Kelani Valley Plantations®

Growth Beyond Measure

Kelani Valley Plantations PLC

Annual Report 2017/18

In being one with nature, the essential resource from which we create our products, we extend our dedication to sustainability by incorporating tea waste, which would otherwise be discarded, in the creation of the cover.

Like a branch offshoots to create more foliage, shade and fruit in the grand scheme of growth, we too are currently in the process of putting out tender shoots that will grow into fruitful ventures. Some of these shoots have already borne the results that we have sought and others are ensuring that are our brand has entered the foray amongst other competitors.

As we embark on a new year that will see us take new journeys along with the challenges and opportunities they present, we are enthused about the quality, efficiency and innovation we will bring to every venture that we undertake. ***Celebrating growth beyond measure,*** *we eagerly set forth to establish our quality and result-oriented outlook in everything that we do.*

Contents

This Annual report has been structured as depicted below into eight sections, namely Corporate Overview, Highlights for 2017/18, Strategy and Focus, Business Reviews, Capital Management Reports, Governance and Risk, Financial Reports followed by Annexures.

Corporate Overview

Report Profile 03
Revenue Distribution Local & Global 04
Our Land 06
Our Spread 07
Corporate Profile 08
Milestones 10
Board of Directors 12
Corporate Management Profile 16

Highlights for 2017/18

Financial Highlights 22
Non Financial Highlights 24
Awards and Accolades 26
Chairman's Message 28
Managing Director's Message 32

Strategy and Focus

Stakeholder Engagement 38
Materiality Assessment 42
Creating Value for our Stakeholders 50

Business Reviews

Sector Reviews 55

Capital Management Reports

Financial Capital 66
Statement of Value Addition and Distribution - 2017/18 82
Manufactured Capital 83
Intellectual Capital 88
Human Capital 90
Social and Relationship Capital 103
Natural Capital 110

Governance and Risk

GRI Index Table 123
Corporate Governance 130
Risk Management 170
Annual Report of the Board of Directors on the Affairs of the Company 183
Directors' Statement on Internal Controls 188

Financial Reports

Financial Calender 189
Statement of Directors' Responsibilities 190
Audit Committee Report 191
Related Party Transactions Review Committee Report 193
Managing Director's and Chief Financial Officer's Responsibility Statement 194
Independent Auditors' Report 195
Statement of Profit or Loss 198
Statement of Comprehensive Income 199
Statement of Financial Position 200
Statement of Changes in Equity 202
Statement of Cash Flows 204
Notes to the Financial Statements 206

Annexures

Ten Year Summary 272
Investor Information 274
Environmental Calculations 276
Glossary 277
Notice of Meeting 282
Form of Proxy 283
Notes 285
Corporate Information 288

Report Profile

GRI 102-10,50,51,52,53,54

This is Kelani Valley Plantations PLC's (KVPL) 05th Integrated Annual Report and has been prepared in order to provide all stakeholders with a balanced assessment of the Company's ability to create and sustain value in the short-, medium- and long-term.

SCOPE AND BOUNDARY

This Integrated Annual Report provides an accurate and balanced review of KVPL's economic, social and environmental performance within the context of its strategy and risks and opportunities and long term prospects.

The report covers the operations of KVPL and its subsidiaries for the period 1 April 2017 to 31 March 2018 and where relevant is supported by comparable data relating to the previous year.

The information on Social Responsibility has been obtained from data maintained on "A Home For Every Plantation Worker" Programme.

This Report covers its companies and Subsidiaries.

There has been no significant change to the scope and boundary of the report compared to the previous year. Further, this report does not contain any restatements of information provided in previous reports.

MATERIALITY

The principle of materiality has been applied to determine the content of this report. Material matters are defined as those aspects that have the potential to crucially affect the Company's ability to create and sustain value over the short-, medium- and long-term. These aspects are assessed within the context of the KVPL's strategies; environmental influences and the key risks and opportunities that affect the Company's ability to create sustainable value.

ASSURANCE

The content included in this Integrated Report has been approved by the respective business heads and reviewed by the audit committee prior to submission to the Board of Directors for approval.

In addition, Messrs. Ernst & Young Colombo have issued an independent report on Financial Statements and Messrs. Climate SI have provided an independent assurance statement on the Company's Total Carbon Foot Print.

BOARD RESPONSIBILITY STATEMENT

The Board believes that the Integrated Annual Report has been prepared in accordance with best practices, appropriately addresses material aspects of KVPL's business and is a fair representation of the integrated performance of the Company. The Board unanimously approved the 2017/18 Integrated Annual Report on 09 May 2018, for release to shareholders.

09 May 2018
Managing Director – On behalf of Board of Directors

FORWARD-LOOKING STATEMENTS

This report may contain certain forward-looking statements with respect to KVPL's financial position, results, operations and businesses. These statements and forecasts involve risk and uncertainty as they relate to events and depend on circumstances that occur in the future. There are various factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. As such, the Company does not undertake to review or revise such forward-looking statements.

REPORTING STANDARDS/ GUIDELINES/ FRAMEWORKS

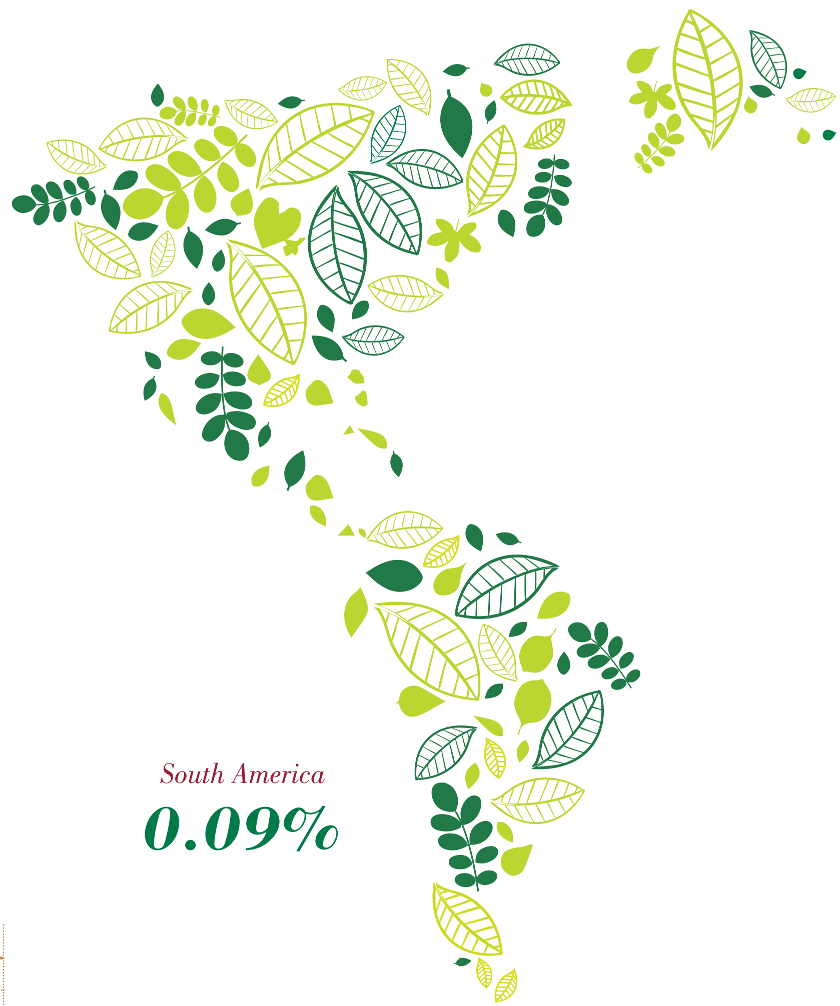
- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka;
- Companies Act No. 07 of 2007;
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
- Listing Rules of the Colombo Stock Exchange;
- Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka
- Code of Best Practices on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka.
- International Integrated Reporting Council's (IIRC) "Six Capitals" Integrated Reporting <IR> Framework
- GRI Reporting Standards
- UN Sustainability Development Goals (SDG's)
- United Nations Global Compact Principles

INQUIRIES AND FEEDBACK

We will be pleased to answer any questions and provide any clarification on this report. Your contact point at KVPL would be; postmaster@kvpl.com.

Revenue Distribution Local & Global

GRI 102-04



North America

0.21%

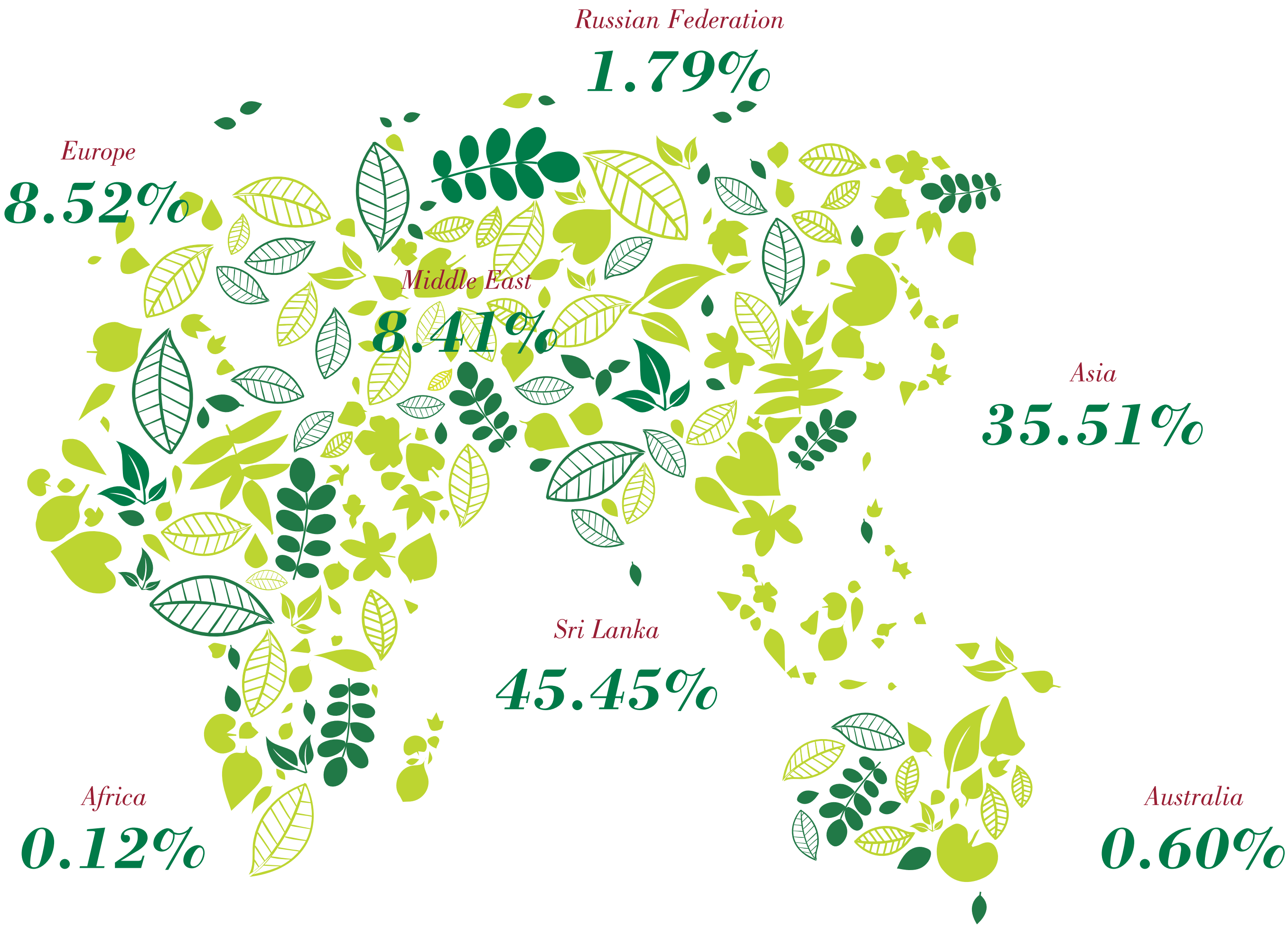
South America

0.09%

Continent	Percentage
America	0.30%
Europe	8.52%
Middle East	8.41%
Africa	0.12%
Asia	35.51%
Russian Federation	1.79%
Australia	0.60%
Total Foreign Revenue	**55%**
Total Local Revenue	45%
Total Revenue	**100%**

Rs. 4.39 Billion

Tea Export Revenue.



Rs. 336 Million

Rubber Export Revenue.

Our Land

GRI 102-06

Estate	Extent (Ha)					No. of Factory	Elevation (ft)	Crop	
	Tea	Rubber	Other crop	Other	Total			Kgs'000 Tea	Kgs'000 Rubber
1) Pedro	544	-	-	124	668	1	6,237	555	-
2) Nuwara Eliya	185	-	-	62	247	1	5,999	310	-
3) Glassaugh	162	-	-	66	228	1	5,074	184	-
4) Uda Radella	157	-	-	68	225	1	5,328	184	-
5) Edinburgh	148	-	-	31	179	1	5,075	132	-
6) Oliphant	232	-	-	132	364	1	6,440	121	-
7) Ingestre	525	-	-	305	830	2	4,723	696	-
8) Fordyce	231	-	-	172	403	1	4,599	279	-
9) Annfield	222	-	-	153	375	1	4,297	303	-
10) Tillyrie	191	-	-	143	334	1	4,264	199	-
11) Invery	124	-	-	182	306	1	4,310	195	-
12) Robgill	182	-	-	118	300	1	4,500	249	-
13) Battalgalla	141	5	-	115	261	1	4,300	195	-
14) Halgolla	241	-	-	955	1,196	1	3,478	309	-
15) Ederapolla	19	431	12	205	667	1	338	22	275
16) Kitulgala	45	-	77	460	582	-	1,003	54	-
17) Kalupahana	64	158	3	287	512	-	1,500	69	125
18) Kelani	27	217	8	97	349	1	300	38	141
19) Dewalakande	-	530	4	183	717	2	502	-	329
20) Panawatte	11	710	2	307	1,030	1	1,000	12	415
21) Urumiwella	3	523	2	194	722	1	800	8	295
22) Kiriporuwa	23	397	-	167	587	2	805	24	248
23) Lavant	-	415	14	140	569	1	800	-	259
24) Ganapalla	-	371	27	92	490	-	1,000	-	148
25) We Oya/Polatagama	24	744	-	219	987	-	1,000	16	503
Total	3,501	4,501	149	4,977	13,128	24		4,154	2,738

13,128 Ha

Total Hectares Managed

27%

3,501Ha

Tea

34%

4,501Ha

Rubber

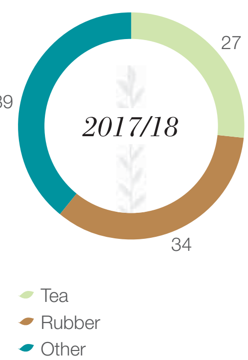
39%

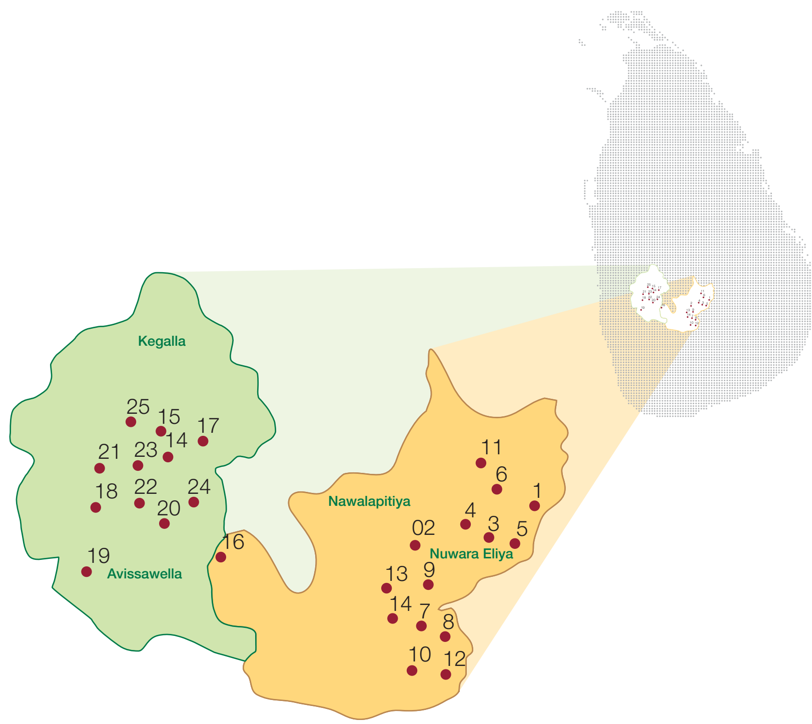
5,126Ha

Other

Our Spread

Distribution of Land
%





6,468 Ha
Mature

52%	42%	6%
3,336 Ha	2,701Ha	431 Ha
Tea	Rubber	Other

2,267 Ha
Immature

8%	79%	13%
165Ha	1,800 Ha	306 Ha
Tea	Rubber	Other

Corporate Profile

GRI 102-02,15

Established in 1992, Kelani Valley Plantations PLC (KVPL) was listed on the main board of the Colombo Stock exchange in 1996.

Celebrating its 25th year in 2017, KVPL today is among the leading manufacturers of Tea and Rubber. The Company owns and manages 25 estates covering over 13,000 hectares of Tea and Rubber plantations. More recently the Company has invested heavily to increase its footprint through the cultivation of cinnamon on a commercial scale, a strategy that has met with considerable success.

KVPL owns and operates 11 ISO 22000; 2005 Certified factories, which manufacture the highest-quality Pure Ceylon Tea for the global market. In addition, the Company's Glassaugh factory produces green Tea also for the export market, while KVPL's Nuwara Eliya factory specialises in the production of instant Tea for the local market and Hayleys Global Beverages (Pvt) Ltd. The state of the art Tea extract plant in Hatton caters to the international market. KVPL's two Tea centres – the Pedro Estate Ethical Tea Boutique in Nuwara Eliya as well as the newly-launched "Tea Train" at Edinburgh Estate in Nanuoya, add considerable brand value to KVPL's credentials as a leading Tea manufacturer in the country.

Reinforcing the commitment to be a world-class Tea manufacturer, KVPL has adopted the internationally-accepted best practices including Global Gap framework, RA/UTZ standards and ETP guidelines, in addition to the UNGC mandate for sustainable development, in order to drive excellence across all aspects of the business.

KVPL is also one of the leading RA–FSC Certified Rubber producers in Sri Lanka. The Company's two factories in Yatiyantota and Dehiowita produce sole crepe, centrifuge latex and crepe Rubber used mainly as raw material in the manufacture of Rubber gloves and for the pharmaceutical and shoe industries.

In addition to its core business in the manufacture of Tea and Rubber, the Company has been steadily diversifying into other complementary business models, including marketing of value-added and specialty Teas via Mabroc Teas (Pvt) Ltd., acquired in 2010, and in hydro power by way of Kalupahana Power Company (Pvt) Ltd., established in 2003 .

The most recent addition to KVPL's portfolio of businesses is Kelani Valley Resorts (Pvt) Ltd. (KVR), which was formed in 2016 to mark KVPL's entry into the leisure sector in Sri Lanka. The Oliphant Estate Bungalow in Nuwara Eliya was renovated into a luxury boutique hotel and brought under KVR. The Oliphant Boutique Bungalow is situated 7,600 feet above sea level and located in the picturesque Nuwara Eliya region, in Shanthipura, a village that sits at the highest elevation in the island. Surrounded by the lush Tea plantations of the Oliphant estate, the bungalow offers visitors a unique value proposition by way of a truly colonial experience amidst breathtaking vistas of lush greenery.

Vision

"Kelani Valley Plantations- products of excellence"

Read this Report Online
www.kvpl.com

Mission

To optimize 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.

Values

We strive to do our best for our stakeholders in the following ways:

Our Customers:

We provide consistently good quality products and excellent service at competitive prices, whilst ensuring continuity of supplies. We are conscious of customer requirements and ever-changing market trends and orient our production to suit specific needs.

Our Employees:

We care for our employees and create a favourable environment for their participation in managing our affairs, thereby increasing productivity. We develop and create individuals who feel contended and secure in their jobs. We recognise merit.

Our Suppliers:

We establish mutually-beneficial relationships with our suppliers based on trust, quality and reliability. We treat them as we wish to be treated ourselves.

Our Owners:

We enhance the reputation of the company by conforming to high levels of conduct. We generate adequate return and ensure security of their investments by maintaining high-viability, long-term stability.

Our Competitors:

We view our competitors as a source of inspiration for our own advancement. We are conscious of their strengths and weaknesses and compete for market superiority without resorting to unethical practices while maintaining close cooperation on common issues.

Our Country and the World:

We conduct our business in a socially-responsible and ethical manner. We are aware of the changing environment and contribute towards enhancing the quality of life for a better Sri Lanka and a better world.

Milestones

1992

Incorporated as a Regional Plantation Company fully owned by the Government of Sri Lanka and managed by DPL Plantations (Pvt) Ltd.

1995

DPL Plantations (Pvt) Ltd. acquired the controlling interest

1996

In January, KVPL listed in CSE and issued 20 m ordinary shares each at Rs.10 and 14 m redeemable debentures at Rs.10/-

FSC certification for Rubber

1998

Debentures were converted to 14 m additional shares

2000

Implementation of mini hydropower scheme at Battalgalla estate

2001

Expanded the Centrifuged Latex Project at Kiriporuwa estate

2003

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 operations of Kalupahana Power Company (Pvt) Ltd.

2006
UN Global Compact Signatory with Mabroc and KVPL

2007
Commencement of instant Tea at Nuwara Eliya estate

ISO 22000:2005, HACCP & TASL-SGS Certification for 13 black Tea processing centres

2008
Global G.A.P. Certification

Black Tea factory at Glassaugh converted to green Tea

2009
Dewalakanda and Panawatta Sole Crepe - Certified for FSC

2010
Acquired balance 60% of Mabroc Teas (Pvt) Ltd.

2011
Rainforest Alliance certification

2013
Acquired balance 5% of Kelani Valley Instant Tea (Pvt) Ltd.

2014
Incorporation of Hayleys Global Beverages (Pvt) Limited and invested on 51% ownership of shares

2015
Ownership of HGBL reduced to 40% from 51% with effect from 31 March 2016 due to new allotment of shares

2016
Celebration of 25 years in the plantation industry, excellence in Tea and Rubber plantations

2017
Incorporation of fully-owned subsidiary Kelani Valley Resorts (Pvt) Ltd.

Highest ever recognition of National Business Excellence Awards 2017 by winning the overall Excellence Bronze Award with six Gold Awards and two Silver Awards

Board of Directors


06
07
08
09

Board of Directors Contd.

01. A M Pandithage
Chairman/Executive Director

Chairman and Chief Executive of Hayleys PLC. Appointed to the Board of Kelani Valley Plantations PLC in July 2009. Fellow of the Chartered Institute of Logistics and Transport (UK). Honorary Consul of United Mexican States (Mexico) to Sri Lanka. Committee Member of the Ceylon Chamber of Commerce. Council Member of the Employers' Federation of Ceylon. Member of the Advisory Council of the Ceylon Association of Ships' Agents.

02. Roshan Rajadurai
Managing Director/Executive Director

Managing Director of Kelani Valley Plantations PLC, Talawakelle Tea Estates PLC from January 2013, a member of the Hayleys Group Management Committee and Managing Director of Horana Plantations PLC. Prior to rejoining, served as Director/CEO of Kahawatta Plantations PLC and held senior plantation management positions in Kelani Valley Plantations PLC from 1993 to 2001. Holds a BSc. in Plantation Management and holds an MBA from Post Graduate Institute of Agriculture, Peradeniya. Fellow Member of National Institute of Plantation Management (NIPM), Institute of Management of Sri Lanka (IMSL) and Institute of Certified Professional Managers (CPM). He was the Chairman of the Planters' Association of Ceylon. Member of the Sri Lanka Tea Board, Rubber Research Board, Tea Council of Sri Lanka and Director Tea Small Holdings Development Authority. He is the Chairman of the Consultative Committee on Estate and Advisory Services, Experiment and Extension Forum of the Tea Research Institute and is a Member of the Consultative Committee on Research of the TRI. He is also a member of the Standing Committee on Agriculture, Veterinary and Animal Sciences of the University Grant Commission as well as a Member of the Arbitration and Mediation Steering Committee of the Chamber of Commerce.

03. S Siriwardana
Chief Executive Officer/Executive Director

Joined Kelani Valley Plantations PLC in 1995. Appointed to the Board in June 2009. Appointed as Chief Executive Officer in April 2016. Fellow, 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. Held senior management positions in many private sector organisations.

04. 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.

05. S C Ganegoda
Non-Executive Director

Director of Kelani Valley Plantations PLC since September 2009. Joined Hayleys in March 2007 and was appointed to the Hayleys Group Management Committee in July 2007. Appointed to the Hayleys Board in September 2009. Fellow of the Institute of Chartered Accountants of Sri Lanka and a Member of the Institute of Management Accountants of Australia. Holds a MBA from the Postgraduate Institute of Management, University of Sri Jayawardenepura. Worked for the Hayleys Group between 1987 and 2002. Subsequently he held several senior management positions in large private sector entities in Sri Lanka and overseas. Has responsibility for the Strategic Business Development unit of the Hayleys Group and the Fentons Group.

06. L T Samarawickrama

Non-Executive Director

Director of Kelani Valley Plantations PLC since November 2009. 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. The first Sri Lankan manager to be appointed by the Beaufort International Chain of Hotels to run the first seaside boutique resort. A member of the Institute of Hospitality, UK (formerly HCIMA) and of the Royal Society of Health, London. He has many years of experience in the trade, having specialised in hotel designs and development, has been responsible for the careful planning and execution of Amaya Resorts Spas refurbishment and rehabilitation programs. An Executive Director of Hayleys PLC and the Managing Director of Amaya Leisure PLC, Hunas Falls, Sun Tan Beach Resorts, Luxury Resorts Maldives, Hayleys Tours (Pvt) Ltd., a Director of Royal Ceramics Lanka PLC, Royal Porcelain (Private) Limited, Royal Ceramics Distributors (Pvt) Ltd., Rocell Bathware Limited, Culture Club Resorts (Pvt) Ltd. and Deputy Chairman of The Fortress Resorts PLC.

07. 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 First Class Honours Degree in Engineering from the University of Peradeniya, Sri Lanka, a Doctorate from Cambridge University, UK and an MBA with Distinction from Wales University, UK.

08. C V Cabraal

Independent Non-Executive Director

Appointed to the Board in January 2013. A Graduate (with Honours) in Mechanical Engineering (BSc.) with a focus in manufacturing and design from the Missouri University of Science and Technology. He is currently working for CHEC Port City Colombo (Pvt) Ltd. in the Property Development Department. Worked at Brandix Lanka (Pvt) Ltd. as a Sustainability Engineer (2011-2014) in the Energy and Environment Department. Started his career in 2010 as a Management Trainee at John Keells Hotel Management Services. The co-owner and co-founder of Royal Orchids (Pvt) Ltd. which owns and operates a floriculture farm. Serves on the Boards of Vallibel Power Erathna PLC and The Fortress Resort and Spa PLC.

09. 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 35 years of experience in finance and general management both in Sri Lanka and overseas. Former Group Finance Director of Richard Pieris PLC and also held senior management positions at Aitken Spence & Company, Brooke Bonds Ceylon and Zambia Consolidated Copper Mines Limited. 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. An Independent Director of several listed and unlisted companies.

Corporate Management Profile

BOARD OF DIRECTORS

Kelani Valley Plantations PLC
Tea and Rubber plantations
Incorporated in 1992 in Sri Lanka
Stated capital – Rs. 340 m

Directors:
A M Pandithage - Chairman
Roshan Rajadurai - Managing Director
S Siriwardana - Chief Executive Officer
F Mohideen
S C Ganegoda
L T Samarawickrama
Dr. K I M Ranasoma
C V Cabraal
L N De S Wijeyeratne

DPL Plantations (Pvt) Ltd.
Plantation Management, Managing Agent
Incorporated in 1992 in Sri Lanka
Stated capital – Rs. 350 m

Directors:
A M Pandithage - Chairman
Roshan Rajadurai
S Siriwardana
S C Ganegoda
Dr. K I M Ranasoma

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
Roshan Rajadurai
M F M Ismail
L G Perera

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
Roshan Rajadurai

Mabroc Teas (Pvt) Ltd.
Exports bulk and 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
N R Ranatunga - Managing Director
R M Hanwella
Roshan Rajadurai
Dr. K I M Ranasoma
M R Zaheed (Resigned w.e.f. 31-03-2018)
R S Samarasinghe (Appointed w.e.f. 01-04-2017)
S C Ganegoda (Appointed w.e.f. 01-04-2018)

Kelani Valley Resorts (Pvt) Ltd.
Operates Boutique Bungalow
Incorporated in 2017 in Sri Lanka
Stated capital – Rs.10, Group interest – 100%

Directors
A M Pandithage
Roshan Rajadurai
S Siriwardana
L T Samarawickrama

MANAGEMENT TEAM

Kelani Valley Plantations PLC

Board Directors:
A M Pandithage - Chairman
Roshan Rajadurai - Managing Director
S Siriwardana - Chief Executive Officer

Operational Directors:
Y U S Premathilake - Plantations (Rubber)
A Weerakoon - Plantations (Tea)
J A Rodrigo - Corporate Affairs

General Managers:
N A A K Nissanka - Finance
K C de J Seneviratne - Regional Administration
R D G Fernando - Rubber Marketing and Administration

Regional General Managers:
B C Gunasekera - Panawatte/(Rubber Group I)
S F Fernando - Dewalakanda/(Rubber Group II)

Deputy General Managers:
D I Gallearachchi - Robgill
A P Senanayake - Pedro
A T Gamage - Human Resources and Corporate Sustainability
C B Dharmakirthy - Halgolla

Group Managers:
D E P K Welikala - Kelani
U K Tennakoon - Edinburgh
R C V V Ramanathan - Ingestre

Senior Managers:
R L Obeysekara - Kiriporuwa
W P S B Abeywardena - Ederapola

Managers:
N D Amaratunga - Marketing
W L P S Wijesinghe - Information Technology
C D Ikiriwatte - Business Development
K A R Alles - Corporate Affairs
S Ram - Human Development
B Balamurali - Sustainability and resource Development

Estate Managers:

Up Country (Nuwara Eliya and Hatton Group)
Y A Hettiarachchi - Oliphant
A M C B Attanayake - Invery
W W Wijekoon - Uda Radella
L G Keragala - Tillyrie
M K D Priyantha - Annfield
A A Harridge * - Battalgalla
D M K C B Dhanapala * - N'Eliya
A R C Gnanasekeram * - Fordyce
H A N B Madushan ** - Glassaugh

Low Country (Tea and Rubber Group)
D W M M R B Madawala - Urumiwela
R M R Y B Ratnayake - We Oya
P K A H Thilakaratna - Lavant
R M Vithanawasam - Kalupahana
G U Premarathne * - Kitulgala
W A K Chandana * - Centrifuged Factory
R M U S Jayasundara ** - Ganapalla

** Acting Estate Manager*
*** Deputy Manager in charge*

Mabroc Teas (Pvt) Ltd.

Directors:
N R Ranatunga - Managing Director
R M Hanwella - Operations
R S Samarasinghe

General Managers:
S C Hikkaduwage - Finance
U A De Silva Kulasiri - Marketing Local Sales
T M L J Peris - Marketing

Managers:
K L D C Niroshini - Finance
H M S Wijerathne - Information Technology
E F W Samaraweera - Factory
G A M S Perera - Shipping
V A W Wakista - Tea
S L T Puvimannasinghe - Creative

Corporate Management Profile Contd.

CORPORATE MANAGEMENT TEAM

Back row, left to right:

K A R Alles - *Manager Corporate Affairs*
N D Amaratunga - *Manager Marketing*
Y U S Premathilake - *Director Plantations (Rubber)*
N A A K Nissanka - *GM Finance*
B Balamurali - *Manager Sustainability and Resource Development*
W L P S Wijesinghe - *Manager Information Technology*
C D Ikiriwatte - *Manager Business Development*

Front row, left to right:

Chiran Rajapakse - *Accountant*
A T Gamage - *DGM Human Resources and Corporate Sustainability*
J A Rodrigo - *Director Corporate Affairs*
R D G Fernando - *GM Rubber Marketing and Administration*
A Weerakoon - *Director Plantations (Tea)*
Chandana Senevirathne - *Accountant*

Corporate Overview

UP COUNTRY MANAGERS


K C de J Seneviratne
General Manager - Regional Administration


D I Gallearachchi
Deputy General Managers - Robgill


A P Senanayake
Deputy General Manager - Pedro


U K Tennakoon
Group Manager - Edinburgh


R C V V Ramanathan
Group Manager - Ingestre


A M C B Attanayake
Estate Manager -Invery


Y A Hettiarachchi
Estate Manager - Oliphant


W W Wijekoon
Estate Manager - Uda Radella


L G Keragala
Estate Manager -Tillyrie


M K D Priyantha
Estate Manager - Annfield


S Ram
Manager - Human Development


D M K C B Dhanapala
Acting Estate Manager - Nuwara Eliya


A A Harridge
Acting Estate Manager - Battalgalla


A R C Gnanasekeram
Acting Estate Manager - Fordyce


H A N B Madushan
Deputy Manager in charge - Glassaugh

Corporate Management Profile Contd.

LOW COUNTRY MANAGERS

S F Fernando
Regional General Manager - Dewalakanda / (Rubber Group II)

B C Gunasekera
Regional General Manager - Panawatte / (Rubber Group I)

C B Dharmakirthy
Deputy General Manager - Halgolla

D E P K Welikala
Group Manager - Kelani

R L Obeysekara
Senior Manager - Kiriporuwa

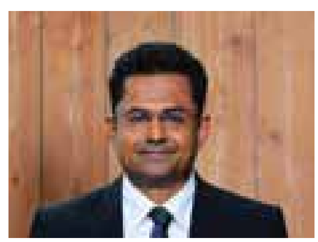
W P S B Abeywardena
Senior Manager - Ederapola

D W M M R B Madawala
Estate Manager - Urumiwela

R M R Y B Ratnayake
Estate Manager - We Oya

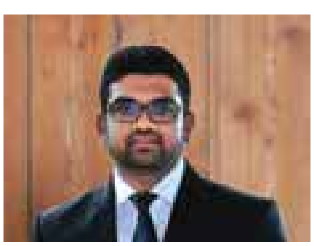
P K A H Thilakaratna
Estate Manager - Lavant

R M Vithanawasam
Estate Manager - Kalupahana



W A K Chandana
Acting Estate Manager - Centrifuged Factory

G U Premarathne
Acting Estate Manager - Kitulgala



R M U S Jayasundara
Deputy Manager in charge - Ganepalla

Planning is
bringing the
future
into the present
so that you can do
something about it
now

- ALAN LAKEIN -

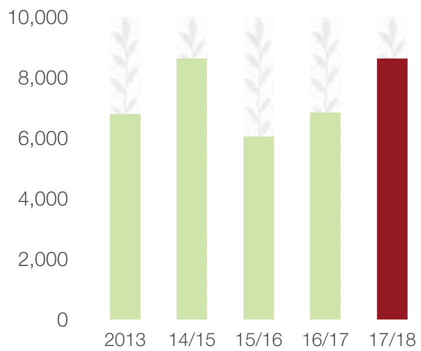
Our tea plantations have truly redefined the quality and taste of the perfect cup here and all over the globe.

Financial Highlights

		Group 2017/18	Group 2016/17	Group % of change	Company 2017/18	Company 2016/17	Company % of change
Earning Highlights and Ratios							
Revenue	Rs.'000	8,642,220	6,852,262	26	4,382,866	3,436,658	28
Result from operating activities	Rs.'000	579,537	246,732	>100	490,137	193,989	>100
Profit before tax	Rs.'000	202,487	12,474	>100	348,248	48,953	>100
Profit/(loss) after tax	Rs.'000	160,422	(15,349)	>100	326,180	38,830	>100
Operating profit margin	%	6.7	3.6	86	11.2	5.6	98
Net profit margin	%	1.9	(0.2)	>100	7.4	1.1	>100
Return on assets (ROA)	%	2.06	(0.21)	>100	4.97	0.63	>100
Return on capital employed (ROCE)	%	7.21	3.41	>100	11.70	4.85	>100
Interest cover	Times	2.23	1.08	>100	3.45	1.34	>100
Financial position Highlights and Ratios							
Shareholders' funds (Equity Holders of the Company)	Rs.'000	3,017,740	2,920,914	3.31	3,121,740	2,851,082	9.49
Gearing (Debt/(Equity+Debt)	%	41	40	1.54	25	29	(11.12)
Working capital	Rs.'000	296,667	167,092	77.55	110,121	(42,419)	>100
Current Ratio	Times	1.15	1.10	4	1.13	0.95	20
Market capitalisation	Rs.'000	2,720,000	2,788,000	(2)	2,720,000	2,788,000	(2)
Capital expenditure	Rs.'000	473,086	499,237	(5.24)	387,574	424,376	(8.67)
Per share (Year End):							
Earnings	RS.	4.56	(0.55)	>100	9.59	1.14	>100
Dividend	RS.	1.00	-	>100	1.00	-	>100
Market value	RS.	80.0	82.00	(2)	80.00	82.00	(2)
Net assets	RS.	88.76	85.91	3	91.82	83.86	9

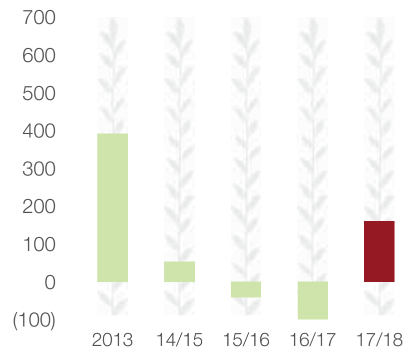
Group Turnover

Rs. m



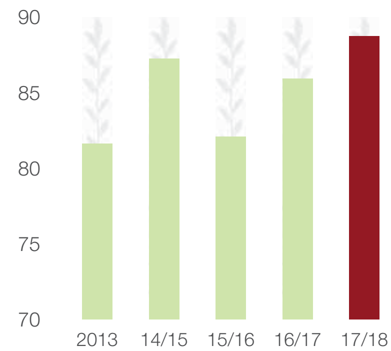
Group Profit After Tax

Rs. m



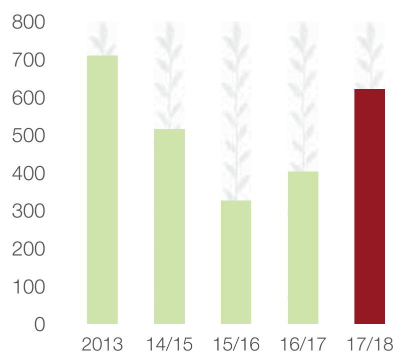
Net Assets per Share

Rs.



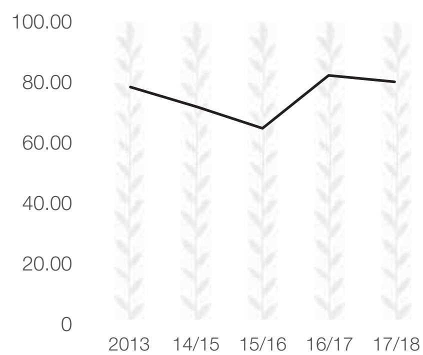
EBITDA

Rs. m



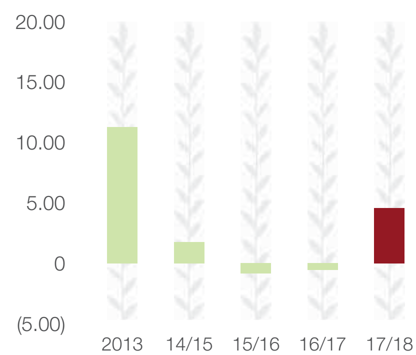
Market Price per Share

Rs.



Earnings per Share

Rs.



Non Financial Highlights

GRI Disclosure		2017-18	Page Reference
Economic Performance			
GRI 201-1	Direct economic value generated and distributed		82
	Employees	78.1%	
	Government of Sri Lanka	6.8%	
	Shareholders	1.0%	
	Lenders of capital	2.9%	
Natural Capital			
GRI 301-1,2,3	Carbon footprint	5,248 Tn	110
	Hydro power generation	10,076,266 Kwh	
	Fuelwood planting	3,100	
	Native and shade tree planting	1,418	
	Insecticide use	zero	
	Fertiliser usage	3,005,209 Kg	
	Water treatment	100,750,540 L	
	Protected areas and areas of high		
	Biodiversity value	1,502.63 Ha	
	Habitat conservation		
GRI 302-4	Reduction of energy consumption		116
	Fuel wood planted	43 Ha acres	
	Rooftop solar system at the Dewalakande factory	18,810 Kwh per Month capacity	
Human Capital			
GRI 401-1	Total new employee hires	1,355	91
GRI 404-1	Outward bound training	1.8 m	94

Our Contribution on

SUSTAINABLE DEVELOPMENT GOALS
17 GOALS TO TRANSFORM OUR WORLD

3 GOOD HEALTH AND WELL-BEING
4 QUALITY EDUCATION
5 GENDER EQUALITY
6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION
14 LIFE BELOW WATER
15 LIFE ON LAND

GRI Disclosure		2017-18	Page Reference
Social Capital			
GRI 413-1, 2	Operations with local community engagement		105, 106
	New housing units built	157	
	Land extent granted as perches	1,722	
	Re-roofing	125	
	Electrification (No. of housing units)	597	
	General rehabilitation	11	
	Access roads (km)	328	
	Water schemes	15	
	New toilets (units)	165	
	Play grounds	6	
	Upgraded staff quarters	14	
	Community centres	3	
	Field rest rooms	17	
	Child development centres	27	
	Dental clinics	15	
	Dengue awareness programmes	51	
	Eye clinics	85	
	AIDS awareness programme	259	
	TB awareness programme	47	
	Cataract removal surgeries	143	
	Logistic support for the patients	20,760	
	No of spectacles	101	
	Street dramas	4	
	Alcohol prevention programmes	77	
	No of individuals who have taken loans	304,363	
	Loan amount (Rs)	92,842,850	
	Deposits accepted (Rs)	21,314,689	
	House hold cash management Programmes	87	
	Training for small business management	110	
	Bridal and beauty care programmes	3	
	Home gardening programmes	98	
	English classes	529	
	Computer classes	388	
	Vocational training-Self employment	27	

Awards and Accolades

Out of eight (8) separate categories of awards, Kelani Valley won Five (5) Gold, Three (3) Silver and altogether Nine (9) awards including the Bronze Award for Overall Excellence. This is the first time a plantation company has won an award under 'Overall Excellence' in the National Business Excellence Awards history and also the highest number of awards won by a single company.

National Business Excellence Awards

Overall Excellence - Bronze

Extra Large Category - Silver
Agriculture & Plantation Sector - Gold
Excellence in Corporate Governance - Gold
Excellence in Corporate Social Responsibility - Gold
Excellence in Performance Management - Gold
Excellence in Local Market Reach - Gold
Excellence in Capacity Building - Silver
Excellence in Environmental Sustainability - Silver

Global HR Excellence Awards 2017

Leading HR Practices in Quality work-Life – Winner

100 Most Influential Global HR Professionals

Award -South Asian Business Excellence Awards 2017

Best HR Practices for organisational development - Winner

South Asian Business Excellence Awards 2017

Outstanding HR Leadership Award - Plantation Industry

Asia Pacific HRM Congress Awards 2017

Organisation with innovative HRM practices - Winner

SLITAD People Development Awards 2017

Sri Lanka Institute of Training & Development (SLITAD) - Gold

Charterd Accountants Annual Report Awards

Silver Award

Chairman's Message

GRI 102-14,56

Dear Shareholder,
I am pleased to present the Annual Report and the Audited Financial Statements of Kelani Valley Plantations PLC for the year ended 31 March 2018.

THE YEAR IN REVIEW

A revival in economic activity was seen across many of the world's economies in 2017. Global trade too strengthened significantly, benefiting from this cyclical recovery, while commodity prices remained stable.

On the local front, Sri Lanka's economy showed, recorded a growth of 3.1%, lowest in the recent years as the country was plagued by drought and floods. The growth of the economy was driven mainly by the service and industry sectors. The country's agricultural base however continues, to be affected by prolonged adverse weather conditions for the second consecutive year. The Rubber industry, which has seen a downturn in fortunes for the past two years, is an example of the severity of the problem.

In contrast, the Tea industry appears to be a beacon of hope for the country's agriculture sector, posting a greatly improved performance in 2017. Despite negative headwinds caused by the weather and other serious challenges facing the industry, including the Glyphosate weedicide ban, Sri Lanka's Tea output increased by 5.17% year-on-year. The global Tea shortage witnessed due to declining production volumes in Kenya and North India was a boon for local industry, which benefitted from strong demand and higher prices throughout the year.

STRATEGY AND FOCUS

Having celebrated the 150th anniversary for the Tea industry in Sri Lanka and 25 years for your own Company in 2017, KVPL remains firmly on track to achieve what we have set out to do; to become the leading plantation Company in Sri Lanka.

In looking to build a competitive edge that will to allow KVPL to take advantage of positive market developments while also providing a buffer during challenging times, we are constantly striving to push the limits and surpass standards of excellence through continuous improvement, exploring new ideas and promoting creative thinking.

Currently our main strategic thrust is centered on migrating to a more agile business framework that would enable the Company to sustainably scale up operations in the long-term and are now focusing our business transformation efforts to enter a new age of efficiency, sustainability and innovation throughout both our Tea and Rubber value chains.

It is of significance to note that many accolades were bestowed on KVPL during the year under review, the high point being winning Five Gold, Three Silver and Wining the overall Bronze at the "National Business Excellence Awards" in 2017 is a direct attribute to the professionalism, talent and skill of our people, who are the value creators of our Group. In turn,

Being an advocate of good agricultural practices, we have begun leveraging technology and precision agriculture solutions to further improve input quality and consistency, while investing to upgrade infrastructure and introduce automation, aimed at enhancing efficiency and productivity ultimately leading to operational excellence.

As part of our strategy to build a sustainable foundation for growth, we have continued our replanting programme, covering over 30% of our Rubber extent. The Company's strategic decision to expedite the Crop Diversification model, has led to a significant increase in Cinnamon cultivation of almost 100 hectares as at 31 March 2018.

The shortage of workers remains a critical challenge that we face in both Tea and Rubber plantations, especially

Chairman's Message Contd.

in recent times where worker migration has increased to urban cities in the country and overseas seeking better prospects. KVPL has already begun taking action to provide a sustainable solution. Spearheading this effort is the revenue-sharing model rolled out as a pilot project in mid-2017 in predominant Tea cultivated estates. Designed along the lines of the Tea smallholder ownership programme, we expect the revenue-sharing model will enable KVPL to secure a firmer commitment from the work force and more importantly prevent worker migration from the plantations in the long term.

PERFORMANCE

KVPL turnover for the year in review increased by 28% over the corresponding year mainly due to the increased Tea production and a high prices for its end product. The net profit after tax increased to Rs. 326 m for the financial year under review.

The Group's turnover for the year under review increased by 26% to Rs. 8.6 b over the previous year and Mabroc Teas our marketing subsidiary, with a turnover of Rs. 4.5 b, being the main contributor.

KVPL Group recorded Rs. 160 m net profit after tax over the financial year under consideration. Mabroc Teas (Pvt) Ltd., recorded yet another good year with the highest export volume on record in its history. With favorable wide spread rain fall received in and around the hydro catchment area of Kalupahana Power Company (Pvt) Ltd., the power generation was higher over the corresponding year, which also contributed positively towards the Groups profitability.

Hayleys Global Beverages (Pvt) Ltd., the state of the art Tea extract plant in Hatton is awaiting approval of our samples with major overseas tea extract buyers to executing commercial orders. We are optimistic that the company would turn around in the near future, as several large B2B players in the tea extract industry have shown interest. Kelani Valley Resorts (Pvt) Ltd., the newest venture of the Group, with its "The Oliphant Boutique Bungalow", commenced operations in December 2017 which is managed by Amaya Leisure PLC has shown potential in its short spell since operation receiving good reviews from the travelers.

Based on your Company's performance for the financial year concluded, the Directors have proposed a final dividend of Rs. 1.00 per share.

AWARDS

It is of significance to note that many accolades were bestowed on KVPL during the year under review, the high point being winning Five Gold, Three Silver and Wining the overall Bronze at the "National Business Excellence Awards" in 2017 is a direct attribute to the professionalism, talent and skill of our people, who are the value creators of our Group. In turn, our Group is committed to supporting and caring for them. It is also a reflection of how the Company safeguards its assets and follow good sustainable agri-business.

Being an advocate of good agricultural practices, we have begun leveraging technology and precision agriculture solutions to further improve input quality and consistency, while investing to upgrade infrastructure and introduce automation, aimed at enhancing efficiency and productivity ultimately leading to operational excellence.

FUTURE PLANS

With the positive outlook for Sri Lanka's economy, I expect the coming year would bring strong growth possibilities for KVPL's Tea and Rubber businesses. While we expect the actions taken in the past and in the current financial year would continue to yield positive results for both segments, we remain committed to further strengthen our foundations in order to tangibly enhance the position of each business in their respective space. It is also envisaged to continue to diversify into other crops and sustainable renewable energy.

APPRECIATIONS

To conclude I would like to thank my colleagues on the Board for their outstanding service and insightfulness with which they have steered the Company over the year. My heartfelt gratitude also goes to the Management team and all employees of KVPL for the commitment and passion they have shown in executing their duties year after year.

I take this opportunity also to thank our shareholders, investors, business partners and all other stakeholders for their continued support. On behalf of the Board, I reiterate the commitment to keep on enhancing the value delivered to all stakeholders in the years ahead.

A M Pandithage
Chairman

09 May 2018

Managing Director's Message

GRI 102-14

Keeping our eyes on the prize

We've made great strides as a company that's keen to shake up the industry

Having emerged from a period of average growth for the past few years, KVPL recorded an impressive performance in the year under review, undoubtedly the result of our responsible, and ethical approach to build resilience across all aspects of the business.

As I reflect over the year, I must admit the journey to get to this point has been both rewarding and challenging at the same time. Throughout the year we looked to consolidate our core competencies and push for a more sustainable operating model that would not only to spearhead growth of the core businesses but also enable us to work from the ground-up to help the country's Tea and Rubber sectors to thrive and grow well into the future.

Taking a holistic approach, we deployed multiple strategies to focus on enhancing not only our financial performance, but also crucially looking at how we can enrich the lives of our people.

KVPL TEA

KVPL's Tea operations performed exceedingly well in the year under review, with revenues reporting a 27% increase from Rs. 6,164 m in the previous year to Rs.7, 540 m for 2017/18. Higher turnover was the result of a 14% increase in the Tea crop together with significantly higher prices at the Colombo Tea auction. Profits also shot up significantly from Rs. 12 m in 2016/17 to Rs. 202 m in the year under review, reflecting over 100% increase year-on-year. I believe these outcomes are the result of systematic and disciplined action to focus on mission critical aspects of the business.

MANAGING PEOPLE

Taking a holistic approach, we deployed multiple strategies to focus on enhancing not only our financial performance, but also crucially looking at how we can enrich the lives of our people. Taking a deliberate decision to build knowledge and skills of our workforce, the investment on training was intensified, with the highest-ever number of managers and executives being sent overseas for industry-specific training activities. In a significant new development, the inaugural KVPL awards night was launched to recognize the achievements of high performers. And to promote engagement between employees and the management we began regularly celebrating various festivals and for the first time held a special religious observant day at each estate to mark the commencement of the New Year on 1st January.

Managing Director's Message Contd.

Considerable time and effort was also put in to address the multi-factorial human issues arising as a result of ongoing ban on the use of Glyphosate. With bush health compromised due to inadequate weed control, manual weeding was initiated at all estates. Encouraging workers to take up manual weeding however proved to be a considerable challenge, understandably due to the high risk of reptiles and leeches breeding within the overgrown weeds. With the manual weeding strategy proving to be ineffective in many ways, we saw a drop in productivity levels, prompting renewed focus on the "Quality Drive" launched in the previous year. Moreover, with low productivity having a negative impact on the earning capacity of the workforce, we invested in strengthening relations to keep motivation levels up. And with worker safety also coming under threat due to the higher exposure to leeches and reptiles during the manual weeding process, we looked to revamp our health and safety protocols and also raise awareness among workforce.

INCREASING PRODUCTIVITY

Further we expedited the roll out of the revenue-share model across all our estates with the intention of stimulating an increase in productivity and ensuring supply chain security. And it is indeed pleasing to see how well this strategy is working. At this point it is worth mentioning that while the national average high-grown Tea crop for 2017 was unchanged from 2016, KVPL reported a commendable 14% increase in the high grown Tea crop, which I believe is largely thanks to the proper application of the revenue-share model. Serving a dual purpose, the revenue-share model is also seen as a sustainable solution to the worker migration issue that has become a serious concern in the plantation sector. Our estates too continue to be plagued by the issue of worker migration. In fact our workforce strength today is only 75% of what it was a decade ago, which illustrates the seriousness of the issue and call for urgent action.

PERFORMANCE MANAGEMENT

We further enhanced the technology used in the digital weighing system to capture the weighing of bought green leaf from small holders. Moving ahead we intend linking the weighing to compute and automate the payment directly to the small holders' banks, enabling them to access their dues. The information derived from daily operations was made available to the managers 'Tabs' for better management by installing an Android Application .

BEST AGRICULTURE PRACTICES

We remained committed to ensure greater sustainability in the long term and continued best agricultural practices in soil and water management by incorporating 300,000 kgs at a cost of Rs. 4.5 m of green matter with bio cha formulated with a nitrogen fixing microbe's specific to tea that would enable the tea to absorb the nutrients better. In similar vein we continued to invest on upkeep of our factory infrastructure and equipment in keeping to our quality and safety standards in compliance with our certification.

We continued our corporate standing of being a preferred tea producer by committing to sustain the certification standards of all our 12 tea processing centres as ISO 22000:2005 food safety management system, and conform to UTZ, Rainforest Alliance and the Ethical Tea Partnership.

COMMUNITY INVESTMENT

I am also happy to report that KVPL made good progress on its community developments efforts operationalized through our flagship community initiative "A Home for every Plantation worker" programme, which also confirms KVPL's alignment to the 10 principles outlined in the UN Global Compact. The programme continues to receive international acclaim and received a considerable boost in the year under review, following the interest shown by the Save the Children Fund to integrate the concept of Mother-and-child-friendly Tea estates into the main programme framework. As part of the first phase of the initiative, the Child Policy was rolled out across all estates, with KVPL making history as the first-ever plantation company anywhere in the world to adopt the policy. Meanwhile working to support the UN women's empowerment goals, we rolled out the PACE programme for all women in the estate workforce.

It is encouraging to note that the success of these initiatives has enabled KVPL to secure assistance from other global organizations to expedite our community development agenda. Notable contributions for the year include, the additional commitment by the "Save the Children fund" under the UNGC - CEO water mandate, to contribute towards improving water and sanitation levels as well as the upliftment of child development centers at estates in the Hatton region. In yet another milestone achievement, KVPL was able to secure the commitment of the World Bank to develop necessary infrastructure to provide purified drinking water to 177 families at the Glassaugh estate and another 540 families at the Edinburgh estate. The project also included the construction of essential sanitation facilities at both Edinburgh and Glassaugh estates.

KVPL RUBBER

The Rubber segment too performed reasonably well in the year under review, despite some notable challenges. The sector came under stress as high prices for Centrifuge Latex in the 3rd and 4th quarters saw local buyers opting to import their requirements at a lower cost. The scenario forced KVPL to shift towards the manufacture of Crepe Rubber in order to utilize latex stocks, which meant the optimum product mix could not be achieved, in turn bringing pressure on margins.

Nonetheless, the segment's revenue was up by 13% to Rs. 1,043 m aided by higher export volumes of made Rubber and increased prices at the Colombo Auctions. Notably, Rubber prices/kg (NSA) of all grades shot up by 22% to Rs. 334/- per made Rubber kg from Rs. 274/-.

I believe our performance for the year under review puts Kelani Valley Plantations PLC on track towards its next big growth phase. We remain optimistic about the future and will look to further consolidate our position and improve yields in both Tea and Rubber segments.

It is encouraging to see that our efforts to grow direct exports have been successful, as evidenced by the growth in volumes of exports over the past few years.

We made progress on many other fronts as well.

REPLANTING PROGRAMME

Our investment in Rubber replanting also continues to bear fruit, as more hectares of the tappable Rubber come into bearing each year. In the year under review, approximately 132 hectares of tappable Rubber came into bearing, With this tried and tested model delivering consistent results, we continued with our Rubber replanting programme, and another 181 hectares of Rubber was planted in the year under review.

We also began to see visibly improved yields as the year progressed, which I credit to success of the early tapper model launched a year ago. We have also introduced a motorised tapping machine as an experiment to ascertain its capabilities, Results show that there is hardly any damages caused to the rubber tree.

Several important steps were taken to build a more sustainable operating framework for the Rubber segment as well, among them the move to expand the Timber Block programme in pursuit of KVPL's timber wood self-sufficiency target set for 2020.

INVESTMENT IN INFRASTRUCTURE

Capital investments in the segment included the commissioning of new effluent plants at Panawatte and Dunedin estate along with investments in solar energy, signaling our intention to migrate to renewable energy sources for business needs in the long term.

KVPL CINNAMON

We increased our investment in Cinnamon cultivation with a total of 43.52 hectares of Cinnamon planted in the year under review. The cultivation of Cinnamon is more a long-term strategy targeting larger extents and adding value to its end products, the results of which would add to our revenues in the years to come.

PERFORMANCE OF SUBSIDIARIES

Mabroc Teas (Pvt) Ltd., performed exceedingly well. The Company reported higher Turnover over the previous year contributed by a larger volume of tea being exported. A significant growth in exports to China has been observed while PBT too

Managing Director's Message Contd.

increased for the period 2017/18. Financial performance appear in page 22 of this report

The performance of Kalupahana Power Company (Pvt) Ltd. (KPC), also showed a strong improvement for the year under review. The Company increased its contribution to the national grid by 55% enabling a 47% increase in turnover to Rs. Rs. 32 m, from Rs. 21 m in the previous year. However KPC's the bottom line took a hit of Rs. 2 m, as a result of the backdated tariff adjustment imposed by the Ceylon Electricity Board in the latter part of the year.

Kelani Valley Resorts (Pvt) Ltd. (KVR) reported revenue of Rs. 6 m and a gross profit of Rs. 4.7 m for the three months ending 31 March 2018. KVR owns the bungalow at "Oliphant Estate" situated in Nuwara Eliya, which was refurbished and launched to the market in October 2017 as a luxury boutique hotel offering a truly colonial experience.

Hayley's Global Beverages (Pvt) Ltd. (HGBL), the state of the art Tea Extract Plant in Hatton has continued its product sampling and testing with many buyers showing interest in these new developments. While no confirmed outcomes have yet materialised, we remain confident that the company would fare well in due course. In the meantime, HGBL's loss amounting to Rs. 213 m for the year under review was absorbed by KVPL.

AWARDS AND RECOGNITION

Our continued commitment to our people and environment was recognised at many forums locally and internationally, key among them, the overall Bronze award at the "National Business Excellence Awards 2017. The awards are elaborated further on page 26.

FUTURE OUTLOOK

I believe our performance for the year under review puts Kelani Valley Plantations PLC on track towards its next big growth phase. We remain optimistic about the future and will look to further consolidate our position and improve yields in both Tea and Rubber segments.

In the Tea segment, the focus would be to expand the revenue-share model, while systematically reorienting its structure in the interest of mutual benefit. I believe the revenue-share model will also play a pivotal role in our efforts to create a new dynamic for the entire Tea industry-where workers are empowered with the right tools to become entrepreneurs in their own right and ease away from their dependency on plantation companies.

In the Rubber segment, we expect replanting to remain a high a priority. Further we will also look to expedite our crop diversification strategies by exploring the possibility of investing in coconut.

The emphasis on workforce development will be another key focus area and our investments in this regard would aim to make plantations a preferred place to work. Energy efficient operations and the adoption of best practices for sustainable agriculture will be given equal importance in KVPL's medium term strategy.

All this is anchored to my vision for the Company–to be the most economically, socially and environmentally sustainable plantation Company in Sri Lanka.

APPRECIATIONS

I take this opportunity to thank all employees of Kelani Valley Plantations PLC, for their passion and commitment towards delivering results year-on-year. I also express my sincere thanks to our Chairman my fellow Directors for their continuous support and invaluable advice at all times, buyers, brokers, suppliers and finally a special word of thanks to our shareholders for the trust and confidence placed in the Company.
I seek your continued patronage in the years ahead as well.

