INFINITE HORIZONS

Malwatte Valley Plantations PLC Annual Report 2013

Malwatte Valley Plantations PLC

CONTENTS

Vision & Mission 1
Malwatte Valley Plantations PLC at a Glance 2
Financial Highlights 3
Milestones 4
Chairman's Review 6
Board of Directors 10
Management Discussion and Analysis 14
Awards and Accolades 18
Sustainability Report 19
Corporate Governance 24
Risk Management 27
Audit Committee Report 30
Remuneration Committee Report 32
Directors Report 33
Directors Responsibilities 35

Financial Statements
Report of the Auditors 39
Income Statement 40
Statement of Comprehensive Income 41
Statements of Financial Position 42
Statement of Changes in Equity 44
Statements of Cash Flows 45
Note to the Financial Statements 47
Shareholders & Investors Information 93
Estates Managed by the Company 97
Notice of Meeting 98
Form of Proxy 99
Corporate Information IBC

VISION

Our vision is to become the model plantation company in the world through innovation, diversification and high quality standards.

MISSION

Malwatte Valley Plantations PLC is committed to achieve excellence and highest quality standards in every sphere of activity by optimizing productivity and developing its employees. We will become an increasingly profitable, stable and growth oriented model private Plantation sector securing a acceptable return on investment through its core business as well as by diversification into other sectors, whilst affording the highest priority for environmental and social needs.

Progress is a sequence of diligence and steady steps towards what we call a common goal. Shared by each member of our team, we have an outlook for the future that looks to the **infinite horizons** of possibility. And with a new year for Malwatte Valley Plantations PLC, we will continue to reap the benefits of our strategy of innovation and growth.

MALWATTE VALLEY PLANTATIONS PLC
AT A GLANCE

Malwatte Valley Plantations PLC produces high quality Tea from its Seventeen Tea gardens situated in three main agro climatic regions namely Badulla-Hali Ela, Bandarawela, Welimada. The Company on a continuous basis maintained market leadership for Tea prices in the Uva-High and Uva-Medium category through its modernized Tea factories namely Uva Highlands, Aislaby, Dickwella & Sarnia.

Our portfolio includes six well managed Rubber estates in the Avissawella Region, which contribute a major share to the company's profitability. These estates maintain the lowest cost of production in the Rubber Industry. The company has also diversified into cultivating Fruits and Spices.

During the year under review the company has commenced carrying out feasibility studies towards converting one of its factories in Hakkgala into a star class Tourist Hotel. We have already engaged a renowned Architect and hotel drawings are being finalised for necessary approvals.

The company has also invested in Real Estate business overseas in Melbourne, Australia. This new operation is being carried out by Prime Real Estate Australia (Pty) Ltd which is a fully owned subsidiary of Malwatte Valley Plantations PLC.

Manages

5,000
Hectares of Tea

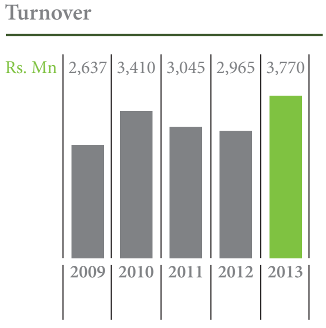
2,100
Hectares of Rubber

Workforce in excess of
10,000
personnel

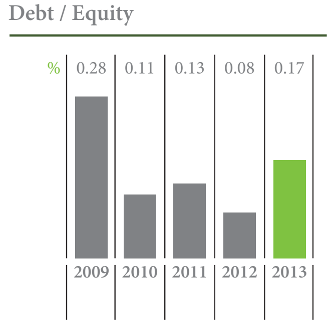
FINANCIAL HIGHLIGHTS

	2013 12 (Month) Rs. '000	2012 12 (Month) Rs. '000
Turnover	3,769,684	2,965,020
Gross Profit	426,867	400,372
Operating Profit	400,717	401,586
Gross Profit on Cost of Sales (%)	13.00	16.00
Gross Profit on Turnover (%)	11.00	14.00
Profit/Loss Before Tax	382,192	368,092
Taxation	(19,905)	50,355
Profit/Loss After Tax	402,097	317,738
Fixed Assets	3,485,474	2,818,303
Current Assets	1,631,968	1,014,574
Current Liabilities	651,120	523,485
Shareholders Fund	2,773,769	2,093,897
Capital Expenditure	123,594	177,869
Earnings Per Share (Rs.)	1.67	1.28
Net Assets Per Share (Rs.)	12.43	8.46
Dividend Per Share Rate (%)	7.50	5.00
Stated Capital	373,000	373,000
Capital Employed	4,466,322	3,309,392
Net Assets	2,773,769	2,093,897
Return on Capital Employed (%)	9.00	12.00
Market Capitalisation	971,263	1,156,774

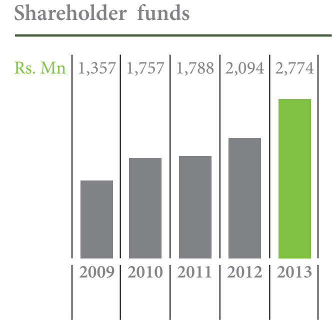
Turnover



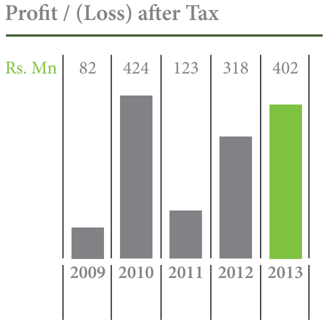
Debt / Equity



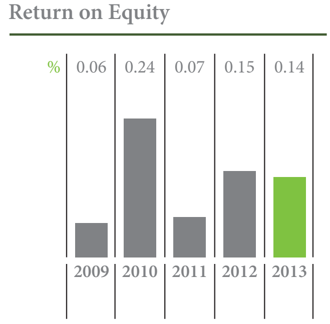
Shareholder funds



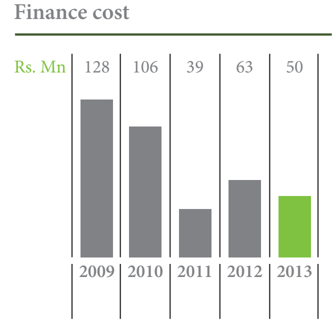
Profit / (Loss) after Tax



Return on Equity



Finance cost



MILESTONES

1992

22nd June 1992 Malwatte Valley Plantations (Pvt) Ltd was incorporated.

1992 to 1997

The Company was managed by Magpekc Agro Management Consultant (Pvt) Ltd.

1997

June 22nd 1997 the Company was converted to a Public quoted Company and Wayambea Plantations (Pvt) Ltd purchased 51% of its Share holding and managed the Company.

2008

- ISO 22,000 was obtained for all factories.
- Commenced export of Teas.

2009

March 2009 Purchased office Complex in Colombo, Dam Street, adding Real Estate to its Head office operations.

2010

August 2010 constructed a Modern High Tech Warehousing Complex to store tea stocks and house the tea export arm of the company.

2011

Ethical tea certification was obtained for all Tea Factories.

2012

- Commenced Rubber Exports.
- New Tea Blending equipment was installed in our stores complex to enhance our facilities.

2013

- Prime Real Estate Australia (Pty) Ltd., a fully owned subsidiary company was registered in Australia to commence real estate business.
- Hakgala closed tea factory has been planned to be converted to a Star Class Hotel.

CHAIRMAN'S REVIEW

We are proud of our growth and record profitability this year amounting to a net profit after tax of Rs. 402 million which is a 26.55% increase over last years net profit of Rs. 317.73 million.

Mr. W.L. Bogtstra
Chairman

I am pleased to present to you the Annual Report and audited accounts of Malwatte Valley Plantations PLC, for the financial year ended 31st December 2013.

Overview

Here at Malwatte Valley Plantations PLC, we have a vision of being an inspirational company. One that is committed to excellence in every task we undertake and as a business that has always placed great emphasis on creating close connections. We have built our model around honest and efficient people who have added to our success story and sustained us as a company and believe in the values of quality, ethics and team work which makes us unique in facing challenges that contributed to making us a good profitable model plantation company.

Your Company manages approx. 5,000 hectares of tea and 2,000 hectares of rubber and has a workforce in excess of 10,000 personnel.

Tea Sector

Sri Lanka was able to achieve a crop of 340.8 million kilos during the year 2013, which is an increase of 3.8 percent on the previous year. Sri Lanka tea exports notched up $1.54 billion, reflecting a 27.5 percent increase over the previous year. The volume stood at 319.66 million kilos, which was marginally down from 2012.

Your company was able to achieve a yield increase of 18 percent over the previous year, which is phenomenal.

The timely application of fertilizer, the implementation of good agricultural practices including use of Shears, the outsourcing of labour to harvest the available crop, and the whole hearted commitment of those administering the properties, all contributed to this achievement.

The prices of Ceylon tea moved to dizzy heights during the year and held its own amongst other producing countries. It was encouraging to see our teas attracting strong demand throughout the year, in spite of turmoil in the Middle East, which is a large consumer of Sri Lanka teas.

Tea export

The direct tea exports of your company saw a revenue stream of approximately Rs. 1.1 billion which is a growth of 99 percent over the previous year. The investment on upgrading our blending facilities has been amply rewarded.

Rubber Sector

The Rubber sector had to face a challenging year, on the face of a depressed rubber market which was affected by the ongoing global economic slowdown and the resultant fall in automobiles and tyre sales.

Sri Lankan rubber production amounted to approx.116 million kilos up to November 2013 as per available data as against 150 million kilos for December 2012. World rubber consumption in 2013 was 11.3 million tones whilst the production was 11.70 million tones which resulted in a excess. Rubber prices were below that of year 2012 almost throughout the year and peaked up marginally above Rs. 400/- per kilo. The prices at year end were low at Rs. 343/- per kilo for RSS 1.

We have planned a six year replanting programme over a large extent of our rubber hectarage with high yielding clones which will make your company one of the highest yielding amongst rubber RPCs. However this will also depend on the extension of our land leases from the government. Our rubber manufacturing costs are the lowest when compared with industry standards.

Rs. 5.12 Bn
Total Assets

Rs. 1.67
Earning per share

CHAIRMAN'S REVIEW *CONTD.*

Sustainability

We have integrated sustainable practice within every initiative of the company. All operational factories are ISO 22,000 food safety certified and are members of the ethical tea partnership. Your company manufactures some of the finest teas in the Uva province and has the distinction of being ranked number one in that district in relation to price .The company has won many awards during the year for the outstanding teas it has manufactured.

Diversification

Whilst we strengthen our position in our core business we are actively seeking for opportunities to diversify into new businesses that will help us propel our future income stream and deliver greater value to our share holders. We have in the year under review commenced a project in Melbourne, Australia to construct and sell Town houses. The first pilot project has commenced in Glenroy, East of Melbourne City.

We have also finalized architectural drawings to convert one of our silent factories which has been closed for a long period to a 60 roomed Three Star tourist hotel. We hope to commence this project during the current year after feasibility studies and approval process has been complete in Hakgala, which is in the Nuwara Eliya District.

We are also diversifying into Fruits and Spices. In Fruits we have cultivated approx. 50 hec of Citrus, i.e. selected Mandarin and Orange varieties and also Avocado. Our Spice Project targets 250,000 Pepper vines in Hali Ela. This programme has already received national recognition.

We are also evaluating a few more project proposals for acquisitions.

CSR

During the year we donated 217 spectacles and performed 48 Cataract operations in remote areas. We also helped in resupplying live Corals in the East-Coast. We have a Profit Sharing Scheme with our work force and executives. The executives are paid on a quarterly performance basis and these projects have had beneficial motivating results.

In spite of the plantation industry going through a turbulent year and increasing wages costing your company Rs. 223 million company recorded a Turnover 3.77 billion which is an increase of 27% over previous year.

Automation

In an effort to reduce dependency on labour, we are constantly looking for ways to automate and mechanize processes. In our factories. In this context we have commenced the automation of some of our factories. This has minimized human error and is delivering a far superior end product as well.

Financials

In spite of the plantation industry going through a turbulent year with a wage increase costing your company an additional Rs. 223 million in the form of additional wages, increased cost of fertilizer and electricity, we have due to the record tea prices obtained by our tea factories, efficient management and strict financial controls been able to record a net profit after tax of Rs. 402.00 million as against Rs. 317.73 million last year. This is a 26.55% per cent increase over the previous year The company turnover increased from Rs. 2.965 billion to Rs. 3.769 billion over the previous year which amounts to a 27 percent increase in turnover.

We are proud of our growth and achievements this year, yet we are mindfull of all the unrelenting competitive challenges that we face in the business and the industry.

Challenges in the form of increasing costs, fluctuating commodity prices, man power constraints and unpredictable weather, all contribute towards the drive for greater operational excellence.

Dividends

We always place confidence in our share holders and have annually distributed dividends. For the current year we propose a Dividend of 10% as against 7.5% last year, amounting to Rs. 0.100 per share.

Awards

We have won many industry awards which are detailed in the operational review. We are pleased to report that at the annual award ceremony of the institute of chartered accountants your company's quality and content of annual reporting was recognized through the award given by CA Sri Lanka for the 2012 Annual Report.

Acknowledgements

I wish to thank all our employees for their tireless work during a very difficult year. I also thank our buyers, brokers, bankers and all other stake holders for their continued support and my fellow directors on the board in managing our company towards another successful year.

Mr. W.L. Bogtstra
Chairman

Colombo
7th May 2014

BOARD OF DIRECTORS

1. Mr. Willem Lucas Bogtstra

(Chairman/Managing Director)

Mr. Willem Lucas Bogtstra was appointed as the Chairman and Managing Director of Malwatte Valley Plantations PLC in 1997 and has served on the Board for a continuous period of 17 years to date. He has During this period turned round the Company to be one of the more profitable Regional Plantation Companies in the country.

He commenced his career during 1951/52 as a Planter "Creeper" and has had an illustrious planting career. He also served on several Boards of companies dealing in Import/Export. He served as Chairman of the Planters Association Kurunegala and was a member of the Standing Committee on Rubber and Coconut of the Planters Association. He is presently one of its few life members. He was appointed to the panel of visitors to Rubber Estates of the Rubber Control Department in 1978.

He worked in the office of the renowned Visiting Agent Mr. J. W. Craig of James Finlay & Co. and gained valuable experience in monitoring estate budgets and estate management practices.

He also has wide experience in Livestock management having established a hybrid sheep farm of over 750 animals and was also one of the biggest suppliers of milk in the Kurunegala district to the Milk Board having established over 250 acres of improved pasture on Shakerley Estate, Kurunegala of which he was the precedent Managing Partner.

He initiated the concept of large scale private sector Sugar Plantations and successfully negotiated with the Government for the establishment of the first such project of 2,500 hectares, 500 tonnes of cane per day, factory with Dutch collaboration which was the precursor to Pelwatte Sugar.

During 1977 to 1980 he served as Executive Chairman of the Janawasama Commission and turned round many non profitable estates to become viable units. During his tenure, the Tea Industry recorded the first ever 4 figure price for a kilogram of Tea at the Colombo Auctions. In 1993 he was appointed CEO of Chilaw Plantations and was its CEO for 14 years managing approx. 13,500 acres of Coconut.

He was commissioned in the rank of Captain of the Sri Lanka Army (volunteer Force) during which time he established a 400 acre food crops farm to supply the CARE Organisation with their requirements of cereals for the Thriposha programme.

He has over 50 years of management experience, most of which is in the Plantation Sector.

2. Mr. Lucas Bogtstra

(Director Operations)

Mr. Lucas Bogtstra joined Malwatte Valley Plantations in 1998 and was appointed to the Boards of Malwatte Valley Plantations and its holding Company, Wayamba Plantations (Pvt) Ltd in 2003. He commenced his carreer with the John Keells Group in 1978 and has since served on many private sector boards. Apart from being a Planter, he also has vast experience in import, export, manufacture and trading.

He is responsible for setting up and managing the export arm of the Company in 2008 and it's modern warehouse complex at Wattala in 2009.

3. Mr. Thomas Randolph Gerlach

(Director)

Mr. Thomas Randolph Gerlach has had his law studies at University of Utrecht- Netherlands. He served a period of five years, up to 1986 as a Legal Aid Consultant in Legal Aid Association in the Hague, Netherlands. He has worked as Project Manager, Orveco B.V. Holland a company manufacturing Organic fertilizer for a period of eight years up to 1994.

He took over as Managing Director Dutch Plantin B.V. Holland a company marketing coir fibre dust worldwide. He is also a Director since 1994 of Seilaani Ltd, Sri Lankan company producing processed coir fibre dust "cocopeat".

During 2003 he joined Malwatte Valley Plantations PLC and is currently the Group Executive Director. He is also the Group Executive Director of Wayamba Plantations (Pvt) Ltd, the holding company of Malwatte Valley Plantations PLC.

BOARD OF DIRECTORS *CONTD.*

4. Mr. Sunil Noel Dharmaratna

(Director Finance)

Mr. Sunil Dharmaratna was appointed to the Board of Directors of Ms. Malwatte Valley Plantations PLC on 24th April 2013 as Director Finance.

Mr. Dharmaratna is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (ICA), Associate Member of Chartered Institute of Management Accountants (UK) – ACMA, Fellow and Founder Member of the Society of Certified Management Accountants, Sri Lanka (FSCMA), Associate member of the Chartered Global Management Accountants – (CGMA).

He has successfully completed the Hospitality Industry Advanced Professional Development Programme in Hotel Administration at Cornell University, New York (USA).

Also he served as a member of the Council of CIMA Sri Lanka Branch for a period of two years.

He counts 38 years of experience and expertise in the Financial, Plantation, Real Estate, and Leisure Sectors, and held key Management positions as Chief Accountant at Aitken Spence Hotel Management, Director Finance Hotel Management Division of John Keells Holdings Limited and Senior Vice President and Head of Finance at John Keells PLC.

He has also been involved in many CSR and community service projects in many parts of the country and is currently the Chairman of International Association of Lions Club International Multiple District 306 Sri Lanka.

