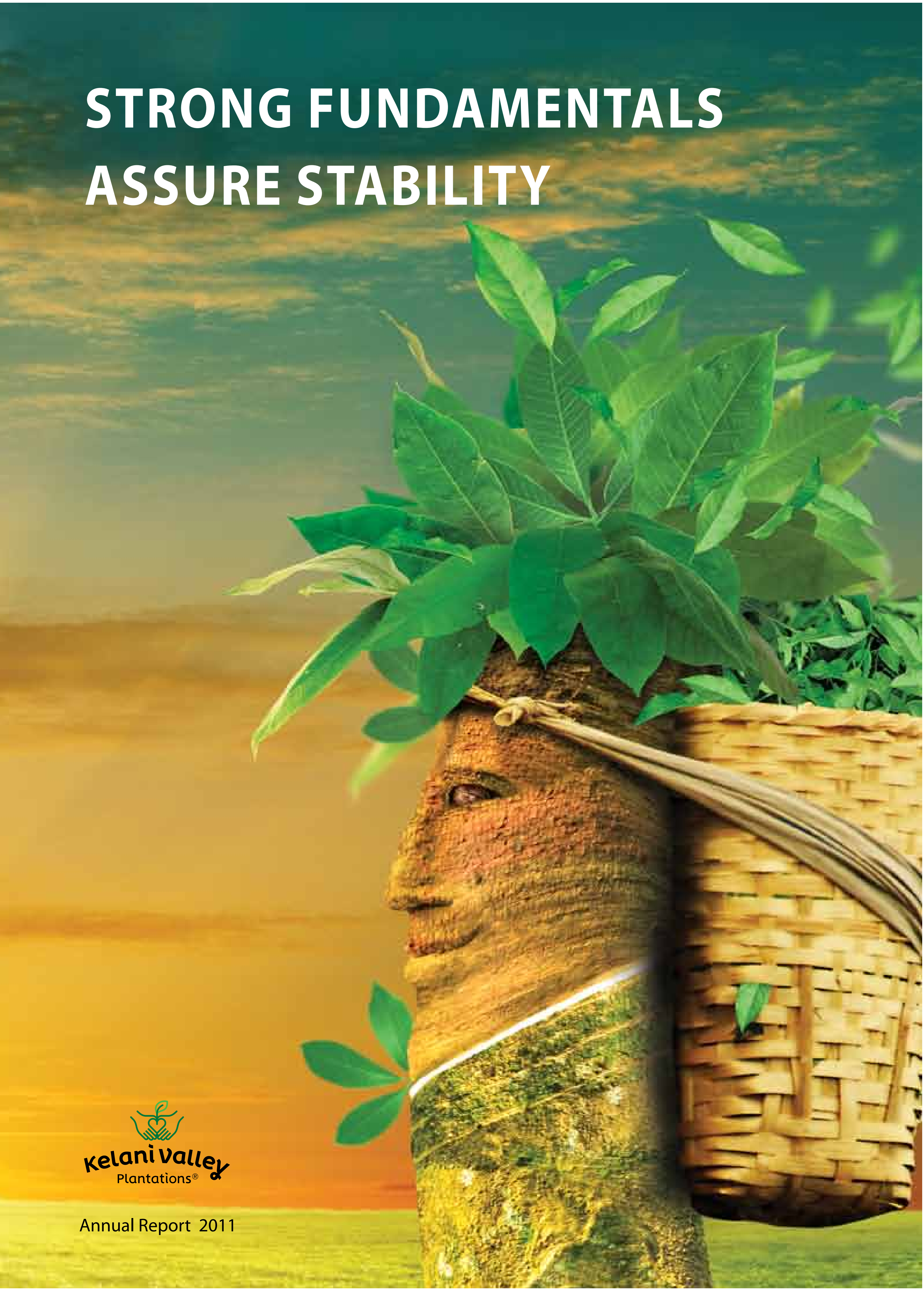
STRONG FUNDAMENTALS ASSURE STABILITY



Kelani Valley Plantations®

Annual Report 2011

VISION

"Kelani Valley Plantations - Products of Excellence"

MISSION

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

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Form of Proxy - **Enclosed**

Corporate Information - **Inner Back Cover**

COMPANY PROFILE

Kelani Valley Plantations PLC (KVPL) was incorporated as a Regional Plantation Company in June 1992, as a preliminary to the privatisation of the then state-owned segment of the plantation industry. Initially, in 1992, DPL Plantations (Pvt) Ltd., took up the management of the plantation company and, in December 1995, acquired a controlling interest.

This Company is a wholly-owned subsidiary of Dipped Products PLC (DPL), the Group and its other subsidiaries being among the leading manufactures of hand protection wear worldwide. Kelani Valley Plantations comprises 27 estates, approximately 13,000 hectares in total, with almost equal extents of tea and rubber. The plantations are located in Nuwara Eliya, Dickoya and Yatiyantota-Bulathkohupitiya, thus spanning three distinct agro-climatic regions.

The tea plantations of Nuwara Eliya are located at elevations of 1,500 to 1,900 metres above sea level, producing tea renowned for delicacy of flavour and quality. The plantations of Dickoya are slightly lower in elevation and the products cater to those seeking thick and coloury liquors. The properties of the Yatiyantota-Bulathkohupitiya belt, at much lower and warmer elevations, produce a type of tea, preferred for their strong and heavy bodied liquors. The differentiated plantation locations enable the Company to offer a wide product spectrum, each carrying individual features of attractiveness.

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

In 2011, in furtherance of its policy of sustainability, the Company secured the Rainforest Alliance Certification for 19 of its tea plantations. This conformance mandates adherence to many highly desirable standards, ranging from biodiversity and environment conservation and land use to ethical business practices. The Company has also adopted a new logo, the image complementing its dedication to sustainable business.

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

Pursuing a policy of product diversification, the Oliphant Estate Black Tea Factory in Nuwara Eliya was converted to the production of Green Tea in 2003, followed by Glassaugh Black Tea Factory in 2008. In 2007, a new facility was set up at Nuwara Eliya estate to manufacture Instant Tea.

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

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

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

The Company's continuous search for excellence is reflected in its operational practices, its many internationally recognized accreditations and the voluntary subscription to non-regulatory concepts of ethical business management. In furtherance of this policy, the Company has also engaged with several other organisations in environment and biodiversity protection initiatives within its plantation boundaries. Its present position in the industry is a testimony to the commitment and the spirit of innovation demonstrated by its 14,000 employees, led by a closely knit management team.

STRONG FUNDAMENTALS ASSURE STABILITY

"Our reliance in fundamental values and principled interaction have sustained us in a year of fluctuating fortunes and inimical influences. In a challenging season, we have delivered a reasonable yield to our stakeholders. Despite the unpredictability of the external world, the ethical business model we have developed gives us the confidence to remain steadfast in the face of a demanding business environment."

MILESTONES

2011

- **Winner** - National Business Excellence Award
- **Winner** - (Environment) - Special Project on Corporate Social Responsibility Award
- **Silver Award** - Best Annual Report 2010 in plantation sector
- **1st Runner** - Up for the 'Best Presented Accounts Awards 2010' in Agricultural Sector, conducted by South Asian Federation of Accountants (SAFA), in Dhaka, Bangladesh.
- **Gold award** at 'League of American Communications Professionals Vision Award 2010'
- Rainforest Alliance Certification

2010

- Acquired balance 60% of Mabroc Teas (Pvt) Ltd.
- **Silver Award** - Best Annual Report 2009 in Plantation Sector

2009

- Dewalakanda and Panawatta Sole Crepe - Certified for FSC
- **Silver Award** - Best Annual Report 2008 in Plantation Sector

2008

- **Gold Award** (Service Providers to Exporters) - NCE Export Awards 2007
- **Winner** – National Business Excellence Awards
- Global G.A.P. Certification
- Black Tea Factory at Glassaugh converted to Green Tea

2007

- Started manufacturing Instant Tea at Nuwara Eliya Estate.
- ISO 22000:2005, HACCP & TASL-SGS Certification for 13 black tea processing centres
- Scrape Factory converted to Skim Rubber Factory at Dewalakanda Estate

2006

- UN Global Compact Signatory with Mabroc and KVPL

2005

- Commenced the operations of Kalupahana Power Company (Pvt) Ltd.

2004

- Acquired 40% of issued share capital of Mabroc Teas (Pvt) Ltd.

2003

- Conversion of Black Tea processing to Green Tea at Oliphant Factory - Nuwara Eliya
- Incorporation of Kalupahana Power Company (Pvt) Ltd. as a BOI Project
- Strategic alliance with Mabroc Teas (Pvt) Ltd.

2001

- Expanded the Centrifuged Latex Project at Kiriporuwa Estate

2000

- Implementation of Mini-Hydropower Scheme at Battalgalla Estate

1998

- Debentures were converted to additional 14 m shares

1996

- In January, KVPL listed in CSE and issued 20 m ordinary shares each at Rs. 10/-
- FSC Certification for Rubber

1995

- DPL Plantations (Pvt) Ltd. acquired the controlling interest

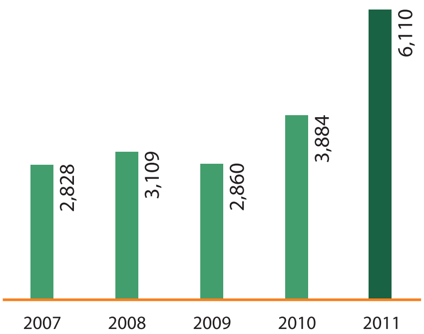
1992

- Incorporated as a Regional Plantations Company

FINANCIAL HIGHLIGHTS

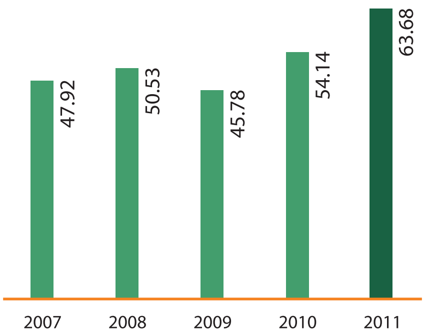
	2011 Rs. '000	2010 Rs. '000	Change %
Revenue	**6,110,371**	3,883,637	57.34
Profit before Tax	**544,629**	355,690	53.12
Profit after Tax	**463,039**	326,152	41.97
Gross Dividend	**170,000**	136,000	25.00
Shareholders' Funds	**2,165,116**	1,840,627	17.63
Market Capitalisation	**3,060,000**	5,436,600	(43.71)
Capital Expenditure	**436,803**	292,506	49.33
Employment (Persons)	**14,842**	14,216	4.40
Per Share (Year End)			
Earnings (Rs.)	**13.54**	9.43	43.58
Market Value (Rs.)	**90.00**	159.90	(43.71)
Net Assets (Rs.)	**63.68**	54.14	17.61
Dividend (Rs.)	**5.00**	4.00	25.00

TURNOVER
Rs. m



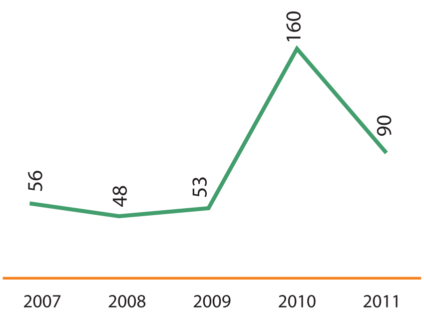
PROFIT AFTER TAX
Rs. m

NET ASSETS PER SHARE
Rs.

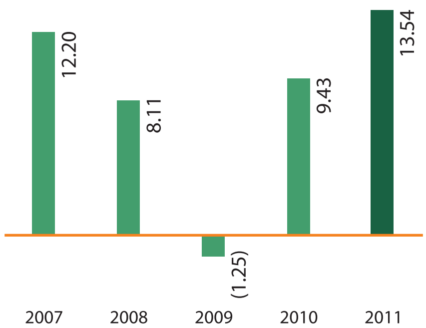


EBITDA
Rs. m

MARKET PRICE PER SHARE
Rs.



EARNINGS PER SHARE
Rs.



STABILITY IN ADVERSITY

Whilst rubber reaped the harvest of a profitable year, expectations must be tempered with caution, in the context of marketplace volatility. Despite uncertainties, we are confident that our inherent resilience will steer us through challenging times ahead.

CHAIRMAN'S REVIEW

I present with pleasure, the Annual Report and Audited Accounts of your Company for the financial year ended 31 December, 2011.

Directorate

Mr. N Y Fernando resigned from his position as Director on 10 October, 2011. I thank him for his valuable contributions during his tenure on the Board. Dr. K I M Ranasoma was appointed to the Board with effect from the same date.

Performance

2011 has been a good year for KVPL. Notwithstanding a sharp decline in the tea market commencing from the end of first quarter, a similar downturn in rubber prices in the latter half of the year, the impact of a wage increase effective from April, the Group posted a pre-tax profit of 544 million, its highest since inception.

Political turmoil in the Middle East, North Africa and the Gulf Region, which together account for about 55% of annual tea exports from Sri Lanka, the debt crisis in EU and the post-tsunami dislocation in Japan, converged to destabilise Asian commodity markets in the second half of 2011. Prices declined and stayed down precluding what could have been an even better result for the year.

The plantation worker wage increase was negotiated without any disruption to work. Its impact on KVPL translates to an additional Rs. 340 million annually.

Tea

Sri Lankan tea production declined marginally over the record crop of 2010 to end at 328.4 million kg, whilst KVPL improved its production over 2010 by 10.1%, with its high-growns contributing 10.9% to the increased output.

Consequent to uncertainties in major markets, low-grown tea average declined by Rs. 11.92 per kg as against the previous year. With both high and medium categories diminishing proportionately, the national average dropped by Rs. 10.72 per kg over 2010.

Rubber

Rubber prices rose steadily in all markets from the last quarter of 2010 up to the third quarter of 2011, with Latex Crepe peaking over US$ 6 in June and RSS fetching equal value in February at the Colombo Auctions. The Asian countries led by China and India accounted for much of the global consumption and the high prices. However, the slowing down of these giant economies and financial instability in the Eurozone, combined with increased outputs during the year resulted in a sharp price decline in the last quarter of 2011. By end December, Latex Crepe and RSS were both trading at around US$ 3 per kg.

Other Operations

The Group's profit before tax includes a contribution of Rs. 37 million from Mabroc Teas, our marketing subsidiary, which has been engaged in the export of value added products and brand promotion overseas for more than two decades. During the year under review, it revamped its operations by investing in new tea blending, cleaning and packing machinery, automating and streamlining tea bagging operations, installing a new racking system and an office complex to accommodate all its operations under one roof.

The demand for Green Tea which declined sharply in 2009, continued to stagnate at unrewarding levels due to the availability of cheaper products from other origins. Consequently, production in the Company's facilities had to be curtailed.

The Instant Tea Plant at Nuwara Eliya which continues to operate more as a Research and Development Project did well during the year under review. With new interest shown by many overseas buyers, we foresee a brighter demand for this product in the future.

Erratic weather-affected power generation at Kalupahana Power Company resulting in a profit slightly lower than in the previous year.

Capital Expenditure

A major proportion of the Capital Expenditure was spent on replanting of rubber and tea, further strengthening our crop asset base. Upgrading of plant and machinery also received appropriate attention.

Water and sanitation together with the re-roofing of worker housing and improvements to road network were also undertaken during the year.

Operational Excellence

The Company's positioning as a preferred supplier to major buyers was reinforced with all its tea processing centres and

19 tea gardens securing Rainforest Alliance Certification during 2011. Conformity to this sustainable agricultural standard which ensures environmental conservation and prudent community management will augment the Global G.A.P. and ISO 22000:2005 accreditations already in the Company's standards portfolio. This assemblage of internationally recognised conformances will add value and potency to the Company's marketing thrust.

Environment, Infrastructure and Community

Company's commitment to environmental protection and the initiatives undertaken by KVPL have been recognised by many reputed international organisations and multinationals. The eco-system of Halgolle Estate, identified previously as a unique location of biodiversity was comprehensively mapped before implementing an integrated conservation strategy.

Waste management and conservation of natural resources within our plantations continue to receive appropriate attention, along with measures to safeguard the purity of our water sources.

The Ceylon Chamber of Commerce adjudged the Company as the winner in the Corporate Social Responsibility, Environment and Special Projects segment under the Best Corporate Citizen Awards in 2011.

Dividend

Your Directors, having considered the Company's performance in 2011 propose a first and final dividend of Rs. 5.00 per share.

In order to be consistent with widely accepted financial reporting which facilitate comparison of local businesses at international level, your Company will in future be reporting on its financials in accordance with International Financial Reporting Standards (IFRS).

Prospects

The market outlook for rubber in particular seems uncertain although prices have stabilised at around US$ 3.50 per kg. In my review of the year 2010, I wrote that it would be unduly optimistic to expect the then price levels to be sustained. Manufacturers turned to synthetic alternatives as a counter to the high natural rubber prices, whilst there are also reports of stockpiling in China and Thailand. Although, Chinese and Indian consumption levels continue to be satisfactory, it appears that neither economy will maintain the same growth momentum into the current year. The EU debt crisis is bound to have a ripple effect on the whole of Europe and will influence both consumption and demand. These factors are certain to stifle any likelihood of another price boom and it would be prudent to expect contributions to profit from rubber to be moderate in the current season.

The continuing unrest in the Middle East, North Africa and the Gulf has diminished tea stocks in affected areas. Whilst some replenishment is to be expected as the situation hopefully improves in the current year, difficulties in supply and distribution logistics are likely to result in irregular buying patterns. Although some countries may face unfavourable weather conditions which could lead to production shortfalls, the global supply vacuum could be more than adequately filled by increased production in China during 2011. The bigger concern however is the 28% wage increase without a link to productivity, keeping the input costs high in the labour intensive tea sector. Equally critical is the very recent increase in fuel costs and energy tariffs, which will add both directly and indirectly to operational costs.

I, and my predecessors as well have repeatedly expressed the need for a clearly articulated national policy for the plantation sector in order to charter the future progress of this industry which as a single entity provides livelihood to a large proportion of the country's population. Burdened with escalation in costs of all inputs, the volatility in commodity prices and the growing expectations of a large resident workforce for wage increases at predetermined intervals, the issues now confronting the plantation industry are serious, to say the least.

It is, therefore imperative that all stakeholders, the State, plantation companies, smallholder societies, exporters, ancillary industries and the trade unions, acknowledge individual responsibility for a meaningful and unified contribution to a common programme for the rehabilitation of the industry. Its very survival is at stake. In any recovery strategy, it is crucial that the State takes the initiative to act as the catalyst and provide the required leadership.

I wish to thank all employees for their determined efforts during the year, our business partners for their support and my colleagues on the Board for their valuable inputs and guidance.

Mohan Pandithage
Chairman
14th February, 2012

BOARD OF DIRECTORS

A M Pandithage* - *Chairman*

Joined Hayleys Group in 1969. Chairman and Chief Executive of Hayleys since July 2009. Appointed to the Directorate of Kelani Valley Plantations PLC in January 2007. Was appointed as the Honorary Consul of United Mexican States (Mexico) to Sri Lanka in September 2011. Fellow of the Chartered Institute of Logistics & Transport . Director, Sri Lanka Port Management & Consultancy Services Ltd. Member of the Presidential Committee on Maritime Matters. Committee Member of the Ceylon Chamber of Commerce. Council Member of the Employers' Federation of Ceylon. Member of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka. Former Chairman of the Ceylon Association of Ships' Agents. Former Director of both Sri Lanka Ports Authority and Jaya Container Terminals Ltd.

J A G Anandarajah*

Joined Hayleys in 1980. Director, Dipped Products PLC since 1989 and Managing Director from January 2007 to March 2011. Appointed to the Hayleys Group Management Committee in 2001 and to the Board of Hayleys PLC in 2007. Director of Kelani Valley Plantations PLC since acquisition in 1996 and Talawakelle Tea Estates PLC from 2010. Responsible for the Hayleys Group Plantations Sector as the Managing Director of DPL Plantations (Pvt) Ltd., Hayleys Plantations Services (Pvt) Ltd. and Mabroc Teas (Pvt) Ltd. Member of the Board of Management, Industrial Technology Institute, Sri Lanka. Chemistry (Honours) Graduate, University of Peradeniya, Sri Lanka.

G K Seneviratne*

Joined DPL Plantations Ltd. in 1992 and to the Board in 1995. Chief Executive of Kelani Valley Plantations PLC since 1994, appointed as Director in 1996 and as Managing Director in May 2004. Appointed to the DPL Board in 1998 and to the Hayleys Group Management Committee in January 2007. Joined the Plantation Industry in 1970. Past Chairman of the Planters' Association of Ceylon. Served as a member of Sri Lanka Tea Board, Rubber Research Board, Plantation Trust Board and the Tea Association of Sri Lanka. Consultant, Investment Monitoring Board, JEDB/SLSPC Estates.

R Seevaratnam***

Director of Kelani Valley Plantations PLC since October 2008. B.Sc. General Graduate, University of London. FCA, England & Wales and FCA, Sri Lanka. Former Senior Partner of Messrs KPMG Ford, Rhodes, Thornton and Co.

F Mohideen***

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

S Siriwardana*

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

S C Ganegoda**

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

L T Samarawickrama**

Director of Kelani Valley Plantations PLC since November 2009. Managing Director of Amaya Leisure PLC. An internationally qualified Hotelier having gained most of his Management experience in the UK, working for large international hotel chains over a long period of time. First Sri Lankan Manager to be appointed by the Beaufort International Chain of Hotels to run the first seaside boutique resort in the Island. Member of the Institute of Hospitality, UK (formerly HCIMA) and of the Royal Society of Health, London. He counts over 39 years' experience in the trade. Having specialised in hotel designs and developments, has been responsible for the planning and execution of Amaya Resorts and Spa's refurbishment and rehabilitation programmes. Director of Hayleys PLC, Fortress Resorts PLC, Ceylon Continental Hotel, Hunas Falls PLC and Royal Ceramics Lanka PLC.

S T Gunatilleke**

Alternate Director of Kelani Valley Plantations PLC since May 2010 and Director since January 2011. Joined Talawakelle Tea Estates PLC in 1992 and appointed as the Chief Executive Officer in 2001. Appointed to the Board of Hayleys Plantation Services (Pvt) Ltd. in 2003 and to the Board of Talawakelle Tea Estates PLC in 2004. A senior planter who counts over 40 years experience in plantation management, has held the position of Regional Director of Sri Lanka State Plantation Corporation. Served as a Consultant to the United Nations Industrial Development Organisation (UNIDO) on tea plantation management. A former member of the Law and Order Subcommittee of the Ceylon Chamber of Commerce representing The Planters Association of Sri Lanka.

Dr. K I M Ranasoma**

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

** Executive Director.*

*** Non-Executive Director.*

**** Independent Non-Executive Director.*

CORPORATE MANAGEMENT PROFILE

Board of Directors

Kelani Valley Plantations PLC

Tea & Rubber Plantations

Incorporated in 1992 in Sri Lanka

Stated Capital - Rs. 340 m

Directors

A M Pandithage
Chairman

J A G Anandarajah
Managing Director - DPL Plantations (Pvt) Ltd.

G K Seneviratne
Managing Director

R Seevaratnam

F Mohideen

N Y Fernando **

S Siriwardana

S C Ganegoda

L T Samarawickrama

S T Gunatilleke

Dr. K I M Ranasoma *

* *Appointed w.e.f 10th October, 2011*

** *Resigned w.e.f. 10th October, 2011*

DPL Plantations (Pvt) Ltd.

Plantation Management, Managing Agent

Incorporated in 1992 in Sri Lanka

Stated Capital - Rs. 350 m

Directors

A M Pandithage
Chairman

J A G Anandarajah
Managing Director

G K Seneviratne
Managing Director KVPL

S Siriwardana

N Y Fernando

S C Ganegoda

S T Gunatilleke

Dr. K I M Ranasoma *

* *Appointed w.e.f. 10th October, 2011*

Kalupahana Power Company (Pvt) Ltd.

Generates Hydro Power

Incorporated in 2003 in Sri Lanka

Stated Capital - Rs. 30 m, Group Interest - 60%

Directors

J A G Anandarajah

Dr. R D Bandaranaike

G K Seneviratne

D J Ambani

S Siriwardana

Kelani Valley Green Tea (Pvt) Ltd.

Manufactures Green Tea

Incorporated in 2003 in Sri Lanka

Stated Capital - Rs. 20 m, Group Interest - 100%

Directors

A M Pandithage

J A G Anandarajah

G K Seneviratne

N R Ranatunga

Kelani Valley Instant Tea (Pvt) Ltd.

Manufactures Instant Tea

Incorporated in 2007 in Sri Lanka

Stated Capital - Rs. 30 m, Group Interest 95%

Directors

A M Pandithage

J A G Anandarajah

G K Seneviratne

N R Ranatunga

Mabroc Teas (Pvt) Ltd.

Exports Bulk & Retail Packed Tea

Incorporated in 1988 in Sri Lanka

Stated Capital - Rs. 90 m, Group Interest - 100%

Directors

A M Pandithage
Chairman

J A G Anandarajah
Managing Director

G K Seneviratne

N R Ranatunga

R M Hanwella

R J Perera

S T Gunatilleke

Management Team

Kelani Valley Plantations PLC

Directors

A M Pandithage
Chairman

J A G Anandarajah
Managing Director, DPL Plantations (Pvt) Ltd.

G K Seneviratne
Managing Director

S Siriwardana
Finance

General Managers

A B Stembo - Tea

Y U S Premathilake - Rubber

Deputy General Managers

J A Rodrigo - Marketing Tea

D I Gallearachchi - Nuwara Eliya Group II

C S Amarathunga - Tea Group - Low Country

K de J Seneviratne - Regional Administration

D Ramakrishna - Nuwara Eliya Group I

S D Samaradiwakara - Hatton Group

R G D Fernando - Rubber Marketing & Administration

Group Managers

S F Fernando - Rubber Group - Low Country

B C Gunasekera - Rubber Group - Low Country

W M P Wanasundara - Hatton Group

Managers

K A P Dalpathadu - Corporate Sustainability

N A A K Nissanka - Finance

G D C U Kumara - Quality Assurance

M M S Marasinghe - Engineer

Estate Managers

Up Country - (Nuwara Eliya & Hatton Group)

A P Senanayake - Edinburgh

T P G I Guruge - Annfield

M V N K Karunaratne - Invery

Y A Hettiarachchi - Battalgalla

N T Dandeniya - Robgill

L L J Ediriweera - Tillyrie

B P C R Perera* - Uda Radella

A I Kuruppu * - Blinkbonnie

Low Country (Tea & Rubber Group)

M W N de Silva - Kiriporuwa

D E P K Welikala - We-Oya

D W Vedamuttu - Halgolla

R M V Ratnayake - Urumiwela

D W M M R B Madawala - Lavant

P D W Vithanage - Ederapola

K A R Alles* - Kitulgala

A M C B Attanayake * - Kalupahana

S S B Bulumulla * - Ganepalla

** Acting Estate Managers*

Mabroc Teas (Pvt) Ltd.

Directors

J A G Anandarajah
Managing Director

N R Ranatunga
Marketing

R M Hanwella
Operations

R J Perera
Administration & Corporate affairs

General Managers

R A Juriansz - Logistics

G R Iddamalgoda - Operations

Managers

N Weeraratne - Finance

T M L J Peris - Marketing

R S Samarasinghe - Marketing

M I Heenpella - Marketing

D S Wijesekera - Tea

M J S de Mello - Factory

MANAGEMENT DISCUSSION AND ANALYSIS

Company Performance

The Group made a post-tax profit of Rs. 463 m and recorded a turnover of Rs. 6,110 m compared to previous year Rs. 309 m and Rs. 3,880 m respectively.

The Company recorded a post-tax profit of Rs. 432.5 m for the year under review, the highest since inception whilst the turnover of Rs. 4,264 m reflects an increase of 12% over the previous year.

Despite a decline in the latter part of the year, rubber prices stayed attractive through the year, bolstering the bottom line, un-remunerative tea prices during the major part of the year diminished the Company's overall performance. The 28% wage increase which came into effect from April 2011 had an impact of Rs. 250 m on the year's profit.

Mabroc Teas (Pvt) Ltd., now a fully-owned subsidiary of the Company, reported a post-tax profit of Rs. 26.1 m during the period under review. Through the successful export of value added products and brand promotion for over two decades, it has established firm credentials for the international marketing of tea. During the year under review, it revitalised its operational effectiveness through investments in new blending, packing and cleaning machinery, in conjunction with the automation of its tea-bagging operations and the installation of a new racking system. A new office complex added further value to the organisation.

Kelani Valley Instant Tea (Pvt) Ltd., despite output limitations imposed by plant size reported a profit of Rs. 2.6 m. With a growing number of health-conscious consumers switching to instant tea as an alternative to soft drinks and other instant beverages available, the future augurs well for instant tea.

Kalupahana Power Company (Pvt) Ltd. recorded a profit of Rs. 6 m and a turnover of Rs. 21 m. Unfavourable weather conditions during the year impacted output adversely, with annual power generation declining to 2,070 kwh, from 3,270 kwh the previous year. The CEB power purchase tariff revision which came into effect from January 2011 also had a negative impact on the Company's performance.

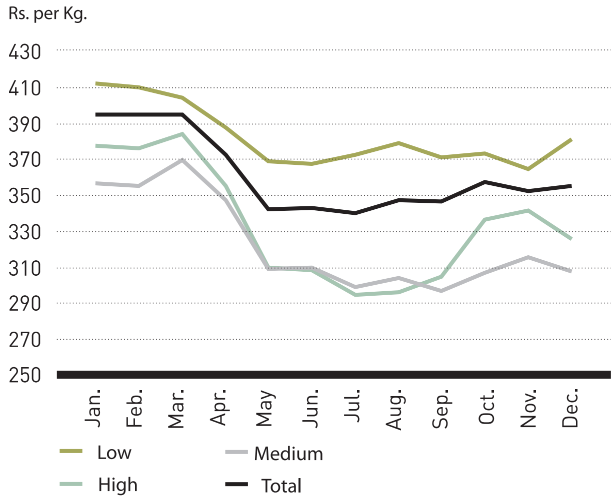
Sri Lanka's policy of allowing the importation of Green Tea from other origins resulted in an influx of cheaper varieties being imported for re-export, to the detriment of the prices for the local product. In consequence, with declining prices for premium local grades, Kelani Valley Green Tea (Pvt) Ltd. was compelled to curtail production during the year. The Company posted an after tax loss of Rs. 4.9 m compared to a Rs. 4.7 m post-tax profit during the previous year.

Tea

The performance of the first quarter, with both production and prices improving on the corresponding period of the previous year, provided cause for initial optimism .The Colombo Auction Average for tea of all elevations as at end March was Rs. 393.92, 2.9% higher than that of the 1st quarter of 2010 whilst the overall production of 76.2 m kg showed a marginal gain of 2.2 m kg over the corresponding period of the previous year.

This market momentum was short-lived, with civil unrest spreading across the Middle East and North Africa, drastically restricting purchase volumes amongst Sri Lanka's major markets. Combined with the post-Tsunami-related dislocation in Japan, a patron of high-end varieties, the Colombo Auction prices entered a sharp declining trend in April, which continued till the end of the third quarter. Despite a slight improvement in prices, attributable to winter buying, in the fourth quarter, the year closed with the national average at Rs. 359.89 compared to Rs. 370.61 the previous year. The high-grown elevation average dipped by 2.3% whilst the medium and low-grown elevation averages declined by 3.9% and 3.1% respectively, compared to 2010.

Sri Lanka - Elevation Average Prices 2011



The Sri Lanka tea production of 328.37 m kg in 2011 was marginally lower compared to the previous year. The medium-growns fell by 3.6 m kg whilst the high and low grown sectors recorded marginal increases of 0.08 m kg and 0.46 m kg respectively. As at end November 2011 the total export volume was 292.4 m kg and the corresponding export revenue Rs. 149.55 bn. A significant feature in recent years is the value of exports from the value added sector overtaking the revenue from bulk tea exports. Up to end November 2011, the quantity of value added tea exported was 172.1 m kg, generating a revenue of Rs. 96.121 bn.

The Company's annual production of 6.1 m kg reflects an increase of 10.1% over the previous year. Kelani Estate's net sale average was ranked 3rd among all plantation company tea factories. Tea from Kelani and Pedro Estates received awards at the "Ceylon Specialty Estate Tea of the Year" competition, organised by the Sri Lanka Tea Board and the Colombo Tea Traders Association, in collaboration with Russia Association of Tea and Coffee Producers, held in Russia.

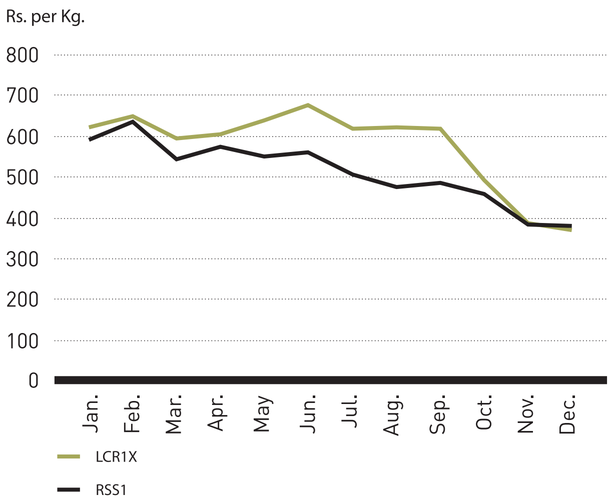
The improved socio-political environment in some of Sri Lanka's traditional market areas should restore consistency to purchasing patterns, eventually. The growth in internal tea consumption in India and China as a result of rising per capita income levels will dent the export volumes of both producers, creating a vacuum in the world tea supply. Tea consumption in all its forms is also said to be gaining popularity, especially among the more health conscious and the affluent younger generation in many parts of the world. These factors, combined with the crop decline due to frost in Kenya, the world's largest exporter, are the positives for Sri Lanka in 2012.

However, the economic sanctions imposed on Iran by the United Nations, the increasing cost of inputs and the continuing trend of erratic weather patterns experienced locally, could still have a negative impact on the Tea Industry.

Rubber

2011 was an exceptional year for the Rubber Industry world over with prices recording levels of over US$ 6 per kg for RSS 3 in major trading centres. In Sri Lanka the markets opened at Rs. 622/- per kg for Latex Crepe 1X and Rs. 592/- per kg for RSS No 1, and reaching its highest levels in February and March when Latex Crepe 1X traded at Rs 700/- per kg and RSS1 at Rs. 650/-. Recovering from a short lived downturn in March prices improved again to remain firm till the end of the 2nd quarter. Prices declined thereafter and with this trend continuing, the year closed with Latex Crepe IX trading around Rs. 370/- per kg and RSSI around Rs. 380/- per kg. The overseas prices followed a similar pattern and closed around US$ 3.25 per kg in major trading centres.

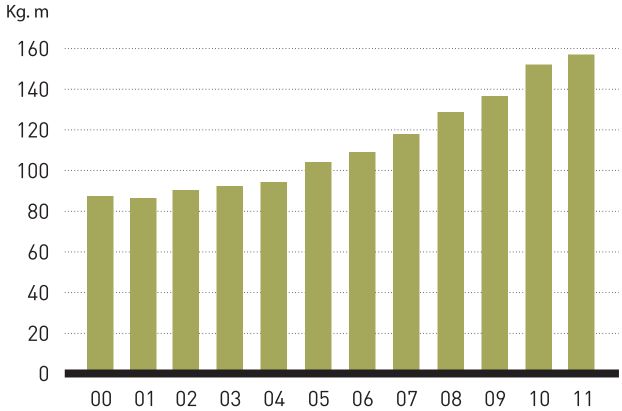
LCR1X & RSS1 Average Prices - January to December 2011



Together, India and China absorb the major part of the world's natural rubber production, for internal consumption as well as for export manufacture. However, a slowing down of these giant economies, the European debt crisis and the post-Tsunami disruptions in Japan have retarded the progress of the automobile industry which consumes 70% of the world's natural rubber production, whilst the high prices in the first half of the year have compelled non-tire product manufacturers to resort to less costly synthetic alternatives, or to curtail production as a response to declining demand. These factors, coupled with increased production resulting from the extensive exploitation of rubber plantations by producers eager to maximise the potential of attractive prices, have contributed to the decline in natural rubber prices.

