



11TH MARCH 2022

INDEPENDENT ADVISOR'S REPORT TO THE BOARD OF
DIRECTORS OF UDAPUSSALLAWA PLANTATIONS PLC
ON THE MANDATORY OFFER DATED 1ST FEBRUARY
2022, MADE BY BROWNS POWER HOLDINGS
(PRIVATE) LIMITED.



BDO possesses the resources with necessary skills and competencies to perform an independent evaluation of a company listed in the Colombo Stock Exchange and make an appropriate recommendation to the Board of the offeree entity.



BDO CONSULTING (PVT) LTD



Tel : +94-11-2421878-79-70
+94-11-2387002-03
Fax : +94-11-2336064
E-mail : bdoconsulting@bdo.lk
Website : www.bdo.lk

BDO Consulting (Pvt) Ltd
Management & Corporate Consultants
"Charter House"
65/2, Sir Chittampalam A Gardiner Mawatha,
Colombo 02, Sri Lanka.
Reg. No. PV 12978

11.03.2022

Board of Directors,
Udapussallawa Plantations PLC,
No. 95A,
P.O.Box 2,
Nambapana,
Ingiriya.

Dear Board members,

Independent Opinion on the Mandatory Offer made by Browns Power Holdings (Private) Limited.

We hereby forward our independent opinion to the Board of Directors of Udapussallawa Plantations PLC to form their advice to the shareholders on the mandatory offer made by Browns Power Holdings (Private) Limited.

Yours faithfully,

BDO Consulting (Pvt) Limited.

Sgd.

Managing Director

BDO Recommendation

The offer price is higher than the values derived from all the methodologies to share valuation and the historical cumulative VWAP except for the Residual Income method.

However, the shares have been trading in the market at a further higher price.

Therefore, we recommend that the remaining shareholders sell the shares in the market as long as the price is higher than LKR 42.00 and accept the offer if the market price fetches below LKR 42.00.

Please refer page number 7 - the Executive Summary

This Report is for the use of the Board of Directors of Udapussallawa Plantations PLC for the purpose set out in Section 1 (Preamble) of this Report and should not be used for any other purpose.

Neither all nor part of the contents of this Report shall be disseminated to the public, through advertising, public relation, news, sales or any other public media without prior approval of BDO.

This Report is subject to the qualifications and disclaimers set out in the body of the Report.

Report date -11.3.2022

Valuation date -31.12.2021

GLOSSARY OF TERMS

Abbreviation	Meaning
BDO	BDO Consulting (Pvt) Limited
UPL	Udapussallawa Plantations PLC
BPH	Browns Power Holdings (Private) Limited
CSE	Colombo Stock Exchange
SEC	Securities and Exchange Commission
CBSL	Central Bank of Sri Lanka
FY	Financial Year
LKR	Sri Lankan Rupees
NAV	Net Asset Value
PBV	Price to Book Value
PER	Price to Earnings Ratio
VWAP	Volume Weighted Average Price
HMP	Historical Market Price
Ke	Cost of Equity
PAT	Profit After Tax
ROE	Return on Equity
PLC	Public Listed Company

LEGAL NOTICE

This Report has been prepared by BDO Consulting (Pvt) Limited (Here in after referred to as “BDO”) to provide an independent opinion to the shareholders of Udapussallawa Plantations PLC (Here in after referred to as “UPL”) on the offer made by Browns Power Holdings (Private) Limited (Here in after referred to as offeror or “BPH”). BDO acknowledges that this report may to be circulated to the shareholders of UPL in relation to the offer made by BPH and therefore shall not be used for any other purposes without the prior written consent of BDO.

This Report relies upon discussions with the management of UPL, information and documents compiled by and provided to BDO by the management of UPL and its representatives. BDO has also relied on reported information such as annual reports and provisional financial statements published in the Colombo Stock Exchange provided by UPL and has not examined any other source of information including information on UPL that is publicly available. This information was adequate to facilitate an informed view of the offer and to form a reasonable basis for the opinion.

This Report is provided subject to the following assumptions and qualifications:

- 1.UPL has made available to BDO all material & public information in its possession or known to it in relation to the business operations of UPL, and that all information so provided is up to date and that UPL has not withheld any material public information.
- 2.All reports and financial documentation and records of assets, governmental consents and licenses provided by UPL are correct and accurate in all material respects.

BDO has not undertaken any independent enquiries or audits to verify that the information provided is correct and has not carried out any type of audit of UPL’s records to verify that all material documentation has been provided. However, a reasonable analysis has been carried out by BDO on such information provided to us.

A draft of this Report was provided to the Board of Directors of UPL along with a request to confirm that there are no material factual errors or omissions in the Report and that the assumptions and information in the Report are factually appropriate in so far as they relate to matters that are privy to the Directors in their capacity as members of the Board of the Company. Confirmation of these terms and ratification of the Report by the Board have been provided in writing and has been relied on by BDO.

The value recommendations made herein are valid as of the valuation date (31.12.2021) and four (04) months from the valuation date, subject to there being no material changes to the strategic and operating environment of UPL upon completion of acquisition transaction by BPH within those four (04) months. The use of the value recommendation in this Report after the date of expiration of the offer is not recommended.

This Report is not intended as an offer document or solicitation for the sale of shares. The recipients of this Report must make their own independent decisions regarding the offers made. BDO assumes no responsibility for any investment decisions made by investors purely based on information contained in this report.

LEGAL NOTICE (Contd.)

Neither BDO nor those involved in the preparation of this Report has any material interest in UPL. BDO is not in the same group as the financial advisor to the offeror and does not have any significant interest in or financial connection with either the offeror or the offeree. BDO is remunerated for this Report by way of a professional fee determined in accordance with BDO's standard schedule of rates which is not contingent on the outcome of this Report. BDO hereby affirms that it has given and not withdrawn its consent to the use of this report by the Board of Directors of UPL in advising the Shareholders of UPL with regard to the acceptance or rejection of the offer made by BPH.

EXECUTIVE SUMMARY

For the purpose of arriving at the valuation of shares of UPL, BDO has used below fundamental Share Valuation methodologies:

1. PBV multiples of the food, beverage and tobacco sector
2. PER multiples of the food, beverage and tobacco sector
3. Residual Income method

We have also analyzed the historical cumulative volume weighted average price in order to provide a base line comparative to the shareholders.