5. Mr. K. A. S. Gunasekera

(Director)

Mr. K. A. S. Gunasekera joined the Sri Lanka Administrative Services in 1970 and has more than 38 years of experience in holding public sector Senior Management positions in various sectors, out of which twenty five years as secretary to eight ministries covering subject areas of public utilities, housing, justice, plantation management, environment, forestry, natural resources, urban development, sports parliamentary affairs, youth, cultural, information and broadcasting. After retirement in 2004 from public services he was appointed as chairman of public utilities commission for a period of four years.

He has assisted for more than 30 years in policy development; regulatory and institutional reform and development in the field of public utilities, urban infrastructure, environmental management and public administration in Sri Lanka. Provided leadership and guidance in initiating rural water supply policy and institutional framework and legal and institutional reform in the Water Sector introducing community and private sector partnerships. Involved in setting up of the Environmental Impact Assessment (EIA) Process and Environment Protection Licensing (EPL) System, making an amendment to the National Environmental Act and developing National Environmental Policy, Cleaner production Policy and Strategy, Solid Waste Management Strategy, Air Quality Monitoring program, Environmental NGO Forum, School Environmental Societies and Environmental Pioneering Brigade.

He also provided leadership in developing and managing World Bank funded environmental projects, legal and judicial reforms as well as ADB and JBIC funded Plantations Reform project and Plantation Development Project. He was appointed to the Board of Malwatte Valley Plantations PLC as a Director from 2009.

6. Mr. Frits Bogtstra

(Director)

Mr. Frits Bogtstra completed a degree in Electrical and Electronic Engineering at King's College University of London in 1978. In 1998 he finished a Master's degree in Business Administration with a focus on competitive strategy, international enterprise and corporate financial strategy.

He was active in the field of software development relating to engine test benches for manufacturing quality control and R&D, medical equipment and internal and external ballistics.

He has been working as a manager for a reputed German car manufacturer since 1986, with responsibilities throughout the field of software development and engineering, data centre management, supplier management and outsourcing/offshoring of IT operations.

In the field of corporate financial controlling, he developed controlling systems and processes for the efficient and cost optimised assembly of engines and associated logistics using just in time and just in sequence supply methods to minimise cost of capital bound by material in work.

He currently manages an international project dealing with the standardisation and rollout of business and IT processes for automobile sales and financial services worldwide.

7. Mr. Chamindra de Silva

(Director)

Mr. Chamindra De Silva is a Senior Chartered Accountant with over thirty years of post qualifying experience in industry and commerce. Currently he is the Chief Financial Officer at Alliance Finance Company PLC and immediately prior to joining the Alliance Finance Company, over a long period, he functioned as the Group Finance Director of Swedish Trading Group of Companies, a leading business conglomerate in the country. He is also an Independent, Non Executive Director of Malwatte Valley Plantations PLC, a leading Plantation company and functions as the head of its Audit Committee.

Mr. De Silva has been a former vice-president of the ACCA (UK)-Sri Lanka Branch and a member of the council of CIMA Sri Lanka branch, having completed both CIMA and ACCA examinations in the late 70s. He has also been a member of the Institute of Marketing UK, the Institute of management Services-UK and a recipient of the CIMA award for the Accounting & Information Systems in the Colombo University's MBA program 89/90.

He also has extensive experience in the field of managerial education specialising in the fields of Finance and Strategy and functioned over a decade as the course director for Financial Management in the prestigious MBA program University of Colombo. He has also been the chief examiner for Financial Management at the country's premier accounting body, the Institute of Chartered Accountant's of Sri Lanka and currently an active participant in the ICASL's graduate and post graduate management education.

8. Ms. Claudia A. Gerlach

(Director)

A national of the Netherlands, Ms. Claudia Gerlach obtained a bachelor degree in Hotel Management and Tourism from the Klessheim College of Tourism in Salzburg, Austria. From 1977 onwards, Ms. Gerlach has been active for 30 years in international freight forwarding and logistics. She held several Managing Director positions for international logistic service providers based in Europe. From 2009 Ms. Gerlach owns her own management consulting company, offering management consulting and interim management services. Her field of expertise is business strategy, general management and international logistics/supply chain management.

MANAGEMENT DISCUSSION AND ANALYSIS

Economic Growth

The economic output of Sri Lanka as measured by GDP for the year 2013 recorded as 7.3 percent growth while in the fourth quarter of 2013 economy grew at a significant 8.2 percent.

The Industry Sector led the growth at 9.9 percent year-on-year followed by the Services Sector at 6.4 percent. The weak performance of the Agriculture sector during the first half of the year due to extreme weather conditions dragged its annual growth rate down to 4.7%.

In Agriculture Sector Tea industry showed a modest growth of 3.6 percent year-on-year in 2013 while both coconut and rubber production declined by 14.2% and 14.5 % respectively.

Inflation

Year- on -year headline inflation reached inflation reached 4.7% in December 2013, while annual average headline inflation also decelerated to 6.9%. Year-on-year core inflation remained low declining to 2.1% in December 2013.

Sri Lanka has seen weak credit growth in 2013, allowing for inflationary pressures to be low. Several factors contributed to this decline including demand driven pressures reflected in core inflation levels falling to a record low level of 2.1% in December 2013. Sufficient agricultural supplies as a result of favorable weather conditions and global commodity prices resulted in the year end inflation which recorded 4.7% in December 2013.

Interest rates

Interest rates in the interbank call money market declined gradually in 2013 reflecting the easing of monitory policy. Average weighted deposit rate (AWDR) decreased by 73 basis point to 9.37% during the year from 10.10% at the end 2012 while Average weighted fix deposit rate(AWFDR) decreased by 143 basis points to 11.78% by end 2013 from 13.21% at end 2012.

Malwatte Valley Plantations PLCs own crop increased by 18% over the previous year to reach 4.6 Million Kgs.

External Sector

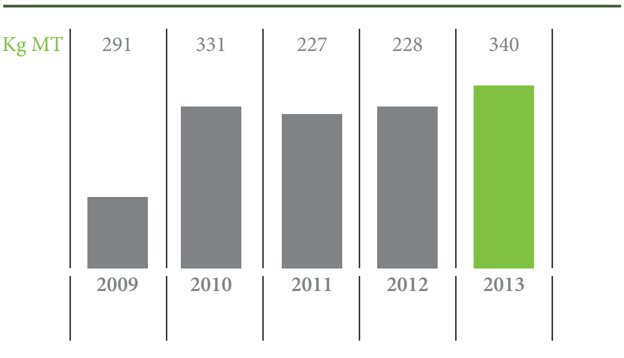
The deficit in the trade account contracted in 2013 with the increase in export together with the continued decline in imports. Earnings from exports, which contracted by 7.4% in 2012, increased by 6.4% in 2013. Contributing 61% to the overall export growth, industrial exports increased by 5.1% in 2013.

Earnings from agricultural exports increased by 10.7% in 2013, mainly due to the strong growth in the export of Tea and spices. Ceylon tea commanded premium prices in the international market due to high quality of products.

Expenditure on imports in 2013 declined by 6.2% while that of non fuel imports declined by 3.2%.

Tea

Sri Lanka Tea Production



Sri Lanka's tea production of 340.2M/kgs is an all time record for the period January-December 2013, surpassing the previous best of 331.4M/kgs achieved in 2010. This also shows a gain of 11.8M/kgs compared to 328.3 of 2012, statistics from the Tea Board showed.

The highest increase was recorded in medium grown (6.8%), followed by low grown (3.1%) and High grown (2.6%).

Category	2009	2010	2011	2012	2013
Elevation					
High	73.0	79.1	78.2	73.6	75.6
Medium	45.0	56.1	52.6	52.6	56.2
Low	173.0	196.2	196.7	202.1	208.4
Total	**291.0**	**331.4**	**327.5**	**328.4**	**340.2**

Company's Tea Sector

Crop patterns were less volatile than the previous year due to a less erratic weather pattern this year than last year. The month of May recorded the highest crop for the month followed by April, and the production was lowest in February and January respectively.

Field development, a key priority in the investment plans of the company to increase the agricultural potential, has received large investments in the recent past.

The timing of agricultural operations such as harvesting, fertilizing and pruning was undertaken to optimize crop and quality.

Malwatte Valley Plantations PLC own crop increased by 18% over the previous year to reach 4.6 Million Kgs.

Tea Prices

Sri Lanka had an extraordinary year, with prices for Ceylon Tea moving on their own and seemingly out-of-sync with the rest of the world. Sri Lanka's unique range of orthodox black teas attracted strong demand throughout the year; even as some of the county's key markets such as Iran, Syria and Libya were in turmoil. Additionally Egypt, a major buyer of African Black Teas, went through a bad patch politically and economically.

Average prices of high, medium and low grown tea increased by 7% (year-on-year) to Rs. 406 per Kg, 18% to Rs. 416 per Kg and 15% to Rs. 471 per Kg , respectively.

MANAGEMENT DISCUSSION AND ANALYSIS *CONTD.*

Rubber Sector

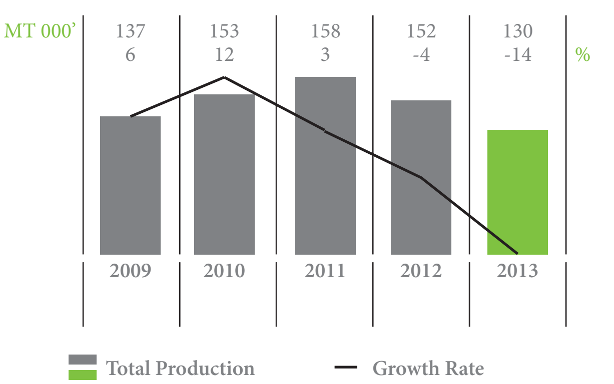
Sri Lanka's rubber growers are being hit by falling world prices with production volumes also dropping due to extremely poor weather conditions.

Rubber production declined by 14.2% to 130,421 metric tons in 2013 compared to the previous year. The decline mainly resulted from a significant drop in production of latex crepe by 58% to 15373 metric tones in 2013.

The performance of the Company's Rubber sector during the year under review was somewhat disappointing with the yield of 669 Kg per ha, reflecting a decrease of 8%, on the previous year.

Company's rubber production has decreased by 6% to 1.3 Mn Kg in 2013 as compared to 1.38 Mn Kg in the previous year.

Sri Lanka Rubber Production

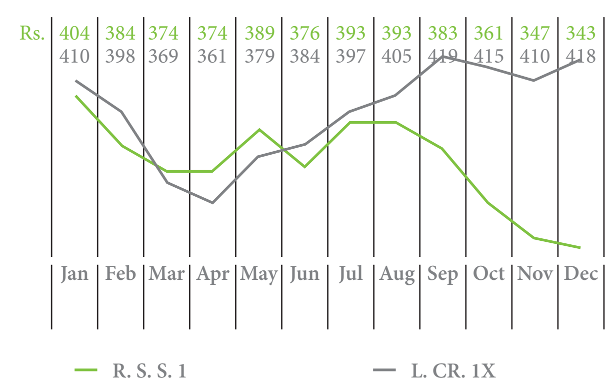


Rubber Prices

China, the largest consumer in the past four years, found its economy slowing down and due to the fact that they were overstocked, prices had to slow down. Sri Lanka latex crepe reached record highs of 600 rupees a kilo in 2011 but ended 2012 at 385 rupees and remained around 400 rupees in 2013.

In 2013, at the Colombo Rubber Auctions, the average price of Ribbed Smoked Sheet 1 (RSS1) and Latex Crepe 1x declined (year-on year) by 10% to Rs. 377 per kg and by 3% to Rs. 397 per Kg, respectively.

Sri Lanka Rubber Production



Our People

Category	2013	2012
Senior Management	13	13
Planting Executives	54	57
Head office Staff and other officers	66	60
Estate Staff	352	362
Labourers	9,164	9,839
Total Employees	**9,649**	**10,334**

People are an intrinsic part of our business and we have always strived to consistently provide a sustainable economic performance and growth to each and every one of our stakeholders.

There in turn they have benefited in numerous ways through the wealth creation of our company which validates the trust they have placed with us for many years.

The company is committed to a comprehensive programme to ensure the occupational health and safety of its staff, which is embodied in its health and safety policy.

Employees of all different categories receive training in all aspects of occupational health and safety. Medical centers with qualified health and medical staff in attendance are available on our estates; and ambulances are located at strategically placed estates.

Our company considers training and development of its employees as being of the most fundamental importance to sustain its continued competitive advantage as Sri Lanka's leading producer of black and green tea. The cornerstone of our training and development programme is the development of the skills and competencies of our workers, staff members and executives.

Comprehensive and multi - layered training programs have been undertaken on the job, in - house and externally to ensure the achievement of these training goals by all levels of employees with the overall aim of increasing and maintaining the company's competitive advantage in terms of quality and sustainability.

AWARDS AND ACCOLADES

International Certifications

- **North American specialty competition**
  St. James - Gold
  Sarnia Estate - Silver

- **Japanese Specialty Award**
  Sarnia Estate - Silver
  Aislaby - Bronze

- **Russian Specialty Award**
  Dickwella - Silver

Annual Report Award Ceremony - 2013

We are pleased to report that at the annual award ceremony of the Institute of Chartered Accountants 2013 your companies quality and content of annual reporting was recognized through the award given by the Institute of Chartered Accountants of Sri Lanka for the 2012 Annual Report. Mr. Sunil Dharmarathna, Finance Director received the award on behalf of the Company.

Awards received - 2013

- All Time Record Price to BOP 1 - Dickwella Estate
- All Time Record Price to FBOP/FBOP 1 - Sarnia Estate
- All Time Record Price to PEK/PEK 1 - Dickwella Estate - St James Mark
- Best Performing RPC to High Grown / Rank No 2 - Malwatte Valley Plantations PLC
- Best Performing RPC to Medium Grown / Rank No 2 - Malwatte Valley Plantations PLC
- Best Performing RPC to Over all / Rank No 3 - Malwatte Valley Plantations PLC
- Highest Agro Climatic Average to Hali Ela - Dickwella Estate
- Highest Agro Climatic Average to Malwatte/Welimada - Uva Highlands Estate
- Highest Elevational Average to Uva Medium - Dickwella Estate
- Highest Improvement in Sale Average to Uva Medium - F & W Catalogue - Sarnia Estate
- Highest Improvement in Sale Average to RPC Category- Third Highest - Malwatte Valley Plantations PLC
- Highest Improvement in Turn Over to Uva Medium - Sarnia Estate
- Highest Improvement in Turn Over to RPC Category - Second Highest - Malwatte Valley Plantations PLC
- Highest Sale Average Regional to Medium Grown - Silver Award - Dickwella Estate
- Most Number of Top Prices to Uva Medium - Dickwella Estate

SUSTAINABILITY REPORT

Summary of Corporate Social Responsibility Programmes

A plantation is much more than a simple unit of production. Malwatte Valley Plantation PLC through its Corporate Social Responsibility Programmes is committed to fostering, nurturing and developing the untapped live forces of these communities, to achieve its integration with its neighbours outside of the Plantation Sectors, and achieve its full potential.

The company has carried out eye screening camps with Lions Gift of sight hospital Lion's district 306A1 Panadura in the Awissawella Region in the rubber plantations. A total of 650 persons from the village were screened and 217 new spectacles have been donated to the Villagers and 48 cataract operations have been completed. This is an ongoing process throughout the year.

During the year 2013 all the estates engaged in a number of rural community development projects to enhance the livelihood and living standards of our people. Some of them are construction of new housing schemes, sanitation and water schemes for the estate workers, cultural and religious activities, organizing recreation activities, providing free medical facilities for our estate community including children and pregnant mothers, stationary and sanitary facilities for the estate children.

Infrastructure Development

Estate	Activity	Units
Talduwa	Concrete road	1

Estate	Activity	No. of Units
Moralioya	Renovation to E-Kiosk	1

2013 New Latrines for Estate Employees

Estate	Activity	No. of Units
Talduwa	Latrines	20

"New Life Housing " Moralioya Estate

Estate	Activity	No. of Units
Moralioya	New houses	20

SUSTAINABILITY
REPORT *CONTD.*

Beneficiaries meeting at Moralioya Estate

2013 Re - Roofing

Estate	Division	Activity	No. of Housing Units
Chesterford	Chesterford	Re-roofing	2
Moralioya	Hathmatte	Re-roofing	2
Moralioya	Moralioya	Re-roofing	7
Moralioya	Troy	Re-roofing	1
Total			**12**

Health Activities

Activity	Beneficiaries	Outcome / Objectives
Distribution of Free Grant Drugs to Estates	Estate Community	Drugs to the value of Rs. 73,648.84 were distributed in the phase I & II programme for a better healthy life of the estate worker community

Malwatte Valley Plantations PLC	Drugs Value Rs.
Chesterford	12,885.78
Moarlioya	22,314.45
Sunnycroft	13,864.45
Vincit	12,245.78
Total	**61,310.46**
Vincit	12,338.38
Total Value	**73,648.84**

Donation of “ Walking Aid “ Sunnycroft Estate of Malwatte Valley Plantations PLC.

On identification, of disabled persons in the Region, we were able to facilitate in handing over a “ Walking Aid “ to Estate residents (formally an Estate worker) who is disabled at present for strengthening their healthy condition in attending to their day to day activities.

Prevention of Child Abuse in Plantation Sector

Ministry of Child Development & Women’s Affairs jointly with Malwatte Valley Plantation PLC conducted 02 Days Residential Programme on “ prevention of Child Abuse “ for Plantation Family Welfare Officers at SANASA Campus Hettimulla 21st & 22nd February 2013.

- A programme to participate for the Estate Health Staff conducted by the Ministry of Child Development & Women Affairs to were at the same venu.

SUSTAINABILITY REPORT *CONTD.*

A programme to implement proposals of the L. L. R. C. ensuring and promotion of Srilankan women rights and stepping up to " End violence against women" as organized by the Nation Committee on Women - Ministry of Child Development and Women Affairs was carried out jointly with Malwatte Valley Plantation PLC.

