Madulsima
PLANTATIONS PLC

A MEMBER OF MELSTACORP

ANNUAL REPORT 2019

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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 economically 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 re-registered 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 Seventh Annual General Meeting of Madulsima Plantations PLC will be held as a "Virtual Meeting" on Tuesday, 15th September 2020 at the "Mini Auditorium" of Distilleries Company of Sri Lanka PLC, No 110, Norris Canal Road, Colombo 10, Sri Lanka 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 2019 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 B M D S K Basnayake 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 re-appoint Messrs KPMG as Auditors and to authorize the Directors to determine their remuneration.

By order of the Board of Madulsima Plantations PLC
P A Jayatunga
Secretary

Colombo
18th August 2020

Note:

1. In the interest of protecting public health and facilitating compliance with the Health and Safety guidelines issued by the Government of Sri Lanka, the Twenty Seventh (27th) Annual General Meeting of Madulsima Plantations PLC will be a virtual meeting held by participants joining in person or proxy and through audio or audio visual means in the manner specified below:

   i) Attendance of the Chairman and the Board of Directors

   The Chairman/Managing Director, Board of Directors, certain Key Management Personnel, the Company Secretary, and the External Auditors will be present at the "Mini Auditorium" Distilleries Company of Sri Lanka PLC, No 110, Norris Canal Road, Colombo 10, Sri Lanka at 10.00 a.m. on Tuesday, 15th September 2020.

   ii) Shareholder participation

   a) The shareholders are encouraged to appoint a Director of the Company as their proxy to represent them at the meeting.

   b) The shareholders may also appoint any other persons other than a Director of the Company as their proxy and the proxy so appointed shall participate at the meeting through audio or audio visual means **only**.

   c) The shareholders who wish to participate at the meeting will be able to join the meeting through audio or audio visual means. To facilitate this process, the shareholders are required to furnish their details of the shareholder and proxyholder, if any, by perfecting **Annexure II** to the circular to shareholders and forward same to bplmplcompanysecretary@gmail.com or by facsimile on +94 11 2540333, to reach the Secretary **not less than five (05) days before the date of the meeting** so that the meeting login information could be forwarded to the e-mail address as provided. The circular to the shareholders will be posted to all the shareholders along with the Notice of Meeting and the Form of Proxy.

   d) To facilitate the appointment of proxies, the Form of Proxy is attached hereto and the duly filled Forms of Proxy should be sent to reach the Company Secretaries via e-mail to **bplmplcompanysecretary@gmail.com** or facsimile on +94 11 2540333 or by post to the registered address of the Company No. 833, Sirimavo Bandaranaike Mawatha, Colombo 14, Sri Lanka, **not less than forty eight (48) hours before the time fixed for the meeting.**

   iii. Shareholders' queries

   The shareholders are hereby advised that if they wish to raise any queries, such queries should be sent to reach the Company Secretary, via e-mail to **bplmplcompanysecretary@gmail.com** or facsimile on +94 11 2540333 or by post to the registered address of the Company No. 833, Sirimavo Bandaranaike Mawatha, Colombo 14, Sri Lanka, not less than five (5) days before the date of the meeting. This is in order to enable the Company Secretary to compile the queries and forward same to the attention of the Board of Directors so that same could be addressed at the meeting.

2. The Annual Report of the Company for the year 2019 will be available for perusal on the Company website **http://melsta.com/our-core-sectors/plantation-services** and the Colombo Stock Exchange website on **www.cse.lk.**

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 Bandaranayke 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 S K S Basnayake	Executive Director
	Dr A Shakthevale	Independent Director
	Mr D S K Amarasekera	Independent Director
Secretary	Mr P A Jayatunga 833, Sirimavo Bandaranayake Mawatha Colombo 14 Telephone : 2524734/2522871	
Registrars	P W Corporate Secretarial (Pvt) Ltd 3/17, Kynsey Road Colombo 08 Telephone : 4640360-3	
Auditors	Messrs KPMG Sri Lanka Chartered Accountants 31A, Sir Mohamed Macan Marker Mawatha Colombo 03.	
Bankers	Hatton National Bank PLC City Office 16, Janadhipathi Mawatha Colombo 01.	
Managing Agents	Melstacorp PLC No.110, Norris Canal Road, Colombo 10	

Senior Management & Estate Management

Senior Management	
Mr. M. A. Fernando	Chief Executive Officer (Appointed w. e. .f 22/06/2020)
Mr. Rohan Kobbekaduwa	Manager - Operations (Appointed w. e .f 27/07/2020)
Mr. D. M. Samantha K Dissanayake	Senior Accountant

Estate Management	
Name of Superintendent	**Name of Estate**
Madulsima Region	
Mr. T. C. Wedisinghe	Battawatte
Mr. D. M. C. K.Samaranayake(Temp. Actg. Supdt.)	Cocogalla
Mr. L. G. S.Wijeratna	El - Teb
Mr. S. S. Slemmermann (Temp. Actg. Supdt.)	Galloola
Mr. A. S. A. Madena	Mahadowa
Mr. K. D. Senerath	Roeberry
Mr. W. M. H. E. Wijerathne (Temp. Actg. Supdt.)	Uvakellie
Mr. M. A. Ratnadason	Verellapatna
Bogawantalawa Region	
Mr. R. S. J. A. Perera	Kew
Mr. N. P. Liyanage	Kirkoswald
Mr. S. P. Ariyarathne	Theresia
Mr. I. A. Bogahawatte	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 2019.

Company Performance

The Company recorded total revenue of Rs 2.00 billion for the year compared to 2.1 billion in 2018. For the year 2019 the company incurred a before tax loss of Rs. 781 million, after tax loss of Rs. 764 million, when compared with before tax loss of Rs. 425 million, and after tax loss of Rs. 600 million in 2018.

Profit/ (Loss) Rs. (Mn)		
	2019	**2018**
Loss before Taxation	(781)	(425)
Income Tax Benefit /(Expense)	17	(175)
Loss after Taxation	(764)	(600)

Tea prices and higher wage cost have a significant impact on earnings. The impact of the wage increase effected during the year also resulted in a sharp increase in gratuity cost. We executed a focused strategy to support the company to produce a quality tea consistently at a competitive cost. This enabled us to optimize prices in a less remunerative market and retain our market share.

However, on production of made tea, the Company incurred a loss of Rs. 1.03 Billion in 2019 compared to loss of Rs. 625 Million in 2018. This was mainly due to effects of the impact shown in the following table.

		Rs. Million
1	Additional impact from wage hike in 2019	**258**
2	Impact of overall Colombo Tea Auction (CTA)Price drop in 2019	
	1) Accounting Provision for closing stock (Inventory valued at Net Realizable Value (NRV) which is lower than the Cost Of Production (COP)	**97**
	11) Revenue loss in 2019 due to lower CTA prices for the year compared with same in 2018	**224**
	Total Negative Impact for the Year	**579**

Due to the wage increase which was effective from January 2019, Labour related expenditure increased by 258 Million. The profitability for the year 2019 was negatively impacted by Rs. 97 Million compared to the corresponding period due to the low tea prices recorded at the Colombo Tea Auction effecting a higher accounting provision for closing stocks due to inventory valued at NRV which is lower than the COP.

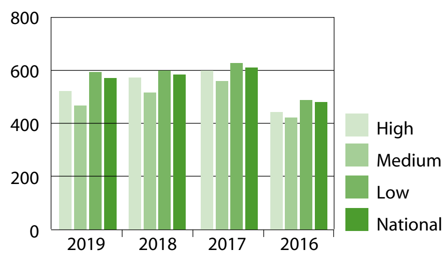
Company Performance	**2019**	**2018**	**2017**	**2016**
Production ('000kg)	4,119	4,144	4,412	4,475
Yield (kg/ha)	900	847	860	914
Revenue (Rs. Mn)	2,007	2,144	2,605	1,842
NSA (Rs.)	481.09	530.78	572.39	426.67
COP (Rs.)	721.68	685.47	623.44	524.13
Loss (Rs/kg)	(240.16)	(154.69)	(51.05)	(97.45)

The Production by the company for the year 2019 recorded 4.12 million kg which shows a marginal decline of 25 thousand kg tea production compared to 2018 which was 4.14 million kg. During the year the Bogawantalawa Region recorded a positive growth of 4.04% in production compared to 2018. Due to adverse weather conditions experienced in the Madulsima region the production declined by 81 thousand kg which was a 2.95% decline in crop compared to 2018.

Elevation Average (Rs Per Kg)				
	2019	**2018**	**2017**	**2016**
High	513.19	574.70	606.95	457.58
Medium	468.73	520.36	563.43	420.67
Low	577.18	601.51	638.23	487.16
National	546.33	582.98	620.17	470.85

Source: Sri Lanka Tea Board

Elevation Average



Chairman's Review

The National Average moved down by Rs. 36.65 per kg showing a negative variance of 6.29% during the year having recorded an average of Rs. 546.33 against Rs. 582.98 recorded in 2018.

Sri Lanka Tea Industry Performance
Sri Lanka's Tea production volume declined marginally during the year 2019 compared to the corresponding periods of 2018 by 1.32% A similar pattern was observed in major tea producing countries with Kenya recording a deficit of 7.48% and India recording a surplus of 3.08% to end December 2019 relative to the corresponding period of 2018.

Medium grown production for the year is marginally higher by 0.32% compared to 2018 whilst High and Low grown production was lower by 2.72% and 1.09% respectively.

Sri Lanka Tea industry moderately slowed down with decline in production and tea export in 2019. The tea production in Sri Lanka decreased by 3.81 million Kg in 2019 compared to 2018. The production in 2019 and 2018 was 300.13 million Kg and 303.94 million Kg respectively. A declining trend in Sri Lanka tea production is seen since 2013. A similar trend was evident in the tea export as well.

Plantation Industry (Qty in Million Kg)					
	2019	**2018**	**2017**	**2016**	**2016**
High	63.05	64.97	64.36	64.43	75.43
Medium	47.17	47.13	45.55	44.51	50.97
Low	189.92	191.84	197.17	183.64	202.37
National	300.13	303.94	307.08	292.58	328.77

Source: Sri Lanka Tea Board

The decline in Sri Lanka tea production for the financial year 2019 was mainly due to adverse weather conditions that prevailed in the tea growing areas during the year.

We look forward to a new financial year with utmost confidence and resolute dedication.

Dividends
I regret very much to inform you that the Directors are not recommending a dividend for the year ended 31st December 2019.

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
Madulsima Plantations PLC.

18th August 2020

Sustainability Report

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.

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. Going forward we intend building 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.

The production process of tea is such that the industry's maximum power need coincides with the power system peak demand, thus consuming expensive energy. This industry is largely located in the Central and Uva provinces, where the topography coupled with heavy persistent rainfall offers a good opportunity to harness hydro-power,the most widely used power source in the plantation sector, to meet the entire power requirement of the industry. This potential remains largely underutilised, as grid electricity supply is at present available in almost all tea estates, particularly at the factories where tea is processed. These plantations also practice cultivation and harvesting of fast-growing tree species in abandoned tea-growing land to meet the industry's thermal energy requirements. This biomass usage could also be extended to electricity generation, though realising the scope for this application in the Sri Lankan context is in an experimental stage.

In April 2020, the Colombo auction prices rose sharply as global tea supply continued to tumble due to labor deployment issues as a result of COVID-19 pandemic and adverse weather. Weaker local currency, demand induced by the perceived health benefits of black tea and higher tea consumption amidst lockdowns have also helped the Ceylon tea prices to stay beyond for the said period. Current, higher prices have to a larger extent compensated for the impact on financial performance of tea producers from the lower production levels.

However, with the oil prices plummeting to historical lows, ICRA stated that it will continue to monitor the sustainability of the current price levels as there is a relatively strong correlation between oil prices and Sri Lankan tea prices.

Sustainability Report

Forestry Plantations Management of MPL

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 pararel to the company annual Timber Harvesting Program. Currently company maintaining 376 ha. of Protected and 1344 ha. of Production Forest areas on a sustainable basis. Majority of the low yielding tea lands, duly timber harvested blocks and other vacant areas plant with high quality Eucalyptus species under company forestry replanting project.

It is critical to have accurate data on our existing plantations, together with realistic biometric data, up to date maps to ensure the efficient management of our forest resources.

Through our reforestation projects we anticipate a demand for timber from the construction sector in line with the growth of the Sri Lankan economy. Although there are constraints in relation to harvesting of timber, since felling of such trees are surrounded by strict regulations. Company expecting 400 Million of net income through the timber harvesting programs over the next 5 years while doing our forestry management infinitives such as replanting, up keeping and tendering. Since year 2019 company introduce some new technical initiatives such as GIS Mapping of forestry plantations, timber Inventory preparations, Tree tagging in census taking, preparation of technical reports pertaining to timber harvesting projects and establishment of timber nurseries with high quality seeds materials.

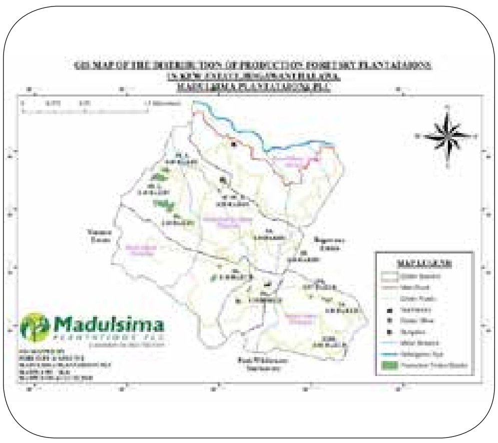
Forestry Plantation Management Activities.

Commercial Forestry Plantation in Madulsima Region

Nursery management in Venture Estate

Timber tree tagging Project currently work in progress in Theresia Estate, Bogawantalawa

Uses of GIS Mapping in Forestry management activities at MPL



Sustainability Report

Other Compliances & MPL Environmental Goals For Next Years

With 5,500 hectares under tea, Rubber and forestry, Madulsima Plantations PLC has a significant impact on the environment.

Recognizing this, we have a responsibility to address these impacts through sustainable development of our land, replanting activities, waste management and factory modernization and through this, mitigating our carbon emissions in all areas of business.

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.

Carbon Foot Print - Measuring our carbon footprint for the refuse tea production process focused on the base year 2018 and the footprint exercise estimated greenhouse gas (GHG) emissions and energy consumption for the following activities with the collaboration of University of Uva Wellassa:

Scope 1 - (direct emissions) - Fossil fuel consumption in building and vehicles, agriculture land management activities.
Scope 2 - Electricity and heat consumption in buildings
Scope 3 - Other indirect emissions (third party transport)

Result of this exercise indicate total emission for fiscal year 2018 is 167.85 tCO2e (metric tons of CO2 equivalent) taking all sources and sinks in to consideration. Total classic emission for the complete process is 0.0012 tCO2e/Kg of Refuse Tea.

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.

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

In additions, introduced digital weighing system for all Tea plantations replacing manual weighing improving the accuracy and timely information through a secured IT system

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

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.

Tea weighing project currently work is in progress in MPL

Sustainability Report

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 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 estates in Madulsima / Bogawantalawa 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.

Awareness Programs/Clinics Conducted in 2019

1. Cancer Control	10. Mental Health
2. Empowerment of Women	11. Oral Hygiene & Brushing Techniques
3. Gender based Violence	12. Estate Activation
4. Handling Disaster Situations	13. Health & Sanitary Facilitation
5. Improving Nutritional Status of Women & Children	14. House Hold Money Management
6. Mobile Dental Hygiene Program	15. Mid Term Review for Managers & Asst.Managers on ECCD
7. Syndromic STI Management	16. Parental Awareness
8. Safeguarding sexual and reproductive health	17. ECO System Restoration.
9. Alcohol Prevention	18. Safe Drinking Water

Social Welfare Activities in 2019

Ongoing new housing programme :-		
Project	Estate	No. of Housings
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(Completed)	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
	El- Teb	40 Houses
	Galloola	50 Houses
Total		440

Elamana Child Development Center Renovated- 2019

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., United Dairies Lanka (Pvt) Ltd.,Timpex (Pvt) Ltd., Texpro Industries Ltd., Distilleries Company of Sri Lanka PLC, Periceyl (Pvt) Ltd., Melstacorp PLC, Bellvantage (Pvt) Ltd., Balangoda Plantations PLC, Indo Lanka Exports (Pvt) Ltd., Bogo Power (Pvt) Ltd., Telecom Frontier (Pvt) Ltd., Lanka Bell Ltd., Bell Solutions (Pvt) Ltd.

Managing Director

Stassen Real Estate Developers (Pvt) Ltd

Director

Stassen Plantations Management Services (Pvt) Ltd., Melsta Health (Pvt) Ltd., Melsta Gama (Pvt) Ltd., Hospital Management Melsta (Pvt) Ltd., DCSL Brewery (Pvt) Ltd

Others

Consul General for Denmark in Sri Lanka

DR N M A GAFFAR – DIRECTOR

Dr N M 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 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 Kirkoswald Mini Hydro Project.

