



## PROGRESSIVELY FOCUSED ON THE FUTURE

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TEA SMALLHOLDER FACTORIES PLC | ANNUAL REPORT 2019/20





## PROGRESSIVELY FOCUSED ON THE FUTURE

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At Tea Smallholder Factories PLC, we believe that faith can move mountains. Faith in our team. Faith in our product. Faith in our partners. Together, we look to the future, ready once more to rise to the challenge. We aspire to surpass industry benchmarks, by our consistent delivery of products and services of value to our loyal clients.

Here, we recognise the people and relationships who have guided and unconditionally supported us throughout our 26 year long journey. Like any journey, the road has not always been smooth, but we have come out stronger for it. It is with immense pride that we look back on our last year, at everything we've achieved and endured as one family.

# CONTENTS

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## HIGHLIGHTS

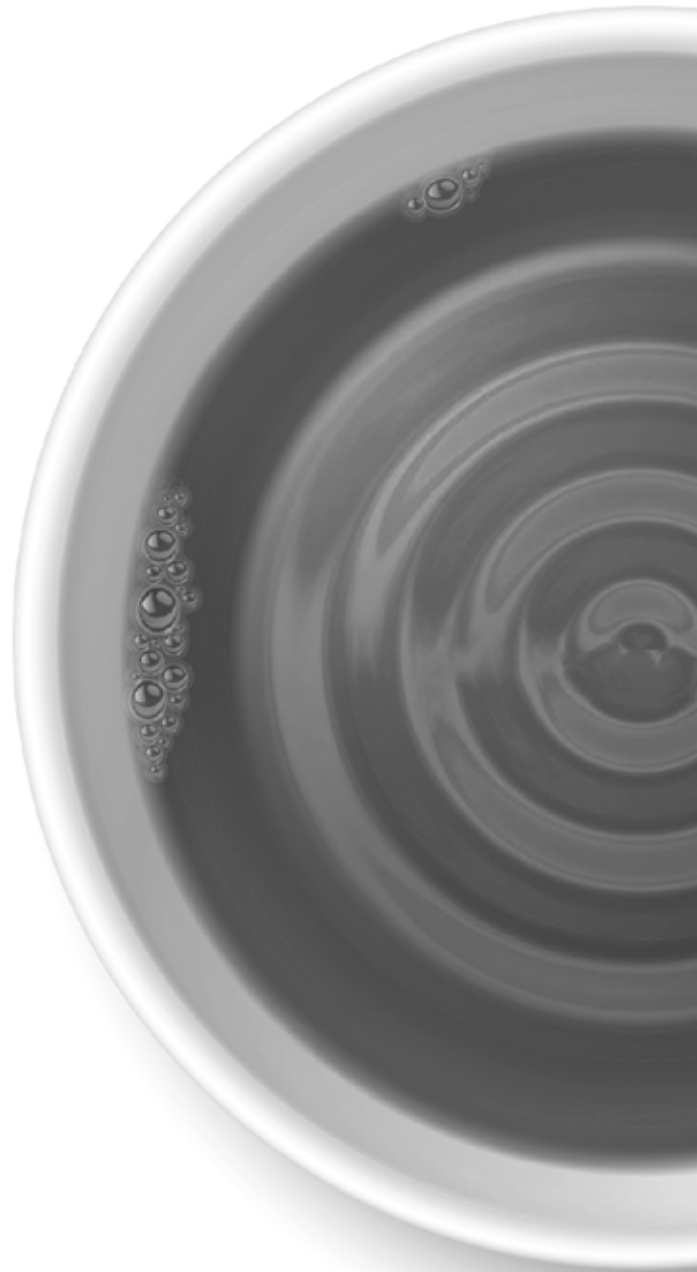
- Vision, Mission and Goals / **4**
- About this Report / **5**
- About Us / **6**
- Milestones / **8**
- Performance Highlights / **10**
- Year at a Glance / **12**
- Chairman's Review / **14**
- Board of Directors / **18**
- Management Team / **22**

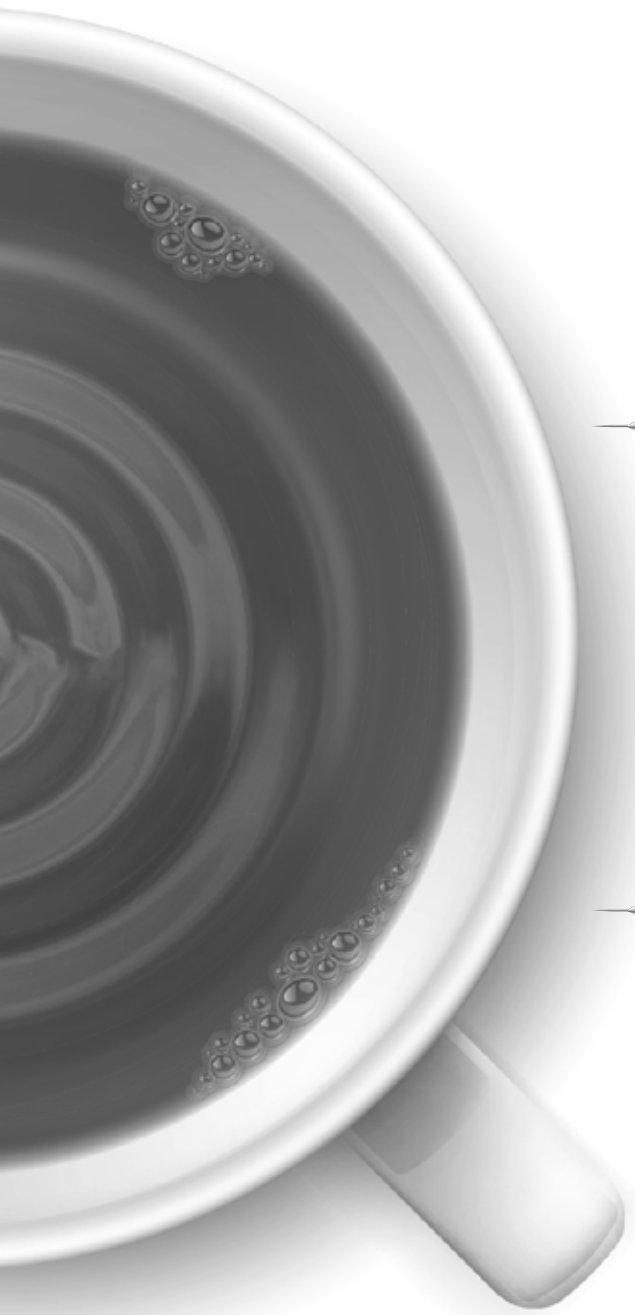
## MANAGEMENT DISCUSSION AND ANALYSIS

- Global & Sri Lankan Economy Overview / **24**
- Tea Industry Overview / **26**
- Operations Review / **30**
- Sustainability Report / **34**
- Financial Review / **44**

## GOVERNANCE

- Corporate Governance / **50**
- Risk Management / **68**
- Report of the Board Audit Committee / **73**
- Report of the Related Party Transaction Review Committee / **76**
- Annual Report of the Board of Directors / **77**
- Statement of Directors' Responsibility / **82**





## FINANCIAL STATEMENTS

Independent Auditors' Report / **85**  
Income Statement / **88**  
Statement of Comprehensive Income / **89**  
Statement of Financial Position / **90**  
Statement of Changes in Equity / **91**  
Statement of Cash Flows / **92**  
Notes to the Financial Statements / **94**



## SUPPLEMENTARY INFORMATION

Statement of Economic Value Added / **140**  
Information to Shareholders and Investors / **141**  
Real Estate Details of the Company page / **145**  
Five Year Financial Summary and Key Indicators / **146**  
Quarterly Financial Information / **148**  
Glossary of Financial Terminology / **150**  
Corporate Information / **Inner Back Cover**



## FINANCIAL CALENDAR

### INTERIM FINANCIAL STATEMENTS

1st Quarter	July	25, 2019
2nd Quarter	October	24, 2019
3rd Quarter	January	17, 2020
4th Quarter	May	21, 2020

### ANNUAL REPORTS

2018 / 2019	May	24, 2019
2019 / 2020	May	21, 2020

### MEETINGS

25th Annual General Meeting	June 27, 2019
26th Annual General Meeting	will be notified to Shareholders in due course

### DIVIDENDS 2018/2019

First and Final - Rs. 1.70 per share paid on June 14, 2019



## VISION

To be the best managed bought leaf processing company in Sri Lanka and to contribute to the socio-economic growth of the country.



## MISSION

To be recognized as a leading manufacturer and seller of quality tea, to improve the economic well-being of tea small holders and to make a positive contribution to all our stakeholders.



## GOALS

- Enhancing the quality of the product, to achieve the best gross sale averages in the respective regions as well as nationally.
- To introduce/improve machinery components in manufacture, which while reducing costs, will ensure better management in key areas of the process.
- To automate selected processes in manufacture.
- To increase productivity of our workforce in order to reduce cost of manufacture.
- Training of the workforce in order to improve their knowledge, skills and attitudes.
- To improve Management Information Systems of the Company.

# WELCOME TO OUR ANNUAL REPORT

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This report is organized around Tea Smallholder Factories PLC's story of value creation unique to its stakeholders while upholding best practices in reporting. The Board's stewardship role brings upon it an obligation to be transparent and accountable to potential investors who seek information relating to the value creating ability of the Company in the short, medium and long term.

Laws and regulations require publication of financial statements, reports, other statements and disclosure of specified information. Whilst this Annual Report is prepared and presented to satisfy the aforesaid requirements, Information contained in this Report has been reviewed as applicable by the Board of Directors, Board Audit Committee of the Company, Independent Auditors and the Management Committee.

## Reporting Scope and Boundaries

This report covers our operations across 7 tea factories located in the low grown region as well as the corporate office located in Colombo, spanning for the period of twelve months ending 31st March 2020.

Management discussion and analysis appearing from pages 24 to 48 identifies the activities and review of the performance of the Company.

The Financial Statements and the related notes of the Company appearing from pages 85 to 138 are prepared in line with the Sri Lanka Accounting Standards (SLFRSs/LKASs) issued by CA Sri Lanka provides information on financial reporting boundary of the Company. Financial Statements have been audited by M/s Ernst & Young, Chartered Accountants.

## Feed back

Any feedback or clarifications regarding this report can be directed to:

**Ms. K. D. Weerasinghe**

Chief Financial Officer

Tea Smallholder Factories PLC

No. 4, Leyden Bastian Road,

Colombo 1.

E-mail: devika@keells.com

## Standards & Principals

### Financial Reporting

Sri Lanka Financial Reporting Standards (SLFRSs/LKASs) issued by the Institute of Chartered Accountants of Sri Lanka

### Governance, Risk Management and Operations

- Laws and regulations of the Companies Act No. 7 of 2007
- Listing Rules of the Colombo Stock Exchange (CSE) and subsequent revisions to date
- Code of best practice on Related Party Transactions (RPT) published by the SEC
- Code of Best Practices on Corporate Governance jointly advocated by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka.

# ABOUT US

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Tea Smallholder Factories PLC is registered as a Limited Liability Company incorporated and domiciled in Sri Lanka, under the Companies Act No. 17 of 1982 (re-registered under the Companies Act No. 07 of 2007) and is listed in the Colombo Stock Exchange under “Food, Beverage and Tobacco” Sector. The Company is a subsidiary of John Keells Holdings (JKH) PLC and is managed by John Keells Teas (Private) Limited, a fully owned subsidiary of JKH.

The registered office and principal place of business of the Company is located at No. 4, Leyden Bastian Road, Colombo 1, Sri Lanka.

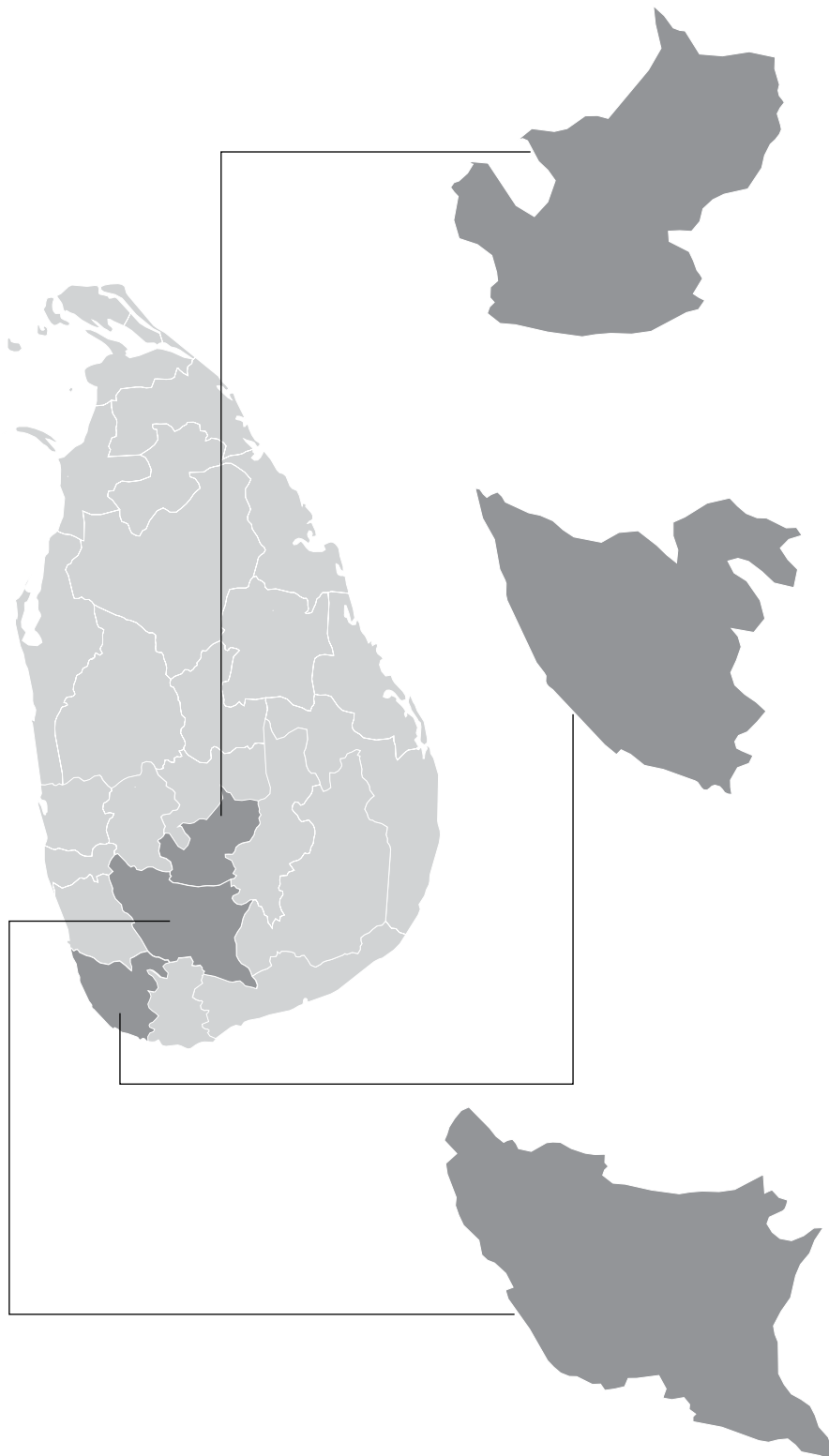
The Company operates seven (7) tea factories in the low grown region of Sri Lanka and is located in the regions of Galle, Ratnapura and Ginigathena. The principal business activity of the Company is processing green leaf procured from suppliers comprising of tea small holders and green leaf collectors and sale of processed black tea through the Colombo Tea Auction which is conducted by the Colombo Tea Traders’ Association [CTTA] under the aegis of the Ceylon Chamber of Commerce.

The Company during the financial year 2019/2020 purchased green leaf from a supplier base of fourteen thousand four hundred and thirty one (14,431), which is approximately 2.75 percent of the total tea small holders registered in the low grown region of Sri Lanka.

Pasgoda Tea Factory located in the low grown region of Sri Lanka was sold on 17th May 2019. Accordingly, the performance is separately identified, and the asset was classified as non-current assets held for sale and as a discontinued operation in accordance with Sri Lanka Accounting Standards.







NUWARA ELIYA		
1 Factory	3,560 Small Holder Suppliers	
• Broadlands Tea Factory		
952,000 Annual Production Capacity (kg)	3,560 Registered green leaf suppliers	Low Grown Orthodox Type of manufacture

GALLE		
4 Factories	4,087 Small Holder Suppliers	
• Neluwa Tea Factory		
883,000 Annual Production Capacity (kg)	1,464 Registered green leaf suppliers	Low Grown Orthodox Type of manufacture
• Halwitigala Tea Factory		
888,000 Annual Production Capacity (kg)	822 Registered green leaf suppliers	Low Grown Orthodox Type of manufacture
• Hingalgoda Tea Factory		
1,075,000 Annual Production Capacity (kg)	849 Registered green leaf suppliers	Low Grown Orthodox and CTC Type of manufacture
• Kurupanawa Tea Factory		
888,000 Annual Production Capacity (kg)	952 Registered green leaf suppliers	Low Grown Orthodox Type of manufacture

RATNAPURA		
2 Factories	6,784 Small Holder Suppliers	
• New Panawenna Tea Factory		
1,115,000 Annual Production Capacity (kg)	5,541 Registered green leaf suppliers	Low Grown Orthodox Type of manufacture
• Karawita Tea Factory		
1,294,000 Annual Production Capacity (kg)	1,243 Registered green leaf suppliers	Low Grown Orthodox Type of manufacture

# MILESTONES

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Incorporation of Tea Smallholder Factories Limited (TSFL) under the provisions of the Conversion of Public Corporations and Government Owned Business Undertakings to Public Companies Act No. 23 of 1987.

1991

Divesting of 51% of the shares of TSFL by Secretary to the Treasury to a Consortium comprising of John Keells Holdings Limited, Central Finance Company Limited and National Development Bank of Sri Lanka.

1994

Divesting of 19% and 20% shares to registered tea small holders of the Company and the general public respectively. Gifting of the balance 10% of the shares to the employees of the Company

1996

Construction of a new automated tea factory.

1999

Construction of a Warehouse at Peliyagoda.

2000

Hingalgoda tea factory was awarded the Specialty Tea of the Year Award for manufacturing quality CTC teas by the Colombo Tea Traders' Association.

2003

The Company received two Awards of "Excellence for Outstanding Performance" at the Specialty Tea of the Year 2006 conducted by the Colombo Tea Traders' Association.

2006

The Company was honoured at the launch of the 2008 – 2012 National Plantations Development Programme in recognition of achieving ISO 22000 : 2005 / HACCP certification for its factories.

2008

The Company won the Silver Flame Award in the Manufacturing Sector at the Sri Lanka National Energy Efficiency Awards.

2010

A project was launched to assist tea small holders to replant their lands which continues to date.

2011

Hingalgoda tea factory was adjudged Best Tea Factory (Medium Scale) in the Galle Region at the National Plantation Awards.

2012

The Company recorded the highest price per kilogram at the Colombo Tea Auction in comparison with all institutions in the category of sale "Low Grown".

2015

The Company achieved an all-time record average price for tea in the Colombo Tea Auction.

The Company invested in automating the green leaf and fired tea weighing process at New Panawenna and Karawita tea factories.

2016

The Company achieved all-time record prices for CTC tea in the Colombo Tea Auction.

Hingalgoda and Neluwa factories were adjudged second and third best factories (Medium Scale) in the Galle Region for their performances at the National Tea Awards Ceremony organized by the Sri Lanka Tea Board.

2017

2018 - Hingalgoda Tea Factory achieved the highest average for CTC teas in 2018.

The sale average of Tea Smallholder Factories PLC was the second highest recorded by institutions that markets its teas in the low grown category, as published by the Sri Lanka Tea Board.

2018

The Company achieved all-time record prices for CTC tea in the Colombo Tea Auction.

Hingalgoda Tea Factory was adjudged as the Best CTC (Crush Tear and Curl) Producer Island wide in 2019 at the Annual General Meeting of the Tea Exporters Association of Sri Lanka.

Hingalgoda Tea Factory achieved an all-time record price at the weekly tea auction on 10th December 2019 by securing an attractive price of Rs.1,100 per kg for a PF1 grade in the Low Grown CTC category.

2019

# PERFORMANCE HIGHLIGHTS

## Financial Highlights

Key Performance Indicators		2020	2019	2018
Production	Kg. '000	3,438	3,751	4,319
Net Sale Average	Rs. / kg	578.93	582.62	639.15
Premium over Low Grown Elevation Average	%	2.69	0.85	1.72
<b>Result of the Year</b>				
Revenue from Contracts with Customers *	Rs.000s	2,109,139	2,171,257	2,679,634
Profit / (Loss) from Operations *	Rs.000s	(8,360)	(16,800)	94,555
Profit Before Tax (PBT) *	Rs.000s	30,938	37,830	272,270
Profit After Tax (PAT)	Rs.000s	104,086	51,318	244,072
Earnings per Share (EPS) *	Rs.	3.47	1.71	8.14
Dividend Paid	Rs.000s	51,000	60,000	51,000
Return on Assets	%	6.3	3.0	15.6
EPS Growth	%	103	(79)	187
Price Earning Ratio	times	5.5	14.1	4.2
Interest Cover	times	8.4	9.1	135.9
Pre-tax Return on Capital Employed (Pre-tax ROCE)	%	2.6	3.3	23.8
Return on Equity (ROE)	%	7.7	4.0	21.2
* Includes Discontinued Operation				
<b>Financial Position at the Year End</b>				
Total Assets	Rs.000s	1,644,202	1,699,444	1,716,067
Total Equity	Rs.000s	1,418,885	1,296,480	1,279,313
Net Current Assets	Rs.000s	293,749	338,063	318,199
Current Liabilities	Rs.000s	90,008	177,008	207,901
Non Current Liabilities	Rs.000s	135,309	225,956	228,853
Capital Employed	Rs.000s	1,419,388	1,300,510	1,285,413
<b>Market / Shareholder Information</b>				
No. of Shares in Issue	000s	30,000	30,000	30,000
Net Assets per Share	Rs.	47.30	43.22	42.64
Market Price per Share - End March	Rs.	19.10	24.10	34.00
Debt / Equity	times	0.00	0.00	0.00
Market Capitalisation	Rs.000s	573,000	723,000	1,020,000
Annual Turnover Growth	%	(2.86)	(18.97)	15.88
Current Ratio	times	4.26	2.91	2.53
Quick Asset Ratio	times	2.24	1.22	1.04
Gross Turnover per Employee	Rs.	3,700	3,843	4,628
Dividend per Share	Rs.	1.70	2.00	1.70
Dividend Payout	%	49.0	116.9	20.9
Dividend Yield	%	8.9	8.3	5.0
Market Value Added	Rs.000s	(845,885)	(573,479)	(259,313)



**16.79** Mn. Kg  
of Green  
Leaf



**0.85** kWh/kg  
Electricity  
Intensity



**11,553** m<sup>3</sup>  
Water  
Consumption



**124,968** litres  
Fuel  
Consumption



**171** kg/m<sup>3</sup>  
Bio-mass Output

### Total Revenue

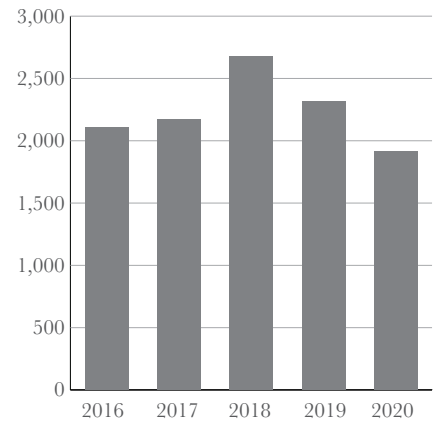
LKR Billion

**2.11**

**2018/19**  
**LKR 2.17 Bn**

### Revenue

*Rs. Millions*



### Net Assets

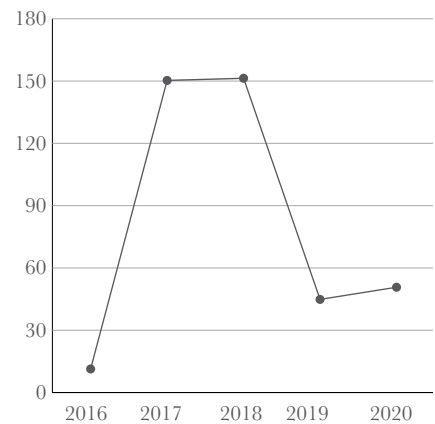
LKR Billion

**1.42**

**2018/19**  
**LKR 1.30 Bn**

### EBITDA

*Rs. Mn*



### Profit Before Tax

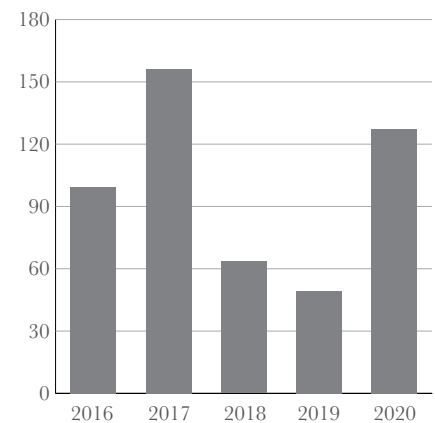
LKR Million

**30.94**

**2018/19**  
**LKR 37.83 Mn**

### Cash Generated from Operations

*Rs. Millions*



# YEAR AT A GLANCE

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## APRIL

- A new replanting project for the financial year 2019/20 was commenced with the participation of 30 small holders covering 22 acres. Accordingly, a total of 8 replanting projects are currently in progress with the participation of 344 small holders covering 238 acres.

## JULY

- A marginal improvement on the demand of select best category teas was noted whilst irregular demand was noted for the balance.
- The ISO:22000 re-certification audit for the Company was carried out and confirmed as compliant.

## OCTOBER

- The demand for low grown teas improved further due to the reduced auction volumes.
- The installation of a 2 ton steam boiler at Broadlands tea factory was carried out to improve the efficiency of the Tea Drier.
- 57 Cataract operations were completed from the 87 patients identified in the eye camp held previously at Hingalgoda tea factory

## MAY

- A sharp decline of Rs 38 per Kg for low grown teas was recorded with less buyer interest for all categories of teas.
- The cleaning of Hiniduma Hospital premises was carried out with volunteers from Hingalgoda and Halwitigala tea factories.

## AUGUST

- Improved demand for low grown teas was noted whilst the below best category met with less buyer interest.

## NOVEMBER

- The low grown teas met with renewed buying interest mainly due to the lower volumes on offer coupled with the "Winter Buying" by Russia.
- Neluwa, Halwitigala and Hingalgoda factories in Galle organized a workshop for the benefit of O/Level students in the Neluwa and Thawalama area at Neluwa National School.
- The inauguration of the JKELSP in Rathnapura and Galle took place on the 20th and 24th of November respectively with the participation of the TSFPLC factory superintendents and representatives from Gateway International School.

## JUNE

- The downward trend in the market for low grown teas continued resulting in a decline of 42.92 per Kg. The low grown average for the month was Rs 526.88 per Kg.
- A blood donation camp was arranged by Neluwa tea factory.
- Karawita tea factory carried out a Dengue prevention awareness programme for the benefit of the small holders and villagers.

## SEPTEMBER

- A new ERP system was implemented to all 7 factories and the head office.
- Hingalgoda tea factory was adjudged the Best CTC (Crush Tear and Curl) Producer Island wide in 2019 at the Annual General Meeting of the Tea Exporters Association of Sri Lanka
- A forestry planting project was initiated with a collaboration of the CIC Fertilizer Company by distributing 1000 Albizzia plants to 113 small holders.

## DECEMBER

- Tea Smallholder Factories PLC was recognized with a Gold award at the 55th Annual Report Awards by the Institute of Chartered Accountants of Sri Lanka under the category of “Manufacturing sector up to 5 Bn Turnover”. The event was held on Tuesday, 3rd December 2019 at the Shangri-La hotel, Colombo.
- New Panawenna tea factory carried out a dengue prevention awareness programme for the benefit of the small holders and villagers.

## FEBRUARY

- Production declined sharply as the drought conditions worsened. Sri Lanka low grown production was lower YOY by 28%
- Tea growing areas suffered casualties due to the lack of rain and fertilizer.
- Broadlands tea factory obtained the Rain Forest Alliance certification, certifying all small holder suppliers as being compliant with the RA standards.
- Hingalgoda, Kurupanawa, Halwitigala and Neluwa factories in the Galle region provided floor tiles for the renovation of the floor of the Hingalgoda Shashodyaramaya Temple, on a request made by the Chief priest.

## JANUARY

- Production declined due to dry weather conditions
- The market for the low grown teas improved mainly due to the reduced auction volumes subsequent to the lower production.
- Tea Smallholder Factories PLC celebrated the 150th Anniversary of JKH by participating in the online pledge #JKH150 promise.

## MARCH

- Production recorded an all-time low for the Company due to shortage of quality green leaf due to the drought.
- Sri Lanka low grown production reduced by 60 % YOY.
- The market for low grown teas met with a steady demand due to less availability on offer.
- COVID-19 Outbreak  
Following the outbreak of the COVID-19 virus in Sri Lanka, the government imposed a lock-down.  
The factories functioned as the government identified the tea industry as “Essential Industry” in terms of export earnings.  
Extensive precautions were taken at the factories to ensure the Health and Safety of all staff, workers and suppliers.  
Two tea sales (Sale no’s 12 and 13) scheduled to be held in March were rescheduled for April following the lock-down in Sri Lanka after the outbreak of the COVID-19  
The public auctions (Outcry) system was suspended and for the first time of the 150 year old tea industry, an “Online Tea Auction” was planned to be conducted in April 2020.
- The annual new year bonus (a fund with contributions from the supplier and the Company) of Rs 14.02 Mn was distributed to the tea small holders of Neluwa, Hingalgoda, Halwitigala and Kurupanawa tea factories towards strengthening loyalty.
- New Panawenna tea factory conducted an eye camp on 13th March 2020 for the benefit of 142 small holders and the surrounding community in the Handurukanda village, at the Handurukanda Temple premises.

# CHAIRMAN'S REVIEW

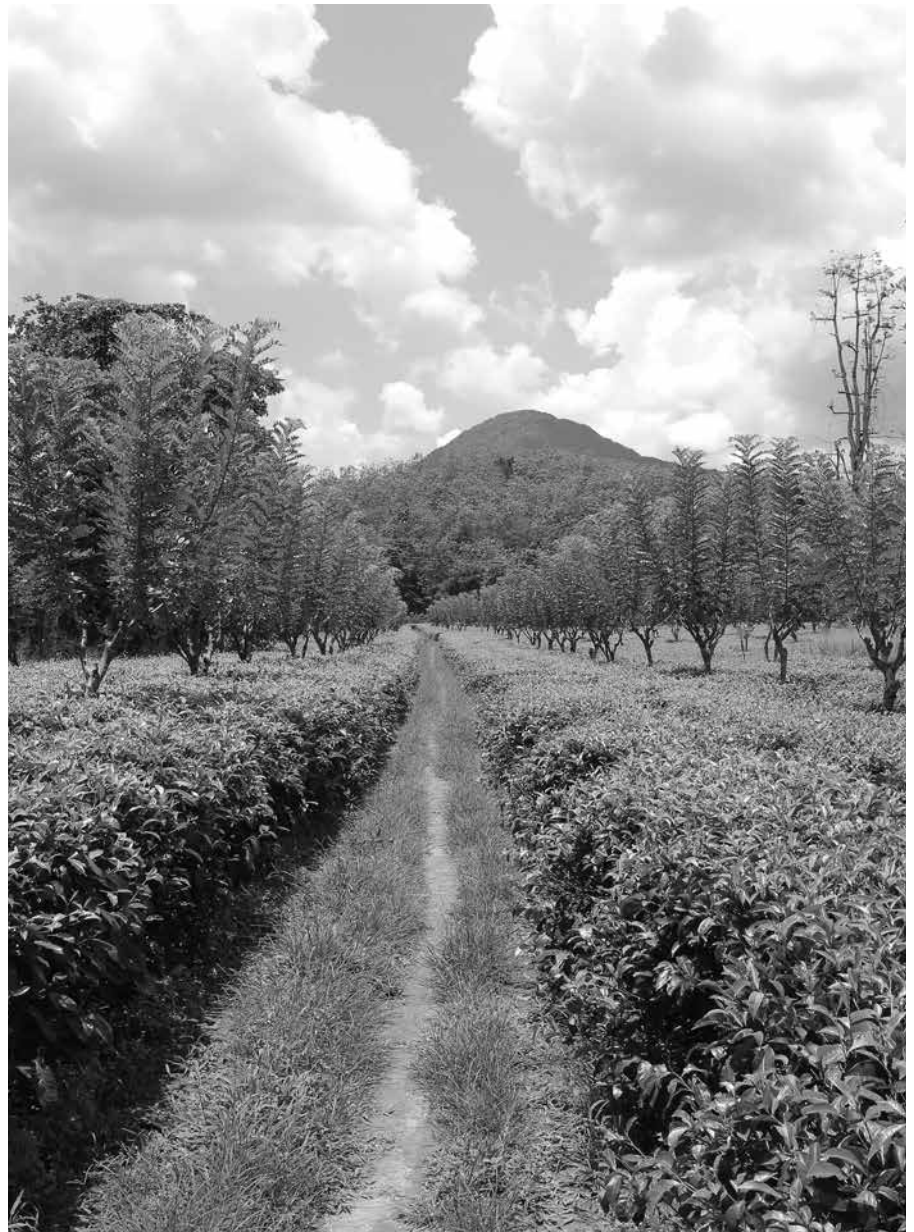
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Sri Lanka retains fourth place as a global tea producer despite the recent declining contribution towards global tea production. The adoption of strategic corrective measures has mitigated excessive revenue losses and optimised production levels.

**2.11** REVENUE  
Rs. Bn

PROFIT AFTER TAX  
**104.09** Rs. Mn

WE CONTINUED TO  
FOCUS ON PRODUCING  
HIGH QUALITY TEA  
BY FOLLOWING  
SUSTAINABLE  
MANUFACTURING  
PRACTICES IN  
FACTORIES.





Dear Shareholder,

I am pleased to present to you, on behalf of the Board, the highlights of the Annual Report and Financial Statements of Tea Smallholder Factories PLC (TSFPLC) for the year ended 31st March 2020.

The year under review continued to be challenging with the Company recording a decline in volumes during the year, impacted by erratic and inclement weather patterns which led to the decline in the availability of green leaf. However, notwithstanding the subdued prices during the year, the business was able to secure significantly high prices at the Colombo tea auctions. Similar to previous years, TSFPLC undertook a series of cost saving initiatives and steps towards the automation of its manufacturing processes to enhance capital productivity and efficiency, changing product mix to cater to market requirements and supporting our small holder partners. These aspects will be further detailed in my review and in other relevant sections of this annual report.

### Sri Lankan Tea Sector Review

The Sri Lankan tea industry continued to be challenged during the year under review, particularly as unprecedented weather patterns negatively impacted production and quality of the tea leaf. This situation was exacerbated by the inadequate fertilizer supply. These conditions impacted all elevations of tea, particularly the low grown elevation which recorded a decline in production for the third consecutive year. Low grown tea production contracted by 1.06% to 189.94 million kilograms in 2019 compared to the 191.98 million kilograms of production in 2018. Thus, while tea production in the first half of 2019 was higher than that achieved during the same period in the previous year, total tea production fell by 1.27% in 2019 to 300.13 million kilograms compared to 304.00 million kilograms achieved in 2018.

The industry was also impacted by fluctuating demand caused by currency devaluations, sanctions and political and economic instability in key tea importing countries of Ceylon Tea. Exports to Iran, Russia, Syria, and Turkey continued to be negatively impacted in terms of either volumes, value or order quantities. The continuation of sanctions on Iran by the United States, has a significant impact on the volumes and value of tea exported from Sri Lanka. However, total export volumes increased to 292.66 million kilograms in 2019 from 282.36 million kilograms in 2018, mainly due to the increasing demand from Turkey and non-key markets such as the United States, China, Germany, Saudi Arabia, Jordan, and Azerbaijan.

The falling tea prices combined with production related challenges impacted auction prices of Ceylon Tea, which declined for all elevations in 2019 compared to 2018. However, the brand positioning of “Ceylon Tea”, resulted in Sri Lankan tea continuing to attract premium prices at auctions globally. Resultantly, auction volumes recorded a 3.6% increase to 292.6 million kilograms in 2019 compared to the previous year and recorded the highest revenues earned to date of Rs. 240.6 billion (USD 1.346 billion).

### Global Tea Production Review

Global tea production increased by 1.57% in 2019, recording 6.0 billion kilograms compared to 5.91 billion kilograms recorded in 2018. China continues to remain the largest global tea producer recording 2.7 billion kilograms, a 3.32% increase compared to 2018. India retains its position as the second largest global tea producer with increasing production during 2019. Kenya, which has been rapidly increasing production in the last few years, remains the third largest global tea producer despite the fall in production from 493 million kilograms in 2018 to 459 million kilograms in 2019. Sri Lanka retains fourth place as a global tea producer despite the recent declining share of global production.

### Company's Operational Performance

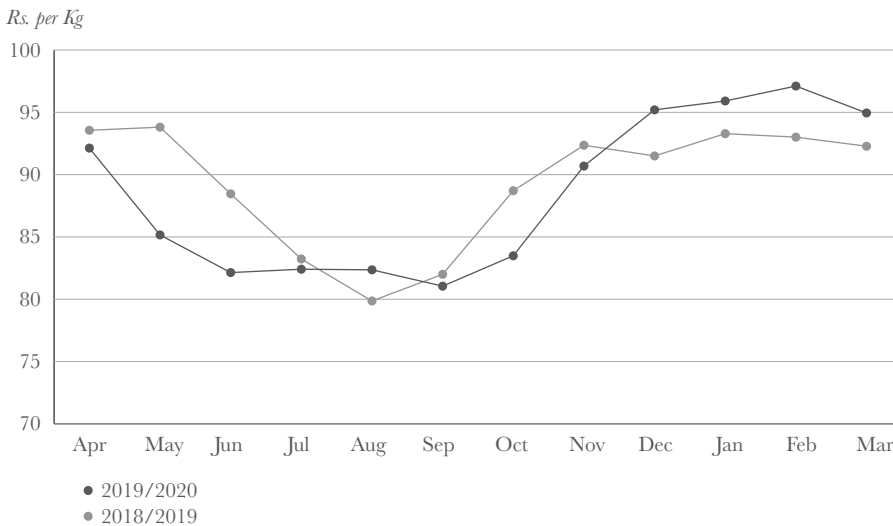
The financial year ended 31st March 2020 has been a challenging year for the tea industry and resultantly, the Company. The overall decline in low grown elevation tea prices impacted the Company's prices which on average declined year-on-year by Rs. 25 per kilogram from April 2019 to September 2019. However, strategic corrective measures adopted enabled the Company to mitigate excessive revenue losses, though it still recorded a decline of 2.86% to Rs. 2.11 billion during the year under review compared to Rs. 2.17 billion in the previous financial year.

Adverse weather, with excessive rainfall followed by drought conditions, impacted the quality and quantity of tea leaf production, thus negatively impacting the Company's production levels. This was further worsened by inadequate fertilizer supply and the leaf disease “blister blight” which impacted the growth of the tea bushes during the third quarter of the financial year. As the drought set in during the fourth quarter, TSFPLC changed its business model to optimise production levels and minimise costs. The Company stringently monitored labour costs and other overheads to optimise costs of production. These factors enabled the Company to minimise losses resulting from the drop in production levels by 0.45 million kilograms from October 2019 to March 2020. Thus, the Company's total tea production declined by 8.34% to 3.44 million kilograms in the financial year 2019/2020 compared to 3.75 million kilograms in the previous financial year.

During the year under review, the Company procured 16.79 million kilograms of green leaf from 7,211 direct suppliers and 7,220 indirect suppliers, totalling 14,431 small holders.

The payment to green leaf suppliers amounted to Rs. 1.47 billion, while the highest rate paid for green leaf was by Neluwa tea factory recording Rs.105.00 per kilogram. The average price paid for green leaf during the year under review was Rs. 87.32 per kilogram.

**Green Leaf Rate Paid – 2018/19 vs 2019/20 (Average of all factories)**



Despite these trying times, the Company continued to be focused on producing high quality tea by following sustainable manufacturing practices in the factories. This enabled the Company to manage costs and optimise production even with lower quantities of green leaf purchased during the year under review.

Following the diagnosis of COVID-19 patients in Sri Lanka, from mid-March 2020 onwards, the Government declared a state of “work from home” for the general public, post which island-wide curfew was imposed on 20th March 2020, with restrictions waived only for services classified as ‘essential’. Given the stringent lock-down measures, the Company actioned its business continuity plans to

ensure business activities were maintained to the extent possible. The Company evaluated all guidelines issued by the Sri Lankan government as well as international best practices to develop individual health and safety guidelines to ensure suitable working arrangements and safe conditions for employees, customers and other stakeholders.

In addition, the government’s identification of tea as an essential service has resulted in encouraging all stakeholders to continue with their business operations. Special approvals have been given for the people involved to commute to work in the export companies, brokering firms, plantations/factories, and for the transportation of goods and warehousing services.

**Supporting Tea Small Holder Partners**

The Company’s tea factories continued their steadfast support to tea small holder partners amidst these adverse business conditions. The extension services to tea small holder partners progressed as per planned objectives while other customer centric programmes were enhanced with a focus on improving long term relationships with our partners. The Company also continued to facilitate the replanting of unproductive tea lands of small holders by using a dual approach of financial aid and knowledge sharing of good sustainable agricultural practices. During the financial year under review, the seven replanting projects comprising of 215.75 acres and involving 314 small holders, which commenced in previous financial years and started harvesting operations, has progressed satisfactorily. The sixth project which commenced in the year 2016/2017, completed the planting and is under 1st year upkeep. The seventh project consisting of 22 acres of 33 small holders has completed rehabilitation stage and planting will commence after April 2020. Another project comprising of 22 acres has been identified for re-planting with rehabilitation expected to complete towards the end of 2020.

