

# PEOPLE POWER PROSPERITY



**KELANI VALLEY PLANTATIONS PLC**  
INTEGRATED ANNUAL REPORT 2013

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# PEOPLE POWER PROSPERITY

Kelani Valley Plantations PLC has always enjoyed strong fundamentals, an unwavering focus on prime quality and emancipated strategy. Each year, these elements must be worked with and moulded into a success story that is KVPL. This takes skilled and sure hands...unafraid of hard work...to convert thought to action.

The hands that drive our enterprise and shape our success belong to every member of the KVPL family - plucker, tapper, supervisor, factory hand, office staff, Estate Management, Management, Director - in fact everyone who works for the Group.

Nowhere has this been better highlighted than during 2013, which was a year of some challenge. Willing hands strove to overcome pitfalls and drawbacks - no one shied away from 'getting their hands dirty' if it meant the difference between success and failure.

Together we worked; together we benefitted from our labours.

Whatever the challenge, KVPL is committed to the welfare, advancement and well being of all who work for the Group.

**People do Power Prosperity!**

## OUR PROFILE



Kelani Valley Plantations PLC (KVPL) is a Subsidiary of Dipped Products PLC (DPL), a leading manufacturer of hand-protection wear in the world. The Company was incorporated as a regional plantation company in June 1992. It was initially managed by DPL Plantations (Pvt) Ltd., acquiring the controlling interest in 1995. The Company comprises of 26 estates covering over 13,000 hectares in total with almost equal extents of Tea and Rubber, spanning three distinctive agro-climatic regions.

We produce Tea renowned for delicacy of flavour and quality in our high-grown plantations in Nuwara-Eliya. Thick and coloury liquors are produced in our estates in Dickoya, while our low-grown Tea plantations in Yatiyantota and Bulathkohupitiya belt produce strong and heavy bodied liquors. To add variety to our product diversity, Green Tea is produced at high elevations in Oliphant and Glassaugh and instant Tea is manufactured at Nuwara-Eliya.

All 13 of the Company's Black Tea Factories have received the internationally recognised, HACCP (Sri Lanka), ISO 22000: 2005 (Switzerland) accreditations. In 2008, the Company obtained the GLOBAL G.A.P. (New Zealand) accreditation for all 19 of its Tea estates, a voluntary conformance, certifying the Company's commitment to Good Agricultural Practices which minimise detrimental impacts on the environment, whilst signifying a responsible approach to worker safety and health and the preservation of the biodiversity within the plantations.

In 2011, in furtherance of its policy of sustainability, the Company secured the Rainforest Alliance Certifications for 19 of its Tea plantations. This conformance mandates adherence to many highly desirable standards, ranging from biodiversity and environment conservation and land use to ethical business practices.

The Rubber plantations in the Yatiyantota - Bulathkohupitiya region produce several varieties of Crepe and Centrifuged Latex at its plant in Kiriporuwa estate. Sole crepe from Dewalakande, Panawatte and Kiriporuwa estates are internationally synonymous with supreme quality. The product range and the process flexibility enable the Company to adjust product mix to meet change in market demands. All of the Company's Rubber plantations have been certified by the Forest Stewardship Council™ (FSC), as been environmentally and socially sensitive entities. This accreditation has also been extended to the dry Rubber and Latex from the Dewalakande and Panawatte factories. Kiriporuwa Estate obtained the accreditation of FSC™ Chain of Custody on its centrifuged latex.

In 2003, KVPL formed a strategic alliance with Mabroc Teas (Pvt) Ltd., a leading Tea marketing company engaged in the export of bulk and branded Tea to nearly 50 countries. In 2006, in association with Mabroc, KVPL became a signatory to the UN Global Compact, a member of the UNGC Charter and has since used this platform to launch a range of unique Tea products, including Single Origin Tea from select Tea gardens and positioned as, 'The Ethical Tea Brand of the World'. In 2010, KVPL secured total control of Mabroc, in order to pursue direct marketing initiatives more aggressively.

In 2003, in association with Eco Power (Pvt) Ltd., a dedicated hydropower development Company, KVPL established Kalupahana Power Company (Pvt) Ltd., initially setting up a 01 MW mini-hydropower plant linked to the national grid, at Kalupahana Estate.

Our policy of plantation community development is a key component of our management strategy and has been further reinforced by an unique, multi-dimensional initiative branded as "A Home for Every Plantation Worker", launched in 2006. Designed to uplift the quality of life of our people in all aspects, it has been featured as a benchmark in the booklet, 'Globally Positioning Sri Lanka's Best', released by the Global Compact Sri Lanka Network, at the UNGC International Network Conference in Mexico in 2007.

The Company's continuous search for excellence is reflected in its operational practices, its many internationally recognised accreditations and the voluntary subscription to non-regulatory concepts of ethical business management. In furtherance of this policy, the Company has also engaged with several other organisations in environment and biodiversity protection initiatives within its plantation boundaries. Its present position in the industry is a testimony to the commitment and the spirit of innovation demonstrated by its 13,000 employees, let by a closely knit management team.



#### **OUR VISION**

"Kelani Valley Plantations - Products of Excellence"

#### **OUR MISSION**

To optimise plantation productivity and ensure highest quality by harnessing and developing employees whilst improving the quality of life of the community and securing an acceptable return on investment.

## ABOUT THE REPORT

We have made a significant change in our annual reporting format for the year 2013. The document in your hands is an integrated report. Its advantage over reporting formats of the past is that it allows the Company to communicate more effectively and concisely the interactions and interdependence of the many aspects of our business - such as strategy, governance, performance and prospects - in the context of creating value over time.

### VALUE CREATION AND CAPITAL FORMATION

Another key aspect of this Annual Report 2013 is that we have chosen to seamlessly integrate financial reporting and sustainability reporting to better describe the duality of our purpose, namely, deriving and delivering value that leads to internal and external capital formation. Our internal capital formation is a result of value created by and for KVPL and comprises financial capital and institutional capital. Our external capital formation is a result of financial and non-financial value created by KVPL for its stakeholders. Both aspects are relevant as the ability of KVPL to create value for itself is linked to the value it creates for others. These concepts are discussed in greater detail on page 172.

In preparing this Report, we have been guided by the principles and concepts of the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines G3.1 ([www.globalreporting.org](http://www.globalreporting.org)), the International Integrated Reporting Framework ([www.theiirc.org](http://www.theiirc.org)) and the Smart Integrated Reporting Methodology™ ([www.smart.lk](http://www.smart.lk)) for integrated reporting, where applicable. The Company adopts an annual reporting cycle; hence the last published sustainability report appears in the KVPL Annual Report 2012, which covers the period 1 January 2012 to 31 December 2012.

### REPORT BOUNDARY

This Report covers the period 1 January to 31 December 2013 and the information provided describes the activities of the period, supported and illustrated by relevant data and statistics from previous periods as well, where applicable.

Generally, all of our fully - consolidated companies are covered by the report whilst minority equity investments are excluded.

As has already been mentioned, this Report integrates financial as well as sustainability reporting as the most efficient means of portraying value derived and value delivered across all stakeholder groups during the year in review.

We will be pleased to answer any questions and/or provide clarifications on any material contained in this Report. Your contact point at KVPL is, [postmaster@kvpl.com](mailto:postmaster@kvpl.com)

This Report portrays the Company's progress in monitoring and measuring its initiatives through 2013 and is presented in accordance with the criteria pertaining to Level C+ of the GRI Guidelines.

There are no restatements of information provided in previous reports and no significant changes from previous reporting periods in the scope and aspect boundaries.

Data presented in this Report underwent reviews via our quality, environment, health & safety and social, internal and surveillance audits, and external audits. The report on economic performance and the sustainability report has been prepared using data audited by Messrs Ernst & Young.

All of these measures have been instrumental in assuring completeness and accuracy whilst striking a balance and reporting on financial and non-financial aspects of the business.

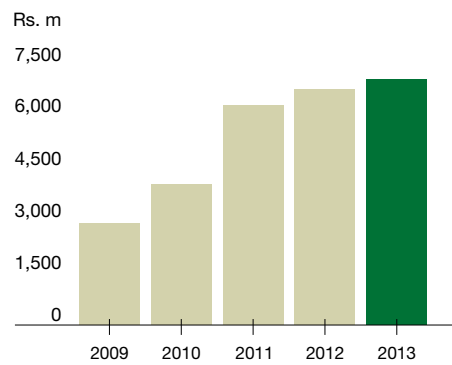
The information on Social Responsibility has been obtained from data maintained on-site for the 'A Home for Every Plantation Worker Programme'.

## HIGHLIGHTS

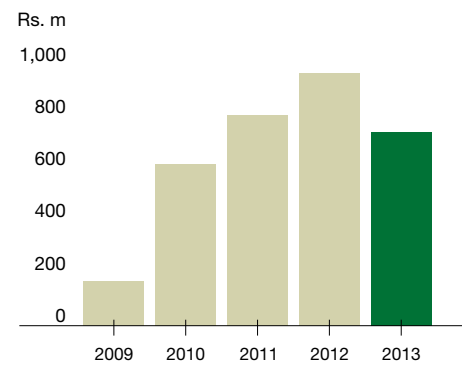
### FINANCIAL HIGHLIGHTS

	2013 Rs. '000	2012 Rs. '000	Change %
Revenue	6,790,012	6,518,254	4.17
Profit before Tax	465,485	680,956	(31.64)
Profit after Tax	391,693	560,732	(30.15)
Gross Dividend	119,000	204,000	(41.67)
Shareholders' Funds	2,775,888	2,568,473	8.08
Market Capitalisation	2,662,200	2,720,000	(2.13)
Capital Expenditure	553,318	455,595	21.45
<b>Per Share (Year End):</b>			
Earnings (Rs.)	11.30	16.51	(31.56)
Market Value (Rs.)	78.30	80.00	(2.13)
Net Assets (Rs.)	82.30	76.03	8.24
Dividend (Rs.)	3.50	6.00	(41.67)

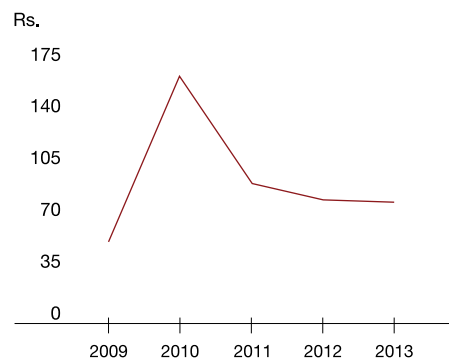
#### TURNOVER



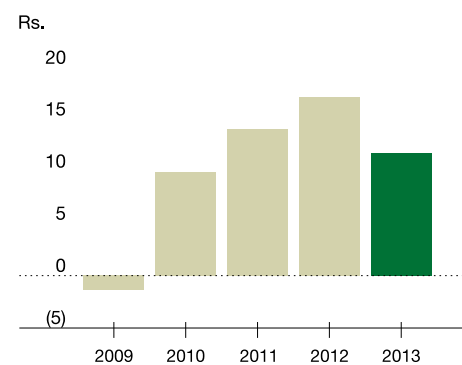
#### EBITDA



#### MARKET PRICE PER SHARE



#### EARNINGS PER SHARE



**NON-FINANCIAL HIGHLIGHTS**

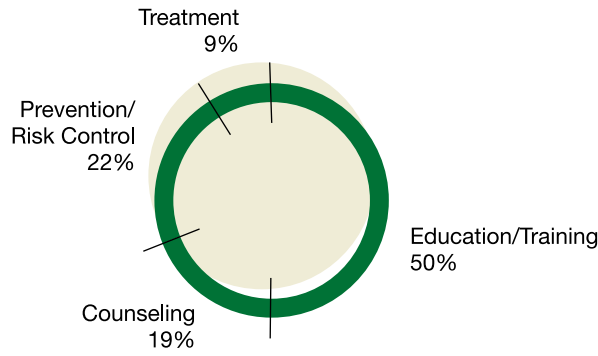
COMMUNITY RELATED ACTIVITIES

Total No. of Participants

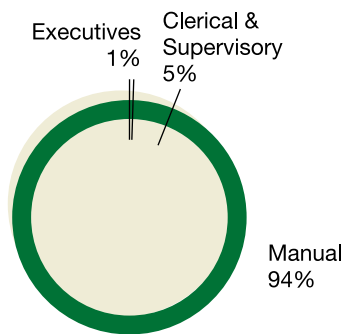
**8,464**

Benefited Population

**Over 55,000**



WORKFORCE BY EMPLOYMENT TYPE





## CHAIRMAN'S REVIEW

I am pleased to present to you, the Annual Report and Audited Accounts of Kelani Valley Plantations PLC, for the financial year ended 31 December 2013.

It is also of significance to note that we have adopted a reporting format integrating financial reporting with sustainability reporting thus better presenting the Company's value creation over time.

### THE YEAR IN REVIEW

The year commenced on a promising note for Tea with prices appreciating in the first quarter and production levels exceeding those of the previous year. However, with one of the most adverse weather conditions experienced in over 40 years, impacting the intake of crop and quality levels, the second and third quarters were indeed challenging. In sharp contrast, low grown Tea sale averages continued to be attractive throughout and ended the year on a high.

With regard to Rubber, the year was challenging, characterised by a depressed Rubber market which was affected by the ongoing global economic slowdown and the resultant fall in automobiles and tyre sales. The situation was compounded further as a major buyer curtailed its purchases. A silver lining was that our Rubber yields compared positively to the rest of the nation's declining Rubber yields, somewhat cushioning the negative impact. In the backdrop of the Rubber industry being severely affected by poor weather conditions, your Company performed exceptionally well with an 11% yield increase year on year and surpassed the 1,000 kg per ha mark.

The Group posted a pre-tax profit of Rs. 465 m, a decrease of 32% compared to the previous year, decline in Rubber prices and the increase in worker wages being the main contributory factors. The wage restructuring, though it was accomplished without any disruption to work, translated into a cost increase of Rs. 260 m in 2013.

In the wake of significant rainfall, the Kalupahana Hydro Power Plant enjoyed an exceptional year recording Rs. 21 m in PBT surpassing the previous best of Rs. 17.8 m.

Based on your Company's performance in 2013, the Directors have proposed a final dividend of Rs. 3.50 per share.

Our Tea marketing subsidiary, Mabroc Teas (Pvt) Ltd., successfully showcased its array of Tea recipes around the world by taking part in exhibitions and trade shows in several key buying nations. The Ethical Tea Partnership certified Mabroc Teas as its first Tea trading company in a Tea producing country.

During the year, we experienced a scarcity in fertilizer and essential agro inputs which could hamper the sustainable growth of the industry. Formulation of a clear policy in this regard with the intervention of the State is essential for the future well - being of the industry.

## CHAIRMAN'S REVIEW

### SUSTAINABILITY - ITS RELEVANCE AND INTEGRATION

KVPL pursues the creation of value over time. Our enterprise is all about deriving and delivering value across the stakeholder spectrum, well beyond the short-term. It behoves us then to integrate sustainable practice within every initiative of the Company.

Whilst the Company's interactions with key stakeholder groups are described more fully elsewhere in this Report, a few of our key sustainability initiatives deserve mention here.

KVPL has been a signatory to the UN Global Compact since 2006. Among other factors, our goals in terms of the employees are to provide them with incremental wage schemes, ever improving working and living facilities and the promise of lifelong employment with KVPL. Our unique, 'A Home for Every Plantation Worker' programme is committed to raising living standards for workers and their families. The way we care and interact with them engenders many benefits such as an enhanced way of life, economic upliftment and a responsibility willingly undertaken to contribute to peace, law and order across the reach of our activities, from a social perspective.

We concentrate on providing a diversified portfolio of high quality products to our customers and business partners. In our commitment to maintain and improve our products and processes and to further strengthen the brand image of pure Ceylon Tea, ISO 22000 Certification and Rain Forest Alliance Certification (RA) was revalidated for a further period of three years on all our Black Tea processing centres. UTZ Certification was obtained for Pedro, Glassuagh Green Tea and Oliphant Estate as well. Obtaining the accreditation of FSC™ Chain on Custody (COC) on centrifuged latex at Kiriporuwa Estate was another important milestone achieved during the year.

As an active signatory to the CEO's water mandate of the UN Global Compact, your Company continued its initiatives partnering Deutsche Bank of Sri Lanka in its drive towards replanting denuded areas in Halgolle Estate.

We enjoy solid long-term relationships with our suppliers. These relationships are founded on a high level of reciprocity. Your Company ensures that all its interactions are fair and timely and its suppliers in turn are loyal and committed to its best interests.

In order to make your Company's operations truly sustainable, due regard is always given to investments. During the year under review, Rs. 390 m and Rs. 157 m were invested respectively on replanting and upgrading plant and machinery.



## CHAIRMAN'S REVIEW

### AWARDS

A high point was the winning of the National Business Excellence Award for 2013 which can be directly attributed to the skill, talent, professionalism and loyalty of our people. They are the Company's primary value creators. In turn, the Company is committed to supporting and caring for them. That this reciprocity is alive and working well is embodied in this award. It is also a reflection of how well KVPL safeguards its assets and follows good agri-practices.

In addition, the quality and content of our annual reporting was recognised through the ARC Award, the SAFA Award and the CA Sri Lanka Annual Report Award.

### PROSPECTS

It is encouraging for us to note that China is emerging as a market for Black Tea. The gradual easing of the sanctions on Iran and the improved stability in the Middle East too will augur well for our Tea industry. Further, the industry also envisages a cautiously optimistic market scenario for 'Tea for Price' category in the first half of 2014.

With regard to Rubber, prices may remain depressed given the continued slack demand in key markets and strong levels of global production.

Uncertain weather patterns however will certainly be a concern for the plantation industry in general.

The current lease of land to KVPL is also a matter of concern. The lease period of 53 years is relatively short when viewed against the fact that recovery of the costs incurred for replanting takes several years. Replanting is essential for the sustainability of the enterprise and improvement of national yields. Hence, it is anticipated that the Government would consider extending lease periods to facilitate the industry for further investments.

We are encouraged by the performance of cinnamon, grown as an alternate crop on our lands in the low country region. This is still on an experimental basis and we believe it has potential for the future. In terms of further diversification, we are looking at enhancing the capacity for hydro power generation at Edinburgh Estate.

Your Company is also looking forward to introducing plantation-based tourism (Tea Tourism) to attract tourists from around the globe to its more picturesque destinations.

## CHAIRMAN'S REVIEW

### DIRECTORATE

Mr. J A G Anandarajah who served as a Director of the Company relinquished his position on 31 March 2013. We thank him for the guidance and support he extended to the Company from its inception and wish him happiness and good health in his retirement.

Mr. G K Seneviratne who served as an alternate Director retired on 08 April 2013.

Mr. R Seevaratnam, who served as a Non-Executive Director resigned with effect from 30 July 2013. I thank them for their valuable contribution to the Company, throughout their tenure.

Mr. L N De S Wijeratne was appointed to the Board on 30 July 2013.

### ACKNOWLEDGEMENTS

I acknowledge with appreciation the dedication and commitment of our Management Team, Staff and Workers who drove this Company's enterprise through yet another year.

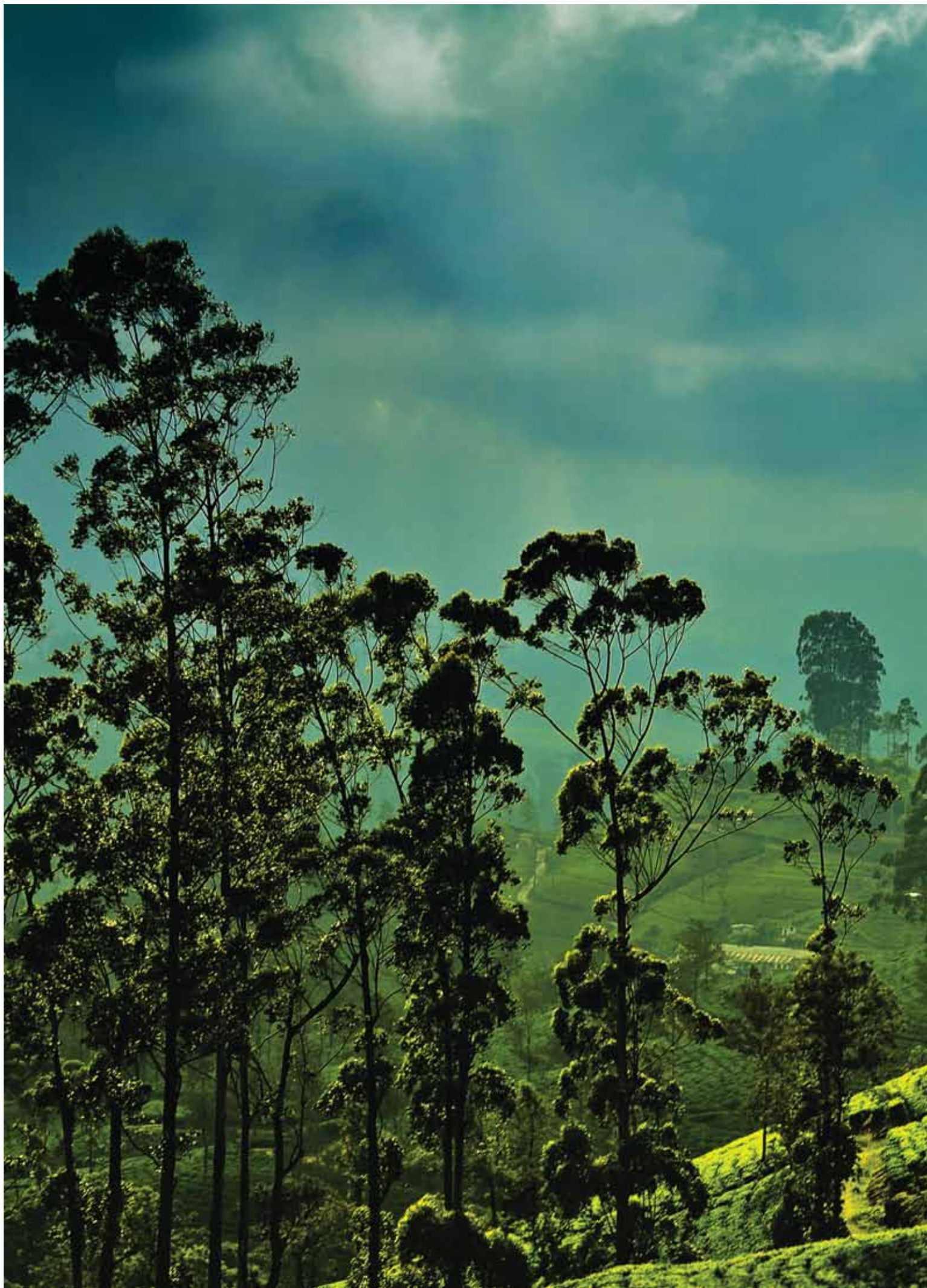
Finally, to my fellow colleagues on the Board, I thank you for the support, contribution and guidance that has been invaluable in shaping the fortunes of the Company.



**Mohan Pandithage**

Chairman

13 February 2014



# PEOPLE POWER FLAVOUR

From the ordered symmetry across hill and dale to the careful tending and skilled plucking of leaf, Tea cultivation and production on Robgill Estate, Bogawantalawa is the ultimate exemplar of the incalculable value of people powering a vibrant industry.





## MANAGEMENT DISCUSSION AND ANALYSIS

### OPERATING ENVIRONMENT

#### ECONOMIC GROWTH

Economic growth in Sri Lanka showed some signs of recovery in the latter part of 2013, with stronger GDP growth in the second half of the year. The Central Bank of Sri Lanka (CBSL) estimates full year growth to have been 7.2% in 2013. Growth was broad based with improved performance in all three sectors of the economy. The industrial sector grew by an estimated 9.2% in 2013 with strong growth in construction and energy. The services sector, which is the largest sector in the economy, also recorded a strong recovery with growth estimated at 6.7%. The CBSL estimates that Agriculture grew at 4.1% as improved rains supported recovery in major domestic crops such as paddy. However, other crops such as Rubber were adversely affected by the heavy rains. According to the Department of Census and Statistics, 31.5% of the labour force is being employed in the Agriculture sector.

#### INFLATION

Inflation moderated through the year and reached mid-single digit levels, as targeted by The CBSL. In the early months of the year, point to point inflation was elevated to 9.8% due to base effects, but during the course of the year inflation steadily declined. Several factors contributed to this decline, including limited demand driven pressures as reflected in core inflation levels falling to record low levels (2.1% in December 2013), moderate global commodity prices and favourable weather enabling sufficient agricultural supplies. Accordingly, year-end inflation was 4.7% in December 2013.

#### INTEREST RATES

The CBSL began to reduce policy interest rates in December 2012, followed by a 50 basis points rate cut in April 2013 and a further 50 basis points rate cut in October 2013. The Statutory Reserve Ratio was also reduced by 200 basis points, releasing substantial liquidity into the market in July 2013. Despite easing measures, market interest rates stayed elevated till mid-2013. Subsequently, market lending rates declined through the rest of the year as demand for credit in the economy was sluggish and gold backed lending declined, creating high liquidity in the banking sector. By year end, the prime lending rate had declined to 9.7% from a peak rate of 14.4%, which was recorded in the first quarter of the year.

The monthly interest rates for the past year are tabulated below:

	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan
1 year TB Rate <sup>1</sup>	8.53	9.69	10.02	10.57	10.56	10.56	10.66	10.86	11.34	11.35	11.1	11.25
Overnight SLIBOR <sup>2</sup>	11.09	11.68	11.89	12.43	12.18	12.89	12.92	121.97	13.56	13.81	14.31	14.3
AWPR <sup>3</sup>	9.96	10.95	11.45	11.84	11.86	11.84	12.47	13.11	13.58	13.86	14.38	14.14

1 - Last auction for the month.

2 - Sri Lanka Interbank Offered Rate as at the last day of each month.

3 - Average Weighted Prime Lending Rates.

Source Central Bank of Sri Lanka.

## MANAGEMENT DISCUSSION AND ANALYSIS

### EXTERNAL SECTOR

The external sector had mixed results in 2013. In the first half of the year exports contracted by 4.5%, however, there was strong growth in the second half of the year resulting in export earnings reaching USD 10.4 billion, a growth of 6.3% for the full year. Exports growth occurred in a fairly broad-based manner with agricultural exports and industrial exports growing in a fairly robust manner. Rubber export earnings however were flat during the year. Export of services including BPO, earnings from tourism, international transportation and remittances also remained strong during the year.

At the same time, imports declined during the year with a contraction in import expenditure by 6.2% in 2013. Expenditure on fuel imports declined by 14.6% due to lower requirements for heavy fuel for electricity as hydro-power generation was strong.

Accordingly, the improvement in export earnings and moderate import expenditure resulted in the trade balance and current account deficit improving in 2013. The improvement in the current account deficit was an important contributor to the increased stability seen in the Sri Lankan Rupee in 2013. At the same time there were capital account inflows through the issues of international bonds by local banks. Foreign inflows to equity and debt markets also continued, despite some conversion of investments by foreigners from Treasury Bonds to Bills around the middle of the year.

### CURRENCIES

Following the depreciation of the LKR in 2012, the Rupee recovered and maintained stability in the first half of 2013. In mid 2013 however the Rupee depreciated in line with global market movements as the US Federal Reserve announced the tapering of quantitative easing. Between June 2013 and August 2013 the Rupee depreciated from Rs. 126/- to the USD to Rs. 134/- to the USD. However, with the delay of tapering in September 2013, the Rupee subsequently recovered to end the year at Rs. 131/- to the USD.

Whilst depreciating marginally (2.7%) against the USD in 2013, the Sri Lankan rupee appreciated against several major international currencies during the year. Emerging market currencies in particular depreciated far more against the USD than the Sri Lankan Rupee did. Accordingly, by end 2013, the Rupee appreciated against the Japanese Yen by 15%, the Indian Rupee by 8.6%, the Russian Rouble by 4.4% and the Egyptian Pound by 5.9%. The Rupee however depreciated against Tea competitor, Kenyan Shilling by 2.3%, and other buyers such as Saudi Arabian Riyal and UAE Dhiram, both by 2.7%.

The monthly variation of the LKR against the USD is tabulated below:

	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan
Middle Rate	130.82	131.11	131.08	132.44	131.96	131.19	127.96	126.32	126.06	126.79	126.71	126.88

Source Central Bank of Sri Lanka.



## MANAGEMENT DISCUSSION AND ANALYSIS

### POLICY DEVELOPMENTS

In an analysis of the National Budget 2014, the progress of the economy in 2013 was aptly described by the Governor, Central Bank of Sri Lanka as the year for the '3 C s'; Consolidation, Consistency and Continuity of the economic fundamentals which drive the economy. Both monetary policy and fiscal policy were kept constant throughout the year and the National Budget for 2014 also promises to keep the policies unchanged. The Government Budget for 2014 contained a series of proposals to incentivise the plantation industry. This includes Government plans to encourage the best performing plantation companies that have increased their productivity, application of bio fertilizer, and engaged in worker welfare, brand promotion and investments in high value Tea exports, by implementation of a credit scheme with long-term maturity and concessionary interest rates. The Government Budget has also proposed amendments to provisions in existing leases necessary to ensure the development of this sector. The budget speech indicated a policy direction encouraging the exploration of new markets such as Japan, India and China, whilst shifting up the value chain in Tea, Rubber and cinnamon export products.

### GLOBAL ECONOMY



Advanced economies had a better year than emerging markets. The US economy recovered in 2013 and is expected to continue its growth momentum in 2014 as well. The recovery is underlined by a significant improvement in household and Government finances as substantial deleveraging has taken place creating space for higher consumption. Europe limped out of technical recession in 2013 and tail risks of break up have reduced considerably. Nonetheless, Europe is yet to come close to robust economic growth. A number of structural issues remain in the economy, including high debt overhang, poor growth, structural unemployment, stagnant prices and a weak financial sector that lacks the muscle to finance growth. Accordingly, whilst Europe has stopped contracting, the economy appears to be stagnating unless there are substantive reforms to labour and financial markets, both of which require deeper political reform, which will not happen overnight.

The year 2013 was challenging for many emerging economies, particularly so for those which had high current account deficits and budget deficits. US Fed tapering resulted in outflows of foreign investments in debt and equity markets in many emerging economies, resulting in weakening currencies and rising interest rate. India and Indonesia were among the worst affected. Other economies including Russia and Brazil have experienced more structural weakness, as commodity prices remained moderate, thus showing up more fundamental economic weaknesses such as under-investment in infrastructure.

## MANAGEMENT DISCUSSION AND ANALYSIS

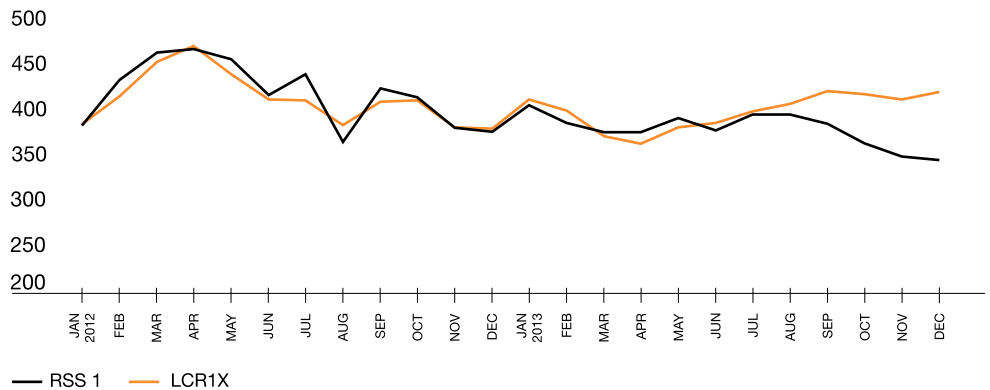
### RUBBER



Extremely poor weather conditions experienced in the first nine months of the year affected the performance of the Rubber industry in Sri Lanka. The low prices across all grades compounded the situation leaving producers with much smaller margins. The year commenced with both Latex Crepe 1X and RSS 1 trading just above Rs. 400/- per kg. The prices continued to slip till April and picked up thereafter. In August, the Latex Crepe prices went beyond the Rs. 400/- mark but RSS 1 price in contrast started dropping drastically and by December it had reached Rs. 343/-, lowest since March 2010. Low prices were not confined only to Sri Lanka but all over the world. This was a result of excess supply and the anticipated revival of major consumer economies not taking place as envisaged.

LCR1 & RSS1 AVERAGE PRICES - 2012/13 - COLOMBO RUBBER AUCTION

Average Price Rs./kg



Total world Rubber consumption in 2013 was 11.3 m tonnes whilst the production was 11.7 m tonnes, creating an excess of 0.4 m tonnes. The figures thus far published estimate the Sri Lankan Rubber production to be at 116.6 m kgs as at end November 2013.

### TEA



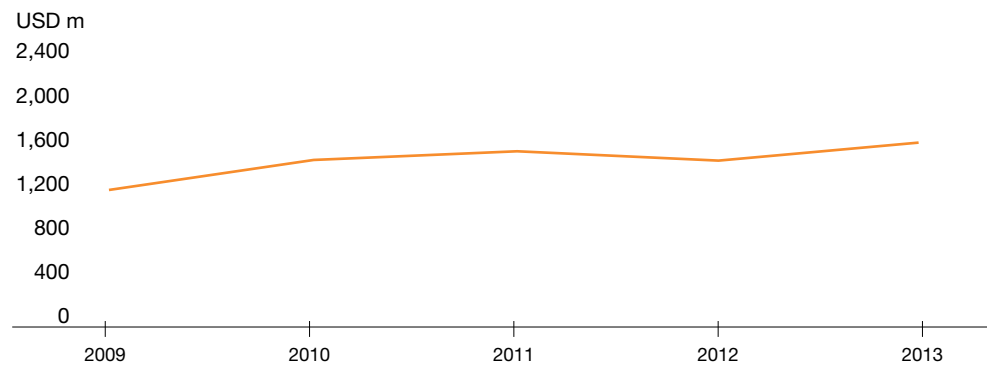
Sri Lanka successfully exceeded the target of USD 1.5 b in Tea exports in 2013. According to available data, Tea exports in 2013 reached 319 m kg, equaling total exports in 2012. The Rupee value of exports has increased by 11% from Rs. 180 b in 2012 to a record Rs. 199 b in 2013. In the process, Sri Lanka has earned the highest ever Dollar value of exports of USD 1.558 b. The previous record high was the revised figure of USD 1.490 b released by the Sri Lanka Tea Board in 2011.



## MANAGEMENT DISCUSSION AND ANALYSIS

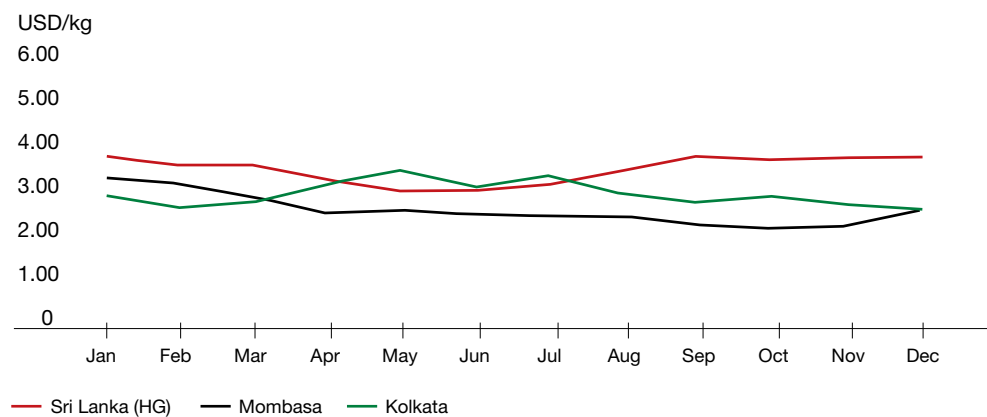
Export earnings convert to an approximate FOB value per kg of Rs. 623.91, well above the 2012 record of Rs. 563.94 per kg. The USD figure too was a record high of USD 4.87 against USD 4.40 in 2012 and USD 4.62 in 2011. A review of the export constituents indicate, Tea in bulk constituting 129.8 m kg amounting to 41% of the total. Tea in packets was 156.9 m kg amounting to 49% while Tea bags amounted to 25.7 m kg constituting 8% of the total. Green Tea which was 5.2 m kg amounted to 2% and instant Tea amounted to 1.9 m kg. Total value added exports therefore, (total less bulk) amounted to 59% of all exports. Russia/CIS remained the prime market for Sri Lankan Tea exports with the absorption of 70.5 m kg (22%) of all Teas shipped (26% in 2012). In 2012 however, the quantity was 75 m kg, while in 2011 it was a high of 83.6 m kg. Direct exports to Iran have dipped from 41 m kg in 2012 to 39.6 m kg in 2013. Turkey has grown as an important transit point handling the highest ever volume of 32 m kg. This was equivalent to 10% of all exports in 2013. The destination handled only 23 m kg the previous year and has recorded a 39% year on year growth.

### ANNUAL EXPORTS OF TEA



Source: Customs/Siyaka Reserach (2013)

### SRI LANKA (HIGH GROWN) / MOMBASA / KOLKATA AVG. PRICES 2013



Source: Siyaka Research (2013)

## MANAGEMENT DISCUSSION AND ANALYSIS

**OUTLOOK** Moderate interest rates, subdued inflation and global economic recovery should enhance overall consumer and investor confidence in Sri Lanka in 2014. However, the economy is still recovering from significant fiscal and monetary contractions of 2012 and the resultant contractions in lending and consumption. A number of large projects and new policies have enhanced investment potential in Sri Lanka and these could act as triggers for renewed confidence to spur economic activity in 2014. The outlook for the exchange rate is contingent on the weather and global financial markets. A strong current account in 2013 was supported by the decline in fuel imports as hydro-power generation was strong. However, with the possibility of weaker rains in 2014, fuel imports may have to increase, putting pressure on the balance of payments and the Rupee. The outlook in the global economy is also positive, led by recovery in the United States. However, there remains a lot of uncertainty as the global economy eases out of unprecedented monetary expansion, making market reactions unpredictable. Volatility can be expected in emerging markets, particularly those with fiscal and external imbalances.

Key markets for Sri Lankan Tea including the Middle East and Russia remain vulnerable to political unrest, which has already manifest in countries like Egypt and Syria and more recently Ukraine. However, with the likelihood of trade sanctions being eased on Iran, which is a key importer of Sri Lankan Tea, would definitely boost trading. The first quarter of a year is generally considered a lean period for cropping in most producer countries. In Sri Lanka, high grown in the Western Sector produce seasonal quality Tea, while the low grown districts produce a lesser quantity of Tea due to dry weather conditions. With the onset of the western quality season, countries such as Japan increase their buying volumes, which have a positive impact on prices. However, when the prices are high, Tea producing nations tend to increase production at the expense of quality. This results in poor quality Tea during the second half of the year, which could lead to drop in prices, particularly, in the 'Tea for Price' category. Therefore, based on the factors mentioned above, we could predict a cautiously optimistic market scenario for the first half of 2014.

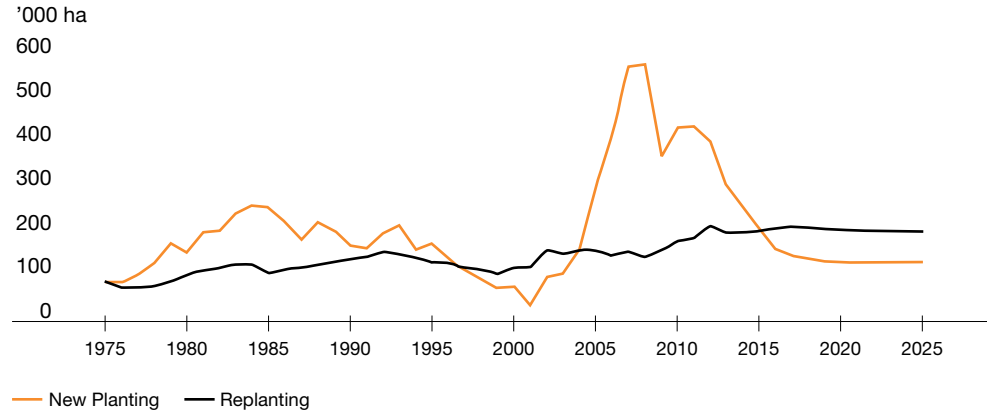
The recent improvements in the economic indicators of USA, China, Japan and Europe are expected to result in favourable growths.

The high prices enjoyed during late 90s and early part of the first decade in the new millennium saw many new lands brought under Rubber cultivation in the Asian Region and other Rubber going countries in the world. Similarly vast extents of Rubber lands were replanted with high yielding clones. The produce of these areas are now coming into the market creating an over supply situation. A sluggish economic condition in most parts of the world have resulted in demand for natural Rubber melting down. The above two reasons coupled would add pressure on already depressed Rubber prices in 2014.

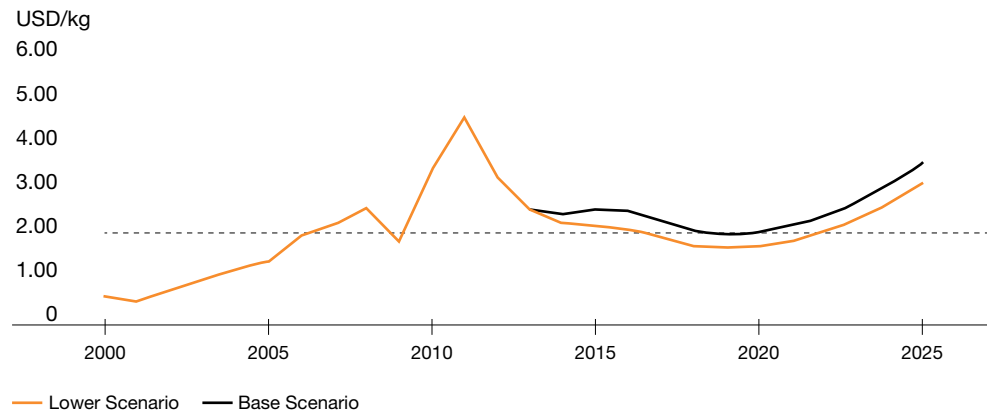


## MANAGEMENT DISCUSSION AND ANALYSIS

NATURAL RUBBER PLANTING, 11 ASIAN COUNTRIES



NATURAL RUBBER PRICES



Source: Dr. Hidde Smit, Global Rubber Conference 2013, Palembang, Indonesia

### IMPACT OF CLIMATE CHANGE

Climate change is an important determinant of Group performance as we are an agri-based company. Variations in atmospheric temperature, concomitant changes in precipitation patterns and physiological effects on crops caused by variations in carbon dioxide levels in the atmosphere influence the harvest. As we are familiar with such patterns, the Management has put in place the necessary contingency measures to operate business at optimum level.

## MANAGEMENT DISCUSSION AND ANALYSIS

### RISKS AND OPPORTUNITIES ARISING FROM CLIMATE CHANGE

Risk	Impact	Outcome
Disruption of normal weather pattern - changes in rainfall	Directly related to the available soil moisture that determines the supply of water to meet physiological water demands of Tea and Rubber whilst considering evaporation; may create favourable conditions for the emergence of pests and diseases.	Changes in quantity and quality of final product
Changes in atmospheric temperature	Radiation, thermal climates and Carbon Dioxide levels in the atmosphere may create favourable conditions for the emergence of pests and diseases.	Changes in the quantity and quality of final product
Changes in sunshine hours	Directly related to the Photosynthesis of crops which determines the production of dry matter content.	Changes in yield
Changes in wind pattern	In Rubber, it is directly related to the reduction of the stand per hectare. In Tea, presence of most quality parameters vary with the wind pattern.	Rubber - Changes in yield Tea - Changes in quality
Opportunity	Impact	Outcome
Dry spell	Increases the duration of sunshine hours; water stress will occur in some agro - climatic districts.	May increase the yield in some agro - climatic districts and improve the quality of final product
Atmospheric Carbon Dioxide level	Essential factor for Photosynthesis and with the change of atmospheric Carbon Dioxide level dry matter production in plant will vary.  With Company replanting programme and usage of alternative energy will create new business ventures.	Increase in yield  Carbon Credit Trading
Disruption of normal weather pattern	Changes in weather and climate will increase the gap between budgeted and actual.	Get competitive advantage from the already implemented environment initiatives



## MANAGEMENT DISCUSSION AND ANALYSIS

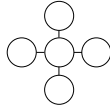


### GOALS AND STRATEGIES

We focus on four main goals and strategies. Productivity improvement is one of the key goals that we pursue. In order to achieve this, we have strategised to enhance the HR offering by improving the overall quality of life and work-life of our employees. We also focus on consolidating the land assets by replanting and maintaining our Tea and Rubber estates. Diversification and enhancing the product is another key goal of the Company. We aim to effect this through increasing production capacity, expanding the range of our Tea and Rubber portfolio. We have pursued cultivation of Cinnamon as alternate crop. In order to diversify our portfolio we aim to embark on plantation based tourism (Tea Tourism) and enhance our hydro-power generation capacity as well.



## MANAGEMENT DISCUSSION AND ANALYSIS



### STAKEHOLDER ENGAGEMENT

During 2013, we undertook several internal and external initiatives to address key issues facing our industry. These were implemented to strengthen our business operations whilst improving relationships with all our stakeholders and creating opportunities wherever we operate.

Our primary commitment as a business entity is to drive economic growth for our shareholders and deliver products of high quality to our customers. We have nine main stakeholder groups - shareholders, employees, suppliers, Government/regulatory authorities, customers/buyers, business partners, academia and scientific community, trade unions, and the plantation community.

Our engagement is based on the nature of interest, their relevance to the business and meeting their requirements and expectations in the most practical and meaningful ways possible. We strongly believe that effective engagement with stakeholders makes us stronger and more resilient. Our continuing partnerships with our internal and external stakeholders are carried out through focused group discussions, constructive dialogues, meetings, performance reviews and customer surveys.

We engage with shareholders through the Annual General Meeting and the Golden Shareholder Meeting. Our Quarterly financial reports update our shareholders of our performance. We strive to give our shareholders a sense of sustainability through sound financial performance and through efficient and effective management of risks.

Our engagement with employees is through monthly management meetings and through numerous events organised by the Company. Performance appraisal system and collective agreements also provide opportunities to engage with our employees. We provide a conducive work environment with competitive remuneration packages and other attractive benefits. We also ensure that their health and safety aspects are well looked after.

We engage with our suppliers through regular visits to their manufacturing facilities. We also carry out an audit of supplier facilities and strengthen the value we deliver to them. Through our payment policy and our commitment to sustainability practices we create value to them.

Through means such as participation in plantation industry associations, attending regular meetings with the relevant authorities and by obtaining statutory clearances which are mandatory for the Company, we engage with the Government. We make an impact on the Government's policy decisions through our engagements.

We engage with our customers and buyers through regular buyer/broker visits, participation in trade fairs and conducting product testing on an annual basis. We address customer concerns through ensuring product quality, maintaining confidentiality and meeting the expected levels of compliance.

We engage with the Academia and Scientific Community through knowledge sharing workshops, conducting collaborative research with universities and providing internship for undergraduates. Through these initiatives we contribute towards innovation and research and development of the industry.



## MANAGEMENT DISCUSSION AND ANALYSIS

Through regular discussions and meetings we engage with Trade Unions and create a political influence in the industry.

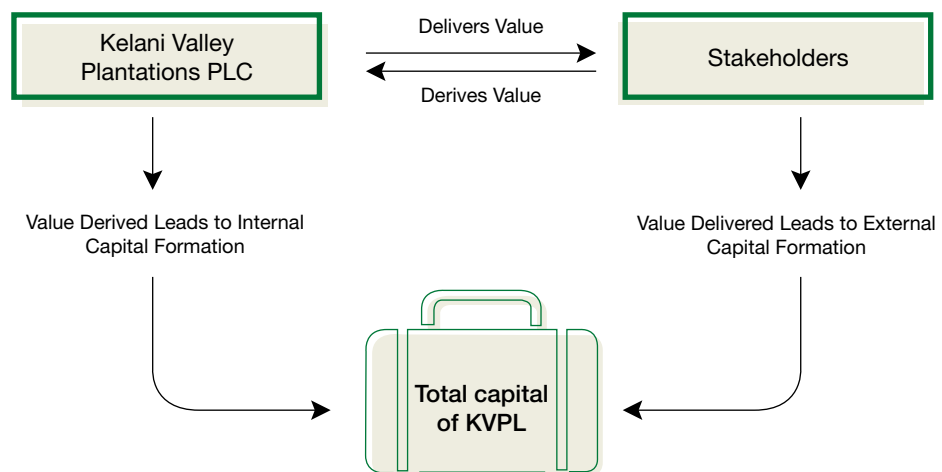
In terms of our engagement with the Plantation Community, we hold regular meetings with religious leaders and representatives of the community which also helps to sustain the business operations.

### THE DUAL ASPECTS OF VALUE CREATION

This discussion covers the key elements of KVPL's business model, where the various forms of capital are transformed through the Company's business activities to create value over time.

KVPL delivers value, both financial and non-financial, to its key stakeholders in the context of the economic, social and environmental aspects within which it operates. The stakeholders are of value to KVPL and we ensure they grow and prosper over time. As stores of value, they constitute our stakeholder capital, and are external to KVPL. Regarded as external capital they comprise mainly of customer capital, employee capital and social and environmental capital.

KVPL in turn derives value through the dynamic interaction between the external capital as well as its own internal capital to drive future earnings. The capital internal to KVPL comprises financial capital and institutional capital. The latter includes intellectual property, knowledge, systems, procedures, brand value, corporate culture, business ethics, integrity and the like.



The various forms of capital are in a state of flux with flows taking place among them. KVPL has access to and makes use of these forms of capital in creating value for itself (deriving value) and its stakeholders (delivering value) through its business model. They underscore the dual nature of value creation as depicted in the above diagram. We will next review the performance of KVPL in this context.

## MANAGEMENT DISCUSSION AND ANALYSIS

### DERIVING VALUE

#### INTERNAL CAPITAL FORMATION

The value created by KVPL for KVPL through activities, relationships and linkages leads to the formation of capital that is internal to the Company. While what is most visible and quantifiable is financial capital, internal capital also includes several intangibles that, as discussed previously, constitute institutional capital.

#### GROUP FINANCIAL PERFORMANCE AT A GLANCE



#### FINANCIAL CAPITAL

	2013 Rs. m	2012 Rs. m	Change Rs. m	% of Change	Key Factor
Revenue	6,790	6,518	272	4%	Increased contribution from Tea segment
Cost of sales	5,904	5,362	542	10%	Wage hike for estate workers
Other income	46	45	1	2%	Increase of hydro power and dividend income
Administrative expenses	392	426	(34)	(8%)	Reduction of incentive payment based on profitability
Finance income	66	43	23	54%	Higher interest income on short-term deposits
Finance expenses	53	49	4	8%	Increase of term loan interest and exchange losses
Tax expense	74	120	(46)	(39%)	Decrease in taxable income on par with decrease in profitability

#### OVERVIEW: PLANTATION SECTOR



2013 was a good year for Tea in terms of prices which progressed on an upward trend supported by the recovery of demand in the Middle East and Russia. However, this trend did not continue throughout the year due to a drop in production in the second half of the year. Unfavourable weather conditions during the second half of the year contributed to a shortfall in crop. The rising cost of production has also been a challenge to the profitability of plantations.

The global economic slowdown particularly in large Rubber consuming regions such as China, the US and Europe has in turn exerted downward pressure on Rubber prices. Sri Lanka remains among the world's 10 leading producers of natural Rubber. Easing of crude oil prices led to reduction in the pricing of synthetic Rubber. Consequently, it affected demand for natural Rubber in Sri Lanka. As a result, Rubber prices prevailed at a lower level in the year under review.



## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW: FROM THE GROUP'S VIEWPOINT

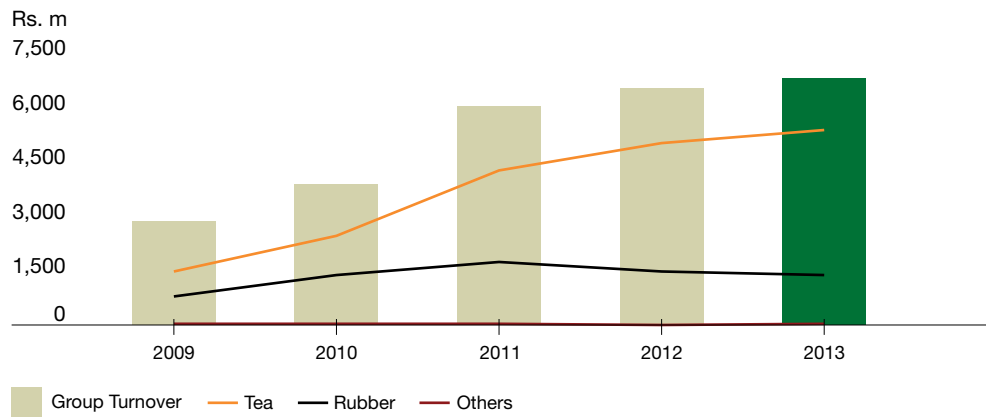


Despite the decrease in Rubber prices and Tea crop, the Company was able to maintain profitability, albeit at lower margins. Cost of production was further exacerbated due to mid-year wage increases. Increase in sales volume boosted revenue of Mabroc Teas (Pvt) Ltd., Kalupahana Power Company (Pvt) Ltd., recorded substantial growth in revenue due to better rainfall in catchment areas.

### FINANCIAL PERFORMANCE GROUP TURNOVER

In the year under review, the Group recorded Rs. 6,790 m revenue, an increase of 4% compared to the previous year.

#### GROUP TURNOVER

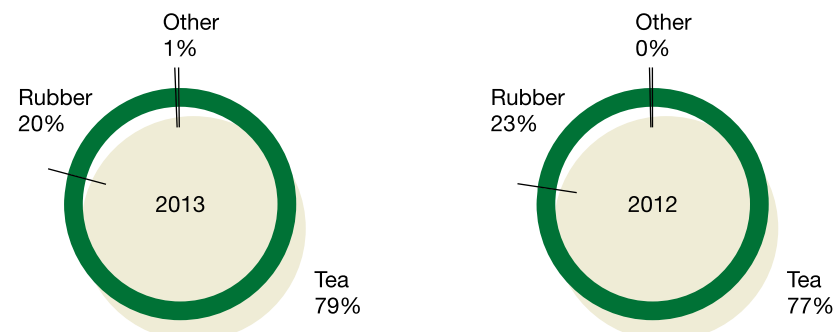


\* Contributions to Group Turnover came from - KVPL Rs. 4,322 m, MTPL Rs. 2,468 m, whilst the other Group entities made up the balance.

### SEGMENTAL TURNOVER

Tea and Rubber Sectors contributed Rs. 5,377 m and Rs. 1,380 m respectively to the turnover, accounting for 79% and 20% respectively, of the total. The Tea Sector recorded a 7% growth. Despite the decline of production due to bad weather conditions, the increase of prices was responsible for this growth. The decline in Rubber prices served to depress the profits from this sector by 6%.

#### SEGMENTAL TURNOVER



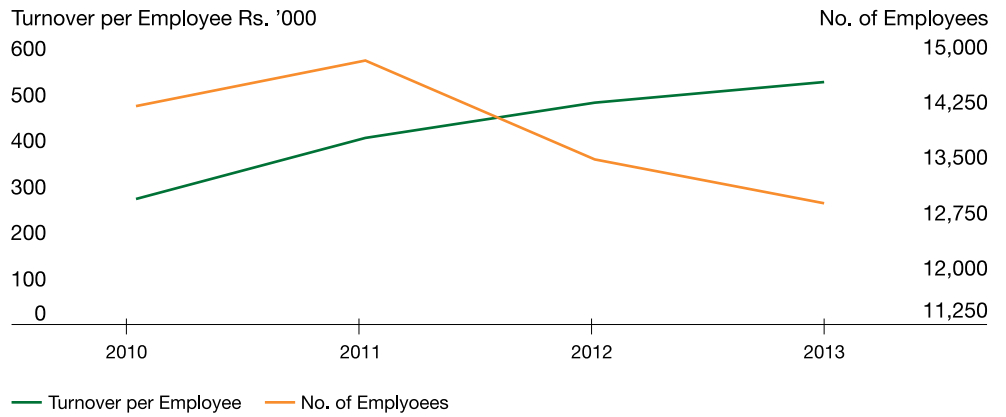
**MANAGEMENT DISCUSSION AND ANALYSIS**

**FINANCIAL PERFORMANCE PER EMPLOYEE**



Turnover per employee provides an indication of efficient use of labour and productivity. The gradual ascendant curve in this result, reaching Rs. 526,000 per employee could be attributed to two factors - reduction of the work force and the increase in turnover for the year under review.

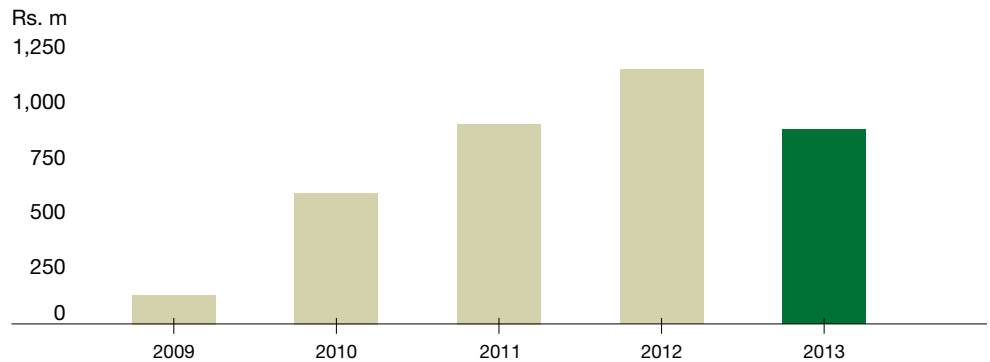
TURNOVER PER EMPLOYEE



**GROSS PROFIT**

Gross profit for the year under review reached Rs. 886 m compared to Rs. 1,156 m the previous year. Even though revenue has increased by 4%, in contrast, the gross profit declined by 23%. Decline of GP at KVPL at 31%, is even higher than the overall decline in cumulative Group results. This could be attributed to the wage hike in April 2013.

GROSS PROFIT



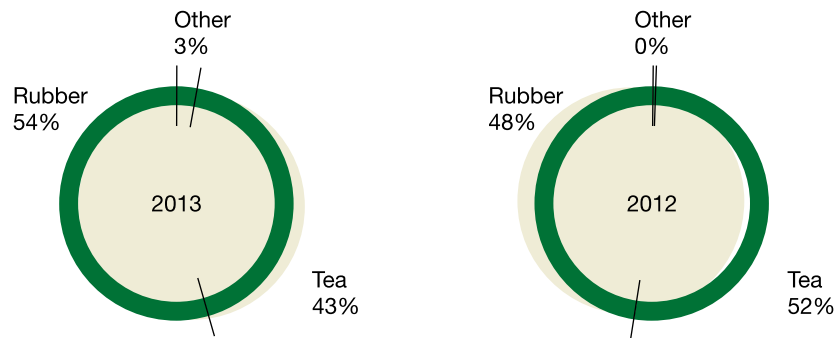


## MANAGEMENT DISCUSSION AND ANALYSIS

### SEGMENTAL GROSS PROFIT

The contribution of 55% from Rubber represents the highest margin amounting to Rs. 483 m this year while Tea contributed 43%. The GP of the Rubber Sector has declined by Rs. 66 m (12%) compared to the previous year.

SEGMENTAL GROSS PROFIT 2013



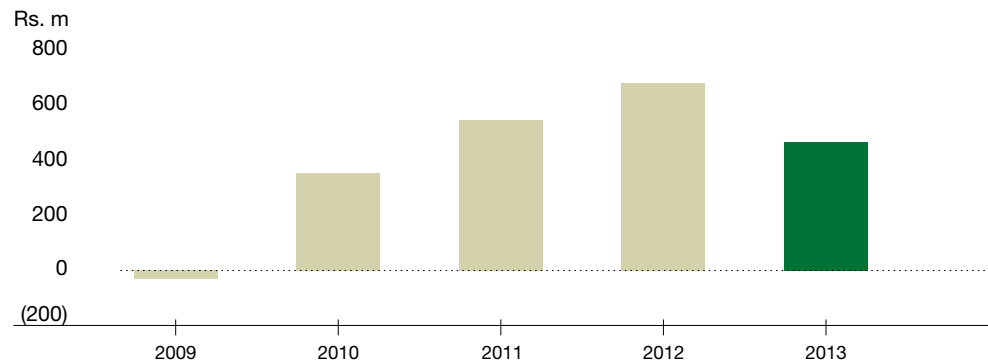
\* The contribution from Tea to the GP amounted to Rs. 378 m. However this amount is Rs. 225 m lower than the previous year. The decline in GP was due to the pattern of labour used in operations which accounted mainly for declining of total GP through wage hike.

### PROFIT BEFORE TAX



The Group was able to post a Rs. 465 m profit before tax, a decrease of 32% compared to previous year. Increase in other income and decrease of administrative expense positively impacted on PBT. However, the decline in GP due to the wage hike, low Rubber prices and low Tea crop resulted in an erosion of PBT.

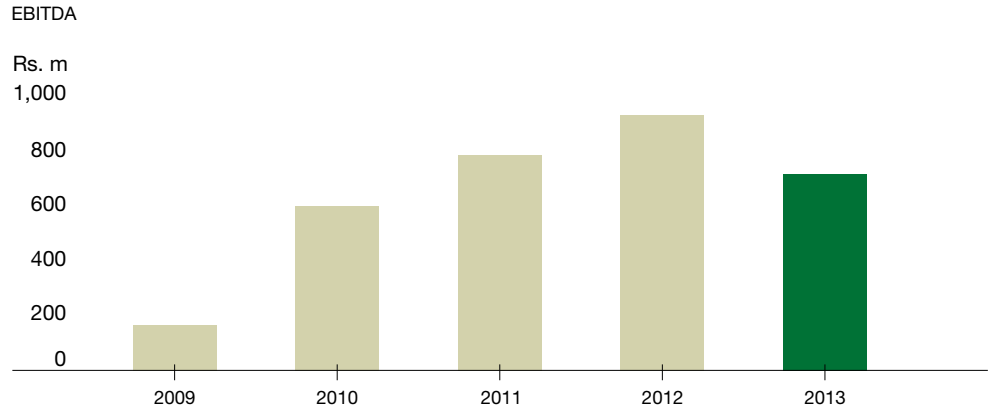
NET PROFIT BEFORE TAX



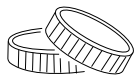
**MANAGEMENT DISCUSSION AND ANALYSIS**

**EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)**

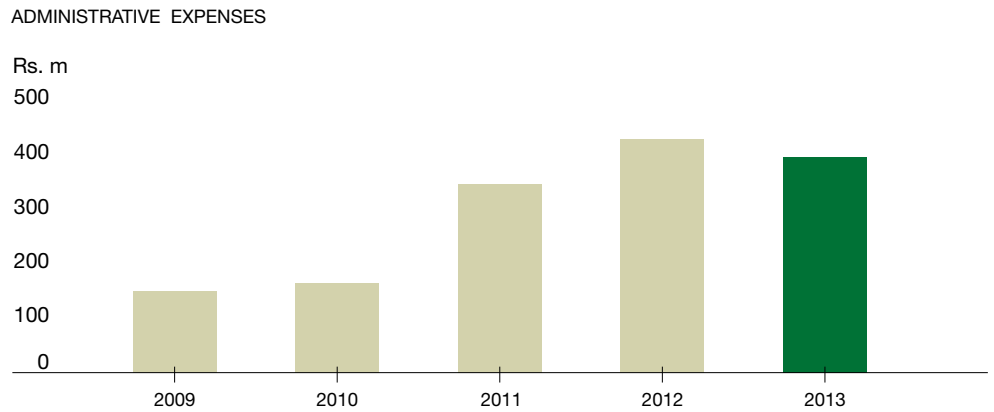
The Group's EBITDA decreased by 23%, from Rs. 924 m to Rs. 711 m. This resulted a decline in operational cash flow position of the Group which reflected in the Cash Flow Statement.



**ADMINISTRATIVE AND DISTRIBUTION COST**



Administrative expenses have decreased to Rs. 392 m an approximate 8% decline from previous year. The distribution expenses remained at a stable level of Rs. 44 m for the year which accounted solely from MTPL.





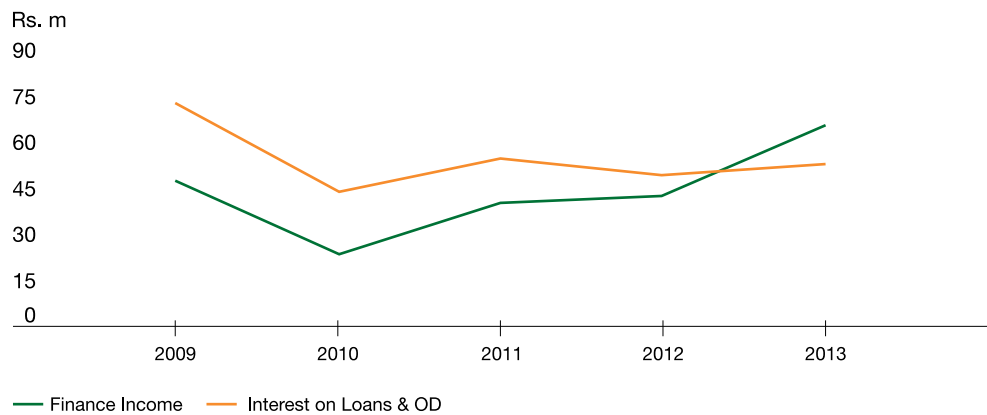
## MANAGEMENT DISCUSSION AND ANALYSIS

### NET FINANCE COST

Finance cost reflects mainly the interest cost on borrowings which has increased by 7% to Rs. 53 m as a result of additional loans obtained during the year. Overdraft interest has decreased by Rs. 12 m whilst exchange loss increased by Rs. 7 m.

Finance income represents the interest income from short-term deposits. This has increased by 54% to Rs. 66 m from Rs. 43 m in the previous year.

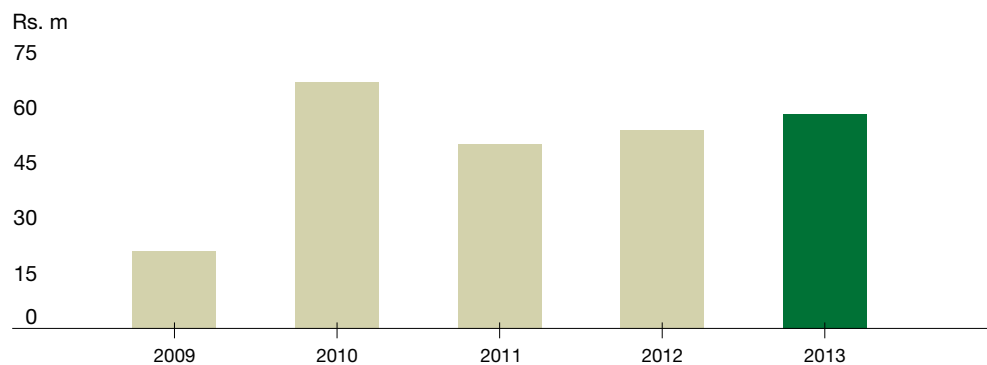
FINANCE COST VS FINANCE INCOME



### INTEREST PAID TO GOVERNMENT ON FINANCE LEASE

Interest paid to the Government on finance lease has increased by 8% to Rs. 58 m compared with Rs. 54 m last year. This includes the interest cost accounted in terms of Statement of Alternate Treatment (SoAT).

LEASE RENTAL PAID TO GOVERNMENT ON FINANCE LEASE



\* The Group's average cost of funds increased from 9.1% to 9.9% during the year due to the increase of interest rates.

## MANAGEMENT DISCUSSION AND ANALYSIS

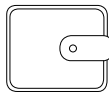
### INCOME AND DEFERRED TAXATION

The Group's total tax charge for the year was Rs. 80 m, a decrease of 36% compared to the previous year.

Income tax expenses decreased from Rs. 34 m to Rs. 18 m in 2013, as a result of the decrease in profits of the Group. The deferred tax liability increased from Rs. 301 m to Rs. 363 m mainly due to the temporary differences of Property, Plant & Equipment including mature and immature plantations.

Details of tax concessions and rates applicable to companies within the Group is available on pages 146 and 147.

### DIVIDENDS



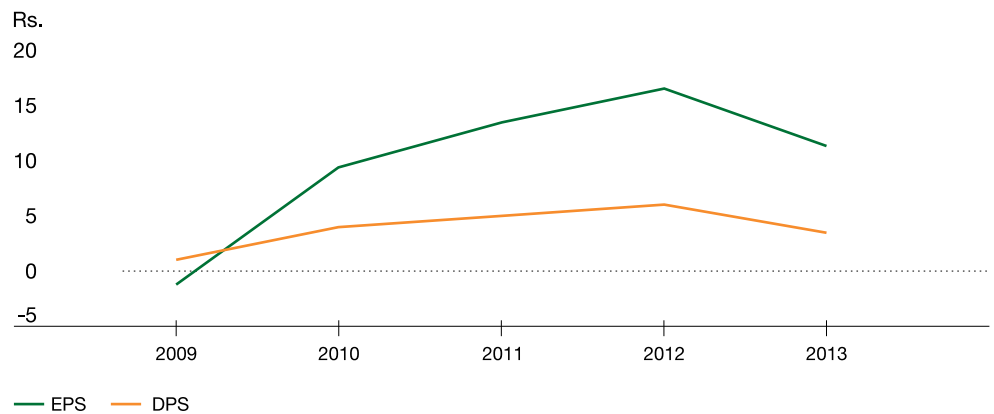
The Company has paid attractive dividends during past years. Dividend of Rs. 3.50 per share is proposed by the Company against the previous year's Rs. 6.00 per share.

The proposed dividend corresponds to 20% of the retained profit of the Company. The Company has fulfilled the solvency test, a requirement for payment of dividends as per Section 56 of the Companies Act No. 07 of 2007.

### EPS AND DPS

Earnings per share of the Group declined from Rs. 16.51 to Rs. 11.30 in the year under review. The decrease of 32% in EPS reflects the financial stress KVPL went through during the year while the average numbers of shares remain unchanged.

EPS VS. DPS



\* The Company paid a Dividend Rs. 6.00 per share during the year while prudently reserving a portion for the future growth of the Company. The dividend payout has been increased from Rs. 170 m to Rs. 204 m in the year under review.

### DISTRIBUTION OF VALUE ADDITION

The economic value addition of the Group is Rs. 3,456 m for 2013. Of this sum 77% was distributed among 12,902 employees. Rs. 108 m was remitted to the Government of Sri Lanka by way of taxes and lease rentals as opposed to Rs. 204 m in the previous year. Distribution to lenders of capital increased from Rs. 46 m to Rs. 98 m as a result of increasing interest cost during the year.

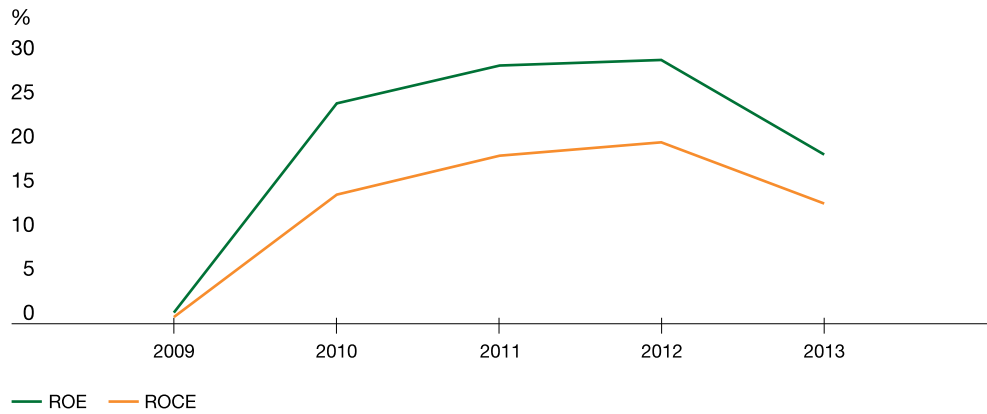


## MANAGEMENT DISCUSSION AND ANALYSIS

### RETURN ON CAPITAL EMPLOYED (ROCE) AND RETURN ON EQUITY (ROE)

ROCE and ROE has declined due to the cumulative effect of decreasing profit and increase in borrowings. The rates are 13% and 18% respectively, compared to 20% and 29% in the previous year.

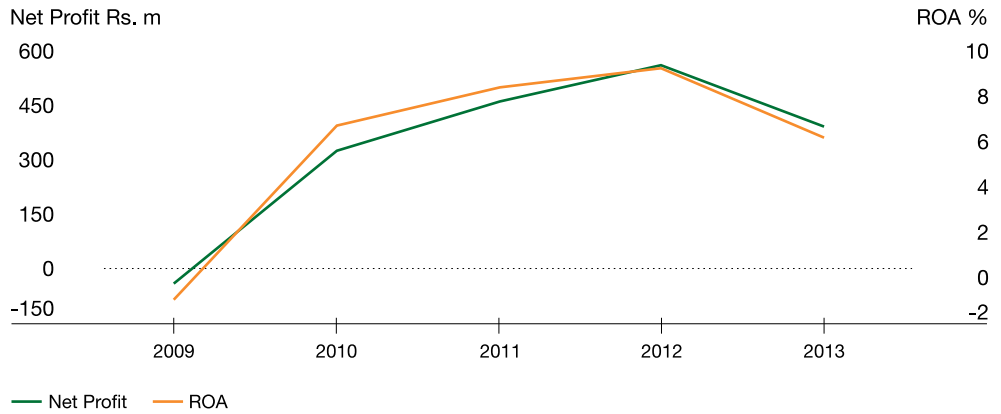
ROCE AND ROE



### RETURN ON ASSETS (ROA)

The Company's ROA declined to 6% from 9% in 2012 in step with the decline in profits.

RETURN ON ASSETS



## MANAGEMENT DISCUSSION AND ANALYSIS

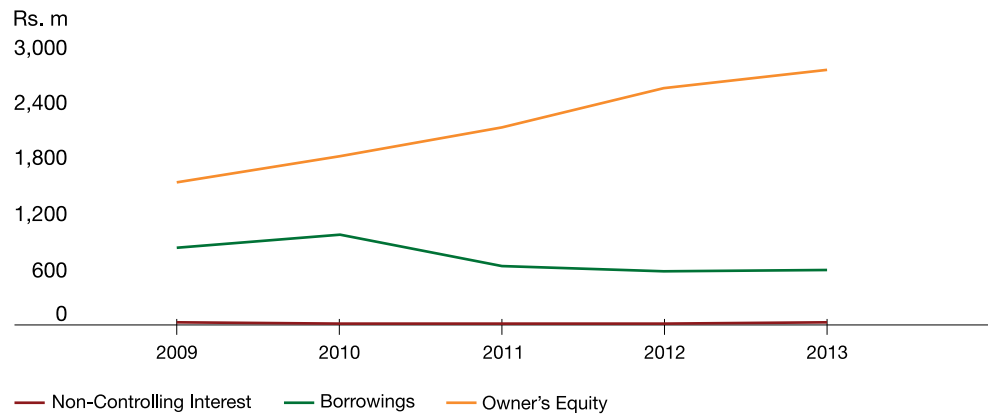
	2013 Rs. m	2012 Rs. m	Rs. m Change	Change of %	Key Reason
<b>Non-Current Assets</b>					
Freehold Property, Plant & Equipment	1,417,551	1,373,071	44,480	3%	New additions to PPE
Improvements to leasehold property	2,409,818	2,075,311	334,507	16%	Increase in replanting of Tea and Rubber
Biological assets (Consumables)	83,426	68,177	15,249	22%	Increase in Fair value
<b>Current Assets</b>					
Inventories	864,344	719,461	144,883	20%	Increase in produced Tea and Rubber stocks of KVPL
Trade and other receivables	692,403	676,659	15,744	2%	Increase in produce debtors of KVPL
ST Investment, ST deposits, cash in hand and bank	251,685	492,720	(241,035)	(49%)	Decrease in short-term deposits of KVPL
<b>Equity and Liabilities</b>					
Non-current liabilities					
Deferred income	476,204	488,762	(12,558)	(3%)	Grant amortisation
Deferred tax liability	363,132	301,387	61,745	20%	Increase in temporary difference of PPE and biological assets
Retirement benefit obligations	1,046,402	1,025,142	21,260	2%	Increase in past service cost
Net liability to lessor	440,776	427,914	12,862	3%	Increase due to re-assessment of liability
<b>Current Liabilities</b>					
Trade and other payables	523,942	485,653	38,289	8%	Increase in trade creditors of MTPL and accrued expenditure of KVPL
Amounts due to other related companies	5,933	11,677	(5,744)	(49%)	Decrease in related party payables of KVPL
Income tax payable	7,352	15,646	(8,294)	(53%)	Decrease in taxable income
Short-term interest bearing borrowings	513,895	576,317	(62,422)	(11%)	Repayment of foreign currency short-term borrowings in MTPL



## MANAGEMENT DISCUSSION AND ANALYSIS

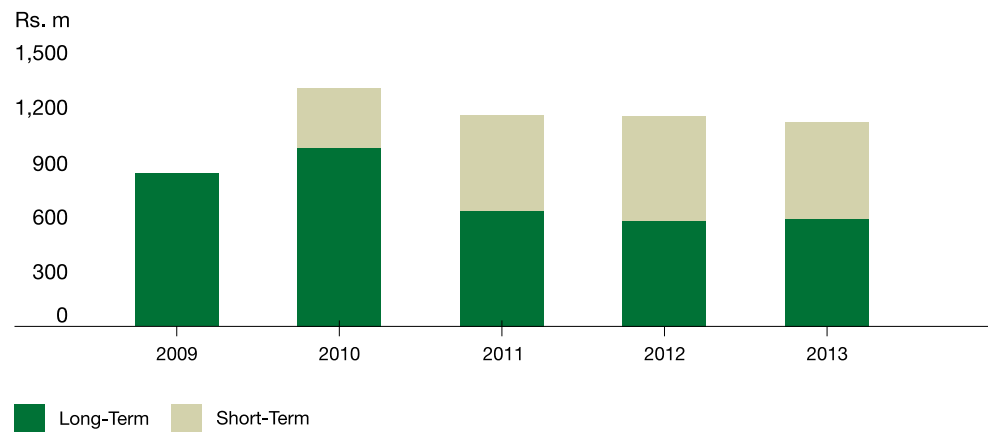
### FINANCIAL POSITION

#### CAPITAL STRUCTURE



\* The shareholders' funds in the Group's capital structure increased by 8% from Rs. 2,568 m to Rs. 2,776 m. Short-term borrowings decreased by 8% while long-term borrowings have increased by 2%.

#### BORROWINGS

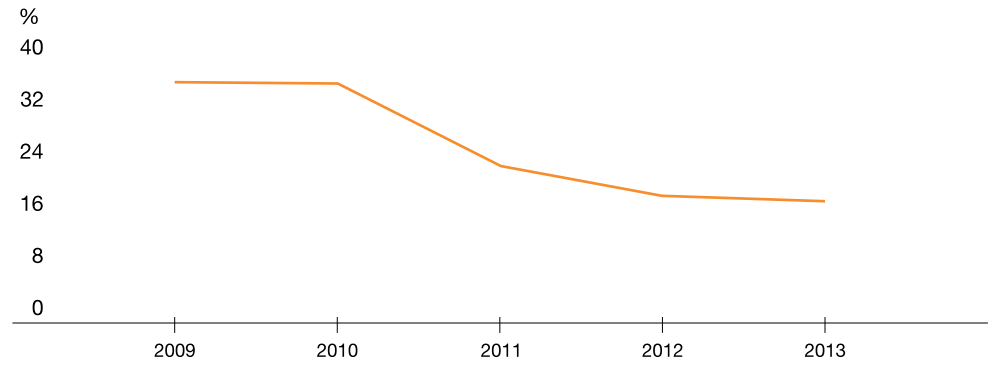


\* The Group has both local and foreign currency short-term borrowings. The short-term foreign currency borrowings increased to Rs. 314 m in the year under review and short-term local currency borrowings increased to Rs. 200 m.

Despite the increase in borrowings, increase in equity helps to maintain gearing at 18% of stable level from last year. The management prudently maintained the gearing at an optimum level in order to minimise the cost of capital.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### GEARING

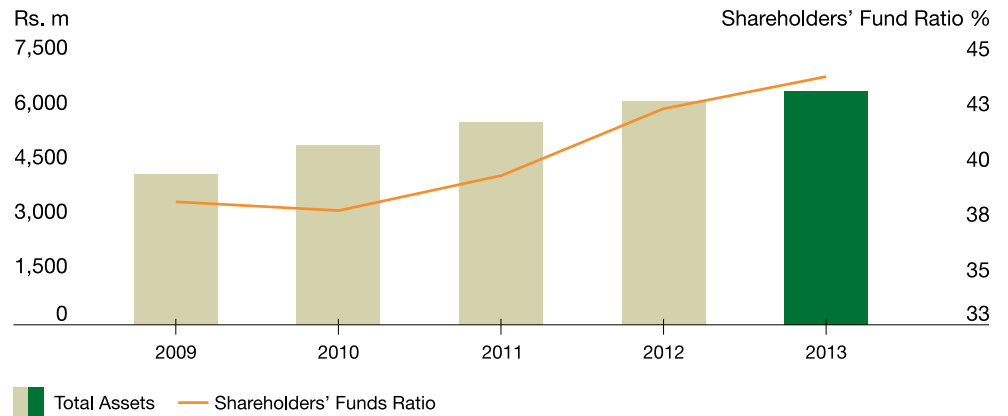


#### SHAREHOLDERS' FUNDS RATIO



It shows that the Company's net asset base has grown gradually YoY. Shareholders' funds was equivalent to 44% of total assets in the year under review whereas it was 42% in the previous year.

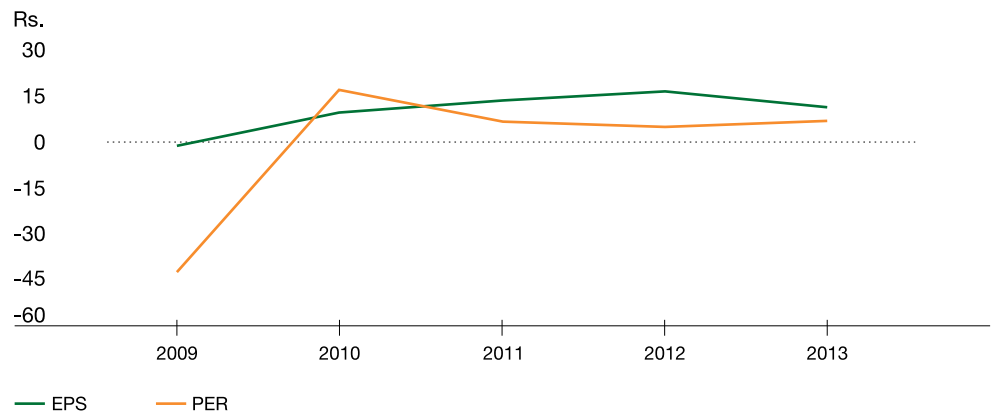
#### SHAREHOLDERS' FUNDS



#### PRICE EARNINGS RATIO

Both market prices and Earnings Per Share (EPS) have decreased during 2013. However, the decline of EPS caused Price Earnings Ratio (PER) to increase from 4.8 to 6.9.

#### EPS AND PER





## MANAGEMENT DISCUSSION AND ANALYSIS

### LEASEHOLD PROPERTY, PLANT & MACHINERY

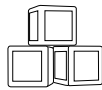
Leasehold property, plant & machinery consists of right-to-use land, immovable bearer biological assets and other leased assets.

The value of right to use land has increased by Rs. 20 m after recording the contingent liability in terms of Statement of Alternative Treatment (SoAT).

### BIOLOGICAL ASSETS - CONSUMABLE

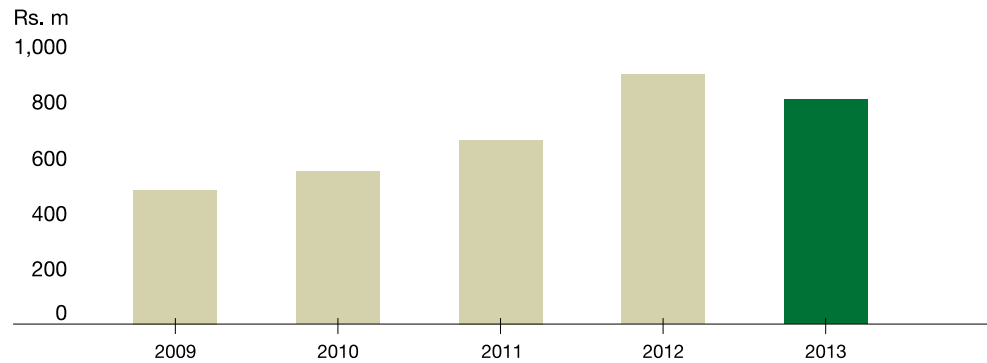
The existing managed commercial timber was classified as a biological asset. The value has increased by Rs. 15 m due to increase of fair value.

### WORKING CAPITAL



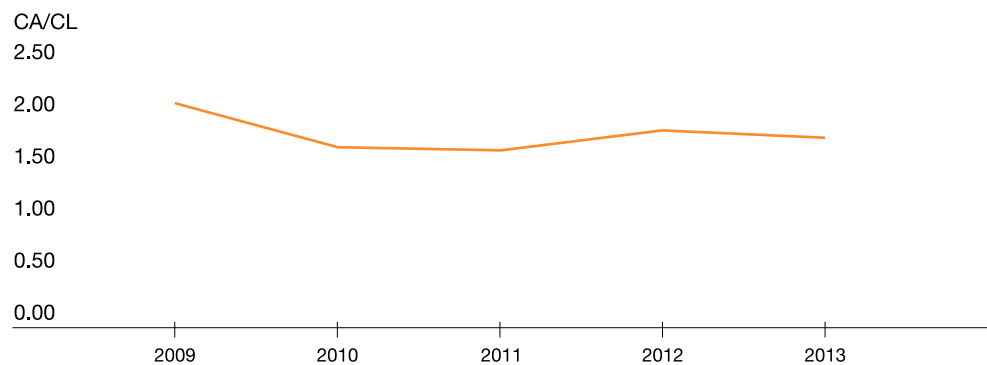
Working capital decreased from Rs. 906 m to Rs. 814 m in 2013 mainly due to decrease of short-term deposits by Rs. 267 m.

WORKING CAPITAL



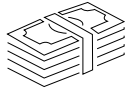
The ratio between current assets and current liabilities reflects a downward movement. However, the ratio, at 1.72 times, remains in viable territory to adequately manage short-term liquidity. The plantation companies whose crops were affected by bad weather wrestled with problems concerning working capital in 2013. Even in such a scenario the Group was able to manage the problem at a higher level.

CURRENT RATIO



**MANAGEMENT DISCUSSION AND ANALYSIS**

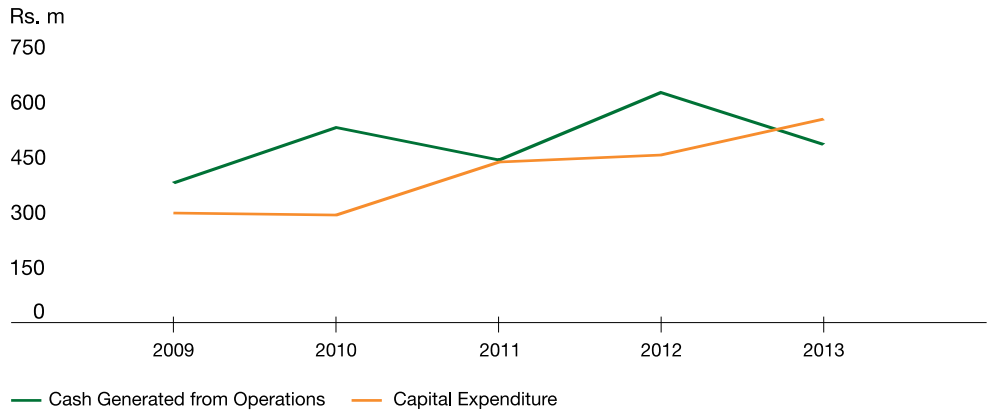
**CASH FLOW**



Net cash generated from operating activities decreased by Rs. 143 m, to Rs. 484 m from the Rs. 627 m recorded in the previous year.

Capital expenditure incurred during the year was Rs. 553 m compared to Rs. 456 m in 2012.

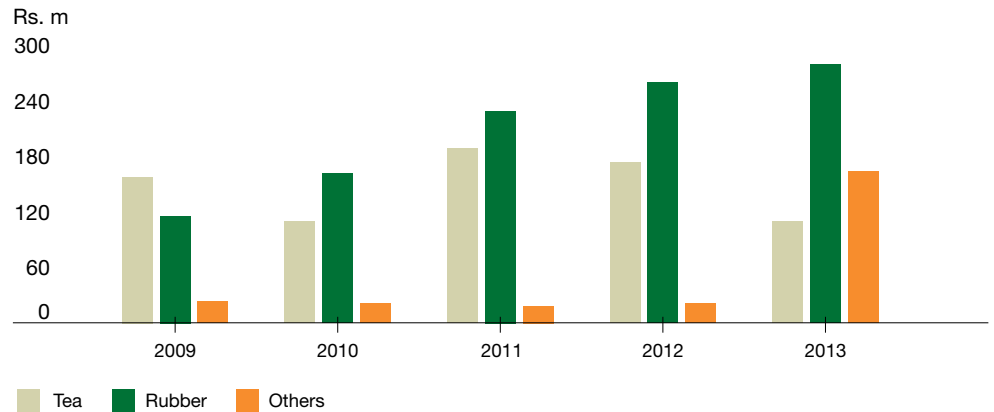
CASH GENERATED FROM OPERATIONS & CAPITAL EXPENDITURE



**CAPITAL EXPENDITURE BY SEGMENT**

The total capital expenditure on Tea decreased from Rs. 174 m to Rs. 110 m whilst the expenditure on Rubber increased from Rs. 261 m to Rs. 280 m.

CAPITAL EXPENDITURE BY SEGMENT



Of the above expenditure Rs. 110 m and Rs. 280 m was incurred on replanting and immature area management of Tea and Rubber respectively, across 210 hectares of Tea and 1,506 hectares of Rubber.

Other expenditure included investment in Property, Plant & Equipment which increased by Rs. 143 m compared to the previous year. Also included is the increase of work-in-progress by Rs. 60 m.



## MANAGEMENT DISCUSSION AND ANALYSIS

### PERFORMANCE MEASUREMENT

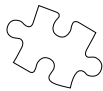
#### QUARTERLY PERFORMANCE

Tabulated below is the quarterly performance of the Group. The first two quarters recorded the highest revenue in 2013 compared to the same period last year. However, the position reversed in the last two quarters, with the decline of yields due to bad weather and the decline of Rubber prices.

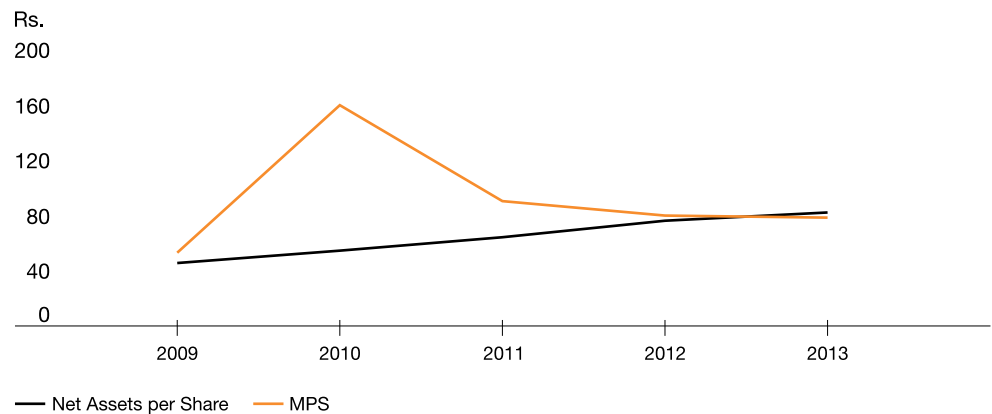
Rs. m	Q1	Q2	Q3	Q4	Total
Revenue	1,804	1,705	1,540	1,741	6,790
GP	298	128	160	300	886
Overheads	96	102	103	91	392
PBT	182	26	45	212	465
PAT	152	11	37	192	392
Profit attributable to equity holders	151	9	34	190	384
Total Assets	6,225	5,960	6,148	6,347	6,347
Total Equity	2,533	2,544	2,580	2,798	2,798
Total Debt	566	551	536	596	596

#### NET ASSETS PER SHARE

Net assets per share grew to Rs. 82.30 from Rs. 76.03 due to the increase in net assets.



#### PERFORMANCE OF THE SHARE



#### PERFORMANCE OF THE SHARE

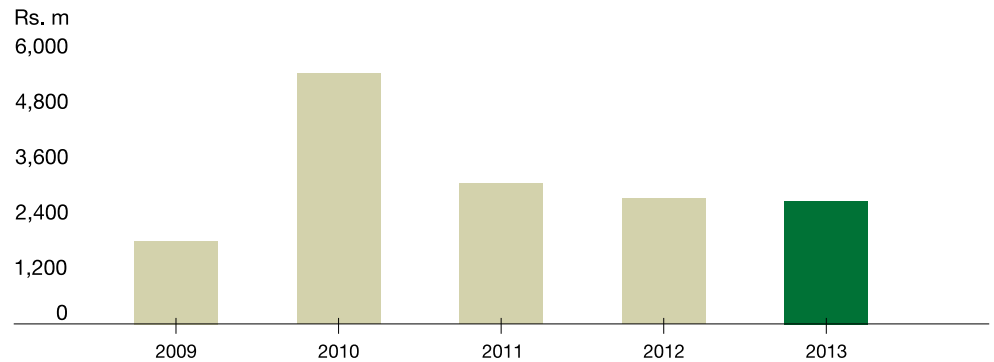
The recovery of the stock market from its poor standing in 2011 has been inhibited by economic and political volatility. The impact of forced selling depressed the market in general and, consequently, the Company share price declined to Rs. 78.3 from Rs. 80. The highest and lowest prices for the year were Rs. 90 and Rs. 70 respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS

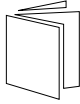
### MARKET CAPITALISATION

With the decline of share prices, the market capitalisation too declined to Rs. 2,662 m from Rs. 2,720 m recorded in the previous year, whilst the share capital remained constant. The total number of shares traded during the year was 276,046 compared with 698,073 the previous year.

#### MARKET CAPITALISATION



### FINANCIAL REPORTING AND ITS ACHIEVEMENTS



The Group is committed to best practice in financial reporting and maintains a close supervision on new developments in the financial reporting environment. The financial reports on pages 124 to 170 have been prepared in compliance with the Sri Lanka Financial Reporting Framework and Statements of Alternate Treatment promulgated by The Institute of Chartered Accountants of Sri Lanka (CASL) and every attempt has been made to provide the stakeholders, with a clear and comprehensive understanding of the Financial Statements.

The emphasis on quality and transparent reporting enabled the Company to secure several awards in both local and international reporting competitions. The Annual Report for 2012 won the Silver Award in the Plantation Sector for the fourth consecutive year at the 49th Annual Report Award Competition in Sri Lanka conducted by CASL. KVPL was also the proud winner of the Best Presented Annual Report Award and SAARC Anniversary Award for Corporate Governance Disclosures 2011 (Agriculture Sector) conducted by the South Asian Federation of Accountants (SAFA).

The Company continues to give high priority to timely delivery of both quarterly and annual Financial Statements.

### FUTURE OUTLOOK



The Plantation Sector is poised well, due to Government's thrust for agriculture. KVPL expects the fresh stimuli to contribute to the growth of the plantation sector and that of the Company as well. Our steady growth has enabled us to sustain our contribution to the plantation sector. KVPL expects to play a key role in the industry in the decade ahead.

1. KVPL will explore opportunities in the export (global) market through MTPL, an export company of value added Teas and bulk Teas.
2. KVPL, with prudent strategies and financial acumen, will continue its progress towards sustainable growth, despite challenging economic and climatic conditions.
3. KVPL will improve the productivity of assets including land, labour whilst optimally balancing increases in production cost.



## MANAGEMENT DISCUSSION AND ANALYSIS

### KALUPAHANA POWER COMPANY (PVT) LTD.

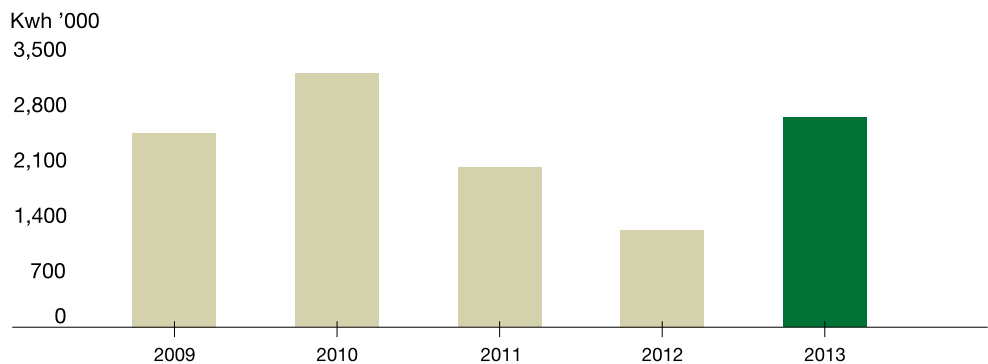


Kalupahana Hydro Turbine

Kalupahana Power Company (Pvt) Ltd. is a subsidiary of Kelani Valley Plantations PLC. The principal activity of the Company is generating hydro power.

2013 has been a good year for KPC during which it contributed 2,713,028 kWh units to the National Grid. This is 118% increase from the 1,245,688 kWh generated in 2012. High rain fall during the mid-months of the year had significant positive impact on hydro power generation during the year under review.

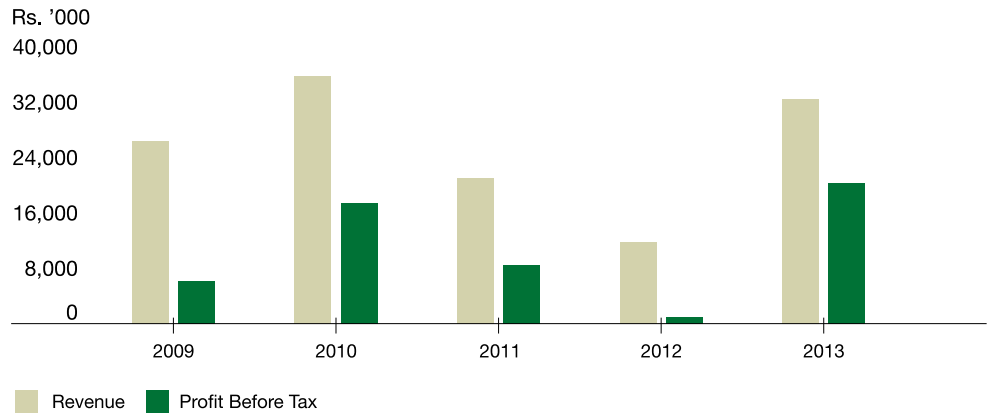
#### POWER GENERATION (UNITS)



**MANAGEMENT DISCUSSION AND ANALYSIS**

In 2013, the revenue of Kalupahana Power Company (Pvt) Ltd. increased by Rs. 21 m. Consequently, PBT increased by Rs. 19 m. PBT reached peak of the profit level among the previous years. Kalupahana Power Company (Pvt) Ltd.’s contribution to Group profit was approximately 4%. The high level of performance could be attributed to significantly higher units of power generated resulting in a reduction of finance cost.

REVENUE AND PROFIT BEFORE TAX



**KELANI VALLEY INSTANT TEA (PVT) LTD.**



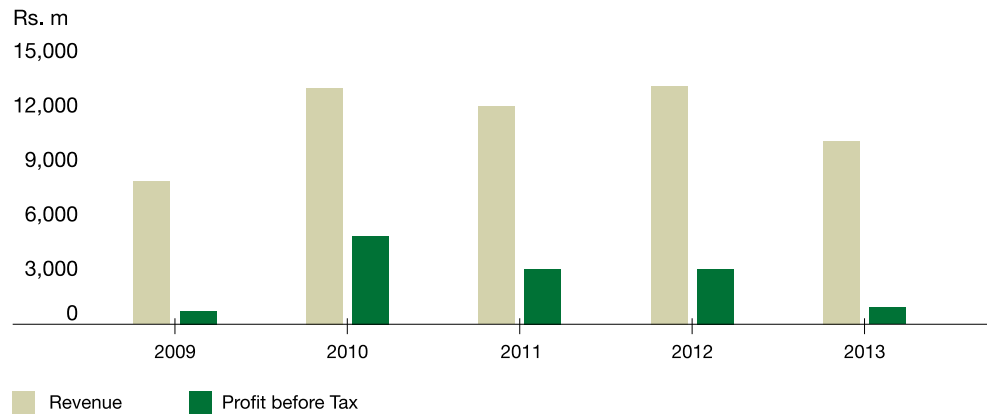
Instant Tea Spray Drying Area - Nuwara Eliya

Kelani Valley Instant Tea (Pvt) Ltd. is a fully-owned subsidiary of Kelani Valley Plantations PLC. The principal activity of The Company is processing of Instant Tea. The operations are carried out at the factory located in Nuwara Eliya.



## MANAGEMENT DISCUSSION AND ANALYSIS

### PROFIT BEFORE TAX AND REVENUE



The Company recorded a significant drop in its overall performance in comparison to 2012 as a result of low production and wage hike. A reduction in the sales volume caused a 23% drop in turnover. In contrast, cost of sales recorded a decrease of only 9%. As a result, the operating profit declined from Rs. 3.4 m in 2012 to Rs. 1.2 m., a 64% decline. However, a reduction in the provision for taxation contained the drop in profit after taxation to 31%, from Rs. 2.6 m. to Rs. 1.8 m.

### MABROC TEAS (PVT) LTD.

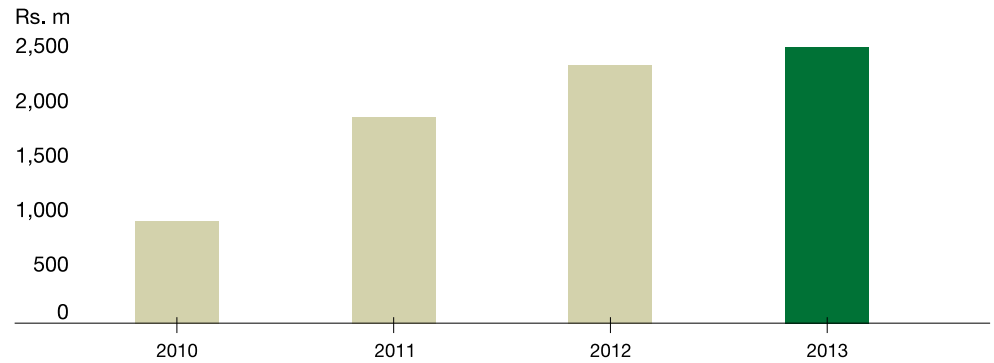
Mabroc Teas (Pvt) Ltd. is a fully-owned subsidiary of Kelani Valley Plantations PLC since year 2010. It operates as a bulk and value added Tea exporter. It is the first company in the world to launch an Ethical Tea Brand in 2006 and continued to be passionate about social and environmental sustainability in the production of single garden Tea.



