Madulsima
PLANTATIONS PLC
A MEMBER OF MELSTACORP

ANNUAL REPORT 2018

Content

Our Vision

To be a trend setter to the Plantation Industry by being a result oriented innovative Tea Company

Our Mission

- *To manage the Plantations as economically viable units and ensure the enhancement of their agro economic value.*
- *To improve the Socio Economic Conditions of the Workers.*
- *To enhance returns to the Shareholders*
- *To become the best managed World Class Tea Company reputed for quality.*

Historical Background

The Company was originally incorporated as Madulsima Plantations Ltd on 22nd June 1992 by Certificate of Incorporation issued in terms of Section 15 (1) of the Company's Act No. 17 of 1982 read with Section 2 (2) of the Conversion of Public Corporation or Government owned business Undertakings into Public Company's Act No. 23 of 1987 and the order published in the Gazette Extra Ordinary of the Democratic Socialist Republic of Sri Lanka dated 22nd June 1992. The Company was thereafter reregistered under the Company's Act No. 07 of 2007 as Company No PQ 184 and a fresh Certificate of Incorporation issued under the provision of Section 485 (6) of the Company's Act No. 7 of 2007 with the corporate name changed by operation of law to Madulsima Plantations PLC.

The first tranche of 51% (10.2 million shares) of the issued share capital of the Company was sold by the Secretary to the Treasury through the Colombo Stock Exchange on an "all or nothing" basis and was purchased by Stassen Exports Limited in February 1996.

The convertible Debentures of Rs.90 million issued in February 1996 to Distilleries Company of Sri Lanka were converted to 9 million ordinary shares on 30th November 1998 and were issued to the holder.

As per decision of the Government 10% (2 million shares) of the shares of the Company belonging to the Secretary to the Treasury on behalf of the Government were distributed among the employees of the Company.

20% (4 million shares) of the shares of the Company belonging to the Secretary to the Treasury on behalf of the Government were sold to the public through the Colombo Stock Exchange.

16,949,673 shares belonging to the main shareholder, Stassen Exports (Pvt) Ltd were purchased by related party Melstacorp PLC on 22nd September 2017.

Notice of Meeting

Notice is hereby given that the Twenty Sixth Annual General Meeting of Madulsima Plantations PLC will be held at the Auditorium, Sri Lanka Foundation Institute, 100 Independence Square, Colombo 07, on Tuesday, 25th June 2019 at 10.00 a.m. for the following purposes :

1. To receive and consider the Report of the Directors and the Financial Statements of the Company for the year ended 31st December 2018 together with the Auditors' Report thereon.

2. To re-elect Mr D H S Jayawardena who is above the age of 70 years as a Director of the Company in terms of Sections 210 and 211 of the Companies Act No 7 of 2007.

3. To re-elect Dr N M Abdul Gaffar who is above the age of 70 years as a Director of the Company in terms of Sections 210 and 211 of the Companies Act No 7 of 2007.

4. To re-elect Dr A Shakthevale who is above the age of 70 years as a Director of the Company in terms of Sections 210 and 211 of the Companies Act No 7 of 2007.

5. To re-elect Mr D Hasitha S Jayawardena who retires by rotation at the Annual General Meeting in terms of Article 92 of the Articles of Association as a Director of the Company.

6. To appoint Messrs. KPMG as the Company's Auditors and to authorise the directors to determine their remuneration.

By order of the Board
Pradeep A Jayatunge
Secretary

Colombo
22nd April 2019

Note

a) A member entitled to attend and vote at the above Meeting is entitled to appoint a Proxy to attend and vote instead of him. A proxy need not be a member of the Company.

b) The Shareholders and the proxy holders are kindly requested to bring this report along with an acceptable form of Identity.

c) A Proxy may not speak at the Meeting unless expressly authorised by the instrument appointing him. The Proxy may vote on a poll and join in demanding a poll) but not on a show of hands.

d) The completed form of proxy should be deposited at the Registered Office of the Company at 833, Sirimavo Bandaranaike Mawatha, Colombo 14, not less than 48 hours before the time for holding the meeting.

Corporate Information

Company	Madulsima Plantations PLC	
Legal Form	Quoted Public Company	
Date of Incorporation	22nd June 1992	
Company Registration No.	P Q 184	
Registered Office	833, Sirimavo Bandaranaike Mawatha, Colombo 14	
Board of Directors	Mr. D H S Jayawardena	Chairman/MD
	Dr. N M Abdul Gaffar	Non Executive Director
	Mr. D Hasitha S Jayawardena	Non Executive Director
	Mr. B M D K S Basnayake	Executive Director
	Dr. A Shakthevale	Independent Director
	Mr. D S K Amarasekera	Independent Director
Secretary	Mr. P A Jayatunga, 833 Sirimavo Bandaranaike Mawatha Colombo 14. Telephone : 2524734/2522871	
Registrars	P W Corporate Secretarial (Pvt) Ltd 3/17 Kynsey Road Colombo 08 Telephone : 4640360 -3	
Auditors	Messrs. Ernst & Young Chartered Accountants 201 De Seram Place Colombo 10	
Bankers	Hatton National Bank PLC City Office, 16 Janadhipathi Mawatha, Colombo 01	
Managing Agents	Stassen Exports (Pvt) Limited 833 Sirimavo Bandaranaike Mawatha Colombo 14	

Management Team

Corporate Management Team

Mr. Dilum Pathirana	Chief Executive Officer (Appointed w.e.f 25/4/2019)
Mr. P. D. B. I. Gunawardana	Financial Controller
Mr. D. M. Samantha K Dissanayake	Senior Accountant
Mr. R. M. C. Rathnayake	Manager - IT
Mr. W. S. Sameera Aberathna	Manager - Forestry

Estate Management Team

Name of Superintendent	**Name of Estates**
Mr. K. D. Senerath	Battawatte
Mr. M. A. M. Perera	Cocogalla
Mr. L. G. S.Wijeratna	El-Teb
Mr. S. S. Slemmermann (Temp. Actg. Supdt.)	Galloola (w.e.f. 01/04/2019)
Mr. A. S. A. Madena	Mahadowa
Mr. A. C. de Arthur	Roeberry
Mr. I. A. Bogahawatte (Temp. Actg. Supdt.)	Uvakellie
Mr. M. A. Ratnadason	Verellapatna
Mr. R. S. J. A.Perera	Kew
Mr. D. H. A. Wijewardhana	Kirkoswald
Mr. S. P. Ariyarathne	Theresia
Mr. T. C. Wedisinghe (Temp. Actg. Supdt.)	Venture

Chairman's Review

On behalf of the Board of Directors of Madulsima Plantations PLC, I have pleasure in presenting the Annual Report and the Financial Statements of the Company for the year ended 31st December 2018.

Company Performance

The Company recorded total revenue of Rs 2.1 billion for the year compared to 2.6 billion in 2017. For the year 2018 the Company incurred a before tax loss of Rs. 425 million, and with deferred taxation of Rs 175 million , the after tax loss Rs. 600 million, when compared with before tax profit of Rs. 109 million, and after tax profit of Rs. 45 million in 2017 which was after adjustment of one off management fee write back of Rs. 149 million.

On production of made tea, the Company incurred a loss of Rs. 625 Million in 2018 compared to loss of Rs. 232 Million in 2017. This was mainly due to effects of the impact shown in the following table.

Due to the wage increment which was effective from January 2019, gratuity provision has been increased by 126 Million. The profitability for the year 2018 was negatively impacted by Rs. 131 Million compared to the corresponding period due to the low tea prices recorded at the Colombo Tea Auction effected higher accounting provision for closing stocks due to inventory valued at NRV which is lower than the COP. Despite the negative performances in the year 2018, the Company has invested additional Rs. 71 Million for good agricultural practices. A further loss of Rs. 38 Million was caused in 2018 due to crop lost due to the industrial un-rest .

Further, I would like to highlight had the 2017 CTA prices continued in 2018 too, the Company could have additionally gained 168 million , which was not reflected positively in 2018 results, compared to 2017 year .

		Rs.Million
1	Provision of Higher Gratuity due to wage hike in 2019	126
2	Impact of overall CTA Price drop in 2018	
	1) Accounting Provision for closing stock (Inventory valued at NRV which is lower than the COP)	131
	11) Revenue loss in 2018 due to lower CTA prices for the year compared with same in 2017	168
3	Additional cost incurred in 2018 for best agricultural practices	71
4	Impact of crop losses due to industrial unrest during the year	38
	Total Negative Impact for the Year	534

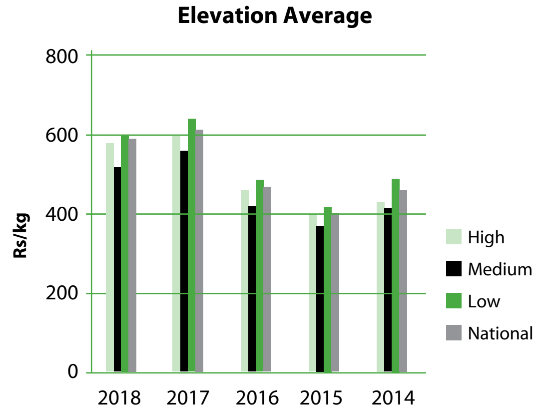
Company Performance	**2018**	**2017**	**2016**	**2015**	**2014**
Production ('000kg)	4,144	4,412	4,475	5,010	5,320
Yield (kg/ha)	847	860	914	1,098	1,128
Revenue (Rs.Mn)	2,144	2,605	1,842	1,870	2,208
NSA (Rs.)	530.78	572.39	426.67	368.45	401.68
COP (Rs.)	685.47	623.44	524.13	467.33	482.23
Profit / (Loss) (Rs/kg)	(154.69)	(51.05)	(97.45)	(98.88)	(80.55)

Production									
Year	**Madulsima Region**			**Bogawanthalawa Region**			**Company**		
	Estate Crop	**Bought crop**	**Total Crop**	**Estate Crop**	**Bought crop**	**Total Crop**	**Estate Crop**	**Bought crop**	**Total Crop**
2018	1,653,172	1,096,934	2,750,106	1,371,986	22,142	1,394,128	3,025,158	1,119,076	4,144,234
2017	1,798,370	1,307,069	3,105,439	1,274,860	32,017	1,306,877	3,073,230	1,339,086	4,412,316
Variance	(145,198)	(210,135)	(355,333)	97,126	(9,875)	87,251	(48,072)	(220,010)	(268,082)
Variance %	(8.07%)	(16.08%)	(11.44%)	7.62%	(30.84%)	6.68%	(1.56%)	(16.43%)	(6.08%)

Chairman's Review (contd...)

Elevation Averages (Rs per kg)					
	2018	2017	2016	2015	2014
High	577.92	606.95	457.58	400.30	430.59
Medium	521.06	563.43	420.67	362.93	414.41
Low	601.74	638.23	487.16	417.41	488.61
National	584.08	620.17	470.85	405.33	465.06

Source: Colombo Tea Brokers Association



The Production of the company for the year 2018 recorded 4.14 million kilograms which shows a marginal decline of 268 thousand kilograms tea production compared to 2017 which is 4.41 million kilograms. During the year Bogawanthalawa Region recorded a positive growth of 6.68% in production compared to 2017. Due to adverse weather experienced in Madulsima Region the production declined by 355 thousand kilograms which was a 11.44% decline in crop compared to 2017.

The capital expenditure incurred during the year was Rs 318 million which is a significant increase compared to Rs 62 million in 2017. During the year company invested Rs 219 million for upgrading the factory and machineries, Rs. 29 million for building and land improvements and Rs 31 million on agricultural vehicles and further Rs 39 million was invested on tea re planting and crop diversification.

During the year the company planted 116,759 number of VP tea plants in our plantations and under crop diversification strategy 8,400 number of timber plants (Eucalyptus Grandis) and 8,332 plants of cinnamon was planted during 2018.

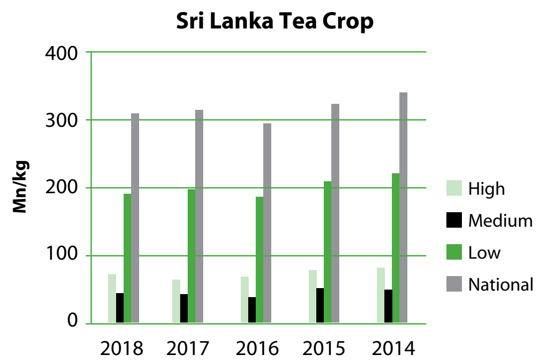
Sri Lanka Tea Industry Performance

Sri Lanka Tea industry moderately slowdown with decline in production and tea export in 2018. The tea production in Sri Lanka decreased by 3.24 million Kg in 2018 compared to 2017. The production in 2018 and 2017 was 303.84 million Kg and 307.08 million Kg respectively. The declining trend in Sri Lanka tea production is seen since 2013. A similar trend was evident in the tea export as well.

Sri Lanka tea export recorded 282 million Kg in January to December 2018 which shows a decrease of 6.6 million Kg (2.3 %) compared to the corresponding year.

Plantation Industry (Qty in Million kg)					
	2018	**2017**	**2016**	**2015**	**2014**
High	64.81	64.64	64.43	75.43	78.87
Medium	47.02	45.65	44.51	50.97	49.21
Low	192.01	197.42	183.64	202.37	209.95
Total	303.84	307.72	292.58	328.77	338.03

Source: Sri Lanka Tea Board



The decline in Sri Lanka tea production for the financial year 2018 was effected mainly due to policy decision of the Government on banning use of Glyphosate (weedicide) and the curtailing fertilizer subsidies causing high cost of fertilizer which resulted in reduction in crop. Adverse weather conditions prevailed in the tea growing areas during the year too resulted in reduction in crop.

The global demand for tea has increased over the years due to its health benefits and growth of an increasingly health conscious population globally. However, Sri Lanka's supply of tea has not kept up with the growth in global demand for tea.

The Sri Lanka Tea Board statistics indicate that the Iraq remains as the largest importer of Sri Lanka Tea for the period of January to December 2018 amounting 38.4 Million Kg and increase of 3.4 Million Kg compared to 2017 followed by Turkey and Russia being the second and third largest importers of Sri Lankan tea for the period 2018.

Chairman's Review

Prospects for 2019

The lifting of the ban on the use of Glyphosate (weedicide) and the Government liberal policy on fertilizer would have positive impact on the tea industry in 2019. This would give much relief particularly for Regional Plantation Companies (RPC) to carry out the required agricultural practices to achieve the full potential of the plantations. However, adverse weather, aging of tea bushes would be the downfall which has to be addressed positively.

The Colombo Tea Auction have shown positive growth of price appreciation in 4th quarter 2018 compared to 3rd quarter 2018 particularly for Leafy Orthodox teas. This pattern was observed during 1st quarter of 2019 as well and we believe the same trend would continue throughout 2019.

From the company's point of view we have taken many positive steps to improve the productivity of our plantations despite the trading loss.

- In order to achieve long-term sustainable growth in our plantations, we are planning to invest in tea replanting & infilling (3% of the revenue extent per annum over the next 10 years)
- We will harvest 7,663 number of mature timber trees in our forestry land in 2019. This would help great extent in our cash flows for the financial year 2019 approximately Rs 307 Million is expected. We will plant high quality 60,060 number of Valuable timber .
- Development programmes have been undertaken to improve the productivity of the estates. We have upgraded our factories to handle dual manufacture in our plantations which will have positive impact on our tea prices in 2019. The factories have been equipped with new Driers, Colour sorters and Sifting machineries which will improve the end product. We intend to invest on new Rotorvanes and Rollers as well in 2019.
- All our 12 estates have been certified by Rainforest Alliance (RA) which will have a positive impact in our NSA in 2019.
- Our tea estates have practiced good agricultural practices such as forking, draining despite the trading losses which will have a positive impact on the crop production in 2019.

Dividends

I regret very much to inform you that for the sixteenth consecutive year your Directors are not recommending a dividend for the year ended 31st December 2018.

Acknowledgement

On behalf of the Board of Directors I wish to thank the Buyers, Brokers and Suppliers for their patronage. I would also like to acknowledge the dedication, commitment and loyalty of the Management team, Executives, Staff and Workers of the Company in carrying out their tasks. I thank each and every one of our stakeholders for their excellent service.

D H S Jayawardena
Chairman/ Managing Director
22nd April 2019

Sustainability Report

In achieving corporate sustainability we have placed high value in identifying the various dimensions of our business and how they operate in the social, cultural and economic environment. We attempt to look internally and externally to understand our environment and its social impact. We are looking closer than ever at how and with whom we work around the world.

More than ever, we know that our role in sustainable agriculture plays a critical role in our survival, our success as a going concern and in our future progress. Amidst threatening global challenges for our produce, to remain competitive we realize that we need to reassess our resources and make measurable progress in our strategies.

Economic Environment

Identifying the needs of our buyers especially in the EU and Middle Eastern destinations, is a key aspect in planning our activities in each of our markets to create a better demand for our produce. They expect the products they buy from us are produced responsibly.

Rainforest Alliance Certification for all 12 estates was proposed in September,2018 and obtained within a period of 2 months on 04/01/2019, which is a record among the Companies in South Asia.

Learning sustainable growing practices is a key aspect in being adoptive and in being resilient to climate change. Educating our senior managers to share knowledge, raise awareness and support the implementation of sustainable agriculture principles and practices is an important aspect of our corporate sustainability strategy. Regular discussions and workshops have been undertaken in this regard to spread the message among our workforce with a view to improve their productivity. The training programs focus on topics such as practices for improved harvesting and thereby yields, crop diversification and achieving community support for adaptation of other crop varieties which traditionally they have been resisting.

Tea Smallholders play a critical role in our supply chain. We intend to build closer relationships with them that would improve their agronomic practices and entrepreneurial skills to be partners in our progress. We recognize that farmer organizations can play a key role in supporting smallholder relations and create a stable and long term business commitments.

Forestry Management of Madulsima Plantations PLC

Establishment of forestry plantations are another key activity of our sustainability green venture and we are conducting our forestry replanting projects in two main objectives known as production and protection.

