

# OUR BOUNCE BACK CLEARED PREVIOUS HEIGHTS



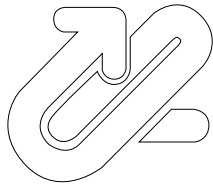
Annual Report 2010



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The key challenge that Talawakelle Tea Estates PLC faced during the year under review was to return the Company to profitability... to bounce back from a period of adversity. How well we coped with this challenge and how 'high we were able to bounce our business' back to well being is what you'll read about in the ensuing pages of this Report.

2010 was a landmark year in which we achieved many 'firsts' and 'best ever' results... all of which bear witness to the fact that our 'bounce back' indeed 'cleared previous heights' of achievement.



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## Chairman's Statement

Resilience, consistency and unwavering focus on strategy yields a year of record achievement. Group NPAT highest on record; Turnover exceeds Rs. 3 billion; quality of teas/prices commanded premium prices at Colombo Tea Auctions; Focus remains on producing excellent teas at competitive prices.

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## Management Discussion & Analysis

Global tea trade increased; prices continued to be profitable; prices at Colombo Auction reached all time high of Rs. 370.61 per kg; Company achieved production of 6.8 million kg; estate profitability increased; cost of production declined; Rs. 42 million expended on factory development.



CIS	35.0%
UAE	7.5%
Iran	21.9%
Syria	3.2%
Turkey	8.6%
Jordan	8.0%
Iraq	18.1%
Japan	23.4%
Kuwait	17.0%
Libya	7.6%

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With a view to enhancing transparency and public confidence Talawakelle Tea Estates PLC analyses the impact that our activities have had on the economy, the environment and the community.

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Comprehensive Risk Management regime in place.

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Profit/(loss) before tax

**Rs. 169.2 million**

Profit/(loss) for the year

**Rs. 164.5 million**

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## Balance Sheets

Total Assets

**Rs. 3.5 billion**

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## Cash Flow Statements

Net cash from operations

Cross **Rs. 400 million** mark

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## Investor Information

Market Value The market value of Talawakelle Tea Estates PLC ordinary shares was

Highest	55.00 (17.09.2010)
Lowest	24.75 (07.01.2010)
Year end	46.40

# **Chairman's Statement**

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## ***The year under review saw the Group registering NPAT of Rs. 164.5 million, the highest on record and turnover crossing the Rs. 3.0 billion mark***

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Dear Shareholder,

The year 2010 was the first full year of peace in our country distinguished by high economic growth, lower interest rates and a rebound in global tea trade. On this positive note, I take pleasure firstly in welcoming you to the Nineteenth Annual General Meeting of Talawakelle Tea Estates PLC and also in presenting the Annual Report and Audited Financial Statements of the Company for the year ended 31st December 2010.

### **Directorate**

Dr. R M Fernando and Mr. J M S Brito resigned from the Board with effect from 7th April 2010 consequent to the purchase of the shares owned by Aitken Spence PLC in Hayleys Plantation Services (Pvt) Limited by Dipped Products PLC.

We take this opportunity to thank them for their valuable contributions and guidance during their tenure on the Board.

During the year, Mr. J A G Anandarajah, Managing Director of Dipped Products PLC and Director of Hayleys PLC and Mr. G K Seneviratne, Director of Dipped Products PLC and Managing Director of Kelani Valley Plantations PLC were appointed to the Board with effect from 29th April 2010. They bring with them proven experience in management of plantation businesses.

### **Corporate Results**

The Company's turnover for the year under review increased by Rs. 191.1 million over the previous year to Rs. 2.87 billion and recorded a net profit after tax of Rs. 135.19 million, as against a net loss after tax of Rs. 13.8 million in 2009.

The consolidated turnover of the Group was Rs. 3.0 billion, an increase of 8.3% over the previous year. The Group's net profit after tax amounted to Rs. 164.5 million, a remarkable turn around from a net loss after tax of Rs. 30.4 million last year.

Resilience, consistency and unwavering focus on strategy enabled the Company to face the challenge of returning to profitability. A confluence of factors, such as our persistent emphasis on quality that entailed remunerative prices at the Colombo Tea Auctions and the relatively favourable weather for tea crop, contributed to the turn around during the year. The increase in tea production to Rs. 6.8 million kg from Rs. 6.3 million kg and a significant reduction in borrowings and finance cost also had a positive impact on the year's results.

Estate performance improved well-above the levels of last year recording an overall operational profitability of Rs. 172.8 million. The high grown estates made a significant contribution to this end. An excellent performance in the first quarter, with a record crop in January, and a strong market made it possible to record the highest profit for the year. The second and third quarter earnings were low with the fourth quarter posting a strong performance on the back of improved crops and tea prices.

The hydro power sector also performed well during the year with a profit before tax of Rs. 31.3 million contributing to the Group's profit before tax of Rs. 169.2 million.

### **Quality**

The Company was ranked No. 1 at the Colombo Tea Auctions for prices amongst the Regional Plantation Companies in the high and low grown elevations during the year. The average tea price registered by the Company improved over the previous year and was well-above the national averages.

Mattakelle Estate was ranked No. 1 amongst all estates in the Western high grown region and four of our high grown marks were among the top ten rankings in the Western high grown catalogue. Ten out of our eleven high grown estate marks and one out of four low grown estate marks recorded prices above the national elevation averages during the year.

Continuous upgrading of our factories to meet International Quality Certification Standards and adoption of good agricultural and manufacturing practices have been the key components of our quest for quality.

### **Development and Investments**

Investment to enhance long-term earnings potential continued to receive priority with the Company undertaking its capital development programme to increase land, factory and human capital productivity. Investments were made in replanting of low yielding tea fields, improving factory throughput and in social and welfare infrastructure.

The total capital expenditure incurred during the year on field and non-field activities was Rs. 198.4 million. The cumulative investment since privatisation now stands at Rs. 3,031.5 million. Expenditure on improving housing, water, sanitation and related social welfare activities amounted to Rs. 39.9 million in 2010. The cumulative cash outlay to date in this sphere of activity amounts to Rs. 245.1 million. In this connection, we wish to place on record our appreciation of the assistance received from the Plantation Housing Development Trust and the Japan Bank for International Corporation.

During the year under review, the three Hydro Power Plants located at Radella, Somerset and Palmerston were fully operational. These investments in renewable energy will in future years benefit the Company as their combined capacity makes our properties in the Talawakelle region almost self-sufficient in their electrical energy requirements.

### **Dividends**

The Board proposes the payment of a final dividend of Rs. 2.50 per share.

### **Awards**

The Company's Annual Report for 2009 received a Bronze Award from the League of American Communication Professionals at the 2009 Vision Awards Annual Report Competition. We were also recognised as the Best Performing (highest GSA) Regional Plantation Company for 2009 in high and low grown categories at the Annual Awards Night organised by Forbes and Walker Tea Brokers (Pvt) Limited.

### **Strategy and Prospects**

Our endeavour is to produce excellent teas that delight our customers while remaining cost competitive. Quality, productivity, sustainable agriculture and teamwork will continue to be the cornerstones of this venture. We see the impact of climate change - its erratic cycles and ever increasing frequency of inclement weather conditions as a significant risk and have identified it in our risk management strategy.

With increasing international competition from traditional and new entrants, it is imperative that we increase our value-added exports. In keeping with this objective, Hayleys Group acquired a controlling interest in Mabroc Teas (Pvt) Limited, a leading exporter of Ceylon teas, a move that will add value to our teas. We see the recent decision by the Government to set up an export fund for the promotion of Ceylon teas as a positive

initiative that will give much needed impetus to our teas in the international consumer markets.

Sustainability to ensure medium to long-term viability is a key area of our focus. Replanting of our poor yielding teas and adopting sustainable agricultural practices will always receive priority in our agenda.

With economic returns on replanting being low and long term, we welcome the decision to set up an investment fund as proposed in the budget. In this context, we request the authorities to utilise the funds now lying to the credit of the Plantation Trust Fund as seed capital to offer concessionary financing for the industry.

Continuing to be an environmentally conscious producer is another key sustainability initiative that is receiving our attention. We have undertaken a programme to certify all our estates under the Rainforest Alliance. This will further complement our participation in the Ethical Tea Partnership Programme.

We are concerned about the impending workers' wage agreement that is due for revision. These negotiations unless dealt with caution can again push us back to red in 2011. We anticipate the wage expectations to be lower in this instance, with the Government successfully containing inflation to single digit from double digit levels of the past. The wage increases in the recent past have amounted to over 30%, with the last revision at 42.5%. It is paramount that all parties including



the policy makers recognise that international competitiveness is a prerequisite for the future stability of the industry. Hence, the wage structure and related legislation should mirror the flexibility and competitiveness that the industry is called upon to display.

Whilst recognising the macroeconomic context of an appreciating currency, we urge authorities to lend their support to contain increases in factor cost such as wages and energy among others, to help the industry to remain viable.

Reducing energy cost and the carbon footprint of our operations is an integral component of our sustainability initiatives. Accordingly, fuel wood planting programmes are underway on all our estates to minimise dependency on fossil fuels. In this context, we seek consistency in policy with regard to harvesting of timber and fuel wood.

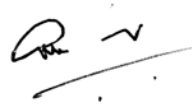
Whilst we acknowledge the policy guideline to replant 3% of the tea extent as an agricultural criteria, it is also necessary in its implementation to give due consideration to ground realities faced by Regional Plantation Companies, such as the availability of labour and financial constraints.

A national standard for Ceylon teas that has wider international accreditation is a necessity, as producers have to presently undertake many quality certifications resulting in duplication of effort and resources. Such a standard will strengthen the country's competitive position as a preferred source for quality teas. Sri Lanka also needs to enhance the resources committed to industry-related R&D institutions to increase agricultural and industrial productivity.

We look to 2011 with confidence with Ceylon tea enjoying a steady demand from overseas markets, barring our concerns of the impact the impending wage increases may have on our results.

#### **Acknowledgement**

I thank all our employees for their hard work and dedication. I also thank our buyers, brokers and bankers for their continued support and my colleagues on the Board for their guidance and contributions in steering the Company to a year of rebound and success.



**Mohan Pandithage**

*Chairman*

11th February 2011

# Management Discussion & Analysis

## Tea Industry Overview

The year saw an increase in the global tea trade, with larger volumes being offered at the auction centres around the world, including Sri Lanka. A positive feature was, despite an increase in global production, tea prices were remunerative, with an upward trend to last year. The Colombo auctions recorded the highest price at US\$ 3.35 per kg an increase from last year. A global shortfall of around 70 million/kg at the beginning of the year and an increase in consumption narrowed the excess supply from increased production. An increase in domestic consumption in major tea producing countries such as India and China increased consumption from Russian Federation, Iraq, Egypt, Pakistan, Japan, etc. impacted the global demand/supply equilibrium.

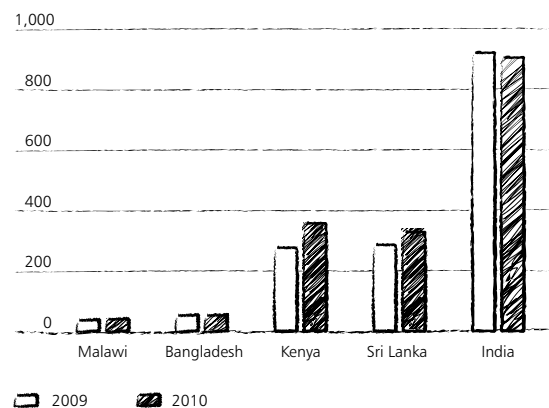
At the Colombo auctions, demand for tea continued into the first quarter of 2010, though the Western quality season was a disappointment in terms of quality, mainly due to the erratic weather conditions that prevailed. Tea prices reached an all time high of Rs. 370.61 per kg vis-à-vis the all time high of Rs. 360.45 per kg in 2009, despite the depreciation of the SL Rupee vs the US\$ by 3%. All elevations recorded an increase in prices over the previous year, with high grows gaining the most.

Total export earnings from tea is expected to exceed last year's record and touch US\$ 1.5 billion. The major buyers of Ceylon tea during the year was Russia/CIS and the Middle East. The top ten markets account for 78% including Japan.

### World Tea Production

Global production on available statistics (as at December 2010), record an increase in crop from the previous year. Major producer countries such as Sri Lanka and Kenya have increased by 39.5 million kg and Kenya 85.3 million kg respectively. India, with crop shortfalls from North, is 12.7 million kg below last year.

Production of Major Black Tea Producing Countries  
million kg



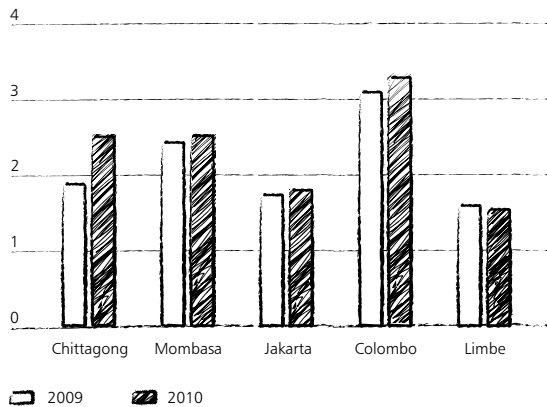
As at December Country	2009 million kg	2010 million kg
Malawi	52.6	51.6
Bangladesh	59.9	59.1
Kenya	314.2	399.5
Sri Lanka	289.8	329.3
India	979.1	966.4

### World Auction Prices

Auction prices in all markets increased due to an increase in consumption and a global shortfall at the beginning of the year. An expected decline, in India's crop, contributed to increased prices in the fourth quarter.

The highest price for tea was received at the Colombo auctions at US\$ 3.35 per kg followed by Mombasa. Colombo auction prices increased by US\$ 0.20, the highest being at the Chittagong auctions at US\$ 0.62 compared to the year 2009.

World Auction Prices  
US\$/kg



	2009 US\$/kg	2010 US\$/kg
Chittagong	1.89	2.51
Mombasa	2.43	2.53
Jakarta	1.75	1.81
Colombo	3.10	3.35
Limbe	1.60	1.55

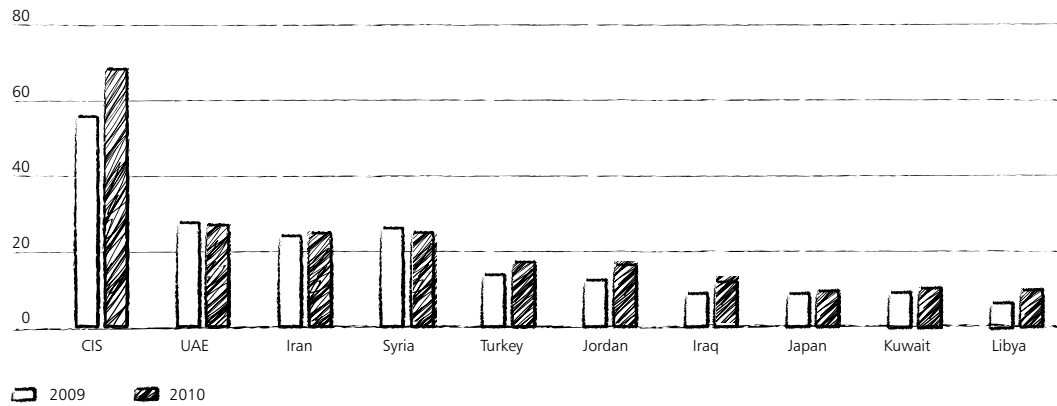
### Sri Lanka Exports

Export revenue is expected to reach a new record, surpassing last year to touch the US\$ 1.5 billion mark. The unit FOB value for Jan-Dec 2010 of Rs. 494.55 per kg is an increase of Rs. 30.08 per kg against Rs. 464.47 per kg realised during the same period last year. Russia/CIS and the Middle East increased their volumes, and the top three markets were CIS, UAE and Iran.

Country	2009 million kg	2010 million kg
CIS	55.90	68.40
UAE	27.70	27.80
Iran	25.00	25.80
Syria	26.40	25.10
Turkey	14.00	17.30
Jordan	12.50	16.70
Iraq	9.10	12.00
Japan	9.00	9.80
Kuwait	9.40	10.70
Libya	7.00	10.00

### Sri Lanka Tea Exports

million kg

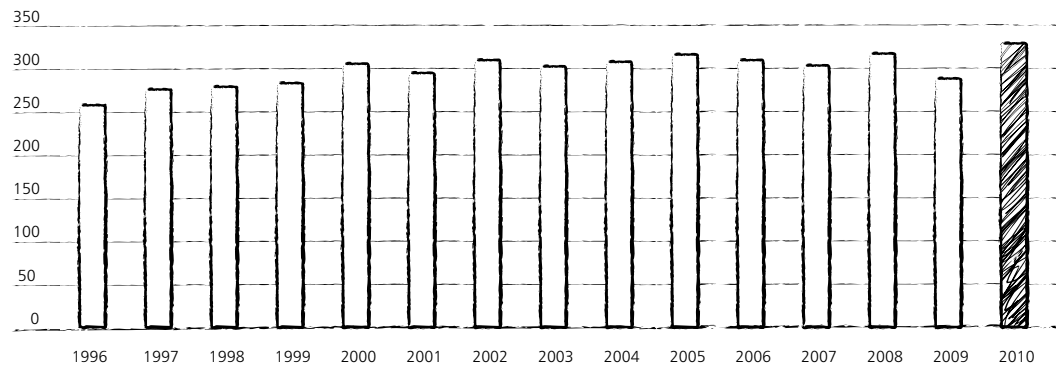


### Sri Lanka Tea Production

The year 2010 set a new record with an all time high of 329.4 million kg, improving on the previous record of 318.4 million kg in 2008. Low grows account for 59% of the annual crop, whilst high grows 24% and medium at 17%. All elevations recorded an increase in production.

### Total National Black Tea Production 1996 - 2010

million kg

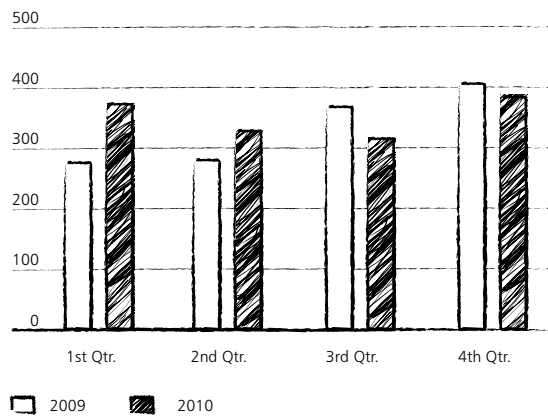


### Sri Lanka Tea Prices

The market was less buoyant in the second half than 2009, yet ending at a higher price than previous year, with an average price of Rs. 370.61 per kg to Rs. 360.45 per kg in 2009. The overall Colombo auction average of Rs. 357.26 per kg for first three quarters, moved up to Rs. 381.07 per kg during the last quarter, possibly a reaction to the lower crop in India.

Quarterly High Grown Gross Sales Averages

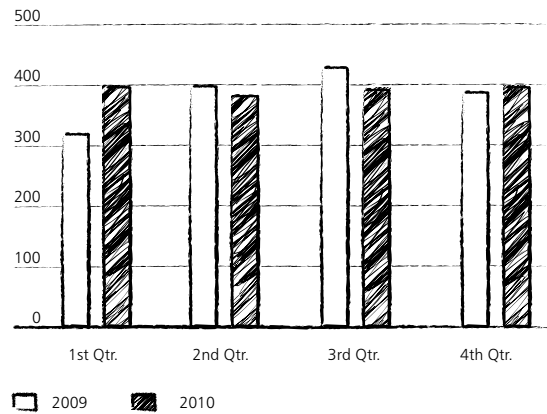
Rs/kg



	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
2009 (Rs./kg)	276.25	281.54	368.99	406.69
2010 (Rs./kg)	373.69	329.04	316.66	385.27

Quarterly Low Grown Gross Sales Averages

Rs/kg

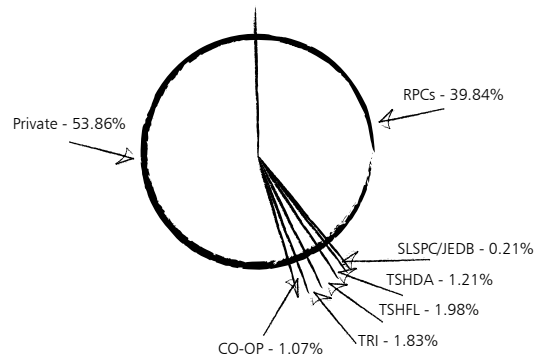


	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
2009 (Rs./kg)	319.04	398.85	429.94	387.63
2010 (Rs./kg)	396.33	382.94	392.69	396.80

Western high grows started with a positive difference of Rs. 97.44 per kg due to a poor crop in late 2009, which narrowed down to a difference of Rs. 47.50 per kg during the second quarter. The third and fourth quarters showed a negative to respective quarters of 2009.

Low grows started with a positive difference of Rs. 77.29 per kg during the first quarter and dropped to a negative of Rs. 15.91 per kg during the second and Rs. 37.25 per kg in third quarter rising to a positive of Rs. 9.17 per kg in the fourth quarter compared with 2009.

### Tea Industry Structure - Production



Production Volume	2010 %
RPCs	39.84
SLSPC/JEDB	0.21
TSHDA	1.21
TSHFL	1.98
TRI	1.83
Co-op	1.07
Private	53.86

The Regional Plantation Companies and the small holder sector contribute 93.7% of the national tea production. The private factory owners, who process the small holder tea crops produce 53.8% of the national tea production. The RPCs produce virtually all the high grown teas and the private factory owners produce the low grown teas, mainly.

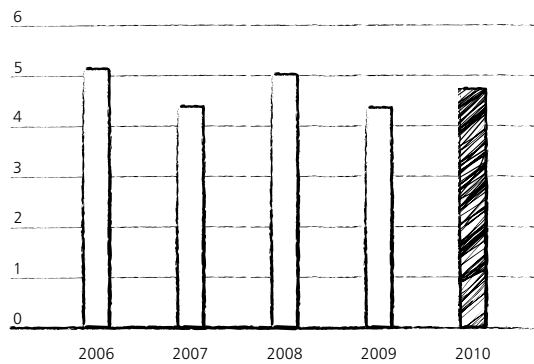
### National Tea Production

	National Tea Production (kg/million)	GSA HG (Rs./kg)	GSA LG (Rs./kg)
1991	240.80	57.41	61.75
1992	178.80	66.45	61.90
1993	232.00	68.34	71.48
1994	242.20	66.30	67.38
1995	246.00	70.04	77.27
1996	258.40	93.38	114.35
1997	276.80	109.43	129.47
1998	280.00	127.6	141.88
1999	283.70	106.17	125.74
2000	305.80	128.46	144.79
2001	295.09	135.56	154.50
2002	310.03	141.73	160.55
2003	303.20	138.31	160.86
2004	308.09	171.78	189.86
2005	317.19	172.24	199.01
2006	310.80	204.58	204.50
2007	304.60	252.46	298.66
2008	318.47	273.83	336.38
2009	289.88	319.73	387.70
2010	329.30	338.33	392.48

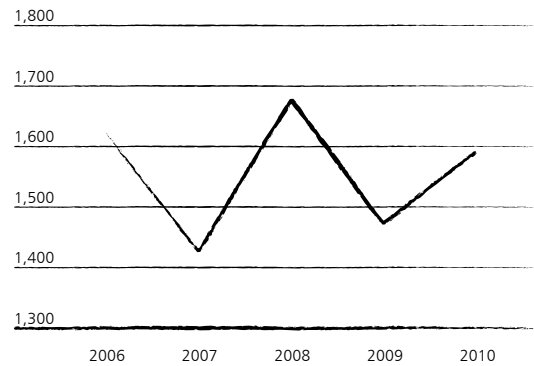
**The year's challenge was to return to profitability from previous year's loss, contending with a 42% wage hike and facing erratic weather.**

## Performance Review

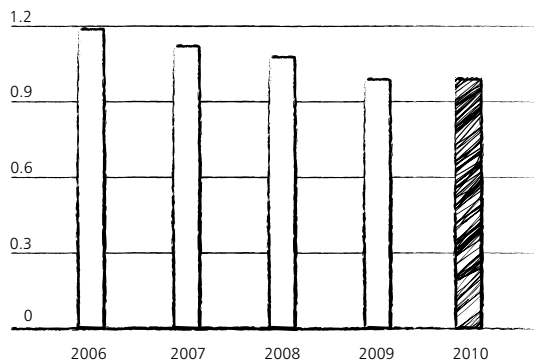
TTE PLC - High Grown Tea Production  
million kg



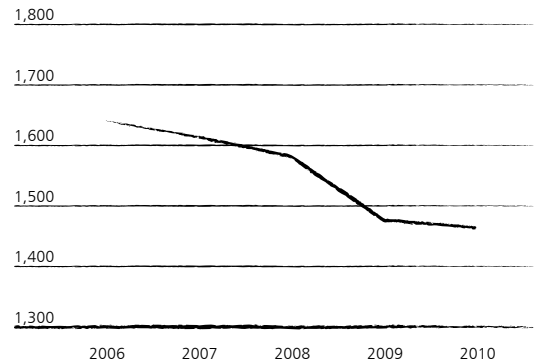
TTE PLC - High Grown Tea - YPH  
kg/ha



TTE PLC - Low Grown Tea Production  
million kg



TTE PLC - Low Grown Tea - YPH  
kg/ha



**Delighting our customers with a quality brew, Sustainable agriculture policies and focus on the value chain from harvesting our green leaf, to manufacture are the cornerstones of our operational strategy.**



The year's challenge was to return to profitability from previous year's loss, contending with a 42% wage hike and facing erratic weather. A stable price for teas at the auctions, enabled to optimise earnings.

Sustainable agricultural policies, good agricultural and manufacturing practices (GAMP) and high standard in harvesting green leaf, were the cornerstones of our operational strategy in the year.

Our competitive advantage lies in our brands (estate marks). They have carved a niche, a strategic move that has paid rich dividends, that has recognised TTE PLC as a quality conscious company. The key highlights of the year was an increase in tea production and yields, ranking No. 1 for prices at the Colombo Auctions amongst all RPC companies for high and low grown elevations and returning to profitability with a PBT of Rs. 137.8 million. The team's focus, and commitment contributed to achieve this turn around to end the year with a commendable performance.

***We see with increasing concern, climate change on our tea plantations.***

The demand for our teas, with remunerative prices in the coming year is encouraging.

However, we see with increasing concern, climate change rising cost of labour, fertilizer and energy impacting on our profitability in 2011.

#### **Agricultural and Field Operations... optimised conditions**

The prevalence of better weather in the year, to drought conditions in the first quarter last year, complimented our good agricultural practices adopted during the year. Despite better weather, its erratic nature posed many challenges to our agricultural operations. As a result, cropping patterns changed and the timing and intensity of our agricultural operations were amended to maximise production and productivity.

The year's agricultural operations got off to a good start with an excellent crop for January, but was followed by a very dry February and March with a recovery seen only in mid April. Accordingly, agricultural practices such as pruning and fertilizer inputs were delayed, until the bushes recovered. Key agri-inputs such as fertilizer were applied under ideal conditions.

Planning and executing harvesting operations to optimise crop/quality in varying operating conditions were done well, with high standards of plucking maintained in all estates. This ensured a good standard of leaf was available at the right time for manufacture. Manpower planning was detailed out with flexibility to handle good cropping months such as January, May, November and

December. Timing of other agricultural operations such as pruning, fertilising, was a challenge with erratic weather in different geographical locations coming in with greater unpredictability.

The field development programme faced a set back with a high casualty rate where 768,109 plants had to be re-supplied, but the replanting programme was not materially affected. Nursery development was given priority to sustain our field development programme. Cultivar resistant to drought, pests and quality tea makers were the criteria in our selection.

Building soil carbon and soil conservation were given priority, with soil samples sent for carbon testing and nutrient levels with remedial measures taken to rectify deficiency levels. Good agricultural practices such as chopping prunings, retaining leaf litter and loppings from green mature trees and planting of Vettiver were some of the practices adopted.

## Rainfall and Weather

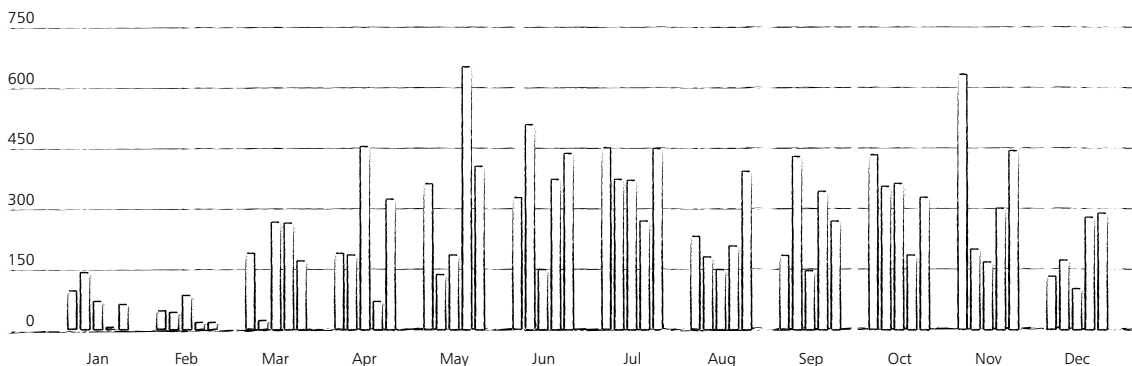
### Impacts Cropping Patterns

Erratic rainfall and variance in temperature underlined a more favourable weather during the year, to the one in 2009. Wide variance in temperature and rainfall in similar months from year to year is now a phenomenon, characteristic of the impact of climate change. This year, we experienced very dry weather in the first quarter which affected crop production from February to April. The months of January, May, November and December were conducive for crop.

The rainfall pattern of Great Western Estate in the Talawakelle agro climatic region and Kiruwanaganga Estate in Moragala, Kirilipone in the Deniyaya agro climatic region are detailed below:

### Rainfall Data - Great Western Estate

mm

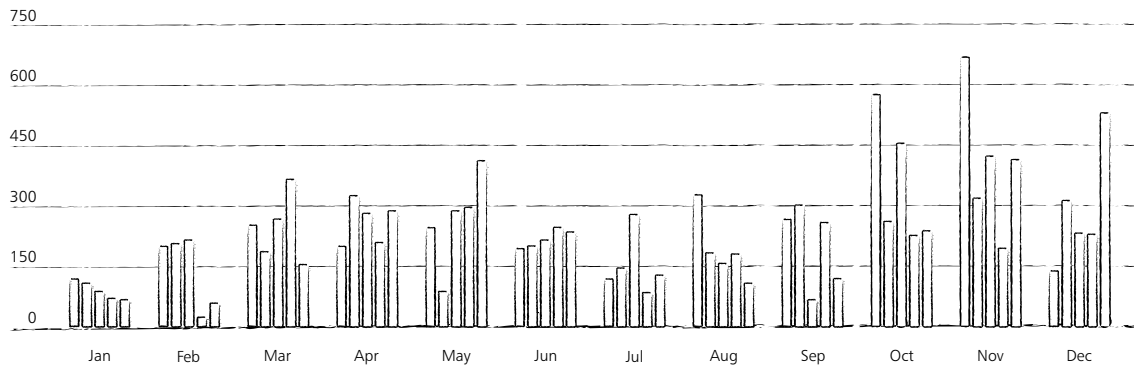


From 2006-2010

2006	2007	2008	2009	2010
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**Rainfall Data - Kiruwanaganga Estate**

mm



From 2006-2010

2006	2007	2008	2009	2010
------	------	------	------	------

**Company Production...  
Increased by 513,255 kg**

Tea production recovered from the impact of drought conditions in the first quarter in the previous year to record a production of 6.8 million kg, an increase of 513,255 kg from both high and low grown elevations. The year's production was yet lower to the record crop in 2006, but higher to 2007. The production from estate leaf was 5.7 million kg and bought leaf was 1.1 million kg. The main cropping months were in the second and fourth quarters, with January and December being the two highest cropping months. The first quarter production was 1.588 million kg to 1.105 million kg in the same quarter of 2009. Tea production in the low grown did not show much variance in quarterly production, but high grown reflected seasonal variances with the highest cropping season being the second and the lowest third.

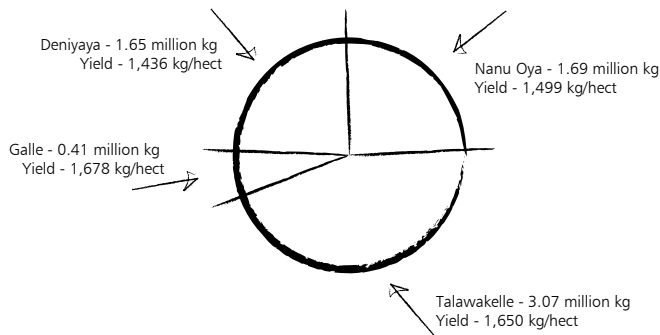
Our high grown crop increased by 386,719 kg and low grown by 2,052 kg. The bought leaf production also reflected an increase of 125,480 kg. Tea yields in the high grown was 1,593 kg per hect. and low grown 1,465 kg per hect. respectively.