Currently available statistics indicate Sri Lanka's rubber production for 2011 at around 157,000 tons, which is the highest annual production in over thirty years. This can be partly attributed to smallholders, who account for approximately 70% of the country's production, intensifying harvesting to reap maximum benefit from the record rubber prices that prevailed during a major part of the year.

Sri Lanka Rubber Production 2000/11



By prudent rationalisation of its tapping operations the Company was able to record a yield of 841 kg per ha and a crop of 2.78 m kg, reflecting an increase of 11% and 5.6% respectively, on the previous year. The Company's ability to switch its product mix between sole crepe, latex crepe and centrifuged latex helped to derive maximum benefit from varying demand patterns.

The unsettled economic conditions across the world, especially among the giant economies which are the largest consumers of natural rubber-based products, the natural rubber stocks reported to be held by China which enables them to moderate spot purchases and the increasing production trend in rubber-growing countries will contribute to the already sliding rubber prices. However, the high oil prices which are currently around US$ 110 per barrel, with the potential for further increases owing to the upheavals imminent in the Middle East, and Thailand, the world's largest natural rubber producer, reportedly restricting supplies through state intervention, may, in combination, still result in stabilising prices at reasonably remunerative levels.

Capital Investment

The Company reaffirmed its commitment to the long-term sustainability of its Tea and Rubber plantations by investing over Rs. 285 m in replanting and maintenance of immature plantations. Of this amount Rs. 197 m was spent on replanting 291 ha of rubber and immature area management, whilst Rs. 88 m was spent on tea replanting and maintenance of immature plantations. Apart from the investments made on field development, the Company also invested a further sum of Rs. 78 m on its plant and machinery, worker housing, community infrastructure, road network maintenance, office equipment and vehicles during the year, making a total investment of Rs. 366 m.

Certification and Recognition

We were successful in obtaining the Rainforest Alliance certificate for 19 Tea plantations which includes all 13 Black Tea and 2 Green Tea Processing Centres. The certification standards mandate sustainable agricultural practices, with emphasis on environmental management and community development. Since many leading multinational tea buyers have pledged to source all future requirements of tea ,within predetermined timeframes, from Rainforest Alliance certified producers, the Company will have a distinctive advantage. This position will be further strengthened by the commitment of the Company to maintain product and process purity standards already in place, by carrying out surveillance and recertification audits of its ISO 22000:2005, HACCP and GLOBALG.A.P. certification.

SGS South Africa carried out surveillance audits covering all Rubber Plantations to ensure conformity with Forest Stewardship Council (FSC) standard requirements. Dewalakande and Panawatte Rubber factories were also audited to ensure conformity with FSC chain of custody. This reaffirms that the products of these two factories are manufactured using FSC certified latex, in accordance with the guide lines laid down by the Forest Stewardship Council.

The Company was recognised at the 'National Business Excellence Awards 2011' organised by the National Chamber of Commerce of Sri Lanka and was adjudged the winner in the Agriculture and Plantation Sector. This award is presented to Companies and Organisations who have resolved to go from good to great in their chosen fields and have made significant contributions towards the Socio-Economic Development of the country , through exemplary and innovative business practices.

The many initiatives launched by the Company to protect and enhance the Biodiversity and the environment was recognised with KVPL being adjudged the winner of the special project on Corporate Social Responsibility under environment category, at the 'BEST CORPORATE CITIZEN 2011' awards organised by the Ceylon Chamber of Commerce.

The Company's 2009 Annual Report was adjudged 1st Runner-Up by the South Asian Federation of Accountants (SAFA) at its 'Best Presented Accounts Awards 2010', held in Dhaka, Bangladesh. The Annual Report of 2010 secured several awards, including the Gold Award in the Small Agribusiness Sector, selected by the League of American Communications Professionals in the Vision Awards 2010. At the 'Annual Reports Awards 2011', conducted by The Institute of Chartered Accountants of Sri Lanka, Kelani Valley Plantations PLC received the Plantation Sector, Silver Award.

Energy Management

Consequent to the installation of firewood boilers and the use of firewood furnaces, no fossil fuel was used in any of the Company's production units except in the case of standby power generators, which were restricted to the essential minimum. This resulted in a saving of Rs. 18 m during the year. To maintain this singular position it is important for the Company to be able to harvest its renewable fuel wood reserves, relieved from delays imposed by overly stringent statutory restrictions. Through training and awareness programmes among its personnel, the Company was also able to reduce the electricity consumption per unit of output by 0.046 kWh and 0.018 kWh respectively for Tea and Rubber compared to the previous year, thus making a saving of Rs. 4.9 m. More information is provided in the Sustainability Report.

Environment

Re-affirming its commitment to environmental protection and conservation the Company focused its attention this year on waste management, enrichment and conservation of the biodiversity and improvement of the water quality of the water ways within its plantations, whilst continuing with all other initiatives launched earlier.

Corporate Social Responsibility

The Company continued with its flagship CSR initiative styled 'A Home for Every Plantation Worker' which is aimed at improving the living environment, health and nutrition, youth empowerment and community capacity building of the resident population. Comprehensive details of the progress made in each area of activity are given in the Sustainability Report.

FINANCIAL REVIEW

Group Financial Performance at a Glance

Rs. m	2011	2010	Variance	% of Variance	Key Factor
Revenue	6,110	3,884	2,226	57	• Consolidation effect of Mabroc Teas (Pvt) Ltd. ('MTL') • Increase of rubber prices and volume
Cost of sales	5,210	3,288	1,922	58	• Labour wage increase in April 2011 • Consolidation effect of MTL
Other income	76	36	40	111	• Disposal of assets
Administrative expenses	342	162	180	111	• Consolidation effect of MTL
Distribution expenses	38	–	38	100	• Consolidation effect of MTL
Net finance expenses	51	87	(36)	(41)	• Increase of the interest income • Decrease of the term loan interest
Tax expense	82	30	52	173	• Enactment of income tax for specified income from agricultural activities • Increase in Deferred Tax liability

Overview

The growth in the Sri Lankan economy being estimated at 8.3% in 2011, it marked the first historical instance of economic growth exceeding 8% in consecutive years.

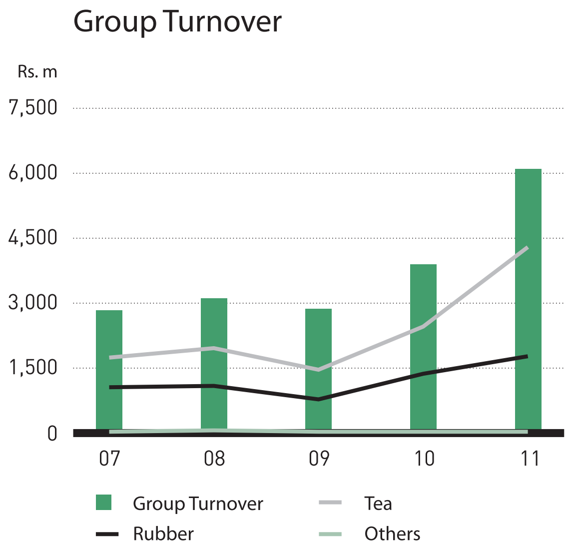
The buoyancy of the rubber market and the contribution from the marketing subsidiary overrode the negative impact of unremunerative tea prices, enabling the Group to record the highest consolidated turnover since inception. Combined with prudent cost rationalisation strategies, the Company concluded the year with the highest bottom line performance since inception.

This section provides an overview of its financial performance, position and strength of cash flows for the year under review.

Financial Performance

Group Turnover

In the year under review, the Group recorded Rs. 6,110 m revenue, an increase of 57% from the previous year.



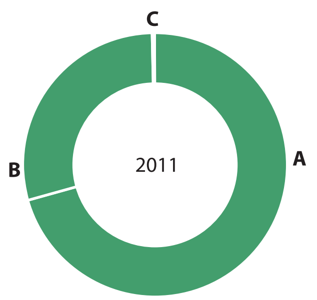
MTL with a 30% contribution equivalent to Rs. 1,838 m, prior to setting off of inter-group sales, substantially supplemented the Group consolidated turnover, assisted by generally attractive rubber prices and an increased production in both tea and rubber, during the year.

Segmental Turnover

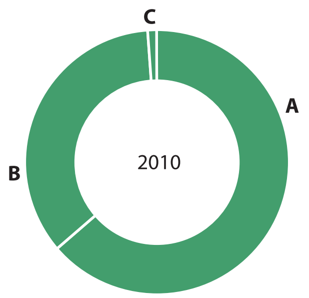
The Tea and Rubber Sectors contributed Rs. 4,305 m and Rs. 1,784 m respectively to the turnover accounting for 70% and 29% of the total Group turnover.

Segmental Turnover

A - Tea - 71%
B - Rubber - 29%
C - Other - 0%



A - Tea - 64%
B - Rubber - 35%
C - Other - 1%



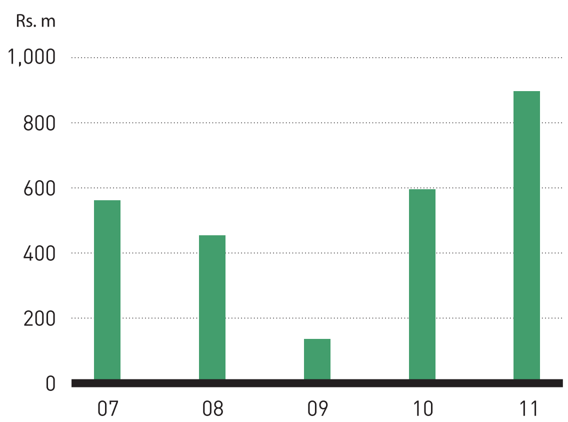
The increase in tea turnover from 64% to 71% is mainly a result of the consolidation of the revenue of MTL, counter balancing the decline in the relative contribution from rubber, from 35% to 29%, simultaneously improving the absolute contribution by 30%.

Despite fluctuations at the end of the 1st quarter and a decline in the final quarter, arising from buyer resistance to high prices, sourcing of cheaper alternatives and slowing down of the giant Asian economies, rubber prices maintained remunerative levels.

Gross Profit

Despite the 28% wage increase, the Group recorded a gross profit of Rs 900 m, the highest gross in its history, reflecting a 51% increase from the previous year. The consolidation of MTL constitutes 21% of the gross profit.

Gross Profit

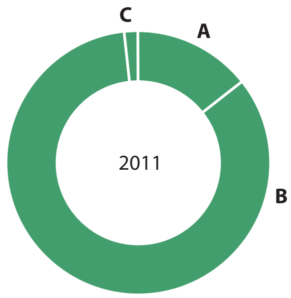


Segmental Gross Profit

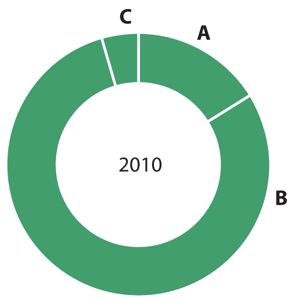
The gross profit from rubber represents the major component of 84% with tea contributing 14% and the balance coming from other sources.

Segmental Gross Profit

A - Tea - 14%
B - Rubber - 84%
C - Other - 2%



A - Tea - 16%
B - Rubber - 80%
C - Other - 4%

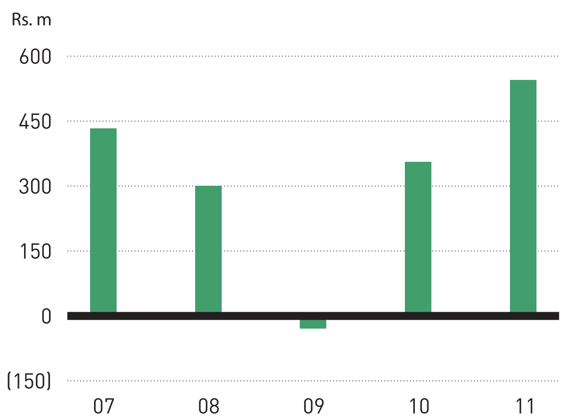


Rubber contributed to Rs. 756 m, an increase of 60% compared to the previous year, mainly due to the attractive prices coupled with increased production. Tea added Rs. 130 m to the gross profit, reflecting an increase of 36% against the previous year, benefiting from the consolidation with MTL.

Net Profit/(Loss) Before Tax

Despite the wage increase, the decline in the tea market and lower rubber prices in the last quarter, the Group posted a profit of 545 m before tax, its highest since inception.

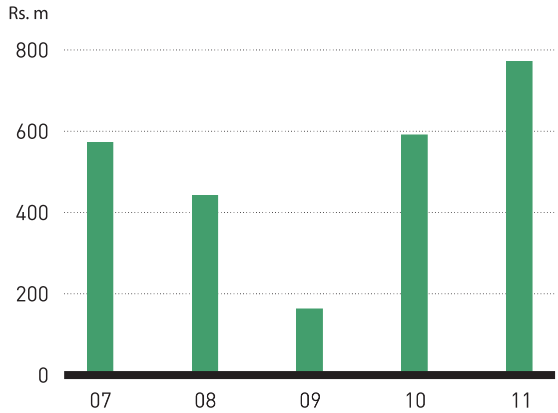
Net Profit before Tax



Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)

The Group's EBITDA increased by 31%, from Rs. 592 m to Rs. 773 m in the year under review. This resulted in an improvement in the operational cash flow position of the Group which is reflected in the cash flow statement.

EBITDA

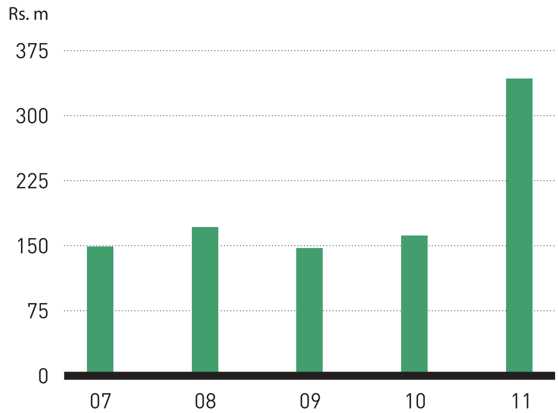


Administrative and Distribution Cost

After relatively steady levels since 2007, administrative costs escalated sharply to Rs. 342 m in 2011, an increase of 112%, arising from the consolidation with MTL, which constituted 36% of the total cost.

The distribution expenses of 38 m for the year is attributed solely to MTL.

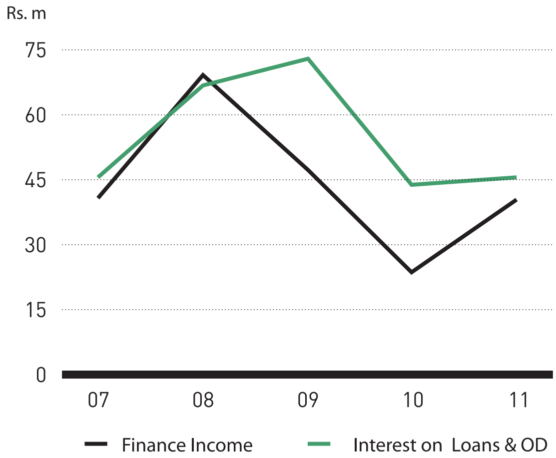
Administrative Expenses



Net Finance Expenses

Net finance cost reflects the interest expenses on borrowings and the interest income from short-term deposits. Net finance expenses decreased by 41% equivalent to 36 m.

Finance Expenses vs Finance Income



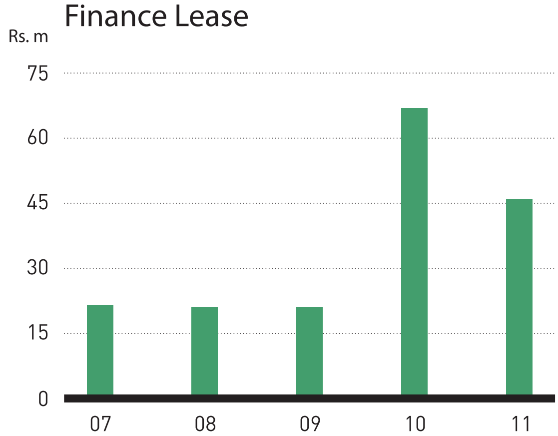
Finance income increased by 70% to 40 m in year 2011 from 24 m previous year as a result of increased short-term deposits.

Interest on term loans and overdrafts has been increased by 4% to 46 m from 44 m previously.

Interest Paid to Government on Finance Lease

Interest paid to Government on finance lease has decreased by 32% to Rs. 46 m compared to Rs. 67 m previously. The higher amount in previous year is due to the arrears charges incurred as a result of the Government's decision, not to extend the agreement for freezing of lease rentals beyond June 2008.

Lease Rental Paid to Government on Finance Lease



The Group's average cost of funds decreased from 10.52% to 9.32% during the year due to the reduction of interest rates and premature settlement of high interest-bearing loans.

Share of Associates' Results

The MTL became a fully-owned subsidiary of KVPL with acquisition of balance 60% of shares in December 2010. Hence, the results of MTL are reflected in the consolidated accounts in the year under review.

Income and Deferred Taxation

The Group's total tax charge for the year was Rs. 82 m, an increment of 176% compared to the previous year.

The income tax charge increased from Rs. 30 m to Rs. 82 m in the year under review, as a result of the expiration of the tax holiday period for specified profit from agricultural operations enjoyed by the Company.

With the new income tax enactment, the Company is liable to income tax at the rate of 10% on its agricultural profits beginning from year of assessment 2011/12.

The deferred tax liability for the year increased from Rs. 147 m to Rs. 198 m as a result of utilising the brought forward tax losses and the increase of the permanent differences due to increased investment in immature plantations.

Tax exempt companies of the Group, and information on the tax holidays enjoyed by these companies, are stated in page 93 and 94.

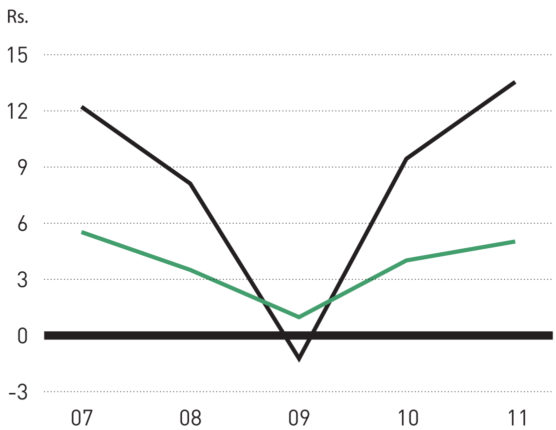
Dividends

Dividend of Rs. 5.00 per share is proposed by the Company as against the previous year's Rs. 4.00 per share. The proposed dividend corresponds to 40% of the retained profit of the Company. The Company has fulfilled the solvency test, requirement for payment of dividends as per the Section 56 of the Companies Act No. 07 of 2007.

EPS and DPS

Earnings Per Share of the Group escalated from Rs. 9.43 to Rs. 13.54 in the year under review. 44% increase of EPS reflects the performance achieved during the year while the average number of shares remain unchanged.

EPS Vs DPS



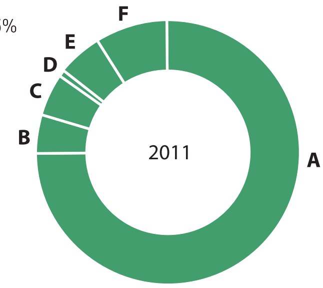
The Company paid Rs. 5.00 Dividend per Share during the year while prudently reserving a share for future growth of the Company. The Dividend Payout has been decreased from 42% to 37% in the year under review as a result of increasing EPS.

Distribution of Economic Value Addition

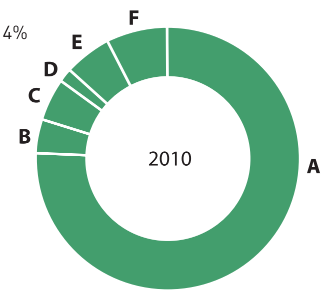
The economic value addition of the Group has been increased by Rs. 2,569 m to Rs. 3,285 m in the year under review. The 75% of value addition distributed among 14,842 employees. Rs. 159 m was distributed to Government of Sri Lanka in different types of taxes as oppose to Rs. 103 m in the previous year. Distribution to lenders of capital was reduce from Rs. 48 m to Rs. 35 m as a result of settlement of loans.

Distribution of Value Addition

A - Employees - 75%
B - Government of Sri Lanka - 5%
C - Shareholders - 5%
D - Lenders of Capital - 1%
E - Retained for future as Depreciation - 5%
F - Profit - 9%



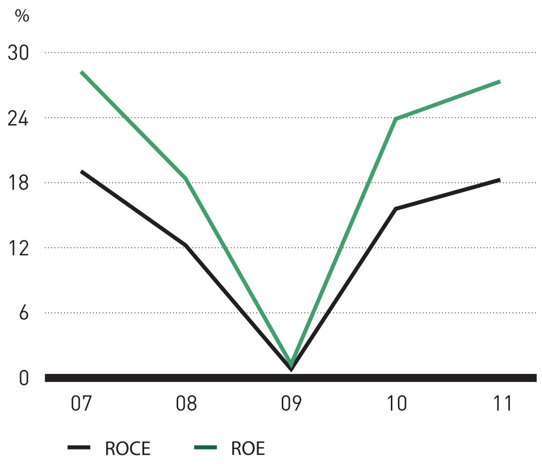
A - Employees - 76%
B - Government of Sri Lanka - 4%
C - Shareholders - 5%
D - Lenders of Capital - 2%
E - Retained for future as Depreciation - 6%
F - Profit - 7%



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

Due to higher overall profit and reduction in long-term borrowings, the Return on Capital Employed and Return on Equity increased to 18% & 27% respectively in the year under review.

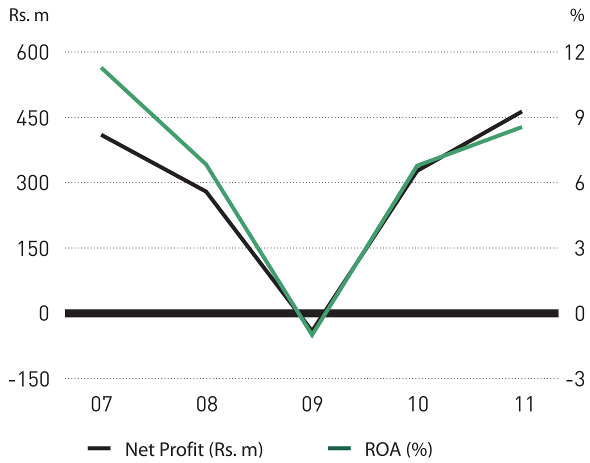
ROCE and ROE



Return on Assets (ROA)

ROA reflects the profitability and efficiency of the Company, relative to its total assets. The Company's ROA ratio in the current financial year improved to 9% from 7% in previous year.

Return on Assets



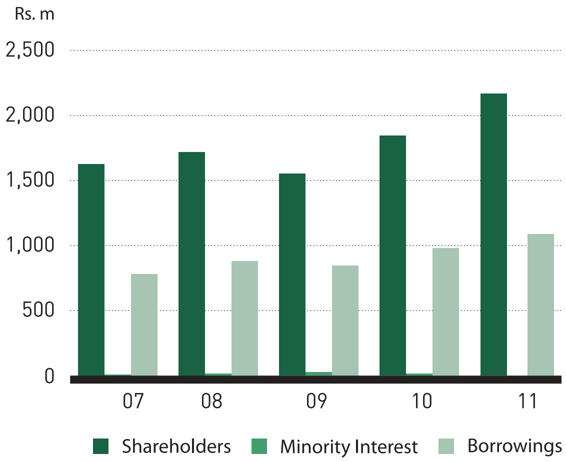
Group Financial Position at a Glance

Rs. m	2011	2010	Variance	% of Variance	Key Factor
Assets					
Freehold Property, Plant & Equipment	1,313	1,277	37	3	• New additions
Improvements to leasehold property	1,842	1,600	242	15	• Replanting of tea and rubber
Trade and other receivables	566	271	294	108	• Increase the trade and other receivables of MTL
ST investment, ST deposits, cash in hand and bank	416	361	56	15	• Increase of short-term deposits in KVPL
Equity and Liabilities					
Shareholders' fund	2,182	1,855	327	18	• Increase of the retaining profit
Interest-bearing borrowings (after one year)	137	226	(100)	(44)	• Repayment of loans
Deferred income	477	481	(4)	(1)	• The amortisation of grant is higher than the amount received as grants
Deferred tax liability	198	147	50	34	• Increasing of improvements to leasehold property • Utilisation of brought forward tax loss against the tax payable during the year
Retirement benefit obligations	980	871	109	12	• Increase of labour wages
Net liability to lessor	352	358	(5)	(2)	• Repayment of Government lease
Trade and other payables	478	443	35	8	• Increase of employee-related payments
Income tax payable	3	0.4	3	646	• The current year tax liability increased due to imposition of income tax for agricultural activities
Short-term interest-bearing borrowings	519	318	201	63	• Increase of the local and foreign currency short-term borrowings in MTL
Bank overdraft	5	13	(8)	(64)	• Utilisation of cash

Financial Position

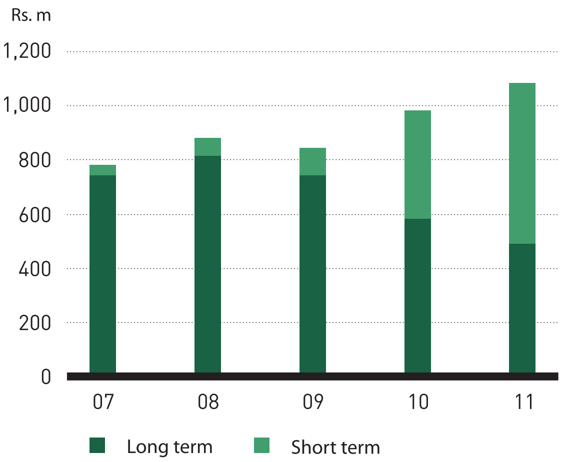
Capital Structure

Capital Structure



The shareholders' funds in the Group's capital structure increased by 18% from Rs. 1,841 m in 2010 to Rs. 2,165 m and overall borrowings increased by 11%, from Rs. 980 m in 2010 to Rs. 1,085 m for the year under review.

Borrowings

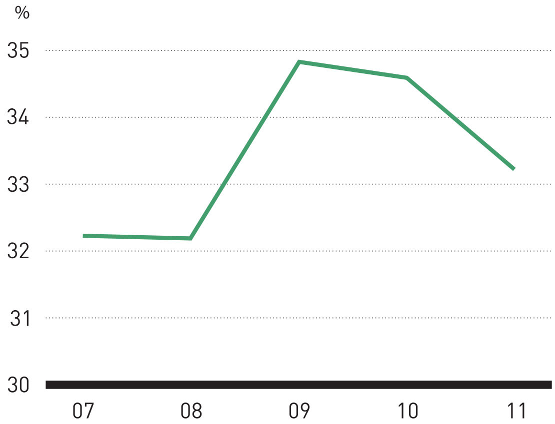


The composition of the loan portfolio predominated by the short-term borrowings. The long-term borrowings declined by 95 m due to settlements. Short-term borrowings increased by 199 m mainly due to consolidation effect of MTL.

The Group has both local and foreign currency short-term borrowings. The short-term foreign currency borrowings increased equivalent to Rs. 282 m in the year under review and short-term local currency borrowings increased up to Rs. 237 m.

The steady increase of the equity and reduction of the long-term borrowings resulted to a continuous decline of the Gearing ratio. The management prudently responded maintaining the Gearing at an optimum level in order to minimise the cost of capital.

Gearing Ratio



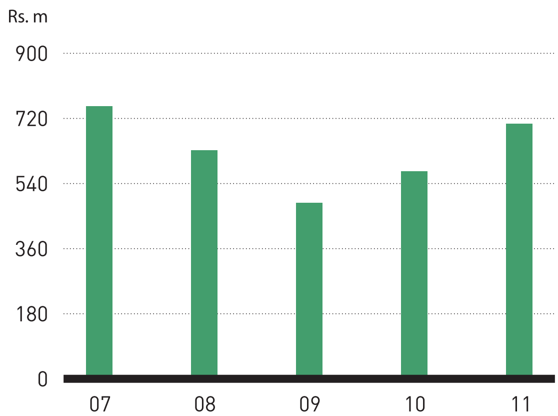
Shareholders' Funds Ratio

It shows that the Company's asset base has grown gradually year on year. Shareholders' Fund is equivalent to 40% of total assets in the year under review, whereas it was 39% in previous year. Adequate reserves from earnings is a beneficial consequence.

Working Capital

Working capital increased from Rs. 576 m in 2010 to Rs. 707 m in the year under review, as a result of a proportionate increase of receivables of MTL and short-term interest-bearing borrowings of the Company.

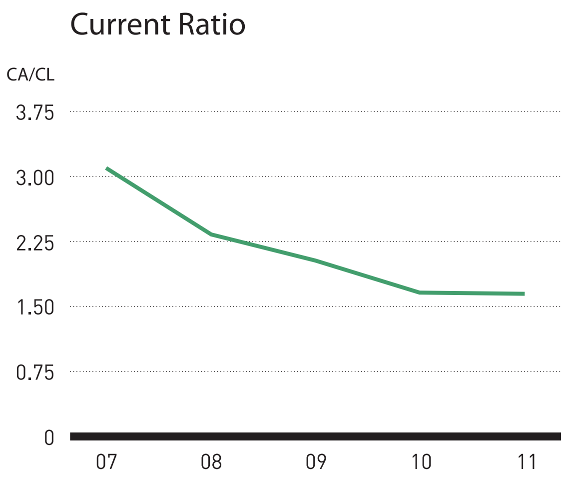
Working Capital



Current Ratio

The ratio between current assets and current liabilities continuously decreased up to 2010 and maintain approximately at the same meaningful level in 2011, to adequately meet the short-term liquidity requirements.

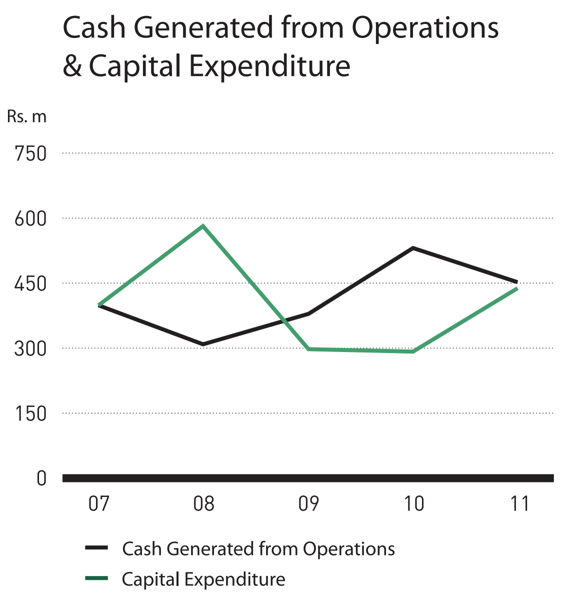
The decline of liquidity position is mainly due to the increase in short-term interest-bearing borrowings of MTL.



Cash Flow

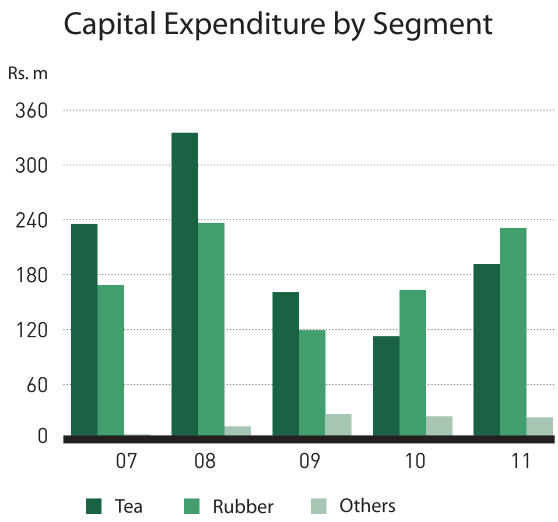
Net cash generated from operating activities decreased by Rs. 78 m to Rs. 456 m from Rs. 530 m in the previous year.

Capital expenditure incurred during the year was Rs. 437 m compared to Rs. 293 m in the year 2010.



Capital Expenditure by Segment

The Capital expenditure on tea increased from Rs. 110 m to Rs. 189 m in the year 2011. The capital expenditure for rubber increased from Rs. 161 in to Rs. 229 m in the year 2011.



The above capital expenditure comprised Rs. 88 m and Rs. 197 m on replanting and maintenance of tea and rubber fields respectively. During the year, 33 ha of tea and 291 ha of rubber were replanted.

Performance Measurement

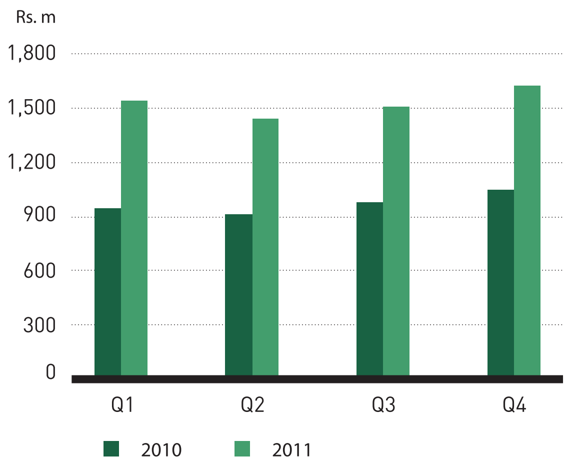
Quarterly Performance

Tabulated below is the quarterly performance of the Group. This depicts a stable level of revenue experience throughout the year. Apart from a negative second quarter, the other periods recorded operational profits.

Rs. m	Q1	Q2	Q3	Q4	Total
Revenue	1,537	1,436	1,511	1,626	6,110
GP	345	20	139	396	900
Administrative expense	81	79	100	82	342
PBT	272	(45)	79	238	544
PAT	247	(49)	78	187	463
Profit/(loss) attributable to equity holders	246	(50)	78	186	460
Total Assets	5,116	5,222	5,264	5,414	5,414
Total Equity	1,966	1,917	1,995	2,182	2,182
Total Debt	969	1,027	1,060	1,085	1,085

Quarterly revenue in year 2011 is substantially higher than the same in 2010 as depicted below. An approximate increase of 50% in each quarter comparable to 2010 is mainly due to the consolidation effect of MTL, best commodity prices of rubber and increase in production during the year. Unusual decline of the bottom line in second quarter is due to the provision of additional gratuity liability, arising from the increased labour wages effective from 1st April, 2011.

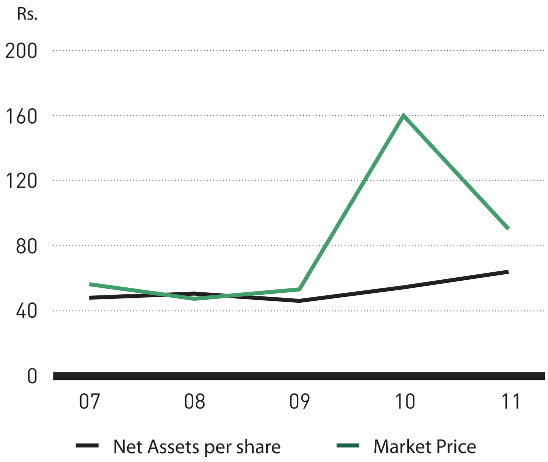
Revenue Analysis - Quarterly



Net Assets per Share

Net assets per share grew to Rs. 63.68 from Rs. 54.14 previous year.

Performance of the Share



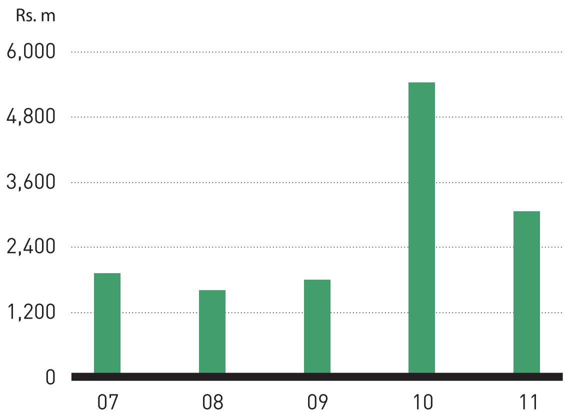
Performance of the Share

Market has demonstrated volatility on account of political and economic impacts. The progress of the KVPL share price reflects the market uncertainties, rising to a maximum of Rs. 205.50 in January and declining to Rs. 80.00 in November, its lowest in 2011. Its position at Rs. 90.00 at the end of the year reflects a decrease of 44% in relation to its value at the beginning of the year.

