

LANKEM DEVELOPMENTS PLC

(Company Registration No. PQ86)

C/o. Corporate Managers & Secretaries (Pvt) Ltd.
8-5/2, Leyden Bastian Road,
York Arcade Building,
Colombo 1.

18th December 2020.

Dear Shareholder,

Notification to the Shareholders of the Company in terms of Section 7.5(d)(ii)(A)(7) of the Listing Rules of the Colombo Stock Exchange

In compliance with **Section 7.5(d)(ii)(A)(7)** of the Listing Rules we wish to inform the shareholders of the following:

- i. The Independent Auditor's Report on the Audited Financial Statements of the Listed Entity for the year ended 31st March 2020 contains a Material Uncertainty Related to Going Concern – Group.

The said Material Uncertainty Related to Going Concern – Group, arises as a result of consolidation and relates to the Entity's subsidiary Agarapatana Plantations Limited.
- ii. The remedial action proposed to be taken by the Entity's subsidiary to resolve the matter giving rise to the emphasis of matter on going concern is set out in the Annexure.
- iii. Failure on the part of the Listed Entity to resolve the matters giving rise to Material Uncertainty Related to Going Concern – Group, in the manner specified in the Listing Rules within a period of fifteen (15) months from the date of transferring its Securities to the Watch List shall result in the trading suspension of the Securities of the Entity and the continued failure to resolve such matters shall result in the subsequent delisting of the securities of the Listed Entity in terms of Rule 11.3(a) of the Listing Rules, unless the Listed Entity on an application made seeking further time to resolve the matters giving rise to the emphasis of matter on going concern, obtains from the Securities & Exchange Commission (SEC) a deferment from suspension of trading of Securities, in terms of Rule 7.5(d)(ii)(A)(12) of the Listing Rules.

Further, the said section (i.e. 7.5(d)(ii)(A)(7)) of the Listing Rules states unless the matters giving rise to the emphasis of matter on going concern are resolved, the aforesaid facts shall be taken up at the first General Meeting subsequent to submitting the audited financial statements to the Colombo Stock Exchange (CSE). The first General Meeting (i.e. an EGM) is due to be held on 18th December 2020. However due to the timing constraints in dispatching the required notification, the Company having obtained the concurrence of the CSE, intend taking up the matters referred to above at the Annual General Meeting of the Company to be held on 30th December 2020 at 12.30 p.m. (Virtual Meeting) when considering the Audited Financial Statements for the year ended 31st March 2020, under Agenda item 1 of the Notice of Meeting dated 26th November 2020.

Further the Company would be required to make an announcement to the Market via the CSE regarding the outcome of the above matters taken up at the Annual General Meeting (AGM) within the Market Day immediately following the date of the said AGM.

Yours faithfully,

By Order of the Board

LANKEM DEVELOPMENTS PLC

CORPORATE MANAGERS & SECRETARIES (PVT) LIMITED

Secretaries

ANNEXURE

REMEDIAL ACTION PROPOSED TO BE TAKEN BY THE ENTITY'S SUBSIDIARY TO RESOLVE THE MATTER GIVING RISE TO THE EMPHASIS OF MATTER ON GOING CONCERN

The remedial action proposed to be taken by the Entity's subsidiary to resolve the matter giving rise to the emphasis of matter on going concern is as follows:

Subsidiary - Agarapatana Plantations Limited (APL)

The Management of APL has taken several steps to improve the company's profitability and liquidity position, which comprises of the following:

- I. Enhancement of fertilizer applications and thereby achieving significant improvements to the yield as well as quality, which is expected during the 2nd half of the current year. A separate Broker funding in the form of a revolving short term loan has been negotiated to meet this requirement.
- II. Negotiations are underway with a bank to raise a working capital facility of Rs.200 Mn at a reduced interest rate under the COVID -19 conditions, whereby the current AWPLR being around 6.5% the lending rate would be around 9% (AWPLR+2.5%), which would thus be a very competitive rate to replace the Broker borrowings at 17%. The company will make all attempts to avail this facility from Bank of Ceylon consequent to the fact that one of the previous loans of Rs.250Mn from BOC has been successfully settled with a current outstanding balance of Rs.50Mn.
- III. The management has committed to bring in significant savings in the cost of harvesting by introducing machine plucking, with an increase in the production at a reduced labour cost which accounts for 60% of the COP. In this regard the management has strategized for 30% of the plucking extent to be mechanized within the next two years.

The company has successfully implemented the first phase of the mechanized plucking during the month of August 2020, whereby almost 50 machines are already in operation and will be increased to 110 machines by the end of March 2021.

Machine plucking operates by way of two pluckers per machine, harvesting at the rate of 50 Kgs per plucker per day, with a norm of 40 Kgs and the over kilos are paid at Rs.30/-, whereas manual plucking brings 16 Kgs per plucker with a norm of 18 Kgs and the over kilos are paid at Rs.40/-. The company has lost a fair number of workers due to retirement etc and as such, currently the required plucking rounds are unable to be implemented due to shortage of workers, which will be mitigated by mechanized plucking.

- IV. The management has issued a stringent operational policy on labour management that are to be strictly observed by the Estate management, whereby each and every estate should keep up to the total labour cost at 60% of the total COP, by way of deploying labour efficiently in terms of labour allocation to plucking rounds and other related works considering lean vs cropping periods whilst meeting the projected crop.
- V. The Board of Directors of Lankem Tea & Rubber Plantations (Pvt) Ltd, Managing Agents have decided to extend the moratorium placed on Management Fees for the coming financial year too.
- VI. Related companies have assured that they will not demand for the payments on account of creditors for a minimum period of 12 months from the date of signing the financial statements of Agarapatana Plantations Ltd for the year ended 31 March 2020.