4. Cumulative Volume Weighted Average Price

The offer price of UPL for the remaining shareholders of UPL is at a premium compared to the share values derived from all the valuation methods and the historical cumulative VWAP except for the Residual Income method (Please refer page 21).

However subsequent to the acquisition by BPH, the market price of the shares has been gradually increasing and during the period up to the date of this report it has recorded a highest price of LKR 82.00 (29.12.2021) and closed at LKR 45.90 on 03.03. 2022. Compared to this behavior the offer price appears to be lower than the market price for which a specific reason is not known.

This could be due to anticipated possible high growth potential with the association of the acquirer and ultimate parent company of the acquirer LOLC Holdings PLC.

Nevertheless, sustainability of this market price is subject to risk factors outlined in section 6 of the report and future strategies of the acquirer which has not been disclosed to market.

Summary of Valuation

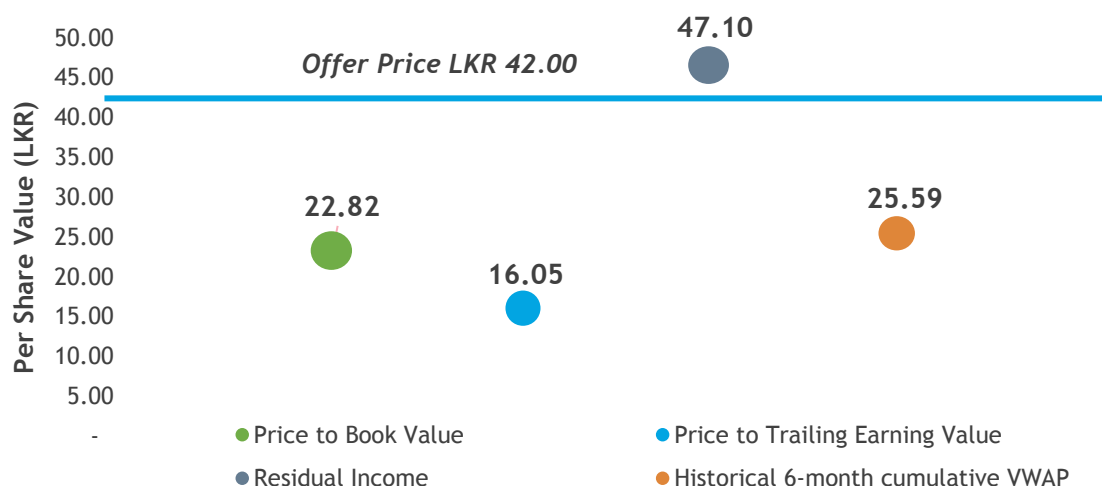
	Valuation Methodology/Comparatives to share price	Per Share Value (LKR)	Premium/(Discount) to the share price as a %	Reference Page Number
1	Price to Book Value	22.82	84%	18
2	Price to Trailing Earnings Value	16.05	162%	19
3	Residual Income	47.10	(11%)	20
4	Historical 6-month cumulative VWAP	25.59	64%	23

Net asset value of UPL is LKR 39.35.

Please refer page 25 for reasons for not considering net asset value per share when forming the BDO recommendation.

EXECUTIVE SUMMARY (Contd.)

Per Share Value Range Summary

**BDO Recommendation**

The offer price is higher than the values derived from all the methodologies to share valuation and the historical cumulative VWAP except for the Residual Income method.

However, the shares have been trading in the market at a further higher price.

Therefore, we recommend that the remaining shareholders sell the shares in the market as long as the price is higher than LKR 42.00 and accept the offer if the market price fetches below LKR 42.00.

Information Sources

Our assessment was based on the information provided by the management of UPL, Published accounts of UPL, the Offer document and publicly available information including the CSE information.

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1 PREAMBLE

Listed Public companies are required to comply, inter-alia with the Companies Act No. 07 of 2007, Securities and Exchange Commission (SEC) Act No. 36 of 1987 (as amended) and the Listing Rules of the Colombo Stock Exchange (CSE) which set out rules and regulations in respect of the maintenance of an adequate capital requirement, code of corporate governance, corporate disclosures, insider dealing etc.

The Takeovers and Mergers Code of 1995 as amended in 2003 (Code), applies to takeovers and mergers where the offeree is a listed public company. In Sri Lankan context where a person acquires 30% or more of the ordinary shares of a Public Listed Company (PLC), such person shall make mandatory offer to the remaining shareholders of the PLC in terms of Rule 31 of the Code. The code seeks to ensure equal treatment of all shareholders of the same class in the company sought to be taken over. The rules of the Code are aimed at ensuring dissemination of sufficient information and advice with adequate time to the shareholders of the target company in order for them to arrive at an informed decision relating to the takeover.

1.1 BACKGROUND TO THE OFFER

Pursuant to a Transaction Agreement entered into on 22nd December, 2021, with James Finlay Limited (as disclosed to the Market on 23rd December, 2021), read together with a further Announcement made on 27th December, 2021, Browns Power Holdings (Private) Limited, (fully owned subsidiary of Browns Investments PLC) bearing Company Registration No. PV 70021 and having its Registered Office at No.19, Dudley Senanayake Mawatha, Colombo 08 (here-in after referred to as the Offeror) acquired, on 27th December, 2021, on the Trading Floor of the Colombo Stock Exchange (CSE) 17,458,966 Ordinary Shares in Udapussellawa Plantations PLC (hereinafter referred to as the Offeree), constituting approximately 90% of the total number of shares in issue in the Offeree at a Rs.42/00 per share.

Consequent to the said purchase of shares the Offeror triggered the threshold limits placed by the Company Takeovers and Mergers Code 1995 (as amended) (Code), published under the Rules made by the Securities and Exchange Commission of Sri Lanka under Section 53 of the Securities and Exchange Commission of Sri Lanka, Act No.36 of 1987 as amended, and in terms of Rule 31(1)(a) of the Code (as stated below), is obliged to make a Mandatory Offer to purchase the balance 1,939,885 Ordinary Shares carrying Voting Rights of the Offeree at a price of Rs.42/00 per share.

Rs.42/00 is the highest price paid by the Offeror for a share of the Offeree during the period of one year immediately prior to 27th December, 2021. [There are no Parties acting in concert with the Offeror].