Roshan Rajadurai
Managing Director

Kelani Valley Plantations PLC

Be the change you want to see in the world

- MAHATMA GANDHI -

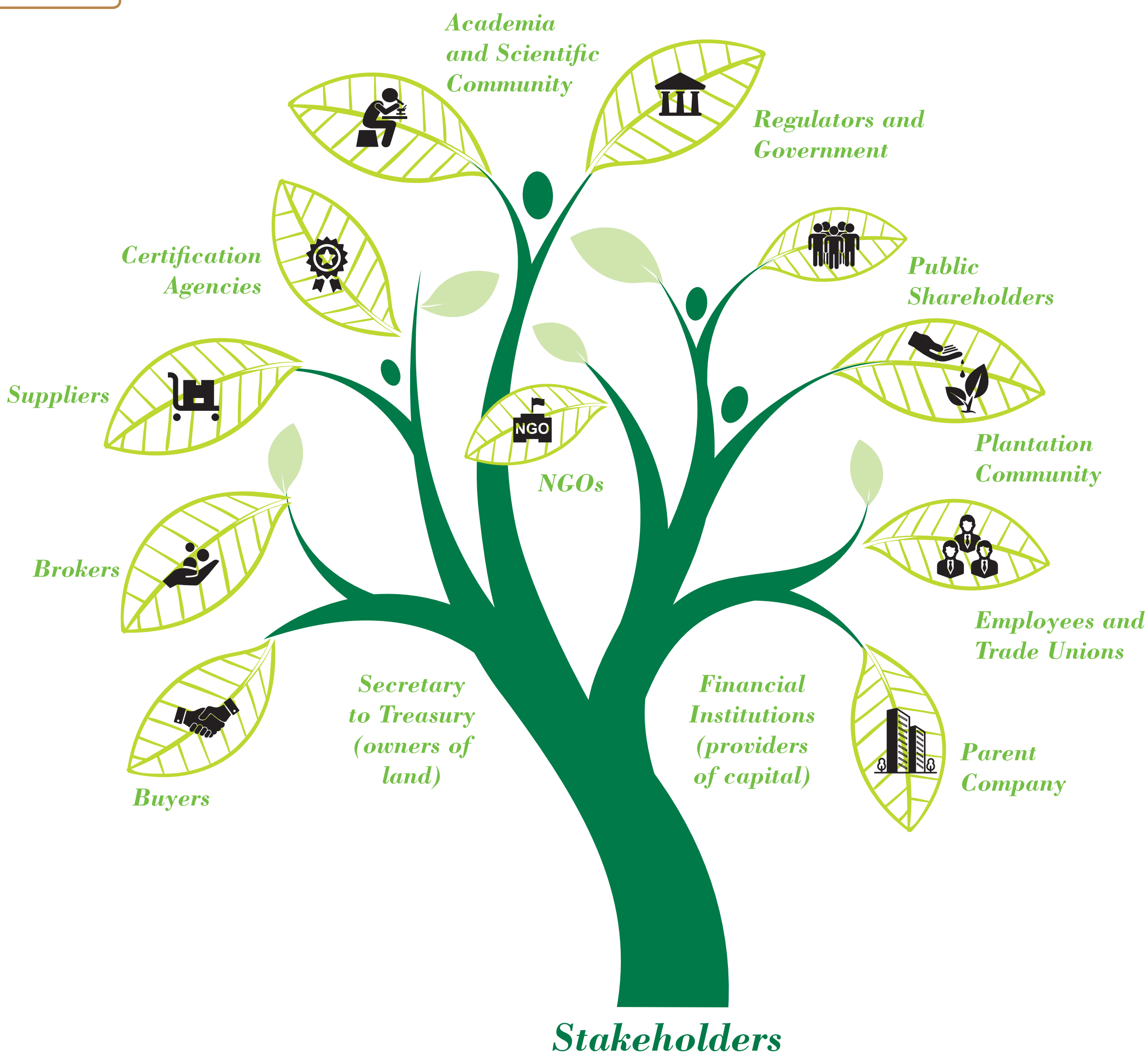
Our cinnamon is truly a Sri Lankan effort, with new ventures sure to add spice to our already-diverse portfolio.

Stakeholder Engagement

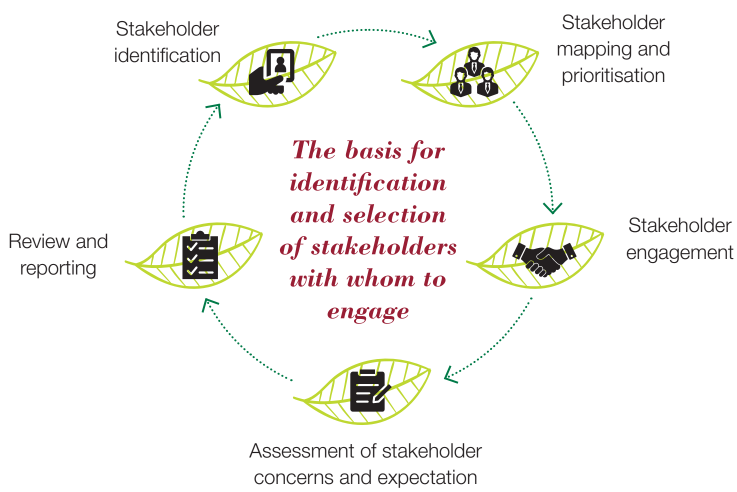
Plantations can no longer choose if they want to engage with stakeholders or not. The only decision we need to take is when and how successfully engage. If corporate responsibility is about minimising negative and maximising positive environmental and social impacts, then stakeholder engagement is one of the core skills and key activities which enable this to operate successfully and effectively.

STAKEHOLDER GROUPS ENGAGED BY THE ORGANISATION

GRI 102-13,40



GRI 102-42



A common stakeholder-mapping tool is used to consider the level of influence of stakeholders and the level of interest they have on the sustainability of our operations. The findings have enabled us to structure our reporting content to focus more on key stakeholders identified as 'high influence – high interest'.

Influence \ Interest	Low	Medium	High
High	• Suppliers	• Plantation community	• Employees and trade unions • Parent Company • Buyers • Brokers • Buyers • Public shareholders
Medium			
Low	• NGOs		• Regulators and Government • Certification agencies • Media • Academia and scientific community

Stakeholder Engagement Contd.

STAKEHOLDER ENGAGEMENT, INCLUDING FREQUENCY OF ENGAGEMENT

GRI 102-43

Focus	*How We Engage*	*Examples*
Shareholders	• Interim financial reports - Quarterly • Annual General Meetings - Annually • Golden Shareholder Meetings - when required • Annual reports - Annually	• Last year we met all our stakeholders at our Parent Company
Employees and trade unions	Our employees are 99% unionised. We engage with employees and unions through: • Performance appraisals - Annual • CEOs Forums - Quarterly • Whistle-Blowing Policy - When required • Monthly management meetings - Monthly • Collective Agreements • Involvement in negotiations - When required • Employee Engagement Survey conducted regularly • Meetings, employee communications, individual development plans, health and safety communications programs, etc.	• Last year we conducted an Employee Engagement Survey • We conducted more training programmes and meetings in the last financial year • A new Collective Agreement signed with trade unions in 2016/17
Buyers	• Annual Customer Satisfaction Measurement Survey • Buyer visits to our estates and factories on request • Participation in trade fairs • Customer complaint handling - When required	• Last year we conducted a Customer Satisfaction Measurement Survey • We responded promptly to all customer inquiries. • No big claims recorded last year
Brokers	• Routine inquiries and communications • Broker visits - On request	• We responded promptly to all inquiries • All product compliance and quality disclosures were made available
Certification agencies	• Routine communications • Period compliance audits - Annual	• Successfully participated in all annual compliance audits

Focus	How We Engage	Examples
Suppliers	Our suppliers include Tea and Rubber small holders and fertiliser suppliers. We engage with them through: • Supplier survey • Supplier audits - As and when required • Real time field visits • Joint value creation initiatives • Routine negotiations	• Smooth relationships were maintained
Regulators and Government	• We engage with them by complying with regulatory requirements • Collaborations, joint value creation initiatives, ongoing dialogue, policy engagement activities	• Complied with all regulations and laws • Obtained all essential certifications and permissions
Plantation community	• Community meetings, partnerships on common issues • Dialogue with community representative groups	• Conducted many community-based programs • Home for Every Plantation Worker project
Academia and scientific community	We regularly collaborate with the Tea Research Institute (TRI), Rubber Research Institute (RRI), the National Institute of Plantation Management (NIPM) and Sri Lankan Universities through: • Knowledge sharing workshops • Internship programmes • Collaborative industry research • New studies on biodiversity were carried out. • GPS mapping • Studies • Research and Development	• Gave opportunities to number of students from local and foreign universities to carry out their research and in plant training academic programs • Partnership with University of Peradeniya and conduct of training for executives • KVPL executives are sent for training to NIPM, TRI and RRI
NGOs	• Collaborations, joint value creation initiatives, ongoing dialogue, policy engagement activities • Partnerships on common issues	• A unique community development programme by KVPL, ‘A Home for Every Plantation Worker’ is driven in collaboration with other resource groups • Initiated “Mother & Child Friendly Estate Project” with Save the Children

Materiality Assessment

SUSTAINABILITY CONTEXT

KVPL's performance standards, which are part of the Sustainability Framework, have become globally recognised as a benchmark for environmental and social risk management in the local plantation sector. Our organisation aligned its focus and goals to the Sustainable Development Goals (SDGs) adopted by the United Nations in year 2015, with the underlying objectives of contributing to sustainable development and work for the betterment of society. For example, the Group adopted the International Sustainability and Carbon Footprint Certification to support the SDGs.

KVPL had adopted a framework on sustainability, referred to Promote Sustainability practices, as organisational winning key sustainability aspects in the production of Tea and Rubber. This framework enables the Company to realise its vision and mission in managing a balanced mix between sustainable growth and the interests of diverse stakeholders on sustainability.

Economic

- KVPL operates on 25 Tea and Rubber estates comprising green latex and leaf operations in low, medium and high grown elevations
- The Company brings economic prosperity to its workforce of over 9,000 people and a dependent population of over 55,000 who are part of the larger resident community at KVPL's estates.

Environmental

- As an agriculture-based operation, environment aspects directly impact the sustainability of the organisation.
- KVPL prospects are impacted by climate change.

Social

- Labour intensive operation
- Maintaining good employee relations is critical to ensure sustainability
- Commitment to uplift the living standards of estate-worker communities

Governance

- Governance in compliance with statutes and regulations
- Complies with regulations and new standards set for the industry
- To ensure greater sustainability, the Company conducts its operations in a responsible manner

MATERIALITY ASSESSMENT PROCESS

GRI 102-46

In the reporting 2017/18 year, KVPL carried out a detailed materiality assessment which assisted in mapping and reprioritising the focus in managing material sustainability matters. KVPL uses a formal materiality process to profile the most significant issues raised by stakeholders of our business. Managing the material economic, environmental and social risks and opportunities is imperative, if stakeholders are to understand and evaluate preformance based on sustainability commitments.

Stage in the process	Identify sustainability topics and indicators	List all relevant topics for KVPL	Determine and prioritise material aspects for reporting	Assessment of significance aspects for stakeholders and KVPL
Objective	Identification of potentially relevant issues for stakeholders and the Company	Analysis of the results of the initiatives to involve stakeholders in order to assess the priority that they assign to the various issues	Analysis of the results of the initiatives to involve stakeholders in order to assess the priority that they assign to the various issues	Segregating material aspects with highest level of significance along with medium low and high in terms of the impact on the organisation and on the external stakeholder
Result	Material topics	Stakeholders Identification Matrix	Focus issues	Materiality Matrix

All the internal and external stakeholders are assessed by evaluating KVPL's value chain, including the supply chain, with all material issues being mapped based on how and where they may impact our value chain.

Materiality Assessment Contd.

STAKEHOLDER IDENTIFICATION

Main stakeholders are identified and evaluated on the basis of their importance to the Company. Consideration is given to the priority they give to various issues in the numerous initiatives in which they are involved. Together, the results represent materiality assessment.

Stakeholder involvement is required to achieve the required goals as stipulated by international standards such as Global Reporting Initiative (GRI); in doing so we have put in place a structure materiality process to plot relevant environmental, economic, social and governance issues of concern.

The findings are used to determine associated risks and opportunities for KVPL's reputation and sustainable operations. The issues are then placed on a Materiality Matrix that displays their position relative to the degree of stakeholder concern and potential business impact. A comprehensive value chain analysis allows for greater precision in the scoring and ranking of our material issues. It also includes a robust assessment of business impact, with greater focus on socially responsible operations and their impact on the business and commercial relevance.

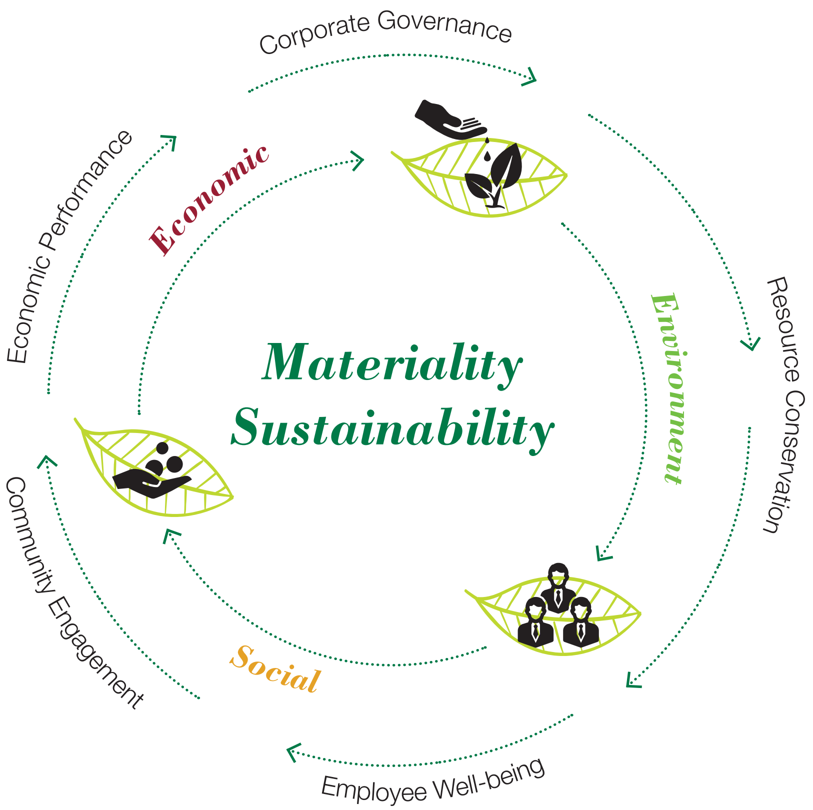
MATERIALITY ASSESSMENT

The materiality assessment mechanism helps to refine existing commitments and identify areas for improvement. Materiality assessment was carried out through various channels, including interviews with the population to sound out ideas on the future reuse of the plant, and a series of meetings with category associations as well as the direct involvement of local institutions in the assessment of the projects. The materiality assessment process also serves as an effective risk control and management information tool that enables the Company to respond effectively to stakeholder needs.

The scope of the analysis covers all operations of KVPL including the 25 Tea and Rubber estates. The analysis also covers the subsidiary operations of the hydropower plants and the strategic ties with the parent, Hayleys PLC, wherever deemed applicable.

THE BUILDING BLOCKS OF MATERIALITY SUSTAINABILITY AT KVPL

GRI 102-47



Materiality Assessment Contd.

MATERIAL TOPICS AND REPORTING

GRI 102-44,103-01

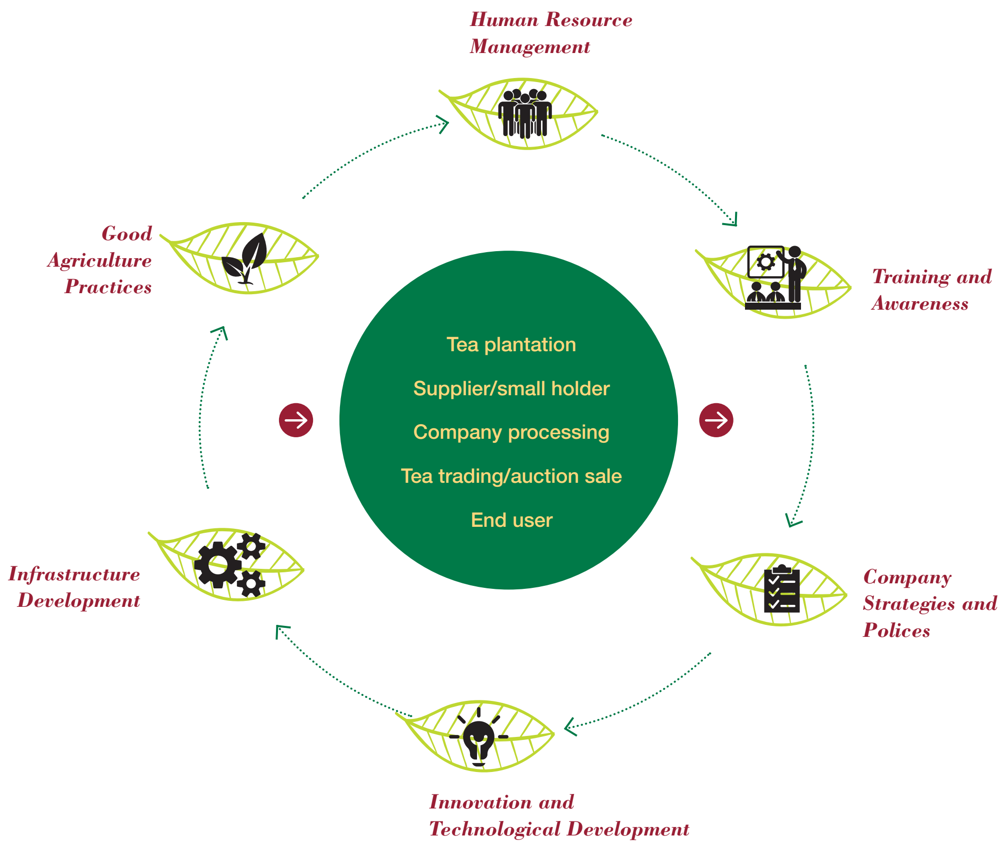
Material aspects/topics	*Scope*	*Why is it material for us?*	*Method of measure and monitor*
Economic performance	• Economic value generated and distributed • Risks and opportunities related to climate change • Sustainable business and client value	Our sustainability philosophy is about making • Our business sustainable • Our clients' businesses sustainable • Our ecosystem and our lifestyles sustainable Economic performance is therefore of prime importance not only for building a sustainable organisation but also for cascading the benefits to our associated stakeholders such as investors, clients, employees, suppliers and the community.	• Our financial performance • Business value added to our clients • Client satisfaction
Corporate governance and compliance	• Compliance with all applicable laws and regulations relating to our business, employees and the supply chain	Our vision is to earn and retain the respect of our stakeholders.	• Number of compliance violations/incidents reported • Training and awareness
Employee well-being	• Employee benefits • Training and education • Diversity and inclusion • Non-discrimination • Work-life balance • Occupational health and safety • Collective Bargaining Agreements	Our employees are our biggest assets. To meet the evolving needs of our clients, our priority is to attract and engage the best talent in the right locations with the right skills. We therefore focus on the overall well- being of our employees, providing them with a fulfilling, lifelong career.	• Employee attrition • Employee engagement • Number of hours of training • Number of programs initiatives rolled out for employee engagement • Number of grievances reported

Material aspects/topics	*Scope*	*Why is it material for us?*	*Method of measure and monitor*
Community engagement	• Direct and indirect investments to society • Impacts of community investments	KVPL has been an early adopter of Corporate Social Responsibility (CSR) initiatives. The Company works primarily towards supporting projects in the areas of eradication of hunger and malnutrition, promoting education, art and culture, healthcare, destitute care and rehabilitation, environmental sustainability, disaster relief and rural development.	• Community investments • Number of community programs/initiatives rolled out
Resource conservation	• Energy • Emissions • Water • Waste and effluents	The environmental and carbon footprint of our organisation is proportional to its energy consumption, which also has a direct bearing on our operational costs, and overall exposure to fluctuations in energy supply and prices. As a responsible organisation, we aim to manage our footprints on emissions, including greenhouse gases. We aim to make our plantations water-sustainable.	• Total water consumption • Total energy consumption • GHG emissions • Waste generated by weight/ volume

Materiality Assessment Contd.

Significance to Stakeholders ↑ / Significance to KVPL →	Low	Medium	High
High	• Water • Grievance mechanisms for impacts on society	• Procurement practices • Materials • Compliance • Transport • Labour/management relations • Diversity and equal opportunity • Equal remuneration for women and men	• Economic performance • Market presence • Legal, environment and society compliance • Forced or compulsory labour • Biodiversity • Energy • Effluent and waste • Child labour • Freedom of association and collective bargaining
Medium	• Emissions • Product and services • Product and service labelling	• Indirect economic impacts • Environmental grievance mechanisms • Supplier assessment for labour practices • Supplier human rights assessment • Human rights grievance mechanisms • Anti-competitive behaviour • Customer privacy	• Investments • Non-discrimination • Security practices • Training and education • Employment • Occupational Health and Safety • Local communities • Anti-corruption
Low	• Supplier assessment for impacts on society • Indigenous rights	• Public policy • Supplier environmental assessment	• Labour practices grievance mechanisms

VALUE CHAIN


Human Resource Management
Training and Awareness
Company Strategies and Polices
Innovation and Technological Development
Infrastructure Development
Good Agriculture Practices
Tea plantation
Supplier/small holder
Company processing
Tea trading/auction sale
End user

GRI 112-11

Creating Value for our Stakeholders

Vision

"Kelani Valley Plantations – products of excellence"

Strategy

Capital

Process

Financial Capital

- Strategic planning
- Financial management
- Risk management
- Corporate governance
- Investment

Natural Capital

- Environment stewardship
- Biodiversity and ecosystem
- Sustainable resources
- Environmental protection (water, soil, energy)

Human Capital

- Dynamic HR framework
- Commitment to UNGC principles
- HR strategic plan
- Succession planning

Social & Relationship Capital

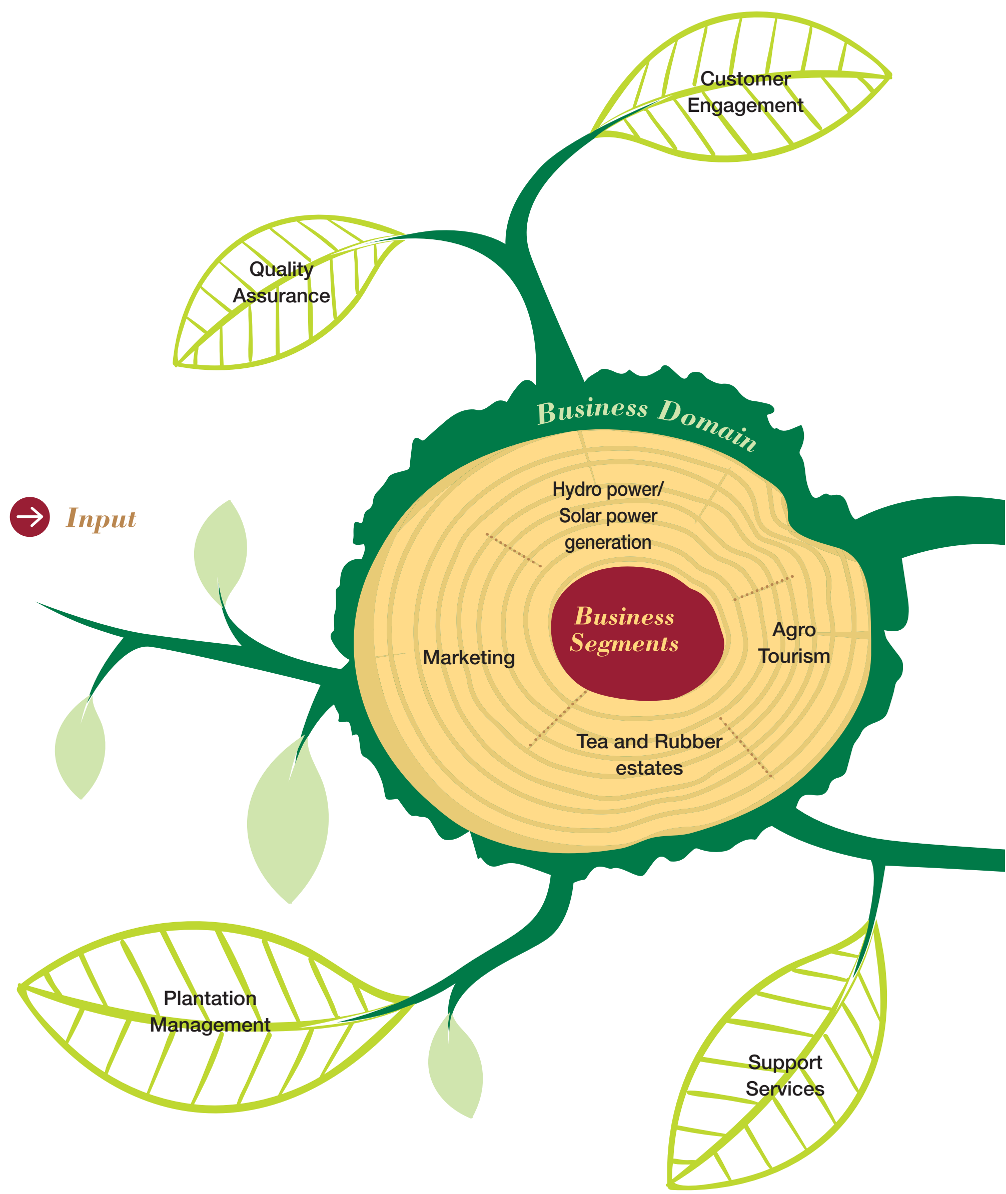
- Community development
- Capacity building
- Stakeholder relationship
- Improving quality of life

Manufactured Capital

- RA, FSC, ISO 22000 Certified processing centres
- Crop diversification
- Hydropower plants
- Product for specific markets

Intellectual Capital

- Product & market research
- Innovation and development
- Customer engagement
- Diversified business



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.

Mission

Value

Financial Capital

- EBITDA as % sales 7.2%
- ROCE 7.21% Capital expenditure Rs. 473 m
- ROA 2.06%

Natural Capital

- International accreditation & certification -RA, FSC, ETP, ISO 22000, GMP
- Rs. 21.2 m spent for solar power project
- Merit Award for Sustainable Forest Management
- Rs. 104 m invested for effluent treatment

Human Capital

- 9,568 head counts were trained
- Developed HR team under human development in each estate
- Strengthening of organisational culture and values
- Gold award at SLITAD People Development Awards

Social & Relationship Capital

- Stakeholder satisfaction and trust
- Health and safety of estate population
- Community development
- CSR through "Home for Every Plantation Worker" & Key Value Drivers
- Gold award for Excellence in CSR at National Business Excellence Awards

Manufactured Capital

- ISO 22000 Certified 11 black Tea factories and one green Tea factory produced 5.1 m Kg Tea
- RA-FSC Certified Rubber factories Produced 2.9 m Kg

Intellectual Capital

- Boutique resort at Oliphant Bungalow
- Direct market initiative to China
- Introduction of fruit flavoured Tea by Mabroc
- Diversification into non-care crops on plantations
- Introduced new Tea packs

Creating Value for our Stakeholders Contd.

GRI 416-01,02

PRODUCT RESPONSIBILITY AND CUSTOMER HEALTH AND SAFETY

All products and processes are fully compliant with ISO 22000:2005 and HACCP certification issued by the Sri Lanka Accreditation Board. Additionally last year all factories received GMP (Good Manufacturing Practices) Certification.

Implementing and maintaining food safety management system (ISO 22000:2005 and HACCP) for all black Tea manufacturing facilities reinforces our commitment towards product responsibility and ensures food safety and quality standards are maintained from end-to-end, covering planting, harvesting, production, processing and dispatch. Tea quality is tested annually for heavy metals, microbiological criteria and agro-chemical residues as per the requirements of ISO 3720 standard.

In the case of Rubber, RA-FSC-COC certified standards are strictly maintained. Thereby it is ensured that high quality products are produced.

UTZ and RA standards further strengthen our alignment with international food safety and quality management systems. In addition, a designated in-house team has been established at each estate, to monitor compliance with quality parameters, with regular internal audits and an external audit conducted annually, to ensure continuous improvements are made.

KVPL CERTIFICATIONS

Food Safety Commitments	ISO 22000:2005	11 Tea Processing Centres are Certified
	HACCP	
	GMP	
Environmental Commitments and Social Commitments	RA	16 Tea Estates are Certified
	ETP	16 Tea Estates are Certified
	UTZ	6 Tea Estates are Certified
	FSC™	10 Rubber Estates are Certified


indexpo
Certificate of Conformity
This is to certify that the
Food Safety Management System
of
PEDRO TEA PROCESSING CENTER, KELANI VALLEY PLANTATIONS PLC
is in compliance with the
requirements of ISO 22000:2005

Our company has obtained ISO 22000:2005 Food Safety Management System Certification from Indexpo Certification Limited, an independent third party certification body accredited by Sri Lanka Accreditation Body (SLAB) and International Accreditation Forum (IAF). IAF is the apex body of all national accreditation boards of all countries in the fields of management systems and World Association of Conformity Assessment Accreditation.


ANNEX TO CERTIFICATE FOR:
KELANI VALLEY PLANTATIONS PLC

CERTIFICATE
for
KELANI VALLEY PLANTATIONS PLC
CERTIFICATE SCOPE

PRODUCT AND SERVICE LABELLING AND COMPLIANCE

GRI 301-03,417-01

KVPL adheres to the labelling requirements specified by the Ceylon Tea Traders Association (CTTA) and Tea Board, which is stencilled onto each package and includes the following;

- Garden Mark
- Invoice No.
- Net weight
- Gross weight
- Serial number of the package
- MF No.
- Grade
- Company name

GRI 417-03,419-01

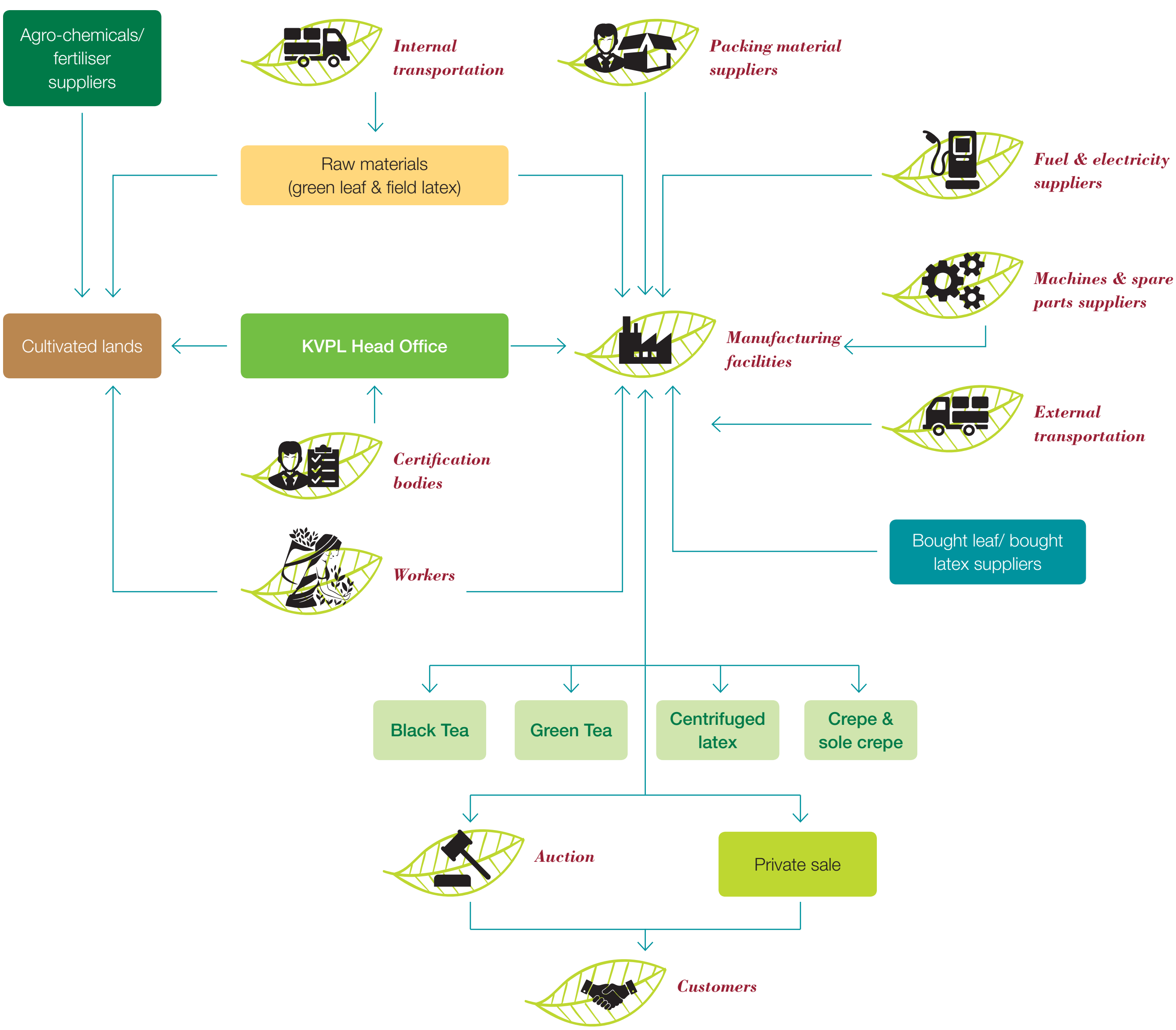
Given the strict compliance framework in place, there were no reported incidents of non-compliances of laws and regulations with regard to labelling of products. Further there were no complaints received on breach of customer privacy.

Creating Value for our Stakeholders Contd.

GRI 102-09

SUPPLY CHAIN

Supply Chain



Sector Reviews

GRI 102-15

Business Review

Tea

EXTERNAL ENVIRONMENT

Global Economy

Source: Global Economic Prospects (January 2018)

The global economy appears to have reached a turning point in 2017. Marking the end of the two year slump in economic activity, the global economy experienced what is believed to be a cyclical recovery in 2017, reflecting a rebound in investment, manufacturing activity, and trade. This improvement comes against the backdrop of benign global financing conditions, generally accommodative policies, rising confidence, and firming commodity prices. According to data released by the Global Economic

Sector Reviews Contd.

Prospects (January 2018) Report, global GDP growth is estimated to have picked up from 2.4% in 2016 to 3% in 2017, indicating it is on a clear path to recovery. A further analysis reveals that advanced economies are estimated to have rebounded strongly, driven by a pickup in capital spending, a turnaround in inventories, and strengthening external demand. Notably, while growth appears to have accelerated in all major economies in 2017, the improvement was markedly stronger than expected in the Euro area.

According to the report, growth among EMDEs (Emerging Market and Developing Economies) in 2017 is estimated to have accelerated at a much faster pace of 4.3%, reflecting firming activity in commodity exporters and continued solid growth in commodity importers, with most EMDE regions seemingly benefiting from a recovery in exports.

Sri Lankan Economy

Source: CBSL

As per official data released by the Department of Census and Statistics (DCS), Sri Lanka's real GDP growth decelerated further during 2017 to 3.1 per cent, from the growth of 4.5 per cent recorded in 2016. Agriculture related activities recorded a contraction of 0.8 per cent against the backdrop of adverse weather conditions that continued from 2016, while a slowdown in economic activity in both the services and industrial sectors was observed.

Industry related activities, accounting for 26.8 per cent of real GDP, grew by 3.9 per cent in 2017. The growth in industrial activities was primarily supported by manufacturing activities, construction activities, and mining and quarrying.

Services activities, which accounted for 56.8 per cent of real GDP, grew by 3.2 per cent in 2017, on a year-on-year basis, driven by the expansion in financial service activities, wholesale and retail trade, and other personal service activities. Both investment and consumption expenditure also contributed to the expansion in economic activities, while net exports continued to weigh down the growth momentum.

Unemployment

The unemployment rate declined to 4.2% during 2017 from 4.4% in 2016. Notably however, although the unemployment rate declined, the total number of unemployed persons increased marginally during the first half of the year with high unemployment seen among youth and educationally qualified.

Inflation

Headline inflation, measured using the National Consumer Price Index as well as the Colombo Consumer Price Index remained high during the first quarter of 2017, impacted by supply side disruptions resulting from adverse weather conditions as well as the effect of upward tax revisions. A moderation in inflation was observed during the second quarter of 2017, underpinned by improvements in supply conditions and the Government's initiatives to import essential food items. However, a reversal of this trend was seen from August 2017 mainly due to a sharp acceleration in volatile food inflation given continued adverse weather conditions. Accordingly, headline inflation increased to 8.6%, year-on-year, in September 2017, mainly reflecting the high food inflation while CCPI based headline inflation also increased to 7.1%, year-on-year.

Interest Rates

The CBSL continued to maintain a tight monetary policy stance in the first nine months of 2017 in view of the developments in inflation as well as monetary and credit aggregates. In response to the monetary policy stance maintained by the Central Bank and the high financing requirement of the Government budget, most market interest rates moved upwards during the first nine months of 2017. Consequently lending rates of commercial banks also increased before finally stabilising at high levels by end September 2017.

External Sector

Reversing the lacklustre performance experienced during the past two years, exports recovered from about March 2017, with the gradual pick up in export earnings helping to contain further expansion of the trade deficit in the first eight months of 2017. The gradual recovery in key export markets, higher commodity prices in international markets, the restoration of the GSP+ concessions from the European Union, conducive external trade policies together with institutional support and a more competitive exchange rate, all contributed towards the increase in export earnings.

Currencies

Improvements in the external sector enabled the CBSL to implement a more market-based exchange rate policy in 2017 and the depreciation pressure on the rupee also eased gradually from May 2017. Meanwhile, thanks to improved investor confidence following the issuance of the ISB, the Government succeeded in securing the third tranche under the IMF-EFF programme. Consequently, the deprecation of the Sri Lankan rupee was contained to a marginal 2.2% against the US dollar for the nine months ending September 2017. However, the Real Effective Exchange Rate (REER) indice, which also takes into account the inflation differential amongst countries in the currency basket, depreciated considerably during the period under review, but remained above the 100 threshold, suggesting the need for further depreciation to reach the level of competitiveness that prevailed in 2010.

GLOBAL TEA INDUSTRY UPDATE

Global Tea Output

By far the strongest increase in output among major Tea producing countries was reported by Sri Lanka, where Tea output grew by 14.5 m kilograms. Production in India was favourable with an 11.47 m kilogram growth for 2017. Other major Tea producing nations such as Kenya, Uganda and Bangladesh reported a lower output in 2017 compared to the previous calendar year. Kenya, impacted by prolonged adverse weather conditions led the decline with a 33.15 m kilogram drop followed by Uganda with a 6.24 m kilogram drop, while in Bangladesh output declined by 6.11 m kilograms.

Lower output in Kenya meant the supply of black Tea in the global market also declined compared to the previous year, despite India, the world's largest producer of black Tea reporting a higher output.

Global Tea Exports

Of the major Tea producing and exporting countries, India led the way with an 8.2% increase in export volumes. Bangladesh also reported an increase in its Tea exports in 2017, despite the low production levels reported for the year, while Kenyan Tea exports declined 13.44%. Sri Lanka's export volumes remained on par with the previous year.

World Crop Statistics in (m/Kgs)

	Month - Dec			Todate			Difference +/-	
	2015	2016	2017	2015	2016	2017	2015 vs 2016	2016 vs 2017
Sri Lanka	23.6	27.1	23.5	328.7	292.5	307.7	(36.2)	15.2
Bangaladesh	4.8	5.2	6.07	66.5	79.39	73.74	12.89	(5.65)
North India	42.7	48.2	53.8	981.1	1,054.5	1,046.4	73.4	(8.1)
South India	14.6	15.8	16.2	227.6	212.9	232.4	(14.7)	19.5
Kenya	46.4	45.1	47.5	399.2	473	439.9	73.8	(33.1)
Malawi		5.6	5.7		43.1	45.6		2.5

(Source - Forbes & Walker Research)

SRI LANKA'S TEA INDUSTRY

Production Output

Sri Lanka's Tea output increased by 5% to 307 m kilograms in 2017 from 292 m kilograms in 2016. Of this, the low grown elevation Teas reported the strongest year-on-year increase of 7%, while medium-grown Teas registered a marginal 2% increase compared to the previous year and high-grown output stayed on par with the previous year. Meanwhile, a category-wise segmentation indicated a moderate 4% growth in orthodox Tea volumes while CTC and Green Tea volumes were significantly higher by 16.6% and 13% respectively compared to the previous year.

Challenges faced by Sri Lanka's Tea Industry

Despite its strong performance, Sri Lanka's Tea industry was plagued by a number of constraints in 2017. Among the most significant challenges facing the local industry was the continuing unfavourable weather, undoubtedly the impact of climate change. Equally critical for the

Sector Reviews Contd.

industry was the inability to source proper weedicides, following the Government ban on 'Glyphosate'; the proven weedicide used by Tea-producing nations around the world. The ban on Glyphosate has prompted growers to apply low and often ineffective fertilisation to their plantations, in turn compromising on the quality of the output, which puts Sri Lanka at a disadvantage in relation to competing Tea-producing nations such as Kenya and India which continue to use Glyphosate. Moreover in the absence of the Glyphosate weedicide, some plantations have begun using MCPA, an alternative weedicide. The EU and Japan have placed clear guidelines on maximum allowable residue levels of MCPA in made Tea, again putting the country's Tea industry at risk of losing out on the opportunity to supply to these markets. In yet another unsavoury twist to the situation, smallholders who opt not to apply weedicide due to the prohibitively high cost of sourcing alternative weedicides in the market, have to now contend with additional labour costs associated with manual weeding, which once again compromises the quality of the output.

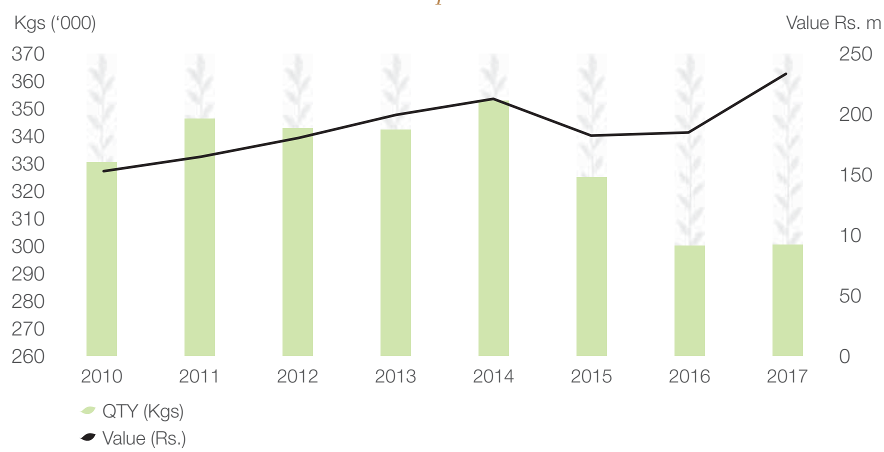
Meanwhile the heavy dependence on labour has made the Tea industry vulnerable to the risk of labour migration, especially with the younger generation moving away from working on Tea estates in favour of urban job opportunities.

Amidst the backdrop of these numerous constraints, Sri Lanka's Tea industry has seen a rapid escalation in costs in the recent past, making Ceylon Tea increasingly uncompetitive, putting the country at risk of losing out on potential export volumes leading to an eventual erosion of global market share in the long-term.

Export Volumes and Earnings

Sri Lanka exported a total of 0.21 m kilograms more Tea in 2017 than in 2016. Overall Turkey emerged as the leading buyer of Ceylon Tea, followed by Iraq and Russia, and Iran closing up the top four. Although Russia's refusal to accept Tea imports upon the discovery of a 'khapra beetle' in a single consignment of Tea caused some temporary uncertainty in mid-December 2017, quick action by local authorities to initiate urgent talks with Russian Agricultural Safety representatives led to a speedy resolution with Tea exports to Russia resuming shortly after under more stringent conditions. China and Taiwan have made noteworthy purchases of Tea from Colomb,o adding a greater demand. Meanwhile with the drop in Kenya's Tea production levels causing a shortage in global CTC Teas, Sri Lanka moved in to swiftly capitalise on the opportunity to supply to key buyers of CTC Teas.

Sri Lanka Tea Exports - 2010 to 2017



Sri Lanka Tea Exports-2010 to 2017

Year	QTY(Kgs)	Value(Rs.)
2010	311,015	152,858,579
2011	322,563	164,853,926
2012	319,947	180,430,287
2013	319,661	199,440,345
2014	327,342	212,587,978
2015	306,966	182,053,923
2016	288,771	184,778,315
2017	288,984	233,338,403

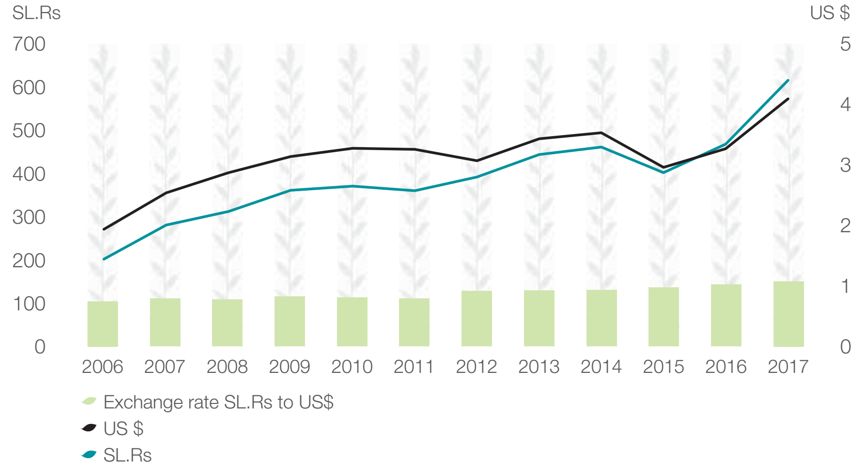
(Source - Sri Lanka Customs)

Sri Lanka earned a record USD 1,530.59 m from Tea exports in 2017, thanks to consistently high prices at the Colombo Tea Auctions.

Tea Auction Prices

The short supply of CTC black Tea coming from Kenya, the steady rise in oil prices in the third quarter of 2017 contributing to a higher GDP in key Tea importing nations and the higher demand from Turkey and Russia were all factors that augured well for the price of Ceylon Tea in the world market. Available industry data suggests the January–November cumulative average for 2017 was Rs. 617.96 compared to Rs. 461.99 reported in 2016, showing a substantial gain of Rs.155.97. The high grown average totalling Rs. 598.60 recorded a gain of Rs. 155.89 vis-à-vis Rs. 442.71 of January- November 2016 while Medium Growns averaging Rs.563.87 for January- November 2017 showed a gain of Rs. 149.74 vis-à-vis Rs. 414.13 of January- November 2016. Low Growns totalling Rs. 637.83 too show a substantial gain of Rs.157.7 vis-à-vis Rs. 480.13 of January-November 2016.

Colombo Auction Averages Vs US$-2006 to 2017



(Source - Forbes and Walkers Research)

Colombo Auction Averages Vs US$-2006-2017

Year	SL.Rs	US $	Exchange rate SL.Rs to US$
2006	199.58	1.92	103.96
2007	279.44	2.53	110.62
2008	310.81	2.87	108.33
2009	360.61	3.14	114.94
2010	370.61	3.28	113.06
2011	359.89	3.26	110.56
2012	391.64	3.07	127.6
2013	444.42	3.44	129.19
2014	461.86	3.54	130.47
2015	402.14	2.96	135.94
2016	468.61	3.27	143.3
2017	618.14	4.11	150.4

(Source - Forbes and Walkers Research)

Sector Reviews Contd.

Rubber

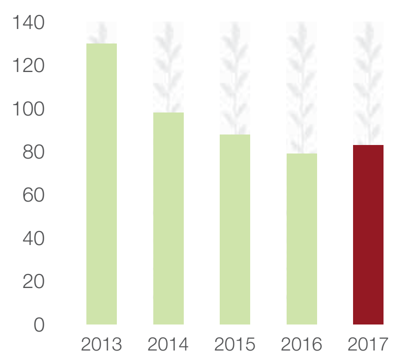
SRI LANKA'S RUBBER INDUSTRY

Production Output

Unfavourable weather conditions had an adverse impact on Rubber production during the first half of 2017, where a decline of 5.9% was reported in comparison to the first half of 2016. Sheet Rubber production, the largest component of total Rubber production, declined by 5.9% while crepe Rubber production decreased by 11.9% and the production of centrifuged latex and other categories of Rubber also recorded a decline of 2.9% during the first half of 2017, compared to the corresponding period of the previous year. The decline in production was mainly attributable to intermittent wet weather throughout the first half of the year and severe flooding in traditional Rubber growing areas in May 2017, which caused heavy damage, bringing a considerable number of estates in the Southern and Western Provinces to a complete standstill while yet others became inaccessible due to the threat of mudslides and landslides. However due to favourable weather conditions that prevailed during the last quarter of the year, producers were able to undertake tapping without interruption. This helped Sri Lanka to reverse the downward trend in production. The year ended with Sri Lanka producing a total of 83,000 MT in 2017.

Natural Rubber Production Sri Lanka

Mkg



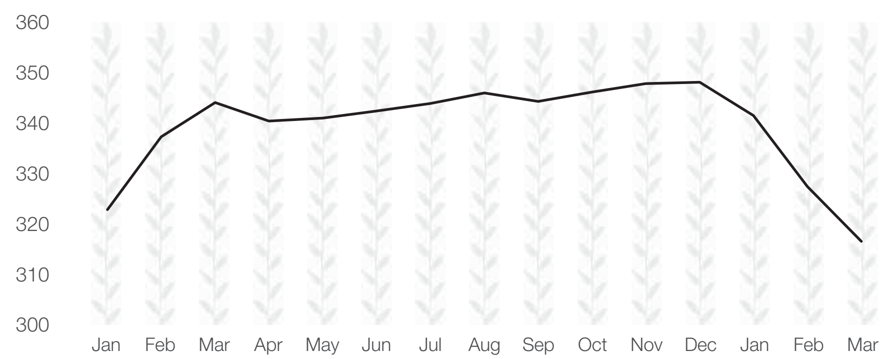
A volatile year for Rubber prices, 2017/2018 started with latex crepe 1X trading around Rs. 296/- per kg and subsequently moving up amidst better demand for natural Rubber. With a slight dip in August and September, this trend continued till November when prices reached Rs. 426/- per kg, From December prices declined steadily and the year closed with latex crepe 1X being traded at Rs. 336/- per kg.

On other hand the RSS No.1 prices remained somewhat steady hovering between Rs. 325/- to Rs. 350/- per kg until end 2017, before declining steadily through the first quarter of 2018 to reach Rs. 280/- per kg by end-March 2018.

Traditionally the field latex prices are based on the RSS 1 price. As the RSS prices in Sri Lanka did not decline along with the world Rubber prices, the cost of centrifuged latex produced in Sri Lanka remained high compared to that produced in other origin. This encouraged local Rubber good manufacturers to import the cheaper centrifuged latex rather than use the local product. As a result, most local centrifuged latex manufacturers were forced to either close or curtail operations in the last quarter of 2017/18.

KVPL Rubber GSA

GSA



Sector Reviews Contd.

GRI 102-15

BUSINESS REPORT

KVPL Tea

Financial Results

KVPL's Tea sector performed exceedingly well, delivering a strong financial performance for the year ended 31st March 2018 to further consolidate the turnaround initiated in 2016/17. Revenue was up by 28% year-on-year from Rs. 5,903 m in the previous year to Rs. 7,540 m for the year under review, and with the cost of production more or less the same as in the previous year, the sector was able to absorb its accumulated losses and report strong profits for the financial year ended 31 March 2018.

Net Sale Average (NSA)

KVPL posted a strong NSA throughout the year, with a number of estates claiming record prices at the Colombo Auctions. Of particular note is the all-time high price of Rs. 980, achieved by Pedro Estate, Nuwara Eliya in 2017/18. Other notable contributions included the Uda Radella, Annfield and Tillyrie estates, with NSA of Rs. 664.17, Rs. 662.19 and Rs. 651.44 respectively being among the highest recorded by upcountry plantation companies in the 2017/18 financial year.

Auction Volumes

Volumes of KVPL Tea sold at the Colombo Auctions marginally increased for the year, buttressed by a solid increase in production output in all factories.

Production Output

Despite unfavourable weather, the negative impact of the Glyphosate ban and other myriad challenges, KVPL's production output for 2017/18 saw a noteworthy increase of 14% over the previous year , mainly as a result of the good agricultural practices applied towards improving the health and nutrition of plantation estates.

Yield-per-hectare

An increase of 12% on yield has been recorded over the corresponding year. The revenue sharing method has had a direct impact in achieving the higher yields.

Operational Developments

Taking the first steps towards seeking a sustainable, cost-effective solution to the issue of labour migration, the revenue-sharing model was rolled out as a pilot project in the predominant Tea growing estates starting April 2017. Mirroring the Tea smallholder ownership concept, KVPL's

revenue-sharing model seeks to achieve a number of objectives. The main purpose of the initiative however is to secure a firmer commitment from the labour force in order to reduce the risk of labour migration away from the Tea estates in the long term. With a labour ratio of 2.5 persons per hectare, the Tea sector remains highly reliant on labour, signalling the need for a broader framework to address the issue of labour migration. It is hoped that the revenue-sharing model would serve as the first step towards paving the way for a sustainable solution that would benefit the labour force as well as the estate. Meanwhile, the electronic weighing system, which was fully operationalised at all Hatton region estates in the year under review, is also aimed at eliminating inconsistencies at the point of collection and facilitating greater accuracy in determining variable pay entitlements to the labour force.

Focus on Quality

The focus on quality remains a high priority for KVPL and, given the issues surrounding the Glyphosate ban, the sector renewed its focus on quality especially at the point of harvesting. In this regard, the mechanisation programme rolled out in the previous year, was strictly enforced to ensure the consistency of leaf quality was being maintained across all plantations at all times.

Awards

KVPL achieved many awards at the Ceylon Specialty Estate Tea of the Year Competition 2017 held in Beijing, China. They are Lovers Leap FBOP1 Gold, Mahagastotte OP1 Silver and BOP Bronze awards. In the Green Tea category Glassaugh Young Hyson Grade achieved a Bronze award.

Compliance

KVPL's Tea sector continued its activities in alignment with globally-accepted best agricultural practices, such as the Rainforest Alliance Certification and UTZ certified standards for sustainable farming and also the ISO 22000: 2005 Food Safety Management Standards and the HACCP guidelines for the management of food safety on the production floor.

The Next Steps

Moving forward, the main priority for KVPL would be to consolidate the VP Tea and move towards smart agricultural practices and harness the potential of its people by training and developing their skills to better manage challenges locally in order to boost production. The emphasis on quality would be the key to growing export volumes and securing higher NSA.

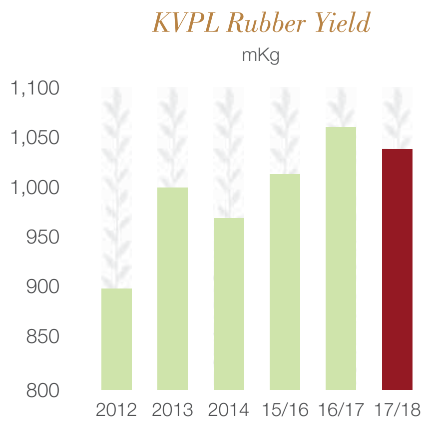
KVPL Rubber

Financial Results

Affected by the changing market dynamics, KVPL's Rubber sector revenue increased by 13%, in 2017/18 over that of the previous financial year profit in 2017/18 were maintained at the same level as in 2016/17.

Yield-per-hectare

Despite a 3% increase in the tappable hectarage during the year, KVPL's yield-per-hectare for the 12 months ending 31 March 2018 dropped by 5% compared to the previous year, mainly due to the erratic weather.



Production Output Replanting Ratio

Despite the challenges encountered in the current operating context, KVPL made steady progress in its Rubber replanting programme, aimed at replenishing the acerage lost each year due to mature trees reaching the end of their viable lifespan. In the year under review, 151.90 hectares were covered under the replanting programme, enabling KVPL to maintain its high replanting ratio as done in the previous years.

With Rubber saplings needing a six-year maturity period to come into bearing, a total of 132.38 hectares planted in 2011 came into bearing in 2017/18.

Intake-per-tapper

The successful implementation of the new early-tapping model launched in the previous year to complement KVPL's

Sector Reviews Contd.

Cinnamon, KVPL's third largest crop, produced encouraging results for the year under review, with revenue up by 331%

D2 tapping strategy saw tapper intakes (Intake-per-tapper) increase by 6%, to 7.50 in the current year from 7.10 in the previous year.

Operational Developments

Efforts to further improve tapper yields saw the launch of a new pilot project to evaluate the feasibility of using mechanised tapping devices. If successful the device would not only contribute towards increasing tapper yields but also minimise physical damage caused to the tree during the manual tapping process.

Compliance

Despite the difficulties, KVPL's Rubber sector remained firmly committed to adhere to globally-accepted best agricultural practices, such as the Rainforest Alliance Certified FSC standards for sustainable farming.

The Next Steps

Higher intensity tapping methods with stimulation tapped once every three or four days would be carried in experimental blocks. New fertiliser applicators have been introduced to minimise the leeching of fertiliser.

KVPL Cinnamon

Financial Results

Cinnamon, KVPL's third largest crop, produced encouraging results for the year under review, with revenue up by 331% to Rs. 15,041,255/-, from the Rs. 4,831,916/- tabled in the previous year. At present over 95% of sales volumes are generated through direct sales to local buyers, with only 5% attributed to direct sales.

Area Coverage

KVPL's Cinnamon plantation, which commenced as a pilot project in 2010 to plant 4.30 hectares of unused Rubber land at the Kitulgala estate, has since converged into a fully-fledged crop cultivation programme. Having systematically increased the cultivation of Cinnamon over the past eight years, KVPL currently holds approximately 115.25 hectares of Cinnamon in our low country estates which includes 43.52 hectares planted in the 2017/18 financial year.

The Next Steps

Moving forward, the focus would be to expedite the cultivation of Cinnamon targeting high-end value addition to cater to the end user.

Growth

is never by mere chance;
it is the result
of forces
working together

- JAMES CASH PENNY -

With more than two decades of roots that have solidified our base, we are springing into new ventures.

Financial Capital

GRI 102-07,45,48

Profile:

Item	*2017/18*	*2016/17*	*Change (2017/18-2016/17)*	
	Rs. m	*Rs. m*	*%*	*Reason*
Revenue	8,642	6,852	26	Increase of Tea and Rubber prices, increased Tea crop and increase of contribution from MTPL, KPC and newly-formed KVR
Cost of sales	7,551	6,235	21	Increase of cost of sales in KVPL & MTPL in relation to increase in quantity sold and impact of wage increase in October 2016
Other income	126	143	(12)	Decrease on the gain on the change in the fair value of biological assets and in amortisation of Government grants
Administrative expenses	556	439	27	Increase mainly due to employee related expenses
Distribution expenses	82	74	11	Increase of MTPL, corresponding to higher revenue
Finance income	4	8	(50)	Decrease due to reduction in foreign exchange holdings of MTPL
Finance expenses	97	92	5	Increase in Droller Interest rates on term-loans and Rupee servicing due to depreciation
Tax expense	42	28	50	Increase in income tax corresponding to current year profit

VISION

Effective management of equity and debt capital to generate short, medium and long-term returns that will enable KVPL to adequately reward shareholders, and other contributors of capital, for their investment in the Company.

STRATEGIC PATHWAY TOWARDS REALISING OUR VISION

We realise that the expected outcomes from every aspect of our business can only be achieved through proper management of our financial capital. KVPL's financial capital management strategy is therefore a comprehensive process that seeks to allocate funds in a manner that would ensure every aspect of our business performs to its optimum capacity to generate the desired outcomes. Our financial management process remains anchored to three key pillars;

1) Capital provided by investors
2) Retained profits
3) Cash generated from operations and investments (PMU) indicators

Input

1) Review strategic plan
2) Optimal capital allocation
3) Risk management
4) Monitor performance and adjust budgets and re-forecast as necessary

Action

1) Financial strength
2) Operating efficiency
3) Investment monitoring
4) Sustainable performance
5) Dividends

Outputs

- Strategic Planning and Budgeting

The Company prepares a rolling strategic plan, revised within a three-year time horizon, to reorient with new trends and account for changing business dynamics. The strategic planning is a process driven by the corporate management, taking cognisance of the operating environment, the Company's current market position, and future ambitions, with directional insights from the Board.

Stemming from the strategic plan, an annual budget is prepared ahead of each financial year, to serve as a platform from which to operationalise the business model for the year. The budgeting process is based on a collaborative approach that encourages greater participation down the line, and calls for the commitment of divisional heads as well as unit level managers and field supervisors. The Managing Director and the CEO are ultimately responsible to the Board for the actual outcomes against the budget.

- Managing Risk

Risk Management forms an integral part of our financial capital management model. It facilitates effective decision making within the Company's risk appetite. Further details on KVPL's risk management model is available in the Risk Management Report on page 170.

- Governance and Leadership

Governance and leadership is the third and most crucial aspect of KVPL's financial management strategy. The Company's leadership and governance structure works to safeguard the interests of the shareholder by ensuring the Company continues to sustain its growth momentum at all times. Further details on KVPL's governance mechanism and control processes are available in the Corporate Governance Report on page 130.

