instruments in current liabilities							
Trade and other payable	4,804,967	-	-	-	-	-	4,804,967
Amounts due to related parties	155,142	-	-	-	-	-	155,142
Interest-bearing loans and borrowings	168,343	-	-	-	-	-	168,343
Bank overdrafts	726,604	-	-	-	-	-	726,604
	5,855,056	131,248	-	-	-	-	5,986,304

Group	2016						
As at 31st March	Within 1 year	Between 1-2 years	Between 2-3 years	Between 3-4 years	Between 4-5 years	More than 5 years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial instruments in non-current liabilities							
Interest-bearing loans and borrowings	-	15,394	-	-	-	-	15,394
Financial instruments in current liabilities							
Trade and other payable	4,038,576	-	-	-	-	-	4,038,576
Amounts due to related parties	122,639	-	-	-	-	-	122,639
Interest-bearing loans and borrowings	73,289	-	-	-	-	-	73,289
Bank overdrafts	583,355	-	-	-	-	-	583,355
	4,817,859	15,394	-	-	-	-	4,833,253

Company	2017						
As at 31st March	Within 1 year	Between 1-2 years	Between 2-3 years	Between 3-4 years	Between 4-5 years	More than 5 years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial instruments in non-current liabilities							
Interest-bearing loans and borrowings	-	-	-	-	-	-	-
Financial instruments in current liabilities							
Trade and other payable	1,007,558	-	-	-	-	-	1,007,558
Amounts due to related parties	3,276	-	-	-	-	-	3,276
Interest-bearing loans and borrowings	15,546	-	-	-	-	-	15,546
Bank overdrafts	228,386	-	-	-	-	-	228,386
	1,254,766	-	-	-	-	-	1,254,766

Company	2016						
As at 31st March	Within 1 year	Between 1-2 years	Between 2-3 years	Between 3-4 years	Between 4-5 years	More than 5 years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial instruments in non-current liabilities							
Interest-bearing loans and borrowings	-	15,394	-	-	-	-	15,394
Financial instruments in current liabilities							
Trade and other payable	976,581	-	-	-	-	-	976,581
Amounts due to related parties	1,257	-	-	-	-	-	1,257
Interest-bearing loans and borrowings	73,289	-	-	-	-	-	73,289
Bank overdrafts	168,219	-	-	-	-	-	168,219
	1,219,346	15,394	-	-	-	-	1,234,740

NOTES TO THE FINANCIAL STATEMENTS

9 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

9.3 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market prices comprise four types of risk:

- Interest rate risk
- Foreign currency risk
- Commodity price risk
- Equity price risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Group and Company does not have an direct impact from Commodity price risk and Equity price risk

The sensitivity analysis in the following sections relate to the position as at 31st March 2017 and 2016.

The analysis excludes the impact of movements in market variables on the carrying values of other post-retirement obligations provisions and the non-financial assets and liabilities of foreign operations.

The following assumptions have been made in calculating the sensitivity analysis:

- The statement of financial position sensitivity relates to derivatives and available-for-sale debt instruments.
- The sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risks.
- This is based on the financial assets and financial liabilities held at 31st March 2017 and 2016.

9.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

Most lenders grant loans under floating interest rates. To manage this, based on the market condition and outlook of the interest rate, the Group takes mitigating action such as interest rate caps, etc.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

		GROUP	COMPANY
	Increase/ (decrease) in basis points	Effect on profit before tax	Effect on profit before tax
		Rs. '000	Rs. '000
2017	+ 150 basis points	450	450
	- 150 basis points	(450)	(450)
2016	+ 150 basis points	812	812
	- 150 basis points	(812)	(812)

The assumed spread of basis points for the interest rate sensitivity analysis is based on the currently observable market environment.

9.3.2 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has exposure to foreign currency risk where it has cash flows in overseas operations and foreign currency transactions which are affected by foreign exchange movements. JKH Group treasury analyses the market condition of foreign exchange and provides market updates to the GEC, with the use of external consultants' advice. Based on the suggestions made by Group treasury the GEC takes decisions on whether to hold, sell, or make forward bookings of foreign currency as per decisions rights given by board of directors.

		GROUP		COMPANY	
Currency	Increase/ (decrease) in exchange rate	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
2017					
USD	+/- 3.87%	3,467	236,797	3,467	3,467
Euro	+/-3.4%	617	617	617	617
GBP	+/-11.92%	571	571	571	571
2016					
USD	+/- 10.15	9,421	607,132	9,421	9,421
Euro	+/- 13.74	2,953	2,953	2,953	2,953

Assumptions

The assumed movement, in the spread of the exchange rate sensitivity analysis, is based on the current observable market environment.

9.4 Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong financial position and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure, and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares, have a rights issue or buy back of shares.

	GROUP		COMPANY	
	2017	2016	2017	2016
	%	%	%	%
Debt / Equity	7.57%	5.41%	2.12%	2.26%

10 FAIR VALUE MEASUREMENT AND RELATED FAIR VALUE DISCLOSURES

Fair value measurement

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are only, disclosed are reflected in this note. Aside from this note, additional fair value related disclosures, including the valuation methods, significant estimates and assumptions are also provided in:

- Property, plant and equipment under revaluation model Note 20
- Investment properties Note 22
- Financial Instruments (including those carried at amortised cost) Note 11

NOTES TO THE FINANCIAL STATEMENTS

10 FAIR VALUE MEASUREMENT AND RELATED FAIR VALUE DISCLOSURES (CONTD.)

Accounting Policy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable for assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External Valuers are involved for valuation of significant assets such as investment properties, land and buildings, and significant liabilities, such as contingent consideration. Involvement of external valuers is decided upon annually by the Group after discussion with and approval by the Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. After discussions with the Group's External Valuers, valuation techniques and inputs to use for each case are determined.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Group, in conjunction with the Group's External Valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value hierarchy - Group

Non-Financial assets

Financial assets by fair value hierarchy

		Level 1		Level 2		Level 3	
As at 31st March	Date of Valuation	2017	2016	2017	2016	2017	2016
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets measured at fair value							
Property, Plant and Equipment							
Land and buildings	31.03.2017	-	-	-	-	1,250,053	1,104,000
Buildings on lease hold land	31.03.2017					372,944	152,400
Investment Property							
Land and buildings	31.03.2017	-	-	-	-	207,042	111,404

Fair Value Hierarchy - Company

Non-Financial Assets

		Level 1		Level 2		Level 3	
As at 31st March	Date of Valuation	2017	2016	2017	2016	2017	2016
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets measured at fair value							
Property, Plant and Equipment							
Land and buildings	31.03.2017	-	-	-	-	1,250,053	1,104,000
Investment Property							
Land and buildings	31.03.2017	-	-	-	-	207,042	111,404

In determining the fair value, highest and best use of the property has been considered including the current condition of the properties, future usability and associated redevelopment requirements have been considered. Also the valuers have made reference to market evidence of the transaction prices for similar properties, with appropriate adjustments for the size and location. The appraised fair value are rounded within the range of values.

2017

Basis of valuation of Non-Financial Assets					Extent	
Non-Financial Assets	Valuation Techniques	Sensitivity of fair value to unobservable Input	Unobservable Inputs	Range of Unobservable Inputs (Probability Weighted Average)	Land (Perches) Buildings (Square feet)	
					GROUP	COMPANY
Property, Plant and Equipment						
Land	Open Market	Positive	Per Perch Value	Rs. 125,000 - Rs. 150,000	4,376	4,376
Buildings	Open Market	Positive	Per Square foot Value	Rs. 30 - Rs. 5,000	396,740	306,928
Investment Property						
Land	Open Market	Positive	Per Perch Value	Rs. 1,000,000	169.55	169.55
Buildings	Open Market	Positive	Per Square foot Value	Rs. 2,000	19,071	19,071

NOTES TO THE FINANCIAL STATEMENTS

10 FAIR VALUE MEASUREMENT AND RELATED FAIR VALUE DISCLOSURES (CONTD.)

2016

Basis of valuation of Non-Financial Assets					Extent	
Non Financial Assets	Valuation Techniques	Sensitivity of fair value to unobservable Input	Unobservable Inputs	Range of Unobservable Inputs (Probability Weighted Average)	Land (Perches) Buildings (Square feet) GROUP	COMPANY
Property, Plant and Equipment						
Land	Open Market	Positive	Per Perch Value	Rs. 100,000 - Rs.130,000	4,376	4,376
Buildings	Open Market	Positive	Per Square foot Value	Rs. 30 - Rs. 3500	354,520	306,928
Investment Property						
Land	Open Market	Positive	Per Perch Value	Rs. 650,000	169.55	169.55
Buildings	Open Market	Positive	Per Square foot Value	Rs. 50	19,071	19,071

11 FINANCIAL INSTRUMENTS AND RELATED POLICIES

Accounting Policy

Financial Instruments-Initial recognition and subsequent measurement

Financial Assets-Initial recognition and subsequent measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs. Purchase or sale of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables.

Financial assets - Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

Financial assets - De-recognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is de-recognised when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass- through' arrangement; and either
  (a) the Group has transferred substantially all the risks and rewards of the asset, or
  (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass- through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognised to the extent of the Group's continuing involvement in it.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial assets - Impairment

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

11 FINANCIAL INSTRUMENTS AND RELATED POLICIES (CONTD.)

Financial liabilities - Initial recognition and measurement

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, carried at amortised cost. This includes directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings.

Financial liabilities - Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are de-recognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

Financial liabilities - De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Accounting judgements, estimates and assumptions

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible.

Where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility.

FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES

Financial assets and liabilities in the tables below are split into categories in accordance with LKAS 39.

11.1 Financial assets by categories

	GROUP		COMPANY	
	Loans and receivables		Loans and receivables	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial instruments in non-current assets				
Non-current financial assets	170,263	130,607	91,078	80,364
Financial instruments in current assets				
Trade and other receivables	2,227,914	1,746,096	1,720,333	1,414,734
Amounts due from related parties	5,570	6,194	38,882	42,527
Short term investments	415,660	2,064,523	361,746	1,304,905
Cash in hand and at bank	203,236	224,090	73,759	103,103
Total	3,022,643	4,171,510	2,285,798	2,945,633

11.2 Financial liabilities by categories

	GROUP		COMPANY	
	Financial liabilities measured at amortised cost		Financial liabilities measured at amortised cost	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial instruments in non-current liabilities				
Interest-bearing loans and borrowings	129,525	15,000	-	15,000
Financial instruments in current liabilities				
Trade and Other payables	4,804,967	4,038,576	1,007,558	976,581
Amounts due to related parties	155,142	122,639	3,276	1,257
Interest-bearing loans and borrowings	141,667	69,073	15,000	69,073
Bank overdrafts	726,604	583,355	228,386	168,219
Total	5,957,905	4,828,643	1,254,220	1,230,130

The management assessed that fair value of cash in hand and at bank, short term investments, amounts due from related parties, trade and other receivables, bank overdrafts, current portion of borrowings, amount due to related parties and trade and other payables approximate their carrying amounts largely due to the short term maturities of these instruments.

NOTES TO THE FINANCIAL STATEMENTS

12 REVENUE

Accounting Policy

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group, and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and value added taxes, after eliminating sales within the Group.

The following specific criteria are used for recognition of revenue:

Sale of goods

Revenue from the sale of goods is recognised when the significant risk and rewards of ownership of the goods have passed to the buyer with the Group retaining neither a continuing managerial involvement to the degree usually associated with ownership, nor an effective control over the goods sold.

Turnover based taxes

Turnover based taxes include Value Added Tax, Economic Service Charge and Nation Building Tax. The Group pay such taxes in accordance with the respective statutes.

