Hapugastenne Plantations PLC

Annual Report 2020

Finlays

Since 1750

FINLAYS CORPORATE PHILOSOPHY

Vision

To grow Finlays profitably and sustainably by serving as the industry's trusted leader in the supply of tea (in all its wonderful varieties, formats and applications), coffee and botanical extracts to the world's beverage brand owners.

Mission

To Connect Humanity through Natural Beverages.

Combining tradition and innovation to create a healthier, happier and better world by bringing the best from bush to cup.

Values

Trusted

Innovative

Sustainable

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FINANCIAL CALENDAR

	Date of release	
Interim financial reports	**2020**	**2019**
First quarter ended 31st March (Unaudited)	31.07.2020	15.05.2019
Second quarter ended 30th June (Unaudited)	05.08.2020	15.08.2019
Third quarter ended 30th September (Unaudited)	11.11.2020	15.11.2019
Fourth quarter ended 31st December (Unaudited)	25.02.2021	27.02.2020

Meetings

24th Annual General Meeting	27.04.2017
25th Annual General Meeting	27.04.2018
26th Annual General Meeting	19.05.2019
27th Annual General Meeting	30.09.2020
28th Annual General Meeting	30.06.2021

FINANCIAL HIGHLIGHTS

Year ended 31st December

		Group		Variance
		2020	2019	%
Performance - year ended 31st December (in LKR '000)				
Revenue		3,235,690	3,039,796	6.44
Profit/(loss) before interest and tax		215,600	(272,897)	179.00
Loss after tax		(127,870)	(642,098)	80.09
Total comprehensive expense		(55,678)	(626,051)	91.11
Financial position - as at 31st December (in LKR '000)				
Non - current assets		4,320,463	4,226,489	2.22
Current assets		644,344	530,019	21.57
Total assets		4,964,807	4,756,508	4.38
Current liabilities		2,423,453	2,317,166	4.59
Shareholders' fund		571,886	619,307	(7.66)
Stated capital		550,000	550,000	(0.00)
Capital employed		4,254,719	4,146,270	2.62
Key financial indicators				
Loss per share	(LKR)	(2.58)	(13.98)	81.53
Net assets per share	(LKR)	12.35	13.37	(7.66)
Market price of a share	(LKR)	18.30	15.50	18.06
Market capitalisation	(LKR '000)	847,583	717,898	18.06
ROCE	(%)	5.07	(6.58)	176.99
Current ratio	(times)	0.27	0.23	16.24

CHAIRMAN'S MESSAGE

Dear Shareholder,

On behalf of the Board of Directors, it is my pleasure to present the Annual Report and Audited Financial Statements of Hapugastenne Plantations PLC for the financial year ended 31st December 2020.

As we all know, 2020 was a year like no other. The COVID-19 pandemic had an impact on almost every aspect of our lives, on society, on the economy and also on your Company. Our employees' health and safety are always paramount to us and at the onset of the pandemic we took swift measures to ensure that we adhered to the Health and Safety guidelines issued by the regulators and other authorities as we continued our operations throughout the year under review.

COVID-19 changed many aspects of the way we work. The highlight in our industry was the change in the way we had sold tea for over a century, with the implementation of an online system at the Colombo Tea Auctions from April 2020. The transition to an electronic auction platform and the declaration of the plantation sector as an essential service ensured continuity of supply and demand for Ceylon teas and helped the industry navigate through the disruptions caused by the nationwide lockdown.

I am glad to say that in a volatile and unprecedented environment, our employees stepped up to the challenges encountered. Financially, we achieved healthy results in a challenging year, which is proof of our resilience. In a year when national tea production declined by 7.2% compared to the previous year, our production declined by only 4.7%. In 2020, we succeeded in selling a total of 4.3 million kilograms of tea. Our revenue amounted to LKR 3,236 million and with the numerous initiatives launched, the Company turned the corner and delivered improved profitability and positive cash flows. In 2020, we delivered a positive EBIT of LKR 216 million after having incurred losses for two years. The loss after tax reduced to LKR 128 million from a loss of LKR 642 million a year earlier. The total asset base improved by 4.37%, whilst market capitalisation of your Company too saw an increase of 18% over the year.

Sustainability is a high priority at your Company, and we remain committed to our broader sustainability agenda. We continue to invest in our people and the community base within our estates to uplift their living conditions and quality of life.

The year ahead

The COVID-19 pandemic is unlikely to end any time soon and it is increasingly clear that we might have to cope with the related challenges for some time to come. The management team continues to steer the business through the uncertainties resulting from the pandemic. Contingency plans for dealing with this crisis are in place with the priorities being keeping our people safe whilst ensuring business continuity.

The labour cost and productivity issues remain more difficult to address. The wage cost is the single largest component of overall cost of production. The shift to a fixed daily wage from a productivity-based model will have a considerable impact across the entire industry, including your Company. Needless to say, if these matters are not addressed in a mutually beneficial manner, and with the volatility in market dynamics, it could lead to drastic consequences.

The pandemic, the economy, the labour related issues and the climate crisis will continue to test all businesses in the industry, including ours. Nevertheless, we are committed to building on the momentum that has been established as we face another challenging year.

In the 127 years of Finlays operations in Sri Lanka, the country and the plantation industry have faced a multitude of threats and challenges, but time and again we have unfailingly demonstrated our ability to adapt and flourish. Knowing this gives me confidence that your Company, guided by the fundamentals and shared values that have helped us overcome previous crises, will emerge stronger and more resilient once again.

Change in Directorate

Ms. Coralie Pietersz, having reached retirement age, resigned from the Board in April 2020 after serving as a Board Member for nearly four years. Mr. Naresh Ratwatte, having served as a Board Member for 22 years of which 14 were as Chairman, retired in December 2020. On behalf of the Board, I would like to thank Ms. Pietersz and Mr. Ratwatte for their outstanding and valued contribution to the Company and wish them success in their future endeavours.

During the year, we welcomed Mr. Sinthaka Ruwan and Mr. Tissa Gunatilleke to the Board. Their extensive experience and expertise, particularly in the plantation industry, will further strengthen the Board and I look forward to receiving their valuable insights and counsel.

Acknowledgements

I would like to thank past and present Directors for their valued guidance and support and our Management Team for their leadership. Most importantly, I take this opportunity to thank our employees for their outstanding commitment and hard work under such challenging conditions. I sincerely thank buyers of our teas, our brokers, suppliers and service providers, bankers and the Government for their collaborative support and cooperation. I also thank the communities in which we operate for their support. And last but not least, I thank you, our shareholders, for your continued trust, confidence and support.

Gihan S. Jayasinghe

Colombo

11th May, 2021

OPERATIONS REVIEW

The Company concluded 2020 under the 'new normal' conditions that were the result of the COVID-19 pandemic. The year under review was a unique and extremely challenging one, affecting human life and almost all industries, not only in our country but globally too. The two waves of COVID-19 in 2020 brought economic activity in Sri Lanka to a near halt for most of the year.

The Operations Review focuses on the business performance in a year during which we had to face many challenges and obstacles in addition to complying with the 'new normal' conditions arising from the COVID-19 pandemic.

Despite these challenges faced by the Company, the plantations agribusiness and the entire country as a whole, we are confident that the trading results achieved during the reporting year will help us in navigating towards a better future.

Operating landscape

The plantations industry was able to operate uninterrupted during the initial surge of the COVID-19 pandemic and continued to perform during the second wave as well in 2020, whilst several other businesses were either muted or closed their operations.

The continued operations of the tea small growers in line with the directives and assistance of the Government, industry stakeholders, etc., enabled Hapugastenne Plantations PLC to produce 1,476,508 kg of made tea from the green leaf supplied by the small growers. It was a relief to the small growers which helped sustain their regular income from the sale of green leaf to our operating factories during this unsettled period.

Crop performance during the year was hindered in many ways as direct ramifications of COVID. Inorganic fertiliser and agrochemicals were in short supply due to restricted logistics and imports. Occasional delays were observed in fertiliser and agrochemical application, which affected the growing conditions.

After the lifting of the ban on Glyphosate, controlled application of chemical weedicides was carried out, curtailing the labour intensive as well as comparatively less productive manual weeding.

The unreliable rainfall pattern and reduced availability of chemical weedicides and inorganic fertiliser for a period due to logistics reasons arising from the pandemic situation and lockdown restrictions due to formation of high-risk clusters had an adverse impact on the business performance.

Despite the challenges, of which many were beyond our control, our estates were able to maintain a favourable vegetative ground cover.

It was a historic achievement that the outcry method of selling tea at the Colombo Auctions, which had prevailed from the inception of the tea auctions in Sri Lanka, was transformed to a digital online platform which will continue into the future as well.

Performance overview

During the reporting year, whilst overcoming many obstacles, Hapugastenne Plantations PLC produced 4,723,339 kg of black tea which was 243,884 kg less than the previous year.

During 2020, 127 invoices of our garden marks secured top prices at the Colombo Tea Auctions indicating our concerted efforts at making true-to-type teas. This had a positive impact on our overall sales averages enabling us to make a remunerative payment to the smallholders and successfully compete with privately owned tea factories.

The Net Sale Average per kilogram of tea obtained by the Company in 2020 was LKR 588.98 which was LKR 81.74 higher than the NSA achieved in 2019.

During the 4th quarter of 2019 there was an appreciation in tea prices which otherwise had been in a slump that carried over from the past. It was observed that there was some direct bearing on demand and supply with the onset of the pandemic situation when tea prices started on an upward trend. Further, the continued unfavourable growing conditions as a result of the dry weather which prevailed during 2019, also contributed to a loss of production and hence short supply in the market.

The overall cost control and cost management by the Company resulted in a Cost of Production (COP) of LKR 574.91 per kg of made tea.

The quantity of rubber produced in 2020 was 1,397,409 kg which represented an increase of 145,267 kg year on year.

The rubber market conditions continued to be stagnant and subdued as experienced for the last several years due to many reasons beyond our control, except for the increase of the NSA by LKR 55.25 year on year. Producing rubber by the Company was at a COP of LKR 251.14 per kg, resulting in a positive margin of LKR 40.11 compared with the NSA of LKR 291.25.

Cinnamon contributed a revenue of LKR 44.9 million. The combined revenue expenditure and capital expenditure on maintaining cinnamon and timber in 2020 amounted to LKR 55.7 million.

The short supply of inorganic fertiliser in the marketplace due to global logistics reasons arising from COVID-19 had a knock-on effect on the timing and availability of fertiliser and consequently on crop yields.

The overall revenue of the Company in 2020 from all the

OPERATIONS REVIEW (contd.)

produce and other income stood at LKR 3,549 million. After our strenuous efforts at managing the components of the cost-revenue equation, the year ended with a total comprehensive income of LKR 55 million.

Treasury management and investments

Finance costs during the year under review amounted to LKR 219 million. Though the management of cash was a formidable challenge the Company dischsrged its statutory liabilities, repayment of loans and interest whilst also investing substantially in bought leaf into factories.

Further, the Company has responsibly discharged its stewardship function by investing LKR 86 million on field development and LKR 21 million on property, plant and equipment.

Mechanisation and efficiencies

Low land-labour ratios due to low worker turnout and high attrition meant that most of the estates were operating at below the required cadre and therefore not able to fully harvest the available crop. This provided the impetus for the Company to take steps towards a mechanisation programme on a wider scale. The Company invested heavily in shears, leaf collection bags, pruning machines, brush cutters, power sprayers, knapsack sprayers and battery-operated mini harvesters which will undoubtedly improve productivity and resolve the constraints arising from the dearth of labour. Furthermore, investment was also made in colour sorters and factory machinery.

Sustainable agri-business

The Company recognises the link between a satisfied workforce and a successful and sustainable business. Our extensive health and safety programme titled 'Zero Harm and Always Safe', employee satisfaction initiatives, learning and development and performance appraisal schemes were a continuous focus throughout the year as in the past and instrumental in withstanding the impact of the COVID-19 global pandemic. Our Zero Harm and Always Safe health and safety standards renders it easy to abide by the guidelines set by the Ministry of Health and the National Operations Centre for Prevention of COVID-19 Outbreak (NOCPCO).

Plantation crops are dependent on the surrounding forests which help to mitigate climate change by controlling the micro-climatic environment, providing water and biodiversity for sustaining agriculture. We undertake to protect and nurture natural forests in our estates by monitoring, control and internal standards in line with the Government regulations.

We are a strong believer in the link between quality certifications and practicing key performance activities at ground level. We have empowerment programmes for people and communities who live in and around our estates and spent LKR 7.5 million on several initiatives during the year.

A detailed account of our sustainability initiatives appears elsewhere in this report.

At Hapugastenne Plantations PLC we are also committed to looking after our communities and as part of a greater Corporate Social Responsibility programme together with Finlays Colombo Limited, in 2019 we commenced refurbishing and repainting the crèches (child development centres) on our tea estates, which is an ongoing project and continued in 2020.

Global vision

The global vision of Finlays is to grow your Company which is part of the wider Finlays network, in a sustainable and profitable manner by serving as the industry's trusted leader in the supply of tea in all its wonderful varieties, formats and applications to the world's beverage brand owners.

Industry outlook

The Company together with the tea industry continue to face the COVID-19 pandemic with noteworthy resilience and resourcefulness. The estates were able to operate their daily routines even though a lockdown was enforced in many districts. Our employees were updated and complied with the relevant health guidelines. The online Colombo Tea Auction on a digital platform was created in 2020 at short notice, which was a paradigm shift from the way the auction had been conducted since its inception 138 years ago.

Notwithstanding the challenges we face as a Company and the industry such as the vagaries of the weather, unforeseen circumstances in market dynamics, etc., we, as a Company shall continue to live up to our promise to be responsive and to offer products of the highest quality, thereby creating value for our shareholders and shaping a sustainable future for our business.

Change of Directorate and appreciations

Having served the Company since 1992, Mr. N. K. H. Ratwatte retired from the Board of Directors on December 31, 2020 on completing his term of office. Mr. Ratwatte served in the capacity of Non-Independent Non-Executive Director/Chairman since 2015 upon completing his executive service as the Chairman/ Managing Director of the Company. We thank Mr. Ratwatte for his invaluable contribution over the years and being instrumental in bringing the Company to its present standing and status. We wish him well in all his future endeavours.

OPERATIONS REVIEW (contd.)

Ms. M. C. Pietersz resigned from the Board of Directors on April 30, 2020 consequent to her retirement from Finlays. We thank Ms. Pietersz for her contribution to the Company and wish her well in all her future endeavours.

Mr. N. H. G. S. Jayasinghe was appointed as Chairman/ Managing Director with effect from January 1, 2021 as successor to Mr. Ratwatte.

Mr. S. T. Gunatilleke was appointed to the Board of Directors in the capacity of Non-Independent Non-Executive Director with effect from January 1, 2021. We welcome Mr. Gunatilleke to the Board.

Mr. B. V. S. Ruwan was appointed to the Board of Directors in the capacity of Finance Director with effect from November 10, 2020 and we welcome him to the Board.

SUSTAINABILITY REVIEW

Sustainability strategy

Finlays Group strategy is to bring the best from "Bush to Cup" whilst creating a sustainable future. The progress towards achieving the set targets and challenges was considered in 2020 with a view to understanding the reality of achieving the targets set in 2017. The year 2020 was indeed challenging with its travel and gathering restrictions which made communication regarding achieving our sustainable goals by 2022 even more challenging.

During the year under review, the Company engaged in the six strategic sustainability objectives described below.

1. Integrated landscape

The Company relies on the people, communities, and natural resources in the wider perspective of environmental externalities as we work towards an integrated landscape.

The plan is to restore 250 Ha of jungle corridor through Depedene Estate, which connects two vital rainforests of Sri Lanka. As a result, connectivity between the UNESCO declared "Sinharaja World Natural Heritage Forest" and "Walankanda Reserved Forest" through Natural Forest Restoration (NFR) and Assisted Forest Restoration (AFR) would be established. The project has been designed as a multi-stakeholder project with public, private and people participation, to be implemented over a period of 15 years which will be phased out as three 5-year management plans. An awareness programme for employees requesting them to report any illegal activities that they observe has commenced. To this end posters in Sinhala and Tamil languages were developed and displayed inside the estates.

Various flora and fauna species are found inside the estate forests of Depedene where we will nurture the ecological jungle corridor. The ecological corridor will provide the platform to conserve 99 species of protected plants which are high risk rainforest species. The land provides the best habitat for dragonflies and damselflies.

The proposed ecological corridor will enhance the biological richness as we improve the canopy cover with various plants native to the forest reserve and the estate. At present, epiphytes such as orchids and lichens are common. There are many herbaceous water loving plants such as Utricularia moniriformis, striatula, and Impatians aculis found in the springs while algae, bryophytes and ferns cover the adjacent water bodies and terrestrial borders across the Depedene estate.

Planting and maintaining vegetative hedges along the waterways, springs and streams, conservation of watersheds and maintenance of buffer zones as protective measures to increase our inter-estate landscape is progressing well. Such conservation practices have enhanced both the cleanliness of water and its availability during the dry spells and are expected to mitigate the risk of landslides.

The objective is to plant native trees to make mini forests in each estate in the years up to 2022. A three-year plan to plant native trees to make a mini forest was explored in each estate, to contribute towards the goal of 100 Ha of native trees growing in Finlays Tea Estates. All the estates were advised to revise the plans and maps of areas that could be allocated to continue the planting of native trees. Field Officers of each estate were guided through an exercise to identify the location of the respective planting fields for native trees in their estates. A list of native plants was identified with the advice of the Department of Forestry. Mini forests with varieties of native trees were being established in the land areas where commercial crops are not envisioned. In 2020, Hapugastenne Plantations PLC has regenerated 23 Ha inside their estates. 5,711 native trees were planted during the reporting year. Plants were collected from various nurseries. Further to the above, native plant varieties such as Mee, Kumbuk, Bata Domba, Keena, Kudu Dauala, Naa, Damba, Atamba, Karanda, Kithul Domba and Kahakona plants were collected

Rainwater harvesting

Harvesting rainwater is a well-known ancient agricultural practice in Sri Lanka. Hapugastenne Plantations PLC has plans and targets to increase rainwater harvesting facilities in various ways. One such plan was executed at Adawatte Estate where a mini reservoir of 14,400 cubic feet was constructed at Park division to collect rainwater. This water will be used mostly for irrigation of plant nurseries and community general purposes.

2. Land stewardship

As stewards of the land, the plantation management team of Hapugastenne Plantations PLC always demonstrates their passion for making the best use of good agricultural practices, which encompasses optimum usage of agrochemicals as a key element of sustainability. Efforts were being made to reduce the usage of agrochemicals whilst balancing this with the economic impact due to the increase in manual weeding. The increase of infestation during the period of the Glyphosate ban led us to shift the base year for comparison of agrochemical usage as 2019 and not 2017, to make a realistic target.

All the estates reviewed the set targets for reducing agrochemicals while promoting the application of non-chemical agricultural practices. Each estate developed a unique integrated pest management plan with a view to reducing the usage by 15% by 2022 against the volume used in 2019.

The improvement of soil carbon content by means of applying compost and other agricultural practices continued in all estates. Some estates piloted making compost with the guidance of the Tea Research Institute (TRI).

SUSTAINABILITY REVIEW (Contd.)

3. Our people

Our employees are at the heart of our business. Hapugastenne Plantations PLC is committed to being an employer that demonstrates opportunity, fairness and equality, thus providing an inspiring, fulfilling and adaptable workplace.

Hapugastenne Plantations PLC continued establishing robust health and safety standards which have kept all our employees safe and healthy. We continue to focus on Health and Safety and a Zero Harm Culture, where we believe that all accidents are preventable.

We have also demonstrated that Safety is our number one priority and will never be compromised at any cost and which has always been driven and supported by top management.

The Always Safe Leadership Course had been completed in all 4 regions, for Factory and Field Officers, Assistant Superintendents and Welfare Officers.

All teams across the business have demonstrated their resilience and great team ethos in many ways in managing the COVID-19 pandemic and looking after their family, colleagues, and community. We have also established strict health and safety guidelines across all our estates, to control the risk of transmission of the virus in our workplace through maintaining social distancing, wearing masks, hand washing, cleaning, and disinfecting.

4. Low-impact operations

At Hapugastenne Plantations PLC we recognise that effective and efficient management of resources is not only good for the environment but also is a good business practice.

Our efforts at reducing the environment impact as per our operational functions in terms of minimising usage of energy and switching to renewable energy or alternative energy sources continued in 2020 as well. Our Sustainable Fuelwood Management Plan continued planting and harvesting while providing the fuelwood requirement of our processing centers to a greater extent.

Our robust monitoring system of data collection and reporting as per the Global Reporting Initiative is ongoing using the Credit 360 sustainability software. Annual data verification and reporting continued in 2020 as well.

Our efforts at reducing the generation of waste continued with various trials conducted for usage of briquettes and some reviews of making use of dryer ash which is the main component of waste.

The possibility of increasing the use of solar power for the Passara and Hali-Ela regions was identified and presently is in the planning stage.

As a base line certification Hapugastenne Plantations PLC has the ISO 14062 Carbon footprint verification standard in place which is under review for upgrading. Several discussions were held with external project partners to capture projects that contribute to low-impact operations.

5. Empowered communities

We recognise and rely on community collaboration and commit to empowering local communities by acting as a catalyst for positive change. We aim to be responsible members within the communities in which we operate and, wherever possible, to generate a positive impact on society at large.

Renaming of villages is a project driven to enhance village empowerment, with a view of setting a framework for dignity of living for the residents of estates. The estate community is empowered with several ownership roles such as protecting their potable water supply and managing household waste.

Bibile Estate completed a thirteen-village renaming programme in 2020. The programme has contributed to the Bibile Estate community with a positive impact of increasing the social acceptance in a rural society and equaling the living status recognition with that of a village community.

Repainting child development centers

Finlays Colombo Ltd focused their key CSR project for 2020 to commemorate Finlays 125 years in Sri Lanka towards the betterment of the communities we operate in, by repainting child development centers (crèches).

In addition to the direct benefit to the estates and the children by giving these centers a facelift, we also aimed to drive for funding from the Plantation Human Development Trust (PHDT) for renovation and reconstruction of child development centers that had major structural issues.

The project was successfully completed with the participation of the estate teams and parents of the children who attend these child development centers, while all paints and other materials were sponsored by Finlays Colombo Ltd.

Through this project we have repainted 63 child development centers of a total of 105 functioning crèches on our tea estates. During the project we identified 21 child development centers that had structural issues and required major repair. Through conveying these observations and lobbying with the PHDT, we managed to secure funding for 14 child development centers which includes 4 new child development centers.

Growing vegetables for enhanced nutrition levels of the estate community

The objective of this project was to initiate healthy vegetable

SUSTAINABILITY REVIEW (Contd.)

cultivation and provide necessary nutrition at a subsidised price for the estate community. In times of COVID-19 and travel restrictions, this is a great project to boost self-sufficiency and provide necessary nutrition. This is also seen as providing a source of income and skills development to youth in the community who have lost their livelihoods due to the pandemic.

The project is driven with the participation of the estate management and the Estate Worker Housing Cooperative Society (EWHCS). We provide land free of charge and initial funding to set up the vegetable plots. Training programmes on good agricultural practices were arranged through the area agriculture extension officers. A cross-functional project team from Finlays was regularly monitoring the progress. The produce will be sold to the estate community at a subsidised price. As of now four estates have commenced planting crops such as manioc, chillies, okra, maize, sweet potato and banana.

6. Sustainable supply

Hapugastenne Plantations PLC endorses the commitment towards the beverage that they supply is an element of health and wellbeing by processing them under stringent quality and food safety practices. Our products have established a sound traceability system whilst collaborating with our suppliers regarding our best practices in various compliance regimes.

Finlays is committed to creating a sustainable future. It's the only future we have.

Global Reporting Initiatives (GRI)

The measurement and performance of GRI during the last three years are shown in the Table.

Global Reporting Index (GRI)	Unit	2018	2019	2020	% change	Comments
Carbon						
Total carbon	Tonnes CO2e	3,443	2,884	2,886	0.1	The transporting of tea was higher compared with the previous year. Therefore, the total activities that use energy and emit carbon was slightly higher.
Total Scope 1 Emissions	Tonnes CO2e	786	660	651	-1.3	The transportation of green leaf from field to processing centers was less. Therefore, the use of fuel is lower than the previous year.
Total Scope 2 Emissions	Tonnes CO2e	2,416	2,070	2,076	0.3	The emission due to usage of electricity is slightly higher. This is because the main electricity supply consisted of a higher percentage of non-renewable energy; therefore the emission due to usage of electricity is comparatively higher.
Total Scope 3 Emissions	Tonnes CO2e	241	154	159	3.2	The number of trips made to the warehouse has increased due to increased sales of tea. Therefore, emission of carbon due to transportation of production has increased.
Energy						
Total Energy	GJ	129,058	124,837	113,097	-10.4	The processing of tea was less compared with the previous year. Therefore, the use of total energy was lower than the previous year.
Direct	kWh	31,170,378	30,209,293	27,486,103	-9.9	The processing of tea was less compared to the previous year; hence the requirement of direct energy (firewood and fuel) was lower than the previous year.

SUSTAINABILITY REVIEW (Contd.)

Global Reporting Index (GRI)	Unit	2018	2019	2020	% change	Comments
Indirect	kWh	4,678,975	4,467,758	3,929,762	-13.7	The overall usage of electricity has decreased due to less energy usage for manufacturing of tea.
Direct non-renewable	kWh	3,154,740	2,976,136	2,588,459	-15.0	The internal transportation of tea was less compared to the previous year, hence the requirement of direct non-renewable energy (fuel) was lower than the previous year.
Direct renewable	kWh	28,015,638	27,233,156	24,897,644	-9.4	The processing of tea was less compared to the previous year; hence the requirement of direct renewable energy (firewood) was lower than the previous year.
Indirect non-renewable	kWh	2,703,504	1,742,426	3,929,762	55.7	Although the manufacturing of tea was less compared to the previous year, the main electricity supply consisted of a higher percentage of non-renewable energy which contributed to a higher value of total non-renewable energy usage.
Indirect renewable	kWh	1,975,471	2,725,333	2,142,315	-27.2	The main electricity supply usage has a lower percentage of hydro power and other renewables; hence the portion of renewable energy consumption was less compared with the previous year.
Total renewable	GJ	107,968	107,851	96,066	-12.3	Reduced overall firewood usage due to less tea manufacturing and the less renewable energy sources used for grid electricity supply made the total renewable energy usage low.
Waste						
Total waste	kg	175,524	133,071	154,202	13.7	The main material contributing to waste is dryer ash. The amount of firewood usage is high and therefore the generation of dryer ash is high too.
Total landfill	kg	163,000	135,045	146,494	7.8	The main material contributing to waste is dryer ash. The amount of firewood usage is high and therefore the generation of dryer ash is high too.
Total waste recovered	kg	2,490	2,488	2,152	-15.6	A certain amount of waste generated was used as compost for nutrient recovery which is considered as a good agricultural practice. However, in 2020 usage for nutrient recovery was low.

SUSTAINABILITY REVIEW (Contd.)

Global Reporting Index (GRI)	Unit	2018	2019	2020	% change	Comments
Total waste recycled	kg	6,780	4,278	4,891	12.5	The disposal of chemical cans and metal parts and other such recyclable materials was more compared with the previous year due to high usage of agrochemicals in 2020 after the lifing of the Glyphosate ban, which has increased the recycled waste.
Total waste reused	kg	3,315	1,024	665	-54.0	Reduced due to less generation of waste material that could be reused such as paper sacks, fertiliser bags, etc.
Water						
Total water use	m3	31,397	21,248	23,637	10.1	Water usage for handling of rubber latex activities as well as the water use for irrigation activities has increased.
Blue Water	m3	23,921	18,700	20,851	10.3	Water usage for handling of rubber latex activities as well as the water use for irrigation activiites has increased.
Green Water	m3	3,816	2,548	2,786	8.5	More harvesting of rain water due to more rainfall where there are harvesting facilities and more demand to use rain water than the previous year .

FINANCIAL REVIEW

Earnings before interest and tax turned positive in 2020 after two consecutive years of losses. Loss after tax was LKR 128 million in the year under review, a significant reduction from the loss after tax of LKR 642 million in 2019. After two consecutive years, the revenue grew by 6.4% to LKR 3,236 million. The Company saw good progress in 2020 with key financial metrics improving significantly.