Results for 2017/18

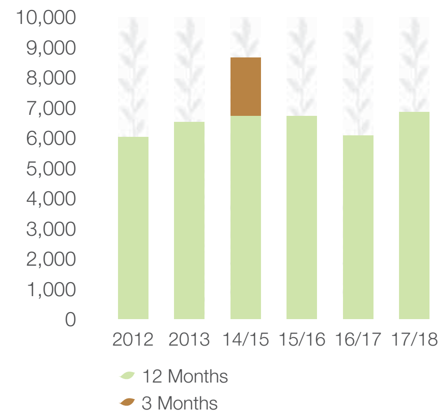
A clear direction set out in the strategic plan along with accurate budgeting and supported by KVPL's governance and risk management framework enabled the Company to achieve a promising performance in the year under review, as shown below;

The financial year 2012 and 2013 is from January to December. KVPL changed its financial year from April to March from 2014/15. The financial period 2014/15 consisted 15 months, hence performance of 12 months and 3 months is shown separately.

Group Turnover

Group turnover increased by 26% in the year under review, supported by stronger global prices for Tea together with higher quantities of Tea production compared to the previous year. The Tea segment accounted for 87% of the Group turnover, while the contribution from the Rubber segment was 12%, the remaining 1%

Group Turnover



coming from the hydro power and agri-tourism segments.

The contribution to the Group Turnover from the plantation sector represented by Kelani Valley Plantations PLC was 48%, while the Tea marketing sector consisting of Mabroc Teas (Pvt) Ltd. accounted for 51%. The hydro power sector comprising of Kalupahana Power Company along with Kelani Valley Instant Tea and Kelani Valley Resorts accounted for the remaining 1%.

Segmental Turnover

The Tea segment revenues grew from Rs. 5,903 m in the previous year to Rs.7,540 m in the year under review, denoting a 287% year-on-year increase. Higher turnover was the result of a 14% increase in the Tea crop together with significantly higher prices at the Colombo Tea Auction. The average to-date price/Kg (NSA) at end March 2018 is Rs. 640/- and March 2017 is Rs. 528/- an increase of 21% respectively compared to

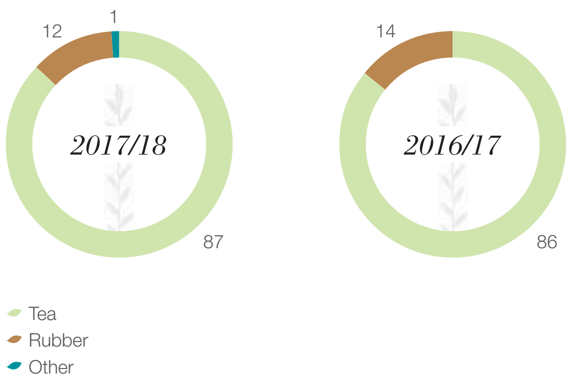
Financial Capital Contd.

the previous year. Meanwhile MTPL's turnover also increased thanks to higher volumes of direct Tea export.

KVPL and MTPL Tea segments were the main contributors to the equation, accounting for 35% and 52% respectively. Being an experimental project, KVIT's contribution to the Group turnover was insignificant.

Segmental Turnover

%



KVPL's Tea turnover was made up of 74% from Western High Growns and 26% from Low Growns. The increase in High Grown and Low grown prices and quantities recorded at the Colombo Tea Auction had a positive impact on KVPL's Tea turnover.

The Rubber segment recorded revenue of Rs. 1,043 m an increase of 13% compared to last year. The Rubber crop during the period declined by 2% due to the higher number of wet days recorded, while production also decreased by 2% mainly due lower demand for centrifuge latex. However the segment's turnover from direct exports of Rubber increased as Rubber prices/kg (NSA) of all grades shot up by 22% to Rs. 334/- per made Rubber kg from Rs. 274/- in the previous year.

	2017/18	2016/17
Tea (Kg 000')	5,094	4,474
Rubber (Kg 000')	2,936	3,010
Hydro Power (Kwh 000')	2,330	1,503

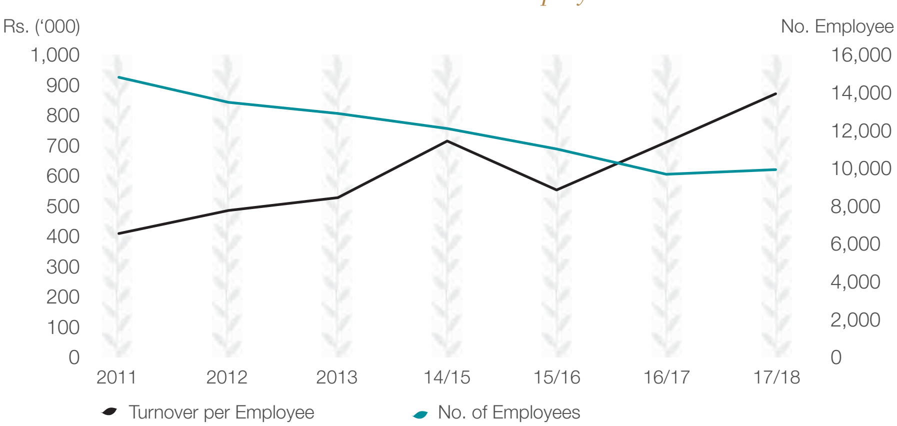
Hydro power turnover was up by 47% to Rs. 32 m from Rs. 21 m reported in the previous year. This was mainly due to the increase in hydro power generation by 55% which is equivalent to 827,000 Kwh as a result of favourable weather patterns throughout the year.

However revision in the tariff involving a 9% to reduction in the rates implemented by the Ceylon Electricity Board had an impact on the segments performance for the year. The Oliphant Boutique Bungalow, the newest venture of KVPL Group, recorded turnover of Rs. 6 m.

Revenue Performance per Employee

The Revenue per Employee is an indicator that shows how efficiently the workforce has been utilised throughout the period. The turnover per employee increased to Rs. 873,547/- in 2017/18 from Rs. 711,258/- within the year, indicating greater overall efficiency.

Turnover Per Employee

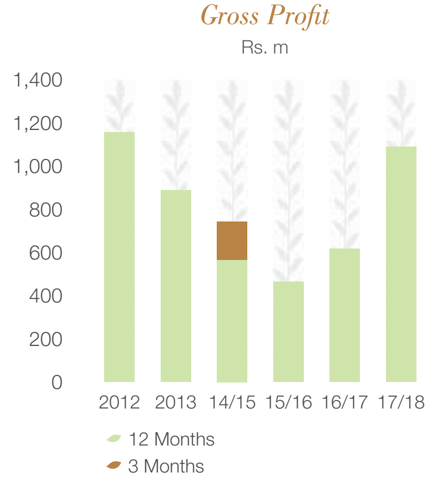


Gross Profit

Gross profit for the period under review was Rs. 1,092 m, an increase of 77% compared to Rs. 618 m reported in the previous year. The KVPL Group was able to improve its gross profit margin to 13% in 2017/18 from 9% in 2016/17.

Gross Profit

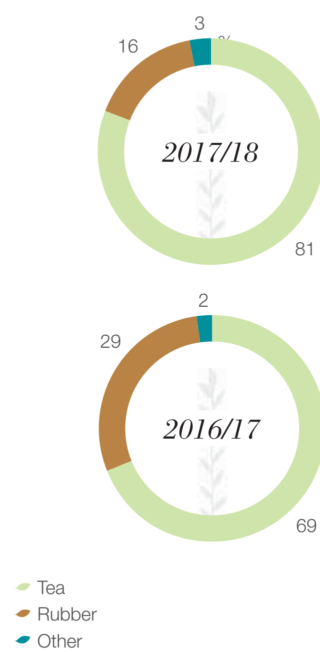
Rs. m



Segmental Gross Profit

Tea was the main contributor to gross profit accounting for Rs. 882 m (81% of the total) with Rubber contributing Rs. 176 m (16%) and other sources Rs. 33 m.

Segmental Gross Profit



The Tea segment reported a Rs. 454 m increase in gross profits, which pushed up the Tea segment's gross profit margin to 12% in 2017/18 from 7% in 2016/17.

The Rubber segment recorded a gross profit of Rs. 176 m on par with the previous year. However, the gross profit margin declined by 2% to 17% in the year under review from 19% in 2016/17.

Financial Capital Contd.

Other segments of the Group also recorded improved performances to record a collective gross profit of Rs. 33 m, with a strong contribution from hydropower as well as from minor crops such as cinnamon and coconut.

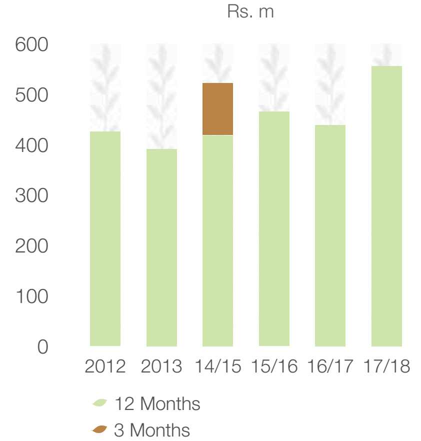
Cost Management

Administrative, Trade and Distribution Cost

Administrative expenditure in the period under consideration increased by 27% to Rs. 556 m compared to Rs. 439 m in 2016/17. This was mainly attributable to increased administration cost of KVPL and MTPL by Rs. 64 m and Rs. 44 m respectively.

The Group's distribution expenses increased, with MTPL reporting a 10% increase in distribution expenses from Rs. 74 m in 2016/17 to Rs. 82 m in 2017/18 being the result of higher export volumes.

Administrative Cost



Net Finance Cost

The finance cost consists mainly of interest cost on long term and short-term loans, overdraft interest and exchange losses.

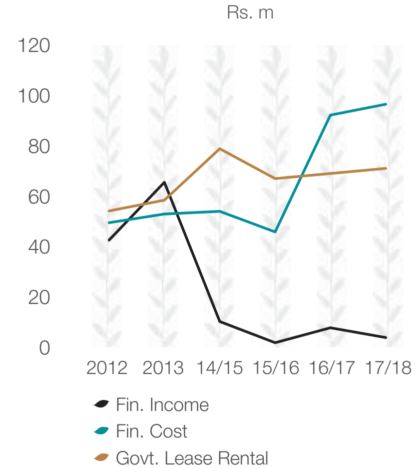
Interest on term loans increased due to three new loans obtained during the year; the facility taken to finance the Rubber effluent treatment plant, the loan obtained from Sri Lanka Tea Board at a concessionary rate to fund the working capital requirements by KVPL along with several packing credit loans that were obtained by MTPL for working capital requirements.

Interest on term loans increased by 3% to Rs. 46 m, from Rs. 44 m in the year 2016/17, while interest paid on overdrafts and short term loans increased marginally to Rs. 49 m compared to Rs. 48 m in 2016/17.

A total of Rs. 71 m was paid as interest on Government leases, an increase of 3% compared to last year. Interest paid to the Government increases annually based on the GDP deflator.

Finance income for the period under consideration decreased to Rs. 4 m due to the exchange loss recorded by MTPL.

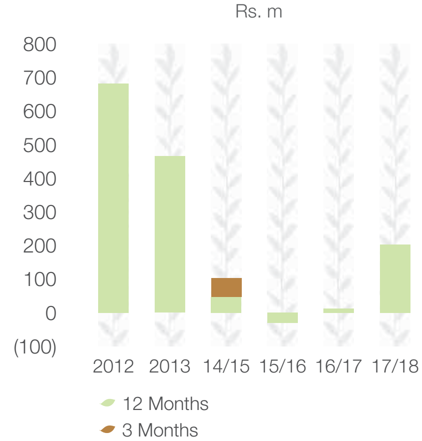
Finance Cost & Lease Rental paid to Government vs Finance Income



Profit Before Tax (PBT)

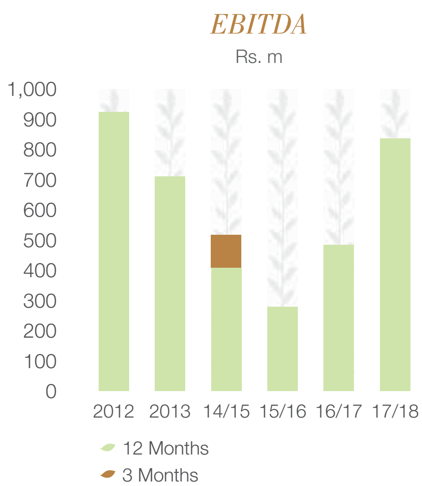
The Group recorded a PBT of Rs. 202 m in the year under consideration, compared to only Rs. 12 m recorded in 2016/17, phenomenal Rs.190 m increase year-on-year.

Net Profit Before Tax



Earnings Before Interest, Tax, Depreciation and Amortisation

The Group's EBITDA increased by a staggering 54% to Rs. 622 m in 2017/18, compared to Rs. 484 m in 2016/17.



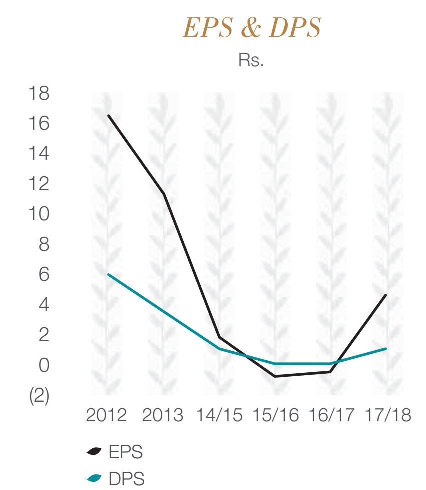
Income and Deferred Taxation

The Group's tax charge for the year was Rs. 42 m, 51% higher than the tax of Rs. 28 m for 2016/17. Higher income tax was due to the increase business profits as well as other sources of income. KPC's income tax charge also increased significantly due to better performance recorded in the year under consideration.

Meanwhile, the deferred taxation reversal for the year was Rs. 20 m, attributed mainly due to the rate change applicable to MTPL. KVPL was also subject to a reversal of Rs. 1 m due to the change in effective tax rate from 15.76% to 14%. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

The concession and rates applicable to companies within the Group are available in page 231.

Earnings per Share (EPS) and Dividend per Share (DPS)



Due to the years favourable performance, the Group's EPS increased to Rs. 4.56 from a negative of Rs. 0.55 in the previous year. The Group declared Rs.1/- dividend per share for the shareholders, which is particularly significant as the Group has not declared a dividend over the past two years.

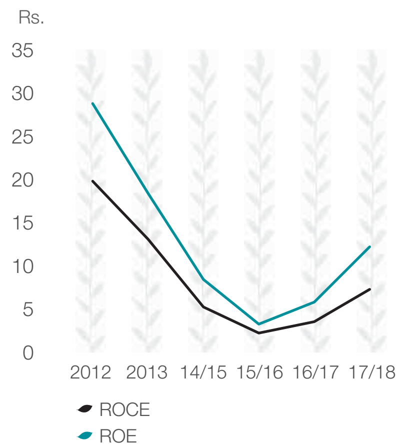
Capital Management Reports

Financial Capital Contd.

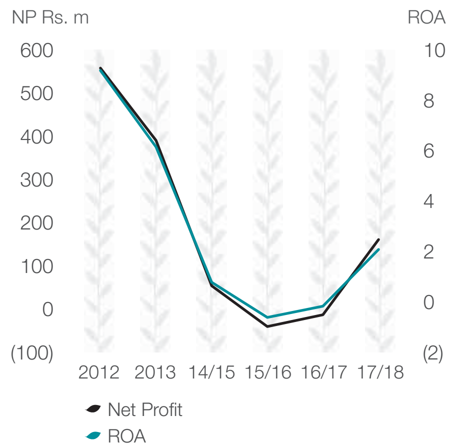
Return on Capital Employed (ROCE) and Return on Equity (ROE)

ROCE increased from 3% to 7% due to the cumulative effects of increasing profits. ROE also increased from 5% to 12%.

ROCE and ROE



Return on Assets



Return on Assets (ROA)

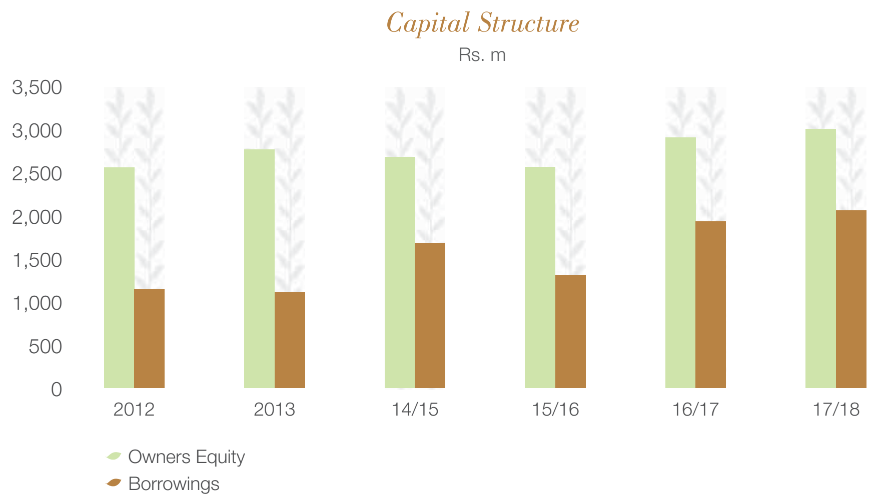
Reflecting improved profitability and efficiency across the Company relative to its total assets, KVPL's ROA increased to 2% in the year under review from a negative 0.2% in 2016/17.

FINANCIAL POSITION AT A GLANCE

Rs. m	*2017/ 18*	*2016/ 17*	*Change*	*% of change*	*Key reason*
Non-Current Assets					
Freehold property, plant and equipment	1,402	1,382	20	1%	Increase is mainly due to the additions from KVPL and KVR
Improvements to leasehold property	3,515	3,298	217	6%	Increase due to replanting of Tea, Rubber and other plantations
Biological assets (consumables)	152	138	14	10%	Increase in fair value increase
Current Assets					
Inventories	1,317	821	496	60%	Increased due to bulk Tea stocks of MTPL
Trade and other receivables	831	911	(80)	(10%)	Decrease in trade receivables, especially in MTPL
Short term investment, Short term deposits, cash in hand and bank	122	46	76	165%	Increase in cash and bank balances in KVPL and MTPL and increase in short term deposits
Equity and Liabilities					
Non-Current Liabilities					
Deferred income	579	536	43	8%	Grants received by KVPL
Deferred tax liability	427	458	(31)	(7%)	Change in the effective tax rate
Retirement benefit obligations	917	817	100	12%	Actuarial gain due to changes in financial assumptions and experiences
Long-term liability to make lease payment	440	442	(2)	(0.5%)	Decrease due to repayment of liability
Current Liabilities					
Trade and other payables	642	464	178	38%	Increase in staff payables of KVPL and MTPL
Amounts due to other related companies	37	32	5	16%	Increase in related party payables of KVPL and MTPL
Income tax payable	26	12	14	117%	Increase due to current year tax liability of the Group
Short-term interest bearing borrowings	959	755	204	27%	Increase in short-term borrowings of MTPL

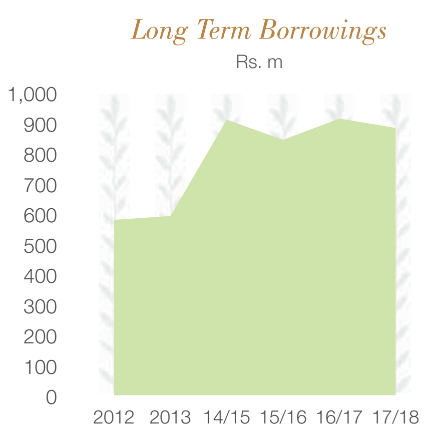
Financial Capital Contd.

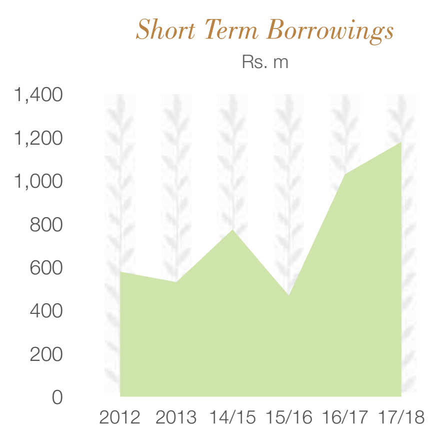
Capital Structure



Funds attributable to the equity shareholders of the company increased by 3% from Rs. 2,921 m to Rs. 3,018 m. Long-term borrowings decreased by 3% compared to last year as a result of the repayment of borrowings by KVPL and MTPL during the year.

Borrowings





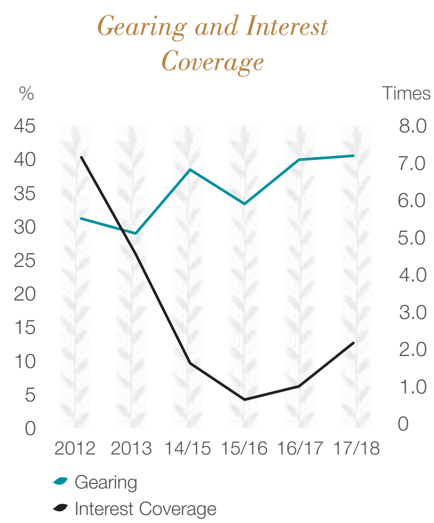
The Groups short-term borrowings increased to end the year with foreign currency borrowings amounting to Rs. 958 m on account of MTPL, Rs. 216 m overdraft for KVPL, Rs. 2 m for MTPL and Rs. 0.7 m for KVR.

Compared to the previous financial year, the total of short term borrowings and over drafts have increased gradually from Rs. 1,029 m to Rs. 1,178 m, which is a 14% increase. The main reason for the increase is due to loans obtained by MTPL in the year under consideration.

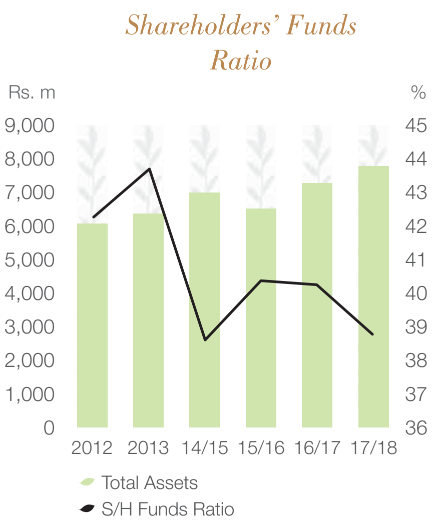
The gearing ratio from 40% in 2016/17 to 41% then financial year mainly due to the increased short-term borrowings of MTPL. However the management has successfully maintained the gearing at an optimum level to minimise the cost of capital.

Interest coverage has increased from 1.08 times in 2016/17 to 2.2 times then financial year due to improved financial performance.

Gearing and Interest Coverage



Shareholders' Funds Ratio



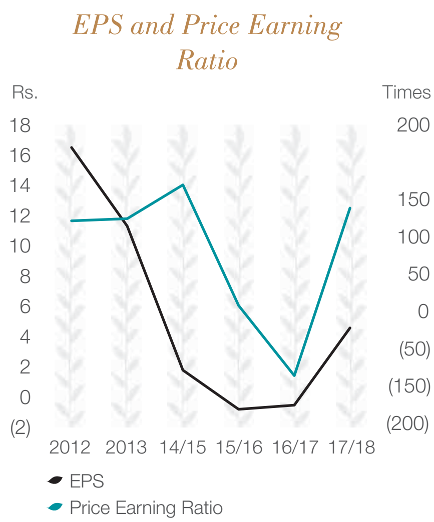
Based on the company performance in the year under consideration, shareholders' funds ratio is 39%. Shareholders' funds ratio reflects the amount attributed to shareholders in the event of a liquidation.

Price Earnings Ratio

EPS and Price Earning Ratio

Market price per share decreased by 2% to Rs. 80/- from Rs. 82/- in the previous year and EPS increased Rs. 4.56 from a negative Rs. 0.55 last year as a result of favourable performance compared to the last financial year 2016/17.

The price earnings ratio at end March 2018 was 18 times.



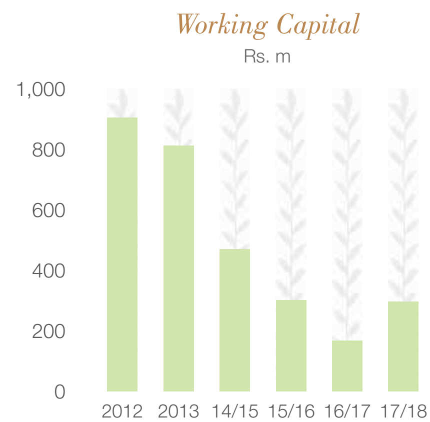
Biological Assets - Consumable and Produce

The Group's commercial timber is classified as a consumable biological asset, the value of which increased by Rs.14 m, this was the result of a fair value gain of Rs. 17 m adjusted for the decrease in value due to harvest.

The produce in bearer Biological Assets recorded a reduction of Rs. 6 m in fair value, of this Rs. 5.78 m could be attributed to the Tea produce and the balance of Rs. 0.22 m to the Rubber .

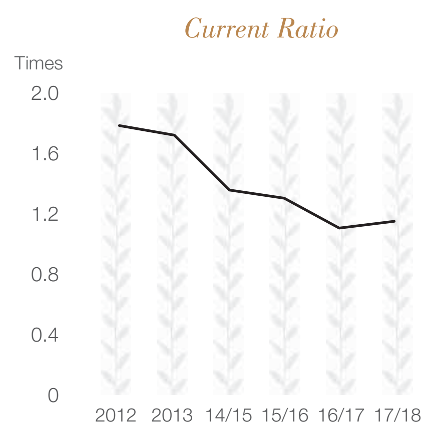
Working Capital

Working capital in the year under review has increased to Rs. 297 m, 77% higher than the previous year. Higher Tea production and large Tea stocks resulted in the increase in working capital.



Current Ratio

The current ratio of the Group has shown a increase to 1.15 times for the year under consideration from 1.10 tines in the previous year, proof that the Company has sufficient funds to cover short-term liabilities.



Financial Capital Contd.

Cash Flow

The net cash flow from operating activities ended the year on a positive note, up from a negative Rs.181 m in 2016/17 to Rs. 361 m in the year under review, mainly due to favourable performance and better working capital management.

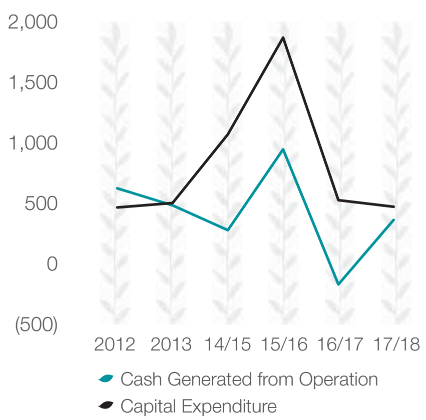
Cash generated from operating activities before working capital changes also increased, from Rs. 614 m in 2016/17 to Rs. 961 m for the year under review.

Capital expenditure of 2017/18 decreased slightly by 11% mainly due to lower investment in field development and acquisition of property, plant and equipment.

Cash and cash equivalents as at the year end also reflected a increase compared to the last year showing an increase of over 100%.

Cash Generated from Operations & Capital Expenditure

Rs. m



Financing Cash Flows

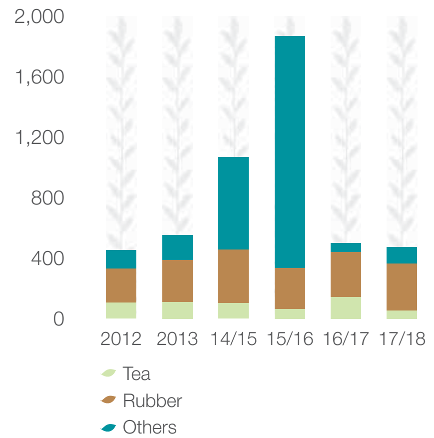
Financing cash flows decreased by 55% to Rs. 230 m from Rs. 509 m in the previous year.

Capital Expenditure on Field Development

The total capital expenditure on field development of Tea reduced from Rs.143 m to Rs. 56 m, while the expenditure on field development of Rubber has increased marginally from Rs. 301 m to Rs. 308 m.

Capital Expenditure on Field Development

Rs. m



Of the above expenditure Rs. 26 m was spent on immature Tea fields, while Rs. 267 m was spent on the cleaning, planting and maintenance of 1,600 hectares of which 181 hectares were planted this year. A further Rs. 8 m was spent on planting 32 hectares of Cinnamon.

Performance Measurement

Quarterly Performance

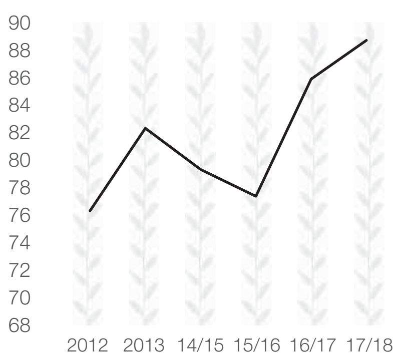
Tabulated below is the quarterly performance of the Group. The revenue was more or less equally distributed throughout the year. The highest gross profit was recorded in the fourth quarter, and the lowest in the second quarter. The highest profit before tax was recorded in the fourth quarter.

Quarterly Financial Performance

(Rs. m)	*Q1*	*Q2*	*Q3*	*Q4*	*Total*
Revenue	2,401	2,096	1,876	2,269	8,642
GP	253	222	267	350	1,092
Administration expense	(122)	(140)	(137)	(157)	(556)
PBT	18	(2)	51	135	202
PAT	(7)	(13)	30	150	160
Profit attributable to equity holders	2,912	2,898	2,925	3,018	3,018
Total assets	7,138	7,092	7,242	7,786	7,786
Total equity	2,948	2,936	2,965	3,049	3,049
Total debt	4,190	4,156	4,276	4,737	4,737

Performance of the Share

Rs. m



Net Asset per Share

Net Assets per Share increased to Rs. 88/- from Rs. 86/- due to better performance compared to last year.

Performance and Market Capitalisation of Shares

Compared to the last financial year, KVPL's share prices increased significantly. The highest share price recorded was Rs. 100/- and lowest share price recorded was Rs. 62.10 in the last quarter of 2017/18.

Even though 2017/18 recorded higher prices, market capitalisation decreased by 2% to Rs. 2,720 m due to the low closing share price at end March 2018 compared to end March 2017.

As the number of shares traded during the year increased the value of traded shares also increased. The parent company DPL Plantation (Pvt) Ltd. (DPLP) retained 72.43% of ownership and public holdings remained at 27.57%.

Financial Capital Contd.

MABROC TEAS (PVT) LTD. – (MTPL)

Mabroc Teas (Pvt) Ltd. is a fully owned subsidiary of Kelani Valley Plantations PLC.

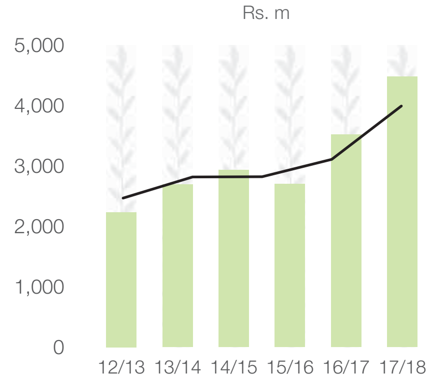
MTPL specialises in the production of a variety of high-quality blends and specialty Teas marketed locally and globally in over 50 countries under the Mabroc label. Mabroc's product portfolio comprises world-famous blends such as the 1001 Nights, Yala Nights and Siberian Blend, all of which have earned the Company international recognition for its expertise in developing unique blends.

MTPL's production facility is FSSC 22000, Rain Forest Alliance Master License Agreement, ISO 22000:2005, HACCP and ISO 9001:2008 certified and complies with EU standards.

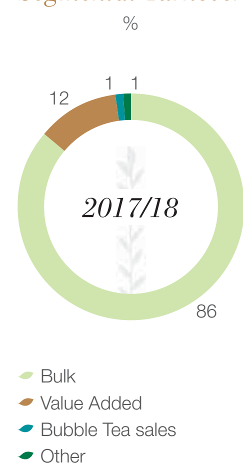
Revenue

MTPL's revenue increased by 27% from Rs. 3,521 m, in the previous year to Rs. 4,482 m in the year under review. The increase was mainly attributed to a 34% year-on-year increase in the volume of Bulk Tea exports to new emerging markets. The Company's newest revenue line, Bubble Tea, doubled its revenue figures, recording total revenue of Rs. 46 m in the year under review compared to Rs. 22 m tabled in the previous financial year.

Group Turnover



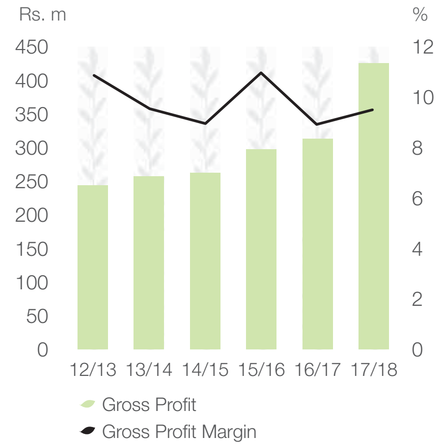
Segmental Turnover



Gross Profit

MTPL registered gross profit of Rs. 424 m, an increase of 36% to compared to the last financial year, although the gross profit margins remained at 9%; the same as last year.

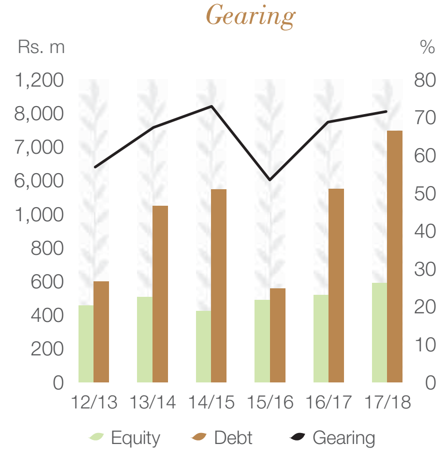
Gross Profit



Capital Structure and Gearing

The Company's capital employed as at 31 March 2018 was Rs.1,392 m. The contribution from equity and debt was Rs. 394 m and Rs. 998 m respectively. MTPL's gearing ratio increased from 69% in the previous financial year to 72% in the year under review, mainly due to the increase in short-term interest-bearing borrowings and Bank over draft.

Capital Structure & Gearing



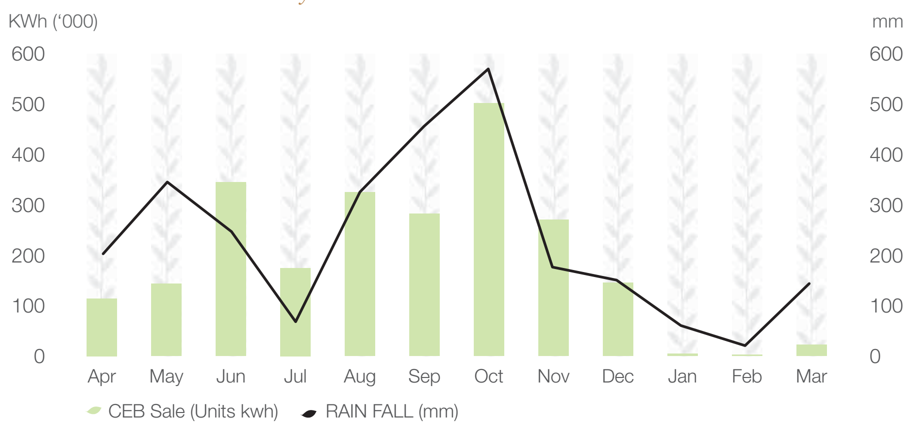
KALUPAHANA POWER COMPANY (PVT) LTD. – (KPC)

KPC tabled an excellent performance in the year under review thanks to favourable weather patterns, which helped increase the hydro power generation for a good part of the year under review. However inconsistent policy decisions by the Ceylon Electricity Board brought pressure on KPC's revenue during the latter part of the year.

Performance

KPC contributed 2,329,993 Kwh to the national grid in the year under review, a 55% increase compared to the hydropower units generated in the previous year.

Hydro Power Generation - Kwh



Hydropower generation in the second and third quarter increased due to the favourable weather patterns, but was followed by a drop in the last quarter due to the low rainfall witnessed during that period.

As per the tariff system in place, KPC recorded revenue of Rs. 33 m for the period, up 45% from the previous year. The revenue figure of Rs. 33 m is net of for Rs. 2 m, being the tariff adjustment imposed by the Ceylon Electricity Board in the latter part of the year, backdated for the months between January to November 2017.

Despite this setback however, KPC increased its contribution to the Group's bottom line by tabling profit before tax of Rs. 17 m, an increase of 73% from the Rs. 10 m recorded in the previous year.

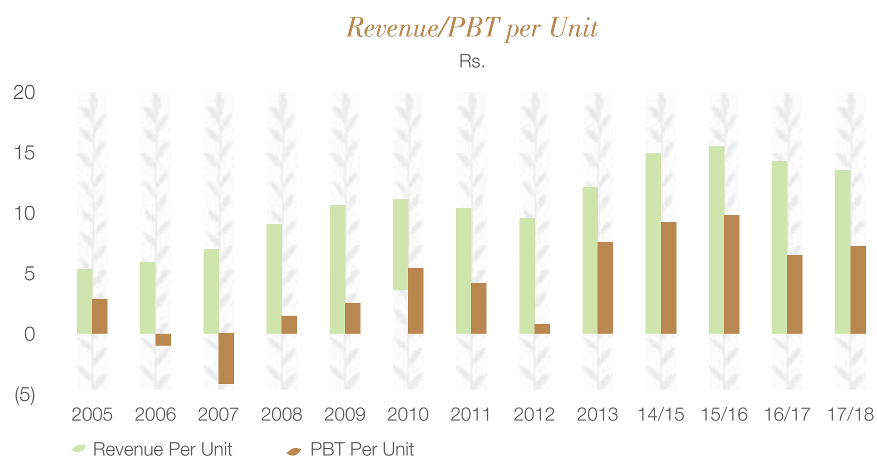
Financial Capital Contd.

Cash Flow and Liquidity

The Company liquidity position remained stable throughout the year, with cash flows increasing by Rs. 0.2 m over the previous year. No debt funding was obtained for the year under review.

Creating Value for Shareholders

Based on the strong financial performance for the financial year, KPC declared a dividend of Rs. 6/- per share, which was distributed among key shareholders; Kelani Valley Plantations PLC with an ownership of 60% and Eco Power (Pvt) Ltd. with a holding of 40%.
Earnings per Share nearly doubled from Rs. 2.82 in 2016/17 to Rs. 4.36 in 2017/18.



KELANI VALLEY INSTANT TEA (PVT) LTD. - (KVIT)

KVIT is the value-added, instant Tea-manufacturing venture established as an initial step towards developing value-added Tea-based products for export.

The research done on Tea extraction of Broken Mix Fannings carried out within KVIT led to the formation of Hayleys Global Beverages (Pvt) Ltd (HGBL).

In addition to being a pilot project on value addition, KVIT is also a component of the overall sustainability model of the KVPL Group.

Being a small experimental venture, KVIT's outputs are not aggressively marketed and currently sold only to a limited number of local buyers.

KVIT recorded a turnover of Rs. 1.4 m, which is a drop of almost 64% compared to the previous financial year. Due to low turnover, high production and administration costs, the company ended the 2017/18 financial year with a loss of Rs. 2.3 m, in turn negatively impacting the Group's bottom line.

KELANI VALLEY RESORTS (PVT) LTD. - (KVR)

KVR, a fully-owned subsidiary of KVPL owns the bungalow at "Oliphant Estate" situated in Nuwara Eliya. The venture is part of KVPL's broader strategy aimed at diversifying into complementary business models by leveraging on Group synergies. The decision to develop the Oliphant Bungalow saw KVPL invest Rs. 65 m to convert the property into a luxury boutique hotel. Launched to the market in December 2017, the property is managed by Amaya Leisure PLC.

The Oliphant Boutique Bungalow is situated 7,600 feet above sea level in the picturesque Nuwara Eliya region. It is in Shanthipura, a village that holds the distinct honour of being located at the highest elevation in the island. Surrounded by a Tea plantation at Oliphant Estate, the bungalow offers visitors a truly colonial experience.

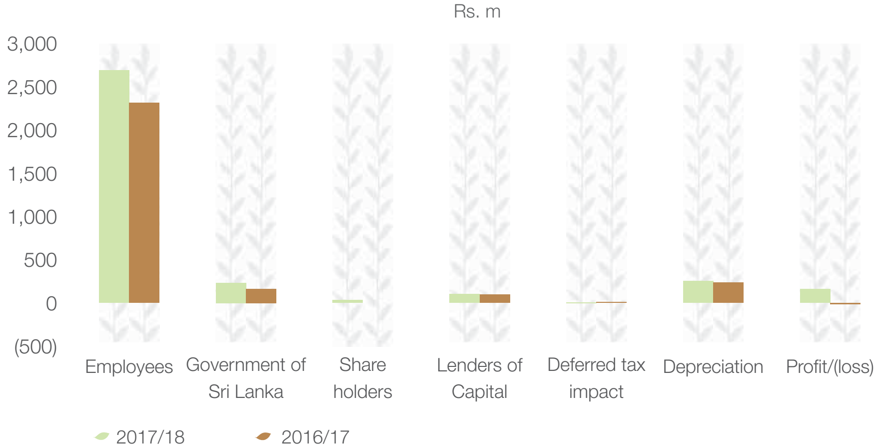
The Oliphant Boutique Bungalow performed well since commercial launch, reporting revenue of Rs. 6 m and a gross profit Rs. 4.7 m for the six months ending 31 March 2018. However after accounting for start-up costs, KVR reported a loss of Rs. 1.9 m for the year under review.

Statement of Value Addition and Distribution - 2017/18

GRI 201-01

For the year ended 31 March	Group 2017/18 Rs. m		Group 2016/17 Rs. m		Company 2017/18 Rs. m		Company 2016/17 Rs. m	
Revenue	8,642		6,852		4,383		3,437	
Other income	129		150		181		169	
Share of loss from equity accounted investee	(213)		(80)		-		-	
	8,559		6,923		4,564		3,606	
Cost of material and services obtained	(5,108)		(4,115)		(1,302)		(1,002)	
Value addition	3,451		2,808		3,262		2,604	
Value created shared with		%		%		%		%
Employees	2,694	78.1%	2,318	82.5%	2,548	78.2%	2,199	84.5%
Government of Sri Lanka	233	6.8%	164	5.8%	99	3.0%	73	2.8%
Shareholders	34	1.0%	-	-	34	1.0%	-	-
Lenders of capital	101	2.9%	96	3.4%	81	2.4%	84	3.1%
Deferred tax impact	6	0.2%	10	0.4%	(1)	0.03%	10	0.4%
Value retained for expansion and growth								
Depreciation	255	7.4%	236	8.4%	210	6.4%	200	7.7%
Profit/(loss)	126	3.7%	(15)	0.5%	292	9.0%	39	1.5%
	3,451	100%	2,808	100%	3,262	100%	2,604	100%

Distribution of Value Addition



Manufactured Capital

GRI 102-07,103-02,417-01

Profile:

- Cultivated Tea Land – 3,498 Hectares
- Cultivated Rubber Land – 4,501 Hectares
- Cultivated Cinnamon Land – 104 Hectares

Factories		
	Location	*Capacity (per day) Green leaf (Kgs)*
TEA	Nuwara Eliya	12,150
	Uda Radella	12,500
	Glassuagh	4,704
	Oliphant	6,500
	Edinburgh	4,704
	Pedro	22,000
	Annfield	13,500
	Battalgalla	9,120
	Fordyce	14,682
	Ingestre	30,000
	Robgill	13,500
	Tillyrie	11,980
	Invery	8,565
		Made Rubber (Kgs)
RUBBER	Dewalakande	4,500
	Panawatte	5,650
	Kiriporuwa	1,800
	Urumiwela	3,300
	Lavant	3,850
	Halgolla	13,500
	Kelani	10,500
	Ederapola	12,000

VISION

Improve the sustainability of land, production facilities, equipment and other manufacturing infrastructure in order to strengthen core competencies needed to grow and produce superior quality output that would enhance the Company's return, increase the country's export earnings and contribute towards future food security.

STRATEGIC PATHWAY TOWARDS REALISING OUR VISION

We believe the productive use of our manufactured capital will enable KVPL to be flexible and responsive to market needs through the delivery of high quality products that exceed customer expectations. As such, our aim has always been to maximise the efficient use of manufacturing resources. With this clear objective in mind, over the years our efforts to develop manufactured capital have been focused on improving the sustainability of our land base and the quality of our manufacturing processes. Key strategies adopted in the past include;

- **Rubber replanting programmes to achieve the tappable stand of 500 trees per hectare and increase Rubber yield to 1,500 kg/ha.**

KVPL's Rubber replanting programme has led to little increase in extent of tappable Rubber land each year leading to higher yields in recent years.

- **Reassess the land usage and invest in crop diversification to improve the sustainability of low yielding fields.**

The crop diversification programme was introduced mainly to improve profitability. The crops that have been introduced are seasonal and are not highly labour intensive but this method will help to deploy the present workforce on more productive fields along with the maximisation of crop and secure enhanced income from the uneconomical areas planted with new crops. The new crops that have been introduced are not highly labour intensive and are seasonal in nature. Thus, the exciting workforce can bee deployed in a more productive manner so as to enhance income divided from the areas planted with the new crops. Cinnamon, coconut, and fuelwood have already shown great promise.

Manufactured Capital Contd.

Cinnamon Field in Ederapola Estate

Planting other crops in up and low country regions

- **Ongoing investment in farming and manufacturing technologies and equipment**

Use of ball mill machinery at Rubber factories to improve the production quality of Centrifuged latex, one of our main revenue-generating activities. Due to better supervision and close monitoring of the quality field latex we have further improved the recovery rate of field latex conversion to centrifuge latex.

- **Improve sustainability of land by reducing the application of agro-chemicals**

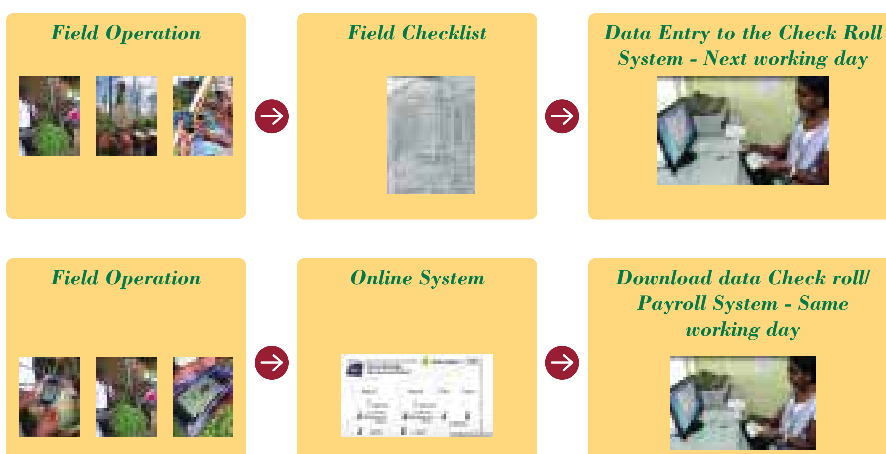
In line with KVPL's "Green Strategy", we have over the years systematically reduced the application of artificial fertilisers to our Rubber lands, and added 80,000 Kgs of compost to our soils which has led to a considerable improvement in the quality of the natural Rubber we produce.

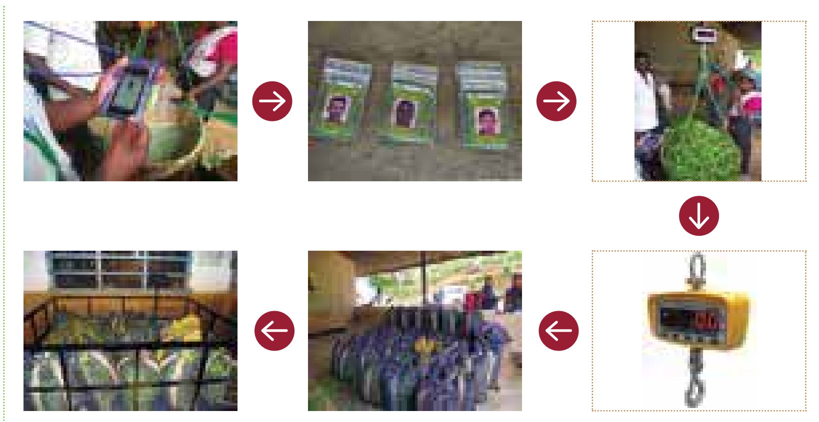
KEY EFFORTS FOR 2017/18

In the year under review, we continued on our strategic pathway towards enhancing KVPL's manufactured capital, focusing on certain new areas alongside some key ongoing efforts;

- **Strengthening the capacity of the leaf weighing process**

KVPL rolled out a new electronic weighing system to improve the accuracy of the weighing process based on three critical steps; Check-Roll Weight, Field Weight and Factory Weight. The new mechanism will eliminate the inconsistencies associated with the traditional manual system used to weigh harvested leaf. Leaving no room for manipulation and wastage, the new electronic weighing system is a transparent operation, where all the gross weights and deductions are recorded digitally, ensuring better control and high efficiency.





In addition, the new system is capable of linking all the estates within the Company to KVPL's Performance Management System. For example, details of quantities harvested per plucker are immediately uploaded and further validated at the F2F (Field to Factory) weighing point, with the weighing report being used to directly update the performance management system.

- **Improving vertical integration in the bought leaf supply chain**

The bought leaf operation represents a major portion in the daily activities of the Kelani and Ederapolla estates, with approximately 7,500 Kgs of freshly collected green leaf received each day. The estates operate seven collection lines on a daily basis where vehicles travel on specific routes to pick up collections from the supplier.

Having noted the poor data quality generated from certain routes, KVPL invested in a digital supplier authentication system to improve the accuracy of data collected at source. Under the initiative, collectors are equipped with a 50 Kg Digital scale, which connects remotely to a data collection device and suppliers are provided with a smart NFC card, which carries a unique identification code ensuring data safety.

- **Rubber replanting programme**

Continuing with our Rubber replanting programme, which first began in 1992, a total of 181 hectares were replanted in the year under review, enabling KVPL to maintain its high replanting ratios as in the previous year.

- **Capacity upgrade at Rubber factories**

The new effluent treatment systems which cost Rs. 100 m was commissioned to upgrade old system at Panawatte Rubber factory and The Dunedin skim processing centre. As a responsible corporate we sought ensure that the discharged effluent was treated and purified, so that is posed no threat to the environment.

Air dried Rubber sheets - To enhance our Rubber product portfolio we established a processing facility to manufacture air dried Rubber sheets at Urumiwella estate. It is free of impurities, odour and transparent in colour which is normally not present in ribbed smoke sheet.

Transparent ADRS (Ribbed Sheet)

Belt cleaners – We recently commenced manufacture of belt cleaners which are used to take out the dust collected in conveyer belts in the factories. We have had several repeat orders and are hopeful of expanding the belt cleaner product range in the near future.

Manufactured Capital Contd.

- **Capacity upgrade at Tea factories**

Variable Frequency Drives (VFD) were installed in nine major Tea factories in order to reduce the energy consumed during the Tea withering process.

As we have mentioned earlier, Mabroc (Pvt) Ltd. is KVPL's marketing channel where new products related to Tea have been introduced to the market. This symbolises nothing but the best in premium quality Teas from the Island nation and embodies our philosophies whilst satisfying buyer preferences.

Financial year 2017/2018 proved to be a fruitful year for Mabroc Teas, recording numerous milestones for the first time in its history, Mabroc Teas achieved a sales volume of 5.7 million Kgs and a profit before tax (PBT) of Rs. 112 m. Mabroc was able to mark itself as the ninth largest bulk Tea exporter in Sri Lanka and is now amongst the top Sri Lankan bulk Tea exporters to China and Taiwan.

New 3 in 1 (Tea, Milk and Sugar) Packing Machines

- **Expedite crop diversification**

To improve land productivity and move towards a more sustainable growth model for the future, KVPL accelerated its crop diversification strategy in 2017/18. some success had already been achieved through the initial venture into Cinnamon. The Company has now its extended cultivation programme to convert the land base of both Kitulgala and Ganapalla estates to Cinnamon.

As a part of the on-going strategy to develop new crops that are in high demand locally and internationally, the Company continued with its efforts to plant Avocado and Coffee on uneconomical Tea lands in the upcountry estates, along with Pepper, Coconut and Fuel wood in low country estates. Also ongoing is an experimental programme to determine the commercial viability of Agarwood for the future.

Crop	*Planted in 2017/18 Ha*	*To Be Planted 2018/19 Ha*
Cinnamon	43.52	52
Coconut	28.37	30
Agarwood	10	20
Cloves	28.68	50
Coffee	1.50	14
Fuelwood	15.58	43

KVPL is always focusing on introducing new methods and machinery targeting future challenges and strives to maintain the best sustainability practices. KVPL started using new fertiliser applying machines in estates. These machines help maintain higher sustainability standards ensuring the effective and efficient usage of fertiliser, with a significant reduction of leeching.

This helps to;

- Reduce fertiliser wastage
- Ensure that all plants will get an equal and requisite amount of fertiliser
- Protect the water bodies from eutrophication due to excess fertiliser washout
- provide a substitute for skilled labour




Crops diversification programme

Fertiliser application by motorised machine

Intellectual Capital

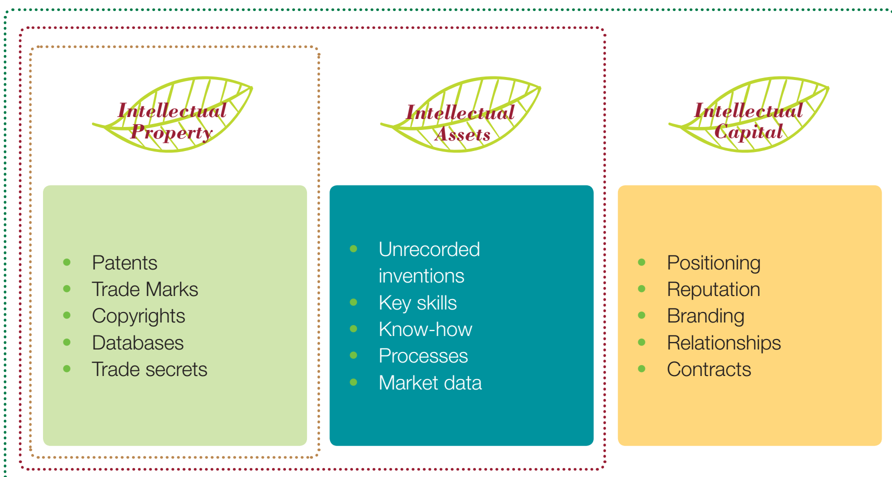
VISION

Strive to be recognised for "Products of Excellence" that command a premium both locally and overseas.

STRATEGIC PATHWAY TOWARDS REALISING OUR VISION

GRI 102-12

KVPL's intellectual capital strategy follows a two-pronged approach towards achieving our vision. On the one hand we work towards strengthening knowledge and experimenting with new ways of working in order to generate continuous improvements in quality and output for our core products; Tea and Rubber. At the same time considerable resources are also allocated towards the development of new value-added products for niche markets, locally and overseas.



- **Compliance with best practices**

To validate the quality of its products, all KVPL plantations adhere to the high ethical standards set out under the Forest Stewardship Council International, the Rainforest Alliance Certification and UTZ certifications for sustainable farming, while the Tea manufacturing processes operate in alignment with globally accepted best practices covered by ISO 22000: 2005 and HACCP for food and safety management standards.

- **"Early tapper model" to improve yields for Rubber**

In 2016, KVPL launched the "Early tapper model" as part of a broader strategy to improve tapper yields and manage quality. Developed after conducting extensive research, the model requires tappers to start work before sunrise, enabling them to increase productivity due to less heat exposure. A 25% improvement in the yield-per-tapper was noted following the launch of the "Early tapper model"

- **Quality drive for Tea**

A special initiative launched in April 2016 to specifically focus on improving the quality of green leaf. Driven by continuous and ongoing training to promote best practices for harvesting, the effort has succeeded in reinforcing the importance of quality among the workforce.

- **Introduction of a value-added Tea range**

GRI 308-01,02

A new range of single origin leafy Tea produced at Pedro estate was launched in 2006 and has since been sold exclusively at Pedro Estate Tea Ethical Tea Boutique in Nuwara Eliya. The range consists of flavour-rich aromatic pekoe, and orange pekoe Teas, renowned for their delicate blend and unique bright colour.

- **Introduction of steamed green Tea**

Responding to China's strong demand for Green Tea, KVPL began the manufacture of steamed green Tea at the Glassaugh processing centre.

Pedro Tea new products

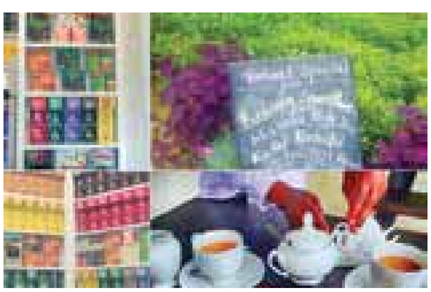
GRI 416-01

- **Launch of Bubble Tea**

In 2016, Mabroc Bubble Tea was launched to the local market, a pioneering venture that has caused a revolution in the local beverage industry. Mabroc Bubble Tea, with its unique flavor and distinctive taste is creating a new generation of Tea drinkers in Sri Lanka

- **Edinburgh Estate Tea Train**

The Edinburgh Estate Tea Train in Nanuoya, increased in popularity due to the nature trails and unique offerings of select Teas and specialised Tea menu.



Tea display at the Tea train

Tea Train - Edinburgh Estate, Nanuoya

KEY EFFORTS FOR 2017/18

In the year under review, we continued on our strategic path through sustained efforts aimed at strengthening KVPL's Intellectual Capital.

- **Revenue-share model to maximise yields for Tea**

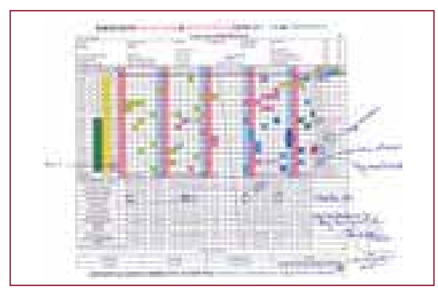
Having experimented with the Revenue-share model since 2016, the Company took the first steps towards formally rolling out the model at the Nuwara Eliya, and Battallgala estates. Structured along the lines of the out grower programme, the Revenue-share model is a bold new initiative aimed at encouraging workers to increase their plucking average. It is hoped that by giving workers ownership of their own plot they would be driven to increase productivity and thereby improve their earning capacity.

GRI 205-02

- **Enhancements to the exiting performance measurement mechanism**

Several improvements were made to the performance measurement mechanism, mainly to complement the electronic weighing system rolled out during the year. Among the key developments was the appointment of a central system-monitoring officer tasked with continuously identifying and reporting on any irregularities detected from the data uploaded on the online performance measurement platform. The following are a few of the new reports generated;

- I Report -Daily plucking average analysis detailing information regarding individual green leaf quantities plucked by the pluckers
- G Report - Daily field performance giving the green leaf quantities for each field
- H Report - Daily field performance with each and every plucker's information



- **Creating "Mother-and-child-friendly" Tea estates**

A new initiative to expand KVPL's "Home for every plantation worker" community programme, the project to create "Mother-and-child-friendly" Tea estates is carried out in collaboration with assistance of the Save the Children fund. Please refer the Social and Relationship Capital section on pages 103 to 109 for more details.

Human Capital

VISION

Empower every KVPL employee to be as productive as possible by providing them with the right tools and culture to learn, innovate and grow with the Company. Our ultimate aim is to build a satisfied and motivated workforce willing and able to take ownership for the Company's future success.

STRATEGIC PATH TOWARDS REALISING OUR VISION

Our strategic commitment to develop human capital is based on several fundamental strategies;

Recruitment of Top Talent

The need to recruit suitable employees with the necessary skills and expertise is the keyunderpinning factor in delivering KVPL's overall vision to be a "Product of Excellence". Recruitment strategies are designed to attract those who possess the right skills, expertise and experience and are the proper cultural fit for the Company. Within this framework, KVPL follows a merit-based recruitment and selection programme, that promotes fairness, equity, respect for social inclusiveness and cultural diversity and is consistent with the principles of equal opportunity employment.

We at KVPL develop strategies to recruit and retain "The Best out of the Best" especially aiming at our management categories. During this year the Company received over 600 applications for the Plantation Management Trainee Programme, and was able to select the six most talented candidates.