Rule 31(1)(a) of the Code states as follows:

“Where any person acquires, whether by a series of transactions over a period of time or otherwise, shares which taken together with shares held or acquired by persons acting in concert with such persons, carrying Thirty per centum or more of the voting rights of a Company; such person shall extend within Thirty Five days, an offer in accordance with this Rule to the holders of any class of equity shares which carrying voting rights and in which such person or persons acting in concert with him hold shares ”.

Source: Offer Document

1.2 LIMITATIONS

- In carrying out this assignment, BDO performed a reasonable analyses and assessments that were possible and practical with the information provided and within the available time frame.
- The value recommendations made herein are valid as of the valuation date (31.12.2021) and four (04) months from the valuation date, subject to there being no material changes to the strategic and operating environment of UPL upon completion of acquisition transaction by BPH within those four (04) months.
- BDO has relied solely on reported information such as Annual Reports, Quarterly Reports and Management Reports.
- Valuations based on the above prescribed methods are subject to the availability of information and appropriateness of the methods in the given circumstances.
- No reviews on the titles of the properties have been made and the claims to those properties have been assumed to be valid. No consideration has been given to liens or encumbrances, which may be against the properties. Therefore, no responsibility is assumed for matters of a legal nature.

1.3 SCOPE OF WORK

We performed following activities under this engagement in order to determine an indicative valuation for the ordinary shares of UPL to form a basis for our advice to the Board of Directors of UPL.

- Study to form an insight about the offeror
- Assessment of Liquidity of UPL shares based on historical movements and premium to pre-acquisition trading price.
- Assessment of intention of the Offeror and other considerations that will affect the remaining shareholders of UPL.
- Analysis of the matters to be considered by the shareholders who accept and decline the offer.
- Performed a valuation of equity shares based on the following methodologies
 - Price-to-Book Value Multiples
 - Price-to-Trailing Earnings Multiples
 - Residual Income method
- Calculated following comparatives to the share price of UPL.
 - Cumulative Historical Volume Weighted Average Price

1.3 SCOPE OF WORK (Contd.)

1.3.1 Sources of Information

For the purpose of this engagement, we have only relied on the information and explanations provided by the management of UPL and the information available in the public domain.

We have not verified the accuracy of information made available to us by the management of UPL nor conducted any independent review as to the reliability of such information. The assumptions used in this exercise will be contingent on the accuracy of the information derived from the sources mentioned below:

- Published accounts of UPL.
- Discussions had with the management of UPL.
- Any other information provided by the management of UPL.
- Publicly available information including the CSE information.

1.3.2 Involvement of BDO and its interests

We wish to state that:

- Neither BDO nor any of its employees have any financial interest in UPL, the entity being appraised or BPH, the offeror;
- The fee for the preparation of this report is not contingent upon results reported.

2.INTRODUCTION TO THE COMPANY

2.1 Legal Formation

Udapussallawa Plantations PLC is a public quoted Company with limited liability incorporated under the Provision of the Companies Act No. 07 of 2007. The Company has been registered under Section 17(2) of the BOI Law No. 4 of 1978 on 26 November 2008.

2.2 Operations

Udapussallawa Plantations PLC is an agribusiness plantation company in Sri Lanka. Udapussellawa Plantations PLC is a Sri Lanka-based company engaged in the cultivation, manufacture and marketing of tea and rubber and forestry product, operating in the Central province. The Company's segments include Tea, Coconut/Rubber and Other. The Company offers tea under Concordia / Kenmare / Hethersett, Courtlodge / Summerhill, Delmar, Gordon, Blairlomond, Duckwari, Madulkelle and Waldemar names.

Source:(<https://markets.ft.com/data/equities/tearsheet/profile?s=UDPL.N0000:CSE>), Management of UPL.

2.3 Key Information about UPL

Company Name	Udapussallawa Plantations PLC
Legal Form	Public Quoted Company
Established in	22 nd June 1992
Quoted on	4 th May 1998
Company Registration No.	PQ 63
Sector	Food Beverage & Tobacco
Accounting Year End	31st December
Registered office and Head office	No. 95A, P. O. Box 02,Nambapana,Ingiriya.
External Auditors	KPMG
Company Secretary	SSP Corporate Services (Private) Limited
Bankers	▪ Standard Chartered Bank ▪ DFCC Bank PLC ▪ Commercial Bank of Ceylon PLC ▪ Seylan Bank PLC ▪ Bank of Ceylon ▪ People's Bank

2.INTRODUCTION TO THE COMPANY (Contd.)

2.4 Board of Directors

The Board of Directors of UPL as of 31st December 2021 is as follows:

Name	Designation
Mr. A.S. Perera -Appointed (w.e.f 27.12.2021)	Chairman
Mr. N. H. G. S. Jayasinghe -Resigned (w.e.f 23.12.2021)	Chairman / MD
Mr. D. J. Ratwatte	Chief Executive Officer
Mr. G. R. Chambers -Resigned (w.e.f 18.02.2022)	Non-Executive Director
Mr. J. M. Rutherford -Resigned (w.e.f 18.02.2022)	Non-Executive Director
Mr. E. D. P. Soosaipillai	Independent Non-Executive Director
Mr. G. K. B. Dasanayaka -Resigned (w.e.f 23.12.2021)	Independent Non-Executive Director
Mr. B.V. S. Ruwan - Resigned (w.e.f 23.12.2021)	Executive Director
Mr. S.T. Gunatilleke Resigned (w.e.f 23.12.2021)	Non-Executive Director

Source: Management of UPL

2.5 Top Twenty Shareholders as of 31st December 2021

Name of the Shareholder	No. of Shares	%
Browns Power Holdings (Private) Limited	17,458,966	90.00
Lanka Orix Finance PLC / L H M S Lansakkara	80,572	0.42
People's Leasing & Finance PLC / Mr. L C I Sigera	26,098	0.13
Mr. S Vasudevan	21,500	0.11
Mr. H L N Prabash	21,436	0.11
Mrs. K V W S Maddumage	20,000	0.10
Seylan Bank Limited / James Henry Paul Ratnayake	20,000	0.10
Mr. R Wickramasinghe	20,000	0.10
Mr. W G Premaratna (Deceased)	18,600	1.00
Mr. D R Wickramarathne	15,000	0.08
Mr. B M Molloy	14,600	0.08
Mr. G P B Mahesh Kumara	13,000	0.07
Mr. W A C Kumara	12,723	0.07
Mr. M Mahibalan	12,563	0.06
People's Leasing & Finance PLC / Mr. P A Premajayantha	12,000	0.06
Mr. A G C Pushpa Kumara	12,000	0.06
Mr. L M Senanayake	11,000	0.06
Ms. D G P Kaluarachchi	10,796	0.06
Mr. C M Dahanaike	10,001	0.05
Merchant Bank of Sri Lanka & Finance PLC / H G D R D K Jayawardana	10,000	0.05
Total	17,820,855	92.77
Other shareholders	1,577,996	7.23
Issued number of shares	19,398,851	100.00%