**Better weather conditions than 2009, good agricultural practices with proactive planning contributed to the higher tea production in the year.**

Quarterly Tea Production 2010 vs 2009

	1st Qtr.		2nd Qtr.		3rd Qtr.		4th Qtr.		Total	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Estate Leaf kg '000	958	1,332	1,649	1,677	1,222	1,270	1,538	1,474	5,366	5,753
Bought Leaf kg '000	147	256	264	329	274	237	262	250	947	1,073

TTE PLC - Agro Climatic Regional Contribution to Tea Production 2010



**Bought Leaf**

The intake of bought leaf improved with an overall increase in crop availability in the year. Total production at 1.1 million kg exceeded that of the previous year by 13%. The share of bought leaf in total production in the year was 15.7% of total production and 51.9% of low-grown production.

We continued to build up supplier relations and pay incentives to ensure crop intakes, in a competitive market. Moragalla and Handford have increased their production by 55.9% and 12% respectively. Deniyaya and Kiruwaraganga production were 1% and 3% decrease over last year.

**Tea Prices... Increased by Rs. 19.94/kg**

**Ranked No. 1 at the Colombo Tea Auctions**

Prices at the Colombo Auctions continued their strong levels into the first quarter from the fourth quarter of 2009, declining thereafter from the second quarter onwards. A healthy demand for teas from global markets contributed to this development, despite an increase in global production in the year. The National Average at the Auctions was Rs. 370.61 per kg, an increase from Rs. 360.45 per kg from 2009. We maximised market conditions by offering the teas of the required quality demanded by our buyers.

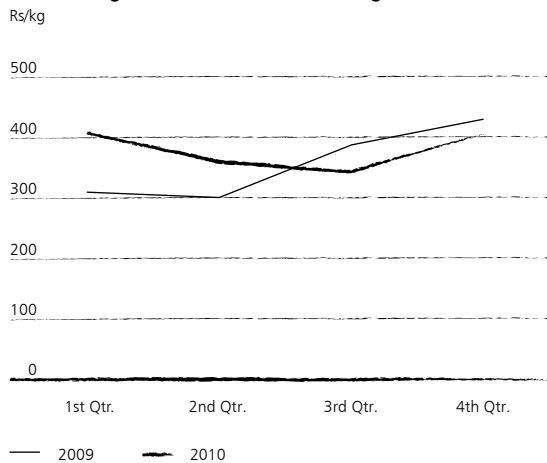
A focus on quality and a product differentiation strategy enabled the Company to obtain prices well-above the elevation averages to be ranked the No. 1 RPC at the Auctions for high and low grows in the year 2010.

**Our competitive advantage lies in our brands (estate marks). They have carved a niche, a strategic move that has paid rich dividends, that has recognised TTE PLC as a quality conscious company.**

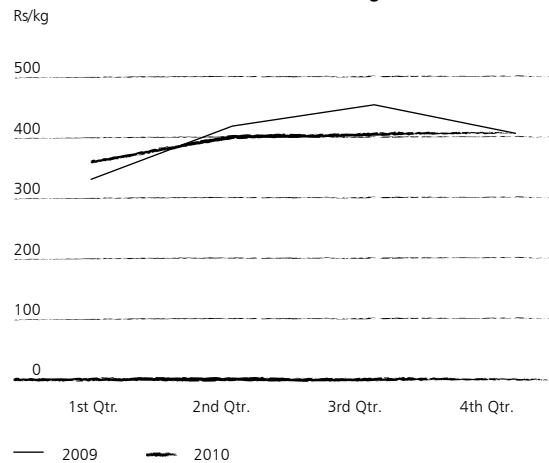
TTE PLC Tea Prices 2010 vs 2009

GSA Rs./Kg	1st Qtr.		2nd Qtr.		3rd Qtr.		4th Qtr.		Total	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
HG	310.40	409.35	302.07	360.28	388.15	344.23	431.19	407.07	354.03	379.60
LG	330.58	360.78	418.76	402.12	455.12	406.01	407.56	408.34	346.09	408.31

TTE PLC High Grown Gross Sale Average



TTE PLC Low Grown Gross Sale Average



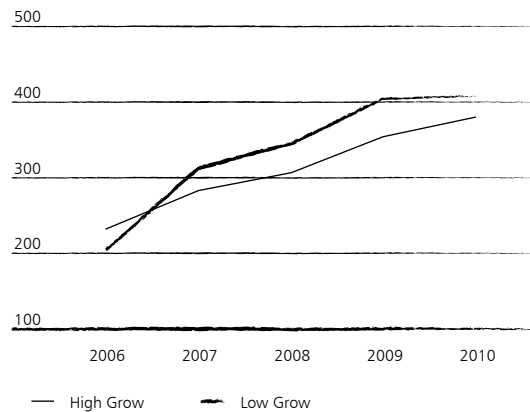
The first quarter recorded the highest price for our teas in high and low-growns, with a sharp decline in the third quarter for the high-growns. Low-growns had less price volatility, with a declining trend towards the year.

During the year, Mattakelle retained the distinction of being the mark with the highest average price in the Western catalogue for the second consecutive year. Noteworthy performances were also noted in rankings of Somerset - No. 4, Great Western - No. 5, Wattegoda - No. 9 and Bearwell - No. 10 excluding leafy and green teas in the catalogue. Calsay was ranked No. 1 in the leafy operations and Radella was ranked No. 1 in green teas. Kiruwanaganga in the low grown performed well with their prices significantly improving over the elevation average from the previous year. During the year Kiruwanaganga mark received the highest GSA in the low growns amongst all other RPC estates.

Five of our estate marks were within the first ten rankings in the Western high grown and, ten of our high-grown marks and two of our low-grown marks were above their respective national averages.

The gross sale average for the year was Rs. 388.21 per kg, which was an increase of Rs. 19.94 per kg when compared to last year's GSA of Rs. 368.27 per kg.

TTE PLC High and Low Grown GSA 2006 - 2010  
kg/kg



	2006	2007	2008	2009	2010
HG	231.57	282.74	306.64	354.03	379.60
LG	204.58	312.60	346.09	404.05	408.31

**Cost of Production... a Decline of Rs. 2.20 per kg.**

Increase in yields/worker productivity, contributed to contain costs. During the year with wages, agri-input costs, power and fuel except overheads being at levels close to the last year, **cost pressure during the year had a marginal impact on profitability.**

The cost of production in the year was Rs. 357.07 per kg as against Rs. 359.27 per kg for last year, a decrease of Rs. 2.20.

Estate leaf cost of production declined by Rs. 3.25 per kg and bought leaf increased by Rs. 2.74 per kg. The increase in cost of bought leaf was due to an increase in the green leaf rate paid out due to a higher GSA being received at the Auctions.

**Key contributor to cost of production**

Key Costs/Rs.	2006	2007	2008	2009	2010
Urea Rs./MT	35,500	51,500	92,000	47,000	46,500
Wages Rs./day	285.50	320.00	320.00	447.75	447.75
Fuel Rs./Ltr	60.00	75.00	105.80	73.00	73.00
Total COP/ Rs./kg	203.74	264.74	279.35	359.24	357.07

**Estate Profitability excluding Sundry Income...  
Increased by Rs. 77.9 million**

The profitability for the year at Rs. 172.8 million was an increase of Rs. 77.9 million over the previous year, including rubber. High grows contributed Rs. 89.4 million with low grows declining by Rs. 35.4 million. Mattakelle recorded the highest profit per hect. with Kiruwanaganga and Bearwell in the second and third and Somerset and Great Western fourth and fifth positions. Somerset posted a significant improvement in profitability from a loss in the previous year. Logie and Holyrood posted lower levels of profitability from last year, with losses in Dessford and Clarendon coming down.

**Higher prices with a focus on quality in a remunerative market, contributed mainly to the excellent performance in high grows in the year.**

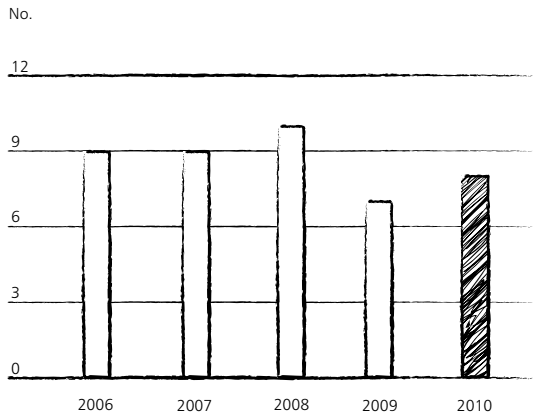
Low-grown teas performed below last year at Rs. 35.2 million, a decline of Rs. 24.8 million, with rubber increasing earnings by Rs. 13.8 million. Except Moragalla, all other estates were below previous year's earnings. Profitability of bought leaf operation was less than half of the previous year at Rs. 8.1 million.

The profit per hect. of the high grown estates was Rs. 41,542 and low grows Rs. 39,983 in the year, a significant improvement from 2009.

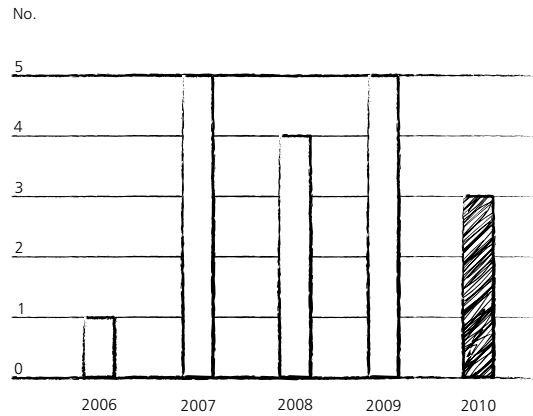
**Estate Profits and (Loss) - Tea 2010 vs 2009**

Rs./million	1st Qtr.		2nd Qtr.		3rd Qtr.		4th Qtr.		Total	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
HG	6.53	92.09	38.48	(3.66)	(35.92)	(36.88)	25.65	72.66	34.74	124.20
LG	9.12	9.75	45.86	7.61	22.71	9.66	(6.99)	8.18	70.70	35.20
Com	15.65	101.84	84.34	3.95	(13.21)	(27.22)	18.66	80.84	105.44	159.40

**Number of Estates Making Profit - High Grown**



**Number of Estates Making Profit - Low Grown**



**People who drive our business**

During the year, we had good industrial relations, the challenge being to maximise the favourable ground conditions and increase productivity. Improving welfare and social infrastructure received our attention, with an investment of Rs. 39.9 million made during the year on housing, water and sanitation. Skills and competencies were developed by providing training and development programmes at a

cost of Rs. 3.0 million. In addition, a sum of Rs. 102.2 million was expensed on welfare and related activities such as medical, childcare, housing, sports and recreation.

Increase in cost of retention, managing and changing attitudes of our workers are key HRM issues we are currently faced with. Our main challenge next year is to avoid work disruption during the wage negotiations and to have a competitive wage structure.



The total number of employees as at end of 2010 was 10,859.

**Field and Factory Development**

**Replanting - Tea**

Extent (Hect.)	Uprooted			Planted		
	2008	2009	2010	2008	2009	2010
High-Grown	87.05	55.46	nil	63.50	30.00	33.00
Low-Grown	26.11	25.68	nil	32.49	20.45	19.49
Total	113.16	84.64	nil	95.99	50.45	52.49

**Field Development and Fuel Wood**

**Diversification**

The total field development expenditure for the year was Rs. 180.8 in.

Sustainability of agricultural productivity and earnings is the rationale of our on-going field development programme. A key objective of the programme is to increase the VP cover of our estates, now moved up to 64%. During the year, an extent of 52.49 hect. in high and low grown were planted in tea and a total extent of 160.54 hect. of immature tea is presently maintained.

During the period 1992 to 2010, an extent of 564.10 hect. in the high grows and 260.15 hect. in the low grows were planted with new tea.

**The total extent brought into revenue from 2000 to date is 548.78 hect.**

Dry weather conditions resulted in a large number of plant casualties in the new clearings, with 768,109 plants being resupplied.

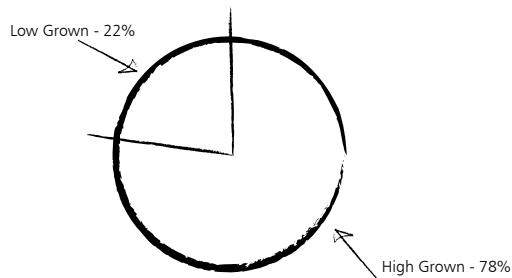
Good agricultural and manufacturing practices were implemented to safeguard the new clearings and ensure potential future yields are secured. Fuel wood planting is an integral component of our strategy to be independent from fossil fuels and be environmentally friendly. Under the programme, a concerted effort is underway to ensure adequate fuel wood is available for each estate to be self-sufficient in energy. During the year, we planted 107,305 fuel wood plants and have planted since 2000 an extent of 342.07 hect.

**Factory Development**

*Rs 42.0 million*

**Our factories are a key link in our quality manufacturing strategy.** Upgrading to improve process efficiency, meet ISO/HACCP certifications, standards and providing safety and welfare facilities to the workers were made during the year. The equipment installed were cleaning and sorting machinery, moving trough beds and withering troughs.

No. of Employees



Preventive maintenance and upkeep was undertaken at a cost of Rs. 42.0 in the year to ensure uninterrupted production and maintain factory standards.

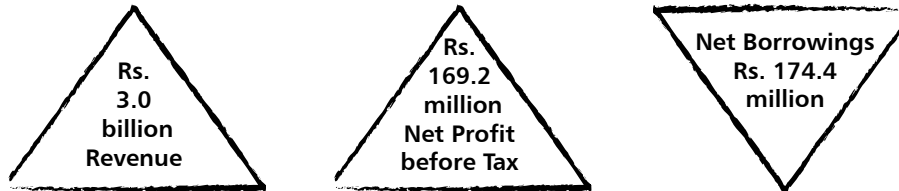
### ***Way Forward...***

The risks and challenges we will face as a commodity producer are many. We are confident of meeting them with our team and a well-structured strategy. The salient highlight of our strategy are:

## ***Strategy 2011***

- ***Producing a quality tea to maximise market demand.***
- ***Cost management and minimise waste.***
- ***Increase land and worker productivity.***
- ***Increasing factory capacity for manufacture of green tea.***
- ***Energy cost management.***
- ***GAP to reduce the input of chemical fertilisers.***
- ***Sustainable agriculture policies and programmes.***

## Financial Review



*A significant increase in operating profit, with a reduction in debt and finance cost contributed to the turnaround from a net loss before tax of Rs. 27.8 million in 2009 to a NPBT of Rs. 169.2 million in the year. The first and fourth quarter results with improved liquidity contributed to the year's results.*

The Company posted its highest NPBT of Rs. 137.8 million since 2005, for the year. Tea prices at the Colombo Auctions during the year were remunerative and tea production recovered from the effects of a drought in the previous year. With wage costs and other key inputs such as fertiliser, power being at last year levels, there was no upward pressure on cost of production. An excellent first quarter and a good fourth quarter performance contributed to the year's operating results. A substantial income from non-core activities and a reduction of finance cost improved net profit before tax. The hydro power sector contributed Rs. 31.4 million to the Group NPBT to a loss of Rs. 8.7 million last year. Higher rainfall during the year increased capacity utilisation, generating additional power that was supplied to the national grid.

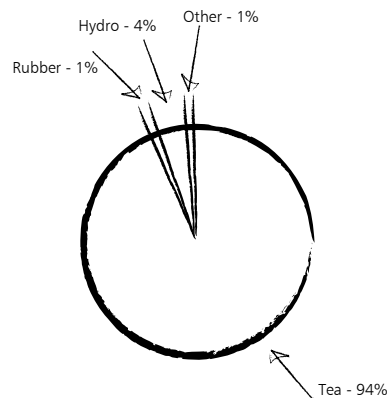
Group Net profit after tax at Rs. 164.5 million compared to a net loss after tax of Rs. 30.4 million in 2009 a remarkable achievement.

## Profitability and Growth

### Revenue

Group Revenue at Rs. 3,002.6 million, an increase of Rs. 230.5 million.

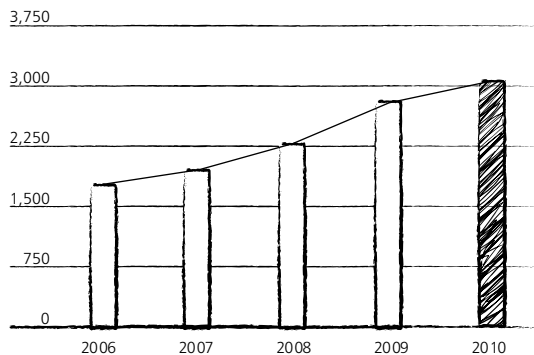
Revenue Composition - 2010



Rs. million	2009	%	2010	%
Tea	2,635.4	95.1	2,821.5	94.0
Rubber	20.8	0.6	36.5	1.2
Hydro	77.9	2.8	116.6	3.9
Other	38.0	1.4	28.0	0.9

## **Group Turnover** **cross Rs. 3.0 billion** **mark... another** **milestone achieved.**

Group Revenue  
Rs. '000



### **Revenue**

Rs. '000	2006	2007	2008	2009	2010
Tea	1,693.9	1,867.4	2,186.8	2,635.4	2,821.4
Rubber	16.3	25.0	21.8	20.8	36.5
Other	20.2	26.7	39.1	38.0	28.0
Hydro Income	1.3	5.2	16.3	77.9	116.7
Group Revenue	1,731.6	1,924.4	2,264.1	2,772.1	3,002.6

Group revenue at Rs. 3,002.6 million was an increase of 8.3% from the previous year, with Hydro Power Sector share at Rs. 116.7 million, an increase of Rs. 38.8 million from 2009. Tea revenue increased by Rs. 186.0 million (7.0%) to Rs. 2,821.4 million with high grown contributing Rs. 2,007.0 million and low grown Rs. 814.4 million respectively. Tea revenue increased due to a higher production of 513,255 kg (8.1%) and a price increase of 5.4% received than the previous year. The high grown revenue increased by 13.4% and low grown by 19.0%. Higher production and prices contributed to high grown revenue growth. The first quarter contributed 23% of the revenue due to a record tea production in January, and a strong market for teas. The third quarter posted the lowest tea revenue with fourth quarter reversing the trend with a higher crop intake and remunerative prices posting the highest quarterly revenue for the year. Income from Rubber too reflected a substantial increase of Rs. 15.7 million to Rs. 36.5 million.

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

**Group EBITDA is Rs. 480.8 million an increase of 62%.**

Rs. million	2006	2007	2008	2009	2010
Group	253.6	326.0	340.7	296.0	480.8
Company	251.4	324.3	321.0	232.1	384.9

## ***Group Net profit after tax at Rs. 164.5 million the highest on record.***

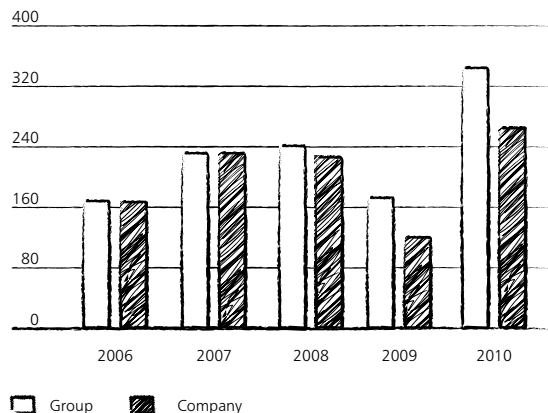
A consistent increase is seen over the five years, reflecting a positive trend. The Group EBITDA posted a sharp increase of Rs. 184.8 million (62%) from the previous year to Rs. 480.8 million. Higher gross profits increased Company's EBITDA by Rs. 152.8 million (66%) during the year. Hydro Power Sector contributed Rs. 95.9 million due to an increase in revenue.

### **Profit from Operations**

*The Group posted an operating profit before finance cost of Rs. 345.4 million an increase of Rs. 172.2 million.*

#### **Operating Profit**

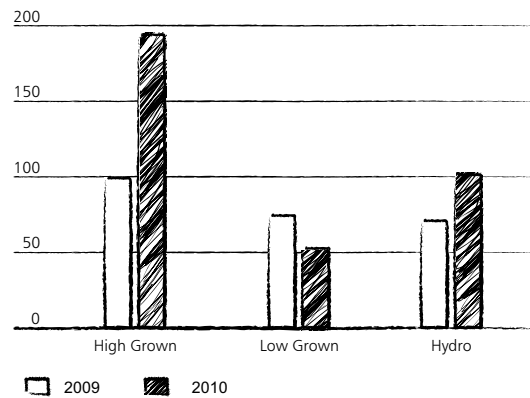
Rs. million



Rs. million	2006	2007	2008	2009	2010
Group	168.4	232.6	241.7	173.2	345.4
Company	167.5	232.0	226.7	121.2	265.8

#### **Gross Profits by Elevation 2010 vs 2009**

No.



#### **Quarterly Gross Profits by Elevation Total vs 2009**

Gross Profit

Rs. million

	Q1	Q2	Q3	Q4	2009	2010
High Grown	111.9	11.0	(18.7)	89.8	99.2	194.0
Low Grown	15.0	9.2	14.5	14.5	74.8	53.2
Hydro	7.0	22.3	36.6	36.0	71.4	101.9

Group's operating profit increased by Rs. 172.2 million (99%) to Rs. 345.4 million due to a healthy increase in TTE PLC's operating profits by Rs. 144.6 million to Rs. 265.8 million. Higher estate profitability is the key driver of operating profit at TTE PLC. High grown estate profitability at Rs. 194 million saw an increase of Rs. 94.8 million and low grows at Rs. 53.2 million reflected a decline of Rs. 21.6 million. Higher margin per kg and volumes with improved labour productivity contributed to the high grown profits. Low grown tea margins declined from

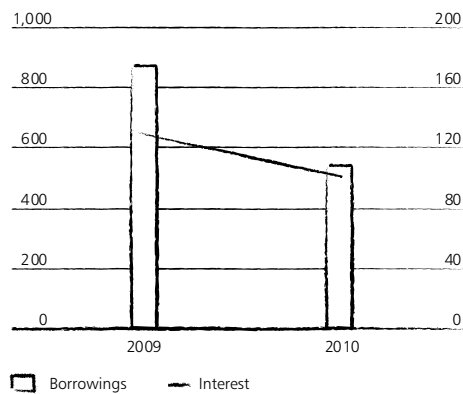
the previous year and the contribution from bought leaf at Rs. 8.1 million also declined from the previous year. Revenue from rubber and other income also made useful contributions to estate level profits. The highest contribution to gross profits was in the first quarter with the third quarter recording a loss. Fourth quarter reversed the trend and posted the second highest quarterly profit. The Hydro Power Sector gross profit increased by Rs. 30.5 million to Rs. 101.9 million from previous year's Rs. 71.4 million.

## Liquidity

### Finance Cost

*Reduction of Rs. 42.1 million in Finance Cost and an Improved Interest Cover*

Finance Cost  
Rs. million



Rs. million	2009	2010
Interest	130.6	100.9
Borrowings	876.5	543.6

Group's finance cost declined mainly due to a significant reduction in TTE PLC finance cost by Rs. 29.7 million (23%) to Rs. 100.9 million. A debt reduction strategy that reduced total borrowings by Rs. 332.9 million and lower interest rates by Treasury management, contributed to this improvement. However, capital structure/interest rate risk considerations limited the utilisation of short-term funding sources in the market.

Interest cover of the Company improved to 2.4 times from 0.9 times, last year. Increase profitability during the year and reduction in borrowings had a positive impact.

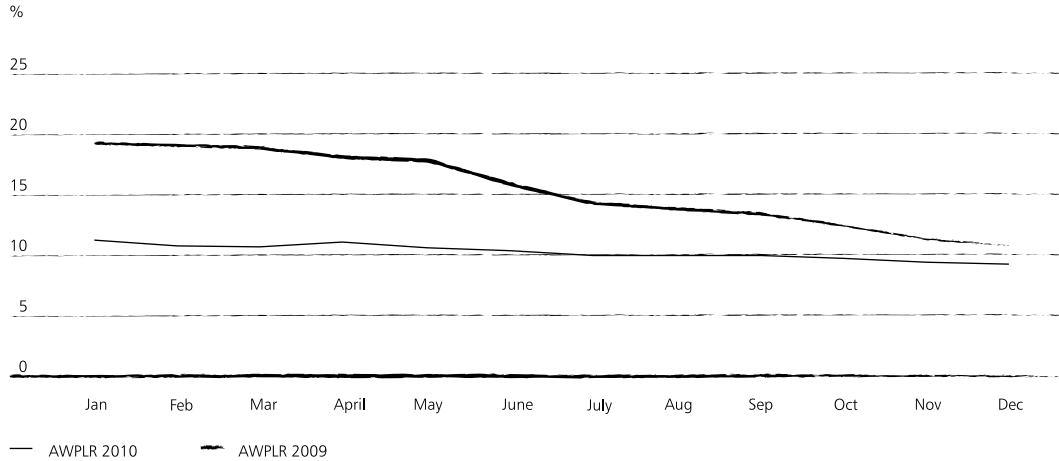
Hydro power finance cost declined by Rs. 12.5 million to Rs. 48.2 million.

### Quarterly movement in Interest Cover 2010 (times)

	Q1	Q2	Q3	Q4	Year Ended 31.12.2009	Year Ended 31.12.2010
Group	2.5	1.1	0.9	4.4	0.9	2.1
Company	3.7	1.1	(0.1)	4.9	0.9	2.4

The Agreement on freezing of Government lease rental was amended with retrospective effect from June 2008 and the revised annual rental for 2010 was increased by Rs. 8.3 million to Rs. 19.8 million. An arrears of rental amounting to Rs. 8.9 million was charged in the year under review.

**Benchmark Interest Rates 2010 vs 2009**



**Benchmark Interest Rates 2010 vs 2009**

%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
AWPLR 2009	19.31	19.18	18.89	18.16	17.92	15.89	14.41	13.93	13.39	12.43	11.37	10.85
AWPLR 2010	11.24	10.77	10.74	11.13	10.65	10.38	9.99	9.95	9.98	9.76	9.43	9.29

The policy rates stood at 7.5% and 9.75% for repurchase and reverse repurchase rates respectively at the start of 2010. Monetary policy saw considerable revisions during the year which included two policy rate cuts during July and August 2010, adding to 25 basis points and 75 basis point cut to close at 7.25% and 9.00% for repurchase and reverse repurchase rates respectively.

The policy rate cut also resulted in a reduction in commercial lending rates. Average Weighted Prime Lending Rate (AWPLR) declined from 10.91% in January to 9.29% ending in December. However, this change was reflected on a slower pace in response to the easing of the monetary

policy stance. In tandem with the above rate cuts Treasury Bill (T-Bill) rates also saw a decline from 8.73% to 7.35% for six months bills and 9.33% to 7.55% for one year bills from January to December 2010 respectively.

**Taxation**

Group taxation increased during the year by Rs. 2.1 million.

Deferred taxation provision has been reversed due to the temporary difference of the tax losses and change in the applicable tax rates.

As the Company was liable for income tax for the year, Rs. 13.2 million has been provided for

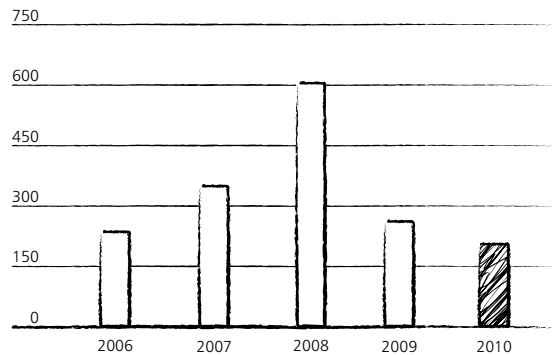
in the Financial Statements. Hydro Company tax comprised of deferred tax charge of Rs. 2.0 million.

### Capital Expenditure

**Group Investment Decrease by Rs. 58.7 million.**

#### Movement in Group Capital Investments

Rs. million



	2006 Rs. million	2007 Rs. million	2008 Rs. million	2009 Rs. million	2010 Rs. million
Field	76.1	122.8	209.3	181.6	180.8
Non-Field	144.2	64.5	140.1	60.5	17.6
Hydro	17.8	164.3	257.2	21.9	6.9
Total - Group	238.1	351.6	606.6	264.0	205.3

The Group's investment during the year was Rs. 205.3 million, TTE PLC's investment was Rs. 198.4 million and the Hydro Sector invested Rs. 6.9 million.

TTE PLC reduced investment on capital expenditure for the second consecutive year since 2008. During the year, an amount of Rs. 198.4

million was invested, with field development absorbing Rs. 180.8 million and non field Rs. 17.6 million. This was a decline from the previous year's Rs. 242.1 million. ADB concessionary funding and grant funding was received to part finance, but at a lower level for field development and infrastructure respectively.

### Investment in Subsidiaries

With Hydro Power Plants now in full operation, no funding was made during the year. At year-end, TTE PLC was issued with cumulative redeemable preference shares of Rs. 10/- each at a dividend rate of 14% p.a. in settlement of its short-term funding granted to the Hydro Power Companies. Accordingly, Somerset Hydro Power Company issued 1.6 million and TTEL Hydro Power Company 3.72 million of preference shares.

### Exchange Rates

The movement of the Rupee vs the USD has an effect on our earnings, as it has an influence on prices fetched at the Colombo Tea Auctions. The impact of an appreciation of the Rupee is a reduction in margins and loss of competitiveness vis-à-vis with other tea producing countries.

During the year, the SL Rs. gained against KSH (Kenyan Shilling), VND (Vietnamese Dong), RUB (Russian Ruble), SYP (Syrian Pound), IQD (Iraqi Dinar) and IRR (Iranian Riyal) by 8.86%, 8.13%, 3.85%, 5.69%, 4.63% and 6.18% respectively.



The Rupee appreciated vis-à-vis the USD from Rs. 114.40 in January by approximately 3% in 2010 to close at Rs. 110.90. This appreciation was supported through the relaxation in foreign exchange controls to facilitate foreign exchange transactions. Foreign capital inflows from the international sovereign bond issued by the Government along with aid received for the development of infrastructure further sustained the strong Rupee condition. Sri Lanka, while achieving all targets set by the IMF, received five tranches (total of approximately US\$ 1.3 billion out of the US\$ 2.6 billion facility) of the IMF funding in 2010, which further added to the healthy dollar reserve of the Central Bank.

**A key financial strategic goal was achieved with a reduction in borrowings.**

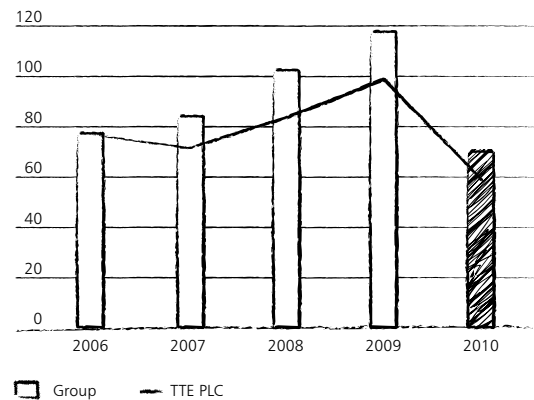
#### USD/LKR Movement 2010

	Jan. 10		Dec. 10	
	Against USD	Against LKR	Against USD	Against LKR
KSH	75.84	1.5084	80.67	1.3747
VND	18,469	0.0062	19,488	0.0057
RUB	30.31	3.7743	30.56	3.6289
SYP	45.55	2.5115	46.82	2.3686
IQD	1,150	0.0995	1,168.88	0.0949
IRR	10,016	0.0114	10,349	0.0107

#### Capital Structure

**TTE PLC Debt reduced by Rs. 334.7 million and Debt/Equity improved to 58.3% from 98.6%.**

Debt Equity  
%

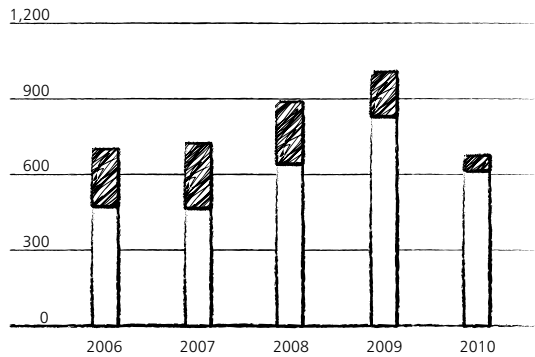


Debt Equity

%	2006	2007	2008	2009	2010
TTE PLC	76.7	71.5	83.6	98.6	58.3
Group	77.5	84.2	102.5	118.0	70.1

**TTE PLC Debt**

Rs. million



**TTE PLC Debt**

Rs. million	2006	2007	2008	2009	2010
Short Term	227.2	262.2	251.3	179.0	60.6
Long Term	476.6	466.2	643.4	833.2	616.9
Total	703.9	728.3	894.8	1,012.2	677.5
Group	729.9	911.2	1,160.1	1,257.4	898.2

The Company's reliance on debt reduced significantly, improving financial leverage with the debt/equity ratio at 58.3%, being its lowest since 2005. During the year, the debt exposure reduced by Rs. 334.7 million. The reduction was in long and short-term borrowings of Rs. 239.7 million and early settlement of redeemable debentures of Rs. 95 million. This lower debt threshold will improve debt service capacity and reduce liquidity risk. TTE PLC's current ratio at 1.3 times declined from 1.4 times in the previous year with a year-end net current assets of Rs. 121.1 million. Equity

and total borrowings at year-end was Rs. 1,161.6 million and Rs. 677.5 million respectively.