MR D HASITHA S JAYAWARDENA – NON EXECUTIVE DIRECTOR

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

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

Director

Stassen Exports (Pvt) Ltd., Milford Exports (Ceylon) (Pvt) Ltd., Stassen International (Pvt) Ltd., Stassen Natural Foods (Pvt) Ltd., Stassen Foods (Pvt) Ltd., Ceylon Garden Coir (Pvt) Ltd., Milford Developers (Pvt) Ltd., C B D Exports (Pvt) Ltd., Distilleries Company of Sri Lanka PLC, Periceyl (Pvt) Ltd., Melstacorp 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 (Pvt) Ltd., United Dairies Lanka (Pvt) Ltd., Balangoda Plantations PLC., Melsta Gama (Pvt) Ltd., Melsta Health Pvt) Ltd., DCSL Brewery (Pvt) Ltd.

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

Dr A Shakthevale is a retired Additional Secretary (Livestock), Ministry of Agriculture and Livestock in 2002, and 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

Director

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

MR D S K AMRASEKERA – INDEPENDENT NON – EXECUTIVE DIRECTOR

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.

Director

Browns Investments PLC, Eden Hotel Lanka PLC, Browns Capital PLC, Kelani Tyres PLC, Lanka Milk Foods (CWE) PLC, Balangoda Plantations PLC, Palm Garden Hotels PLC, Central Services (Pvt) Ltd., Ceylon Cinema Holdings (Pvt) Ltd., Excel Global Holding (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.

Report of the Board Directors on the Affairs of the Company

The Director 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 2019.

PRINCIPAL ACTIVITIES
The principal activity of the Company is the cultivation and processing of tea. The Company has 8 estates in Madulsima and 4 in the Bogawantalawa regions.The cultivated land consists of 3,504.91 ha under tea.

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

GOING CONCERN
Please refer policy note 2.6.

REVIEW OF PERFORMANCE
The review of the Company's performance during the year 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 29 to 77 of this Annual Report.

AUDITORS' REPORT
The Auditors' Report on the financial Statements is given on page 25 to 28 of this Annual Report.

ACCOUNTING POLICIES
The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 34 to 50 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 donations during the year

FINANCIAL RESULTS		
	2019 Rs.'000	2018 Rs.'000
Revenue	2,006,978	2,144,945
Profit / (Loss) Before Tax	(781,066)	(425,166)
Income Tax Expense	17,358	(175,033)
Profit / (Loss) After Tax	(763,709)	(600,199)
Retained Loss B.F.	(3,740,607)	(2,900,406)
Timber Reserve	3,376,701	3,220,459
Proposed Dividend	-	-
Retained Loss C.F.	(4,693,769)	(3,681,606)

FINANCIAL RATIOS		
	2019	2018
Debt Equity Ratio	5.31	2.19
Interest Cover	(1.26)	(0.93)
Quick Ratio	0.28	0.25

Report of the Board Directors on the Affairs of the Company

APPROPRIATION AND DIVIDEND
The directors have not recommended the payment of a dividend for the year ended 31st December 2019.

CAPITAL EXPENDITURE
The company incurred a capital expenditure of Rs.235 million of which Rs..86 million has been spent on field development.

LAND HOLDING & INVESTMENT PROPERTIES
The extents, locations, valuations and the number of buildings of the Company's land holdings and investment properties are as follows;

ESTATES	Location	Extent (Ha.)	Total Number of Buildings	Value Rs
Battawatta	Madulsima	12.14	575	19,455,971
Cocogalla	Metigahatenne	3.89	323	5,217,182
El-Teb	Passara	32.44	1,089	27,161,906
Galloola	Madulsima	9.80	272	3,397,757
Mahadowa	Madulsima	34.90	772	24,714,862
Roeberry	Pitamaruawa	54.83	969	11,207,077
Uvakellie	Madulsima	8.49	315	3,376,033
Verellapathana	Madulsima	14.57	543	14,694,310
Kew	Bogawantalawa	52.46	689	15,645,048
Kirkoswald	Bogawantalawa	7.24	1,078	18,221,308
Theresia	Bogawantalawa	32.45	654	11,455,035
Venture	Norwood	28.94	359	27,706,487
Head office	Badulla	0.04	2	4,022,140
TOTAL		292.19	7,640	186,275,116

CAPITAL COMMITMENTS & CONTINGENTS LIABILITIES
Capital commitments and contingents liabilities are disclosed in Notes 34 & 35 to the Financial Statements.

DIRECTORATE
The following Directors held office during the year under review.

Mr. D. H. S. Jayawardena	-	Chairman /MD
Mr. 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. Amarasekara	-	Independent Director

In terms of Articles 92 of the Articles of Association Mr. B. M. D. K. S. Basnayake 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 the end of the financial year.

INTEREST REGISTER
Directors' interests in the Company are disclosed in Note 37 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.

SHAREHOLDERS AND INVESTOR INFORMATION
Distribution of Shareholdings as at 31st December 2019, Analysis Report of Shareholders, Market Statistics of Company's share and the list of 25 major shareholders are given on pages 78 and 79 of this Annual Report.

Report of the Board Directors on the Affairs of the Company

EVENT OCCURING 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 Statement.

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 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 Shareholders prior to sub-leasing, ceding or assigning its rights in parts 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 be altered by special resolution, provided that the concurrence of Golden Shareholder in writing shall be first obtained to amended the definition of the words Golden Share and Golden Shareholder and Articles 2A, 2B, 3(C), 3(C)(1), 3(C)(2), 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 per-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 per-specified format agreed to by the Golden Shareholder and the Company.

AUDITORS

The Accounts of the year have been audited by M/s KPMG, Chartered Accountants. Fees paid to Auditors are disclosed on the page 53 in the Financial Statements.

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

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

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

Sgd.
P. A. Jayathunga
Secretary

18th August 2020

Audit Committee Report

Composition
With effect from 20th March 2020 the Audit committee of the parent company commenced to function as the audit committee of the company. Chairman of the Committee is Mr. R. Seevaratnam, a fellow member of the Chartered Accountants of England and Wales. The other members of the Audit Committee comprise Dr. A. N. Balasuriya, Mr. N. de S. Deva Aditya and Mr D. Hasitha S. Jayawardena

Meetings
Audit Committee of the holding company reviewed the financials during the year. 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 cope an 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 on 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 Audit Committee has recommended to the Board of Directors that Messrs.KPMG reappointed as the External Auditors for the financial year ending 31st December 2020.

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 polices and that the Company assets are properly accounted for and adequately safeguard.

Sgd.
R.Seevaratnam
Chairman
Audit Committee

18th August 2020

Remuneration Committee Report

With effect from 20th March 2020 the Remuneration Committee of the parent company commenced to function as the remuneration committee of the company. Chairman of the committee is Dr. A. N. Balasuriya. The other members of the Remuneration Committee comprises of Mr. N. de S. Deva Aditya, and Mr. D. Hasitha S. Jayawardena.

The Remuneration Committee is governed by the Remuneration Committee Charter, which has been approved and adopted by the Board of Directors. It is responsible for determining the Remuneration Policy of the Key Management Personnel of the Company. The Remuneration Policy of the Company is based on evaluation of personnel on performance. An annual assessment is carried out and increments and incentives are awarded based on the rating/ranking of each individual.

Sgd.
Dr. A.N.Balasuriya
Chairman
Remuneration Committee

18th August 2020

Related Party Transactions Review Committee Report

Composition

With effect from 20th March 2020 the Related Party Transactions Review Committee of the parent company commenced to function as the Related Party Transactions Review Committee of the company. Chairman of the committee is Mr. R. Seevaratnam. The other members of the Related Party Transactions Review Committee comprise of Dr. A. N. Balasuriya, and Mr. D. Hasitha S. Jayawardena.

Purpose of the Committee

The Committee's key focus is to review all proposed Related Party Transactions prior to entering into or completion of the transaction according to the procedures laid down by Section 9 of the Listing Rules of the Colombo Stock Exchange.

Meetings

Committee of Related Party Transactions of the holding company reviewed related party transaction as required.

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 2019, there were no non-recurrent related party transactions that exceeded the respective thresholds mentioned in the Listing Rules of the Colombo Stock Exchange. (Note 37.3)

Recurrent relating party transactions are disclosed in Note 37.1

Details of other related party transactions entered into by the Company during the above period is disclosed in Note 37 to 38 the financial statements.

Sgd.
R.Seevaratnam
Chairman
Related Party Transactions Review committee

18th August 2020

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 Directors, 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 12 & 13.

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.

The Board of Directors of Madulsima Plantations PLC has resolved to appoint the Audit Committee, Remuneration Committee and the Related Party Transactions Review Committees of the Parent Company, Melstacorp PLC to function as the Audit Committee, Remuneration Committee and the Related Party Transactions Review Committees of Madulsima Plantations PLC with effect from March 2020, in place of the existing Committees, as provided for under Sections 7.10.5.a,7.10.6.a and 9.2.3 respectively of the Listing Rules of the Colombo Stock Exchange.

Audit Committee

The Audit Committee as described above 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 No. 17 describes the activities carried out during the financial year.

Remuneration Committee

The Remuneration Committee as described above makes recommendations to the Board on the Company's framework of remunerating Executive Directors. The Remuneration Committee Report appears on Page 18.

Related Party Transactions Review Committee

The composition of the "Related Party Transactions Review Committee" as described above. 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 18.

Corporate Governance Statement

Levels of Compliance with the CSE Listing Rules on Corporate Governance are as follows :

Rule No	Applicable Requirement	Compliance Status	Details
7.10.1.(a)	**Non Executive Directors** * 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
7.10.2(a) 7.10.2(b)	**Independent Directors** * Two or one third of Non-Executive Directors whichever is higher should be independent * Each Non-executive Director should submit a declaration of independence/non-independence in the prescribed format	 Complied Complied	 Two out of four Non-Executive Directors are Independent. Non-Executive Directors have submitted these declarations.
 7.10.3(a) 7.10.3(b) 7.10.3(c) 7.10.3(d)	**Disclosure Relating to Directors** * Names of Independent Directors should be disclosed in the Annual Report. * The basis for the Board to determine a Director is independent, if criteria specified for independence is not met. * A brief resume of each Director should be included in the Annual Report and should include the Director's areas of expertise * Forthwith provide a brief resume of new Directors appointed to the Board with details specified in 7.10.3(a) and (c) to the CSE	 Complied Complied Complied Complied	 Refer Page 12-13 Refer Page 19 Refer Pages 12-13 Not applicable
 7.10.5 7.10.5(a) 7.10.5(b) 7.10.5(c)	**Remuneration Committee** * A listed Company shall have a Remuneration Committee * **Composition of Remuneration Committee** Shall comprise Non-Executive Directors a majority of whom will be independent? * **Functions of Remuneration Committee** The Remuneration Committee shall recommend the remuneration of Chief Executive Officer and Executive Directors * 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 Complied Complied Complied	Refer page 18
 7.10 & 7.10.6(a) 7.10.6(b) 7.106(c)	**Audit Committee** * The Company shall have an Audit Committee * **Composition of Audit Committee** * Shall comprise of Non-Executive Directors, a majority of who will be independent? * Non-Executive Director shall be appointed as the Chairman of the Committee * Chief Executive Officer and Chief Financial Officer should attend Audit Committee Meetings * The Chairman of the Audit Committee of one member should be a member of a professional Accounting Body * Audit Committee Functions * Disclosure in the Annual Report relating to Audit Committee	 Complied Complied Complied Complied Complied Complied Complied	Refer page 17

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 enough 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.

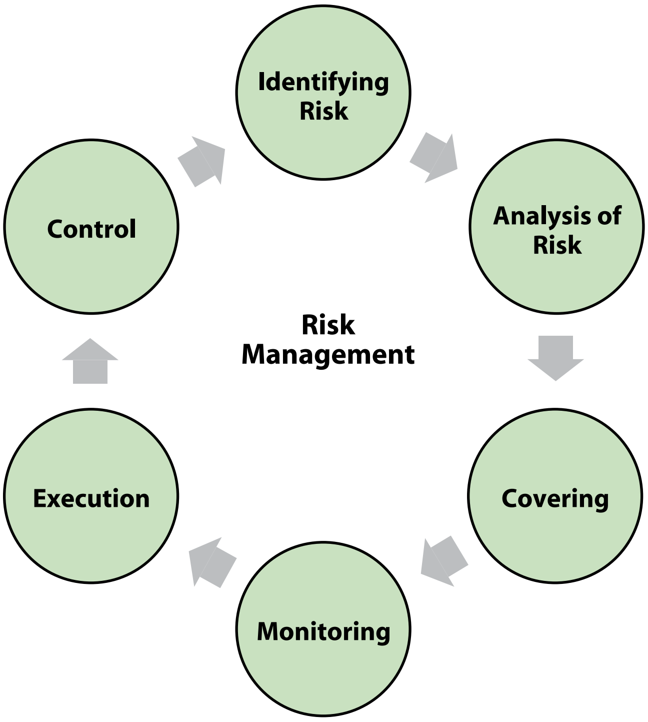
By Order of the Board
Sgd.
P. A. Jayatunga
Secretary

18th August 2020

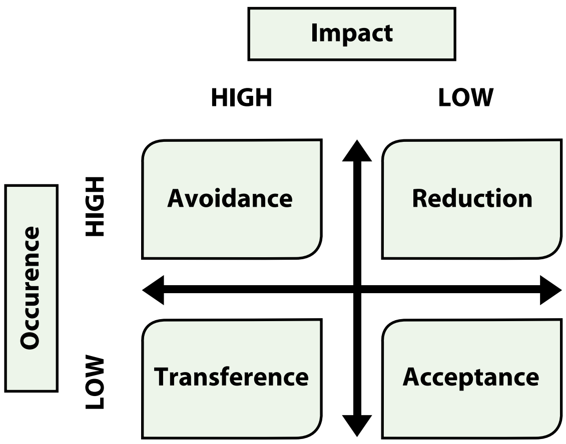
Risk Management

At Madulsima Plantations PLC, we emphasize the importance of having a strong Working Culture within the organization that strengthens the internal processes. Risk management is no longer an additional set of processes but embedded in the business process itself. The Risks could influence the achievement of the strategy of business, operational and financial objectives therefore the Directors have taken the initiative to identify the organizations major risks and introduced several controls and measures to mitigate the risks faced by the Company.

We perform Environmental analysis as well as SWOT analysis in regular intervals to identify probable risk factors and to understand opportunities and threats created by the external environment.



The Company has identified the importance of having a proactive approach in managing risk while maintaining a comprehensive system of internal controls to track and monitor the subsequent effects of each risks on Company's performance. Following model is used to decide the risk management strategy for each and every risk identified by the management of MPPLC



Mitigating Strategies Implemented

The following are some of the major risk factors that the company is exposed to which carrying out its business and actions implemented to reduce or eliminate risk

Risk Management

Risk	Risk Assessment	Mitigating Strategies
Business Risk (High)	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
Operational Risk (Moderate)	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 advises conveyed to enforce a high degree of situational awareness among the Planting Executives. • Compliance audits and standardization • Obtain comprehensive insurance policies to cover operational risks.
Environmental Risk (High)	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 • Reservation of forests and watersheds
Human Resource (Moderate)	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

Risk Management

Product Quality Risk (Moderate)	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
Political Risk (High)	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
Interest Rate Risk (Moderate)	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
Technical & IT Risk (Moderate)	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
Investment Risk (Moderate)	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.
Inventory (Moderate)	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.
Company Reputation (Low)	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 and food safety procedures.

Independent Auditor's Report

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
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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 31st December 2019, and the statement of profit or loss and other 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 and other explanatory information set out on pages 29 to 77.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31st December 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the 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 our audit of the company financial statements of the current period. These matters were addressed in the context of our audit of the company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

01. Measurement of Consumable Biological Assets	
Refer to the significant accounting policy in Note 3.2.3.6 and explanatory Note 16 to the financial statements	
Risk Description	**Our Response**
The commercially cultivated timber trees on estates managed by the Company classify as consumable biological assets and are measured at each reporting date at fair value less estimated cost to sell at harvest. The valuation of consumable biological assets requires significant levels of judgments and technical expertise in selecting appropriate valuation models and assumptions. Changes in the key assumptions used such as discount rate, estimation of height/girth of trees used to arrive volume of timber and value per cubic meter used for the valuation of consumable biological assets, could have a material impact on the fair value gain or loss for the year and the carrying value of consumable biological assets as of the reporting date. Management engaged a subject matter expert who is an incorporated valuer and a member of The Institute of Valuers of Sri Lanka to perform an independent valuation of the consumer biological assets of the Company as at reporting date. We considered measurement of consumer biological assets as a key audit matter due to the magnitude of the value and significant assumptions and judgments in determining the fair value which could be subject to error or potential management bias.	Our audit procedures included: • Understanding the process of valuation and testing the design and operating effectiveness of the key controls relation to the valuation of consumable biological assets. • Evaluating the competence, qualifications, capabilities and objectivity of the independent valuer. • Obtaining estate wise census books of timber trees and comparing the number of timber trees recorded in the census book with the valuation report to ensure the completeness and accuracy of the data. • Physically verification of the actual girth and height pertaining to a selected sample of trees during our estate visits, in order to ascertain the accuracy of the average girth and height used in the valuation report. • Assessing the key assumptions and methodology used in the valuation, in particular the discount rate, estimated height and average market price by comparing with industry norms that are generally accepted in determining volume of timber. • Assessing the mathematical accuracy of the consumable biological assets valuation. • Assessing the adequacy of the disclosures in the Financial Statements, including the description and appropriateness of the inherent degree of subjectivity and the key assumptions.