Plantation Management Trainee Programme 2018

GRI 102-08,41,401-01,02,03

Total Head Count - Group

Total Employees	9,893
• Permanent Employees	7,902
• Contract/Short-Term	1,991
Executive and above	151
Non-Executive*	628
Manual Grades	9,114
Total	**9,893**

**(Clerical, Supervisory, Production, Supportive and Human Development)*

Total head count including MABROC

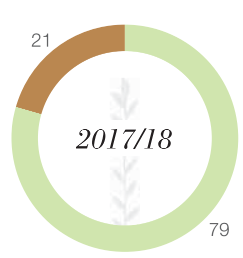
Total Head Count - KVPL

Total Employees	9,762
• Permanent Employees	7,778
• Contract/Short-Term	1,984
Executive and above	94
Non-Executive*	604
Manual Grades	9,064
Total	**9,762**

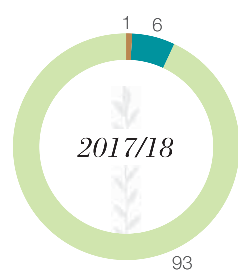
**(Clerical, Supervisory, Production, Supportive and Human Development)*

Total Head Count of KVPL

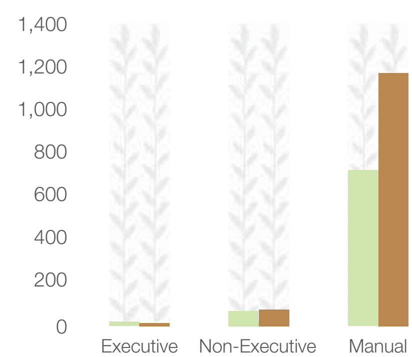
Permanent and Contract Employees - KVPL
%



Executive Non-Executive and Manual Workforce - KVPL
%



Comparison of Hired and Employee Turnover - KVPL
Head Count



Hired Employees 2017/18 (La-1) KVPL

Category		*Executive*	*Non-Executive*	*Manual*	*Total*
Age Group	<30 years	7	16	175	198
	30-50 years	12	49	491	552
	>50 years	3	11	108	122
	Total	22	76	774	872
Gender	Male	21	65	395	481
	Female	1	11	379	391
	Total	22	76	774	872
Region	Hired-Local	0	0	774	774
	Hired-Non-Local	22	76	0	98
	Total	22	76	774	872

Group Level Hired Employees during the Year 2017/18

Human Capital Contd.

Employee Turnover 2017/18 (La-1) KVPL

Category		Executive	Non-Executive	Manual	Total
Age Group	<30 years	6	10	97	113
	30-50 years	8	55	752	815
	>50 years	1	18	408	427
	Total	15	83	1,257	1,355
Gender	Male	15	64	599	678
	Female	0	19	658	677
	Total	15	83	1,257	1,355
Region	Hired-Local	0	0	1,257	1,257
	Hired-Non Local	15	83	0	98
	Total	15	83	1,257	1,355

Group Employee Turnover during the Year 2017/18

Mrs. Sivagami- All Island 1st place winner - Best Tea Harvester Competition organised by Sri Lanka Tea Board

Field performance Award Ceremony 2017

Employee Motivation GRI 404-02

At KVPL remuneration and recognition are seen as key drivers in ensuring employees stay happy and motivated. The Company has a well-developed pay structure that offers all employees competitive remuneration on par with market rates. To ensure employees continue to remain motivated, the Company offers additional benefits in recognition of individual performance as well as the collective effort of the team. Creating an inspiring working environment with challenging tasks, while also actively engaging with the employees regarding their opinion on topics such as leadership, strategy implementation and working conditions are also seen as essential components in KVPL's strategy to build a highly-motivated workforce.

To keep the plantation workforce motivated, KVPL has established a broad-based social welfare programme entitled "A Home for Every Plantation Worker", which aims to raise the living standards of plantation workers and their families. The Company's investment in the programme includes building homes and developing community infrastructure as well as targeted welfare initiatives to improve their quality of life.

In plantations, estate workers represent the major proportion of the total workforce. We as a responsible plantation company give special attention to our estate workers who constitute 93% of our total workforce as we believe that the social recognition given to them is inadequate. Award ceremonies were organised especially for manual workers and we are proud to state have been first to implement such a culture in plantations.

Moreover, an annual employee satisfaction survey its organised. The current year analysis shows cased favourable results.

KEY FEATURES ARE TABULATED BELOW

- Effective decision-making
- Less time consuming
- Increased productivity

→ Higher satisfaction → Happy employees

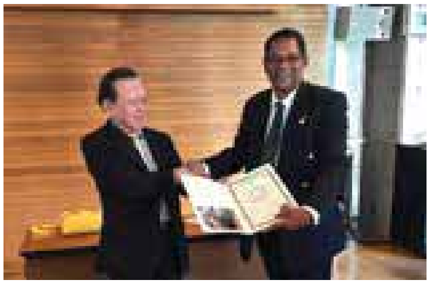
Questionnaire	
Description	***Result (Percentage of Employees Agreeing)***
My Company treats all it employees fairly	60%
The leaders of this organisation know what they are doing	78%
Our senior managers demonstrate strong leadership skills	82%
My manager listens to what I'm saying	89%
The organisation values the contribution I make	78%
Information and knowledge are shared openly within this organisation	67%
Communication is encouraged in this organisation	82%
This organisation respects its employees	78%

Developing the Next Generation of Leaders

Leadership development at KVPL is an ongoing effort that aims to identify and develop a talented pool of employees to take over high-level management positions and lead the Company into the future. Developing the Company's next generation of leaders is a strategic process that involves mentoring, leadership training and job rotation activities to ensure a ready supply of suitably qualified and motivated employees for higher roles and responsibilities. Corporate executives are given an opportunity to enhance their skills by participating in the Hayleys Executive Development Programme conducted annually. Aimed at developing key competencies of executive staff including those who have been recently promoted to executive category, the Programme seeks to strengthen leadership qualities through regular discussions and knowledge sharing forums conducted at Group level. The Programme is structured to help participants understand what is expected of a leader within the Hayleys Group.

As a main pillar in our leadership development programme which is also connected with the performance management system, every year we identify the best performers through an online performance evaluation tool. We initiated a programme to send the best performers for Japanese scholarship programmes through JASTECA (Japan Sri Lanka Technical and Cultural Association).

During the period under review, two selected participants from the KVPL management team took part in the JASTECA Scholarship Programme in different topics such as leadership development and business innovations.



Participating in the JASTECA Scholarship Training Programme held in Tokyo and Osaka, Japan

Human Capital Contd.

The KVPL team participating in the Praguna Management Training Programme 2017

Training and Development

GRI 404-02

KVPL is committed to ensuring that all employees have access to learning, development and training opportunities which enable them to be suitably knowledgeable and skilled to carry out their role within the Company, and to develop their talents in ways that fit the Company's strategic objectives. Training and development activities are determined based on the requirements of the business, as well as the staff member's individual needs. Training is operationalised as per the annual training plan. The Company regularly reviews its level of investment in staff training and development to ensure that adequate resources are being allocated to address the most pertinent training needs.

Eight of the best performers in our management team were selected and sent on a special training programme on management skills development to Malaysia in the last financial year.

Apart from the foreign training sessions we have developed a focused training programme which drives our strategic vision, especially for local training opportunities. We have also conducted OBT (Outward Bound Training) programmes which provide training on leadership in team building at the Sri Lanka Commando Training School, Uda Walawe for all the executives in head office as well as estates.

Outward Bound Training Programme held at Sri Lanka Commando Training School Uda walawe

We have conducted a series of training sessions on the theme of "Be The Best You Were Born To Be", to uplift the human potential capabilities, which were conducted by one of the reputed personality trainers Mr. Dhammika Kalapuge. The programme was designed, mainly aiming to:

- Enlighten the participants with a road map to understand how well they can achieve goals by getting the best out of themselves
- Have a purpose, focus and a balance in whatever the task undertaken by the individual, both in their official and personal life
- Persuade the participants for a behavioural change
- Inculcate team work, organisational and entrepreneurial skills, productivity, confidence, positivity and passionate public scenic.

Training programme conducted by Mr. Dammika Kalapuge

GRI 405-01

We have developed good relations with both private and Government Universities. Stepping forward, we built a strategic connectivity with the Faculty of Agriculture at the University of Peradeniya. We organised a technical skills development programme collaborating with the University of Peradeniya on the topic “Land Use for Sustainable Crop Production” and we were able to get support from the most senior academics as our resource persons. Based on the evaluation conducted at the end of that session, participants received a valuable certificate from the University.

Technical skills development programme in collaboration with the University of Peradeniya

Apart from the main training and development events all the divisional heads work continuously undertaking international training programmes in the areas of HR, IT, Finance, Quality Assurance, Sustainability Resource Management and Marketing.

Specified training sessions by operational divisions

With a strategic vision of strengthening our workforce which is the backbone of our human capital, we created a new trend by recruiting a separate executive as Human Development *Manager* to train and strengthen the estate workforce with updated knowledge.

Training sessions conducted by the Human Development Manager

Human Capital Contd.

Key Value driver cards

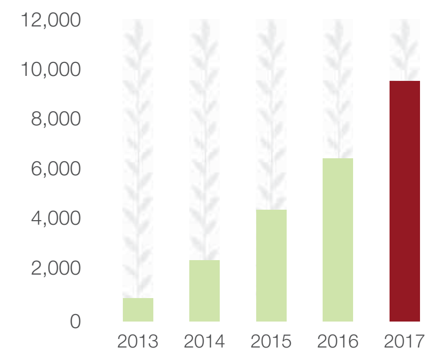
GRI 404-01

Training Detail Report F/Y 2017/18-KVPL

Category	Head Count			P/Hours			P/H Per Person		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Executive	403	28	431	3,586	295	3,881	8.9	10.5	9.0
Non-Executive	177	92	269	722	411	1,134	4.1	4.5	4.2
Manual	3,252	5,616	8,868	24,561	40,416	64,977	7.6	7.2	7.3
Total	3,832	5,736	**9,568**	28,870	41,122	**69,992**	7.5	7.2	7.3

Training Head Count Comparison

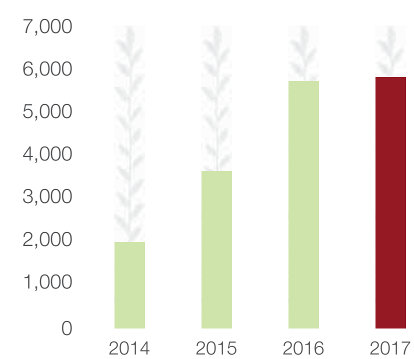
Head Count



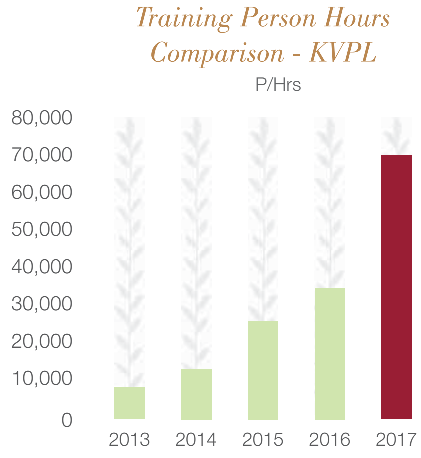
GRI 412-03

Training Investment Comparison

Rs. '000



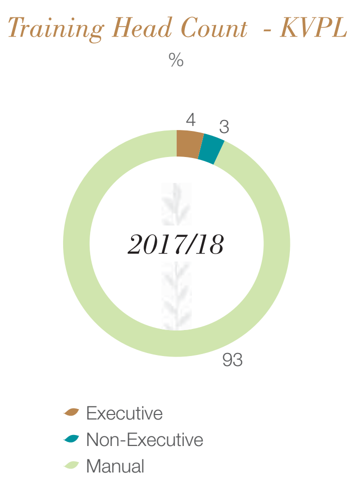
GRI 412-02



Average Training Hours Per Person				
	Grade	Male	Female	Overall
Average Training Hours per Employee-KVPL 2017/18	Executive	8.9	10.5	9.0
	Non-Executive	4.1	4.5	4.2
	Manual	7.6	7.2	7.3
	Overall	7.5	7.2	7.3

Training Hours Comparison (Year vs Person Hours Of Training)

Year	Training Head Count	P/Hours	Increased Over Previous Year (%)
2015	4,432	26,022	93.86
2016	6,475	34,802	34.05
2017	9,560	69,913	100.88



Empowerment and growth

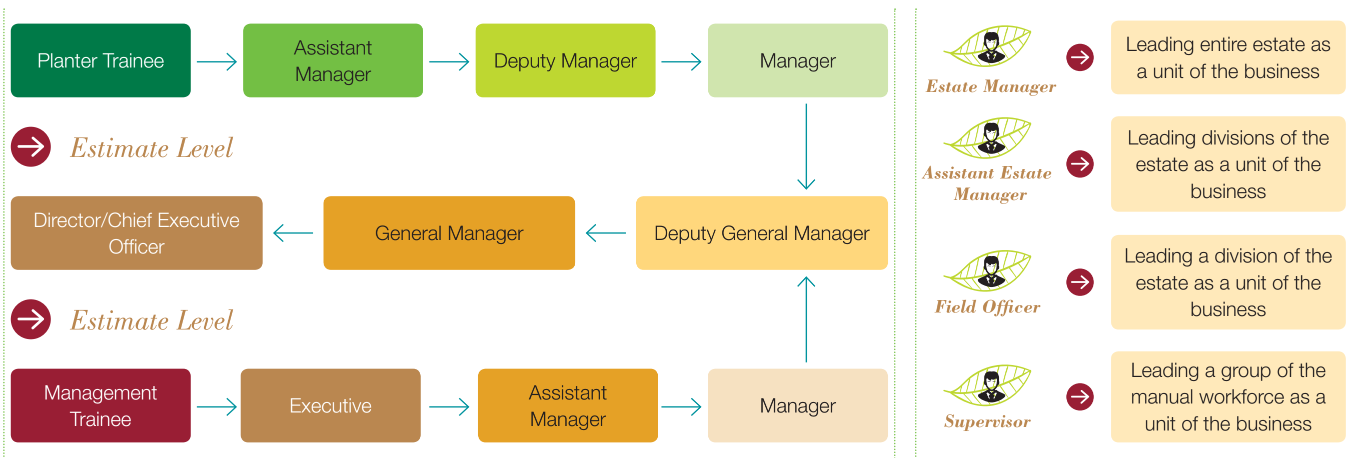
GRI 404-03

Each KVPL employee is encouraged to maximise their potential within their assigned roles and to continuously strive to deliver their best. The Company's performance appraisal mechanism is structured to assist employees and their supervisors to determine if they are on track to achieve their performance goals. The Annual Performance Review process has been designed to determine employee performance vis-à-vis KVPL's strategy, vision and guiding principles. The performance review mechanism is applicable to all employees and serves as the basis for determining bonus entitlements, promotions and other rewards. It also helps in identifying training needs and earmarking potential leaders for further development. Moving away from the traditional 'command and control' model, the performance appraisal mechanism embraces a more proactive approach towards fostering an empowered workforce and the effective management of under performance.

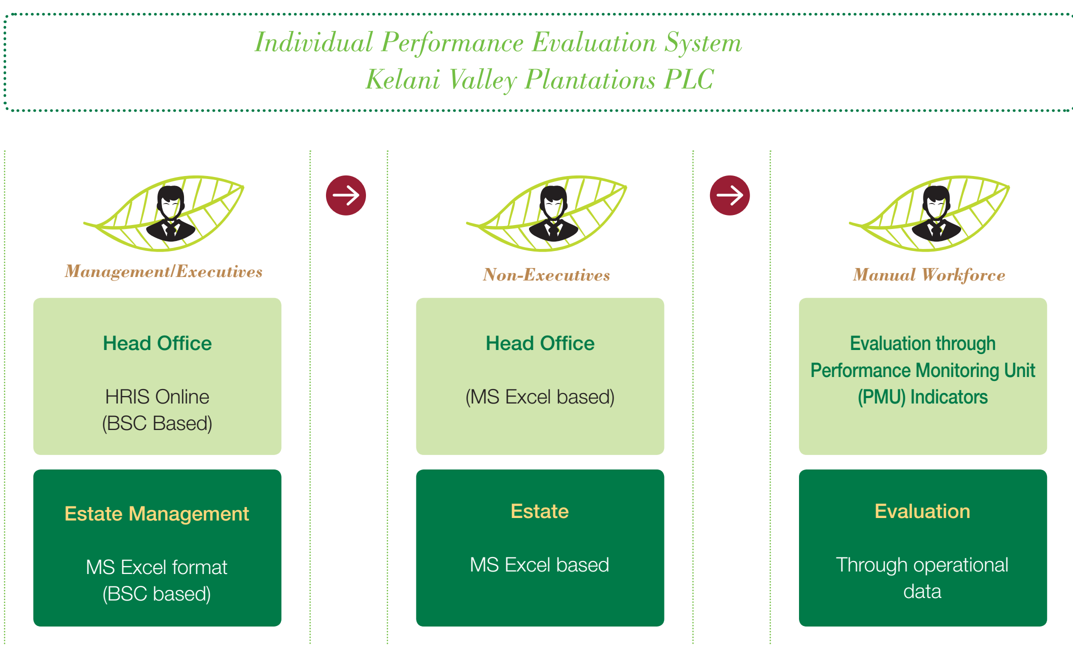
We have provided well-defined Key Performance Indicators (KPIs) at the beginning of each financial year for them to perform in a more productive manner, individually as well as collectively.

Human Capital Contd.

SUCCESSION PLAN AND LEADERSHIP DEVELOPMENT PLAN

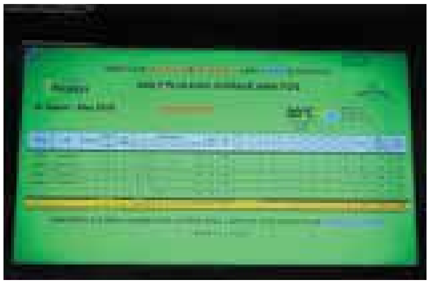


Our performance management system for the entire workforce including Executives, non-executives and manual workers is running with the motto “You are identified” which clearly defines each and every employee’s performance. It captures, reviews, evaluates, rewards and also acts as an independent transparent system.



To empower the management segment and to make quick and correct decisions, all the Estate Managers and Assistant Estate Managers have been given the latest tablets with which they can review their data with an online real-time system, creating more productive management decision-making processes.

At the corporate office large digital displays have been placed in strategic locations to monitor, review and provide feedback to the estates. Comments and feedback from the management team are sent within 24 hours.



Online displays placed in strategic locations

Distinctive Culture and Work Ethic

GRI 404-03

The hallmark of KVPL's unique culture is the commitment to the Company's vision to be a "product of excellence". At the centre of KVPL's culture are the core values of the Hayleys Group strength in diversity, empowered by equality and driven by sustainability. These values cascade through to all aspects of KVPL's business and are reflected in the day-to-day polices and procedures that provide orientation for employees to conduct their daily activities.

Continuous interaction with employees remains the key to reinforcing corporate culture at all levels of the business. For corporate employees, the Company maintains an open door policy to encourage continuous communication and regular feedback.

A number of formal and informal mechanisms are also in place to foster team spirit and collaboration between peers, key among them is "Hay Plan", the Hayleys Group flagship initiative which seeks to promote greater collaboration between interdepartmental teams. Meanwhile for the estate workforce, where a collective bargaining agreement is in force, the Human Development Manager (HDM) handles communications, acting as the main liaison between the Company and union representatives to discuss matters such as pay, benefits, health and safety and employee well being.

GRI 103-02

KVPL's formal grievance mechanism allows employees to report matters of discord, while the whistle-blower policy is in place for employees to be able to formally report any alleged breach of anti-corruption practices without the fear of reprisal.


HAYLEYS PLANTATIONS SECTOR

KELANI VALLEY PLANTATIONS PLC
TALAWAKELLE TEA ESTATES PLC

HUMAN RESOURCE MANAGEMENT POLICY
[illegible]

- HR THEME
- GOALS
- OBJECTIVES

HR Strategic Plan

Reinforce Positive Behavioural Changes

GRI 409-02

KVPL is firmly committed to create an environment where employees can carry out their duties safely, and with no risk to their health or well-being.

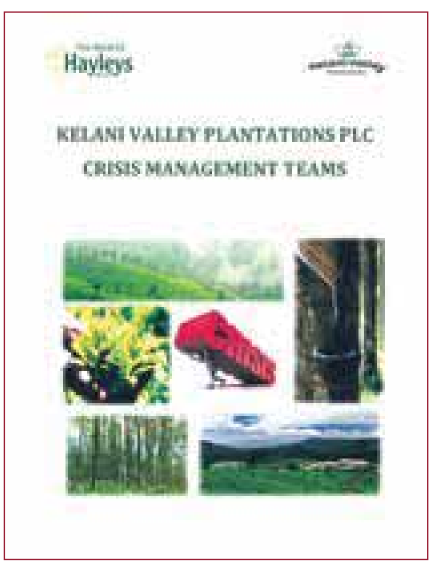
The Company undertakes to comply with all applicable workplace health and safety regulations and maintains occupational safety standards in line with globally accepted best practices.

Accordingly, a dedicated safety committee has been appointed at each factory. Consisting of both management and labour representatives, the role of the safety committee is to support the Company's effort to achieve an accident and injury free workplace.

Human Capital Contd.

Regular training is conducted to reinforce positive behavioural changes among employees and encourage them to align with the Company's safety culture.
In addition to workplace safety, KVPL is firmly committed to ensure the physical, mental and psychological well being of employees and continues to invest in programmes that inspire employees to make healthy lifestyle choices.

Training on Health and Safety measures



Crisis Management Plan

Best Practices

GRI 402-01,407-01,408-01

KVPL is committed to ensuring that the rights of all workers are respected in full compliance with all applicable regulatory frameworks and through the adoption of international best practices, in the event legal frameworks are not yet in place. In addition the Company has voluntarily aligned its policies with the International Labour Organisation (ILO) Declaration on Fundamental Principles and Rights at Work, and the UN Guiding Principles on Human Rights in Business.

Accordingly KVPL;

- Does not recruit child labour and condemns all forms of exploitation of children
- Supports the elimination of all forms of forced, bonded or compulsory labour
- Supports the freedom of association and the right to choose a collective bargaining representative
- Supports and upholds the elimination of discriminatory practices with respect to all aspects of employment, and promotes and embraces diversity and inclusion within its business operations

Moreover, we comply with the Global Compact 10 principles as well.

Maternity Benefits	
Employee benefits not available to temporary/part-time employees	Maternity benefits
Total number of employees entitled to maternity leave (2017/18)	258
Total number of employees that took maternity leave (2017/18)	162

GRI 407-01

Labour Management Relations	
Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	1 month
Notice period and provision for conclusion is specified in the agreement	Yes

GRI 403-01,02,03,04

Occupational Health and Safety Record 2017/18

(LA-5)	Percentage of total workforce represented in formal joint management worker health and safety committees that help monitor and advise on occupational health and safety programme	100%
	Injury Rate (IR)	0.2%
	Occupational Disease Rate (ODR)	0.35%
	Lost Day Rate (LDR)	2.28%
	Absenteeism Rate (AR)	14%
(LA-7)	Workers in high-risk situations	NA

KEY HIGHLIGHTS FOR 2017/18

In the year under review, we continued on our strategic pathway towards enhancing KVPL's Human Capital by focusing on the following;

Asia Pacific HRM Congress Awards
Leading HR Practices in Quality Work-Life 2016 - **Winner**
Organisation with Innovative HRM Practices 2017 - **Winner**

Global HR Excellence Awards - 2017
Leading HR Practices in Quality Work-Life – **Winner**

South Asian Business Excellence Awards 2017
Best HR Practices for Organisational Development - **Winner**

SLITAD People Development Awards
Sri Lanka Institute of Training and Development (SLITAD)
2014 – Silver, 2017 - Gold

100 Most Influential Global HR Professionals Award
Most Talented HR Leaders Award - Asia Pacific HRM Congress
Outstanding HR Leadership - **Plantation Industry Award**

Human Capital Contd.

National Business Excellence Awards

Overall Excellence – **Bronze**
Extra Large Category - **Silver**
Agriculture and Plantation Sector - **Gold**
Excellence in Corporate Governance - **Gold**
Excellence in Capacity Building - **Silver**
Excellence in Environmental Sustainability - **Silver**
Excellence in Corporate Social Responsibility - **Gold**
Excellence in Performance Management - **Gold**

National Social Dialogue and Workplace Cooperation Awards

Glassaugh, Invery - **Gold**
Robgill – **Bronze**
Uda Radella, Fordyce - **Merit**

National Tea Awards

Mrs. M. Sivagami – **Fordyce Estate Best Tea Plucker 2017 All Island 1st place**

Inter Plantation Cricket 6S' Bowl Champion 2018

Inter Plantation Rugby 7S' Bowl Champion 2018

Social Dialogue Award 2017 Winners

Social and Relationship Capital

VISION

Contribute towards nationwide socio-economic progress by providing a better work-life balance for the plantation workforce and also ensuring a higher quality of life for the resident plantation communities.

STRATEGIC PATH TOWARDS REALISING OUR VISION

GRI 415-01

Being a plantation Company, KVPL is responsible for the well-being of 58,000 people; the 9,762 strong plantation workforce as well as another 48,000 people who are part of the extended communities residing on the plantations. Striving to maximise value created for these stakeholders whose socio-economic status is heavily dependent on the Company, KVPL recently expanded its social responsibility parameters to move away from the purely philanthropic stance adopted in the past, in favour of a more strategic approach to;

- Create a more conducive work environment for the plantation workforce with due consideration of their physical, social and physiological wellbeing
- Develop mutually-beneficial partnerships with plantation workers and communities through continuous and ongoing engagement and open communication
- Uplift the quality of life of KVPL's plantation workforce and the plantation communities through consistent investments that minimise socio-economic inequalities
- Increase employee motivation and commitment in order to enhance productivity that will serve as a key lever for growth
- Foster a familial culture unique to KVPL
- Depict KVPL as a good social steward

- **Home for Every Plantation Worker**

A HOME FOR EVERY PLANTATION WORKER

The 'Home for Every Plantation Worker' programme, is a unique effort that epitomises KVPL's vision of community care. First launched in 2006 as a CSR initiative for the benefit of the plantation workforce, the programme has since grown to become KVPL's flagship worker welfare effort applied across all 25 KVPL estates located in Nuwara Eliya, Hatton and Yatiyantota-Bulathkohupitiya regions. Based on the belief that employees who benefit from a better quality of life would be motivated to improve productivity, the programme has recently been integrated as a key component of KVPL's sustainability framework. This has enabled all community efforts for the plantation workforce to be channelled through the 'Home for Every Plantation Worker' programme.

The programme is funded entirely by KVPL with Rs. 1.50 for every kilo of single origin leafy Tea sold being channelled to a special fund created for the purpose. Over the years the programme has also received support from various interested parties,

Social and Relationship Capital Contd.

most recently the Save the Children Fund, which has pledged a sum of Rs. 23 m aimed at improving maternal health.

GRI 102-13

Committed to Sustainable Business

Purity & Food Safety	*Ethical Business*	*Environment*	*Society*

Four key pillars drive the 'Home for Every Plantation Worker' programme;

Living Environment

Improve the immediate living conditions of workers and their families by;

- Upgrading and rehabilitation of traditional worker houses
- Provision of factory and field rest-rooms
- Electrification of housing and living quarters
- Self–help housing projects involving the construction of new houses for plantation employees, with 5-7 perches of estate land being allocated per house
- Upgrading existing water supply schemes
- Installation of new water delivery systems
- Improving access roads to worker housing
- Establishing rural agency post offices within the plantation boundaries

GRI 403-04

Health and Nutrition

Facilitating basic health requirements through;

- Regular medical assistance for all plantation communities.
- Regular health and nutrition check-ups which includes immunisation and monitoring of child development, maternal health and elder health
- Common ambulance service for estates in the same area.
- Day care centres ('crèches')
- Provision of medical facilities addressing all major health requirements.

Community Capacity Building

Encourage the plantation workforce to improve their quality of life through access to micro-finance facilities that enables them to renovate their homes, purchase motorcycles, etc. Micro finance facilities are made possible through KVPL's partnership with the Estate Worker Housing Co-operative Societies (EWHCS). The Company also grants loans and other financial assistance to encourage children of workers to continue their education, with a certain percentage being offered the employment opportunities within the Company. It is hoped that this would prove to be a sustainable solution to prevent labour migration away from estates.

Empowerment of Youth

Continuous monitoring of child development (age 5-18) in order to build a powerful youth generation within KVPL plantations. Following in-depth studies to identify emerging requirements of younger generations, KVPL has launched several special projects focusing on creating educational awareness, vocational training, bridal dressing and beauty care, sewing, etc. The most recent development saw pre-school and nursery education programmes being conducted to provide the required support to workers' children seeking grade 1 admission to Government schools.

Social and Relationship Capital Contd.

Expanding the "Home for Every Plantation Worker" Programme

In 2016 KVPL embarked on an ambitious project with Save the Children Fund, to strengthen its commitment to improve maternal health, which would enable selected KVPL Teas to be labelled as "Mother & Child Friendly Tea". The scope of the project involves; improving the health and sanitation levels of the mothers and children in the estate and ensuring that productive time of the mother is not wasted due to hygiene-related sickness as the first phase of the project. In collaboration with Save the Children, child development centres, (CDCs), mothers' feeding corners and the provision of daily nutrition for all children below the age of five living in estates of the Hatton region was implemented. A Child Policy' (UNGC's 5th principle for the abolition of child labour) was rolled out across the entirety of KVPL.

Another activity carried out under this platform is the Personal Advancement and Career Enhancement (P.A.C.E) programme to promote female empowerment with funding of chrysalis. Problem solving and decision making (PSDM), Time and Stress Management (TSM), Water Sanitation and Hygiene (WASH) were the three key areas of training; 209 participants from four estates successfully completed the training series.

Crèche upgrading - Hatton region

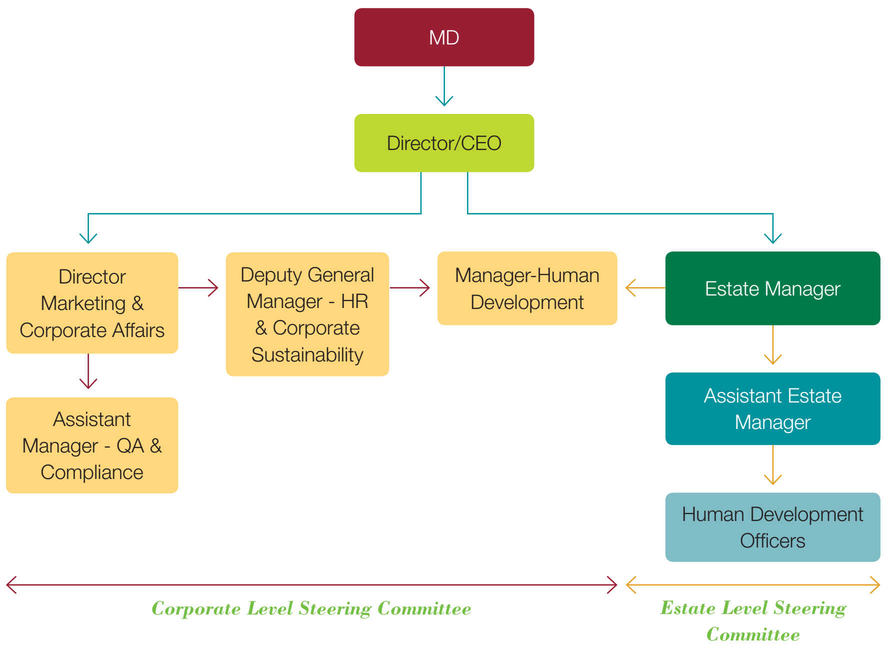
Personal Advancement and Career Enhancement Programme

- **Stewardship and Governance**

All community activities including "Home for Every Plantation Worker" is governed by a steering committee chaired by the Managing Director. The steering committee also includes the Director/ CEO, Director-Marketing and Corporate Affairs, Deputy General Manager-HR and Corporate Sustainability, Manager-Human Development and Estate Management (Estate Managers and Estate Assistant Managers) and Human Development Officers attached to all 26 estates.

The top management (Managing Director and Director/ CEO) provides joint leadership for the formulation policies and procedures and also oversees the approval of funds required for the implementation of specific CSR initiatives under the four pillars of the 'Home for Every Plantation Worker' programme.

As part of their responsibility, members of the steering committee also frequently visit estates to monitor the progress and maintenance of activities to ensure their alignment with KVPL's community care vision. Meanwhile the monthly CSR return is personally monitored by the MD, Director/ CEO and Head of HR for continuous process improvement and better strategic realignment.



Monthly regional level meetings are conducted by the respective Directors (Director-Up Country Region and Director-Low Country Region) to discuss and analyse the progress made on the implementation of CSR initiatives under the 'Home for Every Plantation Worker' programme, vis-à-vis the following criteria;

- High employee satisfaction rate
- Absenteeism percentage and worker out-turnout
- No. of units completed under each area of activities listed under main framework/ quantitative measurements
- Social investments
- Qualitative parameters/social recognition

Gaps identified through this process are addressed with necessary corrective action being implemented. Meanwhile estate level CSR teams which have exceeded performance expectations are recognised and rewarded appropriately.

- **Partnerships**

Partly responsible for the success of the "Home for Every Plantation Worker" programme are the strong partners that KVPL has worked with over the years. These include;

- Save the Children Fund
- Plantation Human Development Trust (PHDT)
- Ministry of Plantations, Ministry of Estate Infrastructure Development and other Government institutes
- Schools within the estates and surrounding villages
- Universities
- Divisional secretariats and legal entities
- Government and private sector banks and micro financial service providers
- Trade unions

Social and Relationship Capital Contd.

Newly built e-Learning centre at Pedro Estate, Nuwara Eliya

KEY EFFORTS FOR 2017/18

GRI 413-01,02

Activities Under Living Environment	*Up to 2017*	*2017/18*	*Grand Total*
New housing units built	1,383	157	1,540
Land extent granted as perches	9,829	1,722	11,551
Re-roofing	7,605	125	7,730
Electrification (No. of housing units)	7,283	597	7,880
General rehabilitation	547	11	558
Access roads (km)	283	328	611
Water schemes	1,172	15	1,187
New toilets (units)	7,800	165	7,965
Playgrounds	22	6	28
Upgraded staff quarters	180	14	194
Community centres	20	3	23
Factory restrooms	20	0	20
Field restrooms	188	17	205
Child development centres	19	27	46
Hot water bathing spots	15	0	15

Activities Under Health & Nutrition	*Up to 2017*	*2017/18*	*Grand Total*
Dental clinics	484	15	499
Dengue awareness programmes	358	51	409
Eye clinics	1,023	85	1,108
AIDS awareness programme	1,831	259	2,090
TB awareness programme	329	47	376
Oral cancer programmes	357	0	357
Cataract removal surgeries	1,145	143	1,288
Logistics support for the patients	10,458	20,760	31,218
No. of spectacles provided to community	4,195	101	4,296

Activities Under Community Capacity Building	*Up to 2017*	*2017/18*	*Grand Total*
Street dramas	26	4	30
Alcohol prevention programmes	209	77	286
No. of individuals who have taken loans	40,294	4,363	44,657
Loan amount (Rs)	72,588,482	9,584,285	82,172,767
Deposits accepted (Rs)	39,135,707	21,314,689	60,450,396
Household cash management programmes	215	87	302

Activities Under Youth Empowerment	*Up To 2017*	*2017/18*	*Grand Total*
Training for small business management	9	110	119
Bridal and beauty care programmes	14	3	17
Home gardening programmes	511	98	609
English classes	931	529	1,460
Computer classes	71	388	459
Vocational training -self employment	15	27	42

SIGNIFICANT ACHIEVEMENTS THROUGHOUT THE TIME PERIOD

- Kelani Valley Plantations PLC, being a leading plantation company in the country and representing Hayleys Plantations sector, bagged the prestigious “JASTECA CSR Gold Award” at the JASTECA Awards 2015, which was organised by Japan-Sri Lanka Technical and Cultural Association (JASTECA), the Sri Lanka Alumni of The Overseas Human Resource and Industry Development Association (HIDA) - AOTS Department, Japan. At the competition KVPL was able to mark its victory with the Gold, competing against some of the outstanding giants in CSR projects

- Gold winner at National Social Dialogue and Workplace Cooperation Awards - Ministry of Labour Relations

- Featured in the UNGC Best Practice Booklet - ‘Globally Positioning Sri Lanka’s Best’ in year 2008

- Most recently CSR Asia has selected this model as a case study for the development of training material for UNGC’s learning programmes

Kelani Valley Plantations has always been intricately connected to the roots and nature that makes the business grow and flourish. With commitment and valuable teamwork KVPL has been in social responsibility. It is one of the key members in the Hayleys Plantation Sector. The year 2017 has been one interesting milestone amidst vast challenges where all the efforts have been adjudged by the National Business Excellence Awards, organised by the National Chamber of Commerce. KVPL won the most prestigious Gold award for Excellence in Corporate Social Responsibility. This achievement proves the fact that the Company has been leading change through the implementation of a series of bold initiatives to address industry challenges and ensuring that the plantation community is given a meaningful stake in the profitability of its plantation sector.

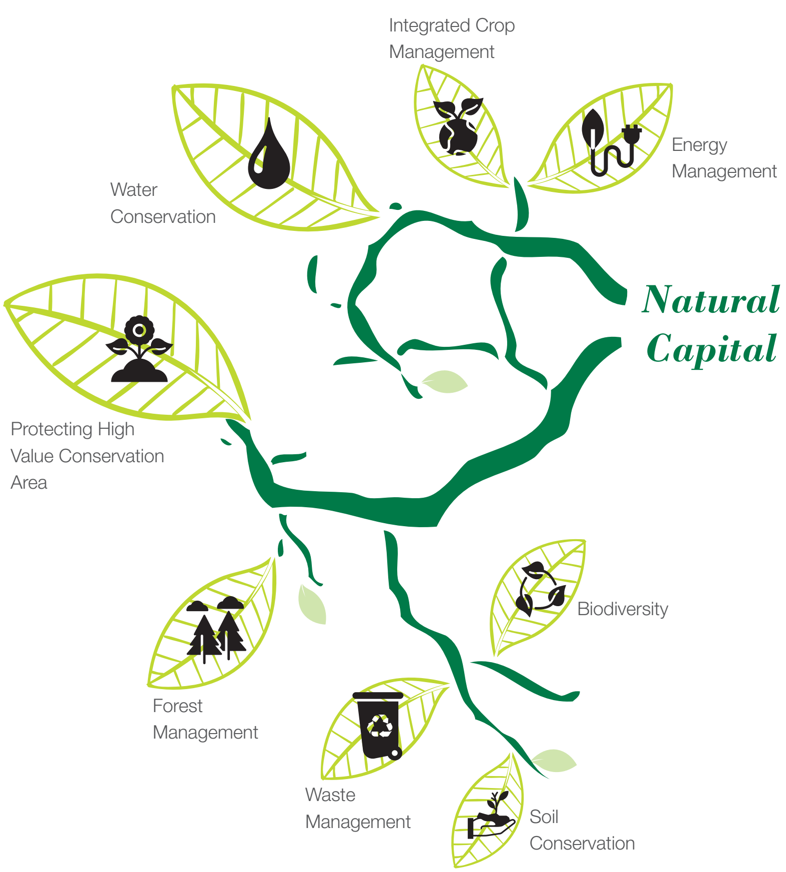
Natural Capital

GRI 102-11,103-02

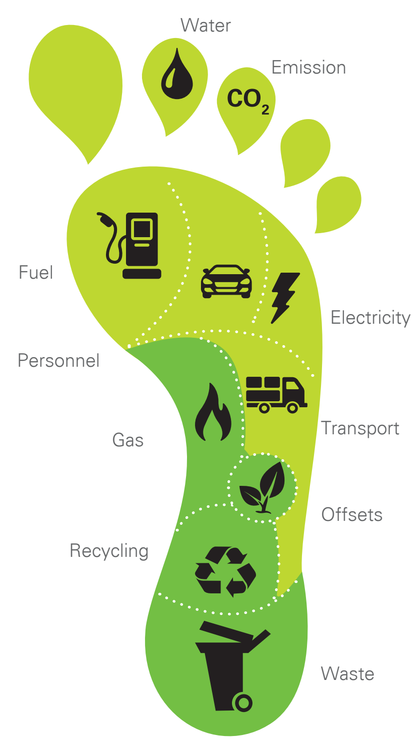
VISION

Demonstrate commitment to the environment by minimising the environmental impact caused by the business through the adoption of good agricultural practices, and compliance with environmental guidelines issued by the Rainforest Alliance Sustainable Agriculture Certification, Forest Stewardship Council, Ethical Tea Partnership and UTZ Certifications processes. In doing so our ultimate aim is to achieve global recognition as an "Environmentally sensitive Tea and Rubber producer"

Our Resource Management



Our Carbon Footprint



HIGHLIGHTS IN 2017/18

- GPS mapping of our estates
- Identify High Value Conservation Area in our land and taking protective measures
- Biodiversity assessment of our estates

- Carbon foot print Calculation and certified as Carbon Conscious plantations
- Received Forest Stewardship Council (FSC) certification certified by Rainforest Alliance (RA) for all our Rubber estates.
- Documented all forestry tree inventory of all our estates
- Conducted Initial Environmental Assessment (IEA)
- Established better Rubber tree uprooting procedure to reduce impact on the environment

STRATEGIC PATH TOWARDS REALISING OUR VISION

KVPL strives to manage its business in such a manner that the environment is adequately protected and the use of natural resources is in order to contribute towards the sustainability objectives of the Company.

The KVPL Environmental Policy sets the tone that determines the Company's actions in this regard.

GRI 302-01,02,03

PROFILE

Carbon footprint - 5,248 Tn
Electrical intensity factories -
Tea - 0.87 Kwh/Kg
Rubber - 0.25 Kwh/Kg
Electrical intensity bungalows, staff quarters, offices and other buildings - 73.07 Kwh/Employee
Hydropower generation - 10,076,266 Kwh
Fuelwood planting - 3,100
Native and shade tree planting - 1,418
Insecticide use- zero
Fertiliser usage – 3,005,209 Kg
Water treatment - 100,750,540 L
Protected areas and areas of high biodiversity value- 1502.63 Ha

ENVIRONMENTAL POLICY

Kelani Valley Plantations PLC is committed to conserving the environment for future generations by aligning its plantations, in compliance with legal and voluntary international environmental management systems requirements. To this end, we adopt sustainable, environmentally-friendly processes with the participation of all our employees whilst creating a framework to continually improve the system.

Stemming from this, the Company has developed a comprehensive Environmental Management System (EMS) through which environment strategies and programmes are implemented to focus mainly on the management of materials, energy, water, waste, soil health and habitats. According to the strategic plan KVPL maintains the following overarching environmental commitments vis-à-vis the Triple Bottom Line model.

- Maintain self-sufficiency using fuel wood to provide energy for boiler systems, by 2018.
- Invest in replanting and sustainable agricultural practices to ensure longevity and health of the surrounding environment.
- Invest in maximising plantation-based income sources of Tea and Cinnamon, and diversifying into other income sources, such as energy.

Natural Capital Contd.

GRI 102-11

KVPL also conducts a regular environmental impact assessment to identify and assess the environmental impacts arising from business activities and to implement corrective/preventive action to ensure continuous improvement in the Company's environmental performance.

Goal

- Material management
- Energy management
- Soil conservation
- Water conservation
- Waste management
- Habitat conservation

Strategy

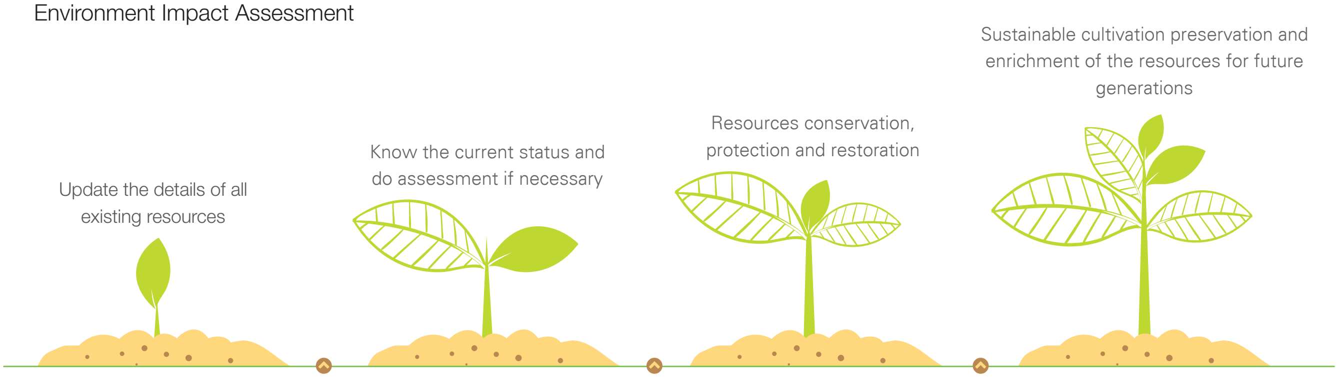
- Maintain soil nutrient and reduce erosion
- Increase recycling of solid waste
- Maintain quality drinking water and waste
- Improve the efficiency and effectiveness of energy usage
- Reduce material usage
- Reduce GHG emission by tree planting
- Conduct studies on existing fauna and flora details
- Water contamination
- Protect existing forest, tree planting and cover crops

Approach

- Compliance with Company policies
- Compliance with policies of certification bodies
- Compliance with national environmental policies, legislation and regulations
- Being a member and adherent to the principles of the Sustainable Development Goals of United Nations Environment Programme
- Adequate budgets
- Training and awareness
- Studies, research and development

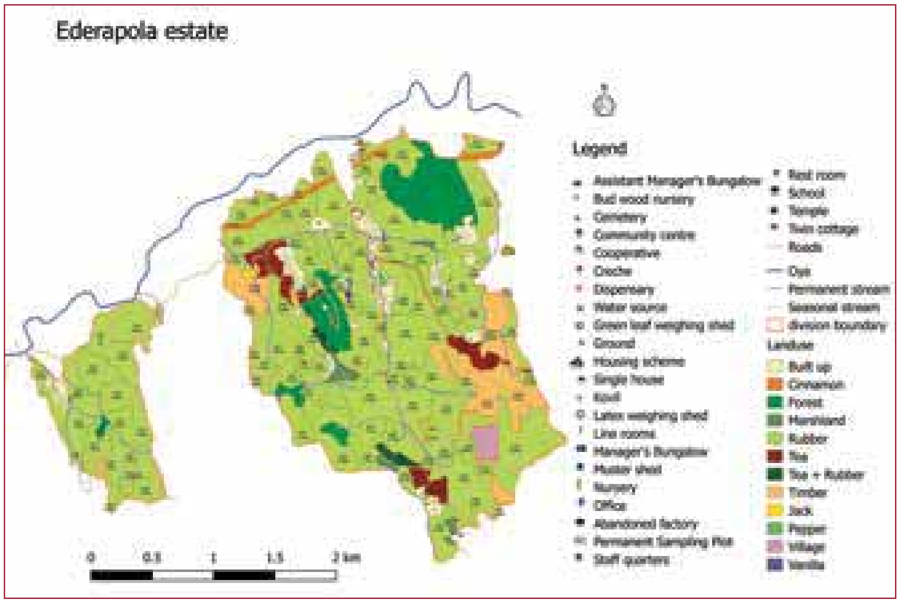
As part of the ongoing review of best practices, in year 2017/18, KVPL carried out the following targeted initiatives to determine the business impact on key natural resources.

- GPS mapping
- Biodiversity assessment
- High Value Conservation Area assessment
- Carbon Foot print calculation
- Environment Impact Assessment



With the GPS mapping we can ascertain our boundaries waterways and crop, forest, wetland, unproductive and conservation areas exactly further, a Biodiversity assessment and high value consternation area assessment (HCVA) were conducted.

GPS MAP OF EDERAPOLA ESTATE



We do an Environmental Impact Assessment (EIA) for every low-country estate each year, An EIA is also conducted on estates for each separate activity (such as the construction of new building or uprooting) which may cause environmental damage.

Environment Impact Assessment of an Uprooting Field

- **Material Management**

In the course of its operations, KVPL uses non-renewable as well as renewable materials. Non-renewables consist of agrochemicals, fertiliser, dolomite and fossil fuels while renewables material mainly comprise packaging materials.

Since 2014, the Company has committed to a 2% year-on-year reduction in the use of agrochemicals, fertiliser and dolomite applied to soil and crops.

Natural Capital Contd.

ClimateSI

CARBON CONSCIOUS CERTIFICATE

Climate Smart Initiatives (Pvt) Ltd certifies that GHG Inventory of

Kelani Valley Plantations PLC

covering 25 estates with the total land extent of 13,128 ha and the head office

for the financial year 2017/18

has been measured and reported in accordance with the requirements of

ISO 14064-1: 2006 – Specification with guidance at the organizational level for the quantification and reporting of greenhouse gas emissions and removals.

Certificate No	: ClimateSI/MRV/015
Date of Certification	: 11/05/2018
Period of Assessment	: 01.04.2017 to 31.03.2018
Scope of Certification	: Operationally controlled business activities belongs to Kelani Valley Plantations PLC

Carbon Footprint	: 2017/18
Scope 1- Direct GHG Emissions	: 1,596 tonnes of CO_2 equivalent
Scope 2- Electricity indirect GHG Emissions	: 3,286 tonnes of CO_2 equivalent
Scope 3- Other Indirect GHG Emissions	: 366 tonnes of CO_2 equivalent
Total	: **5,248** tonnes of CO_2 equivalent

Eng H.M.Buddika Hemashantha
(Bsc (Hons) Eng., M.Eng.)
Chief Executive Officer
Climate Smart Initiatives (Pvt) Ltd

Scope 1 : Chemical fertilizer, LPG consumption, Fuel consumption, fire extinguishers
Scope 2 : Grid electricity
Scope 3 : Transmission & distribution loss, Business Air Travels
Exclusions : Hired vehicles, Employees commuting, Waste disposal, Municipal water

Period of validity : 11/05/2018 - 31/03/2019

GRI 305-01,02,03,04,05

COMMITTED TO CLIMATE ACTION WITH CARBON CONSCIOUS CERTIFICATION

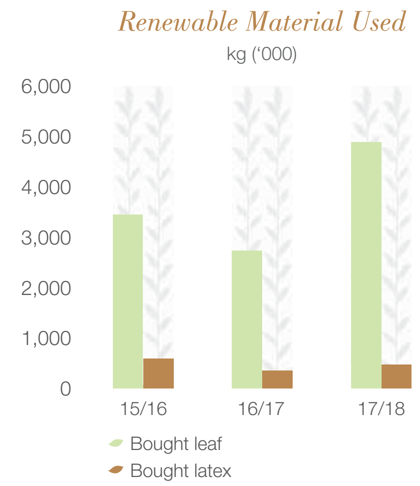
As we committed to sustainable agriculture, Carbon Conscious Certification is a significant achievement for KVPL towards becoming a Carbon Neutral organisation. With the objective of mitigating the environmental impact of our business operations in accordance with the ISO 14064-1: 2006 – Specification, KVPL recorded and tabulated the carbon footprint of the organisation including that of 25 Estates located in the Nuwara Eliya, Hatton and Yatiyantota area. These 25 estates covered 13,128 Ha and comprised a total workforce of 9,762. KVPL is concerned about the impact of climate change on the quality of life. So we will continue to measure and manage our carbon footprint in the future to expand our initiative to reduce GHG emission.

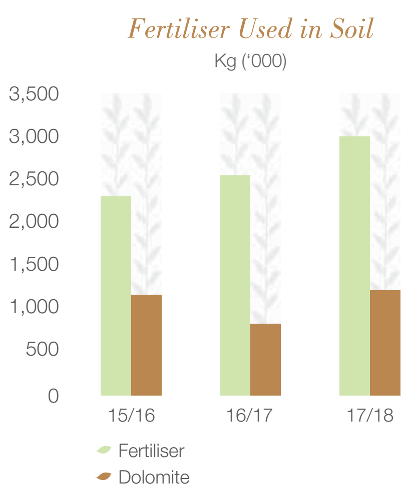
Receiving Carbon Conscious Certificate

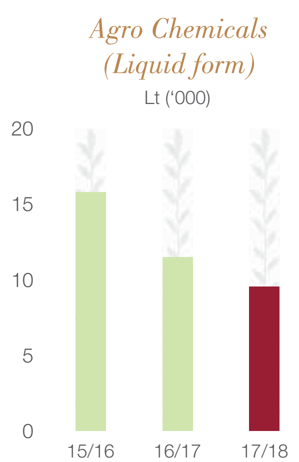
GRI 301-01

Non-Renewable Material Used				
Type of Material	*Unit*	*2015/16*	*2016/17*	*2017/18*
Fertiliser	Kg	2,306,771	2,555,659	3,005,209
Dolomite	Kg	1,166,322	833,079	1,223,178
Agro chemicals (Liquid form)	Lt	15,852	11,509	9,527
Agro chemicals (Solid form)	Kg	12,338	6,601	1,802
Firewood	m3/Cubes	34,373	29,433	38,614

Renewable Material Used				
Type of Material	*Units*	*2015/16*	*2016/17*	*2017/18*
Bought leaf	Kg	3,457,137	2,735,862	4,896,240
Bought latex	Kg	592,084	355,292	476,385
Packing materials	Nos.	97,948	87,441	71,356







Meanwhile business growth over the past five years has led to a significant increase in packing materials used in the day-to-day operations over the same period, prompting the Company to invest in research to develop degradable and recyclable packing materials.

COMPOST PROJECT

Since January 2018 we started purchasing compost which was produced from degradable waste generated in the Colombo city. The UDA had difficulty on selling this compost (produce under the Government Green Initiative). As a socially responsible organisation committed to environmental sustainability we stepped in, purchasing the compost and thus supporting Government Green Initiative on Waste Management. In the three months ending 31 March 2018 we purchased 300 Tons of compost.

Natural Capital Contd.

Compost plant

Hydro power plants

Bags in Tea centres produced from our waste material

- **Energy Management**

Being an energy-intensive process, the manufacture of both Tea and Rubber rely heavily on electricity and consequently KVPL's energy consumption remains high. The Company has two main sources of electricity – grid electricity as well as hydropower generated through investments in mini-hydros at several of the estates owned by KVPL. Emphasising the commitment to energy management, the Company continues to invest in energy efficient equipment and processes as well as equipment powered by renewable energy, all aimed at reducing the dependency on grid electricity.

In this context, Biomass boilers have been installed to meet part of the energy requirements of the Tea drying and withering processes. Fired using non-viable Rubber wood from the Company's own Rubber plantations, these biomass boilers provide 95% of the total energy requirements of the Tea sector. Recent efforts to enhance the Company's renewable energy programme saw the focus shift to solar power projects at factories in the Low country regions.

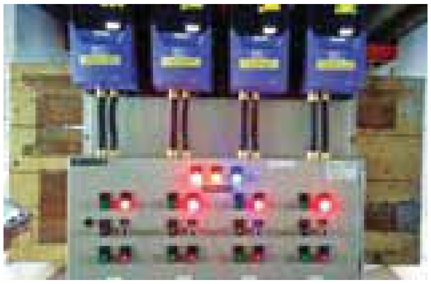
As part of its sustainable energy programme, KVPL has undertaken an initiative dedicated to the cultivation of "timber blocks" in unviable Tea / Rubber lands owned by the Company. First launched in 2007, with the intention of creating a sustainable source to meet the firewood requirements at Tea factories, the programme has since gathered considerable momentum with over 89 hectares of fuel wood in plantation as at end March 2018.

KEY EFFORTS FOR 2017 /18

GRI 302-04,05

Strategic Focus Area	*Key Initiatives*
Sustainable Energy Programme	Planting of 43 Ha acres of fuelwood to expand "Timber Block"
Reduce consumption of grid electricity	A total of 77 VFD (Variable Frequency Drives) units were installed in nine factories (Annfield, Ederapolla, Fordyce, Halgolla, Ingestre, Kelani, Nuwara Eliya, Pedro, Uda Radella) at a cost of Rs. 11.5 m
Renewable Energy Programme	Phase of a project to commission solar farms at Low country factories saw the installation of a rooftop solar system at the Dewalakande factory at a cost of Rs. 21.2 m. With a system capacity of 165.1 Kwp, the system is able to generate 18,810 Kwh per month. Further investments were made to install solar-powered water heating systems to reduce the energy consumed at Estste bungalows.

Installed solar panels at Dewalakanda Rubber factory



Installed VFD at Pedro Tea factory, Nuwara Eliya

Tree planting program at Weoya Estate Yatiyantota

Timber plant nursery and fuelwood blocks in estates

GRI 303-01

- **Water Management**

As an agricultural operation, KVPL's water footprint remains high. With natural surface water sources and rain water being the main sources of water, the Company has put in place several initiatives to control usage where possible and practical. At KVPL, water management is done in accordance with a carefully-planned approach that takes into consideration prevailing land conditions, topography and changes in the weather to achieve a sustainable balance between ensuring consistent and sufficient supply of water to meet operational requirements while conserving water resources through more efficient use.

Given the Company's goal of reducing water usage by at least 2% each year, KVPL's water usage is monitored and recorded at RA certified Tea processing centres with the intention of reducing the water footprint at estate level. Meanwhile efforts to improve water quality include regular mapping of water resources as per the requirement of the RA and UTZ certifications, which ensures

- Continuous and ongoing maintenance of the water distribution network, a process that has led to the establishment of chemical free buffer zones and vegetation barriers around water sources
- Installation of waste water treatment tanks at necessary places to prevent wastewater seepage into water bodies
- Corrective action is taken when water quality is not within the standards requirements
- Septic tanks are not installed in flood prone areas

Natural Capital Contd.

Water Conservation

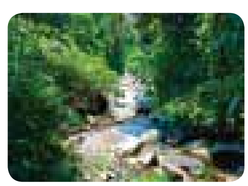
- Waste water from human settlement and factories
- Established soak pits – filtering water before releasing it to the water bodies
- Waste water purification systems establish

- Use of agro-chemicals
- Established buffer zones and live fence

- Effluent water from Rubber factory
- Effluent water treatment plant

- Establishing water retention system in estates

- Protecting water catchment areas



- Establishing riparian area

KEY EFFORTS FOR 2017 /18

To determine the adequacy of the existing soakage pit system and activate improvements if needed, a test was carried out to assess the quality of wastewater following its filtration through soakage pits. Also included was a test to determine the quality of drinking water. Outsourced to the Bureau Veritas laboratory, an independent body, the test was carried out over a period of three months covering all KVPL's Tea and Rubber factories.

Tree planting and awareness programme for children

Independent water sampling in the field

TEST REPORT

(T418)064-00710(SL)

TEST REPORT

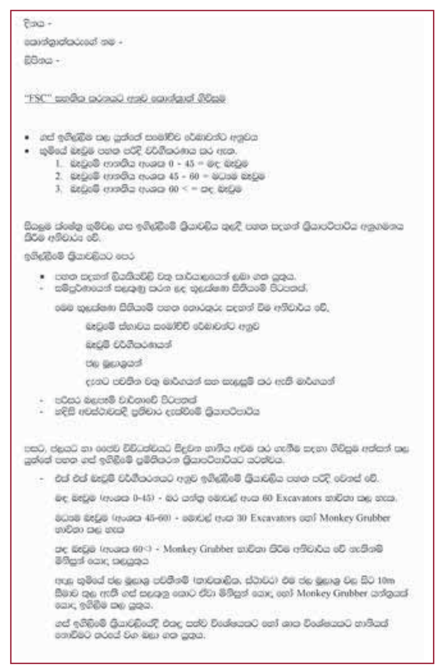
A water purification plant and a fence for water reservoir of Nuwara Eliya estate under Save the Children projects.

Drinking water projects at Glassugh and Nuwara Eliya

- **Soil Conservation**

With the impact of climate change taking its toll on the earth, soil erosion across the land base has become a serious concern for KVPL in recent years. This has highlighted the importance of soil conservation, which is now seen as a critical priority in creating a sustainable agricultural foundation for the business. An annual soil erosion test is conducted as part of the FSC certification process, with necessary mitigating action being deployed as needed. The results of the latest FSC report revealed the uprooting process to be a key concern, causing heavy soil erosion. The uprooting process in these areas has traditionally been outsourced, leaving the Company with little or no control over the techniques used for uprooting. However following the results of the study, steps were taken to give the Company more control over the uprooting process.

The Company commissioned a comprehensive study to identify the full scope of the soil erosion issue, including the sustainability requirements and a full environment impact assessment accompanied by recommendations for improvement.



Contractor agreement for uprooting

Natural Capital Contd.

Uprooted field

EXPAND/INCREASE COMPOST USAGE

- Improve soil texture and soil micro-organisms
- Increase cation ratio
- Improve soil health

GRI 301-02,306-01,02,04

- **Waste Management**

KVPL is strictly committed to observing best practices in handling and managing waste on estates and all Tea and Rubber factories. This commitment includes investments in new proven technologies and innovative solutions for better waste management.

Waste collection point at estates

The Company has adopted an integrated waste management progarmme to ensure that all types of waste products, including food waste, agricultural waste, biomass or by-products generated by factories, are safely disposed of in accordance with the prevailing regulations and the best practices. Accordingly any residue generated as a result of the Tea production process is reused in composting and as bio fertiliser components.

Empty chemical containers used in estates are sent for recycling

GRI 306-01

Meanwhile all KVPL Rubber processing factories have been equipped with CEA approved wastewater treatment plants to ensure that wastewater generated during the Rubber production process is subjected to an effluent treatment process prior to disposal. (GRI 306-1)

HABITAT CONSERVATION

GRI 304-01,02,03

As KVPL's business activities are closely associated with natural eco-systems, the Company works in tandem with the principles set out under the UN Global Compact and strives to align its work to achieve the UN Sustainability Development Goals; 13 – Climate Action, 14 – Life below Water and 15 – Life on Land.