Mabroc Teas

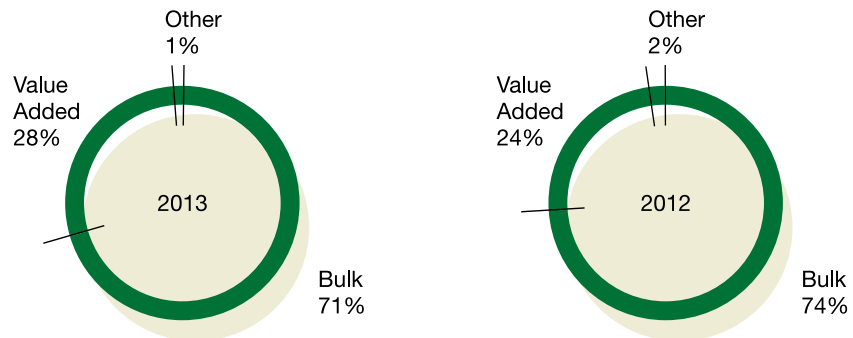
## MANAGEMENT DISCUSSION AND ANALYSIS

### TURNOVER



The Group recorded Rs. 2,468 m revenue, an increase of 7% on the previous year. The increase is mainly from value added businesses as compared to the previous year.

### SEGMENTAL TURNOVER



The bulk and value added segment contributed Rs. 1,742 m and Rs. 690 m respectively to the turnover, accounted to 71% and 28% respectively of the total Group turnover. Other turnover comprises mainly local sale.

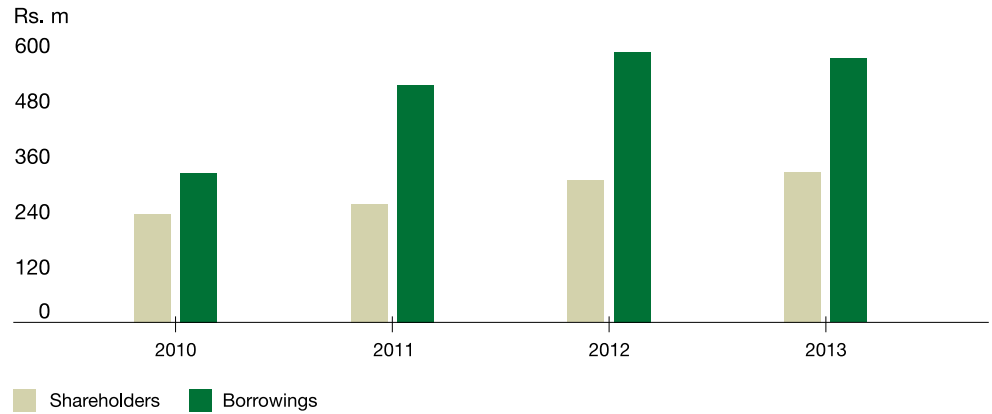
Last year total turnover of Rs. 2,303 m comprises bulk Tea export of Rs. 1,714 m and value added export of Rs. 540 m accounting to 74% and 24% respectively.

The shareholders' funds of the Group increased by 6% from Rs. 313 m to Rs. 332 m. Group borrowing mainly in foreign currencies declined by 2% from Rs. 594 m to Rs. 581 m. As a result gearing level has decreased from 66% to 64%.

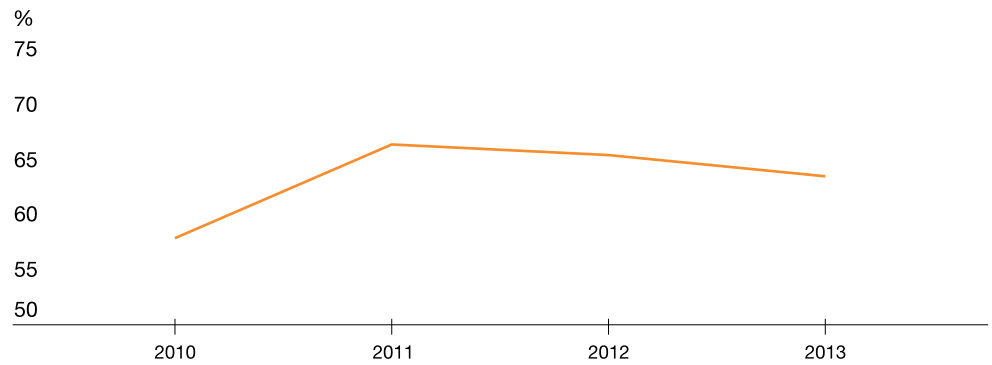


## MANAGEMENT DISCUSSION AND ANALYSIS

### CAPITAL STRUCTURE



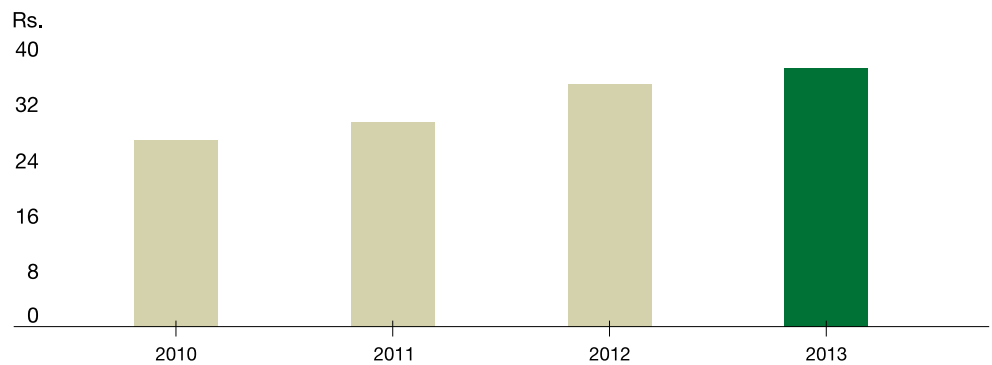
### GEARING



### NET ASSETS PER SHARE

Net assets per share increased to Rs. 36.92 from Rs. 34.73 previous year.

### NET ASSETS PER SHARE



## MANAGEMENT DISCUSSION AND ANALYSIS

### INSTITUTIONAL CAPITAL

Institutional capital encompasses a broad spectrum of non-financial components that, akin to financial capital, are internal to KVPL. As discussed previously on page 24 they are intangibles and comprise intellectual property, organisational knowledge, systems, processes, brand value, corporate culture, business ethics, integrity and so on.

The paragraphs that follow touch on a few key aspects of KVPL's institutional capital, while the rest are dispersed in the several sections of this Annual Report.

#### ORGANISATIONAL KNOWLEDGE

Over 22 years of operation, Kelani Valley Plantations PLC has evolved and grown to be a key player in the plantation industry, with substantial interests and holdings in both Tea and Rubber. Within its core are built exemplary - agri practices, environmental and bio-diversity protection and enhancement, commitment to share knowledge and training, technology and inherent skills and more.

The Group's strong fundamentals and diverse portfolio allow it to concentrate on the pursuit of ever improving quality of product and process, whilst contributing to the enhancement of community life and the environment, thus delivering and deriving sustainable value.

#### BRAND VALUE

Our aim is to deliver excellent products to our customers. 'A Home for Every Plantation Worker' is a project launched by us to develop the plantation community and uplift the quality of life of our estate workforce.

These are some of the key drivers of our brand identity that help personify our brand proposition.

#### BUSINESS ETHICS AND INTEGRITY

Sound business ethics and integrity are ingrained in all our business activities. We have put in place regulatory frameworks, codes of best practice and control mechanisms to ensure conformance to sound business practices. These measures are reviewed from time to time and upgraded based on need. Furthermore, we have involved our business partners through a sustainable supply chain management process. Our suppliers are assessed based on several criteria such as environmental, labour and social factors. We are proud of our unblemished record in this aspect.



## MANAGEMENT DISCUSSION AND ANALYSIS

### DELIVERING VALUE

#### EMPLOYEE CAPITAL

##### PEOPLE ARE INVALUABLE

KVP has carefully assembled a team of people with the right skills, professionalism and temperament to drive its business along a chosen strategic path. From recruitment to retirement, the Group is closely involved with the evolving employee, supporting and rewarding their winning qualities such as integrity, care, passion, teamwork, professional acumen and service with fair remuneration, training, career advancement and quality of life amongst many other measures.

KVP aspires at all times to be an employer of first choice, a policy that underpins all aspects of our human resource development agenda.

The discussion that follows is about how KVP builds its employee capital by attracting the best of talent, nurturing and moulding their development and rewarding performance in its pursuit of excellence.

##### HUMAN RESOURCES

Sustainability of a company is largely dependent on its people. Therefore, attracting, developing and maintaining a highly talented and diverse workforce is one of our main strategic priorities and a key aspect of our sustainability agenda. As a result, we have in place a team of experienced, mature, young and able employees.



A Tea plucker, Halgolla Estate, Yatiyanthota

## MANAGEMENT DISCUSSION AND ANALYSIS

### TOTAL WORK FORCE BY TYPE OF EMPLOYMENT

Type of Employment	Number of Employees
Executives and above	84
Staff	690
Manual	12,128
<b>Total</b>	<b>12,902</b>

### AGE ANALYSIS FOR 2013

	Less than 30 Years		Between 30-50 Years		Above 50 Years		Total		Grand Total
	Male	Female	Male	Female	Male	Female	Male	Female	
	Executives	21	1	45	4	9	4	75	
Staff	75	27	358	93	95	42	528	162	690
Manual	1,119	1,113	3,072	4,008	1,304	1,512	5,495	6,633	12,128
<b>Total</b>	<b>1,215</b>	<b>1,141</b>	<b>3,475</b>	<b>4,105</b>	<b>1,408</b>	<b>1,558</b>	<b>6,098</b>	<b>6,804</b>	<b>12,902</b>

### LABOUR PRACTICES AND DECENT WORK

The Company, as a signatory to the 10 Principles of the UN Global Compact, adopts these principles as the template that informs all strategy, process, action and outcome across all aspects of our enterprise. It is also the basis of our drive towards sustainability.

KVP is an equal opportunity employer, respecting the individual and his /her rights to free and fair employment and providing both the opportunity and climate for rewarding and long-lasting careers. Our remuneration and benefits are fair and competitive whilst wages are above stipulated minimum levels.

The Company subscribes unreservedly to employees' right to freedom of association within the framework of national labour legislation.

### LABOUR/MANAGEMENT RELATIONS

The management and staff of KVP adhere to a range of national and international labour laws and regulations. Approximately, 99% of our workforce is covered by collective agreements. These are with major trade unions that regulate wages and other key employment conditions of the workers. At KVP, both wage structures and working conditions are above the statutory minimum standards. Clerical, technical, supervisory, medical, maintenance and support staff of the plantations are covered by the collective bargaining process.

### RATE OF EMPLOYEE TURNOVER

In general, staff turnover at KVP is around 6% reflecting overall employee satisfaction with the stability of the Company and its desirability as an employer of choice.

### OCCUPATIONAL HEALTH AND SAFETY

Occupational health and safety management is a key component of our corporate culture and of prime importance in a strategy oriented towards sustainability. Achieving outstanding performance in respect of health management and occupational safety is a high priority at KVP.



## MANAGEMENT DISCUSSION AND ANALYSIS



*Sprayers Bathing and Changing Room, Pedro Estate, Nuwara Eliya*

Towards achieving the desired standards of health and safety, each estate is empowered with medical centres manned by qualified staff. The total health staff cadre of KVP consists of estate medical practitioners, midwives and supporting staff. 24 - hour ambulance services are strategically located, accessible to every plantation in an emergency.

During the year under review, seven (7) staff members participated in an Advanced Certified Course in Occupational Safety and Health, conducted by the National Institute of Occupational Health and Safety and the World University Service of Canada.

One of the areas of concern in the sphere of health and safety and one which is inherent to our industry is the handling of potentially toxic agrochemicals. In recognition therefore, all estates have been equipped with Personal Protective Equipment (PPE) whilst ensuring that the tools, infrastructure, machinery and equipment used on the estates are in good condition and do not pose danger to human health. Each estate is equipped with a specially designed sprayer washing room, a changing room, shower room, PPE store room, spray machinery store room and PPE washing area. All stores including those handling chemicals and fuel have been upgraded and personnel provided necessary training and awareness to reduce the risk of accidents and negative impact on human health.

## MANAGEMENT DISCUSSION AND ANALYSIS

### CONTINUOUS LEARNING



KVP recognises that its employees are the driving force of the Company. Hence, we understand the importance of equipping and empowering them through continuous training and development.

In order to ensure a talented and efficient workforce we offer comprehensive training for our employees at all levels of the organisation. At the beginning of every year, each department, including the plantations, sets goals for employee development. Based on this, a training calendar is developed incorporating Individual training plans for every subordinate in concurrence with respective superiors. This exercise is carried out to create a performance-based culture within the Group, which enables to identify individuals with strong leadership qualities.

During the year under review, we trained our executives both male and female, to improve their skills and capabilities. 512 training hours were expended including 125 hours of foreign training received by four male executives. In total, 8,411 employees received 2,293 hours of training, mainly on aspects of sustainability of the industry. Of the total, 5,125 were female employees.



Outbound training, Kandalama Lake, Dambulla



## MANAGEMENT DISCUSSION AND ANALYSIS

<b>SKILLS MANAGEMENT AND LIFELONG LEARNING</b>	Training opportunities related to career growth fulfilling both short and long-term objectives were provided both locally and overseas.
<b>DATA ON EMPLOYEES PERFORMANCE AND CAREER DEVELOPMENT REVIEWS</b>	All executive employees of KVP receive performance and career development reviews, which are accompanied by training opportunities to acquire new skills or to refine existing skills to reach desired levels.
<b>DIVERSITY AND EQUAL OPPORTUNITY</b>	From its very inception KVP has been an equal opportunity provider to its employees. At present nearly 55% of the total cadre consists of females. There is no discrimination in regard to remuneration and other conditions, between male and female employees.
<b>HUMAN RIGHTS</b>	The Group is guided by international and local covenants such as the UNGC and Sri Lanka's legal and regulatory systems, in regard to safeguarding human rights.
<b>INVESTMENT AND PROCUREMENT PRACTICES</b>	Our commitment to UNGC and Sri Lanka's regulatory framework also inform our interactions across all supply chains and business relationships. In that context, we operate completely within regulatory guidelines and ethics where investment and procurement practices are concerned.
<b>EMPLOYEE TRAINING HOURS ON HUMAN RIGHTS</b>	Training programmes, on the awareness of the principles of the Global Compact and their incorporation in company strategy, were carried out by members of the senior management of the Company for all executives. However during this period, the number of participants and number of training hours were restricted due to the scarcity of expertise in this area.
<b>NON-DISCRIMINATION</b>	<p>There was not a single incident reported regarding the violation of human rights of indigenous people. We do not recruit or employ underaged people and most of our initiatives encourage youngsters to attend school.</p> <p>The Group has internally communicated a firm policy against forced or compulsory labour and subscribes to the concept of freedom of association and collective bargaining, whilst encouraging a balanced division of engagement between working hours and family life.</p>
<b>CHILD LABOUR</b>	KVP does not engage in or support any form of child labour or the employment of individuals below the age limit defined by law. Further all recruiting is done within the framework of legal age proofing documents.
<b>FORCED LABOUR</b>	KVP does not engage in or support the use of forced labour.

## MANAGEMENT DISCUSSION AND ANALYSIS

**COMMUNITY** KVP has invested significant effort and resource to provide a satisfactory environment for its community. Details of related activities are elaborated elsewhere in the report.



*Pre-school at Invery Estate, Dickoya*

**CORRUPTION** KVP has always pursued profit generation within a strict frame work of integrity and ethics. We are practicing an entrenched code of conduct for anti-corruption. There have been no known violations of this code.

### CUSTOMER CAPITAL

**TEA** KVPL's Tea has mainly 6 major buyers. Our biggest buyer who absorbed 16% of our production in 2009 today accounts for over 20%. Our main buyers have kept their faith in purchasing KVPL Teas for reasons of purity and good business ethics. Our low grown Teas produced under RA have reached destinations such as Japan and Canada, Russia and China whilst non-RA Teas, though small in volume, reach Turkey. The high grown Teas of Nuwara Eliya and Hatton are mainly distributed to the US, Japan and Canada. These Teas are certified by RA. Since of late, UTZ certified Tea is being sought after by the Netherlands. China and the Netherlands are recent markets for our Tea.

**RUBBER** More than 50% of KVPL's Rubber production is purchased by Dipped Products PLC in the form of centrifuged latex and field latex for glove manufacture. Mainly household and industrial gloves are made in their production facilities. The main markets for these products are USA, UK, Brazil, Italy and Australia.

KVPL's top of the range Rubber product - sole crepe, which contributes handsomely to our NSA, is used in the fashion shoe and winter boot industry. The major shoe manufactures have now located their manufacturing plants in the Asian region with China being the main buyer whilst Vietnam, Bangladesh and Taiwan also buy significant volumes.



## MANAGEMENT DISCUSSION AND ANALYSIS

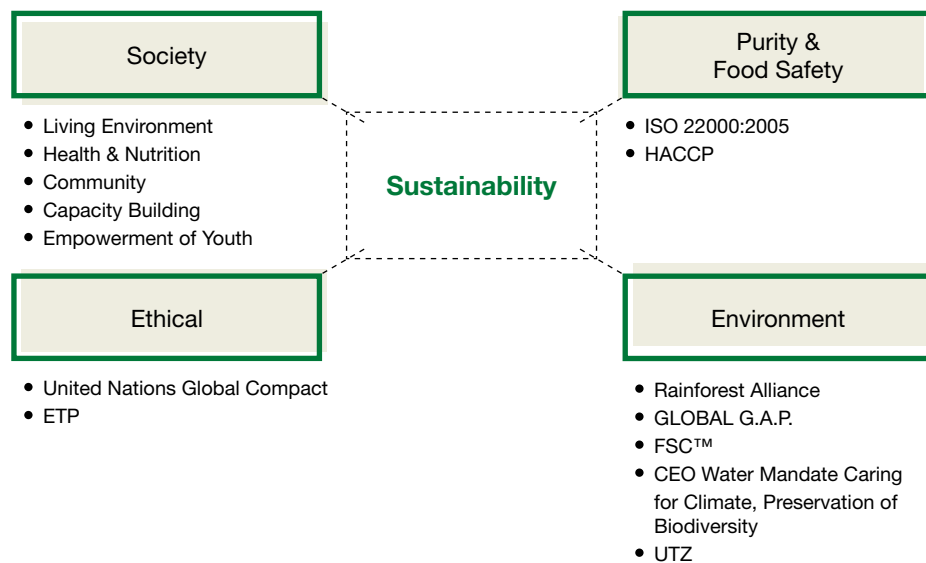
The latex crepe is used in the pharmaceutical industry, shoe industry and adhesive industry. The top quality latex crepes are used in the pharmaceutical industry located mainly in the United States and Europe. Once again China and the far Eastern countries are the main buyers of latex crepe for adhesive and general purpose Rubber goods.

With our focus on product diversification constantly applied to our existing range, we are able to give our customers the confidence and assurance of high quality products that meet or even pre-empt their requirements. Our conformance with internationally recognised certifications are is another confidence generating factor for our customers and business partners.

We are transparent in our operations and maintain an open door policy for our buyers and customers. They have the opportunity to visit our factories and observe production processes. Our factories are visited regularly by people in the Tea and Rubber trade. Through this stance we have built a good network where even overseas buyers are encouraged to visit our facilities. Our Tea factories are some of the most visited in the island especially by Tea trade professionals. Every international buyer who calls on us, visits our factory in Nuwara Eliya.

**COMPLIANCE** The Company was not subject to any fines or sanctions for non-compliance with any environmental laws or regulations. There were no significant spills recorded and no waste deemed hazardous was transported during the year under review.

**PRODUCT RESPONSIBILITY** Our drive for sustainability is based on our firm commitment to purity of product, safety of processes, ethical business practices and care for the environment and society, both within and outside the boundaries of our plantations. This is illustrated in the diagram below:



## MANAGEMENT DISCUSSION AND ANALYSIS

Our operations are conducted in an environmentally friendly and socially responsible manner. This is affirmed by the GLOBAL G.A.P. certification and Rainforest Alliance Certifications obtained by KVPL Tea plantations and by the Forest Stewardship Council™ (FSC) Certification obtained by all our Rubber plantations.

Kelani Valley Plantations PLC is a HACCP and ISO 22000:2005 certified company. Since 2007, all 13 of our black Tea factories have maintained the food safety management certifications. During the year, these certifications were revalidated through surveillance audits which affirmed conformance to standards. Our products are periodically tested by accredited laboratories for minimum-permitted residual levels of agrochemicals, heavy metals and microbiological content, to ensure conformity with international standards. All relevant systems are periodically audited by the internal on-location work team and the sustainability team of the head office.

Product and service responsibility has always been a high priority for KVPL. We adopt stringent measures to examine each process, from land preparation to harvesting and processing of final products. This is carried out to minimise any adverse effects or outcomes concerning the environment and/or the consumer. For example, every major agricultural practice is implemented only after passing a stringent Environment Impact Assessment (EIA). Our in-house laboratory in Hatton, conducts necessary soil analyses, to measure the current soil fertility, in order to ensure optimum usage of inorganic fertilizer.

### OUR COMMITMENT TOWARDS SUSTAINABILITY & COMPLIANCE





## MANAGEMENT DISCUSSION AND ANALYSIS

### SOCIAL AND ENVIRONMENTAL CAPITAL

**SOCIETY** Committed as we are to the ethic of responsibility across every facet of operation, KVPL has invested significant resources in the Company's Social Responsibility Initiative - 'A Home for Every Plantation Worker Programme'. This programme was established in 2006 with the intention of creating a contented family life for all at Kelani Valley Plantations.

This community engagement strategy encompasses four focus areas - Improvement in Living Environment, Health and Nutrition, Community Capacity Building and Empowerment of Youth. It is tailored to meet the needs of our local communities. Data relevant to the four main focus areas are presented hereunder.

#### LIVING ENVIRONMENT



Item	1992-2012	2013	Total
New houses built (units)	1,371	25	1,396
Land extent granted for housing (perches)	9,745	175	9,920
<i>Up grading of worker quarters</i>			
Re - roofing	7,465	14	7,479
Electrification	6,895	91	6,986
Access roads rehabilitated (km)	278	5	283
Water schemes	1,158	3	1,161
Sanitation - newly built toilets (units)	7,516	129	7,645
Playgrounds (units)	20	2	22
Staff quarters	179	6	185
<i>Up graded units</i>			
Community centres	19	2	21
Child development centres	14	3	17
Hot water bathing spots (units)	15	1	16

Since privatisation, we have constructed 1396 housing units on an extent of 9,920 perches of estate land granted for this purpose. Above mentioned twenty-five (25) new housing units are being constructed in Ingestre Estate. A total of 14 worker quarters were re-roofed while 91 houses were provided with electricity during year under review. We have also reconstructed 283 km of access roads within our estates, since privatisation. All these initiatives were carried out in collaboration with the Livestock and Rural Community Development Ministry, Plantation Human Development Trust (PHDT), Plantation Development Project (PDP) and the International Institute of Development of Training (IIDT).



## MANAGEMENT DISCUSSION AND ANALYSIS

### HEALTH AND NUTRITION



Programme	1992-2012	2013	Total
Dental Clinics	456	31	489
Dengue awareness programme	147	67	214
Eye clinics	930	41	971
TB awareness programmes	98	44	142
Oral cancer programmes	105	35	140
Provision of spectacles (No. of spectacles)	3,311	945	4,256
Cataract removal surgeries (No. of participants)	1,065	101	1,166
Logistic support (km)	943,051	17,113	960,164
AIDS awareness programmes	1,788	30	1,818
De-worming programmes	7	33	40

KVPL is committed to maintaining the highest health and nutritional standards in our estate communities. We conducted a total of 31 dental clinics with the assistance of the MOH Office and the Berendina Foundation. These were carried out in Pedro, Glassaugh, Oliphant, Ingestre, Annfield, Blinkbonnie, Fordyce, Tillyrie, Robgill, Invery, Kiriporuwa, Ganepalla, Ederapola, Kelani, Halgolla and Kalupahana Estates. Further, in collaboration with International Resources for the Improvement of Sight (IRIS), we conducted 41 eye clinics, 101 cataract removal surgeries and also provided 945 pairs of spectacles to the estate community.

We further conducted 67 dengue awareness programmes, 44 TB awareness programmes, 30 AIDS awareness programmes, 33 de-worming clinics and 35 oral cancer programmes in both up country and low - country estates. Our estate owned ambulances and hired vehicles has travelled 17,113 km to provide transport facilities for estate residents seeking treatment at external medical facilities during the year.



Awareness Programme, Pedro Estate, Nuwara Eliya



## MANAGEMENT DISCUSSION AND ANALYSIS

### COMMUNITY CAPACITY BUILDING

Programme	1992-2012	2013	Total
Street Dramas	16	12	28
Alcohol prevention programmes	131	37	168
No. of borrowers who obtained loans from Estate Worker Housing Co-operative Society	30,032	6,531	36,563
Loans disbursed (Rs. m)	293	87	380
Deposits accepted (Rs. m)	130	30	159
Household cash management programmes	118	15	133

The alcohol prevention and household cash management programmes were carried out in the interests of the estate community. These were carried out in collaboration with the Estate Worker Housing Co-operative Society (EWHCS), World University Services of Canada (WUSC) and Berendina Foundation. Deposit mobilisation amounted to Rs. 29.7 m while loan disbursements amounted to Rs. 87.0 m during the year. These loans disbursed by the Company's Estate Worker Housing Co-operative Society were used for housing renovations, purchasing motorcycles, organising traditional ceremonies and redeeming mortgaged properties.

### EMPOWERMENT OF YOUTH

Programme	No. of Participants		Total
	1992-2012	2013	
Training for small business management	1	39	40
Bridal and beautycare	14	10	24
Home gardening	457	71	528
Computer classes	44	11	55
Vocational training for self-employment	2	22	24

The training in small business management was accomplished with the participation of selected small scale businessmen under the auspices of IIDT and WUSC. Computer and home gardening classes were conducted with assistance from WUSC and Berendina Foundation. The vocational training for self - employment programme was conducted by the AGA's Office.

We, Kelani Valley Plantations PLC, as a responsible business entity, enjoy the confidence of all stakeholders for accountability and openness. We operate in areas which are very sensitive in regard to social and economic parameters. Consequently, we are compelled to play a key role in the society and its economy through the provision of livelihoods for the community, both within and outside the plantations. These include incomes for the provision of food, schooling and healthcare for children, whilst ensuring the conservation of sensitive ecosystems. The issues that we encounter are complex in terms of impact on economy, environment and the lives of people and not always within our capacity to resolve.

## MANAGEMENT DISCUSSION AND ANALYSIS

### ENVIRONMENT



We reduce the direct impact of our operations on the environment through monitoring and efficient operational processes. The indirect effects were addressed by selecting suppliers with strong environmental credentials and by encouraging our existing suppliers to improve their environmental performance. In the financial year 2013, we developed new targets for material, energy, water, biodiversity and waste management. All our plantations follow agricultural operations consistent with The Company's environment policy.

These initiatives have enabled to make the farms of our bought leaf and bought latex suppliers more viable and efficient, ensuring the security and quality of our supply. We extend our support to every area of agricultural practice, farming, which help smallholders to improve the quality of their lives and make them more self-sufficient.

During the year, our expenditure on environmental conservation amounted to Rs. 33.8 m. We focused on areas such as soil conservation, crop covers, waste water management, water conservation and planting of bamboo trees, apart from many other initiatives undertaken by us.



Lovers Leap, Pedro Estate, Nuwara Eliya



## MANAGEMENT DISCUSSION AND ANALYSIS

### MATERIALS



Our daily operations consume a wide range of materials whilst our requirements could vary significantly from time to time. Therefore, it is important to review the effectiveness of our principles and practices on a regular basis. For this reason, we regularly analyse and prioritise areas that are important to us and our stakeholders, and obtain appropriate standards to be applied using the principle of materiality. Tracking material consumption improves the efficiency of material usage and reduces the cost of material flow. For year 2013, our material consumption was as follows:

Bought leaf	kg	5,119,734
Bought latex	kg	343,132
Fertilizer	MT	3,505.21
Dolomite	MT	1,439
Agro Chemicals	Litres or/and kg	21,595 Lit 2,170 kg
Packing Materials	No. of bags	151,564

Working with our bought leaf and bought latex suppliers in this way makes their farms more viable and efficient whilst ensuring the security and quality of our supply. Our agronomy support covers all areas of agricultural practice helping smallholders improve the quality of their lives and making them more self-sufficient.

### ENERGY



#### Direct Energy Consumption by Primary Energy Sources

Type of Energy	2013	2012	2011	Units
<b>Hydro-Power</b>				
Manufacturing	78,055	57,256	145,811	kWh
<b>Gasoline</b>				
Field machinery		17,183	23,614	Litres
Supervisory & Other		41,686	61,499	Litres
<b>Diesel</b>				
Power generators	37,672	55,147	56,428	Litres
Manufacturing			-	Litres
Field machinery	1,458	2,849	8,209	Litres
Field Transport	231,223	255,886	305,871	Litres
Supervisory & other	86,558	131,802	156,676	Litres

We use a substantial amount of energy in our operations. As detailed above, the highest amount of energy has been utilised for field transport, followed by supervisory and other areas. As in the previous years, field machinery has consumed the least amount of energy.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Direct Energy Production by Primary Energy Sources

Type of Energy	2013	2012	2011	Units
<b>Group hydro-power generation</b>	<b>2,776,911</b>	<b>1,399,091</b>	<b>2,283,304</b>	<b>kWh</b>

### Indirect Energy Consumption by Intermediate Energy Sources

Type of Energy	2013	2012	2011	Units
<b>Electricity</b>				
Manufacturing (Tea)	5,284,665	5,471,750	6,422,192	kWh
Manufacturing (Rubber)	918,132	829,929	1,038,749	kWh
Office and Quarters	861,688	804,633	903,800	kWh
Other (Dispensary, Temples, Creches, Community Centres, etc.)	110,163	46,289	98,554	kWh

### Biomass Consumption as Energy Source

Type of Energy	2013	2012	2011	Units
<b>Firewood</b>				
Manufacturing (Tea)	48,871	42,455	49,287	Cu.m.
Manufacturing (Rubber)	874	667	853	Cu.m.



Sri Lanka is fortunate to be blessed with one of the highest per capita fresh water resources in the world and each year we get enough rainfall to fill our lakes, reservoirs, streams and rivers.

This provides an outstanding competitive advantage to our country.

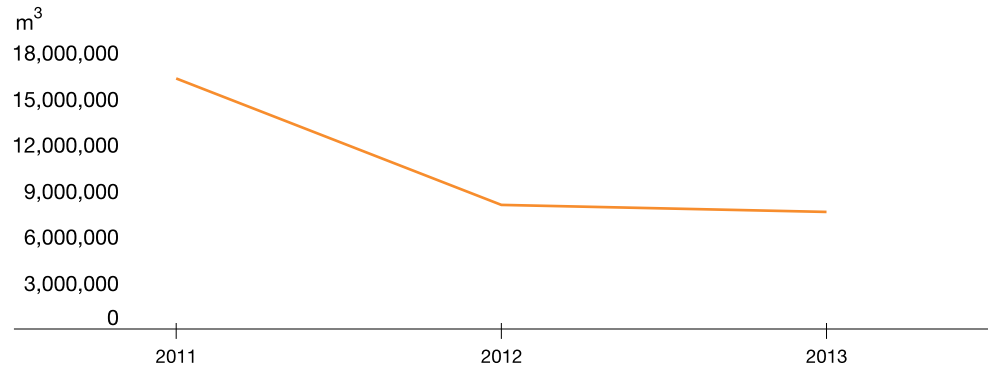
KVPL became a signatory to the United Nations CEO Water Mandate and Caring for Climate in 2008. Our continuing support for these protocols means that we not only economise on water at our own locations, but are implementing water conservation initiatives and investing more on educational and training programmes to ensure we are making the best possible use of this critical resource.

We are not a significant user of water in the manufacture of Tea. However, manufacturing of Rubber takes a comparatively large amount of water.



## MANAGEMENT DISCUSSION AND ANALYSIS

ANNUAL WATER USAGE



Compared to 2012, in 2013 KVPL has increased efficiency in its usage of water effecting a saving of nearly 800,000 m<sup>3</sup> of water for the year. We accomplished this by: Proper monitoring of water usage with water meters in every Tea processing centre, conducting of educational programmes in the community on sustainable water usage, engagement of most of the stakeholders for watershed protection and enrichment programme, annually checking the quality of potable water, where estate employee usage is high and the availability on each estate of a water map to identify all water sources and distribution channels on the plantation and thereby enabling the implementation of measures to repair and avoid waste due to leak or spill.

Throughout our estates we have 156 distribution tanks and 86 wells to meet the water requirements of our resident worker population.

### BIODIVERSITY



Deforestation at the hands of human beings increases the concentration of greenhouse gases in the atmosphere leading to an 'enhanced' greenhouse effect, causing surface air temperatures to rise which in turn cause changes in climate. A warmer earth can lead to changes in rainfall patterns, a rise in sea level, and a wide range of impacts on plants, wildlife, and humans. The importance of forests in fixing atmospheric carbon is well understood. However, forest cover in most countries is increasingly threatened and reforestation programmes have failed due to economic reasons and poor participation from the public. Therefore, we have opened up an avenue where we can actively participate to reduce the greenhouse effect with the help of various donor agencies.

Over 1,000 ha of forest reserves are located within the Company's plantation boundaries, distributed across three agro-climatic regions, namely Nuwara Eliya, Hatton-Dickoya and Yatiyantota-Bulathkohupitiya. These forest reserves have progressively developed into unique biodiversity enclaves due to fauna and flora mutations driven by geographic isolation. During the year, under the KVPL biodiversity conservation and enrichment programme, we have allocated 27.24 Ha in Nuwara Eliya region which serves as an animal corridor for movement from one forest patch to the other.

## MANAGEMENT DISCUSSION AND ANALYSIS



*The Nationally Endangered, Endemic, 'Rhinohorn Lizard', (Ceratophora Stoddartii) Found in Halgolla Estate, Yatiyantota*

### EMISSIONS, EFFLUENT AND WASTE

None of our estates practice environment hazardous activity like to results in the depletion of ozone layer and the emission of green house gases beyond the stipulated local and international regulations. All KVPL estates comply with the stipulations of the respective Government bodies in regard to the relevant protection standards.

### WASTE WATER DISCHARGE



The manufacture of Rubber consumes a large amount of water and is associated with a high concentration of chemicals. Therefore, stringent measures are in place in all our Rubber factories to ensure that we meet stipulated control parameters whilst all Rubber factories are equipped with scientifically designed waste water treatment plants.

All Rubber processing centres have on-site waste water treatment plants with a cumulative capacity of 571,500 litres, equipped with the best available technology. Further, all our Tea processing centres have waste water treatment units. As an additional precaution, during the year under review, we have constructed 73 soakage pits to filter domestic waste water before release as ground water which shows the cumulative as 515.

Periodic waste water analysis is conducted to ensure that the waste water treatment is effective and within the prescribed legal limits.

### WASTE DISPOSAL BY TYPE, WEIGHT AND METHOD

KVPL has focused on reducing waste generated directly and indirectly through operations, at all of its plantations and offices. We are improving awareness among our staff and workforce, to demonstrate the importance of proper waste disposal systems.



We have implemented various programmes across our production sites, stores and offices to reduce the environmental impact of generated waste through elimination, reduction, re-designing operational systems and the use of renewable materials. All waste materials are collected separately according to their nature such as bio degradable, glass, plastic, hazardous waste and hospital waste.

During the period under review, the Company built 354 waste bins to segregate waste according to above classification, and 6,091 kg of hazardous waste (empty chemical plastic cans) were recycled through the services of Central Environment Authority approved recyclers.

#### COMMUNITY SERVICE



*Dental Clinic, Ingestre Estate, Dickoya*

In the social and national sphere, we are responsible for approximately 54,000 estate population, providing them with their livelihood, housing, medicine, water and sanitation, welfare and other social amenities. Imbued as they are with the KVPL ethos, they live in equanimity with their neighbours and as such, law and order among them is largely maintained without burden to the law enforcement arm of the Government.

Through our activities economic and otherwise, in proximity to our factories, the Company has created economic pipelines to a wider community of villagers and townfolk who lie beyond our 'immediate family'. We open our facilities to a wider village community through our CSR activities, which makes a positive difference in terms of community life and social services pertaining to them.

KVPL operates a very substantial bought leaf and bought latex operation thus providing the smallholder community with a ready and fair market for their produce.

## AWARDS AND ACCOLADES



We were the proud winner of the prestigious 'National Business Excellence Awards 2013' for the fourth time under the Agriculture and Plantations Category, organized by the National Chamber of Commerce of Sri Lanka. This was in recognition of our excellence in business and the contribution made to economic progress of Sri Lanka.

In recognition of our commitment to excellence in annual reporting, for the third consecutive year, we won Silver Award in the Agriculture and Plantations Sector at the Annual Report Awards, organised by The Institute of Chartered Accountants of Sri Lanka.

We achieved yet another distinction by being conferred the winner of the Best Presented Annual Report (for year 2011) Award in the South Asian Region organised by the South Asian Federation of Accountants (SAFA). This was in recognition of our adherence to best corporate governance practices and transparent accounting and financial reporting procedures in the interest of the Company and its stakeholders.

Mabroc Teas won the Gold Medal for Bulk Tea - Large Category 2011 and the Silver Medal for Value Added Tea - Large Category at the National Chamber of Exporters' Annual Award Ceremony.



## MANAGEMENT DISCUSSION AND ANALYSIS



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### Independent Assurance Report to the Board of Directors of Kelani Valley Plantations PLC on the Sustainability Report - 2013

#### INTRODUCTION AND SCOPE OF THE ENGAGEMENT

The management of Kelani Valley Plantations PLC ('KVPL') engaged us to provide an independent assurance on the following elements of the Sustainability Report - 2013 ('the Report').

- Reasonable assurance on the information on financial performance as specified on page 172 of the Report.
- Limited assurance on KVPL's self-declaration ('the self-declaration') in respect of the content of the Report prepared in accordance with the requirements of the Global Reporting Initiative G3.1 guidelines at application level 'C+'.

#### BASIS OF OUR WORK AND LEVEL OF ASSURANCE

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ('CASL').

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI application level 'C+' in the 'GRI Application Level' publication, publicly available at GRI's global website at "www.globalreporting.org".

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

#### MANAGEMENT OF KVPL'S RESPONSIBILITY FOR THE REPORT

The management of KVPL is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustaining reporting process in line with the GRI Sustainability Reporting Guidelines.

#### ERNST & YOUNG'S RESPONSIBILITY

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the self-declaration contained in the Report has not been prepared, in all material respect, in accordance with the requirements of the GRI Guidelines at application level 'C+'. This report is made solely to KVPL in accordance with our engagement letter dated 23 November 2013. We disclaim any assumption of responsibility for any reliance on this report to any person other than KVPL or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the ICASL.

## MANAGEMENT DISCUSSION AND ANALYSIS

### KEY ASSURANCE PROCEDURES

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- Interviewing relevant KVPL's personnel to understand the process for collection, analysis, aggregation and presentation of the self-declaration.
- Reviewing and validation of the information contained in the self-declaration and the Report.
- Checking the calculations performed by KVPL on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the KVPL's audited financial statements for the year ended 31 December 2013.
- Comparison of the content of the Report against the criteria for a self-declaration at a 'C+' level in accordance with the GRI Application Level publication.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

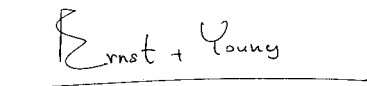
### LIMITATIONS AND CONSIDERATIONS

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

### CONCLUSION

Based on the procedures performed, as described above, we conclude that:

- The information on financial performance as specified on page 172 of the Report are properly derived from the audited financial statements of the KVPL for the years ended 31 December 2012 and 31 December 2013.
- Nothing has come to our attention that causes us to believe the GRI self-declaration contained in page 184 of the Report has not been prepared, all material respects, in accordance with the requirements of the GRI Guidelines at application level 'C+'.



Chartered Accountants

20 February 2014

Colombo



# PEOPLE POWER RESILIENCE

From little green fledgling plants at our Rubber Nursery on Panawatte Estate, Yatiyantota, these 'young ones' will grow tall into Sri Lanka's finest Rubber plantations. Every step of the way, human hands and minds will plan, prepare, nurture, tap, cure and produce some of the world's finest Rubber...people powering a thriving industry.



## BOARD OF DIRECTORS

**A M PANDITHAGE**  
*CHAIRMAN  
EXECUTIVE DIRECTOR*

Joined Hayleys Group in 1969. Chairman and Chief Executive of Hayleys since July 2009. Appointed to the Directorate of Kelani Valley Plantations PLC in January 2007.

Honorary Consul of United Mexican States (Mexico) to Sri Lanka. Fellow of the Chartered Institute of Logistics & Transport. Director, Sri Lanka Port Management & Consultancy Services Ltd., Member of the Presidential Committee on Maritime Matters. Committee Member of the Ceylon Chamber of Commerce. Council Member of the Employers' Federation of Ceylon. Member of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka.

**W G R RAJADURAI**  
*EXECUTIVE DIRECTOR*

Managing Director of Kelani Valley Plantations PLC and Talawakelle Tea Estates PLC from January 2013 and a member of the Hayleys Group Management Committee.

An experienced planter with over thirty years of experience in plantation management, former Chief Executive Officer of a reputed regional plantation company.

Chairman of the Planters' Association of Ceylon, a member of the Sri Lanka Tea Board, Rubber Research Board, Tea Small Holdings Development Authority (TSHDA) and in the Tea Council of Sri Lanka.

**F MOHIDEEN**  
*INDEPENDENT NON-EXECUTIVE  
DIRECTOR*

Director of Kelani Valley Plantations PLC since October 2008. Holds a B.Sc. in Mathematics, University of London and a M.Sc. in Econometrics, London School of Economics. Former Deputy Secretary to the Treasury and Director General, External Resources Department, Ministry of Finance and Planning.

**S SIRIWARDANA**  
*EXECUTIVE DIRECTOR*

Joined Kelani Valley Plantations PLC in 1995. Appointed to the Board in June 2009. Fellow, The Institute of Chartered Accountants of Sri Lanka and the Institute of Certified Management Accountants of Sri Lanka and a member of the Institute of Certified Public Accountants of Sri Lanka. Has held senior management positions in many private sector organisations.

**S C GANEGODA**  
*NON-EXECUTIVE DIRECTOR*

Director of Kelani Valley Plantations PLC since September 2009. Rejoined Hayleys in March 2007. Appointed to the Boards of Hayleys PLC in October, 2009. Fellow, The Institute of Chartered Accountants of Sri Lanka, Member, Institute of Certified Management Accountants of Australia and holds an MBA from the Postgraduate Institute of Management, University of Sri Jayawardenepura, Sri Lanka. Worked for Hayleys PLC and Diesel & Motor Engineering PLC between 1987 and 2002 and ultimately as an Executive Director of the latter. Subsequently held several senior management positions in large private sector entities in Sri Lanka and overseas. Has responsibility for Group Corporate Strategic Business Development and the consumer sector within the Hayleys Group.

## BOARD OF DIRECTORS

### **L T SAMARAWICKRAMA** **NON-EXECUTIVE DIRECTOR**

Director of Kelani Valley Plantations PLC since November 2009. Managing Director of Amaya Resorts and Spa's and The Kingsbury Colombo. An internationally qualified hotelier having gained most of his management experience in the UK, working for large international hotel chains over a long period of time. First Sri Lankan Manager to be appointed by the Beaufort International Chain of Hotels to run the first seaside boutique resort in the Island. Member of the Institute of Hospitality, UK (formerly HCIMA) and of the Royal Society of Health, London. He counts over considerable experience in the trade. Having specialised in hotel designs and developments, has been responsible for the planning and execution of Amaya Resorts & Spa's refurbishment and rehabilitation programmes. Director of Hayleys PLC, Fortress Resorts PLC, The Kingsbury PLC, Hunas Falls PLC and Royal Ceramics Lanka PLC.

### **DR. K I M RANASOMA** **NON-EXECUTIVE DIRECTOR**

Director of Kelani Valley Plantations PLC since October 2011. Joined DPL in August 2010 as an Executive Director and took over as Managing Director from April 2011. Appointed to the Hayleys Group Management Committee in January 2011 and to the Board of Hayleys in April 2011. Former Country Chairman/Managing Director of Shell Gas Lanka Ltd., and Shell Terminal Lanka Ltd. Holds a First Class Honours Degree in Engineering from the University of Peradeniya, Sri Lanka, a Doctorate from Cambridge University, UK and a MBA with Distinction from Wales University, UK.

### **C V CABRAAL** **INDEPENDENT** **NON-EXECUTIVE DIRECTOR**

Appointed to the Board in January 2013. A Graduate (with Honors) in Mechanical Engineering from the University of Missouri Science and Technology in 2010. Served as an Engineer working with the Energy and Environment Division of Brandix Lanka Ltd. Main functions include analysis of new equipment for the factories, renewable energy projects, solid waste management and sustainability reporting. Upon his return to Sri Lanka in 2010 worked as a management trainee with Keells Hotel Management Services till 2011 in the Projects and Engineering Department.

### **L N DE S WIJEYERATNE** **INDEPENDENT NON-EXECUTIVE** **DIRECTOR**

Appointed to the Board of Kelani Valley Plantations PLC in July 2013. Fellow of the Institute of Chartered Accountants in Sri Lanka and counts over thirty-five years of experience in Finance and General Management both in Sri Lanka and overseas. Former Group Finance Director of Richard Pieris PLC from January 1997 to June 2008 and also held senior management positions at Aitken Spence & Company, Brooke Bonds Ceylon and Zambia Consolidated Copper Mines Ltd., Serves as a member of the Quality Assurance Board of the Institute of Chartered Accountants and a former member of the Sri Lanka Accounting Standards Monitoring Board. Presently an Independent Director of several listed and unlisted companies.

## CORPORATE MANAGEMENT PROFILE

### BOARD OF DIRECTORS

#### KELANI VALLEY PLANTATIONS PLC



Tea & Rubber Plantations - Incorporated in 1992 in Sri Lanka - Stated Capital - Rs. 340 m

#### DIRECTORS

A M Pandithage - Chairman

J A G Anandarajah - Retired w.e.f. 31.03.2013

W G R Rajadurai - Managing Director

G K Seneviratne - Resigned as Managing Director w.e.f. 01.01.2013 and as Director w.e.f. 9.01.2013 and appointed as Alternate Director to Mr. A.M. Pandithage w.e.f. 9.01.2013 and resigned w.e.f. 8.04.2013.

R Seevaratnam - Resigned w.e.f. 30.07.2013

F Mohideen

S Siriwardana

S C Ganegoda

L T Samarawickrama

Dr. K I M Ranasoma

C V Cabraal

L N De S Wijeyeratne - Appointed w.e.f. 30.07.2013

### DPL PLANTATIONS (PVT) LTD.



Plantation Management, Managing Agent - Incorporated in 1992 in Sri Lanka - Stated Capital - Rs. 350 m

#### DIRECTORS

A M Pandithage - Chairman

J A G Anandarajah - Managing Director - Retired w.e.f. 31.03.2013

W G R Rajadurai - Managing Director, KVPL

G K Seneviratne - Retired w.e.f. 08.04.2013

S Siriwardana

N Y Fernando - Retired w.e.f. 12.12.2013

S C Ganegoda

Dr. K I M Ranasoma



## CORPORATE MANAGEMENT PROFILE

### KALUPAHANA POWER COMPANY (PVT) LTD.



Generates Hydro Power - Incorporated in 2003 in Sri Lanka - Stated Capital - Rs. 30 m, Group interest - 60%

#### DIRECTORS

S Siriwardana

Dr. K I M Ranasoma - *Appointed w.e.f. 16.04.2013*

W G R Rajadurai - *Appointed w.e.f. 16.04.2013*

R A B Ranatunga - *Appointed w.e.f. 03.06.2013*

M F M Ismail - *Appointed w.e.f. 03.06.2013*

Dr. R D Bandaranaike - *Resigned w.e.f. 03.06.2013*

D J Ambani - *Resigned w.e.f. 03.06.2013*

J A G Anandarajah - *Retired w.e.f. 31.03.2013*

G K Seneviratne - *Retired w.e.f. 08.04.2013*

### KELANI VALLEY INSTANT TEA (PVT) LTD.



Manufactures Instant Tea - Incorporated in 2007 in Sri Lanka - Stated Capital - Rs. 30 m, Group Interest 100%

#### DIRECTORS

A M Pandithage

N R Ranatunga

Dr. K I M Ranasoma - *Appointed w.e.f. 16.04.2013*

W G R Rajadurai - *Appointed w.e.f. 16.04.2013*

J A G Anandarajah - *Retired w.e.f. 31.03.2013*

G K Seneviratne - *Retired w.e.f. 08.04.2013*

### MABROC TEAS (PVT) LTD.



Exports Bulk & Retail Packed Tea - Incorporated in 1988 in Sri Lanka - Stated Capital - Rs. 90 m, Group Interest - 100%

#### DIRECTORS

A M Pandithage - Chairman

J A G Anandarajah

G K Seneviratne - *Retired w.e.f. 08.04.2013*

N R Ranatunga - Managing Director

R M Hanwella

R J Perera - *Retired w.e.f. 31.03.2013*

W G R Rajadurai

D S Wijesekera - *Appointed w.e.f. 02.05.2013*

Dr. K I M Ranasoma - *Appointed w.e.f. 02.05.2013*

## CORPORATE MANAGEMENT PROFILE

### MANAGEMENT TEAM

#### KELANI VALLEY PLANTATIONS PLC

##### DIRECTORS

A M Pandithage - Chairman  
J A G Anandarajah - *Retired w.e.f. 31.03.2013*  
W G R Rajadurai - Managing Director  
S Siriwardana

##### GENERAL MANAGERS

Y U S Premathilake - Rubber  
A Weerakoon - Tea  
J A Rodrigo - Marketing & Corporate Affairs

##### DEPUTY GENERAL MANAGERS

D I Gallearachchi - Nuwara Eliya Group  
K de J Seneviratne - Regional Administration  
B C Gunasekera - Low Country - Rubber Group I  
S F Fernando - Low Country - Rubber Group II  
R D G Fernando - Rubber Marketing and Administration  
D W Vedamuttu - Low Country - Tea Group  
N A A K Nissanka - Finance

##### GROUP MANAGERS

A P Senanayake - Nuwara Eliya Group  
W M P Wanasundara - Hatton Group I  
T P G I Guruge - Hatton Group II  
D E P K Welikala - Tea Group - Low Country

##### MANAGERS

K A P Dalpathadu - Corporate Sustainability  
K A R Alles - Corporate Affairs  
M M S Marasinghe - Engineer

##### ESTATE MANAGERS

**Up Country**  
M V N K Karunaratne - Robgill  
Y A Hettiarachchi - Battalgalla  
U K Tennakoon - Edinburgh  
C D Ikiriwatte - Annfield  
A I Kuruppu - Blinkbonnie - *Acting Estate Manager*  
A M C B Attanayake - Invery - *Acting Estate Manager*  
W W Wijekoon - Uda Radella - *Acting Estate Manager*  
J T Wijayasundara - Tillyrie - *Acting Estate Manager*



## **CORPORATE MANAGEMENT PROFILE**

### **Low Country**

M W N de Silva - Kiriporuwa

R M V Ratnayake - Urumiwela

D W M M R B Madawala - Lavant

V C Hewage - We-Oya

S S B Bulumulla - Ganepalla

D W H M C B Dharmakirthi - Kelani

W P S B Abeywardena - Kalupahana - *Acting Estate Manager*

### **MABROC TEAS (PVT) LTD.**

**DIRECTORS** N R Ranatunga - Managing Director  
R M Hanwella - Operations  
D S Wijesekera - Marketing

**GENERAL MANAGERS** N Weeraratne - Finance  
R A Juriansz - Human Resource

**MANAGERS** T M L J Peris - Marketing  
R S Samarasinghe - Marketing  
M I Heenpella - Marketing  
S Mahimadasa - Production

## CORPORATE GOVERNANCE

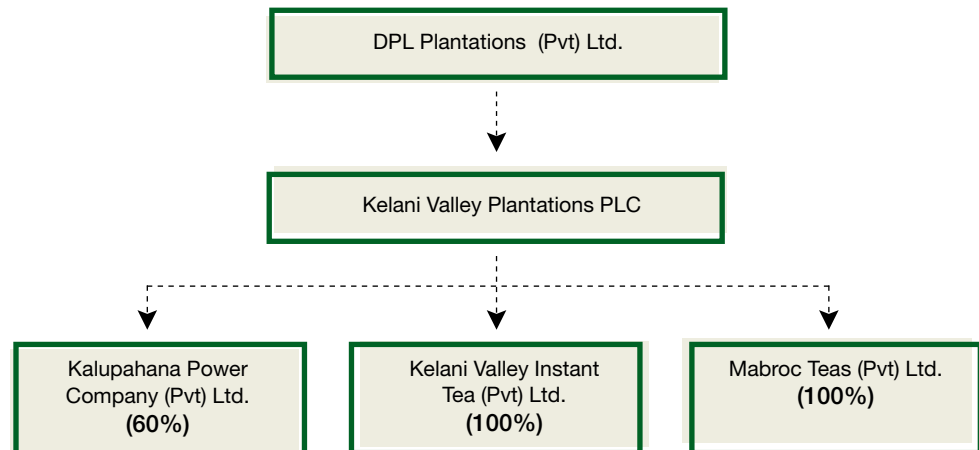
Corporate governance is about the way in which the Board oversees the management of a company, and how in turn they are accountable to the Company's shareholders and the affairs of the Company. The way in which the Company is governed would not only have implications towards the shareholders, but a wider cross-section of stakeholders - such as employees, Government, customers, communities etc.