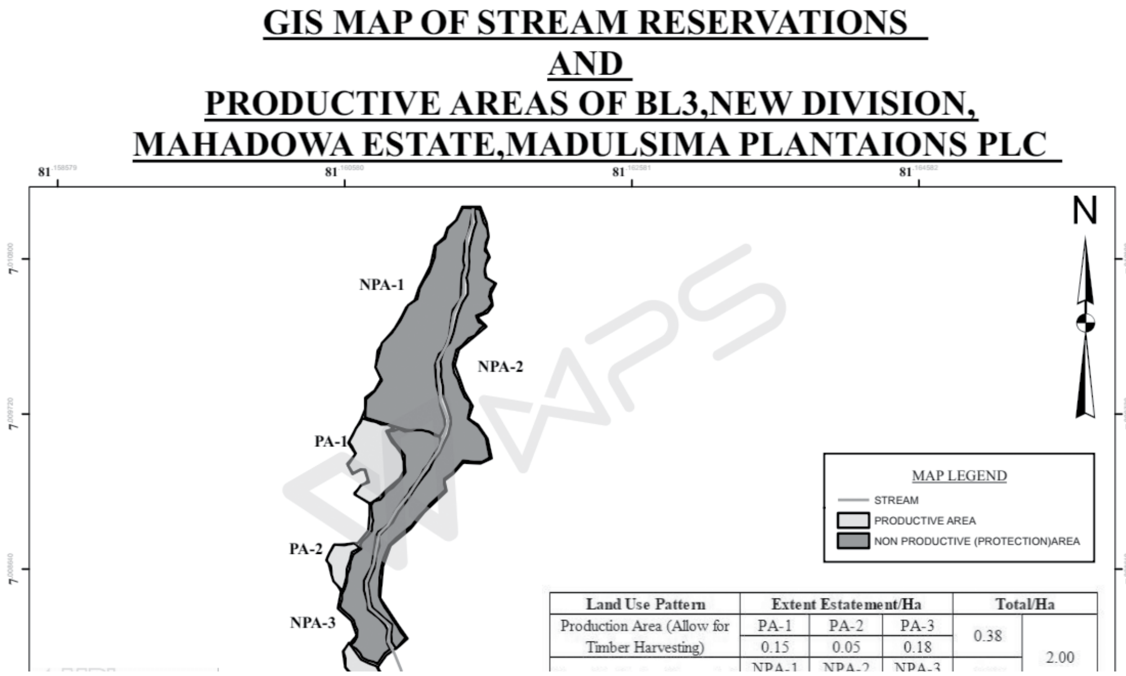
Establishment of Production (Commercial) Forest Plantations is a continuous program parallel to the Company annual Timber Harvesting Program. Currently Company is maintaining 376 Ha of Protected and 1344 Ha of Production forest areas as a sustainable infinitive. Majority of the low yielding tea lands and other vacant areas plant with high quality Eucalyptus species under Company forestry replanting project.

Management of Forestry Plantation

Commercial Forestry Plantations in Our Plantations

Nursery Management of high quality Eucalyptus Seed Varieties at Central Timber Nursery Venture Estate

Sustainability Report



Use of GIS Mapping as a Technical Initiative for Sustainable forestry management activities in Madulsima Plantations PLC

Other Compliance

All the estates within the company, in both western high and Uva medium regions are therefore rich in biodiversity. The estates are endowed with diverse ecosystems and habitats consisting of lakes, streams, swamps & marshes,waterfalls, Eco- forests and eucalyptus forests. All these habitats provide sanctuary for the precious biodiversity within estates.

We have implemented several measures to conserve and consolidate the rich biodiversity habitats in order to sustain and develop the diverse fauna & flora in the region including the Rainforest Alliance (RA) sustainable agriculture certification program on 12 of our estates. Through the RA program we have identified 376 Ha as biodiversity conservation areas and necessary initiatives have been implemented to protect and conserve these blocks to enrich the biodiversity value of our estates.

All biodiversity blocks and wildlife habitats are identified of maps and protected with a 5 meter chemical free buffer zone and clear warning and sign boards in three languages familiar to the community.

Information Technology

Information Technology can contribute to improved management, planning and decision making in the field of agriculture more so than in any other field of economic activity. Considering the many variable factors impacting decision making in agriculture such as climate, weather, types of crop, human resources and global market forces besides the exhaustive coverage on financial management that agriculture based industries demand, information technology provides the way in which these specific challenges could be transcended when moving towards specific targets.

Having developed our own software over the years to meet our needs in management information we have realized the challenges faced in this rapidly growing field require specialized professional assistance and have sought the services of a reputed service provider in introducing their Software programs for our plantations.

Social Environment

The objective of our social development programs is to identify and prioritize strategies to provide resources and education to improve the living standards of our workforce. Plantation communities mostly live in marginalized areas in the poverty belt combating malnutrition and inferior living conditions. Providing them security in the rural and impoverished environment within the limited financial resources the plantation companies have is a challenge for us. Together with our stakeholders, we are working hard to exceed those expectations. We are committed to working with them to continue to drive responsibility and establish accountability in being self reliant in improving their living environment.

Retaining the educated plantation youth on our plantations is a major challenge and require new strategies such as outsourcing agricultural operations. Outsourcing which promotes a smallholder concept among plantation workers appears to be the way forward in combating the high wage costs and worker shortages. We have introduced outsourcing to Battawatte, Cocogalla, El-Teb, Mahadowa and Roeberry Estate in the Madulsima region, where we are experiencing a severe shortage of workers.

The following awareness programs were conducted during the year to drive progress on key social issues and raise awareness of our workforce, who play a key role in our production chain.

Sustainability Report

Awareness Programs/Clinics Conducted in 2018

1. Cancer Control
2. Empowerment of Women
3. Gender based Violence
4. Handling Disaster Situations
5. Improving Nutritional Status of Women & Children
6. Mobile Dental Hygiene Program
7. Syndromic STI Management
8. Safeguarding sexual and reproductive health
9. Alcohol Prevention
10. Mental Health

Social Welfare Activities Undertaken in 2018

1. There are ongoing new housing programme in progress

   Indian Housing Project - Stage II
   Battawatte - 50 Houses
   Kew - 70 Houses

   Green Gold Housing Project
   Kirkoswald - 60 Houses
   Venture - 35 Houses

   Owner Driven Housing Project
   Venture - 10 Houses

   Indian Housing Project - Stage III
   Verellapatna - 50 Houses
   Mahadowa - 50 Houses
   Venture - 50 Houses
   Theresia - 50 Houses
   Kirkoswald -100 Houses
   Kew - 50 Houses

   Total 350
   ======

2. 25 Nos of Child Development Centres in Madulsima Plantations have been upgraded and supplied with play material and water tanks.

Board of Directors

MR. D. H. S. JAYAWARDENA – CHAIRMAN/MANAGING DIRECTOR

Mr D H S Jayawardena is one of the most successful and prominent business magnates in Sri Lanka. He heads many successful ventures in diversified fields of business.

Chairman

Aitken Spence PLC, Browns Beach Hotels PLC, Aitken Spence Hotel Holdings PLC, Aitken Spence Hotel Managements Asia (Pvt) Ltd., Negombo Beach Resorts (Pvt) Ltd., Lanka Power Projects (Pvt) Ltd., Stassen Exports (Pvt) Ltd., Milford Holdings (Pvt) Ltd., C B D Exports (Pvt) Ltd, Stassen International (Pvt) Ltd., Stassen Natural Foods (Pvt) Ltd., Stassen Foods (Pvt) Ltd., Milford Exports (Ceylon) (Pvt) Ltd., Ceylon Garden Coir (Pvt) Ltd., Milford Developers (Pvt) Ltd., Lanka Milk Foods (CWE) PLC, Lanka Dairies (Pvt) Ltd., Ambewela Livestock Company Ltd., Ambewela Products (Pvt) Ltd., Pattipola Livestock Company Ltd., Timpex (Pvt) Ltd., Texpro Industries Ltd., Distilleries Company of Sri Lanka PLC, Periceyl (Pvt) Ltd., Melstacorp PLC, Bellvantage (Pvt) Ltd., Madulsima Plantations PLC, Balangoda Plantations PLC, Indo Lanka Exports (Pvt) Ltd., Bogo Power (Pvt) Ltd., Telecom Frontier (Pvt) Ltd., Lanka Bell Ltd., Bell Solutions (Pvt) Ltd., and United Dairies Lanka (Pvt) Ltd.,

Managing Director

Stassen Real Estate Developers (Pvt) Ltd

Director

Stassen Plantation Management Services (Pvt) Ltd.

Others

Consul General for Denmark in Sri Lanka

DR. N. M. A. GAFFAR – DIRECTOR

Dr. N. M.s Abdul Gaffar Ph.D. (London) M.Sc (London), Dip in Bio Chem Eng (U.C.LONDON), B.Sc. Chemistry Hons (Ceylon). He was the Head of the Technology Division of the Tea Research Institute of Sri Lanka before he joined Stassen Exports Limited as a Director in January 1982 and has been in charge of the Stassen Green Tea Project, the pioneer commercial Green Tea Project of Sri Lanka, since its inception. He has been involved in the Organic Tea Project of Stassen Natural Foods (Pvt) Ltd., which is the pioneer organic tea project of Sri Lanka and the first certified organic tea project of the world. He is a Director of Madulsima Plantations PLC and a Director of Stassen Plantation Management Services (Pvt) Ltd. He is also a Director of Bogo Power (Pvt) Ltd., and is in charge of the development of its 4 Mw Kirikoswald Mini Hydro Project.

MR. D. HASITHA S. JAYAWARDENA – NON EXECUTIVE DIRECTOR

Mr. D. Hasitha Jayawardena holds a Bachelor's Degree in Business Administration BBA (Hons) from the University of Kent in the United Kingdom.

Mr Jayawardena joined Stassen Group in February 2013. He is a Director of Stassen Exports (Pvt) Ltd., Milford Exports (Ceylon) (Pvt) Ltd., Stassen International (Pvt) Ltd, Stassen Natural Foods (Pvt) Ltd., Ceylon Garden Coir (Pvt) Ltd., Milford Developers (Pvt) Ltd., Stassen Foods (Pvt) Ltd., C B D Exports (Pvt) Ltd., Lanka Milk Foods (CWE) PLC, Lanka Dairies (Pvt) Ltd., Ambewela Livestock Company Ltd., Pattipola Livestock Company Ltd., Ambewela Products (Pvt) Ltd., Zahra Exports (Pvt) Ltd., Mcsen Range (Private) Ltd., Distilleries Company of Sri Lanka PLC, Periceyl (Pvt) Ltd., Melstacorp PLC., Balangoda Plantations PLC, Madulsima Plantations PLC and United Dairies Lanka (Pvt) Ltd.

Mr Jayawardena has also worked as an Intern at the Clinton Global Initiative Programme (CGI) in New York in 2007.

Board of Directors

MR. B. M. D. K. S. BASNAYAKE – EXECUTIVE DIRECTOR

Mr Basnayake is a Member of Institute of Chartered Accountants, Sri Lanka. He is also a Member of the Chartered Institute of Management Accountants (United Kingdom) and a Member of Chartered Global Management Accountants.

DR. A. SHAKTHEVALE – INDEPENDENT NON – EXECUTIVE DIRECTOR

Director

Lanka Milk Foods (CWE) PLC, Madulsima Plantations PLC, Balangoda Plantations PLC and United Dairies Lanka (Pvt) Ltd

Retired Additional Secretary (Livestock), Ministry of Agriculture and Livestock in 2002, served as the Secretary, Ministry of Rehabilitation and Social Services in the Northeast Provincial Council and as a member of the Independent Finance Commission for two terms from July 2004 – July 2009. He works as a freelance Consultant in the field of livestock. He has also worked for FAQ, as the National Consultant – Veterinary Production Specialist, UNDP, GTZ UNHABITAT, Land O'Lake Oxfom GB and several local livestock organizations. He is a Forum Member and Member of the Executive Council of 'The Organization of Professional Association of Sri Lanka' representing the Veterinary Profession of Sri Lanka.

MR. D. S. K. AMRASEKERA – INDEPENDENT NON – EXECUTIVE DIRECTOR

Director

Balangoda Plantations PLC, Browns Investments PLC, Eden Hotel Lanka PLC, Brown Capital PLC, Kelani Tyres PLC, Lanka Milk Foods (CWE) PLC, Madulsima Plantations PLC, Palm Garden Hotels PLC, Central Services (Pvt) Ltd., Ceylon Cinema Holdings (Pvt) Ltd., Excel Global Holdings (Pvt) Ltd., Excel Restaurants (Pvt) Ltd., Foton Lanka (Pvt) Ltd., Browns Capital Properties (Pvt) Ltd., Free Lanka Plantations Co. (Pvt) Ltd., Millennium Development (Pvt) Ltd., Samudra Beach Resorts (Pvt) Ltd, Sierra Holdings Ltd., Southern Cleaners (Pvt) Ltd., The Tea Leaf Resort Holdings (Pvt) Ltd., Tropical Villas (Pvt) Ltd., Business Process Outsourcing (Pvt) Ltd., The Colombo Land Exchange Ltd., Morningside Estate (Pvt) Ltd., Ceylon Hotel Holdings (Pvt) Ltd., Suisse Hotel Kandy (Pvt) Ltd., Ceylon Roots (Pvt) Ltd., Green Paradise (Pvt) Ltd., BG Air Services(Pvt) Ltd., Browns Tours (Pvt) Ltd., Sun & Fun Resorts Ltd., NPH Holdings (Pvt) Ltd., Bodufaru Beach Resorts (Pvt) Ltd., Don & Don Holdings (Pvt) Ltd.

Mr. D. S. K. Amarasekera is an eminent Tax Consultant and the Senior Tax and Legal Partner of Amarasekera & Company, a leading tax consultancy firm in the country. He is a Member of the Institute of Chartered Accountants of Sri Lanka and is an Attorney-at-Law of the Supreme Court of Sri Lanka.

Report of the Board of Directors on the Affairs of the Company

The Directors of Madulsima Plantations PLC have pleasure in presenting their Annual Report together with the Audited Financial Statement of the Company for the year ended 31st December 2018.

PRINCIPAL ACTIVITIES
The principal activity of the Company is the cultivation and processing of tea. The Company has 8 estates in the Madulsima and 4 in the Bogawantalawa regions. The cultivated land consists of 3,571.86 ha under tea.

PARENT COMPANY
The Company's parent undertaking and controlling party is Melstacorp PLC, which is incorporated in Sri Lanka as a limited liability company.

MANAGING AGENTS
The Company is managed since 1st April 1996 by Stassen Exports (Pvt) Limited.

MANAGEMENT FEE
With effect from 1st June 2017 the Management fee was withdrawn by the Managing Agent, M/s. Stassen Exports (Pvt) Limited.

GOING CONCERN
Please refer policy note 2.1.1.

REVIEW OF PERFORMANCE
The review of the Company's performance during the year is given in the Chairman's Review in this Annual Report.

DEVELOPMENT AND DIVERSIFICATION
Development and Diversification are covered in the Chairman's Review in this Annual Report.

FINANCIAL STATEMENTS
The Financial Statements of the Company are given on pages 25 to 63 of this Annual Report.

AUDITORS' REPORT
The Auditors' Report on the financial statements is given on page 22 to 24 of this Annual Report.

ACCOUNTING POLICIES
The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 30 to 44 of this Annual Report.

REMUNERATION AND OTHER BENEFITS OF DIRECTORS
The Directors did not receive any remuneration or other benefits during the accounting period.

DONATIONS
The Company did not make any donation during the year.

FINANCIAL RESULTS		
	2018 Rs.'000	2017 Rs.'000
Revenue	**2,144,945**	2,605,104
Profit/(Loss) before Tax	**(425,166)**	108,658
Income Tax Expense	**(175,033)**	(64,062)
Profit/(Loss) After Tax	**(600,199)**	44,596
Retained Loss B.F.	**(2,900,406)**	(2,817,538)
Timber Reserve	**3,220,459**	3,063,430
Proposed Dividend	**-**	-
Retained Loss C.F.	**(3,681,606)**	(2,900,407)

Report of the Board of Directors on the Affairs of the Company

FINANCIAL RATIOS	2018	2017
Debt Equity Ratio	**2.19**	1.15
Interest Cover	**(0.93)**	1.62
Quick Ratio	**0.08**	0.07

APPROPRIATION AND DIVIDEND

The Directors have not recommended the payment of a dividend for the year ended 31st December 2018.

CAPITAL EXPENDITURE

The Company incurred a capital expenditure of Rs 318 million of which Rs 39 million has been spent on field development.

LAND HOLDINGS & INVESTMENT PROPERTIES

The extents, locations, valuations and the number of buildings of the Company's land holdings and investment properties are as follows:

Estate	Location	Extent (Ha.)	Total Number of Buildings	Value Rs
Battawatte	Madulsima	12.14	575	20,092,906
Cococgalla	Metigahatenne	3.89	323	5,339,953
El-Teb	Passara	32.44	1,089	23,852,820
Galloola	Madulsima	9.80	272	3,545,079
Mahadowa	Madulsima	34.90	772	25,530,764
Roeberry	Pitamaruwa	54.83	969	11,653,090
Uvakellie	Madulsima	8.49	315	3,516,072
Verellapatna	Madulsima	14.57	543	11,625,974
Kew	Bogawantalawa	52.46	689	15,750,302
Kirkoswald	Bogawantalawa	7.24	1,078	17,851,274
Theresia	Bogawantalawa	32.45	654	11,880,588
Venture	Norwood	28.94	359	28,789,856
Head Office	Badulla	0.04	2	474,987
TOTAL		**292.19**	**7,640**	**179,863,677**

CAPITAL COMMITMENTS & CONTINGENT LIABILITIES

Capital commitments and Contingent liabilities are disclosed in Notes 31 & 32 to the Financial Statements.

DIRECTORATE

The following Directors held office during the year under review.

Mr. D H S Jayawardena	-	Chairman/MD
Dr. N M Abdul Gaffar	-	Non Executive Director
Mr. B M D K S Basnayake	-	Executive Director
Mr. D Hasitha S Jayawardena	-	Non Executive Director
Dr. A Shakthevale	-	Independent Director
Mr. D S K Amarasekera	-	Independent Director

In terms of Article 92 of the Articles of Association Mr. D Hasitha S Jayawardane retires by rotation and being eligible offer himself for re-election.

DIRECTORS' INTERESTS IN SHARES

No shares of the Company were held by the Directors of the Company, their spouses or dependents at the beginning and end of the financial year.

INTEREST REGISTER

Directors' interests in the Company are disclosed in Note 34 to the Financial Statements and have been declared at a meeting of the Directors. The Directors have no direct or indirect interest in any other contracts or proposed contracts of the Company.

SHAREHOLDER AND INVESTOR INFORMATION

Distribution of Shareholdings as at 31st December 2018, Analysis Report of Shareholders, Market Statistics of Company's shares and the list of 25 major shareholders are given on pages 64 and 65 of this Annual Report.

Report of the Board of Directors on the Affairs of the Company

EVENTS OCCURRING AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

Please refer Note 33 for events occurring after the date of the Statement of Financial Position, which would require disclosure in the Financial Statements.