Market Capitalisation

Parallel to the decline of share prices, the market capitalisation declined to Rs. 3,060 m in 2011, compared to Rs. 5,437 m in previous year while the share capital remain constant. Total number of shares traded during the year was 1.1 m while it was 4.2 m in last year.

Market Capitalisation



Financial Reporting and its Achievements

The Group is committed to adopt best practices in financial reporting and maintains a close watch on new developments in the financial reporting environment. The financial reports on pages 76 to 111 have been prepared in compliance with the Sri Lanka Accounting Standards (SLAS) and every attempt has been made to provide the stakeholders, with a clear and comprehensive understanding of the financials.

Apart from this, the Group intends to present its first IFRS Financial Statements for year ending 31st December, 2012. The internal resource personnel are committed to the IFRS conversion process with the support of external experts.

The emphasis on quality and transparency in reporting has enabled the Company to secure awards in both local and international reporting competitions. Annual Report 2010 won the Silver Award in Plantation Sector for third consecutive year at the 47th Annual Report Award Competition in Sri Lanka conducted by The Institute of Chartered Accountants of Sri Lanka.

In the international arena, KVPL was adjudged the 1st Runners-Up in Agricultural Sector, competing with regional countries for the Best Presented Accounts Awards 2010 conducted by South Asian Federation of Accountants (SAFA) in Bangladesh.

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

Future Outlook

Agriculture is one key segment out of three prominent segments that Government stimulates to develop in next three years. According to the CBSL Road Map 2012, the Government targets to earn US$ 2.5 b in export earnings from tea and US$ 2 b export earnings from rubber and rubber products by 2015. Therefore, the KVPL expects new incentives for the plantation industry, which could be harnessed for the improvement of the Company's future performance.

KVPL has maintained a steady growth and has delivered on its potential to the plantation sector of the country since the Company's inception. It expects to play a key role in the plantation sector during the decade ahead.

1. KVPL will explore opportunities in the export (global) market through MTL, an export company of both value added and bulk tea.
2. KVPL, with prudent strategies and financial acumen, will continue its progress towards sustainable growth, despite challenging economic and climatic conditions.

WEALTH IN DIVERSITY

Our commitment to sustainability encompasses care for the environment and the people of both the Company and the wider community, outside. As custodians of 13,000 hectares of land, we have dedicated strategies in place for the protection and replenishment of the habitat and its rich biodiversity. Our companions in this journey are our people, who accept and share our vision.

OUR LAND

2011

Estate	Extent Hectares				Elevation	Crop	
	Tea	Rubber	Other	Total	(ft)	kgs '000 Tea	kgs '000 Rubber
Nuwara-Eliya Group							
Pedro	546	–	122	668	6,237	742	–
Nuwara Eliya	188	–	59	247	5,999	407	–
Glassaugh	184	–	44	228	5,074	266	–
Uda Radella	184	–	41	225	5,328	321	–
Edinburgh	162	–	17	179	5,075	229	–
Oliphant	241	–	123	364	6,440	218	–
Hatton Group							
Ingestre	431	–	218	649	4,723	734	–
Fordyce	266	–	137	403	4,599	439	–
Annfield	259	–	116	375	4,297	409	–
Tillyrie	225	–	109	334	4,264	331	–
Invery	195	–	111	306	4,310	266	–
Robgill	219	–	81	300	4,500	357	–
Battalgalla	180	–	81	261	4,300	315	–
Blinkbonnie	149	–	32	181	4,500	239	–
Yatiyantota - Tea Group							
Halgolle	266	–	930	1,196	3,478	471	–
Ederapola	35	418	214	667	338	43	219
Kitulgala	49	28	505	582	1,003	52	14
Kalupahana	86	171	255	512	1,500	113	49
We Oya/Polatagama	25	739	223	987	1,000	22	510
Kelani	33	243	73	349	300	39	99
Yatiyantota - Rubber Group							
Dewalakande	–	579	138	717	502	–	360
Panawatte	33	710	287	1,030	1,000	38	424
Urumiwella	6	552	164	722	800	11	372
Kiriporuwa	37	390	160	587	805	44	227
Lavant	–	461	108	569	800	–	273
Ganepalla	–	413	77	490	1,000	–	230
Total	3,999	4,704	4,425	13,128		6,106	2,777

SUSTAINABILITY REPORT

Report Profile

This is the second annual Sustainability Report of the Kelani Valley Plantations PLC. The report is based on the indicator list of the Global Reporting Initiative (GRI) version 3.1 and is also a 'communication on progress' as proposed by the United Nations Global Compact (UNGC).

All the information provided in this report relates to the above mentioned time period except for further illustrations and comparison of some presented data.

Our reporting focuses on the purity of product, business ethics, environmental and social challenges that most affect business performance and matter most to our key stakeholders. These include local communities, non-governmental organisations, shareholders, investors, customers, partners, Government, employees, media, academics, contractors and suppliers. We use a thorough process to select content for our reporting. Internal controls such as audit trails that are carried out by in-house experts and statistical checks help assure the accuracy of the Sustainability Report.

This report is supported on the Kelani Valley plantations PLC (www.kvpl.com) website by more detailed information on our approach to sustainable development and related issues. A copy of this report can be downloaded in PDF from the website. For comments and suggestions, regarding the Sustainability Report contact the Manager, Corporate -Sustainability, akila@kvpl.com.

Report Scope and Boundary

This report covers the performance of the businesses within the Kelani Valley Plantations PLC Group and the performance is reported in accordance with the criteria pertaining to Level C of the GRI Guidelines.

Economic performance report has been prepared using the data audited by the KPMG Ford, Rhodes, Thornton and Co. for the financial year ended 31st December, 2011.

Data on Environmental and Safety issues has been compiled from the actual operating data maintained on the estates in the KVPL Group.

Report on Social Responsibility has been compiled from the data maintained on-site, in respect of the above time period, for the 'A Home for Every Plantation Worker Programme'

Assurance

Governance, Commitments and Engagements

Governance

KVPL follows an open governance structure and a comprehensive review on this appears on page 52 of this Annual Report.

Stakeholder Engagement

Kelani Valley Plantations PLC has recognised nine main stakeholder groups as; shareholders, employees, suppliers, Government and regulations, customers/ buyers, business partners, academia and scientific community, trade unions, and community.

Engagement is based on their relevance to the business, the nature of interest and finding the most practical and meaningful ways to identify and meet their needs and expectations. Our continuing partnerships with our internal and external stakeholders are nurtured by our regular constructive dialogues, focused group discussions, meetings, regular process, performance reviews and customer surveys.

Tea Fields of Hatton

KELANI VALLEY PLANTATIONS PLC
Stakeholder Engagement

Business Partners
Market Share
Interactions with partners

Aftercare
Continuous dialogue on product quality, marketing, maintaining customer satisfaction and problem solving

Participation at International Trade Fairs, with a view to expanding network of business partners and avenues of product distribution

Shareholders
Profit and Growth
Annual General Meeting - Quarterly Financial Reports, an Open Door Policy (Shareholder can visit and get information), meetings with fund managers, share brokers and investment analysts and e-mail contact with responsible employees

Trade Unions
High Political Pressure
Interaction with Trade Unions through meetings/telephone/letters/e-mails Daily/Weekly/Monthly/Annual Discussions

Community
To sustain the Business
Regular discussions, meetings, Interactions with the representatives of the community/neighbour with verbally/ telephone/letters/e-mails

Government and Regulators
Policy Decisions
Participatory approaches through Industrial Association
Regular discussions, meetings, interactions with Government and local authorities with verbally/ telephone/letters/circulars/ e-mails

Kelani Valley Plantations®

Suppliers
Payment Policy
Following an on-time payment policy

Commitment to Sustainability
Supplier Relationship Management enables KVPL to keep in touch with their suppliers

Regulatory meetings - Daily/Weekly/ Monthly/Quarterly/Annually with Staff and Management

Customer/Buyer
Product Quality
Annual Product Quality Testing on Physical/Chemical/Biological parameters

Regular brokers' visit to identify customer preferences, launching new initiatives and strategies to meet changing market trends and to retain the confidence of customers/buyers

Confidence
Representation at Annual International Food Exhibitions/ International Trade Fairs thus maintaining Company visibility, market presence and keeping abreast of new marketing development

Academia and Scientific Community
Inadequate Innovations
Regular discussions, meetings, Interactions with the partners and providing opportunities for research activities for further development of the industry

Employees
Remuneration and Benefits
Workforce and staff - According to the collective agreements in respect of manual and supervisory staff

Working Facilities and Environment
Following an Open Door Policy - Where any employee can discuss his/her problems with seniors, including the senior management, at any given time

Formal Monthly Management Meetings - An interactive meeting with the Senior Management discussing current performance and future prospects

Interaction between Senior Management and Staff with letters/telephone/e-mail facilities. 'A Home for Every Plantation Worker Programme' concept, which helps to improve the standard of living, Health & Nutrition status, promotes Community Capacity Building and the Empowerment of Youth in the plantation population

Daily/Weekly/Monthly/Annual dialogue/monitoring/ evaluation with Staff and Management

Health and Safety
Provision of qualified medical staff and appropriate medical facilities on location and with easy access for employees
- Weekly/Monthly health and safety meetings

Stakeholders
Sustainable Issue
Process of Engagement

Economic Performance

Despite attractive rubber prices that bolstered the bottom line, the 28% wage increase diminished the Company's overall performance.

In the year under review, the Group recorded Rs. 6,110 m (US$ 53.6 m) revenue, an increase of 57% from the previous year, mainly due to the acquisition of Mabroc Teas (Pvt) Ltd. Despite the 28% wage hike, a continuing decline in the tea market and the slowing down of the rubber market in the later part of the year, the Group was able to post Rs. 545 m (US$ 4.78 m) of Profit before Tax, the highest since its inception.

The economic value addition of the Group has increased by 28%, from Rs. 2,569 m (US$ 22.5 m) in the previous year to Rs. 3,285 m (US$ 28.8 m) in the year under review, 75% of which, equivalent to Rs. 2,451 m (US$ 21.5 m), was distributed among 14,842 employees. Taxes and levies of various norms amounting to Rs. 159 m (US$ 1.39 m) have been paid to the state. A dividend of Rs. 5.00 per share has been declared amounting to Rs. 170 m (US$ 1.49 m).

Capital investments in a total sum of Rs. 437 m (US$ 3.84 m) were incurred to build and sustain our core business for the future. We continued to focus our efforts on searching for new business avenues, where we see the potential for growth.

(1 US$ = Rs. 113.95)

Impact of Climate Change

Climate change is one of the most serious challenges faced by mankind. We believe that it is crucial for our sector to understand and implement action in mitigation of our impact on climate change, such as changes in rainfall pattern, atmospheric temperature, duration of sunshine hours, wind pattern and atmospheric carbon dioxide levels.

We are working to better manage our environmental impact, drawing on our experience with improving agronomic practices and enforcing various policies and procedures towards sustainable agriculture.

Risks and Opportunities arising from Climate Change

We, in the plantation sector, face enormous challenges and complexities as we strive to operate prudently and with greater sensitivity and responsibility to the needs of our stakeholders.

The variations in atmospheric temperatures, concomitant changes likely to occur in precipitation patterns and the physiological response of crops to the disparity of carbon dioxide levels in the atmosphere, along with other relevant factors, contribute to the determination of Group crop outputs.

Assessment of Risks and Opportunities due to Climate Change

Risk	Impact	Responses
Disruption of normal weather pattern: - Changes in rainfall	Directly related to the available soil moisture, that determine the supply of water to meet physiological water demands of tea, rubber and evaporation, may create favourable conditions to the emergence of pests and diseases	Changes in quantity and quality of final product
- Changes in atmospheric temperature	Related to the radiation, thermal climates and carbon dioxide level in the atmosphere, may create favourable conditions to the emergence of pests and diseases	Changes in the quantity and quality of final product
- Changes in sunshine hours	Directly related to the photosynthesis of crops which determines the production of dry matter content	Changes in yield
- Changes in wind pattern	In Rubber - It is directly related to the reduction of the stand per hectare In Tea - Presence of most quality parameters vary with the wind pattern	Rubber - Changes in yield Tea - Changes in quality

Opportunity	Impact	Responses
Dry spell	Increases the duration of sun shine hours and water stress will occur in some agro climatic districts	May increase the yield in some agro climatic districts and improve the quality of final product
Atmospheric carbon dioxide level	Essential factor for photosynthesis and with the change of atmospheric carbon dioxide level dry matter production in plant will vary	Changes in yield
	With the Company replanting programme and usage of alternative energy will create new business ventures	Carbon credit trading
Disruption of normal weather pattern	Changes in weather and climate will increase the gap between budgeted and actuals	Get competitive advantage from the already implemented environment initiatives

Environment Management

"We are sharpening our focus on environmental management since we are operating in environmentally sensitive areas. Our work with leading environmental experts is helping to improve our approach towards the management of the environment".

Kelani Valley Plantations PLC (KVPL) owns and manages 13,000 hectares of plantation land, annually producing about 6 million kgs of tea and 3 million kgs of rubber. The Company's land extent is divided into 22 tea and tea cum rubber plantations, and five (5) rubber properties. It has 13 Black Tea manufacturing units, two (2) Green Tea production plants, one (1) instant tea plant and seven (07) factories producing varieties of rubber of supreme quality. The tea plantations are located in three agro-climatic regions, some being in the highest elevations in the country's central hills , with a few others at slightly lower elevations further North and the balance in the foot-hills abutting the Western low-country region. The company provides direct employment to over 14,000 people and its plantations carry a resident population of around 54,000.

Environmental Changes

Even in the absence of man, the natural environment undergoes continual change. This may be on a time - scale of hundreds of millions of years, as with continental drift and mountain- building or on a time - scale of tens of thousands of years, as with the recent Ice Ages and the changes in sea level that accompanied them, or on a scale of hundreds of years, as with the natural eutrophication and siltation of shallow lakes, or over a period of a few years, as when a colony of beavers rapidly transforms dry land into swamp. Some of the natural changes are irreversible, while others are cyclic or transient.

Man increasing 'control' of his environment often creates conflicts between human goals and natural processes. In order to achieve greater yields or for other purposes, man deflects the natural flows of energy, by-passes natural processes, severs food chains and simplifies ecosystems.

As man's knowledge of his environment increased, there has been a desire for a more comfortable way of living. As the number of people increased, more and more natural resources were consumed in the process of satisfying the rapidly growing needs of the habitat. Every development activity has some impact on the environment. Development and Environment both are considered as two sides of the same coin.

KVPL is acutely aware of growing international recognition for the need to address climate change. We recognise that achieving sustainable outcomes require both farming and manufacturing to invest in practices, technology and decision-making , that strikes the right balance between economic growth and environmental management.

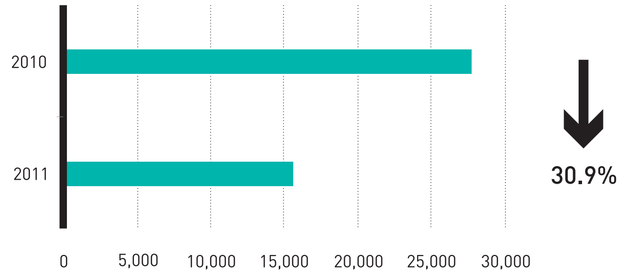
Materials

"We want to focus on the environmental impacts of our operations across all of our plantations. This approach will help us to reduce the usage of agrochemicals, design to systematic waste disposal systems and maximise the usage of renewable energy that leads to a sustainable future."

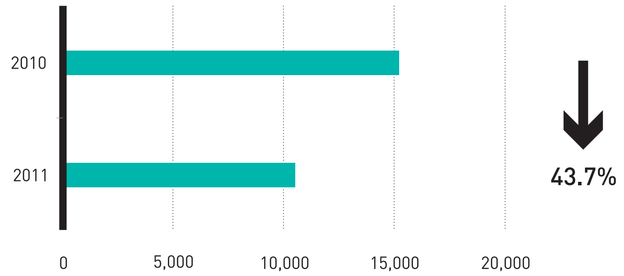
KVPL consumes wide variety of materials in their daily operation. Tracking material consumption facilitates the improvement of the efficiency of material usage and reduces the cost of material flows. For the year of 2011, KVPL materials consumption was as follows:

Fertilizer	4, 904.82 MT
Dolomite	1,776.56 MT
Agro Chemicals	15,563.60 litres and 105,187.50 Kg
Packing Materials	152,400 (in Numbers)
Bought Leaf	873,678 Kg
Bought latex	569,985 Kg
Diesel	527,184 litres
Gasoline	85,113 litres

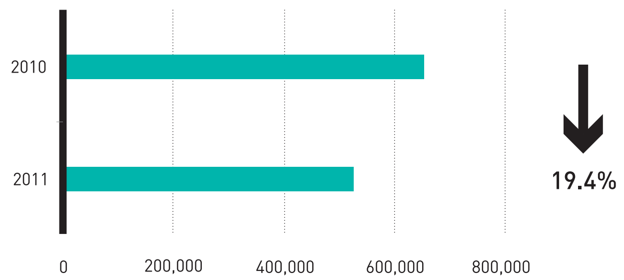
Solid Agrochemicals



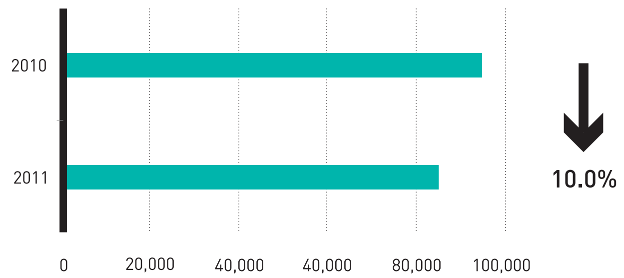
Liquid Agrochemicals



Diesel



Gasoline



Company agrochemical usage was reduced by 44% and 31% in respect of liquid and solid based compare to previous year. Also, significant reduction of fossil fuel can be seen in the Company as, 19% and 10% for diesel and gasoline usage.

Energy

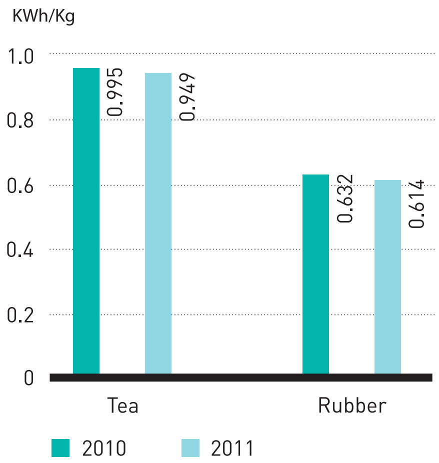
Type of Energy	2011	2010	Units
Direct Energy Consumption by Primary Energy Sources			
Hydro Power			
Manufacturing	145,811	176,183	kWh
Gasoline			
Field Machinery	23,614	23,601	litres
Supervisory & Other	61,499	70,985	litres
Diesel			
Power Generators	56,428	104,217	litres
Manufacturing	–	29,537	litres
Field Machinery	8,209	12,837	litres
Field Transport	305,871	325,271	litres
Supervisory & Other	156,676	182,366	litres
Direct energy Production by Primary Energy Sources			
Group Hydropower Generation	2,283,304	3,541,229	kWh
Indirect Energy Consumption by Intermediate Energy Sources			
Electricity			
Manufacturing (Tea)	6,422,192	6,141,796	kWh
Manufacturing (Rubber)	1,038,749	953,206	kWh
Office & Quarters	903,800	826,193	kWh
Other (Dispensary, Temples, Creches, Community Centres, etc.)	98,554	148,762	kWh
Biomass Consumption as Energy Source			
Firewood			
Manufacturing (Tea)	49,287	49,808	Cu.m
Manufacturing (Rubber)	853	804	Cu.m

Old Generator at Battalagala

Annual Direct & Indirect Energy Consumption

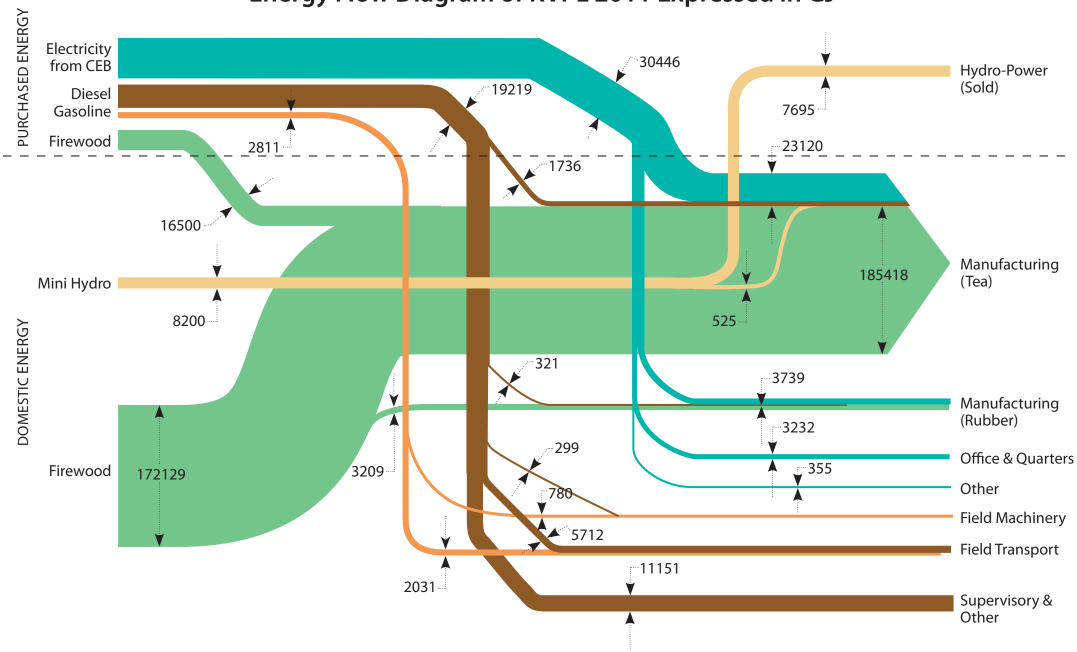
	2011	2010	Units
Total Direct Energy Consumption by Renewable Primary Energy Sources	**525**	634	GJ
Total Direct Energy Consumption by non-Renewable Primary Energy Sources	**22,029**	22,391	GJ
Total indirect Energy by Renewable Sources in terms of intermediate Energy Sources	**16,258**	15,514	GJ
Total indirect Energy by non-Renewable Sources in terms of intermediate sources	**14,188**	13,538	GJ
Estimated total energy saving obtained by Fuel switching, efficiency improvement and changes in personal behaviour	**26,383**	23,938	GJ

Electricity Consumption per kg Manufacture



The energy flow diagram and energy consumption data table given below show that in 2011, KVPL has purchased 68,976 GJ equivalent of energy and has produced 180,329 GJ of in-house energy from primary and intermediate sources. Further KVPL has sold 7,695 GJ equivalent of hydro energy and used 241,628 GJ equivalent of energy for manufacturing, field transport and machinery, offices and quarters, etc.

Energy Flow Diagram of KVPL 2011 Expressed in GJ



Note:

- *Calculations /conversions have been prepared according to the GRI indicator 2.4 of EN3*
- *For the estimation of Indirect Energy, Power generation data was obtained from the Statistical Digest 2010 of the Ceylon Electricity Board*

Water

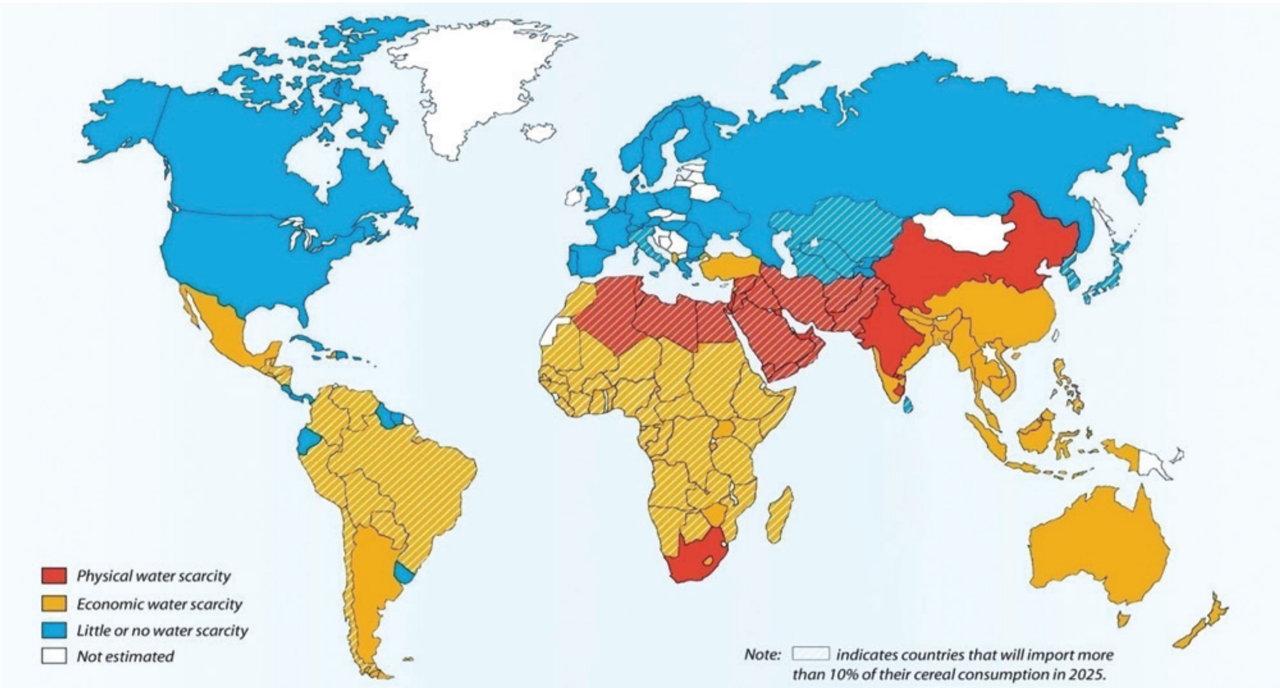
"We have increased our production by around five (5%) per cent for tea and rubber production by six (6%) per cent and over the last year, yet reduced our overall use of water by five (5%) per cent".

Sri Lanka is fortunate to be blessed with one of the highest per capita fresh water resources in the world and each year we get enough rainfall to fill our lakes, reservoirs, streams and rivers. This provides an outstanding competitive advantage to our country. Its therefore imperative that we protect it, although we are not in immediate danger of being affected by projected global water scarcities.

The lack of access to clean water and sanitation in many parts of the world causes great suffering in humanitarian, social, environment and economic terms and seriously impacts the development goals of the affected country.

Therefore, a clean water resource is something Sri Lankans take very seriously and KVPL has assumed leadership in helping the community to clean up our waterways. We are implementing water conservation initiatives and also investing on educational and training programmes to ensure that we are making the best possible use of this critical resource. We're also working with our rural communities, Government agencies and non-profit organisations, conservation volunteers, on projects to enhance and protect.

Projected Water Scarcity Map - 2025



Source: International Water Management Institute (http://iwmi.org)

Tributary of Kelani River flowing through We Oya Estate

This has been achieved by -

- Improving landscapes and enriching catchment areas especially, by planting with native tree species
  - Extent of 14.52 Ha of KVPL estates' land covered with bamboo during year of 2010/11.
- Enhancing habitats and food sources for native fauna by improving vegetation cover and water quality
  - Increasing vegetation cover alongside streams and improving water quality by intercepting nutrient and sediment flows into streams.
- Effluent treatment plants - All our rubber processing centres are equipped with CEA approved effluent treatment plants
  - All our tea processing centres, washing water is released to the environment after passing through an effective filtering system.
- Installation of water meters in every tea processing centre and proper monitoring of water usage
- Annually checking of the quality of potable water, where estate employees usage is high
- Conducting of education programmes to the community regarding the sustainable water usage
- Protection of water shed areas by maintaining buffer zones
- Engagement of most of the stakeholders for watershed protection and enrichment programme [Participation of Deutsche Bank Sri Lanka/Singapore/Hong Kong, Unilever Sri Lanka, International Union for Conservation of Nature (IUCN).

We are not a significant user of water in tea manufacturing. However, manufacturing of rubber takes a comparatively large amount of water. In 2011, we have increased our rubber production by 144,000 kg over 2010, but reduced our overall use of water in rubber manufacturing. We have increased the water use efficiency in rubber processing operations over 2010, by 9 m^3/kg/day, calculating the volume of water used in KVPL rubber factories to produce one Kg of rubber per day.

Deutsche Bank Participants planting trees at Halgolle Estate

Biodiversity

Identification of Natural Habitats

We are guided by the comprehensive Biodiversity Assessment Inventory of fauna and flora within all our plantations. The assessment was carried out by a team of environmental scientists led by a specialist in the field permanently attached to the UN.

This survey which resulted in the identification of species resident on our plantations and, particularly, the endangered species has enabled us to include them within our environmental management strategy.

We have also developed a checklist to identify High Conservation Value Forests (HCVF), within our plantation boundaries. The head office sustainability team and plantation management combine to assess the presence of HCVF, as well as landscape-level impacts of our operations. Management and monitoring plans are developed for all plantations and designed according to unique circumstances on the ground. Special management practices include the establishment of buffer zones, leaving of wildlife corridors, setting aside land for conservation and protection and enrichment of conservation forests, have become daily tasks and the responsibility of our plantation managers, with the co-ordination and specialist support of the sustainability team.

An initial reconnaissance survey was carried out, followed by a detailed survey of the natural and semi-natural habitats found within one of our most ecological diversified estate, namely Halgolle, in Yatiyantoata, Sri Lanka.

The information gathered during these surveys was used to carry out a situation analysis of the natural resource base found within Halgolle Estate. Further, a management plan along with a set of short, medium and long-term management actions were prepared for the efficient management of natural resources of Halgolla Estate.

Halgolle Estate is a relatively unexplored biodiversity hot spot and is a home for hundreds of species of birds, reptiles, mammals and a much greater volume of plant life. The recent study revealed previously unidentified plant species as well as mutant varieties particular to that environment. It is a home for 48 endemic, 16 endangered, 49 vulnerable and near threatened faunal species while 167 indigenous, 23 endemic and 6 threatened plant species.

The impact of this project is largely qualitative and it directly impacts on the living environment of the plantation community at Halgolle Estate (2,866 persons) and thousands of village inhabitants who use streams that originate from the nature reserve, for their livelihood, cultivations and other purposes, such as small and medium scale tea and rubber plantations and growing of spices and cash crops, etc. indirectly it impacts on for the national community and the environment of the our mother land.

Biodiversity Conservation and Enrichment Programme

Deutsche Bank Sri Lanka, one of the major corporate partners of Kelani Valley Plantation's biodiversity conservation and enrichment programme, has participated with their international staff member in a tree planting campaign in denuded areas in Halgolle Local Nature Reserve. More than 60 members staff from Deutsche Bank Hong Kong and Singapore joined in a tree planting programme and by the end of the day, over a hundred seedlings was planted.

This tree planting programme, which will initially target the planting of 7,000 plants over a seven hectare in denuded areas at Halgolla Local Nature Reserve, commenced in 2009 and last year we extended it in by another hectare.

Preliminary steps have been taken with International Union for Conservation of Nature to carry out the second phase of Halgolle Project - 'Enhancing the Ecological Integrity of Halgolle Estate', in collaboration with Unilever Sri Lanka.

Emissions, Effluent and Waste

Climate change, caused by man-made greenhouse gas emissions, is considered by many as the greatest threat to our planet. We recognise the effects that a changing climate could potentially have on the sustainability of our business as well as on all our stakeholders and the community. All our operations are designed to minimise the impact on our climate.

None of our estates practice any kind of activity, including those likely to cause the emission of greenhouse gases, which will result in the depletion of the ozone layer. All KVPL estates comply with the stipulations of the respective Government bodies in respected of standards to be met in this regard.

Waste Water Discharge

KVPL takes effluent management very seriously and invests to ensure that treatment technology is a best practice, meets regulatory requirements and minimises any environmental impact.

Manufacturing of rubber, absorbs a comparatively large amount of water and is associated with high concentration of chemicals whilst tea processing does not use any chemicals during manufacture. All our rubber processing centres have on-site waste water treatment plants which are certified by the Central Environment Authority of Sri Lanka. As a statutory requirement we check pre-listed parameters before releasing waste water to the environment. In addition to that, we check the reports of effluent treatment plants as a part of our Internal Audits.

KVPL discharges approximately 950 m^3 - 1,000m^3/day of treated waste water from the rubber factories.

Even though very little water is used in the course of tea manufacture, all water used for the cleaning of plant and machinery is directed to simply designed, but effective, waste water treatment systems. KVPL discharged approximately 40-50 m^3 of water per day for the cleaning of factory rolling rooms and associated machinery.

Waste Disposal by Type, Weight and Method

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

Arial View of Halgolle Factory and its Surroundings

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

Products and Services

"Offering products that use less impact on environment, reduction on energy and reduction of natural resources used for our products and services are our major areas of focus.

KVPL is totally committed to the monitoring of its products and services with a view to minimising their adverse impact on the environment. All major agricultural practices are implemented after carrying out an Environment Impact Assessment (EIA). As Company policy, soil fertility in every field is measured before the application of fertilizer, based on the nutrient requirement of each field, ensuring the optimum usage of inorganic fertilizer.

Compliance

There were no significant spills recorded and there have been no fines or sanctions for non-compliance with any environmental laws or regulations, during the year under review. Also, KVPL has not transported any kind of waste deemed hazardous.

During the year 2011, KVPL has spent approximately Rs. 15.2 m to carry out various environment initiatives including the waste management.

Social Performance

"We recognise that highly skilled, productive employees are essential to our success. Therefore, we are building various HR programmes, processes and infrastructures which suit our industry and are aligned with our business goals".

KVPL provides living facilities to approximately 54,000 persons living in more than 10, 000 family units. Therefore, we are acutely sensitive to the impact that our business practices have on the social systems within which we operate. The Company has initiated several strategies and mechanisms to meet the social, health and welfare requirements of its community in its entirety.

Labour Practices and Decent Work

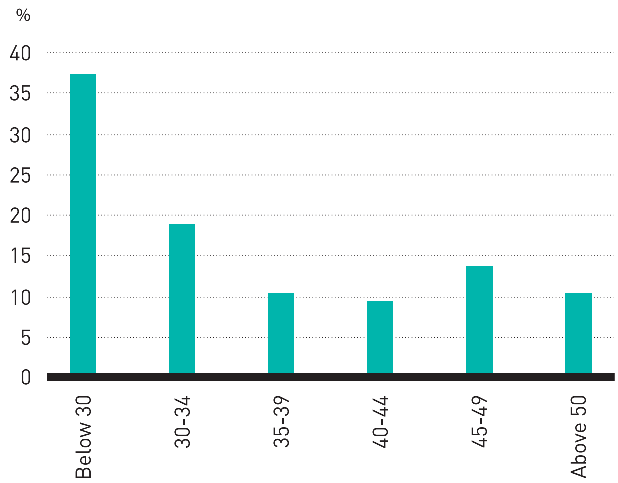
Employment

We are committed to providing benefits that meet the changing needs of our workforce. These include a reasonable remuneration package, other benefits and retirement benefits that combine to support our employees.

We are also committed to attracting the best possible talent, and providing appropriate incentives to encourage our employees to continue developing their careers with us. These include providing opportunities for training, professional development and personal growth. There was no record of employees leaving or migrating from work , on account of parental responsibilities, during the period under review, since the Company has provided child care facilities within the plantations.