Good corporate governance plays a vital role in underpinning the integrity and efficiency of all public companies. Good corporate governance is embedded into our core value system since poor corporate governance weakens a company's potential and at worst can pave the way for financial irregularities. Focusing only on the economic efficiency does not ensure sustainable outcome. Therefore, we endeavour ethical business practices are at the heart of our operations.

Kelani Valley Plantations PLC is committed to high standards of Corporate Governance, considered critical to business integrity, transparency, accountability and professionalism in maintaining investors' trust. We stress the values of good Governance, honesty, integrity and fairness at all levels of our staff, with direction from the Board. Our business principles reflect the standards set out to ensure that we operate lawfully.

The Board believes that a comprehensive corporate governance framework enables Kelani Valley Plantations PLC ('KVPL') to achieve ethical and stewardship obligations while supporting the creation of long-term sustainable stakeholder value.

### OWNERSHIP



KVPL is a subsidiary of DPL Plantations (Pvt) Ltd., which is a subsidiary of Dipped Products PLC. Hayleys PLC is the Ultimate Parent of KVPL. Mabroc Teas (Pvt) Ltd. and Kelani Valley Instant Tea (Pvt) Ltd. are fully-owned subsidiaries of KVPL. 60% of Kalupahana Power Company (Pvt) Ltd. is owned by KVPL.

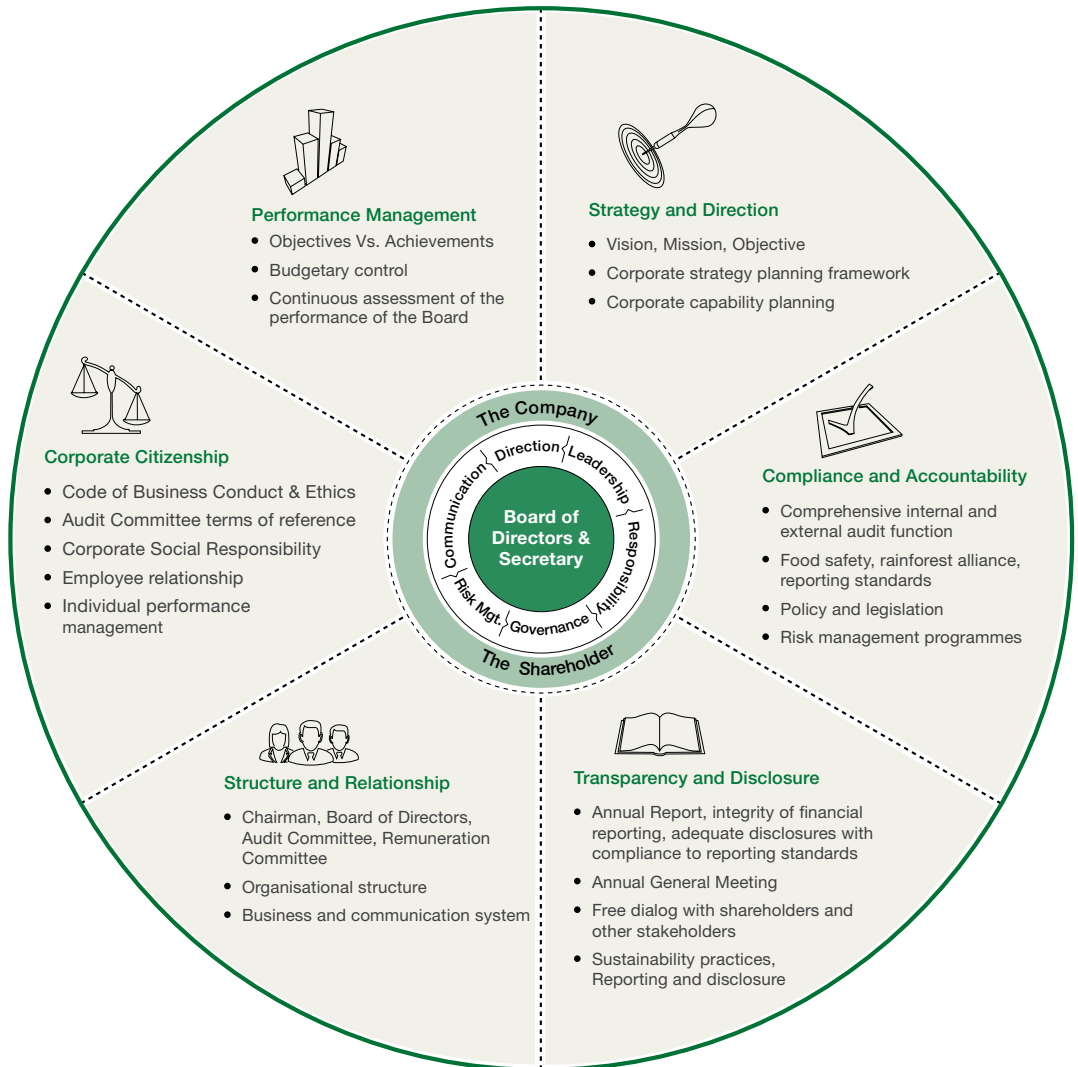
## CORPORATE GOVERNANCE

This organisational structure formally defined lines of responsibility, reporting and appropriate limits of authority. There are established procedures for planning and investment, risk management, dissemination of information and reporting systems to monitor the Company's operations.

### CORPORATE GOVERNANCE FRAMEWORK



KVPL Governance Guidelines provide Directors and the management with a road map of their respective responsibilities. These Guidelines, which will be updated periodically, detail those matters requiring Board and Committee approval, advice or review. The KVPL Governance Framework is depicted in the following diagram:



## CORPORATE GOVERNANCE

The Company adopts the Code of Best Practice on Corporate Governance 2013 issued by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka (Code) jointly, which are applicable to listed companies via the Colombo Stock Exchange Listing Rules (Amended 2013). While we are adhering to the legal framework for Corporate Governance provided by Listing Rules, the Code is used as a guideline for operational structures and processes for discharging corporate governance.

Name of Director	Director	14/2/2013	14/5/2013	30/7/2013	5/11/2013	Attendance
A M Pandithage - Chairman	Ex	✓	✓	✓	✓	4/4
W G R Rajadurai	Ex	✓	✓	✓	✓	4/4
J A G Anandarajah*	Ex	✓	-	-	-	1/1
G K Seneviratne**	Ex	✗	-	-	-	0/1
R Seevaratnam***	INEx	✓	✗	✓	-	2/3
Faiz Mohideen	INEx	✓	✓	✓	✓	4/4
S Siriwardana	Ex	✓	✓	✓	✓	4/4
S C Ganegoda	NEx	✓	✓	✓	✓	4/4
L T Samarawickrama	NEx	✗	✓	✓	✗	2/4
Dr. K I M Ranasoma	NEx	✓	✓	✓	✓	4/4
C V Cabraal	INEx	✓	✓	✓	✓	4/4
L N de S Wijeyeratne****	INEx	-	-	-	✓	1/1

Ex: Executive, INEx: Independent Non-Executive, NEx: Non-Executive

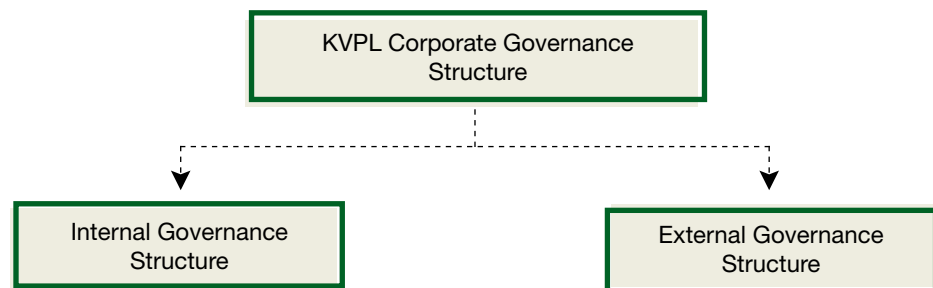
\* J A G Anandarajah retired w.e.f. 31.03.2013.

\*\* G K Seneviratne (alternative Director to A.M. Pandithage) retired w.e.f. 08.04.2013.

\*\*\* R Seevaratnam resigned w.e.f 30.07.2013.

\*\*\*\* L N de S Wijeyeratne appointed w.e.f. 30.07.2013.

### CORPORATE GOVERNANCE STRUCTURE

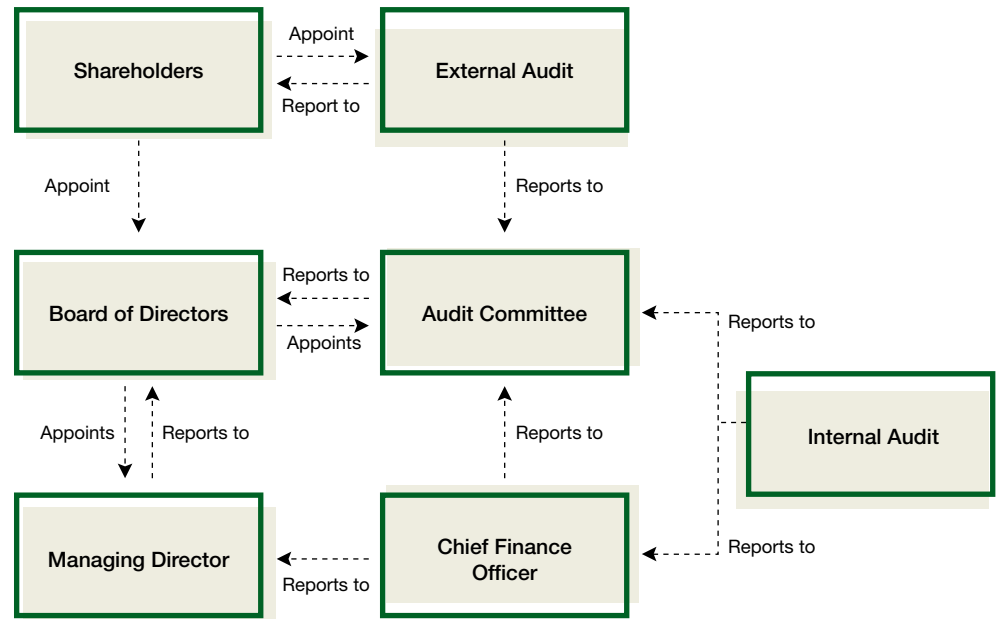


## CORPORATE GOVERNANCE

### INTERNAL GOVERNANCE STRUCTURE



The KVPL Board has established the system of policies, processes and rules to be followed in order to achieve effective and efficient decision-making and to meet corporate governance standards. It includes the roles various stakeholders play in achieving organisation's goals.



### CORPORATE MANAGEMENT TEAM

The Corporate Management Team consists of the Managing Director and the Senior Management team. The Corporate Management Team formulates strategy, seeks Board approval for this strategy, and implements it within the policy framework established by the Board. The Management Committee reviews the annual budget, operational targets, monthly performance against budget and capital expenditure proposals prior to recommending to the Board.

The Audit Committee and the Corporate Management Team are responsible for reviewing management of risks and internal control systems designed to safeguard Company assets, and to ensure accurate and reliable system of record keeping and timely dissemination of critical management information.

### CORPORATE MANAGEMENT

The Board has delegated the primary authority to the Managing Director (MD) for the implementation of policy and achieving of strategic objectives of the Company. The MD exercises this authority within the policy framework established by the Board, the ethical framework and business practices inherent to the Company which demands best practices are followed in dealing with employees, customers, suppliers and the community at large.

The MD is entrusted with optimising the use of Company's resources within the framework of corporate and financial strategies, the annual corporate plan and the budget. The Company employs a continuous planning process with the active involvement of all executives. A system of regular review of operations is in place to ensure close monitoring of performance and prompt corrective action.

## CORPORATE GOVERNANCE

### MONTHLY REVIEW COMMITTEES

Meetings of Finance, Corporate Communications and HR clusters of the Hayleys Group bring together representatives from different sectors of the Group, communicate relevant matters, areas of special interests and concerns and share best practices.

The Chief Financial Officer of the Company reports to the Hayleys Group CFO on a quarterly basis on any significant risks or concerns affecting the business activities of their sector and the financials therein. This reporting may be more frequent if warranted. CFO forum of the Group enables relevant matters to be debated among the CFO's of the Hayleys Group.

### EXTERNAL GOVERNANCE STRUCTURE



We adhere to the regulations, codes and best practices adopted by different governing bodies.

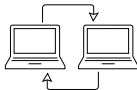
- Companies Act No. 07 of 2007
- Listing Rules of the Colombo Stock Exchange (Amended 2013)
- Code of Best Practice on Corporate Governance (Amended 2013)
- Inland Revenue Act No. 10 of 2006 and subsequent amendments
- Customs Ordinance
- Exchange Control Act

### INTERNAL AUDIT AND CONTROL



The Board is responsible for the Group's internal control and its effectiveness. Internal controls are established with emphasis on safeguarding assets, making available accurate and timely information and imposing greater discipline on decision-making. It covers all controls required, including financial, operational and compliance controls, and risk management. However, it is important to recognise that any system can provide only reasonable, but not absolute assurance that errors and irregularities are prevented or detected within a reasonable time.

### INFORMATION TECHNOLOGY (IT) GOVERNANCE



KVPL's investment in IT covers resources operated and managed centrally and resources deployed on the various estates. Computerised accounting packages, utility software and networking facilities are used at Head Office in addition to the hardware used. The estate accounts were prepared using a computerised accounting package. Internet and relevant devices are used to interconnect Head Office with estates. Online estate Performance Monitoring Unit is a recently developed infrastructure that provided critical information on a daily basis to the management.

### IT VALUE AND ALIGNMENT

Investment in IT projects and systems are made after considering their suitability for the related projects. Further aspects such as cost savings, the provision of timely information and the balance between cost and benefits are also considered when decisions are taken.

### IT RISK MANAGEMENT



Risks associated with IT are assessed in the process of Risk Management. Use of licensed software, close monitoring of internet usage (to comply with the IT Use Policy), mail server operations, the use of anti-virus and fire wall software, are some practices in place.



## CORPORATE GOVERNANCE

### EXTERNAL AUDIT

The External Auditors of the Company are Messrs Ernst & Young. The knowledge and experience of the Audit Committee ensured effective usage of the expertise of the Auditors while maintaining independence in order to deliver a transparent set of Financial Statements. The Auditors certify this on an annual basis.

### WHISTLE-BLOWER POLICY



Whistle-blower policy provides a mechanism for employees to raise concerns if a person of the organisation engages in an unlawful or immoral activity such as financial fraud, incorrect financial reporting, improper conducts, breach of values and policies of the organisation and it is expected to provide an assurance that employees raising such concerns will be protected from reprisals and victimisation. This applies to all employees working at KVPL.

The extent of compliance to the Code describes as follows:

Reference to CASL and SEC Codes	Requirement	Compliance	Details of Compliance
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### SECTION 1: THE COMPANY

#### A. DIRECTORS

##### PRINCIPLE: A.1 THE BOARD

During the year under review, the Board consisted of nine Directors - six Non-Executive Directors and three Executive Directors including the Chairman.

The Board considered that the present composition and expertise is sufficient to meet the needs of the Group. The Non-Executive Directors contribute with their knowledge and experience collectively gained from experience in serving a variety of public and private organisations. The profiles of the Directors are found on pages 68 and 69 of this Report. Details of Directors' shareholdings in KVPL are shown on page 115 and the directorates they hold in other companies are given on pages 70 and 71.

A.1.1	Board Meetings	Complied	The Board meets quarterly. Ad-hoc meetings are held as and when required. During the year under review, the Board met on four occasions. The attendance at these meetings have been depicted in the table given in this section.
A.1.2	Responsibilities of the Board	Complied	<p>The Board of Directors is responsible for setting up the governance framework within the Company. The Board has engaged DPL Plantations (Pvt) Ltd., as Managing Agent to manage the business and assets of the Company.</p> <p>The Board is responsible to:</p> <ul style="list-style-type: none"> <li>(A) Enhance shareholder value.</li> <li>(B) Ensure all stakeholder interests are considered in corporate decisions.</li> <li>(C) Formulate and communicate business policy and strategy to ensure sustained growth, and monitor its implementation.</li> <li>(D) Approve any change in the Group's business portfolio and sanction major investments and disinvestments in accordance with parameters set.</li> </ul>

## CORPORATE GOVERNANCE

Reference to CASL and SEC Codes	Requirement	Compliance	Details of Compliance
			<p>(E) Ensure Executive Directors have the skill and knowledge to implement strategy effectively, with proper succession arrangements in place.</p> <p>(F) Ensure effective remuneration, reward and recognition policies are in place to ensure employee commitment and motivation.</p> <p>(G) Set and communicate values/standards, with adequate attention being paid to accounting policies/practices and fostering compliance with financial regulations.</p> <p>(H) Ensure effective information, control, risk management and audit systems are in place.</p> <p>(I) Ensure compliance with laws and regulations.</p> <p>(J) Ensure that ethical standards are in place.</p> <p>(K) Approve annual budgets and monitor performance against provisions made.</p> <p>(L) Adapt annual and interim results before they are published.</p> <p>(M) Consult and consider inputs from 'experts' in relevant areas.</p> <p>(N) Approve key appointments within the Company and ensure all senior management staff receives appropriate training ensuring the adoption of an effective CEO and Key Management Personnel succession strategy.</p> <p>(O) Recognise sustainable business development in Corporate Strategy, decisions and activities.</p>
A.1.3	Compliance with the laws of the country and agrees to obtain independent professional advice	Complied	The Board collectively, and Directors individually act in accordance with the Laws and Regulations of the country, and to the Group's policies. At anytime, all the members of the Board are allowed to obtain independent professional advice where necessary, at the Company's expense.
A.1.4	Access to the advice and services of the Company Secretary	Complied	<p>The services and advice of the Company Secretary, are available to all the Directors.</p> <p>The Company Secretary keeps the Board informed of new laws and revisions, regulations and requirements coming into effect which are relevant to them as individual Directors and collectively to the Board. The removal of the Secretary would be made at Board's discretion.</p>

**CORPORATE GOVERNANCE**

Reference to CASL and SEC Codes	Requirement	Compliance	Details of Compliance
A.1.5	Independent judgment of the Directors	Complied	Non-Executive Directors are independent of the management and free from any business and other relations. None of the other Directors are related to each other. This enables all the members of the Board to bring independent judgment to bear on issues of strategy, performance, resources and standards of business conduct.
A.1.6	Dedication of adequate time and effort of the Directors	Complied	<p>The Board of Directors dedicates adequate time and effort to ensure their duties and responsibilities towards Company and Board are discharged.</p> <p>Sufficient time is dedicated before a meeting to review Board papers and call for additional information and clarification, and to follow up on issues consequent to the meeting. Hence, they are able to familiarise with the business changes, operations, risks and controls which ultimately help to satisfactorily discharge the duties and responsibilities owed to the Company.</p>
A.1.7	Training for new and existing Directors	Complied	Every new and existing Director is given appropriate training when first appointed and subsequently as necessary. This training curriculum encompasses both general aspects of directorship and matters specific to the plantation industry. The Board is of the view that continuous training and development of skills and knowledge are vital for effective performance of duties and these requirements are reviewed regularly.
<b>PRINCIPLE: A.2 CHAIRMAN AND CHIEF EXECUTIVE OFFICER (CEO)</b>			
The Chairman and the Chief Executive Officer are two different positions which clearly distinguish the power and authority when conducting the business of the Board and facilitating executive responsibility for the management. Managing Director acts as the Chief Executive Officer of the Company. Therefore, no person has unfettered powers of decision-making.			
A.2.1	Division of responsibilities of Chairman and CEO	Complied	The Chairman and the Chief Executive Officer of the Company are two different personnel whose power and authority are clearly distinguished. The Chairman of the Company is also the Chairman of DPL Plantations, Dipped Products PLC and Hayleys PLC. Chief Executive Authority is vested in the Managing Director of Plantation sector. The separation between the position of the Chairman and officers with executive powers in the Company ensure a balance of power and authority.

## CORPORATE GOVERNANCE

Reference to CASL and SEC Codes	Requirement	Compliance	Details of Compliance
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### PRINCIPLE: A.3 CHAIRMAN'S ROLE

The Chairman is the most responsible person for guiding the Board in formulating the appropriate business strategies and gives direction to the Company. He preserves the good corporate governance in the Company.

A.3.1	Chairman's role	Complied	<p>The Chairman is responsible for the efficient conduct of Board meetings and ensures, inter alia, that :</p> <ul style="list-style-type: none"> <li>(A) The effective participation of both Executive and Non-Executive Directors are secured;</li> <li>(B) All Directors are encouraged to make an effective contribution, within their respective capabilities for the benefit of the Company;</li> <li>(C) A balance of power between Executive and Non-Executive Directors is maintained;</li> <li>(D) The view of Directors on issues under consideration are ascertained; and</li> <li>(E) The Board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders.</li> <li>(F) The Chairman maintains close contact with all Directors and, where necessary, holds meetings with Non-Executive Directors without Executive Directors being present.</li> </ul>
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### PRINCIPLE: A.4 FINANCIAL ACUMEN

A.4.1	Financial acumen	Complied	<p>The Board includes three senior Chartered Accountants, who possess the necessary knowledge and competence to offer the Board guidance on matters of finance. Two of them serve as Finance Directors of Hayleys PLC and KVPL and the other as Chairman of the Audit Committee. Other members of the Board are having ample experience in handling the matters of finance by serving in different organisations. Hence the Board is equipped with sufficient financial acumen and knowledge to offer guidance on matters of finance.</p>
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**CORPORATE GOVERNANCE**

Reference to CASL and SEC Codes	Requirement	Compliance	Details of Compliance
<b>PRINCIPLE: A.5 BOARD BALANCE</b>			
A.5.1	Non-Executive Directors	Complied	Six out of nine Directors on the Board are Non-Executive Directors. The composition of the Executive and Non-Executive Directors (the latter are over one third of the total number of Directors) satisfy the requirements laid down in the Listing Rules of the Colombo Stock Exchange.
A.5.2	Independence of Non-Executive Directors	Complied	Three of six Non-Executive Directors are independent. The Board has determined that three Non-Executive Directors satisfy the criteria for 'independence' set out in the Listing Rules.
A.5.3	Independence of Non-Executive Directors	Complied	Non-Executive Directors' profiles reflect their calibre and the weight their views carry in Board deliberations. Each is independent of management and free from any relationship that can interfere with independent judgment. The balance of Executive, Non-Executive and Independent Non-Executive Directors on the Board ensures that no individual Director or small Group of Directors dominates Board discussion and decision-making.
A.5.4	Annual declaration of independence of Non-Executive Directors	Complied	Each Non-Executive Director has been submitted declarations stating the independence or non-independence in a prescribed format. This information is made available to the Board.
A.5.5	Board determination of independence of Non-Executive Directors and disclosure in Annual Report	Complied	The Board considered the declaration of independence submitted by each Non-Executive Director with the basis for determination given in Code of Best Practices as a fair representation and will continue to evaluate their independence on this basis annually. Brief resume of all the Directors is available on pages 68 and 69.
A.5.6	Appointment of Alternate Director	Complied	Mr. G K Seneviratne appointed as Alternative Director to A M Pandithage w.e.f. 09.01.2013 and retired w.e.f. 08.04.2013. He was a Non-Executive Director when he was appointed as the Alternate Director.

## CORPORATE GOVERNANCE

Reference to CASL and SEC Codes	Requirement	Compliance	Details of Compliance
A.5.7, A.5.8	Requirement to appoint Senior Independent Director	Not Applicable	This is not applicable as the Chairman and the Managing Director is not the same person.
A.5.9	Chairman's meetings with Non-Executive Directors	Complied	The Chairman holds meeting with the Non-Executive Directors, without Executive Directors, at least once in each year and at any other time when and where necessary.
A.5.10	Record in the Board Minutes of Concerns not unanimously resolved	Complied	All the matters of the Company which cannot be unanimously resolved are recorded in the Board Minutes, if applicable.

### PRINCIPLE: A.6 SUPPLY OF INFORMATION

The Board is provided with timely information in a form and of a quality appropriate to enable them to discharge their duties.

A.6.1	Timely and appropriate information to the Board	Complied	Management provides the Board with appropriate and timely information. When information volunteered by management is not enough, Directors make further inquiries. Chairman ensures all Directors are properly briefed on issues arising at meetings.
A.6.2	Information provided in advance to the Board meetings	Complied	The Board meetings are arranged in advance and all Directors are informed. The Directors are provided with minutes, the agenda and the Board papers in advance to prepare and clearly comprehend with the matters discussed or consent.

**CORPORATE GOVERNANCE**

Reference to CASL and SEC Codes	Requirement	Compliance	Details of Compliance
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**PRINCIPLE: A.7 APPOINTMENTS TO THE BOARD**

There should be a formal and transparent procedure for the appointment of new Directors to the Board.

A.7.1, A.7.2	Appointment to the Board	Complied	The Board as a whole decides on the appointment of Directors. The Board annually assesses the Board-composition to ascertain whether the combined knowledge and experience of the Board, matches the strategic demands facing the Company.
A.7.3	Disclosure of new appointments	Complied	Mr. L N de S Wijeyeratne was appointed as a director w.e.f. 30 July 2013. A brief resume of the Director, nature of his experience, names of the companies in which the Director holds the directorship and the independency is informed to the Colombo Stock Exchange and disclosed on page 69 of this Annual Report.

**PRINCIPLE: A.8 RE-ELECTION**

All Directors submit themselves for re-election at regular intervals and at least once in every three years.

A.8.1, A.8.2	Re-election of Directors	Complied	The provisions of the Company's Articles require a Director appointed by the Board to hold office until the next Annual General Meeting, and seek reappointment by the shareholders at that meeting. The Articles call for one third of the Directors in office to retire at each Annual General Meeting. The Directors who retire are those who have served for the longest period after their appointment /re-appointment. Retiring Directors are generally eligible for re-election.  The Managing Director does not retire by rotation.
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**PRINCIPLE: A.9 APPRAISAL OF BOARD PERFORMANCE**

Board periodically appraises their own performance in order to ensure that Board responsibilities are satisfactorily discharged.

A.9.1, A.9.2, A.9.3	Appraisal of Board performance	Complied	The performance of the Board and Sub-Committee is evaluated annually on a self-assessment basis.
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## CORPORATE GOVERNANCE

Reference to CASL and SEC Codes	Requirement	Compliance	Details of Compliance
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### PRINCIPLE: A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS.

A.10.1	Disclosures about Directors	Complied	<p>Name, qualifications, brief profile, and nature of expertise are given on pages 68 and 69 of this Annual Report.</p> <p>Director's interests in contracts are given on pages 166 to 169 of this Report. The numbers of Board meetings attended by the Directors are available on page 76 of this Report.</p>
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### PRINCIPLE: A.11 APPRAISAL OF CHIEF EXECUTIVE OFFICER

A.11.1, A.11.2	Evaluation of the performance of the CEO	Complied	<p>The short-medium and long-term objectives including financial and non-financial targets that should be met by the CEO are set and evaluated at the commencement of each fiscal year. The performances were evaluated in each quarter and ascertained whether the targets were achieved or whether achievement is reasonable in the circumstances.</p>
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## B. DIRECTORS' REMUNERATION

### PRINCIPLE: B.1 REMUNERATION PROCEDURE

B.1.1, B.1.2, B.1.3 B.1.4, B.1.5	Establishment of Remuneration Committee	Complied	<p>The Remuneration Committee recommends the remuneration payable to the Managing Director and Executive Director(s) and sets guidelines for the remuneration of management staff within the Company. The Board makes the final determination after considering such recommendations.</p> <p>The Remuneration Committee of Dipped Product PLC, which is the Ultimate Parent of the Company, acts as the Remuneration Committee of KVPL. The Remuneration Committee comprises of following Independent Non-Executive Directors:</p> <p>Mr. F Mohidden Mr. L N De S Wijeyeratne</p> <p>Payment of remuneration to Directors is disclosed on pages 116 and 146 of this report.</p> <p>No Directors will be involved in deciding his own remuneration.</p>
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**CORPORATE GOVERNANCE**

Reference to CASL and SEC Codes	Requirement	Compliance	Details of Compliance
<b>PRINCIPLE: B.2 THE LEVEL AND MAKE UP OF REMUNERATION.</b>			
B.2.1, B.2.2	Levels of Remuneration for Executive Directors	Complied	Remuneration package is designed to attract, retain and motivate the Directors needed to run the Company successfully but avoid paying more than necessary for this purpose.  The Remuneration Committee takes into account market practices. Their remuneration comprises a fixed salary component, which include perquisites and allowances.
B.2.3	Positioning Company remuneration levels relative to other companies	Complied	The Remuneration Committee structures and reviews the Company's remuneration levels in relation to the other companies and other parts of the Group.
B.2.4	Performance-related elements of remuneration for Executive Directors	Complied	The performance based incentives have been determined by the Remuneration Committee to ensure that the earnings of the Executives are aligned with the achievement of objectives and budgets of the Group Companies.
B.2.5	Share option schemes	Not applicable	Presently the Group does not have an Executive Share Option scheme.
B.2.6	Designing performance-related Remuneration	Complied	Performance-related remuneration is designed by the Remuneration Committee based on the provisions set out.
B.2.7, B.2.8	Compensation, commitments in the event of early termination and dealing with early termination	Complied	There are no provisions for compensation for early termination in the letter of contract. However, the Directors would determine this on a case by case basis.
B.2.9	Levels of remuneration for Non-Executive Directors	Complied	The Remuneration Committee determines the levels of remuneration for Non-Executive Directors taking into account the time commitment and responsibilities of their role and market practices. Remuneration for Non-Executive Directors does not include share options.

## CORPORATE GOVERNANCE

Reference to CASL and SEC Codes	Requirement	Compliance	Details of Compliance
<b>PRINCIPLE: B.3 DISCLOSURE OF THE REMUNERATION.</b>			
B.3.1	Disclosure of the remuneration	Complied	The total of Directors' Remuneration is reported in Note 9 to the Financial Statements.
<b>C. RELATIONS WITH SHAREHOLDERS</b>			
<b>PRINCIPLE: C.1 CONSTRUCTIVE USE OF THE AGM AND CONDUCT OF GENERAL MEETINGS.</b>			
C.1.1	Use of proxy	Complied	The Company ensures that all proxy votes are counted and the level of proxies lodged on each resolution is conveyed to the Chairman.
C.1.2	Separate resolution for substantially separate issue	Complied	A separate resolution proposed at an Annual General Meeting on each substantially separate issue.  Adoption of the Annual Report of the Board of Directors on the affairs of the Company, Statement of Compliance and the Financial Statements with the Independent Auditor's Report is considered as a separate resolution.
C.1.3	Answer questions at the AGM	Complied	The Board arranges the Chairman of the Audit and Remuneration Committees to be available to answer the queries at the AGM when necessary.  The active participation of shareholders at the Annual General Meeting is encouraged. The Board believes the AGM is a means of continuing effective dialogue with shareholders.  The Board offers clarifications and responds to concerns shareholders have over the content of the Annual Report as well as other matters which are important to them. The AGM is also used to adopt the financial statements for the year.

**CORPORATE GOVERNANCE**

Reference to CASL and SEC Codes	Requirement	Compliance	Details of Compliance
C.1.4, C.1.5	Notice of Annual General Meeting and General Meetings	Complied	<p>The Notice of Meeting is included in the Annual Report. The Notice contains the Agenda for the AGM as well as instructions on voting for shareholders, including the appointment of proxies. A Form of Proxy is enclosed with the Annual Report. The period of notice prescribed by the Companies Act No. 7 of 2007 has been met.</p> <p>The notice and the agenda of the Annual General Meeting together with the Annual Report with all other relevant documents are sent to the shareholders within 21 working days prior to the meeting.</p>
<b>PRINCIPLE: C.2 COMMUNICATION WITH SHAREHOLDERS.</b>			
C.2.1	Timely information	Complied	Shareholders may bring up concerns they have, with the Chairman, the Managing Director or the Secretaries, as appropriate.
C.2.2	Disclosure of the communication policy	Complied	The Company policy and methodology for communication with the shareholders are given in the stakeholder engagement.
C.2.3	Implementation of policy	Complied	Shareholders can forward their inquiries via electronic media (e-mail, telephone call or in writing) to the relevant person to raise queries.
C.2.4	Disclosure of contact person	Complied	The contact person for such communication is the Company Secretary.
C.2.5	Major issues and concerns of shareholders	Complied	All the major issues relating to shareholders are brought to the attention of the Board.
C.2.6	Person to be contacted with regard to shareholders' matters.	Complied	The Company Secretary holds the responsibility to be contacted in relation to shareholders' matters.
C.2.7	Process for responding to shareholders' matters	Complied	The Board formulated the process of responding to shareholders' matters.

## CORPORATE GOVERNANCE

Reference to CASL and SEC Codes	Requirement	Compliance	Details of Compliance
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### PRINCIPLE: C.3 MAJOR AND MATERIAL TRANSACTIONS

C.3.1	Disclosure of major transactions to shareholders	Complied	There have been no transactions during the year under review which fall within the definition of 'Major Transactions' as set out in the Companies Act No. 7 of 2007.
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### D. ACCOUNTABILITY AND AUDIT

#### PRINCIPLE: D.1 THE BOARD SHOULD PRESENT A BALANCED AND UNDERSTANDABLE ASSESSMENT OF THE COMPANY'S FINANCIAL POSITION, PERFORMANCE AND PROSPECT

D.1.1	Balanced and understandable information to shareholders	Complied	<p>The Board places great emphasis on complete disclosure of financial and non-financial information within the bounds of commercial reality, and on the adoption of sound reporting practices. Financial information is disclosed in accordance with the Sri Lanka Accounting Standards. Revisions to existing accounting standards and adoption of new standards are carefully monitored.</p> <p>The Annual Report includes descriptive, non-financial content through which an attempt is made to provide stakeholders with information to assist them make more informed decisions.</p> <p>Shareholders are provided with Quarterly Financial Statements and the Annual Report, which the Company considers as its principal communication with them and other stakeholders. The Company has duly complied with all the requirements prescribed by the regulatory authorities including the Colombo Stock Exchange and the Registrar of Companies. These reports are also provided to the Colombo Stock Exchange.</p>
	Price Sensitive Information		Due care is exercised with respect to share price sensitive information.
	Shareholders' Shareholder Value & Return		The Board strives to enhance shareholder value and provide a total return in excess of the market. It has been the policy of the Board to distribute a reasonable dividend to the shareholders whilst retaining sufficient resources for capital needs.
D.1.2	Statement of Directors' Responsibility	Complied	The Statement of Directors' Responsibilities for the Financial Statements is given on page 120 of this Report.

**CORPORATE GOVERNANCE**

Reference to CASL and SEC Codes	Requirement	Compliance	Details of Compliance
D.1.3	Responsibilities of Board for preparation of Financial Statements together with Auditors' Report	Complied	<p>Chief Financial Officer and two other Directors have signed the Financial Statements on behalf of the Board.</p> <p>Responsibilities of Board of Directors are disclosed on page 120. The Auditors' Report for the year ended 31 December 2013 is available on page 123 of this Report. A statement on Internal Control is included on page 118.</p>
D.1.4	Management Discussion and Analysis	Complied	A comprehensive coverage of key initiatives undertaken during the year, external impacts, sector performances, achievements and future outlook, awards won and certifications received is available in the Management Discussion (page 14 to page 65) of this Report.
D.1.5	Declaration of Going Concern	Complied	The Directors have reasonable expectations that the Company has resources to continue in operational existence for the foreseeable future. Arriving that, the Directors make necessary inquiries and reviews for all the aspects that effect on financial performance and position i.e., budgets for the ensuing year, capital expenditure requirements, future prospects and risks, cash flows and borrowing facilities. Therefore, going concern basis has been adopted in the preparation of the Financial Statements. This has been disclosed under the Summary of Significant Accounting Policies in the Financial Statements.
D.1.6.	Summon an EGM to notify serious loss of capital	Complied	In the event the net assets of the Company fall below 50% of the value of the Company's shareholders' fund, the Directors will forthwith summon an Extra Ordinary General Meeting to notify shareholders the remedial action being taken. However such an event has not taken place since the adoption of New Companies Act No 07 of 2007.
D.1.7	Related party transactions	Complied	All the transactions with related parties to the organisation are disclosed adequately and accurately on pages 166 to 169.
<b>PRINCIPLE: D.2 INTERNAL CONTROL.</b>			
D.2.1	Requirement of sound system of internal control	Complied	The Directors hold responsibility to conduct reviews of the risks facing the Company and the effectiveness of the internal controls to be reported to shareholders. The Audit Committee executes this function and evaluates the effectiveness on behalf of the Board.
D.2.2	Review need for Internal audit function	Complied	<p>Company is having an internal audit function at head office and sub office. Audits were conducted in accordance with the programme prepared at the beginning of the year.</p> <p>In addition, the Company is covered under the Group Audit function.</p>

## CORPORATE GOVERNANCE

Reference to CASL and SEC Codes	Requirement	Compliance	Details of Compliance
D.2.3	Review of the process and effectiveness of risk management	Complied	The Board holds responsibility of getting the Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls, and to document it to the Board. The disclosure of internal controls are on page 118.
D.2.4	Sound system of internal controls	Complied	The responsibilities of the Directors in maintaining a sound system of internal control and the contents of the Statement of Internal Control are reported on page 118.
<b>PRINCIPLE: D.3 AUDIT COMMITTEE.</b>			
D.3.1	Composition of Audit Committee	Complied	The Audit Committee was established in 2008. The Committee consists entirely of Non-Executive Directors and is chaired by Mr. L N De S Wijeyeratne. He is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka. All three Directors are Independent Non-Executive Directors.
D.3.2	Committee's purpose, duties and responsibilities	Complied	<p>The Committee is empowered to examine any matters relating to the Financial Reporting systems of KVPL, and its external and internal audits. Its duties include the detailed review of Financial Statements, internal control procedures and risk management framework, accounting policies and compliance with applicable accounting standards and other rules &amp; regulations. It reviews the adequacy of systems in place for compliance with relevant legal, regulatory and ethical requirements and Company policies.</p> <p>The Audit Committee makes recommendations to the Board pertaining to appointment, re-appointment of External Auditors after assessing the independence and performance, and approves the remuneration and terms of engagement of the External Auditors.</p> <p>The Chairman, the Managing Director and the Director/CFO of the Company are invited to attend meetings. Other Directors and Senior Managers attend meetings as required. The input of the External Auditor is obtained where necessary.</p> <p>The Audit Committee helps the Group to achieve a balance between conformance and performance.</p>
D.3.3	Written Terms of Reference	Complied	Terms of References (TOR) provides proper guideline duty and authority to deliver the responsibilities.

**CORPORATE GOVERNANCE**

Reference to CASL and SEC Codes	Requirement	Compliance	Details of Compliance
D.3.4	Disclosures	Complied	<p>Mr. L N De S Wijeyeratne, the Chairman of the Audit Committee appointed w.e.f. 30 July 2013.</p> <p>Mr. F Mohideen</p> <p>Mr. C V Cabraal appointed to the Audit Committee w.e.f. 05 November 2013</p> <p>Mr. R Seevaratnam, the former Chairman of the Audit Committee resigned w.e.f. 30 July 2013. Annual report contains a compliance report of Audit Committee on page 121.</p>

**PRINCIPLE: D.4 CODE OF BUSINESS CONDUCT AND ETHICS**

D.4.1	Disclosure on presence of Code of Business Conduct & Ethics	Complied	The Directors and members of the Senior Management team are bound with a Code of Business Conduct & Ethics which is developed by the Hayleys Group. The Code consists of important topics such as conflict of interest, corporate opportunities, confidentiality, fair dealing, protection and proper use of Company assets, compliance of laws, rules and regulations etc. The Board ensures the compliance with the code and non-compliance may give cause to disciplinary actions.
D.4.2	Affirmation of Code in the Annual Report by the Chairman	Complied	The Chairman affirms that he is not aware of any violation of any of the provisions of the Code of Business Conduct & Ethics in the Annual Report. Please refer the Chairman's Statement on pages 8 to 11 of this Report.

**PRINCIPLE: D.5 CORPORATE GOVERNANCE DISCLOSURES.**

D.5.1	Disclosure of adherence to Corporate Governance	Complied	The extent to which the Company adheres to established principles and practices of good Corporate Governance are disclosed from pages 74 to 97 of this Report.
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**SECTION 2: SHAREHOLDERS****E. INSTITUTIONAL INVESTORS****PRINCIPLE: E.1 SHAREHOLDER VOTING, E.2. EVALUATION OF GOVERNANCE DISCLOSURES.**

E.1.1	Use of the vote of Institutional Investors	Complied	All investors are invited to attend the Annual General Meeting and they are free to make comments/suggestions. The Company encourages dialogues with institutional investors. The Company appreciates the way in which votes are used at the AGM having weighted on all relevant factors.
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## CORPORATE GOVERNANCE

Reference to CASL and SEC Codes	Requirement	Compliance	Details of Compliance
E.2	Evaluation of governance disclosure	Complied	Institutional investors are encouraged to give due weight to all relevant factors drawn to their attention when evaluating Company's governance arrangement particularly in relation to Board structure and composition.

### F. OTHER INVESTORS

#### PRINCIPLE: F.1 INVESTING/DIVESTING DECISIONS F.2 SHAREHOLDER VOTING.

F.1	Individual shareholders are encouraged to do their own analysis or seek independent advice.	Complied	Annual Report provides sufficient information to carry out their own analysis in investing or divesting decisions. In addition, KVPL encourages individual shareholders to seek independent advice for their investing and divesting decisions.
F.2	Encourage shareholders to participate and vote at AGM	Complied	All shareholders are encouraged to actively participate in the AGM and they have the independence of using their votes as they wish.

#### PRINCIPLE: G. SUSTAINABILITY REPORTING

G.1	Principles of sustainability reporting	Complied	Recognition, measurement, disclosure and accountability to internal and external stakeholders for organisational performance towards the goals of sustainable development in the context of the overall business activities of the organisation are being reported in the Sustainability Report.
G.1.1	Economic sustainability	Complied	The Company takes responsibility for impact of the strategies, decisions and activities on economic performance and how this is integrated throughout the organisation.
G.1.2	The environment	Complied	The organisation adopts an integrated approach that takes into account the direct and indirect economic, social, health and environmental implications of their decisions and activities, including pollution prevention, sustainable resource use, climate change, protection of environment, bio-diversity and restoration of natural resources.
G.1.3	Labour practice	Complied	The Company encompasses all policies and practices in relation to work performed by or on behalf of the Company.

**CORPORATE GOVERNANCE**

Reference to CASL and SEC Codes	Requirement	Compliance	Details of Compliance
G.1.4	Society	Complied	Company engages in supporting and building relationships with the community and striving for sustainable development. This includes responsible public policy participation, fair competition and responsible community involvement.
G.1.5	Product Responsibility	Complied	Company manufactures quality Tea and distributes them ensuring that the products are safe for the consumers so that they can make an informed choice. Company complied with the international food safety standards.  HACCP and ISO 22000 Certification, Rainforest Alliance (RA) Certification, GLOBAL G.A.P, Forest Stewardship Council (FSC)
G.1.6.	Stakeholder identification, engagement and effective communication	Complied	Internal and external stakeholder groups are identified in relation to Company's sphere of influence, impact and implication. Communication with them is proactive and transparent. Communications with stakeholders include reporting on economic, social, and environmental issues which are relevant, material, comparable with past performance and focuses on substance over form.
G.1.7.	Sustainable reporting and disclosure	Complied	Sustainable reporting and disclosure is formalised as part of the Company's reporting process on a regular basis. Company's sustainability reporting is done based on the GRI standards G3.1 version. This is Board's responsibility which is built on several guidelines.

Levels of compliance with the CSE's Listing Rules - Section 7.10, Rules on Corporate Governance are given in the following table:

Rule No.	Subject	Applicable Requirements	Compliance Status	Applicable Section in the Annual Report
7.10.1 (a)	Non-Executive Directors	At least one-third of the total number of Directors should be Non-Executive Directors	Compliant	Corporate Governance A.5.1
7.10.2 (a)	Independent Directors	Two or one-third of Non-Executive Directors, whichever is higher, should be Independent	Compliant	Corporate Governance A.5.2
7.10.2 (b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format	Compliant	Corporate Governance A.5.4

## CORPORATE GOVERNANCE

Rule No.	Subject	Applicable Requirements	Compliance Status	Applicable Section in the Annual Report
7.10.3 (a)	Disclosure relating to Directors	Names of Independent Directors should be disclosed in the Annual Report	Compliant	Corporate Governance A.5.5
7.10.3 (b)	Disclosure relating to Directors	The basis for the Board to determine a Director is Independent, if criteria specified for Independence is not met	Compliant	Corporate Governance A.5.5
7.10.3 (c)	Disclosure relating to Directors	A brief résumé of each Director should be included in the Annual Report and should include the Directors' areas of expertise	Compliant	Corporate Governance A.5.5
7.10.3 (d)	Disclosure relating to Directors	Forthwith provide Colombo Stock Exchange, a brief résumé of new Directors appointed to the Board with details specified in 7.10.3 (a), (b) and (c).	Compliant	Corporate Governance A.7.3
7.10.5	Remuneration Committee	A listed company shall have a Remuneration Committee	Compliant	Corporate Governance B.1.1, B.1.2, B.1.3, B.1.4, B.1.5
7.10.5 (a)	Composition of Remuneration Committee	Shall comprise Non-Executive Directors a majority of whom will be independent	Compliant	Corporate Governance B.1.1, B.1.2, B.1.3, B.1.4, B.1.5
7.10.5 (b)	Functions of Remuneration Committee	The Remuneration Committee shall recommend the remuneration of Chief Executive Officer and Executive Directors	Compliant	Corporate Governance B.1.1, B.1.2, B.1.3, B.1.4, B.1.5
7.10.5 (c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out; <ul style="list-style-type: none"> <li>• Names of Directors comprising the Remuneration Committee</li> <li>• Statement of Remuneration Policy</li> <li>• Aggregated remuneration paid to Executive &amp; Non-Executive Directors</li> </ul>	Compliant	Corporate Governance B.1.1, B.1.2, B.1.3, B.1.4, B.1.5
7.10.6	Audit Committee	The Company shall have an Audit Committee	Compliant	Corporate Governance D.3.1, D.3.2



## CORPORATE GOVERNANCE

Rule No.	Subject	Applicable Requirements	Compliance Status	Applicable Section in the Annual Report
7.10.6 (a)	Composition of Audit Committee	<ul style="list-style-type: none"> <li>• Shall comprise of Non-Executive Directors, a majority of whom will be independent</li> <li>• Non-Executive Director shall be appointed as the Chairman of the Committee</li> <li>• Chief Executive Officer and Chief Financial Officer should attend Audit Committee Meetings</li> <li>• The Chairman of the Audit Committee or one member should be a member of a professional accounting body</li> </ul>	Compliant	Corporate Governance D.3.1, D.3.2  Audit Committee Report is available on pages 121 and 122.
7.10.6 (b)	Audit Committee Functions	Functions shall include: <ul style="list-style-type: none"> <li>• Overseeing of the preparation, presentation and adequacy of disclosures in the Financial Statements in accordance with Sri Lanka Accounting Standards</li> <li>• Overseeing of the compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements</li> <li>• Overseeing the processes to ensure that the internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards</li> <li>• Assessment of the independence and performance of the External Auditors</li> <li>• Make recommendations to the Board pertaining to appointment, re-appointment and removal of External Auditors, and approve the remuneration and terms of engagement of the External Auditors.</li> </ul>	Compliant	Corporate Governance D.3.3
7.10.6 (c)	Disclosure in the Annual Report relating to Audit Committee	(A) Names of Directors comprising the Audit Committee (B) The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination (C) The Annual Report shall contain a Report of the Audit Committee setting out the manner of compliance of their functions	Compliant	Corporate Governance D.3.4  Please refer Audit Committee Report on pages 121 and 122.

## RISK MANAGEMENT

Risk is a measure of the Group's inability to achieve system life cycle objectives and arises in all our business activities. It comprises two components:

the probability of failing to achieve particular system life cycle objectives; and the consequences of failing to achieve those objectives.

As they cannot be completely eliminated, KVPL Group recognises that risk remains an intrinsic component of doing business and work to manage risk in our internal control environment. However, a structured and transparent Enterprise Risk Management (ERM), process enables management to identify, manage and prepare for risks in an informed, controlled and transparent manner to safeguard Group's progress and stakeholder value in a sustainable manner.

Risk management is a central part of any organisation's strategic management and It should be a continuous and developing process which runs throughout the organisation's strategy and the implementation of that strategy whereby Organisations methodically address the risks attached to their activities of past, present and in particular, future with the goal of achieving sustained benefit within each activity and across the portfolio of all activities.

An effective risk management framework helps the Group in its attempt to achieve optimum trade-off between risks and returns and it can contribute immensely to the efforts of the Group to optimise use of available capital. The Group recognises the complexity and the diversity of risks that surround its operational activities, and the need to maximize opportunities and minimise exposure to risk.

The Group operates in an evolving environment which exposes to different type of risks especially being the Agriculture Sector which is very sensitive to weather patterns. Our risk management process is intended to ensure that risks are taken knowingly and with forethought. Our ability to identify, assess, monitor and manage each type of risk to which the Group is exposed is an important factor in our stability, performance, reputation and future success. Transferring risks to outside parties, lessening the negative effect of risk and avoiding risk altogether are considered as risk management strategies of the Group.

The Group is using COSO and risk management Industry approaches as the conceptual framework of ERM. The framework consists of identifying and profiling of significant risks, modeling and measuring risk, determining Group risk appetites, accepting/transferring/ eliminating/sharing risk, measuring of performance including the benefits of risk diversification and monitoring execution of the process.

## RISK MANAGEMENT

The main operation of the Company is cultivating and manufacturing Tea and Rubber, and the subsidiaries in the Group engages in diverse range of businesses spanning several industries, market segments and geographical locations:

- Mabroc Teas (Pvt) Ltd., engages in exports, bulk and retail packed Tea.
- Kalupahana Power Company (Pvt) Ltd., engages in generating hydro power.
- Kelani Valley Instant Tea (Pvt) Ltd., produces the instant Tea powder.

