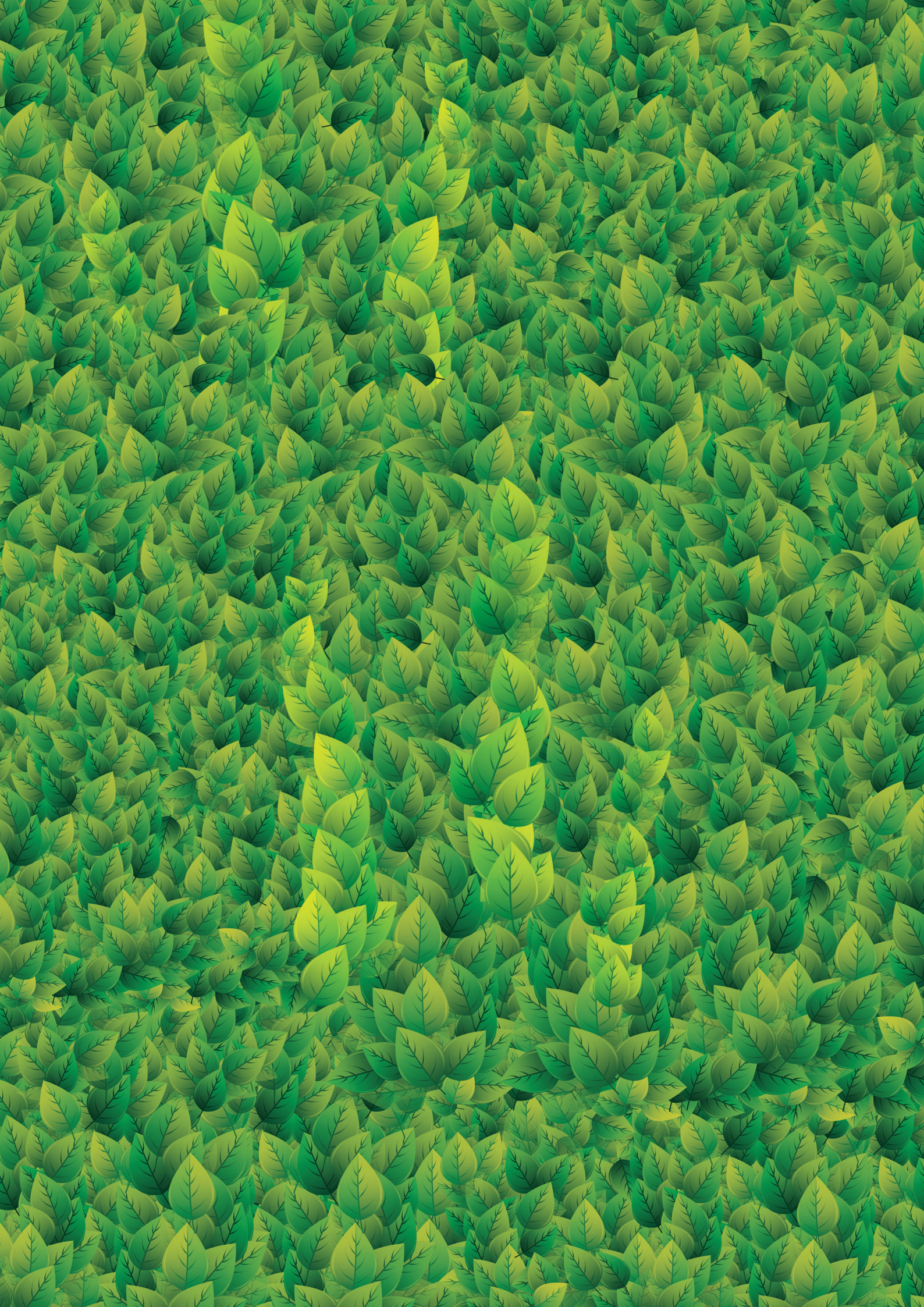


*Value*  
with every step



**Kurunegala Plantations Limited**  
Ministry of Public Enterprise Development

Annual Report 2015





# Value with every step

We believe that every step taken forward should yield value for the future. Hence, we work with dedication, passion and commitment to move forward with clear momentum, working to make each step a milestone that resonates success. Our vision is clear and our actions transparent to all, as we nurture new relationships and discover opportunities while overcoming numerous challenges and encouraging sustainable growth.

At Kurunegala Plantations, the Company brings value to each relationship with every step while forging strong bonds towards a better and greener future.

# The Honourable Minister's Message



On behalf of the Ministry of Public Enterprise Development, it is my great pleasure to present the 2015 Annual Report of Kurunegala Plantations Limited.

Sri Lanka's State Owned Enterprises (SOE) have faced economic hardship in the past several years, however, Kurunegala plantations has proven that with dedicated workforce and management team a successful SOE can be run.

Sri Lanka's economy, under the leadership of **His Excellency the President Maithripala Sirisena** and **the Honourable Prime Minister Ranil Wickremesinghe**, is being geared up for a large growth in the agriculture sector. The success of Kurunegala plantations will prove to be a guiding light for all plantation companies, both public and private.

The Ministry of Public Enterprise Development is proud of the continued progress displayed by the company, and I am confident that it will continue on this path.

I wish the Chairman, the Board of Directors and the employees all the best in their work going forward.

**Kabir Hashim**

*Minister of Public Enterprise Development*

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# About Us

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# About Us



Incorporated in 1992, **Kurunegala Plantations Limited (KPL)**, which is a fully Government Owned Company, was re-registered under the Companies Act No. 07 of 2007. Since then the Company has grown to become a diversified agribusiness entity with interests in cultivation, production, processing and sale of Coconut, Rubber and ancillary crops and produce. The Company was established by vesting lands managed by the Janatha Estates Development Board in terms of the provisions of the Conversion of Corporations and Government Owned Business Undertakings into Public Companies Act No. 23 of 1987 under the State Privatization Policy. The Company operates as a single shareholder Company with the Secretary to the Treasury of the Government of Sri Lanka as the Golden Shareholder.

**KPL's** core business interests continue to be in Coconut and Rubber, with a portfolio of eight estates covering over 5,244.58 hectares which span varying agro climatic zones in the three districts of Kurunegala, Gampaha and Anuradhapura. Each estate is further broken up into small acreages also known as Divisions, which are scattered across two to three Divisional Secretariats.

The Company provides direct employment to nearly 1,235 people and indirectly impacts the livelihoods of many others. The registered Company office is located at No. 80, Dambulla Road, Kurunegala.

**Kurunegala Plantations Limited**, from its inception had its managerial roots embedded in the Private Sector, however due to being economically non-viable and in a state of downfall owing to lack of proper management over a period of nearly 13 years, the Government decided to reclaim the management of the Company with effect from 01st January 2005. This move brought the Company directly under the purview of the Ministry of Plantation Industries. Throughout the years it changed hands under several ministries and now rests with the Ministry of Public Enterprise Development since 21st September 2015.





## Our Vision

To be the model Plantation and Agribusiness management Company in the South East Asian Region.



## Our Mission

To manage the Plantation and other Agribusiness Productively, Profitably and Sustainably through effectively harnessing natural, physical and human resources in an Environment-Friendly and Socially Responsible manner to the benefit of all stakeholders and the country at large.



## Core Values

- Best employer** : Empowering honest, qualified and committed staff who are focused on Quality, Productivity, Entrepreneurship, Value Creation, Profitability, Eco-friendliness and Corporate Social Responsibility.
- Quality provider** : Enhanced Customer Satisfaction and Continuous Improvement in everything we do.
- Productivity** : Achieving optimum productivity per unit of resource input, highest yield per hectare, optimal land use on a sustainable basis while minimizing wastage.
- Entrepreneurship** : Pro-actively striving towards innovative approaches, at all times
- Value creation** : Continuously responsive to the changing needs of the business environment.
- Profitability** : Achieving optimal net sales average and lowest possible cost of production for primary produce and value added products.
- Eco-friendliness** : Exploiting resources in harmony with the environment so as to cause minimal or no damage to the environment.
- Social responsibility** : Caring for people and environment, respecting good governance.

# Achievements

## 2015

KPL continued its winning streak clenching the Runner-up Award in the Agriculture & Plantations sector at the **National Business Excellence Awards 2015**, organised by The National Chamber of Commerce of Sri Lanka.



## 2014

KPL once again, creates history in the Agribusiness sector as well as the Plantation sector by winning the National Gold Award for Agribusiness for the 3rd consecutive year and the Gold award for Large Category Producer (Plantations) for the 4th consecutive year, thus becoming the only Company to win these awards in succession.

## 2013

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KPL continues to maintain its position as a National Gold Winner by winning the National Gold Award once again, and claiming a hat trick in the Gold position for Large Category Producer (Plantations), **at the National Agribusiness Awards.**

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## 2012

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KPL becomes a National Gold Winner in Agribusiness at National Agribusiness Award 2012 while once again bagging the Gold Award for Large Category Producer (Plantations).

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## 2011

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KPL is the recipient of two prestigious awards - Gold Award for Large Category Producer (Plantations) and 2nd runner-up at national level at the National Agribusiness Awards 2011.

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# Milestones



**18th June 1992** | KURUNEGALA PLANTATIONS LIMITED (KPL) was established under the Companies Act No. 17 of 1982 in terms of the provisions of the Conversion of Corporations and Government Owned Business undertakings into Public Companies Act No. 23 of 1987 as a fully Government Owned Company on 18th June 1992 under the State Privatization Policy by allocating estates then managed by the Janatha Estates Development Board under Board No. (V). From 18th June 1992 to 31st December 2004, Kurunegala Plantations Limited was managed by a Private Managing Agent.



**01st January 2005** | Due to poor management practices implemented by the private Managing Agent over a period of nearly 13 years, the then Government decided to take-over the management of the Company, with effect from 01st January 2005 and was brought under the purview of the Ministry of Plantation Industries.



**06th June 2006** | KPL changed hands under the Ministry of Coconut Development



**18th April 2007** | KPL came under the purview of the Ministry of Public Estate Management & Development.



**21st September 2015** | KPL was brought under the purview of the Ministry of Public Enterprise Development



**18th January 2015** | KPL was brought under the purview of the Ministry of Plantation Industries.



**16th November 2010** | KPL came under the purview of the Ministry of Coconut Development & Janatha Estate Development.



**18th June 2010** | KPL changed hands to the Ministry of State Resources and Enterprise Development.

# Financial Highlights

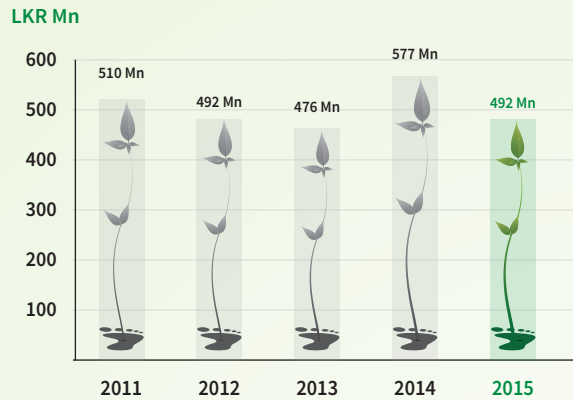


**Rs. 492,140,403**  
**Revenue**

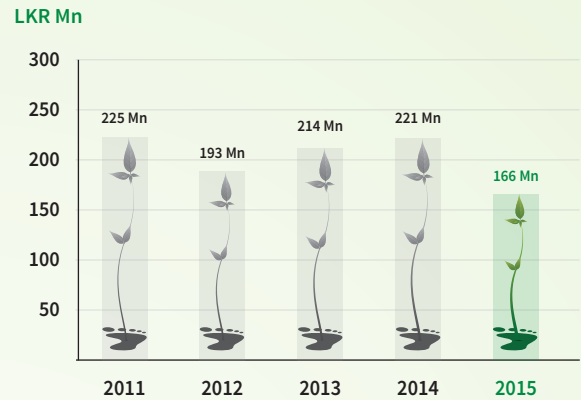
**Rs. 155,910,741**  
**Profit**

**Rs. 1,898,393,856**  
**Total Asset**

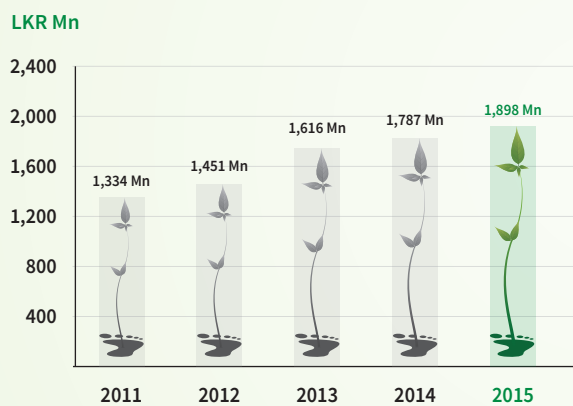
## Total Revenue



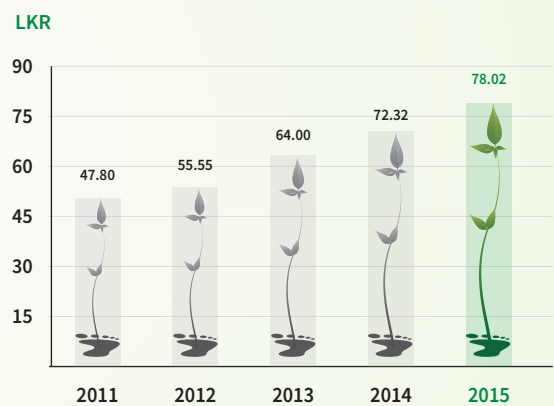
## Profit before Tax



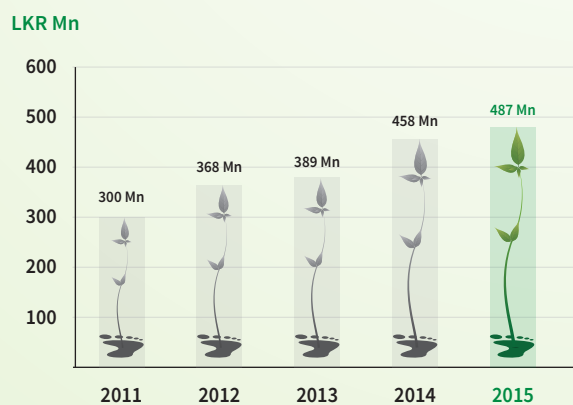
## Total Assets



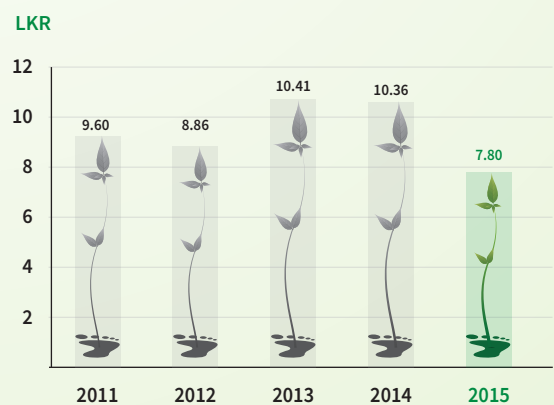
## Net Asset per Share



## Working Capital



## Earning per Share



# Chairman's Review

*“Our resilient and farsighted management have led the Company into remarkable profitability, allowing us to be one of the few government owned companies who contribute to the General Treasury since 2007. A total sum of Rs. 280 million has been contributed for this purpose in the form of Dividends.”*







# Chairman's Review *Contd.*

I would like to extend a warm welcome to our shareholders at the Annual General Meeting 2015 of Kurunegala Plantations Limited (KPL). On behalf of the Board of Directors, I present to you the Annual Report and Audited Financial Statements of our Company, for the Financial Year ended December 31, 2015.

In retrospect I see that the year 2015 was a tough year, not only for us at KPL, but for all in Sri Lanka's Coconut and Rubber sector, struggling to cope with the global downturn. Despite many challenges in the domestic and international markets, it was in this backdrop that your Company achieved a commendable profit after tax of Rs. 156 Million as opposed to Rs. 207 Million in the previous year. It was indeed a test of our strength and commitment.

Despite many odds in the domestic sphere, adverse and erratic weather conditions together with poor trading conditions, we at KPL remained firm in our goal to build a resilient operation capable of withstanding internal and external challenges surrounding our business. In the past year, we began to look at the bigger picture and realigned our strategic thrust for the future; working to bolster our financials and sharpen nonfinancial aspects to help improve the sustainability of our business.

During the year we took steps in improving stakeholder return, efforts to protect and develop the Company's land base, improve environmental performance and develop Human Capital. While we strive to create broader social change for the betterment of the worker communities whose livelihoods depend on the Company.

Our balance crop portfolio which comprises of Coconut, Rubber and Intercrops has over the years under the management of the State, shown rich dividend. Our resilient and farsighted management have led the Company into remarkable profitability, allowing us to be one of the few government owned companies who contribute to the General Treasury since 2007.

A total sum of Rs. 280 million has been contributed for this purpose in the form of Dividends. While a sum of Rs. 30 million has been proposed for the year under review. Crop diversification was yet another strategy which we embarked on in the year under review.

In this regard, we focused on expanding KPL's cinnamon cultivation program, which began a few years ago. Having previously cultivated cinnamon on a limited scale alongside existing crops, this program saw the influx of funds totaling Rs. 1,676,574 been allocated for this project.

Our country's plantation sector which comprises of many small holders and estates remains in the portfolio of national interests. Hence it has been supported by subsidies and other forms of cut backs. Similarly this sector remains a labour intense industry which entails high wage costs and robust labour unions which can hamper the progress of the industry as a whole. With wages not commanding a high rate in comparison to other vocations, sourcing of labour has been an impediment, with no signs of this trend improving. We knowing our commitment towards our people engaged in the improvement of worker facilities in order to uplift their living standards.

Coconut has remained a gastronomical marvel for many a centuries, not only been used in local delicacies, but also in international cuisine. This being our principal crop has gained us considerable recognition among our peers and the holistic plantation industry. With an annual consumption of around 2,000 million Coconuts been consumed locally as fresh nuts, oil, beverages and other forms, whilst millions of nuts are also being exported.

Coconut oil is an important commercial product of the Coconut Palm obtained by direct processing of wet kernel or by crushing good quality Copra. Statistics have shown that a per capita consumption of oil and fat during the last 15 years nearly doubled from 6.5 kg to 11 kg per year in the Asian region alone. The importation of various edible oils to the local market during the last two decades has increased tremendously due to progressive removal of trade barriers under the open economic system.

Palm Oil and Palm Kernel Oil are major imports in terms of quantity. Consequently, many industrialists have now shifted from the use of Coconut Oil to other oils including Vegetable and Corn Oil.

The local consumer demand for Coconut Oil has been continuously affected by the presence of these substitute Vegetable Oils, added by the false fear of proneness to heart diseases even though Coconut and Coconut Oil has been consumed over the centuries.

The annual audit which is generally performed by a private audit firms took a change this year around, with stipulations been made for this exercise to be carried out by the Auditor General's Department. This exercise did prove to be a learning experience to us. Transparency is one aspect which was emphasized through this audit, which we intend enrolling in all our practices herein. Yet another notable endeavor which took place within the year is the emphasis which was placed by the State on value addition.

This program which comes under the purview of the Ministry of Public Enterprise emphasizes the importance of establishing both local and foreign party collaborations towards sustainable investment, in order to uplift the Company and the country at large. Hence project units at ministry level and Company level have been established with the intention of taking this forward. The suggested areas of sustainable growth include - Tourism Related Development, Mineral Development, Water Resources Development, Power and Energy Related Development, Agriculture Plantation Projects, Housing and Commercial Property Development, Plantation Product Development to name a few.

According to statistics from the Coconut Development Authority Sri Lanka's entire Coconut based products industry in terms of exports stood at over Rs. 75 billion in 2015 with Kernel products reporting an income of Rs. 41 billion. Export earnings from Coconut Fiber products and Shell Products reported a 29% and 4% decrease compared to 2014. In 2015 Sri Lanka has exported over 13 million fresh nuts compared to 33 million nuts in 2014.

The demand for Virgin Coconut Oil, the purest of the Coconut Oil, has rapidly increased as several experiments conducted have revealed that the cholesterol content in Coconut Oil is good for human health and all views and beliefs that Coconut Oil is not good for human health has now proven false.

Our list of awards and accolades saw a new addition with the awarding of the Silver Award in Agriculture & Plantations Sector at National Business Excellence Awards 2015 conducted by The National Chamber of Commerce of Sri Lanka.

With these honours we intend to position our plantation Company as the Model Plantation Company at regional and International levels. While we strive towards continuous expansion and development with our available resources, we are indeed delighted by the encouragement which we gain from the State and other governing bodies.

I take this opportunity to express my gratitude to Hon. Kabir Hashim, Minister of Public Enterprise Development; Hon. Eran Wickramaratne, Deputy Minister of Public Enterprise Development; Mr. Ravindra Hewavitharana, the Secretary of Ministry of Public Enterprise Development and other officials who have extended their fullest support and tireless service towards us.

I also thank my fellow Board of Directors for their enthusiastic participation in all board matters and the abundant support extended to me at all times. I also wish to thank the Management Team and all employees for their commitment during this year, and which I look forward to in the coming years.

In conclusion I wish to thank all our stakeholders for the trust and confidence placed in our Company. I look forward to your continued patronage in the years ahead.



**A.M. Piyasoma Upali**  
*Chairman*



# Chief Executive Officer's Review

*“ We will continue with the **development and diversification** program in line with **our long term strategy of sustainable development** of our plantations.”*



# Chief Executive Officer's Review *Contd.*

It is indeed with great enthusiasm, that I extend a warm welcome to all our stakeholders and take pride to present you with the Annual Report and the Financial Statements of Kurunegala Plantations Limited for the financial year ended 31st December 2015. We are grateful and also ecstatic of the trust and confidence you had on us, with regard to the conduct of operations of the Company and also for the respect shown.

The year under review has been particularly challenging, with various external factors affecting the Company's bottom line. Geopolitical tensions reported in key export markets that led to weakening demand; adverse weather conditions and sharp decline in Rubber prices were some of the external factors that had negative impact on the Company. However, the Company was able to withstand these difficulties to a greater extent due to timely focus and effective management of resources. During the year, Kurunegala Plantations Limited recorded a revenue of Rs. 492 Mn and a Profit after Tax of Rs. 156 Mn. Effective cost and finance management enabled the Company to stand strong in yet another extremely challenging year for the plantation industry.

## Industry Review

### Coconut Sector

Coconut prices increased during the year reflecting higher demand from domestic manufacturers of Coconut Cream, Coconut Milk Powder and Liquid Coconut Milk. The average export price of a Coconut also increased to Rs. 54.54, from the Rs. 39.08 reported previous year. The average retail price of a Coconut also increased to Rs. 50 per nut, up from Rs. 45.50 per nut recorded in 2014.

Our Company secured a harvest of 14.1 million Coconuts during the fiscal year under review, as opposed to 16.7 million nuts during the previous year. This interprets a drop of 16%. The drop was mainly due to adverse weather condition in 2014. The effect of climate change was more severe in KPL Estates within the dry agro-climatic zone. However, the adverse drought effect were mitigated by appropriate agronomic practices. KPL maintains its good agricultural and field management practices which have shown rich benefits during the past years. With the demand on organic produce on the rise on a global scale, we at KPL too have started to convert around 2,000 acres of land extent into organic, with the use organic manure, hence creating an avenue into the global playing field.

Under-planting has shown a significant increase of 22%, while infilling too has showed exceptional positives, with the number of trees per acre increased to 58 by the end of the fiscal year under review, assuring a robust yield in the years to come. The implementation of scientific harvesting during the previous year has indeed proved fruitful during 2015. Being a sort after supplier of high quality Coconuts in the industry, we maintained our position at the top of the public Fresh Coconut auction averages, which could be attributed to high quality production and excellent customer care.

### Rubber Sector and Other Crops

Sri Lanka's Rubber production declined for the fourth consecutive year, affected by weak international demand for Natural Rubber and adverse weather conditions. The national production declined by 10.1%. It was a difficult year for Rubber. At KPL our Rubber production declined by 11% and the NSA by 14%, which is a total of Rs. 9 million, in comparison to 2014. The decline in Rubber production could be attributed to several factor such as adverse weather conditions, and the lack of skilled tappers. As only our plantation in Dodangaslanda has resident labour the other two estates are reliant on day labourers, who would rather take on other work rather than estate work, as the alternate work avenues are financially lucrative.

To mitigate the risk of over dependency on a limited number of major crops, while maximizing the income per land unit, intercropping was introduced in 2007. Intercropping now covers an extent of around 1,435 acres, with the diversification of Cinnamon into its portfolio. The turnover from intercrops shown a drop of Rs. 3.5 million from Rs. 22.9 million in 2014 to Rs. 19.4 million in 2015. In collaboration with the Department of Agriculture and the Department of Export Agriculture the Company expanded their intercrops to 9,600 plants of Cinnamon, 4,540 plants of Arica Nut, 3,789 of Jak, 1,028 plants of Rambuttan during the year 2015. It is noteworthy to mention that the Company has moved its focus towards the establishment of non-traditional crops identifying its present and future demand. The Company would no doubt benefit from this foresighted exercise, while increasing productivity through intercropping.

### National Recognition

Since KPL came into the management hands of the State the Company has performed exceptionally well in comparison to privately owned plantations in the same area. While KPL

remains the benchmark in 'plantation success' it is non-complaisant of these laurels, but is constantly striving to add value to the business, its employees and all its other stakeholders. Being the recipient of consecutive national awards, it's a true affirmation of the Company's strength and dedication.

We consider human capital as our most valuable asset, therefore we continuously invest in our people. Our focus is to retain our manpower and enhance productivity for which, we continue to ensure that skill levels of our employees are enhanced and our workers remain satisfied at every level especially our plantation community of workers. During the year under review many welfare programs which articulated this commitment towards our people were witnessed at office and plantation level. Some notable programs included the upgrading of resident facilities, upgrading of worker houses, water and sanitation facilities at plantation level. Several educative workshops too were conducted in connection with industry specialists in order to enhance crop protection methods, which are currently been practiced and crop improvement methods.

We maintain a very harmonious relationship with our employees of all levels having constant dialogue with them and attending to their grievances in a fair and equitable manner. Their contribution are appropriately acknowledged and rewarded under the annual performance incentive scheme. The Company remains environmentally conscious, while maintaining best practices across the board. We carry out sustainable programs such as timber planting, conservation of forestry, maintaining watershed area and stream reservations, which continue throughout the year.

### Future Outlook and Diversification

Looking ahead, the economy of Sri Lanka is expected to record a sustainable growth in the short term, with an estimated real GDP growth of 5.8% in 2016. It targets a medium term growth rate of around 7%. Such growth will be made possible by creating an investor-friendly environment that will increase private sector participation across all major sectors in the economy. The government is also targeting mid-single digit inflation (3% to 5%) and moderate level interest rate over the medium term. With emphasis been laid on value added services to enhance profitability, and the diversification and growth of intercrops, the future does look resilient.

We are looking at various projects to diversify our activities with a view of mitigate the risk factor by being associated

with cultivation. We have identified various Public Private Partnership (PPP) Projects such as manufacturing of Desiccated Coconut, Virgin Coconut Oil, and Coir Products to add value to Coconut. Other identified potential projects are Solar and Wind/Hydro Power, Eco-Tourism, Carbon Trading, joint venture projects on Fruits and Spice cultivation and processing, Animal Husbandry projects to name a few, which are at the initial stages of formulation.

### Special Achievements

I am also pleased to put down on record that the Company has obtained SLS ISO 9001:2008 Certification under the scope of Plantation Management and Agribusiness related to Coconut, Rubber and Commercial Crops from the Sri Lanka Standard Institution during the year 2015.

### Appreciation

I wish to convey my gratitude to Hon. Kabir Hashim, Minister of Public Enterprise Development; Hon. Eran Wickramaratne, Deputy Minister of Public Enterprise Development; Mr. Ravindra Hewavitharana, the Secretary of Ministry of Public Enterprise Development, Additional Secretaries and other Ministerial Officials for their directives and encouragement. My Chairman - Mr. Piyasoma Upali, who has tirelessly guided us, the rest of the Board for their valuable inputs, encouragement and support at all times. My sincere thanks also goes to the Corporate Advisory Services (Private) Limited-Secretaries of KPL and to all our other stakeholders, who have contributed towards the Company during this year. I am also grateful to our effective and efficient Senior Management Team, the Area Superintendents and all employees for their commitment, dedication and loyalty due to which Kurunegala Plantations Limited has been able to continue in achieving these remarkable triumphs.

We will continue with the development and diversification program in line with our long term strategy of sustainable development of our plantations. At a strategic level, our long-term direction remains one of continuous development and consolidation of our core plantation business whilst concurrently pursuing diversification-led growth through multiple crop value creation initiatives, so that the Company transforms itself from a primary producer to a value added producer entity, thus ensuring its long term sustainability.