The “block infilling of tea” in vacant areas of the small holder lands which has been expanding year-on-year due to its faster turnaround to revenue generation continues to be popular among our small holder partners. A total of 72,280 plants have been in-filled at 99 small holder blocks during 2019/20. A significant increase in infilling of tea is observed recording an increase of 50,030 plants in comparison to the previous year.

The Company’s efforts to negotiate prices with fertilizer suppliers to ensure and enable fertilizer delivery without interruptions, which is critical for ensuring tea leaf quality, was effective in meeting its objectives. TSF PLC successfully assisted 14,431 small holders during the year under review.

## Financial Performance Overview

The focus of the Company during the year under review was on cost optimisations and prudent cash management to ensure sustainability of its operations amidst challenging conditions faced by the tea sector. It is a measure of the success of these strategies that enabled TSFPLC to record a profit before tax of Rs. 30.94 million compared to a profit before tax of Rs. 37.83 million. Fair value gain on investment property for the year amounted to Rs. 39.30 million compared to Rs. 54.77 million recorded in the previous year.

## Corporate Social Responsibility

During the year under review, the Company continued its pursuit of community projects in alignment with the John Keells Group Corporate Social Responsibility framework. Focusing our efforts towards tea small holders and surrounding communities, TSFPLC supported several projects which were targeted at education advancement; health awareness and welfare; maintenance and enhancement of educational, healthcare and religious buildings; and disaster relief. Full details are given on pages 41 to 42 of this Annual Report.

## Future Outlook

The Sri Lankan tea industry has been on a declining trajectory with falling share of global volumes and reducing auction prices, albeit still retaining the highest prices globally. These impacts have mainly been from the increasing competition from global tea producing nations such as China, India and even Kenya. Climate change continues to impact the industry and all stakeholders, from growers to exporters, must rally together to maintain the quality of Ceylon Tea. It is, therefore, imperative that interventions by the Government to promote Ceylon Tea globally continues

to progress without interruption. The industry needs to also focus on expanding to new overseas markets while pursuing diversification to value added teas in order to cater to newly emerging market segments. The introduction of the 'Road Map Ceylon Tea 2030', the 10-year strategic plan by the Sri Lanka Tea Board, together with the global promotions undertaken in the year 2019, should facilitate many of these objectives, while leading the way forward for the Sri Lankan tea industry.

The year ended 31st March 2020, began on a subdued note for the Sri Lankan economy with the Easter Sunday terror attacks. Although Sri Lanka's growth trajectory was displaying a strong momentum prior to the impact of the COVID-19 pandemic, the outbreak of the virus has caused a drastic slowdown in most global and local economic activity. Despite this, the Company's factories continued to operate, with added measures such as maintaining social distancing and taking required precautions as advised by the health officials. The harvesting of green leaf by the small holders also continued with minimal disruption and arrangements were put in place for the collection and receipt of same by the factories. The timely conversion of the traditional Tea Auctions onto an electronic platform in April 2020 ensured limited interruptions and will continue to facilitate tea sales in the coming months. This also had a positive impact on tea prices which have improved as we entered the new financial year 2020/21 due to exporters purchasing actively to cover orders. However, tea prices could be impacted in the future with the prevailing COVID-19 pandemic in Europe, Russia, Iran, and other tea consuming countries, coupled with declining oil prices and further devaluation of currencies.

Against this macroeconomic backdrop and the unprecedented challenges that COVID-19 presents world-wide, TSFPLC has taken proactive steps to understand the impact on the business by evaluating multiple stress tested operating scenarios and will continue to monitor and take measures to ensure business continues as seamlessly as possible with a focus on health and safety of our staff, suppliers and all stakeholders.

## Acknowledgements and Appreciations

I take this opportunity to thank my fellow Board of Directors for the expertise and support. On behalf of the Board of Directors I place on record my appreciation to Mr. M. H. De Silva who resigned from the Board on 15th May 2020, for his valued services. I would also like to extend my appreciation to the management team and all employees for their commitment during this challenging period. Finally, I wish to place on record my sincere appreciation to all small holder suppliers, buyers, brokers, bankers, shareholders, amongst others, for their continued trust and loyalty.



**K. N. J. Balendra**

**Chairman**

21st May 2020

# BOARD OF DIRECTORS

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## Krishan Balendra

Chairman / Non Independent, Non Executive Director  
(Member of the Board since 2017)

### Skills and Experience

- A former Chairman of Nations Trust Bank and the Colombo Stock Exchange
- He started his professional career at UBS Warburg, Hong Kong, in investment banking, focusing primarily on equity capital markets. After a four year stint in Hong Kong, he continued his career in corporate finance at Aitken Spence and Company PLC, Sri Lanka prior to joining JKH.
- He holds a law degree (LLB) from the University of London and an MBA from INSEAD.

### Other Current Appointments

#### Listed Companies:

- Chairman and Chief Executive Officer of John Keells Holdings PLC
- Chairman / Director of many listed companies in the John Keells Group

#### Others:

- Chairman/Director of many unlisted companies in the John Keells Group
- He is a Director of the Ceylon Chamber of Commerce
- Hon. Consul General of the Republic of Poland in Sri Lanka

## Gihan Cooray

Deputy Chairman  
Non Independent, Non Executive Director  
(Member of the Board since 2017)

### Skills and Experience

- Deputy Chairman/Group Finance Director and has overall responsibility for the Group's Finance and Accounting, Taxation, Corporate Finance and Strategy, Treasury, Information Technology functions (including John Keells IT) and John Keells Research.
- He holds an MBA from the Jesse H. Jones Graduate School of Management at Rice University, Houston, Texas and is an Associate Member of the Chartered Institute of Management Accountants, UK. He is also a Certified Management Accountant of the Institute of Certified Management Accountants, Australia and holds a Postgraduate Diploma in Marketing from the Chartered Institute of Marketing, UK.

### Other Current Appointments

#### Listed Companies:

- Chairman of Nations Trust Bank PLC
- Director of many listed companies in the John Keells Group

#### Others:

- Committee member of the Ceylon Chamber of Commerce
- Director of many unlisted companies in the John Keells Group

### **Jit Gunaratne**

Non Independent, Non Executive  
Director  
(Member of the Board since 2018)

#### Skills and Experience

- Serves as the President - Leisure and Plantation Sectors
- Prior to his appointment at Leisure, he was the President of the Consumer Foods Sector
- Over 40 years of management experience in the group covering Property and Retail
- He is currently a member of the Council of the Employer's Federation of Ceylon

#### Other Current Appointments

##### Listed Companies:

- Director of many listed companies in the John Keells Group

##### Others:

- Director of selected unlisted companies in the John Keells Group

#### Previous Appointments

- President Consumer Foods Sector

### **Eranjith Wijenaik**

Non Independent, Non Executive  
Director  
(Member of the Board since 2000)

#### Skills and Experience

- Serves as the Managing Director of Central Finance Company PLC and has been a member of the Board since 1st April 1983
- Over 35 years of management experience to the Board
- Bachelor's Degree in Commerce and a Postgraduate Diploma in Finance and Management

#### Other Current Appointments

##### Listed Companies:

- Director of Trans Asia Hotels PLC
- Managing Director of Central Finance Company PLC
- Director of Equity One PLC
- Director of Equity Two PLC
- Director of Central Industries PLC

### Arjuna Gunaratne

Non Independent, Non Executive Director  
(Member of the Board since 2018)

#### Skills and Experience

- Serves as the Executive Director at Central Finance Company PLC overlooking the operations of Strategy, Information Technology, Branch Operations and Risk.
- Fellow Member of the Institute of Chartered Accountants of Sri Lanka
- Fellow Member of the Chartered Institute of Management Accountants of UK
- Served as Chairman Nations Trust Bank PLC

#### Other Current Appointments

##### Listed Companies:

- Executive Director Central Finance Company PLC and Central Industries PLC

##### Others:

- Director of many unlisted companies within the Central Finance Group

### Ananda Jayatilleka

Independent, Non Executive Director  
(Member of the Board since 2005)

#### Skills and Experience

- Specialist in Rubber Technology and Industrial Engineering.
- A Licentiate of the Institute of Plastics and Rubber Industry (L.P.R.I. (London)) and a Fellow of the Institute of the Work Study and Organization and Methods (F.M.S. (UK)).
- Recipient of the merit certificate awarded by the Plastics and Rubber Institute (PRI) of Sri Lanka for the outstanding contribution made to the Rubber Industry of Sri Lanka.
- He has been a Director of Richard Pieris & Co. Ltd with a long service of 27 years in the group and was instrumental in setting up of Richard Pieris Exports PLC and served as its Managing Director for over 15 years
- He founded Latex Green Pvt Ltd a BOI company manufacturing Latex Mattresses for export and served as its CEO for 12 years
- Served on the Boards of Kegalle & Maskelliya Plantations PLC and Aviva Global Services Pvt Ltd.
- Vast experience also includes work in Zambia Consolidated Copper Mines and Pigott Maskew Ltd (Subsidiary of General Tire - South Africa).

#### Other Current Appointments

##### Listed Companies:

- Non-Executive Director at Hayleys Fabric PLC
- Non-Executive Director of Unisyst Engineering PLC (Alufab) under the Hayleys Group

**Shanthi Kumar Lalith  
Obeyesekere**

Independent, Non Executive Director  
(Member of the Board since 1st January  
2018)

**Skills and Experience**

- Since Privatization of Plantations and the formation of Regional Plantation Companies functioned as the Chief Executive Officer of two RPCs over a period of 26 years
- A Fellow of the National Institute of Plantation Management in Sri Lanka and counting over 44 years' experience in the Industry
- A past Chairman of the Planters' Association of Ceylon and the Plantation Services Group of the Employers Federation of Ceylon
- Served as an elected member of the Ceylon Rubber Traders' Association and the Ceylon Tea Traders Association
- Has served on the Boards of Sri Lanka Tea Board, Tea Research Institute and Sri Lanka State Plantations Corporation

**Other Current Appointments**

- Secretary General – The Planters' Association of Ceylon
- Director – National Institute of Plantation Management
- Director – Ceylon Tea Museum
- Director – Plantation Housing Development Trust
- Member – National Labour Advisory Council
- Council Member – Employers' Federation of Ceylon
- Member – Consultative Committee on Research of the Tea Research Board

# MANAGEMENT TEAM

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## Senior Management

**Mr. H. R. A. Wanasinghe**

Chief Executive Officer / Vice President

**Ms. K. D. Weerasinghe**

Chief Financial Officer / Executive Vice President

**Mr. S. I. S. Dissanayake**

Head of Operations

**Mr. M. R. Ahamed**

Manager - Finance

**Mr. A. N. B. Dissanayake**

Manager - Engineering

## Factory Managers

**Mr. S. A. N. R. Subasinghe**

Superintendent - Neluwa Medagama Tea Factory

**Mr. N. C. Rajapaksha**

Superintendent - Halwitigala Tea Factory

**Mr. M. D. U. I. Jayamanne**

Superintendent - Hingalgoda Tea Factory

**Mr. S. S. Liyanage**

Senior Assistant Superintendent - Kurupanawa Tea Factory

**Mr. G. V. D. S. Galgamuwa**

Superintendent - New Panawenna Tea Factory

**Mr. E. M. W. N. Weerasinghe**

Superintendent - Broadlands Tea Factory

**Mr. M. M. L. Jayathilaka**

Superintendent - Karawita Tea Factory





## Focused on strategy

### MANAGEMENT DISCUSSION AND ANALYSIS

Our well-defined strategies ensured we remained on course; pursuing our purpose of delivering value to our stakeholders with renewed vigour, energy and a passion to serve.

# Global & Sri Lankan Economy Overview

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**EFFECTIVE NATIONAL AND INTERNATIONAL POLICIES WILL BE THE KEY TO TURNING AROUND ECONOMIC GROWTH, WHILE THE SHORT-TERM MEASURES TAKEN TO CURB THE SPREAD OF COVID-19 WILL HAVE MORE POSITIVE LONG-TERM RESULTS.**

**Local government macroeconomic stabilisation measures helped correct the external sector imbalances to an extent and controlled inflation.**

## **Global Economy Overview**

The International Monetary Fund (IMF), estimates global economic growth in 2019 at 2.9%, a downward revision from estimates at the beginning of 2019 mainly due to slowdown in economic activity in a few emerging market economies due to unforeseen negative impacts as well as increased social unrest. Growth projection for 2019 was supported by the stabilisation of manufacturing activity and global trade, a broad-based shift toward accommodative monetary policy, intermittent favourable news on US-China trade negotiations, and lessened fears of a no-deal Brexit. While most global economies showed signs of stabilisation towards the fourth quarter of 2019, the emergence of the COVID-19 pandemic resulted in a slowdown in economic activity in some countries starting January 2020, the situation worsened by the end of the first quarter of 2020.

Global growth projections for 2020 and 2021 were revised downwards to 3.3% and 3.4%, respectively by the IMF in the January 2020 World Economic Outlook report mainly in view of India's reassessment of growth prospects over the next two years. However, since most countries were impacted by the effects of the COVID-19 pandemic which has had a severe negative impact on all global economic activity since early March 2020 due to lock-downs, isolation and business closure measures taken to ensure health of the people, the IMF predicts global growth to reduce sharply by 3% in 2020, a situation which is much worse than the global financial crisis experienced a decade ago. If the pandemic situation eases and economies reopen with

economic activity going back to normal in the second half of 2020, the global economy is projected to grow by 5.8% in 2021 helped by policy support. However, the IMF's global growth projections are subject to the extreme uncertainties which abound due to the pandemic. Growth projection dependent on the success of containment of the virus and the severity of the impact of the pandemic on individual economies. Considerations will also have to be made on the impact of the pandemic on all aspects of global economic activity from supply chain disruptions, repercussions from the tightening of global financial market conditions, shifts in spending patterns, changes in consumer behaviour, market confidence, to volatility of commodity prices.

Effective national and international policies will be the key to turning around economic growth, while the short-term measures taken to curb the spread of COVID-19 will have more positive long-term results. It is expected that most nations will increase healthcare expenditure and pursue national policies which will curb the impact of reduced economic activity with policymakers focusing on implementing substantial targeted fiscal, monetary, and financial market measures to support affected households and businesses domestically. Internationally, building stronger multilateral trade cooperation and closer cross-border cooperation, and providing financial aid to countries facing both health and funding shocks will enable global economies to make a faster recovery once the pandemic fades.

## Sri Lankan Economy Overview

The Sri Lankan economy had another year of dismal growth in 2019 mainly due to unexpected developments in the local economy and the cascading effects from global economic policy changes. The biggest detriment to economic growth was the Easter Sunday attacks in April 2019 which further dampened business confidence, worsened economic growth forecasts, and had a severe negative impact on the tourism sector of the country. Thus, GDP growth recorded in 2019 was 2.3% compared to 3.3% achieved in 2018. Local government macroeconomic stabilisation measures however, helped correct the external sector imbalances to some extent and contributed to the control of inflation, which remained at acceptable one-digit levels in 2019 although at higher levels than those experienced in 2018. As such, by end-December 2019 the CCPI inflation rate was 4.8% and the NCPI inflation rate was 6.2%. The slower economic activity also resulted in increasing the unemployment rate from 4.4% in 2018 to 4.8% in 2019.

The industry sector which grew by 2.7% in 2019 compared to 1.2% recorded in 2018 was the key contributor to economic growth supported by the 4% growth of the construction sub-sector and the 2.8% growth of the mining and quarrying sub-sector. Manufacturing activities grew only by 1.9% in 2019 mainly supported by the manufacture of textiles, wearing apparel, and leather products due to the increasing demand for exports. The agricultural sector recording only a 0.6% growth in 2019 compared to 6.5% growth recorded in 2018. The low growth was mainly due to impact of the unfavourable weather conditions which prevailed throughout the year, resulting in the poor performances of the tea, rubber, marine fishing, and marine aquaculture sub-sectors as well that of forestry and logging activities. The tea industry recorded a negative growth of 1.3% in 2019, resulting from the adverse weather conditions that prevailed in the

first half of the year, disruptions in labour supply amidst wage related trade disputes, and slowing of tea plucking activities due to heavy rains in the latter part of 2019.

The services sector also recorded a much lower growth of 2.3% in 2019 compared to 4.7% in 2018 as the Easter Sunday attacks slowed activities in most of the sub-sectors. Tourism related activities such as the accommodation, food and beverage activities sub-sector were the hardest hit, and contracted by 4.6% in 2019 compared to the 5.7% growth achieved in 2018. The growth of the services sector was mainly supported by the telecommunication and information technology sub-sectors which achieved double-digit growth in 2019.

The external sector of the economy performed reasonably, mainly due to the policy measures adopted to curtail import expenditure and the modest increase in exports earnings. The marginal appreciation of the Sri Lankan rupee by 0.6% against the US dollar in 2019 compared to the significant depreciation recorded in 2018 also contributed positively to the contraction in the trade deficit despite outflows of foreign investment from the government securities market during the second half of 2019 and negative impacts on the domestic foreign exchange market in the aftermath of the Easter Sunday attacks. Thus, the trade deficit was reduced to USD 7,997 million in 2019 compared to the USD 10,343 million recorded in 2018.

Increasing export earnings in 2019 were supported by merchandise exports which recorded a 0.4% growth and industrial exports such as textiles and garments, gems and jewellery, transport equipment, and base metals which grew by 1.8%. Earnings from agricultural exports, however, declined by 4.6% during 2019, mainly due to lower earnings from tea and spices, although coconut export earnings increased during the year. The USA remained Sri Lanka's major export destination accounting for 26.3% of total exports. At second place is

the UK accounting for 8.4% of Sri Lanka's exports in 2019, followed by India at 6.4%, Germany at 5.4%, and Italy at 4.4%.

The policy measures taken to revive the economy and improve business sentiments showed promise in the beginning of 2020 until the emergence of the COVID-19 pandemic which resulted in Sri Lanka adopting containment measures by mid-March 2020 to control the spread of the virus and safeguard people's health. The lock-down, social distancing, isolation measures adopted together with the closure of non-essential businesses has resulted in a substantial slowdown in economic activity during this period. As Sri Lanka's macroeconomic performance has in recent years been falling below expectations, this new development with its myriad uncertainties and unknown factors could have further repercussion on the country's economic revival in 2020. Near term implications of COVID-19 are expected to severely impact, short-term economic growth as well as fiscal, external, and financial sector performance. However, the current monetary policy stance together with prevalent low inflation levels and the maintenance of capital and liquidity buffers above industry norms by the banking sector has enabled the Central Bank to support government efforts to ease some burdens on businesses and individuals in the short to medium terms. Continuing to focus on reforms which support future growth such as long-standing structural issues, improvements in domestic production, expanding export market reach, attracting foreign direct investment (FDI), facilitating innovation, improvements to productivity and efficiency, and improved policy buffers, if implemented without delay despite the current focus on combating the coronavirus pandemic would enable Sri Lanka to realise the achievement of sustained and equitable economic growth in the years ahead.

# Tea Industry Overview

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**GLOBAL TEA  
PRODUCTION  
AND EXPORTS  
CONTINUED TO  
RISE IN 2019 WITH  
A BLACK TEA  
PRODUCTION  
INCREASE OF 1.6%  
YOY**

The Sri Lankan tea industry continued to be challenged as unprecedented weather patterns and fluctuating demand in key tea importing countries impacted production and price.



## Tea Industry Overview

### Global Tea Industry

Global tea production increased during 2019 although at a slower pace mainly a result of decreased production in major tea producing countries such as Kenya and other African region countries, Sri Lanka, Indonesia, and Turkey. Thus, total global black tea production increased by only 1.6% to 6 billion kilograms (kg) in 2019 compared to the 2.78% increase to 5.91 billion kg achieved in 2018. China remained the largest tea producer recording a production of 2.7 billion kg representing 45% of total global tea production in 2019. Kenya's tea production decreased by 34 million kg year-on-year (YOY) to 458 million kg in 2019 compared to 492 million kg produced in 2018, mainly due to adverse weather conditions resulting in a turnaround from the increasing production levels seen in the last few years. Kenya, however, remained the third largest global tea producer in 2019. Many other African region countries also recorded falling production levels, thus recording 6.7% reduction in production compared to the 12.26% increase in 2018. Africa, however, contributed to 11.4% of total global tea production in 2019. The Indian sub-continent saw mixed results similar to 2018, with the North Indian region increasing production levels by 7% to 1.17 billion kg in 2019, while the South Indian region recorded decreasing production levels of 2.59% to 219 million kg in 2019. India's total contribution to global tea production was 23.1%, with total production recording 1.39 billion kg in 2019. Sri Lanka, however, continued its slowdown in tea production, contributing only 5% to global tea production in 2019 compared to the 10.5% in the early 2000s. Climate change remains a key factor which continues to impact global tea production and must be given due consideration to manage global tea production in the future.

Global tea export volumes continued to rise in 2019 dominated by Kenya with a total export volume of 496.8 million kg, an

all-time high record. China remained the second largest exporter of tea with a total volume of 380 million kilograms in 2019, while Sri Lanka retains its third position as the world's largest exporter of tea. However, from an export value perspective, China is placed number one followed by Kenya and then Sri Lanka.

The oversupply of tea globally compared to demand persisted in further reducing global tea auction prices in 2019. The Mombasa Tea Auction which experienced downturn in prices in 2018 after a two and a half year high, experienced further price reduction in 2019 due to the currency depreciation of Kenya's major tea export destinations. Thus, average auction price fell by 16.05% to USD 2.04 per kg compared to USD 2.43 per kg in 2018. In July 2019, the Mombasa auction faced its lowest average auction price in five years of USD 1.76 per kg. The Colombo Tea Auction also continued its downward spiral in 2019 with the cumulative average tea price falling by 6.44%, an additional Rs. 37.40 (USD 0.53) per kg compared to 2018. Overall, the cumulative average tea price reduced by Rs. 37.40 (USD 0.13) per kg to Rs. 544.54 (USD 3.05) per kg in 2019 compared to Rs. 581.91 (USD 3.18) per kg recorded in 2018. The Indian Tea Auctions performed better than both the Mombasa and Colombo Tea Auction in 2019. While marginal, average auction prices increased

by 1.6% in 2019, although at a much slower rate than the increase experienced in 2018. The average Indian tea auction price was INR 140.73 per kg in 2019 compared to INR 138.57 per kg in 2018. However, the upward movement in Indian Auction prices was mainly due to the price increase in North Indian tea auctions, which gained by 1.81% in 2019 compared to 2018. Conversely, South Indian auctions recorded a marginal decrease in prices by 0.61% in 2019 compared to 2018.

### Sri Lankan Tea Industry

The Sri Lankan tea industry had another lacklustre year producing only 300.1 million kg of tea in 2019 compared to the 2018 production of 303.94 million kg, despite expectations of recovery at the beginning of 2019. The impacts of climate change with excessive rainfall in the second half of 2019 followed by high temperatures in the latter part of the year was the main reason for the decline in production and the quality of tea produced in 2019. Furthermore, a decline in the application of fertiliser due to economic reasons and the uncertainty about the fertiliser subsidy by the government further negatively impacted production and quality levels. The biggest impact was on the low-grown elevation tea production which declined by 1.9 million kg to 189.8 million kg in 2019 compared to 191.7 million kg produced in 2018.

### Crop Figures of Major Producing and Exporting Countries (Million Kg)

Key Highlights	2015	2016	2017	2018	2019
North India	981.1	1,027.0	1,046.4	1,093.1	1,170.6
South India	227.6	227.5	232.4	218.5	219.0
Sri Lanka	329.0	292.6	307.7	303.8	300.1
Kenya	399.2	474.8	439.9	492.9	458.9
Indonesia	129.3	125.5	124.5	131.0	128.8
Bangladesh	66.3	82.7	78.9	82.1	96.1
Malawi	39.4	43.1	45.9	50.6	48.2
Tanzania	31.7	29.1	31.8	35.2	33.7
Uganda	51.6	55.7	49.0	56.0	57.0
China	2,249.0	2,350.0	2,550.0	2,616.0	2,700.0
Vietnam	170.0	180.0	175.0	163.0	158.0

Source -© International Tea Committee Ltd 2019

### The global increase in tea production and the reduction in tea prices due to oversupply, negatively impacted the tea prices offered at the auction.



Total high-grown elevation tea production also realised a decline by 3.14% in 2019 recording 61.7 million kg compared to 63.7 million kg in 2018, a decrease of 2 million kg. However, medium-grown elevation tea production increased marginally by 0.22% to record 45.9 million kg in 2019 compared to 45.8 million kg produced in 2018.

The global increase in tea production and the reducing global tea prices due to oversupply had a cascading negative impact on Ceylon tea auction prices despite the depreciation of the Sri Lankan rupee. This also had a negative impact on both tea growers and producers in Sri Lanka. The decline in Ceylon tea auction prices resulted in a cumulative average tea price of Rs. 544.54 (USD 3.05) per kg during 2019 compared to Rs. 581.91 (USD 3.18) per kg achieved during 2018, a reduction of Rs. 37.37 (USD 0.13) per kg. Generally, auction prices in 2019 ranged from Rs. 494.48 (USD 2.80) per kg to Rs. 585.92 (USD 3.33) per kg. In fact, during the period June to October 2019, the average was well under Rs. 550.00 (USD 3) per kg and ranged from Rs. 495.00 (USD 2.80) to Rs. 525.00 (USD 2.90) per kg. The significant increase in black tea imports from China, however, had a positive impact on orthodox Low-grown tea volumes and prices during 2019. Thus, the impact on auction prices was minimal with Low-grown teas selling at an average auction price of Rs.576.61 (USD 3.23) per

kg in 2019 compared to Rs.600.79 (USD 3.28) per kg in 2018. However, both High-grown and Medium-grown elevation teas sold at prices well below those achieved in 2018. The reduced Ceylon tea auction prices together with the increasing costs of production as factories were forced to operate at below optimal capacity due to reduced availability of tea leaf constrained business growth of both tea small holders and larger tea growers and producers in Sri Lanka in 2019.

While the impact from climate change on the Sri Lankan tea industry in 2019 impacted production levels, depreciation of currencies of key tea importing nations such as Russia and Iran, US sanctions on Iran, and political tensions in the Middle Eastern region impacted the growth momentum of tea exports from Sri Lanka. Despite these challenges, Sri Lankan tea export volumes increased by 3.65% to 292.6 million kg in 2019 compared to 282.3 million kg exported in 2018, a gain of 10.3 million kg. Increasing export volumes and the renowned Ceylon tea brand supported the improved tea export earnings to Rs. 240.6 billion (USD 1.346 billion) in 2019, the highest on record to date, compared to Rs. 231.7 billion (USD 1.425 billion) earned in 2018. The 2019 FOB value was Rs. 822.25 per kg of tea compared to Rs. 820.75 per kg recorded in 2018.

Turkey emerged as the largest importer of Ceylon Tea in 2019 recording a 9.8% increase in volumes to 39.1 million kg in 2019 compared to 2018. Iraq's import volumes remained the same as 2018 at 38.4 million kg, thereby dropping one place to become the second largest importer of Ceylon Tea in 2019. The third largest Ceylon Tea importing nation was Russia recording 29.1 million kg in 2019 although import quantity declined by 4.95% compared to 2018, mainly a result of the depreciation in its currency. Iran's continued falling import volumes resulted in the country being placed fourth with a total import quantity of 22.3 million kg, mainly due to the depreciation of its currency and the constraints faced from the sanctions imposed by the US. Azerbaijan, China, and Syria recorded increasing export volumes in 2019 while Libya and the UAE, while remaining noteworthy importers of Ceylon tea, recorded reduced volumes of tea exports in 2019. The reversal of the ban on the use of Glyphosate by the government for weed control realised benefits in 2019 where Ceylon Tea was able to meet the maximum residue limit (MRL) levels imposed by countries such as Japan which saw a minimal increase in export volumes to 7.5 million kg compared to 7.4 million kg in 2018.

## Sri Lanka Tea Exports - 2018 vs 2019

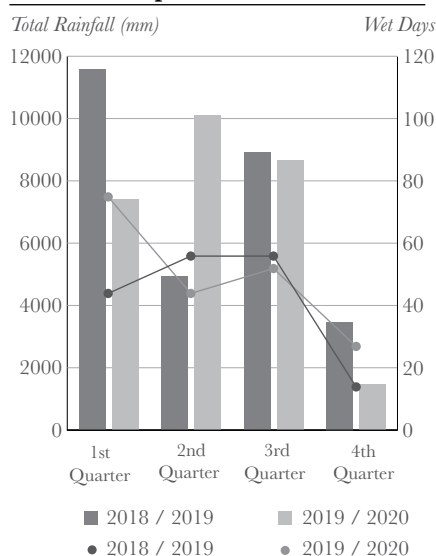
Destination	Exported Volume (End Dec. 2018 Mn. Kgs)	FOB (End Dec 2018 Rs./Kg)	Exported Volume (End Dec. 2019 Mn. Kgs)	FOB (End Dec 2019 Rs./Kg)	Market Share % 2019
Japan	7.4	941	7.5	963	2.5
Syria	10.1	901	10.9	888	3.7
Russia	30.5	819	29.1	821	9.9
Iran	23.9	874	22.3	811	7.6
Azerbaijan	10.5	808	11.7	808	4
China	10	763	11.8	756	4
Turkey	35.6	745	39.1	739	13.3
UAE	11	706	9.9	723	3.3
Libya	13.6	664	12.3	661	4.2
Iraq	38.4	582	38.4	520	13.2

## Key Industry Challenges

### Climate Change

Climate change had the greatest impact on tea production during 2019. The erratic and unpredictable weather patterns which have altered rainfall levels and seasonal periods continued to affect operations of tea plantations at optimal levels. As such, tea leaf production reduced in 2019 compared to 2018 and leaf quality was negatively impacted. The industry must continue with proactive measures to overcome climate change impacts on the productivity of the tea industry.

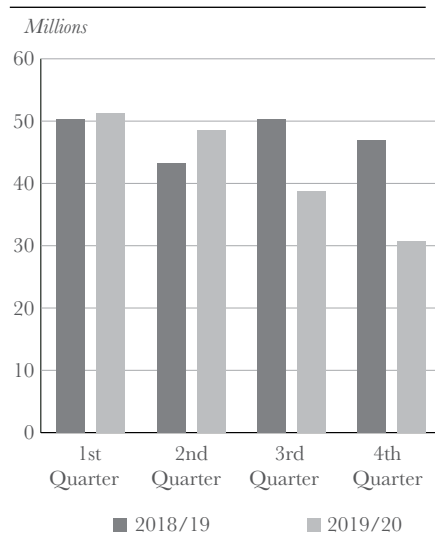
### Rainfall Comparison



### Leaf Production Quality and Quantity

The impact of erratic weather patterns resulted in reducing leaf quantity during 2019 and had an adverse impact on the quality of tea leaves. This resulted in lower production levels, reduced capacity utilisation at factories, and increased operational costs of tea production.

### Low Grown Production

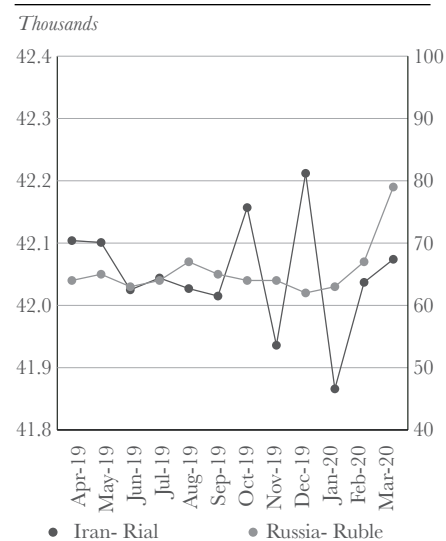


## Currency Devaluations

Another challenge in 2019 was the impact on purchasing power of key tea importing countries of Ceylon Tea due to currency devaluations. Countries such as Iran, Syria, Russia, and Turkey whose currencies devalued against the US dollar during the year had a negative impact on higher growth in export earnings and volumes for Ceylon Tea. These countries also opted to purchase cheaper teas thereby having a direct impact on the export volumes of low-grown teas which in turn reduced auction prices and impacted the prices of made teas produced by TSFPLC.

Furthermore, the growth of online business has resulted in the market share and the profits of supermarket chains to reduce, leading to constraints in increasing retail prices and reduced profit margins. This situation has been further worsened by stagnant or weak global economies having to deal with currency depreciations in 2019.

### Currency Movement against USD 2019 / 2020

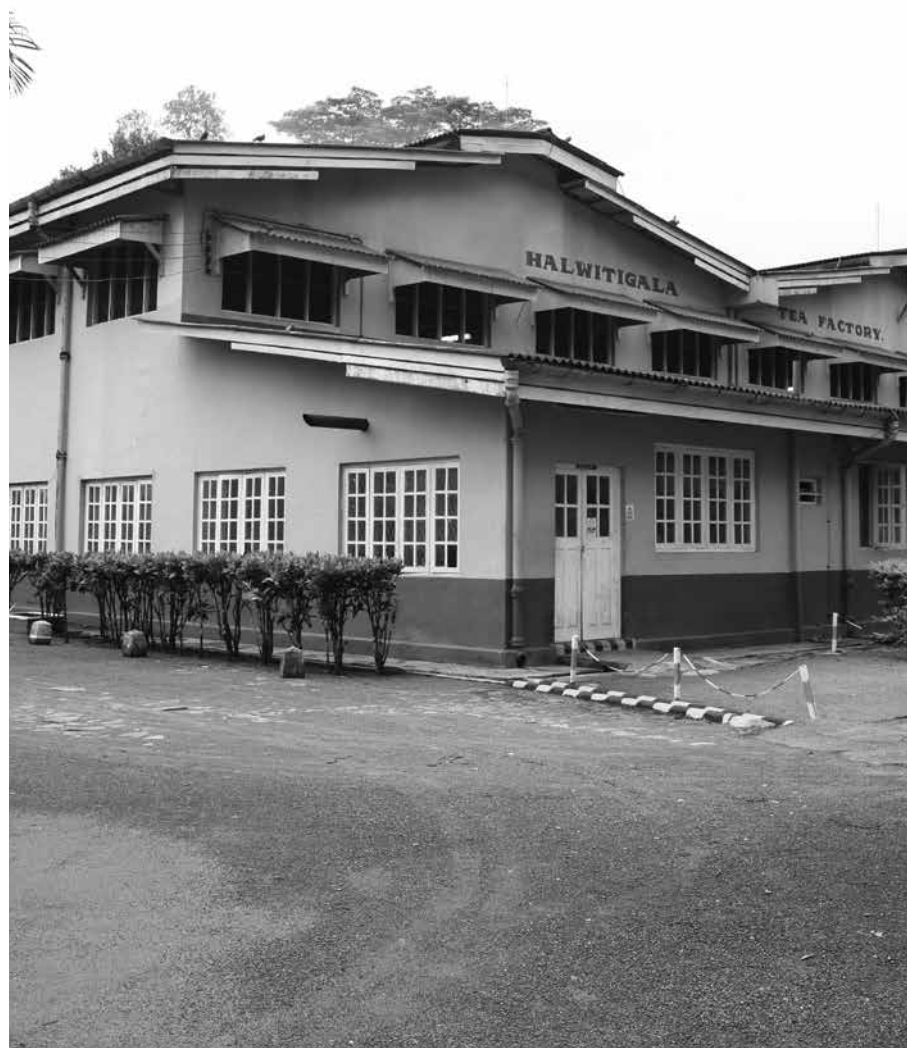


# Operations Review

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**STRINGENT COST CONTROL MEASURES WERE IMPLEMENTED ACROSS ALL AREAS OF MANUFACTURE TO REDUCE COST OF PRODUCTION.**

We produce tea that meet Food Safety Management Standards, while investing in modern technology and machinery to produce quality teas.





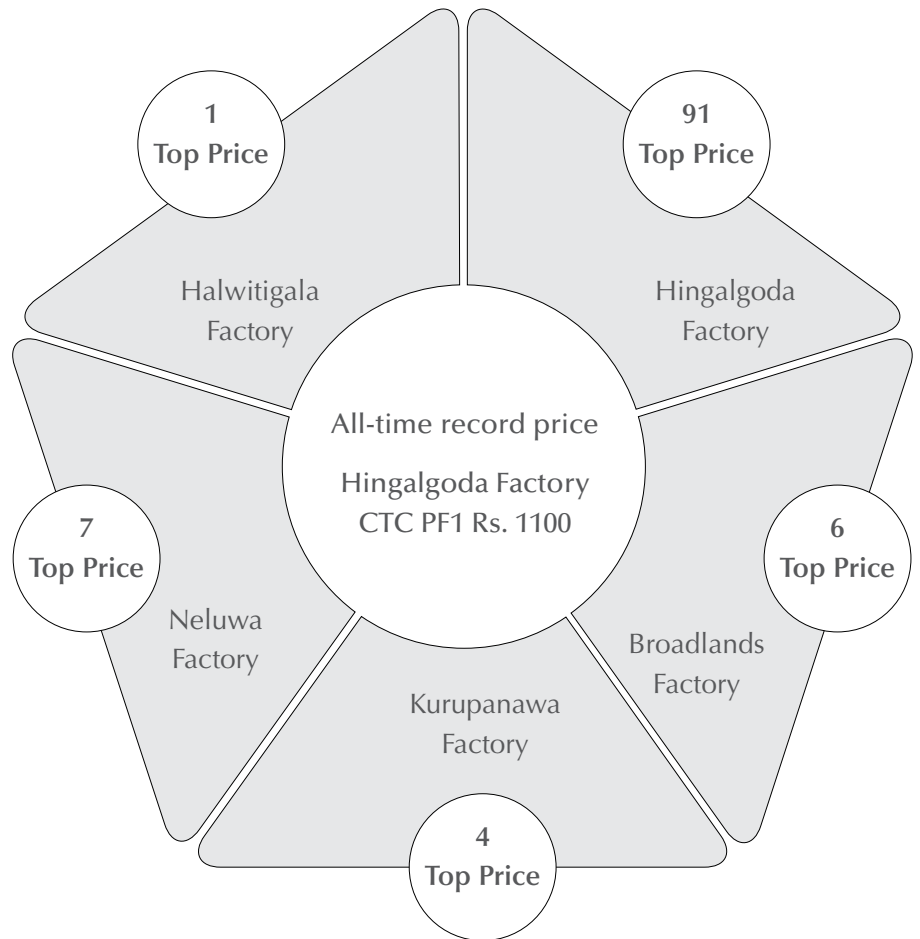
**Operations Review**

**Performance**

The year under review proved to be a challenging year for TSFPLC. Decline in low-grown elevation tea production, falling tea auction prices, inadequate fertiliser supply, devaluation of currencies of key tea importing nations, and the slowdown in the local economic growth resulted in lower than expected performance by the Company for the year under review. Thus, total made tea production decreased by 312,600 kg to 3.44 million kg compared to 3.75 million kg in the previous financial year. This fall in made tea production was mainly due to the sharp decline in low-grown elevation tea production in the third and fourth quarters of the financial year under review due to inclement weather. Thus, TSFPLC only procured 16.79 million kg of green leaf during the year under review, a 7.8% reduction compared to the previous financial year. The Company also implemented mitigative measures to minimise costs and optimise production capacities. As such, TSFPLC took strategic measures on the manufacture of the teas at the factories while staff and labour costs was closely monitored and controlled to manage fixed costs within acceptable levels. Measures were put in place to monitor costs of production to enable the reduction of costs related to power, fuel, firewood, and packing materials.

The sharp decline in the market price of low-grown elevation teas in the first and second quarters of the financial year under review resulted in an average year-on-year decline by Rs. 25 per kg. Thus, the Company adopted a strategic approach to offer teas for sale by focusing on maintaining product quality and closely monitoring price declines / gains to mitigate loss in revenue for the year under review. As a result, the Gross Sale Average (GSA) of TSFPLC was Rs. 595.16 per kg of made tea

**Top and Record Prices Achieved by the Factories for 2019/2020**



compared to Rs. 597.08 per kg of made tea during the previous financial year, a fall of 0.32% compared to the GSA achieved in the previous financial year. The Hingalgoda factory continued to be a leading achiever of top prices at the Colombo Tea Auction throughout the year under review with 91 top price records achieved for the year under review. Other top price achievers of TSFPLC for the financial year under review were Neluwa, Kurupanawa, Halwitigala, and Broadlands factories.



*Hingalgoda T.F.- Best Island-wide CTC Tea Manufacturer awarded by Tea Exporters Association (T.E.A)*

## Certified with an Occupational Health and Safety Standard we have maintained a safe and healthy work environment for our employees.

### Key Initiatives to Overcome Challenges

The challenges faced by the Company due to economic and industry-based developments during the year under review were overcome by adopting prudent cash management measures, ensuring continuous supply of fertiliser to small holders, undertaking strategic cost control and cost saving measures, maximisation of factory capacities, and pursuing improved relationships with small holders and tea growers.

As cost management strategies, TSFPLC adopted measures such as outsourcing of labour at lower rates, negotiating lower rates for items such as packaging materials and office supplies, deploying electricity conservation initiatives, adopting Total Productive Maintenance (TPM) methodology to reduce costs of machinery maintenance, and outsourcing of firewood management at lower rates. Automation of the sifting process at two factories were also implemented to reduce the cost of labour and further increase productivity.

The continued focus on extension services and customer centric programmes helped improve loyalty of tea small holders and manage optimal production capacities of factories. The Company also undertook negotiations with fertiliser companies to ensure uninterrupted fertiliser supply for small holders, thereby ensuring quality of green leaf. These measures helped TSFPLC to achieve the target premium over the



Receiving the sector Gold Award at the 55th Annual Report Awards Ceremony held under the patronage of the Institute of Chartered Accountants of Sri Lanka

low-grown elevation average. In addition, the Company also adapted to changing market requirements by changing the grade mix to suit demand. The long-established relationships with tea brokers also helped the Company to focus on marketing of our made teas through them.

Quality continues to be a competitive advantage for the TSFPLC. With the falling quality levels of green leaf due to adverse weather conditions during the year under review, added effort was made to ensure the Company's tea small holder suppliers were able to maintain quality of green leaf

production. The Company's seven factories having obtained ISO 22000:2005 Food Safety Management Standards also ensure that TSFPLC produce teas meet the highest quality standards. The Company continues to strategically invest in modern technology and new machinery which helps produce high quality teas.

Health and safety are a priority for the Company, and as such, TSFPLC's seven factories are also certified with OHSAS 18001:2007 Occupational Health and Safety Standard which ensures a safe and healthy work environment is maintained for our employees.