This would expose the business to a wider range of risks and KVPL Group has a structured risk management process to address different risk categories: Strategic, Financial, Operational and Compliance risks which can be illustrated as follows:

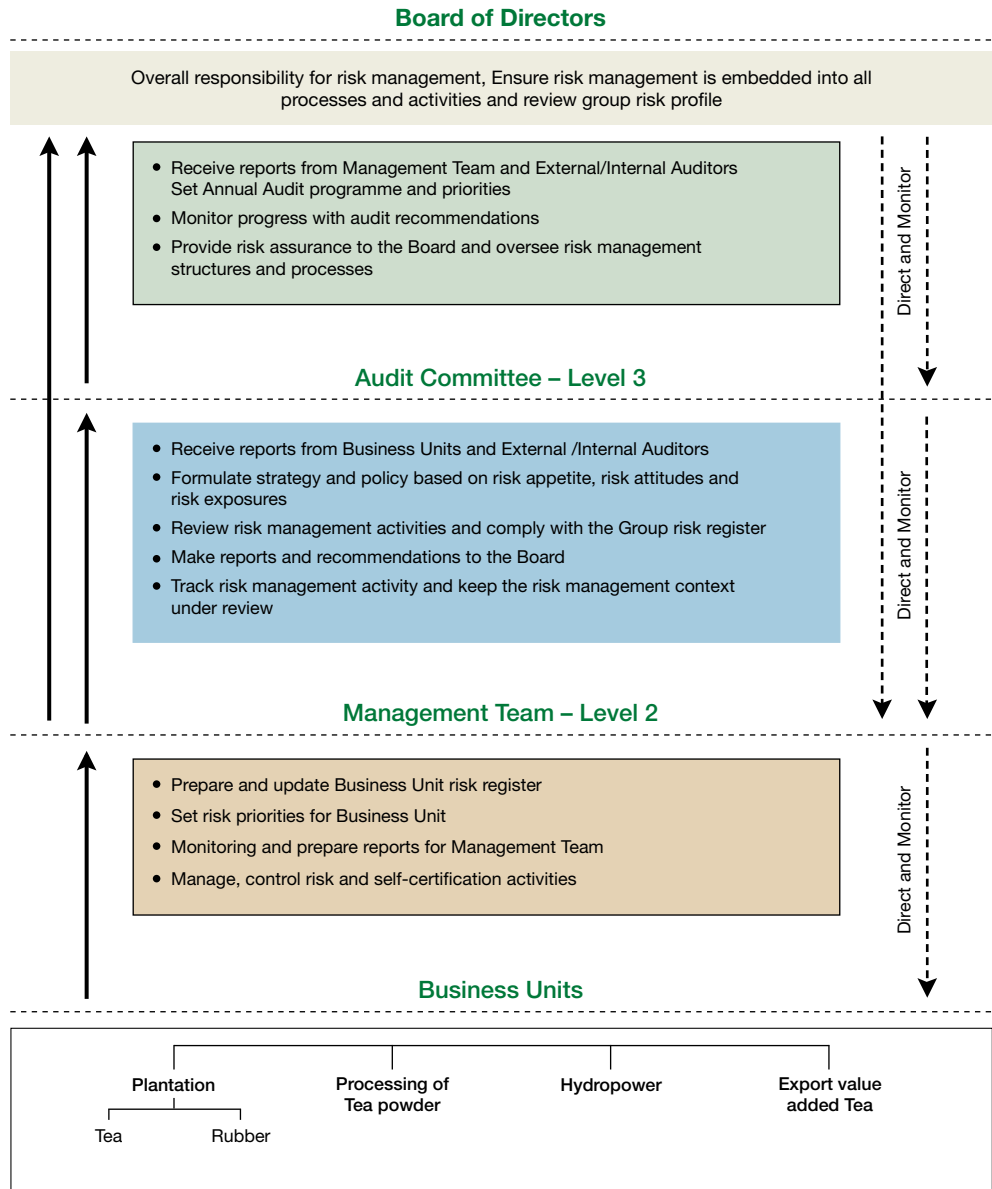
Risk	Strategic Risk	Climate Changes	Production Risk	Political Risk	Commodity Risk	Acquisitions	Social and Environmental Risk	Corporate Governance Risk Management Framework (COSO)
	Financial Risk	Foreign Exchange Risk	Interest Rate Risk	Credit Risk	Investment Risk	Liquidity Risk	Accounting and Reporting	
	Operational Risk	Value Chain	Management Personnel & Worker migration	Business Disruption	IT Risk	Technological Risk	Reputation Risk	
	Compliance and Other Risk	Legal	Tax	Market practices	General Business Principles	Data Privacy	Product Security	

Our approach to risk management is built on the day-to-day business process and relies on individual responsibility and collective oversight, informed by comprehensive reporting usually referred as Bottom-up Approach. In regular meetings, the Company’s results and attendant opportunities and risks are discussed, and targets and necessary actions agreed upon.

Internal systems review to monitor the effectiveness and compliance with management control systems, provides useful insights as to the effectiveness of the risk management. Internal risk management is further complemented by the Hayley’s Groups’ risk management functions. Internal Audit of Hayleys PLC, the Ultimate Parent co-ordinates the identification and documentation of control risk areas, enhancing the risk management system and monitoring its effectiveness at regular intervals. In addition, with the year-end audit, the External Auditor issues a management letter highlighting the possible risks, and briefs the Board of Directors, Audit Committee and the Group Management Team on their evaluations. The outcomes are made for continuous enhancement of our risk management system.

## RISK MANAGEMENT

### RISK ARCHITECTURE



### BUSINESS UNITS

Divisional Business Units are responsible for identifying, evaluating and managing the risks that they originate within approved risk appetite and policies. They are required to establish and maintain appropriate risk management controls, resources and self-assurance processes.

## RISK MANAGEMENT

### MANAGEMENT TEAM

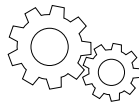
The Management Team is responsible for developing division-specific risk appetite statements, policies, controls, procedures, monitoring and reporting capability, which align to the Board's statement of risk appetite and the risk management frameworks approved by the Board of Directors.

### AUDIT COMMITTEE

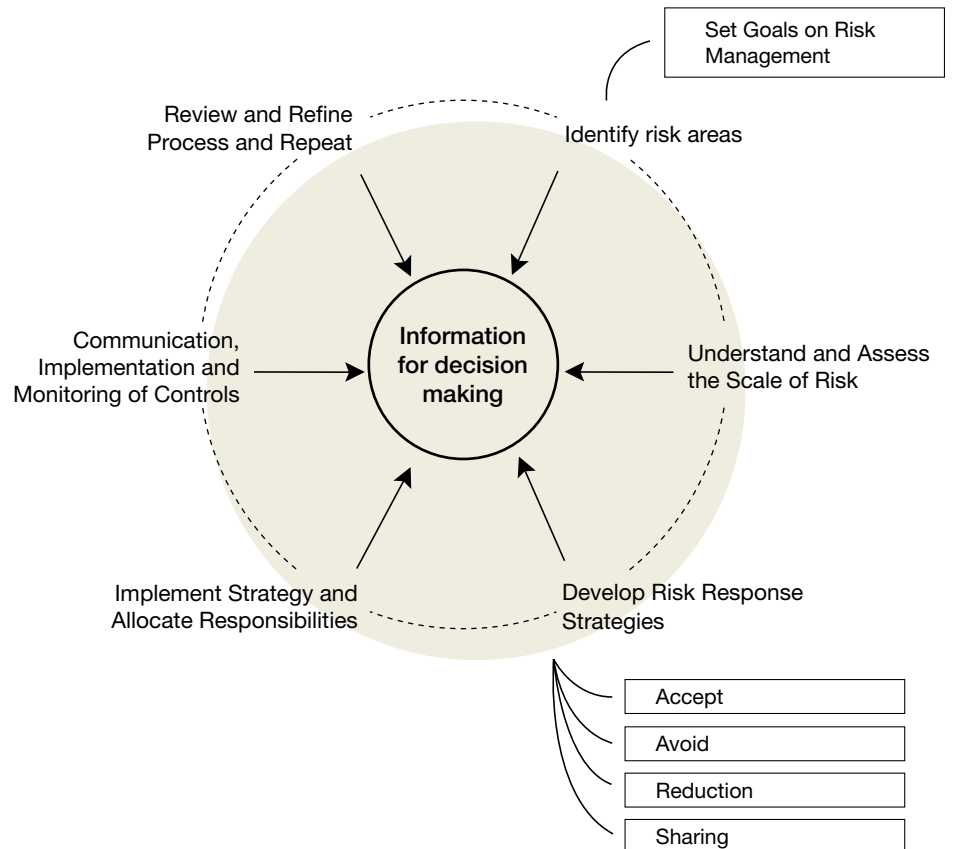
The Group Audit Committee leads the optimisation of risk-reward by overseeing the development of risk appetite statements, risk management frameworks, policies and risk concentration controls, and monitoring risk profile for alignment with approved appetites and strategies.

The following sections describe our approach to risk management. The first covers our risk management process and the second explains the risks and the way in which we manage them.

### RISK MANAGEMENT PROCESS



The Group has established and adheres to a comprehensive risk management framework to ensure the achievements of its corporate objectives, within a well-managed risk profile, illustrated as follows:



## RISK MANAGEMENT

### SET GOALS ON RISK MANAGEMENT

After a comprehensive evaluation of risk and opportunities the Board sets annual targets which support the Organisation's mission and which are consistent with the risk appetite. Then it is conveyed to the operational levels. These inevitably help to understand the nature and extent of the risk and assess the severity of same.

### IDENTIFY RISK AREAS



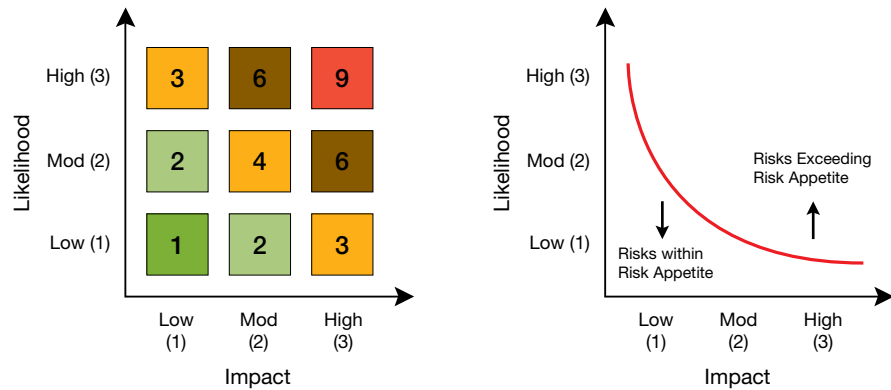
The responsibility for setting up the overall framework for risk management lies with the Board of Directors. Within that structure, line managers are responsible for the identification, measurement and management of risks in their areas of responsibility.

Regular monthly/quarterly review meetings and internal systems reviews are key instruments in identifying possible risks arising from one-off events and more gradual trends that could result in changes in risk.

### UNDERSTAND AND ASSESS THE SCALE OF RISK

Risk measures are based on the likelihood of occurrence and the impact of occurrence on achievement of our targets. The risk is prioritised and treated with mitigation actions. Any significant risk exceeding risk tolerance levels will require management response.

Risks mentioned in the report are ranked as High, Moderate and Low risk events based on the impact and likelihood on the business. A higher risk event requires a more urgent management response.



**Likelihood X Impact = Risk**

A higher level of risk requires a more urgent and concerted management response.



## **RISK MANAGEMENT**

### **DEVELOP RISK RESPONSE STRATEGIES**

Depending on the tolerance of risk, decisions are taken to manage risk by accepting, reducing, sharing or avoiding it. Such decisions are influenced by the Company's risk appetite. The Managing Director, with the Management Team responsible, initiates risk mitigation actions.

We have purchased insurance coverage, where it is available, on economically viable terms to minimise the financial losses arising from uncertainty and risk. These covers are frequently re-examined and adjusted accordingly. The sound system of internal controls within the Group ensures proper action to be taken in responding to risk.

### **INFORMATION AND COMMUNICATION**



Documentation and communication plays a key role in our risk management process. Quarterly review reports with key performance indicators and possible risk and mitigatory actions are presented to the Board. Audit reports on levels of compliance with risk mitigating actions are tabled at the Audit Committee and are then reviewed and acted upon. Risk areas that are relevant to staff are communicated with them on a regular basis at the staff meetings.



### **MONITORING**

The ultimate responsibility for monitoring risk management lies with the Senior Management Team and the Audit Committee. This includes regular and annual review of risk management and monitoring the efficiency and effectiveness of internal control.

### **REVIEW PROCESS AND REFINE**


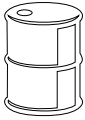
There is no substantial diversion of the risk profile occurred during the year. The process will be continuous and will be reviewed annually.

## RISK MANAGEMENT

Risk Factor	Risk Assessment	Risk Mitigation Strategies	Risk Rating
<b>STRATEGIC RISK</b>			
<b>CLIMATE CHANGES</b> 	<ul style="list-style-type: none"> <li>Both Tea and Rubber crops fluctuate unexpectedly due to adverse weather conditions and affect the market share, earnings and profitability.</li> <li>Quality variance can result in drop in prices and reputation.</li> </ul>	<ul style="list-style-type: none"> <li>Reservation of forests and water sheds.</li> <li>Sustainable agricultural practices.</li> <li>Diversifying crop in Cinnamon, Timber and Fuelwood.</li> <li>Folio spraying to prevent excessive transpiration during dry seasons.</li> <li>Concentration on hydro power generation.</li> <li>Resting Rubber plants during heavy rainy days to get maximum output during dry periods.</li> <li>Planting of shade trees.</li> <li>For additional details, please refer page 21 of this report.</li> </ul>	<p><b>H</b></p> <p><b>M</b></p> <p><b>L</b></p>
<b>PRODUCTION RISK</b> 	<ul style="list-style-type: none"> <li>Inconsistency in the product quality lead to reduced purchasing by the buyers and quality claims.</li> <li>Reduced demand leading to drop in market price and share.</li> <li>Over production could reduce the Company profitability due to the drop in net sale average and with a larger quantity of made-Tea in hand.</li> <li>Soil erosion and low yielding fields leading to lower crops and higher costs.</li> </ul>	<ul style="list-style-type: none"> <li>Closer supervision of manufacturing process and plucking rounds.</li> <li>Distribution of product portfolio of Tea in different agro-climatic regions</li> <li>Regular advise from industry experts, brokers and customers.</li> <li>Quality assurance systems such as ISO 22000:2005 and HACCP is in place.</li> <li>Compliance with Rain Forest Alliance certification.</li> <li>Manage the crop to get optimum price.</li> <li>Value addition and marketing promotions through Marketing Subsidiary Mabroc Teas.</li> <li>New innovations through Instant Tea/RTD Tea manufacturing.</li> <li>Arrange with other factories to transfer excess leaf.</li> <li>Diversification of marginal land and optimising outputs in productive areas.</li> <li>Deep draining and SALT (Sloping Agriculture Land Technology) is in place to avoid soil erosion.</li> <li>Maintaining a laboratory for the analysis of soil in the plantation.</li> </ul>	<p><b>H</b></p> <p><b>M</b></p> <p><b>L</b></p>



## RISK MANAGEMENT

Risk Factor	Risk Assessment	Risk Mitigation Strategies	Risk Rating
<b>POLITICAL RISK</b> 	<ul style="list-style-type: none"> <li>Intervention in wage negotiations and major industrial relations issues inhibit the resolution of issues on the basis of economic viability alone.</li> <li>Restrictions on law enforcement agencies impede settlement of major disruptions.</li> <li>Management initiatives to improve labour productivity are not supported.</li> <li>Unplanned acquisitions of land arise.</li> <li>Political instability inhibits investments, particularly in concert with foreign investors.</li> </ul>	<ul style="list-style-type: none"> <li>Canvassing the support of political pressure groups/individuals.</li> <li>Making representations to key members of Government and the bureaucracy.</li> <li>Negotiating Collective Agreements with major plantation trade unions, in which wages and parameters of operation are agreed.</li> </ul>	<p>H</p> <p><b>M</b></p> <p>L</p>
<b>COMMODITY CYCLE</b> 	<ul style="list-style-type: none"> <li>Fluctuations in global supply and demand affect prices.</li> <li>Changes in consumer preferences.</li> <li>Competition from other major low cost producers i.e., India, China, Kenya, Vietnam and Indonesia affects demand and prices.</li> <li>Competition from close substitutes affects demand and prices.</li> <li>Increases in prices of fertilizer/chemicals/energy contribute to higher production costs.</li> </ul>	<ul style="list-style-type: none"> <li>Integrating with a marketing company (Mabroc Teas (Pvt) Ltd.) in order to add value to our product.</li> <li>Facility to produce RTD Tea and Green Tea.</li> <li>Converting two orthodox Tea estates/factories to manufacture Green Tea.</li> <li>Accreditations of black Tea factories to conform to international food hygienic standards.</li> <li>Accreditations of Tea Estates for good agricultural practices demanded by the global market.</li> <li>Membership of the UN Global Compact brands KVPL as a socially responsible plantation company.</li> <li>Differentiation of KVPL to bulk buyers as the "Ethical Tea producer".</li> <li>Marketing of 'The Ethical Tea Brand of the World' to retailers through Mabroc Teas.</li> <li>Promotion of single origin products by leveraging unique locations/points of differentiation.</li> <li>Continuous agro-climatic expansion of centrifuged latex capacity whilst maintaining the optimum number of production units for the more labour intensive product.</li> <li>Converting to cheaper energy alternatives and implementing energy saving strategies in the production process.</li> </ul>	<p>H</p> <p><b>M</b></p> <p>L</p>

## RISK MANAGEMENT

Risk Factor	Risk Assessment	Risk Mitigation Strategies	Risk Rating
<b>SOCIAL ENVIRONMENTAL RISK</b>	<ul style="list-style-type: none"> <li>Unfavorable campaign organised by trade unions</li> <li>Younger generation's reluctance to work in plantations</li> <li>Dissimilarities in plantation community such as religion and race</li> </ul>	<ul style="list-style-type: none"> <li>Maintaining a good rapport with workers and trade unions.</li> <li>Regular Youth empowerment programmes, training, welfare activities, awareness programmes and upgrade the living standards of estate employees.</li> <li>Organising of events such as Dansala, New Year, Deepavali, Pongal and hajji festivals.</li> <li>Organising inter estates and inter plantations sport meets.</li> <li>Organising events for school children, Children day celebration, develop relationship with new generations</li> </ul>	<p>(H)</p> <p>(M)</p> <p>(L)</p>

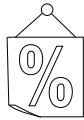

### FINANCIAL RISK

#### FOREIGN EXCHANGE RISK



- |  |  |                                  |
|--|--|----------------------------------|
| <ul style="list-style-type: none"> <li>Affects Group results/pricing policy</li> </ul> | <ul style="list-style-type: none"> <li>The exchange rate risk that the Group is exposed to is identified and the associated risk exposure measured.</li> <li>Arranging forward contracts with banks to minimise the exposure of currency volatility.</li> <li>Exchange rate movements are monitored and outlook is closely followed in respect of currencies in which the Group carries exposure.</li> <li>Forex exposures are monitored, and appropriate action is recommended to reduce inherent risk and minimise adverse impact of currency rate movements on assets and liabilities.</li> <li>Measures are established to determine effectiveness of action taken.</li> </ul> | <p>(H)</p> <p>(M)</p> <p>(L)</p> |
|--|--|----------------------------------|

## RISK MANAGEMENT

Risk Factor	Risk Assessment	Risk Mitigation Strategies	Risk Rating
<b>INTEREST RATE RISK</b> 	<ul style="list-style-type: none"> <li>• Sudden changes in national fiscal and monetary policies.</li> <li>• Low returns on investment, high opportunity cost of investment.</li> <li>• Difficulty in generating funds for capital development/growth.</li> <li>• Increase in interest rates will have an adverse impact to the profitability.</li> </ul>	<ul style="list-style-type: none"> <li>• Attempt to negotiate the best interest rate with Company's own credibility and reputation.</li> <li>• The Group strength and financial dependability help ensure ready access to funds at attractive rates.</li> <li>• Fluctuation of local currency interest rates are minimised by having foreign currency borrowings linked to LIBOR.</li> </ul>	<p>(H)</p> <p>(M)</p> <p>(L)</p>
<b>CREDIT RISK</b>	<ul style="list-style-type: none"> <li>• The possibility of having bad debts, and the prospect of protracted legal proceedings without assurance of a favorable outcome.</li> <li>• The Group is exposed to credit risk in the form of financial loss when customers default.</li> </ul>	<ul style="list-style-type: none"> <li>• Stocks are sold through auction and brokers assure settlements in seven (07) days.</li> <li>• Customers are given credit through a proper evaluation and all open account customers are subjected to credit insurance by SLECIC.</li> <li>• Credit risks are assessed, credit limits are set and credit granted is closely monitored.</li> <li>• The supplier/customer credit limits are closely monitored and settle or collect the dues without rooming for a default.</li> <li>• Export credit is insured to minimise inherent risks.</li> <li>• Government leases and other financings are closely monitored and settle without a delay.</li> </ul>	<p>(H)</p> <p>(M)</p> <p>(L)</p>
<b>INVESTMENT RISK</b> 	<ul style="list-style-type: none"> <li>• Impact future profitability and sustainability</li> <li>• Failure in investments/ Unable to achieve expected objectives.</li> </ul>	<ul style="list-style-type: none"> <li>• Subject 'proposed investment' to a rigorous evaluation and feasibility process which require a minimum return on investment.</li> <li>• Seek Board approval prior to embarking on a proposed investment.</li> <li>• Closely monitor the progress to ensure project deliverables are achieved within the given budgets and time lines.</li> <li>• Prudent investments in capital development, i.e. replanting, machinery and plant upgrading.</li> <li>• Rationalising production capacities in major factories.</li> <li>• Seek expert advice on investments.</li> </ul>	<p>(H)</p> <p>(M)</p> <p>(L)</p>

## RISK MANAGEMENT

Risk Factor	Risk Assessment	Risk Mitigation Strategies	Risk Rating
<b>LIQUIDITY RISK</b>	<ul style="list-style-type: none"> <li>Due to uncontrollable factors such as erratic weather patterns, wage hike...etc. Liquidity problems are bound to arise under these circumstances.</li> </ul>	<ul style="list-style-type: none"> <li>Efficient cash management such as close monitoring of expenditure and building up of reserves.</li> <li>Monitoring of cash flows of each estates on weekly basis. ( Expenses are prioritise and expenditure curtailed to the earnings of the estates specially in less crop and lower NSA seasons )</li> <li>Maintaining effective budgetary control system.</li> <li>Maintaining of acceptable gearing ratio and liquidity ratios.</li> </ul>	<p>(H)</p> <p>(M)</p> <p>(L)</p>
<b>ACCOUNTING AND REPORTING</b>	<ul style="list-style-type: none"> <li>Possibility of Misstatement of financial position or profitability.</li> <li>Non-compliance with Accounting Standards and other regulatory requirements.</li> </ul>	<ul style="list-style-type: none"> <li>Board of Directors of KVPL Group consists of Senior Qualified Accountants.</li> <li>KVPL Group's consists of 4 Chartered Accountants and skilled staff.</li> <li>Consult experts when required.</li> <li>Regular Training on changes in standards, laws and compliance.</li> </ul>	<p>(H)</p> <p>(M)</p> <p>(L)</p>
<b>OPERATIONAL RISK</b>			
<b>VALUE CHAIN</b>	<ul style="list-style-type: none"> <li>Loss in confidence of bought leaf and latex suppliers.</li> <li>Loss of relationship with suppliers such as fertiliser,chemicals, packing materials... etc.</li> <li>Poor relationship with brokers, buyers and end customers.</li> </ul>	<ul style="list-style-type: none"> <li>Prompt payments for bought leaf and latex suppliers.</li> <li>Educate and provide necessary tools/ equipment to bought leaf and latex suppliers to deliver good quality produce.</li> <li>Transparent procedure to evaluate quotations of suppliers.</li> <li>Un-biased evaluation of product and service of suppliers.</li> <li>Prompt settlement of bills of suppliers.</li> <li>Frequent meetings and discussions with brokers to improve quality.</li> <li>Communicate with buyers and end-users locally and internationally to identify end user requirements, trend,preferences and opportunities.</li> </ul>	<p>(H)</p> <p>(M)</p> <p>(L)</p>

## RISK MANAGEMENT

Risk Factor	Risk Assessment	Risk Mitigation Strategies	Risk Rating
<b>MANAGEMENT PERSONNEL</b>	<ul style="list-style-type: none"> <li>The perception that remuneration is not commensurate with the demands of plantation management prompts staff to migrate to other industries.</li> <li>Lack of motivation may result in poor productivity and may result to deteriorate the profitability.</li> <li>Lack of adequate educational and other infrastructural facilities in plantation areas is a disincentive to managers.</li> <li>Availability of more attractive Colombo-based job opportunities at entry level inhibits high calibre candidates from selecting the plantation industry as a career.</li> </ul>	<ul style="list-style-type: none"> <li>Providing easy accessibility to senior management and developing a Company culture, which fosters teamwork and close interaction amongst all management staff.</li> <li>Fostering an open, participative management approach, encouraging contributions to decision-making and strategising, from junior levels.</li> <li>Ability of the management structure and the scope of executive responsibilities to respond to emerging needs and challenges and, simultaneously meet career aspirations.</li> <li>Have development programmes such as out bound training and carrier paths to executives.</li> <li>Ensuring promotions from within, to senior executive positions as far as possible.</li> <li>Succession plan for all departments are being formulated.</li> </ul>	<p>(H)</p> <p>(M)</p> <p>(L)</p>
<b>WORKER MIGRATION</b>	<ul style="list-style-type: none"> <li>Practical difficulties in large-scale automation/ mechanisation of labour-intensive operations.</li> <li>Migration of workers to other industries/ business/ agricultural operations in proximity to the plantations.</li> <li>Changing aspirations of plantation youth who find employment on plantations, undesirable.</li> <li>Difficulties in ensuring adequate resident manpower.</li> <li>Inability to attract and retain skilled staff at middle and senior management level will result in the movement of high performing executives to the competing companies.</li> <li>Labour disruptions and outside interferences such as work stoppages and trade union action leading to loss of production and slowdown on output.</li> </ul>	<ul style="list-style-type: none"> <li>Out-sourcing specific operations and moving workers from up-country to the low-country for short-term field operations.</li> <li>Binding workers to the plantation through participative housing projects (Home for Every Plantation Worker Foundation).</li> <li>Improved welfare schemes, medical benefits and other community development initiatives.</li> <li>Changing the image of both worker and workplace by initiatives to provide transport facilities at low cost through concessionary funding schemes.</li> <li>Engage in community development programmes.</li> <li>Awards and rewards for high performing plantation employees</li> </ul>	<p>(H)</p> <p>(M)</p> <p>(L)</p>

## RISK MANAGEMENT

Risk Factor	Risk Assessment	Risk Mitigation Strategies	Risk Rating
<b>REPUTATION RISK</b>	<ul style="list-style-type: none"> <li>Compliance of legal and statutory requirements and ethical practices.</li> <li>Maintaining the loyalty, trustworthiness among stakeholders.</li> <li>Inconsistency in product quality.</li> </ul>	<ul style="list-style-type: none"> <li>Adopting stringent quality assurance policies with regard to raw and packaging materials bought from third parties.</li> <li>Ensure quality in manufacturing process and compliance with the standards (ISO 22000:2005 and HACCP) and Rain Forest Alliance certification.</li> <li>Implementation of Company's Policies on health, safety and environment to ensure best practices.</li> </ul>	<p>H</p> <p>M</p> <p><b>L</b></p>
<b>BUSINESS DISRUPTION</b>	<ul style="list-style-type: none"> <li>Natural disasters.</li> <li>Human involved activities (Human errors, accidents...etc).</li> </ul>	<ul style="list-style-type: none"> <li>Regular safety training and monitoring at factories (such as Boiler safety, Fire...etc).</li> <li>Regular compliance audit and awareness programmes on disaster management are conducted.</li> <li>Safety Standards are followed.</li> <li>Skill development programmes for workers and staff.</li> <li>Adequate insurance cover is in place.</li> </ul>	<p>H</p> <p>M</p> <p><b>L</b></p>



## RISK MANAGEMENT

Risk Factor	Risk Assessment	Risk Mitigation Strategies	Risk Rating
<b>IT RISK</b>	<ul style="list-style-type: none"> <li>• Depend on accurate, timely information from key computer system to enable decision-making.</li> <li>• Loss of business opportunities due to outdated systems and inadequate of new technology.</li> <li>• Breach of system securities.</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of sound IT policy including IT security, privacy and confidentiality in the Group supported by adequate systems and controls.</li> <li>• A disaster recovery is in place to mitigate the risk of IT failures. An effective backup procedure has been implemented both at estates and head office with the support of Hayleys Group IT Unit.</li> <li>• System hardware capacities are monitored.</li> <li>• Maintenance contract for hardware with a reputed company in the field.</li> <li>• Immediate IT-related support for estates in the capacity of skilled personnel in the Regional Office.</li> <li>• Estate Managers are provided with new technologies (Tabs, Smart phones...etc.) for online transmission of daily information.</li> <li>• Close monitoring of internet usage and emails.</li> <li>• A technology road map is being developed to Identify the future development need of technology.</li> </ul>	<div style="display: flex; flex-direction: column; align-items: center; gap: 10px;"> <div style="border: 1px solid gray; border-radius: 50%; width: 20px; height: 20px; display: flex; align-items: center; justify-content: center;">H</div> <div style="border: 1px solid gray; border-radius: 50%; width: 20px; height: 20px; display: flex; align-items: center; justify-content: center; background-color: yellow;">M</div> <div style="border: 1px solid gray; border-radius: 50%; width: 20px; height: 20px; display: flex; align-items: center; justify-content: center;">L</div> </div>

## RISK MANAGEMENT

Risk Factor	Risk Assessment	Risk Mitigation Strategies	Risk Rating
<b>TECHNOLOGICAL RISK</b>	<ul style="list-style-type: none"> <li>To keep pace with the current technological development and safeguard against obsolescence</li> </ul>	<ul style="list-style-type: none"> <li>Mechanisation of estate functions up to the highest possible extent.</li> <li>Investing in Research and Development activities whenever necessary.</li> <li>Implementation of the new computer system in head office and the estates.</li> <li>Investing in hardware resources.</li> </ul>	<p>(H)</p> <p>(M)</p> <p>(L)</p>
<b>COMPLIANCE AND OTHER RISKS</b>			
<b>REGULATORY RISK (LEGAL, TAX...ETC.)</b>	<ul style="list-style-type: none"> <li>Compliance with laws and other statutory obligations and risk arising from litigation.</li> <li>Law suits against The Company may lead to loss of reputation and penalties being imposed.</li> </ul>	<ul style="list-style-type: none"> <li>Statutory obligations are regularly reviewed by the Head of Finance and reported to the Audit Committee.</li> <li>Group has its own legal consultants.</li> <li>Group has its Tax Consultants.</li> </ul>	<p>(H)</p> <p>(M)</p> <p>(L)</p>

**H** - High

**M** - Moderate

**L** - Low

## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Board of Directors of Kelani Valley Plantations PLC has pleasure in presenting their Report on the Affairs of the Company together with the Audited Consolidated Financial Statements for the year ended 31 December 2013.

The details set out herein provide the pertinent information required by the Companies Act No. 07 of 2007, the Colombo Stock Exchange Listing Rules and are guided by recommended best reporting practices.

### PRINCIPAL ACTIVITIES, BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The principal activities of the Company are the production and processing of Tea and Rubber. Details of activities of other companies in the Group are given on pages 70 and 71 of this Report. The Chairman's Review, Management Discussion and Analysis, Sustainability Report and Financial Review describe the performance of the Company during the year, with comments on the financial results, future strategic developments and the progress of its subsidiaries, Kalupahana Power Company (Pvt) Ltd., Kelani Valley Instant Tea (Pvt) Ltd., and Mabroc Teas (Pvt) Ltd.

During the year under review, Kelani Valley Plantations PLC acquired the balance 5% of Kelani Valley Instant Tea (Pvt) Ltd. Accordingly, Kelani Valley Instant Tea (Pvt) Ltd., became a fully own subsidiary of Kelani Valley Plantations PLC with effect from 13 November 2013.

There were no material changes in the nature of business of the Company and the Group other than mentioned above.

The Directors, to the best of their knowledge and belief, confirm that the Group has not engaged in any activities that contravene laws and regulations.

### FINANCIAL STATEMENTS

The Financial Statements of the Company and the Group are given on pages 124 to 170.

### AUDITOR'S REPORT

The Auditor's Report on the Financial Statements of the Company and the Group is given on page 123.

### ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the Financial Statements are given on pages 129 to 144.

### GROUP REVENUE

The revenue of the Group during the year was Rs. 6,790,011,785/- (2012 - Rs. 6,518,252,502/-) and an analysis is given in Note 6.1 to the Financial Statements.

The Group revenue from Tea increased by Rs. 345,954,667/- (2012 - Rs. 760,740,451/-) and Rubber decreased by Rs. 95,249,180/- (2012 - Rs. 266,408,765/-) during the year, respectively.

## **ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY**

### **RESULTS AND DIVIDENDS**

The Group profit before taxation amounted to Rs. 465,484,605/- (2012- Rs. 680,955,774/-).

After adjusting Rs. 79,962,434/- (2012 - Rs. 124,631,930/-) and profit of Rs. 7,558,571/- (2012- Loss of Rs. 464,603/-) for taxation and non-controlling interest, respectively, the profit available for appropriation, inclusive of brought forward retained profit of Rs. 324,472,951/-(2012 - Rs. 283,715,836/-) amounted to Rs. 735,888,251/- (2012 - Rs. 868,472,751/-) of this, Rs. 119,600,003.50 (2012 - Rs. 204,000,006.00) has been set aside for dividends.

The Board of Directors recommends a first and final dividend of Rs. 3.50 per share payable on 8 April 2014 to the holders of the issued ordinary shares of the Company as at close of business on 28 March 2014. The dividend will be subject to a 10% tax deduction.

The Directors have confirmed that the Company satisfies the solvency test requirement under Section 57 of the Companies Act No. 07 of 2007 for the first and final dividend proposed. A Solvency Certificate by the Auditors has been sought in respect of the proposed dividend of Rs. 3.50 (2012 - Rs. 6/-) per share.

### **PROPERTY, PLANT & EQUIPMENT**

The capital expenditure of the Group during the year amounted to Rs. 553,318,847/- (2012 - Rs. 455,595,236/-) whilst that of the Company was Rs. 472,812,616/- (2012- Rs. 434,356,616/-) which includes replanting expenditure of Rs. 389,647,948/- (2012 - Rs. 333,410,100/-) on Tea and Rubber.

Information relating to movement of Property, Plant & Equipment is given in Notes 12 and 13 to the Financial Statements.

### **STATED CAPITAL AND RESERVES**

In compliance with the Companies Act No. 07 of 2007, the Financial Statements reflect the stated capital of the Company. The stated capital is the total of all amounts received by the Company in respect of the issue of shares.

The stated capital of the Company, consisting of 34,000,000 ordinary shares and one Golden Share amounts to Rs. 340,000,010/-. There was no change in the stated capital during the year. The Golden Share of Rs. 10/- held by the Secretary to the Treasury, enjoys the following special rights:

- The concurrence of the Golden Shareholder should be obtained to sub-lease estate lands and amend the Articles of Association of the Company in which the Golden Shareholders' rights are given.
- The Golden Shareholder, or his nominee, has the right to examine the books and accounts of the Company.
- The Company is required to submit a detailed quarterly report to the Golden Shareholder.
- The Golden Shareholder can request the Board of Directors of the Company to meet with him.

## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

**RESERVES** The total reserves of the Group as at 31 December 2013 amounted to Rs. 2,435,888,251/- (2012 - Rs. 2,228,472,951/-) comprising the general reserve of Rs. 1,700,000,000/- (2012 - Rs. 1,700,000,000/-) and the carried forward profit of Rs. 735,888,251/- (2012 - Rs. 528,472,951/-).

The movement is shown in the Statements of Changes in Equity in the Financial Statements.

**TAXATION** It is the Company's policy to provide for deferred taxation on all known temporary differences on the liability method. The Company is liable to income tax at the rate of 10% on its agricultural profits and 28% on manufacturing profits and other income for the year of assessment 2013/14.

**INTEREST REGISTER** The Company, in compliance with the Companies Act No. 07 of 2007, maintains an Interest Register. Particulars of entries in the Interest Register are detailed below. The subsidiary companies have unanimously agreed to dispense with the keeping of Interest Registers.

**DIRECTORS' INTERESTS IN TRANSACTIONS** The Directors of the Company have made the general disclosures provided for in Section 192 (2) of the Companies Act No. 07 of 2007. Note 31 to the Financial Statements dealing with related party disclosures includes details of their interests in transactions.

**DIRECTORS' INTERESTS IN SHARES** Directors of the Company and its subsidiaries who have relevant interests in the shares of the respective companies have disclosed their shareholdings and any acquisitions/ disposals to their Boards, in compliance with Section 200 of the Companies Act.

	As at 31.12.13 No. of shares	As at 31.12.12 No. of shares
Mr. W G R Rajadurai - <i>Managing Director</i>	91	91
Mr. S Siriwardana - <i>Director</i>	193	193
Dr. K I M Ranasoma - <i>Director</i>	300	300

None of the other Directors held shares of the Company as at 31 December 2013.

There were no share transactions by the Directors, in terms of Section 200 of the Companies Act in respect of the subsidiaries.

**INSURANCE AND INDEMNITY** The ultimate parent of the Company, Hayleys PLC has obtained a corporate guard insurance policy from AIG Insurance Ltd. Providing worldwide cover to indemnify all past, present and future Directors and Officers (D and O) of its subsidiaries. The limit on liability of the cover is US\$ 5 m.

## **ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY**

### **PAYMENT OF REMUNERATION TO DIRECTORS**

Executive Directors' remuneration is determined within an established framework. The total remuneration of the Executive Directors of the Group and the Company for the year ended 31 December 2013, is Rs. 34,297,500/- and Rs. 18,345,000/- respectively, including the value of perquisites granted to them as part of their terms of service.

The total remuneration of Independent Non-Executive Directors of both Group and the Company for the year ended 31 December 2013 is Rs. 1,194,000/-, determined according to scales of payment decided upon by the Board previously. The Board is satisfied that the payment of this remuneration is fair to the Company.

### **CORPORATE DONATIONS**

No donations were made during the year (2012 - Nil) by the Company and its subsidiaries.  
No donations were made for political purposes.

### **DIRECTORATE**

The names of the Directors who held office during the financial year are given below and their brief profiles appear on pages 68 and 69.

### **EXECUTIVE DIRECTORS**

A M Pandithage, W G R Rajadurai, S Siriwardana.

### **NON-EXECUTIVE DIRECTORS**

S C Ganegoda, L T Samarawickrama, Dr. K I M Ranasoma.

### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

F Mohideen, C V Cabraal, L N De S Wijeratne.

Mr. J A G Anandarajah who served as a Director of the Company retired on 31 March 2013.

Mr. G K Seneviratne who served as a Director of the Company retired from the Board with effect from 9 January 2013 and was appointed as an Alternate Director to Mr. A M Pandithage effective 9 January 2013. Mr. Seneviratne resigned as an Alternate Director on 8 April 2013.

Mr. R Seevaratnam who served as a Director of the Company resigned on 30 July 2013.

Mr. L N De S Wijeratne was appointed as a Non-Executive Independent Director with effect from 30 July 2013. In terms of Article No. 28 of the Articles of Association of the Company, shareholder will be requested to re-elect him at the Annual General Meeting.

Mr. L T Samarawickrama and Mr. F Mohideen retire by rotation, and being eligible offer themselves for re-election.

Directors of the Subsidiaries and the Parent Company are given on pages 70 and 71.

### **CORPORATE GOVERNANCE**

The Company has complied with the Corporate Governance Rules laid down under the Listing Rules of the Colombo Stock Exchange. The corporate governance section on pages 74 to 97 discusses this further.

Adoption of good governance practices has become an essential requirement in today's corporate culture. The practices carried out by the Group are explained in the Corporate Governance Statement on pages 74 to 97.



## **ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY**

### **AUDITORS**

The Auditors, Messrs Ernst & Young, were paid Rs. 3,213,000/- (2012 - Rs. 3,178,500/-) and Rs. 2,688,000/- (2012 - Rs. 2,400,000/-) by the Group and the Company respectively as Audit fees for 2013.

In addition, for non-audit related work, the Group paid Rs. 975,700/- (2012 - Rs. 205,000/-) to Messrs Ernst & Young in the year 2013 whilst the Company incurred Rs. 150,000/- (2012 - Rs. Nil) on non-audit related work which is mainly consists of tax consultancy services.

The Auditors of the Company and its subsidiaries have confirmed that they do not have any relationships (other than that of Auditor) with, or interests in the Company or any of its subsidiaries other than those disclosed above.

Messrs Ernst & Young, Chartered Accountants are deemed re-appointed, in terms of Section 158 of the Companies Act No. 07 of 2007, as Auditors of the Company.

A resolution proposing the Directors be authorised to determine their remuneration will be submitted at the Annual General Meeting.

### **SHARE INFORMATION AND MAJOR SHAREHOLDINGS**

Information relating to earnings, dividend, net assets per share is shown on page 6 and share trading is given on page 174.

### **SHAREHOLDERS**

It is the Company/Group policy to endeavour to ensure equitable treatment to its shareholders. The twenty major shareholders' names, number of shares held and the percentage held as at 31 December 2013 are given on page 175 of this Report and public shareholding percentage is shown on page 175.

### **EVENTS OCCURRING AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION**

No circumstances have arisen since the date of Statement of Financial Position, which would require adjustments to, or disclosure of other than those disclosed in Note 34 to the Financial Statements.

### **EMPLOYMENT**

The number of persons employed by the Group at year-end was 12,842 (2012 - 13,622) of which 12,671 (2012- 13,462) are engaged in employment outside the District of Colombo.

### **STATUTORY PAYMENTS**

The declaration relating to statutory payments is made in the Statement of Directors' Responsibilities on page 120.

Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to employees and the Government have been made promptly.

### **ENVIRONMENTAL PROTECTION**

The Group's efforts to conserve scarce and non-renewable resources, as well as its environmental objectives and key initiatives, are described in the environment section of the Management Discussion and Analysis on page 57.

The Group's business activities can have direct and indirect effect on the environment. It is the Group's policy to minimise any adverse effects of its activities may have on the environment and to promote co-operation and compliance with the relevant authorities and regulations.

**ANNUAL REPORT OF  
THE BOARD OF DIRECTORS ON  
THE AFFAIRS OF THE COMPANY**

**INTERNAL CONTROL**

The Directors acknowledge their responsibility for the Group's system of internal control. The system is designed to give assurance, *inter alia*, regarding the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information generated. However, any system can only ensure reasonable and not absolute assurance that errors and irregularities are either prevented or detected within a reasonable time period.

The Board, having reviewed the system of internal controls, is satisfied with its effectiveness for the period up to the date of signing the Financial Statements.

**GOING CONCERN**

The Directors, after making necessary inquiries and reviews including reviews of the Group's budget for the ensuing year, capital expenditure requirements, future prospects and risks, cash flows and borrowing facilities, have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Therefore, the going concern basis has been adopted in the preparation of the Financial Statements.

**ANNUAL GENERAL MEETING**

The Annual General Meeting will be held at the Registered Office of the Company at No. 400, Deans Road, Colombo 10, Sri Lanka on Friday, 28 March 2014 at 3.00 p.m. The Notice of the Annual General Meeting appears on page 188.

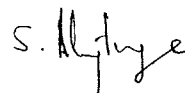
For and on behalf of the Board,



A M Pandithage  
Chairman



W G R Rajadurai  
Managing Director



Hayleys Group Services (Pvt) Ltd.  
Secretaries

13 February 2014

# FINANCIAL REPORTS 2013

## FINANCIAL CALENDAR



2013		2012
14 May 2013	1st Quarter	11 May 2012
30 July 2013	2nd Quarter	31 July 2012
05 November 2013	3rd Quarter	30 October 2012
13 February 2014	Annual Report	20 February 2013
28 March 2014	Annual General Meeting	28 March 2013
28 March 2014	First & Final Dividend Proposed	28 March 2013
08 April 2014	First & Final Dividend Payable	08 April 2013

## ANNUAL GENERAL MEETINGS



Financial Year	Date of Authorisation for Issue	Annual General Meetings
2011	14 February 2012	29 March 2012
2010	09 February 2011	31 March 2011
2009	09 February 2010	31 March 2010
2008	19 February 2009	31 March 2009
2007	22 February 2008	28 March 2008
2006	07 February 2007	30 March 2007
2005	28 February 2006	10 April 2006
2004	28 March 2005	27 April 2005
2003	30 March 2004	22 April 2004
2002	28 March 2003	22 April 2003

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125	Statements of Comprehensive Income
126	Statements of Financial Position
127	Statements of Changes in Equity
128	Statements of Cash Flows
129	Notes to the Financial Statements

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible, under the Sections 150 (1), 151, 152 (1) and 153 of the Companies Act No. 07 of 2007, to ensure compliance with the requirements set out therein to prepare Financial Statements for each financial year giving a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit and loss of the Company and the Group for the financial year.

The Directors are also responsible, under Section 148 for ensuring that proper accounting records are kept to enable, determination of financial position with reasonable accuracy, preparation of Financial Statements and audit of such statements to be carried out readily and properly.

The Board accepts responsibility for the integrity and objectivity of the Financial Statements presented. The Directors confirm that in preparing the Financial Statements, appropriate accounting policies have been selected and applied consistently while reasonable and prudent judgments have been made so that the form and substance of transactions are properly reflected.

They also confirm that the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange. Further, the Financial Statements provide the information required by the Companies Act and Listing Rules of the Colombo Stock Exchange.

The Directors are of the opinion, based on their knowledge of the Company, key operations and specific inquiries that adequate resources exist to support the Company on a going concern basis over the next year. These Financial Statements have been prepared on that basis.

The Directors have taken reasonable measures to safeguard the assets of the Group and, in that context, have instituted appropriate systems of internal control with a view to preventing and detecting fraud and other irregularities.

As required by Section 56 (2) of the Companies Act No. 07 of 2007, the Board of Directors has authorised distribution of the dividends now proposed, being satisfied, based on information available to it, that the Company would satisfy the solvency test after such distributions, in accordance with Section 57 of the Companies Act No. 07 of 2007 and have sought in respect of the dividend now proposed, Certificate of Solvency from its Auditors.

The External Auditors, Messrs Ernst & Young deemed re-appointed in terms of Section 158 of the Companies Act were provided with every opportunity to undertake the inspections they considered appropriate to enable them to form their opinion on the Financial Statements. The report of the Auditors, shown on page 123 sets out their responsibilities in relation to the Financial Statements.

### COMPLIANCE REPORT

The Directors confirm that to the best of their knowledge, all statutory payments relating to employees and the Government that were due in respect of the Company and its subsidiaries as at the date of Statement of Financial Position have been paid or where relevant, provided for.

By Order of the Board,

HAYLEYS GROUP SERVICES (PVT) LTD.  
Secretaries

13 February 2014

## AUDIT COMMITTEE REPORT

The Audit Committee is an integral element of accountability and governance. Audit Committee arrangement is proportionate to the task and varied according to the size, complexity and risk profile of the Company.

### TERMS OF REFERENCE (TOR)

The Committee's purpose, duties and responsibilities are specified in the Terms of References. It ensures the composition and activities of the Committee which are in line with the recommended best practices applicable to listed companies.

The committee assists the Board in carrying out its oversight responsibility to the existing and prospective shareholders and other stakeholders relating to:

- Review of the financial information of the Company in order to monitor the integrity of the Financial Statements, annual report, accounts and quarterly reports of the Company.
- The quality and acceptability of the Company's accounting policies and practices.
- Assessing the independence and monitoring performance and functions of internal audit.
- Overseeing the appointment, compensation, resignation, dismissal of the External Auditors.
- Independence and performance of the External Auditors.
- Compliance with the reporting and information requirements specified in the Companies Act or any other reporting standards or regulations.
- Ensuring the adequacy of internal control and risk management.

### REGULATORY COMPLIANCE

The Terms of Reference (TOR) is reviewed regularly and revised where necessary with the approval of the Board in order to keep pace with the changing risk profile of the Group and in line with the best practices adopted by listed companies. The relevant provisions of the Companies Act No. 07 of 2007, Listing Rules of the Colombo Stock Exchange, Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka (CASL), and the Code of Best Practice on Audit Committees issued by CASL are considered in reviewing and revising the Audit Committee Terms of Reference.

### COMPOSITION

The Audit Committee, appointed by and responsible to the Board of Directors, comprises two Independent Non-Executive Directors. The Chairman, Chief Financial Officer of Hayleys PLC, Managing Director and the Director - Finance of Kelani Valley Plantations PLC attended meetings of the Committee by invitation. Other members of the Board and the External Auditors were requested to be present at discussions where appropriate. The Chairman of the Audit Committee is a senior Chartered Accountant.

The names of the members and brief profiles of each member are given on pages 68 and 69 and Inner Back Cover of this Report. Their individual and collective financial knowledge and business acumen and the independence of the Audit Committee are brought to bear on their deliberations and judgments on matters that falls within the purview of the Committee.

The Audit Committee has also reviewed the activities of the three unquoted subsidiary companies during the financial year under review.

### MEETINGS

The Audit Committee met four times during the year. The attendance of the members at these meetings is as follows:

	12.02.13	07.05.13	29.07.13	05.11.13	Total
Independent Non-Executive Director					
Mr. R Seevaratnam*	✓	✓	✓	-	3/3
Mr. L N De S Wijeyeratne** (Chairman)	-	-	-	✓	1/1
Mr. F Mohideen	✓	✗	✓	✓	3/4
Mr. C V Cabraal***	-	-	-	-	0/0

\*Resigned w.e.f. 30.07.2013

\*\*Appointed w.e.f. 30.07.2013

\*\*\*Appointed w.e.f. 05.11.2013

Mr. L N de S Wijeyeratne was appointed as the Chairman w.e.f. 30.07.2013. Mr. R Seevaratnam, the former Chairman resigned w.e.f. 30.07.2013.

Mr. C V Cabraal was appointed as the member of the Audit Committee w.e.f. 05.11.2013.

## AUDIT COMMITTEE REPORT

### KEY PRINCIPAL ACTIVITIES CARRIED DURING THE YEAR

The Committee discharged its function and carried out duties as set out in its term of reference. The following includes the key activities carried out by the Audit Committee during the year.

### REVIEW OF THE COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS

The Committee reviewed the financial reporting system adopted by the Group in the preparation of its quarterly and annual Financial Statements to ensure the reliability of the process and consistency of the accounting policies and methods adopted and their compliance with the Sri Lanka Accounting Standards. The methodology included obtaining statements of compliance from the Managing Director and the Chief Financial Officer. The Committee recommended the Financial Statements to the Board for its deliberations and issuance. The Committee, in its evaluation of the financial reporting system, also recognised the adequacy of the content and quality of the management information reports forwarded to its members.

### REVIEW THE EFFECTIVENESS OF INTERNAL CONTROLS

The Audit Committee regularly reviewed the process to assess the effectiveness of the internal financial controls that have been designed to provide reasonable assurance to the Directors that assets are safeguarded and that the financial reporting system can be relied upon in preparation and presentation of the Financial Statements and the fraud is prevented. Procedures relating to the continuous monitoring and reporting of key control elements in Group companies were reviewed and action plans for the ensuing year were formulated.

### EXTERNAL AUDIT

The Audit Committee held meetings with the External Auditors to review and monitor the scope of the audit, the objectivity and effectiveness of the audit process and the Management Letters issued by them in respect of Group companies. Action taken by the management in response to the issues raised, as well as the effectiveness of the internal controls in place, were discussed with the heads of business units. Remedial action was recommended wherever necessary.

