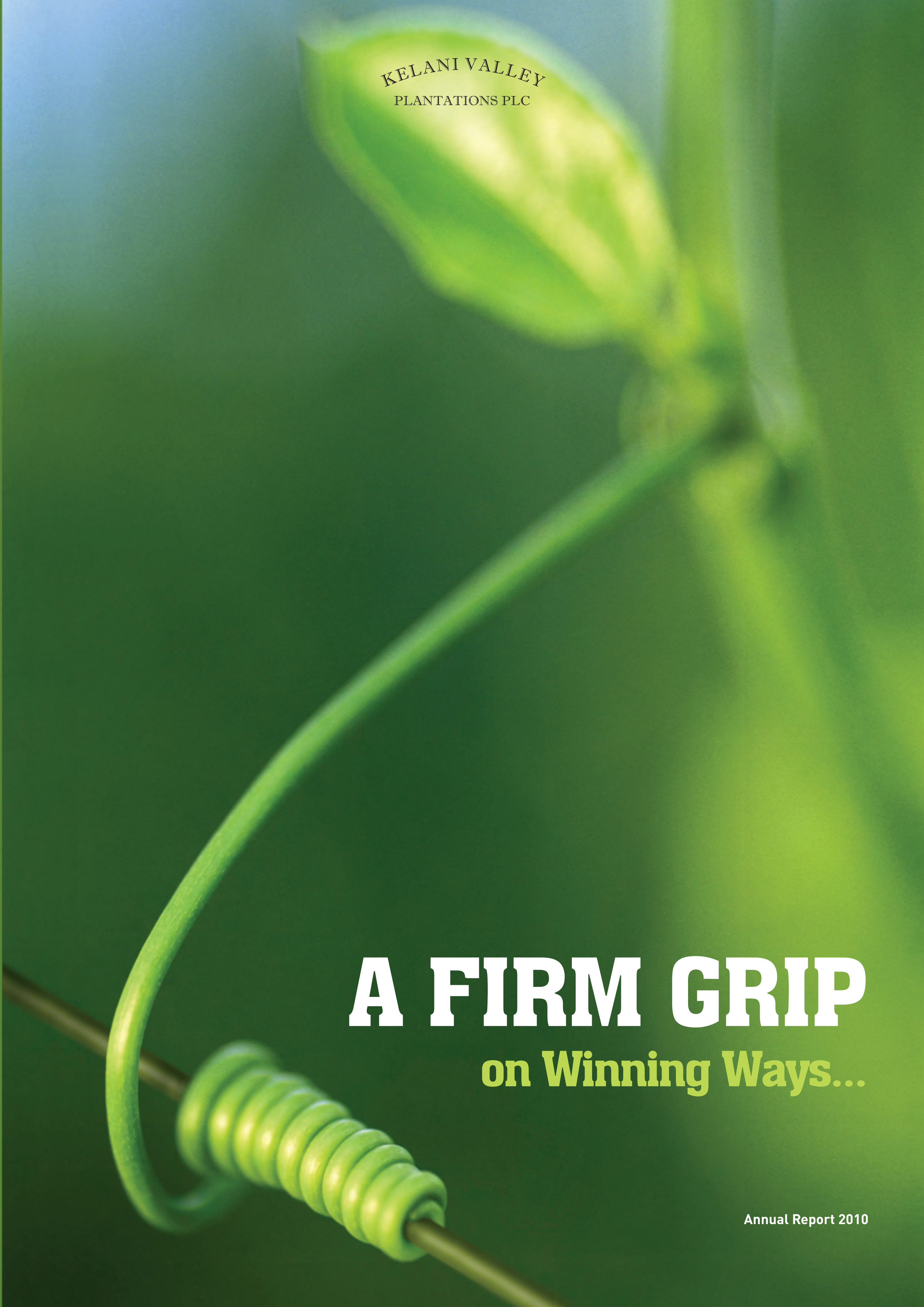
KELANI VALLEY
PLANTATIONS PLC



A FIRM GRIP
on Winning Ways...

Annual Report 2010

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

Resurgence from adversity is made possible by sustainable business practices, combined with prudent investments and ethical interactions with the community, both within and outside the organisation, the environment and partners and stakeholders. These elements, essential for an organisation to endure extreme crises, are at the core of our management philosophy. Whilst emerging business dynamics render the future challenging, our corporate ethos enables us to move forward with confidence.

Contents

Company Profile

Kelani Valley Plantations PLC (KVPL) was incorporated as a Regional Plantation Company in June 1992, consequent to the restructuring of the state-owned plantation sector in Sri Lanka and as a preliminary to the privatisation 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 in it.

This Company is a wholly-owned subsidiary of Dipped Products PLC (DPL), the Group and its other subsidiaries being among the leading manufacturers 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-Bulathkohupitya, 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 and the product is 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 tea properties of the Yatiyantota-Bulathkohupitiya belt, at much lower and warmer elevations, produce a low-grown type of tea much sought after 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 minimise detrimental impacts on the environment, whilst signifying a responsible approach to worker safety and health and the preservation of the bio-diversity within the plantations.

The rubber plantations are also confined to the Yatiyantota-Bulathkohupitiya region and the manufacturing facilities produce several varieties of Crepe Rubber, as well as 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 International (FSCI), as being environmentally and socially sensitive entities. whilst this accreditation has also been extended to the dry rubber and latex from the Dewalakande and Panawatte factories.

With the consolidation of the management of its core products, KVPL has diversified its product portfolio and business activity. In 2003, the Oliphant Estate Black Tea Factory in Nuwara Eliya was converted to the production of Green Tea, which has since become a preferred brand with both local and international buyers. In 2007, a new facility was set up at Nuwara Eliya Estate to manufacture Instant Tea. In response to the increased demand for Green Tea, the Glassaugh Black Tea Factory in Nanu Oya was also equipped to manufacture the product.

In 2003, as a preliminary to its business diversification policy, 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. These include Single Origin Tea from selected tea gardens and positioned as, 'The Ethical Tea Brand of the World'. In the year under review, KVPL secured total control of Mabroc in order to pursue direct marketing initiatives more aggressively.

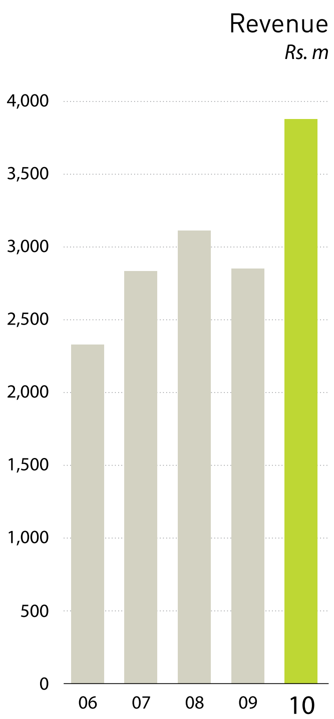
In 2003, in association with ECO Power (Pvt) Ltd., a dedicated hydro power development company, KVPL established Kalupahana Power Company (Pvt) Ltd., initially setting up a 01 MW mini-hydro power plant linked to the national grid at Kalupahana Estate. Where feasible, estate mini - hydros have been rehabilitated and, or, upgraded producing cleaner energy at lower cost.

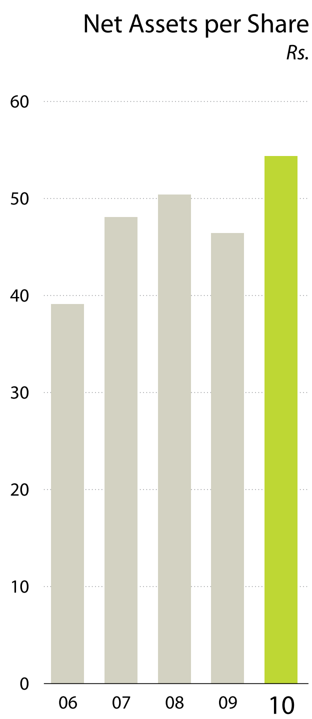
Our policy of plantation community development is a key component of our management strategy and has been further reinforced by an unique, multi-dimensional initiative branded as "A Home for Every Plantation worker", launched in 2006. Designed to uplift the quality of life of our people in all aspects, 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.

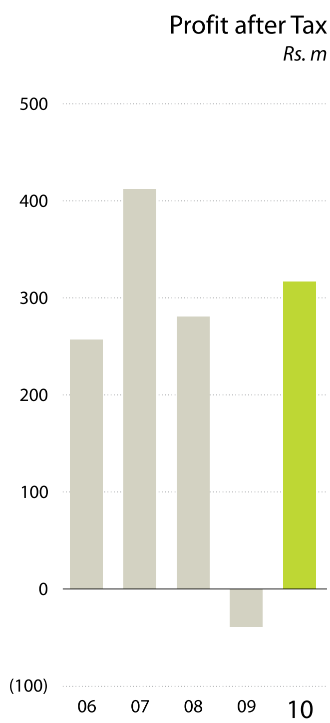
The Company's continuous search for excellence is reflected in its operational practices, its many internationally recognised accreditations and the voluntary subscription to non-regulatory concepts of ethical business management. In furtherance of this policy, the Company has also engaged with several other organisations in environment and bio-diversity 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.

Financial Highlights

	2010 Rs. '000	2009 Rs. '000	Change %
Revenue	**3,880,381**	2,860,004	35.68
Profit/(loss) before tax	**355,690**	(27,783)	>999.99
Profit/(loss) after tax	**326,152**	(40,565)	904.02
Gross dividend	**136,000**	34,000	300.00
Shareholders' fund	**1,840,627**	1,556,593	18.25
Market capitalisation	**5,436,600**	1,802,000	201.70
Capital expenditure	**292,506**	298,318	(1.95)
Employment (Persons)	**14,216**	14,331	(0.80)
Per share (Year end)			
Earnings/(loss) (Rs.)	**9.43**	(1.25)	854.40
Market value (Rs.)	**159.90**	53.00	201.70
Net assets (Rs.)	**54.57**	46.44	17.51
Dividend (Rs.)	**4.00**	1.00	300.00







Chairman's Review

I have pleasure in presenting the Annual Report and the Audited Accounts of your company for the financial year ended 31st December 2010.

Directorate

Mr. B.P.W. Jayasekera resigned from his position as Director on 16th December 2010. I take this opportunity to thank him for his valuable contribution during his tenure on the Board. Mr. S.T. Gunatilleke, who hitherto served as an Alternate Director, was appointed to the Board with effect from 15th January 2011.

Performance

International tea markets that gathered momentum in the last quarter of 2009 continued to remain strong into 2010 with prices being sustained due to a global shortfall of around 70 m kg at the beginning of the year. Notwithstanding an increase in production during the year, primarily in the low-grown sector, prices continued to be firm apart from intermittent seasonal fluctuations. Sri Lankan production of 329 m kg during the period under review exceeded the previous best crop of 318 m kg in 2008, with the Low-grown sector accounting for approximately 60% of the national output and the balance being made up by High-growns and Mediums.

The Colombo Auction Average of Rs. 370/- per kg for the year under review represents a marginal gain of 2.82% over 2009. Total national revenue generated from tea exports touched USD 1.5 Billion mark for the first time, with increased production compensating for the very moderate price increases.

In the year under review, the Company's tea production exceeded the 2009 output by 23%.

Rubber production declined in the face of unprecedented adverse weather conditions in major producing countries in South-East Asia. Consequently, rubber prices commencing at around USD 3 per kg in January continued to improve through the period under review to close above USD 5 per kg by year end.

In Sri Lanka, Latex Crepe and RSS No. 1 moved from Rs. 321/- per kg and Rs. 339/- per kg in January, to an all time high of Rs. 569/- per kg and Rs. 511/- per kg respectively by December 2010. However, the extreme weather conditions experienced during the year prevented producers from taking full advantage of an upbeat market.

We have seen the emergence of state initiatives in the formulation of a national policy for this vitally important sector. However, it is imperative that strategies are clearly articulated and implemented early, to ensure the sustainability of the growth potential of this industry. It is equally important that state-driven plantation policy initiatives address the multi-faceted challenges faced by this sector in their totality, rather than searching for piecemeal solutions.

In sharp contrast to the low-grown and medium sectors which demonstrated significant production increases against previous years, the high-grown sector whilst improving on the 2009 performance failed to exceed notable outputs of the past. With the bulk of the Company's output centred in the high-grown sector, both price and production improvements were insufficient to adequately cushion the increase in input costs. The 2010 national high-grown sale average increased over the recession hit 2009 to Rs. 337/- per kg. The low-grown average which suffered less in 2009, increased moderately to Rs. 393/- per kg.

Kelani Valley Green Tea adversely affected by very poor demand in 2009 benefited from a resurgent tea market in 2010 and recorded a profit of Rs. 3.2 m. The overall improvement in black tea prices during the year and the prudent management of the Company's up-country manufacturing flexibility assisted in the recovery from the previous year's slump. On the other hand, the irregular demand for high quality green tea from Sri Lanka inhibited our ability to exploit the full potential of the production capacity.

The Nuwara-Eliya Instant Tea plant initially started more as a research and development project, recorded a profit of Rs. 4.8 m. Whilst this result augurs well for its future potential, our marketing initiatives continue to be hampered by the limited demand for a high quality product in what is normally perceived as a beverage of convenience.

Kalupahana Power Company recorded a post-tax profit of Rs. 9 m, having benefited singularly from the extreme wet weather conditions which otherwise impacted adversely on the Company's core crops.

The Group ended the year with a profit of Rs. 356 m, with substantial portion of this performance arising from the rubber sector. With only moderate improvements in tea prices, this highly labour and material intensive operation continued to be hampered by cost escalations in all inputs.

Capital Expenditure

The major proportion of capital expenditure was allocated to re-planting of core crops, in pursuance of the Company's policy of continued renewal of its crop asset base. At the same time, investments were made to improve the water supply and road networks along with replacement of machinery and vehicles.

Dividend

Your Directors having considered the Company's performance in the year under review, propose a first and final dividend of Rs. 4/- per share.

Environment, Infrastructure and Community

The Company's environmental initiatives continued to move forward. Waste management and control, ensuring the purity of water sources, conservation of the natural vegetation and cleanliness of human habitats within plantations were areas of main focus during the year.

Access roads within plantations too received priority attention, improving the travel and supply logistics of plantation residents. Re-roofing and electrification of worker housing further upgraded the living conditions of our people. Vocational training was facilitated through sewing classes for young adults, in addition to English language and computer classes.

New Directions

With the Hayleys acquisition of a controlling interest in Talawakelle Tea Estates PLC (TTEL), the Group confirmed its commitment to a sustained interest and involvement in the plantation sector. In furtherance of this policy, KVPL acquired the balance 60% of its former associate, Mabroc Teas (Pvt) Ltd., during the year under review adding a fully-controlled tea marketing arm to its portfolio.

Prospects

The market prognosis, particularly for rubber, is encouraging and the outlook for 2011 would seem positive. The rubber market has been pushed to its present levels by production shortfalls in major producer countries and an increased demand driven largely by the automobile industry particularly in India and China. This is a rare and unprecedented convergence of unlikely circumstances and any expectation of this position being sustained at these levels, for any length of time would be unduly optimistic. Historically with time, all commodity markets adjust to supply, demand and pricing dynamics. In this context, it is important to consider the likely impact of the impending worker wage increase on future production expenses, whilst the recently imposed enhancement in the energy tariff adds a further burden to an industry already weighed down by rising input costs. The combined impact of these factors is likely to erode to a large extent the benefits that may be derived from improved commodity prices.

In my previous review I expressed the optimistic sentiment that the successful conclusion of ethnic conflict would enable the state to focus time, attention and resources on the development of its major engines of economic growth. The plantation industry clearly would be an obvious area to address and already we have seen the emergence of state initiatives in the formulation of a national policy for this vitally important sector. However, it is imperative that strategies are clearly articulated and implemented early to ensure the sustainable growth of this industry. It is equally important that state-driven plantation policy initiatives address the multi-faceted challenges faced by this sector in their totality, rather than searching for piecemeal solutions.

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.

A M Pandithage
Chairman

9th February, 2011

The robust rubber performance has been a key ingredient in the Company's resurgence. KVPL's unwavering engagement with quality in every dimension of its operations, from nursery to finished product, has enabled it to sustain the desirability of its creations and to tide over adverse times.

Board of Directors

A M Pandithage* - ***Chairman***

Joined Hayleys in 1969. Appointed Group Executive Director of Hayleys in 1996 and to the Board in 1998. Appointed Deputy Chairman in January 2007 and Chairman and Chief Executive in July 2009. Appointed to the Directorates of DPL and Kelani Valley Plantations PLC in January 2007. Fellow of the Chartered Institute of Logistics & Transport. Director, Sri Lanka Port Management and Consultancy Services Ltd. Former Chairman of the Ceylon Association of Ships' Agents. Former Director of both the Sri Lanka Ports Authority & Jaya Container Terminals Ltd. Member of the Presidential Committee on Maritime Matters.

J A G Anandarajah*

Joined DPL in 1980. Director, DPL since 1989 and Managing Director from January 2007. Appointed to the Hayleys Group Management Committee in 2001 and to its Directorate in January 2007. Director of Kelani Valley Plantations PLC since acquisition in January 1996. Chemistry (Honours) Graduate, University of Peradeniya, Sri Lanka. Associate Member of the Institute of Chemistry, Sri Lanka. Member of the Board of Management, Industrial Technology Institute, 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 KPMG Ford, Rhodes, Thornton and Company.

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.

N Y Fernando**

Joined DPL in 1985 and was appointed to the Board in 2004. Appointed Director of Kelani Valley Plantations PLC in April 2009. Mechanical Engineering (Honours) Graduate, University of Moratuwa, Sri Lanka. Member/Chartered Engineer of the Institution of Engineers, Sri Lanka. Member/Chartered Professional Engineer of the Institute of Engineers, Australia. Postgraduate Diploma in Industrial Engineering, NIBM.

S Siriwardana*

Joined Kelani Valley Plantations PLC in 1995. Appointed to the Board in June 2009. Fellow, 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. Fellow, 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 Jayawardenepura. 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 private sector entities in Sri Lanka and overseas, rejoining Hayleys in March 2007 and functioned as Head, Strategic Business Development Unit until July 2009. Appointed to the Boards of Dipped Products PLC and Hayleys PLC in September, 2009.

L T Samarawickrama***

Director of Kelani Valley Plantations PLC since November 2009. Mr. Samarawickrama serves as the 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 37 years experience in the trade. Having specialised in Hotel Designs, has been responsible for the planning and execution of Amaya Resorts & Spa's refurbishment and rehabilitation programmes. He is also a Director of Fortress Resorts PLC, Ceylon Continental Hotel, Hunas Falls PLC and Royal Ceramics Lanka PLC.

S T Gunatilleke**

(Appointed w.e.f. 15th January 2011)

Alternate Director of Kelani Valley Plantations PLC since May 2010. Joined Talawakelle Tea Estates PLC in 1992, appointed as the Chief Executive Officer in 2001 and appointed to the Board of Talawakelle Tea Estates PLC in 2004. Serves on the Board of Tea Smallholders Development Authority and as a Member of the Law and Order Subcommittee of the Ceylon Chamber of Commerce representing The Planters' Association of Sri Lanka. A senior planter who counts 40 years' experience in plantation management, has held the position of Regional Director of Sri Lanka State Plantation Corporation and served as a consultant to the United Nations Industrial Development Organisation (UNIDO) on tea plantation management.

* *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
G K Seneviratne - Managing Director
B P W Jayasekera *(resigned w.e.f. 16th December, 2010)*
R Seevaratnam
F Mohideen
N Y Fernando
S Siriwardana
S C Ganegoda
L T Samarawickrama
S T Gunatilleke*

** Appointed on 01st May, 2010 as an Alternate Director to Mr. S C Ganegoda and subsequently appointed as Director on 15th January, 2011*

DPL Plantations (Pvt) Ltd.

Plantation Management, Managing Agent
Incorporated in 1992 in Sri Lanka
Stated Capital - Rs. 101 m

Directors

A M Pandithage - Chairman
J A G Anandarajah - Managing Director, DPL
G K Seneviratne - Managing Director, KVPL
A Gunasekera *(resigned w.e.f. 21st April, 2010)*
S Siriwardana
N Y Fernando
S C Ganegoda
S T Gunatilleke *(appointed w.e.f. 01st May 2010)*

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 *(appointed w.e.f. 16th December 2010)*
J A G Anandarajah
G K Seneviratne
R J Perera *(resigned w.e.f. 16th December, 2010)*
B P W Jayasekera *(resigned w.e.f. 16th December, 2010)*
N R Ranatunga *(appointed w.e.f. 16th December, 2010)*

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
B P W Jayasekera *(resigned w.e.f. 16th December, 2010)*
N R Ranatunga *(appointed w.e.f. 16th December, 2010)*

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 *(appointed w.e.f. 16th December, 2010)*
B P W Jayasekera *(resigned w.e.f. 16th December, 2010)*
C Perera *(resigned w.e.f. 16th December, 2010)*

Mabroc Lanka (Pvt) Ltd.

General Merchants
Incorporated in 1998 in Sri Lanka
Stated Capital - Rs. 30/-, Group Interest - 100%

Directors

A M Pandithage - Chairman *(appointed w.e.f. 16th December, 2010)*
J A G Anandarajah - Managing Director *(appointed w.e.f. 16th December, 2010)*
G K Seneviratne *(appointed w.e.f. 16th December, 2010)*
N R Ranatunga *(appointed w.e.f. 16th December, 2010)*
R M Hanwella *(appointed w.e.f. 16th December, 2010)*
B P W Jayasekera *(resigned w.e.f. 16th December, 2010)*
C Perera *(resigned w.e.f. 16th December, 2010)*
R J Perera *(resigned w.e.f. 16th December, 2010)*

Blue Mountain Tea Exports (Pvt) Ltd.

Exports Tea
Incorporated in 1998 in Sri Lanka
Stated Capital - Rs. 50/-, Group Interest - 100%

Directors

A M Pandithage - Chairman *(appointed w.e.f. 16th December, 2010)*
J A G Anandarajah - Managing Director *(appointed w.e.f. 16th December, 2010)*
G K Seneviratne *(appointed w.e.f. 16th December, 2010)*
N R Ranatunga
R M Hanwella
B P W Jayasekera *(resigned w.e.f. 16th December, 2010)*
C Perera *(resigned w.e.f. 16th December, 2010)*
R J Perera *(resigned w.e.f. 16th December, 2010)*

Meridian Exports (Pvt) Ltd.
Exports Tea
Incorporated in 2002 in Sri Lanka
Stated Capital - Rs. 1.1 m, Group Interest - 100%

Directors
N A R R S Nanayakkara *(appointed w.e.f. 16th December, 2010)*
N Weeraratne *(appointed w.e.f. 16th December, 2010)*
C Perera *(resigned w.e.f. 16th December, 2010)*
R A Juriansz *(resigned w.e.f. 16th December, 2010)*

Cambron Exports (Pvt) Ltd.
General Merchants & Tea Exporters
Incorporated in Sri Lanka
Stated capital - Rs. 0.5 m, Group interest - 100%

Directors
A M Pandithage - Chairman *(appointed w.e.f. 16th December, 2010)*
J A G Anandarajah - Managing Director *(appointed w.e.f. 16th December, 2010)*
G K Seneviratne *(appointed w.e.f. 16th December, 2010)*
N R Ranatunga *(appointed w.e.f. 16th December, 2010)*
B P W Jayasekera *(resigned w.e.f. 16th December, 2010)*
C Perera *(resigned w.e.f. 16th December, 2010)*
R J Perera *(resigned w.e.f. 16th December, 2010)*

Management Team

Directors
A M Pandithage - Chairman
J A G Anandarajah - Managing Director, DPL
G K Seneviratne - Managing Director
S Siriwardana - Finance

Kelani Valley Plantations PLC

Consultant
A Gunasekera

General Managers
A B Stembo - Up Country Region
Y U S Prematilake - Low Country Region

Deputy General Managers
R G D Fernando - Rubber Marketing & Administration
J A Rodrigo - Marketing Tea
D Ramakrishna - Nuwara Eliya Group
D I Gallearachchi - Nuwara Eliya
C S Amarathunga - Tea Group - Low Country
K de J Seneviratne - Regional Administration

Group Managers
S D Samaradiwakara - Hatton Group
B C Gunasekera - Rubber Group - Low Country
S F Fernando - Rubber Group - Low Country

Managers
N A A K Nissanka - Finance
K A P Dalpathadu - Corporate Sustainability

Estate Managers

Up Country
D W M M R B Madawala - Annfield
B P C R Perera* - Uda Radella
T P G I Guruge - Tillyrie
K L R de A Rajapaksa - Blinkbonnie
Y A Hettiarachchi* - Battalgalla
W M P Wanasundara - Fordyce
L L J Ediriweera* - Invery
A G Hidogama - Robgill
A P Senanayake - Edinburgh

Low Country
R M V Ratnayake - Ganepalla
K A R Alles* - Kitulgala
D E P K Welikala - We-Oya
N T Dandeniya - Kalupahana
J Ellawala - Urumiwela
M W N de Silva - Lavant
M V N K Karunaratne - Kiriporuwa
D W Vedamuttu - Halgolla
P D W Vithanage - Ederapola

** Acting Estate Managers*

Mabroc Teas (Pvt) Ltd.