MATTERS PERTAINING TO THE GOLDEN SHARE

1. The Golden Share shall only be held by the Secretary to the Treasury in his official capacity and not in his own name, for and on behalf of the State of the Democratic Socialist Republic of Sri Lanka, or by a company in which the State of the Democratic Socialist Republic of Sri Lanka owns 99% or more of the issued share capital.

2. The Company shall obtain the written consent of the Golden Shareholder prior to sub-leasing, ceding or assigning its rights in part or all of the lands set out in Section 3A(1) of the Memorandum of Association.

3. The Articles of the Company as originally framed may from time to time be altered by special resolution, provided that the concurrence of the Golden Shareholder in writing shall be first obtained to amend the definition of the words Golden Share and Golden Shareholder and Articles 2A, 2B, 3(c), 3(c)(i), 3(c)(ii), 25A, 127A, 127B, 127C and 128.

4. The Golden Share may be converted into an ordinary share with the concurrence of the Golden Shareholder and the concurrence of a majority of the shareholders.

5. The Golden Shareholder shall be entitled to call upon the Board of Directors of the Company once in every three month period if desired to meet with the Golden Shareholder and or his nominees, and the Directors if so called upon shall meet with the Golden Shareholder and or his nominees to discuss matters of the Company of interest to the State of the Democratic Socialist Republic of Sri Lanka.

6. The Golden Shareholder and or his nominee shall be entitled to inspect the books of accounts of the Company after giving two weeks written notice to the Company.

7. The Company shall submit to the Golden Shareholder, within 60 days of the end of each quarter, a quarterly report relating to the performance of the Company during the said quarter in a pre-specified format agreed to by the Golden Shareholder and the Company.

8. The Company shall submit to the Golden Shareholder, within 90 days of the end of each financial year, information relating to the Company in a pre-specified format agreed to by the Golden Shareholder and the Company.

AUDITORS

The Accounts of the year have been audited by M/s Ernst & Young , Chartered Accountants. Fees paid to the Auditors are disclosed on page 47 in the Financial Statements.

As far as the Directors are aware,the auditors do not have any relationship (Other than as Auditors) with the company other than those disclosed above. The auditors do not have any interest in the company.

The company has proposed the change of statutory auditors to that of the Parent Company. Hence, a resolution will be submitted at the meeting proposing Messrs. KPMG, the auditors of the parent Company,to be appointed as auditors of the Company for the financial Year ending 31st December 2019.

Sgd. D H S Jayawardena
Chairman/Managing Director

Sgd. B M D K S Basnayake
Executive Director

Sgd. Pradeep A Jayatunga
Secretary

22nd April 2018

Audit Committee Report

Composition
The Chairman of the Committee is Mr D S K Amarasekera, an Attorney at Law and Senior Accountant. The other Member of the Audit Committee is the Independent Non- Executive Director, Dr A Shakthevale. The Company Secretary functions as the Secretary to the Audit Committee.

Meetings
The Committee had three meetings during the year. The Director/CEO and the Financial Officers attended the meetings. The Executive Senior Management Team was present at discussions, as required.

Terms of Reference
The Audit Committee Charter clearly sets out the terms of reference governing the Audit Committee ensuring highest compliance with the Corporate Governance Rules applicable to Listed Companies in accordance with the Rules of the CSE and the code of best practice on Corporate Governance.

Activities and Responsibilities

Financial Reporting
The Committee reviewed and discussed the financial reporting system adopted by the Company in the preparation of its quarterly and annual financial statements with the Management and the External Auditors to ensure reliability of the process and the consistency of the Accounting Policies adopted and its compliance with the Sri Lanka Accounting Standards and the provisions of the Companies Act No. 07 of 2007.

Internal Audit
The internal audit function of the company was carried out by the Internal Audit Division. The Committee reviewed the effectiveness of the internal audit plan to ensure that it has been designed to provide reasonable assurance that the financial reporting system adopted by the Company can be relied upon in the preparation and presentation of the Financial statements. The Committee also reviewed the findings of the Internal Auditors and their recommendations together with the management responses and regularly followed up the progress of the implementation of such recommendations in order to enhance the overall control environment.

External Audit
The Audit Committee met with the External Auditors to discuss the scope and the audit strategy,The committee also reviewed and discussed the Report of the Auditors and Management Letters Issued by them to ensure that no limitations have been placed in their scope of work and conduct of the audit.

The committee carried out an Annual evaluation of the External Auditors to establish their independence and objectivity and also obtained a written declaration from the Auditors in this regard.

The Proposal to change the statutory auditors was considered by the Audit Committee and the Committee recommended to the Board of Directors to appoint the Parent Company auditors, Messrs. KPMG as the External Auditors for the financial Year ending 31 December 2019

Compliance with Law and Regulations
The Committee reviewed the quarterly compliance reports submitted by the relevant officers to ensure that the Company has complied with all statutory requirements.

Conclusion
The Audit Committee is satisfied that the Company's accounting policies, operational controls and risk management processes provide reasonable assurance that the affairs of the Company are managed in accordance with Company policies and that the Company assets are properly accounted for and adequately safeguard.

D.S.K. Amarasekera
Chairman
Audit Committee

22nd April 2019

Remuneration Committee Report

The Remuneration Committee of MPPLC which consists of the two Independent Non-Executive Directors namely Dr. A Shakthevale and Mr. D.S.K. Amarasekera as Chairman is responsible for determining the remuneration policy relating to the Key Management Personnel of MP PLC.

It is the firm belief of this committee that it should formulate policies to attract, motivate and retain Key Management Personnel. The Chairman / Managing Director assist this Committee in its deliberations.

D.S.K. Amarasekera
Chairman
Remuneration Committee.

22nd April 2019

Related Party Transactions Review Committee Report

As per the latest directive issued by the Securities Exchange Commission of Sri Lanka, which has been incorporated into the Listing Rules of the Colombo Stock Exchange, the Related Party Transactions Review Committee was established by the Board in March 2016.

Composition
The Committee comprises of the following three members and two of them including the Chairman are Independent Non-Executive Directors.

Mr. D S K Amarasekera - Independent Non-Executive Director/Chairman
Dr. A Shakthevale - Independent Non-Executive Director
Dr. N M A Gaffar - Non-Executive Director

Profiles of the members are given on pages 10 & 11.

Purpose of the Committee
The purpose of the Committee as set out in Section 9.3.2(c) of the CSE Listing Rules is to review all Related Party Transactions except for transactions set out in Rule 9.5, either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to completion of the transaction.

Meetings
The Committee formulated in March 2016 met three (3) times during the year under review.

Policies and Procedures
The Company has in place a Related Party Transaction (RPT) Policy whereby the categories of persons who shall be considered as "related parties" has been identified. In accordance with the RPT Policy, self-declarations are obtained from each Director and Key Management Personnel of the Company for the purpose of identifying parties related to them.

As per the existing practice, a detailed report on the related party transactions is submitted to the Board of Directors periodically and such transactions are also disclosed to the shareholders through the Company's financial statements. The RPT Committee reinforces its functions by revisiting the TOR of the Committee and RPT Policy and re-aligning the internal procedures and policies with the requirements thereof.

Disclosures
During the year 2018, there were no non-recurrent related party transactions that exceeded the respective thresholds mentioned in the Listing Rules of the Colombo Stock Exchange. (Note 34.3)

Recurrent relating party transactions are disclosed in Note 34.4

Details of other related party transactions entered into by the Company during the above period is disclosed in Note 34 to the financial statements.

The Board of Directors affirms that the Related Party Transactions are in compliance with the Related Party Transactions Rules stipulated by the Colombo Stock Exchange.

Sgd D S K Amarasekara
Chairman
Related Party Transactions Review committee

22nd April 2019

Corporate Governance Statement

Corporate Governance is the system by which companies are managed and controlled. Madulsima Plantations PLC is committed to comply with the code of Best Practices of Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) & the Securities Exchange Commission of Sri Lanka (SEC) and the Listing Rules of the Colombo Stock Exchange. A comprehensive view of the Governance System in the Company is given below.

The Board of Directors and its Functions

The Company is governed by its Board of Directors who direct, lead and supervise the business and affairs of the Company on behalf of its shareholders. The Board consists of 02 Executive Directors including Chairman/Managing Director & Executive Director, 02 Non-Executive Director and 02 Non-Executive Independent Directors. The composition of the Company's Board has been structured in keeping with principles of good governance and long term strategy and the names of the members of the Board of Directors and their brief resumes are given on pages 10 & 11.

Although the two Independent Non-Executive Directors do not qualify under Rule 7.10.4 (g) of the Colombo Securities Exchange Listing Rules, the Board of Directors, taking account of all the circumstances, has determined that the two Directors are nevertheless independent as per the Rule 7.10.3 (b).

The Board meets as and when required to take all major decisions. Prior to each meeting the Directors are provided with all relevant management information and Board papers are submitted in advance on new investments, capital projects, company performance and other issues which require specific Board approval.

The main functions of the Board :

- Conducting the business and facilitating executive responsibility for management of the Company's affairs.
- Formulate short and long term strategies and monitor implementation.
- Identify the principle risks of the business and ensure adequate risk management policies in place.
- Institute effective internal control systems to safeguard the assets of the Company
- Ensure compliance with rules and regulations.
- Approve the financial statements of the Company

Executive Committee
The Executive Committee, which consists of the Chairman/Managing Director and the Executive Director is delegated with the responsibility of monitoring the progress and implementing the policies of the Company. The Executive Director reports monthly on the progress of every estate and that of the Company to the Executive Committee.

Audit Committee
The Audit Committee consists of two Independent Non-Executive Directors and assists the Board by overseeing the entity's compliance with financial reporting requirements, Company's internal controls, risk management and assessment of the independence and performance of the external auditors. The Company has an Internal Audit Division, which submits its reports on a regular basis to the Audit Committee. The guidelines for the Internal Audit Policy ensure that the assets of the Company are protected against any unauthorized use or misappropriation, proper records are maintained and reliable information is received. Audit Committee Report on page 15 describes the activities carried out during the financial year.

Remuneration Committee
The Remuneration Committee which consists of two Independent Non-executive Directors makes recommendations to the Board on the Company's framework of remunerating Key Management Personnel. The Remuneration Committee Report appears on page 16.

Related Party Transactions Review Committee
The composition of the Related Party Transactions Review Committee includes two Independent Non-Executive Directors and one Non-Executive Director. All related party transactions except for transactions set out in Rule 9.5 of the CSE Listing Rules are reviewed by the Related Party Transactions Review Committee. The Related Party Transactions Review Committee Report appears on page 16.

Corporate Governance Statement

Levels of compliance with the CSE Listing Rules on Corporate Governance are as follows.

Rule No.	Applicable Requirement	Compliance Status	Details
	Non-Executive Directors		
7.10.1 (a)	• At least one-third of the total number of Directors should be Non-Executive Directors	Complied	Four out of Six Directors are Non-Executive Directors
	Independent Directors		
7.10.2.(a)	• Two or one third of Non-Executive Directors whichever is higher should be independent	Complied	Two out of four Non-executive Directors are independent.
7.10.2. (b)	• Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format	Complied	Non-executive Directors have submitted these declarations.
	Disclosure Relating to Directors		
7.10.3 (a)	• Names of Independent Directors should be disclosed in the Annual Report	Complied	Refer pages 10 & 11
7.10.3 (b)	• The basis for the Board to determine a Director is independent, if criteria specified for independence is not met.	Complied	Refer page 17
7.10.3 (c)	• A brief resume of each Director should be included in the Annual Report and should include the Director's areas of expertise	Complied	Refer pages 10 & 11
7.10.3 (d)	• Forthwith provide a brief resume of new Directors appointed to the Board with details specified in 7.10.3 (a), (b) and (c) to the CSE.	Complied	Not applicable
	Remuneration Committee		
7.10.5	• A listed Company shall have a Remuneration Committee	Complied	
7.10.5 (a)	• Composition of Remuneration Committee Shall comprise Non-Executive Directors a majority of whom will be independent	Complied	
7.10.5 (b)	• Functions of Remuneration Committee The Remuneration Committee shall recommend the remuneration of Chief Executive Officer and Executive Directors	Complied	Refer page 16
7.10.5 (c)	• Disclosure in the Annual Report relating to Remuneration Committee **The Annual Report should set out :** **(a)** Names of Directors comprising the Remuneration Committee **(b)** Statement of Remuneration Policy	Complied	
7.10.6	**Audit Committee** • The Company shall have an Audit Committee	Complied	
7.10.6 (a)	• Composition of Audit Committee		
	• Shall comprise of Non-Executive Directors, a majority of who will be independent.	Complied	
	• Non-Executive Director shall be appointed as the Chairman of the Committee	Complied	Refer page 15
	• Chief Executive Officer and Chief Financial Officer should attend Audit Committee Meetings	Complied	
	• The Chairman of the Audit Committee of one member should be a member of a professional Accounting Body	Complied	
7.10.6 (b)	• Audit Committee Functions	Complied	
7.10.6 (c)	• Disclosure in the Annual Report relating to Audit Committee	Complied	

Statement of Directors' Responsibilities

The Directors select the appropriate accounting policies and apply them consistently, subject to any material departures being disclosed and explained. Further, the Directors are responsible for ensuring that the Company keeps sufficient accounting records to present, with reasonable accuracy, the financial position of the Company, in a manner that is easily understood by the shareholders. They also ensure that the Financial Statements comply with the Companies' Act and the Sri Lanka Accounting Standards (SLFRS/LKAS). In addition, they are also responsible for taking reasonable steps to safeguard the assets of the Company by the establishment of appropriate systems of internal controls with a view to the prevention and detection of fraud and other irregularities.

The Directors prepare the Financial Statements and provide the External Auditors with every assistance to undertake whatever inspections, they consider to be appropriate for the purpose of enabling them to give their Audit Report in accordance with the Sri Lanka Auditing Standards. The Report of the External Auditors sets out their responsibility in respect of the Financial Statements.

The Directors confirm that, to the best of their knowledge and belief, they have discharged their responsibilities as set out in this statement.

By Order of the Board
Sgd. Pradeep A Jayatunga
Secretary

22nd April 2019

Risk Management

Risk management is the identification, assessment and prioritization of the effects of uncertainty on objectives. Madulsima Plantations PLC recognizes the importance of Risk Management within the organization and its operational environment.

The Board of Directors assumes the overall responsibility of formulating policy and implementing effective systems of control in financial and operational objectives of the Company and in complying with legal regulations enforced by statutory bodies.

MITIGATING STRATEGIES IMPLEMENTED

Risk	Risk Assessment	Mitigating Strategies	Threat Probability
Business Risk	Tea growing and manufacturing is our Principal line of business. The Company is susceptible to all risks associated with agriculture.	Regular monitoring of performance for appropriate remedial action Enforcing sustainable agricultural practices, Adopting practices recommended by the Tea Research Institute in infilling and replanting Crop diversification Value addition Focus on producing quality tea. Out sourcing agricultural practices and adopting motivational alternatives to encourage plantation youth to remain on plantations	High
Operational Risk	Weaknesses in internal control systems, human error and limitations, frauds, natural disasters, obsolete systems and practices, equipments that are obstacles to business objectives.	Adopting effective internal control systems and periodic review. Variance analysis of budgetary provisions against actual performance. A monthly re-evaluation process where performance of each plantation is reviewed by Senior Executives of the Head Office. Appropriate advices conveyed to enforce a high degree of situational awareness among the Planting Executives. Compliance audits and standardization procedures Obtain comprehensive insurance policies to cover operational risks.	Moderate
Environmental Risk	Adverse and uncertain weather has a negative impact on agricultural produce.	Monitoring weather patterns and their impact on crop harvests. Adoption of sustainable agricultural practices. Constant examination and review of soil nutrient contents Undertaking effective soil conservation measures. Reservation of forests and watersheds	High
Human Resource	Low productivity, reduction in resident manpower, disruptions in achieving the targeted objectives.	Providing Welfare facilities and introducing participative housing projects to retain workers on plantations and improve their productivity . Train and encourage Plantation Executives to acquire communication skills in resolving labour disputes. Improve employee motivation, commitment, welfare, recognition and appreciation. Abide by the Collective Agreement entered into with the Trade Unions in the Company's capacity	Moderate

Risk Management

Risk	Risk Assessment	Mitigating Strategies	Threat Probability
Product Quality	Inconsistency in quality of end products and its negative impact on prices and market share.	Ensure safety and ethical standards in providing a quality consumable product. Upgrade manufacturing process and factories to cater to the fluctuating market demand. Monitor quality assurance measures	Moderate
Political Risk	The impact of political intervention, major industrial relations issues, regulatory changes, ad hoc acquisitions of land etc are constraints faced by the Industry.	Negotiating Collective Agreements with major Plantation Trade Unions. Maintaining a closer dialogue with the Trade Union Leaders Implementing human development policies	High
Interest Rate Risk	Fiscal and monitory policy changes have a direct impact on liquidity and production costs .	Maintain cash flow and budgetary control systems Diversification Capital development Upgrading plant and machinery Maintenance of biological assets in optimum condition to enhance productivity and turnover	Moderate
Technical & IT Risk	Lack of accurate and timely information due to ineffective IT systems.	Strengthen software development with internal controls including IT security and confidentiality Implement a sound backup system in case of system failure Use Licensed Software	Moderate
Investment Risk	Adequate return on investment heavily depends on global economic trends.	Undertake proper evaluation and feasibility process Continue replanting and infilling with a prudent policy and environmentally viable clones Work closely with the TRI in developing an economic model to make replanting a viable investment.	Moderate
Inventory	Liquidity is a major concern as the industry is cyclical with long gestation periods for returns.	Produce stocks are monitored closely for speedy disposal. Input stock levels are controlled to avoid obsolescence and theft. High value input stocks such as fertilizer, firewood and packing materials are purchased on a need basis.	Moderate
Company Reputation Risk	Competition from other major low cost producers .	Compliance with statutory requirements Compliance with the code of corporate governance by all employees. Protection of the environment and adoption of sustainability initiatives, health & food safety procedures.	Low

Independent Auditors' Report

EY
Building a better working world

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

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

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF MADULSIMA PLANTATIONS PLC

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for opinion

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

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Valuation of Consumable Biological Assets	
The company has consumable biological assets carried at fair value amounting to Rs. 3,396 Mn as at the reporting date. The valuation of consumable biological assets requires significant levels of judgement and technical expertise, including the use of discounted cash flow models and selecting appropriate assumptions. Changes in the key assumptions used such as discount rate and available timber quantity to value the company's consumable biological asset could have a material impact on the statement of profit or loss and the value of consumable biological asset. Accordingly, valuation of consumable biological assets has been considered as a Key Audit Matter.	Our audit procedures focused on the valuation performed by the Management's external valuer, which included among others the following procedures; • We evaluated the competence, capability and objectivity of the external valuer engaged by the company. • We read the external valuer's report and evaluated the fair value methodology and inputs used in the valuations. • We engaged our internal specialised resources to assist us in evaluating the appropriateness of the valuation method and discount rate used by the external valuer. We evaluated the adequacy of the related disclosures given in Note 15 in the financial statements.