Independent Auditor's Report

KPMG

02. Retirement Benefit Obligation	
Refer to the significant accounting policy in Note 3.3.1.2 and explanatory Note 28 to the financial statements	
Risk Description	**Our Response**
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. Management engaged an independent actuary to assist them in the computation of retirement benefit obligation. We considered the computation of the retirement benefit obligation to be a key audit matter due to the magnitude of the amounts recognized in the financial statements as well as estimation uncertainty involved in determining the amounts.	Our audit procedures included: • Assessing the competency, objectivity and capabilities of the independent actuary engaged by the Company. • Testing the samples of the employees' details used in the computation to the human resource records. • Evaluating the reasonableness of the total annual salaries used in the computation by comparing to the historical data. • Assessing the other key assumptions used in the valuation, in particular the discount rate, inflation rate, mortality rates and future salary increases. • Comparing the discount rate, inflation rate, mortality rate and future salary increases to market available data. • Involving internal valuation specialist to verify the accuracy of the retirement benefit obligation. • Assessing the adequacy of the disclosures in financial statements.

03. Management assessment of the Company's ability to continue as going concern	
Refer to the significant accounting policy in Note 2.6 to the financial statements	
Risk Description	**Our Response**
The Company has recorded a loss of LKR 764 Million during the year ended 31st December 2019 and as of that date, accumulated losses amounted to LKR 4,694 Million Further, current liabilities exceeded its current assets by LKR 244 Million as at the reporting date. The Company has loans and borrowings of LKR 338 Million due within 12 months from 31st December 2019. However, the directors of the Company are of the opinion that the going concern assumption is valid in preparation of financial statements, due to future growth potential of the Company and continuous financial support from ultimate parent Company. In assessing the Company's ability to continue to operate as a going concern the Directors prepared a cash flow forecast which required the exercise of significant management judgments. We identified the assessment of the Company's ability to continue as a going concern as a key audit matter because the assessment of going concern is dependent upon certain management assumptions and judgements, in particular in relation to future cash flow forecast and the ability of the Company to obtain external financing, which may be inherently uncertain and could be subject to management bias.	Our audit procedures included: • Walking through the business planning process and assessing the design, implementation and operating effectiveness of management's key internal controls over the assessment of going concern, including the preparation of cash flow forecasts; • Evaluating the performance of the Company and assessing the significant going concern indications. • Assessing the appropriateness of key assumptions used in the cash flow projections and assessing the timing and mathematical accuracy of the projections. • Assessing the Company's ability to renew or refinance existing banking and other financing facilities upon maturity by performing a retrospective review of past renewal or roll-over history of banking and other financing facilities in prior years and inspecting loan agreements and underlying document for bank loans and other financing facilities borrowed and repaid after year end; • Inspecting the letter of support received from the parent Company after evaluating their ability to provide the financial support in order to meet the liabilities of the Company as and when they fall due and payable. • Assessing the adequacy of disclosures in the financial statements (Note 2.6) in relation to going concern.

Independent Auditor's Report

KPMG

Other Matter

The financial statements of the Company for the year ended 31st December 2018, were audited by another auditor who expressed an unmodified opinion on those financial statements on 29th April 2019.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the Financial Statements and our Auditor's Report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the 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 and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report

KPMG

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

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

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

Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2618.

Sgd.
CHARTERED ACCOUNTANTS
Colombo, Sri Lanka

18th August 2020

Statement of Profit or Loss

For the year ended 31st December	Note	2019 Rs.	2018 Rs.
Revenue	**6**	2,006,977,497	2,144,945,407
Cost Of Sales		(2,568,610,650)	(2,434,611,504)
Gross Loss		(561,633,153)	(289,666,097)
Other Income	**7**	67,696,604	39,944,739
Gain on changes in fair value of biological assets	**18.1**	180,434,197	159,925,012
Administrative Expenses		(121,742,741)	(115,671,678)
Loss From Operation		(435,245,093)	(205,468,024)
Net Finance Costs	**8**	(345,821,127)	(219,698,173)
Loss Before Taxation	**9**	(781,066,220)	(425,166,197)
Income Tax Benefit/(Expense)	**10.1**	17,357,685	(175,032,695)
Loss for the year		(763,708,535)	(600,198,892)
Basic Loss Per Share	**11**	(4.51)	(3.54)

Figures in brackets indicate deductions.

The Accounting policies and notes on pages 34 through 77 form an integral part of the Financial Statements.

Statement of Other Comprehensive Income

For the Year ended 31st December	Note	2019 Rs.	2018 Rs.
Loss for the Year		(763,708,535)	(600,198,892)
Items that will not be reclassified to profit or loss			
Net Change in fair value through OCI financial assets	**17**	(240,829)	259,932
Actuarial loss on retirement benefit obligations	**28.1.2**	(38,617,751)	(53,454,861)
Deferred tax on actuarial loss	**29.1**	5,406,485	7,483,681
Total other comprehensive expense for the year (net of tax)		(33,452,095)	(45,711,248)
Total comprehensive Expense for the year		(797,160,630)	(645,910,140)

Figures in brackets indicate deductions.

The Accounting policies and notes on pages 34 through 77 form an integral part of the Financial Statements.

Statement of Financial Position

As at 31st December	Note	2019 Rs.	2018 Rs.
ASSETS			
Non-current Assets			
Right to use of land	12	108,925,714	109,405,754
Immovable estate assets on finance lease (other than bare land)	13	323,589,838	348,402,132
Tangible assets other than biological assets	14	878,030,805	781,351,353
Bearer biological assets	15	725,566,431	657,438,806
Consumable biological assets	16	3,556,150,834	3,395,883,775
Investment in Equity Securities- FVOCI	17	4,174,701	4,415,530
Total Non-Current Assets		5,596,438,323	5,296,897,350
Current Assets			
Produce of Bearer biological assets	18	2,053,351	4,058,080
Inventories	19	253,557,197	305,998,001
Trade and other receivables	20	145,547,714	140,073,938
Amounts due from related companies	21	2,178,628	1,075,588
Cash and cash equivalent	22	47,533,164	13,329,661
Total Current Assets		450,870,054	464,535,268
TOTAL ASSETS		6,047,308,377	5,761,432,618
EQUITY AND LIABILITIES			
Capital and Reserves			
Stated capital	23	1,624,760,670	1,624,760,670
Revaluation reserve	24	637,257,983	637,257,983
Fair value through OCI Reserve	25	2,958,618	3,199,447
Timber reserve	26	3,376,700,903	3,220,459,208
Retained earnings		(4,693,768,709)	(3,681,605,797)
Total Equity		947,909,465	1,804,071,511
Non-Current Liabilities			
Interest bearing borrowings	27	2,912,559,020	1,916,732,450
Retirement benefit obligation	28	985,134,132	924,948,525
Deferred tax liability	29	278,252,634	297,947,565
Deferred income	30	138,072,745	143,390,922
Lease Liability to – SLSPC and JEDB	31	90,355,899	30,858,427
Total Non Current Liability		4,404,374,430	3,313,877,889
Current Liabilities			
Trade and other payable	32	271,392,134	309,972,609
Lease Liability to – SLSPC and JEDB	31	455,933	692,013
Amounts due to related companies	33	57,585,891	54,477,181
Interest-bearing borrowings	27	337,658,709	198,583,562
Bank overdraft	22	27,931,815	79,757,853
Total Current Liabilities		695,024,482	643,483,218
Total Liabilities		5,099,398,912	3,957,361,107
TOTAL EQUITY AND LIABILITIES		6,047,308,377	5,761,432,618

Figures in brackets indicate deductions.

The Accounting policies and notes on pages 34 through 77 form an integral part of the Financial Statements.
These Financial Statements have been prepared in compliance with the requirements of the Companies Act No 07 of 2007.

Sgd.
D.M. Samantha K. Dissanayake
Senior Accountant

The Board of Directors is responsible for the preparation and fair presentation of these Financial Statements.
Approved and signed for and on behalf of the Board of Directors of Madulsima Plantations PLC.

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

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

Colombo.
18^{th} August 2020

Statement of Changes in Equity

For the year ended 31st December	Note	Stated Capital Rs.	Revaluation Reserve Rs.	Fair value through OCI Reserve Rs	Timber Reserve Rs.	Retained Earnings Rs.	Total Equity Rs.
As at 1st January 2018		1,624,760,670	659,257,983	2,939,515	3,063,430,407	(2,900,406,924)	2,449,981,651
Loss for the year		-	-	-	-	(600,198,892)	(600,198,892)
Other comprehensive income/(expense) net of tax		-	-	259,932	-	(45,971,180)	(45,711,248)
Total Comprehensive Income for the year		-	-	259,932	-	(646,170,072)	(645,910,140)
Transferred to timber reserve		-	-	-	159,973,612	(159,973,612)	-
Transferred to retained earning		-	(22,000,000)	-	(2,944,811)	24,944,811	-
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
Balance as at 01st January 2019 (before initial application of SLFRS 16)		1,624,760,670	637,257,983	3,199,447	3,220,459,208	(3,681,605,797)	1,804,071,511
Adjustment due to initial application of SLFRS 16 net of tax	5.1.3	-	-	-	-	(59,001,416)	(59,001,416)
Adjusted balance as at 1 January 2019		1,624,760,670	637,257,983	3,199,447	3,220,459,208	(3,740,607,213)	1,745,070,095
Loss for the year		-	-	-	-	(763,708,535)	(763,708,535)
Other comprehensive income/(expense) net of tax		-	-	(240,829)	-	(33,211,266)	(33,452,095)
Total Comprehensive Income for the year				(240,829)	-	(796,919,801)	(797,160,630)
Transferred to timber reserve	26	-	-	-	182,438,926	(182,438,926)	-
Transferred to Retained earning	26	-	-	-	(26,197,231)	26,197,231	-
As at 31 December 2019		1,624,760,670	637,257,983	2,958,618	3,376,700,903	(4,693,768,709)	947,909,465

Figures in brackets indicate deductions.

The Accounting policies and notes on pages 34 through 77 form an integral part of the Financial Statements.

Statement of Cash Flows

For the year ended 31st December	2019 Rs.	2018 Rs.
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	(781,066,220)	(425,166,197)
ADJUSTMENTS FOR;		
Depreciation and amortization	92,612,381	74,828,361
Interest income	(48,175)	(68,012)
Finance expense	345,869,302	219,766,185
Retirement benefit obligation	147,681,391	126,831,050
Gain on fair valuation of biological assets	(180,434,197)	(159,925,012)
Profit on disposal of property, plant & equipment	-	13,966,666
Share of associate company's loss	240,829	-
Provision for bad debts	19,592,527	-
ESC write off	-	6,289,064
Amortization of capital grants	(5,362,634)	(5,441,155)
Provision for impairment of bearer biological assets	2,965,338	-
Profit sale on timber trees	(20,994,513)	(1,823,227)
Operating loss before working capital changes	(378,943,971	(150,742,277)
(Increase)/decrease in inventories	52,440,804	(57,026,199)
(Increase)/decrease in trade and other receivables	(14,118,751)	(53,340,127)
(Increase)/decrease in due from related companies	(2,178,628)	(122,655)
Increase/(decrease) in Trade and Other Payable	(38,580,475)	(3,421,685)
Increase/(decrease) in due to related companies	4,184,298	1,023,606,435
Cash generated from operations	(377,196,723)	758,953,492
Interest paid	(333,999,653)	(203,259,320)
Income tax paid	(11,188,383)	(11,774,949)
Retirement benefit obligation payments	(126,113,534)	(113,015,817)
Net cash generated from/(used in) operating activities	(848,498,293)	430,903,406
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(149,445,312)	(279,661,692)
Investments in immature plantations	(81,891,351)	(34,254,410)
Investment in timber plantations	(4,025,364)	(4,277,665)
Disposal of property, plant and equipment	-	3,725,000
Interest received	48,175	68,012
Proceeds from timber sales	47,191,744	4,768,038
Net Cash used in Investing Activities	(188,122,108)	(309,632,717)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments to lease creditor- JEDB/SLSPC	(12,296,229)	(11,686,373)
Loan obtained	2,528,388,423	400,000,000
Loans repayment	(1,393,486,710)	(105,514,077)
Grants received	44,457	286,325
Net cash used in financing activities	1,122,649,941	283,085,875
Net increase/(decrease) in cash and cash equivalents	86,029,540	404,356,564
Cash and Cash Equivalents at the beginning of the Year	(66,428,191)	(470,784,756)
Cash and Cash Equivalents at the end of the Year (Note 22)	19,601,349	(66,428,192)

Figures in brackets indicate deductions.

The Accounting policies and notes on pages 34 through 77 form an integral part of the Financial Statements.

Notes to the Financial Statements

For the year ended 31st December 2019

1. REPORTING ENTITY

Madulsima Plantations PLC is a Public Limited Liability Company incorporated and domiciled in Sri Lanka, under the Companies Act No. 17 of 1982 in terms of the provisions of the Conversion of Public Corporations or Government-Owned Business Undertaking into Public Companies Act No. 23 of 1987 and re-registered under the Companies Act No. 7 of 2007. The registered office of the Company is located at No 833, Sirimavo Bandaranayaka Mawatha, Colombo 14 and Plantations are situated in the Madulsima and Bogawantalawa regions.

The Financial Statements of Company comprise with the Statement of Profit or Loss and Other 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 nature of operations

The Company primarily is involved in the cultivation, manufacturing and sale of Black Tea.

1.2 Ultimate Parent enterprise

The Company's immediate parent Company is Melstacorp PLC and the ultimate parent is Milford Exports (Ceylon) (Pvt) Limited which are incorporated in Sri Lanka.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows, together with the notes to the Financial Statements and Significant Accounting Policies which have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) promulgated by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and with the requirements of the Companies Act No. 07 of 2007 and Sri Lanka Accounting and Auditing Standards Act No 15 of 1995. These Financial Statements, except information on Cash Flows, have been prepared following the accrual basis of accounting.

2.2 Approval of Financial Statements by Directors

The Financial Statements of the Company were authorized for issue by the Board of Directors on 18th August 2020

2.3 Basis of Measurement

The Financial Statements have been prepared on historical cost basis except for the following material items in the Statement of Financial Position:

- Consumable Mature Biological Assets are measured at fair value less costs to sell per - (LKAS 41 - Agriculture) - Note 16
- Liability for Retirement Benefit Obligation is recognized as the present value of the defined benefit obligation based on actuarial valuation per (LKAS 19 - Employee Benefits) - Note 28
- Agriculture produce harvested from biological assets are measured at fair value per (LKAS 41 - Agriculture) - Note 18
- Investment in Equity Securities are measured at fair value per (SLFRS 09 – Financial Instruments) - Note 17

2.4 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees which is the company's functional currency. All financial information presented in Sri Lankan Rupees has been rounded to the nearest rupee, unless stated otherwise.

2.5 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by LKAS 1: Presentation of Financial Statements.

Financial assets and financial liabilities are offset and the net amount report in the statement of financial position, only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on net basis, or to realize the assets and settle the liability simultaneously.

2.6 Going Concern

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

The Company has incurred a loss of LKR 764 Million during the year ended 31st December 2019 and as of that date, accumulated losses amounted to LKR 4,694 Million. Further, the Company's current liabilities exceeded its current assets by LKR 244 Million as at the reporting date. The current liabilities of the Company includes loans and borrowings amounting to LKR 338 Million which are due within 12 months from 31st December 2019.

Notes to the Financial Statements

For the year ended 31st December 2019

Notwithstanding this, the Financial Statements has been prepared on the going concern basis because the board of directors have assessed the sources of funding available to the Company, and firmly believe that the Company can continue as a going concern for the foreseeable future.

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. 2,490,355,223

In preparing these financial statements, the management has assessed the existing and anticipated effect of COVID-19 on the Company and appropriateness of the use of the going concern basis. Refer Note 42 to the Financial Statements for impact of COVID-19 on the Financial Statements of the Company.

2.7 Use of Estimates and Judgments

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standards (SLFRSs/LKASs) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities income and expenses.

Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence actual experience and results may differ from these judgments and estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Financial Statements is included in the following notes.

Note 14 -Tangible Assets other than Biological Assets

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

Note 16 - Consumable Biological Assets
Note 28 -Retirement Benefit Obligation
Note 29- Deferred Tax Liability
Note 17- Investment in Equity Securities

2.8 Determination of fair value

'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 in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk. Several of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

When measuring fair value of an asset or liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques.

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 inputs are inputs that are not based on observable market data (unobservable inputs).

If inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Fair values have been determined for measurement and disclosure purposes based on the following methods. Where applicable further information about the assumptions made in determining fair value is disclosed in the notes specific to that asset or liability.

Notes to the Financial Statements

For the year ended 31st December 2019

2.9 Fair value of non-financial assets

The fair value used by the Company in the measurement of non-financial assets 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 that is accessible by the Company for the asset or liability.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Except for the changes mentioned, all the accounting policies set out below have been applied by the Company consistently to all periods presented in these Financial Statements

3.1 Foreign Currency

3.1.1 Foreign Currency Transactions

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions.