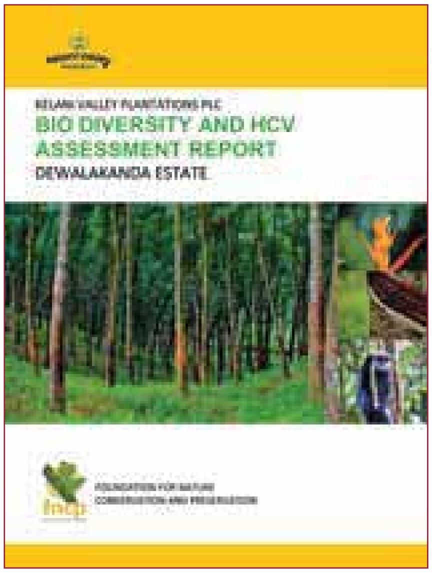
KVPL is also an active member of Biodiversity Sri Lanka.

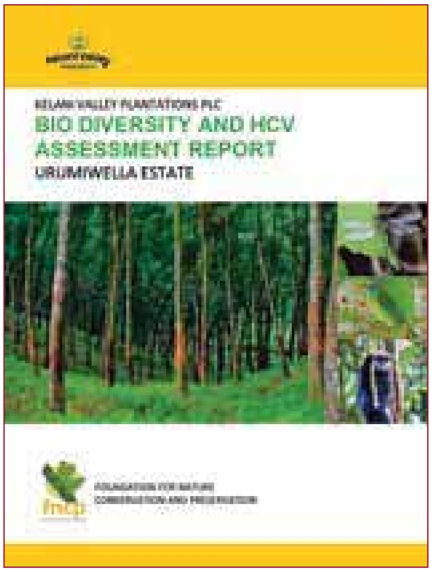
BIODIVERSITY SRI LANKA

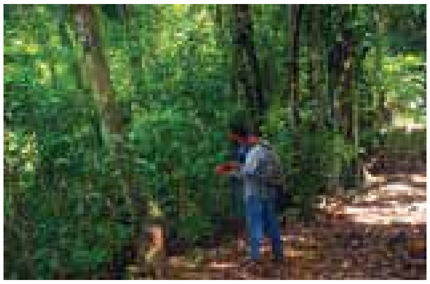
KVPL's responsibility is translated into concrete action through a systematic, well established set of internal policies and operating procedures.

Biodiversity assessments were conducted in order to find the available fauna and flora species in the estates. Every four years' a fresh assessment is conducted as per the policy. We found the invasive species in the estate and established a plan to control them.

In 2017, KVPL conducted an in-depth biodiversity assessment of its low grown estates in an effort to map out the high conservation areas, forest reserves, timber blocks, waterways, and marginal areas that can be planted with native species in addition to the existing plantation crops. This exercise was completed in all our low grown region estates and was followed by comprehensive inventory of all biological assets, estate wise. Under this initiative, which was conducted with the assistance of the Forest Department and the Environmental Authority, the areas where trees had to be thinned out were identified, after which the approval of the NBRO (National Building Research Organisation) was sought to ensure that no damage would be caused to the soil as a result of the thinning process. Moreover, thinning out of trees was avoided in steep areas that are prone to erosion, near waterways and high biodiversity conservation areas.



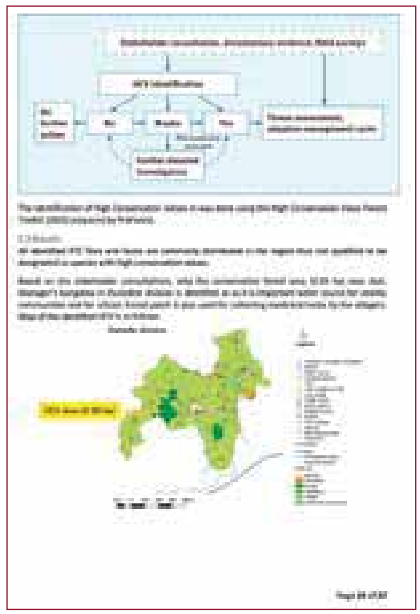




Biodiversity assessment at estates

High value conservation areas such as those with endemic species, water shades and landslide prone locations were identified and assessed. Mitigatory action was taken to protect these areas.

Natural Capital Contd.



High value conservation area *assessment report*

Awards and Achievements

- National Business Excellence Awards 2017
  Excellence in Environmental Sustainability - Silver Award
- Chairman's Awards
  Merit Award for Sustainable Forest Management

The Next Steps

- Invest in solar panels
- Expand the "Timber Block Programme"
- Expedite reforestation
- Obtain ISO 14001:2015 Environment Management System

Strengthening the commitment to habitat conservation, in 2017 a GPS mapping process was commissioned as a part of a broader biodiversity assessment, timber sense and high value conservation area assessment effort to obtain greater clarity on all available resources in the Halgolla, Robgill and Ederapola estates. This was followed by a project to plant bamboo and kumbuk on the banks of all waterways in and around the estates. The first phase of the project was completed at the Halgolla estate, with the remaining estates to be completed by mid 2018. Further all unproductive areas identified through the GPS mapping process were earmarked for reforestation in order to increase the forest cover in those respective areas.

Training on environment best practices

GRI Index Table

General Standard Disclosure number	Description	Report Section	Page Number
Strategy and Analysis			
GRI 102-14	Statement from the most senior decision-maker of the Organisation	Chairman's Message and Managing Director's Message	28, 32
GRI 102-15	Description of key impacts, risks and opportunities	Corporate Profile, Review of Business Operations, Creating value for our stakeholders, Risk Management	15, 55, 62, 170
Organisational Profile			
GRI 102-1	Name of the organisation	Corporate Information	
GRI 102-2	organisation's activities, Primary brands, products, and services	Corporate Profile	08
GRI 102-3	Location of the organisation's headquarters	Corporate Information	288
GRI 102-4	Name of the countries where the organisation operates	Revenue Distribution Local and Global	04
GRI 102-5	Nature of ownership and legal form	Corporate Information	
GRI 102-6	Markets served (including geographic locations where products and services are offered, and types of customers and beneficiaries)	Our Land, Corporate Information	06
GRI 102-7	Scale of the organisation – Total Number of employees, operations, net sales, capitalisation	Financial Capital, Manufactured Capital	66, 83
GRI 102-8	Total number of employees by contract and gender, permanent and supervised	Human Capital	90
GRI 102-41	Percentage of total employees covered by collective bargaining	Human Capital	
GRI 102-9	Describe the organisation's supply chain	Creating Value for our Stakeholders	54
GRI 102-10	Any significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain	Report Profile	03
GRI 102-11	Report whether and how the precautionary approach is addressed	Natural Capital, Risk Management	110, 112, 170
GRI 102-12	Externally initiatives on economic, environmental and social charters, principles, or other	Intellectual Capital	88
GRI 102-13	List only the main memberships of associations and national or international advocacy organisations	Stakeholder Engagement, Social Capital	38, 104
Identified Material Aspects and Boundaries			
GRI 102-45	All entities included in the organisation's consolidated financial statements or equivalent documents.	Financial Capital	66

GRI Index Table Contd.

General Standard Disclosure number	Description	Report Section	Page Number
GRI 102-46	Process for defining the report content and the aspect boundaries	Materiality Assessment	43
GRI 102-47	List all the material topics identified in the process for defining report content		45
GRI 103-1	For each material topic, report the topic boundary outside the organisation		46
GRI 102-48	The effect of any restatements of information provided in previous reports, and the reasons for such restatements.	Financial Capital	66
Stakeholder Engagement			
GRI 102-40	stakeholder groups engaged by the organisation	Stakeholder Engagement	38
GRI 102-42	The basis for identification and selection of stakeholders with whom to engage		39
GRI 102-43	Stakeholder engagement, including frequency of engagement		40
GRI 102-44	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns.	Materiality Assessment	46
Report Profile			
GRI 102-50	Reporting period (such as fiscal or calendar year) for information provided	Report Profile	03
GRI 102-51	Date of most recent previous report		03
GRI 102-52	Reporting cycle		03
GRI 102-53	Provide the contact point for questions regarding the report or its contents	Report Profile	03
GRI 102-54	Report the ‘in accordance’ option the organisation has chosen		03
GRI 102-56	Organisation’s policy and current practice with regard to seeking external assurance, statements, or opinions for the report.	Chairman’s Message	03
Governance			
GRI 102-18	Governance structure	Corporate Governance:	132
GRI 102-19	Delegating authority	Corporate Governance:	133
GRI 102-20	Executive-level responsibility for economic, environmental, and social topics	Corporate Governance:	132, 136
GRI 102-21	Consulting stakeholders on economic, environmental, and social topics	Corporate Governance:	150
GRI 102-22	Composition of the highest governance body and its committees	Corporate Governance:	131, 133, 155
GRI 102-23	Chair of the highest governance body	Corporate Governance	132, 136

General Standard Disclosure number	Description	Report Section	Page Number
GRI 102-24	Nominating and selecting the highest governance body	Corporate Governance	132, 143
GRI 102-25	Processes for the highest governance body to ensure conflicts of interest are avoided and managed	Corporate Governance	140
GRI 102-26	Role of highest governance body in setting purpose, values, and strategy	Corporate Governance	133, 140
GRI 102-27	Collective knowledge of highest governance body	Corporate Governance	138
GRI 102-28	Evaluating the highest governance body's performance	Corporate Governance	144
GRI 102-29	Identifying and managing economic, environmental, and social impacts	Corporate Governance	152
GRI 102-30	Effectiveness of risk management processes	Corporate Governance	154, 162
GRI 102-31	Review of economic, environmental, and social topics	Corporate Governance	134
GRI 102-32	Highest governance body's role in sustainability reporting	Corporate Governance	162
GRI 102-33	Communicating critical concerns	Corporate Governance	133
GRI 102-34	Nature and total number of critical concerns	Corporate Governance	134
GRI 102-35	Remuneration policies	Corporate Governance	145
GRI 102-36	Process for determining remuneration	Corporate Governance	145
GRI 102-37	Stakeholders' involvement in remuneration	Corporate Governance	159
GRI 102-38	Annual total compensation ratio	Corporate Governance	
GRI 102-39	Percentage increase in annual total compensation ratio	Corporate Governance	138, 148
Ethics and Integrity			
GRI 102-16	Organisation's values, principles, standards, and norms of behavior	Corporate Governance	130
GRI 102-17	Mechanisms for advice and concerns about ethics	Corporate Governance	130, 134, 135
Specific Standard Disclosures			
Category: Economic			
Aspect: Economic Performance			
GRI 201-1	Direct economic value generated and distributed	Statement of Value Addition	82
GRI 201-2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	Risk Management	170
GRI 201-3	Coverage of the organisation's defined benefit plan obligations	Statement of Comprehensive Income	199
Aspect: Indirect Economic Impacts			
GRI 203-1	Infrastructure investments, development and services supported	Business Review	64
GRI 203-2	Significant indirect economic impacts	Business Review	58
Category: Environmental			
Aspect: Materials			
GRI 301-1	Materials used by weight or volume	Natural Capital	115
GRI 301-2	Percentage of materials used that are recycled input materials	Natural Capital	120

GRI Index Table Contd.

General Standard Disclosure number	Description	Report Section	Page Number
Aspect: Energy			
GRI 302-1	Energy consumption within the organisation	Natural Capital	111
GRI 302-2	Energy consumption outside of the organisation		111
GRI 302-3	Energy intensity		111
GRI 302-4	Reduction of energy consumption		116
GRI 302-5	Reductions in energy requirements of products and services		116
Aspect: Water			
GRI 303-1	Total water withdrawal by source	Natural Capital	117
Aspect: Biodiversity			
GRI 304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Natural Capital	120
GRI 304-2	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas		120
GRI 304-3	Habitats protected or restored		120
Aspect: emission			
GRI 305-1	Direct greenhouse gas (GHG) emission (Scope1)	Natural Capital	114
GRI 305-2	Energy Indirect greenhouse gas (GHG) emission (Scope2)		114
GRI 305-3	Other Indirect greenhouse gas(GHG) emission(Scope3)		114
GRI 305-4	Greenhouse gas (GHG) emissions intensity		114
GRI 305-5	Reduction of greenhouse gas (GHG) emissions		114
Aspect: Effluents and Waste			
GRI 306-1	Total water discharge by quality and destination	Natural Capital	120
GRI 306-2	Total weight of waste by type and disposal method		120
GRI 306-4	Transport of hazardous waste		120
Aspect: Products and Services			
GRI 301-3	Reclaimed products and their packaging materials	Creating Value for our Stakeholders	53
Aspect: Compliance			
GRI 307-1	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Risk Management	180
Aspect: Supplier Environmental Assessment			
GRI 308-1	New suppliers that were screened using environmental criteria	Intellectual Capital	88
GRI 308-2	Significant actual and potential negative environmental impacts in the supply chain and actions taken		88

General Standard Disclosure number	Description	Report Section	Page Number
Aspect: Environmental Grievance Mechanisms			
GRI 103-2	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	Natural Capital Intellectual Capital Human Capital	99, 110
Category: Social			
Aspect: Employment			
GRI 401-1	Total number and rates of new employee hires and employee turnover by age group, gender and region	Human Capital	90
GRI 401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees		90
GRI 401-3	Return to work and retention rates after parental leave, by gender		90
Aspect: Labour/Management Relations			
GRI 402-1	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	Human Capital	100
Aspect: Occupational Health and Safety			
GRI 403-1	Percentage of total workforce represented in formal joint management-worker health and safety committees	Human Capital	101
GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities		101
GRI 403-3	Workers with high incidence or high risk of diseases related to their occupation		101
GRI 403-4	Health and safety topics covered in formal agreements with trade unions	Human Capital, Social Capital	101, 104
Aspect: Training and Education			
GRI 404-1	Average hours of training per year per employee by gender, and by employee category	Human Capital	96
GRI 404-2	Programs for upgrading employee skills and transition assistance programs		94
GRI 404-3	Percentage of employees receiving regular performance and career development reviews		97, 99
Aspect:diversity and Equal Opportunity			
GRI 405-1	Diversity of governance bodies and employees	Human Capital	95

GRI Index Table Contd.

General Standard Disclosure number	Description	Report Section	Page Number
Sub-Category: Human Rights			
Aspect: Investment			
GRI 412-3	Significant investment agreements and contracts that include human rights clauses	Human Capital	96
GRI 412-2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights		97
Aspect: Freedom of Association and Collective Bargaining			
GRI 407-1	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	Human Capital	100
Aspect: Child Labour			
GRI 408-1	Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour	Human Capital	100
Aspect: Forced or Compulsory Labour			
GRI 409-1	Operations and suppliers identified as having significant risk	Human Capital	99
Aspect: Human Rights Grievance Mechanisms			
GRI 103-2	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	Human Capital	83
Sub-Category: Society			
Aspect: Local Communities			
GRI 413-1	Operations with local community engagement, impact assessments, and development programs	Social Capital	108
GRI 413-2	Operations with significant actual and potential negative impacts on local communities		108
Aspect: Anti Corruption			
GRI 205-2	Operations assessed for corruption Communication and training on anti-corruption Confirmed incidents of corruption and action taken	Intellectual Capital	89

General Standard Disclosure number	Description	Report Section	Page Number
Aspect: Public Policy			
GRI 415-1	Total value of political contributions by country and recipient/beneficiary	Social Capital	103
Aspect: Compliance			
GRI 419-1	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Human Capital	53
Sub-Category: Product Responsibility			
Aspect: Customer Health and Safety			
GRI 416-1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	Intellectual Capital Creating Value for our Stakeholders	52, 89
GRI 416-2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes		52
Aspect: Product and Service Labelling			
GRI 417-1	Type of product and service information required by the organisation's	Creating Value for our Stakeholders Manufacture Capital	53, 83
Aspect: Marketing Communication			
GRI 417-3	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	Creating Value for our Stakeholders	53
Aspect: Compliance			
GRI 419-1	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Creating Value for our Stakeholders	53

Corporate Governance

GRI 102-16,17

STATEMENT FROM THE CHAIRMAN ON CORPORATE GOVERNANCE

Good corporate governance is a vital element that contributes to the long term growth and sustainability of KVPL. We strive to emulate good governance practices in all our day-to-day activities vis-à-vis strategies and procedures to facilitate good ethical behaviour and a sound ethical culture. Our Corporate Governance framework consists of strong business principles, sound policies and procedures, underpinned by an efficient monitoring mechanism, where the Board of Directors stands as the apex governing body.

The Board consists of a diverse mix of individuals drawn from various disciplines. Their collective experience and varied perspectives have enabled the Company to implement strategic initiatives to enhance performance of KVPL, to overcome numerous sector-specific business challenges that we had to face in the period under review.

Our governance framework is geared to strengthen the roles and responsibilities of the Board of Directors of the Group, ensure transparency and accountability and reinforce our commitment to provide sustainable returns for the benefit of all internal and external stakeholders, despite all odds. Our Code of Conduct and Business Governance offers direction for all the employees across the organisation, where we continually stress on the values of good governance, honesty, integrity and fairness.

This section of the Annual Report seeks to demonstrate KVPL's governance framework in action and its correlation to the regulatory framework applicable to our business. Accordingly, our business principles reflect the standards set out to ensure that we operate lawfully and comply with all mandatory requirements including the Companies Act, No. 07 of 2007 and the updated Code of Best Practice on Corporate Governance 2007, issued by the Institute of Chartered Accountants of Sri Lanka and the Code of Best Practice on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka.

We hope that this brief message will be of value to you in assessing how the regulatory requirements and best practices are being put into action across KVPL.

I assure you that we make every effort to continuously improve our Corporate Governance practices by complying with the relevant regulatory and governance framework to achieve ethical and stewardship obligations, while supporting the creation of long - term sustainable stakeholder value.

As required in the above Code, I together with the Board of Directors hereby confirm that we are not aware of any material violations of any of the provisions of the Code of Business Conduct and Ethics as the case may be by any Director or any member of the Corporate Management of KVPL.

A M Pandithage
Chairman

Corporate Governance is the system, by which an organisation is directed, controlled and managed. The Corporate Governance Framework guides the organisation and drives towards progress by way of developing and implementing appropriate corporate strategies. In pursuing the corporate objectives, we have committed to the highest level of governance and strive to foster a culture that values Accountability, Participation, Fairness, Transparency, Personal and Corporate integrity and Mutual respect.

The Corporate Governance Framework at Kelani Valley Plantations plays a vital role in order to achieve a sustainable growth. Focusing only on the economic efficiency does not ensure sustainable outcome. Therefore, we endeavour to implement ethical business practices while maintaining the trust placed in this by our stakeholders.

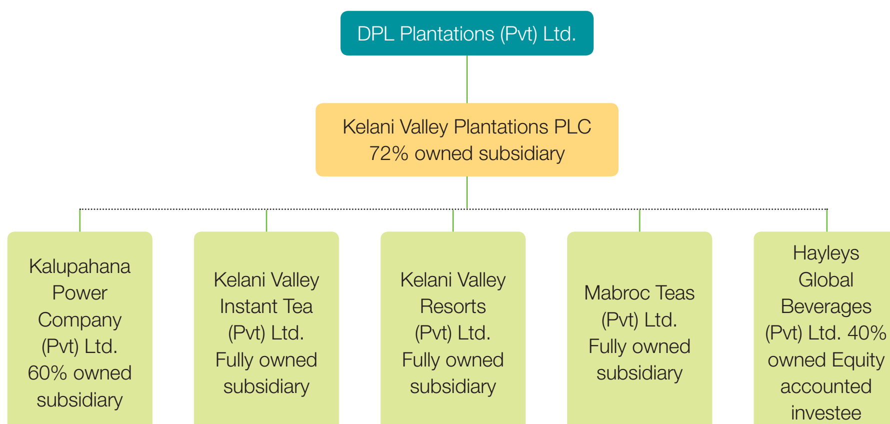
KVPL confirms that it is compliant with all the mandatory provisions of the Companies Act, Listing Rules of the Colombo Stock Exchange (CSE) and the Securities and Exchange Commission of Sri Lanka Act (SEC) and all other legislation and rules applicable to the businesses of the Company. Further, the Company's practices are in line with the Code of Best Practices on Corporate Governance jointly issued by the SEC and the Institute of Chartered Accountants of Sri Lanka (CASL).

OWNERSHIP

GRI 102-22

Kelani Valley Plantations PLC (KVPL) is a member of the Hayley's Group and a subsidiary of DPL Plantations (Pvt) Ltd. ("DPLP"), which is a fully owned subsidiary of Dipped Products PLC ("DPL"), a leading manufacturer of hand-protection wear in the world. Mabroc Teas (Pvt) Ltd. ("MTPL") and Kelani Valley Instant Tea (Pvt) Ltd. ("KVIT") are fully owned subsidiaries of KVPL. Mabroc Teas (Pvt) Ltd. is one of Sri Lanka`s leading Tea exporters supplying a wide range of Teas to the global markets. The latest addition Kelani Valley Resorts (Pvt) Ltd. operates the Oliphant Boutique Bungalow which is a fully owned subsidiary of KVPL.

In association with Eco-Power (Pvt) Ltd., KVPL established Kalupahana Power Company Ltd., in 2003, contributing 01 mw of electricity through its mini-hydro plant. 60% of Kalupahana Power Company (Pvt) Ltd. ("KPC") is owned by KVPL. Hayleys Global Beverages (Pvt) Ltd. (HGBL) is an equity accounted investee of KVPL which has a 40% ownership.



These guidelines, which are updated periodically, outline matters that require Board and Committee approval, advice or review. The Company adopts the Code of Best Practice on Corporate Governance 2017, issued by the Institute of Chartered Accountants of Sri Lanka (Code) which has been recommended for adoption by listed companies by the Colombo Stock Exchange. In addition to the listing rules, the Code is used as a guideline to determine operational structures and processes that exemplify good governance practices across the business.

Corporate Governance Contd.

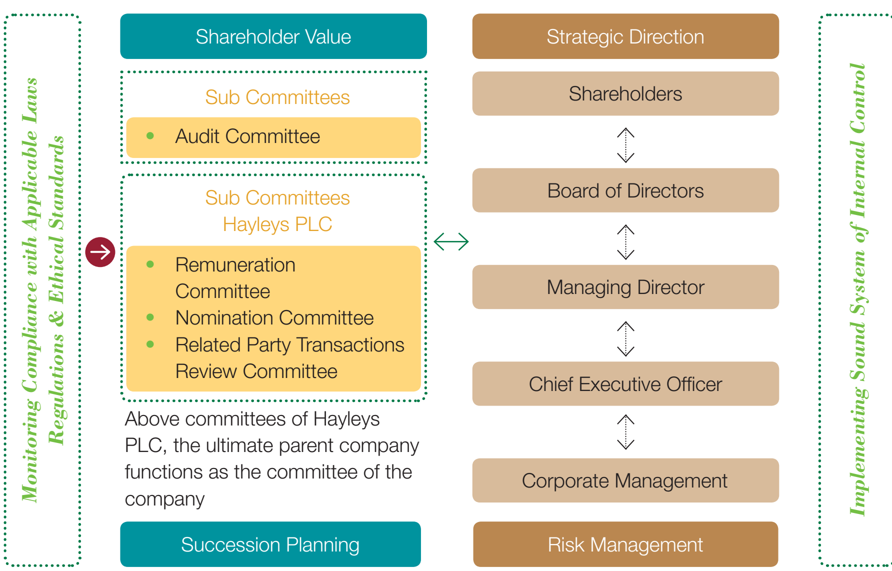
The Names of the Board of Directors and their attendance at meetings

Name of Director	Director Category	12/05/ 2017	31/07/ 2017	30/10/ 2017	26/01/ 2018	Attendance
A M Pandithage - Chairman	Ex	✓	✓	✓	✓	4/4
Roshan Rajadurai (Managing Director)	Ex	✓	✓	✓	✓	4/4
Faiz Mohideen	INEx	✓	✓	✓	✓	4/4
S Siriwardana	Ex	✓	✓	✓	✓	4/4
S C Ganegoda	NEx	✓	✓	✓	✓	4/4
L T Samarawickrama	NEx	✗	✓	✓	✓	3/4
Dr. K.I.M Ranasoma	NEx	✓	✓	✓	✓	4/4
C V Cabraal	INEx	✓	✗	✓	✓	3/4
L N de S Wijeyeratne	INEx	✓	✓	✓	✓	4/4

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

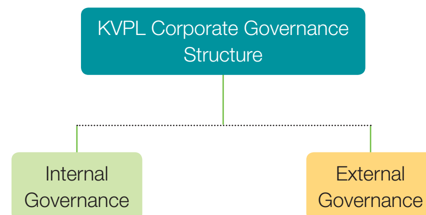
CORPORATE GOVERNANCE FRAMEWORK GRI 102-20,23,24

KVPL Governance guidelines provide Directors and the management with a road map of their respective responsibilities. The KVPL Governance Framework is depicted as follows.



CORPORATE GOVERNANCE STRUCTURE GRI 102-18

KVPL Group governance structure comprises of two levels,



Internal Governance

- KVPL Board of Directors
- Hayleys PLC Board of Directors
- Hayleys PLC Group Management Committee (GMC)
- Audit Committee
- Nomination Committee
- Related Party Transactions Review Committee
- Remuneration Committee
- Corporate Management

External Governance

- Code of Best Practice on Corporate Governance 2017 by the Institute of chartered Accounts of Sri Lanka
- Companies Act No 07 of 2007
- Continued Listing Requirements of the Colombo Stock Exchange
- Inland Revenue Act No. 10 of 2006 and Inland Revenue Act No. 24 of 2017
- Customs Ordinance No. 17 of 1869
- Exchange Control Act No. 24 of 1953
- Ministry of Plantations
- Chamber of Commerce
- Tea Board of Sri Lanka

INTERNAL GOVERNANCE STRUCTURE

GRI 102-22

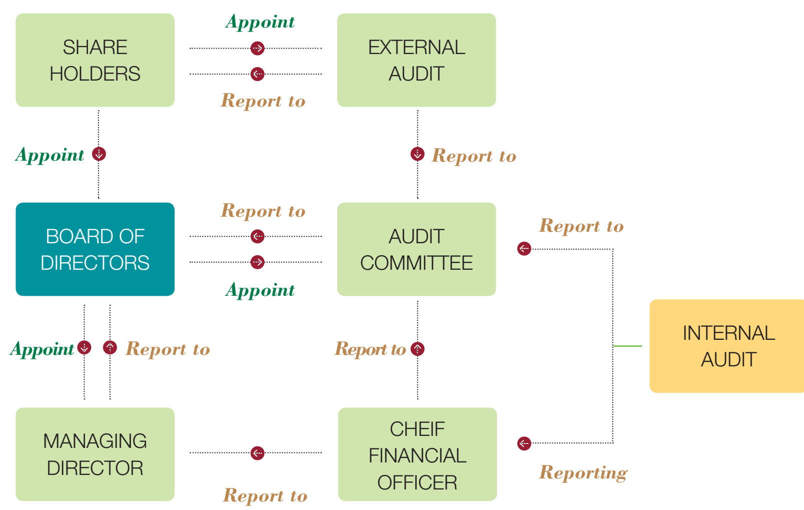
Internal controls are established with emphasis on safeguarding assets, making available accurate and timely information and enforcing greater discipline on decision making. This section details the components that are embedded within the Company, and as a result, have an impact on the execution, and monitoring of all governance related initiatives, systems and processes. The Internal Governance Structure encompasses:

- The Board of Directors
- Board Sub Committees
- The Combined Role of the Chairman-CEO
- Group Management Committee and other Management Committees
- Employee Empowerment

GRI 102-26,33

The above components are strengthened and complemented by internal policies, processes and procedures such as strategy formulation and decision making, human resource governance, integrated risk management, IT governance, stakeholder management, and effective communication.

The policies and procedures established under the guidance of KVPL's Board of Directors support an effective and efficient decision making process that helps the company to meet corporate governance standards. It includes the roles various stakeholders play in achieving organisation's goals.



CORPORATE MANAGEMENT TEAM

Comprising of the Managing Director, Director/CEO and the Senior Management Team, the Corporate Management Team is responsible for formulating and obtaining Board approval and implementing strategic imperatives within the policy framework established by the KVPL Board. The Management Committee is tasked with reviewing the annual budget, operational targets, review of monthly performance against budget and capital expenditure proposals prior to making recommendations to the Board.

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

CORPORATE MANAGEMENT

GRI 102-19

The Board has authorised the Managing Director (MD) as the primary authority responsible for the implementation of policies and achieving of strategic objectives of the Company. The MD is expected to exercise this authority within the policy framework established by the Board and the ethical framework and business practices inherent to the Company, which stipulates that the MD should comply with best practices when dealing with employees, customers, suppliers and the community at large.

The MD is also entrusted with optimising the use of Company's resources and implementing financial strategies outlined in the annual corporate plan and budget. In doing so, the MD should employ a continuous planning process with the active involvement of all

Corporate Governance Contd.

executives. A system of regular review of operations is also in place to ensure close monitoring of performance and prompt corrective action is taken where necessary.

MONTHLY REVIEW COMMITTEES

GRI 102-31,34

Meeting of Finance, Corporate Communications and HR clusters of the Hayleys Group bring together representatives from different sectors of the Group to communicate relevant matters, areas of special interests and concerns, and share best practices. KVPL's Managing Director is a member of the Hayleys Group Management Committee (GMC) and is expected to participate in all monthly review meetings. A monthly meeting chaired by the Chairman of Hayleys PLC brings together all GMC members from different sectors within the Hayleys Group. This provides a platform for the group to review sector performance, formulate policy, communicate sector 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 KVPL and the financials pertaining to the same. This reporting process may be more frequent if warranted. Further, The CFO's forum of the Hayleys Group enables relevant matters to be debated among the CFOs of the Hayleys Group in order to safeguard the interests of the Group.

Executive Management meetings are carried with the participation of the MD, CEO, and all other heads of departments, to discuss the performance, new initiatives, problems and strategies etc. This works as a brainstorming session where matters pertaining to KVPL's performance, growth, governance, administration, etc. are reviewed.

Both the Director Plantations Up Country and Low Country conduct review meetings at a regional level, to assess estate-level performance and discuss issues, strategies and initiatives needed at this level. This process also functions as an effective communication channel between estate level management and the corporate management. The decisions taken at these meetings are tabled and reported to Head Office.

EXTERNAL GOVERNANCE STRUCTURE

GRI 102-17

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

- Companies Act No. 7 of 2007
- Listing rules of the Colombo Stock Exchange
- Code of Best Practice on Corporate Governance 2017 issued by the Institute of Charted Accountants of Sri Lanka
- Code of Best Practices on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka
- Inland Revenue Act No 10 of 2006 and Inland Revenue Act No. 24 of 2017
- Customs Ordinance
- Exchange Control Act
- Tea Board of Sri Lanka
- Chamber of Commerce
- Ministry of Plantations

INTERNAL AUDIT AND CONTROL

The Board jointly with the management is responsible for the Company's internal control and its effectiveness. Internal controls are established with emphasis on safeguarding assets, making available accurate and timely information and enforcing greater discipline on decision making. The Internal Audit and Control function is a comprehensive mechanism that covers all financial, operational and compliance controls, and risk management systems. However it is important to note that any system can be expected to provide only reasonable, but not absolute assurance that errors and irregularities are detected and prevented within a reasonable time.

INFORMATION TECHNOLOGY (IT) GOVERNANCE

KVPL's investment in IT covers resources operated and managed centrally and those resources deployed on the various estates where accounts are prepared using a computerised accounting package. The Company's IT resources therefore comprises of these computerised accounting packages, utility software and networking facilities used at Head Office, including internet and relevant devices are used to interconnect Head Office with estates.

IT VALUE AND ALIGNMENT

In recent years, KVPL has come to increasingly leverage on IT to improve processes across the business. However, investment in IT projects and systems are made after considering their suitability for the related projects. Furthermore, aspects such as cost savings, the provision of timely information and the balance between cost and benefits are also considered when decisions are taken.

With productivity improvement being identified as a key growth driver for KVPL, the company set up a Performance Monitoring Unit at the Head Office, to monitor the performance of the estates through an online system that delivers critical information in real time.

IT RISK MANAGEMENT

Risks associated with IT are assessed in the process of KVPL's Risk Management mechanism. The use of licensed software, close monitoring of internet usage (to comply with the IT Use Policy), mail server operations and the use of anti-virus and firewall software are some of the safeguards currently in place to minimise IT related risks.

EXTERNAL AUDIT

For the fifth consecutive year, Messrs. Ernst & Young (EY) were appointed as the external auditors of the Company. The Company is guided by the knowledge and experience of the Audit Committee to ensure effective usage of our external auditor's expertise, while maintaining independence in order to deliver a transparent set of Financial Statements which are certified annually by them.

WHISTLE-BLOWER POLICY

GRI 102-17

The whistle-blower policy provides a mechanism for employees to raise concerns regarding any person within the organisation who they see as engaging in unlawful behaviour or violating the Company code of conduct by engaging in financial fraud, incorrect financial reporting, and improper conduct, breach of values and policies of the organisation. Under the guidelines of the Whistle-blower policy, any employee who raises such concerns will be provided a guarantee that they will be protected from reprisals and victimisation. The Company's whistle-blowing policy enables staff to raise concerns of suspected wrongdoing without fear of reprisal or retribution. The policy allows employees to directly raise concerns with the Company Secretary or a designated officer. Such complaints are investigated and addressed through a formalised procedure and brought to the notice of the Board/Audit Committee.

Corporate Governance Contd.

Reference to CASL & Sec Code	*Details of Compliance*

Section 1: The Company
A. Directors

Principle: A.1 The Board

GRI 102-23

AN EFFECTIVE BOARD

The overall effectiveness of the Board is enhanced by the diversity and breadth of perspectives of its members, who combine professional and academic skills and experience. Collectively, the Board also has sufficient financial acumen and knowledge with three Directors holding membership in professional accountancy bodies. All Directors have received comprehensive training encompassing both general aspects of directorship and matters specific to the Company and industry.

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.

Accordingly, the composition of the Board as at the end of the financial year is illustrated as follows:
The profiles of the Directors are found on pages 14 and 15 of this report.

Principle A.1 The Board

GRI 102-20

Every public company should be headed by an effective Board, which should direct, lead and control the Company

Reference	Details of Compliance
A.1.1 Board meetings COMPLIED	The Board meets on a quarterly basis with special meetings convened if and when the need arises. During the year under review the Board met on four occasions. Details of meetings of the Board and attendance of the members are set out on page 32 of this Report. The information is provided to the Board in a structured manner and regular basis as agreed by the Board. Information to be reported to the Board includes; • Financial and operational results on pre agreed Key Performance Indicators • Financial performance compared to previous periods, budgets and targets • Impact of risk factors on financial and operating results and actions to mitigate such risks • Compliance with laws and regulations and any non-compliance • Internal control review • Share trading of the company and related party transactions by key management personnel • Any other matters the Board should be aware of The minutes of the previous Board meeting and above information are distributed among the members 7 days prior to the meeting.

Reference to CASL & Sec Code	Details of Compliance
A.1.2 Responsibilities of the Board COMPLIED	The Board Charter sets out the responsibility of the Board. The Board is responsible to the shareholders for creating and delivering long-term sustainable shareholder value through entrepreneurial leadership. The Board has engaged DPL Plantations (Pvt) Ltd. as the managing agent to manage the business and assets of the Company. The Board's key responsibilities include: • Providing direction and guidance to the Company in the formulation of high-level medium, and long-term strategies which are aimed at promoting the sustainable long term success of the Company • Appointing and reviewing the performance of the Chairman, Managing Director and CEO • Ensure Executive Directors and the key management team possesses the skills, experience and knowledge to implement strategy effectively, with proper succession arrangements in place. • Reviewing, approving and monitoring annual corporate plans, corporate budgets and capital expenditure • Reviewing and approving major acquisitions, disposals and major investments by the management within their limits of authority • Ensure effective systems to secure the integrity of information, internal controls, business continuity and risk management • Ensure compliance with laws, regulations and ethical standards • Ensure all stakeholder interests are considered in corporate decisions • KVPL has adopted Integrated Reporting since 2012 and recognises sustainable business development in corporate strategy, decisions and activities • Set and communicate values/standards, with adequate attention being paid to accounting policies/practices and fostering compliance with financial regulations • Adequacy and the integrity of the Plantation's Internal control systems over financial reporting and Management Information Systems are reviewed by the Board Audit Committee • Ensuring that Financial Statements are published quarterly and the Annual Report is published at the end of the financial year • Determining any changes to the discretions/authorities delegated from the Board to the key management team • Approving any amendments to constitutional documents

Corporate Governance Contd.

Reference to CASL & Sec Code	*Details of Compliance*
A.1.3 GRI 102-27,39 Compliance with the laws of the country and agreed to obtain independent professional advice COMPLIED	The Board collectively as well the Directors individually, recognise their duty to comply with laws of the country which are applicable to the Company. The Board of Directors ensures that procedures and processes are in place to ensure that the Company complies with all applicable laws and regulations. Directors have the power to obtain independent professional advice as deemed necessary, in furtherance of their duties, at the Company's expense. This will be coordinated through the Board Secretary facilitated through Hayleys Group Legal and Group Finance, as and when it is requested.
A.1.4 Access to the advice and services of the Company Secretary COMPLIED	The services and advice of the Company Secretary are available to all the Directors. The Company Secretary ensures that Board procedures and all applicable rules and regulations are complied with. The removal of the secretary is a matter for the Board as a whole. Obtained a directors and officers' liability insurance, providing worldwide cover to indemnify all Directors and Officers.
A.1.5 Independent judgment of the Directors COMPLIED	Non-Executive Directors are independent from 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	The Board of Directors dedicates adequate time and effort to ensure that their duties and responsibilities towards the Company and Board are discharged. Dates of regular Board meetings and Board Sub-Committee meetings are scheduled well in advance and the relevant papers are circulated a week prior to the meeting giving sufficient time for review. Hence, they are able to familiarise themselves with the business changes, operations, risks and controls which ultimately help them to satisfactorily discharge their duties and responsibilities to the Company.

Reference to CASL & Sec Code	*Details of Compliance*
A.1.8 Training for new and existing Directors COMPLIED	The Board of Directors recognises the need for continuous training and expansion of knowledge and undertakes such professional development as they consider necessary in assisting them to carry out their duties as Directors. Every new Director and existing Directors are provided training on general aspects of directorship and matters specific to the industry when they are first appointed to the Board. Training programmes for top-management cover the training requirement for the directors as well. Training was provided through the ultimate parent Hayleys Group during the year.
Principle: A.2 Chairman and Chief Executive Officer (CEO) There are two key tasks at the top of every public company – conducting of the business of the Board, and facilitating executive responsibility for management of the Company's business. There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.	
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 where power and authority are clearly distinguished. The Chairman of the Company is also the Chairman of DPL Plantations Limited, DPL PLC and Hayleys PLC. 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 Contd.

Reference to CASL & Sec Code	*Details of Compliance*
Principle: A.3 Chairman's role The Chairman's role in preserving good Corporate Governance is crucial. As the person responsible for running the Board, the Chairman should preserve order and facilitate the effective discharge of Board functions.	
A.3.1 GRI 102-26 Chairman's role COMPLIED	The Chairman's role involves: • Approving the agenda for each meeting prepared in consultation with the CEO, directors and the Company Secretary taking in to consideration matters relating to strategy, performance, resource allocation, risk management and compliance. • Sufficiently detailed information of matters included in the agenda should be provided to Directors in a timely manner. • Ensuring that all Directors are aware of their duties and responsibilities • All Directors are encouraged to make an effective contribution, within their respective capabilities for the benefit of the Company • All Directors are encouraged to seek information considered necessary to discuss matters on the agenda of meetings and to request inclusions of matters of corporate concern on the agenda • Maintaining the balance of power between Executive and Non-Executive Directors • The view of Directors on issues under consideration are ascertained • The Board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders
Principle: A.4 Financial Acumen The Board should ensure the availability within it, of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	
A.4.1 GRI 102-25 Financial acumen COMPLIED	The Board includes three senior Chartered Accountants, who possess the necessary knowledge and competence to offer the Board guidance on matters of finance. One of them serves as Director/ CEO of KVPL the other is an Executive Director of Hayleys PLC. The Audit Committee chairman is also a senior Chartered Accountant. Other members of the Board are adequately experienced in handling matters of finance by serving in different organisations. Hence the Board is endowed with sufficient financial acumen and knowledge to offer guidance on matters of finance.

Reference to CASL & Sec Code	*Details of Compliance*
Principle: A.5 Board Balance It is preferable for the Board to have a balance of Executive and Non-Executive Directors so that no individual or small group of individuals can dominate the Board's decision making.	
A.5.1 Non-Executive Directors	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	Three of the 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	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 dominate Board discussion and decision-making.
A.5.4 Annual declaration of independence – of Non-Executive Directors	Each Non-Executive Director submits annual declarations on his independence or non-independence in a prescribed format.

Corporate Governance Contd.

Reference to CASL & Sec Code	*Details of Compliance*
A.5.5 Board determination of independence of Non-Executive Directors and disclosure in Annual Report COMPLIED	The Board considers the declaration of independence submitted by each Non- Executive Director with the basis for determination laid down by the Listing Rule of the CSE and the 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 in pages 14 and 15
A.5.6 Appointment of alternate Director NOT APPLICABLE	There were no appointments of alternative Directors during the year
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 meetings with the Non-Executive Directors, without Executive Directors, at least once in each year and at any other time where necessary.

Reference to CASL & Sec Code	*Details of Compliance*
A.5.10 Record in the Board minutes of Concerns not unanimously resolved COMPLIED	All Board/Committee matters of the Company are accordingly minuted with sufficient detail to enable a proper assessment to be made of the deliberations and any discussions taken at the meeting. All discussions during the year were unanimously agreed.
Principle: A.6 Supply of information The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its 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 inadequate Directors could make further inquiries. Chairman ensures that 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 Chairman ensures that all Directors are properly briefed on issues arising at Board Meetings by requiring management to provide comprehensive information including both quantitative and qualitative information for the monthly Board Meetings 7 days prior to the Board/Sub-Committee meetings.
Principle: A.7 Appointments to the Board GRI 102-24 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	As per the recommendation made by the Nomination Committee of Hayleys PLC, the ultimate parent company, the Board as a whole approves on the appointment of Directors. The Nomination Committee annually assesses the Board Composition against pre-defined criteria of skill and knowledge requirements to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the Company.

Corporate Governance Contd.

Reference to CASL & Sec Code	*Details of Compliance*
A.7.3 Appointment of a new Director COMPLIED	There were no new Board appointments made during the financial year. In the event of new appointments, a brief resume of the Director, nature of his experience and the independency is informed to the Colombo Stock Exchange in line with the Listing Rules and disclosed in the Annual Report on pages 164 to 169
Principle: A.8 Re-election All Directors should be required to 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 re-appointment 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.
A.8.3 Resignation COMPLIED	In the event of the resignation of a Director prior to completion of his appointed term, the Director should provide a written communication to the Board of his reasons for resignation.
Principle: A.9 Appraisal of Board Performance GRI 102-28 Board periodically appraises its own performance in order to ensure that Board responsibilities are satisfactorily discharged.	
A.9.1, A.9.2, A.9.3, A.9.4 Appraisal of Board performance COMPLIED	The performance of the Board and Sub-Committees is evaluated annually on a self-assessment basis.

Reference to CASL & Sec Code	*Details of Compliance*
Principle: A.10 Disclosure of Information in respect of Directors Shareholder should be kept advised of relevant details in respect of Directors	
A.10.1 Disclosures about Directors COMPLIED	Name, qualifications, brief profile, and nature of expertise are given in pages 14 and 15 of this Annual Report. Director's interests in contracts are given in the page 184 of this report. The numbers of Board meetings attended by the Directors are available on the page 132 of this report. Names of the Directors who serve as chairmen or members of Board Committees and their attendance are given on page 132.
Principle: A.11 Appraisal of Chief Executive Officer The Board should be required at least annually, to assess the performance of the CEO	
A.11.1, A.11.2 Evaluation of the performance of the CEO COMPLIED	The short, medium and long-term objectives determined by the board including financial and non-financial targets that should be met by the CEO are set and evaluated at the commencement of each financial year. The performances were evaluated annually and it was ascertained whether the targets were achieved or whether achievements were reasonable in the circumstances.
B. Directors Remuneration	
Principle: B.1 Remuneration procedure GRI 102-35,36 Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.	
B.1.1 Remuneration Committee COMPLIED	The Remuneration Committee of Hayleys PLC, the ultimate Parent Company, is responsible in assisting the Board in recommending the remuneration payable for the Executive Directors and Corporate Management. The Board makes the final determination after considering such recommendations. No Director is involved in deciding his own remuneration.

Corporate Governance Contd.

Reference to CASL & Sec Code	Details of Compliance
B.1.2, B1.3 Composition of the remuneration committee	The Remuneration Committee of Hayleys PLC, which is the ultimate parent of the Company, acts as the Remuneration Committee of KVPL. The Remuneration Committee comprises of three Independent/ Non-Executive Directors including Chairman and a Non-Executive director of Hayleys PLC Dr. H Cabral, PC – Chairman (IND/NED) Mr. K D D.Perera (NED) Mr. M Y A Perera (IND/NED) Mr. M H Jamaldeen (IND/NED) (IND – Independent, NED- Non-executive Director)
B1.4 Remuneration of the Non-Executive Directors COMPLIED	The Board as a whole decides the remuneration of the Non-Executive Directors in line with the market rates and within the limit set in the Articles of Association of the Company.
B1.5 Consultation of the Chairman and access to professional advice COMPLIED	Remuneration Committee consults the Chairman about its proposal regarding the remuneration of other Executive Directors. Both internal and external professional advice has been taken during the year under review.
Principle: B.2 The level and make up of remuneration Levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of Executive Directors' remuneration should be structured to link rewards to corporate and individual performance.	
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 to promote the long-term success of the Company.

Reference to CASL & Sec Code	*Details of Compliance*
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 performance comparing with other companies and other parts of the Hayleys Group.
B.2.4 Determining annual salary increases and employment conditions COMPLIED	The Remuneration Committee considers remuneration and employment conditions sensitively elsewhere in the Company or the Group of which it is part.
B.2.5 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.2.6 Share option Schemes NOT APPLICABLE	Presently the Group does not have an Executive Share Option scheme.

Corporate Governance Contd.

Reference to CASL & Sec Code	*Details of Compliance*
B.2.7 Designing performance-related remuneration COMPLIED	Performance-related remuneration is designed by the Remuneration Committee based on the provisions set out.
B.2.8, B.2.9 GRI 102-39 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.2.10 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.
Principle: B.3 Disclosure of the Remuneration The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.	
B.3.1 Disclosure of the remuneration COMPLIED	The names of the Directors of the Remuneration Committee are given under section B.1.2 above. The remuneration policy is to attract and retain a highly-qualified and experienced work force, and reward performance accordingly in the backdrop of industry norms. These compensation packages provide compensation appropriate for each business within the Group and commensurate with each employee's level of expertise and contribution, bearing in mind the business' performance and shareholder return. The total of Directors' Remuneration is reported in note 9 to the Financial Statements.

Reference to CASL & Sec Code	*Details of Compliance*
C. Relations with Shareholders - Constructive use of the AGM and conduct of General Meetings Principle: C.1 Boards should use the AGM to communicate with shareholder and should encourage their participation.	
C.1.1 Notice of the AGM COMPLIED	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 15 working days prior to the meeting.
C.1.2 Separate resolution on each substantially separate issue COMPLIED	Separate resolutions are proposed at an Annual General Meeting on each substantially separate issue. A resolution for adoption of the Annual Report of the Board of Directors and the Financial Statements with the Independent Auditor's Report is proposed separately. A form of Proxy is provided with the Annual Report to all shareholders to direct their Proxy to vote.
C.1.3 Votes and use of proxy COMPLIED	The Company ensures that all proxy votes are properly recorded and counted. The level of proxies lodged on each resolution is conveyed to the Chairman.
C.1.4 Answer questions at the AGM COMPLIED	The Board invites the Chairman of the Audit Committee to be available to answer queries at the AGM when necessary.

Corporate Governance Contd.

Reference to CASL & Sec Code	*Details of Compliance*
Principle: C.2 Communication with shareholders GRI 102-21 The Board should implement effective communication with shareholders.	
C.2.1 Channel to reach all shareholders of the company.	The modes of communication between the Company and the shareholders are the Annual Reports, Quarterly Financial Statements, and Interim Reports, announcements made through the Colombo Stock Exchange, other press releases and Annual/Extraordinary General Meetings. Shareholders may bring up concerns they have, with the Chairman, the Managing Director or the Secretaries, as appropriate. The soft version of the Annual Report is posted on the Company website as soon as it has been released to the Stock Exchange. The website posts news and latest updates of the company. 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.
C.2.2 Disclosure of the communication policy	The communication policy and methodology for communication with the shareholders are given in the stakeholder engagement.
C.2.3 Implementation of the policy and methodology for communication with Shareholders	In terms of the CSE Listing Rules, Annual Reports are issued in CD form. However a shareholder could be provided with a printed copy of the Annual Report if he/she do request. A copy of the interim Financial Statements is released to the Colombo Stock Exchange and posted on their website. Copies of all public announcements are made available to the CSE for dissemination to the public.

Reference to CASL & Sec Code	***Details of Compliance***
C.2.4 Disclosure of contact person COMPLIED	Shareholders can forward their inquiries via electronic media (e-mail, telephone call or in writing) to the relevant person to raise queries. 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 shareholder matters COMPLIED	The Chairman and the Directors answer all the queries raised by the shareholders at the AGM and General meetings. The Board in conjunction with the Company Secretary formulates the process for addressing shareholder matters.
Principle: C.3 Major and material Transactions Further to complying with the requirements under the Companies Act, Securities and Exchange Commission law and Colombo Stock Exchange regulations; as applicable, Directors should disclose to shareholders all proposed material transactions, which if entered into, would material alter/vary the Company's net assets base or in the case of a Company with subsidiaries, the consolidated Group net asset base.	
C.3.1 Major Related Party Transactions COMPLIED	Prior to engaging in a major transaction with a related party or related party transactions which have the effect of substantially altering the nature of business, the Directors disclose to shareholders the purpose and all material facts of such transaction and obtain shareholders' approval by ordinary resolution at an Extra Ordinary General Meeting.

Corporate Governance Contd.

Reference to CASL & Sec Code	Details of Compliance
C.3.2 Disclosure of major transactions to shareholders COMPLIED	There have been no transactions during the year falling within the definition of “Major Transactions” as set out in the Companies Act No 7 of 2007.
D. Accountability and Audit – Financial and Business Reporting (The Annual Report) GRI 102-29	
Principle: D.1 The Board should present a balanced and an understandable assessment of the Company’s financial position, performance, business model, governance structure, risk management, internal controls and challenges, opportunities and prospects.	
D.1.1 D.1.2 Balanced and understandable information to shareholders COMPLIED	The Company has presented balanced and understandable Financial Statements which gives a true and fair view quarterly and annually. In the preparation of Financial Statements, the Company has complied with the requirements of the Companies Act No 07 of 2007 and requirements of Sri Lanka Accounting Standards and Securities and Exchange Commission. Price sensitive public reports and reports for statutory requirements are also presented in a balanced and understandable manner.
D.1.3 CEO’s and CFO’s approval of Financial Statements prior to Board approval COMPLIED	The Chief Financial Officer and two other Directors have signed the Financial Statements on behalf of the Board. Responsibilities of Board of Directors and Directors’ statement on internal controls are given on pages 14, 15 and 190 respectively.

Reference to CASL & Sec Code	*Details of Compliance*
D.1.4 The Directors ' Report COMPLIED	The Annual Report of the Board of Directors on the affairs of the Company is given on pages 183 to 187 of this Annual Report which contains the following: • Declaration that the Company has not engaged in activities that contravene laws and regulations of Sri Lanka (refer page 183); • Declaration by the Directors on all material interests in contracts that they have involving the Company and has refrained from voting on matters in which they were materially interested (refer pages 184). • Equitable treatment to shareholders (refer page 186) • Compliance with best practices of corporate governance (refer pages 130 to 169) • Information relating to PPE has been given in notes 12, 13 and 14 to the Financial Statements. • Review of internal controls, risk management and reasonable assurance of effectiveness and adherence (refer page 188 and 170 to 182). • Going concern of the business (refer page 187).
D.1.5 Statement of Directors' Responsibility, statement on internal controls and Auditors' Report. COMPLIED	The Statement of Director's Responsibilities for the Financial Statements is given in page 190 and Directors statement on internal controls are given in page 188. The Auditors' Report is available on pages 195 to 197.
D.1.6 Management Discussion & Analysis COMPLIED	A comprehensive coverage of key initiatives undertaken during the year, business model, industry structure and development, opportunities and threats, risk management, internal controls and their adequacy, governance, stakeholder relationship, social and environment protection activities, financial performance, Investment in physical and intellectual capital, human resource/industrial relations, sector performances, achievements and prospects for the future. Awards won and certifications received are available in the Management Discussion (pages 26 and 27) of this Report.

Corporate Governance Contd.

Reference to CASL & Sec Code	*Details of Compliance*
D.1.7 Summon an EGM to notify serious loss of capital COMPLIED	In the event the net assets of the Company fall below 50% of its Stated Capital, the Directors will forthwith summon an Extra ordinary General Meeting to notify shareholders of 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.1.8 Related party transactions COMPLIED	The Company adheres to the Code of Best Practices on Related Party Transactions which is issued by the Securities and Exchange Commission of Sri Lanka. The company secretary keeps records on related party transactions quarterly.
Principle: D.2 Risk Management and Internal Control GRI 102-30 The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The Board should have a process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company's assets. Broadly, risk management and internal control is a process, effected by a Company's Board of Directors and management designed to provide reasonable assurance regarding the achievement of the Company's objectives.	
D.2.1 Monitoring sound system of internal control COMPLIED	The Directors review the risks facing the Company and the effectiveness of the internal controls. The Audit Committee executes this function evaluating the effectiveness of the internal controls and risk management on behalf of the Board and makes necessary recommendations to the Board.
D.2.2 Review of the process and effectiveness of risk management COMPLIED	The details of those risks affecting the Company and mitigation actions are explained in pages 176 to 182.

Reference to CASL & Sec Code	*Details of Compliance*
D.2.3 Internal Audit function COMPLIED	The Company has an internal audit function at Head Office and sub offices. Audits are conducted in accordance with the programme prepared at the beginning of the year. The Hayleys Group Management Audit and System Review Department (MA&SRD) carried internal audits according to the annual plan. The internal audit function is also outsourced to leading audit firms according to the annual audit plan.
D.2.4 Review the internal controls and risk management by the Audit Committee COMPLIED	The Board has delegated to the Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls, and to report it to the Board.
D.2.5 Content of Statement Internal Controls COMPLIED	Directors' Statement on Internal Controls is given on page 188.
Principle: D.3 Audit Committee GRI 102-22 The Board should establish formal and transparent arrangements for considering how they should; select and apply accounting policies for financial reporting determine the structure and content of corporate reporting, implement internal control and risk management principles and for maintaining an appropriate relationship with the Company's Auditors.	
D.3.1 Composition of Audit Committee COMPLIED	The Audit Committee was established in 2008. The Committee consists three Independent 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.

Corporate Governance Contd.

Reference to CASL & Sec Code	*Details of Compliance*
D.3.2 Committees' terms of reference COMPLIED	Terms of Reference (TOR) provides proper guideline duty and authority to deliver the responsibilities. The Committee is empowered to examine any matters relating to the Financial Reporting systems of KVPL, risk management, external audits 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 and regulations. It reviews the adequacy of systems in place for compliance with relevant legal, regulatory and ethical requirements and company policies. The Audit Committee makes recommendations to the Board pertaining to the appointment and re –appointment of External Auditors after assessing their independence and performance, and approves the remuneration and terms of engagement of the external auditors. The Chairman, the Managing Director, the Chief Executive Officer of the Company, Head of Group Internal Audit and Hayleys Group CFO are invited to attend Meetings. Other Directors and Senior Managers attend meetings as required. The input of the External Auditors is obtained where necessary. The Audit Committee helps the Group to achieve a balance between conformance and performance.
D.3.3 Disclosures COMPLIED	Mr. L N De S Wijeyeratne is the Chairman of the Audit Committee. Mr. F Mohideen and Mr. C V Cabraal are the two other members. Annual report contains a compliance report of the Audit Committee in pages 195 to 197.
Principle: D.4 Related Party Transactions Review Committee The Board should establish a procedure to ensure that the Company does not engage in transactions with "related parties" in a manner that would grant such parties "more favourable treatment" than that accorded to third parties in the normal course of business	
D.4.1 Related Party Transactions COMPLIED	The Company is adhering to LKAS 24 and transactions entered into with related parties during the year are disclosed in note 29.1 to the financial statements.

Reference to CASL & Sec Code	*Details of Compliance*
D.4.2 Composition of Related Party Transactions Committee COMPLIED	The Related Party Transactions (RPT) Review Committee of Hayleys PLC acts as the Company's RPT review committee and consists of Dr H Cabral,PC – (Chairman) Independent Non–Executive M Y A Perera – Independent Non–Executive S C Ganegoda–Executive
D.4.3 Terms of Reference COMPLIED	Related Party Transactions Review Committee has written terms of reference dealing with its authority and duties. RPT review committee report describing the duties, task and attendance of the committee appears on page 193
Principle: D.5 Code of Business Conduct and Ethics Companies must adopt a Code of Business Conduct and Ethics for Directors, Key Management Personnel and all other employees' including but not limited to: dealing with shares of the Company; compliance with listing rules; bribery and corruption; confidentiality; encouraging that any illegal fraudulent and unethical behaviour be promptly reported to those charged with governance. The Company must disclose waivers of the Code of Directors, if any.	
D.5.1 Disclosure on presence of Code of Business Conduct and Ethics COMPLIED	The Directors and members of the Senior Management team are bound by a Code of Business Conduct and Ethics which is developed by the Hayleys Group. The Code consists of important topics such as: conflict of interest, bribery and corruption, entertainment and gifts, accurate accounting and record keeping, fair and transparent procurement practices, corporate opportunities, confidentiality, fair dealing, protection and proper use of Company assets including information assets, compliance with laws, rules and regulations (including insider trading laws) and encouraging the reporting of any illegal, fraudulent or unethical behaviour. The Board ensures the compliance with the code and non-compliance may result in disciplinary actions.

Corporate Governance Contd.

Reference to CASL & Sec Code	Details of Compliance
D.5.2 Process to identify and report price sensitive information COMPLIED	The Company has a process in place to ensure that material and price sensitive information is promptly identified and reported.
D.5.3 Shares purchased by Directors and key management personnel COMPLIED	The Company has a policy and a process for monitoring and disclosure of shares purchased by any Director and key management personnel. Details of Directors shareholdings are given in page 185 of the Annual Report of Board of Directors on the affairs of the Company.
D.5.4 Affirmation of Code in the Annual Report by the Chairman COMPLIED	The Chairman affirms that the Code of Conduct and Business Governance offers direction for all the employees across the organisation and he is not aware of any violation of any of the provisions of the Code of Business Conduct and Ethics in Statement from the Chairman on corporate governance is discussed on page 130.
Principle: D.6 Corporate Governance disclosures Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good corporate governance.	
D.6.1 Disclosure of adherence to corporate governance COMPLIED	The extent to which the Company adheres to established principles and practices of good corporate governance is disclosed on page 186 under the Annual Report of the Board of Directors on the affairs of the Company.

Reference to CASL & Sec Code	*Details of Compliance*
Section 2: Shareholders GRI 102-37	
E. Institutional Investors	
Principle: E.1 Shareholder voting Institutional shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated into practice.	
E.1.1 Dialogue with shareholders COMPLIED	All shareholders are invited to attend the Annual General Meeting and they are encouraged to make comments/suggestions. The Company seeks dialogues with institutional investors. Impartiality is maintained on shareholder vote at the AGM based on individual holding and weightage.
Principle E.2. Evaluation of governance disclosures When evaluating the Company's governance arrangements, particularly those relating to Board structure and composition, institutional investors should be encourage to give due weight to all relevant factors drawn to their attention.	
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 the Company's Governance arrangements particularly in relation to Board structure and composition.
F. Other investors	
Principle: F.1 Investing/divesting decisions Individual shareholders, investing directly in shares of companies should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.	
F.1 Individual shareholders are encouraged to do their own analysis or seek independent advice. COMPLIED	The quarterly Financial Statements, Company disclosures and Annual Report provide 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.

Corporate Governance Contd.

Reference to CASL & Sec Code	Details of Compliance
F.2 Shareholder voting Principle F.2 Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights.	
F.2 Encourage Shareholders to participate and vote at AGM 	All individual shareholders are encouraged to actively participate in the Annual General Meetings and they have the independence of exercising their votes as they wish.
Principle: G. Internet of things and cyber security	
G.1 The Board should have a process to identify how in the organisation's business model, IT devices within and outside the organisation can connect to the organisation's network to send and receive information and the consequent cyber security risks that may affect the business Internal and external parties could have computing devices embedded in everyday objects which may enable them to interconnect with the Company's network to send and receive data. Such access could be authorised or unauthorised.	
G.1 Cyber security risk of sending and receiving information	The Company has a sound disaster recovery plan to mitigate the risk associated with IT failures arising from both internal and external threats. Company's IT policy, including IT security, privacy and confidentiality is supported by maintenance contracts with reputed companies. The use of licensed software, close monitoring of internet usage (to comply with the IT Use Policy), mail server operations and the use of ant-ivirus and firewall software to screen malicious content are some of the safeguards currently in place to minimise IT-related risks.
Principle G.2 The Board should appoint a Chief Information Security Officer (CISO) with sufficient expertise, authority and budgetary allocation to introduce and implement a cyber-security risk management policy which should be approved by the Board	
G.2 Appointment of Chief Information Security Officer (CISO)	The Hayleys Group IT department performs the role of the Chief Information Security Officer (CISO) with sufficient expertise, authority and budgetary allocation to implement and manage cyber security risk.