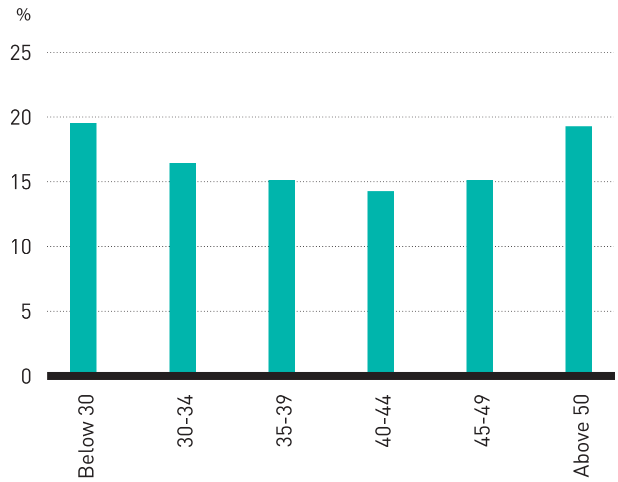
Age Analysis of Executives

As at 31st December, 2011



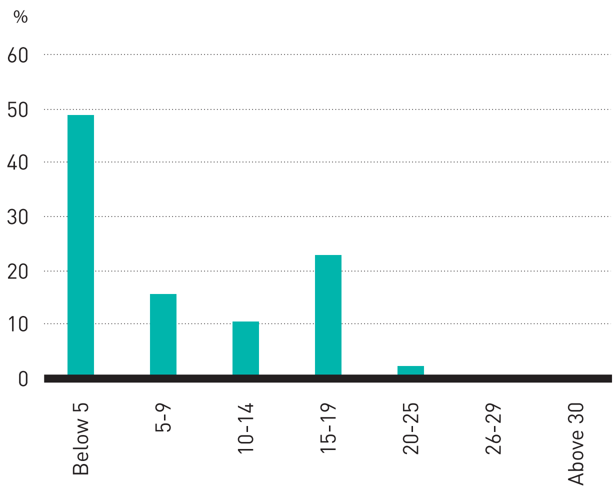
Age Analysis of Other Employees

As at 31st December, 2011



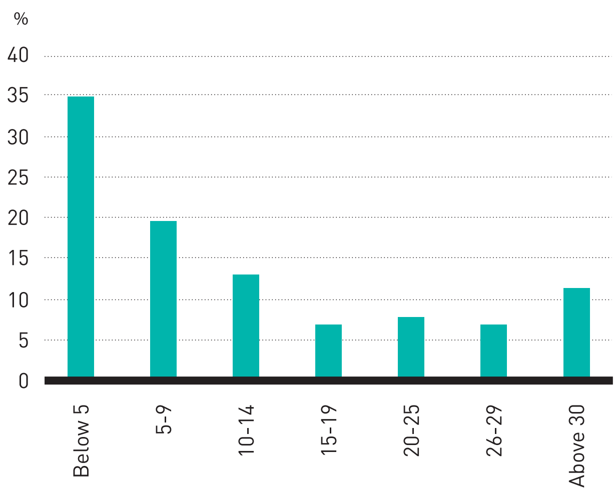
Service Analysis of Executives

As at 31st December, 2011



Service Analysis of Other Employees

As at 31st December, 2011



Working at KVPL

The essence of a sustainable company lies in its people. Attracting, developing and maintaining a highly talented and diverse workforce is one of our main strategic business priorities, and a fundamental part of our sustainability agenda.

Total Group workforce by type of employment

Type of Employment	Number of Employees
Executives and above	96
Staff	761
Manual	13,985
Total	14,842

Retaining and Developing a Talented Workforce

Our employee turnover rates are generally low at around 7% across the Group. However, we seek to ensure that we retain and develop our talent, particularly by providing competitive benefits and continually enhancing our development and training programmes. Providing excellent learning and development opportunities strongly underpins our diversity objectives.

Labour Relations

The top management and employees of KVPL Group, work together for the success of the Group under a wide variety of labour rules and regulations which are applicable to the country as well as to the wider world. 99% of the total workforce is covered by Collective Agreements. Periodically, the Company enters into Collective Agreements with the major trade unions, to regulate wages and other important conditions of worker employment which are anyway above the statutory minimums.

The clerical, technical, supervisory, medical, maintenance and support staff of plantations also, have such cover.

The management of the Group seeks to work equitably and fairly with members at all levels of the organisation chart and, where applicable, their union representatives.

Occupational Health and Safety

Providing a healthy and safe working environment for all our employees is one of our primary concerns. To achieve this objective KVPL has provided necessary facilities including infrastructure, equipment and competent personnel educated on employee health and safety aspects. Each estate is provided with medical centres with the services of qualified medical staff, whilst key estates have in-house hospitals and maternity homes. Each

Safe Handling of Chemicals at Pedro Estate

estate has a health and safety committee which is headed by the respective estate manager and includes medical staff and a representative from each division and from the factory. These teams work together to achieve company occupational health and safety objectives. These teams are responsible for providing health and safety instructions, relevant equipment and training, first aid instruction and medical facilities.

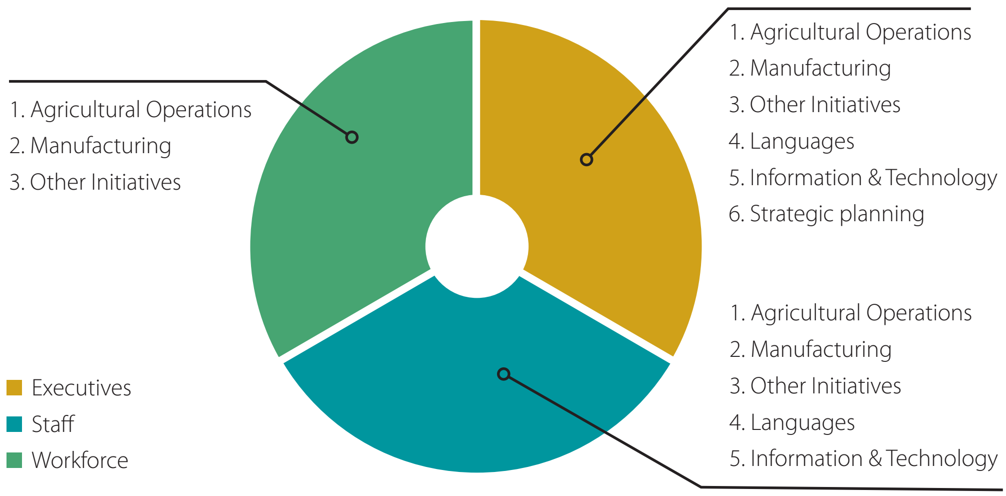
Medical camps are conducted periodically for all segments of workers, especially workers who handle agrochemicals. cholinesterase tests, which is a special medical test for sprayers, were conducted in Pedro Estate to identify the current risk of prolonged exposure to agrochemicals. Further, it is planned to construct purpose designed sprayer rooms in all our plantations, following the examples already in place in Pedro, Fordyce, Nuwara Eliya, Ingestre and Halgolle estates. These facilities will include a changing room, Personal Protective Equipment (PPE) store room, shower room and application equipment store rooms. The design has been agreed upon after consultation and discussion with the personnel who regularly use such facilities. The Company's occupational health and safety programmes are also supported by Rainforest Alliance, GLOBAL G.A.P, ISO 22000/HACCP and, 'A Home for Every Plantations Worker' programme which is the special initiative of Company's sustainability programme.

Training and Development

"Training is considered an investment in our collective success and has a direct impact on the success of our Group".

To ensure that KVPL Group has talented and quality employees we offer comprehensive training programmes for our employees at all levels of the organisation. At the beginning of each year, each department, including the plantations, set goals for the development of their employees. Each subordinate works together with the respective superior to develop an individual training plan for the respective year. This type of talent development programme, always focuses on creating and shaping a performance-based culture in the Group, which finally ends up with the identification of individuals with strong leadership qualities from each department.

Most of the training programmes carried out during the year of 2011, mainly focused on the streams of sustainability of the industry. Following figure shows the main areas of training obtained at each employee level in the organisation:



In 2011, we focused on ensuring that our training and development programmes continued to meet the changing needs of our business and our evolving organisation strategies.

Training and education are critical to attracting and retaining a highly capable work force. As we welcome new members of our team, training prepares them to perform at a defined standard and helps to ensure that our employees are aligned with our strategy, values and operating principles. Therefore, Plucker training at Pedro Estate

the workforce was given three types of training during the year, namely, Agricultural Operations, manufacturing and Other initiatives. Under the Agricultural Operations we mainly focused on areas such as plucking, tapping, spraying, and manuring, whilst in manufacturing the areas were the maintaining of hygienic process, preventive maintenance, fire drill, first aid. etc. Training on other initiatives offered overall knowledge of Food Safety Management System, Global GAP, Rainforest Alliance, and Forest Stewardship Council and various other compliances that KVPL subscribes to.

Our staffs members were provided training on secondary languages and Information Technology, in addition to the other types of training extended to our workforce.

We work in a rapidly changing environment and, in consequence, are compelled to regularly update and enhance our training programmes to meet the needs of our business strategies and to ensure that our executives are directed to quality learning programmes which are most relevant to the specific skills they need for their respective roles. In addition to the training provided to members of staff, our executives were provided more practically oriented skills and needs specific training, on strategic planning and sustainability simulation, as opposed to text-based courses. We will continue to incorporate new technologies into our training courses as we go along.

- The General Manager, Rubber participated in a training programme 'Implementing Labour Standards through CSR Tools and Strategies', conducted in Turin, Italy.
- Two Senior Plantation Managers of the Company participated in the five-day training programme on Leadership and Human Resource Development held in Bangalore, India.

We are committed to developing our in-house management skills and therefore, we send our overseas trained managers to our plantations to coach and mentor their colleagues.

Skills Management and Lifelong Learning

Employees are provided training, both locally and overseas, in the context of career growth and short-and long-term objectives.

Data on Employees Performance and Career Development Reviews

Through our annual performance management and reviewing process, our executives are comprehensively assessed in relation to rewards, talent identification and training requirements, both to improve existing skills and to acquire new skills.

Diversity and Equal Opportunity

We are encouraging diversity throughout our Group by recruiting a diverse workforce and fostering an equal opportunity environment.

In the year 2011, 55% of our total workforce was female. There is no discrimination regarding remuneration and perquisites between male and female employees.

First Aid training at Halgolle Estate

Human Rights

"Our commitment to people has always been a central focus of the Company from our own employees and the communities in which we operate, to the consumers who enjoy our products and services, as well as the workers in the consumer product supply chain".

KVPL affirms its commitment and responsibility to respect human rights in all its business operations. As a signatory to the UN Global Compact, it is committed to supporting internationally recognised human rights within the workplace and within the engagement of our stakeholders.

For many years, we have had programmes and practices in place to address our commitment to people and in 2006, we formally committed to the UNGC, subscribing to the Charter together with Mabroc Teas (Pvt) Ltd. By introducing these initiatives under the pillar of our 'Ethical Business' in our sustainability programme, KVPL has extended a broad commitment to global human rights.

Investment and Procurement Practices

KVPL Group is guided by international and local covenants such as the UNGC and Sri Lanka's legal and regulatory regimes in regard to safeguarding of human rights. We cascade this ethos across all supply chains.

Employee Training Hours on Human Rights

The number of participants and number of training hours on the above dimension will be restricted in the immediate future, due to the scarcity of expertise in the field. However, senior members of the management team with background experience in this dimension, regularly offer advice and direction on related issues at every management meeting, to be conveyed to lower levels of the management structure.

Non-Discrimination

During the period under review there had been no reports of human rights violations of any member of our community. We do not employ under aged people and most of our initiatives actively encourage regular schooling for young people.

Freedom of Association

The Group has internally communicated its commitment to a policy, firmly opposed to forced or compulsory labour whilst facilitating freedom of association and collective bargaining. We also fully support the need to establish a balance between working hours and family life.

Child Labour

KVPL does not engage in or support any form of child labour, or any form of employment below the legally specified limit. All recruitment is subject to the verification of age-proof documents of the prospective employee.

Forced Labour

KVPL does not engage in or support the use of forced labour nor does it demand the lodgment of 'deposits' or Identity papers upon commencing employment. All employment is freely given, subject to requirements and employees are free to leave, in accordance with established practices.

The Company is committed to the adherence of local and international regulations regarding Human rights. Our core business, the plantations, has been reviewed periodically by third party auditors against Rainforest, Ethical Tea Partnership and FSC standards, and in respect of international conventions on human rights.

During the period under review, no grievances were reported related to human rights.

Community

KVPL Group's community engagement strategy is described under the Indirect Economic Impact. We have invested both our management time and effort towards the enrichment and enhancement of our stakeholders and community.

Corruption

There are no reports of any violation during the review year, of the precept, 'Business should work against corruption in all its forms including extortion and bribery' which appeared in principle No. 10 of UNGC. The Group has consistently pursued profit-generating strategies within a strictly ethical operational frame work and practices, and an entrenched Code of Conduct, in regard to anti-corruption.

Product Responsibility

Providing a consumable product in terms of purity and food safety, manufactured in an ethical manner within an environmental and socially responsible framework, is our business philosophy. Therefore, KVPL has engaged with well-established systems and processes with transparent interaction, to transfer a responsibly manufactured product to the end user. The food safety management system of ISO 22000:2005, HACCP and GLOBAL G.A.P certification have been in force continuously, to minimise food safety risk within the production chain. The traceability system, which has been developed by the in-house team, ensures the efficient tracking of root causes for quality and food safety failures.

Green leaf, which is provided by outside growers are subject to stringent quality and food safety monitoring, supported by education and extension programmes to comply with the KVPL standard. Further, all plant and machinery has been upgraded to meet international food grade processing parameters. During the year under review, surveillance audits have been carried out to ensure that the processes are implemented within the certification requirements. The product safety and monitoring programmes were continued by testing the tea, in accredited laboratories, for maximum residual limits of agrochemicals, heavy metals and microbiological parameters. Further, Rainforest Alliance and Forest Stewardship Council (FSC) certification and participation in the Ethical Tea Partnership (ETP) ensures that the KVPL's products are environmentally, socially and ethically, responsible.

Indirect Economic Impact

Society

"Our work with the external stakeholders shows that our Company has a significant impact on each of the economies where we operate - a 'ripple effect' exists that goes way beyond our boundaries".

We believe that being a good global citizen means using our Company wide resources to make a positive change in the communities in which we live, work and do business. We collaborate with local organisations and engage the time and talent of our management members and employees to provide inspiration and opportunities for children and families and to uplift local communities.

Being a responsible organisation, KVPL has invested a significant proportion of its economic resources in the Company's Social responsibility initiative, known as 'A Home for Every Plantation Worker Programme', established in 2006 with the intention of creating a contented family life for all at Kelani Valley Plantations.

Our community engagement strategy of 'A Home for Every Plantation Worker Programme' encompasses four focus areas, namely, improvement in living environment, health and nutrition, community capacity building and empowerment of youth and is tailored to meet the needs of our local communities.

Living Environment

Providing safe drinking water to our worker community is one of our major objectives under the improvement of the living environment. Since 1992 the Company has installed 1,157 water schemes, covering the majority of worker community, in order to provide safe drinking water to their doorstep. During the year under review the Company has completed a new water scheme at Kiriporuwa Estate, covering 100% of the resident population. The existing water scheme at Pedro Estate, Nuwara Eliya was upgraded during the year and from this project it is expected to provide safe drinking water for 200 people on the estate. Moreover, water quality monitoring and analysis programmes ensure that the water provided complies with the physical, chemical and microbiological parameters consistent with safe drinking water.

The Company continually implements programmes to maintain worker houses to foster good hygienic, health and safety conditions. During 2011, under the 'A Home for Every Plantations Worker Programme', 116 worker houses were re-roofed, 503 house units were provided with electricity, 56 households were rehabilitated, and 10 km of access roads and 203 of new sanitary units were added.

These initiatives have been carried out with the collaboration of the Plantation Development Project (PDP), Plantation Human Development Trust (PHDT), National Housing Development Authority (NHDA), Ministry of Estate Infrastructure Development and Road Development Authority (RDA).

Health and Nutrition

The Company is committed to the principle that the health of the working community and the nutritional status of children are vital aspects of the sustainability of plantations. Therefore, the 'A Home for Every Plantations Worker programme' promotes specific initiatives to create a healthy working community. During the year, the KVPL community benefited from 16 dental clinics, 96 dengue awareness programmes, 13 eye clinics, 21 AIDS awareness programmes, 42 T. B. awareness programmes, 34 oral cancer prevention programmes, 3 de-worming and 2 typhoid vaccination programmes. Furthermore, in 2011, 140 cataract removals were carried out and 205 pairs of spectacles provided under the programme initiated in 2008, in collaboration with the International Resources for the Improvement of Sight (IRIS). Strategically located ambulances in the region have provided additional support by travelling 122,767 km, in the transport of patients and on other health and welfare-related issues.

In addition to IRIS supported programmes , initiatives were carried out in association with Health & Nutrition, Child In Need Development Association (CINDA), Rural Hospital-Halgolle, Medical Officer of Health (MOH) and the Berendina Foundation .

Community Capacity Building

KVPL initiates activities and provides resources that strengthen the skills and abilities of people at KVPL to take effective action and assume leading roles in the development of their communities.

Toddlers having Lunch at Lavant Creche

Through the Estate Worker Housing Cooperatives, KVPL has provided 4,446 individual loans amounting Rs. 51.6 m to estate workers, for improvement of their houses, purchase of vehicles, traditional ceremonies and redeeming of mortgaged properties. In return, Rs.20.4 m has been saved in Estate Worker Housing Cooperatives. To facilitate effective use of loans and encourage savings KVPL has conducted 34 household cash management programmes and 39 alcohol prevention programmes. Those programmes were carried out with the collaboration of the World University Service of Canada (WUSC), PHDT and PDP.

Starting the marathon at Kelani Estate

Empowerment of Youth

KVPL believes that developing skills, knowledge and confidence of youth by providing learning and training opportunities and sharing through networks and mutual support, will add value to the economy of the country. In this connection, 75 participants participated in sewing classes, whilst 4 bridal and beauty care programmes and home gardening classes for 312 numbers were also conducted. 11 participants participated in fast food making programmes and with the involvement of 101 participants, a self-employment workshop was conducted.

The art competition held at Pedro Estate with the participation of 216 children of estate workers under the theme of 'My Estate is in Environment Paradise', revealed the degree of effectiveness of our 'A Home for Every Plantation Worker Programme'.

Most of the above initiatives were carried out with the partnership of Sewa Lanka, Industrial Development Board, International Labour Organisation (ILO), and Local Government agencies.

A Drawing of a Pedro Estate Child

KVPL is Recognised for Its Business Excellence and Concern for Its Environment

KVPL was the winner at the 'National Business Excellence Awards 2011- Agriculture and Plantations Category' which is organised by the National Chamber of Commerce of Sri Lanka. This annual event is held in order to recognise business entities which have demonstrated excellence in business, whilst contributing to the economic progress of the country. Further, KVPL was also honored by being selected as the winner of the Special Project on Corporate Social Responsibility, under the environment category at the 'Best Corporate Citizen 2011' awards, organised by the Ceylon Chamber of Commerce. This award was presented to KVPL in recognition of its many initiatives launched to protect and enhance the biodiversity within the plantations sector. KVPL also won the large category Plantation Sector, Bronze Award presented by the National Agribusiness Council (NAC) at its NAC Awards 2011 ceremony, held at the Bandaranaike Memorial International Conference Hall.

KVPL won the Gold Award, at the 2010 Vision Awards Annual Report competition for its 2010 Annual Report, presented by the League of American Communications Professionals (LACP) and the same report won the Silver Award at the Annual Report Awards 2011 organised by the Chartered Institute of Management Accountants of Sri Lanka. In addition to those, KVPL was the 1st Runner-up for the 'Best Presented Accounts Awards 2010' in Agricultural Sector, conducted by South Asian Federation of Accountants (SAFA), in Dhaka, Bangladesh. These prestigious awards recognised KVPL's best in class practices within the profession while also acknowledging those who demonstrate exemplary communications capabilities.

Rain Forest Alliance

During the year under review 19 plantations of KVPL were accredited with the Rainforest Alliance standard, which has enhanced the value of its tea. This accreditation is a new milestone in the Company's continuing journey in its commitment to sustainable agriculture.

The Rainforest Alliance is an international non-government organisation that works to conserve biodiversity and ensure sustainable livelihoods via the transformation of land use practices, business practices and consumer behaviour. They primarily work on sustainable agriculture, sustainable forestry, and sustainable tourism, mitigation of climate change, providing environmental education and connecting conservationists. The Rainforest Alliance Sustainable agriculture standard covers the ten principles of, Social and Environment Management , Ecosystem Conservation, Wildlife Protection, Water Conservation, Fair Treatment and Good Working Condition for Workers, Occupational Health and Safety, Integrated Crop Management, Soil Management and Conservation and Integrated Waste Management.

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EN27	Percentage of products sold and their packaging materials that are reclaimed by category.		
Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Sustainability Report	36
Transport			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.		
Labour Practices and Decent Work			
Overall			
EN30	Total environmental protection expenditures and investments by type.	Sustainability Report	36
Employment			
LA1	Total workforce by employment type, employment contract and region.	Sustainability Report	37
LA2	Total number and rate of employee turnover by age group, gender and region.	Sustainability Report	36, 37
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.		
LA 15	Return to work and retention rates after parental leave, by gender.	Sustainability Report	36

Profile Disclosure	Description	Report Section	Page/s
Labour/Management Relations			
LA4	Percentage of employees covered by collective bargaining agreements.	Sustainability Report	37
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.		
Occupational Health and Safety			
LA6	Percentage of total workforce represented in formal joint-management worker health and safety committees that help monitor and advise on occupational health and safety programmes.	Sustainability Report	37, 38
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	Sustainability Report	37, 38
LA8	Education, training, counselling, prevention and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases.	Sustainability Report	37, 38
LA9	Health and safety topics covered in formal agreements with trade unions.	Sustainability Report	37, 38
Training and Education			
LA10	Average hours of training per year per employee by employee category.		
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Sustainability Report	39
LA12	Percentage of employees receiving regular performance and career development reviews.	Sustainability Report	39
Diversity and Equal Opportunity			
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	Sustainability Report	39
LA14	Ratio of basic salary of men to women by employee category.	Sustainability Report	39
Human Rights			
Diversity and Equal Opportunity			
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	Sustainability Report	39, 40
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	Sustainability Report	39, 40
HR3	Total hours of employee-training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Sustainability Report	40
Non-Discrimination			
HR4	Total number of incidents of discrimination and actions taken.	Sustainability Report	40
Freedom of Association and Collective Bargaining			
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	Sustainability Report	40
Child Labour			
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour.	Sustainability Report	40

Profile Disclosure	Description	Report Section	Page/s
Forced and Compulsory Labour			
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour.	Sustainability Report	40
Security Practices			
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations.		
Indigenous Rights			
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	Sustainability Report	40
HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	Sustainability Report	40
HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	Sustainability Report	40
Society			
Community			
SO1	Nature, scope and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting.	Sustainability Report	40, 41, 42
SO9	Operations with significant potential or actual negative impacts on local communities.	Sustainability Report	40
SO10	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	Sustainability Report	40
Corruption			
SO2	Percentage and total number of business units analysed for risks related to corruption.		
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures.	Sustainability Report	40
SO4	Actions taken in response to incidents of corruption.	Sustainability Report	40
Public Policy			
SO5	Public policy positions and participation in public policy development and lobbying.		
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.		
Anti-Competitive Behaviour			
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes.		
Compliance			
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.		

Profile Disclosure	Description	Report Section	Page/s
Products Responsibility			
Customer Health and Safety			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	Sustainability Report	40, 41
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	Sustainability Report	40, 41
Product and Service Labelling			
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.		
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.		
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.		
Marketing Communications			
PR6	Programs for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship.		
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes.		
Customer Privacy			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.		
Compliance			
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.		

United Nations Global Compact Principles

Issues Areas	GC Principles	Relevant GRI Indicators
Human Rights	Principle 01 Businesses should support and respect the protection of internationally - proclaimed human rights.	LA 4, LA 13, HR 4, HR 5, HR 6
	Principle 02 Make sure that they are not complicit in human rights abuses.	HR 4, HR 5, HR 6
Labour	Principle 03 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	LA 4, LA 5, HR 5, HR 6
	Principle 04 Business should uphold the elimination of all forms of forced and compulsory labour.	HR 7
	Principle 05 Business should uphold the effective abolition of child labour.	HR 6
	Principle 06 Business should uphold the elimination of discrimination in respect of employment and occupation.	LA 2, LA 13, LA 14, HR 4, EC 5, EC 7
Environment	Principle 07 Businesses should support a precautionary approach to environmental challenges.	EN 9, EN 14, EN 26
	Principle 08 Businesses should undertake initiatives to promote greater environmental responsibility.	EN 1, EN 3, EN 4, EN 5, EN 6, EN 8, EN 10, EN 11, EN 12, EN 13, EN 14, EN 15, EN 16
	Principle 09 Businesses should encourage the development and diffusion of environmentally friendly technologies.	EN 5, EN 6, EN 10, EN 26
Anti-Corruption	Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.	SO4

NURTURING QUALITY

Quality tea is not simply a product of a process but the fruiting of a total philosophy, dedicated to environmentally sound agriculture, conformity to uncompromising process safety and hygiene, immaculate business ethics and a caring for the community

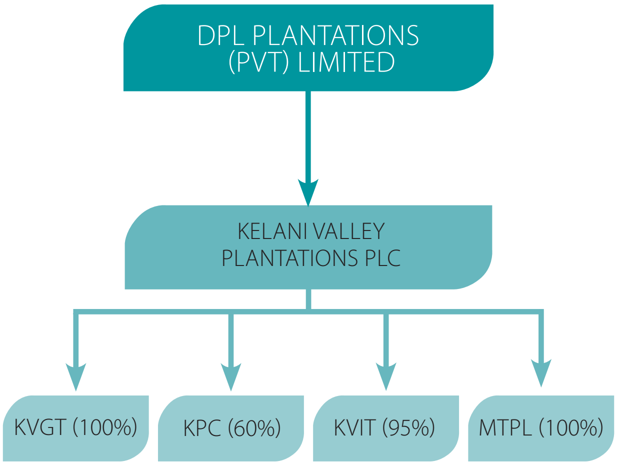
CORPORATE GOVERNANCE

Corporate governance is the manner in which boards oversee the managing of a company by its managers, and how board members are in turn accountable to shareholders and the company. This has implications for company behaviour especially towards shareholders and other stakeholders such as employees, government, customers, banks, etc. Good corporate governance plays a vital role in underpinning the integrity and efficiency of all public holding companies. Poor corporate governance weakens a company's potential and at worst can pave the way for financial difficulties and even fraud.

In recent years, corporate governance has gained considerable recognition due to high-profile scandals involving abuse of corporate power and, in some cases, alleged criminal activity by corporate officers. An integral part of an effective corporate governance regime includes provisions for civil or criminal prosecution of individuals who involves in unethical or illegal acts in the name of the enterprise.

We are committed to high standards of corporate governance which we consider are critical to business integrity and in maintaining investors' trust in us. We expect all our Directors, employees and suppliers to act with honesty, integrity and in fairness. Our business principles set out the standards for ourselves to ensure that we operate lawfully; with integrity wherever we do business.

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



KVPL is a subsidiary of DPL Plantations (Pvt) Ltd ("DPLP"), which is a fully-owned subsidiary of Dipped Products PLC ("DPL"). Hayleys PLC is the ultimate parent of KVPL. Kelani Valley Green Tea (Pvt) Ltd. ("KVGT") and Mabroc Teas (Pvt) Ltd. ("MTL") are fully-owned subsidiaries of KVPL. 60% of Kalupahana Power Company (Pvt) Ltd. ("KPC") and 95% of Kelani Valley Instant Tea (Pvt) Ltd. ("KVIT") is also owned by KVPL.

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

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

Name of Director	Director	9/2/2011	11/5/2011	1/8/2011	27/10/2011	Attendance
A M Pandithage - *Chairman*	Ex	√	√	√	√	4/4
J A G Anandarajah	Ex	√	√	√	√	4/4
G K Seneviratne	Ex	√	√	√	√	4/4
R Seevaratnam	INEx	√	√	√	√	4/4
Faiz Mohideen	INEx	√	√	√	√	4/4
S Siriwardana	Ex	√	√	√	√	4/4
S C Ganegoda	NEx	√	√	√	√	4/4
L T Samarawickrama	NEx	√	X	X	√	2/4
S T Gunatilleke *	NEx	X	√	√	√	3/4
N Y Fernando **	NEx	√	√	√	n/a	3/3
Dr. K I M Ranasoma ***	NEx	n/a	n/a	n/a	X	0/1

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

* S T Gunatilleke appointed on 01.05.2010 as an Alternate Director to Mr. S C Ganegoda and subsequently appointed as a Director on 15.01.2011

** N Y Fernando resigned w.e.f. 10.10.2011

*** Dr. K I M Ranasoma appointed w.e.f. 10.10.2011

Reference to ICASL & SEC Codes	Requirement	Compliance	Details of compliance
Section 1: The Company			
A. Directors			
Principle: A.1 The Board			

As at the end of the year under review, the Board consisted of ten Directors- six Non-Executive Directors and four Executive Directors including the Chairman.

The Board considered that the present composition and expertise is sufficient to meet the needs of the Group. The Non-Executive Directors contribute with their knowledge and experience collectively gained from experience in serving variety of public and private organisations. The profiles of the Directors are found on pages 8 and 9 of this Annual Report. Details of Directors' shareholdings in KVPL and the directorates they hold in other companies are given on page 10, 11 and 72.

A.1.1	Board meetings	Complied	The Board meets quarterly and adhoc meetings are held as and when required. During the year under review, the Board met on four occasions. The attendance at these meetings has been depicted in the table given in this section.
A.1.2	Responsibilities of the Board	Complied	The Board of Directors is responsible for setting up the governance framework within the Company. The Board has engaged DPL Plantations (Pvt) Ltd. as Managing Agent to manage the business and assets of the Company. The Board is responsible to: a. Enhance shareholder value. b. Ensure that all stakeholder interests are considered in corporate decisions. c. Formulate and communicate business policy and strategy to ensure sustained growth, and monitor its implementation. d. Approve any change in the Group's business portfolio and sanction major investments and disinvestments in accordance with parameters set. e. Ensure that Executive Directors have the skilled knowledge to implement strategy effectively, with proper succession arrangements in place. f. Ensure that effective remuneration, reward and recognition policies are in place to ensure employee commitment and motivation. g. Set and communicate values/standards, with adequate attention being paid to accounting policies/practices. h. Ensure that effective information, control, risk management and audit systems are in place i. Ensure compliance with laws and regulations. j. Ensure that ethical standards are in place. k. Approve annual budgets and monitor performance against provisions made. l. Adapt annual and interim results before these are published. m. Consult and consider inputs from 'experts' in relevant areas. n. Approve key appointments within the Company and ensure that all senior management staff receive appropriate training.

Reference to ICASL & SEC Codes	Requirement	Compliance	Details of compliance
A.1.3	Compliance with the laws of the country and agreed to obtain independent professional advice	Complied	The Board collectively, and Directors individually act in accordance with the laws and regulations of the country, and to the Group policies. At any time, all the members of the Board are allowed to obtain independent professional advice where necessary, at the Company's expense.
A.1.4	Access to the advice and services of the Company Secretary	Complied	The services and advice of the Company Secretary, are available to all the Directors. The Company Secretary keeps the Board informed of new laws and revisions, regulations and requirements coming into effect which are relevant to them as Individual Directors and collectively to the Board. The removal of the Secretary is a matter for the Board as a whole.
A.1.5	Independent judgment of the Directors	Complied	Non-Executive Directors are independent of the management and free from any business and other relations. None of the other Directors are related to each other. This enables all the members of the Board to bring independent judgment to bear on issues of strategy, performance, resources and standards of business conduct.
A.1.6	Dedication of adequate time and effort of the Directors	Complied	The Board of Directors were allocated adequate time and effort before a meeting to review Board papers and call for additional information and clarification, and to follow up on issues consequent to the meeting. Hence, they are able to familiarise with the business changes, operations, risks and controls which ultimately help to satisfactorily discharge the duties and responsibilities owed to the Company.
A.1.7	Training for new and existing Directors	Complied	Every new Director and current Directors are given a training if necessary and appropriately. This training curriculum encompasses both general aspects of directorship and matters specific to the plantation industry. The Board is of the view that of necessity continuous training and development of skills are vital for effective performance of duties.
Principle: A.2 Chairman and Chief Executive Officer (CEO)			
The Chairman and the Chief Executive Officer are two different positions which clearly distinguish the power and authority when conducting the business of the Board and facilitating executive responsibility for the management. The Managing Director acts as the Chief Executive Officer of the Company. Therefore, no person has unfettered powers of decision making.			
A.2.1	Division of responsibilities of Chairman and CEO	Complied	The Chairman and the Chief Executive Officer of the Company are two different personnel where it clearly distinguish the power and authority. The Chairman of the Company is also the Chairman of DPL Plantations, DPL and Hayleys PLC. Chief Executive Authority is vested in the Managing Director of Plantation sector is substantially delegated to the Managing Director of the Company. The separation between the position of the Chairman and officers with executive powers in the Company ensures a balance of power and authority.
Principle: A.3 Chairman's role			
The Chairman is the most responsible person for guiding the Board in formulating the appropriate business strategies and gives direction to the Company. He preserves the good corporate governance in the Company.			

Reference to ICASL & SEC Codes	Requirement	Compliance	Details of compliance
A.3.1	Chairman's role	Complied	The Chairman is responsible for the efficient conduct of Board meetings and ensures, *inter alia*, that: a. The effective participation of both Executive and Non-Executive Directors is secured; b. All Directors are encouraged to make an effective contribution for the benefit of the Company; c. A balance of power between Executive and Non-Executive Directors is maintained d. The views of Directors on issues under consideration are ascertained; and e. The Board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders. The Chairman maintains close contact with all Directors and, where necessary, holds meetings with Non-Executive Directors without Executive Directors being present.
Principle: A.4 Financial Acumen			
A.4.1	Financial acumen	Complied	The Board includes three senior Chartered Accountants, who possess the necessary knowledge and competence to offer the Board guidance on matters of finance. Two of them serve as Finance Directors of Hayleys PLC and KVPL and the other as Chairman of the Audit Committee. Other members of the Board are having ample experience in handling the matters of finance by serving in different organisations. Hence the Board is equipped with sufficient financial acumen and knowledge to offer guidance on matters of finance.
Principle: A.5 Board Balance			
A.5.1	Non-Executive Directors	Complied	Six out of the ten Directors on the Board are Non-Executive Directors. The composition of the Executive and Non-Executive Directors (the latter are over one-third of the total number of Directors) satisfies the requirements laid down in the Listing Rules of the Colombo Stock Exchange. The Chairman and the Managing Director are not the same person.
A.5.2	Independence of Non-Executive Directors	Complied	Two of six Non-Executive Directors are independent. The Board has determined that two Non-Executive Directors satisfy the criteria for "independence" set out in the Listing Rules.
A.5.3	Independence of Non-Executive Directors	Complied	Non-Executive Directors' profiles reflect their calibre and the weight their views carry in Board deliberations. Each is independent of management and free from any relationship that can interfere with independent judgment. The balance of Executive, Non-Executive and Independent Non-Executive Directors on the Board ensures that no individual Director or small group of Directors dominate at Board discussion and decision making.
A.5.4	Annual declaration of independence - Non Executive Directors	Complied	Each Non-Executive Director has submitted declaration stating the independence or non-independence in a prescribed format. This information is made available to the Board.
A.5.5	Board determination of independence of Non-Executive Directors and disclosure in Annual Report	Complied	The Board considered the declaration of independence submitted by each Non-Executive Director with the basis for determination given in Code of Best Practices as a fair representation and will continue to evaluate their independence on this basis annually. A brief résumé of all the Directors is available on pages 8 and 9.