**S.M.M. Samarakoon**  
Chief Executive Officer

# Board of Directors



**A. M. Piyasoma Upali**  
*Chairman*



**D.M. Bandaranayake**  
*Working Director*



**H.A.N. Saman Kumara**  
*Director/Treasury Representative*



**W.M.D.B. Abeyratne**  
*Director*





**H.A.P. Thusitha Kumara Dias**  
*Executive Director*



**R. Sydney Kulathilaka**  
*Director*



**Indunil Amarasinghe**  
*Director*

# Board of Directors *Contd.*

## Mr. A. M. Piyasoma Upali

*Chairman*

**Mr. Piyasoma Upali**, joined the ranks of Kurunegala Plantations Ltd. (KPL), as its Chairman from January 2015. He brought along with him immense knowledge and exposure, actively contributing to the organization to achieve the present status where it is today. During his illustrious career spanning well over three decades in political administration, he became the first individual in the history to be elected as the Chairman of Kuliypitiya Pradesheeya Saba and was also the first person elected as the Deputy Chairman of the North Western Provincial Council, in which the North Western Provincial Council was the first Provincial Council of Wayamba, in 1988.

Prior to his political career too he provided his services to the Public as a member of the very first Development Council of the Kurunegala District in 1980, then holding positions of the Chairman of the Multi-Purpose Cooperative Society Kuliypitiya and a Director of the National Co-operative Council. Since then Mr. Upali represented the Kuliypitiya Electorate as a Member of Parliament in 1988, and then held the position as a Member of Parliament continuously for 16 years from 1989-2004 representing the Kurunegala District.

He was appointed Minister of State Transport from 2002-2004. During his lengthy tenure at the Parliament of Sri Lanka, he held numerous positions, a few being Assistant Government Whip and Deputy Government Whip. He has attended many programs overseas including the Agricultural and Cooperatives Program in Japan, the Youth Affairs Program in Russia and the Power Devolution Program in the United Kingdom and Spain. In addition to the above, he has also been actively involved in Development Programs Nationwide, whilst concentrating heavily in his District – Kurunegala. Mr. Upali's exposure and experience gathered both internationally and locally over the years, will undoubtedly be an asset towards positive development and improvement of Kurunegala Plantations Ltd.

## Mr. H. A. P. Thusitha Kumara Dias

*Executive Director*

Hailing from a business family deeply rooted in Kurunegala, **Mr. Dias** got involved in their family business at a very early stage in his life. After obtaining his education from Maliyadeva College, Kurunegala, he joined in developing their business of importing of two wheel tractors to Sri Lanka from Japan. Dias Motor Engineers & Sales was one of the pioneers in importing of Kubota Hand Tractors to the country at that time. While travelling frequently between Japan and Sri Lanka to foster the growth of this business, he later ventured into other imports such as heavy machinery, agricultural equipment and tractors.

Later the business was diversified into property development, building, renting and maintaining of commercial buildings for other businesses under LST trading. Further he is engaged in cultivation and managing of Coconut and Rubber estates. Thusitha is involved in the developing of the under privilege community in the area and is a well-recognized philanthropist.

## Mr. D. M. Bandaranayake

*Working Director*

Appointed as a Working Director of KPL with effect from March 2015, **Mr. Bandaranayake** is a product of Vijayaba National College Maho, and counts for many years of experience in the Agriculture, Farming and Private Transportation sectors. He brings in a wealth of experience working with people in the Political and Private sector as well as Public sector professionals. He was a Member of Parliament from 1989 to 2004 representing the Kurunegala District and the Former Minister for Paddy Development under the Ministry of Agriculture.

Mr. Banadaranayaka also served as the Treasurer to the Private Bus Operators Association of Galgamuwa from 1985 to 1986, and the President of Vilawa Gramodaya Development Board from 1985 to 1989 whilst being an active member and the President of the Task Force of the Vilawa Divisional Secretariat. He was also the President of Yapahuwa Milk Farmers Association from 1985 to 1989 and has contributed largely to the development of religious temples and institutes in Yapahuwa while he also served as President of the Yapahuwa Temple Pageant Organization Committee from 1989 to 2003.

### **Mr. H. A. N. Saman Kumara**

*Director/ Treasury Representative*

Appointed as a Director/Treasury Representative of KPL with effect from March 2015, while serving as the Chairman of the Audit Committee of Kurunegala Plantations Limited with effect from April 2015. **Mr. Kumara** counts years of experience in the Public Sector organizations in Sri Lanka where he served as member of the Senior Management Team or a Director on the Board. He served as the Assistant Director (Finance), at the Department of Meteorology from May 2002 to August 2005, Assistant Director at the Department of Public Enterprises from August 2005 to December 2010, Deputy Director at the Department of State Accounts from December 2010 to July 2013, Deputy Director at the Department of Public Enterprises from July 2013 to Sep 2013 and from September 2013 he is a Director at the Department of Public Enterprises.

Mr. Kumara's previous board positions include Director of Land Reform Commission from 2006 to 2010, Director of Gal-Oya Plantations Pvt. Ltd. from 2008 to 2011, Director of Gal-Oya Holdings Pvt. Ltd. from 2009 to 2011, Director of State Timber Corporation from 2010 to 2011, Director of Paranthan Chemicals Pvt. Ltd from 2013 to 2015 and he also served as the Chairman of the Audit Committee of those institutions.

He currently serves as a Director on the Board of West Coast Power (Private) Ltd since early 2015. He graduated from the University of Sri Jayewardenepura in 2001 with a B. Com (Special) Degree and also have a MSc. in Applied Finance from the University of Sri Jayewardenepura (2009) and MA in Economics from the International University of Japan (2013).

### **Mr. W .M. D. B. Abeyratne**

*Director*

Appointed as a Director of KPL with effect from March 2015, **Mr. Abeyratne** counts years of experience in the Accounting and Auditing field. Further, he serves as a member of the Audit Committee of Kurunegala Plantations Limited with effect from April 2015. He began his career at Thornton Panditharatna & Company and later served at the Milk Industries of Lanka Co. Ltd., Holiday Island Resort in Maldives, D. B. Abeyrathna & Company and State Timber Corporation.

He has a number of professional qualifications including a Higher National Diploma in Accountancy, Postgraduate Diploma in Accounting and Finance Management from the University of Peradeniya and a Diploma in Human Rights from the University of Peradeniya - Sri Lanka.

A well qualified accounting and an audit professional Mr. Abeyratne is a member of MAAT - Association of Accounting Technician - Sri Lanka, AFA - Association of Financial Accountants - UK, FIAB - International Association of Book Keepers - UK, ACPM - Institute of Certified Professional Manager - (Founder Member of Sri Lankan Branch), AMA - Institute of Certified Management Accountants (ICMA), APFA - Association of Public Finance Accountants of Sri Lanka (APFA) and Charter Member of the Rotary Heritage Kandy - Sri Lanka and an all island Justice of Peace.

# Board of Directors *Contd.*

## Mr. R. Sydney Kulathilaka

*Director*

**Mr. Kulathilaka** who heralds from Kurunegala, has served as a Director of KPL since October 2016. While commencing his primary education at Pothubowa Madya Maha Vidyalaya, Mawathagama, he then moved on to University of Peradeniya, at which he obtained a Bachelor of Arts (Ceylon).

Mr. Kulathilaka started off his career as a Geography teacher in a government school, however learning quite soon down that path that it was his calling he engaged in business activities and was a full time businessman. He currently bears the positions of Managing Director of S. A. Construction, Managing Director of Mawathagama Safety Fuse Industry and is a Director at Tristar Industrial Explosives (Pvt) Ltd. He is also a Justice of Peace (All Island) and the Secretary of Explosive Dealers Association, Sri Lanka, while serving as Coordinator, Ministry of Public Enterprises Development.

## Indunil Amarasinghe

*Director*

**Mr. Indunil Amarasinghe** who is a Planter by profession, counts for an illustrious career in the plantation sector. His foray into this industry was at Kotagala Plantation in 1999 where he served as Junior Assistant Superintendent. He joined Finlay's Tea Estates in December 2003 and served in the position of Superintendent, of Alupola Estate, Blairlemond Estate, Dammeria-A Estate, Nahavila Estate and at present he is managing a 1100 ha. multi crop Dammeria-B Estate in Passara Group under Finlays. He is a veteran in all aspects relating to Coconut, Rubber, Cinnamon, Pepper and Tea. He obtained his B.Sc in Plantation Management from the Wayamba University of Sri Lanka. He also served as Secretary of the UVA Executives Association.

# Senior Management



Chief Executive Officer  
**Mr. S. M. M. Samarakoon**  
*B. Sc. (Agriculture) Hons.  
M.Sc. (Agric. Econ.)*



Manager - Finance  
**Mr. P. M. D. G. Premathilaka**  
*B.Sc. Accountancy &  
Financial Management (Special),  
CBA, MCPM*



Manager - Audit  
**Mr. M. M. J. Cooray**



Manager - Human Resource & Administration  
**Mr. I. A. Gunawardana**  
*B.B. Mgt. (Human Resource) Hons.  
PG Dip M (SL)*



Manager - Estates Monitoring & Co-Ordination  
**Mr. S. M. R. P. Sathkumara**  
*B.Sc. (Agricultural Sciences) Specializing Plantation Management*



Manager - Marketing  
**Mr. J. K. J. P. Jayawardana**  
*B.Sc. (Agriculture) M.Sc. (Agricultural Extension)*

# Area Superintendents



**Mr. M. L. A. P. Perera**  
*Dip. in Plantation Management*



**Mr. G. K. A. Jayawardana**



**Mr. K. L. H. C. Perera**  
*Dip. in Animal Husbandry*



**Mr. A. M. P. Abeykoon**  
*B.Sc. (Plantation Management),  
Dip. in Agriculture*



**Mr. K. P. D. N. Kalugalla**  
*Dip. in Plantation Management  
Dip. in Human Resource Management*



**Mr. U. P. R. M. Pathirana**  
*B.V.Sc.  
Registered Veterinary Surgeon & Practitioner  
(Regd. No. 1265)*



**Mr. M. T. J. Perera**  
*B. Sc. (Agriculture) (Special) Hons*



**Mr. J. M. A. A. Munasinghe**  
*NDT in Technology (Agriculture)  
B. Sc. (Plantation Management)*



# *Management Discussion & Analysis*

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# Operational Review

## Operating Environment

The smooth functioning of the Company is hindered by uncontrollable external environmental factors. Economic growth, Exchange rates, Unemployment levels, Fiscal and Monetary Policy changes are the most impinging factors. The factors on the global demand; low demand from major export destinations and falling prices due to declining demand led the economy to the prevailing situation. Current Government activities achieve advantageous opportunities in the Euro Zone and it will generate future economic developments. In the local perspective, the slowed down production due to low market prices and demand, led to the national production being reduced during the year under review.

The GDP growth recorded at 4.8 per cent in 2015 as compared to the 4.9 per cent in the preceding year. GDP per capita increased during the year up to USD 3,924 from USD 3,853 showing a decelerating growth of 1.8 per cent. The Agricultural sector registered 5.5 per cent during the year recording an accelerated rate of growth compared to last years, 4.9 per cent. The share of the contribution to the GDP increased marginally from 7.8 to 7.9 per cent during 2015.

The Rubber production receded for the fourth consecutive year up to 88,570 metric tons marking 10.1 per cent decline compared to last year production of 98,573 metric tons. The slowed down demand from the international market eventuated low prices for the Natural Rubber and it resulted low production from the Rubber Small Holders. Unfavorable weather conditions prevailed in the second and third quarters of the year augmented the adverse national production.

National Tea Production depicted the same adverse picture as Rubber national production. During the year under review, the Tea production declined by 2.7 per cent to 329 metric tons from last year production of 338 metric tons. The industrial action of 'Go Slow' and unfavorable weather condition prevailing for a considerable part of the year, hampered the production and unfavorable global conditions which arose from decreased oil prices and political uncertainty depleted the Rubber market.

National Coconut production recorded the highest performance during the year since the year 2000. It grew by 6.5 per cent from 2,870 million nuts to 3,056 million nuts. The expansion of Coconut related products; Coconut Oil, Coconut Cream, Coconut Milk Powder, Liquid Coconut Milk, was eventuated by the increased production. The share of Industrial Sector within GDP showed a growth of 3 per cent

during the year with a contribution of 26.2 per cent to the national production. The Service Sector accounts for 56.6 per cent of GDP, with a growth rate of 5.3 per cent during the year compared to the growth of 5.2 per cent in 2014. All of the sub sectors other than public administration activities recorded accelerated growth and public administration activities recorded 1.3 per cent growth in 2015 compared to 4.3 per cent in 2014. The downtrend of the interest rates continued in 2015 despite upward movement in the latter part of the year.

The Year-On-Year inflation based on CCPI recorded 0.6 per cent in the beginning of the year due to price revisions in the interim budget. It remained below 1 per cent up to September 2015 and recorded negative inflation during July to September demonstrating notable effect on economy and recorded 2.8 per cent at the end of the year 2015. Sri Lankan currency appreciated substantially in the last quarter due to Central Bank decision to allow greater flexibility in determining the exchange rate. It eventuated with 9.03 per cent depreciation in Sri Lankan Rupee compared to US Dollar in 2015 and recorded Rs 144.06 for \$1. The resultant situation occurred from reversal of foreign investments in Government Securities and increased demand for foreign exchange for non-oil imports and foreign debt service payments.

## Global Economic Performance

The global economy recorded decelerated growth of 2.4 per cent in 2015, which was 2.6 per cent in 2014. The growth was not at the phase as predicted by World Bank and International Monetary Fund (IMF). The continuous declines in commodity prices; mainly oil prices, subdued global trade, bout of financial market volatility and weakening capital flows contributed to the pertaining global economic growth. Moreover, the deceleration of economic activities of the emerging and developing countries and gradual tightening in monetary policy of United States contributed to the prevailing situation. The World Bank has predicted the global economic growth as 2.9 per cent in 2016 and 3.1 per cent in 2017-2018. But the slowing down of major emerging and developing economies arising from sudden increase in borrowing costs, the dollar appreciation due to tightening monetary policy in US and impact on Japan of slowing trade in Asia have the major dominant effect of affecting the forecasted global growth. However, the expected moderate increase in the global inflation next year, recovery of high income countries, a gradual slowdown rebalancing in China and an increase in global interest rates are expected occurrences during the next year, 2016.



## Government Policies

The Government is planning to improve productivity, value addition and competitiveness of Tea industry while concentrating on expansion to non-traditional cultivation areas and improving productivity through promoting good agricultural practices. As a powerful stakeholder who is holding the ownership of the land on which the Company holds its prosperity, the Government continued the subsidy schemes for Rubber, Tea and Coconut new planting and replanting to encourage the traditional export productions. The short term working capital loan schemes provided for the registered Tea Factory Holders helped them to muddle through short term financial difficulties. New technological practices of improved tapping knives, power mats, single day drying system and new, high yielding clones in the smallholder sector have been introduced to improve the product quality. Nevertheless, removing fertilizer subsidies and imposing subsidies only on Paddy cultivation negatively affected the industry as a whole and increased the cost of production. Indirectly, impose of Supper Gain tax affected the plantation companies which are subsidiaries of large parent companies.

## Weather Conditions

Since the plantation sector affixed with the agricultural environment the natural environment plays a vital role. Even though there was no drought during the year, according to Department of Meteorology's findings, the weather conditions were not favorably for Rubber. These uncontrollable situations occurring due to climate changes affect the natural environment favorable for crops. Hence, the production has been hindered and led to decrease the margin to cover the costs. The costs which are fixed in nature; labor costs and overheads, obstruct the organizations being highly lucrative.

## Principal Activities and Nature of Business

During the year, the principal activities of the Company were the cultivation, manufacture and sale of Coconut, Rubber and other Intercrops.

## Operational Scope

KPL comprises of eight Area Estates with a land area of 5,244.58 hectares that encompass different agro climatic zones spanning the three districts of Kurunegala, Gampaha and Anuradhapura. Each area estate comprising of small acreages (divisions) which are scattered over two to three Divisional Secretariats.

## Extent of Lands Held

KPL has lost large extents of productive lands due to release of lands for national requirements and Statutory Declarations. Kurunegala Plantation Limited has lost 20% (1310.45) hectares From the original handing over, which comprised of 6,555.03 hectares, during the establishment of the Company in 1992.

## Product Portfolio

Coconut remains the main crop in all eight estates while Rubber had been confined to three estates, namely; Attanagalla, Mahayaya and Dodangaslanda areas. New areas for expansion into Rubber in order to enhance the land productivity and for biodiversity have been identified at Kurunegala and Narammala, during the year operations commenced in these two areas. KPL also maintains a range of other crops or intercrops which are grown in mainly in the Coconut plantations, in order to enhance land and climatic suitability.

## Management Expertise

Since the change of management in 2005, KPL has adopted high quality managerial practices which have been recognized at national level through the many awards and accolades which the Company has received throughout the years. The Company has proven that it is one of the most professionally managed agribusiness enterprise in the country through its financial and agricultural performance. The Vision of KPL remains in the 'Model Plantation Company' in the Asian Region, and we are well poised in this direction. In 2011, KPL won the Gold Award for the Large Category Producer (Plantations) and the Award for 2nd Runner up at National Level, at the National Agribusiness Awards 2011, conducted by the National Agribusiness Council. 2012 saw KPL walk away with the National Level Award as the All Island Gold Winner, at the National Agribusiness Awards. KPL also re-established its position in the plantation sector by once again winning the Gold Award for Large Category Producer (Plantations). In 2013, KPL won two Gold Awards at the National Agribusiness Awards. The National Agribusiness Gold Award, for the second time, and the Gold Award for the Large Category Producer (Plantations), for the third consecutive year. In 2014 KPL has created a new landmark in the history of the Agribusiness Sector in the country by conquering the National Level Gold

# Operational Review *Contd.*

Award for the 03rd consecutive year and by winning the Gold Award for the Large Category Producer (Plantations) for the 04th consecutive year. Once again KPL kept its winning streak a blaze in 2015, walking away with two awards in Large Category Producer (Plantations), claiming its Gold Award and the Silver Award in Agriculture & Plantations Sector at National Business Excellence Awards 2015 conducted by The National Chamber of Commerce of Sri Lanka.

## Training & Development

The productivity of the Company is highly based on the labor forces. Hence, it is the Company's responsibility to maintain the standards of the production and enhance the labor skills on employment. Therefore the Company continues the training of workers, staff and executives on productivity, quality manufacturing and agricultural practices, leadership teamwork, career growth and development. The following programs are undertaken annually during each financial year to achieve the Company objectives on employee development and enhancing skills.

## Workers

- Tapping & other agricultural practices
- Mite control
- Rubber Manufacture & Factory practices
- Inter Cropping & Cultivation of export agriculture
- Institutional Development (Leadership Team & Attitude)
- Maintenance of land vehicles

## Staff

- Leadership & Teamwork
- Skill Development
- Energy Saving Methods

## Executives

- Personal Development and Career Growth
- Managing Occupational Stress
- Development of Leadership & Competencies
- International Program on Management & Administration
- Taxation

# Financial Review

## Principal Activities and Nature of Business

During the year, the principal activities of the Company were the cultivation, manufacture and sale of Coconut, Rubber & other agriculture produce.

## Operational Scope

KPL comprises of 08 Area Estates with a land area of 5,244.58 hectares that encompass different agro climatic zones spanning the three districts of Kurunegala, Gampaha and Anuradhapura. Each area estates comprising of small acreages (divisions) are scattered over 2-3 Divisional Secretariats.

## Extent of Lands Held

KPL has lost large extents of productive lands due to release of lands for national requirements and Statutory Declarations. Kurunegala Plantation Limited has lost 20% (1,310.45 hectares) of the land originally handed over (6,555.03 hectares) to the Company in 1992 with the establishment of the Company.

| At the end of Financial Year | Hectares        |
|------------------------------|-----------------|
| 2006                         | 5,450.28        |
| 2007                         | 5,450.28        |
| 2008                         | 5,409.70        |
| 2009                         | 5,397.51        |
| 2010                         | 5,397.51        |
| 2011                         | 5,327.77        |
| 2012                         | 5,316.43        |
| 2013                         | 5,261.17        |
| 2014                         | 5,244.58        |
| <b>2015</b>                  | <b>5,244.58</b> |

## Land Extent of Area Estates

|               | Extent (hectares) |
|---------------|-------------------|
| Attanagalla   | 703.22            |
| Dambadeniya   | 462.18            |
| Dodangaslanda | 798.83            |
| Hiriyala      | 1,107.77          |
| Katugampola   | 619.13            |
| Kurunegala    | 555.80            |
| Mahayaya      | 446.26            |
| Narammala     | 551.39            |
|               | <b>5,244.58</b>   |

## Product Portfolio

Coconut is the main crop in all 08 area estates while Rubber had been confined to Attanagalla, Mahayaya and Dodangaslanda areas. New areas for expansion of Rubber in order to enhance land productivity and biodiversity have been identified. Kurunegala and Narammala areas have commenced new establishment of Rubber. KPL also maintains a range of other crops that are grown as intercrops under Coconut considering land & climatic suitability.

## Revenue

The Company's revenue showed a drop from last year, which was one of the best years in the plantations history; however the Company ended up on a positive note closing its books at Rs. 492.14 as opposed to Rs. 576.79 million in 2014 with primary contribution from Coconut. The composition of the revenue is as follows;

- Coconut - 90%
- Rubber - 6%
- Other Crops - 4%

|            | 2015<br>Rs. Mn | 2014<br>Rs. Mn |
|------------|----------------|----------------|
| Coconut    | 442.11         | 514.18         |
| Rubber     | 30.61          | 39.70          |
| Other Crop | 19.42          | 22.91          |
|            | <b>492.14</b>  | <b>576.79</b>  |

## Profit

The Profit After Tax (PAT) of the Company during the year 2015 showed a decline in comparative to the previous year by 25%, with a PAT figure showing at Rs. 155.91Mn against a restated figure of Rs. 207.13 Mn in 2014. Coconut production alone has largely contributed to the profit with over Rs. 179 Mn in 2015, against Rs. 247 Mn in 2014. However, the Rubber segment show an increased negative contribution compared to last year, which could be attributed to the hazardous weather conditions which stagnated the tapping of mature trees and the lack of skilled labour. The sector closed at Rs. 6.9 Mn loss against Rs. 2.4 Mn loss in last year. During the year under review Administrative Cost rose by a marginal 1% to Rs. 132.94 Mn compared to 131.15 Mn a year ago. Profit before Income Tax (PBT) declined by 25% to Rs. 165.92 in 2015 compared to Rs. 220.91 million in 2014. During the year under review Total Income Tax Expenses amounted to Rs. 10.01 Mn compared to Rs. 13.77 Mn a year ago.

# Financial Review *Contd.*

|  | 2015<br>Rs. Mn | 2014<br>Rs. Mn |
|--|----------------|----------------|
| Profit from Coconut                    | 179.98         | 247.22         |
| Profit / (Loss) from Rubber            | (6.95)         | (2.36)         |
| Profit from other crops                | 2.47           | 5.94           |
| Gross Profit                           | <b>175.50</b>  | <b>250.80</b>  |
| Profit from other operating activities | 121.73         | 95.92          |
| Administrative expenses                | (132.94)       | (131.15)       |
| Profit from operating activities       | <b>164.29</b>  | <b>215.57</b>  |
| Net Finance Income                     |                |                |
| Interest Income                        | 28.11          | 31.35          |
| Interest expenses                      | (26.48)        | (26.01)        |
|  | 1.63           | 5.34           |
| Profit before income tax expenses      | 165.92         | 220.91         |
| Income tax expense                     | (10.01)        | (13.78)        |
| Profit for the year                    | <b>155.91</b>  | <b>207.13</b>  |

## Coconut Sector

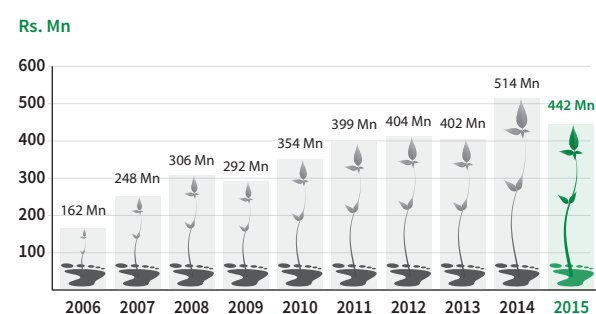
The bearing extent of Coconut at KPL was 3,186.82 hectares, as at end 2015. Currently the Coconut under-plantation acreage is over 22% of the total Coconut extent. KPL Coconut estates have a density of 58 palms per acre, compared with best practice of around 60 palms per acre. It is noteworthy to mention that the palms per acre had been increased from 50 on 1st January 2005, the year in which the management of the Company had been taken over to by the Government. Coconut yields have continued on an increasing trend since 2005 to peak in 2012. However, in 2013, KPL and other growers experienced a considerable draw back. KPL's production fell to 13.0 million nuts from the historically high production of 18.10 million in 2012. The Company's Coconut production is 14.7 million nuts in the year under review with a 16% decrease in the production compared to last year whilst the Coconut sector of Sri Lanka registered an increase of 6.5%.

KPL Coconuts are sold in an ethical manner at the public auctions conducted by the Coconut Development Authority. While in most cases KPL's net sales average (NSA) has been above the auction average. Net sales average per nut was Rs. 31.16 in 2015 against Rs. 30.65 in 2014. The Company also manufactures Copra and Coconut Oil in a limited capacity. The principal crop of KPL is Coconut which accounts for the major share of revenue.

KPL focusing on reducing pilferage and enhancing the productivity, monthly harvesting of Coconuts in every possible plantations in place of bi-monthly harvesting has been introduced. This reduces the number of fallen nuts minimizing the avenues for pilferage. Further, an additional amount of Coconut could be harvested within the year since this method removes the mature crop immediately, so that water and nutrient needs for maintenance of the mature crop could be saved for the use of enhancing the productivity of the palm. The monthly harvesting extent has now reached the maximum of 90% of the harvesting acreage whereas in 2004 it had recorded as 26%. In this scenario too, the Company has been able to maintain a stable percentage of fallen nuts ranging from 17% to 20% over the past years, which reflects the effectiveness of the strategy. On the other hand the monthly harvesting strategy has reduced the fallen nuts being vulnerable for thieving of surrounding villagers, since the fallen nuts percentage has been minimized.

The cost of production of Coconut has been decreased by 2% to Rs. 262.14 Mn during the year under review from Rs. 266.96 Mn in 2014. Minimizing of wastage, increasing of labour output and introduction of alternatives in place of labour are the contributing factors in reducing this rate to an optimum level. However, the COP per nut increased to Rs. 18.61 from Rs.15.98 in 2014 which could be attributed to the decrease of production.

## Revenue - Coconut

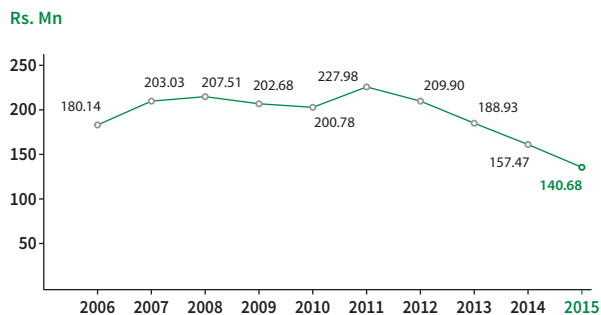


## Rubber Sector

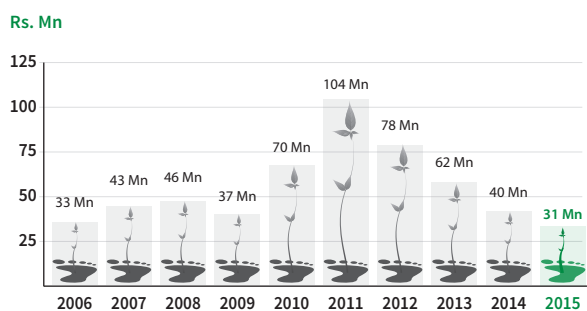
The Company maintains 183.53 hectares of mature Rubber which is our secondary plantation crop. However the extent of plantation of mature Rubber has shown a decline in hectorage of 9.09 hectares from the previous year. This could be one of the reasons attributed to the reeducation in turnover. In 2015 too the Rubber revenue continued its declining trend

commenced from 2011 due to lower prices in international markets. Total income in 2015 was Rs. 30.61 against Rs.39.69 Mn in 2014. The NSA dropped by 11% to Rs. 219 per kilo in 2015 when compared to Rs. 246 in 2014. The national Rubber production dropped by 10.1% during 2015 due to continued dry weather conditions which were followed by adverse raining weather which disrupted latex tapping, while the Company showed a decline of 11%. The Cost of Production of Rubber was managed to reduce by over Rs. 4.5 million during the year under review to Rs.37.6 Mn from Rs. 42.1 million in 2014 which is an 11% decrease. A significant decrease can be seen in the Tapping Cost. This happened due to the reduced latex tapping as a result of the interrupted weather conditions.