	GROUP		COMPANY	
For the year ended 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
12.1 Revenue				
Sale of goods	43,518,688	34,783,623	13,971,391	12,190,925
VAT on deemed supplies	-	(286,296)	-	-
Net revenue	43,518,688	34,497,327	13,971,391	12,190,925

	GROUP	
For the year ended 31st March	2017	2016
	Rs. '000	Rs. '000
12.2 Business segment analysis		
Manufacturing	13,704,434	11,923,667
Retail	29,814,254	22,573,660
Group revenue	43,518,688	34,497,327

	GROUP		COMPANY	
For the year ended 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
12.3 Geographical segment analysis (by location of customers)				
Sri Lanka	43,261,715	34,242,199	13,714,418	11,935,797
Others	256,973	255,128	256,973	255,128
Total Group revenue	43,518,688	34,497,327	13,971,391	12,190,925

All non-current assets are located in Sri Lanka.

13 DIVIDEND INCOME

Accounting Policy

Dividend income is recognised when the Group's right to receive the payment is established.

	GROUP		COMPANY	
For the year ended 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Dividend income from subsidiaries	-	-	746,060	291,023

14 OTHER OPERATING INCOME AND OTHER OPERATING EXPENSES

Accounting policy

Gains and losses

Net gains and losses of a revenue nature arising from the disposal of property, plant and equipment and other non-current assets, including investments, are accounted for in the income statement, after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

Gains and losses arising from activities incidental to the main revenue generating activities and those arising from a group of similar transactions, which are not material are aggregated, reported and presented on a net basis.

Other income and expenses

Other income and expenses are recognised on an accrual basis.

	GROUP		COMPANY	
For the year ended 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
14.1 Other Operating Income				
Exchange gain	1,989	19,799	338	17,739
Promotional income	916,881	728,453	-	-
Write back of dealer deposits	8,789	12,410	8,789	12,410
Scrap sales	12,366	14,052	12,366	14,052
Rental income	106,886	109,154	-	-
Franchise income	31,681	28,312	5,203	4,831
Realised gain on lease rights forgone	20,117	36,307	-	-
Sundry income	126,941	201,711	21,534	13,174
Insurance claim received on stock loss due to floods	67,395	-	67,395	-
	1,293,045	1,150,198	115,625	62,206
14.2 Other Operating Expenses				
Nation Building Tax	569,236	466,455	247,977	218,296
Spoilage and wastage	62,174	51,511	62,174	51,511
Stock loss due to floods	67,395	-	67,395	-
Bank charges	8,302	8,193	6,239	6,229
Cash collection charges	18,724	13,229	-	-
Loss on disposal of property, plant & equipment	10,347	39,511	897	19,922
Other expenses	4,784	4,298	4,418	2,583
	740,962	583,197	389,100	298,541

NOTES TO THE FINANCIAL STATEMENTS

15 NET FINANCE INCOME

Accounting Policy

Finance income

Finance income comprises interest income on funds invested by the Group.

For all financial instruments measured at amortised cost, interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

Finance costs

Finance costs comprise interest expense on borrowings that are recognised in the income statement.

Interest expense is recorded as it accrues using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial liability.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

	GROUP		COMPANY	
For the year ended 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
FINANCE INCOME				
Interest income - staff loan	22,154	17,000	12,560	11,451
Interest income - short term investments	205,412	122,888	127,078	86,826
Total finance income	227,566	139,888	139,638	98,277
FINANCE COST				
Interest expense on borrowings				
Long term	(4,709)	(10,741)	(4,709)	(10,741)
Short term	(2,092)	(823)	(184)	(119)
Total finance cost	(6,801)	(11,564)	(4,893)	(10,860)
Net Finance Income	220,765	128,324	134,745	87,417

16 PROFIT BEFORE TAX

Accounting Policy

Expenditure recognition

Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the income statement.

For the purpose of presentation of the income statement, the "function of expenses" method has been adopted, on the basis that it presents fairly the elements of the Company's and Group's performance.

Profit before tax is stated after charging all expenses including the following;

	GROUP		COMPANY	
For the year ended 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Remuneration to Executive Directors	58,631	63,214	27,505	31,431
Remuneration to Non-Executive Directors	9,993	9,350	8,193	7,550
Auditors' remuneration				
Audit	2,091	1,954	1,335	1,247
Non-audit	386	246	386	246
Costs of defined employee benefits				
Defined benefit plan cost	78,827	62,600	53,241	46,418
Defined contribution plan cost - EPF and ETF	217,503	186,088	120,544	111,722
Staff expenses	3,325,955	2,864,988	1,731,496	1,589,360
Excise duty	1,108,245	928,532	1,108,245	928,532
Depreciation of property, plant and equipment	732,609	646,994	413,922	395,671
Amortisation of intangible assets	10,720	10,859	3,513	3,684
Operating lease payments	36,402	34,668	36,402	34,668
Donations	136	261	126	81
Corporate social responsibility related expenses	39,703	26,000	25,798	16,000

17 EARNINGS PER SHARE (EPS)

Accounting Policy

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

	GROUP	
For the year ended 31st March	2017	2016
	Rs. '000	Rs. '000
Basic earnings per share		
Profit for the year	3,552,903	2,874,873
Dividend on Preference shares	(14)	(14)
Profit attributable to equity holders of the parent	3,552,889	2,874,859
Weighted average number of ordinary shares	95,040	95,040
Basic earnings per share	37.38	30.25
Amount used as denominator		
Weighted average number of ordinary shares outstanding during the year	95,040	95,040

NOTES TO THE FINANCIAL STATEMENTS

18 DIVIDEND PER SHARE

Equity dividend on ordinary shares

For the year ended 31st March	Rs.	2017 Rs. '000	Rs.	2016 Rs. '000
Declared and paid during the year				
Final dividend*	10.00	950,400	6.00	570,240
Interim dividends paid	22.00	2,090,880	12.00	1,140,480
Total dividend	32.00	3,041,280	18.00	1,710,720

**Previous years' final dividend paid in the current financial year.*

The final dividend proposed of Rs. 8.00 per share for the financial year ended 31st March 2017 has not been recognised as at the reporting date in compliance with LKAS 10 - Events after the Reporting Period.

19 TAXES

Accounting Policy

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and for items recognised in other comprehensive income shall be recognised in other comprehensive income and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Management has used its judgment on the application of tax laws including transfer pricing regulations involving identification of associated undertakings, estimation of the respective arm's length prices and selection of appropriate pricing mechanism.

The Group has conformed with arm's length principles relating to transfer pricing, as prescribed in the Inland Revenue Act, and has complied with the related Gazette notifications issued by the Minister of Finance.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arising from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and unused tax credits and tax losses carried forward, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the unused tax credits and tax losses carried forward can be utilised except;

- Where the deferred income tax assets relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deducible temporary differences associated with investments in subsidiaries and associates deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the year when the asset is realised or liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted as at the reporting date.

Deferred tax relating to items recognised outside the income statement is recognised outside the income statement. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except ;

- Where the sales tax incurred on the purchase of an asset or service is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Where receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

19 TAXES (CONTD.)

For the year ended 31st March		GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
19.1 Tax Expense					
Current income tax					
Tax charge for the period	19.5	1,240,799	950,717	911,005	738,918
Over provision of current tax of previous years	19.5	-	(1,457)		-
10% Withholding tax on intercompany dividends		82,896	32,336	-	-
Deferred tax					
Relating to origination and reversal of temporary differences	19.2	213,150	196,000	55,311	33,255
		1,536,845	1,177,596	966,316	772,173
19.2 Deferred tax expense					
Income statement					
Deferred tax expense arising from;					
Accelerated depreciation for tax purposes		151,116	89,154	60,591	39,025
Employee benefit liabilities		(8,412)	(6,922)	(5,280)	(5,770)
Benefit arising from tax losses		70,446	113,768	-	-
Deferred tax charged directly to income statement		213,150	196,000	55,311	33,255
Other comprehensive income					
Deferred tax expense arising from;					
Actuarial gain/(loss) on employee benefit liabilities		(13,166)	1,830	(8,576)	1,141
Revaluation of buildings		20,852	7,887	7,166	9,027
Deferred tax charged directly to other comprehensive income		7,686	9,717	(1,410)	10,168
Total deferred tax charge		220,836	205,717	53,901	43,423

As at 31st March	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
19.3 Income Tax Liabilities				
At the beginning of the year	686,600	330,001	531,121	321,194
Charge for the year	1,240,799	949,260	911,005	738,918
10% Withholding tax on intercompany dividends	82,896	32,336	-	-
Charge relating to Super Gain Tax	-	118,732	-	108,415
Payments	(1,237,220)	(688,582)	(954,616)	(628,820)
Set-off against tax	(168,136)	-	(53,078)	-
Tax credits	(15,771)	(13,765)	(12,611)	(8,586)
Taxes brought forward from previous periods	-	(41,382)	-	-
At the end of the year	589,168	686,600	421,821	531,121

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
19.4 Deferred Tax Liabilities				
At the beginning of the year	771,473	565,756	557,425	514,002
Charge	213,150	196,000	55,311	33,255
Tax on other comprehensive income	7,685	9,717	(1,410)	10,168
At the end of the year	992,308	771,473	611,326	557,425
The closing deferred tax liability balances relate to the following;				
Accelerated depreciation for tax purposes	1,062,138	913,246	668,000	607,409
Employee benefit liabilities	(131,488)	(109,574)	(101,010)	(87,153)
Losses available for offset against future taxable income	-	(70,509)	-	-
Revaluation of buildings	61,658	38,310	44,336	37,169
	992,308	771,473	611,326	557,425

Accounting judgements, estimates and assumptions

The Group is subject to income tax and other taxes including VAT. Significant judgment was required to determine the total provision for current, deferred and other taxes due to uncertainties that exist with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

Uncertainties also exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax expenses already recorded. Where the final tax outcome of such matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax amounts in the period in which the determination is made.

The Group has tax losses relating to the subsidiary, Jaykay Marketing Services (Pvt) Ltd which were fully utilised against income tax liability as at 31st March 2017.

The Group has contingent liabilities amounting to Rs. 62 million (2016 - Rs. 62 million). These have been arrived at after discussing with independent and legal tax experts and based on information available. All assumptions are revisited at the reporting date. Further details on contingent liabilities are disclosed in note 44 in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

19 TAXES (CONTD.)

	GROUP		COMPANY	
For the year ended 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
19.5 Reconciliation between current tax charge and the accounting profit				
Profit before tax	5,089,748	4,052,469	4,143,457	3,053,186
Share of results of equity accounted investees	11,151	21,191	-	-
Consolidation adjustments	(21,437)	(33,476)	-	-
Profit after adjustment	5,079,462	4,040,184	4,143,457	3,053,186
Exempt profits	(6,184)	(13,228)	(6,184)	(13,228)
Income not liable for income tax	(748,876)	(293,991)	(748,876)	(293,991)
Adjusted accounting profit chargeable to income taxes	4,324,402	3,732,965	3,388,397	2,745,967
Disallowable expenses	1,054,636	919,029	585,294	556,311
Allowable expenses	(1,389,201)	(1,044,925)	(667,361)	(569,729)
Qualifying payment deductions	(27,431)	(69,149)	(27,231)	(69,149)
Utilisation of tax losses	(251,531)	(409,117)	-	-
Taxable income	3,710,875	3,128,803	3,279,099	2,663,400

	GROUP		COMPANY	
For the year ended 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Income tax charged at				
Standard rate of 28%	1,235,442	945,591	905,648	733,792
Other concessionary rates	5,357	5,126	5,357	5,126
Over provision for previous years	-	(1,457)	-	-
Current tax charge	1,240,799	949,260	911,005	738,918

	GROUP		COMPANY	
For the year ended 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
19.6 Reconciliation between Income tax expense and the product of accounting profit				
Adjusted accounting profit chargeable to income taxes	4,324,402	3,732,965	3,388,397	2,745,967
Tax effect on chargeable profits	1,298,758	1,119,658	941,355	761,812
Tax effect on non-deductible expenses	161,809	54,722	31,579	38,024
Tax effect on deductions claimed	(6,618)	(27,663)	(6,618)	(27,663)
10% Withholding tax on intercompany dividends	82,896	32,336	-	-
Over provision for previous years	-	(1,457)	-	-
Tax expense	1,536,845	1,177,596	966,316	772,173

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
19.7 Tax losses carried forward				
Tax losses brought forward	251,819	658,135	-	-
Adjustments on finalisation of liability	(288)	2,801	-	-
Utilisation of tax losses	(251,531)	(409,117)	-	-
At the end of the year	-	251,819	-	-

	Year of investment	Cost of approved investments	Relief claimed on investments
		Rs. '000	Rs. '000
19.8 Details of investment relief claimed			
Ceylon Cold Stores PLC.	2011/2012	256,702	256,702
	2012/2013	167,091	167,091
	2013/2014	72,801	72,801

The Company is eligible for qualifying payment relief granted under Section 34(2)(s) of the Inland Revenue Act, No. 10 of 2006 and amendments thereto.