Independent Auditors' Report

Retirement Benefit Obligation	
The retirement benefit obligation of the company is significant (Rs. 925 Mn) in the context of the total liabilities of the Company. The valuation of the Company's retirement benefit obligation requires significant judgment and estimation to be applied across numerous assumptions, including salary increases and discount rate. Small changes in those assumptions could have a significant effect on the financial performance and financial position of the company. Accordingly, actuarial valuation of retirement benefit obligation is considered to be a key audit matter.	We evaluated the assumptions made in relation to the actuarial valuation of the retirement benefit obligation. In particular: • We assessed the assumption for salary increases against the company's historic trend and expected future outlook. • We agreed the discount rate used, to our internally developed benchmarks. • We validated the key data used by the actuary to the underlying data held by the Company. We evaluated the adequacy of the related disclosures given in Note 24 in the financial statements.

Other Information included in the company's 2018 Annual Report

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditors' Report

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on other legal and regulatory requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is M- 1420.

Sgd. Ernst & Young
(Chartered Accountants)

29th April 2019
Colombo

Statement of Profit or Loss

Year Ended 31 December 2018

	Notes	2018 Rs.	2017 Rs.
REVENUE	6	2,144,945,407	2,605,103,502
COST OF SALES		(2,434,611,504)	(2,507,562,674)
GROSS PROFIT/ (LOSS)		(289,666,097)	97,540,828
OTHER INCOME	7	40,012,751	196,322,207
ADMINISTRATIVE EXPENSES		(115,671,678)	(153,956,530)
GAIN/ (LOSS) ON CHANGE IN FAIR VALUE OF BIOLOGICAL ASSETS	16.1	159,925,012	144,650,733
FINANCE COST	8	(219,766,185)	(175,899,165)
PROFIT/ (LOSS) BEFORE TAXATION	9	(425,166,197)	108,658,073
INCOME TAX EXPENSE	10.1	(175,032,695)	(64,061,840)
NET PROFIT/ (LOSS) FOR THE YEAR		(600,198,892)	44,596,233
BASIC EARNINGS/ (LOSS) PER SHARE	10.4	(3.54)	0.26

The accounting policies and notes on pages 30 through 63 form an integral part of the Financial Statements.

Statement of Comprehensive Income

Year Ended 31 December 2018

	Notes	2018 Rs.	2017 Rs.
Profit/(Loss) for the year		(600,198,892)	44,596,233
Other Comprehensive Income		-	-
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax)			
Net Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		-	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax)			
Net change in fair value through OCI financial assets	17	259,932	356,192
Actuarial gains / (losses) on defined benefit plans	24	(53,454,861)	2,503,240
Income tax effect	25	7,483,681	(350,454)
Income tax effect on Revalued Assets	25	-	(72,083,118)
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		(45,711,248)	(69,574,140)
Other comprehensive income / (Loss) for the year, net of tax		(45,711,248)	(69,574,140)
Total comprehensive income/(Loss) for the year, net of tax		(645,910,140)	(24,977,907)

The accounting policies and notes on pages 30 through 63 form an integral part of the Financial Statements.

Statement of Financial Position

Year Ended 31 December 2018

	Notes	2018 Rs.	2017 Rs.
ASSETS			
Non Current Assets			
Right to use of Land	11	109,405,754	113,534,273
Immovable estate assets on finance lease (Other than Right to use of Land)	12	348,402,132	391,914,951
Property, Plant & Equipment	13	781,351,353	533,519,214
Bearer Biological Assets	14	657,438,806	636,233,536
Consumable Biological Assets	15	3,395,883,775	3,234,577,309
Fair Value Through OCI Financial Assets (FVTOCI)	17	4,415,530	4,155,598
Total Non Current Assets		5,296,897,350	4,913,934,881
Current Assets			
Produce on Bearer Biological Assets	16	4,058,080	4,106,680
Inventories	18	305,998,001	248,971,802
Trade and Other Receivables	19	140,073,938	86,733,811
Amounts Due from Related Companies	20	1,075,588	952,933
Cash and Cash Equivalents	21	13,329,661	3,065,435
Total Current Assets		464,535,268	343,830,661
TOTAL ASSETS		5,761,432,618	5,257,765,542
EQUITY AND LIABILITIES			
Capital and Reserves			
Stated Capital	22	1,624,760,670	1,624,760,670
Timber Reserve		3,220,459,208	3,063,430,407
Revaluation Reserve		637,257,983	659,257,983
Fair value through OCI Reserve		3,199,447	2,939,515
Retained Earnings/(Loss)		(3,681,605,797)	(2,900,406,924)
Total Equity		1,804,071,511	2,449,981,651
Non Current Liabilities			
Interest Bearing Loans & Borrowings	23	591,985,333	354,272,713
Retirement Benefit Obligations	24	924,948,525	857,678,431
Deferred Tax Liability	25	297,947,565	130,398,551
Deferred Grants & Subsidies	26	143,390,922	148,545,751
Liability to make Lease Payment after one year	27	30,858,427	31,550,440
Total Non Current Liabilities		1,989,130,772	1,522,445,886
Current Liabilities			
Trade and Other Payables	28	309,972,609	313,394,294
Liability to make Lease Payment within one year	27	692,013	665,397
Amounts Due to Related Companies	29	1,435,520,482	411,914,047
Interest Bearing Loans & Borrowings	23	142,287,378	85,514,077
Bank Overdraft	21	79,757,853	473,850,190
Total Current Liabilities		1,968,230,335	1,285,338,005
TOTAL LIABILITIES		3,957,361,107	2,807,783,891
TOTAL EQUITY AND LIABILITIES		5,761,432,618	5,257,765,542
NET ASSETS PER SHARE		10.64	14.45

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

Sgd. P.D.B.I. Gunawardana
Financial Controller

The Board of Directors is responsible for these Financial Statements.

Approved and signed for and on behalf of the Board of Directors of Madulsima Plantions PLC

Sgd. D.H.S. Jayawardena
Chairman / Managing Director

Sgd. B.M.D.K.S. Basnayake
Executive Director

The accounting policies and notes on pages 30 through 63 form an integral part of the Financial Statements.

29th April 2019
Colombo

Statement of Changes in Equity

Year Ended 31 December 2018

	Stated Capital Rs.	Revaluation Reserve Rs.	Fair vlue through OCI Reserve Rs.	Timber Reserve Rs.	Retained Earnings/(Loss) Rs.	Total Rs.
As at 01 January 2017	1,624,760,670	731,341,101	2,583,323	2,933,812,551	(2,817,538,087)	2,474,959,558
Profit/ (Loss) for the year	-	-	-		44,596,233	44,596,233
Other Comprehensive Income / (loss)	-	(72,083,118)	356,192	-	2,152,786	(69,574,140)
Transferred to Timber Reserve	-	-	-	145,321,037	(145,321,037)	-
Transferred to Retained Earnings	-	-	-	(15,703,181)	15,703,181	-
Balance as at 31 December 2017	1,624,760,670	659,257,983	2,939,515	3,063,430,407	(2,900,406,924)	2,449,981,651
Net Profit/ (Loss) for the year	-	-	-	-	(600,198,892)	(600,198,892)
Other comprehensive income / (loss) year, net of tax	-	-	259,932	-	(45,971,180)	(45,711,248
Transferred to Timber Reserve	-		-	159,973,612	(159,973,612)	-
Transferred to Retained Earnings		(22,000,000)			22,000,000	
Transferred to Retained Earnings	-	-	-	(2,944,811)	2,944,811	-
Balance as at 31 December 2018	1,624,760,670	637,257,983	3,199,447	3,220,459,208	(3,681,605,797)	1,804,071,511

Timber Reserve

The timber reserve is a revenue reserve which relates to change in fair value of managed trees on commercial timber plantations cultivated on estates.

The accounting policies and notes on pages 30 through 63 form an integral part of the Financial Statements.

Statement of Cash Flow

Year Ended 31 December 2018

	Notes	2018 Rs.	2017 Rs.
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Profit/(Loss) before Taxation		(425,166,197)	108,658,073
ADJUSTMENTS FOR			
Depreciation	11,12,13 & 14	74,828,361	90,176,627
Interest Income	7	(68,012)	(112,191)
Interest Expenses	8	219,766,185	175,899,165
Provision for Defined Benefit Plan Cost	24	126,831,050	119,739,446
(Gain)/Loss on Change in Fair Value - Timber Plantations		(159,925,012)	(144,650,733)
Amortization of Grants	26	(5,441,155)	(6,628,694)
ESC write off		6,289,064	3,621,860
Provision for Doubtful Debtors		-	44,383,762
Loss of Timber Trees		-	15,703,181
Loss of Sales of Immovable Assets on Finance Lease		13,966,666	
Profit Sale on Timber Trees	7	(1,823,227)	-
Operating profit before working capital changes		(150,742,277)	406,790,496
(Increase)/Decrease in Inventories		(57,026,199)	38,251,718
(Increase)/Decrease in Trade and other Receivables		(53,340,127)	13,069,682
(Increase)/Decrease in Amounts due from Related Companies		(122,655)	835,116
Increase/(Decrease) in Trade and Other Payables		(3,421,685)	(214,242,504)
Increase/(Decrease) in Amounts due to Related Companies		1,023,606,435	(135,904,575)
Cash Generated from Operating Activities		758,953,491	108,799,933
Finance Cost Paid		(203,259,320)	(130,720,502)
Income Tax/ESC Paid		(11,774,949)	(11,762,329)
Gratuity Paid	24	(113,015,817)	(83,719,587)
Net Cash Flow From Operating Activities		430,903,405	(117,402,485)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of immovable assets on finance lease		3,725,000	
Acquisition of Property, Plant & Equipment	13	(279,661,692)	(15,110,329)
Investments in Immature plantation	14	(34,254,410)	(40,573,424)
Expenditure on Timber Cultivation	15	(4,277,665)	(6,302,703)
Proceeds from timber sales		4,768,038	-
Interest received	7	68,012	112,191
Net Cash Flow From Investing Activities		(309,632,717)	(61,874,265)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of Government Lease Rentals		(11,686,373)	(10,913,659)
Loans Obtained		400,000,000	367,611,716
Loans repayment		(105,514,077)	(154,706,242)
Grants Received	26	286,325	2,263,607
Net Cash Flow From Financing Activities		283,085,875	204,255,422
Net Increase/(Decrease) in Cash and Cash Equivalents		404,356,563	24,978,673
A. Cash & Cash Equivalents at the Beginning of the Year		(470,784,755)	(495,763,428)
B. Cash & Cash Equivalents at the End of the Year		(66,428,192)	(470,784,755)
NOTE A			
Cash & Cash Equivalents at the Beginning of the Year			
Cash & Bank Balances		3,065,435	4,264,192
Bank Overdrafts (Note 21.1)		(473,850,190)	(500,027,620)
		(470,784,755)	(495,763,428)
NOTE B			
Cash & Cash Equivalents at the End of the Year			
Cash & Bank Balances		13,329,661	3,065,435
Bank Overdrafts (Note 21.2)		(79,757,853)	(473,850,190)
		(66,428,192)	(470,784,755)

Notes to the Financial Statements

Year ended 31 December 2018

1 REPORTING ENTITY

Madulsima Plantations PLC is a limited liability company incorporated and domiciled in Sri Lanka, under the Companies Act No. 17 of 1982 (The Company was re-registered under the Companies Act No. 07 of 2007) in terms of the provisions of the Conversion of Public Corporation and Government-Owned Business Undertakings into Public Companies under Public Companies Act No. 23 of 1987. The registered office of the Company is located at No 833, Sirimavo Bandaranaike Mawatha, Colombo 14 and Estates are situated in the Madulsima and Bogawantalawa regions.

The Financial Statements of company comprise with the Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows together with Accounting Policies and Notes to Financial Statements.

1.1 Principal activities and the nature of the operations

During the year, the principal activities of the company were cultivation and manufacture and sale of Black Tea.

1.2 Ultimate parent enterprise

The Company's parent undertaking and controlling party is Melstacorp PLC which is incorporated in Sri Lanka as a limited liability company.

1.3 Date of Authorization for issue.

The financial statements of Madulsima Plantations PLC for the year ended 31 December 2018 were authorized for issue in accordance with a resolution of the board of directors on 29 April 2019.

1.4 Responsibility for Financial Statements.

The responsibility of the Directors in relation to the Financial Statements is set out in the Statement of Directors' Responsibility Report in the Annual Report.

2 BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of Madulsima Plantations PLC have been prepared in accordance with Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995,which requires compliance with the Sri Lanka Accounting Standards (SLFRS and LKAS) promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL) and with the requirements of the Companies Act No. 07 of 2007.

2.1.1 Going Concern

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

The parent Company has funded the company for its financial needs. Details are as follows

2017 Rs. 318,563,955
2018 Rs. 969,205,401
2019 Rs. 248,714,757 (up to March)

2.2 Basis of Measurement

The Financial Statements, presented in Sri Lanka rupees, have been prepared on an accrual basis and under the historical cost convention other than the following items in the Financial Statements.

- Property Plant & Machinery and Motor Vehicles which have been re-valued and stated at market values as described in Note 13 to the Financial Statements.
- Managed timber plantations have been measured at fair value.
- Financial instruments – Fair Value Through OCI Assets measured at fair value.

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

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

2.3 New accounting standards, interpretations and amendments adopted by the company

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Company's annual financial statements in the previous financial year except for the adoption of new standards effective as of 1st January 2018. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Company applies, for the first time, SLFRS 15, Revenue from Contracts with Customers and SLFRS 9, Financial Instruments that require restatement of previous financial statements.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the financial statements of the Company.

Notes to the Financial Statements

Year ended 31 December 2018

2.3.1 SLFRS 15 Revenue from Contracts with Customers

SLFRS 15 supersedes LKAS 11, Construction Contracts, LKAS 18, Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new Standard establishes a five-step model to account for revenue arising from contracts with customers. Under SLFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company adopted SLFRS 15 using the full retrospective method of adoption. Based on the assessment performed, the Company concluded that SLFRS 15 does not have a material impact on the Company's financial statements. The revised policies as per SLFRS 15 are included in the policy note 3.17.1.

2.3.2 SLFRS 9 Financial Instruments

SLFRS 9 Financial Instruments replaces LKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The company adopted SLFRS 9 using the full retrospective method of adoption. Based on the assessment performed, the company concluded that SLFRS 9 does not have a material impact on the company's financial statements, except for the following classification changes occurred.

The assessment of the Company's business models was made as of the date of initial application, 1st January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1st January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

Classification and measurement

Except for certain trade receivables, under SLFRS 9, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under SLFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVTOCI). The classification is based on two criteria: The Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The new classification and measurement of the Company's debt financial assets are as follows:

Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Company's Trade and other receivables. (The financial assets were classified as loans and receivables under LKAS 39 in the previous financial statements.)

Though the classification of financial assets have been changed above, no changes have been derived on the values of the financial instruments for all the periods presented.

No any other classification changes were identified due to the adoption of SLFRS 9.

The accounting for the company's financial liabilities remains largely the same as it was under LKAS 39.

Impairment

The adoption of SLFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing LKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

SLFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Company has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses.

2.4 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.

Notes to the Financial Statements

Year ended 31 December 2018

2.5 Materiality and Aggregation

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Comparative information

Except when a standard permit or requires otherwise, comparative information is disclose in respect of the previous period. Where the presentation or classification or items in the financial statements are amended, comparative amounts are reclassified unless it is impracticable.

3.2 Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period

OR

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period

OR

- It does not have a right at the reporting date to defer the settlement of the liability for at least twelve months after the reporting date

The company classifies all other liabilities as non-current.

3.3 Fair Value Measurement

The company measures financial instruments and non-financial assets at fair value at each statement of financial position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Managed Consumable Biological Assets Note 15
- Plant & Machinery and Motor Vehicles Note 13.
- Fair Value Through OCI Financial Assets (FVTOCI) Note 17.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

Or

- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Notes to the Financial Statements
Year ended 31 December 2018

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservble

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as managed biological assets. Involvement of external valuers is decided upon annually by the Management Committee after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Management Committee decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3.4 Foreign currencies

The Company's financial statements are presented in Sri Lankan Rupees. For the Company determines the functional currency and items included in the financial statements of the Company is measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in statement of profit or loss.

3.5 Property, Plant & Equipment

The Company applies the requirements of LKAS 16 on 'Property Plant and Equipment' in accounting for its owned assets which are held for and use in the supply of goods, for rental to other or for administration purpose and are expected to be used for more than one year.

3.5.1 Recognition and measurement

Property Plant and Equipment is recognised if it is probable that future economic benefit associated with the assets will flow to the Company and cost of the asset can be reliably measured.

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

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

When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognises such parts as individual assets 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 Profit or Loss 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.

Notes to the Financial Statements

Year ended 31 December 2018

Plant & Machinery and Motor Vehicles are measured at fair value less accumulated depreciation on such assets 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. Other property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses

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

3.5.3 Leased Assets

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Company as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

3.5.4 De-recognition

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized and gains are not classified as revenue.

3.5.5 Land Improvement Cost

Permanent land improvement 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.

3.5.6 Biological Assets

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

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

(a) Bearer Biological Assets

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

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

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

Notes to the Financial Statements

Year ended 31 December 2018

(b) Produce on Bearer Biological Assets

In accordance with LKAS 41, company recognise agricultural produce growing on bearer plants at fair value less cost to sell. Change in the fair value of such agricultural produce recognized in profit or loss at the end of each reporting period.

For this purpose, quantities of harvestable agricultural produce ascertained based on harvesting cycle of each crop category by limiting to one harvesting cycle based on last day of the harvest in the immediately preceding cycle. Further 50% of the crop in that harvesting cycle considered for the valuation.

For the valuation of the harvestable agricultural produce, the company uses the following price formulas.

- Tea - Bought Leaf rate (current month) less cost of harvesting & transport

(c) Consumable Biological Assets

Consumable biological assets includes managed timber trees those that are to be harvested as agricultural produce or sold as biological assets.

The managed timber trees are measured on initial recognition and at the end of each reporting period 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 15.

The main variables in DCF model are as follows.

The main variables in DCF model concerns	
Variable	**Comment**
Currency valuation	Rs.
Timber content	Estimated 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
Discount Rate	Future cash flows are discounted at following discount rates: Timber trees 14%

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

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

3.5.7 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.