At each reporting date, monetary items denominated in foreign currencies are translated at the closing rate. Non-monetary items measured at fair value are translated at the rates prevailing on the date when the fair value was determined.

Non-monetary items measured at historical cost are translated at the rates prevailing on the date of transaction.

Exchange differences arising on the settlement of monetary items and on the translation of monetary items are included in profit or loss for the period.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences which are recognized in other comprehensive income.

3.2 Assets and the bases of their valuation

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

3.2.1 Property, Plant and Equipment

3.2.1.1 Recognition and Measurement

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, except for Bare Land on Lease which is stated at revalued amount on 22nd June 1992 less subsequent accumulated depreciation and accumulated Impairment losses.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

3.2.1.2 Owned Assets

The cost of property, plant and equipment includes expenditures that are directly attributable to the acquisition of the asset. Such costs include the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. The cost of self-constructed assets includes the cost of materials and direct labor, 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.

Notes to the Financial Statements

For the year ended 31st December 2019

When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is preformed, its cost is recognized 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 recognized in the statement of profit or loss as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

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 utilization or at the time the asset is commissioned.

3.2.1.3 Land Improvement Cost

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

These costs have been capitalized and amortized over the remaining lease period.

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

3.2.1.4 Capital Work-in-Progress

The cost of capital work-in-progress is the cost of purchase or construction together with any related expenses thereon.

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

3.2.1.5 Subsequent Cost

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized.

The costs of the day-to-day servicing of property, plant and equipment are recognized in the Statement of Profit or Loss and Other Comprehensive Income as incurred.

3.2.1.6 Borrowing Costs

Borrowing costs that are directly attributable to acquisition, construction or production of a qualifying asset which takes a substantial period of time to get ready for its intended use or sale, are capitalized as a part of the asset. The amounts of the borrowing costs which are eligible for capitalization are determined in accordance with LKAS 23 - Borrowing Costs.

Borrowing costs that are not capitalized are recognized as expenses in the period in which they are incurred and charged to the Statement of Profit or Loss and Other Comprehensive Income.

3.2.1.7 Depreciation and Amortization

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

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The estimated useful lives for the current and comparative periods are as follows:

Asset Category	No of Years	Rate %
Improvements to Building	40	2.5
Land Improvement	40	2.5
Plant & Machinery	15 to 20	6.66/ 5
Motor Vehicles	5	20
Equipment	8	12.5
Computer	4	25
Computer Software	3	33
Furniture & Fittings	10	10
Water Projects & Sanitation	20	5

Immovable Assets on Finance Lease from JEDB/ SLSPC are being amortized in equal amounts over the following periods:

Asset Category	No of Years	Rate %
Bare Land	53	1.89
Mature Plantations - Tea	30	3.33
Buildings	25	4
Plant & Machinery	15	6.67
Land Development Cost	53	1.89
Water Supply Scheme	30	3.33
Mini Hydro Scheme	10	10

Depreciation of an asset begins when it is available for use, whereas depreciation of an asset 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 method, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

3.2.1.8 Derecognition
The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss and the revalued assets are disposed, the amount included in revaluation surplus reserve is transferred to retained earnings.

3.2.2 Intangible Assets
An intangible asset is recognized if it is probable that economic benefits attributable to the assets will flow to the entity and cost of the assets can be measured reliably and carried at cost less accumulated amortization and accumulated impairment losses.

3.2.3 Biological Assets
Biological assets are classified as Bearer Biological assets and Consumable Biological assets. Bearer Biological assets include tea and rubber trees, those that are not intended to be sold or harvested, but are however used to grow for harvesting agricultural produce from such Biological assets. Consumable Biological assets include managed timber trees (those that are to be sold as Biological assets).

Biological assets are further classified into Mature Biological assets and Immature Biological assets. Mature Biological assets are those that have attained harvest-able specifications or are able to sustain regular harvests. Immature Biological assets are those that have not yet attained harvest-able specifications.

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3.2.3.1 Recognition and Measurement
The entity recognizes the Biological assets when, and only when, the entity controls the assets as a result of past events, 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.

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

The managed timber trees are measured on initial recognition and at the end of each reporting period at its fair value less cost to sell in terms of LKAS 41. The cost is treated as approximation to fair value of young plants (age below 4 years) as the impact on biological transformation of such plants to price during this period is immaterial.

3.2.3.2 Bearer Biological Assets
The costs of land preparation, rehabilitation, new planting, replanting, crop diversification, inter planting, fertilizing and so on incurred between the time of planting and harvesting (when the planted area attains maturity), are classified as immature plantations. These immature plantations are shown at direct costs plus attributable overheads including interest attributable to long-term loans used for financing immature plantations. The expenditure incurred on Bearer Biological assets (Tea, Rubber fields) which comes into bearing during the year, is transferred to mature plantations.

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

3.2.3.3 Infilling cost on Bearer Biological Assets
The land development costs incurred in the form of infilling are capitalized when infilling results in an increase in the economic life of the relevant field beyond its previously assessed standard of performance and infilling costs so capitalized are depreciated over the newly assessed remaining useful economic life of the relevant mature plantation or unexpired lease period, whichever is lower.

Infilling costs that are not capitalized have been charged to the Statement of Profit or Loss and Other Comprehensive Income in the year in which they are incurred.

3.2.3.4 Growing crop nurseries
Nursery cost includes the cost of direct materials, direct labour and appropriate proportion of directly attributable overheads.

3.2.3.5 Depreciation

Mature Plantations (Replanting and New Planting) are depreciated on a straight line basis over the expected period of their commercial harvesting or unexpired lease period, whichever is less.

The expected periods of commercial harvesting for each category of crops are as follows:

Asset category	No of Years	Rate%
Tea	33 1/3	3
Rubber	20	5
Coffee	10	10
Citrus	10	10

No depreciation is provided for Immature Plantations.

3.2.3.6 Consumable Biological Assets
The fair value of timber trees is measured using Discounted Cash Flow (DCF) method taking into consideration the current market prices of timber applied to expected timber content of a tree at maturity.

Notes to the Financial Statements
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The main variables in DCF model are as follows:

Variable	Comment
Timber content	Estimated based on physical verification of girth, height and considering the growth of each species, and factoring in all the prevailing statutory regulations enforced against harvesting of timber coupled with the forestry plan of the Company.
Economic useful life	Estimated based on the normal life span of each species by factoring in the forestry plan of the Company.
Selling price	Selling price reflects the currently available market value.
Discount Rate	Discount rate reflects the possible variations in the Cash flows and the risk related to the biological assets
Currency	LKR

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

3.2.3.7 Produce on Bearer Biological Assets
The Company recognizes its agricultural produce prior to harvest separately from its bearer plant. Such agricultural produce prior to harvest continues to be in the scope of LKAS 41 and is measured at fair value less costs to sell. Changes in the fair value of such agricultural produce is recognized in profit or loss at the end of each reporting period.

When deriving the estimated quantity, the Company limits it to one harvesting cycle and the quantity is ascertained based on the last day of the harvest in the immediately preceding cycle. In order to ascertain the fair value of produce growing on trees, 50% of the estimated crop in that harvesting cycle is considered.

For the valuation of the produce, the Company uses the bought-leaf rate (current month) less cost of harvesting and transport.

3.2.4. Right to use of Asset
The Company has applied SLFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under LKAS 17 and IFRIC 4. The details of accounting policies under LKAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in SLFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

3.2.4.1. As a lessee
At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

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Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'right to use of land' and lease liabilities in 'lease liability' in the statement of financial position.

Short-term leases and leases of low-value assets
The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019
For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfillment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

3.2.4.2. As a lessee
In the comparative period, as a lessee the Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the Company's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

3.2.5. Financial instruments

3.2.5.1. Recognition and initial measurement
Trade receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

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A trade receivable without a significant financing component is initially measured at the transaction price.

3.2.5.2. Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost; FVOCI - debt investment; FVOCI - equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount of outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets - Business model assessment:

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for de recognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets -Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

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In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual paramount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

3.2.5.3. Financial assets - Subsequent measurement and gains and losses

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are Recognized in profit or loss.

Financial assets at Amortized Cost

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Financial liabilities - Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

3.2.5.4. Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or canceled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

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On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

3.2.5.5. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

3.2.5.6. Impairment policy

Non-derivative financial assets

Financial instruments and contract assets

Loss allowances for trade receivables is always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 180 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 180 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market tor a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

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Impairment Policy: Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories, contract assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.2.6 Inventories

3.2.6.1 Agricultural Produce harvested from Biological Assets

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

3.2.6.2 Agricultural Produce after further processing

Further processed output of Agricultural Produce is valued at the lower of cost and estimated net realizable value, after making due allowances for obsolete and slow-moving items. Net realizable value is the estimated selling price at which stocks can be sold in the ordinary course of business less the estimated cost of completion and estimated cost necessary to make the sale.

3.2.6.3 Input Material, Consumables and Spares

Valued at actual cost on weighted average basis.

3.2.6.4 Growing Crop Nurseries

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

3.2.7 Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances, call deposits, demand deposits and short-term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value net of bank overdrafts that are repayable on demand for the purpose of the Statement of Cash Flows.

3.3 Liabilities and Provisions

Liabilities classified as current liabilities on the Statement of Financial Position are those which fall due for payment on demand or within one year from Statement of Financial Position date. Non-current liabilities are those balances that fall due for payment after one year from Statement of Financial Position date. All known liabilities have been accounted for in preparing these Financial Statements.

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation.

3.3.1 Employee Benefits

3.3.1.1 Defined Contribution Plans - Employees' Provident Fund 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 Defined Contribution Pension Plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

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The Company contributes 12% of gross emoluments of the employees to Employees' Provident Fund (EPF)/Estate Staff Provident Society (ESPS). All of the employees are eligible for Employees' Trust Fund to which the Company contributes 3% of gross emoluments of such employees.

3.3.1.2 Defined Benefit Plan - Retirement Gratuity
A Defined Benefit Plan is a post-employment benefit plan other than a Defined Contribution Plan. The Company's net obligation in respect of Defined Benefit Pension Plans is calculated annually using the Projected Unit Credit (PUC) Method. The liability recognized in the Statement of Financial Position is the present value of the Defined Benefit Obligation at the reporting date in accordance with the advice of an actuary. Actuarial gains or losses arising are recognized in Other Comprehensive Income in the period in which they arise. Past service costs are recognized immediately in the Statement of Profit or Loss and Other Comprehensive Income.

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 key assumptions used in determining the Retirement Benefit Obligations are given in note 28.

3.3.2 Contingent Liabilities
Contingent Liabilities are possible assets or obligations that arise from a past event and would be confirmed only on the occurrence or non-occurrence of uncertain future events, which are beyond the Company's control.

3.3.3 Deferred Income

3.3.3.1 Government Grants and Subsidies

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

Grants related to Property, Plant and Equipment other than grants received for forestry are initially deferred and allocated to income on a systematic basis over the useful life of the related Property, Plant and Equipment. Grants received for forestry are initially deferred and credited to Statement of Profit or Loss and Other Comprehensive Income immediately the related blocks of trees are harvested.

3.3.4 Ordinary Shares
Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with LKAS 12.

3.4 Statement of Profit or Loss and Other Comprehensive Income
For the purpose of presentation of the Statement of Profit or Loss and Other Comprehensive Income, the Directors are of the opinion that function of expenses method presents fairly the elements of the Company's performance, and hence such presentation method is adopted in line with the provisions of LKAS 1 - Presentation of Financial Statements.

3.4.1. Revenue
Revenue is recognized 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 recognized 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

Notes to the Financial Statements
For the year ended 31st December 2019

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.

3.4.2 Expenditure Recognition

3.4.2.1 Operating Expenses
All expenses incurred in the day-to-day operations of the business and in maintaining the property, plant and equipment in a state of efficiency have been charged to the Statement of Profit or Loss and Other Comprehensive Income in arriving at the profit/(loss) for the year. Provision has also been made for impairment of non-financial assets, slow-moving stocks, overgrown nurseries, all known liabilities and depreciation on property, plant and equipment.

3.4.2.2 Finance Cost
Finance costs comprise interest expense on external borrowings and related party loans and payments made under operating leases. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method. Payments made under operating leases are recognized in profit or loss on a straight line basis over the term of the lease. Lease incentives received may be recognized as an integral part of the total lease expense, over the term of the lease.

3.4.2.3 Finance Income
Interest income is recognised as an accrual basis using the effective interest method.

3.4.2.4 Income Tax Expense
Income Tax expense comprising current and deferred tax. Income tax expense is recognized in Statement of Profit or Loss and Other Comprehensive Income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

3.4.2.4.1 Current Taxes
Current tax expenses for the current and comparative periods are measured at the amount paid or expected to be payable to the Commissioner General of Inland Revenue on taxable income for the respective year of assessment computed in accordance with the provisions of the Inland Revenue Act, No. 24 of 2017 as amended by subsequent legislation enacted or substantively enacted by the reporting date.

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

Deferred tax liabilities are recognized 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, 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 recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized 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 utilized, except:

Notes to the Financial Statements
For the year ended 31st December 2019

- 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 recognized 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 utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized 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 realized 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 recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized 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.

3.5 Statement of Cash Flows
The Statement of Cash Flows has been prepared using the 'Indirect Method'. Interest paid is classified as operating cash flows, interest received and dividends received are classified as investing cash flows while dividend paid and Government grants received are classified as financing cash flows for the purpose of presentation of the Statement of Cash Flows.

3.6 Segmental Reporting
The segments are determined based on the Company's geographical spread of operations, geographical analysis of turnover and expenses are based on turnover of customers and assets.

The 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 Note 06 of the financial statements.

Revenue and Expenditure directly attributable to each segment are allocated to the respective segments. Revenue and Expenditure not directly attributable to a segment are allocated on the basis of their resource utilization, wherever possible. U-nallocated items comprise mainly income accrued and expenses incurred at Head office level.

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. The unallocated items comprise mainly interst bearing loans, borrowings and expenses.

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

3.7 Related Party Transactions
Disclosure has been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies/decisions of the other, irrespective of whether or not a price is being charged.

A detailed Related Party Transaction analysis is presented in note 37.

3.8 Earnings Per Share
The Company presents Earnings per Share (EPS) data for its ordinary shares. 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.

Notes to the Financial Statements
For the year ended 31st December 2019

3.9 Events occurring after the reporting period
Events after the reporting period are those events favorable and unfavorable occurring between the end of the reporting period and the date when the Financial Statements are authorized for issue. The materiality of the events occurring after the reporting period is considered and appropriate adjustments or disclosures are made in the Financial Statements, where necessary.

The impact of corona virus outbreak for the financial statements is disclosed under Note 42.

4 NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE
Several Amendments to Accounting Standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the company has not early adopted the new or amended standards in preparing these financial statements.

Amendments to References to Conceptual Framework for financial Reporting
CA Sri Lanka has issued a revised Conceptual Framework which will be used in standard setting decisions with immediate effect. Key changes include:

- Increasing the prominence of stewardship in the objective of financial reporting
- Reinstating prudence as a component of neutrality
- Defining a reporting entity, which may be a legal entity, or a portion of an entity
- Revising the definitions of an asset and a liability
- Removing the probability threshold for recognition and adding guidance on derecognition
- Adding guidance on different measurement basis, and
- Stating that profit or loss is the primary performance indicator and that, in principle, income and expense in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

Amendments to LKAS 1 and LKAS 8-Definition of Material
In November 2018, the CA Sri Lanka issued amendments to LKAS1 and Sri Lankan Accounting Standard – 8 on "Accounting Policies, Changes in Accounting Estimates and Errors" to align the definition of 'material' across the standards and to clarify certain aspects of the term 'definition'. The new definition states that, 'Information is material if omitting, misstating o obscuring it could reasonably be expected to influence decisions that the primary users of the general purpose Financial Statements make on the basis of those Financial Statements, which provide financial information about a specific reporting entity.' The company shall apply those amendments prospective for annual financial periods beginning on or after January 1, 2020

5. Changing in Significant Accounting Policies
The Company has initially applied SLFRS 16 "Leases" and IFRIC interpretation 23 from 1st January 2019. A number of other new standards are also effective from 1st January 2019 but they do not have material effect on the financial statements.

5.1 Initial application of SLFRS 16 - Leases
SLFRS 16 Leases, replaces the previous leasing guidance, including LKAS17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of transactions involving the legal form of a lease. SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a one single balance sheet model similar to the accounting for finance leases under LKAS 17.

As prescribed by this standard, the Company recognizes an asset (right-of-use asset) representing its right to use the underlying assets and lease liability representing its obligation to make lease payments. Subsequently on an ongoing basis the Company will be recognizing the interest expense on the lease liability and the depreciation expense on the right-to-use asset, separately.

The Company has adopted SLFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at the date of initial application (i.e. 01 January 209). Accordingly, the information presented for 2018/2019 has not been restated, i.e. it is presented, as previously reported, under LKAS 17 and related interpretations. Additionally, the disclosure requirements in the SLFRS 16 have not generally been applied to comparative information.