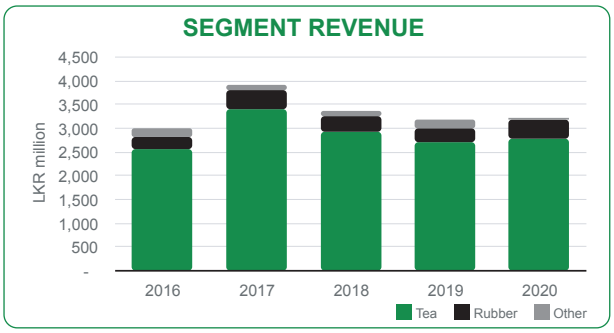
Summary of key financial performance indicators:

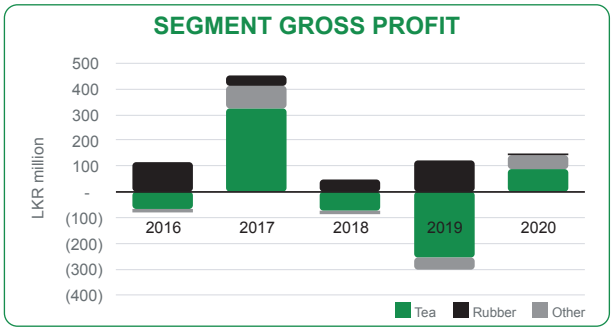
			2016	2017	2018	2019	2020
Revenue	Revenue	(LKR million)	3,010	3,912	3,352	3,040	3,236
	Revenue growth	(%)	(2.8)	29.9	(14.3)	(9.3)	6.4
Profitability	Net profit after tax	(LKR million)	(230)	125	(349)	(642)	(128)
	EBIT margin	(%)	(4.7)	9.2	(6.1)	(9.0)	6.7
	Net profit margin	(%)	(7.6)	3.2	(10.4)	(21.1)	(4.0)
	Return on equity	(%)	(13.2)	7.2	(21.0)	(59.4)	(19.8)
Liquidity	Current ratio	(times)	0.4	0.4	0.3	0.2	0.3
	Cash flow from operations	(LKR million)	(6)	311	(53)	(254)	182
	Debt/Capital ratio	(%)	41.0	39.3	49.6	73.6	76.8
	Interest cover	(times)	(1.2)	2.8	(1.0)	(1.5)	1.0
Efficiency	Assets turnover	(times)	0.7	0.8	0.7	0.6	0.7
Investments	Capital expenditure	(LKR million)	(128)	(196)	(158)	(150)	(107)
	Capital expenditure	(as a % of total assets)	2.8	4.1	3.3	3.2	2.2

Segmental review:

Tea: Revenue attributable to tea amounted to LKR 2,786 million which was an increase of 8.5% compared to the previous year on account of the higher average selling price. The sale average increased by 16.7% from LKR 498.24 per kilogram in 2019 to LKR 581.46 per kilogram in 2020. The total made tea production for the year was 4,723 MT which was a decline of 4.9% from 4,967 MT in 2019. The decline in production was mainly seen in the low grown segment as a result of the adverse weather conditions, particularly at the start of the year. The decline in production volume pushed the cost of production higher where it increased by 3.0% from LKR 600.02 per kilogram in 2019 to LKR 618.17 per kilogram in 2020. The gross profit from the segment improved to LKR 93 million from a gross loss of LKR 388 million in the year before. The tea segment accounted for 86% of the Company's revenue and 58% of the gross profit.

Rubber: Revenue from rubber amounted to LKR 402 million, which was an increase of 35% compared to the previous year. The improvements were seen in both selling price and sale volume. The average selling price for the period under review was LKR 291.43 per kilogram which was an increase of 23.3% from LKR 236.00 per kilogram in 2019. The sale volume improved to 1,380 MT in 2020, up by 9.4% from the previous year. On account of better volumes, the cost of production saw a decline of 7.6%





FINANCIAL REVIEW (Contd.)

rom LKR 301.40 per kilogram to LKR 277.61 per kilogram. Accordingly, the gross profit from the segment was LKR 58 million.

EBIT: The Company's EBIT improved from a negative LKR 273 million to a positive LKR 216 million. In addition to the improvement in gross profit to LKR 161 million from a gross loss of LKR 293 million a year earlier, the increase in other income and gain from fair value of biological assets contributed to the increase in EBIT in 2020. The EBIT margin improved from negative 9% in 2019 to positive 6.7% in 2020.

Net finance cost: Net Finance cost increased by 24% compared to the previous year.

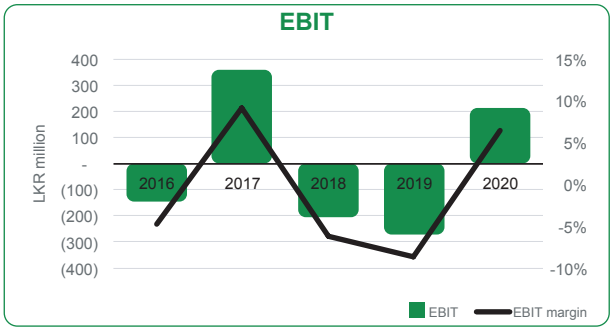
Despite the increase in total borrowings, the Company benefited from the low interest rates which prevailed during the year under review. However, the exchange loss in the foreign currency loans led to the increase in net finance cost in 2020.

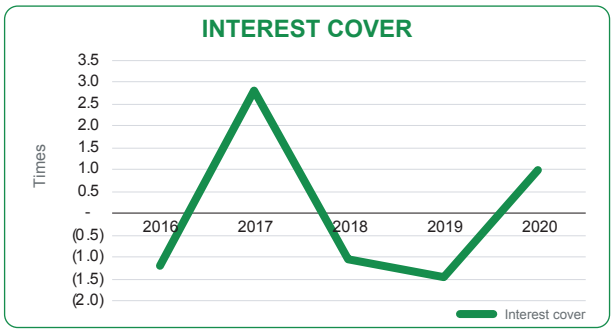
Interest cover for the year was 1.0 times, a significant improvement over the previous year.

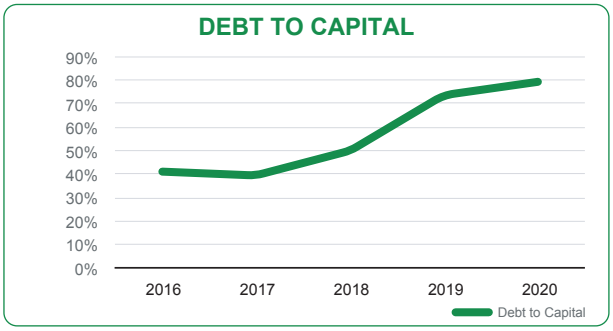
Taxation: Income tax expenditure for the year under review was LKR 126 million, which was a decrease of 35.3% compared to the previous year's amount of LKR 194 million.

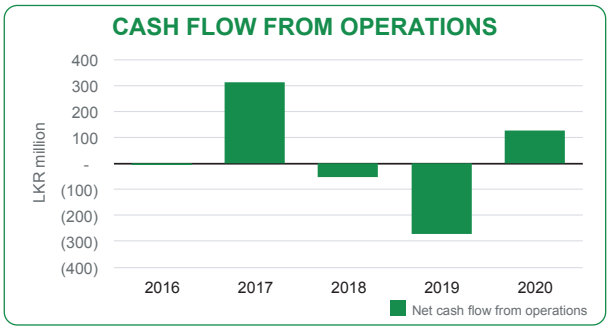
Capital structure: The Company's total borrowings increased by 9% to LKR 2,051 million in 2020. The Company retired some of its short-term debts and opted for long-term borrowings from both related parties and external lenders. The bank overdraft declined by 15.3% to LKR 336 million while borrowings from the related parties increased by 8.0% to LKR 1,362 million and long-term borrowings from external parties increased by 57.6% to LKR 353 million. The percentage share of external borrowings remained at 34%.

As a result of the increase in borrowings and decline in the equity base, the debt to capital ratio moved up to 76.8% in 2020 from 73.6% in 2019.









FINANCIAL REVIEW (Contd.)

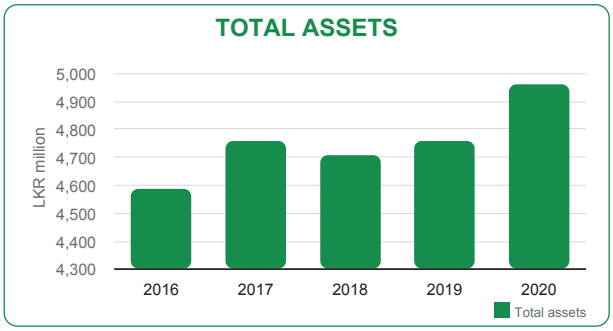
Liquidity and working capital: Net cash flow from operating activities improved from negative LKR 253 million in 2019 to positive LKR 187 million in 2020, on account of improvement in operations and working capital management. The current ratio was at 0.3 times at the end of 2020.

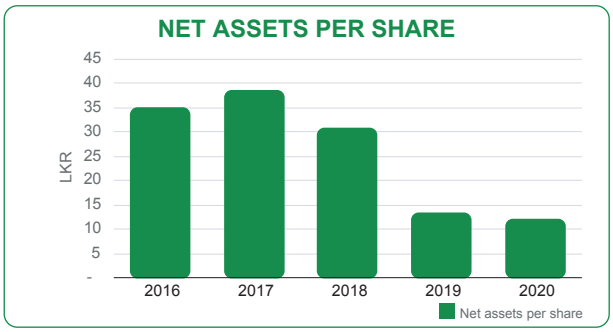
Assets: Total assets increased by LKR 208 million to LKR 4,965 million. The increase in assets is mainly attributed to capital expenditure incurred and gain on valuation of consumable biological assets.

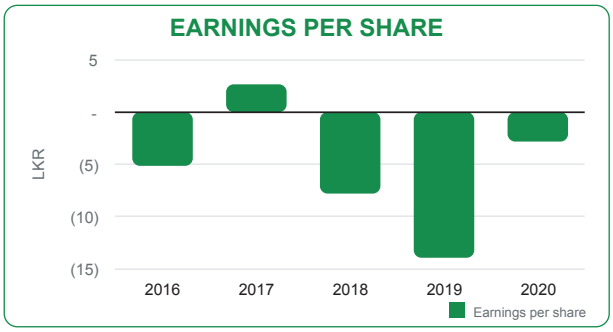
Biological assets: Biological assets consist of tea, rubber, cinnamon, ancillary crops and timber plantations, representing 64% of the Company's total assets. Total biological assets increased by LKR 172 million mainly on account of the gain on valuation of consumable biological assets.

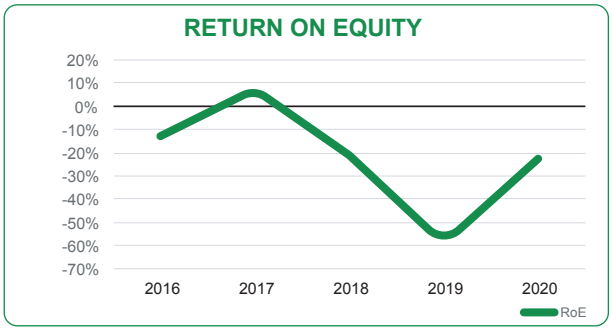
Capital expenditure: Capital expenditure in the year under review amounted to LKR 107 million.

Shareholder returns: Loss per share for the year was LKR 2.58, compared to the loss per share of LKR 13.98 in the previous year. Net asset per share was LKR 12.35 at the end of 2020. The closing market price of the Company's share was LKR 18.30 compared with LKR 15.50 in the previous year.









ENTERPRISE RISK MANAGEMENT

Enterprise Risk Management is the structure and the underlying processes in place to manage the impact of future events on the Company's business, and to respond to systemic challenges to the Company's internal controls caused by internal and external factors.

The objective of the Company's risk management process is not to eliminate risk at the expense of the business, but to accurately identify all risks and manage the Risk-Reward trade-off within the Board's risk appetite.

The risk management process of Hapugastenne Plantations PLC includes the following:

- Ownership by the management of the risk management framework.
- Risk profiling through the risk register and assigning risk ratings based on impacts, both financial and reputational, and probability of occurrence.
- Periodic review of the risk register and implementing risk management and mitigation initiatives.
- Internal control and compliance.
- Internal and external audit reviews.
- Oversight, Review and Reporting by the Board Audit Committee

Component Risks are identified, and rated for likelihood of occurrence and severity of impact on the Company, based on a unified rating scale across the Group. The Headline Risk rating is the composite rating of the Component Risk ratings.

The Company's Board Audit Committee, through the External and Internal Audit reporting and the Risk Register, reports to the Board on the effectiveness and completeness of the Company's internal controls with a view to effectively managing the operational and business risks.

The Company's Headline Risks articulated below underpin its Risk appetite. The review of the Risk Register twice a year is an important facet of boardroom governance.

Risk of impacts of COVID-19 - Global Pandemic

The World Health Organisation (WHO) declared COVID-19 a pandemic on 11 March 2020. Sri Lanka entered a protracted period of lockdown around 20 March 2020 including public health contagion measures, movement restrictions, nationwide curfews, travel bans and provincial and district border closures to tackle the pandemic until gradual easing of these measures began around 11 May 2020.

A second lockdown was in effect for 10 days from 29th October 2020.

These measures are having a huge impact on people's lives and livelihoods with significant consequences on the national economy and global trade. Contraction in economies is seen across the world, as the pandemic disrupts global supply chains, distribution channels and demand, signaling a high possibility of a global recession. The Tea industry will be no exception and though having managed the disruptions and impacts so far, there is little doubt it will have to face more challenges in the future. Hapugastenne Plantations PLC re-assessed its business and operational risks and introduced and took mitigating action to sustain its business metrics without any major disruption to its operations.

Political risks

The risks related to changes in government policy, management of government relations, terrorist activities and global risks relating to political instability and pandemic induced public health restrictions are considered.

Hapugastenne Plantations PLC is not politically aligned to any specific political party or campaign. All Hapugastenne Plantations PLC executives are guided by the Group Code of Conduct in this regard. However, political intervention in wage negotiations is a risk associated with the industry.

Economic risks

Risks related to macro-economic policies, economic cycles, competitive positioning, industry profit margins, market structure, credit and interest rates, currency and collaterals and imposition of import controls are assessed as economic risk.

Stock market behaviour, perception of Hapugastenne Plantations PLC by the media and by the general public that could impact liquidity, perception of the organisation by stakeholders, and capital or credit rating are some of the external factors also considered.

Legal and regulatory risks

The risks relating to meeting legal and regulatory requirements with respect to corporate governance, labour relations, industry standards and the environment are also considered.

The Company, with the active involvement of its Company Secretary, SSP Corporate Services (Private) Limited, legal adviser Julius and Creasy, external auditor KPMG and internal auditors, ensures compliance with all legislative and regulatory requirements.

Human resource risks

Risks related to demographic changes and social mores, adequacy and execution of human resource standards, policies and practices, and to organisational liability and personal liability of Directors and managers are also monitored and managed.

ENTERPRISE RISK MANAGEMENT (Contd.)

Employees' at all operational levels, including the estate workforce, are appropriately trained based on a needs assessment by the human resource development function of the Company.

Significant and sustained labour inflation in the plantation sector in Sri Lanka is a major concern and Hapugastenne Plantations PLC has taken measures to mitigate this risk by reducing the number of people through factory automation, mechanisation of field preparation on tea estates and improving shear harvesting. Moreover, as a long-term strategy, Hapugastenne Plantations PLC has extended its product portfolio, introducing Timber, Cinnamon and Pepper plantations that are less labour intensive.

The Company's workforce is unionised. The collective agreement between the trade unions and the Employers' Federation of Ceylon, of which Hapugastenne Plantations PLC is a member, and other human resource development initiatives by Hapugastenne Plantations PLC have led to industrial harmony and thereby Hapugastenne Plantations PLC has been able to maintain a reliable supply chain.

Operational risks

Hapugastenne Plantations PLC strives to produce true-to-type teas, high quality rubber latex and other agricultural products in the right quantity at the right time and thereby retain competitive positioning in the market whilst maintaining controlled and well-managed product costs for maximum economic viability. Management time is also devoted to uplifting estates identified as business units of low land-labour productivity.

However, price fluctuations of the products and competition from lower cost-of-production countries are industry risks that Hapugastenne Plantations PLC is concerned about. Crop diversification, Rainforest Alliance certification and new product development are strategies that Hapugastenne Plantations PLC adopts to mitigate the associated risks.

Good agricultural practices, improving land-labour ratio, and tea infilling adopted by Hapugastenne Plantations PLC ensure a healthy plantation crop and minimise the risk of potential loss due to pests and diseases. Hapugastenne Plantations PLC is keen to explore alternative energy sources to mitigate the risk of shortage of firewood. Structured forestry management is being followed to mitigate the risk of forest fires.

The manufacturing facilities of Hapugastenne Plantations PLC are maintained according to industry standards with requisite financial inputs, along with obtaining and retaining international quality accreditations. A phased-out, five-year investment plan has been formulated to address the issue of ageing factories.

The internal control system serves as the main mechanism of identifying and mitigating the organisational risk.

All manufacturing plants are under constant review to identify and eliminate any potential threats that could result in damage to buildings, restricted access to raw materials or loss of human capital. All vulnerable locations are sufficiently equipped with firefighting equipment and provide appropriate training to personnel based on expert advice.

Hapugastenne Plantations PLC strives to maintain a healthy financial structure at all times whilst obtaining concessionary and advantageous borrowing rates, and maintaining a good relationship with banks and lending institutions.

All subsidiary projects are subject to stringent pre-planning, technical evaluations and scientific investment appraisals, thus addressing the risks related to technical difficulties and commercial obstacles. The post-completion audits serve as an important tool in managing this aspect of business risk. Every endeavour is made to sustain the Rainforest Alliance certification, while working closely with the certification body.

The risk related to employee health and safety in the workplace receives the foremost attention and Company policy is to achieve 'Zero Harm'. Safety precautions have been taken with regard to all the machinery and equipment with a potential for injury, with trained personnel working at each location and periodic Health and Safety audits. Hapugastenne Plantations PLC is conscious of landslide-prone areas and appropriate action is taken in consultation with the National Building Research Organisation. Personal protective equipment has been provided as appropriate, along with proper training. Hapugastenne Plantations PLC is conscious of the declining trend in the availability of potable water.

All the assets are adequately safeguarded with appropriate controls for inventory protection against spoilage or theft. Adequate insurance cover is in place as the most effective risk transfer mechanism. Hapugastenne Plantations PLC in its Corporate Code of Conduct has formulated and introduced a whistle-blowing policy as an anti-fraud mechanism.

Hapugastenne Plantations PLC is concerned with the risks related to the perception of the organisation by its stakeholders, the media, and the general public that could impact liquidity, capital or credit rating. Hapugastenne Plantations PLC strives to safeguard the international standardisation accreditations such as International Organization for Standardization (ISO), Hazard Analysis and Critical Control Point System (HACCP), Ethical Tea Partnership (ETP), Fair Trade Certifications, and the Rainforest Alliance (RA) certifications held at present by our factories and estates.

- Hapugastenne Plantations PLC is able to produce quality information, fulfilling the appropriate requirements of each stakeholder with the aid of the Enterprise Resource

ENTERPRISE RISK MANAGEMENT (Contd.)

Planning (ERP) system. Keeping pace with the rapid changes in information technology, the ERP system has been upgraded to the latest software solution to be the source of business information for the Board of Directors and the senior management. A well-designed information back-up procedure is in place along with a Disaster Recovery Plan to resume business with the least possible delay. The computer hardware will be used until vendor support expires.

- IT and Cyber Security Risk due to Remote Access in work-from-home in case of lockdown is mitigated through improved remote access authentication by implementing duo software.

Hapugastenne Plantations PLC ensures a sound system of internal controls is maintained to safeguard shareholders' investments and Company assets, and also to manage business-related risks. The internal control system is periodically reviewed and modified as appropriate, with a view to achieving data integrity, data and system availability, and eliminating malpractices such as theft, deception, forgery or false accounting by employees or outsiders.

The Board of Directors discharged their stewardship of Hapugastenne Plantations PLC diligently in the year under review. The Board collectively decides on the appointment of Directors. The retirement and re-election of Directors takes place as set out in the Articles of Association of the Company. Managers with appropriate qualifications and experience are recruited through a screening and selection process, and remunerated as recommended by the Company's Remuneration Committee.

Hapugastenne Plantations PLC does not foresee any potential risk of misrepresentation, defamation or corporate insolvency.

STATEMENT OF CORPORATE GOVERNANCE

The Board of Directors

The Board of Directors of Hapugastenne Plantations PLC functions in the best interests of the Company, its shareholders and all other stakeholders with responsibility, transparency and accountability. The Board ensures that the objectives of the Company are achieved lawfully and ethically and ensures practices of good governance as specified by industry and commercial standards, regulatory bodies and legislation. Affirmation of the status of compliance with Section 7.10 of SEC Listing Rules on corporate governance appears at the end of this statement.

The Board is ultimately responsible for the Company's performance and constantly strives to enhance shareholder value. It is in control of the Company's affairs and is mindful of its obligations to all stakeholders. All the Directors, with their diversity and experience, devote their time and effort to fulfilling their stewardship and are available for consultation and advice in person or via established communication channels and communication protocols, whenever necessary.

Board composition and balance

At the beginning of the year the Board of Directors comprised eight Directors, of whom three were Executive, three were Non-Independent Non-Executive, and two were Independent Non-Executive. The composition of the Board of Directors changed during the year and at the end of the year the Board of Directors comprised eight Directors, of whom three were Executive, three were Non-Independent Non-Executive, and two were Independent Non-Executive.

Directors' meetings and attendance

The Board meets every quarter or more frequently as required to approve strategic initiatives, provide entrepreneurial and strategic guidance, and to review operational and financial performance.

The attendance of Directors at the Board meetings during the year, resignations and new appointments are as follows:

Mr. N. K. H. Ratwatte *(Retired w.e.f. 31st December 2020)*	Non-Independent Non-Executive Director/ Chairman	4/4
Mr. N. H. G. S. Jayasinghe	Executive Director/Managing Director	4/4
Mr. D. J. Ratwatte	Executive Director/Chief Executive Officer	4/4
Ms. M. C. Pietersz *(Retired w.e.f. 30th April 2020)*	Executive Director/Finance Director	1/1
Mr. B. V. Sinthaka Ruwan *(Appointed w.e.f. 10th November 2020)*	Executive Director/Finance Director	1/1
Mr. G. R. Chambers	Non-Independent Non-Executive Director	3/4
Mr. J. M. Rutherford	Non-Independent Non-Executive Director	3/4
Mr. E. D. P. Soosaipillai	Independent Non-Executive Director	4/4
Mr. G. K. B. Dasanayaka	Independent Non-Executive Director	4/4
Mr. S. T. Gunatilleke *(Appointed w.e.f. 1st January 2021)*	Non-Independent Non-Executive Director	-/-

The balance between Executive Directors, Non-Independent Non-Executive Directors and Independent Non-Executive Directors on the Board ensures that no individual Director or small group of Directors dominates Board discussions and decision-making.

Appointments to the Board

The Board of Directors collectively decides on the new appointments to the Board in accordance with the Articles of Association of the Company.

The Board of Directors, by setting criteria, procedure, qualifications and any special attributes, collectively decides the appointments to senior managerial positions of the Company.

Remuneration Committee

The report of the Remuneration Committee is given on page 22.

Audit Committee

The report of the Audit Committee is given on pages 30 to 31.

Related Party Transactions Review Committee

The report of the Related Party Transactions Review Committee is given on page 23.

Information to the Board of Directors

Complete, timely, adequate and relevant information is provided to the Board and senior management, enabling them to make informed decisions.The Company's IT system has been duly upgraded to provide the management with information of the required quality. Board papers on Group performance are submitted in advance, with all management information and background material relevant to the agenda, including capital projects and other matters that require Board approval. Directors receive quarterly reports of performance and minutes of Board meetings.

Company Secretary

A body corporate, Messrs S S P Corporate Services (Private) Limited, functions acts as the Company Secretary. The services and advice of the Company Secretary are available to the

STATEMENT OF CORPORATE GOVERNANCE (contd.)

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

Sustainability reporting

The Company uses the Global Reporting Initiative (GRI) guidelines in sustainability reporting in respect of all the estates certified under Rainforest Alliance principles. Compliance with GRI guidelines adequately covers the National Green Reporting System of Sri Lanka. The Company uses the Credit 360 reporting mechanism for health and safety and sustainability reporting. A separate report on Sustainability is given on pages 08 to 12 of this report.

Internal control

The Directors are responsible for the Group's system of internal controls. The system in place is designed to manage the Company's key areas of risk within an acceptable risk profile and within the Board's risk appetite, rather than to eliminate the risk of failure to achieve the business objectives of the Company, to safeguard Company assets, that proper records are maintained, and that reliable financial information is generated. Consequently, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The internal audit function of the Company comprehensively covers financial, operational and regulatory compliances and the Company's risk management system. The Company implements a system of theme-based, high-frequency cyclical audit reviews across the network of estates.

Group corporate code of conduct

The Company adheres to the Group's Corporate Code of Conduct. The Code summarises Finlays standards, expectations and commitments in those areas which the Company deems key to its commitments to corporate responsibility, and is subject to review and revision annually. The internal whistle-blowing policy works well, with communication channels open to any user.

Financial reporting

The Company has disclosed financial and non-financial information in the form of quarterly Financial Statements and the Annual Report. The quarterly Financial Statements are subject to review by the Board Audit Committee and recommendation to the Board for approval prior to CSE disclosure. .

Messrs KPMG, Chartered Accountants, were re-appointed as the external auditors of the Company and the Financial Statements are certified by them. The Board is of the opinion that the external auditors are considered independent and have no reason to believe that independence has been impaired in any way during the year under review, based on the Board Audit Committee report on pages 30 to 31.

The Company website (www.finlays.net) is maintained and updated with Company information for the benefit of any stakeholder.

Mr. B. V. S. Ruwan, Finance Director, acts as the designated officer of the Company to clarify any matters relating to the Annual Report.

Minimum public holding

The Company has maintained a public shareholding during the year in compliance with the CSE Listing Rule 7.13.1 (a) and (b).

Management discussion and analytical report

The reports by the Chairman and the Operational Review deal with industry structure and developments, opportunities and threats, risks and concerns, social and environmental protection activities, financial performance, material developments in human resources, industrial relations, prospects for the future and related topics in detail.

STATEMENT OF CORPORATE GOVERNANCE (contd.)

The status of compliance with CSE listing rules is summarised below.

CSE Listing Rule Reference	Corporate Governance Principles	Status of Compliance
7.10a	Publishing a statement in the Annual Report for the financial year confirming compliance with the Corporate Governance Rules and if unable to confirm compliance, setting out the reasons for non-compliance	Complied with
7.10b	Giving an affirmative statement in the Annual Report regarding complying with Corporate Governance Rules or vice versa	Complied with
7.10c	Exemption to comply with Corporate Governance Rules or partial compliance	Not applicable
7.10.1 a	Presence of Non-Executive Directors	Complied with
7.10.1 b	Basis of calculating the total number of Directors	Complied with
7.10.1 c	Rectification of changes to the ratio between total and Non-Executive Directors	Not applicable
7.10.2 a	Presence of Independent Non-Executive Directors and the ratio	Complied with
7.10.2 b	Declaration by Non-Executive Directors regarding independence or otherwise	Complied with
7.10.3 a	Annual determination of independence or non-independence of Non-Executive Directors by the Board of Directors, and setting out in the Annual Report the names of Directors determinedto be independent	Complied with
7.10.3 b	Disclosure in the Annual Report regarding determination of independence of a Director who does not meet the criteria for being independent	Complied with
7.10.3 c	Publishing in the Annual Report a brief resume of each Director including the nature of expertise in the relevant functional areas	Complied with
7.10.3 d	Providing a brief resume of each Director to the Exchange upon appointment	Complied with
7.10.4 a-h	Criteria for defining independence	Complied with
7.10.5 a	Composition of the Remuneration Committee	Complied with
7.10.5 b	Functions of the Remuneration Committee	Complied with
7.10.5 c	Disclosure in the Annual Report of the names of the Directors on the Remuneration Committee, remuneration policy and setting out the aggregate remuneration paid to Executive and Non-Executive Directors	Complied with
7.10.6 a	Presence of Non-Executive and Independent Non-Executive Directors on the Audit Committee, Parent-Subsidiary relationship, Chairmanship of the Committee and attendance of Executive Management at the meetings	Complied with
7.10.6 b	Functions of the Audit Committee	Complied with
7.10.6 c	Disclosure in the Annual Report	Complied with
7.10.7 a-k	Failure to comply with Rule 7.10 and resultant regulatory procedures	Complied with

REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee of the Company is formed in compliance with the CSE Listing Rules, Section 7.10.5 of the Continuing Listing Requirements.