Reference to CASL & Sec Code	Details of Compliance
Principle G.3 The Board should allocate regular and adequate time on the Board meeting agenda for discussions about cyber risk management	
G.3 Allocation of adequate Board time to discuss cyber risk management	The Board reviews business risk quarterly including IT and cyber security risk.
Principle G.4 The Board should ensure the effectiveness of the cyber security risk management through independent periodic review and assurance The scope and the frequency of the independent periodic reviews could be determined based on the industry vulnerability, Company's business model and incident findings.	
G.4 Review and assurance of effectiveness of the cyber security risk management	Independent reviews are carried out to ensure cyber security risk is managed. Furthermore, secured management information systems are updated regularly.
Principle G.5 The Board should disclose in the Annual Report, the process to identify and manage cyber security risks	
G.5 Disclose of the process to identify and manage cyber security risk	Hayleys IT security policy provides a procedure to identify and manage cyber security risk. Manager – Information Technology, ensures adherence to the Group policy to manage and control the cyber security risk.

Corporate Governance Contd.

Reference to CASL & Sec Code	Details of Compliance
Principle: H. Environment, Society and governance (ESG) GRI 102-30,32 H.1 The Company's Annual Report should contain sufficient information to enable investors and other stakeholders to assess how ESG risks and opportunities are recognised, managed, measured and reported.	
H.1.1 Provide sufficient information relating to ESG risks COMPLIED	Annual Report contains sufficient and relevant information of ESG to assess how risks and opportunities are recognised, managed, measured and reported on pages 177 and 178. The impact of ESG issues are disclosed in the risk management report on pages 177 and 178.
H. 1.2.1 H.1.3.1 Environmental and Social Factors COMPLIED	Direct and indirect economic, social, health and environmental implications of Company decisions and activities are discussed on pages 103 to 122.

Reference to CASL & Sec Code	Details of Compliance
H.1.4.1 Governance COMPLIED	The Company has an established a governance structure supporting the Company's ability to create value and manage risk at all time on all pertinent aspects of ESG. The Company has well-recognised the key resources deployed in the business. Financial and non-financial measures are established to ensure governance is carried out smoothly. The Company has identified risks and taken mitigatory actions for the risks which have an impact on the sustainability of the business and these are discussed in the Risk Management report on pages 176 to 182.
H.1.5.1 Board's role on ESG factors COMPLIED	The Board has committed to environment, social and governance aspects and the environmental management and social activities have been discussed on pages 103 to 122.

Corporate Governance Contd.

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 requirement	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 Six out of nine Directors on the Board are Non-Executive Directors
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 Three of six Non-Executive Directors are Independent
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 Each Non-Executive Director has submitted declarations stating the independence/non-independence in a prescribed format
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 Brief resume of all the Directors is available on pages 16 and 17
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 All the Independent Non-Executive Directors meet the criteria specified in the Listing Rules of the CSE.
7.10.3 (c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report and should include the Director's areas of expertise	Compliant	Corporate Governance A.5.5
7.10.3 (d)	Disclosure relating to Directors	Forthwith provide a brief resume of new Directors appointed to the Board with details specified in 7.10.3 (a),(b) and (c) to the Exchange	Compliant	Corporate Governance A.7.3 There were no new appointments of new Directors during the financial year.
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 Remuneration Committee of Hayleys PLC, the ultimate parent company, acts as the Remuneration Committee of KVPL

Rule No	Subject	Applicable requirement	Compliance Status	Applicable section in the Annual Report
7.10.5 (a) G4-52	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 Comprise of two Independent Non-executive Directors
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; Names of Directors comprising the Remuneration Committee Statement of Remuneration Policy Aggregated remuneration paid to Executive and Non-Executive Directors	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 The Audit Committee was Established in 2008.
7.10.6 (a)	Composition of Audit Committee	Shall comprise of Non-Executive Directors a majority of whom will be independent Non-Executive Directors shall be appointed as the Chairman of the committee Chief Executive Officer and Chief Financial Officer should attend Audit Committee Meetings The Chairman of the Audit Committee or one member should be a member of a professional accounting body	Compliant	Corporate Governance D.3.1, D.3.2 Audit Committee Report is available in pages 141 and 142

Corporate Governance Contd.

Rule No	Subject	Applicable requirement	Compliance Status	Applicable section in the Annual Report
7.10.6 (b)	Audit Committee Functions	Functions shall include: Overseeing of the preparation, presentation and adequacy of disclosures in the financial statements in accordance with Sri Lanka Accounting Standards Overseeing of the compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements. Overseeing the processes to ensure that the internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards Assessment of the independence and performance of the external auditors 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.	Compliant	Corporate Governance D.3.3

Rule No	Subject	Applicable requirement	Compliance Status	Applicable section in the Annual Report
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 of the manner of compliance with their functions	Compliant	The Audit Committee Report (Pages 191 and 192).
9.2.1 & 9.2.3	Related Party Transactions Review Committee	As per the Listing Rules of the CSE this is mandatory from 1 January 2016. If the parent Company and the subsidiary Company both are listed entities, the Related Party Transactions Re-view Committee of the parent Company may be permitted to function as such Committee of the subsidiary.	Compliant	The RPT Committee of Hayleys PLC the Parent Company, which was formed on 10 February 2015 functions as the committee of the Company.
9.2.2	Composition	02 Independent Non-Executive Directors and 01 Executive Director	Compliant	RPT review committee report Annual Report of the Board of Directors

Corporate Governance Contd.

Rule No	Subject	Applicable requirement	Compliance Status	Applicable section in the Annual Report
9.2	Related Party Transactions Review Committee Functions	To review in advance all proposed related party transactions of the group either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction. Seek any information the Committee requires from management, employees or external parties to with regard to any transaction entered into with a related party. Obtain knowledge or expertise to assess all aspects of proposed related party transactions where necessary including obtaining appropriate professional and expert advice from suitably qualified persons. To recommend, where necessary, to the Board and obtain their approval prior to the execution of any related party transaction. To monitor that all related party transactions of the entity are transacted on normal commercial terms and are not prejudicial to the interests of the entity and its minority shareholders. Meet with the management, Internal Auditors/External Auditors as necessary to carry out the assigned duties. To review the transfer of resources, services or obligations between related parties regardless of whether a price is charged. To review the economic and commercial substance of both recurrent/non recurrent related party transactions To monitor and recommend the acquisition or disposal of substantial assets between related parties, including obtaining 'competent independent advice' from independent professional experts with regard to the value of the substantial asset of the related party transaction.	Compliant	RPT Review Committee Report

Rule No	Subject	Applicable requirement	Compliance Status	Applicable section in the Annual Report
9.2.4	Related Party Transactions Review Committee-Meetings	Shall meet once a calendar quarter	Compliant	RPT Review Committee Report. Annual Report of the Board of Directors.
9.3.2	Related Party Transactions Review Committee-Disclosure in the Annual Report	a) Non-recurrent Related Party Transactions- If aggregate value exceeds 10% of the equity or 5% Total assets whichever is lower. b) Recurrent Related Party Transactions – If aggregate value exceeds 10% Gross revenue/income as per the latest audited accounts c) Report by the Related Party Transactions re-view Committee d) A declaration by the Board of Directors	Compliant	RPT Review Committee Report. (Page No. 143) Annual Report of the Board of Directors. (Page No. 136)

Risk Management

GRI 102-11,15,201-02

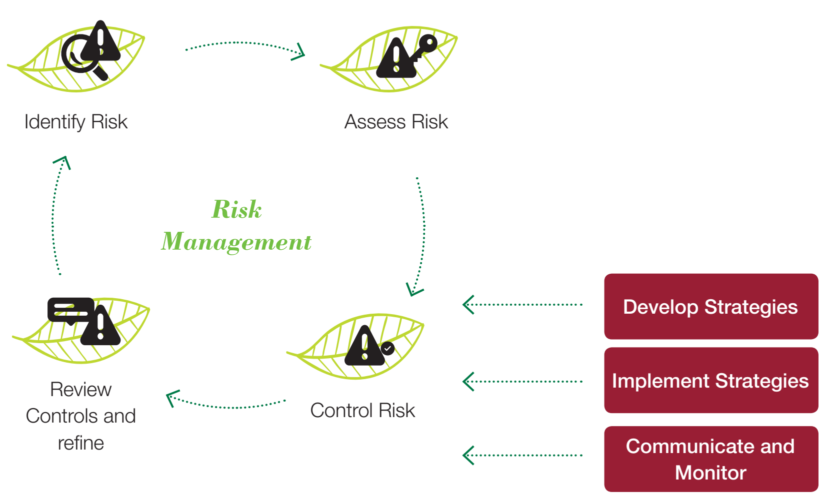
Risk basically denotes future uncertainty about deviation from expected Company objectives. Currently risk has become a common threat to most of the industries. Managing and facing risks in agriculture is particularly challenging since many risks are correlated to each other which impacts on community at the same time.

In the current 2017/18 year as a globally interactive company, KVPL faced a number of risks in the local as well as in the international business environment. Likewise, in the past years, KVPL implemented a structured Enterprise Risk Management (ERM) process which involved the entire Company's workers from top to bottom to identify, assess, manage and prioritise in an informed, controlled and transparent manner.

Since the Group operates in a challenging environment, the risks which have to be faced such as climate changes and global price fluctuations are more sensitive than the other industry risks. Therefore there were some situations where KVPL had to face the risks with a structured plan and organised strategies.

RISK MANAGEMENT PROCESS

The Group has established and adheres to a comprehensive risk management framework as shown below, to face the unpredictable agricultural environment.

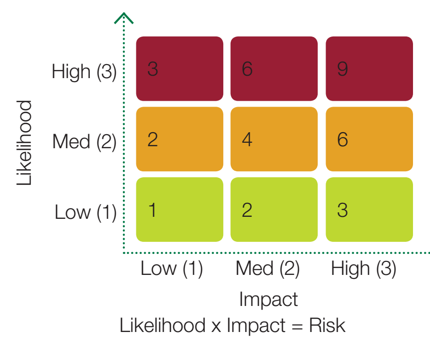


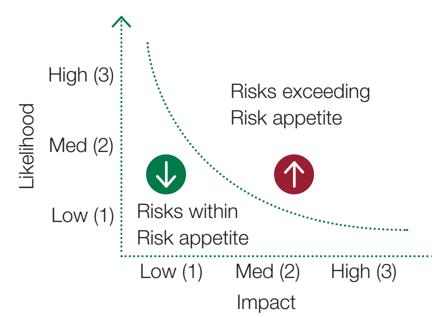
1. Risk Identification

The initial step of risk identification begins from the Estate Managers and from there onwards they measure and manage the risks which arise from their respective areas. Once the initial identification is done, the identified risks are broadly analysed and interpreted by Monthly/ Quarterly review meetings and internal system reviews to identify the possible risks which arise from unique events as well as more gradual trends that could result in changes in risk.

2. Risk Evaluation

Once the risks are identified, the evaluation procedure is done to rank the risks as low, medium and high based on the impact and likelihood. Based on the ranking the management prioritises the risks which need to be responded to quickly.





3. Risk Control

Depending on the assessment of the rankings, risk control is done by,

- **Developing Risk Response Strategies**

Based on the impact of the risks, the response strategies are planned to manage the risk through accepting, reducing, sharing or avoiding. The responsibility of developing response strategies mainly lies with the Managing Director and the Management team. To ensure the appropriateness of the strategies, KVPL carries out an ideal internal control system to filter and gives the entire company the best response strategy out of the alternatives. One of the famous strategies which KVPL uses to respond to the risks is mitigating the risk by obtaining insurance coverage wherever necessary. This insurance coverage is frequently updated based on the nature of the business environment with the help of the experts.

- **Communication**

The developed risks and the respective risk response strategies are presented to the Board of Directors and to the Audit Committee along with the review reports on a quarterly basis. The Board of Directors evaluates the risk strategies alongside the risks and makes adjustments where ever necessary before putting them into practise. As soon as the risk strategies are finalised they are communicated to the ground level for the implementation process through regular meetings and reviews.

- **Corporate Level Communication**

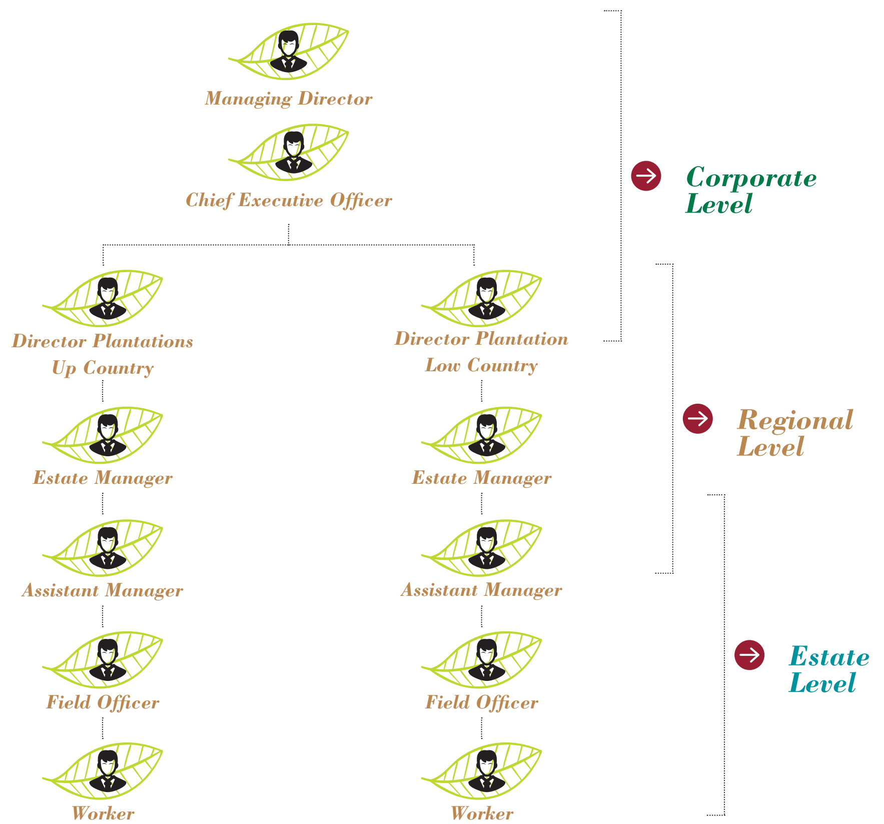
This is the top level of the communication process where the Directors of Plantations illustrates the uncontrollable risks to the CEO and the Managing Director which cannot be solved at the estate and regional level.

- **Regional Level Communication**

This is the intermediary level of the communication process. The issues raised by the ground level workers are communicated by the Estate Managers to the Plantation Directors of Up Country and Low Country regions for further attention.

- **Estate Level Communication**

The estate level communication flow begins from the estate worker to the manager/ Assistant Manager and vice versa. The employees have the opportunity to raise the concerns regarding employment and community to the estate management on Labour Day, which is a fixed date of the week.



Governance and Risk

Risk Management Contd.

4. Risk Monitoring

The final step of the risk management process which is risk monitoring can be divided into two parts as follows:

- **Monitoring:** Through the monitoring process the Company's main aim is to evaluate the efficiencies of the risk strategies which have been implemented to mitigate the risk within the year. This process is basically executed at multiple levels in the organisation including Management team and Audit Committee.

- **Review:** KVPL's risk profile is reviewed quarterly. Through this process it was revealed that there is no substantial diversion of KVPL's risk profile for the year.

RISK PORTFOLIO OF THE GROUP

KVPL actively monitors its risk in a diversified environment to proactively manage and mitigate the risk exposures. KVPL entered into the agro-tourism segment through Kelani Valley Resorts (Pvt) Ltd., where the risk exposure of the Group increased whilst the diversification also resulted in risk mitigation.

KEY RISKS FACED IN 2017/18

Strategic Risk

- Climate Changes
- Production Risk
- Political Risk
- Commodity Risk
- Acquisitons
- Social & Environmental Risk

Financial Risk

- Foriegn Exchange Risk
- Interest Rate Risk
- Credit Risk
- Investment Risk
- Liquidity RIsk
- Accounting & Reporting Risk

Operational Risk

- Value Chain Risk
- Management Personnel & Worker Migration
- Business Distruption
- IT Risk
- Technological Risk
- Reputational Risk

Compliance & Other Risk

- Legal
- Tax
- Market Prices
- Data Privacy
- Product Security
- General Business Principles

Our approach to risk management:

- Bottom-up approach:

Regular meetings are conducted to discuss the Company's results, potential, opportunities and ground level operational risks. Remedial action and goal setting is also done at this forum.

- Hayleys Groups' risk management functions:

The Internal Audit division 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.

- Internal Systems Review:

Our internal systems review team carries out regular system evaluations in order to monitor the effectiveness and compliance of existing systems and controls. Based on the findings, necessary feedback is given to management teams at both Head Office and estates.

- External Auditor's Management Letter:

The management letter issued by the external auditors highlights the possible risks associated with the year-end audit findings. The outcomes of these findings are then used for continuous enhancement of KVPL's overall risk management system.

RISK ARCHITECTURE

Board of Directors

- Receive reports from Management Team and external/internal auditors
- Set Annual Audit programme and priorities
- Monitor progress with audit recommendations
- Provide risk assurance to the Board and oversee risk management structures and processes

Direct and monitor

Level 3: Audit Committee

- Receive reports from Business Units and external /internal auditors
- Formulate strategy and policy based on risk appetite, risk attitudes and risk exposures
- Review risk management activities and comply with the Group Risk Register
- Make reports and recommendations to the Board
- Track risk management activity and keep the risk management context under review

Direct and monitor

Level 2: Management team

- Identification of business unit risk
- Set risk approaches and prioritise risk for Business Units
- Monitoring and prepare reports for Management Team
- Manage and Control risk and self-certification

Direct and monitor

Level 1: KVPL Group business units/estate level

Plantations (Tea, Rubber) | Export value added Tea | Processing of Tea powder | Hydropower | Agro Tourism

Risk Management Contd.

BUSINESS UNITS/ESTATES:
Divisional business units identify each unit's value creation model and shareholder concerns recognised from the stakeholder engagement processes, to identify material aspects and risk indicators. The risks originated are evaluated and managed within their approved risk appetites and policies. To manage these risks, they are required to establish and maintain appropriate risk management controls, resources and self-assurance processes.

MANAGEMENT TEAM/EXECUTIVE COMMITTEE:
The management team is responsible for developing division specific risk appetite statements, policies, controls and procedures, in addition to monitoring and reporting in line with the Board's statement of risk appetite and the risk management framework approved by the Board of Directors. The Heads of the business units evaluate operational risk and consult operational management. The significant risks are reported to the corporate management where risks are analysed, mitigated and implemented at the operational level.

AUDIT COMMITTEE:
The Group Audit Committee leads the optimisation of the risk reward concept by overseeing the development of risk appetite statements, risk management framework, policies and risk concentration controls and monitoring diverse risk profiles to sharpen the alignment with approved risk appetites and strategies.

BOARD OF DIRECTORS:
Overall responsibility for the management of risk rests with the Board of Directors, to ensure that the risk management is embedded into all processes and review group risk profile. The Audit Committee assists the Board of Directors by overseeing responsibility for risk and internal control.

ESTATE LEVEL RISK MANAGEMENT PROCESS:
According to KVPL's Estate Risk Management Process, it has been identified that there is a high probability of risks exposed towards the estate workers and other estate communities while on duty and off duty. These risks can be mainly categorised into two parts as follows,

- Environmental risks
- Housing and other risks

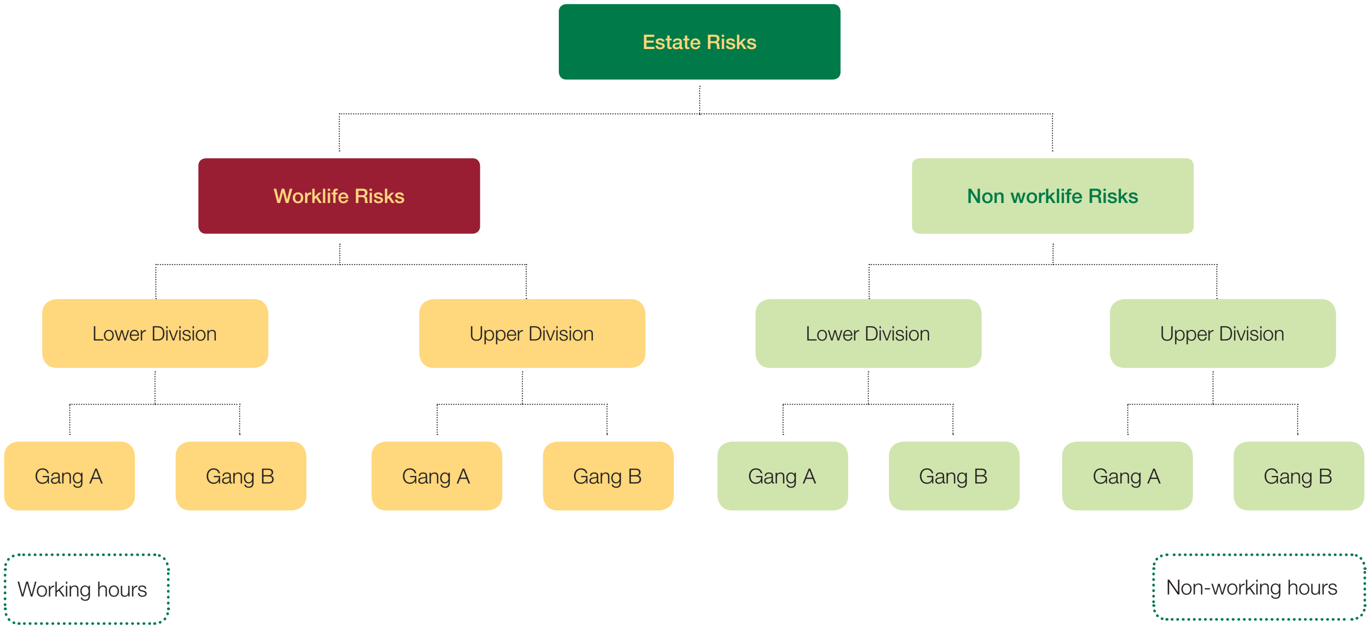
Environmental risks mainly include earth slips, cyclones, floods, lightning strikes, bee attacks and others. Housing and other risks include factory fires and factory accidents, fires at worker houses, field accidents and sudden illness, violence and strikes, customer complaints, etc. For each of these risks the Estate Risk Management process identifies:

- How the risk could occur
- Who might be harmed
- What is being done already
- Is anything else required to control this risk
- Action by who
- Action by when

PROCESS OF MANAGING ESTATE RISKS:
According to the risk arising location, Estate Risk Management has divided the risks into two components as,

- Field level risk management
- Worker housing/ environment risk management

Field level risk management directly applies to workers, while housing/environment risk management covers the estate community. Response action to hazards are assigned at divisional, field and work gang levels, to be able to reach the grass root level in each estate. Responsibilities are assigned between working hours and non-working hours and the risk communication processes follows a bottom-up approach.



Risk Management Contd.

GROUP RISK MANAGEMENT IN 2017/18

No significant changes in the risk status was observed during the current period, compared to the previous year. As in the previous year, climate change, value chain and possible changes to the wage structure were the other high-risk areas.

Risk Factor	Risk Rating 2017/18	Risk Rating 2016/17	Response
Strategic Risk			
Climate Changes Both Tea and Rubber crops fluctuate due to adverse weather conditions, changes due to ambient temperature and natural disasters. This affects the yield, quality, market share, earnings and profitability of the product.	H	H	Climate change remained a high risk and unpredictable area during the current year as well. Our sustainable agricultural practices, strengthened emergency response plan and business recovery plan minimised the effects of climatic changes. Monitor Tea and Rubber crop variances. • Successful implementation of Company crisis management plan with periodic updation. • Rest Rubber plants during heavy rainy days to get maximum output during dry periods. • Reserve forests and water sheds to retain the moisture content. • Pre-drought spraying to prevent excessive transpiration during dry seasons. • Sloping Agriculture Land Technology (SALT) to avoid soil erosion. • Management of shade trees. • Diversify crop (cinnamon, timber and fuel wood). • Burial of weed heaps to retain moisture.
Production Risk Consistencies in product quality depends on the consistency of quality of raw material (green leaf, latex…etc). Inconsistencies lead to reduced demand, resulting in a drop in market price, market share and reputation, and increases the number of quality claims.	H	M	Quality of end product (Eg; made Tea and Rubber) is purely dependent on quality of the raw material. Production risk increased from medium to high during the year due to prohibition of use of weedicides. Following mitigatory measures have been undertaken • Regular awareness programmes are conducted for manual grade work force on use of quality raw material and ways and means of harvesting. Company has appointed separate personnel as the Human Development Manager with the support of competent team to provide on the job training to manual grades at the work place itself. • Close supervision of plucking rounds and manufacturing process.

Risk Factor	Risk Rating		Response
	2017/18	2016/17	
			• Obtaining regular advice from industry experts, TRI and RRI, brokers and customers. • Strengthen the marketing division with frequent visits to buyers and brokers. • Frequent quality audits, reviews and corrective measures. (quality assurance systems) • A better grade mix by converting our plantation latex crop in to RSS/latex crepe, centrifuge and sole crepe in order to obtain the best market trends. • Making arrangements with other factories to transfer excess leaf to get optimum output and price (Centralising Tea factories according to high NSA. This will optimise capacity and reduce COP). • We do single origin Tea, value addition and marketing promotions through our subsidiary Mabroc Teas. • Developed new areas of diversification in to identified high market potential crops and products such as Cinnamon, etc. • New market segments developed for direct sales of value added Rubber and Tea. • KVPL Tea is distributed in different agro-climatic regions giving the opportunity to produce seasonal quality Tea to cater to different markets competitively.
Political Risk Political intervention in wage negotiations and major industrial relations inhibit the resolution of issues on the basis of economic viability alone.	M	M	Political risks remained a mid-level risk during the year. Management initiatives to improve labour productivity were not supported as expected and unplanned acquisitions of land aggravated the situation. However, we continue to make representations to key members of Government and the bureaucracy to negotiate Collective Agreements with major plantation trade unions, in which wages and parameters of the operation are agreed.
Value chain Fluctuations in global supply and demand, consumer preferences, close substitutes and competition from other major low cost producers, affects the demand and determines the price(s) of KVPL products.	H	H	• External price fluctuations of commodities and energy remained a High-level risk during the year. We responded by maintaining our ongoing strategy. • Our subsidiary company Mabroc Teas adding value to our product mix to match customer preferences. • Obtaining accreditations for Tea and Rubber on good agricultural practices. • Membership in the UNGC which positions KVPL as a socially responsible plantation company.

Risk Management Contd.

Risk Factor	Risk Rating		Response
	2017/18	2016/17	
Further increases in prices of chemicals and energy contribute to higher production costs. Risk due to loss of confidence and relationship with suppliers of fertiliser, chemicals, packing materials, bought leaf and latex, etc., and brokers, buyers and end customers. Banning chemicals, high fertiliser cost cause operational disruption.			• Differentiating KVPL to bulk buyers as an "Ethical Tea Producer" and marketing "The Ethical Tea Brand of the World" to retailers through Mabroc Teas • A new Tea centre was opened at Edinburgh Estate Nanuoya with a new theme (Tea Train), to capture the inflow of visitors before entering the city of Nuwara Eliya. An array of single origin Teas from KVPL is available for the consumer at this facility. • Converting to cheaper energy (solar) and implementing energy saving strategies in the production process. • We follow a transparent procedure to evaluate quotations of suppliers and ensure prompt payment and settlement for bought leaf, latex suppliers and other suppliers. • Unbiased evaluations of products and services of suppliers. • We educate and provide necessary tools/equipment to bought leaf and latex suppliers to deliver a good quality produce. • Frequent meetings and discussions with brokers, buyers and end users locally and internationally will enable identification of end user requirements, trends, preferences, opportunities and further improvements of the quality of the produce.
Social environmental Risk	M	M	Providing uniforms, change of designations, providing awareness highlighting the benefits of working in the plantation industry, such as,
• Lack of interest of the new generation to join the estate workforce.			• Our core CSR initiation 'A Home for Every Plantation Worker' programme • Recognition and rewarding of good worker performance for the first time in plantation history, KVPL held an awards ceremony for high performing manual workers. • Improved welfare schemes, medical benefits and other community development programmes. • Introduced Key Value Drivers for the workforce to enhance their worklife as well as personal life.
• Politicised plantation workforce.			• We maintain a good rapport with workers and trade unions and arrange regular social cultural and youth events, to develop relationships.

Risk Factor	*Risk Rating*		*Response*
	2017/18	*2016/17*	
Financial Risk			
Foreign Exchange Risk Our subsidiary Mabroc Teas is mainly focused on foreign markets and adverse fluctuations of foreign exchange rates affects pricing policy and results.	M	M	The exchange rate risk and the associated risk exposure is managed as follows, • Arranging forward exchange contracts to minimise the exposure of currency volatility. • Monitor exchange rate movements and outlook for high exposure currencies. • 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. • Measures are established to determine effectiveness of action taken.
Interest rate risk Changes in national fiscal and monetary policies affect the Company's pricing policy and profitability. Similarly, low returns on investment, high opportunity cost of investment and difficulty in generating funds for capital development and growth are the other major risks inherent in the industry.	M	M	• The KVPL Group's credibility, reputation, strength and financial dependability help ensure ready access to funds at attractive rates. • Fluctuation of local currency interest rates are minimised by having foreign currency borrowings linked to LIBOR.
Credit Risk Credit risk is in the form of financial losses when customers default and the prospect of protracted legal proceeding without assurance of a favourable outcome.	L	L	Although this is a low risk area mitigatory measures are followed, • Credit risks are assessed, limits are set and credit granted is closely monitored. • Suppliers are settled and dues collected from customers leaving no room for default on payment. • Tea and Rubber stocks are sold through auction and settlements are assured in seven (07) days. • Customers of Mabroc Teas (Pvt) Ltd. are given credit through a proper evaluation and all open account customers are subjected to credit insurance by SLECIC. • Further, production and delivery of RTD is done only on settlement of outstanding balances. • Government leases and other finances are closely monitored and settled without delay.

Risk Management Contd.

Risk Factor	*Risk Rating*		*Response*
	2017/18	*2016/17*	
Investment Risk This entails failure in investments/ inability to achieve expected objectives. This affects future profitability and sustainability of the Group.	M	M	• Any "proposed investments" are subjected to a rigorous evaluation and feasibility process by seeking expert advice to ensure a maximum return on investment Board approval is sought prior to embarking on a proposed investment. • Further we closely monitor the progress to ensure project deliverables are achieved within the given budgets and timelines. • Prudent investments are made in capital development i.e. replanting, machinery and plant upgrading and rationalising the production capacities in major factories.
Liquidity Risk Liquidity problems are bound to arise due to uncontrollable factors such as erratic weather patterns, wage hike, drop in demand and prices and increase in prices of input materials, etc.	M	M	• Efficient cash management such as close monitoring of expenditure, maintaining an effective budgetary control system and building up of reserves are key to minimising liquidity risks. • We monitor cash flows of each estate on a weekly basis (expenses are prioritised and expenditure curtailed especially in an under performance) and expenses are controlled through the Annual Budget.
Accounting and Reporting Possibility of misstatement of financial position or profitability and noncompliance with accounting standards and other regulatory requirements	L	L	• The KVPL Board of Directors and Audit Committee consists of senior qualified accountants and they meet quarterly to review the financial statements of the company. • Regular reviews of systems and controls by internal staff and group audits. • The KVPL Group consists of qualified chartered accountants and skilled staff with relevant qualifications. • We consult experts in the field when required and regular training on areas such as changes in standards, laws and compliance is given to the staff.
Operational Risk GRI 307-01			
Employee Migration The risk of losing high-performing employees to more attractive and alternative job opportunities due to dissatisfaction with remuneration • Lack of adequate educational and other infrastructural facilities in plantation areas	L	L	**Revenue Sharing Model:** This was introduced in order to retain the estate community within the estate by sharing a portion of revenue with the employees. Thus the employees' income and their wellbeing increased. In addition to that we attract and retain skilled employees through our short-term and long-term plans: **Short term**- Strengthen HR strategies to develop a system to attract and capture the best talent for short-term through a comprehensive interviewing model.

Risk Factor	Risk Rating		Response
	2017/18	2016/17	
Immobility of labour within/ between estates/crops.			**Long-term**: Developed sector level planter trainee programmes to train the talented and qualified planter trainees. The fourth batch has been successfully selected and trained. Well-structured HRD plan (04 Year Strategic plan from 2014-2018) mainly to upgrade knowledge levels of the manual work-force which comprises 93% of total work-force, by regular and ongoing training programme.
Wage Structure Increase in wage rates has a substantial impact on cost of production, profitability and gratuity liability as the industry is highly labour intensive. Strong trade unions play an active role in determining wages.	H	H	This remained a high risk area as labour cost accounts for over 60% of total costs of the Company. We manage this risk by: • Increasing land and worker productivity through training, monitoring, motivation, and mechanisation and outsourcing non-value-adding activities. • Negotiating with trade unions and stake holders for a wage structure that is in line with productivity (wage negotiation is done collectively with the Employers' Federation of Ceylon and the Planters' Association of Ceylon).
Reputation Risk KVPL's reputation may be tarnished due to non-compliance, unethical practices, and inconsistency in product/service quality.	L	L	• KVPL had adopted stringent quality assurance policies with regard to raw and packaging materials bought from third parties. • Compliance with international standards (ISO 22000:2005 and HACCP) and Rain Forest Alliance Certification. • Implementation of Group policies on health, safety and environment will ensure best practices (in the sector). • Regular internal audits have strengthened the procedure. • To ensure better and consistent service quality in Kelani Valley Resorts, the company considers and welcomes guest comments and strives to match their expectations.

Risk Management Contd.

Risk Factor	Risk Rating		Response
	2017/18	2016/17	
Natural Business Disruption disasters, human involved activities (human errors, accidents, etc.) may cause business/ operational disruptions.	L	L	• Regular safety training and monitoring at factories (such as boiler safety, fire, etc.) and compliance audits and awareness programmes on disaster management is conducted and safety standards are followed. • Skill development programmes for workers and staff are also conducted on a regular basis. • Adequate insurance cover is in place to recover any financial losses and re-instate the losses within a reasonable period. • Updated the risk mitigation plan in line with current identified risk factors.
IT Risk Include risk of system failure and loss of data	M	M	• Have implemented a sound IT policy, including IT security, privacy and confidentiality, supported by adequate systems and controls • Have a disaster recovery plan in place to mitigate the risk of IT failures. An effective backup procedure has been implemented both at estates and head office level with the support of Hayleys Group IT unit • Monitor system hardware capacities • Have a maintenance contract for hardware with a reputed company. • Have immediate IT related support for estates in the capacity of skilled personnel in the regional office • Have provided new technologies for online transmission of daily information to the estate managers. • Automated leaf weighing operation covered by a comprehensive maintenance agreement with vendor to minimise downtimes and signed the Non-Disclosure Agreement to protect the confidential operational information.
Technological Risk Not keeping pace with technological developments could lead to obsolescence	L	L	• Mechanisation of estate functions up to the highest possible extent. • Investing in research and development activities whenever necessary. • Investing in hardware resources. • Maintain cost relationship with research institutes and universities for new technology.
Compliance and Other Risks			
Regulatory Risk (Legal, Tax, etc.) Compliance with laws and other statutory obligations and risk arising from litigation and law suits against the Company may lead to loss of reputation and penalties being imposed.	L	L	• Statutory obligations are regularly reviewed by the Head of Finance and reported to the Audit Committee. • Group has its own legal and tax consultants.

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 March, 2018.

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 production and processing of Tea and Rubber. Details of activities of other companies in the Group are given on page 16 of this Report. The Chairman's Message (pages 28 to 31), Management Discussion and Analysis (pages 38 to 122), Sustainability Report (pages 110 to 122) and Financial Capital (pages 66 to 81) 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., Mabroc Teas (Pvt) Ltd. and equity accounted investee, Hayleys Global Beverages (Pvt) Ltd.

During the period under review, Kelani Valley Plantations PLC incorporated a new fully-owned subsidiary company Kelani Valley Resorts (Pvt) Ltd. to promote agro tourism.

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 189 to 271.

AUDITOR'S REPORT

The Auditor's Report on the Financial Statements of the Company and the Group is given on pages 195 to 197.

ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the Financial Statements are given in pages 206 to 227.

GROUP REVENUE

The Group revenue during the year was Rs. 8,642,220,492/- (2016/17 - Rs. 6,852,261,668/-) and an analysis is given in Note 6.1 to the Financial Statements.

The Group revenue from Tea increased by Rs. 1,637,088,337/- (2016/17 – increased by Rs. 717,197,749/-) and Rubber increased by Rs.118, 555,914/- (2016/17 – increased by Rs. 78,536,253/-) during the year, respectively.

RESULTS AND DIVIDENDS

The Group profit before taxation amounted to Rs. 202,486,507/- (2016/17- Rs. 12,473,512/-).

After deducting Rs. 42,064,914/- (2016/17 - Rs. 27,822,507/-) for taxation, the profit for the year was Rs. 160,421,593/- (2016/17 – loss of Rs. 15,348,994/-).

The Group profit attributable to owners of the parent which was deducted for non-controlling interest of Rs. 5,231,697/- (2016/17-3,383,973/-) for the year was Rs.155,189,897/- (2016/17 – loss of Rs. 18,732.968/-).

The Profit available for appropriation, inclusive of Rs. 880,914,240/- (2016/17- Rs. 592,660,320/-) of brought forward retained profit amounted to Rs.977,740,165/- (2016/17- Rs. 880,914,240/-)

The Board of Directors recommends a first and final dividend of Rs. 1/- per share payable on 04 July 2018 to the holders of the issued ordinary shares of the Company as at close of business on 22 June 2018. The dividend is paid out of the dividend received and therefore is not be liable to 14% dividend tax.

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. 1/- (2016/17 – Rs. Nil)

Annual Report of the Board of Directors on the Affairs of the Company Contd.

PROPERTY, PLANT & EQUIPMENT

The capital expenditure of the Group during the period amounted to Rs. 473,086,184/- (2016/17 - Rs. 499,236,429/-) whilst that of the Company was Rs. 387,573,783/- (2016/17 – Rs. 424,375,448/-) which includes replanting expenditure of Rs. 314,304,491/- (2016/17 - Rs. 318,308,290/-) on Tea, Rubber and Cinnamon.

Information relating to movement of Property, plant & equipment is given in Notes 12, 13 and 14 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, due or payable to 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 to 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.

RESERVES

The total reserves of the Group as at 31 March, 2018 amounted to Rs. 2,677,740,165/- (2016/17 - Rs. 2,580,914,025/-) comprising the general reserve of Rs. 1,700,000,000/- (2016/17 - Rs. 1,700,000,000/-) and the carried forward profit of Rs. 977,740,165/- (2016/17 - Rs. 880,914,025/-).

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 2017/18.

Information relating to income tax rates of subsidiary companies is shown in Note 10 to the Financial Statements.

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 an Interest Register.

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 32 to the Financial Statements dealing with related party disclosures includes details of their interests in transactions.

RELATED PARTY TRANSACTIONS

The Board of Directors has given the following statement in respect of the related party transactions.

The related party transactions of the Company during the financial year have been re-viewed by the Related Party Transactions Re-view Committee of Hayleys PLC the Parent Company and are in compliance with Section 09 of the CSE Listing Rules.

The Related Party Transactions Review Committee comprises two Independent Non-Executive Directors and one Executive Director of Hayleys PLC and the name of the members and their attendants at the meetings are given on page 193 under the related party transaction committee report.

DIRECTORS' INTERESTS IN SHARES

Directors who have relevant interests in the shares of the Company have disclosed their shareholdings and any acquisitions/disposals during the year to the Boards, in compliance with Section 200 of the Companies Act.

Details of Directors shareholding as per the rules of the CSE is as below.

	As at 31.03.18	As at 31.03.17
	No. of shares	No. of shares
Mr Roshan Rajadurai, Managing Director	91	91
Mr S Siriwardana, Chief Executive Officer/Director	193	193
Dr K I M Ranasoma, Director	300	300

None of the other Directors held shares of the Company as at 31 March 2018.

There were no share transactions by the Directors during the year 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 Directors and Officers liability insurance from Orient Insurance Ltd., providing worldwide cover to indemnify all past, present and future Directors and Officers (D & O) of the Group.
The limit on liability of the cover is USD 5 m per annum.

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 March, 2018, is Rs. 35,312,000/- and Rs. 9,956,000/- 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 March, 2018, is Rs. 1,770,000/-, 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 (2016/17 - 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 12 and 15.

EXECUTIVE DIRECTORS

A M Pandithage, Roshan 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 Wijeyeratne.

In terms of Article No.30 of the Articles of Association of the Company, Mr A M Pandithage and Dr K I M Ranasoma retire by rotation, and being eligible offer themselves for re-election.

Notice has been given pursuant to Section 211 of the Companies Act No. 07 of 2007, of the intention to propose an ordinary resolution for the re-appointment of Mr F Mohideen, who is over 70 years of age, notwithstanding the age limit stipulated by Section 210 of the Companies Act. No 07 of 2007.

Annual Report of the Board of Directors on the Affairs of the Company Contd.

Directors of the Company and subsidiaries are given in page 16

CORPORATE GOVERNANCE

The Company has complied with the Corporate Governance Rules laid down under the Listing Rules of the Colombo Stock Exchange. 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 130 to 169.

AUDITORS

The Auditors, Messrs Ernst & Young, were paid Rs. 5,493,418/- (2016/17 - Rs. 4,940,193/-) and Rs. 4,819,448/- (2015/16 - Rs. 3,903,300/-) by the Group and the Company respectively as audit fees for the financial year ended 31 March 2018.

In addition, the Group paid Rs. 644,159/- (2016/17 - Rs. 943,969/-) to Messrs Ernst & Young for the year whilst the Company incurred Rs. 316,837/- (2016/17 – Rs. 220,000) 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 term of Section 158 of the Companies Act No. 7 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, Market Value Per Share and share trading is shown on pages 22 and 275 respectively.

SHAREHOLDERS

It is the Group / Company policy to endeavour to ensure equitable treatment to its shareholders. The Twenty major shareholders' names, comparative number of shares held and the percentage held as at 31 March, 2018 are given on page 275 of this report. Public shareholding percentage and total number of public shareholders is shown on page 274.

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 35 to the Financial Statements.

EMPLOYEES AND INDUSTRIAL RELATIONS

The Company has a structure and a culture that recognises the aspirations, competencies and commitment of employees. Career growth and advancement within the Company is promoted. Details of Company's human resource practices and employee and industrial relationships are given in Human Capital Section.

The number of persons employed by the Group at financial year-end was 9,893 (2016/17 – 9,634) of which 9,722 (2016/17 – 9,457) are engaged in employment outside the Western province.

STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to the Government, other regulatory institutions and those related to employees have been made promptly.

The declaration relating to statutory payments is made in the Statement of Directors' Responsibilities on page 190.

RATIOS AND MARKET PRICE INFORMATION

The ratios relating to equity and debt as required by the listing requirements of the Colombo Stock Exchange are given in page 22.

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 Sustainability Report in pages 83 to 122.

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 its activities may have on the environment and to promote co-operation and compliance with the relevant authorities and regulations.

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

After considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the corporate governance code, the Directors have a reasonable expectation that the Group and Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the Going Concern basis in preparing 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, 22 June 2018 at 3.00 p.m. The Notice of the Annual General Meeting appears on page 282.

For and on behalf of the Board,

A M Pandithage
Chairman

Roshan Rajadurai
Managing Director

Hayleys Group Services (Pvt) Ltd.
Secretaries

09 May, 2018

Directors' Statement on Internal Controls

The following statement fulfills the requirement to publish the Directors' Statement on internal control as per the Code of best practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka .

The Board of Directors is responsible for maintaining a sound system of internal controls to safeguard shareholder's investments and the Company's assets. The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and Group. This process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board.

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of Financial Statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements.

The Board has implemented the following to obtain reasonable assurance that proper systems of internal controls are in place:

- Instituted committees to assist the Board in ensuring the effectiveness of Company's operations and the operations are in accordance with the corporate strategies and annual budget.
- The Hayleys Management Audit and System Review Division (MA & SRD) to review and report on the internal control environment in the Company and Group. Audits are carried out on all subsidiaries in accordance with the annual audit plan approved by the Audit Committee. Findings are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee reviews internal control issues identified by MA & SRD and management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits.
- The adoption of new Sri Lanka Accounting Standards, processes that are required to comply with new requirements of recognition, measurement, presentation and disclosures were introduced and implemented. Continuous monitoring is in progress to ensure effective implementation of the required processes.
- The comments made by External Auditors in connection with the internal control system during the financial year 2016/17 were taken into consideration and appropriate steps have been taken to incorporate them where appropriate.

CONCLUSION

The Board having implemented the above is aware that such systems are designed to manage rather than eliminate the risk of failure to achieve business objective and can only provide reasonable and not absolute assurance against material misstatements of loss.

The Board of Directors confirm that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with the Sri Lanka Accounting Standards, requirements of the Company's Act no 7 of 2007 and the Listing Rules of the Colombo Stock Exchange.

Roshan Rajadurai
Managing Director

Sarath Siriwardana
Director / Chief Executive Officer

09 May 2018

Financial Calender

Financial Calendar	2017/18	2016/17
1st Quarter	31 July 17	03 August 16
2nd Quarter	30 October 17	25 October 16
3rd Quarter	26 January 18	30 January 17
Annual Report	09 May 18	12 May 17
Annual General Meeting	22 June 18	20 June 17

Date of Authorisation for Issue	Financial Year	Annual General Meetings
11 May 16	2015/16	16 June 16
08 May 15	2014/15	29 June 15
13 February 14	2013	28 March 14
20 February 13	2012	28 March 13
14 February 12	2011	29 March 12
09 February 11	2010	31 March 11
09 February 10	2009	31 March 10
19 February 09	2008	31 March 09
22 February 08	2007	28 March 08
07 February 07	2006	30 March 07

Statement of Directors' Responsibilities

The Directors are responsible under sections 150 (1), 151, 152 (1),) and 153 of the Companies Act No. 7 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 & 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, (SLFRS/ LKAS) 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 the 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. 7 of 2007, the Board of Directors has authorized 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. 7 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 pages 195 to 197 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 Balance Sheet date have been paid or where relevant, provided for.

By order of the Board

HAYLEYS GROUP SERVICES (PVT) LTD.
Secretaries

09 May 2018

Audit Committee Report

COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee, appointed by and responsible to the Board of Directors, comprises the following three Independent Non-Executive Directors.

Mr. L N de S Wijeyratne (Chairman)
Mr. F Mohideen
Mr. C V Cabraal

The Chairman of the committee, Mr. L N de S Wijeyratne is an Independent Non- Executive Director. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and has over 35 years of experience in Finance and General Management.

Brief profiles of each member are given on pages 14 and 15 of this report. Their individual and collective financial knowledge and business acumen and the independence of the Committee, are brought to bear on their deliberations and judgments on matters that come within the Committee's purview.

The Company Secretary acts as the secretary to the audit committee. The Chairman and Chief Executive, Group Chief Finance Officer of Hayleys PLC and Head – Hayleys Group Management Audit and System Review, Managing Director, Director/CEO and General Manager Finance of Kelani Valley Plantations PLC attend meetings of the Committee by invitation.

CHARTER OF THE AUDIT COMMITTEE

The Audit Committee Charter is periodically reviewed and revised with the concurrence of the Board of Directors. The terms of reference of the committee are clearly defined in the Charter of the Audit Committee.

Rules on Corporate Governance under listing rules of corporate governance under Colombo Stock Exchange and Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka further regulate the composition, role and functions of the Board Audit Committee.

MEETINGS OF THE AUDIT COMMITTEE

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

Independent Non-Executive Director	*12/05/2017*	*31/07/2017*	*30/10/2017*	*26/01/2018*	*Total*
Mr. L N de S Wijeyratne (Chairman)	✔	✔	✔	✔	4/4
Mr. F Mohideen	✔	✔	✔	✔	4/4
Mr. C V Cabraal	✔	✖	✔	✔	3/4

THE OBJECTIVE AND ROLE OF THE AUDIT COMMITTEE

The role of the committee, which has specific terms of reference, is described in the Corporate Governance Report on page 155.

TASKS OF THE AUDIT COMMITTEE FINANCIAL REPORTING SYSTEM

The Committee reviewed the financial reporting system adopted by the Group in the preparation of its quarterly and annual Financial Statements to ensure reliability of the processes and consistency of the accounting policies and methods adopted and their compliance with the Sri Lanka Financial Reporting Standards. The methodology included obtaining statements of compliance from the Managing Director and Director/CEO. 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 recognized the adequacy of the content and quality of routine management information reports forwarded to its members.

Audit Committee Report contd.

INTERNAL AUDITS

The Committee reviewed the process to assess the effectiveness of the Internal 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 Financial Statements. The Hayleys Group Management Audit & Systems Review Department (MA & SRD) reports on key control elements and procedure in Group companies (that are selected according to an annual plan) were reviewed. Internal Audits are outsourced wherever necessary, to leading audit firms in line with an agreed annual audit plan. Follow up reviews are scheduled to ascertain that audit recommendations are being acted upon. The Committee appraised the independence of the MA&SRD and other internal auditors, in the conduct of their assignments.

The committee reviewed statements that indicated major business risks, mitigating actions or contemplated for management of these risks.

EXTERNAL AUDITS

The Committee held meetings with the External Auditors to review the nature, approach, scope of the audit and the Audit Management Letters of Group Companies. Actions 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 Audit Committee has reviewed the other services provided by the External Auditors to the group to ensure that their independence as External Auditors has not been compromised.

APPOINTMENT OF EXTERNAL AUDITORS

The Audit Committee has recommended to the Board of Directors that Messers Ernst & Young; continue as Auditors for the financial year ending March 31, 2019.

SUPPORT TO THE COMMITTEE

The Committee received information and support from management during the year to enable it to carry out its duties and responsibilities effectively.

ETHICS AND GOOD GOVERNANCE

The committee continuously emphasized on upholding ethical values of the staff members. In this regard, Code of Ethics and Whistle-Blowers Policies were put in place and followed educating and encouraging all members of the staff. All appropriate procedures are in place to conduct independent investigations into incidents reported through whistle-blowing or identified through other means. The whistle-blower policy guarantees strict confidentiality of the identity of the whistle-blowers.

SRI LANKA ACCOUNTING STANDARDS

Committee reviewed the revised policy decisions relating to adoption of new and revised Sri Lanka Accounting Standards (SLFRS/LKAS) applicable to the Group companies and made recommendation to the Board of Directors.

The Committee would continue to monitor the compliance with relevant accounting standards and keep the Board of Directors informed at regular intervals.

The committee has pursued the support of Messers Ernst and Young to assess and review the existing SLFRS policies and procedures adopted by the Group.

L N de S Wijeyratne
Chairman
Audit Committee

09 May 2018

Related Party Transactions Review Committee Report

The Related Party Transaction review Committee of Hayleys PLC, the Parent Company functions as the Committee of the Company in terms of the Section 9 of the Listing Rules of the Colombo Stock Exchange.

COMPOSITION OF THE COMMITTEE

The Related Party Transactions Review Committee comprises two Independent Non-Executive Directors and one Executive Director and the members are as follows.

Dr. H Cabral**, PC - Chairman
Mr. M Y A Perera **
Mr. S C Ganegoda*

*** Independent Non-Executive*
**Executive*

ATTENDANCE

Committee met – 04 times during the Financial Year 2017/18.

Meetings were held on 17 May 2017, 4 August 2017, 2 November 2017 and 7 February 2018.

	Meetings
Dr. H Cabral, PC	4/4
Mr. M Y A Perera	4/4
Mr. S C Ganegoda	1/4

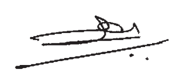
THE DUTIES OF THE COMMITTEE

- To review in advance all proposed related party transactions of the Group either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction.
- Seek any information the Committee requires from management, employees or external parties to with regard to any transaction entered into with a related party.
- Obtain knowledge or expertise to assess all aspects of proposed related party transactions where necessary including obtaining appropriate professional and expert advice from suitably qualified persons.
- To recommend, where necessary, to the Board and obtain their approval prior to the execution of any related party transaction.
- To monitor that all related party transactions of the entity are transacted on normal commercial terms and are not prejudicial to the interests of the entity and its minority shareholders.
- Meet with the management, Internal Auditors/External Auditors as necessary to carry out the assigned duties.
- To review the transfer of resources, services or obligations between related parties regardless of whether a price is charged.
- To review the economic and commercial substance of both recurrent/non recurrent related party transactions
- To monitor and recommend the acquisition or disposal of substantial assets between related parties, including obtaining 'competent independent advice' from independent professional experts with regard to the value of the substantial asset of the related party transaction.

TASK OF THE COMMITTEE

The Committee reviewed the related party transactions and their compliances of Kelani Valley Plantations PLC and communicated the same to the Board.

The Committee in its review process recognised the adequately of the content and quality of the information forwarded to its members by the management.



Dr. Harsha Cabral, PC.
Chairman

Related Party Transactions Review Committee of Hayleys PLC

16 May 2018

Managing Director's and Chief Financial Officer's Responsibility Statement

The Financial Statements of Kelani Valley Plantations PLC and the Consolidated Financial Statements of the Group as at 31 March, 2018 are prepared and presented in compliance with the requirements of the following:

- Sri Lanka Accounting Standards issued by The Institute of Charted Accounts of Sri Lanka;
- Companies Act No. 07 of 2007;
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
- Listing Rules of the Colombo Stock Exchange; and
- Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka.
- Code of Best Practices on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka.

We confirm that the significant accounting policies used in the preparation of the Financial Statements are appropriate and are constantly applied, as described in the Notes to the Financial Statements. The significant accounting policies and estimates that involved a high degree of judgment and complexity were discussed with the Audit Committee and our External Auditors.

We have taken measures in installing systems of internal control and accounting records to safeguard assets and to prevent and detect frauds as well as other irregularities. These have been reviewed, evaluated and updated on an ongoing basis. Reasonable assurance that the established policies and procedures have been consistently followed was provided through periodic audits conducted by Hayleys Group Internal Auditors (MA & SRD) and our own staff. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The Audit Committee of the Company meets quarterly and additionally if required with the Internal Auditors and the Independent Auditors to review the effectiveness of the audits, and to discuss auditing, internal control and financial reporting issues. The Independent Auditors and the Internal Auditors have full and free access to the Audit Committee to discuss any matter of substance.

The Financial Statements were audited by Messrs Ernst & Young, Charted Accountants, the Independent External Auditors. Their report is given on page 195 to 197 of the Annual Report.

The Audit Committee reviews the audit and non-audit services provided by the External Auditor, in order to ensure that the provision of such services does not impair their independence.

We confirm that:

- The Company and its subsidiaries have complied with all applicable laws, regulations and prudential requirements:
- There are no non-compliances: and
- There is no material litigation that is pending against the Group.

Roshan Rajadurai
Managing Director

Sarath Siriwardana
Director/Chief Executive Officer/Chief Financial Officer

09 May 2018

Independent Auditors' Report

Building a better working world

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

BW/CSW/BHNJ

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KELANI VALLEY PLANTATIONS PLC

Opinion

We have audited the financial statements of Kelani Valley Plantations PLC ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statement of financial position as at March 31, 2018, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at March 31, 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Independent Auditors' Report Contd.

EY
Building a better working world

Key audit matter	How our audit addressed the key audit matter
Retirement Benefit Obligation	
The retirement benefit obligation of the Group is significant (Rs.917 Mn) in the context of the total liabilities of the Group. The valuation of the Group's retirement benefit obligation requires significant judgment and estimation to be applied across numerous assumptions, including salary increases and discount rate. Small changes in those assumptions could have a significant effect on the financial performance and financial position of the Group. Accordingly, actuarial valuation of retirement benefit obligation is considered to be a key audit matter.	We evaluated the assumptions made in relation to the actuarial valuation of the retirement benefit obligation. In particular: • We assessed the assumption for salary increases against the group's historic trend and expected future outlook. • We agreed the discount rate used, to our internally developed benchmarks. • We validated the key data used by the actuary to the underlying data held by the Group. We evaluated the adequacy of the related disclosures given in Note 25 in the financial statements.

Other information included in The Company's 2018 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

EY
Building a better working world

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Company and the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is M-2440.

Ernst & Young

Ernst & Young
Charted Accountants

09 May 2018

Colombo

Financial Reports

Statement of Profit or Loss

For the year ended 31 March,	Notes	Group 2017/18 Rs. '000	Group 2016/17 Rs. '000	Company 2017/18 Rs. '000	Company 2016/17 Rs. '000
Revenue	6.1	8,642,220	6,852,262	4,382,866	3,436,658
Cost of sales		(7,550,537)	(6,234,523)	(3,739,560)	(3,143,093)
Gross profit	6.2	1,091,683	617,739	643,306	293,565
Gain on change in fair value of biological assets	14.2.1	11,332	26,517	11,332	26,517
Other income	7	114,374	116,151	166,678	140,750
Administrative expenses		(556,078)	(439,472)	(331,179)	(266,843)
Distribution expenses		(81,774)	(74,203)	-	-
Results from operating activities		579,537	246,732	490,137	193,989
Finance income	8.1	3,693	7,594	3,158	1,912
Finance expenses	8.2	(96,671)	(92,365)	(73,967)	(77,949)
Interest paid to Government on finance lease	8.3	(71,080)	(68,999)	(71,080)	(68,999)
Net finance cost	8	(164,058)	(153,770)	(141,889)	(145,036)
Share of profit from equity accounted investee	15.1	(212,992)	(80,488)	-	-
Profit before tax	9	202,487	12,474	348,248	48,953
Tax expense	10.1	(42,065)	(27,823)	(22,068)	(10,123)
Profit/(loss) for the year		160,422	(15,349)	326,180	38,830
Attributable to:					
Equity holders of the Parent		155,190	(18,733)	326,180	38,830
Non-controlling interest		5,232	3,384	-	-
Profit/(loss) for the year		160,422	(15,349)	326,180	38,830
Earnings per Share					
Basic earnings per share (Rs.)	11.1 (A)	4.56	(0.55)	9.59	1.14
Diluted earnings per share (Rs.)	11.1 (B)	4.56	(0.55)	9.59	1.14
Dividend per Share (Rs.)	11.2	-	-	1.00	-

Figures in brackets indicate deductions.

Notes to the Financial Statements from pages 206 to 271 form an integral part of these Financial Statements.

Statement of Comprehensive Income

GRI 201-03

For the year ended 31 March,	Notes	Group 2017/18 Rs. '000	Group 2016/17 Rs. '000	Company 2017/18 Rs. '000	Company 2016/17 Rs. '000
Profit/(loss) for the year		160,422	(15,349)	326,180	38,830
Other Comprehensive Income					
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:					
Share of other comprehensive income of equity accounted investee	15.1	(1,031)	511	-	-
Actuarial gain/(loss) on retirement benefit obligations	25	(67,043)	363,483	(64,560)	366,506
Income tax effect	10.2	9,673	(57,003)	9,038	(57,761)
Other comprehensive income for the year, net of tax		(58,401)	306,991	(55,522)	308,745
Total comprehensive income for the year, net of tax		102,021	291,642	270,658	347,575
Attributable to:					
Equity holders of the Parent		96,826	288,254	270,658	347,575
Non-controlling interest		5,195	3,388	-	-
Total comprehensive income for the year		102,021	291,642	270,658	347,575

Figures in brackets indicate deductions.

Notes to the Financial Statements from pages 206 to 271 form an integral part of these Financial Statements.

