

Annual Report 2010



Kurunegala
Plantations Limited

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VISION

To be the model plantation and agribusiness management company in the South East Asian region.

MISSION

To manage the plantation and other agribusinesses productively, profitably and sustainably through effectively harnessing the natural, physical and human resources in an environment-friendly and socially responsible manner to the benefit of all stakeholders and the country at large



CORPORATE INFORMATION

Name of the Company	Kurunegala Plantations Limited
Legal Form	Fully Government Owned Public Company with Limited Liability
Registered Office	No.80, Dambulla Road, Kurunegala
Date of Incorporation	22 nd June 1992
Company Registration No.	PB 1319
Board of Directors	Mr. Panduka Jayasinghe – Chairman/ Managing Director Mr. M.A.S. Nimal Kurera – Executive Director Mr. R.W.M. Jude Rukantha Perera – Working Director Mr. K.D. Peiris Mr. B.R. Kularatne Mr. I.M. Appuhamy Mrs.W.G.Chandrika
Auditors	P.E. Mathew & Co., Chartered Accountants, 94 ¼, York Street, Colombo - 01 Tel: 2434474 E-mail: pemco@sltnet.lk
Bankers	Bank of Ceylon,
Secretaries	Corporate Advisory Services (Pvt) Ltd 47, Alexandra Place, Colombo - 7 Tel: 0112-695410 E-mail: deseram@deseram.com

MANAGEMENT TEAM FOR THE YEAR 2010

The Board of Directors

Mr. P. Jayasinghe – Chairman/ Managing Director
Mr. M.A.S.N. Kurera – Executive Director
Mr. R.W.M.J.R. Perera – Working Director
Mr. K.D. Peiris
Mr. B.R. Kularatne
Mr. I.M. Appuhamy
Mrs.W.G.Chandrika

Chief Executive Officer

Mr. N.M.S.K. Nillegoda

Additional General Manager

Mr. M. Saleem

Deputy General Manager (Technical)

Mr. S.M.M. Samarakoon

Manager – Finance

Mr. P.M.D.G. Premathilaka

Manager – Audit

Mr. M.M.J. Cooray

Manager - Human Resource

Mr. I.A. Gunawardana

Assistant Manager - Estate

Mr. S.M.R.P. Sathkumara

Area Superintendents

Mr. T. Muthukumarana

Mr. E.W.K.A. Dharmasena

Mr. K.J.S. Perera

Mr. G.B. Dissanayaka

Mr. U.U.K.N.S.A Udunuwara

Mr. G.K.A. Jayawardhana

Mr. M.L.A.P. Perera

Assistant Superintendents

Mr. J.A.R. Dunuwila

Mr. M.G.L.U. Mangalagama

Mr. R.K.H.Pushpakumara

Mr. O.B. Hussain

Mr. A.R.Udamulla

Mr. H.K.G.A Rupasinghe

Mr. J.H.B. Ranaweera

Mr. K.G.K.D.Sumanadasa

Mr. J.M.N. Subasinghe

Mr. J.M.A.A. Muanasinghe

MESSAGE OF THE CHAIRMAN/ MANAGING DIRECTOR

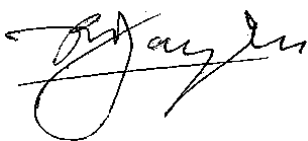
On behalf of the Board of Directors, it is my pleasant duty to present the Annual Report and accounts of the Company for the financial year ended 31st December 2010. I am proud to present an overall record performance for year 2010. I am happy to state that we have been able to increase the profit achieved annually since 2005, the immediate year after government takeover of the management of the Company from the private management. It is further noted that the negative cash flow situation that prevailed over the years had immediately changed to a favorable situation during the very first year (2005) under the state management. Financial position of the Company after changeover the management had been improved in a very significant manner. At the end of year 2010, the sixth year under State management, the Company had been enjoying a strong financial position with an availability of Rs 250 mn as short term investments.

The Company has spent substantial amounts of money on capital development. Land development, namely, replanting, under-planting and intercropping which had been totally neglected during the previous management, resulting in a large percentage of senile coconut and rubber plantations of poor density which is responsible for low productivity. Therefore, as a matter of policy, the Company is now in the process of investing at least 20% of the income for the development activities inclusive of replanting, intercropping, value addition etc., and these investments should substantially increase the potential for future profit generation of the Company.