Source: Published Financial Statements as of 31st December 2021

3. INTRODUCTION TO THE OFFEROR

3.1 Browns Power Holdings (Private) Limited

Browns Power Holdings (Private) Limited is a limited liability company incorporated in Sri Lanka 19th November 2011 under the Companies Act No.07 of 2007. Browns Power Holdings (Private) Limited is fully owned subsidiary Of Browns Investments PLC. The Registered Office of the BPH is situated at No.19, Dudley Senanayake Mawatha, Colombo 08. The Stated Capital of the BPH is LKR.100,000,000/- represented by 100,000,000 ordinary Shares. The principal activities of the BPH are engaging in investments.

3.2 Board of Directors of Offeror

The board of directors of BPH as at the date of the Offer document is given below.

Name
Kithsiri Gunawardena
Kamantha Amarasekera

3.INTRODUCTION TO THE OFFEROR (Contd.)

3.3 Financial Information of Offeror

The following are key extracts from BPH Comprehensive Income Statement and Statements of Financial Position for the last three financial years ended 9 months period ended of FY 2021/22

Statement of Comprehensive Income	Amounts in LKR (000)			
	For the year ended 31/03/2019- (Audited)	For the year ended 31/03/2020- (Audited)	For the year ended 31/03/2021- (Audited)	For the 9 months ended 31/12/2021- (Unaudited)
Turnover /Other Income/Net	32,875	35,508	28,833	18,088
Net Profit (loss) before Tax	31,582	34,851	28,842	17,947
Net Profit (loss) after Tax	22,739	25,441	21,920	13,605
Attributable Profit	22,739	25,441	21,920	13,605
Earnings Per Share Before Tax	0.32	0.35	0.29	0.18
Earnings Per Share After Tax	0.23	0.25	0.22	0.14
Dividends Paid Per Share	Nil	Nil	Nil	Nil

Statement of Financial Position	Amounts in LKR (000)			
	As at 31/03/2019- (Audited)	As at 31/03/2020- (Audited)	As at 31/03/2021- (Audited)	As at 31/12/2021 (9 months)- (Unaudited)
Non-Current Assets /Fixed	Nil	Nil	Nil	Nil
Current Assets	265,556	298,867	327,713	345,710
Current Liabilities	14,727	22,596	29,523	33,914
Net Current Assets	250,829	276,270	298,190	311,795
Net Assets	250,829	276,270	298,190	311,795
Share capital & Reserves	100,000	100,000	100,000	100,000
Non-Controlling Interest	Nil	Nil	Nil	Nil
Total Equity	250,829	276,270	298,190	311,795
Non-Current Liabilities	Nil	Nil	Nil	Nil
Total Assets	265,556	298,867	327,713	345,710
Total liabilities	14,727	22,596	29,523	33,914

4. INTENTIONS OF THE OFFEROR

The intention of the Offeror is to continue operations of the Offeree company as a going concern, with no intention of scaling down or discontinuing any major segments.

The Offeror does not intend to implement any major changes to the business of the Offeree including re-deployment of the fixed assets of the Offeree Company.

The long-term commercial justification for the proposed Offer;

With this acquisition, Group Foot Print on local Plantations Sector has increased to 16,097 Hectares, of Commercial Timber Plantations. The Groups total production capacity has increased up to 14.8 Mn Kgs which comprises of 12.3 Mn. Kg of Tea, 1.8 Mn. Kg. of Rubber, 0.7 Mn of Coconuts and 0.05 Mn. Kg of Cinnamon.

Browns Investments PC as a premier investment firm with a strong track record in agriculture, is ideally placed to unlock the long-term value of Udapussellawa Plantations PLC with this well managed plantations 30 tea farms and 20 tea processing centers. With the strong agriculture presence through Agstar PLC (43.75% of Voting Ordinary Shares and 66.66% of Non-Voting Ordinary Shares were acquired by Browns Investments PLC on 05th January, 2022, obligating Browns Investments PLC to make a Mandatory Offer to purchase the balance 56.25% Voting Shares from the remaining Shareholders) who is mainly focusing on fertilizer, crop care and seeds business and 49% ownership of Galoya Plantations Ltd through Brown & Company PLC who is the immediate parent of the Browns Investment PLC also entrusted the Management confidence on the future growth potential of the Plantations and Agriculture sector of the country.

The Offeror will continue with the current employment contracts of the employees of the Offeree Company.

Source: Offer Document

5. VALUATION METHODOLOGY AND APPROACH

This section of the report highlights the detailed valuation of shares of UPL.

5.1 Valuation Methodology

Our valuation methodology was predominantly based on market multiples, earnings and net assets.

The following plantations companies are Listed under food, beverage and tobacco sector in the CSE. We have not considered Hapugastenne Plantations PLC and Udapussellawa Plantations PLC vice versa in respective valuations due to share prices being adjusted for mandatory offer information.

	Plantations companies listed under Food, Beverage and Tobacco Sector in CSE	Symbol
1	Namunukula Plantations PLC	NAMU.N0000
2	Watawala Plantations PLC	WATA.N0000
3	Agalawatte Plantations PLC	AGAL.N0000
4	Elpitiya Plantations PLC	ELPL.N0000
5	Hatton Plantations PLC	HPL.N0000
6	Kotagala Plantations PLC	KOTA.N0000
7	Horana Plantations PLC	HOPL.N0000
8	Kelani Valley Plantations PLC	KVAL.N0000
9	Kegalle Plantations PLC	KGAL.N0000
10	Balangoda Plantations PLC	BALA.N0000
11	Madulsima Plantations PLC	MADU.N0000
12	Malwatte Valley Plantations PLC	MAL.X0000
13	Maskeliya Plantations PLC	MASK.N0000
14	Kahawatte Plantations PLC	KAHA.N0000
15	Talawakele Tea Estates PLC	TPL.N0000
16	Aitken Spence Plantation Management PLC	ASPM.N0000
17	Bogawanthalawa Tea Estates PLC	BOPL.N0000

5.2 PBV Multiple Method

- In performing below valuations, we have used the Price to Book Value (Hereinafter may be referred to as “PBV”) of the listed companies of the food, beverage and tobacco sector.
- The PBV is the current market price of a stock divided by the book value of the company. The PBV indicates how high the stock’s current price compared to the company’s book value.
- We have computed the weighted average food, beverage and tobacco sector multiple based on peer companies of UPL listed in CSE. (Please refer annexure 1)

The valuation of UPL share based on the PBV multiple is given below.