Financial Reports

Statement of Financial Position

		Group		Company	
	Notes	As at 31.03.2018 Rs. '000	As at 31.03.2017 Rs. '000	As at 31.03.2018 Rs. '000	As at 31.03.2017 Rs. '000
ASSETS					
Non-current assets					
Lease hold property, plant & equipment	12	354,506	378,198	354,506	378,198
Freehold property, plant & equipment	13	1,402,119	1,382,202	999,094	1,015,195
Improvements to leasehold property	14.1	3,514,927	3,298,204	3,514,927	3,298,204
Biological assets - consumable	14.2	151,920	137,515	151,920	137,515
Investments in subsidiaries	15	-	-	309,881	309,881
Investments in equity accounted investee	15.1	-	214,023	294,000	294,000
Amounts advanced towards investment in subsidiaries	29.3	-	-	50,000	-
Intangible assets	16	33,436	33,564	-	-
Total non-current assets		5,456,908	5,443,706	5,674,328	5,432,993
Current assets					
Produce on bearer biological assets	17.1	9,366	15,349	9,366	15,349
Inventories	17.2	1,317,085	820,678	500,907	429,837
Amounts due from subsidiaries	29	-	-	17,790	324
Amounts due from other related companies	29	34,314	8,448	31,079	7,127
Amounts due from equity accounted investee	29.2	14,404	10,531	14,404	10,531
Trade and other receivables	18	831,378	911,650	252,521	244,397
Income tax recoverable	28.1	643	1,412	-	-
Short-term deposits	20.1	34,806	186	34,620	-
Cash and cash equivalents	20.2	87,467	45,451	28,422	29,695
Total current assets		2,329,463	1,813,705	889,109	737,260
Total assets		7,786,371	7,257,411	6,563,437	6,170,253
EQUITY AND LIABILITIES					
Equity					
Stated capital	21	340,000	340,000	340,000	340,000
Revenue reserves		2,677,740	2,580,914	2,781,740	2,511,082
Total equity attributable to equity holders of the Company		3,017,740	2,920,914	3,121,740	2,851,082
Non-controlling interest		31,470	33,475	-	-
Total equity		3,049,210	2,954,389	3,121,740	2,851,082
Non-current liabilities					
Interest-bearing borrowings	22.1	299,132	368,375	274,845	332,790
Amounts due to other related companies	29.2	43,041	36,286	43,041	36,286
Deferred income	23	577,874	535,688	577,148	534,936
Deferred tax liability	24.1	427,497	457,659	391,766	401,724
Retirement benefit obligations	25	916,919	816,560	886,008	791,915
Liability to make lease payment	26	439,902	441,841	439,902	441,841
Total non-current liabilities		2,704,365	2,656,409	2,612,710	2,539,492

	Notes	Group		Company	
		As at 31.03.2018 Rs. '000	As at 31.03.2017 Rs. '000	As at 31.03.2018 Rs. '000	As at 31.03.2017 Rs. '000
Current liabilities					
Trade and other payables	27	642,230	463,858	433,043	366,578
Liability to make lease payment within one year	26	1,939	1,715	1,939	1,715
Amounts due to subsidiaries	29	-	-	13,161	10,169
Amounts due to other related companies	29	37,115	31,591	29,653	30,766
Amounts due to equity accounted investee	29.2	94	-	-	-
Income tax payable	28.2	26,141	12,126	-	348
Interest-bearing borrowings payable within one year	22.1	146,923	107,783	134,780	95,921
Short-term interest bearing borrowings	22.2	958,527	755,238	-	-
Bank overdraft	20.3	219,827	274,302	216,411	274,182
Total current liabilities		2,032,796	1,646,613	828,987	779,679
Total liabilities		4,737,161	4,303,022	3,441,697	3,319,171
Total equity and liabilities		7,786,371	7,257,411	6,563,437	6,170,253
Net assets per share (Rs.)		88.76	85.91	91.82	83.86

It is certified that the Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 7 of 2007.

Sarath Siriwardana
Director/Chief Executive Officer

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

A M Pandithage
Chairman

Roshan Rajadurai
Managing Director

09 May 2018

Notes to the Financial Statements from pages 206 to 271 form an integral part of these Financial Statements.

Statement of Changes in Equity

Group

	Attributable to equity holders of the Parent							
		Revenue reserves						
	Stated capital Rs. '000	General reserve Rs. '000	Timber reserve Rs. '000	Bearer biological produce Rs. '000	Retained earnings Rs. '000	Total Rs. '000	Non-controlling interest Rs. '000	Total equity Rs. '000
As at 1 April, 2016	340,000	1,700,000	67,698	4,347	520,615	2,632,660	33,087	2,665,747
Profit/(loss) for the year	-	-	15,515	11,002	(45,250)	(18,733)	3,384	(15,349)
Other comprehensive income	-	-	-	-	306,987	306,987	4	306,991
Dividends	-	-	-	-	-	-	(3,000)	(3,000)
As at 31 March, 2017	340,000	1,700,000	83,213	15,349	782,352	2,920,914	33,475	2,954,389
Profit/(loss) for the year	-	-	17,315	(5,983)	143,857	155,190	5,232	160,422
Other comprehensive income	-	-	-	-	(58,364)	(58,364)	(37)	(58,401)
Dividends	-	-	-	-	-	-	(7,200)	(7,200)
As at 31 March, 2018	340,000	1,700,000	100,528	9,366	867,845	3,017,740	31,470	3,049,210

Company		Revenue reserves				
	Stated capital Rs. '000	General reserve Rs. '000	Timber reserve Rs. '000	Bearer biological produce Rs. '000	Retained earnings Rs. '000	Total equity Rs. '000
As at 1 April, 2016	340,000	1,700,000	67,698	4,347	391,463	2,503,508
Profit for the year	-	-	15,515	11,002	12,312	38,829
Other comprehensive income	-	-	-	-	308,745	308,745
Dividends	-	-	-	-	-	-
As at 31 March, 2017	340,000	1,700,000	83,213	15,349	712,520	2,851,082
Profit/(loss) for the year	-	-	17,315	(5,983)	314,848	326,180
Other comprehensive income	-	-	-	-	(55,522)	(55,522)
As at 31 March, 2018	340,000	1,700,000	100,528	9,366	971,846	3,121,740

General reserves set aside for future distribution and investment.
The timber reserve relates to change in fair value of managed trees which includes commercial timber plantations cultivated on estates.
The bearer biological produce relates to change in fair value of harvestable produce growing on bearer biological assets.

Figures in brackets indicate deductions.

Notes to the Financial Statements from pages 206 to 271 form an integral part of these Financial Statements.

Statement of Cash Flows

For the year ended 31 March,	Notes	Group 2017/18 Rs. '000	Group 2016/17 Rs. '000	Company 2017/18 Rs. '000	Company 2016/17 Rs. '000
Cash flows from operating activities					
Profit/(loss) before tax		202,487	12,474	348,248	48,953
Adjustments for;					
Interest on Government finance lease	8.3	71,080	68,999	71,080	68,999
Finance expenses	8.2	96,671	92,365	73,967	77,949
Finance income	8.1	(3,693)	(7,594)	(3,158)	(1,912)
Profit on disposal of property, plant & equipment	7	(4,482)	(4,914)	(4,960)	(5,204)
Net gains on fair value of biological assets		(8,422)	(23,253)	(8,422)	(23,253)
Dividend income	7	-	-	(57,136)	(29,480)
Depreciation		231,893	210,972	186,740	175,562
Lease amortisation		23,691	26,363	23,691	26,363
Amortisation of intangible assets	16	128	128	-	-
Provision for retirement benefit obligations		156,689	167,392	150,940	164,015
Amortisation of capital grants	23	(17,860)	(19,740)	(17,834)	(19,714)
Share of loss from equity accounted investee	15.1	212,992	80,488	-	-
Provision/(reversal) for obsolete inventories		(276)	10,102	3,348	3,990
Provision/(reversal) for doubtful debts		70	170	(68)	104
Operating profit before working capital changes		960,968	613,952	766,436	486,372
(Increase)/decrease in inventories		(496,131)	(135,963)	(74,418)	(31,542)
(Increase)/decrease in trade and other receivables		80,202	(370,790)	(8,056)	(43,267)
(Increase)/decrease in amounts due from related companies		(25,866)	2,996	(41,418)	(368)
Increase/(decrease) in trade and other payables		180,680	58,702	64,963	63,908
Increase/(decrease) in amount due to related companies		5,050	5,068	1,406	3,747
Increase/(decrease) in equity accounted investee		(3,778)	(15,418)	(3,873)	(15,436)
Cash generated from operating activities		701,125	158,547	705,040	463,414
Interest paid on Government finance lease	8.3	(71,080)	(68,999)	(71,080)	(68,999)
Interest paid		(95,421)	(97,840)	(74,300)	(77,949)
Taxes paid		(50,076)	(32,332)	(21,836)	(20,165)
Retirement benefit obligations paid	25	(123,374)	(140,592)	(121,407)	(134,465)
Net cash flow from operating activities		361,174	(181,215)	416,417	161,836

For the year ended 31 March,	Notes	Group 2017/18 Rs. '000	Group 2016/17 Rs. '000	Company 2017/18 Rs. '000	Company 2016/17 Rs. '000
Cash flows from investing activities					
Field development expenditure	14.1	(314,304)	(318,308)	(314,304)	(318,308)
Interest received	8.1	3,693	7,594	3,158	1,912
Dividends received		-	-	57,136	29,480
Acquisition of property, plant & equipment		(158,782)	(180,929)	(73,269)	(106,068)
Proceeds from disposal of property, plant & equipment		9,035	9,154	5,173	5,730
Investments in equity accounted investee		-	(34,000)	-	(34,000)
Amounts advanced towards investment in subsidiaries	29.3	-	-	(50,000)	-
Net cash used in investing activities		(460,358)	(516,489)	(372,106)	(421,254)
Net cash inflow/(outflow) before financing activities		(99,184)	(697,705)	44,311	(259,418)
Cash flows from financing activities					
Dividend paid		(7,200)	(3,000)	-	-
Capital settlement of net liability to lessor		(1,715)	(1,519)	(1,715)	(1,518)
Exchange gain/(loss)		(1,250)	5,475	334	-
Short-term loans obtained during the year		3,911,075	2,866,530	-	-
Short-term loans repaid during the year		(3,707,786)	(2,484,013)	-	-
Long-term loans obtained during the year	22	86,269	147,447	86,269	100,000
Long-term loans repaid during the year	22	(116,372)	(75,036)	(105,355)	(75,036)
Long-term loans obtained from group company	29.2	20,000	25,000	20,000	25,000
Long-term loans repaid to group company		(12,772)	(4,458)	(12,772)	(4,458)
Grants received	23	60,046	32,665	60,046	32,665
Net cash used in financing activities		230,295	509,091	46,807	76,652
Net increase/(decrease) in cash and cash equivalents		131,111	(188,614)	91,118	(182,766)
Cash and cash equivalents at the beginning of the period		(228,665)	(40,051)	(244,487)	(61,721)
Cash and cash equivalents at the end of the period (Note A)		(97,554)	(228,665)	(153,369)	(244,487)

Note A:

Analysis of cash and cash equivalents					
Cash and bank balances	20.2	87,467	45,451	28,422	29,695
Short-term deposits	20.1	34,806	186	34,620	-
		122,273	45,637	63,042	29,695
Bank overdraft	20.3	(219,827)	(274,302)	(216,411)	(274,182)
Cash and cash equivalents		(97,554)	(228,665)	(153,369)	(244,487)

Figures in brackets indicate deductions.

Notes to the Financial Statements from pages 206 to 271 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. REPORTING ENTITY

Kelani Valley Plantations PLC was incorporated on 18th 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 March, 2018 comprise the Company and its Subsidiaries namely, Kalupahana Power Company (Pvt.) Ltd. ("KPC"), Kelani Valley Instant Tea (Pvt.) Ltd. ("KVIT"), Mabroc Teas (Pvt.) Ltd. ("MTPL"), Kelani Valley Resorts (Pvt.) Ltd. ("KVRL") and the Group's interest in Equity Account Investees, Hayleys Global Beverages (Pvt.) Limited ("HGBL") (together referred to as the 'Group').

The Financial Statements of all companies in the Group are prepared for a common financial year, which ends on 31st March.

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.

Principle activities of other companies in the Group are as follows.

Company	*Nature of the business/Principal place of business*
Kalupahana Power Company (Pvt) Ltd	Generating Hydropower/Kalupahana Estate, Bulathkohupitiya
Kelani Valley Instant Tea (Pvt) Ltd	Manufacture of Ready-To-Drink Tea Powder/ Nuwara Eliya Estate, Labukelle
Mabroc Teas (Pvt) Ltd	Export of bulk and retail packed Tea/No.57/3 New Hunupitiya Road, Kiribathgoda
Kelani Valley Resorts (Pvt) Ltd	Provide services in the hospitality industry/ Oliphant Estate, Nuwara Eliya
Hayleys Global Beverages (Pvt) Limited	Manufacturing Instant Tea and Tea Extracts/ Blinkbonnie Estate, Dickoya

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 Authorization for issue.

The Financial Statements of Kelani Valley Plantations PLC for the period ended 31 March 2018, were authorised for issue in accordance with a resolution of the Board of Directors on 09 May 2018.

1.4 Responsibility for Financial Statements.

The responsibility of the Directors in relation to the Financial Statements is set out in the Statement of Directors' Responsibility Report in the Annual Report.

2. BASIS OF PREPERATION

2.1 Statement of Compliance

The Financial Statements of the Company and the Group which comprise the Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows together with Accounting Policies and Notes to the 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 the following items in the Financial Statements.

- Managed consumable biological 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.

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 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. Furthermore, the board is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as going concern and they do not intend either to liquidate or to cease operations of the Group. Therefore, the Consolidated Financial Statements continue to be prepared on the going concern basis.

3.2 Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Group and its subsidiaries as at 31 March 2018. Subsidiaries are those entities controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Financial Statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity,

Notes to the Financial Statements Contd.

income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

3.2.1 Business Combinations and Goodwill
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 acquisition date fair value 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. Acquisition-related costs are expensed as incurred 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, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of LKAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in statement of profit or loss or as a change to OCI. If the contingent consideration is not within the scope of LKAS 39, it is measured in accordance with the appropriate SLFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in statement of profit or loss.

After initial recognition, goodwill is measured at cost less any 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 has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

3.2.2 Equity Accounted Investees
Equity accounted investees are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Equity accounted investees are accounted for using the equity method.

Under the equity method, the investment in the equity accounted investee is carried on the Statement of Financial Position at cost plus post acquisition changes in the Group's share of net assets of the equity accounted investee. Goodwill relating to the equity accounted investee is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The Income Statement reflects the Group's share of the results of operations of the equity accounted investee. When there has been a change recognised directly in the equity of the equity accounted investee, the Group recognises its share of any changes and discloses this, when applicable, in the Statement of Changes in Equity. Unrealised gains and losses resulting from transactions between the Group and the equity accounted investee are eliminated to the extent of the interest in the equity accounted investee.

The Consolidated Financial Statements include the Group's share of profit net of tax and equity movements of equity accounted investees from the date that significant influence commences until the date significant influence ceases. When the Group's share of losses exceeds its investment in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has incurred obligations or has made payments on behalf of the investee.

The Financial Statements of the equity accounted investees are prepared for the same reporting period as the Group. After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its equity accounted investee. The Group determines at each reporting date whether there is any objective evidence that the investment in the equity accounted investee is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amounts of the equity accounted investee and its carrying value and recognises the amount in the 'share of profit of an equity accounted investee, in the Income Statement.

Upon loss of significant influence over the equity accounted investee, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the equity accounted investee upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss. In the Company level, investments in subsidiaries and associates are recognised at cost.

3.3 Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within 12 months after the reporting period
  Or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within 12 months after the reporting period
  Or
- There is no right to defer the settlement of the liability for at least 12 months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

3.4 Fair Value Measurement

The Group measures financial instruments and non-financial assets at fair value at each Statement of Financial Position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following Notes:

Notes to the Financial Statements Contd.

- Managed Consumable Biological Assets Note 14.2

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
  Or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Financial Statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External Valuers are involved for valuation of significant assets, such as managed consumable biological assets. Involvement of external Valuers is decided upon annually by the Management Committee after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The Management Committee decides, after discussions with the Group's external Valuers, which valuation techniques and inputs to use for each case.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3.5 Foreign Currencies

The Group's Consolidated Financial Statements are presented in Sri Lankan Rupees, which is also the parent company's functional currency. For each entity the Group determines the functional currency and items included in the Financial Statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss 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 OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to Statement of Profit or Loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. 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 translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or Statement of Profit or Loss are also recognised in OCI or Statement of Profit or Loss, respectively).

3.6 Cash dividend and non-cash distribution to equity holders of the parent

The Company recognises a liability to make cash or non-cash distributions to equity holders of the Parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. A distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the Statement of Profit or Loss.

3.7 Property, Plant & Equipment

The Group applies the requirements of LKAS 16 on 'Property Plant and Equipment' in accounting for its assets which are held for and use in the provision of the services, for rental to other or for administration purpose and are expected to be used for more than one year.

3.7.1 Basis of Recognition

Property Plant and Equipment is recognised if it is probable that future economic benefits associated with the assets will flow to the Group and cost of the assets can be reliably measured.

3.7.2 Measurement

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

3.7.3 Borrowing Cost

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 Statement of Profit or Loss.

The amounts of the borrowing costs which are eligible for capitalisation are determined in accordance with the in 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.

3.7.4 Owned Assets

The cost of Property, Plant and 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 and 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

Notes to the Financial Statements Contd.

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 and 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 Statement of Profit and Loss 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.

3.7.5 Leased Assets

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the Statement of Profit or Loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

3.7.6 De-recognition

An item of Property, Plant and Equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Profit or Loss when the asset is derecognised and gains are not classified as revenue.

3.7.7 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 Statement of Profit or Loss in full or reduced to the net carrying amounts of such assets in the year of occurrence after ascertaining the loss.

3.7.8 Biological Assets

Biological assets are classified in to 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 asset 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 that are to be harvested as agricultural produce or sold as biological assets.

The entity recognises 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.

3.7.8.1 Bearer Biological Asset

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 cost of land preparation, rehabilitation, new planting, replanting, crop diversification, inter planting and fertilising, 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.

3.7.8.2 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 Statement of Profit or Loss in the year in which they are incurred.

3.7.8.3 Consumable Biological Asset

Consumable biological assets includes managed timber trees those that are to be harvested as agricultural produce or sold as biological assets. Expenditure incurred on consumable biological assets (managed timber trees) is 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 in to 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 variable in DCF model concerns,

Variable	*Comment*
Timber content	Estimate based on physical verification of girth, height and considering the growth of the 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 price. Factor all the conditions to be fulfill in bringing the trees in to saleable condition.
Planting cost	Estimated costs for the further development of immature areas are deducted.

Notes to the Financial Statements Contd.

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

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

3.7.8.4 Nursery Plants

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

3.7.9 Depreciation and Amortisation

(a) Depreciation

Depreciation is recognised in statement of profit or loss on a straight-line basis over the estimated useful economic lives of each part of an item of Property, Plant & Equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. 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
Plant & Machinery - Effluent Treatment Plant	10	10.00
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 and Rubber)	30	3.33
Buildings	25	4.00
Machinery	20	5.00

3.7.10 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 at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in Statement of Profit or Loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Profit or Loss in the expense category that is consistent with the function of the intangible assets.

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 assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Statement of Profit or Loss when the asset is derecognised.

3.7.9.1 Research and Development

Research costs are expensed as incurred. Development expenditures on an individual

Notes to the Financial Statements Contd.

project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

3.8 Financial Instruments

A 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.

3.8.1 Financial assets

3.8.1.1 Initial Recognition and Measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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 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.

3.8.1.2 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 net changes in fair value recognised in finance income or finance costs in the Statement of Profit or Loss.

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 method (EIR), 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 amortization is included in finance income in the Statement of Profit or Loss. The losses arising from impairment are recognised in the Statement of Profit or Loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

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

(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 Statement of Profit or Loss. The losses arising from impairment are recognised in the Statement of Profit or Loss in finance costs.

(d) Available for sale financial investments

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the Statement of Profit or Loss.

3.8.1.3 De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognised 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.

Notes to the Financial Statements Contd.

3.8.1.4 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.

3.8.1.4.1 Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

3.8.1.4.2 Available for sale financial Assets

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss is removed from OCI and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of Profit or Loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the Statement of Profit or Loss.

3.8.2 Financial liabilities

3.8.2.1 Initial recognition and measurement

Financial liabilities 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.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables net of directly attributable transaction 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.

3.8.2.2 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 designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by LKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the Statement of Profit or Loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in LKAS 39 are satisfied. The Group has not designated any financial liability 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 (EIR) method. Gains and losses are recognised in profit or loss when, the liabilities are derecognised as well as through the (EIR) amortisation process.

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 as finance costs in the statement of profit or loss.

(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.

3.8.2.3 De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

Notes to the Financial Statements Contd.

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 de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Statement of Profit or Loss.

3.8.3 Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position 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.

3.9 Harvestable Agricultural Produce Growing on Bearer Biological Assets
In accordance with LKAS 41, the Company recognises agricultural produce growing on bearer plants at fair value less cost to sell. Change in the fair value of such agricultural produce recognised in profit or loss at the end of each reporting period.

For this purpose, quantities of harvestable agricultural produce ascertained based on harvesting cycle of each crop category by limiting to one harvesting cycle based on last day of the harvest in the immediately preceding cycle. Further 50% of the crop in that harvesting cycle considered for the valuation.

For the valuation of the harvestable agricultural produce, the company uses the following price formulas.

- Tea – Bought leaf rate less cost of harvesting and transport
- Rubber – Latex price (92.5% of current RSS1 price) less cost of tapping and transport

3.10 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.

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

3.12 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.

3.13 Impairment of Non-Financial Assets
The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the 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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the Statement of Profit or Loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Profit or Loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at 31 March and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 March at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

3.14 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 Statement of Profit or Loss net of any reimbursement.

3.15 Employees Benefits

(a) Defined Contribution Plans - Provident Funds 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).

Notes to the Financial Statements Contd.

All the employees of the Company are members of the Employees' Trust Fund, 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 as in retained earnings through comprehensive income. Past service costs are recognised immediately in Statement of Profit or Loss

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.

3.16 Trade and Other Payables

Trade and other payables are stated at their costs.

3.17 Capital Commitments and Contingencies

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

3.18 Events Occurring after the Reporting Date

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.

3.19 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.

3.20 Deferred Income

3.20.1 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 Statement of Profit or Loss over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual installments. 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 additional government grant.

Grants related to Property, Plant and 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 and 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 & 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.

3.21 Statement of Profit or Loss

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

3.21.1 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 and Equipment are determined by comparing the net sales proceeds with the carrying amounts of Property, Plant and Equipment and are recognised within 'other operating income' in the Statement of Profit or Loss.

(c) For all financial instruments measured at amortised cost and interest-bearing financial assets classified as AFS, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the Statement of Profit or Loss.

(d) Dividend is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

(e) Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

3.21.2 Expenses

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

3.21.2.1 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.

3.21.2.2 Taxes

3.21.2.2.1 Current Income Tax

Current income tax assets and liabilities are measured at the amount expected to

Notes to the Financial Statements Contd.

be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. 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.

3.21.2.2.2 Deferred Tax

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

3.22 Statement of Cash Flow

The Statement of Cash Flow has been prepared using the ‘indirect method’. Interest paid is 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 Cash Flow Statement.

3.23 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 in note 36 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.

4 USE OF ESTIMATES AND JUDGMENTS

The preparation of the Group’s Consolidated Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Unused tax losses as of 31 March 2018 are given in Note 10B.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted

Notes to the Financial Statements Contd.

at the reporting date. As per the Inland Revenue Act no 24 of 2017 (ACT), in the case of a company predominantly conducting an agricultural business, the applicable income tax rate is 14%. As per the above Act, "Predominantly" is defined as 80% or more calculated based on gross income. The "Agriculture business" is defined in section 195 (1) as business of producing agricultural, horticultural or any animal produce and includes an undertaking for the purpose of rearing livestock or poultry. Based on the legal expert opinion obtained, the management is of the view that the company is predominantly engaged in agricultural business.

4.2 Measurement of Retirement Benefit Obligation

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 Non-financial Assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group.

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 9 -Financial Instruments:** Classification and Measurement SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities. This standard was originally effective for annual periods commencing on or after 01 January 2018.

- **SLFRS 15 -Revenue from Contracts with Customers**

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. This standard is effective for the annual periods beginning on or after 01 January 2018.

- **SLFRS 16 - Leases**

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on balance sheet model similar to the accounting for finance leases, under LKAS 17 except for few exemptions for leases for "low value" assets and short term leases with a lease term of 12 months or less. This standard is effective for the annual periods beginning on or after 01 January 2019.

Pending the detailed review of such standards and interpretations, the extent of the impact has not been determined by the management.

Amendments to Existing Accounting Standards
LKAS 7 - Statement of Cash Flows

The amendment requires an entity to disclose information that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Accordingly an entity shall disclose the following changes in liabilities arising from financing activities:

- Changes from financing cash flows
- Changes arising from obtaining or losing control of subsidiaries or other businesses
- Changes in fair values and
- Other changes

Necessary disclosures have been given under Note 19 to the Financial Statements.

Notes to the Financial Statements Contd.

6 REVENUE

6.1 *Industry Segment Revenue*

	Group		Company	
For the year ended 31 March,	2017/18 Rs. '000	2016/17 Rs. '000	2017/18 Rs. '000	2016/17 Rs. '000
Tea	7,801,479	6,033,599	3,317,964	2,508,389
Rubber	1,042,701	924,145	1,042,701	924,145
Others	59,906	25,592	22,201	4,124
Less: Intra-group sales	(261,866)	(131,074)	-	-
	8,642,220	6,852,262	4,382,866	3,436,658

6.2 *Industry Segment Results (Gross profit)*

Tea	882,252	428,720	460,384	117,095
Rubber	176,090	175,937	170,090	175,937
Others	33,341	13,082	6,832	533
	1,091,683	617,739	643,306	293,565

7 OTHER INCOME

	Group		Company	
For the year ended 31 March,	2017/18 Rs. '000	2016/17 Rs. '000	2017/18 Rs. '000	2016/17 Rs. '000
Profit on disposal of property, plant & equipment	4,482	4,914	4,960	5,204
Dividend income	-	-	57,136	29,480
Hydro power income	3,619	999	5,230	2,024
Amortisation of Government grants	17,860	19,740	17,834	19,714
Revenue grants	-	2,037	-	2,037
Sale of timber	49,168	48,885	49,168	48,885
Sundry income	39,245	39,576	32,350	33,406
	114,374	116,151	166,678	140,750

There are no unfulfilled conditions or contingencies attached to the grants.

8 NET FINANCE COST

8.1 Finance Income

For the year ended 31 March,	Group 2017/18 Rs. '000	Group 2016/17 Rs. '000	Company 2017/18 Rs. '000	Company 2016/17 Rs. '000
Interest income	3,359	2,119	2,223	1,079
Interest income on corporate guarantee	-	-	601	833
Foreign exchange gain	334	5,475	334	-
	3,693	7,594	3,158	1,912

8.2 Finance Expenses

	Group 2017/18 Rs. '000	Group 2016/17 Rs. '000	Company 2017/18 Rs. '000	Company 2016/17 Rs. '000
Interest on term loans	(45,732)	(44,379)	(44,011)	(44,353)
Interest on overdraft and short-term loans	(49,355)	(47,986)	(29,956)	(33,596)
Foreign exchange loss	(1,584)	-	-	-
	(96,671)	(92,365)	(73,967)	(77,949)
8.3 Interest paid to Government on finance lease	(71,080)	(68,999)	(71,080)	(68,999)
	(71,080)	(68,999)	(71,080)	(68,999)
Net finance cost	(164,058)	(153,770)	(141,889)	(145,036)

9 PROFIT BEFORE TAXATION

Profit before tax is stated after charging all expenses including the following:

For the year ended 31 March,	Notes	Group 2017/18 Rs. '000	Group 2016/17 Rs. '000	Company 2017/18 Rs. '000	Company 2016/17 Rs. '000
Directors' emoluments		37,082	30,346	11,726	9,455
Auditor's remuneration					
- Audit services		5,493	4,940	4,819	3,903
- Non-audit services		644	944	317	220
Depreciation and lease amortisation					
- Leasehold right to bare land	12.1	9,808	9,808	9,808	9,808
- Immovable leased assets	12.2	13,883	16,555	13,883	16,555
- Amortisation of intangible assets	16	128	128	-	-
- Tangible property, plant & equipment	13	134,311	124,197	89,158	88,787
- Bearer biological assets	14	97,581	86,776	97,581	86,776

Notes to the Financial Statements Contd.

9 Profit Before Taxation Contd.

Profit before tax is stated after charging all expenses including the following:

For the year ended 31 March,	Notes	Group 2017/18 Rs. '000	Group 2016/17 Rs. '000	Company 2017/18 Rs. '000	Company 2016/17 Rs. '000
Staff Costs					
- Defined contribution plan costs (EPF, CPPS, ESPS & ETF)		365,665	333,583	352,559	323,887
- Defined benefit plan cost (Retirement benefit obligations)	25	156,690	167,391	150,940	164,015
- Salaries and wages and other staff cost		2,166,497	1,814,067	2,038,749	1,708,466
- Staff training & development cost		5,392	2,554	5,392	2,173
Legal fees		4,657	12,396	3,611	9,128
Provision/(reversal) for bad & doubtful debts		70	170	(68)	104
Provision/(reversal) for obsolete inventories		(276)	10,102	3,348	3,990

10 TAX EXPENSE

10.1 Statement of Profit or Loss

For the year ended 31 March,			Group 2017/18 Rs. '000	Group 2016/17 Rs. '000	Company 2017/18 Rs. '000	Company 2016/17 Rs. '000
(I) Current Tax Expense						
Income tax on current year profit,	- Company	10. A	(22,988)	(348)	(22,988)	(348)
	- Subsidiaries	10. A	(33,407)	(19,444)	-	-
			(56,395)	(19,792)	(22,988)	(348)
(Under)/over provision in respect of previous years			-	4,247	-	(52)
			(56,395)	(15,545)	(22,988)	(400)
(II) Deferred Tax Expense						
Origination and reversal of temporary difference of,	- Company		920	(9,723)	920	(9,723)
	- Subsidiaries		19,569	(320)	-	-
		24	20,489	(10,043)	920	(9,723)
Tax on dividend income			(6,159)	(2,235)	-	-
Tax expense reported in the Statement of Profit or Loss			(42,065)	(27,823)	(22,068)	(10,123)

10.2 Statement of Other Comprehensive Income

For the year ended 31 March,			Group 2017/18 Rs. '000	Group 2016/17 Rs. '000	Company 2017/18 Rs. '000	Company 2016/17 Rs. '000
Net (gain)/loss on actuarial valuation on defined benefit plans,	- Company		9,038	(57,761)	9,038	(57,761)
	- Subsidiary		635	758	-	-
Tax charge directly to other comprehensive income		24	9,673	(57,003)	9,038	(57,761)

In terms of Section 48 (A) of the Inland Revenue Act No. 10 of 2006 (as amended), the Company is liable to income tax at the rate of 10% on its agriculture profits whereas the income tax rate applicable to the manufacturing profits and other income during the year of assessment 2017/18 is 28%.

The five (05) year tax holiday granted to Kalupahana Power Company (Pvt) Ltd. (KPC) in terms of the BOI agreement has expired during year of assessment 2012/13. Accordingly, KPC is liable to income tax, during the year of assessment 2017/18 at the rate of 12% in terms of section 59E of the Inland Revenue (Amendment) Act, No. 18 of 2013.

The three (03) year tax holiday granted to Kelani Valley Instant Tea (Pvt) Ltd. (KVIT) in terms of section 17 of the Inland Revenue Act No. 10 of 2006 has expired during the year of assessment 2012/13. The rate applicable to KVIT during the year of assessment 2017/18 is 28%.

The qualified export profit earned by Mabroc Teas (Pvt) Ltd. has been taxed at the rate of 12% in terms of section 52 of the Inland Revenue Act No. 10 of 2006.Further, the rate applicable to profits arising from the export of tea bags as specified in terms of section 16 (c) of the Inland Revenue Act is 10%. Other income earned by the company has been taxed at 28%.

(A) Reconciliation of Accounting Profit to Income Tax Expense

For the year ended 31 March,	Group 2017/18 Rs. '000	Group 2016/17 Rs. '000	Company 2017/18 Rs. '000	Company 2016/17 Rs. '000
Profit before tax	202,487	12,474	348,248	48,953
Effective tax rate	25%	24%	28%	28%
Tax effect on profit before tax	51,608	2,963	97,509	13,707
Tax effect on deductible expenses for tax purposes	(154,287)	(142,210)	(153,962)	(154,571)
Tax effect on non deductible expenses for tax purposes	173,605	123,500	111,927	107,857
Tax effect on total statutory income	70,926	(15,747)	55,474	(33,007)
Tax effect on ammortisation of Government grant exempt from tax	(4,545)	(5,167)	(4,994)	(6,090)
Tax effect on interest income	950	711	884	535
Tax effect on tax exempt income	(92)	-	(15,998)	(8,254)
Tax effect on tax exempt loss	423	40,176	-	47,351
Tax effect on utilisation of tax losses	(11,267)	(181)	(12,378)	(187)
Income tax on current profit	56,395	19,792	22,988	348
(Over)/under provision in respect of previous years	-	(4,247)	-	52
Income tax charge for the year	56,395	15,545	22,988	400

Notes to the Financial Statements Contd.

(B) Tax Losses

	Group		Company	
	2017/18 Rs. '000	2016/17 Rs. '000	2017/18 Rs. '000	2016/17 Rs. '000
As at 1 April	(717,129)	(578,828)	(705,393)	(566,998)
Adjustment for tax loss during the year	7,078	30,046	6,591	30,046
	(710,051)	(548,782)	(698,802)	(536,952)
Tax loss for the year	(1,663)	(169,110)	-	(169,110)
Loss set-off during the year	44,207	763	44,207	669
	42,544	(168,347)	44,207	(168,441)
As at 31 March	(667,507)	(717,129)	(654,595)	(705,393)

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 period divided by weighted average number of ordinary shares outstanding during the period and calculated as follows.

	Group		Company	
For the year ended 31 March,	2017/18	2016/17	2017/18	2016/17
Amount used as the Numerator				
Profit attributable to ordinary shareholders (Rs. '000)	155,190	(18,733)	326,180	38,830
Amount used as the Denominator				
Weighted average number of ordinary shares ('000)	34,000	34,000	34,000	34,000
Basic earnings per share (Rs.)	4.56	(0.55)	9.59	1.14

(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 financial year.

11.2 Dividend per Share

For the year ended 31 March,	Company 2017/18	2016/17
Proposed dividend for 2017/18 Rs.1/- per share (2016/17 - Rs. Nil/- per share) (Rs. '000)	34,000	-
Number of ordinary shares ('000)	34,000	34,000
Dividend per share (Rs.)	1.00	-

12 LEASEHOLD PROPERTY, PLANT & EQUIPMENT

As at 31 March,	Notes	Group 2017/18 Rs. '000	Group 2016/17 Rs. '000	Company 2017/18 Rs. '000	Company 2016/17 Rs. '000
Right-to-use of land	12.1	264,811	274,619	264,811	274,619
Immovable leased bearer biological assets	12.2.1	89,210	102,267	89,210	102,267
Immovable leased assets (other than right-to-use of land and bearer biological assets)	12.2.2	485	1,312	485	1,312
		354,506	378,198	354,506	378,198

12.1 Right-to-use of 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 of 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 of land does not permit further revaluation of right-to-use of 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 Statement of Financial Position as at 18 June 1992 and amortisation of the right to use of land up to 31 March 2018 are as follows.

As at 31 March	Group 2017/18 Rs. '000	Group 2016/17 Rs. '000	Company 2017/18 Rs. '000	Company 2016/17 Rs. '000
Capitalised Value (re-assessed in 2010)	333,603	333,603	333,603	333,603
	333,603	333,603	333,603	333,603
Amortisation				
As at 1 April	58,984	49,176	58,984	49,176
Amortisation for the year	9,808	9,808	9,808	9,808
As at 31 March	68,792	58,984	68,792	58,984
Carrying amount	264,811	274,619	264,811	274,619

Financial Reports

Notes to the Financial Statements Contd.

The Company has sub leased an extent of 1.0127 hectares in Ingestre Estate and 2.2247 hectares in Blinkbonnie Estate to Hayleys Global Beverages (Pvt) Ltd. It was treated as an Operating Lease in the Financial Statements in terms of LKAS 17 - Leases.

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 restated 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 Statement of Financial Position as at 18 June, 1992 and amortisation of immovable leased assets to 31 March 2018 are as follows.

12.2.1. Immovable Leased Bearer Biological Assets

	Mature plantations		Group/Company	
As at 31 March,	Tea Rs. '000	Rubber Rs. '000	2017/18 Rs. '000	2016/17 Rs. '000
Capitalised Value				
(18 June, 1992)	213,541	178,145	391,686	391,686
Amortisation				
As at 1 April	154,001	135,418	289,419	276,363
Amortisation for the year	7,118	5,939	13,057	13,056
As at 31 March	161,119	141,357	302,476	289,419
Carrying amount	52,422	36,788	89,210	102,267

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. 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.

12.2.2. Immovable Leased assets (other than right-to-use land and bearer biological assets)

	Land development	Buildings	Machinery	Group/Company	
As at 31 March,				2017/18	2016/17
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Capitalised Value					
(18 June, 1992)	3,455	84,600	23,094	111,149	111,149
Amortisation					
As at 1 April	2,855	83,888	23,094	109,837	106,338
Amortisation for the year	115	712	-	827	3,499
As at 31 March	2,970	84,600	23,094	110,664	109,837
Carrying amount	485	-	-	485	1,312

13 FREEHOLD PROPERTY, PLANT & EQUIPMENT

(A) Group

As at 31 March,	Buildings	Plant & machinery	Hydro power plant	Motor vehicles	Furniture & fittings	Equipment	Computers	Tea bagging machines	Others	2017/18 Total	2016/17 Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost											
As at 1 April	807,292	611,962	133,017	304,321	19,193	200,651	33,730	249,329	49,959	2,409,454	2,329,576
Additions during the year	51,725	102,169	-	21,877	28,213	15,109	2,654	-	4,205	225,952	104,398
Disposals	-	(1,191)	-	(6,934)	-	(449)	(34)	(4,250)	-	(12,858)	(24,520)
As at 31 March	859,017	712,940	133,017	319,264	47,406	215,311	36,350	245,079	54,164	2,622,548	2,409,454
Depreciation											
As at 1 April	200,586	368,922	49,669	240,809	17,592	98,016	28,954	89,306	48,173	1,142,027	1,038,110
Charge for the year	21,785	45,980	4,434	26,941	2,501	8,694	1,932	16,582	5,462	134,311	124,197
Disposals	-	(963)	-	(4,839)	-	(439)	(34)	(2,030)	-	(8,305)	(20,280)
As at 31 March	222,371	413,939	54,103	262,911	20,093	106,271	30,852	103,858	53,635	1,268,033	1,142,027
Net book value	636,646	299,001	78,914	56,355	27,313	109,040	5,498	141,221	529	1,354,515	1,267,427
Work-in-Progress (a)										47,604	114,775
Carrying amount										1,402,119	1,382,202

Notes to the Financial Statements Contd.

(A) Group *Contd.*

(a) Work-in-Progress

	Group				Company			
	Balance as at 01.04.2017 Rs. '000	Additions for the year Rs. '000	Transfer/ disposals Rs. '000	Balance as at 31.03.2018 Rs. '000	Balance as at 01.04.2017 Rs. '000	Additions for the year Rs. '000	Transfer/ disposals Rs. '000	Balance as at 31.03.2018 Rs. '000
	114,775	38,218	(105,389)	47,604	114,424	28,547	(105,389)	37,582

(B) Company

As at 31 March,

	Buildings Rs. '000	Plant & machinery Rs. '000	Motor vehicles Rs. '000	Furniture & fittings Rs. '000	Equipment Rs. '000	Computers Rs. '000	Others Rs. '000	2017/18 Total Rs. '000	2016/17 Total Rs. '000
Cost									
As at 1 April	779,031	554,543	282,180	11,878	109,942	33,422	39,169	1,810,165	1,798,795
Additions during the year	20,357	95,557	21,450	1,497	8,289	1,676	1,286	150,112	27,422
Disposals	-	-	(3,541)	-	(302)	(34)	-	(3,877)	(16,052)
As at 31 March	799,388	650,100	300,089	13,375	117,929	35,064	40,455	1,956,400	1,810,165
Depreciation									
As at 1 April	195,813	318,763	231,222	10,424	97,392	28,953	26,827	909,394	836,133
Charge for the year	20,937	34,911	24,441	335	5,122	1,826	1,586	89,158	88,787
Disposals	-	-	(3,328)	-	(302)	(34)	-	(3,664)	(15,526)
As at 31 March	216,750	353,674	252,335	10,759	102,212	30,745	28,413	994,888	909,394
Net book value	582,638	296,426	47,754	2,616	15,717	4,319	12,042	961,512	900,771
Work-in-Progress (a)								37,582	114,424
Carrying amount								999,094	1,015,195

(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 investment 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) The cost of fully depreciated Property, Plant and Equipment which are still in use as at date of Statement of Financial Position is as follows,

	Group		Company	
As at 31 March,	2017/18	2016/17	2017/18	2016/17
	Rs,000	Rs,000	Rs,000	Rs,000
Computers	28,314	25,377	28,314	25,377
Equipment	119,637	111,460	92,759	90,769
Furniture & fittings	11,001	10,669	9,299	8,947
Motor vehicles	158,690	123,180	157,762	121,701
Mature plantations	51,833	34,290	51,833	34,290
Plant & machinery	78,835	58,915	67,442	58,915
Others	28,721	22,408	11,147	7,126
	477,030	386,299	418,553	347,125

(C) Unexpired lease periods of land:

Kelani Valley Plantations PLC	27 years
Kalupahana Power Company (Pvt) Ltd.	27 years

14 BIOLOGICAL ASSETS

14.1 Improvements to Leasehold Property (Bearer Biological Assets)

	Immature Plantations				Mature Plantations				Group/Company	
	Tea	Rubber	Other	Total	Tea	Rubber	Other	Total	2017/18	2016/17
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost										
As at 1 April	303,921	1,279,252	65,245	1,648,418	929,742	1,419,990	-	2,349,732	3,998,150	3,679,842
Additions during the year	26,724	268,668	18,912	314,304	-	-	-	-	314,304	318,308
Transfers (from)/to	(42,704)	(153,806)	(19,931)	(216,441)	42,704	153,806	19,931	216,441	-	-
As at 31 March	287,941	1,394,114	64,226	1,746,281	972,446	1,573,796	19,931	2,566,173	4,312,454	3,998,150
Depreciation										
As at 1 April	-	-	-	-	247,648	452,298	-	699,946	699,946	613,170
Charge for the year	-	-	-	-	28,187	69,394	-	97,581	97,581	86,776
As at 31 March	-	-	-	-	275,835	521,692	-	797,527	797,527	699,946
Carrying amount	287,941	1,394,114	64,226	1,746,281	696,611	1,052,104	19,931	1,768,646	3,514,927	3,298,204

Notes to the Financial Statements Contd.

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, it is transferred from immature to mature.

The Company has decided to measure the bearer biological assets at cost using LKAS 16 – Property, Plant & Equipment.

The Company Policy is capitalize borrowing cost on specific borrowings only. However, borrowing costs were not capitalised during the year under Immature Plantations (2016/17 - Nil).

The addition of Rs. 314 m (2016/17 - Rs. 318 m) shown above includes the following costs among other costs incurred during the year in respect of Uprooting and Planting of Tea and Rubber.

		Group/Company			
As at 31 March,		2017/18		2016/17	
		Extent - ha	Rs. '000	Extent - ha	Rs. '000
Uprooting	Tea	-	-	-	-
	Rubber	105	6,169	162	7,687
Planting	Tea	-	-	2	2,981
	Rubber	181	84,823	215	77,081
		286	90,992	379	87,749

14.2 Biological Assets (Consumable)

			Group/Company	
	Immature	Mature	2017/18	2016/17
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at 1 April	6,669	130,846	137,515	125,264
Gain of change in fair value less cost to sell	-	17,315	17,315	15,515
Decrease due to harvest	-	(2,910)	(2,910)	(3,264)
As at 31 March	6,669	145,251	151,920	137,515

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 matured managed trees were ascertained in accordance with SLFRS 13. The valuation was carried by Messrs. Sunil Fernando Associates, chartered valuation surveyors, using Discounted Cash Flow (DCF) methods. In ascertaining the fair value of timber, a physical verification was carried out covering all the estates.

14.2.1 Change in Fair Value of Biological Assets

As at 31 March,	Group/Company 2017/18 Rs. '000	Group/Company 2016/17 Rs. '000
Change in fair value of consumable biological assets (Note 14.2)	17,315	15,515
Change in fair value of produce on bearer biological assets (Note 17.1)	(5,983)	11,002
	11,332	26,517

14.2.2 Information About Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Non Financial Asset	Valuation technique	Unobservable inputs	Range of unobservable inputs (Probability weighted average) 2017/18	2016/17	Relationship of Unobservable inputs to fair value
Consumable managed biological assets	DCF	Discounting rate	17.5%	17.5%	The higher the discount rate, the lesser the fair value
		Optimum rotation (Maturity)	25-35 Years	25-35 Years	Lower the rotation period, the higher the fair value
		Volume at rotation	25-85 cu.ft	25-85 cu.ft	The higher the volume, the higher the fair value
		Price per cu.ft.	Rs.450/- to Rs.9,000/-	Rs.450/- to Rs.9,000/-	The higher the price per cu. ft., the higher the fair value

Other key assumptions used in valuation

1. It is assume that the felling of trees will be undertaken at maturity for the period not covered under the Forestry Plan.
2. The price adopted are net of expenditure.
3. Though the replanting is a condition precedent for harvesting, yet the cost are not taken in to consideration.
4. Pre commercial stand are valued on cost approach.
5. Contiguous area of trees with trees a similar specie silviculture and other characteristics.

The valuations, as presented in the external valuation models based on net present values, take into account the long-term exploitation of the timber plantations. 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. The sensitivity analysis regarding selling price and discount rate variations are as follows,

Notes to the Financial Statements Contd.

14.2.3 Sensitivity Analysis

Sensitivity variation sales price

Values as appearing in the Statement of Financial Position are very sensitive to price changes with regard to the average sales prices applied. Simulations made for timber show that a increase or decrease by 10% of the estimated future selling price has the following effect on the net present value of biological assets:

Company Managed Timber	Rs. '000 -10%	Rs. '000 +10%
As at 31 March, 2018	(13,878)	13,878
As at 31 March, 2017	(13,310)	9,980

Sensitivity variation discount rate

Values as appearing in the Statement of Financial Position are very sensitive to changes of the discount rate applied. Simulations made for timber show that a increase or decrease by 1.5% of the estimated future discount rate has the following effect on the net present value of biological assets:

Company	Rs. '000 -1.5%	Rs. '000 +1.5%
As at 31 March, 2018	8,914	(6,465)
As at 31 March, 2017	2,546	(5,397)

No biological assets have been pledged as securities for the year ended 31 March 2018 (2016/17 - Nil).
There are no capital expenditure commitments for biological assets as at the reporting date.

15 INVESTMENTS IN SUBSIDIARIES

Unquoted Investments	% Holding		No of Shares		Value Rs ‘000	
As at 31 March,	2017/18	2016/17	2017/18	2016/17	2017/18 Company	2016/17 Company
Kalupahana Power Company (Pvt) Ltd.	60	60	1,800,000	1,800,000	18,000	18,000
Kelani Valley Instant Tea (Pvt) Ltd.	100	100	3,000,000	3,000,000	31,881	31,881
Mabroc Teas (Pvt) Ltd.	100	100	9,000,000	9,000,000	260,000	260,000
Kelani Valley Resorts (Pvt) Ltd.	100	-	1	-	0.01	-
Carrying amount					309,881	309,881

Subsidiaries	Principal Activity	% Equity Interest
Kalupahana Power Company (Pvt) Ltd.	Generates hydro power	60
Kelani Valley Instant Tea (Pvt) Ltd.	Manufactures instant tea	100
Mabroc Teas (Pvt) Ltd.	Exports of bulk & retail packed tea	100
Kelani Valley Resorts (Pvt) Ltd.	Provide services in the hospitality industry	100

15.1 Investments in equity accounted investee

Hayleys Global Beverages (Pvt) Ltd.

	2017/18		Group		Company	
	% Holding	No of Shares	2017/18 Value Rs '000	2016/17 Value Rs '000	2017/18 Value Rs '000	2016/17 Value Rs '000
As at 31 March,		29,400,000	214,023	260,000	294,000	260,000
Additional Investment		-	-	34,000	-	34,000
	40	29,400,000	214,023	294,000	294,000	294,000
Loss for the year			(212,992)	(80,488)	-	-
Other Comprehensive Income			(1,031)	511	-	-
Share of loss			(214,023)	(79,977)	-	-
Carrying amount			-	214,023	294,000	294,000

Unrecognised carrying loss of investment in equity accorded investment.

The Group has not recognized losses amounting Rs. 4.7m (2017/18 investment became Nil) in relation to its interest in equity accounted investee, because group has not obligation in respect of these losses.

	Group 2017/18 Rs. '000
Total share of loss for the year	(218,804)
Loss changed for the year	212,992
Other comprehensive (income)/loss change for the year	1,031
Unrecognised carrying loss	(4,781)

Hayleys Global Beverage (Pvt) Ltd. is involved in the manufacture of ready to drink Tea. The Group's interest in Hayleys Global Beverage (Pvt) Ltd. is accounted for using the equity method in the Consolidated Financial Statements. The following table illustrates the summarised financial information of the Group's investment in Hayleys Global Beverage (Pvt) Ltd.

Statement of Financial Position

As at 31 March,	2017/18 Rs. '000	2016/17 Rs. '000
Current assets	85,725	66,398
Non-current assets	2,179,790	2,288,761
Current liabilities	(634,627)	(195,971)
Non-current liabilities	(1,732,379)	(1,713,669)
Equity	(101,491)	445,519

Notes to the Financial Statements Contd.

15.1 *Investments in equity accounted investee* Cont.

Statement of Comprehensive Income	2017/18 Rs. '000	2016/17 Rs. '000
Revenue	28,663	8,409
Cost of sales	(175,175)	(49,767)
Administrative expenses	(140,578)	(102,176)
Distribution expenses	(8,668)	(5,337)
Net finance cost	(248,674)	(52,344)
Loss before tax	(544,432)	(201,215)
Tax expense	-	(6)
Loss for the year	(544,432)	(201,221)
Other comprehensive income	(2,578)	1,278
Total comprehensive income	(547,010)	(199,943)

16 INTANGIBLE ASSETS

Cost	Group			
	Goodwill Rs'000	Software Rs'000	2017/18 Rs'000	2016/17 Rs'000
As at 1 April	33,310	2,934	36,244	36,244
As at 31 March	33,310	2,934	36,244	36,244
Ammortisation and impairment				
As at 1 April	-	2,680	2,680	2,552
Amortisation for the year	-	128	128	128
As at 31 March	-	2,808	2,808	2,680
Carrying Amount	33,310	126	33,436	33,564

Key assumptions used in the Value In Use calculations

Gross Margins

The basis used to determine the value assigned to the budgeted gross margins is the gross margins achieved in the year preceding the budgeted year adjusted for projected market conditions.

Discount Rates

The discount rate used is the risk free rate, adjusted by the addition of an appropriate risk premium.

Inflation

The basis used to determine the value assigned to the budgeted cost inflation, is the inflation rate, based on projected economic conditions.

Volume Growth

Volume growth has been budgeted on a reasonable and realistic basis by taking in to account the growth rates of one of four years immediately subsequent to the budgeted year based on industry growth rates. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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 PRODUCE ON BEARER BIOLOGICAL ASSETS AND INVENTORIES

17.1 Produce on Bearer Biological Assets

	Group		Company	
	2017/18	2016/17	2017/18	2016/17
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at 1 April	15,349	4,347	15,349	4,347
Change in fair value less cost to sell	(5,983)	11,002	(5,983)	11,002
As at 31 March	9,366	15,349	9,366	15,349

Level 2 inputs were used when arriving above figures.

17.2 Inventories

	Group		Company	
As at 31 March,	2017/18	2016/17	2017/18	2016/17
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Input materials	76,128	87,277	75,561	86,892
Nurseries	22,281	16,341	22,281	16,341
Harvested crop	406,280	328,979	406,100	327,823
Bulk tea & raw materials	814,302	383,390	-	-
Finished goods	7,546	13,457	224	234
Spares and consumables	8,955	9,917	8,636	7,094
	1,335,492	839,361	512,802	438,384
Provision for obsolete inventories	(18,407)	(18,683)	(11,895)	(8,547)
	1,317,085	820,678	500,907	429,837

The carrying amount of inventories pledged as securities for bank facilities obtained amounted to Rs.105 m (2016/17 - Rs. 327 m) and Rs. 919 m (2016/17 - Rs. 716 m) by the Company and the Group respectively.

Notes to the Financial Statements Contd.

18 TRADE AND OTHER RECEIVABLES

As at 31 March,	Group 2017/18 Rs. '000	Group 2016/17 Rs. '000	Company 2017/18 Rs. '000	Company 2016/17 Rs. '000
Trade receivables	666,000	737,774	125,197	97,702
Lease rent paid in advance	18,358	17,720	18,358	17,720
Employee advances and receivables	48,455	61,095	48,081	60,672
Advance company tax recoverable	2,760	2,760	2,760	2,760
ESC recoverable	36,846	28,248	18,666	20,165
WHT recoverable	2,121	2,099	2,117	2,020
Other current assets	57,809	62,855	38,109	44,193
	832,349	912,551	253,288	245,232
Provision for bad and bade doubtful debts	(971)	(901)	(767)	(835)
	831,378	911,650	252,521	244,397

18.1 Movement in the provision for trade and other receivables

	Group 2017/18 Rs. '000	Group 2016/17 Rs. '000	Company 2017/18 Rs. '000	Company 2016/17 Rs. '000
As at 1 April	(901)	(731)	(835)	(731)
Reversal/(charge) for the year	(70)	(170)	68	(104)
As at 31 March	(971)	(901)	(767)	(835)

18.2 The aging analysis of trade receivables is as follows;

As at 31 March,	Total Rs.'000	Neither Past due nor impaired 0-60 days Rs.'000	61-120 days Rs.'000	121-180 days Rs.'000	181-365 days Rs.'000	> 365 days Rs.'000
Company	125,197	116,582	8,615	-	-	-
Group	666,000	659,013	4,421	146	1,006	1,414

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. 125 m (2016/17 - Rs. 98 m) and Rs. 657 m (2016/17 - Rs. 733 m) by the Company and the Group respectively .

19 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash Flows), requires an entity to disclose information that enables users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Accordingly, changes in liabilities arising from financing activities for the year ended 31 March 2018 are disclosed below.

The funds borrowed by the Company and the Group are given in Note 22 and 30.

	Group		Company	
	Interest-bearing borrowings Rs.000	Other borrowings Rs.000	Interest-bearing borrowings Rs.000	Other borrowings Rs.000
As at 01 April 2017	476,158	800,781	428,711	45,542
Net Cash flows from Financing activities	(30,102)	210,517	(19,086)	7,228
As at 31 March 2018	446,056	1,011,298	409,625	52,770

20 CASH AND CASH EQUIVALENTS

20.1 Short term deposits

	Group		Company	
As at 31 March,	2017/18 Rs. '000	2016/17 Rs. '000	2017/18 Rs. '000	2016/17 Rs. '000
Short term fixed deposits	34,806	186	34,620	-
	34,806	186	34,620	-
20.2 Favourable balances				
Cash in hand	1,056	203	416	168
Cash at bank	86,411	45,248	28,006	29,527
	87,467	45,451	28,422	29,695
20.3 Unfavourable balances				
Bank overdraft	(219,827)	(274,302)	(216,411)	(274,182)
	(219,827)	(274,302)	(216,411)	(274,182)

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group. Interest income is earned at the prevailing interest rates.

The securities pledged have been disclosed in Note 31 to the Financial Statements.

Notes to the Financial Statements Contd.

21 STATED CAPITAL

	Group		Company	
As at 31 March,	2017/18	2016/17	2017/18	2016/17
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Issued and fully paid-ordinary shares 34,000,000 (2016/17 - 34,000,000) and 01 golden share	340,000	340,000	340,000	340,000
	340,000	340,000	340,000	340,000

The holders of ordinary shares and 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.

22 INTEREST-BEARING BORROWINGS

22.1 Long-Term Interest Bearing Borrowings

Group						2017/18	2016/17
	HSBC	Sri Lanka Tea Board	DFCC	NDB	Amana Bank	Total	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at 1 April	47,447	50,000	109,920	47,441	221,350	476,158	403,747
Obtained during the year	-	59,269	-	27,000	-	86,269	147,447
Repayments during the year	(11,017)	(28,289)	(27,480)	(12,376)	(37,210)	(116,372)	(75,036)
As at 31 March	36,430	80,980	82,440	62,065	184,140	446,055	476,158
Payable within one year	(12,143)	(36,423)	(27,480)	(16,876)	(54,001)	(146,923)	(107,783)
(Transferred to current liabilities)							
Payable after one year	24,287	44,557	54,960	45,189	130,139	299,132	368,375
Analysis of long-term borrowings by year of repayment							
Repayable within one year from year-end	12,143	36,423	27,480	16,876	54,001	146,923	107,783
Repayable between 2 and 5 years from year-end	24,287	44,557	54,960	45,189	130,139	299,132	361,708
Repayable later than 5 years from year-end	-	-	-	-	-	-	6,667
	36,430	80,980	82,440	62,065	184,140	446,055	476,158

Company					2017/18	2016/17
	Sri Lanka Tea Board	DFCC	NDB Amana Bank		Total	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at 1 April	50,000	109,920	47,441	221,350	428,711	403,747
Obtained during the year	59,269	-	27,000	-	86,269	100,000
Repayments during the year	(28,289)	(27,480)	(12,376)	(37,210)	(105,355)	(75,036)
As at 31 March	80,980	82,440	62,065	184,140	409,625	428,711
Payable within one year	(36,423)	(27,480)	(16,876)	(54,001)	(134,780)	(95,921)
(Transferred to current liabilities)						
Payable after one year	44,557	54,960	45,189	130,139	274,845	332,790

Analysis of long-term borrowings by year of repayment

Repayable within one year from year-end	36,423	27,480	16,876	54,001	134,780	95,921
Repayable between 2 and 5 years from year-end	44,557	54,960	45,189	130,139	274,845	326,123
Repayable later than 5 years from year-end	-	-	-	-	-	6,667
	80,980	82,440	62,065	184,140	409,625	428,711

Lender As at 31 March,	Loan outstanding 2017/18 Rs. '000	2016/17 Rs. '000	Rate of interest per annum	Monthly instalment Rs.	Terms of repayments
22.1.1 DFCC Bank					
Term loan 2	82,440	109,920	First two years AWPLR - 0.5%	2,290,033/-	60 monthly instalments commenced on 14.03.2016
Total	82,440	109,920			

Notes to the Financial Statements Contd.

22.1.2 Amana Bank

As at 31 March,	Loan outstanding 2017/18 Rs. '000	2016/17 Rs. '000	Rate of interest per annum	Instalments and Terms of repayments
Term Loan				
Disbursement 1	29,756	38,862	SLIBOR with a cap of 14% and floor of 7.25%	60 monthly instalments commenced on 14.12.2015
Disbursement 2	66,119	83,779	SLIBOR with a cap of 14% and floor of 7.25%	60 monthly instalments commenced on 19.03.2017
Disbursement 3	40,596	48,709	SLIBOR with a cap of 14% and floor of 7.25%	60 monthly instalments commenced on 21.01.2017
Disbursement 4	47,669	50,000	SLIBOR + 3.25%	60 monthly instalments commenced on 17.11.2017
Amana Bank - Total	184,140	221,350		

22.1.3 National Development Bank

As at 31 March,	Loan outstanding 2017/18 Rs. '000	2016/17 Rs. '000	Rate of interest per annum	Monthly instalment Rs.	Terms of repayments
Term loan 1	35,065	47,441	First two years AWPLR - 0.5%	1,031,333/-	60 monthly instalments commenced on 11.02.2016
Term loan 2	21,825	-	6.30%	33,125/-	72 monthly instalments commencing on 19.01.2019
Term loan 3	5,175	-	6.30%	71,875/-	72 monthly instalments commencing on 19.01.2019
NDB - Total	62,065	47,441			

22.1.4 Sri Lanka Tea Board

As at 31 March,	Loan outstanding 2017/18 Rs. '000	2016/17 Rs. '000	Rate of interest per annum	Monthly instalment Rs.	Terms of repayments
Term loan 1	38,889	50,000	Six month AWPLR + 1%	1,388,889/-	48 monthly instalments commenced on 17.08.2017
Term loan 2	42,091	-	5%	1,646,374/-	48 monthly instalments commenced on 26.07.2017
Sri Lanka Tea Board - Total	80,980	50,000			
Company - Total	409,625	428,711			

22.1.5 Subsidiary - Mabroc Teas (Pvt) Ltd.

Lender As at 31 March,	Currency	Loan outstanding 2017/18 Rs. '000	 2016/17 Rs. '000	Rate of interest per annum	Instalments and terms of repayments
Hongkong & Shanghai Banking Corporation Ltd					
Term Loan	**USD**	36,430	47,447	Three month LIBOR + 3%	16 quartely installment of USD 21,250/- commenced on 08.06.2017
Mabroc Teas (Pvt) Ltd. - Total		36,430	47,447		
Group-Total		446,055	476,158		

22.2 Short-term interest bearing borrowings

Subsidiary - Mabroc Teas (Pvt) Ltd.

As at 31 March, Lender	Currency	2017/18 Rs. '000	2016/17 Rs. '000
Hongkong & Shanghai Banking Corporation Ltd.	USD	771,807	403,077
Sampath Bank PLC	USD	-	119,920
NDB Bank	USD	-	97,274
CITI Bank	USD	186,720	134,967
Total		958,527	755,238

The securities pledged for these facilities have been disclosed in Note 31 to the Financial Statements.

23 DEFERRED INCOME

Grants and Subsidies	Group 2017/18 Rs. '000	 2016/17 Rs. '000	Company 2017/18 Rs. '000	 2016/17 Rs. '000
Capital Grants				
As at 1 April	726,507	693,842	725,540	692,875
Grants received during the year	60,046	32,665	60,046	32,665
As at 31 March	786,553	726,507	785,586	725,540
Amortisation				
As at 1 April	190,819	171,079	190,604	170,890
Amortisation for the year	17,860	19,740	17,834	19,714
As at 31 March	208,679	190,819	208,438	190,604
Carrying amount	577,874	535,688	577,148	534,936

Notes to the Financial Statements Contd.

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, Save the Children International and Rubber Development Department of Ministry of Plantation Industries.

