

CHAIRMAN'S MESSAGE

I am pleased to present our Annual Report and Statement of Accounts for the financial year ending 31st March 2011. Whilst the results are the best ever in our history, I am of the view that we are yet to realise the full potential of the Group in this new and exciting environment. A 'closer look' at our overall and industry group performance, balance sheet, portfolio, employee depth, sustainable development and governance model is appropriate as is suggested by the theme of our Annual Report.

The Group's profit before tax (PBT) was Rs. 10.63 billion, a 63 per cent increase over the PBT of 2009/10 and the profit attributable to equity holders at Rs. 8.25 billion was an increase of 59 per cent over the previous year. It is encouraging to note that our investment strategies in the past few years are contributing towards our endeavours to better balance our portfolio of businesses.

The recurring PBT was Rs. 8.83 billion, a 58 per cent increase over that recorded in 2009/10.

Summarised below are the key financial highlights of our operating performance during the year.

- Group revenue increased by 26 per cent to Rs. 60.50 billion
- Group PBT increased by 63 per cent to Rs. 10.63 billion
- Group profit after tax (PAT) also increased by 63 per cent to Rs. 9.06 billion
- Group profit attributable to equity holders increased by 59 per cent to Rs. 8.25 billion
- Earnings per share increased by 54 per cent to Rs. 13.01
- Cash earnings per share increased by 30 per cent to Rs. 15.00
- Total shareholder return was 56.8 per cent
- Net cash flow from operating activities was Rs. 8.50 billion
- Return on capital employed (ROCE) was 14.7 per cent compared to 10.8 per cent in the previous year
- Return on equity (ROE) was 15.1 per cent compared to 10.9 per cent in the previous year

The strength of our balance sheet is demonstrated, amongst others, by a debt to equity of 21.8 per cent, a net cash to equity of 6.2 per cent, a debt to total assets of 13.3 per cent and an interest cover of 14.4 times (previous year 5.8 times). Further, we believe that the present asset turnover can be significantly improved as increasing market demand emanating from a rapidly growing economy, makes our current capacities work more efficiently both in terms of asset utilisation as well as productivity.

Given that a detailed analysis of our industry groups is available elsewhere in the Annual Report, I will restrict myself to discussing the highlights of 2010/11 and the high level outlook for each of them.

The Transportation group has remained the main contributor to the Group's after tax profits. Revenues at Rs. 13.43 billion and PAT at Rs. 2.78 billion were 22 per cent and 31 per cent of the Group's total revenue and PAT respectively. Whilst the port operations performed to expectations, the PAT growth of 22 per cent over the previous year was mainly due to improved performances by all the strategic business units driven by the

growth in the economy. Increased flight frequencies and the advent of new airlines contributed to the performance of the Airline segment in the subject year. This will also enable future growth in both passenger and cargo volumes. Profitability in the bunkering business grew on the back of efficiencies achieved in operations and fuel purchasing, whilst shipping, air express and logistics segments benefited from the pick up in trade volumes arising out of increased economic activity. As the anticipated growth in infrastructure projects materialises and economic activity gathers further momentum, the outlook for the Transportation group is positive.

