INDEPENDENT AUDITOR'S 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 2019, 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 96 to 204 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 2019, 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 judgment, 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 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. 3,339 Mn., biological consumable assets of Rs. 738 Mn. and livestock assets of Rs. 663 Mn. carried at fair value as at 31 March 2019.

Risks description	Our responses – Our audit procedures included: Bearer biological assets
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 could have a significant impact on the carrying value of the bearer plants and the reported profits as capitalisation of costs will cease from the point of transfer and the mature plantations are depreciated over the useful life of the plants. As per the industry practice, transfer of immature plantations to mature plantation fields takes place at the point of commencement of commercial harvesting.	• Understanding the process of immature to mature transfer 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 sample basis, verifying the reconciling items and obtaining explanations from management for any significant variances identified;

The valuation of consumable biological assets requires significant levels of judgements and technical expertise in selecting appropriate valuation models and assumptions. Management engaged an independent external valuation expert to assist in determining the fair value of the consumable biological assets. Changes in the key assumptions used such as discount rate, value per cubic meter and available timber quantity used for the valuation of consumable biological assets could have a material impact on the fair value gain or loss for the year and the carrying value of consumable biological assets as of the reporting date.

The biological livestock assets 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 quantity, future market prices of raw milk, expected future cost and discounting factor.

We identified valuation of biological assets as key audit matter because of the complexity of process which involves significant level of judgement and estimates regarding various inputs from internal sources due to lack of relevant and reliable observable inputs.

- Physical verification of fields on sample basis and cross checked with 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 was consistent with the company accounting policy and industry norms;
- Assessing the adequacy of the disclosures in the financial statements and consistency with the accounting policies.
- Reviewing the work carried out by component auditors where necessary.

Biological consumable assets

- Assessing the professional competency, objectivity and independence of the external valuation expert;
- Evaluating the key assumptions and methodology used in the valuation, in particular the discount rate, average market price and timber content and harvesting plan;
- Obtaining estate-wise reports for timber trees and compared the number of timber trees with the valuation report to ensure the completeness and accuracy of the data and evaluated the mathematical accuracy of the consumable biological assets valuation;
- On a sample basis, physically verify trees during estate visits to assess the girth and height of the respective trees;
- Assessing the adequacy of the disclosures in the financial statements and consistency with the accounting policies.

Biological livestock assets

- Understanding the process of valuation and testing the design and operating effectiveness of the key controls relation to the valuation of livestock;
- Assessing the methodologies adopted in the valuation of livestock with reference to the requirements of the prevailing accounting standards; key assumptions used, in particular the discount rate, average milk production, selling price of milk, average cost per cow, weight and selling price of the cattle;
- 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;
- Evaluating the adequacy of the Group's disclosures regarding the degree of judgement and estimation involved and the sensitivity of the assumptions and estimates.

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Valuation of retirement benefit obligation

Refer to Note 36 (accounting policy and financial statement disclosures) to these financial statements.

Risk description	Our responses – Our audit procedures included:
The Group has reported retirement benefit obligation of Rs. 1,499 Mn. as at 31 March 2019. The retirement benefit obligation of the Group is significant in the context of the total liabilities of the Group. The valuation of the Group's retirement benefit obligation requires significant judgment and estimation to be applied across numerous assumptions, including salary increases and discount rate applied especially in the Plantation sector of the group. Management engaged an independent actuary to assist them in the computation of the Retirement benefit obligation. We considered the computation of the retirement benefit obligation to be a key audit matter due to the magnitude of the amounts recognised in the financial statements as well as estimation uncertainty involved in determining the amounts.	• Assessing the competency, objectivity and capabilities of the independent actuary engaged by the management. • Testing the samples of the employees' details used in the computation to the human resource records and performed re-computation of the post-employment benefit liabilities with the assistance of our internal valuation specialist. • Evaluating the key assumptions used in the valuation, in particular the discount rate, inflation rate, future salaries increases, mortality rates, the accuracy, completeness and reasonableness of the employee data used for the calculation of retirement benefit obligation. • Assessing the adequacy of the disclosures made on the financial statements in accordance with the relevant accounting standards.

Valuation of unquoted investments classified as FVOCI

Refer to Note 18 (accounting policy) and Note 26 (financial statement disclosures) to these financial statements.

The Group's portfolio of Investments comprised of financial assets classified at FVOCI as at 31 March 2019 which comprise investment in unquoted shares of Rs. 594 Mn. which have been valued using discounted cash flows.

Risks description	Our responses – Our audit procedures included:
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 considerably more subjective given the lack of available market-based observable data of the unquoted equity instruments.	• Documenting and assessing the design and implementation of the investment valuation processes and key controls; • Evaluating the key assumptions used by the management to produce cash flow projections and discount factor applied to those projections; • Comparing key underlying financial data inputs used in valuation to 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. 196 Mn. as at 31 March 2019 resulting from tax losses.

Risks description	Our responses – Our audit procedures included:
Deferred tax asset was recognised in respect of the deductible temporary differences arising from accumulated tax losses which management considered would probably be utilised or recovered in the future through generation of future taxable profits by the Group entities or set off against deferred tax liabilities. 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 the Group.	• 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 forecasts, including future revenue, growth of operating costs with historical performance of the entities; • Assessing the adequacy of disclosures in the financial statements as required by the relevant accounting standards.

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.

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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
30 May 2019