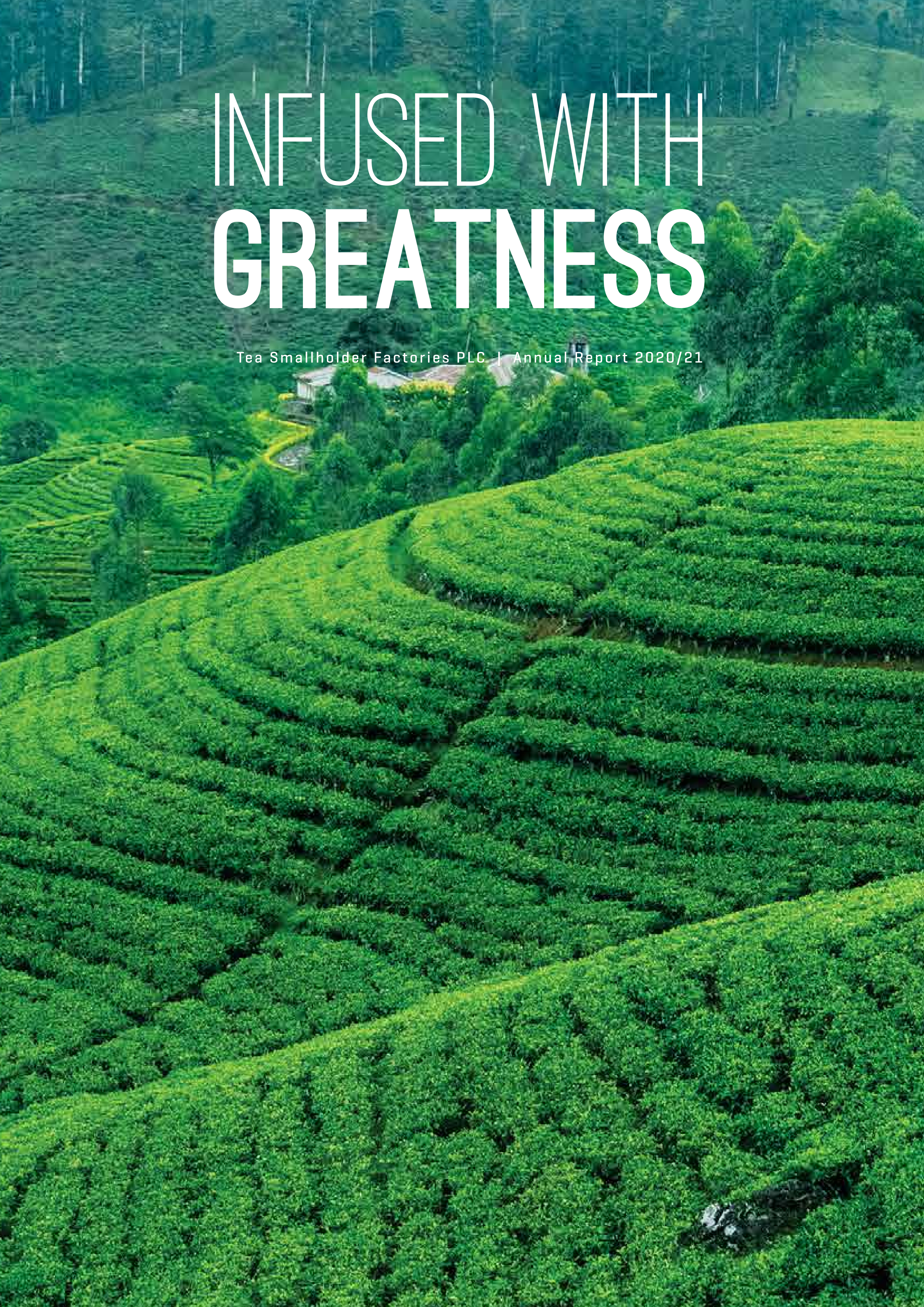
INFUSED WITH GREATNESS

Tea Smallholder Factories PLC | Annual Report 2020/21



CONTENTS

FINANCIAL CALENDAR

INTERIM FINANCIAL STATEMENTS

1st Quarter	July	23, 2020
2nd Quarter	October	22, 2020
3rd Quarter	January	18, 2021
4th Quarter	May	21, 2021

ANNUAL REPORTS

2019 / 2020	May	21, 2020
2020 / 2021	May	21, 2021

MEETINGS

26th Annual General Meeting	June	24, 2020
27th Annual General Meeting	Will be notified to Shareholders in due course	

DIVIDENDS 2020 / 2021

Interim Dividend - Rs. 1.50 per share paid on	March	26, 2021

INFUSED WITH **GREATNESS**

Every cup of tea we have brought closer to you over the last 30 years, has been a reflection of quality infused greatness. From the rustle of our tea leaves to the clink of your tea cup, our rigorous quality controls coupled with best agricultural practices ensures your experience is nothing short of reinvigorating. Our passion to be among the greatest is supported by our network of loyal stakeholders, whose support has been unwavering through changing terrains.

During the year under review, we were able to rise above various climatic and economic challenges, to record a higher production level. We aim to further consolidate our presence in the industry through product diversification and plans are also afoot to honour the loyalty of our clientele who journeyed with us for generations. Greatness begins here, as we turn the ordinary to extraordinary.

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

Our 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 the 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

ABOUT THE REPORT

We are pleased to present our Annual Report which sets out the Company performance for the financial year ending 31st March 2021. This report, which presents a balance review of the Company's performance, has been further refined from the previous year to enhance the readability through improved clarity and conciseness.

The Annual Report has been reviewed as applicable by the Board of Directors, Board Audit Committee of the Company, Independent Auditors and the Management Committee.

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 2021.

Management discussion and analysis appearing from pages 22 to 40 identifies the activities and operations of the Company while providing a review of the Company's performance.

The Financial Statements and the related notes of the Company appearing from pages 79 to 126 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, Charted Accountants.

Standards, Principles and Frameworks

Regulatory Compliances	Voluntary Compliances
➲ The Companies Act No.7 of 2007 and regulations	➲ Code of Best Practice on Corporate Governance (2013)
➲ Listing Rules of the Colombo Stock Exchange (CSE)	➲ UK Corporate Governance Code
➲ Sri Lanka Financial Accounting and Reporting Standards (SLFRSs/LKASs)	➲ GRI Standards issued by the Global Sustainability Standards Board (GSSB)
➲ Code of Best Practices on Related Party Transactions (2013)	

For inquiries about this report, please contact:

Ms. K. D. Weerasinghe
Chief Financial Officer
Tea Smallholder Factories PLC
No. 4, Leyden Bastian Road,
Colombo 1.
E-mail: devika@keells.com

ABOUT US

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 region / areas of Galle, Ratnapura and Ginigathhena. 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 2020/2021 purchased green leaf from a supplier base of over eleven thousand five hundred (11,500), which is approximately 2.88 percent of the total tea small holders registered in the low grown region of Sri Lanka.

Galle

4

Factories

4,529

Small Holder Suppliers

Neluwa Tea Factory

883,000

Annual Production Capacity (kg)

1,586

Registered green leaf suppliers

Low Grown Orthodox

Type of manufacture

Halwitigala Tea Factory

888,000

Annual Production Capacity (kg)

1,045

Registered green leaf suppliers

Low Grown Orthodox

Type of manufacture

Hingalgoda Tea Factory

1,075,000

Annual Production Capacity (kg)

1,009

Registered green leaf suppliers

Low Grown Orthodox and CTC

Type of manufacture

Kurupanawa Tea Factory

888,000

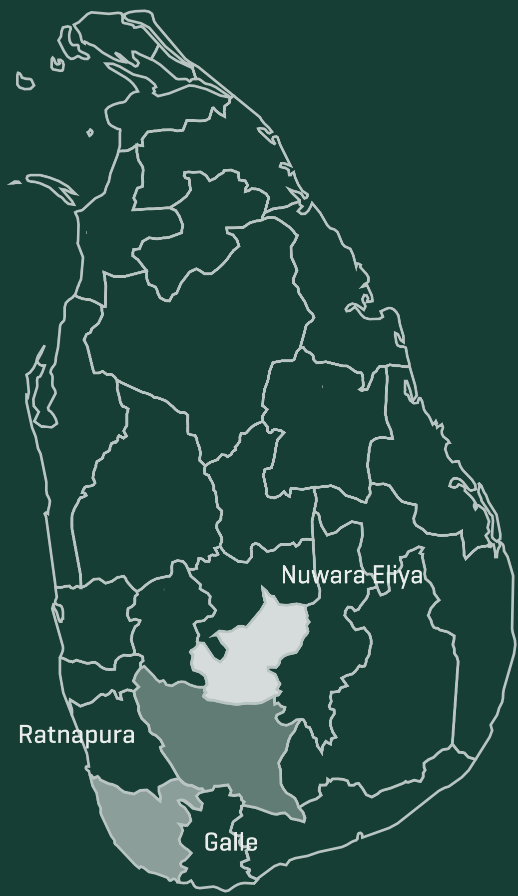
Annual Production Capacity (kg)

889

Registered green leaf suppliers

Low Grown Orthodox

Type of manufacture



Ratnapura

2

Factories

2,997

Small Holder Suppliers

New Panawenna Tea Factory

1,115,000

Annual Production Capacity (kg)

1,642

Registered green leaf suppliers

Low Grown Orthodox

Type of manufacture

Karawita Tea Factory

1,294,000

Annual Production Capacity (kg)

1,355

Registered green leaf suppliers

Nuwara Eliya

1

Factory

4,000

Small Holder Suppliers

Broadlands Tea Factory

952,000

Annual Production Capacity (kg)

4,000

Registered green leaf suppliers

MILESTONES

1991

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.

1994

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.

1996

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

1999

Construction of a new automated tea factory.

2000

Construction of a Warehouse at Peliyagoda.

2003

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

2006

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.

2008

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.

2010

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

2011

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

2012

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

2015

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".

2016

The Company achieved 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.

2017

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.

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.

2019

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.

2020

The Company invested on a new CTC line at Neluwa Tea Factory

PERFORMANCE HIGHLIGHTS

Financial Highlights		2021	2020	2019
Key Performance Indicators				
Production	Kg. '000	3,631	3,438	3,751
Net Sale Average	Rs. / kg	664.54	578.93	582.62
Premium over Low Grown Elevation Average	%	0.89	2.69	0.85
Result of the Year				
Revenue from Contracts with Customers *	Rs.000s	2,346,224	2,109,139	2,171,257
Profit Before Tax (PBT) *	Rs.000s	78,589	30,938	37,830
Profit After Tax (PAT)	Rs.000s	66,544	104,086	51,318
Earnings per Share (EPS) *	Rs.	2.22	3.47	1.71
Dividend Paid	Rs.000s	45,000	51,000	60,000
Return on Assets	%	3.9	6.3	3.0
EPS Growth	%	(36)	103	(79)
Price Earning Ratio	times	18.5	5.5	14.1
Interest Cover	times	998.2	8.4	9.1
Pre-tax Return on Capital Employed (Pre-tax ROCE)	%	5.5	2.6	3.3
Return on Equity (ROE)	%	4.6	7.7	4.0
* Includes Discontinued Operation				
Financial Position at the Year End				
Total Assets	Rs.000s	1,771,314	1,644,202	1,699,444
Total Equity	Rs.000s	1,447,724	1,418,885	1,296,480
Net Current Assets	Rs.000s	338,495	293,749	338,063
Current Liabilities	Rs.000s	178,526	90,008	177,008
Non Current Liabilities	Rs.000s	145,064	135,309	225,956
Capital Employed	Rs.000s	1,447,724	1,419,388	1,300,510
Market / Shareholder Information				
No. of Shares in Issue	000s	30,000	30,000	30,000
Net Assets per Share	Rs.	48.26	47.30	43.22
Market Price per Share - End March	Rs.	41.00	19.10	24.10
Debt / Equity	times	0.00	0.00	0.00
Market Capitalisaion	Rs.000s	1,230,000	573,000	723,000
Annual Turnover Growth	%	11.24	(2.86)	(18.97)
Current Ratio	times	2.90	4.26	2.91
Quick Asset Ratio	times	1.48	2.24	1.22
Gross Turnover per Employee	Rs.	4,730	3,700	3,843
Dividend per Share	Rs.	1.50	1.70	2.00
Dividend Payout	%	67.6	49.0	116.9
Dividend Yield	%	3.7	8.9	8.3
Market Value Added	Rs.000s	(217,722)	(845,885)	(573,479)

Water Consumption

10,436 m^3

2020 - 11,553 m^3

Green Leaf

17.71 Mn kg

2020 - 16.79 Mn Kg

Total Workforce

496

2020 - 570

Energy Intensity
(GJ/ MT of production)

9.66

2020 - 9.95

PBT

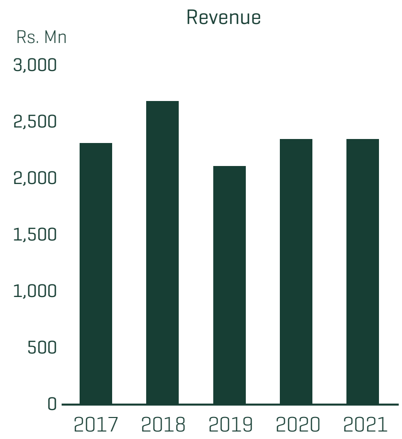
Rs. 78.59 Mn

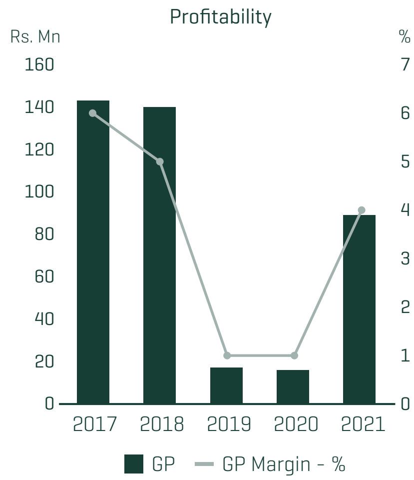
2020 - Rs. 30.94 Mn

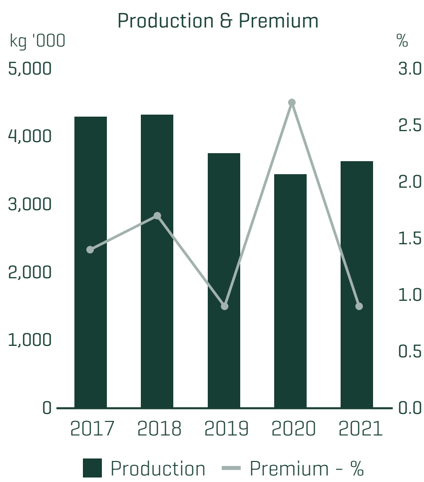
Net cash generated from operations

Rs. 134.25 Mn

2020 - Rs. 115.83 Mn







YEAR AT A GLANCE

APRIL

- Lockdowns due to COVID-19 pandemic continued and the Company continued operations under strict health and safety guidelines
- The online tea auction commenced on 04th April 2020
- The low grown average reached an all-time high of Rs.775.30 per Kg and TSF achieved an all-time high sale average of Rs. 852.47 per Kg of made tea
- Low grown production declined by 1.27 Mn kg Year-on-Year (YoY)
- Replanting project VIII commenced with the participation of 30 small holders covering 20 acres
- A sterilization programme was held at Hiniduma base hospital and public area for the prevention of COVID-19 spread
- Factories achieved 8 top prices at the auction

MAY

- Low Grown Production declined by 4.71 Mn kg YoY
- Personal Protection Equipment's (PPE) were distributed among Doctors and PHI's
- Factories achieved 8 top prices at the auction

JUNE

- Low Grown market normalizes and reduces to Rs. 672.16 per kg
- Low Grown Production declines by 1.30 Mn kg YoY
- TSF production declines by 92,556 kg in the 1st quarter compared to 2019/20
- Fertiliser stocks and supply were limited as the government imposed quotas for the importation of the fertiliser
- Factories achieved 9 top prices at the auction

JULY

- 13 cataract operations were completed out of 41 patients identified in the eye camp held on 13th March 2020 at New Panawenna factory
- Factories achieved 7 top prices at the auction

AUGUST

- Low grown production declined by 2.56 Mn kg YoY
- Factories achieved 6 top prices at the auction

SEPTEMBER

- TSF production declines by 85,760 kg in the 2nd quarter compared to 2019/20
- Subsequent to the increase in import quotas by the government, supply of fertiliser improved. However, prices increased
- New Panawenna tea factory carried out a dengue prevention awareness programme for the benefit of small holders and villagers
- Factories achieved 11 top prices at the auction

OCTOBER

- Project on CTC machinery at Neluwa tea factory to commence dual tea manufacture of CTC and Orthodox teas commenced
- 30 Kumbuk saplings were distributed among 28 small holders by Neluwa tea factory in collaboration with JKH group sustainability division
- Factories achieved 10 top prices at the auction

NOVEMBER

- COVID-19 awareness programme was held at Thawalama
- Factories achieved 8 top prices at the auction

DECEMBER

- Sri Lanka's tea production for the calendar year 2020 was 278 Mn kg with a YoY decline of 23.95 Mn kg. A substantial decline was observed from the low grown elevation, which reduced by 21.59 Mn kg YoY
- Sri Lanka dropped to the 5th largest producer globally and was overtaken by Turkey who produced 280 Mn kg in 2020
- TSF production recorded an YoY increase of 68,627 kg for the 3rd Quarter
- Mr. Jit Gunaratne - Director and President Plantations Services Sector retired and Mr. Zafir Hashim appointed as – Director/Sector Head Plantations Services Sector
- A blood donation camp was arranged by the Halwitigala Tea Factory
- Factories achieved 9 top prices at the auction

JANUARY

- A COVID-19 awareness programme was held for the benefit of the village community
- Factories achieved 9 top prices at the auction

FEBRUARY

- A sterilization programme was carried out at Hiniduma base hospital and public areas for the prevention of COVID-19 spread
- Factories achieved 9 top prices at the auction

March

- The 4th Quarter low grown production recorded an YoY growth of 15.05 Mn kg
- Low Grown Production for 2020/2021 reached 183 Mn kg with a YoY increase of 9.73 Mn kg
- TSF achieved a production of 3.63 Mn kg for the year with an YoY increase of 0.19 Mn kg
- Broadlands tea factory achieved a production of 1,035,229 kg for the year 2020/21
- CTC machinery installation at Neluwa tea factory was completed
- A sterilization programme was carried out in Handurukanda primary school for the prevention of COVID-19 spread
- Factories achieved 11 top prices at the auction

CHAIRMAN'S REVIEW

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 (TSF PLC) for the year ended 31st March 2021.

The financial year 2020/21 commenced on a restrained note given the unprecedented impact of the COVID-19 pandemic. Operating within this environment required embracing new work norms and implementing precautionary health and safety measures to safeguard people's health while continuing business operations. However, your Company proved resilient during this time supported by all stakeholders, enabling the achievement of goals.

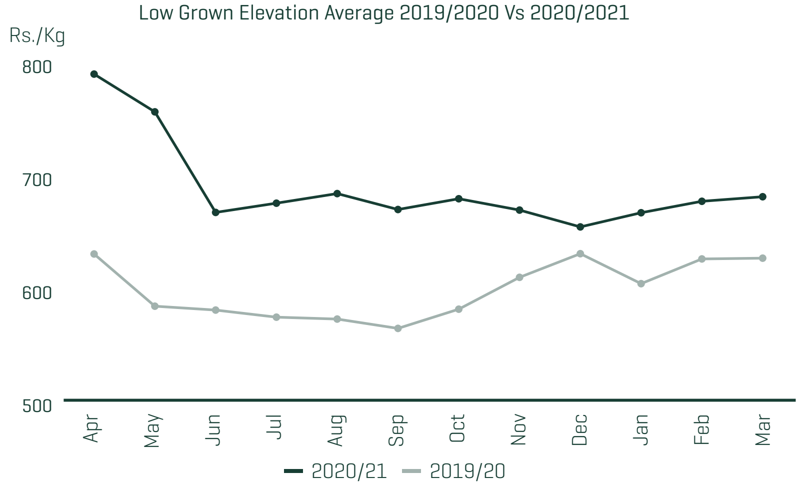
The government's recognition of the tea industry as essential to maintain economic stability enabled TSF to continue operations in our factories with strict adherence to health and safety guidelines. The high prices achieved by low grown teas had a positive impact on our bottom-line and resulted in TSF teas recording higher than expected averages. These positives were supported by the Company's continuous efforts to implement cost-saving initiatives and enhance process efficiencies in our operations.

Overview of the Sri Lankan Tea Industry

The Sri Lankan tea industry continued to be impacted by severe drought conditions experienced in the early part of 2020. This situation resulted in a drop in production across all elevations with total tea production reducing by 23.95 million kilograms to 276.02 million kilograms for the calendar year 2020 compared to the previous year. Furthermore, the insufficient fertiliser supplies available to tea growers worsened the situation and raised concerns about maintaining the quality of teas produced. The low grown teas recorded the highest year-on-year decline, with production falling by 11% to 169.76 million kilograms during 2020 compared to the 189.91 million kilograms produced in 2019. Resultantly, Sri Lanka dropped to fifth place in the global tea producers ranking list for the first time in history.

Conversely, the lower volumes of tea on offer had a positive impact on auction average prices across all elevations, with Ceylon Tea prices remaining stable throughout 2020. Low grown tea average for 2020 was Rs. 666.32 with prices ranging from Rs. 625.78 per kilogram to Rs. 744.52 per kilogram, while High Grown tea averaged at Rs.580.90 with prices ranging from Rs. 533.68 per kilogram to Rs. 645.41 per kilogram and the Medium Grown average for 2020 was Rs. 553.94 with the prices ranging from Rs. 494.62 per kilogram to Rs. 612.72 per kilogram.

Low Grown Elevation Average 2019/2020 Vs 2020/2021



Though the COVID -19 pandemic resulted in many challenges, the timely implementation of the Online Digital Tea Auction system in April 2020, an initiative by the Colombo Tea Traders Association (CTTA) and the Colombo Brokers Association (CBA), enabled Sri Lanka to become the first tea exporting country to resume tea auctions in the pandemic environment. Resultantly, the Sri Lankan tea trade faced interruptions for a mere two weeks, with the online digital auction system being continually improved upon for the weekly tea auctions to be conducted successfully. The industry wide acceptance of the online auction system will ensure minimal interruption and enable the tea industry to function seamlessly as it navigates through the current outbreak.

From an export perspective, volumes declined by 27.1 million kilograms in 2020 compared to 2019, primarily due to the lower production volumes, though fluctuating demand conditions driven by depreciating currencies of key importing nations also contributed to the decline. Thus, despite the increase in auction average prices, export revenue recorded a decrease, earning Rs. 230.1 billion in 2020 compared to Rs. 240.6 billion in 2019. The FOB value, however, achieved a year-on-year increase at Rs. 866.70 per kilogram. Sanctions as well as political and economic instability in key tea importing countries of Ceylon Tea also impacted tea exports. It is worth noting that Turkey emerged as the highest importer of Ceylon Tea in 2020 followed by Iraq, Russia, Iran, China, and Azerbaijan. Export volumes to these major destinations were, lower compared to 2019, except for Russia and China who recorded year-on-year volume increases by 0.54 million kilograms and 2.25 million kilograms, respectively.

Overview of Company Operations

The financial year ended 31st March 2021 has been a year of mixed results for the tea industry and resultantly, the Company. The decline in low grown elevation tea

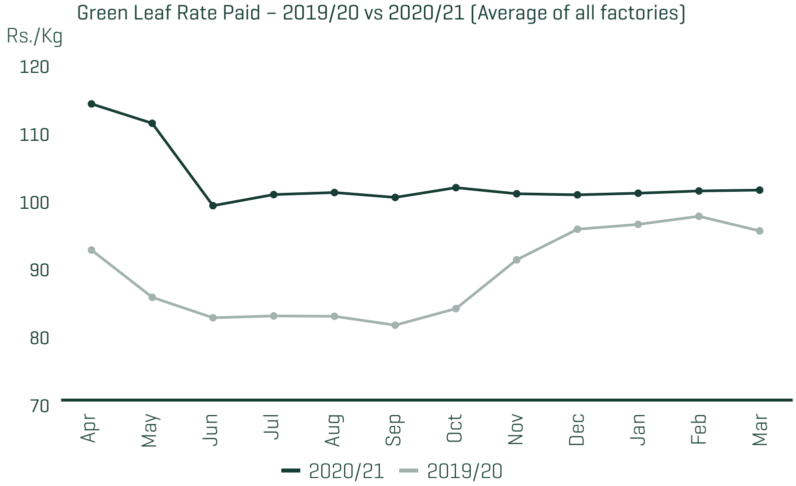
leaf production impacted the Company's planned production levels, resulting in lower volumes being achieved for most of the year under review. However, the fourth quarter production recorded significant improvement with production levels exceeding that achieved in the same quarter in the previous financial year. This helped the Company record an overall increase in tea production by 5.60% to 3.63 million kilograms in the financial year 2020/21 compared to 3.44 million kilograms achieved in the previous financial year.

To manage the quality issues experienced across the tea industry, TSF focused on obtaining quality green leaf directly from small holder suppliers where possible, reducing reliance on bulk collectors with substandard green leaf supplies. This also supported the tea small holders to maintain the quality of their teas, while encouraging their participation in the industry.

The Company procured 17.71 million kilograms of green leaf from 9,451 direct suppliers and 2,075 indirect suppliers, totalling 11,526 small holders during the year under review. The total payment to green leaf suppliers amounted to Rs. 1.81 billion in the year under review. The highest rate paid for green leaf was from Hingalgoda Tea Factory at Rs. 114.85 per kilogram while the average price paid for green leaf during the year under review was Rs. 102.45 per kilogram.

The road has not always been a smooth journey, but we endured a multitude of challenges to achieve a commendable performance. ”

Green Leaf Rate Paid – 2019/20 vs 2020/21 (Average of all factories)



CHAIRMAN'S REVIEW

Overview of Financial Performance
The increase in volumes available for sale together with the significantly improved tea prices resulted in the Company's revenue recording an increase of 11.24% to Rs. 2.34 billion compared to the previous financial year.

Managing operating costs continues to be a key area of focus for TSF. The Company has actively reinvented processes and systems to control costs while outsourcing non-essential services for better cost administration. While the stringent monitoring of staff and labour costs as well as other overheads enabled the Company to optimise on the cost of production, the increase in wage rates gazetted by the government in March 2021, resulted in increasing the labour costs by 47%.

The Company's collective efforts enabled TSF to record a profit before tax of Rs. 78.58 million compared to a profit before tax of Rs. 30.94 million recorded in the previous year. Fair value loss on investment property for the year amounted to Rs. 2.37 million compared to a gain of Rs. 39.30 million recorded in the previous year.

Managing Operations in a COVID-19 Impacted Environment
The COVID-19 pandemic resulted in unprecedented challenges for the tea industry during the year under review. The government's identification of tea as an essential service however supported all stakeholders attached to the industry to continue business operations without significant interruptions. Careful planning and oversight enabled TSF to adapt as the situation evolved, whilst managing liquidity and financing which is of pivotal importance. Stringent health and safety protocols were implemented across the business including random PCR testing for our staff and workers. The robustness of our Business Continuity Plan enabled the business to operate with minimal disruptions.

Commitment to Employees
Despite the many challenges and uncertainties which prevailed during the year under review, the Company maintained its commitment to employees and ensured their health and safety while at work. Moreover, in line with the JK Group, an "Agile Work Policy" was rolled out to employees whose roles enabled them to work from home.

Continued Support to Tea Small Holder Partners
The Company continued to support our tea small holders during the year under review through multiple initiatives to lessen the impact of the operating uncertainties. TSF continued with the extension services and began a ninth replanting project comprising of 20 acres, in the year under review. The replanting projects which commenced in previous years have progressed according to plan. This initiative encompasses a total of 226 acres of land and involves 326 small holders who have continued to thrive over the years. The seventh project which commenced planting operations in April 2020 progressed according to plan despite the impact of the COVID-19 pandemic on business activities. This project has now completed planting and is at the first-year upkeep stage. The eighth project consisting of 22 acres involving 30 small holders completed the rehabilitation stage with planting expected to commence in May 2021. Another project comprising of 20 acres has been identified for re-planting with rehabilitation expected to be completed towards the end of 2022.

