



FINANCIAL CAPITAL

“Navigating challenges in our operating backdrop, we delivered a pragmatic strategy to achieve a noteworthy financial performance with sound returns, health liquidity levels, robust gearing and solvency.”

In a complex operating landscape, sound financial capital management warrants our strategic focus to achieve business sustainability and deliver strong returns to our shareholders. Upholding best practices, our aim is to optimise our financial resources, leveraging them to drive short-term growth whilst consolidating gains and investing in expansions, new products and markets for long-term success. This section will outline our approach to strengthen our financial capital base and provide a detailed overview of the results achieved for the financial year (FY) ended 31st March, 2024.



Input

Our Financial Assets

Shareholder funds

Retained earnings

Debt

Strategic Investments

- Human resources management
- Tangible and intangible assets
- Corporate social responsibilities

Our Materiality Focus

Profitability Safeguard of Assets Sound Internal Controls Liquidity & Fund Management Error free Financial Reporting

Stakeholders Impacted



Rs. 7,764 Mn
Revenue
FY 2022/23: 8,199mn

21.17%
Net Profit Ratio
FY 2022/23: 31.45%

25.80%
Return on Equity
FY 2022/23: 41.81%

Rs. 26.85
Dividend Per Share
FY 2022/23: Rs 19.00

Rs. 2,655 Mn
Cash Inflow From Operations
FY 2022/23: Rs. 3,553 Mn

Rs. 491 Mn
Taxes
FY 2022/23: 719 Mn

0.79 times
Asset Turnover Ratio
FY 2022/23: 0.90 times

7%
Debt: Equity Ratio
FY 2022/23: 5%



Process



Output



Impact



Financial Capital Strategy in Action

Financial Results

Value Creation

Earnings, Profitability and Returns

Efficient financial resource management to achieve top-line growth and secure bottom-line profitability and strong margins.

Sound Financial Position

Maintain optimal financial health by managing assets, liabilities, capital structure and gearing.

Cash Flow Management

Streamline treasury and cash flow operations to maintain liquidity to meet present and future payment obligations.

Regulatory Compliance

Adhere to prescribed accounting, auditing, management and reporting standards.

Earnings and Profits

Returns on Equity

Financial Stability

Liquidity

Plan, budget, and carefully manage financial capital to ensure sufficient resources are allocated efficiently and effectively to create sustainable value.

Key Risk & Opportunity

- Risks: Economic instability, currency fluctuations.
- Opportunities: Growth in specialty tea markets.

Strategic Response

- Optimize cash flow and diversify investments.
- Invest in high-yield cultivars and climate smart technology.

Trade-offs

+ With Human Capital

- Wage and benefit payments improve employee loyalty but increase short-term costs.

+ With Social & Relationship Capital

- Timely payments to suppliers enhance relationships but require maintaining liquidity.



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Statement of ESG Performance

Risk and Governance

Management Discussion and Analysis

Overview

| | | |
|---|--|--|
| <p>Best Integrated Report Planation Sector CMA Excellence Integrated Reporting Awards 2023</p> | <p>Gold Joint Winner Plantation Sector CA TAGS 2023</p> | <p>Corporate Governance Disclosures in Agriculture Sector - Bronze SAFA Awards 2022</p> |
|---|--|--|

Management Approach

GRI 3-3, 207-1&2

| Financial Capital Management Strategy Salient Features | Governance | Risk Management | Compliance |
|---|--|---|---|
| Balanced top-line growth and optimisation of costs | <p>Stewardship and Oversight</p> <ul style="list-style-type: none"> Board of Directors Group Management Committee | <p>Frameworks, Guidelines and Standards</p> <ul style="list-style-type: none"> Institute of Chartered Accountants of Sri Lanka International Sustainability Standards Board International Integrated Reporting Council CSE Listing Rules | Sri Lanka Accounting and Auditing Standards Act No 15 of 1995 |
| Maximisation of profits and returns on assets | | | Sri Lanka Accounting and Financial Reporting Standards |
| Maintenance of healthy asset-to-liability ratio and Sustainable gearing level | | | Companies Act No 07 of 2007 |
| Effective treasury operations, cash flow management and ensuring adequate liquidity for working capital needs | | <p>Monitoring and Implementation</p> <ul style="list-style-type: none"> Finance Department Internal Audit External Audit | Code of Best Practice Corporate Governance 2023 |
| Lower cost of funds | | | Continuous Listing Rules, Colombo Stock Exchange, and Securities and Exchange Commission of Sri Lanka |