19.9 Applicable rates of income tax

The tax liability of the Group is computed at the standard rate of 28% except for the following partial exemptions and concessions.

Company	Basis	Exemptions or concessions	Period
Exemptions / concessions granted under the Inland Revenue Act			
Ceylon Cold Stores PLC.	Off-Shore activities for payment in foreign currency	Exempt	Open-ended
	Qualified export profits	12%	Open-ended

Although The Colombo Ice Company (Pvt) Ltd is a Board of Investment (BOI) approved enterprise, the business profits of the enterprise will be subjected to the standard rate of tax at 28% from the inception.

NOTES TO THE FINANCIAL STATEMENTS

20 PROPERTY, PLANT AND EQUIPMENT

Accounting Policy

Basis of recognition

Property, plant and equipment is recognised if it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be reliably measured.

Basis of measurement

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment loss. Such cost includes the cost of replacing component parts of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group de-recognises the replaced part, and recognises the new part with its own associated useful life and depreciation. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria is satisfied. All other repair and maintenance costs are recognised in the income statement as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment charged subsequent to the date of the revaluation.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve related to the particular asset being sold is transferred to retained earnings. Where land and buildings are subsequently revalued, the entire class of such assets is revalued at fair value on the date of revaluation. The Group has adopted a policy of revaluing land and building at least once every 5 years.

De-recognition

An item of property, plant and equipment is de-recognised upon replacement, disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset is included in the income statement in the year the asset is de-recognised.

Depreciation

Depreciation is calculated by using a straight-line method on the cost or valuation of all property, plant and equipment, other than freehold land, in order to write-off such amounts over the estimated useful economic life of such assets.

The estimated useful life of assets is as follows:

Assets	Years
Buildings	10-50
Building on leasehold land	25 or over the period of lease
Plant and machinery	3-30
Equipment, furniture and fittings	5- 15
Motor vehicles	3-15
Other assets	3-20
Returnable containers	4 -10

Depreciation commences in the month following the purchase/commissioning of the asset and ceases in the month of disposal or when scrapped.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year end.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale is capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Impairment of property plant and equipment

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the income statement, except that, impairment losses in respect of property, plant and equipment previously revalued are recognised against the revaluation reserve through the statement of other comprehensive income to the extent that it reverses a previous revaluation surplus.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

As at 31st March	Land and buildings	Buildings on leasehold land improvements	Plant and machinery	Equipment, furniture and fittings	Motor vehicles	Returnable containers	Others	Capital work in progress	Total 2017	Total 2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
20 PROPERTY, PLANT AND EQUIPMENT										
20.1										
Group										
Cost or valuation										
At the beginning of the year	1,119,009	1,226,940	3,784,817	1,081,385	114,775	848,130	2,048,059	305,924	10,529,039	9,493,708
Additions	50,476	843,395	572,173	313,721	13,851	169,276	341,162	296,249	2,600,303	1,374,731
Disposal	-	(4,324)	(16,126)	(43,362)	-	(12,373)	(69,016)	(1,510)	(146,711)	(300,614)
Revaluations	112,844	48,880	-	-	-	-	-	-	161,724	58,463
Impairment/De-recognition	-	(3,901)	(72,250)	(85,034)	-	-	(22,108)	-	(183,293)	-
Transfers (from revaluation adjustment)	(19,010)	(36,589)	-	-	-	-	-	-	(55,599)	(97,249)
Transfers	1,710	159,968	130,922	4,321	-	-	4,844	(301,765)	-	-
At the end of the year	1,265,029	2,234,369	4,399,536	1,271,031	128,626	1,005,033	2,302,941	298,898	12,905,463	10,529,039
Accumulated depreciation and impairment										
At the beginning of the year	(156)	(104,392)	(1,765,113)	(628,405)	(70,082)	(494,688)	(1,343,643)	-	(4,406,479)	(4,128,449)
Restatement of fully depreciated assets	-	-	-	-	-	-	-	-	-	12,733
Charge for the year	(19,561)	(84,533)	(289,595)	(122,921)	(6,126)	(65,371)	(144,502)	-	(732,609)	(646,994)
Disposal	-	3,299	12,251	41,802	-	11,533	66,031	-	134,916	258,982
Impairment/De-recognition	-	2,659	60,857	68,801	-	-	17,926	-	150,243	-
Transfers (from revaluation adjustment)	19,010	36,589	-	-	-	-	-	-	55,599	97,249
At the end of the year	(707)	(146,378)	(1,981,600)	(640,723)	(76,208)	(548,526)	(1,404,188)	-	(4,798,330)	(4,406,479)
Carrying value:										
As at 31st March 2017										
At valuation	1,250,053	372,944	-	-	-	-	-	-	1,622,997	
At cost	14,269	1,715,047	2,417,936	630,308	52,418	456,507	898,753	298,898	6,484,136	
	1,264,322	2,087,991	2,417,936	630,308	52,418	456,507	898,753	298,898	8,107,133	
As at 31st March 2016										
At valuation	1,104,000	152,400	-	-	-	-	-	-		1,256,400
At cost	14,853	970,148	2,019,704	452,980	44,693	353,442	704,416	305,924		4,866,160
	1,118,853	1,122,548	2,019,704	452,980	44,693	353,442	704,416	305,924		6,122,560

As at 31st March	Land and buildings	Plant and machinery	Equipment, furniture and fittings	Motor vehicles	Returnable containers	Others	Capital work in progress	Total 2017	Total 2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Company									
Cost or valuation									
At the beginning of the year	1,119,009	2,725,940	56,977	114,547	848,129	1,855,191	134,823	6,854,616	6,434,059
Additions	50,476	161,674	9,192	13,353	169,276	276,163	29,794	709,928	543,567
Disposal	-	(9,428)	(405)	-	(12,373)	(60,584)	-	(82,790)	(125,145)
Revaluations	112,844	-	-	-	-	-	-	112,844	54,388
Transfers (from revaluation adjustment)	(19,010)	-	-	-	-	-	-	(19,010)	(52,253)
Transfers	1,710	129,466	2,589	-	-	1,058	(134,823)	-	-
At the end of the year	1,265,029	3,007,652	68,353	127,900	1,005,032	2,071,828	29,794	7,575,588	6,854,616
Accumulated depreciation and impairment									
At the beginning of the year	(156)	(1,315,573)	(34,347)	(69,854)	(494,687)	(1,224,802)	-	(3,139,419)	(2,913,592)
Restatement of fully depreciated assets	-	-	-	-	-	-	-	-	12,733
Charge for the year	(19,561)	(195,752)	(6,815)	(6,012)	(65,371)	(120,411)	-	(413,922)	(395,671)
Disposal	-	8,719	397	-	11,533	60,398	-	81,047	104,858
Transfers (from revaluation adjustment)	19,010	-	-	-	-	-	-	19,010	52,253
At the end of the year	(707)	(1,502,606)	(40,765)	(75,866)	(548,525)	(1,284,815)	-	(3,453,284)	(3,139,419)
Carrying value:									
As at 31st March 2017									
At valuation	1,250,053	-	-	-	-	-	-	1,250,053	
At cost	14,269	1,505,046	27,588	52,034	456,507	787,013	29,794	2,872,251	
	1,264,322	1,505,046	27,588	52,034	456,507	787,013	29,794	4,122,304	
Carrying value:									
As at 31st March 2016									
At valuation	1,104,000	-	-	-	-	-	-		1,104,000
At cost	14,853	1,410,367	22,630	44,693	353,442	630,389	134,823		2,611,197
	1,118,853	1,410,367	22,630	44,693	353,442	630,389	134,823		3,715,197

NOTES TO THE FINANCIAL STATEMENTS

20 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

20.2 Revaluation of land and buildings

Accounting judgements,estimates and assumptions

The Group uses the revaluation model of measurement of land and buildings. The Group engaged Messrs. P B Kalugalagedara & Associates, an independent expert valuer, to determine the fair value of its land and buildings and they have carried out the valuation in accordance with Sri Lanka Accounting Standards and International Valuation Standards published by the International Valuation Standards Committee (IVSC). Fair value is determined by reference to market-based evidence. Valuations are based on open market prices, adjusted for any difference in the nature, location or condition of the specific property. These valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The date of the most recent revaluation was carried out on 31st March 2017.

The changes in fair value recognised in other comprehensive income and in the statement of equity.

Details of Group's land and buildings stated at valuation are indicated below.

Property	Name of the Chartered Valuation Surveyor	Method of valuation	Sensitivity observable inputs		Correlation to fair value
			Estimated price		
			Per Perch	Per Square Foot	
Land Ceylon Cold Stores PLC.	P B Kalugalagedara	Open market value method	Rs. 125,000 - Rs. 150,000		Positive
Buildings Ceylon Cold Stores PLC.	P B Kalugalagedara	Open market value method		Rs. 500 - Rs. 5,000	Positive
Jaykay Marketing Services (Pvt) Ltd	P B Kalugalagedara	Open market value method		Rs. 30 - Rs. 165	Positive

20.3 The carrying amount of revalued buildings of the Group if they were carried at cost less depreciation and impairment, would be as follows;

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost	783,351	524,692	372,709	322,233
Accumulated depreciation and impairment	(196,472)	(159,098)	(102,080)	(100,001)
Carrying value	586,879	365,594	270,629	222,232

20.4 The land and buildings of the Kaduwela Factory and plant and machinery are pledged on a primary concurrent mortgage for loans obtained from DFCC Bank, details of which are disclosed in Note 36.3.

20.5 Property, plant and equipment that have been fully depreciated and continue to be in use are as follows.

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost of fully depreciated assets	1,593,611	1,614,328	1,162,682	1,180,318

20.6 During the year, borrowing costs of Rs. 1.8 million incurred on construction of new factory premises at Awissawella by The Colombo Ice Company (Pvt) Ltd were capitalised.

Details of the loan are given under Note 36.3.

20.7 The Group has constructed buildings on lease hold land. Future minimum lease payments under non-cancellable operating leases of Land are as disclosed in Note 46.

20.8 Other assets mainly comprise of freezers, bottle coolers and crates. The net book value of those assets are as follows.

	2017			2016		
As at 31st March	Freezers	Coolers	Crates	Freezers	Coolers	Crates
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost	657,066	580,212	649,592	603,032	518,709	570,623
Accumulated depreciation and impairment	(346,200)	(288,980)	(511,668)	(327,404)	(271,575)	(492,722)
Carrying value	310,866	291,232	137,924	275,628	247,134	77,901

21 LEASES

Accounting Policy

The determination of whether an arrangement contains a lease is based on the substance of the arrangement at the inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Lease rentals paid in advance

Lease rentals paid in advance to acquire land use rights have been classified as lease rentals paid in advance and are amortised over the lease term in accordance with the pattern of benefits provided.