Receiving the ISO : 22000 Corporate Certificate

## Future Outlook

The Sri Lankan tea sector continues to be challenged by climate change impacts and the unexpected developments in the local and global economies. However, the focus of the Sri Lanka Tea Board in recent years to promote Ceylon Tea globally coupled with the newly developed 10-year strategic plan to expand the global market share of Sri Lankan tea in the 'Road Map Ceylon Tea 2030' provides much motivation for the positive growth of the tea sector in the medium to longer terms.

While the prevailing situation with COVID-19 has already had some minimal consequences on the Sri Lankan tea sector such as delays in exports to overseas markets and in receiving payments, and a slowdown in value added tea production which are dependent on material imports, the TSFPLC factories have been functioning, maintaining social distancing and taking required precautions as advised by health officials. The harvesting of Green Leaf by the small holders is continuing and arrangements are in place for the collection and receipt of same by the factories. Furthermore, the declaration of the tea sector as an essential service and the support of the Sri Lankan government to return the economy to normal in the coming

months while still maintaining regulations to reduce the spread of COVID-19 bodes well for the Company's operations in the coming months. An unexpected, yet very positive development caused by the lock-down was the decision by the Colombo Tea Traders Association (CTTA) and Colombo Brokers Association (CBA) to conduct the Tea Auction via an electronic platform for the first time in the 150-year history of the Sri Lankan tea industry. The auction, which was held on 4th April 2020, was a success and is expected to continue.

However, the forthcoming financial year will remain a challenge for the Company and industry given the volatile and evolving landscape from the impacts of COVID-19 on the Sri Lankan economy and on global industry and economies. The Company will continue to monitor the impacts to its operations and proactively take measures to ensure business continues as seamlessly as possible. At this moment, the focus is on transitioning to back-to-work arrangements ensuring all health and safety protocols are in place. While the Company has adequate funding and availability of banking facilities, TSFPLC will continue to focus on preserving this position while obtaining further banking lines ahead of any future requirements.

# Sustainability Report

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**TRAINING AND DEVELOPMENT IS AN ONGOING PROCESS MEANT TO ENSURE THAT THE WORKFORCE IS KEPT MOTIVATED BY EMPOWERING THEM WITH THE SKILLS NEEDED TO ENHANCE THEIR PERFORMANCE.**

We place significant emphasis on reducing the direct environmental impact from our business operations and have implemented a comprehensive Environmental Management Policy (EMP) which provides a framework to track and report on our environmental performance, thereby ensuring continuous improvement.



**2TPH STEAM BOILER FOR TEA DRIER  
INSTALLED AT BROADLANDS TEA  
FACTORY**

## Workforce Management

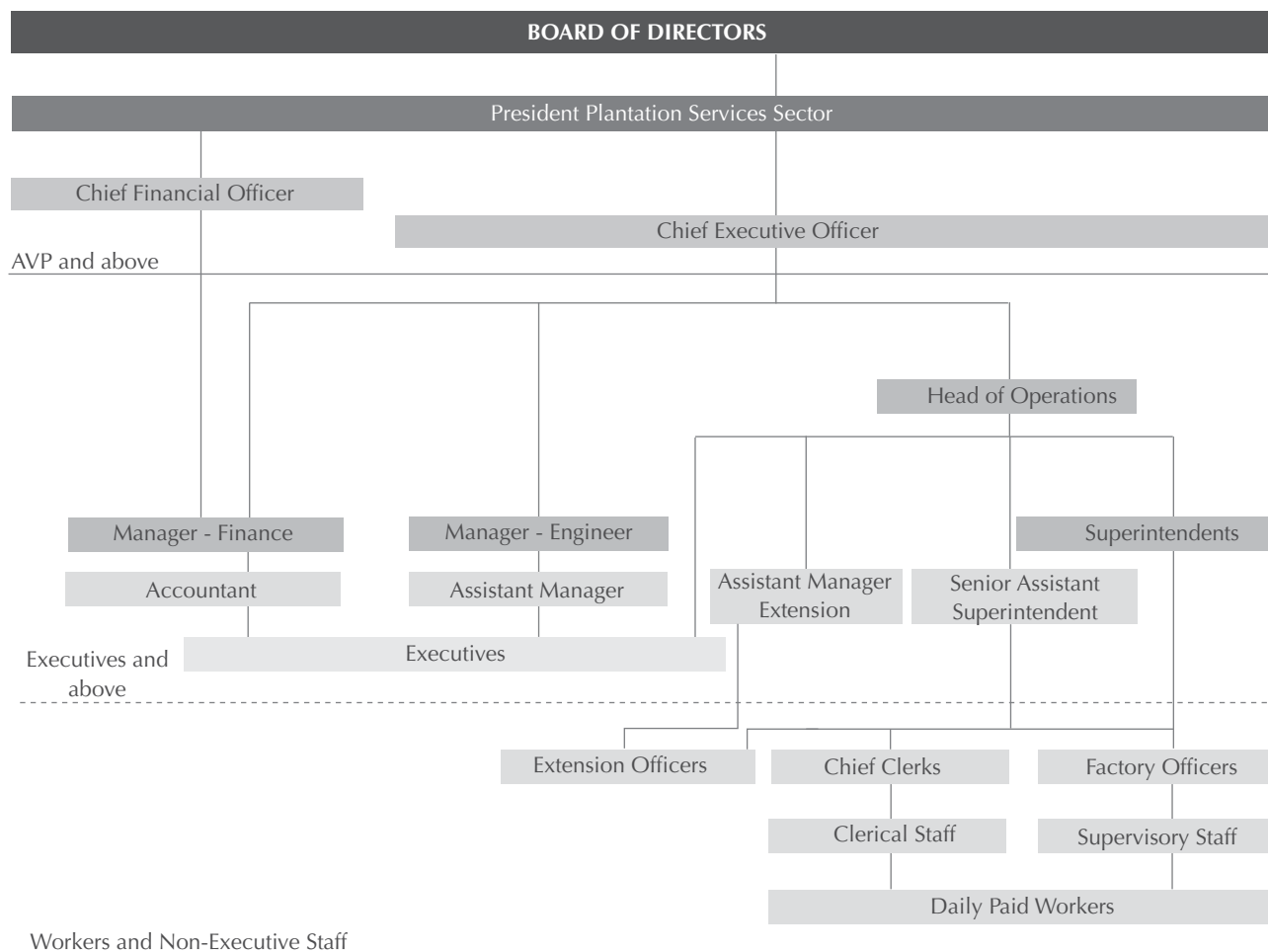
The Company remains strongly committed to nurture and develop our employees who form an integral part of the business. Our policies and procedures give priority to our people whilst strengthening our unique value proposition in keeping employees committed and motivated. As an equal opportunity employer that embraces diversity in the workplace, we do not

discriminate based on gender, race, age, religion or ethnicity. We strive to maintain an inclusive work culture that supports diverse talent to contribute positively to the growth and productivity. All our employees operate within a clearly defined governance framework and adhere to the code of conduct and ethics policy of the JKH Group.

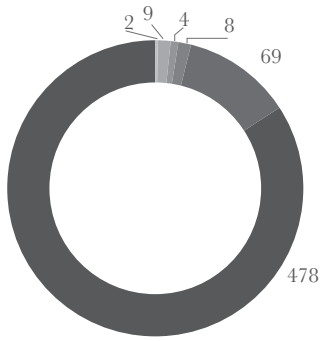
## Attract a strong workforce

During the year under review, the total employees of the Company were 570 while 264 employees were recruited, and 233 employees resigned. In adding value to the communities in which we operate, we make every effort to absorb the local talent around our factories and 99% of our employees were hired from the local communities.

### Our Organizational Structure

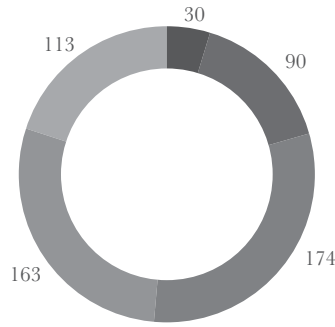


**Employment Strength 2018/19**



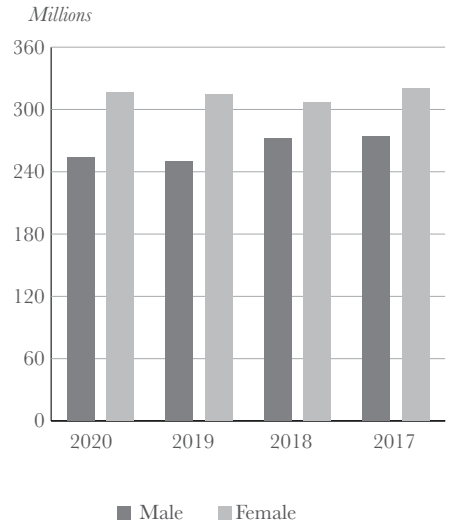
- AVP & Above
- Managers
- Assistant Managers
- Executives
- Non-Executives
- Daily Paid Workers

**Age Breakdown of Workforce**

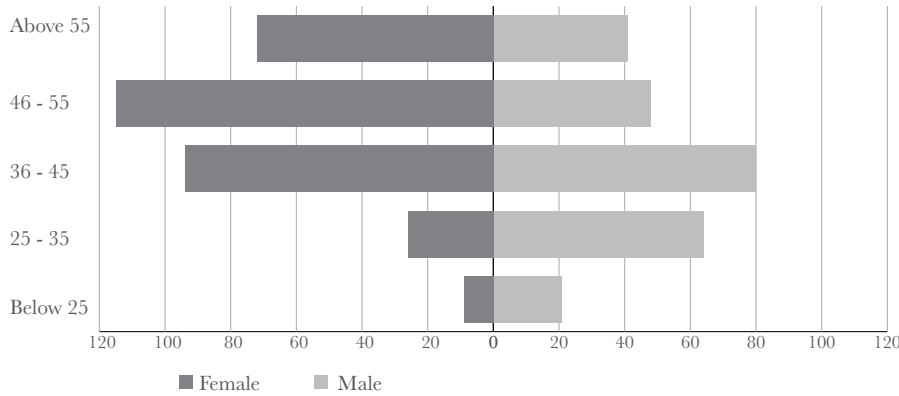


- Below 25
- 25 - 35
- 36 - 45
- 46 - 55
- Above 55

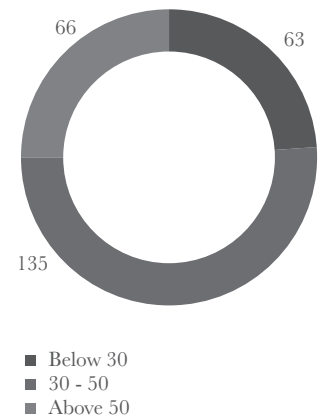
**Gender Diversity of Employees**



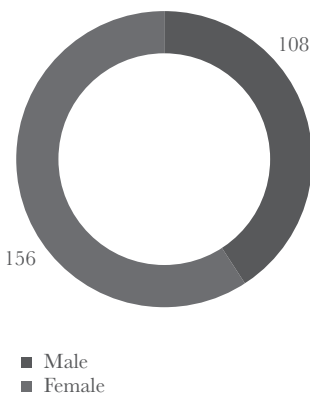
**Age Breakdown based on Gender**



**New Hires- Age Representation**

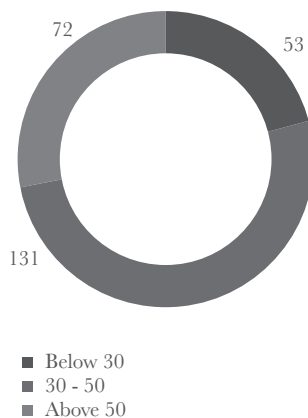


**New Hires - Gender Representation**



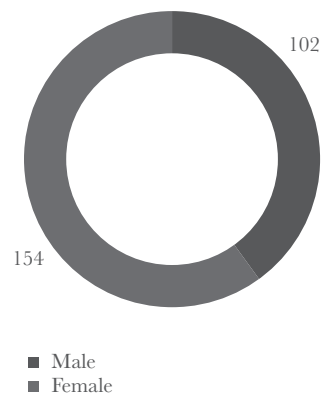
- Male
- Female

**Attrition - Age Representation**



- Below 30
- 30 - 50
- Above 50

**Attrition - Gender Representation**



- Male
- Female

## Remuneration and Benefits

The Company strives to ensure that remuneration schemes offered to our employees are competitive and is consistent with market benchmarks while fully complying with all applicable minimum wage regulations. As such, in addition to the basic salary, the Company's employees have access to the following benefits depending on their grade.

- Medical and life insurance policies for Executives and above
- Motor vehicle loan (Asst. Manager and above)
- Indoor medical schemes for Non-Executive staff
- Annual ex-gratia payments
- Meals, staff tea allowance and uniforms
- Provision of accommodation, electricity and water for factory employees who are not from the immediate vicinity of operations
- Free medical screening for staff and workers in the factories
- Rest rooms for workers

As a member of the John Keells Holdings (JKH) Group, the Company's employees have access to the Group's reward and recognition framework, which aims to keep employees motivated by recognising their contributions towards realising corporate goals and/or honouring their exemplary behaviour in upholding Group values

Employees are motivated by recognising their contributions towards realising corporate goals and/or honouring their exemplary behaviour in upholding Group values. The platforms available are;

- The Chairman's Award which rewards high performing managers and assistant vice presidents for their outstanding contributions above and beyond expectations, while displaying the true spirit of JKH Group values
- BRAVO Award which recognises superior performance by employees in maintaining and practicing JKH Group Values
- CSR Volunteers Recognition



*Harish Wanasinghe (CEO) receiving the 2019 Chairman's Award for Corporate Social Responsibility*



*"BRAVO Awards" presented to Chief Clerks at New Panawenna and Karawita tea factories*

**Training and Development**

Training and development is an ongoing process meant to ensure that the workforce is kept motivated by empowering them with the skills needed to enhance their performance. During the year under review, a total of 2,881 man-hours (average of 5 hours per employee) was spent on employee training, in the areas of manufacturing, certifications health and safety and general awareness.

**Career Progression and Performance Evaluation**

All employees have access to a comprehensive performance evaluation mechanism to help determine their prospects for career growth within the Company. As a key component of the Company’s employee retention strategy, the performance evaluation mechanism seeks to assess the performance of employees based on pre-agreed KPI’s jointly established between the employee and their respective supervisor, ahead of the financial year. Continuous alignment with set targets is facilitated through ongoing engagement between employees and their immediate supervisor, while an annual performance review mechanism helps to formally determine appropriate rewards as well as map specific training requirements. All employees in the executive grades and above have access to the Company’s performance review mechanism.

**Employee Health, Safety and Well-being**

The Company’s commitment towards workplace safety is operationalised through the application of globally accepted best practices as outlined by the OHSAS 18001 Certification. Further, the Company’s membership of the Ethical Tea Partnership (ETP) also provides guidelines and best practices which have been implemented to further strengthen our safety protocols and measures.

Key Highlights	2019/20	2018/19	2017/18
No. of work-related injuries	5	5	7
Lost days due to work related injuries	238	56	159
Injury rate	0.88%	0.88%	1.21%
No. of work-related fatalities	Nil	Nil	Nil
Incidents of Occupational Diseases	Nil	Nil	Nil

Our primary focus on our employee’s well-being has prompted the Company to provide a comprehensive range of amenities which include residential facilities, water and electricity supply, healthcare, meals, uniforms, staff allowance on tea, places of worship and other recreational amenities. The Company invested Rs. 4.15 million in rehabilitating and maintaining managers’ bungalows and staff quarters during the year under review.



Tea Grading Process- Neluwa Tea Factory



Temperature checks on all workers - COVID-19



Awareness on COVID-19



## Supplier Management

Our supplier network primarily consists of tea small holders, green leaf and produce transporters, fertilizer and packing material suppliers, bio-mass suppliers and other service providers. As the Company does not engage in growing of tea, green leaf is purchased from over 14,000 small growers based in the Ruhunu and Sabaragamuwa tea growing regions of the country. Each year, we continue to invest towards enhancing their livelihood through extension services and development programmes, ensuring the sustainability of the tea small holders, the Company and the industry.


## Extension Services to Green Leaf Suppliers


The extension team provides Value-added services aimed at disseminating information regarding latest Tea Cultivation Technologies and Good Agricultural Practices through Crop Clinics, Extension Field Visits, Demonstrations, Workshops, Group Discussions and Seminars. These activities are undertaken by the extension coordinators under the guidance of the Head of Operations and Assistant Manager Extension. Our Extension services for Green Leaf Suppliers aims to support them to improve their livelihood and thereby uplift their general living standards.



*Field extension advisory services*

## Overview of Long-Term Programmes and Projects under Extension Services

Extension Service Special Projects	Programme/Project Structure	Update 2019/29
<b>Development Assistance to Tea Small holders</b>	<p>Launched in 2010, this is the Company's primary extension project aimed at encouraging small holders to rehabilitate and replant unproductive land</p> <p>The Company provides small holders with financial assistance at concessionary rates together with technical advice on land preparation for replanting, soil rehabilitation and crop management techniques. Fertilizer mixtures are also offered at concessionary rates, as well as several high yielding, drought and pest resistant cultivars</p>	<ul style="list-style-type: none"> <li>• Project 1, 2, 3 and 4 comprising of 141 acres with the participation of 209 small holders has been completed and harvesting of these lands are in progress.</li> <li>• Project 5 - comprising of 24.75 acres with the participation of 34 small holders. Planting has been completed. Currently this project is under the 1st year upkeep.</li> <li>• Project 6 – comprising of 28 acres with the participation of 38 small holders. Planting was completed during 2019.</li> <li>• Project 7 - commenced in 2018/19, where 22 acres has been identified for replanting with the participation of 33 small holders. Rehabilitation of the lands is completed, and planting will commence in 2020 May.</li> <li>• Project 8 - commenced in 2019/20, where 22 acres has been identified for replanting with the participation of 30 small holders. Rehabilitation of the lands is in progress.</li> </ul>
	<p><i>Replanting block of a small holder tea land</i></p>	

Extension Service Special Projects	Programme/Project Structure	Update 2019/29
<b>Infilling Programme</b>		
<p>Launched in 2015 to complement the replanting programme, the aim of the programme is to infill tea plants to the vacant blocks of land in the tea fields and bring into bearing in a shorter period.</p>	<p>The Company provides small holders with nursery plants on an easy payment scheme to fill vacant areas. This project is carried out to consolidate productivity of mature tea blocks of small holders</p>	<ul style="list-style-type: none"> <li>• A total of 72,280 plants have been in-filled at 99 smallholder blocks in 2019/20.</li> </ul>
		
<p><i>Tea plants for infilling of tea lands</i></p>		
<b>Soil Testing Services</b>		
<p>Launched in 2008/09 the aim of this service is to help small holders to maintain soil health and manage land in a sustainable manner.</p>	<p>The Company's extension team conducts frequent analysis of soil pH values on smallholder lands, followed by the distribution of Dolomite to ensure adequate soil enrichment.</p>	<ul style="list-style-type: none"> <li>• 231 soil samples were tested and distributed 220.4 MTs of Dolomite towards correcting the PH values</li> </ul>
<b>Crop Clinics</b>		
<p>Launched in 2011/12 the aim of this service is to transfer expert knowledge on good agricultural practices in collaboration with the Tea Research Institute (TRI), Tea Small Holdings Development Authority and suppliers of fertilizer.</p>	<p>The Company's extension team conducts frequent analysis of soil pH values on smallholder lands, followed by the distribution of Dolomite to ensure adequate soil enrichment.</p>	<ul style="list-style-type: none"> <li>• 68 mini crop clinics were conducted for 1211 green leaf suppliers</li> </ul>
<b>Financial Assistance</b>		
<p>Launched in 2010, the aim is to support long-standing green leaf suppliers/smallholders to develop their lands or expand their operations.</p>	<p>The Company provides financial assistance in the form of loans to rehabilitate their lands and purchase planting material whilst grants on fertilizer is given.</p>	<ul style="list-style-type: none"> <li>• Replanting Loans granted for Rs. 2.06 Mn in 2019/20</li> <li>• Short Term Loans granted to Smallholders Rs. 20.55 Mn</li> <li>• Infilling Loans Granted Rs. 2.6 Mn</li> </ul>

## Community

The Company organized various projects and programmes annually in order to contribute towards the betterment of the communities surrounding our business operations. We consider it as our responsibility to nurture the well-being of these communities. During the year under review, the Company organised and implemented 11 programmes such as health camps, eye camps, blood donation programmes etc.

Extension Service	Project Details	Community Location	No of participants
Education & Awareness Programmes	JKELSP Inauguration of Galle and Rathnapura	Neluwa/Halwitigala/Hingalgoda/ Kurupanawa Tea Factories	56
	Educational programme for GCE O/L students	Neluwa/ Halwitigala/ Hingalgoda Tea Factories	362
	Distribution of textbooks for Preschool children at year end	Halwitigala Tea Factory	50
Arts & Culture (AC)	Provided floor tiles for the renovation of the Hingalgoda Shashodyaramaya Temple	Neluwa/Halwitigala/Hingalgoda/ Kurupanawa Tea Factories	
Environment (EN)	Clearing of village access road at Wadiyakande Leaf route	Kurupanawa Tea Factory	25
Awareness Programmes	Awareness programme on Dengue	New Panawenna/Hingalgoda Tea Factories	100
	Dengue prevention program -	Karawita Tea Factory	35
Disaster Relief Projects	Sterilization programme - Neluwa Bus Station, Public area and Hospital in order to prevent the spread of COVID 19	Neluwa Tea Factory	-
Healthcare Programmes	Blood Donation Camps organised by employees to contribute blood to the National Blood Bank in collaboration with tea small holder welfare societies.	Neluwa Tea Factory	69
	Cleaning of Hiniduma Hospital premises	Halwitigala/ Hingalgoda Tea Factories	25
	2 Eye camps were held providing 149 spectacles whilst 123 cataract operations were undertaken in collaboration with the John Keells Foundation.	Neluwa/ Halwitigala/ Hingalgoda/ New Panawenna Tea Factories	272



Education & Awareness Programme for students



Clearing a village access road at Kurupanawa



COVID 19 - Sanitization of Neluwa bus stand



Health camp organized at our factories



Blood donation camp at Neluwa factory



Eye camp at New Panawenna factory



Our small holders after cataract operation



Dengue Awareness program



JK English Language Scholarship Program at Rathnapura

## Energy Management

The Company's primary environmental footprint is as a result of the high energy usage on the manufacturer of Tea which accounts to 28% of the Company's cost of manufacture. The main sources of energy utilized are electricity (national grid), biomass and diesel which are derived through renewable and non-renewable sources. The Company has implemented a range of mechanisms and energy saving initiatives to monitor and improve resource efficiencies. The direct energy consumption by the Company is tabled below.

Source of Energy	Unit of Measurement	2019/20	2018/19	2017/18
Electricity form the National Grid	kWh	2,818,807	3,027,987	3,384,215
Self-Generated Electricity	kWh	113,974	106,394	122,553
Biomass	Cubic Meters	19,531	21,367	24,949
Diesel used for Generators	Litres	40,705	38,000	43,769
Diesel used for Transportation	Litres	84,263	90,058	87,697

We strive to reduce and optimize the overall energy usage through our energy management policy with conscious efforts made to manage our infrastructure and to seek efficiency improvements in production while reducing the dependency on non-renewable energy sources. Over the years we have achieved considerable success in this regard, with over 65 percent of the current energy requirements being met through renewable energy, mainly biomass. The carbon footprint for the year 2019/ 2020 stood at 0.62 kg of CO<sub>2</sub> per ton of made tea produced.

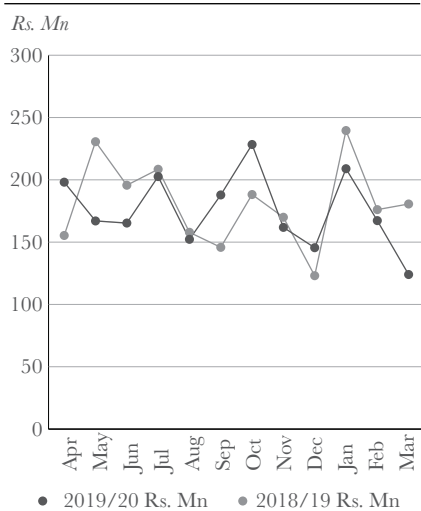
## Overview of Initiatives Implemented for Electrical and Thermal Energy Management

Initiative/Activity	Location	Completion Level
Installation of Variable Speed Drives (VSDs) for withering trough fans to optimise energy consumption in the withering process	All 7 factories	100%
Blade angle adjustment of withering trough fans to optimise electricity consumption (CFM vs kW)	All 7 factories	100%
Installation of light weight aerofoil shaped trough fan blades to minimise power consumption against delivered air flow (CFM vs kW)	All 7 factories	100%
Installation of Variable Frequency Drives (VFDs) to tea roller motors	Halwitigala factory	14%
Installation of screw compressors to produce energy efficient compressed air for colour separators and pneumatic applications	All 7 factories	100%
Automation of tea rolling process and semi automation of sifting process to maximise the effective usage of tea machineries	All seven factories.	100%
Replacement of florescent lighting with LED lighting	All 7 factories	80%
Replacement of conventional drier furnaces with steam boiler applications	Hingalgoda and Broadlands tea factory	28%
Recovering waste heat by introducing air pre-heaters	Broadlands tea factory	
Use of transparent roofing sheets enabling use of day light while saving on energy used for lighting	3 factories	30%
Load shifting - shifting demand from peak to non-peak times	All 7 factories	100%
Installation of capacitor banks for power factor correction (maintained between 0.99 to 1.00)	All 7 factories	100%
Investment in fast drying UV covered firewood sheds to channel the combustion efficiency of biomass	6 factories	86%
Conducting energy audits in manufacturing facilities	All 7 factories	100%
Continuous training and awareness programs on energy conservation for employees.	All 7 factories	100%
Routine preventive maintenance of machinery and equipment	All 7 factories	100%
Introduction of Electricity Sub metering	6 factories	84%
Undertaking Carbon Offsetting projects – Forestry Project	6 factories	1000 Plants

# Financial Review

KEY FINANCIAL INDICATORS AND THEIR PROGRESS DURING THE YEAR UNDER REVIEW IS DISCUSSED HEREWITH.

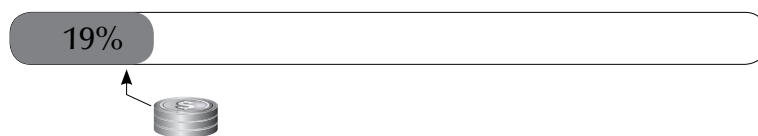
## Revenue - 2019/20 Vs 2018/19



## Revenue

The Company recorded a revenue of Rs. 2.11 billion for the year under review, a 2.76% decrease compared to Rs. 2.17 billion recorded in the previous financial year. The decrease was mainly due to the drop in prices and quantities offered at the Colombo Tea Auction.

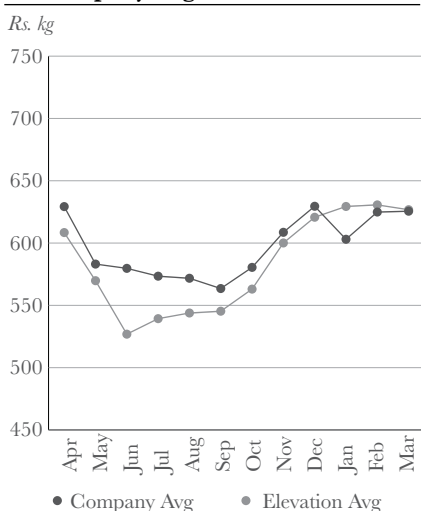
### Reduction in Revenue due to change in price



### Reduction in Revenue due to change in quantity



## Low Grown Elevational Avg. Vs Company Avg.

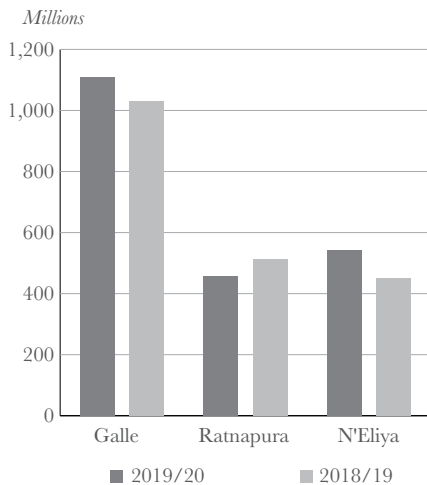


The total quantity sold during the year under review declined by 2.32% to 3.64 million kilograms compared to 3.73 million kilograms achieved in the previous year. The overall low grown production during the year was largely affected by the unprecedented weather patterns resulting in lower green leaf production in smallholder lands. The severe drought experienced during the 4th quarter of the year under review, resulted in an overall drop in production Y-O-Y.

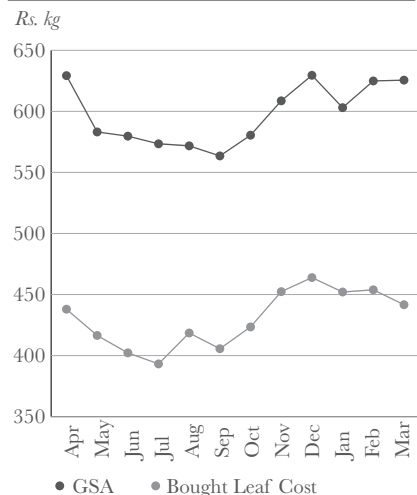
The low grown tea prices dropped sharply during the 1st half of the year. Fluctuating demand caused by currency devaluations, sanctions, and political and economic instability in key tea exporting countries such as Iran, Russia, Syria, and Turkey continued to have a negative impact on volumes and value. The US sanctions on Iran had a cascading impact on the auction prices in Colombo, particularly in the low grown sector, thereby affecting the performance of the Company and profitability.

In order to minimize the impact, the management strategically offered tea's to Colombo Tea Auction whilst monitoring the supply and demand equation which resulted in achieving a premium of 2.69% during the year compared to 0.80% achieved in previous year.

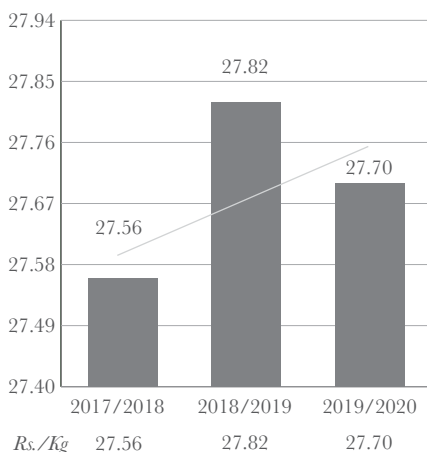
## Segmental Revenue - 2019/20 Vs 2018/19



## Bought leaf cost vs GSA 2019/20



## Cost of Labour



## Revenue by Segment

The highest contribution to revenue was realised from the Galle segment which consists of four factories while the lowest contribution was from the Ratnapura segment with two factories. The revenue dip from the Rathnapura segment was 15 % which was mainly due to the reduction in green leaf quantity and quality coupled with increased competition resulting in both, the drop in sales volume and price. However, despite the drop in prices, Broadlands tea factory in the Nuwara Eliya segment achieved 21 % increase in revenue in comparison to the previous year which was mainly due to the increase in production.

## Cost of Sales

### Cost of Bought Leaf

The cost of bought leaf, which is the primary contributor to the cost of sales, continued to realise a reduction during the year under review due to the reduction in tea prices at the auction. The Company purchased 16.79 million kilograms of green leaf during 2019/20 compared to 18.22 million kilograms of green leaf in the previous year. The payment to green leaf suppliers amounted to Rs. 1.47 billion in the year under review compared to Rs. 1.63 billion paid in the previous year.

The price payable for green leaf is determined by statute based on a formula designed by the Sri Lanka Tea Board which is linked to each individual factory's gross sale average with the elevation average. Although tea prices declined during the second quarter, the Company maintained the price paid to green leaf suppliers at a consistent level in order to maintain capacity utilisation and to retain the small holders. The Company's focused efforts to maintain product quality resulted in the Company maintaining a Gross Sale Average (GSA) of Rs. 595.16 during the period under review.

### Direct Production Cost

Labour costs, which is the second largest cost component in the cost of sales, decreased by 8.73% compared to the previous year. The reduction in the crop together with strategic initiatives implemented to optimise cost of production by implementing initiatives to improve labour productivity and outsourced non-core activities within the manufacturing process resulted in lower cost of sales. The continued investments in automating selected manufacturing processes further helped mitigate excessive labour cost increases during the year under review.

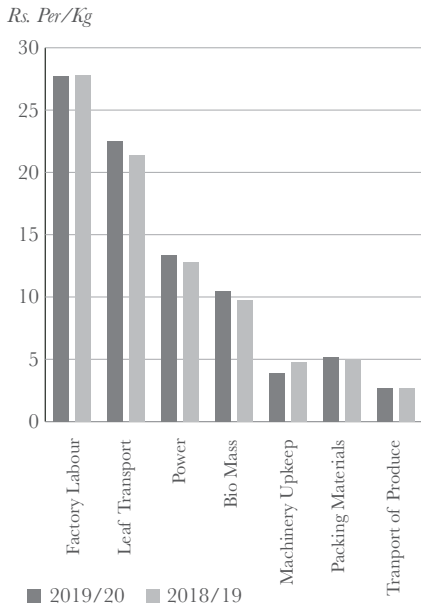
The cost incurred on green leaf transport per Kg of made tea increased by 5.13% in comparison to the previous year due to the increase in fuel price and reduction in leaf availability on certain leaf routes particularly in the Rathnapura region.

Cost incurred on power increased by 4.4 % during the year to Rs. 12.81 per Kg of MT, from Rs. 12.37 per Kg of MT achieved in the previous year. The increase was mainly due to the drop in production in comparison to the previous year.

Cost of fuel for driers increased to Rs. 10.48/- per Kg which is an increase of 7.54% compared to Rs. 9.74/- recorded in previous year. This increase was mainly due to drop in production volumes and an increase in purchase prices of fuel wood during the year under review.

The costs incurred on machinery maintenance reduced to Rs. 13.44 million compared to previous year (Rs. 17.9 million) due to stringent preventive maintenance carried out at factories.

**Direct Production Cost**



Production overheads mainly constitute overheads at the factory level such as salaries of members of staff, depreciation and general upkeep. The production overheads increased by 5.6 % during the year under review which was mainly due to the increase in the Company contribution on the new year bonus scheme to small holders and general ascension in prices experienced during the year.

**Other operating income**

Other income mainly comprise income from sale of refuse tea, rental income from investment property and profit on sale of property, plant and equipment. In comparison to the previous year, the income from sale of refuse tea increased from Rs. 23.6 million to Rs. 25.6 million and rental income marginally increased from Rs. 15.18 million to Rs. 15.64 million. A profit on the sale of property, plant and equipment for Rs. 6.5 million was recognized during the year.

**Administration and Other Expenses**

Administration expenses consist of head office overheads incurred for the benefit of factory operations which cannot be directly allocated to production. During the year under review, the cost decreased by 9% to Rs. 61.26 million from Rs. 66.84 million recorded in the previous year. The reduction was mainly due to the 3.9% decrease in staff related expenses compared to the previous year and other cost control measures implemented throughout the period to minimize cost.

**Finance Income Vs Finance Cost**



The management fee which is charged based on the contractual agreement between the Company and the managing agent, John Keells (Teas) Private Limited decreased to Rs. 17.68 million from Rs. 19.02 million recorded in the previous year. The reduction is in line with the drop in revenue and profitability of the Company.

**Finance Income vs Finance Cost**

The finance income of the Company consists of interest income earned from short-term investments mainly overnight investments, loans granted to green leaf suppliers and loans granted under the employee motor vehicle loan scheme for Executives (AM and above).

During the year under review, the finance income reduced by 7% to Rs. 4.19 million compared to Rs. 4.5 million received in the previous year. The reduction was mainly due to the restriction on loans offered to small holders in order to minimize risk in a volatile market. The Interest income on loans to green leaf suppliers reduced to Rs. 3.4 million during the year from Rs. 3.97 million recorded in the previous year.

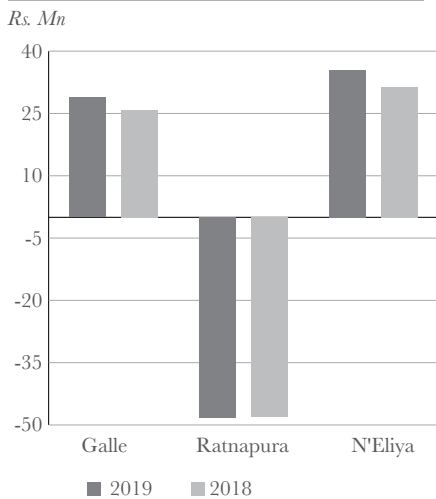
Finance costs of the Company decreased by 10% to Rs. 4.19 million in the year under review compared to Rs. 4.66 million recorded in the previous year. The decrease was mainly due to reduction in interest cost on short term borrowings. Efficient working capital management particularly on stocks which represents 11% of the total assets of the Company, had a positive impact on the reduction of finance cost during the year under review.

**Profitability**

The Gross Profit for the year under review, decreased by 5.6% to Rs. 16.11 million compared to Rs. 17.09 million achieved in the previous year. The drop was mainly due to the reduction in tea prices offered at the Colombo Tea Auction thereby reducing the margins of the Company. Stringent cost control measures were implemented throughout the period to minimize cost.



## Gross Profit



The factory operated in Nuwara Eliya recorded the highest gross profit for the year amounting to Rs. 35.4 million which is an increment of 13% compared to the previous year. The factory surpassed the competition in the region and produced over 850,000 kilograms of made tea.

Galle segment being the second highest contributor to gross profit for the year under review operating four (4) factories recorded a gross profit of Rs. 28.89 million which is an increment of 11.66% compared to last year

Gross profit of Ratnapura segment continued to decline with the effects of unprecedented weather and increased competition which resulted in significantly lower production volumes. The segment was also severely affected by the drought which reduced the crop on takes significantly. The segment recorded a loss of Rs. 48.18 million compared to the loss of Rs. 48.15 million recorded in the previous year.

## Change in the Fair Value of Investment Property

Fair value of the investment property situated in Peliyagoda increased by Rs. 39 million during the year under review, effectively increasing the value of the property to Rs. 427 million from Rs. 388 million recognised in the previous year (excluding fair value gain on Pasgoda Tea Factory). The gain is recorded in the income statement as required by the Sri Lanka Accounting Standards

## Taxation

During the year under review the Company recorded a tax reversal due to the reversal of over provision of current tax recorded in 2018/19. Additionally, based on the expert opinion obtained, the management applied the tax rate of 14% for income tax and deferred tax for the financial year ended 31 March 2020. Refer Note 17.5 on page 114

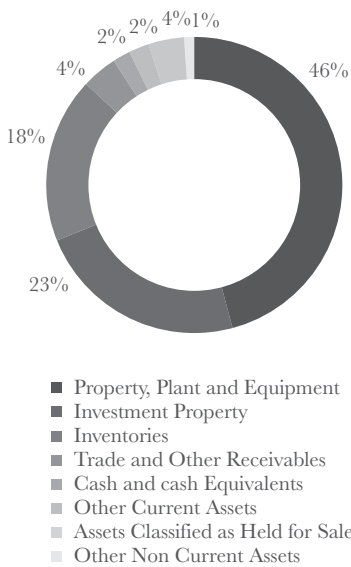
## Profit before tax from Continuing Operations

The profit before tax for the year under review was Rs. 30.07 million compared to Rs. 15.68 million achieved in the previous financial year. The improvement was mainly due to the reduction in the operating losses of the Company incurred during the year under review through stringent cost control measures implemented. The change in fair value of the investment property situated in Peliyagoda was a key contributor to sustaining the profit before tax during the year under review.

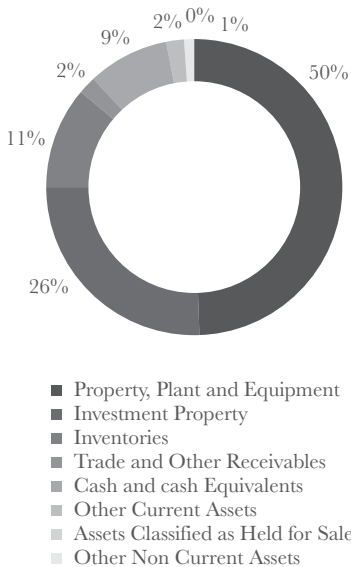
## Profit/Loss for the year from Discontinued Operation

The Company sold Pasgoda tea factory on 17th May 2019. The asset was classified as an asset held for sale in the previous year and as a discontinued operation in accordance with Sri Lanka Accounting Standards. During the year, the discontinued operation indicates a loss due to the capital gains tax payable on the sale of the asset.

**Total Assets 2018/2019**



**Total Assets 2019/2020**



**Financial Position Review**

The Company’s total asset base reduced by 3% to Rs. 1.64 billion as at 31st March 2020 from Rs. 1.7 billion as at 31st March 2019 due the reduction in the current asset base.

The Company has a strong asset base with Property, Plant and Equipment covering 50% of the total assets whilst Investment property represents 26% of the total assets. From the total Property, Plant and Equipment, 74% represents land buildings whilst plant and machinery represent 23%. The Company operates seven bought leaf factories out of which, six factories are on freehold lands. The Company has invested Rs. 38 million during the year on capital expenditure out of which, Rs. 25 million was on Plant and machinery.

Inventory, which comprises made tea, declined due to drop in volumes as a result of the drought experienced during the latter part of the year. Accordingly, during the last quarter of the financial year, the Company sold a significant portion of the inventory held in stock releasing cash flows. Hence the cash and equivalents increased to Rs. 139.48 million from Rs. 29.85 million recorded in the previous year.

The decline in trade receivables during the year was mainly due to the last sale in March 2020 being postponed due to lock-downs initiated by the authorities to prevent COVID-19.

The Company’s assets were primarily funded by shareholders’ funds which accounted for 86% of the Company’s total equity and liabilities followed by non-current liabilities at 8% and current liabilities at 6%. The Company utilised Rs. 0.5 million of its overdraft facility available with Deutsche Bank as at 31st March 2020, compared to Rs. 4.03 million utilised as at 31st March 2019.