Reference to ICASL & SEC Codes	Requirement	Compliance	Details of compliance
A.5.6, A.5.7	Requirement to appoint Senior Independent Director	Not Applicable	This is not applicable as the Chairman and the Managing Director are not the same person.
A.5.8	Chairman's meetings with Non-Executive Directors	Complied	The Chairman holds meetings with the Non-Executive Directors, without Executive Directors, at least once in each year and at any other time when and where necessary.
A.5.9	Record in the Board minutes of Concerns not unanimously resolved	Complied	All the matters of the Company which cannot be unanimously resolved are recorded in the Board Minutes, if applicable.
Principle: A.6 Supply of information			
A.6.1	Timely information to the Board	Complied	Directors are provided with quarterly reports on performance and such other reports and documents as are necessary. The Chairman ensures that all Directors are adequately briefed on issues arising at meetings.
A.6.2	Information provided in advance to the Board meetings	Complied	The Board meetings are arranged in advance and all Directors are informed. The Directors are provided with minutes, the agenda and the Board papers in advance to prepare and clearly comprehend the matters discussed or consent.
Principle: A.7 Appointments to the Board			
A.7.1, A.7.2	Appointment to the Board	Complied	The Board as a whole decide on the appointment of Directors. The Board annually assesses the Board composition to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the Company.
A.7.3	Disclosure of new appointments	Complied	A brief résumé of the Director, nature of his experience, names of the companies he holds the directorship and the independency is informed to the Colombo Stock Exchange and disclosed in the Annual Report.
Principle: A.8 Re-election			
A.8.1, A.8.2	Re-election of Directors	Complied	The provisions of the Company's Articles require a Director appointed by the Board to hold office until the next Annual General Meeting, and seek re-appointment by the shareholders at that meeting. The Articles call for one-third of the Directors in office to retire at each Annual General Meeting. The Directors who retire are those who have served for the longest period after their appointment /re-appointment. Retiring Directors are generally eligible for re-election. The Managing Director does not retire by rotation.
Principle: A.9 Appraisal of Board Performance			
A.9.1, A.9.2, A.9.3	Appraisal of Board Performance	Complied	The performance of the Board and Sub-Committee is evaluated annually on a self-assessment basis.
Principle: A.10 Disclosure of Information in respect of Directors			
A.10.1	Disclosures about Directors	Complied	Name, qualifications, brief profile, and nature of expertise are given on pages 8 and 9 of this Annual Report. Directors' interest in contracts is given on pages 108 to 110 of this Report. The number of Board meetings attended by the Directors is available on page 53 of this Report.

Reference to ICASL & SEC Codes	Requirement	Compliance	Details of compliance
Principle: A.11 Appraisal of Chief Executive Officer			
A.11.1, A.11.2	Evaluation of the performance of the CEO	Complied	The short, medium and long-term objectives including financial and non-financial targets that should be met by the CEO are set and evaluated at the commencement of each fiscal year. The performances were evaluated in each quarter and ascertained whether the targets were achieved or achievement is reasonable in the circumstances.
B. Directors' Remuneration			
Principle: B.1 Remuneration procedure			
B.1.1, B.1.2, B.1.3, B.1.4, B.1.5	Establishment of Remuneration Committee.	Complied	The Remuneration Committee of DPL, which is the Ultimate Parent of KVPL, acts as the Remuneration Committee of KVPL. The Remuneration Committee recommends the remuneration payable to the Managing Director and Executive Director(s) and sets guidelines for the remuneration of management staff within the Company. The Board makes the final determination after considering such recommendations. Payment of remuneration to Directors is disclosed on page 93 of this Report. No Director will be involved in deciding his/her own remuneration.
Principle: B.2 The level and make up of remuneration			
B.2.1, B.2.2, B.2.3, B.2.4	Levels of remuneration	Complied	The Remuneration Committee structures the remuneration package to attract, retain and motivate the Directors needed to run the Company successfully but avoid paying more than is necessary for this purpose. The remuneration levels relative to other companies and performance of the Directors are taken into account when considering the remuneration levels of the Directors.
Principle: B.3 Disclosure of the remuneration			
B.3.1	Disclosure of the remuneration	Complied	The total of Directors' Remuneration is reported in Note 9 to the Financial Statements.
C. Relations with Shareholders			
Principle: C.1 Constructive use of the AGM and conduct of General Meetings			
C.1.1	Use of proxy	Complied	The Company ensures that all proxy votes are counted and the level of proxies are lodged on each resolution is conveyed to the Chairman.
C.1.2	Separate resolution for substantially separate issues	Complied	A separate resolution proposed at an Annual General Meeting on each substantially separate issue. Adoption of the Annual Report of the Board of Directors on the affairs of the Company, Statement of Compliance and the Financial Statements with the Independent Auditor's Report is considered as a separate resolution.
C.1.3	Answer questions at the AGM	Complied	The Board arranges the Chairman of the Audit and Remuneration Committees to be available to answer the queries at the AGM, when necessary. The active participation of shareholders at the Annual General Meeting is encouraged. The Board believes that the AGM is a means of continuing effective dialogue with shareholders. The Board offers clarifications and responds to concerns that shareholders have over the content of the Annual Report as well as other matters which are important to them. The AGM is also used to adopt the Financial Statements for the year.

Reference to ICASL & SEC Codes	Requirement	Compliance	Details of compliance
C.1.4, C.1.5	Notice of Annual General Meeting and General Meetings	Complied	The Notice of Meeting is included in the Annual Report. The Notice contains the Agenda for the AGM as well as instructions on voting for shareholders, including the appointment of proxies. A Form of Proxy is enclosed with the Annual Report. The period of notice prescribed by the Companies Act No. 07 of 2007 has been met. The Notice and the Agenda of the Annual General Meeting together with the Annual Report with all other relevant documents are sent to the shareholders within 21 working days prior to the meeting.
Principle: C.2 Major Transactions			
C.2.1	Disclosure of Major Transactions to shareholders	Complied	There have been no transactions during the year under review which fall within the definition of "Major Transactions" as set out in the Companies Act No. 07 of 2007.
D. Accountability and Audit			
Principle: D.1 Financial Reporting			
D.1.1	Balance and understandable information to shareholders	Complied	The Board places great emphasis on complete disclosure of financial and non-financial information within the bounds of commercial reality, and on the adoption of sound reporting practices. Financial information is disclosed in accordance with the Sri Lanka Accounting Standards. Revisions to existing accounting standards and adoption of new standards are carefully monitored. The Annual Report includes descriptive, non-financial content through which an attempt is made to provide stakeholders with information to assist them make more informed decisions.
	Communication with shareholders		Shareholders are provided with Quarterly Financial Statements and the Annual Report, which the Company considers as its principal communication tool with them and other stakeholders. The Company has duly complied with all the requirements prescribed by the regulatory authorities including the Colombo Stock Exchange and the Registrar of Companies. These reports are also provided to the Colombo Stock Exchange. Shareholders may bring up concerns they have with the Chairman, the Managing Director or the Secretaries, as appropriate.
	Price Sensitive Information		Due care is exercised with respect to share price sensitive information.
	Shareholder Value and Return		The Board strives to enhance shareholder value and provides a total return in excess of the market. It has been the policy of the Board to distribute a reasonable dividend to the shareholders whilst retaining sufficient resources for capital needs.
D.1.2	Statement of Directors' Responsibility	Complied	The Statement of Directors' Responsibilities for the Financial Statements is given on page 76 of this Report.
D.1.3	Auditors' Report	Complied	The Auditors' Report for the year ended 31st December, 2011 is available on page 79 of this Report.

Reference to ICASL & SEC Codes	Requirement	Compliance	Details of compliance
D.1.4	Management Discussion & Analysis	Complied	**Management structure** The primary authority to achieve strategic objectives approved by the Board has been delegated to the Executive Directors of DPL Plantations (Pvt) Ltd. which includes the Managing Director of DPLP. The Managing Director of KVPL reports to the Managing Director of DPLP. The authority is exercised within the framework and business practices established by the Board, which demand compliance with existing laws and regulations as well as best practices in dealing with employees, customers, suppliers and the community at large. The production and processing operations of the Company have been effectively divided into two areas, Tea and Rubber. The Executive Directors of DPL Plantations, General Managers and Managers head the two regions and other functional units of the Company. The estates of the Company are managed by Estate Managers and are clustered into six groups headed by Deputy General Managers and Estate Group Managers. The management structure and the names of team members are given on pages 10 and 11 of the Report. The Managing Director of KVPL, Director Finance, General Managers, Deputy General Managers and Group Managers meet on a monthly basis to review progress and to discuss strategic issues and other important developments that require consideration. Minutes are maintained of decisions made and of major issues discussed at these meetings which the Managing Director of DPLP may attend, from time to time. **Management Report** A comprehensive coverage of key initiatives undertaken during the year, external impacts, sector performances, achievements and future outlook, awards won and certifications received is available in the Management Discussion & Analysis (page 12 to 14) and Sustainability Report (pages 27 to 49) of this report. The Financial Review (page 15 to 23) in this Report provides an analysis of the Group's performance during the financial year. The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks. This process has been in place through the year under review. Potential risks faced by KVPL, both internal and external, and actions instituted to mitigate these are reported in the Risk Management section (page 66 to page 70) of this Report. Workplace practices and specific environmental, social and ethical aspects are dealt with in the Sustainability Report on pages 27 to 49. The Board strives to protect shareholder value and provides a return in keeping with the market. The Sustainability Report and investor information section on pages 114 to 115 gives further details on these aspects.

Reference to ICASL & SEC Codes	Requirement	Compliance	Details of compliance
D.1.5	Declaration of Going Concern	Complied	The Directors, after making necessary inquiries and reviews including reviews of budgets for the ensuing year, capital expenditure requirements, future prospects and risks, cash flows and borrowing facilities, have a reasonable expectation that the Company has resources to continue in operational existence for the foreseeable future. Therefore, the going concern basis has been adopted in the preparation of the Financial Statements.
D.1.6	Summon an EGM to notify serious loss of capital	Complied	In the event the net assets of the Company fall below 50% of the value of the Company's shareholders fund, the Directors will forthwith summon an Extraordinary General Meeting to notify shareholders' the remedial action being taken. However, such an event has not taken place since the adoption of the New Companies Act No 07 of 2007.
Principle: D.2 Internal Control			
D.2.1, D.2.2	Requirement of sound system of internal control	Complied	The Board is responsible for the Group's internal control and its effectiveness. Internal control is established with emphasis on safeguarding assets, making available accurate and timely information and imposing greater discipline on decision making. It covers all controls required, including financial, operational and compliance controls, and risk management. It is important to recognise, however, that any system can provide only reasonable, and not absolute, assurance that errors and irregularities are prevented or detected within a reasonable time. The procedures in place to discharge this responsibility are as follows: ● The Managing Agent is responsible for establishing and monitoring financial controls appropriate for the operation and for reporting to the Board thereon. ● The Board reviews the strategies of the Company. ● The Managing Agent is responsible for the preparation of annual budgets for approval by the Board, and performance is subject to regular review against these. ● The Board has established policies in the areas of investment and treasury management and does not permit complex risk management mechanisms to be used. ● The Company is subject to internal audits and system reviews. ● The Audit Committee reviews the plans and activities of internal audits and the management letters of External Auditors. ● The Managing Agent selects and trains employees and provides appropriate channels of communication to foster a control-conscious environment. The Board has reviewed the effectiveness of the system of financial control for the period up to the date of signing the accounts. The Directors' Responsibilities for the Financial Statements are described on page 76.

Reference to ICASL & SEC Codes	Requirement	Compliance	Details of compliance
Principle: D.3 Audit Committee			
D.3.1, D.3.2	Composition of Audit Committee	Complied	The Audit Committee was established in 2008. The Committee consists entirely of Non-Executive Directors and is chaired by Mr. R Seevaratnam. The Company Secretary serves as its Secretary. The Chairman of the Audit Committee, is an Independent Non-Executive Director as well as a Fellow Member of The Institute of Chartered Accountants of Sri Lanka. The Chairman, the Managing Director of DPLP, the Managing Director of the Company and Director Finance are invited to attend meetings, and other Directors and Senior Managers attend meetings as required. The input of the External Auditors is obtained where necessary. The Audit Committee helps the Group to achieve a balance between conformance and performance.
D.3.3	Committees' purpose, duties and responsibilities	Complied	The Committee is empowered to examine any matters relating to the Financial Reporting systems of the KVPL, and its external and internal audits. Its duties include the detailed review of Financial Statements, internal control procedures and risk management framework, accounting policies and compliance with applicable accounting standards and other rules and regulations. It reviews the adequacy of systems in place for compliance with relevant legal, regulatory and ethical requirements and Company policies. The Audit Committee makes recommendations to the Board pertaining to appointment, re-appointment of external auditors after assessing the independence and performance, and approves the remuneration and terms of engagement of the external auditors.
D.3.4	Disclosures of names of the members of Audit Committee	Complied	Mr. R. Seevaratnam : The Chairman of the Audit Committee Mr. F. Mohideen Refer "Audit Committee Report" on pages 77 and 78 of this Report
Principle: D.4 Code of Business Conduct & Ethics			
D.4.1	Disclosure on presence of Code of Business Conduct and Ethics	Complied	The Directors and members of the Senior Management team are bound with a Code of Business Conduct & Ethics which is developed by the Hayleys Group. The Code consists important topics like conflict of interest, corporate opportunities, confidentiality, fair dealing, protection and proper use of Company assets, compliance of laws, rules and regulations, etc. The Board ensures the compliance with the Code and non-compliance may be a reason to go for disciplinary action.
D.4.2	Affirmation of Code in the Annual Report by the Chairman	Complied	The Chairman affirms that he is not aware of any violation of any of the provisions of the Code of Business Conduct & Ethics in the Annual Report. Please refer the Chairman's Review on pages 06 and 07 of this Report.

Reference to ICASL & SEC Codes	Requirement	Compliance	Details of compliance
Principle: D.5 Corporate Governance disclosures			
D.5.1	Disclosure of adherence to Corporate Governance	Complied	The extent to which the Company adheres to established principles and practices of good Corporate Governance is disclosed from pages 52 to 65 of this Report. **IT Governance** We continue to give attention to bringing KVPL's IT systems in line with its strategies and objectives. Dedicated staff is deployed to support this. KVPL's investment in IT covers resources operated and managed centrally and resources deployed on the various estates. The former includes an ERP system and internet and email services catering to most parts of the business. **IT Value and Alignment** Investments in IT projects and systems are made after consideration of their suitability for the related projects. Further aspects such as cost savings, the provision of timely information and the balance between cost and benefits/ needs are also considered when decisions are taken. **IT Risk Management** Risks associated with IT are assessed in the process of Risk Management. Use of licensed software, close monitoring of internet usage (for compliance with the IT Use Policy) and mail server operations and the use of antivirus and firewall software, are some practices in place.
Section 2: Shareholders			
E. Institutional Investors			
Principle: E.1 Shareholder voting, E.2. Evaluation of governance disclosures			
E.1.1, E.2	Use of the vote of Institutional Investors	Complied	All the investors are welcome to the Annual General Meeting and all the comments, suggestions are opened to them. The Company believes that the institutional investors have more understanding and awareness about the matters including corporate governance, hence conduct structured dialogues with them to raise the matters. The Company appreciates the way of using the votes at AGM on the weight they had regarding all relevant factors noted.
F. Other investors			
Principle: F.1 Investing/Divesting decisions F.2 Shareholder voting			
F.1, F.2	Adequate analysis for investment/ divestment decisions and using of the voting right	Complied	All shareholders are encouraged to actively participate in the AGM and they have the independence of using their votes as they wish. The Company believes that the rational investors remain with the Company without divesting. There are no restrictions for investing or divesting in the Company shares.

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

Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable Section in the Annual Report
7.10.1(a)	Non-Executive Directors	At least one-third of the total number of Directors should be Non-Executive Directors	Compliant	Corporate Governance A.5.1
7.10.2(a)	Independent Directors	Two or one-third of Non-Executive Directors, whichever is higher, should be Independent	Compliant	Corporate Governance A.5.2
7.10.2(b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format	Compliant	Corporate Governance A.5.4
7.10.3(a)	Disclosure relating to Directors	Names of Independent Directors should be disclosed in the Annual Report	Compliant	Corporate Governance A.5.5
7.10.3(b)	Disclosure relating to Directors	The basis for the Board to determine a Director is Independent, if criteria specified for Independence are not met	Compliant	Corporate Governance A.5.5
7.10.3(c)	Disclosure relating to Directors	A brief résumé of each Director should be included in the Annual Report and should include the Directors' areas of expertise	Compliant	Corporate Governance A.5.5
7.10.3(d)	Disclosure relating to Directors	Forthwith provide a brief résumé of new Directors appointed to the Board with details specified in 7.10.3 (a),(b) and (c) to the Exchange	Compliant	Corporate Governance A.7.3
7.10.5	Remuneration Committee	A listed company shall have a Remuneration Committee	Compliant	Corporate Governance B.1.1, B.1.2, B.1.3, B.1.4, B.1.5
7.10.5(a)	Composition of Remuneration Committee	Shall comprise Non-Executive Directors, a majority of whom will be independent	Compliant	Corporate Governance B.1.1, B.1.2, B.1.3, B.1.4, B.1.5
7.10.5(b)	Functions of Remuneration Committee	The Remuneration Committee shall recommend the remuneration of Chief Executive Officer and Executive Directors	Compliant	Corporate Governance B.1.1, B.1.2, B.1.3, B.1.4, B.1.5
7.10.5(c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out; ● Names of directors comprising the Remuneration Committee ● Statement of Remuneration Policy ● Aggregated remuneration paid to Executive and Non-Executive Directors	Compliant	Corporate Governance B.1.1, B.1.2, B.1.3, B.1.4, B.1.5
7.10.6	Audit Committee	The company shall have an Audit Committee	Compliant	Corporate Governance D.3.1, D.3.2
7.10.6(a)	Composition of Audit Committee	● Shall comprise of Non-Executive Directors, a majority of whom will be independent ● Non-Executive Directors shall be appointed as the Chairman of the committee ● Chief Executive Officer and Chief Financial Officer should attend Audit Committee Meetings ● The Chairman of the Audit Committee or one member should be a member of a professional accounting body	Compliant	Corporate Governance D.3.1, D.3.2

Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable Section in the Annual Report
7.10.6(b)	Audit Committee Functions	Functions shall include: ● Overseeing of the preparation, presentation and adequacy of disclosures in the Financial Statements in accordance with Sri Lanka Accounting Standards ● Overseeing of the compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements ● Overseeing the processes to ensure that the internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards ● Assessment of the independence and performance of the External Auditors ● Make recommendations to the Board pertaining to appointment re-appointment and removal of External Auditors, and approve the remuneration and terms of engagement of the External Auditors	Compliant	Corporate Governance D.3.3
7.10.6 (c)	Disclosure in the Annual Report relating to Audit Committee	a) Names of Directors comprising the Audit Committee b) The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination c) The Annual Report shall contain a Report of the Audit Committee setting out of the manner of compliance with their functions	Compliant	Corporate Governance D.3.4 Audit Committee Report on pages 77 and 78.

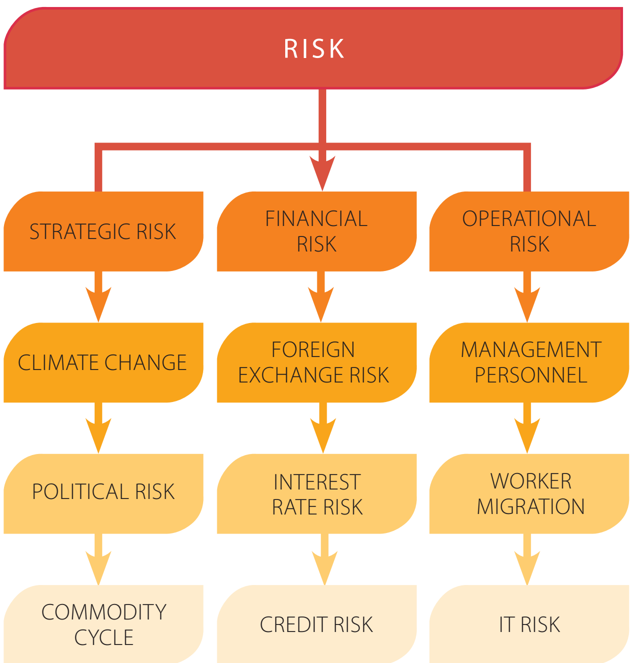
RISK MANAGEMENT

Risk is the probability or threat of a liability, loss or other negative occurrence, caused by external or internal vulnerabilities which would affect value of the owners, eventually.

Risk management is the process of identification, analysis and either acceptance or mitigation of uncertainty in investment decision making. The achievement of our strategic and operating objectives will necessarily involve taking risks.

Our risk management process is intended to ensure that risks are taken knowingly and with forethought. Our ability to identify, assess, monitor and manage each type of risk to which the Company is exposed is an important factor in our stability, performance, reputation and future success. Transferring risks to outside parties, lessening the negative effect of risk and avoiding risk altogether are considered as risk management strategies of the Company.

The main operation of the Company is cultivating and manufacturing of tea and rubber. The subsidiaries of the Company engage in diverse range of business spanning several industries, market segments and geographical locations. Mabroc Teas (Pvt) Ltd. engages in exporting tea. Kalupahana Power Company (Pvt) Ltd. engages in generating hydro power. The Kelani Valley Green Tea (Pvt) Ltd. engages in manufacturing green tea and Kelani Valley Instant Tea (Pvt) Ltd. produces the instant tea powder. This would expose the business to a wider range of risks which can be illustrated as follows:



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

Internal systems review to monitor the effectiveness of and compliance with management and control systems. This provides useful insights as to the effectiveness of the risk management system. Internal risk management is further complemented by the Hayley's Group's Risk management functions.

In addition, with the year-end audit, the External Auditor issues a management letter highlighting the possible risks, and briefs the Board and the management team on their evaluations. The outcomes are made used to enhance our risk management system.

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

Risk Management Process

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

Objective Setting

After a comprehensive review of risk and opportunities, the Board sets annual targets. Targets reflect the Company's risk appetite. Then it is conveyed to the operational levels. This inevitably helps to understand the nature and extent of the risk and assess the severity of same.

Risk Identification

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

Regular monthly review meetings and internal systems reviews are key instruments in identifying possible risks.

Risk Assessment

Risk measures are based on the likelihood of occurrence and the impact of occurrence on achievement of our targets. The risk was prioritised and treated on that basis in the mitigation actions. Any significant risk exceeding risk tolerance levels will require management responses. A higher level of risk requires a more urgent and concerted management response.

Tolerance of Risk and Mitigating Action

Depending on the tolerance of risk, decisions are taken to manage risk by accepting, reducing, sharing or avoiding it. The Managing Director, with the management team responsible, initiates risk mitigation actions. We have purchased insurance coverage, where it is available, on economically viable terms to minimise the financial losses arising from uncertainty and risk. These covers are frequently re-examined and adjusted accordingly.

Information and Communication

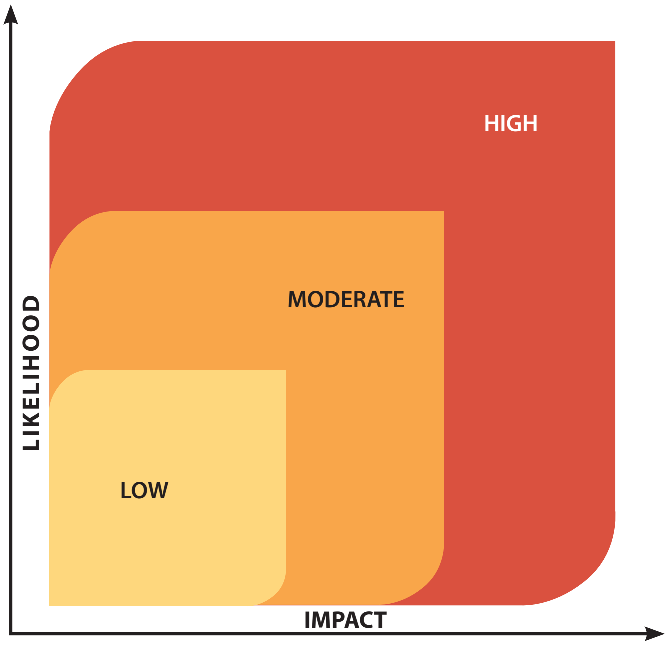
Documentation and communication play a key role in our risk monitoring process. Quarterly review reports with key performance indicators and possible risk and mitigatory actions are presented to the Board. Audit reports on levels of compliance with risk mitigating actions are tabled at the Audit Committee and are then reviewed and acted upon.

Monitoring

The ultimate responsibility for monitoring risk management lies with the senior management team and the Audit Committee. This includes monitoring the efficiency and effectiveness of internal control.

Changes in the Risk Profile

Due to acquisition of Mabroc Teas (Pvt) Ltd. in the previous year which is exporting bulk teas and value added teas, the Group has been exposed to foreign exchange risk.



Risk Faced by the Group and Mitigation Strategies Implemented

Strategic Risk

Risk Factor	Risk Assessment	Risk Mitigation Strategies	Risk Rating
Climate Changes	• Both Tea and Rubber crops fluctuate unexpectedly due to adverse weather conditions.	• Close monitoring of crop variance and its effects. • Reservation of forests & watersheds. • Diversifying crop.	**High**
Political	• Intervention in wage negotiations and major industrial relations issues inhibit the resolution of issues on the basis of economic viability alone. • Restrictions on law enforcement agencies impede settlement of major disruptions. • Management initiatives to improve labour productivity are not supported. • Unplanned acquisitions of land arise. • Political instability inhibits investment, particularly in concert with foreign investors.	• Canvassing the support of political pressure groups/individuals. • Making representations to key members of Government and the bureaucracy. • Negotiating Collective Agreements with major plantation trade unions, at which wages and parameters of operation are agreed upon.	**Moderate**
Commodity Cycle	• Fluctuations in global supply and demand affect prices. • Competition from other major low cost producers i.e. India, China, Kenya, Vietnam and Indonesia affects demand and prices. • Competition from close substitutes affects demand and prices. • Increases in prices of fertilizer/chemicals/ energy contribute to higher production costs.	• Integrating with marketing Company (Mabroc Teas) to add value to our product. • Converting two orthodox tea estates/factories to manufacture green tea. • Accreditations of black tea factories to conform to international food hygienic standards. • Accreditations of tea estates for good agricultural practices demanded by the global market. • Membership of the UN Global Compact brands KVPL as a socially responsible plantation Company. • Differentiation of KVPL to bulk buyers as the 'Ethical tea producer'. • Marketing of 'The Ethical Tea Brand of the World' to retailers through Mabroc Teas. • Promotion of single origin products by leveraging unique locations/points of differentiation. • Continuous agro-climatic expansion of centrifuged latex capacity whilst maintaining the optimum number of production units for the more labour intensive product. • Converting to cheaper energy alternatives and implementing energy saving strategies in the production process.	**Moderate**

Financial Risk

Risk Factor	Risk Assessment	Risk Mitigation Strategies	Risk Rating
Foreign Exchange Risk	• Affects Group results/pricing policy	• The exchange rate risk that the Group is exposed to is identified and the associated risk exposure measured. • Exchange rate movements are monitored and the outlook is closely followed in respect of currencies in which the Group carries exposure. • Forex exposures are monitored, and appropriate action is recommended to reduce inherent risk and minimise adverse impact of currency rate movements on assets and liabilities. • Measures are established to determine effectiveness of action taken.	**High**
Interest Rate Risk	• Ad hoc, sudden changes in national fiscal and monitory policies. • Low returns on investment. High opportunity cost of investment. • Difficulty in generating funds for capital development/growth.	• Diversification of marginal land and optimising outputs in productive areas. • Prudent investments in capital development i.e. replanting, machinery and plant upgrading. • Rationalising production capacities in major factories. • Diversifying into related businesses - mini hydropower development, green tea and RTD tea- and with greater integration with marketing Company, promoting niche products.	**Moderate**
Credit Risk	• The possibility of having bad debts, and the prospect of protracted legal proceedings without assurance of a favorable outcome.	• Credit risks are assessed, credit limits are set and credit granted is closely monitored. • The supplier/customer credit limits are closely monitored and settled or collect the dues without rooming for a default. • Export credit is insured to minimise inherent risks. • Government leases and other financing are closely monitored and settled without a delay.	**Moderate**

Operational Risk

Risk Factor	Risk Assessment	Risk Mitigation Strategies	Risk Rating
Management Personnel	• The perception that remuneration is not commensurate with the demands of plantation management prompts staff to migrate to other industries. • Lack of motivation may result in poor productivity and may be resultant to deteriorate the profitability. • Lack of adequate educational and other infrastructural facilities in plantation areas is a disincentive to managers. • Availability of more attractive Colombo-based job opportunities at entry level inhibits high-calibre candidates from selecting the plantation industry as a career.	• Providing easy accessibility to senior management and developing a Company culture, which fosters teamwork and close interaction amongst all management staff. • Fostering an open, participative management approach, encouraging contributions to decision making and strategising, from junior levels. • Ability of the management structure and the scope of executive responsibilities to respond to emerging needs and challenges and, simultaneously meet career aspirations. • Ensuring promotions from within, to senior executive positions as far as possible. • Succession plan for all departments is being formulated.	**Low**
Worker Migration	• Practical difficulties in large-scale automation/mechanisation of labour-intensive operations. • Loss of workers to other industries/ business/ agricultural operations in proximity to the plantations. • Changing aspirations of plantation youth who find employment on plantation, undesirable. • Difficulties in ensuring adequate resident manpower.	• Out sourcing specific operations and moving workers from up-country to the low-country for short-term field operations. • Binding workers to the plantation through participative housing projects, improved welfare schemes, medical benefits and other community development initiatives. • Changing the image of both worker and workplace by initiatives to provide low-cost transport facilities through concessionary funding schemes.	**Low**
IT Risk	• Depend on accurate, timely information from key computer system to enable decision making. • Loss of business opportunities due to out-dated systems and inadequacy of new technology. • Breach of system securities.	• Implementation of sound IT policy in the Company supported by adequate systems and controls. • A disaster recovery is in place to mitigate the risk of IT failures. An effective backup procedure has been implemented. • System hardware capacities are monitored . • Close monitoring of internet usage and emails. • A technology road map is being developed. Identify the future development need of technology.	**Moderate**

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

The Board of Directors of Kelani Valley Plantations PLC has pleasure in presenting their Report on the Affairs of the Company together with the audited Consolidated Financial Statements of the Group and of the Company for the year ended 31st December, 2011.

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

Principal Activities and Business Review

The principal activities of the Company are the production and processing of tea and rubber. Details of activities of other companies in the Group are given on page 10 of this Report. The Chairman's Review, Management Discussion and Analysis, Sustainability Report and Financial Review describe the performance of the Company during the year, with comments on the financial results and the progress of its subsidiaries, Kelani Valley Green Tea (Pvt) Ltd., Kalupahana Power Company (Pvt) Ltd., Kelani Valley Instant Tea (Pvt) Ltd. and Mabroc Teas (Pvt) Ltd. There were no material changes in the nature of business of the Company and the Group.

During the year under review, Kelani Valley Plantations PLC purchased 49% and 20% of the Shares of Kelani Valley Green Tea (Pvt) Ltd. and Kelani Valley Instant Tea (Pvt) Ltd. respectively, which were held by Mabroc Teas (Pvt) Ltd.

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

Financial Statements

The Financial Statements of the Company and the Group are given on pages 80 to 111.

International Financial Reporting Standards

The Company will adopt the new Sri Lanka Accounting Standards with effect from 1st January, 2012.

Auditors' Report

The Auditors' Report on the Financial Statements of the Company and the Group is given on page 79.

Accounting Policies

The accounting policies adopted in the preparation of the Financial Statements are given on pages 84 to 91. There were no changes in the accounting policies adopted in the previous year for the Company and its subsidiaries.

Group Turnover

The turnover of the Group during the year was Rs. 6,110,371,402/- (2010 - Rs. 3,883,636,437/-) and an analysis is given in Note 6.1 to the Financial Statements.

The Group turnover from tea and rubber increased by Rs. 1,833,497,497,985/- (2010 - Rs. 436,536,498/-) and Rs. 410,335,322/- (2010 - Rs. 590,972,283/-) during the year, respectively.

Results and Dividends

The Group profit before taxation amounted to Rs. 544,629,035/- (2010 - Rs. 355,690,424/). After adjusting Rs. 81,589,699/- (2010 - Rs. 29,538,020/-) and Rs. 2,550,482/- (2010 - Rs. 5,475,335/-) for taxation and non-controlling interest, respectively, the profit available for appropriation, inclusive of brought forward retained profit of Rs. 159,626,695/- (2010 - Rs. 247,593,253/-) amounted to Rs. 620,115,549/- (2010 - Rs. 565,627,282/). Of this, Rs. 170,000,005/- (2010 - Rs. 136,000,004/-) has been set aside for dividends prior to transferring Rs. 155,000,000/- (2010 - Rs. 270,000,000) for general reserves.

The Board of Directors recommends a first and final dividend of Rs. 5/- per share payable on 9th April, 2012 to the holders of the issued ordinary shares of the Company as at close of business on 29th March, 2012. The dividend will be subject to a 10% tax deduction.

The Directors have confirmed that the Company satisfies the solvency test requirement under Section 57 of the Companies Act No. 07 of 2007 for the first and final dividend proposed. A solvency certificate by the Auditors has been sought in respect of the proposed dividend of Rs. 5/- (2010 - Rs. 4/-) per share.

Property, Plant & Equipment

The capital expenditure of the Group during the year amounted to Rs. 436,802,628/- (2010 - Rs. 292,506,208/-) whilst that of the Company was Rs. 366,097,623/- (2010 - Rs. 292, 270,508/-) which includes replanting expenditure of Rs. 285,041,364/- (2010 - Rs. 211,068,777/-) on tea and rubber.

Information relating to movement of Property, Plant & Equipment is given in Notes 12, 13 and 14 to the Financial Statements.

Stated Capital and Reserves

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

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

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

Reserves

The total reserves of the Group as at 31st December, 2011 amounted to Rs. 1,825,115,549/- (2010 - Rs. 1,500,627,282/-) comprising the general reserve of Rs. 1,360,000,000/- (2010 - Rs. 1,205,000,000/-) and the carried forward profit of Rs. 465,115,549/- (2010 - Rs. 295,627,282/-). The movement is shown in the Statements of Changes in Equity in the Financial Statements.

Taxation

It is the Company's policy to provide for deferred taxation on all known temporary differences on the liability method. In terms of Section 16 of the Inland Revenue Act No. 10 of 2006, Profits from agriculture, have been exempted from income tax for a period of 5 years which expired during Y/A 2010/11. Accordingly, the Company is liable to income tax at the rate of 10% on its agricultural profits and 28% on manufacturing profits beginning from the year of assessment 2011/12.

Interest Register

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

Directors' Interests in Transactions

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

Directors' Interests in Shares

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

	As at 31.12.11 No. of shares	As at 01.01.11 No. of shares
Mr. G K Seneviratne, Managing Director	4,000	4,000
Mr. S Siriwardana, Director	193	193

None of the other Directors held shares of the Company as at 31st December, 2011.

Payment of Remuneration to Directors

Executive Directors' remuneration is determined within an established framework. The total remuneration of the Executive Directors of the Group and the Company for the year ended 31st December, 2011, is Rs. 31,918,500/-, and Rs. 17,716,000/- respectively, including the value of perquisites granted to them as part of their terms of service. The total remuneration of Independent Non-Executive Directors of both the Group and the Company for the year ended 31st December, 2011 is Rs. 680,000/-, determined according to scales of payment decided upon by the Board previously. The Board is satisfied that the payment of this remuneration is fair to the Company.

Corporate Donations

No donations were made during the year (2010 - Nil) by the Company and its subsidiaries.

No donations were made for political purposes.

Directorate

The names of the Directors who held office during the financial year are given below and their brief profiles appear on pages 08 and 09.

Executive Directors

A M Pandithage, J A G Anandarajah, G K Seneviratne, S Siriwardana.

Non-Executive Directors

N Y Fernando, S C Ganegoda, , L T Samarawickrama, S T Gunatilleke, Dr. K I M Ranasoma.

Independent Non-Executive Directors

R Seevaratnam, F Mohideen.

Mr. N Y Fernando who served as a Non-Executive Director resigned with effect from 10th October, 2011.

Dr. K I M Ranasoma was appointed as a Non-Executive Director on 10th October, 2011 and in terms of Article No. 28 of the Articles of Association of the Company, Shareholders will be requested to re-elect him at the Annual General Meeting.

Mr. J A G Anandarajah and Mr. S Siriwardana retire by rotation, and being eligible offer themselves for re-election.

Directors of the Subsidiaries, Associates and the Parent Company are given on pages 10 and 11.

Corporate Governance

The Company has complied with the Corporate Governance Rules laid down under the Listing Rules of the Colombo Stock Exchange. The Corporate Governance Section on pages 52 to 65 discusses this further.

