

SAM LANKA PTE LTD

Review of the first nine months of the financial year to March 2016

Consolidated Sam Lanka Pte Ltd unaudited results not including associate company performance for Malwana Springs:

	<u>Quarterly total</u>	<u>Q3 2015</u>	<u>Q3 2016</u>	<u>9 months</u>	<u>9 months</u>
		<u>To Dec 2014</u>	<u>To Dec 2015</u>	<u>To Dec 2014</u>	<u>To Dec 2015</u>
		<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>
Blocks		136,274	139,840	375,391	365,787
Flake		11,091	4,438	26,493	18,351
Sales		-	-	-	-
Panadura		63,680	54,387	164,699	133,570
Tangalle		73,887	59,821	197,160	167,561
Ambalangoda		90,404	87,948	245,149	263,288
Distribution		-	-	-	-
Total		227,970	202,156	607,009	564,419
		-	-	-	-
VAT/NBT		(26,237)	(25,229)	(51,777)	(63,265)
Raw materials		(2,467)	(4,699)	(8,938)	(22,690)
Labour		(35,390)	(31,965)	(97,138)	(89,695)
Electricity/Water		(70,238)	(53,114)	(199,717)	(164,108)
Factory overhead		(13,293)	(11,786)	(33,682)	(41,252)
Truck operation		(5,225)	(5,793)	(17,365)	(15,588)
Central overhead		(35,292)	(37,086)	(104,868)	(97,184)
EBITDA		39,829	32,484	93,523	70,637
Finance & bank charges		400	68	(1,691)	578
Depreciation		(34,825)	(33,702)	(112,010)	(109,757)
		-	-	-	-
Profit before tax		5,404	(1,150)	(20,177)	(38,542)

Highlights:

- *EBITDA in the third quarter ending December 2015 of US\$32,484 was marginally weaker than last year due to a 10% depreciation of the currency and temporarily weaker sales in Panadura.*
- *All three ice factories were cashflow positive. Ambalangoda has run at full capacity during the whole period.*
- *Tangalle is in a much stronger position having permanently turned off the flake ice plant in Tangalle on 1st November. Costs have been materially reduced, and morale is high.*
- *Malwana Springs' sales were consistent at about US\$67,000 per month, compared to US\$58,000 in the same period last year. EBITDA for the nine months is positive versus a US\$70,000 loss for the same period last year.*

Outlook:

- *We have made an important decision to spend US\$50,000 on doubling the size of our cold store capacity in Ambalangoda. Our plan is that on a daily basis all unsold ice blocks from Tangalle and Panadura will be transported to Ambalangoda which*

continues to expand as a port, and has excess demand that we can't meet from our current capacity. This project will be completed in April, having broken ground on 18th January 2016.

- *Malwana Springs continues to have great potential under its excellent general manager.*
- *We are optimistic that our ESLI jv could be a significant source of value for the company. We will have greater visibility after a number of pilot projects with major customers are completed in February.*
- *Your company is now positioned with a solid base of three cash generating ice factories and two exciting investments in bottled water and energy savings. We look forward to the next quarter with optimism.*

1. Panadura.

	Q3 2015 (Oct – Dec 2014) USD	Q3 2016 (Oct - Dec 2015) USD	9 months 2015 (April – Dec 2014) USD	9 months 2016 (April – Dec 2015) USD
Sales	63,680	54,387	164,699	135,540
EBITDA	18,088	15,054	36,794	19,184

- We were disappointed that sales did not bounce back as quickly as we anticipated in Panadura. We are working hard to bring sales back up to the 13,000 blocks per month level of full capacity utilization. We averaged 12,200 per month in the quarter.
- The key action point for us now is to ship excess production to Ambalangoda on a systematic basis.

2. Tangalle.

	Q3 2015 (Oct – Dec 2014) USD	Q3 2016 (Oct - Dec 2015) USD	9 months 2015 (April – Dec 2014) USD	9 months 2016 (April – Dec 2015) USD
Sales	73,857	59,821	197,160	167,561
EBITDA	7,666	7,765	16,448	4,936

- Overall sales were weaker in the third quarter because of our strategic decision to close the flake ice plant. Encouragingly, block sales rose by 4% on the previous year.

- Despite closing the flake ice and the currency impact, EBITDA in the third quarter was positive and level with last year. We expect a stronger result this quarter.

3. Ambalangoda

	Q3 2015 (Oct – Dec 2014) USD	Q3 2016 (Oct - Dec 2015) USD	9 months 2015 (April – Dec 2014) USD	9 months 2016 (April – Dec 2015) USD
Sales	90,404	87,948	245,949	263,288
EBITDA	33,325	28,826	97,764	104,000

- Ambalangoda continues to do very well. The slight drop in sales and EBITDA compared to last year is mostly a translation effect, as well as a slightly higher VAT payment.
- We have broken ground on an expanded cold store in Ambalangoda. This will be completed in April 2016, and will be able to stock excess production from Tangalle and Panadura. We are optimistic that with this in place we will be able to run all three factories at peak production for nine months of the year (April – June is low season).

4. Malwana Springs (45% owned)

	Q3 2015 (Oct – Dec 2014) USD	Q3 2016 (Oct - Dec 2015) USD	9 months 2015 (April – Dec 2014) USD	9 months 2016 (April – Dec 2015) USD
Sales	176,723	199,723	450,083	698,198
EBITDA	(25,769)	NA	(69,980)	NA

- The strong momentum of Q2 did not continue into Q3 due to unusually wet weather.
- We continued to develop all four product lines (bottled water, fruit drinks, 19L water bottles, and retail ice) by adding distributors additional bottle stock, and giving deep freezers to key customers.
- I have not been given an EBITDA number for December yet but as at November we have a positive EBITDA of US\$18,500. This is a major improvement on last year's \$70,000 loss.

- The outlook continues to be good for Malwana Springs, and January has begun well.

5. Energy Savings Lanka International (JV)

This continues to be a very exciting opportunity. ESLI has the exclusive distributorship rights to sell Coolnomix units in Sri Lanka and the Maldives. Coolnomix is a patent protected energy-optimisation technology that attaches to any type of air conditioning or refrigeration unit, and by using more sophisticated diagnostics maintains a more even temperature, thereby saving power. Our results (on our web page www.esli.lk) show that we have achieved 31-70% savings for a wide range of customers. We also show Coolnomix's international results for customers like McDonalds, Hilton, Shangri-La, Hutchison, Mannings.

We are now running a number of pilot projects with major banks, retail companies, hotels and a telco. We hope to sign our first major customer in the next two months as these pilots complete.

Other items

Sri Lanka's economy is fragile, and along with many emerging markets it is currently suffering from currency weakness. Although we are a purely domestic business and demand for ice and bottled water should not be impacted, it is frustrating that the translated financial numbers are lower as a result.

As always we welcome you to visit your factories should you be in Sri Lanka.

Please do call me on +44 7808 180818 or email me at sam.hanbury@samlanka.com if you would like to discuss anything about the business.

Sam Hanbury 20th January 2016.