**Cash Flow Generation**

Despite the negative operating profits, the cash generated from operating activities has recorded a positive Rs. 115.83 million. This is essentially due to prudent management of working capital particularly on produce inventory. This ensured that adequate funds were available for capital investments, servicing of debts and payment of dividends.

The Company incurred Rs. 37.74 million on capital expenditure, of which a major portion was on investments in machinery towards enhancing product quality. A dividend of Rs 51 million was paid during the year. As at 31st March 2020, overall cash and cash equivalents recorded Rs. 139.48 million compared to Rs. 29.85 million as at 31st March 2019.

**Share Price and Market Capitalisation**

The share price stood at Rs. 19.10 per share as at 31st March 2020 compared to Rs. 24.10 per share as at 31st March 2019, a decrease of 21%. The market capitalisation decreased to Rs. 573 million as at 31st March 2020 as against Rs. 723 million recorded in the previous year.

The earnings per share (EPS) increased significantly by 103% to Rs. 3.47 from Rs. 1.71 recorded in the previous year.



## Focused on integrity

GOVERNANCE

Our rock-solid fundamentals have ensured we can weather any storm; built on principles of accountability and trust we continue to govern our affairs in accordance with industry standards and regulations.

# CORPORATE GOVERNANCE REPORT

Tea Smallholder Factories PLC (Company) has honed its governance structures, policies and processes over the years with inputs from its Parent Company John Keells Holdings PLC (JKH) to build an organisation that is effective and accountable with a high degree of transparency. Maintaining high standards of corporate governance are key to driving performance and delivering value to key stakeholders. As the highest decision making body of the Company, the Board sets the tone at the top and is responsible for reviewing the effectiveness of its corporate governance mechanisms while maintaining an appropriate balance between empowerment and accountability with explicit statements of values and standards of conduct expected from its employees

## Highlights of the 25th Annual General Meeting held on 27th June 2019

- Mr. M. H. De Silva who retired in terms of Article 83 of the Articles of Association of the Company, was re-elected as a Director of the Company
- Mr. A. S. Jayatilleke who retired in terms of Article 83 of the Articles of Association of the Company, was re-elected as a Director of the Company
- Mr. A. K. Gunaratne who retired in terms of Article 90 of the Articles of Association of the Company, was re-elected as a Director of the Company
- Mr. J. R. Gunaratne who retired in terms of Article 90 of the Articles of Association of the Company, was re-elected as a Director of the Company
- Re-appointment of Messrs. Ernst and Young as the External Auditors of the Company for the year 2019/2020

## Compliance Summary

### Regulatory Benchmarks

Standard / Principle / Code	Adherence
The Companies Act No.7 of 2007 and regulations	Mandatory provisions - fully compliant
Listing Rules of the Colombo Stock Exchange (CSE)	Mandatory provisions - fully compliant
Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987, including directives and circulars	Mandatory provisions - fully compliant
Code of best practice on Related Party Transactions (RPT) published by the SEC	Mandatory Provisions – Fully Compliant
Code of Best Practice on Corporate Governance (2013) jointly advocated by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)	Voluntary provisions - fully compliant
UK Corporate Governance Code (formerly known as the Combined Code of 2010)	Voluntary provisions - fully compliant, as applicable
Code of Best Practice on Corporate Governance (2017) issued by CA Sri Lanka	Voluntary Provisions – Compliant with almost the full 2017 Code, to the extent of business exigency and as required by the John Keells Group

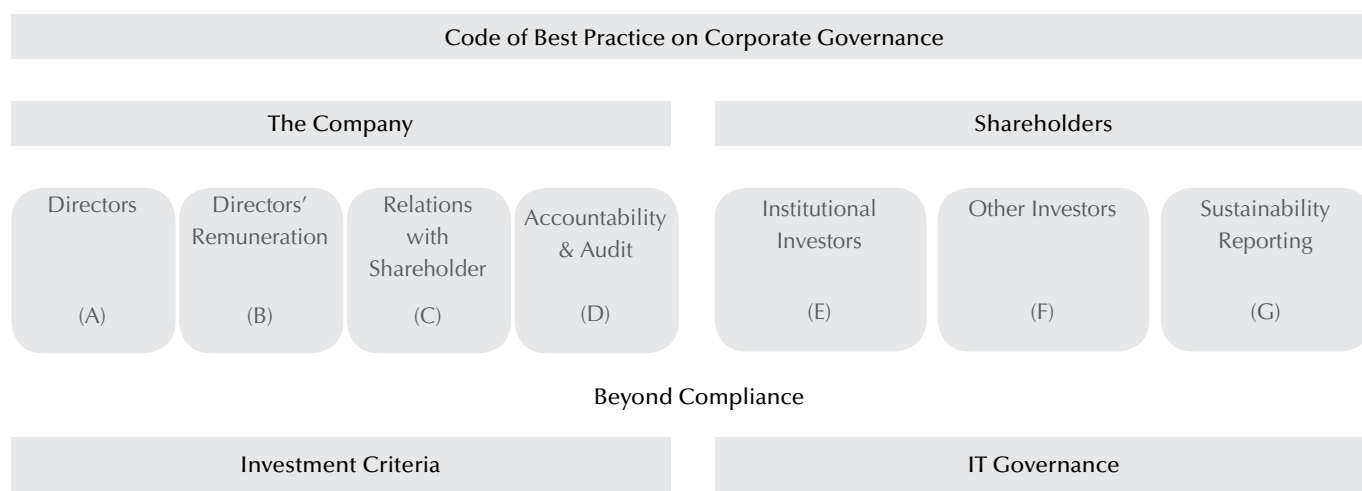
### Key Internal Benchmarks

- Articles of Association of the Company
- Recruitment and selection policies
- Learning and development policies
- Policy on career management and promotions
- Rewards and recognition policy
- Code of conduct
- Policy against sexual harassment
- Policies on forced, compulsory and child labour
- Disciplinary procedure
- Policy on grievance handling
- Anti-fraud policy
- Ombudsperson policy
- Group accounting procedures and policies
- Policies on enterprise risk management
- IT policies and procedures, including data protection and security
- Policies on energy, emissions, water and waste management

The Company operates within an integrated Governance framework formulated after taking into consideration the mandatory provisions of the Companies Act No. 07 of 2007 (“Companies Act”), the Listing Rules of the Colombo Stock Exchange (“CSE”) the Code of Best Practice on Corporate Governance (“Code”) issued (2013) jointly by the Institute of Chartered Accountants of Sri Lanka (“CA Sri Lanka”) and the Securities and Exchange Commission of Sri Lanka (“SEC”)

This report details our governance structure and framework along with information indicating compliance with the Code of Best Practice on Corporate Governance (2013) issued jointly by the CA Sri Lanka and the SEC.

The integrated Governance framework formulated is outlined in the diagram below and set out in the report that follows:



## A. Directors

### A1. An Effective Board

The Board of Directors is responsible for implementing the corporate governance framework across the business.

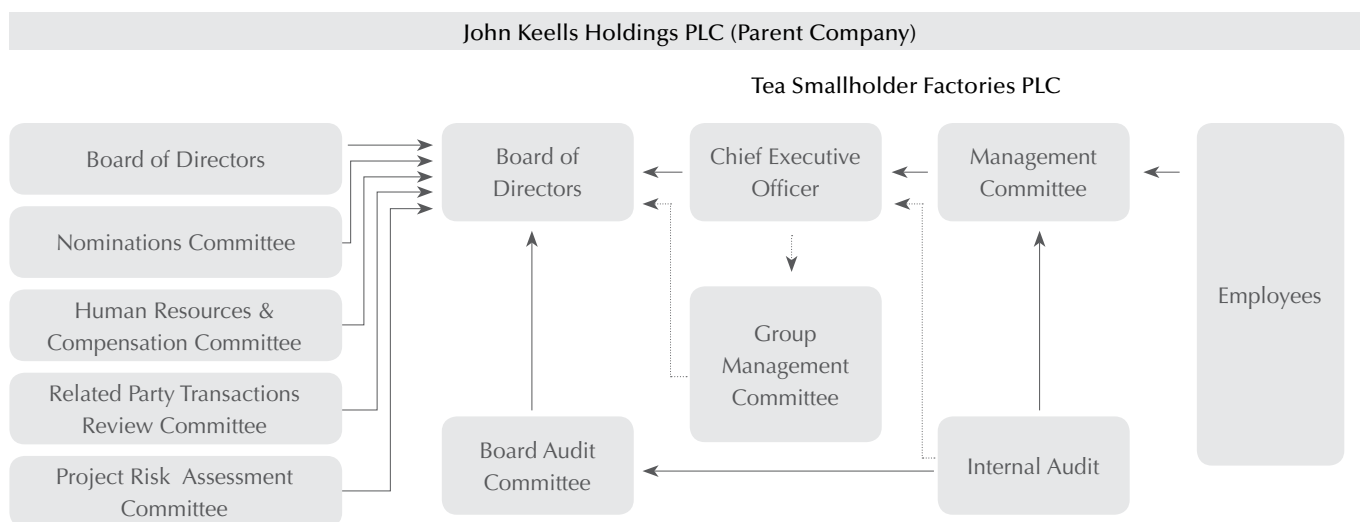
During the financial year ended 31st March 2020, the Board of the Company comprised five (5) Non Executive, Non Independent Directors (NED//NID) including the Chairman and three (3) Non Executive, Independent Directors (NED/ID) satisfying the criteria specified in Section 7.10.4 of the Listing Rules for “Independence”,

Section 7.10.2 of the Listing Rules and ensuring sufficient balance in line with the requirements of the Code of Best Practice on Corporate Governance (2013) issued jointly by the CA Sri Lanka and the SEC.

The Executive authority is well delegated through committees with clearly defined authority limits, responsibilities and accountability which are agreed upon in advance to achieve greater operating efficiency and freedom of decision making.

As permitted by the listing rules of the CSE, Nominations, Human Resources and Compensation, Related Party Transactions Review, Project Risk Assessment committees of the Company's Parent Company, JKH assist the Board of the Company.

The governance structure of the Company is given below with reporting lines clearly identified.



The Board’s effective governance is supported by the following sub-committees and senior management committees.

**Board Sub-Committees**

Certain functions of the Board have been delegated to the Board Sub-Committees, with the Board retaining final decision rights. This enables the Board to bring in more specialized knowledge into the decision-making process, whereby having the members of these Sub-Committees focus on their area of expertise.

As permitted by the listing rules of the CSE, the Nominations, Human Resources and Compensation and Related Party Transactions Review committees together with and the Project Risk Assessment committee of the Parent Company, JKH, function on behalf of the Company.

**Board Audit Committee (BAC)**

Composition	<p>The Board Audit Committee comprised of three (3) NED/IDs. The Chairman of the Committee was a member having current membership of a reputed professional accountancy body. Members were:</p> <ol style="list-style-type: none"> <li>1. Mr. M. H. De Silva - Chairman (Resigned w.e.f 15th May 2020)</li> <li>2. Mr. A. S. Jayatilleke</li> <li>3. Mr. S. K. L. Obeyesekere</li> </ol> <p>Detailed information regarding the activities of the BAC are provided in the BAC report on pages 73 to 75.</p>
Mandate	<p>To provide an independent and objective review of the financial reporting process, internal controls, risk management process, and the internal and external audit function in ensuring;</p> <ul style="list-style-type: none"> <li>• Adequacy and fairness of disclosure.</li> <li>• Transparency, integrity and quality of financial reporting.</li> </ul>
Scope	<ul style="list-style-type: none"> <li>• Review the quarterly and annual financial statements, including the quality, transparency, integrity, accuracy and compliance with accounting standards, laws and regulations</li> <li>• Assess the adequacy and effectiveness of the internal control environment in the Company and ensure appropriate action is taken on the recommendation of the Internal Auditors</li> <li>• Evaluate the competence and effectiveness of the risk management systems of the Company and ensure the robustness and effectiveness in monitoring and controlling risks</li> <li>• Review the adequacy and effectiveness of the internal audit arrangements</li> <li>• Recommend the appointment, re-appointment and removal of the External Auditor including their remuneration and terms of engagement by assessing qualifications, expertise, resources and independence</li> </ul>

### Nominations Committee (of the Parent Company John Keells Holdings PLC)

Composition	<p>The Committee comprises four (4) NED/IDs including Chairman of the Committee and one NED/ID. Current members are:</p> <ol style="list-style-type: none"> <li>1. Mr. M. A. Omar - Chairman</li> <li>2. Ms. M. P. Perera*</li> <li>3. Dr. S. S. H. Wijayasuriya</li> <li>4. Dr. R. Coomaraswamy**</li> <li>5. Mr. K. N. J. Balendra – Non Independent Director</li> </ol> <p>*Composition of the Nomination Committee was reconstituted at the JKH Board Meeting held on 24 May 2019, following which Ms. M P Perera was released from her role in the Nominations Committee. She was re-appointed to this committee with effect from 01st January 2020.</p> <p>** Dr. R. Coomaraswamy, formally a member of the Nominations Committee, resigned from JKH with effect from 31st December 2019.</p>
Mandate	Define and establish the nomination process for NEDs, lead the process and make recommendations to the Board on the appointment of NEDs.
Scope	<ul style="list-style-type: none"> <li>• Assess the skills required on the Board given the needs of the business.</li> <li>• Periodically assess the extent to which required skills are represented on the Board.</li> <li>• Prepare a clear description of the role and capabilities required for a particular appointment.</li> <li>• Identify and recommend suitable candidates for appointment to the Board.</li> <li>• Ensure that on appointment to the Board, Directors receive a formal letter of appointment specifying clearly;             <ul style="list-style-type: none"> <li>• The expectation in terms of time commitment.</li> <li>• Involvement outside of the formal Board meetings.</li> <li>• Participation in committees.</li> </ul> </li> <li>• The appointment of Chairperson and Directors is a collective decision of the Board</li> </ul>

### Human Resources and Compensation Committee (of the Parent Company John Keells Holdings PLC)

Composition	<p>The Committee comprises three (3) NED/IDs including Chairman of the Committee. Current members are:</p> <ol style="list-style-type: none"> <li>1. Mr. D. A. Cabraal - Chairman</li> <li>2. Mr. M. A. Omar</li> <li>3. Dr. S. S. H. Wijayasuriya</li> </ol> <p>The Chairman-CEO of JKH and Deputy Chairman / Group Finance Director of JKH are present at all Committee meetings unless the Chairman or Executive Director remuneration is under discussion respectively</p> <p>The Head of Legal, Secretarial and CSR is the Secretary of the Committee</p>
Mandate	Determine the quantum of compensation (including stock options) for Chairman and Directors, conduct performance evaluation of the Chairman, review performance evaluation of other Directors and establish a Group Remuneration Policy.
Scope	<ul style="list-style-type: none"> <li>• Determine and agree with the Board on a framework for remuneration of the Chairman and Directors based on performance targets, benchmark principles, performance related pay schemes, industry trends and past remuneration.</li> <li>• Succession planning of Key Management Personnel</li> <li>• Determining the compensation of NEDs will not be under the scope of this Committee.</li> </ul>

#### Related Party Transactions Review Committee (of the Parent Company John Keells Holdings PLC)

Composition	<p>The Committee comprises two (2) NED/IDs, One Senior Independent Non Executive Director and One Executive Director of JKH. The Chairperson is a NED/ID. Current members are:</p> <ol style="list-style-type: none"> <li>1. Ms. M. P. Perera - Chairperson</li> <li>2. Mr. D. A. Cabraal</li> <li>3. Mr. A N. Fonseka</li> <li>4. Mr. K. N. J. Balendra*</li> </ol> <p>In addition, the Deputy Chairman /Group Finance Director, Mr. J. G. A. Cooray attends meetings by invitation. The Head of Group Business Process Review serves as the Secretary to the Committee.</p> <p>* Composition of the Related Party Transaction Review Committee was reconstituted at the Board Meeting held on 31st March 2020, following which Mr. K. N. J. Balendra was released from his role in the committee. Mr. K. N. J. Balendra will attend meetings, as required, by invitation.</p>
Mandate	To ensure on behalf of the Board, that all related party transactions of the Company are consistent with the Code of Best Practices on Related Party Transactions issued by the SEC.
Scope	<ul style="list-style-type: none"> <li>• Develop and recommend for adoption by the Board of Directors of the Company, a Related Party Transaction Policy which is consistent with the operating model and the delegated decision rights of the John Keells Group.</li> <li>• Update the Board of Directors on related party transactions of each Company in the Group on a quarterly basis.</li> <li>• Define and establish the threshold values for each of the subject listed companies in setting a benchmark for related party transactions, related party transactions which must be pre-approved by the Board, related party transactions which require to be reviewed annually and similar issues relating to listed companies.</li> </ul>

#### Project Risk Assessment Committee

Composition	<p>The Committee should comprise of a minimum of four Directors, including the Group Chairman and Group Finance Director and two NED/IDs. The Committee Chairman must be a NED /ID. Current members are:</p> <ol style="list-style-type: none"> <li>1. Ms. M. P. Perera - Chairperson</li> <li>2. Mr. K. N. J. Balendra</li> <li>3. Mr. J. G. A. Cooray</li> <li>4. Ms. M. P. Perera</li> </ol>
Mandate	To evaluate and assess risks associated with significant new investments at the initial stages of formulation and in any event prior to making any contractual commitments for the long term.
Scope	<ol style="list-style-type: none"> <li>i. Review and assess risks associated with large-scale investments and the mitigatory plans thereto, if mitigation is possible, and identify risks that cannot be mitigated.</li> <li>ii. Ensure stakeholder interests are aligned, as applicable, in making this investment decision.</li> <li>iii. Where appropriate, obtain specialised expertise from external sources to evaluate risks, in consultation with the Group Finance Director.</li> <li>iv. Recommend to the Board, necessary action required, to mitigate risks that are identified in the course of evaluating a project in order to ensure that those risks are captured by the Group Risk Matrix for monitoring and mitigation.</li> </ol> <p>Note that the Committee shall convene only when there is a need to transact in business as per the terms of its mandate.</p>



### Group Management Committee (GMC)

Composition	The Group Management Committee of the Plantation Services Sector comprises the following members. <ul style="list-style-type: none"> <li>• President – Plantations Services Sector</li> <li>• Chief Executive Officers of each business unit (BU)</li> <li>• Chief Financial Officer of the Plantations Services Sector</li> <li>• Senior Management of each BU representing each functional area.</li> </ul>
Mandate	To design, implement and monitor the best practices of the industry, sectors and strategic business units where appropriate and material.
Scope	<ul style="list-style-type: none"> <li>• Strategy formulation</li> <li>• Implementation of sector strategies for the Plantations Services Sector</li> <li>• Performance monitoring</li> <li>• Risk management</li> <li>• Any other business matters</li> </ul>

### Senior Management Committee

Executive authority is well devolved through a committee structure ensuring that the President of the Plantation Services Sector, Chief Executive officer (CEO) of Tea Smallholder Factories PLC and profit centre / functional managers are accountable for the Company and the business units / sub-functions respectively. Clear definitions of authority limits, responsibilities and accountabilities are set and agreed upon in advance to achieve greater operating efficiency, expediency, healthy debate and freedom of decision making.

The Board meets regularly to discuss all matters relevant to the operation and governance of the Company and the minutes of all Board meetings are documented by the Company Secretaries, Keells Consultants (Private) Limited. Any absences are excused in advance and duly recorded in the minutes. The absent members are briefed on the discussions and actions taken during the meeting.

Directors are provided with Board packs which includes Board Resolutions, performance reports, information on human resources and capital expenditure, treasury and compliance statements etc. in advance of the Board meeting (at least one week prior to the Board meeting) to facilitate informed decision making. The dates and attendance of the Board of Directors to the quarterly Board meetings is tabled below:

Attendance at Meetings					
Name of Director	06/05/2019	25/07/2019	24/10/2019	17/01/2020	Attendance
<b>Non Executive Non Independent Director (NED/NID)</b>					
Mr. K. N. J. Balendra	✓	✓	✓	✓	4/4
Mr. J. G. A. Cooray	✓	✓	✓	✓	4/4
Mr. J. R. Gunaratne	✓	✓	✓	✓	4/4
Mr. E. H. Wijenaik	✓	✓	✓	✓	4/4
Mr. A. K. Gunaratne	✓	✓	✓	✓	4/4
<b>Non Executive Independent Director (NED/ID)</b>					
Mr. M. H. De Silva (Resigned w.e.f 15th May 2020)	✓	✓	✓	✓	4/4
Mr. A. S. Jayatilleke	✓	X	✓	X	2/4
Mr. S. K. L. Obeyesekere	✓	✓	X	✓	3/4

## Board Agenda

A typical Board agenda in 2019/20 contained;

- Confirmation of previous minutes
- Matters arising from the previous minutes
- Board sub-committee reports and other matters exclusive to the Board
- Status updates of major projects
- Review of performance in summary and in detail, including high level commentary on actuals and outlook
- Summation of strategic issues discussed at pre-Board meetings
- Approval of interim and annual financial statements
- Ratification of capital expenditure, disposal of fixed assets and donations
- Ratification of the use of the Company seal
- Ratification of Circular Resolutions
- New Board Resolutions
- Board Evaluation
- Ratification of new appointments, renewal of Directors, remuneration and related approvals
- Report on corporate social responsibility
- Review of risks, sustainability development, HR practices / updates, etc.
- Any other business.

## Roles and Responsibilities of the Board

The John Keells Group Corporate Governance Framework expects the Board of Directors to:

- Provide direction and guidance to the Company in the formulation of its high-level strategies, with emphasis on the medium and long term, in the pursuance of its sustainable development goals.

- Reviewing and approving annual plans and long-term business plans.
- Tracking actual progress against plans.
- Setting in place governance structures and policy frameworks to ensure compliance with laws, regulations and ensuring the highest standards of disclosure, reporting, ethics and integrity
- Overseeing systems of internal control, risk management and establishing whistle-blowing conduits.
- Ensuring that key management personnel and the management team have the required skills, experience and knowledge to implement strategy.
- Determining any changes to the discretions/authorities delegated from the Board to the executive levels
- Review and approval of major acquisitions, disposals and capital expenditure.
- Approving any amendments to constitutional documents.
- Adopting voluntarily, best practices where relevant and applicable.
- Impacts on business operations of the current and emerging economic and geopolitical shifts.
- Legal, tax and accounting aspects, particularly where independent external advice is deemed necessary in ensuring the integrity of the subject decision.
- Market surveys, architectural and engineering advisory services as necessary for business operations
- Actuarial valuation of retirement benefits and valuation of property including that of investment property.
- Information technology consultancy services pertaining to enterprise resource planning system, distributor management system or other major projects.
- Specific technical know-how and domain knowledge for identified project feasibilities and evaluations

Additionally, individual Directors are encouraged to seek expert opinion and / or professional advice on matters where they may not have full knowledge or expertise.

## Act in accordance with Laws and Access to Independent Professional Advice

The Board acts in accordance with the laws of the country and all employees are required to conform accordingly as stated in the Code of Conduct of JKH. The Board and the Board Audit Committee receive statements of compliance on recurrent statutory requirements from management on a quarterly basis in this regard.

In order to preserve the independence of the Board, and to strengthen decision making, the Board seeks independent professional advice when deemed necessary. Accordingly, the Board obtains independent professional advice covering areas such as;

## Role of Company Secretary

The Company Secretaries, Keells Consultants (Private) Limited is responsible for inducting new Directors, assist the Chairman and the Board of Directors in determining the annual Board Plan, guide the Board and the individual Directors in the proper discharge of their responsibilities and act as a central source of guidance on matters of ethics and governance. In addition to the many duties, the Company Secretary is responsible for making necessary disclosures on related party transactions required by law and regulations and also acts as a channel of communication with shareholders to ensure good shareholder relations. The shareholders can contact Keells Consultants (Private) Limited, the Company Secretaries on 011-2306245 for any Company related information requirements.

### Board induction and training

Newly appointed NEDs are apprised of the John Keells Group and Company's values and culture, Group governance framework, policies and processes, Code of Conduct expected by the Company, operating / business model of the Company, strategy and the Directors' responsibilities in accordance with current legislation.

The Chairman ensures that new Directors are introduced to other Board members and key management personnel and briefed on matters taken up at prior meetings.

Directors are encouraged to update their skills and knowledge on a continuous basis and this is facilitated through the following activities.

- Access to External and Internal Auditors
- Periodic reports on performance
- Updates on topics that range from proposed / new regulations to industry best practices
- Opportunities to meet Senior Management of the Managing Agents in a structured setting
- Access to industry experts and other external professional advisory services
- Access to the Centre Legal, Tax and Finance Divisions of the John Keells Group of which the Company is a member and
- The services of the Company Secretary

They also have the opportunity of gaining further insight into the Company's business by undertaking business visits. The Directors devote sufficient time and make every effort to ensure that in proportion with their knowledge and experience, they discharge their responsibilities to the Company.

### A.2 and A.3 – The Roles of the Chairman and Chief Executive Officer (CEO)

The roles of the Chairman and CEO are segregated in line with best practices in order to ensure a balance of power and authority, such that no one individual has unfettered powers of decision.

#### Chairman's Role

The Chairman is a NED/NID. The main responsibility of the Chairman is to lead and manage the Board and its Committees so that they can function effectively. He also sets the tone for the governance and ethical framework of the Company, facilitates and encourages the expression of differing views, and by keeping in touch with local and global industry developments, ensures that the Board is alert to its obligations to the Company's shareholders and other stakeholders. He represents the Company externally and is the focal point of contact for shareholders on all aspects of corporate governance.

With the assistance of the Company secretaries, Keells Consultants (Private) Limited, the Chairman and CEO ensures that;

1. Board procedures are followed
2. Directors receive timely, accurate and clear information
3. Updates on matters arising between meetings
4. The agenda for the Board meeting, reports and papers for discussion are dispatched at least one week in advance so that the Directors are in a position to study the material and arrive at sound decisions.
5. A proper record of all proceedings of Board meetings is maintained.

The Human Resources and Compensation Committee of the Parent Company, JKH appraises the performance of the Chairman on an organizational and individual basis as approved by the Board.

#### Role of Chief Executive Officer (CEO)

The Board has, subject to predefined limits, delegated its executive authority to the CEO of the Company for the implementation of strategies approved by the Board and developing and recommending business plans and budgets in line with the Company's strategy to the Board.

Role of the CEO is as follows;

- Execute strategies and policies of the Board
- Guides and supervises the senior management of the Company
- Ensure that operating model of the Company is aligned to short and long term strategies pursued by the Parent Company
- Ensure that succession at the senior management level is planned

#### A.4 Financial Acumen

Collectively the Board has sufficient financial acumen as they are selected through a sufficiently rigorous process. Additionally, the following Directors are members of professional accounting organisations and are able to offer guidance on matters of finance, drawing on their specialised knowledge on the subject of finance:

- Mr. J. G. A. Cooray
- Mr. M. H. De Silva (Resigned w.e.f. 15th May 2020)

### A.5 Board Balance

As at 31st March 2020, the Board comprised of five (5) NED/NIDs including the Chairman, three (3) NED/IDs ensuring that there is sufficient balance on the Board. This is based on the following;

- Collectively, the NEDs possess proven business experience and expertise in their respective fields.
- The present composition of the Board represents an appropriate mix of skills and experience.
- The independent Directors possess strong financial acumen and by virtue of their membership on external Boards, are able to assess the integrity of the Company's financial reporting systems and internal controls, continually review, critique and suggest changes in maintaining best practice.

- The Board is also conscious of the need to progressively refresh its composition over time and notes the qualitative contribution of the Independent Directors to the governance of the Company.

Mr. M. H. De Silva resigned from his position on the Board as a NED/ID, with effect from 15th May 2020 for personal reasons in order to accept another appointment.

The Directors of the Company whose profiles may be found on pages 18 to 21 of the Annual Report have a wide range of expertise as well as significant experience in commercial and financial activities enabling them to discharge their governance duties in an effective manner.

The Company is conscious of the need to maintain an appropriate mix of skills and experience in the Board through a regular review of its composition in ensuring that the skills representation is in sync with current and future needs.

### Conflict of Interest and Independence

Each Director holds continuous responsibility to determine whether he or she has a potential or actual conflict of interest arising from external associations, interests or personal relationships in material matters which are considered by the Board from time to time.

Independence of the Directors has been determined in accordance with the Listing Rules of the CSE and all NED/IDs have submitted signed declarations of their independence.

Summary of Directors' Interests and Conformity

Name of Director / Capacity	Share Holding (i)	Management / Director (ii)	Material Business Relationship (III)	Employee of the Company (iv)	Family Member a Director or CEO (v)	Continuous Service for nine years (vi)	Significant shareholding -Other Companies (vii)
<b>Non Executive, Non Independent Director (NED/NID)</b>							
Mr. K. N. J. Balendra	No	Yes	No	No	No	N/A	No
Mr. J. G. A. Cooray	No	Yes	No	No	No	N/A	No
Mr. J. R. Gunaratne	No	Yes	No	No	No	N/A	No
Mr. E. H. Wijenaik	Yes	Yes	No	No	No	N/A	No
Mr. A. K. Gunaratne	No	Yes	No	No	No	N/A	No
<b>Non Executive, Independent Director (NED/ID)</b>							
Mr. A. S. Jayatilleke	No	No	No	No	No	Yes	No
Mr. S. K. L. Obeyesekere	No	No	No	No	No	No	No
Mr. M. H. De Silva (Resigned w.e.f 15th May 2020)	No	No	No	No	No	No	No

### Definitions

- Shareholding in the Company carrying not less than 10 percent of voting rights.
- Director of a listed Company in which they are employed or having a significant shareholding or have a material business relationship.
- Income / Non-cash benefits derived from the Company is equivalent to 20 percent of the Director's annual income.
- Director is employed by the Company two years immediately preceding appointment.
- Immediate family member who is a Director or CEO.
- Has served the Board for a continuous period exceeding nine (9) years.
- Is employed, has a material business relationship and/or significant shareholding in other companies (Other companies in which a majority of the other Directors of the listed company are employed, or are Directors or have a significant shareholding or have a material business relationship).

In accordance with the criteria for “Independence” specified by Section 7.10.4 of the listing rules of the CSE and as identified by the Code of Best Practice, the Board affirms that the aforesaid three NED/IDs satisfy the criteria for independence and have satisfied the requirements under clause 7.10.2 (b).

The Board has determined that although Mr. A. S. Jayatilleke has been a member of the Board for a period exceeding nine (09) years and that while he does not satisfy the “number of years on the Board” criteria, having considered all other factors, the Board is of the holistic view that Mr. A. S. Jayatilleke satisfy the other qualifying criteria in terms of independence.

#### A.6 Supply of Information

In order to ensure robust discussion, informed deliberation and effective decision making, the Directors are provided access to;

- Information as necessary to carry out their duties and responsibilities effectively and efficiently.
- Information updates from management on topics under review by the Board, new regulations and best practices as relevant to the Company’s business.
- External and Internal Auditors.
- Expert and other external professional services.
- The services of the Company secretaries whose appointment and/or removal is the responsibility of the Board.
- Periodic performance reports.
- Senior management under a structured arrangement.

In order to facilitate effective conduct of meetings, agendas and information required by the Directors are provided seven days prior to the Board meeting.

#### A.7 and A.8 Appointments to the Board and Re-Election

All NEDs are appointed for a period of three years and are eligible for re-election by the shareholders subject to the age limit as per statutory provisions at the time of re-appointment. Further, NEDs can serve up to a maximum of three successive terms unless an extended Board tenure is necessitated by the requirements of the Company. Details of new Directors are disclosed to shareholders at the time of their appointment through a public announcement made to the CSE. Details of such appointments are also carried in the respective Interim Release and the Annual Report. Directors are required to report any substantial change in their professional responsibilities and business associations to the Nominations Committee, which will examine the facts and circumstances and make recommendations to the Board accordingly.

At each Annual General Meeting (AGM) one third of the Directors, retire by rotation on the basis prescribed in the Articles of Association of the Company and are eligible for re-election. The Directors who retire are those who have been longest in office since their appointment / re-appointment. In addition, any new Director who was appointed to the Board during the year is required to stand for re-election at the next AGM in terms of the Articles of Association of the Company.

The re-election of Directors ensures that shareholders have an opportunity to re-assess the composition of the Board. The names of the Directors submitted for re-election are provided to the shareholders in advance to enable them to make an informed decision on their election. The names of the retiring Directors eligible for re-election this year are also mentioned in the Notice of the AGM of the Company. Annually, the Board discusses the possibilities of any impairment of Directors independence due to extended Board tenures, and collectively evaluates the re-election of such Board members.

#### A.9 Appraisal of Board Performance

The Chairman evaluates the performance of the Board annually while the Chairman of the Board Audit Committee, who is a NED/ID evaluates the effectiveness of the Board Audit Committee. There is a formalised process of self-appraisal which enables each member to self-appraise on an anonymous basis, the performance of the Board, using a very detailed checklist / questionnaire covering areas such as;

- Role clarity and effective discharge of responsibilities
- People mix and structure
- Systems and procedures
- Quality of participation
- Board image

The scoring and open comments are collated, and the results are analysed to give the Board an indication of its effectiveness as well as areas that require addressing and / or strengthening. The Human Resources and Compensation Committee of the Parent Company, JKH appraises the performance of the Chairman on an organizational and individual basis as approved by the Board.

#### A.10 Disclosure of Information in respect of Directors

Information specified in the Code with regard to Directors are disclosed within this Annual Report as follows.

1. Name, qualifications, expertise, material business interests and brief profiles of the Directors on pages 18 to 21
2. Membership of sub-committees and attendance at Board Meetings and Sub-Committee meetings on pages 55, 73 and 76
3. Related party transactions on pages 136 to 137

## A.11 Appraisal of the CEO

The annual appraisal of the CEO is carried out at parent level and is based on pre-agreed criteria.

## B. Directors' Remuneration

### Remuneration for Non Executive, Non Independent Directors

No Director Fees are paid by the Company to NED/NID nominated by the Parent Company, JKH and Central Finance Company PLC.

The compensation of NEDs was determined in reference to fees paid to other NEDs of comparable companies, and adjusted, where necessary, in keeping with the complexity of the Group. NEDs were paid additional fees for either chairing or being a member of a Sub-Committee and did not receive any performance/incentive payments/share option plans.

Nevertheless, NED/ID's fees are not time bound or defined by a maximum / minimum number of hours committed to the Company per annum and hence is not subject to additional / lower fees for additional / lower time devoted. NED/ID's do not receive any performance / incentive payments.

The aggregate remuneration paid to Directors is disclosed on page 137 of this report.

## C. Shareholder Relations

### C.1 Constructive use of the Annual General Meeting (AGM) and conduct of General Meetings

Information is provided to the Shareholders prior to the AGM to give them an opportunity to exercise the prerogative to raise any issues relating to the businesses of the Company. Shareholders are provided with the Annual Report of the Company in electronic form. Shareholders may at any time elect to receive an Annual Report from the Company in printed form, which is provided free of charge.

The Company makes use of the AGM constructively towards enhancing relationships with the Shareholders and towards this end the following procedures are followed:

- Notice of the AGM and related documents are provided to the Shareholders along with the Annual Report within the specified time
- Summary of procedures governing voting at the AGM are clearly communicated
- All Directors are made available to answer queries
- The Chairman ensures that the relevant senior managers are also available at the AGM to answer specific queries
- Separate resolutions are proposed for each item
- Proxy votes, those for, against, and withheld are counted

### C.2 Communication with Shareholders

The Board of Directors, in conjunction with the Board Audit Committee, ensures the accuracy and timeliness of published information and has presented an honest and balanced assessment of results in the quarterly and annual financial statements. All other material and price sensitive information about the Company is promptly communicated to the CSE, where the shares of the Company are listed, and such information is also released to shareholders, press and employees.

### C.3 Major and Material Transactions

Shareholders are advised of any instance where the contemplated value of a transaction would be greater than half of the assets value of the Company (Major transactions). There were no major transactions as defined under Section 185 of the Companies Act, during the year under review.

## D. Accountability and Audit

### D.1 Financial and Business Reporting

The Board recognizes its responsibility to present a balanced and understandable assessment of the Company's financial position, performance, business model, governance structure, risk management, internal controls and challenges, opportunities and prospects in accordance with the requirements of the Companies Act and the Continuing Listing Requirements of CSE. The Financial Statements included in this Annual Report are prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS).

The Directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future. In the unlikely event that the net assets value of the Company falls below a half of its stated capital (Serious Loss of Capital), shareholders would be notified and the requisite resolutions would be passed on the proposed way forward as per requirements of the section 220 of the Companies Act.

The following specialised information requirements are also included in this Annual Report:

- The Annual Report of the Board of Directors on the Affairs of the Company given on pages 77 to 81 to cover all areas of this section.
- The "Statement of Directors' Responsibility" is given on page 82.
- The Directors' Statement on Internal Controls is given on page 80.
- The "Independent Auditors' Report" on pages 85 to 87 for the Auditors' responsibility.
- The Management Discussion and Analysis on pages 24 to 48.
- Related Party Transactions on pages 136 to 137.

The Management Discussion and Analysis contained on pages 24 to 48 covers the information specified in the Code which include the following:

- Industry structure and developments
- Social and environmental protection activities carried out by the Company
- Financial performance
- Material developments in Human Resources, Industrial Relations and prospects for the future

## D.2 Risk Management and Internal Control

The Board, through the involvement of the Group Business Process Review Division of the Parent Company, JKH, has taken steps to obtain assurance that systems designed to safeguard the Company's assets, maintain proper accounting records and provide management information, are in place and are functioning according to expectations.

The Company's systems are designed to provide the Directors with reasonable assurance that assets are safeguarded, transactions are authorized and properly recorded, and that material errors and irregularities are either prevented or detected in a timely manner. Key elements of such procedures are as follows:

- Formal policies and procedures are defined which include the documentation of key systems and rules relating to delegation of financial authority. This restricts the unauthorized use of the Company's assets and ensures the monitoring of controls.
- The annual budgets are approved by the Board after detailed management review. There is a detailed budgeting process for the Company. Budgets are prepared in a manner that facilitates the management to monitor the key business and financial activities. Results are regularly reviewed against budget and revised forecasts for the year are prepared on a half yearly basis.
- The Enterprise resource planning system; SAP has ensured that monthly management accounts are prepared

promptly providing relevant, reliable and up-to-date financial and other information.

- Capital Expenditure is subject to formal authorization procedures.
- Experienced and suitably qualified staff takes responsibility for important business functions. Annual appraisal procedures have been established to maintain standards of performance.

To further strengthen internal control and obtain independent assurance, the Company has enlisted the services of M/s. BDO Partners, Chartered Accountants, a reputed firm of Chartered Accountants to monitor and report on the adequacy of the financial and operational systems of the Company. Their scope included:

1. Assessment of the adequacy of accounting and operational control systems in terms of economy, efficiency and effectiveness.
2. Examination of compliance with statutory requirements, management policies and procedures.
3. Review and monitor operational and financial controls in order to ascertain adherence to such controls.

The internal audit reports are first discussed by the externally appointed internal auditor with the management of the Company. The Head of the Risk and Control Division of JKH attends these meetings as the moderator, after which these reports are forwarded to the Board Audit Committee. Internal Audit reports are structured in a manner that facilitates the resolution of the concerns highlighted and follow up action is monitored by the Board on an ongoing basis.

### Risk Review

The Board has adopted a Company-wide risk management programme to identify, evaluate and manage significant risks while stress-testing for various risk scenarios. This programme ensures that a multitude of

risks, arising as a result of the Company's operations, are effectively managed in creating and preserving shareholder and other stakeholder wealth. The detailed Risk Management report on page 68 of the Annual Report describes the process of risk management as adopted by the Company and the key risks impacting the achievement of the Company's strategic business objectives.

### Internal Compliance

A quarterly self-certification programme requires the President of the Plantation Services Sector and the CFO of the Company to confirm compliance with financial standards and regulations. The President and the CEO of the Company are required to confirm operational compliance with statutory and other regulations and key control procedures, and also identify any significant deviations from expected norms.

The Annual Report of the Board of Director's on pages 77 to 81 contains a declaration on compliance with laws and regulations, declaration of material interests in contracts involving the Company and confirms that they refrain from voting on matters in which they were materially interested; equitable treatment of shareholders and confirms that the business is a going concern, review of the internal controls covering financial, operational and compliance controls and risk management and that they have obtained reasonable assurance of their effectiveness and compliance thereof. It also sets out the responsibilities of the Board for the preparation and presentation of financial statements. Related party transactions are disclosed on pages 136 to 137 of the Annual Report.

### D.3 Board Audit Committee

The Audit Committee comprises solely of Non-Executive, Independent Directors and conforms to the requirements of the Listing Rules of the CSE. It is governed by a Charter, which inter alia, covers the reviewing of

policies and procedures of internal control, business risk management, compliance with laws and Group policies and independent audit function.

The Committee is also responsible for the consideration and recommendation of the appointment of External Auditors, the maintenance of a professional relationship with them, reviewing the accounting principles, policies and practices adopted in the preparation of public financial information and examining all documents representing the final Financial Statements. The audit fees paid by the Company to its auditors are separately classified in the Notes to the Financial Statements on page 111.

A quarterly self-certification program requires the President of the Plantation Services Sector, CEO and Head of Finance of the Company and the Chief Financial Officer (CFO) to confirm compliance on a quarterly basis, with statutory requirements and key control procedures and to identify any deviations from the set requirements. In addition, the President of the Plantation Services Sector, CEO and the Operational Heads of the different business units are also required to confirm operational compliance with statutory and other regulations and key control procedures, coupled with the identification of any deviations from the expected norms. These have significantly aided the committee in its efforts in ensuring correct financial reporting and effective internal control and risk management.

The Board Audit Committee had four (4) meetings during the year and attendance of the Audit Committee members are indicated in the Board Audit Committee Report on page 73.

The CEO of the Company, the CFO, the Head of Finance and other operational heads are invited to the meetings of the Board Audit Committee. The detailed Audit

Committee report including areas reviewed during the financial year 2019/2020 is given on pages 73 to 75 of the Annual Report.

## D.5 Code of Business Conduct and Ethics

### Code of Business Conduct and Ethics for Directors and Staff

All employees, including the Board of Directors, are bound to abide by the JKH Code of Conduct which is outlined below.