The Committee reviewed the nature, extent and value of non-audit work the External Auditors had undertaken, to ensure that it did not compromise their independence.

### APPOINTMENT OF AUDITORS

The Audit Committee recommended to the Board of Directors that Messrs Ernst & Young, Chartered Accountants be reappointed for the financial year ending 31 December 2014, subject to the approval at the Annual General Meeting.

### CONCLUSION

The Audit Committee wishes to acknowledge with thanks the services rendered by Auditors, Ernst & Young and their efforts to meet the requirements and expectations of the Company.

The contribution made by Mr. R Seevaratnam as the Chairman of the Audit Committee till his resignation is acknowledged by the Committee with grateful appreciation.



**L N de S Wijeyeratne**

Chairman

Audit Committee

07 February 2014

## INDEPENDENT AUDITORS' REPORT



**EY**

Building a better  
working world

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ADBT/CSW/SJJC

### TO THE SHAREHOLDERS OF KELANI VALLEY PLANTATIONS PLC Report on the Financial Statements

We have audited the accompanying Financial Statements of Kelani Valley Plantations PLC and the Consolidated Financial Statements of the Company and its subsidiaries which comprise the Statements of Financial Position as at December 31, 2013 and the Income Statements, Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flow for the year then ended, and a summary of significant Accounting Policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

#### Opinion

##### Company

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2013, and the financial statements give a true and fair view of the Company's financial position as at December 31, 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

##### Group

In our opinion, the consolidated financial statements give a true and fair view of the financial position as at December 31, 2013 and the financial performance and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards of the Company and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

#### Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 151(2) and 153 (2) to 153 (7) of the Companies Act No. 07 of 2007.

13 February 2014  
Colombo

## INCOME STATEMENTS

For the year ended 31 December	Notes	Consolidated		Company	
		2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
<b>Revenue</b>	6.1	<b>6,790,012</b>	6,518,253	<b>4,322,044</b>	4,232,438
Cost of sales		<b>(5,904,292)</b>	(5,362,147)	<b>(3,713,535)</b>	(3,344,285)
<b>Gross profit</b>	6.2	<b>885,720</b>	1,156,106	<b>608,509</b>	888,153
Gain on change in fair value of biological assets	14.2	<b>14,945</b>	8,695	<b>14,945</b>	8,695
Other income	7.0	<b>45,851</b>	45,420	<b>54,299</b>	37,415
Administrative expenses		<b>(391,670)</b>	(425,595)	<b>(256,989)</b>	(288,616)
Distribution expenses		<b>(43,988)</b>	(43,019)	<b>-</b>	-
<b>Results from operating activities</b>		<b>510,858</b>	741,607	<b>420,764</b>	645,647
Finance income	8.1	<b>65,654</b>	42,536	<b>56,963</b>	45,807
Finance expenses	8.2	<b>(52,712)</b>	(49,289)	<b>(20,830)</b>	(17,802)
Interest paid to Government on finance lease	8.3	<b>(58,315)</b>	(53,898)	<b>(58,315)</b>	(53,898)
<b>Net finance cost</b>	8	<b>(45,373)</b>	(60,651)	<b>(22,182)</b>	(25,893)
Loss on amalgamation		<b>-</b>	-	<b>-</b>	(12,155)
<b>Profit before tax</b>	9	<b>465,485</b>	680,956	<b>398,582</b>	607,599
Tax expense	10.1	<b>(73,792)</b>	(120,224)	<b>(50,898)</b>	(113,223)
<b>Profit for the year</b>		<b>391,693</b>	560,732	<b>347,684</b>	494,376
<b>Attributable to:</b>					
Equity holders of the Parent		<b>384,134</b>	561,197	<b>347,684</b>	494,376
Non-controlling interest		<b>7,559</b>	(465)	<b>-</b>	-
<b>Profit for the year</b>		<b>391,693</b>	560,732	<b>347,684</b>	494,376
<b>Earnings per Share</b>					
Basic earnings per share (Rs.)	11.1 (A)	<b>11.30</b>	16.51	<b>10.23</b>	14.54
Diluted earnings per share (Rs.)	11.1 (B)	<b>11.30</b>	16.51	<b>10.23</b>	14.54
<b>Dividend per Share (Rs.)</b>	11.2			<b>3.50</b>	6.00

Figures in brackets indicate deductions.

Notes to the Financial Statements from pages 129 to 170 form an integral part of these Financial Statements.



## STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December	Notes	Consolidated		Company	
		2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Profit for the year		391,693	560,732	347,684	494,376
<b>Other Comprehensive Income</b>					
Net change in fair value of available-for-sale financial assets	19.1	(5,299)	-	-	-
Income tax effect		-	-	-	-
Actuarial gain on defined benefit plans	25	38,750	27,968	37,579	27,968
Income tax effect	10.2	(6,170)	(4,408)	(5,922)	(4,408)
Other comprehensive income for the year, net of tax		27,281	23,560	31,657	23,560
Total comprehensive income for the year, net of tax		418,974	584,292	379,341	517,936
<b>Attributable to:</b>					
Equity holders of the Parent		411,415	584,757	379,341	517,936
Non-controlling interest		7,559	(465)	-	-
		418,974	584,292	379,341	517,936

Actuarial gain on defined benefit plan has been recognised in Statements of Other Comprehensive Income in terms of provisions in LKAS 19. Where necessary, comparative figures have been re-classified to conform with the current period's presentation.

*Figures in brackets indicate deductions.*

Notes to the Financial Statements from pages 129 to 170 form an integral part of these Financial Statements.

## STATEMENTS OF FINANCIAL POSITION

As at 31 December	Notes	Consolidated		Company	
		2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Leasehold property, plant & equipment	12	463,690	469,383	463,690	469,383
Freehold property, plant & equipment	13	1,417,551	1,373,071	1,043,154	1,050,536
Improvements to leasehold property	14.1	2,409,818	2,075,311	2,409,818	2,075,311
Biological assets - consumable	14.2	83,426	68,177	83,426	68,177
Investments in subsidiaries	15	-	-	309,881	308,000
Intangible assets	16	34,321	33,721	-	-
<b>Total non-current assets</b>		<b>4,408,806</b>	<b>4,019,663</b>	<b>4,309,969</b>	<b>3,971,407</b>
<b>Current Assets</b>					
Inventories	17	864,344	719,461	666,977	529,054
Amounts due from subsidiaries	29	-	-	16,434	33,898
Amounts due from other related companies	29	129,072	159,921	129,072	159,921
Trade and other receivables	18	692,403	676,659	161,790	97,031
Income tax recoverable	28.1	812	-	674	-
Other financial assets	19.1	-	6,137	-	-
Short-term deposits	20.1	200,138	467,535	200,000	467,397
Cash and cash equivalents	20.2	51,547	25,185	19,536	13,135
<b>Total current assets</b>		<b>1,938,316</b>	<b>2,054,898</b>	<b>1,194,483</b>	<b>1,300,436</b>
<b>Total assets</b>		<b>6,347,122</b>	<b>6,074,561</b>	<b>5,504,452</b>	<b>5,271,843</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Stated capital	21	340,000	340,000	340,000	340,000
Revenue reserves		2,435,888	2,228,473	2,307,960	2,132,619
Total equity attributable to equity holders of the Parent		2,775,888	2,568,473	2,647,960	2,472,619
Non-controlling interest		22,322	16,667	-	-
<b>Total equity</b>		<b>2,798,210</b>	<b>2,585,140</b>	<b>2,647,960</b>	<b>2,472,619</b>
<b>Non-Current Liabilities</b>					
Interest-bearing borrowings	22.1	98,327	97,588	56,115	91,864
Deferred income	23	476,204	488,762	475,368	487,900
Deferred tax liability	24	363,132	301,387	320,232	271,119
Retirement benefit obligations	25	1,046,403	1,025,142	1,027,537	1,007,583
Liability to make lease payment	26	440,776	427,914	440,776	427,914
<b>Total non-current liabilities</b>		<b>2,424,842</b>	<b>2,340,793</b>	<b>2,320,028</b>	<b>2,286,380</b>
<b>Current Liabilities</b>					
Trade and other payables	27	523,942	485,653	470,201	432,119
Liability to make lease payment within one year	26	6,831	1,062	6,831	1,062
Amounts due to subsidiaries	29	-	-	12,497	9,264
Amounts due to other related companies	29	5,933	11,677	5,933	11,677
Income tax payable	28.2	7,352	15,646	-	13,761
Interest-bearing borrowings payable within one year	22.1	49,820	56,408	35,749	44,961
Short-term interest-bearing borrowings	22.2	513,895	576,317	-	-
Bank overdraft	20.3	16,297	1,865	5,253	-
<b>Total current liabilities</b>		<b>1,124,070</b>	<b>1,148,628</b>	<b>536,464</b>	<b>512,844</b>
<b>Total liabilities</b>		<b>3,548,912</b>	<b>3,489,421</b>	<b>2,856,492</b>	<b>2,799,224</b>
<b>Total equity and liabilities</b>		<b>6,347,122</b>	<b>6,074,561</b>	<b>5,504,452</b>	<b>5,271,843</b>
Net assets per share (Rs.)		82.30	76.03	77.88	72.72

It is certified that the Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.



Sarath Siriwardana  
Director/Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.  
Signed for and on behalf of the Board,



A M Pandithage  
Chairman



W G R Rajadurai  
Managing Director

13 February 2014

Notes to the Financial Statements from pages 129 to 170 form an integral part of these Financial Statements.

## STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December

### CONSOLIDATED

	Attributable to Equity Holders of the Parent				Total	Non-Controlling Interest	Total Equity
	Stated Capital	General Reserve	Retained earnings				
			Timber Reserve	Other			
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Balance as at 1 January 2012	340,000	1,360,000	(1,052)	454,768	2,153,716	17,162	2,170,878
Profit for the year	-	-	8,695	552,502	561,197	(465)	560,732
Other comprehensive income	-	-	-	23,560	23,560	-	23,560
Dividends	-	-	-	(170,000)	(170,000)	(30)	(170,030)
Transfers	-	340,000	-	(340,000)	-	-	-
Balance as at 31 December 2012	340,000	1,700,000	7,643	520,830	2,568,473	16,667	2,585,140
Profit for the year	-	-	14,945	369,189	384,134	7,559	391,693
Other comprehensive income	-	-	-	27,281	27,281	-	27,281
Dividends	-	-	-	(204,000)	(204,000)	(23)	(204,023)
Acquisition of non-controlling interests	-	-	-	-	-	(1,881)	(1,881)
Balance as at 31 December 2013	340,000	1,700,000	22,588	713,300	2,775,888	22,322	2,798,210

### COMPANY

	Stated Capital	General Reserve	Retained Earnings		Total Equity
			Timber Reserve	Other	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1 January 2012	340,000	1,360,000	(1,052)	425,735	2,124,683
Profit for the year	-	-	8,695	485,681	494,376
Other comprehensive income	-	-	-	23,560	23,560
Dividends	-	-	-	(170,000)	(170,000)
Transfers	-	340,000	-	(340,000)	-
Balance as at 31 December 2012	340,000	1,700,000	7,643	424,976	2,472,619
Profit for the year	-	-	14,945	332,739	347,684
Other comprehensive income	-	-	-	31,657	31,657
Dividends	-	-	-	(204,000)	(204,000)
Balance as at 31 December 2013	340,000	1,700,000	22,588	585,372	2,647,960

### RETAINED EARNINGS

	Consolidated		Company	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Holding company	607,960	432,619	607,960	432,619
Subsidiaries	127,928	95,854	-	-
Total	735,888	528,473	607,960	432,619

Figures in brackets indicate deductions.

Notes to the Financial Statements from pages 129 to 170 form an integral part of these Financial Statements.

## STATEMENTS OF CASH FLOW

For the year ended 31 December	Notes	Consolidated		Company	
		2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
<b>Cash Flows from Operating Activities</b>					
Profit before tax		465,485	680,956	398,582	607,599
<b>Adjustments for:</b>					
Interest on Government finance lease	8.3	58,315	53,898	58,315	53,898
Finance expenses	8.2	52,712	49,289	20,830	17,802
Finance income	8.1	(65,654)	(42,536)	(56,963)	(45,807)
Profit on disposal of property, plant & equipment	7	(6,365)	(13,172)	(6,329)	(6,534)
Gain on fair value of biological assets	14.2	(14,945)	(8,735)	(14,945)	(8,735)
Dividend income	7	-	-	(7,853)	(513)
Depreciation	13/14/16	174,502	156,639	145,212	129,525
Lease amortisation	12	25,388	25,924	25,388	25,924
Provision for retirement benefit obligations	25	184,349	181,381	180,424	175,823
Amortisation of capital grants	23	(16,469)	(17,276)	(16,443)	(17,250)
Provision for falling value of investments	19.1	-	2,162	-	-
Provision/(reversal) for obsolete stocks	17	3,885	(1,825)	3,189	(2,482)
Provision/(reversal) for doubtful debts	18	498	(81,392)	(613)	(79)
Loss on amalgamation of subsidiary		-	-	-	12,155
<b>Operating profit before working capital changes</b>		861,701	985,313	728,794	941,326
(Increase)/decrease in inventories		(148,768)	(74,479)	(141,112)	(72,414)
(Increase)/decrease in trade and other receivables		(12,516)	(32,680)	(60,419)	4,580
(Increase)/decrease in amounts due from related companies		30,849	(25,419)	48,312	(37,469)
Increase/(decrease) in trade and other payables		20,863	5,924	21,076	6,465
Increase/(decrease) in amounts due to related companies		(5,744)	5,626	(2,511)	8,533
<b>Cash generated from operating activities</b>		746,385	864,285	594,140	851,021
Interest paid on Government finance lease	8.3	(58,315)	(53,898)	(58,315)	(53,898)
Interest paid	8	(47,785)	(49,289)	(20,830)	(17,802)
Taxes paid		(31,987)	(26,298)	(27,228)	(22,303)
Retirement benefit obligations paid	25	(124,339)	(108,272)	(122,891)	(104,380)
<b>Net cash flow from operating activities</b>		483,959	626,528	364,876	652,638
<b>Cash Flows from Investing Activities</b>					
Field development expenditure	14.1/14.2	(395,770)	(345,833)	(395,770)	(345,833)
Interest received		61,927	32,029	53,236	32,301
Exchange loss		(4,089)	-	-	-
Loss from financial instruments		-	(9,215)	-	-
Dividends received	7	-	-	7,853	513
Acquisition of property, plant & equipment	13	(157,548)	(109,762)	(77,042)	(88,523)
Proceeds from disposal of property, plant & equipment		6,538	14,013	6,502	6,658
Acquisition of non-controlling interest		(1,881)	-	(1,881)	-
Acquisition of intangible assets		(1,246)	-	-	-
<b>Net cash used in investing activities</b>		(492,069)	(418,768)	(407,102)	(394,884)
<b>Net cash inflow/(outflow) before financing activities</b>		(8,110)	207,760	(42,226)	257,754
<b>Cash Flows from Financing Activities</b>					
Dividend paid		(181,936)	(151,672)	(181,911)	(151,645)
Capital settlement of net liability to lessor	26	(1,062)	(893)	(1,062)	(893)
Short-term loans obtained during the year		100,000	1,570,194	100,000	-
Short-term loans repaid during the year		(162,421)	(1,512,779)	(100,000)	-
Long-term loans obtained during the year	22	56,283	17,171	-	-
Long-term loans repaid during the year	22	(62,132)	(71,464)	(44,961)	(49,464)
Grants received	23	3,911	29,201	3,911	29,201
<b>Net cash used in financing activities</b>		(247,357)	(120,242)	(224,023)	(172,801)
<b>Net increase/(decrease) in cash and cash equivalents</b>		(255,467)	87,518	(266,249)	84,953
<b>Cash and cash equivalents at the beginning of the year</b>	20	490,855	403,337	480,532	395,138
Cash and bank balance transferred due to amalgamation		-	-	-	441
<b>Cash and cash equivalents at the end of the year (Note A)</b>		235,388	490,855	214,283	480,532
<b>Note A - Analysis of Cash and Cash Equivalents</b>					
Cash and bank balances	20.2	51,547	25,185	19,536	13,135
Short-term deposits	20.1	200,138	467,535	200,000	467,397
		251,685	492,720	219,536	480,532
Bank overdraft	20.3	(16,297)	(1,865)	(5,253)	-
<b>Cash and cash equivalents</b>		235,388	490,855	214,283	480,532

Figures in brackets indicate deductions.

Notes to the Financial Statements from pages 129 to 170 form an integral part of these Financial Statements.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 1. REPORTING ENTITY

Kelani Valley Plantations PLC was incorporated on 18 June 1992 under the Companies Act No. 17 of 1982 (The Company was re-registered under the Companies Act No. 07 of 2007) in terms of the provisions of the Conversion of Public Corporation and Government-Owned Business Undertakings into Public Companies under Public Companies Act No. 23 of 1987.

The registered office of the Company is located at No. 400, Deans Road, Colombo 10 and Plantations are situated in the planting districts of Nuwara Eliya, Hatton and Yatiyantota.

The ordinary shares of the Company are listed on the Colombo Stock Exchange of Sri Lanka.

All companies in the Group are limited liability companies incorporated and domiciled in Sri Lanka.

The Consolidated Financial Statements of Kelani Valley Plantations PLC, as at and for the year ended 31 December, 2013 comprise the Company and its Subsidiaries namely, Kalupahana Power Company (Pvt) Ltd., Kelani Valley Instant Tea (Pvt) Ltd. and Mabroc Teas (Pvt) Ltd. (together referred to as the 'Group').

The remaining 5% shares of Kelani Valley Instant Tea (Pvt) Ltd. were acquired by Kelani Valley Plantations PLC. As such Kelani Valley Instant Tea (Pvt) Ltd., is a fully-owned subsidiary of Kelani Valley Plantations PLC with effect from 13 November 2013. Please refer Note 15.

The Financial Statements of all companies in the Group other than that mentioned in Note 15 to the Financial Statements are prepared for a common financial year, which ends on 31 December.

#### 1.1 PRINCIPAL ACTIVITIES AND NATURE OF THE OPERATIONS

During the year, the principal activities of The Company were the producing and processing of Tea and Rubber.

#### 1.2 HOLDING COMPANY

The Company is a subsidiary of DPL Plantations (Pvt) Ltd., which is a wholly-owned subsidiary of Dipped Products PLC whose ultimate parent enterprise is Hayleys PLC.

#### 1.3 DATE OF AUTHORISATION FOR ISSUE

The Financial Statements of Kelani Valley Plantations PLC for the year ended 31 December 2013 were authorised for issue by the Board of Directors on 13 February 2014.

### 2. BASIS OF PREPARATION

#### 2.1 STATEMENT OF COMPLIANCE

The Financial Statements of the Company and the Group which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows together with Accounting Policies and Notes to Financial Statements (the 'Consolidated Financial Statements') have been prepared in accordance with Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, which requires compliance with Sri Lanka Accounting Standards promulgated by The Institute of Chartered Accountants of Sri Lanka (CASL), and with the requirements of the Companies Act No. 07 of 2007.

#### 2.2 BASIS OF MEASUREMENT

These Consolidated Financial Statements have been prepared in accordance with the historical cost convention other than following material items in the Financial Statements:

- Right to use of land and leased assets of JEDB/SLSPC, which have been revalued as described in Note 12 to the Financial Statements.
- Managed biological assets are measured at fair value.
- Financial instruments - fair value through profit or loss are measured at fair value.
- Financial instruments - available-for-sale financial assets are measured at fair value.

Where appropriate, the specific policies are explained in the succeeding Notes.

No adjustments have been made for inflationary factors in the Consolidated Financial Statements.

#### 2.3 FUNCTIONAL AND PRESENTATION CURRENCY

The Financial Statements are presented in Sri Lankan Rupees (Rs.), which is the Group's functional and presentation currency. All financial information presented in Sri Lankan Rupees has been given to the nearest thousand, unless stated otherwise.

#### 2.4 MATERIALITY AND AGGREGATION

Each material class of similar items is presented separately in the Consolidated Financial Statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are consistent with those used in the previous year. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### 3.1 COMPARATIVE INFORMATION

Comparative information has where necessary been reclassified to conform with the current year's presentation.

#### 3.2 GOING CONCERN

The Consolidated Financial Statements have been prepared on the assumption that The Company is a going concern. The Directors have made an assessment of the Group's ability to continue as a going concern in the foreseeable future, and they do not foresee a need for liquidation or cessation of trading, to justify adopting the going concern basis in preparing these Financial Statements.

#### 3.3 BASIS OF CONSOLIDATION

The Consolidated Financial Statements (referred to as the 'Group') comprise the Financial Statements of the Company and its subsidiaries and Group's Interest in Equity Accounted Investees.

##### 3.3.1 BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value at the acquisition date and the amount of any Non-Controlling Interest in the acquiree. For each business combination, the Group elects whether it measures the Non-Controlling Interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Transaction costs, other than those associated with the issue of debt or equity securities that Group incurs in connection with a business combinations are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with LKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of LKAS 39, it is measured in accordance with the appropriate SLFRS.

##### 3.3.2 SUBSIDIARIES

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities which is evident when the Group controls the composition of the Board of Directors of the entity or holds more than 50% of the issued shares of the entity or 50% of the voting rights of the entity or entitled to receive more than half of every dividend from shares carrying unlimited right to participate in distribution of profits or capital.

Entities that are subsidiaries of another entity which is a subsidiary of the Company are also treated as subsidiaries of the Company.

The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control effectively commences until the date that control effectively ceases. Non-Controlling Interest is measured at the proportionate share of the acquiree's identifiable net assets. Subsidiaries are disclosed in Note 15 to the Financial Statements.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it -

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any Non-Controlling Interest



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

- Derecognises the cumulative transaction differences, recorded in equity
- Recognises the fair value of consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassify the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate

### 3.3.3 TRANSACTION WITH NON-CONTROLLING INTEREST

The profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the parent, directly or indirectly through subsidiaries, is disclosed separately under the heading 'Non-Controlling Interest'.

The Group applies a policy of treating transactions with Non-Controlling Interests as transactions with parties external to the Group.

Losses within a subsidiary are attributed to the Non-Controlling Interest even if that results in a deficit balance.

### 3.3.4 TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-group balances, transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transaction with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### 3.3.5 PROFITS AND LOSSES

The total profits and losses for the period of the Company and its subsidiaries included in consolidation are shown in the Consolidated Income Statement, with the proportion of the profit or loss after taxation applicable to Non-Controlling Interest of the subsidiaries being separately mentioned as 'Non-Controlling Interest/(Loss)'.

### 3.3.6 ASSETS AND LIABILITIES

All assets and liabilities of the Company and its subsidiaries are included in the Consolidated Statement of Financial Position. The proportionate interest of Non-Controlling Interest in the net assets employed by the Group, is disclosed separately in the Consolidated Statement of Financial Position as 'Non-Controlling Interest'.

### 3.3.7 FOREIGN CURRENCY

#### 3.3.7.1 FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at exchange rates applicable on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate ruling at that date. Foreign currency differences arising on retranslation are recognised in Income Statement. All differences arising on settlement or translation of monetary items are taken to the Income Statement with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed, at which time, the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary assets and liabilities which are carried in terms of historical cost in a foreign currency are retranslated at the exchange rate that prevailed at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

#### 3.3.7.2 FOREIGN OPERATIONS

The results and financial position of all Group entities that have a functional currency other than the Sri Lankan Rupee are translated into Sri Lankan Rupees as follows:

- Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on the acquisition, are translated to Sri Lankan Rupees at the exchange rate at the reporting date;
- Income and expenses are translated at the average exchange rates for the period.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

Foreign currency differences are recognised in other comprehensive income. When a foreign operation is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to Non-Controlling Interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognised in other comprehensive income in the translation reserve.

### 3.4 ASSETS AND BASES OF THEIR VALUATION

Assets classified as current assets in the Statement of Financial Position are cash and bank balances and those which are expected to be realised in cash during the normal operating cycle of the Company's business or within one year from the reporting date whichever is shorter. Assets other than current assets are those which the Company intends to hold beyond a period of one year from the date of Statement of Financial Position.

#### 3.4.1 PROPERTY, PLANT & EQUIPMENT

##### 3.4.1.1 RECOGNITION AND MEASUREMENT

Items of Property, Plant & Equipment are measured at cost (or at fair value in the case of land and consumable biological assets), less accumulated depreciation and accumulated impairment losses, if any.

##### 3.4.1.2 OWNED ASSETS

The cost of Property, Plant & Equipment includes expenditures that are directly attributable to the acquisition of the asset. Such costs includes the cost of replacing part of the Property, Plant & Equipment and borrowing costs for long-term construction projects if the recognition criteria are met. The cost of self-constructed assets includes the cost of materials and direct labour, any other cost directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as a part of that equipment.

When significant parts of Property, Plant & Equipment are required to be replaced at intervals, the entity recognises such parts as individual assets (major components) with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the Income Statement as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Capital work-in-progress is transferred to the respective asset accounts at the time of first utilisation or at the time the asset is commissioned.

##### 3.4.1.3 LEASED ASSETS

Assets obtained under the finance lease, which effectively transfer to the Group substantially, all risks and benefits incidental to ownership of the leased assets, are treated as if they have been purchased outright and are capitalised at their cash price. Assets acquired by way of a finance lease are measured at an amount equal to the lower of their fair value and the present value of minimum lease payments at the inception, less accumulated depreciation and accumulated impairment losses.

Assets held under the finance lease are amortised over the shorter of the lease period or the useful lives of equivalent-owned assets, unless ownership is not transferred at the end of the lease period. The principal/capital elements payable to the lessor are shown as liability/obligation. The lease rentals are treated as consisting of capital and interest elements. The capital element in the rental that is applied to reduce the outstanding obligation and interest element is charged against profit, in proportion to the reducing capital element outstanding.

The cost of improvements to or on leased property is capitalised, disclosed as improvements to leasehold property and depreciated over the unexpired period of the lease, or the estimated useful lives of the improvements, whichever is shorter.

Operating lease payments are recognised as an operating expense in the Income Statement on a straight-line basis over the lease term.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 3.4.1.4 SUBSEQUENT COST

The cost of replacing part of an item of Property, Plant & Equipment is recognised in the carrying amount of the item, if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition policy given below.

The costs of the day-to-day servicing of Property, Plant & Equipment are recognised in profit or loss as incurred.

### 3.4.1.5 DERECOGNITION

The carrying amount of an item of Property, Plant & Equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses on derecognition are recognised in profit or loss and gains are not classified as revenue. When revalued assets are sold, any related amount included in the Revaluation Reserve is transferred to Retained Earnings.

### 3.4.1.6 LAND DEVELOPMENT COST

Permanent land development costs are those costs incurred in making major infrastructure development and building new access roads on leasehold lands.

These costs have been capitalised and amortised over the remaining lease period.

Permanent impairments to land development costs are charged to the Income Statement in full or reduced to the net carrying amounts of such assets in the year of occurrence after ascertaining the loss.

### 3.4.1.7 BEARER BIOLOGICAL ASSET

#### *Immature and Mature Plantations*

The cost of land preparation, rehabilitation, new planting, replanting, crop diversification, interplanting and fertilizing, etc., incurred between the time of planting and harvesting (when the planted area attains maturity), are classified as immature plantations. These immature plantations are shown at direct costs plus attributable overheads. The expenditure incurred on bearer biological assets (Tea, Rubber) which comes into bearing during the year, is transferred to mature plantations.

Permanent impairments to biological assets are charged to the Income Statement in full and reduced to the net carrying amounts of such asset in the year of occurrence after ascertaining the loss.

### 3.4.1.8 INFILLING COST ON BEARER BIOLOGICAL ASSETS

The land development costs incurred in the form of infilling have been capitalised to the relevant mature field, only where the number of plants per hectare exceeded 3,000 plants and also if it increases the expected future benefits from that field, beyond its pre-infilling performance assessment. Infilling costs so capitalised are depreciated over the newly assessed remaining useful economic life of the relevant mature plantation or the unexpired lease period, whichever is lower.

Infilling costs that are not capitalised have been charged to the Income Statement in the year in which they are incurred.

### 3.4.1.9 BORROWING COSTS

Borrowing costs that are directly attributable to acquisition, construction or production of a qualifying asset, which takes a substantial period of time to get ready for its intended use or sale, are capitalised as a part of the asset.

Borrowing costs that are not capitalised are recognised as expenses in the period in which they are incurred and charged to the Income Statement.

The amounts of the borrowing costs which are eligible for capitalisation are determined in accordance with LKAS 23 - 'Borrowing Costs'.

Borrowing costs incurred in respect of specific loans that are utilised for field development activities have been capitalised as a part of the cost of the relevant immature plantation.

The capitalisation will cease when the crops are ready for commercial harvest.

The amount so capitalised and the capitalisation rates are disclosed in Notes to the Financial Statements.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

**3.4.1.10 DEPRECIATION AND AMORTISATION****(a) Depreciation**

Depreciation is recognised in Income Statement on a straight-line basis over the estimated useful economic lives of each part of an item of Property, Plant & Equipment. Assets held under finance leases are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets unless it is reasonably certain that the Group will have ownership by the end of the lease term. Lease period of land acquired from JEDB/SLSPC will be expired in year 2045. The estimated useful lives for the current and comparative periods are as follows:

	No. of Years	Rate (%)
Buildings & Roads	40	2.50
Plant & Machinery	20	5.00
Electronic Machinery	10	10.00
Hydro Power Plant	30	3.33
Motor Vehicles - Utility	10	10.00
Motor Vehicles - Supervisory	5	20.00
Equipment	4	25.00
Furniture & Fittings	10	10.00
Sanitation, Water & Electricity Supply	20	5.00
Computer Accessories	4	25.00
Tea Bagging Machines	15	6.67

**Mature Plantations (Replanting and New Planting)**

	No. of Years	Rate (%)
Mature Plantations - Tea	33 1/3	3.00
- Rubber	20	5.00

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date on which the asset is classified as held-for-sale or is derecognised. Depreciation methods, useful lives and residual values are reassessed at the reporting date and adjusted prospectively, if appropriate. Mature plantations are depreciated over their useful lives or unexpired lease period, whichever is less.

No depreciation is provided for immature plantations.

**(b) Amortisation**

The leasehold rights of assets taken over from JEDB/SLSPC are amortised in equal amounts over the shorter of the remaining lease periods and the useful lives as follows:

	No. of Years	Rate (%)
Right to use of Land	53	1.89
Improvements to Land	30	3.33
Mature Plantations (Tea & Rubber)	30	3.33
Buildings	25	4.00
Machinery	20	5.00

**3.4.1.11 NON-CURRENT ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATIONS**

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held-for-sale only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

In the Consolidated Statement of Comprehensive Income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations.

Property, Plant & Equipment and intangible assets once classified as held-for-sale are not depreciated or amortised.

**3.4.2 BIOLOGICAL ASSETS**

Biological assets are classified into mature biological assets and immature biological assets. Mature biological assets are those that have attained harvestable specifications or are able to sustain regular harvests. Immature biological assets are those that have not yet attained harvestable specifications. Tea, Rubber, other plantations and nurseries are classified as biological assets.

Biological assets are further classified as bearer biological assets and consumable biological assets. Bearer biological assets includes Tea and Rubber trees, those that are not intended to be sold or harvested, however, used to grow for harvesting agricultural produce from such biological assets. Consumable biological assets includes managed timber trees those that are to be harvested as agricultural produce or sold as biological assets.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

The entity recognise the biological assets when, and only when, the entity controls the assets as a result of past event, it is probable that future economic benefits associated with the assets will flow to the entity and the fair value or cost of the assets can be measured reliably. Expenditure incurred on consumable biological assets is recorded at cost at initial recognition and thereafter at fair value at the end of each reporting period.

The bearer biological assets are measured at cost less accumulated depreciation and accumulated impairment losses, if any, in terms of LKAS 16 - 'Property, Plant & Equipment'.

The managed timber are measured on initial recognition and at the end of each reporting period at its fair value less cost to sell in terms of LKAS 41. The cost is treated as approximation to fair value of young plants as the impact on biological transformation of such plants to price during this period is immaterial. The fair value of timber trees are measured using DCF method taking into consideration the current market prices of timber, applied to expected timber content of a tree at the maturity by an independent professional valuer. All other assumptions and sensitivity analysis are given in Note 14.

### THE MAIN VARIABLES IN DCF MODEL CONCERNS

Variable	Comment
Currency valuation	Rs.
Timber content	Estimate based on physical verification of girth, height and considering the growth of each species in different geographical regions. Factor all the prevailing statutory regulations enforced against harvesting of timber coupled with forestry plan of the Company.
Economic useful life	Estimated based on the normal life span of each species by factoring the forestry plan of the Company.
Selling price	Estimated based on prevailing Sri Lankan market prices. Factor all the conditions to be fulfilled in bringing the trees into saleable condition.
Planting Cost	Estimated costs for the further development of immature areas are deducted.
Discount Rate	Future cash flows are discounted at following discount rates: Mature Timber Trees 17.5% Immature Timber Trees - Compounding Rate 14%

Nursery cost includes the cost of direct materials, direct labour and an appropriate proportion of directly attributable overheads, less provision for overgrown plants.

The gain or loss arising on initial recognition of biological assets at fair value less cost to sell and from a change in fair value less cost to sell of biological assets are included in profit or loss for the period in which it arises.

### 3.4.3 INTANGIBLE ASSETS

Intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental or for administrative purpose. An intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably in accordance with LKAS 38 on 'Intangible Assets'.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally-generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the Income Statement in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The amortisation period and method of intangible assets with a finite and indefinite useful life are reviewed annually.

#### 3.4.3.1 GOODWILL

Goodwill arising on the acquisition represents the excess of the cost of the identifiable assets and liabilities of the acquired entity at the date of acquisition. Negative goodwill arising on an acquisition represents the excess of the Group's interest in the fair value of the assets and liabilities acquired over the cost of acquisition. Negative goodwill is recognised immediately in Income Statement.

Goodwill arising on an acquisition of a Non-Controlling Interest in a subsidiary, represents the excess of the cost of the additional investment over the carrying amount of the interest in the net assets, acquired at the date of exchange.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

Goodwill is tested annually for impairment and is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion the cash-generating unit retained

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

### 3.4.3.2 RESEARCH AND DEVELOPMENT

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost, less accumulated amortisation and accumulated impairment losses.

## 3.4.4 FINANCIAL INSTRUMENTS

### 3.4.4.1 FINANCIAL ASSETS

#### 3.4.4.1.1 Initial Recognition and Measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus directly attributable transaction costs, except in the case of assets not at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, short-term investments, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

#### 3.4.4.1.2 Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as described below:

##### (a) Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held-for-trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets at fair value through profit and loss are carried in the Statement of Financial Position at fair value with changes in fair value recognised in finance income or finance costs in the Income Statement.

The Group has not designated any financial assets as at fair value through profit or loss.

##### (b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the Income Statement. The losses arising from impairment are recognised in the Income Statement in finance costs.

Loans and receivables comprise of trade receivables, amounts due from related parties, deposits, advances and other receivables and cash and cash equivalents.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### (c) Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the Income Statement. The losses arising from impairment are recognised in the Income Statement in finance costs.

### (d) Available-for-Sale Financial Investments

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of the financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised in other comprehensive income and presented in the fair value reserve in equity. Interest income on available-for-sale debt securities is calculated using the effective interest method and is recognised in profit or loss. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss. Available-for-sale comprise of investment in quoted and unquoted shares.

#### 3.4.4.1.3 Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### 3.4.4.1.4 Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired and if such has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### 3.4.4.2 FINANCIAL LIABILITIES

##### 3.4.4.2.1 Initial Recognition and Measurement

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, carried at amortised cost. This includes directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts and derivative financial instruments.

##### 3.4.4.2.2 Subsequent Measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

- (a) Financial Liabilities at Fair Value through Profit or Loss  
Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held-for-trading are recognised in the Income Statement.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

### (b) Loans and Borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Income Statement when the liabilities are derecognised as well as through the Effective Interest Rate (EIR) method amortisation process.

Other financial liabilities comprise interest-bearing loans and borrowings, trade payables, other payables, income tax payables and amounts due to related parties.

### (c) Financial Guarantee Contracts

Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

#### 3.4.4.2.3 Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Income Statement.

#### 3.4.4.3 OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### 3.4.4.4 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions.
- Reference to the current fair value of another instrument that is substantially the same.
- A discounted cash flow analysis or other valuation models.

#### 3.4.5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, trade and other payables, and financial guarantee contracts. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group has loan and other receivables, trade and other receivables, and cash and short-term deposits that arise directly from its operations. The Group also holds available-for-sale investments and enters into derivative transactions (Mainly Forward Foreign Exchange Contracts). Accordingly, the Group has exposure to namely Credit Risk, Liquidity Risk, Currency Risk and Interest Rate Risk from its use of financial instruments.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

##### 3.4.5.1 CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arise principally from the Group's receivable from customers.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 3.4.5.2 LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

### 3.4.5.3 CURRENCY RISK

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currency of the Group. The currency in which these transactions primarily are denominated is US Dollars.

### 3.4.5.4 INTEREST RATE RISK

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group has not engaged in any interest rate swap agreements.

### 3.4.6 INVENTORIES

#### FINISHED GOODS MANUFACTURED FROM AGRICULTURAL PRODUCE OF BIOLOGICAL ASSETS

These are valued at the lower of cost and estimated net realisable value. Net realisable value is the estimated selling price at which stocks can be sold in the ordinary course of business after allowing for cost of realisation and/or cost of conversion from their existing state to saleable condition.

#### INPUT MATERIAL, SPARES AND CONSUMABLES

At actual cost on weighted average basis.

#### AGRICULTURAL PRODUCE HARVESTED FROM BIOLOGICAL ASSETS

Agricultural produce harvested from its biological assets are measured at their fair value less cost to sell at the point of harvest. The finished and semi-finished inventories from agriculture produce are valued by adding the cost of conversion to the fair value of the agricultural produce.

### 3.4.7 TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at their estimated realisable amounts inclusive of provisions for bad and doubtful debts.

### 3.4.8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand form an integral part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

### 3.4.9 IMPAIRMENT OF ASSETS

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amounts are estimated at each reporting date or more frequently, if events or changes in circumstances indicate that they might be impaired.

#### 3.4.9.1 CALCULATION OF RECOVERABLE AMOUNT

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value, less costs to sell. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups.

#### 3.4.9.2 IMPAIRMENT/REVERSAL OF IMPAIRMENT

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of The Group of other assets in the unit on pro rata basis.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 3.5 LIABILITIES AND PROVISIONS

Liabilities classified as current liabilities on the Statement of Financial Position are those which fall due for payment on demand or within one year from the Statement of Financial Position date. Non-current liabilities are those balances that fall due for payment after one year from the Statement of Financial Position date. All known liabilities have been accounted for in preparing these Financial Statements. Provisions and liabilities are recognised when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation.

#### 3.5.1 EMPLOYEES' BENEFITS

##### (a) DEFINED CONTRIBUTION PLANS - PROVIDENT FUND AND TRUST FUND

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to Provident and Trust Funds covering all employees are recognised as an expense in profit and loss in the periods during which services are rendered by employees.

The Company contributes 12% on consolidated salary of the employees to Ceylon Planters' Provident Society (CPPS)/Estate Staff Provident Society (ESPS)/Employees' Provident Fund (EPF).

All the employees of the Company are members of the Employees' Trust Fund (ETF), to which the Company contributes 3% on the consolidated salary of such employees.

##### (b) DEFINED BENEFIT PLAN

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the Financial Statements in respect of defined benefit plan is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income in the period in which they arise. Actuarial gains and losses recognised in other comprehensive income are recognised immediately in retained earnings and are not reclassified to profit or loss. Past service costs are recognised immediately in Income Statement.

The provision has been made for retirement gratuities from the first year of service for all employees, in conformity with LKAS 19 - 'Employee Benefits'. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The liability is not externally funded.

The key assumptions used in determining the retirement benefit obligations are given in Note 25.

#### 3.5.2 PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

#### 3.5.3 TRADE AND OTHER PAYABLES

Trade and other payables are stated at their costs.

#### 3.5.4 CAPITAL COMMITMENTS AND CONTINGENCIES

Capital commitments and contingent liabilities of the Group have been disclosed in the respective Notes to the Financial Statements.

#### 3.5.5 EVENTS OCCURRING AFTER THE REPORTING PERIOD

All material events after the Statement of Financial Position date have been considered where appropriate; either adjustments have been made or adequately disclosed in the Financial Statements.

#### 3.5.6 EARNINGS PER SHARE

The Group presents basic and diluted Earnings Per Share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 3.5.7 DEFERRED INCOME

#### 3.5.7.1 GRANTS AND SUBSIDIES

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

Where the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the Income Statement over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual instalments. Where loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as an additional Government grant.

Grants related to Property, Plant & Equipment other than grants received for forestry are initially deferred and allocated to income on a systematic basis over the useful life of the related Property, Plant & Equipment as follows:

Assets are amortised over their useful lives or unexpired lease period, whichever is less.

Buildings	40 years
Sanitation & Water Supply	20 years
Plant and Equipment	13 1/3 years

Grants received for forestry are initially deferred and credited to income once when the related blocks of trees are harvested.

### 3.6 INCOME STATEMENT

For the purpose of presentation of Income Statement, the function of expenses method is adopted, as it represents fairly the elements of the Group's performance.

#### 3.6.1 REVENUE

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

- (a) Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue is recorded at invoice value net of brokerage, sale expenses and other levies related to revenue.
- (b) Gains and losses on disposal of an item of Property, Plant & Equipment are determined by comparing the net sales proceeds with the carrying amounts of Property, Plant & Equipment and are recognised within 'other operating income' in the Income Statements.
- (c) Interest income is recognised on accrual basis.
- (d) Dividend income is recognised in the Income Statement on the date the entity's right to receive payment is established, which in the case of quoted securities is the exdividend date.
- (e) Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

#### 3.6.2 EXPENSES

All expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency is charged to revenue in arriving at the profit/(loss) for the year.

##### 3.6.2.1 FINANCING INCOME AND FINANCE COST

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

The interest expense component of finance lease payments is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Foreign currency gains and losses are reported on a net basis.

##### 3.6.2.2 TAX EXPENSE

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Current tax relating to items recognised directly in equity is recognised in equity and not in the Income Statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax is recognised using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes and the amounts used for taxation purposes at the reporting date.

Deferred tax is not recognised for the following temporary differences:

- The initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax withheld on dividend income from subsidiaries and equity accounted investments are recognised as an expense in the Consolidated Income Statement at the same time as the liability to pay the related dividend is recognised.

### 3.7 STATEMENT OF CASH FLOW

The Statement of Cash Flow has been prepared using the 'indirect method'. Interest paid are classified as operating cash flows, interest and dividends received are classified as investing cash flows while dividends paid and Government grants received are classified as financing cash flows, for the purpose of presenting the Statement of Cash Flow.

### 3.8 SEGMENT REPORTING

Segmental information is provided for the different business segments of the Group. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Since the individual segments are located close to each other and operate in the same industrial environment, the need for geographical segmentation has no material impact.

The activities of the segments are described on page 170 in the Notes to the Financial Statements. The Group transfers products from one industry segment for use in another. Inter-segment transfers are based on fair market prices.

Revenue and expenses directly attributable to each segment are allocated to the respective segments. Revenue and expenses not directly attributable to a segment are allocated on the basis of their resource utilisation, wherever possible.

Assets and liabilities directly attributable to each segment are allocated to the respective segments. Assets and liabilities, which are not directly attributable to a segment, are allocated on a reasonable basis wherever possible. Unallocated items comprise mainly interest bearing loans, borrowings and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

All operating segments' operating results are reviewed regularly to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 4. USE OF ESTIMATES AND JUDGMENTS

The preparation of Financial Statements in conformity with SLFRS requires management to make judgments, estimates and assumptions that influence the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence, actual experience and results may differ from these judgments and estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period and any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

#### 4.1 TAXATION

The Group is subject to income taxes and other taxes. Significant judgment was required to determine the total provision for current, deferred and other taxes pending the issue of tax guidelines on the treatment of the adoption of SLFRS in the Financial Statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these Financial Statements. The Group recognised assets and liabilities for current deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income, deferred and tax amounts in the period in which the determination is made. The effective tax rate used to calculate deferred taxation are given in Note 24.

#### 4.2 MEASUREMENT OF RETIREMENT BENEFIT OBLIGATIONS

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Key assumptions used in determining the retirement benefit obligations are given in Note 25. Any changes in these assumptions will impact the carrying amount of retirement benefit obligations.

### 4.3 FAIR VALUATION OF BIOLOGICAL ASSETS

The fair value of managed timber depends on number of factors that are determined on a discounted method using various financial and non-financial assumptions. The growth of the trees is determined by various biological factors that are highly unpredictable. Any change to the assumptions will impact to the fair value of biological assets. Key assumptions and sensitivity analysis of the biological assets are given in the Note 14.

#### 4.4 IMPAIRMENT OF PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS OTHER THAN GOODWILL

The impairment analysis is principally based upon discounted estimated cash flows from the use and eventual disposal of the assets. Factors like lower than anticipated sales and resulting decreases of net cash flows and changes in the discount rates could lead to impairment.

#### 4.5 MEASUREMENT OF THE RECOVERABLE AMOUNT OF CASH-GENERATING UNITS CONTAINING GOODWILL

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policies.

### 5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's Financial Statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

#### • SLFRS 10 - CONSOLIDATED FINANCIAL STATEMENTS

SLFRS 10 replaces the portion of LKAS 27 - Consolidated and Separate Financial Statements that addresses the accounting for Consolidated Financial Statements. It also includes the issues raised in Standing Interpretations Committee - SIC - 12 Consolidation - Special Purpose Entities.

SLFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by SLFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in LKAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2014.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### • SLFRS 11 - JOINT ARRANGEMENTS

SLFRS 11 replaces LKAS 31 Interests in Joint Ventures and SIC - 13 Jointly-controlled Entities - Non-Monetary Contributions by Venturers. SLFRS 11 removes the option to account for Jointly Controlled Entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will impact the financial position of the Group. This is due to the cessation of proportionate consolidating of joint ventures being changed to equity accounting. This standard becomes effective for annual periods beginning on or after 1 January 2014.

### • SLFRS 12 - DISCLOSURE OF INTERESTS IN OTHER ENTITIES

SLFRS 12 includes all of the disclosures that were previously in LKAS 27 related to Consolidated Financial Statements, as well as all of the disclosures that were previously included in LKAS 31 and LKAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2014.

### • SLFRS 13 - FAIR VALUE MEASUREMENT

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 does not state when an entity is required to use fair value, but rather provides guidance on how to measure fair value under SLFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2014.

### • SLFRS 9 - FINANCIAL INSTRUMENTS

SLFRS 9 replaces LKAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in LKAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. The adoption of the first phase of SLFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

For the year ended 31 December	Consolidated		Company	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
<b>6. REVENUE</b>				
<b>6.1 INDUSTRY SEGMENT REVENUE</b>				
Tea	5,420,776	5,074,822	2,942,274	2,757,419
Rubber	1,379,770	1,475,019	1,379,770	1,475,019
Others	32,959	11,904	-	-
Less: Intra-group sales	(43,493)	(43,492)	-	-
	<b>6,790,012</b>	<b>6,518,253</b>	<b>4,322,044</b>	<b>4,232,438</b>
<b>6.2 INDUSTRY SEGMENT RESULTS - GROSS PROFIT</b>				
Tea	378,372	603,047	125,734	339,451
Rubber	482,775	548,702	482,775	548,702
Others	24,573	4,357	-	-
	<b>885,720</b>	<b>1,156,106</b>	<b>608,509</b>	<b>888,153</b>
<b>7. OTHER INCOME</b>				
Profit on disposal of property, plant & equipment	6,365	13,172	6,329	6,534
Dividend income	-	-	7,853	513
Hydropower income	6,794	3,176	8,738	3,686
Amortisation of Government grants	16,469	17,276	16,443	17,250
Revenue grants	995	2,150	995	2,150
Sundry income	15,228	9,646	13,941	7,282
	<b>45,851</b>	<b>45,420</b>	<b>54,299</b>	<b>37,415</b>
There are no unfulfilled conditions or contingencies attached to the grants.				
<b>8. NET FINANCE COST</b>				
<b>8.1 FINANCE INCOME</b>				
Interest income	56,439	42,536	54,713	42,807
Interest on corporate guarantee	-	-	2,250	3,000
Foreign exchange gain	9,215	-	-	-
	<b>65,654</b>	<b>42,536</b>	<b>56,963</b>	<b>45,807</b>
<b>8.2 FINANCE EXPENSES</b>				
Interest on term loans	(26,162)	(17,144)	(14,056)	(15,415)
Interest on overdraft	(12,408)	(24,929)	(6,774)	(2,387)
Foreign exchange loss	(14,142)	(7,216)	-	-
	<b>(52,712)</b>	<b>(49,289)</b>	<b>(20,830)</b>	<b>(17,802)</b>
<b>8.3 INTEREST PAID TO GOVERNMENT ON FINANCE LEASE</b>				
Interest paid to Government on finance lease	(58,315)	(53,898)	(58,315)	(53,898)
	<b>(58,315)</b>	<b>(53,898)</b>	<b>(58,315)</b>	<b>(53,898)</b>
<b>Net finance cost</b>	<b>(45,373)</b>	<b>(60,651)</b>	<b>(22,182)</b>	<b>(25,893)</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

For the year ended 31 December		Consolidated		Company	
		2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
	Note				
<b>9. PROFIT BEFORE TAXATION</b>					
<b>PROFIT BEFORE TAX IS STATED AFTER CHARGING ALL EXPENSES INCLUDING THE FOLLOWING:</b>					
Directors' emoluments		35,492	36,582	19,539	21,869
Auditors' remuneration					
- Audit services		3,213	3,179	2,688	2,400
- Non-audit services		976	205	150	-
Depreciation and lease amortisation					
- Right-to-use of land	12.1	8,833	9,371	8,833	9,371
- Immovable leased assets	12.2	16,555	16,554	16,555	16,554
- Amortisation of intangible assets	16	646	738	-	-
- Tangible property, plant & equipment	13	112,896	102,633	84,252	76,258
- Bearer biological assets	14	60,960	53,267	60,960	53,267
Staff Costs					
- Defined contribution plan costs (EPF, CPPS, ESPS and ETF)		354,520	234,651	345,605	226,073
- Defined benefit plan cost (Retirement benefit obligations)	25	184,349	181,381	180,424	175,823
- Salaries, wages and other staff costs		2,114,476	2,021,219	2,017,590	1,932,081
- Staff training and development cost		4,173	2,242	3,869	1,776
Legal fees		12,754	9,808	8,758	7,702
Provision/(reversal) for bad and doubtful debts		498	(81,392)	(613)	(79)
Provision/(reversal) for obsolete inventories		3,885	(1,825)	3,189	(2,482)
Gain on change in fair value of biological assets		14,945	8,695	14,945	8,695
<b>10. TAX EXPENSE</b>					
<b>10.1 INCOME STATEMENT</b>					
<b>(i) Current Tax Expense</b>					
Income taxes on current year profit					
- Company	10.3	7,707	32,929	7,707	32,929
- Subsidiaries	10.3	10,510	1,563	-	-
		18,217	34,492	7,707	32,929
<b>(ii) Deferred Tax Expense</b>					
Origination of temporary difference of					
- Company	24	43,191	80,294	43,191	80,294
- Subsidiaries	24	12,384	5,438	-	-
		55,575	85,732	43,191	80,294
Tax charge reported in Income Statement		73,792	120,224	50,898	113,223
<b>10.2 STATEMENT OF OTHER COMPREHENSIVE INCOME</b>					
Net gain on actuarial gains on defined benefit plans					
- Company	24	5,922	4,408	5,922	4,408
- Subsidiaries	24	248	-	-	-
<b>Tax charge directly to other comprehensive income</b>		6,170	4,408	5,922	4,408

The Company is liable to income tax at the rate of 10% on its agriculture profits and 28% on manufacturing profits and other income during the year of assessment 2013/14.