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. During the financial year ended 2020/2021, a total of 74,655 tea plants have been infilled at 105 small holder blocks with the expectation of positive results in the forthcoming year.

A significant focus for TSF during the year under review was on building customer loyalty. The Company introduced a loyalty programme for our tea small holders with the aim of increasing the quality of leaf supply.

The disruptions in fertiliser supplies caused small holders some concerns in the year under review. Hence, TSF assisted our small holder suppliers by providing an adequate supply of fertiliser despite restrictions by fertiliser companies. We have been able to support 11,526 small holders during the year under review.

Commitment to the Community
The Company continued to support the community through Corporate Social Responsibility (CSR) programs which revolved around the COVID-19 pandemic. Efforts were targeted towards increasing awareness of the impact of COVID-19 and assisting small holder suppliers and surrounding communities to adopt best practices to safeguard their health and curtail the spread of the virus. TSF executed several projects such as the sanitisation of public areas, hospitals, and schools; and also provided personal protective equipment (PPE's) to hospital employees and Public Health Inspectors (PHI's). Full details are given on page 34 of this Annual Report.

The Way Forward
Whilst the ongoing outbreak of COVID-19 cases in the country is expected to create disruptions, the Company will leverage on the learnings and experiences from the previous outbreaks to proactively roll-out measures as the situation evolves to ensure minimal disruption to the supply chain. Although it is too premature to ascertain the full impact of the current outbreak, restrictions on inter-provincial

travel and increasing cases within the country may create disruptions in the transportation of processed leaf. Despite such headwinds, the business expects the industry to remain resilient with steady tea prices and an improvement in production. TSF will also continue to take all measures to operate its factories, in adherence to stringent health and safety protocols and social distancing measures while placing continuous focus on the health and safety of the employees.

Moreover, the timely conversion of the traditional tea auctions onto an electronic platform in April 2020 and the continuation of the tea auctions through this platform to-date, will ensure minimal interruption and enable the tea industry to function seamlessly as it navigates through the current outbreak.

Managing operating costs, while improving productivity will be a key priority for both the industry and the Company in the coming years. While the Company is cognisant of the need for rewarding workers, the mandatory wage increase effected by the government effective March 5, 2021, will have a material impact on costs.

The Sri Lankan tea industry outlook for 2021 remains positive though industry players anticipate continued challenges in terms of production, quality, price and costs. The shortfall in production in 2020 will be carried forward and impact both available volumes for sale and auction prices in the short term. However, the steady prices obtained for Ceylon Tea due to its overall superior quality and standing in the global tea industry are expected to continue and will be further supported by anticipated increases in local production levels in 2021.

Demand for tea is expected to gain traction on the back of an increase in tea drinking trends globally and a global recovery fuelled by strengthening currencies in major tea drinking nations and steady oil prices. Growing demand for low grown tea from traditional markets in the Middle East and Russia and new demand from emerging tea-drinking countries such as Germany and the US is expected to augur well for Sri Lanka. Conversely reduction in oil prices or devaluation of currencies may exert pressure on demand, adversely affecting the industry as a whole. Moreover, adverse and increasingly unpredictable weather conditions on account of climate change and significant competition from other tea-producing nations such as Kenya, India and China remain as key challenges for the business.

As such strategic priorities for TSF PLC for the medium term would focus on placing emphasis on the quality of its products while also diversifying its manufacturing mix to meet market trends and mitigate risks, cost optimisation and improving factory utilisation and maintaining its reputation as a high-quality producer to the market, while exploring opportunities to cater to high value market segments.

Acknowledgments
I take this opportunity to thank my colleagues on the Board for their support and guidance in a volatile year. I would also like to extend my gratitude to the Company's management team, and all staff for uniting as a team to overcome the many challenges and unforeseen events that took place in 2020. I place on record my sincere appreciation to Mr. Jit Gunaratne who resigned from the Board of Directors of the Company with effect from 31st December 2020 upon his retirement from the John Keells Group all his support and guidance over the years. I also take this opportunity to welcome Mr. Zafir Hashim to the Board of Directors of the Company effective 01st January 2021. On behalf of the Board, I would like to acknowledge all our small holder suppliers, buyers, brokers, bankers, shareholders and all other stakeholders for their continued trust and loyalty.

Krishan Balendra

K. N. J. Balendra
Chairman

21st May 2021

BOARD OF DIRECTORS

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

Board Sub-Committees:
Member of Nominations Committee and Project Risk Assessment Committee of John Keells Holdings PLC.

Skills and Experience:
Krishan Balendra is the Chairman of John Keells Holdings PLC. He is a former Chairman of Nations Trust Bank and the Colombo Stock Exchange. He started his career at UBS Warburg, Hong Kong, in investment banking, focusing primarily on equity capital markets. He holds a law degree (LLB) from the University of London and an MBA from INSEAD.

Other Current Appointments:
Listed Companies:
Chairman of John Keells Holding PLC and Chairman of many listed companies in the John Keells Group.

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

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

Board Sub-Committees:
Member of Project Risk Assessment Committee of John Keells Holdings PLC.

Skills and Experience:
Gihan Cooray is the Deputy Chairman/Group Finance Director and has overall responsibility for the Group's Finance and Accounting, Taxation, Corporate Finance and Strategy, Treasury, Information Technology function and John Keells Research. He holds an MBA from the Jesse H. Jones Graduate School of Management at Rice University, Houston, Texas. He is a Fellow member of the Chartered Institute of Management Accountants, UK, a certified management accountant of the Institute of Certified Management Accountants, Australia and has a Diploma in Marketing from the Chartered Institute of Marketing, UK

Other Current Appointments:
Listed Companies:
He is the Chairman of Nations Trust Bank PLC and Director of many listed companies in the John Keells Group.

Others:
He is a Director of many unlisted companies in the John Keells Group.

ZAFIR HASHIM
Non Independent, Non Executive Director
(Member of the Board since 2021)

Board Sub-Committees:
None

Skills and Experience:
Zafir Hashim joined the Group in 2003, seconded to Lanka Marine Services where he served as CEO from 2005-2015. He has also served as a member of the Transportation Sector Committee from 2005. During the last 17 years he has held the position of CEO at John Keells Logistics Lanka Ltd for a brief period, and Mackinnon Mackenzie Shipping Co. Ltd., Mack International Freight (Pvt) Ltd and Mackinnons Travels (Pvt) Ltd. He holds an MSc in Chemical Engineering from the University of Birmingham (UK).

Other Current Appointments:
Listed Companies:
He is a Director of John Keells PLC

Others:
Sector Head of the Transportation and Plantation Services Industry groups.

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

Board Sub-Committees:
None

Skills and Experience:
Eranjith Wijenaike serves as the Managing Director of Central Finance Company PLC and has been a member of the Board since 1st April 1983. He holds a Bachelor's Degree in Commerce and a Postgraduate Diploma in Finance and Management.

Other Current Appointments:
Listed Companies:
He is the Director of Trans Asia Hotels PLC, Managing Director of Central Finance Company PLC, Director of Equity One PLC, Director of Equity Two PLC and Director of Central Industries PLC

BOARD OF DIRECTORS

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

Board Sub-Committees:
Member of the Board Audit Committee

Skills and Experience:
Arjuna Gunaratne serves as the Executive Director at Central Finance Company PLC. He is a fellow member of the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants of UK. He also served as the Chairman at Nations Trust Bank PLC

Other Current Appointments:
Listed Companies:
He is the Deputy Managing Director of Central Finance Company PLC and an Executive Director at Central Industries PLC

Others:
Director of many unlisted companies within the Central Finance Group

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

Board Sub-Committees:
Member of the Board Audit Committee

Skills and Experience:
Ananda Jayatilleke is a 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)). 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 also served on the Boards of Kegalle & Maskelliya Plantations PLC and Aviva Global Services (Pvt) Ltd. His vast experience also includes work in Zambia Consolidated Copper Mines and Pigott Maskew Ltd (Subsidiary of General Tire - South Africa).
He founded Latex Green Pvt Ltd a BOI company manufacturing Latex Mattresses for export and served as its CEO for 12 years

He is a 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.

Other Current Appointments:
Listed Companies:
He is a Non-Executive Director at Hayleys Fabric PLC and Unisyst Engineering PLC (Alufab) under the Hayleys Group.

SHANTHI KUMAR LALITH OBEYESEKERE
Independent, Non Executive Director
(Member of the Board since 2018)

Board Sub-Committees:
Member of the Board Audit Committee

Skills and Experience:
Lalith Obeyesekere functioned as the Chief Executive Officer of two RPCs over a period of 26 years since privatization of plantations and the formation of Regional Plantation Companies. He is a Fellow of the National Institute of Plantation Management in Sri Lanka and counting over 44 years' experience in the Industry. He is a past Chairman of the Planters' Association of Ceylon and the Plantation Services Group of the Employers Federation of Ceylon. He served as an elected member of the Ceylon Rubber Traders' Association and the Ceylon Tea Traders Association. He has also served on the Boards of Sri Lanka Tea Board, Tea Research Institute and Sri Lanka State Plantations Corporation

Other Current Appointments:
Listed Companies:
He serves as the Secretary General of the Planters' Association of Ceylon and is a Director of the National Institute of Plantation Management, Ceylon Tea Museum and the Plantation Housing Development Trust. He is also a member of the National Labour Advisory Council, Consultative Committee on Research of the Tea Research Board and a Council member of the Employers' Federation of Ceylon.

ARUNI GOONETILLEKE
Independent, Non-Executive Director
(Member of the Board since 2020)

Board Sub-Committees:
Chairperson of the Board Audit Committee

Skills and Experience:
Aruni Goonetilleke has over 25 years of experience in financial services in local and international banks. She has held the positions of Head of Corporate Banking at People's Bank, Head of Credit, Commercial Banking at Standard Chartered Bank, Singapore, Chief Risk Officer at Standard Chartered Bank, Sri Lanka and Senior Audit Manager, Group Audit at Standard Chartered Bank, Singapore. She holds a Masters in Law from the Harvard Law School, Harvard University, USA and a Bachelors in Law (Honours) from the Faculty of Law, University of Colombo.

Other Current Appointments:
Listed Companies:
She serves on the Boards of Hatton National Bank PLC, Sunshine Holdings PLC and Softlogic Finance PLC as a Non-Executive Director

Others:
Board of Trustees, The Overseas School of Colombo

MANAGEMENT TEAM

Senior Management

Harish Wanasinghe
Chief Executive Officer / Vice President

Devika Weerasinghe
Chief Financial Officer / Executive Vice President

Sanjaya Dissanayake
Head of Operations / Assistant Vice President

Riza Ahamed
Manager - Finance

Sudajith Devapriya
Manager-Engineer

Factory Managers

Sudath Nanayakkara
Superintendent-Neluwa Medagama Tea Factory

Arjun Perera
Superintendent-Halwitigala Tea Factory

Tharanga De Silva
Superintendent-Hingalgoda Tea Factory

Sumanasiri Liyanage
Senior Assistant Superintendent-Kurupanawa Tea Factory

Ajantha Weerasinghe
Superintendent-New Panawenna Tea Factory

Nilantha Weerasinghe
Superintendent- Broadlands Tea Factory

Lakshman Jayathilaka
Superintendent- Karawita Tea Factory

INFUSED WITH **QUALITY**

MANAGEMENT DISCUSSION & ANALYSIS

GLOBAL & SRI LANKAN ECONOMY OVERVIEW

Global Macroeconomic Review

Global macroeconomic growth in 2020 experienced a severe contraction mainly due to the outbreak of the COVID-19 pandemic. The International Monetary Fund (IMF) estimates this contraction at -3.3% in 2020, with emerging markets and developing economies (excluding China), experiencing cumulative per capita income losses equivalent to 20% of 2019 per capita GDP over 2020–22, compared to pre-pandemic projections. However, advanced economies are expected to experience lower levels of losses, at 11%. These low growth projections in GDP will result in a reversal in poverty reduction gains with 95 Mn people expected to have entered the ranks of the extreme poor in 2020, and 80 Mn more undernourished than before.

Most global economic activity reduced in 2020, as governments focused on the health crisis and curbing the spread of the disease. However, countries dependent on tourism were severely impacted as much of global travel came to a standstill. Output losses were also realised by countries reliant on commodity exports. Nations, where government policies did not strongly support the impact of the pandemic, suffered greatly, with greater uncertainties on overcoming the pandemic as the fiscal situation worsened thereby lowering the nations' ability to progress with requisite health care policy responses and safeguard people's livelihoods.

Today, the world has operated under a pandemic environment for one year, and uncertainties still abound. While efforts to manage the pandemic resulted in the ease of lockdowns and some recovery (at varying levels) in economic activity in many countries in 2020, the approvals given for COVID-19 vaccines together with the adoption of new methods of working further restored confidence for growth projections in 2021. However, while the global economy is predicted to grow at 6% in 2021 and a more moderate 4.4% in 2022, much is dependent on how the pandemic progresses, especially with the advent of new mutations of the virus requiring economies to slowdown activities and implement lockdown measures again. Global economic recoveries will also largely depend on the public's acceptance of the vaccine and the intensity of the deployment of the vaccination program. The varying levels of medical interventions, the health and death toll in different countries, and the policy support to aid recoveries will also impact global economic growth prospects in 2021 and beyond as the pandemic environment continues to impact economies globally.

Sri Lankan Macroeconomic Review

The Sri Lankan economy which has been facing slower growth in the last few years faced a reverberating setback in 2020 with the outbreak of the COVID-19 pandemic which impacted all aspects of economic activity and policies. Growth in 2019 which was reduced mainly due to the terror attacks did not see recovery in 2020, with the eruption of the pandemic and related measures to curb its spread to safeguard human lives, severely curbed economic activity, impacted business operations, and contracted growth in all economic sectors. The Government and Central Bank's interventions through extraordinary policy measures supported socioeconomic impact mitigation efforts on managing the effects of the pandemic. However, nationwide lockdowns and the intermittent isolation of areas as well as the global halt in travel and reduced economic activity impacted the growth of Sri Lanka's economy in 2020. Thus, Sri Lanka economic growth contracted by 3.6% on a year-on-year basis during 2020.

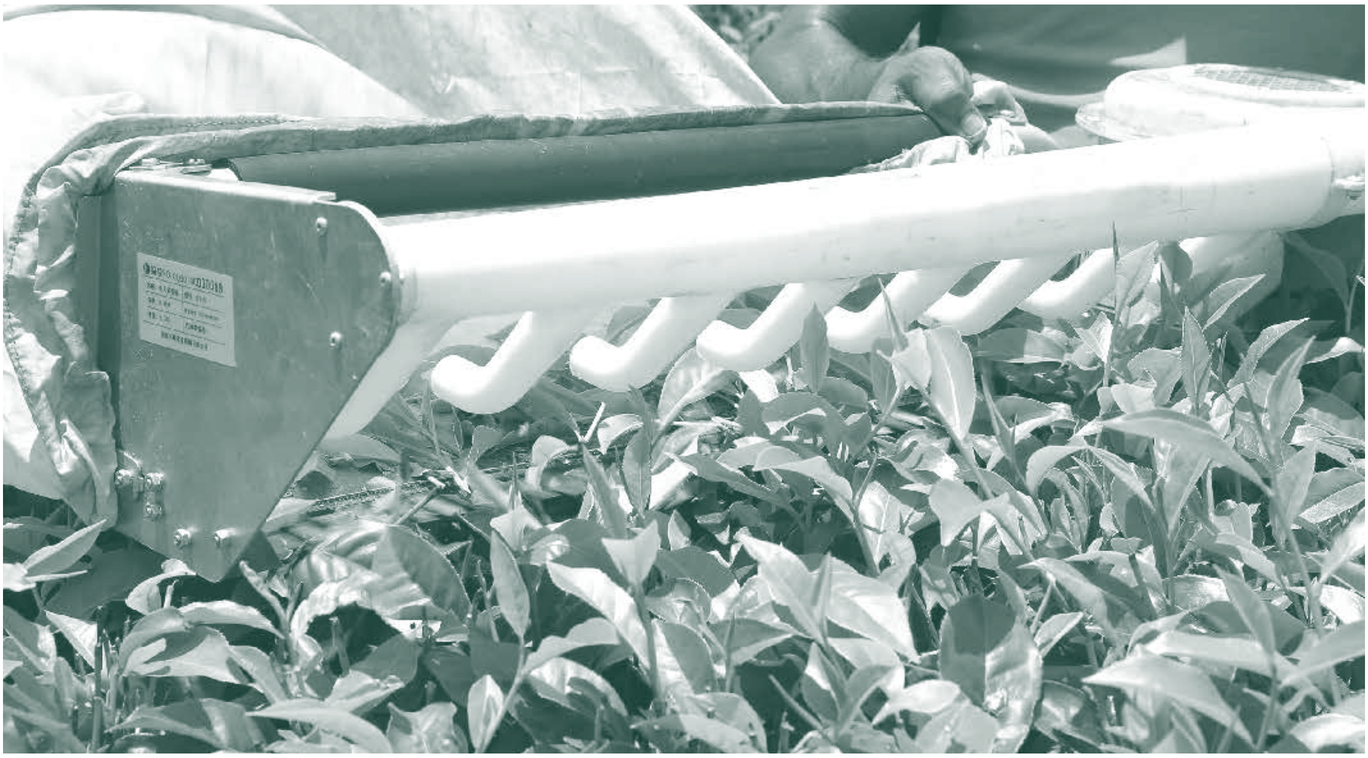
The drastic reduction in tourist arrivals in 2020 severely affected the travel and tourism industry, contracting the growth of the accommodation, food, and beverage service activities by 39.4% and the transportation services by 6.7%. However, the services sector growth contracted by only 1.5%, mainly due to the pandemic having a positive impact on some service sector activities such as information and communications activities which grew by 14.1%. The reduced activity in construction, manufacturing, mining, and quarrying activities resulted in contracting the industrial sector growth by 6.9%. The agricultural sector growth contracted by 2.4% driven mainly by the slowdown in the fishing industry.

The Gross Domestic Expenditure (GDE) remained stagnant in 2020 as opposed to the 3.8% growth achieved in 2019. The prevailing uncertainty on the recovery timeline of the pandemic resulted in reducing investment expenditure by 6.2% while consumption expenditure realised only a moderate 2.1% growth. The severe impact of the COVID-19 pandemic caused a weakening external demand resulting in a significant decline in the export of goods and services by 28.5%. However, government interventions to rationalise non-essential imports and encourage local industries to substitute imported goods and services resulted in a contraction of the import of goods and services by 21.8%. Thus, the net external demand at current prices contracted by only 3.5% in 2020.

The labour market with its structural issues and inequalities further weakened in 2020 as the pandemic caused the loss of jobs and incomes, mainly due to the falling participation by the female labour force and the decline in foreign employment. Thus, the unemployment rate increased to 5.5% in 2020, the highest recorded since 2009. However, the subdued demand and policy measures resulted in headline inflation being maintained at 4% to 6% during 2020, while core inflation remained low throughout 2020.

The Gross Domestic Product (GDP) at constant market prices also declined by 3.6% in 2020 recording only Rs. 9,530.6 Bn compared to Rs. 9,889.4 Bn with a growth of 2.3% in 2019. While the GDP at current market prices was estimated at Rs. 14,973.0 Bn (USD 80.7 Bn) in 2020, recording a decline of 0.3% compared to Rs. 15,013.0 Bn (USD 84.0 Bn) recorded in 2019. Together with the depreciation of the Sri Lankan rupee, the GDP per capita declined to USD 3,682 in 2020 compared to the USD 3,852 recorded in 2019. The pandemic also caused a decline in the overall size of the Sri Lankan economy to USD 80.7 Bn in 2020 from USD 84.0 Bn recorded in 2019.

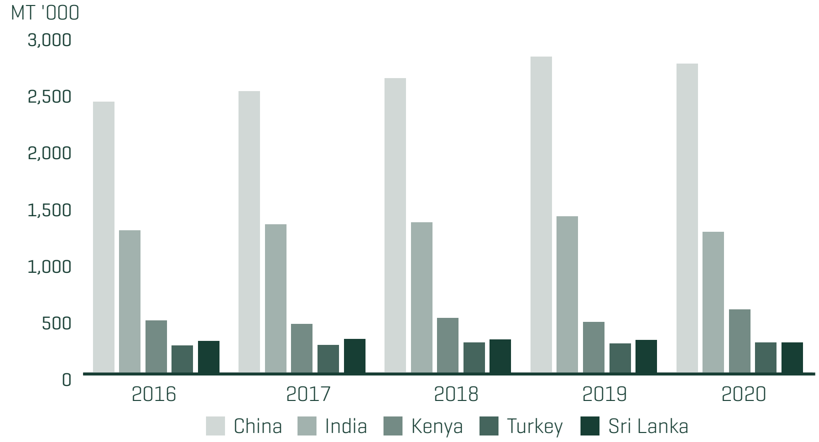
TEA INDUSTRY REVIEW



Global Tea Industry Overview

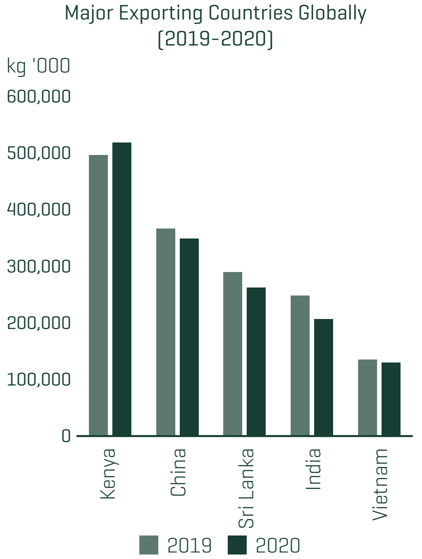
Global tea production decreased by 2.2% recording 6,012 Mn kgs compared to the 1.6% growth achieved in 2019 mainly due to unfavourable weather conditions and the impact of measures taken to curb the spread of the COVID-19 pandemic. Resultantly, most major tea-producing nations recorded lower levels of green leaf production compared to 2019. However, Kenya and Turkey were two nations that were opposite to this declining trend, recording an increased tea production in 2020. China, still the largest global tea producer, recorded a 2.12% fall in tea production to 2,740 Mn kgs, India retained second place with a production of 1,255 Mn kgs although recording a 9.65% drop compared to 2019. Kenya increased production by 24.12% to 569 Mn kgs in 2020 compared to 459 Mn kgs in 2019. For the first time in history, Sri Lanka fell by one place to be positioned as the fifth largest global producer of tea, recording a fall of 7.21% with a tea production of 278.4 Mn kgs. Turkey took fourth place in 2020 by increasing production by 4.55% to 280 Mn kgs.

Global Tea Production



Global tea export volumes also suffered a setback in 2020, due to lower production levels and mobility issues caused by the outbreak of the COVID-19 pandemic. Resultantly, total tea exports declined by 4% recording a total export volume of 1,824 Mn kgs in 2020 compared to 1,899 Mn kgs in 2019. The Asian region continued to lead as the largest tea exporters worldwide, although declining export volumes impacted most tea exporting nations. Kenya retained the position as the largest global tea exporter and was the only country to record increasing export volumes in 2020. Total exports of Kenya increased by 4% to 518.9 Mn kgs in 2020 compared to 496.8 Mn kgs exported in 2019. China retained its position as the leading Asian tea exporting nation coming in second place globally, recording an export volume of 348.81 Mn kgs in 2020 despite a fall of 4.84% compared to 2019. Sri Lanka continues to hold the position of the third largest global tea exporter with a volume of 262.72 Mn kgs despite a decline in export volume of 9.27% compared to 2019.

TEA INDUSTRY REVIEW



Maintaining the continuity of operations in the global tea auctions in 2020 was challenging due to the measures adopted by worldwide governments to curb the spread of COVID-19. Resultantly, most tea auctions ceased operations for extended periods. However, the implementation of an online digital tea auction system by the Colombo Tea Auction and the Mombasa Tea Auction proved advantageous as they resumed operations with only a short interruption. Auction prices also reflected these difficulties, and together with the impact from lower volumes available for sale due to declining production volumes, global tea prices considerably increased during 2020. Reflecting the increasing global tea prices, the Kenyan tea average prices recorded a lower decline of 9.4% in 2020 compared to the decline of 14.2% recorded in 2019. Thus, teas at the Mombasa auctions sold at approximately USD 2.01 per kg in 2020. The Indian auction average prices recorded marginal increases in 2020 with the Kolkata auction recording the highest average price at USD 2.90 per kg, compared to the Guwahati and Siliguri auctions, both of which recorded prices above USD 2.50 per kg. The Colombo auction average prices remained elevated throughout 2020 achieving a growth of 15.36% to USD 3.4 (Rs. 628.21) per kg during 2020 compared to USD 3.04 (Rs. 544.54) per kg recorded in 2019.

Sri Lankan Tea Industry Overview

The Sri Lankan tea industry continued with the declining production trend in 2020 impacted by unfavourable weather patterns and the measures taken to control the spread of the COVID-19 across the country. Other factors including access to fertiliser by tea leaf producers, increasing production costs of Ceylon Tea, and the currency devaluations of key Ceylon Tea importing nations also continued to impact the industry. Another adverse development for the industry in 2020 was the reduction in export volumes which resulted in reducing the country's export earnings despite the higher prices achieved at the Colombo auctions. Overall, the tea industry performance was below par with expectations for 2021 being more optimistic.

A key development for the tea industry was the conversion of the tea auctions to the online Digital Tea Auction system. This development enabled the Colombo Auctions to resume operations on April 5th, 2020 with only a short two-week break. This proactive action by industry players also resulted in Sri Lanka becoming the first country in the global tea industry to convert to a modern system from the traditional outcry auctions which have been used for the last 150 years! Credit for this timely initiative goes to the Colombo Tea Traders Association (CTTA) and the Colombo Brokers Association (CBA) who worked with great constraints to implement a system which would benefit the Sri Lankan tea industry in the long run.

Tea Production

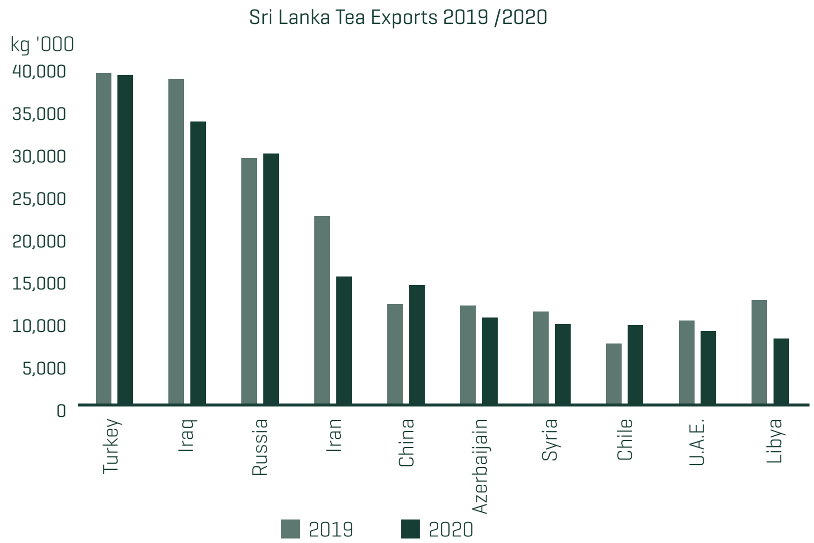
Tea production for 2020 recorded a 7.2% decrease to 278.4 Mn kgs compared to 300.1 Mn kgs in 2019. All tea elevations recorded decreasing production levels, although the low-grown elevation was the largest contributor with a decline of 10.64% recording a total production of only 169.70 Mn kgs compared to 189.9 Mn kgs in 2019. The high-grown and medium-grown teas, however, recorded marginal declines of 1.11% to 62.34 Mn kgs and 1.55% to 46.4 Mn kgs respectively compared to 2019. Sri Lanka's green tea production was severely impacted, recording a decline of 23.41% to 2 Mn kgs in 2020 compared to 2.64 Mn kgs in 2019.