Adoption of good governance practices has become an essential requirement in today's corporate culture. The practices carried out by the Group are explained in the Corporate Governance Statement on pages 52 to 65.

Auditors

The Auditors, Messrs KPMG Ford, Rhodes, Thornton & Co., were paid Rs. 2,581,000/- (2010 - Rs. 2,266,000/-) and Rs. 2,240,000/- (2010 - Rs. 1,972,000/-) as audit fees by the Group and the Company, respectively. In addition, they were paid Rs. 253,495/- (2010 - Rs. 230,450/-) and Rs. 131,890/- (2010 - Rs. 119,900/-) by the Group and the Company, for non-audit related work, which consisted mainly of tax consultancy services.

The Financial Statements of Mabroc Teas (Pvt) Ltd., for the year have been audited by Messrs Ernst & Young, and was paid Rs. 270,000/- as audit fee.

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

A resolution proposing Messrs Ernst & Young, Chartered Accountants to be appointed as Auditors of the Company for financial year 2012 and authorising Directors to determine their remuneration will be submitted at the Annual General Meeting.

Share Information

Information relating to earnings, dividend, net assets per share and share trading is shown on pages 3 and 114 respectively.

Events Occurring after the Balance Sheet Date

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

Employment

The number of persons employed by the Group at year-end was 14,842/- (2010 - 14,216) of which 14,745 (2010 - 14,183) are engaged in employment outside the District of Colombo.

Statutory Payments

The declaration relating to statutory payments is made in the Statement of Directors' Responsibilities on page 76.

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

Environmental Protection

The Group's efforts to conserve scarce and non-renewable resources, as well as its environmental objectives and key initiatives, are described in the Environment Section of the Sustainability Report on pages 27 to 49.

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

Internal Control

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

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

Going Concern

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

Major Shareholdings

The twenty major shareholders as at 31st December, 2011 are given on page 115 of this Report.

Annual General Meeting

The Annual General Meeting will be held at the registered office of the Company at No. 400, Deans Road, Colombo 10, on Thursday, 29th March, 2012 at 3.00 p.m. The Notice of the Annual General Meeting appears on page 118.

For and on behalf of the Board,

A M Pandithage
Chairman

G K Seneviratne
Managing Director

Hayleys Group Services (Pvt) Ltd.
Secretaries

14th February, 2012

FINANCIAL REPORTS

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Financial Calendar 2011

1st Quarter Report - 11th May, 2011
2nd Quarter Report - 1st August, 2011
3rd Quarter Report - 27th October, 2011
Annual Report 2011 - 14th February, 2012
Twentieth Annual General Meeting - 29th March, 2012
First & Final Dividend Proposed - 29th March, 2012
First & Final Dividend Payable - 9th April, 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible, under the Sections 150 (1), 151, 152 (1) & 153 of the Companies Act No. 07 of 2007, to ensure compliance with the requirements set out therein to prepare Financial Statements for each financial year giving a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit & loss of the Company and the Group for the financial year. The Directors are also responsible, under Section 148 for ensuring that proper accounting records are kept to disclose, with reasonable accuracy, the financial position and enable preparation of the Financial Statements.

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

They also confirm that the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards. The Financial Statements provide the information required by the Companies Act and Listing Rules of the Colombo Stock Exchange.

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

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

The External Auditors, Messrs KPMG Ford, Rhodes, Thornton & Co., were provided with every opportunity to undertake the inspections they considered appropriate to enable them to form their opinion on the Financial Statements. The Report of the Auditors, shown on page 79 sets out their responsibilities in relation to the Financial Statements.

COMPLIANCE REPORT

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

By Order of the Board,

HAYLEYS GROUP SERVICES (PVT) LTD.
Secretaries

14th February, 2011

AUDIT COMMITTEE REPORT

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

TERMS OF REFERENCE (TOR)

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

The Committee assists the Board to oversight of the responsibility to the existing and prospective shareholders and other stakeholders relating to:

- Preparation, presentation and adequate disclosures in Financial Statements.
- Compliance to the reporting and information requirements specified in the Companies Act or any other reporting standards or regulations.
- Ensuring the adequacy of internal control and risk management.
- Assess the ability of going concern for a foreseeable future.
- Independence and performance of the external auditors.

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

COMPOSITION

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

The names of the members and brief profiles of each member are given on page 8 and Inner Back Cover in this Report. Their individual and collective financial knowledge and business acumen and the independence of the Audit Committee are brought to bear on their deliberations and judgments on matters that falls within the purview of the Committee.

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

MEETINGS

The Audit Committee met 4 times during the year. The attendance of the members at these meetings is as follows:

Independent Non-Executive Director	08.02.11	06.05.11	27.07.11	25.10.11	Total
Mr. R Seevaratnam	√	√	X	√	3/4
Mr. F Mohideen	√	√	√	√	4/4

KEY PRINCIPAL ACTIVITIES CARRIED DURING THE YEAR

The Committee discharged its function and carried out duties as set out in the Terms of Reference. The matters were deliberated at its meetings and had private sessions where necessary with external auditors, internal auditors, and management. The following includes the key activities carried out by the Audit Committee during the year.

REVIEW THE COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS

The Committee reviewed the financial reporting system adopted by the Group in the preparation of its quarterly and annual Financial Statements to ensure reliability of the process and consistency of the accounting policies and methods adopted and their compliance with the Sri Lanka Accounting Standards. The magnitude of commitment and progress towards implementation of International Financial Reporting Standards in 2012 is under oversight of the Committee. The methodology included obtaining statements of compliance from the Managing Director and the Chief Financial Officer. The Committee recommended the Financial Statements to the Board for its deliberations and issuance. The Committee, in its evaluation of the financial reporting system, also recognised the adequacy of the content and quality of routine management information reports forwarded to its members.

REVIEW THE EFFECTIVENESS OF INTERNAL CONTROL AND INTERNAL AUDIT FUNCTION

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

ENSURE THE COMPLIANCE TO LEGISLATIVE AND REGULATORY REQUIREMENTS

The Committee reviewed reports tabled by Group companies certifying their compliance with relevant regulations. This also includes the compliance of financial reporting requirements. The Committee promotes a culture committed to lawful and ethical behaviour.

REVIEW OF RISK MANAGEMENT PROCESS

The Committee obtained and reviewed statements from the Managing Director on major business risks, mitigatory actions taken or contemplated. The scope and role of Audit Committee for risk management are broad due to there being no separate Risk Management Committee in the Group.

EXTERNAL AUDIT

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

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

APPOINTMENT OF NEW AUDITORS

In terms of Section 158 of the Companies Act No. 07 of 2007, a resolution proposing Messrs Ernst & Young, Chartered Accountants to be appointed as new auditors of the Company for the financial year 2012 in place of Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants.

CONCLUSION

The Audit Committee wishes to acknowledge with thanks the services rendered by the Auditors, KPMG Ford, Rhodes, Thornton & Co. and their efforts to meet the requirements and expectations of the Company.

The contribution made by Mr. F Mohideen, as a member of the Audit Committee is acknowledged with grateful appreciation for making the functions effective and useful.

R Seevaratnam
Chairman
Audit Committee

10th February, 2012

INDEPENDENT AUDITORS' REPORT

KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
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TO THE SHAREHOLDERS OF KELANI VALLEY PLANTATIONS PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Kelani Valley Plantations PLC, the consolidated financial statements of the Company and its subsidiaries as at 31st December 2011, which comprise the balance sheet as at 31st December 2011, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 80 to 111.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31st December 2011 and the financial statements give a true and fair view of the Company's state of affairs as at 31st December 2011 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at 31st December 2011 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

Report on Other Legal and Regulatory Requirements

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

Ford Rhodes Thornton & Co

Chartered Accountants

14th February 2012
Colombo

INCOME STATEMENTS

For the year ended 31st December,	Notes	Consolidated 2011 Rs. '000	Consolidated 2010 Rs. '000	Company 2011 Rs. '000	Company 2010 Rs. '000
Revenue	6.1	**6,110,371**	3,883,637	**4,264,561**	3,838,553
Cost of sales		**(5,209,884)**	(3,287,682)	**(3,564,927)**	(3,281,850)
Gross profit	6.2	**900,487**	595,955	**699,634**	556,703
Other income	7	**75,507**	36,428	**61,596**	38,924
Administrative expenses		**(342,085)**	(161,662)	**(217,905)**	(157,025)
Distribution expenses		**(38,270)**	–	**–**	–
Net finance expenses	8	**(51,010)**	(87,069)	**(42,519)**	(80,886)
Share of loss of associate (net of tax)		**–**	(27,962)	**–**	–
Profit before tax	9	**544,629**	355,690	**500,806**	357,716
Tax expense	10	**(81,590)**	(29,538)	**(68,269)**	(18,095)
Profit for the year		**463,039**	326,152	**432,537**	339,621
Attributable to:					
Equity holders of the Company		**460,489**	320,677	**432,537**	339,621
Non-controlling interest		**2,550**	5,475	**–**	–
Profit for the year		**463,039**	326,152	**432,537**	339,621
Earnings per Share					
Basic earnings per share (Rs.)	11.1	**13.54**	9.43	**12.72**	9.99
Diluted earnings per share (Rs.)	11.1	**13.54**	9.43	**12.72**	9.99
Dividend per Share (Rs.)	11.2	**5.00**	4.00	**5.00**	4.00

Figures in brackets indicate deductions.

Notes to the Financial Statements from pages 84 to 111 form an integral part of these Financial Statements.

BALANCE SHEETS

As at 31st December,	Notes	Consolidated 2011 Rs. '000	Consolidated 2010 Rs. '000	Company 2011 Rs. '000	Company 2010 Rs. '000
ASSETS					
Non-Current Assets					
Leasehold property, plant & equipment	12	**429,367**	453,071	**429,367**	453,071
Freehold property, plant & equipment	13	**1,313,432**	1,276,792	**965,121**	972,683
Improvements to leasehold property	14	**1,842,496**	1,600,354	**1,842,496**	1,600,354
Investments in subsidiaries	15	**–**	–	**324,893**	310,700
Goodwill on acquisition	16	**33,310**	33,310	**–**	–
Total non-current assets		**3,618,605**	3,363,527	**3,561,877**	3,336,808
Current Assets					
Inventories	17	**678,967**	655,036	**488,994**	417,616
Amounts due from subsidiaries	29	**–**	–	**33,473**	48,530
Amounts due from other related companies	29	**134,501**	153,807	**134,501**	153,807
Trade and other receivables	18	**565,556**	271,251	**105,325**	141,461
Short-term investments	19	**8,299**	8,893	–	–
Short-term deposits		**363,161**	323,315	**363,049**	199,157
Cash and cash equivalents	20.1	**44,948**	28,688	**32,090**	20,134
Total current assets		**1,795,432**	1,440,990	**1,157,432**	980,705
Total assets		**5,414,037**	4,804,517	**4,719,309**	4,317,513
EQUITY AND LIABILITIES					
Equity					
Stated capital	21	**340,000**	340,000	**340,000**	340,000
Revenue reserves		**1,825,116**	1,500,627	**1,786,907**	1,490,370
Total equity attributable to equity holders of the company		**2,165,116**	1,840,627	**2,126,907**	1,830,370
Non-controlling interest		**17,162**	14,642	**–**	–
Total equity		**2,182,278**	1,855,269	**2,126,907**	1,830,370
Non-Current Liabilities					
Interest-bearing borrowings	22.1	**136,826**	226,414	**136,826**	204,414
Deferred income	23	**476,837**	480,878	**475,949**	479,963
Deferred tax liability	24	**197,659**	147,438	**172,456**	126,673
Retirement benefit obligations	25	**980,001**	871,408	**964,108**	858,754
Net liability to lessor	26	**352,323**	357,693	**352,323**	357,693
Total non-current liabilities		**2,143,646**	2,083,831	**2,101,662**	2,027,497
Current Liabilities					
Trade and other payables	27	**478,373**	443,039	**423,498**	384,877
Net liability to lessor payable within one year	26	**5,370**	5,161	**5,370**	5,161
Amounts due to subsidiaries	29	**–**	–	**6,357**	941
Amounts due to other related companies	29	**6,051**	12,405	**6,051**	12,405
Income tax payable	28	**3,183**	427	**–**	–
Interest-bearing borrowings payable within one year	22.1	**71,463**	73,300	**49,463**	54,300
Short-term interest-bearing borrowings	22.2	**518,901**	317,927	**–**	–
Bank overdraft	20.2	**4,772**	13,158	**1**	1,962
Total current liabilities		**1,088,113**	865,417	**490,740**	459,646
Total liabilities		**3,231,759**	2,949,248	**2,592,402**	2,487,143
Total equity and liabilities		**5,414,037**	4,804,517	**4,719,309**	4,317,513
Net assets per share (Rs.)		**63.68**	54.14	**62.56**	53.83

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

Sarath Siriwardana
Director - Finance

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

Signed for and on behalf of the Board,

A M Pandithage
Chairman

G K Seneviratne
Managing Director

14th February, 2012

Notes to the Financial Statements from pages 84 to 111 form an integral part of these Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31st December

Consolidated

	Attributable to Equity Holders of the Company				Non-Controlling Interest	Total Equity
	Stated Capital Rs. '000	General Reserve Rs. '000	Retained Earnings Rs. '000	Total Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January, 2010	340,000	935,000	281,593	1,556,593	22,324	1,578,917
Profit for the period	–	–	320,677	320,677	5,475	326,152
Dividends	–	–	(34,000)	(34,000)	–	(34,000)
Transfers	–	270,000	(270,000)	–	–	–
Adjustments due to changes in holding*	–	–	(2,643)	(2,643)	(13,157)	(15,800)
Balance as at 31st December, 2010	340,000	1,205,000	295,627	1,840,627	14,642	1,855,269
Profit for the period	–	–	460,489	460,489	2,550	463,039
Dividends	–	–	(136,000)	(136,000)	(30)	(136,030)
Transfers	–	155,000	(155,000)	–	–	–
Balance as at 31st December, 2011	**340,000**	**1,360,000**	**465,116**	**2,165,116**	**17,162**	**2,182,278**

Company

	Stated Capital Rs. '000	General Reserve Rs. '000	Retained Earnings Rs. '000	Total Equity Rs. '000
Balance as at 1st January, 2010	340,000	935,000	249,749	1,524,749
Profit for the period	–	–	339,621	339,621
Dividends	–	–	(34,000)	(34,000)
Transfers	–	270,000	(270,000)	–
Balance as at 31st December, 2010	340,000	1,205,000	285,370	1,830,370
Profit for the period	–	–	432,537	432,537
Dividends	–	–	(136,000)	(136,000)
Transfers	–	155,000	(155,000)	–
Balance as at 31st December, 2011	**340,000**	**1,360,000**	**426,907**	**2,126,907**

Retained Earnings

	Consolidated		Company	
	2011 **Rs. '000**	2010 Rs. '000	**2011** **Rs. '000**	2010 Rs. '000
Holding company	**426,907**	285,370	**426,907**	285,370
Subsidiaries	**38,209**	10,257	–	–
	465,116	295,627	**426,907**	285,370

** This represents adjustment consequent to exclusion of non-controlling interest held via associate, due to acquisition of Mabroc Teas (Pvt) Ltd.*

Figures in brackets indicate deductions.

Notes to the Financial Statements from pages 84 to 111 form an integral part of these Financial Statements.

CASH FLOW STATEMENTS

For the year ended 31st December,	Consolidated 2011 Rs. '000	Consolidated 2010 Rs. '000	Company 2011 Rs. '000	Company 2010 Rs. '000
Cash Flows from Operating Activities				
Cash generated from operations (Note A)	**637,447**	708,998	**863,312**	686,337
Interest paid	**(91,290)**	(110,754)	**(67,701)**	(104,494)
Taxes paid	**(15,895)**	(9,220)	**(10,740)**	(8,927)
Retirement benefit obligations paid	**(74,143)**	(58,739)	**(73,184)**	(58,739)
Net cash flow from operating activities	**456,119**	530,285	**711,687**	514,177
Cash Flows from Investing Activities				
Field development expenditure	**(288,070)**	(211,726)	**(288,070)**	(211,726)
Interest received	**32,593**	23,685	**21,617**	23,608
Dividends received	**1**	–	**873**	–
Acquisition of property, plant & equipment	**(148,733)**	(80,780)	**(78,028)**	(80,545)
Net cash paid on investment in Mabroc Teas (Pvt) Ltd.	**–**	(90,880)	**–**	–
Proceeds from disposal of property, plant & equipment	**30,732**	3,929	**22,573**	3,929
Investment in subsidiaries	**–**	–	**(14,193)**	(212,000)
Loans repayment by Group companies	**–**	75,000	**–**	75,000
Net cash used in investing activities	**(373,477)**	(280,772)	**(335,228)**	(401,734)
Net cash inflow before financing activities	**82,642**	249,513	**376,459**	112,443
Cash Flows from Financing Activities				
Dividend paid	**(136,515)**	(30,426)	**(135,041)**	(30,426)
Capital settlement of net liability to lessor	**(5,161)**	(4,959)	**(5,161)**	(4,959)
Short-term loans obtained during the year	**200,974**	–	**–**	–
Long-term loans repaid during the year	**(91,425)**	(175,949)	**(72,425)**	(158,585)
Grants received	**13,977**	55,181	**13,977**	54,821
Net cash used in financing activities	**(18,150)**	(156,153)	**(198,650)**	(139,149)
Net increase/(decrease) in cash and cash equivalents	**64,492**	93,360	**177,809**	(26,706)
Cash and cash equivalents at the beginning of the year	**338,845**	245,485	**217,329**	244,035
Cash and cash equivalents at the end of the year (Note B)	**403,337**	338,845	**395,138**	217,329
Note: A - Cash Generated from Operations				
Profit before tax	**544,629**	355,690	**500,806**	357,716
Adjustments for;				
Share of loss of associate	**–**	27,962	**–**	–
Net finance expenses	**51,010**	87,069	**42,519**	80,886
Profit on disposal of property, plant & equipment	**(26,202)**	(3,929)	**(20,290)**	(3,929)
Dividend income	**(1)**	–	**(873)**	–
Depreciation	**153,501**	125,489	**129,244**	117,527
Lease amortisation	**23,697**	23,694	**23,697**	23,694
Provision for retirement benefit obligations	**182,736**	184,655	**178,538**	184,626
Amortisation of capital grants	**(18,018)**	(17,378)	**(17,991)**	(17,342)
Provision for falling value of investments	**594**	–	**–**	–
Exchange gain	**4,123**	–	**–**	–
Provision/(reversal) for obsolete stocks	**2,042**	(110)	**(103)**	(110)
Provision/(reversal) for doubtful debts	**(1,246)**	(1,940)	**764**	(1,940)
Operating profit before working capital changes	**916,866**	781,202	**836,311**	741,128
(Increase)/decrease in inventories	**(25,973)**	(38,303)	**(71,275)**	(14,748)
(Increase)/decrease in trade and other receivables	**(273,605)**	(41,919)	**27,190**	(34,940)
(Increase)/decrease in amounts due from related companies	**19,306**	(36,304)	**34,362**	(49,887)
Increase/(decrease) in trade and other payables	**7,208**	40,703	**37,662**	40,224
Increase/(decrease) in amounts due to related companies	**(6,354)**	3,619	**(938)**	4,560
Cash generated from operating activities	**637,447**	708,998	**863,312**	686,337
Note: B - Analysis of Cash and Cash Equivalents				
Cash and bank balances	**44,948**	28,688	**32,090**	20,134
Short-term deposits	**363,161**	323,315	**363,049**	199,157
	408,109	352,003	**395,139**	219,291
Bank overdraft	**(4,772)**	(13,158)	**(1)**	(1,962)
Cash and cash equivalents	**403,337**	338,845	**395,138**	217,329

Figures in brackets indicate deductions.

Notes to the Financial Statements from pages 84 to 111 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

Kelani Valley Plantations PLC was incorporated on 18th June, 1992 under the Companies Act No. 17 of 1982 (The Company was re-registered under the Companies Act No. 07 of 2007) in terms of the provisions of the Conversion of Public Corporation and Government-Owned Business Undertakings into Public Companies under Public Companies Act No. 23 of 1987. The Registered Office of the Company and the principal line of business are given in the Inner Back Cover. All companies in the Group are limited liability companies incorporated and domiciled in Sri Lanka.

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

The Consolidated Financial Statements of Kelani Valley Plantations PLC, as at and for the year ended 31st December, 2011 comprise the Company and its Subsidiaries namely, Kelani Valley Green Tea (Pvt) Ltd., Kalupahana Power Company (Pvt) Ltd., Kelani Valley Instant Tea (Pvt) Ltd. and Mabroc Teas (Pvt) Ltd. (together referred to as the 'Group').

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

The Financial Statements of the Company and the Group comprise the Balance Sheet and the Statements of Income, Changes in Equity and Cash Flows together with the Accounting Policies and Notes to the Financial Statements.

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

2. BASIS OF PREPARATION

2.1 Statement of Compliance

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

The Financial Statements were authorised for issue by the Directors on 14th February, 2012.

2.2 Basis of Measurement

These Financial Statements have been prepared in accordance with the historical cost convention other than bare land and leased assets of JEDB/SLSPC, which have been revalued as described in Note 12 to the Financial Statements. Where appropriate, specific policies are explained in the succeeding Notes.

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

2.3 Functional and Presentation Currency

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

2.4 Use of Estimates and Judgments

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

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

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

- Note 25 - Measurement of the Defined Benefit Obligations.
- Note 26 - Net Liability to Lessor.
- Note 24 - Deferred Taxation.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Comparative information has, where necessary, been reclassified to conform with the current year's presentation. The Directors have made an assessment of the Group's ability to continue as a going concern in the foreseeable future, and they do not foresee a need for liquidation or cessation of trading.

3.1 Basis of Consolidation

The Consolidated Financial Statements (referred to as the 'Group') comprise the Financial Statements of the Company and its Subsidiaries and the Group's interest in Associates.

Subsidiaries are disclosed in Note 15 to the Financial Statements.

3.1.1 Subsidiaries

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

The Financial Statements of Subsidiaries are included in the Consolidated Financial Statements from the date that control effectively commences until the date that control effectively ceases.

3.1.2 Transaction with Non-Controlling Interest

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

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group.

3.1.3 Associates

Associates are those entities in which the Group has significant influence, but no control, over financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of the entity. Associates are accounted for using the equity method and are initially recognised at cost. The Consolidated Financial Statements include the Group's share of income and expenses and equity movements of associates, from the date the significant influence commences until the date the significant influence ceases. When the Group's share of losses exceeds its investment in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has incurred obligations or has made payments on behalf of the associate.

3.1.4 Transactions Eliminated on Consolidation

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

3.1.5 Profits and Losses

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

3.1.6 Assets and Liabilities

All assets and liabilities of the Company and its Subsidiaries are included in the Consolidated Balance Sheet. The proportionate interest of minority shareholders in the net assets employed by the Group, is disclosed separately in the Consolidated Balance Sheet as 'Non-Controlling Interest'.

3.2 Foreign Currency Transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at exchange rates applicable on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate ruling at that date. Foreign currency differences arising on retranslation are recognised in profit and loss. Non-monetary assets and liabilities which are carried in terms of historical cost in a foreign currency are retranslated at the exchange rate that prevailed at the date of the transaction.

3.3 Assets and Bases of their Valuation

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

3.3.1 Property, Plant & Equipment

3.3.1.1 Recognition and Measurement

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

3.3.1.2 Owned Assets

The cost of Property, Plant & Equipment includes expenditure that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other cost directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts (major components) of an item of Property, Plant & Equipment have different useful lives, they are accounted for as separate items of Property, Plant & Equipment.

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

3.3.1.3 Leased Assets

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

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

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

3.3.1.4 Subsequent Cost

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

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

3.3.1.5 Derecognition

The carrying amount of an item of Property, Plant & Equipment is derecognised on disposal; or when no future economic benefits are expected from its use or disposal. Gains or losses on derecognition are recognised in profit or loss and gains are not classified as revenue.

3.3.1.6 Permanent Land Development Cost

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

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

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

3.3.1.7 Limited Life Land Development Cost (Immature and Mature Plantations)

The cost of land preparation, rehabilitation, new planting, replanting, crop diversification, inter-planting and fertilizing, etc., incurred between the time of planting and harvesting (when the planted area attains maturity), are classified as immature plantations. These immature plantations are shown as direct costs plus attributable overheads, including interest attributable to long-term loans used for financing immature plantations.

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

The expenditure incurred on perennial crop (Tea/Rubber) fields, which comes into bearing during the year, has been transferred to mature plantations.

3.3.1.8 Infilling Cost

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

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

3.3.1.9 Borrowing Cost

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

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

The amounts of the borrowing costs which are eligible for capitalisation are determined in accordance with the Allowed Alternative Treatment in SLAS 20 - 'Borrowing Costs'.

Borrowing costs incurred in respect of specific loans that are utilised for field development activities have been capitalised as a part of the cost of the relevant immature plantation. The capitalisation will cease when the crops are ready for commercial harvest.

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

3.3.1.10 Depreciation and Amortisation

(a) Depreciation

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

	No. of Years	Rate (%)
Buildings & roads	40	2.50
Plant & machinery	13 1/3	7.50
Hydropower plant	30	3.33
Motor vehicles	5	20.00
Equipment	8	12.50
Furniture & fittings	10	10.00
Sanitation, water & electricity supply	20	5.00
Computer accessories	4	25.00
Tea Bagging machines	15	6.67

Mature Plantations (Replanting and New Planting)

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

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date on which the asset is classified as held for sale or is derecognised.

Depreciation methods, useful lives and residual values are reassessed at the reporting date. Mature plantations are depreciated over their useful lives or unexpired lease period, whichever is less.

No depreciation is provided for immature plantations.

(b) Amortisation

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

	No. of Years	Rate (%)
Bare land	53	1.89
Improvements to land	30	3.33
Mature plantations (Tea & Rubber)	30	3.33
Buildings	25	4.00
Machinery	15	6.67

3.3.2. Intangible Assets

Intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental or for administrative purpose.

An intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably in accordance with SLAS 37 on 'Intangible Assets'. Accordingly, these assets are stated in the Balance Sheet at cost, less accumulated amortisation and accumulated impairment losses.

3.3.2.1 Goodwill

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

After the control of an entity is obtained, changes in ownership interest that do not result in a loss of control are accounted as equity transactions and gain or loss from these changes are not recognised in profit and loss.

Goodwill arising on an acquisition of a non-controlling interest in a Subsidiary, represents the excess of the cost of the additional investment over the carrying amount of the interest in the net assets, acquired at the date of exchange.

Goodwill is tested annually for impairment and is measured at cost, less accumulated impairment losses. In respect of Associates, the carrying amount of goodwill is included in the carrying amount of the investment.

(c) Research and Development

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

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

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

3.3.3 Investments

3.3.3.1 Short-Term Investments

Short-term investments are measured at the lower of cost and market value on an aggregate portfolio basis, with any resultant gain or loss recognised in profit or loss.

3.3.3.2 Long-Term Investments

Quoted and unquoted investments in shares held on long-term basis are measured at cost, less impairment losses.

In the Parent Company's Financial Statements, investments in Subsidiaries and Associates are carried at cost, less impairment losses under the Parent Company's Accounting Policy for long-term investments.

Provision for impairment is made when, in the opinion of the Directors, there has been a decline other than temporary in the value of the investment.

3.3.4 Inventories

Inventories other than harvested crop are valued at the lower of cost and estimated net realisable value, after making due allowance for obsolete and slow moving items. Net realisable value is the estimated selling price at which stocks can be sold in the ordinary course of business after allowing for cost of realisation and/or cost of conversion from their existing state to saleable condition.

The cost incurred in bringing inventories to its present location and conditions is accounted using the following cost formula:

Input Material, Spares and Consumables

At actual cost on weighted average basis.

Nurseries

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

Harvested Crops

Manufactured up to the Balance Sheet date and sold since then, until the time of preparation of the Financial Statements are valued at since realised price. The balance stocks are valued at estimated selling price. The prices are net of all attributable expenses relating to the public auction.

3.3.5 Trade and Other Receivables

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

3.3.6 Cash and Cash Equivalents

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

3.3.7 Impairment of Assets

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

3.3.7.1 Calculation of Recoverable Amount

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

3.3.7.2. Impairment/Reversal of Impairment

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

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

3.4 Liabilities and Provisions

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

3.4.1 Employees' Benefits

(a) Defined Contribution Plans - Provident Funds and Trust Fund

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

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

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

(b) Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the Financial Statements in respect of defined benefit plan is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated annually using the Projected Unit Credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in statement of recognised income and expense in the period in which they arise. Past service costs are recognised immediately in Income Statement.

The Provision has been made for retirement gratuities from the first year of service for all employees, in conformity with Sri Lanka Accounting Standard No. 16 (Revised 2006) - 'Retirement Benefit Costs'. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The liability is not externally funded.

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

3.4.2 Trade and Other Payables

Trade and other payables are stated at their costs.

3.4.3 Capital Commitments and Contingencies

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

3.4.4 Events Occurring after the Balance Sheet Date

All material Post-Balance Sheet events have been considered where appropriate; either adjustments have been made or adequately disclosed in the Financial Statements.

3.4.5 Earnings Per Share

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

3.4.6 Deferred Income

3.4.6.1 Grants and Subsidies

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

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

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

Grants related to income are recognised in the Income Statement in the year in which it is receivable. Grants received for forestry are initially deferred and credited to income once when the related blocks of trees are harvested.

3.5 Income Statements

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

3.5.1 Revenue

(a) In keeping with the practice in the Plantation Industry, revenue and profit or loss on sale of perennial crops are recognised in the financial period of harvesting. Revenue is recorded at invoice value net of brokerage, sale expenses and other levies related to revenue.

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

(c) Interest income is recognised on accrual basis.

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

(e) Other income is recognised on accrual basis.

3.5.2 Expenses

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

3.5.2.1 Financing Income and Expenses

Finance income comprises interest income on funds invested, and gains on translation of foreign currency. Interest income is recognised in profit and loss as it accrues.

Finance expenses comprise interest payable on borrowings and losses on translation of foreign currency. The interest expense component of finance lease payments is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.5.2.2 Income Tax Expense

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

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

Deferred tax is recognised using the Balance Sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax withheld on dividend income from Subsidiaries and Associates is recognised as an expense in the Consolidated Income Statement at the same time as the liability to pay the related dividend is recognised.

3.6 Cash Flow Statement

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

3.7 Segment Reporting

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

Since the individual segments are located close to each other and operate in the same industrial environment, the need for geographical segmentation has no material impact.

The activities of the segments are described on pages 92 and 111 in the Notes to the Financial Statements. The Group transfers products from one industry segment for use in another. Inter-segment transfers are based on fair market prices.

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

4.1 Income Taxes

The Group recognises liabilities for anticipated tax based on estimates of taxable income. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

4.2 Retirement Benefit Obligations

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

5. EFFECTS OF ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1st January, 2012. Accordingly, these standards have not been applied in preparing these Financial Statements as the effective dates of these standards are after the Balance Sheet date.

These Sri Lanka Accounting Standards comprise Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS). Application of Sri Lanka Accounting Standards prefixed SLFRS and LKAS for first time shall be deemed to be an adoption of SLFRSs.

The Company allocated adequate resources for the implementation process and hired external consultants to diagnose the impact of SLFRS/LKAS to the Financial Statements. The draft diagnostic reports on gap analysis have been released for the Standards recognised as highly impacting on Financial Statements. The management has taken steps to adopt the changes to the accounting, reporting, and business processes and IT systems.

For the year ended 31st December,	Consolidated 2011 Rs. '000	Consolidated 2010 Rs. '000	Company 2011 Rs. '000	Company 2010 Rs. '000
6. REVENUE				
6.1 Industry Segment Revenue				
Tea	**4,359,956**	2,539,850	**2,480,988**	2,463,048
Rubber	**1,783,573**	1,373,238	**1,783,573**	1,373,238
Others	**21,481**	38,580	**-**	2,267
Less: Intra-group sales	**(54,639)**	(68,031)	**-**	–
	6,110,371	3,883,637	**4,264,561**	3,838,553
6.2 Industry Segment Results [Gross Profit/(Loss)]				
Tea	**130,062**	95,743	**(56,210)**	85,182
Rubber	**755,844**	473,401	**755,844**	473,401
Others	**14,581**	26,811	**-**	(1,880)
	900,487	595,955	**699,634**	556,703
7. OTHER INCOME				
Profit on disposal of property, plant & equipment	**26,202**	3,929	**20,290**	3,929
Dividend income	**1**	–	**873**	–
Hydropower income	**5,418**	7,629	**6,480**	9,444
Amortisation of Government grants	**18,018**	17,378	**17,991**	17,342
Sundry income	**25,868**	7,492	**15,962**	8,209
	75,507	36,428	**61,596**	38,924
8. NET FINANCE EXPENSES				
Finance Income				
Interest income	**(36,157)**	(23,685)	**(25,182)**	(23,608)
Exchange gain	**(4,123)**	–	**-**	–
	(40,280)	(23,685)	**(25,182)**	(23,608)
Finance Expenses				
Term loan interest	**23,673**	40,771	**19,936**	34,667
Overdraft interest	**21,837**	3,150	**1,985**	2,994
Interest paid to Government on finance lease	**45,780**	66,833	**45,780**	66,833
	91,290	110,754	**67,701**	104,494
Net Finance Expenses	**51,010**	87,069	**42,519**	80,886

For the year ended 31st December,	Notes	Consolidated 2011 Rs. '000	Consolidated 2010 Rs. '000	Company 2011 Rs. '000	Company 2010 Rs. '000
9. PROFIT BEFORE TAXATION					
Profit before tax is stated after charging all expenses including the following:					
Directors' emoluments		**32,599**	14,608	**18,396**	14,608
Auditor's remuneration					
- Audit services		**2,851**	2,266	**2,240**	1,972
- Non-audit services		**253**	230	**132**	120
Depreciation and Lease Amortisation					
- Leasehold right to bare land	12.1	**7,139**	7,140	**7,139**	7,140
- Immovable leased assets	12.2	**16,558**	16,554	**16,558**	16,554
- Tangible Property, Plant & Equipment	13	**107,573**	85,249	**83,316**	77,287
- Mature plantations	14	**45,928**	40,240	**45,928**	40,240
Staff Costs					
- Defined contribution plan costs (EPF, CPPS, ESPS and ETF)		**243,774**	197,272	**238,262**	197,151
- Defined benefit plan cost (Retirement benefit obligations)	25	**182,736**	184,655	**178,538**	184,625
- Salaries and wages and other staff costs		**2,024,104**	1,559,365	**1,942,676**	1,551,138
- Staff training and development cost		**1,020**	1,516	**1,020**	1,513
Legal fees		**9,387**	7,690	**9,387**	7,690
Provision/(reversal) for bad & doubtful debts		**(1,246)**	(1,940)	**764**	(1,940)
Provision/(reversal) for obsolete inventories		**2,042**	(110)	**(103)**	(110)

(1) The number of employees employed is given on page 3.

For the year ended 31st December,		Notes	Consolidated 2011 Rs. '000	Consolidated 2010 Rs. '000	Company 2011 Rs. '000	Company 2010 Rs. '000
10. TAX EXPENSE						
(A) Current Tax Expense						
Income taxes on current year's profit	- Company	10 C	**22,486**	5,371	**22,486**	5,371
	- Subsidiaries	10 C	**8,883**	27	**–**	–
			31,369	5,398	**22,486**	5,371
(B) Deferred Tax Expense						
Originating and reversal of temporary difference of	- Company	24	**45,783**	12,724	**45,783**	12,724
	- Subsidiaries	24	**4,438**	11,416	**–**	–
			50,221	24,140	**45,783**	12,724
Tax Expense			**81,590**	29,538	**68,269**	18,095

The Company, in terms of Section 16 of the Inland Revenue Act No. 10 of 2006 Profit from agriculture, has been exempted from income tax for a period of 5 years which expired during year of assessment 2010/11. Accordingly, the Company is liable to income tax at the rate of 10% on its agricultural profits and 28% on manufacturing profits beginning from year of assessment 2011/12.