Cataract operations sponsored by Malwatte Valley after being operated at Lions Panadura Hospital.

EWHCS with the By-Laws Awareness programme

Awareness programme on conduct of EWHCS with the By-Laws for EWHCS Secretary's & Treasurer's - RTC PHDT Kegalle on 29th January 2013.

Strengthening of womens in estate sector

Awareness on " House Hold Cash Management " & Income Generating activities

CORPORATE GOVERNANCE

Corporate Governance is about the way in which the Board oversees the managing of a Company by its managers, and how Board Members are in turn accountable to shareholders and the Company.

Corporate Governance influences how the objectives of the Company are set and achieved, risks identified and managed and organisational performance optimised. The Board of Directors ensures that all activities of the Board are conducted upholding the highest standards of transparency, accountability and ethics.

The Company is primarily guided by the Code of best practices on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and the Listing Rules of the Colombo Stock Exchange on Corporate Governance. This report sets out the Company's Corporate Governance practices.

The Board of Directors

The Board of Directors comprise of eight Directors including the Chairman/Managing Director. The Company believes that the present composition of the Board has at its disposal, a vast reservoir of knowledge and experience in all areas of the Company's operations and the names of the Directors are given on page 33 of this report.

The Board meets at least four times each year and in addition a regular update takes place in the months when no formal meeting is scheduled. The agenda for each Board meeting is set by the Company Secretary in consultation with the Chairman. Board members receive a monthly report of the Company's activities which incorporates an update on progress against objectives and the management of business risks.

The Board Directors are responsible for;

- Providing direction and guidance to the Company in the formulation of its strategies, with emphasis on the medium and long term in the pursuance of its operational and financial goals
- Implementing and monitoring of such strategies.
- Reviewing and ratifying systems in operation relating to risk management, internal control, codes of conduct and compliance with the laws, statues and regulations.
- Reviewing monitoring and ratifying all capital expenditure, acquisitions and divestitures.
- Monitoring senior management performance
- Overseeing Systems of Internal Control and Risk Management
- Ensuring that due attention is given to annual and interim financial statements prior to Publication
- Determining the quantum of the final dividend for approval by the shareholders.
- Approving and monitoring financial and other reporting
- Monitoring Systems of Governance and Compliance

The Board in discharging its duties seeks independent professional advice from external parties when necessary at the Company's expense.

The Company Secretaries advise the Board on matters relating to the Companies Act, Colombo Stock Exchange regulations and other applicable rules and regulations and ensures appropriate, timely and accurate information is submitted to the Board and its committees.

All company directors bring independent judgment to bear on issues of strategy, performance, resources, key appointments and standards.

New directors receive a full introduction to the Company. This consists of information covering the operations of the Board as well as meetings with the Board, Chief Executive and other Executive Directors. All Non-Executives have direct contact with the Company's senior executives between Board meetings and also visit the Company's operations in order to familiarise themselves with its activities and to meet and engage with staff.

Board Composition

The Board currently comprises of the Chairman, three Executive Directors and four Independent Non-Executive Directors. The Board functions effectively and efficiently and is considered to be of an appropriate size. The directors provide the Company with the knowledge, mix of skills, experience and networks of contacts required. The Board Committees comprise of directors with a variety of relevant skills and experience so that no undue reliance is placed on any individual.

The Non-Executive Directors combine broad business and commercial experience with independent and objective judgement. The balance between Non-Executive and Executive Directors enables the Board to provide clear and effective leadership and maintain the highest standards of integrity across the Company's business activities.

Company Information

The Board recognizes that the decision making process is highly dependent on the quality of information furnished. As such, all Directors have full and unrestricted access to any information pertaining to Malwatte Valley Plantations PLC.

The Chairman plays a key role in ensuring that all Directors have full and timely access to information relevant to matters that will be deliberated at the Board meeting. The agenda and set of Board papers are circulated in advance of the Board meetings. A comprehensive balance of financial and non-financial information is encapsulated in the papers covering strategic, operational, financial, regulatory and marketing issues.

All Directors have access to the advice and services of the Company Secretary, who ensures that the Board receives appropriate and timely information for its decision-making, that Board procedures are followed and the statutory and regulatory requirements are met. The Secretary also assists the Chairman in ensuring that all Directors are properly briefed on issues arising at Board meetings. The Board believes that the current Company Secretary is capable of carrying out the appropriate duties to ensure the effective functioning of the Board while the terms of appointment permit the removal and appointment by the Board as a whole.

Appointment of Directors

There is a clear and transparent procedure for the appointment of Directors to the Board. The Articles of Association of the Company empower the Board of Directors to either fill a casual vacancy in the directorate or appoint additional directors. In terms of the Articles of Association any Director appointed by the Board holds office until the next Annual General Meeting at which he seeks election by the shareholders.

Management Committee

The Board of Directors devotes adequate time to the fulfillment of their duties as Directors of the Company. The Board has delegated the day to day operations of the Company and the group to the Management Committee. The Management Committee is chaired by the Managing Director who is also the Chief Executive Officer, and meets once a month. The committee comprises of Heads of Divisions such as Plantation, Finance, Marketing and Legal.

The functions of the Management Committee are to innovate, develop, implement and review the strategies in order to achieve the corporate objectives and discuss matters in relation to the operational activities of the Company.

Directors Remuneration

The total remuneration of the Directors is disclosed in Note 9 to the Financial Statements.

Accountability and Audit

The Statement of Director 's Responsibilities are presented on Page 35 of the Annual Report.

The Board has implemented a sound system of internal control and Risk Management to safeguard the shareholders investment and the Company's assets. The details of the Company's Risk Management system are provided on Page 27 of this Annual Report.

CORPORATE GOVERNANCE *CONTD.*

Audit Committee

The Audit Committee consists of the following members:
Mr. G. C. de Silva
Mr. K. A. S. Gunasekera

Two of the above are Non-Executive Directors of the company have a wide experience in Plantation and Finance enabling them to have a sound control over operations as well as the finance.

Objectives of the Internal Audit Committee

Audit Committee was set up with the following objectives while keeping in line with the objectives defined by the Securities and Exchange Commission.

- To evaluate internal control procedure with close liaison with internal auditors and ensure smooth operation with a sound control over the operations.
- Continuous implementation of improvements and corrective action on deviations observed by internal auditors and monitoring the success of implementation.
- Analytical review of the business risks towards the Company and making sure sufficient risk management techniques are in operation based on observations.
- To ensure that the Company adheres to all statutory compliance and carries out the operation in accordance with commercially and ethically accepted management practices.
- Enhancing the public confidence in the credibility and objective of financial statements.
- Ensure the greater independence of internal and external auditors and providing autonomous reporting system.

The Audit Committee also assists the Board of Directors to maintain the stewardship responsibilities towards shareholders.

Activities of the Audit Committee

- Review the compliance with corporate governance requirements.
- Advising and suggesting scope and responsibilities of internal audits.
- Assisting in conducting investigations.
- Liaison with Internal and External Auditors.
- Assessing and commenting on all financial reports internal and external, audit findings.
- Communication with Directors and Managers on further investigations on audit findings before corrective action.
- Implementation of corrective action required and follow-up on success of implementation.

Compliance

The Board is conscious of its responsibility to shareholders, the Government and the Society in which it operates and is unequivocally committed to upholding ethical behavior in conducting its business. The Board strives to ensure that the Company complies with the laws and regulations of the Country.

RISK MANAGEMENT

The Company operates in an evolving environment which exposes it to different types of risks especially being in the Agricultural Sector which is very sensitive to Weather patterns. An effective risk management system is an important area of business management which would attempt to prevent many events which would otherwise have adverse effects on the business.

Risk Management Process

The Risk Management Process is designed to ensure identification of any circumstances that would adversely affect the goals of the Company. Our Risk Management Process ensures that we accept or manage unavoidable risks and uncertainties are minimised. The Company has a systematic process of risk management that is aligned with its strategy. The Main Risk factors falls into three categories namely Strategic Risk, Financial Risk and Operational Risk

1. Strategic Risks

1.1 Wage Structure *(Rating HIGH)*

Trade Unions Play an active role in determining wages. The wage structure is not aligned to worker productivity. Every two years when wages are revised as per the collective agreement it affects the cost of production and gratuity liability substantially there by the competitiveness and profitability. Risk management strategies in place are as follows;

- Increase land and worker productivity
- Optimise labour deployment and maximise productivity
- Motivate employees through better HR practices
- Continuous dialogue with Trade Unions and workers in order to bring wage structure in line with productivity

1.2 Impact of Climate Change *(Rating HIGH)*

Crops are seasonal and subject to changes in weather. The loss of crop and quality of the harvest affect the market share, earnings and profitability. In order to mitigate this risk, the Company has adopted soil and soil moisture conservation methods, soil improvement, intercropping, crop diversification and establishment and management of shade trees, selection of suitable lands for new planting or replanting, use of drought and heat tolerant cultivars.

1.3 Business Risk *(Rating MODERATE)*

Non implementation of Revenue enhancing and Cost saving measures, Strategic Plans and Initiatives on profitable investments results in reducing future growth of the Company reducing revenue, cash flow and profitability.

In order to mitigate business risks the Board of Directors and the management committee hold regular meetings to formalise strategies and plans for the future. The use of Best Practices in Agriculture and Company Diversification Policy also contributes in mitigating business risks.

1.4 Political and Environmental Risks *(Rating HIGH)*

Political and Economic upheaval in key markets and volatility of the world economy causes rapid fluctuations in Tea prices.

The main risk factor is that fluctuating prices affect profitability and reduce profit margins.

In order to mitigate these risks the Company focuses mainly on producing quality Teas and has been very successful in the Uva Regions where Malwatte Valley Plantations obtains the highest averages on a continuous basis and also its factories output is maintained at high volumes with the increased market high prices in the Uva Region.

In order to mitigate risks further the Company converts low yielding Tea lands to cultivate subsidiary crops.

Rubber extents are being increased and rubber Re-planting is given a prominent place with the Company maintaining a very low cost of production when compared with industry norms.

RISK MANAGEMENT *CONTD.*

2. Operational Risk

2.1 Product Quality *(Rating MODERATE)*

Non maintenance of product Quality lowers Demand

This results in buyers curtailing purchases and looking for new suppliers. This will drop market prices and erode market share.

In order to mitigate these risks the Company maintains a regular dialogue with buyers and brokers to obtain feedback, and take prompt and corrective action on Broker Reports.

Also the Company on a continuous basis improves its manufacturing processes both in Tea and Rubber to produce quality products.

2.2 Human Resource *(Rating MODERATE)*

Reduction in resident manpower, low productivity, immobility within estates / between estates and difficulty in retaining management / supervisory staff.

Lack of Human Resources will make it difficult for the Company in achieving the targeted crops. If there are work disruptions to operations and performance it will affect productivity and profitability.

In order to mitigate these risks, the Company maintains a close Dialogue with employees, staff training and development programmed are in place to improve performance, determine remuneration in line with the Industry Several programs are in place to uplift the living standards of employees and their families. These have resulted in a better relationship with the workforce. The Company has performance oriented reward schemes to motivate staff and labour force. This helps high performers to improve earnings which motivate them further.

2.3 Reputation Risk *(Rating MODERATE)*

Reputation risk refers to compliance of legal and statutory requirements and ethical practices as well as maintaining loyalty and trustworthyness among stakeholders.

These risks will result in the Company losing of reputation, fines and even litigation.

In order to mitigate these losses, the Company ensures highest standards of business conduct in adopting a code of Corporate Governance by all employees, senior management and Board of Directors. Seek expert legal advice to incorporate risk mitigatory clauses in drafting legal contracts and agreements. Maintain effective Internal Control Systems to minimise fraud and error. Close dialogue with Golden Shareholder. Membership in Employers Federation, Ceylon Chamber of Commerce and Planters Association of Ceylon.

2.4 Risk of Land Acquisitions *(Rating LOW)*

The Company is exposed to the risk of acquisition of productive land for public purposes. These are as far as possible resolved by discussion and negotiation to minimise losses. Compensation claims are lodged for any lands acquired.

3. Financial Risk

3.1 Liquidity *(Rating MODERATE)*

Sufficient working capital including readily available funds is crucial for the Industry.

The risk arises in the event of inadequacy of funds that affect sustainability of operations, leading to funding at higher costs or postponement of other important investments.

In order to mitigate these liquidity risks the Company maintains cash flow and budgetary controls system for effective monitoring, priorities capital investments and borrowings are planned within the Company's ability to repay.

3.2 Credit Risk *(Rating MODERATE)*

The Company sells most of its produce through the auction mechanism. There is satisfactory system to control and maximise the recovery of debts arising from direct sales as there are stipulated settlement dates for auction produce. Direct exports are usually covered by letters of credit or bank drafts.

3.3 Finance Costs *(Rating MODERATE)*

This mainly refers to high finance costs resulting from fluctuating Interest rates.

Finance costs bring direct impact on profitability and cash flows.

In order to mitigate these losses the Company has resorted to concessionary funding from available sources. The Company fully utilised the ADB credit Line and E-Friends scheme of HNB,at lower interest cost. The Company also obtained multi facilities from various banks so as to ensure maximum advantage from varying terms offered by different financial Institutions.

3.4 Foreign Exchange Risk *(Rating HIGH)*

This affects Companies' profitability with fluctuating exchange rates.

This affects the Companies exports.

In order to mitigate the losses, exchange rates movement are monitored and outlook is closely followed in respect of currencies in which the company carries exposure. Tea Exports have a direct exposure in respect of this risk which the Company closely monitors.

AUDIT COMMITTEE REPORT

1. Composition

The Board appointed Audit Committee of Malwatte Valley Plantations PLC of consists Two members, Mr. G. C. De Silva and K. A. S. Gunasekara both of whom are Independent Non Executive Directors. Mr. G C de Silva who is the Chairman of the committee is a Fellow member of the Institute of Chartered Accountants of Sri Lanka and a Associate member of CIMA and ACCA. The Company secretary functions as the secretary of the Audit Committee.

2. Role of the Committee

The committee operates within the 'Terms of Reference' formally approved by the Board which defines its objectives and responsibilities. The role and functions of the committee are further regulated by the 'Rules on Corporate Governance' of the listing rules of the Colombo Stock Exchange. The key objective of the committee is to assist the Board of Directors in discharging its responsibilities towards all stakeholders and to ensure that sound corporate governance practices are upheld within the Company. The committee is empowered among other things to examine any matters relating to the financial affairs of the Company, review any activity within the company review the adequacy of internal controls adherence to statutory and regulatory requirements, ensuring the objectivity and the independence of external and internal auditors, business risk assessment and adherence to accounting policies.

3. Meetings

During the financial year ended 31/12/2013, the committee held three meetings. The Managing Director, Director Finance, Deputy Director Finance attended all audit committee meetings by invitation. When required, other senior officers of the Company are invited to attend these meetings. The proceeding of the Audit Committee are regularly reported to the Board of Directors.

4. Financial reporting

The management has the primary responsibility for the financial statements and the reporting process. The Audit Committee oversees the Company's financial reporting process to ensure the reliability of the information provided to the stakeholders. In this context, the committee receives, discuss and reviews with the management and the internal and external auditors the quarterly interim financial statements and the annual report and accounts prior to their issuance. The committee focuses on the responsibility of the key judgments and estimates in the preparation of financial statements, appropriateness of significant accounting policies adopted in preparation of financial statements and the extent of compliance with the Sri Lanka Accounting Standards and applicable disclosure requirements.

5. Statutory and regulatory compliance

A procedure has been laid down for reporting on the statutory compliance of the company. Such reported exceptions are followed up to ensure appropriate corrective action. Due compliance with all requirements is monitored through this process.

6. Internal Audit

The Audit Committee exercises oversight over the internal audit function. The committee approved the annual internal audit programme and reviewed the reports by internal auditors concerning operational issues and effectiveness of internal control systems. These reviews examined the management responses for the issues raised as well as the implementation of agreed recommendations.

7. Corporate Governance

The committee also reviewed the level of compliance with corporate governance rules as per Sec. 7.10 of the Listing Rules of the Colombo Stock Exchange and is satisfied that the Company has complied with all mandatory requirements of this code.

8. External Audit

The external auditors were given adequate access by the committee to ensure they had no cause to compromise their independence and objectivity, prior to commencement of the Annual audit.

The Audit Committee also reviewed the external auditor's management letter of the previous year together with the management's responses thereto. The committee has also received a declaration from the external auditors as required by the Companies Act No. 07 of 2007, confirming that they do not have any relationship or interest in the Company which may have a bearing on their independence.

The Audit Committee has recommended to the board that Ernst & Young be re- appointed as statutory auditors for the financial year ending 31 December 2014 subject to the approval by the shareholders at the forthcoming Annual General Meeting.

9. Conclusion

Based on the review of reports submitted by the external and internal auditors and the information received during the deliberations, the committee is satisfied that the internal controls and procedures in place are adequately designed and have been operating effectively to provide reasonable assurance that the Company's assets are safeguarded and that steps are being taken to continuously improve the Internal control environment maintained within the Company. The committee is also satisfied that the financial position of the Company is regularly monitored and that the Company has adopted appropriate accounting policies and that the financial statements of the Company are reliable.

Chamindra de Silva
Chairman - Audit Committee

Colombo
7th May 2014

REMUNERATION COMMITTEE REPORT

The Remuneration Committee consists of two Independent Non- Executive Directors including the Chairman of the committee. Mr. K.A.S.Gunasekara who counts more than 38 years of experience in the Sri Lanka Administrative Services and has worked in many Government Ministries as the Secretary. The Managing Director assists the Committee by providing all relevant information and participating in its analysis and deliberations, except when his own compensation package is reviewed.

The Committee is responsible for determining the compensation package of the Director/CEO. In addition, they lay down guidelines and parameters for the compensation structure of the management staff of Malwatte Valley Plantations PLC.