Tea Exports

Sri Lanka's tea exports did not meet industry expectations in 2020 with export volumes recording a decline of 9.27% to 262.72 Mn kgs compared to 289.58 Mn kgs of tea exported in 2019. The shortfall in volumes exported was mainly due to the unavailability of tea for sale due to the lower production levels and the demand from tea importing nations, increased prices of Ceylon Tea at the auction. Lower volumes sold also impacted export earnings despite the higher prices achieved at the auction. Resultantly, export earnings declined by 4.4% recording a value of Rs. 230.1 Bn (USD 1.24 Bn) in 2020, compared to Rs. 240.6 Bn (USD 1.30 Bn) earned in 2019. The FOB value per kg of tea also increased in 2020 ranging between Rs. 818.86 (USD 4.42) to Rs. 902.29 (USD 4.88) for most part of the year.

The largest importer of Ceylon Tea was Turkey, despite a decline of 0.56% recorded in 2020 compared to 2019, total tea exports to Turkey amounted to 38.9 Mn kg in 2020 compared to 39.1 Mn kgs in 2019. Iraq, Russia, Iran, and China retained the second to fifth places, respectively, as the other largest importers of Ceylon Tea. Iraq and Iran also recorded declining import volumes in 2020, recording a fall of 13.10% and 32.05%, respectively. Russia's import volume increased marginally by 0.54 Mn kgs to 29.6 Mn kgs in 2020 compared to 29.07 kgs in 2019. China, however, increased import order volumes in 2020 by 18.98% to 14.12 Mn kgs compared to 11.9 Mn kgs in 2019. Chile, although placed eight in Sri Lanka's top 10 export nations, was another country that contributed to the export volumes of Ceylon Tea in 2020 by increasing order volumes by 30.25% compared to 2019.

Black orthodox tea continued to retain the largest share of the Ceylon Tea export market at 98.4% with a volume of 261.44 Mn kgs. Of these, black tea in bulk and



black tea packets equally shared the highest volumes amounting to 236.43 Mn kgs. Exports of black tea in bags marginally declined by 0.74 Mn kgs to record 22.18 Mn kgs in exports in 2020 compared to 2019. Instant tea and green tea also recorded marginal declines of 0.22 Mn kgs and 0.62 Mn kgs, respectively in export volumes in 2020, compared to 2019.

Tea Auction Prices

The Colombo Auctions fared well in 2020 compared to 2019 with all elevations of teas selling at higher average prices throughout the year. The average price of the high-grown elevation increased by 14.2% recording Rs. 580.90 (USD 3.13) per kg compared to 2019. The medium-grown elevation average price increased by 18.1% to Rs. 553.94 (USD 2.99) per kilogram, while the low-grown elevation average prices rose by 15.5% to Rs. 666.32 (USD 3.59) per kilogram in 2020 compared to 2019. Auction prices recorded the highest average prices between April to October 2020 ranging between Rs. 611.25 (USD 3.30) per kg to Rs. 689.18 (USD 3.72) per kg compared to 2019.

Key Industry Challenges

The Sri Lankan tea industry continued to face several challenges to operate at optimal levels during 2020. While the largest impact was from the outbreak of the COVID-19 pandemic, unpredictable weather patterns continued to afflict the industry's production levels, and the inconsistent availability of fertiliser in the first half of 2020 impacted the quality of the tea leaf. Increasing costs of production also remained a key concern for the industry impacting the local industry's performance and competitiveness within the global tea market. Other macroeconomic factors such as low economic activity, crude oil price movements, and the currency devaluations and political climate of key tea importing nations also obstructed industry performance in 2020.

COVID-19 Pandemic

The pandemic was largely an extraordinary event that impacted not only the tea industry but all global economic activity. The need to operate within strict health and safety guidelines together with difficulties in maintaining value chain activities due to lockdowns and limited access to transportation impacted industry operations. However, the industry's performance to date was also made possible due to the government of Sri Lanka recognising the tea sector as an essential service due to its contribution to the economy and export earnings of the country. The conversion of the traditional auctions to an online platform must also be credited for the limited interruption in industry operations.

Unpredictable Weather Patterns

Climate change continues to be a concern for the industry as changing weather patterns affect green leaf production processes and negatively impact optimal plantation operations. The industry will have to continue to monitor weather patterns and take a proactive and innovative approach to manage the impact of climate change.

Increasing Cost of Tea Production

Over the years, Ceylon Tea cost of production have been on the rise due to various factors. With prices of Ceylon Tea being higher in the global tea market, this trend continues to be a key concern for industry operators. The government's decision to mandate an increase in the minimum wage paid to plantation workers in March 2021 will exponentially increase costs of labour in the coming year. The industry, especially tea producers, will have to proactively implement cost control measures and be innovative in process efficiencies to minimise other costs of production and ensure the Ceylon Tea brand remains competitive in the global marketplace.

Currency Devaluations

The currency devaluations of key tea importing nations continue to be a concern as this impacts the purchasing power of these countries and is reflected in YoY order volumes. While order volumes in 2020 were impacted due to currency devaluations, other factors also played a role in reducing export orders. Turkey and Russia were the most affected by currency devaluations throughout 2020. The devaluation of the Sri Lankan rupee is also a concern, as this can have an added negative impact on the cost of production of Sri Lankan tea which has been rising in the last few years, making operating competitively in the global tea industry more difficult. Furthermore, the depreciating US dollar also impacted the industry as it had a cascading impact on linked currencies and impacted costs of production of tea in many producing nations.

OPERATIONS REVIEW

The financial year 2020/21 commenced ambiguously with the rapid spread of the COVID-19 pandemic across the world, causing economic activities to slow down and international travel to halt. Similar shocks were realised in Sri Lanka, with extended lockdowns and a full-stop in social interactions during the first phase of the pandemic which ended in May 2020. Operating within the tea industry, TSF was able to circumvent the total closure of operations in April and May 2020 due to the Government declaring the tea industry as an essential service. Thus, our factory operations and operations of small holder partners continued with special permission and the implementation of strict health and safety guidelines as mandated by the World Health Organisation (WHO) and the Sri Lankan health authorities.

Challenges continued to abound as the pandemic situation evolved throughout the year. Accordingly, TSF also faced difficulties in continuing business as usual, but with minimum interruptions due to the Company's proactive measures to safeguard employees and workers, as well as the support of all stakeholders across our value chain. Besides, the Company's operations were also impacted by changing weather patterns and the dearth of fertiliser supplies in the early part of the financial year. At a macro level, tea exports were affected by global developments such as the slowdown in economic activities, currency devaluation of key tea importing countries and other political sanctions together with the diverting of resources to manage the pandemic which negatively affected Company operations.

However, some positives were also recorded during the year under review which not only benefited TSF but the industry as a whole. These include the conversion of the traditional outcry auction to an online platform within two weeks of lockdown, the increase in auction average prices and FOB prices propelled by reduced tea volumes available for sale, and the continuing operations of the Sri Lankan tea industry unlike countries like India and Kenya, which enabled us to cater to our export customers. The increase in the production of teas from the low grown elevation from April 2020 to March 2021 also benefited TSF's performance during the year under review.

Performance Evaluation

The Company's made tea production increased by 192,459 kilograms to 3.63 Mn kg compared to 3.44 Mn kg produced in the previous financial year. The increase was mainly attributed to the increased low grown production during the period September 2020 to March 2021 combined with our efforts to purchase only better-quality tea leaf from small holders and to operate optimally amidst the challenges experienced in the year under review. Overall, TSF purchased 17.71 million kilograms of green leaf during the year under review, a 6% increase compared to the previous financial year. The highest rate paid for green leaf was from Hingalgoda tea factory at Rs. 114.85 per kilogram while the average price paid for green leaf during the year under review was Rs. 102.45 per kilogram.

Prices of low-grown elevation teas which increased due to the shortage of supply in the first nine months of 2020, had a positive impact on the Company's selling prices and revenue stream. Average market prices increased in the range of Rs. 657.50 per kilogram to Rs. 745.82 per kilogram throughout the year and contributed to increasing the Gross Sale Average of the Company by 15% for the financial year 2020/21. The Company's GSA for the year under review was Rs. 684.61 per kilogram of made tea compared to Rs. 595.16 per kg of made tea achieved in the previous financial year.

Despite the limitations faced due to COVID-19 all factories continued operations after implementing the requisite health and safety measures. TSF's Hingalgoda factory continued to be the leading achiever of top prices for CTC teas at the Colombo Tea Auction. A record 95 top prices were achieved by Hingalgoda factory throughout the year under review. Broadlands, Neluwa, Kurupanawa and Halwitigala factories were other noted top price achievers for the financial year ended 31st March 2021. Furthermore, Hingalgoda factory achieved two all-time record prices during the year. In line with the vision of JKH to innovate and raise the bar, the Company expanded the product portfolio by investing on CTC manufacture at Neluwa Tea Factory and the installation was completed by March 2021. The CTC manufacture will be commenced in the new financial year 2021/2022 and through the diversification of the product mix of CTC and Orthodox Black teas, the factory would be able to achieve higher prices which would enable the payment of attractive green leaf prices to the tea Small holder suppliers.

Key Business Challenges

The Company faced several operational challenges during the year under review, due to factors which emerged from the external environment. A significant challenge was the reduction of the production in the Low Grown Elevation which declined by 7.11 Mn kg (4.09%) compared to the previous financial year. The production of the Company was however higher YoY by 192,459 kilograms mainly due to increased production during the 4th quarter. The Company's experienced management team together with our focused approach in minimising risks and proactively planning for the unforeseen, enabled us to overcome these challenging factors and achieve our goals while creating value for our stakeholders.

Managing Production and Operational Costs

As in the past, cost on production and operations continued to impact our business operations. Accordingly, the Company focused on implementing cost management strategies to generate short and long term savings. Some of the measures implemented include, central purchasing of daily supplies, introduction of Total Productive Maintenance (TPM) methodology to reduce equipment and machinery maintenance costs, close monitoring and management of individual cost line items, outsourcing selected non-core services at the factories, and automation of selected manufacture processes to reduce labour costs. Furthermore, strategic investments in developing people, purchasing technologically advanced equipment and

OPERATIONS REVIEW

machinery, and process enhancements enacted from time to time have contributed to our cost control initiatives.

Increasing Labour Costs and Wage Rates

A critical part of cost management is the control of labour costs. However, the Company's decision to comply with the wage-rate increase to Rs. 1,000/- per day for a plantation worker mandated by the government with effect from March 5th, 2021, increased the Company's labour costs by 47% compared to cost incurred in March 2020, TSF accepted this wage increase in light of the difficult year faced by our workers.

Fertiliser Scarcity

The fertiliser scarcity was another issue for the Company and our small holder farmers in the year under review. The delay in fertiliser distribution due to reduced availability had a negative impact on the quality of crops resulting in challenges to manage the quality of made tea for sale at higher prices. In order to fulfil the demand of our small holder farmers, the Company was actively involved in negotiating and purchasing the required fertiliser on cash basis while providing the same on two month instalment basis to our small holders.

Maintaining Quality of Made Tea

Quality of made tea continued to be challenged as green leaf quality suffered due to the fluctuating weather conditions and the impact of fertiliser scarcity in the tea industry. To ensure our small holders would not be largely impacted, the Company ensured they received the necessary fertiliser to produce a high-quality crop. As six of the Company's factories are ISO 22000:2018 Food Safety Management Standards certified, the Company is well-positioned to foster a culture where tea is produced at the highest quality standards while maintaining high productivity and quality standards. With the aim of reducing post-harvest loss during green leaf transportation the Company introduced a certain type of nylon packing material to small holders during the third quarter of the Financial Year.

Occupational Health and Safety

Health and safety were key concerns in the year under review. The Company strictly followed the safety guidelines which were recommended by the WHO and the local government and considered health and safety across stakeholder groups - our workers, other suppliers, and distribution partners. The seven factories of TSF being certified with ISO 45001:2018 Occupational Health and Safety Standard was a great advantage during this time as we were in a position to put in place new and revised safety measures at short notice to offer workers a safe and healthy work environment.

Outlook

The Company will continue to face emerging challenges in the operating environment in the coming year. While the market outlook is more positive, the impact of COVID-19 remains unpredictable. At the time of writing this review, the Sri Lankan government re-instated several measures to control the third wave of the pandemic. While TSF's business will continue to operate, we will keep abreast of the latest developments as well as ensure our employees and workers remain safe. The wage rate increase will also have a significant impact in the forthcoming financial year. These factors are expected to increase production costs. Thus, tighter cost control measures will be a critical success factor in the future.

As climate change continues to impact the quality of the green leaf, and the volume produced, improved processes and proper application of fertiliser will remain important going forward. The industry as a whole, will have to develop methods for sustaining the Ceylon Tea brand globally while managing the cost of production to remain competitive in the global market.

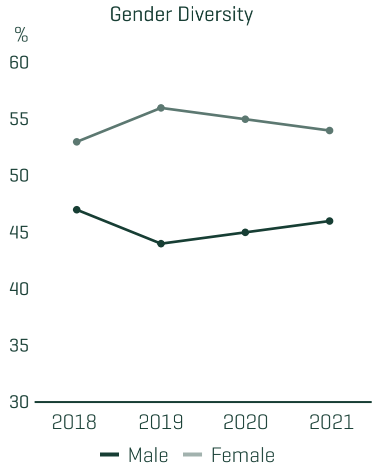
The online tea auctions are here to stay. Thus, all tea industry stakeholders, both local and global, will have to become more adept at using this system while the industry will need to continuously improve the online platform to satisfy the needs of buyers and sellers. Technology adoption will also play an important part, as the tea auction platform will have to adopt new and emerging technology which is rapidly changing.

TSF will continue to monitor the external environmental conditions and developments to proactively manage evolving situations and continue business operations with minimal interruptions. We will remain flexible in our plans to enable seamless changes aligned to unforeseen developments. Our business continuity plans will also provide ample guidance in this regard. The expertise and experience of our leadership team and management will be an added advantage for the Company as will the strength of our parent Company – John Keells Holdings PLC.

SUSTAINABILITY REPORT

Commitment to Sustainability

Adaptation of sustainability practices across the organization while embedding the same to our business strategy is a testament of our commitment to sustainability. Sustainability performance is measured, tracked and reported to the Management and the Group Sustainability team on a monthly basis.



Rain Forest Alliance Certification

No. of work-related fatalities

Nil

Total Employees

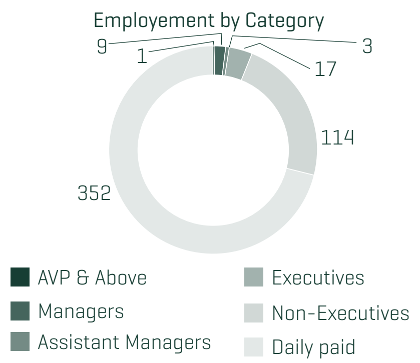
+496

A Motivated Team

Through the process of value creation, our team of 496 motivated employees have laid the foundation for the responsible and sustainable growth of the Company. 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. This has enabled the Company to successfully attract and retain talent with the correct skill sets, which is vital in the execution of our business strategy.

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. The Company has enforced a zero-tolerance policy on bribery and corruption. This has been reinforced with high levels of awareness, through internal communications and through orientation programs.

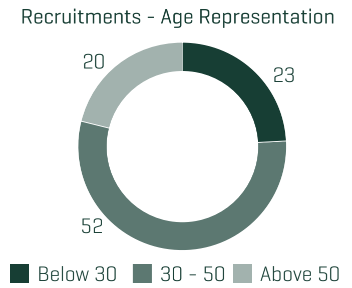
Team Profile

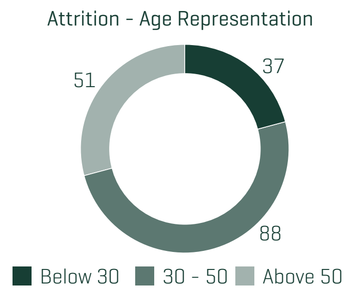


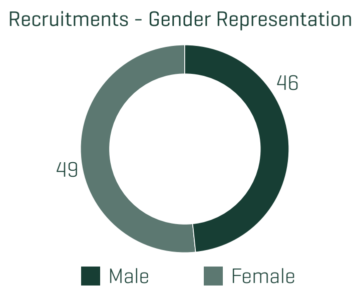
To add value to the local communities, we ensure that priority is given to the local talents around our factories. During the year under review, 95 employees were recruited out of which 90% were employed from the local communities.

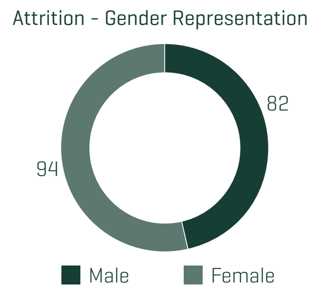
Age Breakdown based on Gender

	Male	Female	Total
Below 25	13	12	25
25 - 35	54	28	82
36 - 45	78	77	155
46 - 55	44	96	140
Above 55	37	57	94
Total	226	270	496









SUSTAINABILITY REPORT

Employee Engagement

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

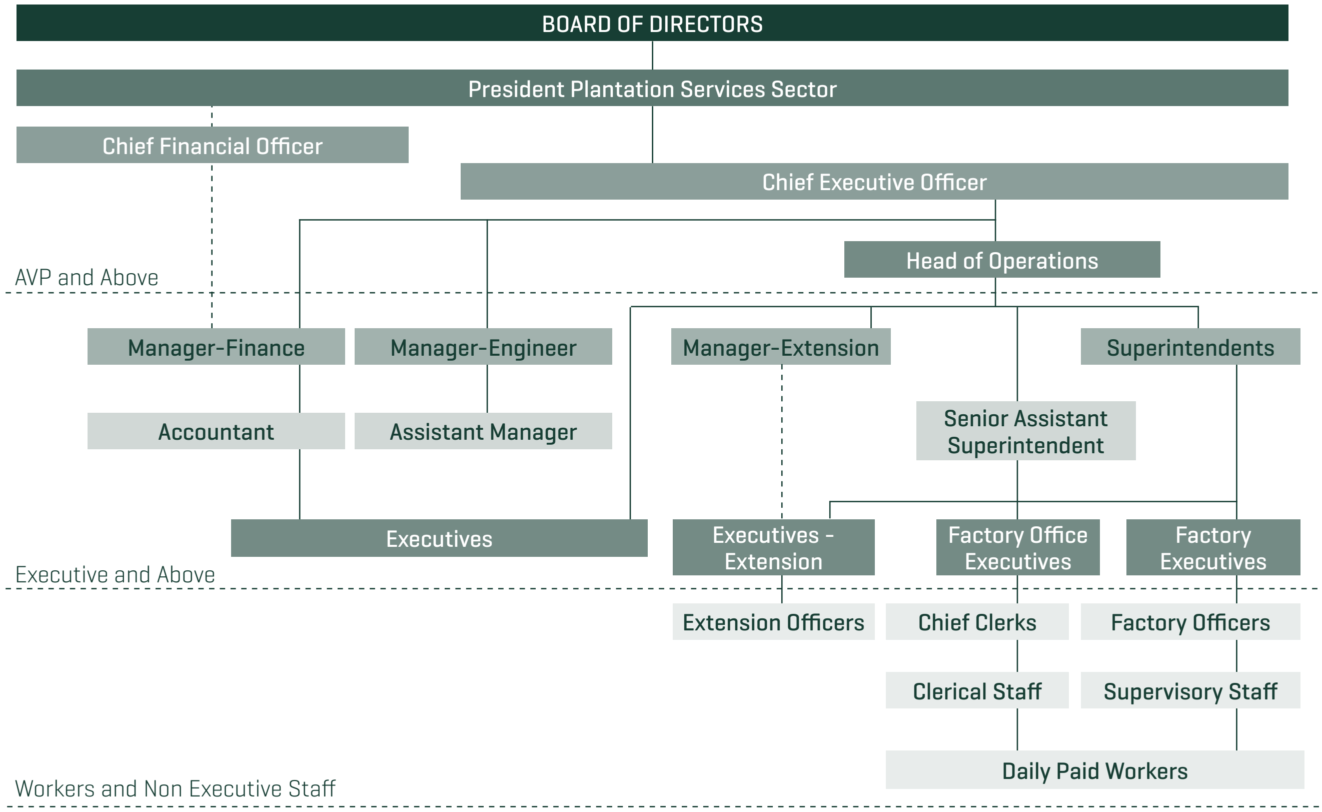
As a member of the John Keells Holdings (JKH) Group, the Company's employees have access to the Group's reward and recognition framework, which aims to keep employees motivated by recognising their contributions towards realising corporate goals and/or honouring their exemplary behaviour in upholding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

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.

Our Organizational Structure

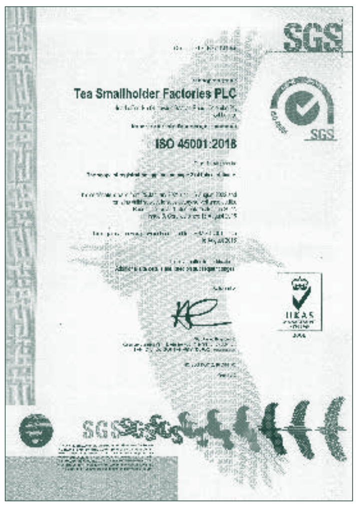


Strengthening Capabilities

No. of training hours	Avg. hours of training per employee	Training Coverage
4,913	9.91	+50%

We are focused on nurturing a culture of learning and growth through the stimulation of innovation. 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 4,913 man-hours was spent on employee training, in the areas of manufacturing, certifications health and safety and general awareness.

ISO 22000:2018 Food Safety Management Systems Certification



ISO 45001-2018 Occupational Health and Safety Management Systems Certification

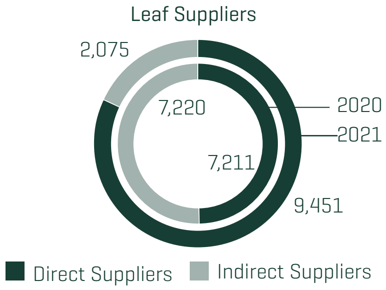
SUSTAINABILITY REPORT

Health & Safety

The Company's commitment towards workplace safety is operationalized through the application of globally accepted best practices as outlined by the ISO 45001:2018 Certification. Six factories of the Company have obtained the ISO 22000:2018 Food Safety Management Systems certification and this ensures that we produce teas which meet the highest quality standard. The Company operates "Rainforest Alliance Certified" factories and having this certification effectively means that the Company products were produced using methods that support the three pillars of sustainability: social, economic, and environmental.

Year	Rate of Injury	No. of Injuries	Occupational Diseases	Lost Days	Work Related Fatalities
2018	1.21%	7	Nil	159	Nil
2019	0.88%	5	Nil	56	Nil
2020	0.88%	5	Nil	238	Nil
2021	0.00%	Nil	Nil	Nil	Nil

Managing our Networks



No. of leaf suppliers

+11,000

Financial assistance extended

Rs. 17 Mn

Employee participation in CSR Activities

+78

Supply Chain

Our supplier network primarily consists of tea small holders, green leaf and produce transporters, fertiliser 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 11,000 small holders based in the Ruhunu and Sabaragamuwa tea growing regions of the country. Higher emphasis was placed on improving the direct supplier base and the Company succeeded by increasing its direct leaf supplier base from 7,211 in 2020 to 9,451 in 2021.

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 (GAP) 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.

Overview of Long-Term Programmes and Projects under Extension Services

Extension Service	Programme/Project Structure	Update 2020/21
Special Projects		
Development Assistance to Tea Small holders		
Launched in 2010, this is the Company's primary extension project aimed at encouraging small holders to rehabilitate and replant unproductive land.	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. Fertiliser mixtures are also offered at concessionary rates, as well as several high yielding, drought and pest resistant cultivars.	➲ Project 1, 2, 3 and 4 comprising of 147.25 acres with the participation of 213 small holders has been completed and harvesting of these lands are in progress ➲ Project 5 - comprising of 24.75 acres with the participation of 34 small holders. Planting has been completed. Currently this project is under the 2nd year upkeep. ➲ Project 6 – comprising of 28 acres with the participation of 38 small holders. Planting was completed during 2019. ➲ Project 7 - commenced in 2018/19, where 22 acres has been identified for replanting with the participation of 33 small holders. Planting was completed by end March 2021. ➲ Project 8 - commenced in 2020/21, where 22 acres has been identified for replanting with the participation of 30 small holders. Planting to be completed by March 2022.
Infilling Programme		
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.	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.	A total of 68,250 plants have been infilled at 95 smallholder blocks in 2020/21.
Soil Testing Services		
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.	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.	196 soil samples were tested and distributed 147.1 MTs of Dolomite towards correcting the PH values.
Crop Clinics		
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 fertiliser.	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.	37 mini crop clinics were conducted for 432 green leaf suppliers.

SUSTAINABILITY REPORT

Extension Service	Programme/Project Structure	Update 2020/21
Financial Assistance		
Launched in 2010, the aim is to support long-standing green leaf suppliers/ smallholders to develop their lands or expand their operations.	The Company provides financial assistance in the form of loans to rehabilitate their lands and purchase planting material whilst grants on fertiliser is given.	Replanting Loans granted for Rs. 1.40 Mn in 2020/21. Short Term Loans granted to Small holders Rs. 14.15 Mn. Infilling Loans Granted Rs. 1.65 Mn.

Community

The Company strive to contribute towards a positive environmental, social and economic change of the communities that we operate in by investing in their development and enhancing their quality of life. Furthermore, we consider it as our responsibility to nurture the wellbeing of these communities. During the year under review, the Company organised and implemented over 16 programmes which are directed at Environment, Health care, Disaster relief, etc.

New Panawenna Tea Factory organised a Health Camp at the factory premises

Distribution of Personal Protection Equipment's (PPE) among doctor and PHI's, organised by the Neluwa Tea Factory

Successfully hosted the Annual Blood Donation Campaign, organised by the Halwitigala Tea Factory

With the collaboration of the John Keells Foundation, 13 Nos cataract Operations completed out of 41 patients identified in the eye camp, organised by New Panawenna Tea Factory, held at Handurukanda

Sterilization of Hiniduma and Neluwa base Hospitals and public areas for the prevention of COVID-19 spreading, organised by Neluwa, Halwitigala and Hingalgoda Tea Factories

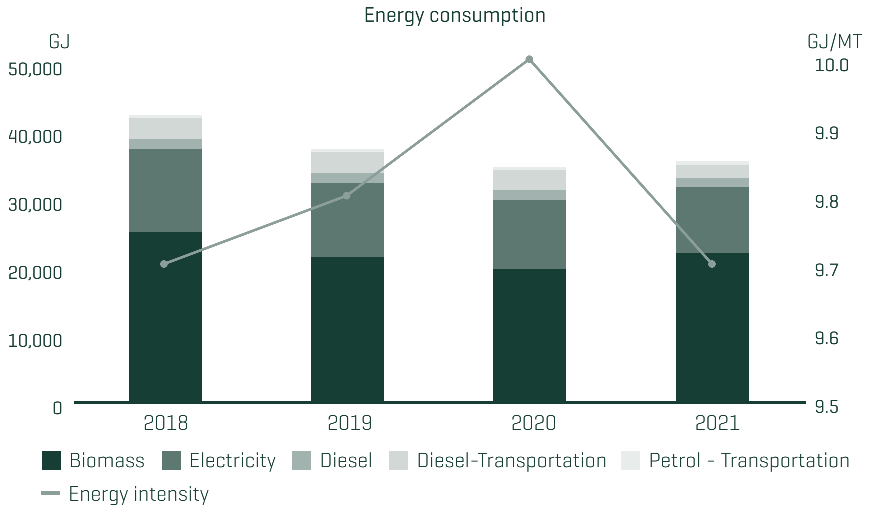
Sterilization of 5 school premises and classrooms for the prevention of COVID-19 spreading, organised by Neluwa, Hingalgoda, Kurupanawa, New Panawenna and Karawita Tea Factories

Engaging with the Environment

The Company's primary environmental footprint is as a result of the high energy usage on the tea manufacture which accounts to 27% of the Company's cost of manufacture. The main sources of energy utilized are electricity (national grid), biomass, diesel and petrol 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	2018	2019	2020	2021
Electricity from the National Grid	kWh	3,384,215	3,027,987	2,818,807	2,660,572
Biomass	Cubic metre	24,949	21,367	19,531	21,950
Diesel used for Generators	Litres	43,769	38,000	40,705	39,626
Diesel used for Transportation	Litres	87,697	90,058	84,263	56,339
Petrol used for Transportation	Litres	1,886	1,779	1,088	1,085

	2020	2021	Variance %
Renewable sources - Biomass (GJ)	19,658	22,092	12%
Non-renewable sources (GJ)	14,556	12,975	-11%
Electricity (GJ)	10,148	9,578	-6%
Diesel (GJ)	1,425	1,387	-3%
Diesel - Transportation (GJ)	2,949	1,972	-33%
Petrol - Transportation (GJ)	34	38	11%
Direct Energy Consumption (GJ)	34,214	35,067	2%



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 60% of the current energy requirements being met through renewable energy, mainly biomass. The carbon footprint for the year 2020/2021 stood at 0.44 kg of CO^2 per ton of made tea.