**NOTES TO THE FINANCIAL STATEMENTS***For the year ended 31 December 2013*

Kalupahana Power Company (Pvt) Ltd., has entered into an agreement with the Board of Investment of Sri Lanka and had been granted a five-year tax holiday on its business activities from the year of assessment in which the enterprise commences to make profits or any year of assessment not later than 2 years reckoned from the date of commencement of commercial operations, whichever is earlier. Accordingly, tax holiday period of Kalupahana Power Company (Pvt) Ltd., has commenced in the year of assessment 2008/09 and expired in year of assessment 2012/13. With the expiration of aforesaid tax holiday period, The Company is liable for income tax at a rate of 10% for a period of two years from year of assessment 2013/14 and thereafter at a rate of 20%.

Kelani Valley Instant Tea (Pvt) Ltd., was exempted from income tax on the processing of agricultural products for a period of 3 years commencing from the year of assessment 2010/11 under Section 17 of the Inland Revenue Act No. 10 of 2006. Accordingly, tax exemption period of Kelani Valley Instant Tea (Pvt) Ltd. expired in year of assessment 2012/13. Therefore, the Company is liable for income tax at a rate of 28%.

The qualified export profit earned by Mabroc Teas (Pvt) Ltd., has been taxed at a rate of 12% in terms of Section 52 of the Inland Revenue Act No. 10 of 2006. Other income earned by the Company has been taxed at 28%.

<i>For the year ended 31 December</i>	Consolidated		Company	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
<b>10.3 RECONCILIATION OF ACCOUNTING PROFIT TO INCOME TAX EXPENSE</b>				
Profit before tax	465,485	680,956	398,582	607,599
Effective tax rate	22%	13%	28%	12%
Tax effect on profit before tax	103,623	87,094	111,603	74,978
Tax effect on deductible expenses for tax purposes	(155,944)	(80,466)	(184,984)	(70,765)
Tax effect on non-deductible expenses for tax purposes	88,672	54,724	99,866	49,059
Tax effect on total statutory income	36,351	61,352	26,485	53,272
Tax effect on amortisation of Government grant exempt from tax	(3,888)	(2,210)	(4,604)	(2,129)
Tax effect on tax exempt income	-	(79)	(2,199)	(63)
Tax effect on tax exempt loss/(profit) income	-	999	-	-
Tax effect on qualifying relief	(2,786)	(1,601)	-	-
Tax effect on utilisation of tax losses	(6,344)	(20,485)	(6,889)	(17,878)
Income taxes on current year profit	23,333	37,976	12,793	33,202
Over provision in respect of previous year	(5,116)	(3,484)	(5,086)	(273)
Income tax charge for the year	18,217	34,492	7,707	32,929
<b>10.4 TAX LOSSES</b>				
Tax loss b/f	(21,772)	(160,392)	(17,513)	(160,917)
Adjustment for tax loss b/f	(28,768)	(16,953)	(25,014)	(1,471)
	(50,540)	(177,345)	(42,527)	(162,388)
Tax loss for the year	(612)	-	-	-
Loss write-off due to amalgamation	-	(4,589)	-	-
Loss set-off during the year	28,500	160,162	24,603	144,875
	27,888	155,573	24,603	144,875
Tax loss c/f	(22,652)	(21,772)	(17,924)	(17,513)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

**11. EARNINGS PER SHARE AND DIVIDEND PER SHARE****11.1 EARNINGS PER SHARE****(A) BASIC EARNINGS PER SHARE**

The computation of the basic earnings per share is based on profit attributable to ordinary shareholders for the year divided by weighted average number of ordinary shares outstanding during the year and calculated as follows:

For the year ended 31 December	Consolidated		Company	
	2013	2012	2013	2012
<b>Amount Used as the Numerator</b>				
Profit attributable to ordinary shareholders (Rs. '000)	384,134	561,197	347,684	494,376
<b>Amount Used as the Denominator</b>				
Weighted average number of ordinary shares ('000)	34,000	34,000	34,000	34,000
Basic earnings per share (Rs.)	11.30	16.51	10.23	14.54

**(B) DILUTED EARNINGS PER SHARE**

The calculation of diluted earnings per share is based on profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares.

There were no potentially dilutive shares outstanding at any time during the year/previous year.

**11.2 DIVIDEND PER SHARE**

For the year ended 31 December	Company	
	2013	2012
First and final proposed dividend of Rs. 3.50 per share (2012 - Rs. 6.00 per share) (Rs. '000)	119,000	204,000
Number of ordinary shares ('000)	34,000	34,000
Dividend per share (Rs.)	3.50	6.00

The Board of Directors has recommended a first and final dividend of Rs. 3.50 per share amounting to Rs. 119,000,003.50 for the year ended 31 December 2013 (final dividends for 2012 - Rs. 6.00 per share amounting to Rs. 204,000,006.00).

This is to be approved at the Annual General Meeting to be held on 28 March 2014.

**12. LEASEHOLD PROPERTY, PLANT & EQUIPMENT**

As at 31 December	Notes	Consolidated		Company	
		2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Right-to-use land	12.1	306,306	295,444	306,306	295,444
Immovable leased bearer biological assets	12.2.1	144,700	157,756	144,700	157,756
Immovable leased assets (Other than right-to-use land and bearer biological assets)	12.2.2	12,684	16,183	12,684	16,183
		463,690	469,383	463,690	469,383

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

**12. LEASEHOLD PROPERTY, PLANT & EQUIPMENT (Contd.)****12.1 RIGHT-TO-USE LAND**

'Right-To-Use of Land on Lease' as above was previously titled 'Leasehold Right to Bare Land'. The change is in order to comply with Statement of Alternative Treatment (SoAT) issued by The Institute of Chartered Accountants of Sri Lanka dated 21 August 2013. Such leases have been executed for all estates for a period of 53 years.

This right-to-use land is amortised over the remaining lease term or useful life of the right whichever is shorter and is disclosed under non-current assets. The Statement of Alternative Treatment (SoAT) for right-to-use land does not permit further revaluation of right-to-use land. However, an adjustment to the 'Right-To-Use of Land' could be made to the extent that the change relate to the future period on the reassessment of liability to make the lease payment. The values taken into the Statements of Financial Position as at 18 June 1992 and amortisation of the right-to-use land up to 31 December 2013 are as follows:

As at 31 December	Consolidated		Company	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Capitalised value (reassessed in 2010)	313,908	313,908	313,908	313,908
Increase due to the reassessment of liability	19,695	-	19,695	-
	<b>333,603</b>	<b>313,908</b>	<b>333,603</b>	<b>313,908</b>
<b>Amortisation</b>				
As at 1 January	18,464	9,093	18,464	9,093
Amortisation for the year	8,833	9,371	8,833	9,371
As at 31 December	27,297	18,464	27,297	18,464
<b>Carrying amount</b>	<b>306,306</b>	<b>295,444</b>	<b>306,306</b>	<b>295,444</b>

**12.2 IMMOVABLE LEASED ASSETS**

In terms of the ruling of the UITF of The Institute of Chartered Accountants of Sri Lanka prevailed at the time of privatisation of plantation estates, all immovable assets in these estates under finance leases have been taken into the books of the Company retroactive to 18 June 1992. For this purpose, the Board decided at its meeting on 8 March 1995, that these assets be re-stated at their book values as they appear in the books of the JEDB/SLSPC, on the day immediately preceding the date of formation of the Company. These assets are taken into the Statements of Financial Position as at 18 June 1992 and amortisation of immovable leased assets to 31 December 2013 are as follows:

**12.2.1 IMMOVABLE LEASED BEARER BIOLOGICAL ASSETS**

As at 31 December	Mature Plantations		Consolidated		Company	
	Tea Rs. '000	Rubber Rs. '000	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Capitalised value (18 June 1992)	213,541	178,145	391,686	391,686	391,686	391,686
<b>Amortisation</b>						
As at 1 January	124,942	108,988	233,930	220,875	233,930	220,875
Amortisation for the year	6,830	6,226	13,056	13,055	13,056	13,055
As at 31 December	131,772	115,214	246,986	233,930	246,986	233,930
<b>Carrying amount</b>	<b>81,769</b>	<b>62,931</b>	<b>144,700</b>	<b>157,756</b>	<b>144,700</b>	<b>157,756</b>

Investment in Immature Plantations at the time of handing over to the Company as at 18 June 1992 by way of estate leases were shown under Immature Plantations.

However, since then all such investments in Immature Plantations attributable to JEDB/SLSPC period have been transferred to Mature Plantations. These mature Tea and Rubber were classified as bearer biological assets in terms of LKAS 41 - 'Agriculture'. The carrying value of the bearer biological assets leased from JEDB/SLSPC is recognised at cost less amortisation. Further, investments in such plantations to bring them to maturity are shown under Note 14.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 12. LEASEHOLD PROPERTY, PLANT & EQUIPMENT (Contd.)

#### 12.2.2 IMMOVABLE LEASED ASSETS (OTHER THAN RIGHT-TO-USE LAND AND BEARER BIOLOGICAL ASSETS)

As at 31 December	Land Development Rs. '000	Buildings Rs. '000	Machinery Rs. '000	Consolidated		Company	
				2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Capitalised value (18 June 1992)	3,455	84,600	23,094	111,149	111,149	111,149	111,149
<b>Amortisation</b>							
As at 1 January	2,366	69,506	23,094	94,966	91,467	94,966	91,467
Amortisation for the year	115	3,384	-	3,499	3,499	3,499	3,499
As at 31 December	2,481	72,890	23,094	98,465	94,966	98,465	94,966
<b>Carrying amount</b>	<b>974</b>	<b>11,710</b>	<b>-</b>	<b>12,684</b>	<b>16,183</b>	<b>12,684</b>	<b>16,183</b>

### 13. FREEHOLD PROPERTY, PLANT & EQUIPMENT

#### (A) CONSOLIDATED

As at 31 December	Buildings Rs. '000	Plant & Machinery Rs. '000	Hydro Power Plant Rs. '000	Motor Vehicles Rs. '000	Furniture & Fittings Rs. '000	Equipments Rs. '000	Computers Rs. '000	Tea Bagging Machines Rs. '000	Others Rs. '000	2013 Total Rs. '000	2012 Total Rs. '000
<b>Cost</b>											
As at 1 January	759,868	511,581	133,017	247,611	15,107	167,559	25,372	123,050	44,769	2,027,934	1,941,981
Additions during the year	12,081	29,893	-	40,951	1,735	9,517	2,938	-	-	97,115	109,198
Disposals/Transfers	-	-	-	(8,360)	-	-	-	-	-	(8,360)	(23,245)
As at 31 December	771,949	541,474	133,017	280,202	16,842	177,076	28,310	123,050	44,769	2,116,689	2,027,934
<b>Depreciation</b>											
As at 1 January	115,251	211,187	30,826	143,880	11,349	65,459	19,925	39,804	21,887	659,568	579,339
Charge for the year	19,549	34,644	4,433	26,451	3,975	11,410	2,276	8,203	1,955	112,896	102,633
Disposals/Transfers	-	-	-	(8,188)	-	-	-	-	-	(8,188)	(22,404)
As at 31 December	134,800	245,831	35,259	162,143	15,324	76,869	22,201	48,007	23,842	764,276	659,568
Net book value	637,149	295,643	97,758	118,059	1,518	100,207	6,109	75,043	20,927	1,352,413	1,368,366
Work-in-progress										65,138	4,705
<b>Carrying amount</b>										<b>1,417,551</b>	<b>1,373,071</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

**13. FREEHOLD PROPERTY, PLANT & EQUIPMENT (Contd.)****(B) COMPANY**

As at 31 December	Buildings	Plant & Machinery	Motor Vehicles	Furniture & Fittings	Equipments	Computers	Others	2013 Total	2012 Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost</b>									
As at 1 January	731,607	483,109	235,873	10,715	90,887	25,372	39,169	1,616,732	1,504,611
Additions during the year	12,081	26,201	34,269	377	2,137	2,938	-	78,003	90,720
Additions due to amalgamation	-	-	-	-	-	-	-	-	28,154
Disposals/Transfers	-	-	(8,360)	-	-	-	-	(8,360)	(6,753)
As at 31 December	743,688	509,310	261,782	11,092	93,024	28,310	39,169	1,686,375	1,616,732
<b>Depreciation</b>									
As at 1 January	112,055	196,234	136,684	8,800	74,678	19,925	18,957	567,333	488,363
Charge for the year	19,178	28,122	25,464	432	6,825	2,276	1,955	84,252	76,258
Additions due to amalgamation	-	-	-	-	-	-	-	-	9,340
Disposals/Transfers	-	-	(8,188)	-	-	-	-	(8,188)	(6,628)
As at 31 December	131,233	224,356	153,960	9,232	81,503	22,201	20,912	643,397	567,333
Net book value	612,455	284,954	107,822	1,860	11,521	6,109	18,257	1,042,978	1,049,399
Work-in-progress								176	1,137
<b>Carrying amount</b>								<b>1,043,154</b>	<b>1,050,536</b>

- (a) The assets shown above are those movable assets vested in the Company by Gazette Notification on the date of formation of the Company (18 June 1992) and all investments in tangible assets by the Company since its formation. The assets taken over by way of estate leases are set out in Note 12.
- (b) No borrowing costs incurred on term loans to finance the Capital work-in-progress.
- (c) The cost of fully-depreciated Property, Plant & Equipment which are still in use as at the date of Statements of Financial Position is Rs. 214 m (2012 - Rs. 178.3 m).

	2013 Rs. '000
Computers	17,256
Equipments	70,490
Furniture and fittings	6,998
Motor vehicles	79,473
Mature plantations	1,197
Plant and machinery	37,601
Others	987
	<b>214,002</b>

- (d) Unexpired lease periods of land:

Kelani Valley Plantations PLC	33 years
Kalupahana Power Company (Pvt) Ltd.	33 years

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 14. BIOLOGICAL ASSETS

#### 14.1 IMPROVEMENTS TO LEASEHOLD PROPERTY - BEARER BIOLOGICAL ASSETS

As at 31 December	Immature Plantations				Mature Plantations			Consolidated		Company	
	Tea Rs. '000	Rubber Rs. '000	Other Rs. '000	Total Rs. '000	Tea Rs. '000	Rubber Rs. '000	Total Rs. '000	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
<b>Cost</b>											
As at 1 January	258,491	711,939	9,038	979,468	650,378	828,967	1,479,345	2,458,813	2,122,371	2,458,813	2,122,371
Additions during the year	109,670	279,978	5,819	395,467	-	-	-	395,467	336,442	395,467	336,442
Transfers (from)/to	(57,645)	(205,164)	-	(262,809)	57,645	205,164	262,809	-	-	-	-
As at 31 December	310,516	786,753	14,857	1,112,126	708,023	1,034,131	1,742,154	2,854,280	2,458,813	2,854,280	2,458,813
<b>Depreciation</b>											
As at 1 January	-	-	-	-	152,007	231,495	383,502	383,502	330,235	383,502	330,235
Charge for the year	-	-	-	-	19,511	41,449	60,960	60,960	53,267	60,960	53,267
As at 31 December	-	-	-	-	171,518	272,944	444,462	444,462	383,502	444,462	383,502
<b>Carrying amount</b>	<b>310,516</b>	<b>786,753</b>	<b>14,857</b>	<b>1,112,126</b>	<b>536,505</b>	<b>761,187</b>	<b>1,297,692</b>	<b>2,409,818</b>	<b>2,075,311</b>	<b>2,409,818</b>	<b>2,075,311</b>

These are investments in Mature/Immature Plantations since the formation of the Company. The assets (including plantation assets) taken over by way of estate leases are set out in Note 12 to the Financial Statements. Further, investments in Immature Plantations taken over by way of leases are shown in this Note. When such plantations become mature, the additional investments since taken over to bring them to maturity are transferred from immature to mature.

The requirement of recognition of bearer biological assets at its fair value less cost to sell under LKAS 41 was superseded by the ruling issued on 2 March 2012, by The Institute of Chartered Accountants of Sri Lanka. Accordingly, the Company has elected to measure the bearer biological assets at cost using LKAS 16 - 'Property, Plant & Equipment'.

Specific borrowings have not been obtained to finance the planting expenditure. Hence, borrowing costs were not capitalised during the year under Immature Plantations (2012 - NIL).

The addition of Rs. 395 m (2012 - Rs. 336 m) shown above includes the following costs among other costs incurred during the year in respect of uprooting and planting of Tea and Rubber.

As at 31 December	Consolidated				Company			
	2013		2012		2013		2012	
	Extent - ha	Rs. '000	Extent - ha	Rs. '000	Extent - ha	Rs. '000	Extent - ha	Rs. '000
<b>Uprooting</b>								
- Tea	44	32,439	31	21,415	44	32,439	31	21,415
- Rubber	147	3,372	99	1,464	147	3,372	99	1,464
<b>Planting</b>								
- Tea	27	25,024	23	22,312	27	25,024	23	22,312
- Rubber	328	152,601	320	111,276	328	152,601	320	111,276
	<b>546</b>	<b>213,436</b>	<b>473</b>	<b>156,467</b>	<b>546</b>	<b>213,436</b>	<b>473</b>	<b>156,467</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

**14. BIOLOGICAL ASSETS (Contd.)****14.2 BIOLOGICAL ASSETS - CONSUMABLE**

As at 31 December	Consolidated				Company			
	Immature Rs. '000	Mature Rs. '000	2013 Rs. '000	2012 Rs. '000	Immature Rs. '000	Mature Rs. '000	2013 Rs. '000	2012 Rs. '000
As at 1 January	9,637	58,540	68,177	50,051	9,637	58,540	68,177	50,051
Increase due to development	304	-	304	9,391	304	-	304	9,391
Gain on change in fair value less cost to sell	-	14,945	14,945	8,695	-	14,945	14,945	8,695
Other changes	-	-	-	40	-	-	-	40
As at 31 December	9,941	73,485	83,426	68,177	9,941	73,485	83,426	68,177

Managed trees include commercial timber plantations cultivated on estates. The cost of immature trees is treated as approximate fair value particularly on the ground of little biological transformation has taken place and impact of the biological transformation on price is not material. When such plantations become mature, the additional investments since taken over to bring them to maturity are transferred from Immature to Mature.

The fair value of managed trees was ascertained since the LKAS 41 is only applicable for managed agricultural activities in terms of the Ruling issued by The Institute of Chartered Accountants of Sri Lanka. The valuation was carried by Messrs Sunil Fernando Associates, chartered valuers, using Discounted Cash Flow (DCF) methods. In ascertaining the fair value of timber, physical verification was carried covering all the estates.

**Key Assumptions Used in Valuation -**

1. The harvesting is approved by the PMMD and Forest Department based on the forestry development plan
2. The prices adopted are net of expenditure
3. Discount rate is 17.5%
4. Compounding rate is 14%
5. Though the replanting is a condition precedent for harvesting, yet the costs are not taken into consideration.

The valuations, as presented in the external valuation models based on net present values, take into account the long-term exploitation of the timber plantation. Because of the inherent uncertainty associated with the valuation at fair value of the biological assets due to the volatility of the variables, their carrying value may differ from their realisable value. The Board of Directors retains their view that commodity markets are inherently volatile and that long-term price projections are highly unpredictable. Hence, the sensitivity analysis regarding selling price and discount rate variations as included in this note allows every investor to reasonably challenge the financial impact of the assumptions used in the LKAS 41 against his own assumptions.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

**14. BIOLOGICAL ASSETS (Contd.)****14.2.1 SENSITIVITY ANALYSIS***SENSITIVITY VARIATION ON SALES PRICE*

Values as appearing in the Statements of Financial Position are very sensitive to price changes with regard to the average sales prices applied. Simulations made for timber show that a rise or decrease by 10% of the estimated future selling price has the following effect on the net present value of biological assets:

**Company**

	Rs. '000	Rs. '000	Rs. '000
Managed Timber	-10%	0%	+10%
As at 31 December 2013	65,177	73,485	85,215
As at 31 December 2012	56,090	58,540	61,339

*SENSITIVITY VARIATION ON DISCOUNT RATE*

Values as appearing in the Statements of Financial Position are very sensitive to changes of the discount rate applied. Simulations made for timber show that a rise or decrease by 1.5% of the estimated discount rate has the following effect on the net present value of biological assets:

**Company**

	Rs. '000	Rs. '000	Rs. '000
Managed Timber	-1.5%	0%	+1.5%
As at 31 December 2013	75,254	73,485	70,741
As at 31 December 2012	63,024	58,540	56,718

The carrying amount of biological assets pledged as securities for liabilities are nil for the year 2013 (2012 - Nil).

There are no commitments for the development or acquisition of biological assets.

**15. INVESTMENTS IN SUBSIDIARIES**

Unquoted Investments	% Holding		No. of Shares		Value	
	2013	2012	2013	2012	Company	
					2013	2012
<i>As at 31 December</i>					Rs. '000	Rs. '000
Kalupahana Power Company (Pvt) Ltd.	60	60	1,800,000	1,800,000	18,000	18,000
Kelani Valley Instant Tea (Pvt) Ltd.	100	95	3,000,000	2,850,000	31,881	30,000
Mabroc Teas (Pvt) Ltd.	100	100	9,000,000	9,000,000	260,000	260,000
Carrying amount					309,881	308,000

The financial year of Mabroc Teas (Pvt) Ltd., ends on 31 March. Its results for 12 month period from 1 January 2013 to 31 December 2013 are included in these Consolidated Financial Statements based on the Audited Financial Statements up to 31 March 2013 and the Financial Statements for the period of 9 months ended 31 December 2013, which was subjected to Limited Review carried out by Messrs Ernst & Young, Chartered Accountants, Auditors of Mabroc Teas (Pvt) Ltd.

The Company acquired 5% of Kelani Valley Instant Tea (Pvt) Ltd., in November 2013 at carrying value of net assets at the date of acquisition. As such, Kelani Valley Instant Tea (Pvt) Ltd. is a fully-owned Subsidiary of Kelani Valley Plantations PLC.

**SUBSIDIARIES**

Kalupahana Power Company (Pvt) Ltd.  
Kelani Valley Instant Tea (Pvt) Ltd.  
Mabroc Teas (Pvt) Ltd.

**Principal Activity**

Generates hydro power  
Manufactures instant Tea  
Exports of bulk and retail packed Teas



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 16. INTANGIBLE ASSETS

As at 31 December	Consolidated			
	Goodwill Rs. '000	Computer Software Rs. '000	2013 Rs. '000	2012 Rs. '000
<b>Cost</b>				
As at 1 January	33,310	3,274	36,584	36,584
Addition during the year	-	1,246	1,246	-
As at 31 December	33,310	4,520	37,830	36,584
<b>Amortisation</b>				
As at 1 January	-	2,863	2,863	2,125
Amortisation for the year	-	646	646	738
As at 31 December	-	3,509	3,509	2,863
<b>Carrying Amount</b>	33,310	1,011	34,321	33,721

The carrying value of goodwill represents the goodwill on acquisition of Mabroc Teas (Pvt) Ltd. There has been no permanent impairment of intangible assets that requires a provision.

### 17. INVENTORIES

As at 31 December	Consolidated		Company	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Input materials	43,775	26,563	43,467	25,943
Nurseries	29,650	24,809	29,650	24,809
Harvested crop	589,802	472,105	588,642	472,105
Raw materials	146,854	131,801	-	-
Finished goods	3,549	3,301	210	265
Spares and consumables	62,391	68,674	13,186	10,921
	876,021	727,253	675,155	534,043
Provision for obsolete inventories	(11,677)	(7,792)	(8,178)	(4,989)
	864,344	719,461	666,977	529,054

The carrying amount of inventories pledged as securities for bank facilities obtained amounted to Rs. 589 m (2012 - Rs. 472 m) and Rs. 782 m (2012 - Rs. 660 m) by the Company and the Group respectively.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

**18. TRADE AND OTHER RECEIVABLES**

As at 31 December	Consolidated		Company	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Trade receivables	588,635	577,284	73,802	15,916
Lease rent paid in advance	15,477	14,212	15,477	14,212
Employee advances and receivables	42,746	38,404	42,412	38,251
Advance company tax recoverable	5,159	-	5,159	-
ESC recoverable	6,151	7,184	-	-
WHT recoverable	4,946	3,679	1,345	-
Other current assets	32,215	38,324	25,410	31,080
	695,329	679,087	163,605	99,459
Impairment in trade and other receivables	(2,926)	(2,428)	(1,815)	(2,428)
	692,403	676,659	161,790	97,031

Trade receivables are non-interest bearing and are generally on seven-day terms for the Company.

No loans over Rs. 20,000/- have been given to Directors or Officers of the Company.

The carrying amount of debtors pledged as securities for bank facilities obtained amounted to Rs. 73.8 m (2012 - Rs. 15.9 m) and Rs. 574.6 m (2012 - Rs. 81.9 m) by the Company and Group respectively.

**19. OTHER FINANCIAL ASSETS AND LIABILITIES****19.1 OTHER FINANCIAL ASSETS**

As at 31 December	Consolidated		Company	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
<b>Financial Instruments at Fair Value Through Profit or Loss</b>				
Foreign exchange forward contracts	-	838	-	-
<b>Total financial instruments at fair value</b>	-	838	-	-
<b>Available-for-Sale Financial Instruments</b>				
<b>Investment in Unquoted Companies</b>				
Mabroc International (Pvt) Ltd.	732	732	-	-
Mabroc Japan	4,567	4,567	-	-
<b>Total available-for-sale instruments</b>	5,299	5,299	-	-
<b>Total other financial assets</b>	5,299	6,137	-	-
Provision for falling in value of investment	(5,299)	-	-	-
<b>Total current</b>	-	6,137	-	-
<b>Total non-current</b>	-	-	-	-



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 20. CASH AND CASH EQUIVALENTS

As at 31 December	Consolidated		Company	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
<b>20.1 SHORT-TERM DEPOSITS</b>				
Short-term fixed deposits	200,138	467,535	200,000	467,397
	<b>200,138</b>	<b>467,535</b>	<b>200,000</b>	<b>467,397</b>
<b>20.2 FAVOURABLE BALANCES</b>				
Cash in hand	828	479	397	82
Cash at bank	50,719	24,706	19,139	13,053
	<b>51,547</b>	<b>25,185</b>	<b>19,536</b>	<b>13,135</b>
<b>20.3 UNFAVOURABLE BALANCES</b>				
Bank overdraft	(16,297)	(1,865)	(5,253)	-
	<b>(16,297)</b>	<b>(1,865)</b>	<b>(5,253)</b>	<b>-</b>

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

The securities pledged have been disclosed in Note 30 to the Financial Statements.

### 21. STATED CAPITAL

As at 31 December	Consolidated		Company	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Issued and fully-paid ordinary shares 34,000,000 (2012 - 34,000,000) and 1 Golden share	340,000	340,000	340,000	340,000
	<b>340,000</b>	<b>340,000</b>	<b>340,000</b>	<b>340,000</b>

The holders of ordinary shares and the Golden Share are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. Special rights of the Golden Share are given in the Annual Report of the Board of Directors on the Affairs of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 22. INTEREST-BEARING BORROWINGS

#### 22.1 LONG-TERM INTEREST-BEARING BORROWINGS

As at 31 December

	DFCC	NDB	Union Bank	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Total Rs. '000	Total Rs. '000
<b>Consolidated</b>					
As at 1 January	126,019	10,806	17,171	153,996	208,289
Obtained during the year	-	-	56,283	56,283	17,171
Repayments during the year	(36,008)	(8,953)	(17,171)	(62,132)	(71,464)
As at 31 December	90,011	1,853	56,283	148,147	153,996
Payable within one year (Transferred to current liabilities)	(33,896)	(1,853)	(14,071)	(49,820)	(56,408)
Payable after one year	56,115	-	42,212	98,327	97,588
<b>Analysis of Long-Term Borrowings by Year of Repayment</b>					
Repayable within one year from year-end	33,896	1,853	14,071	49,820	56,408
Repayable between 2 and 5 years from year-end	56,115	-	42,212	98,327	97,588
Repayable later than 5 years from year-end	-	-	-	-	-
	90,011	1,853	56,283	148,147	153,996
<b>Company</b>					
As at 1 January	126,019	10,806	-	136,825	186,289
Obtained during the year	-	-	-	-	-
Repayments during the year	(36,008)	(8,953)	-	(44,961)	(49,464)
As at 31 December	90,011	1,853	-	91,864	136,825
Payable within one year (Transferred to current liabilities)	(33,896)	(1,853)	-	(35,749)	(44,961)
Payable after one year	56,115	-	-	56,115	91,864
<b>Analysis of Long-Term Borrowings by Year of Repayment</b>					
Repayable within one year from year-end	33,896	1,853	-	35,749	44,961
Repayable between 2 and 5 years from year-end	56,115	-	-	56,115	91,864
Repayable later than 5 years from year-end	-	-	-	-	-
	90,011	1,853	-	91,864	136,825

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

**22. INTEREST-BEARING BORROWINGS (Contd.)**

Lender	Loan Outstanding		Rate of Interest per Annum	Monthly Instalment	Terms of Repayments
	2013	2012			
As at 31 December	Rs. '000	Rs. '000	%	Rs.	
<b>22.1.1 NATIONAL DEVELOPMENT BANK PLC (NDB)</b>					
(Under Asian Development Bank Line of Credit)					
Term Loan 1	-	3,006	9.51		
Term Loan 2	1,853	6,300	9.51	370,590	120 monthly instalments commenced on 30.06.2004
(Under e-Friends Loan Scheme)					
Term Loan 3	-	1,500	6.5		
<b>Total</b>	<b>1,853</b>	<b>10,806</b>			
<b>22.1.2 DFCC BANK</b>					
(Under Asian Development Bank Line of Credit)					
Term Loan 1	34,533	45,733	9.42	933,330	90 monthly instalments commenced on 31.08.2009
Term Loan 2	40,000	51,429	11.64	952,381	84 monthly instalments commenced on 31.07.2010
(Under e-Friends Loan Scheme)					
e-Friends Loan 1	4,164	8,707	6.5	378,572	84 monthly instalments commenced on 31.12.2007
e-Friends Loan 2	7,633	12,721	6.5	424,048	84 monthly instalments commenced on 31.07.2008
e-Friends Loan 3	3,335	5,002	6.5	138,961	84 monthly instalments commenced on 31.01.2009
e-Friends Loan 4	346	2,427	6.5	173,333	60 monthly instalments commenced on 31.03.2009
<b>Total</b>	<b>90,011</b>	<b>126,019</b>			
<b>Company Total</b>	<b>91,864</b>	<b>136,825</b>			

**22.1.3 SUBSIDIARY - MABROC TEAS (PVT) LTD.**

Lender	Currency	Loan Outstanding		Rate of Interest per Annum	Instalments and Terms of Repayments
		2013	2012		
As at 31 December		Rs. '000	Rs. '000		
<b>Union Bank PLC</b>					
Term Loan 1	US\$	-	17,171	5%	
Term Loan 2	US\$	56,283	-	LIBOR+ 3.5% p.a. with a floor rate of 4.5%	A monthly instalment of US\$ 8,958.33 commencing from 31.01.2014
<b>Total</b>		<b>56,283</b>	<b>17,171</b>		
<b>Group Total</b>		<b>148,147</b>	<b>153,996</b>		

**22.2 SHORT-TERM INTEREST-BEARING BORROWINGS****SUBSIDIARY - MABROC TEAS (PVT) LTD.**

Lender	Currency	2013	2012
		Total Rs. '000	Total Rs. '000
As at 31 December			
Sampath Bank PLC	US\$	57,623	141,690
Hongkong & Shanghai Banking Corporation Ltd.	US\$	256,207	250,583
Hatton National Bank PLC	LKR	23,953	-
CITI Bank Ltd.	LKR	176,112	184,044
		<b>513,895</b>	<b>576,317</b>

The securities pledged for these facilities have been disclosed in Note 30 to the Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 23. DEFERRED INCOME

#### GRANTS AND SUBSIDIES

As at 31 December	Consolidated		Company	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
<b>Capital Grants</b>				
As at 1 January	608,399	579,198	607,432	578,231
Grants received during the year	3,911	29,201	3,911	29,201
As at 31 December	612,310	608,399	611,343	607,432
<b>Amortisation</b>				
As at 1 January	119,637	102,361	119,532	102,282
Amortisation for the year	16,469	17,276	16,443	17,250
As at 31 December	136,106	119,637	135,975	119,532
<b>Net carrying amount as at 31 December</b>	<b>476,204</b>	<b>488,762</b>	<b>475,368</b>	<b>487,900</b>

Grants were received from the Plantation Reform Project (PRP), Plantation Human Development Trust, Ministry of Community Development, Asian Development Bank, Social Welfare Project, Estate Infrastructures Development Project, Plantation Development Support Project, Ceylon Electricity Board, Tea Board and Rubber Development Division of the Ministry of Plantations Industry.

The amount spent is capitalised under relevant classification of improvement to leasehold Property and Property, Plant & Equipment. Corresponding grant component is reflected under Deferred Grants and amortised over the useful life span of the asset.

### 24. DEFERRED TAX LIABILITY

#### CONSOLIDATED

As at 31 December	2013		2012	
	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000
As at 1 January	1,931,521	301,387	1,299,269	211,247
Amount originating during the year	331,228	61,745	632,252	90,140
As at 31 December	2,262,749	363,132	1,931,521	301,387
Temporary differences of Property, Plant & Equipment (including mature and immature plantations)	3,249,489	525,889	2,922,625	464,085
Temporary difference of biological asset	83,426	8,343	68,177	6,818
Temporary difference of retirement benefit obligations	(1,046,403)	(166,172)	(1,025,142)	(162,883)
Provision for bad debts	(1,111)	(250)	(12,367)	(2,881)
Carried forward tax losses	(22,652)	(4,678)	(21,772)	(3,752)
As at 31 December	2,262,749	363,132	1,931,521	301,387

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

**24. DEFERRED TAX LIABILITY (Contd.)****COMPANY**

As at 31st December	2013		2012	
	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000
As at 1 January	1,745,216	271,119	1,198,774	186,044
Transferred due to amalgamation	-	-	2,367	373
Amount originating during the year	317,206	49,113	544,075	84,702
As at 31 December	2,062,422	320,232	1,745,216	271,119
Temporary differences of Property, Plant & Equipment (including mature and immature plantations)	3,024,457	476,654	2,699,768	425,483
Temporary difference of biological asset	83,426	8,343	68,177	6,818
Transferred due to amalgamation	-	-	2,367	373
Temporary difference of retirement benefit obligations	(1,027,537)	(161,940)	(1,007,583)	(158,795)
Carried forward tax losses	(17,924)	(2,825)	(17,513)	(2,760)
As at 31 December	2,062,422	320,232	1,745,216	271,119

The effective tax rate used to calculate deferred tax liability for all the temporary differences other than Biological Asset as at 31 December 2013 is 15.76% (2012 - 15.76%) for the Company.

The effective tax rate used to calculate deferred tax liability for Biological Asset as at 31 December 2013 is 10% (2012 - 10%) for the Company.

**25. RETIREMENT BENEFIT OBLIGATIONS**

As at 31 December	Consolidated		Company	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
<b>Movement in the Retirement Benefit Obligations</b>				
As at 1 January	1,025,142	980,001	1,007,583	964,108
Current service cost	81,661	83,381	79,666	79,412
Interest cost	102,689	98,000	100,758	96,411
Actuarial (gain)/loss from experience adjustment	(38,750)	(27,968)	(37,579)	(27,968)
	145,600	153,413	142,845	147,855
	1,170,742	1,133,414	1,150,428	1,111,963
Benefit paid by the plan	(124,339)	(108,272)	(122,891)	(104,380)
As at 31 December	1,046,403	1,025,142	1,027,537	1,007,583

LKAS 19 requires the use of actuarial techniques to make a reliable estimate of the amount of retirement benefit that employees have earned in return for their service in the current and prior periods using the Projected Unit Credit Method and discount that benefit in order to determine the present value of the retirement benefit obligations and the current service cost. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates about demographic variables and financial variables that will influence the cost of the benefit. The following key assumptions were made in arriving at the above figure.

According to the actuarial valuation report issued by the actuarial valuer as at 31 December 2013 the actuarial present value of promised retirement benefits amounted to Rs. 1,027,536,891/-. If The Company had provided for gratuity on the basis of 14 days wages and half months salary for each completed year of service, the liability would have been Rs. 983,635,539/-. Hence, there is a contingent asset of Rs. 43,901,352/-, which would crystallise only if The Company ceases to be a going concern.

The Present Value of Retirement Benefit Obligations is carried on annual basis.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

**25. RETIREMENT BENEFIT OBLIGATIONS (Contd.)**

The following payments are expected from the defined benefit plan obligations in future years:

As at 31 December	Company 2013 Rs. '000
Within the next 12 months	65,174
Between 2 and 5 years	142,257
Beyond 5 years	820,106
	<b>1,027,537</b>

The weighted average duration of the Defined Benefit plan obligations at the end of the reporting period is 10.44 years and 10.96 years for staff and workers respectively.

The key assumptions used by Messrs Actuarial and Management Consultants (Pvt) Ltd. include the following:

	2013	2012
(i) Rate of Interest	10%	10%
(ii) Rate of Salary Increase -		
Workers	22% (every two years)	22% (every two years)
Staff	10% (per annum)	10% (per annum)
(iii) Retirement Age -		
Workers	60 years	60 years
Staff	60 years	60 years
(iv) Daily Wage Rate -		
Tea	Rs. 450/-	Rs. 380/-
Rubber	Rs. 450/-	Rs. 380/-

**SENSITIVITY ANALYSIS**

Values appearing in the financial statements are very sensitive to the changes in financial and non-financial assumptions used.

A sensitivity was carried out as follows:

**Company**

	Rs. '000	Rs. '000	Rs. '000
<b>A one percentage point change in the discount rate</b>	+1%	0%	-1%
As at 31 December 2013	933,562	1,027,537	1,138,443
As at 31 December 2012	915,798	1,007,583	1,115,859
<b>A one percentage point change in the salary/wage increment rate</b>	+1%	0%	-1%
As at 31 December 2013	1,081,813	1,027,537	977,667
<b>A one percentage point change in the wage increment rate</b>	+1%	0%	-1%
As at 31 December 2012	928,373	833,370	841,163

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

**26. LIABILITY TO MAKE LEASE PAYMENT**

As at 31 December	Consolidated		Company	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
<b>Gross Liability</b>				
As at 1 January	1,843,903	1,896,954	1,843,903	1,896,954
Increase due to reassessment of liability	115,562	(33,453)	115,562	(33,453)
Repayment during the year	(59,378)	(19,598)	(59,378)	(19,598)
As at 31 December	1,900,087	1,843,903	1,900,087	1,843,903
Finance cost allocated to future periods	(1,452,480)	(1,414,927)	(1,452,480)	(1,414,927)
Net liability	447,607	428,976	447,607	428,976
<b>Payable within One Year</b>				
Gross liability	59,378	55,918	59,378	55,918
Finance cost allocated to future periods	(52,547)	(54,856)	(52,547)	(54,856)
Net liability transferred to current liabilities	6,831	1,062	6,831	1,062
<b>Payable within Two to Five Years</b>				
Gross liability	237,511	227,392	237,511	227,392
Finance cost allocated to future periods	(156,298)	(221,479)	(156,298)	(221,479)
Net liability	81,213	5,913	81,213	5,913
<b>Payable after Five Years</b>				
Gross liability	1,603,198	1,560,593	1,603,198	1,560,593
Finance cost allocated to future periods	(1,243,635)	(1,138,592)	(1,243,635)	(1,138,592)
Net liability	359,563	422,001	359,563	422,001
Net liability payable after one year	440,776	427,914	440,776	427,914

Liability to make lease payment was previously titled as 'Net Liability to Lessor'. The Change was in terms of the Statement of Alternative Treatment (SoAT) issued by The Institute of Chartered Accountants of Sri Lanka on 21 August 2013. Accordingly, Group has re-assessed the liability to make lease payments and the corresponding Right to Use of Land in terms of the above SoAT and elect to re-assess the liability at each reporting period based on the changes in GDP deflator.

According to the re-assessment, the base rental payable per year has increased from Rs. 19,598,000/- to Rs. 59,377,972/-.

**27. TRADE AND OTHER PAYABLES**

As at 31 December	Consolidated		Company	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Trade payables	44,628	23,131	5,799	5,472
Other payables and accruals	206,768	181,922	192,418	146,325
Staff payables	262,460	272,206	261,898	271,928
Unclaimed dividends	10,086	8,394	10,086	8,394
	523,942	485,653	470,201	432,119

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 28. INCOME TAX

As at 31 December	Consolidated		Company	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
<b>28.1 INCOME TAX RECEIVABLE</b>				
Transferred from income tax payable	812	-	674	-
	812	-	674	-
<b>28.2 INCOME TAX PAYABLE</b>				
As at 1 January	15,646	3,183	13,761	-
Parent/Subsidiaries taxation on current year profit	23,333	33,781	12,793	33,202
On amalgamation of subsidiary	-	710	-	710
Cash paid during the year	(31,312)	(768)	(27,228)	-
ESC, WHT, ACT set-off against income tax	(1,127)	(21,260)	-	(20,151)
Transferred to income tax receivable	812	-	674	-
As at 31 December	7,352	15,646	-	13,761

### 29. RELATED COMPANY BALANCES

#### CONSOLIDATED

As at 31 December	2013		2012	
	Receivable Rs. '000	Payable Rs. '000	Receivable Rs. '000	Payable Rs. '000
<b>Other Related Companies</b>				
DPL Plantations (Pvt) Ltd.	-	57	-	-
Dipped Products PLC	100,441	-	62,533	-
Venigros (Pvt) Ltd.	-	-	97,384	-
Hayleys Agriculture Holdings Ltd.	-	2,239	-	2,131
Hayleys Agro Fertilizers (Pvt) Ltd.	-	3,637	-	9,546
Talawakelle Tea Estates PLC	2,462	-	4	-
Hayleys Global Beverages (Pvt) Ltd.	26,169	-	-	-
	129,072	5,933	159,921	11,677

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

**29. RELATED COMPANY BALANCES (Contd.)****COMPANY**

As at 31 December	2013		2012	
	Receivable Rs. '000	Payable Rs. '000	Receivable Rs. '000	Payable Rs. '000
<b>Subsidiaries</b>				
Kalupahana Power Co. (Pvt) Ltd.	15,684	-	29,898	-
Kelani Valley Instant Tea (Pvt) Ltd.	-	12,382	-	9,253
Mabroc Teas (Pvt) Ltd.	750	115	4,000	11
	<b>16,434</b>	<b>12,497</b>	<b>33,898</b>	<b>9,264</b>
<b>Other Related Companies</b>				
DPL Plantations (Pvt) Ltd.	-	57	-	-
Dipped Products PLC	100,441	-	62,533	-
Venigros (Pvt) Ltd.	-	-	97,384	-
Hayleys Agriculture Holdings Ltd.	-	2,239	-	2,131
Hayleys Agro Fertilizers (Pvt) Ltd.	-	3,637	-	9,546
Talawakelle Tea Estates PLC.	2,462	-	4	-
Hayleys Global Beverages (Pvt) Ltd.	26,169	-	-	-
	<b>129,072</b>	<b>5,933</b>	<b>159,921</b>	<b>11,677</b>

The carrying amount of receivables pledged as securities for bank facilities obtained amounts to Rs. 100 m (2012 - Rs. 160 m).

**30. ASSETS PLEDGED AS SECURITY**

Following assets have been pledged as security for liabilities:

**COMPANY**

Nature of Liability	2013		Security
	Facility (Rs. m)	Outstanding (Rs. m)	
<b>Overdraft</b>			
Bank of Ceylon	75.0	Nil	Concurrent mortgage over stock in trade and debtors.
Hatton National Bank PLC	50.0	Nil	Promissory Note.
Sampath Bank PLC	30.0	Nil	Concurrent mortgage over stock in trade and debtors.
<b>Term Loan</b>			
National Development Bank PLC	255.0	1.85	Primary mortgage over the Leasehold Rights of Panawatte and Pedro Estates have been pledged and a letter of undertaking from DPL Plantations (Pvt) Ltd., was given to subordinate management fee and dividends in a default situation of Term Loans.
DFCC Bank PLC	348.0	90.01	Primary mortgage over the Leasehold Rights of Halgolle, We Oya, Polatagama and Ederapola Estates and a letter of undertaking from DPL Plantations (Pvt) Ltd., was given to subordinate management fee and dividends in a default situation of Term Loans.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

**30. ASSETS PLEDGED AS SECURITY (Contd.)****SUBSIDIARY****MABROC TEAS (PVT) LTD.**

Nature of Liability	2013		Security
	Facility (Rs. m)	Outstanding (Rs. m)	
<b>Term Loan</b>			
Union Bank of Colombo PLC	56.28	56.28	Primary mortgage over Tea bag machine.
<b>Overdraft</b>			
CITI Bank Ltd.	50.0	9.35	Corporate guarantee from Kelani Valley Plantations PLC.
National Development Bank PLC	10.0	0.08	Primary mortgage of Rs. 50 m over stock in trade.
Hongkong & Shanghai Banking Corporation Ltd.	16.5	1.6	Corporate guarantee from Kelani Valley Plantations PLC.

**Short-Term Borrowings - Foreign Currency Loans**

	Currency	Facility (US\$ m)	Outstanding (Rs. m)	Security
Sampath Bank PLC	US\$	2.0	57.62	Hypothecation bond over stock and book debts.
Hongkong & Shanghai Banking Corporation Ltd.	US\$	2.0	256.21	Corporate guarantee from Kelani Valley Plantations PLC.
Hatton National Bank PLC	US\$	0.764	23.95	Promisory note.
CITI Bank Ltd.	US\$	1.528	176.11	Corporate guarantee from Kelani Valley Plantations PLC.

**31. RELATED PARTY DISCLOSURES**

Company	Relationship	Name of Director	Nature of Transaction	Amount (Paid)/Received	
				2013 Rs. '000	2012 Rs. '000
<i>For the year ended 31 December</i>					
<b>(A) PARENT AND ULTIMATE PARENT COMPANY</b>					
The Company has controlling related party relationship with its Parent Company DPL Plantations (Pvt) Ltd.					
(i) Hayleys PLC	Ultimate Parent	A M Pandithage J A G Anandarajah* S C Ganegoda Dr. K I M Ranasoma L T Samarawickrama	Office space together with other related facilities, finance and secretarial services	(52,961)	(36,166)
(ii) DPL Plantations (Pvt) Ltd.	Parent	A M Pandithage J A G Anandarajah* G K Seneviratne** S Siriwardana S C Ganegoda Dr. K I M Ranasoma W G R Rajadurai***	Cost of facilities and related services rendered	(1,327)	(1,453)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

**31. RELATED PARTY DISCLOSURES (Contd.)****(B) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL**

Key Management Personnel include, members of the Board of Directors of the Company and key employees holding directorships in the subsidiary and other related companies.

**(I) LOANS TO DIRECTORS**

No loans have been given to the Directors of the Company.

**(II) KEY MANAGEMENT PERSONNEL COMPENSATION**

For the year ended 31 December

	2013 Rs. '000	2012 Rs. '000
Directors' emoluments	19,539	21,869

**(C) TRANSACTIONS WITH SUBSIDIARIES**

Company	Relationship	Name of Director	Nature of Transaction	Amount (Paid)/Received	
				2013 Rs. '000	2012 Rs. '000
For the year ended 31 December					
(i) Kalupahana Power Co. (Pvt) Ltd.	Subsidiary	W G R Rajadurai**** S Siriwardana Dr. K I M Ranasoma**** J A G Anandarajah* G K Seneviratne**	Share of revenue	1,945	510
(ii) Kelani Valley Instant Tea (Pvt) Ltd.	Subsidiary	A M Pandithage W G R Rajadurai**** Dr. K I M Ranasoma**** J A G Anandarajah* G K Seneviratne**	Sale of black Tea Manufacturing charges	1,279 6,142	2,050 5,936
(iii) Mabroc Teas (Pvt) Ltd.	Subsidiary	A M Pandithage W G R Rajadurai*** Dr. K I M Ranasoma† J A G Anandarajah G K Seneviratne**	Sale of Tea Reimbursement of expenditure Purchase of Tea	42,214 - (4,493)	41,232 4,032 (3,526)

\* The Company has sub leased an extent of 8 acres, 2 roods and 6.1 perches in Kalupahana Estate to Kalupahana Power Co. (Pvt) Ltd.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 31. RELATED PARTY DISCLOSURES (Contd.)

#### (D) TRANSACTIONS WITH OTHER RELATED COMPANIES

Company	Relationship	Name of Director	Nature of Transaction	Amount (Paid)/ Received	
				2013 Rs. '000	2012 Rs. '000
<i>For the year ended 31 December</i>					
(i) Dipped Products PLC	Intermediary Ultimate Parent	A M Pandithage	Sale of latex	420,381	319,107
		F Mohideen	Purchase of skim crepe	(13,086)	(10,423)
		S C Ganegoda	Cost of facilities and		
		Dr. K I M Ranasoma	related services rendered	(21)	(610)
		J A G Anandarajah*			
		G K Seneviratne** R Seevaratnam*****			
(ii) Venigros (Pvt) Ltd.	Common Directors	A M Pandithage	Sale of latex	257,686	482,625
		S C Ganegoda			
		Dr. K I M Ranasoma			
		J A G Anandarajah*			
(iii) Hanwella Rubber Products Ltd.	Common Directors	A M Pandithage	Purchase of skim crepe	(13,820)	(28,012)
		Dr. K I M Ranasoma			
		J A G Anandarajah*			
(iv) Grossart (Pvt) Ltd.	Common Directors	A M Pandithage	Sale of latex	21,770	31,984
		S C Ganegoda	Share of software - license	-	(1,469)
		Dr. K I M Ranasoma	fee		
		J A G Anandarajah*			
(v) Hayleys Industrial Solutions (Pvt) Ltd.	Common Directors	A M Pandithage	Purchase of engineering		
		S C Ganegoda	items and repair charges	(1,438)	(1,707)
(vi) Hayleys Agro Fertilizers (Pvt) Ltd.	Common Directors	A M Pandithage S C Ganegoda	Purchase of fertilizers	(95,681)	(39,750)
(vii) Hayleys Agriculture Holdings Ltd.	Common Directors	A M Pandithage	Purchase of chemicals	(20,889)	(14,001)
		S C Ganegoda			
		R Seevaratnam			
(viii) Hayleys Power Ltd.	Common Directors	A M Pandithage	Cost of engineering items	(1,604)	(113)
(ix) Hayleys Travels & Tours (Pvt) Ltd.	Common Directors	A M Pandithage	Cost of air tickets and	(5,100)	(2,190)
		S C Ganegoda	related charges		
(x) MIT Cargo (Pvt) Ltd.	Common Directors	A M Pandithage S C Ganegoda	Handling, clearing and courier charges	(414)	(574)
(xi) Puritas (Pvt) Ltd.	Common Directors	A M Pandithage	Maintenance of effluent treatment plants and purchase of agro face masks	-	(546)
(xii) Longiventures (Pvt) Ltd.	Common Directors	A M Pandithage	Purchase of security seals	(119)	(76)
		S C Ganegoda			
(xiii) Diesel & Motor Engineering PLC	Common Directors	A M Pandithage	Purchase of motor vehicles, spare parts and tyres	-	(7,629)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

**31. RELATED PARTY DISCLOSURES (Contd.)**

Company	Relationship	Name of Director	Nature of Transaction	Amount (Paid)/ Received	
				2013 Rs. '000	2012 Rs. '000
<i>For the year ended 31 December</i>					
(xiv) Hayleys Consumer Products Ltd.	Common Directors	A M Pandithage S C Ganegoda R Seevaratnam	Purchase of consumer products	(27)	(41)
(xv) Talawakelle Tea Estates PLC	Common Directors	A M Pandithage W G R Rajadurai*** Dr. K I M Ranasoma L N De S Wijeyeratne J A G Anandarajah* G K Seneviratne**	Share of regional office and office maintenance cost - Receipts - Payments Green Leaf Supplies - Receipts - Payments	7,277 (1,734) 7,102 (5,816)	379 (543) - -
(xvi) Hayleys Business Solutions International (Pvt) Ltd.	Common Directors	A M Pandithage S C Ganegoda	Payment for executive payroll processing	(445)	(453)
(xvii) Agro Technica Ltd.	Common Directors	A M Pandithage S C Ganegoda	Supply of chemicals	-	(235)
(xviii) Hayleys Electronics Lighting (Pvt) Ltd.	Common Directors	A M Pandithage S C Ganegoda	Purchase of light fittings	-	(65)
(xix) The Kingsbury PLC	Common Directors	A M Pandithage S C Ganegoda L T Samarawickrama L N De S Wijeyeratne	Purchase of used furniture Hotel Charges	- (37)	(1,427) -
(xx) Logiwiz Ltd.	Common Directors	A M Pandithage	Storage and handling charges	-	(14)
(xxi) Hayleys Global Beverages (Pvt) Ltd. (Incorporated on 09.05.2013)	Common Directors	A M Pandithage Dr. K I M Ranasoma W G R Rajadurai G K Seneviratne**	Share of expenses	26,169	-

\* Retired w.e.f. 31.03.2013

\*\*\* Appointed w.e.f. 01.01.2013

\*\*\*\*\* Resigned w.e.f. 30.07.2013

\*\* Retired w.e.f. 08.04.2013

\*\*\*\* Appointed w.e.f. 16.04.2013

† Appointed w.e.f. 02.05.2013

\*\* Appointed w.e.f. 01.01.2014

There are no related party transactions and balances other than those disclosed above and in Note 29 to the Financial Statements.