The Company Policy on remuneration packages is to attract and retain the best professionals and an experienced workforce, and motivate, encourage and reward high performers. The Company's structured performance evaluation methodology ensures provision of compensation appropriate for the Company and commensurate with each employee's level of expertise and contribution bearing mind the performance of the business and shareholder returns.

In carrying out its tasks the committee reviewed data concerning all categories of staff among comparable companies.

The committee will meet from time to time and review the Company's compensation structure to ensure alignment with strategic priorities and with compensation offered by comparable companies.

Succession plans to which remuneration can be aligned have been defined. Steps have also been taken to align pay with performance, based on the performance management system within the Company.

K. A. S. Gunasekara
Chairman - Remuneration Committee

Colombo
7th May 2014

DIRECTORS REPORT

Share Capital
The total issued and paid-up ordinary shares capital of the Company as at 31st December 2013 consists of Voting Shares amounting to Rs. 350,000,010/- and Non-voting Shares amounting to Rs. 23,000,000/-.

Major Shareholders
The names of the 20 largest shareholders of the Company as at 31st December 2013 together with an analysis of shareholders are given in the shareholder and investor information pages of this Report.

Fixed Assets
The Company has invested Rs. 121,838,499/- on acquisition of fixed assets during the year which includes acquisition of plant and machinery, motor vehicles, land improvements, land and buildings etc. information relating to the movements of fixed assets is given in the notes to the accounts.

Donations
No donations have been made during the year under review.

Directors
The following Directors held office during the period under review:

Mr. W. L. Bogtstra
Mr. Lucas Bogtstra
Mr. T. R. Gerlach
Mr. S. N. Dharmaratna
Ms. C. A. Gerlach - Independent Non-Executive Director
Mr. K. A. S. Gunasekara - Independent Non-Executive Director
Mr. G. Chamindra De Silva - Independent Non-Executive Director
Mr. Frits Bogtstra - Independent Non-Executive Director

Directors Direct and Indirect Shareholdings
Details pertaining to Directors shareholdings as required under the Colombo Stock Exchange Rules are given in the shareholder and Investor information pages of this report.

Interest Register – Particulars of entries made during the year
Related party disclosures of the Company are disclosed in Note Nos. 31 and 32 to the Financial Statements.

Taxation
According to the Inland Revenue Act, the Company needs to pay income tax on its agricultural activities at the rate of 10%. (Section 48A - Inland Revenue Act)

Post Balance Sheet Events
No material events have taken place since the Balance Sheet date, which would require adjustments or disclosures in Notes to the year 's financial statements.

Contingent Liabilities
During the period under review, except as in the notes give to the financial statements no known contingent liabilities exist.

Directors Interest in Contracts
During the period under review, except as in the notes given to the financial statements, no Director of the Company has direct or indirect interest in any other contract entered into by the Company.

Re-purchase of Company Shares
Subsequent to the approval at the last annual general meeting the Company purchased the following categories of its own shares in issue.

(i) 21,797,829 voting shares at Rs. 5/- per share totalling Rs. 108,989,145/-

(ii) 2,749,340 Non Voting shares at Rs. 3/50 per share totalling Rs. 9,622,690/-

The Company paid out a total of Rs. 118,611,835/- to the above shareholders

DIRECTORS REPORT *CONTD.*

Auditors

The accounts for the year under review have been audited by M/s. Ernst and Young who are eligible to offer themselves for re-appointment. The remuneration paid to them for the year 2013 was Rs. 3,430,000/-. A resolution relating to their re-appointment and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting. As far as the Directors are aware, the Auditors do not have any relationship (other than as Auditors) with the Company.

Going Concern

The Board being satisfied that the Company has adequate resources to continue its operation in the foreseeable future has adopted the going concern basis in preparing the financial statements.

By Order of the Board

Management Applications (Pvt) Ltd
Secretaries

Colombo
7th May 2014

DIRECTORS RESPONSIBILITIES

The Companies Act requires the Directors to prepare Financial Statements for each financial year giving a true and fair view of the State of Affairs of the Company as at the end of the financial year and of the Profit and Loss of the Company for the financial year. In preparing the financial statements, appropriate accounting policies have been selected and applied consistently, reasonable and prudent judgment and estimates have been made, and applicable accounting standards have been followed.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and for ensuring that the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards and provide the information required by the Companies Act No.7 of 2007 and the Rules of the Colombo Stock Exchange. They are also responsible for taking reasonable measures to safeguard the assets of the Company, and in that context to have proper to the establishment of appropriate systems of internal control with a view to the prevention and detection of frauds and other irregularities.

The Auditors have carried out reviews and sample checks on the system of internal controls as they considered appropriate and necessary for expressing their opinion on the financial statements. The Directors have extended full co-operation to the Auditors and have provided them every opportunity to carry out their statutory obligation of expressing an opinion on the financial statements.

Compliance Report

The Directors also confirm that to the best of their knowledge all taxes and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of the employees and all other known statutory obligations as were due as at the Balance Sheet date have been either duly paid or appropriately provided for in the financial statements.

By Order of the Board

Management Applications (Pvt) Ltd
Secretaries

Colombo
7th May 2014

Financial Statements

Report of the Auditors	39
Income Statement	40
Statement of Comprehensive Income	41
Statements of Financial Position	42
Statement of Changes in Equity	44
Statements of Cash Flows	45
Note to the Financial Statements	47
Shareholders & Investors Information	93

REPORT OF THE AUDITORS

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

ADBT/GP/SJJC

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

Report on the Financial Statements

We have audited the accompanying Financial Statements of Malwatte Valley Plantations PLC which comprises the Statement of Financial Position as at 31 December 2013 and the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant Accounting Policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis evidence supporting the amounts and disclosures In the Financial Statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

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

Opinion

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

Report on Other Legal and Regulatory Requirements

These Financial Statements also comply with the requirements of Sections 151(2) of the Companies Act No. 07 of 2007.

30th April 2014
Colombo

INCOME STATEMENT

For the year ended 31 December 2013	Notes	2013 Rs.	2012 Rs.
Revenue	6	**3,769,683,989**	**2,965,020,019**
Cost of sales		(3,342,817,258)	(2,564,647,711)
Gross profit		**426,866,731**	**400,372,308**
Gain on change in fair value of biological assets	14.2	84,718,322	61,516,536
Other income	7	83,950,252	109,488,704
Administrative expenses		(194,818,602)	(169,791,811)
Results from operating activities		400,716,703	401,585,737
Finance Income	8.1	55,492,935	51,623,318
Finance expenses	8.2	(50,400,476)	(63,417,118)
Interest paid to Government on finance lease	8.3	(23,617,026)	(21,699,529)
Net finance cost		**(18,524,567)**	**(33,493,329)**
Profit before tax	9	**382,192,136**	**368,092,408**
Tax expense	10	19,904,729	(50,354,902)
Profit for the year		**402,096,865**	**317,737,506**
Basic earnings per share (Rs.)	11.1	1.67	1.28
Dividend per Share (Rs.)	11.2	-	0.075

The accounting policies and notes on pages 47 through 92 form an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013	Notes	2013 Rs.	2012 Rs.
Profit for the year		402,096,865	317,737,506
Other comprehensive income for the year, net of tax			
Net (loss) / gain on available for sale financial assets	15.3	(8,825)	(3,905)
Tax effect	10.2	-	-
		(8,825)	**(3,905)**
Actuarial gains/ (losses) on defined benefit plans	24	(154,719,978)	-
Tax effect	10.2	24,383,869	-
		(130,336,109)	-
Revaluation of land and buildings	13	582,235,891	-
Income tax effect	10.2	(36,934,324)	-
		545,301,567	-
Total Other comprehensive income for the year, net of tax		**414,956,632**	**(3,905)**
Total comprehensive income for the year, net of tax		**817,053,497**	**317,733,601**

The accounting policies and notes on pages 47 through 92 form an integral part of the financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2013	Notes	2013 Rs.	2012 Rs.
ASSETS			
Non-current assets			
Lease hold property, plant & equipment	12	348,165,507	370,247,114
Freehold Property, plant & equipment	13	1,534,093,065	1,003,759,511
Bearer biological assets	14.1	813,540,849	748,105,072
Consumable biological assets	14.2	782,592,496	696,119,941
Other non current financial assets	15	7,082,310	71,135
Total non-current assets		**3,485,474,227**	**2,818,302,774**
Current assets			
Inventories	16	431,184,194	289,525,796
ACT receivables		-	9,530
WHT receivables		-	1,758,689
ESC receivables	17.1	-	4,404,309
VAT receivables		-	495,257
Trade and other receivables	17	182,469,462	153,517,503
Amounts due from related companies	18	86,111,681	66,967,408
Short - term investments	19.1	871,187,899	425,147,960
Cash and cash equivalents	19.2	61,014,641	72,747,792
Total current assets		**1,631,967,877**	**1,014,574,243**
Total assets		**5,117,442,104**	**3,832,877,017**
EQUITY AND LIABILITIES			
Equity			
Stated capital	20	373,000,010	373,000,010
Timber reserve		703,570,424	618,852,102
Available for sale reserve		46,520	55,345
Reveluation reserve		545,301,567	-
Retained earnings		1,151,850,735	1,101,989,400
Total equity		**2,773,769,256**	**2,093,896,857**
Non-current liabilities			
Interest-bearing borrowings	21	478,361,097	160,129,366
Deferred income	22	121,102,985	126,641,412
Deferred tax liability	23	40,567,097	61,636,833
Retirement benefit obligations	24	902,848,859	714,912,990
Liability to make lease payment after one year	25	149,672,340	152,174,366
Total non-current liabilities		**1,692,552,378**	**1,215,494,967**

As at 31 December 2013	Notes	2013 Rs.	2012 Rs.
Current liabilities			
Trade and other payables	26	353,203,760	311,765,368
Liability to make lease payment within one year	25	2,502,025	2,405,794
Interest-bearing borrowings payable within one year	21	154,480,743	142,435,308
Dividend payables		4,468,265	3,796,119
ESC payables		-	-
VAT payables		-	36,159
NBT payables		174,809	18,602
Income tax payable		1,830,371	2,743,145
Bank overdraft	19.3	134,460,496	60,284,696
Total current liabilities		**651,120,470**	**523,485,192**
Total liabilities		**2,343,672,848**	**1,738,980,159**
Total equity and liabilities		**5,117,442,104**	**3,832,877,016**

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board of Directors of Malwatte Valley Plantations PLC

Director **Director**

The accounting policies and notes on pages 47 through 92 form an integral part of the financial statements.

30 April 2014
Colombo

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Stated Capital Rs.	Timber Reserve Rs.	Available for Sale Reserve Rs.	Reveluation Reserve Rs.	Retained Earnings Rs.	Total Equity Rs.
Balance as at 01 January 2012	373,000,010	557,335,566	59,250	-	858,147,939	1,788,542,765
Profit for the period	-	-	-	-	317,737,506	317,737,506
Total Other comprehensive income for the year, net of tax	-	-	(3,905)	-	-	(3,905)
Transferred to the Timber Reserve	-	61,516,536	-	-	(61,516,536)	-
Dividends	-	-	-	-	(12,379,508)	(12,379,508)
Balance as at 31 December 2012	373,000,010	618,852,102	55,345	-	1,101,989,400	2,093,896,857
Profit for the period	-	-	-	-	402,096,865	402,096,865
Total Other comprehensive income for the year, net of tax	-	-	(8,825)	545,301,567	(130,336,109)	414,956,633
Transferred to the Timber Reserve	-	84,718,322	-	-	(84,718,322)	-
Dividends	-	-	-	-	(18,569,263)	(18,569,263)
Cost of Share Repurchase	-	-	-	-	(118,611,835)	(118,611,835)
Balance as at 31 December 2013	**373,000,010**	**703,570,424**	**46,520**	**545,301,567**	**1,151,850,735**	**2,773,769,256**

The accounting policies and notes on pages 47 through 92 form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2013	Note	2013 Rs.	2012 Rs.
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Profit / (Loss) before Taxation		382,192,136	368,092,408
Adjustments for			
Dividend Income	7	(4,115)	(2,414)
Interest Income	8.1	(55,492,935)	(51,623,318)
Depreciation/Amortisation	12/13/14	120,539,817	121,583,016
Provision for Defined Benefit Plan	24	119,806,040	59,426,518
Amortisation of Grants	22	(9,571,052)	(9,711,369)
Finance Costs	8.2/8.3	74,017,502	85,116,647
Profit on disposal of Property, Plant & Equipments	7	(10,750,087)	(29,325,884)
Net (loss) / gain on available for sale financial assets	15.3	8,825	3,905
Change in fair value of Timber Stock	14.2	(84,718,322)	(61,516,536)
Write offs of Plywood Project		-	3,455,087
Operating Profit before Working Capital Changes		**536,027,808**	**485,498,060**
(Increase)/Decrease in Trade and other receivables		(28,951,959)	(39,640,048)
(Increase)/Decrease in Inventories		(141,658,398)	37,347,887
Increase/(Decrease) in Trade and other payables		42,230,586	(21,836,306)
(Increase)/Decrease in amounts due from Related Parties		(19,144,272)	(445,789)
Cash Generated from Operations		**388,503,764**	**460,923,803**
Finance Costs Paid		(50,400,476)	(63,417,118)
Tax Paid		(4,677,134)	(7,780,003)
Defined Benefit Plan Costs paid	24	(86,590,149)	(104,468,461)
Net Cash from Operating Activities		**246,836,005**	**285,258,221**
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Investment in Short - term Investments		(446,039,939)	(51,003,717)
Investment in Debentures		(7,020,000)	-
Dividend Income Received	7	4,115	2,414
Grants Received	22	4,032,625	9,574,071
Proceeds from Sale of Property, Plant & Equipments		16,739,424	46,955,353
Field Development Expenditure		(91,983,851)	(42,794,776)
Expenditure on Timber Cultivation		(1,754,233)	(27,789,932)
Purchase of Property, Plant & Equipment		(29,854,648)	(107,283,855)
Interest Income	8.1	55,492,935	51,623,318
Net Cash used in Investing Activities		**(500,383,572)**	**(120,717,125)**

STATEMENTS OF CASH FLOWS *CONTD.*

For the year ended 31 December 2013	Note	2013 Rs.	2012 Rs.
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Dividends Paid		(18,569,263)	(12,379,508)
Payment of Government lease rentals		(23,617,026)	(21,699,529)
Proceeds from loans		1,397,706,386	502,912,044
Payment of loans		(1,069,269,645)	(552,050,049)
Cost of Share Buy Back		(118,611,835)	-
Net Cash from (used in) Financing Activities		**167,638,616**	**(83,217,042)**
Net Increase/(Decrease) in Cash & Cash Equivalents		**(85,908,951)**	**81,324,055**
A. Cash & Cash Equivalents at the beginning of the year		12,463,096	(68,860,958)
B. Cash & Cash Equivalents at the end of the year		(73,445,855)	12,463,096
NOTE A			
Cash & Bank Balances		72,747,792	113,565,461
Bank Overdrafts		(60,284,696)	(182,426,419)
		12,463,096	**(68,860,958)**
NOTE B			
Cash & Cash Equivalents at the end of the year			
Cash & Bank Balances		61,014,641	72,747,792
Bank Overdrafts		(134,460,496)	(60,284,696)
		(73,445,855)	**12,463,096**

The accounting policies and notes on pages 47 through 92 form an integral part of the financial statements.

NOTE TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

Malwatte Valley Plantations PLC is a limited liability Company incorporated and domiciled in Sri Lanka, under the Companies Act No. 17 of 1982 (the company re-registered under the Companies Act No: 07 of 2007) in terms of the provisions of the Conversion of Public Corporations or Government Owned Business Undertakings into Public Companies Act No. 23 of 1987. The registered office of the Company is located at No.280, Dam Street, Colombo 12 and Plantations are situated in the planting regions of Bandarawela, Badulla and Avissawella.

1.1.1 Principal activities and the nature of the operations

During the year, the principal activities of the company were cultivation, manufacture and sale of black tea, rubber and other crop.

1.1.2 Parent enterprise and ultimate parent enterprise

The Company's parent undertaking is Wayamba Plantations (Pvt) Ltd, which is incorporated in Sri Lanka.

1.3 Date of Authorization for issue.

The Financial Statements of Malwatte Valley Plantations PLC for the year ended 31 December 2013 were authorized for issue in accordance with a resolution of the board of directors on 30th April 2014.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows together with Accounting Policies and Notes to Financial Statements 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 Financial Statements have been prepared in accordance with the historical cost convention other than Consumable biological assets , Freehold Land & Buildings and Financial Instruments (Available for Sale financial assets) that have been measured at fair value. Where appropriate, specific policies are explained in the succeeding Notes.

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

2.3 Functional and Presentation Currency

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are consistent with those used in the previous year.

3.1 Comparative information

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

3.2 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

3.3 Assets and Bases of their Valuation

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

NOTE TO THE FINANCIAL STATEMENTS *CONTD.*

3.3.1 Property, Plant & Equipment

3.3.1.1 Recognition and Measurement

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

3.3.1.2 Owned Assets

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

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment charged subsequent to the date of the revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Where land and buildings are subsequently revalued, the entire class of such assets is revalued at fair value on the date of revaluation.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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

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

3.3.1.3 Leased Assets

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

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

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

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

3.3.1.4 Subsequent Cost

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

3.3.1.5 Derecognition

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

3.3.1.6 Land Development Cost

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

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

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

3.3.1.7 Biological Asset

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 specification. 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 mainly tea and rubber plants, those that are not intended to be sold or harvested, however used to grow for harvesting agriculture produce from such biological assets. Consumable biological assets includes managed timber trees those that are to be harvested as agricultural produce from biological assets or sold as biological assets.

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

3.3.1.7.1 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 fertilizing, etc., incurred between the time of planting and harvesting (when the planted area attains maturity), are classified as immature plantations. These immature plantations are shown at direct costs plus attributable overheads, including interest attributable to long-term loans used for financing immature plantations. The expenditure incurred on bearer biological assets (Tea, Rubber, Timber fields) which comes into bearing during the year, is transferred to mature plantations.

