

# Chairman's Statement | 2018/2019

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*Within the context of our contribution to the upliftment of society, it gives me great pleasure to inform you of the incorporation of the Cargills Foundation."*

## **Dear Shareholder,**

On behalf of the Board of Directors of Cargills (Ceylon) PLC, I am pleased to present the Annual Report and Financial Statements of the Company for the year ended 31st March 2019.

The Sri Lankan economy showed signs of recovery during the year, driven by a recovery in the Agriculture and Services sectors. The Agriculture sector is especially important as over a quarter of the country's workforce depends on this sector, and it has degrown for the past two consecutive years. Economic growth in the 4th quarter of 2018, however, was impacted by increased political uncertainty from end-October 2018.

The performance of the Retail and Restaurants sectors was weak during the period on account of the volatile consumer environment as disposable income remained constrained and political uncertainty impacted consumer confidence. The Retail sector was particularly affected as performance usually benefits from strong seasonal sales; however, the key 3rd quarter was spoilt due to the uncertain political climate during the period.

Cargills Food City is the only retail chain with geographic representation across the country through its 380 supermarkets. Our commitment to improving the customer experience by providing quality items at affordable prices in a clean environment has established the brand as a household name in the minds of the consumer. This brand strength has resulted in several unrelated retail stores infringing upon our valued "Food City" trademark. We continue to take action to protect our brand from such unlawful infringement.

There is tremendous potential for growth in modern trade, which is estimated to account for only 15-20% of the grocery trade market. To support our continued growth, the business also commenced construction of a new centralized logistics centre, which is expected to be completed in the 1st half of 2020/21.

The Group's FMCG sector performance was exceptional within the operating environment, with growth sustained across categories for our nutritious and high-quality products. Our key brands continued to enhance their value and positioning, with expansion into new categories and segments including butter, cheddar cheese, impulse ice-cream bars, chocolate enrobed biscuits and wafers, cookies, seafood products, and carbonated fruit drinks.

Cargills Bank consolidated on its performance of the previous year, with after-tax profit for the year growing 20% over the previous year on a recurring basis. A central pillar of the Bank's growth strategy is built out of the substantial retail network of Cargills Food City, and the Bank continues to leverage on this footprint to connect and engage with customers on a scale and format unseen in the arena of Retail Banking in Sri Lanka. Customers could interact with the Bank through its 19 standalone branches, 5 Digi Zones (which provide digital access to an array of banking services available at branches) and over 380 Cargills Food City outlets. Further, Fitch Ratings recently upgraded the National Long-term Rating of Cargills Bank to 'A-(lka)' from 'BB(lka)' with a stable outlook on account of the strong parental support and integration with Group operations.

The Group reported a growth in revenue of 3.7% over the corresponding period to Rs. 94,663 Mn. Operating profit declined 25.2% to Rs.4,682Mn, although when adjusted for one-off items in the previous year, operating profit on a recurring basis has declined 10.9%. Group profit after tax was reported at Rs.2,034Mn for the year, a de-growth of 12.3% over the corresponding period on a recurring basis. The financial performance of the Group is further elaborated in the Management Discussion & Analysis section of the Annual Report 2018/2019.

Sustainability is at the heart of our business. Enhancing our commitment to the environment, Cargills invested in the installation of 2.5MW of Rooftop Solar panels at our FMCG facilities. The solar projects are expected to be commissioned in 2Q 2019/20 and will substantially reduce our energy footprint.

We are taking active measures to reduce our usage of plastics. During the year, KFC moved to non-plastic packaging alternatives, as is planning to become plastic-free during this coming year. Cargills Food City meanwhile continues to engage with its customers to reduce the use of plastic bags and now provides a range of re-usable bags at varying price points in order to encourage customers to reduce plastic usage.