Description	Value (LKR)
Weighted average Price to Book Value multiple	0.58
Net Asset Value of UPL	763,281,000
Business Value	442,702,980
No. of Shares	19,398,851
Value per share	22.82

5. VALUATION METHODOLOGY AND APPROACH (Contd.)

5.3 PER Multiple Method

- The PER is the current market price of a stock divided by the earnings of the company. The PER indicates how high the stock's current price is compared its earnings. A high PER ratio indicates that investors expect the company to have high growth prospects, while at the same time having comparatively high investment risk.
- We have computed the weighted average food, beverage and tobacco sector peer multiple based on peer companies of UPL listed in CSE. (Please refer annexure 1).

The valuation of UPL based on the PER multiple is given below.

Description	Value (LKR)
Price to Earnings Value multiple	2.20
Net Earnings	141,494,000
Business Value	311,286,800
No. of Shares	19,398,851
Value per share	16.05

5. VALUATION METHODOLOGY AND APPROACH (Contd.)

5.4 Residual Income Method

- Residual income method estimates entity value based on income generated by a firm after accounting for the true cost of its capital. Residual income is calculated by subtracting the equity charge of a firm from its net income.
- The intrinsic value of a company's stock using the residual income approach, can be broken down into its book value and the present values of its expected future residual income.

The valuation of UPL based Residual Income method is given below.

		LKR
		31.12.2021
PAT		141,494,000
Less - Capital Charge on Equity	19.19%	(93,305,618)
Residual Income		48,188,382
Book Value of Equity B/F as at 31st December 2020		486,220,000
Additions		
Profit for the year		141,494,000
Dividends		
Book Value of Equity C/F as at 31st December 2021		627,714,000
PV of Explicit value		-
PV of Terminal Value		285,934,553
PV of Future Residual Income		285,934,553
Book Value of Equity as at 31st December 2021		627,714,000
Business Value		913,648,553
No of Shares		19,398,851
Value per Share		47.10

- It should be noted that with the shareholder change occurred due to the acquisition made by BPH, future forecasts of UPL will change with the strategic direction of new shareholders in medium term to long term.

Hence the main reason for considering terminal value from year 0 without explicit value. Please refer section 7 for limitations in the valuation methodologies carried out on UPL.

- We have computed the Residual Income as of 31st December 2021 using the year ended profit as of 31st December 2021 and the brought forward equity value as of 31st December 2020.

5. VALUATION METHODOLOGY AND APPROACH (Contd.)

5.5 Cost of equity computation

Cost of equity computation of UPL is given below.

Cost of Capital	
Cost of Equity	
Risk free rate	13.14%
Unlevered beta	0.81
Debt to Equity ratio of UPL	36.70:63.30
Levered Beta	1.21
Market risk premium	5%
Ke	19.19%

The unlevered beta of farming and agriculture sector was levered based on the capital structure of UPL to arrive at the levered beta of UPL.

Debt	442,600,000
Equity	763,281,000
Tax rate	14%
Terminal growth rate	2%

The equity value mentioned in the residual income method as at 31st December 2021 is different to the equity value as at 31st December 2021 due to changes in comprehensive income which we have not considered as them being one-off.

Reconciliation for the difference between balance sheet equity as of 31st December 2021 and equity considered for the valuation under Residual Income is as follows.

Book Value of Equity C/F as at 31st December 2021	627,714,000
Other Comprehensive Income	
(+) Remeasurement of Retiring of Gratuity	151,471,000
(-) Deferred Tax on Retiring Gratuity	(15,904,000)
Adjustments	-
Equity as per balance sheet as at 31st December 2021	763,281,000

Sources-10-year Treasury bond rate as of 25.2.2022 published in CBSL ,Prof.Ashwath Damodaran's Beta and Equity risk premium data bases,corporatefinanceinstitute.com and Published accounts as of 31st December 2021 and historical audited financials.

5. VALUATION METHODOLOGY AND APPROACH (Contd.)

BDO Comment

Residual Income method values a company based on an absolute estimate of a company. Residual Income is the income, a company generates after accounting for the anticipated expense of cost of equity which is not represented in the profit and loss statement of a company.

It should be noted that even if a company has made a profit, the Residual Income could be negative.

When applying the Residual Income method to UPL, it is assumed that UPL will generate its current levels of earnings till infinity, in order to generate the current levels of Residual Income till infinity. However, UPL is having a negative 3-year average ROE (-5.93 %) and had made losses in 2019 and 2018 and profits in 2020 and 2021. (Please refer section 6 for the risk factors, some of which are the same reasons for the volatility of earnings of UPL)

Due to the volatility of earnings levels of UPL, assuming that current levels of earnings will be continuing till infinity is doubtful.

5.1 COMPARATIVES TO THE SHARE PRICE

5.1.1 Historical Daily VWAP

5.1.1.1 Historical VWAP 6 months

The shares of UPL had been trading in the CSE prior to the mandatory offer made by BPH, the VWAP of UPL for a period of 6 months starting from 23rd of June 2021 and ending 22nd of December 2021 is as depicted in the table and the chart below. BDO is of the view that 6 months is a reasonable time period to determine the pre-transaction price.