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

3.3.1.7.2 Infilling Cost on Bearer Biological Assets

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

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

3.3.1.7.3 Consumable Biological Asset

The managed timber trees are measured on initial recognition and at the end of each reporting period at its fair value less cost to sell in terms of LKAS 41. The cost is treated as approximation to fair value of young plants as the impact on biological transformation of such plants to price during this period is immaterial. The fair value of timber trees are measured using DCF method taking 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 14.2.

The main variables in DCF model concerns

Variable	Comment
Currency valuation	Rs.
Timber content	Estimate based on physical verification of girth, height and considering the growth of the each spices in different geographical regions. Factor all the prevailing statutory regulations enforced for harvesting of timber coupled with forestry plan of the company.
Economic useful life	Estimated based on the normal life span of each spices by factoring the forestry plan of the Company
Selling price	Estimated based on prevailing Sri Lankan market price. Factor all the conditions to be fulfilled in bringing the trees in to saleable condition
Planting cost	Estimated costs for the further development of immature areas are deducted.
Discount Rate	Future cash flows are discounted at the following discount rates: Managed Timber trees - 12.5%

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

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

3.3.1.8 Borrowing Costs

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

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

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

3.3.1.9 Depreciation and Amortisation

(a) Depreciation

Depreciation is recognised in the Income Statement on a straight-line basis over the estimated useful economic lives of each part of an item of Property, Plant & Equipment. Assets held under finance leases are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets unless it is reasonably certain that the Company 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 and depreciation rates are as follows:

	No. of Years	Rate (%)
Buildings & Roads	40	2.50
Plant & Machinery	20/13.33	5 / 7.50
Motor Vehicles - Utility	10	10
Motor Vehicles - Supervisory	5	20
Equipment	8	12.50
Furniture & Fittings	10	10.00
Land Improvements	10	10.00
Sanitation, Water supply & Electricity	20	5.00

Mature Plantations (Replanting and New Planting)

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

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

No depreciation is provided for immature plantations.

(b) Amortisation

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

	No. of Years	Rate (%)
Right to Use of Land	53	1.89
Improvements to Land	30	3.33
Mature Plantations		
(Tea & Rubber)	30	3.33
Buildings	25	4.00
Machinery	15	6.67

3.3.1.10 Non-current assets held for sale and discontinued operations

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

In the Income Statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations.
Property, Plant & Equipment and intangible assets once classified as held for sale are not depreciated or amortised.

Annually, either individually or at the cash-generating unit level. The amortization period and method of intangible assets with a finite and indefinite useful life are reviewed annually.

3.3.2 Financial Instruments

3.3.2.1 Financial assets

3.3.2.1.1 Initial recognition & Measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at Fair Value through Profit or Loss, Loans and Receivables, Held-To-Maturity Investments, Available-For-Sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs. The Company's financial assets include cash and short-term deposits, short term investments, trade and other receivables, available for sale financial assets.

3.3.2.1.2 Subsequent measurement

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

a) Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit and loss are carried in the Statement of Financial Position at fair value with changes in fair value recognised in finance income or finance costs in the Income Statement. The company 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 amortized cost using the effective interest rate method (EIR), less impairment. Amortized 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 Income Statement. The losses arising from impairment are recognised in the Income Statement in finance costs.
Loans and receivables comprise of trade receivables, amounts due from related parties, deposits, advances and other receivables and cash and cash equivalents.

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 company has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the Income Statement. The losses arising from impairment are recognised in the Income Statement in finance costs.

The Held to Maturity Investments comprise of Investment in rated secured redeemable debentures.

d) Available for sale financial investments

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

3.3.2.1.3 Derecognition

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

- The rights to receive cash flows from the asset have expired
- The Company 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 Company has transferred substantially all the risks and rewards of the asset, or
  - (b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company 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 Company's continuing involvement in the asset. In that case, the Company 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 Company 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 Company could be required to repay.

3.3.2.1.4 Impairment of financial assets

The Company 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.

3.3.2.2 Financial liabilities

3.3.2.2.1 Initial recognition and measurement

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, carried at amortized cost. This includes directly attributable transaction costs.

The company financial liabilities include trade and other payables, bank overdrafts, loans and borrowings.

3.3.2.2.2 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

NOTE TO THE FINANCIAL STATEMENTS *CONTD.*

or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held for trading are recognised in the Income Statement.

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

b) Loans and borrowings

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

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

3.3.2.2.3 Derecognition

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

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

3.3.2.3 Offsetting of financial instruments

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

3.3.2.4 Fair value of financial instruments

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

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

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

3.3.3 Financial Risk Management objectives and policies

The Company's principal financial liabilities, comprise with loans and borrowings and trade and other payables, The main purpose of these financial liabilities is to finance the Company's operations and to provide guarantees to support its operations. Further the company has loans and other receivables, trade and other receivables and cash and short term deposits that arrive directly from its operations. Accordingly, the company has exposure to namely Credit Risk, Liquidity Risk, Interest Rate Risk and Currency Risk from its use of Financial Instruments

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

3.3.3.1 Credit Risk

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

Trade and Other Receivables

The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and the country in which the customers operate, as these factors may have an influence on credit risk.

The Company reviews external ratings and bank references of the customer when available. Purchase limits are established for each customer, which are reviewed quarterly. In monitoring credit risk, customers are categorised according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale or retail customer, geographical location, industry, aging profile, maturity and existence of previous financial difficulties.

3.3.3.2 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 company's reputation.

3.3.3.3 Interest Rate Risk

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

3.3.3.4 Currency Risk

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

3.3.4 Inventories

Finished goods manufactured from agricultural produce of biological assets

These are valued at the lower of cost and estimated net realisable value, after making due allowance for obsolete and slow moving items. 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.

3.3.5 Trade and Other Receivables

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

3.3.6 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 company's cash management and are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

3.3.7 Impairment of Assets

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

3.3.7.1 Calculation of Recoverable Amount

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

3.3.7.2 Impairment/reversal of Impairment

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss except that, impairment losses in respect of property, plant and equipment previously revalued are recognised against the revaluation reserve through the statement of other comprehensive income to the extent that it reverses a previous revaluation surplus. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the group of other assets in the unit on pro rata basis.

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

3.4 Liabilities and Provisions

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

3.4.1 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).

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

(b) Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the Financial Statements in respect of defined benefit plan is the present value of the defined benefit obligation at the Reporting date. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income in the period in which they arise. Actuarial gains & losses recognised in other comprehensive income are recognised immediately in retained earnings and are not reclassified to profit or loss. Past service costs are recognised immediately in the Income Statement.

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

The Liability is not externally funded.

The key assumptions used in determining the retirement benefit obligations are given in Note 24.

3.4.2 Provisions

Provisions are recognised when the Company 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 Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

3.4.3 Trade and Other Payables

Trade and other payables are stated at their costs.

3.4.4 Capital Commitments and Contingencies

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

3.4.5 Events Occurring after the Reporting Period

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

3.4.6 Earnings per Share

The Company presents basic 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.

3.4.7 Deferred Income

3.4.7.1 Grants and Subsidies

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

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

Buildings 40 years

3.5 Income Statement

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

3.5.1 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company 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.

NOTE TO THE
FINANCIAL STATEMENTS *CONTD.*

(a) Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue is recorded at invoice value net of brokerage, sale expenses and other levies related to revenue.

(b) Gains and losses on disposal of an item of Property, Plant & Equipment are determined by comparing the net sales proceeds with the carrying amounts of Property, Plant & Equipment and are recognised within 'other operating income' in the Income Statement.

(c) Interest income is recognised on accrual basis.

(d) Dividend income is recognised in Income Statement on the date the entity's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(e) Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

3.5.2 Expenses

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

3.5.2.1 Financing Income and Expenses

Finance income comprises interest income on funds invested. Interest income is recognised in Income Statement as it accrues.

Finance expenses comprise interest payable on borrowings. 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.

3.5.2.2 Income Tax Expense

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

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

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

Deferred tax is not recognised for the following temporary differences:

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

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

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.6 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 Statement of Cash Flow.

3.7 Segment Reporting

Segmental information is provided for the different business segments of the Company. Business segmentation has been determined based on the nature of goods provided by the Company after considering the risk and rewards of each type of product.

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 segments information is disclosed in the Notes 6.2 to the Financial Statements.

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.

4. USE OF ESTIMATES AND JUDGMENTS

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

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

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

4.1 Income Taxes

The Company is subject to income taxes and other taxes. Significant judgment was required to determine the total provision for current, deferred and other taxes pending the issue of tax guidelines on the treatment of the adoption of SLFRS in the financial statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements. The Company recognized assets and liabilities for current deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income, deferred and tax amounts in the period in which the determination is made. Key assumptions used in determining the deferred taxation are given in Note 23.

NOTE TO THE FINANCIAL STATEMENTS *CONTD.*

4.2 Measurement of Retirement Benefit Obligations

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Key assumptions used in determining the retirement benefit obligations are given in Note 24. Any changes in these assumptions will impact the carrying amount of retirement benefit obligations.

4.3 Fair Value of Consumable Biological Assets

The fair value of managed timber trees depends on a 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 14.2.

4.4 Revaluation of property, plant and equipment

The company measures land and buildings at revalued amounts with changes in fair value being recognised in the statement of equity. The company engaged independent valuation specialists to determine fair value of land and buildings as at 31 December 2013 and the valuation techniques used is given in the Note 13.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

- **SLFRS 10-Consolidated Financial Statements**

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

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

- **SLFRS 11-Joint Arrangements**

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

- **SLFRS 12-Disclosure of Interests in other entities**

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

- **SLFRS 13-Fair Value Measurement**

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 does not state when an entity is required to use fair value, but rather provides guidance on how to measure fair value under SLFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2014.

- **SLFRS 9-Financial Instruments**

SLFRS 9 replaces LKAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in LKAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. The adoption of the first phase of SLFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

NOTE TO THE FINANCIAL STATEMENTS *CONTD.*

6. REVENUE

For the year ended 31 December 2013	2013 Rs.	2012 Rs.
6.1 Industry Segment Revenue		
Tea	2,181,797,718	1,763,501,758
Rubber	426,099,074	561,608,437
Coconut	2,408,258	2,887,268
Others	1,159,378,939	637,022,556
Total	**3,769,683,989**	**2,965,020,019**

6.2 Segment Information

a) **Segment Revenue**

Tea		
Revenue	2,181,797,718	1,763,501,758
Revenue Expenditure	(1,813,685,275)	(1,557,630,837)
Depreciation	(45,936,673)	(63,547,960)
Other Non Cash Expenditure	(111,644,131)	(45,699,534)
Segment Results	**210,531,639**	**96,623,427**
Rubber		
Revenue	426,099,074	561,608,437
Revenue Expenditure	(233,663,529)	(261,647,511)
Depreciation	(26,271,280)	(31,823,671)
Other Non Cash Expenditure	(6,797,682)	(10,714,629)
Segment Results	**159,366,584**	**257,422,626**
Coconut		
Revenue	2,408,258	2,887,268
Revenue Expenditure	(1,076,853)	(1,755,305)
Depreciation	-	-
Other Non Cash Expenditure	-	-
Segment Results	**1,331,405**	**1,131,963**
Others		
Revenue	1,159,378,939	637,022,556
Revenue Expenditure	(1,103,741,836)	(591,828,264)
Depreciation	-	-
Other Non Cash Expenditure	-	-
Segment Results	**55,637,103**	**45,194,292**

For the year ended 31 December 2013	2013 Rs.	2012 Rs.
Total		
Revenue	3,769,683,989	2,965,020,019
Revenue Expenditure	(3,152,167,493)	(2,412,861,917)
Depreciation	(72,207,952)	(95,371,631)
Other Non Cash Expenditure	(118,441,813)	(56,414,163)
Segment Results	**426,866,731**	**400,372,308**
Gains on fair value of biological assets	84,718,322	61,516,536
Other Income and Gains	83,950,252	109,488,704
Finance Income	55,492,935	51,623,318
Administrative Expenses	(194,818,602)	(169,791,811)
Government Lease Interest	(23,617,026)	(21,699,529)
Finance Cost	(50,400,476)	(63,417,118)
Operating Profit / (Loss) of the Company	**382,192,136**	**368,092,408**
b) Segment Assets		
Non Current Assets		
Tea	1,951,865,567	1,577,195,767
Rubber	766,804,330	610,730,955
Coconut	-	-
Unallocated	766,804,330	630,376,052
	3,485,474,227	**2,818,302,774**
Current Assets		
Tea	495,955,038	308,373,015
Rubber	81,924,787	50,948,560
Coconut	326,394	155,291
Unallocated	1,053,761,658	655,097,377
	1,631,967,877	**1,014,574,243**
Total Assets	**5,117,442,104**	**3,832,877,017**

6. REVENUE (contd.)

For the year ended 31 December 2013	2013 Rs.	2012 Rs.
6.2 Segment Information (contd.)		
c) Segment Liabilities		
Non Current Liabilities and Deferred Income		
Tea	1,337,116,379	964,901,140
Rubber	101,553,143	68,664,971
Unallocated	253,882,857	181,928,856
	1,692,552,378	**1,215,494,967**
Current Liabilities		
Tea	299,515,416	241,138,617
Rubber	45,578,433	36,063,863
Unallocated	306,026,621	246,282,712
	651,120,470	**523,485,192**
Total Liabilities	**2,343,672,848**	**1,738,980,158**
d) Segment Capital Expenditure		
Field Development		
Tea	12,661,239	31,767,603
Rubber	58,694,669	37,387,795
	71,355,909	**69,155,398**
Property, Plant & Equipment		
Tea	19,405,521	36,938,628
Rubber	10,449,127	4,214,496
	29,854,648	**41,153,124**
Unallocated	20,627,942	62,016,558
	20,627,942	**62,016,558**
Total Capital Expenditure	**121,838,499**	**172,325,080**

7. OTHER INCOME

For the year ended 31 December 2013	2013 Rs.	2012 Rs.
Profit on disposal of property, plant & equipment	10,750,087	29,325,884
Dividend income	4,115	2,414
Sale of trees	12,308,705	14,948,493
Amortisation of Government grants	9,571,052	9,711,369
Foreign exchange gain	21,502,737	20,383,986
Sundry income	26,690,175	31,146,983
Revenue Grant	3,123,380	3,969,575
Total	**83,950,252**	**109,488,704**

There are no unfulfilled conditions or contingencies attached to the Government grants.

8. FINANCE EXPENSES

For the year ended 31 December 2013	2013 Rs.	2012 Rs.
8.1 Finance Income		
Interest income	55,492,935	51,623,318
Total	55,492,935	51,623,318
8.2 Finance Expenses		
Interest on Overdraft	14,706,367	21,684,497
Interest on Finance Lease	3,864,339	6,752,117
Interest on Term Loan	24,505,896	29,485,113
VAT on Finance Lease Interest	2,698,576	3,091,628
Bank Charges & Others	1,059,120	451,909
Interest on Packing Credit	3,566,179	1,951,854
Total	**50,400,476**	**63,417,118**
8.3		
Interest paid to Government on finance lease	23,617,026	21,699,529
Total	**23,617,026**	**21,699,529**

NOTE TO THE FINANCIAL STATEMENTS *CONTD.*

9. PROFIT BEFORE TAXATION

For the year ended 31 December 2013	2013 Rs.	2012 Rs.
Profit before tax is stated after charging all expenses including the following:		
Directors' emoluments	12,695,359	11,834,434
Auditors' fees	3,430,000	3,186,000
Depreciation /Amortisation		
Leasehold Property	6,775,386	6,775,386
Immovable Estate Assets On Finance Lease	15,306,221	15,306,221
Tangible Assets	71,910,135	74,141,273
Immature/Mature Plantations	26,548,074	25,360,136
Personnel Cost		
Defined Benefit Plan Costs - Gratuity	119,806,040	59,426,518
Salaries and Wages	1,292,165,384	1,066,122,232
Defined Contribution Plan Costs - EPF & ETF	171,756,872	185,357,280

10. TAX EXPENSE

For the year ended 31 December 2013	Note	2013 Rs.	2012 Rs.
10.1 Income Statement			
(I) Current Tax Expense			
Income taxes on current year's profit	10.3	13,715,463	9,285,197
		13,715,463	**9,285,197**
(II) Deferred Tax Expense			
Deferred Tax Charge or (Reversal)	23	(33,620,192)	41,069,704
		(33,620,192)	**41,069,704**
Net Tax Charge or (Reversal) reported in Income Statement		**(19,904,729)**	**50,354,902**

For the year ended 31 December 2013	2013 Rs.	2012 Rs.
10.2 Statement of Other Comprehensive Income		
Tax effect on Net (loss) / gain on available for sale financial assets	-	-
Tax Effect on Actuarial gains/ (losses) on defined benefit plans	(24,383,869)	-
Tax Effect on Revaluation of land and buildings	36,934,324	-
Net Tax Charge directly to Other Comprehensive Income	**12,550,456**	-

The Company is liable to income tax at the rate of 10% on its agriculture profits and 28% on manufacturing profits and other income earned during the year of assessment 2012/13.

According to the Section 13 (t) of the Inland Revenue Act No.10 of 2006, any profits and income derived from the sale of any share, a right to any share, a bonus share or a share warrant in respect of which the share transaction levy under section 7 of the Finance Act No 05 of 2005, has been charged, are exempt from income tax. Hence there's no deferred tax liability with regard to investment in quoted public shares.