Notes to the Financial Statements

For the year ended 31st December 2019

5.1.1 Leases previously classified as leasehold properties and prepaid operating leases

For leases previously classified as leasehold properties and pre-paid operating leases, the Company recognized the carrying amount of the lease asset immediately before transition as the carrying amount of the right-of-use asset. The requirements of SLFRS 16 was applied to these leases from 1 January 2019.

5.1.2 Leases previously accounted for as operating leases

The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amounts as if the standard has always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognized on the initial application based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

5.1.3 Impact of adopting SLFRS 16 - "Leases" on transition

The following table summerises the impact, of transition to SLFRS 16 - "Leases" as at January 2019.

	Rs.
Assets	
Right-of-use assets	3,755,795
Total Assets	3,755,795
Equity	
Retained earnings	(59,001,416)
Liabilities	
Interest bearing liabilities - leases	59,687,972
Deferred tax liability	3,069,239
Total Liabilities	62,757,211
Total Equity & Liabilities	3,755,795

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 14%.

	Rs.
Operating lease commitments as 31 December 2018 as disclosed under LKAS 17 in the Company's financial statements	312,691,680
Discounted using the incremental borrowing rate 1 January 2019	91,238,412
Finance lease liabilities recognised as at 31 December 2018	5,347,032
- Recognition exemption for leases of low-value assets	-
- Recognition exemption for leases with less than 12 months of lease term at transition	-
Lease liabilities recognized at 1 January 2019	96,585,444

Notes to the Financial Statements

For the year ended 31st December	2019 Rs.	2018 Rs.
6 REVENUE		
Sale of Produce Tea	2,006,977,497	2,144,945,407
Total Gross Revenue	2,006,977,497	2,144,945,407

6.1 Segmental Information

Geographical Segment	Madulsima Region				Bogowantalawa Region		Total	
	Uva High		Uva Medium		Western High			
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
(a) Segment Revenue								
Revenue	782,005,569	853,117,624	519,856,713	558,670,450	705,115,216	733,157,333	2,006,977,497	2,144,945,407
Cost of Sales	(940,362,369)	(897,285,651)	(639,018,860)	(630,410,533)	(989,229,420)	(906,915,320)	(2,568,610,650)	(2,434,611,504)
Segment Results	(158,356,800)	(44,168,027)	(119,162,147)	(71,740,083)	(284,114,204)	(173,757,987)	(561,633,153)	(289,666,097)
Other Operating Income	11,351,647	10,848,230	5,449,205	1,122,490	6,229,243	4,559,688	23,030,095	16,530,408
Administration & General Expenses	(33,437,499)	(35,077,922)	(20,260,821)	(20,118,459)	(40,962,992)	(39,995,764)	(94,661,311)	(95,192,145)
	(180,442,652)	(68,397,719)	(133,973,763)	(90,736,052)	(318,847,953)	(209,194,063)	(633,264,369)	(368,327,834)
Head office								
Other Operating Income							44,666,509	23,414,331
Administrative Expenses							(27,081,430)	(20,479,532)
Loss from Operating Activities							(615,679,290)	(365,393,036)
Finance Cost							(345,821,127)	(219,698,173)
Gain on Change in Fair Value of Biological Assets							180,434,197	159,925,012
Profit/(Loss) before Income Tax Expense							(781,066,220)	(425,166,197)
Income Tax Benefit/(Expense)							17,357,685	(175,032,695)
Net Loss for the Year							(763,708,535)	(600,198,892)
Net Change in fair value of investment in equity securities - FVOCI							(240,829)	259,932
Actuarial gains on defined benefit plans							(38,617,751)	(53,454,861)
Other Comprehensive Income net of Income Tax							5,406,485	7,483,681
Total comprehensive Expense for the Year, net of Tax							(797,160,631)	(645,910,140)

A segment is a distinguishable component of the Company that is engaged either in providing product or services (business segments), or in providing products or services within a particular economic environment (geographical segments), which is subject to risks and rewards that are different from those of other segments. The business segments are reported based on the geographical segments of the Company.

Notes to the Financial Statements

For the year ended 31st December

6 REVENUE (CONTD.)

Geographical Segment

(b) Segment Assets

		Madulsima Region				Bogowantalawa Region		Total	
		Uva High		Uva Medium		Western High			
		2019	2018	2019	2018	2019	2018	2019	2018
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs	Rs.	Rs
Non Current Assets		2,947,864,308	2,839,853,331	1,384,871,446	1,279,037,575	1,202,324,750	1,154,780,955	5,535,060,505	5,273,671,861
Current Assets		125,362,101	142,494,136	67,946,889	78,251,961	174,905,763	155,193,647	368,214,752	375,939,744
		3,073,226,409	2,982,347,467	1,452,818,335	1,357,289,536	1,377,230,514	1,309,974,602	5,903,275,257	5,649,611,605
Unallocated									
Non Current Assets								61,377,818	23,225,489
Current Assets								82,655,301	88,595,524
Total Assets								6,047,308,377	5,761,432,618
Segment Liabilities									
Non Current Liabilities		391,006,148	354,199,892	223,601,259	200,867,627	524,049,463	462,717,890	1,138,656,869	1,017,785,409
Current Liabilities		91,639,032	90,540,951	52,069,916	50,457,194	105,764,128	112,081,816	249,473,076	253,079,961
Total Liabilities		482,645,180	444,740,843	275,671,175	251,324,821	629,813,591	574,799,706	1,388,129,945	1,270,865,370
Unallocated									
Non Current Liabilities								3,265,717,560	2,296,092,480
Current Liabilities								445,551,406	390,403,257
Total Liabilities								5,099,398,912	3,957,361,107
Capital Expenditure	- Allocated	76,448,588	183,440,014	43,330,660	41,813,358	70,899,269	81,457,105	190,678,517	306,710,476
	- Unallocated							44,683,510	11,483,291
								235,362,027	318,193,767
Depreciation	- Allocated	34,428,585	28,747,560	20,809,946	17,921,334	31,437,417	24,960,639	86,675,578	71,629,533
	- Unallocated							5,936,703	3,198,828
								92,612,381	74,828,361

Notes to the Financial Statements

For the year ended 31st December	2019 Rs.	2018 Rs.
7. OTHER OPERATING INCOME		
Amortization of Capital Grant	5,362,634	5,441,155
Rent Income	37,599,903	33,503,409
Sundry Income	1,448,526	(1,482,334)
Profit From Sale of Trees	22,533,041	1,978,509
Dividend Income	752,500	504,000
	67,696,604	39,944,739
8. NET FINANCE INCOME/ (COST)		
FINANCE INCOME		
Interest income	48,175	68,012
	48,175	68,012
FINANCING COST		
Overdraft Interest	7,448,063	44,489,878
Bank Loans Interest	52,747,673	18,065,281
Term Loan Interest	272,479,281	145,070,142
Interest on Government Lease	11,869,649	10,821,598
Finance Lease	1,324,636	1,319,286
	345,869,302	219,766,185
Net finance Cost	345,821,127	219,698,173
9. PROFIT/(LOSS) BEFORE TAXATION		
Is stated after charging all the expenses including the following:		
Auditors' remuneration - Audit	1,976,500	1,882,000
'- Non Audit	100,000	372,695
Depreciation/ Amortization		
- Leasehold right to Bare Land of JEDB / SLSPC Estates	4,235,836	4,128,519
- Immovable Leased Assets of JEDB/SLSPC Estates	24,812,293	25,821,150
- Tangible Assets	52,765,863	47,670,973
- Mature Plantations	10,798,388	13,049,139
Impairment for Bearer Biological Assets	2,965,338	-
Provision for Impairment of Other Receivables	19,592,525	-
Personnel Cost		
-Salaries and Wages	1,290,586,442	1,406,724,691
-Defined Benefit Plan - Gratuity	147,681,391	126,831,050
-Defined Contribution Plans - EPF/ESPS/CPPS	220,731,780	153,218,343

Notes to the Financial Statements

For the year ended 31st December

	2019 Rs	2018 Rs
10 INCOME TAX EXPENSE		
10.1 Taxes charge in statement of profit/loss		
(i) Current Tax Expense		
Current Tax Expense	-	-
(ii) Deferred Tax		
Relating to Origination and (reversal) of temporary differences (Note 29)	(17,357,685)	175,032,695
Income Tax change/(reversal) ported in Statement of Profit or Loss	(17,357,685)	175,032,695
10.2 Taxes included in other comprehensive income		
Deferred tax relating to items (changes)/credited directly to OCI during the year		
Tax effect on actuarial Losses	(5,406,485)	(7,483,681)
Deferred tax charged to other Comprehensive Income	(5,406,485)	(7,483,681)
10.3 Reconciliation of accounting profit to taxable income		
Accounting Loss before income tax expense	(781,066,220)	(425,166,197)
Less: Non Taxable receipt	(185,796,830)	(159,925,012)
Less: Income from other sources	-	-
Add: Disallowable expenses	306,574,987	219,136,350
Less: Allowable expenses	(242,542,850)	(213,603,918)
Statutory loss from Business	(902,830,913)	(579,558,777)
Income from other sources	-	-
Total statutory/Taxable income	-	-
Income tax expense		
Tax at 14%	-	-

As per the Inland Revenue Act, No 24 of 2017 which is effective from the year of assessment 2018/19, the Company is liable to pay income tax at the rate of 14% for its business income, as the Management of the company has assessed that the company is conducting predominantly an Agricultural business.

10.4 Accumulated Tax losses		
Tax losses brought forward	3,394,604,926	2,815,046,149
Loss for the year	902,830,913	579,558,777
Utilized during the year	-	-
Tax losses carried forward	4,297,435,839	3,394,604,926

11. EARNINGS /(LOSS) PER SHARE

Basic earnings/(loss) per share has been calculated by dividing the profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year and it is calculated as follows:

	2019 Rs	2018 Rs
Loss attributable to shareholders	(763,708,535	(600,198,892)
Weighted average number of ordinary shares in issue	169,501,097	169,501,097
Basic loss per share	(4.51)	(3.54)

11.1 DILUTED EARNING PER SHARE

There were no potential diluted ordinary shares outstanding at any time during the year. Therefore, diluted Earnings Per Share is the same as Basic Earnings Per Share shown above.

Notes to the Financial Statements

As at 31st December

	2019 Rs	2018 Rs
12. RIGHT TO USE OF LAND		
Cost/Revaluation		
Capitalized value	218,811,513	218,811,513
Impact due to initial application of SLFRS – 16	3,755,795	-
Balance as at 31st December	222,567,308	218,811,513
Accumulated depreciation/ impairment		
As at 1 January	109,405,758	105,277,240
Charge for the year	4,235,836	4,128,519
Balance as at 31st December	113,641,594	109,405,759
Carrying value		
As at 31st December	108,925,714	109,405,754

The leasehold rights to the land on all these estates have been taken into the books of the Company as at 22nd June 1992 immediately after formation of the Company. The bare land has been recorded at the value established for each land by valuation specialist.

The Company has applied SLFRS – 16 with a date of initial application of 1 January 2019. As a result the Company has changed its accounting policy for Leases detailed in Note 5.1 of accounting policies in these Financial Statements.

The Government of Sri Lanka has initiated actions under provisions of the Land Acquisition act to acquire land from lands leased to the Company in El-Teb,Mahadowa,Uvakallie and Veralapatana estates located in Badulla region.

The Government of Sri Lanka has already acquired a total land extent of 4.39 hectares (refer Note A below).

(A) List of lands acquired by the Government (Section 38 A issued and lands handed over) as at 31 December 2019

	Region	Estate	Purpose of Acquisition	Extent (Hectares)	Acquired Year
1.	Badulla	El-Teb	Lower Division No 01 Tamil School	0.81	2014
2.	Badulla	Mahadowa	Lower Division No 01 Tamil School	0.44	2014
3.	Badulla	Mahadowa	Hospital Development	0.81	2009
4.	Badulla	Mahadowa	Chengaladi Road Expansion	0.12	2015
5.	Badulla	Uvakellie	Tamil School	0.80	1995
6.	Badulla	Veralapatana	Expansion of Madulsima town	0.81	1999
7.	Badulla	Veralapatana	Police Station & Quarters	0.60	2003
Total				4.39	

No adjustments have been made to the Financial statements in respect of these lands acquired as the compensation receivable on these acquisitions are not known and the Government Valuation is pending as at 31 December 2019. Accordingly, the transactions pertaining to those acquisitions are incomplete as at 31 December 2019.

Notes to the Financial Statements

As at 31st December 2019

13. IMMOVABLE ESTATE ASSETS ON FINANCE LEASE (OTHER THAN BARE LAND)

All immovable assets in the JEDB/SLSPC estates under finance lease have been taken in to the financial statements of 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 book of the JEDB/SLSPC, on the day immediately preceding the date of formation of company. The assets were taken into the Balance Sheet as at 22nd June 1992 and Amortized as follows.

	Mature Plantations Tea Rs.	Unimproved lands Rs.	Buildings Rs.	Plant & Machinery Rs	Water Supply Scheme Rs.	Mini Hydro Scheme Rs.	Total Rs.
Cost							
As at 1 January 2018	146,663,085	4,417,562	29,980,829	394,583,320	3,346,579	9,292,578	588,283,953
As at 1 January 2019	146,663,085	4,417,562	29,980,829	394,583,320	3,346,579	9,292,578	588,283,953
As at 31 December 2019	146,663,085	4,417,562	29,980,829	394,583,320	3,346,579	9,292,578	588,283,953
Accumulated amortisation							
As at 1 January 2018	111,638,061	2,125,433	29,980,829	62,487,515	2,844,589	9,292,578	218,369,005
Disposals/ Transfer out	-	-	-	(4,308,333)	-	-	(4,308,333)
Charge for the year	4,888,768	83,3455	-	20,737,482	111,555	-	25,821,150
As at 31 December 2018	116,526,829	2,208,778	29,980,829	78,916,664	2,956,144	9,292,578	239,881,822
As at 1 January 2019	116,526,829	2,208,778	29,980,829	78,916,664	2,956,144	9,292,578	239,881,822
Charge for the year	4,888,769	83,405	-	19,729,166	110,953	-	24,812,293
As at 31 December 2019	121,415,598	2,292,183	29,980,829	98,645,830	3,067,097	9,292,578	264,694,115
Net carrying value							
As at 31 December 2018	30,136,256	2,208,784	-	315,666,656	390,435	-	348,402,132
As at 31 December 2019	25,247,487	2,125,379	-	295,937,490	279,482	-	323,589,838

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

As at 31st December

14. FREEHOLD PROPERTY, PLANT & EQUIPMENTS

AT COCT	As at 01.01.2019 Rs.	Additions/ Transfer in Rs.	Disposals/ Transfer out Rs.	As at 31.12.2019 Rs.
Improvements to Buildings	260,005,263	12,788,956	-	272,794,219
Land Improvements	55,368,872	-	-	55,368,872
Water Projects & Sanitation	25,698,539	-	-	25,698,539
Equipment	58,895,735	4,613,117	(102,400)	63,406,452
Computer	12,877,649	299,750	(2,327,715)	10,849,684
Furniture & Fittings	5,199,876	256,040	-	5,455,916
	418,045,934	17,957,863	(2,430,115)	433,573,682
AT VALUATION				
Plant & Machinery	460,440,054	142,126,537	-	602,566,592
Motor Vehicles	130,709,349	41,515,026	-	172,224,377
	591,149,403	183,641,563	-	774,790,969
Total Cost/Revaluation	1,009,195,337	201,599,426	(2,430,115)	1,208,364,651
ACCUMULATED DEPRECIATION				
Improvements to Buildings	80,141,583	6,377,517	-	86,519,100
Land Improvements	12,723,449	1,490,207	-	14,213,656
Water Projects & Sanitation	22,290,443	403,874	-	22,694,317
Equipment	30,498,755	4,012,336	(102,400)	34,408,691
Computer	10,023,463	1,465,999	(2,327,715)	9,161,747
Furniture & Fittings	4,738,082	57,778	-	4,795,860
	160,415,775	13,807,711	(2,430,115)	171,793,371
Plant & Machinery	66,976,207	26,318,088	-	93,294,295
Motor Vehicles	92,920,878	12,640,064	-	105,560,942
	159,897,085	38,958,152	-	198,855,237
Total Accumulated Depreciation	320,312,860	52,765,863	(2,430,115)	370,648,608

	As at 01.01.2019 Rs.	Additions/ Transfer in Rs.	Disposals/ Transfer out Rs.	As at 31.12.2019 Rs.
Capital Work-in-Progress	92,468,876	109,632,433	(161,786,547)	40,314,762
TOTAL WRITTEN DOWN VALUE	781,351,353			878,030,805

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) Charted Valuation Surveyor, Membership No F/141 as at 31 December 2014 and updated as of 31 December 2019 by taking in to consideration of the market and physical condition of such assets. As at 31st December 2019, there is no significant variance between the written down value and the fair value of plant & machinery and motor vehicles.

Carrying value of Plant and Machinery at valuation had the assets been carried under the cost model at (2019 :Rs 336.4Mn) (2018 :Rs.212Mn.)