Energy Intensity
(GJ/ MT of production)

9.66

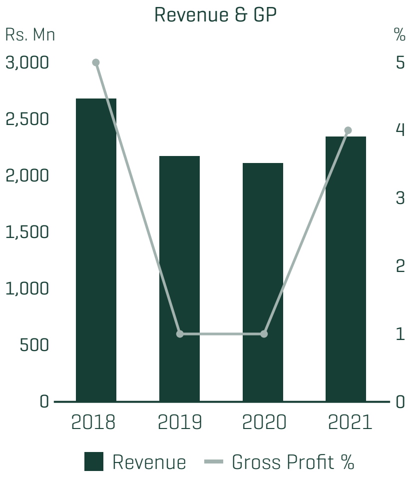
Carbon Footprint
kg of CO^2 per ton of made tea

0.44

Overview of the Energy Saving Initiatives Implemented in 2020/21

Initiative/Activity	Location	Completion Level
Installation of new CTC Production line alone with new 250kh/hr Conquest Drier	Neluwa Tea Factory	90%
Optimization of the electricity usage for withering application	5 Factories	100%
Replacement of 24 nos. of 18 W florescent tube bulbs with 6 nos. of 50 W LED flashlights	Broadlands Tea Factory	100%
Utilization of data from electricity submeters to optimize tea manufacturing processes	All 7 Factories	100%

FINANCIAL REVIEW



PBT
Rs. 78.59 Mn

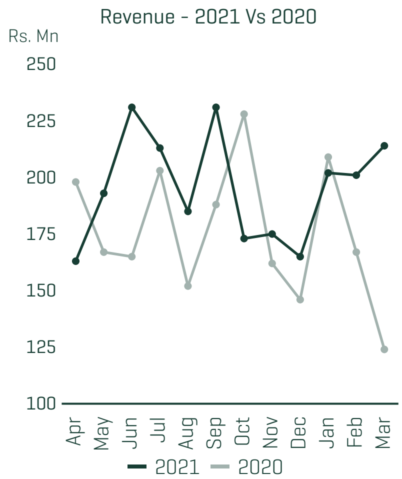
Total Assets
Rs. 1,771 Mn

ROCE
5.5%

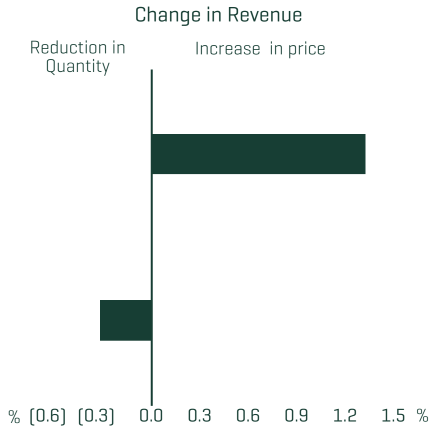
GP growth
450%

Tea Smallholder Factories PLC delivered a strong financial performance in a volatile operating environment and the resilient business model of the Company superseded the disruptions by recording a significant YoY growth on its key financial indicators, including the Revenue, GP and PBT. The Company generated sustainable shareholder returns, among other things, by generating an earnings per share ratio of Rs. 2.22 and net asset per share value of Rs. 48.26 whist recording a closing share price of Rs. 41.00 as of 31st March 2021.

Revenue



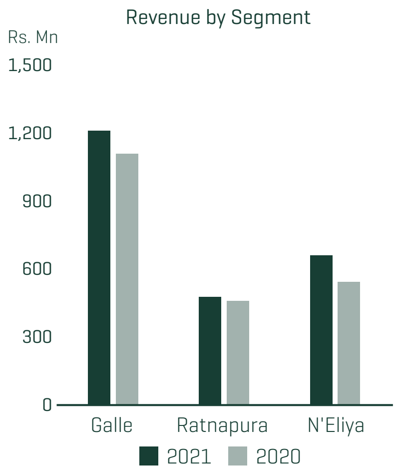
The Company recorded a year-on-year revenue growth of 11% which elevated the Company's revenue to Rs. 2.35 Bn in 2020/21, from Rs. 2.11 Bn achieved in the previous year. The increase in the revenue was mainly attributable to the increase in selling prices at the Colombo Tea auction which nullified the negative impact of sale quantity reduction.



The reduced supply at the tea auction in the first nine months of 2020 due to the shortage of supply, had a positive impact on tea prices. The low grown tea prices stabilized at a higher level, as opposed to 2019/20.

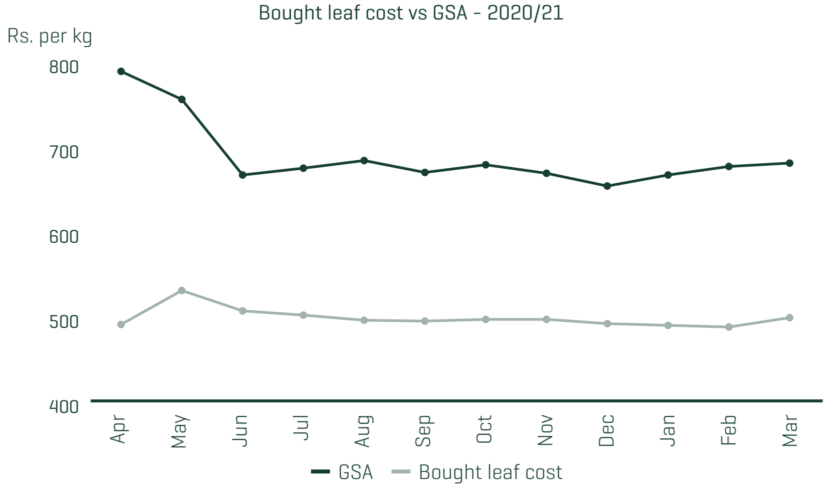
With favourable weather conditions, as opposed to prolonged droughts in the previous year, the Company increased the production by 5.60% during the year. However, total quantity sold during the year under review declined by 3.09% to 3.53 Mn kg (2019/20 - 3.64 Mn kg).

Revenue by Segment



Similar to the last year, the Galle segment which consists of 4 factories, was the highest contributor to the Company's revenue followed by Nuwara Eliya segment, which comprises only the Broadland Tea Factory, recorded a 21.73% increase in the revenue and 7.76% increase in the sales volumes.

The lowest contribution was from the Ratnapura segment which operates with two factories. The reduction in revenue was mainly due to reduced volumes with the change in strategy to attract good quality leaf from direct suppliers. All the three segments saw an increase in the YoY revenue generation even though the YoY selling volumes have been reduced in Galle and Ratnapura segments.



Cost of Sales

Bought Leaf Cost

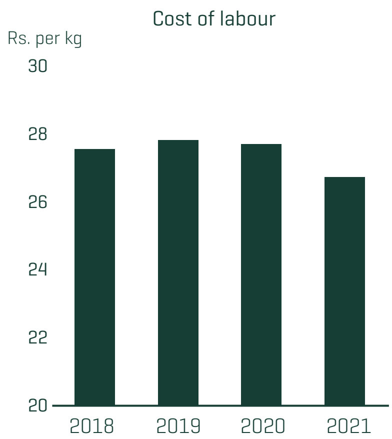
Bought leaf cost is the primary contributor to the Company's cost of sales and its' contribution stands at 78%. The price payable for green leaf is determined by statute based on a formula designed by the Sri Lanka Tea Board which is linked to an individual factory's gross sale average compared with the low grown elevational average. Accordingly, the increase in the market prices resulted in an increased bought leaf cost to the Company.

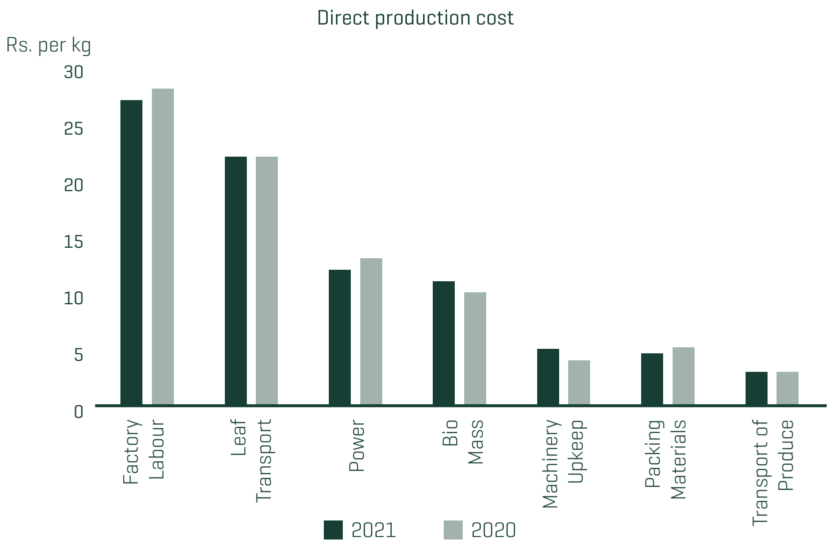
The Company purchased 17.71 Mn kg of green leaf during 2020/21, compared to 16.79 Mn kg of green leaf in the previous year. The Company made payments amounting to Rs. 1.81 Bn during the year under review to the green leaf suppliers whereas the previous year payments were recorded at Rs. 1.47 Bn.

The Company strived to maintain the product quality throughout the year by implementing different strategies such as the introduction of nylon bags and increasing the direct supplier share. As a result, the Company was able to maintain a Gross Sale Average (GSA) of Rs. 684.61 during the period under review. In return, this enabled the Company to make consistent payments to the green leaf suppliers to ensure a satisfactory level of supplier retention.

Direct Production Cost

Cost of labour which is the second highest contributor to cost of sales, was reduced gradually over the years through continuous investments in process automation, introduction of new and efficient machinery and outsourcing of non-core activities within the manufacturing process, thereby, increasing productivity and output.





FINANCIAL REVIEW

Even though the Company was able to record a YoY reduction of 3.52% per kg, the Rs.1,000/- wage increment mandated by the government in March 2021, increased the cost of labour by 47% in March 2021 and will impact the wage cost in the coming years as well.

The cost incurred on green leaf transport per Kg of made tea reduced by 1% in comparison to the previous year with major YoY reductions recorded from Kurupanawa, Karawita & New Panawenna factories. These reductions were achieved through better negotiations on transport rates and incentives and also due to higher emphasis placed on direct suppliers.

The cost incurred on power reduced by 10.68% during the year to Rs. 11.94, from Rs. 13.37 per Kg of made tea achieved in the previous year. The reduction is mainly due to the investments made by the Company on introduction of energy efficient machinery and the continuation of the energy saving initiatives.

The cost incurred on biomass increased by 6.37% from Rs. 10.48/- to Rs. 11.15/- per kg during the year due to increase in firewood purchase prices.

To ensure uninterrupted factory operations, the Company followed a systematic preventive maintenance schedule during the year. As a result, machinery maintenance cost per kg was increased by 25.26% and the total cost component has increased by Rs. Rs. 4.30 Mn.

Production overhead costs at the factory level such as depreciation, staff salaries and general upkeep reduced by 3.62% during the year under review with stringent cost controlling mechanisms incorporated by the Management during the year.

Other Operating Income

Refuse tea sales, rental income, profit on sale of PPE and net margin on sale of fertiliser builds up the majority portion of the Company's other operating income. The increase in refuse tea sales income was mainly due to the increase in price. Accordingly, the refuse tea sales income increased to Rs. 33.08 Mn from Rs. 25.60 Mn recorded in the previous year.

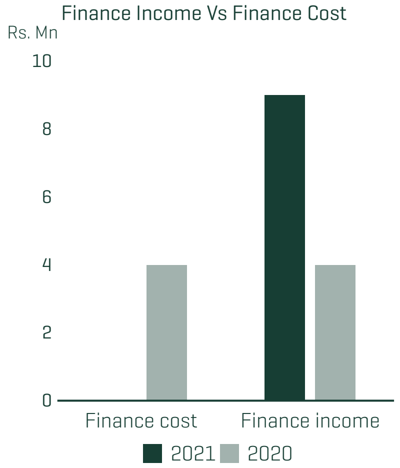
Due to the increase in demand towards the second half of the year, the net margin on sale of fertiliser recorded a YoY growth of 15%. Rental income from Investment Property increased by 4% with the increase in rates. A Rs. 5.66 Mn profit on the disposal of property, plant and equipment was recognized during the year.

Administrative and Other Expenses

Head office overhead expenses which cannot be directly allocated to production has been recognized under the administrative expenses. During the year under review, the cost decreased by 12% to Rs. 54.79 Mn, from Rs. 62.07 Mn in 2019/20. A 43% reduction in the printing and stationary cost, 19% reduction in the rent and utility charges, 9% reduction in the staff salary expenses and the reduction in tax charges due to the abolishment of the NBT, coupled with various other cost control measures implemented, resulted in an overall reduction in the administrative expenses.

The management fees paid to the managing agent, John Keells (Teas) Private Limited, increased to Rs. 23.27 Mn during the year (2019/20 - Rs. 17.68 Mn) which is in line with the increased revenue and profitability.

Finance Income vs Finance Cost

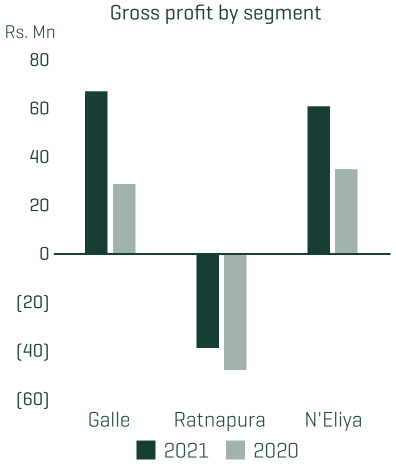


Finance income of the Company is primarily generated through the interest income earned on short-term investments, mainly on seven-day call deposits and fixed deposits, loans granted to green leaf suppliers and loans granted under the employee motor vehicle loan scheme for Executives (AM and above).

Efficient and commendable working capital management has resulted in a significant increase in the finance income whilst enabling the Company to reduce the finance cost to a bare minimum. Accordingly, during the year under review, the finance income increased by 111.13% to Rs. 8.84 Mn (2019/20 - Rs. 4.19 Mn) and finance cost reduced by 98.12% to Rs. 0.08 Mn (2019/20 - Rs. 4.19 Mn). Interest on short term investments recorded an increase of 5.68 Mn, whereas the interest earned on loans granted to smallholders have slightly declined with the reduction in the loan rates.

The Government continued to enforce expansionary fiscal policies during the year which resulted in a steady decline in the interest rates and this in turn had a material implication on the Company's finance income and cost.

Profitability



The gross profit of the Company increased by 454% to Rs. 89.27 Mn from Rs. 16.11 Mn achieved in the previous year. The increase in tea price coupled with stringent cost control measures implemented, resulted in securing the favourable growth in profit.

Galle segment recorded the highest regional gross profit of Rs. 67.06 Mn for the year with a YoY increase of 132.09%.

Nuwara Eliya segment, operating with a single factory, continued to improve its profitability while increasing production volumes beyond 1 Mn kg of made tea per annum. Accordingly, the segment recorded a YoY GP growth of 72.13% and gross profit for the year stood at Rs. 60.93 Mn.

Despite making continuous losses in the past at the GP level, Ratnapura segment began to show some resilience in the year under review by reducing the Gross loss by Rs. 9.47 Mn. Shifting the strategic direction to obtain better quality leaf from direct suppliers, coupled with greater focus on cost control measures resulted in this turnaround.

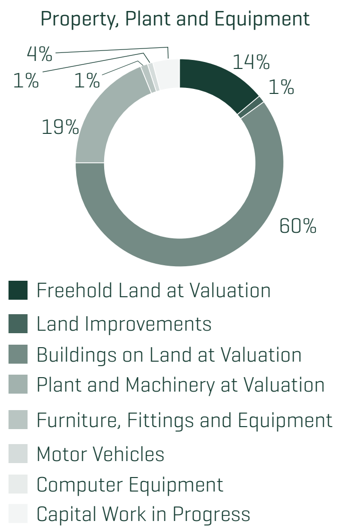
The increment observed at the GP level is clearly visible in the pre-tax profits with the Company recording a PBT of Rs. 78.59 Mn against Rs. 30.07 Mn recorded in the previous year with a YoY growth of 161%. The PBT includes a fair value loss of Rs. 2.37 Mn in 2020/2021 and a fair value gain of Rs. 39.30 Mn in the previous year. The gain/loss was recorded in the Income Statement as per the requirements outlined in the Sri Lanka Accounting Standards.

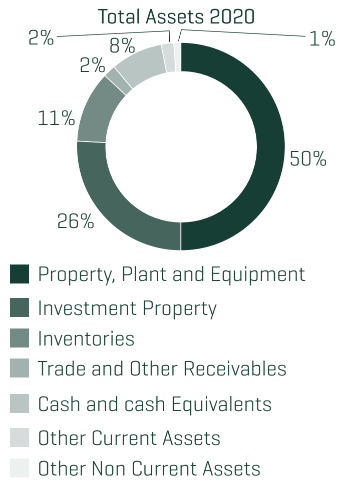
Taxation

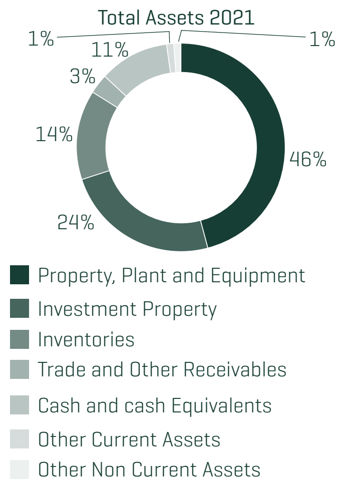
During the year under review, the Company recorded a tax expense of Rs. 12.04 Mn (2019/20 – Reversal of Rs. 79.91 Mn). Based on the obtained expert opinion, the management applied the 14% rate for income taxation and deferred taxation in the previous year. The Company continued to apply the same rate during the year under review as well. (Refer Note 16.5 on page 106 in the Financial Statements)

Financial Position Review

Total asset position of the Company stands at Rs. 1.77 Bn as of 31st March 2021 and this is an increment of 7.73% when compared against the asset position of the Company in the previous year (31st March 2020 - Rs.1.64 Bn). Asset turnover ratio for the Company has improved to 1.37 during the period under review (2019/20 - 1.26).







The Company maintains a robust, yet strong asset position. 46.02% of the Company's asset base is covered by Property, Plant and Equipment, whereas 23.97% of the asset base is covered by investment property.

Total Inventory value as of 31st March 2021 stands at Rs. 253.61 Mn and out of the total value, produce stock accounts for the majority portion with a value of

FINANCIAL REVIEW

Rs. 239.92 Mn (2019/20 – Rs. 169.14 Mn). Produce stock balance recorded a significant increment of 41.85% during the year and it is mainly attributable to the increase in bought leaf cost, in line with the market increase, as well as low closing stock balances maintained towards the latter part of 2019/20 with the reduction in production due to adverse weather conditions.

Increased profits, coupled with efficient working capital management has ensured that the cash and cash equivalent balances of the Company records an increase of 37.33%. Accordingly, as of 31st March 2021, the Company recorded a cash and cash equivalent balance of Rs. 191.56 Mn, against a previous year balance of Rs. 139.48 Mn.

Increase in trade receivables as of 31st March 2021 is mainly due to the recognition of the last auction sale as a receivable. However, in 2019/20, proceeds have been credited in the same month for all the sales finalized in March 2020.

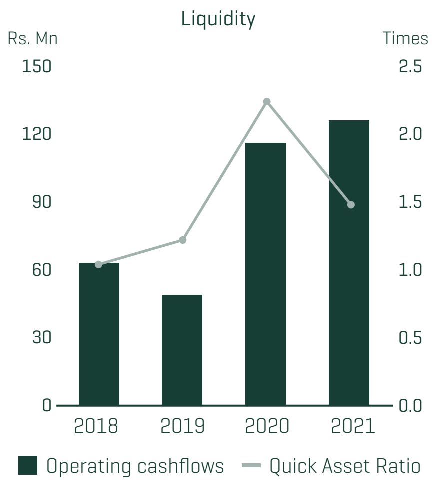
Shareholders' funds, i.e., Equity, accounts for 81.73% of the Company's equity and liabilities as of 31st March 2021. Even though the comparative figure stood at 86.64% in the previous year, the Company was able to increase the shareholders wealth by Rs. 28.84 Mn through retained earnings and revaluation gains.

Trade and other payables are the second highest contributor with a contribution of 9.05%, followed by deferred tax liabilities 5.62% and employee benefit liabilities 2.58%. YoY increase in trade and other payables amounts to 98.47% and the determinant factor behind this increase is the increment in bought leaf payables.

Cash Flows and Liquidity

During the year under review, the organization went on to record a net cash generated from operations of Rs. 134.25 Mn (2019/20 – Rs. 115.83 Mn). Effective and prudent management of working capital has ensured that the generated accounting profit is converted to cash profits, which are adequate to fund the Company's capital expenses, dividend payments and other expenses. Current ratio and quick asset ratio for the current year remained in favourable levels of 2.90 times and 1.48 times, respectively.

Incurred capital expenditure for the year was recorded at Rs. 44.69 Mn (2019/20 – Rs. 37.74 Mn) and over Rs. 34 Mn has been directed towards the CTC project at the Neluwa factory. An interim dividend of Rs. 45 Mn was paid during the year. Net cash and cash equivalents, as of 31st March 2021, for the Company has been recorded at Rs. 191.56 Mn, against a previous year cash and cash equivalents value of Rs. 139.48 Mn.



INFUSED WITH **INTEGRITY**

GOVERNANCE

CORPORATE GOVERNANCE

Tea Smallholder Factories PLC (Company) is committed to institutionalise a sound governance structure, policies and processes to build an organisation that is effective and provides accountability to its stakeholders with a high degree of transparency.

The Company inherits a legacy of best corporate governance practices from its Parent Company, John Keells Holdings PLC (JKH), which are founded on the core principles of accountability and transparency. Adherence to the highest standard of Corporate Governance enhances the Company performance and sustainable growth for all the Stakeholders.

As the highest decision making body of the Company, the Board sets the tone at the top and is responsible for 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 26th Annual General Meeting held on 24th June 2020

- Mr. E. H. Wijenaike 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. S. K. L. Obeyesekere who retired in terms of Article 83 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 2020/2021

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 Practices on Related Party Transactions (2013) advocated by the Securities and Exchange Commission of Sri Lanka (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").

The Company remains fully compliant with all statutory requirements imposed by all regulatory bodies concerning matters relevant to the business.

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:

Code of Best Practice on Corporate Governance

The Company				**Shareholders**		
Directors [A]	Directors' Remuneration [B]	Relations with Shareholder [C]	Accountability & Audit [D]	Institutional Investors [E]	Other Investors [F]	Sustainability Reporting [G]

Beyond Compliance

Investment Criteria	**IT Governance**

A. Directors

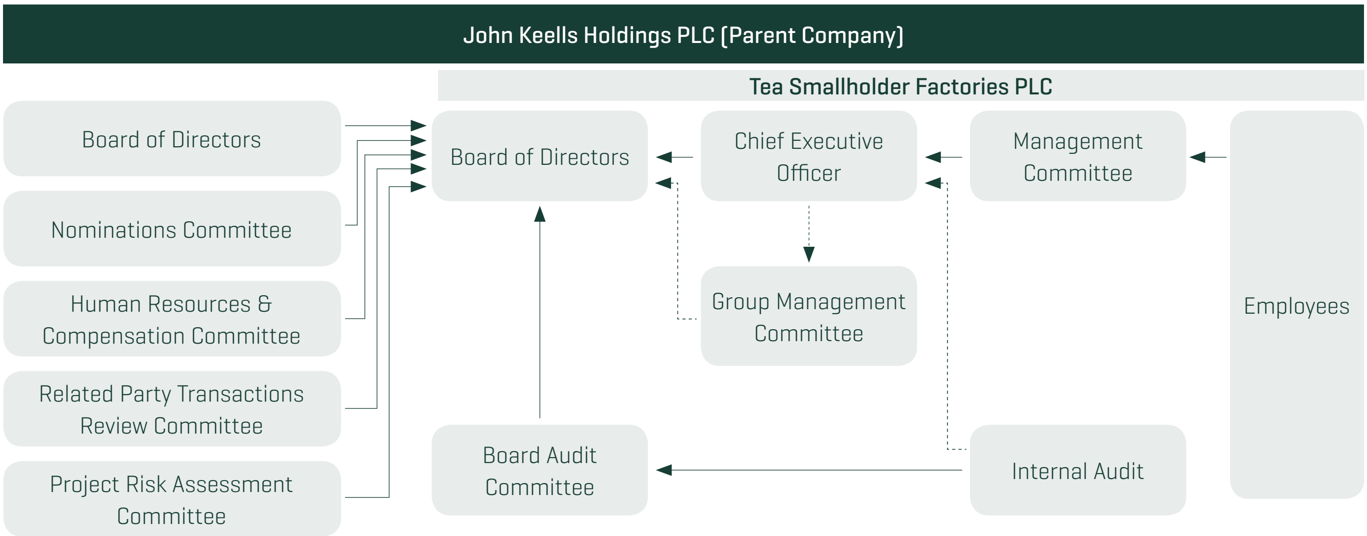
A1. An Effective Board

The Board of Directors is responsible for implementing the corporate governance framework across the business. The Board of the Company comprises five (5) Non Executive, Non Independent Directors (NED/NID) including the Chairman and three (3) Non Executive, Independent Directors (NED/ID) whose profiles are given on pages 16-19 of this Annual Report. In accordance with the criteria for "Independence" specified by Section 7.10.4 of the listing rules of the CSE, the Board affirms that the three (3) NED/IDs satisfy the criteria for independence and have satisfied the requirements under clause 7.10.2 and is deemed to have 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 Board is of the view that its present composition ensures a healthy balance between executive expediency and independent judgment. 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.

CORPORATE GOVERNANCE



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 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, Nominations, Human Resources and Compensation, Related Party Transactions Review, Project Risk Assessment committees of the Company's parent Company, JKH, function on behalf of the Company.