Composition

The Committee comprises a combination of Independent Non-Executive Directors and a Non-Executive Director. The names of the Directors, their status of independence, positions occupied in the Committee and attendance at meetings are as follows:

Mr. G. R. Chambers *Non-Executive Director/Chairman*	1/1
Mr. G. K. B. Dasanayaka *Independent Non-Executive Director/Member*	1/1
Mr. E. D. P. Soosaipillai *Independent Non-Executive Director/Member*	1/1

Role of the Committee

The Remuneration Committee has reviewed and recommended to the Board of Directors the policy on remuneration for the Directors and the executive staff. The aggregate remuneration to the Directors appears in note 31.2 on page 78.

Committee meetings

The Committee held its meeting for the year on 19th February 2020

Remuneration policy

The Committee took into account the market information as well as competition and performance evaluation criteria in deciding the overall remuneration policy of the Company and thereby the remuneration of Directors and the executive staff.

G. R. Chambers
Chairman
Remuneration Committee
11th May, 2021

REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Company, as a responsible corporate citizen, complies with relevant legislation and regulations pertaining to Related Party Transactions. A Related Party Transactions Review Committee has been set up to ensure that the interests of all stakeholders are considered when engaging in transactions with related parties.

Composition

The Committee comprises a combination of Independent Non-Executive Directors and a Non-Executive Director, in accordance with CSE Listing Rule 9.2.2. The names of the Directors, their status of independence, and positions occupied in the Committee and attendance at the meetings are as follows:

Mr. G. K. B. Dasanayaka *Independent Non-Executive Director/Chairman*	4/4
Mr. E. D. P. Soosaipillai *Independent Non-Executive Director/Member*	4/4
Mr. N. K. H. Ratwatte *Non-Executive Director/Member* *(Retired w.e.f. 31st December 2020)*	4/4

All Non-Executive Directors have duly declared their independence by the annual declaration and the Board of Directors has determined their independence .

The Chief Executive Officer and Finance Director attend the meetings to update the Committee and to provide all the necessary information with regard to related party transactions. The Committee, having reviewed the related party transactions during the financial year at its meetings, duly recorded and disseminated the minutes of the meetings to the Committee and to the Board of Directors.

There were no related party transactions, non-recurrent or recurrent, during the period under review requiring immediate announcement to the CSE.

Committee meetings

The Committee held four meetings during the year for the purpose of reviewing related party transactions.

Information to the Board of Directors and to the Committee

The management provides complete, timely, adequate and relevant information to the Committee and the Board.

Policy and procedure

The Committee is constituted and functions in accordance with CSE Listing Rules Section 9 and LKAS 24. The details of related party transactions were circulated to the Committee in advance.

All transactions with related parties were computed having regard to the arm's length price. The calculation of the arm's length price is based on any one of the most appropriate methods as follows:

- Comparable Uncontrolled Price Method [CUP]
- Re-sale Price Method [RPM]
- Cost Plus Method [CPLM]
- Profit Split Method [PSM]
- Transactional Net Margin Method [TNMR]

The Committee takes into account the following in selecting the most appropriate method:

- The availability, coverage and reliability of data necessary for the application of the method.
- The extent to which reliable and accurate adjustments can be made to account for differences, if any, between the international transaction and the comparable uncontrolled transaction or between the enterprises entering into such transactions.
- The nature, extent and reliability of assumptions required to be made in application of a method.
- The related party transactions entered into during the year are shown in note 31 on pages 77 to 78.

G. K. B. Dasanayaka
Chairman
Related Party Transactions Review Committee
11th May, 2021

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The details set out herein provide the appropriate information required by the Companies Act No. 7 of 2007 and the Colombo Stock Exchange Listing Rules and as guided by recommended best practices.

Principal activities and business review/future developments

The Company and its subsidiaries are principally engaged in the cultivation, manufacture and marketing of tea, rubber and forestry products, operating mainly in the Sabaragamuwa and Uva provinces.

A review of the business of the Company and its performance during the year, with comments on the Company's financial results and future strategic direction, is contained in the Chairman's Message (page 4), Operations Review (pages 05 to 07) and Financial Review (pages 13 to 15). These reports together with the Audited Financial Statements reflect the state of affairs of the Company.

The Directors, to the best of their knowledge and belief, confirm that the Company has not engaged in any activities that contravene laws and regulations.

Financial Statements

The Financial Statements of the Company are given on pages 35 to 89 of this Annual Report.

Auditors' report

The auditors' report on the Financial Statements is given on pages 32 to 34.

Accounting policies

The accounting policies adopted in the preparation of the Financial Statements are given on pages 40 to 54. There were no changes in the accounting policies adopted.

Directors' remuneration

Directors' remuneration, in respect of the Company for the financial year ended 31st December 2020, is given in note 31.2 to the Financial Statements, on page 78.

Corporate donations

Corporate donations by the Company amounted to LKR. 25,000 No donations were made for political purposes.

Directorate

The names of the Directors who held office during the financial year are given below and their brief profiles appear on pages 28 to 29.

Executive Directors

Mr. N. H. G. S. Jayasinghe

Mr. D. J. Ratwatte

Mr. B. V. S. Ruwan *(Appointed w.e.f. 10th November 2020)*

Ms. M. C. Pietersz *(Retired w.e.f. 30th April 2020)*

Non-Executive Directors

Mr. N. K. H. Ratwatte *(Retired w.e.f. 31st December 2020)*

Mr. J. M. Rutherford

Mr. G. R. Chambers

Mr. E. D. P. Soosaipillai *(independent)*

Mr. G. K .B. Dasanayaka *(independent)*

Mr. B. V. S. Ruwan was appointed an Executive Director with effect from 10th November 2020.

Mr. N. K. H. Ratwatte, Non-Executive Chairman retired with effect from 31st December 2020.

Mr. S. T. Gunetilleke, Non-Executive Director was appointed with effect from 1st January 2021.

Mr. G. R. Chambers retires by rotation in terms of Articles 86 and 87 of the Articles of Association and being eligible, offers himself for re-election.

Mr. B. V. S. Ruwan, retires in terms of Article 94 of the Articles of Association and being eligible, offers himself for re-election.

Mr. S. T. Gunatilleke, retires in terms of Article 94 of the Articles of Association and being eligible, offers himself for re-election.

The Board wishes to place on record the Company's sincere appreciation to Mr. N. K. H. Ratwatte, Non-Executive Chairman, for the valuable contribution extended to the Company during his tenure on Board.

Directors' interest

Directors' interests in contracts of the Company are disclosed in note 31.3 to the Financial Statements on page 78.

The Directors, at their meetings, have declared all material interests in contracts involving the Company and have refrained from voting on matters in which they individually had a material interest.

Related party transactions

Related party transactions are disclosed in note 31 to the Financial Statements on page 77.

The Board of Directors Related Party Transactions Review Committee reviewed the Company's related party transactions in compliance with Section 9 of the Listing Rules of the Colombo

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY (Contd.)

Stock Exchange. More details in this regard are shown in the report of the Related Party Transactions Review Committee appearing on page 23 of this Annual Report.

Auditors

In accordance with the Companies Act No. 7 of 2007, a resolution proposing the re-appointment of Messrs KPMG, Chartered Accountants, as Auditors to the Company will be submitted at the Annual General Meeting.

The Auditors, Messrs KPMG, were paid LKR 4.72 million (2019: LKR 4.205 million) as audit fees by the Group.

As far as the Directors are aware, the Auditors do not have any relationships (other than that of an auditor) with the Company. The Auditors also do not have any interest in the Company.

Turnover

The total turnover of the Company for the year under review was LKR 3.24 billion (2019: LKR 3.04 billion). An analysis of the turnover is given in note 5 to the Financial Statements. The Company's turnover increased by 6.4% compared to that of the previous year.

Financial results and appropriations

A pre-tax loss of LKR 1.096 million was incurred during the year, which is a reduction of 99% compared to the previous year. as explained in the Operations Review on pages 05 to 07 and in the Financial Review on pages 13 to 15.

Dividend

No dividend is recommended for the year under review.

Taxation and statutory payments

According to the Inland Revenue Act, No. 24 of 2017, the Company is liable for income tax at the rate of 14%.

All other statutory payments such as EPF, ETF and other taxes have been made up to date.

Fixed assets

Information relating to the movement of fixed assets is given in notes 11 to 15 to the Financial Statements.

Property, plant and equipment

The total capital expenditure incurred during the year amounted to LKR 108 million compared to LKR 150 million incurred in the previous year. Further information relating to movement in property, plant and equipment is given under notes 13, 14 and 15 to the Financial Statements.

Stated capital

The stated capital as at the end of the year was LKR. 550 million; there was no change in the stated capital during the year.

Golden share

The Secretary to the Treasury has been issued with one Golden Share on behalf of the Government of Sri Lanka, carrying special rights in accordance with the Articles of Association of the Company as explained in note 23.1 to the Financial Statements.

Managing agent

The Company is managed by Finlays Tea Estates Lanka (Private) Limited and no management fee is charged.

Employment policy

The Company's employment policy is non-discriminatory in all aspects, and respects individuals and provides career opportunities irrespective of gender, race or religion. Regular performance appraisal and evaluation schemes are in place and training, development and promotion opportunities are available to all employees who qualify.

The total number of employees of the Company is 6,501 (2019: 7,183) persons.

Employees' health and safety

More attention has been given to employees' health and safety and several training programmes have been conducted to educate, improve awareness and encourage good practices of safety and health by employees at all levels. A comprehensive evaluation of health and fire hazards was undertaken in all the factories by the Company's engineering division during the year under review and their recommendations have been implemented in full.

Industrial relations

The Collective Agreement between the Workers' Trade Unions and representatives from the Regional Plantation Companies was signed with effect from 28th January 2019. Other matters pertaining to employees and industrial relations are contained in the Operations Review on pages 05 to 07.

Environmental protection

It is Company policy to minimise adverse effects on the environment which may result from the Company's operations, and to cooperate and comply with the relevant authorities and regulations. More details in this regard are shown on pages 08 to 12 of this report under Sustainability Review.

Corporate governance

The Directors are responsible for the formulation and implementation of overall business strategies and policies,

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY (Contd.)

and for setting standards in the short, medium and long-term, adopting good governance in managing the affairs of the Company.

Pursuant to Section 7.10.4 (g) of the Listing Rules of the Colombo Stock Exchange, Messrs E. D. P. Soosaipillai and G. K. B. Dasanayaka are Directors of another Company in which the majority of the other Directors are employed as Directors, and therefore cannot be considered independent.

However, according to Section 7.140.3 (b) of the Listing Rules of the Colombo Stock Exchange, since Messrs E. D. P. Soosaipillai and G. K. B. Dasanayaka, Directors, satisfy other qualifying criteria specified in the CSE Rules in terms of independence, the Board, having considered such factors, is of the opinion that Messrs E. D. P. Soosaipillai and G. K. B. Dasanayaka are nevertheless Independent.

Events occurring after reporting date

Subsequent to the balance sheet date the COVID-19 pandemic, its related disruptions and its wider economic impact on the Company have been noted although specifics are yet to be assessed with any reasonable degree of certainty and accuracy. Hapugastenne Plantations PLC re-assessed its business and operational risks and introduced and took mitigating action to sustain its business metrics without a major disruption to its operations.

There have been no material events occurring after the balance sheet date that require adjustments to, or disclosure in, the Financial Statements other than what is disclosed in note 34.

Going concern

The Directors consider that the Company has adequate resources to adopt a going concern basis in preparing the Financial Statements.

Directors' shareholding

The Directors' holdings of ordinary shares in the Company are as follows:

	As at 31.12.2020	As at 31.12.2019
Mr. N. K. H. Ratwatte	1,000	1,000
Mr. N. H. G. S. Jayasinghe	Nil	Nil
Mr. D. J. Ratwatte	100	100
Mr. B. V. S. Ruwan	Nil	Nil
Mr. G. R. Chambers	Nil	Nil
Mr. J. M. Rutherford	Nil	Nil
Mr. E. D. P. Soosaipillai	Nil	Nil
Mr. G. K. B. Dasanayaka	Nil	Nil

By Order of the Board of Directors of

Hapugastenne Plantations PLC

N. H. G. S. Jayasinghe
Chairman/Managing Director

D. J. Ratwatte
Director/CEO

S S P Corporate Services (Private) Limited
Secretaries

Colombo
11th May, 2021

BOARD OF DIRECTORS

N. H. G. S. Jayasinghe

Non-Executive Director appointed to the Board in April 2017, and as Managing Director on 3rd September 2018 Mr. Jayasinghe joined Finlays in February 2006, as the Chief Executive Officer of Finlay Cold Storage (Pvt) Limited and was appointed a Director of the subsidiary in February 2008. He was appointed an Executive Director of Finlays Colombo Limited in November 2014. Mr. Jayasinghe presently serves as the Chairman and Managing Director of Hapugastenne Plantations PLC, Udapussellawa Plantations PLC, and Finlays Colombo Limited, and as Country Head, Finlays – Sri Lanka.

He holds a Masters degree in Business Administration (MBA), is a Fellow of the Chartered Management Institute - UK (FCMI) and a Chartered Member of the Chartered Institute of Logistics and Transport - UK (CMILT). He has served as an Executive Committee/Council Member in the Sri Lanka branches of these institutes in various capacities including Vice Chairman of CILT Sri Lanka. He also serves as a Council Member of the Employers' Federation of Ceylon.

D. J. Ratwatte

Director/Chief Executive Officer of Hapugastenne Plantations PLC and Udapussellawa Plantations PLC since January 2016. Having joined the Company in 2014, he was also appointed as a Non-Executive Director of Finlays Colombo Limited in May 2017. He counts over 34 years of experience in the plantations industry, and is an Ordinary Member of the Sri Lanka Institute of Directors (SLID) and a Graduate of SLID and a Member of the Institute of Management of Sri Lanka MIM(SL). He is a Fellow of the National Institute of Plantation Management (FIPM).

B. V. S. Ruwan

Having joined the Finlays Colombo Limited in April 2020, he was appointed an Executive Director of Hapugastenne Plantations PLC and Udapussellawa Plantations PLC, as well as Finlays Colombo Limited in November 2020. He has over 20 years work experience in the fields of finance, administration and supply chain management.

He holds a B.Sc. in Financial Management and is a Member of the Institute of Chartered Accountants of Sri Lanka.

J. M. Rutherford

Appointed as a Non-Executive Director on 1st February 2013 on becoming Finance Director of James Finlay Ltd., London. He is a qualified Chartered Accountant (ICAEW) and holds a Bachelor of Science (BSc) degree in Economics from the University of Southampton. Previously he spent 15 years with Associated British Foods, a UK listed company, where he held a variety of senior finance and other related posts.

G. R. Chambers

Non-Executive Director appointed to the Board in September 2015 on becoming Managing Director of James Finlay Limited, London. Since joining John Swire and Sons in 1993, he has worked in China, Hong Kong and Taiwan, most recently as COO of Damin (the world's largest tea extracts manufacturer) and COO of Swire Beverages (the largest Coca-Cola franchise bottler in China). Mr. Chambers served as Non-Executive Chairman of Finlays Colombo Limited between September 2018 and December 2020. He presently serves as a Non-Executive Director of the Company.

Between 2014 and 2020, Mr. Chambers served on the Hong Kong Committee for Pacific Economic Cooperation to advise the Hong Kong Secretary for Commerce and Economic Development on matters relating to the participation of Hong Kong in the Pacific Economic Cooperation Council. Mr. Chambers has also served as an advisor to Chatham House, the UK think-tank, on matters relating to Greater China.

E. D. P. Soosaipillai

Independent Non-Executive Director appointed to the Board in April 2017, Mr. Soosaipillai is a Fellow of the Institute of Chartered Accountants of Sri Lanka and a Fellow of the Institute of Certified Management Accountants of Sri Lanka.

He is the Chairman of Commercial Credit and Finance PLC and was appointed as an Independent Non-Executive Director of Finlays Colombo Limited in January 2021, and functions as Chairman and Member of many Board sub-committees at these institutions.

Mr. Soosaipillai has over 30 years of experience in Finance and Accounting, Corporate Governance, Risk Management and Compliance, both at the operational and strategic levels.

G. K. B. Dasanayaka

Independent Non-Executive Director appointed to the Board in April 2017. Mr. Dasanayaka is an Attorney-at-Law by profession. He is an Independent Non-Executive Director of ACME Printing and Packaging PLC and Lankem Ceylon PLC. He worked for the International Labour Organisation (ILO) as the Senior Specialist, Employers' Activities for the South Asian Region from 2007 to 2015. Prior to joining the ILO he worked with the Employers' Federation of Ceylon (EFC) from 1979 and was the Director General/CEO from 2000 to 2006.

S. T. Gunatilleke

Non-Executive Director appointed to the Board in January 2021. Mr. Gunatilleke is a senior planter with 50 years of experience in plantation management. He served on the Boards of Hayleys Plantation Services (Pvt) Ltd, Talawakelle Tea Estates PLC, DPL Plantations (Pvt) Ltd, Kelani Valley Plantations PLC and Mabroc Teas (Pvt) Ltd. He has held the position of Regional Director of Sri Lanka State Plantations Corporation and served as a Consultant to the United Nations Industrial Development Organisation (UNIDO) on Tea Plantation Management. He has traveled extensively to study methods of greenhouse produce cultivation and has undergone training in Japan, Dubai and India. Post retirement from executive service, Mr. Gunatilleke has been actively involved in the Tea industry in various capacities.

N. K. H. Ratwatte

Having joined James Finlay and Company (Colombo) Limited in 1991 and being appointed as an Executive Director in 1997, he was also appointed as an Executive Director of Hapugastenne Plantations PLC and Udapussellawa Plantations PLC in 1998, and as their Chairman/Managing Director on 1st April 2006. Mr. Ratwatte retired from Executive service on 31st December 2015, and was appointed Non-Executive Chairman from 1st January 2016. Mr. Ratwatte has continued as a Non-Executive Director of Finlays Colombo Limited from 2007, and in several other companies within and outside the Group. He is a Fellow of the National Institute of Plantation Management (FIPM).

Mr. Ratwatte retired from the Boards of Udapussellawa Plantations PLC, Hapugastenne Plantations PLC, Finlays Colombo Limited and other companies within the Group on 31st December 2020 on completing his term of office.

Ms. M. C. Pietersz

Ms. Pietersz resigned from the Boards of Udapussellawa Plantations PLC, Hapugastenne Plantations PLC and Finlays Colombo Limited on 30th April 2020, having reached retirement age.

STATEMENT OF DIRECTORS' RESPONSIBILITY IN RELATION TO THE FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the Auditors' Statement of their responsibilities, as set out in their report, is made with a view to distinguishing the respective responsibilities of the Directors and the Auditors, in relation to the Financial Statements.

The Directors are required by the Companies Act No. 07 of 2007 to prepare and present the Financial Statements for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the Profit and Loss for the financial year. The Directors are required to prepare these Financial Statements on the going concern basis, unless it is not appropriate.

Since the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future, the Financial Statements continue to be prepared on the said basis.

The Directors consider that in preparing the Financial Statements on pages 35 to 89, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records, which disclose with reasonable accuracy the financial position of the Company, and which enable them to ensure that the Financial Statements comply with the Companies Act No. 07 of 2007. The Directors have a general responsibility for taking such steps as necessary to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

On behalf of the Board of Directors

N. H. G. S. Jayasinghe
Chairman/Managing Director

D. J. Ratwatte
Director/CEO

Colombo
11th May, 2021

REPORT OF THE BOARD AUDIT COMMITTEE

Role of the Board Audit Committee

The Board Audit Committee (BAC) of Hapugastenne Plantations PLC is formed in compliance with the CSE listing rules, Section 7.10.6 of the Continuing Listing Requirements.

Functions

The functions of the Board Audit Committee include the following:

a) Oversight of the preparation, presentation and adequacy of disclosures in the Financial Statements of the Company in accordance with Sri Lanka Accounting Standards.

b) Oversight of compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related to regulations and requirements.

c) Oversight of the processes required to ensure that the internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards.

d) Assessment of independence and performance of external auditors.

e) Making recommendations to the Board pertaining to the appointment, re-appointment or removal of external auditors and approving the remuneration and terms of engagement of the external auditors.

The Board of Directors has mandated explicit Terms of Reference (TOR) which are subject to periodic review and revision, for the effective functioning of the Board Audit Committee and is thus duly empowered by the Board.

The performance of the Committee is subject to annual self-evaluation.

Composition

The Board Audit Committee comprises two Independent Non-Executive Directors and a Non-Executive Director. The names of the Directors, their status of independence and attendance at the meetings are as follows:

Mr. E. D. P. Soosaipillai *Independent Non-Executive Director - Chairman*	8/8
Mr. G. K. B. Dasanayaka *Independent Non-Executive Director - Member*	7/8
Mr. N. K. H. Ratwatte *Non-Executive Director – Member* *(Retired w. e. f. 31st December 2020)*	8/8
Mr. S. T. Gunatilleke *Non-Executive Director – Member* *(Appointed w. e. f. 1st April 2021)*	-/-

The Chairman of the Board Audit Committee is a fellow member of the Institute of Chartered Accountants of Sri Lanka.

The Board of Directors, based on the annual declaration, has determined the independence or non-independence of each Non-Executive Director in accordance with CSE listing rule No. 7.10.3.

Internal audit function

In 2019, the Company changed its Internal Audit approach from location-based audits to a thematic audit carrying out high-frequency cyclical audits. The thematic audit approach is primarily to carry out four quarterly theme-based audits at each estate and at the head office in a calendar year.

Thematic audits were carried out by Messrs Ernst and Young, Chartered Accountants. Special assignments were carried out by Messrs B R De Silva and Company, Chartered Accountants. The terms of reference for both of the service providers are governed by Service Level Agreements with explicit terms of reference.

The Board Audit Committee ensures that the internal audit function is free from conditions that impair its ability to carry out the internal audit activities independently.

The main focus of the internal audit function is to independently and objectively evaluate and report on the adequacy, integrity and effectiveness of the overall system of internal control, risk management and governance for assurance.

The risk-based internal audit plan is developed to cover key compliance and financial and operational matters that are significant to the overall performance of the Company.

The Board Audit Committee of the Company is supported by a functional sub-committee, namely the Audit Supervisory Committee (ASC), as appointed and empowered by the Board of Directors with specific terms of reference and a reporting requirement to the Group Audit Committee in the UK via the Group Head of Internal Audit (GHIA). The Board Audit Committee exercises oversight of the ASC by reviewing the ASC minutes as to actions taken on internal audit findings. The ASC is governed by its Terms of Reference as approved by the Board of Directors and the Board Audit Committee. The ASC is represented by finance, operations, legal, internal audit and information technology functions of the Company.

Audit Committee meetings

The Board Audit Committee has held eight meetings for the year 2020. The Managing Director, Chief Executive Officer, Finance Director, external auditors and internal auditors attended the meetings on invitation.

REPORT OF THE BOARD AUDIT COMMITTEE (Contd.)

The Annual Report for the year 2020 was reviewed at the Board Audit Committee meeting held on 11th May 2021.

Principal activities

The Board Audit Committee is a sub-committee of the Board of Directors and reports to the Board at its quarterly meetings.

The Company has compiled a risk register based on a detailed assessment of risks and a broad spectrum identification of risks. The repository Risk Register is subjected to review and revision twice a year at the BAC. The Company's risk register forms a part of the Group Risk Register of the parent company and is subject to oversight by the Director - Corporate Affairs, based in the UK.

The Board Audit Committee reviewed the risk register of the Company at the meetings for the year under review and recommendations were made for changes in the different headline risks and the component risks as appropriate.

The Board Audit Committee, by its oversight and review of external audit findings and the corresponding management action taken, weighs in on internal control issues of the Company. The BAC additionally reviews the external audit findings with a view to initiating corrective action on systemic operational risk issues and also gives oversight to compliance with legal and regulatory requirements.

The Board Audit Committee at its meetings paid special attention to compliance with the Sri Lanka Financial Reporting Standards (SLFRS), reviewing the financial reporting system adopted by the Company in the preparation of its quarterly and annual Financial Statements and also recognised the adequacy and quality of management information provided to the Committee.

External audit

Messrs KPMG, the external auditors, are considered to be independent as there is no evidence of any interest on their part in the results published in the Financial Statements of the Company other than as external auditors, nor is there reason to believe that such independence has been impaired during the year.

KPMG carried out an Engagement Partner rotation in the year 2018, the previous Engagement Partner rotation being in 2010.

The Board Audit Committee recommends to the Board of Directors that Messrs KPMG, Chartered Accountants, be re-appointed as external auditors for the financial year ending 31st December 2021 subject to the approval of the shareholders.

E. D. P. Soosaipillai
Chairman
Board Audit Committee
11th May, 2021

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HAPUGASTENNE PLANTATIONS PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Hapugastenne Plantations PLC ("the Company") and the consolidated financial statements of the Company and its subsidiary ("the Group"), which comprise the statement of financial position as at 31st December 2020, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies set out on pages 35 to 89.

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the company financial statements and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the company financial statements and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of biological assets

(Refer to Note 3.3.3 on significant accounting policies and explanatory Note 15 to the financial statements).

Risk description

The Group has reported consumable biological assets carried at fair value, amounting to Rs. 1,427 Mn and bearer biological assets amounting to Rs.1,756 Mn as at 31st December 2020.

The valuation of consumable biological assets requires significant levels of judgments and technical expertise in selecting appropriate valuation models and assumptions. Changes in the key assumptions used such as discount rate, value per cubic meter and available timber quantity used for the valuation of consumable biological assets could have a material impact on the fair value gain or loss for the year and the carrying value of consumable biological assets as of the reporting date. Management engaged an internal valuation expert to assist in determining the fair value of the consumable biological assets.

Bearer biological assets mainly include mature and immature tea, rubber and other trees in identified plantation fields. Inappropriate transfer from immature to mature plantations has a significant impact on the carrying value of the bearer plants and the reported profits as capitalization of costs will cease from the point of transfer and the mature plantations are depreciated over the useful lives of the plants. As per the industry practice, transfer of immature plantations to mature plantation fields happens at the point of commencement of commercial harvesting. The actual point of which commercial harvesting could start depends on the soil condition, weather patterns and plant breed.

We considered measurement of biological assets as a key audit matter because the valuation of consumable biological assets involved significant judgment exercised by the management and internal valuation expert and were subjected to significant level of estimation uncertainty and management bias. Further, immature to mature transfer requires significant management judgment in determining the point at which a plant is deemed ready for commercial harvesting.

Our audit procedures for Consumable Biological Assets included;

- Challenging the key assumptions and methodology used in the valuation, in particular the discount rate, average market price and yield per hectare.
- Assessing the objectivity of the internal valuation expert and the competence and qualifications of the valuation expert engaged by the management.

KPMG

- Comparing the average market price and yield per hectare to historical data and market available data.
- Verifying the mathematical accuracy of the consumable biological assets valuation.
- Assessing the adequacy of the disclosures in the financial statements including the description and appropriateness of the inherent degree of subjectivity and the key assumptions.

Our audit procedures for Bearer Biological Assets included;

- Obtaining schedules of costs incurred and capitalized under immature plantations as well as cost transferred to mature plantations by each estate and reconciling those balances to the general ledger on sample basis, verifying the reconciling items and obtaining explanations from management for any significant variances identified.
- Testing immature to mature cost transfer worksheet for selected estates to check whether the amounts transferred during the year was consistent with the Group's accounting policy and industry norms.
- Assessing the adequacy of the related disclosures in the financial statements and consistency with the accounting policies.

Valuation of retirement benefit obligation

(Refer to Note 3.4.1 significant accounting policies and explanatory Note 27 to the financial statements).