3.5.8 Borrowing Cost

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

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

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

Notes to the Financial Statements
Year ended 31 December 2018

3.5.9 Depreciation / Amortization

(a) Depreciation

Provision for depreciation is calculated by using a straight-line method on the cost or valuation of all property, plant and equipment, in order to write off such amounts over the estimated useful economic life of such assets. Properties on lease hold land (Improvements to Building and Land Improvement) are depreciated over the shorter of their useful lives and lease term of the land.

	No of Years	Rate (%)
Improvements to Building	40	2.50
Land Improvement	40	2.50
Plant & Machinery	15 to 20	6.66/5.00
Motor Vehicles	05	20.00
Equipment	08	12.50
Computer	04	25.00
Computer Software	03	33.00
Furniture & Fittings	10	10.00
Water Projects & Sanitation	20	5.00
Mature Plantations (Replanting and New planting)		
Tea	33 1/3	3.00
Rubber	20	5.00
Coffee	10	10.00
Citrus	10	10.00

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. 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 being amortized in equal amounts, over the following years.

	No of Years	Rate (%)
Bare Land	53	1.89%
Mature Plantations - Tea	30	3.33%
Buildings	25	4.00%
Plant & Machinery	15	6.67%
Land Development Cost	53	1.89%
Water Supply Scheme	30	3.33%
Mini Hydro Scheme	10	10%

3.6 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

3.6.1 Financial assets

3.6.1.1 Initial Recognition and Measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them.

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

The Company's financial assets include cash and short-term deposits, short term investments, trade and other receivables, loans and other receivables, fair value through OCI financial assets.

3.6.1.2 Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Notes to the Financial Statements
Year ended 31 December 2018

a) Financial assets at amortized cost (debt instruments)
The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

  And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

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

b) Financial assets at fair value through OCI (debt instruments)
The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

  And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Company's debt instruments at fair value through OCI includes Un quoted debt instruments included under non-current financial assets.

c) Financial assets at fair value through OCI (equity instruments)
Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under LKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument- by instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

d) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

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

Notes to the Financial Statements
Year ended 31 December 2018

- The rights to receive cash flows from the asset have expired

  Or
- 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.

3.6.1.4 Impairment of financial assets
The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

3.6.2 Financial liabilities

3.6.2.1 Initial recognition and measurement
Financial liabilities are classified at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings.

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

(a) Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in the statement of 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 Profit or Loss Statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortization process.

Financial liabilities comprise interest bearing loans and borrowings, trade payables, other payables, amounts due to related parties.

3.6.2.3 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 Statement of Profit or Loss.

Notes to the Financial Statements
Year ended 31 December 2018

3.6.3 Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if and only if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Financial risk management objectives and policies have been disclosed under Note 37.

3.7 Inventories

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

Input Material, Spares and Consumables
At actual cost on weighted average basis.

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

3.8 Impairment of Non-Financial Assets
The Company assets, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company’s CGUs to which the individual assets are allocated.

These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset’s or CGU’s recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

3.9 Cash and Cash Equivalents
Cash and cash equivalents comprise cash balances and short term deposit. 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.

3.10 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 Profit or Loss Statement net of any reimbursement.

Notes to the Financial Statements

Year ended 31 December 2018

3.11 Employees Benefits

(a) Defined Contribution Plans - Employees' Provident Funds and Employees' 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, 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 charged recognised as in retained earnings through other comprehensive income. Past service costs are recognised immediately in the statement of profit or loss.

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

The Liability is not externally funded. The key assumptions used in determining the retirement benefit obligations are given in Note 24

3.12 Capital Commitments and Contingencies

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

3.13 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.

3.14 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.

3.15 Deferred Income - 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 Profit or Loss Statement over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual installments. Where loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grant.

Grants related to Property, Plant & Equipment other than grants received for forestry are initially deferred and allocated to income on a systematic basis over the useful life of the related Property, Plant & Equipment as follows: Assets are amortised over their useful lives or unexpired lease period, whichever is less.

Buildings	40 years

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

Notes to the Financial Statements
Year ended 31 December 2018

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

3.17.1 Revenue from contracts with customers
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. Under SLFRS 15, revenue is recognised upon satisfaction of performance obligation.

The company is in the business of cultivation, manufacture and sale of black tea and other crops (Plantation Produce). Revenue from contracts with customers is recognized when control of the goods are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods. The company has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods before transferring them to customer.

(a) Sale of Plantation produce
Revenue from sale of plantation produce is recognized at the point in time when the control of the goods is transferred to the customer. Black tea produce is sold at the Colombo tea Auction and the highest bidder whose offer is accepted shall be the buyer, and a sale shall be completed at the fall of the hammer, at which point control is transferred to the customer. Revenue from sale of other crops are recognized at the point in time when the control of the goods has been transferred to the customer generally upon delivery of the goods to the location specified by the customer and the acceptance of the goods by the customer.

There is no element of financing present as the company's sale of plantation produce are either on cash terms (Immediate payment or advance payment not exceeding 30 days) or on credit terms ranging from 7 to 15 days.

Revenue recognition criteria for the other revenue and income earned by the company are as follows;

b) Rental Income
Rental income is recognized on an accrual basis in accordance with the substance of the relevant agreement.

c) Dividend Income
Dividend income is recognized when the right to receive payment is established.

d) Interest Income
Interest income is recognized on an accrual basis, using the effective interest method.

3.17.2 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 for the year.

3.17.3 Financing Income and expenses
Finance income comprises interest income on funds invested. Interest income is recorded using the effective interest rate (EIR) method, interest income if included in finance income in the statement of profit or loss.

Finance expenses comprise interest payable on borrowing. 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 payment 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.

3.17.4 Taxes

3.17.4.1 Current Income Tax
Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

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

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

Notes to the Financial Statements

Year ended 31 December 2018

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.18 Statement of Cash Flows

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

3.19 Segment Reporting

The segments are determined based on the company's geographical spread of operations. The geographical analysis of turnover and profits are based on location of customers and assets respectively.

Segment information has been prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the company

The segments information are disclosed in the Notes 06 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 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMTIONS

The preparation of Financial Statements in conformity with SLFRS/LKAS 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.

Notes to the Financial Statements
Year ended 31 December 2018

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:

- Note 15 -Consumable Biological Assets
- Note 24 - Measurement of the Defined Benefit Obligations
- Note 25 - Deferred Taxation

4.1 Taxation
Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

As per the Inland Revenue Act No. 24 of 2017 (ACT), in the case of a company predominantly conducting an agricultural business, the applicable income tax rate is 14%. As per the above ACT "Predominantly" is defined as 80% or more calculated based on gross income. The "Agriculture business" is defined in section 195 (1) as business of producing agricultural, horticultural or any animal produce and includes an undertaking for the purpose of rearing livestock or poultry. Based on the legal expert opinion obtained, the management is of the view that the company is predominantly engaged in agricultural business.

4.2 Retirement Benefit Obligations
The present value of the retirement benefit obligation determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate; future salary increases and mortality rates. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting period.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka government bonds with maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rate and expected future salary increase rates of the Company.

Further details about Retirement benefit obligations are provided in Note 24.

4.3 Fair Valuation of Consumable Biological Assets
The fair value of managed timber depends on number of factors that are determined on a discounted cash flow method using various different 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 the fair value of biological assets. All assumptions are reviewed at each reporting period. Key assumptions and sensitivity analysis of the biological assets are given in Note 15.

4.4 Impairment of non-financial assets
Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset.

The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the company.

5 SRI LANKA ACCOUNTING STANDARDS (SLFRS / LKAS) 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.

Notes to the Financial Statements
Year ended 31 December 2018

SLFRS 16 – Leases
SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('Lessee'] and the supplier ('Lessor']. SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations. SLFRS 16 introduces a single accounting model for the lessee, eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases.

The new Standard requires a lessee to:

- recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and
- present depreciation of lease assets separately, from interest on lease liabilities in the income statement.

SLFRS – 16 substantially carries forward the lessor accounting requirement in LKAS – 17. Accordingly, a lessor continues to classify its leases as operating lease or finance lease, and to account for those two types of leases differently.

SLFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under LKAS 17.

Notes to the Financial Statements
Year ended 31 December 2018

6. REVENUE FROM CONTRACT WITH CUSTOMERS

6.1) Sale of Goods

	2018 Rs.	2017 Rs.
Sale of Produce Tea	2,144,945,407	2,605,103,502

6.2) Segmental Information

Geographical Segment

	Madulsima Region				Bogowantalawa Region		Total	
	Uva High		Uva Medium		Western High			
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
(a) Segment Revenue								
Revenue	853,117,624	1,092,787,617	558,670,450	735,432,144	733,157,333	776,883,741	2,144,945,407	2,605,103,502
Cost of Sales	(897,285,651)	(1,006,700,127)	(630,410,533)	(638,376,112)	(906,915,320)	(862,486,435)	(2,434,611,504)	(2,507,562,674)
Segment Results	(44,168,027)	86,087,490	(71,740,083)	97,056,032	(173,757,987)	(85,602,694)	(289,666,097)	97,540,828
Other Operating Income	10,848,230	8,750,442	1,122,490	4,442,008	4,559,688	4,718,422	16,530,408	17,910,872
Administrative Expenses	(35,077,922)	(28,425,558)	(20,118,459)	(17,553,455)	(39,995,764)	(35,876,304)	(95,192,145)	(81,855,317)
	(68,397,719)	66,412,374	(90,736,052)	83,944,585	(209,194,063)	(116,760,576)	(368,327,834)	33,596,383
Head Office								
Other Operating Income							23,482,342	178,411,335
Administrative Expenses							(20,479,532)	(72,101,213)
Profit/(Loss) from Operating Activities							(365,325,024)	139,906,505
Finance Cost							(219,766,185)	(175,899,165)
Gain /(Loss) on Change in Fair Value of Biological Assets							159,925,012	144,650,733
Profit/(Loss) before Income Tax Expense							(425,166,197)	108,658,073
Income Tax Expense							(175,032,694)	(64,061,840)
Net Loss for the Year							(600,198,892)	44,596,233

Notes to the Financial Statements
Year ended 31 December 2018

6. REVENUE FROM CONTRACT WITH CUSTOMERS (Cont...)

(b) Segment Assets

		Madulsima Region				Bogowantalawa Region		Total	
		Uva High		Uva Medium		Western High			
		2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Non Current Assets		2,839,853,331	2,656,880,367	1,279,037,575	1,174,719,621	1,154,780,955	1,067,875,508	5,273,671,861	4,899,475,496
Current Assets		142,494,136	110,417,270	78,251,961	77,918,128	155,193,647	110,624,333	375,939,744	298,959,731
		2,982,347,467	2,767,297,637	1,357,289,536	1,252,637,749	1,309,974,602	1,178,499,841	5,649,611,605	5,198,435,227
Unallocated									
Non Current Assets								23,225,490	8,510,349
Current Assets								88,595,523	50,819,966
Total Assets								5,761,432,618	5,257,765,542
Segment Liabilities									
Non Current Liabilities		354,199,892	361,623,560	200,867,627	176,889,638	462,717,890	412,062,733	1,017,785,409	950,575,931
Current Liabilities		90,540,951	110,417,270	50,457,194	77,918,128	112,081,816	110,624,333	253,079,961	298,959,731
		444,740,843	472,040,830	251,324,821	254,807,766	574,799,706	522,687,066	1,270,865,370	1,249,535,662
Unallocated									
Non Current Liabilities								971,345,364	571,869,955
Current Liabilities								1715,150,373	986,378,274
Total Liabilities								3,957,361,107	2,807,783,891
Capital Expenditure	- Allocated	183,440,014	19,932,360	41,813,358	19,155,041	81,457,105	14,093,456	306,710,477	53,180,857
	- Unallocated							11,483,291	8,805,599
								318,193,768	61,986,456
Depreciation	- Allocated	28,747,560	31,423,785	17,921,334	18,569,009	24,960,639	33,947,230	71,629,533	83,940,024
	- Unallocated							3,198,828	6,236,603
								74,828,361	90,176,627

Notes to the Financial Statements

Year ended 31 December 2018

07. OTHER INCOME AND GAINS

	2018 Rs.	2017 Rs.
Amortisation of Capital Grants	5,441,155	6,628,694
Rent Income	33,503,409	32,473,653
Sundry Income	(1,482,334)	6,878,351
Profit from Sale of Trees	155,282	585,082
Management fees Write Back	-	149,486,736
Interest Income	68,012	112,191
Profit from Sale of Timber Trees	1,823,227	-
Dividend Income	504,000	157,500
	40,012,751	196,322,207

08. FINANCE COST

	2018 Rs.	2017 Rs.
Overdraft Interest	44,489,878	61,172,105
Bank Loan Interest	18,065,281	3,949,158
Term Loan Interest	145,070,142	97,614,764
Interest on Government Lease	10,821,598	10,098,176
Finance Lease	1,319,286	3,064,962
	219,766,185	175,899,165

09. PROFIT BEFORE TAXATION IS STATED AFTER CHARGING

	2018 Rs.	2017 Rs.
Auditors fees	1,882,000	1,792,000
Depreciation/Amortisation	74,828,361	90,176,627
Defined Benefit Plan Costs	126,831,050	119,739,446
Defined Contributions Plan Costs - EPF & ETF	153,218,343-	132,261,434
Personnel Costs - Salaries & Wages	1,406,724,691	1,223,745,516
Managing Agent's Fees	Nil	1,173,000
Director Remuneration	Nil	Nil

Notes to the Financial Statements
Year ended 31 December 2018

10. INCOME TAX EXPENSE

10.1 STATEMENT OF PROFIT OR LOSS

	2018 Rs.	2017 Rs.
(i) Current Tax Expense		
Current Income Tax Expense	-	5,949,032
Under provision previous year	-	147,829
(ii) Deferred Tax		
Relating to Origination and (reversal) of temporary differences (NOTE 25)	175,032,695	57,964,979
Income Tax charge/(reversal) reported in Statement of Profit or Loss	175,032,695	64,061,840

10.2 STATEMENT OF OTHER COMPREHENSIVE INCOME

	2018 Rs.	2017 Rs.
Deferred tax relating to items (charges)/ credited directly to OCI during the year		
Tax effect on Actuarial Gains / (Losses)	(7,483,681)	350,454
Tax effect on Revaluation of Assets	-	72,083,118
Deferred tax charged to Other Comprehensive Income	(7,483,681)	72,433,572

10.3 Reconciliation between Current Tax (Expense) / Income and the product of Accounting Profit Multiplied by the Statutory Tax rate of 28% on other sources of income(2016 -28 %)

	2018 Rs.	2017 Rs.
Profit / (Loss) before income tax for the year	(425,166,197)	108,658,073
Gain on Biological Assets	(159,925,012)	(144,650,733)
Non Business Income	-	(32,686,987)
Aggregated Disallowed Items	219,136,350	336,967,545
Aggregated Allowable Items	(213,603,918)	(303,872,006)
Statutory income/(loss) from Business	(579,558,777)	(35,584,108)
Other Sources of Income	-	32,686,987
Total Statutory Income	-	32,686,987
Tax Losses set off	-	(11,440,445)
Taxable Profit/ (Loss)	-	21,246,542
Tax for the year	-	5,949,032

10.4 EARNINGS PER SHARE

The calculation of the basic earnings per share has been done based on profit after tax for the year divided by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic earnings per share computations.

	2018 Rs	2017 Rs
Amount used as the numerator		
Net profit /(loss) for the year	(600,198,892)	44,596,233
Amount used as the denominator		
Weighted average number of ordinary shares outstanding during the year	169,501,123	169,501,123

Notes to the Financial Statements
Year ended 31 December 2018

11. RIGHT TO USE OF LAND

"Right-To-Use of Land on Lease" as above was previously titled "Leasehold Right to Bare Land". The change is in order to comply with Statement of Alternative Treatment (SoAT) issued by the Institute of Chartered Accountants of Sri Lanka dated 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 Alternative Treatment (SoAT) 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 2018 are as follows.

	Revaluation as at 22.06.92 Rs.	Balance as at 01.01.2018 Rs.	Accumulated Amortization as at 01.01.2018 Rs.	Amortization for the year Rs.	Accumulated Amortization as at 31.12.2018 Rs.	Written Down Value as at 31.12.2018 Rs.	Written Down Value as at 31.12.2017 Rs.
Right to use of Land	218,811,513	218,811,513	105,277,240	4,128,519	109,405,759	109,405,754	113,534,273
	218,811,513	218,811,513	105,277,240	4,128,519	109,405,759	109,405,754	113,534,273

12. IMMOVABLE ESTATE ASSETS ON FINANCE LEASE (OTHER THAN RIGHT TO USE OF LAND)

All immovable assets in the JEDB/SLSPC estates under finance lease have been taken in to the financial statements of the Company retroactive to 22nd June 1992 For this purpose , the Board decided at its meeting on 08th March 1995 that these assets be restated at their book values as they appear in the book of JEDB/SLSPC, on the day immediately preceding the date of formation of the Company. These assets were taken into the Statement of financial position as at 22nd June 1992 and amortised as follows.