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


KING

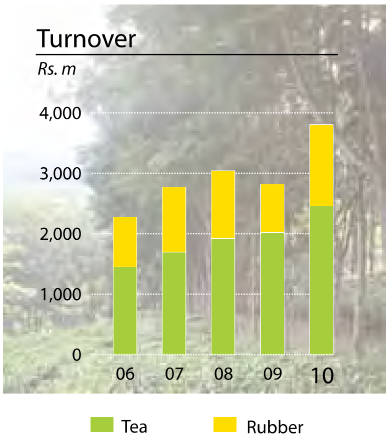
The internationally recognised accreditations already in place will soon be augmented by the Rain Forest Alliance certification of our tea plantations, enabling KVPL to present a product, ethical in all aspects, to discerning buyers and socially sensitive consumers. Our commitment to excellence commences with the selective harvesting of the raw material.

Management Discussion & Analysis

COMPANY PERFORMANCE

The Company recorded a post-tax profit of Rs. 339.6 m, as against the 45.2 m loss reported in 2009. The turnover of Rs. 3,810.6 m reflects an improvement of 35% over last year.

A resurgent rubber market, driven by production shortfalls resulting from adverse weather conditions in major producing countries and further enhanced by increased demand from the rapidly expanding motor vehicle industries of India and China in particular, contributed significantly to the 2010 result. However, erratic weather patterns which disrupted regular harvesting programmes impacted negatively on crop outputs, preventing producers from deriving maximum benefit from a robust market.



The Kalupahana Power Company, assisted by regular and heavy rainfall which permitted the more or less uninterrupted generation of power through the year, recorded a post-tax profit of Rs. 9 m as compared to Rs. 3.8 m the previous year.

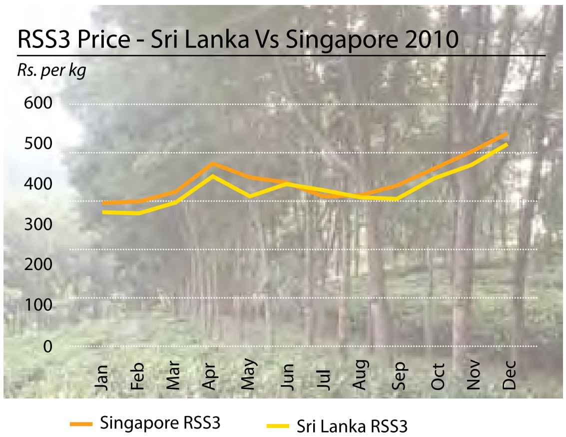
Kelani Valley Green Tea (Pvt) Ltd., ended the year with a post-tax profit of Rs 2.03 m, as against Rs. 0.77 m in 2009. The price revival in this segment was slow as, under adverse market conditions, niche products do not demonstrate the same resilience as mainstream consumer preferences. The higher quality grades showed satisfactory gains whilst, at the lower end, prices were stagnant due to the availability of similar varieties at lower prices from other origins. In 2011, the fortunes of Sri Lankan Green Tea will be largely determined by the import volumes of cheaper varieties from other countries for blending operations in Sri Lanka. The national production increase of 42% against 2009, is a reflection of the renewed interest in green tea, on the heels of the improvement in black tea prices.

Acquisitions

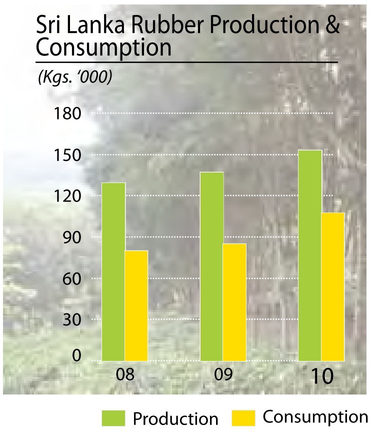
In a move reinforcing the Company's commitment to broad basing its tea operations, KVPL purchased the balance 60% share of its former associate, Mabroc Teas (Pvt) Ltd., at a cost of Rs. 212 m. The sole control of a marketing platform will enable Kelani Valley to aggressively pursue the advantageous positioning of its niche products whilst, also, opening the door for a more synergetic product marketing thrust in association with the sister plantation company, Talawakelle Tea Estates PLC.

Rubber

With 70% of world production being consumed by the motor vehicle industry, rubber suffered acutely from the 2009 recession. Major growers responded with planned suppression of production and withheld inputs whilst leading international speculators depleted stockpiles to minimise stock holding losses. These factors, combined with adverse weather conditions in major growing countries which resulted in lower harvests in 2010, supported by an unexpected resurgence in the motor industries in India and China in particular, created a supply-demand disparity of significance. The market reacted with a price escalation commencing at around USD 3 per kg in January and closing at around USD 5 per kg at major trading centres, in December 2010.



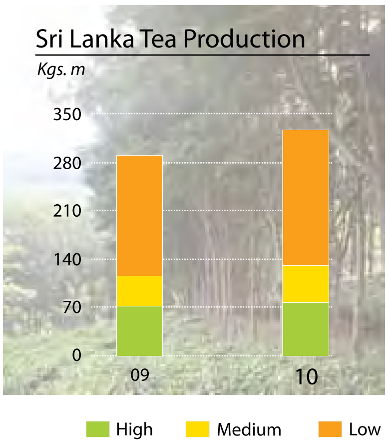
In Sri Lanka, Latex Crepe-IX and RSS No. 1, commencing at Rs. 323/- per kg and Rs. 339/- per kg respectively, in January, closed the year at Rs. 569/- and Rs. 511/- per kg respectively, in December, representing price improvements of 76% and 50%. Whilst yet unconfirmed reports indicate a slight increase in national output in 2010, as against 2009, it could be largely attributable to minor land holders who, collectively, represent the major proportion of growers, recommencing intensified harvesting in order to capitalise on the market recovery. Local consumption of national rubber output reached 70% in 2010, the highest on record.



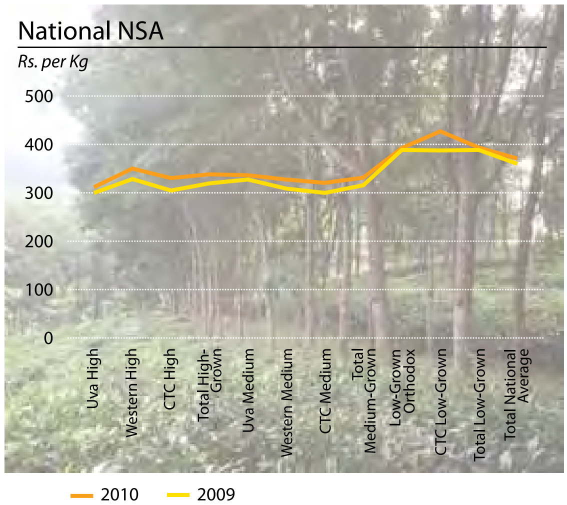
The International Rubber Study Group (IRSG) forecasts an overall 8% growth in the tyre industry in 2011, as against a decline of similar proportions seen in late 2009. This consumption increase, combined with a likely escalation of oil prices currently at USD 91 per barrel, is expected to maintain rubber market buoyancy into 2011. However, invariably, manufacturers respond to surging raw material costs with moderating counter strategies of their own whilst natural market dynamics also exert countervailing pressures in adjustment. In this context, moving forward, it would be prudent to anticipate a market stabilisation at more realistic levels.

Tea

The 70 m kg shortfall in world tea production in 2009 assisted in a market recovery and, consequently, trading was more positive in all major auction centres in 2010. Sri Lankan production reached 329 m kg for the year, which is an all time high whilst the export revenue of USD 1.5 b is also the highest on record. The Company's tea production, approximately 75% represented by its high grown segment, increased by 23% to 6.74 kg whilst the national high grown production moved up by 7.02%.

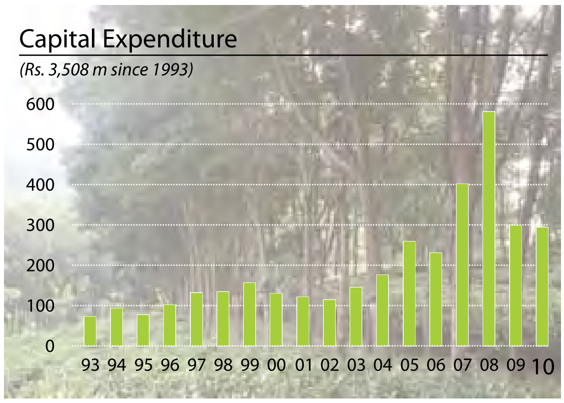


The national NSA increased by a marginal 2.82% over 2009 whilst the low grown average, the least affected by global recession, moved up by a minimal 1.35%. Notwithstanding a 5.67% increase in high-grown averages in 2009, the Nuwara Eliya speciality varieties declined owing to limited demand. Overall, despite production improvements, the average price increases were insufficient to significantly offset escalating input costs. Moving into 2011, anticipated increases in internal consumption by major producers such as India and China and more aggressive purchasing by the Middle Eastern and the ex-Soviet blocs, are expected to sustain prices at attractive levels. However, expectations of additional gains from market improvements into 2011 must, necessarily, be viewed against the inevitable input cost escalation arising from the impending worker wage increase and other impacts, such as the enhanced energy tariffs already in place.



Capital Investment

The Company invested Rs. 146 m in replanting 198 ha of rubber and in the maintenance of immature areas, whilst Rs. 65 m was allocated to tea replanting and immature area management. Combined with the expenditure on the rehabilitation of access roads within plantations, purchase of new equipment for factory and office, the replacement of obsolete vehicles and improvements to estate water supply and other community infrastructure, the total incurred for the year was Rs. 292 m. Rs. 55 m was received as grants from various donor agencies including the state.



Certifications

The Company maintained its product and process purity and hygiene standards already in place, by carrying out surveillance audits in all processing centres, whilst the HACCP, ISO 22000:2005 and GLOBALG.A.P. accreditations of its black tea processing facilities were also revalidated.

Preliminary work for compliance with Rain Forest Alliance certification, which commenced in 2009 has been completed during the year, along with the relevant training of responsible plantation personnel. The accreditation process is expected to be finalised during the current year. This certification, which encompasses sustainable agricultural standards covering environmental conservation and community management dimensions, will help to consolidate the Company's already established ethical positioning. It is also a prized producer conformance, soon to be mandated by the giant Unilever, as a primary requirement in their product purchase portfolio, whilst other major tea buyers have also declared their intentions of following suit.

The Panawatte and Dewalakande factories have received the Forest Stewardship Council chain of custody certification for the Sole Crepe and Latex Crepe manufactured at these factories.

All these quality, product and process certifications will add value to the Company's major product lines, particularly within markets and amongst consumers, with declared preferences for goods manufactured in accordance with ethical and hygiene parameters.

Energy Management

Consequent to the installation of firewood boilers at seven of its major tea factories and the conversion of most of its liquid fuel driers to firewood, the Company has reduced its liquid fuel consumption in 2010 by approximately 656,000 ltrs. These measures have reduced the expenditure in this area by Rs. 12 m in the year under review.

The electrical installations in black tea factories have been upgraded to meet the latest industry standards, improving both safety and functional efficiency. Energy audits have been undertaken in all 13 black tea factories in collaboration with the SWITCH ASIA programme sponsored by the Ceylon Chamber of Commerce.

A new standby generator was installed at the Ederapola tea factory with the existing generator being reinstalled at the Edinburgh factory, improving the energy supply situation in both manufacturing units.

The Company's drive for maximising internal potential for cleaner and cheaper energy continued to move forward. All other statutory certifications have been obtained for the commencement of two mini hydro plants at We Oya and Edinburgh respectively, with a combined capacity of 1.4 Mw, whilst final approval from the Central Environmental Authority is awaited. The output will be fed directly to the national grid.

Environment

With several new initiatives, the Company reaffirmed its commitment to environmental protection, earlier signified by its embracing of the CEO Water Mandate and other relevant recognised concepts of conservation. 8 ha of marginal tea on Annfield Estate has been planted with fuel and timber species, whilst the compliance activities of the Rain Forest Alliance certification, such as the provision for the segregated collection and disposal of waste on all tea estates, contributed significantly to improvements in internal environmental management. All rubber washing bays in the tea cum rubber estates were equipped with soakage pits to ensure the filtration of harmful sediment from water, before reaching natural waterways.

Corporate Social Responsibility

The Company's signature CSR initiative, the 'A Home for Every Worker' programme, which addresses living environment, health and nutrition, community capacity building and youth empowerment for the resident population, continued its progress during the year. Comprehensive details are presented in the Sustainability Report.

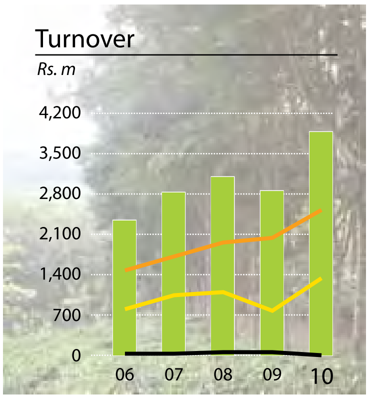
Financial Review

A welcome return to normal crop volumes in Tea and better commodity prices helped Kelani Valley Plantations PLC to post a healthy profit and improve turnover growth during the year 2010.

The buoyancy of the rubber market and stable prices for tea enabled the Company to consolidate its turnaround from a loss making 2009. This section provides an overview of its financial performance for the year under review.

Group Turnover

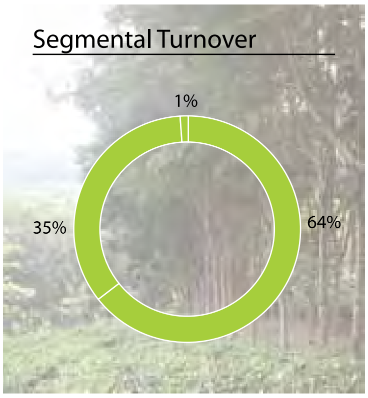
The Group recorded a consolidated turnover of Rs. 3,880 m for the year under review, an increase of 36% over the previous year.



Tea
Rubber
Other
Group Turnover

The increment was reflected mainly in rubber prices, which contributed an increase of 72% in turnover compared to the previous year despite a reduced rubber crop, due to highly erratic weather patterns during the year. The turnover from tea increased by 23%, on account of increased crop.

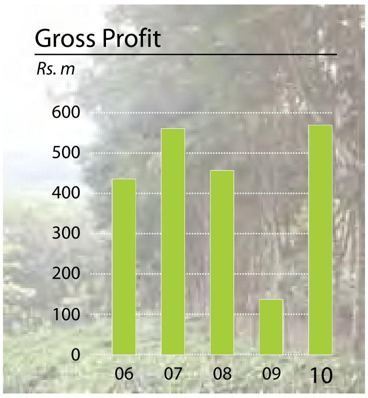
The Tea and Rubber sectors contributed Rs. 2,496 m and 1,345 m respectively, to the turnover accounting for 64% and 35% of the total group turnover.



Tea - 64%
Rubber - 35%
Other - 1%

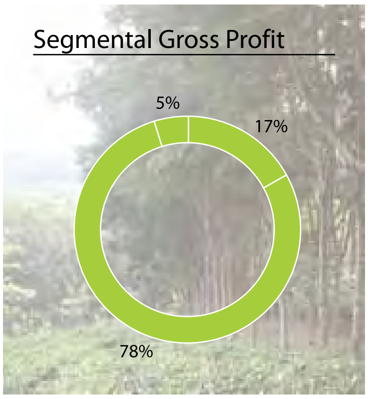
Gross Profit

The Group reported a gross profit of Rs. 568 m for the year, an increase of 321% from the previous year, mainly due to better performance in rubber prices and tea crop.



Segmental Gross Profit

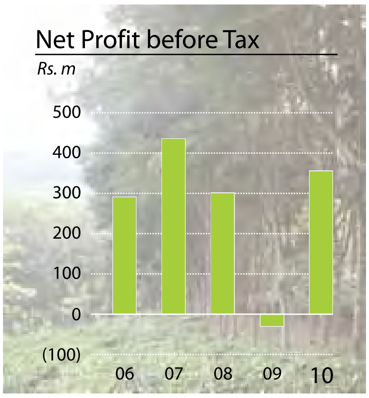
Segmental gross profits significantly increased in both Tea and Rubber during the year. Contribution from Tea was Rs. 96 m and Rubber was Rs. 445 m, whilst the Hydro Power sector performed extremely well during the year with a contribution of Rs. 29 m.



Tea - 17%
Rubber - 78%
Other - 5%

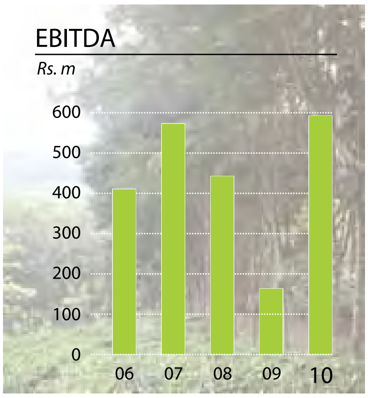
Net Profit before Tax

The Group recorded a net Profit before tax of Rs. 356 m. The reasons for the high performance have been elaborated in the Chairman's Review section of this Report.



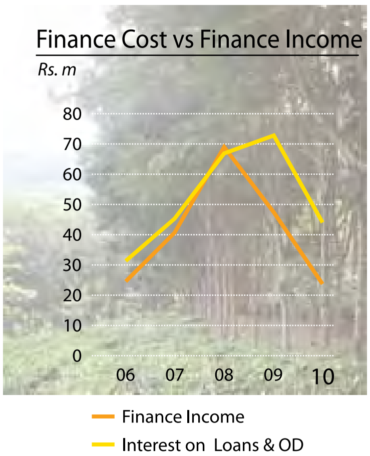
Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)

The Group's earnings before interest, tax, depreciation and amortisation increased by 265%, from Rs. 162 m to Rs. 592 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.



Net Finance Cost

Net finance cost reflects the interest cost on borrowings and the interest income from short-term deposits and related party loans. Net finance cost decreased by 21% to Rs. 20 m, as compared to Rs. 26 m in the previous year.

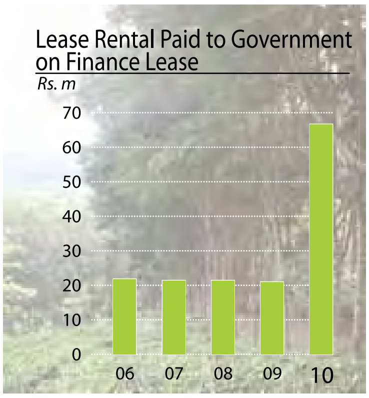


Interest on term loans and overdrafts decreased by 40% to Rs. 44 m from Rs. 73 m previously and finance income also declined by almost 50% to Rs. 24 m from Rs. 47 m in 2009, mainly due to a reduction in interest rates on deposits, as well as a depletion of savings which were used for the purchase of Mabroc Teas (Pvt) Ltd.

Interest Paid to Government on Finance Lease

Interest paid to Government on finance lease has increased 217% to Rs. 67 m compared to Rs. 21 m previously, as a result of the government's decision not to extend the agreement to freeze lease rentals beyond June 2008. Whilst this decision was made in 2010, arrears were charged with retrospective effect.

The Group's average cost of funds decreased from 12.97% to 10.52% during the year due to the reduction of interest rates. The Company was able to redeem loans with high interest rates and negotiated with the banks to reduce the interest rates on outstanding loans during the year under review.



Share of Associates' Results

KVPL acquired the balance 60% shares of its Associate Mabroc Teas (Pvt) Ltd. in December, 2010. Thus the latter becomes a fully-owned subsidiary of the Company.

Mabroc Teas (Pvt) Ltd. impacted on the Group's bottom line with a loss of Rs. 28 m during the year under review, as compared to a Rs. 0.5 m loss in the previous year. The loss is mainly due to a provision of Rs. 83 m made during the year for bad debts. Mabroc is yet recovering from the recessionary impact on the tea export market.

Taxation

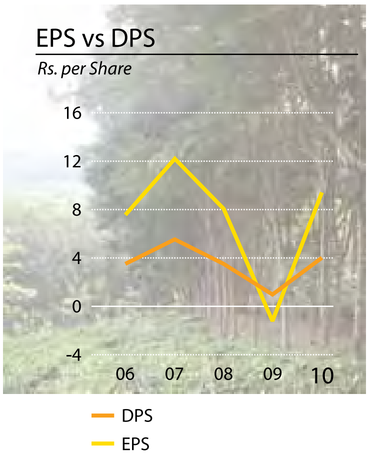
The Group's total tax charge for the year was Rs. 30 m, an increment of 131% compared to the previous year due to the better performance of the Company. Tax exempt companies of the Group, and information on the tax holidays enjoyed by these companies, are stated on page 75.

Dividends

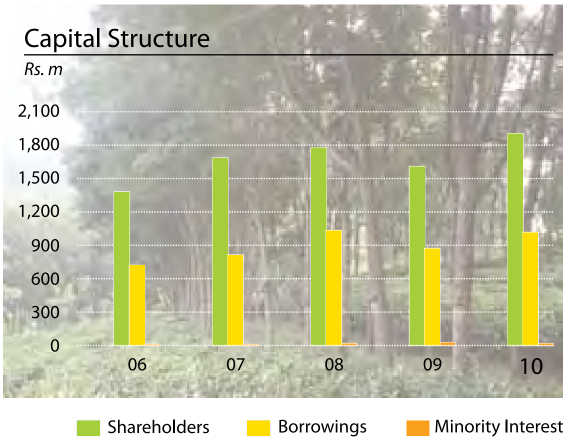
A dividend of Rs. 4/- per share corresponding to 24% of the retained profit of the Company is proposed as against the previous year's Rs. 1/- per share. The Company has fulfilled the solvency test requirement for payment of dividends as per section 57 of the Companies Act No. 07 of 2007.

Earnings Per Share (EPS)

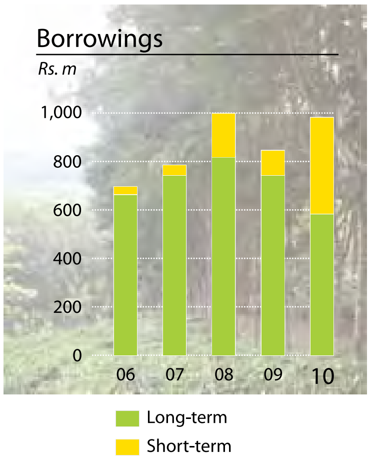
The Group's Earnings Per Share for the year ended 31st December, 2010 was Rs. 9.43 .Earnings Per Share reflect the Company's profitability.