For the year ended 31 December 2013	2013 Rs.	2012 Rs.
10.3 Reconciliation of Accounting Profit to Income Tax Expense		
Profit before tax	**382,192,136**	**368,092,408**
Effective tax rate %	10%	10%
Tax effect on profit before tax	38,219,213	36,809,241
Tax effect on deductible expenses for tax purposes	(25,826,858)	(30,560,184)
Tax effect on non-deductible expenses for tax purposes	25,111,613	18,896,983
Tax effect on Total statutory income	37,503,968	25,146,040
Tax effect on other sources of income	8,469,247	9,036,286
Tax effect on Tax exempt Income	(18,720,484)	(14,064,579)
Tax effect on Qualifying relief	(5,031,756)	(3,791,338)
Tax effect on Utilisation of tax losses	(9,538,456)	(7,041,211)
Income Tax on current year profits	**12,682,520**	**9,285,197**
Over provision in respect of previous years	1,032,943	-
Income Tax charge for the year	**13,715,463**	**9,285,197**

NOTE TO THE FINANCIAL STATEMENTS *CONTD.*

11. EARNING PER SHARE AND DIVIDEND PER SHARE

11.1 Earning per Share

Basic earnings per Share

The calculation of the basic earnings per share is based on after tax profit for the year divided by the weighted average number of ordinary shares outstanding during the period and calculated as follows.

	2013	2012
Amount used as the Numerator		
Profit attributable to ordinary shareholders (Rs.)	402,096,865	317,737,506
Amount used as the Denominator		
Weighted average number of ordinary shares	241,041,996	247,590,161
Basic earnings per share (Rs.)	**1.67**	**1.28**

	Note	2013	2012
11.2 Dividend per Share			
First & final proposed dividend Rs. Nill per share (2012 - Rs. 0.075 per share)		-	18,569,263
Number of ordinary shares	20	202,792,332	247,590,161
Dividend per share (Rs.)		-	**0.075**

12. LEASEHOLD PROPERTY, PLANT & EQUIPMENT

For the year ended 31 December 2013	Note	2013 Rs.	2012 Rs.
Right-to-use of Land	12.1	213,229,823	220,005,209
Immovable Leased Bearer Biological Assets	12.2.1	113,809,848	123,963,943
Immovable Leased assets (other than leasehold right to bear land and bearer biological assets)	12.2.2	21,125,836	26,277,962
		348,165,507	**370,247,114**

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 Recommended Practice (SoRP) issued by the Institute of Chartered Accountants of Sri Lanka dated 19 December 2012. Such leases have been executed for all estates for a period of 53 years.

This right-to-use land is amortized over the remaining lease term or useful life of the right whichever is shorter and is disclosed under non-current assets. The Statement of Recommended Practice (SoRP) for right-to-use of land does not permit further revaluation of right-to-use land. . The values taken into the Statement of Financial Position as at 22 June 1992 and amortization of the right to use of land up to 31 December 2013 are as follows.

	Accumulated Revaluation as at 22.06.92 Rs.	Amortization as at 01.01.13 Rs.	Amortization for the year Rs.	Amortization 31.12.13 Rs.	2013 Rs.	2012 Rs.
Right-to-use of Land	359,095,312	139,090,103	6,775,386	145,865,489	213,229,823	220,005,209

The leasehold property is being amortised by equal amounts over a 53 year period and the unexpired period of the lease as at the Statement of Financial Position date is 33 years.

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 22nd June 1992. For this purpose the Board decided at its meeting on March 8, 1995 that these assets would be taken 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 22nd June 1992 balance sheet and amortised as follows:

12.2.1 Immovable Leased Bearer Biological Assets

	Mature Plantations			
	Tea	Rubber		
	2013	2012		
	Rs.	Rs.	Rs.	Rs.
Capitalised Value				
(18th June, 1992)	176,688,366	127,934,487	304,622,853	304,622,853
Amortisation				
As at 1st January	104,786,385	75,872,525	180,658,910	170,504,815
Amortisation for the year	5,889,612	4,264,483	10,154,095	10,154,095
As at 31st December	110,675,997	80,137,008	190,813,005	180,658,910
Carrying amount	**66,012,369**	**47,797,479**	**113,809,848**	**123,963,943**

Investment in plantation assets which were immature at the time of handing over to the company by way of estate leases are shown under immature plantation (revalued as at 22nd June 1992). all of which have been transferred to mature Plantations as at Statement of Financial Position date.

However, since then all such investments in Immature Plantations attributable to JEDB/SLSPC period have been transferred to Mature Plantations. These mature tea and rubber were classified as bearer biological assets in terms of LKAS 41 - Agriculture. The carrying value of the bearer biological assets leased from JEDB/SLSPC is recognised at cost less amortisation. Further investments in such plantations to bring them to maturity are shown in Note 14.

NOTE TO THE FINANCIAL STATEMENTS *CONTD.*

12.2.2 Immovable Leased assets (other than leasehold right to bear land and bearer biological assets)

	Land Development Rs.	Buildings Rs.	Machinery Rs.	2013 Rs.	2012 Rs.
Capitalised Value					
(18 June, 1992)	18,757,900	113,171,583	16,503,578	148,433,061	148,433,061
Amortisation					
As at 1 January	12,835,882	92,815,639	16,503,578	122,155,099	117,002,973
Amortisation for the year	625,263	4,526,863	-	5,152,126	5,152,126
As at 31 December	13,461,145	97,342,502	16,503,578	127,307,225	122,155,099
Carrying amount	**5,296,755**	**15,829,081**	-	**21,125,836**	**26,277,962**

13. FREEHOLD PROPERTY, PLANT & EQUIPMENT

	Land At Valuation Rs.	Buildings At Valuation Rs.	Motor Vehicles Rs.	Plant & Machinery Rs.	Furniture & Fittings Rs.	Equipments Rs.
Cost or valuation						
Balance as at 01 January	404,800,457	371,425,430	183,765,457	136,434,085	30,022,550	107,655,236
Additions	-	3,120,163	8,945,790	2,647,981	311,837	2,706,113
Revaluation recognised in OCI	347,881,043	234,354,848	-	-	-	-
Disposals	-	-	(13,486,193)	-	-	-
Transfers In / (Out)	-	(15,414,316)	-	-	-	-
Balance as at 31 December	752,681,500	593,486,125	179,225,054	139,082,066	30,334,387	110,361,349
Accumulated Depreciation						
Balance as at 01 January	-	58,183,338	92,343,950	94,778,728	16,420,430	72,870,076
Charge for the year	-	9,318,041	29,194,649	9,329,858	1,972,751	5,556,689
On Disposals	-	-	(7,496,856)	-	-	-
Transfers In / (Out)	-	(15,414,316)	-	-	-	-
Balance as at 31 December	-	52,087,063	114,041,744	104,108,586	18,393,181	78,426,765
Carrying Value						
As at 31 December 2013	**752,681,500**	**541,399,062**	**65,183,310**	**34,973,480**	**11,941,206**	**31,934,584**
As at 31 December 2012	**404,800,457**	**313,242,092**	**91,421,507**	**41,655,357**	**13,602,120**	**34,785,160**

Land Improvement Rs.	Water & Sanitation and Others Rs.	Capital Work in Progress Rs.	Assets acquired on finance Lease Motor Vehicles Rs.	Machinery Rs.	Total 2013 Rs.	Total 2012 Rs.
34,912,578	59,885,387	9,348,574	64,080,692	85,213,416	1,487,543,862	1,455,124,846
-	5,058,019	7,064,745	-	-	29,854,648	107,283,855
-	-	-	-	-	582,235,891	-
-	-	-	(11,900,000)	-	(25,386,193)	(55,634,695)
-	-	(3,857,513)	-	-	(19,271,829)	(19,230,144)
34,912,578	64,943,406	12,555,806	52,180,692	85,213,416	2,054,976,379	1,487,543,862
19,408,714	35,294,918	-	49,923,133	44,561,064	483,784,351	448,601,242
2,838,764	2,986,740	-	4,696,637	6,016,006	71,910,135	74,141,273
-	-	-	(11,900,000)	-	(19,396,856)	(38,958,164)
-	-	-	-	-	(15,414,316)	-
22,247,478	38,281,658	-	42,719,770	50,577,070	520,883,314	483,784,351
12,665,100	**26,661,748**	**12,555,806**	**9,460,922**	**34,636,346**	**1,534,093,065**	
15,503,864	**24,590,469**	**9,348,574**	**14,157,559**	**40,652,352**	**1,003,759,511**	

13. FREEHOLD PROPERTY, PLANT & EQUIPMENT (contd.)

13.1 The assets shown above are those movable assets vested in the Company by gazette notification at the date of formation of the company (22nd June 1992) and all investments in tangible assets by the company since its formation. The assets taken over by way of estate leases are set out in notes 12.1 & 12.2.

13.2 Details on assets pledged under facilities are given under the Note 27 of the financial statements.

13.3 Revaluation of land and buildings

From 1 January 2013, the Company has changed its accounting policy for the measurement of Freehold land and buildings to the revaluation model, since the Company believes that revaluation model more effectively demonstrates the financial position of land and buildings.. The Freehold Land and Building on freehold land were revalued by Mr. G.J. Sumanasena, Incorporated Valuer as of 31 December 2013 and the results of such valuation were incorporated in these financial statements as at that date. Such assets were valued on the basis of Contractor's Test Method - Land and Building. Fair value is determined by reference to market-based evidence. Valuations are based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. The surplus arising from the revaluation was transferred to a revaluation reserve.

13.4 If land and buildings were measured using the cost model, the carrying amounts would be as follows:

	2013 Rs.	2012 Rs.
Cost	779,346,051	776,225,887
Accumulated depreciation	(67,501,379)	(58,183,338)
Carrying value	**711,844,672**	**718,042,549**

13.5 The cost of fully depreciated assets of the company amounts to Rs. 198 Mn as of 31 December 2013 (2012 - 164 Mn).

14. BIOLOGICAL ASSETS

14.1 Bearer Biological Assets

	Immature Plantations			
	Tea Rs.	Rubber Rs.	Other Rs.	Total Rs.
Cost				
As at 1 January	19,519,239	255,583,502	22,032,056	297,134,797
Additions during the year	12,661,239	58,694,669	20,627,942	91,983,851
Transfers (from)/to	-	(23,873,815)	-	(23,873,815)
As at 31 December	32,180,478	290,404,357	42,659,998	365,244,833
Depreciation				
As at 1 January	-	-	-	-
Charge for the year	-	-	-	-
As at 31 December	-	-	-	-
Carrying amount	**32,180,478**	**290,404,357**	**42,659,998**	**365,244,833**

	Mature Plantations					
	Tea	Rubber	Other	Total	2013	2012
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
	420,021,396	250,453,910	22,266,216	692,741,522	989,876,319	947,081,543
	-	23,873,815	-	23,873,815	115,857,666	83,041,122
	-	-	-	-	(23,873,815)	(40,246,346)
	420,021,396	274,327,725	22,266,216	716,615,337	1,081,860,170	989,876,319
	123,965,601	98,602,440	19,203,206	241,771,247	241,771,247	216,411,111
	12,600,642	13,716,406	231,027	26,548,074	26,548,074	25,360,136
	136,566,243	112,318,846	19,434,233	268,319,321	268,319,321	241,771,247
	283,455,153	**162,008,879**	**2,831,983**	**448,296,016**	**813,540,849**	**748,105,072**

14. BIOLOGICAL ASSETS (contd.)

14.1 Bearer biological assets (contd.)

These are investments in immature/mature plantations since the formation of the Company. The assets (including plantation assets) taken over by way of estate leases are set out in Notes 12.2.1 and 12.2.2. Further investment in immature plantations taken over by way of these leases are shown in the above note. When such plantations become mature, the additional investments since take over to bring them to maturity, will be moved from immature to mature under this note.

The requirement of recognition of bearer biological assets at its fair value less cost to sell under LKAS 41 was superseded by the ruling issued on 02 March 2012, by The Institute of Chartered Accountants of Sri Lanka. Accordingly, the Company has elected to measure the bearer biological assets at cost using LKAS 16 – Property Plant & Equipment.

Specific borrowings have not been obtained to finance the planting expenditure. Hence, borrowing costs were not capitalised during the year under Immature Plantations (2012 - NIL).

14.2 Consumable biological assets

	2013 Rs.	2012 Rs.
As at 1 January	696,119,941	606,813,473
Increase due to development	1,754,233	1,433,311
Gain/(loss) arising from changes in fair value less cost to sell	84,718,322	61,516,536
Decrease due to harvest	-	(4,000)
Cost transferred from bearer biological	-	26,360,621
As at 31 December	**782,592,496**	**696,119,941**

Managed trees include commercial timber plantations cultivated on estates. The cost of immature trees is treated as approximate fair value particularly on the ground of little biological transformation has taken place and impact of the biological transformation on price is not material. When such Plantations become mature, the additional investments since taken over to bring them to maturity are transferred from Immature to Mature.

The fair value of managed trees was ascertained since the LKAS 41 is only applicable for managed agricultural activities in terms of the ruling issued by The Institute of Chartered Accountants of Sri Lanka. The valuation was carried by Messers Perera Sivaskantha & Company, incorporated valuers, using Discounted Cash Flow (DCF) methods. In ascertaining the fair value of timber, physical verification was carried out covering all the estates.

Key assumptions used in valuation

1. The harvesting is approved by the PMMD and Forest Department based on the forestry development plan
2. The price adopted are net of expenditure
3. Discount rate is 12.5% (2012 - 17.5%)
4. Though the replanting is a condition precedent for harvesting, yet the cost are not taken in to consideration.

The valuations, as presented in the external valuation models based on net present values, take into account the long term exploitation of the timber plantations. The market rates applied has been arrived at after discounting. The commodity markets are inherently volatile and that long term price projection are highly unpredictable. The sensitivity analysis regarding selling price and discount rate variations every investor to reasonably challenge the financial impact of the assumptions used in the LKAS 41 against his own assumptions.

14.2.1 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 rise or decrease by 10% of the estimated future selling price has the following effect on the net present value of biological assets:

Managed Timber	Rs.	Rs.	Rs.
	-10%	0	+10%
As At 31 December 2013	704,333,248	782,592,496	860,851,746
As At 31 December 2012	626,507,946	696,119,941	765,731,934

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 trees show that a rise or decrease by 1.5% of the estimated future discount rate has the following effect on the net present value of biological assets:

Managed Timber	Rs.	Rs.	Rs.
	-1.5%	12.50%	+1.5%
As At 31 December 2013	785,013,838	782,592,496	780,126,074

	Rs.	Rs.	Rs.
	-1.5%	17.50%	+1.5%
As At 31 December 2012	713,839,614	696,119,941	674,353,153

The carrying amount of biological assets pledged as securities for liabilities are nil for year 2013 (2012 - nil).

There are no commitments for the development or acquisition of biological assets.

NOTE TO THE FINANCIAL STATEMENTS *CONTD.*

15. OTHER FINANCIAL ASSETS

Long Term Investments	No. of Debentures	2013 Rs.	2012 Rs.
15.1 Held to maturity investments			
Investment in Debentures			
Central Finance Company PLC	70,200	7,020,000	-
	70,200	7,020,000	-

The above investments in Debentures have maturity within 3 years.

15.2 Available for sale financial instruments

	No. of Shares	2013 Rs.	2012 Rs.
Investment in quoted companies			
Agalawatte Plantation PLC	100	2,390	3,270
Balangoda Plantation PLC	100	3,100	3,960
Bogawantalawa Plantation PLC	150	1,380	1,815
Hapugasthenne Plantation PLC	100	2,930	3,880
Horana Plantation PLC	100	2,380	2,450
Kahawatte Plantation PLC	100	3,880	3,310
Kegalle Plantation PLC	100	10,290	10,400
Kotagala Plantation PLC	100	3,700	7,400
Kelani Valley Plantation, PLC	100	7,830	8,000
Madulsima Plantation PLC	100	1,090	1,560
Namunukula Plantation PLC	100	8,470	7,880
Talawakelle Plantation PLC	100	2,400	2,400
Udapussellawa Plantation PLC	100	2,570	2,910
Watawala Plantation PLC	1,000	9,900	11,900
Total Available for sale instruments	**2,350**	**62,310**	**71,135**
Total Other financial assets		**7,082,310**	**71,135**

15.3

		2013 Rs.	2012 Rs.
Net (loss) / gain on available for sale financial assets		**(8,825)**	**(3,905)**

16. INVENTORIES

	2013 Rs.	2012 Rs.
Input Materials	54,963,775	24,764,328
Nurseries	5,294,368	7,549,438
Consumables & Spares	11,861,643	11,723,745
Harvested Crops	363,915,882	250,339,759
	436,035,668	294,377,270
Less: Provision for Obsolete Stocks	(4,851,474)	(4,851,474)
	431,184,194	**289,525,796**

17. TRADE AND OTHER RECEIVABLES

	2013 Rs.	2012 Rs.
Produce debtors	91,259,318	59,007,853
Advances & Prepayments	12,855,164	27,208,553
Other debtors	29,259,072	29,730,668
Staff Debtors	53,734,833	42,209,353
	187,108,386	158,156,427
Less: Imapriment in Trade & Other Receivables	(4,638,924)	(4,638,924)
	182,469,462	**153,517,503**

17.1 Economic service charge receivables

At the beginning of the year	4,404,309	12,843,681
Economic Service Charges for the year	-	1,703,808
Set off during the year	-	(10,143,180)
Written off during the year	(4,404,309)	-
At the end of the year	-	**4,404,309**

18. AMOUNTS DUE FROM RELATED PARTIES

	2013 Rs.	2012 Rs.
Wayamba Plantations (Pvt) Ltd	-	10,500,888
Bloemendal Flower Company (Pvt) Ltd	20,578,847	20,051,404
Oreocromis Dynamics (Pvt) Ltd	14,913,800	14,892,485
Bogtstra & Gerlach (Pvt) Ltd	2,468,269	2,468,269
Malwatte Hotel & Resort (Pvt) Ltd.	20,094,566	19,054,363
Prime Real Estate Australia Pty Ltd	28,056,199	-
	86,111,681	**66,967,408**

No interest is charged on these current account balances since those are not included Inter company Loans.

19. CASH AND CASH EQUIVALENTS

	2013 Rs.	2012 Rs.
19.1 Short term deposits		
Short term fixed deposits	871,187,899	425,147,960
Total	**871,187,899**	**425,147,960**
19.2 Favourable balances		
Cash at bank	59,894,215	71,950,903
Cash in hand	391,329	101,875
Cash in transist	720,825	687,356
Stamps	8,272	7,658
Total	**61,014,641**	**72,747,792**
19.3 Unfavourable balances		
Bank overdraft	134,460,496	60,284,696
Total	**134,460,496**	**60,284,696**

Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

The securities pledged have been disclosed in Note 27 to the financial statements.