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Lease rentals paid in advance				
21.1 Cost/carrying value				
At the beginning of the year	-	-	-	-
Additions for the year	177,062	-	-	-
Amortisation for the year	(2,361)	-	-	-
At the end of the year	174,701	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

21 LEASES (CONTD.)

Property	Land extent (in acres)	Lease period	2017	2016
			Rs. '000	Rs. '000
21.2 Details of lease rentals paid in advance				
The Colombo Ice Company (Pvt) Ltd.				
Awissawella factory premises	9.3	50 Years from 18-07-2016	177,062	-

22 INVESTMENT PROPERTY

Accounting Policy

Investment properties are measured initially at cost, including transaction costs. The carrying value of an investment property includes the cost of replacing part of an existing investment property, at the time that cost is incurred if the recognition criteria are met, and excludes the cost of day-to-day servicing of the investment property. Subsequent to initial recognition, the investment properties are stated at fair values, which reflect market conditions at the reporting date.

Gains or losses arising from changes in fair value are included in the income statement in the year in which they arise. Fair values are evaluated at frequent intervals by an accredited external, independent valuer.

Investment properties are de-recognised when disposed, or permanently withdrawn from use because no future economic benefits are expected. Any gains or losses on retirement or disposal are recognised in the income statement in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use for a transfer from investment property to owner occupied property or inventory (WIP), the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property or inventory (WIP), the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. Where Group companies occupy a significant portion of the investment property of a subsidiary, such investment properties are treated as property, plant and equipment in the consolidated financial statements, and accounted using Group accounting policy for property, plant and equipment.

De-recognition

Investment properties are de-recognised when disposed, or permanently withdrawn from use because no future economic benefits are expected. Any gains or losses on retirement or disposal are recognised in the income statement in the year of retirement or disposal.

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
22.1 Cost/carrying value				
At the beginning of the year	111,404	94,457	111,404	94,457
Change in fair value during the year	92,005	16,947	92,005	16,947
Additions	3,633	-	3,633	-
At the end of the year	207,042	111,404	207,042	111,404
Freehold property	207,042	111,404	207,042	111,404

22.2 Valuation details of investment property

Accounting judgments estimates and assumptions

Fair value of the investment property is ascertained by annual independent valuations carried out by Messrs.' P B Kalugalagedara & Associates - Chartered valuation surveyors as at 31st March 2017, who have recent experience in valuing properties of akin location and category. Investment property was appraised in accordance with LKAS 40, SLFRS 13 and 8th edition of International Valuation Standards published by the International Valuation Standards Committee (IVSC), by the independent valuers.

In determining the fair value, the current condition of the properties, future usability and associated redevelopment requirements have been considered. Also valuer has made reference to market evidence of transaction prices for similar properties, with appropriate adjustments for size and location. The appraised fair values are approximated within appropriate range of values.

The change in fair value is recognised in the income statement. The determined fair values of investment properties, using investment method, are most sensitive to the estimated yield as well as the long term occupancy rate.

Investment property did not generate any rental income during the year ended 31st March 2017 (2016 - nil).

Freehold Property	Name of the Chartered Valuation Surveyor	Method of valuation	Sensitivity Observable Inputs		Correlation to fair value
			Estimated Price		
			Per Perch	Per Square Foot	
Ceylon Cold Stores PLC					
Land	P B Kalugalagedara	Open market value method	Rs. 1,000,000		Positive
Building	P B Kalugalagedara	Open market value method		Rs. 2,000	Positive

Direct operating expenses (including repair and maintenance) arising from investment property that did not generate rental income are as follows.

	COMPANY	
As at 31st March	2017	2016
	Rs. '000	Rs. '000
Electricity and water	103	230
Security	2,013	1,275

No repair and maintenance expenses were incurred during the year ended 31st March 2017 (2016 - nil).

NOTES TO THE FINANCIAL STATEMENTS

23 INTANGIBLE ASSETS

Accounting Policy

Basis of recognition

An Intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be reliably measured.

Basis of measurement

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised, and expenditure is charged to income statement in the year in which the expenditure is incurred.

Useful economic lives, amortisation and impairment

The useful lives of intangible assets are assessed as either finite or indefinite lives. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end and such changes are treated as accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually, or more frequently when an indication of impairment exists either individually or at the cash- generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Purchased software

Purchased software is recognised as intangible assets and is amortised on a straight line basis over its useful life.

Software license

Software license costs are recognised as an intangible asset and amortised over the period of expected future usage of related ERP systems.

A summary of the policies applied to the Group's intangible assets is as follows

Intangible assets	Useful life	Acquired/ Internally generated	Impairment testing/amortisation
Purchased Software	3-10	Acquired	When indicators of impairment exists. The amortisation method is reviewed at each financial year end.
Software Licence	3-6	Acquired	

De-recognition

Gains or losses arising from de-recognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is de-recognised.

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
23.1 Cost/carrying value				
At the beginning of the year	227,643	225,975	19,252	18,505
Additions	18,472	1,668	4,581	747
At the end of the year	246,115	227,643	23,833	19,252
Accumulated amortisation				
At the beginning of the year	(84,239)	(73,380)	(11,593)	(7,909)
Amortisation	(10,720)	(10,859)	(3,513)	(3,684)
At the end of the year	(94,959)	(84,239)	(15,106)	(11,593)
Carrying value				
As at 31st March	151,156	143,404	8,727	7,659
Carrying value of Intangible Assets				
Goodwill*	115,006	115,006	-	-
Software	36,150	28,398	8,727	7,659
	151,156	143,404	8,727	7,659

*The recoverable amount of cash generating unit relevant to the goodwill is more than the carrying amount at the end of the reporting period. Therefore, no impairment loss is recognised in respect of goodwill as at 31st March 2017.

23.2 Goodwill

Accounting Judgements, estimates and assumptions

Goodwill acquired through business combination is due to the purchase of Jaykay Marketing Services (Pvt) Ltd and goodwill is tested for impairment as follows;

Impairment of Goodwill

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its Value In Use (VIU). The fair value less costs to sell calculation is based on available data from an active market, in an arm's length transaction, of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, are as follows;

Cash Generating Unit (CGU)

The recoverable amount of the CGU has been determined based on the Value In Use (VIU) calculation.

Key assumptions used in the VIU calculations

Gross margins

The basis used to determine the value assigned to the budgeted gross margins, is the gross margins achieved in the year preceding the budgeted year adjusted for projected market conditions.

Discount rates

The discount rate used is the risk free rate, adjusted by the addition of an appropriate risk premium.

NOTES TO THE FINANCIAL STATEMENTS

23 INTANGIBLE ASSETS (CONTD.)

Inflation

The basis used to determine the value assigned to the budgeted cost inflation, is the inflation rate, based on projected economic conditions.

Volume growth

Volume growth has been budgeted on a reasonable and realistic basis by taking into account the growth rates of one to four years immediately subsequent to the budgeted year based on Industry growth rates. Cash flows beyond the five year period are extrapolated using 5% growth rate.

24 INVESTMENTS IN SUBSIDIARIES

Accounting Policy

Investment in subsidiaries are initially recognised at cost in the financial statements of the company. Any transaction cost relating to the acquisition of investment in subsidiaries are immediately recognised in the income statement. Following initial recognition, investment in subsidiaries are carried at cost less any accumulated impairment losses.

		GROUP		COMPANY	
As at 31st March	Number of shares	2017	2016	2017	2016
	'000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
24.1 Carrying value					
Investments in subsidiaries					
Unquoted ordinary shares					
Jaykay Marketing Services (Pvt) Ltd	202,238	-	-	1,022,892	1,022,892
The Colombo Ice Company (Pvt) Ltd*	27,000	-	-	270,000	-
Unquoted preference shares**					
Jaykay Marketing Services (Pvt) Ltd	80,000	-	-	200,000	200,000
		-	-	1,492,892	1,222,892

*The Colombo Ice Company (Private) Limited (CICL) was incorporated in May 2016, as a wholly owned subsidiary of Ceylon Cold Stores PLC (CCS). CICL entered in to an agreement with the Board of Investment of Sri Lanka (BOI) in July 2016, to lease a land extent of 9 acres for a period of 50 years for the establishment of an Ice Cream factory. A total of Rs. 270 million has been infused by CCS as equity in CICL, as at the reporting date.

**On 17th July 2013 the Company invested a sum of Rs. 200,000,000 in 80,000,000, 10% Non-Cumulative, Non-Voting, Redeemable Preference Shares valued at Rs. 2.50 per share. The date of redemption shall be any time after five (05) years from the date of issue to be determined by the Board of Directors of Jaykay Marketing Services (Pvt) Ltd.

25 INVESTMENTS IN EQUITY ACCOUNTED INVESTEES

Accounting Policy

An Associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but has no control over those policies.

The considerations made in determining significant influence is similar to those necessary to determine control over subsidiaries.

The Group's investments in its Associate is accounted for using the equity method.

Under the equity method, the investment in an Associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the Associate since the acquisition date. Goodwill

relating to the Associate is included in the carrying amount of the investment and is not tested for impairment individually.

The income statement reflects the Group's share of the results of operations of the Associate. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the Associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the Associate are eliminated to the extent of the interest in the Associate.

The aggregate of the Group's share of profit or loss of an Associate is shown on the face of the income statement outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the Associate.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its Associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the Associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the Associate and its carrying value, and then recognises the loss as 'Share of results of equity accounted investees' in the income statement.

Upon loss of significant influence over the Associate , the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the Associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in income statement.

The accounting policies of Associate companies conform to those used for similar transactions of the Group. Accounting policies that are specific to the business of Associate companies are discussed below.

Equity method of accounting has been applied for Associate using their corresponding/matching 12 month financial period. In the case of Associates, where the reporting date is different to Group reporting dates, adjustments are made for any significant transactions or events up to 31st March.

Financial statements of the Associate is presented in United States Dollars being its functional currency. Associate's financial statements are translated to Sri Lankan rupees at the rate of exchange prevailing as at the reporting date and at the average annual rate of exchange for the period. The exchange difference arising on the translation are taken directly to other comprehensive income. On disposal of the Associate, the deferred cumulative amount recognised in other comprehensive income relating to the Associate is recognised in the income statement.

		GROUP		COMPANY	
As at 31st March	Number of shares	2017	2016	2017	2016
	'000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
25.1 Carrying value					
Investment unquoted ordinary shares					
Waterfront Properties (WPL) (Pvt) Ltd*	539,286	5,886,679	5,362,161	5,392,863	5,392,863
Charge relating to Super Gain Tax		-	(141)	-	-
Cumulative loss accruing to the Group net of dividend		(11,151)	(21,191)	-	-
Changes of holding in associate		(120,279)	(75,691)	-	-
Realised gain on lease rights forgone		20,117	36,307	-	-
Exchange equalization reserve		171,010	585,234	-	-
Cash flow hedge reserve		82,825	-	-	-
		6,029,201	5,886,679	5,392,863	5,392,863

*During the year the Company's holding in WPL came down to 23.54% from 29.04% as a result of the direct investment in the stated capital of Waterfront Properties (Pvt) Ltd by John Keells Holdings PLC.