#### **JKH Code of Conduct**

- Allegiance to the Company and the group
- Compliance with rules and regulations applying in the territories that the Group operates in
- Exercise of professionalism and integrity in all business and 'public' personal transactions
- Conduct all businesses in an ethical manner at all times in keeping with acceptable business practice

The objectives of the Code of Conduct are further affirmed by a strong set of corporate values which are well institutionalized at all levels within the Company through structured communication. The degree of employee conformance with Corporate values and their degree of adherence to the JKH Code of Conduct are key elements of reward and recognition schemes.

The Company believes that the strong set of core values which underlie the Code, is the main source of its competitive advantage which is rewarded by the trust placed by its stakeholders.

#### **Whistle-blower Policy**

Employees can report to the Chairman through a communication link named "Chairman Direct", on any concerns about unethical behaviour and any violation of Group values. Employees reporting such incidents are guaranteed complete

confidentiality and such complaints are investigated and addressed via a select committee under the direction of the Chairman.

#### **Ombudsperson**

In order to deal with a situation in which an employee or group of employees feel that an alleged violation has not been addressed satisfactorily using the available/ existing procedures and processes, an Ombudsperson has been appointed by JKH being the ultimate Parent Company to entertain such concerns.

In a situation where an individual employee or a group of employees complain of an alleged violation of the published Code of Conduct and feels that the alleged violation has not been addressed satisfactorily by internally available mechanisms, provision has been made to refer such complaints to an Ombudsperson.

The findings and recommendations of the Ombudsperson arising subsequent to an independent inquiry is confidentially communicated to the Chairman or to the Senior Independent Director of the Parent Company, JKH upon which the involvement duty of the Ombudsperson ceases.

On matters referred to him by the Ombudsperson, the Chairman or the Senior Independent Director of the Parent Company, as the case may be, will place before the Board;

- the decision and the recommendations of the Ombudsperson
- the action taken based on the recommendations
- the areas of disagreement and the reasons adduced in instances where the Chairman or the Senior Independent Director disagrees with any or all of the findings and / or recommendations. In such cases, the Board shall consider the areas of disagreement and determine the way forward.



Steps are taken to ensure that complainants are not victimised. There were no cases that were brought to the attention of the Ombudsperson during the year under review.

These open-door policies facilitate constant dialogue, communication, transparency and ultimately employee confidence, which would help retain existing talent whilst attracting new.

### **Employee Participation**

The Human Resource unit is designed in a manner that enables high accessibility by any employee to every level of management. Structured 'skip level' meetings are held where employees are given the opportunity to discuss matters of concern with superiors who are at a level higher than their own immediate supervisor in an open but confidential environment. Through the participation of 360 Degree surveys and Voice of Employee (VOE) surveys which are conducted annually, employees are able to voice their opinion about the Company and their respective superiors. The employees also have the opportunity to take part in the Great Place To Work (GPTW) survey conducted by JKH once every four years giving them the opportunity to voice their opinion on the overall work environment.

### **Securities trading policy**

The JKH's securities trading policy prohibits all employees and agents engaged by the Company who are aware of unpublished price sensitive information from trading in the Company shares or the shares of other companies in which the Company presently has business interest. The Group adopts a zero tolerance policy against any employee who is found to be in violation of this policy.

### **D.6 Corporate Governance Disclosures**

The Board of Directors has taken all reasonable steps to ensure that all financial statements are prepared in accordance

with the Sri Lanka Accounting Standards (SLFRS / LKAS) issued by the CA Sri Lanka and the requirements of the CSE and other applicable authorities.

This Report has been prepared as per the Listing Rules published by the CSE and the Companies Act.

The Company has also adhered to the Code of Best Practice on Corporate Governance Reporting guidelines jointly set out by the CA Sri Lanka and the SEC in preparation of this Corporate Governance Report, and where necessary deviations have been explained as provided within the rules and regulations.

Legal requirements of the Sri Lanka Tea Board and Tea Commissioner's Division and Bye Laws and conditions of sale governing sale of tea under the aegis of the Colombo Tea Traders' Association

### **E and F –Institutional Investors and Other Investors**

Shareholders are provided sufficient financial information and other relevant information of the Company to enable them to take decisions regarding their investments. Annual Reports are circulated to all registered shareholders within prescribed timelines. All shareholders are encouraged to participate at the Annual General Meeting and vote on matters set before the shareholders.

### **G. Sustainability Reporting**

To ensure a sustainable business model, the Company has identified that it is a prerequisite to have an effective risk management model and a duly up to date business continuity plan. The Risk Report on pages 68 to 72 describes how risks and opportunities pertaining to economy, society and governance (ESG) are recognized, managed, measured and reported.

The Company adopts an integrated approach which mitigates the environmental threats and improves best practices in the Company's engagements to fulfil the obligation towards the environment. Such best practices are explained on pages 34 to 43.

The Company recognizes that emphasis should not only be on maximizing long term shareholder value, but it should also endeavour to protect the rights and appropriate claims of many non-shareholder groups such as employees, consumers, clients, suppliers, lenders, environmentalists, host communities and governments. A detailed description of the Company's CSR activities can be found on the Management Discussion and Analysis section of this Annual Report, laid down on pages 41 to 42.

### **Strategy formulation and Investment Appraisal**

The Company over the years has refined the process of investment appraisal which ensures the involvement of the relevant persons when investment decisions are made. In this manner, several views, opinions and advice are obtained prior to the investment decision. Experience has proven that a holistic and well debated view of the commercial viability and potential of proposed projects including operational, financial, funding, risk and tax implications has most of the time culminated a good result. All investment decisions are routed through a committee structure which safeguards against one individual having unfettered decision-making powers in such decisions.

### **Digital Oversight, Cyber security Data Protection, Information Management and Adoption**

The IT Governance framework used by our Parent Company JKH leverages best practices and industry leading models such as COBIT (Control Objectives for Information and Related Technology), ISO 35800, ISO 27001, ISO 9000:2008, COSO

(Committee of Sponsoring Organisations of the Treadway Commission)/BCP (Business Continuity Planning), ITIL (Information Technology Infrastructure Library) in providing a best of breed framework.

#### Cyber Security

With the organisation becoming more data driven, there is a significant increase in the organisation's reliance on technology and cyber security continues to be a regular item on the agenda of Risk Management and Audit Committees and is periodically discussed at the Board level. In such a backdrop, securing and protecting the Company's most valuable assets becomes a priority.

The Board accepts that the risk of a security breach needs to be continually managed, and that one needs to be well aware of where the vulnerabilities lie. During the year under review, the Company with the help of our Parent Company's IT division took necessary steps to help curtail the exposure to cyber-attacks by reducing the threat surface and any potentially exploitable vulnerabilities.

#### Regulatory Compliance Sign Off

A regulatory compliance check list is signed off on a quarterly basis by the Heads of Departments ensuring compliance with the applicable laws and regulations. Changes in the regulation are monitored both by

the Legal Division of JKH as well as the Company level and are updated on a regular basis. The compliance reports are tabled and discussed at the Board Audit Committee meetings.

#### Conclusion

The Company's Robust and sound governance helps it to create and maintain trust with employees, investors, governments, business partners, guests and other stakeholders. Within this framework, the Company's goal is to run its business sustainably, engaging with society in a way that leads to the creation of shared value over the long term.

### Compliance Summary as at 31st March 2020

#### 1. Statement of Compliance under Section 7.6 of the Listing Rules of the Colombo Stock Exchange

##### MANDATORY PROVISIONS - FULLY COMPLIANT

Rule	Compliance Status	Reference (within the Report)
(i) Names of persons who were Directors of the Entity	Complied	Board of Directors
(ii) Principal activities of the entity and its subsidiaries during the year, and any changes therein	Complied	About Us
(iii) The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Complied	
(iv) The float adjusted market capitalisation, public holding percentage (%), number of public shareholders and under which option the Listed Entity complies with the Minimum Public Holding requirement	Complied	Corporate Governance and Information to Shareholders and Investors
(v) A statement of each Director's holding and CEO's holding in shares of the Entity at the beginning and end of each financial year	Complied	
(vi) Information pertaining to material foreseeable risk factors of the Entity	Complied	Risk Management
(vii) Details of material issues pertaining to employees and industrial relations of the Entity	Complied	Management Discussion and Analysis
(viii) Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties	Complied	Notes to the Financial Statements and Real Estate Details of the Company
(ix) Number of shares representing the Entity's stated capital	Complied	Information to Shareholders and Investors
(x) A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	Complied	
(xi) Financial ratios and market price information	Complied	
(xii) Significant changes in the Company's or its subsidiaries' fixed assets, and the market value of land, if the value differs substantially from the book value as at the end of the year	Complied	Notes to the Financial Statement

Rule		Compliance Status	Reference (within the Report)
(xiii)	Details of funds raised through a public issue, rights issue and a private placement during the year	Complied	The Company has not raised funds during the year through public issue, right issue and private placements and it does not have Employee Share Option Schemes.
(xiv)	Information in respect of Employee Share Ownership or Stock Option Schemes	Complied	
(xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules	Complied	Corporate Governance
(xvi)	Related Party transactions exceeding 10 per cent of the equity or 5 per cent of the total assets of the Entity as per audited financial statements, whichever is lower	Complied	

## 2. Statement of Compliance under Section 7.10 of the Rules of the Colombo Stock Exchange

### MANDATORY PROVISIONS - FULLY COMPLIANT

Rule No.	Subject	Applicable requirement	Compliance Status	Applicable Section in the Annual Report
<b>7.10 Compliance</b>				
a./b./c.	Compliance with Corporate Governance Rules	The Company is in compliance with the Corporate Governance Rules and any deviations are explained where applicable	Complied	Corporate Governance
<b>7.10.1 Non Executive Directors</b>				
a./b./c.	Non-Executive Directors (NED)	At least 2 or 1/3 of the total number of Directors should be NEDs	Complied	Corporate Governance
<b>7.10.2 Independent Directors</b>				
a.	Independent Directors (ID)	2 or 1/3 of NEDs, whichever is higher, shall be independent	Complied	Corporate Governance
b.	Independent Directors	Each NED should submit a declaration of independence or non independence	Complied	Available with the Secretaries for review
<b>7.10.3 Disclosures relating to Directors</b>				
a./b.	Disclosure relating to Directors	The Board shall annually determine the independence or otherwise of the NEDs	Complied	Corporate Governance
c.	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the Director's areas of expertise	Complied	Board of Directors (profile) section in the Annual Report on pages 18 to 21
d.	Disclosure relating to Directors	Provide a brief resume of new Directors appointed to the Board along with details to CSE	Complied	Corporate Governance
<b>7.10.4 Criteria for defining independence</b>				
(a-h)	Determination of Independence	Requirements for meeting criteria to be an Independent Director	Complied	Corporate Governance
<b>7.10.5 Remuneration Committee</b>				
7.10.5	Remuneration Committee (RC)	The Human Resources and Compensation Committee (equivalent of the RC with a wider scope) of the listed Parent Company may function as the RC	Complied	Corporate Governance
a.	Composition of Remuneration Committee	RC shall comprise of NEDs, a majority of whom will be independent	Complied	Corporate Governance
b.	Functions of Remuneration Committee	The RC shall recommend the remuneration of the CEO and Executive Directors	Complied	Corporate Governance

# CORPORATE GOVERNANCE REPORT

Rule No.	Subject	Applicable requirement	Compliance Status	Applicable Section in the Annual Report
c.	Disclosure in the Annual Report relating to Remuneration Committee	Names of Directors comprising the RC Statement of Remuneration Policy Aggregated remuneration paid to NED/NIDs and NED/IDs	Complied	Corporate Governance and Notes to the Financial Statements.
<b>7.10.6 Audit Committee (AC)</b>				
a.	Composition of Audit Committee	Shall comprise of NEDs a majority of whom should be Independent  A NED shall be appointed as the Chairman of the Committee  The CEO and Financial Controller should attend AC meetings  The Chairman of the AC or one member should be a member of a professional accounting body	Complied	Corporate Governance and the Board Audit Committee Reports
b.	Audit Committee Functions	Overseeing of the –  Preparation, presentation and adequacy of disclosures in the financial statements in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS)  Overseeing the Compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements  Overseeing the process to Ensure the internal controls and risk management are adequate to meet the requirements of the SLFRS/LKAS  Assessment of the independence and performance of the External Auditors  Make recommendations to the Board pertaining to appointment, re-appointment and removal of External Auditors, and approve the remuneration and terms of engagement of the External Auditor	Complied	Corporate Governance and the Board Audit Committee Reports
C	Disclosure in Annual Report relating to Audit Committee	Names of Directors comprising the AC  The AC shall make a determination of the independence of the Auditors and disclose the basis for such determination  The AR shall contain a Report of the AC setting out the manner of compliance with their functions	Complied	Corporate Governance and the Board Audit Committee Reports

### 3. Statement of Compliance under Section 9.3.2 of the Listing Rules of the CSE on Corporate Governance

#### MANDATORY PROVISIONS - FULLY COMPLIANT

Rule		Compliance Status	Reference (within the Report)
(a)	Details pertaining to Non-Recurrent Related Party Transactions (RPT)	Yes	Notes to the Financial Statements
(b)	Details pertaining to RPT	Yes	Notes to the Financial Statements
(c)	Report of the Related Party Transactions Review Committee	Yes	Refer Report of the Related Party Transaction Review Committee
(d)	Declaration by the Board of Directors as an affirmative statement of compliance with the rules pertaining to RPT, or a negative statement otherwise	Yes	Annual Report of the Board of Directors

### 4. Statement of Compliance pertaining to Companies Act No. 7 of 2007

#### MANDATORY PROVISIONS - FULLY COMPLIANT

Rule		Compliance Status	Reference (within the Report)
168 (1) (a)	The nature of the business together with any change thereof during the accounting period	Yes	About Us
168 (1) (b)	Signed financial statements of the Group and the Company for the accounting period	Yes	Financial Statements
168 (1) (c)	Auditors' Report on financial statements of the Company	Yes	Independent Auditors' Report
168 (1) (d)	Accounting policies and any changes therein	Yes	Notes to the Financial Statements
168 (1) (e)	Particulars of the entries made in the Interests Register during the accounting period	Yes	Annual Report of the Board of Directors
168 (1) (f)	Remuneration and other benefits paid to Directors of the Company during the accounting period	Yes	Notes to the Financial Statements
168 (1) (g)	Corporate donations made by the Company during the accounting period	Yes	Notes to the Financial Statements
168 (1) (h)	Information on the Directorate of the Company and its subsidiaries during and at the end of the accounting period	Yes	Corporate Information
168 (1) (i)	Amounts paid/payable to the External Auditor as audit fees and fees for other services rendered during the accounting period	Yes	Notes to the Financial Statements
168 (1) (j)	Auditors' relationship or any interest with the Company and its Subsidiaries	Yes	Report of the Audit Committee / Financial Statements
168 (1) (k)	Acknowledgement of the contents of this Report and signatures on behalf of the Board	Yes	Financial Statements / Annual Report of the Board of Directors

### 5. Code of Best Practice of Corporate Governance 2013 Issued Jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka

#### VOLUNTARY PROVISIONS - FULLY COMPLIANT

### 6. Code of Best Practice on Corporate Governance (2017) issued by CA Sri Lanka

The Company is compliant with almost the full 2017 Code of Best Practice on Corporate Governance issued by the CA Sri Lanka to the extent of business exigency and as required by the JKL Group.

# RISK MANAGEMENT

**WE CONTINUE TO ENHANCE OUR CAPABILITY TO ANTICIPATE AND PRO-ACTIVELY RESPOND TO RISKS THAT STEM FROM AN ARRAY OF GLOBAL AND DOMESTIC SOCIO-ECONOMIC AND ENVIRONMENTAL FACTORS.**

Risk Management is viewed as an integral part of the organizational process and plays a key role in ensuring the Company's success through sustainable growth. The Company operates in a dynamic industry and is exposed to various forms of industrial, operational, financial and environmental risks. The enterprise risk management process seeks to create and protect the value of all stakeholders by ensuring that the Company effectively identifies, measures and develops strategies to mitigate the range of structural, operational, financial and strategic risks that may prevent the organization from meeting its core objectives.

## Risk Management Team and Structure



## Risk Management Process

### 1. Risk Identification

The Company adopts a structured and comprehensive process to identify and prioritize material issues that could have an impact on the Company's ability to create value to its stakeholders.

Upon identifying the material issues, potential risks faced by the Company are uncovered and identified through intelligence gathering, quality audits, safety audits, internal audits and through means such as supplier / buyer's feedback. The Risk management team considers the financial and operational risks faced by the Company together with risks arising from possible impacts on the environment, employees and community due to its operations. The team takes the crucial responsibility for the early identification of such potential risks.

## 2. Risk Assessment and rating

Identified risks are rated as Ultra High, High, Medium, Low and Insignificant after an assessment in terms of its Implication, Likelihood of Occurrence, Velocity and Impact to Company. The risks are tabulated in the Company's Risk Control Self Assessment (RCSA) form, enabling the Company to prioritise the risks and to plan out risk mitigation strategies. The risk management team along with the guidance of the Group Sustainability and Enterprise Risk Management Division review and assess the identified risks periodically.

The identified risks as stated on pages 70 to 72 of the Company can be tabulated in to a risk grid based on the risk rating.

## 3. Risk Mitigation Strategy

The risk management team decides on the measures of risk management, such as acceptance, mitigation, control and transfer. Each identified risk is assigned to a respective member of the risk team as the risk owner, depending on his/her level and field of expertise. The risk owners are responsible for the implementation of each risk mitigation strategy assigned to them within the agreed timelines and update the risk committee accordingly.

## 4. Risk Reporting

The Company maintains a formal mechanism of risk reporting. The Risk Control Self-Assessment (RCSA) is reviewed on a quarterly basis by the Risk Committee along with the guidance of the Group Sustainability and Enterprise Risk Management division. The risk review also forms an item in the agenda of the BAC meetings and BAC on behalf of the Board, reviews the risk management process adopted by the Company.

Impact to the Company	Catastrophic/ Extreme Impact	5	5	10	15	20	25				
	Major/ Very High Impact	4	5	4	8	1	12	16	20		
	Moderate/ High Impact	3	3	2	6	3	6	10	9	12	15
	Minor Impact	2	7	8	9	2	4	6	8	10	
	Low/ Insignificant Impact	1	11	1	1	2	3	4	4	5	
		1	2	3	4	5					
		Unlikely to Occur	Rare/Remote to Occur	Possible to Occur	Likely to Occur	Almost Certain to Occur					
		Likelihood of occurrence									

The Colour Matrix implies the following:

Priority level	1	2	3	4	5
Colour code	Ultra High	High	Medium	Low	Insignificant
Score	15 - 25	10 - 12	8 - 9	3 - 6	1 - 2

## 5. Monitoring & Control

Risk doesn't remain static, and it is essential that Risk Management remains as an on-going process with regular monitoring and reviewing of risks and the outcome and efficiency of the risk treatment measures implemented. Independent Internal audits are carried out regularly to ensure that sound internal controls and procedures are in place to manage and mitigate risks. The ultimate responsibility for the Company's internal controls and reviewing its effectiveness rests with the Board of Directors.

## Risk and Opportunities

Continuous scanning and monitoring help the Company to identify opportunities and trends in its operating environment. Opportunities specific to the Company are explained and initiative taken by the Company are further discussed in the Management Discussion and Analysis section of this Report.

Identified risk exposures are given due consideration in strategy formulation, ensuring that the Company effectively mitigates risks that could limit the achievement of its strategic objectives.

The Company's key risk exposures, risk level and mitigating strategies to address the risk exposures are summarised below

Risk Item	Risk Rating		Potential impact	Mitigating actions
	2019/2020	2018/2019		
1. Reduced availability of green leaf resulting in reduced factory utilization	High	High	Lower crop intakes and reduced profitability.	<ul style="list-style-type: none"> <li>Each factory closely monitors the supplier base in terms of drop outs, quantity lost &amp; number of drop-outs regained etc.</li> <li>Extension services are provided to the small holders and advise on Good Agricultural Practices (GAP) are disseminated towards improving productivity. The application of Organic fertilizer is being encouraged.</li> <li>Supplying high shade material to mitigate adverse weather condition such as drought.</li> <li>The Company embarked on a pioneering project to replant selected tea smallholder lands with necessary advisory service and financial assistance.</li> <li>Contributed on the infilling of selected tea lands which was introduced as a complement to replanting projects to infill vacancies in mature tea fields towards consolidation of the tea fields.</li> <li>Timely payments of competitive prices for quality raw material coupled with soft loans are provided to small holders. Furthermore, in order to build loyalty, a New Year bonus scheme was further expanded during the year.</li> </ul>
2. Natural Disaster	Low	Medium	Business interruption or loss of revenue.	<ul style="list-style-type: none"> <li>Maintaining a comprehensive Business Continuity Plan (BCP) to face such extreme events.</li> <li>The Company has implemented processes to minimize the risk of fire through equipment to detect and extinguish fires as well as carrying out periodic fire drills with employees for effective response and audits by independent experts on fire safety.</li> <li>Obtained adequate insurance covers against physical damages to Company assets due to natural disasters and a special coverage on business interruption.</li> </ul>
3. Unstable nature of market	Medium	Medium	Unpredictable profitability.	<ul style="list-style-type: none"> <li>The Company ensures to market a demand accentuated product by aligning its product mix offered while maintaining high quality standards across all factories.</li> <li>Flexibility to change manufacture process to suit market requirements.</li> <li>The Company closely monitors stocks and focusses on minimizing stocks held in factories to reduce the exposure as practically as possible.</li> </ul>
4. External access to operational technology	Low	Low	System failure, distortion of data	<ul style="list-style-type: none"> <li>The Company has ensured that the information is secured by means of protected passwords, virus guards and frequent updating of windows security updates.</li> <li>Operational and Financial information are backed up and hosted in to secured virtual drives providing greater data security and availability.</li> </ul>



Risk Item	Risk Rating		Potential impact	Mitigating actions
	2019/2020	2018/2019		
5. Act of Terrorism	Medium	Insignificant	Loss of Business Asset & data, continuation of business affected due to absence of staff and workforce, higher cost of production & insurance premiums, reduced production, delay in transport of tea stocks to Brokers warehouses, delay in the sale of teas.	<ul style="list-style-type: none"> <li>• Ensure that the Generators are in good working order at the factories in case of an emergency.</li> <li>• Updating of BCP for Head Office and factories and awareness programmes on security and safety.</li> <li>• Ensure that administrative work could be carried out off site by the employees.</li> <li>• Review of Insurance policies and premiums.</li> <li>• Backup of important Data.</li> <li>• Coordinate with Tea Broker to catalogue to teas by sample and arrange the delivery for a later date.</li> </ul>
6. Availability of regular workforce	Medium	Insignificant	Shortage of workforce	<ul style="list-style-type: none"> <li>• The Company invests on its workforce by providing modernized residential facilities, meals, transport, etc.</li> <li>• All worker facilities are closely monitored and adequate training on health and safety is provided to minimize accidents</li> <li>• Factory Automation</li> <li>• COVID-19: The Company has evaluated all guidelines issued by the Government as well as international best practices and individual health and safety guidelines have been developed to ensure suitable working arrangements and safe conditions for employees, customers and other stakeholders</li> </ul>
7. Risk of breakdown of internal controls	Insignificant	Insignificant	Not meeting service quality levels, potential losses of cash, inventory and reputational loss.	<ul style="list-style-type: none"> <li>• The Company ensures to carry out internal audits along with surprise checks and periodic factory visits by top management are performed to check the compliance.</li> <li>• Enhancement of controls through new ERP system linked to electronic interface.</li> </ul>
8. Fraud and corruption	Insignificant	Insignificant	Loss of revenue or business and negative impact on reputation.	<ul style="list-style-type: none"> <li>• Company has implemented stringent recruitment and performance monitoring systems and HR policies through rotation of duties, independent checks, installation of attendance systems and internal controls.</li> <li>• Surprise audits are carried out to monitor internal control systems</li> </ul>

Risk Item	Risk Rating		Potential impact	Mitigating actions
	2019/2020	2018/2019		
9. Irregular practices in purchase of green leaf	Insignificant	Insignificant	Reduction of profits	<ul style="list-style-type: none"> <li>The Company's procedure for purchasing green leaf has been formalized and the adherence is checked frequently by way of internal audits, surprise audits by the head office management and daily monitoring of gross out turns.</li> <li>The Company has also invested on electronic weighing machines to improve accuracy and control.</li> <li>SMS on daily green leaf intakes are sent to suppliers through the automated electronic green leaf weighing system</li> </ul>
10. Health and Safety	Medium	Insignificant	Loss of man days	<ul style="list-style-type: none"> <li>Taking proactive measures to prevent the spreading of communicable diseases such as COVID-19 by giving hand sanitizers &amp; facial masks, providing awareness and practicing medical guidelines, measuring and keeping records of employee body temperature to identify any abnormalities.</li> <li>The Company provides the workers with training on fire, hazards and ways and means to minimize accidents, etc.</li> <li>Audits are performed to ensure compliance with the health and safety measures.</li> <li>As a corrective measure the Company has obtained insurance coverages for workmen compensation.</li> </ul>
11. Industrial Harmony	Insignificant	Insignificant	Industrial disputes	<ul style="list-style-type: none"> <li>The Company ensures that all statutory dues and laws are adhered there by effectively mitigating the risk.</li> <li>Company maintains written records for employee related transactions and events, in order to ensure the transparency.</li> <li>Ex-gratia payments will be paid and social activities will be conducted to foster team spirit and loyalty to the Company.</li> </ul>

The Board confirms that a process for identifying, evaluating and managing significant risks that endanger the achievement of the strategic objectives of Tea Smallholder Factories PLC has been in place throughout the year in accordance with the guidelines set out by the Institute of Chartered Accountants of Sri Lanka and industry best practice. The Board Audit Committee has reviewed the Business Risk Management process adopted by the Company and has noted that the risk management exercise had been conducted for the year under review.

# REPORT OF THE BOARD AUDIT COMMITTEE

## Introduction

This report focuses on the activities of the Board Audit Committee (Committee) for the year under review. The Committee assists the Board in exercising oversight in the areas of financial reporting, internal audit, internal controls, external audit and corporate risk. The Audit Committee Charter clearly defines the Terms of Reference of the Committee and the Committee conducts its proceedings in accordance with and pursuant to the Audit Committee Charter.

## Scope of Work

The role of the Board Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities with regard to:

- Ensuring the integrity of the financial statements of the Company and that good financial reporting systems are in place in order to provide accurate, appropriate and timely information to the management, regulatory authorities, shareholders and other stakeholders in accordance with the financial reporting standards as defined by The Institute of Chartered Accountants of Sri Lanka, Companies Act No. 07 of 2007, the Sri Lanka Accounting and Auditing Standards and the continuing Listing Rules of the Colombo Stock Exchange (CSE).
- Ensuring effectiveness and adequacy of the Company's internal control system and the Company's risk management measures.
- Assessing the independence and monitoring the performance of external auditors and outsourced internal auditors and follow up on their findings and recommendations.

- Ensuring compliance with applicable laws, regulations and policies of the John Keells Group and Company.
- Assessing the Company's ability to continue as a going concern in the foreseeable future.
- Ensuring that high standards of Corporate Governance are in place.

## Composition of the Board Audit Committee

The Board Audit Committee (Committee) of Tea Smallholder Factories PLC is appointed by and accountable to the Board of Directors and is formally constituted as a Sub Committee of the Board of Directors and in accordance with the requirements of the Listing Rules of the CSE, the members of the Board Audit Committee comprised three Independent Non-Executive Directors for the financial year 2019/2020.

The Board Audit Committee comprised of the following members as at the end of the year.

- Mr. M. H. De Silva - Chairman
- Mr. A. S. Jayatilleke
- Mr. S. K. L. Obeyesekere

The members have an adequate blend of experience and knowledge to carry out their duties. Brief profiles of the Directors are provided on pages 20 and 21 of this report

The Chief Financial Officer for the Plantation Services Sector of the John Keells Group serves as the Secretary to the Committee.

## Meetings of the Board Audit Committee

The Committee convened four times during the financial year 2019 / 2020 and the attendance of the committee members at these meetings are shown below. The Chief Executive Officer, Head of Operations, Manager Finance of the Company and the Head of Group Business Process Review (Group BPR) of John Keells Holdings PLC (JKH) attend the meetings by invitation. Other officials are invited to attend on a need basis. The external auditors and the outsourced internal auditors also attend meetings on invitation when required. The activities and views of the Committee have been communicated to the Board of Directors by tabling the minutes of the Committee's meetings at Board meetings and verbally at Board meetings when necessary. The Chairman and members of the Committee were in regular contact with the management of the Company through numerous meetings and communications to oversee the auditing and control aspects in the Company.

Name of Director	Board Audit Committee Meeting Attendance				Eligibility to attend	Attendance
	16.05.2019	25.07.2019	24.10.2019	17.01.2020		
Mr. M. H. De Silva	✓	✓	✓	✓	4	4
Mr. A. S. Jayatilleke	✓	x	✓	x	4	2
Mr. S. K. L. Obeyesekere	✓	✓	x	✓	4	3

## Financial Reporting

The Committee reviews the financial reporting system adopted in the preparation of its quarterly and annual Financial Statements to ensure reliability of the processes and consistency of the accounting policies and methods adopted and their compliance with the Sri Lanka Financial Reporting Standards. The methodology included obtaining statements of compliance from the Chief Financial Officer. The Committee recommended the Financial Statements to the Board for its deliberations and issuance. The Committee, in its evaluation of the financial reporting system also recognized the adequacy of the content and quality of routine management information reports forwarded to its members.

The Committee is satisfied that all relevant matters have been considered in the preparation of the financial statements through discussion regarding the operations of the Company both during the financial year and its future outlook with the management.

The Committee continues to monitor compliance in accordance with the financial reporting standards of The Institute of Chartered Accountants of Sri Lanka, Companies Act No. 7 of 2007, The Sri Lanka Accounting and Auditing Standards and the Rules of the Colombo Stock Exchange.

## Internal Audit and Control Assessment

The internal audit plan and scope of work were formulated in consultation with the Group BPR Division and the outsourced internal auditors (BDO Partners), which was then approved by the Committee.

The main focus of the Internal Audit was to provide independent assurance on the overall system of internal controls, risk management and governance, by evaluating the adequacy and efficacy of internal controls, and compliance with laws, regulations and established policies and procedures of the Company.

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 Financial Statements

During the year, the reports were presented to the Committee by the outsourced internal auditors, which were reviewed and discussed along with the management and the Group BPR Division. Findings and recommendations of internal investigations have been given due attention and followed up for implementation.

## External Audit

The Committee along with the External Auditors and the management, reviewed and discussed the External Auditor's letter of engagement, audit plan and scope of the audit prior to the commencement of the audit. The external auditors kept the Committee advised on an on-going basis regarding any unresolved matters of significance. Before the conclusion of the audit, the Committee met with the external auditors to discuss all audit issues and agreed on their treatment. The Committee also met the external auditors, without the management, prior to the finalization of the financial statements. The external auditors' Management Letter for the year 2019/2020, together with management's responses was discussed with management and the auditors.

The Committee is satisfied that the independence and objectivity of the external auditors are safeguarded and has not been impaired by any event or service that gives rise to a conflict of interest. The assigned audit and non-audit work were reviewed by the Committee and due consideration has been given to the level of audit and non-audit fees received by the external auditors from the John Keells Group. Confirmation with regard to compliance with the independence criteria given in the Code of Ethics of the Institute of Chartered Accountants of Sri Lanka has been received from the external auditors.

The performance of the external auditors has been evaluated and discussed with the senior management of the Company. A declaration has been given by Messrs. Ernst & Young to the Committee, confirming the compliance on its independence criteria as given in the Code of Ethics of the Institute of Chartered Accountants of Sri Lanka.

## Re-appointment of the External Auditors

Based on the evaluation performed, the Committee recommended to the Board that Messrs. Ernst & Young be re-appointed as the External Auditors of Tea Smallholder Factories PLC for the financial year ending 31st March 2021, subject to approval by the shareholders at the next Annual General Meeting

## Risk Management

The Audit Committee has also reviewed the processes for the identification, evaluation and management of all significant operational risks faced by the Company. The management and the Sustainability and Enterprise Risk Management Division of the John Keells Group review have identified the notable risks and the measures taken to mitigate those identified risks.

Formal confirmations and assurances have been received quarterly from senior management regarding the efficacy and status of the internal control systems, risk management systems and, compliance with applicable laws and regulations.

### **Information Technology and Risk Assessment**

The IT services are made use of by the Company to enhance the efficiency and the effectiveness of the internal processes and to provide value added services to its customers. When utilizing IT services, conformity is drawn from the Head of IT Plantation Services Sector as well as the outsourced Internal Auditors, Messrs BDO Partners.

### **Ethics, Governance and Whistle Blowing**

The continuous emphasis by the Committee on sustaining the ethical values of the employees through the whistle blowing policy ensured the achievement of highest standards of Corporate Governance and adherence to the Code of Ethics of the Company.

The Company has an established mechanism for employees to report to the Chairman of John Keells Holdings PLC through a communication link named "Chairman Direct" with regard to any unethical behaviour, any violation of group values or other improprieties. The reported incidents and the concerns raised are reviewed and investigated on a periodic basis and confidentiality is maintained of the identity of the whistle blower

### **Professional Advice**

It is within the power of the Committee to seek external professional advice as and when it requires on any relevant subject area. During the year under review, the Committee has drawn comfort from the services rendered by Actuarial & Management Consultants (Pvt) Ltd, Mr P. B. Kalugalagedera Chartered Valuer and Mr K. T. D. Tissera Chartered Valuer alongside the services of Messrs. Ernst & Young and Messrs. BDO Partners.

### **Compliance of The Board Audit Committee**

The scope and the functions of the Committee are in compliance with the requirements of the Code of Best Practice on Audit Committee. The Committee has conducted its affairs in accordance with the requirements of the code of best practice on Corporate Governance and the Corporate Governance Rules as per section 7.10 of the Listing Rules of the Colombo Stock Exchange.

### **Evaluation of The Board Audit Committee**

An evaluation of the effectiveness of the Committee was carried out by the members of the Committee along with the Chief Executive Officer, Head of Operations, Chief Financial Officer of the Plantation Services Sector, Manager - Finance, external auditors and outsourced internal auditors. The evaluation done during the year is tabled at the Board Audit Committee meeting and communicated to the Board of Directors of the Company

### **Conclusion**

Based on the reports submitted by the external auditors and the outsourced internal auditors of the Company, the assurances and certifications provided by the senior management, its effectiveness of the organizational structure and operational controls and the discussions with the management and the auditors both at formal meetings and informally, the Committee is satisfied that the control environment within the Company is satisfactory and provides reasonable assurance that the financial position of the Company is adequately monitored and its assets properly accounted and safeguarded. The Committee is also satisfied that the Company's Internal and External Auditors have been effective and independent throughout the period under review



**M. H. De Silva**  
Chairman of the Board Audit Committee  
14th May 2020

Members:

**Mr. A. S. Jayatilleke**

**Mr. S. K. L. Obeyesekere**

# REPORT OF THE RELATED PARTY TRANSACTION REVIEW COMMITTEE

The following Directors served as members of the Committee during the financial year:

Ms. M. P. Perera  
Mr. A. N Fonseka  
Mr. D. A. Cabraal  
Mr. K. N. J. Balendra

The Deputy Chairman/Group Finance Director and Group Financial Controller attended meetings by invitation. The Head of Group Business Process Review served as the Secretary to the Committee.

The objective of the Committee is to exercise oversight on behalf of the Board of John Keells Holdings PLC and its listed Subsidiaries, to ensure compliance with the Code on Related Party Transactions, as issued by the Securities and Exchange Commission of Sri Lanka ("The Code") and with the Listing Rules of the Colombo Stock Exchange (CSE). The Committee has also adopted best practices as recommended by the Institute of Chartered Accountants of Sri Lanka.

The Committee in discharging its functions primarily relied on processes that were validated from time to time and periodic reporting by the relevant entities and Key Management Personnel (KMP) with a view to ensuring that:

- there is compliance with "the Code" and Listing Rules of the CSE
- shareholder interests are protected; and
- fairness and transparency are maintained.

The Committee reviewed and pre-approved all proposed non-recurrent Related Party Transactions (RPTs) of the parent, John Keells Holdings PLC, and all its listed subsidiaries, namely: John Keells PLC, Tea Smallholder Factories PLC, Asian Hotels and Properties PLC, Trans Asia Hotels PLC, John Keells Hotels PLC, Ceylon Cold Stores PLC, Keells Food Products PLC, and Union Assurance PLC. Further, recurrent RPTs were reviewed annually by the Committee. Other significant transactions of non-listed subsidiaries were presented to the Committee for information.

In addition to the Directors, all Presidents, Executive Vice Presidents, Chief Executive Officers, Chief Financial Officers and Financial Controllers of respective companies/sectors have been designated as KMPs in order to increase transparency and enhance good governance. Annual disclosures from all KMPs setting out any RPTs they were associated with, if any, were obtained and reviewed by the Committee.

The Committee held four meetings during the financial year.

The activities and views of the Committee have been communicated to the Board of Directors, quarterly, through verbal briefings, and by tabling the minutes of the Committee's meetings.

Name of Director	Eligible to Attend	Attended
Ms. M. P. Perera	4	4
Mr. D. A Cabraal	4	3
Mr. A. N Fonseka	4	4
Mr. K. N. J. Balendra	4	4
By Invitation		
Mr. J. G. A Cooray	4	4



**Ms. M. P. Perera**  
Chairperson of the Related Party Transaction Review Committee

13th May 2020

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

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The Directors of Tea Smallholder Factories PLC (Company) have pleasure in presenting the 26th Annual Report of the Company together with the Audited Financial Statements for the year ended 31st March 2020.

The details set out herein provide the pertinent information required by the Companies Act No. 07 of 2007 (Companies Act), the Listing Rules of the Colombo Stock Exchange (CSE), Code of best practice on Related Party Transactions (RPT) published by the SEC, Rules on Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and are guided by recommended best accounting practices.

## 1. Principal Activities

The principal activity of the Company is processing green leaves purchased from tea small holders and the sale of processed black tea. There has been no change in the activities of the Company in the year under review.

## 2. Vision, Mission and Goals

The business activities of the Company are conducted in accordance with the highest level of ethical standards and integrity in achieving the Company's vision. The Company's vision, mission and goals are set out in page 4 of this Annual Report.

## 3. Review of Business Performance

A review of operations of the Company during the year ended 31st March 2020 is contained in the Chairman's Review on pages 14 to 17 and the Management Discussion and Analysis section on pages 24 to 48. These reports together with the Audited Financial Statements reflect the state of affairs of the Company.

## 4. Financial Statements and Auditors' Report

Financial Statements of the Company for the year ended 31st March 2020 have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/ LKASs) and are set out on pages 88 to 138 of this Annual Report. The Independent Auditors' Report on the Financial Statements are given on pages 85 to 87 of this Annual Report.

## 5. Accounting Policies

All significant accounting policies adopted in the preparation of the Financial Statements of the Company are given in pages 93 to 138. There were no changes to the accounting policies adopted by the Company during the year under review.

## 6. Financial Results and Appropriations

### 6.1. Revenue

The Revenue generated by the Company from continuing operations for the year under review amounted to Rs. 2,109 million (2018/19 – Rs. 2,171 million) which is a decline of 2.86% compared to the previous year. An analysis of the revenue based on geographical segments is disclosed in note 6.2 to the Financial Statements on page 98.

### 6.2 Profit and Appropriations

The profit after tax of the Company was Rs. 104 million (2018 / 2019 – Rs. 51 million). The segmental profits are disclosed in note 6.2.1 to the Financial Statements on page 98.

The Company's total comprehensive income net of tax for the financial year 2019 /2020 was Rs. 173 million (2018 / 2019 - Rs. 77 million).

### 6.3 Taxation

The Company is liable to income tax at 14 percent (2018 / 2019 - 28 percent) in terms of the Inland Revenue Act No. 10 of 2006 and amendments thereto. A detailed Statement of the income tax rates applicable to the Company and a reconciliation of the accounting profits with the taxable profits are given in note 17 to the Financial Statements on page 112.

### 6.4 Dividends and Reserves

As required by Section 56 (2) of the Companies Act, the Board of Directors has confirmed that the Company satisfies the solvency test in accordance with Section 57 of the Companies Act, and has obtained a certificate from the auditors, prior to declaring all dividends.

Information on dividends and reserves are given below;

Tea Smallholder Factories PLC	2020	2019
For the year ended 31st March	Rs.'000s	Rs.'000s
Profit before tax from continuing operations	30,071	15,677
Profit before tax from discontinued operation	867	22,153
Provision / Reversal for taxation including deferred tax	73,148	13,488
<b>Net profit after tax</b>	<b>104,086</b>	<b>51,318</b>
Other adjustments	47,205	3,874
Balance brought forward from the previous year	657,610	662,418
The amount available for appropriation	808,901	717,610
First and Final dividend declared for 2018 / 2019 of Rs. 1.70 per share (2017 / 2018 – Rs. 2.00 per share)	(51,000)	(60,000)
<b>Balance to be carried forward next year</b>	<b>757,901</b>	<b>657,610</b>

#### 7. Donations

The Company has not made any donations during the year under review.

#### 8. Corporate Sustainability

The Company is conscious of the direct and indirect impact on the environment due to its business activities. Every endeavour is made to minimize the adverse effects on the environment to ensure sustainable continuity of our natural resources. The activities undertaken by the Company in recognition of its responsibility as a corporate citizen are disclosed in detail on pages 34 to 43 of this Annual Report.

#### 9. Property, Plant and Equipment

The carrying value of property, plant and equipment of the Company as at 31st March 2020 was Rs. 820 million. (as at 31st March 2019 – Rs. 784 million). The total expenditure on the acquisition of property, plant and equipment during the year in respect of new assets by the Company amounted to Rs. 38 million. The movement of property, plant and equipment during the year is shown in note 18 of the Financial Statements on page 116.

Right of Use Assets amounting to Rs. 2.40 million (2019 - Rs. 2.48 million) have been shown separately from property, plant and equipment as per SLFRS 16 - Leases.