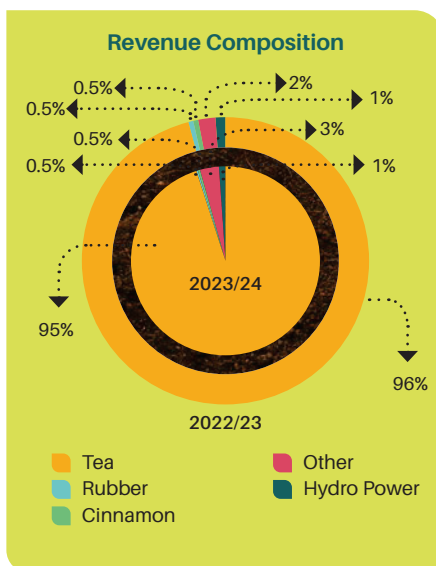
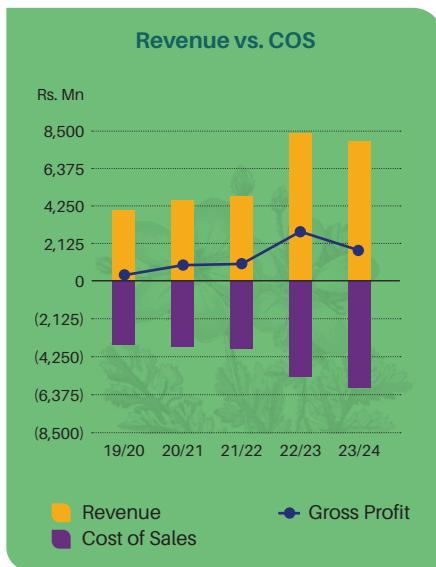
We follow through a focused approach in financial capital management, seeking to fortify our financial resources and create optimum value overtime—thereby, securing solid returns for our shareholders and significant value for our other key stakeholders.

Pragmatic and prudent in our approach, we stand committed to follow through best and current practices in accounting, auditing, management and financial reporting. With sound financial controls, buttressed by a strong internal audit function and along with rigorous reporting standards; we are able to maintain transparency and accountability in our financial decision making and management process. Our risk management framework is an essential part, complementing our management approach. This framework enables us to proactively identify and mitigate financial risks, thereby, strengthening our financial capital base amidst uncertainties inherent in our operating environment. We also seek third-party independent assurance to validate the accuracy and reliability of our financial statements and reporting processes.

Analysis of Profit and Loss

Revenue

Despite a 12 percent increase in tea sales volume in the FY 2023/24, the appreciation of the Sri Lankan rupee as the economy gradually recovered from the worst economic crisis in the previous year, led to a 6.0 percent decline in total tea revenue from Rs. 7,901 million in the FY 2022/23 to Rs 7,415 million in the year under review. The volume gains were more than offset by the currency appreciation which lowered export prices in rupee terms.



Gross Profit (GP)

The benefit of the exchange rate appreciation was not fully reflective on the cost side in the reporting year. Higher sales volume combined with increased labour payments—compensating for higher cost of living—resulted in a 12.6 percent increase in Tea cost of sales from Rs. 5,237 million in the FY 2022/23 to Rs. 5,897 million in the FY 2023/24.

Maintaining a consistent ranking at the top, on the Colombo Tea Auction for high quality Ceylon teas, alongside efficient cost management, integrated thinking and strong governance structure equipped us to navigate the impacts of the economic crisis. This enabled us to record a strong GP of Rs. 1,775 million in the FY 2023/24—the second highest in the company’s history. However, underlined by higher cost of sales, GP recorded a decline of 38% percent, compared to Rs. 2,857 million in the FY 2022/23.