Risk description

The retirement benefit obligation of the Group is significant (Rs. 717 Mn) in the context of the total liabilities of the Group. The valuation of the Group's retirement benefit obligation requires significant judgment and estimation to be applied across numerous assumptions, including salary increases and discount rate. Minor changes in those assumptions could have a significant effect on the financial performance and financial position of the Group. Management engaged an independent actuary to assist them in the computation of Retirement benefit obligation.

We considered the computation of the retirement benefit obligation to be a key audit matter due to the magnitude of the amounts recognized in the financial statements as well as estimation uncertainty involved in determining the amounts.

Our audit procedures included;

- Assessing the competency, objectivity and capability of the independent actuary engaged by the Group.
- Testing the samples of the employees' details used in the computation to the human resource records.
- Challenging the key assumptions used in the valuation, in particular the discount rate, inflation rate, mortality rates and future salary increases.
- Comparing the discount rate, inflation rate, mortality rate and future salary increases to market available data.
- Involving internal valuation specialist to verify the accuracy of the retirement benefit obligation.
- Assessing the adequacy of the disclosures made in the financial statements including sensitivity analysis.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

Responsibilities of management and those charged with governance for the financial statements

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

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

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

KPMG

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 3029.

KPMG

Chartered Accountants
Colombo, Sri Lanka
11th May, 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December

		Group		Company	
Rs'000	**Note**	**2020**	**2019**	**2020**	**2019**
Revenue	5	3,235,690	3,039,796	3,162,949	2,958,152
Cost of sales		(3,074,681)	(3,332,893)	(2,986,787)	(3,267,624)
Gross profit / (loss)		**161,009**	**(293,097)**	**176,162**	**(309,472)**
Other income	6	158,083	158,223	157,752	164,479
Change in fair value of biological assets	15.4	154,775	113,849	154,775	113,849
Administrative expenses		(258,267)	(251,872)	(255,147)	(248,934)
Profit / (loss) from operations		**215,600**	**(272,897)**	**233,542**	**(280,078)**
Finance costs	7	(219,244)	(187,585)	(215,949)	(189,574)
Finance income	7	2,548	12,719	160	9,633
Net finance costs		**(216,696)**	**(174,866)**	**(215,789)**	**(179,941)**
Profit / (loss) before taxation	**8**	**(1,096)**	**(447,763)**	**17,753**	**(460,019)**
Income tax expense	9	(126,774)	(194,335)	(127,732)	(188,265)
Loss for the year		**(127,870)**	**(642,098)**	**(109,979)**	**(648,284)**
Other comprehensive income					
Items that will never be classified to profit or loss:					
Remeasurement of retirement benefit obligations	27	83,944	18,603	83,944	18,950
Deferred tax on remeasurement of retirement benefit obligations	25	(11,752)	(2,556)	(11,752)	(2,653)
Other comprehensive income, net of income tax		**72,192**	**16,047**	**72,192**	**16,297**
Total comprehensive expense for the year		**(55,678)**	**(626,051)**	**(37,787)**	**(631,987)**
Loss attributable to:					
Owners of the company		(119,613)	(647,655)	(109,979)	(648,284)
Non-controlling interests		(8,257)	5,557	-	-
Loss for the year		**(127,870)**	**(642,098)**	**(109,979)**	**(648,284)**
Total comprehensive expense attributable to:					
Owners of the company		(47,421)	(632,147)	(37,787)	(631,987)
Non-controlling interests		(8,257)	6,096	-	-
Total comprehensive expense for the year		**(55,678)**	**(626,051)**	**(37,787)**	**(631,987)**
Basic loss per share (Rs.)	**10**	**(2.58)**	**(13.98)**	**(2.37)**	**(14.00)**

Figures in brackets indicate deductions.

The Accounting policies and Notes on pages 40 to 89 form an integral part of the Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31st December

Rs'000	Note	Group 2020	Group 2019	Company 2020	Company 2019
ASSETS					
Non-current assets					
Right of use assets	11	484,706	485,300	484,706	485,300
Immovable estate assets on finance lease (other than bare land)	12	46,642	58,263	46,642	58,263
Tangible assets other than biological assets	13	577,352	635,498	541,247	593,026
Intangible assets	14	13,111	19,756	12,723	19,609
Bearer biological assets	15.1	1,756,274	1,736,414	1,756,274	1,736,414
Consumable biological assets	15.2	1,426,514	1,274,370	1,426,514	1,274,370
Investments in subsidiary	16	-	-	35,003	35,003
Lease rental receivable	17	15,864	16,888	15,864	16,888
Total non-current assets		**4,320,463**	**4,226,489**	**4,318,973**	**4,218,873**
Current assets					
Non-harvested produce crop on bearer biological assets	15.3	3,930	1,432	3,930	1,432
Lease rental receivable	17	1,068	1,155	1,068	1,155
Inventories	18	365,698	269,212	347,895	243,818
Derivative asset	19	4,981	20,814	4,981	20,814
Trade and other receivables	20	95,692	157,250	89,700	153,118
Amounts due from related companies	21	32,926	29,801	40,832	29,801
Income tax receivables		4,120	1,127	-	151
Cash and cash equivalents	22	135,929	49,228	75,569	4,757
Total current assets		**644,344**	**530,019**	**563,975**	**455,046**
Total assets		**4,964,807**	**4,756,508**	**4,882,948**	**4,673,919**
EQUITY AND LIABILITIES					
Capital and reserves					
Equity	23	550,000	550,000	550,000	550,000
Retained earnings		21,886	69,307	1,088	38,875
Equity attributable to owners of the company		**571,886**	**619,307**	**551,088**	**588,875**
Non-controlling interest	39	47,079	55,336	-	-
Total equity		**618,965**	**674,643**	**551,088**	**588,875**
Non-current liabilities					
Interest-bearing borrowings	24	166,659	79,157	166,659	79,157
Deferred tax liability	25	411,112	321,478	405,955	315,261
Deferred income	26	195,838	199,179	195,838	199,179
Retirement benefit obligations	27	717,498	746,827	714,557	744,839
Lease liabilities	28	431,282	418,058	431,282	418,058
Total non-current liabilities		**1,922,389**	**1,764,699**	**1,914,291**	**1,756,494**
Current liabilities					
Interest bearing borrowings	24	185,842	144,530	185,842	144,530
Lease liabilities	28	12,453	7,835	12,453	7,835
Trade and other payables	29	527,134	506,681	521,250	502,528
Amounts due to related companies	30	1,361,570	1,260,893	1,361,570	1,276,430
Bank overdraft	22	336,454	397,227	336,454	397,227
Total current liabilities		**2,423,453**	**2,317,166**	**2,417,569**	**2,328,550**
Total liabilities		**4,345,842**	**4,081,865**	**4,331,860**	**4,085,044**
Total equity and liabilities		**4,964,807**	**4,756,508**	**4,882,948**	**4,673,919**

The Accounting policies and Notes on pages 40 to 89 form an integral part of the Financial Statements.
These Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

B. V. S. Ruwan
Director Finance

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

N. H. G. S. Jayasinghe
Chairman/Managing Director

D. J. Ratwatte
Director/CEO

Colombo, 11th May, 2021

STATEMENT OF CHANGES IN EQUITY - GROUP

For the year ended 31st December

Rs'000	Attributable to equity holders of parent					Non-controlling interest	Total Equity
	Stated Capital	Revaluation Reserve	General Reserve	Retained Earnings	Total		
As at 1st January 2019	550,000	257,682	206,211	418,379	1,432,272	55,240	1,487,512
Adjustment on initial application of SLFRS 16 - Leases	-	(257,682)	(206,211)	293,207	(170,686)	-	(170,686)
Deferred tax impact on initial application of SLFRS 16 - Leases	-	-	-	(10,132)	(10,132)	-	(10,132)
Adjusted balance as at 1st January 2019	**550,000**	**-**	**-**	**701,454**	**1,251,454**	**55,240**	**1,306,694**
Total comprehensive income/(expense) for the year	-	-	-	(647,655)	(647,655)	5,557	(642,098)
Other comprehensive income, net of tax	-	-	-	15,508	15,508	539	16,047
Total comprehensive expense for the year	**-**	**-**	**-**	**(632,147)**	**(632,147)**	**6,096**	**(626,051)**
Dividend paid to minority shareholders	-	-	-	-	-	(6,000)	(6,000)
As at 31st December 2019	550,000	-	-	69,307	619,307	55,336	674,643
As at 1st January 2020	**550,000**	**-**	**-**	**69,307**	**619,307**	**55,336**	**674,643**
Total comprehensive expense for the year	-	-	-	(119,613)	(119,613)	(8,257)	(127,870)
Other comprehensive income, net of tax	-	-	-	72,192	72,192	-	72,192
Total comprehensive expense for the year	**-**	**-**	**-**	**(47,421)**	**(47,421)**	**(8,257)**	**(55,678)**
As at 31st December 2020	**550,000**	**-**	**-**	**21,886**	**571,886**	**47,079**	**618,965**

Figures in brackets indicate deductions.

The Accounting policies and Notes on pages 40 to 89 form an integral part of the Financial Statements.

STATEMENT OF CHANGES IN EQUITY - COMPANY

For the year ended 31st December

Rs'000	Stated Capital	Revaluation Reserve	General Reserve	Retained Earnings	Total
As at 01st January 2019	550,000	257,682	206,211	387,787	1,401,680
Adjustment on initial application of SLFRS 16 - leases	-	(257,682)	(206,211)	293,207	(170,686)
Deferred tax impact on initial application of SLFRS 16	-	-	-	(10,132)	(10,132)
Adjusted balance as at 1st January 2019	**550,000**	**-**	**-**	**670,862**	**1,220,862**
Loss for the year	-	-	-	(648,284)	(648,284)
Other comprehensive income, net of tax	-	-	-	16,297	16,297
Total comprehensive expense for the year	**-**	**-**	**-**	**(631,987)**	**(631,987)**
As at 31st December 2019	550,000	-	-	38,875	588,875
As at 01st January 2020	**550,000**	**-**	**-**	**38,875**	**588,875**
Loss for the year	-	-	-	(109,979)	(109,979)
Other comprehensive income, net of tax	-	-	-	72,192	72,192
Total comprehensive expense for the year	**-**	**-**	**-**	**(37,787)**	**(37,787)**
As at 31st December 2020	**550,000**	**-**	**-**	**1,088**	**551,088**

Figures in brackets indicate deductions.

The Accounting policies and Notes on pages 40 to 89 form an integral part of the Financial Statements.

STATEMENT OF CASH FLOWS

For the year ended 31st December

		Group		Company	
Rs'000	**Note**	**2020**	**2019**	**2020**	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit / (loss) before taxation		(1,096)	(447,763)	17,753	(460,019)
Adjustments for					
Finance costs	7	187,785	187,303	184,514	189,574
Provision for retirement benefit obligations	27	129,626	134,066	128,418	133,739
Depreciation and amortisation	8	172,861	174,440	166,844	168,267
Exchange loss/ (gain)	7	31,459	(9,397)	31,435	(9,397)
Interest income	7	(2,548)	(3,322)	(160)	(236)
Amortisation of capital grants	26	(10,736)	(10,664)	(10,736)	(10,664)
Provision/ (reversal) for impairment of trade and other receivables	20.1	1,057	(909)	1,057	(909)
Provision / (reversal) for slow-moving and obsolete inventories		1,498	1,060	1,001	1,060
Gain on fair valuation of consumable biological assets	15.4	(154,775)	(113,849)	(154,775)	(113,849)
Impairment of tangible assets		771	-	771	-
Impairment of consumable biological assets		1,912	-	1,912	-
Profit on disposal of property, plant and equipment		-	(296)	-	(296)
Operating Profit/(loss) before working capital changes		**357,814**	**(89,331)**	**368,034**	**(102,730)**
(Increase)/decrease in inventories		(97,984)	91,581	(105,078)	102,740
(Increase)/decrease in trade and other receivables		15,148	24,149	16,613	15,818
(Increase)/decrease in amounts due from related companies		(3,125)	2,571	(11,031)	(3,816)
Increase/(decrease) in trade and other payables		23,553	453	21,841	3,055
Increase/(decrease) in amounts due to related companies		36,239	(105,606)	20,726	(110,415)
Cash generated from / (used in) operations		**331,645**	**(76,183)**	**311,105**	**(95,348)**
Retirement benefit obligation paid	27	(75,011)	(67,776)	(74,756)	(67,940)
Interest paid		(67,716)	(85,135)	(64,422)	(85,110)
Income tax paid		(6,532)	(24,676)	(4,011)	(16,437)
Net cash flows generated from /(used in) operating activities		**182,386**	**(253,770)**	**167,916**	**(264,835)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		-	8,733	-	8,733
Field development expenditure		(86,185)	(104,360)	(86,185)	(104,360)
Purchase of property, plant and equipment		(20,948)	(45,643)	(20,948)	(39,167)
Purchase of intangible assets		(38)	(441)	(38)	(441)
Lease assets improvements		(799)	-	(799)	-
Interest received		1,579	3,322	160	236
Net cash used in investing activities		**(106,391)**	**(138,389)**	**(107,810)**	**(134,999)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Payment of lease liabilities	28	(66,810)	(68,281)	(66,810)	(68,281)
Government grants received	26	7,395	3,370	7,395	3,370
Lease rentals received		2,080	1,115	2,080	1,115
Proceeds from interest-bearing borrowings		225,000	46,843	225,000	46,843
Loan obtained from the parent company		-	548,422	-	548,422
Repayment of interest-bearing borrowings		(96,186)	(165,574)	(96,186)	(165,574)
Dividend paid		-	(6,000)	-	-
Net cash generated from financing activities		**71,479**	**359,895**	**71,479**	**365,895**
Net increase/(decrease) in cash & cash equivalents		147,474	(32,264)	131,585	(33,939)
Cash & cash equivalents at the beginning of the year		(347,999)	(315,735)	(392,470)	(358,531)
Cash & cash equivalents at the end of the year	**22**	**(200,525)**	**(347,999)**	**(260,885)**	**(392,470)**

Figures in brackets indicate deductions.
The Accounting policies and Notes on pages 40 to 89 form an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2020

01. REPORTING ENTITY

1.1 Domicile and legal form

Hapugastenne Plantations PLC is a Public Limited Liability Company incorporated and domiciled in Sri Lanka, under the Companies Act No. 17 of 1982 in terms of the provisions of the Conversion of Public Corporations or Government-Owned Business Undertaking into Public Companies Act No. 23 of 1987 and re-registered under the Companies Act No. 7 of 2007. The registered office of the Group is located at 95A, Nambapana, Ingiriya, and Plantations are situated in the planting districts of Ratnapura, Badulla and Monaragala.

The ordinary shares of the Group are listed on the Colombo Stock Exchange of Sri Lanka.

The Consolidated Financial Statements of the Group as at and for the year ended 31st December 2020 comprise the Financial Statements of the Group and its subsidiary (together referred to as the 'Group' and individually as 'Group entities').

The Company's parent undertaking is James Finlay Plantation Holdings (Lanka) Limited and the ultimate parent undertaking and controlling party is John Swire and Sons Limited, which is incorporated in England.

1.2 Principal activities and nature of operations

The Company primarily is involved in the cultivation, manufacturing and sale of Tea, Rubber and other agricultural produce and the subsidiary Newburgh Green Teas (Private) Limited is engaged in the manufacturing and sale of Green Tea.

02. BASIS OF PREPARATION

2.1 Statement of compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Group comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows, together with the notes to the Financial Statements and Significant Accounting Policies which have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) promulgated by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and with the requirements of the Companies Act No. 07 of 2007 and Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995. These Financial Statements except information on Cash Flows have been prepared following the accrual basis of accounting.

2.2 Approval of Financial Statements by Directors

The Consolidated Financial Statements were authorised for issue by the Board of Directors on 11th May 2021.

2.3 Basis of measurement

The Consolidated Financial Statements have been prepared on historical cost basis except for the following material items in the Statement of Financial Position.

- Leasehold Right to Bare Land of JEDB/SLSPC estates has been revalued as described in Note 11: Right of use Assets on Lease
- Consumable Mature Biological Assets are measured at fair value less costs to sell as per - LKAS 41 – Agriculture
- Liability for Retirement Benefit Obligations is recognised as the present value of the defined benefit obligation based on actuarial valuation as per LKAS 19 - Employee Benefits
- Agriculture produce harvested from biological assets is measured at fair value as per LKAS 41 - Agriculture

2.4 Functional and presentation currency

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

2.5 Presentation of Financial Statements

The assets and liabilities of the Group presented in the statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

2.6 Materiality and aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by LKAS 1 - Presentation of Financial Statements.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on net basis, or to realise the assets and settle the liability simultaneously.

2.7 Going concern

The Directors have made an assessment of the Group's ability to continue as a going concern in the foreseeable future and

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2020

they do not foresee a need for liquidation or cessation of trading. (Note 35)

2.8 Use of estimates and judgements

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

Judgements and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence, actual experience and results may differ from these judgements and estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected.

Information about critical estimates and judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

Note 13 -Tangible Assets other than Biological Assets

Note 15.2 - Consumable Biological Assets

Note 29 - Lease Liabilities

Note 28 - Retirement Benefit Obligations

Note 26 - Deferred Tax Liabilities

Note 37 – Uncertainty due to COVID 19

2.9 Determination of fair values

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. Several of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

When measuring fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques.

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 inputs are inputs that are not based on observable market data (unobservable inputs).

If inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Fair values have been determined for measurement and disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair value is disclosed in the notes specific to that asset or liability.

2.10 Fair value of non-financial assets

The fair value used by the Group in the measurement of non-financial assets is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market that is accessible by the Group for the asset or liability

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

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

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

2.11 Changes in significant accounting policies

The group has initially adopted definition of a business (Amendments to SLFRS 3) and interest rate benchmark reform (Amendments to SLFRS 9, LKAS 39 and SLFRS 7) from 1st January 2020.

The Group definition of a business (Amendments to SLFRS 3) to business combinations whose acquisition dates are on or after 1st January 2020 in assessing whether it has acquired a business or group of assets. The details of accounting policies are set out in Note 03.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2020

03. SIGNIFICANT ACCOUNTING POLICIES

Except for the matters specified in changes in accounting policies, the accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1Basis of consolidation

The group's Financial Statements comprise consolidated Financial Statements of the Group and its Subsidiary, prepared in accordance with the Sri Lanka Accounting Standards (SLFRS) 10 - Consolidated Financial Statements.

3.1.1 Business combinations

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. From 1 January 2020, in determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

3.1.2 Non-controlling interest

The proportion of the profits or losses after taxation applicable to outside shareholders of subsidiary companies is included under the heading 'Non-controlling interest' in the Consolidated Income Statement. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interest to have a deficit balance.

The interest of the minority shareholders in the net assets employed of these companies is reflected under the heading 'Non-controlling interest' in the Consolidated Statement of Financial Position.

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

3.1.3 Subsidiaries

Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The group controls an investee if, and only if, the Group has

- Power over the investee (i.e. existing rights that give it the ability to direct the relevant activities of the investee).
- Exposure or rights to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect the amount of the investor's returns.

When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decision about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities.

When an investee's purpose and design are considered, it may be clear that an investee is controlled by means of equity instruments that give the holder proportionate

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voting rights, such as ordinary shares in the investee. In this case, in the absence of any additional arrangements that alter decision making, the assessment of control focuses on which party, if any, is able to exercise voting rights sufficient to determine the investee's operating and financing policies. The investor that holds a majority of those voting rights, in the absence of any other factors, controls the investee.

Therefore, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the above.

The Financial Statements of the Subsidiary are included in the Financial Statements from the date that control effectively commences until the date that control effectively ceases. The Group Financial Statements comprise a consolidation of the Financial Statements of the Company and its subsidiary incorporated in Sri Lanka, Newburgh Green Teas (Private) Limited (53.85%).

The total profit/ loss of the Subsidiary is included in the Consolidated Income Statement, and the proportion of the profit or loss after taxation applicable to outside shareholders is shown under the heading 'Non-Controlling Interest'. All assets and liabilities of the Company and its Subsidiary are included in the Consolidated Statement of Financial Position. The interest of the outside shareholders in the net assets of the Group is stated separately in the Consolidated Statement of Financial Position within Equity under the heading 'Non-Controlling Interest"\.

3.1.4 Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value as at the date that control is lost. Subsequently, it is accounted for as an equity accounted investee, fair value through other comprehensive income or fair value through profit or loss depending on the level of influence retained.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

3.1.5 Transactions eliminated on consolidation

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in preparing the Financial Statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

3.2 Foreign currency

3.2.1 Foreign currency transactions

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions.

At each reporting date, monetary items denominated in foreign currencies are translated at the closing rate. Non-monetary items measured at fair value are translated at the rates prevailing on the date when the fair value was determined.

Non-monetary items measured at historical cost are translated at the rates prevailing on the date of transaction.

Exchange differences arising on the settlement of monetary items and on the translation of monetary items are included in profit or loss for the period

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences, which are recognised in other comprehensive income.

3.2.2 Foreign exchange forward contract

Foreign exchange forward contracts are fair valued at each reporting date. Gain and loss arising from changes in fair value are recognised in the Income Statement under the finance income or finance expense, respectively.

3.3 Assets and the bases 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 realised in cash, during the normal operating cycle of the Group's business, or within one year from the reporting date, whichever is shorter. Assets other than current assets are those which the Group intends to hold beyond a period of one year from the reporting date.

3.3.1 Property, plant and equipment

3.3.1.1 Recognition and measurement

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, except for

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Bare Land on Lease, which is stated at revalued amount on 18th June 1992 less subsequent accumulated depreciation and accumulated Impairment losses.

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

3.3.1.2 Owned assets

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its 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 for its intended use. This also includes cost of dismantling and removing the items and restoring at the site on which they are located and borrowing cost on qualifying assets.

3.3.1.3 Land development cost

Permanent land development costs are the costs incurred in making major infrastructure development and building new access roads on leasehold lands. These costs have been capitalised and amortised over the remaining lease period. Permanent impairment to land development costs is charged to the profit or loss statement in full or reduced to the net carrying amounts of such assets in the year of occurrence after ascertaining the loss.

3.3.1.4 Capital work-in-progress

The cost of capital work-in-progress is the cost of purchase or construction together with any related expenses thereon. Capital work-in-progress is transferred to the respective asset accounts at the time of first utilisation or at the time the asset is commissioned.

3.3.1.5 Subsequent cost

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised.

The costs of the day-to-day servicing of property, plant and equipment are recognised in the Statement of Profit or Loss and Other Comprehensive Income as incurred.

3.3.1.6 Borrowing costs

Borrowing costs that are directly attributable to acquisition, construction or production of a qualifying asset which takes a substantial period of time to get ready for its intended use or sale, are capitalised as a part of the asset. The amounts of the borrowing costs which are eligible for capitalisation are determined in accordance with LKAS 23 - Borrowing Costs. Borrowing costs that are not capitalised are recognised as expenses in the period in which they are incurred and charged to the Statement of Profit or Loss and Other Comprehensive Income.

3.3.1.7 Depreciation and amortisation

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 recognised in profit or loss on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment, 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 Group will obtain ownership by the end of the lease term. Land is not depreciated.

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

Hapugastenne Plantations PLC ('Company')

Asset category	Useful life
Buildings	Over 40 years
Motor vehicles	Over 05 years
Plant and machinery	Over 13 years
Furniture and fittings	Over 10 years
Equipment	Over 08 years
Computer equipment	Over 05 years
Latrines	Over 10 years
Water, sanitation and electricity	Over 20 years
Workers, housing	Over 40 years
Farm road	Over 40 years

Immovable Assets on Finance Lease from JEDB/SLSPC are being amortised in equal amounts over the following periods:

Asset category	Useful life
Bare land	Over 53 years
Improvements to land	Over 30 years
Mature plantations	Over 30 years
Buildings	Over 25 years
Machinery	Over 15 years
Other vested assets	Over 25 years

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Newburgh Green Teas (Private) Ltd ('Subsidiary')

Asset Category	Useful life
Buildings	Over 10 years
Motor vehicles	Over 05 years
Plant and machinery	Over 13 years
Furniture and fittings	Over 10 years
Equipment	Over 08 years
Computer equipment	Over 05 years
Farm road	Over 40 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 derecognised. Depreciation method, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

3.3.1.8 Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit or loss and upon disposal of the assets.

3.3.2 Intangible assets

An intangible asset is recognised if it is probable that economic benefits attributable to the assets will flow to the entity and cost of the assets can be measured reliably and carried at cost less accumulated amortisation and accumulated impairment losses.

3.3.2.1 Software

Purchased software is recognised as an intangible asset and is amortised on a straight-line basis over its useful life

The estimated useful life is as follows:

Asset Category	Useful life
Enterprise Resource Planning System	8 years

3.3.3 Biological assets

Biological assets are classified as Bearer Biological assets and Consumable Biological assets. Bearer Biological assets include tea and rubber trees, those that are not intended to be sold or harvested but are however used to grow for harvesting agricultural produce from such Biological assets. Consumable Biological assets include managed timber trees (those that are to be sold as Biological assets) and livestock or Cattle.

Biological assets are further 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.

3.3.3.1 Recognition and measurement

The Group recognises the Biological assets when, and only when, the Group controls the assets as a result of past events, 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 and Equipment.

The managed timber trees are measured on initial recognition and at the end of each reporting period at their 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 4 years) as the impact on biological transformation of such plants to price during this period is immaterial.

3.3.3.2 Bearer biological assets

The costs of land preparation, rehabilitation, new planting, replanting, crop diversification, inter-planting, fertilising, etc. incurred between the time of planting and harvesting (when the planted area attains maturity), are classified as immature plantations. Biological assets (Tea, Rubber fields) which come into bearing during the year, are transferred to mature plantations. These immature plantations are shown at direct costs plus attributable overheads.

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

3.3.3.3 Infilling cost on bearer biological assets

The land development costs incurred in the form of infilling are capitalised 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 capitalised are depreciated over the newly assessed remaining useful economic life of the relevant mature plantation or unexpired lease period, whichever is lower.

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Infilling costs that are not capitalised have been charged to the Statement of Profit or Loss and Other Comprehensive Income in the year in which they are incurred.

3.3.3.4 Growing crop nurseries

Nursery cost includes the cost of direct materials, direct labour and appropriate proportion of directly attributable overheads.

3.3.3.5 Depreciation

Mature Plantations (Replanting and New Planting) are depreciated on a straight-line basis over the expected period of their commercial harvesting or unexpired lease period, whichever is less.

The expected periods of commercial harvesting for each category of crops are as follows:

Tea	Over 33 years
Rubber	Over 20 years
Coconut	Over 50 years
Cinnamon	Over 20 years
Pepper	Over 20 years

No depreciation is provided for Immature Plantations.

3.3.3.6 Consumable biological assets

The fair value of timber trees is measured using Discounted Cash Flow (DCF) method taking into consideration the current market prices of timber applied to expected timber content of a tree at maturity.

The main variables in DCF model are as follows:

Variable	Comment
Timber Content	Estimated based on physical verification of girth, height and considering the growth of each species, and factoring in all the prevailing statutory regulations enforced against harvesting of timber coupled with the forestry plan of the Company.
Economic Useful life	Estimated based on the normal life span of each species by factoring in the forestry plan of the Company.
Selling Price	Three-year annual rolling average selling prices of managed timber fields of the respective region/group of the Company.
Discount Rate	Discount rate reflects the possible variations in the Cash flows and the risk related to the biological assets.
Currency	Sri Lankan Rupees

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.

3.3.3.7 Non-harvested produce crop on bearer biological assets

The Group recognises its agricultural produce prior to harvest separately from its bearer plant. Such agricultural produce prior to harvest continues to be in the scope of LKAS 41 and is measured at fair value less costs to sell. Changes in the fair value of such agricultural produce are recognised in profit or loss at the end of each reporting period.

When deriving the estimated quantity, the Group limits it to one harvesting cycle and the quantity is ascertained based on the last day of the harvest in the immediately preceding cycle. In order to ascertain the fair value of produce growing on trees, 50% of the estimated crop in that harvesting cycle is considered.

For the valuation of the produce, the Group uses the bought leaf rate (current month) less cost of harvesting and transport.

3.3.4 Financial instruments

3.3.4.1 Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not an FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

3.3.4.2 Classification and subsequent measurement

3.3.4.2.1 Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

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Financial assets are not reclassified subsequently to their recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding.