Investment Property totalling to Rs. 426.98 million has been shown separately from property, plant and equipment as per LKAS 40 – Investment Property.

The Company sold Pasgoda Tea Factory (Classified as Assets Held for Sale in 2019 - Rs. 75 million) for Rs. 75 million during the year.

#### Market Value of Properties

Land and Buildings which includes Freehold Lands, Leasehold Land, and buildings on freehold and leasehold lands for seven factories were revalued by Mr. K. T. D. Tissera, Chartered Valuation Surveyor as of 31st December 2019 and results of such valuation were incorporated in the Financial Statements as at that date.

Properties classified as Investment Property were also revalued on 31st December 2019. Property situated in New Nuge Road, Peliyagoda was revalued by Messrs.

P. B. Kalugalagedara & Associates, Chartered valuation surveyors and results of such valuations were incorporated in the Financial Statements as at that date.

Details of valuation of property, plant and equipment and investment property are provided in notes 18.3, 18.4, 20.3 and 27.6 to the Financial Statements on pages 119, 120, 123 and 131 respectively.

#### 10. Investments

Investments of the Company (short term) as at 31st March 2020 amounted to Rs. 130.27 million (as at 31st March 2019 - Rs. 32.78 million).

#### 11. Stated Capital and Reserves

The Stated Capital of the Company as at 31st March 2020 was Rs. 150 million (as at 31st March 2019 - Rs. 150 million) with 30 million shares in issue.

The total Reserves of the Company as at 31st March 2020 amounted to Rs. 1,269 million (as at 31st March 2019 - Rs. 1,147 million). The movement in these reserves is shown in the Statement of Changes in Equity on page 91.



	2020	2019
Revaluation Reserve Retained	Rs. 511 Mn	Rs. 489 Mn
Earnings	Rs. 758 Mn	Rs. 658 Mn
Total	Rs. 1,269 Mn	Rs. 1,147 Mn

## 12. Shareholding and Stock Market Information

As at 31st March 2020 there were 1,186 (as at 31st March 2019 – 1,195) registered shareholders. Top twenty shareholders, the distribution schedule, along with the public holding is given on page 142. An ordinary share of the Company was quoted on the CSE at Rs. 19.1/- as at 31st March 2020 (31st March 2019 - Rs. 24.1). Information relating to earnings, dividend, net assets and market value per share is given in the “Five Year Summary” on page 146 and in the “Shareholder and Investor Information Section” on pages 141 to 144. Details of the twenty largest shareholders of the Company and the percentages held by each of them are disclosed in the Share Information section (page 142) of this Annual Report.

## 13. Capital Commitments and Contingent Liabilities

Contingent liabilities and capital commitments made on capital expenditure and as at 31st March 2020 are given in Note 39 and 40 respectively in the notes to the Financial Statements on page 138.

## 14. Events Occurring After the Reporting Date

The details are given in Note 42 in the notes to the Financial Statements on page 138.

## 15. Information on the Board of Directors.

### 15.1. Directorate

The Board of Directors of the Company as at 31st March 2020 was as follows:

Mr. K. N. J. Balendra  
Mr. J. G. A. Cooray  
Mr. J. R. Gunaratne  
Mr. E. H. Wijenaik  
Mr. A. K. Gunaratne  
Mr. M. H. De Silva  
Mr. A. S. Jayatilleke  
Mr. S. K. L. Obeyesekere

Mr. M. H. De Silva resigned from the Board with effect from 15th May 2020.

Brief profiles of the current Board of Directors are given in the Board of Directors section of this Annual Report on pages 18 to 21.

## 15.2 Board Sub-Committees

Information regarding the Board Audit Committee, Human Resources and Compensation Committee, Nominations Committee, Related Party Transactions Review Committee and Project Risk Assessment Committee is given under Corporate Governance on pages 52 to 55.

## 15.3 Retirement of Directors and their re-election

In accordance with Article 83 of the Articles of Association of the Company, Mr. E. H. Wijenaik and Mr. S. K. L. Obeyesekere who retire by rotation and being eligible, will offer themselves for re- election at the Annual General Meeting.

## 15.4 Directors’ Shareholding and their Interests

The relevant interests of the Directors and the Chief Executive Officer (CEO) in the shares of the Company are as follows.

Tea Smallholder Factories PLC	2020	2019
As at 31st March	No. of Shares held	No. of Shares held
Mr. K. N. J. Balendra	Nil	Nil
Mr. J. G. A. Cooray	Nil	Nil
Mr. J. R. Gunaratne	Nil	Nil
Mr. E. H. Wijenaik	10,000	10,000
Mr. A. K. Gunaratne	Nil	Nil
Mr. M. H. De Silva (Resigned w.e.f 15th May 2020)	Nil	Nil
Mr. A. S. Jayatilleke	Nil	Nil
Mr. S. K. L. Obeyesekere	Nil	Nil
Mr. H. R. A. Wanasinghe (CEO)	Nil	Nil

## 15.5 Interest Register and Interest in Contracts

The Company has maintained an Interest Register as contemplated by the Companies Act and entries have been made therein from 3rd May 2007 being the date on which the Companies Act came into operation.

Interest Register is available at the Registered office of the Company in keeping with the requirement of the section 119 (1) (d) of the Companies Act.

In compliance with the requirements of the Companies Act, this Annual Report also contains particulars of entries made in the Interest Register.

- (a) Interests in Contracts – The Directors have all made a General Disclosure to the Board of Directors as permitted by Section 192 (2) of the Companies Act.
- (b) Share Dealings - There have been no other disclosures of share dealings as at 31st March 2020

## 15.6 Directors' Remuneration

The Directors' remuneration and fees in respect of the Company for the Financial Year ended 31st March 2020 are disclosed in Note 14.1 on page 111 of the Financial Statements.

## 15.7 Directors' Meetings

Details of Directors' meetings is presented on page 55 of this Annual Report.

## 16. Related Party Transactions

There were no related party transactions required to be disclosed under the Listing Rules of the CSE

other than as disclosed under Note 36 in the Notes to the Financial Statements on pages 136 and 137

## 17. Employment

The number of persons employed by the Company as at 31st March 2020 was 568 (as at 31st March 2019 - 563).

There were no material issues pertaining to employees and industrial relations in the year under review.

## 18. Corporate Governance

The policies adopted by the Company in relation to Best Practices and Good Corporate Governance are given on pages 50 to 67.

The Directors declare that:

- a) The Company has not engaged in any activities, which contravene laws and regulations; and
- b) The Directors have declared all material interest in contracts involving the Company and refrained from voting on matters in which they were materially interested; and
- c) The Company has made all endeavours to ensure the equitable treatment of shareholders; and
- d) The business is a going concern with supporting assumptions or qualifications as necessary; and
- e) The Directors have conducted a review of internal controls covering financial, operational and compliance controls and risk management and have obtained a reasonable assurance of their effectiveness and successful adherence here with.

## 19. Internal Controls

The Directors ensures that the Company has an effective internal control system which ensures that the assets of the Company are safeguarded, and appropriate systems are in place to minimize and detect fraud, errors and other irregularities. The system ensures that the Company adopts procedures which result in financial and operational effectiveness and efficiency. The Statement of Directors' Responsibilities on page 82 and the Audit Committee Report set out on pages 73 to 75 of the Annual Report to provide further information in respect of the above.

## 20. Risk Management

The Directors have established and adhere to a comprehensive risk management framework to ensure the achievements of their corporate objectives. The categories of risks faced by the Company are identified, the significance they pose are evaluated and mitigating strategies are adopted. The Board of Directors reviews the Risk Management Process through the Board Audit Committee. The details of the risk report and risk management process is set out on pages 68 to 72 of this Annual Report.

## 21. Statutory Payments

The Directors confirm that to the best of their knowledge that all taxes, duties and levies payable by the Company and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and all other known statutory dues as were due and payable by the Company as at the reporting date have been

paid or where relevant provided for in the Financial Statements. The tax position of the Company is disclosed on pages 112 to 115.

## 22. Going Concern

In preparing these Financial Statements, based on available information, the management has assessed the existing and anticipated effects of COVID-19 on the Company and the appropriateness of the use of the going concern basis. In March 2020, the Company evaluated the resilience considering a wide range of factors such as current and expected profitability, the ability to defer non-essential capital expenditure, debt repayment schedules, if any, cash reserves and potential sources of financing facilities, if required, and the ability to continue providing goods and services.

Having presented the outlook to the Board, the Directors are satisfied that the Company have adequate resources to continue in operational existence for the foreseeable

future, to justify adopting the going concern basis in preparing these Financial Statements.

## 23. Environmental Protection

The Company is conscious of the impact, direct and indirect, on the environment due to its business activities. Every endeavour is made to minimize the adverse effects on the environment to ensure sustainable continuity of our resources.

## 24. Annual Report

The Board of Directors approved the Financial Statements on 21st May 2020. The appropriate number of copies of this report will be submitted to the CSE and to the Sri Lanka Accounting and Auditing Standards Board on 21st May 2020.

## 25. Auditors

In accordance with the Companies Act a resolution proposing the re-appointment of Messrs. Ernst & Young, Chartered Accountants, as Auditors of the Company will be submitted at the Annual General

Meeting. The Auditors, Messrs. Ernst & Young were paid Rs. 1.64 million as audit fee for the Financial Year, by the Company.

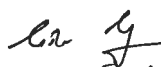
As far as the Directors are aware the Auditors neither have any other relationship with the Company that would have an impact on their independence.

## 26. Annual General Meeting

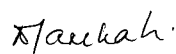
The Board of Directors is closely monitoring the ongoing developments in the Country due to the COVID -19 pandemic and the resultant directives issued by the regulatory authorities. Given the unprecedented nature of these events and the fact that the health and well-being of all Meeting attendees is of paramount importance, the date, venue of the Annual General Meeting and the business to be transacted in terms of the agenda of the Meeting, will be notified to Shareholders in due course.



K. N. J. Balendra  
Chairman



J. G. A. Cooray  
Director



Keells Consultants (Private) Limited  
Company Secretaries

21st May 2020

# STATEMENT OF DIRECTORS' RESPONSIBILITY

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The responsibility of the Directors in relation to the Financial Statements is set out in the following statement. The responsibility of the Auditors in relation to the Financial Statements prepared in accordance with the provision of the Companies Act No. 7 of 2007 ('Companies Act') and the Sri Lanka Accounting Standards (SLFRS/ LKAS) is set out in the Independent Auditor's Report on pages 85 to 87 of the Annual Report.

As per the provisions of the Companies Act the Directors are required to prepare, for each Financial Year and place before a General Meeting, Financial Statements which comprise;

- An Income Statement and a Statement of other comprehensive Income of the Company which present a true and fair view of the profit or loss of the Company for the Financial Year; and
- A Statement of Financial Position, which presents a true and fair view of the state of affairs of the Company as at the end of the Financial Year; and
- a Statement of changes in equity; and
- a Cash Flow Statement for the year ended 31st March 2020 together with notes to the Financial Statements.

The Directors have ensured that, in preparing these Financial Statements;

- the appropriate Accounting Policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained; and
- all applicable Accounting Standards, as relevant, have been applied; and
- reasonable and prudent judgments and estimates have been made so that the form and substance of transactions are properly reflected; and

- the information required in accordance with the Companies Act, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Listing Rules of the Colombo Stock Exchange have been provided.

The Directors having considered the Company's business plans, and a review of its current and future operations, are of the view that the Company has adequate resources to continue in operation. The Directors have adopted the going concern basis in preparing the Financial Statements.

The Directors have taken appropriate and reasonable steps to

- ensure that the Company maintains adequate and accurate records which reflect the true financial position of the Company.
- safeguard the assets of the Company.

The Directors have also instituted appropriate systems of internal control in order to minimise and detect fraud, errors and other irregularities. The Directors, in maintaining a sound system of internal controls and in protecting the assets of the Company, have further adopted risk management strategies to identify and evaluate the risks which the Company could be exposed and its impact to the Company.

The Directors have provided the Auditors with every opportunity to carry out any reviews and tests that they consider appropriate and necessary for the performance of their responsibilities. The responsibility of the Independent Auditors in relation to the Financial Statements is set out in the Independent Auditor's Report on pages 85 to 87.

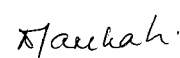
As per the provisions of the Companies Act, the Board of the Company shall cause the Annual General Meeting report to be sent to every shareholder of the Company not less than fifteen working days before the date fixed for holding of the Annual General Meeting, provided in the first instance the Company is required to send to every Shareholder the Financial Statements in the summarized form as may be prescribed, together with this Annual Report.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

## Compliance Report

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions levies and taxes payable on behalf of and in respect of the employees of the Company, and all other known statutory dues, as were due and payable by the Company as at the reporting date, have been paid or, where relevant provided for except as specified in note 39 to the Financial Statements covering contingent liabilities.

By Order of the Board



TEA SMALLHOLDER FACTORIES PLC  
Keells Consultants (Private) Limited  
Secretaries

21st May 2020



# Focused on results

## FINANCIAL STATEMENTS

Our timely strategy, industry expertise and trusted partnerships enabled us to anticipate change and focus on optimising performance amid a challenging year, as these results attest.



# INDEPENDENT AUDITORS' REPORT



Ernst & Young  
Chartered Accountants  
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P.O. Box 101  
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Sri Lanka

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ey.com

## TO THE SHAREHOLDERS OF TEA SMALLHOLDER FACTORIES PLC

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of Tea Smallholder Factories PLC (the Company), which comprise the statement of financial position as at 31 March 2020, and the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2020 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for opinion

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

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a

whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matter	How our audit addressed the key audit matter
<b>Valuation of Properties</b>	
<p>Included within Property, Plant and Equipment and Investment Property are land and buildings carried at fair value. As of reporting date, such land and buildings within Property, Plant and Equipment and Investment Property amounted to Rs. 606 Mn &amp; Rs. 427 Mn respectively. The fair values of such land and buildings were determined by an external valuer engaged by the Company.</p> <p>The valuation of land and buildings was significant to our audit due to the use of significant judgments and estimates such as per perch price and value per square foot disclosed in notes 18.3 and 20.3 to the financial statements.</p>	<p>Our audit procedures focused on the valuations performed by the external valuer engaged by the Company, and included the following;</p> <ul style="list-style-type: none"> <li>we evaluated the competence, capability and objectivity of the external valuer engaged by the Company;</li> <li>we read the external valuer's report and understood the key estimates made and the approach taken by the valuer in determining the valuation of land and buildings;</li> <li>we engaged our internal specialized resources to assist us in assessing appropriateness of the valuation techniques used and the reasonableness of the significant judgements and assumptions such as per perch price and value per square foot used by the valuer.</li> </ul> <p>We have also assessed the adequacy of the disclosures made in notes 18.3 and 20.3 to the financial statements relating to the significant judgements, valuation technique and estimates used by the external valuer.</p>

## Other information included in The Company's 2020 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Management is responsible for the other information.

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

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

## Responsibilities of management and Those Charged with Governance for the financial statements

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

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

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

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

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

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

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

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

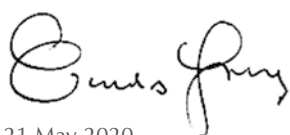


From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation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

#### **Report on other legal and regulatory requirements**

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2471.



21 May 2020

Colombo

**Partners:** W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA  
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA  
**Principals:** G B Goudian ACMA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

# INCOME STATEMENT

For the year ended 31st March	Notes	2020 Rs.'000s	2019 Rs.'000s
<b>Continuing Operations</b>			
Revenue from contracts with customers	10.2	2,109,139	2,171,257
Cost of sales		(2,093,028)	(2,154,168)
<b>Gross Profit</b>		<b>16,111</b>	<b>17,089</b>
Other Operating Income	11.2	54,416	46,925
Administrative Expenses		(62,074)	(67,862)
Management Fees	12	(17,680)	(19,016)
<b>Results From Operating Activities</b>		<b>(9,227)</b>	<b>(22,864)</b>
Finance Cost	13.2	(4,187)	(4,663)
Finance Income	13.2	4,188	4,525
Net Finance Income / (Cost)		1	(138)
Change in fair value of Investment Property	20.2	39,297	38,679
<b>Profit Before Tax from Continuing Operations</b>	14.1	<b>30,071</b>	<b>15,677</b>
(Tax Expense) / Reversal from Continuing Operations	17.2	79,906	16,795
<b>Profit for the Year from Continuing Operations</b>		<b>109,977</b>	<b>32,472</b>
<b>Discontinued Operations</b>			
Profit / (Loss) after tax for the year from Discontinued Operation	27.2	(5,891)	18,846
<b>Profit for the Year</b>		<b>104,086</b>	<b>51,318</b>
Earnings per share from Continuing Operation - Basic	15	3.67	1.08
Earnings per share from Discontinued Operation - Basic	15	(0.20)	0.63
Dividend Per share	16	1.70	2.00

Figures in brackets indicate deductions.

The Accounting Policies and Notes as set out on pages 94 to 138 form an integral part of these financial statements.

# STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st March	Notes	2020	2019
		Rs.'000s	Rs.'000s
Profit for the Year		104,086	51,318
<b>Other Comprehensive Income</b>			
<b>Other Comprehensive Income not to be reclassified to profit or loss in subsequent periods</b>			
Revaluation of Land and Buildings	18.2	62,184	30,470
Tax Effect	17.2.1	2,303	(8,495)
		64,487	21,975
Re-measurement Gain / (Loss) on Defined Benefit Plans	33.2	5,618	5,380
Tax Effect	17.2.1	(786)	(1,506)
		4,832	3,874
Net Other Comprehensive Income not to be reclassified to income statement in subsequent period		69,319	25,849
<b>Total Other Comprehensive Income for the year, net of tax</b>		69,319	25,849
<b>Total Comprehensive Income for the year, net of tax</b>		173,405	77,167

Figures in brackets indicate deductions.

The Accounting Policies and Notes as set out on pages 94 to 138 form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

As at 31st March	Notes	2020 Rs.'000s	2019 Rs.'000s
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, Plant and Equipment	18.2	819,716	784,034
Right of Use Assets	19.1	2,398	-
Lease Rentals Paid in Advance	19.2	-	2,483
Investment Property	20.2	426,976	387,679
Intangible Assets	21	9,203	7,303
Non-Current Financial Assets	22.1	1,688	2,277
Other Non-Current Assets	23.1	464	597
		<b>1,260,445</b>	<b>1,184,373</b>
<b>Current Assets</b>			
Inventories	24.2	182,161	298,700
Trade and Other Receivables	25	33,439	74,834
Other Current Assets	26	25,639	24,610
Income Tax Recoverable	17.3	2,532	8,046
Assets Classified as Held for Sale	27.5.1	-	75,000
Short Term Investments	28	130,271	32,777
Cash in Hand and at Bank	29	9,715	1,104
		<b>383,757</b>	<b>515,071</b>
<b>Total Assets</b>		<b>1,644,202</b>	<b>1,699,444</b>
<b>EQUITY AND LIABILITIES</b>			
Stated Capital	30	150,000	150,000
Revaluation Reserve	31	510,984	488,870
Retained Earnings	32	757,901	657,610
<b>Total Equity</b>		<b>1,418,885</b>	<b>1,296,480</b>
<b>Non-Current Liabilities</b>			
Deferred Tax Liabilities	17.4	105,010	190,014
Employee Benefit Liabilities	33.2	29,812	35,435
Deferred Grants and Subsidies	34.2	487	507
		<b>135,309</b>	<b>225,956</b>
<b>Current Liabilities</b>			
Trade and Other Payables	35	80,337	159,792
Amounts due to Related Parties	36.1	3,131	2,892
Other Current Liabilities	37	6,037	10,294
Bank Overdraft	38	503	4,030
		<b>90,008</b>	<b>177,008</b>
<b>Total Equity and Liabilities</b>		<b>1,644,202</b>	<b>1,699,444</b>
Net Assets Per Share (Rs.)		47.30	43.22

I certify that the financial statements comply with the requirements of the Companies Act No. 7 of 2007.

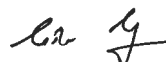


**K. D. Weerasinghe**  
Chief Financial Officer

The Board of Directors is responsible for these financial statements.



**K. N. J. Balendra**  
Director



**J. G. A. Cooray**  
Director

The Accounting Policies and Notes as set out on pages 94 to 138 form an integral part of these financial statements.

21st May 2020  
Colombo

# STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March	Stated	Revaluation	Retained	Total
	Capital	Reserve	Earnings	Equity
	Rs.'000s	Rs.'000s	Rs.'000s	Rs.'000s
As at 1st April 2018	150,000	466,895	662,418	1,279,313
Profit for the year	-	-	51,318	51,318
Other comprehensive income	-	21,975	3,874	25,849
Total comprehensive income	-	21,975	55,192	77,167
First and final dividend paid - 2017/2018	-	-	(60,000)	(60,000)
<b>As at 31st March 2019</b>	<b>150,000</b>	<b>488,870</b>	<b>657,610</b>	<b>1,296,480</b>
Profit for the year	-	-	104,086	104,086
Other comprehensive income	-	64,487	4,832	69,319
Total comprehensive income	-	64,487	108,918	173,405
Transfer to retained earnings (Note 31)	-	(42,373)	42,373	-
First and final dividend paid - 2018/2019	-	-	(51,000)	(51,000)
<b>As at 31st March 2020</b>	<b>150,000</b>	<b>510,984</b>	<b>757,901</b>	<b>1,418,885</b>

Figures in brackets indicate deductions.

The Accounting Policies and Notes as set out on pages 94 to 138 form an integral part of these financial statements.

# CASH FLOW STATEMENT

For the year ended 31st March	Notes	2020 Rs.'000s	2019 Rs.'000s
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit Before Tax from Continuing Operations		30,071	15,677
Profit Before Tax from Discontinued Operation	27.2	867	22,153
Profit Before Tax		30,938	37,830
<b>ADJUSTMENTS FOR</b>			
Finance Income	13.2	(4,188)	(4,525)
Depreciation of Property, Plant and Equipment	14.1	61,195	58,001
Amortisation of Right of Use Assets	19.1	86	-
Amortisation of Lease Rentals Paid in Advance	19.2	-	86
Amortisation of Intangible Assets	14.1	100	-
Gratuity Charge and Related Cost	33.2	6,670	8,086
Amortization of Grants	34.2	(20)	(20)
Finance Cost	13.2	4,187	4,663
Profit on disposal of Property, Plant and Equipment	11.2	(6,496)	(960)
Change in Fair Value of Investment Property from Continuing Operations	20.2	(39,297)	(38,679)
Change in Fair Value of Discontinued Operation	27.2	-	(16,089)
<b>Operating Profit before Working Capital Changes</b>		<b>53,175</b>	<b>48,393</b>
(Increase) / Decrease in Inventories		116,539	11,274
(Increase) / Decrease in Trade and Other Receivables		41,985	9,550
(Increase) / Decrease in Other Current Assets		(1,029)	(10,324)
(Increase) / Decrease in Other Non-Current Assets		133	(33)
Increase / (Decrease) in Trade and Other Payables		(79,455)	(14,866)
Increase / (Decrease) in Amount due to Related Parties		239	(586)
Increase / (Decrease) in Other Current Liabilities		(4,257)	6,013
<b>Cash Generated from Operations</b>		<b>127,330</b>	<b>49,421</b>
Finance Income Received		4,188	4,525
Finance Cost Paid		(4,187)	(4,663)
Gratuity Paid	33.2	(6,675)	(10,083)
Gratuity Transfers	33.2	-	(1,749)
Tax Paid	17.3	(4,825)	(17,694)
<b>Net Cash from Operating Activities</b>		<b>115,831</b>	<b>19,757</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from Sale of Property, Plant and Equipment		7,539	986
Proceeds from Sale of Non Current Assets Held for Sale	27.5.1	75,000	-
Purchase of Property, Plant and Equipment	18.2	(37,738)	(40,097)
Purchase of Intangible Asset		-	(2,000)
<b>Net Cash from / (used) in Investing Activities</b>		<b>44,801</b>	<b>(41,111)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividend Paid	16	(51,000)	(60,000)
<b>Net Cash from / (used) in Financing Activities</b>		<b>(51,000)</b>	<b>(60,000)</b>
<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>		<b>109,632</b>	<b>(81,354)</b>
Cash and Cash Equivalents at the beginning	Note A	29,851	111,205
Cash and Cash Equivalents at the end	Note B	139,483	29,851
<b>Notes</b>			
<b>A. Cash and Cash Equivalents at the beginning</b>			
Cash and Bank Balances	29	1,104	495
Short Term Investments	28	32,777	116,810
Bank Overdraft	38	(4,030)	(6,100)
		<b>29,851</b>	<b>111,205</b>
<b>B. Cash and Cash Equivalents at the end</b>			
Cash and Bank Balances	29	9,715	1,104
Short Term Investments	28	130,271	32,777
Bank Overdraft	38	(503)	(4,030)
		<b>139,483</b>	<b>29,851</b>

Figures in brackets indicate deductions.

The Accounting Policies and Notes as set out on pages 94 to 138 form an integral part of these financial statements.

# INDEX TO NOTES

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## CORPORATE INFORMATION

- 1 Corporate Information

## BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

- 2 Basis of preparation
- 3 Summary of significant accounting policies
- 4 Impending Accounting Standards / Standards Issued But Not Yet Effective
- 5 Amendments to Existing Accounting Standards

## BUSINESS, OPERATIONS AND MANAGEMENT

- 6 Operating segment information
- 7 Financial risk management objectives and policies
- 8 Fair value measurements and disclosures
- 9 Financial instruments and related policies

## NOTES TO INCOME STATEMENT, STATEMENT OF COMPREHENSIVE INCOME AND STATEMENT OF FINANCIAL POSITION

- 10 Revenue
- 11 Other operating income
- 12 Management Fees
- 13 Net finance income / (Cost)
- 14 Profit from Continuing Operations
- 15 Earnings per share
- 16 Dividend per share
- 17 Tax Expense from Continuing Operations
- 18 Property, plant and equipment
- 19 Leases
- 20 Investment property
- 21 Intangible assets
- 22 Other non-current financial assets
- 23 Other non-current assets
- 24 Inventories
- 25 Trade and other receivable
- 26 Other current assets
- 27 Assets Classified as Held for Sale
- 28 Short term investments
- 29 Cash in hand and at Bank
- 30 Stated Capital
- 31 Revaluation Reserve
- 32 Revenue Reserves
- 33 Employee Benefit Liabilities
- 34 Other Deferred Liabilities
- 35 Trade and other payables
- 36 Related party transactions
- 37 Other current liabilities
- 38 Bank overdraft

## OTHER DISCLOSURES

- 39 Contingent liabilities
- 40 Capital and other commitments
- 41 Assets pledged as security
- 42 Events after the reporting period

# NOTES TO THE FINANCIAL STATEMENTS

## CORPORATE INFORMATION

### 1 Corporate Information

#### Reporting Entity

Tea Smallholder Factories PLC is a public limited liability company incorporated and domiciled in Sri Lanka, under the Companies Act No. 17 of 1982 (The Company was re-registered under the Companies Act No. 07 of 2007) in terms of the provisions of the Conversion of Public Corporations or Government Owned Business Undertakings into Public Companies Act No. 23 of 1987. The registered office and principal place of business of the Company is located at No. 4, Leyden Bastian Road, Colombo 1. Factories are situated in the districts of Galle, Ratnapura and Nuwara Eliya.

Ordinary shares of the Company are listed on the Colombo Stock Exchange.

#### Approval of Financial Statements

The financial statements for the year ended 31 March 2020 were authorized for issue by the Directors on 21st May 2020.

#### Principal Activities and Nature of Operations

The principal activity of the Company is processing green leaf and sale of processed black tea.

There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

#### Holding Company

John Keells Holdings PLC, the Company's Parent Company, manages a portfolio of holdings consisting of a range of diverse business operations, which together constitute the John Keells Group, and provides function based services to its subsidiaries and associates. .

## BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

### 2 Basis of Preparation

The financial statements have been prepared on an accrual basis and under the historical cost convention except for investment properties, land and buildings, plant and machinery and non current assets held for sale that have been measured at fair value.

#### Statement of Compliance

The financial statements which comprise the income statement, statement of comprehensive income, statement of financial position, statement of changes in equity and the statement of cash flow, together with the accounting policies and notes (the "financial statements") have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS / LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the requirement of the Companies Act No. 7 of 2007.

#### Presentation and Functional Currency

The financial statements are presented in Sri Lankan Rupees, the Company's functional and

presentation currency, which is the primary economic environment in which the Company operates.

#### Comparative Information

Except when a standard permits or requires otherwise, comparative information is disclosed in respect of the previous period. Where the presentation or classification of items in the Financial Statements are amended, comparative amounts are reclassified unless it is impracticable.

### 3 Summary of Significant Accounting Policies

Summary of significant accounting policies have been disclosed along with the relevant individual notes in the subsequent pages of the financial statements. Those accounting policies presented with each note, have been applied consistently by the Company.

#### Other Significant Accounting Policies Not Covered with Individual Notes to the Financial Statements.

Following accounting policies which have been applied consistently and are considered to be significant but not covered in any other sections.

#### Going Concern

In preparing these financial statements, based on available information, the management has assessed the existing and anticipated effects of COVID-19 on the Company and the appropriateness of the use of the



going concern basis. In March 2020, Company evaluated the resilience considering a wide range of factors such as current and expected impact on profitability and cashflow, the ability to defer non-essential capital expenditure, debt repayment schedules, if any, cash reserves and potential sources of financing facilities, if required, and the ability to continue the business.

Having presented the outlook to the Board, the Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future, to justify adopting the going concern basis in preparing these financial statements.

In determining the above, significant management judgements, estimates and assumptions on the impact of the COVID-19 pandemic has been considered as of reporting date and specific considerations have been disclosed under the relevant notes.

### Current versus Non-Current Classification

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

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading

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

All other assets are classified as non-current assets.

A liability is classified as a current liability when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- It does not have a right at the reporting date to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current liabilities.

Deferred tax assets and liabilities are classified as non-current assets and liabilities accordingly.

### 3.1 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the financial statements of the Company require the management to make judgments, estimates and assumptions, which may affect the amounts of income, expenditure,

assets, liabilities and the disclosure of contingent liabilities, at the end of the reporting period.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Company's accounting policies, management has made various judgements. Those which management has assessed to have the most significant effect on the amounts recognised in the financial statements have been discussed in the individual notes of the related financial statement line items.

The line items which have most significant effect on accounting, judgements, estimate and assumptions are as follows;

a) Going concern	Note 3
b) Valuation of property, plant and equipment, investment property and non-current assets held for sale	Note 18, Note 20 and Note 27
c) Impairment of non-financial assets	Note 22
d) Taxes	Note 17
e) Employee benefit liability	Note 33
f) Provision for expected credit losses of trade receivables	Note 7.1.3

**4 Changes in accounting standards and Standards issued but not yet effective**

The Company applied SLFRS 16 for the first time. The nature and effect of the changes as a result of the adoption of these new accounting standards are described below. Several other amendments and interpretations apply for the first time in 2019 financial year, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

**SLFRS 16 Leases**

SLFRS 16 supersedes LKAS 17 Leases, IFRIC 4 determining whether an arrangement contains a lease, SIC-15 operating leases-incentives and SIC-27 evaluating the substance of transactions involving the legal form of a lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

**Possible Impact on Financial Statements**

Prepaid lease rentals paid to acquire land use rights are classified under lease rentals paid in advance and amortised over the lease term in accordance with the pattern of benefit provided. The Company has performed a detailed impact assessment of SLFRS 16 as at the reporting date.

Assets	Rs.'000
Right of Use Assets	2,398

The Company does not have an impact on it's statement of financial position or equity on applying the measurement requirements of SLFRS 16 since the Company does not have a lease liability as at 31st March 2020.

**IFRIC Interpretation 23  
Uncertainty over Income Tax Treatment**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Company applies significant judgement in identifying uncertainties over income tax treatments.

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions and Company determined that it is probable that its tax treatments will be accepted by the taxation authorities. (Please refer note 17.5)

The following amendments and improvements do not have a significant impact on the Company's financial statements

- Plan Amendment, Curtailment or Settlement (Amendments to LKAS 19)
- Annual Improvements Cycle - 2015-2017

- 5 Amendments to Existing Accounting Standards**
- “The following amendments and improvements do not have a significant impact on the Company’s financial statements during the year ended 31st March 2020.
- Revised Conceptual Framework for Financial Reporting
  - Presentation of Financial Statements & Accounting Policies and Changes in Accounting Estimates and Errors (Amendments to LKAS 1 & LKAS 8)
  - Annual Improvements Cycle - 2015-2017
  - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to SLFRS 10 and LKAS 28)
  - Plan Amendment, Curtailment or Settlement (Amendments to LKAS 19)

**6 BUSINESS, OPERATIONS AND MANAGEMENT**

**6 Operating Segment Information**

**6.1 Accounting Policy**

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

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

No operating segments have been aggregated to form the above reportable operating segments. An individual segment manager is determined for each operating segment and the results are regularly reviewed by the Chief Executive Officer. The Chief Executive Officer monitors the operating results of its segments separately for the purpose of making decisions about resource

allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the operating segments information, is measured differently from operating profit or loss in the financial statements.

Transfer prices between operating segments are carried out in the ordinary course of business.

## NOTES TO THE FINANCIAL STATEMENTS

### 6.2 Reporting Segment Information- Geographical Segment

For the year ended 31st March 2020		Galle	
		2020 Rs.'000s	2019 Rs.'000s
6.2.1	<b>Segment Revenue</b>		
	Revenue from contracts with customers	1,109,211	1,131,848
	<b>Segment Results</b>		
	Revenue Expenditure	(1,048,291)	(1,065,815)
	Depreciation of Property, Plant and Equipment	(29,242)	(29,718)
	Amortisation of Right of Use Assets / Amortisation of Lease Rentals Paid in Advance	-	-
	Amortisation of Intangible Assets	(50)	-
	Gratuity Charge and Related Costs	(2,734)	(2,914)
	Segment Gross Profit / (Loss)	28,894	33,401
	Other Operating Income		
	Change in fair value of Investment Property		
	Finance Income		
	Unallocated Expenses		
	Management Fees		
	Profit Before Tax from Continuing Operations		
	Profit Before Tax from Discontinued Operations (Note 27.2)		
6.2.2	<b>Segment Assets</b>		
	<b>Allocated Assets</b>		
	Non - Current Assets		
	Property, Plant & Equipment	506,738	544,219
	Depreciation of Property, Plant and Equipment	(59,033)	(125,881)
	Right of Use Assets/Lease Rentals Paid in Advance	-	-
	Amortisation of Right of Use Assets / Amortisation of Lease Rentals Paid in Advance	-	-
	Intangible Assets	1,000	-
	Amortisation of Intangible Assets	(50)	-
	Current Assets	128,889	210,278
		577,544	628,616
	<b>Unallocated Assets</b>		
	Non - Current Assets		
	Cost		
	Depreciation / Amortisation		
	Current Assets		
	Assets Classified as Held for Sale (Note 27.5.1)		
	Total Assets		
6.2.3	<b>Segment Liabilities</b>		
	<b>Allocated Liabilities</b>		
	Non Current Liabilities	11,252	12,456
	Current Liabilities	37,067	69,444
		48,319	81,900
	<b>Unallocated Liabilities</b>		
	Non Current Liabilities		
	Current Liabilities		
	Total Liabilities		
6.2.4	<b>Segment Capital Expenditure</b>		
	Allocated Capital Expenditure	8,942	15,488
	Unallocated Capital Expenditure		

Ratnapura		N'Elia		Total	
2020	2019	2020	2019	2020	2019
Rs.'000s	Rs.'000s	Rs.'000s	Rs.'000s	Rs.'000s	Rs.'000s
458,132	551,206	541,796	488,203	2,109,139	2,171,257
				2,109,139	2,171,257
(488,605)	(583,707)	(491,596)	(442,920)	(2,028,492)	(2,092,442)
(15,927)	(16,844)	(13,768)	(9,170)	(58,937)	(55,732)
(86)	(86)	-	-	(86)	(86)
(25)	-	(13)	-	(88)	-
(1,668)	(1,952)	(1,023)	(1,042)	(5,425)	(5,908)
(48,179)	(51,383)	35,396	35,071	16,111	17,089
				54,416	46,925
				39,297	38,679
				4,188	4,525
				(66,261)	(72,525)
				(17,680)	(19,016)
				30,071	15,677
				867	22,153
275,573	309,786	147,829	165,660	930,140	1,019,665
(41,337)	(81,629)	(15,820)	(36,518)	(116,190)	(244,028)
3,083	3,083	-	-	3,083	3,083
(685)	(685)	-	-	(685)	(685)
500	-	250	-	1,750	-
(25)	-	(13)	-	(88)	-
41,213	93,080	43,609	81,228	213,711	384,586
278,322	323,635	175,855	210,370	1,031,721	1,162,621
				466,241	432,317
				(23,806)	(25,979)
				170,046	55,485
				-	75,000
				1,644,202	1,699,444
7,294	8,785	4,498	5,041	23,044	26,282
15,586	25,814	18,290	35,990	70,943	131,248
22,880	34,599	22,788	41,031	93,987	157,530
				112,265	199,674
				19,065	45,760
				131,330	245,434
				225,317	402,964
1,609	7,052	26,349	19,189	36,900	41,729
				838	368
				37,738	42,097

## 7 Financial Risk Management Objectives and Policies

The Company has loans and other receivables, trade and other receivables, and cash and short term deposits that arise directly from its operations and the Company's principal financial liabilities comprise bank overdraft, and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company is exposed to market risk, credit risk and liquidity risk.

### 7.1 Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions.

The Company trades only with recognised, creditworthy third parties. It is the Company's policy that all clients who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and as a result the Company's exposure to bad debts is not significant.

With regard to the credit risk arising from the other financial assets of the Company, such as cash and cash equivalents, short term investments and loans to Executives, the Company's exposure to credit risk arises from default of the counterparty. The Company manages its operations to avoid any excessive concentration of counterparty risk and the Company takes all reasonable steps to ensure the counterparties fulfill their obligations.

#### 7.1.1 Credit Risk Exposure

The maximum risk positions of financial assets which are generally subject to credit risk are equal to their carrying amounts. The following table shows the maximum risk positions.

	Notes	As at 31 March 2020					Total	% of Allocation
		Non current financial assets	Cash in hand and at bank	Trade and other receivables	Investments			
		Rs.'000s	Rs.'000s	Rs.'000s	Rs.'000s			
Loans to Executives	7.1.2	1,688	-	-	-	1,688	1%	
Trade and other receivables	7.1.3	-	-	33,439	-	33,439	19%	
Short term investments	7.1.4	-	-	-	130,271	130,271	74%	
Cash in hand and at bank	7.1.4	-	9,715	-	-	9,715	6%	
<b>Total credit risk exposure</b>		<b>1,688</b>	<b>9,715</b>	<b>33,439</b>	<b>130,271</b>	<b>175,113</b>	<b>100%</b>	

	Notes	As at 31 March 2019					Total	% of Allocation
		Non current financial assets	Cash in hand and at bank	Trade and other receivables	Investments			
		Rs.'000s	Rs.'000s	Rs.'000s	Rs.'000s			
Loans to Executives	7.1.2	2,277	-	-	-	2,277	2%	
Trade and other receivables	7.1.3	-	-	74,834	-	74,834	67%	
Short term investments	7.1.4	-	-	-	32,777	32,777	30%	
Cash in hand and at bank	7.1.4	-	1,104	-	-	1,104	1%	
<b>Total credit risk exposure</b>		<b>2,277</b>	<b>1,104</b>	<b>74,834</b>	<b>32,777</b>	<b>110,992</b>	<b>100%</b>	

### 7.1.2 Loans to Executives

Loans to Executive portfolio is made up of vehicle loans which are given to staff at Assistant Manager level and above. The Company has obtained the necessary promissory notes as collateral for the loans granted.

### 7.1.3 Trade and Other Receivables

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
Neither past due nor impaired	25,286	65,090
Past due but not impaired		
0-30 days	5,028	7,293
31-60 days	1,557	720
61-90 days	488	635
91-180 days	1,080	1,096
> 180 days	7,261	2,770
Gross carrying value	40,700	77,604
Less: impairment provision		
Collectively assessed impairment provision	(7,261)	(2,770)
Total	33,439	74,834

### 7.1.3 Trade and Other Receivables

The Company has obtained customer deposits and promissory notes from major customers by reviewing their past performance and credit worthiness, as collateral.

The requirement for an impairment is analysed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively. The calculation is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

In order to mitigate the concentration, settlement and operational risks related to cash and cash equivalents, the Company consciously manages the exposure to a single counterparty taking into consideration, where relevant, the rating or financial standing of the counterparty, where the position is reviewed as and when required, the duration of the exposure in managing such exposures and the nature of the transaction and agreement governing the exposure.

### 7.1.4 Cash and Cash Equivalent and Short Term Investments

In order to mitigate concentration, settlement and operational risks related to cash and cash equivalents, the Company limits the maximum cash amount that can be deposited with a single counterparty. In addition, the Company maintains an authorised list of acceptable cash counterparties based on current ratings and economic outlook, taking into account analysis of fundamentals and market indicators. The Company held cash and cash equivalents of Rs. 139.48 Mn as at 31 March 2020 (2019 - Rs. 29.85 Mn).

## 7.2 Liquidity Risk

The Company's policy is to hold cash and undrawn committed facilities at a level sufficient to ensure that the Company has available funds to meet its medium term capital and funding obligations and to meet any unforeseen obligations and opportunities. The Company holds cash and undrawn committed facilities to enable the Company to manage its liquidity risk.

The Company monitors its risk to a shortage of funds using a daily cash management process. This process considers the maturity of both the Company's financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

## NOTES TO THE FINANCIAL STATEMENTS

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including short and long term bank loans, overdrafts and finance leases over a broad spread of maturities.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including short and long term bank loans, overdrafts and finance leases over a broad spread of maturities.

### 7.2.1 Net (Debt) / Cash

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
Short term investments	130,271	32,777
Cash in hand and at bank	9,715	1,104
Total liquid assets	139,986	33,881
Bank overdraft	503	4,030
Total liabilities	503	4,030
Net cash	139,483	29,851

The Company has obtained banking facilities to the value of Rs. 150 million, which comprise of an overdraft facility of Rs. 50 million from Hatton National Bank PLC, and an overdraft facility of Rs.100 million from Deutsche Bank of the total limit, the outstanding as at 31 March 2020 was Rs. 0.50 million. Hence, an amount of Rs. 149.50 million is available for utilisation to finance any net debt.