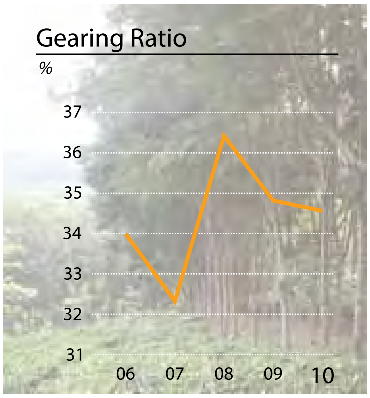
Capital Structure



The shareholder funds in the Group's capital structure increased by 18% from Rs. 1,557 m in 2009 to Rs. 1,841 m and overall borrowings increased by 16%, from Rs. 844 m in 2009 to Rs. 980 m for the year under review. The long-term borrowings declined by Rs. 159 m whilst short-term borrowings increased by Rs. 295 m as a result of the borrowings of the newly-acquired subsidiary, Mabroc Teas (Pvt) Ltd.

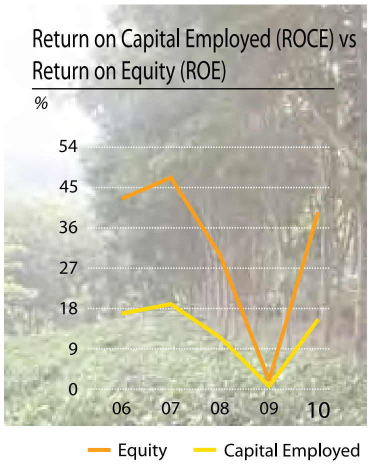


The Group has both local and foreign currency borrowings and the gearing level has remained constant at 35%.



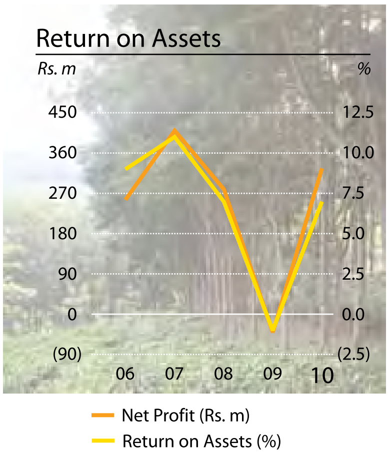
Return on Capital Employed & Return on Equity

Due to higher overall profit and reduction in long-term borrowings, the return on capital employed and return on equity increased to 16% and 24% respectively, in the year under review. Both stood at 1% in 2009.



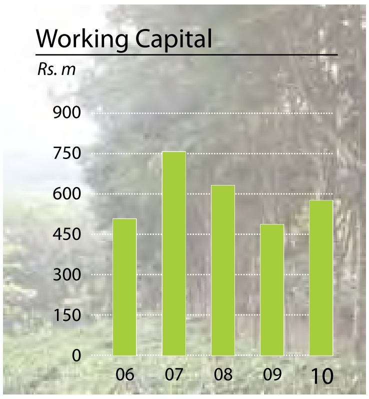
Return on Assets (ROA)

ROA reflects the profitability and efficiency of the Company, relative to its total assets. The Company's return on assets ratio in the current financial year improved to 7% from minus 1% in the previous year.



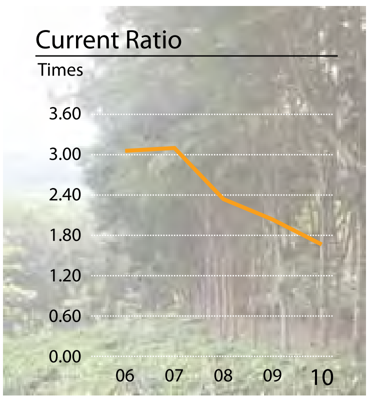
Working capital

Working capital increased from Rs. 486 m in 2009 to Rs. 576 m in the year under review, as a result of a proportionate increase of receivables and short-term interest bearing borrowings.



Current Ratio

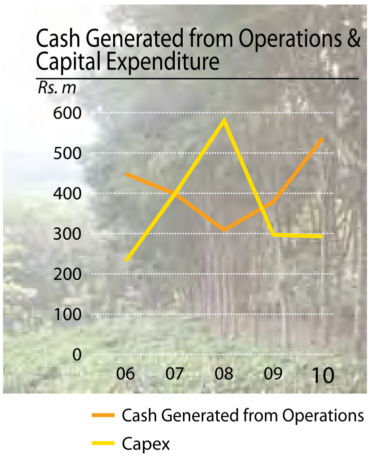
The ratio between current assets and current liabilities decreased as at end 2010 compared to 2009 as a result of the increase in short-term interest bearing borrowings of Mabroc Teas (Pvt) Ltd.



Cash Flow

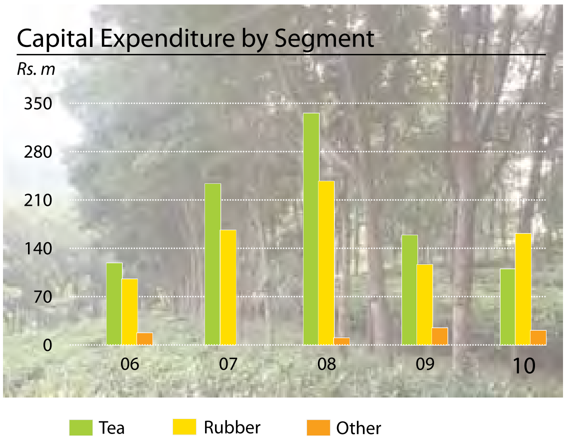
Due to improved profitability cash generated from operating activities increased by Rs. 151 m to Rs. 530 m from Rs. 379 m in the previous year.

Capital expenditure incurred during the year under review was Rs. 292 m compared to Rs. 298 m in the year 2009.



Capital Expenditure by Segment

Capital expenditure on Tea decreased to Rs. 110 m from Rs. 158 m in 2009. However, capital expenditure on rubber increased to Rs. 161 m as compared to Rs. 116 m in 2009.

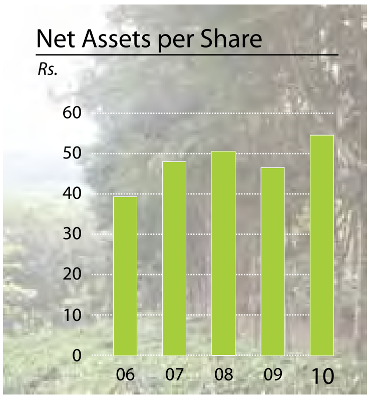


The above capital expenditure includes Rs. 65 m and Rs. 146 m on replanting of tea and rubber respectively, in the year 2010. 30 hectares of tea and 198 hectares of rubber were replanted during the year under review.

Performance Measurement

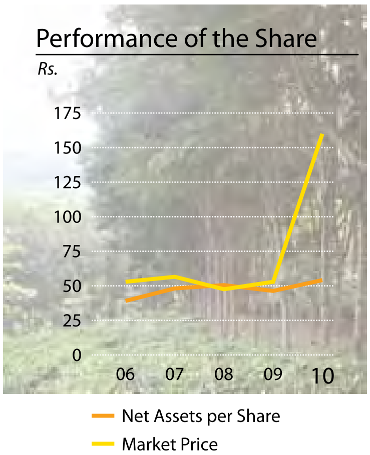
Net Assets per Share

Net assets per share grew to Rs. 54.57 from Rs. 46.44 previous year.



Performance of the share

The Company's share price closed at Rs. 159.90 compared to Rs. 53.00 at end 2009. Overall market performance in the year under review was highly encouraging.



During the year, the share price reached an all time high price of Rs. 210 /- and the lowest reported was Rs. 40/- . The total number of shares traded during the year was 4.2 m.

Market capitalisation

The total market capitalisation of the Company was Rs. 5,437 m at the end of the financial year.

Total market capitalisation of the Company's shares has grown significantly during the year, as a result of higher market value per share whilst issued share capital remained constant.

Financial Reporting

The Group is committed to adopting best practices in financial reporting and maintains a close watch on new developments in the financial reporting environment. The financial reports on pages 62 to 91 have been prepared in compliance with the Sri Lanka Accounting Standards (SLAS) and every attempt has been made to provide stakeholders, with a clear and comprehensive understanding of the financials.

Our Achievements

Our Annual Report for 2009 received the Silver Award in the Plantation Sector from the Institute of Chartered Accountants of Sri Lanka, for the second consecutive year, at its 46th Annual Reports awards competition held recently.

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

Future Outlook

KVPL 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 Mabroc Teas (Pvt) Ltd., an export company of value added teas and bulk teas.
2. KVPL, with prudent strategies and financial acumen, will continue its progress towards sustainable growth, despite challenging economic and climatic conditions.

Our Land

2010

Estate	Extent				Elevation	Crop	
	Hectares				(ft)	kgs '000	kgs '000
	Tea	Rubber	Other	Total		Tea	Rubber
Nuwara Eliya Group							
Pedro	546	–	122	668	6,237	790	–
Nuwara Eliya	188	–	59	247	5,999	426	–
Glassaugh	184	–	44	228	5,074	237	–
Uda Radella	184	–	41	225	5,328	257	–
Edinburgh	162	–	17	179	5,075	208	–
Oliphant	241	–	123	364	6,440	254	–
Hatton Group							
Ingestre	431	–	218	649	4,723	613	–
Fordyce	266	–	137	403	4,599	347	–
Annfield	259	–	116	375	4,297	366	–
Tillyrie	225	–	109	334	4,264	264	–
Invery	195	–	111	306	4,310	205	–
Robgill	219	–	81	300	4,500	318	–
Battalgalla	180	–	81	261	4,300	276	–
Blinkbonnie	149	–	32	181	4,500	197	–
Yatiyantota - Tea Group							
Halgolle	266	–	930	1,196	3,478	415	–
Ederapola	35	418	214	667	338	40	217
Kitulgala	49	28	505	582	1,003	65	20
Kalupahana	86	171	255	512	1,500	112	47
We Oya/Polatagama	25	739	223	987	1,000	31	485
Kelani	33	243	73	349	300	37	106
Yatiyantota - Rubber Group							
Dewalakande	–	579	138	717	502	–	340
Panawatte	33	710	287	1,030	1,000	32	368
Urumiwella	6	552	164	722	800	12	365
Kiriporuwa	37	390	160	587	805	45	212
Lavant	–	461	108	569	800	–	245
Ganepalla	–	413	77	490	1,000	–	223
Total	3,999	4,704	4,425	13,128		5,547	2,628

Our environment care and bio-diversity conservation and management initiatives are now beginning to bear fruit, with the voluntary engagement of other socially responsible organisations, in our projects. These are now key ingredients in our management strategies and work programmes and we are confident of making a significant and qualitative contribution to environmental protection drives, island-wide.

Sustainability Report

Drawn by Chinthaka Bandara of Pre-School at Nuwara-Eliya Estate

Report Parameters

Report Profile

Sustainability is a concept which embraces the equitable balance of economic, social and environmental factors to produce viable business results in a socially responsible manner.

The Company adopts an annual reporting cycle. This Report covers the period 1st January to 31st December, 2010 and the information provided describes the activities of this period, supported and illustrated by relevant data and statistics from previous periods as well. The Report has been formulated upon the principles and methodology of GRI version 3 of 2006. This is our first approach to sustainability reporting using GRI parameters and into the future, we will improve our reporting style.

Any questions or inquiries regarding the Sustainability Report may be directed to the sustainability unit at postmaster@kvpl.com

Report Scope and Boundary

The Report covers the performance of the businesses within the Kelani Valley Plantations PLC Group, and is presented in accordance with the criteria pertaining to Level C of the GRI Guidelines.

The economic performance report has been prepared using the data audited by KPMG Ford, Rhodes, Thornton and Co. for the financial year ended 31st December, 2010.

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

Report on Social Responsibility has been compiled from the data for the above-mentioned time period, as maintained on-site for the 'A Home for Every Plantations Worker Programme'.

Assurance

Governance, Commitments and Engagements

Governance

KVPL follows an open governance structure and a comprehensive review on this appears on pages 41 to 47 of this Annual Report.

Stakeholder Engagement

The main stakeholders related to sustainability issues are Shareholders, Employees, Suppliers, Customers and Business Partners. Their process of engagement to the Group is as follows:

Stakeholders	Sustainable Issue	Process of Engagement
Shareholders	Profit & Growth	Annual General Meeting - Quarterly financial reports, an Open Door Policy (Shareholders can visit and get information), meetings with fund managers, share brokers and investment analysts and e-mail contact with responsible employees.
Employees	Remuneration & Benefits	Work force & Staff - According to the collective agreements in respect of manual and supervisory staff. Executive cadre - Performance-based remuneration and rewards.
	Working Facilities & 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 & Staff with letters/telephone/ e-mail facilities. 'A Home for Every Plantation Worker Programme' concept, which helps to improve the standard of living, Health and Nutrition Status, promotes Community Capacity Building & the Empowerment of Youth in the plantation population. Daily/Weekly/Monthly/Annual dialogue/monitoring/evaluation with staff and management.
	Health & Safety	Provision of qualified medical staff and appropriate medical facilities on location and with easy access for employees. Weekly /Monthly health and safety meetings
Suppliers	Payments Policy	Following an on-time Payment Policy
	Commitment to Sustainability	Supplier Relationship Management enables KVPL to keep in touch with their suppliers Regular meetings - Daily/ Weekly/ Monthly/Quarterly/Annually with staff and management
Customers/Buyers	Product Quality	Annual Product Quality Testing on Physical/Chemical/Biological parameters Regular brokers' visits 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 developments.
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 reach of product distribution.

Economic Performance

KVPL Group turnover grew 36% compared to 2009 whilst net profit was Rs. 326 m after providing for tax of Rs. 30 m. Tight control of working capital, closer management of operational functions and control of costs contributed to the turnaround. These strategies were catalysed by better market conditions for rubber and tea.

In the year under review, the share price moved from Rs. 53.00 to Rs. 159.90 as at 31st December 2010, a 201% increase reflecting investor confidence brought about by improved performance.

More details of the economic performance are reported in the section 'Financial Review- 2010'.

Impact of Climate Change

Since it is an agriculture-based industry, weather and climate play a decisive role in the Group's performance. 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. Despite the relative unpredictability of these variables, the management has been able to devise strategies to sustain business viability.

Risks and Opportunities due to Climate Change

Risks

- Changes in rainfall pattern will determine both the water supply to and evaporative demand on crops, which finally impact on yields.
- Disruption of normal weather patterns interrupt cultivation programmes.
- Timing and frequency of rainfall impacts on crop collection, particularly in rubber and often leads to wash out of raw latex.
- Adverse weather factors, whether wet or dry, create conditions favourable to the emergence of pests and diseases, harmful to crop and quality of product.

Opportunities

- Increase of atmospheric carbon dioxide level may improve the yield in some clones.
- Reduction of fossil fuel usage and the promotion of alternative energy sources such as hydro power.
- Providing opportunities to trade in Carbon Credits.

Indirect Economic Impact

Society

KVPL has invested considerable resources in its social responsibility initiative, 'A HOME FOR EVERY PLANTATION WORKER PROGRAMME'.

It's a broad concept with wide ranging life-style benefits for the plantation community and extending far beyond the simple provision of shelter. This initiative, encompassing four broad areas - Living Environment, Health & Nutrition, Community Capacity Building and Youth Empowerment - was launched in 2006 and its impact has extended outside the organisation as well.

Living Environment

Activities	1992-2010
New houses built (units)	1,341
Land extent granted for housing (perches)	9,535
Upgrading of workers' quarters	
- Re-roofing	7,259
- Electrification (housing units)	6,281
- General rehabilitation	489
Access roads (km)	264
Water schemes	1,155
Sanitation - new toilets (units)	7,245
Playgrounds (units)	12
Staff quarters - upgraded (units)	176
Community centres	19
Field rest rooms	178
Child development centres	14
Hot water bathing spots (units)	15

Under the dimension of living environment, 1,341 housing units have been constructed on 9,535 perches of estate land granted for this purpose, between 1992 and December 2010. 265 living units were re-roofed and 189 housing units provided with electricity in 2010. 22 km of access roads within our estates were rehabilitated during the same year bringing the total done since privatisation to 264 km. These initiatives have been carried out with the collaboration of 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 & Nutrition

Health & Nutrition	1992-2010
Dental clinics	404
Dengue awareness programmes	17
Eye Clinics	901
AIDS awareness programmes	1,755
T.B. Awareness	44
Oral Cancer Programmes	69
Provision of spectacles	2,666
Cataract removal surgery (No. of participants)	857
Logistical support (km)	751,221

In 2010, with the assistance of the Government Health Department, seven Dental Clinics were organised in Halgolle, Nuwara Eliya, Edinburgh & Glassaugh Estates with 205 participants, represented by children and pregnant mothers of the above estates.

In view of serious Dengue outbreaks experienced throughout the island in 2010, as a preventive measure the Company organised 14 Dengue awareness & prevention programmes in Halgolle, Robgill, Kelani, Dewalakande, Urumiwela, Battalgalla and Annfield Estates, with the assistance of government officials, the Berendina Foundation and the estate community. Four eye clinics were conducted in Halgolle and Invery Estates for 123 participants during the year whilst AIDS, T.B. awareness and oral Cancer programmes were carried out in both up-country and low-country estates. In collaboration with the International Resources for the Improvement of Sight (IRIS), 21 cataract removal surgeries were carried out during the year 2010, in Oliphant, Robgill, Tillyrie, Halgolle, We Oya, Ederapola and Ganepalla Estates.

Estate-owned ambulances as well as hired vehicles travelled a total of 77,000 Km during the year, transporting estate residents to external medical facilities.

Community Capacity Building

Community Capacity Building	1992-2010
Alcohol prevention programmes	87
No. of borrowers taking loans from estate worker housing co-operatives	21,279
Amount (Rs.)	173,598,017.00
Deposits accepted (Rs.)	94,347,894.74
Household cash management programmes	76

Groups of differently-abled children were provided training in music and drama on Battalgalla Estate with the assistance of the Sunera Foundation. 3 alcohol prevention programmes and 6 household cash management programmes were carried out with the participation of 182 and 137 estate residents respectively, during the year.

Volley-ball tournament at Ederapola Estate

During the year, the Company's Estate Worker Housing Co-operatives loaned a total of Rs. 46 m for improvements to housing, purchase of motorcycles, traditional ceremonies and the redeeming of mortgaged properties, among 3,750 borrowers. The total lent since inception increased to Rs. 173 m. Rs. 18 m in savings deposits were made during the year, adding to the Rs. 76 m already in place.

Youth Empowerment

Empowerment of Youth	1992-2010
- Sewing classes (No. of participants)	99
- English classes (No. of participants)	888
- Computer classes (No. of participants)	42

Sewing classes were carried out during the year for estate youth, in Ingestre and Kiriporuwa, by the Sewa Lanka Foundation & AGA office of Bulathkohupitiya. English classes conducted on Ederapola, Kalupahana and Kiriporuwa Estates attracted 172 students, with 36 participating from the same estates in computer classes. 25-youth participated in special training programmes in Panawatte and Ederapola, providing skills in the manufacture of soap and candles, the production of special food mixtures and exercise books. The Industrial Development Board and International Labour Organisation were associated in these training programmes.

Empowerment of youth at Dewalakanda Estate

Environmental Activities

The environment-related activities of the Company address the dimensions of Materials, Energy, Water, Bio-diversity, Emissions, Effluent & Waste and Products & Services.

All Company plantations practice agricultural operations in an environmentally responsible manner, consistent with the Company's environment policy.

Materials

KVPL consumes a wide range of material in its daily operations. Tracking material consumption facilitates the efficiency improvement of material usage and reduces the cost of material flow. For 2010, KVPL material consumption was as follows:

Fertiliser	- 4,529.18 MT
Dolomite	- 1,609.80 MT
Agrochemicals	- 27,659.50 litres and - 152, 431.60 kg
Packing materials	- 172,085 (Nos.)
Bought leaf	- 1.2 m (kg)
Bought latex	- 574,000 kg
Diesel	- 654,228 litres
Gasoline	- 94,587 litres

Energy

Direct Energy Consumption by Primary Energy Sources

Type of Energy	Quantity	Units
Hydro-Power		
Manufacturing	173,186	kWh
Firewood		
Manufacturing (Tea)	49,808	Cubic meters
Manufacturing (Rubber)	804	Cubic meters
Gasoline		
Field machinery	23,601	Litres
Supervisory & other	70,985	Litres
Diesel		
Power generators	104,217	Litres
Manufacturing	29,537	Litres
Field machinery	12,837	Litres
Field transport	325,271	Litres
Supervisory & other	182,366	Litres

Direct Energy Production by Primary Energy Sources

Type of Energy	Quantity	Units
Group hydro-power generation	3,541,229	kWh

Intermediate Energy Consumption by Primary Energy Sources

Type of Energy	Quantity	Units
Electricity		
Manufacturing (Tea)	6,141,796	kWh
Manufacturing (Rubber)	953,206	kWh
Office & Quarters	826,193	kWh
Other (Dispensary, Temples, Crèches, Community centres, etc.)	148,762	kWh

The Group total direct energy consumption by renewable primary energy sources was 167,183 GJ whilst the total direct energy consumption by non-renewable primary energy sources was 22,391 GJ. The total indirect energy used in terms of intermediate energy was 29,051 GJ. Estimated total energy savings obtained for 2010 from fuel switching and efficiency improvements was 19,853 GJ.

KVPL Group has obtained statutory approvals for two mini-hydro power plants at We Oya and Edinburgh, with a total capacity of 1.4 MW. Expected annual energy generation is 18,216 GJ. Approval of the Central Environment Authority is awaited.

(All the calculations/conversions have been prepared according to the GRI indicator 2.4 of EN3).

In order to assess the energy saving potential in the direct and intermediate energy sources, we have undertaken energy studies in all our 13 black tea factories in collaboration with the SWITCH Asia programme of the Ceylon Chamber of Commerce. The outcome of the study will be implemented during the year 2011.

Water

With most of our plantations being located within catchment areas, KVPL is very sensitive to water usage. Both extraction and discharge of water necessarily have an impact on watersheds, mainly due to the contamination and lowering of the water table. Our Group manages over 13,500 hectares of land consisting of Tea, Rubber and forest which, whilst acting as a carbon sink, also prevents the erosion of top soil and conserves ground water by minimising run off. Our Rubber plantations are certified as well-managed forests by the Forest Stewardship Council (FSC) of the UK. All of our tea plantations have obtained Global GAP certification whilst both tea and rubber plantations meet local environmental standards in the use and discharge of water. The plantations also grow fuelwood in a sustainable manner, which is of direct benefit to the micro-environment.

In addition, KVPL is a signatory to the United Nations Global Compact (UNGC), the CEO Water Mandate and the Caring for Climate initiatives. Our commitment to the CEO Water Mandate derives its impetus from our core values and the Senior Management has endorsed and are fully committed to the objectives and principles of the Mandate, thus reflecting KVPL's dedication to the prudent and sustainable use of water in its daily operations. The total water consumption by KVPL for direct operations is approximately 1,000 m 3 per day.

During the year under review, the following steps have been taken to minimise impact on the environment from agricultural operations:

- Preparation of a water map identifying all water sources in the estates and the repair of water distribution systems to avoid waste due to leaks or spillage.
- Adopting bush-to-bush fertilisation and strict manual weeding in the periphery of streams and waterways, to prevent contamination of flowing water.
- Planting approximately 10,000 bamboo trees along the banks of streams to prevent soil erosion.

Water stream at We-oya Estate

Bio-diversity

Bio-diversity plays an important role in the day-to-day life of a plantation. Many of our estates are located and operate within areas of high bio-diversity.

Over 1,000 ha of forest reservations are located within the Company's plantation boundaries, distributed across three agro-climatic regions, namely, Nuwara Eliya, Hatton-Dickoya and Yatiyantota-Bulathkohupitiya. These forest reserves have progressively developed into unique bio-diversity enclaves due to fauna and flora mutations driven by geographic isolation.