Kurunegala Plantations Ltd., has a well structured Corporate Plan that has scripted its path to progress over the next 05 years. Whilst, consolidating our strength and investing in the talents of our multi disciplinary team, we are well geared to meet the future since the road ahead will be very challenging.

I should thank my Chief Executive Officer, the senior Management Team and all employees of Kurunegala Plantations Ltd., for their efficient and dedicated contribution towards the upliftment of the Company.

I also take this opportunity to thank, the Hon. Minister of Coconut Development & Janatha Estate Development, Secretary to the Ministry, all other officials and my colleagues on the Board for their ever willing support and guidance.



Panduka Jayasinghe
Chairman/ Managing Director

FINANCIAL REVIEW

The Financial Statements presented herewith provide the results of the Kurunegala Plantations Limited for the year 2010.

REVENUE

The Company has achieved revenue of Rs.431 million in the year 2010. This represents an overall revenue growth of 28% over last year. Growth was essentially driven by increased rubber and coconut prices.

The average NSA for the year under review had been Rs. 22,904 per 1000 nuts, while it was Rs. 16,896 for the year 2009. The impact of NSA over the revenue increase against the last year had been Rs. 87 million. The Coconut production of 15,474,602 nuts in year 2010 shows a decrease of 11% when compared to the last year production of 17,309,128 nuts. The impact of decrease in production over the revenue had been Rs. 32 million.

Revenue from rubber for the years 2010 had been Rs. 69.9 million which shows Rs. 33 million increase against last year. This decrease too had been due to the increase in NSA. The last year's average NSA of Rs. 183/- per Kg increased to Rs. 348/- for the year 2010. The impact of NSA increase over the revenue had been Rs.33 million. The rubber production had recorded a slight decrease of 1% when compared to last year. The impact of decrease in production over the revenue was insignificant (Rs. 347,213).

OTHER OPERATING INCOME & OTHER INCOME

The Company earned Rs. 41 million from other operating activities and the Rs. 18 million from interest on short term investment. Sales of unproductive coconut palms and timber trees had become the main sources of other operating income. Details of other income sources are shown in the Note no.03 to the financial statements.

FINANCE EXPENDITURE

Rs. 26.5 million had been charged as interest on lease of lands. The Company has taken action to adjust and pay the lease rentals for the value of lands alienated. However, full provision had been made in the books of accounts according to the prudent concept.

PROFIT BEFORE TAX (PBT)

The PBT in year 2010 had been boosted by over 50% recording a Rs.154.5 million profit compared with Rs.102.8 million in last year.

ASSETS AND CAPITAL DEVELOPMENT

Rs. 92.3 million has been incurred on the acquisition of property, plant and equipments. There was no major disposal of fixed assets recorded during the year. Rs. 62.3 million had been spent on all immature extents during the year, of which Rs. 52.6 million had been spent on coconut under plantations. Depreciation for the year was amounting to Rs.24.9 million.

FINANCIAL POSITION AND THE LIQUIDITY

Cash and cash equivalents

Cash and cash equivalents at the end of year under review had been Rs.275 million compared with Rs. 162 million in last year which records an increase of 70% over 2009. Cash and cash equivalent comprised of Fixed Deposit at Bank of Ceylon (Rs. 96.5 million), Treasury Bills (Rs.153.5 million), Investment in Repurchase Agreements (REPO) (Rs.15 million) and Cash & Bank Balances (9.9 million).

The Company has earned an interest income of Rs.18 million from short term investments against Rs.11 million in last year. The Company could have achieved more interest income if the market interest rate had not dropped unexpectedly.

The Company had been able to commit its obligations without utilizing overdraft facility and had maintained positive bank balances throughout the year. However, the Company had obtained temporary loans during the year from Bank of Ceylon against the Company's fixed deposits for short periods incurring an interest cost of Rs.266,721/- which was more beneficial on evaluation.

Inventory

The value of stock came down to Rs. 23 million from the last year's value of Rs. 26 million. This was mainly due to the reduction of produce stocks as at the end of the year. This was mainly due to rapid movement of coconut parcels sold reason being the increase of prices. Composition of stocks is shown under note no 12 to the financial statements.