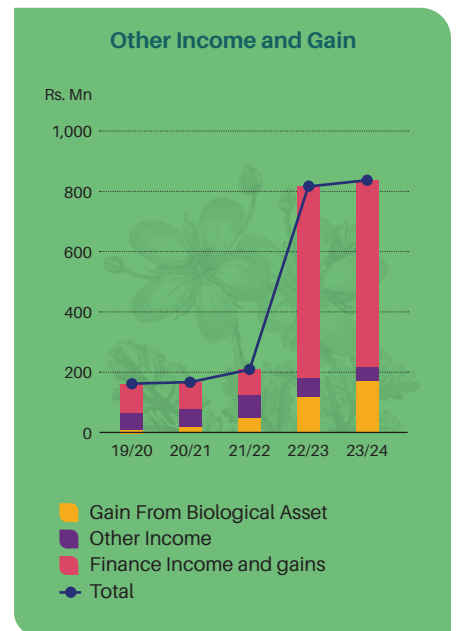
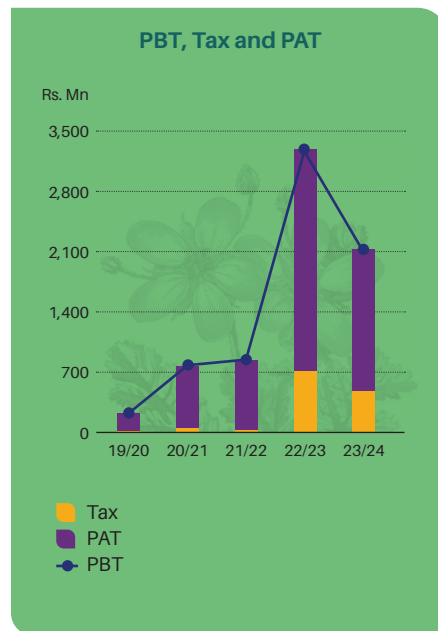
Profit Before Tax (PBT)

GRI 207-4

Following a 25 percent increase in administrative expenses and lower GP, PBT stood at Rs. 2,135 million in 2023/2024, corresponding to a 35 percent drop as compared to Rs 3,298 million in the FY 2022/23. However, steady finance income underscored by prudent investments in financial instruments complemented and cushioned PBT from a steeper decline. PBT ratio stood at 27 percent in the reporting year and 40 percent in the previous year.

Profit After Tax (PAT)

Under a historically high tax regime, our effective tax rate stood at 30 percent. With lower PBT, our tax expenses in the FY 2023/24 reached Rs. 491 million as compared to Rs. 719 million in the FY 2022/23. PAT, therefore, reached Rs. 1,643 million, corresponding to a 36 percent drop as against PAT of Rs. 2,578 million recorded in the preceding year.



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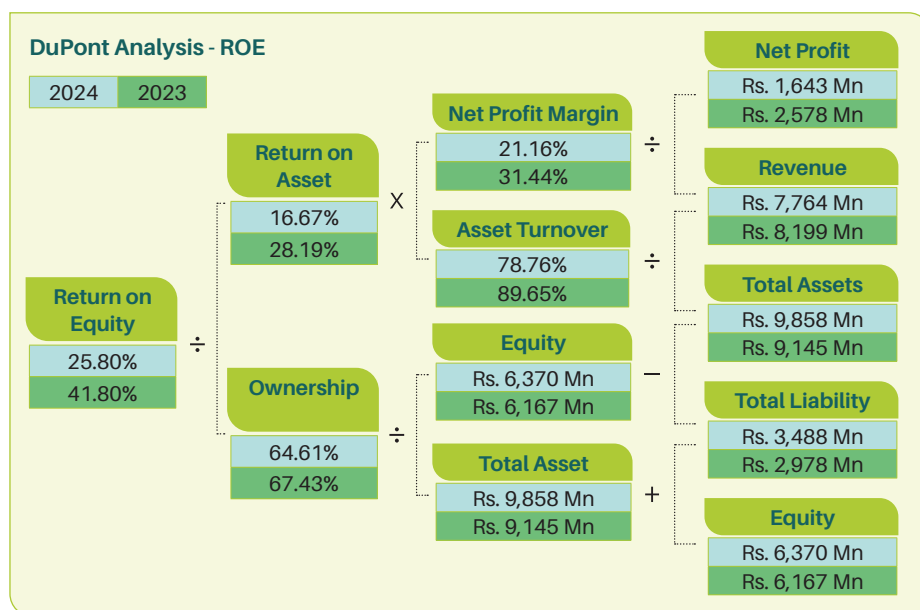
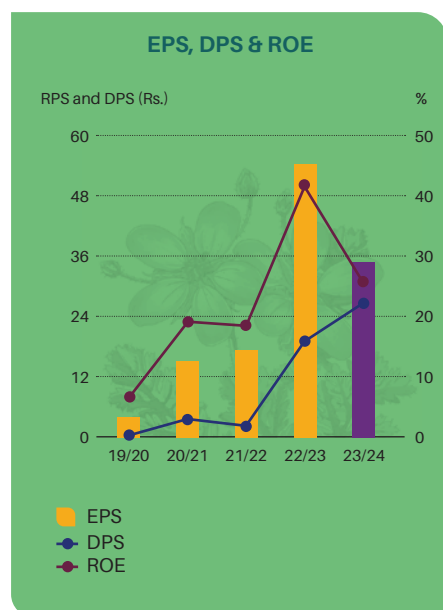
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Profitability and Returns

