

3rd February 2021.

Our Ref: SEC/LDEV/349

Mr. R. Wijayawardhane
Chief Regulatory Officer
Colombo Stock Exchange
Level 4, West Tower
World Trade Centre
Echelon Square
COLOMBO 1.

Dear Sir,

**AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31.03.2020 - INDEPENDENT AUDITORS
REPORT CONTAINING A MATERIAL UNCERTAINTY RELATED TO GOING CONCERN – GROUP**

We write in terms of Section 7.5(d)(ii)(A)(6) of the Listing Rules.

- a) The Securities of the Entity has been transferred to the Watch List by the Colombo Stock Exchange (CSE) (the Exchange) on 11th December 2020 as the Audited Financial Statements of the Entity 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.

- b) 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.
- c) The time period taken for the aforesaid remedial action will be a minimum of 12 months from the transfer to the Watch List.

- d) i) In the event of any deviation from the proposed remedial action, the extent of the deviation shall be communicated to the investors by way of a subsequent announcement to the Market via the Exchange within one (01) Market Day from the date of obtaining the approval of the Board of Directors of the Entity for such deviation;
- ii) In the event the matters giving rise to the Material Uncertainty Related to Going Concern – Group, are not resolved within a period of fifteen (15) months from the date of transferring the Securities of the Entity to the Watch List, the trading of Securities of the Listed Entity shall be suspended. In the event the trading suspension continues for a period in excess of twelve (12) months, the securities of the Entity shall be delisted by the Board of Directors of the CSE in terms of Rule 11.3 (a) of the Listing Rules, unless the listed entity obtains a deferment from the Securities & Exchange Commission (SEC) in terms of Rule 7.5(d)(ii)(A)(12) of the Listing Rules.
- iii) In the event the matters giving rise to the Material Uncertainty Related to Going Concern – Group, are resolved and such fact is independently verified by an auditor during the period the Securities of the Entity are on the Watch List, it shall be announced to the Market via the CSE forthwith.

Yours faithfully

By Order of the Board

LANKEM DEVELOPMENTS PLC

CORPORATE MANAGERS & SECRETARIES (PVT) LIMITED



Secretaries

Sh/-

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.