On the initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

a) Business model assessment:

The Group makes an assessment of the objectives of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within the business model) and how those risks are managed;
- The frequency, volume and timing of sales of financial assets in prior periods, the reason for such sale and expectation about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

b) Assessment whether contractual cash flows are solely payment of principal and interest

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative cost), as well as a profit margin.

In assessing whether the contractual cash flows are solely payment of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers;

- Contingent events that would change the amount or timing of cash flows - Terms that may adjust the contractual coupon rate, including variable rate features - Prepayment and extension features; and
- Terms that limits the Group's claim to cash flows from specific assets (e.g. non-recourse features)

The prepayment feature is consistent with the solely payment of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding which may include reasonable addition compensation for early termination of the Contract.

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Subsequent measurement and gains and losses:

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVTOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVTOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

3.3.4.2.2 Financial liabilities

(i) Classification, subsequent measurement and gain and loss

Financial liabilities are classified as measured at amortised cost of FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

3.3.4.3 Derecognition

3.3.4.3.1 Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

3.3.4.3.2 Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

3.3.4.4 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

3.3.4.5 Impairment–financial assets

3.3.4.5.1 Financial instruments

The Group recognises loss allowances for ECLs on:

- financial assets measured at amortised cost and
- debt investments measured at FVOCI

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group considers a financial asset to be in default when:

- The debtor is unlikely to pay its credit obligation to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The financial asset is more than 360 days past due. The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be higher credit rating.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

3.3.4.5.2 Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

3.3.4.5.3 Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is "credit impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract;
- It is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

3.3.4.5.4 Presentation of allowance for ECL in the statement of financial position

Loss allowance for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For the debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

3.3.4.5.5 Write-off

For individual customers, the Group has a policy of writing off the gross carrying amount as approved by the Board of Directors based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. Evidence of impairment included a significant or prolonged decline in its fair value below its cost.

3.3.4.5.6 Non-derivative financial assets

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity instrument, objective evidence of impairment included a significant or prolonged decline in its fair value below its cost. The Group considered a decline of 20% to be significant and a period of nine months to be prolonged.

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3.3.4.6 Impairment of non-financial assets

The Group 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 Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's value in use and its fair value less cost to sell 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 asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using 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 is recognised in the Statement of Profit or Loss and Other Comprehensive income in those expenses' categories consistent with the function of the impaired asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. 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 recognised for the asset in prior years. Such reversal is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

3.3.5 Inventories

3.3.5.1 Agricultural produce harvested from biological assets

Agricultural produce harvested from Biological Assets is measured at its fair value less cost to sell at the point of harvest. The finished and semi-finished inventories from agricultural produce are valued by adding the cost of conversion to the fair value of agricultural produce.

3.3.5.2 Agricultural produce after further processing

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

3.3.5.3 Input Material, consumables and spares

Valued at actual cost on weighted average basis.

3.3.5.4 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.

3.3.6 Trade and other receivables

Trade receivables are stated at the amounts they are estimated to realise inclusive of provisions for bad and doubtful debts. Other receivables and dues from related parties are recognised at cost less provision for bad and doubtful receivables.

3.3.7 Cash and 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.

3.3.8 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether,

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2020

- the Group has the right to operate the asset; or
- the Group designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1st January 2019.At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

3.3.8.1 As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is re- measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

3.3.8.2 Short term leases

The Group has elected not to recognize right of use assets and lease liabilities for short term leases. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3.3.8.3 As a lessor

At inception or modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component based on their relative standalone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease , the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease , if not then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interest in the head lease and the sub lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use assets arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub lease as a an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies SLFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of other revenue.

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For the year ended 31st December 2020

3.4 Liabilities and provisions

All material liabilities as at the reporting date have been included in the Statement of Financial Position and adequate provisions have been made for liabilities which are known to exist but the amount of which cannot be determined accurately.

Liabilities classified as current liabilities in the Statement of Financial Position are those which will fall due for payment on demand or within one year from the reporting date. Items classified as non-current liabilities will be due for payment after one year from the reporting date.

A provision is recognized in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event. and it is probable that an outflow of economic benefits will be required to settle the obligation.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money, were appropriate, the risk specific to the liability.

3.4.1 Employee benefits

3.4.1.1 Defined contribution plans - Employees' Provident Fund and Employees' Trust Fund

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to 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 Group 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 Group contributes 3% of gross emoluments of such employees.

3.4.1.2 Defined Benefit plan - retirement gratuity

A Defined Benefit Plan is a post-employment benefit plan other than a Defined Contribution Plan. The Group's net obligation in respect of Defined Benefit Pension Plans is calculated annually using the Projected Unit Credit (PUC) Method. The liability recognised in the Statement of Financial Position is the present value of the Defined Benefit Obligation at the reporting date in accordance with the advice of an actuary. Actuarial gains or losses arising are recognised in Other Comprehensive Income in the period in which they arise. Past service costs are recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income.

Provision has been made for retirement gratuities from the first year of service for all employees, in conformity with LKAS 19 - Employee Benefits. However, under the payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The key assumptions used in determining the Retirement Benefit Obligations are given in note 29.

3.4.2 Commitments and contingent liabilities

Contingent Liabilities are possible obligations whose existence will be confirmed only by occurrence or non-occurrence of uncertain future events not wholly within the control of the Group or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Capital Commitment and Contingent Liabilities of the Group are disclosed in the respective notes to the Financial Statements.

3.4.3 Deferred income

3.4.3.1 Government grants and subsidies

Government grants are recognised 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, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related assets. When the grants are related to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Grants related to Property, Plant and Equipment other than grants received for forestry are initially deferred and allocated to income on a systematic basis over the useful life of the related Property, Plant and Equipment. Grants received for forestry are initially deferred and credited to Statement of Profit or Loss and Other Comprehensive Income at once when the related blocks of trees are harvested.

3.4.4 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in ordinary course of business from Suppliers. Trade and other payables are stated at cost.

3.4.5 Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with LKAS 12.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2020

3.5 Statement of Profit or Loss and Other Comprehensive Income

For the purpose of presentation of the Statement of Profit or Loss and Other Comprehensive Income the Directors are of the opinion that function of expenses method presents fairly the elements of the Group'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 measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over goods to a customer.

Revenue principally consists of tea auction sales. The Group considers sales and delivery of services as one performance obligation and recognises revenue when it transfers control to the customer.

Disaggregation of revenue

SLFRS 15 requires an entity to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. The Group's revenue comprises only service income coming from parent Group and no disaggregation is required.

3.5.1.1 Sale of goods

Revenue from the sale of goods in the course of ordinary activities is measured at invoice value net of brokerage, sale expenses and other levies related to revenue. Revenue from sale of goods is recognised 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, 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. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

3.5.1.2 Interest income

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

3.5.1.3 Rental income

Rental income arising from operating leases is recognised on an accrual basis.

3.5.1.4 Gain and losses on disposal

Gains and losses on disposal of an item of Property, Plant and Equipment are determined by comparing the net sales proceeds with the carrying amounts of Property, Plant and Equipment and are recognised within other operating income in the Statement of Profit or Loss.

3.5.2 Expenditure recognition

3.5.2.1 Operating expenses

All expenses incurred in the day-to-day operations of the business and in maintaining the property, plant and equipment in a state of efficiency have been charged to the Statement of Profit or Loss and Other 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 interest expense on external borrowings and related party loans and payments made under operating leases. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method. Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received may be recognised as an integral part of the total lease expense, over the term of the lease.

3.5.2.3 Income tax expense

Income Tax expense comprises current and deferred tax. Income tax expense is recognised in Statement of Profit or Loss and Other Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised 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 recognised using the Balance Sheet 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2020

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit 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 recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to 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 recognised 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 utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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.

3.6 Statement of Cash Flows

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

3.7 Segmental reporting

Segmental information is provided for the different business segments of the Group. Business segmentation has been determined based on the nature of goods provided by the Group after considering the risk and rewards of each type of product.

Revenue and Expenditure directly attributable to each segment are allocated to the respective segments. Revenue and Expenditure not directly attributable to a segment are allocated on the basis of their resource utilisation, wherever possible. Unallocated items comprise mainly income accrued, and expenses incurred at Head office level.

Assets and Liabilities directly attributable to each segment are allocated to the respective segments. Assets and Liabilities which are not directly attributable to a segment are allocated on a reasonable basis wherever possible.

The activities of the segments are described on pages 80 and 81 of the Financial Statements.

3.8 Related party transactions

Disclosure has been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies/decisions of the other, irrespective of whether or not a price is being charged.

3.9 Earnings per share

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

3.10 Events after the reporting date

The materiality of the events after the reporting date has been considered and appropriate adjustments and provisions have been made in the Consolidated Financial Statements wherever necessary.

3.11 Comparative information

The comparative information is re-classified wherever necessary to conform with the current year's presentation in order to provide a better presentation.

04. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

A number of interpretations and amendments to accounting standards are effective for annual period beginning on or after 1st January 2021 and earlier application is permitted. However, the Group has not early adopted amended standards in preparing these Separate Financial Statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's Separate Financial Statements.

- Interest Rate Benchmark Reform—Phase 2 (Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16)
- COVID-19-Related Rent Concessions (Amendment to SLFRS 16)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to LKAS 16)
- Classification of Liabilities as Current or Non-current (Amendments to LKAS 1)
- Reference to Conceptual Framework (Amendments to SLFRS 3)
- Onerous Contracts – Cost of fulfilling a Contract (Amendments to LKAS 37)
- Annual Improvements to SLFRS Standards 2018 – 2020.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2020

05. REVENUE

Rs'000	Note	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
5.1 Revenue streams					
Revenue from contracts with customers - sale of goods		3,235,690	3,039,796	3,162,949	2,958,152
Total gross revenue	**5.2**	**3,235,690**	**3,039,796**	**3,162,949**	**2,958,152**
5.2 Major products					
Sale of produce					
Tea		2,785,781	2,708,635	2,713,040	2,626,991
Rubber		402,229	297,606	402,229	297,606
Others	5.4	47,680	33,555	47,680	33,555
		3,235,690	**3,039,796**	**3,162,949**	**2,958,152**
5.3 Timing of revenue recognition					
Products transferred at a point in time		3,235,690	3,039,796	3,162,949	2,958,152
		3,235,690	**3,039,796**	**3,162,949**	**2,958,152**

5.4 Revenue classified as 'Others' above, mainly comprises of revenue generated from shared hydro power revenue, intercrop sales, nursery and timber plants sales during the year.

5.5 Performance obligations

Information about the Group's performance obligations is summarised as follows:

Tea	The Company is selling made tea to customers through brokers at the Colombo Tea Auction.	Revenue from tea is recognised at the time of confirmation of sale at the auction.
Other agricultural produce	The Company is selling rubber latex, timber, cinnamon,nursery plants and other agricultural produce to customer at the plantations,	Revenue from sale of other crops is reconnised at the point in time when the control of the goods has been transferred to the customer,generally at the estates.

06. OTHER INCOME

Rs'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Amortisation of capital grants	10,736	10,664	10,736	10,664
Profit on disposal of property, plant and equipment	-	296	-	296
Rent income	38,201	31,089	38,201	31,089
Sales of timber and other trees	89,890	84,115	89,890	84,115
Sundry income	19,256	32,059	18,925	38,315
	158,083	**158,223**	**157,752**	**164,479**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2020

07. NET FINANCE COSTS

	GROUP		COMPANY	
Rs'000	**2020**	**2019**	**2020**	**2019**
Finance income				
Interest income	2,548	3,322	160	236
Exchange gain	-	9,397	-	9,397
	2,548	**12,719**	**160**	**9,633**
Finance costs				
Interest on term loans and overdrafts	(66,787)	(85,135)	(66,787)	(85,110)
Interest on related party short term loans	(58,682)	(47,077)	(58,682)	(49,373)
Interest on government lease rent	(55,516)	(55,032)	(55,516)	(55,032)
Interest on other leases	(6,800)	(59)	(3,529)	(59)
Exchange loss	(31,459)	(282)	(31,435)	-
	(219,244)	**(187,585)**	**(215,949)**	**(189,574)**
Net Finance Costs	**(216,696)**	**(174,866)**	**(215,789)**	**(179,941)**

08. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before tax is stated after charging all the expenses including the followings:

	GROUP		COMPANY	
Rs'000	**2020**	**2019**	**2020**	**2019**
Directors remuneration	11,884	9,428	11,884	9,428
External auditor's remuneration	4,720	4,205	4,550	4,050
Depreciation and amortisation				
Right to use of assets	24,659	26,708	24,659	26,708
Immovable estate assets on finance lease	11,519	10,991	11,519	10,991
Tangible assets	65,365	66,841	59,107	60,981
Intangible assets	5,910	7,771	6,151	7,458
Bearer biological assets	65,408	62,129	65,408	62,129
Total depreciation and amortisation	**172,861**	**174,440**	**166,844**	**168,267**
Provision for impairment of trade and other receivables	1,057	(909)	1,057	(909)
Provision for slow moving and obsolete inventories	1,498	1,060	1,001	1,060
Personnel costs				
Salaries and wages	1,388,883	1,375,907	1,380,869	1,367,272
Defined contribution plans - EPF/ESPS/CPPS/ETF	194,441	185,673	193,403	184,674
Retirement benefit obligation - gratuity - workers	107,472	114,264	106,649	113,937
- other staff	22,154	19,802	21,769	19,802
Donations	25	32	25	32

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2020

09. INCOME TAX EXPENSES / (REVERSAL)

		Group		Company	
Rs'000	**Note**	**2020**	**2019**	**2020**	**2019**
Current tax expense	9.2	-	7,534	-	-
Under/(over) provision in respect of prior year		102	(160)	-	-
Provision made for unclaimable ESC		48,790	-	48,790	-
Deferred tax charge	25	77,882	186,961	78,942	188,265
		126,774	**194,335**	**127,732**	**188,265**

9.1 Current tax expense

In terms of Section 16(1) of the Inland Revenue Act No. 10 of 2006, "Specified Profits" from cultivation would be exempted from income tax for a period of 5 years commencing from the year of assessment 2006/07. Accordingly, tax exemption period of the Group has expired in the year of assessment 2010/11. After the exempt period, the Group became liable for income tax at the rate of 10% on its agricultural profits and 28% on Manufacturing profits and other income earned up to 2017/18 year of Assessment. From the year of Assessment 2018/19, the Company is liable for income tax at the rate of 14% as per the Inland Revenue Act No. 24 of 2017 and Subsidiary Company is taxed of the rate of 28%. This note is to be read in conjunction with the Note 34.1.

9.2 Reconciliation between accounting profit/(loss) and taxable income

	Group		Company	
Rs'000	**2020**	**2019**	**2020**	**2019**
Accounting profit / (loss) before taxation	(1,096)	(447,763)	17,753	(460,019)
Fair value gain on biological assets	(154,775)	(113,849)	(154,775)	(113,849)
Aggregate disallowable items	440,073	397,338	425,964	387,709
Aggregate allowable items	(315,252)	(305,022)	(312,337)	(298,807)
Adjusted loss	**(31,050)**	**(469,297)**	**(23,395)**	**(484,966)**
Loss from manufacturing	(31,050)	(469,297)	(23,395)	(484,967)
Other sources of income	-	26,909	-	-
Total assessable income	**-**	**26,909**	**-**	**-**
Tax loss claimed during the year	-	-	-	-
Taxable income	**-**	**26,909**	**-**	**-**
Income tax @ 14%	-	-	-	-
Income tax @ 28%	-	7,534	-	-
Income tax expense for the year	**-**	**7,534**	**-**	**-**

9.3 Accumulated tax losses

	Group		Company	
Rs'000	**2020**	**2019**	**2020**	**2019**
As at 1st January	2,833,895	2,263,461	2,833,895	2,263,461
Adjustment to tax losses brought forward	9,498	101,137	9,498	85,467
Loss incured during the year	31,050	469,297	23,395	484,967
As at 31st December	**2,874,443**	**2,833,895**	**2,866,788**	**2,833,895**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2020

10. LOSS PER SHARE

Basic loss per share is computed based on the loss attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the year.

Diluted loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of diluted potential ordinary shares.

	Group		Company	
Rs' 000	**2020**	**2019**	**2020**	**2019**
Loss attributable to the ordinary shareholders	(119,613)	(647,655)	(109,979)	(648,284)
Weighted average number of ordinary shares (nos.) for basic loss per share	46,316	46,316	46,316	46,316
Effect of dillution				
Effect on potential dilutive ordinary shares outstanding	-	-	-	-
Weighted average number of ordinary shares adjusted for the effect of dillution	46,316	46,316	46,316	46,316

There were no potential dilutive ordinary shares outstanding at any time during the year/previous year. Hence, diluted loss per share is same as basic losss per share.

	Group		Company	
Rs.	**2020**	**2019**	**2020**	**2019**
Basic loss per share	(2.58)	(13.98)	(2.37)	(14.00)
Dilluted loss per share	(2.58)	(13.98)	(2.37)	(14.00)

11. RIGHT OF USE ASSETS

Group / Company

	2020				2019		
Rs'000	**Land**	**Motor Vehicles**	**Plant and Machinery**	**Total**	**Land**	**Motor Vehicles**	**Total**
Cost							
As at 1st January	852,028	27,618	-	879,646	835,117	-	835,117
Impact due to initial application of SLRFS - 16	-	-	-	-	-	27,618	27,618
Additions	-	-	14,749	14,749	-	-	-
Remeasurement of lease liability	9,193	-	-	9,193	16,911	-	16,911
Adjustments	123	-	-	123	-	-	-
As at 31st December	**861,344**	**27,618**	**14,749**	**903,711**	**852,028**	**27,618**	**879,646**
Accumulated amortisation							
As at 1st January	385,774	8,572	-	394,346	367,638	-	367,638
Charge for the year	18,635	5,839	185	24,659	18,136	8,572	26,708
As at 31st December	**404,409**	**14,411**	**185**	**419,005**	**385,774**	**8,572**	**394,346**
Carrying value							
As at 31st December	**456,935**	**13,207**	**14,564**	**484,706**	**466,254**	**19,046**	**485,300**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2020

11.1 Land on lease from JEDB/SLSPC

Leases have been executed for a period of 53 years. All of these leases are retroactive to 22nd June 1992, the date of formation of the Company. The leasehold rights to the land on all of these estates have been taken into the books of the Company on 22nd June 1992 immediately after 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. Subsequently, on 31st May 1998, the Board decided to revalue the bare land at a value established by independent Valuation Specialists, M/s. P. B. Kalugalagedara and S. N. Wijepala, Chartered Valuers. The valuation report referred to above has not been subjected to a land survey carried out.

		Adjustments due to		
Rs'000	**Revalued Amount As At 31.05.98**	**Sub lease**	**Remeasurement**	**Net amount as at 31.12.2020**
Leasehold right to bare land of JEDB/SLSPC estates	**868,035**	**(32,918)**	**26,227**	**861,344**

12. IMMOVABLE ESTATE ASSETS ON FINANCE LEASE (OTHER THAN BARE LAND)

Group / Company

In terms of the ruling of the UITF of the Institute of Chartered Accountants of Sri Lanka, all immovable assets in these estates under finance leases have been taken into the books of the Company retroactive to 22nd June 1992. For this purpose, the Board decided at its meeting on 8th March 1995 that these assets would be taken at their book values as they appear in the books of the JEDB/SLSPC, on the day immediately preceding the date of the formation of the Company. These assets are taken into the 22nd June 1992 balance sheet and depreciated as follows:

						Total	
Rs'000	**Improvement**	**Other**	**Mature**	**Buildings**	**Plant and Machinery**	**2020**	**2019**
As at 1st January 2020	31,966	1,413	332,006	133,146	69,809	568,340	599,465
Adjustment due to sub lease	-	-	-	-	-	-	(10,985)
Transfers	-	-	-	-	-	-	(4,321)
Disposal / impairment during the year	-	-	(779)	-	-	(779)	(15,819)
As at 31st December	**31,966**	**1,413**	**331,227**	**133,146**	**69,809**	**567,561**	**568,340**
Amortisation							
As at 1st January	30,997	999	275,229	133,043	69,809	510,077	500,658
Charge for the year	401	176	11,088	(146)	-	11,519	10,991
Disposals during the year	-	-	(702)	-	-	(702)	(1,572)
Transfers during the year	(164)	(174)	114	249	-	25	-
As at 31st December	**31,234**	**1,001**	**285,729**	**133,146**	**69,809**	**520,919**	**510,077**
Written-down value							
As at 31st December	**732**	**412**	**45,498**	**-**	**-**	**46,642**	**58,263**

Investment in plantation assets which were immature at the time of handing over to the Company by way of estate leases is shown under immature plantations (revalued as at 22nd June 1992). Further, investment in such immature plantations to bring them to maturity in shown under note 15.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2020

13. TANGIBLE ASSETS (Other than Biological Assets)

13.1 Group

	Freehold Assets							Leasehold Assets	Grant Funded Assets						Total	
Rs'000	**Buildings**	**Motor Vehicles**	**Plant and Machinery**	**Furniture and Fittings**	**Equipment**	**Mini Hydro Project**	**Computer Equipment**	**Buildings**	**Latrines**	**Water, Sanitation and Electricity**	**Workers Housing**	**Others**	**Sub Total**	**Capital Work in Progress**	**2020**	**2019**
Cost																
As at 01st January	244,652	104,501	759,934	11,681	65,703	704	76,751	3,105	34,912	51,653	10,509	224,713	1,588,818	20,935	1,609,753	1,610,610
Additions	-	6,000	5,943	-	4,503	-	795	-	-	-	-	-	17,241	3,707	20,948	45,643
Adjustments	(833)	(2,984)	15,781	16	(1,132)	-	(104)	-	403	526	135,885	(133,156)	14,402	(20,935)	(6,533)	481
Write offs	(990)	(24,468)	(6,616)	-	(263)	-	-	-	-	-	-	-	(32,337)	-	(32,337)	(28,550)
Disposals	-	-	(11,348)	-	(91)	-	-	-	-	-	-	-	(11,439)	-	(11,439)	(18,431)
As at 31st December	**242,829**	**83,049**	**763,694**	**11,697**	**68,720**	**704**	**77,442**	**3,105**	**35,315**	**52,179**	**146,394**	**91,557**	**1,576,685**	**3,707**	**1,580,392**	**1,609,753**
Accumulated depreciation																
As at 01st January	77,742	99,514	505,983	9,377	59,242	704	68,803	598	32,911	38,037	3,779	77,565	974,255	-	974,255	943,910
Depreciation	3,949	4,836	39,943	347	1,351	-	4,602	-	1,334	2,251	4,246	2,506	65,365	-	65,365	66,841
Adjustments	372	(3,032)	1,919	-	(1,109)	-	(1,481)	-	1	-	45,746	(45,783)	(3,367)	-	(3,367)	993
Write offs	(352)	(24,506)	(6,616)	-	(93)	-	-	-	-	-	-	-	(31,567)	-	(31,567)	(27,495)
Disposals	-	-	(1,631)	-	(15)	-	-	-	-	-	-	-	(1,646)	-	(1,646)	(9,994)
As at 31st December	**81,711**	**76,812**	**539,598**	**9,724**	**59,376**	**704**	**71,924**	**598**	**34,246**	**40,288**	**53,771**	**34,288**	**1,003,040**	**-**	**1,003,040**	**974,255**
Written-down value																
As at 31st December	**161,118**	**6,237**	**224,096**	**1,973**	**9,344**	**-**	**5,518**	**2,507**	**1,069**	**11,891**	**92,623**	**57,269**	**573,645**	**3,707**	**577,352**	**635,498**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2020

13. TANGIBLE ASSETS (Other than Biological Assets) (Contd.)

13.2 Company

	Freehold Assets							Leasehold Assets	Grant Funded Assets						Total	
Rs'000	Buildings	Motor Vehicles	Plant and Machinery	Furniture and Fittings	Equipment	Mini Hydro Project	Computer Equipment	Buildings	Latrines	Water, Sanitation and Electricity	Workers Housing	Others	Sub Total	Capital Work in Progress	**2020**	**2019**
Cost																
As at 01st January	230,285	104,354	689,808	11,491	57,627	704	75,651	3,105	34,912	51,653	10,509	222,370	1,492,469	15,738	1,508,207	1,516,133
Additions	-	6,000	326	-	4,503	-	795	-	-	-	-	-	11,624	3,707	15,331	39,167
Adjustments	(833)	(2,984)	15,781	16	(1,132)	-	(104)	-	403	526	135,885	(133,156)	14,402	(15,738)	(1,336)	(48)
Write offs	(990)	(24,468)	(6,616)	-	(263)	-	-	-	-	-	-	-	(32,337)	-	(32,337)	(28,550)
Disposals	-	-	(11,348)	-	(91)	-	-	-	-	-	-	-	(11,439)	-	(11,439)	(18,495)
As at 31st December	**228,462**	**82,902**	**687,951**	**11,507**	**60,644**	**704**	**76,342**	**3,105**	**35,315**	**52,179**	**146,394**	**89,214**	**1,474,719**	**3,707**	**1,478,426**	**1,508,207**
Accumulated Depreciation																
As at 01st January	70,884	99,366	463,174	9,193	51,285	704	68,301	598	32,911	38,037	3,779	76,949	915,181	-	915,181	891,299
Depreciation	3,619	4,836	34,752	342	1,246	-	4,029	-	1,334	2,251	4,246	2,452	59,107	-	59,107	60,981
Adjustments	369	(3,032)	1,393	-	(1,109)	-	(1,481)	-	1	-	45,746	(45,783)	(3,896)	-	(3,896)	390
Write offs	(352)	(24,506)	(6,616)	-	(93)	-	-	-	-	-	-	-	(31,567)	-	(31,567)	(27,495)
Disposals	-	-	(1,631)	-	(15)	-	-	-	-	-	-	-	(1,646)	-	(1,646)	(9,994)
As at 31st December	**74,520**	**76,664**	**491,072**	**9,535**	**51,314**	**704**	**70,849**	**598**	**34,246**	**40,288**	**53,771**	**33,618**	**937,179**	**-**	**937,179**	**915,181**
Written-Down Value																
As at 31st December	**153,942**	**6,238**	**196,879**	**1,972**	**9,330**	**-**	**5,493**	**2,507**	**1,069**	**11,891**	**92,623**	**55,596**	**537,540**	**3,707**	**541,247**	**593,026**

Property, plant and equipment with a cost of Rs. 660 Mn (2019 - Rs.639 Mn) have been fully depreciated and continue to be in use by the Group/Company.

The assets shown above are those movable and immovable assets vested in the Company by gazette notification at the date of formation of the Company (22nd June 1992) and all investments in tangible assets are investments made by the Company since its formation. The assets taken over by way of estate leases. are set out in notes 11 and 12.