Debtors

Composition of Debtors is shown under note no 13 to the financial statements.

Creditors

Composition of Creditors is shown under note no 23 to the financial statements.

Rs. 54 million is shown as Lease Rental Payable under creditors. This balance had arisen on the below mentioned ground. The full provision had been made in the books of accounts according to the prudent concept, but the Company has taken action to pay adjusted lease rentals for the value of lands alienated.

Rs.13.4 million and 7 million had been provided for the payment of incentives & the bonus to the employees of the Company for years 2010 respectively.

Liquidity Ratios

Current Ratio - Current Assets / Current Liabilities = 2.43 (year 2009 - 2.05)

Quick Asset Ratio - (Current Assets - Stocks) / Current Liabilities = 2.28 (year 2009 - 1.82)

EARNING PER SHARE (EPS)

There had been a significant increase of EPS from 4.76 in year 2009 to 7.07 which represents a 49% growth over the last year.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

The Directors have the pleasure in presenting the Annual Report of the Company together with the audited financial statements of Kurunegala Plantations Limited for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

Kurunegala Plantations Limited manages a portfolio of diverse agricultural products through cultivation, production, processing and sale of coconut, rubber and ancillary crops & produce.

GOING CONCERN

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

FINANCIAL STATEMENTS & AUDITOR'S REPORT

The complete Financial Statements duly signed by the Directors and the Auditor's report thereon for the year ended 31 December 2010 are attached hereto.

REVENUE

The revenue generated by the Company amounted to Rs. 431 mn (2009 - Rs. 337 mn), whilst other operating and other income amounted to Rs. 59 mn (2009 - Rs. 67 mn). The contribution to the Company revenue & other income from different sources is provided in note 01 & 03 to the financial statements.

RESULTS AND APPROPRIATIONS

The profit-after tax of the Company was Rs. 141.5 mn whilst in year 2009 was Rs. 95.1 mn. Financial Results of the Company are given in the income statement.

Detailed description of the results and appropriations are as follows.

	2010	2009
Profit earned before interest on lease – Janatha Estate Development Board (JEDB) and income tax but after providing for all known liabilities, bad and doubtful debts and depreciation on property, plant and equipment	180,999,451	126,387,434
Interest on Lease Janatha Estate Development Board (JEDB)	(26,470,404)	(23,591,616)
Profit before Income tax expenses	154,529,047	102,795,818
Current year income tax expense	(4,690,116)	(2,822,619)
Deferred Income Tax	(8,368,545)	(4,870,794)
Profit after Income tax expenses	141,470,386	95,102,405
Balance brought forward from the previous year	381,161,381	286,058,976
Final dividend declared & paid	-	-
Amount available for appropriation	522,631,767	381,161,381

ACCOUNTING POLICIES

Details of accounting policies have been given in the Financial Statements.

PROPERTY, PLANT AND EQUIPMENT

The book value of property, plant and equipment as at the balance sheet date amounted to Rs. 691 mn whereas in 2009 was Rs. 624 mn. The Company has spent Rs. 92 mn. for improvements and purchases of property, plant and equipments during the year 2010. Details of property, plant and equipment and their movements are given in Notes to the Financial Statements.

SHORT TERM INVESTMENTS

The Company has increased its short term investments to Rs. 250 mn from Rs. 140 mn in 2009. This investment comprises Rs 96.5 mn fixed deposits at Bank of Ceylon & 153.5 mn in treasury bills.

STATED CAPITAL

The Authorized Capital and Par Value concept in relation to share capital were abolished by the Companies Act No 07 of 2007. The total amounts received by the Company in respect of the issue of shares are now referred to as stated capital. The total stated capital of the Company as at 31 December 2010 was Rs. 200,000,010. This comprises 20,000,000 ordinary shares & 01 golden share. No allotments of shares were made during the year.

RESERVES

The Company reserves are totally represented by retained profit, which as at 31 December 2010 was Rs.523 mn whilst in 2009 was Rs. 381 mn. The movement and composition of the reserves are disclosed in the statement of changes in equity.

DIRECTORS

The following directors had served to the Board of Kurunegala Plantations Limited during the year 2010.