Carrying value of Motor Vehicle at valuation had the assets been carried under the cost model at (2019: Rs.58.1Mn) (2018: Rs 31.1 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.146.3Mn (2018: Rs.29.52 Mn)

Notes to the Financial Statements

As at 31st December 2019

14. FREEHOLD PROPERTY, PLANT & EQUIPMENTS (Contd...)

14.1 Fair Value Hierarchy

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 - 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	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Assets measured at fair value						
Plant and Machinery	-	-	-	-	509,272,298	393,463,849
Motor Vehicle	-	-	-	-	66,663,435	37,788,473

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

Non Financial Asset	Type of Asset	Fair Value as at 31st December 2019	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	509,272,298	Current Replacement Cost : Amount that would be required currently to replace the service capacity of an asset.	Estimated Replacement cost adjusted for wear and tear	Based on number of years usage	Negatively correlated Senesitivity
Motor Vehicle	Motor Vehicle	66,663,435	Current Replacement Cost: Amount that would be required currently to replace the service capacity of an asset.	Estimated Replacement cost adjusted for wear and tear	Based on number of years usage	Negatively correlated Senesitivity

Notes to the Financial Statements

As at 31st December

15. BEARER BIOLOGICAL ASSETS

15.1 MATURE PLANTATIONS

Cost	As at 01.01.2019 Rs.	Additions/ Transfers in Rs.	Disposals/ Transfers out Rs.	As at 31.12.2019 Rs.
- Tea	433,200,553	1,051,439	-	434,251,992
- Rubber	1,727,490	-	-	1,727,490
- Coffee	2,869,329	-	-	2,869,329
- Citrus	3,389,844	-	(3,389,844)	-
	441,187,216	1,051,439	(3,389,844)	438,848,811

Depreciation	As at 01.01.2019 Rs.	Charge for the Year Rs.	Disposals/ Transfers out Rs.	As at 31.12.2019 Rs.
- Tea	185,498,317	10,384,099	-	195,882,416
- Rubber	1,072,483	50,385	-	1,122,868
- Coffee	2,657,074	198,537	-	2,855,611
- Citrus	1,310,578	165,367	(1,475,945)	-
	190,538,452	10,798,388	(1,475,945)	199,860,895
Written Down Value	250,648,764			238,987,916

15.2 IMMATURE PLANTATIONS

Cost	As at 01.01.2019 Rs.	Additions/ Transfers in Rs.	Disposals/ Transfers out Rs.	As at 31.12.2019 Rs.
- Tea	275,500,371	67,622,160	(1,051,439)	342,071,092
- Rubber	117,189,343	11,695,322	-	128,884,665
- Coffee	1,861,223	17,608	-	1,878,831
- Cloves	181,052	-	-	181,052
- Citrus	80,512	-	-	80,512
- Avocado	2,554,135	-	-	2,554,135
- Pepper	1,176,335	208,453	-	1,384,788
- Murunga	635,339	-	-	635,339
- Cinnamon	7,611,734	1,296,368	-	8,908,102
	406,790,042	80,839,912	(1,051,439)	486,578,516
WRITTEN DOWN VALUE	657,438,806			725,566,431

Investments in bearer plants since the formation of the Company have been classified as shown above and mainly includes tea and rubber plantations. Bearer plants are stated at cost less accumulated depreciation and impairment in accordance with LKAS 16 – "Property, plant and equipment".

The immature plants are classified as mature plants when they are ready for commercial harvesting.

16 CONSUMABLE BIOLOGICAL ASSETS

	2019 Rs.	2018 Rs.
Balance at the Beginning of the year	3,395,883,775	3,234,577,309
Increase due to New Planting	4,025,364	4,277,665
Decreased due to Harvesting	(26,197,231)	(2,944,811)
Gain on Change in Fair Value	182,438,926	159,973,612
Balance at the End of the year	3,556,150,834	3,395,883,775

The valuation of consumable biological assets was carried by Mr Weerasinghe Chadrasena, an independent Incorporated Valuation Surveyor, using Discounted Cash Flows (DCF) methods. The Valuation Report dated 31 December 2019 has been prepared based on the physically verified timber statistics provided by the Company.

The future cash flows are determined by reference to current timber prices.

Notes to the Financial Statements

As at 31st December 2019

16.1 Fair Value Hierarchy

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 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 2019	-	-	3,556,150,834

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 within the range of values.

The biological assets of the Company are mainly cultivated in leased lands. When measuring the fair value of the biological assets, it was assumed that these concessions can and will be renewed at normal circumstances. Timber content expects to be realised in future and is included in the calculation of the fair value that takes into account the age of the timber plants and not the expiration date of the lease.

The Company is exposed to the following risks relating to its timber plantations.

Regulatory and environmental risks

The Company is subject to laws and regulations in Sri Lanka. The Company has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

Supply and demand risk

The Company is exposed to risks arising from fluctuations in the price and sales volume of timber. When possible the Company manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analysis to ensure that the Company's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

Climate and other risks

The Company's timber plantations are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Company has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys. The Company also insures itself against natural disasters such as floods, land slides and hurricanes.

Notes to the Financial Statements

As at 31st December 2019

16.2 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
	The valuation model considers present value of future net cash flows expected to be generated by the plantation from the timber content of managed timber plantation on a tree-per-tree basis.	Optimum rotation (Maturity)	25-35 Years	Lower the rotation period, the higher the fair value.
	The expected net cash flow are discounted using a risk adjusted discount rate.	Volume at rotation	25 to 85 lbs 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

As at 31st December 2019

16. CONSUMABLE BIOLOGICAL ASSETS - TIMBER PLANTATIONS (CONTD.)

16.3 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, 2019	(376,028,798)	376,028,798
As at 31st December, 2018	(339,588,378)	339,588,378

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, 2019	132,383,363	(119,522,754)
As at 31st December, 2018	153,616,610	(138,026,874)

17. INVESTMENT IN EQUITY SECURITIES - FVOCI	2019 Rs.	2018 Rs.
Investment in unquoted companies		
Investment in Bogo Power (Pvt) Ltd (3,500,000 Ordinary shares)	4,415,530	4,155,598
(Less) / add : Fair Value Change	(240,829)	259,932
As at 31st December	4,174,701	4,415,530

18. PRODUCE ON BEARER BIOLOGICAL ASSETS		
As at 1st January	4,058,080	4,106,680
Change in fair value less cost to sell	(2,004,729)	(48,600)
As at 31st December	2,053,351	4,058,080

The volume of produce growing on bearer plants are measured using the estimated crop of the last harvesting cycle of the year as follows:

Tea – Three days crop (50% of 6 days cycle)

Produce that grows on mature bearer plantations are measured at fair value less cost to sell. The value of the unharvested green leaves is measured using the Tea Commissioner’s formula for bought leaf.

18.1 Gain /(Loss) On Fair Value Of Biological Assets	2019 Rs.	2018 Rs.
Consumable Biological Assets Gain arising from changes in fair value less cost to sell (Note No 16)	182,438,926	159,973,612
Produce on Bearer Bearer Biological Assets Loss arising from changes in fair value less cost to sell (Note No 18)	(2,004,729)	(48,600)
Total Gain On Fair Value Of Biological Assets	180,434,197	159,925,012

19. INVENTORIES		
Input Materials	24,026,381	36,847,601
Biological Assets – Nurseries	7,806,811	5,128,828
Produce Stock (Tea)	217,278,952	262,711,073
Consumables & Spares	4,445,053	1,310,499
As at 31st December	253,557,197	305,998,001

Notes to the Financial Statements

As at 31st December

20. TRADE AND OTHER RECEIVABLES

	2019 Rs.	2018 Rs.
Trade Receivables		
Produce Debtors	34,379,909	-
	34,379,909	-
Other Receivables		
Employee Related Debtors	47,432,394	50,924,529
Value Added Tax Receivable	10,850,996	10,850,996
With Holding Tax Receivable	5,573,629	5,245,182
Income Tax Recoverable	6,517,024	6,517,024
ESC Receivable	27,164,615	19,839,899
Deposits and Prepayments	5,076,659	17,639,356
ACT Recoverable	41,034,639	41,034,639
Other Debtors	31,494,136	32,406,074
	175,144,092	184,457,699
Less: Provision for Doubtful Debts	(63,976,287)	(44,383,762)
	111,167,805	140,073,938
As at 31st December	145,547,714	140,073,938

20.1 Provision for impairment of Other receivables

	2019 Rs.	2018 Rs.
Balance at the Beginning of the year	44,383,762	44,383,762
Provision made during the year	19,592,525	-
Balance as at 31st December	63,976,287	44,383,762

21. AMOUNTS DUE FROM RELATED PARTIES

	Relationship	2019 Rs.	2018 Rs.
Melstacorp PLC	Parent Company	183,729	-
Balangoda Plantations PLC	Affiliate Company	-	1,075,588
Bogo Power (Pvt) Limited	Affiliate Company	1,974,242	-
Continental Insurance PLC	Affiliate Company	20,657	-
As at 31st December		2,178,628	1,075,588

22. CASH AND CASH EQUIVALENTS

	2019 Rs.	2018 Rs.
22.1 Favourable balance		
Cash at Bank and in Hand	47,533,164	13,329,661
	47,533,164	13,329,661
22.2 Unfavorable balance		
Bank Overdraft	(27,931,815)	(79,757,853)
	(27,931,815)	(79,757,853)
Cash and cash equivalents in the statement of cash flows	19,601,349	(66,428,192)

23. STATED CAPITAL

	2019 Rs.	2018 Rs.
Issued and fully paid number of shares		
Ordinary Shares Including one Golden Share held by the Treasury which has Special right	169,501,097	169,501,097
	169,501,097	169,501,097
Value of issued and fully paid shares		
Ordinary Shares Including one Golden Share held by the Treasury which has Special right	1,624,760,670	1,624,760,670
	1,624,760,670	1,624,760,670

Rights, preferences and restrictions of classes of capital

The holders of ordinary share are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Notes to the Financial Statements

As at 31st December

	2019 Rs	2018 Rs
24 REVALUATION RESERVE (NET OF TAX)		
The revaluation reserve relates to motor vehicles, plant & machinery which has been revalued by the Company.		
Balance at the beginning of year	637,257,983	659,257,983
Transferred to retained earning		(22,000,000)
Balance at the end of year	637,257,983	637,257,983
25 FAIR VALUE TROUGH OCI RESERVE		
This represents the cumulative net change in the fair value of equity securities designated as FVOCI until the investments are derecognised.		
Balance at the beginning of year	3,199,447	2,939,515
Changes in fair value	(240,829)	259,932
Balance at the end of year	2,958,618	3,199,447
26 TIMBER RESERVE		
The timber reserve relates to valuation of consumable biological assets.		
Balance at the beginning of year	3,220,459,208	3,063,430,407
Transferred to timber reserve	182,438,926	159,973,612
Transferred to retained earning	(26,197,231)	(2,944,811)
Balance at the end of year	3,376,700,903	3,220,459,208

27. INTEREST BEARING LOANS AND BORROWINGS

27.1 Movement of borrowings during the year:

	Term Loans	Bank Loans	Related Party Loans	Finance Lease	2019 Rs. Total	2018 Rs. Total
Balance at the Beginning of the year	98,925,682	380,000,000	1,631,043,301	5,347,032	2,115,316,015	830,251,907
Obtained during the year	21,133,200	-	2,490,355,223	16,900,000	2,528,388,423	1,475,751,196
Repaid during the year	(59,053,678)	(80,000,000)	(1,248,371,594)	(6,061,438)	(1,393,486,710)	(190,687,091)
Balance as at 31st December	61,005,204	300,000,000	2,873,026,930	16,185,594	3,250,217,728	2,115,316,012

27.2 Analysis of borrowings by year of repayment

	2019	2018
Repayable within one year		
Term Loans	61,005,204	56,940,349
Bank Loans	80,000,000	80,000,000
Related Party Loans	195,212,412	56,296,184
Finance Lease	1,441,093	5,347,029
	337,658,709	198,583,562
Repayable after one year		
Term Loans	-	41,985,333
Bank Loans	220,000,000	300,000,000
Related Party Loans	2,677,814,519	1,574,747,117
Finance Lease	14,744,501	-
	2,912,559,020	1,916,732,450
Total borrowings	3,250,217,729	2,115,316,012

Notes to the Financial Statements

27. INTEREST BEARING LOANS AND BORROWINGS (CONTD)

As at 31st December 2019

	Original amount % p.a.	Interest rate one year	Outstanding liability 2019/2020 Repayable within one year	Repayable after 2019	Balance as at 31 December	Repayment terms
23.3 Term Loans						
Sri lanka Tea Board Loan through HNB	153,000,000	AWPLR + 1.5 % (Monthly Review)	30,721,601	-	30,721,601	59 equal monthly installment of Rs 2,559,900/= each and a final instalment of Rs . 2,562,701 commencing from 31.01.2016
Sri lanka Tea Board Loan	28,000,000	AWPLR+ 1% (Monthly Review)	5,444,445	-	5,444,445	36 equal monthly installment of Rs 777,777/= Commencing from 31.08.2017
Sri lanka Tea Board Loan	49,000,000	5% P.A Payable monthly	5,819,278	-	5,819,278	36 equal monthly installment of Rs 1,470,005/= Commencing from 31.05.2017
Hattion National Bank PLC -Tea Board -Deepavali	21,133,200	Interest free Loan	19,019,880	-	19,019,880	10 equal monthly installment of Rs 2,113,320/= Commencing from 10.12.2019
			61,005,204	-	61,005,204	
Related Party Loans						
Melstacorp PLC (Rs 200 Mn)	200,000,000	AWPLR+ 1.25% (Monthly Review)	-	200,000,000	200,000,000	Capital to be repaid after a moratorium of 03 years and interest payable monthly
Melstacorp PLC (Rs 50 Mn)	50,000,000	AWPLR+ 1.25% (Monthly Review)	-	50,000,000	50,000,000	Capital to be repaid after a moratorium of 03 years and interest payable monthly
Melstacorp PLC -Short Term Management Loan	-	AWPLR+ 1.25% (Monthly Review)	166,977,070	2,227,814,519	2,394,791,588	Capital has been granted for the purpose of refinancing the weekly deficit of auction proceeds on the basis of immediate payment on demand
Milford Exports ceylon Pvt Ltd (Rs.200 Mn)	200,000,000	AWPLR+ 1% (Monthly Review)	28,235,342	200,000,000	228,235,342	Capital to be repaid after a moratorium of 03 years and interest payable monthly
			195,212,412	2,677,814,519	2,873,026,931	
Bank Loans						
Hatton National Bank	400,000,000	AWPLR+ 1.5% (Monthly Review)	80,000,000	220,000,000	300,000,000	20 equal quarterly installments of Rs 20.0Mn Commencing from 30.11.2018
			80,000,000	220,000,000	300,000,000	
Finance Lease						
Com Bank Leasing & Finance	16,900,000	AWPLR+ 1.5% (Monthly Review)	1,441,093	14,744,501	16,185,594	96 equal monthly installments of Rs 285,577.16 Commencing from 30.06.2019
			1,441,093	14,744,501	16,185,594	

Notes to the Financial Statements

As at 31st December 2019

27.4.BANK SECURITIES PLEDGED

Following assets have been pledged as security for liabilities.

Nature of Liability	Loan Facility Rs. Millions	Outstanding Rs. Millions	Security
Term Loan			
Hatton National Bank PLC	400	300	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, modification or alterations thereto) with all fixtures, fitting services and such other rights attached or appertaining thereto.
Bank overdraft			
Hatton National Bank PLC	63	-	d) Existing Corporate guarantee from DCSL for Rs.160 Mn.
Standard Chartered Bank PLC	50	28	e) Corporate Guarantee (Shares of DCSL For Rs 50 Mn)

Notes to the Financial Statements

As at 31st December	2019 Rs.	2018 Rs.
28. RETIREMENT BENEFIT OBLIGATIONS		
Retirement Benefit Obligations	919,415,149	851,351,100
Unclaimed Retiring Gratuity	65,718,983	73,597,424
Total Retirement Benefit Obligations	985,134,132	924,948,525
28.1 The movement in the retirement benefit obligation over the year is as follows:		
Balance at the beginning of the year	851,351,100	782,060,325
Interest cost	101,958,645	85,840,103
Current Service Cost	45,722,746	40,990,947
Actuarial Loss	38,617,751	53,454,861
Less: Payments made during the year	(118,235,093)	(110,995,136)
	919,415,149	851,351,100
Unclaimed Retiring Gratuity		
Balance at the beginning of the year	73,597,424	75,618,105
Less: Payments made during the year	(7,878,441)	(2,020,681)
Total Unclaimed Retiring Gratuity	65,718,983	73,597,424
Balance at the end of the year	985,134,132	924,948,525
28.1.1 Provision recognized in the statement of Profit or Loss		
Current service cost	45,722,746	40,990,947
Interest on obligation	101,958,645	85,840,103
	147,681,391	126,831,050
28.1.2 Provision recognized in the statement of other comprehensive income		
Actuarial loss during the year	38,617,751	53,454,861
	38,617,751	53,454,861

According to the actuarial valuation report issued by the actuarial valuer as at 31 December 2019 the actuarial present value of promised retirement benefits including unclaimed amounted to Rs. 985,134,133/-. If the company had provided for gratuity on the basis of 14 days wages & half months salary for each completed year of service, the liability would have been Rs 1,326,058,220/-. Hence, there is a contingent liability of Rs. 408,338,820/=-, 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.