Trade Date	Daily VWAP	Trade Date	Daily VWAP	Trade Date	Daily VWAP	Trade Date	Daily VWAP
12/22/2021	27.5	10/29/2021	29.2	9/3/2021	24.6	7/15/2021	23.9
12/21/2021	25.9	10/28/2021	28.5	9/2/2021	24.95	7/12/2021	22.9
12/17/2021	25.2	10/27/2021	27.95	9/1/2021	25.45	7/9/2021	22.65
12/16/2021	26.65	10/26/2021	27.7	8/31/2021	25.65	7/8/2021	22.2
12/15/2021	25.5	10/25/2021	27.1	8/30/2021	25.85	7/7/2021	22.65
12/14/2021	25.85	10/22/2021	27.35	8/27/2021	26.75	7/6/2021	22.45
12/13/2021	25.9	10/21/2021	26.8	8/26/2021	27.4	7/5/2021	22.8
12/10/2021	26.35	10/15/2021	26.8	8/25/2021	27.6	7/2/2021	22.3
12/9/2021	26.85	10/14/2021	26	8/24/2021	23	7/1/2021	22.35
12/8/2021	24.2	10/13/2021	24.65	8/23/2021	24.15	6/30/2021	22
12/7/2021	26.85	10/12/2021	25.15	8/20/2021	21.3	6/29/2021	22.6
12/6/2021	25.95	10/11/2021	25.1	8/19/2021	20.65	6/28/2021	22.65
12/3/2021	24.7	10/8/2021	24.4	8/18/2021	20.75	6/25/2021	22.6
12/1/2021	26.15	10/7/2021	24.7	8/17/2021	21.5		
11/30/2021	26.4	10/6/2021	24.4	8/16/2021	20.3		
11/29/2021	26.9	10/5/2021	24.25	8/13/2021	20.8		
11/26/2021	26.75	10/4/2021	24.15	8/12/2021	20.45		
11/25/2021	28.05	10/1/2021	23.7	8/11/2021	20.95		
11/24/2021	27	9/30/2021	24.2	8/10/2021	21.15		
11/23/2021	25.5	9/29/2021	23.8	8/9/2021	21.45		
11/22/2021	24.9	9/28/2021	23.8	8/6/2021	21.55		
11/19/2021	25.1	9/27/2021	25.65	8/5/2021	21.55		
11/17/2021	23.75	9/24/2021	25.55	8/4/2021	22.5		
11/16/2021	26.1	9/23/2021	25.15	8/3/2021	22.2		
11/15/2021	25.4	9/22/2021	22.95	8/2/2021	22.9		
11/12/2021	24.4	9/16/2021	24.25	7/30/2021	22.45		
11/11/2021	24.25	9/15/2021	23.25	7/29/2021	22.8		
11/10/2021	25.55	9/14/2021	23.5	7/28/2021	22.65		
11/9/2021	25.95	9/13/2021	23.8	7/27/2021	22.7		
11/8/2021	26	9/10/2021	25.05	7/26/2021	22.75		
11/5/2021	27	9/9/2021	25.2	7/22/2021	22.4		
11/3/2021	27.75	9/8/2021	23.25	7/20/2021	23.25		
11/2/2021	27.8	9/7/2021	25.75	7/19/2021	22.8		
11/1/2021	28.4	9/6/2021	24.25	7/16/2021	23.75		

For the above time period the historical cumulative VWAP is LKR 25.59.

5.1 COMPARATIVES TO THE SHARE PRICE (Contd.)

5.1.2 Net Asset Value Methodology

- The Net Asset Approach (NAV) estimates the value of an entity by adjusting the asset and liability balances of the company at their Book Values. The net asset value entails calculating the current value attributable to existing shareholders after settlement of all debt holders.
- Please note that we have not adjusted any values in the Balance sheet of UPL as of 31st December 2021 in calculating the NAV. NAV computation of UPL as of 31st December 2021 is given below.

Statement of Financial Position	As at 31.12.2021(LKR)
ASSETS	
Non-current assets	
Right of use assets	279,854,000
Immovable estate assets on finance lease (other than bare land)	17,962,000
Tangible assets other than biological assets	340,162,000
Intangible assets	6,784,000
Bearer biological assets	445,056,000
Consumable biological assets	1,027,172,000
Total non-current assets	2,116,990,000
Current assets	
Non-harvested produce crop on bearer biological assets	3,091,000
Inventories	181,381,000
Trade and other receivable	49,022,000
Amounts due from related companies	64,023,000
Cash and cash equivalents	16,524,000
Total current assets	314,041,000
Total assets	2,431,031,000
Non-current liabilities	
Interest bearing borrowings	28,465,000
Deferred tax liability	128,934,000
Deferred income	93,026,000
Retirement benefit obligations	498,077,000
Lease liabilities	16,489,000
Total non-current liabilities	764,991,000
Current liabilities	
Interest bearing borrowings	50,389,000
Lease liabilities	6,802,000
Income tax payable	12,049,000
Trade and other payables	571,293,000
Amounts due to related companies	-
Bank overdraft	262,226,000
Total current liabilities	902,759,000
Total liabilities	1,667,750,000
Net Asset Value (Total Asset-Total Liabilities)	763,281,000
Number of shares	19,398,851
Net Asset Value Per Share Value	39.35

Source; Published Accounts CSE-Balance Sheet -31/12/2021

5.1 COMPARATIVES TO THE SHARE PRICE (Contd.)

5.1.2 Net Asset Value Methodology (Contd.)

BDO Comment

It should be noted that the net asset value of UPL was not considered as a stand-alone comparative to the share price as the price to book value is calculated based on the net asset value in to the PB multiple. (NAV x PB multiple), which represents the market value of the net asset value.

The ROE (-5.93%) of UPL is below the Ke (19.19%) of UPL, this indicates a discounted asset as the expected returns of shareholders (Ke) is higher than the actual returns to the shareholders (ROE). This indicates lower levels of asset utilization in UPL.

Please refer page 31 (Annexure 3) for ROE Calculation.

6. MATTERS TO BE CONSIDERED BY THE SHAREHOLDERS

6.1 Risk factors for shareholders who accept the offer

Shareholders who decide to accept the offer will face the risk of increasing of UPL share price post acceptance. An increase in share price could occur due to several reasons of which some are listed below.

- Improved performance of UPL due to new initiatives of the new management strategies under BPH.
- Improvement of equity market conditions leading to a bull market (an increase in share prices across the market).
- The Sri Lankan plantations industry has experienced a downfall in recent periods with the nation's global market share continues to decline amidst the high competition from major tea production countries in the region. The recovery of the overall industry can lead to improved performance of UPL.
- Prices of tea and rubber, two key crops of the plantation companies, are highly volatile, being commodities, and crop yields are sensitive to vagaries of weather and climatic conditions. Increased prices in the global market and favorable weather conditions are contributing factors for the improved performance of UPL.
- Lower crop yields generated due to failure to invest in replanting as there is a dominance of older tea bushes is another common risk factor involved with plantations companies. The mechanisms followed by UPL terms of replanting, factory upgrades, mechanization, and diversification will improve the profitability and long-term viability of UPL.