The amount spent is capitalised under relevant classification of improvement to leasedhold Property, Plant and Equipment. Corresponding grant component is reflected under deferred grants and subsidies and amortised over the useful life span of the asset.

24 DEFERRED TAX LIABILITY/(ASSETS)

24.1 Statement of Financial Position

	Group			
	2017/18		2016/17	
	Temporary difference Rs. '000	Tax effect Rs. '000	Temporary difference Rs. '000	Tax effect Rs. '000
As at 1 April	2,871,856	457,659	2,439,315	390,615
Amount originating during the year	181,691	(30,162)	432,541	67,044
As at 31 March	3,053,547	427,497	2,871,856	457,659
Deferred Tax Liability				
Temporary difference of Property, Plant and Equipment (including mature and immature plantation)	4,495,141	630,920	4,272,267	690,261
Temporary difference of biological asset	161,286	22,580	152,864	15,286
As at 31 March	4,656,427	653,500	4,425,131	705,547
Deferred Tax Assets				
Temporary difference of retirement benefit obligations	(916,919)	(128,369)	(816,561)	(130,941)
Temporary difference of provision per bad debts	(971)	(136)	(901)	(148)
Temporary difference of impairment for inventories	(18,407)	(2,577)	(18,684)	(3,886)
Temporary difference of carried forward tax losses	(666,583)	(94,921)	(717,129)	(112,913)
As at 31 March	(1,602,880)	(226,003)	(1,553,275)	(247,888)
Net deferred tax liability as at 31 March	3,053,547	427,497	2,871,856	457,659

As at 31 March,	Company			
	2017/18		2016/17	
	Temporary difference Rs. '000	Tax effect Rs. '000	Temporary difference Rs. '000	Tax effect Rs. '000
As at 1 April	2,604,885	401,724	2,166,598	334,240
Amount originating during the year	193,448	(9,958)	438,287	67,484
As at 31 March	2,798,333	391,766	2,604,885	401,724
Deferred Tax Liability				
Temporary difference of Property, Plant and Equipment	4,190,312	586,642	3,958,711	623,893
(including mature and immature plantation)				
temporary difference of biological asset	161,286	22,580	152,864	15,286
As at 31 March	4,351,598	609,222	4,111,575	639,179
Deferred Tax Assets				
Temporary difference of retirement benefit obligations	(886,008)	(124,041)	(791,915)	(124,806)
Temporary difference of provision for bad debts	(767)	(107)	(835)	(132)
Temporary difference of impairment for inventories	(11,895)	(1,665)	(8,547)	(1,347)
Temporary difference of carried forward tax losses	(654,595)	(91,643)	(705,393)	(111,170)
As at 31 March	(1,553,265)	(217,456)	(1,506,690)	(237,455)
Net deferred tax liability as at 31 March	2,798,333	391,766	2,604,885	401,724

24.2 Statement of Profit or Loss

	Group		Company	
	2017/18 Rs. 000'	2016/17 Rs. 000'	2017/18 Rs. 000'	2016/17 Rs. 000'
As at 1 April	457,659	390,615	401,724	334,240
Tax charge/(reversal) recognised in profit or loss	(20,489)	10,043	(920)	9,723
Tax charge/(reversal) recognised in other comprehensive income	(9,673)	57,001	(9,038)	57,761
As at 31 March	427,497	457,659	391,766	401,724

The effective tax rate used to calculate deferred tax liability for all the temporary differences as at 31 March, 2018 is 14% (2016/17 - effective tax rate for all the temporary differences other than Biological Asset -15.76% and the effective tax rate used for Biological Asset - 10%) for the Company.

Notes to the Financial Statements Contd.

25 RETIREMENT BENEFIT OBLIGATIONS

	Group		Company	
	2017/18 Rs. '000	2016/17 Rs. '000	2017/18 Rs. '000	2016/17 Rs. '000
Movement in the Retirement Benefit Obligations				
As at 1 April	816,560	1,153,244	791,915	1,128,871
Current service cost	66,104	48,274	63,195	47,235
Interest cost	90,586	119,117	87,745	116,780
Changed to Profit or Loss	156,690	167,391	150,940	164,015
Actuarial (gain)/loss due to changes in financial assumptions	43,022	(58,715)	43,022	(58,715)
Actuarial (gain)/loss due to changes in experience	24,021	(304,768)	21,538	(307,791)
Changed to statement of other Comprehensive Income	67,043	(363,483)	64,560	(366,506)
Benefit paid by the plan	(123,374)	(140,592)	(121,407)	(134,465)
As at 31 March	916,918	816,560	886,009	791,915

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 require 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 March 2018 the actuarial present value of promised retirement benefits amounted to Rs. 886,008,628/- (2016/17 - Rs. 791,914,041/-). If the Company had provided for gratuity on the basis of 14 days wage & half months salary for each completed year of service, the liability would have been Rs. 930,428,985/- (2016/17 - Rs. 1,000,871,814/-). Hence, there is a contingent liability of Rs. 44,420,357/- (2016/17 - Rs. 208,957,773/-), which would crystallise only if the Company ceases to be a going concern.

The following payments are the expected contributions to the defined benefit plan obligations in future years.

	Group		Company	
	2017/18 Rs. '000	2016/17 Rs. '000	2017/18 Rs. '000	2016/17 Rs. '000
Within the next 12 months	148,722	140,174	137,214	138,187
Between 2 to 5 years	572,642	310,167	563,876	297,400
Beyond 5 years	195,555	366,219	184,918	356,328
	916,919	816,560	886,008	791,915

The weighted average duration of the defined benefit plan obligation as at the end of the reporting period for Staff is 5.47 years and workers is 5.96 years. The present value of retirement benefit obligations is carried on annual basis.

The key assumptions used by Messrs. Actuarial & Management Consultants (Pvt) Ltd. include the following.

	2017/18	2016/17
(i) Rate of interest	11%	12%
(ii) Rate of salary increase		
Workers	20% (every two years)	20% (every two years)
Staff	10% (per annum)	10% (per annum)
(iii) Retirement age		
Workers	60 years	60 years
Staff	60 years	60 years
Executive and Head office staff	55 years	60 years

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

A one percentage point change in the discount rate.	+1%	-1%
As at 31 March 2018	(46,881)	52,407
As at 31 March 2017	(42,523)	47,425

A one percentage point change in the salary/wage increment rate.	+1%	-1%
As at 31 March 2018	30,398	(28,817)
As at 31 March 2017	23,125	(21,936)

Notes to the Financial Statements Contd.

26 LIABILITY TO MAKE LEASE PAYMENT

	Group		Company	
	2017/18 Rs. '000	2016/17 Rs. '000	2017/18 Rs. '000	2016/17 Rs. '000
Gross Liability				
As at 1 April	1,721,953	1,781,331	1,721,953	1,781,331
Repayment during the year	(59,378)	(59,378)	(59,378)	(59,378)
As at 31 March	1,662,575	1,721,953	1,662,575	1,721,953
Finance cost allocated to future periods	(1,220,734)	(1,278,397)	(1,220,734)	(1,278,397)
Net liability	441,841	443,556	441,841	443,556
Payable within one year				
Gross liability	59,378	59,378	59,378	59,378
Finance cost allocated to future periods	(57,439)	(57,663)	(57,439)	(57,663)
Net liability transferred to current liabilities	1,938	1,715	1,938	1,715
Payable within two to five years				
Gross liability	237,511	237,510	237,511	237,510
Finance cost allocated to future periods	(226,888)	(228,110)	(226,888)	(228,110)
Net liability	10,623	9,400	10,623	9,400
Payable after five years				
Gross liability	1,365,687	1,425,065	1,365,687	1,425,065
Finance cost allocated to future periods	(936,407)	(992,624)	(936,407)	(992,624)
Net liability	429,280	432,441	429,280	432,441
Net liability payable after one year	439,902	441,841	439,902	441,841

According to the re-asessment, the base rental payable per year has increased from Rs. 19,598,000/- to Rs. 59,377,972/-.

The Statement of Recommended Practice (SoRP) for Right-to-use Land on Lease was approved by the Council of the Institute of Chartered Accountants of Sri Lanka on 19 December 2012. Subsequently, the amendments to the SoRP along with the modification to the title as Statement of Alternative Treatment (SoAT) were approved by the Council on 21 August 2013. The Company has reassessed the liability up to financial year 2013 and not reassessed after that as this was not mandatory requirement. However, if the liability is reassessed according to the alternative treatment (SoAT) on the assumption that the lease rent is increased constantly by GDP deflator of 4% and discounted at a rate of 13%, liability would be as follows.

	Rs.'000
Gross liability	3,637,429
Finance charge	(2,405,028)
Net liability	1,232,401

27 TRADE AND OTHER PAYABLES

	Group		Company	
As at 31 March,	2017/18	2016/17	2017/18	2016/17
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Trade payables	171,773	74,315	12,352	6,671
Staff payables	222,167	197,219	220,335	196,341
Unclaimed dividends	11,818	11,820	11,818	11,820
Other payables and accruals	236,472	180,504	188,538	151,746
	642,230	463,858	433,043	366,578

28 INCOME TAX

28.1 Income Tax Receivable

	Group		Company	
	2017/18	2016/17	2017/18	2016/17
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at 1 April	1,412	138	-	-
Transferred from income tax payable	81	1,274	-	-
Transfer to income tax payable	(850)	-	-	-
As at 31 March	643	1,412	-	-

28.2 Income Tax Payable

	Group		Company	
	2017/18	2016/17	2017/18	2016/17
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at 1 April	12,126	15,503	348	-
Transferred from income tax receivable	(850)	-	-	-
Subsidiaries/Parent taxation on current year's profit	56,395	19,792	22,988	348
(Over)/under provision in respect of previous years	-	(4,247)	-	52
Cash paid during the year	(1,613)	(12,167)	-	-
ESC,WHT,ACT set-off against income tax	(39,998)	(8,029)	(23,336)	(52)
Transferred to income tax receivable	81	1,274	-	-
As at 31 March	26,141	12,126	-	348

Notes to the Financial Statements Contd.

29 RELATED COMPANY BALANCES

29.1 Other Related Companies

	Group			
As at 31 March,	2017/18		2016/17	
	Receivable Rs. '000	Payable Rs. '000	Receivable Rs. '000	Payable Rs. '000
Ultimate parent company				
Hayleys PLC	58	1,622	5	1,168
Intermediary ultimate parent				
Dipped Products PLC	4,282	-	1,206	-
Dipped Products PLC - loans	-	9,729	-	9,256
Parent company				
DPL Plantations (Pvt) Ltd.	-	1,104	-	1,104
Other related companies				
DPL Premier Gloves (Pvt) Ltd.	25,335	-	5,451	-
Hayleys Agriculture holdings Ltd.	100	325	13	465
Hayleys Agro Fertilizers (Pvt) Ltd.	107	11,929	-	19,134
Uni Dil Packaging Solution (Pvt) Ltd.	-	1,578	-	-
Uni Dil Packaging (Pvt) Ltd.	-	66	-	-
Talawakelle Tea Estates PLC	258	476	232	-
Horana Plantations PLC	1,462	-	-	-
Hayleys Leisure Holding (Pvt) Ltd.	13	-	-	-
Hayleys Consumer Products Ltd.	385	-	652	5
Amaya Leisure PLC	1	-	1	-
Culture Club Resorts (Pvt) Ltd.	152	-	122	-
Haycarb Ltd.	9	-	3	-
Hunas Falls Hotels PLC	-	-	17	-
The Kingsbury PLC	556	-	325	-
Hayleys Industrial Solutions (Pvt) Ltd.	58	-	-	95
Logiventure (Pvt) Ltd.	-	2,792	-	-
MIT Cargo (Pvt) Ltd.	-	67	-	41
Kandy Resorts (Pvt) Ltd.	-	-	129	-
Rileys (Pvt) Ltd.	-	-	243	-
Sun Tan Beach Resorts Ltd.	71	-	49	-
Puritas (Pvt) Ltd.	-	3,684	-	-
Civaro Lanka (Pvt) Ltd.	-	-	-	6
Expelogix (Pvt) Ltd.	-	429	-	317
Logistics International Ltd.	85	-	-	-
Singer (Sri Lanka) PLC	318	-	-	-
Singer Finance (Lanka) PLC	74	-	-	-

As at 31 March,	Group			
	2017/18		2016/17	
	Receivable Rs. '000	Payable Rs. '000	Receivable Rs. '000	Payable Rs. '000
Hayleys Business Solutions International (Pvt) Ltd.	7	44	-	-
Fentons Ltd.	40	-	-	-
Chas P Hayleys & Co Ltd.	146	-	-	-
Alufab PLC	14	-	-	-
Kandyan Resorts (Pvt) Ltd.	159	2,305	-	-
NYK Line Lanka (Pvt) Ltd.	35	-	-	-
Logistics International Ltd.	213	-	-	-
Alumex PLC	292	-	-	-
Advantis Limited.	84	-	-	-
Hayleys Travels & Tours (Pvt) Ltd.	-	663	-	-
Agility Logistics (Pvt) Ltd.	-	9	-	-
Mountain Hawk Express (Pvt) Ltd.	-	181	-	-
Langdale Resort & Spa (Pvt) Ltd.	-	112	-	-
Total	34,314	37,115	8,448	31,591

As at 31 March,	Company			
	2017/18		2016/17	
	Receivable Rs. '000	Payable Rs. '000	Receivable Rs. '000	Payable Rs. '000
Subsidiaries				
Kalupahana Power Co. (Pvt) Ltd.	150	-	17	-
Kelani Valley Instant Tea (Pvt) Ltd.	-	12,461	-	10,159
Mabroc Teas (Pvt) Ltd.	-	700	307	10
Kelani Valley Resorts (Pvt) Ltd.	17,640	-	-	-
	17,790	13,161	324	10,169

Notes to the Financial Statements Contd.

As at 31 March,	Company 2017/18 Receivable Rs. '000	Company 2017/18 Payable Rs. '000	Company 2016/17 Receivable Rs. '000	Company 2016/17 Payable Rs. '000
Ultimate parent company				
Hayleys PLC	-	802	-	871
Intermediary ultimate parent				
Dipped Products PLC	4,282	-	1,206	-
Dipped Products PLC - loans	-	9,729	-	9,256
Parent company				
DPL Plantations (Pvt) Ltd.	-	1,104	-	1,104
Other related companies				
DPL Premier Gloves (Pvt) Ltd.	25,335	-	5,451	-
Rileys (Pvt) Ltd.	-	-	238	-
Hayleys Agriculture Holdings Ltd.	-	325	-	401
Hayleys Agro Fertilizers (Pvt) Ltd.	-	11,889	-	19,134
Uni Dil Packaging Solution (Pvt) Ltd.	-	1,578	-	-
Uni Dil Packaging (Pvt) Ltd.	-	66	-	-
Talawakelle Tea Estates PLC	-	476	232	-
Puritas (Pvt) Ltd.	-	3,684	-	-
Horana Plantations PLC	1,462	-	-	-
Total	31,079	29,653	7,127	30,766

The carrying amount of receivables pledged as securities for bank facilities obtained amounts to Rs. 31 m (2016/17 - Rs. 7 m).

29.2 Other related companies - Loan Payable

Dipped Products PLC

	Group 2017/18 Rs. '000	Group 2016/17 Rs. '000	Company 2017/18 Rs. '000	Company 2016/17 Rs. '000
As at 1 April	45,542	25,000	45,542	25,000
Obtained during the year	20,000	25,000	20,000	25,000
Repayments during the year	(12,772)	(4,458)	(12,772)	(4,458)
As at 31 March	52,770	45,542	52,770	45,542
Payable within one year	(9,729)	(9,256)	(9,729)	(9,256)
(Transferred to current liabilities)				
Payable after one year	43,041	36,286	43,041	36,286

Dipped Products PLC granted a loan at the rate of five percent (5%) per annum which shall be repayable in five (5) years.

29.3 Amounts advanced towards investments in subsidiaries - non current

As at 31 March,	Company 2017/18 Rs. '000	Company 2016/17 Rs. '000
Kelani Valley Resorts (Pvt) Ltd.	50,000	-
	50,000	-

Amount advance towards investment in subsidiary represents investment made by the company on the Kelani Valley Resorts (Pvt) Ltd. The Company expect to convert the above investment to equity shares of this entity in future.

30 AMOUNT DUE TO FROM EQUITY ACCOUNTED INVESTEES

	Group			
	2017/18		2016/17	
As at 31 March,	Receivable Rs. '000	Payable Rs. '000	Receivable Rs. '000	Payable Rs. '000
Hayleys Global Beverages (Pvt) Ltd.	14,404	94	10,531	-
Total	14,404	94	10,531	-

	Company			
	2017/18		2016/17	
As at 31 March,	Receivable Rs. '000	Payable Rs. '000	Receivable Rs. '000	Payable Rs. '000
Hayleys Global Beverages (Pvt) Ltd.	14,404	-	10,531	-
Total	14,404	-	10,531	-

31 ASSETS PLEDGED AS SECURITY

Following assets have been pledged as security for liabilities:

Company

	2017/18		
Nature of liability	Facility (Rs. m)	Outstanding (Rs. m)	Security
Overdraft			
Bank of Ceylon	75.0	2.5	Concurrent mortgage over stock in trade and debtors.
Hatton National Bank PLC	50.0	39.2	Promissory Note.
Sampath Bank PLC	30.0	Nil	Concurrent mortgage over stock in trade and debtors.

Notes to the Financial Statements Contd.

31 ASSETS PLEDGED AS SECURITY Contd.

Company

Nature of liability	2017/18 Facility (Rs. m)	2017/18 Outstanding (Rs. m)	Security
Term Loan			
DFCC Bank PLC	137.4	82.4	Primary mortgage over the leasehold rights of Halgolla, 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.
National Development Bank PLC	88.9	62.1	Primary mortgage over the leasehold rights, Buildings,Plant and Machinery of Pedro,Mahagastota & Panawatte estates
Sri Lanka Tea Board	109.3	81.0	Trade receivables from Tea brokers

Subsidiary
Mabroc Teas (Pvt) Ltd.

	2017/18 Facility (Rs. m)	2017/18 Outstanding (Rs. m)	Security
Overdraft			
CITI Bank N.A.	70.0	Nil	Letter of comfort issued by Hayleys PLC
National Development Bank PLC	10.0	Nil	Primary mortgage of Rs. 50 m over stock in trade
Hatton National Bank PLC	75.0	Nil	Promissory Note
Sampath Bank PLC	10.0	Nil	Hypothecation bond over stock and book debts

Short-term borrowings Foreign currency loans	Facility (USD m)	Outstanding (Rs. m)	Security
CITI Bank N.A.	1.2	186.7	Letter of comfort issued by Hayleys PLC
Hatton National Bank PLC	2.0	-	Promissory Note
Sampath Bank PLC	2.0	Nil	Hypothecation bond totaling Rs. 200 m over stocks and book debts
National Development Bank PLC	1.2	Nil	Primary mortgage of Rs.50 m over stocks in trade
Union Bank of Colombo PLC	0.4	Nil	Letter of hypothecation of USD 500,000/-

32 RELATED PARTY DISCLOSURES

The related party transactions were made on relevant commercial terms with the respective parties.

Recurrent Transactions

Company For the year ended 31 March	Relationship	Nature of Transaction	Amount (paid)/received 2017/18 Rs. '000	 2016/17 Rs. '000

(A) Parent and Ultimate parent company

The Company has controlling related party relationship with its parent company DPL Plantations (Pvt) Ltd.

(i) Hayleys PLC	Ultimate parent	Office space together with		
		other related facilities,		
		finance and secretarial services	(53,035)	(45,666)

The managing agent DPL Plantations (Pvt) Ltd. has waived the management fees in its entirety effective from 2007.

(B) Transactions with key management personnel

Key management personnel includes, members of the Board of Directors of the Company and key employees holding directorships in the subsidiaries 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 March	2017/18 Rs. '000	2016/17 Rs. '000
Directors' emoluments	11,726	9,455

(C) Transactions with Subsidiaries

Company For the year ended 31 March	Relationship	Nature of Transaction	Amount (Paid)/Received 2017/18 Rs. '000	 2016/17 Rs. '000
(i) Kalupahana Power Co. (Pvt) Ltd.	Subsidiary	Share of revenue	1,611	1,025
		Reimbursement of expenses	49	
(ii) Kelani Valley Instant Tea (Pvt) Ltd.	Subsidiary	Sale of BMF	137	861
		Manufacturing charges	378	2,213
(iii) Mabroc Teas (Pvt) Ltd.	Subsidiary	Sales of tea	261,729	113,261
		Purchase of tea	(11,935)	(16,954)
(iv) Kelani Valley Resorts (Pvt) Ltd.	Subsidiary	Reimbursement of expenses	1,213	-

The Company has sub leased an extent of 8 acres, 2 roods and 6.1 perches in Kalupahana Eestate to Kalupahana Power Co. (Pvt) Ltd.

Notes to the Financial Statements Contd.

(D) Transactions with other related Companies

Company		Relationship	Nature of transaction		Amount (paid)/received	
For the year ended 31 March					2017/18 Rs. '000	2016/17 Rs. '000
(i)	Dipped Products PLC	Intermediary ultimate parent	Sale of latex		22,319	5,562
			Purchase of skim crepe		(6,561)	(1,960)
			Cost of facilities and related services rendered		(29)	(35)
			Loan instalment & interest		(16,656)	(5,704)
(ii)	Hanwella Rubber Products Ltd.	Common Directors	Purchase of skim crepe		(4,663)	(2,388)
(iii)	Grossart (Pvt) Ltd.	Common Directors	Sale of latex		17,145	5,935
(iv)	DPL Premier Gloves (Pvt) Ltd.	Common Directors	Sale of latex		119,201	114,220
			Chemical cost for latex		(2,447)	-
(v)	DPL Thailand (Pvt) Ltd.	Common Directors	Sale of latex		242,438	39,397
(vi)	Hayleys Industrial Solutions (Pvt) Ltd.	Common Directors	Repair of generator		(42)	(249)
(vii)	Quality Seed Company Ltd.	Common Directors	Landscaping charges - Oliphant B'low Project		-	(5,199)
(viii)	Hayleys Agro Fertilisers (Pvt) Ltd.	Common Directors	Purchase of fertilisers		(132,399)	(31,262)
(ix)	Hayleys Agriculture Holdings Ltd.	Common Directors	Purchase of chemicals		(4,627)	(51,650)
(x)	Hayleys Lifesciences (Pvt) Ltd.	Common Directors	Purchase of consumer products		(8)	(1)
(xi)	Hayleys Tours (Pvt) Ltd.	Common Directors	Travelling expenses		(212)	(2,983)
(xii)	MIT Cargo (Pvt) Ltd.	Common Directors	Handling, clearing and courier charges		(363)	(215)
(xiii)	Puritas (Pvt) Ltd.	Common Directors	Maintenance & construction of effluent treatment plants		(34,050)	(42,407)
(xiv)	Logiventures (Pvt) Ltd.	Common Directors	Purchase of security seals		(43)	(94)
(xv)	Rileys (Pvt) Ltd.	Common Directors	Sale of rubber products		1,635	1,029
(xvi)	Hayleys Consumer Products Ltd.	Common Directors	Purchase of consumer products		(51)	(5)
(xvii)	Talawakelle Tea Estates PLC	Common Directors	Share of office maintenance cost	Receipt	5,642	3,912
				Payment	(1,591)	(1,628)
			Purchase of fixed asset		(1,900)	-
			Green leaf supplies	Receipt	346	29,801
(xviii)	Hayleys Business Solutions International (Pvt) Ltd.	Common Directors	Payment for executive payroll processing		(557)	(549)
(xix)	Hayleys Travels (Pvt) Ltd.	Common Directors	Cost of air tickets and related charges		(2,954)	-
(xx)	Haycolour (Pvt) Ltd.	Common Directors	Purchase of dye for latex		(13)	(5)
(xxi)	The Kingsbury PLC	Common Directors	Services rendered for AGM		(105)	(108)
(xxii)	Logiwiz Ltd.	Common Directors	Storage & handling charges		(848)	(673)
(xxiii)	Hayleys Agro Farms (Pvt) Ltd.	Common Directors	Purchase of chemicals		-	(1,115)
(xxiv)	Fentons Ltd.	Common Directors	Repairing digital telephone instrument		-	(8)

Company For the year ended 31 March		Relationship	Nature of transaction	Amount (paid)/received 2017/18 Rs. '000	 2016/17 Rs. '000
(xxv)	Hayleys Aventura (Pvt) Ltd.	Common Directors	Purchase of hampers and phones	(306)	-
(xxvi)	Horana Plantations PLC	Common Directors	Reimbursement of expenses	2,302	-
(xxvii)	Uni Dil Packaging Solution Ltd.	Common Directors	Purchase of packing materials	(5,884)	-
(xxviii)	Uni Dil Packaging (Pvt) Ltd.	Common Directors	Purchase of packing materials	(1,043)	-
(xxix)	Agro Technica Ltd.	Common Directors	Purchase of chemicals	(137)	-
(xxix)	Energy Net (Pvt) Ltd.	Common Directors	Purchase solar PV	(6,386)	-

(E) Transactions with equity accounted investee

Company	Relationship	Nature of transaction	Amount (paid)/received 2017/18 Rs. '000	 2016/17 Rs. '000
(i) Hayleys Global Beverages (Pvt) Ltd.	Equity Accounted/ Investee	Investment in shares	-	(34,000)
		Reimbursement of expenses	63,500	-

The Company has sub leased an extent of 1.0127 hectares in Ingestre estate and 2.2247 hectares in Blinkbonnie Estate to Hayleys Global Beverages (Pvt) Ltd.

There are no non-recurrent related party transactions where aggregate value exceeds 10% of the equity or 5% of total assets and recurrent related party transactions where aggregate value exceeds 10% of gross revenue/income.

There are no related party transactions and balances other than those disclosed above and in Notes 29 to the Financial Statements.

33 CONTINGENT LIABILITIES

Contingent liabilities that may result, depending on the timing of the taxability of certain fair value adjustments is amounts to approximately Rs. 1,580,000/- (2016/17 - Rs. 2,600,000/-)

34 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 the financial year 2018/19 amounts to Rs. 453,156,113/-(2017/18 Rs. 332,476,036/-).

35 EVENTS OCCURRING AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

No circumstances have arisen since the reporting date which require adjustments to or disclosure in the Financial Statements. Proposed dividend has been disclosed in Note 11.2.

Notes to the Financial Statements Contd.

36 SEGMENTAL ANALYSIS

Group

	Tea		Rubber	
	2017/18 Rs. '000	2016/17 Rs. '000	2017/18 Rs. '000	2016/17 Rs. '000
Segmental assets				
Non-current assets	2,422,554	2,674,382	2,695,084	2,404,557
Current assets	1,900,842	1,463,741	123,417	148,130
Total assets	4,323,396	4,138,123	2,818,501	2,552,687
Segmental liabilities				
Non-current liabilities	1,107,036	1,395,409	415,777	434,447
Current liabilities	1,471,565	1,101,587	77,205	81,056
Total liabilities	2,578,601	2,496,996	492,982	515,503
Non-interest bearing liabilities				
Deferred taxation	-	-	-	-
Retirement benefit obligation	752,689	670,998	163,821	145,288
Trade & other payables	467,774	321,769	77,205	81,056
Total depreciation	127,068	118,909	96,729	86,791
Lease amortisation	11,485	13,524	12,206	12,839
Capital expenditure	56,493	142,643	307,878	300,557

Company

	Tea		Rubber	
	2017/18 Rs. '000	2016/17 Rs. '000	2017/18 Rs. '000	2016/17 Rs. '000
Segmental assets				
Non-current assets	2,718,475	2,729,721	2,695,084	2,404,557
Current assets	454,710	393,386	123,417	148,130
Total assets	3,173,185	3,123,107	2,818,501	2,552,687
Segmental liabilities				
Non-current liabilities	1,026,836	1,288,778	415,777	434,447
Current liabilities	262,196	235,916	77,205	81,056
Total liabilities	1,289,032	1,524,694	492,982	515,503
Non-interest bearing liabilities				
Deferred taxation	-	-	-	-
Retirement benefit obligations	722,187	646,627	163,821	145,288
Trade & other payables	262,196	225,746	77,205	81,056
Total depreciation	89,139	88,025	96,729	86,791
Lease amortisation	11,485	13,524	12,206	12,839
Capital expenditure	40,545	68,018	307,878	300,557

Information in respect of geographical segments was considered not significant enough to be disclosed as explained under segment reporting in accounting policies.

Others		Unallocated		Total	
2017/18 Rs. '000	2016/17 Rs. '000	2017/18 Rs. '000	2016/17 Rs. '000	2017/18 Rs. '000	2016/17 Rs. '000
218,773	159,088	120,497	205,679	5,456,908	5,443,706
13,072	7,152	292,132	194,682	2,329,463	1,813,705
231,845	166,240	412,629	400,361	7,786,371	7,257,411
11,719	10,555	1,169,833	815,998	2,704,365	2,656,409
7,678	1,328	476,348	462,640	2,032,796	1,646,613
19,397	11,883	1,646,181	1,278,638	4,737,161	4,303,022
-	-	427,497	457,659	427,497	457,659
409	274	-	-	916,919	816,560
3,685	1,324	93,566	59,709	642,230	463,858
8,096	5,272	-	-	231,893	210,972
-	-	-	-	23,691	26,363
88,350	17,659	20,239	38,378	473,086	499,237
90,270	93,035	120,499	205,679	5,624,328	5,432,993
1,031	1,062	359,951	194,682	939,109	737,260
91,301	94,097	480,450	400,361	6,563,437	6,170,253
269	269	1,169,830	815,998	2,612,710	2,539,492
66	66	489,516	462,640	828,987	779,679
335	335	1,659,346	1,278,638	3,441,697	3,319,171
-	-	391,766	401,724	391,766	401,724
-	-	-	-	886,008	791,915
66	66	93,572	59,709	433,043	366,578
746	746	-	-	186,740	175,562
-	-	-	-	23,691	26,363
18,912	17,423	20,239	38,378	387,574	424,376

Notes to the Financial Statements Contd.

37 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. Accordingly, the Group has exposure to mainly Credit Risk, Liquidity Risk, Currency Risk and Market Risks from its use of financial instruments.

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

37.1 Financial Risk Management Framework

The Board of Directors has the overall responsibility for the establishment and oversight of the group's financial risk management framework which includes developing and monitoring the Group's financial risk management policies.

The Group financial risk management policies are established to identify, quantify and analyse the financial risks faced by the Group, to set appropriate risk limits and controls and to monitor financial risks and adherence to limits. Financial risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The KVPL Audit Committee oversees how management monitors compliance with the Group's financial risk management policies and procedures and reviews the adequacy of the financial risk management framework in relation to the risks faced by the Group.

37.2 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 and from its financing activities including deposits with banks and financial institution's foreign exchange transactions and other financial instruments.

37.2.1 Trade and Other Receivables

The Group's exposure to credit risk is influenced by the individual characteristics of each customer. The new customers are analysed individually for credit worthiness before Group's standard payment and delivery terms and conditions are offered. Group review includes external ratings, when available and in some cases, bank references, purchases limit etc., which also subject to under review on quarterly basis. The past experience of the management is considered when revisions are made to terms and conditions.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

The maximum exposure to credit risk for trade and other receivables at the reporting date is Rs. 831 m (2016/17 – Rs. 912 m).

KVPL has a minimal credit risk of its trade receivables as the repayment is guaranteed within seven days by the Tea and Rubber auction systems.

MTPL has the largest exposure to credit risk as a major portion of the trade receivables are from foreign currencies. All open account debtors are covered with export credit Insurance. Settlement of other debtors are carried through banks.

37.2.2 Investments

Credit risk from invested balances with the financial institutions are managed by the Hayleys Group Treasury Department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimise the concentration of risks and therefore, mitigate financial loss through potential counterparty's failure

The Group held short term investments of Rs. 35 m as at 31 March 2018 (2016/17 – Rs. 0.186 m) which represents the maximum credit exposure on these assets.

Hayleys Global Beverages (Pvt) Ltd. (HGBL) is an equity accounted investee of the company. HGBL is in the early stage of the commercial operations and acquired considerable long term assets for its commercial operations. The group board of directors continuously review the operations of HGBL to ensure that the group investment is secured.

37.2.3 Cash and Cash Equivalents

The Group held cash at bank and in hand of Rs. 87 m as at 31 March 2018 (2016/17 – Rs. 45 m) which represents its maximum credit exposure on these assets.

- Sampath Bank PLC – A+ (lka)
- Hatton National Bank PLC – AA – (lka)
- Bank of Ceylon – AA+ (lka)
- Citi Bank N.A. – AAA (lka)
- Hong Kong and Shanghai Banking Corporation Ltd. – AAA(lka)
- Pan Asia Banking Corporation PLC – BBB- (lka)
- Union Bank of Colombo PLC – BBB
- DFCC Bank PLC – AA- (lka)
- Seylan Bank Ltd. – A+ (lka)
- National Development Bank PLC – A+ (lka)

37.3. Liquidy 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.

The Group does not concentrate on a single financial institution, thereby minimising the exposure to liquidity risk through diversification of funding sources. The Group aims to fund investment activities of the individual and Group level by funding the long-term investment with long-term financial sources and short-term investment with short-term financing. Where necessary, the Group consults the Treasury Department and Strategic Business Development Unit in Parent Company for scrutinising the funding decisions.

Notes to the Financial Statements Contd.

The table below summarises the maturity profile of the Groups financial liabilities based on contractual undiscounted payments.

As at 31 March 2018	On Demand Rs.'000	Less than 3 Months Rs.'000	3 to 12 Months Rs.'000	2 to 5 years Rs.'000	>5 years Rs.'000	Total Rs.'000
Group						
Interest bearing loans & borrowing	299,705	276,363	749,210	299,131	-	1,624,409
Trade & other payables	468,906	172,674	18	-	638	642,236
	768,611	449,037	749,228	299,131	638	2,266,645
Company						
Interest bearing loans & borrowing	216,411	33,696	101,084	274,845	-	626,036
Trade & other payables	431,384	1,637	18	-	-	433,039
	647,795	35,333	101,102	274,845	-	1,059,074

As at 31 March 2017	On Demand	Less than 3 Months	3 to 12 Months	2 to 5 years	>5 years	Total
Group						
Interest bearing loans & borrowing	274,302	654,144	202,797	365,654	8,801	1,505,698
Trade & other payables	270,653	141,800	21,165	29,600	638	463,858
	544,955	795,944	223,962	395,254	9,439	1,969,556
Company						
Interest bearing loans & borrowing	274,182	18,826	71,015	330,069	8,801	702,893
Trade & other payables	208,161	107,650	21,166	29,600	-	366,578
	482,343	126,476	92,181	359,669	8,801	1,069,471

37.4 Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk such as equity price risk. Financial instrument affected by market risk include loans and borrowings, deposits, available for sale investment and derivative financial instruments.

37.4.1 Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. 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.

The Group held long-term borrowings with floating interest rates of Rs. 446 m (2016/17 – Rs. 476 m) which represents its maximum credit exposure on these liabilities.

Interest rate sensitivity

The following table demonstrates sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, the Group's Profit Before Tax is affected through the impact on floating rate borrowings as follows:

	Increase/ decrease in Interest rate	Effect on profit before tax Rs.'000
Group		
2017/18	+1%	4,461
	-1%	(4,461)
2016/17	+1%	4,762
	-1%	(4,762)
Company		
2017/18	+1%	4,096
	-1%	(4,096)
2016/17	+1%	4,287
	-1%	(4,287)

37.4.2 Foreign 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 Group is exposed to currency risk on sales, purchases and borrowings. These currencies primarily are USD and AUD.

The Group hedges its exposure to fluctuation on the transaction of its foreign operations mainly by forward contracts.

Foreign currency Sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in the USD and AUD exchange rates, with all other variables held constant. The impact on the Group's Profit Before Tax is due to changes in fair value of monetary assets and liabilities.

Notes to the Financial Statements Contd.

	Increase/ decrease in basis points	Effect on profit before tax Rs.'000
Group		
2017/18		
USD	5%	(21,793)
AUD	5%	(1)
USD	-5%	21,793
AUD	-5%	1
2016/17		
USD	5%	(9,829)
AUD	5%	368
USD	-5%	9,829
AUD	-5%	(368)

37.4.3 Equity Price Risk

The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Management of the Group monitors the mix of debt and equity securities in its investment portfolio based on market indices. Material investment within the portfolio are Managed on an individual basis and all buy and sell decision are approved by the Board. Equity price risk is not material to the Financial Statements. However company does not hold any quoted shares as at reporting date.

37.4.4 Capital Management

The Group's policy is to retain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital, reserves, retain earning and non-controlling interest of the Group. The Board of Directors monitors the return on capital, interest covering ratio, dividend to ordinary shareholders.

The gearing ratio at the reporting date is as follows.

	Group		Company	
	2017/18 Rs.'000	2016/17 Rs.'000	2017/18 Rs.'000	2016/17 Rs.'000
i Interest bearing borrowings				
Current portion of long-term interest bearing borrowings	146,923	107,783	134,780	95,921
Payable within 2 and 5 years	299,132	361,708	274,845	326,123
Payable later than 5 years from year-end	-	6,667	-	6,667

	Group		Company	
	2017/18 Rs.'000	2016/17 Rs.'000	2017/18 Rs.'000	2016/17 Rs.'000
ii Liability to make lease payment				
Current portion of liability to make lease payment	1,939	1,715	1,939	1,715
Payable within 2 and 5 years	10,622	9,400	10,622	9,400
Payable later than 5 years from year-end	429,280	432,441	429,280	432,441
iii Short-term interest bearing borrowings	958,527	755,238	-	-
iv Bank overdraft	219,827	274,302	216,411	274,182
Total debts	2,066,250	1,949,255	1,067,877	1,146,449
Equity	3,017,740	2,920,914	3,121,740	2,851,082
Equity & debts	5,083,990	4,870,169	4,189,617	3,997,532
Gearing ratio	41%	40%	25%	29%

Ten Year Summary

Period Ended	2017/18 31-Mar (12 Months) Rs.'000	2016/17 31-Mar (12 Months) Rs.'000	2015/16 31-Mar (12 Months) Rs.'000	2014/15 31-Mar (15 Months) Rs.'000
Trading Results				
Revenue	8,642,220	6,852,262	6,068,746	8,647,349
Gross profit	1,091,683	617,739	464,702	739,302
Profit before tax	202,487	12,474	(30,520)	102,407
Profit after tax	160,422	(15,349)	(42,191)	52,495
Balance Sheet Funds Employed				
Stated capital	340,000	340,000	340,000	340,000
Revenue reserves	2,677,740	2,580,914	2,292,660	2,358,424
Total equity attributable to equity holders of the Company	3,017,740	2,920,914	2,632,660	2,698,424
Non-controlling interest	31,470	33,475	33,087	158,739
Liability to make lease payment	439,902	441,841	443,557	445,075
Amounts due to other related companies	43,041	36,286	22,500	
Interest bearing borrowings	299,132	368,375	323,916	432,145
Bank overdraft	219,827	274,302	95,081	51,190
	4,051,112	4,075,193	3,550,801	3,785,573
Assets Employed				
Non current assets	5,456,908	5,443,706	5,219,898	5,203,870
Current assets	2,329,463	1,813,705	1,306,824	1,793,293
Current liabilities	(1,812,969)	(1,372,311)	(909,299)	(1,217,120)
Retirement benefit obligations	(916,919)	(816,560)	(1,153,244)	(1,122,870)
Deferred tax liability	(427,497)	(457,659)	(390,615)	(393,243)
Negative goodwill/revaluation reserve	-	-	-	-
Deferred income	(577,874)	(535,688)	(522,763)	(478,357)
Capital employed	4,051,112	4,075,193	3,550,801	3,785,573
Key Indicators				
Gross profit margin %	12.6	9.0	7.7	8.5
Current ratio (times)	1.15	1.10	1.30	1.41
Turnover to capital employed (times)	2.1	1.7	1.7	2.3
Return on shareholders' fund %	5.1	(0.6)	(1.1)	2.2
Earning per share (Rs.)	4.56	(0.55)	(0.82)	1.77
Net assets per share (Rs.)	88.76	85.91	77.43	79.37
Dividend per share (Rs.)	1.00	-	-	1.00
Dividend payout ratio %	22	-	-	56
Price earnings (times)	17.53	-	-	40.58
Market value (Rs.)	80	82	65.00	71.90

2013	2012	2011	2010	2009	2008
31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec
(12 Months)	(12 Months)	(12 Months)	(12 Months)	(12 Months)	(12 Months)
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
6,790,012	6,518,253	6,033,498	3,883,637	2,860,004	3,108,571
885,720	1,156,106	905,883	595,955	134,964	455,435
465,485	680,956	545,947	355,690	(27,783)	300,276
391,693	560,732	461,363	326,152	(40,565)	278,765
340,000	340,000	340,000	340,000	340,000	340,000
2,435,888	2,228,473	1,813,716	1,492,786	1,216,593	1,378,208
2,775,888	2,568,473	2,153,716	1,832,786	1,556,593	1,718,208
22,322	16,667	17,162	14,642	22,324	20,274
395,060	427,914	428,976	429,869	362,854	367,813
98,327	97,588	136,825	226,414	379,978	449,423
16,297	1,865	4,772	13,158	473	116,766
3,307,894	3,112,507	2,741,451	2,516,869	2,322,222	2,672,484
4,408,806	4,019,663	3,738,736	3,463,306	3,132,622	2,978,262
1,938,316	2,054,898	1,758,879	1,411,867	954,630	1,101,238
(1,153,489)	(1,146,763)	(1,088,079)	(847,986)	(468,207)	(353,441)
(1,046,403)	(1,025,142)	(980,001)	(871,408)	(732,912)	(578,457)
(363,132)	(301,387)	(211,247)	(158,032)	(120,836)	(128,927)
-	-	-	-	-	
(476,204)	(488,762)	(476,837)	(480,878)	(443,075)	(346,191)
3,307,894	3,112,507	2,741,451	2,516,869	2,322,222	2,672,484
13.0	17.7	15.0	15.3	4.7	14.7
1.66	1.79	1.61	1.64	2.04	2.34
2.1	2.1	2.2	1.5	1.2	1.2
13.8	21.8	21.3	17.5	(2.7)	16.1
11.30	16.51	13.49	9.43	(1.25)	8.11
81.64	76.03	63.85	54.34	46.44	50.43
3.5	6.0	5.0	4.0	1.0	3.5
31	36	37	42	-	43
6.93	4.85	6.7	17.0	-	5.9
78.30	80.00	90.00	159.90	53.00	47.50

Investor Information

1. STOCK EXCHANGE LISTING

The ordinary shares of Kelani Valley Plantations PLC are listed with the Colombo Exchange. The audited Company and Consolidated Statements of Profit or Loss for the year ended 31 March 2018 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 MARCH 2018

Number of shareholders 13,970

	Residents			Non-Residents			Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1 - 1000	13,837	1,724,073	5.0708	6	2,815	0.0083	13,843	1,726,888	5.0791
1001 - 10,000	94	280,133	0.8239	1	2,500	0.0074	95	282,633	0.8313
10,001 - 100,000	21	714,924	2.1027	3	111,219	0.3271	24	826,143	2.4298
100,001 -1,000,000	3	1,046,988	3.0794	2	457,322	1.345	5	1,504,310	4.4244
Over 1,000,000	3	29,660,026	87.2354	-	-	0.000	3	29,660,026	87.2354
	13,958	33,426,144	98.3122	12	573,856	1.6877	13,970	34,000,000	100.000

No. of Shares held	Resident			Non-Residents			Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individuals	13,891	2,522,344	7.4186	10	482,637	1.4195	13,901	3,004,981	8.8382
Institutions	67	30,903,800	90.8935	2	91,219	0.2683	69	30,995,019	90.1618
	13,958	33,426,144	98.3122	12	573,856	1.6877	13,970	34,000,000	100.000

3. MARKET VALUE

The market value of Kelani Valley Plantations PLC ordinary shares:

	2017/18	2016/17
Highest - Rs	100.00 (09 February 2018)	82.00 (29 March 2017)
Lowest - Rs	62.10 (29 March 2018)	48.70 (19 December 2016)
Period end - Rs	80.00	82.00

4. PROPOSED DIVIDEND

The first and final proposed Dividend of Rs.1/- per share is to be declared at the annual general meeting and payable on 04 July 2018. (2016/17- Rs. Nil/-)

5. SHARE TRADING

	2017/18	2016/17
Number of transactions	664	384
Number of shares traded	153,445	81,791
Value of shares traded (Rs.)	13,411,606.60	5,003,084.70

6. FIRST TWENTY SHAREHOLDERS AS AT 31 MARCH, 2018

	Name of Shareholder	No. of Shares as at 31.03.2018	%	No. of Shares as at 31.03.2017	%
1	DPL Plantations (Private) Limited	24,626,900	72.43	24,626,900	72.43
2	People's Leasing & Finance Plc /Mr. L P Hapangama	2,832,336	8.33	2,821,657	8.30
	Mr. L P Hapangama	400	0.00	400	0
3	Bank of Ceylon A/c Ceybank Unit Trust	2,200,790	6.47	2,139,927	6.29
4	Bank of Ceylon A/c Ceybank Century Growth Fund	525,784	1.55	486,521	1.43
5	M H L Holdings (Private) Limited	408,204	1.20	408,204	1.20
6	Mr. T T T Al-Nakib	307,322	0.90	343,122	1.01
7	Mr. H A A H Algharabally	150,000	0.44	150,000	0.44
8	Dr. D Jayanntha	113,000	0.33	113,000	0.33
9	Z G Carimjee	73,867	0.22	73,867	0.22
10	Mr. M I Abdul Hameed	70,600	0.21	70,600	0.21
11	Gampaha District Co-Operative Rural Bank Union Ltd.	66,300	0.20	66,300	0.20
12	Cargo Boat Development Company PLC	58,800	0.17	58,800	0.17
13	Mr. M M Udeshi & H M Udeshi	51,032	0.15	51,032	0.15
14	Mrs. R S L De Mel	50,000	0.15	50,000	0.15
15	Mr. K C Viganarajah	46,500	0.14	46,500	0.14
16	Harnam Holdings SDN BHD	46,219	0.14	46,219	0.14
17	HSBC International Nominees Ltd-SSBT-Deutsche Bank	45,000	0.13	45,000	0.13
18	Mrs. Z M Adamally	36,933	0.11	36,933	0.11
19	Peoples Leasing & Finance Plc/Dr. H S D Soysa & Mrs. G Soysa	20,780	0.06	-	-
20	Miss. F A Adamaly	20,000	0.06	20,000	0.06
21	Mr. G A Wickramasinghe	20,000	0.06	20,000	0.06
22	Dr. M E R Harrison	20,000	0.06	20,000	0.06
23	Miss. Z A Adamaly	20,000	0.06	20,000	0.06
Total		31,810,767	93.56	31,715,081	93.28

7. The percentage of ordinary shares held by the public was 27.57% (2016/17 - 27.57%) of the issued share capital as at 31 March 2018.
There were no non-voting shares as at 31 March 2018
Total number of Shareholders representing the Public Holding is 14,024.
Float Adjusted market capitalization Rs. 749,904,000/-
The company complies with option 5 of the listing rules 7.13.1 (a) - Less than Rs. 2.5 Bn.
Float Adjusted market capitalization witch requires 20 % minimum public holding.

Environmental Calculations

Energy Convers ion factors

Fuel	Factor measure	Conversion factor	Per unit energy (GJ)
Electricity		1 kWh	3.6 MJ
Diesel	Energy per Litre		Diesel (l) x e x f
	Density - Diesel	0.84 kgs/liter (e)	
	Energy	44.3 MJ/kg (f)	
	Energy	Diesel (l) x e x f	
Petrol	Energy per Litre		Petrol (l) x c x d
	Density - Petrol	0.75 kgs/liter (C)	
	Energy	43 MJ/kg (d)	
	Energy	Petrol (l) x c x d	
Fuel wood	Energy per m3		Firewood m3 x a x b
	Density - Firewood	325 Kg/m3 (a)	
	Energy	12.5 MJ/kg (b)	
	Energy	Firewood m3 x a x b	
LPG	Energy per kg		LPG(kg) x g
	Density - LPG	No need	
	Energy	47.3 MJ/kg (g)	
	Energy	LPG(kg) x g	

Glossary

FINANCIAL TERMS

Accounting policies
The specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting Financial Statements.

Accrual Basis
Recording revenues and expenses in the period in which they are earned or incurred regardless of whether cash is received or disbursed in that period.

Actuarial Gains and Losses
The effects of difference between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions.

Agricultural activity
Management by an entity of the biological transformation and harvest of biological assets for sale or for conversion in to agricultural produce or in to additional biological assets.

Agricultural produce
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 or loss.

AWDR
Abbreviation for Average Weighted Deposit Rate

AWPLR
Abbreviation for 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 assets

Borrowings/Debt
All interest-bearing liabilities such as Bank loans, overdrafts, long term loans, debentures, finance lease obligations.

Capital Employed
Total of 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
Abbreviation for the Institute of chartered Accountants of Sri Lanka

CAPEX
Capital Expenditure

CBSL
Abbreviation for Central Bank of Sri Lanka

CEA
Abbreviation for Central Environment Authority

CSE
Colombo Stock Exchange

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.

Consumable Biological Assets
The biological assets those that are to be harvested as agricultural produce or sold as biological assets.

Glossary Contd.

CSR
Abbreviation for Corporate Social Responsibility.

Current Ratio
Current assets divided by current liabilities. A measure of liquidity.

Current Service Cost
The increase in the present value of the defined benefit obligation resulting from employee service in the current period.

DCF Method
A method of valuing a project, company, or asset using the concepts of the time value of money. All future cash flows are estimated and discounted by using cost of capital to give their present values (PVs).

Debt to Equity Ratio
Borrowing divided by Equity

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
A financial instrument or other contract whose prices is dependent upon or derived from one or another underline asset.

Dividends
Distribution of profits to holders of equity investments.

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.

EBIT
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

EIR
Effective Interest Rate

Enterprise Value-EV
Market capitalisation plus Market Value of Debt, Minority Interest and Preference shares minus total Cash and Cash equivalent.

Enterprise Multiple-EM
Enterprise value divided by Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA)

EPS
Profit attributable to ordinary shareholders divided by the number of ordinary shares in ranking for dividend.

Equity
Shareholders' fund.

Equity Instruments
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.

ETP-Ethical Tea Partnership
An initiative in ethical sourcing approved by UK based tea packing companies to work in partnership with producers to demonstrate that ethical conditions exist within the tea industry.

EU
European Union

Financial Instrument
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Fair Value
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 or 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 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.

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 foreign exchange 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. An independent, non governmental, not for profit organisation establish to promote the responsible management of the world's forests.

Gearing
Proportion of total interest-bearing borrowings to capital employed.

Gearing Ratio
Interest bearing capital divided by total capital invested (interest bearing and non-interest bearing).

Interest Cover
Profit before tax plus net finance cost divided by net finance cost. Measure of an entity's debt service ability.

IAS
International Accounting Standards.

IFRIC
International Financial Reporting Interpretations Committee

IFRS
International Financial Reporting Standards.

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.

LIBOR
London Inter-Bank Offered Rate

m
Million

Market capitalisation
Number of shares in issue multiplied by the market value of a share at the period date

Market Value Added-MVA
The difference of market capitalisation and book value of share capital.

Mkg
Million kilo gram

MT
Metric Ton

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 SLFRS's

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

Glossary Contd.

Retirement benefits
-Present Value of a Defined Benefit Obligation
The present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

-Interest Cost
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.

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.

Return on Assets
Profit before tax plus net interest cost divided by total assets.

Revenue reserves
Reserves considered as being available for distributions and investments.

Revenue Sharing Model
A model developed by the estate itself to manage the land / labor ratio.

RPT
Abbreviation for Related Party Transactions.

Segments
Constituent business units grouped in terms of similarity of operations and location.

SLFRS / LKAS
Sri Lanka Accounting Standards corresponding to International Financial Reporting Standards.

SoRP
Statement of Recommended Practice

Subsidiary
An entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

SLAS
Sri Lanka Accounting Standards. Also known as LKAS and SLFRS.

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-FINACIAL TERMS

AGM
Annual General Meeting

BMF
Broken Mixed Fannings

COP
The cost of productions. This generally refers to the cost of producing per kilo of produce (Tea /Rubber)

CQC-QMS-Ceylon tea Quality Certification
Quality Management System

A legal declaration by the tea commissioner to a registered tea manufacture in modern quality management systems that the building, equipment and manner of operation of the tea factory are of excellent standard to manufacture made tea of good quality.

Crop
The total produce harvested over a given period of time (usually during a financial year).

CRTA
Colombo Rubber Traders' Association

ESG
Environment, social and Government

Extent In Bearing
The extent of land form which crop is being harvested

Field
A unit extent of land. Estates are divided into fields in order to facilitate management.

FLO- Fair trade Labeling Organisation *International*
A leading standard setting and certification organisation for labeling fair trade established in 1997 in Germany

GMP
Good Manufacturing Practices.

GSA
The gross sales average. The average sales price obtained (over a period of time, for a kilo of produce) before any deductions such as brokerage, etc.

GRI
Global Reporting Initiatives

Harvest
Detachment of Produce from a Biological asset or the cessation of Biological assets life processes.

HACCP
Hazard Analysis Critical Control Point System. Internationally accepted food safety standard.

Immature Plantation
The extent of plantation that is under-development and is not being harvested.

Infilling
A method of filed development whereby planting of individual plants is done in order to increase the yield of a given field, whilst allowing the field to be harvested

ISO
International Standards Organisation for Standardisation.

ISO 22000
International standard for food safety management system (FSMS) released by ISO in September 2005.

IUCN
International Union for Conservation of Nature.

Mature Plantation
The extent of plantation from which crop is being harvested.

NSA
The Net Sales Average. This is the average sale price obtained (over a period of time) after deducting brokerage fees, etc.

NIPM
National Institute of Plantation Management

PACE
Personal Advancement and Career Enhancement

Replanting
A method of field development where an entire unit of land is taken out of “bearing” and developed by way of uprooting the existing trees/bushes and replanting with new trees/bushes.

Seeding tea
Tea grown from a seed.

SLSPC
Sri Lanka Plantations Corporation

TASL
Tea Association of Sri Lanka.

Turnover Per Employee
Group turnover of the company for the year divided by the number of employees

TRI
Tea Research Institution

UTZ
Means ‘good’ in Mayan Language Quiche. UTZ certified is a sustainability program. It trains farmers how to produce sustainably improving their quality of life, environment and products. UTZ certified is working towards making tea sector sustainable.

VP tea
Vegetatively propagated tea.ie. Tea grown from a cutting of a branch of tea plant

Yield (YPH)
The average crop per unit extent of land over a given period of time (usually kgs. Per hectare per year)

5S
A Japanese management technique on the organisation of the work place.
5S stands for Seiri (Sorting), Seiton (organising), Seiso (cleaning), Seiketsu (standardisation), Shitsuke (Sustenance).

Notice of Meeting

NOTICE IS HEREBY GIVEN that the Twenty Sixth 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 22nd June 2018 at 10.00 a.m. and the business to be brought before the meeting will be:

AGENDA

1) To consider and adopt the Annual Report of the Board of Directors and the Statements of Accounts for the year ended 31st March 2018, with the Report of the Auditors thereon.

2) To declare a dividend as recommended by the Directors.

3) To re-elect Mr. A M Pandithage who retires by rotation at the Annual General Meeting, a Director.

4) To re-elect Dr. K I M Ranasoma who retires by rotation at the Annual General Meeting, a Director.

5) To re-appoint Mr. F Mohideen who retires having attained the age of seventy One years and the company having received special notice of the undernoted ordinary resolution in compliance with section 211 of the companies Act No.7 of 2007 in relation to his re-appointment.

Ordinary Resolution

6) That Mr. F. Mohideen retiring Director, who has attained the age of seventy one years be and is hereby re-appointed a Director in terms Section 211 of the Companies Act No 7 of 2007 and it is hereby declared that the age limit of Seventy years referred to in Section 210 of the Companies Act No.07 of 2007 shall not apply to the appointment of the said Director'.

7) To authorise the Directors to determine contributions to charities for the financial year 2018/2019.

8) 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 2018/2019.

To consider any other business of which due notice has been given.

Note :

1) 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 with Hayleys Group Services (Pvt) Ltd., Secretaries, No. 400, Deans Road, Colombo 10, Sri Lanka, by 10.00 am on 20th June 2018.

2) It is proposed to post ordinary dividend warrants on 4th July 2018 and in accordance with the rules of the Colombo Stock Exchange the shares of the Company will be quoted ex-dividend with effect from 25th June 2018.

By Order of the Board

KELANI VALLEY PLANTATIONS PLC
Hayleys Group Services (Private) Limited
Secretaries

Colombo
23rd May 2018

Form of Proxy

I/We* …….(full name of shareholder**)

NIC No./Reg. No. of Shareholder (**) ……………………………………………… of ……………………………………………………………………………
……………………………………………………………………………………
being Shareholder/Shareholders* of KELANI VALLEY PLANTATIONS PLC hereby appoint:

(1) ………(full name of proxyholder**)

NIC No. of Proxyholder (**) ……………………………………………………………… 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, speak and vote as indicated hereunder for me/us* and on my/our* behalf at the Twenty Sixth Annual General Meeting of the Company to be held on 22nd June 2018 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof:

		For	Against
1.	To adopt the Annual Report of the Directors and the Statements of Accounts for the year ended 31st March 2018 together with the Report of the Auditors thereon.		
2.	To declare a dividend as recommended by the Directors.		
3.	To re-elect Mr. A M Pandithage who retires by rotation at the Annual General Meeting a Director		
4.	To re-elect Dr. K I M Ranasoma, who retires by rotation at the Annual General Meeting a Director		
5.	To re-appoint Mr. F Mohideen, who retires having attained the age of seventy one years a Director by passing the ordinary Resolution set out in the notice.		
6.	To authorise the Directors to determine contributions to charities for the financial year 2018/2019.		
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 2018/2019.		

(***) The proxy may vote as he thinks fit on any other resolution brought before the Meeting of which due notice has been given
As witness my/our* hands this …………………… day of ……………………………2018.

Witnesses: Signature : ……………………………
Name : ……………………………
Address : ……………………………
NIC No. : ……………………………

……………………………………
Signature of Shareholder

Notes: (a) *Please delete the inappropriate words.
(b) A shareholder entitled to attend and vote at the Annual General meeting of the Company, is entitled to appoint a proxy to attend and vote instead of him/her and the proxy need not be a shareholder of the company.

** Full name of shareholder/proxy holder and their NIC Nos and Witness are mandatory. Your Proxy Form will be rejected if these details are not completed.
(c) A shareholder is not entitled to appoint more than one proxy to attend on the same occasion.
(d) Instructions are noted on the reverse hereof.
(e) This Form of Proxy is in terms of the Articles of Association of the Company.

Form of Proxy Contd.

INSTRUCTIONS AS TO COMPLETION :

1. To be valid, the completed Form of Proxy must be deposited with the Company Secretaries, Hayleys Group Services (Pvt) Ltd. at No.400, Deans Road, Colombo 10, Sri Lanka not less than 48 hours before the start of the Meeting.

2. In perfecting the Form of Proxy, please ensure that all requested details are filled in legibly including mandatory details. Kindly Sign and fill in the date of signing.

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. The proxy need not be a member of the Company.

4. Please indicate with an X in the space provided how your proxy is to vote on the resolutions. 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.

   In the case of the individual shareholders, the signature of the shareholder should be witnessed by any person over 18 years of age.

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.

7. In case of Marginal Trading Accounts (slash accounts), the form of Proxy should be signed by the respective authorised Fund Manager/ Banker with whom the account is maintained.

Notes

Notes Contd.

Corporate Information

GRI 102-01,03,05,06

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 March

STOCK EXCHANGE LISTING
The ordinary shares of the Company are listed with the Colombo Stock Exchange of Sri Lanka

STOCK CODE
KVAL.N0000

PRINCIPAL LINE OF BUSINESS
Producing and processing of Tea and Rubber

DIRECTORS
A M Pandithage - Chairman
Roshan Rajadurai - Managing Director
S Siriwardana - Chief Executive Officer
F Mohideen
S C Ganegoda
L T Samarawickrama
Dr. K I M Ranasoma
C V Cabraal
L N De S Wijeyeratne

SUBSIDIARIES
Kalupahana Power Company (Pvt) Ltd.
Kelani Valley Instant Tea (Pvt) Ltd.
Mabroc Teas (Pvt) Ltd.
Kelani Valley Resorts (Pvt) Ltd.

EQUITY ACCOUNTED INVESTEE
Hayleys Global Beverages (Pvt) Ltd.

AUDIT COMMITTEE
L N De S Wijeyeratne - Chairman
F Mohideen
C V Cabraal

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 OFFICE/HEAD OFFICE
400, Deans Road, Colombo 10, Sri Lanka
Telephone: (94-11) 2627700, 2686274-5 (2Lines)
Fax: (94-11) 2694216
E-mail: postmaster@kvpl.com
website: www.kvpl.com

BANKERS
Bank of Ceylon
NDB Bank
Sampath Bank
Hatton National Bank
DFCC Bank
Citi Bank
People's Bank
Amana Bank

AUDITORS
Ernst & Young
Chartered Accountants
No. 201, De Saram Place, Colombo – 10
Sri Lanka

TAX ADVISORS
Ernst & Young (Tax Department)
Chartered Accountants
No. 201, De Saram Place, Colombo – 10
Sri Lanka