As anticipated, the Leisure group had a good year. Revenues at Rs. 13.81 billion and PAT at Rs. 2.32 billion were 23 per cent and 26 per cent of the Group's total revenue and PAT respectively. Overall, PAT in 2010/11 was a 138 per cent increase over 2009/10. During the financial year, country arrivals to Sri Lanka at 709,191 passengers being a 41 per cent increase over the previous year and the Maldives country arrivals of 819,000 being an 18 per cent increase over the previous year, resulted in the City hotels, Sri Lankan Resorts, Maldivian Resorts and Destination Management performing to expectations. The Maldives based resorts benefited from the divestment of the loss making Cinnamon Island Alidhoo and the acquisition of the head lease of Chaaya Island Dhonveli. As has been stated in my quarterly statements, we remain confident about Sri Lanka's tourism potential. Work commenced during the year on the construction of the 200 roomed Chaaya Bey, in Beruwela which is due to open in May 2012 and the complete refurbishment of the former Coral Gardens, Hikkaduwa, which will be re-launched as Chaaya Tranz in November 2011. Other developments during the year included the refurbishment and expansion of Chaaya Blu in Trincomalee, refurbishment of the Courtyard Wing at the Cinnamon Grand, refurbishment of Chaaya Lagoon Hakuraa Huraa Maldives, refurbishment and re-launch of the Cinnamon Lodge Habarana as a five star hotel and the soft re-fit of the Bentota Beach Hotel. Yala Village was closed in May 2011 for expansion and refurbishment and will be launched as Chaaya Wild in November 2011. The balance 216 rooms of Cinnamon Lakeside are in the process of refurbishment which is expected to be completed by September 2011. Given the positive outlook for tourism, we expect to make substantial investments in the Leisure industry in Sri Lanka. We believe that Sri Lanka has to be positioned as a destination which provides visitors with a variety of 'experiences' if we are to attract the '2.5 million arrivals' target by 2016. It is in this light we are working with our Property group in exploring the economic feasibility of creating multi-functional, integrated developments.

The Property group with a revenue of Rs. 2.49 billion and a PAT of Rs. 780 million contributed 4 per cent and 9 per cent respectively to the total Group revenue and PAT. The PAT in 2010/11 was 128 per cent above the previous year with revenue recognition crystallising more emphatically this year. The Emperor construction will be completed by July 2011 and the handover of apartments is expected to commence by August 2011. Construction of the 475 apartment 'OnThree20' at Union Place commenced in May 2011 with 60 per cent of the apartments sold off-plan with more bookings still to be finalised. 'OnThree20' is expected to be completed by December 2014. The Group will continue to look for opportunities to maximise the potential of its

large land bank in Colombo and will look to expand it with the acquisition of sites with high development potential.

The Consumer Foods and Retail (CF&R) group with a revenue of Rs. 18.36 billion and a PAT of Rs. 230 million contributed 30 per cent and 3 per cent respectively to the total Group revenue and PAT. The PAT in 2010/11 was 162 per cent above that recorded in 2009/10. The volumes in Beverage, Frozen Confectionary and Convenience Foods segments grew due to increase in demand and the expansion of the new markets in the North and the East which contributed towards maintaining market leadership in all three segments. The Retail segment saw higher footfalls and basket values with improved margins. CF&R is a group that we believe in and we are well aware that its true potential has not been realised as yet. We have taken a variety of measures in repositioning our product and service offerings and we are currently in the process of reviewing our operating practices in both the manufacturing and retail segments. As a first step in its repositioning strategy, the 'Elephant House' brand was re-launched aligning itself with the aspirations of the consumers whilst retaining the trust, loyalty and equity of the brand. The beverage product portfolio was extended with the introduction of KIK Cola in order to compete in the Cola segment, which is estimated to be 30 per cent of the total carbonated soft drinks market in Sri Lanka. KIK has had good customer acceptance and the initial volumes are in line with expectations. The Elephant House frozen confectionary range too was extended with the introduction of the new production facility for a range of impulse products. The retail sector established 'KZone' in Moratuwa, a 50,000 square foot 'neighbourhood' mall complete with a Keells Super outlet, a department store, various retailers and a food court. The Retail Sector will continue to increase its footprint in select key locations. As I stated earlier, the Consumer Foods and Retail group has much more to contribute to the Group profitability and I am confident that the steps we have taken to date will bear fruit.