Board Audit Committee (BAC)	
Composition	The Board Audit Committee comprise three (3) NED/IDs and (1) NED/NID. The Committee members are endowed with a vast experince in the area of Finance and Accounting. Mr. A. K Gunaratne was a member having current membership of a reputed professional accountancy body. Current members are: 1. Ms. A. Goonetilleke- Chairperson (appointed w.e.f. 07th July 2020) 2. Mr. M. H. De Silva* 3. Mr. A. S. Jayatilleke 4. Mr. S. K. L. Obeyesekere 5. Mr. A. K Gunaratne (appointed to the Committee w.e.f. 6th August 2020) *Mr. M. H. De Silva resigned with effect from 15th May 2020 Detailed information regarding the activities of the BAC are provided in the BAC report on pages 67 to 69.
Mandate	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; ➲ Adequacy and fairness of disclosure ➲ Transparency, integrity and quality of financial reporting

Scope	➲ Review the quarterly and annual financial statements, including the quality, transparency, integrity, accuracy and compliance with accounting standards, laws and regulations ➲ 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 ➲ Evaluate the competence and effectiveness of the risk management systems of the Company and ensure the robustness and effectiveness in monitoring and controlling risks ➲ Review the adequacy and effectiveness of the internal audit arrangements ➲ 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
Nominations Committee (of the parent Company John Keells Holdings PLC)	
Composition	The Committee comprises three (3) NED/IDs including Chairman of the Committee and one ED/NID. Current members are: 1. Mr. M. A. Omar - Chairman 2. Ms. M. P. Perera 3. Dr. S. S. H.Wijayasuriya 4. Mr. K. N. J. Balendra – Non Independent Director
Mandate	➲ Define and establish the nomination process for NEDs ➲ Lead the process of Board appointments and recommendations to the Board
Scope	➲ Assess the skills required on the Board given the needs of the businesses ➲ From time to time assess the extent to which the required skills are represented at the Board ➲ Prepare a clear description of the role and capabilities required for a particular appointment ➲ Identify and recommend suitable candidates for appointments to the Board ➲ Ensure, on appointment to Board, Non-Executive Directors receive a formal letter of appointment specifying clearly; - The expectation in terms of time commitment - Involvement outside of the formal Board meetings - Participation in committees ➲ Ensure that every appointee undergoes an induction to the Group and Company ➲ The appointment of Chairperson and Directors is a collective decision of the Board
Human Resources and Compensation Committee (of the parent Company John Keells Holdings PLC)	
Composition	The Committee comprises three (3) NED/IDs including Chairman of the Committee. Current members are: 1. Mr. D. A. Cabraal - Chairman 2. Mr. M. A. Omar 3. Dr. S. S. H Wijayasuriya 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 The Head of Legal, Secretarial and CSR is the Secretary of the Committee
Mandate	➲ To assist the Board in the establishment of remuneration policies and practices ➲ To review and recommend appropriate remuneration packages for the Chairman and other EDs

CORPORATE GOVERNANCE

Scope	➲ Determine and agree with the Board a framework for the remuneration of the Chairman and Executive Directors based on performance targets, benchmark principles, performance related pay schemes, industry trends and past remuneration ➲ Succession planning of Key Management Personnel ➲ Determining compensation of Non-Executive Directors is not under the scope of this Committee
Related Party Transactions Review Committee (of the parent Company John Keells Holdings PLC)	
Composition	The Committee comprises two (2) NED/IDs and One (1) Senior Independent Non Executive Director. The Chairperson is a NED/ID. Current members are: 1. Ms. M. P. Perera - Chairperson 2. Mr. D. A. Cabraal 3. Mr. A N. Fonseka The Chiarman/ CEO, Mr. K. N. J. Balendra and the Deputy Chairman /Group Finance Director, Mr. J. G. A. Cooray attend meetings by invitation. The Head of Group Business Process Review serves as the Secretary to the Committee. Detailed information regarding the activities of the Committee are provided in the Related Party Transactions Review Committee report on pages page 70 of this Annual Report.
Mandate	To ensure that all related party transactions of the Company are consistent with the Code on Related Party Transactions issued by SEC and with the Listing Rules of the CSE.
Scope	➲ Transactions of the Senior decision makers in the list of key management personnel with Group companies, to be reviewed by the Committee, in addition to the requisitions of the CSE ➲ 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 Group ➲ Update the Board on related party transactions of each of the listed companies of the Group on a quarterly basis ➲ 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 have to be pre-approved by the Board, related party transactions which require to be reviewed annually and similar issues relating to listed companies
Project Risk Assessment Committee	
Composition	The Committee should comprise 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: 1. Dr. H.S.S. Wijayasuriya - Chairperson 2. Mr. K. N. J. Balendra 3. Mr. J. G. A. Cooray 4. Ms. M. P. Perera
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	➲ 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 ➲ Ensure stakeholder interests are aligned, as applicable, in making this investment decision ➲ Where appropriate, obtain specialised expertise from external sources to evaluate risks, in consultation with the Group Finance Director ➲ 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. Note that the Committee shall convene only when there is a need to transact in business as per the terms of its mandate.
Group Management Committee (GMC)	
Composition	The Group Management Committee of the Plantation Services Sector comprises the following members. ➲ Sector Head – Plantations Services Sector ➲ Chief Executive Officers of each business units (BUs) ➲ Chief Financial Officer of the Plantations Services Sector ➲ Senior Management of each BU representing each functional area
Mandate	To design, implement and monitor the best practices of the industry, sectors and strategic business units where appropriate and material.
Scope	➲ Strategy formulation ➲ Implementation of sector strategies for the Plantations Services Sector ➲ Performance monitoring ➲ Risk management ➲ Any other business matters

Senior Management Committee
Executive authority is well devolved through a committee structure ensuring that the Sector Head of the Plantation Services Sector, Chief Executive officer (CEO) of Tea Smallholder Factories PLC and profit center / 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.

Board Meetings, Agenda and Attendance at Board meetings

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 at the quarterly Board meetings is tabled below:

CORPORATE GOVERNANCE

Attendance at Meetings Name of Director	23/04/2020	23/07/2020	22/10/2020	18/01/2021	Attendance
Non Executive Non Independent Director (NED/NID)					
Mr. K. N. J. Balendra	✓	✓	✓	✓	4/4
Mr. J. G. A. Cooray	✓	✓	✓	✓	4/4
Mr. J. R. Gunaratne (Resigned w.e.f. 31st December 2020)	✓	✓	✓	N/A	3/3
Mr. A. Z. Hashim (Appointed w.e.f. 01st January 2021)	N/A	N/A	N/A	✓	1/1
Mr. E. H. Wijenaike	✓	✓	✓	✓	4/4
Mr. A. K. Gunaratne	✓	✓	✓	X	3/4
Non Executive Independent Director (NED/ID)					
Mr. M. H. De Silva (Resigned w.e.f. 15th May 2020)	✓	N/A	N/A	N/A	1/1
Ms. A. Goonetilleke (Appointed w.e.f. 07th July 2020)	N/A	✓	✓	✓	3/3
Mr. A. S. Jayatilleke	✓	✓	✓	✓	4/4
Mr. S. K. L. Obeyesekere	✓	✓	✓	✓	4/4

Board Agenda

A typical Board agenda in 2020/21 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
- Review and approve annual plans and long-term business plans
- Track actual progress against plans
- Set in place governance structures and policy frameworks to ensure compliance with laws, regulations and ensuring the highest standards of disclosure, reporting, ethics and integrity
- Oversee systems of internal control, risk management and establishing whistleblowing conduits
- Ensure that key management personnel and the management team have the required skills, experience and knowledge to implement strategy
- Determine any changes to the discretions/authorities delegated from the Board to the executive levels
- Review and approval of major acquisitions, disposals and capital expenditure
- Approve any amendments to constitutional documents
- Adopt voluntarily, best practices where relevant and applicable

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;

- Impacts on business operations of the current and emerging economic and geo-political 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.

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 requirement.

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

CORPORATE GOVERNANCE

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 the 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. A. K Gunaratne

A.5 Board Balance

The Board comprises five (5) NED/NIDs including the Chairman, three (3) NED/IDs ensuring that there is sufficient balance on the Board. The Board is of the view that its present composition ensures healthy balance between executive expediency and independent judgement. 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

The Directors of the Company whose profiles are outlined on pages 16 and 19 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 three 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)
Non Executive, Non Independent Director (NED/NID)							
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 (Resigned w.e.f. 31st December 2020)	No	Yes	No	No	No	N/A	No
Mr. A. Z. Hashim (Appointed w.e.f. 01st January 2021)	No	Yes	No	No	No	N/A	No
Mr. E. H. Wijenaike	Yes	Yes	No	No	No	N/A	No
Mr. A. K. Gunaratne	No	Yes	No	No	No	N/A	No
Non Executive, Independent Director (NED/ID)							
Mr. M. H. De Silva (Resigned w.e.f. 15th May 2020)	No	No	No	No	No	No	No
Ms. A. Goonetilleke (Appointed w.e.f. 07th July 2020)	No	No	No	No	No	No	No
Mr. A. S. Jayatilleke	No	No	No	No	No	Yes	No
Mr. S. K. L. Obeyesekere	No	No	No	No	No	No	No

Definitions

i. Shareholding in the Company carrying not less than 10 percent of voting rights

ii. Director of a listed Company in which they are employed or having a significant shareholding or have a material business relationship

iii. Income / Non-cash benefits derived from the Company is equivalent to 20 percent of the Director's annual income

iv. Director is employed by the Company two years immediately preceding appointment

v. Immediate family member who is a Director or CEO

vi. Has served the Board for a continuous period exceeding nine (9) years

vii. 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.

CORPORATE GOVERNANCE

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 16 to 19
2. Membership of sub-committees and attendance at Board Meetings and Sub-Committee meetings on pages 48, 67 and 70
3. Related party transactions on pages 124 to 125

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

B.1 Remuneration for Non Executive, Non Independent Directors

No Director Fees are paid by the Company to Non Independent Non Executive Directors (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 125 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 of 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 fall 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 71 to 75 to cover all areas of this section
- The "Statement of Directors' Responsibility" is given on page 76
- The Directors' Statement on Internal Controls is given on page 74
- The "Independent Auditors' Report "on pages 79 to 81 for the Auditors' responsibility
- The Management Discussion and Analysis on pages 79 to 81
- Related Party Transactions on pages 124 to 125

The Management Discussion and Analysis contained on pages 22 to 40 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

CORPORATE GOVERNANCE

- Capital Expenditure is subject to formal authorization procedures
- Experienced and suitably qualified staff take 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 pages 61 to 66 of the Annual Report describes the process of risk management 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 Sector Head of the Plantation Services Sector and the CFO of the Company to confirm compliance with financial standards and regulations. The Sector Head 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 71 to 75 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 124 to 125 of the Annual Report.

D.3 Board Audit Committee

The Board Audit Committee comprises three Non-Executive, Independent Directors and one Non-Executive, Non Independent Director and conforms to the requirements of the Listing Rules of the Colombo Stock Exchange. 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 published 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 103.

A quarterly self-certification program requires the Sector Head 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 Sector Head 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 67.

The Sector Head of the Plantation Services Sector, CEO of the Company, the Chief Financial Officer, 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 2020/2021 is given on pages 67 to 69 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.

Whistleblower Policy

Employees can report to the Chairman through a communication link named "Chairman Direct", on any concerns about unethical behavior 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 form 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.

CORPORATE GOVERNANCE

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 have been complied with.

E and F –Institutional Investors & 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 61 to 66 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 fulfill the obligation towards the environment. Such best practices on emission management, water management, waste management and material management are explained on pages 29 to 35.

The Company recognizes that emphasis should not only be on maximizing long term shareholder value, but it should also endeavor 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 page 34.

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 Committee 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 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 2021

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	Corporate Governance and Information to Shareholders and Investors
(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	Corporate Governance and Information to Shareholders and Investors
(vi)	Information pertaining to material foreseeable risk factors of the Entity	Complied	Enterprise 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
(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 Statements
(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	Corporate Governance
(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	
(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	

CORPORATE GOVERNANCE

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
7.10 Compliance				
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
7.10.1 Non Executive Directors				
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
7.10.2 Independent Directors				
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
7.10.3 Disclosures relating to Directors				
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 16 to 19
d.	Disclosure relating to Directors	Provide a brief resume of new Directors appointed to the Board along with details to CSE	Complied	Corporate Governance
7.10.4 Criteria for defining independence				
(a-h)	Determination of Independence	Requirements for meeting criteria to be an Independent Director	Complied	Corporate Governance
7.10.5 Remuneration Committee				
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
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

Rule No.	Subject	Applicable requirement	Compliance Status	Applicable Section in the Annual Report
7.10.6 Audit Committee (AC)				
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 ➲ Corporate Governance and the Board Audit Committee Reports	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

CORPORATE GOVERNANCE

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 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 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

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

ENTERPRISE RISK MANAGEMENT

Tea Smallholder Factories PLC has a sound Risk Management Framework that ensures risks are managed in a consistent manner with appropriate oversight and accountability. The Company operates in a dynamic industry and is exposed to various forms of industrial, operational, financial and environmental risks and has adopted a formal and structured approach to manage risks.

Risk Management Team and Structure

The Board of Directors	The Board is responsible for risk management of the Company and reviews the subject at each Board Meeting to formulate or approve appropriate responses and allocate necessary resources.
The Board Audit Committee (BAC)	The Board is assisted by the BAC which has the oversight responsibility for risks and internal controls.
Group Business Process Review Division of the parent company, JKH and the outsourced Internal Auditors, M/s. BDO, Chartered Accountants	Assist the BAC in performing its assurance role through regular reviews and recommendations on the robustness of the internal controls of the Company.
Sustainability and Enterprise Risk Management division (ERM division)	ERM division of our Parent Company, JKH ensures that the policy framework of the Company is aligned to the group through ongoing review, assessment and guidance on implementation.
Chief Executive Officer and the Senior Management of the Company	At the business unit level, the Company's risk management team is headed by the CEO and assisted by the senior management of the Company

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 63 to 66 could be summarized based on the impact to company and the likelihood of occurrence as follows.

ENTERPRISE RISK MANAGEMENT

Impact to the Company		1 Unlikely to Occur	2 Rare/Remote to Occur	3 Possible to Occur	4 Likely to Occur	5 Almost Certain to Occur
Catastrophic/ Extreme Impact	5	5	10	15	20	25
Major/Very High Impact	4	4	4 5 — 8	1 — 12	16	20
Moderate/High Impact	3	3	11 16 — 6	3 7 — 9	12	15
Minor Impact	2	13 14 15 — 2	4	6 8 10 12 — 6	2 — 8	10
Low/Insignificant Impact	1	1	2	3	9 — 4	5

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

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 updating 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.

5. Monitoring and Control

The ultimate responsibility for the Company's internal controls and reviewing its effectiveness rests with the Board of Directors. As Risk doesn't remain static, it is essential that Risk Management remains as an on-going process with regular monitoring and review 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.

Risk and Opportunities

Continuous scanning and monitoring helps the Company to identify opportunities and trends in its operating environment. Opportunities specific to the Company are explained and initiatives 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 such risk exposures are summarized below,

Risk Item	Potential impact	Mitigation Actions	Risk Rating 2021	Risk Rating 2020
1. Reduced availability of green leaf resulting in reduced factory utilization	Lower crop intakes and reduced profitability	➲ Capturing of the supplier base movement monthly ➲ Continuous monitoring of "Dropouts" of suppliers and retention of the suppliers by payment of competitive prices for quality raw material coupled with forward advances and soft loans provided to small holders ➲ Additionally, New Year bonus scheme and the Small holder welfare societies were formed to provide financial assistance to small holders ➲ Replanting programmes- Project 1, 2, 3, 4, 5 and 6 completed and Projects 7 and 8 in progress. Project 9 has been initiated. Vacant tea field consolidated by in filling ➲ Ensure that adequate fertiliser is available for the small holder base during a fertiliser shortage ➲ Extension services are provided to the smallholders and advise on Good Agricultural Practices (GAP) are disseminated towards improving productivity ➲ Improving soil fertility by providing chemical fertiliser and encouraging organic fertiliser ➲ Supplying high shade material to mitigate adverse weather condition such as drought	High	High
2. Pandemic of dangerous diseases	Business interruption / Loss of revenue	➲ Adapt proactive measures to prevent the spreading of communicable diseases (Using PPE's and hand sanitizers, providing awareness and practicing medical guidelines, measuring and recording employee body temperature to identify any abnormalities, laying down a mechanism to report and record employee's updates related to the pandemic) ➲ BCP in respect of COVID-19 have been drawn up to monitor all preventive measures and avoid any business interruptions ➲ Undertaking CSR projects relevant to the Pandemic diseases. I.e. fumigation of public places, giving awareness to bought leaf suppliers and the public in collaboration with medical authorities ➲ Diverting green leaf to the next permitted immediate factory in case of a factory being quarantined ➲ Preventive measures to avoid contamination through manufactured product, i.e., Tea- Improved storing facilities (plastic crates, storing of teas on ground on cloths and covering of same) ➲ Regular PCR tests to be carried out to identify any infected persons within the workforce	Medium	-

ENTERPRISE RISK MANAGEMENT

Risk Item	Potential impact	Mitigation Actions	Risk Rating 2021	Risk Rating 2020
3. Unstable nature of market	Unpredictable profitability	➲ Continuous monitoring of the grade mix to make strategic changes to suit market requirements ➲ Flexibility to change the manufacture process to suit market requirements (Product diversification) ➲ Market Forecast through broker information ➲ Minimize stocks held at the factories ➲ Regular communications with broker and exporters in relation to the demand and prices ➲ Strategically hold stocks and release based on market improvements	Medium	Medium
4. Industrial Harmony	Industrial Disputes, Union action	➲ Establishment of Joint Consultation Committee (JCC) ➲ Recognition of employees (e.g. Bravo Certificates) ➲ Adherence to the statutory laws ➲ Review facilities provided ➲ Conducting social activities and engagements on a frequent basis ➲ Create a safe and conducive environment ➲ Provide competitive salary structures and incentives	Medium	Insignificant
5. Fire	Business interruption / loss of revenue and assets	➲ Adequate firefighting equipment's are available in the premises ➲ Annual firefighting demonstrations conducted in every factory ➲ BCP in place and is reviewed quarterly ➲ Firefighting awareness programs are conducted every quarter ➲ Insurance covers have been obtained on fire and business interruption	Medium	-
6. Unethical practices in the industry	Unfair competition	➲ Regular coordination with Tea Board, CTTA and involve in bringing fair rules into the industry	Medium	-
7. Availability of regular workforce	Shortage of workforce	➲ Provide adequate residential and rest room facilities for workers ➲ Factory automation ➲ Making the work environment a better place in order to increase worker attendance ➲ Providing adequate transport facilities to report to work ➲ Providing discounted meals facilities	Medium	Medium

Risk Item	Potential impact	Mitigation Actions	Risk Rating 2021	Risk Rating 2020
8. External access to operational technology	System failure, distortion of data	➲ Audit trail for 3rd party access ➲ Implementation of Data Classification ➲ Internet security (Virus guards) and windows security updates ➲ Management supervision ➲ Primary records ➲ Protected passwords, NDAs with suppliers	Low	Low
9. Act of Terrorism	Loss of Business Asset, loss of data, continuation of business affected due to absence of staff and workforce, higher cost of production, higher insurance premiums, reduced production due to fear and increased security measures by forces, delay in transport of tea stocks to Brokers warehouses, delay in the sale of teas thereby affecting revenue	➲ Ensure that adequate stocks of critical supplies are maintained at the factories ➲ Ensure that the generators are in good working order at the factories in case of an emergency ➲ Updation of BCP for Head Office and factories and awareness programmes on security and safety ➲ Ensure that administrative work could be carried out off site by the employees ➲ Review of Insurance policies ➲ Backup of important Data	Low	Medium
10. Natural Disaster /Extreme weather condition/Floods	Business interruption or loss of revenue	➲ BCP in place and reviewed quarterly ➲ Insurance covers have been obtained on the Business interruption	Low	Low
11. Registration of Lands	Loss of assets	➲ Resurvey of land and registering in the appropriate land registry	Low	-
12. Unrecoverable Advances	Bad debts	➲ Advances are being issued at 75% of the payable green leaf rate ➲ If green leaf supply falls short on estimated quantity, short fall will be recovered from transport agents ➲ Reduce over advances requirement by promoting secured short-term loan facilities with guarantors ➲ Weekly/monthly monitoring of debts and recoveries	Low	-
13. Risk of breakdown of internal controls	Not meeting service quality levels, potential losses of cash, inventory and reputational loss	➲ Conducting sound induction programme for new recruitments ➲ Enhancement of controls through the ERP system linked to electronic interfaces ➲ Internal audit/ surprise checks ➲ Periodic factory visits to check on processes	Insignificant	Insignificant

ENTERPRISE RISK MANAGEMENT

Risk Item	Potential impact	Mitigation Actions	Risk Rating	
			2021	2020
14. Fraud and corruption	Loss of revenue or business and negative impact on reputation	➲ Ensure strict operational controls in all areas Rotation of duties, independent checks ➲ Installation of face scanning machines to capture labour attendance ➲ Insurance cover on fidelity guarantee ➲ Internal audits	Insignificant	Insignificant
15. Irregular practices in purchase of green leaf	Reduction of profits	➲ Internal audits, daily monitoring of gross out turns ➲ Rotation of duties of weighing persons, Independent check in office ➲ Installation of Automatic electronic green leaf weighing system ➲ Sending supplier SMS on daily green leaf intakes through the automated electronic green leaf weighing system ➲ Surprise audits carried by head office management	Insignificant	Insignificant
16. Health and Safety	Loss of man days	➲ Proactively identifying health and safety issues for preventive action to be set in place using OHSAS certification guidelines, training on health and safety, fire drills, health & safety internal audits and external audits (OHSAS)	Insignificant	Medium

The Board of Directors confirms that a process for identifying, evaluating and managing significant risks that compromise 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. Potential Financial Risk in compliance with the Sri Lanka Accounting Standards (SLFRS) is disclosed on pages 93 to 96 under notes to the Financial Statements.

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

The Board Audit Committee of the Company is a formally constituted Sub-Committee of the Board of Directors which assists in the areas of financial reporting, internal audit, internal controls, external audit and corporate risk. The role of the Audit Committee is to oversee the financial reporting system of the Company, with a view to safeguard the interest of the shareholders and all other stakeholders. The Audit Committee Charter defines the Terms of Reference of the Committee and its proceedings are conducted in accordance with and pursuant to the Audit Committee Charter.

Scope of Work

The Committee assists the Board in fulfilling its 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 Committee comprises three Independent Non-Executive Directors, namely, Ms. A. Goonatilleke, the Chairperson, Mr. A. S. Jayatilleke, Mr. S. K. L. Obeyesekere and one Non independent Non- Executive Director, Mr. A. K. Gunaratne. The detailed profiles of the Directors are given on pages 16 to 19 of the annual report. The Chief Financial Officer for the Plantation Services Sector of 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 2020/2021 and the attendance of the committee members at these meetings are shown below. The Sector Head- Plantation Services Sector, 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 were 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					
	14-05-2020	23-07-2020	22-10-2020	18-01-2021	Eligibility to attend	Attendance
Mr. M. H. De Silva (resigned w.e.f. 15th May 2020)	✓	N/A	N/A	N/A	1	1/1
Ms. A. Goonetilleke (appointed w.e.f. 7th July 2020)	N/A	✓	✓	✓	3	3/3
Mr. A. S. Jayatilleke	✓	✓	✓	✓	4	4/4
Mr. S. K. L. Obeyesekere	✓	✓	✓	✓	4	4/4
A. K. Gunaratne (appointed to the Audit Committee w.e.f. 6th August 2020)	N/A	✓	✓	✓	3	3/3

Activities of the Audit Committee during the Financial Year

Financial Reporting

The Committee has reviewed 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 Accounting Standards. 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 outlook with the management.

REPORT OF THE BOARD AUDIT COMMITTEE

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 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 2020/2021, 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 Company. 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.

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 2022, subject to approval by the shareholders at the next Annual General Meeting.

Risk Management

The Audit Committee reviewed the processes for the identification, evaluation and management of all significant operational risks faced by the Company. The management along with the Sustainability and Enterprise Risk Management Division of the John Keells Group have identified the notable risks and the measures taken to mitigate those risks. Formal confirmations and assurances have been received quarterly from the 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. The Group BPR division has adopted an integrated fraud deterrent and investigation framework to drive greater stakeholder synergies and collaboration efficiencies between components that deliver governance and assurance and related services and has implemented a digital platform for compliance reporting and monitoring purposes.

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 the communication link “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 of the identity of the whistle blower is maintained.

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. Kalugalgedera 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.

A. Goonetilleke
Chairperson of the Board Audit Committee

18th May 2021

REPORT OF THE RELATED PARTY TRANSACTIONS 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

The Chairman, 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. Recurrent RPTs were reviewed annually by the Committee.

Furthermore, guidelines were introduced to facilitate requisite disclosures & assurances by senior management of the aforementioned listed companies, in relation to Recurrent RPTs so as validate compliance with sec 9.5(a) of the listing rules and thus exclusion from review and pre-approval by the Committee.

Other significant transactions of non-listed subsidiaries were also 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. Information on the attendance at these meetings by the members of the Committee is given alongside.

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
Mr. D. A. Cabraal	4	4
Mr. A N. Fonseka	4	4
Ms. M. P. Perera	4	4
By Invitation		
Mr. K. N. J. Balendra	4	4
Mr. J. G. A. Cooray	4	4

M.P. Perera
Chairperson of the Related Party Transactions Review Committee

20 May 2021

ANNUAL REPORT OF THE BOARD OF DIRECTORS

The Directors of Tea Smallholder Factories PLC (Company) have pleasure in presenting their 27th Annual Report of the Company together with the Audited Financial Statements for the year ended 31st March 2021.

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 2 of this Annual Report.

3. REVIEW OF BUSINESS PERFORMANCE

A review of operations of the Company during the year ended 31st March 2021 is contained in the Chairman's Review on pages 12 to 15 and the Management Discussion and Analysis section on pages 22 to 40. These reports together with the Audited Financial Statements reflect the state of affairs of the Company.

3.1 Future Developments and Impact of COVID-19 pandemic

Information on future developments and an assessment, to the extent possible considering the current volatile and evolving landscape relating to the COVID-19 pandemic, are contained in the Chairman's Message and Management Discussion and Analysis sections of this Annual Report.

4. FINANCIAL STATEMENTS AND AUDITORS' REPORT

Financial Statements of the Company for the year ended 31st March 2021 have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/ LKASs) and are set out on pages 82 to 126 of this Annual Report. The Independent Auditors' Report on the Financial Statements are given on pages 79 to 81 of this Annual Report.

5. ACCOUNTING POLICIES

All significant accounting policies adopted in the preparation of the Financial Statements of the Company are given on pages 87 to 126. 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. 2,346 Mn (2019/2020 - Rs. 2,109 Mn) which is a 11% increase compared to the previous year. An analysis of the revenue based on geographical segments is disclosed in note 5.2 to the Financial Statements on page 91.

6.2 Profit and Appropriations

The profit after tax of the Company was Rs. 66.54 Mn (2019 / 2020 – Rs. 104 Mn). The segmental profits are disclosed in note 5.2.1 to the Financial Statements on page 91.

The Company's total comprehensive income net of tax for the financial year 2020 /2021 was Rs. 73.84 Mn (2019 / 2020 - Rs. 173.41 Mn).

6.3 Taxation

The Company is liable to income tax at 14 percent (2019 / 2020 - 14 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 16 to the Financial Statements on page 104.

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.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

Information on dividends and reserves are given below;

Tea Smallholder Factories PLC For the year ended 31st March	2021 Rs. '000s	2020 Rs. '000s
Profit before tax from continuing operations	78,589	30,071
Profit before tax from discontinued operation	-	867
Provision / Reversal for taxation including deferred tax	-12,045	73,148
Net profit after tax	66,544	104,086
Other adjustments	-10,736	47,205
Balance brought forward from the previous year	757,901	657,610
The amount available for appropriation	813,709	805,901
Interim dividend declared for 2020 / 2021 for of Rs. 1.50 per share and first and final dividend declared for 2018 / 2019 – Rs. 1.70 per share paid in 2019/2020	-45,000	-51,000
Balance to be carried forward next year	768,709	757,901

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 endeavor 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 29 to 35 of this Annual Report.

9. PROPERTY, PLANT AND EQUIPMENT

The carrying value of property, plant and equipment of the Company as at 31st March 2021 was Rs. 815.13 Mn (as at 31st March 2020 – Rs. 819.72 Mn). 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. 44.69 Mn. The movement of property, plant and equipment during the year is shown in note 17 of the Financial Statements on pages 108 to 110.

Right of Use Assets amounting to Rs. 2.31 Mn (2020 - Rs. 2.40 Mn) have been shown separately from property, plant and equipment as per SLFRS 16– Leases.

Investment properties totaling to Rs. 424.61 Mn has been shown separately from property, plant and equipment as per LKAS 40 – Investment Properties.

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 2020 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 2020. 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 17.3, 17.4 and 19.3 to the Financial Statements on pages 111, 112 and 114 respectively.

