

As the context of our operating environment takes a dramatic shift, the challenges for our enterprise continue to mount. Therefore, we will have to rethink what it means to operate a business and maintain our market leadership in what we consider to be “the new norm”.

Following 2018/19's strong performance, the tragic events of April took a toll on our tea and retail pharmacy businesses. We started our recovery in Q2 and by Q3, we found ourselves back on track, thanks to the tireless spirit and hard work of our employees. The new Government regime implemented tax cuts that put more money in the hands of consumers, paving the way for an optimistic outlook. Unfortunately, the situation evolving around the global COVID-19 pandemic led to a sudden shutdown that has setback the economy and earnings expectations. The Group recorded a net profit of Rs. 1.8 Bn. for the year under review, up from Rs. 1.15 Bn. in the previous financial year. Fitch Ratings recently affirmed our National Long-Term Rating at "A-(lka)" with a Stable Outlook, reflecting our diversified operations and market leadership in pharmaceutical distribution and consumer Tea market. Nevertheless, we anticipate the effects of COVID-19 to have far reaching effects that will have a material impact that we are yet to ascertain at this time.

SUSTAINABILITY IS OUR CORE DRIVE

Since its inception, Sunshine Holdings has always looked to sustainable means of creating value. Sustainability is a core responsibility for the Group, one that we place even higher than profitability and one that is now being put to the test. We adhere to the highest ethical standards and ideals of corporate stewardship across all our operations. Our Board of Directors is made up of prominent, independent individuals who are knowledgeable in their respective fields and they provide the Company with valuable advice and direct our business in accordance with our values. By being prudent in where we deploy our investments, we have demonstrated that we practice responsible entrepreneurship.

We continue to bring in revenue from our diversified portfolio and operations, the value of which has come to fore during this unique time. Our teams were able to adapt to the situation and redeploy themselves to continue carrying out work across our companies, even taking on duties that were not a part of their traditional responsibilities. Our investments in technology, such as using the cloud, and in skilling our people have adequately prepared us to take on the challenges posed by COVID-19. Our healthcare business provides an essential service and is something that we control entirely end-to-end from the port to the patient. Other than Northern and Eastern Provinces, we do not rely on third party services to handle our logistics and this has been instrumental in ensuring that our services continue uninterrupted. This is a key strength of ours that we have only really recognised under the unique circumstances that we currently find ourselves in. Similarly, the sustainable nature of

our other businesses continues to exhibit resilience, even as our operating environment finds itself amid what will likely be an irreversible transformation.

HEALTHCARE

Our healthcare business exceeded our expectations. The appointment as the sole distributor for 3M's medical devices boosted our Medical Devices Division. We have taken a proactive approach to fulfil our deliveries within 24 hours in Colombo and within 48 hours elsewhere. Our Pharma division also met its budgets and our principals have been pleased with our market performance. We consolidated our distribution network and continued to work on complying with ISO 9001:2015 quality standards and National Medicines Regulatory Authority (NMRA) guidelines on Good Distribution Practices (GDP) like what we did for the last 53 years. Healthguard, which represents 15% of our healthcare business and is at the forefront of our customer-oriented aspirations, bore the brunt of the doldrums that gripped the nation but recovered during the latter half of 2019. We have received a great response to our focus on wellness and beauty, something which no other player in the market can match. We also opened our first outlet at a mall, One Galle Face, to great success. Its venture highlights the shifting culture in Sri Lanka from high street retail to malls that are becoming the one-stop choice to address all the needs of Sri Lankan consumers.

We will be looking to expand our presence in the malls that are set to open in Colombo in the coming years, while observing the transformation of societal trends as a result of COVID-19. We see increasing potential in e-commerce, although it currently represents a small portion of our overall sales. The COVID-19 crisis is highlighting the usefulness of e-commerce platforms, not just to the Group but to the broader Sri Lankan market as well. We will be looking to find ways to integrate the data from our brick-and-mortar stores and customer loyalty programme with our e-commerce presence to create a harmonised, seamless experience for our customers.

CONSUMER GOODS

We took the decision to step away from our tea plantation business at the beginning of the financial year. This had a positive impact on our financials this year and allowed us to concentrate more on our branded teas. To this effect, we relaunched the Zesta brand with a refreshed look and packaging. However, we faced a challenging year due to our competitors drastically lowering their prices and initiating a price war. Our insistence on preserving the quality of our blends meant that we could not be as flexible with our pricing,

thereby impacting our profitability. Despite these challenges, however, we have maintained our market share without having to compromise on our quality. We continue to seek ways to expand our consumer goods business.

AGRIBUSINESS

Our burgeoning dairy business was established by leveraging our agricultural expertise and to further expand our brands into the minds of consumers. Sri Lanka is a net importer of milk and we saw an opportunity to fulfil some of that demand and grow a sustainable business. It required a lot of work on the backend as the infrastructure to support such an operation was virtually non-existent when we started. From determining the right type of grass to the feed and appropriate pricing for that feed, we have laid the foundation for another business that will bear fruit in the long term. We launched our farm-to-home milk service in a limited capacity this year and have already received a positive and enthusiastic response.

We are the largest palm oil producer in the country today. Our strategic partnership with Pyramid Wilmar (Pvt) Ltd continues to add value to our palm oil plantations by supporting us in increasing our yields. We have seen increased productivity and profitability during the period under review, surpassing our budgets and paving the way for continued success in 2020. While some issues persist regarding palm oil plantations because of the perceptions surrounding them, these issues have no direct relevance to our operations. We deem our dairy and palm oil businesses critical to building self-sufficiency for the nation, something that will become increasingly important after the COVID-19 changed the Sri Lankan economic landscape.