The Group / Company had no contractual commitments for the acquisition of property, plant and equipment as at the reporting date. (2019 - Nil)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2020

13.3 TANGIBLE ASSETS PORTFOLIO

Leasehold buildings under immovable estate assets on finance lease (other than bare lands)

Company	Estate name	Location	No. of buildings	Revaluation Rs'000
	Adawatte	Passara	191	10,774
	Alupola	Ratnapura	202	4,910
	Bibile	Passara	101	3,384
	Dammeria A	Passara	184	2,908
	Dammeria B	Passara	212	21,021
	Demodera	Hali-ela	265	5,053
	Depedene	Rakwana	73	1,895
	Galbode	Ratnapura	192	5,130
	Hapugastenne	Ratnapura	346	7,079
Hapugastenne Plantations PLC	Hatherleigh	Rakwana	22	3,970
	Hopton	Passara	247	17,847
	Lellopitiya	Ratnapura	74	5,535
	Madampe	Rakwana	171	5,762
	Nahavila	Hali-ela	84	294
	Newburgh	Hali-ela	141	4,415
	Oodoowerre	Hali-ela	148	6,055
	Rookatenne	Hali-ela	305	10,410
	Shawlands	Passara	64	10,986
	Springwood	Rakwana	129	5,718
				133,146

Freehold buildings under tangible assets (other than biological assets)

Company	Estate name	Location	No. of buildings	Cost Rs'000
	Adawatte	Passara	20	5,849
	Alupola	Ratnapura	22	16,685
	Bibile	Passara	6	3,959
	Dammeria A	Passara	7	566
	Dammeria B	Passara	9	5,058
	Demodera	Hali-ela	16	12,021
	Depedene	Rakwana	2	2,904
	Galbode	Ratnapura	29	28,182
	Hapugastenne	Ratnapura	20	48,120
Hapugastenne Plantations PLC	Hatherleigh	Rakwana	22	28,959
	Hopton	Passara	13	4,586
	Lellopitiya	Ratnapura	4	16,727
	Madampe	Rakwana	13	10,202
	Nahavila	Hali-ela	4	1,034
	Newburgh	Hali-ela	11	2,362
	Oodoowerre	Hali-ela	19	6,420
	Rookatenne	Hali-ela	4	8,795
	Shawlands	Passara	4	5,533
	Springwood	Rakwana	8	20,500
				228,462
Newburgh Green Teas (Private) Limited		Hali-ela	4	14,367
				242,829

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2020

Leasehold lands under right of use assets

Company	Estate	Location	Land Extent (Ha)	Revaluation Rs'000
Hapugastenne Plantations PLC	Adawatte	Passara	663.89	36,698
	Alupola	Ratnapura	1,048.00	57,930
	Bibile	Passara	754.58	41,711
	Dammeria A	Passara	385.67	21,319
	Dammeria B	Passara	1,224.14	67,666
	Demodera	Hali-ela	1,109.25	61,316
	Depedene	Rakwana	1,036.75	57,308
	Galbode	Ratnapura	941.13	52,022
	Hapugastenne	Ratnapura	1,307.75	72,288
	Hatherleigh	Rakwana	683.94	37,806
	Hopton	Passara	1,267.97	70,089
	Lellopitiya	Ratnapura	523.91	28,960
	Madampe	Rakwana	1,011.59	55,917
	Nahavila	Hali-ela	273.69	15,129
	Newburgh	Hali-ela	340.66	18,831
	Oodoowerre	Hali-ela	674.50	37,284
	Rookatenne	Hali-ela	600.84	33,212
	Shawlands	Passara	550.63	30,437
	Springwood	Rakwana	1,183.55	65,421
				861,344

14. INTANGIBLE ASSETS

14.1 Group

	Group		Company	
Rs'000	**2020**	**2019**	**2020**	**2019**
Computer software				
Cost				
As at 1st January	64,584	63,131	62,027	60,574
Additions during the year	38	441	38	441
Write off during the year	-	(34)	-	(34)
Adjustments / Transfers from Tangible assets	(60)	1,046	(60)	1,046
As at 31st December	**64,562**	**64,584**	**62,005**	**62,027**
Accumulated depreciation				
As at 01st January	44,828	36,854	42,418	34,747
Amortization during the year	5,910	7,771	6,151	7,458
Write off during the year	-	(10)	-	-
Transfers from tangible assets	713	213	713	213
As at 31st December	**51,451**	**44,828**	**49,282**	**42,418**
Written-down Value	**13,111**	**19,756**	**12,723**	**19,609**

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As at 31st December 2020

15. BIOLOGICAL ASSETS

15.1 Bearer biological assets

Group/Company

Rs'000	IMMATURE BEARER BIOLOGICAL ASSETS			Total	
Cost	**Tea**	**Rubber**	**Others**	**2020**	**2019**
As at 1st January	93,340	364,139	118,308	575,787	566,485
Additions during the year	35,005	33,484	15,823	84,312	100,360
Transfers to mature during the year	(7,105)	(121,659)	(92,777)	(221,541)	(91,058)
As at 31st December	**121,240**	**275,964**	**41,354**	**438,558**	**575,787**

Rs'000	MATURE BEARER BIOLOGICAL ASSETS			Total	
Cost	**Tea**	**Rubber**	**Others**	**2020**	**2019**
As at 1st January	873,034	683,597	141,379	1,698,010	1,616,741
Transfers from immature during the year	7,105	121,659	92,777	221,541	91,058
Write off during the year	-	-	-	-	(9,789)
Adjustments	955	-	-	955	-
As at 31st December	**881,094**	**805,256**	**234,156**	**1,920,506**	**1,698,010**
Amortisation					
At the beginning of the year	329,983	183,163	24,237	537,383	483,454
Charge for the year	24,969	35,188	5,250	65,407	62,129
Write off during the year	-	-	-	-	(8,200)
At the end of the year	**354,952**	**218,351**	**29,487**	**602,790**	**537,383**
Written-down value	**526,142**	**586,905**	**204,669**	**1,317,716**	**1,160,627**
Total bearer biological assets	**647,382**	**862,869**	**246,023**	**1,756,274**	**1,736,414**

These are investments in immature/mature bearer biological assets since the formation of the Company. The assets (including plantation assets) taken over by way of estate leases are set out in Notes 11 and 12. Further investment in immature plantations taken over by way of these leases are shown in the above note.

15.2 Consumable biological assets

Group/Company

Rs'000	2020	2019
Immature consumable biological assets		
Cost		
As at 1st January	16,350	22,979
Additions during the year	1,872	4,000
Adjustments	(93)	-
Transfers to mature during the year	(4,541)	(8,717)
Write-off during the year	(1,912)	(1,912)
As at 31st December	**11,676**	**16,350**
As at 1st January	1,258,020	1,133,171
Transfers from immature during the year	4,541	8,717
Change in fair value less cost to sell:		
Due to price changes	157,976	102,166
Due to physical changes	38,608	23,423
Decrease due to harvest	(44,307)	(9,457)
As at 31st December	**1,414,838**	**1,258,020**
Total consumable biological assets	**1,426,514**	**1,274,370**

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As per LKAS 41 - Agriculture, the Company has valued its managed timber plantations at fair value less cost to sell. Managed timber plantations as at 31st December 2020 comprised approximately 1,303 hectares (2019: 1,394 hectares), which are in the range of newly established plantations that are over 30 years old.

Managed trees which are less than four years old considered to be immature consumable biological assets is amounting Rs.12 million as at 31st December 2020 (2019: Rs.16 million).The cost of immature trees is treated as approximate to fair value particularly on the ground that little biological transformation has taken place and impact of the biological transformation on price is not material. When such plantation becomes mature, the additional investments since taking over to bring them to maturity are transferred from immature to mature.

In addition to the increase of 1,360.52 m3 in natural growth, 18,701 trees transferred from immature to mature consumable biological assets have mainly contributed to the increase in fair value less cost to sell due to physical changes for the year 2020.

Furthermore, the fair value increased due to price change on account of timber price change amounted to Rs.157.9 million (2019: Rs.102.1 million) and increase due to physical changes is Rs. 38.6 million (2019 – Rs. 23 million) and decrease due to harvest is Rs.44 million (2019 – Rs. 9 million), totaling to Rs. 152 million (2019 – Rs.116 million).

15.2.1 Measurement of fair value

The mature consumable biological assets were valued using Discount Cash Flow method. In ascertaining the fair value of timber, physical verification was carried out covering all the estates.

(i) Fair value hierarchy

The fair value measurement of biological assets has been categorised as level 3 fair value based on the inputs to the valuation technique used.

(ii) Level 3 fair values

The following table shows a breakdown of the total gains recognised in respect of level 3 fair values.

Rs'000	2020	2019
Change in fair value of biological assets	152,277	116,132

Key assumptions used in the valuation are:

1. Harvesting is approved by the Plantation Management and Monitoring Division and Forest Department as per the forestry management plan.
2. The prices adopted are net of expenditure.
3. Risk-adjusted discount rates used in the range of 10% to 15% (2019: 12% to 17%). Fair value would increase if discount rate was low and fair value would decrease if discount rate was high.
4. Three-year annual rolling average selling prices of managed timber fields of the group. Fair value would increase if timber prices were high and fair value would decrease if timber prices were low.

The valuation, as presented in the valuation model based on the net present value, takes into account the long-term exploitation of the timber plantation. 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 realisation value. The Board of Directors retains their view that commodity markets are inherently volatile and their long-term price projection are highly unpredictable. Hence, the sensitivity analysis regarding selling price and discount rate variation as included in this note allows every investor to reasonably challenge the financial impact of the assumptions used in the LKAS 41-Agriculture against their own assumptions.

The biological assets of the Company are mainly cultivated in leased lands. When measuring the fair value of the biological assets, it was assumed that these concessions can and will be renewed in normal circumstances. Timber content expects to be realised in future and is included in the calculation of the fair value that takes into account the age of the timber plants and not the expiration date of the lease.

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

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 analysis 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 plantations are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Company has extensive processes in place aimed at monitoring and mitigating

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those risks, including regular forest health inspections and industry pest and disease surveys. The Company also insures itself against natural disasters such as floods, landslides and hurricanes.

15.2.2 Sensitivity Analysis

Sensitivity Variation on Sales Price

Values appearing in the Statement of Financial Position are sensitive to price changes with regard to the average sales prices applied. Simulations made for timber prices show that an increase or decrease of 10% of the future selling prices has the following effect on the net present value of the Mature Consumable Biological Assets.

	-10%	+10%
As at 31st December 2020	(112,003)	112,003
As at 31st December 2019	(125,802)	125,802

Sensitivity Variation on Discount Rate

Values appearing in the Statement of Financial Position are sensitive to changes of discount rate applied. Simulations made for discount rate show that an increase or decrease by 1% of the future discounting rate has the following effect on the net present value of the Mature Consumable Biological Assets.

	-1%	+1%
As at 31st December 2020	73,884	(67,659)
As at 31st December 2019	55,092	(50,446)

15.3 Non-harvested Produce on Bearer Plants

Rs'000	2020	2019
As at 1st January	1,432	3,715
Change in fair value less cost to sell	2,498	(2,283)
As at 31st December	**3,930**	**1,432**

15.4 Change in Fair Value of Biological Assets

Rs'000	Note	2020	2019
Change in fair value of consumable biological assets less cost to sell	15.2	152,277	116,132
Change in fair value of produce on bearer biological assets less cost to sell	15.3	2,498	(2,283)
Total change in fair value of biological assets		**154,775**	**113,849**

16. INVESTMENTS IN SUBSIDIARY

Company

	No. of shares	Holding %	Cost 2020 Rs'000	No. of shares	Holding %	Cost 2019 Rs'000
Newburgh Green Teas (Private) Limited	3,500,250	54%	35,003	3,500,250	54%	35,003
			35,003			**35,003**

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17. LEASE RENTAL RECEIVABLE

Group/Company

	2020				2019
Rs'000	**Receivable within 1 year**	**Receivable after 1 year**	**Receivable Overdue**	**Total**	**Total**
Gross rental receivable	2,080	47,840	-	49,920	52,060
Less: unearned finance income	(1,012)	(31,976)	-	(32,988)	(34,017)
Net investment	**1,068**	**15,864**	**-**	**16,932**	**18,043**

During the year 2004, the Company subleased the non-current assets of one of its estates to a third party for the balance period of 42 years. Under the sublease agreement, the Company has transferred substantially all the risks and rewards associated with ownership of such assets to sublessee other than the legal title. Hence, the Company has treated this as a sublease arrangement. The balance represents the net investment income receivable from the sublessee.

Moreover, under the said agreement, the sublessee has absorbed into employment, all employees except executives engaged in the estate at the date of the agreement.

Furthermore, as per the sublease agreement the sublessee has agreed to pay the retiring benefits of such employees as provided for in the agreement. The Company has obtained a bank guarantee in respect thereof. However, in the case of any breach of the terms of the sublease agreement, all employees would be deemed to be those of the Company.

In addition to the above the Company has subleased a factory building and machinery to its subsidiary.

18. INVENTORIES

		Group		Company	
Rs'000	**Note**	**2020**	**2019**	**2020**	**2019**
Nursery plants stock		10,469	12,536	10,469	12,536
Produce stock		319,380	217,837	302,343	192,919
Consumables, spares and others		38,632	40,124	37,369	39,648
		368,481	**270,497**	**350,181**	**245,103**
Less: provision for slow-moving and obsolete stocks	18.1	(2,783)	(1,285)	(2,286)	(1,285)
		365,698	**269,212**	**347,895**	**243,818**

18.1 Provision for slow-moving and obsolete stocks

As at 1st January		(1,285)	(2,806)	(1,285)	(2,806)
Provision made during the year		(1,498)	(1,060)	(1,001)	(1,060)
Write-off during the year		-	2,581	-	2,581
As at 31st December		**(2,783)**	**(1,285)**	**(2,286)**	**(1,285)**

19.DERIVATIVE ASSET

	Group		Company	
Rs'000	**2020**	**2019**	**2020**	**2019**
Forward foreign exchange contracts				
As at 01st January	20,814	-	20,814	-
Derivative gain/(loss) recognised in the Statement of Profit or Loss	(15,833)	20,814	(15,833)	20,814
	4,891	**20,814**	**4,891**	**20,814**

19.1 Foreign exchange contracts

The group entered into forward foreign exchange contracts to hedge the Foreign currency risks arising from borrowings denominated in foreign currencies. The above derivatives consisting of Foreign Exchange Forward Contracts were used to manage market and liquidity risks in USD borrowings held by the Company. The Company entered in to forward contracts with a licensed Commercial Bank in order to mitigate the exchange rate risk.

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From Foreign Exchange Forward contracts, the Company gets the obligation to buy or sell a specific amount of foreign currency on an agreed future date at an agreed rate.

The Company's exposure to derivatives contracts is closely monitored as part of the overall risk management of the Company to ensure expected benefits from such derivatives are crystalized to the Company.

20. TRADE AND OTHER RECEIVABLES

		Group		Company	
Rs'000	**Note**	**2020**	**2019**	**2020**	**2019**
Produce debtors		33,690	51,358	27,747	48,026
Advance and prepayments		50,547	59,065	50,547	59,065
Economic service charge recoverable		43,383	37,579	43,234	36,797
Other debtors		31,852	23,181	31,952	23,163
		159,472	**171,183**	**153,480**	**167,051**
Less: provision for impairment	20.1	(63,780)	(13,933)	(63,780)	(13,933)
		95,692	**157,250**	**89,700**	**153,118**

20.1 Provision for Impairment

As at 1st January	(13,933)	(17,176)	(13,933)	(17,176)
(Provision) / reversal for impairment during the year	(49,847)	909	(49,847)	909
Write-off during the year	-	2,334	-	2,334
As at 31st December	**(63,780)**	**(13,933)**	**(63,780)**	**(13,933)**

The Group's exposure to credit risk and impairment loss related to Trade and other receivables are disclosed in Note 39.

21. AMOUNTS DUE FROM RELATED COMPANIES

	Group		Company	
Rs'000	**2020**	**2019**	**2020**	**2019**
James Finlay Plantations Holdings (Lanka) Limited	31,634	29,052	31,634	29,052
Finlays Tea Extract and Ingredients Limited, U.K	1,292	749	1,292	749
Newburgh Green Tea (Pvt) Ltd.	-	-	7,906	-
	32,926	**29,801**	**40,832**	**29,801**

Amount due from related companies stated above are unsecured, free of interest and the settlement occurs in cash on demand. The above Note should be read in conjunction with, Note 31 to Financial Statements.

22. CASH AND CASH EQUIVALENTS

		Group		Company	
Rs'000	**Note**	**2020**	**2019**	**2020**	**2019**
Favourable Balances					
Short-term deposits	22.1	55,880	35,194	-	-
Cash at bank and in hand		80,049	14,034	75,569	4,757
		135,929	**49,228**	**75,569**	**4,757**
Unfavourable Balances					
Bank overdraft	22.2	(336,454)	(397,227)	(336,454)	(397,227)
Cash and cash equivalents as per the statement of cash flows		**(200,525)**	**(347,999)**	**(260,885)**	**(392,470)**

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As at 31st December 2020

22.1 Short-term deposits include short-term fixed deposits, which mature in less than three months.

22.2 The securities pledged have been disclosed in Note 24.3 to the Financial Statements.

23. STATED CAPITAL

		Group		Company	
Rs	**Note**	**2020**	**2019**	**2020**	**2019**
46,315,790 Ordinary shares of Rs 10/- each		550,000,000	550,000,000	550,000,000	550,000,000
Golden share held by Secretary to the Treasury	23.1	10	10	10	10
		550,000,010	**550,000,010**	**550,000,010**	**550,000,010**

23.1 The Golden Shareholder

The Golden Share is currently held by the Secretary to the 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 a normal ordinary shareholder, in terms of the Articles of Association of the Company, the following special rights are vested with the Golden Shareholder.

(a) The Company shall obtain the written consent of the Golden Shareholder prior to subleasing, ceding or assigning its rights in part or all of the lands leased/to be leased to the Company by the JEDB/SLSPC.

(b) The Golden Shareholder shall be entitled to call upon the Board of Directors meeting once in three months to meet him or his nominee to discuss matters of the Company of interest to the state of the Government.

(c) The Golden Shareholder and or his nominee shall be entitled to inspect the books of accounts of the Company after giving two weeks' written notice to the Company.

(d) The Company shall submit to the Golden Shareholder, within 60 days of the end of each quarter, a quarterly report relating to the performance of the Company during the said quarter in a pre-specified format agreed to by the Golden Shareholder and the Company.

(e) The Company shall submit to the Golden Shareholder, within 90 days of the end of each fiscal year, information related to the Company in a pre-specified format agreed to by the Golden Shareholder and the Company.

24. INTEREST-BEARING BORROWINGS

Group/Company

Rs.'000	**2020**	**2019**
At the beginning of the year	223,687	342,418
New loans obtained	225,000	46,843
Repayments	(96,186)	(165,574)
	352,501	**223,687**
Transferred to current laibilities	(185,842)	(144,530)
At the end of the year	**166,659**	**79,157**

NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2020

24. INTEREST - BEARING BORROWINGS (Contd.)

Group/Company

		2020					2019				
Rs'000	Note	Repayable within 1 year	Repayable within 1 to 5 years	Repayable after 5 years	Total Repayable after 1 year	Total as at 31.12.2020	Repayable within 1 year	Repayable within 1 to 5 years	Repayable after 5 years	Total Repayable afer 1 year	Total as at 31.12.2019
Long-Term Loans	26.1	81,273	166,659	-	166,659	247,932	100,871	79,157	-	79,157	180,028
Short-Term Loans	26.2	104,569	-	-	-	104,569	43,659	-	-	-	43,659
		185,842	**166,659**	**-**	**166,659**	**352,501**	**144,530**	**79,157**	**-**	**79,157**	**223,687**

24.1 Long-Term Loans

Rs'000	Repayable within 1 year	Repayable within 1 to 5 years	Repayable after 5 years	Repayable after 1 year	Total as at 31.12.2020	Total as at 31.12.2019	Rate of interest	Terms of Repayment
Seylan Bank PLC	25,002	79,157		79,157	104,159	129,161	AWPLR+1.5%	In 47 equal installments of Rs.4,167,000 each and a final installment of Rs.4,151,000 commenced from 01.08.2018.
Commercial Bank of Ceylon PLC	21,967	-		-	21,967	38,645	1-2 years: 7.5% 3-5 years AWPLR+2%	In 59 equal monthly installments of Rs.3,333,000 each and a final installment of Rs. 3,353,000 commenced from 25.01.2016.
Sri Lanka Tea Board	972	-		-	972	6,805	AWPLR+1%	In 36 equal monthly installments of Rs.972,222 each commenced from 30.08.2017.
Commercial Bank of Ceylon PLC	16,668	8,332		8,332	25,000		4%	In 17 equal monthly installments of Rs. 1,389,000/- each and a final installment of Rs. 1,387,000/- commencing from 31/01/2021
Commercial Bank of Ceylon PLC	16,664	79,170		79,170	95,834		AWPLR+2%	In 48 equal monthly installments of Rs.2,083,000 each commenced from 25.09.2020.
	81,273	**166,659**	**-**	**166,659**	**247,932**	**180,028**		

NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2020

24.2 Short-Term Loans

Rs'000	2020	2019	Rate of interest	Term of Repayment
Nations Trust Bank PLC	83,200	-	AWPLR+1.5%	In 11 equal monthly installments of Rs.8,400,000 each and final installment 7,600,000 commenced from 25/10/2020
Commercial Bank of Ceylon PLC	15,000	15,000	AWPLR+1.5%	Within one year, payable on demand.
Sri Lanka Tea Board	6,369	28,659	Interest Free	In 10 equal monthly installments of Rs.2,483,950/- each commenced from 31.01.2016.
	104,569	**43,659**		

24.3 SECURITIES PLEDGED

The following assets have been pledged as security for liabilities:

Nature of liability	Facility Rs. Mn	Outstanding Rs. Mn	Security
Bank Overdraft			
DFCC Bank PLC	100	100	Corporate Guarantee from Udapussellawa Plantations PLC for Rs. 100 Mn.
Commercial Bank of Ceylon PLC	50	90	Concurrent Primary Mortgage over stocks and debts in favour of Commercial Bank - Rs. 35Mn, together with the Concurrent Primary Mortgage for Rs.40 Mn over the leasehold rights of three estates namely Adawatte, Demodera and Shawlands in favour of Sampath Bank PLC, NDB Bank PLC and Commercial Bank
Seylan Bank PLC	100	40	Letter of awareness from James Finlay Plantation Holding (Lanka) Limited

24.4 Nature of liability

	Facility	Outstanding Rs. Mn	Security
Bank Overdraft			
DFCC Bank PLC	100	100	Corporate Guarantee from Udapussellawa Plantations PLC for Rs. 100 Mn.
Commercial Bank of Ceylon PLC	50	90	Concurrent Primary Mortgage over stocks and debts in favor of Commercial Bank - Rs. 35Mn. together with the Concurrent Primary Mortgage for Rs.40 Mn over the leasehold rights of three estates namely Adawatte, Demodera and Shawlands in favour of Sampath Bank PLC, NDB Bank PLC and Commercial Bank
Seylan Bank PLC	100	40	Letter of awareness from James Finlay Plantation Holding (Lanka) Limited
Standard Chartered Bank	150	160	Mortgage of Lellopitiya estate

NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2020

25. DEFERRED TAX LIABILITY

	Group		Company	
Rs'000	**2020**	**2019**	**2020**	**2019**
As at 1st January - as previously reported	321,478	121,829	315,261	114,211
Adjustment on initial application of SLFRS 16	-	10,132		10,132
As at 1st January - adjusted	**321,478**	**131,961**	**315,261**	**124,343**
Charge recognised in profit or loss	77,882	186,961	78,942	188,265
Charge recognised in other comprehensive income	11,752	2,556	11,752	2,653
As at 31st December	**411,112**	**321,478**	**405,955**	**315,261**

Deferred Tax is provided using the liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred tax rate is calculated at the rate of 14% (2019 – 14%) for the Company and 28% (2019 -28%) for the subsidiary as at 31st December 2020. This note is to be read in conjunction with the Note 34.1.

Group

	2020		2019	
Rs'000	**Taxable/ (Deductible)**	**Tax effect on Temporary difference**	**Taxable/ (Deductible) Temporary difference**	**Tax effect on Temporary difference**
Temporary difference on:				
Biological assets at fair value	1,426,514	199,712	1,274,370	178,412
Tangible assets other than biological assets	470,379	69,230	495,672	72,953
Bearer biological assets	1,756,274	245,878	1,736,414	243,098
Retirement benefit obligations	(636,494)	(120,397)	(765,430)	(107,339)
Net lease liability	38,022	4,937	55,802	7,615
Carried forward accumulated tax losses	-	-	(541,547)	(75,817)
	3,054,695	**399,360**	**2,255,281**	**318,922**
On remeasurement of retirement benefit obligations	83,944	11,752	18,603	2,556
	3,138,639	**411,112**	**2,273,884**	**321,478**

Company

	2020		2019	
Rs'000	**Taxable/ (Deductible) Temporary difference**	**Tax effect on Temporary difference**	**Taxable/ (Deductible) Temporary difference**	**Tax effect on Temporary difference**
Temporary difference on:				
Biological assets at fair value	1,426,514	199,712	1,274,370	178,412
Tangible assets other than biological assets	446,262	62,477	470,258	65,836
Bearer biological assets	1,756,274	245,878	1,736,414	243,098
Retirement benefit obligations	(854,095)	(119,573)	(763,787)	(106,930)
Net lease liability	40,780	5,709	57,209	8,009
Carried forward accumulated tax losses	-	-	(541,547)	(75,817)
	2,815,735	**394,203**	**2,232,917**	**312,608**
On remeasurement of retirement benefit obligation	83,944	11,752	18,950	2,653
	2,899,679	**405,955**	**2,251,867**	**315,261**

NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2020

The Deferred tax assets on accumulated tax losses have been recognised in the Financial Statements to the extent of forecasted profit. The Company has not recognised the deferred tax assets on the following accumulated tax losses since it is not probable that future taxable profits will be available against which the Company can utilise the benefit therefrom.

Company/Group

	2020		2019	
Rs'000	Temporary difference	Tax effect	Temporary difference	Tax effect
Accumulated tax losses	2,874,443	402,422	2,292,348	320,929
	2,874,443	**402,422**	**2,292,348**	**320,929**

26. DEFERRED INCOME

	Group		Company	
Rs'000	2020	2019	2020	2019
Deferred Grants and Subsidies				
As at 1st January	199,179	206,473	199,179	206,473
Grants received for the year	7,395	3,370	7,395	3,370
Amortisation for the year	(10,736)	(10,664)	(10,736)	(10,664)
As at 31st December	**195,838**	**199,179**	**195,838**	**199,179**

The Company has received funding from the Plantation Housing and Social Welfare Trust and Plantation Reform Project for the development of workers' facilities such as re-roofing of line rooms, latrines, water supply, sanitation, etc. The amounts spent are included under the relevant classification of Property, Plant and Equipment and the grant component is reflected under Deferred Income. When the Company has complied with the conditions attached to the grants and subsidies, the grant will be credited to deferred income and amortised over the useful life of the respective asset. Grants related to income are deducted in reporting the related expenses.

27. RETIREMENT BENEFIT OBLIGATIONS

	Group		Company	
Rs'000	2020	2019	2020	2019
Workers and Staff				
As at 1st January	746,827	699,140	744,839	697,990
Provisions made during the year	45,682	115,463	44,474	114,789
Payments made during the year	(75,011)	(67,776)	(74,756)	(67,940)
As at 31st December	**717,498**	**746,827**	**714,557**	**744,839**
The Movement in the present value of Defined Benefit Obligations				
Liability for defined benefit obligations as at 1st January	746,827	699,140	744,839	697,990
Interest cost	82,976	83,904	81,932	83,759
Current service cost	46,650	50,162	46,486	49,980
Benefit paid	(75,011)	(67,776)	(74,756)	(67,940)
Remeasurement of retirement benefit obligations	(83,944)	(18,603)	(83,944)	(18,950)
Liability for defined benefit obligations as at 31st December	**717,498**	**746,827**	**714,557**	**744,839**

NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2020

27. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

	Group		Company	
Rs'000	**2020**	**2019**	**2020**	**2019**
Expenses recognised in the statement of profit or loss				
Current service cost	46,650	50,162	46,486	49,980
Interest cost	82,976	83,904	81,932	83,759
	129,626	**134,066**	**128,418**	**133,739**
Gain recognised in the Other Comprehensive Income				
Remeasurement of Retirement Benefit Obligations	(83,944)	(18,603)	(83,944)	(18,950)
	45,682	**115,463**	**44,474**	**114,789**

The actuarial valuation has been carried out by Actuarial and Management Consultants (Private) Limited as at 31st December 2020. Assumptions used in the actuarial valuataion are given below.

Company	**2020**	**2019**	
i) Rate of discount	9%	11%	per annum
ii) Rate of salary increase			
- Workers	5.68%	18%	per annum
- Staff and executives	7.50%	7.50%	per annum
iii) Retirement age	60	60	years
iv) Daily wage rate			
- Tea (Rs.)	700	700	per day
- Rubber (Rs.)	700	700	per day
v) The Company will continue as a going concern.			

The actuarial present value of the accrued benefits as at 31st December 2020 is Rs.714,556,443 (2019 - Rs.744,837,254). This item is grouped under Retirement Benefit Obligation in the Statement of Financial Position. The liability is not externally funded.

Subsidiary

i) Rate of discount - 9% per annum

ii) Rate of Salary Increase - 7.5% per annum

iii) Retirement Age 60 years

iv) The Company will continue as a going concern.