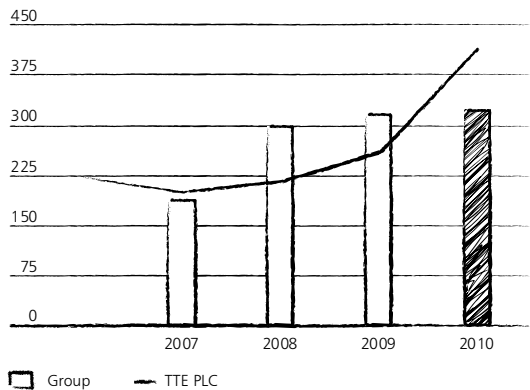
The Group level debt/equity was 70.1%, a decrease from 118% last year. The Group debt also declined by Rs. 359.1 million due to a decrease in borrowings in TTEL and repayment of loans in the Hydro Power Sector by Rs. 24.5 million. The Group's current ratio was 1.24 and net current assets Rs. 100.3 million.

**Cash Flow...**

TTE PLC Net cash from operations increased by Rs. 155.0 million and cross Rs. 400 million mark.

**Operating Cash Flow**

Rs. million



Rs. million	2006	2007	2008	2009	2010
TTE PLC	222.7	201.5	213.9	260.3	415.3
Group	228.8	190.7	298.2	315.9	321.8

The Company's net cash flow from operations crossed the four hundred million mark for the first time to Rs. 415.3 million from Rs. 260.3 million last year. A significant increase in NPBT reduction in finance cost and working capital had a favourable impact on cash flow.

During the year, net cash in investing activities was Rs. 216.7 million, including an investment of Rs. 53.2 million in preference shares in the Hydro Power Companies.

A debt reduction plan reduced total term borrowings including the early settlement of the redeemable debenture of Rs. 95.0 million. These were financed from internal earnings and utilising low yielding short-term investments. The resultant impact was a net repayment of Rs. 269.2 million borrowings including debentures and reduction in cash and cash equivalents from Rs. 109.5 million to Rs. 14.7 million at year end.

Hydro Sector net cash from operations declined, despite an increase in cash flows due to the reduction in inter-company dues in the year. The Group recorded a net reduction in borrowing of Rs. 293.7 million and a reduction in cash equivalents of Rs. 98.1 million.

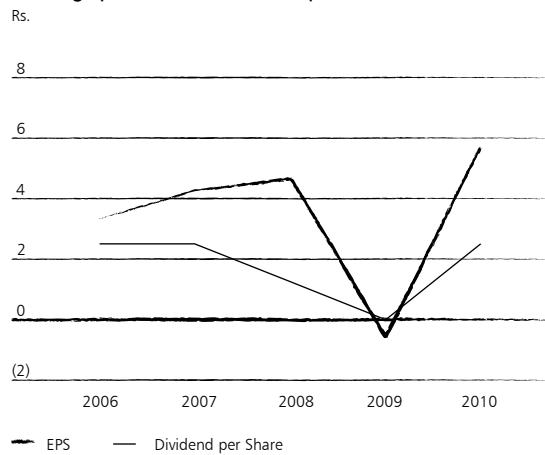
## Stability

### Performance Measurement

#### Dividends

The Company proposes a final dividend of Rs. 2.50 per share. A dividend was not declared in 2009.

#### Earnings per Share & Dividend per Share

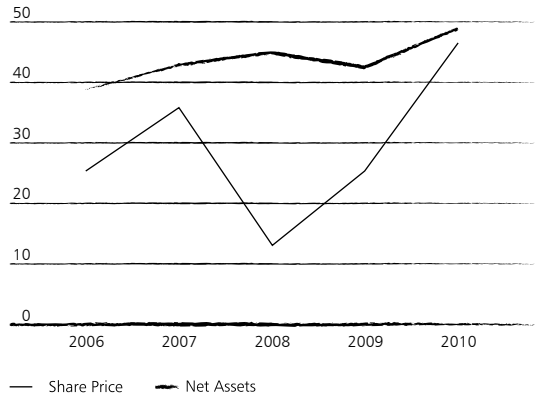


TTE PLC	2006	2007	2008	2009	2010
EPS	3.31	4.28	4.66	(0.58)	5.69
Dividend per Share	2.50	2.50	1.25	—	2.50

The Company's basic earnings per share was at Rs. 5.69 during the year. A NPAT of Rs. 135.2 million for the year contributed to the improvement from a negative earnings per share of Rs. 0.58 in last year.

**Performance of the Share**

Share Price/Net Assets  
Rs.



TTE PLC	2006	2007	2008	2009	2010
Share Price	25.25	35.75	13.00	25.25	46.40
Net Assets	38.72	42.91	44.75	42.56	48.88

The Company's share price increased by 84% to close at Rs. 46.40 compared to Rs. 25.25 in 2009. The price was influenced by the overall market sentiment as All Share Price index moved from 3,481.6 points to 6,635.9 points and the Milanka Price Index from 3,961.8 points to 7,061.5 points. The Plantation index also increased from 641.7 points to 1,335.3 points.

During the year, the share price reached a peak of Rs. 55.00 and a low of Rs. 24.75. The year-end price earnings ratio was 8.15 times vs a negative in 2009. At year-end, the market value per share was Rs. 46.40 representing a market capitalisation of Rs. 1,102.0 million, an increase of Rs. 502.3 million.

The net asset per share increased during the year to Rs. 48.90.

**Financial Reporting**

The Company is committed to adopt best accounting practices. The financial reports on pages 90 to 122 are prepared as per Sri Lanka Accounting Standards and every attempt is made to give the readers a clear and comprehensive understanding of them. We ensure timely delivery of quarterly and annual Financial Statements and its preparation as per accounting standards including compliance with Stock Exchange disclosure requirements.

**Our Achievements**

The Annual Report of TTE PLC for the financial year 2009 was recognised at the 2009, Vision Awards, Annual Reports Competition, with a Bronze Award for Excellence by League of American Communications Professionals.

**Financial Risk Management**

The Company is exposed to many risks of varying degrees. The main risks are interest rate, credit and liquidity risk and commodity prices. The impact of exchange risk is indirect as it impacts the prices at the Tea Auctions. The most significant is liquidity risk, arising from fluctuations in revenue and a high fixed cost structure. The risk management section in this Report details the mitigating measures in place.

**Summary of Quarterly Results of TTE PLC for 2010 vs 2009**

	12 months ended 31.12.2009 Rs. '000	3 months ended 31.03.2010 Rs. '000	6 months ended 30.06.2010 Rs. '000	9 months ended 30.09.2010 Rs. '000	12 months ended 31.12.2010 Rs. '000
Revenue	2,772,125	685,807	1,486,404	2,184,794	3,002,624
Gross Profit	245,397	136,328	211,927	281,640	445,484
Operating Profit	173,240	109,722	160,170	206,281	345,410
Profit/(Loss) before Tax	(27,888)	64,385	70,108	65,897	169,200
Profit/(Loss) for the Period	(30,402)	59,643	58,107	51,337	164,509
Total Assets	3,641,524	3,617,101	3,643,319	3,560,636	3,490,824

# **Sustainability Report**

## **Keeping Our Tea Green**

*Sustainable entrepreneurship has been an important part of our business strategy. As a key player in a key sector Talawakelle Tea Estates PLC is conscious of the importance of sustainable business practices that nourish our environment and economy and create a larger social wealth for our community.*

*With a view to enhancing transparency and public confidence Talawakelle Tea Estates PLC analyses the impact that our activities have had on the economy, the environment and the community.*

*Our goal is to produce a world class product processed according to the most rigorous ethical and safety standards. We do this while preserving and nourishing the rich biodiversity of our estates, preserving its rich water resources and constantly searching for renewable sources of energy. We also do this by constantly investing in the lives of our employees and striving to improve the quality of life of our children and communities and enhance the opportunities that they encounter.*

### **Responding to Climate Change**

Extreme weather patterns over the past few years have created havoc in many parts of the world. Scientists estimate that Earth's average temperatures have risen and will continue to rise every decade by about 1.8° F (0.8° C). Changes in climate caused by rising temperatures will result in droughts, heat waves, floods, loss of land mass due to landslides and rising sea levels and food shortages caused by the destruction of the food chain and the natural biological cycle. Climate change has the potential to undermine the massive gains that technology and development have made over the years.

Climate change has alerted humanity on the urgent need to rethink the way we live. Urgent mitigatory action is required and modern lifestyles need to be re-imagined so that we can bequeath productive and rewarding lifestyles for future generations.

Business worldwide has a responsibility to reverse the adverse effects of climate change by integrating sustainable practices where possible. Climate change has the potential to destabilise businesses, markets and economies and impact negatively on corporate performances and shareholder value. Responding to climate change and striving for corporate sustainability will not only create greater economic value but also larger social value for succeeding generations.

Corporate sustainability seeks to implement processes and systems to reduce the negative

impact of climate change and to nourish the physical environment and explore sustainable alternatives. All business strategies need to balance and manage the economy, the environment and society and create win-win outcomes for all stakeholders today and tomorrow.

Talawakelle Tea Estates PLC is the custodian of 6,493 hectares of tea land rich in biodiversity and diverse ecosystems. On every estate we now implement practices to enrich the Ecosystems and biodiversity and the quality of life of the community. We are committed to building economic, environmental and social value and sustaining entrepreneurship in the years to come.

#### ● **Making Best Use of our Energy**

In 2004 Talawakalle Tea Estates PLC commenced converting its factories from fossil fuel to renewable fuel firing. By 2006 all of the Company's factories were operating on renewable sources of energy. The conversion has had both financial and environmental benefits. It is estimated that the Company now uses 1.5 million litres less fuel than it used previously. At the current rates this translates into a saving of Rs. 105 million per year.

Energy conservation initiatives have been introduced at all our factories with a view to making optimum use of energy expended. Between 2008 and 2010 the Company enhanced its energy efficiency by increasing its tea output by 0.12 kgs per unit of electricity consumed. This has

resulted in a saving of 624,778 units of electricity per year which at the current cost has generated a saving of Rs. 5.81 million.

The Company has accelerated the planting of fuelwood on all its estates in order to reduce its dependency on fossil fuels and external fire wood sources. The Company has installed energy efficient trough fans in all its factories except, Dessford, Bearwell and Clarendon. Energy committees have been formed in each factory and tasked with formulating energy management plans that will optimise the use of energy within that factory. The committees also help in monitoring and conserving the energy use in factories.

***Fuel Switching Programmes Qualifies for Carbon Trading Under Voluntary Carbon Standards (VCS) Scheme***

During the period 2004 to 2006 this Company replaced all Auto Diesel Burners in its high grown estate factories namely Dessford, Somerset, Great Western, Mattakelle, Radella, Bearwell, Holyrood, Logie & Wattedgodde with wood fired Hot Water Generators.

The resulting drop in CO<sub>2</sub> emissions made this project eligible for Carbon Credits under the United Nations Kyoto Protocol.

The Company's fuel switching programme has resulted in a saving of 3,309 tones of CO<sub>2</sub> per

annum. This figure was validated by the TUV NORD CERT GmbH. This project falls under the category of Micro Project in terms of the Voluntary Carbon Standards 2007.1 of the VCS Association. The total emission reductions over the 10 year crediting period is 31,784 tonnes CO<sub>2</sub>.

A contract was signed with a buyer for the sale of 16,000 VCU's during the course of the year under review.

*Fuel switching on our estates*





- **Towards Generating Renewable Energy - Hydro Power**

The Company has developed its own hydro power capacities on three estates - Somerset, Radella and Palmerston. These estates are located in the high grown sector and draw water for this resource from the Nanu Oya.

In terms of results and output, the combined capacity of the three plants generate 2.2 MW of electricity. During the year under review a total of 10,034,546 Kwhrs of electric power was generated. As a consequence TTEL has become nearly self-sufficient where its requirements of electricity are concerned. Quantified in economic terms, the value of electricity generated totals to Rs. 131.6 million.



*Waterfall - Palmerston Estate*

This initiative by the Company has helped generate employment for estate youth and in respect of the environment it has helped reduce dependence on fossil fuels from the national perspective and being a green energy initiative, it reduces our carbon footprint and CO<sub>2</sub> emissions.

- **Investing in the Community**

The Company continues to invest in the lives of the community. Through these investments we aim to increase the quality of life of those who live and work on the estates and ensure that their children have access to education and adequate health care. Over the years the Company has invested to improve the road network and has constructed new schools, water projects, worker restrooms, and sanitation facilities. In addition the Company has provided scholarships to several school children, enhanced their access to proper nutrition and supported them with better health care.

In this area Talawakelle Tea Estates PLC has forged strategic partnerships with the Ministry of Plantations; the MJF Charitable Foundation; and the T-Field Development Federation. Last year the Company partnered with the MJF Foundation to build a new primary school at Holyrood Estate Rs. 7.5 million was invested in the construction of the new school which will benefit approximately 125 children in that area.



*New Primary School built by MJF Foundation on Holyrood Estate*

### **Growth that is Sustainable**

The Company's environmental policy is aimed at guaranteeing the long-term sustainability of the plantations and the surrounding environment. The Company works with employees, local communities and non-Governmental organisations in its efforts at replenishing and conserving the environment.

Through our environmental policy we identify and implement scientific and integrated environmental management programmes every year on each estate. These programmes seek to mitigate the adverse impacts of our operational activities. They also aim to conserve and enrich the biodiversity and ecosystems on the estates through a variety of initiatives. These initiatives include a restoration of natural ecosystems conservation of water sources and a reforestation of areas that are not suitable for agriculture.

### **Soil Conservation and Enrichment**

The Company implements several sustainable agricultural practices (SAP's) on its estates to conserve and enrich the soil. These include contour drainage systems, vetiver grass hedges, vegetative ground covers, stone terraces, the planting of green manure, and shade belts.

The Company also adopts Sloping Agricultural Land Technology (SALT) using leguminous plant species in all tea replanting blocks that help in soil conservation and enrichment. Thatching, mulching, chopping, pruning and composting are some of the other practices that are being used to enrich the soil, particularly in the VP fields and in those areas that have been newly re-planted. Selected fields in each plantations are tested every year for organic carbon content and soil P<sup>H</sup> levels. The required soil P<sup>H</sup> levels are maintained by the regular application of dolomitic limestone.

**Soil Conservation Measures - Wategode and Mattakelle Estates**



*Vegetative ground cover*



*Vetiver grass hedges*



*Stone terraces*

**Composting in Progress - Logie Estate**



*Mechanical shredder*



*Processed compost*

### Optimising Water Resources

The Company is committed to protecting and sustaining all water sources on our plantations. All water sources on estates have been identified and the necessary conservation measures have been put in place to ensure protection and replenishment of these sources. Through our water management practices we ensure adequate levels of good quality potable water to the estate community, the factories, nurseries, and in some cases to neighbouring villages and towns as well.

The Company is setting up riparian forests in several areas and has protected the water way banks with bamboo, vetiver and other soil conserving plants. We have also established 20 metre protection zones around all water sources and five metre buffer zones along all water bodies to prevent any contamination of water sources from agricultural activities.

Water from all drinking water sources are tested every year through a well-defined water monitoring and analysis programme. Regular education programmes are conducted for the estate community on the importance of water conservation and the need to protect water sources for the benefit of future generations.



*Protecting Water Sources - Water Conservation at Wattegode, Logie and Mattakelle Estates*

### **Waste Management**

We have put in place an integrated waste management programme to ensure the productive use of all waste generated on estates. The estate community is constantly educated on the importance and value of maintaining a clean environment and on the need for an integrated waste management programme to achieve this objective. Through this programme, all bio-degradable waste is utilised to produce compost which is used for tea fields as well as for the home garden plots of the community. Metal, glass, plastic, rubber and polythene is collected separately and sent for recycling. The functioning of open waste dumps and the burning of waste are now considered undesirable practices and have been halted.

With the active participation of key stakeholders, the waste management programme has created a clean, healthy environment and contributed positively to the image and well-being of the estate community.



*Training programme on solid waste management - Mattakelle Estate*

### **Biodiversity**

All estates within the Company are rich in biodiversity. The estates are endowed with diverse habitats consisting of reservoirs, streams, wetland, eco-forests, watersheds, riparian habitats and eucalyptus forests.

The Company has consistently sought to sustain and enrich this rich biodiversity. As part of our sustainable agriculture programme, we improve the agro-ecosystems by annually introducing a variety of plant species that includes *Calliandra calothyrsus*, *Erythrina lithosperma*, *Gliricidia sepium*, *Grevillea robusta*, *Albizia species*, *Bambusa vulgaris*, *Tithonia diversifolia*, *Cassia spectabilis*, *Toona ciliate* and *Vetiveria zizanooides*.

We have also implemented several measures to conserve and consolidate these rich habitats in order to support the diverse fauna and flora in the region. Among the faunal species are many species of mammals, birds, butterflies, dragonflies, amphibians, reptiles, fish and crabs.

### **Rich Biodiversity and Ecosystem**



Protected Riparian Forest - Wattedode Estate



Protected Waterfall - Calsay Estate



Protected Forest adjoining a Tea Replanting zone - Kiruwanaganga Estate

### **Pest and Weed Management**

The Company has been implementing an Integrated Pest Management programme (IPM) for many years. The IPM uses natural biological measures to management pest attacks which cause minimal damage to the ecosystem.

The Company's weed management practices are also designed to cause minimal damage to the environment. Our integrated weed management programme will progressively reduce the volume of herbicides that are used. We had suspended the use of 2.4 D and MCPA which are TRI recommended herbicides, for well over five years and also suspended the use of paraquat on all our estates.

These sustainable agriculture practices are aimed at enriching the natural habitats and preserving the environment. They have helped in reducing land and water pollution through a drastic reduction in the use of agrochemicals.

- **Human Resource Training**

Over the years the Company has invested strongly in developing its human resources.

Our goal is to provide as many opportunities for our staff to enhance their knowledge and skills. We have through these programmes created a dynamic and highly motivated team that has performed at remarkable levels of efficiency.

Last year our staff participated in training programmes both within and outside the country. Many of the in-country programmes were need based and conducted by professionals from the National Institute of Plantation Management (NIPM), Tea Research Institute (TRI), The Institute of Chartered Accountants of Sri Lanka (ICASL), Employers' Federation of Ceylon (EFC), Hayleys PLC and Praguna Management Consultants.

The Company conducted several in-house training programmes for our staff in connection with the Rainforest Alliance programme. Subjects covered were sustainable agriculture, ecosystem and water conservation, occupational health and safety, energy conservation and integrated waste-management.



*Training Programmes in progress - Logie Estate*

● **Enhancing Lifestyles**

Our objective is to continuously improve the quality of family, social and work-life of all our employees and the larger community. With this in mind the Company has over the years invested in social welfare, housing, education, health care and child development activities. We have at the same time endeavoured to promote sports, cultural activities and religious values and to provide as many opportunities as possible for personal and community growth.

Over the past year the Company installed new wash and changing rooms for our chemical sprayers to ensure greater safety and health. Several awareness and training programmes on occupational health and safety were conducted for our staff, particularly in respect of handling agrochemicals and operating factory machinery.



*Safe spraying of agrochemicals - Wattegoda Estate*

National health programmes facilitated by the Ministry of Health continue to be conducted on our estates and these have been effective in improving maternal and child health and improving the overall health levels of the estate community.

Company continues to establish new Child Development Centres that are geared to looking after the needs of young children below the age of five. Each centre cares for about 30 - 50 young children and is supported by well-trained staff.

Every year the Company invests in improving the facilities and level of care at each of its Child Development Centres. We are also taking steps to construct new Child Development Centres in those areas which require them. Our goal is to provide the young children an opportunity to grow and learn in a spirit of love and enjoyment while their parents are at work.

Most of the centres are equipped with necessary facilities to conduct pre-school activities as well. In addition, the nutrition and growth level of children are being regularly monitored and necessary health and nutrition programmes are conducted at the CDC's by well-equipped health teams.





*Activities at Child Development Centres - Mattakelle Estate*

The following is a snapshot of the activities undertaken during the past year:

Development Activities	Total Units
New CDCs	1
New Primary Schools	1
New Pre Schools	1
New Social Development Centres	1
New Water Schemes	5
New Worker Rest Rooms	2
New Sanitation Facilities	280
Up Grading Dispensaries	1



*Manager, Palmerston Estate Inspecting a New Water Scheme*

● **Rugby Champs 2010**

Talawakelle Tea Estates PLC emerged champions at the Inter-Plantation Company Rugby Sevens beating Bogawantalawa PLC by 46 points to nil in the finals. The Inter-Plantation Rugby Tournament was organised by the Dickoya/Maskeliya Cricket Club and held at their grounds.

Fifteen teams participated in this tournament which was conducted for the 18th year and it was the first time that Talawakelle Tea Estates emerged as winners. Sarath Ranaweera of Talawakelle Tea Estates was rewarded as the 'Player of the Tournament'.

**The Talawakelle Team**



Mr. Waruna Wijekoon (Captain), Mr. Salinda Bandara, Mr. Lashan Yatawara, Mr. H M D Pushpakumara, Mr. Tharaka Dissanayake, Mr. Hasithnath Dissanayake, Mr. Dimantha Gamage, Mr. Dilan Ranawanagedara,

Mr. Dulshanka Jayathilake, Mr. Sasika Wickramasinghe, Mr Sarath Ranaweera, Mr. Janaka Weeraratne, Mr. Yohan Kumarasiri, Mr. Eranga Egodawela, Mr. Prasanna Gotabaya and Mr. M Fizal (Team Coach)

**Hayleys' Sports Day**

Our Head Office Staff took part in the Hayleys Annual Sports Day and the following staff members emerged as winners:

1. Women's Relay Champions - Ms. Dilyani, Ms. Nadeesha, Ms. Dilanka and Ms. Nilusha
2. Carrom Champion - Mr. Navaratna Bandara
3. Mixed Doubles Carrom- Runners-Up- Mr. Navaratne Bandara, Ms. Dilyani Perera
4. Cricket Women's Runners-Up - Ms. Nadeesha, Ms. Janani, Ms. Tess, Ms. Dilyani, Ms. Nilusha and Ms. Kanthi
5. Ms. Nilushi Pathirana - was adjudged best all-rounder at the ladies cricket tournament.
6. Netball - Runners-Up



*Hayleys Sports Day - Medal Winners with CEO*

## Aligning with Global Sustainability Management Systems



- **Our Commitment Towards Sustaining Quality and Food Safety**

The Company's production processes are geared towards ensuring the highest standards of food quality and hygiene. We make every endeavour to comply with global standards in this regard and to make our products attractive to markets from all parts of the world. Our goal is to progressively enhance product quality, food safety levels, and buyer satisfaction.

The Company pioneered the 'Food Safety' concept with Great Western becoming the first tea factory in Sri Lanka to obtain HACCP certification in 2001. Since then we have implemented ambitious factory development programmes introducing new concepts and technologies in all processing centres. Kiruwanaganga became the first food factory in Sri Lanka to obtain the prestigious ISO 22000 International Food Safety Management Systems (FSMS) certification in January 2006. Thereafter, Mattakelle, Holyrood, Radella and Handford factories were given the HACCP certification whilst Dessford, Great Western and Deniyaya obtained ISO 22000 FSMS certification. Dessford was also awarded the TASL-SGS, product certification awarded by SGS.

We have taken special measures to ensure that our products comply with the Food Law Regulation No. 852/2004 of the EU which requires all food producers and exporters to implement a permanent Food Safety Management System (FSMS), based on HACCP principles developed jointly by the FAO/WHO Codex Alimentarius Commission.

Our production standards also meet the Japanese Food Sanitation laws which came into effect on the 29th May 2006. According to these regulations all consignments of food and beverages imported to Japan should conform to the Japanese legislation on MRLs (Maximum Residue Levels) with regard to agrochemicals and the use of flavoured essence in tea.

The Sri Lanka Tea Board, by its circular No. AL/MQS/08 dated 24th April 2008, has issued guidelines and standards pertaining to MRL's, microbiological and heavy metal levels for 'Sri Lanka Origin Teas'. We ensure that our processing centres comply with these requirements strictly.

Aligning with Global Sustainability Management Systems →

We provide regular training to our staff to ensure that they fully understand the concepts and principles to effectively implement and sustain the systems in the respective estates.

We are proud that we have been able to maintain the highest standards of food quality and safety through the efforts and commitment of our own estate teams without the assistance of any external consultants. Our Estate Managers have played a crucial role in this regard.



- **The Ethical Tea Partnership**

Global consumers are becoming increasingly aware and require that the products they buy are produced in a socially responsible way and in conformity with the highest ethical standards. Since 1997, the Ethical Tea Partnership (ETP) - UK has been working with producers and packers in the tea industry to provide this assurance to global consumers of tea.

The Ethical Tea Partnership has been continuously upgrading its monitoring programme to ensure it remains rigorous, credible and valid. In the past, producers were monitored against the law of the country; the core ILO conventions and Trade Union Agreements. The current monitoring process however, revolves around a global standard, that ensures an ethically clean, robust,



*Good Manufacturing Practices (GMP) & Food Safety Management System (FSMS)*

effective and socially responsible process in all parts of the world. The standard was developed in partnership with a range of industry stakeholders and is adjusted to local conditions to ensure that an appropriate focus is placed on issues that are important to workers, producers, buyers and consumers. The ETP seeks to ensure that producers conform to all requirements of the ETP

standard which encompasses the Ethical Trading Initiative Base Code; ILO conventions; local laws; and collective bargaining agreements.

All our estates are part of the ETP Monitoring Programme and we will continue to enhance our ethical practices, social welfare practices and working conditions in all spheres of operation.

- **The Rainforest Alliance and the Sustainable Agriculture Network**

The Sustainable Agriculture Network (SAN) is a coalition of independent, non-profit, conservation organisations that promote the socio-environmental sustainability of agricultural activities through development projects and the certification of sustainable agriculture. SAN fosters best practices for the agricultural value chain, provides certification services to the producers and agricultural companies in their country and contributes knowledge and experience to the development of sustainable agricultural practices.

The Rainforest Alliance (RA) functions as the secretariat of the network and administers its certification systems. The mission of the RA is to protect ecosystems, and the people and wildlife that depend on them by transforming land use practices, business practices and consumer behaviour. RA certification standards follow ten universal principles of sustainable agriculture, which are built on the

three pillars of sustainability: environment, economy and social justice. The objective is to mitigate environmental and social risks caused by agricultural activities through a process that provides a measure of each farm's social and environmental performance and best management practices, and motivates each company to constantly enhance its performance in this regard.

Talawakelle Tea Estates PLC has recognised the value of the RA standard which is consistent with the Company's vision and practices. We have commenced implementation of the standard and all high grown estates will be prepared for certification by 2011.

# **Company Policies on Human Resource, Health and Safety, Environment and Quality and Food Safety**



## **HUMAN RESOURCE and SOCIAL POLICY**

- People will continue to be our **most valued resource** and we are committed to **nurture and develop** them consistently.
- Treating people at all levels with **dignity and respect** will be the **key guiding principle** of all our human resource management practices.
- We are committed to enhance the **quality of life, self-esteem and morale** of all our employees and create an environment in which people can use their **initiative, be creative, innovative** and unleash their **full potential**.
- **Training, empowerment, motivation** and recognition will be integral practices at all levels towards managing and developing human talents effectively.
- We are committed to provide **equal opportunities** for all employees and **prohibit any form of discrimination** or **discriminatory practices** in respect of all employment related activities.
- We **uphold and respect the freedom of association**, right to form and join trade unions and **bargain collectively**.
- We shall **prohibit any form of forced and bonded labour** in all our operations.
- We shall **not engage child and young workers** and the minimum age of employment would be **18 at all levels**.
- We shall comply with all applicable **labour laws, industry regulations and standards** on working conditions and payment of salaries, wages, overtime and other statutory dues.

- We shall consult local communities regarding plans for new projects, constructions, diversification, change of ownership or any other operational changes that affect the local communities and their views will be considered in the decision making process.
- We shall give priority to **local workers** for training and employment on estates.

## **HEALTH and SAFETY POLICY**

- We are totally committed to provide a **safe and clean work environment** to all employees and ensure their **health and safety** at the work place.
- Towards achieving this objective, we shall adopt, **reasonably practicable preventive and protective safety measures** in all production and processing areas to manage **occupational hazards, risks** and **prevent accidents**.
- Employees will be regularly **trained and educated** on relevant health and safety aspects and will be **actively involved** in implementing health and safety programmes, through the establishment and efficient functioning of **Health and Safety Committees** spearheaded by respective Estate Managers
- We are committed to comply with applicable **National Health and Safety Laws and regulations** at all times.
- We shall carry out regular **health and safety risk assessments** and review Health and safety standards, programmes and objectives periodically to ensure **continual Improvements**.

### **ENVIRONMENTAL POLICY**

- The environmental policy reviews the commitment of TTE PLC, in partnership with the **Plantation and local community to conserve and manage the environment** in which we operate for the benefit and well-being of the **present and future generations** within plantations and its neighbourhood.
- Towards achieving this objective, we shall pursue **environmentally friendly and responsible methods** in all our agricultural operations, field practices and manufacturing process to ensure that all **natural resources and ecosystems** will be managed in a **sustainable manner**.
- **Biodiversity and water sources** in particular will be **protected** through a well-managed **conservation programme**.
- We shall endeavour to conserve the usage of all resources by **optimising resource utilisation and minimising waste** through practising **cleaner production principles**.
- **Education and awareness** will be promoted at all levels in a manner designed to increase the level of awareness of all aspects of the environment and its relevance, care and management.
- We are committed to comply with applicable **environmental laws and regulations** at all times.
- The state of the environment will be continually assessed and environmental management strategies, systems and objectives will be **periodically reviewed and upgraded** to achieve **continual improvements**.

### **QUALITY AND FOOD SAFETY POLICY**

- We are committed to total assurance of **quality and food safety** of the tea we produce. Our goal is to become the **market leader** in the production of **finest quality teas**.
- To this end, we shall ensure that **Good Agricultural and Manufacturing Practices** are adhered to on all our plantations.
- Building on these foundations, we strive to upgrade our production facilities and improve manufacturing processes continually at every stage, to conform to the stringent global food safety standards.
- We believe that the overall **quality** of our product and the satisfaction of **our customers** are greatly dependent on the **quality of life** of our employees and the satisfaction they obtain from working with us. Therefore we will endeavour to assure that our employees' **quality of life** and their skills are continuously improved.
- **Our responsibilities to the society and valued customers** will always be the focal point of our operations and we are committed to consistently improve **communication** at all levels for an effective Food Safety Management System and to comply with the relevant **statutory and regulatory requirements**.

# Risk Management

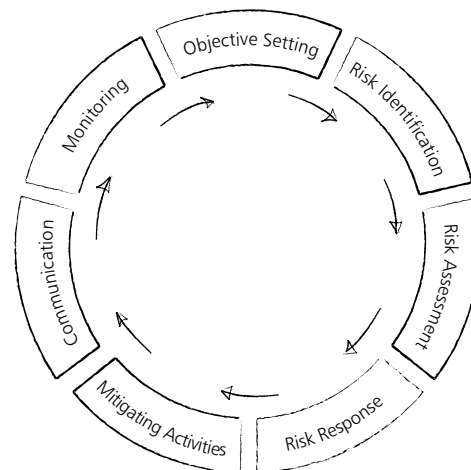
TTE PLC in its endeavour towards enhancing the wealth of the shareholders is exposed to a multitude of risks which are of different forms and magnitudes. It is our willingness to take an entrepreneurial risk that enables us to exploit opportunities as they arise. We therefore calculatedly take risks, as long as they are reasonable and can be managed and controlled, and bear such risks if they are expected to create value for the Company. Risk is inherent in all our business activities and cannot be completely eliminated. An effective risk management framework helps to achieve the optimum trade-off between risk and return.

The Company recognises the importance of adopting a proactive approach in the management of risk. TTE PLC has established and adheres to a comprehensive risk management framework which enables early identification analysis of risks, prioritisation and risk mitigation. This system is implemented as an integral part of our business processes across TTE PLC business. Further, greater emphasis is placed on managing risk with prudence and discipline at strategic level with the participation of the Board of Directors. The Board is responsible for setting goals and objectives annually after evaluating the overall risk profile of the Company. The overall responsibility for the management of risk lies with the Management Committee and the Senior Management Team. The front line managers are assigned with the primary responsibility of taking action. The major risks are reported to the Board with an action plan which includes the identity of

the key personnel charged with the responsibility of implementing it.

Our risk management process comprises multiple control mechanisms and constitutes an important element of the corporate decision-making processes. These mechanisms include recording of internal processes and business risks, management and controlling systems and planning processes. To ensure the effectiveness of our risk management efforts, transparency and aggregation of risks within the framework of reporting, we have opted for an integrated approach to manage corporate risks, to be uniformly implemented throughout our estates with a direct reporting line to the Chief Executive Officer.