Kelani Valley Green Tea (Pvt) Ltd., has entered into an agreement with the Board of Investment of Sri Lanka and has been granted a five-year tax holiday on its business activities from the year of assessment in which the enterprise commences to make profits or any year of assessment not later than 2 years reckoned from the date of commencement of commercial operations, whichever is earlier. Accordingly, tax holiday period of Kelani Valley Green Tea (Pvt) Ltd., expired in the year of assessment 2010/11. After the expiration of tax holiday period the profits will be taxed at a concessionary rate.

Kalupahana Power Company (Pvt) Ltd., has entered into an agreement with the Board of Investment of Sri Lanka and has been granted a five-year tax holiday on its business activities from the year of assessment in which the enterprise commences to make profits or any year of assessment not later than 2 years reckoned from the date of commencement of commercial operations, whichever is earlier. Accordingly, tax holiday period of Kalupahana Power Company (Pvt) Ltd., has commenced in the year of assessment 2008/09 and would expire in the year of assessment 2012/13.

Kelani Valley Instant Tea (Pvt) Ltd., is exempted from income tax on the processing of agricultural products for a period of 3 years commencing from the year of assessment 2010/11 under the Section 17 of the Inland Revenue Act No. 10 of 2006.

The qualified export profit earned by Mabroc Teas (Pvt) Ltd., has been taxed at the rate of 12% in terms of Section 52 of the Inland Revenue Act No. 10 of 2006. Further, the rate applicable to profits arising from the export of tea bags as specified in terms of Section 16 (c) of the Inland Revenue Act is 10% (exemption expired on 31st March, 2011). Other income earned by Marbroc Teas (Pvt) Ltd. has been taxed at 28%.

		Consolidated		Company	
For the year ended 31st December,	Notes	**2011** **Rs. '000**	2010 Rs. '000	**2011** **Rs. '000**	2010 Rs. '000
(C) Reconciliation of Accounting Profit to Income Tax Expense					
Profit before tax		**544,629**	355,690	**500,806**	357,716
Share of loss of associate		**–**	27,962	**–**	–
		544,629	383,652	**500,806**	357,716
Aggregated allowable expenses		**(598,362)**	(496,479)	**(532,588)**	(473,565)
Aggregated disallowable expenses		**427,015**	375,003	**377,713**	366,371
Total statutory income		**373,282**	262,176	**345,931**	250,522
Tax exempt loss/(profit) from business		**1,285**	(384,308)	**–**	(372,731)
Statutory loss from business	10 D	**7,138**	145,817	**–**	145,817
Loss set-off during the year	10 D	**(128,738)**	8,262	**(121,076)**	(8,262)
Taxable income		**252,967**	15,423	**224,855**	15,346
Income tax @ 10%		**22,486**	–	**22,486**	–
Income tax @ 28%		**82**	–	**–**	–
Income tax @ other rates		**8,801**	5,398	**–**	5,371
Income tax on current year profits		**31,369**	5,398	**22,486**	5,371
Effective tax rate (%)		**14.98**	8.30	**13.63**	5.06
(D) Accumulated Tax Losses					
Tax loss b/f		**(285,931)**	(172,475)	**(285,931)**	(134,461)
Adjustment for tax loss b/f		**3,939**	24,099	**3,939**	(13,915)
		(281,992)	(148,376)	**(281,992)**	(148,376)
Statutory loss from the business		**(7,138)**	(145,817)	**–**	(145,817)
Loss set-off during the year		**128,738**	8,262	**121,076**	8,262
		121,600	(137,555)	**121,076**	(137,555)
Tax loss c/f		**(160,392)**	(285,931)	**(160,916)**	(285,931)

11. EARNINGS PER SHARE AND DIVIDEND PER SHARE

11.1 Earnings per Share

(A) Basic Earnings per Share

The computation of the basic earnings per share is based on profit attributable to ordinary shareholders for the year divided by weighted average number of ordinary shares outstanding during the year and calculated as follows:

	Consolidated		Company	
For the year ended 31st December,	**2011**	2010	**2011**	2010
Amount Used as the Numerator				
Profit attributable to ordinary shareholders (Rs. '000)	**460,489**	320,677	**432,537**	339,621
Amount Used as the Denominator				
Weighted average number of ordinary shares ('000)	**34,000**	34,000	**34,000**	34,000
Basic earnings per share (Rs.)	**13.54**	9.43	**12.72**	9.99

(B) Diluted Earnings Per Share

The calculation of diluted earnings per share is based on profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares.

There were no potentially dilutive shares outstanding at any time during the year/previous year.

11.2 Dividend Per Share

	Company	
For the year ended 31st December,	**2011**	2010
First and final proposed dividend of Rs. 5.00 per share (2010 - Rs. 4.00 per share) (Rs. '000)	**170,000**	136,000
Number of ordinary shares ('000)	**34,000**	34,000
Dividend per share (Rs.)	**5.00**	4.00

The Board of Directors has recommended a first and final dividend of Rs. 5.00 per share amounting to Rs. 170,000,005/- for the year ended 31st December, 2011 (final dividends for 2010 - Rs. 4.00 per share amounting to Rs. 136,000,004/-).

This is to be approved at the Annual General Meeting to be held on 29th March, 2012.

12. LEASEHOLD PROPERTY, PLANT & EQUIPMENT

		Consolidated		Company	
As at 31st December,	Notes	**2011** Rs. '000	2010 Rs. '000	**2011** Rs. '000	2010 Rs. '000
Leasehold rights to bare land	12.1	**238,872**	246,018	**238,872**	246,018
Immovable leased assets	12.2	**190,495**	207,053	**190,495**	207,053
		429,367	453,071	**429,367**	453,071

12.1 Leasehold Rights to Bare Land

The leasehold rights to land on all 27 estates have been taken into the books of the Company as at 18th June, 1992, immediately after formation of the Company, in terms of the ruling obtained from the Urgent Issue Task Force (UITF) of The Institute of Chartered Accountants of Sri Lanka. For this purpose, the Board decided at its meeting held on 8th March, 1995 that these bare lands would be revalued, at the value established for these lands, by the valuation specialist Mr. D R Wickramasinghe, just prior to the formation of the Company. The value taken into the Balance Sheet, disposal during the year and the amortisation of leasehold rights up to 31st December, 2011 are as follows:

	Consolidated		Company	
As at 31st December,	**2011 Rs. '000**	2010 Rs. '000	**2011 Rs. '000**	2010 Rs. '000
Capitalised value				
As at 1st January	**369,740**	369,740	**369,740**	369,740
Disposals during the year	**(13)**	–	**(13)**	–
As at 31st December	**369,727**	369,740	**369,727**	369,740
Amortisation				
As at 1st January	**123,722**	116,582	**123,722**	116,582
Amortisation for the year	**7,139**	7,140	**7,139**	7,140
Disposals during the year	**(6)**	–	**(6)**	–
As at 31st December	**130,855**	123,722	**130,855**	123,722
Carrying amount	**238,872**	246,018	**238,872**	246,018

12.2 Immovable Leased Assets

In terms of the ruling of the UITF of The Institute of Chartered Accountants of Sri Lanka, all immovable assets in the JEDB/SLSPC estates under finance leases have been taken into the books of the Company retroactive to 18th June, 1992. For this purpose, the Board decided at its meeting on 8th March, 1995, that these assets be restated at their book values as they appear in the books of the JEDB/SLSPC, on the day immediately preceding the date of formation of the Company. These assets are taken into the Balance Sheet as at 18th June, 1992 and depreciated as follows:

	Land Development	Mature Plantations		Buildings	Machinery	Consolidated		Company	
		Tea	Rubber			**2011**	2010	**2011**	2010
As at 31st December,	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Capitalised Value	3,455	213,541	178,145	84,600	23,094	**502,835**	502,835	**502,835**	502,835
Amortisation									
As at 1st January	2,135	111,277	96,537	62,739	23,094	**295,782**	279,228	**295,782**	279,228
Amortisation for the year	115	6,834	6,226	3,383	–	**16,558**	16,554	**16,558**	16,554
As at 31st December	2,250	118,111	102,763	66,122	23,094	**312,340**	295,782	**312,340**	295,782
Carrying amount	1,205	95,430	75,382	18,478	–	**190,495**	207,053	**190,495**	207,053

Investment in Immature Plantations at the time of handing over to the Company as at 18th June, 1992 by way of estate leases were shown under Immature Plantations.

However, since then, all such investments in Immature Plantations attributable to JEDB/SLSPC period have been transferred to Mature Plantations. Further, investment in such plantations to bring them to maturity is shown under Note 14.

13. FREEHOLD PROPERTY, PLANT & EQUIPMENT - Consolidated

As at 31st December,	Buildings Rs. '000	Plant & Machinery Rs. '000	Hydro power Plant Rs. '000	Motor Vehicles Rs. '000	Furniture & Fittings Rs. '000	Equipments Rs. '000	Computers Rs. '000	Tea Bagging Machines Rs. '000	Others Rs. '000	**2011 Total** **Rs. '000**	2010 Total Rs. '000
Cost											
As at 1st January	696,711	464,712	133,017	196,540	13,976	115,856	20,587	118,800	38,376	**1,798,575**	1,554,965
Additions during the year	40,437	17,259	–	33,031	1,013	65,980	2,095	4,250	793	**164,858**	69,098
On acquisition of subsidiary	–	–	–	–	–	–	–	–	–	**–**	179,946
Disposals/transfers	–	–	–	(11,009)	–	(7,169)	–	–	–	**(18,178)**	(5,434)
As at 31st December	737,148	481,971	133,017	218,562	14,989	174,667	22,682	123,050	39,169	**1,945,255**	1,798,575
Depreciation											
As at 1st January	76,582	192,283	21,958	143,664	11,332	41,300	16,460	23,397	15,071	**542,047**	422,982
Charge for the year	19,945	31,398	4,434	27,489	393	12,126	1,655	8,204	1,929	**107,573**	85,249
On acquisition of subsidiary	–	–	–	–	–	–	–	–	–	**–**	39,250
Disposals/transfers	–	–	–	(8,735)	–	(4,922)	–	–	–	**(13,657)**	(5,434)
As at 31st December	96,527	223,681	26,392	162,418	11,725	48,504	18,115	31,601	17,000	**635,963**	542,047
Net book value	640,621	258,290	106,625	56,144	3,264	126,163	4,567	91,449	22,169	**1,309,292**	1,256,527
Work-in-progress										**4,140**	20,265
Carrying amount										**1,313,432**	1,276,792

Company

As at 31st December,	Buildings Rs. '000	Plant & Machinery Rs. '000	Motor Vehicles Rs. '000	Furniture & Fittings Rs. '000	Equipment Rs. '000	Computers Rs. '000	Others Rs. '000	**2011 Total** **Rs. '000**	2010 Total Rs. '000
Cost									
As at 1st January	671,509	429,075	182,526	9,702	72,527	20,389	38,376	**1,424,104**	1,360,675
Additions during the year	26,243	17,259	31,307	1,013	14,434	2,095	793	**93,144**	68,863
Disposals/transfers	–	(5,140)	(7,497)	–	–	–	–	**(12,637)**	(5,434)
As at 31st December	697,752	441,194	206,336	10,715	86,961	22,484	39,169	**1,504,611**	1,424,104
Depreciation									
As at 1st January	74,792	183,586	131,053	7,938	41,172	16,262	15,068	**469,871**	398,018
Charge for the year	17,452	28,738	26,447	389	6,707	1,655	1,929	**83,317**	77,287
Disposals/transfers	–	(5,140)	(5,223)	–	–	–	–	**(10,363)**	(5,434)
As at 31st December	92,244	207,184	152,277	8,327	47,879	17,917	16,997	**542,825**	469,871
Net book value	605,508	234,010	54,059	2,388	39,082	4,567	22,172	**961,786**	954,233
Work-in-progress								**3,335**	18,450
Carrying amount								**965,121**	972,683

(a) The assets shown above are those movable assets vested in the Company by Gazette Notification on the date of formation of the Company (18th June, 1992) and all investments in tangible assets by the Company since its formation. The assets taken over by way of estate leases are set out in Note 12.

(b) No borrowing costs incurred on term loans to finance the capital work-in-progress.

(c) The cost of fully-depreciated Property, Plant & Equipment of the Company which are still in use as at the Balance Sheet date is Rs. 193 m (2010 - Rs. 194 m).

(d) Unexpired lease periods of land:

Kelani Valley Plantations PLC	35 years
Kelani Valley Green Tea (Pvt) Ltd.	35 years
Kalupahana Power Company (Pvt) Ltd.	35 years

14. IMPROVEMENTS TO LEASEHOLD PROPERTY

As at 31st December,	Immature Plantations				Mature Plantations			Consolidated		Company	
								2011	2010	**2011**	2010
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Cost	**Tea**	**Rubber**	**Others**	**Total**	**Tea**	**Rubber**	**Total**				
As at 1st January	192,357	512,035	53,338	757,730	520,950	605,981	1,126,931	**1,884,661**	1,672,935	**1,884,661**	1,672,935
Additions during the year	87,842	197,199	3,029	288,070	–	–	–	**288,070**	211,726	**288,070**	211,726
Transfers (from)/to	(82,977)	(97,001)	–	(179,978)	82,977	97,001	179,978	**–**	–	**–**	–
As at 31st December	197,222	612,233	56,367	865,822	603,927	702,982	1,306,909	**2,172,731**	1,884,661	**2,172,731**	1,884,661
Depreciation											
As at 1st January	–	–	–	–	118,260	166,047	284,307	**284,307**	244,067	**284,307**	244,067
Charge for the year	–	–	–	–	15,629	30,299	45,928	**45,928**	40,240	**45,928**	40,240
As at 31st December	–	–	–	–	133,889	196,346	330,235	**330,235**	284,307	**330,235**	284,307
Carrying amount	197,222	612,233	56,367	865,822	470,038	506,636	976,674	**1,842,496**	1,600,354	**1,842,496**	1,600,354

These are investments in Mature/Immature Plantations since the formation of the Company. The assets (including plantation assets) taken over by way of estate leases are set out in Note 12 to the Financial Statements. Further investments in Immature Plantations taken over by way of leases are shown in this Note. When such plantations become mature, the additional investments since taken over to bring them to maturity are transferred from Immature to Mature. Others include timber and fuelwood plantation.

Specific borrowings have not been obtained to finance the planting expenditure. Hence, borrowing costs were not capitalised during the year under Immature Plantations (2010 - NIL).

The addition of Rs. 288 m (2010 - Rs. 212 m) shown above includes the following costs incurred during the year in respect of uprooting and planting of Tea and Rubber.

As at 31st December,	Consolidated				Company			
	2011		2010		**2011**		2010	
	Extent - Ha	**Rs. '000**	Extent - Ha	Rs. '000	**Extent - Ha**	**Rs. '000**	Extent - Ha	Rs. '000
Uprooting								
- Tea	**10**	**8,266**	16	8,241	**10**	**8,266**	16	8,241
- Rubber	**175**	**4,193**	191	4,223	**175**	**4,193**	191	4,223
Planting								
- Tea	**36**	**39,140**	30	18,465	**36**	**39,140**	30	18,465
- Rubber	**291**	**101,496**	198	69,699	**291**	**101,496**	198	69,699
	512	**153,095**	435	100,628	**512**	**153,095**	435	100,628

15. INVESTMENTS IN SUBSIDIARIES

Unquoted Investments *As at 31st December,*	Principal Activity	% Holding		No. of Shares		Value	
		2011	2010	**2011**	2010	**2011 Company Rs '000**	2010 Company Rs '000
Kelani Valley Green Tea (Pvt) Ltd.	Manufacture of green tea	**100**	100	**2,000,000**	1,020,000	**16,893**	10,200
Kalupahana Power Company (Pvt) Ltd.	Build and operate a mini hydropower project	**60**	60	**1,800,000**	1,800,000	**18,000**	18,000
Kelani Valley Instant Tea (Pvt) Ltd.	Manufacture of instant tea	**95**	95	**2,850,000**	2,250,000	**30,000**	22,500
Mabroc Teas (Pvt) Ltd.	Export of bulk and retail packed teas	**100**	100	**9,000,000**	9,000,000	**260,000**	260,000
Carrying amount						**324,893**	310,700

The financial year of Mabroc Teas (Pvt) Ltd. ends on 31st March. Its results for the 12-month period from 1st January, 2011 to 31st December, 2011 are included in these Consolidated Financial Statements based on the Audited Financial Statements up to 31st March, 2011, and the Financial Statements for the period of nine months ended 31st December, 2011, which was subjected to limited review carried out by Messrs Ernst & Young., Chartered Accountants, Auditors of Mabroc Teas (Pvt) Ltd.

16. GOODWILL ON ACQUISITION

As at 31st December,	Consolidated	
	2011 Rs. '000	2010 Rs. '000
As at 1st January	**33,310**	–
Addition during the year	**–**	33,310
As at 31st December	**33,310**	33,310

The carrying value of goodwill represents the goodwill on acquisition of Mabroc Teas (Pvt) Ltd. The management is of the view that a provision for impairment for goodwill is not required as at the Balance Sheet date.

The Company acquired 40% shares of Mabroc Teas (Pvt) Ltd. in April 2003 and balance 60% in December 2010.

17. INVENTORIES

As at 31st December,	Consolidated		Company	
	2011 Rs. '000	2010 Rs. '000	**2011 Rs. '000**	2010 Rs. '000
Input materials	**95,715**	122,166	**33,034**	42,060
Nurseries	**20,053**	19,700	**20,053**	19,700
Harvested crop	**430,567**	377,412	**428,551**	352,739
Raw materials	**125,387**	132,641	**–**	–
Finished goods	**2,034**	–	**–**	–
Spares and consumables	**14,827**	10,691	**14,827**	10,691
	688,583	662,610	**496,465**	425,190
Provision for obsolete inventories	**(9,616)**	(7,574)	**(7,471)**	(7,574)
	678,967	655,036	**488,994**	417,616

The carrying amount of inventories pledged as securities for Bank facilities obtained amounted to Rs. 429 m (2010 - Rs. 353 m) and Rs. 657 m (2010 - Rs. 565 m) by the Company and the Group respectively.

18. TRADE AND OTHER RECEIVABLES

As at 31st December,	Consolidated 2011 Rs. '000	Consolidated 2010 Rs. '000	Company 2011 Rs. '000	Company 2010 Rs. '000
Trade receivables	**534,387**	206,890	**17,520**	38,186
Lease rent paid in advance	**13,184**	12,287	**13,184**	12,287
Employee advances and receivables	**37,153**	37,759	**37,153**	37,759
Advance Company tax recoverable	**13,285**	19,620	**13,285**	19,620
ESC recoverable	**5,571**	4,240	**-**	156
WHT recoverable	**3,765**	5,502	**-**	-
Other receivables and prepayments	**42,031**	70,019	**26,690**	35,196
	649,376	356,317	**107,832**	143,204
Provision for bad and doubtful debts	**(83,820)**	(85,066)	**(2,507)**	(1,743)
	565,556	271,251	**105,325**	141,461

No loans over Rs. 20,000/- have been given to Directors or officers of the Company.

The carrying amount of debtors pledged as securities for Bank facilities obtained amounted to Rs. 17.5 m (2010 - Rs. 38.2 m) and Rs. 295.4 m (2010 - Rs. 116 m) by the Company and the Group respectively.

19. SHORT-TERM INVESTMENTS

As at 31st December,	No. of Shares	Consolidated 2011 Rs. '000	Consolidated 2010 Rs. '000	Company 2011 Rs. '000	Company 2010 Rs. '000
Investment in quoted companies					
Sampath Bank PLC		**-**	34	**-**	-
Investment in unquoted companies					
Cambron Exports (Pvt) Ltd.		**-**	500	**-**	-
Mabroc International (Pvt) Ltd.		**732**	732	**-**	-
Mabroc Japan		**4,567**	4,567	**-**	-
Investment in debentures					
Vanik Incorporation Ltd.		**-**	60	**-**	-
Seylan Bank PLC	30,000	**3,000**	3,000	**-**	-
		8,299	8,893	**-**	-

20. CASH AND CASH EQUIVALENTS

As at 31st December,	Consolidated 2011 Rs. '000	Consolidated 2010 Rs. '000	Company 2011 Rs. '000	Company 2010 Rs. '000
20.1 Favourable Balances				
Cash in hand	**387**	859	**261**	241
Cash at bank	**44,561**	27,829	**31,829**	19,893
	44,948	28,688	**32,090**	20,134
20.2 Unfavourable Balances				
Bank overdraft	**(4,772)**	(13,158)	**(1)**	(1,962)
	(4,772)	(13,158)	**(1)**	(1,962)

The securities pledged have been disclosed in Note 30 to the Financial Statements.

21. STATED CAPITAL

As at 31st December,	Consolidated 2011 Rs. '000	Consolidated 2010 Rs. '000	Company 2011 Rs. '000	Company 2010 Rs. '000
34,000,000 (34,000,000 - 2010) ordinary shares and 01 Golden Share	**340,000**	340,000	**340,000**	340,000
	340,000	340,000	**340,000**	340,000

The holders of ordinary shares and golden shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. Special rights of the golden shares are given in the Annual Report of the Board of Directors on the Affairs of the Company (page 72).

22. INTEREST-BEARING BORROWINGS

22.1 Long-term Interest-Bearing Borrowings

As at 31st December,	DFCC Rs. '000	NDB Rs. '000	Seylan Rs. '000	**Total 2011 Rs. '000**	Total 2010 Rs. '000
Group					
As at 1st January	198,035	78,717	22,962	**299,714**	475,663
Repayments during the year	(36,008)	(32,455)	(22,962)	**(91,425)**	(175,949)
As at 31st December	162,027	46,262	–	**208,289**	299,714
Payable within one year (Transferred to current liabilities)	(36,008)	(35,455)	–	**(71,463)**	(73,300)
Payable after one year	126,019	10,807	–	**136,826**	226,414
Analysis of Long-Term Borrowings by Year of Repayment					
Repayable within one year from year-end	36,008	35,455	–	**71,463**	73,300
Repayable between 2 and 5 years from year-end	119,371	10,807	–	**130,178**	196,759
Repayable later than 5 years from year-end	6,648	–	–	**6,648**	29,655
	162,027	46,262	–	**208,289**	299,714

As at 31st December,	DFCC Rs. '000	NDB Rs. '000	Seylan Rs. '000	**Total 2011 Rs. '000**	Total 2010 Rs. '000
Company					
As at 1st January	198,035	37,717	22,962	**258,714**	417,299
Repayments during the year	(36,008)	(13,455)	(22,962)	**(72,425)**	(158,585)
As at 31st December	162,027	24,262	–	**186,289**	258,714
Payable within one year (Transferred to current liabilities)	(36,008)	(13,455)	–	**(49,463)**	(54,300)
Payable after one year	126,019	10,807	–	**136,826**	204,414
Analysis of Long-Term Borrowings by Year of Repayment					
Repayable within one year from year-end	36,008	13,455	–	**49,463**	54,300
Repayable between 2 and 5 years from year-end	119,371	10,807	–	**130,178**	174,759
Repayable later than 5 years from year-end	6,648	–	–	**6,648**	29,655
	162,027	24,262	–	**186,289**	258,714

Lender *As at 31st December,*	Loan Outstanding 2011 Rs. '000	 2010 Rs. '000	Rate of Interest per Annum %	Monthly Instalment Rs.	Terms of Repayments
22.1.1 National Development Bank					
(Under ADB Line of Credit)					
Term Loan 1	**7,515**	12,023	9.51	375,727	120 monthly instalments commenced on 30.09.2003
Term Loan 2	**10,747**	15,194	9.51	370,590	120 monthly instalments commenced on 30.06.2004
(Under e-Friends Loan Scheme)					
Term Loan 3	**6,000**	10,500	6.50	375,000	48 monthly instalments commenced on 31.05.2009
	24,262	37,717			
22.1.2 Seylan Bank	**–**	22,962	AWPLR + 0.25		
(Under ADB Line of Credit)					
22.1.3 DFCC Bank					
(Under ADB Line of Credit)					
Term Loan 1	**56,933**	68,133	9.42	933,330	90 monthly instalments commenced on 31.08.2009
Term Loan 2	**62,857**	74,286	9.30	952,381	84 monthly instalments commenced on 31.07.2010
(Under e-Friends Loan Scheme)					
e-Friends Loan 1	**13,250**	17,793	6.50	378,572	84 monthly instalments commenced on 31.12.2007
e-Friends Loan 2	**17,810**	22,898	6.50	424,048	84 monthly instalments commenced on 31.07.2008
e-Friends Loan 3	**6,670**	8,338	6.50	138,961	84 monthly instalments commenced on 31.01.2009
e-Friends Loan 4	**4,507**	6,587	6.50	173,333	60 monthly instalments commenced on 31.03.2009
	162,027	198,035			
Company - Total	**186,289**	258,714			

22.1.4 Subsidiary - Kalupahana Power Co. (Pvt) Ltd.

Lender *As at 31st December,*	Loan Outstanding 2011 Rs. '000	 2010 Rs. '000	Rate of Interest per Annum %	Instalments and Terms of Repayments
NDB Term Loan	**22,000**	41,000	AWDR + 4	A quarterly instalment of Rs. 4,000,000/- commencing from 31.03.2012 3 quarterly instalments of Rs. 6,000,000/- commencing from 30.06.2012
Group-Total	**208,289**	299,714		

22.2 Short-term Interest-Bearing Borrowings - Mabroc Teas (Pvt) Ltd.

Lender	**2011 Total Rs. '000**	2010 Total Rs. '000	Currency
Sampath Bank	**56,975**	157,035	US $
HSBC	**224,910**	–	US $
National Development Bank	**68,370**	160,892	LKR
CITI Bank	**168,646**	–	LKR
	518,901	317,927	

The securities pledged for these facilities has been disclosed in Note 30 to the Financial Statements.

23. DEFERRED INCOME

Grants and Subsidies

As at 31st December,	Consolidated 2011 Rs. '000	Consolidated 2010 Rs. '000	Company 2011 Rs. '000	Company 2010 Rs. '000
Capital Grants				
As at 1st January	**565,221**	510,040	**564,254**	509,433
Grants received during the year	**13,977**	55,181	**13,977**	54,821
As at 31st December	**579,198**	565,221	**578,231**	564,254
Amortisation				
As at 1st January	**84,343**	66,965	**84,291**	66,949
Amortised during the year	**18,018**	17,378	**17,991**	17,342
As at 31st December	**102,361**	84,343	**102,282**	84,291
Net carrying amount as at 31st December	**476,837**	480,878	**475,949**	479,963

Grants were received from the Plantation Reform Project (PRP), Plantation Human Development Trust, Ministry of Community Development, Asian Development Bank, Social Welfare Project, Estate Infrastructures Development Project, Plantation Development Support Project, Ceylon Electricity Board, Tea Board and Rubber Development Division of the Ministry of Plantations Industry.

The amount spent is capitalised under relevant classification of improvement to leasehold Property, Plant & Equipment. Corresponding grant component is reflected under Deferred Grants and Subsidies and amortised over the useful life span of the asset.

24. DEFERRED TAX LIABILITY

As at 31st December,	Consolidated 2011 Temporary Difference Rs. '000	Consolidated 2011 Tax Effect Rs. '000	Consolidated 2010 Temporary Difference Rs. '000	Consolidated 2010 Tax Effect Rs. '000	Company 2011 Temporary Difference Rs. '000	Company 2011 Tax Effect Rs. '000	Company 2010 Temporary Difference Rs. '000	Company 2010 Tax Effect Rs. '000
As at 1st January	**907,675**	**147,438**	760,896	120,836	**803,758**	**126,673**	726,713	113,949
Amount originating during the year	**298,102**	**50,221**	134,140	24,140	**290,507**	**45,783**	77,045	12,724
On acquisition of subsidiary	**–**	**–**	12,580	2,462	**–**	**–**	–	–
As at 31st December	**1,205,777**	**197,659**	907,616	147,438	**1,094,265**	**172,456**	803,758	126,673
Temporary differences Property, Plant & Equipment (including mature and immature plantations)	**2,346,170**	**377,665**	2,039,795	325,394	**2,219,289**	**349,760**	1,948,443	307,076
Temporary difference of Retirement Benefit Obligation	**(980,001)**	**(155,094)**	(858,828)	(135,355)	**(964,108)**	**(151,944)**	(858,754)	(135,340)
Carried forward tax losses	**(160,392)**	**(24,912)**	(285,931)	(45,063)	**(160,916)**	**(25,360)**	(285,931)	(45,063)
On acquisition of subsidiary	**–**	**–**	12,580	2,462	**–**	**–**	–	–
As at 31st December	**1,205,777**	**197,659**	907,616	147,438	**1,094,265**	**172,456**	803,758	126,673

The effective tax rate used to calculate deferred tax liability as at 31st December, 2011 is 15.76% (2010 - 15.76%) for the Company.

25. RETIREMENT BENEFIT OBLIGATIONS

As at 31st December,	Consolidated 2011 Rs. '000	2010 Rs. '000	Company 2011 Rs. '000	2010 Rs. '000
Movement in the Retirement Benefit Obligations				
As at 1st January	**871,408**	732,912	**858,754**	732,867
Current service cost	**77,481**	63,175	**74,554**	63,160
Interest cost	**87,141**	73,291	**85,875**	73,287
Actuarial loss	**18,114**	48,189	**18,109**	48,179
	182,736	184,655	**178,538**	184,626
On acquisition of subsidiary	**–**	12,580	**–**	–
	1,054,144	930,147	**1,037,292**	917,493
Benefit paid by the plan	**(74,143)**	(58,739)	**(73,184)**	(58,739)
As at 31st December	**980,001**	871,408	**964,108**	858,754

SLAS 16 (Revised 2006) 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 and discount that benefit using the Projected Unit Credit Method in order to determine the present value of the retirement benefit obligation and the current service cost. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates about demographic variables and financial variables that will influence the cost of the benefit. The following key assumptions were made in arriving at the above figure.

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

(i) Rate of Interest	10%
(ii) Rate of Salary Increase	
Workers	22% (every two years)
Staff	10% (per annum)
(iii) Retirement Age	
Workers	60 years
Staff	60 years
(iv) Daily Wage Rate	
Tea	Rs. 380/-
Rubber	Rs. 380/-

26. NET LIABILITY TO LESSOR

	Consolidated		Company	
As at 31st December,	**2011 Rs. '000**	2010 Rs. '000	**2011 Rs. '000**	2010 Rs. '000
Gross Liability				
As at 1st January	**676,131**	695,729	**676,131**	695,729
Repayments during the year	**(19,598)**	(19,598)	**(19,598)**	(19,598)
As at 31st December	**656,533**	676,131	**656,533**	676,131
Finance cost allocated to future periods	**(298,840)**	(313,277)	**(298,840)**	(313,277)
Net liability	**357,693**	362,854	**357,693**	362,854
Payable within One Year				
Gross liability	**19,598**	19,598	**19,598**	19,598
Finance cost allocated to future periods	**(14,228)**	(14,437)	**(14,228)**	(14,437)
Net liability transferred to current liabilities	**5,370**	5,161	**5,370**	5,161
Payable within Two to Five Years				
Gross liability	**78,392**	78,392	**78,392**	78,392
Finance cost allocated to future periods	**(54,641)**	(55,567)	**(54,641)**	(55,567)
Net liability	**23,751**	22,825	**23,751**	22,825
Payable after Five Years				
Gross liability	**558,543**	578,141	**558,543**	578,141
Finance cost allocated to future periods	**(229,971)**	(243,273)	**(229,971)**	(243,273)
Net liability	**328,572**	334,868	**328,572**	334,868
Net liability payable after one year	**352,323**	357,693	**352,323**	357,693

The original lease rentals had been amended with effect from 18th June, 1996 to an amount substantially higher than the previous nominal lease rental of Rs. 500/- per estate per annum.

The basic rental payable under the revised basis was Rs. 19,598,000/- per annum. This amount is to be inflated annually by the Gross Domestic Product (GDP) deflator in the form of contingent rent.

This lease agreement was further amended on 1st August, 2002, freezing annual lease rental at Rs. 25,839,041/- from 18th June, 2002. Hence, the GDP deflator adjustment has been frozen at Rs. 6,241,041/- per annum until 17th June, 2008. Thereafter which will be inflated annually by GDP deflator.

According to the ruling given by the Urgent Issue Task Force (UITF) of The Institute of Chartered Accountants of Sri Lanka, the amount stated in the Financial Statements have been adjusted to reflect the following:

1. Future liability on annual lease payment of Rs. 19,598,000/- would continue until year 2045. The Net Present Value of this liability at 4% discounting rate (as recommended by UITF) would result in a liability of Rs. 357,693,521/-.
2. Net present value of Rs. 357,693,421/- is represented by gross liability of Rs. 656,533,000/- (Rs. 19,598,000/- x 33 1/2 years) and interest in suspense of Rs. 298,839,579/-.
3. The charge to the Income Statement during the current period is Rs. 45.8 m (2010 - Rs. 66.8 m).

27. TRADE AND OTHER PAYABLES

As at 31st December,	Consolidated 2011 Rs. '000	Consolidated 2010 Rs. '000	Company 2011 Rs. '000	Company 2010 Rs. '000
Trade payables	**23,534**	35,385	**2,905**	21,146
Lease rental payable to Government	**11,146**	37,897	**11,146**	37,897
Other payables and accruals	**207,785**	208,319	**173,864**	165,844
Staff payables	**228,869**	153,911	**228,544**	153,911
Unclaimed dividends	**7,039**	7,527	**7,039**	6,079
	478,373	443,039	**423,498**	384,877

28. INCOME TAX PAYABLE

As at 31st December,	Consolidated 2011 Rs. '000	Consolidated 2010 Rs. '000	Company 2011 Rs. '000	Company 2010 Rs. '000
As at 1st January	**–**	–	**–**	–
Subsidiaries/Parent taxation on current year's profit	**25,669**	5,398	**22,486**	5,371
On acquisition of subsidiary	**–**	427	**–**	–
ESC set-off against income tax	**(5,583)**	(5,398)	**(5,583)**	(5,371)
WHT set-off against income tax	**(10,568)**	–	**(10,568)**	–
ACT set-off against income tax	**(6,335)**	–	**(6,335)**	–
As at 31st December	**3,183**	427	**–**	–

29. RELATED COMPANY BALANCES

As at 31st December,	Consolidated 2011 Receivable Rs. '000	Consolidated 2011 Payable Rs. '000	Consolidated 2010 Receivable Rs. '000	Consolidated 2010 Payable Rs. '000	Company 2011 Receivable Rs. '000	Company 2011 Payable Rs. '000	Company 2010 Receivable Rs. '000	Company 2010 Payable Rs. '000
Subsidiaries								
Kelani Valley Green Tea (Pvt) Ltd.	**–**	**–**	–	–	**14,338**	**–**	29,336	–
Kalupahana Power Co. (Pvt) Ltd.	**–**	**–**	–	–	**19,135**	**–**	19,194	–
Kelani Valley Instant Tea (Pvt) Ltd.	**–**	**–**	–	–	**–**	**6,312**	–	795
Mabroc Teas (Pvt) Ltd.	**–**	**–**	–	–	**–**	**45**	–	146
	–	**–**	–	–	**33,473**	**6,357**	48,530	941
Other Related Companies								
Dipped Products PLC	**60,257**	**–**	93,099	–	**60,257**	**–**	93,099	–
Grossart (Pvt) Ltd.	**–**	**–**	41,109	–	**–**	**–**	41,109	–
Hanwella Rubber Products Ltd.	**–**	**–**	2,245	–	**–**	**–**	2,245	–
Venigros (Pvt) Ltd.	**74,229**	**–**	17,354	–	**74,229**	**–**	17,354	–
Hayleys Agriculture Holdings Ltd.	**–**	**1,297**	–	4,913	**–**	**1,297**	–	4,913
Hayleys Agro Fertilizers (Pvt) Ltd.	**–**	**4,754**	–	7,476	**–**	**4,754**	–	7,476
Puritas Ltd.	**–**	**–**	–	16	**–**	**–**	–	16
Talawakelle Tea Estates PLC	**15**	**–**	–	–	**15**	**–**	–	–
Total	**134,501**	**6,051**	153,807	12,405	**134,501**	**6,051**	153,807	12,405

The carrying amount of receivables pledged as securities for bank facilities obtained amounts to Rs. 133 m (2010 - Rs. 153 m).