Initially, the Company undertook a comprehensive Bio-diversity Assessment to inventories flora and fauna within its plantation boundaries. The newly-identified local nature reserve at Halgolle Estate was the major outcome of this study. During the year under review, the Company finalised management plans for future conservation in collaboration with the International Union for Conservation of Nature (IUCN). The tree planting programme, commenced on Halgolla in collaboration with the Deutsche Bank, was continued during the year under review.

Eco System and Bio-diversity

The Vision

To create the best privately owned Local Nature Reserve within the estate sector in Sri Lanka: a place where people and bio-diversity co-exist to each other's mutual benefit.

The Mission

Natural and Semi Natural ecosystems and their bio diversity in Halgolle Estate managed in a sustainable manner whilst promoting research, education and responsible visitor services.

Local Nature Reserve – Halgolle

The identification of a distinct extent on Halgolle Estate, as a research-cum-conservation area and a nature reserve demonstrates the Company's commitment to protecting and nurturing bio-diversity within its boundaries.

The reserve demonstrates a unique topography and a collection of several ecosystems and habitats in a single location. The estate, starting from 300 ft. amsl climbs steadily up to 4,000 ft. amsl, the land encompassing lush tea plantations, unusual rock formations, streams, patna and grass land and capped at the very top with a panoramic 360^0 view.

The Halgolle reserve is very rich in bird life, including 16 endemic species, 3 proposed endemic species and 10 nationally threatened species. Among the endemics, the Sri Lanka Whistling Thrush *(Myophonus blighi)*, Sri Lanka Scaly Thrush *(Zoothera imbricata)*, and the Sri Lanka White-faced Starling *(Sturnus albofrontatus)* are identified as Nationally Endangered bird species. This is also the first time the Sri Lanka Whistling Thrush has been recorded from such a low elevation and outside its known range. Further, three of the reptile species recorded, Rhino-horn lizard *(Ceratophora stoddartii)*, Peak-wilderness day gecko *(Cnemaspis samanalensis)* and Templeton's kukri snake *(Oligodon calamarius)* are listed as Nationally Threatened.

Emissions, Effluent and Waste

None of our estates practice any kind of activity likely to result in the depletion of the Ozone Layer and the emission of greenhouse gases. All KVPL estates comply with the stipulations of the respective Government bodies in regard to the relevant protection standards.

Waste Water Discharge

The manufacture of rubber consumes a large amount of water and is associated with a high concentration of chemicals. Therefore, stringent measures are in place in all our rubber factories to ensure that we meet stipulated control parameters whilst all rubber factories are equipped with scientifically-designed waste water treatment plants. KVPL discharges approximately 950 m^3 day of treated waste water from its rubber factories.

In tea, water is used in manufacturing facilities for the cleaning of processing machinery and the floor in the rolling room. All waste water is channelled through a simple waste water treatment system consisting of sand filters and sedimentation tanks. The waste water is tested against Biochemical Oxygen Demand (BOD), Total Suspended Solids, pH, Grease, Oil and fecal Coliforms at regular and planned intervals.

Waste Disposal by Type, Weight and Method

KVPL, directly and indirectly, generates a variety of waste material. As a policy, the Company will not permit the release of any organic or inorganic solid or other similar material into natural water bodies, whilst the burning of waste products is also prohibited. All waste materials are collected separately, according to their nature such as bio-degradable glass, plastic and hazardous waste and hospital waste.

2MT of empty chemical plastic cans were recycled, in collaboration with Seer Plastic Industries, Kalutara.

During the period under review the Company built 101 permanent waste bins to segregate waste according to classification, whilst Rs. 1.7 m was incurred for composting bio-degradable waste. Further, with an investment of Rs. 600,000/-, Invery stores was renovated to temporarily accommodate empty chemical containers and other redundant items.

During the year under review, there were no significant spills recorded or fines and sanctions imposed on the Company for non-compliance with environmental laws and regulations.

Products and Services

KVPL is committed to the management and monitoring of its products and services in order to ensure minimum adverse impact on the environment. Every major agricultural practice is implemented following an Environment Impact Assessment (EIA). Refuse Tea, which is an end-product of the tea manufacturing process, is introduced to tea fields after denaturing and composting. As a Company policy, the soil fertility of every field is assessed prior to fertiliser application, the latter being based on the actual replacement requirement. This ensures the minimum necessary use of inorganic fertiliser. The black tea drying machines in all our major tea factories were converted to hot water generator systems in 2007, resulting in a significant reduction in fossil fuel usage and the cost of manufacture.

Social Performance

The plantation industry is both complex and unique in that it employs a large community of people resident on the plantation. KVPL provides residence facilities to approximately 54,000 persons constituting more than 10,000 family units. The impact of our business operation on the internal social system is a prime concern and, in this context, the Company has adopted several strategies and mechanisms to meet the social, health and welfare requirements of all its stakeholders.

Labour Practices and Decent Work

The Company formally pledged its support to the UNGC 10 principles in 2006 and this concept is now a major component of its drive for business sustainability.

KVPL is an equal opportunity employer, respecting the individual and his/her rights to free and fair employment, providing both the opportunity and climate for rewarding and long-lasting careers. Our remuneration and benefits are fair and competitive whilst wages are above stipulated minimum levels.

The Company provides the employees the right to freedom of association within the framework of National Labour Legislation.

Human Resource

Our Human Resource configuration reflects an equable balance of maturity, experience and youth. The retention and the satisfaction of employees are major focal points of the Company's Human Resource Policies and the Corporate Social Responsibility initiatives.

Total work force by type of employment

Type of Employment	Number of Employees
Executives & above	84
Staff	719
Manual	13,413
Total	14,216

Rate of Employee Turnover

In general, staff turnover in KVPL is around 7% and it reflects overall employee satisfaction with the stability of the Company and its desirability as an employer of choice.

Labour/Management Relations

Of the total workforce in the Company, 99% are covered by Collective Agreements. Periodically, the Company enters into Collective Agreements with major unions, designed to regulate wages and other important conditions of worker employment, both of which are above the statutory minimum standards. The collective bargaining process covers the manual, clerical, technical, supervisory, medical, maintenance and support staff of plantations.

Occupational Health and Safety

The facilities that the Company has provided assure that employee health and safety at the work place is a primary concern. In addition, all employees are provided with health and safety instructions, relevant equipment and training, first aid instruction and medical facilities. Each estate is provided with medical centres with the services of qualified medical staff, whilst key estates have in-house hospitals and maternity homes. Medical camps are conducted periodically for all segments of workers. Ambulances are strategically located within easy access of a cluster of estates. The Company's work place health and safety, as well as product hygiene initiatives are supported by ISO, HACCP, and Global G.A.P. accreditations, whilst the Company's signature initiative, 'A Home for Every Plantation Worker' Programme, raises plantation community life style improvement to a different level.

Training and Education

The development of skills and capabilities in employees is a fundamental item in the Company sustainability programme. Most of the training programmes carried out during the year focused mainly on issues of purity and food safety, the operation of an ethical business and environment management and social responsibility.

The following training programmes were carried out in 2010:

- Purity & Food Safety

Training on Good Manufacturing Practices, Hygiene Measures and Health & Safety issues, was conducted by the Head Office Sustainability Audit Team for the staff and operational workers in all tea factories.

Training on safety measures was carried out by the International Red Cross for select groups on Up-Country tea estates.

- Ethical Business

All the executives in the Company participated in the Ethical Business Awareness Programme, moderated by the Senior Management of the Company.

- Environment Management

Awareness programmes on endemic reptiles in the Low-Country region was carried out by a team from the International Union for Conservation of Nature (IUCN), for the executives and the staff of low-country estates.

Training on 'Introduction of Environment Impact Assessment (EIA) to major agricultural practices' was carried out by the Head Office Audit Team, for the staff and the executives of the Up-Country and Low-Country tea plantations.

Training was provided on Global G.A.P., and Rain Forest Alliance for all staff on tea estates whilst FSC training was conducted for executives and staff of all KVPL rubber estates.

- Social Responsibility

A knowledge enhancement programme on 'A Home for Every Plantation Worker Programme' was carried out for all the executives of the Company, by the Head Office Sustainability Team.

- Training on 'Finance for Non-Finance Mangers' - all executives in the Company participated in two separate programmes.
- Two Senior Plantation Managers of the Company participated in a tea industry development programme held in Nagoya, Japan.
- Two Plantation Managers participated in a five-day training programme, styled 'Wining strategies for success in plantation companies' held in Kuala Lampur, Malaysia.
- One Senior Plantation Manager participated in a training programme on "Implementing Labour Standards through CSR Tools and Strategies", held in Turin, Italy.
- One Plantation Manager participated in a Management Skills Training Programme held in Mangalore, India.

Skills Management and Life-long Learning

The training opportunities provided, both locally and overseas, supported both short-term and long-term career growth objectives of the relevant employees.

Data on Employees' Performance and Career Development Reviews

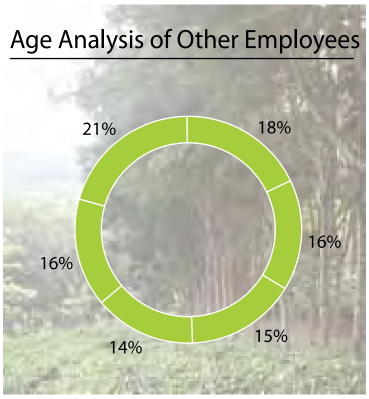
All executive employees of KVPL receive performance and career development reviews, which are accompanied by training opportunities to acquire new skills or to refine existing skills to desired levels.

Diversity and Equal Opportunity

KVPL, from its inception, has provided equal opportunity for its employees. At present, nearly 55% of the total employees are females. There is no discrimination in regard to remuneration and other conditions, between male and female employees.

Human Rights

The Company made its formal commitment to the United Nations Global Compact (UNGC) Charter in 2006 and this initiative has become a major driver of our sustainability thrust. Its principles have been communicated to all employees to ensure awareness and commitment across the Company. KVPL, together with Mabroc Teas (Pvt) Ltd., was singularly acknowledged at the Global Compact Headquarters in the UN in March 2007, as the world's first signatory companies to advocate the Global Compact principles to consumers through product packaging.



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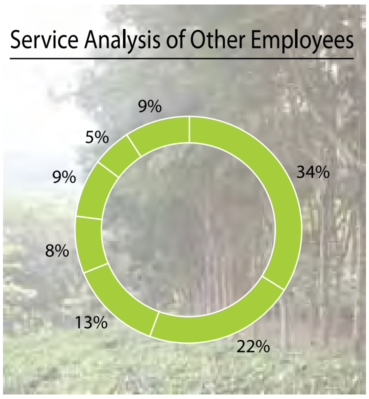

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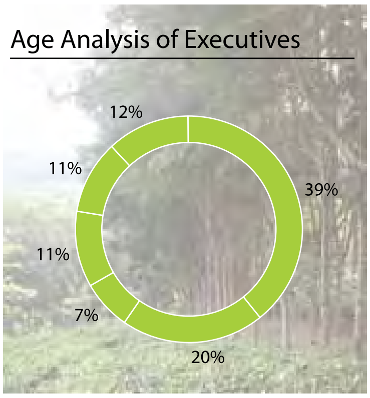

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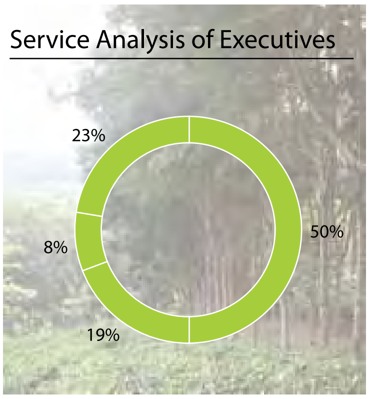

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10 - 14 - 8%
Above 15 - 23%

Investment and Procurement Practices

KVPL Group is guided by international and local covenants such as the UNGC and Sri Lanka's legal and regulatory systems, in regard to safeguarding human rights. We also convey our commitment to the relevant principles across all supply chains and business relationships.

Employee Training Hours on Human Rights

Training programmes, on the awareness of the principles of the Global Compact and their incorporation in company strategy, were carried out by members of the Senior Management of the Company for all Company Executives (84).

The Sustainability Team of the Head Office carried out three full-day workshops on Ethical Business Management, with the participation of 150 executives and other members of staff.

One senior estate manager participated in a five-day workshop on Labour Standards, sponsored and moderated by the International Labour Organisation (ILO), held in Turin, Italy.

A senior member of the Head Office Sustainability Team participated in a course, conducted over a period of two months by the Employers' Federation of Ceylon.

In addition to regulated and formal programmes, through on-going dialogue and other interactions between the estate personnel and the Head Office Sustainability Team, there is in place a continuous informal mentoring and instruction process.

Non-Discrimination

There were no reported incidents regarding the violation of the human rights of indigenous people. We do not recruit or employ under-aged people and all our people-related initiatives encourage the schooling of youngsters.

The Group firmly endorses and practices policies, communicated internally to all concerned, proscribing forced and compulsory labour. It also enables collective bargaining and, where possible, the separation of working hours between genders, in consideration of an equitable balance between working hours and family life.

Community

KVPL has invested both management time and effort in community enrichment and enhancement of stakeholder value. Details of related activities are elaborated elsewhere in the Report.

Corruption

KVPL has consistently pursued profit-generating strategies within a strictly ethical operational framework and practices an entrenched Code of Conduct in regard to anti-corruption. There are no reports of violation of the Code.

Product responsibility

All Company initiatives in the field of purity and food safety, ethical business, environmental conservation and transparent interactions with all concerned are, finally, aligned with the handing over of a responsibly manufactured product to the end-user. All Company tea plantations are certified for GLOBAL G.A.P. whilst all its rubber plantations are certified for Forest Stewardship Council (FSC), both affirming the operation of the Company's business in an environmentally friendly manner.

Kelani Valley Plantations PLC is a HACCP and ISO 22000:2005 certified company. Since 2007, we have maintained these food safety management certificated for all our 13 black tea factories. In the year under review, surveillance audits have been carried out to ensure conformity with certification standards and the certifications themselves, revalidated. The Company's products are periodically tested by accredited laboratories for minimum-permitted residual levels of agro-chemicals, heavy metals and microbiological content, to ensure conformity with relevant International Standards.

All relevant systems are periodically audited by the internal on-location work team and the Head Office-based sustainability team.

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EN3	Direct energy consumption by primary energy source.	Sustainability Report	30
EN4	Indirect energy consumption by primary source	Sustainability Report	30
EN5	Energy saved due to conservation and efficiency improvements	Sustainability Report	30
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services and reductions in energy requirements as a result of these initiatives	Sustainability Report	30
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Sustainability Report	30
Water			
EN8	Total water withdrawal by source	Sustainability Report	30, 31
EN9	Water sources significantly affected by withdrawal of water	Sustainability Report	30, 31, 32
EN10	Percentage and total volume of water recycled and reused	Sustainability Report	30, 31, 32
Bio Diversity			
EN11	Location and size of land owned, leased, managed in or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Sustainability Report	31
EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Sustainability Report	31
EN13	Habitats protected or restored	Sustainability Report	31
EN14	Strategies, current actions and future plans for managing impacts on biodiversity	Sustainability Report	31
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	Sustainability Report	31
Emissions, Effluents and Waste			
EN16	Total direct and indirect greenhouse gas emissions by weight	Sustainability Report	31, 32
EN17	Other relevant indirect greenhouse gas emissions by weight	Sustainability Report	31, 32
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Sustainability Report	31, 32

Profile Disclosure	Description	Report Section	Page/s
EN19	Emissions of ozone-depleting substances by weight	Sustainability Report	31, 32
EN20	NOx, SOx, and other significant air emissions by type and weight	Not applicable	
EN21	Total water discharge by quality and destination	Sustainability Report	32
EN22	Total weight of waste by type and disposal method	Sustainability Report	32
EN23	Total number and volume of significant spills	Sustainability Report	32
EN24	Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII, and percentage of transported waste shipped internationally		
EN25	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff	Sustainability Report	32
Products and Services			
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Sustainability Report	32
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	32
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	–	
Overall			
EN30	Total environmental protection expenditures and investments by type	–	
Labour Practices and Decent Work			
Employment			
LA1	Total workforce by employment type, employment contract and region	Sustainability Report	32
LA2	Total number and rate of employee turnover by age group, gender and region	Sustainability Report	32
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	Not applicable	
Labor/Management Relations			
LA4	Percentage of employees covered by collective bargaining agreements	Sustainability Report	33
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements	Sustainability Report	33
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	33
LA7	Rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region	Sustainability Report	33
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	33
LA9	Health and safety topics covered in formal agreements with trade unions	Sustainability Report	33
Training and Education			
LA10	Average hours of training per year per employee by employee category	Sustainability Report	33
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Sustainability Report	33
LA12	Percentage of employees receiving regular performance and career development reviews	Sustainability Report	33
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	34
LA14	Ratio of basic salary of men to women by employee category	Sustainability Report	34
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	34
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	Sustainability Report	34
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	35

Profile Disclosure	Description	Report Section	Page/s
Non-Discrimination			
HR4	Total number of incidents of discrimination and actions taken	Sustainability Report	35
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	32
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	35
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	35
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	35
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	35
Corruption			
SO2	Percentage and total number of business units analysed for risks related to corruption	Not applicable	
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	Sustainability Report	35
SO4	Actions taken in response to incidents of corruption	Sustainability Report	35
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		
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	35
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	35
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	Programmes 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		

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 Business 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 Business 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	SO 4

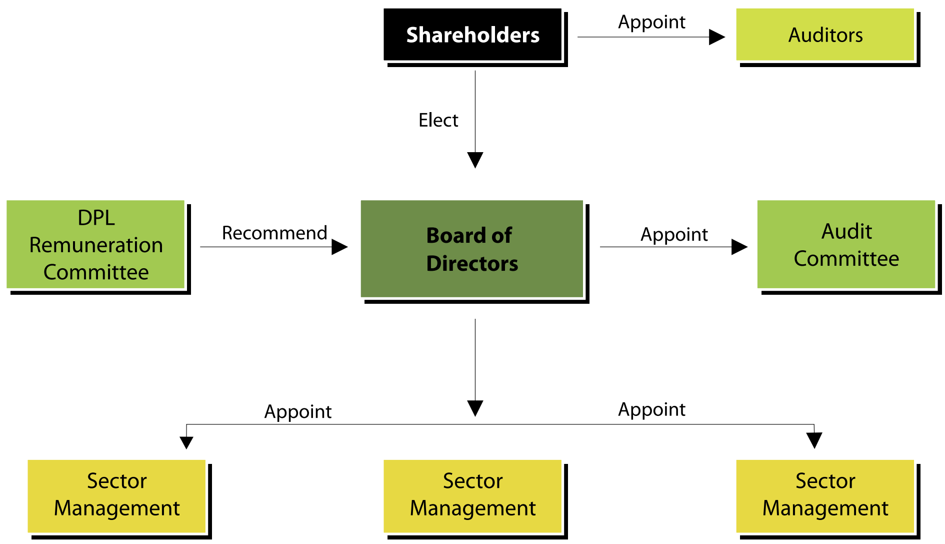
Corporate Governance

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.

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

KVPL is mainly in the business of producing and processing tea and rubber.

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



We set out below the corporate governance practices adopted and practiced by KVPL against the background of the Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka and the Rules set out in Section 7.10 of the Colombo Stock Exchange's Listing Rules.

Board of Directors

The Board of Directors is responsible for setting up the Governance Framework within the Company.

Composition and Attendance at Meetings

As at the end of the year under review, the Board consisted of nine Directors - five Non-Executive Directors and four Executive Directors including the Chairman. These Directors are named below and their profiles given on pages 10 and 11 of this Report. Details of Directors' shareholdings in KVPL and the directorates they hold in other companies are given on pages 12, 13 and 53 .

The Board meets quarterly. Ad hoc meetings are held as and when required. During the year under review, the Board met on four occasions. The attendance at these meetings was:

Name of Director	Executive/ Non-Executive/ Independent Non-Executive	Attendance
A M Pandithage - Chairman	Executive	4/4
J A G Anandarajah	Executive	4/4
G K Seneviratne	Executive	4/4
B P W Jayasekera (Resigned 16.12.2010)	Independent Non-Executive	2/4
R Seevaratnam	Independent Non-Executive	3/4
Faiz Mohideen	Independent Non-Executive	3/4
N Y Fernando	Non-Executive	4/4
S Siriwardana	Executive	4/4
S C Ganegoda S T Gunatilleke* (Alternate Director)	Non-Executive	4/4 3/3
L T Samarawickrama	Independent Non-Executive	4/4

** Appointed on 01.05.2010 as an alternate Director to Mr. S C Ganegoda and subsequently appointed as Director on 15.01.2011.*

Responsibilities of the Board

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 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 Executive Directors have the skills/knowledge to implement strategy effectively, with proper succession arrangements in place.
f. Ensure 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 effective information, control, risk management and audit systems are in place.
i. Ensure compliance with laws.
j. Ensure that ethical standards are in place.
k. Approve annual budgets and monitor performance against these.
l. Adopt 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 all senior management staff receives appropriate training.

Company Secretary

The services and advice of the Company Secretary, are available to Directors, as necessary. The Company Secretary keeps the Board informed of new laws, regulations and requirements coming into effect which are relevant to them as individual Directors and collectively to the Board.

Chairman's Role

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.

Board Balance

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 Board has determined that three Non-Executive Directors satisfy the criteria for 'independence' set out in the Listing Rules.

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 dominates Board discussion and decision making.

The Chairman of the Company is also the Chairman of DPL Plantations, DPL and Hayleys. Chief Executive Authority is vested in the Managing Director of DPL but 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.

Mr. B P W Jayasekera served as the Executive Chairman of Mabroc Teas (Pvt) Ltd., which, till December 2010, when KVPL purchased its balance 60% shareholding, was an associate company of KVPL. The Board believes that his association with Mabroc Teas did not affect his objectivity in the role he played on the Board of KVPL and, therefore, his independence was not compromised.

Financial Acumen

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.

Supply of Information

Directors are provided with quarterly reports on performance and such other reports and documents as are necessary. The Chairman ensures all Directors are adequately briefed on issues arising at meetings.

Appointments to the Board

The Board as a whole decides on the appointment of Directors.

Re-election of Directors

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 reappointment 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/reappointment. Retiring Directors are generally eligible for re-election.

The Managing Director does not retire by rotation.

Remuneration Procedure

The Remuneration Committee of DPL, which is the parent of KVPL, acts as 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.

Disclosure of Remuneration

The total of Directors' Remuneration is reported in Note 09 to the Financial Statements.

Directors are able to attend programmes arranged by the Hayleys Group Human Resource Development Division when appropriate, to receive updates on matters relevant to business management and economic affairs.

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 DPL. The Managing Director of KVPL reports to the Managing Director of DPL.

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 geographic regions, the Up-Country and the Low-Country. 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 senior Group Managers. The management structure and the names of team members are given on page 12 to 13 of this Report.

The Managing Director, Director-Finance, General Managers, Deputy General Managers and Group Managers meet on a monthly basis to review the 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 DPL may attend , from time to time.

Relations with Shareholders

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.

Constructive Use of the Annual General Meeting

The active participation of shareholders at the Annual General Meeting is encouraged. The Board believes the AGM is a means of continuing effective dialogue with shareholders.

The Board offers clarifications and responds to concerns 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.

Major Transactions

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.

Communication with Shareholders

Shareholders are provided with Quarterly Financial Statements and the Annual Report, which the Company considers as its principal communication with them and other stakeholders. 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 provide 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.

Accountability and Audit

Financial Reporting

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.

The Statement of Directors' Responsibilities for the Financial Statements is given on page 59 of this Report.

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 and Financial Review section (page 18 and page 23) of this Report.

The Financial Review (page 19 to page 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 48 to page 51) of this Report.