### 7.2.2 Liquidity Risk Management

Company has implemented a mixed approach that combines elements of the cash flow matching approach and the liquid assets approach. The Company matched cash outflows in each time bucket against the combination of contractual cash inflows plus other inflows that can be generated through the sale of assets, repurchase agreement, or other secured borrowings.

The Company considered that Cash flow scrutiny is paramount and has adopted a disciplined approach including setting up of spend control and cash management steering committee (Cash war rooms) for preserving and increasing liquidity, particularly on account of the impact of COVID-19.

#### Maturity Analysis

The table below summarises the maturity profile of the Company's financial liabilities at 31 March 2020 based on contractual undiscounted payments.

As at 31st March	Below 3 months	Between 3-6 months Rs.'000s	Between 6-12 months Rs.'000s
Amounts due to related parties	3,131	-	-
Bank overdraft	503	-	-
Trade and Other Payables	80,337	-	-
Other Current Liabilities	6,037	-	-
	90,008	-	-



### 7.3 Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market prices.

Market prices comprise four types of risk:

- Interest rate risk
- Currency risk
- Commodity price risk
- Equity price risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

### 7.4 Sensitivity Analysis

The sensitivity analysis will only be applicable to the interest rate risk.

#### Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates. However, there were no long-term debt obligations with floating interest rates as at 31 March 2020 and as at 31 March 2019.

The global outbreak of the novel COVID-19 pandemic has resulted in consecutive reductions in policy rates and monetary easing policies by CBSL to encourage banks and finance companies to reduce lending rates.

## 8 Fair Value Measurements and Disclosures

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are only, disclosed are reflected in this note. Aside from this note, additional fair value related disclosures, including the valuation methods, significant estimates and assumptions are also provided in:

Property, plant and equipment under revaluation model	Note 8.2, 18.3 and 18.4
Investment properties	Note 8.2 and 20.3
Financial instruments (including those carried at amortised cost)	Note 9
Assets Classified as Held for Sale	Note 8.2 and Note 27

### 8.1 Accounting Policy

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

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

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

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

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

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

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

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

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

The Company determines the policies and procedures for both recurring fair value measurement, such as investment properties and for non-recurring measurement.

External valuers are involved for valuation of significant assets, such as investment properties and land and buildings. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Company decides, after discussions with the Company's external valuer, which valuation techniques and inputs to use for individual asset and liability.

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

## 8.2 Fair Value Hierarchy

### 8.2.1 Financial Assets and Liabilities

The financial assets and liabilities held by the Company as at 31 March 2020 as given under Note 9.2 are carried at amortised cost where the fair value does not significantly vary from the value based on the amortised cost methodology for the Company.

### 8.2.2 Non Financial Assets

As at 31 March	Notes	Date of Valuation	Level 1		Level 2		Level 3	
			2020	2019	2020	2019	2020	2019
			Rs.'000s	Rs.'000s	Rs.'000s	Rs.'000s	Rs.'000s	Rs.'000s
<b>Assets measured at fair value</b>								
Land and buildings	18.3	31st December 2019	-	-	-	-	606,027	551,758
Plant and machinery	18.4	31st March 2020	-	-	-	-	187,357	200,679
Investment property	20.3	31st December 2019	-	-	-	-	426,976	387,679
Assets Classified as Held for Sale	27.5.1	31st March 2019	-	-	-	75,000	-	-
			-	-	-	75,000	1,220,360	1,140,116

## 8.2.2 Non Financial Assets (Continued)

In determining the fair value, highest and best use of the property has been considered including the current condition of the properties, future usability and associated redevelopment requirements have been considered. Also, the valuers have made reference to market evidence of transaction prices for similar properties, with appropriate adjustments for size and location. The appraised fair values are rounded within the range of values.

## 9 Financial Instruments and Related Policies

### 9.1 Accounting Policy

#### 9.1.1 Financial Assets

##### Initial Recognition and Measurement

Financial assets within the scope of SLFRS 9 are classified as amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. This assessment is referred to as the SPPI test and is performed at an instrument level. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in income statement.

The Company's financial assets include cash and cash equivalents, short-term investments, trade and other receivables and loans and other receivables.

##### Subsequent Measurement

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

- Financial assets at amortised cost
- Financial assets at fair value through OCI with recycling of cumulative gains and losses
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition
- Financial assets at fair value through profit or loss

##### Debt Instruments

###### Financial assets at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

All the debt instruments of the Company belongs to this category. Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in income statement when the asset is derecognised, modified or impaired.

## Financial assets - Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

## Impairment of Financial Assets

From 1 April 2018, the Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by SLFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

## 9.1.2 Financial Liabilities

### Initial Recognition and Measurement

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

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

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

### Subsequent Measurement

The measurement of financial liabilities depends on their classification, as described below:

#### Loans and Borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the Income Statement.

#### Financial liabilities - Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Income Statement.

#### Offsetting of Financial Instruments

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

## 9.2 Financial Assets and Liabilities by Categories

Financial assets and liabilities in the tables below are split into categories in accordance with SLFRS 9

**Financial Assets at amortised cost**

As at 31st March	Note	2020 Rs.'000s	2019 Rs.'000s
<b>Financial Assets in non-current assets</b>			
Non-current financial assets	22.1	1,688	2,277
<b>Financial Assets in current assets</b>			
Trade and other receivables	25	33,439	74,834
Short term investments	28	130,271	32,777
Cash in hand and at bank	29	9,715	1,104
<b>Total Financial Assets at amortised cost</b>		<b>175,113</b>	<b>110,992</b>

**Financial liabilities at amortised cost**

As at 31st March	Note	2020 Rs.'000s	2019 Rs.'000s
<b>Financial liabilities in current liabilities</b>			
Trade and other payables	35	80,337	159,792
Amounts due to related parties	36.1	3,131	2,892
Bank overdraft	38	503	4,030
<b>Total Financial Liabilities at amortised cost</b>		<b>83,971</b>	<b>166,714</b>

The management assessed that, cash and cash equivalents, short term investments, trade and other receivables, trade and other payables, bank overdrafts and other current financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

## 10 Revenue

### 10.1 Accounting Policy

#### Contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

#### Goods transferred at a point in time

Under SLFRS 15, revenue is recognised upon satisfaction of performance obligation. The revenue recognition occurs at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

### 10.2 Disaggregation of revenue

Set out below is the disaggregation of the Company's revenue from contracts with customers:

#### Timing of Revenue

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
Goods transferred at a point in time	2,145,523	2,208,212
Less - brokerage and handling charges	(36,384)	(36,955)
Revenue from contracts with customers	2,109,139	2,171,257

Disaggregation of Revenue based on geographical regions are set out in note 6.2

### 10.3 Contract balances

#### Contract assets

Contract assets are Company's right to consideration in exchange for goods or services that the Company has transferred to a customer, with rights that are conditioned on some criteria other than the passage of time. Upon satisfaction of the conditions, the amounts recognised as contract assets are reclassified to trade receivables. The Company does not have Contract Assets as at 31st March 2020.

#### Contract liabilities

Contract liabilities are Company's obligation to transfer goods or services to a customer for which the Company has received consideration (or the amount is due) from the customer. The Company does not have Contract Liabilities as at 31st March 2020.

### 10.4 Performance obligations and significant judgements

The principal business activity of the Company is processing green leaf procured from small holders and sale of processed black tea through the Colombo Tea Auction.

Net revenue is recognised when the Company satisfies the performance obligation at a point in time based on Sellers' Contract which is the agreement between the Company and the buyer that creates enforceable rights and obligations. Transaction price shall comprise cost and mark up which is equal to net proceeds.

## 11 Other Operating Income

### 11.1 Accounting Policy

#### Gains and Losses

Net gains and losses of a revenue nature arising from the disposal of property, plant and equipment and other non-current assets are accounted for in the income statement, after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

Gains and losses arising from activities incidental to the main revenue generating activities and those arising from a group of similar transactions, which are not material are aggregated, reported and presented on a net basis.

#### Other Income

Other income is recognised on an accrual basis

#### Rental Income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

### 11.2 Other Operating Income

For the year ended 31st March	2020 Rs.'000s	2019 Rs.'000s
Sale of residual tea	25,601	23,599
Rental income	15,637	15,182
Amortisation of deferred grants	20	20
Profit on sale of property, plant and equipment	6,496	960
Net margin on sale of fertilizer	3,069	5,846
Sundry income	3,593	1,318
	54,416	46,925

## 12 Management Fee

For the year ended 31st March	2020 Rs.'000s	2019 Rs.'000s
Management fee to John Keells Teas (Private) Limited	17,680	19,016
	17,680	19,016

### 13 Net Finance Income / (Cost)

#### 13.1 Accounting Policy

##### Finance Income

Finance income comprises interest income earned from financial instruments such as short term deposits, short term investments and loans and receivables that are recognised in the income statement.

Interest income is recorded as it accrues using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

##### Finance Cost

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions that are recognised in the income statement.

Interest expense is recorded as it accrues using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial liability.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

#### 13.2 Net Finance Income / (Cost)

For the year ended 31st March	2020 Rs.'000s	2019 Rs.'000s
<b>Finance Income</b>		
Interest income on loans to green leaf suppliers	3,404	3,974
Interest income on staff vehicle loans	330	367
Interest income on short term investments	454	184
<b>Total finance income</b>	<b>4,188</b>	<b>4,525</b>
<b>Finance Cost</b>		
Interest cost on short term borrowings	4,187	4,663
<b>Total finance cost</b>	<b>4,187</b>	<b>4,663</b>
<b>Net finance income / (cost)</b>	<b>1</b>	<b>(138)</b>



## 14 Profit Before Tax from Continuing Operations

### 14.1 Accounting Policy

#### Expenditure Recognition

Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the income statement.

For the purpose of presentation of the income statement, the “function of expenses” method has been adopted, on the basis that it presents fairly the elements of the Company.

Profit before tax is stated after charging all expenses including the following;

For the year ended 31st March	2020 Rs.'000s	2019 Rs.'000s
Remuneration to Non Executive Directors	3,600	3,600
Auditors' remuneration		
Audit services	1,635	1,635
Non-audit services	-	-
Costs of defined employee benefits		
Defined benefit plan cost	6,670	8,086
Defined contribution plan cost - EPF and ETF	22,269	20,586
Staff costs	115,883	116,627
Depreciation of PPE and ROU asset	61,281	58,087
Amortisation of purchased software and licenses	100	-
Legal fees	270	408
Profit or loss on sale of property, plant and equipment	6,496	960

## 15 Basic Earnings per Share

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

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

For the year ended 31st March	2020 Rs.'000s	2019 Rs.'000s
Net profit applicable to ordinary shareholders for basic earnings per share from Continuing Operations - Rs.'000	109,977	32,472
Net profit applicable to ordinary shareholders for basic earnings per share from Discontinued Operation - Rs.'000	(5,891)	18,846
Weighted average number of ordinary shares in issue - No. of shares	30,000	30,000
Basic earnings per share from Continuing Operations - Rs.	3.67	1.08
Basic earnings per share from Discontinued Operation - Rs.	(0.20)	0.63

**16 Dividend per Share**

For the year ended 31st March	2020 Rs.'000s	2019 Rs.'000s
<b>Declared and paid during the year</b>		
First and final dividends*	51,000	60,000
Weighted average number of ordinary shares in issue - No. of shares	30,000	30,000
<b>Dividend per share - Rs.</b>	<b>1.70</b>	<b>2.00</b>

\*Previous year's first and final dividend paid in the current year.

**17 Taxes**
**17.1 Accounting policy**
**Current Tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and for items recognised in other comprehensive income shall be recognised in other comprehensive income and not in the Income Statement. The management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

**Deferred Tax**

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

Deferred tax liabilities are recognized for all taxable temporary differences.

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

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

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

Deferred tax relating to items recognised outside Income Statement is recognised outside Income Statement. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

## 17.2 Tax Expense from Continuing Operations

For the year ended 31st March	Note	2020 Rs.'000s	2019 Rs.'000s
<b>Current Income tax</b>			
Current tax charge from Continuing Operations	17.6	4,428	3,618
Under / (Over) provision of current tax in respect of previous years		(2,456)	(15,052)
<b>Deferred Income Tax</b>			
Relating to origination and reversal of temporary differences	17.2.1	(81,878)	(5,361)
Total tax expense / (reversal) from Continuing Operations		(79,906)	(16,795)

### 17.2.1 Deferred Tax Expense

For the year ended 31st March		2020 Rs.'000s	2019 Rs.'000s
<b>Income Statement</b>			
Deferred tax expense arising from;			
Under / (Over) Provision in respect of previous years		-	(42)
Accelerated depreciation for tax purposes		(90,844)	(10,374)
Revaluation of investment property to fair value		2,321	5,477
Employee benefit liabilities		4,962	1,049
Other deferred liabilities		74	138
Losses available for offset against future taxable income		-	-
Deferred tax charge		(83,487)	(3,752)
Deferred tax charge from Continuing Operations		(81,878)	(5,361)
Deferred tax charge from Discontinuing Operations		(1,609)	1,609
		(83,487)	(3,752)
<b>Other Comprehensive Income</b>			
Deferred tax expense arising from;			
Revaluation of Land and building to fair value		(2,303)	8,495
Re-measurement gain on defined benefit plans		786	1,506
Deferred tax charge		(1,517)	10,001

Deferred tax has been computed at the rate of 14%. (28% in 2019)

## NOTES TO THE FINANCIAL STATEMENTS

### 17.3 Income Tax Payable / (Receivable)

Balance as at 31 March	2020 Rs.'000s	2019 Rs.'000s
At the beginning of the year	(8,046)	19,384
Charge for the year	12,795	5,316
Payments and set off against refunds	(4,825)	(17,694)
Under / (over) provision of current tax in respect of previous years	(2,456)	(15,052)
At the end of the year	(2,532)	(8,046)

### 17.4 Deferred Tax Liability

Balance as at 31 March	Notes	2020 Rs.'000s	2019 Rs.'000s
At the beginning of the year		190,014	183,765
Under / (Over) Provision in respect of previous years	17.5	(80,515)	-
Charge / (release) for the year		(2,972)	(3,752)
Tax effect on revaluations		(2,303)	8,495
Tax effect on re-measurement gain on defined benefit plans		786	1,506
At the end of the year		105,010	190,014
The closing deferred tax liability relates to the following;			
Revaluation of investment property to fair value		7,798	5,477
Revaluation of Land and building to fair value		12,955	22,105
Accelerated depreciation for tax purposes		88,499	172,497
Employee benefit liability		(4,174)	(9,922)
Other liabilities		(68)	(142)
		105,010	190,014

### 17.5 Accounting Judgements, Estimates and Assumptions in Determining Tax Provisions

As per section 4 (2) (c) of the First Schedule to the Inland Revenue Act No. 24 of 2017 (ACT), in the case of a company predominantly conducting an agricultural business, the applicable income tax rate is 14%. The "Agriculture business" is defined in section 195 (1) as business of producing agricultural, horticultural or any animal produce and includes an undertaking for the purpose of rearing livestock or poultry. Based on the expert opinion obtained, Management is of the view that the Company is predominantly engaged in agricultural business and therefore, applied the tax rate of 14% for income tax and deferred tax for the financial year ended 31 March 2020.

#### 17.6 Reconciliation between Tax Expense and the product of Accounting Profit

For the year ended 31st March	2020 Rs.'000s	2019 Rs.'000s
Profit Before Tax from Continuing Operations	30,071	15,677
Profit Before Tax from Discontinued Operations	867	22,153
<b>Accounting profit before income tax</b>	<b>30,938</b>	<b>37,830</b>
Profits not charged to income tax	(39,297)	(54,768)
Adjusted accounting profit chargeable to income taxes	(8,359)	(16,938)
Aggregate disallowable expenses	76,374	68,468
Aggregate allowable expenses	(35,517)	(31,876)
Taxable gain on sale of discontinued operation	58,893	-
Utilisation of tax losses	-	(669)
Taxable income	91,391	18,985
<b>At the effective income tax rate of 14% in 2020 28% in 2019</b>	<b>12,794</b>	<b>5,316</b>
Income tax charged from Continuing Operations at the rate of 14%. (28% in 2019)	4,428	3,618
Income tax charged from Discontinued Operations at the rate of 14%. (28% in 2019)	8,366	1,698
	12,794	5,316

#### 17.7 Reconciliation between Tax Expense and the product of Accounting Profit

For the year ended 31st March	2020 Rs.'000s	2019 Rs.'000s
Adjusted accounting profit chargeable to income taxes	(8,359)	(16,938)
Tax effect on chargeable profits	(1,169)	(4,743)
Tax effect on non deductible expenses	117	493
Tax effect on deductions claimed	309	337
Tax Effect on other taxes (Capital Gains 10%)	10,566	5,477
Under / (Over) provision of current tax in respect of previous years	(82,971)	(15,052)
Total tax expense / reversal	(73,148)	(13,488)
Total tax expense / (reversal) from Continuing Operations	(79,906)	(16,795)
Total tax expense from Discontinued Operations	6,758	3,307
	(73,148)	(13,488)

#### 17.8 Tax Losses carried Forward

As at 31 March	2020 Rs.'000s	2019 Rs.'000s
Tax losses brought forward	-	473
Adjustments on finalisation of liability	-	196
Utilisation of tax losses	-	(669)
Tax losses carried forward	-	-

## 18 Property, Plant and Equipment

### 18.1 Accounting Policy

#### Basis of Recognition

Property, plant and equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured.

#### Basis of Measurement

Items of property, plant and equipment are measured at cost (or fair value in the case of land and building, and plant and machinery) less accumulated depreciation and accumulated impairment losses, if any. The cost of property, plant and equipment includes expenditures that are directly attributable to the acquisition of the asset and any other cost directly attributable to bring the asset to a working condition for its intended use.

Land and buildings, and plant and machinery are measured at fair value less accumulated depreciation on buildings, plant and machinery and impairment charged subsequent to the date of the revaluation.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Where land and buildings and plant and machinery are subsequently revalued, the entire class of such assets is revalued at fair value on the date of revaluation.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. The Company has adopted a policy of revaluing land and building by an external valuer and an internal valuation of plant and machinery to be carried out at least every 5 years, except for properties held for rental, which are revalued by external valuer at least every 3 years.

#### Derecognition

An item of property, plant and equipment are derecognised upon replacement, disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is included in the income statement in the year the asset is derecognised.

#### Depreciation

Depreciation is calculated by using a straight-line method on the cost or valuation of all property, plant and equipment, other than freehold land, in order to write off such amounts over the estimated useful economic life of such assets.

The estimated useful life of assets is as follows:

Assets	Years
Buildings	40
Plant and machinery	10
Furniture and fittings	10
Motor vehicles	5
Equipment	10
Computer Equipment	3

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year end.

### **Impairment of Property, Plant and Equipment**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

The Company has not determined Impairment as at the reporting date due to the COVID-19 pandemic, and the business function under the business continuity plans as per the Company risk management strategy, allowing operations to function through alternate working arrangements, whilst strictly adhering to and supporting government directives.

## 18.2 Carrying Value of Property, Plant and Equipment

Balance as at 31 March	Freehold Land at Valuation Rs.:000s	Land Improvements at Valuation Rs.:000s	Buildings on Land at Valuation Rs.:000s	Plant and Machinery at Valuation Rs.:000s	Furniture, Fittings and Equipment Rs.:000s	Motor Vehicles Rs.:000s	Computer Equipment Rs.:000s	Capital Work in Progress Rs.:000s	Total 2020 Rs.:000s	Total 2019 Rs.:000s
<b>Cost or Valuation</b>										
Balance as at 1st April 2019	85,764	9,000	460,873	343,296	30,054	109,564	12,788	2,786	1,054,126	994,721
Additions	-	-	-	-	-	390	820	36,528	37,738	42,097
Transfers from work in progress	-	-	8,397	24,989	152	-	2,700	(36,238)	-	-
Revaluations	14,212	305	47,667	-	-	-	-	-	62,184	30,470
Disposals	-	-	-	-	-	(11,121)	(300)	-	(11,421)	(1,624)
Transferred due to revaluation	-	(305)	(15,551)	(180,928)	-	-	-	-	(196,784)	(11,538)
Transfer out (Note 21.1)	-	-	-	-	-	-	-	(2,000)	(2,000)	-
Balance as at 31 March 2020	99,976	9,000	501,386	187,357	30,206	98,833	16,008	1,076	943,843	1,054,126
<b>Accumulated Depreciation and Impairment</b>										
Balance as at 1st April 2019	-	75	3,804	142,617	23,799	88,259	11,539	-	270,092	225,226
Charge for the year	-	308	16,004	38,311	1,549	4,193	829	-	61,195	58,001
On disposals	-	-	-	-	-	(10,077)	(300)	-	(10,377)	(1,597)
Transferred due to revaluation	-	(305)	(15,551)	(180,928)	-	-	-	-	(196,784)	(11,538)
Transfer out	-	-	-	-	-	-	-	-	-	-
Balance as at 31 March 2020	-	78	4,257	-	25,348	82,375	12,068	-	124,127	270,092
<b>Carrying Value</b>										
As at 31 March 2020	99,976	8,922	497,129	187,357	4,858	16,458	3,940	1,076	819,716	784,034
As at 31 March 2019	85,764	8,925	457,069	200,679	6,255	21,305	1,249	2,786	784,034	-



### 18.3 Accounting Judgements, Estimates and Assumptions related to Revaluation of Land and Buildings

The Company uses the revaluation model of measurement of land and buildings. The Company engaged independent expert valuers to determine the fair value of its land and buildings. Fair value is determined by reference to market-based evidence of transaction prices for similar properties. Valuations are based on open market prices, adjusted for any difference in the nature, location, or condition of the specific property. These valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. The date of the most recent revaluation was carried out on 31 December 2019.

The Freehold Land, Leasehold Land, Building on freehold land and Pre Cast concrete Structure for seven factories were revalued by Mr. K.T.D. Tissera, Chartered Valuation Surveyor as of 31 December 2019 and the results of such valuation have been incorporated in these financial statements as at that date. Such assets were valued on the basis of Land and Building Method, the Contractors' Basis of Valuation (originally known as Contractors Test Method). Fair value is determined by reference to market-based evidence. The surplus arising from the revaluation has been transferred to the revaluation reserve.

As a result of the COVID-19 outbreak in Sri Lanka during the last part of the quarter ending 31 March 2020, a reassessment of the valuation was obtained by the same independent professional valuer who determined no significant change to the revalued carrying amount provided as at 31 December 2019.

The following items were indicated in the reassessment reports to the Company;

The outbreak of COVID-19, declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted both local and global markets.

Consequently, as at the reporting date, the value reflected represents the best estimate based on the market conditions that prevailed, which in the valuer's considered opinion, meets the requirements in SLFRS-13 Fair Value Measurement.

The fair value of land and buildings as at 31 March 2020 is Rs. 606.03 Mn (as at 31 March 2019 - Rs. 551.75 Mn)

Information on fair value measurement on land and building as at 31 March 2020 using significant unobservable inputs (level 3) is given below.

Type of Asset	Rs.'000s	Method of Valuation	Significant Unobservable Inputs	Estimates for Unobservable Inputs (Weighted Average)	Sensitivity of Fair Value to Unobservable Inputs
Land	108,898	Market Approach	Estimated price per perch	Rs.11,904/- per perch	Positively correlated sensitivity
Buildings	497,129	Cost Approach	Estimated price per square foot	Rs.1,209/- per square foot	Positively correlated sensitivity
	606,027				

Information on fair value measurement on land and building as at 31 March 2019 using significant unobservable inputs (level 3) is given below.

Type of Asset	Rs.'000s	Method of Valuation	Significant Unobservable Inputs	Estimates for Unobservable Inputs (Weighted Average)	Sensitivity of Fair Value to Unobservable Inputs
Land	94,689	Market Approach	Estimated price per perch	Rs.10,402/- per perch	Positively correlated sensitivity
Buildings	457,069	Cost Approach	Estimated price per square foot	Rs.1,123/- per square foot	Positively correlated sensitivity
	551,758				

**18.4 Accounting Judgements, Estimates and Assumptions related to Revaluation of Plant and Machinery**

The Company uses the revaluation model of measurement of plant and machinery. Plant and machinery of the seven factories were revalued internally by the Engineer as at 31 March 2020 and results of such valuation had been incorporated in the financial statements as at that date. Such assets were valued based on Current Replacement Cost.

The fair value of plant and machinery as at 31 March 2020 is Rs. 187.36 Mn (as at 31 March 2019 - Rs. 200.67 Mn)

Information on fair value measurement on plant and machinery as at 31 March 2020 using significant unobservable inputs (level 3) is given below.

Type of Asset	Rs.'000s	Method of Valuation	Significant Unobservable Inputs	Estimates for Unobservable Inputs (Weighted Average)	Sensitivity of Fair Value to Unobservable Inputs
Plant and machinery	187,357	Current Replacement Cost	Estimated replacement cost adjusted for wear and tear	Based on number of years of usage	Negatively correlated sensitivity

Information on fair value measurement on plant and machinery as at 31 March 2019 using significant unobservable inputs (level 3) is given below.

Type of Asset	Rs.'000s	Method of Valuation	Significant Unobservable Inputs	Estimates for Unobservable Inputs (Weighted Average)	Sensitivity of Fair Value to Unobservable Inputs
Plant and machinery	200,679	Current Replacement Cost	Estimated replacement cost adjusted for wear and tear	Based on number of years of usage	Negatively correlated sensitivity

**18.5 Carrying Value of total Property, Plant and Equipment**

As at 31 March	2020 Rs.'000s	2019 Rs.'000s
At cost	26,332	31,595
At valuation	793,384	752,437
	<b>819,716</b>	<b>784,032</b>

**18.6 The carrying amount of revalued land and buildings, and plant and machinery if they were carried at cost less depreciation, would be as follows;**

As at 31 March	2020 Rs.'000s	2019 Rs.'000s
Cost	762,597	756,179
Accumulated depreciation and impairment	(483,420)	(467,547)
Carrying value	<b>279,177</b>	<b>288,632</b>

**18.7 The cost of fully depreciated assets, but still in use of the Company amounts to Rs 118 million as of 31 March 2020 (As at 31 March 2019 - Rs. 121 million).**

## 19 Leases

### Accounting Policy

Set out below are the new accounting policies of the Company upon adoption of SLFRS 16, which have been applied from the date of initial application:

#### Right of Use Assets

The Company recognises right of use assets when the underlying asset is available for use. Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life or the lease term. Right of use assets are subject to impairment.

The Company has not determined impairment of right of use assets due to the COVID-19 pandemic and is operating, whilst strictly adhering to and supporting government directives. The Company has not determined a discontinuation of any right of use asset as at the reporting date.

The Company does not have an impact on its statement of financial position or equity on applying the measurement requirements of SLFRS 16 since the Company does not have a lease liability as at 31st March 2020.

### 19.1 Right of Use Assets

As at 31 March	2020 Rs.'000s	2019 Rs.'000s
Balance at the beginning of the year	-	-
Transferred from Lease Rentals Paid in Advance	2,483	-
Amortisation for the year	(86)	-
Balance at the end of the year	2,398	-

### 19.2 Lease Rentals Paid in Advance

As at 31 March	2020 Rs.'000s	2019 Rs.'000s
Balance at the beginning of the year	2,483	2,569
Transferred to Right of Use Asset	(2,483)	-
Amortisation for the year	-	(86)
Balance at the end of the year	-	2,483

The remaining period of lease for the leasehold property is 27 years

**20 Investment Property**

**20.1 Accounting Policy**

Investment properties are measured initially at cost, including transaction costs. The carrying value of an investment property includes the cost of replacing part of an existing investment property, at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of the investment property. Subsequent to initial recognition, the investment properties are stated at fair values, which reflect market conditions at the reporting date.

Gains or losses arising from changes in fair value are included in the income statement in the year in which they arise. Fair values are evaluated at frequent intervals by an accredited external, independent valuer.

Investment properties are derecognised when disposed, or permanently withdrawn from use because no future economic benefits are expected. Any gains or losses on retirement or disposal are recognised in the income statement in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property or inventory (WIP), the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property or inventory (WIP), the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

The property situated in Peliyagoda has been obtained on a long term lease from the Urban Development Authority of Sri Lanka for a period of 99 years commencing 1st April 1999 with the eligibility for renewal for a further period of 99 years.

**20.2 Carrying Value of Investment Property**

As at 31 March	2020	2019
	Rs.'000s	Rs.'000s
At the beginning of the year	387,679	407,911
Change in fair value during the year	39,297	38,679
Transfer in/(out)	-	(58,911)
At the end of the year	426,976	387,679

### 20.3 Accounting Judgements, Estimates and Assumptions related to Valuation of Investment Property

Fair value of the investment property situated at No 77A, New Nuge Road, Peliyagoda was ascertained by independent valuations carried out by Messrs P. B. Kalugalagedara & Associates - Chartered Valuation Surveyors as at 31 December 2019. Investment property were appraised in accordance with LKAS 40 and 8th edition of International Valuation Standards published by the International Valuation Standards Committee (IVSC), by the independent valuers.

In determining the fair value, the current condition of the property, future usability and associated redevelopment requirements have been considered. Additionally the valuer has made reference to market evidence of transaction prices for similar properties, with appropriate adjustments for size and location. The appraised fair values are approximated within appropriate range of values.

As a result of the COVID-19 outbreak in Sri Lanka during the last part of the quarter ending 31 March 2020, a reassessment of the valuation was obtained by the same independent professional valuer who determined no significant change to the revalued carrying amount provided as at 31 December 2019.

In the reassessment reports to the Company, the valuer stated following facts as basis for the judgement;

The outbreak of COVID-19, declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted both local and global markets.

Consequently, as at the reporting date, the value reflected represents the best estimate based on the market conditions that prevailed, which in the valuer's considered opinion, meets the requirements in SLFRS-13 Fair Value Measurement.

Information on fair value measurement on investment property as at 31 March 2020 using significant unobservable inputs (level 3) is given below.

#### Investment Property situated at No. 77 A, New Nuge Road, Peliyagoda

Type of Asset	Rs.'000s	Method of Valuation	Significant Unobservable Inputs	Estimates for Unobservable Inputs (Weighted Average)	Sensitivity of Fair Value to Unobservable Inputs
Land	392,976	Market Approach	Estimated price per perch	Rs. 2,500,000/- per perch	Positively correlated sensitivity
Buildings	34,000	Market Approach	Estimated price per square foot	Rs.1,075/- per square foot	Positively correlated sensitivity
	426,976				

Information on fair value measurement on investment properties as at 31 March 2019 using significant unobservable inputs (level 3) is given below.

#### Investment Property situated at No. 77 A, New Nuge Road, Peliyagoda

Type of Asset	Rs.'000s	Method of Valuation	Significant Unobservable Inputs	Estimates for Unobservable Inputs (Weighted Average)	Sensitivity of Fair Value to Unobservable Inputs
Land	353,679	Market Approach	Estimated price per perch	Rs. 2,250,000/- per perch	Positively correlated sensitivity
Buildings	34,000	Market Approach	Estimated price per square foot	Rs.1,075/- per square foot	Positively correlated sensitivity
	387,679				

**20.4 Rental Income earned and direct operating expenses incurred on Investment Property**

For the year ended 31st March	2020 Rs.'000s	2019 Rs.'000s
Rental Income	15,637	15,182
	15,637	15,182

The Company has not incurred any direct operating expenses in the current year as well as in the previous year in connection with the Investment Property.

Future minimum rentals receivable as at 31st March 2020

	Rs.'000s
Within one year	13,422
After one year but not more than five year	-

The Company has entered into an operating lease on its investment property, and is due for renewal on 1st February 2021.

**21 Intangible Assets**
**Accounting Policy**
**Basis of Recognition**

"An intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be measured reliably in accordance with LKAS 38 on Intangible Assets.

**Basis of Measurement**

Intangible assets acquired separately are measured on initial recognition at cost.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised, and expenditure is charged against income statement in the year in which the expenditure is incurred.

**Useful Economic lives, Amortization and Impairment**

The useful lives of intangible assets are assessed as either finite or indefinite lives. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end and such changes are treated as accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually, or more frequently when an indication of impairment exists either individually or at the cash generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

**Intangible Assets**

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
Purchased Software (21.1)	1,900	-
Goodwill (21.2)	7,303	7,303
	9,203	7,303

## 21.1 Purchased software

The Company capitalized the purchased software during the year ended 31st March 2020 which was initially measured at cost. Following the initial recognition, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
<b>Cost/Carrying Value</b>		
At the beginning of the year	-	-
Transferred from Capital Working Progress (Note 18.2)	2,000	-
At the end of the year	2,000	-
<b>Accumulated amortisation and impairment</b>		
At the beginning of the year	-	-
Additions	100	-
At the end of the year	100	-
<b>Carrying Value</b>		
As at 31 March	1,900	-

The estimated useful life of assets is as follows:

Assets	Years	Type	Impairment Testing
Purchased software	5	Acquired	When indicators of impairment exists. The amortisation method is reviewed at each financial year end

## 21.2 Goodwill

### Carrying Value of Goodwill

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
<b>Carrying Value</b>		
At the beginning of the year	7,303	7,303
Impairment	-	-
At at end of the year	7,303	7,303

The Company carried out a test on impairment of Goodwill at 31 March 2020 and there was no impairment loss requiring adjustments during the year. The recoverable amount of the Cash Generating Unit (CGU) has been determined based on the Value in Use (VIU) calculation.

**21.3 Significant Accounting judgements, estimates and Assumptions on Impairment of Intangible Assets**
**Key assumptions used in the VIU calculations**
**Gross Margins**

The basis used to determine the value assigned to the budgeted gross margins is the gross margins achieved in the year preceding the budgeted year adjusted for projected market conditions.

**Discount Rates**

The discount rate used is 12% which is the risk free rate, adjusted by the addition of an appropriate risk premium.

**Inflation**

The basis used to determine the value assigned to the budgeted cost inflation, is the inflation rate, based on projected economic conditions.

**Volume Growth**

Volume growth has been budgeted on a reasonable and realistic basis by taking into account the growth rates of one to four years immediately subsequent to the budgeted year based on industry growth rates. Cash flows beyond the five year period are extrapolated using 0% growth rate.

**Impairment on goodwill due to COVID-19**

The Company has not determined Impairment of goodwill as at the reporting date due to the COVID-19 pandemic as the Company is operating under the business continuity plans as per risk management strategy, to the extent possible, whilst strictly adhering to and supporting government directives.

**22 Other Non-Current Financial Assets**
**22.1 Loans to Executives**

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
At the beginning of the year	2,888	2,823
Loans granted	-	2,499
Recoveries	(673)	(2,434)
At the end of the year	2,215	2,888
Receivable within one year	527	611
Receivable after one year		
Receivable between one and five years	1,688	2,277
	1,688	2,277
	2,215	2,888



## 23 Other Non-Current Assets

### 23.1 Prepaid Staff Cost

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
At the beginning of the year	597	564
Additions	-	587
Amortisation	(133)	(136)
Transfers	-	(418)
At the end of the year	464	597

## 24 Inventories

### 24.1 Accounting Policy

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price less estimated costs of completion and the estimated costs necessary to make the sale.

The Company has evaluated whether it is required to adjust the carrying value of the inventory due to COVID-19 and no adjustments were required as of the reporting date.

The costs incurred in bringing inventories to its present location and condition, are accounted for as follows:

Raw materials	-	Weighted average basis on actual cost
Produce Inventories and work-in-progress	-	At the cost of direct materials, direct labour and an appropriate proportion of fixed production overheads based on normal operating capacity excluding borrowing costs
Other inventories	-	At actual cost

### 24.2 Carrying Value of Inventories

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
Fertilizer stock	4,252	3,772
Consumables and spares	8,767	9,754
Produce stocks	169,142	285,174
	182,161	298,700

**25 Trade and Other Receivables**

A receivable represents the Company's right to an amount of consideration that is unconditional. Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. In 2020, Rs.4,490,371/- was recognised as impairment provision on other receivables.

The Company's simplified Expected Credit Loss model is based on the provision metrics which allowed to use under the practical expedient of SLFRS 9. As part of the Company's spend control and cash management efforts set up (Cash war rooms) to manage the COVID-19 impact on working capital and collections, the individual receivable balances were re-assessed, specific provisions were made wherever necessary, existing practice on the provisioning of trade receivables were re-visited and adjusted to reflect the different ways in which the COVID-19 outbreak affects different types of customers. The Company assessed how the timing and amount of cash flows generated by outstanding trade receivables might be affected and increased loss rates as necessary.

As at 31st March	Note	2020 Rs.'000s	2019 Rs.'000s
Trade receivables		-	45,833
Other receivables*		40,173	31,160
Less: Impairment provision	25.1	(7,261)	(2,770)
		32,912	74,223
Current portion of loans to Executives		527	611
		33,439	74,834

\* Other receivables include amounts receivable from bought leaf suppliers and the rent receivable as of 31st March

**25.1 Impairment provision**

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
At the beginning of the year	2,770	1,399
Provision for the year	4,491	1,371
At the end of the year	7,261	2,770

**26 Other Current Assets**

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
Non financial assets	3,362	3,577
Cash margin on LC	-	12,754
ESC recoverable	22,277	8,279
	25,639	24,610

## 27 Assets Classified as Held for Sale

### 27.1 Accounting Policy

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- Is a subsidiary acquired exclusively with a view to resell

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the Income Statement.

The measurement provision of SLFRS 5 does not apply to non current assets that are accounted in accordance with the fair value model in LKAS 40 "Investment Property" and was measured at fair value in accordance with SLFRS 13. The Company has represented the results of operations in accordance with SLFRS 5.

### 27.2 The results of discontinued operations are presented below:

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
Other operating income	867	6,064
Results from Operating Activities	867	6,064
Change in fair value of discontinued operation	-	16,089
Profit / (Loss) before tax from discontinued operation	867	22,153
Tax expense (Note 27.3)	(6,758)	(3,307)
Profit / (Loss) after tax from discontinued operation	(5,891)	18,846

## NOTES TO THE FINANCIAL STATEMENTS

### 27.3 Tax expense from discontinued operation

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
<b>Current income tax</b>		
Current tax charge from discontinued operation	(122)	(1,698)
Capital Gains tax on sale of discontinued operation	(8,245)	-
<b>Deferred income tax</b>		
Relating to origination and reversal of temporary differences	1,609	(1,609)
<b>Total tax expense</b>	<b>(6,758)</b>	<b>(3,307)</b>

### 27.4 The net cash flows incurred by Pasgoda Tea Factory are, as follows;

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
<b>Cash generated from operation</b>		
Net cash inflow / (outflow)	867	6,064

### 27.5 The major classes of assets and liabilities of Pasgoda Tea Factory classified as held for sale as at 31st March 2020 are, as follows;

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
<b>Assets</b>		
Land and Building (Note 27.5.1)	-	75,000
Cash at Bank	-	2
<b>Total Assets</b>	<b>-</b>	<b>75,002</b>

#### 27.5.1 Carrying Value of Assets classified as Held for Sale

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
At the beginning of the year	75,000	-
Transferred from Investment Property	-	58,911
Change in fair value during the year	-	16,089
Disposal of assets classified as held for sale	(75,000)	-
<b>At the end of the year</b>	<b>-</b>	<b>75,000</b>

## 27.6 Accounting Judgements, Estimates and Assumptions related to Valuation of Non Current Assets Held for Sale

In determining the fair value, the current condition of the properties, future usability and associated redevelopment requirements have been considered. The Pasgoda Tea Factory was contracted to be sold for Rs. 75 Mn and the management was of the view that the sale was highly probable and expected to be completed within a year from the reporting date ended 31st March 2019. Accordingly, Rs. 75 Mn was considered as the fair value in line with SLFRS 13 and the gain of Rs. 16.09 Mn was recorded as of 31st March 2019.

The Company completed the sale on 17th May 2019 for Rs. 75 Mn.

Information on fair value measurement on property situated at Pasgoda as at 31 March 2019 using significant observable inputs (level 2) is given below.

Type of Asset	Fair Value as at 31 March 2019	Method of Valuation	Significant Observable Inputs	Estimates for Observable Inputs (Weighted Average)	Sensitivity of Fair Value to Observable Inputs
Land	27,089	Market Approach	Estimated price per perch	Rs. 23,401/- per perch	Positively correlated sensitivity
Buildings **	47,911	Cost Approach	Estimated price per square foot	Rs. 1,195/- per square foot	Positively correlated sensitivity
	75,000				

\*\* The value of buildings of Rs. 47.9 Mn includes Plant & Machinery, and Furniture, Fittings and Equipment of Rs. 10.9 Mn which are integral part of the building.

## 28 Short Term Investments

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
Call Deposits	80,000	-
Savings Accounts	50,271	32,777
	130,271	32,777

## 29 Cash in Hand and at Bank

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
Cash at bank	9,666	1,067
Cash in hand	42	30
Stamp balance	7	7
	9,715	1,104

**30 Stated Capital**

As at 31st March	2020		2019	
	Number of Shares	Value of Shares	Number of Shares	Value of Shares
	Rs.'000s	Rs.'000s	Rs.'000s	Rs.'000s
Issued and fully paid Ordinary Shares	30,000	150,000	30,000	150,000
At the end of the year	30,000	150,000	30,000	150,000

**31 Revaluation Reserve**

As at 31st March	2020	2019
	Rs.'000s	Rs.'000s
At the beginning of the year	488,870	466,895
Net revaluation gain / (loss)	64,487	21,975
Transfer to retained earnings	(42,373)	-
At the end of the year	510,984	488,870

The above revaluation reserve consists of net surplus resulting from the revaluation of property, plant and equipment as described in Note 18.3 to these financial statements. This unrealised amount cannot be distributed to shareholders.

\* Gains (net of tax) related to revaluation of land, buildings and plant and equipment of Pasgoda Tea Factory, sold during the year, was transferred from revaluation reserve to retained earnings upon its disposal.

**32 Retained Earnings**

As at 31st March	2020	2019
	Rs.'000s	Rs.'000s
Retained Earnings	757,901	657,610
	757,901	657,610

**33 Employee Benefit Liabilities**
**33.1 Accounting Policy**
**Defined Contribution Plan - EPF/ETF**

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective statutes and regulations. The Company contribute the defined percentages of gross emoluments of employees to an approved Employees' Provident Fund and to the Employees' Trust Fund respectively, which are externally funded.