20. STATED CAPITAL

	2013 Number	2012 Number
Issued and Fully Paid Number of Shares		
No. of Voting Ordinary Shares including one Golden Share held by the Treasury which has special rights	202,792,332	224,590,161
No. of Non- Voting Ordinary Shares	20,250,660	23,000,000
	223,042,992	**247,590,161**

	2013 Rs.	2012 Rs.
Stated Capital including one Golden Share held by the Treasury which has special rights	350,000,010	350,000,010
Issue of Non - Voting Ordinary Shares	23,000,000	23,000,000
	373,000,010	**373,000,010**

Stated capital represents the amount paid to the company in respect of issuing 224,590,161 Ordinary Shares including one Golden Share which has special rights and 23,000,000 Non-Voting Ordinary Shares. The Company has repurchased its own shares in the proportion of one (1) share out of every seven (7) shares held. Accordingly the number of fully paid ordinary shares excluding 01 Golden share held by the Treasury is reduced to 202,792,331 and the number of Non-Voting shares is reduced to 20,250,660 with effect from 18 September 2013.

NOTE TO THE FINANCIAL STATEMENTS *CONTD.*

21. INTEREST BEARING LOANS AND BORROWINGS

	Repayable within 1 year Rs.	Repayable After 1 year less than 5 years Rs.	Repayable After 5 years Rs.	Repayable After 1 year Rs.	Total as at 31.12.2013 Rs.
21.1 Long-term Loans (ADB)					
National Development Bank PLC	4,220,015	-	-	-	4,220,015
Hatton National Bank PLC	6,947,516	5,704,079	-	5,704,079	12,651,595
DFCC Bank PLC	668,700	-	-	-	668,700
LOLC	-	-	-	-	-
21.2 Long term Loans					
Union Bank PLC	-	-	-	-	-
Commercial Bank PLC	10,120,000	-	-	-	10,120,000
Lanka Mount Castle (Pvt) Ltd	3,983,328	4,315,144	-	4,315,144	8,298,472
Hatton National Bank PLC	32,700,000	70,630,000	-	70,630,000	103,330,000
National Development Bank	-	392,070,000	-	392,070,000	392,070,000
21.3 Short term Loans					
HNB - Commercial Papers	-	-	-	-	-
HNB - Packing Credit Loan	35,564,290	-	-	-	35,564,290
Union Bank - Packing Credit Loan	43,618,185	-	-	-	43,618,185
Short Term Loan - HNB	1,460,000	-	-	-	1,460,000
21.4 Lease Creditors					
Lease Creditors	15,198,709	5,641,874	-	5,641,874	20,840,583
Total	**154,480,743**	**478,361,097**	-	**478,361,097**	**632,841,840**

Repayable within 1 year Rs.	Repayable After 1 year less than 5 years Rs.	Repayable After 5 years Rs.	Repayable After 1 year Rs.	Total as at 31.12.2012 Rs.
12,376,080	4,220,015	-	4,220,015	16,596,095
9,222,000	12,651,595	-	12,651,595	21,873,595
4,012,200	668,700	-	668,700	4,680,900
2,999,966	-	-	-	2,999,966
-	-	-	-	-
15,180,000	10,120,000	-	10,120,000	25,300,000
3,983,333	8,298,473	-	8,298,473	12,281,806
21,000,000	103,330,000	-	103,330,000	124,330,000
-	-	-	-	-
-	-	-	-	-
22,855,200	-	-	-	22,855,200
32,183,240	-	-	-	32,183,240
18,623,289	20,840,583	-	20,840,583	39,463,872
142,435,308	**160,129,366**	-	**160,129,366**	**302,564,674**

NOTE TO THE
FINANCIAL STATEMENTS *CONTD.*

		Repayable within 1 year Rs.	Repayable After 1 year less than 5 years Rs.	Repayable After 5 years Rs.	Repayable After 1 year Rs.
21.1	Long Term Loans				
	Asian Development Bank				
21.1.1	Through National Development Bank PLC				
	1997/1998 Sub Loan 1 (BA 0990 L031)	291,780	-	-	-
	Sub Loan 2 (BA 0990 L035)	217,760	-	-	-
	1998/1999 Sub Loan 1 (BA 0991 L031)	1,932,175	-	-	-
	Sub Loan 2 (BA 0991 L035)	1,778,300	-	-	-
		4,220,015	-	-	-
21.1.2	Through Hatton National Bank				
	2000/2001 Sub Loan 1	4,992,000	5,354,262	-	5,354,262
	Sub Loan 2	333,600	349,817	-	349,817
	2002 Sub Loan 1	1,521,265	-	-	-
	Sub Loan 2	100,651	-	-	-
		6,947,516	**5,704,079**	-	**5,704,079**
21.1.3	Through DFCC Bank	668,700	-	-	-
		668,700	-	-	-
21.1.5	Thorough LOLC Loan-03		-	-	-
		-	-	-	-
21.2.1	Commercial Bank				
	Loan -01	-	-	-	-
	Loan -02	10,120,000	-	-	
		10,120,000	-	-	-

Total as at 31.12.2013 Rs.	Total as at 31.12.2012 Rs.	Rate of interest	Terms of Re payments
291,780	2,042,460	11.54%	1st Instalment of Rs. 146,290 & 119 Monthly Installments of Rs. 145,890 payable commenced from 01.03.2004
217,760	871,040	11.54%	120 Monthly Installments of Rs. 54,440 payable commenced from 01.05.2004
1,932,175	6,569,395	11.54%	1st Installment of Rs. 386,790 & 119 Monthly Installments of Rs.386,435 payable commenced from 01.06.2004
1,778,300	7,113,200	11.54%	1st Installment of Rs. 444,667 & 119 Monthly Installments of Rs.444,575payable commenced from 01.05.2004
4,220,015	**16,596,095**		
10,346,262	15,338,262	15.63%	1st Installment of Rs. 362,262 & 119 Monthly Installments of Rs. 416,000 payable commenced from 01.02.2006
683,417	1,017,017	15.63%	1st Installment of Rs. 16,217 & 119 Monthly Installments of Rs.27,800 payable commenced from 01.02.2006
1,521,265	5,174,065	13.76%	1st Installment of Rs. 303,665 & 119 Monthly Installments of Rs. 304,400payable commenced from 01.06.2004
100,651	344,251	13.76%	1st Installment of Rs.19,451 & 119 Monthly Installments of Rs.20,300 payable commenced from 01.06.2004
12,651,595	**21,873,595**		
668,700	4,680,900	11.55%	1st Installment of Rs. 334,586 & 119 Monthly Installments of Rs.334,350 payable commenced from 01.03.2004
668,700	**4,680,900**		
-	2,999,966	18%	60 Installment of Rs. 333,334/= commenced from October 2008
-	**2,999,966**		
-	-		60 Installments of Rs. 1,500,000/= commenced from April 2009
10,120,000	25,300,000		60 Installments of USD 11,000/= commenced from September 2009
10,120,000	**25,300,000**		

NOTE TO THE FINANCIAL STATEMENTS *CONTD.*

		Repayable within 1 year Rs.	Repayable After 1 year less than 5 years Rs.	Repayable After 5 years Rs.	Repayable After 1 year Rs.
21.2	**Other Long Term Loans**				
21.2.2	**Lanka Mount Castle (Pvt) Ltd**				
	Loan -01	-	-	-	-
	Loan -02	3,983,328	4,315,144	-	4,315,144
		3,983,328	**4,315,144**	-	**4,315,144**
21.2.3	**Union Bank**	-	-	-	-
		-	-	-	-
21.2.4	**Hatton National Bank**	32,700,000	70,630,000	-	70,630,000
		32,700,000	**70,630,000**	-	**70,630,000**
21.2.5	**National Development Bank**				
	NDB Dollar Loan	-	392,070,000	-	392,070,000
		-	**392,070,000**	-	**392,070,000**
21.3	**Short Term Interest Bearing Borrowings**				
21.3.1	HNB - Packing Credit Loan	35,564,290	-	-	-
21.3.2	Union Bank - Packing Credit Loan	43,618,185	-	-	-
21.3.3	Short Term Loan - HNB	1,460,000	-	-	-

Total as at 31.12.2013 Rs.	Total as at 31.12.2012 Rs.	Rate of interest	Terms of Re payments
-	-	7% LIBOR	24 equal installments of USD 2,750/=
8,298,472	12,281,806	Interest Free	72 equal monthly installments
8,298,472	**12,281,806**		
-	3,976,412	25% on reducing balance	48 installments commenced from November 2008
-	**3,976,412**		
103,330,000	124,330,000		Capital to be paid after an initial grace period of 10 months by 48 installments commenced from September 2012
103,330,000	**124,330,000**		
392,070,000	-		Capital to be paid after an initial grace period of 24 months by 60 installments commencing from January 2016
392,070,000	-		
35,564,290	22,855,200		This loan has been provide for 3 months. After completion of 3 months that will be renewed again
43,618,185	32,183,240		
1,460,000	-		Payable after 60 days

NOTE TO THE FINANCIAL STATEMENTS *CONTD.*

	Repayable within 01 Year Rs.	Repayable after 01 Year Less than 05 Years Rs.	Total As At 31.12.2013 Rs.	Repayable within 01 Year Rs.	Repayable after 01 Year Less than 05 Years Rs.	Total As At 31.12.2012 Rs.
21.4 Lease Creditors						
21.4.1 Hatton National Bank						
Motor Vehicles						
Gross Liability	16,804,832	6,017,176	22,822,008	18,628,776	22,822,010	41,450,786
Finance Charge	(1,606,123)	(375,302)	(1,981,425)	(3,564,816)	(1,981,427)	(5,546,243)
Net Liability	15,198,709	5,641,874	20,840,583	15,063,960	20,840,583	35,904,543
21.4.2 Union Bank						
Motor Vehicles						
Gross Liability	-	-	-	3,858,969	-	3,858,969
Finance Charge	-	-	-	(299,640)	-	(299,640)
Net Liability	-	-	-	3,559,329	-	3,559,329
Total Gross Liability	16,804,832	6,017,176	22,822,008	22,487,745	22,822,010	45,309,755
Total Finance Charge	(1,606,123)	(375,302)	(1,981,425)	(3,864,456)	(1,981,427)	(5,845,883)
Total Net Liability	**15,198,709**	**5,641,874**	**20,840,583**	**18,623,289**	**20,840,583**	**39,463,872**

22. DEFERRED INCOME

	2013 Rs.	2012 Rs.
Deferred Grants and Subsidies		
As at 1 January	126,641,412	126,778,710
Add : Grants received / (refunded) during the year	4,032,625	9,574,071
Less : Amortisation for the year	(9,571,052)	(9,711,369)
As at 31 December	**121,102,985**	**126,641,412**

The Company has received funding from the Plantation Housing and Social Welfare Trust and Asian Development Bank for the development of workers facilities such as re-roofing of line rooms, latrines, water supply and sanitation etc. The amounts spent are included under the relevant classification of property, plant & equipment and the grant component is reflected under Deferred Grants and Subsidies.

23. DEFERRED TAX LIABILITY

	2013		2012	
	Temporary Difference Rs.	Tax Effect Rs.	Temporary Difference Rs.	Tax Effect Rs.
As at 1 January	645,516,130	61,636,833	352,281,632	20,567,129
Amount originating during the year	(102,087,037)	(21,069,736)	293,234,498	41,069,704
As at 31 December	**543,429,093**	**40,567,097**	**645,516,130**	**61,636,833**
Temporary difference of Property, Plant and Equipment (including mature and immature plantation)	1,311,390,745	206,675,181	1,412,995,965	222,688,164
Temporary difference of biological asset	782,592,496	78,259,250	696,119,941	69,611,994
Temporary difference of retirement benefit obligation	(902,848,859)	(142,288,980)	(714,912,990)	(112,670,287)
Carried forward tax losses	(647,705,289)	(102,078,354)	(748,686,786)	(117,993,037)
As at 31 December	**543,429,093**	**40,567,097**	**645,516,130**	**61,636,833**

The effective tax rate used to calculate deferred tax liability for all the Temporary Differences other than Biological Asset as at 31 December, 2013 is 15.76% (2012-15.76%) for the company.

The effective tax rate used to calculate deferred tax liability for Biological Asset as at 31 December, 2013 is 10% (2012-10%) for the company.

24. RETIREMENT BENEFIT OBLIGATIONS

	2013 Rs.	2012 Rs.
As at 1 January	714,912,990	759,954,933
Interest Cost	71,491,299	75,995,493
Current Service Cost	48,314,741	(16,568,975)
Actuarial (Gain) / Loss	154,719,978	-
Payments for the year	(86,590,149)	(104,468,461)
As at 31 December	**902,848,859**	**714,912,990**

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 benifit in order to determine the present value of the retirement benefit obligation 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.

24. RETIREMENT BENEFIT OBLIGATIONS (contd.)

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

According to the actuarial valuation report issued by Actuarial & Management Consultants (Pvt) Limited, a firm of professional actuaries as at 31 December 2013 the actuarial present value of promised retirement benefits amounted to Rs. 902,848,859/=. If the company had provided for gratuity on the basis of 14 days wages & half months salary for each completed year of service, the liability would have been Rs. 1,083,924,286/=. Hence, there is a contingent liability of Rs. 181,075,427/= , which would crystallise only if the company ceases to be a going concern.

For the Financial year 2012, the company had provided for gratuity on the basis of fourteen days wages & half months' salary for each completed year of service since the company's policy was to do the actuarial valuation once in two years. Nevertheless, financial year 2013 onwards management has decided to carried out the Actuarial Valuation on annual basis.

The following payments are expected from the defined benefit plan obligation in future years.

	2013		
	Monthly Paid Staff Rs.	Daily Paid Staff Rs.	Total Rs.
Within the next 12 months	22,513,914	87,037,449	109,551,363
Between 2 and 5 years	24,492,317	148,568,194	173,060,511
Beyond 5 years	27,895,299	592,341,686	620,236,985
	74,901,530	**827,947,329**	**902,848,859**

The weigted average duration of the Defind Benefit plan obligation at the end of the reporting period is 4.78 years and 10.15 Years for staff and workers respectively.

The key assumptions used by Actuarial & Management Consultants (Pvt) Limited include the following.

	2013
(i) **Rate of Interest**	10%
(ii) **Rate of Salary Increase**	
Workers	18% (every two years)
Staff	10% (per annum)
(iii) **Retirement Age**	
Workers	60 years
Staff	58 years
(iv) **Daily Wage Rate**	
Tea	Rs. 450/-
Rubber	Rs. 450/-

24.1 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:

	Rs.	Rs.	Rs.
A one percentage point change in the discount rate.	+1%	0%	-1%
As at 31 December 2013	828,293,246	902,848,859	989,486,269
A one percentage point change in the salary / wage increment rate.	+1%	0%	-1%
As at 31 December 2013	942,176,910	902,848,859	865,826,515

25. LIABILITY TO MAKE LEASE PAYMENT

	2013 Rs.	2012 Rs.
Gross Liability		
As at 31 December	270,141,699	278,730,699
Finance cost allocated to future periods	(117,967,334)	(124,150,540)
Net Liability	**152,174,365**	**154,580,159**
Payable within one year		
Gross liability	8,589,000	8,589,000
Finance cost allocated to future periods	(6,086,975)	(6,183,206)
Net liability transferred to current liabilities	2,502,025	2,405,794
Payable within two to five years		
Gross liability	34,356,000	34,356,000
Finance cost allocated to future periods	(23,306,249)	(23,731,239)
Net liability	11,049,751	10,624,761
Payable after five years		
Gross liability	227,196,699	235,785,699
Finance cost allocated to future periods	(88,574,110)	(94,236,094)
Net liability	138,622,589	141,549,605
Net liability payable after one year	**149,672,340**	**152,174,366**

The lease of the estates have been amended, with effect from 22nd June 1996 to an amount substantially higher than the previous lease rental of Rs. 500/= per estate per annum. The first rental payable under the revised basis is Rs. 8.59 million from 22nd June 1996. This amount is to be inflated annually by the Gross Domestic Product (GDP) deflator, and is in the form of a contingent rental.

The Statement of Recommended Practice (SoRP) for Right-to-use of Land on Lease was approved by the Council of the Institute of Chartered Accountants of Sri Lanka on 19th 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 21st August 2013. The Company has not reassessed the Right-to-use of Land because this is not a 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.

Gross Liability	=	1,631,669,033
Finance Charges	=	(1,113,583,567)
Net Liability	=	**518,085,466**

The above reassessed liability is not reflected in these Financial Statements.

26. TRADE AND OTHER PAYABLES

	2013 Rs.	2012 Rs.
Trade Creditors	159,491,232	160,813,069
Employee Related Creditors	174,998,751	133,315,691
Accrued Expenses	14,613,512	13,536,344
Others	4,100,264	4,100,264
	353,203,760	**311,765,368**

27. SECURITIES PLEDGED

Following assets have been pledged as security for liabilities.