Our risk management process is briefly explained below:



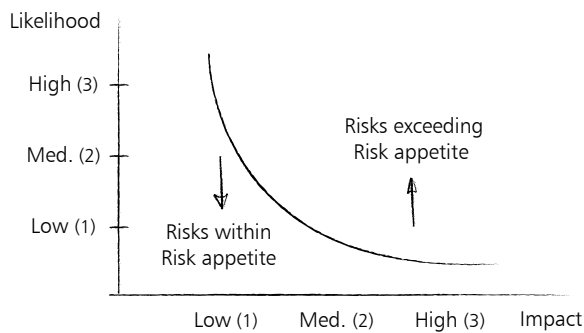
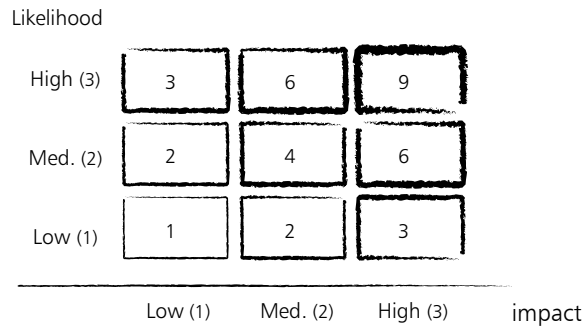


Risk Management →

**Objective Setting** The Board sets goals and objectives annually after reviewing the overall risk profile of the Company. TTE PLC's tolerance of risks identified will ultimately determine the objectives agreed upon.

**Risk Identification** Our integrated approach involves all levels of management in the risk identification process. Regular monthly meetings are used to discuss possible risks that may have a negative impact on our targets. Internally reports produced monthly by leading audit firms and external audit reports are also reviewed to identify possible risks.

**Risk Assessment** Risk measures are based on the likelihood and impact. Any significant risk exceeding risk tolerance level will require management responses.



Likelihood X Impact = Risk

A higher risk require more urgent management response.

<p><b>Risk Response and Mitigating Action</b></p>	<p>Depending on the significance of the risk to the business, decisions are taken to appropriately manage risk by accepting, reducing, sharing or avoiding it. Such decisions are influenced by the TTE PLC's risk appetite. Chief Executive Officer with the management team initiates mitigatory actions that are needed to manage risks. The Company has entered into Insurance Agreements where possible, to protect itself against financial losses arising from uncertainties and risks. These agreements are frequently re-examined and adjusted as necessary.</p>
<p><b>Information and Communication</b></p>	<p>Documentation and reporting plays a key role in monitoring risks. Monthly and quarterly reports with key economic and performance indicators and relevant external reports are presented to the Management Committee and to the Board to alert possible risks. Internal and external audit reports on level of compliance with risk mitigating actions are tabled at the meetings of the Management Committee and the Audit Committee which are then reviewed and acted upon. Strict compliance of internal control procedures ensures effective and efficient functioning of operations within the Company.</p>
<p><b>Monitoring</b></p>	<p>The ultimate responsibility for monitoring risk management lies with the Board of Directors. This includes monitoring the efficiency and effectiveness of internal control.</p>

***The key risks the Company is exposed to, their effects and the mitigating systems practiced are elaborated below:***

Risk	Concern	Effect
<p><b>Global Tea Prices</b></p>	<p>Inability to maintain a stable price</p>	<p>Fluctuating prices affect bottom line</p>
<p><b>Risk Mitigatory Strategies</b></p>	<p>The cyclical pattern of price is mitigated by focusing on producing 'quality teas'. Availability of a range of high and low grown teas also helps in reducing the impact of price fluctuations.</p>	

Risk Management →

Risk		
<b>Product Quality</b>	<b>Concern</b> Inability to maintain consistency in Quality	<b>Effect</b> Buyers curtailing/ceasing purchases
<b>Risk Mitigatory Strategies</b>	Quality assurance measures are implemented at every stage of manufacture and cultivation. Implementation of quality assurance systems, food hygiene standards and Certification of factories on HACCP and ISO ensures quality of the product. Also, regular dialogues with the buyers and brokers and corrective actions on broker reports are measures taken to adhere to quality policy.	
Risk		
<b>Climatic Changes</b>	<b>Concern</b> Crop production is seasonal and subject to vagaries of weather	<b>Effect</b> Change in the weather pattern affects Company performance
<b>Risk Mitigatory Strategies</b>	Adversity is reduced due to the Geographical distribution of the estates in the high and low grown elevations. Planting selected cultivars, good agricultural practices, participation of the smallholder and proactive planning are some measures taken towards reducing the impact.	
Risk		
<b>Human Resource</b>	<b>Concern</b> Highly unionised large work force  Retaining competent management and supervisory staff	<b>Effect</b> As the industry is highly labour intensive, low productivity, work stoppages, strikes will result in a major impact on the Company/ industry  Disruption to operations and performance
<b>Risk Mitigatory Strategies</b>	The Collective Agreement entered into with the Trade Unions in the Company's capacity as a member of the Employers' Federation ensure industrial peace and that wages are applied industry wide and not ad hoc. Human resource management is given priority. Performance Management Systems, training and development, motivation and empowerment are practiced to reduce the impact.	

Risk Management →

Risk		
<b>Interest Rate</b>	<b>Concern</b>	<b>Effect</b>
	Needs to minimise the adverse affects of the fluctuating interest rates	Impacts profitability and cash flows
<b>Risk Mitigatory Strategies</b>	The Company manages and mitigates interest rate risk by utilising concessionary funding from available sources. Also an appropriate mix of floating and fixed rate interest debt capital is employed. This reduces the impact of upward movement of interest rates while allowing for benefit should interest rates fall.	
Risk		
<b>Reputation</b>	<b>Concern</b>	<b>Effect</b>
	Compliance of legal and statutory requirements	Non-compliance may lead to loss of reputation, fines and surcharges and even litigation
<b>Risk Mitigatory Strategies</b>	Reputation is considered as the one most valued intangible asset of the Company. Therefore, the Company needs to obtain expert legal advice to include wherever possible risk mitigatory clauses in its Agreements for new ventures and investments. The Company's systems and procedures ensure that due consideration to health and safety and environmental issues and the best practices are followed in these areas.	
Risk		
<b>Investments</b>	<b>Concern</b>	<b>Effect</b>
	Investments are necessary for the sustainability of the business	Impact on future profitability and project failing mid way
<b>Risk Mitigatory Strategies</b>	Investments are first subjected to a rigorous evaluation process which requires a minimum expected return. Then Board approval is sought prior to embarking on the investment. Close monitoring of the progress is made to ensure budgets and forecasts can be met and project deliverables are achieved.	
Risk		
<b>Competition</b>	<b>Concern</b>	<b>Effect</b>
	Local Tea Industry faces intense Global competition mainly flowing from low cost producers and substitute beverages.	Eroding margins and loss of markets
<b>Risk Mitigatory Strategies</b>	Company's focus on quality and productivity are measures in mitigating risk of competition from low cost producers. Broadening product range (such as Green Tea)	

Risk Management →

Risk		
<b>Liquidity</b>	<b>Concern</b> Availability of sufficient funds is critical as the industry revenue is cyclical with long gestation periods for returns	<b>Effect</b> Inadequacy of funds would affect sustainability of operations, costly funding and postponement of investments
<b>Risk Mitigatory Strategies</b>	Borrowings are suitably structured to ensure their maturity profile is not beyond the Company's ability to repay or re-finance, cash flow management and budgetary control system are in place.	
Risk		
<b>Information</b>	<b>Concern</b> Accurate and timely information from information systems is vital for decision making and control	<b>Effect</b> Disruption caused by failure of systems could result in financial loss
<b>Risk Mitigatory Strategies</b>	Internal controls and a sound back up system are employed. Further, the Company has entered into maintenance contracts with a well-established company and uses licensed software.	
Risk		
<b>Operational Risk</b>	<b>Concern</b> Sound internal control system is a key factor in safeguarding tangible and intangible assets.	<b>Effect</b> Human error, frauds, accidents, natural disasters may cause financial losses
<b>Risk Mitigatory Strategies</b>	Internal control systems, compliance audits, standardisation of procedures, employment of suitable and qualified personnel and insurance covers help to mitigate operational risks.	
Risk		
<b>Contractual Risk</b>	<b>Concern</b> Entering into contracts contravening law. Contracts which are not commercially sound	<b>Effect</b> Loss of reputation, litigation Financial loss
<b>Risk Mitigatory Strategies</b>	Agreements are subjected to professional legal review. All Major contracts are reviewed and approved by the Board	

# Corporate Governance

At TTE PLC the Board of Directors is committed to follow best practices in Corporate Governance in its endeavour in enhancing shareholder wealth. Thus, a system which promotes corporate fairness, transparency and accountability is in place to ensure TTE PLC as a business could meet the needs of all its stakeholders now and into the future. Good Governance is...*a core value* at TTE PLC.

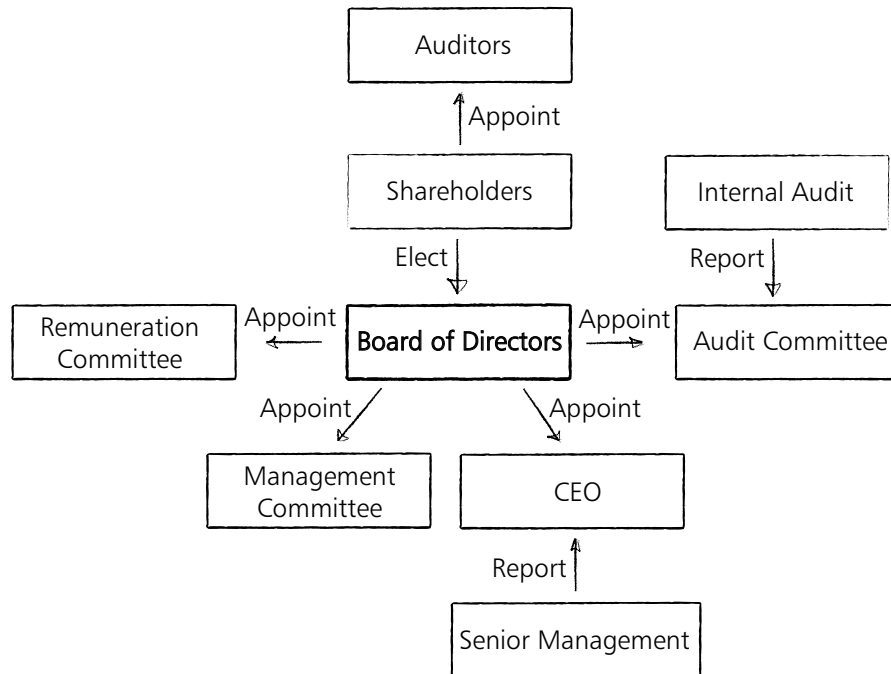
We strive to achieve a balance between accountability and assurance (conformance) on the one hand and value creation and resource utilisation (performance) on the other. Thus, we believe our Corporate Governance complements our business processes.

TTE PLC is a subsidiary of Hayleys Plantation Services (Pvt) Limited (HPSL). HPSL is a subsidiary

company of Hayleys PLC, and an equity accounted investee of Dipped Products PLC and MJF Holdings (Pvt) Limited. TTE PLC is the holding Company of TTEL Hydro Power Company (Pvt) Limited and TTEL Somerset Hydro Power (Pvt) Limited.

Our principal line of business is cultivation and manufacture of black tea and the subsidiaries are engaged in generation of hydro power.

TTE PLC's Governance Guidelines provide Directors and management with a road map of their respective responsibilities. These Guidelines which are updated periodically, detail matters requiring Board and Committee approval, advice or review. TTE PLC's Governance Framework is depicted in the following diagram:



The Corporate Governance practices adopted and practiced by the Company against the background of the Code of Best Practice on Corporate Governance published by The Institute of Chartered Accountants of Sri Lanka, and the Rules set out in Section 7.10 of the Colombo Stock Exchange are listed below:

### **The Board of Directors**

The Board of Directors of TTE PLC is responsible for the Governance Framework of the Company.

### **Composition and Attendance at**

#### **Board Meetings**

The Board consisted of ten Directors as at the end of the year: Seven Non-Executive Directors and three Executive Directors, including the Chairman

and the Chief Executive Officer. These Directors are named below and their profiles available on pages 72 and 74 of this Report. Details of Directors' shareholdings in the Company and Directorates in other related companies are given in pages 82, 121 and 122 respectively.

Shareholders were advised of the resignations of Dr. R M Fernando and Mr. J M S Brito and with a brief biographical information provided on the appointments of Mr. J A G Anandarajah and Mr. G K Seneviratne.

The Board meets quarterly as a practice. Ad hoc meetings are held when necessary. During the year under review the Board met 4 times.

Attendance at these meetings was as follows:

Name of Director	Executive/Non-Executive	Attendance
Mr. A M Pandithage (Chairman)	Executive	4/4
Mr. S T Gunatilleke (Chief Executive Officer)	Executive	4/4
Mr. J A G Anandarajah (appointed w.e.f. 29th April 2010)	Executive	3/3
Mr. Merrill J Fernando	Non-Executive	0/4
Mr. Malik J Fernando	Non-Executive	2/4
Mr. M M M De Silva	Non-Executive	2/4
Dr. Rohan M Fernando (resigned - 07th April 2010)	Non-Executive	1/1
Mr. J M S Brito (resigned - 07th April 2010)	Non-Executive	0/1
Miss Minette Perera (Alternate Director to Mr. Merrill J Fernando)	Non-Executive	0/4
Mr. D C Fernando (Alternate Director to Mr. Malik J Fernando)	Non-Executive	0/4
Mr. G K Seneviratne (appointed w.e.f. 29th April 2010)	Non-Executive	3/3
Prof. U Liyanage	Independent Non-Executive	2/4
Dr. S S S B D G Jayawardena	Independent Non-Executive	3/4
Mr. L N De S Wijeyeratne	Independent Non-Executive	3/4

### **Responsibilities of the Board**

The Board is responsible for:

1. Enhancing shareholder value.
2. Ensuring all stakeholder interests are considered in corporate decisions.
3. Formulating, communicating, implementing and monitoring of business policies, overall strategies and corporate goals to assure sustained growth.
4. Sanctioning major investments and business proposals recommended by the Management Committee.
5. Ensuring Executive Directors have the skills/knowledge to implement strategy effectively, with proper succession arrangements in place.
6. Ensuring due attention is given to appropriate accounting policies and practices.
7. Setting and communicating values/standards for management.
8. Ensuring information, control, risk management and audit systems are in place and are effective.
9. Ensuring compliance with ethical, statutory, legal, health, environment and safety standards and regulations.
10. Reviewing and approving annual budgets and monitoring performance against them.
11. Appointment of Chief Executive Officer and approval of appointments of senior management.
12. Formulate an effective remuneration, and recognition policy to ensure employee commitment and motivation.
13. Adopting and reporting annual and interim accounts to shareholders on performance of the Company and recommending dividend for approval by the shareholders.
14. Evaluating and monitoring the performance of the Company on a regular basis and initiating remedial action, where necessary.

### ***Among other things, Directors***

- must bring independent judgment to bear on matters the Board is responsible for, and dedicate the time and effort necessary to carryout responsibilities;
- must stay abreast with the developments in management practice, the global and domestic economic developments and other matters relevant to the Company;
- should declare their interests in contracts under discussion at Board meetings, and refrain from participating in such discussions.

### ***Company Secretary***

All Directors have access to the Company Secretary, for services and advice on relevant matters. The Company Secretary keeps the Board informed of new laws, regulations and requirements coming into effect which are relevant to them as individual Directors and collectively to the Board.

### ***Chairman and Chief Executive Officer***

The functions of the Chairman and of the Chief Executive Officer are clearly defined and are



separated. This ensures balance of power and authority within the Company.

### **1. Chairman's Role**

The Chairman is responsible for the efficient conduct of Board meetings and ensures that:

- The effective discharge of the Board's functions;
- The effective participation of the Executive and Non-Executive Directors;
- All Directors are encouraged to make an effective contribution for the benefit of the Company;
- A balance of power is maintained between Executive and Non-Executive Directors;
- The views of Directors on issues under consideration are ascertained; and
- The Board is in complete control of the Company's affairs and alert to its obligations to all stakeholders.

The Chairman maintains close contact with all Directors, and holds informal meetings with Non-Executive Directors where necessary.

### **2. Board Balance**

The composition of the Executive and Non-Executive Directors (the latter comprise the majority of the Board) satisfies the requirements laid down in the Listing Rules of the Colombo Stock Exchange.

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

The balance of Executive and Non-Executive Directors on the Board ensures no individual Director or small group of Directors dominate Board discussions and decision making.

### **3. Financial Acumen**

The Board includes two senior Chartered Accountants, who possess the necessary knowledge and competence to offer the Board guidance on matters of finance. One of them serves as the Chairman of the Audit Committee.

### **4. Supply of Information**

Directors are furnished with monthly reports of performance, minutes of review meetings and are given appropriate documentation in advance of each Board meeting for individual Directors to study the matters under discussion. This enables Board Members to actively participate at Board meetings. The Chairman ensures that all Directors are adequately briefed on issues arising at meetings.

### **5. Appointment and Re-election of Directors**

The Board as a whole decides on the appointment of Directors in accordance with the Articles of Association of the Company. New Directors are proposed for appointment after consultation between the Chairman and the Directors.

The Company's Articles of Association require any Director appointed by the Board to hold office until the next Annual General Meeting, at which he seeks re-appointment by the shareholders.

The Articles require one-third of the Directors in office to retire at each Annual General Meeting. The Directors to retire in each year are those who have been longest in office since their appointment or re-appointment. Retiring Directors are eligible for re-election by the shareholders.

The Chief Executive Officer does not retire by rotation.

### **Directors' Remuneration**

#### **Remuneration Procedure**

The composition of the Remuneration Committee satisfies the requirements laid down in the Listing Rules of the Colombo Stock Exchange.

The Remuneration Committee consists of:

Name of Member	Status
Prof. U Liyanage	Chairman Independent Non-Executive Director
Mr. L N De S Wijeyeratne	Member Independent Non-Executive Director

The Remuneration Committee decides on the remuneration of Executive Directors and sets guidelines for the remuneration of the management staff within the Group. This Committee is chaired by an Independent Director, Prof. U Liyanage.

#### **Disclosure of Remuneration**

The Remuneration Committee's Report appears on page 75.

The total of Directors' Remuneration is reported in Note 23 to the Financial Statements.

### **Relations with Shareholders**

The Notice of Meeting is included in the Annual Report. The Notice contains the Agenda for the AGM as well as instructions on voting, including appointment of proxies. A Form of Proxy is enclosed with the Annual Report. The period of Notice prescribed by the Companies Act No. 07 of 2007 has been met.

#### **Constructive Use of the Annual General Meeting**

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

The Board offers clarifications and responds to concerns shareholders have over the content of the Annual Report as well as other matters which are relevant to the Company. The AGM is also used to adopt the Financial Statements for the year.

#### **Major Transactions**

There have been no transactions during the year under review which fall within the definition of 'Major Transactions' in terms of the Companies Act.

#### **Communication with Stakeholders**

Stakeholders are provided with the Annual Report, which the Group considers as its principal communication with them. In addition to the Annual Report Quarterly Financial Reports are also made available on the TTE PLC website and are provided to the Colombo Stock Exchange.

The Company website ([www.talawakelleteas.com](http://www.talawakelleteas.com)) serves to provide information on the Company and its activities to any interested person.

Shareholders are free to communicate with the Company whenever it is considered necessary. Such communication can be with either the Chairman or the Chief Executive Officer or with the Company Secretaries, as appropriate.

#### **Price Sensitive Information**

Due care is exercised with respect to share price sensitive information.

#### **Accountability and Audit**

##### **Financial Reporting**

The Board places great emphasis on complete disclosure of financial and non-financial information within the bounds of commercial reality, and on the adoption of sound reporting practices. Financial information is disclosed in accordance with the Sri Lanka Accounting Standards. Revisions to existing accounting standards and adoption of new standards are carefully monitored.

The Annual Report includes descriptive, non-financial content through which an attempt is made to provide stakeholders with information to assist them make more informed decisions.

The Statement of Directors' Responsibilities in relation to the Financial Statements is set out on page 85.

#### **Management Report**

A comprehensive coverage of key initiatives undertaken during the year, external impacts, sector performance, achievements and future outlook, awards won and certifications received is available in the Chairman's Statement (page 4 to page 7) and the Management Discussion and Analysis (page 8 to page 24) of this Report.

The Financial Review (page 25 to page 35) in this Report provides an analysis of the Group's performance during the financial year.

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks. This process has been in place throughout the year under review. The potential risks, both internal as well as external, faced by the Group and actions instituted for mitigating the same are reported in the Risk Management section (page 54 to page 59) of this Report.

Workplace practices and specific environmental, social and ethical aspects are dealt in the Sustainability Report in pages 36 to 48 and in the Section on Company Policies on Human Resources, Health and Safety, Environment and Quality and Food Safety Section on page 52 to page 53. The Board strives to protect the shareholder value and provide a return in keeping with the market.

#### **Going Concern**

The Directors, after conducting necessary inquiries and reviews including reviews of the TTE PLC's budget for the ensuing year, capital expenditure

requirements, future prospects and risks, cash flows and borrowing facilities, have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Therefore, the going concern basis has been adopted in the preparation of the Financial Statements.

#### **Internal Control**

The Board is responsible for the Company's system of internal controls and its effectiveness. The system of internal control is designed to safeguard assets and provide reliable, accurate and timely information and imposing greater discipline on decision making. It includes all controls, including financial, operational and compliance controls and risk management. However, it is appropriate to state that any system can ensure only reasonable, and not absolute, assurance that errors and irregularities are prevented or detected within a reasonable timeframe.

The Company has an internal audit function and also employs independent professional accounting firms other than the statutory Auditors to carry out internal audits and reviews on assessing the effectiveness and successful implementation of existing controls and establishing new controls where necessary. The internal audit reports are reviewed by the Chairman, Audit Committee and the Chief Executive.

The Board has reviewed the effectiveness of the system of financial controls for the period up to the date of signing the accounts.

#### **Audit Committee**

An Audit Committee was established in 2009. The Committee consists entirely of Non-Executive Directors and chaired by Mr. L N De S Wijeyeratne. The Chief Financial Officer, serves as its Secretary. The Chairman, Chief Executive, Deputy Chief Executive and the Manager-Finance are invited to attend meetings, and the other Executive Director(s) attend meetings as required. The input of the statutory Auditors is obtained where necessary.

The Audit Committee helps the Company achieve a balance between conformance and performance.

Audit Committee consists of :

Mr. L N De S Wijeyeratne (Chairman) -  
*Independent Non-Executive Director*

Dr. S S S B D G Jayawardena - *Independent  
Non-Executive Director*

Mr. Malik J Fernando - *Non-Executive Director*

During the year under review the Committee met on 5 occasions, the attendance at these meetings are reported in 'Audit Committee Report' on page 88 of this Report

The Audit Committee's role is defined as per the Audit Charter.

Accordingly, the Audit Committee is empowered to examine any matter relating to the Financial Reporting systems of the Group, and its external and internal audits and risk management processes. Its duties include the detailed review of Financial

Statements, internal control procedures, accounting policies, compliance with applicable accounting standards and risk management relating to liquidity internal control systems and procedures and adequacy of insurance cover of assets.

It reviews the adequacy of systems in place for compliance with relevant legal, regulatory and ethical requirements and Company policies.

The Audit Committee recommends the appointment and fees of the External Auditors, having considered their independence and performance.

The Audit Committee Report appears on page 88 of this Report.

### **Other**

#### ***IT Governance***

We continue to give attention to bring TTE PLC's IT systems in line with its strategies and objectives. Dedicated staff are deployed by the Company and by the Hayleys PLC to support this need. The Company uses the IT resources maintained by Hayleys Group as well as its own resources.

The former includes an ERP system and internet and email services and the latter includes the estate software.

#### ***IT Value and Alignment***

The Company investments in IT projects and systems are made after consideration is given to their suitability for the related projects. Further

aspects such as cost savings, improved customer satisfaction, timely information and the balance between cost of investment and present and future scale of operations are also taken into account when these decisions are taken.

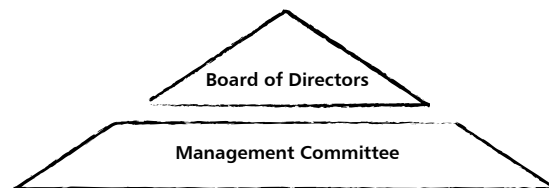
#### ***IT Risk Management***

Risks associated with Information Technology are assessed in the process of Risk Management. Use of licensed software (with Microsoft Corporation), closer monitoring of Internet usage (for compliance with the Group's IT Usage Policy) and mail server operations and the use of anti-virus and firewall software, are some of the safeguards in place.

### **1. Organisation**

The Board has put in place an organisational structure with formally defined lines of responsibility, reporting and appropriate limits of authority. There are established procedures for planning and investment, risk management and for information and reporting systems to monitor the Company's businesses.

### **2. Management Committee**



TTE PLC has a two tier governance structure, with a Management Committee, just below the Board overseeing the Corporate Management Process.

The Management Committee consists of two Executive Directors, including the Chief Executive Officer, one Non-Executive Director and Senior Management.

The Management Committee meets quarterly.

The Management Committee formulates strategy, seeks Board approval for this strategy, and implements it within the policy framework established by the Board and the ethical framework and business practices inherent to the Company, which demand best practice in dealing with employees, customers, suppliers and the community.

The Management Committee reviews the annual budget, monthly performance against budget, and capital expenditure proposals prior to recommending to the Board.

### **3. Corporate Management**

The Board has delegated the primary authority to implement policy and achieve strategic objectives of the Company, to the Chief Executive Officer (CEO).

The CEO exercises this authority within the policy framework established by the Board and the ethical framework and business practice inherent to the Company, which demand best practices are

followed in dealing with employees, customers, suppliers and the community at large.

The CEO is entrusted with optimising use of the Company's resources within the framework of the Company's corporate and financial strategies and the annual corporate plan and budget. The Company employs a continuous planning process with the active involvement of all Executives. A system of regular review of operations is in place to ensure close monitoring of performance and prompt corrective actions.

### **4. Monthly Review Committee**

The Company's performance is also subject to review by Hayleys PLC, at a meeting chaired by an Executive Director with a cross-section of other companies in the Group. At this review, performance of the current month and the year to date and future projections of the Company are assessed. This facilitates consultation and co-ordination on common business issues within the Group.

Also participation in the Group's 'Clusters' facilitates discussion and sharing of experience/ expertise on matters of common interest across the Group.

Levels of compliance with the CSE's Listing Rules - Section 7.10, Rules on Corporate Governance are given in the following table.

Rule No.	Subject	Applicable Requirement	Compliance Status	Details
7.10 (a)	Non-Executive Directors	At least one-third of the total number of Directors should be Non-Executive Directors	Compliant	Seven out of ten Directors are Non-Executive Directors
7.10.2 (a)	Independent Directors	Two or one-third of Non-Executive Directors, whichever is higher should be Independent	Compliant	Three out of seven Non-Executive Directors are Independent
7.10.2 (b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format.	Compliant	Non-Executive Directors have submitted the declaration
7.10.3 (a)	Disclosure relating to Directors	The Board shall annually make a determination as to the independence or otherwise of the Non-Executive Directors and names of Independent Directors should be disclosed in the Annual Report	Compliant	Given on page 63 and page 79
7.10.3 (b)	Disclosure relating to Directors	A brief résumé of each Director should be included in the Annual Report including the areas of expertise	Compliant	Given in page 72 to page 74
7.10.3 (d)	Disclosure relating to Directors	Forthwith provide a brief résumé of new Directors appointed to the Board with details specified in 7.10.3 (a), (b) and (c) to the Exchange	Compliant	A brief résumé provided to the Exchange
7.10.5	Remuneration Committee	A listed company shall have a Remuneration Committee	Compliant	Please refer page 75 of this Report
7.10.5 (a)	Composition of Remuneration Committee	Shall comprise Non-Executive Directors, a majority of whom will be independent	Compliant	The Committee consists of two Independent Non-Executive Directors.

Rule No.	Subject	Applicable Requirement	Compliance Status	Details
7.10.5 (b)	Functions of Remuneration Committee	The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and Executive Directors	Compliant	Please refer Remuneration Procedure on page 75 of this Report
7.10.5 (c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out: (a) Names of Directors comprising the Remuneration Committee (b) Statement of Remuneration Policy (c) Aggregated remuneration paid to Executive & Non-Executive Directors	Compliant Compliant Compliant	Please refer page 64 Please refer page 75 Please refer page 117
7.10.6	Audit Committee	The Company shall have an Audit Committee	Compliant	Names of the members of the Audit Committee are stated on page 66
7.10.6 (a)	Composition of Audit Committee	Shall comprise of Non-Executive Directors, a majority of whom will be independent	Compliant	Audit Committee consists of three Non-Executive Directors of which two are Independent
		A Non-Executive Director shall be appointed as the Chairman of the Committee	Compliant	Chairman of the Audit Committee is an Independent Non-Executive Director
		Chief Executive Officer and Chief Financial Officer should attend Audit Committee Meetings	Compliant	The Chief Executive Officer and Chief Financial Officer attend meetings by invitation
		The Chairman of the Audit Committee or one member should be a member of a professional accounting body	Compliant	Chairman of the Audit Committee is a Chartered Accountant



Rule No.	Subject	Applicable Requirement	Compliance Status	Details
7.10.6 (b)	Audit Committee Functions	<p>Functions shall include:</p> <p>(a) Overseeing the preparation, presentation and adequacy of disclosures in the Financial Statements in accordance with Sri Lanka Accounting Standards</p> <p>(b) Overseeing the compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.</p> <p>(c) Overseeing the processes to ensure that the internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards</p> <p>(d) Assessment of the independence and performance of the External Auditors</p> <p>(e) Make recommendations to the Board pertaining to appointment, re-appointment and removal of External Auditors, and approve the remuneration and terms of engagement of the External Auditors.</p>	Compliant	The terms of reference of the Audit Committee have been agreed by the Board
7.10.6 (c)	Disclosure in the Annual Report relating to Audit Committee	<p>(a) Names of Directors comprising the Audit Committee</p> <p>(b) The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination</p> <p>(c) The Annual Report shall contain a Report of the Audit Committee setting out the manner of compliance with their functions</p>	<p>Compliant</p> <p>Compliant</p> <p>Compliant</p>	<p>Please refer page 66</p> <p>Please refer Audit Committee Report on page 88</p> <p>Please refer Audit Committee Report on page 88</p>

The Board is responsible, ultimately, for the Company's financial performance. It is in control of the Company's affairs and conscious of its obligations to shareholders and other stakeholders.

## Board of Directors

### **Mr. A M Pandithage - Chairman \***

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

### **Mr. Merrill J Fernando \*\***

Mr. Merrill J Fernando was appointed to the Board of Talawakelle Tea Estates PLC in 1998.

One of the first Sri Lankan tea tasters in the then British-dominated trade, Mr. Merrill J Fernando is the Chairman of MJF Holdings Limited. He founded the 'Dilmah' tea brand that reintroduced pre-packaged Pure Ceylon Tea to Western markets. 'Dilmah', launched in Australia is now sold in over 90 countries around the world and is considered a role model for the value added marketing of a third world commodity.

Mr. Fernando is the founder of the MJF Foundation, a low profile charity that works to create better conditions for plantation workers' underprivileged children, elders and society's victims.

### **Mr. Malik J Fernando \*\***

Mr. Malik J Fernando was appointed to the Board of Talawakelle Tea Estates PLC in 1998.

He is the Director Operations of the MJF Group, which comprises several tea growing and tea

packing/exporting companies, supplying the 'Dilmah Tea' brand around the world.

Mr. Fernando holds a Bachelor of Science Degree in Management from Babson College, USA.

### **Dr. R M Fernando (Resigned w.e.f. 07.04.2010) \*\***

Dr. Rohan M Fernando was appointed to the Board of Talawakelle Tea Estates PLC in 2002.

He is a Director of Aitken Spence PLC and heads the Plantations Sector and Business Development Unit. He is a Fellow of the Chartered Institute of Marketing (CIM) - UK. He holds a Ph.D. and a MBA from the University of Colombo, Sri Lanka. With extensive experience in the plantation industry both in the public and private sectors, he also played a key role in Sri Lanka's Plantations Privatisation Programme.

Mr. Fernando was the past Chairman of the Planters' Association of Ceylon; also a Director of the Rubber Research Institute of Sri Lanka.

He has also been involved with several leading international institutions particularly in marketing and business development. He was awarded the Brand Leadership Award at the Asia Brand Congress 2008, held in Mumbai.

### **Mr. J M S Brito (Resigned w.e.f. 07.04.2010) \*\***

Mr. J M S Brito was appointed to the Board of Talawakelle Tea Estates PLC in 2003.

Mr. Brito is the Deputy Chairman and Managing Director of Aitken Spence PLC. Mr. Brito is the past Chairman of SriLankan Airlines and presently Chairman of DFCC Vardhana Bank.

He is a Law Graduate of the University of London, a Fellow of the Institute of Chartered Accountants of England and Wales; and obtained a Master's Degree in Business Administration from the City

Board of Directors →

Business School, London. Together with this multi-disciplined education, he has a wealth of knowledge gained through this twenty-five years of international experience working with Pricewaterhouse - London, British EverReady PLC, Minmetco Group, World Bank and PERC.

**Mr. S T Gunatilleke - Chief Executive Officer \***

Mr. S T Gunatilleke joined Talawakelle Tea Estates PLC in 1992 and was appointed as the Chief Executive Officer in 2001. He was appointed to the Board of Talawakelle Tea Estates PLC in 2004.

Mr. Gunatilleke serves on the Boards of DPL Plantations (Pvt) Limited, Kelani Valley Plantations PLC and Mabroc Teas (Pvt) Limited.

A senior planter with over forty years experience in plantation management, has held the position of Regional Director of Sri Lanka State Plantations Corporation and served as a Consultant to United Nations Industrial Development Organisation (UNIDO) on tea plantation management.