10. Investments

Investments of the Company (short term) as at 31st March 2021 amounted to Rs. 187.26 Mn (as at 31st March 2020 - Rs. 130.27 Mn).

11. Stated Capital and Reserves

The Stated Capital of the Company as at 31st March 2021 was Rs. 150 Mn (as at 31st March 2020 - Rs. 150 Mn) with 30 Mn shares in issue.

The total Reserves of the Company as at 31st March 2021 amounted to Rs. 1,298 Mn (as at 31st March 2020 - Rs. 1,269 Mn). The movement in these reserves is shown in the Statement of Changes in Equity on page 85.

	2021 Rs. Mn	2020 Rs. Mn
Revaluation Reserve	529	511
Retained Earnings	769	758
Total	1,298	1,269

12. SHAREHOLDING AND STOCK MARKET INFORMATION

As at 31st March 2021 there were 1,152 (as at 31st March 2020 – 1,186) registered shareholders. Top twenty shareholders, the distribution schedule, along with the public holding is given on pages 129 and 130.

An ordinary share of the Company was quoted on the CSE at Rs. 41.0 as at 31st March 2021 (31st March 2020 - Rs. 19.1). Information relating to earnings, dividend, net assets and market value per share is given under the "Five Year Summary" on pages 133 to 134 and in the "Shareholder and Investor Information Section" on page 131..

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 130) of this Annual Report.

13. Capital Commitments and Contingent Liabilities

Contingent liabilities and capital commitments made on capital expenditure and as at 31st March 2021 are given in Note 38 and 39 respectively in the notes to the Financial Statements on page 126.

14. Events Occurring After the Reporting Date

The details are given in Note 41 in the notes to the Financial Statements on page 126.

15. INFORMATION ON THE BOARD OF DIRECTORS

15.1. Directorate

The Board of Directors of the Company as at 31st March 2021 and their brief profiles are given in the Board of Directors section of this Annual Report on pages 16 to 19.

15.2 New Appointments and Resignation of Directors

All Directors of the Company held office during the entire year, with the exception of the following,

Resignations	Date of Resignation
Mr. M. H. De Silva	- 15th May 2020
Mr. J. R. Gunaratne	- 31st December 2020

Appointments	Date of Appointment
Ms. A. Goonetilleke	- 07th July 2020
Mr. A. Z. Hashim	- 01st January 2021

15.3 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 44 to 47.

15.4 Retirement of Directors and their re-election

In accordance with Article 83 of the Articles of Association of the Company, Mr. J. G. A. Cooray who retires by rotation and being eligible, will offer himself for re-election at the Annual General Meeting.

In accordance with Article 90 of the Articles of Association of the Company, Ms. A. Goonetilleke and Mr. A. Z. Hashim retire by rotation and being eligible, offer themselves for re-election.

The Company has recommended the re-election of Mr. A. S. Jayatilleke who is over 70 years old and retires in terms of Section 210 of the Companies Act No.7 of 2007. The resolution proposes that the age limit stipulated in Section 210 of the Companies Act shall not apply to Mr. A. S. Jayatilleke who is 70 years old and that he be re-elected a Director of the Company.

15.5 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 As at 31st March	2021 No. of Shares held	2020 No. of Shares held
Mr. K. N. J. Balendra	Nil	Nil
Mr. J. G. A. Cooray	Nil	Nil
Mr. J. R. Gunaratne (resigned w.e.f. 31st December 2020)	NA	Nil
Mr. A. Z. Hashim (appointed w.e.f. 1st January 2021)	Nil	Nil
Mr. E. H. Wijenaike	10,000	10,000
Mr. A. K. Gunaratne	Nil	Nil
Mr. M. H. De Silva (resigned w.e.f. 15th May 2020)	NA	Nil
Ms. A. Goonetilleke (appointed w.e.f. 07th July 2020)	Nil	Nil
Mr. A. S. Jayatilleke	Nil	Nil
Mr. S. K. L. Obeyesekere	Nil	Nil
Mr. H. R. A. Wanasinghe (CEO)	Nil	Nil

15.6 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.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

(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 No. 7 of 2007 and no additional interests have been disclosed by any Director.

(b) Share Dealings - There have been no other disclosures of share dealings as at 31st March 2021.

(C) Indemnities and remuneration

Ms. A. Goonetilleke was appointed as a Non-Executive Independent Director of the Company with effect from 7th July 2020 at the standard Non-Executive fees approved by the Board for Non-Executive Directors which fees are commensurate with the market complexities of the Company.

Mr. A. Z. Hashim was appointed as a Non-Executive Director of the Company with effect from 1st January 2021 at the standard Non-Executive fees approved by the Board for Non-Executive Directors (if applicable) which fees are commensurate with the market complexities of the Company.

15.7 Directors' Remuneration

The Directors' remuneration and fees in respect of the Company for the Financial Year ended 31st March 2021 are disclosed in Note 13.1 on page 103 of the Financial Statements.

15.8 Directors' Meetings

Details of Directors' meetings are presented on page 48 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 35 in the Notes to the Financial Statements on pages 124 and 125.

17. EMPLOYMENT

The number of persons employed by the Company as at 31st March 2021 was 496 (as at 31st March 2020 - 568).

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 42 to 60.

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 endeavors 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 herewith.

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 76 and the Audit Committee Report set out on pages 67 to 69 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 61 to 66 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 104 to 107.

22. GOING CONCERN

In determining the basis of preparing the financial statements for the year ended 31 March 2021, based on available information, the management has assessed the prevailing and anticipated effects of COVID-19 on the Company and the appropriateness of the use of the going concern basis.

It is the view of the management that there are no material uncertainties that may cast significant doubt on the Company's ability to continue to operate as going concern due to the improved operating environment despite the ongoing effects of the pandemic and the operationalisation of risk mitigation initiatives and continuous monitoring of business continuity and response plans along with the financial strength of the Company. The management have formed judgment that the Company have adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis in preparing and presenting these financial statements.

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

23. ENVIRONMENTAL PROTECTION

The Company is conscious of the impact, direct and indirect, on the environment due to its business activities. Every endeavor 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 2021. 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 2021.

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 details of fees paid to the Auditors by the Company is set out in Note 13.1 to the Financial Statements.

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 Annual General Meeting of the Company will be held as a virtual meeting, the date and time will be notified to Shareholders in due course

Krishan Balendra

K. N. J. Balendra
Chairman

J. G. A. Cooray
Director

Keells Consultants (Private) Limited
Company Secretaries

21st May 2021

STATEMENT OF DIRECTORS' RESPONSIBILITY

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 page pages 79 to 81 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 of;

- 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 Statement of Cash Flows for the year ended 31st March 2021 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 79 to 81.

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 38 to the Financial Statements covering contingent liabilities.

By Order of the Board

TEA SMALLHOLDER FACTORIES PLC
Keells Consultants (Private) Limited
Secretaries

21st May 2021

INFUSED WITH DEDICATION

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
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 2021, and the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2021 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 responded to the key audit matter
1. Valuation of land and buildings and Investment Property	
Property, Plant and Equipment and Investment Property include Land & Buildings carried at fair value. The fair values of land and buildings were determined by an external valuer engaged by the Company. Assessing the carrying value of Land & Buildings was a key audit matter due to: ➲ Materiality of the reported Land & Buildings and Investment Property balances amounted to Rs. 608 Mn and Rs. 425 Mn respectively which collectively represented 58% of the total assets as at 31 March 2021. ➲ The degree of assumptions, judgements and estimates associated with the valuation of Land and Buildings amplified by the impact of COVID-19. The valuation contains higher estimation uncertainties as there were fewer market transactions which are ordinarily a strong source of evidence regarding fair value. Key areas of significant judgments, estimates and assumptions included the following: ➲ Estimate of per perch value of the land ➲ Estimate of the per square foot value of the buildings	Our audit procedures included the following amongst others; ➲ We assessed the competency, capability and objectivity of the external valuer engaged by the Company. ➲ 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. ➲ We assessed 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. We have also assessed the adequacy of the disclosures made in Note 17.3 and Note 19.3 to the financial statements relating to the significant judgements, valuation technique and estimates.

INDEPENDENT AUDITOR'S REPORT

2. Assessment of Impairment of the assets of Karawita and New Panawenna Tea Factories	
As at 31 March 2021, company's total assets included Rs. 281 Mn of assets in Karawita and New Panawenna tea factories. As described in Note 17.1.1 to the financial statements, the management has estimated the recoverable amount of the assets of the above cash generating units based on the value in use computation. Assessment of Impairment of the assets of the above cash generating units was a key audit matter due to the degree of underlying assumptions coupled with estimates that arise when deriving the estimated cashflows used for value in use calculations. Key areas of significant judgments, estimates and assumptions included the following: ➲ Future revenue growth and changes in gross margin including the potential impact from COVID-19 ➲ Long term growth rates ➲ Discount rate	Our audit procedures included the following amongst others; ➲ Assessed the appropriateness of forecast revenue and gross margin growth rates with reference to historical forecasting accuracy considering the impact of COVID-19 on those forecasts. ➲ Evaluated the appropriateness and completeness of the information included in the value in use calculation based on our cumulative knowledge of the business driven by our review of strategic initiative and minutes of executive committee meetings. ➲ Assessed the appropriateness of the reasonableness of the significant judgements, estimates and assumptions such as volume growth rates and discount rates applied with the support from our internal specialised resources. We have also assessed the adequacy of the disclosures made in Note 17.1.1 to the financial statements.

Other information included in the Company's 2021 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 audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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 2097.

21 May 2021
Colombo

INCOME STATEMENT

For the year ended 31st March In LKR '000s	Notes	2021	2020
Continuing Operations			
Revenue from contracts with customers	9.2	2,346,224	2,109,139
Cost of Sales		(2,256,953)	(2,093,028)
Gross Profit		89,271	16,111
Other Operating Income	10.2	60,987	54,416
Administrative Expenses		(54,788)	(62,074)
Management Fees	11	(23,274)	(17,680)
Results From Operating Activities		72,196	(9,227)
Finance Cost	12.2	(79)	(4,187)
Finance Income	12.2	8,843	4,188
Net Finance Income / (Cost)		8,764	1
Change in fair value of Investment Property	19.2	(2,371)	39,297
Profit Before Tax from Continuing Operations	13.1	78,589	30,071
Tax (Expense) / Reversal from Continuing Operations	16.2	(12,045)	79,906
Profit for the Year from Continuing Operations		66,544	109,977
Discontinued Operations			
Profit / (Loss) after tax for the year from Discontinued Operation	26.2	-	(5,891)
Profit for the Year		66,544	104,086
Earnings per share from Continuing Operation - Basic	14	2.22	3.67
Earnings per share from Discontinued Operation - Basic	14	-	(0.20)
Dividend Per share	15	1.50	1.70

Figures in brackets indicate deductions.

The Accounting Policies and Notes as set out on pages 88 to 126 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st March In LKR '000s	Notes	2021	2020
Profit for the Year		66,544	104,086
Other Comprehensive Income			
Other Comprehensive Income not to be reclassified to profit or loss in subsequent periods			
Revaluation of Land and Buildings	17.2	20,522	62,184
Tax Effect	16.2.1	(2,491)	2,303
		18,031	64,487
Re-measurement Gain / (Loss) on Defined Benefit Plans	32.2	(12,484)	5,618
Tax Effect	16.2.1	1,748	(786)
		(10,736)	4,832
Net Other Comprehensive Income not to be reclassified to profit or loss in subsequent period		7,295	69,319
Total Other Comprehensive Income for the year, net of tax		7,295	69,319
Total Comprehensive Income for the year, net of tax		73,839	173,405

Figures in brackets indicate deductions.

The Accounting Policies and Notes as set out on pages 88 to 126 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31st March In LKR '000s	Notes	2021	2020
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	17.2	815,135	819,716
Right of Use Assets	18.1	2,309	2,398
Investment Property	19.2	424,605	426,976
Intangible Assets	20	8,803	9,203
Non-Current Financial Assets	21.1	2,964	1,688
Other Non-Current Assets	22.1	477	464
		1,254,293	1,260,445
Current Assets			
Inventories	23.2	253,605	182,161
Trade and Other Receivables	24	58,355	33,439
Other Current Assets	25	13,505	25,639
Income Tax Recoverable	16.3	-	2,532
Short Term Investments	27	187,265	130,271
Cash in Hand and at Bank	28	4,291	9,715
		517,021	383,757
Total Assets		1,771,314	1,644,202
EQUITY AND LIABILITIES			
Stated Capital	29	150,000	150,000
Revaluation Reserve	30	529,015	510,984
Retained Earnings	31	768,709	757,901
Total Equity		1,447,724	1,418,885
Non-Current Liabilities			
Deferred Tax Liabilities	16.4	99,046	105,010
Employee Benefit Liabilities	32.2	45,551	29,812
Deferred Grants and Subsidies	33.2	467	487
		145,064	135,309
Current Liabilities			
Trade and Other Payables	34	159,446	80,337
Amounts due to Related Parties	35.1	2,872	3,131
Income Tax Liabilities	16.3	2,923	-
Other Current Liabilities	36	13,283	6,037
Bank Overdraft	37	2	503
		178,526	90,008
Total Equity and Liabilities		1,771,314	1,644,202
Net Assets Per Share (Rs.)		48.26	47.30

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 88 to 126 form an integral part of these financial statements.

21st May 2021

Colombo

STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March In LKR '000s	Notes	Stated Capital	Revaluation Reserve	Retained Earnings	Total Equity
As at 1st April 2019		150,000	488,870	657,610	1,296,480
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	30	-	(42,373)	42,373	-
First and final dividend paid - 2018/2019		-	-	(51,000)	(51,000)
As at 31st March 2020		150,000	510,984	757,901	1,418,885
Profit for the year		-	-	66,544	66,544
Other comprehensive income		-	18,031	(10,736)	7,295
Total comprehensive income		-	18,031	55,808	73,839
Interim dividend paid - 2020/2021		-	-	(45,000)	(45,000)
As at 31st March 2021		150,000	529,015	768,709	1,447,724

Figures in brackets indicate deductions.

The Accounting Policies and Notes as set out on pages 88 to 126 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31st March In LKR '000s	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit Before Tax from Continuing Operations		78,589	30,071
Profit Before Tax from Discontinued Operation	26.2	-	867
Profit Before Tax		78,589	30,938
ADJUSTMENTS FOR			
Finance Income	12.2	(8,843)	(4,188)
Depreciation of Property, Plant and Equipment	13.1	67,946	61,195
Amortisation of Right of Use Assets	18.1	89	86
Amortisation of Intangible Assets	13.1	400	100
Gratuity Charge and Related Cost	32.2	7,821	6,670
Amortization of Grants	33.2	(20)	(20)
Finance Cost	12.2	79	4,187
Profit on disposal of Property, Plant and Equipment	10.2	(5,657)	(6,496)
Change in Fair Value of Investment Property from Continuing Operations	19.2	2,371	(39,297)
Operating Profit before Working Capital Changes		142,775	53,175
(Increase) / Decrease in Inventories		(71,444)	116,539
(Increase) / Decrease in Trade and Other Receivables		(26,192)	41,985
(Increase) / Decrease in Other Current Assets		919	(1,029)
(Increase) / Decrease in Other Non-Current Assets		(13)	133
Increase / (Decrease) in Trade and Other Payables		79,109	(79,455)
Increase / (Decrease) in Amount due to Related Parties		(259)	239
Increase / (Decrease) in Other Current Liabilities		7,246	(4,257)
Cash Generated from Operations		132,141	127,330
Finance Income Received		6,759	4,188
Finance Cost Paid		(79)	(4,187)
Gratuity Paid	32.2	(4,566)	(6,675)
Tax Paid	16.3	-	(4,825)
Net Cash from Operating Activities		134,255	115,831
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sale of Property, Plant and Equipment		7,504	7,539
Proceeds from Sale of Non Current Assets Held for Sale	26.5	-	75,000
Purchase of Property, Plant and Equipment	17.2	(44,688)	(37,738)
Net Cash from / (used) in Investing Activities		(37,184)	44,801
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend Paid	15	(45,000)	(51,000)
Net Cash from / (used) in Financing Activities		(45,000)	(51,000)
Net Increase / (Decrease) in Cash and Cash Equivalents		52,071	109,632
Cash and Cash Equivalents at the beginning	Note A	139,483	29,851
Cash and Cash Equivalents at the end	Note B	191,554	139,483
Notes			
A. Cash and Cash Equivalents at the beginning			
Cash and Bank Balances	28	9,715	1,104
Short Term Investments	27	130,271	32,777
Bank Overdraft	37	(503)	(4,030)
		139,483	29,851
B. Cash and Cash Equivalents at the end			
Cash and Bank Balances	28	4,291	9,715
Short Term Investments	27	187,265	130,271
Bank Overdraft	37	(2)	(503)
		191,554	139,483

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short-term deposits with a maturity of three months or less. For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Figures in brackets indicate deductions.

The Accounting Policies and Notes as set out on pages 88 to 126 form an integral part of these financial statements.

INDEX TO NOTES

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 31st March 2021 were authorized for issue by the Directors on 21st May 2021.

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.

Responsibility for Financial Statements

The responsibility of the Board of Directors in relation to the financial statements is set out in the Statement of Directors' Responsibility report in the Annual report.

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 impractible.

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 determining the basis of preparing the financial statements for the year ended 31 March 2021, based on available information, the management has assessed the prevailing and anticipated effects of COVID-19 on the Company and the appropriateness of the use of the going concern basis.

It is the view of the management there are no material uncertainties that may cast significant doubt on the Company's ability to continue to operate as going concern due to the improved operating environment despite the ongoing effects of the pandemic and the operationalisation of risk mitigation initiatives and continuous monitoring of business continuity and response plans along with the financial strength of the Company. The management have formed judgment that the Company have adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis in preparing and presenting these financial statements.

In determining the above, significant management judgements, estimates and assumptions, the impact of the COVID-19 pandemic has been considered as of the 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 and investment property	Note 17 and Note 19
c) Impairment of non-financial assets	Note 21
d) Taxes	Note 16
e) Employee benefit liability	Note 32
f) Provision for expected credit losses of trade receivables	Note 6.1.3

4 AMENDMENTS TO EXISTING ACCOUNTING STANDARDS

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

- Amendments to LKAS 1 and LKAS 8 Definition of Material
- Conceptual Framework for Financial Reporting
- Amendments to SLFRS 16 COVID-19 Related Rent Concessions

NOTES TO THE FINANCIAL STATEMENTS

4.1 **Standards Issued but not yet Effective**

The following amendments and improvements are not expected to have a significant impact on the Company's financial statements.

- Amendments to SLFRS 7, SLFRS 9 and LKAS 39: Interest Rate Benchmark Reform - Phase 1
- Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 : Interest Rate Benchmark Reform - Phase 2
- Amendments to LKAS 1: Classification of liabilities as Current or Non-current
- Amendments to SLFRS 3: Reference to the Conceptual Framework
- Amendments to LKAS 16: Property, Plant & Equipment - Proceeds before Intended Use
- Amendments to LKAS 37: Onerous Contracts - Cost of Fulfilling a Contract

BUSINESS, OPERATIONS AND MANAGEMENT

5 OPERATING SEGMENT INFORMATION

5.1 **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 aspects, 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.

5.2 Reporting Segment Information

5.2.1 Segment Revenue

Geographical Segment

For the Year Ended 31st March In LKR '000s	Note	Galle 2021	Galle 2020	Ratnapura 2021	Ratnapura 2020	N'Eliya 2021	N'Eliya 2020	Total 2021	Total 2020
Revenue from contracts with customers		1,210,485	1,109,211	476,234	458,132	659,505	541,796	2,346,224	2,109,139
								2,346,224	2,109,139
Segment Results									
Revenue Expenditure		(1,107,110)	(1,048,291)	(493,448)	(488,605)	(583,357)	(491,596)	(2,183,915)	(2,028,492)
Depreciation of Property, Plant and Equipment		(32,801)	(29,242)	(19,435)	(15,927)	(13,540)	(13,768)	(65,776)	(58,937)
Amortisation of Right of Use Assets		-	-	(89)	(86)	-	-	(89)	(86)
Amortisation of Intangible Assets		(200)	(50)	(100)	(25)	(50)	(13)	(350)	(88)
Gratuity Charge and Related Costs		(3,314)	(2,734)	(1,877)	(1,668)	(1,632)	(1,023)	(6,823)	(5,425)
Segment Gross Profit / (Loss)		67,060	28,894	(38,715)	(48,179)	60,926	35,396	89,271	16,111
Other Operating Income								60,987	54,416
Change in fair value of Investment Property								(2,371)	39,297
Finance Income								8,843	4,188
Unallocated Expenses								(54,867)	(66,261)
Management Fees								(23,274)	(17,680)
Profit Before Tax from Continuing Operations								78,589	30,071
Profit Before Tax from Discontinued Operations	26.2							-	867

NOTES TO THE FINANCIAL STATEMENTS

5.2.2 Segment Assets

For the Year Ended 31st March In LKR '000s	Galle		Ratnapura		N'Eliya		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Allocated Assets								
Non - Current Assets								
Property, Plant & Equipment	551,710	506,738	279,452	275,573	159,015	147,829	990,177	930,140
Depreciation of Property, Plant and Equipment	(87,450)	(59,033)	(57,397)	(41,337)	(33,055)	(15,820)	(177,902)	(116,190)
Right of Use Assets	-	-	3,083	3,083	-	-	3,083	3,083
Amortisation of Right of Use Assets	-	-	(774)	(685)	-	-	(774)	(685)
Intangible Assets	1,000	1,000	500	500	250	250	1,750	1,750
Amortisation of Intangible Assets	(250)	(50)	(125)	(25)	(63)	(13)	(438)	(88)
Current Assets	162,062	128,889	56,627	41,213	93,352	43,609	312,041	213,711
	627,072	577,544	281,366	278,322	219,499	175,855	1,127,937	1,031,721
Unallocated Assets								
Non - Current Assets								
Cost							459,367	466,241
Depreciation / Amortisation							(20,970)	(23,806)
Current Assets							204,980	170,046
Total Assets							1,771,314	1,644,202

5.2.3 Segment Liabilities

	Galle 2021	Galle 2020	Ratnapura 2021	Ratnapura 2020	N'Eliya 2021	N'Eliya 2020	Total 2021	Total 2020
Allocated Liabilities								
Non Current Liabilities	16,874	11,252	11,083	7,294	7,701	4,498	35,658	23,044
Current Liabilities	65,863	37,067	29,900	15,586	42,983	18,290	138,746	70,943
	82,737	48,319	40,983	22,880	50,684	22,788	174,404	93,987
Unallocated Liabilities								
Non Current Liabilities							109,406	112,265
Current Liabilities							39,780	19,065
							149,186	131,330
Total Liabilities							323,590	225,317

5.2.4 Segment Capital Expenditure

	Galle 2021	Galle 2020	Ratnapura 2021	Ratnapura 2020	N'Eliya 2021	N'Eliya 2020	Total 2021	Total 2020
Allocated Capital Expenditure	38,655	8,942	2,508	1,609	3,197	26,349	44,360	36,900
Unallocated Capital Expenditure							328	838
							44,688	37,738

6 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 of 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.

6.1 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.

The Company's exposure to credit risk is influenced by the individual characteristics of customers. 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 rearrangement of homogeneous groups which the COVID-19 outbreak has affected. Receivable balances are monitored on an ongoing basis to minimize bad debt risk and to ensure default rates are kept very low whilst the improved operating environment itself during the financial year has resulted in improved collections.

6.1.1 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.

As at 31 March 2021 In LKR '000s	Notes	Non current financial assets	Cash in hand and at bank	Trade and other receivables	Investments	Total	% of Allocation
Loans to Executives	6.1.2	2,964				2,964	1%
Trade and other receivables	6.1.3			58,355		58,355	23%
Short term investments	6.1.4				187,265	187,265	74%
Cash in hand and at bank	6.1.4		4,291			4,291	2%
Total credit risk exposure		2,964	4,291	58,355	187,265	252,875	100%

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2020 In LKR '000s		Non current financial assets	Cash in hand and at bank	Trade and other receivables	Investments	Total	% of Allocation
Loans to Executives	6.1.2	1,688				1,688	1%
Trade and other receivables	6.1.3			33,439		33,439	19%
Short term investments	6.1.4				130,271	130,271	74%
Cash in hand and at bank	6.1.4		9,715			9,715	6%
Total credit risk exposure		1,688	9,715	33,439	130,271	175,112	100%

6.1.2 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.

6.1.3 Trade and Other Receivables

As at 31st March In LKR '000s		2021	2020
Neither past due nor impaired		56,069	25,286
Past due but not impaired	0-30 days	1,748	5,028
	31-60 days	149	1,557
	61-90 days	99	488
	91-180 days	290	1,080
	> 180 days	6,612	7,261
Gross carrying value		64,967	40,700
Less: impairment provision			
Collectively assessed impairment provision		(6,612)	(7,261)
Total		58,355	33,439

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 homogenous 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.

6.1.4 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.191.55 Mn as at 31 March 2021 (2020-Rs. 139.48 Mn).

6.2 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.

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.

6.2.1 Net (Debt) / Cash

As at 31st March In LKR '000s	2021	2020
Short term investments	187,265	130,271
Cash in hand and at bank	4,291	9,715
Total liquid assets	191,556	139,986
Bank overdraft	2	503
Total liabilities	2	503
Net cash	191,554	139,483

The Company has obtained banking facilities to the value of Rs. 150 Mn, which comprise of an overdraft facility of Rs. 50 Mn from Hatton National Bank PLC, and an overdraft facility of Rs.100 Mn from Deutsche Bank. From the total limit, the outstanding as at 31 March 2021 was Rs. 0.002 Mn. Hence, an amount of Rs. 150 Mn is available for utilisation to finance any net debt.

6.2.2 Liquidity Risk Management

The 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 repurchase agreement, or other secured borrowings.

The Company continued to place emphasis on ensuring that cash and undrawn committed facilities are sufficient to meet the short, medium and long-term funding requirements, unforeseen obligations as well as unanticipated opportunities.

The daily cash management processes include active cash flow forecasts and matching the duration and profiles of assets and liabilities, thereby ensuring a prudent balance between liquidity and earnings.

NOTES TO THE FINANCIAL STATEMENTS

Maturity Analysis
The table below summarises the maturity profile of the company's financial liabilities at 31 March 2021 based on contractual undiscounted payments.

As at 31st March In LKR '000s	Below 3 months	Between 3-6 months	Between 6-12 months
Amounts due to related parties	2,872	-	-
Bank overdraft	2	-	-
Trade and Other Payables	159,446	-	-
Other Current Liabilities	13,283	-	-
	175,603	-	-

6.3 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.

6.4 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 2021 and as at 31 March 2020.

The global outbreak of the COVID-19 pandemic has resulted in reductions in policy rates and monetary easing policies by Central Bank of Sri Lanka which has resulted in a sharp reduction in lending rates. The Company has managed the risk of increased interest rates by having a balanced portfolio of borrowings at fixed and variable rates.

7 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 7.2, 17.3 and 17.4
Investment properties	Note 7.2 and 19.3
Financial instruments (including those carried at amortised cost)	Note 8

7.1 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.

7.2 Fair Value Hierarchy

7.2.1 Financial Assets and Liabilities

The financial assets and liabilities held by the Company as at 31 March 2021 as given under Note 8.2 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.

NOTES TO THE FINANCIAL STATEMENTS

7.2.2 Non Financial Assets

As at 31 March In LKR '000s	Notes	Date of Valuation	Level 1 2021	Level 1 2020	Level 2 2021	Level 2 2020	Level 3 2021	Level 3 2020	Total 2021	Total 2020
Assets measured at fair value										
Land and buildings	17.3	31st December 2020	-	-	-	-	607,901	606,027	607,901	606,027
Plant and machinery	17.4	31st March 2020	-	-	-	-	155,901	187,357	155,901	187,357
Investment property	19.3	31st December 2020	-	-	-	-	424,605	426,976	424,605	426,976
			-	-	-	-	1,188,407	1,220,360	1,188,407	1,220,360

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.

8 FINANCIAL INSTRUMENTS AND RELATED POLICIES

8.1 Accounting Policy

8.1.1 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.