Workplace practices and specific environmental, social and ethical aspects are dealt with in the Sustainability Report on pages 26 to 40. 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 26 to 40 and page 94 respectively give further details on these aspects.

Going Concern

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.

Internal Control

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 59

Audit Committee

An Audit Committee was established in 2008. The Committee consists entirely of Independent Non-Executive Directors and is chaired by Mr. R Seevaratnam. The Chief Financial Officer, serves as its Secretary.

The Chairman, the Managing Director of DPL and the Managing Director of the Company 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 achieve a balance between conformance and performance.

Members of the Audit Committee
R Seevaratnam - *Chairman*
Faiz Mohideen

During the year under review, the Committee met on four occasions, the attendance at these meetings are reported in 'Audit Committee Report' on page 60 of this Report.

The Committee is empowered to examine any matters relating to the Financial Reporting systems of the KVPL and its subsidiaries, 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, reappointment of External Auditors after assessing the independence and performance, and approves the remuneration and terms of engagement of the External Auditors.

The Audit Committee Report appears on page 60 of this Report.

IT Governance

We continue to give attention to bringing group IT systems in line with its strategies and objectives. Dedicated staff is deployed to support this.

Group 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 E-mail 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.

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	Details
7.10.1(a)	Non-Executive Directors	At least one-third of the total number of Directors should be Non-Executive Directors	Compliant	Five out of nine Directors are Non-Executive Directors
7.10.2 (a)	Independent Directors	Two or one-third of Non-Executive Directors, whichever is higher, should be Independent	Compliant	Three of the Five Non-Executive Directors are Independent
7.10.2 (b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format	Compliant	Non-Executive Directors have submitted these declarations
7.10.3 (a)	Disclosure relating to Directors	Names of Independent Directors should be disclosed in the Annual Report	Compliant	Please refer pages 10 and 11
7.10.3 (b)	Disclosure relating to Directors	The basis for the Board to determine a Director is independent, if criteria specified for independence is not met	Compliant	Given on page 42 under the heading of 'Board Balance'
7.10.3 (c)	Disclosure relating to Directors	A brief resumé of each Director should be included in the Annual Report and should include the Director's areas of expertise	Compliant	Please refer pages 10 and 11
7.10.3 (d)	Disclosure relating to Directors	Forthwith provide a brief resumé of new Directors appointed to the Board with details specified in 7.10.3 (a), (b) and (c) to the Exchange	Compliant	Brief resumés of new Directors have been provided to the Colombo Stock Exchange
7.10.5	Remuneration Committee	A listed company shall have a Remuneration Committee	Compliant	Remuneration Committee of the parent (DPL) acts as Remuneration Committee of the Company
7.10.5 (a)	Composition of Remuneration Committee	Shall comprise Non-Executive Directors a majority of whom will be independent	Compliant	As above
7.10.5 (b)	Functions of Remuneration Committee	The Remuneration Committee shall recommend the remuneration of Chief Executive Officer and Executive Directors	Compliant	As above and stated in this Report
7.10.5 (c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out:		
		a) Names of Directors comprising the Remuneration Committee	Compliant	As above
		b) Statement of Remuneration Policy	Compliant	As above
		c) Aggregated remuneration paid to Executive and Non-Executive Directors	Compliant	Please refer page 53
7.10.6	Audit Committee	The Company shall have an Audit Committee	Compliant	Names of the members of the Audit Committee are stated on page 60
7.10.6 (a)	Composition of Audit Committee	Shall comprise Non-Executive Directors, a majority of whom will be independent	Compliant	Audit Committee consists of Independent Non-Executive Directors

Rule No.	Subject	Applicable Requirement	Compliance Status	Details
		Non-Executive Directors shall be appointed as the Chairman of the committee.	Compliant	Chairman of the Audit Committee is an Independent Non-Executive Director
		Chief Executive Officer and Chief Financial Officer should attend Audit Committee meetings	Compliant	Chief Executive Officer and Chief Financial Officer attend meetings by invitation
		The Chairman of the Audit Committee or one member should be a member of a professional accounting body	Compliant	Chairman of the Audit Committee is a Chartered Accountant
7.10.6 (b)	Audit Committee Functions	Functions shall include: a) Overseeing of the preparation, presentation and adequacy of disclosures in the Financial Statements in accordance with Sri Lanka Accounting Standards b) Overseeing of the compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements c) Overseeing the processes to ensure that the internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards d) Assessment of the independence and performance of the external Auditors e) Make recommendations to the Board pertaining to appointment, reappointment and removal of External Auditors, and approve the remuneration and terms of engagement of the External Auditors.	Compliant	The terms of reference of the Audit Committee have been agreed by the Board
7.10.6 (b)	Disclosure in the Annual Report relating to Audit Committee	a) Names of Directors comprising the Audit Committee	Compliant	Please refer page 60
		b) The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination	Compliant	Please refer Audit Committee Report on page 60
		c) The Annual Report shall contain a Report of the Audit Committee setting out the manner of compliance with their functions	Compliant	Please refer Audit Committee Report on page 60

Risk Management

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.

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. In regular meetings the Company's results and attendant opportunities and risks are discussed, and targets and necessary actions agreed upon.

Internal systems reviews monitor the effectiveness of and compliance with management and control systems. This provides useful insights as to the effectiveness of the risk management system.

In addition, with the year-end audit the External Auditor issues a management letter highlighting possible risks, and briefs the Board and the management team on their evaluations. These outcomes are 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

Objective Setting

After a comprehensive review of risk and opportunities, the Board sets annual targets. Targets reflect the Company's risk appetite.

Risk Identification

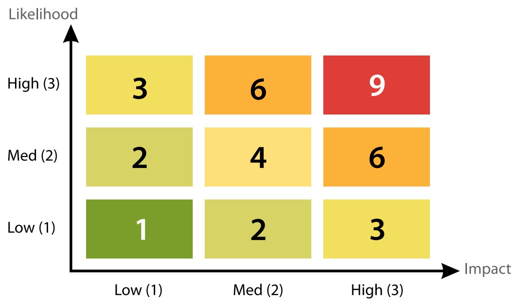
The responsibility for setting up the overall framework for risk management lies with the Board of Directors. Within that structure, line managers are responsible for the identification, measurement and management of risks in their areas of responsibility.

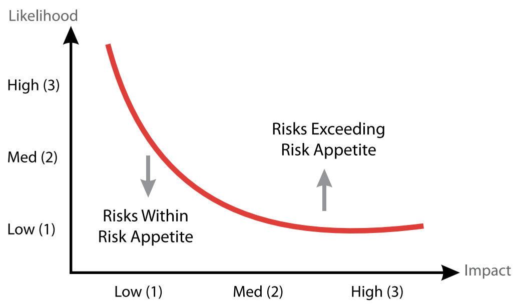
Regular monthly review meetings and internal systems reviews are key instruments in identifying possible risks.

Risk Assessment

Risk measures are based on the likelihood of occurrence and the impact of occurrence on achievement of our targets. Any significant risk exceeding risk tolerance levels will require management responses.

A higher level of risk requires a more urgent and concerted management response.





Likelihood x Impact = Risk

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 mitigatory 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. during the year which is exporting bulk teas and value added teas, The Group has exposed to foreign exchange risk and credit risk.

Risk Analysis

Risk Factor	Political
Risk	1. Intervention in wage negotiations and major industrial relations issues inhibit the resolution of issues on the basis of economic viability alone. 2. Restrictions on law enforcement agencies impede settlement of major disruptions. 3. Management initiatives to improve labour productivity are not supported. 4. Unplanned acquisitions of land arise. 5. Political instability inhibits investment, particularly in concert with foreign investors.
Risk Mitigatory Strategies	1. Canvassing the support of political pressure groups/individuals. 2. Making representations to key members of Government and the bureaucracy. 3. Negotiating Collective Agreements with major plantation trade unions, in which wages and parameters of operation are agreed.
Risk Rating	Moderate

Risk Factor	Commodity Cycle
Risk	1. Fluctuations in global supply and demand affect prices. 2. Competition from other major low cost producers i.e. India, China, Kenya, Vietnam and Indonesia affects demand and prices. 3. Competition from close substitutes affects demand and prices. 4. Increases in prices of fertiliser/chemicals/energy contribute to higher production costs.
Risk Mitigation Strategies	1. Integrating with marketing company (Mabroc Teas) to add value to our product. 2. Converting two orthodox tea estates/factories to manufacture green tea. 3. Accreditations of black tea factories to conform to international food hygiene standards. 4. Accreditations of tea estates for good agricultural practices demanded by the global market. 5. Membership of the UN Global Compact brands KVPL as a socially responsible plantation company. 6. Differentiation of KVPL to bulk buyers as the 'Ethical tea producer'. 7. Marketing of "The Ethical Tea Brand of the World" to retailers through Mabroc Teas. 8. Promotion of single origin products by leveraging unique locations/points of differentiation. 9. Continuous agro-climatic expansion of centrifuged latex capacity whilst maintaining the optimum number of production units for the more labour intensive product. 10. Converting to cheaper energy alternatives and implementing energy saving strategies in the production process
Risk Rating	Moderate

Risk Factor	Management Personnel
Risk	1. The perception that remuneration is not commensurate with the demands of plantation management prompts staff to migrate to other industries. 2. Lack of adequate educational and other infrastructural facilities in plantation areas is a disincentive to managers. 3. Availability of more attractive Colombo-based job opportunities at entry level inhibits high caliber candidates from selecting the plantation industry as a career.
Risk Mitigation Strategies	1. Providing easy accessibility to senior management and developing a company culture, which fosters teamwork and close interaction amongst all management staff. 2. Fostering an open, participative management approach, encouraging contributions to decision making and strategising, from junior levels. 3. Ability of the management structure and the scope of executive responsibilities to respond to emerging needs and challenges and, simultaneously meet career aspirations. 4. Ensuring promotions from within, to senior executive positions as far as possible.
Risk Rating	Low

Risk Factor	Financial
Risk	1. Ad hoc, sudden changes in national fiscal policies. 2. Low returns on investment. 3. Difficulty in generating funds for capital development/growth.
Risk Mitigation Strategies	1. Diversification of marginal land and optimising outputs in productive areas. 2. Prudent investments in capital development i.e. replanting, machinery and plant upgrading. 3. Rationalising production capacities in major factories. 4. Diversifying into related businesses - mini hydro power development, green tea and RTD tea and with greater integration with marketing company, promoting niche products.
Risk Rating	Moderate

Risk Factor	Worker Migration
Risk	1. Practical difficulties in large-scale automation/mechanisation of labour-intensive operations. 2. Loss of workers to other industries/business/agricultural operations in proximity to the plantations. 3. Changing aspirations of plantation youth who find employment on plantations, undesirable. 4. Difficulties in ensuring adequate resident manpower.
Risk Mitigation Strategies	1. Out-sourcing specific operations and moving workers from up-country to the low-country for short-term field operations. 2. Binding workers to the plantation through participative housing projects, improved welfare schemes, medical benefits and other community development initiatives. 3. Changing the image of both worker and workplace by initiatives to provide low-cost transport facilities through concessionary funding schemes.
Risk Rating	Low

Risk Factor	Foreign Exchange Risk
Risk	1. Affects Group results/pricing policy
Risk Mitigation Strategies	1. The exchange rate risk that the Group is exposed to is identified and the associated risk exposure measured. 2. Exchange rate movements are monitored and outlook is closely followed in respect of currencies in which the Group carries exposure. 3. FX exposures are monitored, and appropriate action is recommended to reduce inherent risk and minimised adverse impact of currency rate movements on assets and liabilities. 4. Measures are established to determine effectiveness of action taken.
Risk Rating	High

Risk Factor	Climate Change
Risk	1. Both Tea and Rubber crops fluctuate unexpectedly due to adverse weather conditions.
Risk Mitigation Strategies	1. Close monitoring of crop variance and its effects. 2. Reservation of forests and watersheds. 3. Diversifying crop
Risk Rating	High

Risk Factor	Credit Risk
Risk	1. The possibility of having bad debts, and the prospect of protracted legal proceedings without assurance of a favourable outcome.
Risk Mitigation Strategies	1. Credit risks are assessed, credit limits are set and credit granted is closely monitored. 2. Export credit is insured to minimise inherent risks.
Risk Rating	Moderate

Risk Factor	IT Risk
Risk	1. Depend on accurate, timely information from key computer system to enable decision making.
Risk Mitigation Strategies	1. Implementation of sound IT policy in the Company supported by adequate systems and controls. 2. A disaster recovery is in place to mitigate the risk of IT failures. 3. Close monitoring of internet usage and e-mails.
Risk Rating	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, 2010.

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 pages 12 and 13 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.

The Kelani Valley Plantations PLC acquired the balance 60% of shares of its associate Mabroc Teas (Pvt) Ltd. during December, 2010. Hence, it becomes a fully- owned subsidiary.

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 62 to 91.

Auditor's Report

The Auditor's Report on the Financial Statements of the Company and the Group is given on page 61.

Accounting Policies

The accounting policies adopted in the preparation of the Financial Statements are given on pages 66 to 73. 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. 3,880,381,364/- (2009 - Rs. 2,860,003,472/-) and an analysis is given in Note 6.1 to the Financial Statements.

The Group turnover from tea and rubber increased by Rs. 461,206,724/- (2009 - Rs. 69,059,332/-) and Rs. 563,046,983/- (2009 - decreased by Rs. 308,808,969/-) during the year, respectively.

Results and Dividends

The Group profit before taxation, excluding its share of profit/(loss) of associate, amounted to Rs. 383,652,061/- (2009 - loss of Rs. 27,250,437/-). With its share of associate's profit/(loss) (net of tax), Group profit before taxation amounted to Rs. 355,690,094/- (2009 - loss of Rs. 27,782,958/-). After adjusting Rs. 29,538,020/- (2009 - Rs. 12,781,804/-) and Rs. 5,475,335/- (2009 - Rs. 2,050,223/-) for taxation and minority shareholders' interest, respectively, and the adjustment of Rs. 2,642,710 due to changes in holding over the subsidiaries, the profit available for appropriation, inclusive of brought forward retained profit of Rs. 247,593,253/- (2009 - Rs. 324,208,239/-) amounted to Rs. 565,627,282/- (2009 - Rs. 281,593,254/). Of this, Rs. 136,000,004/- (2009 - Rs. 34,000,001/-) has been set aside for dividends prior to transferring Rs. 270,000,000/- (2009 - Nil) for general reserves.

The Board of Directors recommends a first and final dividend of Rs. 4/- per share payable on 11th April, 2011 to the holders of the issued ordinary shares of the Company as at close of business on 31st March, 2011. 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 final dividend proposed. A solvency certificate by the Auditors has been sought in respect of the final dividend of Rs. 4/- (2009 - Rs. 1/-) per share.

Property, Plant & Equipment

The capital expenditure of the Group during the year amounted to Rs. 292,506,208/- (2009 - Rs. 298,317,604/-) whilst that of the Company was Rs. 292,270,508/- (2009 - Rs. 291,837,876/-) which includes replanting expenditure of Rs. 211,068,777/- (2009 - Rs. 194,418,238/-) on tea and rubber and Rs 657,132/- (2009 - Rs. 3,314,677/-) on timber planting.

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 Shareholders' 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, 2010 amounted to Rs. 1,500,627,282/- (2009 - Rs. 1,216,593,254/-) comprising the general reserve of Rs. 1,205,000,000/- (2009 - Rs. 935,000,000/-) and the carried forward profit of Rs. 295,627,282/- (2009 - Rs. 281,593,254/-). 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. According to Section 16 of the Inland Revenue Act No. 10 of 2006, the Company is exempt from income tax on its agricultural activities for a period of 5 years ending on the year of assessment 2010/11. All other activities of the Company are liable to income tax at the rate of 35%.

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 of keeping 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

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 31.12.10 No. of shares	As at 31.12.09 No. of shares
Mr. G K Seneviratne, Managing Director	4,000	4,000
Mr. S Siriwardana, Director	193	193

Mr. B P W Jayasekera, who resigned on 16th December, 2010 held 512,746 shares through Mabroc Holdings (Pvt) Ltd.

None of the other Directors held shares of the Company as at 31st December, 2010.

Payment of Remuneration to Directors

Executive Directors' remuneration is determined within an established framework. The total remuneration of the Executive Directors of both Company and the Group for the year ended 31st December, 2010, is Rs. 14,608,227/-, including the value of perquisites granted to them as part of their terms of service. The total remuneration of Independent Non-Executive Directors of the Company for the year ended 31st December, 2010 is Rs. 590,000/-, 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

Donation by the Company amounted to Rs. Nil/- (2009 - 162,485/- donated to internally-displaced people in Northern Province).

No donations were made for political purposes.

No donations were made during the year (2009 - Nil) by its subsidiaries.

Directorate

The names of the Directors who held office during the financial year are given below and their brief profiles appear on pages 10 and 11.

Executive Directors

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

Non-Executive Directors

N Y Fernando, S C Ganegoda (alternate S T Gunatilleke).

Independent Non-Executive Directors

B P W Jayasekera, R Seevaratnam, F Mohideen, L T Samarawickrama.

Mr. B P W Jayasekera who served as a Non-Executive Independent Director resigned with effect from 16th December, 2010.

Mr. S T Gunatilleke was appointed as an Alternate Director for Mr. S C Ganegoda on 1st May, 2010 and subsequently he was appointed to the Board as Director on 15th January, 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. F Mohideen and Mr. R Seevaratnam retire by rotation, and being eligible offer themselves for re-election.

Directors of the Subsidiaries, Associates and the Parent Company are given on pages 12 and 13.

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 41 to 47 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 41 to 47.

Auditors

Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants, are deemed reappointed in terms of Section 158 of the Companies Act No. 07 of 2007, as Auditors of the Company. A Resolution proposing that the Directors be authorised to determine their remuneration will be submitted at the Annual General Meeting.

The Auditors, Messrs KPMG Ford, Rhodes, Thornton & Co., were paid Rs. 2,266,000/- (2009 - Rs. 2,129,240/-) and Rs. 1,972,000/- (2009 - Rs. 1,792,000/-) as audit fees by the Group and the Company, respectively. In addition, they were paid Rs. 230,450/- (2009 - Rs. 209,500/-) and Rs. 119,900/- (2009 - Rs. 109,000/-) by the Group and the Company, for non-audit related work, which consisted mainly of tax consultancy services.

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.

Share Information

Information relating to earnings, dividend, net assets per share and share trading is shown on pages 5 and 94, 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 Company at year-end was 14,216 (2009 - 14,331) of which 14,183 (2009 - 14,295) 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 59.

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 26 to 40.

The Group's business activities can have direct and indirect affects 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, 2010 are given on page 95 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, at 3.00 p.m. on 31st March, 2011. The Notice of the Annual General Meeting appears on page 98.

For and on behalf of the Board,

A M Pandithage
Chairman

G K Seneviratne
Managing Director

Hayleys Group Services (Pvt) Ltd.
Secretaries

9th February, 2011

FINANCIAL REPORTS

FINANCIAL CALENDAR 2010

1st Quarter Report	-	12th May, 2010
2nd Quarter Report	-	2nd August, 2010
3rd Quarter Report	-	28th October, 2010
Annual Report 2010	-	9th February, 2011
Nineteenth Annual General Meeting	-	31st March, 2011
First & Final Dividend Proposed	-	31st March, 2011
First & Final Dividend Payable	-	11th April, 2011

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., reappointed in terms of Section 158 of the Companies Act 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 61 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

9th February, 2011

Audit Committee Report

COMPOSITION AND ROLE

The Audit Committee, appointed by and responsible to the Board of Directors, comprises two Non-Executive Directors. The Chairman, Director - Finance of Hayleys PLC, Managing Director of Dipped Products PLC, Managing Director and the Director - Finance of Kelani Valley Plantations PLC attended 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 role of the Committee, which has specific terms of reference, is described in the Corporate Governance Report on page 45

The names of the members and brief profiles of each member are given on pages 10, 11 and inner back cover in this Report. Their individual and collective financial knowledge and business acumen and the independence of the Committee are brought to bear on their deliberations and judgments on matters that come within the Committee's purview.

The Audit Committee has also reviewed the activities of the three unquoted subsidiary companies during the financial year under review, along with the activities of the Associate Company of which a controlling interest was acquired in December 2010.

MEETINGS

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

Mr. R Seevaratnam	4/4
Mr. F Mohideen	3/4

ACTIVITIES

The Committee carried out the following activities during the year:

- 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 methodology included obtaining statements of compliance from the Managing Director and the Director - Finance. 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.
- The 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.
- The Committee reviewed reports tabled by Group companies certifying their compliance with relevant revenue regulations.
- The Committee obtained and reviewed statements from the Managing Director on major business risks, mitigatory actions taken or contemplated.
- The 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 Committee reviewed the nature and value of non-audit work the External Auditors had undertaken, to ensure that it did not compromise their independence.

The Audit Committee has recommended to the Board of Directors that Messrs KPMG Ford, Rhodes, Thornton & Co., be continued as Auditors for the financial year ending 31st December, 2011.

R. Seevaratnam

R Seevaratnam
Chairman
Audit Committee

8th February, 2011

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 2010, which comprise the balance sheet as at that date 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 explanatory notes as set out on pages 62 to 91 of the Annual Report.

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 principles 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 - Company

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31st December 2010 and the financial statements give a true and fair view of the Company's state of affairs as at 31st December 2010 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Opinion - Group

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at 31st December 2010 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

9th February 2011
Colombo

Income Statements

For the year ended 31st December,	Notes	Consolidated 2010 Rs. '000	Consolidated 2009 Rs. '000	Company 2010 Rs. '000	Company 2009 Rs. '000
Revenue	6.1	**3,880,381**	2,860,004	**3,810,628**	2,824,687
Cost of sales		**(3,312,351)**	(2,725,040)	**(3,281,850)**	(2,711,403)
Gross profit	6.2	**568,030**	134,964	**528,778**	113,284
Other income	7	**64,353**	31,544	**66,849**	32,866
Administrative expenses		**(161,662)**	(147,088)	**(157,025)**	(144,765)
Net finance cost	8	**(87,069)**	(46,672)	**(80,886)**	(36,406)
Share of loss of associate (net of tax)	16	**(27,962)**	(531)	**–**	–
Profit/(loss) before tax	9	**355,690**	(27,783)	**357,716**	(35,021)
Tax expense	10	**(29,538)**	(12,782)	**(18,095)**	(10,197)
Profit/(loss) for the year		**326,152**	(40,565)	**339,621**	(45,218)
Attributable to:					
Equity holders of the Company		**320,677**	(42,615)		
Minority interest		**5,475**	2,050		
Profit/(loss) for the year		**326,152**	(40,565)		
Earnings/(loss) per Share					
Basic earnings/(loss) per share (Rs.)	11.1	**9.43**	(1.25)	**9.99**	(1.33)
Diluted earnings/(loss) per share (Rs.)	11.1	**9.43**	(1.25)	**9.99**	(1.33)
Dividend per Share (Rs.)	11.2	**4.00**	1.00	**4.00**	1.00

Figures in brackets indicate deductions.

Notes to the Financial Statements from pages 66 to 91 form an integral part of these Financial Statements.