NOTES TO THE FINANCIAL STATEMENTS

25 INVESTMENTS IN EQUITY ACCOUNTED INVESTEES (CONTD.)

	COMPANY	
As at 31st March	2017	2016
	'000	'000
25.2 No of ordinary shares		
At the beginning of the year	539,286	539,286
At the end of the year	539,286	539,286

	GROUP	
For the year ended 31st March	2017	2016
	Rs. '000	Rs. '000
25.3 Summarised financial information of equity accounted investees		
Other Operating Income	5,604	6,440
Administrative Expenses	(7,720)	(7,453)
Selling and distribution expenses	(59,438)	(71,937)
Finance income	26,220	5,137
Income tax expense	(7,295)	(1,384)
Loss for the year	(42,629)	(69,197)
Group share of net results	(10,035)	(20,095)
Adjustments for change in ownership	(1,116)	(1,096)
Share of result of equity accounted investees	(11,151)	(21,191)
As at 31st March		
Non-current assets	41,705,283	35,203,995
Currents assets	1,090,877	388,149
Total assets	42,796,160	35,592,144
Non-current liabilities	(15,868,411)	(13,790,943)
Currents liabilities	(947,899)	(1,165,113)
Total liabilities	(16,816,310)	(14,956,056)
Net assets	25,979,850	20,636,088
Group share of net assets	6,115,265	5,992,860
Unrealised profits	(86,064)	(106,181)
Carrying value of investments in associate under equity method	6,029,201	5,886,679
Contingent liabilities	-	-
Capital and other commitments	62,707,114	63,560,372

		GROUP		COMPANY	
As at 31st March		2017	2016	2017	2016
	Notes	Rs. '000	Rs. '000	Rs. '000	Rs. '000
26 NON-CURRENT FINANCIAL ASSETS					
Loans to executives					
At the beginning of the year		173,207	129,867	110,952	93,651
Loans granted		133,111	113,512	65,240	61,614
Transfers		(4,721)	2,417	(4,721)	2,417
Recoveries		(78,855)	(72,589)	(45,113)	(46,730)
At the end of the year		222,742	173,207	126,358	110,952
Receivable within one year		52,479	42,600	35,280	30,588
Receivable after one year					
Receivable between one and five years		170,263	130,607	91,078	80,364
		222,742	173,207	126,358	110,952

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
27 OTHER NON-CURRENT ASSETS				
Prepaid staff cost	36,726	21,335	20,585	14,053
Rent deposits	315,225	262,782	-	-
Prepaid rent	202,386	99,292	-	-
	554,337	383,409	20,585	14,053

Prepaid staff cost represent the prepaid portion of the loans granted to the staff

28 INVENTORIES

Accounting Policy

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price less estimated costs of completion and the estimated costs necessary to make the sale.

The costs incurred in bringing inventories to its present location and condition, are accounted for as follows.

Raw materials, machinery spares and other inventories	Actual cost on a weighted average basis
Finished goods, retail inventories and work-in-progress	At the cost of direct materials, direct labour and an appropriate proportion of fixed production overheads based on normal operating capacity but excluding borrowing costs

NOTES TO THE FINANCIAL STATEMENTS

28 INVENTORIES (CONTD.)

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Raw materials	507,480	400,292	507,480	400,292
Work-in-progress	42,402	36,593	42,402	36,593
Finished goods and retail goods	2,727,376	2,085,229	408,282	230,942
Machinery spares	227,740	163,094	227,740	163,094
Other stocks	35,544	34,649	6,792	5,382
	3,540,542	2,719,857	1,192,696	836,303

29 TRADE AND OTHER RECEIVABLES

Trade and other receivables	2,175,435	1,703,496	1,685,053	1,384,146
Loans to executives	52,479	42,600	35,280	30,588
	2,227,914	1,746,096	1,720,333	1,414,734

30 OTHER CURRENT ASSETS

Prepayments and non-cash receivables	668,250	292,546	155,501	113,429
	668,250	292,546	155,501	113,429

31 SHORT TERM INVESTMENTS

Government securities (less than 3 months)	354,897	1,902,399	327,689	1,142,781
Call deposits	60,763	162,124	34,057	162,124
Reported in statement of cash flow	415,660	2,064,523	361,746	1,304,905

	2017		2016	
As at 31st March	Number of shares	Value of shares	Number of shares	Value of shares
		Rs. '000		Rs. '000

32 STATED CAPITAL

Fully paid ordinary shares	95,040	918,000	95,040	918,000
Fully paid preference shares	25	200	25	200
		918,200		918,200
Fully paid ordinary shares				
At the beginning of the year	95,040	918,000	95,040	918,000
At the end of the year	95,040	918,000	95,040	918,000
Fully paid preference shares				
At the beginning of the year	25	200	25	200
At the end of the year	25	200	25	200

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
33 REVENUE RESERVES				
Retained earnings	10,102,361	9,744,890	9,477,355	9,363,562
	10,102,361	9,744,890	9,477,355	9,363,562
34 OTHER COMPONENTS OF EQUITY				
Revaluation reserve on				
Land	671,886	584,635	671,885	584,635
Building	275,702	222,081	231,157	212,729
	947,588	806,716	903,042	797,364
Employee Share Option Plan reserve	270,721	179,232	160,065	106,283
Foreign currency translation reserve	867,703	696,693	-	-
Cash flow hedges reserve	82,825	-	-	-
	2,168,837	1,682,641	1,063,107	903,647

Revaluation reserve consists of the surplus on the revaluation of land and buildings net of deferred tax effect.

35 SHARE BASED PAYMENT PLANS

Employee Share Option Scheme

Accounting Policy

Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The Group applies SLFRS 2 - Share Based Payments in accounting for employee remuneration in the form of shares from 1st April 2013 onwards.

The cost of equity-settled transactions is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

35 SHARE BASED PAYMENT PLANS (CONTD.)

Employee Share Option Scheme

Under the John Keells Group's Employees Share Option Scheme (ESOP), share options of the parent are granted to executives of the Group generally with more than 12 months of service. The exercise price of the share options is equal to the 30 day volume weighted average market price of the underlying shares on the date of grant. The share options vest over a period of four years and is dependent on a performance criteria and a service criteria. The performance criteria being a minimum performance achievement of ""met expectations"" and service criteria being that the employee has to be in employment at the time the share options vest. The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted.

The contractual term for each option granted is five years. There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these share options.

Accounting judgements, estimates and assumptions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome either.

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
At the beginning of the year	179,232	104,515	106,283	62,415
Expense arising from equity-settled share-based payment transactions	91,489	74,717	53,782	43,868
At the end of the year	270,721	179,232	160,065	106,283

Movements in the year

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	GROUP		COMPANY	
As at 31st March	2017	2017	2017	2017
	No.	WAEP	No.	WAEP
Outstanding at 1st April	4,392,084	195.51	2,579,101	195.51
Granted during the year	2,450,704	142.83	1,402,074	142.83
Transfer in/(out)	(1,309,299)	173.91	(9,168)	173.91
Adjusted - sub division	618,215	170.91	366,342	170.91
Adjusted - Warrants	25,210	190.96	14,280	190.96
Lapses/forfeited	(50,713)	152.05	(50,713)	152.05
Outstanding at 31st March	6,126,201	162.02	4,301,916	162.02
Vested as at March	2,172,188	175.68	1,673,787	175.68

Fair value of the share option and assumptions

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted. The valuation takes into account factors such as stock price, expected time to maturity, exercise price, expected volatility of share price, expected dividend yield and risk free interest rate.

36 INTEREST BEARING LOANS AND BORROWINGS

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
36.1 External				
At the beginning of the year	84,073	185,337	84,073	185,337
Additions	256,192	-	-	-
Repayments	(69,073)	(101,264)	(69,073)	(101,264)
At the end of the year	271,192	84,073	15,000	84,073
Repayable within one year	141,667	69,073	15,000	69,073
Repayable between one and five years	129,525	15,000	-	15,000
	271,192	84,073	15,000	84,073
36.2 Interest-bearing loans and borrowings				
Borrowings under non-current liabilities	129,525	15,000	-	15,000
Borrowings under current liabilities	141,667	69,073	15,000	69,073
	271,192	84,073	15,000	84,073

36.3 Details of Group's interest-bearing and loans borrowings are as follows.

Property	Lending institution	Nature of facility	Interest rate and security	2017	2016
				Rs. '000	Rs. '000
Ceylon Cold Stores PLC	DFCC	Project loan	AWDR based plus margin revised quarterly Kaduwela land, building and machinery of soft drink plant and ice cream plant	15,000	84,073
The Colombo Ice Company (Pvt) Ltd	HSBC	Project loan	Cost of funds plus margin A corporate guarantee was given by the Parent	256,192	-
				271,192	84,073

NOTES TO THE FINANCIAL STATEMENTS

37 EMPLOYEE BENEFIT LIABILITIES

Accounting Policy

Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective statutes and regulations. The Group contributes the defined percentages of gross emoluments of employees to an approved Employees' Provident Fund and to the Employees' Trust Fund respectively.

Employee defined benefit plan- gratuity

The liability recognised in the statement of financial position is the present value of the defined benefit obligation at the reporting date using the projected unit credit method. Any actuarial gains or losses arising are recognised immediately in statement of comprehensive income.

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
At the beginning of the year	394,377	376,358	314,302	298,272
Current service cost	37,417	24,964	20,239	16,591
Interest cost on benefit obligation	41,410	37,636	33,002	29,827
	78,827	62,600	53,241	46,418
Transfers	(9,479)	186	(10)	96
Payments	(39,397)	(46,378)	(34,465)	(26,406)
(Gain)/Loss arising from changes in assumptions	47,025	1,611	30,630	(4,078)
At the end of the year	471,353	394,377	363,698	314,302
The expenses are recognised in the income statement in the following line items;				
Cost of sales	48,456	41,103	26,727	24,264
Selling and distribution expenses	16,380	7,388	16,380	7,388
Administrative expenses	13,991	14,109	10,134	14,766
	78,827	62,600	53,241	46,418

The employee benefit liabilities of the Group is based on the actuarial valuations carried out by Messrs. Smiles Global (Pvt) Ltd.

Accounting Judgments, Estimates and assumptions

The employee benefit liabilities of the Group is based on the actuarial valuation carried out by an independent actuarial specialist. The actuarial valuations involve making assumptions about discount rates and future salary increases. The complexity of the valuation, the underlying assumptions and its long term nature, the defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The principal assumptions used in determining the cost of employee benefits were:

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
Discount rate	9.5%-10.5%	10.5%	10.5%	10.5%
Future salary increases				
Executives	10.0%	9.0%	10.0%	9.0%
Non-Executives	5.0% - 6.0%	5.5% - 6.0%	5.0% - 6.0%	5.5% - 6.0%
Retirement Age;				
Executive Staff	55 Years	55 Years	55 Years	55 Years
Clerical and Labour Staff	55-60 Years	55-60 Years	55-60 Years	55-60 Years
Sales Representatives	55 Years	55 Years	55 Years	55 Years
Sensitivity of assumptions used				
A one percentage change in the assumed discount rate would have the following effects:				
Effect on the defined benefit obligation				
Increase in one percentage point	(11,031)	(17,409)	(14,838)	(14,397)
Decrease in one percentage point	12,010	19,121	16,183	15,814
A one percentage change in the assumed salary increase rate would have the following effects:				
Effect on the employee benefit obligation				
Increase in one percentage point	13,186	20,631	17,419	16,977
Decrease in one percentage point	(12,302)	(19,053)	(16,235)	(15,665)
Maturity analysis of the payments				
The following payments are expected on employee benefit liabilities in future years				
Within the next 12 months	31,453	77,732	29,499	51,736
Between 1 and 5 years	221,302	196,231	172,738	163,969
Between 5 and 10 years	191,713	69,041	134,576	57,041
Beyond 10 years	26,885	51,373	26,885	41,556
Total expected payments	471,353	394,377	363,698	314,302

The average duration of defined benefit obligation is 1.96 - 8.74 years

NOTES TO THE FINANCIAL STATEMENTS

38 OTHER NON-CURRENT LIABILITIES

Accounting Policy

Group classifies all non-financial non-current liabilities which comprises distributor deposits under other non-current liabilities.

Deposits on returnable containers and crates represents the cash deposits collected from distributors when issuing returnable containers and crates by the Company. At the time of termination of a distributor the deposit is refunded in case the returnable containers and crates were returned to the Company or the deposit was forfeited to the extent the returnable containers and crates were not returned to the Company. At each reporting date, the Company evaluates the liability based on a mathematical formula that considers the tenure of the distributorship and number of return crates and containers. Any difference between the calculated liability and the book balance is transferred to the Income Statement.

