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Company No. PQ 128

29th May 2020

Mr. Renuke Wijayawardhane
Chief Regulatory Officer
Colombo Stock Exchange
04-01, West Block
World Trade Centre
Colombo 1.

Dear Sir,

DISCLOSURE REGARDING IMPACT OF COVID-19 on LANKEM CEYLON PLC

We refer to the circular no. 06-04-2020 dated 20th April 2020, issued by the Colombo Stock Exchange.

We wish to make the following disclosures with regard to the impact of the COVID-19 outbreak on Lankem Ceylon PLC, the Company and its subsidiaries,

1.0 The Impact of COVID-19 on the Business/Operations

Our business operations, especially the paint division 'Robbialac' were significantly impacted by the curfew restrictions imposed during the months of March and April as a measure to control the spread of COVID-19 pandemic. Consequently, our Manufacturing and Distribution activities have been at a standstill during the last two months.

Our businesses encountered numerous other challenges. A steep depreciation of the Sri Lankan Rupee against the United States Dollar resulted in exchange losses and additional cash outlays for settlement of our import bills which fell due in the months of March and April. On the other hand, we experienced supply chain disruptions as well due to considerable delays in clearing shipments from the port resulting in demurrages. We also encountered a large number of customer cheque returns resulting in delayed collection of debts thereby affecting the liquidity position of the Company.

With regard to the investments, there may not be a significant change in judgement in determining the fair value of the investments due to the impact of the COVID-19. Nevertheless, the impairment of the investments and receivables will be tested as per the SLFRS and necessary provisions will be made when the end of the year financials are finalized.

2.0 Response to the Impact of the COVID-19

With all safety measures, we gradually started our production and distribution channels strictly under the guidelines issued by the Government of Sri Lanka. Steps have been taken to continue work from home with secured access to operating systems and reduce the number of employees in the work place whose physical presence is not so essential.

All possible measures are being taken to manage the disrupted business operations, liquidity position and cut costs to mitigate the impact on the Group's financials arising from the COVID-19 pandemic. As such, the Group is in discussions with lending partners to avail ourselves of moratorium reliefs. Steps have been taken to defer part of the salaries, and all allowances and fees of all Directors and Executive staff members from April onwards until the businesses return to normalcy.

We have put all new recruitments on hold and all existing employment contracts will be reviewed. The new product launches, advertising expenditure and major capital expenditure have been deferred until fresh strategic plans are made available. Every possible effort is taken to reduce operational and fixed overheads and negotiate terms of supply contracts and rent contracts.

3.0 Expectation of the future impact of COVID-19 on the Company's future operations and financial conditions

Most of our business lines depend on imported raw materials. All supply chains have currently slowed down due to the prevailing situation in the world. Thus, we would continue to experience a supply chain disruption at least for a period of 6 to 9 months. As a result, the business operations will continue on a low scale. In addition, the Government of Sri Lanka has imposed import restrictions for non-essential items. Accordingly, our Paint operation, Industrial operation and the Pest control operation will have limitations of receiving raw materials on time and thus, business operations of those divisions will continue to be on a lower scale. In the meantime, although we have strategized by making new product offerings and changes/additions to the distribution model, we expect a demand drop in the short to medium term in the same product lines since the hardware and construction segments in the economy are contracting.

As a result, It is expected that the current situation would have a significant negative impact on the revenue and profits of the Company, commencing from the 4th quarter of the financial year 2019/20 to at least until the 1st half of the financial year 2020/21.

Nevertheless, we are of the view that the COVID-19 has no significant impact on the Agro Chemical sector since the Government declared agriculture as an essential enterprise to ensure food security of the country. Hence, we do not expect a significant impact on our future revenue of Agro Chemical sector when the curfew is lifted, and the pandemic is brought under control.

Despite the prevailing disruptions to business, we expect that the adverse impact on the profitability and cash flow would be mitigated to a certain extent by planned cost reduction, cash conservation measures, conscious working capital management, productivity improving steps, the new ways of doing business and financial assistance offered by our lending partners. The current disruption will be seen and used as an opportunity to improve productivity in our value chain.

Nevertheless, it's yet premature to precisely comment on the impact of the pandemic on the Group's business. However, it is likely to influence our global supply chains, consumer purchasing power, future exchange rate behavior and cost of capital as the phenomenon is global and multifaceted. We are vigilant on economic and social variables and will continue to monitor and assess impact and likelihood of both risks and opportunities.

Yours faithfully
LANKEM CEYLON PLC



Anushman Rajaratnam
Director