30. ASSETS PLEDGED AS SECURITY

Following assets have been pledged as security for liabilities:

Company

Nature of Liability	2011 Facility (Rs. m)	2011 Outstanding (Rs. m)	Security
Overdraft			
Bank of Ceylon	**75**	**1.1**	Concurrent mortgage of Rs. 75 m over stock in trade and debtors.
National Development Bank	**30**	**Nil**	Concurrent mortgage of Rs. 25 m over stock in trade and debtors.
Hatton National Bank	**50**	**Nil**	Promissory Note.
Sampath Bank	**30**	**Nil**	Concurrent mortgage of Rs. 30 m over stock in trade and debtors.
Term Loan			
National Development Bank	**255**	**24.3**	Primary Mortgage of Rs. 255 m over the Leasehold Rights of Panawatte and Pedro Estates have been pledged and a letter of undertaking from DPL Plantations (Pvt) Ltd., was given to subordinate management fee and dividends in a default situation of Term Loans.
DFCC Bank	**348**	**162.0**	Primary Mortgage of Rs. 348 m over the Leasehold Rights of Halgolle, We Oya, Polatagama and Ederapola Estates and a letter of undertaking from DPL Plantations (Pvt) Ltd., was given to subordinate management fee and dividends in a default situation of Term Loan.
Subsidiary			
Kalupahana Power Co. (Pvt) Ltd.			
Term Loan			
National Development Bank	**92**	**22.0**	Primary Mortgage of Rs. 92 m over the Sub-Leasehold Rights of Kalupahana Power Co. (Pvt) Ltd., plant, machinery & equipment of the Company.
Mabroc Teas (Pvt) Ltd.			
Overdraft			
CITI Bank	**50**	**4.7**	Corporate guarantee of Rs. 200 m from Kelani Valley Plantations PLC.
National Development Bank	**5**	**-**	Primary Mortgage of Rs. 50 m over stock in trade.
Short-Term Borrowings			
National Development Bank	**200**	**68.4**	Primary Mortgage of Rs. 50 m over stock in trade.
CITI Bank	**200**	**168.6**	Corporate guarantee of Rs. 200 m from Kelani Valley Plantations PLC.

Short-Term Borrowings

	Currency	Facility (Rs. m)	Outstanding (Rs. m)	Security
Foreign Currency Loans				
Sampath Bank	US$	**2**	**57.0**	Hypothecation Bond of USD 2 m over stock and book debts.
HSBC Bank	US$	**2**	**224.9**	Corporate guarantee of USD 2 m from Kelani Valley Plantations PLC.

31. RELATED PARTY DISCLOSURES

Company *For the year ended 31st December,*	Name of Director	Nature of Transaction	Amount (Paid)/Received **2011** Rs. '000	2010 Rs. '000
(A) Parent and Ultimate Parent Company				
The Company has controlling related party relationship with its Parent Company DPL Plantations (Pvt) Ltd.				
(i) Hayleys PLC	A M Pandithage J A G Anandarajah S C Ganegoda Dr. K I M Ranasoma* L T Samarawickrama***	Office space together with other related facilities, finance and secretarial services	**(21,150)**	(9,949)
(ii) DPL Plantations (Pvt) Ltd.	A M Pandithage J A G Anandarajah G K Seneviratne N Y Fernando+ S Siriwardana S C Ganegoda S T Gunatilleke Dr. K I M Ranasoma**	Cost of facilities and related services rendered	**(1,204)**	(1,577)

** Appointed w.e.f. 01.04.2011*
*** Appointed w.e.f. 10.10.2011*
**** Appointed w.e.f. 30.06.2011*
+ Resigned from Kelani Valley Plantations PLC. w.e.f. 10.10.2011

(B) Transactions with Key Management Personnel

Key management personnel include, members of the Board of Directors of the Company and key employees holding Directorships in the subsidiary and other related companies.

(i) Loans to Directors

No loans have been given to the Directors of the Company.

(ii) Key Management Personnel Compensation

For the year ended 31st December,	**2011** Rs. '000	2010 Rs. '000
Directors' emoluments	**18,396**	14,608

(C) Transactions with Subsidiaries

Company *For the year ended 31st December,*	Name of Director	Nature of Transaction	Amount (Paid)/Received **2011** Rs. '000	2010 Rs. '000
(i) Kelani Valley Green Tea (Pvt) Ltd.	A M Pandithage J A G Anandarajah G K Seneviratne	Sale of green leaf Lease rental	**6,367** **720**	67,074 720
(ii) Kalupahana Power Co. (Pvt) Ltd.	J A G Anandarajah G K Seneviratne S Siriwardana	Lease rent	**1,074**	1,816
(iii) Kelani Valley Instant Tea (Pvt) Ltd.	A M Pandithage J A G Anandarajah G K Seneviratne	Sale of black tea Reimbursement of expenses	**893** **6,068**	957 5,028
(iv) Mabroc Teas (Pvt) Ltd.	A M Pandithage J A G Anandarajah G K Seneviratne S T Gunatilleke	Sale of tea Purchase of tea	**43,180** **(20,120)**	20,341 (4,814)

The Company has sub-leased an extent of 2 acres and 35.8 perches and the Oliphant factory in Oliphant Estate to the Kelani Valley Green Tea (Pvt) Ltd.

The Company has sub-leased an extent of 8 acres, 2 roods and 6.1 perches in Kalupahana Estate to Kalupahana Power Co. (Pvt) Ltd.

(D) Transactions with Other Related Companies

Company	Name of Director	Nature of Transaction	Amount (Paid)/Received	
For the year ended 31st December,			**2011 Rs. '000**	2010 Rs. '000
(i) Dipped Products PLC	A M Pandithage	Sale of latex	**255,091**	289,134
	J A G Anandarajah	Interest income	**-**	6,545
	G K Seneviratne	Purchase of skim crepe	**(31,544)**	(37,327)
	R Seevaratnam	Cost of facilities and		
	F Mohideen	related services rendered	**(2,526)**	(38,412)
	N Y Fernando+	Settlement of loan	**-**	75,000
	S C Ganegoda			
	Dr. K I M Ranasoma			
(ii) Venigros (Pvt) Ltd.	A M Pandithage	Sale of latex	**313,372**	227,735
	J A G Anandarajah			
	S C Ganegoda			
	Dr. K I M Ranasoma			
(iii) Hanwella Rubber Products Ltd.	A M Pandithage	Sale of latex	**219,093**	36,808
	J A G Anandarajah	Purchase of skim crepe	**(21,755)**	-
	Dr. K I M Ranasoma			
	N Y Fernando***, +			
(iv) Grossart (Pvt) Ltd.	A M Pandithage	Sale of latex	**6,996**	170,143
	J A G Anandarajah	Share of software - license fee	**(2,666)**	(1,240)
	N Y Fernando +	Purchase of used		
	S C Ganegoda	motor vehicle	**-**	(4,500)
	Dr. K I M Ranasoma	Cost of insurance service	**-**	(51)
(v) Hayleys Industrial Solutions (Pvt) Ltd.	A M Pandithage	Purchase of engineering		
	S C Ganegoda	items and repair charges	**(2,123)**	(12,304)
(vi) Hayleys Agro Fertilizers (Pvt) Ltd.	A M Pandithage	Purchase of fertilizers	**(114,317)**	(81,349)
	S C Ganegoda			
(vii) Hayleys Agriculture Holdings Ltd.	A M Pandithage	Purchase of chemicals	**(19,651)**	(27,240)
	S C Ganegoda			
	R Seevaratnam*			
(viii) Volanka Insurance Services (Pvt) Ltd.	A M Pandithage	Insurance services	**-**	(12,962)
	S C Ganegoda			
(ix) Hayleys Travels & Tours (Pvt) Ltd.	A M Pandithage	Cost of air tickets and		
	S C Ganegoda	related charges	**(1,287)**	(1,197)
(x) MIT Cargo (Pvt) Ltd.	A M Pandithage	Handling and clearing		
	S C Ganegoda	charges	**(144)**	(123)
(xi) Puritas (Pvt) Ltd.	A M Pandithage	Construction/Maintenance of effluent treatment plants and purchase of agro face masks	**(456)**	(429)

Company *For the year ended 31st December,*	Name of Director	Nature of Transaction	Amount (Paid)/Received **2011** **Rs. '000**	 2010 Rs. '000
(xii) Logiventures (Pvt) Ltd.	A M Pandithage S C Ganegoda	Purchase of security seals	**(39)**	(62)
(xiii) Diesel & Motor Engineering PLC	A M Pandithage R Seevaratnam	Purchase of motor vehicles, spare parts and tyres	**(2,312)**	(2,131)
(xiv) Chartis Insurance Ltd.	A M Pandithage	Insurance services	**(13,420)**	(203)
(xv) Texnil (Pvt) Ltd.	A M Pandithage J A G Anandarajah S C Ganegoda Dr. K I M Ranasoma	Purchase of rubber gloves	**(4)**	(41)
(xvi) Hayleys Consumer Products Ltd.	A M Pandithage S C Ganegoda R Seevaratnam*	Purchase of consumer products Purchase of used motor vehicles	**(21)** **-**	(112) (8,000)
(xvii) Talawakelle Tea Estates PLC	A M Pandithage J A G Anandarajah G K Seneviratne S T Gunatilleke Dr. K I M Ranasoma **	Reimbursement of expenditure	**(191)**	-
(xviii) Hayleys Business Solutions International (Pvt) Ltd.	A M Pandithage S C Ganegoda	Payment for executive Payroll processing Payment for Diagnosis Study of System & Procedures	**(408)** **(114)**	- -

* *Appointed w.e.f. 01.04.2011*
** *Appointed w.e.f. 13.10.2011*
*** *Appointed w.e.f. 10.10.2011*
\+ *Resigned from Kelani Valley Plantations PLC w.e.f. 10.10.2011*

The Company has obtained a normal banking facility from Hatton National Bank PLC where Mr. R Seevaratnam, Director of the Company was also a Director till 31st March, 2011.

There are no related party transactions and balances other than those disclosed above and in Note 29 to the Financial Statements.

32. CONTINGENT LIABILITIES

There were no material contingent liabilities outstanding as at the reporting date.

33. CAPITAL EXPENDITURE COMMITMENTS

There were no material capital commitments as at the reporting date. However, the budgeted capital expenditure approved but, not committed by the Company for the current financial year 2012 amounts to Rs. 395,299,699/-.

34. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No circumstances have arisen since the reporting date which require adjustments to or disclosure in the Financial Statements.

35. SEGMENTAL ANALYSIS

Consolidated

	Tea		Rubber		Others		Unallocated		Total	
	2011 Rs. '000	2010 Rs. '000	**2011 Rs. '000**	2010 Rs. '000	**2011 Rs. '000**	2010 Rs. '000	**2011 Rs. '000**	2010 Rs. '000	**2011 Rs. '000**	2010 Rs. '000
Segmental Assets										
Non-current assets	**1,960,907**	1,857,388	**1,524,282**	1,362,807	**122,389**	125,439	**11,027**	17,893	**3,618,605**	3,363,527
Current assets	**1,037,668**	818,641	**298,573**	203,786	**5,434**	12,162	**453,757**	406,401	**1,795,432**	1,440,990
Total assets	**2,998,575**	2,676,029	**1,822,855**	1,566,593	**127,823**	137,601	**464,784**	424,294	**5,414,037**	4,804,517
Segmental Liabilities										
Non-current liabilities	**1,089,309**	999,805	**320,106**	293,526	**18,236**	37,916	**715,995**	752,584	**2,143,646**	2,083,831
Current liabilities	**789,473**	585,990	**106,830**	82,244	**55,355**	52,898	**136,455**	144,285	**1,088,113**	865,417
Total liabilities	**1,878,782**	1,585,795	**426,936**	375,770	**73,591**	90,814	**852,450**	896,869	**3,231,759**	2,949,248
Non-Interest Bearing Liabilities										
Deferred taxation	**-**	-	**-**	-	**-**	-	**197,659**	147,438	**197,659**	147,438
Retirement benefit obligation	**755,949**	663,592	**170,204**	144,469	**109**	224	**53,739**	63,123	**980,001**	871,408
Trade and other payables	**288,080**	257,381	**106,824**	82,244	**14,220**	14,705	**69,249**	88,709	**478,373**	443,039
Total depreciation	**93,478**	69,204	**54,560**	47,505	**5,463**	8,780	**-**	-	**153,501**	125,489
Lease amortisation	**12,020**	12,031	**11,532**	11,517	**-**	-	**146**	146	**23,698**	23,694
Capital expenditure	**188,530**	109,958	**229,239**	161,477	**3,029**	657	**16,005**	20,414	**436,803**	292,506

Company

	Tea		Rubber		Others		Unallocated		Total	
	2011 Rs. '000	2010 Rs. '000	**2011 Rs. '000**	2010 Rs. '000	**2011 Rs. '000**	2010 Rs. '000	**2011 Rs. '000**	2010 Rs. '000	**2011 Rs. '000**	2010 Rs. '000
Segmental Assets										
Non-current assets	**1,686,480**	1,631,618	**1,524,282**	1,362,807	**15,195**	13,790	**335,920**	328,593	**3,561,877**	3,336,808
Current assets	**385,058**	350,094	**298,573**	357,051	**909**	1,231	**472,892**	272,330	**1,157,432**	980,705
Total assets	**2,071,538**	1,981,712	**1,822,855**	1,566,593	**16,104**	15,021	**808,812**	754,188	**4,719,309**	4,317,513
Segmental Liabilities										
Non-current liabilities	**1,065,292**	980,970	**320,106**	293,526	**269**	418	**715,995**	752,584	**2,101,662**	2,027,497
Current liabilities	**247,388**	213,694	**106,830**	82,244	**66**	230	**136,456**	163,478	**490,740**	459,646
Total liabilities	**1,312,680**	1,194,664	**426,936**	375,770	**335**	648	**852,451**	916,062	**2,592,402**	2,487,143
Non-Interest Bearing Liabilities										
Deferred taxation	**-**	-	**-**	-	**-**	-	**172,456**	126,673	**172,456**	126,673
Retirement benefit obligation	**740,165**	651,014	**170,204**	144,469	**-**	149	**53,739**	63,123	**964,108**	858,754
Trade and other payables	**247,358**	213,694	**106,824**	82,244	**66**	230	**69,249**	88,709	**423,497**	384,877
Total depreciation	**73,677**	65,726	**54,560**	47,505	**1,007**	4,297	**-**	-	**129,244**	117,527
Lease amortisation	**12,020**	12,031	**11,532**	11,517	**-**	-	**146**	146	**23,698**	23,694
Capital expenditure	**117,825**	109,723	**229,239**	161,477	**3,029**	657	**16,005**	20,414	**366,098**	292,271

Information in respect of geographical segments was considered not significant enough to be disclosed as explained under segment reporting in Accounting Policies.

TEN YEAR SUMMARY

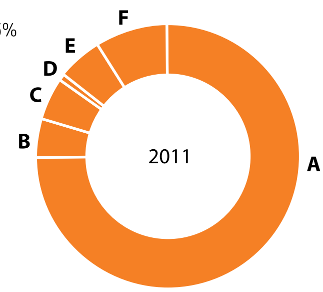
Year ended 31st December,	**2011 Rs. '000**	2010 Rs. '000	2009 Rs. '000	2008 Rs. '000	2007 Rs. '000	2006 Rs. '000	2005 Rs. '000	2004 Rs. '000	2003 Rs. '000	2002 Rs. '000
TRADING RESULTS										
Revenue	**6,110,371**	3,883,637	2,860,004	3,108,571	2,827,974	2,330,297	1,918,465	1,740,230	1,549,094	1,395,233
Gross profit	**900,487**	595,955	134,964	455,435	560,263	435,401	262,902	305,269	244,045	171,799
Profit before tax	**544,629**	355,690	(27,783)	300,276	435,267	291,403	151,632	218,075	141,030	66,880
Profit after tax	**463,039**	326,152	(40,565)	278,765	410,010	255,849	151,974	200,802	106,033	56,522
BALANCE SHEET										
Funds Employed										
Stated capital	**340,000**	340,000	340,000	340,000	340,000	340,000	340,000	340,000	340,000	340,000
Revenue reserves	**1,825,116**	1,500,627	1,216,593	1,378,208	1,289,356	993,445	715,711	646,309	495,483	423,450
Shareholders' funds	**2,165,116**	1,840,627	1,556,593	1,718,208	1,629,356	1,333,445	1,055,711	986,309	835,483	763,450
Non-controlling interest	**17,162**	14,642	22,324	20,274	8,792	10,753	11,487	7,913	–	–
Net liability to lessor	**352,323**	357,693	362,854	367,813	372,602	377,159	381,539	385,749	389,795	393,684
Long-term loans	**136,826**	226,414	379,978	449,423	370,685	285,932	190,230	156,658	147,851	196,592
Bank borrowings	**4,772**	13,158	473	116,766	2,582	1,348	15,019	28,097	15,737	22,367
	2,676,199	2,452,534	2,322,222	2,672,484	2,384,017	2,008,637	1,653,986	1,564,726	1,388,866	1,376,093
ASSETS EMPLOYED										
Non-current assets	**3,618,605**	3,363,527	3,132,622	2,978,262	2,519,202	2,221,273	2,075,427	1,890,408	1,778,352	1,639,253
Current assets	**1,795,432**	1,440,990	954,630	1,101,238	1,115,810	754,288	500,806	560,408	410,284	487,805
Current liabilities	**(1,083,341)**	(852,259)	(468,207)	(353,441)	(357,364)	(245,471)	(231,610)	(226,931)	(165,279)	(183,699)
Provision for Retirement Benefit Obligation	**(980,001)**	(871,408)	(732,912)	(578,457)	(527,716)	(424,478)	(344,963)	(312,169)	(308,717)	(289,584)
Deferred taxation	**(197,659)**	(147,438)	(120,836)	(128,927)	(119,638)	(91,806)	(65,679)	(82,134)	(82,134)	(51,640)
Negative goodwill	**–**	–	–	–	–	–	(89,152)	(96,581)	(104,010)	(111,439)
Grants & subsidies	**(476,837)**	(480,878)	(443,075)	(346,191)	(246,277)	(205,169)	(190,843)	(168,275)	(139,630)	(114,603)
Capital Employed	**2,676,199**	2,452,534	2,322,222	2,672,484	2,384,017	2,008,637	1,653,986	1,564,726	1,388,866	1,376,093
KEY INDICATORS										
Gross profit margin %	**14.7**	15.3	4.7	14.7	19.8	18.7	13.7	17.5	15.8	12.3
Current ratio (times)	**1.7**	1.7	2.0	2.3	3.1	3.1	2.0	2.2	2.3	2.4
Turnover to capital employed (times)	**2.3**	1.6	1.2	1.2	1.2	1.2	1.2	1.1	1.1	1.0
Return on shareholders' fund %	**21.4**	17.7	(2.6)	16.2	25.2	19.2	14.4	20.4	12.7	7.4
Earning per share (Rs.)	**13.54**	9.43	(1.25)	8.11	12.20	7.55	4.54	5.94	3.12	1.66
Dividend per share (Rs.)	**5.0**	4.0	1.0	3.5	5.5	3.5	2.0	2.5	1.5	1.0
Dividend payout ratio %	**37**	42	–	43	45	46	44	42	48	60
Price earnings (Times)	**6.6**	17.0	–	5.9	4.6	7.0	5.9	2.9	4.5	6.2
Market value (Rs.)	**90.00**	159.90	53.00	47.50	56.25	53.00	27.00	17.50	14.00	10.25

STATEMENT OF VALUE ADDITION

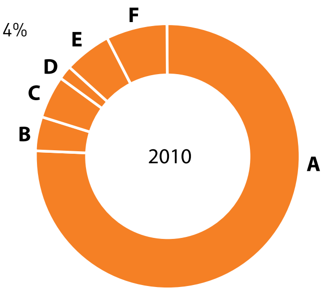
For the year ended 31st December,	**Group**				**Company**			
	2011 Rs. m		2010 Rs. m		**2011 Rs. m**		2010 Rs. m	
Revenue	**6,110**		3,880		**4,265**		3,811	
Other income	**116**		88		**87**		90	
	6,226		3,968		**4,351**		3,901	
Cost of material and services obtained	**(2,941)**		(1,400)		**(1,264)**		(1,353)	
Value addition	**3,285**		2,569		**3,087**		2,548	
Value created shared with		%		%		%		%
Employees	**2,451**	75	1,943	76	**2,359**	76	1,934	76
Government of Sri Lanka	**159**	5	103	4	**116**	4	91	3
Shareholders	**170**	5	136	5	**170**	6	136	5
Lenders of capital	**35**	1	48	2	**26**	1	42	2
Retained for future as depreciation	**177**	5	149	6	**153**	5	141	6
Profit	**293**	9	190	7	**263**	8	204	8
	3,285	100	2,569	100	**3,087**	100	2,548	100

Distribution of Value Addition

A - Employees - 75%
B - Government of Sri Lanka - 5%
C - Shareholders - 5%
D - Lenders of Capital - 1%
E - Retained for future as Depreciation - 5%
F - Profit - 9%



A - Employees - 76%
B - Government of Sri Lanka - 4%
C - Shareholders - 5%
D - Lenders of Capital - 2%
E - Retained for future as Depreciation - 6%
F - Profit - 7%



INVESTOR INFORMATION

1. STOCK EXCHANGE LISTING

The ordinary shares of Kelani Valley Plantations PLC are listed with the Colombo Stock Exchange. The audited Company and Consolidated Income Statements for the year ended 31st December, 2011 and the audited Balance Sheets of the Company and of the Group as at the date have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

2. ORDINARY SHAREHOLDERS AS AT 31ST DECEMBER, 2011

Number of Shareholders 14,614.

	Residents			Non-Residents			Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1 _ 1,000	14,451	1,879,401	5.5277	4	3,300	0.0097	14,455	1,882,701	5.5374
1,001 _ 10,000	115	359,172	1.0564	1	2,500	0.0073	116	361,672	1.0637
10,001 _ 100,000	30	1,011,381	2.9746	3	85,300	0.2508	33	1,096,681	3.2254
100,001 _ 1,000,000	7	1,763,246	5.1861	–	–	–	7	1,763,246	5.1861
OVER 1,000,000	3	28,895,700	84.9874	–	–	–	3	28,895,700	84.9874
	14,606	**33,908,900**	**99.7322**	**8**	**91,100**	**0.2678**	**14,614**	**34,000,000**	**100.0000**

	Residents			Non-Residents			Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individuals	14,540	3,082,124	9.06521	5	23,300	0.0684	14,545	3,105,424	9.1336
Institutions	66	30,826,776	90.6670	3	67,800	0.1994	69	30,894,576	90.8664
	14,606	**33,908,900**	**99.7322**	**8**	**91,100**	**0.2678**	**14,614**	**34,000,000**	**100.0000**

3. MARKET VALUE

The market value of Kelani Valley Plantations PLC ordinary shares :

	2011		2010	
Highest - Rs.	**205.50**	(27th January, 2011)	210.00	(28th September, 2010)
Lowest - Rs.	**80.00**	(30th November, 2011)	40.00	(07th April, 2010)
Year end - Rs.	**90.00**		159.90	

4. DIVIDEND PAYMENT

The first and final proposed dividend of Rs. 5.00 per share is to be declared on 29th March, 2012 and payable on 9th April, 2012 (2010 - Rs. 4.00).

5. SHARE TRADING

	2011	2010
No. of transactions	**1,585**	2,407
No. of shares traded	**1,148,300**	4,265,600
Value of shares traded (Rs.)	**190,264,670**	329,191,980

6. FIRST TWENTY SHAREHOLDERS AS AT 31ST DECEMBER, 2011

	Name of Shareholder	**No. of Shares as at 31.12.11**	**%**	No. of Shares as at 31.12.10	%
1.	DPL Plantations (Pvt) Ltd.	**24,200,000**	**71.18**	24,200,000	71.18
2.	Waldock Mackenzie Ltd./Mr. Lalith Prabash Hapangama	**2,776,600**	**8.17**	2,794,500	8.22
3.	Bank of Ceylon A/c Ceybank Unit Trust	**1,919,100**	**5.64**	1,801,800	5.30
4.	Mabroc Holdings (Pvt) Ltd.	**512,746**	**1.51**	512,746	1.51
5.	Bank of Ceylon A/c Ceybank Century Growth Fund	**424,700**	**1.25**	425,400	1.25
6.	Aviva NDB Insurance PLC A/c No. 7	**357,000**	**1.05**	347,000	1.02
7.	Mr. T T T Al-Nakib	**128,900**	**0.38**	–	–
8.	Mr. M M Udeshi	**119,500**	**0.35**	118,000	0.35
9.	Mr. H G Carimjee	**110,800**	**0.33**	110,800	0.33
10.	Aviva NDB Insurance PLC A/c No. 3	**109,600**	**0.32**	109,600	0.32
11.	Deutsche Bank AG-Comtrust Equity Fund	**85,100**	**0.25**	–	–
12.	Dr. (Mrs.) V Sivaprakasapillai	**80,700**	**0.24**	100,000	0.29
13.	Dr. D Jayanntha	**76,500**	**0.23**	76,500	0.23
14.	Cargo Boat Development Company PLC	**71,800**	**0.21**	76,900	0.23
15.	Mr. M I Abdul Hameed	**70,600**	**0.21**	70,600	0.21
16.	Gampaha District Co-operative Rural Bank Union Ltd.	**66,300**	**0.20**	–	–
17.	Mrs. P N Bhatt	**51,500**	**0.15**	51,500	0.15
18.	Mrs. R S L De Mel	**50,000**	**0.15**	50,000	0.15
19.	Mr. K C Viganarajah	**46,500**	**0.14**	44,500	0.13
20.	HSBC International Nominees Ltd. - SSBT- Deutsche Bank	**45,000**	**0.13**	50,000	0.15
	Total	**31,302,946**	**92.07**	30,939,846	90.86

7. The percentage of ordinary shares held by the public was 28.81% (2010 - 28.81%) of the issued share capital as at 31st December, 2011.

GLOSSARY

FINANCIAL TERMS

Accounting Policies
The specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting Financial Statements.

AGM
Annual General Meeting.

Amortisation
The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Associate
An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

AWDR
Average Weighted Deposit Rate.

AWPLR
Average Weighted Prime Lending Rate.

Basic Earnings per Share
Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the period.

Borrowings
All interest-bearing liabilities.

Capital Employed
Total equity, minority interest and interest-bearing borrowings.

Capital Reserves
Reserves identified for specific purposes and considered not available for distribution.

Cash Equivalents
Liquid investments with original maturity periods of three months or less.

CEA
Central Environment Authority.

Contingent Liability
A possible obligation that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.

CSR
Corporate Social Responsibility.

Current Ratio
Current assets divided by current liabilities. A measure of liquidity.

Deferred Taxation
The tax effect of timing differences deferred to/from other periods, which would only qualify for inclusion on a tax return at a future date.

Dividends
Distribution of profits to holders of equity investments.

Dividend Cover
Profit attributable to ordinary shareholders divided by dividend. Measures the number of times dividend is covered by distributable profit.

Dividend Yield
Dividend per share as a percentage of the market price. A measure of return on investment.

EBITDA
Abbreviation for Earnings Before Interest, Tax, Depreciation and Amortisation.

Effective Tax Rate
Income tax expense divided by profit from ordinary activities before tax.

Equity
Shareholders' fund.

Equity Method
The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

ERP
Enterprise Resources Planning.

Fair Value
Fair Value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable willing seller in an arm's length transaction.

FSC
Forest Stewardship Council.

Gearing
Proportion of total interest-bearing borrowings to capital employed.

HACCP
Hazard Analysis Critical Control Point System. Internationally accepted food safety standard.

IAS
International Accounting Standards.

IFRS
International Financial Reporting Standards.

JEDB
Janatha Estate Development Board.

Key Management Personnel
Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

LIBOR
London Inter-Bank Offered Rate.

Market Capitalisation
Number of shares in issue multiplied by the market value of a share at the reported date.

Net Assets per Share
Shareholders' funds divided by the weighted average number of ordinary shares in issue. A basis of share valuation.

Price Earnings Ratio
Market price of a share divided by earnings per share as reported at that date.

Related Parties
Parties who could control or significantly influence the financial and operating policies of the business.

Retirement Benefits

- Present Value of a Defined Benefit Obligation
  Is the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.
- Current Service Cost
  Is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.
- Interest Cost
  Is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.
- Actuarial Gains and Losses
  Is the effect of difference between the previous actuarial assumptions and what has actually occurred and effects of changes in actuarial assumption.

Return on Equity
Attributable profits to the shareholders divided by shareholders' funds.

Return on Capital Employed
Profit before tax plus net interest cost divided by capital employed.

Return on Assets
Profit before tax plus net interest cost divided by total assets.

Revenue Reserves
Reserves considered as being available for distribution and investments.

Segments
Constituent business units grouped in terms of similarity of operations and location.

Subsidiary
A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

SLAS
Sri Lanka Accounting Standards. Also known as LKAS and SLFRS.

UITF
Urgent Issue Tasks Force of The Institute of Chartered Accountants of Sri Lanka.

Value Addition
The quantum of wealth generated by the activities of the Group measured as the difference between turnover and the cost of materials and services bought in.

Working Capital
Capital required to finance day-to-day operations computed as the excess of current assets over current liabilities.

NON-FINANCIAL TERMS

Crop
The total produce harvested over a given period of time (usually during a financial year).

GRI
Global Reporting Initiatives

Immature Plantation
The extent of plantation that is under development and is not being harvested.

ISO
International Standards Organisation.

Mature Plantation
The extent of plantation from which crop is being harvested.

NSA
Net Sales Average. This is the average sale price obtained (over a period of time) after deducting brokerage fees, etc.

SLFRS / LKAS
Sri Lanka Accounting Standards corresponding to International Financial Reporting Standards.

SLSPC
Sri Lanka Plantations Corporation.

TASL
Tea Association of Sri Lanka.

Yield (YPH)
The average crop per unit extent of land over a given period of time (usually kgs. per hectare per year).

NOTICE OF MEETING

KELANI VALLEY PLANTATIONS PLC
COMPANY NUMBER PQ 58

NOTICE IS HEREBY GIVEN that the Twentieth Annual General Meeting of Kelani Valley Plantations PLC will be held at the Registered Office of the Company, No. 400, Deans Road, Colombo 10, on Thursday, 29th March, 2012 at 3.00 p.m. and the business to be brought before the Meeting will be:

1. To consider and adopt the Annual Report of the Board of Directors and the Statements of Accounts for the year ended 31st December, 2011, with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Directors.
3. To re-elect Dr. K I M Ranasoma, who has been appointed by the Board, since the last Annual General Meeting, a Director.
4. To re-elect Mr. J A G Anandarajah, who retires by rotation at the Annual General Meeting, a Director.
5. To re-elect Mr. S Siriwardena, who retires by rotation at the Annual General Meeting, a Director.
6. To authorise the Directors to determine contributions to charities.
7. To appoint Messrs Ernst & Young, Chartered Accountants as Auditors of the Company for the year 2012 and to authorise the Directors to determine their remuneration.
8. To consider any other business of which due notice has been given.

NOTE :

(i) A shareholder is entitled to appoint a proxy to attend and vote instead of himself and a proxy need not be a shareholder of the Company. A Form of Proxy is enclosed for this purpose. The instrument appointing a proxy must be deposited at the Registered Office, No. 400, Deans Road, Colombo 10 by 3.00 p.m. on 27th March, 2012.

(ii) It is proposed to post ordinary dividend warrants on 9th April, 2012 and in accordance with the rules of the Colombo Stock Exchange, the shares of the Company will be quoted ex-dividend with effect from 30th March, 2012.

By Order of the Board
KELANI VALLEY PLANTATIONS PLC
Hayleys Group Services (Pvt) Ltd.

Secretaries

Colombo
27th February, 2012

FORM OF PROXY

KELANI VALLEY PLANTATIONS PLC
COMPANY NUMBER PQ 58

I/We* ....

of...

being shareholder/shareholders* of KELANI VALLEY PLANTATIONS PLC, hereby appoint:

1. ....

of ....or failing him/them,*

2. ABEYAKUMAR MOHAN PANDITHAGE (Chairman of the Company) of Colombo, or failing him, one of the Directors of the Company as my/our* proxy to attend and vote as indicated hereunder for me/us* and on my/our* behalf at the Twentieth Annual General Meeting of the Company to be held on Thursday, 29th March, 2012 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

	For	Against
1. To consider and adopt the Annual Report of the Board of Directors and the Statements of Accounts for the year ended 31st December, 2011 with the Report of the Auditors thereon.		
2. To declare a dividend as recommended by the Directors.		
3. To re-elect Dr. K I M Ranasoma, who has been appointed by the Board, since the last Annual General Meeting, a Director.		
4. To re-elect Mr. J A G Anandarajah, who retires by rotation at the last Annual General Meeting, a Director.		
5. To re-elect Mr. S Siriwardena who retires by rotation at the Annual General Meeting, a Director.		
6. To authorise the Directors to determine contributions to charities.		
7. To appoint Messrs Ernst & Young, Chartered Accountants as Auditors of the Company for the year 2012 and to authorise the Directors to determine their remuneration.		

(**) The proxy may vote as he thinks fit on any other resolution brought before the Meeting.

As witness my/our* hands this .... day of .... 2012.

Witnesses: ....
....
....
....

....
Signature of Shareholder

*Note: *Please delete the inappropriate words.*

1. A proxy need not be a member of the Company.
2. Instructions as to completion appear on the reverse.

INSTRUCTIONS AS TO COMPLETION

1. To be valid, this Form of Proxy must be deposited at the Registered Office of the Company No. 400, Deans Road, Colombo 10, by 3.00 p.m. on Tuesday, 27th March 2012.
2. In perfecting the Form of Proxy, please ensure that all details are legible.
3. If you wish to appoint a person other than the Chairman of the Company (or failing him, one of the Directors) as your proxy, please insert the relevant details at 1 overleaf and initial against this entry.
4. Please indicate with an X in the space provided how your proxy is to vote on each resolution. If no indication is given, the proxy in his discretion will vote as he thinks fit. Please also delete (**) if you do not wish your proxy to vote as he thinks fit on any other resolution brought before the Meeting.
5. In the case of a Company/Corporation, the proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
6. Where the Form of Proxy is signed under a Power of Attorney (POA) which has not been registered with the Company, the original POA together with a photocopy of same or a copy certified by a Notary Public must be lodged with the Company along with the Form of Proxy.

Corporate Information

NAME OF COMPANY
Kelani Valley Plantations PLC

LEGAL FORM
A Public Limited Company incorporated in Sri Lanka on 18th June 1992

REGISTRATION NUMBER
PQ 58

ACCOUNTING YEAR END
31st December

STOCK EXCHANGE LISTING
The ordinary shares of the Company are listed with the Colombo Stock Exchange of Sri Lanka

PRINCIPAL LINE OF BUSINESS
Producing and processing of Tea and Rubber

DIRECTORS
A M Pandithage - Chairman
J A G Anandarajah - Managing Director
[DPL Plantations (Pvt) Ltd.]
G K Seneviratne - Managing Director
R Seevaratnam
F Mohideen
S Siriwardana
S C Ganegoda
L T Samarawickrama
S T Gunatilleke
Dr. K I M Ranasoma

AUDIT COMMITTEE
R Seevaratnam - Chirman
F Mohideen

MANAGING AGENT
DPL Plantations (Pvt) Ltd.
400, Deans Road,
Colombo 10, Sri Lanka

SECRETARIES
Hayleys Group Services (Pvt) Ltd.
400, Deans Road
Colombo 10, Sri Lanka

REGISTERED/HEAD OFFICE
400, Deans Road
Colombo 10, Sri Lanka
Telephone: 2694215, 2627700,
2686274-5 (2 Lines)
Fax: 2694216
e-mail: postmaster@kvpl.com
website: www.kvpl.com

BANKERS
Bank of Ceylon, NDB Bank
Sampath Bank, Seylan Bank
Hatton National Bank, DFCC Bank,
CitiBank

AUDITORS
KPMG Ford, Rhodes, Thornton & Co.
Chartered Accountants
P.O. Box 186, Colombo, Sri Lanka

PEFC / 01 – 4 - 12

Programme for the Endorsement of Forest Certification Schemes (PEFC)/Chain of Custody

As required in the PEFC Technical Documents: Annex 4
Chain of Custody of Forest Based Products – Requirements dated 17 June 2005 (www.pefc.org).
for manufacturing (trading) of (list of products) and provides link between those products and sustainably managed forest.

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