

# Chairman's Review

## Dear Shareholder,

I take pleasure in presenting the Annual Report and the Audited Accounts of your Company for the financial year ended 31 December 2007.

## Performance

Kelani Valley Plantations PLC and its subsidiaries have completed a year of good performance despite several setbacks. The Group turnover grew by 21% to Rs.2,828 million with increased contributions from both tea and rubber registering 18% and 30% respectively. The Group pre-tax profit rose by more than 50% to Rs.442 million from Rs.291 million. The rise in profit is attributable mainly to good performance from rubber and higher tea prices.

Tea production fell by 10% compared to 2006 with the major portion of the drop occurring in first quarter of the year. The shortfall was primarily due to the long gestation period needed to revert to normal yielding levels following the month long work interruption due to trade union actions in late 2006. The loss was in fact 16% when compared to 2005, a year of relative normalcy. The situation was worsened by adverse weather conditions that prevailed in the Nuwara Eliya and Hatton regions.

Higher global tea prices in the first half compared to the corresponding period in the previous year could be ascribed to a shortfalls in output in major producing countries. Strong demand for Ceylon tea from the Middle Eastern and CIS

countries saw the Colombo Auction prices rising further despite a surplus in global production in the second half. The Company's average prices for high and low grown teas were up 24% and 48% respectively, in line with improvements recorded at the national level. This partly negated the impact from the fall in production.

Rubber production grew by 12% to register the highest output on record. Growth

was predominantly in the plantation crop which accounted for over 14% whilst bought latex mainly from smallholders increased by 4%. The yield surpassed the 1,000 kg per hectare mark, to close to the highest level posted in 1999. Rubber prices remained buoyant during the year. Whilst pale crepe prices remained stable, RSS moved up significantly in the last quarter to rise by 27% for the year. The Company profited by channelling a sizeable portion of its crop for manufacture of centrifuged latex sold at prices benchmarked to RSS. Sole crepe production and prices too rose by 32% and 35% respectively.

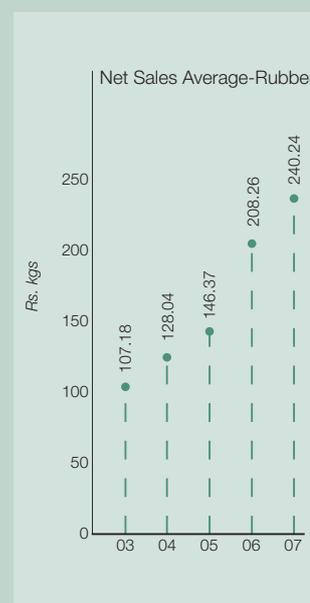
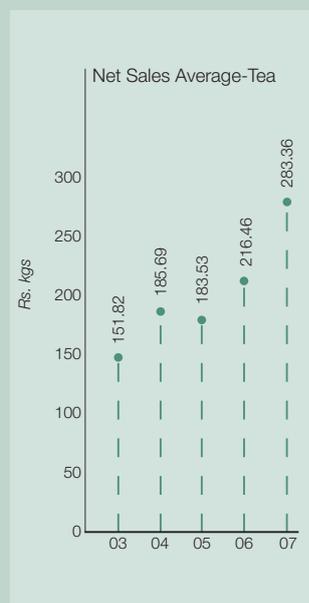
Production of centrifuged latex at Kiriporuwa climbed 19% coinciding with the timely enhancement of storage capacity by 30,000 litres in 2006. The boron rubber wood factory also contributed with higher output and profit.

The certifications of the rubber plantations of the Company by the SGS QUALIFOR programme, accredited by the Forest Stewardship Council International, were renewed for a further 5 years up to 2012. This accreditation, first obtained in 1996, endorses the Company's long-term quality of rubber properties as environmentally sensitive, socially responsible and economically viable.

Following the wage revision in December 2006 for a period of two years, the Regional Plantation Companies had to concede a further increase effective November 2007. The resultant increase cost to your Company during the year exceeded Rs.230 million.