**Mr. M M M De Silva \*\***

Mr. M M M De Silva was appointed to the Board of Talawakelle Tea Estates PLC in 2006.

Mr. Silva is a member of the Group Management Committee of Hayleys PLC and is responsible for the Industrial Solutions Group in the Inland Marketing Sector and the Fibre Sector.

He holds a Bachelor of Science Degree from the University of Peradeniya, is a Fellow of The Institute of Chartered Accountants of Sri Lanka, and an Associate of the Chartered Institute of Management Accountants, UK. He also holds a Postgraduate Diploma in Business Management from the Postgraduate Institute of Management, University of Sri Jayewardenepura.

**Prof. Uditha Liyanage \*\*\***

Prof. Uditha Liyanage was appointed to the Board of Talawakelle Tea Estates PLC in December 2008 as a Non-Executive Director.

He is presently the Director of the Postgraduate Institute of Management (PIM) and the Chairman of its Board of Management.

He counts over fifteen years experience in the industry, having held senior marketing management positions in leading companies in Sri Lanka and a leading marketing consultant. He is a member of the Board of Study of The Institute of Chartered Accountants of Sri Lanka, and a Council member of the National Institute of Business Management (NIBM). He is also a member of the Standing Committees on Staff Development and Management Studies of the University Grants Commission and a member of the Presidential Task Force on National Productivity Improvement. He was the Chairman of the CIM Sri Lanka, and a member of the International Board of CIM. He is on the Boards of Directors of a number of leading companies.

Prof. Liyanage has published extensively on Branding and Strategic Marketing in leading Journals both here and abroad, and has addressed numerous international conferences.

**Dr. S S S B D G Jayawardena \*\*\***

Dr. S S S B D G Jayawardena was appointed to the Board of Talawakelle Tea Estates PLC in December 2008 as a Non-Executive Director.

He is the Chairman of the Tea Research Institute (TRI). He is a Board Member of Sri Lanka Tea Board (SLTB), Tea Small Holdings Development Authority (TSHDA) and Tea Shakthi and also a Member of the Advisory Committee on Tea of the Ministry of Plantation Industries, the National Science

Board of Directors →

Foundation Committee on Research Policy and National Salaries and Cadre Commission.

He held positions as the former Chairman - Coconut Research Institute and National Institute of Plantation Management and a former Director General of Department of Agriculture.

He holds a Ph.D. in Plant Physiology, Plant Breeding and Genetics.

**Mr. L N De S Wijeyeratne \*\*\***

Mr. L N De S Wijeyeratne was appointed to the Board of Talawakelle Tea Estates PLC in December 2008 as a Non-Executive Director.

He is a Fellow of The Institute of Chartered Accountants in Sri Lanka and counts over thirty-five years of experience in Finance and General Management both in Sri Lanka and overseas. He was the Group Finance Director of Richard Pieris PLC from January 1997 to June 2008 and also held senior management positions at Aitken Spence & Company, Brooke Bonds Ceylon and Zambia Consolidated Copper Mines Limited. He is presently a Director of several listed and unlisted companies.

**Mr. J A G Anandarajah**

*(Appointed w.e.f. 29.04.2010)\**

Mr. J A G Anandarajah was appointed to the Board of Talawakelle Tea Estates PLC on 29th April 2010.

Mr. Anandarajah joined Hayleys in 1980. He was appointed to the Board of Dipped Products PLC in 1989 and as the Managing Director since January 2007. Appointed to the Hayleys Group Management Committee in 2001 and to the Board of Hayleys in January 2007.

He is the Managing Director of Hayleys Plantation Services (Pvt) Limited since February 2011.

A Chemistry (Honours) Graduate from the University of Peradeniya. Serves as a Member of the Board of Management, Industrial Technology Institute, Sri Lanka.

**Mr. G K Seneviratne**

*(Appointed w.e.f. 29.04.2010)\*\**

Mr. G K Seneviratne was appointed to the Board of Talawakelle Tea Estates PLC on 29th April 2010.

Mr. Seneviratne joined DPL Plantations Limited in 1992 and to the Board in 1995. Chief Executive of Kelani Valley Plantations PLC since 1994, appointed as Director in 1996 and as Managing Director in May 2004. Appointed to the DPL Board in 1998 and to the Hayleys Group Management Committee in January 2007. Serves the Plantation Industry since 1970.

Past Chairman of the Planters' Association of Ceylon. Served as a member of Sri Lanka Tea Board, Rubber Research Board, Plantation Trust Board and the Tea Association of Sri Lanka. Former Consultant, Investment Monitoring Board, JEDB/SLSPC Estates.

\* Executive

\*\* Non-Executive

\*\*\* Independent Non-Executive

## **Remuneration Committee Report**

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The Remuneration Committee consists of two Independent Non-Executive Directors including the Chairman of the Committee. The Director/Chief Executive Officer assists the Committee by providing all relevant information and participating in its analysis and deliberations, except when his own compensation package is reviewed.

The Committee is responsible for determining the compensation package of the Director/CEO. In addition, they lay down guidelines and parameters for the compensation structure of the management staff of TTE PLC.

The Company policy on remuneration packages is to attract and retain the best professionals and an experienced workforce, and motivate, encourage and reward high levels of performance. The Company's structured performance evaluation methodology ensure provision of compensation appropriate for the Company and commensurate with each employee's level of expertise and contribution, bearing in mind the performance of the business and shareholder returns.

In carrying out its tasks, the Committee reviewed data concerning executive pay among comparable companies.

The Committee will meet from time to time and review the Company's compensation structure to ensure alignment with strategic priorities and with compensation offered by comparable companies.

Succession plans to which remuneration can be aligned have been defined. Steps have also been taken to align pay, more closely with performance based on the Performance Management System within the Company.



**Prof. U Liyanage**

*Chairman*

Remuneration Committee

11th February 2011

# **Annual Report of the Board of Directors on the affairs of the Company**

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The Board of Directors of Talawakelle Tea Estates PLC (TTE PLC) have pleasure in presenting their Report on the affairs of the Company together with the audited Consolidated Financial Statements for the year ended 31st December 2010.

The details set out herein provide the pertinent information required by the Companies Act No. 07 of 2007, and the Colombo Stock Exchange Listing Rules and are guided by recommended best reporting practices.

## ***Principal Activities***

The principal activity of Talawakelle Tea Estates PLC is cultivation and manufacture of black tea. Talawakelle Tea Estates PLC is the holding company of TTEL Hydro Power Company (Pvt) Limited and TTEL Somerset Hydro Power (Pvt) Limited which are engaged in generation of hydro power.

## ***Business Review/Future Developments***

A review of the Group's business and its performance during the year, with comments on financial results and future strategic developments is contained in the Chairman's Statement (pages 4 to 7) and Management Discussion & Analysis (pages 8 to 24) sections of this Annual Report. These reports together with the Financial Statements reflect the state of affairs of the Company and the Group.

There were no material changes in the nature of businesses of the Company and the Group.

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

## ***Financial Statements***

The Financial Statements of the Company and the Group are given on pages 90 to 122.

## ***Auditor's Report***

The Auditor's Report on the Financial Statements of the Company and the Group is given on page 89.

## ***Accounting Policies***

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 95 to 103. There were no changes in the accounting policies adopted by the Company or its subsidiaries.

## ***Group Revenue***

The revenue of the Group during the year was Rs. 3,002.6 million (2009 - Rs. 2,772.1 million). A detailed analysis of the Group's revenue, profits and asset allocation relating to different segments is given in Note 3 to the Financial Statements.

The revenue in respect of tea increased by Rs. 186.0 million (2009 - Rs. 264.3 million) and rubber increased by Rs. 15.6 million (2009 - decrease by Rs. 1.0 million) during the year.

Trade between Group Companies is conducted at fair market prices.

### **Results and Dividends**

The Group profit before taxation, amounted to Rs. 169.2 million (2009 - loss of Rs. 27.8 million) in the year under review. After deducting Rs. 4.6 million (2009 - Rs. 2.5 million) for taxation and a consolidation profit of Rs. 17.0 million (2009 - loss of Rs. 8.1 million) for minority shareholders' interest, the Group profit attributable to equity holders of the Company for the year was Rs. 147.4 million (2009 - loss of Rs. 22.2 million).

A sum Rs. 59.4 million has been set aside for proposed dividends for the year (2009 - nil).

Consolidated Income Statement along with the Company's Income Statement for the year are given on page 90.

The Directors have confirmed that the Company satisfies the solvency test requirement under Section 57 of the Companies Act No. 07 of 2007 for final dividend proposed. A Solvency Certificate has been sought from the Auditors in respect of the dividend of Rs. 2.50. per share proposed to be paid to the holders of issued ordinary shares

of the Company as at the close of business 30th March 2011.

As per section of the Inland Revenue Act No. 10 of 2006 this dividend will be liable for dividend tax of 10%.

### **Group Investment**

Group capital expenditure including investments in field development during the year amounted to Rs. 205.4 million (2009 - Rs. 264.1 million).

### **Property, Plant & Equipment**

Capital expenditure of the Group during the year on Property, Plant & Equipment amounted to Rs. 24.6 million (2009 - Rs. 82.4 million) whilst that of the Company was Rs. 17.6 million (2009 - Rs. 60.5 million). The Company's investment on replanting of Tea and Rubber during the year amounted to Rs. 152.8 million (2009 - Rs. 167.5 million) and Rs. 3.8 million (2009 - Rs. 3.9 million) respectively.

Information relating to movement in Property, Plant & Equipment and Replanting is given in Notes 4, 5, 6A & 6B to the Financial Statements.

### **Market Value of Properties**

The Group does not possess any freehold land.

### **Stated Capital and Reserves**

The stated capital of the Company, consisting of 23,750,000 Ordinary Shares and one Golden Share amounts to Rs. 350,000,010/-. There was no change in the stated capital during the year.

Total Group Reserves at 31st December 2010 amount to Rs. 808.3 million (2009 - Rs. 660.9 million) comprising Retained Earnings. The movement is shown in the Statement of Changes in Equity in the Financial Statements.

#### **Redeemable Debentures**

Redeemable debentures amounting to Rs. 95 million (2009 - Rs. 95 million) held by Plantation Trust Fund was redeemed as per clause 23 (i) of the Agreement. Information relating to the debentures is given in Note 15 to the Financial Statements.

#### **Preference Shares**

TTEL Hydro Power Company (Pvt) Limited and TTEL Somerset Hydro Power (Pvt) Limited issued 14% Redeemable Cumulative Preference Shares in lieu of outstanding loan balances and current account balances as at 31st December 2010. Information relating to the preference shares is given in Note 6c to the Financial Statements.

#### **Interests Register**

The Company, in compliance with the Companies Act No. 07 of 2007, maintains an Interests Register. Shareholders of subsidiary companies have unanimously agreed to dispense with the requirement to maintain an Interests Register.

Particulars of entries in the Interests Register maintained by the Company are detailed below.

#### **Directors' Interests in Transactions:**

The Directors of the Company have made the general disclosures provided for in Section 192 (2)

of the Companies Act No. 07 of 2007. Note 31 to the Financial Statements dealing with related party disclosures includes details of their interests in transactions.

#### **Directors' Interests in Shares:**

Directors of the Company who have shares in the Company have disclosed their share holdings and any acquisitions/disposals to the Board, in compliance with Section 200 of the Companies Act.

Details of Directors shareholdings in the Company are given later in this Report.

#### **Insurance and Indemnity:**

Hayleys Plantation Services (Private) Limited (HPSL) the Parent Company has obtained a Corporate Guard Insurance Policy from Chartis Insurance Limited, providing worldwide cover to indemnify all past, present and future Directors and Officers (D&O) of the Company and its subsidiaries. The policy is extended worldwide with a total cover of US\$ 1 million. The premium paid was Rs. 0.7 million.

#### **Payment of Remuneration to Directors:**

Executive Directors' remuneration is determined within an established framework by the Board's Remuneration Committee to whom this task is entrusted.

The Directors are of the opinion that the framework assures appropriateness of remuneration and fairness for the Company. The total remuneration for Executive Directors for the year ended 31st December 2010 is Rs. 4.8 million (2009 - Rs. 5.1 million), which includes the value of



perquisites granted as part of terms of service and is formally approved. The total remuneration of Non-Executive Directors for the year ended 31st December 2010 is Rs. 1.6 million (2009 - Rs. 1.6 million) determined according to scales of payment decided upon by the Board previously. The Board is satisfied that the payment of remuneration is fair to the Company.

#### **Corporate Donations**

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

#### **Directorate**

The names of the Directors of the Company who held office at the end of the financial year are given below and their brief profiles appear on pages 72 and 74.

#### **Executive Directors**

Mr. A M Pandithage (Chairman)  
Mr. S T Gunatilleke (Chief Executive)  
Mr. J A G Anandarajah  
(Appointed - 29th April 2010)

#### **Non-Executive Directors**

Mr. Merrill J Fernando  
(Alternate Ms. Minette Perera)  
Mr. Malik J Fernando  
(Alternate Mr. Dilhan C Fernando)  
Mr. M M M De Silva  
Mr. G K Seneviratne  
(Appointed - 29th April 2010)

#### **Independent Non-Executive Directors**

Prof. U Liyanage  
Dr. S S S B D G Jayawardena  
Mr. L N De S Wijeyeratne

The basis on which Directors are classified as Independent Non-Executive Directors is discussed in the Corporate Governance Statement.

Subsequent to the sale of shares held by Aitken Spence PLC in the holding Company - Hayleys Plantation Services (Private) Limited to Dipped Products PLC, Dr. R M Fernando and Mr. J M S Brito resigned from the Board on 7th April 2010 and Mr. J A G Anandarajah and Mr. G K Seneviratne were appointed to the Board since the last Annual General Meeting and in terms of the Article 28 (2) of the Articles of Association of the Company, shareholders will be requested to re-elect them at the Annual General Meeting.

Prof. U Liyanage and Dr. S S S B D G Jayawardena retire by rotation and being eligible, offer themselves for re-election.

Notice has been given pursuant to Section 211 of Companies Act No. 07 of 2007, of the intention to propose an ordinary resolution for re-election of Mr. Merrill J. Fernando, notwithstanding the age limit of 70 years stipulated by Section 210 of the Companies Act. Mr. Fernando is 80 years old.

The names of Directors holding office at the end of the financial year in respect of subsidiaries appear on page 126.

### **Management Fees**

The management fee has been charged at 5% of EBITDA by Hayleys Plantation Services (Pvt) Limited for the year under review.

### **Corporate Governance**

The Company has complied with the Corporate Governance Rules laid down under the Listing Rules of the Colombo Stock Exchange. The Corporate Governance section on pages 60 to 71 discusses this further.

### **Auditors**

Messrs Ernst & Young, Chartered Accountants are deemed re-appointed as Auditors of the Company, in accordance with Section 158 of the Companies Act No. 07 of 2007.

A resolution proposing the Directors be authorised to determine their remuneration will be submitted at the Annual General Meeting.

The Auditors, Messrs Ernst & Young, Chartered Accountants were paid Rs. 2.1 million (2009 - Rs. 1.9 million ) as audit fees and audit related work.

Messrs KPMG Ford, Rhodes, Thornton & Co. were appointed as Auditors of the two subsidiaries, TTEL Hydro Power Company (Pvt) Limited and TTEL Somerset Hydro Power (Pvt) Limited and were paid Rs. 0.08 million as audit fees for the year (2009 - Rs. 0.08 million).

The Auditors of the Company and its Subsidiaries, have confirmed that they do not have any

relationship (other than that of an Auditor) with, or interests in the Company or any of its subsidiaries other than those disclosed above.

### **Share Information**

Information relating to earnings, dividends, net assets, market value per share and share trading is given on pages 124 and 125.

### **Golden Shareholder**

Rights of the Golden shareholder as given in the Articles of Association of the Company.

Definition of the 'Golden Share' - a share allotted to the Secretary to the Treasury in his official capacity and not in his own name, for and on behalf of the State of the Democratic Socialist Republic of Sri Lanka, and or by any transferee permitted in terms of the Articles.

### **Definition of 'Golden Shareholder' - the holder of the 'Golden Share'.**

- The concurrence of the Golden Shareholder in writing shall be first obtained to amend the definition of the words 'Golden Share' and 'Golden Shareholder' and the Articles 5 (1) to 5 (12) of the Articles of Association of the Company which deals with the Golden shareholder.
- The Golden Share may be converted into an ordinary share with the concurrence of the Golden Shareholder and the concurrence of a majority of the shareholders.

- The Company shall obtain the written consent of the Golden Shareholder prior to sub-leasing, ceding or assigning its rights in part or all of the lands set out in the Article of Association of the Company.
- The Golden Shareholder shall be entitled to call upon the Board of Directors of the Company once in every three month period if desired to meet with the Golden Shareholder and/or his nominees, and the Directors if so called upon shall meet with the Golden Shareholder and/or his nominees to discuss matters of the Company of interest to the State of the Democratic Socialist Republic of Sri Lanka.
- The Golden Share shall only be held by the Secretary to the Treasury in his official capacity and not in his own name, for and on behalf of the State of the Democratic Socialist Republic of Sri Lanka, or by a company in which the State of the Democratic Socialist Republic of Sri Lanka owns ninety-nine (99) per centum or more of the issued share capital.
- 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.
- The Company shall submit to the Golden Shareholder, within sixty (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.
- The Company shall submit to the Golden Shareholder, within ninety (90) days of the end of each fiscal year, information relating to the Company in a pre-specified format agreed to by the Golden Shareholder and the Company.
- Golden Shareholder has power to appoint not more than three (03) persons as his proxies to attend on the same occasion at the general meetings.

#### **Events Occurring After the Balance Sheet Date**

No circumstances have arisen since the Balance Sheet date that would require adjustment, or disclosure, other than those disclosed in Note 30 to the Financial Statements on page 121.

#### **Employment**

The number of persons employed by the Company at year-end was 10,859 (2009 - 11,095) of which 10,824 (2009 -11,057) are engaged in employment outside the District of Colombo.

#### **Shareholders**

It is the Groups policy to endeavor to ensure equitable treatment to its shareholders.

#### **Statutory Payments**

The declaration relating to statutory payments is made in the Statement of Directors' Responsibilities on page 85.

### **Environmental Protection**

The Group's efforts to conserve scarce and non-renewable resources, as well as its environmental objectives and key initiatives, are described in the Sustainability Report on page 36 to page 51.

The Group's business activities can have direct and indirect effects on the environment. It is the Group's policy to minimise any adverse effects its activities have on the environment and to promote corporation and compliance with the relevant authorities and regulations

### **Internal Controls**

The Directors acknowledge their responsibility for the Group's system of internal control. The system is designed to give assurance, *inter alia*, regarding the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information generated. However, any system can only ensure reasonable, and not absolute, assurance that errors and irregularities are either prevented or detected within a reasonable time period.

The Board, having reviewed the system of internal controls, is satisfied with its effectiveness for the period up to the date of signing the Financial Statements.

### **Going Concern**

The Directors have, after making necessary inquiries and reviews including reviews of the Group's budget for the ensuing year, capital expenditure requirements, future prospects and risks, cash flows and borrowing facilities, have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Therefore, the going concern basis has been adopted in the preparation of the Financial Statements.

### **Directors' Shareholdings**

Directors' holdings of ordinary shares in the Company are given below:

There had been no share dealings by Directors during the year.

Mr. Merrill J Fernando - 1,184,700 (2009 - 1,184,700). These shares are held through Merrill J Fernando & Sons (Private) Limited.

Mr. G K Seneviratne - 300 (2009 - 300 shares).

No shares are held by the Directors in the subsidiaries in the Company.

Annual Report of the Board of Directors on the affairs of the Company →

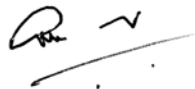
**Major Shareholdings**

The twenty major shareholders as at 31st December 2010 are given on page 125. of this Report.

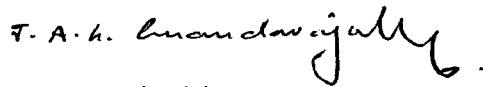
**Annual General Meeting**

The Annual General Meeting will be held at Registered Office of the Company, No. 400, Deans Road, Colombo 10 at 10.30 a.m. on 30th March 2011. The Notice of the Annual General Meeting appears on page 128.

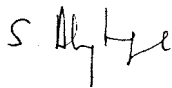
*For and on behalf of the Board,*



A M Pandithage  
*Chairman*



J A G Anandarajah  
*Director*



Hayleys Group Services (Pvt) Limited  
*Secretaries*

11th February 2011

# Our Estates and Factories

Estate	Total Extent Ha.	Area in Tea		Area in Rubber		Other Cultivations Ha.	Total Cultivated Ha.	Uncultivated Ha.	Bun/Gard Build/Roads Ha.	Type of Factory	Factory Capacity Kg '000	Name of Manager	No. of Workers	Crop	Yield Kg/Ha.	Factory Elevation m
		Immature Ha.	Mature Ha.	Immature Ha.	Mature Ha.											
<b>T'kelle/Nanu Oya</b>																
Bearwell	423.41	32.76	312.17	-	-	25.84	370.77	-	52.64	Ortho	720	S Edirisinghe	680	545	1,745	1,280
Calsay	282.25	29.45	176.55	-	-	50.25	256.25	-	26.00	Ortho	430	D G B Dassanayake	483	220	1,247	1,463
Clarendon	191.42	21.81	142.04	-	-	7.09	170.94	-	20.48	Ortho	600	D M A S Dissanayake	320	161	1,132	1,555
Dessford	431.99	37.91	285.63	-	-	67.70	391.24	-	40.75	Ortho	720	L N Rathnayake	825	430	1,506	1,382
Great Western	628.48	37.98	381.85	-	-	174.47	594.30	-	34.18	Ortho	720	N P Abeysinghe	913	556	1,455	1,448
Holyrood	465.96	46.00	301.70	-	-	99.83	447.53	-	18.43	Ortho	720	H R J C Senanayake	703	406	1,346	1,341
Logie	329.88	22.77	205.45	-	-	57.22	285.44	-	44.44	Ortho	500	M W S S K Wijewardena	450	357	1,737	1,220
Mattakelle	361.96	29.08	230.08	-	-	66.62	325.78	-	36.18	Ortho	720	P G G Jayathilake	821	506	2,202	1,372
Palmerston	203.11	20.00	142.86	-	-	27.00	189.86	-	13.25			E S B A Egodawela	344	252	1,763	-
Radella	458.76	53.64	230.23	-	-	127.67	411.54	-	47.22	Ortho/Gr.	720	A C M Bandaranayake	799	344	1,495	1,402
Somerset	458.90	33.21	295.61	-	-	82.33	411.15	-	47.75	Ortho	720	S B Alawattagama	880	537	1,818	1,102
Wattegoda	529.89	33.75	285.50	-	-	174.09	493.34	-	36.55	Ortho	720	G K Wijesekera	809	447	1,564	1,219
Sub Total	4,766.01	398.36	2,989.67	-	-	960.11	4,348.14	-	417.87		7,290		8,027	4,761	1,593	-
<b>Galle</b>																
Moragalla	384.78	33.27	82.58	-	121.14	91.85	328.84	49.00	6.94	Ortho	600	H P W Vithanage	352	415	1,678	38
Pityagoda	-	-	-	-	-	-	-	-	-	Ortho	400	H P W Vithanage	16	-	-	-
Sub Total	384.78	33.27	82.58	-	121.14	91.85	328.84	49.00	6.94		1,000		368	415	1,678	-
<b>Deniyaya/Urubokka</b>																
Deniyaya	329.71	37.67	124.85	-	-	148.44	310.96	-	18.75	Ortho	600	G P G K Pathirana	377	492	1,249	310
Handford	248.44	31.75	51.07	-	-	148.81	231.63	-	16.81	Ortho	600	C D Sabaragamuwa	200	391	1,407	400
Indola	282.16	14.44	81.52	20.27	59.20	100.85	276.28	-	5.88			W D Jayasinghe	284	103	1,262	-
Kiruwanaganga	482.71	32.23	335.84	-	-	88.00	456.07	-	26.64	Ortho	1,050	D M H U Mahadivulwewa	1,041	663	1,552	310
Sub Total	1,343.02	116.09	593.28	20.27	59.20	486.10	1,274.94	-	68.08		2,250	-	1,902	1,649	1,435	-
Grand Total	6,493.81	547.72	3,665.53	20.27	180.34	1,538.06	5,951.92	49.00	492.89		10,540	-	10,297	6,825	1,569	-

## Statement of Directors' Responsibilities

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The Directors are responsible, under Section 150 (1), 151, 152 (1) and 153 of the Companies Act No. 07 of 2007, to ensure compliance with the requirements set out therein to prepare Financial Statements for each financial year giving a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit & loss of the Company and the Group for the financial year. The Directors are also responsible, under Section 148 for ensuring that proper accounting records are kept to disclose, with reasonable accuracy, the financial position and enable preparation of the Financial Statements.

The Board accepts responsibility for the integrity and objectivity of the Financial Statements presented. The Directors confirm that in preparing the Financial Statements, appropriate accounting policies have been selected and applied consistently while reasonable and prudent judgments have been made so that the form and substance of transactions are properly reflected.

They also confirm that the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange. Further the Financial Statements provide the information required by the Companies Act and the listing rules of the Colombo Stock Exchange.

The Directors are of the opinion, based on their knowledge of the Company, Key operations and specific inquires, that adequate resources exist to support the Company on a going concern basis over the next year. These Financial Statements have been prepared on that basis. The Directors

have taken reasonable measures to safeguard the assets of the Company and the Group and, in that context, have instituted appropriate systems of internal control with a view to preventing and detecting fraud and other irregularities.

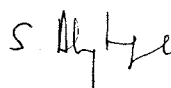
As required by Section 56 (2) of the Companies Act, the Board of Directors has authorised distribution of the proposed dividends, being satisfied based on information available to it that the Company would satisfy the solvency test after such distributions in accordance with Section 57 of the Companies Act, have sought in respect of dividend proposed certificates of solvency from its Auditors.

The External Auditors, Messrs Ernst & Young, reappointed in terms of Section 158 of the Companies Act were provided with every opportunity to undertake the inspections they considered appropriate to enable them form their opinion on the Financial Statements. The Report of the Auditors, shown on page 89 sets out their responsibilities in relation to the Financial Statements.

### Compliance Report

The Directors confirm that to the best of their knowledge, all statutory payments relating to employees and the Government that were due in respect of the Company and its subsidiaries as at the Balance Sheet date have been paid or where relevant, provided for.

*By order of the Board,*



Hayleys Group Services (Pvt) Limited  
Secretaries

11th February 2011





# **Financial Reports 2010**

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## **Financial Calendar**

1st Quarter Report	29th April 2010
2nd Quarter Report	30th July 2010
3rd Quarter Report	3rd November 2010
Annual Report 2010	11th February 2011
19th Annual General Meeting	30th March 2011

# Audit Committee Report

## ROLE OF THE AUDIT COMMITTEE

The role of the Committee, which has specific terms of reference, is described in the Corporate Governance Report on page 60 to 71.

## COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee appointed by and responsible to the Board of Directors, comprises of three Non-Executive Directors two of whom are Independent. The Director/CEO and Chief Financial Officer (CFO) attend the meetings and the Chief Financial Officer act as the Secretary. The Chairman and other Executive Directors attend meetings as required. The Chairman of the Audit Committee is Mr. L N De S Wijeyaratne, a Senior Chartered Accountant. The names of the members and their brief profiles are given on pages 66 and 72 to 74 respectively of this report. Their individual and collective financial knowledge and business acumen and the independence of the Committee, are brought to bear on their deliberations and judgment on matters that come within the Committee's purview.

## MEETINGS

The Committee met 5 times during the year. The attendance of the members at these meetings is as follows:

Mr. L N de S Wijeyaratne	5/5
Dr. S S S B D G Jayawardena	4/5
Mr. Malik J Fernando	0/5

Other members of the Board and the Group Management Committee, Internal Auditors as well as the External Auditors were present at discussions where this was appropriate. The proceedings of the Audit Committee are regularly reported to the Board of Directors.

## TASKS OF THE AUDIT COMMITTEE

### Financial Reporting System

The Committee reviewed the financial reporting system adopted by the Company in the preparation of its quarterly and annual Financial Statements to ensure reliability of the processes and consistency of the accounting policies and methods adopted and their compliance with the Sri Lanka Accounting Standards. The committee recommended the Financial Statements to the Board for its deliberations and issuance. The Committee, in its evaluation of the financial reporting system, also recognised the adequacy of the content and quality of routine management information reports forwarded to its members.

### Internal Audits

The Committee reviewed the process to assess the effectiveness of the internal financial controls that have been designed to provide reasonable assurance to the Directors that assets are safeguarded and that the financial reporting system can be relied upon in preparation and presentation of Financial Statements. The

Management Audit reports on key control elements and procedures that are selected according to an annual plan, were reviewed.

Internal Audits are outsourced to leading audit firms in line with an agreed annual audit plan. Follow up and reviews were held with management to ensure that audit recommendations are being acted upon. The Committee obtained and reviewed statements from the management of the Company as to the mitigatory action taken or contemplated as to risks arising from liquidity, internal control systems and procedures and adequacy of insurance for safeguarding of assets.

The Committee obtained representations from the Company on the adequacy of provisions made to possible liabilities and reviewed reports tabled, certifying their compliance with relevant statutory requirements.

### External Audits

The Committee held meetings with the External Auditors to review the nature, approach and scope of Audit and the Audit Management Letters of the Group companies. Actions taken by the management in response to the issues raised, as well as the effectiveness of the internal controls in place, were discussed with the Company. Remedial action was recommended wherever necessary.

The Audit Committee has reviewed the other services provided by the External Auditors to the Company, to ensure that their independence as Auditors has not been compromised.

### Appointment of External Auditors

The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young be continued as Auditors for the Year ending 31st December 2011.

## SUPPORT TO THE COMMITTEE

The Committee received information and support from the management during the year to enable it to carry out its duties and responsibilities effectively.

## Conclusion

The Audit Committee is satisfied that the Company's accounting policies and operational controls provide reasonable assurance that the affairs of the Company are managed in accordance with the Company policies and that Company assets are properly accounted for and adequately safeguarded.



L N De S Wijeyaratne  
Chairman  
Audit Committee  
11th February 2011

# Independent Auditors' Report

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TALAWAKELLE TEA ESTATES PLC

### Report on the Financial Statements

We have audited the accompanying Financial Statements of Talawakelle Tea Estates PLC and the Consolidated Financial Statements of the Company and its subsidiaries which comprise the Balance Sheets as at December 31, 2010 and the Income Statements, Statements of Changes in Equity and Cash Flow Statements for the year then ended, and a summary of significant Accounting Policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

### Opinion Company

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

### Group

In our opinion, the consolidated Financial Statements give a true and fair view of the state of affairs as at December 31, 2010 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

### Report on Other Legal and Regulatory Requirements

In our opinion, these Financial Statements also comply with the requirements of Sections 151(2) and 153 (2) to 153 (7) of the Companies Act No. 07 of 2007.

Ernst & Young  
(Chartered Accountants)

Colombo  
11th February 2011

# Income Statements

Year ended 31st December	Notes	COMPANY		GROUP	
		2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Revenue	3	2,876,740,448	2,685,543,735	3,002,624,212	2,772,124,979
Cost of sales		(2,533,232,780)	(2,511,564,869)	(2,557,139,885)	(2,526,727,707)
Gross profit		343,507,668	173,978,866	445,484,327	245,397,272
Other income and gains	21	26,955,676	38,408,940	21,435,676	38,408,940
Administrative expenses		(81,064,470)	(76,975,313)	(97,922,214)	(96,420,947)
Management fee		(23,587,468)	(14,144,785)	(23,587,468)	(14,144,785)
Government lease interest	22 a	(27,010,452)	(9,774,305)	(27,010,452)	(9,774,305)
Finance cost	22 b	(100,931,545)	(130,602,274)	(149,200,238)	(191,354,060)
<b>Profit/(loss) before tax</b>	23	<b>137,869,409</b>	<b>(19,108,871)</b>	<b>169,199,631</b>	<b>(27,887,885)</b>
Income tax expense	24	(2,679,379)	5,274,523	(4,690,905)	(2,513,907)
<b>Profit/(loss) for the year</b>		<b>135,190,030</b>	<b>(13,834,348)</b>	<b>164,508,726</b>	<b>(30,401,792)</b>
<b>Attributable to:</b>					
Equity holders of the Parent		135,190,030	(13,834,348)	147,437,764	(22,283,744)
Minority interest		–	–	17,070,962	(8,118,048)
<b>Profit for the year</b>		<b>135,190,030</b>	<b>(13,834,348)</b>	<b>164,508,726</b>	<b>(30,401,792)</b>
Basic earnings/(loss) per share	25	5.69	(0.58)	6.21	(0.94)
Dividends per share	26	2.50	–	2.50	–


The Accounting Policies and Notes on pages 95 to 122 form an integral part of the Financial Statements.

Figures in brackets indicate deductions.