### Rubber Production



### Revenue - Rubber

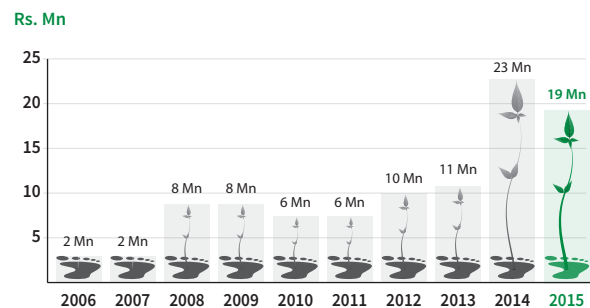


### Other Crops

Since 2005, KPL has extensively diversified into intercropping with a great success. In 2005, the extent of other crops had been 71.79 hectares. At the end of 2015 other crop extent accounted for 581.10 ha. Currently, KPL produces Pepper, Cinnamon, Rambutan, Durian, Dragon Fruit, Mango, Cocoa, Cashew,

etc. as intercropping. KPL has established the largest durian plantation in Sri Lanka, with 1,040 trees in the Mahayaya Area Estate. Cashew, Cinnamon, Dragon Fruit, Mango and Guava have been cultivated in the dry zone estates in Kurunegala while Rambutan and Durian have been established well in the wet zone, in Gampaha.

### Revenue - Other Crops



### Financial Position Structure

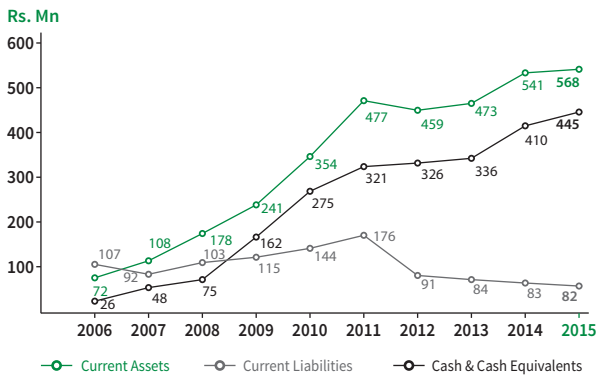
Total assets increased by Rs. 111.32 Mn (2014 - Rs. 170.63 Mn) primarily due to increases in investment in Bearer Biological Assets and Property Plant and Equipment. Investment on establishment of new under plantations and increased cost on maintenance of brought forward immature plantations were the main reasons for the increase in Bearer Biological Assets. Current assets of the Company at the end of 2015 were Rs. 567.79 Mn (2014 - Rs. 540.66 Mn) recording an increase of Rs. 27.13 Mn.

### Liquidity Management

Net working capital of the Company increased to Rs. 485.60 Mn (2014 - Rs. 457.69 Mn) due to an increase in short term investments. Cash and short term investments improved during the current year to Rs. 445.14 Mn in 2015 from Rs. 409.71 Mn in 2014 as a result of prudent financial management practices applied by the Company. The Company held Rs. 415 Mn in short term investments as at 31st December 2015 compared with Rs. 400 Mn in 2014. These investments comprised of fixed deposits at State Banks. The current ratio of the Company stood at 6.91 (no of times) compared to 6.52 (no of times) in 2014. The quick ratio improved to 5.48 from 4.99 when compared with last year.

# Financial Review *Contd.*

## Revenue - Other Crops



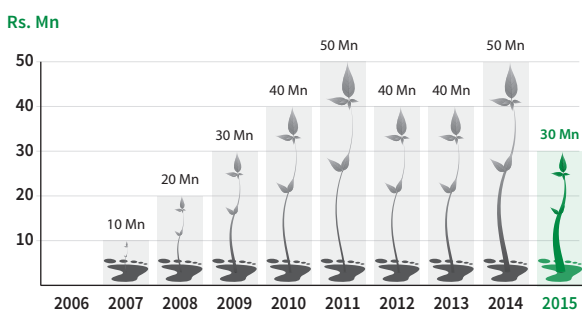
## Equity

Equity comprise of stated capital of 200 million and reserves of Rs. 1,360.47 Mn million. The reserves increased by 114 Mn.

|                   | 2015<br>Rs. Mn  | 2014<br>Rs. Mn  |
|-------------------|-----------------|-----------------|
| Retained Earnings | 1,098.03        | 1,036.04        |
| Timber Reserves   | 247.39          | 203.48          |
| Other Reserves    | 15.03           | 6.94            |
| <b>Total</b>      | <b>1,560.47</b> | <b>1,446.46</b> |

## Payment of Dividends

While most government institutions are a burden to the General Treasury, KPL has not only been transformed to a successful self financing institution, but has also fulfilled its commitment by way of paying dividends to the Golden Shareholder, the General Treasury. We are proud to State that during the current financial year, KPL continues to be a self-financing public enterprise under State Management.



After the Government took-over of the management of KPL in 2005, for the first time in its history, the Company paid dividends in 2007. We look forward to declaring Rs. 30 Mn as dividends for the year 2015. With this amount, since 2007 a total dividends of Rs. 310 million has been paid to date.

## Future Outlook

While weather conditions and the global financial crisis hampering the local economy and the plantations sector is particular, KPL has managed to sustain its growth momentum throughout the last few years due to its farsighted managerial practices. However looking forward, the Company eager to add value to its primary products as the way forward in further developing the Company while contributing to the national economy. This program which be under the guidance of the Ministry of Public Enterprise will entail establishing both local and foreign party collaborations towards sustainable investment. Hence project units at both ministry and company level have been established with the intention of taking this forward.

The suggested areas of sustainable growth include - Tourism Related Development, Mineral Development, Water Resources Development, Power and Energy Related Development, Agriculture Plantation Projects, Housing and Commercial Property Development, Plantation Product Development to name a few. While groundwork for these program are currently taking place the Company itself is looking at avenues to increase profitability, one such venture which being undertaken is provide Coconut lands on facility basis to out growers for short term crops. This is one program which will expedite in the next year. Also the mining of natural rock beds, is yet another path which will be looked into.

In a venture to improve crop yield, tilling of the land mass with ploughs have been introduced, which helps in breaking the thick upper crust of the soil and allowing water to penetrate the main roots of trees.

KPL is well set in reaping healthy benefits in the years to come, its non-burden to the General Treasury unlike other state sector organizations has placed it among the trendsetters in the public and private plantation arena. KPL's management while implementing sustainable practices, have always stood fast to their vision, which could be cited as reason to the Company's success.

# Sustainability Report

As a plantation Company, we at Kurunegala Plantations LTD (KPL) interpret sustainability as growth through economical, environmental and social cohesiveness. Economic sustainability translates primarily into the financial sustainability of the Company, which in turn ensures economic opportunities to the communities and economic benefits to the stakeholders. As an agricultural based Company, our financial sustainability is inextricably intertwined with environmental sustainability. Therefore, we are committed to conserving and protecting the natural environment and eco systems that support our business activities. This translates into sustainable use of land and water and application of sustainable agricultural practices, including conserving natural resources.

In addition, we also believe in ensuring social sustainability through interaction with communities in the locality of our plantations, as they too are an integral part of our business. As a public organization we are conscious of our overall public accountability, through good governance. We ensure good governance through application of transparent processes, regular monitoring, evaluating and reporting systems that prevent corruption and misconduct.

## Sustainable Agricultural Practices

Sustainable agricultural management practices has been our back bones from the inception of the Company. These practices are evident in all of our eight estates, through increased land use efficiency, crop diversification, inter-cropping and under-planting. We have taken immense effort to establish the 'maximum possible palms per acre' and this has been well addressed by the increased number of palms per acre from 50 in 2005, year in which the management of the Company was taken over from private sector, to a staggering 58, which it currently stands at. Underplanting is rampant in every nook and cranny, with no extent of land remaining untouched. The under planted acreage at the end of 2015 recorded as 22% of the total Coconut area and during the year Rs. 73.6 million was invested in immature Coconut plantations. In addition our well-established infilling program has left no land untouched. The number of infilling carried-out during 2015 was 8,578. There is no doubt the increased number of palms per acre will maximize the future Coconut yields of our estates.

Good agricultural practices such as harrowing, increased usage of organic manure with systematic usage of inorganic fertilizer, practicing of sloping agricultural land technology, contour drains, mulching, etc; ensure the sustainable

productivity improvements in our lands. Organic manure improves the soil fertility, moisture retention capacity, soil aeration, texture and the microbial activity of soil. These agricultural practices substantiate the sustainability of our lands. The Company has been converting around 2,000 acres of Coconut plantations to 'Organic Coconut Plantations' since the organically grown Coconut has a premium price due to the high global and local demand for organic agricultural products.

## Reduction of Usage of Synthetic Chemicals on Plantations

The Company being concerned of the protection of the environment has taken all possible steps to reduce the usage of synthetic chemicals such as herbicides, pesticides and fungicides, by practicing biological and mechanical controls, and increasing the usage of organic manure.

### Biological Control

- Use of predator mite (*Neoseiulus baraki*) to control mite (*Aceria guerreronis*) in Coconut plantations – A fully fledged laboratory to produce predator mite (*Neoseiulus baraki*) has been established. This technique is an eco-friendly process. We have successfully produced 22,379 sachets of predator mite and distributed it to the affected areas in our plantations during the year under review. This biological control has shown highly promising results.
- Pheromone traps – to regulate fruit fly (*Drosophila* Species) in fruit plantations and Red Weevil (*Rhynchophorus ferrugineus*) in Coconut plantations.
- Introduction of Red Ants (*Solenopsis* species) – for the control of *Helopeltis* mosquito in Cashew plantations.

### Mechanical Control

Usage of Glyphosate as an herbicide has been broadly debated in various forums at present and the government has banned the usage of Glyphosate. We have replaced the usage of Glyphosate for weed controlling by,

- using of machinery for ploughing, harrowing, slashing
- grazing of cattle
- establishment of cover crops
- mulching the fertilizer circles

# Sustainability Report *Contd.*

## Application of Organic Manure

The Company has also taken important steps in reducing usage of chemical fertilizers by way of using organic manure and also successful trials have been conducted with the collaboration of the Institution of Fundamental Studies (IFS) – Hantana, Kandy to reduce the chemical fertilizer on Coconut by 50%, by using ‘Bio Film Bio Fertilizer.’ In addition to reduction of usage of chemicals in our plantations, we remain vigilant in monitoring of usage and handling of chemicals. The employees engaged in spraying and handling at field levels are well educated and trained of protective and control usage.

## Bio Diversity

In all estates we work actively towards enhancing biodiversity. We have successfully make continuous assessment to recognize both current area of plantation and the potential future area for expansion of suitable varieties of intercrops, Timber and Rubber. We have now established 1049.85 acres of intercrops. Rubber plantations of KPL had been confined to Attanagalla, Mahayaya and Dodangaslanda Area Estates during the past. Recognizing the importance of expanding Rubber plantations which are almost similar to natural forests we have extended our Rubber plantations to new areas at Kurunegala and Narammala Areas.

KPL recognizes the available valuable timber trees in our plantations as a consumable biological asset. The mature timber is harvested in a systematic method after obtaining the required approval from the Environmental Authority, Department of Forest, the Ministry and the Divisional Secretariat. We are proud to state that the Company has established 06 timber plants for each Timber Tree harvested in order to enhance the sustainability.

## Our Employees

### Employee Benefits And Encouragements

We are acutely aware of the responsibility of providing a safe, pleasant and rewarding environment for our employees. We are proud to uphold that our employees are our most valuable asset and they possess the competitive advantage as qualified, experienced and credible professionals. The evidence is clear that plantations cannot be managed profitably without a high degree of professionalism and expertise. KPL is fortunate to have acquired and fostered the human capital base that has made this possible. The total workforce of KPL comprises 1,235 personnel.

## Payment of Performance Based Incentives

From 2005 Company started and continued to pay the performance based incentives and this healthy reward system has encouraged our employees to perform better. A sum of Rs. 25.2 million being 14% of the gross profit was provided in the financial statements for the payment of performance based incentives for the year 2015. This figure for 2014 was Rs. 28.8 million. (11% of the gross profit) This provision has been made to pay a 1.8 months’ gross salary to monthly paid employees and Rs. 15,000/- (2014 - Rs. 12,000/-) to daily paid workers.

## Other Benefits Enjoyed By Our Employees

- Distress loan facilities at low interest rates.
- Interest free loans for school books and textiles.
- Providing of limited Coconuts for consumption to all employees at a very nominal rate of Rs.1/- per nut.
- Incentive payments on fallen nut collection and monthly attendance to watchmen.
- Kerosene oil allowance to watchers without electricity.
- Insurance cover workmen compensation for all employees.
- Rs. 01 million personal accident insurance cover for executives.
- Health insurance cover of Rs. 400,000 per family unit of executives.
- Financial assistance for higher education of staff members.
- Scholarships for higher education of the children of employees.
- Payment of one month’s salary for un-availed medical leave.

## Residence Facilities

Over the past years, we have made a concerted effort to improve housing conditions across our plantations. During the year construction of 17 watch huts with related facilities such as water, electricity and sanitary has been started allocating influx of funds amounting over Rs. 23 million. Further, the Company has always been concerned on the resident workers and we have provided better residences with electricity and sanitary facilities.



## Employee Training & Development

We continue to invest in training and development of our staff to ensure the acquiring of the required skills, knowledge and attitudes to enhance the productivity. In 2015, the investment on employee training and development was Rs. 855 thousand against Rs. 801 thousand in 2014. We offered a wide range of in-house and external training programs, aimed at continued learning as well as personal development. We also support a number of diploma, degree and master programs for our employees. For field staff, we provide on-the-job training and arrange special training programs with professional experts in the field of agriculture.

## Building Lifelong Relationships with Employees

The Company organizes various employee activities in building of lifelong relationship.

- Annual all night pirith chanting was completed for the 7th successful year.
- A 'Nelum Mal Dnasela' offering over 15,000 lotus flowers was held at the premises of Sri Dalada Maligawa in Kandy on Vesak Full Moon Poya Day for the 2nd successful year.
- The 'Kiribath Dansela' at Head Office Premises at Kurunegala was held for the 9th successful year on account of Annual Poson Festival.
- Annual Get-together for staff & their families.
- Inter-estate cricket tournament
- Annual excursions

Our Human Resources management strategy has contributed largely towards motivation of employees and has resulted in higher productivity, loyalty and commitment towards the Company.

## KPL and The Society

Over the last few years neighbouring farmers have been facilitated with grazing and holding for their cattle and in return KPL benefits by obtaining organic manure from cattle dung and control of weeds by grazing. This arrangement contributes to the enhancement of national milk production and for the increase of cattle population at large. We have facilitated neighbouring villagers to cultivate cash and semi perennial crops in our plantations which are of economic significance for them. This initiative enhances their family income and national production levels of agriculture whilst creating biological and ecological a balance in the soil structure of the plantations. This mechanism also enables us to identify and absorb skilled labour, who possess traditional farming knowledge.

The Company annually provide Copra for cultural pageants such as Kandy Sri Dalada Perahera, Pereheras of local temples and Devalayas. Request for timber for construction/renovations of places of religious worship and schools have been favourably considered by the Company. The values of sustainability are embedded with our operations. A proper managed business or a plantation should have an Economic, Social and Environment stability. KPL being a plantation Company is engaged in economically viable farming whilst protecting the environment, improving the biodiversity, ensuring the well-being of the employees and our Nation at large.

# Risk Management

Kurunegala Plantations Limited is exposed to a horde of risks as any other organization and additional risks which are specific to the Plantation Sector. This specific risk is associated with the cultivation and processing of Rubber and Coconut and other intercrops and the economic environment in which it operates. The Board of Directors therefore places special attention on the management of business risks together with the management team to ensure sound Financial and Operational Control Systems are put in place. Internal auditors and management team time to time review the systems' viability to address prevailing risks to eliminate down side of risks and make the use of upside of risks, in order to safeguard shareholders' investment and assets.

## Risk Culture

The Board of Directors has identified their position and distinct consistent tone has maintained in establishing a sound risk management system implying the conformity to the underline requirements of such a system. The management has reflected the commitment to ethical principles and decision making has been done considering wider stakeholder position. Adhering to the leadership, the staff has identified the importance and the follow the same ethical principles of the BOD.

## Risk Identification

Our Company's top management has committed to create a risk culture within the Company and sufficient risk awareness among employees. The Company follows a bottom-up-approach to identify internal risks and this encourages even operational level employees to identify risk arising within their respective functional areas. Top management is always conscious about the external developments to identify external risks. While the Company is exposed to a wide range of risks, some specific to the Plantations Sector and some of them are common to every organization. These identified risks are categorized for effective control purposes.

## Operational Risk

Our principal crop – Coconut has been the main income generator of the Company. Over 70% of the national production is consumed locally as a culinary product leaving less than 30% for the industry. This scenario creates market fluctuations where high crop situations have always resulted in low annual turnovers. Producing high quality nuts minimizing the rejection percentages of the harvest has earned the respect of the buyers. This has resulted in Kurunegala

Plantations Limited fetching a high Net Sales Averages at the auctions conducted by the Coconut Development Authority. In order to create high competition in the market, the Company has built up a local buyer base, which has also become a success factor for disposal during high crop situations. Providing easy access to collection points, residential facilities to Coconut huskers, field transport of produce to congenial places during adverse conditions, flexibility in loading hours had high recognition amongst buyers as a customer-friendly-supplier has secured this position among the buyers.

Extreme weather conditions, which has now become a frequent hindrance, has effected all agricultural crops including Coconut. Prolonged droughts as well as very heavy rainfall has limited the effective harvesting programs and carrying-out of agricultural practices. To preserve the soil moisture and conserve the soil, the Company have adopted the best agricultural practices such as mulching, burying husk, cover crops, harrowing, contour drains, using of organic manure etc. which has given very promising results. Rubber in equal proportion has mitigated the adverse effects on climate changes. The Company has adopted prudent agricultural practices such as TRI recommended clones and also rain guards for Rubber trees in order to minimize the loss on crop due to adverse weather conditions.

## Pest and Disease

Coconut mite 'Aceria guerreronis', "Plessispa" and 'Weligama Wilt' which have now been added to the portfolio of pests and diseases prevalent in the plantation framework, have indeed caused tremendous damage and destruction of high quality Coconuts. The "Weligama Wilt" has become a destructive disease in Coconuts, with no cure yet been discovered, the current curative is to destroy the infested tree, in the hope of eradicating the disease from that point onwards and as a measure to stop it from spreading. Fortunately, this has proven an effective control by the Ministry of Coconut Development and Janatha Estate Development who have managed to quarantine the spread of this disease from the southern part of the country. Although the Company has faced low risk, we have adopted good knowledge amongst employees to identify the disease on observations. Coconut mite infestation has been successfully countered biologically by introduction of Predator Mite, which is also an eco-friendly method. We, in our laboratory, under the guidance of the Coconut Research Institute, produce the Predator Mite for use in our plantations and also, for the use by neighbouring Coconut growers at a reasonable price.

Close supervision of experienced field staff has resulted in early detection, control and eradication of pest and disease in our plantations. The Company trains the field staff and workers by constantly updating their knowledge by giving them regular training in association with the Coconut Research Institute.

### Crop Security

Other than the usual risks of fire, floods and natural disasters, Coconut being a high consumable culinary product, is largely vulnerable for thieving. Small acreages scattered-over many Divisional Secretariats has increased the need of high security to minimize pilferage. Maximized monthly harvesting extents to 90% of the revenue acreage has minimized the percentages of fallen nuts against the normal practice of bi-monthly picking which result in high percentages of fallen nuts which becomes more susceptible for thieving. This practice with the strengthening of perimeter fences, close monitoring and supervision by Superintendents, Assistant Superintendents, Field Staff and Internal Audit Officers, have shown very promising results in minimizing pilferage. Incentive payments for fallen nut collection for watchers too has encouraged the collection and security of Coconut. The Company has insured the crop in transit to meet with the risks involved in natural disasters, fire and thieving.

### Shortage of Labour

Coconut Plantations have faced a severe shortage of skilled labour for harvesting, husking and value addition, where shortage of unskilled labour has resulted in delays in adopting day-to-day management practices. Coconut Plantations unlike Tea and Rubber, generally do not have resident labour forces thus depending on available village labour. The Company has adopted using of machinery for weeding, draining and fertilizing and has extended judicious chemical weeding as alternatives in order to maintain plantations efficiently. We have always being mindful of optimal output from our labour force and, have obtained very high output through appropriate mechanization. Providing free residential facilities, electricity, water and coconut at concessionary

price added with incentive payment based on performance, enhanced gratuity entitlement, payment of bonus, scholarships to children's education, different loan schemes to meet with essential requirements, distress loans to staff, timely payment of statutory dues, providing professional training and the friendly and discipline working environment created has resulted in labour and staff retention with the Company.

### Risk of Land Acquisition

The Company is highly exposed to the risk of acquisition of productive land for national requirements, public purposes and statutory declarations. It is noteworthy that Kurunegala Plantations Limited has lost 20% of the land originally taken over in 1992 with the establishment of the Company.

### Trade Unions, Social and Environmental Changes

Kurunegala Plantations Limited recognizing the importance of industrial harmony has signed a Collective Agreement with the Unions and the Employers' Federation of Ceylon, of which KPL is a member. Timely payment of wages, statutory dues, prompt attention to areas related to workmen compensation and labour issues have strengthened the industrial harmony.

### Risk Monitoring & Review

This process of assessing the presence and functioning of Company's Risk Management components over time with the purpose of identifying weaknesses in the controls in addressing to internal and external changes. The ultimate responsibility for ongoing monitoring activities or separate evaluations lies with the Top Management and Audit Committee. Our Internal Audit Team carries out frequent system base audits by visiting to each estate and reporting to the Audit Committee and to the Senior Management Committee on matters require immediate responses. Effectiveness of the Risk Management Process will be reviewed annually. At this stage relevant information is identified and communicated in order to facilitate the people who are responsible for Risk Management within the Company.

# Corporate Governance

The Board of Directors of Kurunegala Plantations Limited operates on the principles of honesty, corporate impartiality, transparency and accountability. With these governing principals been the foundation on which it endeavours to build strong relationship with all its stakeholders and nurture an environment within which the Company operates. The Company's activities are conducted in line with ethical standards and in the best interest of all its stakeholders. This commitment is supported with the right roles, structures and information which are embodied with policies, procedures and processes that are designed not only to ensure regulatory compliance and sustainability of business but also to enhance business value.

## Board of Directors

The Board of Directors is ultimately accountable and responsible for the performance of the Company and is the focal point of the corporate governance process.

## Responsibility

It sets key policies and strategic objectives and ensures their implementation. The Board also bears the ultimate responsibility for the integrity of the financial information, the effectiveness of the Company's systems of internal control.

## Composition

The Board comprised seven (07) Non-Executive appointed Directors including the Chairman.

## Board Meetings

Board Meetings are scheduled on a monthly basis. At these meetings the Board sets out the strategic direction of the Company, reviews the Annual Budgets, the progress of all activities the recurrent and the capital expenditure programs. The Board members are given appropriate documentation in advance of each Meeting. The attendance of Board of Directors at these meetings during the year 2015 are as follows.

|   |                             |              |
|---|-----------------------------|--------------|
| <b>Mr. A. M. Piyasoma Upali</b><br>Chairman                 |                             | <b>10/10</b> |
| <b>Mr. D. P. Wijesinghe</b><br>Executive Director           | (Resigned on<br>06.10.2016) | <b>09/10</b> |
| <b>Mr. D. M. Bandaranayaka</b><br>Working Director          |                             | <b>10/10</b> |
| <b>Mr. H. A. N. Saman Kumara</b><br>Treasury Representative |                             | <b>10/10</b> |
| <b>Mr. Sunil S. Alles</b><br>Director                       | (Resigned on<br>06.10.2016) | <b>08/10</b> |
| <b>Mr. W. M. D. B. Abeyratne</b><br>Director                |                             | <b>09/10</b> |
| <b>Mr. W. A. D. D. M. Priyantha</b><br>Director             | (Resigned on<br>06.10.2016) | <b>10/10</b> |

## Audit Committee

Please refer the "Report of the Audit Committee" set out in the page no. 43 of the Annual Report.

## Compliance with Legal Requirement

The Board of Directors makes every endeavour to ensure that the Company complies with the Memorandum and Articles of Association of the Company and other rules and regulations as applicable to state-owned business undertakings of the Country. The Board ensures that the Financial Statements of the Company are prepared in accordance with the Sri Lanka Accounting Standards and comply with the requirements of the Companies Act No. 07 of 2007.

# Report of the Audit Committee

The Members of the Audit Committee of the company are appointed by the Board. The Audit Committee comprises of three Non-Executive Directors.

The Audit Committee Meetings were scheduled as needed under the Chairmanship of the Audit Committee, who is the Board Member representing the Treasury. The Chairman, Executive Director, Working Director, Chief Executive Officer, Senior Managers and Area Superintendents participate to these meetings by invitation and the meetings were coordinated by the Manager- Audit.

The below mentioned Board Members were appointed to the Audit Committee with effect from 07th April 2015 and they met 4 times during the year 2015 and their attendance are as follows.

|   | 30.04.2015 | 23.07.2015 | 23.09.2015 | 18.11.2015 | Attendance |
|---|------------|------------|------------|------------|------------|
| <b>Mr. H. A. N. Saman Kumara</b><br>Chairman – Audit Committee<br>Director/Treasury<br>Representative | ✓          | ✓          | ✓          | ✓          | 04/04      |
| <b>Mr. Sunil S. Alles</b><br>Director<br>(Resigned on 06.10.2016)                                     | ✓          | ✓          | ✓          | ✓          | 04/04      |
| <b>Mr. W. M. D. B. Abeyratne</b><br>Director  | ✓          | ✓          | ✓          | ✓          | 04/04      |

## The main Role and Responsibility of the Audit Committee

Exercising oversight responsibilities relating to the quality and integrity of the Company's financial statements and financial reporting process including the preparation, presentation and adequacy of disclosures in the financial statements of the company in accordance with the Sri Lanka Accounting Standards.

Exercising responsibilities over processes to ensure that the company internal controls and risk management are adequate and compliance by the Company with legal and statutory requirements including circulars and guidelines issued by the General Treasury time to time.

## Progress during the Financial Year

The proceedings of the Audit Committee are regularly reported to the Board of Directors for approval and implementation.

The audit committee reviews and monitor the scope of the audit, the objectivity and its effectiveness. The committee also review the operations of KPL along with future prospects.

Action taken by the management in response to the issues raised, as well as the effectiveness of the internal controls in place, were discussed with the heads of business units/ Superintendents and corrective measures were recommended.

Report of the Auditor General on the financial statements of KPL for the year ended 31 December 2015, together with management's responses, were discussed with management and the auditors and made arrangements to rectify those mistakes highlighted by the auditors. Weaknesses of internal controls and mistakes of coconut estates identified by internal audit division were discussed with CEO and superintendents, and highlighted the significant areas along with suitable recommendations to the Board of directors to take appropriate action.

The audit committee wishes to acknowledge with thanks the services rendered by the Internal Audit Division and their efforts to meet the requirements and expectations of the company. The contribution made by the members of the committee is acknowledged with grateful appreciation. Their competence in financial matters and relevant experience was invaluable for the company's continuous success.



**H. A. N. Saman Kumara**  
Chairman  
Audit Committee



# Financial Reports

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# Annual Report of the Board of Directors

The Directors of Kurunegala Plantations Limited have pleasure in presenting their Annual Report together with the Audited Financial Statements for the fiscal year ended 31st December 2015

## General

Kurunegala Plantations Limited (KPL) was incorporated as a limited liability Company under the Companies Act No. 17 of 1982 in terms of the provisions of the Conversion of Corporations and Government Owned Businesses undertakings into Public Companies Act No. 23 of 1987. It was re-registered under the Companies Act No. 07 of 2007 with a new registration number - PB 1319. The registered office of the Company is located at No. 80, Dambulla Road, Kurunegala. The Company remains as a Single Shareholder Company. The Secretary to the Treasury of the Government of Sri Lanka being its Shareholder.

## Principal Activities and Nature of Business

During the year, the principal activities of the Company included the cultivation, manufacture and sale of Coconut, Rubber and other agriculture produce. All the Company's planted lands are situated in the planting districts of Kurunegala, Gampaha and Anuradhapura which are broken up into eight planting Area Estates as mentioned here in.

## Going Concern

The Board of Directors is satisfied that the Company has adequate resources to continue its operation in the foreseeable future. Accordingly the Financial Statements are prepared based on the Going Concern Concept.

## Financial Statements & Auditor's Report

The duly completed Financial Statements signed by the Directors and the Auditor's Report for the same period (year ended 31st December 2015) are given in page no. 50 to 97.

## Accounting Policies

The Accounting Policies adopted in the preparation of the Financial Statements are further elaborated in pages 54 to 66 of this Report. There were no changes in the Accounting Policies adopted in the previous year for the Company.

## Revenue

The total revenue of the Company for the year 2015 is Rs. 492 million (2014 - Rs. 577 million). The other operating income for the year is Rs. 122 million (2014 - Rs. 96 million).

The interest income earned during the year is 28 million (2014 - Rs. 31 million) which is shown under note no. 08 - Net Financial Income to the Financial Statements.