8.1.2 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.

NOTES TO THE FINANCIAL STATEMENTS

8.2 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 In LKR '000s	Notes	2021	2020
Financial Assets in non-current assets			
Non-current financial assets	21.1	2,964	1,688
Financial Assets in current assets			
Trade and other receivables	24	58,355	33,439
Short term investments	27	187,265	130,271
Cash in hand and at bank	28	4,291	9,715
Total Financial Assets at amortised cost		252,875	175,113

Financial liabilities at amortised cost

As At 31st March In LKR '000s	Notes	2021	2020
Financial liabilities in current liabilities			
Trade and other payables	34	159,446	80,337
Amounts due to related parties	35.1	2,872	3,131
Bank overdraft	37	2	503
Total Financial Liabilities at amortised cost		162,320	83,971

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.

9 REVENUE

9.1 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.

9.2 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 In LKR '000s	2021	2020
Goods transferred at a point in time	2,382,380	2,145,523
Less - brokerage and handling charges	(36,156)	(36,384)
Revenue from contracts with customers	2,346,224	2,109,139

Dissagregation of Revenue based on geographical regions are set out in note 5.2

9.3 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 2021.

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 2021.

9.4 Performance obligations and significant judgements

The principal business activity of the Company is processing green leaf procured from smallholders 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 of cost and mark up which is equal to net proceeds.

10 OTHER OPERATING INCOME

10.1 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.

10.2 Other Operating Income

For the year ended 31st March In LKR '000s	2021	2020
Sale of residual tea	33,084	25,601
Rental income	16,188	15,637
Amortisation of deferred grants	20	20
Profit on sale of property, plant and equipment	5,657	6,496
Net margin on sale of fertiliser	3,516	3,069
Sundry income	2,522	3,593
	60,987	54,416

NOTES TO THE FINANCIAL STATEMENTS

11 MANAGEMENT FEE

For the year ended 31st March In LKR '000s	Note	2021	2020
Management fee to John Keells Teas (Private) Limited	35.5	23,274	17,680
		23,274	17,680

12 NET FINANCE INCOME / (COST)

12.1 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.

12.2 Net Finance Income / (Cost)

For the year ended 31st March In LKR '000s	2021	2020
Finance Income		
Interest income on loans to green leaf suppliers	2,882	3,404
Interest income on staff vehicle loans	282	330
Interest income on short term investments	5,679	454
Total finance income	8,843	4,188
Finance Cost		
Interest cost on short term borrowings	79	4,187
Total finance cost	79	4,187
Net finance income / (cost)	8,764	1

13 PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

13.1 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 In LKR '000s	2021	2020
Remuneration to Non Executive Directors	3,020	3,600
Auditors' remuneration		
Audit services	1,697	1,635
Non-audit services	70	-
Costs of defined employee benefits		
Defined benefit plan cost	7,821	6,670
Defined contribution plan cost - EPF and ETF	20,410	22,269
Staff costs	109,303	115,883
Depreciation of PPE and ROU asset	68,035	61,281
Amortisation of purchased software and licenses	400	100
Legal fees	205	270
Profit or loss on sale of property, plant and equipment	5,657	6,496

14 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 In LKR '000s	Notes	2021	2020
Net profit applicable to ordinary shareholders for basic earnings per share from Continuing Operations -Rs.'000s		66,544	109,977
Net profit applicable to ordinary shareholders for basic earnings per share from Discontinued Operation - Rs.'000s		-	(5,891)
Weighted average number of ordinary shares in issue - No. of shares in '000s	14.1	30,000	30,000
Basic earnings per share from Continuing Operations - Rs.		2.22	3.67
Basic earnings per share from Discontinued Operation - Rs.		-	(0.20)

14.1 Amount used as denominator

No. of shares in '000s	2021	2020
Ordinary shares at the beginning of the year	30,000	30,000
Ordinary shares at the end of the year	30,000	30,000

NOTES TO THE FINANCIAL STATEMENTS

15 DIVIDEND PER SHARE

For the year ended 31st March In LKR '000s	2021	2020
Declared and paid during the year		
Final dividend (Previous years' final dividend paid in the current year)	-	51,000
Interim dividend	45,000	-
Total Dividend	45,000	51,000
Weighted average number of ordinary shares in issue - No. of shares in '000s	30,000	30,000
Dividend per share - Rs.	1.50	1.70

16 TAXES

16.1 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.

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. The Company applies significant judgement in identifying uncertainties over income tax treatments. Since the Company operates in a complex environment, it assessed whether the Interpretation had an impact on its financial statements. The Company determined that it is probable that its tax treatments will be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements of the Company.

16.2 Tax Expense from Continuing Operations

For the year ended 31st March In LKR '000s	Notes	2021	2020
Current Income tax			
Current tax charge from Continuing Operations	16.6	18,319	4,428
Under / (Over) provision of current tax in respect of previous years		434	(2,456)
Deferred Income Tax			
Relating to origination and reversal of temporary differences	16.2.1	(6,708)	(81,878)
Total tax expense / (reversal) from Continuing Operations		12,045	(79,906)

16.2.1 Deferred Tax Expense

For the year ended 31st March In LKR '000s	2021	2020
Income Statement		
Deferred tax expense arising from;		
Accelerated depreciation for tax purposes	(6,018)	(90,844)
Revaluation of investment property to fair value	(237)	2,321
Employee benefit liabilities	(456)	4,962
Other deferred liabilities	3	74
Deferred tax charge / (reversal)	(6,708)	(83,487)
Deferred tax charge / (reversal) from Continuing Operations	(6,708)	(81,878)
Deferred tax charge / (reversal) from Discontinuing Operations	-	(1,609)
	(6,708)	(83,487)
Other Comprehensive Income		
Deferred tax expense arising from;		
Revaluation of Land and building to fair value	2,491	(2,303)
Re-measurement gain on defined benefit plans	(1,748)	786
Deferred tax charge / (reversal)	743	(1,517)

Deferred tax has been computed at the rate of 14% (14% in 2020).

16.3 Income Tax Payable / (Receivable)

Balance as at 31 March In LKR '000s	2021	2020
At the beginning of the year	(2,532)	(8,046)
Charge for the year	18,319	12,795
Payments and set off against refunds	(13,298)	(4,825)
Under / (over) provision of current tax in respect of previous years	434	(2,456)
At the end of the year	2,923	(2,532)

NOTES TO THE FINANCIAL STATEMENTS

16.4 Deferred Tax Liability

Balance as at 31 March In LKR '000s	2021	2020
At the beginning of the year	105,010	190,014
Under / (Over) Provision in respect of previous years	-	(80,515)
Charge / (release) for the year	(6,708)	(2,972)
Tax effect on revaluations	2,491	(2,303)
Tax effect on re-measurement gain on defined benefit plans	(1,748)	786
At the end of the year	99,046	105,010
The closing deferred tax liability relates to the following;		
Revaluation of investment property to fair value	7,561	7,798
Revaluation of Land and building to fair value	13,337	12,955
Accelerated depreciation for tax purposes	84,590	88,499
Employee benefit liability	(6,377)	(4,174)
Other liabilities	(65)	(68)
	99,046	105,010

16.5 Accounting Judgements, Estimates and Assumptions in Determining Tax Provisions

The Inland Revenue (Amendment) Bill, to amend the Inland Revenue Act, No. 24 of 2017, incorporating announcements implemented by the Inland Revenue Circular Nos. PN/IT/2020-03 (Revised) and PN/IT/2021-01 was Gazetted on 18 March 2021.

As the Bill has been Gazetted and also printed by order of Parliament as of the reporting date, the management, having applied significant judgment have concluded the provisions of the Inland Revenue (Amendment) Bill to be substantially enacted, and have relied upon the income tax rates specified therein to calculate the income tax liability and deferred tax provision for the 2020/21 financial year of the Company.

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" was 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, the Management was 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 2019/2020 financial year of the Company.

16.6 Reconciliation between Tax Expense and the product of Accounting Profit

For the year ended 31st March In LKR '000s	2021	2020
Profit Before Tax from Continuing Operations	78,589	30,071
Profit Before Tax from Discontinued Operations	-	867
Accounting profit before income tax	78,589	30,938
Profits not charged to income tax	-	(39,297)
Adjusted accounting profit chargeable to income taxes	78,589	(8,359)
Aggregate disallowable expenses	84,470	76,374
Aggregate allowable expenses	(32,211)	(35,517)
Taxable gain on sale of discontinued operation	-	58,893
Taxable income	130,848	91,391
At the effective income tax rate of 14%	18,319	12,794
Income tax charged from Continuing Operations at the rate of 14%.	18,319	4,428
Income tax charged from Discontinued Operations at the rate of 14%.	-	8,366
	18,319	12,794

16.7 Reconciliation between Tax Expense and the product of Accounting Profit

For the year ended 31st March In LKR '000s	2021	2020
Adjusted accounting profit chargeable to income taxes	78,589	(8,359)
Tax effect on chargeable profits	11,334	(1,169)
Tax effect on non deductible expenses	112	117
Tax effect on deductions claimed	(22)	309
Tax Effect on other taxes (Including Capital Gains 10%)	145	10,566
Under / (Over) provision of current tax in respect of previous years	476	(82,971)
Total tax expense / reversal	12,045	(73,148)
Total tax expense / (reversal) from Continuing Operations	12,045	(79,906)
Total tax expense from Discontinued Operations	-	6,758
	12,045	(73,148)

NOTES TO THE FINANCIAL STATEMENTS

17 PROPERTY, PLANT AND EQUIPMENT

17.1 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 an 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 as the Company implemented its business continuity plan which were operationalised during the early days of the pandemic. The Company also developed and instituted COVID-19-specific response plans and teams to enable smooth and uninterrupted functioning of business and operations to the extent possible, whilst maintaining strict adherence to Government directives and health and safety considerations in situations where normal operations are disrupted.

17.1.1 Impairment review of the assets in the Ratnapura segment
The Company has carried out an impairment test on Karawita and New Panawenna factories in the Ratnapura segment and there was no impairment loss requiring adjustments during the year as the recoverable amount of the assets were higher than the carrying value of the assets.

The recoverable amount of the assets under the Cash Generating Unit (CGU) has been determined based on the value in use calculation based on the approved financial budgets. Value in use calculation is based on a discounted cash flow model. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Gross margins
The basis used to determine the value assigned to the budgeted gross margins, are the gross margins achieved in the year preceding the budgeted year adjusted for projected market conditions.

Discount rates
The discount rate used 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 rates, based on projected economic conditions.

Volume growth
A volume growth has been budgeted on a reasonable and realistic basis by taking into account the growth rates based on industry growth rates.

NOTES TO THE FINANCIAL STATEMENTS

17.2 Carrying Value of Property, Plant and Equipment

In LKR ' 000s	Notes	Freehold Land at Valuation	Land Improvements at Valuation	Buildings on Land at Valuation	Plant and Machinery at Valuation	Furniture, Fittings and Equipment	Motor Vehicles	Computer Equipment	Capital Work in Progress	Total 2021	Total 2020
Cost or Valuation											
Balance as at 1st April 2020		99,976	9,000	501,386	187,357	30,206	98,833	16,008	1,076	943,843	1,054,126
Additions		-	-	-	-	146	-	310	44,233	44,689	37,738
Transfers from work in progress		-	-	245	10,771	-	-	-	(11,016)	-	-
Revaluations		11,650	(2,678)	11,550	-	-	-	-	-	20,522	62,184
Disposals		-	-	-	-	-	(10,966)	-		(10,966)	(11,421)
Transferred due to revaluation		-	-	(17,681)	-	-	-	-	-	(17,681)	(196,784)
Transfer out	20.1	-	-	-	-	-	-	-	-	-	(2,000)
Balance as at 31 March 2021		111,626	6,322	495,500	198,128	30,352	87,867	16,318	34,293	980,407	943,843
Accumulated Depreciation and Impairment											
Balance as at 1st April 2020		-	78	4,257	-	25,348	82,375	12,068	-	124,127	270,092
Charge for the year		-	936	17,957	42,227	1,135	4,035	1,655	-	67,945	61,195
On disposals		-	-	-	-	-	(9,119)	-		(9,119)	(10,377)
Transferred due to revaluation		-	-	(17,681)	-	-	-	-	-	(17,681)	(196,784)
Balance as at 31 March 2021		-	1,014	4,533	42,227	26,483	77,291	13,723	-	165,272	124,127
Carrying Value											
As at 31 March 2021		111,626	5,308	490,967	155,901	3,869	10,576	2,595	34,293	815,135	819,716
As at 31 March 2020		99,976	8,922	497,129	187,357	4,858	16,458	3,940	1,076	819,716	

17.3 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 an independent expert valuer 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 2020.

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 2020 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.

The valuations as of 31 December 2020 contained a higher estimation of uncertainty as there were fewer market transactions which are ordinarily a strong source of evidence regarding fair value. The value reflected represents the best estimate based on the market conditions that prevailed, which in valuers' considered opinion, meets the requirements in SLFRS-13 Fair Value Measurement.

The fair value of land and buildings as at 31 March 2021 is Rs. 607.90 Mn (as at 31 March 2020 - Rs. 606.03 Mn)

Information on fair value measurement on land and building as at 31 March 2021 using significant unobservable inputs (level 3) is given below.

Type of Asset	Fair Value as at 31 March 2021 (LKR '000s)	Method of Valuation	Significant Unobservable Inputs	Estimates for Unobservable inputs	Sensitivity of Fair Value to Unobservable Inputs
Land	116,934	Market Approach	Estimated price per perch	Rs. 7,531 - Rs. 28,500	Positively correlated sensitivity
Buildings	490,967	Depreciated replacement cost method	Estimated price per square foot	Rs. 844 - Rs.1,476	Positively correlated sensitivity
	607,901				

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	Fair Value as at 31 March 2020 (LKR '000s)	Method of Valuation	Significant Unobservable Inputs	Estimates for Unobservable inputs	Sensitivity of Fair Value to Unobservable Inputs
Land	108,898	Market Approach	Estimated price per perch	Rs. 6,454 - Rs.25,000	Positively correlated sensitivity
Buildings	497,129	Depreciated replacement cost method	Estimated price per square foot	Rs. 875 - Rs.1,464	Positively correlated sensitivity
	606,027				

17.4 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 2021 is Rs. 155.90 Mn (as at 31 March 2020 - Rs. 187.36 Mn).

NOTES TO THE FINANCIAL STATEMENTS

Information on fair value measurement on plant and machinery as at 31 March 2021 using significant unobservable inputs (level 3) is given below.

Type of Asset	Fair Value as at 31 March 2021 (LKR '000s)	Method of Valuation	Significant Unobservable Inputs	Estimates for Unobservable Inputs	Sensitivity of Fair Value to Unobservable Inputs
Plant and machinery	155,901	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 2020 using significant unobservable inputs (level 3) is given below.

Type of Asset	Fair Value as at 31 March 2020 (LKR '000s)	Method of Valuation	Significant Unobservable Inputs	Estimates for Unobservable Inputs	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

17.5 Carrying Value of total Property, Plant and Equipment

As at 31st March In LKR '000s	2021	2020
At cost	51,333	26,332
At valuation	763,802	793,384
	815,135	819,716

17.6 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 31st March In LKR '000s	2021	2020
Land and Buildings		
Cost	276,782	276,782
Accumulated depreciation and impairment	(141,818)	(135,429)
Carrying value	134,964	141,353
Plant and Machinery		
Cost	496,586	485,815
Accumulated depreciation and impairment	(357,432)	(347,991)
Carrying value	139,154	137,824

17.7 The cost of fully depreciated assets, but still in use of the Company amounts to Rs. 123 Mn as of 31 March 2021 (As at 31 March 2020 - Rs. 118 Mn).

18 LEASES

Accounting Policy

Set out below are the 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 as at the reporting date due to the COVID-19 pandemic as the Company implemented its business continuity plans which were operationalised during the early days of the pandemic. The Company also developed and instituted COVID-19-specific response plans and teams to enable smooth and uninterrupted functioning of business and operations to the extent possible, whilst maintaining strict adherence to Government directives and health and safety considerations in situations where normal operations are disrupted.

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 lease payment was paid in and the Company does not have a lease liability 31st March 2021.

18.1 Right of Use Assets

As at 31st March In LKR '000s	2021	2020
Balance at the beginning of the year	2,398	-
Transferred from Lease Rentals Paid in Advance	-	2,483
Amortisation for the year	(89)	(86)
Balance at the end of the year	2,309	2,398

The remaining period for the leasehold property is 26 years.

19 INVESTMENT PROPERTY

19.1 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.

NOTES TO THE FINANCIAL STATEMENTS

19.2 Carrying Value of Investment Property

As at 31 March In LKR '000s	2021	2020
At the beginning of the year	426,976	387,679
Change in fair value during the year	(2,371)	39,297
At the end of the year	424,605	426,976

19.3 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 2020. 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.

The valuation as of 31 December 2020 contained a higher estimation of uncertainty as there were fewer market transactions which are ordinarily a strong source of evidence regarding fair value. The value reflected represents the best estimate based on the market conditions that prevailed, which in valuers' considered opinion, meets the requirements in SLFRS-13 Fair Value Measurement.

Information on fair value measurement on investment property as at 31 March 2021 using significant unobservable inputs (level 3) is given below.

Investment Property situated at No. 77 A, New Nuge Road, Peliyagoda

Type of Asset	Fair Value as at 31 March 2021 (LKR '000s)	Method of Valuation	Significant Unobservable Inputs	Estimates for Unobservable inputs	Sensitivity of Fair Value to Unobservable Inputs
Land	392,976	Direct Capital Comparison Method	Estimated price per perch	Rs. 2,500,000/- per perch	Positively correlated sensitivity
Buildings	31,629		Estimated price per square foot	Rs.1,000/- per square foot	Positively correlated sensitivity
	424,605				

Information on fair value measurement on investment properties 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	Fair Value as at 31 March 2020 (LKR '000s)	Method of Valuation	Significant Unobservable Inputs	Estimates for Unobservable inputs	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				

19.4 Rental Income earned and direct operating expenses incurred on Investment Property

For the year ended 31st March In LKR '000s	2021	2020
Rental Income	16,188	15,637
	16,188	15,637

* 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 2021

In LKR '000s	
Within one year	**17,087**
After one year but not more than five years	**14,239**

The Company has entered into an operating lease on its investment property, and is due for renewal on 1st February 2023.

20 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.

NOTES TO THE FINANCIAL STATEMENTS

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 is calculated by using straight-line method on the cost of all the intangible assets and 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 In LKR '000s	Note	2021	2020
Purchased Software	20.1	1,500	1,900
Goodwill	20.2	7,303	7,303
		8,803	9,203

20.1 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 In LKR '000s	Note	2021	2020
Cost/Carrying Value			
At the beginning of the year		2,000	-
Transferred from Capital Working Progress	17.2	-	2,000
At the end of the year		2,000	2,000
Accumulated amortisation and impairment			
At the beginning of the year		100	-
Charge for the year		400	100
At the end of the year		500	100
Carrying Value			
As at 31 March		1,500	1,900

Assets	Years	Type	Impairment Testing
Purchased software	5	Acquired	When indicators of impairment exists, The amortisation method is reviewed at each financial year end.

20.2 Goodwill

Carrying Value of Goodwill

As at 31st March In LKR '000s	2021	2020
Carrying Value		
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 2021 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.

20.3 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 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.

21 OTHER NON-CURRENT FINANCIAL ASSETS

21.1 Loans to Executives

As at 31st March In LKR '000s	2021	2020
At the beginning of the year	2,215	2,888
Loans granted	2,100	-
Recoveries	(693)	(673)
At the end of the year	3,622	2,215
Receivable within one year	658	527
Receivable after one year		
Receivable between one and five years	2,964	1,688
	2,964	1,688
	3,622	2,215

NOTES TO THE FINANCIAL STATEMENTS

22 OTHER NON-CURRENT ASSETS

22.1 Prepaid Staff Cost

As at 31st March In LKR '000s	2021	2020
At the beginning of the year	464	597
Additions	129	-
Amortisation	(116)	(133)
At the end of the year	477	464

23 INVENTORIES

23.1 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 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

23.2 Carrying Value of Inventories

As at 31st March In LKR '000s	2021	2020
Fertiliser stock	3,065	4,252
Consumables and spares	10,620	8,767
Produce stocks*	239,920	169,142
	253,605	182,161

* During 2021, Rs. 2.4 Mn was recognised as an expense for inventories carried at net realisable value at Karawita Tea Factory. This is recognised in cost of sales

24 TRADE AND OTHER RECEIVABLES

As at 31st March In LKR '000s	Notes	2021	2020
Trade receivables		43,285	-
Other receivables*		21,024	40,173
Less: Impairment provision	24.1	(6,612)	(7,261)
		57,697	32,912
Current portion of loans to Executives	21.1	658	527
		58,355	33,439

* Other receivables include amounts receivable from bought leaf supplier as of 31st March 2021.

24.1 Impairment provision

As at 31st March In LKR '000s	2021	2020
At the beginning of the year	7,261	2,770
Provision for the year	(649)	4,491
At the end of the year	6,612	7,261

25 OTHER CURRENT ASSETS

As at 31st March In LKR '000s	2021	2020
Non financial assets	3,228	3,362
ESC recoverable	10,277	22,277
	13,505	25,639

26 ASSETS CLASSIFIED AS HELD FOR SALE

26.1 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 sale 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 resale

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 re-present the results of operations in accordance with SLFRS 5.

26.2 The results of discontinued operations are presented below:

As at 31st March In LKR '000s	Notes	2021	2020
Other operating income		-	867
Profit / (Loss) before tax from discontinued operation		-	867
Tax expense	26.3	-	(6,758)
Profit / (Loss) after tax from discontinued operation		-	(5,891)

NOTES TO THE FINANCIAL STATEMENTS

26.3 Tax expense from discontinued operation

As at 31st March In LKR '000s	2021	2020
Current income tax		
Current tax charge from discontinued operation	-	(122)
Capital Gains tax on sale of discontinued operation	-	(8,245)
Deferred income tax		
Relating to origination and reversal of temporary differences	-	1,609
Total tax expense	-	(6,758)

26.4 The net cash flows incurred by Pasgoda Tea Factory are, as follows;

As at 31st March In LKR '000s	2021	2020
Cash generated from operation	-	867
Net cash inflow	-	867

26.5 Carrying Value of Assets classified as Held for Sale

As at 31st March In LKR '000s	2021	2020
At the beginning of the year	-	75,000
Disposal of assets classified as held for sale	-	(75,000)
At the end of the year	-	-

27 SHORT TERM INVESTMENTS

As at 31st March In LKR '000s	2021	2020
*Call Deposits	115,000	80,000
*Fixed Deposits	30,000	-
Savings Accounts	42,265	50,271
	187,265	130,271

*Deposits will be matured within a period of 3 months.

28 CASH IN HAND AND AT BANK

As at 31st March In LKR '000s	2021	2020
Cash at bank	4,246	9,666
Cash in hand	37	42
Stamp balance	8	7
	4,291	9,715

29 STATED CAPITAL

As at 31st March In LKR '000s	2021 Number of Shares	2021 Value of Shares	2020 Number of Shares	2020 Value of Shares
Issued and fully paid Ordinary Shares	30,000	150,000	30,000	150,000
	30,000	150,000	30,000	150,000

30 REVALUATION RESERVE

As at 31st March In LKR '000s	2021	2020
At the beginning of the year	510,984	488,870
Net revaluation gain / (loss)	18,031	64,487
Transfer to retained earnings *	-	(42,373)
At the end of the year	529,015	510,984

The above revaluation reserve consists of net surplus resulting from the revaluation of property, plant and equipment as described in Note 17.3 to these financial statements. This unrealised amount cannot be distributed to shareholders.

* Gains (net of tax) related revaluation of land, building and plant and equipment of Pasgoda Tea Factory, sold during 2019/2020 was transferred from revaluation reserve to retained earnings upon its disposal.

31 RETAINED EARNINGS

As at 31st March In LKR '000s	2021	2020
Retained Earnings	768,709	757,901
	768,709	757,901

32 EMPLOYEE BENEFIT LIABILITIES

32.1 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. Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The obligation is not externally funded.

NOTES TO THE FINANCIAL STATEMENTS

32.2 Employee Defined Benefit Plan – Retirement Gratuity

As at 31st March In LKR '000s	2021	2020
At the beginning of the year	29,812	35,435
Current service cost	4,542	3,367
Interest cost on benefit obligation	3,279	3,303
Payments	(4,566)	(6,675)
(Gain) / loss arising from changes in assumptions	12,484	(5,618)
At the end of the year	45,551	29,812

The employee benefit liability as at 31st March 2021 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. 47.3 Mn (As of 31st March 2020 - Rs. 34.7 Mn)

The expenses are recognised in the income statement in the following line items;

As at 31st March In LKR '000s	2021	2020
Cost of sales	6,822	5,426
Administrative expenses	999	1,244
	7,821	6,670

The actuarial gain on defined benefit obligation has been recognised in the statement of comprehensive income in terms of the provision in LKAS 19.

32.3 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	2021	2020
Discount rate (per annum)	7.00%	11.00%
Future salary increases - Staff (per annum)	8.00%	8.00%
- Workers (Once in every two years)	20.00%	20.00%

32.4 Sensitivity of Assumptions used

A qualitative sensitivity analysis for significant assumptions as at 31st March 2021 is shown below.

	Discount Rate		Increment Rate	
Sensitivity level	Increase	Decrease	Increase	Decrease
	1%	1%	1%	1%
Net impact on Employee Benefit Liability	(1,221)	1,298	896	(862)

A qualitative sensitivity analysis for significant assumptions as at 31st March 2020 is shown below.

	Discount Rate		Increment Rate	
Sensitivity level	Increase	Decrease	Increase	Decrease
	1%	1%	1%	1%
Net impact on Employee Benefit Liability	(1,621)	1,820	1,405	(1,299)

32.5 Maturity Profile of the Employee Benefit Liability as at 31st March 2021

Future Working Life Time	Employee Benefit Liability - In LKR '000s		
	Staff	Workers	Total
Within the next 12 months	3,106	11,897	15,003
Between 1 - 2 years	6,478	6,781	13,259
Between 2 - 5 years	6,049	5,954	12,003
Between 5 - 10 years	1,524	2,812	4,336
Beyond 10 years	613	337	950
Total	17,770	27,781	45,551

The average duration of the employee benefit liability as at 31st March 2021 is 3.52 years for Staff and 2.53 years for Workers.

32.6 Maturity Profile of the Employee Benefit Liability as at 31st March 2020

Future Working Life Time	Employee Benefit Liability - In LKR '000s		
	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 OTHER DEFERRED LIABILITIES

Government Grants

33.1 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.

NOTES TO THE FINANCIAL STATEMENTS

33.2 Carrying Value

As at 31st March In LKR '000s	2021	2020
At the beginning of the year	487	507
Received during the year	-	-
Amortisation	(20)	(20)
At the end of the year	467	487

34 TRADE AND OTHER PAYABLES

As at 31st March In LKR '000s	2021	2020
Trade payables	127,809	64,004
Sundry creditors and accrued expenses	25,517	15,002
Unclaimed dividend	6,120	1,331
	159,446	80,337

35 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 on terms equivalent to those that prevail in arm's length transactions.

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 2021. (31 March 2020 - Nil)

35.1 Amounts Due to Related Parties

As at 31st March In LKR '000s	2021	2020
Parent Company		
John Keells Holdings PLC	236	212
Companies Under Common Control		
Mackinnon's Keells Limited	237	229
Keells Consultants (Private) Limited	148	125
Infomate (Private) Limited	41	41
Whittal Bousted (Private) Limited	71	84
John Keells Teas (Private) Limited	2,139	2,377
John Keells Office Automation (Private) limited	-	8
John Keells IT	-	56
Mack Air (Private) Limited	-	(1)
	2,872	3,131

35.2 Transactions with Related Parties

As at 31st March In LKR '000s	2021	2020
Parent Company		
Receiving of services	(2,224)	(2,466)
Companies Under Common Control of the Parent Company		
Purchases of goods	(319)	(515)
Sale of goods	-	21
Receiving of services	(53,718)	(51,218)
Rent paid	(2,175)	(2,461)
Transactions with Associates		
Receiving of services	(2,381)	(2,663)
Companies which have Significant Influence		
Purchases of goods	(784)	(699)

35.3 Transactions with Key Management Personnel of the Company

The Company has paid Rs. 3.02 Mn (2019/2020 - Rs. 3.60 Mn) to their Directors as fees during the year. There are no non 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

35.4 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 the period end are unsecured, interest free and settlement occurs in cash. The sales to & purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.