6.2 Risk factors for shareholders who do not accept the offer

Shareholders who decide not to accept the offer will face the risk of decreasing of UPL share price post acceptance. A decrease in share price could occur due to several reasons of which some are listed below.

- Unfavorable equity market conditions leading to a bear market (a decrease in share prices across the market).
- Regulatory pressures such as increase on minimum wage level of the workers.
- Poor performance of the company.
- Increased market price volatility of tea and rubber prices.
- Increased competition in the global market.
- Poor yields due to unfavorable weather conditions.
- Failure to execute timely replanting and diversification mechanisms that could result in reduced profitability of UPL in the medium to long term.

7. LIMITATIONS

BDO's analyses are based on information obtained from the audited and Published financial accounts. BDO accepted all such information as accurate and acted with due care, due diligence and consideration in preparing this report. Nothing has come to the attention of BDO to believe that the facts and data set forth in the report are incorrect. However, BDO assumes no responsibility for errors or omissions in information furnished in the audited and published financial statements of UPL.

BDO did not investigate either property's titles or the directors' claims of UPL ownership of said properties. Neither has BDO explored the possibility of liens or encumbrances lodged against the properties.

We did not apply any future forecast-based valuations:

- The Company ("UPL") does not have any future forecasts prepared as the acquirer, BPH has not disclosed its future plans and strategies;
- Practical impossibility to perform future forecast-based valuation due to the limited time available as per the Take-overs and Mergers Code 1995 - (amended 2003).

This report is for the use of the Board of Directors of UPL for the purpose set out in Section 1 of this report and should not be used for any other purpose.

Neither all nor part of the contents of this report shall be disseminated to the public, through advertising, public relation, news, sales or any other public media without prior approval of BDO Consulting (Pvt) Ltd other than mentioned in the preceding paragraph.

In carrying out this assignment, analyses deemed to be appropriate and assessments that were possible and practical within the time available have been carried out. Financial information and market data from the CSE have also been used for this assignment.

The value recommendations made herein are valid as of the valuation date (31.12.2021) and four (04) months from the valuation date, subject to there being no material changes to the strategic and operating environment of UPL upon completion of acquisition transaction by BPH within those four (04) months. As the valuations in this report shall not be used for any purpose other than forming an opinion by the minority shareholders of UPL whether to accept or not the offer made by BPH, there will not be any use of the information contained in this report after the closure of the offer.

8.APPENDIX

Annexure 01 - Computation of PBV and PER

Company Name	Total Assets	Total Liabilities	Net Assets Value	Market Capitalization - CSE	Date	Profit for the year	Weight	PBV	PER
Namunukula Plantations Plc	7,183,020,000	1,977,741,000	5,205,279,000	14,410,312,500	28/02/2022	1,665,833,000	0.16	2.77	8.65
Watawala Plantations Plc	8,351,769,000	2,093,011,000	6,258,758,000	27,192,529,664	28/02/2022	3,069,935,000	0.31	4.34	8.86
Agalawatte Plantations Plc	5,137,862,000	3,417,727,000	1,720,135,000	8,125,000,000	28/02/2022	1,068,799,000	0.09	4.72	7.60
Elpitiya Plantations Plc	8,583,982,000	2,134,886,000	6,449,096,000	9,071,870,286	28/02/2022	1,410,600,000	0.10	1.41	6.43
Hatton Plantations Plc	4,699,572,000	2,536,984,000	2,162,588,000	2,295,666,709	28/02/2022	107,468,000	0.03	1.06	21.36
Kotagala Plantations Plc	8,096,066,000	6,848,636,000	1,247,430,000	2,031,075,000	28/02/2022	93,858,000	0.02	1.63	21.64
Horana Plantations Plc	3,887,404,000	3,135,829,000	751,575,000	617,500,000	28/02/2022	8,545,000	0.01	0.82	72.26
Kelani Valley Plantations Plc	10,529,062,000	5,612,960,000	4,916,102,000	5,732,400,000	28/02/2022	1,192,706,000	0.06	1.17	4.81
Kegalle Plantations Plc	7,724,480,000	3,222,622,000	4,501,858,000	3,775,000,000	28/02/2022	532,513,000	0.04	0.84	7.09
Balangoda Plantations Plc	6,893,000,000	6,010,451,000	882,549,000	638,181,801	28/02/2022	(84,239,000)	0.01	0.72	(7.58)
Madulsima Plantations Plc	7,250,871,000	5,961,956,000	1,288,915,000	1,932,312,506	28/02/2022	(152,365,000)	0.02	1.50	(12.68)
Malwatte Valley Plantations Plc	7,116,499,000	3,270,185,000	3,846,314,000	4,643,944,380	28/02/2022	478,771,000	0.05	1.21	9.70
Talawakele Tea Estates Plc	6,032,371,000	2,232,269,000	3,800,102,000	2,408,250,000	28/02/2022	547,997,000	0.03	0.63	4.39
Aitken Spence Plantation Management Plc	8,797,090,549	2,096,638,739	6,700,451,810	1,209,840,000	28/02/2022	1,438,526,690	0.01	0.18	0.84
Bogawanthalawa Tea Estates Plc	6,198,427,000	4,922,566,000	1,275,861,000	1,356,750,000	28/02/2022	(50,990,000)	0.02	1.06	(26.61)
Maskeliya Plantations Plc	4,968,948,000	4,362,144,000	606,804,000	625,860,472	28/02/2022	(38,535,000)	0.01	1.03	(16.24)
Kahawatte Plantations Plc	5,077,158,000	3,935,210,000	1,141,948,000	2,167,065,864	28/02/2022	(110,359,000)	0.02	1.90	(19.64)

We have identified outliers to UPL based on the asset bases of peers. Peers with an asset base above LKR 6 Bn threshold were considered as outliers because their respective asset bases are more than double the asset base of UPL. Outliers are highlighted in ash colour.

Peers with negative PER were also not considered when arriving at the weighted average PER multiples.