## Results and Appropriations

The profit-after tax of the Company the year 2015 is Rs. 156 million (2014 - Rs. 207 million). Financial results of the Company are given in the Statement of Comprehensive Income.

|  | 2015<br>Rs. Mn | 2014<br>Rs. Mn |
|--|----------------|----------------|
| Profit from Coconut                    | 179.98         | 247.22         |
| Profit / (Loss) from Rubber            | (6.95)         | (2.36)         |
| Profit from other Crops                | 2.47           | 5.94           |
| Gross Profit                           | <b>175.50</b>  | <b>250.80</b>  |
| Profit from other operating Activities | 121.73         | 95.92          |
| Administrative Expenses                | (132.94)       | (131.15)       |
| Profit from Operating Activities       | <b>164.29</b>  | <b>215.57</b>  |
| Net Finance Income                     |                |                |
| Interest Income                        | 28.11          | 31.35          |
| Interest Expenses                      | (26.48)        | (26.01)        |
|  | 1.63           | 5.34           |
| Profit before Income Tax Expenses      | <b>165.92</b>  | <b>220.91</b>  |
| Income Tax Expense                     | (10.01)        | (13.78)        |
| Profit for the year                    | <b>155.91</b>  | <b>207.13</b>  |

## Capital Expenditure & Investments

During the fiscal year under review, Rs. 135.17 million (2014 - Rs. 159.58 million) had been invested in Fixed Assets of the Company out of which Rs. 98 million (2014 - Rs. 82 million) had been incurred on immature plantations.



## Short Term Investments

The Company held a sum totaling Rs. 415 million in short term investments as at 31st December 2015, as opposed to Rs.400 million in the previous year. This investment comprises of fixed deposits at Government Banks. (Rs. 166 million at Bank of Ceylon, Rs. 130 million at People's Bank and Rs. 119 million at National Savings Bank).

## Stated Capital

This refers to the total amounts received by the Company in respect of the issue of shares. The total Stated Capital of the Company as at 31st December 2015 was Rs. 200,000,010. This comprises 20,000,000 in Ordinary Shares and 01 Golden Share held by the Secretary to the General Treasury of Sri Lanka. No allotments of shares were made during the year.

## Reserves

The Company Reserves as at 31st December 2015 are represented by Retained Profit of Rs.1,098 million, Timber Reserves of Rs. 247 million and Other Reserves of Rs. 15 million.

## Directorate

The Board of Directors had been changed during the year 2015. The names of the Directors who held office during the year are given below.

| Name   | Date of Appointment | Date of Resignation |
|--|---------------------|---------------------|
| Dr. Sunil Jayasekara<br>Chairman                     | 24.09.2013          | 28.01.2015          |
| Mr. P. G. Amarakoon<br>Executive Director            | 24.09.2013          | 12.03.2015          |
| Mr. R. W. M. J. R. Perera<br>Working Director        | 24.09.2013          | 12.03.2015          |
| Mr. A. P. Kurumbalapitiya<br>Treasury Representative | 24.09.2013          | 05.03.2015          |
| Prof. W. P. Gamini de Alwis                          | 24.09.2013          | 12.03.2015          |
| Mr. G. V. A. W. D. Gamaarachchi                      | 24.09.2013          | 12.03.2015          |
| Mr. J. Devapiran                                     | 24.09.2013          | 28.01.2015          |

| Name   | Date of Appointment | Date of Resignation    |
|--|---------------------|------------------------|
| Mr. A. M. Piyasoma Upali<br>Chairman                 | 29.01.2015          |                        |
| Mr. H. A. N. Saman Kumara<br>Treasury Representative | 06.03.2015          |                        |
| Mr. Sunil S. Alles                                   | 06.03.2015          | Resigned on 06.10.2016 |
| Mr. D. P. Wijesinghe<br>Executive Director           | 13.03.2015          | Resigned on 06.10.2016 |
| Mr. W. M. D. B. Abeyratne                            | 13.03.2015          |                        |
| Mr. W. A. D. D. M. Priyantha                         | 13.03.2015          | Resigned on 06.10.2016 |
| Mr. D. M. Bandaranayaka<br>Working Director          | 26.03.2015          |                        |

| New Appointment   |            |  |
|---|------------|--|
| Mr. H. A. P. Thusitha Kumara Dias<br>Executive Director | 07.10.2016 |  |
| Mr. R. Sydney Kulathilaka                               | 07.10.2016 |  |
| Mr. Indunil Amarasinghe                                 | 07.10.2016 |  |

## Directors' Interest in Contracts

The Directors have no direct or indirect interest in contracts.

## Directors' Share Holding

No Director of the Company or his/her spouse holds any shares in the Company.

## Audit Committees

The following Board members had served the Audit Committee during the year 2015.

|  |                          |
|--|--------------------------|
| Mr. H. A. N. Saman Kumara<br>Director/ Treasury Representative |                          |
| Mr. Sunil S. Alles<br>Director                                 | (Resigned on 07.10.2016) |
| Mr. W. M. D. B. Abeyratne<br>Director                          |                          |

## Employment

The Company has an equal opportunity policy and these principles are enshrined in specific selection, training, development and promotion policies, ensuring that all decisions are based on merit. The Company practices equality of opportunity for all employees irrespective of ethnic origin, religion, political opinion, gender, marital status or physical disability.

# Annual Report of the Board of Directors *Contd.*

## Statutory Payments

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 were paid by the Company as at the Reporting Date.

## Events after the Reporting Date

There have been no events subsequent to the Reporting Date, which would have any material effect on the Company other than those disclosed in this report.

## Auditors

The Accounts for the year 2015 have been audited by the Auditor General's Department.

## Annual Report

The Board of Directors has approved the Financial Statements on 29th February 2016.

## Annual General Meeting

The Annual General Meeting will be held at Kurunegala Plantations Limited, Colombo Office, No. 712/3, Baseline Road, Dematagoda, Colombo 09 on 21st December 2016. The notice of the Annual General Meeting is attached hereto.

For and on behalf of the Board of Directors



**A. M. Piyasoma Upali**  
*Chairman*



**H. A. N. Saman Kumara**  
*Director/Treasury Representative*



**Corporate Advisory Services (Pvt) Limited**  
Secretaries - Kurunegala Plantations Limited  
Kurunegala.

24th November 2016.

# Statement of Directors' Responsibility

The Directors Responsibilities in relation to the Financial Statements are set out in the following statement. All responsibilities pertaining to the Auditors in relation to the Financial Statement are prepared in accordance with the provision of the Companies Act No. 07 of 2007, and are set out in the report of the Auditors.

## The Financial Statements Comprise:

A Statement of Comprehensive Income - which presents a true and fair view of the profit and 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 which complies with the requirement of the Companies Act No. 07 of 2007.

The Directors are required to ensure that, in preparing these Financial Statements:

- The appropriate Accounting Policies have been chosen and used in a consistent manner and material departures, if any, have been disclosed and explained;
- All applicable Accounting Standards, as relevant, have been followed;
- Judgments and estimates have been made which are reasonable and prudent.
- The Directors are also to ensure that Company has adequate resources to continue in operation and to justify applying the 'going concern bases' in preparing these Financial Statements.

Further the Directors are entrusted with the responsibility to ensure that the Company maintains sufficient accounting records with reasonable accuracy, the financial position of the Company and to ensure that the Financial Statements presented comply with the requirements of the Companies Act No. 07 of 2007.

The Directors are also responsible for taking steps to safe guard the assets of the Company and in this regard to give proper consideration to the establishment of appropriate internal control systems with the view to preventing and detecting fraud and other irregularities.

The Directors are required to prepare the Financial Statements and provide the Auditors with every opportunity to take needed steps and accept whatever assessments they may consider to be appropriate to enable them to give their audit opinion.

As per the Companies Act the Board shall cause the Annual General Meeting Report to be sent to every shareholder of the Company not less than 15 working days before the date fixed for holding the Annual General Meeting.

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.

By Order of the Board



**Corporate Advisory Services (Pvt) Limited**  
Secretaries - Kurunegala Plantations Limited  
Kurunegala.

24th November 2016.

# Statement of Comprehensive Income

| For The Year Ended 31st December                | Note | 2015<br>Rs.        | 2014<br>Restated<br>Rs. |
|---|------|--------------------|-------------------------|
| <b>Revenue</b>                                  | 4    | 492,140,403        | 576,790,774             |
| Cost of Sales                                   | 5    | (316,643,654)      | (325,990,679)           |
| Gross Profit                                    |      | 175,496,749        | 250,800,095             |
| Other Operating Income                          | 6    | 121,733,181        | 95,921,283              |
| Administration & General Expenses               | 7    | (132,937,239)      | (131,150,183)           |
| <b>Profit from Operating Activities</b>         |      | <b>164,292,691</b> | <b>215,571,195</b>      |
| Net Financial Income / (Expenses)               | 8    | 1,630,256          | 5,335,281               |
| <b>Profit before Taxation</b>                   |      | <b>165,922,947</b> | <b>220,906,476</b>      |
| Income Tax Expense                              | 9    | (10,012,206)       | (13,776,911)            |
| <b>Profit for the Year</b>                      |      | <b>155,910,741</b> | <b>207,129,565</b>      |
| <b>Other Comprehensive Income</b>               |      |                    |                         |
| Defined benefit plan actuarial gains / (losses) |      | 8,098,729          | (683,093)               |
| <b>Total Comprehensive Income for the year</b>  |      | <b>164,009,470</b> | <b>206,446,472</b>      |
| <b>Earnings Per Share (Rs.)</b>                 | 10   | <b>7.80</b>        | <b>10.36</b>            |

The Accounting Policies & Notes form an integral part of these Financial Statements.

All values are in Rupees, unless otherwise stated.

Figures in bracket indicate deductions.

# Statement of Financial Position

| As At                                       | Note | 31.12.2015<br>Rs.    | 31.12.2014<br>Restated<br>Rs. |
|---|------|----------------------|-------------------------------|
| <b>ASSETS</b>                               |      |                      |                               |
| <b>NON-CURRENT ASSETS</b>                   |      |                      |                               |
| Leasehold Right to Bare Land                | 11   | 93,387,704           | 96,557,661                    |
| Immovable Lease Assets (excl. Bare Lands)   | 12   | 40,727,824           | 45,569,801                    |
| Bearer Biological Assets                    | 13A  | 785,952,344          | 698,417,014                   |
| Consumable Biological Assets                | 13B  | 140,140,673          | 132,192,052                   |
| Property, Plant & Equipment                 | 14   | 264,684,411          | 268,154,134                   |
| Other Financial Assets                      | 15   | 5,706,257            | 5,529,152                     |
| <b>Total Non Current Assets</b>             |      | <b>1,330,599,213</b> | <b>1,246,419,814</b>          |
| <b>CURRENT ASSETS</b>                       |      |                      |                               |
| Inventories                                 | 16   | 35,007,421           | 43,373,473                    |
| Deposits & Pre-payments                     |      | 5,452,268            | 5,549,623                     |
| Pre-paid Expenditure on short term projects | 17   | 11,187,730           | 12,847,143                    |
| Income tax Refund                           |      | 9,116,377            | 6,829,501                     |
| Trade & Other Receivables                   | 18   | 56,359,580           | 56,792,077                    |
| Other Financial Assets                      | 15   | 5,528,514            | 5,557,270                     |
| Short Term Investments                      | 19   | 415,000,000          | 400,000,000                   |
| Cash and Bank Balance                       | 20   | 30,142,753           | 9,709,538                     |
| <b>Total Current Assets</b>                 |      | <b>567,794,643</b>   | <b>540,658,625</b>            |
| <b>TOTAL ASSETS</b>                         |      | <b>1,898,393,856</b> | <b>1,787,078,439</b>          |
| <b>EQUITY &amp; LIABILITIES</b>             |      |                      |                               |
| <b>CAPITAL &amp; RESERVES</b>               |      |                      |                               |
| Stated Capital                              | 21   | 200,000,010          | 200,000,010                   |
| Retained Earnings                           |      | 1,098,032,352        | 1,036,042,220                 |
| Timber Valuation Reserve                    |      | 247,398,848          | 203,478,239                   |
| Other Reserves                              |      | 15,039,398           | 6,940,669                     |
| <b>Total Equity</b>                         |      | <b>1,560,470,608</b> | <b>1,446,461,138</b>          |
| <b>NON-CURRENT LIABILITIES</b>              |      |                      |                               |
| Retirement Benefit Obligations              | 22   | 117,628,140          | 124,548,410                   |
| Net liability to the lessor                 | 23   | 64,213,817           | 67,779,021                    |
| Deferred Tax Liability                      | 24   | 75,333,298           | 65,321,092                    |
|   |      | <b>257,175,255</b>   | <b>257,648,523</b>            |
| <b>CURRENT LIABILITIES</b>                  |      |                      |                               |
| Net liability to the lessor                 | 23   | 3,565,204            | 3,565,204                     |
| Advance received                            | 25   | 1,745,841            | 948,352                       |
| Trade, expense and other payables           | 26   | 75,436,948           | 78,455,222                    |
| <b>Total Current Liabilities</b>            |      | <b>80,747,993</b>    | <b>82,968,778</b>             |
| <b>TOTAL EQUITY AND LIABILITIES</b>         |      | <b>1,898,393,856</b> | <b>1,787,078,439</b>          |

The Accounting Policies & Notes form an integral part of these Financial Statements.  
All values are in Rupees, unless otherwise stated. Figures in bracket indicate deductions.

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

**Premathilaka P. M. D. G.**  
Manager - Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.  
Approved and signed for and on behalf of the Board of Directors of Kurunegala Plantations Limited.

**Piyasoma Upali A. M.**  
Chairman

**Saman Kumara H. A. N.**  
Director/Treasury Representative

Kurunegala, 29th February 2016

# Statement of Changes in Equity

| For The Year Ended 31st December 2015           | Stated capital<br>Rs. | Timber Reserve<br>Rs. | Other Reserve<br>Rs. | Retained Earnings<br>Rs. | Total Equity<br>Rs.  |
|---|-----------------------|-----------------------|----------------------|--------------------------|----------------------|
| Balance as at 01.01.2014                        | 200,000,010           | 183,160,698           | 7,623,762            | 889,230,196              | 1,280,014,666        |
| Net profit for the year 2014 -Restated (Note A) |                       |                       |                      | 207,129,565              | 207,129,565          |
| Other Comprehensive Income                      |                       |                       | (683,093)            |                          | (683,093)            |
| Transferred to Biological Assets Reserve        |                       | 20,317,541            |                      | (20,317,541)             | -                    |
| Dividend - 2013                                 |                       |                       |                      | (40,000,000)             | (40,000,000)         |
| Balance as at December 31, 2014                 | 200,000,010           | 203,478,239           | 6,940,669            | 1,036,042,220            | 1,446,461,138        |
| Net profit for the year 2015                    |                       |                       |                      | 155,910,741              | 155,910,741          |
| Other Comprehensive Income                      |                       |                       | 8,098,729            |                          | 8,098,729            |
| Transferred to Biological Assets Reserve        |                       | 43,920,609            |                      | (43,920,609)             | -                    |
| Dividend - 2014                                 |                       |                       |                      | (50,000,000)             | (50,000,000)         |
| <b>Balance as at DECEMBER 31, 2015</b>          | <b>200,000,010</b>    | <b>247,398,848</b>    | <b>15,039,398</b>    | <b>1,098,032,352</b>     | <b>1,560,470,608</b> |

#### Note A- Reconciliation of Profit for the year 2014

|   |                    |
|---|--------------------|
| Profit for the year 2014 as previously reported | 214,238,022        |
| <b>Previous year Adjustments</b>                |                    |
| Loss on disposal of Fixed Assets (Note A - 1)   | (7,108,457)        |
| Restated Profit for the Year 2014               | <b>207,129,565</b> |

#### Note A - 1

A land extent of 60.52 Ha. from Petervally and Gatakulalanda divisions of Hiriya Area Estates has been acquired by District Land Reform Commission for the resettlement under Deduru Oya Project. The value of the under plantation, which is lost due to the said alienation of land, is Rs. 7,108,457, which is retrospectively adjusted in the financial statements.

The Accounting Policies & Notes form an integral part of these Financial Statements.

All values are in Rupees, unless otherwise stated.

Figures in bracket indicate deductions

# Statement of Cash Flows

| For The Year Ended 31st December  | 2015<br>Rs.          | 2014<br>Restated<br>Rs. |
|---|----------------------|-------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                      |                         |
| Profit before income tax expense  | 165,922,947          | 220,906,476             |
| <b>Adjustments for</b>  |                      |                         |
| Depreciation/Amortization   | 57,984,958           | 50,933,499              |
| Interest on lease agreement   | 25,393,663           | 24,844,072              |
| Interest on temporary bank loan   | 52,397               | -                       |
| Amortization of staff loans   | 1,032,463            | 1,162,966               |
| Provision for Retirement Benefit Obligations  | 23,787,118           | 24,114,591              |
| Interest Income   | (28,108,779)         | (31,342,319)            |
| Profit/(Loss) on Disposal of Property Plant & Equipment   | 1,054,006            | 5,899,432               |
| Write off of WIP  | -                    | 309,677                 |
| Income tax paid   | (2,286,876)          | (3,658,174)             |
| Provision for Performance Incentive   | 25,203,842           | 28,779,734              |
| Provision for Bonus   | 11,297,741           | 12,319,147              |
| Gain / (Loss) arising from changes in fair value less cost to sell - Consumable Biological assets | (43,920,609)         | (20,317,541)            |
| <b>Operating Profit/(Loss) Before Working Capital Changes</b>                                     | <b>237,412,872</b>   | <b>313,951,560</b>      |
| (Increase)/Decrease in Inventories  | 8,366,052            | (1,423,536)             |
| (Increase)/Decrease in Deposits & Pre-payments  | 97,355               | (1,019,858)             |
| (Increase)/Decrease in Trade and Other Receivables  | 1,673,343            | 3,792,538               |
| (Increase)/Decrease in Pre-paid Expenditure on short term projects                                | 1,659,413            | (2,583,172)             |
| Increase/(Decrease) in Rent Rceived in advance  | 797,489              | (727,521)               |
| Increase/(Decrease) in Trade and Other Payables   | 1,639,445            | (5,760,038)             |
| Payment of Retirement Benefit Costs   | (22,608,659)         | (25,031,833)            |
| Payment of Performance incentive  | (28,917,006)         | (27,338,254)            |
| Payment of Bonus  | (12,242,295)         | (8,665,902)             |
| Cash received from sale of valuable trees   | 35,971,988           | 19,011,097              |
| <b>Net Cash From/(Used in) Operating Activities</b>   | <b>223,849,997</b>   | <b>264,205,081</b>      |
| <b>Cash Flows From/(Used in) Investing Activities</b>   |                      |                         |
| Purchase of Property, Plant & Equipment   | (141,215,895)        | (179,440,596)           |
| (Increase)/Decrease in WIP  | 6,041,257            | 19,861,377              |
| Proceeds from disposal of Property, Plant & Equipment   | 82,000               | 1,231,250               |
| Interest Received   | 25,835,469           | 37,658,398              |
| <b>Net Cash Flows From/(Used in) Investing Activities</b>   | <b>(109,257,168)</b> | <b>(120,689,571)</b>    |
| <b>Cash Flows From/(Used in) Financing Activities</b>   |                      |                         |
| Lease Rental Paid   | (28,958,867)         | (28,409,276)            |
| Interest on temporary Bank Loans - BOC  | (52,397)             | -                       |
| Loan Given to Staff   | (8,892,850)          | (8,071,500)             |
| Staff Loan Recoveries   | 8,744,500            | 6,933,143               |
| Dividend paid   | (50,000,000)         | (40,000,000)            |
| <b>Net Cash Flows From/(Used in) Financing Activities</b>   | <b>(79,159,614)</b>  | <b>(69,547,633)</b>     |
| <b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>                                       | <b>35,433,214</b>    | <b>73,967,877</b>       |
| Cash and Cash Equivalents at the beginning of the year  | 409,709,538          | 335,741,661             |
| Cash and Cash Equivalents at the end of the period (Note A)                                       | <b>445,142,753</b>   | <b>409,709,538</b>      |

## Note A

### Cash and Cash Equivalents at the end of the period

|   | As at<br>31.12.2015<br>Rs. | As at<br>31.12.2014<br>Rs. |
|---|----------------------------|----------------------------|
| Fixed Deposits - BOC                                    | 166,000,000                | 65,000,000                 |
| Fixed Deposits - Peoples' Bank                          | -                          | 45,000,000                 |
| Fixed Deposits - Peoples' Bank - Retiring Gratuity Fund | 130,000,000                | 130,000,000                |
| Fixed Deposits - National Savings Bank                  | 119,000,000                | 160,000,000                |
| Treasury Bills  |                            |                            |
| Repo  | 21,000,000                 | 4,000,000                  |
| Cash in Transits  |                            |                            |
| Cash at Bank  | 7,559,909                  | 4,698,670                  |
| Cash in Hand  | 1,570,876                  | 1,002,855                  |
| Postage/Stamps  | 11,968                     | 8,013                      |
|   | <b>445,142,753</b>         | <b>409,709,538</b>         |

# Accounting Policies

## 01. GENERAL

### 1.1 Legal Status of the Reporting Entity

Kurunegala Plantations Limited (KPL) is a limited liability Company incorporated under the Companies Act No. 17 of 1982 in terms of the provisions of the Conversion of Corporations and Government owned Businesses undertakings into Public Companies Act No. 23 of 1987 and re-registered under the Companies Act No. 7 of 2007. The registered office of the Company is located at No. 80, Dambulla Road, Kurunegala.

Company is a single shareholder Company with the Secretary to the Treasury of the Government of Sri Lanka being the single shareholder.

### 1.2 Principal Activities and Nature of Business

During the year, the principal activities of the Company were the cultivation, manufacture and sale of Coconut, Rubber & other agriculture produce. Its plantations are situated in the planting districts of Kurunegala, Gampaha and Anuradhapura which are organized under 08 planting Area Estates as described below.

- Attanagalla
- Dambadeniya
- Dodangaslanda
- Hiriyala
- Katugampola
- Kurunegala
- Narammala
- Mahayaya

## 02. BASIS OF PREPARATION

### 2.1 Statement of Compliance

The financial statements which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity and the statement of cash flows, together with the accounting policies and notes (“financial statements”) have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS/ LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the requirement of the Companies Act No. 07 of 2007.

### 2.2 Going Concern

The directors have made an assessment of the Company’s ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

### 2.2 Basis of Presentation

The financial statements were prepared on accrual basis and under the historical cost basis except for the following material items in the Statement of Financial Position.

- Leasehold Right to Bare Land of JEDB/SLSPC, which have been revalued as described in Note 11.
- Consumable Mature Biological Assets are measured at fair value less costs to sell (Note 13)
- Retirement Benefit Obligations recognized based on actuarial valuation (LKAS - 19) (Note 21)
- Agricultural produce harvested from biological assets are valued at net realizable value. Net realizable value is the estimated selling price less the costs estimated for the realization of such sale.

No adjustments have been made for inflationary factors in the financial statements.



### 2.3 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees which is the Company's functional currency. All financial information presented in Sri Lankan Rupees has been rounded to the nearest rupee, unless otherwise stated.

### 2.4 Use of Estimates and Judgments

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standards (SLFRS/LKAS) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities income and expenses.

Judgments and estimates are based on historical experience, trends and other factors including expectations that are believed to be reasonable under the circumstances. Accordingly, the actual results may differ from these judgments and estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis to ensure the validity of the same. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Financial Statements are included in the following notes:

Note 11-Tangible Assets Other than right-to-use land and bearer biological assets

Note 13- Consumable Biological Assets

Note 21- Measurement of Defined Benefit Obligation.

Note 24 - Deferred Taxation

### 2.5 Comparative Information

The presentation and classification of the financial statements of the previous years have been amended where relevant for better presentation and to be comparable with those of the current year.

## 03. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 3.1 Assets and the Basis of their Valuation

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

#### 3.1.1 Property, Plant & Equipment

##### 3.1.1.1 Recognition and Measurement

Property, Plant and Equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost for this purpose includes the cost of acquisition and any directly attributable expenditure incurred to bring the asset to its working condition or intended use. The cost of self-constructed assets includes the cost of materials, direct labour, and any other costs directly attributable to bringing the asset to the working condition or its intended use. This also includes cost of dismantling and removing the existing asset.

# Accounting Policies *Contd.*

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

When property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Permanent Land Development Costs are costs incurred to make major changes to land contours, to build new access roads and on other major infrastructure development.

Gains and losses on disposal of an item of property, plant and equipment are determined as difference between the proceeds from disposal and the carrying amount of property, plant and equipment, and are recognized under other income in the statement of comprehensive income.

### **3.1.1.2 Subsequent Expenditure**

Expenditure incurred on existing property, plant and equipment are capitalized when it is expected that such expenses would result in future economic benefits in excess of those originally assessed and its cost can be measured reliably. The carrying amount of the replaced asset is derecognized.

The costs of the day to day servicing/ maintenance of property, plant and equipment are recognized in Comprehensive Income Statement as incurred. When a revalued asset is disposed, the amount included in the revaluation surplus reserve is transferred to retained earnings.

### **3.1.1.3 De-recognition**

The carrying amount of an item of property, plant and equipment is de-recognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses on de-recognition are recognized under other income in statement of comprehensive income.

### **3.1.1.4 Borrowing Cost**

Borrowing costs that are directly attributable to acquisition, construction or production of a qualifying asset, which takes a substantial period of time to get ready for its intended use or sale, are capitalized as a part of the asset. The amounts of the borrowing costs which are eligible for capitalization are determined in accordance with the in LKAS 23 - Borrowing Costs.

Borrowing costs that are not capitalized are recognized as expenses in the period in which they are incurred and charged to the Statement of Comprehensive Income.

### **3.1.1.5 Depreciation and Amortization**

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognized in profit or loss on a straight line basis over the estimated useful life of each asset, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land are not depreciated.

**The estimated useful lives for the current and comparative periods are as follows:**

- Buildings - Over 40 years
- Wells - Over 40 years
- Fencing - Over 03 years
- Motor Vehicles - Over 05 years
- Machinery - Over 13 1/3 years
- Furniture & Fittings - Over 10 years
- Equipment - Over 08 years
- Computers - Over 05 years

Depreciation of an asset begins when it is available for use whereas depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

Depreciation method, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

**The leasehold assets are being amortized in equal amounts over the following periods.**

- Bare land - Over 53 years
- Buildings - Over 25 years
- Machinery - Over 15 years
- Mature Plantations - Over 30 years
- Improvements to Land - Over 30 years

#### **3.1.1.6 Leased Assets**

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

Assets held under the finance lease are amortized over the shorter of the lease period or the useful life of equivalent owned assets, unless ownership is not transferred at the end of the leased period.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the leased term are classified as operating leases. Lease payments (excluding costs for services such as insurance and maintenance) paid under operating leases are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

#### **3.1.1.7 Impairment of Non-Financial Assets**

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.

# Accounting Policies *Contd.*

An asset's recoverable amount is the higher of an asset's value in use and its fair value less cost to sale 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 group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the assets 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 pre tax discount rates that reflect current market assessments of the time value of money and the risk specific to the asset. In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no such transaction can be identified, an appropriate valuation model is used.

Impairment loss of continuing operations are recognized in the Statement of Comprehensive Income in those expenses categories consistent with the function of the impaired asset. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognized. If that is the case, carrying amount of the asset is increased to its recoverable amount. That increased amount cannot 'exceed' the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the Statement of Comprehensive Income

## 3.1.2 Biological Assets

Biological assets are classified into Mature Biological assets and Immature Biological assets. Mature Biological assets are those that have attained harvestable specifications or are able to sustain regular harvests. Immature Biological assets are those that have not yet attained harvestable specifications.

Biological assets are further classified as Bearer Biological assets and Consumable Biological assets. Bearer Biological assets include Coconut and Rubber trees that are not intended to be sold or harvested, but grown for harvesting agricultural produce from such Biological assets. Consumable Biological assets includes un-planned forestry in estates having commercial exotic timber species such as Teak, Mahogany, Halmilla, Milla etc.

### 3.1.2.1 Bearer Biological Assets

The bearer biological assets are measured at cost less accumulated depreciation and impairment losses, if any, in terms of LKAS 16- Property Plant & Equipment as per the ruling issued by CASL.

The cost incurred on land preparation, rehabilitation, new planting, replanting, crop diversification, inter planting, fertilizing, etc., up to the point of commercial harvesting is classified as immature plantations/ immature biological assets on which no depreciation is provided. These immature plantations are shown at direct costs plus attributable overheads including interest attributable to long-term loans used for financing immature plantations.

The expenditure incurred on immature plantations which come into bearing during the year, is transferred to mature plantations at the end of the year and is depreciated over their useful lives as follows.

#### Mature Bearer Biological Assets

- Coconut - Over 50 years
- Rubber - Over 20 years
- Other Crops - Over 20 years

Permanent impairments to Bearer Biological Assets are charged to the Statement of Comprehensive Income in full and reduced from the net carrying amounts of such assets in the year of occurrence after ascertaining the loss.