27.1 Sensitivity of assumptions used

A quantitative sensitivity analysis for significant assumptions used by the Company as at 31st December 2020 is as shown below:

Effect on employee benefit obligations

Rs'000	**Discount Rate**	**Salary Escalation Rate**	**Attrition Rate**
Increase by one percentage point	661,415	778,454	702,849
Decrease by one percentage point	775,501	658,057	705,485

The sensitivity analysis above have been determined on a method that extrapolates the impact on employee benefit obligation as a result of reasonable changes in key assumptions occurring at the end of reporting period.

27.2 Maturity profile

The following payments are expected contributions to the employee benefit obligation in future year:

Rs'000	**2020**	**2019**
Within one year	59,008	62,619
Between 2 to 5 years	253,713	252,889
More than 5 years	401,836	429,331
	714,557	**744,839**

NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2020

28. LEASE LIABILITY

Group/Company

Rs. '000	2020 Finlays Instant Teas (Pvt) Ltd	2020 Commercial Bank PLC	2020 Central Finance PLC	2020 JEDB / SLSPC	2020 Total	2019 Finlays Instant Teas (Pvt) Ltd	2019 Central Finance PLC	2019 JEDB / SLSPC	2019 Total
As at 1st January	1,347	-	15,500	409,046	425,893	1,487	27,619	218,904	248,010
Additions during the year	-	13,950	-	-	13,950				
Impact due to initial application of SLFRS 16	-	-	-	-	-	-	(4,287)	174,973	170,686
Remeasurement of lease liability	-	-	1,564	9,193	10,757	-	-	16,911	16,911
As at 1st January - Adjusted balance	**1,347**	**13,950**	**17,064**	**418,239**	**450,600**	**1,487**	**23,332**	**410,788**	**435,607**
Interest for the year	-	113	3,605	56,227	59,945	-	3,475	55,032	58,507
Interest in suspense	-	-	-	-	-	60	-	-	60
Paid during the year	(200)	(292)	(8,007)	(58,311)	(66,810)	(200)	(11,307)	(56,774)	(68,281)
As at 31st December	**1,147**	**13,771**	**12,662**	**416,155**	**443,735**	**1,347**	**15,500**	**409,046**	**425,893**
Maturity Analysis of lease liability									
Current	200	3,508	6,546	2,199	12,453	59	5,926	1,850	7,835
Non-current	947	10,263	6,116	413,956	431,282	1,288	9,574	407,196	418,058
	1,147	**13,771**	**12,662**	**416,155**	**443,735**	**1,347**	**15,500**	**409,046**	**425,893**
Analysis of lease liability									
Less than one year	200	2,340	4,995	2,340	9,875	59	5,926	1,850	7,835
One to five years	947	11,031	7,667	17,630	37,275	1,288	9,574	11,171	22,033
More than 5 years	-	-	-	396,185	396,185	-	-	396,025	396,025
Total	**1,147**	**13,371**	**12,662**	**416,155**	**443,335**	**1,347**	**15,500**	**409,046**	**425,893**
Maturity Analysis of Undiscounted cash flows									
Less than one year	200	3,508	6,546	58,627	68,881	130	8,053	55,000	63,183
One to five years	947	13,739	8,620	293,135	316,441	1,657	11,958	220,000	233,615
More than 5 years	-	-	-	1,081,343	1,081,343	-	-	1,179,445	1,179,445
Total	**1,147**	**17,247**	**15,166**	**1,433,105**	**1,466,665**	**1,787**	**20,011**	**1,454,445**	**1,476,243**
Amount recognised in the statement of profit or loss and other comprehensive income									
As lease interest cost	-	113	3,605	56,227	59,945	60	3,475	55,032	58,567
Amount recognised in the statement of cash flows									
As cash outflows	200	292	8,007	58,311	66,810	200	11,307	56,774	68,281

The leases of the estates have been amended, with effect from 11th June 1996 to an amount substantially higher than the previous lease rental of Rs. 500/- per estate per annum. The first rental payable under the revised basis is Rs. 13.566 mn from 11th June 1996 to 10th June 1997. This amount is to be inflated annually by the Gross Domestic Product (GDP) deflator, and is in the form of a contingent rental.

NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2020

29. TRADE AND OTHER PAYABLES

	Group		Company	
Rs'000	**2020**	**2019**	**2020**	**2019**
Trade creditors	184,392	226,468	181,121	226,180
Payable to employees	170,212	174,777	169,724	174,777
VAT/NBT/PAYEE/ESC payable	297	1,680	147	1,515
Dividend payable	200	7,172	200	7,172
Accrued expenses and other creditors	172,033	96,584	170,058	92,884
	527,134	**506,681**	**521,250**	**502,528**

30. AMOUNTS DUE TO RELATED COMPANIES

		Group		Company	
Rs'000	**Note**	**2020**	**2019**	**2020**	**2019**
Amounts due to related companies - interest-bearing	30.1	1,225,579	1,184,242	1,225,579	1,199,779
Amounts due to related companies - non-interest-bearing	30.2	135,991	76,651	135,991	76,651
		1,361,570	**1,260,893**	**1,361,570**	**1,276,430**

30.1 Amounts Due to Related Companies - Interest bearing

		Group		Company	
Rs'000	**Interest Rate per annum**	**2020**	**2019**	**2020**	**2019**
James Finlay Limited, U.K.	10.5%, LIBOR+3.5%	866,012	812,920	866,012	812,920
James Finlay Plantations Holdings (Lanka) Limited	AWPLR+0.5%	302,601	289,368	302,601	289,368
Udapussellawa Plantations PLC	AWPLR+0.5%	56,966	81,954	56,966	81,954
Newburgh Green Tea (Private) Limited	11.0%	-	-	-	15,537
		1,225,579	**1,184,242**	**1,225,579**	**1,199,779**

Related company loans stated above are unsecured and the settlement occurs in cash on the date of maturity.

30.2 Amounts Due to Related Companies - Non-interest bearing

	Group		Company	
Rs'000	**2020**	**2019**	**2020**	**2019**
Finlays Colombo Limited	41,199	6,572	41,199	6,572
James Finlay Limited, U.K.	93,178	68,557	93,178	68,557
James Finlay Limited, Kenya	1,614	1,522	1,614	1,522
	135,991	**76,651**	**135,991**	**76,651**

Amounts due to related companies stated above are unsecured, free of interest and the settlement occurs in cash on demand.

NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2020

31. RELATED PARTY TRANSACTIONS

31.1 Transaction with Related Companies

The Company carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS) 24 - Related Party Disclosure, the details of which are reported in this note.

	Relationship	Details of Transactions	Transaction Amount		Balance as at 31st December		Interest Rate
Rs'000			2020	2019	2020	2019	
Udapussellawa Plantations PLC	Common Directors	Interest expenditure	(5,093)	(12,758)	(56,966)	(81,954)	AWPLAR+0.5%
		Fund transfers	(41,075)	88,286			
		Reimbursement of expenditure	71,157	21,301			
Finlays Properties (Private) Limited	Common Directors	Warehouse charges	(9,939)	(11,823)	-	-	
		Settlements	9,939	11,823			
James Finlay Limited - Kenya	Common Directors	Exchange difference	(92)	(44)	(1,614)	(1,522)	
Newburgh Green Tea (Private) Limited	Subsidiary	Sale of green leaf	20,680	44,078	7,906	(15,537)	AWPLAR+0.5%
		Rent received	4,681	4,790			
		Interest expenditure	(83)	(2,296)			
		Fair trade income	-	-			
		Fund transfers	(66,500)	(89,000)			
		Reimbursement of expenditure	64,665	35,194			
James Finlay Limited, U.K.	Intermediary parent	Reimbursement of expenditure	(27,978)	(21,442)	(93,178)	(68,557)	
		Net loan proceeds	-	(525,509)	(866,012)	(812,920)	10.5%, LIBOR + 3.5%
		Interest expenditure	(40,273)	(24,178)			
		Settlement	-	(39,710)			
		Exchange difference	(9,462)	27,723			
James Finlay Plantation Holdings (Lanka) Limited	Intermediary parent	Interest expenditure	(13,233)	(10,000)	(302,601)	(289,368)	AWPLAR+0.5%
		Reimbursement of expenditure	2,582	4,296.00	31,634	29,052	
Finlays Colombo Limited	Common Directors	Sales -Tea	(161,648)	(175,881)	(41,199)	(6,572)	
		Blending and packing charges	(2,426)	7,208			
		Reimbursement of expenditure	(2,681)	7,144			
		Settlements	132,128	155,597			
Finlays Extracts and Ingredients Limited, U.K.	Common Directors	Recovery of expenditure	8,923	10,005	1,292	749	
		Settlements	(7,631)	(9,256)			

NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2020

31. RELATED PARTY TRANSACTIONS (CONTINUED)

31.2 Transactions with key management personnel

According to Sri Lanka Accounting Standard (LKAS) 24 - Related Party Disclosures, key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Directors (including Executive and Non-Executive Directors) has been classified as key management personnel of the Company.

For the year ended 31st December	2020	2019
	Rs'000	Rs'000
Short-term employee benefits		
Total remuneration paid to key management personnel	11,884	9,428
	11,884	**9,428**

31.3 Pricing policies

Purchases of goods and services from Related Parties were made at normal trading terms on arms' length basis.

32. CAPITAL COMMITMENTS

There are no capital commitments as at the date of the Statement of Financial Position.

33. CONTINGENT LIABILITIES

1) UB Finance Company Limited (UBL) has filed a case against Hapugastenna Plantations PLC (HPL) in the District Court of Colombo in relation to a sale of the Palm Garden office related to the title of the land. HPL has raised a jurisdictional objection to the plaint and the Supreme Court refused leave to the petitioner and as such HPL can now proceed to trial in the District Court based on its amended answer and raise a jurisdiction objection. This case is still in progress and the company's lawyers are not in a position to ascertain the outcome of the case as at the date of the statement of Financial Position.

2) Hapugastenne Plantations PLC has issued a Corporate Guarantee on behalf of Udapussellawa Plantations PLC amounting to Rs. 165,000,000/-

There are no contingent liabilities as at the reporting date other than those disclosed above.

34. EVENTS OCCURRING AFTER REPORTING DATE

34.1 Applicable income tax rates

The Company is liable for income tax at the rate of 14% (2019: 14%) as the Company is predominantly conducting agricultural business as per the Inland Revenue Act No. 24 of 2017. Other income is taxed at 28%.

The subsidiary is liable for income tax at the rate of 28% (2019: 28%) per annum.

The Inland Revenue Amendment Act No 10 of 2021 was passed in the parliament and certified by the speaker on 13th May 2021. As per this amendment Act, the income tax rate applicable to companies has been reduced from 28% to 24%. Additionally, profits arising from the business of "agro farming" has been exempted for a period of 5 years commencing from 1st April 2019. Since this amendment Act was passed in the parliament subsequent to the reporting date, the Group considered these amendments as not substantively enacted as at the reporting date in accordance with LKAS 12 - "Income Taxes". Therefore, the Group continued to apply the rates and methods used in the calculation of Income Tax provision in the previous year (i.e, 31st December 2019) for the calculation of Income Tax provision for the year ended 31st December 2020.

34.2 Gazetted increas in daily wage rate

In the past wages of the Plantation workers were negotiated between Trade Unions and Regional Plantation Companies (RPCs), once in every two years and a Collective Agreement was signed between the parties. However, the last wage negotiations between the parties were not successful and therefore, the matter was referred to the Wages Board by the Minister of Labour. Consequently, The Wages Board without considering objections of the RPC's decided the minimum daily wage of Rs. 1,000/- comprising of a minimum daily wage of Rs. 900/- and a budgetary relief allowance of Rs. 100/- for workers in tea and rubber growing and manufacture trade and gazetted its decision on 5th March 2021.

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However, RPCs instituted a "Writ Application" in the Court of Appeal seeking an interim order, staying and/or suspending the operation of the decision of the Wages Board, but the Honorable Judges of the Court of Appeal issued notice on the Respondents of the case and was not inclined to issue an interim order and the Respondents were directed to file Objections and RPCs were directed to file Counter Objections. The matter was taken for argument at the Court of Appeal on 5th May 2021, counsel for RPCs conducted his oral submission. The matter was postponed for respondent's submissions to 31st May 2021. In the event Court of Appeal issues an unfavorable judgement to RPCs., the retirement benefit obligation calculated using gazetted daily wage rate as at 31st December 2020 would be Rs 961 million.

35. IMPACT OF COVID 19 AND DIRECTORS' ASSESSMENT ON THE USE OF GOING CONCERN ASSUMPTION

The Group has recorded a loss of Rs. 128 million (2019 : Rs. 642 million) during the year ended 31st December 2020. Further, the current liabilities of the Group has exceeded its current assets by Rs. 1,779 million (2019 : Rs. 1,787 million) as at the reporting date.

On 11th March 2020, the World Health Organization declared COVID-19 as a global pandemic situation. The pandemic has significantly affected the economy of Sri Lanka as well as the Group's business environment.

The Government initially declared a work-from-home period with a subsequent island-wide curfew being imposed on 20th March, 2020. At the very outset, other than for those engaged in essential services, many were compelled to stay at home, with most business operations reaching a near standstill. Thereafter, with activities being streamlined, the Group's operations gradually picked up pace. However, as a result the Group's cash flows were impacted due to the suspension of the Colombo Tea Auctions for two weeks in March, whilst crop intakes were significantly lower, primarily due to restrictions of working days. Transport of produce to Colombo too was limited and functioned with bottlenecks due to stringent lockdown measures introduced, coupled with prohibition of inter-district passenger travel.

With the Government declaring the plantation sector an essential service, the Group continued to operate its estates with executive supervision established through a process of online meetings and reporting frameworks. Following many stakeholder meetings, the industry rallied together and established the country's first-ever electronic tea auction, resulting in the first ever auction being held on Saturday, 4th April 2020. Although an improvement in tea prices was noted at auctions, the traded quantities were relatively low, primarily also due to crop losses arising from the prolonged drought in the first quarter of the year in tea-growing regions, which resulted in a revenue drop. Rubber prices continue to remain at the same levels prior to COVID-19, however, demand is expected to grow due to increased requirements for health and safety related products.

As such, the Directors of the Group carried out an assessment on the appropriateness of using the going concern assumption for the preparation of Financial Statements for the year ended 31st December 2020. Based on their judgement, the use of going concern assumption was determined as appropriate. Some of the key factors and assumptions that influenced the above determination are:

- The plantation sector being declared an 'essential service', enabling the Group to carry out its critical operations with minimum interruption during the lockdown period. The same prioritisation will be provided to the industry in case of a future lockdown.
- The Group has sufficient financing arrangements, both already negotiated and in the process of negotiation, enabling it to meet its financial commitments in a possible stressed situation. The behavioural pattern of tea and rubber prices will continue at the same trend.
- The Group already has experienced over carrying out operations in a lockdown environment and as a result similar operation could be carried out in a future lockdown without limiting the operations capacity.

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36. SEGMENTAL ANALYSIS

Group

	Tea		Rubber		Other		Total	
Rs'000	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Segment results								
Revenue	2,785,781	2,566,215	402,229	297,606	47,680	175,975	3,235,690	3,039,796
Operating expenses								
Revenue expenditure	2,463,838	2,739,081	299,793	294,447	38,336	36,520	2,801,967	3,000,547
Depreciation/amortisation	114,717	115,830	40,345	38,607	-	-	155,062	93,549
Other non-cash expenses	113,852	99,448	3,800	8,960	-	-	117,652	238,797
Gross profit / (loss)	**93,374**	**(388,144)**	**58,291**	**(44,408)**	**9,344**	**139,455**	**161,009**	**(293,097)**
Other operating income							158,083	158,223
Change in fair value of biological assets							154,775	113,849
Administration expenses							(258,267)	(251,872)
Net finance cost							(216,696)	(174,866)
Loss before tax							**(1,096)**	**(447,763)**
Segment assets								
Non-current assets	3,994,546	4,226,489	325,917	-	-	-	4,320,463	4,226,489
Current assets	639,585	530,019	4,759	-	-	-	644,344	530,019
	4,634,131	**4,756,508**	**330,676**	**-**	**-**	**-**	**4,964,807**	**4,756,508**
Segment liabilities								
Non-current liabilities	1,891,077	1,733,103	31,312	31,596	-	-	1,922,389	1,764,699
Current liabilities	2,410,815	2,306,088	12,638	11,078	-	-	2,423,453	2,317,166
	4,301,892	**4,039,191**	**43,950**	**42,674**	**-**	**-**	**4,345,842**	**4,081,865**
Segment capital expenditure								
Cost	**73,687**	**116,937**	**33,484**	**33,507**	**-**	**-**	**107,171**	**150,444**

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36. SEGMENTAL ANALYSIS (CONTINUED)

Company

	Tea		Rubber		Other		Total	
Rs'000	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Segment results								
Revenue	2,713,040	2,626,991	402,229	297,606	47,680	33,555	3,162,949	2,958,152
Operating expenses								
Revenue expenditure	2,383,169	2,680,312	299,793	294,447	38,337	36,520	2,721,299	3,011,279
Depreciation/amortisation	108,699	109,657	40,345	38,607	-	-	149,044	148,264
Other non-cash expenses	112,644	99,121	3,800	8,960	-	-	116,444	108,081
Segmental results	**108,528**	**(262,099)**	**58,291**	**(44,408)**	**9,343**	**(2,965)**	**176,162**	**(309,472)**
Other operating income							157,752	164,479
Change in fair value of biological assets							154,775	113,849
Administration expenses							(255,147)	(248,934)
Net finance cost							(215,789)	(179,941)
Profit/(loss) from operating activities							**17,753**	**(460,019)**
Segment assets								
Non-current assets	3,993,056	4,218,873	325,917	-	-	-	4,318,973	4,218,873
Current assets	559,216	455,046	4,759	-	-	-	563,975	455,046
	4,552,272	**4,673,919**	**330,676**	**-**	**-**	**-**	**4,882,948**	**4,673,919**
Segment liabilities								
Non-current liabilities	1,882,979	1,724,898	31,312	31,596	-	-	1,914,291	1,756,494
Current liabilities	2,404,931	2,317,472	12,638	11,078	-	-	2,417,569	2,328,550
	4,287,910	**4,042,370**	**43,950**	**42,674**	**-**	**-**	**4,331,860**	**4,085,044**
Segment capital expenditure								
Cost	**73,687**	**110,461**	**33,484**	**33,507**	**-**	**-**	**107,171**	**143,968**

36.1 Basis for segmentation

The Company has the following two strategic divisions, which are its reportable segments. These sectors offer different products and services.

Reportable segments	Operations
Tea	Cultivation, processing and sale of tea.
Rubber	Cultivation, processing and sale of rubber.
Other	Cultivation and sale of diversified crops and nursery plants etc.

There are varying levels of integration between each segment. Inter-segment pricing is determined on an arm's length basis.

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37. GROUP COMPOSITION

	Holding percentage	
Subsidiary Name	**2020**	**2019**
Newburgh Green Teas (Private) Limited	54%	54%

37.1 Non-controlling interests (NCI)

Name	Principal place of business	Operating Segment	Ownership interests held by NCI	
			2020	**2019**
Newburgh Green Teas (Private) Limited	Sri Lanka	Manufacturing and selling green teas	46%	46%

Summarised financial information of Newburgh Green Teas (Private) Limited, prepared in accordance with LKAS and SLFRSs is given below:

Rs'000	**2020**	**2019**
Revenue	93,588	126,271
Profit / (loss) for the year	(906)	13,503
Other comprehensive income	-	(250)
Total comprehensive income	(906)	13,253
Total comprehensive income attributable to NCI	**(8,257)**	**6,096**
Non-current assets	56,922	66,309
Current assets	88,320	93,702
Non-current liabilities	29,604	30,893
Current liabilities	14,609	8,036
Net assets	101,029	121,083
Net assets attributable to NCI	**47,079**	**55,336**
Cash flows from operating activities	18,213	15,768
Cash flows from investing activities	(18,297)	(1,092)
Cash flows from financing activities	(4,713)	(13,000)
Net increase in cash and cash equivalents	**(4,797)**	**1,676**

38. FINANCIAL INSTRUMENTS

38.1 Fair value hierarchy for financial assets carried at fair value

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level I: Quoted market price (unadjusted) in an active market for an identical instrument.

Level II: Valuation techniques based on observable inputs, either directly - i.e. as prices - or indirectly - i.e. derived from prices. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level III: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued

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based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, in comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates. The objective of the valuation technique is to arrive at a fair value determination that reflects the price of the financial instrument as at the reporting date, that would have been determined by the market participants acting at arm's length.

Fair value versus carrying amounts

Fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

Group

	2020		2019	
Rs'000	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets not measured at fair value				
Trade and other receivables	45,145	45,145	98,185	98,185
Amounts due from related companies	32,926	32,926	29,801	29,801
Cash and cash equivalents	135,929	135,929	49,228	49,228
	214,000	**214,000**	**177,214**	**177,214**
Financial liabilities not measured at fair value				
Trade and other payables	527,134	527,134	506,681	506,681
Lease liabilities	443,735	443,735	425,893	425,893
Amounts due to related companies	1,361,570	1,361,570	1,260,893	1,260,893
Interest bearing borrowings	352,501	352,501	223,687	223,687
Bank overdraft	336,454	336,454	397,227	397,227
	3,021,394	**3,021,394**	**2,814,381**	**2,814,381**

Company

	2020		2019	
Rs'000	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets not measured at fair value				
Trade and other receivables	39,153	39,153	94,053	94,053
Amounts due from related companies	40,832	40,832	29,801	29,801
Cash and cash equivalents	75,569	75,569	4,757	4,757
	155,554	**155,554**	**128,611**	**128,611**
Financial liabilities not measured at fair value				
Trade and other payables	521,250	521,250	502,528	502,528
Lease liabilities	443,735	443,735	425,893	425,893
Interest bearing borrowings	352,501	352,501	223,687	223,687
Amounts due to related companies	1,361,570	1,361,570	1,276,430	1,276,430
Bank overdraft	336,454	336,454	397,227	397,227
	3,015,510	**3,015,510**	**2,825,765**	**2,825,765**

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Analysis of financial instruments by measurement basis

The fair values of financial assets and liabilities, together with carrying amounts shown in the Statement of Financial Position, are as follows.

Group

	Carrying amount					
	2020			2019		
Rs'000	FVTPL	Financial Assets/ Liabilities at Amortised cost	Others	FVTPL	Financial Assets/ Liabilities at Amortised cost	Others
31st December						
Financial assets						
Trade and other receivables	-	45,145	-	-	98,185	-
Amounts due from related companies	-	32,926	-	-	29,801	-
Derivative asset	4,981	-	-	20,814	-	-
Cash and cash equivalents	-	135,929		-	49,228	-
	4,981	**214,000**	**-**	**20,814**	**177,214**	**-**
Financial liabilities						
Trade and other payables	-	-	527,134	-	-	506,681
Lease liabilities	-	443,735	-	-	425,893	-
Amounts due to related companies	-	-	1,361,570	-	-	1,260,893
Interest bearing borrowings	-	352,501	-	-	223,687	-
Bank overdraft	-	-	336,454	-	-	397,227
	-	**796,236**	**2,225,158**	**-**	**649,580**	**2,164,801**

Company

	Carrying amount					
	2020			2019		
Rs'000	FVTPL	Financial Assets/ Liabilities at Amortised cost	Other	FVTPL	Financial Assets/ Liabilities at Amortised cost	Others
31st December						
Financial assets						
Trade and other receivables	-	39,153	-	-	94,053	-
Amounts due from related companies	-	40,832	-		29,801	-
Derivative asset	4,981	-	-	20,814	-	-
Cash and cash equivalents	-	75,569	-	-	4,757	-
	4,981	**155,554**	**-**	**20,814**	**128,611**	**-**
Financial liabilities						
Trade and other payables	-	-	521,250	-	-	502,528
Lease liabilities	-	443,735	-	-	425,893	-
Amounts due to related companies	-	-	1,361,570	-	-	1,276,430
Interest bearing borrowings	-	352,501	-	-	223,687	-
Bank overdraft	-	-	336,454	-	-	397,227
	-	**796,236**	**2,219,274**	**-**	**649,580**	**2,176,185**

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Financial Assets and Liabilities by fair value hierarchy

Group

	Fair Value					
	2020			2019		
Rs'000	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Trade and other receivables	-	-	45,145	-	-	98,185
Amounts due from related companies	-	-	32,926	-	-	29,801
Cash and cash equivalents	-	135,929	-	-	49,228	-
Derivative asset	-	4,981	-	-	20,814	-
	-	**140,910**	**78,071**	**-**	**70,042**	**127,986**
Financial liabilities						
Trade and other payables	-	-	527,134	-		506,681
Lease liabilities	-	443,735	-	-	425,893	-
Amounts due to related companies	-	1,361,570	-	-	1,260,893	-
Interest-bearing borrowings	-	352,501	-	-	223,687	-
Bank overdraft	-	336,454	-	-	397,227	-
	-	**2,494,260**	**527,134**	**-**	**2,307,700**	**506,681**

Company

	Fair Value					
	2020			2019		
Rs'000	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Trade and other receivables	-	-	39,153	-	-	94,053
Amounts due from related companies	-	-	40,832	-	-	29,801
Cash and cash equivalents	-	75,569	-	-	4,757	-
Derivative asset	-	4,981	-	-	20,814	-
	-	**80,550**	**79,985**	**-**	**25,571**	**123,854**
Financial liabilities						
Trade and other payables	-	-	521,250	-	-	502,528
Lease liabilities	-	443,735	-	-	425,893	-
Amounts due to related companies	-	-	1,361,570	-	-	1,276,430
Interest-bearing borrowings	-	352,501	-	-	223,687	-
Bank overdraft	-	336,454	-	-	397,227	-
	-	**1,132,690**	**1,882,820**	**-**	**1,046,807**	**1,778,958**

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39. FINANCIAL RISK MANAGEMENT

Overview

The Group 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 present qualitative and quantitative information about the Group's exposure to each of the above risks, The Group's objectives, policies and procedures for measuring and managing those risks.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established on identify and analyses the risk faced by the group, to set appropriate risk limits and controls and to monitor risk and adherence to limits. Risk management policies and system are reviewed regularly to reflect changes in market conditions and Group's activities. The Group, through its training amd management standards and procedures, aims to maintain a disciplined constructive control environment in which all employees understand their roles and obligations.

The Group's audit committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risk faced by the Group. The Group audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the result of which are reported to the audit committee.

Credit risk

Credit risk is the risk of financial loss to the Group, if a customer or counter party to a financial instrument fails to meet its contractual obligation, and arises principally from the Group's receivables from customers and from investments in debt securities.

The Group is exposed to credit risk from its operating activities (primarily trade receivables), other advances including loans and advances to staff/workers, and from its financing activiaties, including deposits with banks and other financial instruments.

The carrying amount of financial assets represents the maximum credit exposure.

Risk exposure

The maximum risk positions of financial assets which are generally subject to credit risk are equal to their carrying amounts. Maximum exposure to credit risk as at the reporting date was as follows:

	Group		Company	
Rs'000	**2020**	**2019**	**2020**	**2019**
Amounts due from related companies	32,926	29,801	40,832	29,801
Trade and other receivables	95,692	157,250	89,700	153,118
Other financial assets	4,981	20,814	4,981	20,814
	133,599	**207,865**	**135,513**	**203,733**

Impairment losses on financial assets and contract assets recognised in profit or loss were as follows.

	Group		Company	
Rs'000	**2020**	**2019**	**2020**	**2019**
Impairment losses on trade and other receivables	(63,780)	(13,933)	(63,780)	(13,933)

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Credit quality of financial assets

An analysis of the credit quality of trade receivables that were neither past due nor impaired and the aging of trade receivables that were past due but not impaired as at Balance Sheet dates are as follows

	Group		Company	
Rs'000	**2020**	**2019**	**2020**	**2019**
Trade receivables				
Neither past due not impaired	-	-	-	-
Past due but not impaired				
1- 30 days	33,690	51,358	27,747	48,026
31-90 days	-	-	-	-
91- 120 days	-	-	-	-
Total not impaired trade receivables	**33,690**	**51,358**	**27,747**	**48,026**

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, Management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which the customer operates.

The Group limits the exposure to credit risk from the trade receivables due to the establishment of maximum payment period of seven days from the tea brokers.

More than 85% of the Group's customers have been transacting with the Group for over four years, and none of these customers' balances have been written off or are credit impaired at the reporting date. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, whether they are a wholesale, retail or end-user customer, their geographic location, industry, trading history with the Group and existence of previous financial difficulties.