Notes to the Financial Statements

As at 31st December 2019

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.

	2019 Rs	2018 Rs
Within the next 12 months	113,295,001	205,916,167
Between 1- 2 years	130,773,592	111,592,980
Between 2 and 5 years	178,821,698	169,558,474
Beyond 5 years	562,243,841	437,880,904
	985,134,132	924,948,525

The weighted average duration of the Defined Benefit plan obligation at the end of the reporting period is 5.01 years and 8.41 years for staff and workers respectively.

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

	2019	2018
(i) Rate of Interest	11% Pa	12% Pa
(ii) Rate of Salary Increase		
Staff	7.5% Pa	7.5% Pa
Workers	15% (Once in 2 Years)	15% (Once in 2 Years)
(iii) Staff Turnover	10%	10%
(iv) Retirement Age		
Workers	60 years	60 years
Staff	58 or 60 years	58 or 60 years
(v) Daily Wage Rate	700/=	700/=

28.2 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 impairment obligation show that a rise or decrease by 1% of the discount rate and salary/wage has the following effect on the the retirement benefit obligation.

Variable

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

	2019		2018	
Discount Rate	Increase	Decrease	Increase	Decrease
Sensitivity level	1%	1%	1%	1%
Impact on defined benefit obligation Rs.	(64,094,945)	73,250,490	(55,916,073)	63,628,447

	2019		2018	
	Increase	Decrease	Increase	Decrease
Future Salary Increment rate	1%	1%	1%	1%
Impact on defined benefit Obligation Rs.	38,148,311	(36,083,793)	29,516,709	(27,997,921)

Notes to the Financial Statements

As at 31st December	2019 Rs.	2018 Rs.
29. DEFERRED TAX		
Deferred tax assets (Note 29.1)	(458,062,234)	(384,232,229)
Deferred tax liabilities (Note 29.2)	736,314,868	682,179,793
Net Deferred tax liability	278,252,634	297,947,565
29.1 Deferred tax assets		
Balance at the Beginning of the year	384,232,229	520,395,168
Originated/(reversed) during the year - recognized in profit or loss	68,423,520	(143,646,620)
Originated during the year recognized in other comprehensive income	5,406,485	7,483,681
Balance as at 31st December	458,062,234	384,232,229
29.2 Deferred tax liabilities		
Balance at the Beginning of the year	682,179,793	650,793,718
Originated during the year - recognized in profit or loss	51,065,836	31,386,075
Originated during the year recognized in equity	3,069,239	-
Balance as at 31st December	736,314,868	682,179,793

29.3 Deferred Taxation Reconciliation

Deferred tax assets and liabilities are measured based on the tax rates that have been enacted or substantially enacted by the end of the reporting period. In accordance with the Inland Revenue Act No. 24 of 2017 effective from 1 April 2018, the Company has used effective rate of 14% as at 31 December 2019 (2018 – 14%).

	2019		2018	
	Temporary Differences Rs	Tax Effect Rs	Temporary Differences Rs	Tax Effect Rs
Deferred Tax Liability				
Temporary difference on PPE	957,507,413	134,051,038	815,332,149	114,146,501
Temporary difference on Bearer Biological Assets	725,566,431	101,579,300	657,438,806	92,041,433
Temporary difference on Produce on Bearer Biological Assets	2,053,351	287,469	4,058,080	568,131
Temporary difference on Consumable Biological Assets	3,556,150,834	497,861,117	3,395,883,775	475,423,728
Temporary difference on Net Lease Liability	18,113,882	2,535,943	-	-
As at 31st December	5,259,391,911	736,314,868	4,872,712,810	682,179,793
Deferred Tax Assets				
Temporary difference on Provision for Doubtful Debt	(63,976,289)	(8,956,680)	(44,383,762.00)	(6,213,727)
Temporary difference on retirement benefit obligation	(985,134,133)	(137,918,779)	(924,948,525)	(129,492,794)
Carried forward tax losses	(2,222,762,679)	(311,186,775)	(1,775,183,631)	(248,525,708)
As at 31st December	(3,271,873,101)	(458,062,234)	(2,744,515,918)	(384,232,229)
As at 31st December	1,987,518,810	278,252,634	2,128,196,892	297,947,565

The company has recognized deferred tax assets to the extent of the deferred tax liability accruing to the company. Accordingly a deferred tax asset of Rs. 311,186,775/- has been recognized on carried forward tax loss of Rs. 2,222,762,679/- as at 31st December 2019. The company has not recognized deferred tax asset amounting to Rs. 290,454,243/- arising on carried forward tax losses amounting to Rs. 2,074,673,161/- as it is not probable that the future taxable profits will be adequate to utilize the available tax losses in the foreseeable future. (2018: Unrecognized deferred tax- Rs. 226,718,981/- on Rs. 1,619,421,295/- carried forward tax losses.)

Notes to the Financial Statements

As at 31st December

	2019 Rs.	2018 Rs.
30. DEFERRED GRANTS AND SUBSIDIES		
Balance at the beginning of the year	143,390,922	148,545,751
Add: Grants Received during the year	44,457	286,325
	143,435,379	148,832,076
Less: Amortization for the year	(5,362,634)	(5,441,154)
Balance at the end of the year	138,072,745	143,390,922
31. NET LIABILITY TO LESSOR OF JEDB/SLSPC ESTATES		
Lease Liability		
At the beginning of the year	31,550,440	53,678,788
Impact due to initial application of SLFRS 16	59,687,972	-
	91,238,412	53,678,788
Finance Charges allocated for future periods	-	(21,263,573)
Interest charges for the year	11,869,649	10,821,598
Less: Lease payments made during the year	(12,296,229)	(11,686,373)
Net lease liability	90,811,832	31,550,440
31.1 Leasehold rights can be analyzed as follows		
Repayable after 5 years		
Gross liability	249,262,634	41,954,790
Less: finance charges allocated for future periods	(161,611,288)	(14,152,515)
Net Liability	87,651,346	27,802,275
Repayable within 2 to 5 years		
Gross liability	47,478,597	7,816,000
Less: finance charges allocated for future periods	(44,774,044)	(4,759,847)
Net Liability	2,704,553	3,056,153
Net lease obligations payable after one year	90,355,899	30,858,427
Repayable within 1 year		
Gross liability	11,869,649	1,954,000
Less: finance charges allocated for future periods	(11,413,716)	(1,261,987)
Net lease obligations payable within one year	455,933	692,013
Amounts recognized in statement of profit or loss and other comprehensive income		
Interest on lease liability	11,869,649	10,821,598
Expenses relating to short-term leases	-	-
Expenses relating to leases of low-value assets, excluding short term leases of low value assets	-	-
Amount recognized in statement of cash flows		
Total cash outflows for leases	12,296,229	11,686,373
Maturity analysis of contractual undiscounted cash flows		
Within One Year	11,912,064	11,912,064
1-2 years	11,912,064	11,912,064
2-5 years	35,736,192	35,736,192
More than 5 years	241,219,296	253,131,360

The Company has applied SLFRS – 16 with a date of initial application of 1 January 2019. As a result the Company has changed its accounting policy for Leases as detailed in Note 5.1 of Accounting Policies detailed in these Financial Statements.

Notes to the Financial Statements

As at 31st December		2019 Rs.	2018 Rs.
32. TRADE AND OTHER PAYABLES			
Trade Creditors		63,545,025	86,831,022
Others Creditors		11,726,802	52,967,687
Employee Related Creditors		178,525,630	156,517,337
ESC Payable		2,604,414	5,006,495
Accrued Expenses		14,990,263	8,650,068
Balance as at 31st December		271,392,134	309,972,609
33. AMOUNTS DUE TO RELATED PARTIES	**Relationship**		
Stassen Exports Limited	Affiliate Co.	551,688	450,000
Balangoda Plantations PLC	Affiliate Co.	5,5516,875	8,918,884
Distilleries Company of Sri Lanka Limited	Affiliate Co.	45,038,357	44,243,114
Melsta Logistics (Pvt) Ltd.	Affiliate Co.	3,434,720	-
Bellventage Pvt Ltd	Affiliate Co.	2,816,326	-
Bogo Power (Pvt) Limited	Affiliate Co.	-	431,183
Melsta Technologies Pvt Ltd.	Affiliate Co.	227,925	434,000
Balance as at 31st December		57,585,891	54,477,181
34. CAPITAL COMMITMENTS			
Capital Commitments as at the reported date Budgeted, but not provided for		104,257,000	110,200,000
Total		104,257,000	110,200,000

35. CONTINGENCIES

There are no significant contingent liabilities, which require adjustments to or disclosures in the Financial Statements.

36. COMPARATIVE INFORMATION

To facilitate comparison, relevant balances pertaining to the previous year have been re-classified to conform to current year's classification as follows:

36.1 The Related Party loan amounting to Rs. 1,381,043,301/- has been reclassified from Amount Due to Related Parties to Interest Bearing Borrowings as shown below;

	As previously reported	Adjustments	As Reclassified
Interest Bearing Borrowings	734,272,711	1,381,043,301	2,115,316,012
Amounts due to Related Parties	1,435,520,482	(1,381,043,301)	54,477,181

36.2 The interest income amounting to Rs. 68,012/- has been reclassified from other income to net finance costs as shown below.

	As previously reported	Adjustments	As Reclassified
Other income	40,012,751	(68,012)	39,944,739
Net finance costs	219,766,185	(68,012)	219,698,173

Notes to the Financial Statements

As at 31st December 2019

37. RELATED PARTY DISCLOSURES

The details of the significant related party disclosures are as follows.

37.1 Transactions with the Parent and Related entities.

Company	Relationship	Nature of Transaction	Transaction Amount		Balance as at 31 December	
			2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Melstacorp PLC	Parent Company	Loan & Interest	2,465,854,238	1,075,751,196	2,394,607,859	1,153,950,863
		Settlements	1,225,013,512	77,342,043		
		Reimbursement of expenses	183,729	-		
Other Related Parties						
Stassen Exports (Pvt) Ltd	Related Company	Sharing of office expenditure	2,280,000	2,280,000	551,688	450,000
		Reimbursement of expenses	18,312	1,562,000		
		Payments	2,160,000	1,620,550		
Balangoda Plantations PLC	Related Company	Fertilizer supplied	144,000	1,116,503	5,516,875	8,918,884
		Reimbursement of expenses	2,342,746	3,009,286		
		Fertilizer Received	160,325	-		
Distilleries Company of Sri Lanka PLC	Related Company	Factory Machinery Purchase	795,242	9,900,000	45,038,357	44,243,114
		Vehicle expenses	-	2,527,011		
		Settlements	-	11,420,836		
Bogo Power (Pvt) Ltd	Related Company	Maintenance expenditure	3,606,277	2,679,180	1,974,242	431,183
		Rent & Dividend Income	24,106,313	23,965,049		
		Receipts	25,738,349	2,866,838		
Melsta Logistics (Pvt) Ltd	Related Company	Vehicle expenses	6,777,065	7,387,121	3,434,720	-
		Payments	3,342,346	7,494,963		
Milford Exports Ceylon (Pvt) Ltd	Related Company	Loan Interest	24,500,986	25,194,027	228,235,342	227,092,438
		Loan Interest Paid	23,358,082	22,926,712		
Melsta Technologies (Pvt) Ltd	Related Company	IT Services	586,200	434,000	227,925	434,000
		Payments	792,275	-		
Continental Insurance PLC	Related Company	Refunds-Debit Notes	68,740	-	20,657	-
		Credit Notes	48,083	-		

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

37.2 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.

37.3 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 2019 audited Financial Statements.

374 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 2019 audited Financial Statements.Details of related party disclosures are as follows,

Notes to the Financial Statements

As at 31st December 2019

37. RELATED PARTY DISCLOSURES (Contd…)

Company	Relationship	Nature of transaction	Amount (Credited)/Debited	
			2019 Rs.	2018 Rs.
Melstacorp PLC	Parent Company	Loans & Interest	2,465,854,238	1,075,751,196
		Revenue as per latest audited financial statements	2,006,977,497	2,144,945,407
		Percentage on revenue	123%	50%

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

37.5 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.

	2019 Rs.	2018 Rs.
Short term employment Benefits	6,898,219	5,597,796

37.6 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

38. RELATED PARTY TRANSACTIONS

There are no related party transactions other than those disclosed in Notes 21, 33 & 37 to the Financial Statements.

39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash flows), requires an entity to disclose information that enables users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Accordingly, changes in liabilities arising from financing activities for the year ended 31st December 2019 are disclosed below.

The funds borrowed by the Company are given in Note 27.

	2019 Rs.	2018 Rs.
Balance as at 01 January 2019	2,115,316,015	830,251,907
Net Cash flows from Financing Activities	1,134,901,713	1,285,064,108
Non Cash Changes	-	-
Balance as at 31 December 2019	3,250,217,728	2,115,316,015

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

40.1 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 payable. The main purpose of these financial liabilities is to finance the company 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.

Notes to the Financial Statements

As at 31st December 2019

40.2 Credit Risk

This is the risk of financial loss to the company if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arise principally from the company's receivable from customers.

Risk exposure

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

As at 31 December	2019 Rs.	2018 Rs.
Trade receivables	34,379,909	-
Other receivables	111,167,805	140,073,937
Amounts due from related companies	2,178,628	1,075,588
	147,726,342	141,149,525

Impairment losses on financial assets and contract assets recognized in profit or loss were as follows.

	2019 Rs.	2018 Rs.
Impairment loss on other receivables	19,592,525	-
	19,592,525	-

The movement in the allowance for impairment in respect of other receivables during the year is as follows;

	2019 Rs.	2018 Rs.
As at 1 January	44,383,762	44,383,762
Impairment loss recognised during the year	19,592,525	-
As at 31 December	63,976,287	44,383,762

40.2.1 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.

40.2.2 Cash and Cash Equivalents

The Company held cash and Cash Equivalents of Rs.47.5 Mn as at 31st December 2019 (2018 – Rs. 13.3 Mn) which represents its maximum credit exposure on these assets.

Notes to the Financial Statements

As at 31st December 2019

40.3 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.

As at 31st December 2019	Carrying Amount Rs.	Contractual Cash flowa Rs.	On Demand 3 Months Rs.	Less than Months Rs.	3 to 12 years Rs.	2 to 5 years Rs.	> 5 Rs.
Interest bearing loans & borrowing	3,250,217,728	3,250,217,728	-	35,611,574	302,047,135	2,912,559,019	-
Trade & other payable	271,392,134	271,392,134	271,392,134	-	-	-	-
Amount due to related companies	57,585,891	57,585,891	-	-	57,585,891	-	-
Bank Overdraft	27,931,815	27,931,815	27,931,815	-	-	-	-
Lease Liability to – SLSPC and JEDB	90,811,832	300,779,616	-	2,978,016	8,934,048	35,736,192	253,131,360
	3,697,939,400	3,907,907,184	299,323,949	38,589,590	368,567,074	2,948,295,211	253,131,360
As at 31st December 2018							
Interest bearing loans & borrowing	2,115,316,012	2,115,316,012	-	49,057,404	181,054,523	1,885,204,085	-
Trade & other payable	309,972,609	309,972,609	309,972,609	-	-	-	-
Amount due to related companies	54,477,181	54,477,181	-	-	54,477,181	-	-
Bank Overdraft	79,757,853	79,757,853	79,757,853	-	-	-	-
Lease Liability to – SLSPC and JEDB	31,550,440	312,691,680	-	2,978,016	8,934,048	35,736,192	265,043,424
	2,591,074,095	2,872,215,335	389,730,462	52,035,420	244,465,752	1,920,940,277	265,043,424

40.4 Market Risk

Market risk is the risk that changes in market prices,such as foreign exchange rate, interest rates will affect the company's income or the value of its holding of financial instruments.The objective of the market risk management is to manage and control market exposures within acceptable parameters while optimising the returns.

40.4.1 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. 3.2 Bn (2018 - Rs. 2.1 Bn) which represents its maximum credit exposure on these liabilities.

The following table demonstrates the sensitivity to a reasonably possible change in interest 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.