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Deposits with the Company	193,465	131,929	193,465	131,929
	193,465	131,929	193,465	131,929
At the beginning of the year	131,929	118,440	131,929	118,440
Net deposits received during the year	70,325	25,899	70,325	25,899
Reversal during the year*	(8,789)	(12,410)	(8,789)	(12,410)
	193,465	131,929	193,465	131,929

*During the year 2016/2017, a detailed analysis was undertaken by the management to establish the liability considering the past data relating to distributor termination, refund and forfeiture of deposits. A mathematical formula was derived from this analysis taking in to consideration the tenure of distributorship and the number of returnable containers and crates returned at the point of distributor termination. The liability calculated based on this model was compared against the balance as per the books of accounts. The difference arising out of this is transferred to the income statement.

39 OTHER DEFERRED LIABILITIES

Deferred rent

Some of the lease agreements of Jaykay Marketing Services (Pvt) Ltd, have been negotiated at reduced rates during initial lease period. Such reduced rates have been spread on a 'straight line basis' over the tenure of the lease resulting in a charge during the initial periods of the lease and a reversal taking place at the latter part of the lease period. Accordingly for the year ended 31st March 2017, Rs. 6 million has been charged against cost of sales.

Deferred revenue

Deferred revenue represents amounts received by Jaykay Marketing Services (Pvt) Ltd, as fees for the benefit of managing liquor stores in certain outlets for a period of 36 months. According to the revenue recognition principle, it is recorded as a liability until service delivery is made, at which time it is converted to revenue.

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Deferred rent	31,980	26,335	-	-
Deferred revenue	23,509	-	-	-
At the end of the year	55,489	26,335	-	-

40 TRADE AND OTHER PAYABLES

Accounting Policy

Trade payables are the aggregate amount of obligations to pay for goods or services, that have been acquired in the ordinary course of business.

Trade payable are classified as current liabilities if payment is due within one year.

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Trade payables	3,612,298	3,109,820	340,233	414,425
Accrued expenses	591,077	467,244	356,072	315,606
Sundry creditors	601,592	461,512	311,253	246,550
	4,804,967	4,038,576	1,007,558	976,581

41 OTHER CURRENT LIABILITIES

Accounting Policy

Group classifies all non-financial current liabilities under other current liabilities.

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Other taxes payable	692,698	427,789	575,216	409,117
Other payables	313,221	218,492	-	-
	1,005,919	646,281	575,216	409,117

Other payables consist of loyalty awards points payable to customers, by the retail segment of the Group.

Group operates the Nexus loyalty program where customers accumulate points for purchases made which entitle them to redeem such points on future purchases. The cost of Nexus loyalty points is part of the fair value of the consideration received and recognised as a liability and subsequently recognised over the period that the award points are redeemed. The value of points awarded is treated as a deduction from revenue. Nexus membership is valid for a period of 3 years and if a member fails to renew his/her membership within 3 months from such expiry, his/her entitlement to reward points would be null and void.

NOTES TO THE FINANCIAL STATEMENTS

42 RELATED PARTY TRANSACTIONS

Accounting Policy

Terms and conditions of transactions with related parties

The Group and the Company carried out transactions in the ordinary course of business at arm's length basis with the related entities.

Outstanding current account balances at year end are unsecured, interest free and settlement occurs in cash.

Non-recurrent related party transactions

There were no non-recurrent related party transactions which aggregate value exceeds 10% of the equity or 5% of the total assets which ever is lower of the Company as per 31st March 2016 audited financial statements, which required additional disclosures in the 2016/17 Annual Report under Colombo Stock Exchange Listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Security Exchange Commission Directive issued under Section 13(c) of the Security Exchange Commission Act.

Recurrent related party transactions

There were no recurrent related party transactions which in aggregate value exceeds 10% of the consolidated revenue of the Group as per 31st March 2016 audited financial Statements, which required additional disclosures in the 2016/17 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Security Exchange Commission Directive issued under Section 13(c) of the Security Exchange Commission Act.

The Group carried out transactions in the ordinary course of business at arm's length basis with the following related entities.

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
42.1 Amounts due from related parties				
Parent	-	30	-	-
Subsidiaries	-	-	35,441	38,186
Associate	59	-	-	-
Companies under common control	1,051	4,852	3,397	4,316
Equity accounted investees of Ultimate Parent	4,460	1,312	44	25
	5,570	6,194	38,882	42,527
42.2 Amounts due to related parties				
Parent	9,326	4,462	58	409
Companies under common control	144,333	117,742	1,609	569
Equity accounted investees of Ultimate Parent	1,483	435	1,609	279
	155,142	122,639	3,276	1,257

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
42.3 Amounts Due from Related Parties				
Ultimate Parent				
John Keells Holdings PLC	-	30	-	-
Subsidiary				
Jaykay Marketing Services (Pvt) Ltd	-	-	34,656	38,186
The Colombo Ice Company (Pvt) Ltd	-	-	785	-
Associate				
Waterfront Properties (Pvt) Ltd	59	-	-	-
Companies Under Common Control				
Asian Hotels & Properties PLC	-	382	-	382
Beruwala Holiday Resorts (Pvt) Ltd	112	466	71	413
Ceylon Holiday Resorts (Pvt) Ltd	71	124	67	122
Habarana Lodge Ltd	154	150	146	126
Habarana Walk Inn Ltd	42	61	38	61
Hikkaduwa Holiday Resorts (Pvt) Ltd	30	227	16	227
John Keells Office Automation (Pvt) Ltd	-	63	-	-
Kandy Walk Inn Ltd	84	144	72	127
Cinnamon Hotel Management (Pvt) Ltd	15	13	-	-
Keells Food Products PLC	-	2,482	2,444	2,482
Mack Air (Pvt) Ltd	-	42	-	-
Mackinnons Travels (Pvt) Ltd	-	316	-	-
NDO Lanka (Pvt) Ltd	429	-	429	-
Trans Asia Hotel PLC	-	148	-	148
Trinco Holiday Resorts (Pvt) Ltd	-	146	-	141
Yala Village (Pvt) Ltd	114	88	114	87
Equity accounted investees of ultimate parent				
Fairfirst Insurance Limited (formally known as Union Assurance General Ltd)	4,184	1,287	44	-
Nations Trust Bank PLC	257	-	-	-
Maersk Lanka (Pvt) Ltd	19	-	-	-
Sancity Hotels and Properties Ltd	-	25	-	25
	5,570	6,194	38,882	42,527

NOTES TO THE FINANCIAL STATEMENTS

42 RELATED PARTY TRANSACTIONS (CONTD.)

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
42.4 Amounts Due to Related Parties				
Ultimate Parent				
John Keells Holdings PLC	9,326	4,462	58	409
Companies Under Common Control				
Asian Hotels & Properties PLC	1,936	1,182	770	-
Infomate (Pvt) Ltd	2,477	1,785	201	-
John Keells Logistics (Pvt) Ltd	34,097	24,540	-	-
John Keells Office Automation (Pvt) Ltd	1,482	1,371	189	170
John Keells Properties (Pvt) Ltd	725	3,504	-	-
John Keells PLC	-	37	-	1
Keells Consultants (Pvt) Ltd	114	7	93	7
Keells Food Products PLC	101,813	83,869	-	-
Mackinnons Travels (Pvt) Ltd	810	10	-	10
Trinco Holiday Resorts (Pvt) Ltd	1	-	7	-
Walkers Tours Ltd	-	15	-	15
Whittall Boustead (Pvt) Ltd	878	1,422	349	366
Equity accounted investees of Ultimate Parent				
DHL Keells (Pvt) Ltd	85	278	230	278
Sancity Hotels & Properties Ltd	1,395	-	1,379	-
Fairfirst Insurance Ltd (formally known as Union Assurance General Ltd)	3	157	-	1
	155,142	122,639	3,276	1,257

The Group and Company held interest bearing deposits of Rs. 21.6 million (2016 - Rs. 15.6 million) and Rs. 20.8 million (2016 - Rs. 14.8 million) respectively, at Nations Trust Bank PLC, as at 31st March 2017.

	GROUP		COMPANY	
For the year ended 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
42.5 Transactions with related parties				
Ultimate Parent				
Sale of goods	1,357	757	-	-
Receiving of services	(134,048)	(112,000)	(54,234)	(45,661)
Subsidiaries				
Sales of goods	-	-	266,360	267,258
Purchase of goods	-	-	(597)	-
Receiving of services	-	-	(19,948)	(16,509)
Investment in equity	-	-	(270,000)	-
Companies under common control				
Sales of goods	25,722	27,225	21,039	21,485
Purchase of goods	(672,801)	(627,849)	(3,627)	(2,812)
Rendering of services	15,323	14,951	15,323	14,951
Receiving services	(505,508)	(402,502)	(31,028)	(17,221)
Post employment benefit plan				
Contributions to the provident fund	(106,080)	(98,481)	(97,048)	(89,616)
42.6 Transactions with related parties - equity accounted investees of Ultimate Parent				
Sales of goods	1,654	1,772	350	385
Rendering of services	2,350	2,287	-	-
Receiving services	(36,172)	(39,345)	(17,934)	(26,612)
Interest received	1,566	1,377	529	525

42.7 Compensation of key management personnel

Key management personnel include members of the Board of Directors of the Group.

	GROUP		COMPANY	
For the year ended 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Short-term employee benefits	68,624	72,564	35,698	38,981
Share based payments	33,890	28,152	13,897	14,076
	102,514	100,716	49,595	53,057

NOTES TO THE FINANCIAL STATEMENTS

43 RECLASSIFICATION OF COMPARATIVES

The presentation and classification of the financial statement of the previous year have been amended, where relevant for better presentation and to be comparable with those of the current year.

		GROUP		COMPANY	
		As reported previously	Current presentation	As reported previously	Current presentation
	Notes	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Income statement					
Revenue	43.1	34,069,211	34,497,327		
Other operating income		1,556,098	1,150,198		
Other operating income	43.2	1,556,098	1,150,198	72,326	62,206
Administrative expenses		1,100,131	1,090,011	469,827	459,707

43.1 Value of discounts reimbursed by suppliers of Rs. 428 million, previously classified under other operating income, now reclassified as Revenue as per the requirements of LKAS 18 - Revenue.

43.2 Shared service fee of Rs. 10 million, charged from Keells Food Products PLC, previously classified under other operating income, now reclassified as reimbursement of costs under administrative expenses as per the requirements of LKAS 01 - Presentation of Financial statements.

44 CONTINGENT LIABILITIES

Accounting Policy

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

All contingent liabilities are disclosed as a note to the financial statements unless the outflow of resources is remote. A contingent liability recognised in a business combination is initially measured at its fair value.

Subsequently, it is measured at the higher of:

- The amount that would be recognised in accordance with the general guidance for provisions above (LKAS 37) or
- The amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition (LKAS 18) Contingent assets are disclosed, where inflow of economic benefit is probable.

The contingent liabilities of the Group as at 31st March 2017, relate to the following;

Income tax assessments relating to years of assessments 2011/12, 2012/2013 and 2013/2014

Assessments were raised by the IRD in November 2014, November 2015 and May 2016 assessing the income from write back of deposits on returnable containers and crates amounting to Rs. 202 million, Rs. 43 million and Rs. 41 million respectively. The Company has lodged valid appeals against the assessments raised and is contesting these under the appellate procedure. Having discussed with independent legal and tax experts and based on the information available, the contingent liability as at 31st March 2017 is estimated at Rs. 62 million (2016 - Rs. 62 million)

Other than the above there were no other contingent liabilities for the Group at the end of the reporting period.

45 CAPITAL AND OTHER COMMITMENTS

Capital Commitments approved but not provided for as at the reporting date is as follows.

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Approved and contracted but not provided for	3,437,939	800,061	71,468	82,580
Approved, not contracted and not provided for	2,600,000	-	-	-
Guarantee	-	-	3,800,000	-
Total	6,037,939	800,061	3,871,468	82,580

46 LEASE COMMITMENTS

Operating leases

Accounting Policy

Leases, where the lessor effectively retains substantially all the risks and benefits of ownership over the terms of the lease, are classified as operating leases. Lease payments are recognised as an expense in the income statement on a straight line basis over the terms of the leases.