# Balance Sheets

As at 31st December	Notes	COMPANY		GROUP	
		2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Leasehold property	4	144,096,356	148,213,394	144,096,356	148,213,394
Property, plant & equipment immovable estate assets on finance lease (other than leasehold property)	5	134,885,990	145,869,757	134,885,990	145,869,757
Tangible assets other than immature/mature plantations	6A	571,450,533	626,037,251	1,013,964,109	1,075,853,399
Immature/mature plantations	6B	1,669,023,664	1,537,900,879	1,669,023,664	1,537,900,879
Development cost		–	–	13,758,982	15,764,700
Investments	6C	119,054,400	65,790,000	–	–
		<b>2,638,510,943</b>	<b>2,523,811,281</b>	<b>2,975,729,101</b>	<b>2,923,602,129</b>
<b>Current Assets</b>					
Inventories	7	359,649,349	361,752,445	359,649,349	361,752,445
Trade and other receivables	8	69,907,985	126,975,720	115,605,437	152,520,754
Amounts due from related companies	9	17,168,699	77,759,215	–	1,959,132
ACT recoverables		7,473,037	7,473,037	7,473,037	7,473,037
VAT recoverables		212,222	212,222	212,222	212,222
Short-term investments	10	–	148,792,880	–	148,792,880
Cash and bank balances		30,089,348	39,738,468	32,155,304	45,212,145
		<b>484,500,640</b>	<b>762,703,987</b>	<b>515,095,349</b>	<b>717,922,615</b>
<b>TOTAL ASSETS</b>		<b>3,123,011,583</b>	<b>3,286,515,268</b>	<b>3,490,824,450</b>	<b>3,641,524,744</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and Reserves</b>					
Stated capital	11	350,000,010	350,000,010	350,000,010	350,000,010
Retained earnings		811,588,599	676,398,569	808,341,750	660,903,986
<b>Equity</b>		<b>1,161,588,609</b>	<b>1,026,398,579</b>	<b>1,158,341,760</b>	<b>1,010,903,996</b>
Minority interest	12	–	–	122,622,551	54,375,989
<b>Total Equity</b>		<b>1,161,588,609</b>	<b>1,026,398,579</b>	<b>1,280,964,311</b>	<b>1,065,279,985</b>
<b>Non Current Liabilities and Deferred Income</b>					
Interest-bearing loans and borrowings	13	484,894,687	604,292,461	669,225,357	824,711,681
Debenture	15	–	95,000,000	–	95,000,000
Retiring benefit obligations	16	730,622,441	664,524,181	730,622,441	664,524,181
Deferred tax liability	24.2	–	10,568,185	12,728,236	21,262,068
Deferred income	17	250,473,963	221,936,033	250,473,963	221,936,033
Net liability to the lessor payable after one year	18	132,020,613	133,890,084	132,020,613	133,890,084
		<b>1,598,011,704</b>	<b>1,730,210,944</b>	<b>1,795,070,610</b>	<b>1,961,324,047</b>
<b>Current Liabilities</b>					
Trade and other payables	19	291,866,769	348,780,965	304,896,353	356,287,450
Interest bearing loans and borrowings	13	43,413,016	98,217,203	79,853,866	123,081,803
Net liability to the lessor payable within one year	18	1,869,471	1,797,568	1,869,471	1,797,568
VAT payable		339,691	–	339,691	–
Amounts due to related companies	20	10,602,086	2,112,634	12,509,911	54,756,516
Short-term borrowings	14	–	58,193,150	–	58,193,150
Bank overdraft		15,320,237	20,804,225	15,320,237	20,804,225
		<b>363,411,270</b>	<b>529,905,745</b>	<b>414,789,529</b>	<b>614,920,712</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,123,011,583</b>	<b>3,286,515,268</b>	<b>3,490,824,450</b>	<b>3,641,524,744</b>

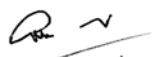
These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



**D S Seneviratne**  
Chief Financial Officer/Deputy Chief Executive Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Signed for and on behalf of the Board by,



**A M Pandithage**  
Chairman/Director



**J A G Anandarajah**  
Director

The Accounting Policies and Notes on pages 95 to 122 form an integral part of the Financial Statements.

11th February 2011  
Colombo

# Statements of Changes in Equity

<i>Year ended 31st December 2010</i>					
	Notes	Stated Capital Rs.	Retained Earnings Rs.	Minority Interest Rs.	Total Rs.
<b>COMPANY</b>					
Balance as at 31st December 2008		350,000,010	719,920,417	–	1,069,920,427
Profit/(loss) for the year		–	(13,834,348)	–	(13,834,348)
Dividends	26	–	(29,687,500)	–	(29,687,500)
Balance as at 31st December 2009		350,000,010	676,398,569	–	1,026,398,579
Profit/(loss) for the year		–	135,190,030	–	135,190,030
Dividends		–	–	–	–
<b>Balance as at 31st December 2010</b>		<b>350,000,010</b>	<b>811,588,599</b>	<b>–</b>	<b>1,161,588,609</b>
<b>GROUP</b>					
Balance as at 31st December 2008		350,000,010	718,997,295	62,323,081	1,131,320,386
Consolidation adjustment on development cost		–	(6,122,065)	170,956	(5,951,109)
Restated Balance as at 31st December 2008		350,000,010	712,875,230	62,494,037	1,125,369,277
Profit/(loss) for the year		–	(22,283,744)	(8,118,048)	(30,401,792)
Dividends	26	–	(29,687,500)	–	(29,687,500)
Balance as at 31st December 2009		350,000,010	660,903,986	54,375,989	1,065,279,985
Issue of preference shares		–	–	51,175,600	51,175,600
Profit/(loss) for the year		–	147,437,764	17,070,962	164,508,726
Dividends		–	–	–	–
<b>Balance as at 31st December 2010</b>		<b>350,000,010</b>	<b>808,341,750</b>	<b>122,622,551</b>	<b>1,280,964,311</b>

The Accounting Policies and Notes on pages 95 to 122 form an integral part of the Financial Statements.

# Cash Flow Statements

Year ended 31st December	Notes	COMPANY		GROUP	
		2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net profit/(loss) before taxation		137,869,409	(19,108,871)	169,199,631	(27,887,885)
<b>Adjustments for-</b>					
Provision for defined benefit plan costs	16	131,199,521	214,337,000	131,199,521	214,337,000
Depreciation/amortisation	23	119,180,803	110,904,209	135,437,334	122,775,222
Amortisation of grants	17	(5,904,988)	(4,844,751)	(5,904,988)	(4,844,751)
Finance costs	22	100,931,545	130,602,274	149,200,238	191,354,060
Government lease interest		27,010,452	9,774,305	27,010,452	9,774,305
(Profit)/Loss on disposal of assets		17,256,678	(3,538,044)	17,256,678	(3,538,044)
<b>Operating profit before working capital changes</b>		<b>527,543,420</b>	<b>438,126,122</b>	<b>623,398,866</b>	<b>501,969,907</b>
(Increase)/decrease in inventories		2,103,096	(1,804,906)	2,103,096	(1,804,906)
(Increase)/decrease in trade and other receivables		57,067,727	(42,338,742)	36,915,850	(50,608,825)
(Increase)/decrease in VAT/ACT/WHT recoverable		-	4,386,002	-	4,386,002
Increase/(decrease) in trade and other payables		(61,493,341)	64,816,663	(73,018,377)	65,019,408
(Increase)/decrease in amounts due from related companies		60,590,516	(24,132,535)	1,958,596	(1,959,132)
Increase/(decrease) in amounts due to related companies		8,489,452	(1,110,893)	(42,246,605)	41,933,757
Increase/(decrease) in VAT payables		339,691	-	339,691	(4,577,673)
<b>Cash generated from operations</b>		<b>594,640,561</b>	<b>437,941,711</b>	<b>549,451,117</b>	<b>554,358,538</b>
Finance costs paid		(105,567,241)	(130,602,277)	(153,835,934)	(191,354,063)
Payment of ESC/Income Tax/SRL		(8,668,419)	(6,423,835)	(8,668,419)	(6,423,835)
Defined benefit plan costs paid	16	(65,101,261)	(40,616,851)	(65,101,261)	(40,616,851)
<b>Net cash from operating activities</b>		<b>415,303,640</b>	<b>260,298,748</b>	<b>321,845,503</b>	<b>315,963,789</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Long-term investment		(53,264,400)	-	-	-
Grant received	17	34,442,918	28,863,719	34,442,918	28,863,719
Proceeds from disposal of property, plant & equipment		615,520	3,538,044	615,520	3,538,044
Field development expenditure	(Note A) 6B	(180,805,858)	(181,646,143)	(180,805,858)	(181,646,143)
Purchase of property, plant & equipment	(Note B)	(17,682,396)	(60,522,187)	(24,630,637)	(82,478,677)
<b>Net cash used in investing activities</b>		<b>(216,694,216)</b>	<b>(209,766,567)</b>	<b>(170,378,057)</b>	<b>(231,723,057)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Dividend paid		-	(29,687,500)	-	(29,687,500)
Repayments from Debentures		(95,000,000)	-	(95,000,000)	-
Lease rentals paid		-	(24,440)	-	(24,440)
Payment of Government lease rentals		(24,172,323)	(11,502,734)	(24,172,323)	(11,502,734)
Proceeds from loans		52,937,431	441,034,903	52,937,431	441,034,903
Repayment/transfer of loans		(227,139,395)	(206,454,977)	(251,651,700)	(215,046,578)
Minority shareholders		-	-	68,246,562	(8,118,048)
<b>Net cash from financing activities</b>		<b>(293,374,287)</b>	<b>193,365,252</b>	<b>(249,640,030)</b>	<b>176,655,603</b>
<b>Net increase/(decrease) in cash &amp; cash equivalents</b>		<b>(94,764,863)</b>	<b>243,897,433</b>	<b>(98,172,584)</b>	<b>260,896,335</b>
Cash & cash equivalents at the beginning of the year	(Note C)	109,533,973	(134,363,460)	115,007,650	(145,888,685)
Cash & cash equivalents at the end of the year	(Note D)	14,769,110	109,533,973	16,835,066	115,007,650

Cash Flow Statements →

	Tea Rs.	Rubber Rs.	Unallocated Rs.	Hydro Rs.	Total Rs.
<b>COMPANY</b>					
<b>Note A: Investment in Field Development Expenditure</b>					
Investment in immature plantations and field development 2010	152,879,232	3,835,525	24,091,101	–	180,805,858
Investment in immature plantations and field development 2009	167,586,653	3,920,596	10,138,893	–	181,646,142
<b>Note B: Investment in Property, Plant &amp; Equipment</b>					
Investment in property, plant & equipment 2010	17,682,396	–	–	–	17,682,396
Investment in property, plant & equipment 2009	60,522,187	–	–	–	60,522,187
<b>GROUP</b>					
<b>Note A: Investment in Field Development Expenditure</b>					
Investment in immature plantations and field development 2010	152,879,232	3,835,525	24,091,101	–	180,805,858
Investment in immature plantations and field development 2009	167,586,653	3,920,596	10,138,893	–	181,646,142
<b>Note B: Investment in Property, Plant &amp; Equipment</b>					
Investment in property, plant & equipment 2010	17,682,396	–	–	6,948,241	24,630,637
Investment in property, plant & equipment 2009	60,522,187	–	–	21,956,490	82,478,677

Year ended 31st December	COMPANY		GROUP	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
<b>Note C: Cash &amp; cash equivalents at the beginning of the year</b>				
Cash & bank balances	39,738,468	41,148,957	45,212,145	41,148,957
Short-term investments	148,792,880	18,900,000	148,792,880	18,900,000
Bank overdrafts	(20,804,225)	(139,412,417)	(20,804,225)	(150,937,642)
Short-term loans	(58,193,150)	(55,000,000)	(58,193,150)	(55,000,000)
	109,533,973	(134,363,460)	115,007,650	(145,888,685)
<b>Note D: Cash &amp; cash equivalents at the end of the year</b>				
Cash & bank balances	30,089,348	39,738,468	32,155,304	45,212,145
Short-term investments	–	148,792,880	–	148,792,880
Bank overdrafts	(15,320,237)	(20,804,225)	(15,320,237)	(20,804,225)
Short-term loans	–	(58,193,150)	–	(58,193,150)
	14,769,111	109,533,973	16,835,067	115,007,650

Note: During the financial year, the Company and the Group acquired property, plant & equipment to the aggregate value of Rs. 17,682,396/- and Rs. 6,948,241/- respectively.

The Accounting Policies and Notes on pages 95 to 122 form an integral part of the Financial Statements.



# Notes to the Financial Statements

## 1. CORPORATE INFORMATION

### 1.1 Domicile and Legal Form

Talawakelle Tea Estates PLC is a limited liability Company incorporated and domiciled in Sri Lanka, under the Companies Act No. 17 of 1982 (The Company re-registered under the Companies Act No. 07 of 2007) in terms of the provisions of the Conversion of Public Corporations or Government Owned Business Undertakings into Public Companies Act No. 23 of 1987. The registered office of the Company is located at No. 400, Deans Road, Colombo 10 and Plantations are situated in the planting districts of Talawakelle, Nanu Oya, Galle and Deniyaya.

### 1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were the cultivation, manufacture and sale of tea.

### 1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company's parent undertaking is Hayleys Plantation Services (Pvt) Limited which is incorporated in Sri Lanka.

### 1.4 Date of Authorisation for Issue

The Financial Statements of Talawakelle Tea Estates PLC for the year ended 31st December 2010 were authorised for issue in accordance with a resolution of the Board of Directors on 11th February 2011.

## 2.1 Basis of Preparation

These Financial Statements have been prepared on a historical cost basis except for leasehold property, certain Property, Plant & Equipment which are stated at revalued amounts. The Financial Statements are presented in Sri Lankan Rupees and all values are rounded to the nearest Rupee.

### 2.1.1 Statement of Compliance

The Financial Statements of Talawakelle Tea Estates PLC have been prepared in accordance with the Sri Lanka Accounting Standards (SLAS) adopted by The Institute of

Chartered Accountants of Sri Lanka (ICASL) and also in compliance with the requirements of the Companies Act No. 07 of 2007.

### 2.1.2 Going Concern

The Directors have made an assessment of the Talawakelle Tea Estates PLC's ability to continue as a going concern in the foreseeable future and they do not intend either to liquidate or to cease trading.

### 2.1.3 Comparative Information

The Accounting Policies have been consistently applied by the Company and are consistent with those used in the previous year unless otherwise stated.

### 2.1.4 The Consolidated Financial Statements

The Consolidated Financial Statements comprise of the Financial Statements of Talawakelle Tea Estates PLC and its subsidiaries, TTEL Hydro Power Company (Pvt) Limited and TTEL Somerset Hydro Power (Pvt) Limited in terms of Sri Lanka Accounting Standard No. 26 - "Consolidated and Separate Financial Statements".

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power directly or indirectly to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The Financial Statements of the subsidiaries are included in the Consolidated Financial Statements from the date the control effectively commences until the date that control effectively ceases.

The total profits and losses for the period of the Company and its subsidiaries included in consolidation are shown in the Consolidated Income Statement with the proportion of profit or loss after taxation applicable to minority shareholders of the subsidiaries being deducted as "Minority Shareholders' Interest".

All assets and liabilities of the Company and of its subsidiaries are included in the Consolidated Balance Sheet. The proportionate interest of minority shareholders in the net assets employed by the Group is disclosed separately in the Consolidated Balance Sheet under the heading 'Minority Shareholders' Interest'.

The Financial Statements of the Company and its subsidiaries included in the Consolidated Financial Statements are prepared under uniform accounting policies and the financial year of Talawakelle Tea Estates PLC ends on 31st December and subsidiaries ends on 31st March.

Intra-group balances and intra-group transactions are eliminated in full in the Consolidated Financial Statements.

## **2.2 Significant Accounting Judgments, Estimates and Assumptions**

### **Judgments**

In the process of applying the Company's Accounting Policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognised in the Financial Statements.

### **Inventory Valuation**

The Company has valued the unsold produce stock as at the Balance Sheet date at their actual or estimated realisable values, net of direct selling expenses based on most recent selling prices available subsequent to the year end.

### **Estimates and Assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the Balance Sheet date, that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### **Impairment of Goodwill**

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash generating units to which the goodwill is allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate present value of those cash flows.

### **Deferred Tax Assets**

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

### **Defined Benefit Plans**

The cost of defined benefit plan - gratuity is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The actuarial present value of promised retirement benefits at the most recent actuarial valuation is Rs. 718,058,995/-. Further details are given in Note 16.

### **Effect of Sri Lanka Accounting Standards issued but not yet effective:**

(a) The following standards have been issued by The Institute of Chartered Accountants of Sri Lanka.

- Sri Lanka Accounting Standard 44 - 'Financial Instruments; Presentation' (SLAS 44)
- Sri Lanka Accounting Standard 45 - 'Financial Instruments; Recognition and Measurement' (SLAS 45)
- Sri Lanka Accounting Standard 39 - 'Share Based Payments' (SLAS 39)

The effective date of SLAS 44, 45 and 39 was changed during the year to be effective for financial periods beginning on or after 01st January 2012. These three standards have been amended and forms a part of the new set of financial reporting standards mentioned under Note (b) below.

(b) Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards, the Council of The Institute of Chartered Accountants of Sri Lanka has adopted a new set of financial reporting standards that would apply for financial periods beginning on or after 01st January 2012. The application of these financial reporting standards is substantially different to the prevailing standards.

## **2.3 Summary of Significant Accounting Policies**

### **2.3.1 Taxation**

#### **(a) Current Taxes**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue. The tax rates and tax laws used for the computation are those that are enacted or substantively enacted by the Balance Sheet date.

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the relevant tax legislations.

#### **(b) Deferred Taxation**

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

Deferred income tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination

and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

The carrying amount of deferred income tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilised.

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

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the Income Statement.

#### **2.3.2 Borrowing Costs**

Borrowing costs are recognised as an expense in the period in which they are incurred.

#### **2.3.3 Intangible Assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following the initial recognition of the intangible assets, the cost model is applied requiring the assets to be carried at cost, less any accumulated

amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs are not capitalised and expenditure is reflected in the Income Statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function/nature of the intangible asset. Amortisation was commenced when the assets were available for use.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Intangible assets that are not yet available for sale are tested for impairments at each financial year end, even if there is no indication that the asset is impaired.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Income Statement when the asset is derecognised.

#### **2.3.4 Inventories**

Inventories other than produce stocks are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items. Net realisable value is the price at which inventories can be sold in the ordinary course of business after allowing for the estimated cost of completion/conversion to bring to a saleable condition.

The costs incurred in bringing inventories to its present location and condition are accounted for using the following cost formula:

##### **Input Material**

At average cost.

##### **Growing Crop - Nurseries**

At the cost of direct materials, direct labour and an appropriate proportion of directly attributable overheads, less provision for over grown plants.

##### **Produce Stocks**

Valued at estimated selling prices or since realised prices.

##### **Spare, Consumables and Packing Materials**

At actual cost.

#### **2.3.5 Trade and Other Receivables**

Trade receivables are stated at the amounts they are estimated to realise net of allowances for bad and doubtful receivables.

Other receivables and dues from related parties are recognised at cost, less provision for bad and doubtful receivables.

**2.3.6 Cash and Cash Equivalents**

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of Cash Flow Statement, Cash and Cash Equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e., three months or less from the date of acquisitions are also treated as Cash Equivalents.

Interest paid and received is classified as Operating Cash Flows.

The Cash Flow Statements are reported based on the indirect method.

**2.3.7 Property, Plant & Equipment**

*(a) Cost*

Property, Plant & Equipment is recorded at cost, less accumulated depreciation and less any impairment in value.

*(b) Cost and Valuation*

All items of Property, Plant & Equipment are initially recorded at cost. Where items of Property, Plant & Equipment are subsequently revalued, the entire class of such assets is revalued. Revaluations are made with sufficient regularity to ensure that their carrying amounts do not differ materially from their fair values at the Balance Sheet date. Subsequent to the initial recognition as an asset at cost, revalued Property, Plant & Equipment are carried at revalued amounts less any subsequent depreciation thereon. All other Property, Plant & Equipment are stated at historical cost less depreciation.

When an asset is revalued, any increase in the carrying amount is credited directly to a revaluation surplus unless it reverses a previous revaluation decrease relating to the same asset, which was previously recognised as an

expense. In these circumstances, the increase is recognised as income to the extent of the previous written-down value. When an asset’s carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense unless it reverses a previous increment relating to that asset, in which case it is charged against any related revaluation surplus, to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. Any balance remaining in the revaluation surplus in respect of an asset, is transferred directly to accumulated profits or loss on retirement or disposal of the asset.

*(c) Leasehold Property*

Leasehold property comprising of land use rights obtained on a long-term basis is stated as recorded carrying values as at the effective date of Sri Lanka Accounting Standard 19 - ‘Leases’ in line with ruling of the Urgent Issues Task Force of The Institute of Chartered Accountants of Sri Lanka. Such carrying amounts are amortised over the remaining lease term or useful life of the leased property whichever is shorter. No further revaluations of these leasehold property will be carried out.

*(d) Depreciation*

The provision for depreciation is calculated on the cost or valuation of all Property, Plant & Equipment other than freehold land, in order to write-off such amounts over the estimated useful lives by equal installments as follows:

Buildings	over 35 years (over the remaining lease period)
Plant and Machinery	over 13 years
Furniture and Fittings	over 10 years
Vehicles	over 05 years
Equipment	over 04 years
Computers	over 04 years
Mini Hydro Power Plant	over 20 years
Roads	over 05 years

Replanting and New Planting

Tea	over 33 years
Rubber	over 20 years

The leasehold properties are being amortised in equal amounts over the following periods:

Bare Land	over 53 years
Mature Plantations	over 30 years
Buildings	over 25 years
Machinery	over 15 years
Improvements to Land	over 30 years

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

The policy has been changed from current year to depreciate assets when it's available for use and ceases at the earlier of the dates on which the asset is classified as held for sale or it is derecognised.

**(e) Derecognition**

An item of Property, Plant & Equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement in the year the asset is derecognised.

**2.3.8 Immature and Mature Plantations**

The cost of replanting and new planting is classified as immature plantations up to the time of harvesting the crop.

Further, the general charges on labour incurred on the plantation are apportioned based on the labour days spent on respective replanting and new planting, and capitalised on the immature areas. The remaining portion of the general charges is expensed in the accounting period in which it is incurred.

The cost of areas coming into bearing are transferred to mature plantations and depreciated over their useful life period.

**2.3.9 Infilling Cost**

Where infilling results in an increase in the economic life of the relevant field beyond its previously assessed standard of performance, the costs are capitalised in accordance with Sri Lanka Accounting Standard No. 32 and depreciated over the useful life at rates applicable to mature plantation.

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

**2.3.10 Leases**

**(a) Finance Leases - where the Company is the Lessee**  
Property, Plant & Equipment on finance leases, (which effectively transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item) are capitalised at their cash price and depreciated/ amortised over the period the Company is expected to benefit from the use of the leased assets.

The corresponding principal amount payable to the lessor is shown as a liability.

The finance charges allocated to future periods are separately disclosed under Note 18.

The interest element of the rental obligation applicable to each financial year is charged to the Income Statement over the period of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The cost of improvements to or on leased property is capitalised and depreciated over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is shorter.

**(b) Operating Leases**

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the leased term are classified as operating leases.

Lease payments (excluding costs for services such as insurance and maintenance) paid under operating leases are recognised as an expense in the Income Statement on a straight-line basis over the lease term.

**2.3.11 Short-Term Investments**

Treasury Bills and other interest bearing securities held for resale in the near future to benefit from short-term market movements are accounted for at cost plus the relevant proportion of the discounts or premiums.

**2.3.12 Long-Term Investments**

Long-term investments are stated at cost. Carrying amounts are reduced to recognise a decline other than temporary, determined for each investment individually. These reductions for other than temporary declines in carrying amounts are charged to Income Statement.

**2.3.13 Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money 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 and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

**2.3.14 Retirement Benefit Obligations**

**(a) Defined Benefit Plans - Gratuity**

The Retirement Benefit Plan adopted is as required under the Payment of Gratuity Act No. 12 of 1983 and Indian Repatriate Act No. 34 of 1978 to eligible employees.

The Company measures the present value of the promised retirement benefits of gratuity which is a Defined Benefit Plan every two years using Projected Unit Credit (PUC) method as recommended by Sri Lanka Accounting Standard 16 - 'Retirement Benefits Costs'. Actuarial Valuation Certificate was obtained from a professional firm of actuaries - Messrs Actuarial and Management Consultants (Pvt) Limited as at 31st December 2010. The Company expects to carry out the actuarial valuation once in every two years.

The key assumptions used by the actuary include the following:

(i)	Rate of Interest	10%	per annum
(ii)	Rate of Salary Increase - Workers	18.5%	every two years
	- Staff	10%	per annum
(iii)	Retirement Age - Workers	60 years	
	- Staff	55 years	
(iv)	The Company will continue as a going concern		

Actuarial gains and losses are recognised as income or expenses over the expected average remaining working lives of the participants of the plan.

This item is grouped under retirement benefit obligations in the Balance Sheet. The liability is not externally funded.

**(b) Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund**

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with the respective statutes and regulations. The Company contributes 12% and 3% of gross emoluments of employees to the Employees' Provident Fund and to the Employees' Trust Fund respectively.

### **2.3.15 Grants and Subsidies**

Grants and subsidies are recognised at their fair value where there is reasonable assurance that the grant/subsidy will be received and all attaching conditions, if any, will be complied with. When the grant or subsidy relates to an income item, it is recognised as income over the periods necessary to match them to the costs to which it is intended to compensate on a systematic basis.

Grants and subsidies related to assets, including non-monetary grants at fair value are deducted at arriving at the carrying value of the asset (or are deferred in the Balance Sheet and credited to the Income Statement over the useful life of the asset).

### **2.3.16 Impairment of Assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are collaborated by valuation multiples, quoted share prices or other available fair value indicators.

Impairment losses of continuing operations are recognised in the Income Statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case, the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. 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, the 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 Income Statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

The following criteria are also applied in assessing impairment of specific assets:

#### **Goodwill**

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group



of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The Company performs its annual impairment test of goodwill as at 31st December.

### **Intangible Assets**

Intangible assets with indefinite useful lives are tested for impairment annually as of 31st December either individually or at the cash-generating unit level, as appropriate.

#### **2.3.17 Income Statement**

##### ***Revenue Recognition***

###### *(a) Sale of Goods*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes.

The following specific criteria are used for the purpose of recognition of revenue:

###### *(b) Interest*

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

###### *(c) Dividends*

Dividend income is recognised on a cash basis.

###### *(d) Rental Income*

Rental income is recognised on an accrual basis.

###### *(e) Royalties*

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement.

###### *(f) Others*

Other income is recognised on an accrual basis.

Net gains and losses of a revenue nature on the disposal of Property, Plant & Equipment and other non-current assets including investments have been accounted for in the Income Statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses. On disposal of revalued Property, Plant & Equipment, amount remaining in Revaluation Reserve relating to that asset is transferred directly to Accumulated Profit/(Loss).

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

##### ***Expenditure Recognition***

(a) Expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

(b) For the purpose of presentation of the Income Statement the Directors are of the opinion that function of expenses method presents fairly the elements of the Company's performance and hence such presentation method is adopted.

**3. REVENUE****3.1 Summary**

Year ended 31st December	COMPANY		GROUP	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
<b>Sale of Goods</b>				
Tea	2,821,477,457	2,635,419,130	2,821,477,457	2,635,419,130
Rubber	36,489,971	20,832,605	36,489,971	20,832,605
Mini Hydro Power	-	-	116,658,524	77,874,791
Others	18,773,020	29,292,000	27,998,260	37,998,453
	<b>2,876,740,448</b>	<b>2,685,543,735</b>	<b>3,002,624,212</b>	<b>2,772,124,979</b>

**3.2 Segment Information****(a) Segment Revenue****Tea**

Revenue	2,821,477,457	2,635,419,130	2,821,477,457	2,635,419,130
Revenue expenditure	(2,264,478,911)	(2,168,893,694)	(2,264,478,911)	(2,168,893,694)
Depreciation	(116,585,666)	(109,138,798)	(116,585,666)	(109,138,798)
Other non-cash expenditure	(131,199,521)	(214,337,000)	(131,199,521)	(214,337,000)
Segment results	<b>309,213,359</b>	<b>143,049,638</b>	<b>309,213,359</b>	<b>143,049,638</b>

**Rubber**

Revenue	36,489,971	20,832,605	36,489,971	20,832,605
Revenue expenditure	(18,373,545)	(17,429,966)	(18,373,545)	(17,429,966)
Depreciation	(2,595,137)	(1,765,411)	(2,595,137)	(1,765,411)
Other non-cash expenditure	-	-	-	-
Segment results	<b>15,521,289</b>	<b>1,637,228</b>	<b>15,521,289</b>	<b>1,637,228</b>

**Mini Hydro Power**

Revenue	-	-	116,658,524	77,874,791
Revenue expenditure	-	-	(7,650,574)	(3,291,825)
Depreciation	-	-	(16,256,531)	(11,871,013)
Other non-cash expenditure	-	-	-	-
Segment results	-	-	<b>92,751,419</b>	<b>62,711,953</b>

**Unallocated**

Revenue	18,773,020	29,292,000	27,998,260	37,998,453
Revenue expenditure	-	-	-	-
Depreciation	-	-	-	-
Other non-cash expenditure	-	-	-	-
Segment results	<b>18,773,020</b>	<b>29,292,000</b>	<b>27,998,260</b>	<b>37,998,453</b>

Year ended 31st December	COMPANY		GROUP	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
<b>Total</b>				
Revenue	2,876,740,448	2,685,543,735	3,002,624,212	2,772,124,979
Revenue expenditure	(2,282,852,456)	(2,186,323,660)	(2,290,503,030)	(2,189,615,485)
Depreciation	(119,180,803)	(110,904,209)	(135,437,334)	(122,775,222)
Other non-cash expenditure	(131,199,521)	(214,337,000)	(131,199,521)	(214,337,000)
Segment results	343,507,668	173,978,866	445,484,327	245,397,272
Other income	26,955,676	38,408,940	21,435,676	38,408,940
Unallocated expenses	(81,064,470)	(76,975,313)	(97,922,214)	(96,420,947)
Management fees	(23,587,468)	(14,144,785)	(23,587,468)	(14,144,785)
Government lease interest	(27,010,452)	(9,774,305)	(27,010,452)	(9,774,305)
Finance cost	(100,931,545)	(130,602,274)	(149,200,238)	(191,354,060)
<b>Operating profit of the Company</b>	<b>137,869,409</b>	<b>(19,108,871)</b>	<b>169,199,631</b>	<b>(27,887,885)</b>
<b>(b) Segment Assets</b>				
<b>Non-Current Assets</b>				
Tea	2,461,289,850	2,392,765,460	2,461,289,850	2,392,765,460
Rubber	58,166,684	65,255,821	58,166,684	65,255,821
Mini Hydro Power	–	–	456,272,567	465,580,848
Unallocated	119,054,409	65,790,000	–	–
	2,638,510,943	2,523,811,281	2,975,729,101	2,923,602,129
<b>Current Assets</b>				
Tea	480,604,515	759,370,776	480,604,515	759,370,776
Rubber	3,896,125	3,333,211	3,896,125	3,333,211
Mini Hydro Power	–	–	30,594,709	(44,781,372)
Unallocated	–	–	–	–
	484,500,640	762,703,987	515,095,349	717,922,615
<b>Total assets</b>	<b>3,123,011,583</b>	<b>3,286,515,268</b>	<b>3,490,824,450</b>	<b>3,641,524,744</b>

Year ended 31st December	COMPANY		GROUP	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
<b>(c) Segment Liabilities</b>				
<b>Non-Current Liabilities and Deferred Income</b>				
Tea	1,598,011,704	1,730,210,944	1,598,011,704	1,730,210,944
Rubber	-	-	-	-
Mini Hydro Power	-	-	197,058,906	231,113,103
	<b>1,598,011,704</b>	<b>1,730,210,944</b>	<b>1,795,070,610</b>	<b>1,961,324,047</b>
<b>Current Liabilities</b>				
Tea	363,411,270	529,905,745	363,411,270	529,905,745
Rubber	-	-	-	-
Mini Hydro Power	-	-	51,378,259	85,014,967
	<b>363,411,270</b>	<b>529,905,745</b>	<b>414,789,529</b>	<b>614,920,712</b>
<b>Total Liabilities</b>	<b>1,961,422,974</b>	<b>2,260,116,689</b>	<b>2,209,860,139</b>	<b>2,576,244,759</b>
<b>(d) Segment Capital Expenditure</b>				
<b>Cost</b>				
Tea	170,561,628	228,108,841	170,561,628	228,108,841
Rubber	3,835,525	3,920,596	3,835,525	3,920,596
Mini Hydro Power	-	-	6,948,241	21,956,490
Unallocated	24,091,101	10,138,893	24,091,101	10,138,893
	<b>198,488,254</b>	<b>242,168,330</b>	<b>205,436,495</b>	<b>264,124,820</b>

#### 4. LEASEHOLD PROPERTY

Leases have been executed for all estates 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 right 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. For this purpose the Board decided at its meeting on 8th March 1995, that this bare land would be revalued at the value established for this land by valuation specialist, Mr. D R Wickramasinghe just prior to the formation of the Company.