Balance Sheets

		Consolidated		Company	
As at 31st December,	Notes	**2010** Rs. '000	2009 Rs. '000	**2010** Rs. '000	2009 Rs. '000
ASSETS					
Non-Current Assets					
Leasehold property, plant & equipment	12	**453,071**	476,765	**453,071**	476,765
Freehold property, plant & equipment	13	**1,276,792**	1,138,751	**972,683**	969,425
Improvements to leasehold property	14	**1,600,354**	1,428,868	**1,600,354**	1,428,868
Investment in subsidiaries	15	**–**	–	**310,700**	50,700
Investment in associate	16	**–**	88,238	**–**	48,000
Goodwill on acquisition	16.4	**33,310**	–	**–**	–
Total non-current assets		**3,363,527**	3,132,622	**3,336,808**	2,973,758
Current Assets					
Inventories	17	**655,036**	404,439	**417,616**	402,758
Amounts due from subsidiaries	29	**–**	–	**48,530**	34,946
Amounts due from other related companies	29	**153,807**	192,503	**153,807**	192,503
Trade and other receivables	18	**271,251**	111,730	**141,461**	104,425
Short-term investment	19	**8,893**	–	**–**	–
Short-term deposits		**323,315**	227,037	**199,157**	227,037
Cash and cash equivalents	20.1	**28,688**	18,921	**20,134**	17,401
Total current assets		**1,440,990**	954,630	**980,705**	979,070
Total assets		**4,804,517**	4,087,252	**4,317,513**	3,952,828
EQUITY AND LIABILITIES					
Equity					
Stated capital	21	**340,000**	340,000	**340,000**	340,000
Revenue reserves		**1,500,627**	1,216,593	**1,490,370**	1,184,749
Total equity attributable to equity holders of the Company		**1,840,627**	1,556,593	**1,830,370**	1,524,749
Minority interest		**14,642**	22,324	**–**	–
Total equity		**1,855,269**	1,578,917	**1,830,370**	1,524,749
Non-Current Liabilities					
Interest-bearing borrowings	22.1	**226,414**	379,978	**204,414**	337,714
Deferred income	23	**480,878**	443,075	**479,963**	442,484
Deferred tax liability	24	**147,438**	120,836	**126,673**	113,949
Retirement benefit obligations	25	**871,408**	732,912	**858,754**	732,867
Net liability to lessor	26	**357,693**	362,854	**357,693**	362,854
Total non-current liabilities		**2,083,831**	2,039,655	**2,027,497**	1,989,868
Current Liabilities					
Trade and other payables	27	**443,039**	358,777	**384,877**	344,478
Net liability to lessor payable within one year	26	**5,161**	4,959	**5,161**	4,959
Amounts due to subsidiaries	29	**–**	–	**941**	–
Amounts due to other related companies	29	**12,405**	8,786	**12,405**	8,786
Income tax payable	28	**427**	–	**–**	–
Interest-bearing borrowings payable within one year	22.1	**73,300**	95,685	**54,300**	79,585
Short-term interest-bearing borrowings	22.6	**317,927**	–	**–**	–
Bank overdraft	20.2	**13,158**	473	**1,962**	403
Total current liabilities		**865,417**	468,680	**459,646**	438,211
Total liabilities		**2,949,248**	2,508,335	**2,487,143**	2,428,079
Total equity and liabilities		**4,804,517**	4,087,252	**4,317,513**	3,952,828
Net assets per Share (Rs.)		**54.57**	46.44	**53.83**	44.85

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

9th February, 2011

Notes to the Financial Statements from pages 66 to 91 form an integral part of these Financial Statements.

Statements of Changes in Equity

For the year ended 31st December, 2010

Consolidated

	Attributable to Equity Holders of the Company				Minority 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, 2009	340,000	935,000	443,208	1,718,208	20,274	1,738,482
Profit/(loss) for the period	–	–	(42,615)	(42,615)	2,050	(40,565)
Dividends	–	–	(119,000)	(119,000)	–	(119,000)
Balance as at 31st December, 2009	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**

Company

	Stated Capital Rs. '000	General Reserve Rs. '000	Retained Earnings Rs. '000	Total Equity Rs. '000
Balance as at 1st January, 2009	340,000	935,000	413,967	1,688,967
Loss for the period	–	–	(45,218)	(45,218)
Dividends	–	–	(119,000)	(119,000)
Balance as at 31st December, 2009	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**

Retained Earnings

	Consolidated		Company	
	2010 Rs. '000	2009 Rs. '000	**2010** Rs. '000	2009 Rs. '000
Holding company	**285,370**	249,749	**285,370**	249,749
Subsidiaries	**10,257**	(11,245)	–	–
Associate	**–**	43,089	–	–
	295,627	281,593	**285,370**	249,749

** This represents adjustment consequent to exclusion of minority interest of subsidiaries arising from the acquisition of Mabroc Teas (Pvt) Ltd.*

Figures in brackets indicate deductions.

Notes to the Financial Statements from pages 66 to 91 form an integral part of these Financial Statements.

Cash Flow Statements

For the year ended 31st December,	Consolidated 2010 Rs. '000	Consolidated 2009 Rs. '000	Company 2010 Rs. '000	Company 2009 Rs. '000
Cash Flows from Operating Activities				
Cash generated from operations (Note A)	**708,998**	530,207	**686,337**	499,113
Interest paid	**(110,754)**	(93,969)	**(104,494)**	(83,667)
ESC paid	**(9,220)**	(6,682)	**(8,927)**	(6,595)
Retiring gratuity paid	**(58,739)**	(50,281)	**(58,739)**	(50,281)
Net cash flow from operating activities	**530,285**	379,275	**514,177**	358,570
Cash Flows from Investing Activities				
Field development expenditure	**(211,726)**	(197,732)	**(211,726)**	(197,732)
Interest received	**23,685**	47,297	**23,608**	47,261
Acquisition of property, plant & equipment	**(80,780)**	(100,586)	**(80,545)**	(94,106)
Net cash paid on investment in Mabroc Teas (Pvt) Ltd. (Note 16.3)	**(90,880)**	–	**–**	–
Proceeds from disposal of property, plant & equipment	**3,929**	6,936	**3,929**	6,936
Investment in subsidiaries	**–**	–	**(212,000)**	–
Loans repayment by Group companies	**75,000**	175,000	**75,000**	175,000
Net cash used in investing activities	**(280,772)**	(69,085)	**(401,734)**	(62,641)
Net cash inflow before financing activities	**249,513**	310,190	**112,443**	295,929
Cash flows from Financing Activities				
Dividend paid	**(30,426)**	(119,000)	**(30,426)**	(119,000)
Capital settlement of net liability to lessor	**(4,959)**	(4,766)	**(4,959)**	(4,766)
Long-term loans obtained during the year	**–**	183,000	**–**	183,000
Long-term loans repaid during the year	**(175,949)**	(214,854)	**(158,585)**	(202,361)
Grants received	**55,181**	111,619	**54,821**	111,012
Net cash used in financing activities	**(156,153)**	(44,001)	**(139,149)**	(32,115)
Net increase/(decrease) in cash and cash equivalents	**93,360**	266,189	**(26,706)**	263,814
Cash and cash equivalents at the beginning of the year	**245,485**	(20,704)	**244,035**	(19,779)
Cash and cash equivalents at the end of the year (Note B)	**338,845**	245,485	**217,329**	244,035
Note: A - Cash Generated from Operations				
Profit/(loss) before tax	**355,690**	(27,783)	**357,716**	(35,021)
Adjustments for:				
Share of loss from associate	**27,962**	531	**–**	–
Net finance cost	**87,069**	46,672	**80,886**	36,406
Profit on disposal of property, plant & equipment	**(3,929)**	(6,901)	**(3,929)**	(6,901)
Depreciation	**125,489**	119,697	**117,527**	112,121
Lease amortisation	**23,694**	23,694	**23,694**	23,694
Provision for gratuity	**184,655**	204,736	**184,626**	204,746
Amortisation of capital grants	**(17,378)**	(14,735)	**(17,342)**	(14,719)
Provision/(reversal) for obsolete stocks	**(110)**	628	**(110)**	656
Provision/(reversal) for doubtful debts	**(1,940)**	3,004	**(1,940)**	3,004
Operating profit before working capital changes	**781,202**	349,543	**741,128**	323,986
(Increase)/decrease in inventories	**(38,303)**	(1,907)	**(14,748)**	(24,522)
(Increase)/decrease in trade and other receivables	**(41,919)**	(2,010)	**(34,940)**	(595)
(Increase)/decrease in amounts due from related companies	**(36,304)**	107,599	**(49,887)**	118,066
Increase/(decrease) in trade and other payables	**40,703**	76,888	**40,224**	82,084
Increase/(decrease) in amounts due to related companies	**3,619**	94	**4,560**	94
Cash generated from operating activities	**708,998**	530,207	**686,337**	499,113
Note: B - Analysis of Cash and Cash Equivalents				
Cash and bank balances	**28,688**	18,921	**20,134**	17,401
Short-term deposits	**323,315**	227,037	**199,157**	227,037
	352,003	245,958	**219,291**	244,438
Bank overdraft	**(13,158)**	(473)	**(1,962)**	(403)
Cash and cash equivalents	**338,845**	245,485	**217,329**	244,035

Figures in brackets indicate deductions.

Notes to the Financial Statements from pages 66 to 91 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, 2010 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. of which the controlling interest was acquired in December, 2010. (together referred to as the 'Group')

Maboc Teas (Pvt) Ltd. has been accounted as an associate up to December 2010.

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 that mentioned in Note 16 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 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 and Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.

The Financial Statements were authorised for issue by the Directors on 9th February, 2011.

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.

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 Liability.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are consistent with those used in the previous year. Accounting policies of Subsidiaries and Associate have been adjusted, 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 and Associates are disclosed in Notes 15 and 16 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 Minority 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 'Minority Interest'.

The Group applies a policy of treating transactions with minority 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 per cent 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 equity accounted investees, 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 investee.

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 equity accounted investees 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 'Minority Interest/(Loss)'.

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 'Minority 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 translated to the functional currency at the exchange rate ruling at that date. Foreign currency differences arising on translation are recognised in profit and loss. Non-monetary assets and liabilities which are carried in terms of historical cost in a foreign currency are translated 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 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 fertilising, etc., incurred between the time of planting and harvesting (when the planted area attains maturity), are classified as immature plantations. These immature plantations are shown 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
Hydro Power 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 produce stocks 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 condition 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.

Produce Stocks
Produce stocks 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 short-term 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 largely are independent from other assets and groups.

3.3.7.2. Impairment/Reversal of Impairment

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

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

3.4 Liabilities and Provisions

Liabilities classified as current liabilities on the 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.

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 Turnover

(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.

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 Finance 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 74 and 91 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 is currently in the process of evaluating the potential effect of these standards on its Financial Statements and the impacts of the adoption of these standards have not been qualified as at Balance Sheet date.

For the year ended 31st December,	Consolidated 2010 Rs. '000	Consolidated 2009 Rs. '000	Company 2010 Rs. '000	Company 2009 Rs. '000
6. REVENUE				
6.1 Industry Segment Revenue				
Tea	**2,564,520**	2,035,856	**2,463,049**	2,026,748
Rubber	**1,345,312**	782,265	**1,345,312**	782,265
Others	**38,580**	42,457	**2,267**	15,674
Less: Intra-group sales (Tea)	**(68,031)**	(574)	**–**	–
	3,880,381	2,860,004	**3,810,628**	2,824,687
6.2 Industry Segment Results [Gross Profit/(Loss)]				
Tea	**95,743**	(2,793)	**85,182**	(4,732)
Rubber	**445,476**	121,361	**445,476**	121,361
Others	**26,811**	16,396	**(1,880)**	(3,345)
	568,030	134,964	**528,778**	113,284
7. OTHER INCOME				
Profit on disposal of property, plant & equipment	**3,929**	6,901	**3,929**	6,901
Hydro power income	**7,629**	6,162	**9,444**	7,501
Amortisation of Government grants	**17,378**	14,735	**17,342**	14,719
Sale of rubber trees	**27,925**	–	**27,925**	–
Sundry income	**7,492**	3,746	**8,209**	3,745
	64,353	31,544	**66,849**	32,866
8. NET FINANCE COST				
Finance Income				
Interest income	**(23,685)**	(47,297)	**(23,608)**	(47,261)
Finance Cost				
Term loan interest	**40,771**	63,772	**34,667**	53,614
Overdraft interest	**3,150**	9,124	**2,994**	8,980
Interest paid to Government on finance lease	**66,833**	21,073	**66,833**	21,073
	110,754	93,969	**104,494**	83,667
Net Finance Cost	**87,069**	46,672	**80,886**	36,406

For the year ended 31st December,	Consolidated 2010 Rs. '000	Consolidated 2009 Rs. '000	Company 2010 Rs. '000	Company 2009 Rs. '000
9. PROFIT/(LOSS) BEFORE TAXATION				
Profit/(loss) before taxation is stated after charging all expenses including the following:				
Directors' emoluments	**14,608**	12,851	**14,608**	12,631
Auditor's remuneration				
- Audit services	**2,266**	2,129	**1,972**	1,792
- Non-audit services	**230**	210	**120**	109
Depreciation and Lease Amortisation				
- Leasehold right to bare land	**7,140**	7,140	**7,140**	7,140
- Immovable leased assets	**16,554**	16,554	**16,554**	16,554
- Tangible property, plant & equipment	**85,249**	83,696	**77,287**	76,119
- Mature plantations	**40,240**	36,001	**40,240**	36,001
Staff Cost				
- Defined contribution plan costs (EPF, CPPS, ESPS and ETF)	**197,272**	161,299	**197,151**	161,208
- Defined benefit plan cost (Retiring Gratuity)	**184,655**	204,736	**184,625**	204,746
- Salaries and wages and other staff costs	**1,559,365**	1,373,802	**1,551,138**	1,369,708
- Staff training and development cost	**1,516**	388	**1,513**	388
Legal fees	**7,690**	7,275	**7,690**	7,275
Provision/(reversal) for bad & doubtful debts	**(1,940)**	3,004	**(1,940)**	3,004
Provision/(reversal) for obsolete stocks	**(110)**	628	**(110)**	656

(1) The number of employees employed is given on page 5

	Consolidated 2010 Rs. '000	Consolidated 2009 Rs. '000	Company 2010 Rs. '000	Company 2009 Rs. '000
10. INCOME TAX EXPENSE				
(A) Current Tax Expense				
Income taxes on current year's profit - Company	**5,371**	10,752	**5,371**	10,752
- Subsidiaries	**27**	13	**–**	–
	5,398	10,765	**5,371**	10,752
Under provision in respect of previous years	**–**	10,107	**–**	10,107
	–	10,107	**–**	10,107
(B) Deferred Tax Expense				
Originating and reversal of temporary difference of (Note 24) - Company	**12,724**	(10,662)	**12,724**	(10,662)
- Subsidiaries	**11,416**	2,572	**–**	–
	24,140	(8,090)	**12,724**	(10,662)
Income Tax Expense	**29,538**	12,782	**18,095**	10,197

The Company, in terms of Section 16 of the Inland Revenue Act No. 10 of 2006 'Specified Profit' from agriculture, would be exempt from income tax for a period of 5 years ending 2010/11. The corporate rate of tax applicable to other income would be 35%.

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 year of assessment 2010/11 under the Section 17 of Inland Revenue Act No. 10 of 2006.

Kelani Valley Green Tea (Pvt) Ltd. and Kalupahana Power Company (Pvt) Ltd., have entered into an agreement with the Board of Investment of Sri Lanka and have 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. has commenced in 2006/07 and tax holiday period of Kalupahana Power Company (Pvt) Ltd., has commenced in 2007/08.

Mabroc Teas (Pvt) Ltd. has also been approved under Section 52 of the Inland Revenue Act No. 10 of 2006. Hence, subjected to tax at the rate of 15% on their qualified export profits up to 1st April, 2015. Further, also profits arising from export of tea bags containing of the teas Sri Lankan origin are exempted from the income tax for 5 years commencing from 1st April, 2006.

For the year ended 31st December,	Consolidated 2010 Rs. '000	Consolidated 2009 Rs. '000	Company 2010 Rs. '000	Company 2009 Rs. '000
(B) Reconciliation of Accounting Profit to Income Tax Expense				
Profit/(loss) before tax	**355,690**	(27,783)	**357,716**	(35,021)
Share of loss of associate	**27,962**	531	**–**	–
	383,652	(27,252)	**357,716**	(35,021)
Tax deductible expenses	**(455,489)**	(416,271)	**(432,616)**	(393,456)
Disallowable expenses	**351,318**	363,964	**342,763**	356,233
Allowable income	**(23,685)**	(47,298)	**(23,608)**	(47,261)
Tax exempt income	**(17,305)**	(14,735)	**(17,341)**	(14,719)
Tax exempt loss/(profit) from Business	**(384,308)**	133,433	**(372,731)**	126,916
Statutory income/loss from business (Note C)	**145,817**	(8,382)	**145,817**	(9,233)
Other income	**23,685**	47,298	**23,608**	47,261
Total statutory Income	**23,685**	47,298	**23,608**	47,261
Loss setoff during the year	**(8,262)**	(16,541	**(8,262)**	(16,541
Taxable income	**15,423**	30,757	**15,346**	30,720
Income tax @ 35%	**5,398**	10,765	**5,371**	10,752
(Over)/under provision in respect of previous years	**–**	10,107	**–**	10,107
	5,398	20,872	**5,371**	20,859
Transferred (from)/to deferred taxation	**24,140**	(8,090)	**12,724**	(10,662)
Income tax expense	**29,538**	12,782	**18,095**	10,197
Effective tax rate (%)	**8.30%**	> 99.99%	**5.06%**	> 99.99%
(C) Tax Losses				
Tax loss b/f	**(172,475)**	(282,103)	**(134,461)**	(244,940)
Adjustment for tax loss b/f	**24,099**	101,246	**(13,915)**	101,246
	(148,376)	(180,857)	**(148,376)**	(143,694)
Tax loss for the year	**(145,817)**	(8,159)	**(145,817)**	(7,308)
Loss setoff during the year	**8,262**	16,541	**8,262**	16,541
	(137,555)	8,382	**(137,555)**	9,233
Tax loss c/f	**(285,931)**	(172,475)	**(285,931)**	(134,461)

11. EARNINGS/(LOSS) PER SHARE AND DIVIDEND PER SHARE

11.1 Earnings/(Loss) Per Share

Basic Earnings/(Loss) per Share

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

For the year ended 31st December,	Consolidated 2010	Consolidated 2009	Company 2010	Company 2009
(A) Amount Used as the Numerator				
Profit/(loss) attributable to ordinary shareholders (Rs. '000)	**320,677**	(42,615)	**339,621**	(45,218)
Amount Used as the Denominator				
Weighted average number of ordinary shares ('000)	**34,000**	34,000	**34,000**	34,000
Basic earnings/(loss) per share (Rs.)	**9.43**	(1.25)	**9.99**	(1.33)

(B) Diluted Earnings/(Loss) 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

For the year ended 31st December,	Company 2010	2009
First and final proposed dividend of Rs. 4.00 per share (2009 - Rs. 1.00 per share) (Rs. '000)	**136,000**	34,000
Number of ordinary shares ('000)	**34,000**	34,000
Dividend per share (Rs.)	**4.00**	1.00

The Board of Directors has recommended a first and final dividend of Rs. 4.00 per share amounting to Rs. 136,000,004/-for the year ended 31st December, 2010 (final dividends for 2009 - Rs. 1.00 per share amounting to Rs. 34,000,001/-).

This is to be approved at the Annual General Meeting to be held on 31st March, 2011.

12. LEASEHOLD PROPERTY, PLANT & EQUIPMENT

As at 31st December,	Notes	Consolidated 2010 Rs. '000	2009 Rs. '000	Company 2010 Rs. '000	2009 Rs. '000
Leasehold rights to bare land	12.1	**246,018**	253,158	**246,018**	253,158
Immovable leased assets	12.2	**207,053**	223,607	**207,053**	223,607
		453,071	476,765	**453,071**	476,765

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 18th June, 1992 Balance Sheet and the amortisation of leasehold rights up to 31st December, 2010 are as follows:

As at 31st December,	Consolidated 2010 Rs. '000	2009 Rs. '000	Company 2010 Rs. '000	2009 Rs. '000
Capitalised value (18th June, 1992)	**369,740**	369,740	**369,740**	369,740
	369,740	369,740	**369,740**	369,740
Amortisation				
As at 1st January	**116,582**	109,442	**116,582**	109,442
Amortisation charge for the year	**7,140**	7,140	**7,140**	7,140
As at 31st December	**123,722**	116,582	**123,722**	116,582
Carrying amount	**246,018**	253,158	**246,018**	253,158

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:

As at 31st December,	Land Development Rs. '000	Mature Plantations Tea Rs. '000	Mature Plantations Rubber Rs. '000	Buildings Rs. '000	Machinery Rs. '000	Consolidated 2010 Rs. '000	Consolidated 2009 Rs. '000	Company 2010 Rs. '000	Company 2009 Rs. '000
Capitalised Value (18th June, 1992)	3,455	213,541	178,145	84,600	23,094	**502,835**	502,835	**502,835**	502,835
Amortisation									
As at 1st January	2,020	104,443	90,317	59,354	23,094	**279,228**	262,673	**279,228**	262,673
Amortisation	115	6,834	6,220	3,385	–	**16,554**	16,554	**16,554**	16,554
As at 31st December	2,135	111,277	96,537	62,739	23,094	**295,782**	279,228	**295,782**	279,228
Carrying amount	1,320	102,264	81,608	21,861	–	**207,053**	223,607	**207,053**	223,607

Investment in Immature Plantations at the time of handing over to the Company as at 18th June, 1992 by way of estate leases was 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. PROPERTY, PLANT & EQUIPMENT

(A) 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	Equipment Rs. '000	Computers Rs. '000	Tea Bagging Machines Rs. '000	Others Rs. '000	**2010** Total Rs. '000	2009 Total Rs. '000
Cost											
As at 1st January	657,233	458,929	133,017	174,050	9,575	70,635	17,256	–	34,270	**1,554,965**	1,396,624
Additions	39,478	5,783	–	14,047	158	2,195	3,331	–	4,106	**69,098**	165,463
On acquisition of subsidiary	–	–	–	13,877	4,243	43,026	–	118,800	–	**179,946**	–
Disposals/transfers	–	–	–	(5,434)	–	–	–	–	–	**(5,434)**	(7,122)
As at 31st December	696,711	464,712	133,017	196,540	13,976	115,856	20,587	118,800	38,376	**1,798,575**	1,554,965
Depreciation											
As at 1st January	59,161	160,347	17,524	115,153	7,567	34,816	15,109	–	13,305	**422,982**	346,373
Charges	17,421	31,936	4,434	21,470	387	6,484	1,351	–	1,766	**85,249**	83,696
On acquisition of subsidiary	–	–	–	12,475	3,378	–	–	23,397	–	**39,250**	–
Disposals/transfers	–	–	–	(5,434)	–	–	–	–	–	**(5,434)**	(7,087)
As at 31st December	76,582	192,283	21,958	143,664	11,332	41,300	16,460	23,397	15,071	**542,047**	422,982
Net book value	620,129	272,429	111,059	52,875	2,644	74,556	4,127	95,403	23,305	**1,256,527**	1,131,983
Work-in-progress										**20,265**	6,768
Carrying amount										**1,276,792**	1,138,751

(B) 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	**2010 Total** Rs. '000	2009 Total Rs. '000
Cost									
As at 1st January	632,031	423,527	173,913	9,544	70,332	17,058	34,270	**1,360,675**	1,209,347
Additions	39,478	5,548	14,047	158	2,195	3,331	4,106	**68,863**	158,450
Disposals/transfers	–	–	(5,434)	–	–	–	–	**(5,434)**	(7,122)
As at 31st December	671,509	429,075	182,526	9,702	72,527	20,389	38,376	**1,424,104**	1,360,675
Depreciation									
As at 1st January	58,029	154,449	115,044	7,554	34,726	14,911	13,305	**398,018**	328,986
Charges	16,763	29,137	21,443	384	6,446	1,351	1,763	**77,287**	76,119
Disposals/transfers	–	–	(5,434)	–	–	–	–	**(5,434)**	(7,087)
As at 31st December	74,792	183,586	131,053	7,938	41,172	16,262	15,068	**469,871**	398,018
Net book value	596,717	245,489	51,473	1,764	31,355	4,127	23,308	**954,233**	962,657
Work-in-progress								**18,450**	6,768
Carrying amount								**972,683**	969,425

(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) Unexpired lease periods of land:

Kelani Valley Plantations PLC	36 years
Kelani Valley Green Tea (Pvt) Ltd.	36 years
Kalupahana Power Company (Pvt) Ltd.	36 years

14. IMPROVEMENTS TO LEASEHOLD PROPERTY

As at 31st December,	Immature Plantations				Mature Plantations			Consolidated		Company	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	**2010** Rs. '000	2009 Rs. '000	**2010** Rs. '000	2009 Rs. '000
Cost or Valuation	**Tea**	**Rubber**	**Others**	**Total**	**Tea**	**Rubber**	**Total**				
As at 1st January	176,018	444,871	52,681	673,570	472,053	527,312	999,365	**1,672,935**	1,475,203	**1,672,935**	1,475,203
Additions	65,236	145,833	657	211,726	–	–	–	**211,726**	197,732	**211,726**	197,732
Transfers (from)/to	(48,897)	(78,669)	–	(127,566)	48,897	78,669	127,566	**–**	–	**–**	–
As at 31st December	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
Depreciation											
As at 1st January	–	–	–	–	104,150	139,917	244,067	**244,067**	208,066	**244,067**	208,066
Charge	–	–	–	–	14,110	26,130	40,240	**40,240**	36,001	**40,240**	36,001
As at 31st December	–	–	–	–	118,260	166,047	284,307	**284,307**	244,067	**284,307**	244,067
Carrying amount	192,357	512,035	53,338	757,730	402,690	439,934	842,624	**1,600,354**	1,428,868	**1,600,354**	1,428,868

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 (2009 - NIL).