	Immature Plantation Tea Rs.	Mature Plantations Tea Rs.	Unimproved lands Rs.	Buildings Rs.	Plant & Machinery Rs	Water Supply Scheme Rs.	Mini Hydro Scheme Rs.	Total Rs.
Revaluation as at 22.06.1992	94,718,785	51,944,300	4,417,562	29,980,829	7,987,889	3,346,579	9,292,578	201,688,522
Revaluation of Plant & Machinery	-	-	-	-	261,838,111	-	-	261,838,111
As at 31.12.2009	-	-	-	-	-	-	-	-
Revaluation of Plant & Machinery as at 31.12.2014	-	-	-	-	146,757,320	-	-	146,757,320
Balance as at 31.12.2014	94,718,785	51,944,300	4,417,562	29,980,829	416,583,320	3,346,579	9,292,578	610,283,953
Disposals/ Transfer In /(Out)	(94,718,785)	94,718,785	-	-	(22,000,000)	-	-	(22,000,000)
Balance as at 31.12.2018	-	146,663,085	4,417,562	29,980,829	394,583,320	3,346,579	9,292,578	588,283,953
Accumulated amortization as at 01.01.2018	-	111,638,061	2,125,433	29,980,829	62,487,515	2,844,589	9,292,578	218,369,005
Disposals/ Transfer In /(Out)	-	-	-	-	(4,308,333)	-	-	(4,308,333)
Amortization during the year	-	4,888,768	83,345	-	20,737,482	111,555	-	25,821,150
Accumulated amortization as at 31.12.2018	-	116,526,829	2,208,778	29,980,829	78,916,664	2,956,144	9,292,578	239,881,822
Written down value as at 31.12.2018	-	30,136,256	2,208,784	-	315,666,656	390,436	-	348,402,132
Written down value as at 31.12.2017	-	35,025,024	2,292,129	-	354,095,805	501,990	-	391,914,951

These assets are being amortized in equal annual amounts over the following periods:

Mature Plantations - Tea	30 years
Unimproved Land	53 years
Buildings	25 years
Plant & Machinery	20 years
Water Supply Scheme	30 years
Mini Hydro Scheme	10 Years

Notes to the Financial Statements

Year ended 31 December 2018

13. PROPERTY, PLANT & EQUIPMENTS

COST	Balance as at 01.01.2018 Rs.	Additions/ Transfer in Rs.	Disposals/ Transfer out Rs.	Balance as at 31.12.2018 Rs.
Improvement to Building	241,275,357	18,729,906	-	260,005,263
Land Improvements	44,657,109	10,711,763	-	55,368,872
Water Projects and Sanitation	25,698,539	-	-	25,698,539
Equipment	31,220,357	27,675,378	-	58,895,735
Computers	10,480,591	2,397,058	-	12,877,649
Furniture & Fittings	4,732,072	467,804	-	5,199,876
	358,064,024	59,981,909	-	418,045,934
VALUATION				
Plant & Machinery	326,666,123	98,570,850	-	425,236,973
Motor Vehicles	99,566,303	31,143,048	-	130,709,351
	426,232,426	129,713,897	-	555,946,323
	784,296,451	189,695,807	-	973,992,257

DEPRECIATION COST	Balance as at 01.01.2018 Rs.	Charge for the Year Rs.	Accumulated depreciation on disposals Rs.	Balance as at 31.12.2018 Rs.
Improvement to Building	75,912,687	4,228,900		80,141,587
Land Improvements	11,529,678	1,193,771		12,723,449
Water Projects and Sanitation	21,605,845	684,598		22,290,443
Equipment	29,290,054	1,208,701		30,498,755
Computers	8,695,237	1,328,226		10,023,463
Furniture & Fittings	4,711,915	26,167		4,738,082
	151,745,416	8,670,362	-	160,415,778
VALUATION				
Plant & Machinery	43,934,181	17,522,216		61,456,397
Motor Vehicles	89,044,057	3,876,821		92,920,878
	132,978,238	21,399,037	-	154,377,275
	284,723,654	30,069,399	-	314,793,053
Written Down Value	499,572,797			659,199,205

Assets acquired on Finance Lease

COST	Balance as at 01.01.2018 Rs.	Additions/ Transfer in Rs.	Disposals/ Transfer out Rs.	Balance as at 31.12.2018 Rs.
Plant & Machinery	35,203,083	-	-	35,203,083
	35,203,083	-	-	35,203,083

DEPRECIATION	Balance as at 01.01.2018 Rs.	Charge for the Year Rs.	Accumulated depreciation on disposals Rs.	Balance as at 31.12.2018 Rs.
Plant & Machinery	3,759,656	1,760,154	-	5,519,810
	3,759,656	1,760,154	-	5,519,810
Written Down Value	31,443,427			29,683,273

	Balance as at 01.01.2018 Rs.	Additions for the Year Rs.	Transferred during the Year Rs.	Balance as at 31.12.2018 Rs.
Capital Work-in-Progress	2,502,990	115,512,621	(25,546,735)	92,468,876
TOTAL WRITTEN DOWN VALUE	533,519,214			781,351,353

Notes to the Financial Statements

Year ended 31 December 2018

The Assets shown above are those movable assets which are invested by the Company after the Gazette notification on the date of formation of the Company (22.06.1992).

The company carried out a revaluation of all items in plant & machinery and motor vehicle, in 12 estates. This was carried out by Mr. W.M. Chandrasena FIV (SL), MRICS (UK) Chartered Valuation Surveyor, Membership No F/141 as at 31 December 2014 and updated as of 31 December 2018 by taking in to consideration of the market and physical condition of such assets.

Carrying value of Plant and Machinery at valuation had the assets been carried under the cost model at (2018 : Rs. 212 Mn) (2017 :Rs.166 Mn.)

Carrying value of Motor Vehicle at valuation had the assets been carried under the cost model at (2018: Rs. 31.1Mn) (2017: Rs 10.3 Mn)

The gross book value of fully depreciated Property, Plant and Equipment which are still in use as at Statement of Financial Position is Rs. 29.52 Mn.

13 A i FAIR VALUE HIERARCHY

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

NON FINANCIAL ASSETS						
	Level 1		Level 2		Level 3	
As at 31st December	2018	2017	2018	2017	2018	2017
Assets measured at fair value						
Plant and Machinery	-	-	-	-	393,463,849	314,175,369
Motor Vehicle	-	-	-	-	37,788,473	10,522,246
Produce Bearer on Biological Assets	-	-	4,058,080	4,106,680	-	-

Information on fair value measurements using significant unobservable inputs (level 3)

Non Financial Asset	**Type of Asset**	**Fair Value as at 31st December 2018**	**Method of Valuations**	**Significant unobservable inputs**	**Estimates for unobservable inputs (weighted Average)**	**Sensitivity of fair value to unobservable inputs**
Plant and machinery	Plant and machinery	393,463,849	Current Replacement Cost	Estimated Replacement cost adjusted for wear and tear	Based on number of years usage	Negatively correlated Sensitivity
Motor Vehicle	Motor Vehicle	37,788,473	Current Replacement Cost	Estimated Replacement cost adjusted for wear and tear	Based on number of years usage	Negatively correlated Sensitivity

Notes to the Financial Statements
Year ended 31 December 2018

14. BEARER BIOLOGICAL ASSETS
Mature Plantations

Cost	As at 01.01.2018 Rs.	Additions / Transfers Rs.	Disposals Rs.	As at 31.12.2018 Rs.
Tea	420,734,712	12,465,841		433,200,553
Rubber	1,727,490	-		1,727,490
Coffee	2,869,329	-		2,869,329
Citrus	3,389,844	-	-	3,389,844
	428,721,375	12,465,841	-	441,187,216

Depreciation	As at 01.01.2018 Rs.	Charge for the year Rs.	Disposals Rs.	As at 31.12.2018 Rs.
Tea	172,876,276	12,622,041	-	185,498,317
Rubber	986,107	86,376	-	1,072,483
Coffee	2,399,053	258,021	-	2,657,074
Citrus	1,227,877	82,701		1,310,578
	177,489,313	13,049,139	-	190,538,452,
Written Down Value	251,232,062			250,648,764

Immature Plantations	As at 01.01.2018 Rs.	Additions / Transfers Rs.	Disposals / Transfers Rs.	As at 31.12.2018 Rs.
Tea	263,691,528	24,274,684	(12,465,841)	275,500,371
Rubber	108,443,764	8,745,579	-	117,189,343
Citrus	80,512	-	-	80,512
Cloves	151,251	29,801	-	181,052
Cinnamon	6,832,622	779,112	-	7,611,734
Coffee	1,838,588	22,635	-	1,861,223
Avacado	2,554,134	-	-	2,554,134
Pepper	773,736	402,599	-	1,176,335
Murunga	635,339	-	-	635,339
	385,001,474	34,254,410	(12,465,841)	406,790,042
TOTAL WRITTEN DOWN VALUE	636,233,536			657,438,806

15. CONSUMABLE BIOLOGICAL ASSETS - TIMBER PLANTATIONS

	31.12.2018 Rs.	31.12.2017 Rs.
Balance at the Beginning of the Year	3,234,577,309	3,098,656,750
Increased due to New Planting	4,277,665	6,302,703
Decreased due to Harvesting and	(2,944,811)	-
Decreased due to Fire	-	(15,703,181)
Gain / (Loss) on Change in Fair Value	159,973,612	145,321,037
Balance at the End of the Year	3,395,883,775	3,234,577,309

Managed timber plantation was measured at fair value as at 31 December 2018. The corresponding gain/loss was recognized in the profit or loss statement. However, the revaluation gain or loss on consumable biological assets is shown as a separate sub division of equity which will be available for distribution only on realisation of consumable biological assets.

Notes to the Financial Statements
Year ended 31 December 2018

15.A i FAIR VALUE HIERARCHY

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

NON FINANCIAL ASSETS - Consumable Biological Assets

As at 31st December	Date of valuation	Level 1 Rs	Level 2 Rs	Level 3 Rs
Assets measured at fair value				
Consumable Biological Assets - Timber	31st December 2018	-	-	3,395,883,775

In determining the fair value, highest and best use of timber, current condition of the trees and expected timber content at harvesting have been considered. Also, the valuers have made reference to market evidence of the company ,and the market prices of timber corporation, with appropriate adjustments for size and location. The appraised fair values are rounded with appropriate adjustments for size and location. The appraised fair values are rounded within the range of values

15.B ii INFORMATION ABOUT FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

Non Financial Assets	Valuation Techniques	Unobservable Inputs	Range of Unobservable Inputs	Relationship of Unobservable inputs to Fair Value
Consumable Biological Assets - Timber	DCF Method	Discounting factor	14%	The higher the discount rate, the lower the fair value
		Optimum rotation (Maturity)	25-35 Years	Lower the rotation period, the higher the fair value.
		Volume at rotation	25 to 85 lbs per Cu. Ft.	The higher the weight the higher the fair value
		Price per Cu. Ft.	Rs. 150/- Rs. 600 /- per Cu. Ft	The higher the price the higher the fair value

The future cash flows are determined by reference to current timber prices without considering the future increase of timber price. Following associated costs are taken into consideration in determining the present timber prices.

Key assumption used in the 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. 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. Because of the inherent uncertainty associated with the valuation at fair value of the biological assets due to the volatility of the variables, their carrying value may differ from their realisable value. The Board of Directors retains their view that commodity markets are inherently volatile and that long term price projections are highly unpredictable. Hence, the sensitivity analysis regarding selling price and discount rate variations as included in this note allows every investor to reasonably challenge the financial impact of the assumptions used in the LKAS 41 against his own assumptions.

The valuation was carried By Mr W.M. Chandrasena, FIV(SL) MRICS(UK) Chartered valuation Surveyor membership no F/141

Notes to the Financial Statements

Year ended 31 December 2018

15 CONSUMABLE BIOLOGICAL ASSETS - TIMBER PLANTATIONS (Contd...)

15.1 Sensitivity analysis of assumptions used in the valuation of timber plantations

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	-10% Rs	+10% Rs
As at 31st December, 2018	(339,588,377)	339,588,377
As at 31st December, 2017	(324,779,515)	324,779,515

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% of the discount rate has the following effect on the net present value of biological assets:

Managed Timber	-1% Rs	+1% Rs
As at 31st December, 2018	153,616,610	(138,026,874)
As at 31st December, 2017	162,732,048	(145,247,638)

16 PRODUCE ON BEARER BIOLOGICAL ASSETS

	2018 Rs.	2017 Rs.
As at 01st January -restated	4,106,680	4,776,984
Change in fair value less cost to sell	(48,600)	(670,304)
As at 31st December	4,058,080	4,106,680

16.1 GAIN /(LOSS) ON FAIR VALUE OF BIOLOGICAL ASSETS

	2018 Rs.	2017 Rs.
Consumable Biological Assets Gain/(loss)arising from changes in fair value less cost to sell (Note No 15)	159,973,612	145,321,037
Produce on Bearer Biological Assets Gain/(Loss) arising from changes in fair value less cost to sell (Note No 16)	(48,600)	(670,304)
	159,925,012	144,650,733

Notes to the Financial Statements

Year ended 31 December 2018

17. FAIR VALUE THROUGH OCI FINANCIAL ASSETS

	2018 Rs.	2017 Rs.
Investment in unquoted companies		
Investment in Bogo Power (Pvt) Ltd (3,500,000 Ordinary Shares)	4,155,598	3,799,407
(Less) / add : Fair Value Change	259,932	356,192
	4,415,530	4,155,598

18. INVENTORIES

	2018 Rs.	2017 Rs.
Produce Stock	262,711,073	215,699,780
Biological Assets - Nurseries	5,128,829	7,410,742
Input Material	36,847,601	25,215,360
Consumables & Spares	1,310,499	645,920
	305,998,001	248,971,802

19. TRADE AND OTHER RECEIVABLES

	2018 Rs.	2017 Rs.
Employee Related Debtors	50,924,529	40,344,273
Deposits & Prepayments	17,639,356	3,083,302
Other debtors	32,406,074	9,052,898
VAT Receivable	10,850,996	10,850,996
WHT Receivable	5,245,182	5,002,715
ESC Receivable	19,839,899	15,231,726
Income Tax Recoverable	6,517,024	6,517,024
ACT Recoverable (Note 19.1)	41,034,639	41,034,639
	184,457,700	131,117,573
Less : Provision for Doubtful Debts	(44,383,762)	(44,383,762)
	140,073,938	86,733,811

19.1 Advance Company Tax (ACT) Recoverable could be set off only against future tax liability of the Company.

20 . AMOUNT DUE FROM RELATED COMPANIES

	Relationship	2018 Rs.	2017 Rs.
Balangoda Plantations PLC	Related Company	1,075,588	952,933
		1,075,588	952,933

21. CASH AND CASH EQUIVALENTS

	2018 Rs.	2017 Rs.
21.1 Favourable balance		
Cash at Bank and in Hand	13,329,661	3,065,435
	13,329,661	3,065,435
21.2 Unfavourable balance		
Bank Overdraft	(79,757,853)	(473,850,190)
	(79,757853)	(473,850,190)

22. STATED CAPITAL

	2018	2017
Issued and Fully Paid Number of Shares		
Ordinary Shares Including one Golden Share held by the Treasury which has Special rights	169,501,123	169,501,123
	169,501,123	169,501,123

	2018 Rs.	2017 Rs.
Value of issued and Fully Paid Shares		
Ordinary Shares Including one Golden Share held by the Treasury which has Special rights	1,624,760,670	1,624,760,670
	1,624,760,670	1,624,760,670

Notes to the Financial Statements
Year ended 31 December 2018

23. INTEREST BEARING LOANS AND BORROWINGS

	2018 Repayable within 1 year Rs.	2018 Repayable after 1 year Less than 05 years Rs.	2018 Repayable after 05 years Rs.	Total as at 31.12.2018 Rs.	2017 Repayable within 1 year Rs.	2017 Repayable after 1 year Less than 05 years Rs.	2017 Repayable after 05 years Rs.	Total as at 31.12.2017 Rs.
23.1. Term Loans	56,940,349	291,985,333	-	348,925,682	56,118,378	348,925,682	-	405,044,060
23.2 Bank Loans	80,000,000	300,000,000	-	380,000,000	9,166,850	-	-	9,166,850
23.3. = Finance Lease	5,347,029	-	-	5,347,029	20,228,849	5,347,031	-	25,575,880
	142,287,378	591,985,333	-	734,272,711	85,514,077	354,272,713	-	439,786,790
		591,985,333				354,272,713		

	2018 Repayable within 1 year Rs.	2018 Repayable after 1 year Less than 05 years Rs.	2018 Repayable after 05 years Rs.	31.12.2018 Total As At Rs.	31.12.2017 Total As At Rs.	Rate of Interest	Terms of Repayment
23.1 Term Loans							
Sri lanka Tea Board Loan through HNB (153 Mn)	30,718,800	30,721,601		61,440,401	92,159,201	(i)	59 equal monthly installment of Rs 2,559,900/= each and a final installment of Rs 2,562,701 commencing from 31.01.2016
Sri lanka Tea Board Loan (28 Mn)	9,333,324	5,444,454	-	14,777,778	24,111,111	(ii)	36 equal monthly installment of Rs 777,777/= Commencing from 31.08.2017
Sri lanka Tea Board Loan (49 Mn)	16,888,225	5,819,278	-	22,707,503	38,773,748	(iii)	36 equal monthly installment of Rs 1,470,005/= Commencing from 31.05.2017
Melstacorp PLC (Rs 200 Mn)	-	200,000,000	-	200,000,000	200,000,000	(iv)	Capital to be repaid after a moratorium of 03 years. interest payable monthly
Melstacorp PLC (Rs 50 Mm)	-	50,000,000	-	50,000,000	50,000,000	(v)	Capital to be repaid after a moratorium of 03 years. interest payable monthly
	56,940,349	291,985,333	-	348,925,682	405,044,060		
23.2 Bank Loans							
Hatton National Bank	-	-	-	-	9,166,850	(vi)	36 equal monthly installment of Rs 3,055,550/= and a final installment of Rs 3,055,750/= commencing from 24.04.2015
Hatton National Bank	80,000,000	300,000,000	-	380,000,000	-	(vii)	20 quarterly installments of Rs.20Mn
	80,000,000	300,000,000	-	380,000,000	9,166,850		
23.3 Hatton National Bank Lease	5,347,029	-	-	5,347,029	25,575,880	(viii)	48 equal monthly installments of Rs 1,795,678/= commencing from 24.04.2015
	5,347,029	-	-	5,347,029	25,575,880		

(i) AWPLR + 1 % (Monthly Review)
(ii) AWPLR+ 1% (Monthly Review)
(iii) 5% P.A Payable monthly
(iv) AWPLR+ 1.25% (Monthly Review)
(v) AWPLR+ 1.25% (Monthly Review)
(vi) AWPLR+ 2% (Monthly Review)
(vii) AWPLR+ 1.5% (Monthly Review)
(ix) 9% (Total Lease Payment Less Value of the Asset)

Notes to the Financial Statements
Year ended 31 December 2018

24. RETIRING BENEFIT OBLIGATIONS

	31.12.2018 Rs.	31.12.2017 Rs.
At the beginning of the year	857,678,431	824,161,812
Interest Cost	85,840,103	81,757,541
Current Service Cost	40,990,947	37,981,905
Liability experience loss/(gain) arising during the year	113,317,574	(2,503,240)
Liability loss/(gain) due to changes in assumptions during the year	(59,862,713)	-
Gratuity Payments for the year	(113,015,817)	(83,719,587)
At the end of the year	924,948,525	857,678,431

Difference
According to the actuarial valuation report issued by the actuarial valuer as at 31 December 2018 the actuarial present value of promised retirement benefits amounted to Rs. 924,948,525/-. 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 968,314,744/-. Hence, there is a contingent liability of Rs. 43,366,219/=, which would crystallize only if the company ceases to be a going concern.

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 discounted that benefit in order to determine the present value of the retirement benefit obligation and the current service cost. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates about demographic variables and financial variables that will influence the cost of the benefit. The following key assumptions were made in arriving at the above figure.