The above mentioned leasehold right to bare land comprising of land use rights obtained on a long-term basis is reclassified as leasehold property and stated at the recorded carrying values as at the effective date of Sri Lanka Accounting Standard 19 (UITF) - 'Leases', in line with revised Ruling of the Urgent Issues Task Force of The Institute of Chartered Accountants of Sri Lanka. Such carrying amounts are amortised over the remaining lease term or useful life of the leased property whichever is shorter. The leasehold right to land is disclosed under non-current assets under leasehold property. The revised UITF ruling

does not permit further revaluation of leasehold property. The values taken into the 22nd June 1992 Balance Sheet and amortisation of the leasehold property up to 31st December 2010, are as follows:

	COMPANY					GROUP				
	Revaluation* as at 22.06.1992 Rs.	Additions for the Year Rs.	Disposals during the Year Rs.	Balance as at 31.12.2010 Rs.	Balance as at 31.12.2009 Rs.	Revaluation as at 22.06.1992 Rs.	Additions for the Year Rs.	Disposals during the Year Rs.	Balance as at 31.12.2010 Rs.	Balance as at 31.12.2009 Rs.
Leasehold property	218,203,052	–	–	218,203,052	218,203,052	218,203,052	–	–	218,203,052	218,203,052
	218,203,052	–	–	218,203,052	218,203,052	218,203,052	–	–	218,203,052	218,203,052

	Accumulated Amortisation Rs.	Amortisation for the year Rs.	Transfers during the year Rs.	Balance as at 31.12.2010 Rs.	Balance as at 31.12.2009 Rs.	Accumulated Amortisation Rs.	Amortisation for the year Rs.	Transfers during the year Rs.	Balance as at 31.12.2010 Rs.	Balance as at 31.12.2009 Rs.
Amortisation	69,989,658	4,117,038	–	74,106,696	69,989,658	69,989,658	4,117,038	–	74,106,696	69,989,658
	69,989,658	4,117,038	–	74,106,696	69,989,658	69,989,658	4,117,038	–	74,106,696	69,989,658
Written-down value				144,096,356	148,213,394				144,096,356	148,213,394

The leasehold property is being amortised by equal amounts over a 53-year period and the unexpired period of the lease as at the Balance Sheet date is 34 years.

\* Revaluation amount is arrived at after adjusting for assets handed over to Tea Smallholdings Development Authority.

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

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 SLSPC, on the day immediately preceding the date of formation of the Company. These assets are taken into the 22nd June 1992 Balance Sheet and the amortisation of immovable estate assets to 31st December 2010 are as follows:

	COMPANY					GROUP				
	Improvement to land Rs.	Mature plantations Rs.	Buildings Rs.	Plant & machinery Rs.	Total Rs.	Improvement to land Rs.	Mature plantations Rs.	Buildings Rs.	Plant & machinery Rs.	Total Rs.
* Revaluation as at 22.06.1992	9,083,597	243,838,242	63,826,020	12,006,954	328,754,813	9,083,597	243,838,242	63,826,020	12,006,954	328,754,813
Cost/Revaluation as at 31.12.2010	9,083,597	243,838,242	63,826,020	12,006,954	328,754,813	9,083,597	243,838,242	63,826,020	12,006,954	328,754,813
Accumulated amortisation as at 01.01.2010	5,145,643	122,329,393	43,403,066	12,006,954	182,885,056	5,145,643	122,329,393	43,403,066	12,006,954	182,885,056
Amortisation for the year	302,786	8,127,940	2,553,041	–	10,983,767	302,786	8,127,940	2,553,041	–	10,983,767
Accumulated amortisation as at 31.12.2010	5,448,429	130,457,333	45,956,107	12,006,954	193,868,823	5,448,429	130,457,333	45,956,107	12,006,954	193,868,823
Written-down value as at 31.12.2010	3,635,168	113,380,909	17,869,913	–	134,885,990	3,635,168	113,380,909	17,869,913	–	134,885,990
Written-down value as at 31.12.2009	3,937,954	121,508,849	20,422,954	–	145,869,757	3,937,954	121,508,849	20,422,954	–	145,869,757

These assets are being amortised in equal annual amounts over the following periods:

Mature plantations/improvement to land	30 years
Buildings	25 years
Machinery	15 years

\* Revaluation amount is arrived at after adjusting for assets handed over to Tea Smallholdings Development Authority.

**6.(A) TANGIBLE ASSETS OTHER THAN IMMATURE/MATURE PLANTATIONS**

	COMPANY				GROUP			
	Balance as at 01.01.2010	Additions for the year	Disposals during the year	Balance as at 31.12.2010	Balance as at 01.01.2010	Additions for the year	Disposals during the year	Balance as at 31.12.2010
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Cost</b>								
Buildings	338,183,616	42,857,827	–	381,041,443	338,183,616	42,857,827	–	381,041,443
Motor vehicles	107,312,253	3,294,000	–	110,606,253	107,312,253	3,294,000	–	110,606,253
Plant & machinery	466,048,090	11,289,396	–	477,337,486	930,892,682	24,994,775	–	955,887,457
Furniture & fittings	7,172,128	735,222	–	7,907,350	7,172,128	735,222	–	7,907,350
Equipment & tools	60,023,930	1,148,852	–	61,172,782	60,023,930	1,178,852	–	61,202,782
	978,740,017	59,325,297	–	1,038,065,314	1,443,584,609	73,060,676	–	1,516,645,285
	Balance as at 01.01.2010	Charge for the year	Accumulated depreciation on disposals	Balance as at 31.12.2010	Balance as at 01.01.2010	Charge for the year	Accumulated depreciation on disposals	Balance as at 31.12.2010
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Depreciation</b>								
Buildings	44,714,679	9,686,618	–	54,401,297	44,714,679	9,686,618	–	54,401,297
Motor vehicles	85,663,464	8,413,703	–	94,077,167	85,663,464	8,413,703	–	94,077,167
Plant & machinery	245,547,531	31,228,718	–	276,776,249	267,435,133	47,480,874	–	314,916,007
Furniture & fittings	4,586,601	450,049	–	5,036,650	4,586,601	450,049	–	5,036,650
Equipment & tools	49,107,167	4,617,821	–	53,724,988	49,107,167	4,622,196	–	53,729,363
	429,619,442	54,396,909	–	484,016,351	451,507,044	70,653,440	–	522,160,484
<b>Written-down value</b>	549,120,575			554,048,963	992,077,565			994,484,801
	Balance as at 01.01.2010	Additions for the year	Capitalised disposed during the year	Balance as at 31.12.2010	Balance as at 01.01.2010	Additions for the year	Capitalised disposed during the year	Balance as at 31.12.2010
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Capital work-in-progress	76,916,676	19,947,613	(79,462,719)	17,401,570	83,775,834	22,025,350	(86,321,876)	19,479,308
Total written-down value	626,037,251			571,450,533	1,075,853,399			1,013,964,109

**Note:** The assets shown above are those movable 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 by the Company since its formation. The assets taken over by way of estate leases are set out in Notes 4 and 5.

**6.(B) IMMATURE/MATURE PLANTATIONS**

	COMPANY					GROUP				
	Permanent land development cost Rs.	Roads Rs.	Immature plantations Rs.	Mature plantations Rs.	Total Rs.	Permanent land development cost Rs.	Roads Rs.	Immature plantations Rs.	Mature plantations Rs.	Total Rs.
<b>Cost</b>										
*At the beginning of the year	19,626,585	59,198,100	477,362,452	1,183,991,896	1,740,179,033	19,626,585	59,198,100	477,362,452	1,183,991,896	1,740,179,033
Additions	2,064,512	22,026,590	156,714,773	129,317,104	310,122,979	2,064,512	22,026,590	156,714,773	129,317,104	310,122,979
Transfers	-	-	(129,317,104)	-	(129,317,104)	-	-	(129,317,104)	-	(129,317,104)
At the end of the year	21,691,097	81,224,690	504,760,121	1,313,309,000	1,920,984,908	21,691,097	81,224,690	504,760,121	1,313,309,000	1,920,984,908
<b>Depreciation</b>										
*At the beginning of the year	5,877,255	10,118,837	-	186,282,062	202,278,154	5,877,255	10,118,837	-	186,282,062	202,278,154
Charge for the year	677,159	12,105,062	-	36,900,869	49,683,090	677,159	12,105,062	-	36,900,869	49,683,090
At the end of the year	6,554,414	22,223,899	-	223,182,931	251,961,244	6,554,414	22,223,899	-	223,182,931	251,961,244
<b>Written-down value</b>										
as at 31.12.2010	15,136,683	59,000,791	504,760,121	1,090,126,069	1,669,023,664	15,136,683	59,000,791	504,760,121	1,090,126,069	1,669,023,664
as at 31.12.2009	13,749,330	49,079,263	477,362,452	997,709,834	1,537,900,879	13,749,330	49,079,263	477,362,452	997,709,834	1,537,900,879

\* The figures above are stated after adjusting for assets handed over to Tea Smallholdings Development Authority.

**Note:** These are investments in immature/mature plantations since the formation of the Company. The assets (including plantation assets) taken over by way of estate leases are set out in Notes 4 and 5. Further investment in immature plantations taken over by way of these leases are shown in the above note. When such plantations become mature, the additional investments since take over to bring them to maturity, will be moved from immature to mature under this note.

**6. (C) INVESTMENTS**

Talawakelle Tea Estates PLC holds 3,519,000 (51%) ordinary shares of TTEL Hydro Power Company (Private) Limited and 3,060,000 (51%) ordinary shares of TTEL Somerset Hydro Power (Private) Limited. On 31st December 2010, TTEL Hydro Power Company (Private) Limited and TTEL Somerset Hydro Power (Private) Limited issued 3,723,000 and 1,603,440, 14% redeemable cumulative preference shares of Rs. 10/- each respectively redeemable in, December 2015 in lieu of settlement of loans and current accounts dues as at 31st December 2010:

Year ended 31st December	COMPANY		GROUP	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
<b>Ordinary Shares</b>				
TTEL Hydro Power Company (Private) Limited	35,190,000	35,190,000	-	-
TTEL Somerset Hydro Power (Private) Limited	30,600,000	30,600,000	-	-
	<b>65,790,000</b>	<b>65,790,000</b>	<b>-</b>	<b>-</b>
<b>Preference Shares</b>				
TTEL Hydro Power Company (Private) Limited	37,230,000	-	-	-
TTEL Somerset Hydro Power (Private) Limited	16,034,400	-	-	-
	<b>53,264,400</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Investment</b>	<b>119,054,400</b>	<b>65,790,000</b>	<b>-</b>	<b>-</b>

Year ended 31st December	COMPANY		GROUP	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
<b>7. INVENTORIES</b>				
Growing crop - nurseries	21,904,752	25,858,849	21,904,752	25,858,849
Harvested crop	315,243,640	311,708,945	315,243,640	311,708,945
Input stocks, consumables & spares	22,500,957	24,184,651	22,500,957	24,184,651
	<b>359,649,349</b>	<b>361,752,445</b>	<b>359,649,349</b>	<b>361,752,445</b>

**8. TRADE AND OTHER RECEIVABLES**

Year ended 31st December	COMPANY		GROUP	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Produce debtors	13,355,009	47,982,774	52,355,097	70,663,849
Advances & prepayments	40,494,459	42,236,809	41,668,707	44,107,376
Other debtors	16,058,517	36,756,137	21,581,633	37,749,529
	<b>69,907,985</b>	<b>126,975,720</b>	<b>115,605,437</b>	<b>152,520,754</b>

**9. AMOUNTS DUE FROM RELATED COMPANIES**

Relationship	COMPANY		GROUP		
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.	
Hayleys Plantation Services (Private) Limited	Parent Enterprise	–	1,959,132	–	1,959,132
Hayleys Industrial Solutions (Private) Limited	Group Company	–	2,023,700	–	–
TTEL Somerset Hydro Power (Private) Limited	Group Company	2,932,902	26,212,726	–	–
TTEL Hydro Power Company (Private) Limited	Group Company	14,235,797	47,563,657	–	–
		<b>17,168,699</b>	<b>77,759,215</b>	<b>–</b>	<b>1,959,132</b>

**10. SHORT-TERM INVESTMENT**

Year ended 31st December	COMPANY		GROUP	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Repo with Acuity Securities Limited	–	19,999,999	–	19,999,999
Fixed Deposits with Sampath Bank	–	25,000,000	–	25,000,000
Repo with NDB	–	12,000,000	–	12,000,000
Savings with DFCC Vardhana Bank	–	91,792,881	–	91,792,881
	–	<b>148,792,880</b>	–	<b>148,792,880</b>



Year ended 31st December	COMPANY		GROUP	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
<b>11. STATED CAPITAL</b>				
<b>Issued and Fully Paid Stated Capital</b>				
Number of Ordinary Shares including one Golden Share held by the Treasury which has special rights	23,750,001	23,750,001	23,750,001	23,750,001
Stated Capital including one Golden Share held by the Treasury which has special rights	350,000,010	350,000,010	350,000,010	350,000,010

Stated capital represents the amount paid to the Company in respect of issuing 23,750,000 Ordinary Shares and one Golden Share which has special rights. With the enactment of the Companies Act No. 07 of 2007 which is applicable with effect from 3rd May 2007, the concept of authorised share capital and par value is no longer applicable.

## 12. MINORITY INTEREST

	GROUP	
	2010 Rs.	2009 Rs.
TTEL Hydro Power Company (Private) Limited	68,002,618	27,782,696
TTEL Somerset Hydro Power (Private) Limited	54,619,933	26,593,293
	122,622,551	54,375,989

## 13. INTEREST BEARING LOANS AND BORROWINGS

	2010					2009				
	Repayable within 1 year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2010	Repayable within 1 year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2009
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Company</b>										
13.1 National Development Bank	11,705,525	188,513,911	152,048,496	340,562,407	352,267,932	21,908,720	242,579,046	200,727,827	443,306,873	465,215,593
13.2 Sampath Bank	10,471,000	67,926,000	72,291,000	140,217,000	150,688,000	13,471,992	41,050,415	94,583,402	135,633,817	149,105,809
13.3 Hatton National Bank	-	-	-	-	-	-	-	-	-	-
13.4 Commercial Bank	5,236,491	4,115,280	-	4,115,280	9,351,771	5,236,491	9,351,771	-	9,351,771	14,588,262
13.5 Indian Bank	16,000,000	-	-	-	16,000,000	57,600,000	16,000,000	-	16,000,000	73,600,000
	43,413,016	260,555,191	224,339,496	484,894,687	528,307,703	98,217,203	308,981,232	295,311,229	604,292,461	702,509,664
<b>Group</b>										
13.1 National Development Bank	11,705,525	188,513,911	152,048,496	340,562,407	352,267,932	21,908,720	242,579,046	200,727,827	443,306,873	465,215,593
13.2 Sampath Bank	28,662,250	140,691,000	107,374,050	248,065,050	276,727,300	20,086,992	113,815,415	147,503,402	261,318,817	281,405,809
13.3 Hatton National Bank	18,249,600	60,130,620	16,352,000	76,482,620	94,732,220	18,249,600	64,382,220	30,352,000	94,734,220	112,983,820
13.4 Commercial Bank	5,236,491	4,115,280	-	4,115,280	9,351,771	5,236,491	9,351,771	-	9,351,771	14,588,262
13.5 Indian Bank	16,000,000	-	-	-	16,000,000	57,600,000	16,000,000	-	16,000,000	73,600,000
	79,853,866	393,450,811	275,774,546	669,225,357	749,079,223	123,081,803	446,128,452	378,583,229	824,711,681	947,793,484

**13.1 Long-Term Loans**

	Repayable within 1 year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2010	Total as at 31.12.2009	Rate of interest	Terms of repayment
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	%	
<b>Company</b>								
<b>National Development Bank</b>								
<b>Field Development</b>								
1st disbursement	–	–	–	–	–	23,210,550	11.78	120 monthly installments commencing from April 2004.
2nd disbursement	–	–	–	–	–	36,331,453	12.53	120 monthly installments commencing from January 2006.
3rd disbursement	–	–	–	–	–	13,448,879	12.51	120 monthly installments commencing from May 2007.
4th disbursement	11,705,525	46,822,100	35,086,665	81,908,765	<b>93,614,290</b>	93,614,290	9.42	96 monthly installments commencing from January 2011.
5th disbursement	–	90,750,003	56,406,739	147,156,742	<b>147,156,742</b>	147,156,742	13.25	60 monthly installments commencing from December 2012.
<b>Process Development</b>								
1st disbursement	–	–	–	–	–	15,133,850	11.78	120 monthly installments commencing from April 2004.
2nd disbursement	–	–	–	–	–	17,424,398	12.53	120 monthly installments commencing from August 2006.
3rd disbursement	–	32,503,491	39,726,509	72,230,000	<b>72,230,000</b>	69,292,569	13.07	60 monthly installments commencing from October 2013.
4th disbursement	–	4,459,821	5,450,940	9,910,761	<b>9,910,761</b>	9,910,761	13.07	60 monthly installments commencing from October 2013.
5th disbursement	–	7,500,260	7,499,740	15,000,000	<b>15,000,000</b>	15,000,000	13.07	60 monthly installments commencing from July 2013.
6th disbursement	–	3,643,236	4,412,903	8,056,139	<b>8,056,139</b>	8,056,139	13.07	60 monthly installments commencing from October 2013.
7th disbursement	–	2,835,000	3,465,000	6,300,000	<b>6,300,000</b>	6,300,000	13.07	60 monthly installments commencing from October 2013.
<b>Vehicle &amp; Equipment</b>								
1st disbursement	–	–	–	–	–	5,981,300	11.78	120 monthly installments commencing from April 2004.
2nd disbursement	–	–	–	–	–	4,354,662	12.53	120 monthly installments commencing from July 2006.
	<b>11,705,525</b>	<b>188,513,911</b>	<b>152,048,496</b>	<b>340,562,407</b>	<b>352,267,932</b>	<b>465,215,593</b>		
<b>Group</b>								
<b>National Development Bank</b>								
<b>Field Development</b>								
1st disbursement	–	–	–	–	–	23,210,550	11.78	120 monthly installments commencing from April 2004.
2nd disbursement	–	–	–	–	–	36,331,453	12.53	120 monthly installments commencing from January 2006.
3rd disbursement	–	–	–	–	–	13,448,879	12.51	120 monthly installments commencing from May 2007.
4th disbursement	11,705,525	46,822,100	35,086,665	81,908,765	<b>93,614,290</b>	93,614,290	9.42	96 monthly installments commencing from January 2011
5th disbursement	–	90,750,003	56,406,739	147,156,742	<b>147,156,742</b>	147,156,742	13.25	60 monthly installments commencing from December 2012.
<b>Process Development</b>								
1st disbursement	–	–	–	–	–	15,133,850	11.78	120 monthly installments commencing from April 2004.
2nd disbursement	–	–	–	–	–	17,424,398	12.53	120 monthly installments commencing from August 2006.
3rd disbursement	–	32,503,491	39,726,509	72,230,000	<b>72,230,000</b>	69,292,569	13.07	60 monthly installments commencing from October 2013.
4th disbursement	–	4,459,821	5,450,940	9,910,761	<b>9,910,761</b>	9,910,761	13.07	60 monthly installments commencing from October 2013.
5th disbursement	–	7,500,260	7,499,740	15,000,000	<b>15,000,000</b>	15,000,000	13.07	60 monthly installments commencing from July 2013.
6th disbursement	–	3,643,236	4,412,903	8,056,139	<b>8,056,139</b>	8,056,139	13.07	60 monthly installments commencing from October 2013.
7th disbursement	–	2,835,000	3,465,000	6,300,000	<b>6,300,000</b>	6,300,000	13.07	60 monthly installments commencing from October 2013.
<b>Vehicle &amp; Equipment</b>								
1st disbursement	–	–	–	–	–	5,981,300	11.78	120 monthly installments commencing from April 2004.
2nd disbursement	–	–	–	–	–	4,354,662	12.53	120 monthly installments commencing from July 2006.
	<b>11,705,525</b>	<b>188,513,911</b>	<b>152,048,496</b>	<b>340,562,407</b>	<b>352,267,932</b>	<b>465,215,593</b>		

**13.2 Sampath Bank**

	Repayable within 1 year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2010	Total as at 31.12.2009	Rate of interest	Terms of repayment
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	%	
<b>Company</b>								
Replanting Loan	-	-	-	-	-	32,083,362	12.5	120 monthly installments commencing from June 2006.
Replanting Loan	9,783,000	52,176,000	38,041,000	90,217,000	100,000,000	100,000,000	10.24	92 monthly installments commencing from April 2011.
Replanting Loan	-	15,750,000	34,250,000	50,000,000	50,000,000	-	10.76	48 monthly installments commencing from October 2014.
Loans for Boiler Units	688,000	-	-	-	688,000	2,812,000	6.50	60 monthly installments commencing from May 2006.
Dendro Project	-	-	-	-	-	14,210,447	AWPLR+2	60 monthly installments commencing from July 2007.
	10,471,000	67,926,000	72,291,000	140,217,000	150,688,000	149,105,809		
<b>Group</b>								
Replanting Loan	-	-	-	-	-	32,083,362	12.5	120 monthly installments commencing from June 2006.
Replanting Loan	9,783,000	52,176,000	38,041,000	90,217,000	100,000,000	100,000,000	10.24	92 monthly installments commencing from April 2011.
Replanting Loan	-	15,750,000	34,250,000	50,000,000	50,000,000	-	10.76	48 monthly installments commencing from October 2014.
Loans for Boiler Units	688,000	-	-	-	688,000	2,812,000	6.50	60 monthly installments commencing from May 2006.
Dendro Project	-	-	-	-	-	14,210,447	AWPLR+2	60 monthly installments commencing from July 2007.
Mini Hydro	18,191,250	72,765,000	35,083,050	107,848,050	126,039,300	132,300,000	AWDR+5	96 monthly installments commencing from January 2010.
	28,662,250	140,691,000	107,374,050	248,065,050	276,727,300	281,405,809		

**13.3 Hatton National Bank**

<b>Company</b>								
	-	-	-	-	-	-		
	-	-	-	-	-	-		
<b>Group</b>								
Mini Hydro - Radella	4,251,600	4,138,620	-	4,138,620	8,390,220	12,641,820	AWDR+4	96 monthly installments commencing from February 2005.
Mini Hydro - Somerset	13,998,000	55,992,000	16,352,000	72,344,000	86,342,000	100,342,000	AWDR+4	96 monthly installments commencing from January 2010.
	18,249,600	60,130,620	16,352,000	76,482,620	94,732,220	112,983,820		

**13.4 Commercial Bank**

<b>Company</b>								
Loans for Boiler Units	2,636,491	1,731,947	-	1,731,947	4,368,438	7,004,929	6.50	60 monthly installments commencing from September 2007.
E-Friends - ii Scheme	2,600,000	2,383,333	-	2,383,333	4,983,333	7,583,333	6.50	60 monthly installments commencing from December 2007.
	5,236,491	4,115,280	-	4,115,280	9,351,771	14,588,262		
<b>Group</b>								
Loans for Boiler Units	2,636,491	1,731,947	-	1,731,947	4,368,438	7,004,929	6.50	60 monthly installments commencing from September 2007.
E-Friends - ii Scheme	2,600,000	2,383,333	-	2,383,333	4,983,333	7,583,333	6.50	60 monthly installments commencing from December 2007.
	5,236,491	4,115,280	-	4,115,280	9,351,771	14,588,262		

**13.5 Indian Bank**

	Repayable within 1 year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2010	Total as at 31.12.2009	Rate of interest	Terms of repayment
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	%	
<b>Company</b>								
2nd disbursement	16,000,000	–	–	–	16,000,000	73,600,000	AWPLR+0.5	24 monthly installments commencing from April 2009.
	16,000,000	–	–	–	16,000,000	73,600,000		
<b>Group</b>								
2nd disbursement	16,000,000	–	–	–	16,000,000	73,600,000	AWPLR+0.5	24 monthly installments commencing from April 2009.
	16,000,000	–	–	–	16,000,000	73,600,000		

**14. SHORT-TERM BORROWINGS****Company**

Commercial Bank of Ceylon PLC	–	–	–	–	–	50,000,000	} Prevailing money market rates
Hatton National Bank	–	–	–	–	–	–	
Hongkong and Shanghai Banking Corporation	–	–	–	–	–	–	
Packing Credit Loan	–	–	–	–	–	8,193,150	
	–	–	–	–	–	58,193,150	

**Group**

Commercial Bank of Ceylon PLC	–	–	–	–	–	50,000,000	} Prevailing money market rates
Hatton National Bank	–	–	–	–	–	–	
Hongkong and Shanghai Banking Corporation	–	–	–	–	–	–	
Packing Credit Loan	–	–	–	–	–	8,193,150	
	–	–	–	–	–	58,193,150	

**15. REDEEMABLE DEBENTURES**

Year ended 31st December	COMPANY		GROUP	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Redeemable debentures	–	95,000,000	–	95,000,000
	–	95,000,000	–	95,000,000

9.5 million redeemable debentures of Rs. 10/- each at 13.08% amounting to Rs. 95 million was issued in favour of the Plantation Trust Fund in November 2008, and redeemable in 2014 as per the Debenture Agreements: 2014A, B, C & D, was redeemed in September 2010 as per Clause 23 (i) of the said agreement.

**16. RETIRING BENEFIT OBLIGATIONS**

Year ended 31st December	COMPANY		GROUP	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
<b>Provision for Retiring Gratuity</b>				
At the beginning of the year	664,524,181	490,804,032	664,524,181	490,804,032
Provisions for the year	131,199,521	214,337,000	131,199,521	214,337,000
Payments for the year	(65,101,261)	(40,616,851)	(65,101,261)	(40,616,851)
At the end of the year	730,622,441	664,524,181	730,622,441	664,524,181

According to the actuarial valuation certificate issued by the actuarial valuer as at 31st December 2010, the actuarial present value of promised retirement benefits amounted to Rs. 718,058,995/-. If the Company had provided for gratuity on the basis of 14 days wages and half a month's salary for each completed year of service, the liability would have been Rs. 705,538,740/-. Hence, there is a contingent asset of Rs. 25,083,700/-, which would crystallise only if the Company ceases to be a going concern.

**17. DEFERRED INCOME**

Year ended 31st December	COMPANY		GROUP	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
<b>Deferred Grants and Subsidies</b>				
Balance at the beginning of the year	221,936,033	197,917,065	221,936,033	197,917,065
Add: Grants received during the year	34,442,918	28,863,719	34,442,918	28,863,719
Less: Amortisation for the year	(5,904,988)	(4,844,751)	(5,904,988)	(4,844,751)
Balance at the end of the year	250,473,963	221,936,033	250,473,963	221,936,033

The Company has received funding from the Plantation Housing and Social Welfare Trust and Plantation Development Project (PDP) for the development of workers' facilities such as re-roofing of line rooms, latrines, water supply, sanitation and roads, etc. The amounts spent are included under the relevant classification of property, plant & equipment and the grant component is reflected under Deferred Grants and Subsidies.

**18. NET LIABILITY TO THE LESSOR OF SLSPC ESTATES**

	Repayable after one year			Sub-total	2010 Total	2009 Total
	Repayable within 1 year	Repayable after 1 year less than five years	Repayable after five years			
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Company</b>						
Gross liability	7,225,074	28,900,296	212,951,633	241,851,929	249,077,003	256,302,077
Less: Finance charges	(5,355,603)	(20,644,112)	(89,187,204)	(109,831,316)	(115,186,919)	(120,614,425)
Net liability	1,869,471	8,256,184	123,764,429	132,020,613	133,890,084	135,687,652

	Repayable after one year			Sub-total	2010 Total	2009 Total
	Repayable within 1 year	Repayable after 1 year less than five years	Repayable after five years			
	Rs.	Rs.	Rs.			
<b>Group</b>						
Gross liability	7,225,074	28,900,296	212,951,633	241,851,929	249,077,003	256,302,077
Less: Finance charges	(5,355,603)	(20,644,112)	(89,187,204)	(109,831,316)	(115,186,919)	(120,614,425)
Net liability	1,869,471	8,256,184	123,764,429	132,020,613	133,890,084	135,687,652

The lease of the estates was amended, with effect from 22nd June 1996 to an amount substantially higher than the previous lease rental of Rs. 500/- per estate per annum. The rental payable under the revised basis is Rs. 7.225 million per year and to be inflated annually by the Gross Domestic Product (GDP) deflator, and it is in the form of a contingent rental. This lease agreement was further amended with effect from 22nd June 2002, to provide relief to the Company by freezing the lease rental at 2002 level for a period of 5 calendar years, from the fiscal years 2003/2004 to 2007/2008. In 2010 lease agreement was reverted back to the previous agreement with retrospective effect from 2008/2009.

## 19. TRADE AND OTHER PAYABLES

Year ended 31st December	COMPANY		GROUP	
	2010	2009	2010	2009
	Rs.	Rs.	Rs.	Rs.
Trade creditors	96,349,012	108,622,841	109,378,596	120,929,325
Others	102,536,717	142,707,004	102,536,717	137,907,005
Accrued expenses	92,981,040	97,451,120	92,981,040	97,451,120
Income tax payable	–	–	–	–
	291,866,769	348,780,965	304,896,353	356,287,450

## 20. AMOUNTS DUE TO RELATED COMPANIES

	Relationship	COMPANY		GROUP	
		2010	2009	2010	2009
		Rs.	Rs.	Rs.	Rs.
Hayleys PLC	Group Company	2,357,172	2,112,634	2,357,172	2,112,634
Hayleys Industrial Solutions (Private) Limited	Group Company	–	–	1,907,825	52,643,882
Hayleys Plantation Services (Private) Limited	Parent Enterprise	8,244,914	–	8,244,914	–
		10,602,086	2,112,634	12,509,911	54,756,516

**21. OTHER INCOME AND GAINS**

Year ended 31st December	COMPANY		GROUP	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Sale of trees	7,833,300	1,708,799	7,833,300	1,708,799
Interest income	7,081,868	28,317,346	7,081,868	28,317,346
Amortisation of capital grants	5,904,988	4,844,751	5,904,988	4,844,751
Profit on disposal of assets	615,520	3,538,044	615,520	3,538,044
Development fee	5,520,000	–	–	–
	26,955,676	38,408,940	21,435,676	38,408,940

	COMPANY		GROUP	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.

**22. FINANCE COST****22 (a)**

<b>Government Lease Interest</b>	27,010,452	9,774,305	27,010,452	9,774,305
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In 2010 the lease agreement was revert back to the previous agreement with retrospective effect from 2008/09.

An arrears of Rs. 8,972,527/- was charged during the year and the lease rental based on GDP deflator for the year was Rs. 19,835,493/-.

	COMPANY		GROUP	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
<b>22(b) Finance Cost</b>				
Overdraft interest	4,906,319	20,099,038	4,992,175	20,099,817
Short-term loan interest	5,343,988	17,773,376	12,378,138	20,210,513
Lease interest on others	–	3,161	–	3,161
Term loan interest	79,521,315	80,300,699	120,670,002	138,614,569
Debenture interest	11,159,923	12,426,000	11,159,923	12,426,000
	100,931,545	130,602,274	149,200,238	191,354,060

**23. PROFIT BEFORE TAX IS STATED AFTER CHARGING**

Directors' emoluments	4,825,500	5,166,000	4,825,500	5,166,000
Key management compensation	14,524,800	12,569,000	14,524,800	12,569,000
Auditors' fees	2,082,500	1,877,000	2,184,500	2,028,418
Depreciation/amortisation	119,180,803	110,904,209	135,437,334	122,775,222
Defined benefit plan costs	131,199,521	214,336,000	131,199,521	214,336,000
Employees' profit share	6,759,501	–	6,759,501	–
Defined contribution plan costs - EPF & ETF	136,562,187	111,180,767	136,562,187	111,180,767
Others - Staff costs	1,261,216,398	1,097,881,455	1,261,216,398	1,097,881,455
Donations	–	–	–	–

**24. INCOME TAX EXPENSE**

The major components of income tax expenses for the years ended 31st December are as follows:

	COMPANY		GROUP	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
<b>Current Tax Expenses</b>				
Current income tax charges	13,247,564	–	13,247,564	7,788,430
Deferred taxation charge/(reversal)	(10,568,185)	(12,389,779)	(8,556,659)	(12,389,779)
Write off of unclaimable ESC	–	7,115,256	–	7,115,256
	<b>2,679,379</b>	<b>(5,274,523)</b>	<b>4,690,905</b>	<b>2,513,907</b>

Deferred tax provision has been reduced due to the temporary difference of the tax losses during the period and change in the applicable tax rates.