The addition of Rs. 212 m (2009 - Rs. 198 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			
	2010 Extent - Ha	Rs. '000	2009 Extent - Ha	Rs. '000	**2010** Extent - ha	Rs. '000	2009 Extent - Ha	Rs. '000
Uprooting								
- Tea	**16**	**8,241**	27	15,397	**16**	**8,241**	27	15,397
- Rubber	**191**	**4,223**	194	9,719	**191**	**4,223**	194	9,719
Planting								
- Tea	**30**	**18,465**	32	25,241	**30**	**18,465**	32	25,241
- Rubber	**198**	**69,699**	101	13,621	**198**	**69,699**	101	13,621
	435	**100,628**	354	63,978	**435**	**100,628**	354	63,978

15. INVESTMENT IN SUBSIDIARIES (AT COST)

Unquoted Investments *As at 31st December,*	Principal Activity	% Holding **2010**	% Holding 2009	No of Shares **2010**	No of Shares 2009	Value **2010** Company Rs '000	Value 2009 Company Rs '000
Kelani Valley Green Tea (Pvt) Ltd.	Manufacture of green tea	**100**	51	**1,020,000**	1,020,000	**10,200**	10,200
Kalupahana Power Company (Pvt) Ltd.	Build and operate a mini hydro power project	**60**	60	**1,800,000**	1,800,000	**18,000**	18,000
Kelani Valley Instant Tea (Pvt) Ltd.	Manufacture of instant tea	**95**	75	**2,250,000**	2,250,000	**22,500**	22,500
Mabroc Teas (Pvt) Ltd.	Export of bulk and retail packed tea	**100**	–	**9,000,000**	–	**260,000**	–
Carrying amount						**310,700**	50,700

16. INVESTMENT IN ASSOCIATE COMPANY

Unquoted Investments	Consolidated		Company	
As at 31st December,	**2010** Rs. '000	2009 Rs. '000	**2010** Rs. '000	2009 Rs. '000
Change in carrying value in investment in associate				
Carrying amount as at 1st January	**88,238**	88,769	**48,000**	48,000
Share of loss of associates (net of tax)	**(27,962)**	(531)	**–**	–
Adjustment due to acquisition of controlling interest	**(60,276)**	–	**(48,000)**	–
Carrying amount as at 1st December	**–**	88,238	**–**	48,000

16.1 The Company acquired 40% shares of Mabroc Teas (Pvt) Ltd. in April 2003 and balance 60% in December 2010. Financial Statements of Mabroc Teas (Pvt) Ltd. are included in the Consolidated Financial Statements.

16.2 The financial year of Mabroc Teas (Pvt) Ltd., ends on 31st March. Its results for the 15 months period of 1st October, 2009 to 31st December, 2010 are included in these Financial Statements based on the audited Financial Statements up to 31st March, 2010, and the Financial Statements for the period of nine months ended 31st December, 2010, which was subjected to a limited review carried out by the Auditors of the Company.

16.3 The acquisition had the following effect on the Group's assets and liabilities.

	Rs. '000
Property, plant & equipment	142,511
Investment in associate	20,367
Inventories	212,183
Trade & other receivables	115,238
Short-term investment	124,159
Investment in unquoted companies and debentures	4,326
Cash & cash equivalents	8,111
Bank overdraft	(11,149)
Retirement benefit obligations	(12,580)
Short-term borrowings	(317,927)
Deferred tax liability	(2,461)
Trade & other payables	(43,385)
Tax payable	(427)
Total net assets acquired	**238,966**
Goodwill on acquisition (Note 16.4)	33,310
Total	**272,276**
Satisfied by:	
Cash consideration	212,000
Carrying value in investment in associate at the date of acquisition	60,276
	272,276
Analysis of net outflow of cash and cash equivalents in respect of the purchase of subsidiary	
Cash consideration	(212,000)
Cash at bank and cash in hand acquired	121,120
Net cash outflow on acquisition	**(90,880)**

16.4 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.

17. INVENTORIES

As at 31st December,	Consolidated 2010 Rs. '000	Consolidated 2009 Rs. '000	Company 2010 Rs. '000	Company 2009 Rs. '000
Input materials	**42,623**	43,741	**42,060**	43,626
Nurseries	**19,700**	22,593	**19,700**	22,593
Harvested crop (net realisable value)	**589,596**	334,387	**352,739**	332,956
Spares and consumables	**10,691**	11,402	**10,691**	11,267
	662,610	412,123	**425,190**	410,442
Provision for obsolete stock (input material, spares and consumable)	**(7,574)**	(7,684)	**(7,574)**	(7,684)
	655,036	404,439	**417,616**	402,758

Inventories pledged as securities for banking facilities obtained amounted to Rs. 353 m (2009 - Rs. 333 m) and Rs. 565 m (2009 - Rs. 333 m) by the Company and the Group respectively.

18. TRADE AND OTHER RECEIVABLES

As at 31st December,	Consolidated 2010 Rs. '000	Consolidated 2009 Rs. '000	Company 2010 Rs. '000	Company 2009 Rs. '000
Trade receivables	**206,890**	18,184	**38,186**	15,202
Lease rent paid in advance	**12,287**	6,460	**12,287**	6,460
Employee advances and receivables	**37,759**	36,914	**37,759**	36,914
Advance company tax recoverable	**19,620**	19,620	**19,620**	19,620
ESC recoverable	**4,240**	87	**156**	–
Other receivables and prepayments	**75,521**	34,148	**35,196**	29,912
	356,317	115,413	**143,204**	108,108
Provision for bad and doubtful debts	**(85,066)**	(3,683)	**(1,743)**	(3,683)
	271,251	111,730	**141,461**	104,425

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

Debtors pledged as securities for banking facilities obtained amounted to Rs. 38.2 m (2009 - Rs. 15.2 m) and Rs. 116 m (2009 - Rs. 15.2 m) by the Company and the Group respectively.

19. SHORT-TERM INVESTMENTS

On acquisition of subsidiary

As at 31st December,	No. of Shares	Consolidated 2010 Rs. '000	Consolidated 2009 Rs. '000	Company 2010 Rs. '000	Company 2009 Rs. '000
Investment in quoted companies					
Sampath Bank PLC	566	**34**	–	**–**	–
Investment in unquoted companies					
Cambron Exports (Pvt) Ltd.	50,000	**500**	–	**–**	–
Mabroc International (Pvt) Ltd.		**732**	–	**–**	–
Mabroc Japan Co.		**4,567**	–	**–**	–
Investment in debentures					
Vanik Corporation Ltd.	600	**60**	–	**–**	–
Seylan Bank PLC	30,000	**3,000**	–	**–**	–
		8,893	–	**–**	–

20. CASH AND CASH EQUIVALENTS

As at 31st December,	Consolidated 2010 Rs. '000	Consolidated 2009 Rs. '000	Company 2010 Rs. '000	Company 2009 Rs. '000
20.1 Favourable Balances				
Cash in hand	**859**	173	**241**	138
Cash at bank	**27,829**	18,748	**19,893**	17,263
	28,688	18,921	**20,134**	17,401
20.2 Unfavourable Balances				
Bank overdraft	**(13,158)**	(473)	**(1,962)**	(403)
	(13,158)	(473)	**(1,962)**	(403)

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

21. STATED CAPITAL

As at 31st December,	Consolidated 2010 Rs. '000	Consolidated 2009 Rs. '000	Company 2010 Rs. '000	Company 2009 Rs. '000
Issued and fully-paid Ordinary Shares				
34,000,000 (34,000,000 - 2009) 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.

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 2010** Rs. '000	Total 2009 Rs. '000
Group					
As at 1st January	228,328	219,537	27,798	**475,663**	507,517
Obtained during the year	–	–	–	**–**	183,000
Repayments during the year	(30,293)	(140,820)	(4,836)	**(175,949)**	(214,854)
As at 31st December	198,035	78,717	22,962	**299,714**	475,663
Payable within one year (Transferred to current liabilities)	(36,008)	(32,456)	(4,836)	**(73,300)**	(95,685)
Payable after one year	162,027	46,261	18,126	**226,414**	379,978
Analysis of Long-Term Borrowings by Year of Repayment					
Repayable within one year from year-end	36,008	32,456	4,836	**73,300**	95,685
Repayable between 2 and 5 years from year-end	132,372	46,261	18,126	**196,759**	319,865
Repayable later than 5 years from year-end	29,655	–	–	**29,655**	60,113
	198,035	78,717	22,962	**299,714**	475,663

As at 31st December,	DFCC Rs. '000	NDB Rs. '000	Seylan Rs. '000	**Total 2010 Rs. '000**	Total 2009 Rs. '000
Company					
As at 1st January	228,328	161,173	27,798	**417,299**	436,660
Obtained during the year	–	–	–	**–**	183,000
Repayments during the year	(30,293)	(123,456)	(4,836)	**(158,585)**	(202,361)
As at 31st December	198,035	37,717	22,962	**258,714**	417,299
Payable within one year (Transferred to current liabilities)	(36,008)	(13,456)	(4,836)	**(54,300)**	(79,585)
Payable after one year	162,027	24,261	18,126	**204,414**	337,714
Analysis of Long-Term Borrowings by Year of Repayment					
Repayable within one year from year-end	36,008	13,456	4,836	**54,300**	79,585
Repayable between 2 and 5 years from year-end	132,372	24,261	18,126	**174,759**	277,601
Repayable later than 5 years from year-end	29,655	–	–	**29,655**	60,113
	198,035	37,717	22,962	**258,714**	417,299

Lender *As at 31st December,*	Loan Outstanding **2010** Rs. '000	2009 Rs. '000	Rate of Interest Per Annum %	Monthly Instalment Rs.	Terms of Repayments
22.2 National Development Bank					
(Under ADB Line of Credit)					
Term Loan 1	**12,023**	16,532	9.51	375,727	120 monthly instalments commenced on 30.09.2003
Term Loan 2	**15,194**	19,641	9.51	370,590	120 monthly instalments commenced on 30.06.2004
(Under e-Friends Loan Scheme)					
Term Loan 3	**10,500**	15,000	6.50	375,000	48 monthly instalments commenced on 31.05.2009
(Under Tea Relief Package)					
Term Loan 4	**–**	110,000	AWPLR - 5.15		
	37,717	161,173			
22.3 Seylan Bank	**22,962**	27,798	AWPLR + 0.25	403,000	120 monthly instalments commenced on 30.10.2005
(Under ADB Line of Credit)					
22.4 DFCC Bank					
(Under ADB Line of Credit)					
Term Loan 1	**68,133**	79,333	9.42	933,330	90 monthly instalments commenced on 31.08.2009
Term Loan 2	**74,286**	80,000	9.64	952,381	84 monthly instalments commenced on 31.07.2010
(Under e-Friends Loan Scheme)					
e-Friends Loan 1	**17,793**	22,336	6.50	378,572	84 monthly instalments commenced on 31.12.2007
e-Friends Loan 2	**22,898**	27,987	6.50	424,048	84 monthly instalments commenced on 31.07.2008
e-Friends Loan 3	**8,338**	10,005	6.50	138,961	84 monthly instalments commenced on 31.01.2009
e-Friends Loan 4	**6,587**	8,667	6.50	173,333	60 monthly instalments commenced on 30.03.2009
	198,035	228,328			
Company - Total	**258,714**	417,299			

Lender	Loan Outstanding		Rate of Interest Per Annum	Instalments and Terms of Prepayments
As at 31st December,	**2010** **Rs. '000**	2009 Rs. '000	%	
Subsidiary - Kalupahana Power Co. (Pvt) Ltd.				
22.5 NDB Term Loan	**41,000**	58,364	AWDR + 4	2 quarterly instalments of Rs. 3,363,596/- commenced on 31.03.2009 A quarterly instalment of Rs. 5,636,843/- commenced on 30.09.2010 A quarterly instalment of Rs. 5,000,000/- commenced on 31.12.2010 A quarterly instalment of Rs. 3,000,000/- commencing from 31.03.2011 2 quarterly instalments of Rs. 5,000,000/- commencing from 30.06.2011 A quarterly instalment of Rs. 6,000,000/- commencing from 31.12.2011 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	**299,714**	475,663		

22.6 Short-term Interest Bearing Borrowings on Acquisition of Subsidiary

Loan Facility	Bank	Currency	Rate % (p.a.)	**2010** **Total** **Rs. '000**	2009 Total Rs. '000
Foreign currency loans	Sampath	USD	LIBOR+2.5% (Min 5.25%)	**157,035**	–
Foreign currency loans	NDB	USD	5.25%	**160,892**	–
				317,927	–

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

23. DEFERRED INCOME

Grants and Subsidies

	Consolidated		Company	
As at 31st December,	**2010** **Rs. '000**	2009 Rs. '000	**2010** **Rs. '000**	2009 Rs. '000
Capital Grants				
As at 1st January	**510,040**	398,421	**509,433**	398,421
Grants received during the year	**55,181**	111,619	**54,821**	111,012
As at 31st December	**565,221**	510,040	**564,254**	509,433
Amortisation				
As at 1st January	**66,965**	52,230	**66,949**	52,230
Amortised during the year	**17,378**	14,735	**17,342**	14,719
As at 31st December	**84,343**	66,965	**84,291**	66,949
Net carrying amount as at 31st December	**480,878**	443,075	**479,963**	442,484

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				Company			
	2010		2009		2010		2009	
	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000
As at 1st January	**760,896**	**120,836**	598,048	128,926	**726,713**	**113,949**	576,468	124,611
Amount originating/ (reversing) during the year	**134,138**	**24,140**	162,848	(8,090)	**77,045**	**12,724**	150,245	(10,662)
On acquisition of subsidiary	**12,641**	**2,462**	–	–	**-**	**-**	–	–
As at 31st December	**907,675**	**147,438**	760,896	120,836	**803,758**	**126,673**	726,713	113,949
Deferred tax liabilities are attributable for following temporary differences property, plant & equipment (including mature and Immature plantations)	**2,039,795**	**325,395**	1,663,498	264,505	**1,948,443**	**307,076**	1,594,041	249,946
Retirement benefit obligation	**(858,830)**	**(135,355)**	(732,912)	(114,922)	**(858,754)**	**(135,340)**	(732,867)	(114,914)
Carried forward tax losses	**(285,931)**	**(45,063)**	(169,690)	(28,747)	**(285,931)**	**(45,063)**	(134,461)	(21,083)
On acquisition of subsidiary	**12,641**	**2,461**	–	–	**-**	**-**	–	–
As at 31st December	**907,675**	**147,438**	760,896	120,836	**803,758**	**126,673**	726,713	113,949

The effective tax rate used to calculate deferred tax liability as at 31st December, 2010 is 15.76% (2009 - 15.68%) for the Company.

25. RETIREMENT BENEFIT OBLIGATIONS

As at 31st December,	Consolidated		Company	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
Movement in the Retirement Benefit Obligations				
As at 1st January	**732,912**	578,457	**732,867**	578,402
Current service cost	**63,175**	58,823	**63,160**	58,811
Interest cost	**73,291**	57,846	**73,287**	57,840
Actuarial gains	**48,189**	88,067	**48,179**	88,095
	184,655	204,736	**184,625**	204,746
On acquisition of subsidiary	**12,580**	–	**-**	–
	930,147	783,193	**917,492**	783,148
Benefit paid by the plan	**(58,739)**	(50,281)	**(58,739)**	(50,281)
As at 31st December	**871,408**	732,912	**858,754**	732,867

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. 285/-
Rubber	Rs. 285/-

26. NET LIABILITY TO LESSOR

As at 31st December,	Consolidated 2010 Rs. '000	Consolidated 2009 Rs. '000	Company 2010 Rs. '000	Company 2009 Rs. '000
Gross Liability				
As at 1st January	**695,729**	715,327	**695,729**	715,327
Repayment	**(19,598)**	(19,598)	**(19,598)**	(19,598)
As at 31st December	**676,131**	695,729	**676,131**	695,729
Finance cost allocated to future periods	**(313,277)**	(327,916)	**(313,277)**	(327,916)
Net Liability	**362,854**	367,813	**362,854**	367,813
Payable within One Year				
Gross liability	**19,598**	19,598	**19,598**	19,598
Finance cost allocated to future periods	**(14,437)**	(14,639)	**(14,437)**	(14,639)
Net liability transferred to current liabilities	**5,161**	4,959	**5,161**	4,959
Payable within Two to Five Years				
Gross liability	**78,392**	78,392	**78,392**	78,392
Finance cost allocated to future periods	**(55,567)**	(56,458)	**(55,567)**	(56,458)
Net liability	**22,825**	21,934	**22,825**	21,934
Payable after Five Years				
Gross liability	**578,141**	597,739	**578,141**	597,739
Finance cost allocated to future periods	**(243,273)**	(256,819)	**(243,273)**	(256,819)
Net liability	**334,868**	340,920	**334,868**	340,920
Net liability payable after one year	**357,693**	362,854	**357,693**	362,854

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. There after which will be inflated annually by GDP deflator.

According to the ruling given by Urgent Issue Task Force (UITF) of The Institute of Chartered Accountants of Sri Lanka, the amount stated in the accounts 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. 362,854,124/-.
2. Net present value of Rs. 362,854,124/- is represented by gross liability of Rs. 676,131,000/- (Rs. 19,598,000/- x 34 1/2 years) and interest in suspense of Rs. 313,277,238/-.
3. The charge to the Income Statement during the current period is Rs. 66.8 m (2009 - Rs. 21.1 m).

27. TRADE AND OTHER PAYABLES

As at 31st December,	Consolidated 2010 Rs. '000	Consolidated 2009 Rs. '000	Company 2010 Rs. '000	Company 2009 Rs. '000
Trade payables	**35,385**	30,234	**21,146**	30,234
Lease rental payable to Government	**37,897**	–	**37,897**	–
Other payables and accruals	**208,319**	138,863	**165,844**	124,564
Staff payables	**153,911**	183,775	**153,911**	183,775
Unclaimed dividends	**7,527**	5,905	**6,079**	5,905
	443,039	358,777	**384,877**	344,478

28. INCOME TAX PAYABLE

As at 31st December,	Consolidated 2010 Rs. '000	Consolidated 2009 Rs. '000	Company 2010 Rs. '000	Company 2009 Rs. '000
Income Tax Payable				
At the beginning of the year	**–**	–	**–**	–
Subsidiaries/Parent taxation on current year's profit	**5,398**	10,765	**5,371**	10,752
On acquisition of subsidiary	**427**	–		–
Under provision in respect of previous year	**–**	10,107	**–**	10,107
ESC set-off against income tax	**(5,398)**	(12,752)	**(5,371)**	(12,752)
WHT set-off against income tax	**–**	(13)	**–**	–
ACT set-off against income tax	**–**	(8,107)	**–**	(8,107)
Net income tax payable/(recoverable)	**–**	–	**–**	–
At the end of the Year	**427**	–	**–**	–

29. RELATED COMPANY BALANCES

As at 31st December,	Consolidated 2010 Receivable Rs. '000	Consolidated 2010 Payable Rs. '000	Consolidated 2009 Receivable Rs. '000	Consolidated 2009 Payable Rs. '000	Company 2010 Receivable Rs. '000	Company 2010 Payable Rs. '000	Company 2009 Receivable Rs. '000	Company 2009 Payable Rs. '000
Subsidiaries								
Kelani Valley Green Tea (Pvt) Ltd.	**–**	**–**	–	–	**29,336**	**–**	12,476	–
Kalupahana Power Co. (Pvt) Ltd.	**–**	**–**	–	–	**19,194**	**–**	19,039	–
Kelani Valley Instant Tea (Pvt) Ltd.	**–**	**–**	–	–	**–**	**795**	3,431	–
Mabroc Teas (Pvt) Ltd.	**–**	**–**	–	–	**–**	**146**	–	–
	–	**–**	–	–	**48,530**	**941**	34,946	–
Other Related Companies								
Dipped Products PLC								
- Current Account	**93,099**	**–**	46,647	–	**93,099**	**–**	46,647	–
- Loan	**–**	**–**	75,000	–	**–**	**–**	75,000	–
Grossart (Pvt) Ltd.	**41,109**	**–**	62,689	–	**41,109**	**–**	62,689	–
Hanwella Rubber Products Ltd.	**2,245**	**–**	8,167	–	**2,245**	**–**	8,167	–
Venigros (Pvt) Ltd.	**17,354**	**–**	–	–	**17,354**	**–**	–	–
Hayleys Agro Products Ltd.	**–**	**4,913**	–	4,825	**–**	**4,913**	–	4,825
Hayleys Agro Fertilizers (Pvt) Ltd.	**–**	**7,476**	–	3,705	**–**	**7,476**	–	3,705
Puritas Ltd.	**–**	**16**	–	–	**–**	**16**	–	–
Mabroc Teas (Pvt) Ltd.	**–**	**–**	–	256	**–**	**–**	–	256
Total	**153,807**	**12,405**	192,503	8,786	**153,807**	**12,405**	192,503	8,786

Debtors pledged as securities for banking facilities obtained amounted to Rs. 153 m (2009 - Rs. 116 m).

30. ASSETS PLEDGED AS SECURITY

Following assets have been pledged as security for liabilities:

Company

Nature of Liability	2010 Facility (Rs. m)	2010 Outstanding (Rs. m)	Security
Overdraft			
Bank of Ceylon	**75**	**Nil**	Concurrent mortgage over stock in trade and debtors.
National Development Bank	**30**	**0.2**	Concurrent mortgage over stock in trade and debtors.
Hatton National Bank	**50**	**Nil**	Promissory Note.
Sampath Bank	**30**	**1.8**	Concurrent mortgage over stock in trade and debtors.

Nature of Liability	2010 Facility (Rs. m)	2010 Outstanding (Rs. m)	Security
Term Loan			
National Development Bank	**255**	**37.7**	Primary Mortgage 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 Loan.
Seylan Bank	**48**	**23.0**	Primary Mortgage over the Leasehold Rights of Robgill and Fordyce Estates.
DFCC Bank	**348**	**198.0**	Primary Mortgage over the Leasehold Rights of Halgolla, 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**	**41.0**	Primary Mortgage over the Sub-Leasehold Rights of Kalupahana Power Co. (Pvt) Ltd., plant, machinery and equipment of the Company.
Mabroc Teas (Pvt) Ltd.			
Overdraft			
Sampath Bank	**16.5**	**10.0**	Fixed deposits of Rs. 19.7 m (Nos. 2029 5097 2398 and 2029 1064 4157.)
National Development Bank	**5**	**1.2**	Primary Mortgage over stock in trade and debtors lying at Kiribathgoda.