The Financial Services group enjoyed another good year. Revenue at Rs. 6.48 billion and PAT at Rs. 860 million contributed 11 per cent and 9 per cent respectively to the total Group revenue and PAT. The PAT in 2010/11 was 62 per cent above the previous year. While the PAT in both the Insurance and Banking segments grew by 56 per cent and 58 per cent respectively, the Stock Broking segment, aided by a buoyant stock market, grew by 83 per cent. John Keells Capital, the investment banking arm of JKH PLC, accounted under 'Other', has made its presence felt in the Sri Lankan market through the execution of a number of mandates and the creation of a strong pipeline of business for 2011/12. Given the ownership restriction imposed by the Central Bank of Sri Lanka in commercial banks, the Group is exploring the various options available to it to comply with the guidelines by April 2012. The steady growth of the financial services industry is expected to continue into the future as the economic activity in Sri Lanka gets into higher gear.

The Information Technology group with a revenue of Rs. 3.11 billion and loss after tax of Rs. 22 million contributed 5 per cent and 0.2 per cent (negative) to the total Group revenue and PAT. The loss after tax was Rs. 22 million, compared to the PAT of Rs. 18 million in the previous year. As intimated mid way through the year, the BPO operations are making significant progress with the current revenue run rate more than doubling from the previous

year with the acquisition of a number of substantial customers. The costs of relocation to a new facility under our own management and the impairment of a deferred tax asset booked during the previous year had one-off impacts on the results. Everything else being equal, we are confident that the BPO operations will contribute positively to Group profits in 2011/12. The Office Automation segment, performed well with the Samsung mobile phone agency business increasing its market share significantly.



“...we are yet to realise the full potential of the Group in this new and exciting environment”

'Other', which includes Plantation Services, with a revenue of Rs. 2.82 billion and a PAT of Rs. 2.11 billion contributed 5 per cent and 23 per cent respectively to total Group revenue and PAT. The PAT in 2010/11 was 60 per cent higher than the PAT recorded in 2009/10 and included a capital gain of Rs. 1.79 billion from the sale of stakes in Asian Hotels and Properties PLC (AHPL) and in John Keells Hotels PLC (KHL) compared to the Rs. 940 billion capital gain made in 2009/10. Plantation Services segment was impacted by the depressed tea prices and the PAT at Rs. 285 million was flat compared to 2009/10. The Group's share of loss after tax from its 24.6 per cent stake in Central Hospital (Pvt) Ltd was Rs. 57 million. While the loss was expected in the first year of the hospital's operations, the growth in the occupancy levels and the outpatient numbers is encouraging.

To our Employees, I say Thank You. We will continue to place great importance on ensuring that the Group provides you a safe, secure and a conducive environment to realise your true potential. The section on 'Stakeholder-Employees at JKH', in the Governance section of this Report explains in detail the policies pursued and the processes and systems employed by the Group in actualising that JKH remains - 'more than just a workplace'. Through the constant review of our governance model at regular intervals we have, I believe, a best in class system and it is that belief which spurs me to state that we have the organisational capability to surpass our current and past achievements. We have declared 2011 to be the 'Year of Innovation' and it is heartening to note the unbridled enthusiasm with which our Employees have embraced the objectives behind it.

As was stated by me last year, our Group pursues its business goals under a stakeholder model of business governance. We believe that the long term value creation in our Group rests on the sustainability of the performance of our businesses, our environment and the communities in which we operate. In this endeavour, we are committed to achieving the highest standards

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of corporate citizenship. As per our sustainability model, we have taken specific steps in measuring and monitoring the impacts of all our actions on all our stakeholders including the communities in which we operate and this process has been integrated into our business model. The progress we have made in this regard is encapsulated in our separate Sustainability Report which accompanies this Annual Report. It is pleasing to note that this year too, Det Norske Veritas AS (DNV) has provided the external assurance that our Sustainability Report is a fair representation of the Group's sustainability related strategies, management systems and performance and the report itself meets the general content and quality requirements of the Global Reporting Initiative (GRI) G3 and that it has met the Application Level B+ of the GRI requirements. The 2010/11 Sustainability Report achieved the GRI 'application level check' of B+, which reaffirms the report's compliance with GRI guidelines.

