

INDEPENDENT AUDITORS' REPORT



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TO THE SHAREHOLDERS OF SUNSHINE HOLDINGS PLC REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the Financial Statements of Sunshine Holdings 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 31 March 2020, and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and Notes to the Financial Statements, including a summary of significant accounting policies as set out on pages 59 to 158 of this Annual Report.

In our opinion, the accompanying Financial Statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 March 2020, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

BASIS FOR OPINION

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Company Financial Statements and the Consolidated Financial Statements of the current period. These matters were addressed in the context of our audit of the Company's Financial Statements and the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of biological assets

Refer to Note 22 (accounting policy and Financial Statement disclosures) to these Financial Statements.

The Group has bearer biological assets of Rs. 2,764 Mn., and livestock biological assets of Rs. 696 Mn. carried at fair value as at 31 March 2020.

Risks description

Bearer biological assets mainly include mature and immature palm oil, tea, rubber and other trees in identified plantation fields. Inappropriate transfer from immature to mature plantations has a significant impact on the carrying value of the bearer plants and the reported profits as capitalization of costs will cease from the point of transfer and the mature plantations are depreciated over the useful lives of the plants. As per the industry practice, transfer of immature plantations to mature plantation fields happens at the point of commencement of commercial harvesting. The actual point of which commercial harvesting could start depends on the soil condition, weather patterns and plant breed.

Our responses – Our audit procedures included:

Bearer biological assets

- Understanding the process of transfer from immature to mature plantation and testing the design, implementation and operating effectiveness of key internal controls in relation to bearer biological assets;
- Obtaining schedules of costs incurred and capitalised under immature plantations as well as cost transferred to mature plantations by each estate and reconciling those balances to the general ledger on a sample basis, verifying the reconciling items and obtaining explanations from management for any significant variances identified.

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Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera ACA

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA
Ms. P.M.K. Sumanasekara FCA



<p>The biological assets livestock include cattles which are measured at fair value less cost to sell. The management has used internally developed discounted cash flow method to calculate the fair value of the Group's biological assets as at the reporting date. The calculation of the fair value of biological assets involves significant degree of judgments, particularly in respect of expected production, market prices of raw milk, expected costs and discounting factor.</p> <p>We considered measurement of biological assets as a key audit matter due to the magnitude of the value of bearer biological assets and significant management judgment involved as explained above, which could be subject to errors or potential management bias.</p>	<ul style="list-style-type: none"> Physical verification of fields on a sample basis and evaluating the classification of immature and mature plantations. Testing immature to mature cost transfer worksheet for selected estates to check whether the amounts transferred during the year were consistent with the company accounting policy and industry norms. <p>Livestock biological assets</p> <ul style="list-style-type: none"> Understanding the process of valuation and testing the design and operating effectiveness of the key controls in relation to the valuation of livestock. Challenging the methodologies adopted in the valuation of livestock with reference to the requirements of the applicable accounting standards. Challenging the key assumptions and methodology used in the valuation, in particular the discount rate, average milk production, selling price of milk, average cost per cow, weight and selling price of the cattles in evaluating the appropriateness of the valuation methodology and discount rate used Evaluating the accuracy, completeness and reasonableness of the data and inputs used for the valuation of livestock and physical verification of selected cows during our field visits. Comparing the discount rate, normal life cycle of a milking cow, milking yield per lactation with available industry data. Evaluating the adequacy of the disclosures in the financial statements regarding the degree of judgment and estimation involved and the sensitivity of the assumptions and estimates.
<p>Valuation of unquoted investments classified as FVOCI</p> <p>Refer to Note 18 (accounting policy), Note 26 (Financial Statement disclosures) to these Financial Statements.</p> <p>Valuation of Unquoted Equity Instruments at Fair Value Through Other Comprehensive Income (FVOCI).</p> <p>The Group's portfolio of Investments comprised of financial assets classified at FVOCI as at 31 March 2020 which comprise investment in unquoted shares of Rs. 538 Mn. which have been valued using discounted cash flows.</p>	
<p>Risks description</p> <p>Unquoted investments – We focused on this area because of the degree of complexity involved in valuing these financial unquoted investment, and the level of judgements and estimates made by management. In particular, the determination of the valuation of these unquoted investments is more subjective given the lack of available market-based observable data of the unquoted equity instruments.</p>	<p>Our responses – Our audit procedures included:</p> <ul style="list-style-type: none"> Documenting and assessing the design and implementation of the investment valuation processes and key controls; Evaluating the key assumptions used and discount factor applied by the management to develop the cash flow projections. Comparing key underlying financial data inputs used in the valuation with the external sources such as investee company audited financial statements; Assessing the adequacy of disclosures in the financial statements and inherent degree of subjectivity and key assumptions in the estimates as required by the relevant accounting standards.