35.5 Management Fee

The management fee to managing agents, John Keells Teas (Private) Limited was paid at contractual price.

36 OTHER CURRENT LIABILITIES

As at 31st March In LKR '000s	2021	2020
Rent advance on investment property	8,544	-
Other payables	4,739	6,037
	13,283	6,037

37 BANK OVERDRAFT

As at 31st March In LKR '000s	2021	2020
Deutsche Bank	2	503
	2	503

NOTES TO THE FINANCIAL STATEMENTS

38 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.

39 CAPITAL COMMITMENT

The value of contractual commitments for acquisition of property, plant and equipment as at 31 March 2021 is Rs. 3.17 Mn (as at 31 March 2020 - Rs. 0.61 Mn).

40 ASSETS PLEDGED AS SECURITY

No assets have been pledged for facilities obtained by the Company as at 31 March 2021.

41 EVENTS AFTER THE REPORTING PERIOD

There have been no material events occurring after the statement of financial position date that require adjustment or disclosure in the financial statements.

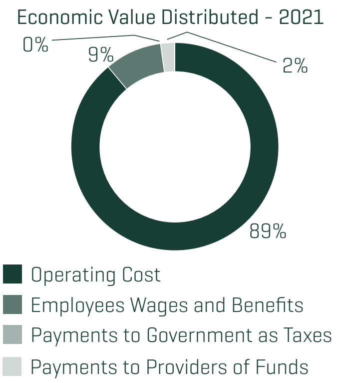
INFUSED WITH **VALUE**

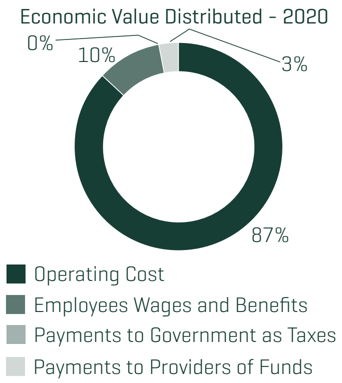
SUPPLEMENTARY INFORMATION

STATEMENT OF ECONOMIC VALUE ADDED

Year Ended 31st March In LKR '000s	2021		2020		2019		2018		2017	
DIRECT ECONOMIC VALUE GENERATED										
Turnover	2,346,224		2,109,139		2,171,257		2,679,634		2,312,330	
Finance Income	8,843		4,188		4,525		6,997		4,400	
Other Income	60,986		55,283		52,989		54,720		33,070	
Valuation gain on Investment Property	(2,371)		39,297		54,768		172,737		23,263	
	2,413,682		2,207,907		2,283,540		2,914,087		2,373,063	
ECONOMIC VALUE DISTRIBUTED										
Operating Cost	2,061,505	89%	1,820,485	87%	1,950,385	87%	2,352,378	88%	1,994,168	89%
Employees Wages and Benefits	198,800	9%	204,973	10%	213,771	10%	231,942	9%	211,131	9%
Government Taxes	18,319	0%	12,795	0%	5,316	0%	23,357	1%	18,929	1%
Payments to Providers of Funds	45,079	2%	55,187	3%	64,663	3%	53,018	2%	18,303	1%
	2,323,703		2,093,440		2,234,135		2,660,696		2,242,532	
ECONOMIC VALUE RETAINED										
Depreciation	68,434		61,381		58,087		60,318		60,511	
Profit Retained	21,544		53,086		(8,682)		193,072		70,020	
	89,980		114,467		49,405		253,391		130,531	

Above data has been derived from the audited financial statements that were prepared based on Sri Lanka Accounting Standards (SLFRS / LKAS).





From the total value created for 2020/21 of Rs. 2.41 Bn, an increase of 9%, compared to the total economic value created of Rs. 2.21 Bn in 2019/20, has been recognized. Of the total value distributed of Rs. 2.32 Bn in 2020/21, 89% was spent on operating cost, 9% was distributed to employees in the form of remuneration and statutory payments, 0.8% to the Government in the form of taxes and tariffs and 2% was paid as dividends and interest for providers of funds. Of the total value created of Rs. 2.41 Bn for 2020/21, 4% 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 2021 have been submitted to the Colombo Stock Exchange.

2. DISTRIBUTION OF ORDINARY SHAREHOLDERS

	31st March 2021				31st March 2020			
No. of Shares held	Shareholders		Holdings		Shareholders		Holdings	
	Number	%	Number	%	Number	%	Number	%
Less than or equal to 1000	874	75.87	174,959	0.58	898	75.72	182,315	0.61
1,001 -10,000	244	21.18	744,996	2.48	253	21.33	754,369	2.51
10,001 - 100,000	27	2.34	655,368	2.18	28	2.36	707,818	2.36
100,001 - 1,000,000	3	0.26	1,032,185	3.44	3	0.25	963,006	3.21
Over 1,000,000	4	0.35	27,392,492	91.31	4	0.34	27,392,492	91.31
Total	1,152	100.00	30,000,000	100.00	1,186	100.00	30,000,000	100.00

3. ANALYSIS OF SHAREHOLDERS

	31st March 2021				31st March 2020			
Categories of Shareholders	Shareholders		Holdings		Shareholders		Holdings	
	Number	%	Number	%	Number	%	Number	%
Individuals	1,115	96.79	2,007,289	6.69	1,139	96.04	1,978,184	6.59
Institutions	37	3.21	27,992,711	93.31	47	3.96	28,021,816	93.41
Total	1,152	100.00	30,000,000	100.00	1,186	100.00	30,000,000	100.00
Residents	1,144	99.31	29,969,298	99.90	1,178	99.33	29,976,640	99.92
Non Residents	8	0.69	30,702	0.10	8	0.67	23,360	0.08
Total	1,152	100.00	30,000,000	100.00	1,186	100.00	30,000,000	100.00
Public Shareholding	1,148	99.65	9,915,508	33.05	1,182	99.66	9,915,508	33.05
Non - Public Shareholding	4	0.35	20,084,492	66.95	4	0.34	20,084,492	66.95
Total	1,152	100.00	30,000,000	100.00	1,186	100.00	30,000,000	100.00

4 PUBLIC SHARE HOLDING

	As at 31st March 2021	As at 31st March 2020
Number of Public Shareholders	1,148	1,182
Public Holding Percentage	33.05	33.05
The Float Adjusted Market Capitalization - Rs. Mn	406.54	189.39

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 2021, the public holding of the Company stood at 33.05 percent surpassing the minimum requirement of 20 percent under, option 5.

INFORMATION TO SHAREHOLDERS AND INVESTORS

5 TWENTY LARGEST SHAREHOLDERS OF THE COMPANY

	Name	31st March 2021 No. of Shares Held	31st March 2021 % Holdings	31st March 2020 No. of Shares Held	31st March 2020 % 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	392,100	1.31	392,300	1.31
7	Mr. D. F. G. Dalpethado & Mrs. H. F. A. K. D. Fonseka	170,965	0.57	Nill	-
8	People's Leasing & Finance PLC / L. P. Hapangama	83,516	0.28	Nill	-
9	Mr. C. S. N. Silvapulle	76,420	0.25	37,956	0.13
10	Mr. N. D. Kurukulasuriya	62,400	0.21	62,400	0.21
11	Dr. D. S. A. Samaraweera	53,000	0.18	53,000	0.18
12	People's Leasing & Finance PLC / Dr. H. S. D. Soysa & Mrs. G. Soysa	37,557	0.13	5,800	0.02
13	Mr. Z. G. Carimjee	25,000	0.08	25,000	0.08
14	Mr. C. N. Lawrence	24,000	0.08	24,000	0.08
15	Dr. N. I. Wickramanayake	22,482	0.07	43,691	0.15
16	Mrs. Jacintha Aloysius	20,000	0.07	20,000	0.07
17	Mrs. Janiffer Aloysius	20,000	0.07	20,000	0.07
18	Mr. E. Gunatunga (Deceased)	20,000	0.07	20,000	0.07
19	Mr. H. A. S. Madanayaka	20,000	0.07	20,000	0.07
20	People's Leasing & Finance PLC / L. H. L. M. P. Haradasa	14,785	0.05	17,564	0.06
	Total	28,903,837	96.36	28,603,323	95.37

Note - The percentage of public shareholding is stated on page 129 under "Public Share Holding".

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 2021 are as follows.

As at 31st March		2021 No. of Shares	2020 No. of Shares
Mr. K. N. J. Balendra (Chairman)		Nil	Nil
Mr. J. G. A. Cooray		Nil	Nil
Mr. E. H. Wijenaike		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. A. K. Gunaratne		Nil	Nil
Ms. A. Goonetilleke	(Appointed w.e.f 07th July 2020)	Nil	Nil
Mr. A. Z. Hashim	(Appointed w.e.f 01st January 2021)	Nil	Nil
Mr. J. R. Gunaratne	(Resigned w.e.f 31 st December 2020)	Nil	Nil
CEO			
Mr. H. R. Wanasinghe		Nil	Nil

7 MARKET VALUE

For the year ended 31st March	2021 Rs.	2020 Rs.	2019 Rs.	2018 Rs.	2017 Rs.
Highest Price	46.20	30.00	37.50	46.00	36.10
Lowest Price	19.40	19.10	18.90	23.00	20.00
As at Year End	41.00	19.10	24.10	34.00	24.00
Market capitalisation (Rs. Mn)	1,230	573	723	1,020	720

8 TRADING STATISTICS

For the year ended 31st March	2021	2020
No. of Trades	1,305	413
No. of Shares Traded	952,099	118,840
Value of Traded Shares - Rs.	37,097,002	3,169,290

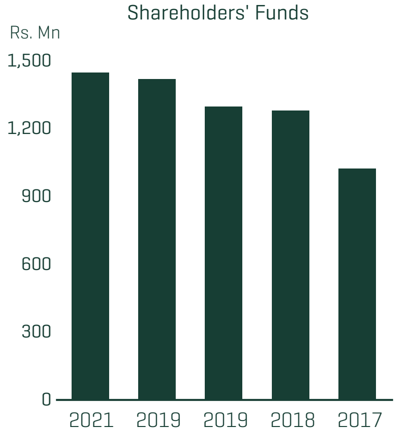
9 DIVIDEND PAYMENT

An Interim dividend Rs. 1.50 per share for the year ending 31 March 2021 was paid on 26th March 2021.

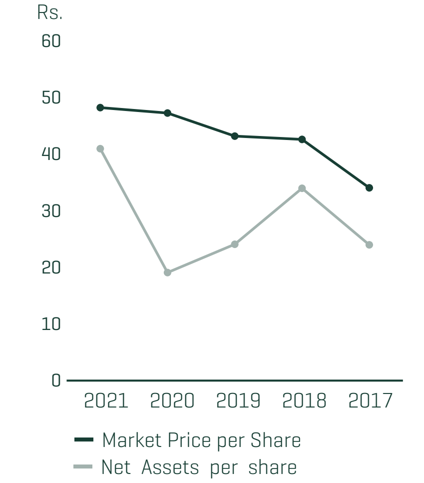
10 RATIOS AND STATISTICS

For the year ended 31st March	2021	2020	2019	2018	2017
No. of shares in issue (In '000s)	30,000	30,000	30,000	30,000	30,000
Earnings per Share (EPS) - Rs	2.22	3.47	1.71	8.14	2.83
EPS growth (%)	(36)	103	(79)	187	1,076
Price earning ratio (No. of times)	18.5	5.5	14.1	4.2	8.5
Dividend payout ratio (%)	67.6	49.0	116.9	20.9	17.6
Pre-tax return on capital employed (Pre-tax ROCE) (%)	5.5	2.6	3.3	23.8	11.7
Return on equity (ROE) (%)	4.6	7.7	4.0	21.2	8.8
Net Assets per share (Rs)	48.26	47.30	43.22	42.64	34.08
Market Price per Share (Rs.)	41.00	19.10	24.10	34.00	24.00
Market capitalisaion (Rs.'000s)	1,230,000	573,000	723,000	1,020,000	720,000
Dividend per Share (Rs.)	1.50	1.70	2.00	1.70	0.50
Dividend Yield (%)	3.7	8.9	8.3	5.0	2.1

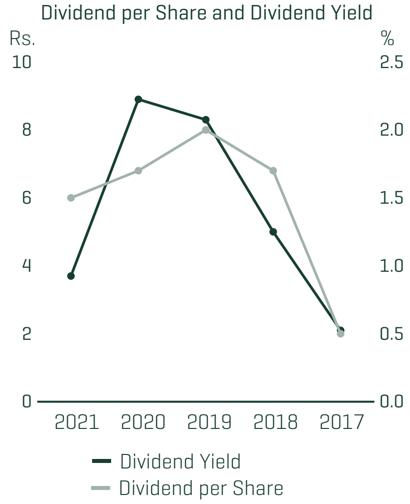
Shareholders' Funds



Market Price per Share and Net Asset per Share



Dividend per Share and Dividend Yield



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.

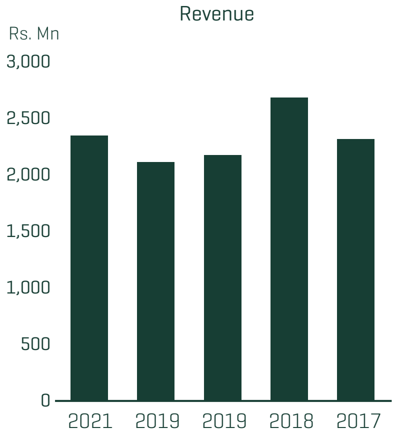
Factory/Site	Location	District	Extent of Land						Buildings		NBV As at 31st March 2021 LKR '000s	NBV As at 31st March 2020 LKR '000s
			Freehold			Leasehold			No. of Buildings	Square Feet		
			A	R	P	A	R	P				
Neluwa	Neluwa	Galle	3	2	38	-	-	-	18	49,552	79,472	80,331
Halwitigala	Thawalama	Galle	9	2	18	-	-	-	14	53,432	69,544	69,712
Hingalgoda	Hiniduma	Galle	12	-	6	-	-	-	26	65,994	105,278	104,573
Kurupanawa	Nagoda	Galle	12	-	19	-	-	-	22	56,634	90,383	88,425
New Panawenna	Kahawatte	Ratnapura	10	2	14	-	-	-	8	46,186	58,654	57,675
Broadlands	Pitawela	Nuwara Eliya	4	-	22	-	-	-	14	61,040	83,345	81,388
Karawita	Uda Karawita	Ratnapura	-	-	-	4	3	37	12	79,244	121,225	123,923

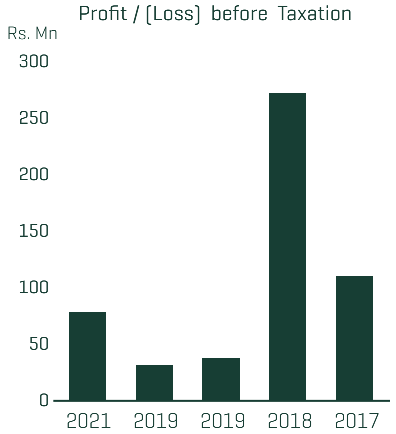
Investment Property

Factory/Site	Location	District	Extent of Land						Buildings		NBV As at 31st March 2021 LKR '000s	NBV As at 31st March 2020 LKR '000s
			Freehold			Leasehold			No. of Buildings	Square Feet		
			A	R	P	A	R	P				
Warehouse	Peliyagoda	Gampaha	-	-	-	-	3	37	1	31,629	424,605	426,976

FIVE YEAR FINANCIAL SUMMARY AND KEY INDICATORS

Year Ended 31st March In LKR '000s	2021	2020	2019	2018	2017
Total Revenue	2,346,224	2,109,139	2,171,257	2,679,634	2,312,330
Cost of Sale	(2,256,953)	(2,093,028)	(2,154,168)	(2,540,080)	(2,169,426)
Gross Operating Profit	89,271	16,111	17,089	139,554	142,904
Expenses					
Administrative Expenses	(54,788)	(62,074)	(67,862)	(66,610)	(60,820)
Management Fees	(23,274)	(17,680)	(19,016)	(33,109)	(29,275)
Net Finance (Cost) / Income	8,764	1	(138)	4,979	1,097
Operating Profit / (Loss)	19,973	(63,642)	(69,926)	44,814	53,906
Other Income	60,987	55,283	52,989	54,720	33,070
Change in fair value of Investment Property	(2,371)	39,297	54,768	172,737	23,263
Profit / (Loss) before Taxation	78,589	30,938	37,830	272,270	110,239
Taxation	(12,045)	73,149	13,488	(28,198)	(25,219)
Profit / (Loss) after Taxation	66,544	104,086	51,318	244,072	85,020
Other Comprehensive Income	(10,736)	4,832	3,874	380	(2,271)
Prior Year Retained Profits	757,901	657,610	662,418	468,966	401,217
Total Available for Appropriation	813,709	766,528	717,609	713,418	483,966
Dividends Paid	(45,000)	(51,000)	(60,000)	(51,000)	(15,000)
Transfer to General Reserve	-	42,373	-	-	-
Retained Profit at the end of the year	768,709	757,901	657,610	662,418	468,966





FIVE YEAR FINANCIAL SUMMARY AND KEY INDICATORS

Year Ended 31st March In LKR '000s	2021	2020	2019	2018	2017
CAPITAL AND RESERVES					
Stated Capital	150,000	150,000	150,000	150,000	150,000
Revaluation Reserve	529,015	510,984	488,870	466,895	403,443
Retained Earnings	768,709	757,901	657,610	662,418	468,966
Shareholders' Funds	1,447,724	1,418,885	1,296,480	1,279,313	1,022,409
ASSETS LESS LIABILITIES					
Current Assets	517,021	383,757	515,071	526,100	440,297
Current Liabilities	(178,526)	(90,008)	(177,008)	(207,901)	(167,225)
Net Current Assets	338,495	293,749	338,063	318,200	273,072
Non-Current Assets	1,254,293	1,260,445	1,184,373	1,189,967	964,777
Non-Current Liabilities other than Deferred Grants and Subsidies	(144,597)	(134,822)	(225,449)	(228,326)	(214,667)
Deferred Grants and Subsidies	(467)	(487)	(507)	(527)	(773)
	1,447,724	1,418,885	1,296,480	1,279,313	1,022,409
RATIOS AND STATISTICS					
Earnings per Share (EPS) - Rs	2.22	3.47	1.71	8.14	2.83
EPS growth (%)	(36)	103	(79)	187	1,076
Price earning ratio (No. of times)	18.5	5.5	14.1	4.2	8.5
Dividend payout ratio	68%	49%	117%	21%	18%
Interest cover (No. of times)	998.2	8.4	9.1	135.9	34.4
Pre-tax return on capital employed (Pre-tax ROCE)	5.5%	2.6%	3.3%	23.8%	11.7%
Return on equity (ROE)	4.6%	7.7%	4.0%	21.2%	8.8%
Return on assets	3.9%	6.3%	3.0%	15.6%	6.4%
No. of shares in issue (In '000s)	30,000	30,000	30,000	30,000	30,000
Net Assets per share (Rs)	48.26	47.30	43.22	42.64	34.08
Market Price per Share (Rs.)	41.00	19.10	24.10	34.00	24.00
Debt/Equity (No. of times)	0.00	0.00	0.00	0.00	0.00
Market capitalisaion (Rs.'000s)	1,230,000	573,000	723,000	1,020,000	720,000
Annual Turnover growth (%)	11.24	(2.86)	(18.97)	15.88	20.88
Current Ratio (times)	2.90	4.26	2.91	2.53	2.63
Gross Turnover per employee (Rs.000's)	4,711	3,700	3,843	4,628	3,906
Dividend per Share (Rs.)	1.50	1.70	2.00	1.70	0.50
Dividend Payout	68%	49%	117%	21%	18%
Dividend Yield	3.66%	8.90%	8.30%	5.00%	2.08%

QUARTERLY FINANCIAL INFORMATION

STATEMENT OF INCOME STATEMENT

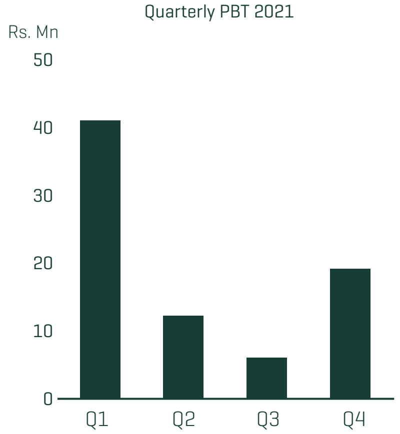
For the Quarters and Year Ended	2021					2020				
	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	
In LKR '000s	30 Jun '20	30 Sep'20	31 Dec '20	31 Mar '21	Total	30 Jun '19	30 Sep'19	31 Dec '19	31 Mar '20	Total
Turnover	587,064	628,664	513,325	617,171	2,346,224	530,441	542,754	535,728	500,216	2,109,139
Cost of sales	(540,326)	(612,524)	(510,971)	(593,132)	(2,256,953)	(515,852)	(540,618)	(531,413)	(505,145)	(2,093,028)
Gross profit	46,738	16,140	2,354	24,039	89,271	14,589	2,136	4,315	(4,929)	16,111
Other operating income	12,369	13,822	19,407	15,389	60,987	16,677	12,164	12,180	13,395	54,416
Administrative expenses	(11,895)	(14,537)	(14,401)	(13,955)	(54,788)	(15,978)	(15,876)	(15,788)	(14,432)	(62,074)
Management Fees	(8,061)	(5,233)	(3,661)	(6,319)	(23,274)	(4,896)	(4,520)	(4,608)	(3,656)	(17,680)
Results From Operating Activities	39,151	10,192	3,699	19,154	72,196	10,392	(6,096)	(3,901)	(9,622)	(9,227)
Finance cost	(42)	(8)	(11)	(18)	(79)	(1,309)	(2,214)	(511)	(153)	(4,187)
Finance income	1,965	2,054	2,356	2,468	8,843	1,183	819	1,035	1,151	4,188
Change in fair value of Investment Property	-	-	-	(2,371)	(2,371)	-	-	-	39,297	39,297
Profit/ (Loss) Before Tax from Continuing Operations	41,074	12,238	6,044	19,233	78,589	10,266	(7,491)	(3,377)	30,673	30,071
Tax (Expense) / Reversal from Continuing Operations	(5,756)	(1,781)	(901)	(3,607)	(12,045)	(3,457)	1,953	83,380	(1,970)	79,906
Profit/ (Loss) for the Year from Continuing Operations	35,318	10,457	5,143	15,626	66,544	6,809	(5,538)	80,003	28,703	109,977
Discontinued Operations										
Profit after tax for the year from Discontinued Operations	-	-	-	-	-	624	(14,882)	8,367	-	(5,891)
Profit/ (Loss) for the Year	35,318	10,457	5,143	15,626	66,544	7,433	(20,420)	88,370	28,703	104,086
Earning per Share from Continuing Operations - Rs	1.18	0.35	0.17	0.52	2.22	0.23	(0.18)	2.67	0.96	3.67
Earning per Share from Discontinued Operation - Rs.	-	-	-	-	-	0.02	(0.50)	0.28	-	(0.20)

QUARTERLY FINANCIAL INFORMATION

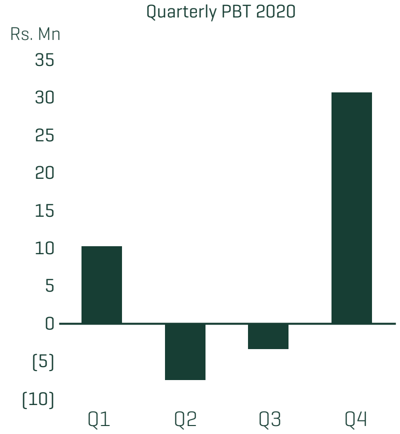
STATEMENT OF FINANCIAL POSITION

As at	2021				2020			
	30 Jun '20	30 Sep'20	31 Dec '20	31 Mar '21	30 Jun '19	30 Sep'19	31 Dec '19	31 Mar '20
In LKR '000s								
Net Assets								
Non-current assets	1,247,352	1,232,248	1,219,512	1,254,293	1,190,058	1,179,943	1,168,510	1,260,445
Net current assets	341,153	365,337	380,797	338,495	282,700	270,702	292,989	293,749
	1,588,505	1,597,585	1,600,309	1,592,788	1,472,758	1,450,645	1,461,499	1,554,194
Less : Non current liabilities	134,302	132,925	130,506	145,064	219,845	218,152	140,636	135,309
Net Assets	1,454,203	1,464,660	1,469,803	1,447,724	1,252,913	1,232,493	1,320,863	1,418,885
Shareholders' Funds								
Stated capital and revenue reserves	1,454,203	1,464,660	1,469,803	1,447,724	1,252,913	1,232,493	1,320,863	1,418,885
Total Equity	1,454,203	1,464,660	1,469,803	1,447,724	1,252,913	1,232,493	1,320,863	1,418,885
Net assets per share - Rs.	48.47	48.82	48.99	48.26	41.76	41.08	44.03	47.30

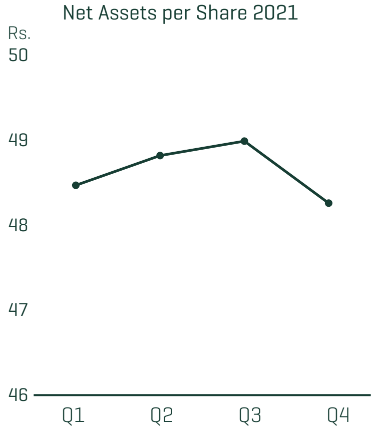
Quarterly PBT 2021



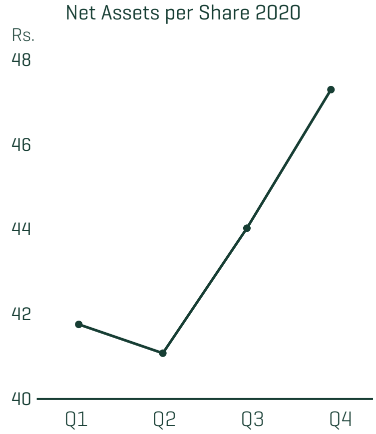
Quarterly PBT 2020



Net Assets per Share 2021



Net Assets per Share 2020



GLOSSARY OF FINANCIAL TERMINOLOGY

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 capita 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
Profit after tax as a percentage of average total assets.

Total Shareholder Return
(P1 – P0 + D) / P0 X 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
Dividend per share as a percentage of its market value

Dividend Payout
The percentage of earnings paid to a shareholder as dividends.

GLOSSARY OF FINANCIAL TERMINOLOGY

Quick Assets Ratio
The quick assets ratio measures a company's ability to meets short term obligations with its most liquid assets.

Net Current Assets
Current assets less current liabilities

Abbreviations

BRM - Business Risk Management

CTC - Crush, Tear and Curl

HACCP - Hazard Analysis and Critical Control

Point

SLFRS / LKAS - Sri Lanka Accounting Standards

NOTES

NOTES

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 2149990
Fax : +94 11 2335880
Website : www.keells.com
Email : harish.jktl@keells.com

Board of Directors
Mr. K. N. J. Balendra - Chairman
Mr. J. G. A. Cooray
Mr. A. Z. Hashim
Mr. E. H. Wijenaike
Mr. A. K. Gunaratne
Mr. A. S. Jayatilleke
Ms. A. Goonetilleke
Mr. S. K. L. Obeyesekere

Board Audit Committee
Ms. A. Goonetilleke - Chairperson
Mr. A. S. Jayatilleke
Mr. S. K. L. Obeyesekere
Mr. A. K. Gunaratne

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 / Assistant Vice President
Mr. M. R. Ahamed
Manager – Finance
Mr. D. M. S. S. Devapriya
Manager - Engineer

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

Designed & produced by
emagewise

Tea Smallholder Factories PLC