### 3.1.2.2 Infilling cost on Bearer Biological Assets

The land development costs incurred in the form of infilling are capitalized when infilling results in an increase in the economic life of the relevant field beyond its previously assessed standard of performance and infilling costs so capitalized are depreciated over the newly assessed remaining useful economic life of the relevant mature plantation or unexpired lease period whichever is lower.

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

### 3.1.2.3 Consumable Biological Assets

Consumable timber trees are measured on initial recognition and at the end of each reporting period at its fair value less cost to sell in terms of LKAS 41. The cost is treated as approximation to fair value of young plants as the impact on biological transformation of such plants to price during this period are immaterial. The fair value of timber trees are measured using DCF method taking in to consideration the current market prices of timber, applied to expected timber content of a tree at the maturity by an independent professional valuer.

The gain or loss arising on initial recognition of Consumable Biological assets at fair value less cost to sell and from a change in fair value less cost to sell of Consumable Biological assets are included in profit or loss for the period in which it arises All other assumptions are given in Note 14 B.

The main variables in DCF model concerns

| Variable             | Comment   |
|----------------------|---|
| Currency valuation   | Rs.   |
| Timber content       | Estimate based on physical verification of girth, height and considering the growth of the each species in different geographical regions.      |
|                      | Factor all the prevailing statutory regulations enforced for harvesting of timber coupled with forestry plan of the Company.                    |
| Economic useful life | Estimated based on the normal life span of each spices by factoring the forestry plan of the Company  |
| Selling price        | Estimated based on prevailing Sri Lankan market price. Factor all the conditions to be fulfilled in bringing the trees in to saleable condition |
| Discount Rate        | Future cash flows are discounted at following discount rates: Timber trees 14%  |

### 3.1.2.4 Recognition and Measurement

The entity recognizes the Biological assets when, and only when, the entity controls the assets as a result of a past event, it is probable that future economic benefits associated with the assets will flow to the entity and the fair value or cost of the assets can be measured reliably.

The Bearer Biological assets are measured at cost less accumulated depreciation and accumulated impairment losses, if any, in terms of LKAS 16 – Property Plant & Equipment as per the ruling issued by CASL.

Consumable timber trees are measured on initial recognition and at the end of each reporting period at its fair value less cost to sell in terms of LKAS 41. The cost is treated as approximation to fair value of young plants (age below 5 years) as the impact on biological transformation of such plants to price during this period is immaterial.

# Accounting Policies *Contd.*

## 3.1.3 Financial Instruments

### 3.1.3.1 Financial Assets

#### 3.1.3.1.1 Initial Recognition and Measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs. The Company's financial assets include cash and short term deposits, trade and other receivables and loans and receivables.

#### 3.1.3.1.2 Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as follows:

##### *Financial assets at fair value through profit or loss*

A financial asset at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the Statement of Financial Position at fair value with changes in fair value recognized in finance income or finance costs in the Statement of Comprehensive Income.

##### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized 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 amortization is included in finance income in the Statement of Comprehensive Income. The losses arising from impairment are recognized in the Statement of Comprehensive Income in finance costs.

Loans and receivables held by the Company comprise of trade receivables, deposits, advances and other receivables and cash and cash equivalents.

##### *Held-to-Maturity Investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold them to maturity. After initial measurement, held-to maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized 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 amortization is included in finance income in the Statement of Comprehensive Income. The losses arising from impairment are recognized in the Statement of Comprehensive income in finance costs.

##### *Available-for-Sale Financial Investments*

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the Statement of Comprehensive Income in finance costs and removed from the available-for-sale reserve. Interest income on available-for-sale debt securities is calculated using the effective interest method and is recognized in profit or loss.

#### **3.1.3.1.3 De-Recognition**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is de-recognized when:

- The rights to receive cash flows from the asset have expired
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

#### **3.1.3.1.4 Impairment of Financial Assets**

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

### **3.1.3.2 Financial Liabilities**

#### **3.1.3.2.1 Initial Recognition and Measurement**

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, transaction costs that are directly attributable to the acquisition or issue of such financial liability. The Company's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings. Subsequent Measurement Financial liabilities at fair value through profit or loss financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held for trading are recognized in the Statement of Comprehensive Income. The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss. Loans and borrowings after initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the Statement of Comprehensive Income when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process. Amortized 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 amortization is included in finance costs in the Statement of Comprehensive Income.

#### **3.1.3.2.2 De-recognition**

A financial liability is de-recognized when the obligation under the liability is discharged or cancelled or expires.

# Accounting Policies *Contd.*

### 3.1.3.3 *Offsetting of Financial Instruments*

Financial assets and financial liabilities are offset if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### 3.1.3.4 *Financial Risk Management*

#### *Credit Risk*

Credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and related parties.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

#### *Liquidity Risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

#### *Interest Rate Risk*

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. The Company manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings.

### 3.1.4 *Inventories*

#### 3.1.4.1 *Agricultural Produce harvested from Biological Assets*

Agricultural produce harvested are valued at the quoted prices net of point of sale costs in the sales contracts when sold after the reporting date and valued at average estimated net selling price when sales contracts are not entered into up to the time of preparing the financial statements.

In the case of Coconuts the net realizable value after converting into copra is used for valuation when uncertainty exists in the market.

#### 3.1.4.2 *Agricultural Produce after further processing*

Further processed output of Agricultural Produce are valued at the lower of cost and estimated net realizable value, after making due allowances for obsolete and slow moving items. Net realizable value is the estimated selling price at which stocks can be sold in the ordinary course of business less the estimated cost of completion and estimated cost necessary to make the sale.

#### 3.1.4.3 *Input Material, Consumables and Spares*

Stocks of input materials, spares and consumables are valued at actual cost on FIFO basis.

#### 3.1.4.4 *Growing Crop Nurseries*

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



### 3.1.5 Cash & Cash Equivalents

Cash and cash equivalents comprise cash balances, call deposits, demand deposits and short term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value net of bank overdrafts that are repayable on demand for the purpose of the Statement of Cash Flows.

## 3.2 Liabilities and Provisions

Liabilities classified as current liabilities on the Statement of Financial Position are those which fall due for payment on demand or within one year from reporting date. Non-current liabilities are those balances that fall due for payment after one year from reporting date. All known liabilities have been accounted for in preparing these Financial Statements.

A provision is recognized if, as a result of a past event the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation.

### 3.2.1 Employee Benefits

#### 3.2.1.1 Defined Contribution Plans – EPF & ETF

A Defined Contribution Plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to Defined Contribution Pension Plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

The Company contributes 12% of gross emoluments of the employees to Employees' Provident Fund (EPF)/ Estate Staff Provident Society (ESPS).

All of the employees are eligible for Employees' Trust Fund to which the Company contributes 3% of gross emoluments of such employees.

#### 3.2.1.2 Defined Benefit Plan – Retirement Gratuity

Defined benefit plans define an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Company has adopted a defined benefit plan as required under the Payment of Gratuity Act No. 12 of 1983 for all eligible employees. The whole benefit plan is internally funded. Provision for gratuity is made by the Company taking account of the recommendation of an independent qualified actuaries firm.

The liability recognized in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the reporting date together with adjustments for unrecognized past service cost. The defined benefit obligation is calculated annually by the Company using the projected unit credit method prescribed in Sri Lanka Accounting Standard 19; Employee Benefits. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates of Government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

Past service costs are recognized immediately in statement of comprehensive income, unless the changes to the plan are conditional on the employees remaining in service for a specific period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

# Accounting Policies *Contd.*

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.

However at the board meeting (281) held on 24.01.2013 the board decided to change Company's existing gratuity formula, which will give half month salary for each completed number of years as gratuity to its retiring employees. As per new decision made the new gratuity formula with effect from 31.01.2013 is as follows.

- Employees with less than 10 years' service to be given half month salary for each completed year of service, subject to a minimum of 05 years service.

- Employees with more than 10 years' service to be paid one month salary for each year of service.

Change of this accounting policy has been adjusted to financial accounts with retrospective effect as from 2012.

As recommended by the Board, the Company has established an internal fund to meet its liabilities towards gratuity.

The key assumptions used in determining the Retirement Benefit Obligations are given in Note 21.

### **3.3 Capital Commitments and Contingencies**

Contingencies are possible assets or obligations that arise from a past event and would be confirmed only on the occurrence or non occurrence of uncertain future events, which are beyond the Company's control.

All material Capital Commitments and Contingent Liabilities are disclosed in Note 33.

### **3.4 Deferred Income**

#### **3.4.1 Government Grants and Subsidies**

Government grants are recognized where there is a reasonable assurance that the grant will be received and all attached conditions will be complied with. Where the grant relates to an asset, the grant is deducted in arriving the carrying amount of the asset. When the grants related to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that are intended to compensate.

### **3.5 Statement of Comprehensive Income**

For the purpose of presentation of the Statement of Comprehensive Income the directors are of the opinion that function of expenses method presents fairly the elements of the Company's performance, and hence such presentation method is adopted in line with the provisions of LKAS 1 – Presentation of Financial Statements.

#### **3.5.1 Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and the associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and sales taxes, and after eliminating sales within the Company. The following specific criteria are used for the purpose of recognition of revenue.

##### **3.5.1.1 Sale of Goods**

Revenue from the sale of goods is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is recorded at invoice value.

### **3.5.1.2 Interest Income**

Interest Income is recognized as the interest accrued (taking into account the effective yield on the asset) unless collectability is in doubt.

### **3.5.1.3 Gains or Losses on Disposal**

Gains and losses on disposal of an item of Property, Plant & Equipment are determined by comparing the net sales proceeds with the carrying amounts of Property, Plant & Equipment and are recognized within the 'other income' in the Statement of Comprehensive Income.

## **3.5.2 Expenditure Recognition**

### **3.5.2.1 Operating Expenses**

All expenses incurred in day to day operations of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the Statement of Comprehensive Income in arriving at the profit/ (loss) for the year. Provision has also been made for impairment of non-financial assets, slow moving stocks, overgrown nurseries, all known liabilities and depreciation on property, plant and equipment.

### **3.5.2.2 Finance Cost**

Finance costs comprise of interest expense on external borrowings and payments made under operating leases. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset recognized in profit or loss using the effective interest method. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

### **3.5.2.3 Tax Expense**

Income Tax expense comprises current and deferred tax. Income tax expense is recognized in Statement of Comprehensive Income except to the extent that it relates to items recognized directly in equity, when it is recognized in equity.

#### **3.5.2.3.1 Current Taxes**

Current tax expense for the current and comparative periods are measured at the amount paid or expected to be payable to the Commissioner General of Inland Revenue on taxable income for the respective year of assessment computed in accordance with the provisions of the Inland Revenue Act No 10 of 2006 as amended by subsequent legislation enacted or substantively enacted by the reporting date.

#### **3.5.2.3.2 Deferred Taxation**

Deferred taxation is recognized using the liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

# Accounting Policies *Contd.*

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and deferred tax liabilities are offset, if 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.

The relevant details are disclosed in the respective Notes to the Financial Statements.

### **3.6 Statement of Cash Flows**

The Statement of Cash Flows has been prepared using the 'Indirect Method'. Lease rental paid, dividend paid and grants received are classified as financing cash flows while interest received and dividends received are classified as investing cash flows for the purpose of presentation of the Statement of Cash Flows.

### **3.8 Earnings per Share**

The Company presents Basic Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

### **3.9 Events after the reporting period**

Events after the reporting period are those events favorable and unfavorable occur between the end of the reporting period and the date when the Financial Statements are authorized for issue. The materiality of the events occurring after the reporting period is considered and appropriate adjustments to or disclosures are made in the Financial Statements, where necessary.

# Notes to the Financial Statements

| For The Year Ended 31st December |                             | 2015<br>Rs.        | 2014<br>Rs.        |
|----------------------------------|-----------------------------|--------------------|--------------------|
| <b>04.</b>                       | <b>REVENUE</b>              |                    |                    |
|                                  | Coconut (Note 04.1)         | 442,113,846        | 514,176,778        |
|                                  | Rubber                      | 30,606,278         | 39,698,357         |
|                                  | Rambutan                    | 4,087,610          | 4,209,286          |
|                                  | Pepper                      | 1,461,660          | 3,189,240          |
|                                  | Cashew                      | 2,034,769          | 4,330,443          |
|                                  | Mango                       | 2,526,435          | 1,736,547          |
|                                  | Foliage & Ornamental Plants | 4,140,575          | 4,558,466          |
|                                  | Others                      | 5,169,230          | 4,891,657          |
|                                  |                             | <b>492,140,403</b> | <b>576,790,774</b> |
| <b>4.1</b>                       | <b>Coconut Income</b>       |                    |                    |
|                                  | Green nuts                  | 432,980,437        | 444,456,824        |
|                                  | Seed nuts                   | -                  | 41,655,519         |
|                                  | Oil income                  | 9,133,409          | 23,330,346         |
|                                  | Copra                       | -                  | 4,734,089          |
|                                  |                             | <b>442,113,846</b> | <b>514,176,778</b> |
|                                  | <b>Coconut</b>              |                    |                    |
|                                  | Production (Nuts)           | 14,067,173         | 16,701,797         |
|                                  | Sales (Nuts)                | 14,167,242         | 16,777,304         |
|                                  | NSA (per 1000 nuts)         | 31,207             | 30,647             |
|                                  | COP (per 1000 nuts)         | 18,635             | 15,984             |
|                                  |                             | <b>12,572</b>      | <b>14,663</b>      |
|                                  | <b>Rubber</b>               |                    |                    |
|                                  | Production (Kg)             | 140,678            | 157,474            |
|                                  | Sales (Kg)                  | 140,245            | 161,376            |
|                                  | NSA (per 1 Kg)              | 218                | 246                |
|                                  | COP (per 1 Kg)              | 267                | 267                |
|                                  |                             | <b>(49)</b>        | <b>(21)</b>        |
| <b>05.</b>                       | <b>COST OF SALES</b>        |                    |                    |
|                                  | Coconut                     | 262,136,535        | 266,963,038        |
|                                  | Rubber                      | 37,551,747         | 42,054,702         |
|                                  | Rambutan                    | 1,163,883          | 1,155,416          |
|                                  | Pepper                      | 630,147            | 427,462            |
|                                  | Cashew                      | 1,482,611          | 1,846,843          |
|                                  | Mango                       | 896,662            | 758,007            |
|                                  | Foliage & Ornamental Plants | 7,834,008          | 8,658,404          |
|                                  | Others                      | 4,948,061          | 4,126,807          |
|                                  |                             | <b>316,643,654</b> | <b>325,990,679</b> |

# Notes to the Financial Statements *Contd.*

| For The Year Ended 31st December |  | 2015<br>Rs.        | 2014<br>Restated<br>Rs. |
|----------------------------------|--|--------------------|-------------------------|
| <b>06.</b>                       | <b>OTHER OPERATING INCOME</b>  |                    |                         |
|                                  | Sales of Coconut trees   | 34,925,181         | 29,081,400              |
|                                  | Sales of Rubber trees  | 4,380,317          | 8,778,518               |
|                                  | Gain / (Loss) arising from changes in<br>fair value less cost to sell - Consumable Biological assets | -                  |                         |
|                                  |  | 43,920,609         | 20,317,541              |
|                                  | Sales of excess husk   | 21,146,756         | 25,190,659              |
|                                  | Late removal & payment charge -Coconut   | 5,124,795          | 7,286,474               |
|                                  | Lease/ facility fee income   | 4,512,441          | 3,168,662               |
|                                  | Profit / (Loss) on disposal & sale of PPE (Note 6.1)   | (1,054,006)        | (5,899,432)             |
|                                  | Write back/ (Write off)  | 1,351,194          | 1,424,089               |
|                                  | Sand   | 3,984,481          | 936,838                 |
|                                  | Other miscellaneous income   | 3,441,413          | 5,636,534               |
|                                  |  | <b>121,733,181</b> | <b>95,921,283</b>       |

## Note 6.1

A land extent of 60.52 ha. from Petervally and Gatakulalanda divisions of Hiriya Area Estates has been acquired by District Land Reform Commission for the resettlement under Deduru Oya Project. The value of the under plantation, which is lost due to the said alienation of land, is Rs. 7,108,457, which is retrospectively adjusted in the financial statements.

| For The Year Ended 31st December |   | 2015<br>Rs.        | 2014<br>Rs.        |
|----------------------------------|---|--------------------|--------------------|
| <b>07.</b>                       | <b>ADMINISTRATION &amp; GENERAL EXPENSES</b>  |                    |                    |
|                                  | Payroll Related Expenses                      | 84,193,373         | 79,439,748         |
|                                  | Maintenance & Repairs                         | 11,957,144         | 14,153,358         |
|                                  | Other Administration Expenses                 | 36,786,722         | 37,557,077         |
|                                  |   | <b>132,937,239</b> | <b>131,150,183</b> |
|                                  | <b>PROFIT FROM OPERATING ACTIVITIES</b>       |                    |                    |
|                                  | is stated after charging the following;       |                    |                    |
|                                  | Directors emoluments                          | 4,390,964          | 4,047,756          |
|                                  | Auditors fees on statutory audit              | -                  | 635,000            |
|                                  | Performance incentive                         | 25,203,842         | 28,779,734         |
|                                  | Bonus   | 11,297,741         | 12,319,147         |
|                                  | Donations                                     | 4,133,752          | 4,564,825          |
|                                  | <b>Depreciation/Amortization-</b>             |                    |                    |
|                                  | Leasehold rights to bare land of JEDB Estates | 3,169,957          | 3,169,953          |
|                                  | Immovable leased assets of JEDB Estates       | 4,841,977          | 4,841,976          |
|                                  | Mature plantations                            | 9,516,970          | 9,205,466          |
|                                  | Property, plant and equipment                 | 40,456,054         | 33,716,104         |
|                                  | <b>Personal Cost</b>                          |                    |                    |
|                                  | Salaries, Wages, EPF & ETF                    | 226,208,745        | 229,054,334        |
|                                  | Defined Benefit Plan - Retirement Gratuity    | 23,787,118         | 24,114,591         |

| For The Year Ended 31st December |                                       | 2015<br>Rs.       | 2014<br>Rs.       |
|----------------------------------|---------------------------------------|-------------------|-------------------|
| <b>08.</b>                       | <b>NET FINANCIAL INCOME</b>           |                   |                   |
| <b>8.1</b>                       | <b>INTEREST INCOME</b>                |                   |                   |
|                                  | Interest on Fixed Deposits            | 25,798,714        | 28,878,489        |
|                                  | Interest on REPOs (Note 08.1.1)       | 727,789           | 748,532           |
|                                  | Interest on Loans given to Staff      | 549,813           | 552,332           |
|                                  | Un-winding of Pre-paid Staff Benefits | 1,032,463         | 1,162,966         |
|                                  |                                       | <b>28,108,779</b> | <b>31,342,319</b> |
| <b>8.2</b>                       | <b>FINANCE COST</b>                   |                   |                   |
|                                  | Interest on Lease - JEDB              | 25,393,663        | 24,844,072        |
|                                  | Interest on Temporary Bank Loans      | 52,397            | -                 |
|                                  | Amortization of Staff Cost            | 1,032,463         | 1,162,966         |
|                                  |                                       | <b>26,478,523</b> | <b>26,007,038</b> |
|                                  |                                       | <b>1,630,256</b>  | <b>5,335,281</b>  |

#### 8.1.1 Notional Credit for Withholding Tax on Government Securities on Secondary Market Transactions

Section 137 of the Inland Revenue Act No 10 of 2006 provides that a Company which derives interest income from a secondary market transaction of government securities, the notional tax credit (being one ninth of the net interest income) charged upon such interest income forms part of the statutory income of the Company for that year of assessment.

Accordingly, net income earned from secondary market transactions of Government securities for the year 2015 by the Company has been grossed up in the Financial Statements by adding 1/9th and the resulting notional tax credit amounted to Rs 72,779 /=-

## 09. INCOME TAX EXPENSE

### 9.1 Current Taxes

The Company in terms of section 48 (A) of the Inland Revenue Act No 10 of 2006 as amended by the Amendment Act No 22 of 2011, profits & income from agricultural undertaking referred to in section 16 of the Inland Revenue Act is liable at the rate of 10% as per the first schedule to this Act. Other profits are liable at normal rates.

| For The Year Ended 31st December |   | 2015<br>Rs.       | 2014<br>Rs.       |
|----------------------------------|---|-------------------|-------------------|
|                                  | Current Income Tax Expense ( Note 9.2 ) | -                 | 4,400,495         |
|                                  | Deferred Taxation ( Note 9.3 & 25 )     | 10,012,206        | 9,376,416         |
|                                  |   | <b>10,012,206</b> | <b>13,776,911</b> |

# Notes to the Financial Statements *Contd.*

| For The Year Ended 31st December |   | 2015<br>Rs.   | 2014<br>Rs.   |
|----------------------------------|---|---------------|---------------|
| <b>9.2</b>                       | <b>Reconciliation between Accounting Profit to Income Tax</b> |               |               |
|                                  | Accounting Profit Before Taxation (Note 09.2.1)               | 165,922,947   | 220,906,476   |
|                                  | Income from other sources & exempt Income                     | (69,860,919)  | (69,285,293)  |
|                                  |   | 96,062,028    | 151,621,183   |
|                                  | Aggregate Disallowable Items                                  | 86,346,028    | 81,892,433    |
|                                  | Aggregate Allowable Items                                     | (170,210,322) | (152,967,150) |
|                                  | Adjusted Profit from the Business                             | 12,197,734    | 80,546,466    |
|                                  |   |               |               |
|                                  | Income from Other Sources                                     | 27,076,315    | 30,179,353    |
|                                  | Total Statutory Income  | 39,274,049    | 110,725,819   |
|                                  | Qualifying payments   | (39,274,049)  | (66,720,873)  |
|                                  | Taxable Income  | -             | 44,004,947    |
|                                  |   |               |               |
|                                  | Tax on agricultural activities 10%                            | -             | 4,400,495     |
|                                  | Tax on other income 28%                                       | -             | -             |
|                                  |   |               |               |
|                                  | Income Tax on Profits for the year                            | -             | 4,400,495     |

## Note 9.2.1

A land extent of 60.52 ha. from Petervally and Gatakulalanda divisions of Hiriya Area Estates has been acquired by District Land Reform Commission for the resettlement under Deduru Oya Project. The value of the under plantation, which is lost due to the said alienation of land, is Rs. 7,108,457, which is retrospectively adjusted in the financial statements.

## 9.3 Deferred Tax

Provision has been made for deferred taxation under the liability method in respect of temporary differences arising from carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purpose as described in Note 24. Difference arising from the deferred tax liability has been recognized in the Financial Statements during the year.

| For The Year Ended 31st December |  | 2015<br>Rs.         | 2014<br>Rs.        |
|----------------------------------|--|---------------------|--------------------|
|                                  | <b>Deferred Tax Expense / ( Income ) arises from :</b> |                     |                    |
|                                  | Accelerated depreciation for tax purpose               | (1,302,760)         | (2,046,489)        |
|                                  | Amortization of Mature & Immature Plantations          | (8,042,687)         | (7,315,012)        |
|                                  | Provision for bad & doubtful debts                     | 25,268              | 8,500              |
|                                  | Employee Benefit Liability                             | (692,027)           | (23,415)           |
|                                  |  | <b>(10,012,206)</b> | <b>(9,376,416)</b> |

## 10. EARNINGS PER SHARE

The calculation of the earnings per share is based on Profit attributable to ordinary shareholders for the year divided by the weighted average number of ordinary shares outstanding during the year.



## 10.1 Basic Earnings per Share

| For The Year Ended 31st December                                 | 2015<br>Rs. | 2014<br>Rs. |
|--|-------------|-------------|
| Profit attributable to Ordinary Shareholders (Rs.) (Note 10.1.1) | 155,910,741 | 207,129,565 |
| Weighted average number of ordinary shares                       | 20,000,001  | 20,000,001  |
| Earnings Per Shares (Rs. Cts.)                                   | 7.80        | 10.36       |

## 10.2 Diluted Earnings per Share

There were no potential dilutive ordinary shares outstanding at any time during the year ended 31st December 2015. Therefore, Diluted Earnings per Share is same as Basic Earnings per Share reported above.

### Note 10.1.1

A land extent of 60.52 ha. from Petervally and Gatakulalanda divisions of Hiriyala Area Estates has been acquired by District Land Reform Commission for the resettlement under Deduru Oya Project. The value of the under plantation, which is lost due to the said alienation of land, is Rs. 7,108,457, which is retrospectively adjusted in the financial statements.

## 11. LEASEHOLD RIGHT TO BARE LAND OF JANATHA ESTATE DEVELOPMENT BOARD

**11.1** The leasehold rights to the lands of all the estates have been taken into the books of the Company as at June 18, 1992, immediately after the formation of the Company, in terms of the ruling obtained from the Urgent Issues Task Force (UITF) of the Institute of Chartered Accountants of Sri Lanka. For this purpose, the Board has decided at its meeting held on March 08, 1995 that these bare lands would be revalued, at the values established for these lands, by the valuation specialist Mr. D.R. Wickramasinghe just prior to the formation of the Company. The revalued amount taken to the June 18, 1992 Statement of Financial Position was Rs. 168,007,552. The carrying values are given in Note 11.3 below. However the Institute of Chartered Accountants of Sri Lanka has withdrawn the UITF ruling with the implementation of LKAS/SLFRSs and introduced Statement of Recommended Practices (SoRP) on leasehold land on 19th December 2012. As per the SoRP, right to use land does not permit further revaluations.

**11.2** Though JEDB has handed over all 13 Estates to the Company, of these estates leases for only 5 estates have been executed and the leases for the balance 8 estates (Dambadeniya, Dodangaslanda, Hiriyala, Katugampola, Kurunegala, Mahayaya, Narammala and Wariyapola) remain to be executed. These leases will be retroactive to June 22, 1992, the date of formation of the Company. The Company had entered into a Memorandum of Record with JEDB with regard to all these estates for which leases have not been executed. This Memorandum of Record is considered as an agreement between JEDB and the Company.

### 11.3 Leasehold Right to Bare Land (53 years)

| Cost Balance as at 01.01.2015 Rs. | Accumulated amortization as at 01.01.2015 Rs. | Amortization for the year Rs. | Accumulated Depreciation as at 31.12.2015 Rs. | Written Down Value as at 31.12.2015 Rs. | Written Down Value as at 31.12.2014 Rs. |
|-----------------------------------|---|-------------------------------|---|---|---|
| 168,007,552                       | 71,449,891                                    | 3,169,957                     | 74,619,848                                    | 93,387,704                              | 96,557,661                              |

## 12. IMMOVABLE LEASED ASSETS (OTHER THAN BARE LAND)

As explained in Note 7, although all JEDB estate leases have not been executed to date in terms of the ruling of the UITF, all immovable assets in these estates under finance leases have been taken into the books of the Company retroactive to June 18, 1992. For this purpose, the Board has decided at its meeting on March 08, 1995 that these assets be taken into the books at their book values as they appeared in the books of the JEDB on the day immediately preceding the date of formation of the Company.

# Notes to the Financial Statements *Contd.*

The Asset values taken to the June 18, 1992 Statement of Financial Position are given below:

| Revaluation           | Life of the Asset years | Value Rs.          |
|-----------------------|-------------------------|--------------------|
| Land Development Cost | 30                      | 1,123,305          |
| Buildings             | 25                      | 22,130,873         |
| Machinery             | 15                      | 34,841             |
| Mature plantations    | 30                      | 43,001,122         |
| Immature plantations  | -                       | 90,647,222         |
|                       |                         | <b>156,937,363</b> |

The carrying values for the year are as follows.

| Revaluation           | Life of the Asset years | Balance as at 01.01.2015 Rs. | Transfer in/(out) Rs. | Additions Rs. | Disposals Rs. | Balance as at 31.12.2015 Rs. |
|-----------------------|-------------------------|------------------------------|-----------------------|---------------|---------------|------------------------------|
| Land development cost | 30                      | 1,123,305                    | -                     | -             | -             | 1,123,305                    |
| Buildings             | 25                      | 17,693,752                   | -                     | -             | -             | 17,693,752                   |
| Machinery             | 15                      | 34,841                       | -                     | -             | -             | 34,841                       |
| Mature plantations    | 30                      | 122,903,503                  | -                     | -             | -             | 122,903,503                  |
|                       |                         | <b>141,755,401</b>           | -                     | -             | -             | <b>141,755,401</b>           |

| Amortization          | Life of the Asset years | Balance as at 01.01.2015 Rs. | Transfer in/(out) Rs. | Charge for the Year Rs. | Disposals Rs. | Balance as at 31.12.2015 Rs. |
|-----------------------|-------------------------|------------------------------|-----------------------|-------------------------|---------------|------------------------------|
| Land development cost | 30                      | 843,966                      | -                     | 37,444                  | -             | 881,410                      |
| Buildings             | 25                      | 15,952,494                   | -                     | 707,750                 | -             | 16,660,244                   |
| Machinery             | 15                      | 34,841                       | -                     | -                       | -             | 34,841                       |
| Mature plantations    | 30                      | 79,354,299                   | -                     | 4,096,783               | -             | 83,451,082                   |
|                       |                         | <b>96,185,600</b>            | -                     | <b>4,841,977</b>        | -             | <b>101,027,577</b>           |

| Carrying value        | Balance as at 01.01.2015 Rs. |   |   |   | Balance as at 31.12.2015 Rs. |
|-----------------------|------------------------------|---|---|---|------------------------------|
| Land development cost | 279,339                      | - | - | - | 241,895                      |
| Buildings             | 1,741,258                    | - | - | - | 1,033,508                    |
| Machinery             | -                            | - | - | - | -                            |
| Mature plantations    | 43,549,204                   | - | - | - | 39,452,421                   |
|                       | <b>45,569,801</b>            | - | - | - | <b>40,727,824</b>            |

Investment in plantation assets which were categorized as immature at the time of handing over to the Company way of estate leases, are shown under immature plantations (revalued as at 18.06.1992). Investment in such immature plantations to bring them to bearing are shown under Note-13A. When these plantations come in to bring the additional investments incurred to bring them to such stage were transferred from the category immature plantations under Note - 13A and a corresponding transfer from immature plantations to mature plantations.