The Company has entered into a long- term PET bottle supply arrangement with a third party entity for a period of 12 years from 2009 where the entirety of the output of the arrangement is consumed by the Company. In determining the accounting treatment for this, the Company considered many factors including the technical and operational aspects. The economic life of the asset has been determined to be 20 years based on the current and future operating level of the factory and taking into consideration the manufacturer's recommended running hours of the machine.

Such judgement, along with the intention of the Management in connection with the continuity of the arrangement were principally taken into account, that lead to the overall conclusion that this arrangement constitutes to an operating lease.

Leasehold property

Jaykay Marketing Services (Pvt) Ltd has entered into lease arrangements on premises in which retail outlets are operated by the Subsidiary.

	GROUP		COMPANY	
As at 31st March	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Lease rentals due on non-cancellable operating leases;				
Within one year	340,811	275,326	38,222	36,402
Between one and five years	170,892	179,731	141,508	179,731
After five years	323,219	-	-	-
	834,922	455,057	179,730	216,133

NOTES TO THE FINANCIAL STATEMENTS

46 LEASE COMMITMENTS (CONTD.)

46.1

Company	Lessor	Leased properties
Ceylon Cold Stores PLC	CISCO Speciality Packaging (Pvt) Ltd	PET bottle plant
Jaykay Marketing Services (Pvt) Ltd	Land owners	Land occupied
The Colombo Ice Company (Pvt) Ltd	Board of Investment of Sri Lanka	Land occupied

47 EVENTS AFTER THE REPORTING PERIOD

There were no material events occurring after reporting period that required adjustment to or disclosure to the financial statements other than following

Dividends

The Board of Directors has approved the payment of a final dividend of Rs. 8.00 per share to be paid on 01st June 2017.

As required by section 56(2) of the Companies Act, No . 7 of 2007, the Board of Directors has confirmed that the Company satisfies the, solvency test in accordance with Section 57 of the Companies Act No 7 of 2007, and has obtained a certificate from the Auditors, prior to approving a final dividend.

YOUR SHARE IN DETAIL

Ordinary Shareholding

Numbers of Ordinary Shares 95,040,000

Distribution of Shareholders

	31st March 2017			31st March 2016		
Shareholding Range	No. of Shareholders	No. of Shares Held	%	No. of Shareholders	No. of Shares Held	%
Less than or equal to 1,000	1,220	301,736	0.32	1,163	301,431	0.32
1,001 to 10,000	452	1,758,445	1.85	460	1,759,022	1.85
10,001 to 100,000	216	6,293,520	6.62	227	6,601,061	6.95
100,001 to 1,000,000	23	4,654,896	4.90	20	4,396,215	4.63
Over 1,000,000	4	82,031,403	86.31	4	81,982,271	86.26
	1,915	95,040,000	100.00	1,874	95,040,000	100.00

	31st March 2017			31st March 2016		
Categories of Shareholders	No. of Shareholders	No. of Shares Held	%	No. of Shareholders	No. of Shares Held	%
John Keells Holdings & Subsidiaries	3	77,321,204	81.36	3	77,321,204	81.36
Others	1,912	17,718,796	18.64	1,871	17,718,796	18.64
Total	1,915	95,040,000	100.00	1,874	95,040,000	100.00
Sri-Lankan Residents	1,780	85,486,534	89.95	1,742	86,233,055	90.73
Non-Residents	135	9,553,466	10.05	132	8,806,945	9.27
Total	1,915	95,040,000	100.00	1,874	95,040,000	100.00
John Keells Holdings & Subsidiaries	3	77,321,204	81.36	3	77,321,204	81.36
Director's and Spouses	6	54,658	0.06	7	135,358	0.14
Shareholders holding more than 10%	-	-		-	-	-
Public	1,906	17,664,138	18.58	1,864	17,583,438	18.50
	1,915	95,040,000	100.00	1,874	95,040,000	100.00

* Percentage of shares held by the public as at 31st March 2017 is 18.58%

YOUR SHARE IN DETAIL

Top 20 Shareholders

As at 31st March	2017 No. of Shares Held	2017 % of Issued Capital	2016 No. of Shares Held	2016 % of Issued Capital
John Keells Holdings PLC	67,109,128	70.61	67,109,128	70.61
Whittal Boustead (Pvt) Ltd	10,165,392	10.70	10,165,392	10.70
Standard Chartered Bank Mauritius S/A Chambers Street Global Fund , LP	2,682,642	2.82	2,661,358	2.80
GF Capital Global Limited	2,074,241	2.18	2,046,393	2.15
A N Sethna	789,696	0.83	789,696	0.83
HSBC International Nominees Ltd-SSBT-Deustche Bank	298,956	0.31	330,000	0.35
Life Insurance Corporation of India	272,912	0.29	272,912	0.29
Northern Trust Company S/A Coupland Cardiff Funds	262,019	0.28	-	0.00
Sisira Investors Limited	259,132	0.27	259,132	0.27
HSBC Intl Nom Ltd - BBH - Fidelity Funds	253,519	0.27	-	0.00
CB London S/A Verdipapirfondet Holberg Rurik	189,734	0.20	-	0.00
HSBC Intl Nom Ltd-JPMCB Na-Fidelity Asian Values PLC	184,735	0.19	-	0.00
Deutsche Bank AG Singapore Branch	175,000	0.18	20,000	0.02
Seylan Bank PLC/Channa Nalin Rajahmoney	175,000	0.18	155,241	0.16
Est of Lat M. Radhakrishnan (Deceased)	169,256	0.18	169,256	0.18
J.R.Printers (Deceased)	167,936	0.18	167,936	0.18
HSBC INTL Nom Ltd-JPMCB-T.Rowe Price Institutional Frontier Markets Equity Fund	165,734	0.17	405,922	0.43
People's Leasing & Finance PLC/C.D.Kohombanwickramage	155,918	0.16	303,806	0.32
Merrill J.Fernando & Sons (Pvt) Ltd	150,848	0.16	150,848	0.16
Ayenka Holdings Private Limited	150,000	0.16	-	0.00

As at 31st March	2017 Rs.		2016 Rs.	
Share Prices				
Beginning of the year	430.00		298.20	
Highest for year	865.00	(24.11.2016)	479.00	(28.01.2016)
Lowest for year	400.10	(01.04.2016)	275.00	(10.04.2015)
As at 31st March	811.00		430.00	

DECADE AT A GLANCE

GROUP

Year ended 31st March	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	Rs`000	Rs`000	Rs`000	Rs`000	Rs`000	Rs`000	Rs`000	Rs`000	Rs`000	Rs`000
Trading results										
Gross revenue	48,043,180	37,632,551	30,968,590	26,330,083	23,788,855	21,165,811	17,658,598	15,322,957	13,631,168	10,960,073
Profit from operating activities	4,788,129	3,928,389	2,160,444	1,541,245	1,003,999	1,511,692	572,776	541,864	460,951	450,948
Profit before taxation	5,089,748	4,052,469	2,146,665	1,545,188	2,200,654	2,541,860	482,982	420,151	268,345	269,358
Taxation	(1,536,845)	(1,177,596)	(621,170)	(327,471)	(345,051)	(306,407)	(283,446)	(191,277)	(128,731)	(93,432)
Profit after taxation	3,552,903	2,874,873	1,525,495	1,217,717	1,855,603	2,235,453	199,536	228,874	139,614	175,926

As at 31st March	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	Rs`000	Rs`000	Rs`000	Rs`000	Rs`000	Rs`000	Rs`000	Rs`000	Rs`000	Rs`000
Assets, equity and liabilities										
Fixed assets	8,107,133	6,122,560	5,365,259	5,446,846	5,180,158	4,071,521	3,689,511	3,848,218	4,070,987	4,073,966
Investment property	207,042	111,404	94,457	85,482	5,040,924	3,765,855	2,582,195	-	-	-
Investment in associate	6,029,201	5,886,679	5,362,161	5,262,414	-	-	-	-	3,100	3,100
Non-current assets	1,050,457	657,420	532,745	560,011	555,780	286,709	287,134	115,006	115,006	140,196
Total non-current assets	15,393,833	12,778,063	11,354,622	11,354,753	10,776,862	8,124,085	6,558,840	3,963,224	4,189,093	4,217,262
Net current assets	(362,295)	906,782	471,249	(201,234)	(419,723)	98,983	(1,240,142)	(653,948)	(719,546)	(682,367)
	15,031,538	13,684,845	11,825,871	11,153,519	10,357,139	8,223,068	5,318,698	3,309,276	3,469,547	3,534,895
Long term loans	129,525	15,000	84,073	185,337	324,935	283,443	316,769	200,817	380,300	421,830
Deferred liabilities	1,712,615	1,324,114	1,085,462	967,966	856,717	655,703	553,288	471,118	594,366	736,184
Net assets	13,189,398	12,345,731	10,656,336	10,000,216	9,175,487	7,283,922	4,448,641	2,637,341	2,494,881	2,376,881
Represented by										
Stated capital	918,200	918,200	918,200	918,200	918,200	918,200	270,200	270,200	270,200	270,200
Capital reserves	2,168,837	1,682,641	974,395	795,699	3,252,326	2,900,278	2,853,957	1,155,779	1,155,779	1,155,779
General reserve	-	-	646,000	646,000	646,000	646,000	646,000	646,000	646,000	646,000
Retained profits	10,102,361	9,744,890	8,117,741	7,640,317	4,358,961	2,819,444	678,484	565,362	422,902	304,902
Shareholder's funds	13,189,398	12,345,731	10,656,336	10,000,216	9,175,487	7,283,922	4,448,641	2,637,341	2,494,881	2,376,881

KEY FIGURES & RATIOS - GROUP

Year ended 31st March	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Dividend per Share (Rs.) - Paid	32.00	18.00	11.00	4.00	4.00	4.00	4.00	4.00	1.00	3.20
Dividend Payout (%)	85.61	59.51	68.53	31.22	20.49	16.91	43.31	37.76	15.48	39.30
Net Asset per Share (Rs.)	138.78	129.90	112.12	105.22	96.54	76.64	46.81	27.75	26.25	25.01
Market Value per Share (Rs.)	811.00	430.00	298.20	140.70	135.90	90.00	750.60	172.00	69.50	130.00
Debt / Equity Ratio (%)	7.57	5.41	6.65	14.50	16.68	18.11	46.37	36.98	59.62	68.78
Interest Cover (No.of Times)	701.08	336.57	35.59	11.06	9.93	16.53	6.38	4.45	2.39	2.48
Earnings per Share (Rs.)	37.38	30.25	16.05	12.81	19.52	23.66	2.11	2.42	1.48	1.86
Price Earnings Ratio (No.of Times)	21.70	14.22	18.58	10.98	6.96	3.80	81.25	16.23	10.76	15.97
Current Ratio (No.of Times)	0.95	1.15	1.10	0.95	0.91	1.03	0.71	0.79	0.76	0.74
Return on Total Assets (%)	16.80	15.83	9.51	8.00	13.86	20.70	2.47	3.56	2.22	3.27
Return on Equity (%)	26.95	24.53	14.62	9.69	7.80	19.24	4.49	8.68	5.73	8.87
Dividend Yield (%)	3.95	4.19	3.69	2.84	2.94	4.44	2.33	10.17	6.29	10.76
Earnings Yield (%)	4.61	7.03	5.38	9.11	14.37	26.29	1.23	6.16	9.29	6.26

GROUP REAL ESTATE PORTFOLIO

Owning Company & Location	No. of Buildings	Buildings in (Sq. Ft)	Freehold Land in Acres	Leasehold Land in Acres	2017 NBV Rs	2016 NBV Rs
Ceylon Cold Stores PLC						
Kaduwela	15	306,928	27.35	-	1,264,322	1,118,853
Trincomalee	3	19,071	1.06	-	207,042	111,404
					1,471,364	1,230,257
Jaykay Marketing Services (Pvt) Ltd						
Improvements to Keells Super outlets on leased hold properties	64	610,010	-	21.75	2,087,991	1,122,548
The Colombo Ice Company (Pvt) Ltd						
Awissawella				9.30	174,701	-
					3,734,056	2,352,805

MEMBERSHIPS MAINTAINED BY THE GROUP

Beverage Association of Sri Lanka
Ceylon Chamber of Commerce
Consumer Goods Forum
Employers' Federation of Ceylon
Export Development Board
Lanka Confectionery Manufacturers Association
National Chamber of Commerce
National Chamber of Exporters
Sri Lanka - Maldives Bilateral Business Council
Sri Lanka Association of Testing Laboratories

GLOSSARY OF FINANCIAL TERMINOLOGY

Accrual Basis

Recording Revenues and Expenses in the period in which they are earned or incurred regardless of whether cash is received or disbursed in that period.