The cumulative effect of the two rate increases in December 2006 and November 2007 amount to 47% and 32% for tea and rubber respectively within a span of twelve - months. It is estimated that an additional Rs.115 million will be spent on wages in the current year, over and above 2007.

Kelani Valley Green tea registered a loss of Rs.3 million on account of lower



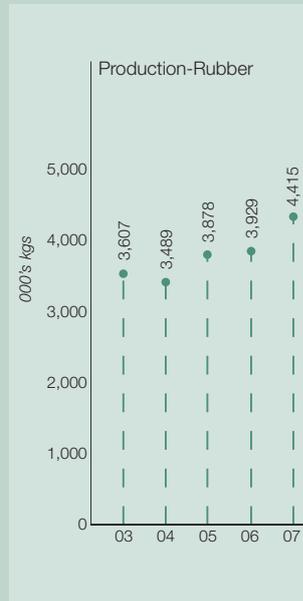


production. The green tea prices in 2007 remained stagnant at levels of the previous year and did not compensate adequately for the rise in input costs.

Kalupahana Power Company ended the year with a loss of Rs.8 million. The loss was largely due to the power plant operating at half capacity following breakdowns of generators for almost seven months during the peak season. The poor condition of the

33kV transmission lines receiving power from the plant needs urgent rectification. The matter has been brought to the attention of the Ceylon Electricity Board and we expect the shortcomings to be resolved in the near term.

An existing rubber factory at Dunedin Division of Dewalakande Estate was upgraded to manufacture skim crepe from serum generated in centrifuged latex production. The plant of 500 MT annual rated capacity will operate with skim supplied by the centrifuged latex production facilities of Dipped Products. This is a further expansion to the existing skim crepe operation at Urumiwella Estate. Skim crepe is expected to be sold through the Colombo Rubber Auctions and generate satisfactory returns.



The share of profits from Mabroc Teas to the Company increased to Rs.28 million from Rs.18.6 million in the previous year.

I am pleased to advise that DPL Plantations Limited has waived the management fee in its entirety with effect from 2007. Previously the Management Company charged a fee as per terms agreed with the government from inception. The value of this waiver for 2007 was Rs.39 million.

The Board of Directors recommends a first and final dividend of Rs.5.50 per share as against Rs.3.50 paid last year.

**Prospects**

The robust tea market that prevailed during the last quarter of 2007 is likely to continue into the early part of the current year for more reasons than one. Historically, the low global production combined with the quality season enjoyed by teas from the western high grows, favourably impacts prices in the first quarter. Secondly, the production in Kenya has been affected by the political strife in the country. This is expected to affect both output and movement of the produce within that region and cause global prices to move upwards in the short term.



Presentation at UN Headquarters, New York on March 19, 2007

As for rubber, buoyant market conditions are likely to continue largely driven by global economic conditions. Whilst, an economic slowdown is observed in advanced economies, no significant changes have been seen in the emerging nations. China, India, Russia, the Middle East and other emerging countries are still maintaining strong momentum. However, it is to be noted that a slowdown in the auto industry which is sensitive to economic trends could directly impact on the demand for rubber.

An upsurge in oil prices and any depreciation of the rupee are the two factors that could positively impact tea and particularly rubber prices.

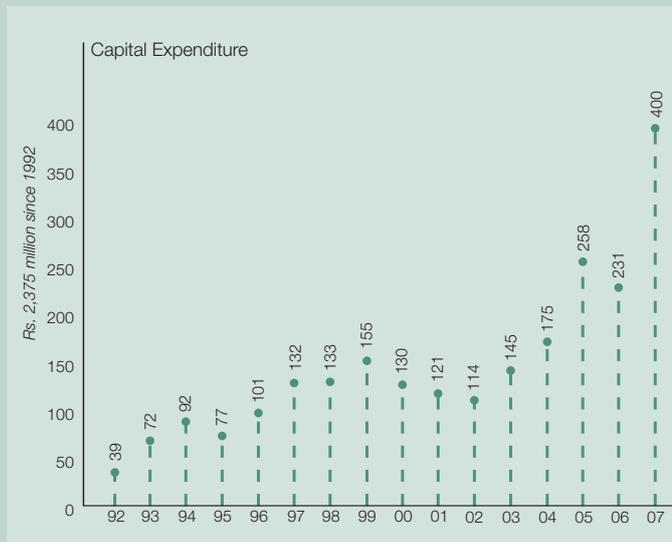
As reported last year, the drying processes in three factories were converted from liquid fuel to hot water systems. The balance four major black tea processing centres underwent similar conversions during 2007 at a cost of Rs.60 million. These measures to save energy costs are timely in the light of rising oil prices. In the current year, we will look at the possibility of claiming carbon credits for these locations.