Annexure 02 - Income Statement-UPL

Description	All amounts in LKR				
	For the year ended 31.12.2017	For the year ended 31.12.2018	For the year ended 31.12.2019	For the year ended 31.12.2020	For the year ended 31.12.2021
Revenue	2,226,762,355	1,894,743,012	1,629,811,000	1,875,150,000	2,081,171,000
Cost of Sales	(1,863,714,500)	(1,843,287,094)	(1,807,848,000)	(1,764,339,000)	(2,049,229,000)
Gross Profit	363,047,855	51,455,918	(178,037,000)	110,811,000	31,942,000
Other Income	27,471,875	32,611,431	48,646,000	78,247,000	310,379,000
Other Expenses	-	-	-	-	(3,524,000)
Change in fair value of biological assets	120,405,262	63,237,519	151,366,000	189,084,000	(36,925,000)
Administrative Expenses	(176,654,016)	(151,945,368)	(173,450,000)	(170,131,000)	(160,152,000)
Operating Profit for the year	334,270,976	(4,640,500)	(151,475,000)	208,011,000	141,720,000
Net Finance Income/ (Cost)	(47,023,845)	(79,402,562)	(59,919,000)	(65,022,000)	(67,269,000)
Profit before taxation	287,247,131	(84,043,062)	(211,394,000)	142,989,000	74,451,000
Income tax expense	(19,425,924)	(34,737,827)	(134,792,000)	(33,532,000)	67,043,000
Profit/ (Loss) for the year	267,821,207	(118,780,889)	(346,186,000)	109,457,000	141,494,000

Annexure 02 (Contd.)- Financial Position -UPL

Statement of Financial Position	31.12.2017	31.12.2018	31.12.2019	31.12.2020	31.12.2021
ASSETS					
Non-current assets					
Right of use assets	296,545,629	285,751,617	290,100,000	275,654,000	279,854,000
Immovable estate assets on finance lease (other than bare land)	35,627,035	31,256,252	26,963,000	22,378,000	17,962,000
Tangible assets other than biological assets	461,890,935	418,810,638	386,759,000	380,657,000	340,162,000
Intangible assets	14,225,829	15,556,466	12,230,000	9,068,000	6,784,000
Bearer biological assets	448,523,325	449,655,675	455,128,000	453,868,000	445,056,000
Consumable biological assets	662,911,219	720,621,514	877,025,000	1,061,961,000	1,027,172,000
Deferred tax asset	28,964,438	-	-	-	-
Current assets					
Non-harvested produce crop on bearer biological assets	3,975,069	4,944,214	731,000	4,940,000	3,091,000
Lease rental receivable	-	-	-	-	-
Inventories	235,493,853	231,246,364	172,287,000	220,483,000	181,381,000
Derivative asset	2,305,000	-	-	-	-
Trade and other receivable	52,769,867	90,810,728	112,794,000	77,553,000	49,022,000
Amounts due from related companies	108,999,245	178,782,646	81,954,000	55,101,000	64,023,000
Income tax receivable	-	-	-	-	-
Cash and cash equivalents	7,826,669	7,192,435	3,055,000	16,258,000	16,524,000
Total assets	2,360,058,113	2,434,628,549	2,419,026,000	2,577,921,000	2,431,031,000
EQUITY AND LIABILITIES					
Stated capital	340,000,010	340,000,010	340,000,000	340,000,000	340,000,000
Revaluation reserve	198,653,544	191,487,574	-	-	-
General reserve	152,230,438	159,396,408	-	-	-
Retained earnings	122,913,888	(6,386,658)	(32,210,000)	146,220,000	423,281,000
Non-current liabilities					
Interest bearing borrowings	100,422,239	110,259,383	44,981,000	70,804,000	28,465,000
Deferred tax liability	-	4,060,875	178,028,000	204,507,000	128,934,000
Deferred income	103,482,909	99,319,670	95,477,000	96,546,000	93,026,000
Retirement benefit obligations	547,727,072	591,052,686	642,110,000	610,523,000	498,077,000
Lease liabilities	121,632	119,078	9,400,000	7,722,000	16,489,000
Current liabilities					
Interest bearing borrowings	54,115,223	79,742,856	83,911,000	123,967,000	50,389,000
Lease liabilities	2,018	2,018	4,027,000	4,229,000	6,802,000
Income tax payable	12,942,887	-	-	-	12,049,000
Trade and other payables	254,266,862	238,973,397	282,387,000	274,104,000	571,293,000
Amounts due to related companies	396,429,063	379,849,771	411,775,000	455,846,000	-
Bank overdraft	76,750,328	246,751,481	359,140,000	243,453,000	262,226,000
Total liabilities	1,546,260,233	1,750,131,215	2,111,236,000	2,091,701,000	1,667,750,000
Total equity and liabilities	2,360,058,113	2,434,628,549	2,419,026,000	2,577,921,000	2,431,031,000

Annexure 03 - ROE Calculation

	2021	2020	2019
Stated capital	340,000,000	340,000,000	340,000,000
Reserves	-	-	-
Retained earnings	423,281,000	146,220,000	(32,210,000)
Non-controlling interest	-	-	-
Total Equity	763,281,000	486,220,000	307,790,000
Profit for the year	141,494,000	109,457,000	(346,186,000)
Average Equity	535,535,500		
Average Profit	(31,745,000)		
Average ROE	(5.93%)		

Annexure 04 -INDIVIDUALS PARTICIPATED IN THE ASSIGNMENT

Nishan Fernando (ACMA, CGMA, FCA, MBA) Managing Director-BDO Consulting (Pvt.) Ltd

Buddhi Pathiraja (FCCA, MABE, FMAAT, BSc) Associate Director-Corporate Finance and Advisory Services

Vidura De Silva (CIMA Adv Dip in MA) Assistant Manager-Corporate Finance and Advisory Services

Suresha Muhandiramge (Bsc.) Junior Executive - Corporate Finance and Advisory Services

Hansa Peiris (AAT PF, CA Reading Corporate Level) Associate- Corporate Finance and Advisory Service

LIST OF CONTACT PERSONS

Nishan Fernando Managing Director BDO Consulting (Pvt.) Limited	Tel Fax e-mail	+94-11-2421878-79-70 +94-11-2336064 nishan@bdo.lk
Buddhi Pathiraja Associate Director BDO Consulting (Pvt.) Limited	Tel Fax e-mail	+94-11-2421878-79-70 +94-11-2336064 buddhip@bdo.lk

Head office:

BDO Consulting (Pvt.) Ltd

65/2, Chittampalam A. Gardiner Mawatha,

Colombo 2,

Sri Lanka.

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