### 13A BEARER BIOLOGICAL ASSETS

The following are the investments in plantations since the formation of the Company. The assets (including plantation assets) taken over under estate leases are set out in Notes 11 and 12. Continuing investments in immature plantations, taken over under these leases are shown in the above Note. When such plantations come into bearing, the additional investments incurred since taking over to bring them to bearing had been transferred from immature to mature plantations in this Note. A corresponding transfer had been made from immature to mature plantations being the investment undertaken by JEDB on the particular plantation prior to the formation of the Company as described in Note 12.

|   | IMMATURE BIOLOGICAL ASSETS |                   |                   |                  |                  |                   |                    |
|---|----------------------------|-------------------|-------------------|------------------|------------------|-------------------|--------------------|
|   | Coconut Rs.                | Rubber Rs.        | Cashew Rs.        | Cinnamon Rs.     | Rambutan Rs.     | Others Rs.        | Total Rs.          |
| <b>Cost</b>                                   |                            |                   |                   |                  |                  |                   |                    |
| Balance as at 31.12.2014 as previously stated | 339,785,181                | 45,572,333        | 11,024,082        | 4,506,414        | 1,612,537        | 18,548,667        | 421,049,214        |
| Prior year adjustment (Note 13A-1)            | (7,108,457)                |                   |                   |                  |                  |                   | (7,108,457)        |
| Balance as at 01.01.2015 (Restated)           | 332,676,724                | 45,572,333        | 11,024,082        | 4,506,414        | 1,612,537        | 18,548,667        | 413,940,757        |
| Additions during the year                     | 73,566,487                 | 13,027,491        | 863,658           | 1,676,574        | 653,087          | 8,290,509         | 98,077,806         |
| Transfers during the year                     | (22,858,442)               | (4,090,922)       | (1,833,393)       | -                | -                | (8,116,062)       | (36,898,819)       |
| Disposals during the year                     |                            | (225,000)         | -                 | -                | -                | (800,506)         | (1,025,506)        |
| Balance as at 31.12.2015                      | <b>383,384,769</b>         | <b>54,283,902</b> | <b>10,054,347</b> | <b>6,182,988</b> | <b>2,265,624</b> | <b>17,922,608</b> | <b>474,094,238</b> |

|                                       | MATURE BIOLOGICAL ASSETS |                     |                     |                       |                       |                   |                    |
|---------------------------------------|--------------------------|---------------------|---------------------|-----------------------|-----------------------|-------------------|--------------------|
|                                       | Coconut 50 years Rs.     | Rubber 20 years Rs. | Cashew 20 years Rs. | Cinnamon 20 years Rs. | Rambutan 20 years Rs. | Others Rs.        | Total Rs.          |
| <b>Cost</b>                           |                          |                     |                     |                       |                       |                   |                    |
| Balance as at 01.01.2015              | 291,931,196              | 50,471,818          | 8,427,826           | 2,468,600             | 1,926,783             | 10,271,837        | 365,498,060        |
| Transfers during the year             | 23,074,180               | 4,090,922           | 1,833,393           |                       |                       | 7,900,324         | 36,898,819         |
| Additions during the year             |                          | -                   | -                   | -                     | -                     | -                 | -                  |
| Disposals during the year             | -                        | -                   | -                   | -                     | -                     | -                 | -                  |
| Balance as at 31.12.2015              | <b>315,005,376</b>       | <b>54,562,740</b>   | <b>10,261,219</b>   | <b>2,468,600</b>      | <b>1,926,783</b>      | <b>18,172,161</b> | <b>402,396,879</b> |
| <b>Amortization</b>                   |                          |                     |                     |                       |                       |                   |                    |
| Balance as at 01.01.2015              | 51,727,478               | 24,762,968          | 1,230,153           | 1,719,840             | 471,832               | 1,109,532         | 81,021,803         |
| Charge for the year                   | 5,838,625                | 2,523,591           | 421,392             | 123,430               | 96,340                | 513,592           | 9,516,970          |
| Disposals during the year             | -                        | -                   | -                   | -                     | -                     | -                 | -                  |
| Balance as at 31.12.2015              | <b>57,566,103</b>        | <b>27,286,559</b>   | <b>1,651,545</b>    | <b>1,843,270</b>      | <b>568,172</b>        | <b>1,623,124</b>  | <b>90,538,773</b>  |
| <b>Written down value</b>             |                          |                     |                     |                       |                       |                   |                    |
| As at 01.01.2015                      | 240,203,718              | 25,708,850          | 7,197,673           | 748,760               | 1,454,951             | 9,162,305         | 284,476,257        |
| As at 31.12.2015                      | 257,439,273              | 27,276,181          | 8,609,674           | 625,330               | 1,358,611             | 16,549,037        | 311,858,106        |
| <b>TOTAL BEARER BIOLOGICAL ASSETS</b> |                          |                     |                     |                       |                       |                   |                    |
| <b>Written down value</b>             |                          |                     |                     |                       |                       |                   |                    |
| As at 01.01.2015 (Restated)           | 572,880,442              | 71,281,183          | 18,221,755          | 5,255,174             | 3,067,488             | 27,710,972        | 698,417,014        |
| As at 31.12.2015                      | <b>640,824,042</b>       | <b>81,560,083</b>   | <b>18,664,021</b>   | <b>6,808,318</b>      | <b>3,624,235</b>      | <b>34,471,645</b> | <b>785,952,344</b> |

# Notes to the Financial Statements *Contd.*

## Note 13A-1

A land extent of 60.52 ha. from Petervally and Gatakulalanda divisions of Hiriyala Area Estates has been acquired by District Land Reform Commission for the resettlement under Deduru Oya Project. The value of the under plantation, which is lost due to the said alienation of land, is Rs. 7,108,457, which is retrospectively adjusted in the financial statements.

| As at  | 31.12.2015<br>Rs.  | 31.12.2014<br>Rs.  |
|--|--------------------|--------------------|
| <b>13B CONSUMABLE BIOLOGICAL ASSETS</b>                              |                    |                    |
| Balance as at 01.01.2015   | 132,192,052        | 130,885,608        |
| Gain / ( loss ) arising from changes in fair value less cost to sell | 43,920,607         | 20,317,541         |
| Decrease due to harvest  | (35,971,986)       | (19,011,097)       |
| Balance as at 31.12.2015   | <b>140,140,673</b> | <b>132,192,052</b> |

Consumable biological assets include timber trees grown in estates. The cost of immature trees is treated as approximate fair value particularly on the ground of little biological transformation has taken place and impact of the biological transformation on price is not material.

The valuation was carried by M/S Ariyatillake & Co (pvt) limited, independent Chartered valuers, using Discounted Cash Flow (DCF) method. In ascertaining the fair value of timber a physical verification was carried out covering all the estates.

### Key assumption used in Valuation

1. The harvesting is approved by the PMMD and Forestry Department Based on the Forestry Department Plan.
2. The Prices adopted are net of expenditure.
3. Discount rate is 14%

The valuations, as presented in the external valuation models based on net present values, take into account the long term exploitation of the timber trees. Because of the inherent uncertainty associated with the valuation at fair value of the biological assets due to the volatility of the variables, their carrying value may differ from their realizable value. The Board of Directors retains their view that commodity markets are inherently volatile and that long term price projections are highly unpredictable.

The Company is exposed to the following risks relating to its timber trees.

### Regulatory and environmental risks

The Company is subject to laws and regulations in Sri Lanka. The Company has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

### Supply and demand risk

The Company is exposed to risks arising from fluctuations in the price and sales volume of timber. When possible, the Company manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analyses to ensure that the Company's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

### Climate and other risks

The Company's timber trees are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces.

#### 1.4. PROPERTY, PLANT AND EQUIPMENT

Following are the assets vested in the Company vis a vis the Gazette notification on the date of formation of the Company on June 18, 1992 and all additions thereafter. The assets taken over by way of estate leases are set out in Notes 11 and 12 to the accounts.

| Useful life of the asset (Years) | Acquisition of land | Improvements to land | Buildings          | Wells            | Fencing           | Motor Vehicles     | Machinery        | Furniture & Fittings | Equipment         | Computer Equipment | Computer Software | Total              | Work-in-progress | Total              |
|----------------------------------|---------------------|----------------------|--------------------|------------------|-------------------|--------------------|------------------|----------------------|-------------------|--------------------|-------------------|--------------------|------------------|--------------------|
|                                  | Rs.                 | Rs.                  | Rs.                | Rs.              | Rs.               | Rs.                | Rs.              | Rs.                  | Rs.               | Rs.                | Rs.               | Rs.                | Rs.              | Rs.                |
| Cost                             |                     |                      |                    |                  |                   |                    |                  |                      |                   |                    |                   |                    |                  |                    |
| Balance as at 01.01.2015         | 8,123,564           | 3,627,723            | 125,819,550        | 5,187,115        | 36,700,037        | 140,581,676        | 1,849,609        | 10,980,756           | 13,875,203        | 3,307,925          | 220,000           | 350,273,158        | 15,203,659       | 365,476,817        |
| Additions during the year        | -                   | 242,031              | 23,337,725         | 284,083          | 11,937,046        | 3,901,877          | -                | 1,829,488            | 1,334,339         | 271,500            | -                 | 43,138,089         | 9,162,402        | 52,300,491         |
| Disposals during the year        | -                   | -                    | -                  | -                | (3,896,479)       | (315,829)          | -                | -                    | (253,000)         | -                  | -                 | (4,465,308)        | -                | (4,465,308)        |
| Transferred (from)/ to           | -                   | -                    | -                  | -                | -                 | -                  | -                | -                    | -                 | -                  | -                 | -                  | (15,203,659)     | (15,203,659)       |
| Balance as at 31.12.2015         | <b>8,123,564</b>    | <b>3,869,754</b>     | <b>149,157,275</b> | <b>5,471,198</b> | <b>44,740,604</b> | <b>144,167,724</b> | <b>1,849,609</b> | <b>12,810,244</b>    | <b>14,956,542</b> | <b>3,579,425</b>   | <b>220,000</b>    | <b>388,945,939</b> | <b>9,162,402</b> | <b>398,108,341</b> |
| Depreciation                     |                     |                      |                    |                  |                   |                    |                  |                      |                   |                    |                   |                    |                  |                    |
| Balance as at 01.01.2015         | -                   | -                    | 4,590,107          | 881,314          | 13,644,492        | 67,533,459         | 58,921           | 2,813,084            | 5,917,260         | 1,884,047          | -                 | 97,322,684         | -                | 97,322,684         |
| Charge During the year           | -                   | -                    | 3,146,787          | 129,679          | 10,896,229        | 23,129,041         | 138,721          | 1,085,297            | 1,455,579         | 430,721            | 44,000            | 40,456,054         | -                | 40,456,054         |
| Disposals during the year        | -                   | -                    | -                  | -                | (3,896,479)       | (315,829)          | -                | -                    | (142,500)         | -                  | -                 | (4,354,808)        | -                | (4,354,808)        |
| Balance as at 31.12.2015         | -                   | -                    | <b>7,736,894</b>   | <b>1,010,993</b> | <b>20,644,242</b> | <b>90,346,671</b>  | <b>197,642</b>   | <b>3,898,381</b>     | <b>7,230,339</b>  | <b>2,314,768</b>   | <b>44,000</b>     | <b>133,423,930</b> | -                | <b>133,423,930</b> |
| Written down value               |                     |                      |                    |                  |                   |                    |                  |                      |                   |                    |                   |                    |                  |                    |
| As at 01.01.2015                 | 8,123,564           | 3,627,723            | 121,229,443        | 4,305,801        | 23,055,545        | 73,048,217         | 1,790,688        | 8,167,672            | 7,957,943         | 1,423,878          | 220,000           | 255,522,009        | 15,203,659       | 270,725,668        |
| As at 31.12.2015                 | <b>8,123,564</b>    | <b>3,869,754</b>     | <b>141,420,381</b> | <b>4,460,205</b> | <b>24,096,362</b> | <b>53,821,053</b>  | <b>1,651,967</b> | <b>8,911,863</b>     | <b>7,726,203</b>  | <b>1,284,657</b>   | <b>176,000</b>    | <b>255,522,009</b> | <b>9,162,402</b> | <b>264,684,411</b> |

The land called Polaththapiya, 1.416 hectare in extent where the Head office of the Company is situated is a land acquired by the Divisional Secretary - Kurunegala and handed over to Janatha Estate Development Board (JEDB) on July 15, 1987. Since the legal title of the land was not transferred to JEDB the land is now owned by the government. Compensation upon acquisition had not been paid to the original owners of the land, H.L. De Mel and Company. Based on a court of appeal order the Company was requested by the Ministry of Plantation Industries to pay the legal compensation of Rs. 3.5 Mn. to H.L. De Mel and Company which it has paid through the Divisional Secretary, Kurunegala on condition suggested by the Ministry that the land will be transferred to the Company by the government. The legal interest payable on Rs. 3.5 Mn. for delaying the payment for 18 years was calculated to be Rs. 4,623,563.92 and the Company has agreed to pay this amount at the request of the Ministry of Plantation Industries. The total of the amount paid and payable relating to the acquisition of the land is, therefore, Rs. 8,123,563.92. The full amount is disclosed in these accounts as acquisition cost of the land. The title of land has been transferred to Kurunegala Plantations Ltd with effect from 2015.11.16 (Reg No. G146/78)

# Notes to the Financial Statements *Contd.*

| As at       |                                      | 31.12.2015<br>Rs. | 31.12.2014<br>Rs. |
|-------------|--------------------------------------|-------------------|-------------------|
| <b>15.</b>  | <b>OTHER FINANCIAL ASSETS</b>        |                   |                   |
|             | <b>Non Current</b>                   |                   |                   |
|             | Loan given to Employees 15.1         | 5,446,034         | 5,232,250         |
|             | Pre paid Staff Benefit 15.2          | 260,223           | 296,902           |
|             |                                      | <b>5,706,257</b>  | <b>5,529,152</b>  |
|             | <b>Current</b>                       |                   |                   |
|             | Loan given to Employees 15.1         | 4,994,299         | 4,834,481         |
|             | Pre paid Staff Benefit 15.2          | 534,215           | 722,789           |
|             |                                      | <b>5,528,514</b>  | <b>5,557,270</b>  |
| <b>15.1</b> | <b>Loan Given To Employees</b>       |                   |                   |
|             | Balance at the beginning of the year | 11,086,422        | 9,948,065         |
|             | Loan granted during the year         | 8,892,850         | 8,071,500         |
|             | Loan recovered during the year       | (8,744,500)       | (6,933,143)       |
|             |                                      | <b>11,234,772</b> | <b>11,086,422</b> |
|             | Transfer to prepaid staff benefit    | (794,438)         | (1,019,691)       |
|             | Balance at the end of the year       | <b>10,440,334</b> | <b>10,066,731</b> |
|             | Non Current                          | 5,446,034         | 5,232,250         |
|             | Current                              | 4,994,299         | 4,834,481         |
|             |                                      | <b>10,440,333</b> | <b>10,066,731</b> |
| <b>15.2</b> | <b>Prepaid Staff Benefits</b>        |                   |                   |
|             | Balance at the beginning of the year | 1,019,691         | 1,394,466         |
|             | Addition during the year             | 807,210           | 788,191           |
|             | Amortization                         | (1,032,463)       | (1,162,966)       |
|             | Balance at the end of the year       | <b>794,438</b>    | <b>1,019,691</b>  |
|             | Non Current                          | 260,223           | 296,902           |
|             | Current                              | 534,215           | 722,789           |
|             |                                      | <b>794,438</b>    | <b>1,019,691</b>  |

The Company provides loans to employees at concessionary rate at 5% per annum. These loans are recognized on fair value at their initial recognition. The fair value of the loans given to employees are determined by discounting expected future cash flows using market rates related to the similar loans. The difference between cost and fair value of loans given to employees is recognized as prepaid staff benefits. The loans given to employees are classified as loans and receivables and subsequently measured at amortized cost.

| Distress Loans                 | 2015  | 2014  |
|--------------------------------|-------|-------|
| Kurunegala Plantations Limited | 5.0%  | 5.0%  |
| Market interest rate           | 11.5% | 12.0% |

| As at   | 31.12.2015<br>Rs. | 31.12.2014<br>Rs. |
|---|-------------------|-------------------|
| <b>16 INVENTORIES</b>                                 |                   |                   |
| Produce Stocks  | 16,711,223        | 25,276,212        |
| Spares & Consumables                                  | 8,084,049         | 7,447,110         |
| Input Materials                                       | 6,799,632         | 6,619,387         |
| Growing Nurseries                                     | 1,990,900         | 2,702,082         |
| Live Stocks   | 522,330           | 460,182           |
| Other Stocks  | 899,287           | 868,500           |
|   | <b>35,007,421</b> | <b>43,373,473</b> |
| <b>17 PRE PAID EXPENDITURE ON SHORT TERM PROJECTS</b> |                   |                   |
| Cut foliage Project - Attanagalla                     | 10,544,985        | 12,512,380        |
| Pineapple   | 114,428           | 191,378           |
| Manioc  | 142,636           | 103,177           |
| Compost Manufacturing                                 | 253,801           | -                 |
| Papaya  | 45,244            | -                 |
| Paddy   | 86,636            | 40,208            |
|   | <b>11,187,730</b> | <b>12,847,143</b> |
| <b>18 TRADE AND OTHER RECEIVABLES</b>                 |                   |                   |
| <b>Trade Debtors</b>                                  |                   |                   |
| Produce Debtors - Coconut                             | 37,068,546        | 32,052,251        |
| Less: Rejection provision                             | (1,449,872)       | (963,131)         |
| Coconut Loss Recovery                                 | 1,444,441         | 1,721,531         |
| Produce Debtors - Seedlings                           | -                 | -                 |
| Produce Debtors - Rubber                              | 2,646,322         | 1,976,768         |
| Debtors on Sale of Timber                             | 5,091,560         | 10,013,898        |
| Produce Debtors - Others                              | 150,203           | 249,146           |
| Rent Receivables                                      | 210,455           | 307,383           |
| Debtors on Vehicle Repairs - Tractor Unit             | -                 | 53,715            |
| <b>Other Receivables</b>                              |                   |                   |
| Insurance claim Receivable                            | 23,068            | 41,059            |
| Staff debtors   | 2,263,384         | 1,673,310         |
| Interest Receivable                                   | 9,192,792         | 7,951,946         |
| Cash Advance Given                                    | -                 | 210,000           |
| Sundry Debtors  | 1,692,889         | 3,225,732         |
|   | -                 | -                 |
| Less: Provision for Bad & Doubtful Debts              | (1,974,208)       | (1,721,531)       |
|   | <b>56,359,580</b> | <b>56,792,077</b> |

# Notes to the Financial Statements *Contd.*

| As at     | 31.12.2015<br>Rs.  | 31.12.2014<br>Rs.  |
|-----------|--|--------------------|
| <b>19</b> | <b>SHORT TERM INVESTMENTS</b>                                      |                    |
|           | Fixed Deposits - Bank of Ceylon                                    | 65,000,000         |
|           | Fixed Deposits - Peoples' Bank                                     | 45,000,000         |
|           | Fixed Deposits - National Savings Bank                             | 160,000,000        |
|           | Fixed Deposits - Peoples' Bank - Retiring Gratuity Fund            | 130,000,000        |
|           | <b>415,000,000</b>   | <b>400,000,000</b> |
| <b>20</b> | <b>CASH &amp; BANK BALANCES</b>                                    |                    |
|           | Stamps   | 8,013              |
|           | Repo   | 4,000,000          |
|           | Cash at Bank   | 4,698,670          |
|           | Cash in Hand   | 1,002,855          |
|           | <b>30,142,753</b>  | <b>9,709,538</b>   |
| <b>21</b> | <b>STATED CAPITAL</b>  |                    |
|           | Issued and Fully Paid  |                    |
|           | 20,000,000 Ordinary shares Rs. 10/- each                           | 200,000,000        |
|           | Golden share held by Secretary to the General Treasury (Note 21.1) | 10                 |
|           | <b>200,000,010</b>   | <b>200,000,010</b> |

## 21.1 The Golden Shareholder

The Golden Share is currently held by Secretary to the General Treasury and should be owned either directly by the Government of Sri Lanka or by a 100% Government owned public Company. In addition to the rights of the normal ordinary shareholder, special rights are vested with the Golden Shareholder.

| As at     | 31.12.2015<br>Rs.                        | 31.12.2014<br>Rs.  |
|-----------|--|--------------------|
| <b>22</b> | <b>RETIREMENT BENEFIT OBLIGATIONS</b>    |                    |
|           | Balance as at the beginning of the year  | 124,782,559        |
|           | Charged during the year                  | 24,797,684         |
|           | Payments made during the year            | (25,031,833)       |
|           | <b>Balance as at the end of the year</b> | <b>124,548,410</b> |

The Valuation method used by the actuaries to value the benefit is the 'Projected Unit Credit Method', the method recommended by the Sri Lanka Accounting Standard No.19, 'Employee Benefits'. An actuarial valuation of the retirement benefit obligation was carried out as at 31st December 2014 by Actuarial & Management Consultants (Pvt) Limited.



| As at   | 31.12.2015<br>Rs. | 31.12.2014<br>Rs. |
|---|-------------------|-------------------|
| <b>22.1 The movement in the retirement benefit obligations over the year is as follows.</b> |                   |                   |
| Interest Cost   | 12,454,841        | 12,478,256        |
| Current Service Costs   | 11,332,277        | 11,636,335        |
| Total included in the staff cost [Note 07]  | 23,787,118        | 24,114,591        |
| Net Actuarial (Gain)/Loss recognized immediately  | (8,098,729)       | 683,093           |
| Amount Recognized in the statement of other comprehensive income                            | (8,098,729)       | 683,093           |
| Total recognized in the comprehensive income  | <b>15,688,389</b> | <b>24,797,684</b> |

**22.2 The Key Assumptions used by the Messers. Actuarial & Management Consultants (Pvt) Ltd include the following,**

**22.2.1 Financial Assumptions**

|                              |  |
|------------------------------|--|
| Rate of Interest             | 10% p.a ( 2014 - 10% )                   |
| Rate of Increase of Salaries |  |
| Estate Staff                 | 2% p.a next increment due on 01/06/2015  |
| Executive Staff              | 3% p.a next increment due on 01/06/2015  |
| Non Executive Staff          | 2% p.a next increment due on 01/06/2015  |
| Daily Paid Staff             | 9% p.a. Next increment due on 01/06/2015 |

**22.2.2 Demographic Assumptions**

In addition to the above financial assumptions, demographic assumptions such as mortality, withdrawal, disability and retirement age were considered for the actual valuation. A 1967/70, A 1949/52 mortality table issued by Institute of Actuaries, London was used to estimate the gratuity liability of the Company.

|                 |             |          |
|-----------------|-------------|----------|
| Retirements-Age | Male/Female | 60 Years |
|-----------------|-------------|----------|

The Company will continue as a going concern. The gratuity liability is fully internally funded.

| As at  | 31.12.2015<br>Rs. | 31.12.2014<br>Rs. |
|--|-------------------|-------------------|
| <b>23 NET LIABILITY TO LESSOR</b>                  |                   |                   |
| Gross lease liability                              | 241,219,031       | 249,405,031       |
| Less: Finance charges applicable to future periods | (136,142,622)     | (140,763,418)     |
| Net lease liability                                | 105,076,409       | 108,641,613       |
| Less : Value of lands alienation                   | (37,297,388)      | (37,297,388)      |
|  | <b>67,779,021</b> | <b>71,344,225</b> |

# Notes to the Financial Statements *Contd.*

| As at  | 31.12.2015<br>Rs. | 31.12.2014<br>Rs. |
|--|-------------------|-------------------|
| <b>a) Payable after 5 years;</b>                   |                   |                   |
| Gross Liability                                    | 200,289,031       | 208,475,031       |
| Less: Finance charges applicable to future periods | (113,038,642)     | (117,659,438)     |
| Net Liability                                      | 87,250,389        | 90,815,593        |
| Less : Value of lands alienation                   | (37,297,388)      | (37,297,388)      |
|  | <b>49,953,001</b> | <b>53,518,205</b> |
| <b>b) Payable within 2 to 5 years;</b>             |                   |                   |
| Gross Liability                                    | 32,744,000        | 32,744,000        |
| Less: Finance charges applicable to future periods | (18,483,184)      | (18,483,184)      |
| Net Liability                                      | <b>14,260,816</b> | <b>14,260,816</b> |
| <b>c) Payable within 1 year;</b>                   |                   |                   |
| Gross Liability                                    | 8,186,000         | 8,186,000         |
| Less: Finance charges applicable to future periods | (4,620,796)       | (4,620,796)       |
| Net Liability to the Lessor                        | 3,565,204         | 3,565,204         |
|  | <b>67,779,021</b> | <b>71,344,225</b> |

Consequent to the ruling on estate leases by the Urgent Issue Task Force (UITF) of The Institute of Chartered Accountants of Sri Lanka, the liability to lessor comprises of two components, the Net Present Value discount rate of 4% has been used. The lease rental paid for the period (excluding the contingent rental) is applied in settlement of the gross liability to lessor and the interest is charged to Income Statement.

The lease of the estates have been amended with effect from June 18, 1996 to an amount substantially higher than the previous nominal lease rental of Rs. 500/- per estate per annum. The first lease rental payable under the revised basis is Rs. 8,186,000/- from June 18, 1996 to June 17, 1997. The amount is to be inflated annually by the Gross Domestic Product (GDP) Deflator and is in the form of a contingent rental.

The payment due in each subsequent 12 month period till the end of lease on June 18, 2045 is the current year's last two quarters' total lease payment increased by the previous year's GDP Deflator and the next year's first two quarters' total lease payment increased by the current year's GDP Deflator. The charge to the Income Statement during the current period is Rs. 25,393,663 which comprises the interest portion of the fixed lease rental and the contingent lease rental.

Company has released lands on behalf of and under the direction of Government to Coconut Cultivation Board, Board of Investment of Sri Lanka, District Land Reform Authority and various other parties values of which based on the taking over values from JEDB amount to Rs. 37,297,387.96. Lease liability to JEDB has been reduced by this amount as it was with the value of these lands that the lease liability had originally been computed and these lands are not in the possession of the Company now. However, no agreement is reached with government authorities with regard to this reduction.

| As at                                   | 31.12.2015<br>Rs. | 31.12.2014<br>Rs. |
|---|-------------------|-------------------|
| <b>24 DEFERRED TAX LIABILITIES</b>      |                   |                   |
| Balance as at the beginning of the year | 65,321,092        | 55,944,676        |
| Charged during the year                 | 10,012,206        | 9,376,416         |
| Balance as at the end of the year       | <b>75,333,298</b> | <b>65,321,092</b> |

#### 24.1 Recognized Deferred Tax Assets & Liabilities

Deferred Tax assets and liabilities are attributable to the following originations of temporary differences.

Taxable/ (Deductible) Temporary Differences:

| As at                         | 31.12.2015<br>Rs.    | 31.12.2014<br>Rs.    |
|-------------------------------|----------------------|----------------------|
| Bearer Biological Assets      | (785,952,344)        | (705,525,471)        |
| Property, Plant & Equipment   | (86,982,983)         | (73,955,397)         |
| Provision for doubtful debts  | 1,974,208            | 1,721,531            |
| Retirement Benefit Obligation | 117,628,140          | 124,548,410          |
|                               | <b>(753,332,979)</b> | <b>(653,210,927)</b> |
| Applicable Tax Rate           | 10%                  | 10%                  |
| Net Deferred Tax Liabilities  | <b>(75,333,298)</b>  | <b>(65,321,092)</b>  |

The Company recognized Deferred Tax Assets of Rs. 11,960,235 as at the reporting date, as the management is confident that the Deferred Tax assets would be realized in the future due to the availability of Taxable Profits in the future. Moreover, Deferred Tax Liabilities recognized as at reporting date is Rs. 87,293,533 Accordingly, Net Deferred Tax Liability as at December 31st, 2015 is Rs. 75,333,298.