Continuous process improvements and strong commitment to ethical and responsible business practices enabled us to remain strong, despite challenges; and still deliver an impressive return on equity (ROE) of 25.80 percent, albeit, down from 41.81 percent in the previous year. Accordingly, we were able to report, yet again, a solid earnings per share (EPS) of Rs 34.36—second highest ever vis-à-vis the all-time record of Rs. 54.21 in the previous year. This year, dividend per share (DPS) was Rs. 26.85, out of which Rs. 17.35 have been paid from the previous year's profit.



Vertical Analysis - Income Statement

| | 2023/24 | | 2022/23 | | 2021/22 | | 2020/21 | | 2019/20 | |
|---|--------------|------------|--------------|------------|------------|------------|------------|------------|------------|-----------|
| | Rs. Mn | % | Rs. Mn | % | Rs. Mn | % | Rs. Mn | % | Rs. Mn | % |
| Revenue | 7,764 | 100% | 8,199 | 100% | 4,727 | 100% | 4,516 | 100% | 3,886 | 100% |
| Cost of Sales | (5,988) | -77% | (5,342) | -65% | (3,808) | -81% | (3,677) | -81% | (3,593) | -92% |
| Gross profit | 1,776 | 23% | 2,857 | 35% | 920 | 19% | 839 | 19% | 293 | 8% |
| Change in Fair Value of Consumable Biological Assets | 172 | 2% | 114 | 1% | 59 | 1% | 5 | 0% | 17 | 0% |
| Change in Fair Value of Produce on Bearer Biological Assets | (0.33) | 0% | 5 | 0% | (5) | 0% | 18 | 0% | (4) | 0% |
| Other Income and Gains | 46 | 1% | 67 | 1% | 71 | 1% | 69 | 2% | 54 | 1% |
| Administrative Expenses | (422) | -5% | (336) | -4% | (253) | -5% | (208) | -5% | (197) | -5% |
| Results From Operating Activities | 1,572 | 20% | 2,707 | 33% | 791 | 17% | 724 | 16% | 164 | 4% |
| Finance Income | 621 | 8% | 632 | 8% | 85 | 2% | 87 | 2% | 95 | 2% |
| Finance Expenses | 0.63 | 0% | (1) | 0% | (1) | 0% | (2) | 0% | (2) | 0% |
| Interest Paid to Government and Other Leases | (57) | -1% | (39) | 0% | (38) | -1% | (38) | -1% | (37) | -1% |
| Net Finance Income | 564 | 7% | 591 | 7% | 46 | 1% | 48 | 1% | 55 | 1% |
| Profit Before tax | 2,136 | 28% | 3,298 | 40% | 837 | 18% | 772 | 17% | 219 | 6% |
| Income Tax Expenses | (491) | -6% | (719) | -9% | (20) | 0% | (60) | -1% | (22) | -1% |
| Profit after tax | 1,645 | 21% | 2,579 | 31% | 817 | 17% | 712 | 16% | 197 | 5% |

Over the past five years, the cost of sales percentage has decreased from 92 percent to 77 percent whilst, the net profit margin has steadily improved from 5.0 percent to 21 percent. Administrative expenses have remained stable.