Accreditation of all our thirteen black tea factories as per the international food hygiene and process systems HACCP, ISO 22000:2005 and TASL-SGS Product Certification was completed during the year. This ensures compliance with stringent limits on heavy metal, microbiological and pesticide residues specified by global food regulatory bodies and demanded by major tea buyers.

Considerable work has been undertaken in the tea plantations in the current year to secure GLOBALG.A.P Certification previously known as EUREPG.A.P. The GLOBALG.A.P is regarded in the global market as a key

reference for Good Agricultural Practices. This standard has been primarily designed to maintain consumer confidence in food quality and safety and will underwrite the accreditations mentioned in the preceding paragraph. Additionally, the certification ensures minimal detrimental environmental impact of agricultural practices, optimal utilisation of inputs and a responsible approach to worker health and safety.

We have branded our commitment to social consciousness and care for the people, as reflected in the Company's corporate responsibility agenda, as 'A Home for Every Plantation Worker'. This unique programme is designed to primarily focus on enhancing the quality of life of our worker community. Details of related activities are elaborated elsewhere in the report. We were gratified when this programme was featured recently in the booklet 'Globally Positioning Sri Lanka's Best', released by the Global Compact Network Sri Lanka at the UNGC International Network Conference in Mexico.



The new range of six single garden teas from Mabroc Kelani Valley positioned as 'The Ethical Tea Brand of the World'

The Company, in partnership with Mabroc Teas launched a new range of six single garden teas, at the FOODEX trade fair, Japan in March 2007. This unique range is entirely from six prime tea gardens of KVPL and is co-branded 'Mabroc Kelani Valley'. Positioned as 'The Ethical Tea Brand of the World', the brand derives its strength from the purity of the products, the Companies' commitment to the Global Compact principles and the pledge to uplift the quality of life of our people. We, together with Mabroc Teas, were singularly acknowledged by the Global Compact at United Nations Headquarters, New York in March 2007 as the world's first signatory companies to advocate the Global Compact principles to consumers through product packaging.

A website, [www.ethicaltea.org](http://www.ethicaltea.org) was launched during the year and plans are underway to offer the products online to selected destinations. Joint efforts with Mabroc Teas are on track to promote the ethical range in several markets. An agreement was signed with Joint Apparel Association Forum (JAAF) by Mabroc Teas to exclusively promote the 'Mabroc Kelani Valley' teas at all its international forums and exhibitions in the coming years. The JAAF, positioning Sri Lanka as an ethical source for apparel is rolling out a global promotional campaign through trade shows. This collaboration, with an organisation pursuing a similar endeavour viz. 'garments without guilt' to uplift the quality of life of its employees, should create visibility for our products to consumers around the world.

To broaden the range of teas we offer beyond black and green teas, a small-scale plant was set up to manufacture instant tea

powder in Nuwara Eliya. This project is still in its infancy. We look to bring it to commercial production during this year.

In two previous reviews, we echoed the vital role played by the plantations in foreign exchange earnings, employment creation and maintenance of the socio-economic fabric in five Provinces. The current challenges faced by the industry raise several serious concerns as to its sustainability. The path to sustainability of the plantation may lie in a structural change to its business model. More importantly, the lack of clear direction and consistent approach to the industry at national level could well be the underlying cause. All key stakeholders, the government, trade unions, exporters and plantation companies need to sincerely come together to find the way forward. No single player can act alone. Genuine will and a spirit of compromise are essential from all quarters to avoid the disintegration of this critical sector of the economy and society.