#### Future Applicable Tax Rate

As per the tax consultants' opinion, Profit derived by the Company from its normal course of business may be considered as Profits derived from "Agriculture" and would be liable for Income Tax at the rate of 10% commencing from the year of assessment 01st April 2011.

| As at   | 31.12.2015<br>Rs. | 31.12.2014<br>Rs. |
|---|-------------------|-------------------|
| <b>25. ADVANCE RECEIVED</b>                       |                   |                   |
| For rent  | 1,551,881         | 512,427           |
| For supply of Cut foliage & foliage plants        | -                 | 323,925           |
| Others  | 193,960           | 112,000           |
|   | <b>1,745,841</b>  | <b>948,352</b>    |
| <b>26. TRADE AND OTHER PAYABLES</b>               |                   |                   |
| Trade & Other Creditors & Accrued Expenses        | 18,268,632        | 17,765,501        |
| Refundable Tender, Security Deposits & Retentions | 11,838,255        | 10,190,906        |
| Provisions  |                   |                   |
| Bonus   | 11,523,600        | 12,468,154        |
| Performance Incentives                            | 25,106,935        | 28,820,099        |
| Medical Leave                                     | 3,893,848         | 4,018,272         |
| Holiday Pay                                       | 4,805,677         | 5,192,290         |
|   | <b>75,436,947</b> | <b>78,455,222</b> |

# Notes to the Financial Statements *Contd.*

## 27. CAPITAL COMMITMENTS

The Company had no material capital commitments outstanding as at the Reporting date.

## 28. EVENTS AFTER THE REPORTING PERIOD

There were no material events occurring after the reporting date that require adjustments to or disclosure in the Financial Statements.

## 29. FINANCIAL RISK MANAGEMENT

### Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks (Including currency risk and interest rate risk)

This note presents qualitative and quantitative information about the Company's exposure to each of the above risks, the Company's objectives, policies and procedures for measuring and managing risk.

### Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risk faced by the Company, to set appropriate risk limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

### Credit Risk

Credit risk is the risk of financial Loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligation, and arises principally from the Company's receivables from customers and investment securities.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows,

| As at                        | 31.12.2015<br>Rs.  | 31.12.2014<br>Rs.  |
|------------------------------|--------------------|--------------------|
| <b>Loans and Receivables</b> |                    |                    |
| Trade and other Receivables  | 56,359,580         | 56,792,077         |
| Short Term Investment        | 415,000,000        | 400,000,000        |
| Cash and Cash Equivalents    | 30,142,753         | 9,709,538          |
|                              | <b>501,502,333</b> | <b>466,501,615</b> |

### Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing this risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal or stressed conditions, without incurring unacceptable Losses or damage to the Company's reputation.

To measure and mitigate liquidity risk, the Company closely monitored its net operating cash flow, maintained a level of Cash and Cash equivalents and secured committed funding facilities from financial institutions.

| As at                                       | 31.12.2015<br>Rs.  | 31.12.2014<br>Rs.  |
|---|--------------------|--------------------|
| <b>Non-derivative financial liabilities</b> |                    |                    |
| Net liability to the lessor                 | 67,779,021         | 71,344,225         |
| Trade and other payables                    | 75,436,947         | 78,455,222         |
|   | <b>143,215,968</b> | <b>149,799,447</b> |

### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, Interest rates, etc; will affect the Company's income or the value of its holdings of financial instruments. The objective of the market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the returns.

### Interest Rate Risk

Interest rate risk is the risk that the fair value or future Cash Flows of financial instruments fluctuate because 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 obligation and Investments with floating Interest rates. However the Company does not have material long-term floating rate borrowings or deposits as at the reporting date which results a material interest rate risk.



# විගණකාධිපති දෙපාර්තමේන්තුව

## கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்

### AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය  
எனது இல. }  
My No. }

PLA/A/KPL/1/15/08

ඔබේ අංකය  
உமது இல. }  
Your No. }

දිනය  
திகதி } 31 August 2016  
Date }

The Chairman,  
Kurunegala Plantations Limited

#### Report of the Auditor General on the Financial Statements of the Kurunegala Plantations Limited for the year ended 31 December 2015.

The audit of financial statements of the Kurunegala Plantations Limited comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My comments and observations which I consider should be published with the Annual Report of the Company appear in this report. A detailed audit report on the above financial statements was issued to the Chairman of the Company on 27 April 2016.

#### 1.2 Establishment and Ownership of the Company

The Kurunegala Plantations Limited (KPL) is a limited liability company incorporated under the Companies Act, No. 17 of 1982 in terms of conversion of the Corporations and Government Owned Business undertakings into public companies under the Act, No. 23 of 1987 and re-registered under the Companies Act, No. 07 of 2007. This is a fully government owned Company and the Secretary to the Treasury is being the single shareholder of the Company.

#### 1.3 Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

අංක 306/72 පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka



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#### 1.4 **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### 1.5 **Basis for Qualified Opinion**

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

### 2. **Financial Statements**

#### 2.1 **Qualified Opinion**

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Kurunegala Plantations Limited as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.



**2.2 Comments on Financial Statements**

**2.2.1 Accounting Deficiencies**

The following accounting deficiencies were observed in audit

- (a) A contract was awarded to a private company in order to remove the consumable biological assets valued at Rs. 4,590,300 during the year under review. Although this work was not performed during the year 2015, the value of the consumable biological assets had been written off from the accounts in the year under review. Therefore, the consumable biological assets and the profit for the year under review had been understated by that amount.
- (b) The land with extent of 455.6 hectares released during the period from 2004 to 2015 on government requirements had not been valued and adjusted in the accounts even as at 31 December 2015.
- (c) The land with extent of 40.98 hectares with the immature planting costing Rs.7,108,457 in Gatakulalanda Division of the Hiriyala Area Estate had been granted for resettling purpose during the year 2014. However, no adjustments had been made in the accounts in that year instead, it was adjusted in the accounts of the year 2015.

**2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.**

Instances of non-compliances observed in audit are given below.

| <b>Reference to Laws, Rules, Regulations, etc.</b>                  | <b>Non-compliance</b>   |
|---|---|
| -----   | -----   |
| (a) Paragraph 6.2 (a) of the Payment of Gratuity Act, No 12 of 1983 | The Board of directors had decided to pay one month salary for their retiring employees with more than 10 year service period in respect of each completed year instead of being paid half a month salary. As a result a sum of Rs.10,141,160 had been overpaid to retired employees. |
| (b) Guideline 6.2.2 of Government Procurement Guidelines            | Although the period allowed for the preparation and submission of national competitive bids was 21 days, the Company had granted only 14 days for calling bids in respect of construction of quarters for its staff.  |





(c) Fresh Coconut Auction  
Rules of the Coconut  
Development Authority

-----  
Rule No. 21

The Buyer who purchases the coconut parcels should be settled the dues within 35 calendar days. However, actions had not been taken to recover the outstanding balance of Rs. 2,442,827 from the buyers even after 05 months since the date of sales.

Rule No. 26

Although the Company should take necessary actions after informing the Coconut Development Authority against the buyer who failed to settle the initial payment of 25 per cent on the sales value, actions had not been taken accordingly.

(d) Letter No. DMS/E3/39/8/222  
of 26 October 2009 issued  
by the Director General of  
Department of Management  
Services

All-inclusive a monthly allowance of Rs. 72,300 had been approved to the Chief Executive Officer (CEO) of the Company. However, the CEO of the Company had been paid Rs. 80,000 as initial monthly salary and thereafter, it was increased up to Rs. 297,500 in time to time by the Board of Directors without being obtained the approval from the Department of Management Services.

### 3. **Financial Review**

#### 3.1 **Financial Result**

According to the financial statements presented, the operations of the Company for the year ended 31 December 2015 had resulted in a pre-tax profit of Rs. 165,922,947 as compared with the corresponding pre-tax profit of Rs. 220,906,476 in the preceding year, thus indicating a deterioration of Rs. 54,983,529 in the financial results for the year under review. The decrease of revenue from sales of coconut, rubber and pepper as compared with the preceding year was the main reason attributed for this deterioration in the financial result.



### 3.2 Analytical Financial Review

#### 3.2.1 Profitability of Major Product Items

The contributions received from major product items as compared with the previous two years are given below.

| <u>Product</u> | <u>Contribution {favorable/(adverse)}</u> |             |             |
|----------------|---|-------------|-------------|
|                | <u>2015</u>                               | <u>2014</u> | <u>2013</u> |
| Coconut        | 170,843,902                               | 177,493,786 | 129,805,642 |
| Rubber         | (6,945,469)                               | (2,356,345) | 13,988,267  |
| Rambutan       | 2,923,727                                 | 3,053,870   | 2,403,732   |
| Pepper         | 831,513                                   | 2,761,778   | 1,112,053   |
| Cashew         | 552,158                                   | 2,483,600   | 57,527      |
| Mango          | 1,629,773                                 | 978,540     | -           |

The following observations are made in this regard.

- (a) The contribution received from rubber production had been drastically decreased by Rs.20,933,736 or 150 per cent in the year under review as compared with the year 2013. It was further observed that, the rubber production in the year under review was decreased by 16,796 kilograms or 11 per cent as compared with the preceding year.
- (b) The contribution received from pepper production had also been decreased by Rs.1,930,265 or 70 per cent in the year under review as compared with the previous year and the pepper production had been decreased by 1,885 kilograms or 60 per cent in the year under review as compared with the preceding year. Hence, the revenue from pepper production too decreased by 50 per cent in the year under review.

#### 3.2.2 Significant Accounting Ratios

According to the information made available, some important ratios of the Company for the year under review and the preceding year are as follows.



|                    | <u>2015</u> | <u>2014</u> |
|--------------------|-------------|-------------|
| Gross Profit Ratio | 35%         | 43%         |
| Current Ratio      | 6.91 : 1    | 6.52 : 1    |
| Quick Asset Ratio  | 6.48 : 1    | 5.99 : 1    |

The following observation is made in this connection

It was revealed that the Company had continuously maintained excess working capital without being invested them in long term investment sources and as such the working capital management of the Company was at very weak level.

#### 4. Operating Review

##### 4.1 Performance

##### 4.1.1 Achievement of Targets

According to the progress report, action plan and other information made available for audit some key targets and their achievements during the year under review are shown below.

| <u>Item</u>                           | <u>Targets</u> | <u>Achievement</u> | <u>Achievement as a percentage of Targets</u> |
|---------------------------------------|----------------|--------------------|---|
| -----                                 | -----          | -----              | -----   |
| Coconut Crop (nuts in million)        | 18.07          | 14.07              | 77.8  |
| Average yield per palm                | 72             | 29.46              | 40  |
| Average nuts per Acre in S4 Land Type | 2,835          | 1,786              | 63  |

##### 4.1.2 Performance of Planting Area Estates

The production, sales income and profit /(loss) of 08 Planting Area Estates belonging to the Company as compared with previous two years are given below.



| Estate        | Production   |              |              | Sales Income |            |            | Profit /(Loss) |            |            |
|---------------|--------------|--------------|--------------|--------------|------------|------------|----------------|------------|------------|
|               | 2015         | 2014         | 2013         | 2015         | 2014       | 2013       | 2015           | 2014       | 2013       |
|               | Nuts.Million | Nuts.Million | Nuts.Million | Rs.Million   | Rs.Million | Rs.Million | Rs.Million     | Rs.Million | Rs.Million |
| Attanagalla   | 1.7          | 1.7          | 1.8          | 59.4         | 56.7       | 62.1       | 30.1           | 31.2       | 39.9       |
| Dambadeniya   | 1.3          | 1.5          | 1.3          | 41.1         | 45.5       | 42.0       | 13.1           | 17.3       | 16.3       |
| Dodangaslanda | 2.0          | 2.5          | 1.5          | 68.4         | 78.4       | 44.3       | 32.2           | 45.9       | 18.0       |
| Hiriyala      | 2.6          | 2.9          | 1.5          | 69.7         | 82.6       | 36.1       | 27.0           | 33.4       | 3.7        |
| Katugampola   | 1.6          | 2.1          | 2.1          | 55.1         | 70.4       | 69.5       | 17.8           | 29.3       | 37.4       |
| Kurunegala    | 2.0          | 2.8          | 1.9          | 57.3         | 78.7       | 54.3       | 21.0           | 39.3       | 24.7       |
| Mahayaya      | 1.1          | 1.1          | 1.1          | 38.6         | 37.1       | 38.8       | 17.8           | 17.5       | 20.8       |
| Narammala     | 1.7          | 2.1          | 1.7          | 52.4         | 64.5       | 55.1       | 20.7           | 32.9       | 28.4       |

The following observations are made.

- (i) Even though the Company had recorded the highest coconut crop in the year 2014, Atthanagalla Area Estate had failed to achieve its maximum crop in that year as compared with the year 2013.
- (ii) The highest Cost of Production (COP) as compared with last two years had been recorded in the year under review and thereby the contribution from the products had been dropped by Rs. 2 in the year under review.
- (iii) Although the Hiriyala Area Estate is consisting 20 per cent of the Company's total coconut extent of 4085 hectares, only 12 per cent or Rs 53,997,824 had been contributed to the coconut income for the year under review.

## 4.2 **Operating Inefficiencies**

### 4.2.1 **Pepper Cultivation Project**

The following observations are made.

- (a) Even though the cost relating to pepper cultivation project had increased from Rs.427,462 in the year 2014 to Rs. 630,147 by the year 2015 or by 47 per cent, the revenue from pepper cultivation had decreased from Rs. 3,189,240 in the year 2014 to Rs. 1,461,660 or by 54 per cent as at end of the year under review.

- (b) According to the technical hand book of the Department of Export Agriculture, the average crop per pepper plant should be 1.5 to 2 kilograms per annum. However, the Company had obtained only 1270 kilograms pepper harvest from its 23,178 plants or 4 per cent that indicated a poor yield from the pepper cultivation. It was further observed that the harvestable plants were only 41 per cent of the total number plants due to lack of agricultural practices.
- (c) The pepper crop of 1.5 kilogram had been collected from Atthanagalla Area Estate by spending Rs. 55,312 in the year under review and it was revealed that this pepper field had exceeded its useful economic life.

#### **4.2.2 Paddy Cultivation**

It was revealed that the Company had utilized only 36.42 hectares of paddy land out of its total paddy harvestable land of 86.13 hectares. Therefore, the Company had failed to utilize 57 per cent of the paddy land belonging to Hiriyala Area Estate. As a result the overall net income per hectare for a season was only Rs. 10,378

#### **4.2.3 Coconut Cultivation**

The Company had not taken necessary measures to improve the coconut cultivation in the following planting estates.

##### **(a) Hiriyala Area Estate**

Even though the average palms per hectare should be 150, it was only 107 in the Hiriyala Area Estate. It was further observed that the crop in the year under review had been decreased by 427,887 nuts as compared with the previous year.

##### **(b) Atthanagalla Area Estate**

- (i) Even though it was supposed to maintain 64 coconut palms per hectare, there were only 25 and 29 palms per hectare in Danavkanda and Thippalathenna Divisions respectively.
- (ii) The standard coconut crop per palm in the industry was 72 nuts whereas the Atthanagalla Area Estate had harvested only 21 to 54 nuts in the year under review.



- (iii) Censes on coconut palms had not been completed in this Estate even as at the date of audit on 10 March 2016.
- (iv) Out of 392 palms, 163 non-bearing palms were observed in the audit test check carried out in field No 04 of Wayagolla Division and it was further observed that actions had not been taken to replant 60 abortive palms even as at the date of audit on 10 March 2016.

#### 4.2.4 **Rubber Cultivation**

The followings matters were observed.

- (a) There were only 37,515 rubber trees in 110.9 hectares belonging to Atthanagalla Area Estate even though there should be 500 trees per hectare as per the standard. However, the Company had not taken effective actions to increase the number of trees in the Estate.
- (b) Sales of latex in Atthanagalla and Dodamgaslanda Area Estates had been performed by the private parties based on the prices determined in the year 2011 and no quotations were called thereafter up to the end of 2015. Sales of latex in Mahayaya Area Estate had not been quoted even in the year 2011 and given to a private party without an agreement.
- (c) It was recorded the average latex of 3 to 6 kilograms per day in Atthanagalla Division and the annual latex collection was reported as 664 per hectare which was a far behind with compared to the standard indicator of the Department of Rubber Research. It was further observed that the negative contribution per kilogram of rubber for the year 2015 was around Rs. 43.
- (d) According to the statistics of the Department of Rubber Development, the Company had recorded an overall low rubber progress of 544 kilograms per hectare with compared to the average rubber production of 748 kilograms per hectare reported in Sri Lanka.

#### **4.2.5 Collecting the Fallen Coconuts**

The following observations are made.

- (a) Information relating to fallen nuts in Danavkanda Division at Atthanagalla Area Estate during the period from 01 January to 07 February 2015 had not been certified by any officer. However, the unusual amounts of 240 nuts were recorded at the office during this period even it was an average of 20 nuts per day.
- (b) The Company had failed to take necessary action against the watcher attached to Atthanagalla Area Estate, even though it had proven that this watcher had regularly reported incorrect information about the fallen nuts.

#### **4.2.6 Coconut Picking**

The following observations are made.

- (a) According to the policy of the Company, the coconut picking is performing once in every 30 days resulted 12 pickings per year. However, it was observed that the picking was conducted before 30 days after 30 days as well. Therefore, the Company had failed to maintain a proper time period for this task.
- (b) The process of coconut picking had been outsourced by the Company. However, the outsourcing process had been carried out without any Board decision and also there is no any written agreement between the parties.

#### **4.2.7 Mite Affected Coconut Palms**

According to the instruction given by the Mite Lab it should be continued the treatments in 3 times with the time gap of 90 days to cure Mite affected palms. Nevertheless, a delay of 153 days to 240 days was observed in audit and the Hiriyala Area Estate has not performed the third treatment even as at the date audit on 04 March 2016. As such the Mite affected nuts had been gradually increased from 11 per cent at the beginning of the year 2015 to 64 per cent by the end of the year 2015 and the overall Mite affected nuts in Kurakkane Division was 48 per cent. Further, several Mite affected palms and nuts were found during the test audit check carried out in the year under review.



#### **4.2.8 Coconut Auctions**

The followings matters were observed during the course of audit.

- (a) When the coconut parcel sending to auction in second attempt, those had to be sent under re-sale category. However, such coconut parcels (LOT) had been offered to auction in three or four times without being categorized as re-sales.
- (b) During the year under review, in 85 occasions the coconut sales had been conducted through auctions and in 78 occasions it had been conducted through local sales. Though the local sales had recorded relatively higher prices than the auction, the Company had not taken necessary measures to identify the reasons for poor performance of the auction sales and communicate those with the Coconut Development Authority.

#### **4.2.9 Providing Lands on Lease Basis**

The Board of Directors had decided to provide the land with extent of 102 acres and 02 rude belonging to four Planting Area Estates to 19 outside parties on lease basis in order to planting the subsidiary crops. However, the policy for selecting the lands and persons had not been explained to audit.

#### **4.2.10 Valuation of Consumable Biological Assets**

At the audit test check it was revealed that, a cubic decimeter of timber had been valued at Rs.80.34 for the purpose of valuing the biological asset (timber) as at the end of the year under review. However, a cubic decimeter of same timber had been revalued as Rs. 75.90 for the disposal purpose. Hence, it was observed that, two different values had been applied to valuing the same consumable biological assets of the Company without any valid reason.

#### **4.2.11 Operation of Rubber Factory**

The following observations were made

- (a) The operations of the rubber factory at Atthanagalla Area Estate constructed by spending Rs. 12,078,708 exceeding the estimated cost of Rs. 6 million had been commenced its operations in November 2013 and subsequently suspended in March 2014 due to non-obtaining the environmental protection licenses. Therefor the estimated net income of Rs. 10,863,465 had not been generated.





- (b) It was further observed that no feasibility study had been carried out before constructing this factory and a sum of Rs. 5,552,352 had been incurred to construct an effluent plant increasing the total cost to Rs.17.5 million resulted a deviation of 191 per cent of the estimated cost.

#### **4.2.12 Implementation of Foliage Project**

The Company had incurred an overall loss of Rs. 14,932,214 including an operational loss of Rs. 3,693,432 from Foliage Project implemented in Atthanagalla Area Estate during the year under review.

#### **4.3 Identified Losses**

The following losses were observed during the course of audit.

- (a) A sum of Rs. 515,096 was lost to the Company due to providing the low prices by the buyer instead of being provided the high prices to determine the buying price of 1 kg RSS 1 rubber which prevailed at the market during the year under review.
- (b) A loss of Rs. 714,020 incurred due to the damage course to the mango cultivation by flood during the previous year had been written off during the year under review.

#### **4.4 Items of Contentious Nature**

- (a) It was observed in audit that the Company had not remitted or accounted the Value Added Tax of Rs. 905,112 on copra manufacture carried out during the year under review.
- (b) It was advised to conduct nut burning process under the supervision of a staff officer. Nevertheless, it was revealed in audit that this task had been performed by a watcher himself at his virtue in Madurankanchiya and Kurakkane Divisions.
- (c) A sum of Rs.3,075,000 had been paid to a private institution in the year 2014 as donations without obtaining an approval from the Cabinet of Ministers as per paragraph 8.3.8 of the Public Enterprises Circular No. PED 12 of 02 June 2003. Further, the Presidential Commission of Inquiry is in progress in this regard.



- (d) Ten Coconut Lots belonging to Atthanagalla and Dambadeniya Area Estates offered for auction had been subsequently withdrawn from the auction and thereafter those coconuts were sold locally by the Company. However, a sum of Rs. 69,501 had been paid to the Broker since it was treated as auction sales.
- (e) It was observed that 7 annual salary increments had been granted to employees of the Company within two years based on one year performance and in addition to that the bonus and incentives allowances had also been paid during this period.
- (f) The CEO of the Company had been granted 3 in-house labour salaries of Rs.533,484 in addition to the monthly allowances entitled to him.

#### 4.5 **Idle and Underutilized Assets**

A rubber factory in Dammullahena valued at Rs. 12,078,708 and shown under the non-current assets of the Company had not been in functioned since 2014.

#### 4.6 **Human Resources Management**

The following observations are made.

- (a) Reducing the scope by amalgamating Dathusenapura and Wariyapola Divisions in Hiriyala Area Estate had been caused to 22 excess cadre and no steps had been taken in this regard.
- (b) Even though six posts of Officers in-Charge which may directly affect the efficiency of the Company's operations had been vacant for more than 12 months, the Company had not taken any meaningful steps to fill these vacancies. In the meantime, an OIC had been employed in Atthanagalla Division which did not have approved cadre.
- (c) Additional 16 labourers had been employed as Cash Workers in Atthanagalla and Hiriyala Area Estates without obtaining the required approvals from the relevant authorities.



## 5. Accountability and Good Governance

### 5.1 Annual Action Plan

Although an Action plan had been prepared in line with the Corporate Plan, the Company had failed to identify the responsibilities of managers with goals and targets expected to achieve during the year under review.

## 6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

| <u>Areas of Control</u>  | <u>Observation</u>   |
|--------------------------|--|
| (a) Staff Administration | - The cash workers were not presented in morning parade and attendance could not be checked in audit since there were no records. Further, sufficient internal controls had not been implemented in this regard. |
| (b) Payroll System       | - The signature of some labourers recorded in the attendance register differ from one another<br>- Work done by the Cash Workers had not been entered in the Muster Sheets.                                      |

H.M. Gamini Wijesinghe  
Auditor General

# Our Comments on the Report of the Auditor General on Financial Statements of the Kurunegala Plantations Ltd for the year ended 31/12/2015

## 2. Financial Statements

### 2.1 Qualified Opinion

#### 2.2 Comments on Financial Statements

##### 2.2.1 Accounting Deficiencies

- (a) The income of Rs. 4,590,300 is accrued in 2015 as the contract was awarded, so those trees have been derecognized in the biological assets.
- (b) This matter will be discussed at the AGM.  
Refer "Any other Business" in the Notice of Annual General Meeting attached to the Annual Report.
- (c) This amount has been adjusted retrospectively in the financial statements for the year ended 31.12.2015, and the comparative figures has been restated accordingly.

##### 2.3 Non-compliance with Laws, Rules, Regulations, Management Decisions, etc.

- (a) The Board decision taken by the then Board to pay one month salary for an employee who completes ten or more years of service period was revoked with effect from 25.04.2016, and this date onward gratuity is paid as per the paragraph 6.2 (a) of Payment of Gratuity Act, No. 12 of 1983.
- (b) This has been corrected with effect from 25.04.2016.
- (c) This amount was collected as at 29.04.2016.
- (d) The Board of Directors of the Company decided to refer this matter to Attorney General's Department for legal advice.

## 3. Financial Review

### 3.1 Financial Result

Profit before tax decreased by Rs. 51 million in 2015 compared to 2014. The decisive factors affecting to this decrease are as follows.

| Decrease in Coconut Revenue                     | <u>Rs. Million</u> |
|---|--------------------|
| Impact on revenue due to decrease in production | (81)               |
| Impact on revenue due to increase in NSA        | <u>9</u>           |
|   | <u>(72)</u>        |

| Decrease in Coconut Revenue                     | <u>Rs. Million</u> |
|---|--------------------|
| Impact on revenue due to decrease in production | (4)                |
| Impact on revenue due to decrease in NSA        | <u>(5)</u>         |
|   | <u>(9)</u>         |

### 3.2 Analytical Financial Review

#### 3.2.1 Profitability of Major Product Items

- (a) Unfavorable weather conditions that prevailed destructing tapping during the second & third quarters of the year and rubber prices plummeted to its lowest levels in 2015 reflecting the weakling global demand contributed to the decline in rubber revenue.
- (b) Seasonal drawback, which is common in all areas of Kurunegala District, is recorded in Pepper harvest.

#### 3.2.2 Significant Accounting Ratios

There is no excess/ idle working capital without being invested. Current Asset Ratio and the Quick Asset Ratio have gone up because of the short term investments. Investing in short term bank deposit is rather economically beneficial than investing in long term fixed deposit where the interest rates were at low level in 2015

|   |  |
|---|--|
| Working capital <u>with</u> short term investment in term deposit is    | Rs. 487.05 million (2014 – 457.66 million) |
| Working capital <u>without</u> short term investment in term deposit is | Rs. 72.05 million (2014 – 57.66 million)   |

## 4. Operating Review

### 4.1 Performance

#### 4.1.1 Achievement of Targets

All these key targets involve with coconut production which came down unexpectedly in 2015, reflecting a seasonal drawback recording a drop of 16% compared to last year. This situation will definitely change in year 2016 and it is expected a bumper harvest around 17 million nuts.

#### 4.1.2 Performance of Planting Area Estates

- (i) The comparison of estate's performance with one another's, which are situated in different agro climatic zones with different soil types, is not rational because their potential is divergent to each other. Seasonal variances too differentiate estate to estate. Comparison of a year's performance of an estate with previous years' performance of the same estate is more rational.
- (ii) COP per nut as a key indicator is itself failure since an immediate results/output on input (Fertilizer, etc.) cannot be expected as there is no strong co-relation between the input and the output (production) of a perennial agricultural crop like coconut. However, most of essential inputs needed for the growth and for the future productivity cannot be curtail even the expected production in a particular year is low.
- (iii) Despite the facts mentioned in (i) and (ii) above, the company takes actions to improve the profit per hectare by diversifying and harnessing other source of income like timber, sand etc.

### 4.2 Operating Inefficiencies

#### 4.2.1 Pepper Cultivation Project

- (a) Pepper harvest in all areas of Kurunegala District showed a seasonal decline. The income from pepper in 2016 will be over 03 million rupees compared to 1.4 million rupees in 2015.
- (b) Refer (a) above. Good agricultural practices has been undertaken to improve the productivity.
- (c) Although, economic life considered for accounting purpose has elapsed, The plantation can be continued, after being pruned and given necessary inputs. An income of over Rs. 100,000 is expected from this plantation in 2016.

#### 4.2.2 Paddy Cultivation

The demand for paddy lands on lease depends on the availability of adequate water. All these blocks of paddy lands are neither equally potential nor water is received from a reliable source.

#### 4.2.3. Coconut Cultivation

##### (a) Hiriyala Area Estate

The coconut palms in all categories: palms in flowering stage, palms in 1st generation, palms/ seedlings in under-plantations and infilling, should be taken into accounts when calculating the stand per hectare (no. of palms per hectare), so the palms per hectare is 143.

The coconut production of Hiriyala Area Estates, which is situated in dry zone, decreased by 14% compared to 2014, the year in which the highest coconut production recorded, due to seasonal variance. This situation has now been changed and around 3.1 million crop (19% increase compared to 2015) is expected for the year 2016.

##### (b) Attanagalla Area Estate

- (i) The figures mentioned as palms per hectare in the Audit Report should be corrected and read as palms per Acre. The development of Danawkanda division has been restarted which was suspended for years as there was an arrangement to release 69 Acres from the division for statutory declaration, which was cancelled afterwards. Further, the rocky areas found in the revenue extent trigger to came down the number of trees per hectare.
- (ii) Nuts per palm came down in 2015 due to the decrease of production, which is common to other area estates of the Company as well. These key performance indicator will go up with the increased crop in 2016.
- (iii) Action has already been taken to complete census.
- (iv) Coconut Under-plantations & Refilling are undertaken year on year as per the Corporate Plan in order to increase the number of palms per hectare.