**32. CONTINGENT LIABILITIES**

Contingent liabilities that may result, depending on the timing of the taxability of certain fair value adjustments amounts to approximately Rs. 1,500,000/- (2012 - Rs. 870,000/-).

**33. CAPITAL EXPENDITURE COMMITMENTS**

There were no material capital commitments as at the reporting date. However, the budgeted capital expenditure approved but, not committed by the Company for current financial year 2014 amounts to Rs. 523,482,000/-.

**34. EVENTS OCCURRING AFTER THE REPORTING PERIOD**

No circumstances have arisen since the reporting date which require adjustments to or disclosure in the Financial Statements.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

**35. SEGMENTAL ANALYSIS**

	Tea		Rubber		Others		Unallocated		Total	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
<b>Consolidated</b>										
<b>Segmental Assets</b>										
Non-current assets	2,238,933	2,093,012	1,821,494	1,684,364	205,700	118,805	142,679	123,482	4,408,806	4,019,663
Current assets	1,323,895	1,211,281	253,023	202,617	6,948	7,436	354,450	633,564	1,938,316	2,054,898
<b>Total assets</b>	<b>3,562,828</b>	<b>3,304,293</b>	<b>2,074,517</b>	<b>1,886,981</b>	<b>212,648</b>	<b>126,241</b>	<b>497,129</b>	<b>757,046</b>	<b>6,347,122</b>	<b>6,074,561</b>
<b>Segmental Liabilities</b>										
Non-current liabilities	1,221,624	1,149,211	350,677	343,519	20,022	20,704	832,519	827,359	2,424,842	2,340,793
Current liabilities	869,114	859,397	108,127	90,748	29,161	51,682	117,668	146,801	1,124,070	1,148,628
<b>Total liabilities</b>	<b>2,090,738</b>	<b>2,008,608</b>	<b>458,804</b>	<b>434,267</b>	<b>49,183</b>	<b>72,386</b>	<b>950,187</b>	<b>974,160</b>	<b>3,548,912</b>	<b>3,489,421</b>
<b>Non-Interest Bearing Liabilities</b>										
Deferred taxation	-	-	-	-	-	-	363,132	301,387	363,132	301,387
Retirement benefit obligations	848,274	814,612	180,994	172,405	191	137	16,944	37,988	1,046,403	1,025,142
Trade and other payables	324,471	278,293	108,127	90,748	11,758	20,640	79,586	95,972	523,942	485,653
Total depreciation	102,230	94,089	67,022	57,275	5,250	5,275	-	-	174,502	156,639
Lease amortisation	12,740	13,472	12,502	12,306	-	-	146	146	25,388	25,924
Capital expenditure	221,499	173,793	291,196	260,727	5,875	12,648	34,748	8,427	553,318	455,595
<b>Company</b>										
<b>Segmental Assets</b>										
Non-current assets	1,928,697	1,872,991	1,821,494	1,684,364	107,220	15,879	452,558	398,173	4,309,969	3,971,407
Current assets	557,460	428,983	253,023	202,617	734	1,378	383,266	667,458	1,194,483	1,300,436
<b>Total assets</b>	<b>2,486,157</b>	<b>2,301,974</b>	<b>2,074,517</b>	<b>1,886,981</b>	<b>107,954</b>	<b>17,257</b>	<b>835,824</b>	<b>1,065,631</b>	<b>5,504,452</b>	<b>5,271,843</b>
<b>Segmental Liabilities</b>										
Non-current liabilities	1,136,563	1,115,233	350,677	343,519	269	269	832,519	827,359	2,320,028	2,286,380
Current liabilities	282,401	245,297	108,127	90,748	87	100	145,849	176,699	536,464	512,844
<b>Total liabilities</b>	<b>1,418,964</b>	<b>1,360,530</b>	<b>458,804</b>	<b>434,267</b>	<b>356</b>	<b>369</b>	<b>978,368</b>	<b>1,004,058</b>	<b>2,856,492</b>	<b>2,799,224</b>
<b>Non-Interest Bearing Liabilities</b>										
Deferred taxation	-	-	-	-	-	-	320,232	271,119	320,232	271,119
Retirement benefit obligations	829,599	797,189	180,994	172,405	-	-	16,944	37,989	1,027,537	1,007,583
Trade and other payables	282,401	245,297	108,127	90,748	87	102	79,586	95,972	470,201	432,119
Total depreciation	77,444	71,468	67,022	57,275	746	782	-	-	145,212	129,525
Lease amortisation	12,740	13,472	12,502	12,306	-	-	146	146	25,388	25,924
Capital expenditure	141,052	152,779	291,196	260,727	5,816	12,423	34,748	8,427	472,812	434,356

Information in respect of geographical segments was considered not significant enough to be disclosed as explained under segment reporting in Accounting Policies.



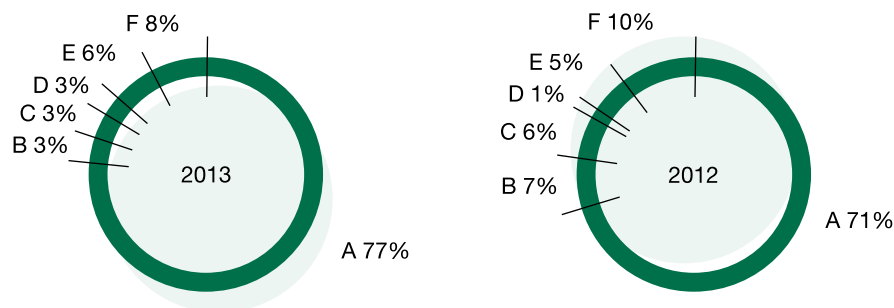
## TEN YEAR SUMMARY

Year ended 31 December	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>TRADING RESULTS</b>										
Revenue	6,790,012	6,518,253	6,033,498	3,883,637	2,860,004	3,108,571	2,827,974	2,330,297	1,918,465	1,740,230
Gross profit	885,720	1,156,106	905,883	595,955	134,964	455,435	560,263	435,401	262,902	305,269
Profit before tax	465,485	680,956	545,947	355,690	(27,783)	300,276	435,267	291,403	151,632	218,075
Profit after tax	391,693	560,732	461,363	326,152	(40,565)	278,765	410,010	255,849	151,974	200,802
<b>BALANCE SHEET</b>										
<b>Funds Employed</b>										
Stated capital	340,000	340,000	340,000	340,000	340,000	340,000	340,000	340,000	340,000	340,000
Revenue reserves	2,435,888	2,228,473	1,813,716	1,492,786	1,216,593	1,378,208	1,289,356	993,445	715,711	646,309
Total equity attributable to equity holders of the Parent	2,775,888	2,568,473	2,153,716	1,832,786	1,556,593	1,718,208	1,629,356	1,333,445	1,055,711	986,309
Non-controlling interest	22,322	16,667	17,162	14,642	22,324	20,274	8,792	10,753	11,487	7,913
Liability to make lease payment	440,776	427,914	428,976	429,869	362,854	367,813	372,602	377,159	381,539	385,749
Interest-bearing borrowings	98,327	97,588	136,825	226,414	379,978	449,423	370,685	285,932	190,230	156,658
Bank overdraft	16,297	1,865	4,772	13,158	473	116,766	2,582	1,348	15,019	28,097
	3,353,610	3,112,507	2,741,451	2,516,869	2,322,222	2,672,484	2,384,017	2,008,637	1,653,986	1,564,726
<b>ASSETS EMPLOYED</b>										
Non-current assets	4,408,806	4,019,663	3,738,736	3,463,306	3,132,622	2,978,262	2,519,202	2,221,273	2,075,427	1,890,408
Current assets	1,938,316	2,054,898	1,758,879	1,411,867	954,630	1,101,238	1,115,810	754,288	500,806	560,408
Current liabilities	(1,107,773)	(1,146,763)	(1,088,079)	(847,986)	(468,207)	(353,441)	(357,364)	(245,471)	(231,610)	(226,931)
Retirement benefit obligations	(1,046,403)	(1,025,142)	(980,001)	(871,408)	(732,912)	(578,457)	(527,716)	(424,478)	(344,963)	(312,169)
Deferred tax liability	(363,132)	(301,387)	(211,247)	(158,032)	(120,836)	(128,927)	(119,638)	(91,806)	(65,679)	(82,134)
Negative goodwill/ revaluation reserve	-	-	-	-	-	-	-	-	(89,152)	(96,581)
Deferred income	(476,204)	(488,762)	(476,837)	(480,878)	(443,075)	(346,191)	(246,277)	(205,169)	(190,843)	(168,275)
Capital Employed	3,353,610	3,112,507	2,741,451	2,516,869	2,322,222	2,672,484	2,384,017	2,008,637	1,653,986	1,564,726
<b>KEY INDICATORS</b>										
Gross profit margin %	13.0	17.7	15.0	15.3	4.7	14.7	19.8	18.7	13.7	17.5
Current ratio (times)	1.72	1.79	1.61	1.64	2.04	2.34	3.10	3.06	2.03	2.20
Turnover to capital employed (times)	2.0	2.1	2.2	1.5	1.2	1.2	1.2	1.2	1.2	1.1
Return on shareholders' funds %	13.8	21.8	21.3	17.5	(2.7)	16.1	25.5	19.2	14.2	20.3
Earning per share (Rs.)	11.30	16.51	13.49	9.43	(1.25)	8.11	12.20	7.55	4.54	5.94
Net assets per share	82.30	76.03	63.85	54.34	46.44	50.43	47.92	39.22	31.05	29.01
Dividend per share (Rs.)	3.5	6.0	5.0	4.0	1.0	3.5	5.5	3.5	2.0	2.5
Dividend payout ratio %	31	36	37	42	-	43	45	46	44	42
Price earnings (times)	6.93	4.85	6.7	17.0	-	5.9	4.6	7.0	5.9	2.9
Market value (Rs.)	78.30	80.00	90.00	159.90	53.00	47.50	56.25	53.00	27.00	17.50

## STATEMENT OF VALUE ADDITION

For the year ended 31 December	Consolidated		Company					
	2013 Rs. m	2012 Rs. m	2013 Rs. m	2012 Rs. m				
<b>Revenue</b>	<b>6,790</b>	<b>6,518</b>	<b>4,322</b>	<b>4,232</b>				
Other income	126	97	126	92				
	<b>6,916</b>	<b>6,615</b>	<b>4,448</b>	<b>4,324</b>				
Cost of material and services obtained	(3,460)	(3,161)	(1,248)	(1,149)				
<b>Value addition</b>	<b>3,456</b>	<b>3,454</b>	<b>3,200</b>	<b>3,175</b>				
<b>Value Created Shared With</b>								
		%	%	%	%			
Employees	2,658	77	2,439	71	2,547	80	2,336	74
Government of Sri Lanka	108	3	225	7	55	2	168	5
Shareholders	119	3	204	6	119	4	204	6
Lenders of capital	98	3	46	1	80	2	21	1
Retained for future as depreciation	200	6	183	5	170	5	156	5
Profit	273	8	357	10	229	7	290	9
	<b>3,456</b>	<b>100</b>	<b>3,454</b>	<b>100</b>	<b>3,200</b>	<b>100</b>	<b>3,175</b>	<b>100</b>

### DISTRIBUTION OF VALUE ADDITION



- A - Employees
- B - Government of Sri Lanka
- C - Shareholders
- D - Lenders of Capital
- E - Retained for future as Depreciation
- F - Profit



## OUR LAND

### 2013

Estate	Extent Hactares				Elevation (ft)	Crop	
	Tea	Rubber	Other	Total		kg '000 Tea	kg '000 Rubber
<b>Nuwara Eliya Group</b>							
Pedro	544	–	124	668	6,237	686	–
Nuwara Eliya	186	–	61	247	5,999	356	–
Glassaugh	162	–	66	228	5,074	234	–
Uda Radella	168	–	57	225	5,328	243	–
Edinburgh	148	–	30	179	5,075	211	–
Oliphant	234	–	130	364	6,440	187	–
<b>Hatton Group</b>							
Ingestre	384	–	266	649	4,723	600	–
Fordyce	230	–	173	403	4,599	395	–
Annfield	221	–	155	375	4,297	437	–
Tillyrie	167	–	168	334	4,264	266	–
Invery	127	–	179	306	4,310	247	–
Robgill	175	–	125	300	4,500	314	–
Battalgalla	144	–	117	261	4,300	274	–
Blinkbonnie	132	–	49	181	4,500	189	–
<b>Yatiantota - Tea Group</b>							
Halgolle	266	–	930	1,196	3,478	438	–
Ederapolla	19	451	197	667	338	40	281
Kitulgala	51	33	498	582	1,003	69	17
Kalupahana	70	153	289	512	1,500	115	59
Kelani	27	237	85	349	300	41	137
<b>Yatiantota - Rubber Group</b>							
Dewalakande	–	562	155	717	502	–	372
Panawatte	19	744	267	1,030	1,000	28	452
Urumiwella	6	541	175	722	800	10	379
Kiriporuwa	31	396	160	587	805	48	254
Lavant	–	458	111	569	800	–	278
Ganepalla	–	393	96	490	1,000	–	215
We Oya/Polatagama	25	751	210	987	1,000	30	618
<b>Total</b>	<b>3,534</b>	<b>4,719</b>	<b>4,874</b>	<b>13,128</b>		<b>5,456</b>	<b>3,062</b>

## INVESTOR INFORMATION

### 1. STOCK EXCHANGE LISTING

The ordinary shares of Kelani Valley Plantations PLC are listed with the Colombo Stock Exchange. The audited Company and Consolidated Statements for the year ended 31 December 2013 and the audited Statement of Financial Position of the Company and of the Group as at the date have been submitted to the Colombo Stock Exchange within three months of the Statement of Financial Position date.

### 2. ORDINARY SHAREHOLDERS AS AT 31 DECEMBER 2013

Number of Shareholders 14,279

		Residents			Non-Residents			Total			
		No. of	No. of	%	No. of	No. of	%	No. of	No. of	%	
		Shareholders	Shares		Shareholders	Shares		Shareholders	Shares		
1	–	1,000	14,125	1,802,944	5.303	3	2,500	0.007	14,128	1,805,444	5.310
1,001	–	10,000	114	345,539	1.016	1	10,000	0.029	115	355,539	1.046
10,001	–	100,000	25	805,338	2.369	2	65,000	0.191	27	870,338	2.560
100,001	–	1,000,000	5	1,806,824	5.314	1	150,000	0.441	6	1,956,824	5.755
Over		1,000,000	3	29,011,855	85.329				3	29,011,855	85.329
			<b>14,272</b>	<b>33,772,500</b>	<b>99.331</b>	<b>7</b>	<b>227,500</b>	<b>0.669</b>	<b>14,279</b>	<b>34,000,000</b>	<b>100.000</b>

	Residents			Non-Residents			Total		
	No. of	No. of	%	No. of	No. of	%	No. of	No. of	%
	Shareholders	Shares		Shareholders	Shares		Shareholders	Shares	
Individuals	14,210	3,058,382	8.995	5	172,500	0.507	14,215	3,230,882	9.503
Institutions	62	30,714,118	90.336	2	55,000	0.162	64	30,769,118	90.497
	<b>14,272</b>	<b>33,772,500</b>	<b>99.331</b>	<b>7</b>	<b>227,500</b>	<b>0.669</b>	<b>14,279</b>	<b>34,000,000</b>	<b>100.000</b>

### 3. MARKET VALUE

The market value of Kelani Valley Plantations PLC ordinary shares:

	2013	2012
Highest - Rs.	90.00 (25 March and 4 June 2013)	100.00 (29 March and 15 June 2012)
Lowest - Rs.	70.00 (12 July and 18 December 2013)	70.20 (10 May 2012)
Year-end - Rs.	78.30	80.00

### 4. DIVIDEND PAYMENT

The first and final proposed dividend of Rs. 3.50 per share is to be declared on 28 March 2014 and payable on 8 April 2014 (2012 - Rs. 6.00).

### 5. SHARE TRADING

	2013	2012
No. of transactions	991	921
No. of shares traded	276,046	698,073
Value of shares traded (Rs.)	22,924,405.60	59,005,961.00



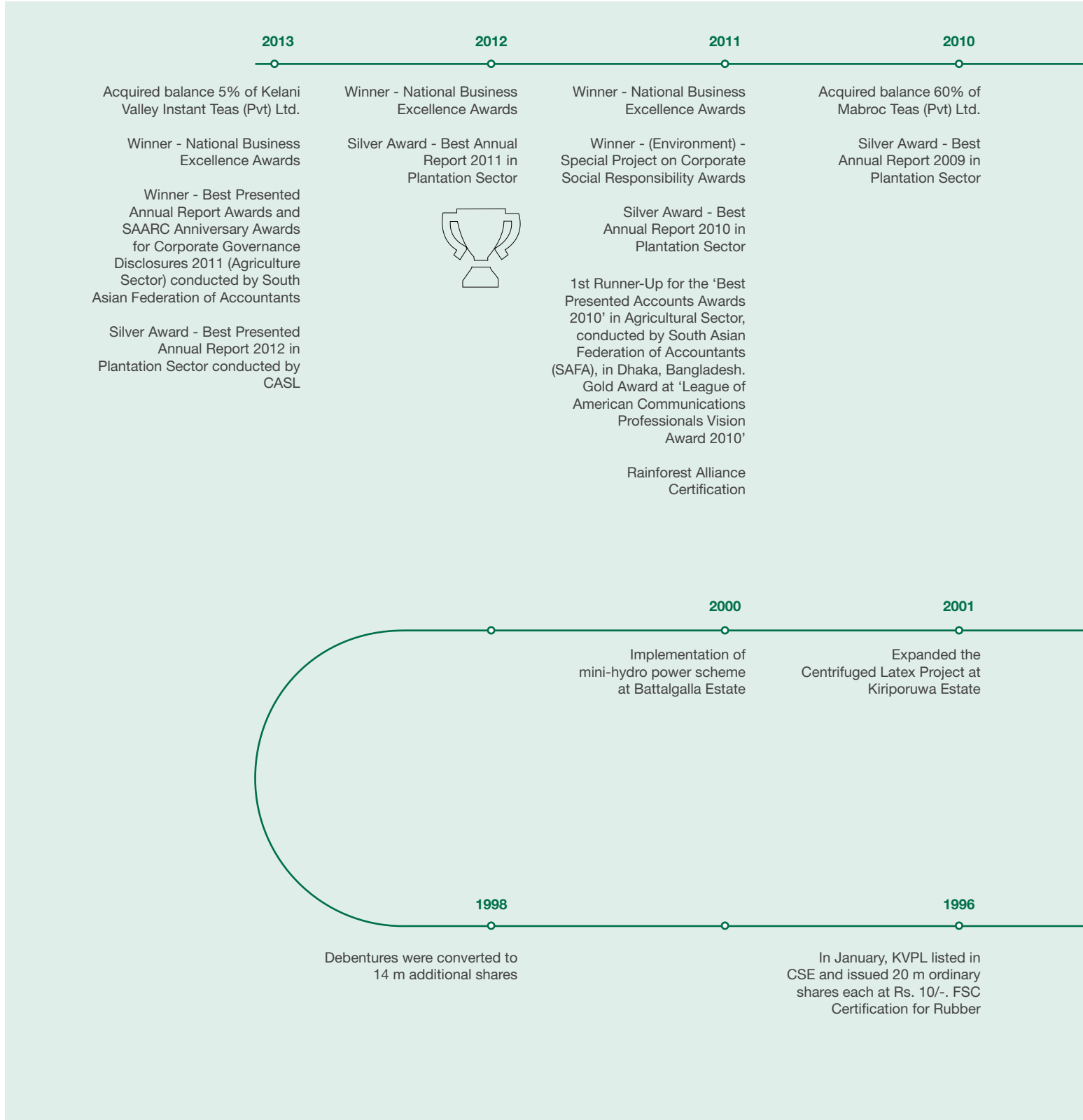
## INVESTOR INFORMATION

### 6. FIRST TWENTY SHAREHOLDERS AS AT 31 DECEMBER 2013

Name of Shareholder	No. of Shares as at 31.12.2013	%	No. of Shares as at 31.12.2012	%
1 DPL Plantations (Pvt) Ltd.	24,200,000	71.18	24,200,000	71.18
2 Waldock Mackenzie Ltd./Mr. L P Hapangama Mr. L P Hapangama	2,819,213 400	8.29	2,776,600 400	8.17
3 Bank of Ceylon A/c Ceybank Unit Trust	1,992,642	5.86	1,950,725	5.74
4 Mabroc Holdings (Pvt) Ltd.	512,746	1.51	512,746	1.51
5 Bank of Ceylon A/c Ceybank Century Growth Fund	459,984	1.35	439,881	1.29
6 AIA Insurance Lanka PLC - A/C No. 7 AIA Insurance Lanka PLC - A/C No. 6	379,172 30,100	1.12 0.09	379,172 30,100	1.12 0.09
7 Mr. T T T Al-Nakib	344,122	1.01	303,069	0.89
8 Mr. H A A H Algharabally	150,000	0.44	150,000	0.44
9 Mr. H G Carimjee (Deceased)	110,800	0.33	110,800	0.33
10 Mr. M M Udeshi	83,397	0.25	104,400	0.31
11 Dr. D Jayanththa	76,500	0.23	76,500	0.23
12 Mr. M I Abdul Hameed	70,600	0.21	70,600	0.21
13 Gampaha District Co-operative Rural Bank Union Ltd.	66,300	0.20	66,300	0.20
14 Cargo Boat Development Company PLC	58,800	0.17	58,800	0.17
15 Mrs. R S L De Mel	50,000	0.15	50,000	0.15
16 Mr. K C Viganarajah	46,500	0.14	46,500	0.14
17 HSBC International Nominees Ltd. - SSBT-Deutsche Bank	45,000	0.13	45,000	0.13
18 Mr. A K Kumarasena	24,479	0.07	24,479	0.07
19 Miss F A Adamaly	20,000	0.06	20,000	0.06
Miss Z A Adamaly	20,000	0.06	20,000	0.06
Dr. M E R Harrison	20,000	0.06	20,000	0.06
Mr. H Wickremesinghe	20,000	0.06	20,000	0.06
20 Waldock Mackenzie Ltd./Mrs. G Soysa	18,680	0.05	18,680	0.05
Total	31,619,435	93.00	31,494,752	92.63

7. The percentage of ordinary shares held by the public was 28.82% (2012 - 28.81%) of the issued share capital as at 31 December 2013.

## MILESTONES

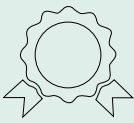




2009

Dewalakanda and Panawatta Sole Crepe - Certified for FSC

Silver Award - Best Annual Report 2008 in Plantation Sector



2008

Gold Award (Service Providers to Exporters), NCE Export Awards 2007

Winner - National Business Excellence Awards, Global G.A.P. Certification

Black Tea Factory at Glassaugh converted to Green Tea

2007

Started to manufacture Instant Tea at Nuwara Eliya Estate

ISO 22000:2005, HACCP & TASL-SGS Certification for 13 Black Tea processing centres

2006

UN Global Compact Signatory with Mabroc and KVPL

2003



Conversion of Black Tea processing to Green Tea at Oliphant Factory - Nuwara Eliya

Incorporation of Kalupahana Power Company (Pvt) Ltd., as a BOI Project

Strategic Alliance with Mabroc Teas (Pvt) Ltd.

2004

Acquired 40% of issued share capital of Mabroc Teas (Pvt) Ltd.

2005

Commenced the operations of Kalupahana Power Company (Pvt) Ltd.

1995

DPL Plantations (Pvt) Ltd., acquired the controlling interest

1992

Incorporated as a regional plantations Company



## GRI CONTENT INDEX

Profile Disclosure	Description	Report Section	Page/s
<b>1.0</b>	<b>STRATEGY AND ANALYSIS</b>		
1.1	Statement from the most senior decision-maker of the organisation.	Chairman's Review	8 - 11
1.2	Description of key impacts, risks and opportunities.	Risk Management	98 - 112
<b>2.0</b>	<b>ORGANISATIONAL PROFILE</b>		
2.1	Name of the organisation.	Corporate Information	Inner Back Cover
2.2	Primary brands, products, and/or services.	Our Profile	2 - 3
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries and joint ventures.	Our Profile	2 - 3
2.4	Location of organisation's headquarters.	Corporate Information	Inner Back Cover
2.5	Number of countries where the organisation operates and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report.	Not Applicable	
2.6	Nature of ownership and legal form	Corporate Information	Inner Back Cover
2.7	Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries).	Management Discussion & Analysis	54
2.8	Scale of the reporting organisation.	Highlights Our Land Statements of Financial Position Investor Information	6 173 126 175
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	Not Applicable	
2.10	Awards received in the reporting period.	Management Discussion & Analysis	63
<b>3.0</b>	<b>REPORT PARAMETERS</b>		
3.1	Reporting period for information provided.	About the Report	4 - 5
3.2	Date of most recent previous report.	About the Report	4 - 5
3.3	Reporting cycle.	About the Report	4 - 5
3.4	Contact point for questions regarding the report or its contents.	About the Report	4 - 5
3.5	Process for defining report content.	About the Report	4 - 5
3.6	Boundary of the report.	About the Report	4 - 5
3.7	State any specific limitations on the scope or boundary of the report.	Not Applicable	
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect comparability from period to period and/or between organisations.	About the Report Notes to the Financial Statements	4 - 5 124 - 168
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the indicators and other information in the Report	Not Reported	



## GRI CONTENT INDEX

Profile Disclosure	Description	Report Section	Page/s
3.10	Explanation of the effect of any restatement of information provided in earlier reports.	About the Report	4 - 5
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	About the Report	4 - 5
3.12	Table identifying the location of the Standard Disclosures in the report.	Annexes	176 - 182
3.13	Policy and current practice with regard to seeking external assurance for the Report.	Independent Assurance Report on the Sustainability Report	64 - 65
<b>4.0</b>	<b>GOVERNANCE, COMMITMENTS AND ENGAGEMENT</b>		
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	Corporate Governance	74
4.2	Indicate whether the Chair of the highest governance body is also an Executive Officer.	Corporate Governance	74 - 97
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	Corporate Governance	74 - 97
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Corporate Governance	74 - 97
4.5	Linkage between compensation for members of the highest governance body, senior managers and executives (including departure arrangements), and the organisation's performance (including social and environmental performance).	Corporate Governance	74 - 97
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Corporate Governance	74 - 97
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental and social topics.	Corporate Governance	74 - 97
4.8	Internally-developed statements of mission or values, codes of conduct and principles relevant to economic, environmental and social performance and the status of their implementation.	Not Reported	
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental and social performance, including relevant risks and opportunities and adherence or compliance with internationally agreed standards, codes of conduct and principles.	Corporate Governance Risk Management	74 - 97 100
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance.	Corporate Governance	74 - 97
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	Corporate Governance Risk Management	74 - 97 98 - 112
4.12	Externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes or endorses	Not Reported	

## GRI CONTENT INDEX

Profile Disclosure	Description	Report Section	Page/s
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation - <ul style="list-style-type: none"> <li>• has positions in governance bodies;</li> <li>• participates in projects or committees;</li> <li>• provides substantive funding beyond routine membership dues; or</li> <li>• views membership as strategic.</li> </ul>	Not Reported	
4.14	List of stakeholder groups engaged by the organisation.	Management Discussion & Analysis	23
4.15	Basis for identification and selection of stakeholders with whom to engage.	Management Discussion & Analysis	23
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Management Discussion & Analysis	23
4.17	Key topics and concerns that have been raised through stakeholder engagement and how the organisation has responded to those key topics and concerns, including through its reporting.	Not Reported	
<b>ECONOMIC PERFORMANCE</b>			
<b>ECONOMIC PERFORMANCE</b>			
EC1	Direct economic value generated and distributed.	Statement of Value Addition	170
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	Management Discussion & Analysis	20 - 21
EC3	Coverage of the organisation's defined benefit plan obligations.	Notes to the Financial Statements	140, 161
EC4	Significant financial assistance received from the Government.	Notes to the Financial Statements	146, 160
<b>MARKET PRESENCE</b>			
EC6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation.	Management Discussion & Analysis	58
<b>INDIRECT ECONOMIC IMPACTS</b>			
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Not Reported	
<b>ENVIRONMENT MANAGEMENT</b>			
<b>MATERIALS</b>			
EN1	Materials used by weight or volume.	Management Discussion & Analysis	57 - 58
<b>ENERGY</b>			
EN3	Direct energy consumption by primary energy source.	Management Discussion & Analysis	58 - 59
EN4	Indirect energy consumption by primary source.	Management Discussion & Analysis	58 - 59
EN5	Energy saved due to conservation and efficiency improvements.	Not Reported	
EN6	Initiatives to provide energy efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives.	Not Reported	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Not Reported	



## GRI CONTENT INDEX

Profile Disclosure	Description	Report Section	Page/s
<b>WATER</b>			
EN8	Total water withdrawal by source.	Management Discussion & Analysis	59 - 60
EN9	Water sources significantly affected by withdrawal of water.	Not Applicable	
EN10	Percentage and total volume of water recycled and reused.	Not Reported	
<b>BIODIVERSITY</b>			
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Management Discussion & Analysis Our Land	59 - 60 173
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Not Applicable	
EN13	Habitats protected or restored.	Management Discussion & Analysis	60 - 61
EN14	Strategies, current actions and future plans for managing impacts on biodiversity.	Not Reported	
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Not Reported	
<b>EMISSIONS, EFFLUENTS AND WASTE</b>			
EN16	Total direct and indirect greenhouse gas emissions by weight.	Not Reported	
EN17	Other relevant indirect greenhouse gas emissions by weight.	Not Reported	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Not Reported	
EN19	Emissions of ozone-depleting substances by weight.	Not Reported	
EN20	NO <sub>x</sub> , SO <sub>x</sub> and other significant air emissions by type and weight.	Not Reported	
EN21	Total water discharge by quality and destination.	Not Reported	
EN22	Total weight of waste by type and disposal method.	Not Applicable	
EN23	Total number and volume of significant spills.	Not Applicable	
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII, and percentage of transported waste shipped internationally.	Not Reported	
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and run off.	Not Applicable	
<b>PRODUCTS AND SERVICES</b>			
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Management Discussion & Analysis	57
<b>COMPLIANCE</b>			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Management Discussion & Analysis	52

## GRI CONTENT INDEX

Profile Disclosure	Description	Report Section	Page/s
<b>OVERALL</b>			
EN30	Total environmental protection expenditures and investments by type.	Not Reported	
<b>LABOUR PRACTICES AND DECENT WORK</b>			
<b>EMPLOYMENT</b>			
LA1	Total workforce by employment type, employment contract and region.	Not Reported	
LA2	Total number and rate of employee turnover by age group, gender and region.	Management Discussion & Analysis	47
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Not Applicable	
<b>LABOUR/MANAGEMENT RELATIONS</b>			
LA4	Percentage of employees covered by collective bargaining agreements.	Management Discussion & Analysis	47
<b>OCCUPATIONAL HEALTH AND SAFETY</b>			
LA6	Percentage of total workforce represented in formal joint-management worker health and safety committees that help monitor and advise on occupational health and safety programmes.	Not Reported	
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	Not Reported	
LA8	Education, training, counselling, prevention and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases.	Management Discussion & Analysis	55
LA9	Health and safety topics covered in formal agreements with trade unions.	Not Reported	
<b>TRAINING AND EDUCATION</b>			
LA10	Average hours of training per Annum per employee by employee category.	Management Discussion & Analysis	49
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Not Reported	
LA12	Percentage of employees receiving regular performance and career development reviews.	Not Reported	
<b>DIVERSITY AND EQUAL OPPORTUNITY</b>			
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	Management Discussion & Analysis	47
LA14	Ratio of basic salary of men to women by employee category.	Management Discussion & Analysis	50






## GRI CONTENT INDEX

Profile Disclosure	Description	Report Section	Page/s
<b>HUMAN RIGHTS</b>			
<b>DIVERSITY AND EQUAL OPPORTUNITY</b>			
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	Not Reported	
HR3	Total hours of employee-training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Not Reported	
<b>NON-DISCRIMINATION</b>			
HR4	Total number of incidents of discrimination and actions taken.	Management Discussion & Analysis	50
	Freedom of Association and Collective Bargaining		
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	Not Reported	
<b>CHILD LABOUR</b>			
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour.	Management Discussion & Analysis	50
<b>FORCED AND COMPULSORY LABOUR</b>			
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour.	Management Discussion & Analysis	50
<b>INDIGENOUS RIGHTS</b>			
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	Not Applicable	
<b>SOCIETY</b>			
<b>COMMUNITY</b>			
SO1	Nature, scope and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting corruption.	Not Reported	
SO2	Percentage and total number of business units analysed for risks related to corruption.	Not Reported	
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures.	Not Reported	
SO4	Actions taken in response to incidents of corruption.	Management Discussion & Analysis	56
SO6	Total value of financial and in-kind contribution to political parties, politicians and related institutions by Country.	Annual Report of the Board of Directors on the Affairs of the Company	116

**GRI CONTENT INDEX**

Profile Disclosure	Description	Report Section	Page/s
<b>ANTI-COMPETITIVE BEHAVIOUR</b>			
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes.	Corporate Governance	96
<b>COMPLIANCE</b>			
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Management Discussion & Analysis	52
<b>PRODUCTS RESPONSIBILITY</b>			
<b>CUSTOMER HEALTH AND SAFETY</b>			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	Management Discussion & Analysis	52 - 53
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	Not Reported	
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use.	Not Reported	

Report Application Level		C	C+	B	B+	A	A+
Standard Disclosures	G3 Profile Disclosures 	Report on: 1.1 2.1-2.10 3.1-3.8, 3.10 - 3.12 4.1 - 4.4, 4.14 - 4.15	✓	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17		Same as requirement for Level B	
	G3 Management Approach Disclosures 	Not Required	Report Externally Assured	Management Approach Disclosures for each Indicator Category	Report Externally Assured	Management Approach Disclosed for each Indicator Category	Report Externally Assured
	G3 Performance Indicators & Sector Supplement Performance Indicators 	Report on a minimum of 10 Performance Indicators, including at least one from each of: Economic Social and Environmental.		Report on a minimum of 20 Performance Indicators, at least one from each of: Economic, Environmental, Human Rights, Labour, Society, Product Responsibility.		Respond on each core G3 and Sector Supplement* Indicator with due regard to the Materiality Principle by either: a) reporting on the indicator or b) explaining the reason for its omission.	

\* Sector Supplement in final version



## GRI CONTENT INDEX

### UNITED NATIONS GLOBAL COMPACT PRINCIPLES

Issues Areas	GC Principles	Relevant GRI Indicators
Human Rights	<b>Principle 01</b> Businesses should support and respect the protection of internationally-proclaimed human rights.	LA 4, LA 13, HR 4, HR 5, HR 6
	<b>Principle 02</b> Make sure that they are not complicit in human rights abuses.	HR 4, HR 5, HR 6
Labour	<b>Principle 03</b> Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	LA 4, LA 5, HR 5, HR 6
	<b>Principle 04</b> Business should uphold the elimination of all forms of forced and compulsory labour.	HR 7
	<b>Principle 05</b> Business should uphold the effective abolition of child labour.	HR 6
	<b>Principle 06</b> Business should uphold the elimination of discrimination in respect of employment and occupation.	LA 2, LA 13, LA 14, HR 4, EC 5, EC 7
Environment	<b>Principle 07</b> Businesses should support a precautionary approach to environmental challenges.	EN 9, EN 14, EN 26
	<b>Principle 08</b> Businesses should undertake initiatives to promote greater environmental responsibility.	EN 1, EN 3, EN 4, EN 5, EN 6, EN 8, EN 10, EN 11, EN 12, EN 13, EN 14, EN 15, EN 16
	<b>Principle 09</b> Businesses should encourage the development and diffusion of environmentally friendly technologies.	EN 5, EN 6, EN 10, EN 26
Anti-Corruption	<b>Principle 10</b> Businesses should work against corruption in all its forms, including extortion and bribery.	SO4

## GLOSSARY

### FINANCIAL TERMS

#### Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting Financial Statements.

#### Actuarial Gains and Losses

Is the effects of difference between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions.

#### AGM

Annual General Meeting.

#### Agricultural Activity

Is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.

#### Agricultural Produce

Is the harvested product of the entity's biological assets.

#### Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

#### Available-for-Sale

Non-derivative financial asset that are designated as available-for-sale or are not classified as loans and receivable, held-to-maturity investment or financial assets at fair value through profit and loss.

#### AWDR

Average Weighted Deposit Rate.

#### AWPLR

Average Weighted Prime Lending Rate.

#### Basic Earnings Per Share

Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the period.

#### Bearer Biological Assets

Biological assets those are not to be harvested as agricultural produce or sold as biological assets. The biological assets other than the consumable biological assets.

#### Biological Assets

A living animal or plant.

#### Biological Transformation

It comprises the process of growth, degeneration, production, and procreation that cause qualitative or quantitative change in a biological asset.

#### Borrowings

All interest-bearing liabilities.

#### Capital Employed

Total equity, non-controlling interest and interest-bearing borrowings.

#### Capital Reserves

Reserves identified for specific purposes and considered not of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity available-for-distribution.

#### Cash Equivalents

Liquid investments with original maturity periods of three months or less.

#### CASL

The Institute of Chartered Accountants of Sri Lanka.

#### CEA

Central Environment Authority.

#### Consumable Biological Assets

The biological assets those that are to be harvested as agricultural produce or sold as biological assets.

#### Contingent Liability

A possible obligation that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.

#### CSR

Corporate Social Responsibility.

#### Current Ratio

Current assets divided by current liabilities. A measure of liquidity.

#### DCF Method

Discounted Cash Flow method.

#### Deferred Taxation

The tax effect of timing differences deferred to/ from other periods, which would only qualify for inclusion on a tax return at a future date.

#### Derivative

Is a financial instrument or other contract whose prices is dependent upon or derived from one or another underline asset.

#### Dividend Cover

Profit attributable to ordinary shareholders divided by dividend. Measures the number of times dividend is covered by distributable profit.

#### Dividend Payout

Dividend per share as a percentage of the earnings per share.

#### Dividend Yield

Dividend per share as a percentage of the market price. A measure of return on investment.

#### Dividends

Distribution of profits to holders of equity investments.

#### DPL

Dipped Products PLC.

#### DPLP

DPL Plantations (Pvt) Ltd.

#### EBIT

Abbreviation for Earnings Before Interest and Tax.

#### EBITDA

Abbreviation for Earnings Before Interest, Tax, Depreciation and Amortisation.

#### Effective Tax Rate

Income tax expenses divided by profit from ordinary activities before tax.

#### Equity

Shareholders' fund.

#### Equity Accounted Investees

An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

#### Equity Instruments

Is any contract that evidences a residual interest in the assets of a entity after deducting all of its liabilities.

#### Equity Method

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

#### ERP

Enterprise Resources Planning.

#### Fair Value

Fair value is the amount for which an asset could be exchanged between a knowledgeable or liability settled between knowledgeable willing parties in an arm's length transaction.

#### Fair Value Through Profit and Loss

A financial asset/liability acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or a derivative (except for a derivative that is a financial guarantee contract).

#### Financial Instrument

Is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### Financial Asset

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.



## GLOSSARY

### Financial Instrument

Any contract that gives rise to a financial asset of one entity and a financial liability or equity to another entity.

### Financial Liability

Any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

### Forward Currency Contract

A forward contract in the forex market that locks in the price at which an entity can buy or sell a currency on a future date. Also known as 'outright forward currency transaction', 'forward outright' or 'FX forward'.

### FSC

Forest Stewardship Council.

### Gearing

Proportion of total interest-bearing borrowings to capital employed.

### HACCP

Hazard Analysis Critical Control Point system. Internationally accepted food safety standard.

### IAS

International Accounting Standards.

### IFRIC

International Financial Reporting Interpretations Committee.

### IFRS

International Financial Reporting Standards.

### Interest Cover

Profit before tax plus net finance cost divided by net finance cost. Measure of an entity's debt service ability.

### JEDB

Janatha Estate Development Board.

### Key Management Personnel

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity.

### KPC

Kalupahana Power Company (Pvt) Ltd.

### KVIT

Kelani Valley Instant Tea (Pvt) Ltd.

### KVPL

Kelani Valley Plantations PLC

### LIBOR

London Inter-Bank Offered Rate.

### Market Capitalisation

Number of shares in issue multiplied by the market value of a share at the period date.

### Net Assets per Share

Shareholders' funds divided by the weighted average number of ordinary shares in issue. A basis of share valuation.

### Non-Controlling Interest

The interest of individual shareholders, in a company more than 50% of which is owned by a holding company.

### Other Comprehensive Income

Items of income and expenses that are not recognised in profit or loss as required or permitted by other SLFRSs.

### Price Earnings Ratio

Market price of a share divided by earnings per share as reported at that date.

### Related Parties

Parties who could control or significantly influence the financial and operating policies of the business.

### Retirement Benefits

- Present value of a defined benefit obligation  
Is the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.
- Current Service Cost  
Is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.
- Interest Cost  
Is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.
- Actuarial Gains and Losses  
Is the effect of difference between the previous actuarial assumptions and what has actually occurred and effects of changes in actuarial assumption.

### Return on Assets

Profit before tax plus net interest cost divided by total assets.

### Return on Equity

Attributable profits to the shareholders divided by shareholders funds.

### Return on Capital Employed

Profit before tax plus net interest cost divided by capital employed.

### Revenue Reserves

Reserves considered as being available for distributions and investments.

### Segments

Constituent business units grouped in terms of similarity of operations and location.

### SIC

Standing Interpretations Committee.

### SLAS

Sri Lanka Accounting Standards. Also known as SLFRS and LKAS.

### SLECIC

Sri Lanka Export Credit Insurance Corporation.

### SLFRS/LKAS

Sri Lanka Accounting Standards corresponding to International Financial Reporting Standards.

### SoRP

Statement of Recommended Practice.

### Subsidiary

A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

### UITF

Urgent Issue Task Force of The Institute of Chartered Accountants of Sri Lanka.

### Value addition

The quantum of wealth generated by the activities of The Group measured as the difference between turnover and the cost of materials and services bought in.

### Working Capital

Capital required to finance day-to-day operations computed as the excess of current assets over current liabilities.

### NON-FINANCIAL TERMS

#### Crop

The total produce harvested over a given period of time (usually during a financial year).

#### GRI

Global Reporting Initiatives.

#### Immature Plantation

The extent of plantation that is underdevelopment and is not being harvested.

#### ISO

International Standards Organisation.

#### Mature Plantation

The extent of plantation from which crop is being harvested.

#### MTPL

Mabroc Teas (Pvt) Ltd.

#### NSA

The Net Sales Average. This is the average sale price obtained (over a period of time) after deducting brokerage fees, etc.

#### SLSPC

Sri Lanka State Plantations Corporation.

#### TASL

Tea Association of Sri Lanka.

#### Yield (YPH)

The average crop per unit extent of land over a given period of time (usually kgs. per hectare per year).

## NOTICE OF MEETING

### KELANI VALLEY PLANTATIONS PLC COMPANY NUMBER PQ 58

NOTICE IS HEREBY GIVEN that the Twenty-Second Annual General Meeting of Kelani Valley Plantations PLC will be held at the Registered Office of the Company, No. 400, Deans Road, Colombo 10, Sri Lanka on Friday, 28 March 2014 at 3.00 p.m. and the business to be brought before the Meeting will be:

1. To consider and adopt the Annual Report of the Board of Directors and the Statements of Accounts for the year ended 31 December 2013, with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Directors.
3. To re-elect Mr. L N De S Wijeyeratne, who has been appointed by the Board, since the last Annual General Meeting, a Director.
4. To re-elect Mr. L T Samarawickrama, who retires by rotation at the Annual General Meeting, a Director.
5. To re-elect Mr. F Mohideen, who retires by rotation at the Annual General Meeting, a Director.
6. To authorise the Directors to determine contributions to charities.
7. To authorise the Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, Chartered Accountants, who are deemed to have been reappointed as Auditors in terms of Section 158 of the Companies Act No. 07 of 2007 for the financial year 2014.
8. To consider any other business of which due notice has been given.

#### NOTE :

- (i) *A shareholder is entitled to appoint a proxy to attend and vote instead of himself and a proxy need not be a shareholder of the Company. A Form of Proxy is enclosed for this purpose. The instrument appointing a proxy must be deposited at the Registered Office, No. 400, Deans Road, Colombo 10, Sri Lanka by 3.00 p.m. on 26 March 2014.*
- (ii) *It is proposed to post ordinary dividend warrants on 8 April 2014 and in accordance with the rules of the Colombo Stock Exchange, the shares of the Company will be quoted ex dividend with effect from 31 March 2014.*

By Order of the Board

KELANI VALLEY PLANTATIONS PLC  
Hayleys Group Services (Pvt) Ltd.  
Secretaries  
Colombo  
28 February 2014







## FORM OF PROXY

I/We\* .....

of.....

being shareholder/shareholders\* of KELANI VALLEY PLANTATIONS PLC, hereby appoint:

1. ....

of ..... or failing him/them,\*

2. ABEYAKUMAR MOHAN PANDITHAGE (Chairman of the Company) of Colombo, or failing him, one of the Directors of the Company as my/our\* proxy to attend and vote as indicated hereunder for me/us\* and on my/our\* behalf at the Twenty-Second Annual General Meeting of the Company to be held on Friday, 28 March 2014 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

	For	Against
1. To consider and adopt the Annual Report of the Board and the Statements of Accounts for the year ended 31 December 2013 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a dividend as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. L N De S Wijeyeratne, who has been appointed by the Board, since the last Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. L T Samarawickrama, who retires by rotation at the Annual General Meeting a Director.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mr. F Mohideen, who retires by rotation at the Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
6. To authorise the Directors to determine contributions to charities.	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorise the Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, Chartered Accountants, who are deemed to have been reappointed as Auditors in terms of Section 158 of the Companies Act No. 07 of 2007 for the financial year 2014.	<input type="checkbox"/>	<input type="checkbox"/>

(\*\*) The proxy may vote as he thinks fit on any other resolution brought before the Meeting.

As witness my/our\* hands this ..... day of ..... 2014.

Witnesses: .....  
 .....  
 .....  
 .....

.....  
 Signature of Shareholder

Note: \*Please delete the inappropriate words.

1. A proxy need not be a member of the Company.
2. Instructions as to completion appear on the reverse.

## **FORM OF PROXY**

### **INSTRUCTIONS AS TO COMPLETION**

1. To be valid, this Form of Proxy must be deposited at the Registered Office of the Company, No. 400, Deans Road, Colombo 10, Sri Lanka by 3.00 p.m. on Wednesday, 26 March 2014.
2. In perfecting the Form of Proxy, please ensure that all details are legible.
3. If you wish to appoint a person other than the Chairman of the Company (or failing him, one of the Directors) as your proxy, please insert the relevant details at 1 overleaf and initial against this entry.
4. Please indicate with an X in the space provided how your proxy is to vote on each resolution. If no indication is given, the proxy in his discretion will vote as he thinks fit. Please also delete (\*\*) if you do not wish your proxy to vote as he thinks fit on any other resolution brought before the Meeting.
5. In the case of a Company/Corporation, the proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
6. Where the Form of Proxy is signed under a Power of Attorney (POA) which has not been registered with the Company, the original POA together with a photocopy of same or a copy certified by a Notary Public must be lodged with the Company along with the Form of Proxy.

## CORPORATE INFORMATION

### NAME OF COMPANY

Kelani Valley Plantations PLC

### LEGAL FORM

A public limited Company incorporated in Sri Lanka on 18 June 1992

### REGISTRATION NUMBER

PQ 58

### ACCOUNTING YEAR END

31 December

### STOCK EXCHANGE LISTING

The ordinary shares of the Company are listed with the Colombo Stock Exchange of Sri Lanka

### PRINCIPAL LINE OF BUSINESS

Producing and processing of Tea and Rubber

### DIRECTORS

A M Pandithage - Chairman  
J A G Anandarajah\*  
W G R Rajadurai - Managing Director  
G K Seneviratne  
[Alternate Director to A M Pandithage]\*\*  
R Seevaratnam\*\*\*  
F Mohideen  
S Siriwardana  
S C Ganegoda  
L T Samarawickrama  
Dr. K I M Ranasoma  
C V Cabraal  
L N De S Wijeyeratne\*\*\*\*

\* Retired with effect from 31 March 2013

\*\* Retired with effect from 8 April 2013

\*\*\* Resigned with effect from 30 July 2013

\*\*\*\* Appointed with effect from 30 July 2013

### SUBSIDIARIES

Kalupahana Power Company (Pvt) Ltd.  
Kelani Valley Instant Tea (Pvt) Ltd.  
Mabroc Teas (Pvt) Ltd.

### AUDIT COMMITTEE

L N De S Wijeyeratne\* - Chairman  
F Mohideen  
C V Cabraal\*\*  
R Seevaratnam\*\*\*

\* Appointed with effect from 30 July 2013

\*\* Appointed with effect from 5 November 2013

\*\*\* Resigned with effect from 30 July 2013

### MANAGING AGENT

DPL Plantations (Pvt) Ltd.  
400, Deans Road,  
Colombo 10, Sri Lanka

### SECRETARIES

Hayleys Group Services (Pvt) Ltd.  
400, Deans Road  
Colombo 10, Sri Lanka  
Telephone: (94-11) 2627650  
E-mail: info@sec.hayleys.com

Please direct any queries about the administration of shareholding to the Company Secretaries.

### REGISTERED/HEAD OFFICE

400, Deans Road  
Colombo 10, Sri Lanka  
Telephone: (94-11) 2627700, 2686274-5 (2 Lines)  
Fax: (94-11) 2694216  
e-mail: postmaster@kvpl.com  
Website: www.kvpl.com

### BANKERS

Bank of Ceylon  
NDB Bank  
Sampath Bank  
Seylan Bank  
Hatton National Bank  
DFCC Bank  
CitiBank  
People's Bank

### AUDITORS

Ernst & Young  
Chartered Accountants  
No. 201, De Saram Place,  
Colombo - 10, Sri Lanka



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## This Annual Report is Carbon Neutral

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## This is an Integrated Annual Report

This Kelani Valley Plantations PLC annual report has been prepared using the Smart Integrated Reporting Methodology™ of Smart Media The Annual Report Company.



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Kelani Valley Plantations PLC  
No. 400, Deans Road, Colombo 10, Sri Lanka  
[www.kvpl.com](http://www.kvpl.com)