Nature of Liability	Loan/Facility Rs.	Security	Carrying amount of assets pledged 2013 Rs.	2012 Rs.
A.D.B. Loan through DFCC	70,843,000	Primary mortgage over leasehold rights of Welimada Estate.	668,700	4,680,900
A.D.B. Loan through NDB	170,609,600	Primary mortgage over leasehold rights of Dickwella, St.James, Uva Highlands, Sarnia and Neluwa Estates.	4,220,015	16,596,095
A.D.B. Loan through HNB	92,153,096	Primary mortgage over leasehold rights of Warwick, Unugalla, Ledgerwatte, Hakgalla, Ellawela Estates.	12,651,595	21,873,595
ADB loan through LOLC	20,000,000	Primary mortgage over leasehold rights of Chesteford Estates.	-	2,999,966
Overdraft - HNB	210,000,000	Primary mortgage over leasehold rights of Warwick, Hakgalla, Ledgerwatte, Unugalla, Keenakelle, Downside & Queentown Estates.	124,289,920	124,330,000
Overdraft - Union Bank	80,000,000	Primary mortgage over leasehold rights of Dyraba & Aislaby Estates.	10,170,576	45,349,047
HNB - Long Term Loan	122,830,000	Primary mortgage over leasehold rights of Land, Buildings and immovable Machinery of Chelsea, attempitiya and Uva Ketawela.	103,330,000	122,830,000
NDB - Dollar Loan	392,070,000	Primary mortgage over leasehold rights of Land, Buildings and immovable Machinery of Neluwa & Uva Highlands	392,070,000	-

28. CAPITAL COMMITMENTS

	2013 Rs.	2012 Rs.
Followings are the capital commitments as at the Statement of Financial Position date.		
Contracted , but not provided for	Nill	Nil
Total	**Nil**	**Nil**

29. CONTINGENCIES

No known contingent liabilities exist as at the Statement of Financial Position date.

30. EVENTS AFTER THE REPORTING PERIOD

There have been no material events occurring after the Statement of Financial Position date that require adjustments or disclosures in the Financial statements other than the following event:

* Prime Real Estate Australia Pty Ltd is a subsidiary of Malwatte Valley Plantations PLC which is having 99.99% holding stake in Ordinary Shares with effect from 27 February 2014.

31. RELATED PARTY DISCLOSURES

31.1 Details of Significant Related Party Disclosures are as follows

Transactions with the parent and related entities

Nature of the Company	Relationship	Name of Director	Nature of Transaction	Amount Charged/ (Credited) 2013 Rs.	2012 Rs.
Oreocromis Dynamics (Pvt) Ltd.	Related Company	Mr. W.L.Bogtstra	Advances	21,316	56,741
		Mr. Lucas Bogtstra			
		Mr. T.R. Gerlach			
Bloemendal Flower Company (Pvt) Ltd.	Related Company	Mr. W.L. Bogtstra	Advances	527,443	633,244
		Mr. Lucas Bogtstra			
		Mr. T.R. Gerlach			
Malwatte Hotel and Resort (Private) Ltd.	Related Company	Mr. W.L. Bogtstra	Advances	1,216,798	(243,926)
		Mr. Lucas Bogtstra			
Prime Real Estate Australia (Pty) Ltd.	Related Company	Mr. W.L. Bogtstra	Advances	28,056,199	-
		Mr. Lucas Bogtstra			
		Mr. S.N. Dharmaratna			
		Mr. T.R. Gerlach			
		Ms. S.D.T. Dharmaratna			

31.2 Transactions with the key management personnel of the company or parent

There were no material transactions with the Key Management Personnel of the Company and its parent other than those disclosed in Notes 9 & 31.1 to the Financial Statements.

32. RELATED PARTY TRANSACTIONS

There are no related party transactions other than those disclosed in Notes 18 & 31 to the financial statements.

SHAREHOLDERS & INVESTORS INFORMATION

Distribution of Shares (Voting)

No of Shares Held	No of Share Holders	No of Share Holders %	Total Holdings	Total Holdings %
1 - 1,000	8,166	42.40%	3,677,731	1.81%
1,001 - 10,000	10,693	55.52%	21,365,276	10.54%
10,001 - 100,000	341	1.77%	10,988,364	5.42%
100,001 - 1,000,000	52	0 .27%	13,552,266	6.68%
1,000,001 & over	6	0 .03%	153,208,694	75.55%
Grand Total	**19,258**	**100.00%**	**202,792,331**	**100.00%**

Analysis Report of Shareholder's as at 31st December 2013

	No of Share Holders	No of Share Holders %	Total Holdings	Total Holdings %
Individual	19,168	99.53%	46,520,247	22.94%
Institution	90	0.47%	156,272,084	77.06%
Grand Total	**19,258**	**100.00%**	**224,590,160**	**100.00%**

Share Holder's Categorized Summary Report As at 31st December 2013 (Non Voting)

No of Shares Held	No of Share Holders	No of Share Holders %	Total Holdings	Total Holdings %
1 - 1,000	268	53.17%	111,812	0.55%
1,001 - 10,000	179	35.52%	750,384	3.71%
10,001 - 100,000	49	9.72%	1,343,013	6.63%
100,001 - 1,000,000	7	1.39%	1,617,450	7.99%
1,000,001 & over	1	0.20%	16,428,001	81.12%
Grand Total	**504**	**100.00%**	**23,000,000**	**100.00%**

Analysis Report of Shareholder's as at 31st December 2013

	No of Share Holders	No of Share Holders %	Total Holdings	Total Holdings %
Individual	481	95.44%	2,173,565	10.73%
Institution	23	4.56%	18,077,095	89.27%
Grand Total	**458**	**100%**	**23,000,000**	**100%**
Residence	503	99.80%	20,150,660	99.51%
Non-Residence	1	0.20%	100,000	.49%
Grand Total	**504**	**100.00%**	**23,000,000**	**100.00%**

SHAREHOLDERS & INVESTORS INFORMATION *CONTD.*

Top 20 Voting Shareholder's List As At 31St December 2013

No's	Name/Address	No. of Shares	%
01.	Wayamba Plantation (Private) Limited	135,839,160	66.98
02.	Phillip Securities (Pvt) Ltd	8,482,650	04.18
03.	EST. Maripapillai Radhakrishnan	3,620,000	01.79
04.	Pershing LLC S/A Avernach Grauson & Co.	2,500,000	01.23
05.	Almas Organisation (Pvt) Ltd	1,574,727	00.78
06.	Peoples Leasing Finance PLC/Carlines Holdings (Pvt) Ltd	1,192,157	00.59
07.	Dr. Niranjan Deepal Gunawardena	1,000,000	00.49
08.	Employees Provident Fund	792,000	00.39
09.	Mr.Panagodage Somadasa	721,526	00.36
10.	Mr. Kahagalage Chandana Mahesh	646,429	00.32
11.	Mr. Sellathurai Prabagar	620,000	00.31
12.	Carlines Holdings (Pvt) Ltd	594,707	00.29
13.	Tranz Dominion,L.L.C.	520,000	00.26
14.	Mr.Kangasu Chelvadurai Vignarajah	438,000	00.22
15.	Commercial Bank of Ceylon PLC/D S J V Costa	428,426	00.21
16.	Commercial Bank of Ceylon PLC/D R Costa	427,555	00.21
17.	Waldock Mackenzie Limited/Mr.D.M.P.Dissanayake	400,000	00.20
18.	Qualitea Ceylon (Pvt) Ltd	355,000	00.18
19.	Mr. A M Nahveler Fernandopulle	331,168	00.16
20.	Mrs. Savanthi Ambrita Fernandopulle	316,295	00.16
	Public Shareholding % - 32.92%		

Top 20 Non-Voting Shareholder's List As A 31St December 2013

No's	Name/Address	No. of Shares	%
01.	Lanka Mountcastle (Pvt) Ltd	16,428,001	81.12
02.	Wadock Mackenzie Limited/Mr. H M S Abdulhussein	500,000	02.47
03.	Employees provident Fund	346,000	01.71
04.	Mr.Yusuf Husseinally Abdulhussein	206,000	01.02
05.	Mr.L A P K Liyanwala	190,000	00.94
06.	Peoples Leasing Finance PLC/Carlines Holdings (Pvt) Ltd	158,400	00.78
07.	Seylan Bank/Jayantha Dewage	112,000	00.55
08.	Peoples Leasing Finance PLC/C.A.Perera	105,050	00.52
09.	Phillip Securities (Pte) ltd	100,000	00.49
10.	Eskimo Fashion Knitwear (Pvt) Ltd	90,000	00.44
11.	Essajee Carimjee & Company (Pvt) Ltd	86,400	00.43
12.	Mr.M H M Fawsan	57,800	00.29
13.	Mr.L A J Fiedelis Morais	50,000	00.25
14.	Mr.J Gunapala	50,000	00.25
15.	Wadock Mackenzie Limited/Mr. M.Udayasundera & Mrs. M U Vanitha	48,593	00.24
16.	Mr. K C Mahesh	46,553	00.23
17.	Mr. L Don D Y Perera	40,000	00.20
18.	Mrs. H P K S H Amarasinghe	34,699	00.17
19.	Mrs. P Poonkulavathani	34,441	00.17
20.	Miss.T K P Sirima Dias	32,500	00.16
	Public Shareholding % - 18.88%		

Directors Shareholdings in the Company (Voting)

Name	As at 31.12.2012	As at 31.12.2013
Mr. W. L. Bogtstra	11,790,970	106,546
Mr. Lucas Bogtstra	100,000	100,000
Mr. T. R. Gerlach	Nil	Nil
Mrs. C. A. Gerlach	Nil	Nil
Mr. S. N. Dharmaratna	Nil	Nil
Mrs. F. L. Bogtstra	Nil	Nil
Mr. K. A. S. Gunasekera	Nil	Nil
Mr. G. C. De Silva	Nil	Nil
Mr. Frits Bogtstra	Nil	Nil

SHAREHOLDERS & INVESTORS INFORMATION *CONTD.*

Directors Shareholdings in the Company (Non-Voting)

Name	As at 31.12.2012	As at 31.12.2013
Mr. W. L. Bogtstra	Nil	Nil
Mr. Lucas Bogtstra	Nil	Nil
Mr. T. R. Gerlach	Nil	Nil
Mrs. C. A. Gerlach	Nil	Nil
Mr. S. N. Dharmaratna	Nil	Nil
Mrs. F. L. Bogtstra	Nil	Nil
Mr. K. A. S. Gunasekera	Nil	Nil
Mr. G. C. De Silva	Nil	Nil
Mr. Frits Bogtstra	Nil	Nil

Stock Exchange

Interim Financial Statements for the forth quarter 31st December 2013 has been submitted to the Colombo Stock Exchange as required by the listing rules.

Market Value	Voting - 2013	Voting -2012	Non Voting - 2013	Non Voting - 2012
Highest	5.20	6.00	5.30	5.90
Lowest	4.30	3.10	3.70	3.10
Year End	**4.40**	**4.70**	**3.90**	**4.40**

Dividend Payment

First and final dividend of Rs. 0.10 per share is recommended by the Board to be paid on 9th June 2014. (2012 – Rs.0.075)

Share Trading	Voting - 2013	Voting - 2012	Non Voting - 2013	Non Voting - 2012
No of transactions	6,450	10,464	3,358	1,459
No of shares traded	17,537,148	43,049,255	3,022,605	2,764,719
Value of sahres traded - Rs.	82,272,227	187,750,857	13,025,113	12,225,715

ESTATES MANAGED BY THE COMPANY

The following Estates are managed by the company, which were formally owned and managed by the Janatha Estate Development Board and Sri Lanka State Plantations Corporation.

Zone	Estate Name
Tea Estates	
Hali Ela Zone	Dickwella Estate Ledgerwatte Estate Unugalla Estate Sarnia Estate (Keenakellie Estate has been amalgamated) Queenstown Estate Uva Ketawala Estate
Bandarawela Zone	Uva Highlands Estate (Ellawala Estate has been Amalgamated) Aislaby Estate Chelsea Estate St.James Estate Neluwa Estate Attampitiya Estate
Welimada Zone	Downside Estate Welimada Estate Dyraaba Estate Hugoland Estate
Ambawela Zone	Warwick Estate Hakgala Estate
Rubber Estate	
Avissawella Zone	Chesterford Estate Glenesk Estate Moralioya Estate Sunnycroft Estate Talduwa Estate Vincit Estate

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the **TWENTIETH ANNUAL GENERAL MEETING of MALWATTE VALLEY PLANTATIONS PLC** will be held on Monday 9th June 2014 at 10.30 a.m. at the Sri Lanka Foundation Institute, No. 100, Independence Square, Colombo 7, for the following purpose:

Agenda

1. To receive and consider the Report of the Directors, Statement of Accounts and the Balance Sheet of the Company for the year ended 31st December 2013 and the Report of the Auditors thereon.

2. To declare a First and Final Dividend of 0.10 Cents per Share on the Ordinary Shares of the Company.

3. To pass the following Ordinary Resolution pursuant to Section 211 of the Companies Act, No. 7 of 2007:

   "Resolved that Mr. W. L. Bogtstra who has reached the age of 81 years be and is hereby re-elected a Director of the Company and it is hereby declared that the age limit of 70 years referred to in Section 210 of the Companies Act, No. 7 of 2007 shall not apply to the said Director".

4. To pass the following Ordinary Resolution pursuant to Section 211 of the Companies Act, No. 7 of 2007:

   Resolved that Mr. K.A.S.Gunasekara who has reached the age of 72 years be and is hereby re-elected a Director of the Company and it is hereby declared that the age limit of 70 years referred to in Section 210 of the Companies Act, No. 7 of 2007 shall not apply to the said Director".

5. To re-appoint M/s. Ernst and Young, Chartered Accountants as Auditors of the Company and to authorize the Directors to determine their remuneration.

6. To authorize the Directors to determine Donations for the year 2014 and up to the date of the next Annual General Meeting.

BY ORDER OF THE BOARD

Management Applications (Private) Limited
Secretaries

Colombo dated 16th May 2014

Note:

1. A member is entitled to appoint a proxy to attend and vote at the Meeting on his/her behalf. A form of proxy is enclosed for this purpose.
2. A proxy need not be a member of the Company.
3. To be valid the completed Form of Proxy should be lodged at the Registered Office of the Company at No. 280, Dam Street, Colombo 12, not less than 48 hours before the appointed time for holding the meeting.
4. For security reasons Shareholders/Proxy holders attending the Meeting are kindly requested to bring their National Identity Card or Passport.

FORM OF PROXY

*I/We ....

of ....

being * a shareholder(s)/ member (s) of Malwatte Valley Plantations PLC hereby appoint:

(1) ....

of ....

or failing him, Mr. W. L. Bogtstra, (Chairman of the Company) of Colombo or failing him, one of the Directors of the Company as *my/our Proxy to represent me/us and * .... to vote on *my/our behalf at the **TWENTIETH ANNUAL GENERAL MEETING** of the company to be held on **Monday 9th June 2014, at 10.30 a.m.** and at every poll which may be taken in consequent of the aforesaid meeting and at any adjournment thereof:

*I/we indicate *my/our vote on the resolutions below as follows:

	For	Against
1. To receive and consider the Report of the Directors, Statement of Accounts and the Balance Sheet of the Company for the year ended 31st December 2013 and the Report of the Auditors thereon.		
2. To declare a First and Final Dividend of 0.10 Cents per Share on the Ordinary Shares of the Company.		
3. To pass the following Ordinary Resolution pursuant to Section 211 of the Companies Act, No. 7 of 2007: "Resolved that Mr. W. L. Bogtstra who has reached the age of 81 years be and is hereby re-elected a Director of the Company and it is hereby declared that the age limit of 70 years referred to in Section 210 of the Companies Act, No. 7 of 2007 shall not apply to the said Director".		
4. To pass the following Ordinary Resolution pursuant to Section 211 of the Companies Act, No. 7 of 2007: Resolved that Mr. K.A.S. Gunasekara who has reached the age of 72 years be and Is hereby re-elected a Director of the Company and it is hereby declared that the age limit of 70 years referred to in Section 210 of the Companies Act, No. 7 of 2007 shall not apply to the said Director".		
5. To re-appoint M/s. Ernst and Young, Chartered Accountants as Auditors of the Company and to authorize the Directors to determine their remuneration.		
6. To authorize the Directors to determine Donations for the year 2014 and up to the date of the next Annual General Meeting.		

Signed this .... day of .... Two Thousand and Fourteen.

Note:

1. Please delete the inappropriate words.*
2. Instructions as to completion appear on the reverse.
3. If you wish your proxy to speak at the meeting you should interpolate the words "to speak and" at the asterisk immediately before the words "to vote".

....

*Signature/s

Instructions as to Completion

1. To be valid this Form of Proxy should be deposited at the Registered Office of the company No. 280, Dam Street, Colombo 12 by 10.30 a.m. on 7th June 2014.

2. In perfecting the Form of Proxy, ensure that all details are eligible.

3. If you wish to appoint a person other than the Chairman (or failing him, one of the Directors) as your Proxy, please insert the relevant details at (1) overleaf and initial against this entry.

4. Please indicate with an "X" in the space provided how your Proxy is to vote on each resolution. If no indication is given, the Proxy in his discretion will vote, as he thinks fit.

5. In the case of a Company/Corporation, the Proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.

6. In the case of a proxy signed by an Attorney, the Power of Attorney must be deposited at the Registered Office for Registration, if such power of Attorney has not already been registered with the Company.

CORPORATE INFORMATION

Name of the company
Malwatte Valley Plantations PLC
(PQ 111)

Date of incorporation
22nd June 1992

Board of directors
Mr. W. L. Bogtstra - (Chairman / Managing Director)
Mr. Lucas Bogtstra
Mr. T. R. Gerlach
Mr. S. N Dharmaratna [FCA, FSCMA, CGMA, ACMA]
Ms. C. A. Gerlach
Mr. K. A. S. Gunesekera [BA (Cey), SLAS]
Mr. G. Chamindra De Silva [MBA, FCA, FCMA(UK), FCCA (UK), CA (SD)]
Mr. Frits Bogtstra [MBA, BSc (Hon) (UK)]

Secretaries
Management Applications (Pvt) Ltd.
12, Rotunda Gardens,
Colombo – 03.
Tel. No: 2445751/2327595

Registered office
No. 280, Dam Street,
Colombo – 12, Sri Lanka.
Tel. No: 5388800

Auditors
Ernst & Young
Chartered Accountants
No. 201, De Sarem Place,
Colombo - 10.

Bankers
Hatton National Bank PLC
Union Bank PLC
NDB Bank
People's Bank
DFCC Bank

Produced by Copyline (Pvt) Ltd
Printed by Gunaratne Offset Ltd

INFINITE
HORIZONS