RENEWABLE ENERGY

Our sustainability agenda also gave rise to our expansion into the renewable energy sector, which grew organically from our former tea estate business. Moreover, we see renewable energy as critical to weaning the country off its reliance on burning imported fossil fuels. Sunshine Energy is run as a 70:30 joint venture between Sunshine Holdings and SBI Holdings, Japan. We currently operate three mini-hydropower plants: Waltrim Hydropower (Pvt) Ltd. and Upper Waltrim Hydropower (Pvt) Ltd operate two mini-hydropower plants based in Lindula, Talawakelle. Our newest mini-hydropower plant in Lippakelle Estate is operated under Elgin Hydropower (Pvt) Ltd. In total, our hydropower plants generate 6.6 MW of electricity. We successfully raised USD 2.0 Mn. in additional funding from SBI Holdings to grow our solar energy business, which is currently generating nearly 1 MW of electricity from rooftop solar and aim to increase this to around 9 MW in the near future.

HUMAN CAPITAL

Our employees embody the values and spirit of the founding family and I am pleased to say that our employee turnover is at an all-time low – retaining strong talent in a competitive market is a significant challenge and a priority for Sunshine Holdings. We seek our values in the people we recruit, particularly the values of integrity and perseverance, as these are the values that bond us all together. We have made great strides in creating a transparent and open work culture. We actively engage with our employees and communicate with them through a variety of means including our town hall meetings and employee opinion survey. We ensure that our employees feel that they are heard by openly communicating why we may not be able to address certain concerns and by acting decisively when we are able to remediate their issues.

We continue to use trainings to develop our employees and reinforce our values within them and grow the bonds between each other. We took forward initiatives like strategic teamworking for the Senior Management of the Group and used external consultants to help design strategic and team building exercises for every business line. For the first time in our Company's history, a Group Awards ceremony was held to commemorate the achievements of our employees across all our companies. We used this event not only to award our employees for business performance but also for establishing strategic initiatives that pushed the business forward through the enhancement and development of processes, procedures, and frameworks to drive business growth.

Our Human Resources team have laid out a strategic plan for the next three years that will focus on making our Group future-ready for the next generation and activating the spirit of innovation within our employees. COVID-19 has put our policies and ability to adapt to the test, and Sunshine Holdings has always been agile and quick to respond to changes. We will strive to maintain this agility, even as we look to become more flexible in operations as we grow our business.

SOCIAL CAPITAL

Sustainability is the thread that ties together the work we do and the objectives of our business strategy. We take on initiatives that deliver value in the long-term and contribute to the fabric of the society that we are part of. We exited the bottled water business because we no longer deemed it to be sustainable or environmentally responsible. We strive to reduce our plastic and paper consumption, and utilise environmentally friendly materials where possible, like using glass for our bottled milk.

In 2018, we established the Sunshine Foundation for Good to centralise the Group's Corporate Social Responsibility initiatives through a sustainability committee and a project chair that operate under objectives focused on sustainability. The Foundation is registered as a separate business entity of the Group to better handle management, allocation of funds, and provide better visibility on CSR initiatives which are primarily focused on health, education, and sustainable long-term projects.

In 2019, amongst the various initiatives the Foundation undertook, one which had a positive impact, was the establishment of Reverse Osmosis (RO) Plants in collaboration with the Sri Lanka Navy at three locations that lacked access to clean drinking water, namely, Sella Katharagama, Ambanpola, and Handaganawa. Reverse Osmosis is a water purification process that uses a partially permeable membrane and high pressure to remove ions, unwanted molecules and larger particles to produce clean drinking water. Two more RO plants benefitting over 2,000 students each in Kalaoya and Galewela respectively have been fully paid for and due to be commissioned in March 2020 were put on hold due to lockdown. By providing these remote areas with clean drinking water, the quality of health is boosted by reducing the risk of diseases particularly Chronic Kidney Disease CKD which is prevalent in these parts.

Other significant projects include the refurbishment and upgrading of the Paediatric Ward of the Panadura Base Hospital and provision of medicines and medical equipment to the Ramakrishna Mission, Batticaloa to conduct their free medical clinics, and a contribution to the Rally to Care initiative of the Dialog Foundation to help victims of the Easter Sunday attacks.

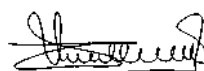
OUTLOOK FOR THE FUTURE

We aim to become a USD100 Mn. business within the next five years. How we will accomplish this goal in this "new normal" will be subject to careful consideration for sustainability and responsible entrepreneurship, as we have always done. We will continue to build our brands and work towards market leadership in healthcare and consumer goods and look to seize the new opportunities that will arise. We have invested heavily in our technology infrastructure and will continue to look to technology to boost the productivity and efficiency of our businesses and employees, and to engage meaningfully with our stakeholders. We hope that we can work together with the Government and other related parties to improve the business environment and build the strengths of the country.

Our core value of perseverance will be crucial to tackle the challenges we are faced with in the coming months and years. In times like these, we have to stand up tall and our dedicated employees have continued to take on the challenge of driving our Company forward under extraordinary circumstances.

That we have all adapted and transformed ourselves successfully serves to highlight how effectively we have inculcated our values in our team, and I am proud of the spirit that we have displayed. I thank all our employees for their efforts and contributions to our Company and emphasise that we are all in this together.

I would like to extend my thanks to our investors, business partners, suppliers, the Government, and our loyal customers for your continued support and patronage. These extraordinary times will require an extraordinary effort to come out the other side stronger and better than ever before. We have come this far and achieved the successes we have thanks to the contributions of all our stakeholders, and together, we will continue to push forward in this new era.



V Govindasamy
Group Managing Director

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