Recoverability of deferred tax assets

Refer to Note 27 (accounting policy and Financial Statement disclosures) to these Financial Statements.

The Group has recognised deferred tax assets amounting to Rs. 151 Mn. resulting from tax losses, as at 31 March 2020.

Risks description

Deferred tax asset was recognised in respect of the deductible temporary differences arising from accumulated tax losses which the management considered would probably be utilized or recovered in the future through generation of future taxable profits by the Group entities or set off against deferred tax liabilities.

We considered this as key audit matter because of its significance to the Group financial statements and the recognition of deferred tax assets involves significant judgement and estimates made by management in respect of assessing the sufficiency of future taxable profits and the probability of such future taxable profits being generated by Group, which could be subject to potential management bias.

Our responses – Our audit procedures included:

- Assessing the Group's approach for evaluating the likelihood of the recoverability of deferred tax assets. This includes challenging the key assumptions noted in forecasting the future taxable profits for each Group entity with accumulated unutilised tax losses by comparing the most significant inputs used in the revised forecasts including future revenue, growth of operating costs with historical performance of the entities after adjusting for potential implications of COVID-19 based on the preliminary carried out by the Board.;
- Assessing the adequacy of disclosures in the financial statements as required by the relevant accounting standards.

The impact of estimate uncertainty related to COVID-19 disclosures

Refer to Note 46 to these Financial Statements.

Risks description

Following the spread of global pandemic COVID-19 in the country, Group/Company was facing implications including, temporary restrictions in the level business operations and may have potential implications due to delays in settlements and credit risk.

Note 46 in the Financial Statements, describes the impact of COVID-19 outbreak to the current year financial statements and the preliminary assessment carried out by the Board of Directors on the potential future implications of COVID-19 outbreak on the Group's future prospects, performance and liquidity position for financial year ending 31 March 2021.

The Board will continue to monitor the economic conditions and its impact on the business operations and take mitigation actions to minimize the potential impacts and business continuity

We identified the disclosure of estimation uncertainty and implications of COVID-19 as a key audit matter because the assessment involves consideration of future events which are inherently uncertain, and effect of those difference may impact the resulting accounting estimates. Therefore, the assessment requires the exercise of significant management judgement in assessing future projections.

Our responses – Our audit procedures included:

- Obtaining the Company's revised budget and cash flow projections for the year ending 31 March 2021 and inquiring the management plans to monitor credit risk, liquidity risk and the exchange rate risk and assess the reasonability of the management plans highlighted with limited information available as at Reporting date.
- Evaluating the appropriateness of the assumptions used for the estimates and assessing whether the estimates reflected the latest economic conditions pursuant to the COVID-19 outbreak and reviewing the overall performance of the Group for the month ended 30 April 2020 against the revised budget for the said month.
- Inspecting the availability of the credit facility arrangements for the Group/Company to manage the liquidity on a short term and long-term basis assessing the implication of these on the Company's liquidity;
- Assessing the adequacy of the disclosures made in the Financial Statements in relation to the impact of the uncertainty of COVID-19 with the limited information available as at Reporting date.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's

report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements.

We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Section 163 (2) of the Companies Act No. 07 of 2007, 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.

CA Sri Lanka membership number of the engagement partner responsible for signing this Independent Auditor's Report is FCA 2294.

KPMG

CHARTERED ACCOUNTANTS
Colombo, Sri Lanka
27 May 2020