**Employee Benefit Liabilities – Retirement Gratuity**

The liability recognised in the statement of financial position is the present value of the defined benefit obligation at the reporting date using the projected unit credit method. Any actuarial gains or losses arising are recognised immediately in the other comprehensive income.

### 33.2 Employee Defined Benefit Plan – Retirement Gratuity

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
At the beginning of the year	35,435	44,561
Current service cost	3,367	3,806
Interest cost on benefit obligation	3,303	4,280
Payments	(6,675)	(10,083)
Transfers	-	(1,749)
(Gain) / loss arising from changes in assumptions	(5,618)	(5,380)
At the end of the year	29,812	35,435

The employee benefit liability as at 31st March 2020 of the Company is based on the actuarial valuations carried out by Messrs. Actuarial & Management Consultants (Pvt) Ltd, actuaries. If the Company had provided for gratuity on the basis of fourteen days wages and half month salary for each completed year of service for workers and staff respectively, the liability would have been Rs. 34.7 Mn. (As of 31st March 2019 - Rs. 36.9 Mn)

The expenses are recognised in the income statement in the following line items;

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
Cost of sales	5,426	5,908
Administrative expenses	1,244	2,178
	6,670	8,086

The actuarial gain on defined benefit obligation has been recognised in the statement of comprehensive income in terms of the provision in LKAS 19.

**33.3 Significant Accounting Judgement, Estimates and Assumptions - Employee Benefit Liabilities**

The employee benefit liability of the Company is based on the actuarial valuation carried out by an Independent actuarial specialist. The actuarial valuations involve making assumptions about discount rates and future salary increases. The complexity of the valuation, the underlying assumptions and its long term nature, the defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The principal assumptions used in determining the cost of employee benefits were:

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
Discount rate (per annum)	11.00%	10.00%
Future salary increases - Staff (per annum)	8.00%	10.00%
- Workers (Once in every two years)	20.00%	20.00%

**33.4 Sensitivity of Assumptions used**

A qualitative sensitivity analysis for significant assumptions as at 31st March 2020 is shown below.

	Discount Rate		Increment Rate	
	Increase 1%	Decrease 1%	Increase 1%	Decrease 1%
Sensitivity level				
Net impact on Employee Benefit Liability	(1,621)	1,820	1,405	(1,299)

A qualitative sensitivity analysis for significant assumptions as at 31st March 2019 is shown below.

	Discount Rate		Increment Rate	
	Increase 1%	Decrease 1%	Increase 1%	Decrease 1%
Sensitivity level				
Net impact on Employee Benefit Liability	(2,119)	2,363	1,751	(1,641)



### 33.5 Maturity Profile of the Employee Benefit Liability as at 31st March 2020

Future Working Life Time	Employee Benefit Liability - Rs.		
	Staff	Workers	Total
Within the next 12 months	716	5,712	6,428
Between 1 - 2 years	3,117	1,839	4,956
Between 2 - 5 years	2,361	2,857	5,218
Between 5 - 10 years	3,754	3,464	7,218
Beyond 10 years	3,019	2,973	5,992
Total	12,967	16,845	29,812

The average duration of the employee benefit liability as at 31st March 2020 is 7.08 years for Staff and 5.74 years for Workers.

### 33.6 Maturity Profile of the Employee Benefit Liability as at 31st March 2019

Future Working Life Time	Employee Benefit Liability - Rs.		
	Staff	Workers	Total
Within the next 12 months	654	7,459	8,113
Between 1 - 2 years	972	1,678	2,650
Between 2 - 5 years	4,230	3,825	8,055
Between 5 - 10 years	3,968	4,851	8,819
Beyond 10 years	3,745	4,054	7,799
Total	13,569	21,866	35,435

The average duration of the employee benefit liability as at 31st March 2019 is 8.38 years for Staff and 5.99 years for Workers.

## 34 Other Deferred Liabilities

### Government Grants

#### 34.1 Accounting Policy

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match to the costs, that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments.

The following represents grants received from the Sri Lanka Tea Board under modernization of tea factories such as automation of manufacturing process and requirements under CQC certification.

#### 34.2 Carrying Value

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
At the beginning of the year	507	527
<b>Cash Changes</b>	-	-
<b>Non Cash Changes</b>		
Amortisation	(20)	(20)
At the end of the year	487	507

**35 Trade and Other Payables**

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
Trade payables	64,004	142,890
Sundry creditors and accrued expenses	15,002	15,793
Unclaimed dividend	1,331	1,109
	<b>80,337</b>	<b>159,792</b>

**36 Related Party Transactions**

The Company carried out transactions in the ordinary course of business with parties who are defined as related parties in Sri Lanka Financial Reporting Standard 24 - Related Party Disclosures, the details of which are reported below. The consideration for the goods and services provided has been paid or accrued at market prices prevailing at the time.

There are no related party transactions or investments in related parties exceeding the lower of 10% of equity or 5% of the total assets of the Company for the year ended 31 March 2020. (31 March 2019 - Nil)

**36.1 Amounts Due to Related Parties**

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
<b>Parent Company</b>		
John Keells Holdings PLC	212	305
<b>Companies Under Common Control</b>		
Mackinnons Keells Limited	229	330
Keells Consultants (Private) Limited	125	50
Infomate (Private) Limited	41	111
Whittal Bousted (Private) Limited	84	92
John Keells Teas (Private) Limited	2,377	2,004
John Keells Office Automation (Private) Limited	8	-
John Keells Information Technology (Private) Limited	56	-
Mack Air (Private) Limited	(1)	-
	<b>3,131</b>	<b>2,892</b>

### 36.2 Transactions with Related Parties

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
<b>Parent Company</b>		
Receiving of services	(2,466)	(2,831)
<b>Companies Under Common Control of the Parent Company</b>		
Purchases of goods	(515)	(140)
Sale of goods	21	5
Receiving of services	(51,218)	(50,245)
Rent paid	(2,461)	(2,478)
<b>Transactions with Associates</b>		
Receiving of services	(2,663)	(3,293)
<b>Companies which have Significant Influence</b>		
Purchases of goods	(699)	(1,121)

### 36.3 Transactions with Key Management Personnel of the Company

The Company has paid Rs. 3.60 million (2018/2019 - Rs. 3.60 million) to their Directors as fees during the year. There are no cash benefits for Key Management Personnel. Other than that there are no transactions, arrangements and agreements with close family members of Key Management Personnel or with companies controlled / jointly controlled / significantly influenced by Key Management Personnel and their close family members

### 36.4 Terms and Conditions of Transactions with Related Parties

Transaction with related parties are carried out in the ordinary course of business. Outstanding current account balances at year end are unsecured, interest free and settlement occurs in cash.

### 36.5 Management Fee

The management fee to managing agents, John Keells Teas (Private) Limited was paid at contractual price.

### 37 Other Current Liabilities

As at 31st March	2020 Rs.'000s	2019 Rs.'000s
Other payables	6,037	10,294
	6,037	10,294

**38 Bank Overdraft**

As at 31st March	2020	2019
	Rs.'000s	Rs.'000s
Deutsche Bank	503	4,030
	503	4,030

**39 Contingent Liabilities**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

All contingent liabilities are disclosed unless the outflow of resources is remote. There is no contingent liability of the Company as at the reporting date.

**40 Capital Commitment**

The value of contractual commitments for acquisition of property, plant and equipment as at 31 March 2020 is Rs. 0.61 million (as at 31 March 2019 - Rs. 24.71 million).

**41 Assets Pledged as Security**

No assets have been pledged for facilities obtained by the Company as at 31 March 2020.

**42 Events After the Reporting Period**

After a stringent lock-down period of over a month, curfew has been gradually eased off in many parts of the country, with the imposition remaining only for few high risk districts, including the Colombo district, although business activity has resumed across the country, and it is encouraging that there is no indication of community spread in the country at the moment. The Company has evaluated all guidelines issued by the Government as well as international best practices and has developed individual health and safety guidelines to ensure suitable working arrangements and safe conditions for employees, customers and other stakeholders.

The most recent release by the Government states that curfew restrictions in the two districts will remain, with restrictions being eased off during the day for the gradual commencement of economic activity by the public and private sectors. Despite the challenges, the factories are functioning since the outbreak of COVID-19, maintaining social distancing and taking required precautions as advised by the health officials. The harvesting of Green Leaf by the small holders is continuing and arrangements are in place for the collection and receipt of same by the factories. Given the volatile and evolving landscape, the Company will continue to monitor the impacts on its operations and proactively take measures to ensure the business continues as seamlessly as possible.

Mr. M. H. De Silva (Independent, Non Executive Director) resigned from the Board with effect from 15th May 2020



# Focused on Consistency

## SUPPLEMENTARY INFORMATION

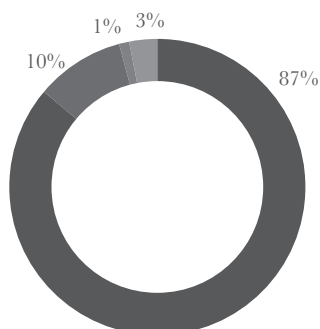
Over the years we have continued to deliver a consistent performance, reinforced by our inherent skills, commitment to quality and powerful ambition.

# STATEMENT OF ECONOMIC VALUE ADDED

Year Ended 31st March	2020		2019		2018		2017		2016	
	Rs'000s	%	Rs'000s	%	Rs'000s	%	Rs'000s	%	Rs'000s	%
<b>DIRECT ECONOMIC VALUE GENERATED</b>										
Turnover	2,109,139		2,171,257		2,679,634		2,312,330		1,912,841	
Finance Income	4,188		4,525		6,997		4,400		3,264	
Other Income	55,283		52,989		54,720		33,070		24,436	
Valuation gain on Investment Property	39,297		54,768		172,737		23,263		27,000	
	<b>2,207,907</b>		<b>2,283,540</b>		<b>2,914,087</b>		<b>2,373,063</b>		<b>1,967,541</b>	
<b>ECONOMIC VALUE DISTRIBUTED</b>										
Operating Cost	1,820,485	87%	1,950,385	87%	2,352,378	88%	1,994,168	89%	1,704,871	88%
Employees Wages and Benefits	204,973	10%	213,771	10%	231,942	9%	211,131	9%	211,919	11%
Payments to Government as Taxes	12,795	1%	5,316	0%	23,357	1%	18,929	1%	578	0%
Payments to Providers of Funds	55,187	3%	64,663	3%	53,018	2%	18,303	1%	17,384	1%
	<b>2,093,440</b>		<b>2,234,135</b>		<b>2,660,696</b>		<b>2,242,532</b>		<b>1,934,754</b>	
<b>ECONOMIC VALUE RETAINED</b>										
Depreciation	61,381		58,087		60,318		60,511		56,549	
Profit Retained	53,086		(8,682)		193,072		70,020		(23,762)	
	<b>114,467</b>		<b>49,405</b>		<b>253,391</b>		<b>130,531</b>		<b>32,787</b>	

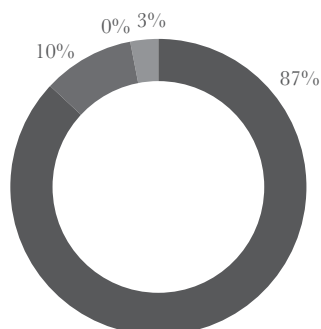
Above data has been derived from the audited Financial Statements that were prepared based on Sri Lanka Accounting Standards (SLFRS / LKAS).

## Economic Value Added/ Distributed - 2020



- Operating Cost
- Employees Wages and Benefits
- Payments to Government as Taxes
- Payments to Providers of Funds

## Economic Value Added/ Distributed - 2019



- Operating Cost
- Employees Wages and Benefits
- Payments to Government as Taxes
- Payments to Providers of Funds

From the total value created for 2019 / 2020 of Rs. 2.21 billion is an decrease of 3% compared to the total economic value created of Rs. 2.28 in 2018 / 2019. Of the total value distributed of Rs. 2.09 billion in 2019 / 2020, 87% was spent on operating cost, 10% was distributed to employees in the form of remuneration and statutory payments, 1% to the government in the form of taxes and tariffs and 3% was paid as dividends and interest for providers of funds. Of the total value created of Rs. 2.21 billion for 2019 / 2020, 5.18% was retained in the business for further development and investment.

# INFORMATION TO SHAREHOLDERS AND INVESTORS

## 1. STOCK EXCHANGE LISTING

The issued ordinary shares of Tea Smallholder Factories PLC was listed with the Colombo Stock Exchange on 01st August 1996. The Audited Accounts of the Company for the year ended 31st March 2020 have been submitted to the Colombo Stock Exchange.

## 2. DISTRIBUTION OF ORDINARY SHAREHOLDERS

No. of Shares held	31st March 2020				31st March 2019			
	Shareholders		Holdings		Shareholders		Holdings	
	Number	%	Number	%	Number	%	Number	%
Less than or equal to 1000	898	75.72	182,315	0.61	903	75.56	190,096	0.63
1,001 - 10,000	253	21.33	754,369	2.51	257	21.51	760,366	2.53
10,001 - 100,000	28	2.36	707,818	2.36	28	2.34	691,524	2.31
100,001 - 1,000,000	3	0.25	963,006	3.21	3	0.25	965,522	3.22
Over 1,000,000	4	0.34	27,392,492	91.31	4	0.33	27,392,492	91.31
<b>Total</b>	<b>1,186</b>	<b>100.00</b>	<b>30,000,000</b>	<b>100.00</b>	<b>1,195</b>	<b>100.00</b>	<b>30,000,000</b>	<b>100.00</b>

## 3. ANALYSIS OF SHAREHOLDERS

Categories of Shareholders	31st March 2020				31st March 2019			
	Shareholders		Holdings		Shareholders		Holdings	
	Number	%	Number	%	Number	%	Number	%
Individuals	1,139	96.04	1,978,184	6.59	1,146	95.90	1,972,841	6.58
Institutions	47	3.96	28,021,816	93.41	49	4.10	28,027,159	93.42
<b>Total</b>	<b>1,186</b>	<b>100.00</b>	<b>30,000,000</b>	<b>100.00</b>	<b>1,195</b>	<b>100.00</b>	<b>30,000,000</b>	<b>100.00</b>
Residents	1,178	99.33	29,976,640	99.92	1,188	99.41	29,976,793	99.92
Non Residents	8	0.67	23,360	0.08	7	0.59	23,207	0.08
<b>Total</b>	<b>1,186</b>	<b>100.00</b>	<b>30,000,000</b>	<b>100.00</b>	<b>1,195</b>	<b>100.00</b>	<b>30,000,000</b>	<b>100.00</b>
Public Shareholding	1,182	99.66	9,915,508	33.05	1,191	99.67	9,915,508	33.05
Non - Public Shareholding	4.00	0.34	20,084,492	66.95	4	0.33	20,084,492	66.95
<b>Total</b>	<b>1,186</b>	<b>100.00</b>	<b>30,000,000</b>	<b>100.00</b>	<b>1,195</b>	<b>100.00</b>	<b>30,000,000</b>	<b>100.00</b>

# INFORMATION TO SHAREHOLDERS AND INVESTORS

## 4 PUBLIC SHARE HOLDING

As at 31st March	As at 31st March 2020	As at 31st March 2019
	Rs.'000s	Rs.'000s
Number of Public Shareholders	1,182	1,191
Public Holding Percentage	33.05	33.05
The Float Adjusted Market Capitalization - Rs. million	189.39	238.96

The Company has complied with the Rule 7.13.1 (a) of the Listing Rules of the Colombo Stock Exchange governing the minimum public holding requirement of listed entities for continuous listing requirements. As at 31st March 2020, the public holding of the Company stood at 33.05 percent surpassing the minimum requirement of 20 percent under, option 5.

## 5 TWENTY LARGEST SHAREHOLDERS OF THE COMPANY

	31st March 2020		31st March 2019	
	No. of Shares Held	% Holdings	No. of Shares Held	% Holdings
1 John Keells Holdings PLC	11,286,000	37.62	11,286,000	37.62
2 Akbar Brothers Limited	7,318,000	24.39	7,318,000	24.39
3 Central Finance Company PLC	6,854,814	22.85	6,854,814	22.85
4 CF Growth Fund Limited	1,933,678	6.45	1,933,678	6.45
5 Mr. K. D. S. R. Upasena	469,120	1.56	469,120	1.56
6 Anverally and Sons (Private) Limited	392,300	1.31	392,300	1.31
7 Seylan Bank Limited / Govindasamy Ramanan	101,586	0.34	104,102	0.35
8 Mr. D. J. De Silva Wijeyeratne	98,400	0.33	98,400	0.33
9 Mr. N. D. Kurukulasuriya	62,400	0.21	62,400	0.21
10 Dr. D. S. A. Samaraweera	53,000	0.18	53,000	0.18
11 Mrs. R. Z. Wickramanayake (Deceased)	44,963	0.15	44,963	0.15
12 Mr. B. D. J. C. Suchendra	43,825	0.15	-	-
13 Dr. N. I. Wickramanayake	43,691	0.15	43,691	0.15
14 Mr. C. S. N. Silvapulle	37,956	0.13	37,956	0.13
15 Mr. Z. G. Carimjee	25,000	0.08	25,000	0.08
16 Mr. C. N. Lawrence	24,000	0.08	24,000	0.08
17 Mrs. Jacintha Aloysius	20,000	0.07	20,000	0.07
18 Mrs. Jeniffer Aloysius	20,000	0.07	20,000	0.07
19 Mr. E. Gunatunga (Deceased)	20,000	0.07	20,000	0.07
20 Mr. H.A.S.Madanayaka	20,000	0.07	20,000	0.07
Total	28,868,733	96.26	28,827,424	96.12



## 6 RELEVANT INTEREST IN SHARES AND SHARE DEALINGS

The relevant interest of the Directors and Chief Executive Officer in the shares of the Company as at 31st March 2020 are as follows.

As at 31st March	2020 No. of Shares	2019 No. of Shares
Mr. K. N. J. Balendra (Chairman)	Nil	Nil
Mr. J. G. A. Cooray	Nil	Nil
Mr. E. H. Wijenaikē	10,000	10,000
Mr. A. S. Jayatilleke	Nil	Nil
Mr. M. H. De Silva (Resigned w.e.f 15th May 2020)	Nil	Nil
Mr. S. K. L. Obeyesekere	Nil	Nil
Mr. J. R. Gunaratne	Nil	Nil
Mr. A. K. Gunaratne	Nil	Nil
<b>CEO</b>		
Mr. H. R. A. Wanasinghe	Nil	Nil

## 7 MARKET VALUE

For the year ended 31st March	2020 Rs.	2019 Rs.	2018 Rs.	2017 Rs.	2016 Rs.
Highest Price	28.80	37.50	46.00	36.10	43.40
Lowest Price	19.10	18.90	23.00	20.00	18.00
As at Year End	19.10	24.10	34.00	24.00	19.50
Market capitalisation (Rs. Million.)	573	723	1,020	720	585

## 8 TRADING STATISTICS

For the year ended 31st March	2020	2019
No. of Trades	413	406
No. of Shares Traded	118,840	99,694
Value of Traded Shares - Rs.	3,169,290	2,808,894

# INFORMATION TO SHAREHOLDERS AND INVESTORS

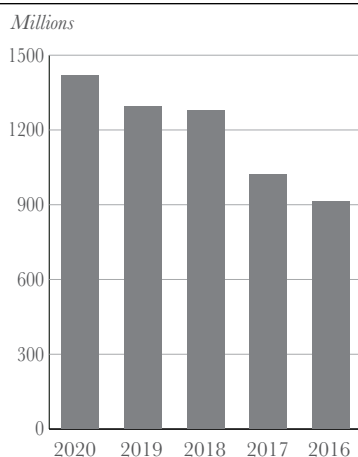
## 9 DIVIDEND PAYMENT

First and final dividend of Rs. 1.70 per share for the year ended 31 March 2019 was paid on 12th June 2019.

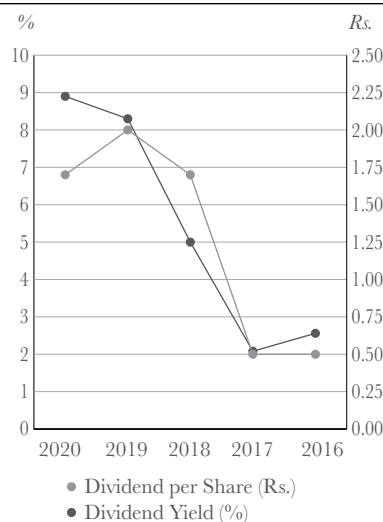
## 10 RATIOS AND STATISTICS

For the year ended 31st March	2020 Rs.	2019 Rs.	2018 Rs.	2017 Rs.	2016 Rs.
No. of shares in issue (In '000s)	30,000	30,000	30,000	30,000	30,000
Earnings per Share (EPS) - Rs	3.47	1.71	8.14	2.83	(0.29)
EPS growth (%)	103	(79)	187	1,076	(124)
Price earning ratio (No. of times)	5.5	14.1	4.2	8.5	(66.8)
Dividend payout ratio (%)	49	117	21	18	(171)
Pre-tax return on capital employed (Pre-tax ROCE) (%)	2.6	3.3	23.8	11.7	(2.0)
Return on equity (ROE) (%)	7.7	4.0	21.2	8.8	(1.0)
Net Assets per share (Rs)	47.30	43.22	42.64	34.08	30.36
Market Price per Share (Rs.)	19.10	24.10	34.00	24.00	19.50
Market capitalisation (Rs.'000s)	573,000	723,000	1,020,000	720,000	585,000
Dividend per Share (Rs.)	1.70	2.00	1.70	0.50	0.50
Dividend Yield (%)	8.90	8.30	5.00	2.08	2.56

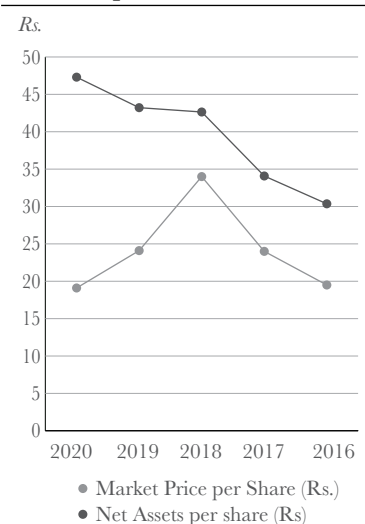
### Shareholders' Funds



### Dividend



### Market Price per Share and Net Asset per Share



# REAL ESTATE DETAILS OF THE COMPANY

Details of the valuations of the Company's land holdings including investment properties and the number of buildings is given below.

Factory/Site	Location	District	Extent of Land						Buildings		NBV	NBV
			Freehold			Leasehold			No. of Buildings	Square Feet	As at	As at
			A	R	P	A	R	P			31.03.20 Rs'000	31.03.19 Rs'000
Neluwa	Neluwa	Galle	3	2	38	-	-	-	18	49,552	80,331	72,193
Halwitigala	Thawalama	Galle	9	2	18	-	-	-	14	53,432	69,712	65,535
Hingalgoda	Hiniduma	Galle	12	-	6	-	-	-	26	65,994	104,573	89,424
Kurupanawa	Nagoda	Galle	12	-	19	-	-	-	22	56,634	88,425	76,984
New Panawenna	Kahawatte	Ratnapura	10	2	14	-	-	-	8	44,566	57,675	55,693
Broadlands	Pitawela	Nuwara Eliya	4	0	22	-	-	-	11	60,710	81,388	73,845
Karawita	Uda Karawita	Ratnapura	-	-	-	4	3	37	12	79,244	123,923	118,084

## Investment Property

Factory/Site	Location	District	Extent of Land						Buildings		NBV	NBV
			Freehold			Leasehold			No. of Buildings	Square Feet	As at	As at
			A	R	P	A	R	P			31.03.20 Rs'000	31.03.19 Rs'000
Warehouse	Peliyagoda	Gampaha	-	-	-	0	3	37	1	31,629	426,976	387,679

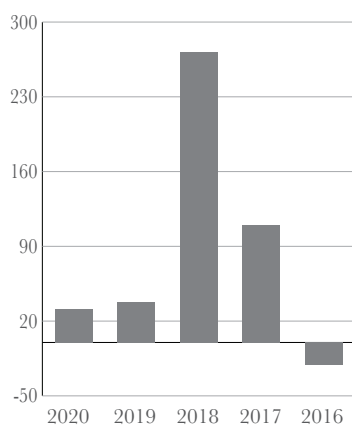
# FIVE YEAR FINANCIAL SUMMARY AND KEY INDICATORS

Year Ended 31st March	2020 Rs.'000s	2019 Rs.'000s	2018 Rs.'000s	2017 Rs.'000s	2016 Rs.'000s
Total Revenue	2,109,139	2,171,257	2,679,634	2,312,330	1,912,841
Cost of Sale	(2,093,028)	(2,154,168)	2,540,080)	(2,169,426)	(1,915,418)
Gross Operating Profit	16,111	17,089	139,554	142,904	(2,577)
<b>Expenses</b>					
Administrative Expenses	(62,074)	(67,862)	(66,610)	(60,820)	(54,040)
Management Fees	(17,680)	(19,016)	(33,109)	(29,275)	(16,205)
Net Finance (Cost) / Income	1	(138)	4,979	1,097	880
Operating Profit / (Loss)	(63,642)	(69,926)	44,814	53,906	(71,942)
Other Income	55,283	* 52,989	54,720	33,070	24,436
Change in fair value of Investment Property	39,297	* 54,768	172,737	23,263	27,000
Profit / (Loss) before Taxation	30,938	37,830	272,270	110,239	(20,506)
Taxation	73,149	13,488	(28,198)	(25,219)	11,744
Profit / (Loss) after Taxation	104,086	51,318	244,072	85,020	(8,762)
Other Comprehensive Income	4,832	3,874	380	(2,271)	(154)
Prior Year Retained Profits	657,610	662,418	468,966	401,217	425,132
Total Available for Appropriation	766,528	717,609	713,418	483,966	416,217
Dividends Paid	(51,000)	(60,000)	(51,000)	(15,000)	(15,000)
Transfer to Retained Earnings	42,373	-	-	-	-
Retained Profit at the end of the year	757,901	657,610	662,418	468,966	401,217

\*Includes Discontinued Operation

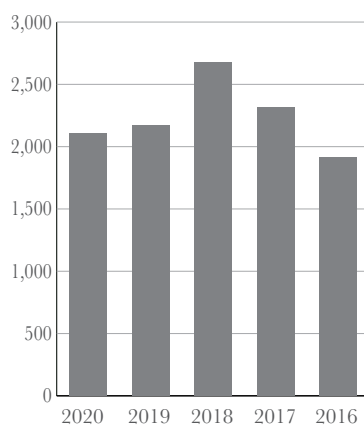
## Profit / (Loss) before Taxation

Rs. Millions



## Revenue

Rs. Millions



As at 31st March	2020 Rs.'000s	2019 Rs.'000s	2018 Rs.'000s	2017 Rs.'000s	2016 Rs.'000s
<b>CAPITAL AND RESERVES</b>					
Stated Capital	150,000	150,000	150,000	150,000	150,000
Revaluation Reserve	510,984	488,870	466,895	403,443	359,597
		-	-	-	-
<b>Retained Earnings</b>	<b>757,901</b>	<b>657,610</b>	<b>662,418</b>	<b>468,966</b>	<b>401,217</b>
Shareholders' Funds	1,418,885	1,296,480	1,279,313	1,022,409	910,814
<b>ASSETS LESS LIABILITIES</b>					
Current Assets	383,757	515,071	526,100	440,297	299,304
Current Liabilities	(90,008)	(177,008)	(207,901)	(167,225)	(128,882)
Net Current Assets	293,749	338,063	318,200	273,072	170,422
Non-Current Assets	1,260,445	1,184,373	1,189,967	964,777	936,043
Non-Current Liabilities other than Deferred Grants and Subsidies	(134,822)	(225,449)	(228,326)	(214,667)	(194,691)
Deferred Grants and Subsidies	(487)	(507)	(527)	(773)	(960)
	1,418,885	1,296,480	1,279,313	1,022,409	910,814
<b>RATIOS AND STATISTICS</b>					
Earnings per Share (EPS) - Rs	3.47	1.71	8.14	2.83	(0.29)
EPS growth (%)	103	(79)	187	1,076	(124)
Price earning ratio (No. of times)	5.5	14.1	4.2	8.5	(66.8)
Interest cover (No. of times)	8.4	9.1	135.9	34.4	(7.6)
Pre-tax return on capital employed (Pre-tax ROCE)	2.6%	3.3%	23.8%	11.7%	-2.0%
Return on equity (ROE)	7.7%	4.0%	21.2%	8.8%	-1.0%
Return on assets	6.3%	3.0%	15.6%	6.4%	-0.7%
No. of shares in issue (In '000s)	30,000	30,000	30,000	30,000	30,000
Net Assets per share (Rs)	47.30	43.22	42.64	34.08	30.36
Market Price per Share (Rs.)	19.10	24.10	34.00	24.00	19.50
Debt/Equity (No. of times)	-	-	-	-	-
Market capitalisaion (Rs.'000s)	573,000	723,000	1,020,000	720,000	585,000
Annual Turnover growth (%)	(2.86)	(18.97)	15.88	20.88	(24.03)
Current Ratio (times)	4.26	2.91	2.53	2.63	2.32
Gross Turnover per employee (Rs.000's)	3,700	3,843	4,628	3,906	2,989
Dividend per Share (Rs.)	1.70	2.00	1.70	0.50	0.50
Dividend Payout ratio	49%	117%	21%	18%	-171%
Dividend Yield	8.90%	8.30%	5.00%	2.08%	2.56%

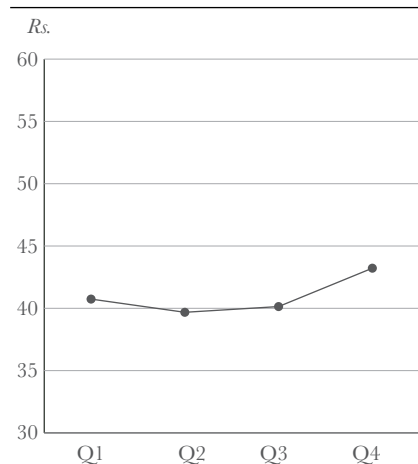
# QUARTERLY FINANCIAL INFORMATION

For the Quarters and Year Ended	2019 / 2020				2018 / 2019					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
	30 Jun '19 Rs. 000's	30 Sep '19 Rs. 000's	31 Dec '19 Rs. 000's	31 Mar '20 Rs. 000's	30 Jun '18 Rs. 000's	30 Sep '18 Rs. 000's	31 Dec '18 Rs. 000's	31 Mar '19 Rs. 000's	Total Rs. 000's	
Turnover	530,441	542,754	535,728	500,216	2,109,139	581,622	512,169	481,227	596,239	2,171,257
Cost of sales	(515,852)	(540,618)	(531,413)	(505,145)	(2,093,028)	(570,115)	(543,967)	(468,233)	(571,853)	(2,154,168)
<b>Gross profit</b>	14,589	2,136	4,315	(4,929)	16,111	11,507	(31,798)	12,994	24,386	17,089
Other operating income	16,677	12,164	12,180	13,395	54,416	12,353	11,953	10,312	12,307	46,925
Administrative expenses	(15,978)	(15,876)	(15,788)	(14,432)	(62,074)	(16,317)	(20,779)	(15,726)	(15,041)	(67,862)
Management Fees	(4,896)	(4,520)	(4,608)	(3,656)	(17,680)	(5,096)	(4,491)	(4,200)	(5,228)	(19,016)
<b>Profit from operating activities</b>	10,392	(6,096)	(3,901)	(9,622)	(9,227)	2,447	(45,115)	3,380	16,424	(22,864)
Finance cost	(1,309)	(2,214)	(511)	(153)	(4,187)	(492)	(1,695)	(1,297)	(1,179)	(4,663)
Finance income	1,183	819	1,035	1,151	4,188	1,389	1,004	984	1,148	4,525
Change in fair value of Investment	-	-	-	39,297	39,297	-	-	-	-	38,679
Property	-	-	-	39,297	39,297	-	-	-	-	38,679
<b>Profit Before Tax from Continuing Operations</b>	10,266	(7,491)	(3,377)	30,673	30,071	3,344	(45,806)	3,067	55,072	15,677
(Tax Expense) / Reversal from Continuing Operations	(3,457)	1,953	83,380	(1,970)	79,906	(1,134)	12,826	9,437	(4,334)	16,795
<b>Profit for the Year from Continuing Operations</b>	6,809	(5,538)	80,003	28,703	109,977	2,210	(32,980)	12,504	50,738	32,472
<b>Discontinued Operations</b>										
Profit after tax for the year from Discontinued Operations	624	(14,882)	8,367	-	(5,891)	752	1,195	1,210	15,690	18,846
<b>Profit for the Year</b>	7,433	(20,420)	88,370	28,703	104,086	2,962	(31,785)	13,714	66,428	51,318
<b>Earning per Share from Continuing Operations - Rs</b>	0.23	(0.18)	2.67	0.96	3.67	0.07	(1.10)	0.42	1.69	1.08
<b>Earning per Share from Discontinued Operation - Rs.</b>	0.02	(0.50)	0.28	-	(0.20)	0.03	0.04	0.04	0.52	0.63

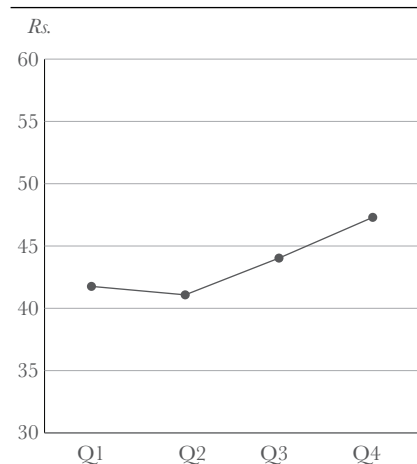
## Statement of Financial Position

As at	2019 / 2020				2018 / 2019			
	30 Jun '19 Rs. 000's	30 Sep'19 Rs. 000's	31 Dec '19 Rs. 000's	31 Mar '20 Rs. 000's	30 Jun '18 Rs. 000's	30 Sep'18 Rs. 000's	31 Dec '18 Rs. 000's	31 Mar '19 Rs. 000's
<b>Net Assets</b>								
Non-current assets	1,190,058	1,179,943	1,168,510	1,260,445	1,179,386	1,179,354	1,187,024	1,184,373
Net current assets	282,700	270,702	292,989	293,749	268,305	228,239	232,618	338,063
	1,472,758	1,450,645	1,461,499	1,554,194	1,447,691	1,407,593	1,419,642	1,522,436
Less : Non current liabilities	219,845	218,152	140,636	135,309	225,416	217,104	215,439	225,956
<b>Net Assets</b>	<b>1,252,913</b>	<b>1,232,493</b>	<b>1,320,863</b>	<b>1,418,885</b>	<b>1,222,275</b>	<b>1,190,489</b>	<b>1,204,203</b>	<b>1,296,480</b>
<b>Shareholders' Funds</b>								
Stated capital and revenue reserves	1,252,913	1,232,493	1,320,863	1,418,885	1,222,275	1,190,489	1,204,203	1,296,480
<b>Total Equity</b>	<b>1,252,913</b>	<b>1,232,493</b>	<b>1,320,863</b>	<b>1,418,885</b>	<b>1,222,275</b>	<b>1,190,489</b>	<b>1,204,203</b>	<b>1,296,480</b>
Net assets per share - Rs.	41.76	41.08	44.03	47.30	40.74	39.68	40.14	43.22

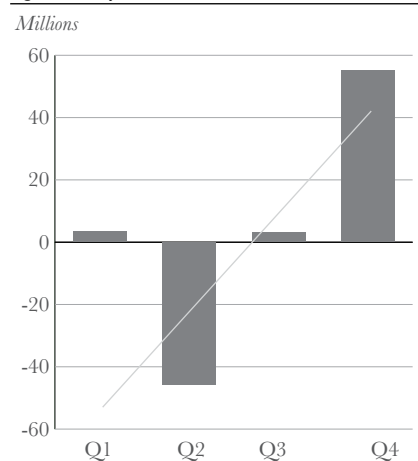
### Net Assets per Share 2018/2019



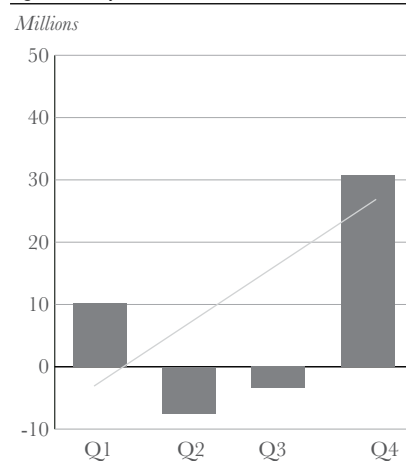
### Net Assets per Share 2019/2020



### Quarterly PBT 2018/2019



### Quarterly PBT 2019/2020



# GLOSSARY OF FINANCIAL TERMINOLOGY

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## Accounting Policies

Specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting financial statements.

## Total Debt

Short and long term loans including overdrafts.

## Capital Employed

Shareholders' funds plus non-controlling interest and debt.

## Capital Reserves

Profits of a company that for various reasons are not regarded as distributable to shareholders as dividend. This includes gains on revaluation of capital assets.

## Cash and Cash Equivalent

Short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## Current Ratio

Current assets divided by current liabilities.

## Deferred Tax

Sum set aside in the Financial Statements for taxation that may become payable/recoverable in a financial year other than the current financial year (future periods).

## Dividend Cover

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

## Dividend per Share (DPS)

Dividends paid during the year divided by the weighted number of ordinary shares in issue during the period.

## Earnings per Share

Earnings per Share is the net profit after tax attributable to each ordinary share. This is calculated using the formula - net profit after tax divided by the total number of ordinary shares in issue during the period.

## Total Equity

Shareholders' funds

## Debt to Equity

Debt to capital employed.

## Interest Cover

Profit before Interest and tax over finance cost.

## Market Capitalization

Number of shares in issue at the end of period multiplied by the market price per share at the end of period.

## Net Assets

Total assets minus total current and non-current liabilities.

## Net Assets per Share

Net assets as at a particular year end divided by the number of shares in issue as at the current financial year end.

## Number of Trades

The total number of transactions of a company's shares on the Stock Exchange on a particular day.

## Price Earnings Ratio (PER)

Market price per share over earnings per share.

## Profit After Tax

The profit that a company has earned in a given period of time after payment of tax.

## Return on Capital Employed

Profit before interest and tax divided by average capital employed.

## Return on Equity

Profit after tax divided by average share holders' funds.

## Revenue Reserves

Reserves considered as being available for distributions and investments.

## "Share" of a Company

One of the equal parts of the issued capital of the Company.

## Shareholders' Funds

Total of stated capital, capital reserves and revenue reserves.

## Stated Capital

The total of all amounts received by the Company or due and payable to the Company in respect of the issue of shares and calls on shares.

## Turnover per Employee

Total turnover of the Company for the year divided by the number of employees employed at year end.

## Value Addition / Value Generated

The quantum of wealth generated by the activities of the Company and its application.

## Working Capital

Capital required to finance the day - to - day Operations

## Market Value Added

A calculation that shows the difference between the market value of a company and the capital contributed by investors. In other words, it is the sum of all capital claims held against the Company plus the market value of debt and equity.



### **Return on Assets**

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Profit after tax as a percentage of average total assets.

### **Total Shareholder Return**

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$(P1 - P0 + D) / P0 \times 100$

P1 = Market Price at the end of the year

P0 = Market Price at the beginning of the year

D = Dividend for the year

### **Dividend Yield**

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Dividend per share as a percentage of its market value

### **Dividend Payout**

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The percentage of earnings paid to a shareholder as dividends.

### **Quick assets ratio**

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The quick assets ratio measures a company's ability to meet short term obligations with its most liquid assets.

### **Net Current Assets**

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Current assets less current liabilities

### **Abbreviations**

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BRM - Business Risk Management

CTC - Crush, Tear and Curl

HACCP - Hazard Analysis and Critical Control Point

SLFRS / LKAS - Sri Lanka Accounting Standards



# CORPORATE INFORMATION

## **Name of Company**

Tea Smallholder Factories PLC

## **Company Registration No.**

PQ32

## **Legal Form**

A Quoted Public Company with Limited Liability.  
Incorporated in Sri Lanka in 1991  
Ordinary Shares listed on the Colombo Stock Exchange

## **Registered Office of the Company**

No. 4, Leyden Bastian Road,  
Colombo 1, Sri Lanka  
Telephone : +94 11 2335870  
Fax : +94 11 2335880  
Website : [www.keells.com](http://www.keells.com)  
Email : [harish.jktl@keells.com](mailto:harish.jktl@keells.com)

## **Board of Directors**

Mr. K. N. J. Balendra - Chairman  
Mr. J. G. A. Cooray  
Mr. J. R. Gunaratne  
Mr. E. H. Wijenaik  
Mr. A. K. Gunaratne  
Mr. A. S. Jayatilleke  
Mr. S. K. L. Obeyesekere

## **Senior Management**

Mr. H. R. A. Wanasinghe  
Chief Executive Officer / Vice President

Ms. K. D. Weerasinghe  
Chief Financial Officer / Executive Vice President

Mr. S. I. S. Dissanayake  
Head of Operations

Mr. M. R. Ahamed  
Manager – Finance

Mr. A. N. B. Dissanayake  
Manager - Engineering

## **Secretaries & Legal Advisors**

Keells Consultants (Private) Limited  
117, Sir Chittampalam A. Gardiner Mw,  
Colombo 02, Sri Lanka  
Telephone : +94 11 230 6245  
Fax : +94 11 243 9037

## **Auditors**

Ernst & Young,  
Chartered Accountants,  
P. O. Box 101, Colombo 10.

## **BDO Partners**

Chartered Accountants  
"Charter House"  
No.65/2, Sri Chittampalam A Gardiner Mawatha  
Colombo 02.

## **Bankers**

Deutsche Bank AG  
People's Bank  
Bank of Ceylon  
Hatton National Bank

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