Asset Turnover

Revenue divided by average total assets

Capital Employed

Share holders funds plus debt.

Cash Ratio

Cash + Short-term investments, divided by Current Liabilities

Contingent Liabilities

A condition or situation existing at the end of the reporting period due to past events, where the financial effect is not recognised because:

1. The obligation is crystallised by the occurrence or non occurrence of one or more future events or,
2. A probable outflow of economic resources is not expected or,
3. It is unable to be measured with sufficient reliability.

Current Ratio

Current Assets divided by Current Liabilities

Debt / Equity Ratio

Debt as a percentage of Shareholders' Funds

Dividend Payable

Final dividend per share multiplied by the latest available total number of shares as at the date of the report.

Dividends per Share - Paid

Dividends Gross(Ordinary)paid divided by Number of Ordinary Shares issued

Dividend Cover

Earnings per share divided by dividend per share

Dividend Payout Ratio

Total Dividend as a percentage of Company profits

Dividend Yield

Dividend per Shares as a percentage of share price at the end of the period.

Earnings Per Share (EPS)

Consolidated profit after tax and Preference Dividends divided by weighted average number of shares in issue during the period.

Earnings Yield

Earnings per Share as a percentage of Market Price per Share at the end of the period.

EBIT

Earnings before interest and tax (includes other operating income).

EBIT Margin

EBIT divided by turnover inclusive of share of associate company turnover

EBITDA

Earnings before interest, tax, depreciation and amortisation

Effective Rate of Taxation

Income Tax including Deferred tax over Profit before Tax

Enterprise Value

Market Capitalisation + Debt - Cash

Interest Cover

Profit on Operating Activities over Finance Expenses. Gains from lease rights forgone is excluded from profit on operating activities

Long Term Debt To Total Debt

Long term loans as a percentage of total debt.

Market Capitalisation

Number of Shares in issue at the end the of period multiplied by the share price at end of the period

Market Value Added

Market capitalisation minus shareholders' funds.

Net Assets

Total Assets - Current Liabilities - Long Term Liabilities - Minority interest

Net Asset per Share

Net Assets divided by number of ordinary shares in issue at the end of the period.

GLOSSARY OF FINANCIAL TERMINOLOGY

Net Debt

Debt - (Cash + Short Term Deposits)

Net Profit Margin

Profit after tax attributable to equity holders of the parent divided by total revenue including share of associates.

Net Working Capital

Inventory + Trade Receivable - Trade Payable

Price Earnings Ratio

Market Price of share as at year end divided by Earnings per Share

Price To Book Ratio

Market price per share over net asset value per share.

Public Holding

Percentage of shares held by the public calculated as per the Colombo Stock Exchange Listing Rules as at the date of the Report.

Quick Ratio

Cash + Short Term Investments + Trade and Other Receivables, divided by Current Liabilities

Return on Assets (ROA)

Profit After Tax divided by Average Total Assets

Return on Equity (ROE)

Consolidated Profit after Tax and Minority interest as a Percentage of Average Shareholders' Funds

Return on Capital Employed (ROCE)

Earnings before interest and tax (gains from lease rights forgone is excluded) as a percentage of average of shareholders' funds + total debt

Shareholders' Funds

Total of issued and fully paid share Capital, Capital Reserves and Revenue Reserves

Total Assets

Fixed Assets + Investments + Non Current Assets + Current Assets

Total Debt

Long Term Loans plus short Term Loans and Overdraft

Total Debt / Total Assets

Total Debt divided by Total Assets

NOTICE OF MEETING

Notice is hereby given that the

120th

The Annual General Meeting of Ceylon Cold Stores PLC will be held at the John Keells Holdings PLC Auditorium at 186 Vauxhall Street, Colombo 2 on Wednesday , 7th June 2017 at 3.00 p.m.

The business to be brought before the meeting will be:

- To read the notice convening the meeting
- To receive and consider the Annual Report of the Board of Directors and the Financial Statements for the Financial Year ended 31st March 2017 with the Report of the Auditors thereon.
- To re-elect as Director, Mr. J R F Peiris who retires by rotation in terms of Article 84 of the Articles of Association of the Company. A brief profile of Mr. J R F Peiris is contained in the Board of Directors section of the Annual Report.
- To re-elect as Director Ms. S T Ratwatte who retires in terms of Article 90 of the Articles of Association of the Company. A brief profile of Ms S T Ratwatte is contained in the Directors' Profiles section in this Annual Report.
- To re-elect as Director Dr. R S W Wijeratnam who retires in terms of Article 90 of the Articles of Association of the Company. A brief profile of Dr. R S W Wijeratnam is contained in the Directors' Profiles section in this Annual Report.
- To re-appoint Messrs. Ernst & Young, Chartered Accountants as Auditors of the Company for the year 2017/18 and to authorise the Directors to determine their remuneration.
- To consider any other business of which due notice has been given in terms of the relevant laws and regulations.

By order of the Board

Ceylon Cold Stores PLC

Keells Consultants (Private) Limited.
Secretaries

Colombo
16th May 2017

Note :

- A member unable to attend is entitled to appoint a proxy to attend and vote in his/her place.
- A proxy need not be a member of the Company.
- A member wishing to vote by proxy at the meeting may use the proxy form enclosed
- In order to be valid, the completed proxy form must be lodged at the Registered Office of the Company not less than 48 hours before the meeting.
- If a poll is demanded, a vote can be taken on a show of hands or by poll. Each share is entitled to one vote. Votes can be cast in person, by proxy or corporate representatives. In the event an individual shareholder and his/her proxy holder are both present at the meeting, only the shareholder's vote is counted. If proxy holder's appointor has indicated the manner of voting, only the appointor's indication of the manner of vote will be used.

NOTES

NOTES

FORM OF PROXY

I/We ..... of

..... being a shareholder/s of

Ceylon Cold Stores PLC hereby appoint .....

..... of

..... or failing him/her

Mr. Susantha Chaminda Ratnayake of Colombo	or failing him
Mr. Ajit Damon Gunewardene of Colombo	or failing him
Mr. James Ronnie Felitus Peiris of Colombo	or failing him
Mr. Jitendra Romesh Gunaratne of Colombo	or failing him
Mr. Albert Rasakantha Rasiah of Colombo	or failing him
Mr. Muhammed Hamza of Colombo	or failing him
Ms. Sharmini Thamara Ratwatte of Colombo	or failing her
Dr. Romola Shanthi Wilson Wijeratnam of Colombo	

as my/our proxy to vote for me/us on my/our behalf at the 120th Annual General Meeting of the Company to be held at 3.00 p.m on 7th June 2017 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

I/We, the undersigned, hereby direct my/our proxy to vote for me/us and on my/our behalf on the specified Resolution as indicated by the letter "X" in the appropriate cage:

	FOR	AGAINST
To re-elect as Director, Mr. J R F Peiris, who retires in terms of Article 84 of the Articles of Association of the Company.		
To re-elect as Director, Ms. S T Ratwatte who retires in terms of Article 90 of the Articles of Association of the Company		
To re-elect as Director, Dr. R S W Wijeratnam who retires in terms of Article 90 of the Articles of Association of the Company		
To re-appoint Auditors and to authorise the Directors to determine their remuneration		

Signed this .....day of ..... Two Thousand and Seventeen (2017)

.....
Signature/s of Shareholder/s

Note :

INSTRUCTIONS AS TO COMPLETION OF THE FORM OF PROXY ARE NOTED ON THE REVERSE.

FORM OF PROXY

INSTRUCTIONS AS TO COMPLETION

1. Please perfect the form of proxy by filling in legibly your full name and address, signing in the space provided and filling in the date of signature.
2. The completed form of proxy should be deposited at the Registered Office of the Company at no. 117, Sir Chittampalam A. Gardiner Mawatha, Colombo 02, not later than 48 hours before the time appointed for the holding of the Meeting.
3. If the form of proxy is signed by an Attorney, the relevant power of Attorney should accompany the completed form of proxy for registration, if such power of Attorney has not already been registered with the Company.
4. If the appointor is a Company or corporation, the form of proxy should be executed under its Common Seal or by a duly authorised officer of the company or corporation in accordance with its Articles of Association or Constitution.
5. If this form of proxy is returned without any indication of how the person appointed as Proxy shall vote, then the proxy shall exercise his/her discretion as to how he/she votes or, whether or not he/she abstains from voting.

Please fill in the following details:

Name : .....

Address : .....

.....

Jointly with : .....

Share Folio no. : .....

CORPORATE INFORMATION

Name of the Company

Ceylon Cold Stores PLC

Legal Form

Public Limited Liability Company
Established in 1866 as Colombo Ice Company Limited
Name changed to Ceylon Cold Stores Limited in 1941
Quoted in the Colombo Stock Exchange in January 1970
Registered under Companies Act No. 7 of 2007.

Company Registration Number

PQ4

Registered Office of the Company

No. 117, Sir Chittampalam A Gardiner Mawatha,
Colombo 02, Sri Lanka.
Tel : +94 11 2318798
Fax : +94 11 2447422

Kaduwela Factory

Samadaragahawatte, Ranala
Tel: +94 11 4414500
Fax : +94 11 2415435

Head Office of the Company

148, Vauxhall Street
Colombo 02. Sri Lanka.
Tel: +94 112 318798
Fax : +94 11 2447422
E-mail : info.ccs@keells.com
Web : www.elephanthouse.lk

Customer Call Centre

Tel: +94 11 2303800

Board of Directors

Mr. S C Ratnayake (Chairman)
Mr. A D Gunewardene
Mr. J R F Peiris
Mr. J R Gunaratne
Mr. A R Rasiah
Mr. M Hamza
Dr. R S W Wijeratnam
Ms. S T Ratwatte

Audit Committee

Mr. A R Rasiah (Chairman)
Mr. M Hamza
Dr. R S W Wijeratnam
Ms. S T Ratwatte

Secretaries and Registrars

Keells Consultants (Private) Limited
No. 117, Sir Chittampalam A Gardiner Mawatha,
Colombo 02, Sri Lanka.
Tel : +94 11 230 6245
Fax : +94 11 243 9037

External Auditors

Ernst & Young,
Chartered Accountants,
201, De Saram Place.
Colombo 10, Sri Lanka

Internal Auditors

PricewaterhouseCoopers
Chartered Accountants,
100, Braybrooke Place
Colombo 02, Sri Lanka.

BDO Partners
Chartered Accountants,
Charter House
65/2, Sir Chittampalam A Gardiner Mawatha,
Colombo 02, Sri Lanka.

Bankers

Commercial Bank of Ceylon PLC
Deutsche Bank AG.
Hongkong & Shanghai BankingCorporation Ltd
Nations Trust Bank PLC
Standard Chartered Bank
DFCC Bank
Hattion National Bank PLC

Subsidiary Companies

Jaykay Marketing Services (Pvt) Ltd
The Colombo Ice Company (Pvt) Ltd

Associate Company

Waterfront Properties (Pvt) Ltd

Designed & produced by
emagewise
Digital Plates & Printing by Printel (Pvt) Ltd