I thank employees at all levels for their contribution during the year. I am grateful to our buyers for their valued patronage, our brokers for their unstinted support, our suppliers for their services and my colleagues on the Board for their able guidance.



N G Wickremeratne  
Chairman  
22 February 2008



The launch of new Ethical range of tea at Foodex Fair 2007, Japan

# Our Land

Estate	Extent			Elevation (ft)	Yield per hectare	
	Hectares				Tea	Rubber
	Tea	Rubber	Total		(kg)	
<b>Nuwara Eliya Group</b>						
Pedro	668	-	668	6,237	1,230	-
Nuwara Eliya	382	-	382	5,999	2,115	-
Glassaugh	228	-	228	5,074	1,117	-
Uda Radella	226	-	226	5,328	1,260	-
Edinburgh	179	-	179	5,075	1,145	-
Oliphant	229	-	229	6,440	908	-
<b>Hatton Group</b>						
Ingestre	649	-	649	4,723	1,641	-
Fordyce	403	-	403	4,599	1,369	-
Annfield	375	-	375	4,297	1,307	-
Tillyrie	334	-	334	4,264	1,320	-
Invery	306	-	306	4,310	1,004	-
Robgill	300	-	300	4,500	1,328	-
Battalgalla	261	-	261	4,300	1,338	-
Blinkbonnie	181	-	181	4,500	1,310	-
<b>Yatiantota-Tea Group</b>						
Halgolle	1,196	-	1,196	3,478	1,916	-
Ederapolla	141	526	667	338	1,169	1,206
Kitulgala	393	188	581	1,003	1,327	734
Kalupahana	371	141	512	1,500	1,052	1,139
We Oya / Polatagama	61	956	1,017	1,000	1,579	1,013
Kelani	108	211	319	300	1,535	1,049
<b>Yatiantota-Rubber Group</b>						
Dewalakande	-	717	717	502	-	1,080
Panawatte	32	998	1,030	1,000	1,497	1,030
Urumiwella	19	703	722	800	930	1,050
Kiriporuwa	212	375	587	805	1,207	1,081
Lavant	-	560	560	800	-	959
Ganepalla	-	499	499	1,000	-	999
<b>Total</b>	<b>7,254</b>	<b>5,874</b>	<b>13,128</b>	<b>-</b>	<b>1,353</b>	<b>1,042</b>

# A Home for Every Plantation Worker



## Corporate Responsibility

In the previous year's report, we described the many programmes undertaken by the company in its plantations, which underscored its commitment to social responsibility. We have now moved this into a different dimension and have encapsulated this concept within an initiative branded as 'A Home for Every Plantation Worker'.

This special initiative, whilst encompassing all strategies previously implemented as a socially responsible organization, seeks to improve the quality of worker life in every dimension. In short, with the introduction of this new concept, we have broadened the base of our social responsibility commitment and in its furtherance; we have addressed the following areas which have a direct bearing on our workers' life style.

## Living environment

Housing projects have been undertaken on several estates, with existing dwellings being upgraded and new houses constructed on land specially allocated for this purpose. During the year, we have built twenty (20) houses in We-Oya estate, improving the living conditions of 95 souls. Existing dwellings have been provided electricity whilst the construction of 8 new factory and 51 new field rest rooms has addressed the issue of workers' comfort during working hours. Two existing water supply schemes have been rehabilitated and five new delivery systems installed. Much work has been done to improve access roads to worker housing, whilst the establishment of rural agency post offices within the plantations, has provided an additional facility to the resident population. These projects have been carried out in collaboration with the Plantation Human Development Trust (PHDT), Plantation Development Project (PDP) National Housing Development Authority (NHDA) and the Ministry of Estate Infrastructure Development.