Short-term borrowings

	Currency	Facility (Rs. m)	Outstanding (Rs. m)	Security
Foreign currency loans				
Sampath Bank	USD	**200**	**157.0**	Hypothication bond over stock in trade and debtors.
National Development Bank	USD	**200**	**160.9**	Primary Mortgage over stock in trade and debtors lying at Kiribathgoda.

31. RELATED PARTY DISCLOSURES

Company *For the year ended 31st December,*	Name of Director	Nature of Transaction	Amount (Paid)/Received 2010 Rs. '000	2009 Rs. '000
(A) Parent and Ultimate Parent Company				
The Company has controlling related party relationship with its Parent Company DPL Plantations (Pvt) Ltd.				
(i) 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*	Cost of facilities and related services rendered	**(1,577)**	(833)
(ii) Hayleys PLC	A M Pandithage J A G Anandarajah S C Ganegoda	Office space together with other related facilities, finance and secretarial services	**(9,949)**	(8,518)

(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,	**2010** Rs. '000	2009 Rs. '000
Directors' emoluments	**14,608**	12,851

Company	Name of Director	Nature of Transaction	Amount (Paid)/Received	
For the year ended 31st December,			**2010** Rs. '000	2009 Rs. '000
(C) Transactions with Subsidiaries				
(i) Kelani Valley Green Tea (Pvt) Ltd.	A M Pandithage***	Sale of green leaf at cost	**67,074**	Nil
	J A G Anandarajah	Lease rental	**720**	–
	G K Seneviratne			
	B P W Jayasekera**			
(ii) Kalupahana Power Co. (Pvt) Ltd.	J A G Anandarajah	Share of revenue	**1,816**	1,339
	G K Seneviratne	Fund transfers	**–**	(1,590)
	S Siriwardana			
(iii) Kelani Valley Instant Tea (Pvt) Ltd.	A M Pandithage	Sale of black tea	**957**	574
	J A G Anandarajah	Manufacturing charges	**5,028**	4,632
	G K Seneviratne	Administrative charges	**–**	33
	B P W Jayasekera**			
(iv) Mabroc Teas (Pvt) Ltd.	A M Pandithage***	Sale of tea	**20,341**	24,404
	J A G Anandarajah	Purchase of tea	**(4,814)**	(7,847)
	G K Seneviratne			
	B P W Jayasekera**			
	S T Gunatilleke***			

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.

Company	Name of Director	Nature of Transaction	Amount (Paid)/Received	
For the year ended 31st December,			**2010** Rs. '000	2009 Rs. '000
(D) Transactions with Other Related Companies				
(i) Dipped Products PLC	A M Pandithage	Sale of latex	**289,134**	171,865
	J A G Anandarajah	Interest income	**6,545**	23,552
	G K Seneviratne	(Avg. interest rate 9.12% p.a.)		
	R Seevaratnam	Purchase of skim crepe	**(37,327)**	(14,341)
	F Mohideen	Cost of facilities and	**(38,412)**	(1,711)
	N Y Fernando	related services rendered		
	S C Ganegoda	Settlement of loan	**75,000**	175,000
(ii) Venigros (Pvt) Ltd.	A M Pandithage	Sale of latex	**227,735**	114,730
	J A G Anandarajah			
	S C Ganegoda			
(iii) Hanwella Rubber Products Ltd.	A M Pandithage	Sale of latex	**36,808**	42,875
	J A G Anandarajah	Purchase of skim crepe	**–**	(443)

Company	Name of Director	Nature of Transaction	Amount (Paid)/Received	
For the year ended 31st December,			**2010** Rs. '000	2009 Rs. '000
(iv) Grossart (Pvt) Ltd.	A M Pandithage	Sale of latex	**170,143**	71,906
	J A G Anandarajah	Share of software - license fee	**(1,240)**	–
	N Y Fernando S C Ganegoda	Purchase of used motor vehicle	**(4,500)**	–
		Cost of insurance service	**(51)**	(36)
(v) Hayleys Industrial Solutions (Pvt) Ltd.	A M Pandithage S C Ganegoda	Purchase of engineering items and repair charges	**(12,304)**	(8,628)
(vi) Hayleys Agro Fertilizers (Pvt) Ltd.	A M Pandithage S C Ganegoda	Purchase of fertilizers	**(81,349)**	(26,637)
(vii) Hayleys Agro Products Ltd.	A M Pandithage S C Ganegoda	Purchase of chemicals	**(27,240)**	(12,975)
(viii) Volanka Insurance Services (Pvt) Ltd.	A M Pandithage S C Ganegoda	Insurance services	**(12,962)**	(12,802)
(ix) Global Holidays (Pvt) Ltd.	A M Pandithage	Cost of air tickets and related charges	**(1,197)**	(87)
(x) MIT Cargo (Pvt) Ltd.	A M Pandithage S C Ganegoda	Handling and clearing charges	**(123)**	(94)
(xi) Puritas (Pvt) Ltd.	A M Pandithage	Construction of effluent treatment plants and purchase of agro face masks	**(429)**	(2,569)
(xii) Logiventures (Pvt) Ltd.	A M Pandithage S C Ganegoda	Purchase of security seals	**(62)**	(15)
(xiii) Diesel & Motor Engineering PLC	A M Pandithage R Seevaratnam	Purchase of motor vehicles, spare parts and tyres	**(2,131)**	(20)
(xiv) Chartis Insurance Ltd.	A M Pandithage	Insurance services	**(203)**	(241)
(xv) Texnil (Pvt) Ltd.	A M Pandithage J A G Anandarajah S C Ganegoda	Purchase of rubber gloves	**(41)**	(2)
(xvi) Hayleys Consumer Products Ltd.	A M Pandithage S C Ganegoda	Purchase of consumer products	**(112)**	–
		Purchase of used motor vehicles	**(8,000)**	–

* *Appointed w.e.f. 01.05.2010*
** *Retired w.e.f. 16.12.2010*
*** *Appointed w.e.f. 16.12.2010*

The Company has obtained a normal banking facility from Hatton National Bank PLC where Mr. R Seevaratnam, Director of the Company is also a Director.

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 Directors for the current financial year 2011 amounts to Rs. 372,193,000/-.

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	
	2010 Rs. '000	2009 Rs. '000	**2010 Rs. '000**	2009 Rs. '000	**2010 Rs. '000**	2009 Rs. '000	**2010 Rs. '000**	2009 Rs. '000	**2010 Rs. '000**	2009 Rs. '000
Segmental Assets										
Non-current assets	**1,857,388**	1,645,608	**1,362,807**	1,271,323	**125,439**	14,390	**17,893**	201,301	**3,363,527**	3,132,622
Current assets	**818,641**	332,296	**203,786**	144,228	**12,162**	3,174	**406,401**	474,932	**1,440,990**	954,630
Total assets	**2,676,029**	1,977,904	**1,566,593**	1,415,551	**137,601**	17,564	**424,294**	676,233	**4,804,517**	4,087,252
Segmental Liabilities										
Non-current liabilities	**999,805**	853,779	**293,526**	248,949	**37,916**	593	**752,584**	936,334	**2,083,831**	2,039,655
Current liabilities	**585,990**	219,925	**82,244**	80,289	**52,898**	608	**144,285**	167,858	**865,417**	468,680
Total liabilities	**1,585,795**	1,073,704	**375,770**	329,238	**90,814**	1,201	**896,869**	1,104,192	**2,949,248**	2,508,335
Non-Interest Bearing Liabilities										
Deferred tax liability	**-**	–	**-**	–	**-**	–	**147,438**	120,836	**147,438**	120,836
Retirement benefit obligations	**663,592**	546,696	**144,469**	113,855	**224**	324	**63,123**	72,037	**871,408**	732,912
Trade and other payables	**257,381**	219,855	**82,244**	80,288	**14,705**	608	**88,709**	58,025	**443,039**	358,777
Total depreciation	**69,204**	66,903	**47,505**	43,863	**8,780**	4,448	**-**	4,483	**125,489**	119,697
Lease amortisation	**12,031**	12,174	**11,517**	11,374	**-**	–	**146**	146	**23,694**	23,694
Capital expenditure	**109,958**	158,109	**161,477**	116,340	**657**	4,022	**20,414**	19,847	**292,506**	298,318

Company

	Tea		Rubber		Others		Unallocated		Total	
	2010 Rs. '000	2009 Rs. '000	**2010 Rs. '000**	2009 Rs. '000	**2010 Rs. '000**	2009 Rs. '000	**2010 Rs. '000**	2009 Rs. '000	**2010 Rs. '000**	2009 Rs. '000
Segmental Assets										
Non-current assets	**1,631,618**	1,592,410	**1,362,807**	1,271,323	**13,790**	14,390	**328,593**	95,635	**3,336,808**	2,973,758
Current assets	**350,094**	343,254	**203,786**	144,228	**1,231**	3,174	**425,595**	488,414	**980,705**	979,070
Total assets	**1,981,712**	1,935,664	**1,566,593**	1,415,551	**15,021**	17,564	**754,188**	584,049	**4,317,513**	3,952,828
Segmental Liabilities										
Non-current liabilities	**980,970**	853,069	**293,526**	248,949	**418**	592.663	**752,584**	887,257	**2,027,497**	1,989,868
Current liabilities	**213,694**	219,724	**82,244**	80,289	**230**	608	**163,478**	137,590	**459,646**	438,211
Total liabilities	**1,194,664**	1,072,793	**375,770**	329,238	**648**	1,201	**916,062**	1,024,847	**2,487,143**	2,428,079
Non-Interest Bearing Liabilities										
Deferred tax liability	**-**	–	**-**	–	**-**	–	**126,673**	113,949	**126,673**	113,949
Retirement benefit obligations	**651,014**	546,696	**144,469**	113,855	**149**	324	**63,123**	71,992	**858,754**	732,867
Trade and other payables	**213,694**	219,724	**82,244**	80,288	**230**	608	**88,709**	43,857	**384,877**	344,478
Total depreciation	**65,726**	63,810	**47,505**	43,863	**4,297**	4,448	**-**	–	**117,527**	112,121
Lease amortisation	**12,031**	12,174	**11,517**	11,374	**-**	–	**146**	146	**23,694**	23,694
Capital expenditure	**109,723**	151,630	**161,477**	116,340	**657**	4,022	**20,414**	19,847	**292,271**	291,838

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

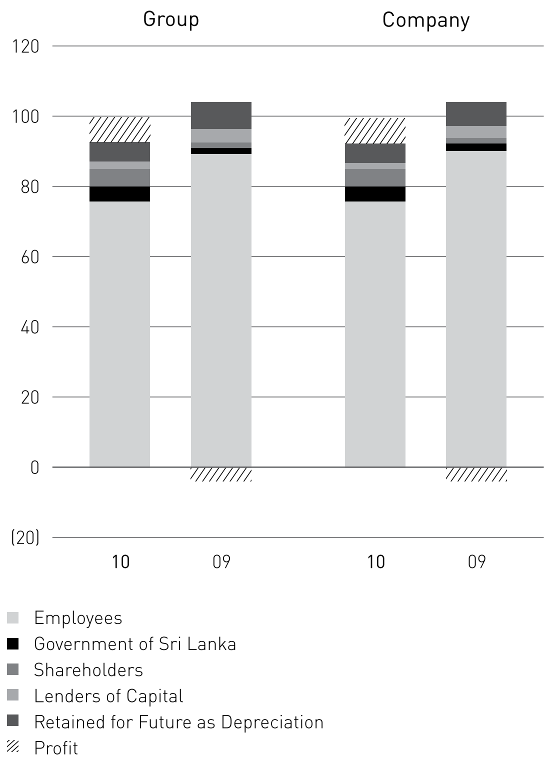
Year ended 31st December,	**2010 Rs. '000**	2009 Rs. '000	2008 Rs. '000	2007 Rs. '000	2006 Rs. '000	2005 Rs. '000	2004 Rs. '000	2003 Rs. '000	2002 Rs. '000	2001 Rs. '000
TRADING RESULTS										
Revenue	**3,880,381**	2,860,004	3,108,571	2,827,974	2,330,297	1,918,465	1,740,230	1,549,094	1,395,233	1,293,587
Gross profit	**568,030**	134,964	455,435	560,263	435,401	262,902	305,269	244,045	171,799	131,510
Profit before tax	**355,690**	(27,783)	300,276	435,267	291,403	151,632	218,075	141,030	66,880	41,693
Profit after tax	**326,152**	(40,565)	278,765	410,010	255,849	151,974	200,802	106,033	56,522	41,693
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	**1,500,627**	1,216,593	1,378,208	1,289,356	993,445	715,711	646,309	495,483	423,450	392,429
Shareholders' funds	**1,840,627**	1,556,593	1,718,208	1,629,356	1,333,445	1,055,711	986,309	835,483	763,450	732,429
Minority interest	**14,642**	22,324	20,274	8,792	10,753	11,487	7,913	–	–	–
Net liability to lessor	**357,693**	362,854	367,813	372,602	377,159	381,539	385,749	389,795	393,684	397,422
Long-term loans	**226,414**	379,978	449,423	370,685	285,932	190,230	156,658	147,851	196,592	254,848
Bank borrowings	**13,158**	473	116,766	2,582	1,348	15,019	28,097	15,737	22,367	13,085
	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	1,397,784
ASSETS EMPLOYED										
Non-current assets	**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	1,591,808
Current assets	**1,440,990**	954,630	1,101,238	1,115,810	754,288	500,806	560,408	410,284	487,805	505,538
Current liabilities	**(852,259)**	(468,207)	(353,441)	(357,364)	(245,471)	(231,610)	(226,931)	(165,279)	(183,699)	(151,888)
Provision for retiring gratuity	**(871,408)**	(732,912)	(578,457)	(527,716)	(424,478)	(344,963)	(312,169)	(308,717)	(289,584)	(285,859)
Deferred taxation	**(147,438)**	(120,836)	(128,927)	(119,638)	(91,806)	(65,679)	(82,134)	(82,134)	(51,640)	(41,282)
Negative goodwill/ revaluation reserve	**–**	–	–	–	–	(89,152)	(96,581)	(104,010)	(111,439)	(118,868)
Grants & subsidies	**(480,878)**	(443,075)	(346,191)	(246,277)	(205,169)	(190,843)	(168,275)	(139,630)	(114,603)	(101,665)
Capital Employed	**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	1,397,784
KEY INDICATORS										
Gross profit margin %	**14.6**	4.7	14.7	19.8	18.7	13.7	17.5	15.8	12.3	10.2
Current ratio (times)	**1.7**	2.0	2.3	3.1	3.1	2.0	2.2	2.3	2.4	3.1
Turnover to capital employed (times)	**1.6**	1.2	1.2	1.2	1.2	1.2	1.1	1.1	1.0	0.9
Return on shareholders' fund %	**17.5**	(2.6)	16.2	25.2	19.2	14.4	20.4	12.7	7.4	5.7
Earning per share (Rs.)	**9.43**	(1.25)	8.11	12.20	7.55	4.54	5.94	3.12	1.66	1.23
Dividend per share (Rs.)	**4.00**	1.00	3.50	5.50	3.50	2.00	2.50	1.50	1.00	0.75
Dividend payout ratio %	**42**	–	43	45	46	44	42	48	60	61
Price earnings (Times)	**16.9**	–	5.9	4.6	7.0	5.9	2.9	4.5	6.2	10.4
Market value (Rs.)	**159.90**	53.00	47.50	56.25	53.00	27.00	17.50	14.00	10.25	12.75

Statement of Value Addition

For the year ended 31st December,	Group		Company	
	2010 Rs. m	2009 Rs. m	**2010 Rs. m**	2009 Rs. m
Revenue	**3,880**	2,860	**3,811**	2,825
Other income	**88**	79	**90**	80
	3,968	2,939	**3,901**	2,905
Cost of material and services obtained	**(1,399)**	(985)	**(1,353)**	(979)
Value addition	**2,569**	1,954	**2,548**	1,926

Value created shared with		%		%		%		%
Employees	**1,943**	76	1,740	89	**1,934**	76	1,736	90
Government of Sri Lanka	**115**	4	39	2	**102**	4	36	2
Shareholders	**136**	5	34	2	**136**	5	34	2
Lenders of capital	**48**	2	73	4	**42**	2	63	3
Retained for future - Depreciation	**149**	6	143	7	**141**	6	136	7
Profit/(loss)	**178**	7	(75)	(4)	**193**	7	(79)	(4)
	2,569	100	1,954	100	**2,548**	100	1,926	100

Distribution of Value Addition %



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, 2010 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, 2010

Number of Shareholders 14,903.

No. of Shares held			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	14,744	1,929,281	5.6744	4	3,300	0.0097	14,748	1,932,581	5.6841
1,001	_	10,000	117	394,892	1.1614	2	3,600	0.0106	119	398,492	1.1720
10,001	_	100,000	33	1,158,781	3.4082	3	90,300	0.2656	36	1,249,081	3.6738
100,001	_	1,000,000	6	1,623,546	4.7751	–	–	–	6	1,623,546	4.7751
OVER		1,000,000	3	28,796,300	84.6950	–	–	–	3	28,796,300	84.6950
			14,903	**33,902,800**	**99.7141**	**9**	**97,200**	**0.2859**	**14,912**	**34,000,000**	**100.0000**

No. of Shares held	Residents			Non-Residents			Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individuals	14,842	3,087,765	9.0817	6	24,400	0.0718	14,848	3,112,165	9.1534
Institutions	61	30,815,035	90.6325	3	72,800	0.2141	64	30,887,835	90.8466
	14,903	**33,902,800**	**99.7141**	**9**	**97,200**	**0.2859**	**14,912**	**34,000,000**	**100.0000**

3. MARKET VALUE

The market value of Kelani Valley Plantations PLC ordinary shares :

	2010		2009	
Highest - Rs.	**210.00**	(28th September, 2010)	62.00	(20th February, 2009)
Lowest - Rs.	**40.00**	(7th April, 2010)	44.00	(24th March, 2009)
Year end - Rs.	**159.90**		53.00	

4. DIVIDEND PAYMENT

The fist and final proposed dividend of Rs. 4.00 per share is to be declared on 31st March, 2011 and payable on 11th April, 2011 (2009 - Rs. 1.00).

5. SHARE TRADING

	2010	2009
No. of transactions	**2,407**	924
No. of shares traded	**4,265,600**	2,230,500
Value of shares traded (Rs.)	**329,191,980**	113,748,325

6. FIRST TWENTY SHAREHOLDERS AS AT 31ST DECEMBER, 2010

	Name of Shareholder	No. of Shares as at 31.12.10	%	No. of Shares as at 31.12.09	%
1.	DPL Plantations (Pvt) Ltd.	24,200,000	71.18	24,200,000	71.18
2.	Waldock Mackenzie Ltd./Mr. Lalith Prabash Hapangama	2,794,500	8.22	2,747,900	8.08
3.	Bank of Ceylon A/C Ceybank Unit Trust	1,801,800	5.30	1,234,800	3.63
4.	Mabroc Holdings (Pvt) Ltd.	512,746	1.51	512,746	1.51
5.	Bank of Ceylon A/C Ceybank Century Growth Fund	425,400	1.25	64,700	0.19
6.	Aviva NDB Insurance PLC A/C No. 7	347,000	1.02	186,300	0.55
7.	Mr. M M Udeshi	118,000	0.35	128,500	0.38
8.	Mr. H G Carimjee	110,800	0.33	110,800	0.33
9.	Aviva NDB Insurance PLC A/C No. 3	109,600	0.32	171,000	0.50
10.	Dr. (Mrs.) V Sivaprakasapillai	100,000	0.29	100,000	0.29
11.	Employees Provident Fund	83,600	0.25	80,100	0.24
12.	Cargo Boat Development Company Ltd.	76,900	0.23	76,900	0.23
13.	Dr. D Jayanntha	76,500	0.23	76,500	0.23
14.	Mr. M I Abdul Hameed	70,600	0.21	70,600	0.21
15.	MAS Capital (Pvt) Ltd.	57,600	0.17	52,600	0.15
16.	Mrs. P N Bhatt	51,500	0.15	51,500	0.15
17.	Mrs. R S De Mel	50,000	0.15	50,000	0.15
18.	HSBC International Nominees Ltd. - SSBT- Deutsche Bank	50,000	0.15	50,000	0.15
19.	Cocoshell Activated Carbon Company Ltd.	46,700	0.14	78,800	0.23
20.	Mr. K C Vignarajah	44,500	0.13	40,500	0.12
	Total	**31,127,746**	**91.58**	**30,084,246**	**88.50**

Glossary

FINANCIAL TERMS

Accounting Policies

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

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.

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.

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.

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.

Gearing

Proportion of total interest-bearing borrowings to capital employed.

IAS

International Accounting Standards.

IFRS

International Financial Reporting Standards.

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 assumptions.

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.

Yield (YPH)

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

TASL

Tea Association of Sri Lanka.

HACCP

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

Notice of Meeting

KELANI VALLEY PLANTATIONS PLC
COMPANY NUMBER PQ 58

NOTICE IS HEREBY GIVEN that the Nineteenth 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, 31st March, 2011 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, 2010, with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Directors.
3. To re-elect Mr. S T Gunathilleke, who has been appointed by the Board, since the last Annual General Meeting, a Director.
4. To re-elect Mr. F Mohideen, who retires by rotation at the Annual General Meeting, a Director.
5. To re-elect Mr. R Seevaratnam, who retires by rotation at the Annual General Meeting, a Director.
6. To authorise the Directors to determine contributions to charities.
7. To authorise Directors to determine the remuneration of the Auditors, Messrs KPMG Ford, Rhodes, Thornton & Co., who are deemed to have been reappointed as Auditors in terms of Section 158 of the Companies Act No. 07 of 2007.
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 29th March, 2011.

(ii) It is proposed to post ordinary dividend warrants on 11th April, 2011 and in accordance with the rules of the Colombo Stock Exchange, the shares of the Company will be quoted ex-dividend with effect from 1st April, 2011.

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

Secretaries

Colombo
22nd February, 2011

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, speak and vote as indicated hereunder for me/us* and on my/our* behalf at the Nineteenth Annual General Meeting of the Company to be held on Thursday, 31st March, 2011 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, 2010 with the Report of the Auditors thereon.		
2. To declare a dividend as recommended by the Directors.		
3. To re-elect Mr. S T Gunathilleke, who has been appointed to the Board since the last Annual General Meeting, a Director.		
4. To re-elect Mr. F Mohideen, who retires by rotation at the last Annual General Meeting, a Director.		
5. To re-elect Mr. R Seevaratnam who retires by rotation at the last Annual General Meeting, a Director.		
6. To authorise the Directors to determine contributions to charities.		
7. To authorise Directors to determine the remuneration of the Auditors, Messrs KPMG, Ford, Rhodes, Thornton & Co., who are deemed to have been reappointed as Auditors in terms of Section 158 of the Companies Act No. 07 of 2007.		

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

As witness my/our* hands this .... day of .... 2011.

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

....
Signature of Shareholder

*Note: *Please delete the inappropriate words.*

1. A proxy need not be a shareholder 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, No. 400, Deans Road, Colombo 10, by 3.00 p.m. on Tuesday, 29th March 2011.
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 of the Company) 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
G K Seneviratne - Managing Director
B P W Jayasekera
(Resigned w.e.f. 16th December 2010)
R Seevaratnam
F Mohideen
N Y Fernando
S Siriwardana
S C Ganegoda
L T Samarawickrama
S T Gunatilleke*

** Appointed on 01st May, 2010 as an alternate Director to Mr. S C Ganegoda and subsequently appointed as Director on 15th January, 2011*

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: 2683964, 2694215, 2686274/5, 4712746
Fax: 2694216
e-mail: postmaster@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

LEGAL ADVISORS
Julius & Creasy
Attorneys-at-Law
P.O. Box 154
Colombo, Sri Lanka

FSC
Mixed Sources
Product group from well-managed forests and other controlled sources
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A VisageSpice Annual Report

Kelani Valley Plantations PLC
400, Deans Road
Colombo 10
Sri Lanka