**24.1 Reconciliation between Tax Expenses and the Product of Accounting Profit multiplied by the Statutory Tax Rate (35%) is as Follows:**

	COMPANY	
	2010 Rs.	2009 Rs.
Tax effect on accounting profit/(loss) before tax	48,254,293	(6,688,105)
Tax effect on aggregate disallowed items	114,328,776	143,167,741
Tax effect on aggregate allowable items	(123,620,032)	(122,906,013)
	<b>38,963,037</b>	<b>13,573,623</b>
Tax effect on tax loss B/F and utilised	(6,446,265)	(6,440,357)
	<b>32,516,772</b>	<b>7,133,266</b>
Tax effect on exempted profit from agriculture	(19,464,985)	(16,628,121)
	<b>13,051,787</b>	<b>(9,494,855)</b>
SRL @ 1.5%	195,777	–
Income tax charge/(reversal)	<b>13,247,564</b>	<b>(9,494,855)</b>



**24.2 Deferred Tax Assets and Liabilities**

	Balance Sheet		Income Statement	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
<b>Deferred Tax Liability</b>				
Capital allowances for tax purposes	(301,865,191)	(119,030,521)		
	(301,865,191)	(119,030,521)		
<b>Deferred Tax Assets</b>				
Deferred benefit plans	115,146,097	25,579,807		
Tax losses	152,092,789	82,882,529		
Grants	39,474,696	–		
	306,713,582	108,462,336		
Deferred taxation charge/(reversal)	(10,568,185)	–	(10,568,185)	(12,389,779)
Net deferred tax liability	–	(10,568,185)		

**25. EARNINGS PER SHARE**

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

**25.2** The following reflects the income and share data used in the basic earnings per share computations:

	COMPANY		GROUP	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
<b>Amounts used as the Numerator:</b>				
Net profit applicable to ordinary shareholders for basic earnings per share	135,190,030	(13,834,348)	147,437,764	(22,283,744)
	135,190,030	(13,834,348)	147,437,764	(22,283,744)
<b>Amounts used as the Denominator:</b>				
Weighted average number of ordinary shares in issue applicable to basic earnings per share	23,750,001	23,750,001	23,750,001	23,750,001
	23,750,001	23,750,001	23,750,001	23,750,001
Earnings per share (Rs.)	5.69	(0.58)	6.21	(0.94)

**26. DIVIDENDS PAID AND PROPOSED****Dividend on Ordinary Shares**

Dividend paid during the year	–	29,687,500	–	29,687,500
	–	29,687,500	–	29,687,500

	COMPANY		GROUP	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Proposed for approval at AGM (not recognised as a liability as at 31st December 2010)				
Final dividend for 2010 Rs. 2.50 per share	59,375,003	–	59,375,003	–
	59,375,003	–	59,375,003	–
Dividends per share (Rs.)	2.50	–	2.50	–

## 27. ASSETS PLEDGED

Following assets have been pledged as security for liabilities:

Bank	Nature of Assets	Nature of Liability	Carrying Amount Pledged	
			2010 Rs.	2009 Rs.
Hatton National Bank PLC	Primary floating mortgage for Rs. 109 million over leasehold rights of Radella, Palmerston and Handford Estates	Term loan, Short-Term Loan and Overdraft	37,739,897	39,833,926
Sampath Bank	Primary mortgage bond for Rs. 46 million over leasehold rights of Deniyaya Estate & Primary mortgage over stock for Rs. 45 million	Overdraft	19,525,887	20,980,362
	Primary mortgage over leasehold rights to the value of Rs. 30 million of Clarendon Estate	Term Loan	25,383,084	27,154,111
	Secondary mortgage over leasehold rights to the value of Rs. 20 million of Deniyaya Estate			
	Primary mortgage over leasehold rights of Matakelle Estate for Rs. 100 million	Term Loan	13,967,176	14,721,342
	Primary mortgage bond for Rs. 10.6 million over 3 numbers of Hot Water Generators - Barewell, Holyrood and Great Western Estates	Term Loan	22,600,029	23,777,811
National Development Bank	Primary mortgage over leasehold rights of Somerset, Great Western, Holyrood, Logie and Dessford Estates	Term Loan	86,191,743	90,812,303
Commercial Bank	Concurrent mortgage over stock in trade and debtors for Rs. 100 million and additional mortgage over stocks and debtors for Rs. 50 million	Overdraft, Money Market, Export packing/Bill nego guarantee	328,598,649	359,691,719
	Primary mortgage over vehicles bearing WP HS 3257, WP JY 1762, WP JT 4785, WP HA 2354	Term Loan	–	2,780,600
	Primary mortgage bond for Rs. 13 million over 2 numbers of hot water generators - Radella and Wattagoda Estates	Term Loan	12,526,737	13,918,597
	Primary mortgage bond for Rs. 14 million over 2 numbers of hot water generators - Logie and Dessford Estates	Term Loan	14,533,934	15,800,580
Hongkong & Shanghai Banking Corporation	Concurrent mortgage over stocks and debtors for Rs. 65 million	Overdraft Short-Term Loan	328,598,649	359,691,719

## 28. CAPITAL COMMITMENTS

Following are the capital commitments as at the Balance Sheet date:

	2010 Rs. million	2009 Rs. million
Approved by the Board and contracted for	–	–
Approved by the Board and not contracted for	108	150
	108	150

**29. COMMITMENTS AND CONTINGENCIES**

No known contingent assets or liabilities exist as at Balance Sheet date other than the matters disclosed in Notes 16 and 18 to the Financial Statements.

**30. POST BALANCE SHEET EVENTS**

There have been no material events occurring after the Balance Sheet date that require adjustments or disclosure in the Financial Statements.

**31. RELATED PARTY DISCLOSURES**

Details of significant related party disclosures are as follows:

**31.1 Transactions with the Parent and Related Entities**

Nature of the Company	Relationship	Name of Director	Nature of Transaction	Amounts	
				2010 Rs.	2009 Rs.
Hayleys Plantation Services (Private) Limited	Parent Enterprise	Mr. A M Pandithage Mr. S T Gunatilleke Mr. Merrill J Fernando Mr. Malik J Fernando Mr. M M M De Silva Mr. D S Senaviratne Dr. R M Fernando (Resigned w.e.f. 07.04.2010) Mr. J M S Brito (Resigned w.e.f. 07.04.2010) Mr. J A G. Anandarajah (Appointed w.e.f. 29.04.2010) Mr. G K Senaviratne (Appointed w.e.f. 29.04.2010)	Managing Agent's Fee	23,587,468	14,144,785
Hayleys PLC	Related Company	Mr. A M Pandithage Mr. J A G Anandarajah	Data Processing Services Secretarial Services, Office Rent and Management Salaries	14,929,831	14,767,579
MIT Cargo (Private) Limited	Related Company	Mr. A M Pandithage	Providers of Warehousing Services	978,727	1,024,783
Hayleys Agro Products Limited	Related Company	Mr. A M Pandithage Mr. M M M De Silva	Purchase of Equipments and Chemicals	10,374,104	9,340,518
Hayleys Industrial Solutions (Private) Limited	Related Company	Mr. A M Pandithage Mr. M M M De Silva	Providers of Maintenance Services to Generator	919,630	997,026
Volanka Insurance Services (Private) Limited	Related Company	Mr. A M Pandithage Mr. M M M De Silva	Insurance and Brokering Charges	10,326,519	10,750,370
Global Holidays (Private) Limited	Related Company	Mr. A M Pandithage	Providers of Air Ticketing Services	756,566	662,156
Hayleys Agro Fertilizers (Private) Limited	Related Company	Mr. A M Pandithage	Purchase of Fertilizer	42,793,068	50,295,478

Nature of the Company	Relationship	Name of Director	Nature of Transaction	Amounts	
				2010 Rs.	2009 Rs.
TTEL Hydro Power Company (Private) Limited	Related Company	Mr. A M Pandithage	Providers of Maintenance Services	–	8,706,453
		Mr. S T Gunatilleke	Loans Granted	–	2,792,947
		Mr. Merrill J Fernando	Inter Company Interest Charges	–	4,990,500
		Mr. Malik J Fernando	Labour Charges	1,167,596	1,170,947
		Dr. R M Fernando (Resigned w.e.f. 11.05.2010)	Issuer of Preference Shares	37,230,000	–
		Mr. J M S Brito (Resigned w.e.f. 11.05.2010)			
		Mr. M M M De Silva			
		Mr. J A G Anandarajah (Appointed w.e.f. 11.05.2010)			
		Mr. N Y Fernando (Appointed w.e.f. 11.05.2010)			
		TTEL Somerset Hydro Power (Private) Limited		Mr. A M Pandithage	Loans granted
Mr. S T Gunatilleke	Inter Company Interest Charges			–	3,377,101
Mr. Merrill J Fernando	Labour Charges			1,338,370	761,102
Mr. Malik J Fernando	Issuer of Preference Shares			16,034,400	–
Mr. M M M De Silva					
Dr. R M Fernando (Resigned w.e.f. 11.05.2010)					
Mr. J M S Brito (Resigned w.e.f. 11.05.2010)					
Mr. J A G Anandarajah (Appointed w.e.f. 11.05.2010)					
Mr. N Y Fernando (Appointed w.e.f. 11.05.2010)					
Hayleys Agro Technica Limited	Related Company			Mr. A M Pandithage	Purchase of Chemicals
Logiwiz Limited	Related Company	Mr. A M Pandithage	Providers of Document Storing Service	394,530	–
Hayleys Consumer Products Limited	Related Company	Mr. A M Pandithage	Purchase of Electrical Items	62,196	–
		Mr. M M M De Silva			

### 31.2 Transactions with the Key Management Personnel of the Company or Parent

There were no material transactions with the Key Management Personnel of the Company and its Parent other than those disclosed in Notes 23 and 31.1 to the Financial Statements.

## 32. RELATED PARTY TRANSACTIONS

There are no related party transactions other than those disclosed in Notes 9, 20 and 31 to the Financial Statements.

### 32.1 Pricing Policies

Purchase of goods and services to related parties were made at normal trading terms under arm's length basis. Management fee has been paid at 5% of earnings before interest, tax, depreciation, amortisation and management fees in accordance with a decision of the Board of Hayleys Plantation Services (Private) Limited.

# Ten Year Summary

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Group revenue	3,002,624	2,772,124	2,264,085	1,924,383	1,731,612	1,619,598	1,492,412	1,349,330	1,381,642	1,250,485
Profit before taxation	169,200	(27,887)	111,958	113,017	100,272	112,289	142,894	60,322	42,011	91,421
Taxation	(4,691)	(2,514)	(3,952)	(14,700)	(19,906)	(6,895)	(12,179)	–	–	–
Profit after tax	164,509	(30,401)	108,006	98,317	80,366	105,394	130,715	60,322	42,011	91,421
Minority interest	(17,071)	(8,118)	(1,273)	(1,288)	7	–	–	–	–	–
Profit attributable to equity holders	147,438	(22,283)	109,279	99,605	80,359	105,394	130,715	60,322	42,011	91,421
Stated capital	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000
Revenue reserve	808,342	660,904	712,875	669,094	569,488	560,133	490,364	377,771	335,117	312,987
Shareholders' funds	1,158,342	1,010,904	1,062,875	1,019,094	919,488	910,133	840,364	727,771	685,117	512,987
Minority interest	122,623	54,376	62,494	63,595	22,254	–	–	–	–	–
Convertible debentures	–	–	–	–	–	–	–	–	–	150,000
Borrowings (both short- and long-term)	898,289	1,257,478	1,160,182	911,210	729,975	626,852	656,113	696,119	681,638	613,136
	2,179,254	2,322,758	2,285,551	1,993,899	1,671,717	1,536,985	1,496,477	1,423,890	1,366,755	1,276,123
Non-current assets	2,975,729	2,923,602	2,782,252	2,285,360	2,027,207	1,874,245	1,808,168	1,743,455	1,696,856	1,587,618
Current assets	515,095	717,923	538,701	550,554	332,646	253,272	305,101	301,284	272,341	229,577
Current liabilities net of borrowings	(317,746)	(411,043)	(320,697)	(307,733)	(238,308)	(189,753)	(216,892)	(230,330)	(214,513)	(157,606)
Provisions	(743,350)	(685,786)	(516,788)	(403,161)	(329,804)	(258,881)	(257,808)	(238,774)	(234,512)	(224,222)
Deferred income	(250,474)	(221,936)	(197,917)	(131,121)	(120,024)	(141,898)	(142,092)	(151,745)	(153,417)	(159,244)
Capital employed	2,179,254	2,322,760	2,285,551	1,993,899	1,671,717	1,536,985	1,496,477	1,423,890	1,366,755	1,276,123
Net cash inflow/(outflow) from operating activities	321,845	315,964	298,251	190,692	228,839	211,616	161,640	139,117	123,040	122,856
Net cash inflow/(outflow) from investing activities	(170,378)	(231,723)	(530,418)	(334,118)	(223,975)	(118,626)	(121,337)	(88,825)	(153,145)	(181,063)
Net cash inflow/(outflow) from finance activities	(249,640)	176,655	149,279	198,440	(51,480)	8,377	(3,976)	56,597	12,551	169,885
Increase/(decrease) in cash & cash equivalents	(98,173)	260,896	(82,888)	55,014	(46,616)	101,367	36,327	106,889	(17,554)	111,678
<b>Key Indicators</b>										
EPS (basic) (Rs.)	6.21	(0.94)	4.60	4.19	3.38	4.44	5.50	2.54	1.77	4.57
Net assets per share (Rs.)	48.77	42.56	44.75	42.91	38.72	38.32	35.38	30.64	28.85	25.65
Market price per share (Rs.)	46.40	25.25	13.00	35.75	25.25	17.00	16.25	*	*	*
Price earning ratio (times)	7.47	(26.86)	2.80	8.50	7.50	3.80	3.00	*	*	*
Current ratio (times)	1.24	1.16	0.90	0.90	0.70	0.70	0.70	0.60	0.60	0.60
Return on equity %	13.59	(2.15)	10.50	10.30	8.80	12.00	16.70	8.50	7.00	19.00
Debt to equity %	77.55	124.39	109.20	89.40	79.40	68.90	78.10	95.70	99.50	148.80
Dividends per share (Rs.)	2.50	–	1.25	2.50	2.50	1.50	0.75	0.75	0.75	1.00
Dividend payout ratio (times)	0.40	–	0.27	0.60	0.74	0.34	0.14	0.30	0.42	0.22

\* Was not quoted during this period

# Investor Information

## 1. STOCK EXCHANGE

Interim Financial Statements of the 4th Quarter and the Audited Income Statements for the year ended 31st December 2010 and the Audited Balance Sheets of the Group and of the Company as at that date, have been submitted to the Colombo Stock Exchange as required by the Listing Rules.

## 2. COMPOSITION OF THE ORDINARY SHAREHOLDERS AS AT 31ST DECEMBER 2010

Number of ordinary shareholders as at 31st December 2010 is 13,826 (2009 - 14,024).

No. of Shares held	Residents			Non-Residents			Total		
	No. of Share-holders	No. of Shares held	%	No. of Share-holders	No. of Shares held	%	No. of Share-holders	No. of Shares held	%
1 - 1,000	13,626	2,250,504	9.4758	2	1,400	0.0059	13,628	2,251,904	9.4817
1,001 - 10,000	160	458,612	1.9310	2	4,000	0.0168	162	462,612	1.9478
10,001 - 100,000	28	786,484	3.3115	1	12,400	0.0522	29	798,884	3.3637
100,001 - 1,000,000	5	1,301,900	5.4817	-	-	-	5	1,301,900	5.4817
Over 1,000,000	2	18,934,700	79.7251	-	-	-	2	18,934,700	79.7251
	13,821	23,732,200	99.9251	5	17,800	0.0749	13,826	23,750,000	100.0000

## CATEGORIES OF SHAREHOLDERS

Individuals	13,755	3,238,923	13.6376	5	17,800	0.0749	13,760	3,256,723	13.7125
Institutions	66	20,493,277	86.2875	-	-	-	66	20,493,277	86.2875
	13,821	23,732,200	99.9251	5	17,800	0.0749	13,826	23,750,000	100.0000

Of the issued ordinary share capital 99.92% is held by residents of Sri Lanka.

## 3. PUBLIC HOLDING

Percentage of shares held by the public is 20.27% (2009 - 20.27%).

## 4. MARKET VALUE

The market value of Talawakelle Tea Estates PLC ordinary shares was:

	2010 Rs.	2009 Rs.	2008 Rs.
Highest	55.00 (17th September 2010)	29.25 (21st July 2009)	44.00 (21st April 2008)
Lowest	24.75 (07th January 2010)	13.50 (31st March 2009)	12.00 (18th December 2008)
Year-end	46.40	25.25	13.00

## 5. DIVIDEND PAYMENTS

First and final dividend 2010 - Rs. 2.50 (2009 - Nil) per share has been recommended by the Board to be paid on 8th April 2011.

**6. SHARE TRADING**

	2010	2009	2008
No. of transactions	3,187	3,019	4,779
No. of shares traded	3,959,500	2,901,800	5,734,100
Value of shares traded (Rs.)	147,458,505	62,660,600	203,380,800

**7. TWENTY MAJOR SHAREHOLDERS**

Name of Shareholder	No. of Shares as at 31.12.2010		No. of Shares as at 31.12.2009	
		%		%
Hayleys Plantation Services (Private) Limited	17,750,000	74.74	17,750,000	74.74
Merrill J Fernando & Sons (Pvt) Limited	1,184,700	4.99	1,184,700	4.99
Anverally and Sons (Pvt) Limited A/C No. 01	734,700	3.09	–	–
Waldock Mackenzie Limited/Ceylinco Shriram Capital Management Services Co. (Pvt) Limited	235,000	0.99	235,000	0.99
Mrs. P N Bhatt	126,000	0.53	126,000	0.53
Sri Lanka Insurance Corporation Limited - Life Fund	105,600	0.44	105,600	0.44
Cocoshell Activated Carbon Company Limited	100,600	0.42	100,500	0.42
Mr. M M Udeshi	64,000	0.27	–	–
Employees Provident Fund	59,100	0.25	59,100	0.25
Bank of Ceylon A/C Eagle Growth Fund	55,000	0.23	–	–
Mr. P A D Samarasekera	53,400	0.22	–	–
Mr. K C Vignarajah	46,500	0.20	27,100	0.11
First Capital Markets Limited/Mrs S S De Fonseka	42,800	0.18	–	–
Mr. M Radhakrishnan	40,000	0.17	40,000	0.17
Mr. M Asokan	39,040	0.16	38,700	0.16
Pan Asia Banking Corporation PLC/Mr. S Gobinath	37,400	0.16	–	–
Mr. R Rasaretnam	37,000	0.16	37,000	0.16
Mrs. M J Nihara	27,000	0.11	17,000	0.07
Mr. H A Abdulhussain	25,000	0.11	25,000	0.11
Mr. S Paramalingam & Mrs. H Zaheen	24,000	0.10	24,000	0.10
Total	20,786,840	87.52	19,769,700	83.24

# Subsidiaries

## **TTEL Hydro Power Company (Private) Limited**

### **Principal Activity - Generation of Hydro Power**

Sites	Location	Capacity
Radella Hydro Power Project	Nanu Oya	0.2 MW
Palmerston Hydro Power Project	Talawakelle	0.8 MW

#### **Directors**

Mr. A M Pandithage (*Chairman*)

Mr. M M M De Silva

Mr. S T Gunatilleke

Mr. Merrill J Fernando

Mr. Malik J Fernando

Mr. J A G Anandarajah (*appointed - 11.05.2010*)

Mr. N Y Fernando (*appointed - 11.05.2010*)

Dr. R M Fernando (*resigned - 11.05.2010*)

Mr. J M S Brito (*resigned - 11.05.2010*)

## **TTEL Somerset Hydro Power (Private) Limited**

### **Principal Activity - Generation of Hydro Power**

Sites	Location	Capacity
Somerset Hydro Power Project	Nanu Oya	1.2 MW

#### **Directors**

Mr. A M Pandithage (*Chairman*)

Mr. M M M De Silva

Mr. S T Gunatilleke

Mr. Merrill J Fernando

Mr. Malik J Fernando

Mr. J A G Anandarajah (*appointed - 11.05.2010*)

Mr. N Y Fernando (*appointed - 11.05.2010*)

Dr. R M Fernando (*resigned - 11.05.2010*)

Mr. J M S Brito (*resigned - 11.05.2010*)



# Glossary

## Financial Terms

### **Accounting Policies**

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

### **Borrowings**

Bank loans, overdrafts, long term loans, debentures, finance lease obligations and interest bearing borrowings.

### **Capital Employed**

Total assets less interest free liabilities and provisions.

### **Cash Equivalents**

Liquid investments with original maturities of three months or less.

### **Contingent Liabilities**

Conditions or situations at the Balance Sheet date, the financial effect of which are to be determined by future events which may or may not occur.

### **Current Ratio**

Current assets divided by current liabilities.

### **Debt Equity**

Borrowings divided by equity at year end.

### **Dividends**

Distribution of profits to holders of equity investments in proportion to their holdings.

### **Dividend Pay Out**

Dividend divided by earnings.

### **EBITDA**

Earnings Before Interest Tax Depreciation and Amortisation.

### **Earnings per Share**

Profits attributable to ordinary shareholders divided by the number of ordinary shares in issue.

### **Equity**

Shareholders' funds, i.e., Share capital and reserves.

### **Interest Cover**

Profit from operating activities divided by total finance cost paid.

### **Market Capitalisation**

Number of shares in issue multiplied by the market value of each share at the year end.

### **Net Assets per Share**

Shareholders' funds divided by the number of ordinary shares.

### **Price Earnings Ratio**

Market price of a share divided by earnings per share.

### **Related Parties**

Parties who could control or significantly influence the financial and operating policies of the business.

### **Return on Equity**

Attributable profits divided by average shareholders' funds.

### **Revenue Reserves**

Reserves considered as being available for distributions and investments.

### **SLAS**

Sri Lanka Accounting Standards.

### **Segment**

Constituent business units grouped in terms of nature and similarity of operations.

### **Working Capital**

Capital required to finance the day-to-day operations (current assets minus current liabilities).

### **UITF**

Urgent Issues Task Force of The Institute of Chartered Accountants of Sri Lanka.

## Non-Financial Terms

### **COP**

Cost of Production. This generally refers to the cost of producing a kilo of produce (Tea/Rubber/Coconut).

### **Crop**

The total produce harvested over a given period of time (usually during a financial year).

### **Extent in Bearing**

The extent of land from which crop is being harvested. Also see 'Immature Plantation'.

### **Field**

A unit extent of land. Estates are divided into fields in order to facilitate management.

### **GSA**

The Gross Sales Average. This is the average sale price obtained (over a period of time, for a kilo of produce) before any deductions such as Brokerage, etc.

### **ISO**

International Organisation for Standardisation. A worldwide Federation of National Standard Bodies.

### **HACCP**

Hazard Analysis Critical Control Point System. A scientific system which identifies, evaluates and control hazards which are significant for food safety.

### **Immature Plantation**

The extent of plantation that is under development and is not being harvested.

### **Infilling**

A method of field development whereby planting of individual plants is done in order to increase the yield of a given field, whilst allowing the field to be harvested.

### **Mature Plantation**

The extent of plantation from which crop is being harvested. Also see 'Extent in Bearing'.

### **NSA**

The Net Sales Average. This is the average sale price obtained (over a period of time) after deducting Brokerage fees and Cost of Gratis teas (also see 'GSA').

### **Replanting**

A method of field development where an entire unit of land is taken out of 'bearing' and developed by way of uprooting the existing tree bushes and replanting with new trees/bushes.

### **Seedling Tea**

Tea grown from a seed (also see 'VP Tea').

### **TASL**

Tea Association of Sri Lanka.

### **VP Tea**

Vegetatively Propagated Tea. i.e., Tea grown from a cutting of a branch of tea plant (also see 'Seedling Tea').

### **Yield**

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

### **5S**

A Japanese management technique on the organisation of the workplace. 5S stands for Seiri (sorting), Seiton (organising), Seiso (cleaning), Seiketsu (standardisation), Shitsuke (sustenance).

### **ETP-Ethical Tea Partnership**

An initiative in ethical sourcing approved by UK based tea packing companies to work in partnership with producers to demonstrate that ethical conditions exist within the tea industry.

### **ISO 22000**

International Standard for Food Safety Management Systems (FSMS), released by ISO in September 2005.

### **CQC - QMS - Ceylon Tea Quality Certification - Quality Management System**

A legal declaration by the Tea Commissioner to a registered Tea Manufacturer in modern Quality Management Systems that the building, equipment and manner of operations of the tea factory are of excellent standard to manufacture made tea of good quality.

# Notice of Meeting

Talawakelle Tea Estates PLC  
Company No. PQ 36

NOTICE IS HEREBY GIVEN that the Nineteenth Annual General Meeting of Talawakelle Tea Estates PLC, will be held at No. 400, Deans Road, Colombo 10, on 30th March 2011 at 10.30 a.m. and the business to be brought before the meeting will be:

- (1) To consider and adopt the Annual Report of the Board and the Statements of Accounts for the year ended 31st December 2010, with the Report of the Auditors thereon.
- (2) To declare a dividend as recommended by Directors.
- (3) To re-elect Mr. J A G Anandarajah, who has been appointed by the Board, since the last Annual General Meeting, a Director.
- (4) To re-elect Mr. G K Seneviratne, who has been appointed by the Board, since the last Annual General Meeting, a Director.
- (5) To re-elect Prof. U Liyanage, who retires by rotation at the Annual General Meeting, a Director.
- (6) To re-elect Dr. S S S B D G Jayawardena, who retires by rotation at the Annual General Meeting, a Director.
- (7) To reappoint Mr. Merrill J Fernando, who retires having attained the age of eighty years and the Company has received Special Notice of the undernoted Ordinary Resolution in compliance with Section 211 of the Companies Act No. 7 of 2007 in relation to his reappointment.

## **Ordinary Resolution**

That, Mr. Merrill Joseph Fernando a retiring Director, who has attained the age of eighty years be and is hereby re-appointed a Director of the Company and it is hereby declared that the age limit of seventy years referred to in Section 210 of the Companies Act No. 7 of 2007 shall not apply to the appointment of the said Director.

- (8) To authorise the Directors to determine contributions to charities.
- (9) To authorise the Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, who are deemed to have been re-appointed as Auditors in terms of Section 158 of the Companies Act No. 7 of 2007.
- (10) To consider any other business of which due Notice has been given.

## **Note**

- (i) *A Shareholder is entitled to appoint a proxy to attend and vote instead of himself and a proxy need not be a shareholder of the Company. A Form of Proxy is enclosed for this purpose. The instrument appointing a proxy must be deposited at the Registered Office, No. 400, Deans Road, Colombo 10 by 10.30 a.m. on 28th March 2011.*
- (ii) *It is proposed to post the dividend warrants on 8th April 2011, and in accordance with the Rules of the Colombo Stock Exchange, the shares of the Company will be quoted ex-dividend with effect from 31st March 2011.*

By Order of the Board,  
**TALAWAKELLE TEA ESTATES PLC**  
Hayleys Group Services (Private) Limited  
Secretaries

Colombo  
11th February 2011

# Form of Proxy

I/We\* .....  
of .....  
being a shareholder/shareholders\* of TALAWAKELLE TEA ESTATES PLC hereby appoint,

1. ....  
of .....  
or failing him/them,\*

2. ABEYAKUMAR MOHAN PANDITHAGE (Chairman of the Company) of Colombo, or failing him, one of the Directors of the Company as my/our\* proxy to attend and vote as indicated hereunder for me/us\* and on my/our\* behalf at the Nineteenth Annual General Meeting of the Company to be held on Wednesday, 30th March 2011, and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof:

- |   | For                      | Against                  |
|---|--------------------------|--------------------------|
| (i) To consider and adopt the Annual Report of the Board and the Statements of Accounts for the year ended 31st December 2010, with the Report of the Auditors thereon. | <input type="checkbox"/> | <input type="checkbox"/> |
| (ii) To declare a dividend as recommended by Directors.   | <input type="checkbox"/> | <input type="checkbox"/> |
| (iii) To re-elect Mr. J A G Anandarajah, who has been appointed by the Board since the last Annual General Meeting, a Director.   | <input type="checkbox"/> | <input type="checkbox"/> |
| (iv) To re-elect Mr. G K Seneviratne, who has been appointed by the Board since the last Annual General Meeting, a Director   | <input type="checkbox"/> | <input type="checkbox"/> |
| (v) To re-elect Prof. U Liyanage, who retires by rotation at the Annual General Meeting, a Director.  | <input type="checkbox"/> | <input type="checkbox"/> |
| (vi) To re-elect Dr. S S S B D G Jayawardena, who retires by rotation at the Annual General Meeting, a Director.  | <input type="checkbox"/> | <input type="checkbox"/> |
| (vii) To re-appoint Mr. Merrill J Fernando, who retires having attained the age of eighty years, a Director by passing the Ordinary Resolution set out in the Notice.   | <input type="checkbox"/> | <input type="checkbox"/> |
| (viii) To authorise the Directors to determine contributions to charities.  | <input type="checkbox"/> | <input type="checkbox"/> |
| (ix) To authorise the Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, who are deemed to have been re-appointed as Auditors.              | <input type="checkbox"/> | <input type="checkbox"/> |

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

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

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

.....  
Signature of Shareholder

**Note**

\* Please delete the inappropriate words.

1. A proxy need not be a member of the Company.
2. Instructions as to completion appear on the reverse.

Form of Proxy →

**Instructions as to Completion**

1. To be valid, this Form of Proxy must be deposited at the Registered Office of the Company, No. 400, Deans Road, Colombo 10, by 10.30 a.m. on Monday, 28th March 2011.
2. In perfecting the Form of Proxy, please ensure that all details are legible.
3. If you wish to appoint a person other than the Chairman of the Company (or failing him, one of the Directors) as your proxy, please insert the relevant details at 1 overleaf and initial against this entry.
4. Please indicate with an X in the space provided how your proxy is to vote on each resolution. If no indication is given, the proxy in his discretion will vote as he thinks fit. Please also delete (\*\*) if you do not wish your proxy to vote as he thinks fit on any other resolution brought before the Meeting.
5. In the case of a Company/Corporation, the proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
6. Where the Form of Proxy is signed under a Power of Attorney (POA) which has not been registered with the Company, the original POA together with a photocopy of same or a copy certified by a Notary Public must be lodged with the Company along with the Form of Proxy.

# Corporate Information

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## Name of Company

Talawakelle Tea Estates PLC

## Legal Form

A Public Limited Company  
Incorporated in Sri Lanka on 22nd June 1992

## Company Number

PQ 36

## Accounting Year End

31st December

## Principal Line of Business

Cultivation and Manufacture of Black Tea

## Stock Exchange Listing

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

## Registered Office

No. 400, Deans Road, Colombo 10, Sri Lanka

## Head Office

No. 400, Deans Road, Colombo 10, Sri Lanka  
Telephone: (94-11) 2627680-2, 2697203  
Fax: (94-11) 2627210, 2624592  
e-mail: [tpl.tea@ttel.hayleys.com](mailto:tpl.tea@ttel.hayleys.com)  
Website: [www.talawakelleteas.com](http://www.talawakelleteas.com)

## Directors

Mr. A M Pandithage - *Chairman*  
Mr. Merrill J Fernando (*alternate - Ms. Minette Perera*)  
Mr. Malik J Fernando (*alternate - Mr. D C Fernando*)  
Dr. R M Fernando (*resigned - 07.04.2010*)  
Mr. J M S Brito (*resigned - 07.04.2010*)  
Mr. S T Gunatilleke - *Chief Executive Officer*  
Mr. M M M De Silva  
Prof. U Liyanage  
Dr. S S S B D G Jayawardena  
Mr. L N De S Wijeyeratne  
Mr. J A G Anandarajah (*appointed - 29.04.2010*)  
Mr. G K Seneviratne (*appointed - 29.04.2010*)

## Managing Agent

Hayleys Plantation Services (Private) Limited  
No. 400, Deans Road, Colombo 10, Sri Lanka

## Senior Management Team

Mr. S T Gunatilleke - *Chief Executive Officer*  
Mr. D S Seneviratne - *Deputy Chief Executive Officer*  
Mr. L H Munasinghe - *General Manager - Plantations*  
Mr. T Dharmaratne - *General Manager - Human Resource and Quality Management Development*  
Mr. S Edirisinghe - *Group Manager*  
Mr. S B Alawattegama - *Group Manager*  
Mr. N P Abeyasinghe - *Group Manager*  
Mr. L N Ratnayake - *Group Manager*  
Mrs. A R Wijesekera - *Manager - Finance*  
Mr. H H Jayasundera - *Manager - Resource Development*  
Mr. R Joseph - *Manager - Marketing*  
Mr. T Rodrigo - *Manager - Audit and Co-ordination*

## Secretaries

Hayleys Group Services (Private) Limited  
No. 400, Deans Road, Colombo 10, Sri Lanka

## Bankers

Commercial Bank of Ceylon PLC  
Sampath Bank PLC  
National Development Bank PLC  
Hatton National Bank PLC  
Bank of Ceylon  
Hongkong and Shanghai Banking Corporation Limited  
Deutsche Bank AG  
Indian Bank  
Union Bank of Colombo Limited  
DFCC Vardhana Bank Limited

## Auditors

Messrs Ernst & Young  
Chartered Accountants  
No. 201, De Saram Place, Colombo 10  
Sri Lanka

## Legal Advisors

Messrs F J & G De Saram  
Attorneys-at-Law  
No. 216, De Saram Place, Colombo 10  
Sri Lanka

## Tax Advisors

KPMG Ford, Rhodes, Thornton & Co.  
Chartered Accountants  
No. 32A, Sir Mohamed Macan Markar Mawatha  
PO Box 186, Colombo, Sri Lanka

## **Vision**

To be the most admired plantation company in Sri Lanka

## **Mission**

Produce and market Quality Teas that delight our customers and enhance shareholder value

## **Focus**

Delight our customers, develop our human resources and enhance shareholder value.

## **Strategy**

With the tea industry being cyclical, we seek to add value to our teas, reduce costs and diversify our earnings.

## **Teamwork**

Team Spirit has been and will continue to be the driving force towards achieving performance excellence in every sphere of activity.

## **Business Philosophy**

### ***We Believe in -***

- Manufacturing Quality Tea that fetch Premium Prices
- Increasing Shareholder Value
- The Spirit of Entrepreneurship
- Making Profit without Loss of Honour
- Motivating and Training our People to reach their full Potential
- Rewarding Performance
- Being a "Learning Organisation" and Continuously Improving
- Building mutually beneficial long-term relationships with our Customers and Suppliers
- Positively contributing to the Conservation of the Environment



### **Talawakelle Tea Estates PLC**

No. 400, Deans Road, Colombo 10, Sri Lanka  
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