## Health and nutrition

Programmes on improvement of oral hygiene and alleviation of problems of sight, particularly in the elderly, have continued. With the assistance of the International Resources for the Improvement of Sight (IRIS), 327 cataract removals were carried out whilst 459 individuals were provided with spectacles during the year. Under the Immunization Coverage Programme, infants and children were immunized with Bacille Calmette Guerin (BCG), Oral Poliovirus Vaccine (OPV), Diphtheria, Pertussis & Tetanus (DPT), Measles Virus (MV) and Measles & Rubella (MR). Day care centres provide child support, including



Newly built houses for workers' families at We-Oya Estate



Child's medical care

supplementary feeding programmes, to improve the nutrient status of children. Addressing the issue of disease prevention, awareness programmes have been conducted for HIV, TB, Cancer and Rabies. Much of these have been in partnership with the PHDT and Sewa Lanka Foundation.

### Community capacity building

Programmes conducted within these initiatives have leveraged the usefulness of Estate Worker Cooperatives. Since privatization, Rs.76 million has been disbursed amongst the 15,000 individuals, as loans for improvements to housing, purchase of motor cycles, for traditional ceremonies and redeeming mortgaged property.



Computer literacy programme held at Ingestre Estate

### Activities undertaken to enhance workers' living conditions since privatisation to end 2007

Activity	1992-2006	Completed in 2007	As at end 2007
<b>LIVING ENVIRONMENT</b>			
Self-help houses	1,177	20	1,197
Land extent granted for Self help houses (perches)	5,416	858	6,274
Upgrading of worker quarters			
Re-roofing	5,262	1,433	6,695
Electrification	852	105	957
General rehabilitation	309		309
Welfare staff quarters			
- New	2		2
- upgraded	72	30	102
Medical centres			
- New	1		1
- upgraded	36	1	37
Child development centres			
- New	14		14
- upgraded	68	6	74
Rural agency post offices	6		6
Community development centres - New	1	10	11
Sanitation (toilet facilities)			
- New	5,619	175	5,794
Water supply schemes			
- New	110	5	115
- upgraded	36	2	38
Farm roads			
- km	56	41	97
Factory rest rooms	16	8	24
Field rest rooms	84	51	135
Play grounds	1	6	7
Hot water bath rooms		2	2

Activity	1992-2006	Completed in 2007	As at end 2007
<b>HEALTH &amp; NUTRITION</b>			
Dental clinics	9	6	15
Cataract removal surgery	71	327	398
Provisions of spectacles	1,154	459	1,613
Ambulances	4	-	4
<b>COMMUNITY CAPACITY BUILDING</b>			
Talent building musical shows	7	2	9
Gender awareness programme	42	13 (2,155)	55
Alcohol prevention programmes	61	11 (1,183)	72
Household cash management programmes	35	9 (470)	44
<b>EMPOWERMENT OF YOUTH</b>			
Adolescent female programmes			
- Sewing class	26	12 (38)	38
- Bridal & beauty care	15	5 (10)	20

All figures are in units unless otherwise stated.  
Figures in brackets indicate number of participants.

Pre-school and nursery educational programmes followed by estate workers' children and the issuance of certificates, have provided them with added support in applications for entry to government schools. Inter-Plantation track and field meets and cricket matches conducted during the year have enriched the recreational dimension. In partnership with the PHDT, Canadian International Development Agency (CIDA) and the World University Service of Canada (WUSC), 13 gender awareness programmes, 11 alcohol prevention programmes and 9 household cash management programmes were carried out, covering over 2,100, 1,100 and 470 participants, respectively.

#### **Empowerment of youth**

Other training programmes have focused on providing youth with special skills, such as computer literacy. Guidance and assistance for higher educational programmes have also been accommodated within this initiative. Another important activity was the monitoring of child development from ages 5-18, within guidelines set by the International Labour Organization (ILO). During the year, in the furtherance of youth empowerment, twelve sewing training programmes and five

bridal & beauty care programmes were carried out within the company's plantations, covering 38 & 10 participants respectively. Under ILO supervision and with the assistance of three teachers, 34 young school drop-outs were provided with non-formal education to enable them to resume formal schooling. The Ministry of Youth Empowerment and Socio Economic Development, PHDT, CIDA and WUSC were associated with these initiatives.



*Bridal and beauty care programme held at Ingestre Estate*



*Gender equity awareness programme held at Glassaugh Estate*



*Communication centre maintained by the Estate Worker Housing Cooperative at Nuwara Eliya Estate*