Horizontal Analysis - Income Statement

| | 2023/24 | | 2022/23 | | 2021/22 | | 2020/21 | | 2019/20 | |
|---|--------------|-------------|--------------|-------------|------------|------------|------------|-------------|------------|-------------|
| | Rs. Mn | % | Rs. Mn | % | Rs. Mn | % | Rs. Mn | % | Rs. Mn | % |
| Revenue | 7,764 | -5% | 8,199 | 73% | 4,727 | 5% | 4,516 | 16% | 3,886 | -3% |
| Cost of Sales | (5,988) | 12% | (5,342) | 40% | (3,808) | 4% | (3,677) | 2% | (3,593) | 5% |
| Gross profit | 1,776 | -38% | 2,857 | 211% | 920 | 10% | 839 | 186% | 293 | -51% |
| Change in Fair Value of Consumable Biological Assets | 172 | 51% | 114 | 92% | 59 | 1099% | 5 | -72% | 17 | 57% |
| Change in Fair Value of Produce on Bearer Biological Assets | (0.33) | -106% | 5 | -206% | (5) | -128% | 18 | -548% | (4) | 11% |
| Other Income and Gains | 46 | -31% | 67 | -5% | 71 | 2% | 69 | 28% | 54 | 35% |
| Administrative Expenses | (422) | 25% | (336) | 33% | (253) | 22% | (208) | 5% | (197) | -2% |
| Results From Operating Activities | 1,572 | -42% | 2,707 | 242% | 791 | 9% | 724 | 343% | 164 | -63% |
| Finance Income | 621 | -2% | 632 | 639% | 85 | -2% | 87 | -8% | 95 | 4% |
| Finance Expenses | 0.63 | -151% | (1) | 22% | (1) | -53% | (2) | -12% | (2) | -85% |
| Interest Paid to Government and Other Leases | (57) | 46% | (39) | 3% | (38) | 1% | (38) | 1% | (37) | 18% |
| Net Finance Income | 564 | -5% | 591 | 1176% | 46 | -3% | 48 | -13% | 55 | 27% |
| Profit Before tax | 2,136 | -35% | 3,298 | 294% | 837 | 8% | 772 | 253% | 219 | -55% |
| Income Tax Expenses | (491) | -32% | (719) | 3512% | (20) | -67% | (60) | 170% | (22) | -69% |
| Profit after tax | 1,645 | -36% | 2,579 | 215% | 817 | 15% | 712 | 262% | 197 | -52% |

The topline decline was only 5.0 percent in the reporting year whilst the bottom-line decline increased to 36 percent, following higher cost of sales, administrative expenses and interest paid on government and other leases.

Analysis of Financial Position

Equity and Reserves

Despite a reported net profit of Rs. 1,645 million, shareholders' equity as a percentage of our funding composition, reduced from 67.43 percent to 64.61 percent as at end March 2024. This was on account of the dividend payment of Rs. 1,275 million and annual revaluation of lease liabilities linked to GDP deflation. However, value of equity has increased marginally by 3.0 percent from Rs. 6,167 million as at the reporting year-end. This strong equity led capital structure along with minimal leases and interest-bearing debts and effective management of other liabilities, paved the way for the business to thrive regardless of a volatile interest rate regime.



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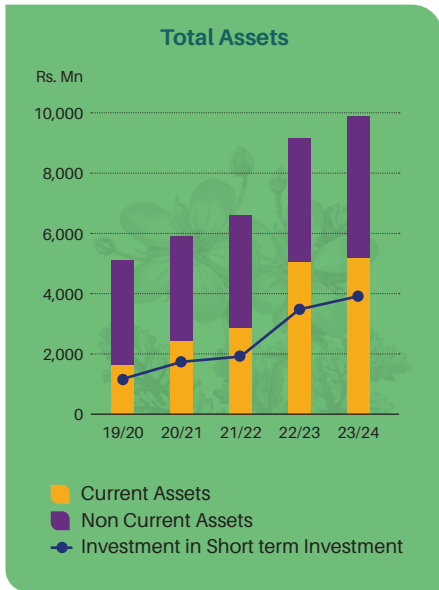
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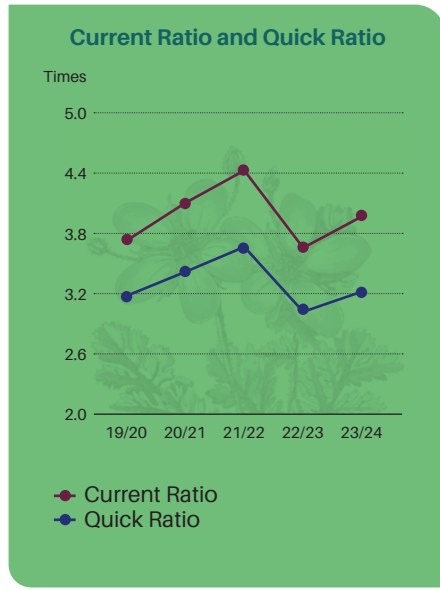
Total Assets

Total asset base increased by 7.8 percent to Rs. 9,858 million as at 31st March 2024 as against the position of Rs. 9,145 million as at the previous year-end. This is primarily due to investment in property, plant and equipment, the acquisition of balance shares in two subsidiaries, increase of right to use assets and short term investments. With over 75 percent of the current assets, short-term investments yielded an income of Rs 620 million in the FY 2023/24.