Company	Increase/ decrease in Interest rate %	Effect on Profit Before Tax Rs.
2019	1%	(28,557,599)
	-1%	28,557,599
2018	1%	(7,062,182)
	1%	7,062,182

40.4.2 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 31.12.2019 Rs.	As at 31.12.2018 Rs.
Total Liabilities	5,099,398,912	3,957,361,107
Less:cash and cash equivalents	(47,533,164)	(13,329,661)
Net Debt	5,015,865,748	3,944,031,446
Total Equity	947,909,464	1,804,071,511
Gearing Ratio	5.33	2.19

Notes to the Financial Statements

As at 31st December 2019

41. Fair values of financial instruments

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1 : Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2 : Valuation techniques based on observable inputs, either directly – i.e. as prices or indirectly – i.e. derived from prices. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 : Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

As at 31 December 2019	Fair value through profit or loss	Amortized cost	Fair value through other comprehensive income	Total carrying amount	Level 1	Level 2	Level 3	Total Fair value
Financial assets measured at fair value								
Investment in Equity Securities- FVOCI	-	-	4,174,701	4,174,701	-	-	4,174,701	4,174,701
Financial assets not measured at fair value								
Trade and other receivables	-	145,547,714	-	145,547,714	-	-	-	-
Amounts due from related party	-	2,178,628	-	2,178,628	-	-	-	-
Cash at banks and in hand	-	47,533,164	-	47,533,164	-	-	-	-
Total financial assets	-	195,259,506	4,174,701	199,434,207	-	-	4,174,701	4,174,701
Financial liabilities not measured at fair value								
Interest bearing borrowings	-	3,250,217,729	-	3,250,217,729	-	-	-	-
Trade and other payable	-	271,392,134	-	271,392,134	-	-	-	-
Amount due to related parties	-	57,585,891	-	57,585,891	-	-	-	-
Lease liability to SLSPC and JEDB	-	90,811,832	-	90,811,832	-	-	-	-
Bank overdrafts	-	27,931,815	-	27,931,815	-	-	-	-
Total financial liabilities	-	3,697,939,401	-	3,697,939,401	-	-	-	-

As at 31 December 2018	Fair value through profit or loss	Amortized cost	Fair value through other comprehensive income	Total carrying amount	Level 1	Level 2	Level 3	Total Fair value
Financial assets measured at fair value								
Investment in Equity Securities- FVOCI	-	-	4,415,530	4,415,530	-	-	4,415,530	4,415,530
Financial assets not measured at fair value								
Trade and other receivables	-	140,073,938	-	140,073,938	-	-	-	-
Amounts due from related party	-	1,075,588	-	1,075,588	-	-	-	-
Cash at banks and in hand	-	13,329,661	-	13,329,661	-	-	-	-
Total financial assets	-	154,479,187	4,415,530	158,894,717	-	-	4,415,530	4,415,530
Financial liabilities not measured at fair value								
Interest bearing borrowings	-	2,115,316,012	-	2,115,316,012	-	-	-	-
Trade and other payable	-	309,972,609	-	309,972,609	-	-	-	-
Amount due to related parties	-	54,477,181	-	54,477,181	-	-	-	-
Lease liability to SLSPC and JEDB	-	31,550,440	-	31,550,440	-	-	-	-
Bank overdrafts	-	79,757,853	-	79,757,853	-	-	-	-
Total financial liabilities	-	2,591,074,095	-	2,591,074,095	-	-	-	-

Notes to the Financial Statements

As at 31st December 2019

42. Events after the reporting date

No events have occurred after the reporting date, which would require adjustments to or disclosure in the financial statements except for following

Impact of COVID 19 on the Financial Statements of the Company.

On 11th March 2020, the World Health organization declared the corona virus outbreak as a pandemic. Responding to the potentially serious threat the COVID – 19 presents to the public health, the Sri Lankan Government authorities have taken measures to contain the outbreak, including introducing restrictions on the cross border movement of people, entry restriction of foreign visitors and the 'lock-down' of certain areas in the Country.

The Company has taken various precautionary measures to protect employees and workmen, their families, and the eco system in which they interact, while at the same time ensuring business continuity. As a step in this direction and taking into account the directives issued by the Government of Sri Lanka, the Company has carried out operations in limited manner during the lock down period. Further, deferment of Capital expenditures, cancellation of company events, restructuring of overhead, deferment of staff bonus payments, reduction salaries senior management during the period were several measures taken by the Company to conserve cash during the lock down period.

The Company has been closely monitoring the impact of COVID 19 on the business operations. Despite many challenges, the Company being in essential service sector has recommenced all operations which were temporally suspended on 20th March 2020 and have been operational at a reduced scale based on curfew time lines in certain zones. The Company is regularly monitoring the situation and operations are being increased up to full capacity level in a phased manner.

The Board of Directors has carries out a preliminary assessment over future business plan after incorporating the potential impact of COVID 19 outbreak, and is of the view that the COVID 19 outbreak may not have significant impact on the business continuity of the Company. The Board will continue to monitor the economic conditions and its impact on the business operations and take mitigation actions to minimize the potential impacts and business continuity.

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 2019 have been submitted to the Colombo Stock Exchange.

Distribution of shareholdings as at 31st December 2019				
No. of Shares Held	**No. of Share Holders**	**No. of Share Holders %**	**Total Holdings**	**Total Holdings %**
1-1,000	18,745	97.18	2,832,096	1.67
1,001-10,000	459	2.38	1,530,998	0.90
10,001-100,000	78	0.40	2,052,921	1.21
100,001-1,000,000	4	0.02	820,898	0.48
1,000,001 & Over	3	0.02	162,264,184	95.73
Grand Total	19,289	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	19,164	99.35	6,661,056	3.93
Institution	125	0.65	162,840,041	96.07
Grand Total	19,289	100.00	169,501,097	100.00
Residents	19,261	99.85	169,083,288	99.75
Non- Residents	28	0.15	417,809	0.25
Grand Total	19,289	100.00	169,501,097	100.00

Market of Statistics		
	31st December 2019	**31st December 2018**
Number of shares	169,501,097	169,501,097
Earnings / (Loss) per Share Rs	(4.51)	(3.54)
Net Asset Per Share Rs.	5.59	10.64
Dividend Per Share Rs.	-	-
Highest Share Price Rs.	8.20	14.20
Lowest Share Price Rs.	4.90	5.70
Closing Share Price Rs.	6.80	6.30

Shareholder and Investor Information

Twenty Five Major Shareholders as at 31st December 2019			
No	**Name**	**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. M.K.C. Perera	310,595	0.18
5	Mrs. J.K.P. Singh	254,958	0.15
6	SSBT - Deustche Bank AG Singapore A/C 01	149,090	0.09
7	Mr. R.E. Rambukwella	106,255	0.06
8	Merchant Bank of Sri Lanka & Finance PLC / W B R Somaweera	85,500	0.05
9	Mr. E.J.B.U. Fernando	82,982	0.05
10	Mrs. M. De Zoysa	67,101	0.04
11	Mr. D.C. Hemapala	65,000	0.04
12	Mr. A.R.W.M.M.A. Bandara	59,728	0.04
13	Mr. T.D.P. Maduranga	55,395	0.03
14	Mr. G.V. Sanjaya	50,161	0.03
15	Mr. Z.G. Carimjee	50,000	0.03
16	Mr. K.K.P. Ranga	44,873	0.03
17	M/S Gampaha District Co-Operative Rural Bank Union Ltd	43,900	0.03
18	Mrs. H.R.P. Sanjeevani	42,500	0.03
19	M/S Seylan Bank PLC / Mohamed Subair Fouzal Haqque	41,692	0.03
20	Mr. M.F.J. Macan Markar	39,600	0.02
21	Mr. M.H.A. Kamil	39,000	0.02
22	Mr. S.H. Hussain	38,598	0.02
23	M/S Seylan Bank PLC/ Mohamed Subair Fouzal Haqque And Sithy Izama Haqque	37,000	0.02
24	M/S People'S Leasing & Finance PLC/ Mr. E. J. B. U. Fernando	36,821	0.02
25	Mr. L.U.D. Fernando & Mr. K.M. Fernando	35,361	0.02
		164,000,294	**96.75**
	Others	**5,500,803**	**3.25**
	Total	**169,501,097**	**100.00**

- The Percentage of ordinary shares held by the public was 6.51% (2018 - 6.51%) of the issued share capital as at 31st December 2019.
- Total number of shareholders representing the public holds are 19,286.
- The float adjusted market capitalization as at 31st December 2019 is Rs. 75,041,338.80
- The float adjusted Market Capitalization of the company was not in compliance in Rule 7.13.1 (b) of the Listing Rules of the Colombo Stock Exchange and the company has not complied with the minimum public holdings requirement applicable under the said option.

Performance of Estates 2019 and 2018

Estate	Elevation	Year	Tea Extent ha	Total Crop kg	Yield kg/ha	COP Rs/kg	NSA Rs/kg *
Battawatte	Uva High	2019	217	345,199	824	645.23	434.52
		2018	219	299,043	776	588.90	513.17
Cocogalla	Uva High	2019	148	97,192	648	897.74	415.08
		2018	150	173,081	588	720.07	465.06
El Teb	Uva Medium	2019	326	534,996	911	638.77	498.01
		2018	330	629,703	951	572.71	511.32
Galloola	Uva High	2019	122	75,310	617	698.81	503.80
		2018	134	104,863	613	625.67	511.70
Mahadowa	Uva High	2019	461	499,054	731	665.54	477.31
		2018	461	401,152	679	686.25	478.69
Roeberry	Uva Medium	2019	435	534,297	747	709.76	414.84
		2018	439	475,380	601	713.67	492.25
Uvakellie	Uva High	2019	179	146,499	812	630.76	501.85
		2018	179	156,252	867	607.15	517.29
Verellapatna	Uva High	2019	231	436,321	1,136	623.96	455.46
		2018	249	510,632	1,067	559.72	492.88
Kew	Western High	2019	324	311,305	962	820.07	501.44
		2018	330	312,861	943	755.98	573.80
Kirkoswald	Western High	2019	487	567,763	1,137	802.50	488.97
		2018	491	541,199	1,061	779.96	557.61
Theresia	Western High	2019	315	312,958	994	769.52	452.35
		2018	326	313,627	961	718.40	546.37
Venture	Western High	2019	259	258,464	998	786.60	445.74
		2018	262	226,441	863	802.78	537.86
Company		2019	3,505	4,119,358	900	712.59	467.80
		2018	3,572	4,144,234	847	669.83	516.84

* Based on SLFRS/LKAS

Statement of Value Addition

	Year ended 31.12.2019		Year ended 31.12.2018	
	%	Rs.'000	%	Rs.'000
REVENUE		**2,006,977**		2,144,945
Other Income		**67,697**		39,945
Total Revenue		**2,074,674**		2,184,890
Cost Of Materials and Services Bought		**1,037,730**		979,984
Value Addition	**100**	**1,036,944**	100	1,204,974
DISTRIBUTION OF VALUE ADDITION				
A To Employee as Remuneration	**1.24**	**1,290,586**	1.17	1,406,724
B To Government as taxes	**0.07**	**71,586**	0.09	103,855
C To Lenders of Capital as Interest	**0.33**	**345,869**	0.18	219,766
D To Shareholders as Dividends				
E Retained in Business				
E 1 Provision for Depreciation	**0.09**	**92,612**	0.06	74,828
E 2 Profit /(Loss) Retained	**(0.74)**	**(763,709)**	(0.50)	(600,199)
	100	**1,036,944**	100	1,204,974

Financial Information

	2019 Rs.'000	2018 Rs.'000	2017 Rs.'000	2016 Rs.'000	2015 Rs.'000
Revenue	**2,006,977**	2,144,945	2,605,104	1,842,069	1,870,384
Profit before Income Tax Expense	**(781,066)**	(425,166)	108,658	(286,701)	(281,872)
Income Tax Expense	**17,358**	(175,033)	(64,062)	(5,885)	(6,193)
Profit after Income Tax Expense	**(763,709)**	(600,199)	44,596	(292,586)	(288,065)
Profit/(Loss) brought forward	**(3,740,607)**	(2,900,407)	(2,817,538)	(2,562,132)	(2,102,164)
Dividend	**-**	-	-	-	-
Retained Earnings/(Loss)	**(4,693,769)**	(3,681,606)	(2,900,407)	(2,817,538)	(2,568,929)
Non-Current Assets	**5,596,438**	5,296,897	4,913,935	4,812,151	4,755,721
Current Assets	**450,870**	464,535	343,831	437,507	338,090
Current Liabilities	**695,024**	643,483	1,285,338	1,614,397	1,166,580
Deferred Income	**138,073**	143,390	148,546	152,911	157,307
Non-Current Liabilities	**4,404,374**	3,313,878	1,373,900	1,007,341	1,024,835
Net Assets	**947,909**	1,804,071	2,449,982	2,474,960	2,661,678
Share Capital	**1,624,761**	1,624,761	1,624,761	1,624,761	1,624,761
Timber Reserve	**3,376,701**	3,220,459	3,063,430	2,933,813	2,871,330
Revaluation Reserve	**637,258**	637,258	659,258	731,341	731,341
Retained Profit/(Loss)	**(4,693,769)**	(3,681,606)	(2,900,407)	(2,817,538)	(2,568,929)
Fair Value through OCI reserve	**2,959**	3,199	2,940	2,583	3,175
Share Holders' Funds	**947,909**	1,804,072	2,449,982	2,474,960	2,661,678
Number of Shares ('000)	**169,501**	169,501	169,501	169,501	162,476
Earnings /(Loss) per Share (Rs)	**(4.51)**	(3.54)	0.26	(1.73)	(2.14)
Dividend per Share (Rs)	**-**	-	-	-	-
Net Assets per Share (Rs)	**5.59**	10.64	14.45	14.60	19.81

District Wise Performance					
	2019	**2018**	**2017**	**2016**	**2015**
Total Production Kgs.					
Madulsima	2,668,868	2,750,106	3,105,439	3,023,199	3,238,405
Bogawantalawa	1,450,490	1,394,128	1,306,877	1,452,012	1,771,458
Total	4,119,358	4,144,234	4,412,315	4,475,210	5,009,863
Estate Crop Kgs					
Madulsima	1,718,233	1,653,172	1,798,370	1,829,367	2,142,553
Bogawantalawa	1,435,964	1,371,986	1,274,860	1,452,012	1,771,457
Total	3,154,197	3,025,158	3,073,229	3,281,380	3,914,010
Yield Kg/ha					
Madulsima	810	765	831	842	990
Bogawantalawa	1,037	973	903	1,025	1,265
Total	900	847	860	914	1,098
COP Rs/kg					
Madulsima	667.09	621.86	552.40	466.01	420.93
Bogawantalawa	796.32	764.46	708.76	628.86	552.15
Total	712.59	669.83	623.44	524.13	467.33
NSA Rs/kg *					
Madulsima	461.02	497.93	546.50	521.01	346.25
Bogawantalawa	475.91	555.80	580.53	440.60	409.04
Total	467.80	516.84	572.39	426.67	368.45
Profit/(Loss) Rs/kg *					
Madulsima	(206.07)	(123.93)	(5.90)	(45.01)	(74.68)
Bogawantalawa	(320.41)	(208.66)	(128.23)	(188.26)	(143.11)
Total	(244.79)	(152.99)	(51.04)	(97.45)	(98.88)

Notes

Form of Proxy

I/We…………………………………………………….……………………………….…….…………………………………………

of……………………………………..…………………………………..…………………..…………………being a member /members

of **M**adulsima **P**lantations Plc hereby appoint……………………………………of………………………………………. whom failing.

Don Harold Stassen Jayawardena	or failing him
Noor Mohamed Abdul Gaffar	or failing him
D Hasitha S Jayawardena	or failing him
B M D S Kapila Basnayake	or failing him
Arinesarajah Shakthevale	or failing him
D S Kamantha Amarasekera	or failing him

as my/our proxy to represent me/us and*……… ………….. to vote on my/our behalf at the Twenty Seventh (27th) Annual General Meeting of the Company will be held as a **"Virtual Meeting" at 10.00 a.m. on Tuesday, 15th September 2020, at the "Mini Auditorium" DCSL, 110, Norris Canal Road, Colombo 10,** Sri Lanka and at any adjournment thereof and at every poll which may be taken in consequence of the above said meeting. I/We the undersigned hereby authorize my/our Proxy to vote on my/our behalf in accordance with the preference indicated below:

	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 2019 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 together 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 B M D S K Basnayake who retires by rotation in the Annual General Meeting in terms of Article 92 of the as a Director of the Company		
6) To re-appoint Messrs KPMG as Auditors and to authorize the Directors to determination their remuneration.		

Signed on this …...day of …...Two Thousand and Twenty.

……………………………
Signature/s

INSTRUCTIONS FOR COMPLETION OF FORM OF PROXY

1. Kindly perfect the Form of Proxy by filling in the mandatory details required above, signing in the space provided and filling in the date of signature.

2. If the Form of Proxy is signed by an Attorney, the relative power of attorney should also accompany the proxy form for registration, if such power of attorney has not already been registered with the Company.

3. In the case of a Company/Corporation, the Form of Proxy shall be executed in the manner specified in the Articles of Association.

4. In the absence of any specific instructions as to voting, the proxy may use his/her discretion in exercising the vote on behalf of his appoint.

5. Duly filled Forms of Proxy should be sent to reach the Company Secretary via e-mail to bplmplcompanysecretary@gmail.com, or facsimile on +94 11 2540333 or by post to the registered address of the Company No. 833, Sirimavo Bandaranaike Mawatha, Colombo 14, Sri Lanka **not less than forty eight (48) hours before the time fixed for the meeting.**

Please provide the following details (mandatory):

NIC/PP/Company Registration No. of the Shareholder/s : ………………………………………………………………..…………

Folio No : ………………………………………………………………..…………

E.mail address of the Shareholder/(s) or proxy holder
(other than a Director appointed as proxy) : ………………………………………………………………..…………

Mobile No : ………………………………………………………………..…………

Fixed Line : ………………………………………………………………..…………

MADULSIMA PLANTATIONS PLC

833, SIRIMAVO BANDARANAYAIKE MAWATHA, COLOMBO - 14

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www.melsta.com/our-core-sectors/plantation-services