The Present Value of Retirement Benefit Obligation is carried on annual basis.

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

		2018 Rs	2017 Rs
Within the next 12 months	=	205,916,167	202,369,691
Between 1- 2 years	=	111,592,980	104,191,986
Between 2 and 5 years	=	169,558,474	147,129,864
Beyond 5 years	=	437,880,904	403,986,890
		924,948,525	857,678,431

The weighted average duration of the Defined Benefit plan obligation at the end of the reporting period is 3.68 years and 8.03 years for staff and workers respectively.

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

	2018	2017
(i) Rate of Interest	12.00% Pa	11.00% Pa
(ii) Rate of Salary Increase		
Staff	7.50% Pa	7.50%Pa
Workers	15.00% (Once in 2 Years)	15.00% (Once in 2 Years)
(iii) Retirement Age		
Workers	60 years	60 years
Staff	58 or 60 years	58 or 60 years
(iv) Daily Wage Rate	700/=	500/=

Sensitivity Analysis
Values appearing in the financial statements are very sensitive to the changes of financial and non financial assumptions used. The sensitivity was carried for the change of discount rate and salary/wage escalation rate. Simulation made for retirement obligation show that a rise or decrease by 1% of the discount rate and salary/wage has the following effect on the retirement benefit obligation.

Variable
Rate of Wage increment (Workers - every two years/ Staff Per annum)

	2018		2017	
Discount Rate	**Increase**	**Decrease**	**Increase**	**Decrease**
Sensitivity level	**1%**	**1%**	**1%**	**1%**
Impact on defind benefit obligation Rs .	(55,916,073)	63,628,447	(51,557,009)	58,796,052

	2018		2017	
	Increase	**Decrease**	**Increase**	**Decrease**
Future Salary Increment rate	**1%**	**1%**	**1%**	**1%**
Impact on defined benefit Obligation Rs.	29,516,709	(27,997,921)	30,673,910	(29,038,005)

Notes to the Financial Statements
Year ended 31 December 2018

25. DEFERRED TAX

25.1 Accumulated Tax Losses

	2018 Rs.	2017 Rs.
Tax Losses Brought Forward	2,815,046,149	2,790,902,488
Loss for the Year (Note 10.3)	579,558,777	35,584,106
Loss under absorbed last year	-	-
Losses set off during the Year	-	(11,440,445)
Tax losses Carried Forward	3,394,604,926	2,815,046,149

25.2 Deferred Taxation Reconciliation

	2018		2017	
	Temporary Difference Rs.	Tax Effect Rs.	Temporary Differences Rs.	Tax Effect Rs.
As at 1 January	931,418,219	130,398,551	-	-
Amount originating during the year	1,196,778,673	167,549,014	931,418,219	(76,403,738)
Amount originated due to the Income Tax rate change to 14%	-	-	-	206,802,289
As at 31 December	2,128,196,892	297,947,565	931,418,219	130,398,551
Deferred Tax Liability				
Temporary difference on PPE	815,332,149	114,146,501	773,609,032	108,305,264
Temporary difference on Bearer Biological Assets	657,438,806	92,041,433	636,233,536	89,072,695
Temporary difference on Consumable Biological Assets	3,395,883,775	475,423,728	3,234,577,312	452,840,824
Temporary difference on Produce on Bearer Biological Assets	4,058,080	568,131	4,106,680	574,935
As at 31st December	4,872,712,809	682,179,793	4,648,526,560	650,793,718
Deferred Tax Assets				
Temporary difference on Provision for Doubtful Debt	(44,383,762)	(6,213,727)	(44,383,762)	(6,213,727)
Temporary difference on retirement benefit obligation	(924,948,525)	(129,492,794)	(857,678,431)	(120,074,980)
Tax losses	(1,775,183,631)	(248,525,708)	(2,815,046,148)	(394,106,461)
As at 31 December	(2,744,515,918)	(384,232,229)	(3,717,108,341)	(520,395,168)
As at 31st December	2,128,196,892	297,947,565	931,418,219	130,398,551

The effective tax rate used to calculate deferred tax liability for all the Temporary Differences as at 31 December, 2018 is 14% (2017 - 14%) for the company.

Reconciliation of deferred tax charge / (reversal)

	2018 Rs.	2017 Rs.
At the beginning of the year	130,398,551	-
Tax charge/(reversal) during the period recognised in Statement of profit or Loss	175,032,695	57,964,979
Tax charge/(reversal) during the period recognised in other Comprehensive Income	(7,483,681)	72,433,572
At the end of year	297,947,565	130,398,551

Notes to the Financial Statements

Year ended 31 December 2018

26. DEFERRED GRANTS AND SUBSIDIES

	31.12.2018 Rs.	31.12.2017 Rs.
At the beginning of the year	148,545,751	152,910,838
Add : Grants received for the year - Monitory	286,325	2,263,607
Less : Amortisation for the year	(5,441,154)	(6,628,694)
At the end of the year	143,390,922	148,545,751

27. LIABILITY TO MAKE LEASE PAYMENT

	31.12.2018 Rs.	31.12.2017 Rs.
Gross Liability		
Balance as at 01st January	53,678,789	55,632,789
Payments made during the year	(1,953,999)	(1,954,000)
Balance as at 31st December	51,724,790	53,678,789
Finance Charges allocated for future periods	(20,174,349)	(21,462,952)
Total Net Liability	31,550,440	32,215,837
27.1 Repayable after 5 years		
Gross liability	41,954,790	43,908,789
Less : finance charges	(14,152,515)	(15,296,958)
Net liability	27,802,274	28,611,831
Repayable after1 year less than 5 years		
Gross liability	7,816,000	7,816,000
Less : finance charges	(4,759,847)	(4,877,391)
Net liability	3,056,153	2,938,609
Repayable after1 year	30,858,427	31,550,440
Repayable within1 year		
Gross liability	1,954,000	1,954,000
Less : finance charges	(1,261,987)	(1,288,603)
Net liability	692,013	665,397
Total	31,550,440	32,215,837

The 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 since 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 4% and discounted at a rate of 13% , liability would be as follows.

Gross Liability	550,243,692
Finance Charges	(274,602,228)
Net Liability	275,641,464

The above reassessed liability not reflected in these Financial Statements.

28. TRADE AND OTHER PAYABLES

	31.12.2018 Rs.	31.12.2017 Rs.
Trade creditors	86,831,022	100,298,302
Employee related creditors	156,517,337	148,491,376
Accrued Expenses	8,650,068	20,343,921
ESC Payable	5,006,495	5,884,207
Others	52,967,686	38,376,488
	309,972,609	313,394,294

29 AMOUNT DUE TO RELATED COMPANIES

	Relationship	2018 Rs.	2017 Rs.
Melstacorp PLC	Parent Company	1,153,950,863	165,649,994
Stassen Exports (Pvt) Limited	Related Company	450,000	508,550
Balangoda Plantations PLC	Related Company	8,918,884	10,689,013
Distilleries Company of Srilanka Limited	Related Company	44,243,114	9,900,000
Melsta Logistics (Pvt) Ltd	Related Company	-	107,842
Milford Exports Ceylon (Pvt) Limited	Related Company	227,092,438	224,815,123
Bogo Power (Pvt) Limited	Related Company	431,183	243,525
Melsta Technologies (Pvt) Limited	Related Company	434,000	-
		1,435,520,482	411,914,047

Notes to the Financial Statements

Year ended 31 December 2018

30. BANK SECURITIES PLEDGED

Following assets have been pledged as security for liabilities.

Name of Bank	Loan Facility Rs.	Security	Nature of Liability	Carrying Amount of Assets Pledged 2018 Rs.	Carrying Amount of Assets Pledged 2017 Rs.
Hatton National Bank PLC	400,000,000	(a) Existing Registered Primary Floating Mortgage Bond for Rs.160 Mn. Over leasehold property at Verellapatana Estate and everything standing thereon (Including the existing buildings and /or the buildings which are to be constructed in together with any further developments, modification or alterations thereto) with all fixtures, fittings services and such other rights attached or appertaining thereto. (b) Existing Primary Floating on the Mortgage Bond for Rs 224.Mn. Over leasehold property at Mahadowa Estate and everything standing thereon (Including the existing buildings and /or the buildings which are to be constructed in together with any further developments, modification or alterations thereto) with all fixtures, fittings services and such other rights attached or appertaining thereto. (c) Existing Registered Primary floating Mortgage bond for 150.Mn. over leasehold property at Battawatte Estate and everything standing thereon (Including the existing building and / or the buildings which are to be constructed in together with any further developments, modifications or alterations thereto) with all fixtures, fitting services and such other rights attached or appertaining thereto.	Term Loan	393,272,604	424,414,660
Hatton National Bank PLC	63,000,000	Existing Corporate guarantee from DCSL for Rs.160.0 Mn.	Overdraft		
Standard Chartered Bank PLC	50,000,000	Corporate Guarantee (Shares of DCSL For Rs 50 Mn)	Overdraft	45,486,105	46,171,403

31. CAPITAL COMMITMENTS

	2018 Mn	2017 Mn
Capital Commitments as at the reported date Budgeted ,but not provided for	110.20	93.52
Total	110.20	93.52

32. CONTINGENCIES

No known contingent liabilities exist as at the date of financial position other than the matter disclosed in Note 24 to the financial Statements and few legal cases pending at the year end of which the outcome is not determinable.

33. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 25th April 2019, the company appointed a new key management personnel for the position of Chief Executive Officer, Mr. P D Pathirana. No any other major event occurred after the reporting period.

Notes to the Financial Statements
Year ended 31 December 2018

34. RELATED PARTY DISCLOSURES
The details of the significant related party disclosures are as follows.

34.1 Transactions with the Parent and Related entities.

Company	Relationship	Terms & Conditions	Nature of Transaction	Amount 2018 Rs.	Amount 2017 Rs.
Melstacorp PLC	Parent Company	Market Terms	Loan & Interest	1,075,751,196	415,757,836
			Settlements	77,342,043	
Other Related Parities					
Stassen Exports (Pvt) Ltd	Related Company	Contractual	Rent of Colombo Office	2,280,000	2,280,000
		Contractual	Managing Agent's Fee	-	1,173,000
		Market Terms	Reimbursement of expenses	1,562,000	508,550
			Settlements	1,620,550	-
		Contractual	Waived off Management Fees	-	149,486,736
Balangoda Plantations PLC	Related Company	Market Terms	Fertilizer supplied	1,116,503	10,689,013
		Market Terms	Workshop Expenses	122,655	952,934
		Market Terms	Settlements	2,886,631	-
Distilleries Company of Sri Lanka PLC	Related Company	Market Terms	Factory Machinery Purchase	44,235,735	
		Market Terms	Vehicle expenses	2,527,011	9,900,000
			Settlements	11,420,836	
Bogo Power (Pvt) Ltd	Related Company	Market Terms	Reimbursement of Expenses	2,679,180	3,078,260
		Contractual	Rent Income	23,965,049	23,048,907
		Market Terms	Settlements	2,866,838	-
Melsta Logistics (Pvt) Ltd	Related Company	Market Terms	Vehicle Repairs	7,387,121	- -
		Market Terms	Settlements	7,494,963	-
Milford Exports Ceylon (Pvt) Ltd	Related Company	Market Terms	Loan Interest	25,194,027	24,815,123
		Market Terms	Loan Interest Paid	22,926,712	-
Melsta Technologies (Pvt) Ltd	Related Company	Market Terms	IT Services	434,000	-

The related party transactions were made on relevant commercial terms with respective parties

34.2 Terms and conditions
Transactions with related parties are carried out in the ordinary course of business on an relevant commercial terms. Outstanding balances at the year end are unsecured and net settlement occurs in cash.

34.3 Non recurrent related party transactions
There were no non recurrent related party transactions which in aggregate value exceeds 10% of the equity or 5% of the total assets which ever is lower of the Company as per 31 December 2018 audited Financial Statements.

34.4 Recurrent related party transactions
There were recurrent related party transactions which in aggregate value exceeds 10% of the gross revenue/income of the Company as per 31 December 2018 audited Financial Statements. Details of related party disclosures are as follows,

Company	Relationship	Nature of transaction	Amount (Credited)/Debited	
For the year ended 31 December			**2018 Rs.**	**2017 Rs.**
Melstacorp PLC	Parent Company	Loans & Interest	1,075,751,196	415,757,836
		Revenue as per latest audited financial statements	2,144,945,407	2,605,103,502
		Percentage on revenue	50%	16%

Transactions with related parties are carried out in the ordinary course of business on relevant commercial terms.

Notes to the Financial Statements
Year ended 31 December 2018

34. RELATED PARTY DISCLOSURES (Contd...)

34.5 Transactions with the Key Management Personnel of the Company and parent
Key management personnel includes members of Board of directors of the company and key employees having authority and responsibility of planning, directing and controlling the activities of the entity.

	2018 Rs.	2017 Rs.
Short term employment Benefits	6,223,496	5,597,796

34.6 Other Related Party Transactions
Guarantees given by Distilleries Company of Sri Lanka PLC on behalf of the company.

* Corporate Guarantee of Rs. 50 Mn. for Standard Chartered Bank overdraft facility
* Corporate Guarantee of Rs.160 Mn. for Hatton National Bank overdraft facility

35 RELATED PARTY TRANSACTIONS
There are no related party transactions other than those disclosed in Notes 17, 20, 29 & 34 to the Financial Statements.

36 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITES
Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash flows), requires an entity to disclose information that enables users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Accordingly, changes in liabilities arising from financing activities for the year ended 31st December 2018 are disclosed below.

The funds borrowed by the Company are given in Note 23.

	Company Interest-Bearing Borrowings
Balance as at 01 January 2018	439,786,790
Net Cash flows from Financing Activities	294,485,921
Non Cash Changes	-
Balance as at 31 December 2018	734,272,711

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

37.1 FINANCIAL RISK MANAGEMENT FRAMEWORK
The Board of Directors has the overall responsibility for the establishment and oversight of the company's financial risk management framework which includes developing and monitoring the company's financial risk management policies.

The company's principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the company's operations. The company has loan 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, Currency Risk and Interest Rate 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.

37.2 CREDIT RISK
This 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.

37.2.1 Trade and Other Receivables
The company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

The Company has a minimal credit risk of its trade receivables as the repayment is guaranteed within seven working days by the Tea auction systems.

37.2.2 Cash and Cash Equivalents
The Company held cash and Cash Equivalents of Rs.13.2 Mn as at 31st December 2018 (2017 – Rs. 3.0 Mn) which represents its maximum credit exposure on these assets.

Notes to the Financial Statements
Year ended 31 December 2018

37.3 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.

The Company does not concentrate on a single financial institution, thereby minimizing the exposure to liquidity risk through diversification of funding sources. The Company aims to fund investment activities by funding the long-term investment with long term financial sources and short term investment with short term financing.

The Table below summarizes the maturity profile of the company financial liabilities based on contractual undiscounted payments.

	On Demand Rs.	Less than 3 Months Rs.	3 to 12 Months Rs.	2 to 5 years Rs.	>5 years Rs.	Total Rs.
As at 31st December 2018						
Interest bearing loans & borrowing	-	49,057,404	181,054,523	755,013,055	-	985,124,977
Trade & other payables	309,972,609	-	-	-	-	309,972,609
Amount due to related companies	-	-	1,435,520,482	-	-	1,435,520,482
Bank Overdraft	79,757,853	-	-	-	-	79,757,853
	389,730,462	49,057,404	1,616,575,005	755,013,055	-	2,810,375,921
As at 31st December 2017						
Interest bearing loans & borrowing	-	23,378,519	65,635,558	354,272,713	-	443,286,790
Trade & other payables	313,394,294	-	-	-	-	313,394,294
Amount due to related companies	-	-	411,914,047	-	-	411,914,047
Bank Overdraft	473,850,190	-	-	-	-	473,850,190
	787,244,484	23,378,519	477,549,605	354,272,713	-	1,642,545,321

37.4 MARKET RISK
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk, currency risk interest rate risk & other price risk such as equity price risk. Financial instrument affected by market risk include loans & borrowings.

37.4.1 Interest Rate Risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The 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 held long term borrowings with floating interest rates of Rs. 755 Mn (2017 – Rs. 354 Mn) which represents its maximum credit exposure on these liabilities.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, the Company's Profit Before Tax is affected through the impact on floating rate borrowings as follows:

	Increase/decrease in Interest rate %	Effect on Profit Before Tax Rs.'000
Company		
2018	1%	(7,062,182)
	-1%	7,062,182
2017	1%	(3,754,372)
	-1%	3,754,372

37.4.2 Capital Management
The Company's policy is to retain a strong capital base so as to maintain investor, creditor & market confidence and to sustain future development of the business. Capital consists of share capital, reserves and retain earning . The Board of Directors monitors the return on capital, interest covering ratio, dividend to ordinary shareholders.

The gearing ratio at the reporting date is as follows.