Liquidity Position

With a positive cashflow, the liquidity position was stable and strong in the year under review. The current and quick ratios exceeded 3.0 times, demonstrating our ability to meet short-term obligations smoothly.



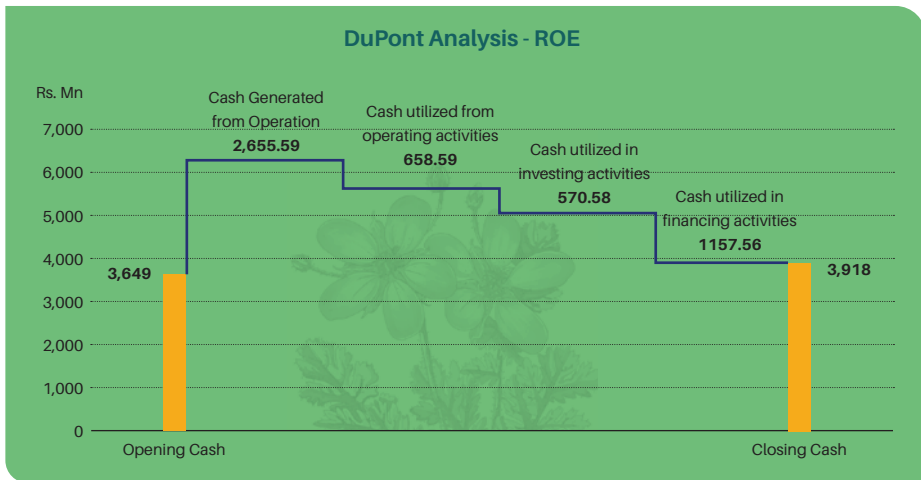
Cash is the lifeblood of a business—and a business needs to generate enough cash from its operations to cover its expenses, to repay investors and grow the business. Cash generated from operations stood at Rs. 2,655 million during the reporting year. This is roughly equal to profit before tax—indicating that the company’s profitability is effectively converting into cash flow.

The group's investments during the year, amounted to Rs.570.58 million, which included investment in field development, property plant and equipment, construction of new state-of-the-art factory at Kiruwanaganga estate and the acquisition of balance shares in two hydro generation subsidiaries. It is noteworthy that the Group was able to pay a dividend of Rs 1,085 million to shareholders whilst maintaining a satisfactory level of reinvestment. Thus, the net cash inflow of Rs. 268 million in the year under review, demonstrates that the cash generated from the operation was fully sufficient for the Group's investment and financing activities.

Vertical Analysis - Financial Position

Non-current assets have decreased from 68 percent to 47 percent of total assets in the last five years. Current assets have increased from 32 percent to 53 percent, mainly due to the growth in short-term investments. Long-term liabilities have been reduced from 32 percent to 21 percent whilst trade and other payables have increased from 7.0 percent to 10 percent and shareholders' equity from 60 percent to 65 percent within the capital structure over the last five years.