## Our Comments on the Report of the Auditor General on Financial Statements of the Kurunegala Plantations Ltd for the year ended 31/12/2015 *Contd.*

### 4.2.4. Rubber Cultivation

- (a) Planting year of the rubber plantation at Attanagalla is ranging from 1995 to 2000. Some trees have been infected with brown bass and some have fallen by wind over the years. Those trigger to the present stand of 338 trees per hectare. This cannot be corrected immediately, but with the replantation this will change in future.
- (b) This was corrected with effect from 01.07.2016.
- (c) The Company average yield per hectare is 767 Kg per hectare (National Average for year 2015 is 784 Kg per hectare.) and the Company average intake per tapper is 07 Kg for the year 2015 at Attanagalla Area Estates. Although there seems a loss of Rs.59 per kilogram, there is a positive contribution of Rs. 82 per kilogram if the general charges/overheads component is excluded from the cost of production of a kilogram. General charges added to the cost of production as a result of apportionment of General charges/overheads of the estate, which is a cost like fixed cost.
- (d) The following reasons contributed for low production of rubber per hectare.
  - Increase in number of wet days
  - Scarcity of skill tappers
  - Decreasing of number of trees per hectare due to reasons mentioned in (a) above.

### 4.2.5 Collecting the Fallen Coconuts

- (a) No difference is observed between daily fallen nut collection book and the crop returns. Abnormal fallen nut collection can be observed after a heavy wind, or a rainfall after prolong drought.
- (b) Necessary action has been taken to minimize this type of incidents. A warning letter is issued or a fine is charged as and when necessary.

### 4.2.6 Coconut Picking

- (a) Picking of coconut get done by outside contractors/ gangs of pickers. At present, there is a shortage of pickers. Picking dates could be varied in two to five days according to their availability. However, all possible action has been taken to minimize such variations.
- (b) Picking rates for each division is fixed in the budget. Entering into an agreement with pickers is not practical.

### 4.2.7 Mite Affected Coconut Palms

Application of predator mite is carried out three times per year with 120 days interval.

The Board has already given a special attention in this regard and a comprehensive review on application of predator mite has been decided to carry out.

### 4.2.8 Coconut Auction

- (a) Categorizing as “Re-sale” is not required by the CDA Auction rules.
- (b) The participation of limited number of brokers/ buyers to the CDA coconut auction is attributed to the poor performance of the Auction. The company has already communicated these issues to the Ministry and the CDA.

### 4.2.9 Providing Lands on lease basis

Action has been taken to formalize the process of providing lands on lease/ facility basis.

### 4.2.10 Valuation of consumable biological assets

The valuation of consumable biological assets as required by the LKAS 41 was undertaken by M/s. Ariyatillake & Co.(pvt) Ltd., Chartered Valuers based on some assumptions. The estimated value (spot value) of a timber tree at disposal is calculated based on timber corporation values.

### 4.2.11 Operation of Rubber Factory

- (a) The construction of this factory, which is approved by the then Board, was started in 2012 without obtaining the Environmental Certificate. However, action has been taken to obtain Environmental Protection Licenses.
- (b) A sum of Rs. 5.6 million was incurred additionally over the budget on essential improvements to the rubber factory and a sum of Rs. 5.7 million is incurred on construction of effluent plant, which was not originally estimated. A committee has been appointed to monitor and to review the progress.

#### 4.2.12 Implementation of Foliage Project

Action has been taken to operate this Foliage project, which was started on the approval of the then Board, at least at breakeven level while attempting to find other possible opportunities to convert this project viable; in this regard a committee has been appointed.

#### 4.3 Identified Losses

- (a) A new tender for selling of latex was offered with effect from 01.07.2016
- (b) The Board approved to write-off the loss of Rs. 714,020/- having examined the Incident.

#### 4.4 Items of Contentious Nature

- (a) The Value Added Tax is paid on the value of copra, which is sold directly to the extraction of oil, with effect from 01st October 2016.
- (b) Superintendents were instructed to adhere to the given instructions without deviations.
- (c) This was given as a donation approved by the then Chairman, Executive Director and Working Director. However, an Internal investigation is being carried out in this regard.
- (d) All these lots were sold through Brokers, so the brokerages needed paying.
- (e) An Internal investigation is being carried out in this regard. Further, the approval of Management Services Department will be obtained if such a deviation is required in future.
- (f) The then Board have approved paying labour allowance in cash.

#### 4.5 Idle and Underutilized Assets

The factory operation of manufacturing of Ribbed Smoked Sheets was suspended until the completion of construction work of effluent plant. The manufacturing has been re-commenced from October 2016.

#### 4.6 Human Resources Management

- (a) These vacant positions will needed filling with the future expansion of company's operations.
- (b) The post of Officer-in-Charge becomes a non-attractive one with the terms and conditions, and the facilities available at estates. The Company has been taking steps to improve the facilities such as suitable accommodation facilities with basic needs like water, electricity and sanitary. Further, they are provided appropriate training programs for their carrier development.  
  
An Officer-in-Charge having been transferred from Attanagalla to Dambadeniya with effect from 01st September 2016, this matter has been settled.
- (c) The employing of workers under cash work has been more formalized from October 2016

### 5. Accountability and Good Governance

#### 5.1 Annual Action Plan

Action plan for each estate is prepared separately, so the Superintendent of a particular estate is directly responsible for implementing the action plan and for the achieving of goals and targets set in the Action Plan and the Budget for a particular year.

### 6. Systems and Controls

- (a) The employing of workers under cash work has been more formalized from October 2016.
- (b) Action has been taken to minimize mistake of this nature.



**A.M. Piyasoma Upali**

*Chairman*

**Kurunegala Plantations Limited.**

# Ten Year Summary

## OPERATIONAL PERFORMANCE KEY INDICATORS

|  | 2006                 | 2007                 | 2008                 | 2009                 | 2010                 | 2011                 | 2012                 | 2013                 | 2014                 | 2015                 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Coconut</b>                                 |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| Baring Extent (ha.)                            | 3,712.69             | 3,741.20             | 3,756.10             | 3,766.57             | 3,738.46             | 3,472.35             | 3,401.96             | 3,292.82             | 3,264.04             | 3,186.82             |
| Production                                     | 15,914,656           | 15,404,540           | 15,010,322           | 17,309,128           | 15,474,602           | 15,543,555           | 18,103,053           | 13,000,150           | 16,701,797           | 14,067,173           |
| NSA (per 1000 nuts)                            | 10,150               | 16,099               | 20,387               | 16,896               | 22,904               | 25,680               | 22,327               | 30,926               | 30,647               | 31,207               |
| COP (per 1000 nuts)                            | 7,780                | 9,005                | 11,691               | 9,627                | 12,364               | 12,872               | 13,531               | 16,386               | 15,984               | 18,635               |
| Yield per Acre                                 | 4,287                | 4,118                | 3,996                | 4,595                | 4,139                | 4,476                | 5,321                | 3,948                | 5,117                | 4,414                |
| Profit per Acre                                | 10,161               | 29,206               | 34,751               | 33,404               | 43,631               | 57,332               | 46,809               | 57,504               | 75,739               | 56,476               |
| <b>Rubber</b>                                  |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| Baring Extent (ha.)                            | 191.35               | 191.35               | 191.35               | 191.35               | 191.35               | 191.35               | 188.28               | 191.78               | 192.62               | 183.53               |
| Production                                     | 180,142              | 203,034              | 207,512              | 202,680              | 200,778              | 227,977              | 209,898              | 188,934              | 157,474              | 140,678              |
| NSA (per 1Kg)                                  | 185                  | 214                  | 222                  | 183                  | 348                  | 457                  | 371                  | 330                  | 246                  | 218                  |
| COP (per 1Kg)                                  | 113                  | 132                  | 156                  | 149                  | 185                  | 200                  | 213                  | 256                  | 267                  | 267                  |
| Yield per hectare                              | 941                  | 1,061                | 1,084                | 1,059                | 1,049                | 1,191                | 1,115                | 985                  | 818                  | 767                  |
| Profit per hectare                             | 67,631               | 87,170               | 71,920               | 35,031               | 171,614              | 306,606              | 176,960              | 72,939               | (12,233)             | (37,844)             |
| <b>INCOME STATEMENT DETAILS</b>                |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| <b>Revenue</b>                                 |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| Coconut  | 161,539,826          | 247,991,075          | 306,021,001          | 292,448,058          | 354,436,203          | 399,151,639          | 404,191,573          | 402,365,395          | 514,176,778          | 442,113,846          |
| Rubber   | 33,326,923           | 43,497,656           | 46,103,417           | 36,999,577           | 69,911,163           | 104,284,153          | 77,964,363           | 62,405,810           | 39,698,357           | 30,606,278           |
| Other  | 1,752,429            | 2,055,309            | 8,171,751            | 8,023,084            | 6,417,504            | 6,450,097            | 9,663,550            | 11,118,970           | 22,915,639           | 19,420,279           |
| <b>Total Revenue</b>                           | <b>196,619,178</b>   | <b>293,544,040</b>   | <b>360,296,169</b>   | <b>337,470,719</b>   | <b>430,764,870</b>   | <b>509,885,889</b>   | <b>491,819,486</b>   | <b>475,890,175</b>   | <b>576,790,774</b>   | <b>492,140,403</b>   |
| <b>Cost of Sales</b>                           |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| Coconut  | (123,814,515)        | (138,723,789)        | (175,492,646)        | (166,631,038)        | (191,322,313)        | (200,075,494)        | (244,948,017)        | (213,015,395)        | (266,963,038)        | (262,136,535)        |
| Rubber   | (20,385,806)         | (26,817,758)         | (32,341,535)         | (30,296,350)         | (37,072,837)         | (45,615,137)         | (44,646,298)         | (48,417,543)         | (42,054,702)         | (37,551,747)         |
| Other  | (1,857,713)          | (3,824,407)          | (8,070,797)          | (8,377,449)          | (6,879,815)          | (6,762,242)          | (7,688,806)          | (7,363,880)          | (16,972,939)         | (16,955,372)         |
|  | <b>(146,058,034)</b> | <b>(169,365,954)</b> | <b>(215,904,978)</b> | <b>(205,304,837)</b> | <b>(235,274,965)</b> | <b>(252,452,873)</b> | <b>(297,283,121)</b> | <b>(268,796,818)</b> | <b>(325,990,679)</b> | <b>(316,643,654)</b> |
| <b>Gross Profit</b>                            | <b>50,561,144</b>    | <b>124,178,086</b>   | <b>144,391,191</b>   | <b>132,165,882</b>   | <b>195,489,905</b>   | <b>257,433,016</b>   | <b>194,536,365</b>   | <b>207,093,357</b>   | <b>250,800,095</b>   | <b>175,496,749</b>   |
| Other Operating Income                         | 23,977,560           | 28,456,198           | 36,529,836           | 55,808,066           | 41,112,867           | 63,714,382           | 89,353,353           | 95,827,085           | 95,921,283           | 121,733,181          |
| Admin. and General Expenses                    | (35,595,006)         | (55,657,826)         | (69,506,682)         | (72,962,545)         | (73,440,475)         | (89,787,664)         | (107,147,020)        | (109,250,679)        | (131,150,183)        | (132,937,239)        |
| <b>Profit from Operating Activities</b>        | <b>38,943,698</b>    | <b>96,976,458</b>    | <b>111,414,346</b>   | <b>115,011,403</b>   | <b>163,162,297</b>   | <b>231,359,734</b>   | <b>176,742,698</b>   | <b>193,669,763</b>   | <b>215,571,195</b>   | <b>164,292,691</b>   |
| Interest Income                                | 376,774              | 3,373,863            | 9,236,529            | 11,386,989           | 18,103,874           | 22,232,991           | 38,200,820           | 44,336,994           | 31,342,319           | 28,108,779           |
| Interest Expense                               | (16,027,368)         | (18,326,367)         | (20,464,060)         | (23,602,575)         | (26,737,125)         | (28,429,380)         | (21,892,306)         | (24,377,772)         | (26,007,038)         | (26,478,523)         |
| Net Financial Income/ (Expenses)               | <b>(15,650,594)</b>  | <b>(14,952,504)</b>  | <b>(11,227,531)</b>  | <b>(12,215,586)</b>  | <b>(8,633,251)</b>   | <b>(6,196,389)</b>   | <b>16,308,514</b>    | <b>19,959,222</b>    | <b>5,335,281</b>     | <b>1,630,256</b>     |
| <b>Profit before Taxation</b>                  | <b>23,293,104</b>    | <b>82,023,954</b>    | <b>100,186,815</b>   | <b>102,795,817</b>   | <b>154,529,046</b>   | <b>225,163,345</b>   | <b>193,051,212</b>   | <b>213,628,985</b>   | <b>220,906,476</b>   | <b>165,922,947</b>   |
| Income Tax Expense                             | -                    | (371,632)            | (3,269,984)          | (7,693,412)          | (13,058,661)         | (33,126,698)         | (15,784,867)         | (5,483,047)          | (13,776,911)         | (10,012,206)         |
| <b>Profit for the Year</b>                     | <b>23,293,104</b>    | <b>81,652,322</b>    | <b>96,916,831</b>    | <b>95,102,405</b>    | <b>141,470,386</b>   | <b>192,036,647</b>   | <b>177,266,345</b>   | <b>208,145,938</b>   | <b>207,129,565</b>   | <b>155,910,741</b>   |
| <b>Other Comprehensive Income</b>              | -                    | -                    | -                    | -                    | -                    | -                    | 6,839,858            | 783,904              | (683,093)            | 8,098,729            |
| <b>Total Comprehensive Income for the Year</b> | <b>23,293,104</b>    | <b>81,652,322</b>    | <b>96,916,831</b>    | <b>95,102,405</b>    | <b>141,470,386</b>   | <b>192,036,647</b>   | <b>184,106,203</b>   | <b>208,929,842</b>   | <b>206,446,472</b>   | <b>164,009,470</b>   |



|  | 2006                | 2007                | 2008                | 2009                | 2010                 | 2011                 | 2012                 | 2013                 | 2014                 | 2015                 |
|--|---------------------|---------------------|---------------------|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>FINANCIAL POSITION DETAILS</b>                      |                     |                     |                     |                     |                      |                      |                      |                      |                      |                      |
| <b>Assets</b>  |                     |                     |                     |                     |                      |                      |                      |                      |                      |                      |
| Non Current Assets                                     | 524,408,813         | 563,810,934         | 596,585,296         | 624,315,272         | 692,832,173          | 857,362,895          | 991,947,684          | 1,143,266,952        | 1,246,419,814        | 1,330,599,213        |
| Current Assets   | 72,423,762          | 108,220,975         | 177,926,604         | 240,573,754         | 354,097,893          | 476,633,700          | 459,074,756          | 473,180,784          | 540,658,625          | 567,794,643          |
| <b>Total Assets</b>                                    | <b>596,832,575</b>  | <b>672,031,909</b>  | <b>774,511,900</b>  | <b>864,889,026</b>  | <b>1,046,930,066</b> | <b>1,333,996,595</b> | <b>1,451,022,440</b> | <b>1,616,447,736</b> | <b>1,787,078,439</b> | <b>1,898,393,856</b> |
| <b>Equity &amp; Liabilities</b>                        |                     |                     |                     |                     |                      |                      |                      |                      |                      |                      |
| <b>Capital &amp; Reserves</b>                          |                     |                     |                     |                     |                      |                      |                      |                      |                      |                      |
| Stated Capital   | 200,000,010         | 200,000,010         | 200,000,010         | 200,000,010         | 200,000,010          | 200,000,010          | 200,000,010          | 200,000,010          | 200,000,010          | 200,000,010          |
| Retained Profit  | 137,047,210         | 218,699,532         | 305,616,363         | 381,161,381         | 522,631,767          | 644,668,414          | 755,412,408          | 889,230,196          | 1,036,042,220        | 1,098,032,352        |
| Timber Reserves  |                     |                     |                     |                     |                      | 111,428,668          | 148,832,548          | 183,160,698          | 203,478,239          | 247,398,848          |
| Other Reserves   |                     |                     |                     |                     |                      |                      | 6,839,858            | 7,623,762            | 6,940,669            | 15,039,398           |
| <b>Total Equity</b>                                    | <b>337,047,220</b>  | <b>418,699,542</b>  | <b>505,616,373</b>  | <b>581,161,391</b>  | <b>722,631,777</b>   | <b>956,097,092</b>   | <b>1,111,084,824</b> | <b>1,280,014,666</b> | <b>1,446,461,138</b> | <b>1,560,470,608</b> |
| <b>Liability</b>                                       |                     |                     |                     |                     |                      |                      |                      |                      |                      |                      |
| Non Current Liabilities                                | 152,857,977         | 161,196,724         | 165,570,260         | 168,709,437         | 179,951,047          | 201,441,218          | 248,699,905          | 252,071,460          | 257,648,523          | 257,175,255          |
| Current Liabilities                                    | 106,927,378         | 92,135,643          | 103,325,267         | 115,018,198         | 144,347,242          | 176,458,285          | 91,237,711           | 84,361,610           | 82,968,778           | 80,747,993           |
| <b>Total Liabilities</b>                               | <b>259,785,355</b>  | <b>253,332,367</b>  | <b>268,895,527</b>  | <b>283,727,635</b>  | <b>324,298,289</b>   | <b>377,899,503</b>   | <b>339,937,616</b>   | <b>336,433,070</b>   | <b>340,617,301</b>   | <b>337,923,248</b>   |
| <b>Total Equity &amp; Liabilities</b>                  | <b>596,832,575</b>  | <b>672,031,909</b>  | <b>774,511,900</b>  | <b>864,889,026</b>  | <b>1,046,930,066</b> | <b>1,333,996,595</b> | <b>1,451,022,440</b> | <b>1,616,447,736</b> | <b>1,787,078,439</b> | <b>1,898,393,856</b> |
| <b>CASH FLOW DETAILS</b>                               |                     |                     |                     |                     |                      |                      |                      |                      |                      |                      |
| Cash and Cash Equivalents at the beginning of the year | 8,157,250           | 26,078,378          | 48,112,932          | 74,595,894          | 162,149,037          | 274,978,694          | 321,380,740          | 325,659,031          | 335,741,661          | 409,709,538          |
| Cash Flows From Operating Activities                   | 70,174,487          | 106,019,826         | 82,236,880          | 170,228,691         | 206,895,556          | 196,643,896          | 203,658,090          | 228,933,956          | 264,205,081          | 223,849,997          |
| <b>Cash Flows From Investing Activities</b>            |                     |                     |                     |                     |                      |                      |                      |                      |                      |                      |
| Cash From Investing Activities                         | 433,737             | 2,549,106           | 2,184,984           | 13,580,463          | 14,467,425           | 25,662,626           | 35,036,688           | 42,100,470           | 38,889,648           | 25,917,469           |
| Capital investments on PPE                             | (37,014,222)        | (55,705,246)        | (53,012,978)        | (52,461,092)        | (92,326,212)         | (81,628,173)         | (164,809,564)        | (186,700,542)        | (159,579,219)        | (135,174,637)        |
|  | <b>(36,580,485)</b> | <b>(53,156,140)</b> | <b>(50,827,994)</b> | <b>(38,880,629)</b> | <b>(77,858,787)</b>  | <b>(55,965,547)</b>  | <b>(129,772,876)</b> | <b>(144,600,072)</b> | <b>(120,689,571)</b> | <b>(109,257,168)</b> |
| <b>Cash Flows From Financing Activities</b>            |                     |                     |                     |                     |                      |                      |                      |                      |                      |                      |
| Cash From Financing Activities                         | 257,088             | 264,960             | 316,700             | 1,371,410           | 1,569,447            | 1,099,614            | 4,290,173            | 6,422,291            | 6,933,143            | 8,744,500            |
| Cash Used in Financing Activities                      | (15,929,962)        | (31,094,092)        | (5,242,624)         | (45,166,329)        | (17,776,559)         | (95,375,917)         | (73,897,096)         | (80,673,545)         | (76,480,776)         | (87,904,114)         |
|  | <b>(15,672,874)</b> | <b>(30,829,132)</b> | <b>(4,925,924)</b>  | <b>(43,794,919)</b> | <b>(16,207,112)</b>  | <b>(94,276,303)</b>  | <b>(69,606,923)</b>  | <b>(74,251,254)</b>  | <b>(69,547,633)</b>  | <b>(79,159,614)</b>  |
| Cash and Cash Equivalents at the end of the period     | <b>26,078,378</b>   | <b>48,112,932</b>   | <b>74,595,894</b>   | <b>162,149,037</b>  | <b>274,978,694</b>   | <b>321,380,740</b>   | <b>325,659,031</b>   | <b>335,741,661</b>   | <b>409,709,538</b>   | <b>445,142,753</b>   |
| GP Margin  | 26%                 | 42%                 | 40%                 | 39%                 | 45%                  | 50%                  | 40%                  | 43.52%               | 43.48%               | 35.66%               |
| Net Profit Margin                                      | 12%                 | 28%                 | 27%                 | 28%                 | 33%                  | 38%                  | 36%                  | 43.74%               | 35.91%               | 31.68%               |
| Net Asset per Share                                    | 16.85               | 20.93               | 25.28               | 29.06               | 36.13                | 47.80                | 55.55                | 64.00                | 72.32                | 78.02                |
| Current Asset Ratio                                    | 0.68                | 1.17                | 1.72                | 2.09                | 2.45                 | 2.70                 | 5.03                 | 5.61                 | 6.52                 | 6.91                 |
| ROCE   | 7%                  | 22%                 | 21%                 | 18%                 | 22%                  | 25%                  | 20%                  | 20.36%               | 17.82%               | 12.31%               |
| Earning per share (EPS)                                | 1.16                | 4.08                | 4.85                | 4.76                | 7.07                 | 9.60                 | 8.86                 | 10.41                | 10.36                | 7.80                 |



# *Annexes*

|                                  |                  |
|----------------------------------|------------------|
| Notice of Annual General Meeting | 106              |
| Form of Proxy                    | 107              |
| Corporate Information            | Inner Back Cover |

# Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Kurunegala Plantations Limited will be held at Kurunegala Plantations Limited, Colombo Office, No. 712/3, Baseline Road, Dematagoda, Colombo 09 on 21st December 2016 at 3.00 p.m. for the following purposes.

1. To receive and consider the Statement of Accounts for the year ended 31st December 2015 with the Report of the Directors and Auditors thereon.
2. To appoint Auditor General's Department as Auditors of the Company for the year 2016.
3. To declare a Final Dividend of Rs. 30 million payable from the profits for the year ending 31st December 2015
4. Any other business.

- A) In view of the Company releasing lands on behalf of and under the direction of the Government of Sri Lanka to the Coconut Cultivation Board, Board of Investment of Sri Lanka, District Land Reform Authority and various other parties, the Company's lease hold assets and the assets acquired by the Kurunegala Plantations Ltd was a loss to the Company.

The values of assets alienated since 18.06.1992 to 31.12.2003, which has been calculated based on the taking over values from Janatha Estate Development Board (JEDB) or the cost incurred by the Company, as applicable amounting to Rs. 37,297,387.96 has been adjusted in the books accounts, thereby reducing the value of the assets. The other corresponding entry has been shown as a deduction from Lease liability to Lessor (JEDB). Refer Note 23 to the Financial Statements, which is set out in the Page no. 79 & 80 of this Annual Report.

The value of assets alienated since 01.01.2004 to-date, needed adjustment in the Books of accounts. The Financial Statements for the year ended 31.12.2015 has been qualified by the Auditor General relating to this matter. In this regard, refer page no. 02, 2.2.1 (b) of the "Report of the Auditor General on the Financial Statements of the Kurunegala Plantations Limited for the year ended 31 December 2015" included in the page 84 to 97 of this Annual Report.

At the incorporation of Kurunegala Plantations Ltd, Rs. 200,000,010 share capital fully owned by the Secretary to the General Treasury of Sri Lanka (20,000,000 Ordinary shares of Rs. 10/- each + 01 Golden share of Rs.10/-) was raised against the assets handed over to the Kurunegala Plantations Ltd.

As the above said alienated assets are not in the possession of the Company now, approval is sought to reduce the value of assets so alienated from the Equity – Retained profit when the Financial Statements for the year ended 2016 is prepared.

BY ORDER OF THE BOARD OF

**KURUNEGALA PLANTATIONS LTD**



**CORPORATE ADVISORY SERVICES (PVT) LTD**  
SECRETARIES

Date: 24th November 2016

A Shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his/her behalf. A Proxy need not be a member of the Company. A Form of Proxy is enclosed for this purpose.

# Form of Proxy

I/We the undersigned .....  
of ..... being a member/  
members of Kurunegala Plantations Limited hereby appoint.

|                           |                    |                                   |                 |
|---------------------------|--------------------|-----------------------------------|-----------------|
| Mr. A. M. Piyasoma Upali  | or failing him,    | Mr. H. A. P. Thusitha Kumara Dias | or failing him, |
| Mr. D. M. Bandaranayake   | or failing him,    | Mr. H. A. N. Saman Kumara         | or failing him, |
| Mr. W. M. D. B. Abeyratne | or failing him,    | Mr. R. Sydney Kulathilaka         | or failing him, |
| Mr. Indunil Amarasinghe   | or failing him, or |                                   |                 |

.....  
as my/our proxy to represent me/us and to vote for me/us and on my /our behalf at the Annual General Meeting of the Company to be held at Kurunegala Plantations Limited, Colombo Office, No. 712/3, Baseline Road, Dematagoda, Colombo 09 on 21st December 2016 at 3.00 p.m. and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

Please indicate your preference by placing a 'X' against the Resolution No.

|   | <i>For</i>               | <i>Against</i>           |
|---|--------------------------|--------------------------|
| 1. To receive and consider the Statement of Accounts for the year ended 31st December 2015 with the Report of the Directors and Auditors thereon. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To appoint Auditor General's Department as Auditors of the Company for the year 2016.  | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To declare a Final Dividend of Rs. 30 million payable from the profits for the year ending 31st December 2015                                  | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Any other business.  |                          |                          |

A) In view of the Company releasing lands on behalf of and under the direction of the Government of Sri Lanka to the Coconut Cultivation Board, Board of Investment of Sri Lanka, District Land Reform Authority and various other parties, the Company's lease hold assets and the assets acquired by the Kurunegala Plantations Ltd was a loss to the Company.

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As the above said alienated assets are not in the possession of the Company now, approval is sought to reduce the value of assets so alienated from the Equity – Retained profit when the Financial Statements for the year ended 2016 is prepared.

|                          |                          |
|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> |
|--------------------------|--------------------------|

Signed this ..... day of ..... 2016

.....

Signature

Shareholders NIC/ PP/ Co. Reg.No.



# Form of Proxy *Contd.*

## INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the form of proxy by signing in the space provided and please fills in the date of signature.
2. If the proxy is signed by an attorney the relative power of attorney should also accompany the completed form of proxy if it has not already been registered with the Company.
3. The completed form of proxy should be deposited at the No. 47, Alexandra Place, Colombo 7 not less than 48 hours before the time appointed for the holding of the meeting.

# Corporate Information

## NAME OF THE COMPANY

Kurunegala Plantations Limited

## REGISTERED OFFICE

No. 80, Dambulla Road, Kurunegala.

Tel: 037 2223133

Fax: 037 2223191

Email: kurunegalapl@sltnet.lk

## DATE OF INCORPORATION

18th June 1992

## COMPANY REGISTRATION NO.

PB 1319

## LEGAL STATUS

Fully Government Owned Public Company with Limited Liability. Kurunegala Plantations Limited is a Limited Liability Company incorporated under the Companies Act No. 17 of 1982 in terms of the provisions of the Conversion of Corporations and Government Owned Business Undertakings into Public Companies Act No. 23 of 1987 and re-registered under the Companies Act No. 07 of 2007.

## BOARD OF DIRECTORS

Mr. A. M. Piyasoma Upali - Chairman  
Mr. H. A. P. Thusitha Kumara Dias - Executive Director  
Mr. D. M. Bandaranayake - Working Director  
Mr. H. A. N. Saman Kumara - Treasury Representative  
Mr. W. M. D. B. Abeyratne  
Mr. R. Sydney Kulathilaka  
Mr. Indunil Amarasinghe

## COMPANY'S AUDITORS

Auditor General's Department

306/72, Polduwa Road,

Battaramulla.

Tel: 0112 887028-34

Fax: 0112 887223

E-mail: oaggov@sltnet.lk

Web site: www.auditorgeneral.gov.lk

## BANKERS

Bank of Ceylon

Peoples' Bank

National Savings Bank

## SECRETARIES

Corporate Advisory Services (Pvt) Ltd

No. 47, Alexandra Place,

Colombo 07.

Tel: 0112 695782

Fax: 0112 695410

**Kurunegala Plantations Limited**

No. 80, Dambulla Road, Kurunegala, Sri Lanka.

Tel: 037 2223133, 037 2223191 | Fax: 037 2229618 | Email: [kurunegalplt@sltnet.lk](mailto:kurunegalplt@sltnet.lk)