	As at 31.12.2018 Rs.	As at 31.12.2017 Rs.
Interest bearing borrowing		
Current portion of long term interest bearing borrowings	230,111,927	85,514,077
Payable within 1 and 5 years	755,013,055	354,272,713
Bank Overdraft	79,757,853	473,850,190
	1,064,882,835	913,636,980
Equity		
Equity & debts	1,804,071,511	2,449,981,651
	2,868,954,346	3,363,618,631
Gearing ratio	37.12	27.16

Shareholder and Investor Information

Stock Exchange Listing

The issued Ordinary shares of Madulsima Plantations PLC are listed with the Colombo Stock Exchange of Sri Lanka.The Audited Accounts of the Company for the year ended 31st December 2018 have been submitted to the Colombo Stock Exchange

Distribution of Shareholdings as at 31 December 2018

No. of Shares Held	No. of Share Holders	No. of Share Holders %	Total Holdings	Total Holdings %
1-1,000	18,733	97.33%	2,822,823	1.67%
1,001-10,000	427	2.22%	1,368,102	0.81%
10,001-100,000	79	0.41%	2,289,569	1.35%
100,001-1,000,000	5	0.03%	756,419	0.45%
1,000,001 & Over	3	0.02%	162,264,184	95.73%
Grand Total	**19,247**	**100.00%**	**169,501,097**	**100.00%**

Categories of Share Holders

No of Shares Held	No of Share Holders	No of Share Holders %	Total Holdings	Total Holdings %
Individual	19,113.00	99.30%	6,530,242.00	3.85%
Institution	134.00	0.70%	162,970,855.00	96.15%
Grand Total	**19,247.00**	**100.00%**	**169,501,097.00**	**100.00%**
Residents	19,218.00	99.85%	169,113,146.00	99.77%
Non-Residents	29.00	0.15%	387,951.00	0.23%
Grand Total	**19,247.00**	**100.00%**	**169,501,097.00**	**100.00%**

Market of Statistics

	31st December 2018	31st December 2017
Number of shares	**169,501,097**	169,501,097
Earning/(Loss) per Share Rs	**(3.54)**	0.26
Net Asset per Share Rs	**10.64**	14.45
Dividend per Share Rs	**-**	0.00
Highest Share Price Rs	**14.20**	20.40
Lowest Share Price Rs	**5.70**	4.70
Closing Share Price Rs	**6.30**	13.70

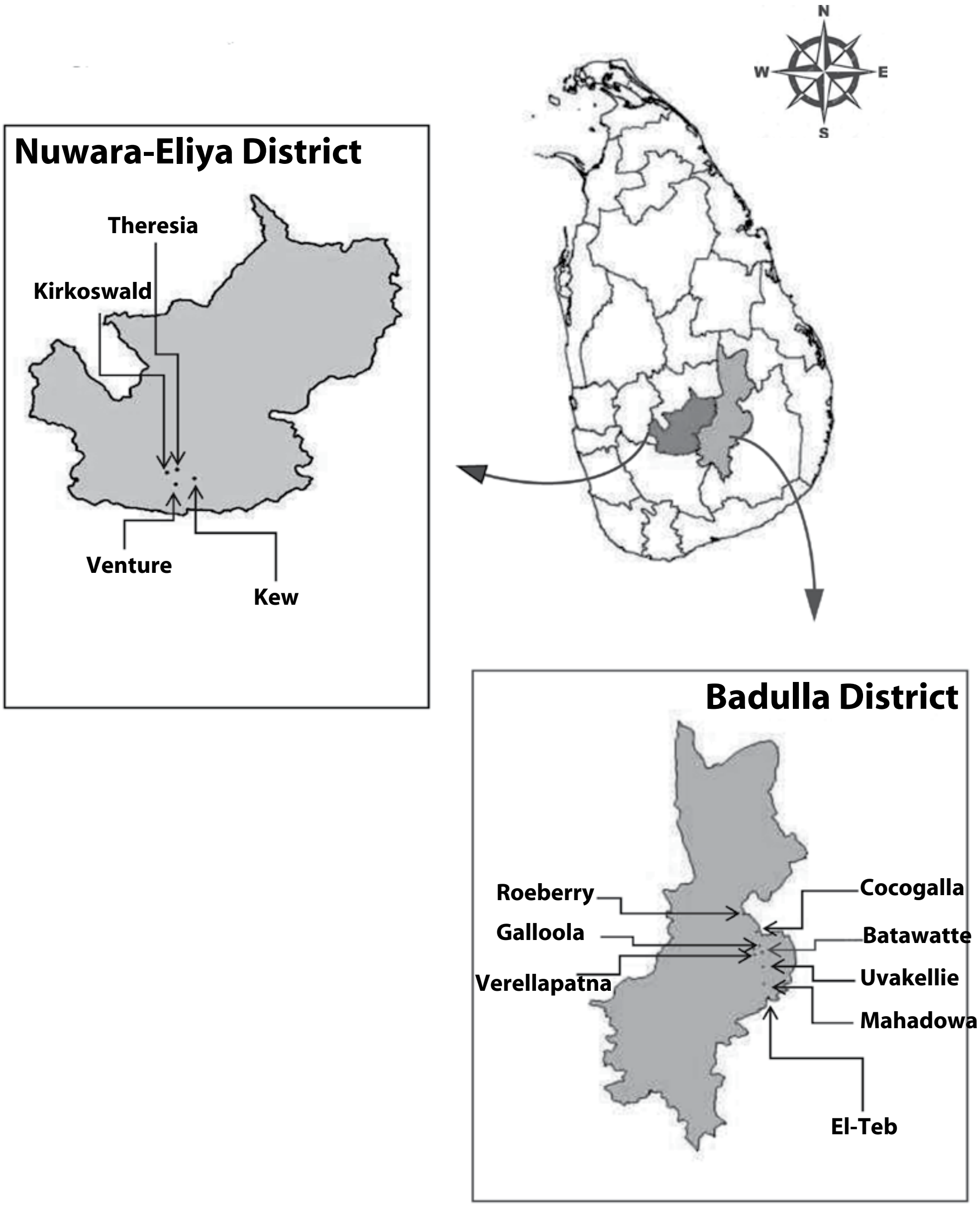
Shareholder and Investor Information

Twenty Five Major Shareholders as at 31st December 2018

No	Name of Shareholder	No. of Shares	%
1	Melstacorp PLC	94,767,483	55.91
2	Stassen Exports (Pvt) Limited	63,696,701	37.58
3	Secretary to the Treasury	3,800,000	2.24
4	Mrs. J.K.P.Singh	225,000	0.13
5	Mr.M.Z.Rasheed	168,610	0.10
6	SSBT-Deustche Bank AG Singapore A/c 01	149,090	0.09
7	Mr.F.A.Azhar	110,719	0.06
8	Mr.M.R.Rasheed	103,000	0.06
9	Merchant Bank of Sri Lanka & Finance Plc/W.B.R.Somaweera	85,000	0.05
10	Mr. E.J.B.U.Fernando	82,982	0.05
11	Mrs. M.K.C.Perera	81,282	0.05
12	ADL Equities Limited/Mohamed Zareen Rasheed	72,646	0.04
13	Mrs. M.De Zoysa	67,101	0.04
14	Mr. R.V.Weerarathna	64,560	0.04
15	Mr. R.E.Rambukwelle	62,375	0.04
16	Mr. D.C.Hemapala	60,000	0.04
17	Mr. A.R.W.M.M.A.Bandara	59,728	0.03
18	Mr. T.D.P.Maduranga	55,395	0.03
19	Mr. N.D.Daluwatta	54,455	0.03
20	Mr. Z.G.Carimjee	50,000	0.03
21	Mr.S.H.Hussain	48,598	0.03
22	Mr. P.R.Kithulampitiya Koralage	44,873	0.03
23	Gampaha District Co-operative Rural Bank Union Ltd	43,900	0.03
24	Seylan Bank Plc/Mohamed Subair Fouzal Haqque	41,692	0.03
25	People's Leasing & Finance Plc/HI Line Towers (PVT) ltd.	40,000	0.02
		164,035,190	96.78
	Others	5,465,907	3.22
		169,501,097	100.00

- The Percentage of ordinary shares held by the public was 6.51% (2017- 6.51%) of the issued share capital as at 31st December 2018.
- Total Number of shareholders representing the public holds are 19243.
- The float adjusted market capitalization as at 31st December 2018 is Rs. 69,522,963.30
- The float adjusted Market capitalization of the company fall under Options 5 of the rule 7.13.1(a) of the Listing Rule of the Colombo Stock Exchange and the Company has complied with minimum number of public share holders requirement applicable under the said option.

Geographical locations of our plantations



Estate Name	Planting District	Location	Cultivation Area (Hectares)			Total Managed (Ha.)	Elevation (Meters)	Location, Coordinates	
			Tea	Rubber	Forestry			Lat	Long
Batawatte	Badulla	Madulsima	218.83	12.00	102.96	365.99	1219	7.0590	81.1632
Cocogalla	Badulla	Metigahatenne	150.40		166.92	461.97	1260	7.0930	81.1570
El-Teb	Badulla	Passara	330.41	34.80	216.80	876.09	945	6.9623	81.1742
Galloola	Badulla	Madulsima	133.96		70.40	275.03	1311	7.0500	81.1500
Mahadowa	Badulla	Madulsima	461.34	4.50	310.21	1160.57	1390	7.0051	81.1712
Roeberry	Badulla	Pitamaruwa	439.21	31.42	353.40	1416.18	1219	7.1370	81.1277
Uvakalle	Badulla	Madulsima	179.13		17.44	226.10	1341	7.0410	81.1690
Verallapatna	Badulla	Madulsima	249.10		217.00	513.48	1260	7.0360	81.1530
Kew	Nuwaraeliya	Bogawanthalawa	329.63		71.71	513.13	1468	6.8020	80.6430
Kirkoswald	Nuwaraeliya	Bogawanthalawa	491.06		68.95	669.20	1350	6.8250	80.6460
Theresia	Nuwaraeliya	Bogawanthalawa	326.33		76.79	487.61	1290	6.8100	80.6710
Venture	Nuwaraeliya	Norwood	262.33		47.79	403.25	1469	6.8210	80.6310

Performance of Estates 2018 and 2017

Estate	Elevation Category	Year	Tea Extent ha	Total Crop kg	Yield kg/ha	COP Rs/kg *	NSA Rs/kg *
Battawatte	Uva High	2018	219	299,043	776	588.90	513.17
		2017	225	311,072	740	599.40	557.81
Cocogalla	Uva High	2018	150	173,081	588	720.07	465.06
		2017	150	194,013	572	656.06	524.26
El Teb	Uva Medium	2018	330	629,703	951	572.71	511.32
		2017	328	753,066	1,139	513.39	578.63
Galloola	Uva High	2018	134	104,863	613	625.67	511.70
		2017	132	107,626	622	612.29	588.40
Mahadowa	Uva High	2018	461	401,152	679	686.25	478.69
		2017	461	462,381	669	603.79	528.33
Roeberry	Uva Medium	2018	439	475,380	601	713.67	492.25
		2017	439	520,954	785	556.04	520.44
Uvakellie	Uva High	2018	179	156,252	867	607.15	517.29
		2017	179	154,052	818	537.09	574.16
Verellapatna	Uva High	2018	249	510,632	1067	559.72	492.88
		2017	248	602,275	1,169	508.27	534.27
Kew	Western High	2018	330	312,861	943	755.98	573.80
		2017	325	309,589	953	655.13	591.60
Kirkoswald	Western High	2018	491	541,199	1061	779.96	557.61
		2017	493	510,113	980	704.98	587.12
Theresia	Western High	2018	326	313,627	961	718.40	546.37
		2017	325	282,726	855	727.02	576.72
Venture	Western High	2018	262	226,441	863	802.99	537.86
		2017	268	204,449	762	810.93	571.91
Company		2018	3572	4,144,234	847	669.83	516.84
		2017	3574	4,412,315	860	623.44	524.13

*** Based on SLFRS/LKAS**

Statement of Value Addition

	Year ended 31.12.18		Year ended 31.12.17	
	%	**Rs.'000**	**%**	**Rs.'000**
REVENUE		**2,144,945**		2,605,104
Other Income		**40,013**		196,322
Total Revenue		**2,184,958**		2,801,426
Cost of Materials and Services bought		**979,984**		1,098,827
VALUE ADDITION	**100**	**1,204,974**	100	1,702,599
DISTRIBUTION OF VALUE ADDITION				
A To Employees as Remuneration	**1.75**	**1,406,724**	77.54	1,320,164
B To Government as taxes	**0.09**	**103,855**	4.92	83,734
C To Lenders of Capital as Interest	**0.18**	**219,766**		175,899
D To Shareholders as Dividends				
E Retained in Business				
E1 Provision for Depreciation	**0.06**	**74,828**	4.78	90,177
E2 Profit/(Loss) Retained	**(0.50)**	**(600,199)**	2.43	41,364
	100.00	**1,204,974**	100.00	1,702,599

Financial Information

	2018 Rs.'000	2017 Rs.'000	2016 Rs.'000	2015 Rs.'000	2014 Rs.'000
Revenue	**2,144,945**	2,605,104	1,842,069	1,870,384	2,207,885
Profit before Income Tax Expense	**(425,166)**	108,658	(286,701)	(281,872)	(270,042)
Income Tax Expense	**(175,033)**	(64,062)	(5,885)	(6,193)	(3,620)
Profit after Income Tax Expense	**(600,199)**	44,596	(292,586)	(288,065)	(277,727)
Profit/(Loss) brought forward	**(2,900,407)**	(2,817,538)	(2,562,132)	(2,102,164)	(1,616,940)
Dividend	**-**	-	-	-	-
Retained Earnings/(Loss)	**(3,681,606)**	(2,900,407)	(2,817,538)	(2,568,929)	(2,102,164)
Non Current Assets	**5,296,897**	4,913,935	4,812,151	4,755,721	4,454,513
Current Assets	**464,535**	343,831	437,507	338,090	411,709
Current Liabilities	**1,968,230**	1,285,338	1,614,397	1,166,580	2,202,176
Deferred Income	**143,390**	148,546	152,911	157,307	153,701
Non Current Liabilities	**1,845,740**	1,373,900	1,007,341	1,024,835	935,170
Net Assets	**1,804,071**	2,449,982	2,474,960	2,661,678	1,575,175
Share Capital	**1,624,761**	1,624,761	1,624,761	1,624,761	290,000
Timber Reserve	**3,220,459**	3,063,430	2,933,813	2,871,330	2,652,947
Revaluation Reserve	**637,257**	659,258	731,341	731,341	731,341
Retained Profit/(Loss)	**(3,681,606)**	(2,900,407)	(2,817,538)	(2,568,929)	(2,102,164)
Fair value through OCI reserve	**3,199**	2,940	2,583	3,175	3,050
Share Holders' Funds	**1,804,072**	2,449,982	2,474,960	2,661,678	1,575,175
Number of Shares ('000)	**169,501**	169,501	169,501	162,476	29,000
Earning/(Loss) per Share (Rs)	**(3.54)**	0.26	(1.73)	(2.14)	(9.58)
Dividend per Share (Rs)	**0.00**	0.00	0.00	0.00	0.00
Net Assets per Share (Rs)	**10.64**	14.45	14.60	19.81	54.32

DISTRICT WISE PERFORMANCE					
	2018	**2017**	**2016**	**2015**	**2014**
Total Production Kgs.					
Madulsima	**2,750,106**	3,105,439	3,023,199	3238405	3,249,874
Bogawantalawa	**1,394,128**	1,306,877	1,452,012	1771458	2,070,635
Total	**4,144,234**	4,412,315	4,475,210	5009863	5,320,509
Estate Crop Kgs					
Madulsima	**1,653,172**	1,798,370	1,829,367	2142553	2,211,361
Bogawantalawa	**1,371,986**	1,274,860	1,452,012	1771457	1,828,764
Total	**3,025,158**	3,073,229	3,281,380	3914010	4,040,125
Yield Kg/ha					
Madulsima	**765**	831	842	990	1,014
Bogawantalawa	**973**	903	1025	1265	1,304
Total	**847**	860	914	1098	1,128
COP Rs/kg					
Madulsima	**621.86**	552.40	466.01	420.93	449.57
Bogawantalawa	**764.46**	708.76	628.86	552.15	533.49
Total	**669.83**	623.44	524.13	467.33	482.23
NSA Rs/kg *					
Madulsima	**497.93**	546.50	521.01	346.25	399.89
Bogawantalawa	**555.80**	580.53	440.60	409.04	404.48
Total	**516.84**	572.39	426.67	368.45	401.68
Profit/(Loss) Rs/kg *					
Madulsima	**(123.93)**	(5.90)	(45.01)	(74.68)	(49.68)
Bogawantalawa	**(208.66)**	(128.23)	(188.26)	(143.11)	(129.01)
Total	**(152.99)**	(51.04)	(97.45)	(98.88)	(80.55)

Notes

Notes

Form of Proxy

I/We…………………………..……………………………...

of………………………………………………...……………….

being a member/members of Madulsima Plantations PLC do hereby appoint.

Don Harold Stassen Jayawardena	or failing him
Noor Mohamed Abdul Gaffar	or failing him
A Shakthevale	or failing him
D S K Amarasekera	or failing him
D Hasitha S Jayawardena	or failing him
B M D S K Basnayake	or failing him

or……………………….....................................……………………………….of………………………...

as my/our proxy to represent me/us and * ……...………….. to vote as indicated hereunder for me/us and on my/our behalf at the Twenty Sixth Annual General Meeting of the Company to be held on 25th June 2019 and at any adjournment thereof, and at every poll which may be taken in consequent thereof.

		FOR	AGAINST
1)	To receive and consider the Report of the Directors and the Financial Statements of the Company for the year ended 31st December 2018 together with the Auditors' Report thereon.		
2)	To re-elect Mr D H S Jayawardena who is above the age of 70 years as a Director of the Company in terms of Sections 210 and 211 of the Companies Act No 7 of 2007.		
3)	To re-elect Dr N M Abdul Gaffar who is above the age of 70 years as a Director of the Company in terms of Sections 210 and 211 of the Companies Act No 7 of 2007.		
4)	To re-elect Dr A Shakthevale who is above the age of 70 years as a Director of the Company in terms of Sections 210 and 211 of the Companies Act No 7 of 2007.		
5)	To re-elect Mr D Hasitha S Jayawardena who retires by rotation at the Annual General Meeting in terms of Article 92 of the Articles of Association as a Director of the Company.		
6)	To appoint Messrs KPMG as the Companys' Auditors and to authorize the directors to determination their remuneration		

.....……………… day of …………..........................…………. Two Thousand and Nineteen

Signature/s ………………………………………

Instructions regarding completion of Form of Proxy appear overleaf.

Instructions for Completion of Form of Proxy

1. A member entitled to attend and vote at the Meeting is entitled to appoint a Proxy to attend and vote instead of him,

2) A Proxy need not be a member of the Company,

3) Kindly complete the form of Proxy, after filling in legibly your full name and address, by signing in the space provided,

4) A Proxy may not speak at the Meeting unless expressly authorized by the instrument appointing him. The Proxy may vote on a poll (and join in demanding a poll) but not on show of hands,

5) If you wish the Proxy to speak at the meeting you should interpolate the words "to speak and" in the space indicated with an asterisk (*) and initial such interpolation,

6) Please indicate a "X" in the space provided how your Proxy is to vote on each resolution. If there is in the view of the proxy holder doubt (by reason of the way in which the instructions contained in the Proxy have been completed) as to the way in which the Proxy holder should vote, the proxy holder will vote as he thinks fit,

7) In the case of corporate member the Proxy must be completed under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association. If the form of Proxy is signed by an Attorney, the relative Power of Attorney should also accompany the completed form of proxy if it has not already been registered with the Company.

8) To be valid, the completed form of Proxy should be deposited at the Registered office of the Company at No 110, Norris Canal Road, Colombo 10 not less than 48 hours before the time of of meeting.

9) The Shareholders and the Proxy holders are kindly requested to bring this Annual Report along with an acceptable form of identity.

MADULSIMA PLANTATIONS PLC

833, SIRIMAVO BANDARANAYAIKE MAWATHA, COLOMBO - 14

TEL : +94552226115 / FAX : +94552226292
E MAIL : info.mpl@melsta.com
www.melsta.com/our-core-sectors/plantation-services

Design & Printed by Ceylon Printers PLC