Cash Movement



| | 2023/24 | | 2022/23 | | 2021/22 | | 2020/21 | | 2019/20 | |
|--|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|
| | Rs. Mn | % | Rs. Mn | % | Rs. Mn | % | Rs. Mn | % | Rs. Mn | % |
| Assets | | | | | | | | | | |
| Non Current Assets | | | | | | | | | | |
| Right-of-use Assets | 404 | 4% | 288 | 3% | 311 | 5% | 326 | 6% | 330 | 6% |
| Tangible assets other than Immature/Mature Plantations | 1,540 | 16% | 1,395 | 15% | 1,156 | 18% | 1,002 | 17% | 1,039 | 20% |
| Bearer Biological Assets | 2,048 | 21% | 1,909 | 21% | 1,816 | 28% | 1,786 | 30% | 1,769 | 35% |
| Consumable Biological Assets | 665 | 7% | 484 | 5% | 386 | 6% | 326 | 6% | 306 | 6% |
| Intangible Assets | 12 | 0% | 13 | 0% | 15 | 0% | 7 | 0% | 3 | 0% |
| Deferred Tax Asset | 1 | 0% | 1 | 0% | 3 | 0% | 7 | 0% | 8 | 0% |
| | 4,669 | 47% | 4,091 | 45% | 3,688 | 56% | 3,455 | 58% | 3,456 | 68% |
| Current Assets | | | | | | | | | | |
| Produce on Bearer Biological Assets | 23 | 0% | 23 | 0% | 17 | 0% | 23 | 0% | 4 | 0% |
| Inventories | 750 | 8% | 831 | 9% | 483 | 7% | 425 | 7% | 304 | 6% |
| Trade and Other Receivables | 454 | 5% | 490 | 5% | 294 | 4% | 255 | 4% | 154 | 3% |
| Amounts due from Related Companies | 6 | 0% | 25 | 0% | 138 | 2% | 7 | 0% | 4 | 0% |
| Short Term Investments | 3,925 | 40% | 3,514 | 38% | 1,902 | 29% | 1,716 | 29% | 1,113 | 22% |
| Cash and Bank Balances | 32 | 0% | 173 | 2% | 30 | 0% | 32 | 1% | 53 | 1% |
| | 5,189 | 53% | 5,055 | 55% | 2,864 | 44% | 2,458 | 42% | 1,632 | 32% |
| Total Assets | 9,858 | 100% | 9,145 | 100% | 6,552 | 100% | 5,913 | 100% | 5,088 | 100% |
| Equity And Liabilities | | | | | | | | | | |
| Equity | | | | | | | | | | |
| Stated Capital | 350 | 4% | 350 | 4% | 350 | 5% | 350 | 6% | 350 | 7% |
| Revenue Reserves | 6,020 | 61% | 5,669 | 62% | 3,956 | 60% | 3,202 | 54% | 2,511 | 49% |
| Equity attributable to equity holders of the parent | 6,370 | 65% | 6,019 | 66% | 4,306 | 66% | 3,552 | 60% | 2,861 | 56% |
| Non-Controlling Interests | - | 0% | 148 | 2% | 144 | 2% | 161 | 3% | 171 | 3% |
| Total Equity | 6,370 | 65% | 6,167 | 67% | 4,450 | 68% | 3,712 | 63% | 3,032 | 60% |
| Non Current Liabilities & Deferred Income | | | | | | | | | | |
| Interest Bearing Loans & Borrowings | - | 0% | 3 | 0% | 6 | 0% | 14 | 0% | 13 | 0% |
| Retiring Benefit Obligations | 933 | 9% | 801 | 9% | 871 | 13% | 891 | 15% | 1,024 | 20% |
| Deferred Tax Liability | 645 | 7% | 544 | 6% | 160 | 2% | 212 | 4% | 200 | 4% |
| Deferred Income | 132 | 1% | 137 | 1% | 137 | 2% | 139 | 2% | 140 | 3% |
| Lease Liability | 393 | 4% | 259 | 3% | 272 | 4% | 278 | 5% | 270 | 5% |
| | 2,103 | 21% | 1,744 | 19% | 1,446 | 22% | 1,534 | 26% | 1,648 | 32% |
| Current Liabilities | | | | | | | | | | |
| Trade and Other Payables | 993 | 10% | 919 | 10% | 599 | 9% | 578 | 10% | 370 | 7% |
| Interest Bearing Loans & Borrowings | 3 | 0% | 3 | 0% | 8 | 0% | 20 | 0% | 5 | 0% |
| Lease Liability | 14 | 0% | 15 | 0% | 14 | 0% | 12 | 0% | 12 | 0% |
| Amounts due to Related Companies | 219 | 2% | 84 | 1% | 25 | 0% | 48 | 1% | 18 | 0% |
| Income Tax Payable | 118 | 1% | 176 | 2% | - | 0% | - | 0% | - | 0% |
| Bank Overdraft | 39 | 0% | 37 | 0% | 10 | 0% | 8 | 0% | 3 | 0% |
| | 1,385 | 14% | 1,234 | 13% | 656 | 10% | 667 | 11% | 409 | 8% |
| Total Liabilities | 3,488 | 35% | 2,978 | 33% | 2,102 | 32% | 2,200 | 37% | 2,057 | 40% |
| Total Equity and Liabilities | 9,858 | 100% | 9,145 | 100% | 6,552 | 100% | 5,913 | 100% | 5,088 | 100% |