Through the Cargills Sarubima fund, we commenced the Cargills Sarubima Agriculture Modernization Program with the objective of improving farmer livelihoods through higher farmer yields and lower input costs. Produce in Sri Lanka is expensive compared with regional peers, while farmers are also at the mercy of the climate.

We worked with Jain Irrigation Systems of India to introduce proven practices from India that have been successful in reducing manpower and agri-inputs usage. For the 1st Phase of the Program 80 small-scale farmers were selected from three Collection Centres in different ecological zones. In partnership with Jain Irrigation, we provided overseas training and field visits to some of these farmers as seeing is believing. A team comprising experts from Jain Irrigation and Cargills thereafter worked with the farmers to install drip and sprinkler irrigation equipment and supported them with training and monitoring during the cultivation period. The investment cost to install the irrigation systems was shared between the Cargills Sarubima fund and the farmer, with Cargills Bank participating to provide low cost funding to the farmers.

The 1st phase of the Agriculture Modernization Project concluded successfully with farmers experiencing higher yields with lower input requirements in their first cultivation. We are now planning for the 2nd phase of the Project.

We also encouraged our farmers to follow Good Agriculture Practices (GAP), and many are now eligible for certification. For the first time in Sri Lanka, farmers who meet the requirements of GAP certification are now able to market their produce under the Cargills' Good Harvest brand of agricultural produce.

Within the context of our contribution to the upliftment of society, it gives me great pleasure to inform you of the incorporation of the Cargills Foundation. The Foundation will undertake the social development initiatives of Cargills, with a focus to support access to education, health, funding and basic needs, and promote gender equality, entrepreneurship, sustainable resource management, art and culture.

The Company declared a 1st interim dividend of Rs. 1.90 per share in November 2018. A final dividend of Rs. 4.10 per share has been declared, subject to approval at the upcoming Annual General Meeting.

Mr. Sidath Kodikara, the long-standing Chief Executive Officer of our Retail business, will retire from the Group in August 2019. Sidath has been with the group for almost 24 years, having joined Cargills to run the KFC franchise operation in 1996 following a successful stint in the hospitality industry. He thereafter extended his services to Food City operations and was appointed an Executive Director of the Company in May 2002, which he relinquished 17 years later, in January 2019. I would like to place on record our immense appreciation for his contribution to Cargills and, along with the Board, extend our best wishes for his future endeavors.

I also take this opportunity to welcome Mr. Yudhishtan Kanagasabai and Mr. Asoka Pieris, who were appointed to the Board of Cargills (Ceylon) PLC as Independent Non-Executive Directors with effect from 25th February 2019.

This review would be incomplete if I did not mention the devastating events that took place on the 21st of April 2019. While in the sanctity of prayer and the joy of family time, hundreds of innocent lives were lost, and many others irreparably changed. At Cargills, we remember and reflect on these lives. We commit to bringing this nation together and ensuring that these precious lives are not forgotten. We project this commitment and hope for the future throughout the operations of our businesses and the Foundation.

The coming year will likely see near-term uncertainty in the lead-up to another election cycle, with Provincial, Presidential and General elections expected to take place over the next 12-15 months. Nevertheless, these cycles are temporary and cannot weaken the inherent long-term growth potential of Sri Lanka, a potential we firmly believe in and invest behind.

In the coming year, Cargills will celebrate its 175th year of operations, a milestone I am humble to precede over. During this period, the Company has responded to tremendous change by remaining current, evolving to meet the needs of the customer and community through our unique business model, and serving the population across the country. This culture of creating value for all stakeholders is the foundation upon which the Group will continue to strive forward, and remain our core belief.

On behalf of the Board, I would like to take this opportunity to thank our shareholders for their unstinting belief in our business model and continuing to invest in the future of Cargills, our business partners who continue to provide goods, services and financing to expand our operations, and most importantly, we thank our customers and team, without whose trust and loyalty this journey would not have been possible.

*(Signed)*

**Louis Page**  
Chairman  
1 July 2019