The Group trades only with recognised, credit-worthy third parties. It is the Group's policy that all clients who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables balances are monitored on an ongoing basis with the results that the Group's exposure to bad debts is not significant.

The Group does not require collateral in respect of most trade and other receivables.

Amounts due from related companies

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each related party.

The Group does not require a provision for impairment in respect of amounts due from related parties.

Cash and cash equivalents

The Group has held cash and cash equivalents of Rs. 139,928,451/- as at 31st December 2020 (2019: Rs. 49,228,000/-) which represent its maximum credit credit exposure on these assets.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing this exposure 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 risking damage to the Group's reputation.

The Group's policy is to hold cash and undrawn committed facilities at a level sufficient to ensure that the Group has available funds to meet its short and medium term capital and funding obligations, including organic growth and acquisition activities, and to meet any unforeseen obligations and opportunities. The Group holds cash and undrawn committed facilities to enable the group to manage its liquidity risk.

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

Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including bank loans and overdrafts.

The mixed approach combines elements of the cash flow-matching approach and the liquid assets approach. The business units attempt to match cash outflows in each time period against a combination of contractual cash inflows plus other inflows that can be generated through the sale of assets or other secured borrowings.

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The table below summarises the maturity profile of the financial liabilities based on contractual undiscounted payments.

Group

Rs'000	Carrying Amount	Less than 1 year	More than 1 year	Total
As at 31st December 2020				
Non-derivative financial liabilities				
Interest-bearing loans and borrowings	352,501	185,842	166,659	352,501
Lease liabilities	443,735	72,125	1,432,884	1,505,009
Trade and other payables	527,134	527,134	-	527,134
Amounts due to related companies	1,361,570	1,361,570	-	1,361,570
Bank overdraft	336,454	336,454	-	336,454
	3,021,394	**2,483,125**	**1,599,543**	**4,082,668**
As at 31st December 2019				
Non-derivative financial liabilities				
Interest-bearing loans and borrowings	223,687	144,530	79,157	223,687
Net liability to the lessor	425,893	63,183	1,413,060	1,476,243
Trade and other payables	506,681	506,681	-	506,681
Amounts due to related companies	1,260,893	1,260,893	-	1,260,893
Bank overdraft	397,227	397,227	-	397,227
	2,814,381	**2,372,514**	**1,492,217**	**3,864,731**

Company

As at 31st December 2020				
Non-derivative financial liabilities				
Interest-bearing loans and borrowings	352,501	185,842	166,659	352,501
Lease liabilities	443,735	72,125	1,432,884	1,505,009
Trade and other payables	521,250	521,250	-	521,250
Amounts due to related companies	1,361,570	1,361,570	-	1,361,570
Bank overdraft	336,454	336,454	-	336,454
	3,015,510	**2,477,241**	**1,599,543**	**4,076,784**
As at 31st December 2019				
Non-derivative financial liabilities				
Interest-bearing loans and borrowings	223,687	144,530	79,157	223,687
Lease liabilities	425,893	63,183	1,413,060	1,476,243
Trade and other payables	502,528	502,528	-	502,528
Amounts due to related companies	1,276,430	1,276,430	-	1,276,430
Bank overdraft	397,227	397,227	-	397,227
	2,825,765	**2,383,898**	**1,492,217**	**3,876,115**

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and 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 optimising the returns.

Currency risk

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchase, receivables and borrowings are denominated and the respective functional currencies of Group Companies. The functional currencies of Group Companies are primarily the US Dollar and Sterling Pound. The currencies in which these transactions are primarily denominated are Sterling Pound and US Dollar.

NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2020

Exposure to currency risk

The summary quantitative data about the Group's exposure to currency risk as reported in the management of the Group is as follows.

	As at 31st December 2020		As at 31st December 2019	
	USD	GBP	USD	GBP
Amounts due to related companies	(4,577,909)	(25,839)	(4,208,822)	(25,839)
Net financial statement position exposure	**(4,577,909)**	**(25,839)**	**(4,208,822)**	**(25,839)**

The following significant exchange rates have been applied

	Average Rate		Closing Rate	
	2020	2019	2020	2019
USD	185.94	178.28	184.67	181.21
GBP	238.38	238.43	252.97	228.56

Sensitivity analysis

A reasonable possible strengthening (weakening) of the US Dollar and Sterling pound against all other currencies as at 31st December would have affected the measurement of financial instruments denominated in a foreign currency, and affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

	Profit or Loss		Equity, net of Tax	
	Strengthening	Weakening	Strengthening	Weakening
USD (10% Increase)	-	(85,194)	-	(85,194)
USD (10% Decrease)	85,194	-	85,194	-
	85,194	**(85,194)**	**85,194**	**(85,194)**
GBP (10% Increase)	-	(654)	-	(654)
GBP (10% Decrease)	654	-	598	-
	654	(654)	598	(654)
	85,848	**(85,848)**	**85,792**	**(85,848)**

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument fluctuate because of changes in market interest rates.

The Group has borrowings with AWPLR interest rate and would expose the Group's cash flow/profit as the amount of interest paid would change depending on market interest rate.

The Group's exposure to interest rate risk as at 31st December 2020 and sensitivity analysis to Profit and loss if interest rates increased/decreased by 100 basis points is summarised below.

	Increase/ decrease in basis points	Rs.
Increase	+100	(5,023)
Decrease	-100	5,023

The above table demonstrates the sensitivity to a reasonable change in interest rates on loans where floating rates are applicable with all other variables held constant.

Constant monitoring of market interest rates is carried out to ensure appropriate steps are taken to maximise the return on financial management and to minimise the cost of borrowings. The Group very strongly negotiates with banks and obtains the best possible interest rates for the Group's borrowings. Listed below are steps adopted by the Group to minimise the effect of interest rate risks.

- Entering into loans with interest rate caps and fixed rates.
- Renegotiating with banks on interest rates whenever there are favourable fluctuations in the market rates.

TEN YEAR SUMMARY

Year ended 31st December

Rs'000	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Performance										
Revenue	3,197,497	3,209,499	3,856,998	4,015,078	3,096,380	3,010,317	3,911,865	3,351,806	3,039,796	3,235,690
Gross profit/(loss)	199,210	224,531	479,457	284,361	(155,595)	35,867	451,578	(38,649)	(293,097)	161,009
Profit / (loss) before interest and tax	33,197	169,689	364,192	306,745	(285,553)	(141,146)	358,328	(205,785)	(272,897)	215,600
Interest	55,333	72,718	76,875	73,029	97,845	119,232	127,625	193,998	174,866	216,696
Profit / (loss) before tax	(22,136)	96,971	287,317	233,716	(383,398)	(260,378)	230,703	(399,783)	(447,763)	(1,096)
Taxation	(9,150)	23,801	88,012	51,303	(51,375)	(30,542)	(105,221)	51,112	(194,335)	(126,774)
Net profit/ (loss)	(12,986)	73,170	199,305	182,413	(332,023)	(229,837)	125,482	(348,671)	(642,098)	(127,870)
Other comprehensive income/ (expense)	(190,510)	175,445	25,441	2,610	12,837	73,396	51,988	(3,161)	16,047	72,192
Total comprehensive income/ (expense) for the year	(203,496)	248,615	224,746	185,023	(319,186)	(156,441)	177,470	(351,832)	(626,051)	(55,678)

Rs'000	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Assets and liabilities										
Non current assets	2,914,637	3,193,826	3,475,134	3,964,664	4,018,867	3,918,920	4,068,841	4,103,965	4,226,489	4,320,463
Current assets	600,018	580,346	680,992	600,144	480,375	668,003	689,687	605,523	530,019	644,344
Total assets	3,514,655	3,774,172	4,156,126	4,564,808	4,499,242	4,586,923	4,758,528	4,709,488	4,756,508	4,964,807
Current liabilities	779,471	809,379	901,458	1,041,441	1,172,318	1,552,124	1,537,749	1,802,315	2,317,166	2,423,453
Non current liabilities	1,361,092	1,227,998	1,293,129	1,376,867	1,501,110	1,366,926	1,381,435	1,419,661	1,764,699	1,922,389
Long term borrowings	61,324	22,298	5,952	1,877	161,752	147,069	116,408	178,126	79,157	166,659
Retirement benefit obligations	777,259	674,006	692,412	746,617	785,207	713,840	649,647	699,140	746,827	717,498
Other non current liabilities	522,509	531,694	594,765	628,374	554,151	506,017	615,380	542,395	938,715	1,038,232

Rs'000	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Share capital and reserves										
Stated capital	550,000	550,000	550,000	550,000	550,000	550,000	550,000	550,000	550,000	550,000
Revaluation reserve	325,278	315,069	305,780	296,474	286,676	277,116	267,345	257,682	-	-
General reserve	470,380	845,260	1,075,666	1,263,216	943,774	790,237	975,712	624,671	-	-
Total shareholders' fund	1,345,658	1,710,329	1,931,446	2,109,690	1,780,451	1,617,354	1,793,057	1,432,352	619,307	571,886
Non-controling interest	28,434	26,466	30,093	36,809	45,363	50,520	46,287	55,159	55,336	47,079

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Financial ratios										
ROCE - %	1.21	5.10	9.97	7.45	(7.06)	(3.54)	8.61	(5.00)	(6.58)	5.07
Current ratio - times	0.77	0.72	0.76	0.58	0.41	0.43	0.45	0.34	0.23	0.27
Debt equity ratio - times	0.24	0.15	0.12	0.10	0.37	0.40	0.40	0.55	2.14	2.66
Interest cover - times	0.60	2.33	4.74	4.20	(2.92)	(1.18)	2.81	(1.06)	(1.56)	0.99
Total assets to current liabilities - %	22.18	21.45	21.69	22.81	26.06	33.84	32.32	38.27	48.72	48.81

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Investors ratios										
Earnings / (loss) per share - Rs	(0.20)	1.62	4.23	3.76	(7.39)	(5.11)	2.67	(7.72)	(13.98)	(2.58)
Price earnings ratio	(197.00)	23.92	6.93	9.94	(3.07)	(3.05)	11.24	(2.11)	(1.11)	(7.09)
Dividend per share - Rs	2.00	-	-	-	-	-	-	-	-	-
Market price of a share - Rs	39.40	38.80	29.30	37.40	22.70	15.60	30.00	16.30	15.50	18.30
Market capitalisation - Rs'000	1,824,843	1,797,053	1,357,053	1,732,211	1,051,368	722,526	1,389,474	754,947	717,898	847,583
Net assets per share - Rs	29.05	36.93	41.70	45.55	38.44	34.92	38.71	30.93	13.37	12.35

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Operating ratios										
Annual turnover growth - %	(9.30)	0.38	20.17	4.10	(22.88)	(2.78)	29.95	(14.32)	(9.31)	6.44
No of employees	9,278	8,448	8,187	8,141	7,400	6,752	6,734	7,746	7,183	6,501
Turnover per employee - Rs'000	344.63	379.91	471.11	493.19	418.43	445.84	580.91	432.71	423.19	497.72
Fixed assets to turnover Ratio - %	1.10	1.00	1.11	1.01	0.77	0.77	0.96	0.82	0.72	0.75

INVESTOR INFORMATION

1. Stock exchange

The Issued Ordinary Shares of Hapugastenne Plantations PLC are listed with the Colombo Stock Exchange of Sri lanka

2. Distribution of ordinary shareholding

	2020			2019		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1 - 1,000	21,310	2,408,849	5.20	21,348	2,413,487	5.21
1,001 - 10,000	107	332,392	0.72	106	327,029	0.71
10,001 - 100,000	26	606,907	1.31	26	649,604	1.40
100,001 - 1,000,000	-	-	-	-	-	-
over 1,000,000	4	42,967,642	92.77	4	42,925,670	92.68
Total	**21,447**	**46,315,790**	**100.00**	**21,484**	**46,315,790**	**100.00**

3. Distribution of ordinary shareholders

	2020			2019		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Non - Residents	19	11,116,531	24.00	16	11,002,962	23.76
Residents	21,428	35,199,259	76.00	21,468	35,312,828	76.24
Total	**21,447**	**46,315,790**	**100.00**	**21,484**	**46,315,790**	**100.00**
Individuals	21,353	3,089,803	6.67	21,383	3,057,403	6.60
Institutions	94	43,225,987	93.33	101	43,258,387	93.40
Total	**21,447**	**46,315,790**	**100.00**	**21,484**	**46,315,790**	**100.00**

4. Golden shareholder

The Golden Share of Rs. 10/- is currently held by the Secretary to the Treasury and should be owned either directly by the Government or by a 100% Government - owned Company.

5. Information on shares

		2020	2019	2018	2017	2016
Highest price during the year	Rs.	22.90	21.50	30.80	37.30	27.50
	Date	(09/11/2020)	(29/01/2019)	(12/02/2018)	(06/10/2017)	(05/02/2016)
Lowest price during the year	Rs.	8.00	13.60	13.50	14.60	15.10
	Date	(13/03/2020)	(8/03/2019)	(17/08/2018)	(26/01/2017)	(05/09/2016)
Closing price	Rs.	18.30	15.50	16.30	30.00	15.60
Trade Volume	Nos	621	1,001	900	2,588	313
Share Volume	Nos	409,233	285,076	259,161	2,344,971	23,798
Turnover	Rs.	7,987,105	4,702,187	6,064,692	71,512,010	451,493

6. Twenty major shareholders

	Name of Shareholder	2020 No. of Shares	2020 %	2019 No. of Shares	2019 %
1	James Finlay Plantation Holdings (Lanka) Limited	27,265,189	58.87	27,265,189	58.87
2	James Finlay Limited (“JFL”)	9,753,979	21.06	9,753,979	21.06
3	Jacey Trust Services (Private) Limited (held for the benefit of JFL)	4,661,774	10.07	4,661,774	10.07
4	Beta Holdings Limited	1,286,700	2.78	1,244,728	2.69
5	Sandwave Limited	71,448	0.15	-	-
6	Mrs.M.J. Nihara	55,371	0.12	10,891	0.02
7	Mr. Priyantha Ruwanpathirana	46,100	0.10	-	-
8	People’s Leasing And Finance PLC / Mr. E J B U Fernando	45,738	0.10	47,449	0.10
9	Cocoshell Activated Carbon Company Private Limited	44,000	0.09	44,000	0.09
10	Mr.R.R. Sarath Ananda	35,097	0.08	-	-
11	Mr. P. K. Alawathurage	23,127	0.05	23,127	0.05
12	Mrs. O. V. Samarasuriya	23,042	0.05	23,042	0.05
13	Mr. C. T. M. Pathirana	21,500	0.05	21,500	0.05
14	Mr. S. L. P. K. P. Samarasuriya	20,000	0.04	19,500	0.04
15	People’s Leasing And Finance PLC / Hi Line Trading (Pvt) Ltd	20,000	0.04	27,860	0.06
16	Mr. Rohitha Wickramasinghe	19,275	0.04	-	-
17	Hatton National Bank PLC/Ravindra Erle Rambukwelle	18,000	0.04	15,450	0.03
18	Mr. M.I. Abdul Hameed	17,400	0.04	17,400	0.04
19	Dialog Finance PLC/ Y.R.P.De Silva	15,100	0.03	-	-
20	Mr.T.G Janith Ayemal	14,245	0.03	5,595	0.01
	Total	**43,457,085**	**93.83**	**43,181,484**	**93.23**
	Other shareholders	**2,858,705**	**6.17**	**3,134,306**	**6.77**
	Issued share capital	**46,315,790**	**100.00**	**46,315,790**	**100.00**

7. Minimum public holding

	As At 31.12.20	As At 31.12.19
Float adjusted market capitalisation (Rs.)	84,757,896	71,789,475
Public holding% of the stated capital	10%	10%
Number of public shareholders	21,442	21,478

The Company is in compliance with the minimum public holding requirement depicted in option 2 of the Section 7.13.1.(b) of the Listing Rules of the Colombo Stock Exchange.

VALUE ADDED STATEMENT

RS. '000	2020	%	2019	%
Turnover	3,235,690		3,039,796	
Other Income	312,858		272,072	
Total Revenue	**3,548,548**	**100**	**3,311,868**	**100**
Cost of Materials and Services Bought	1,495,186	42	1,868,291	54
	2,053,362	**58**	**1,443,577**	**46**
Distribution of value added				
A To employees as Remuneration	1,712,950	83	1,695,646	117
B To Government	6,532	-	24,676	2
C To Lenders of Capital	216,696	11	174,866	12
D To Shareholders	-	-	-	-
E Retained in the Business				
Provision for Depreciation	172,862	8	174,440	12
Profit Retained	(55,678)	(3)	(626,051)	(43)
	2,053,362	**100**	**1,443,577**	**100**

SEGMENTAL INFORMATION

Year ended 31st December

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue extent - hectares										
Tea	4,631.88	3,976.14	3,945.89	3,926.77	3,829.12	3,821.68	3,818.09	3,764.27	3,705.07	3688.15
Rubber	995.95	1,022.13	1,107.52	1,242.13	1,373.26	1,447.06	1,436.31	1,531.48	1,490.61	1532.09
Total	**5,627.83**	**4,998.27**	**5,053.41**	**5,168.90**	**5,202.38**	**5,268.74**	**5,254.40**	**5,295.75**	**5,195.68**	**5,220.24**
Production - Kg'000										
Tea	8,044	7,302	8,046	8,042	7,070	5,753	5,674	5,353	4,967	4,723
Rubber	889	839	959	890	931	1,227	1,335	1,239	1,252	1,397
GSA - Rs										
Tea-per Kg	340.52	374.06	433.04	440.02	377.77	440.27	588.53	538.09	519.52	602.49
Rubber-per Kg	452.52	376.17	340.00	257.55	226.41	219.48	314.64	250.16	243.90	299.01
Revenue - Rs'000										
Tea	2,691,155	2,802,376	3,440,674	3,681,859	2,758,165	2,561,411	3,398,676	2,941,156	2,566,215	2,785,781
Rubber	401,530	303,505	313,364	217,381	198,674	255,975	405,528	299,542	297,606	402,229
Others	104,812	103,618	102,960	115,838	139,541	192,931	107,661	111,108	175,975	47,680
Total	**3,197,497**	**3,209,499**	**3,856,998**	**4,015,078**	**3,096,380**	**3,010,317**	**3,911,865**	**3,351,806**	**3,039,796**	**3,235,690**
Gross profit - Rs'000										
Tea	(96,114)	44,073	361,986	232,721	(217,317)	(69,426)	327,263	(75,787)	(388,144)	93,374
Rubber	215,502	130,267	110,167	9,221	(5,448)	(7,287)	83,069	(12,925)	(44,408)	58,291
Others	79,822	50,191	7,304	42,419	67,170	112,580	41,246	39,160	139,455	9,344
Total	**199,210**	**224,531**	**479,457**	**284,361**	**(155,595)**	**35,867**	**451,578**	**(49,552)**	**(293,097)**	**161,009**

GLOSSARY

bps
Basis points.

COP
Cost of Production. Generally refers to the cost of producing one kilo of produce (Tea/Rubber).

Crop
The total produce harvested.

Current Ratio
Current Assets divided by current liabilities.

Dividend Cover
Profit attributable to shareholders divided by gross dividend.

Earnings Per Share
Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue and ranking for dividend.

Extent in bearing
The extent of land from which crop is being harvested.

GSA
Gross Sale Average. Average sale price obtained (over a period of time for a kilo of produce) before any deductions such as Brokerage fees.

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

Immature Plantation
The extent of plantation which is under development and is not being harvested.

Infilling
A method of field development whereby planting of individual plants is done in order to fill the vacancies of existing revenue fields.

Interest Cover
Profit before Gross Interest and Tax divided by net interest cost.

ISO
International Organization for Standardization.

Market Capitalization
Number of shares issued multiplied by the market value of each share

Mature Plantation
The extent of plantation from which crop is being harvested.

Mn
Million.

Net Assets
Sum of Fixed Assets and Current Assets less total liabilities.

Net Assets per Share
Net Assets divided by the number of Ordinary Shares in issue.

NSA
Net Sale Average. Average sale price obtained (over a period of time) after deducting Brokerage fees, etc.

Price Earnings Ratio
Market Price of a share divided by earnings per share.

Rs '000
Rupees Thousands.

Return on Equity
Attributable profits divided by average shareholders' funds.

VP Tea
Vegetatively Propagated Tea.

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

YOY
Year on year.

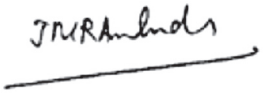
NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the 28th Annual General Meeting of Hapugastenne Plantations PLC will be held as a Virtual Meeting at Finlay House, No 186, Vauxhall Street, Colombo 02 on Wednesday, 30th June 2021 at 10.00 a.m. and the business to be brought before the meeting will be:

AGENDA

1. To consider and receive the Annual Report of the Board of Directors on the Affairs of the Company and the Statements of Audited Accounts for the year ended 31st December 2020 with the Report of the Auditors thereon.
2. To re-elect Mr. G.R. Chambers who, in terms of Articles 86 and 87 of the Articles of Association of the Company, retires by rotation at the Annual General Meeting as a Director.
3. To re-elect Mr. B.V. Sinthaka Ruwan who, in terms of Article 94 of the Articles of Association of the Company, retires at the Annual General Meeting as a Director.
4. To re-elect Mr. S.T. Gunatilleke who, in terms of Article 94 of the Articles of Association of the Company, retires at the Annual General Meeting as a Director.
5. To authorise the Directors to determine contributions to charities up to a limit of Rs. 100,000/- for the financial year ending 31st December 2021.
6. To re-appoint Messrs KPMG as Auditors and authorise the Directors to determine their remuneration.

By order of the Board of Directors



S S P Corporate Services (Private) Limited
Secretaries
No.101, Inner Flower Road,
Colombo 03
31st May, 2021

Note:

A member is entitled to appoint a proxy to attend and vote instead of himself/herself and a Proxy need not be a member of the Company. A Form of Proxy is enclosed for this purpose. The instrument appointing a proxy must be deposited at the Registered Office of the Company, No. 95A, Nambapana, Ingiriya.

FORM OF PROXY

I/We.....(NIC No.....)

of .....

being a member/members of Hapugastenne Plantations PLC hereby appoint

(i).....

(NIC No.....) of .....

..... or failing him/her,

(ii) NANAYAKKARA HETTIARACHCHIGE GIHAN SUDHARSHANA JAYASINGHE, Chairman of Hapugastenne Plantations PLC, or failing him any one of the Directors of the Company as *my/our proxy to vote as indicated hereunder for *me/us and on *my/our behalf at the 28th Annual General Meeting of the Company to be held as a virtual meeting at Finlay House, No 186, Vauxhall Street, Colombo 02 on 30th June 2021 at 10.00 a.m. and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

	FOR	AGAINST
1. To consider and adopt the Annual Report of the Board of Directors on the Affairs of the Company and the Statements of Audited Accounts for the year ended 31st December 2020 with the report of the Auditors thereon.	○	○
2. To re-elect Mr. G.R. Chambers who, in terms of Articles 86 and 87 of the Articles of Association of the Company, retires by rotation at the Annual General Meeting as a Director.	○	○
3. To re-elect Mr. B.V. S. Ruwan who, in terms of Article 94 of the Articles of Association of the Company, retires at the Annual General Meeting as a Director.	○	○
4. To re-elect Mr. S.T. Gunatilleke who, in terms of Article 94 of the Articles of Association of the Company, retires at the Annual General Meeting as a Director.	○	○
5. To authorise the Directors to determine contributions to charities up to a limit of Rs.100,000/- for the financial year ending 31st December 2021	○	○
6. To re-appoint Messrs KPMG as Auditors and authorise the Directors to determine their remuneration.	○	○

As witness my/our hand/s this ..... day of .....Two Thousand and Twenty One.

……..	……..	……..
NIC Number/Reg No	Signatures	

Please provide the following details

Name of the Shareholder : .....

Email Address of the Shareholder : .....

CDS A/C No/ NIC No/Company Reg No : .....

Folio No/ No of Shares held : .....

Name of the Proxy holder : .....

Email Address of the Proxy holder : .....

Proxy holder's ID No (if not a Director) : .....

INSTRUCTIONS AS TO COMPLETION

1. **In terms of Article 69 of the Articles of Association of the Company;**

   An instrument appointing a proxy shall be in writing and in the case of an individual shall be signed by the appointor or by his attorney; or in the case of a corporation shall be either under the common seal or signed by its attorney or by an officer authorised to do so on behalf of the corporation. The Company may, but shall not, be bound to require evidence of the authority of any such attorney or officer. A proxy need not be a Member of the Company.

2. **In terms of Article 70 of the Articles of Association of the Company;**

   A non-resident shareholder may appoint and revoke proxies by cable or facsimile provided such cable or facsimile is received not less than forty-eight (48) hours before the commencement of the Meeting at which it is to be used.

3. **In terms of Article 71 of the Articles of Association of the Company**;

   The instrument appointing a proxy shall be lodged and the Power of Attorney (if any) under which it is signed, or a notarially certified copy of such power shall, if required, be deposited for inspection at the Office, in each case not less than forty-eight (48) hours before the time appointed for holding the Meeting or adjourned Meeting, or in the case of a poll before the time appointed for the taking of the poll at which the person named in the instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.

4. **In terms of Article 75 of the Articles of Association of the Company;**

   Any corporation which is a Member of the Company may, by resolution of its Directors or other governing body, authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of Members of the Company, and the person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual Member of the Company.

5. **In terms of Article 64 of the Articles of Association of the Company;**

   In the case of joint-holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint-holders, and for this purpose seniority shall be determined by the order in which the name stands in the Register of Members in respect of the joint-holding.

6. Kindly indicate with an X in the space provided how your proxy is to vote on each resolution. If no indication is given, the proxy in his discretion will vote as he/she thinks fit. Every alteration or addition to the Form of Proxy must be duly authenticated by the full signature of the shareholder signing the Form of Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

7. To be valid, this Form of Proxy must be deposited at the Registered Office of the Company, No. 95A, Nambapana, Ingiriya, by 10.00 a.m., on 28th June 2021, being forty-eight (48) hours before the holding of the Meeting.

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CORPORATE INFORMATION

Name of Company
Hapugastenne Plantations PLC

Company registration number
PQ 62

Legal form
Public Quoted company with limited liability incorporated in Sri Lanka on 11th June 1992 Ordinary shares listed on the Colombo Stock Exchange.

Principal activities and nature of operation
Cultivation, manufacture and sale of tea, rubber, coconut and other crops.

Financial year ended
31st December

Directors
Mr. N. H. G. S. Jayasinghe *(Chairman / MD)*
Mr. D. J. Ratwatte *(Chief Executive Officer)*
Mr. G. R. Chambers
Mr. J. M. Rutherford
Mr. E. D. P. Soosaipillai
Mr. G. K. B. Dasanayaka
Mr. B.V. S. Ruwan
Mr. S.T. Gunatilleke

Audit Committee
Mr. E. D. P. Soosaipillai
Mr. N. K. H. Ratwatte
Mr. G. K. B. Dasanayaka
Mr. S.T. Gunatilleke

Related Party Transactions Review Committee
Mr. G. K. B. Dasanayaka
Mr. E. D. P. Soosaipillai
Mr. N. K. H. Ratwatte

Remuneration Committee
Mr. G. R. Chambers
Mr. E. D. P. Soosaipillai
Mr. G. K. B. Dasanayaka

Secretaries/ Registrars
S S P Corporate Services (Pvt) Ltd.,
101, Inner Flower Road,
Colombo 3.
Telephone : +94 11 2573894

Registered office
No. 95A, P. 0. Box 02,
Nambapana,
Ingiriya.

Head office
No. 95A, P. 0. Box 02,
Nambapana,
Ingiriya.
Telephone .+94 34 4297500
Fax +94 34 2268009
Email : srilanka.fte@finlays.net
Website www.finlays.net

Auditors
KPMG
32A, Sir Mohamed Macan Markar Mawatha,
P.O. Box 186,
Colombo 03

Bankers
Commercial Bank of Ceylon PLC
Standard Chartered Bank
DFCC Bank PLC
Seylan Bank PLC

Legal Advisers
Messrs Julius and Creasy
Attorneys-at-Law
P. O. Box 154
Colombo

Hapugastenne Plantations PLC
No. 95A, P. 0. Box 02,
Nambapana,
Ingiriya.