Corporate Social Responsibility (CSR) is regarded as a high priority, not just for its philanthropy, but more for its linkage to the creation of sustainable partnerships and sustainable social deliverables. Our corporate social responsibility work continues to flourish under the aegis of the John Keells Foundation (formerly John Keells Social Responsibility Foundation). The Foundation looks to improve the lives of communities touched by our businesses by mustering the energies and commitment of the very people involved in these businesses, with particular emphasis on education, health, environment, community and livelihood development, arts and culture and disaster relief. All such efforts are aligned to the Millennium Development Goals and the principles espoused by the United Nations Global Compact. At a time where people have little time in caring for their fellow beings, it is most gratifying to see the enthusiastic voluntary participation of our Group employees in various CSR projects. Such participation has certainly exceeded our expectations.

Whilst the details are available in the Sustainability Report, the highlights of the Foundation's work during the year were;

- The reintroduction of foundation-level 'English for Teens' programme for school children within the age limits of 12 to 14 years from disadvantaged schooling backgrounds. A total of 1,149 students registered during the year, entitling them to course fees, examination fees, text books and other course material. During the year, 503 students completed the course with a passing rate of 97 per cent. 584 students are registered under the second intake of the programme of which 435 have completed the programme with 97.7 per cent of them passing the course.
- The conduction of 'Final Step', a five-day series of workshops on soft skills at the University of Sri Jayawardenepura designed for the benefit of university undergraduates towards grooming them for employment. This workshop was in collaboration with the Career Guidance Unit (CGU) of the university and attracted an average of 260 undergraduates each day.
- Education of 15,078 persons in an effort to ensuring that Sri Lanka remains a 'low prevalent' country for HIV and AIDS through 111 sessions held and the adoption by the Group, and the implementation, of a HIV and AIDS Workplace Policy in the lead up to World AIDS Day 2010.

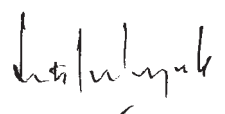
- Eradication of avoidable blindness due to cataract in Sri Lanka through the John Keells Vision Project. The Project continued to touch the lives of vision-impaired persons, with a reported 337 cataract operations being carried out island wide. In addition, 282 spectacles were provided to adults during the year under review.
- Consolidation of the activities at the Nature Field Centre at Rumassala, in Galle in collaboration with the Central Environmental Authority (CEA) aimed at facilitating experiential learning about the environment and biodiversity, primarily among school children. There was a total of 2,039 visitors during the year attending programmes to raise awareness on the need to protect the environment and our rich biodiversity through eco-friendly practices and the importance of co-existing in harmony with the environment.
- Adoption of the Mangalagama Village in the Ampara District of the Eastern Province of Sri Lanka, this being the second village to be selected for development after Halmillawe, the adoption of which is now complete. This 'border village' affected by the long-drawn ethnic conflict, complements the efforts of CCS in developing the cashew farmers of the village to supply a substantial part of the cashew requirement for its ice cream products.
- Sri Lanka's popular open-air art gallery/art fair 'Kala Pola' which was conceptualised by the George Keyt Foundation, enjoyed the unbroken patronage of the John Keells Group for the 17th consecutive year. This year there were 320 artists and sculptors displaying their creativity on canvas and other media to over 27,000 visitors. The total estimated sales for the day were Rs. 7 million.

As you are aware, your Board declared a final dividend of Rs 1.00 per share to be paid on 9 June 2011 and also recommended, for the consideration and approval of the shareholders, at a General Meeting, that, subject to the approval of the Colombo Stock Exchange, the number of shares in issue be increased by way of a share sub-division whereby three (3) existing shares will be sub-divided to four (4).

In closing, we at JKH look to the future with excitement.

I would like to welcome Dr. Indrajit Coomaraswamy as a member of the Board and thank my colleagues for their guidance and support.

Finally, on behalf of the Board and everyone in the John Keells Group, I wish to thank all of you, our stakeholders, for the support that you extended to us during the past year and I look to your faith in, and support of, the exciting plans that we have for the coming years.



Susantha Ratnayake
Chairman

20 May 2011