



27th November 2020

The Colombo Stock Exchange,
#04-01, West Tower,
World Trade Centre,
Echelon Square,
Colombo 01.

Dear Sirs,

Attention of – Mrs. Viduni Dullewe
Acting Manager Listings

**KAHAWATTE PLANTATIONS PLC– ISSUE OF SHARES BY WAY OF A
PRIVATE PLACEMENT**

We write with reference to the above.

Kahawatte Plantations PLC (the “Company”) has obtained a loan amounting to Sri Lankan Rupees Three Hundred and Fifty Million (LKR 350,000,000/=) from MJF Teas (Private) Limited (the “Lender”) at an interest rate of Average Weighted Deposit Rate plus one per cent (“AWDR+1 %”) per annum. The Company has also obtained a loan amounting to Sri Lankan Rupees Two Hundred and Seventy Five Million (LKR 275,000,000/=) from MJF Exports (Private) Limited at an interest rate of AWDR+1% per annum. In addition, the Company has a payable amount of Sri Lankan Rupees Sixty Six Million Thirty Four Thousand Seven Hundred and Thirty Six (LKR 66,434,736/=) due to Forbes Plantations (Private) Limited as at 30th November 2020 (unpaid management fees and accumulated interest at the rate of AWDR+1% per annum). The amounts receivable by the said MJF Exports (Private) Limited and Forbes Plantations (Private) Limited have now been assigned by MJF Exports (Private) Limited and Forbes Plantations (Private) Limited to the Lender.

The total amount due and payable by the Company to the Lender under the aforementioned loans and outstanding (including the amounts assigned by MJF Exports (Private) Limited and Forbes Plantations (Private) Limited) as at date is Sri Lankan Rupees Eight Hundred Million One Hundred and Ninety Two Thousand Three Hundred and Ten (LKR 800,192,310/=) (the “Outstanding Loan Amount”).

The Company has been incurring losses in the last few years continuously, due to a number of operational and non-operational challenges such as (i) adverse environmental factors and disruptive weather (prolonged drought periods followed by heavy floods, inconsistent monsoons etc.) impacting crop output, (ii) wage increases in 2019 and the resultant impact on disbursements and gratuity provision, (iii) restrictions on weedicides and fertilizers contributing to loss in yields and output and (iv) exorbitant interest expenditure due to increased borrowings from banks and related parties to finance operational and statutory expenses.

The Board of Directors of the Company is of the view that a continuation of this trend of incurring losses, especially with the possible increases in the wages of plantation workers as a result of the new Collective Agreement due in 2021 or as mandated by the Government, could result in a serious loss of capital situation for the Company in the near future.

Given the aforesaid challenges faced by the Company and with a view to strengthening the balance sheet by reducing the debt burden of the Company and the interest burden on cashflow, the board of directors of the Company has decided to capitalize the entirety of the Outstanding Loan Amount amounting to Sri Lankan Rupees Eight Hundred Million One Hundred and Ninety Two Thousand Three Hundred and Ten (LKR 800,192,310/=) by issuing Nineteen Million Five Hundred and Sixteen Thousand Eight Hundred and Eighty Six (19,516,886) ordinary voting shares of the Company by way of a private placement (the “Private Placement Shares”) to the Lender at a consideration of Sri Lankan Rupees Forty One (LKR 41/=) per Private Placement Share.

The board of directors has also resolved that the aforesaid consideration of Sri Lankan Rupees Forty One (LKR 41/=) at which each Private Placement Share shall be issued is fair and reasonable to the Company and all existing shareholders of the Company.

The Private Placement Shares will rank *pari passu* in all respects with the existing ordinary voting shares of the Company with a right to (i) one vote on a poll at a meeting of the Company on any resolution, (ii) an equal share in dividends paid by the Company and (iii) an equal share in the distribution of the surplus assets of the Company on liquidation.

The stated capital of the Company at the date of this announcement is Sri Lankan Rupees Eight Hundred Ninety-Eight Million and Seven Hundred Sixty Thousand Three Hundred Fifteen (LKR 898,760,315/=).

The public holding percentage of the Company at the date of this announcement is 20.48%.

The aforesaid capitalization of the Outstanding Loan Amount by the issue of the Private Placement Shares, amounts to a related party transaction of the Company within the meaning of Rule 9 of the Listing Rules of the Colombo Stock Exchange and as required under the said Rule 9, the Related Party Transaction Committee of the Company has reviewed and concurred with the transaction.

The issue of the Private Placement Shares is subject to the fulfillment of certain conditions, including the Colombo Stock Exchange approving in principle the issue and listing of the Private Placement Shares and the shareholders of the Company approving the issue and listing of the Private Placement Shares at a General Meeting.

Yours faithfully,

A handwritten signature in blue ink, appearing to be 'Darshana Gunasekera', with a stylized flourish at the end.

Darshana Gunasekera
Authorized Signatory