Mr. Panduka Jayasinghe	- Chairman/ Managing Director
Mr. M.A.S. Nimal Kurera	- Executive Director
Mr. R.W.M. Jude Rukantha Perera	- Working Director
Mr. K.D. Peiris	
Mr. B.R. Kularatne	
Mr. I.M. Appuhamy	
Mrs.W.G.Chandrika	

AUDIT COMMITTEES

The following Board members had served on the Audit Committee during the year 2010.

Mrs. W.G. Chandrika	- Chairman
Mr. B.R. Kularatne	
Mr. I.M. Appuhamy	

DIRECTORS' INTEREST IN CONTRACTS

The Directors have no direct or indirect interest in contracts.

DIRECTORS' SHARE HOLDING

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

EMPLOYMENT

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

STATUTORY PAYMENTS

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

EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have been no events subsequent to the balance sheet date, which would have any material effect on the Company or on the group other than those disclosed in this report.

AUDITORS

The Accounts for the year 2010 have been audited by the Messrs. P.E. Mathew & Company (Chartered Accountants)

ANNUAL REPORT

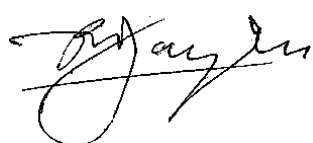
The Board of directors approved the financial statements on 31st May 2011.

ANNUAL GENERAL MEETING

The annual general meeting will be held at No.320, T.B. Jaya Mawatha, Colombo 10, on Friday, 26 August 2011 at 2.00 p.m.

The notice of the annual general meeting is attached hereto.

This annual report is signed for and on behalf of the Board of directors.



Chairman/ Managing Director



Executive Director

STATEMENT OF CORPORATE GOVERNANCE

The Board of the Kurunegala Plantations Limited operates on the principles of integrity, corporate fairness, transparency and accountability, and these governing principals would be the foundation on which it will endeavor to build strong relationship with all stakeholders and nurture the environment within which the Company operates. The Company's activities are conducted with the ethical standards and in the best interest of stakeholders. This commitment is supported with the right roles, structures, information and resources which are embodied with policies, procedures and process that are designed not only to ensure regulatory compliance and sustainability of business but also to enhance business value.

BOARD OF DIRECTORS

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

RESPONSIBILITY

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

COMPOSITION

The Board comprised seven non Executive Directors including the Chairman/ Managing Director.

BOARD MEETINGS

The Board Meetings are scheduled on a monthly basis. At these Meetings the Board sets the strategic direction of the Company, reviews the annual budgets, the progress of all activities the recurrent and the capital expenditure programs.

The Board members are given appropriate documentation in advance of each Meeting.

AUDIT COMMITTEE

The Audit Committee is comprised of three Non Executive Directors. The Chairman of the Audit Committee is the Board representative of The Treasury. The Audit Committee Meetings are scheduled on a monthly basis. The Chief Executive Officer, Manager Audit and the Manager Finance attend Audit Committee Meetings on invitation.

COMPLIANCE WITH LEGAL REQUIREMENT

The Board of Directors makes every endeavor to ensure that the Company complies with the Memorandum and Articles of Association of the Company and other rules and regulations as applicable to state-owned business undertakings of the Country.

The Board ensures that the financial statements of the Company are prepared in accordance with the Sri Lanka Accountings Standards.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION OF FINANCIAL STATEMENTS

The responsibilities of the Directors in relation to the Financial Statements are set out in the following statement. The responsibilities of the Auditors, in relation to the financial statements prepared in accordance with the provision of the Companies Act No.7 of 2007, are set out in the report of the Auditors.

The financial statements comprise:

- An Income Statement, which presents a true and fair view of the profit and loss of the Company for the financial year; and
- A balance Sheet, which presents a true and fair view of the state of affairs of the Company as at the end of the financial year, and which complies with the requirement of the Act.

The Directors are required to ensure that, in preparing these financial statements:

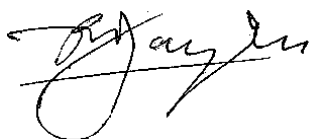
- The appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
- All applicable accounting standards, as relevant, have been followed;
- Judgments and estimates have been made which are reasonable and prudent.
- The Directors are also to ensure that Company has adequate resources to continue in operation and to justify applying the 'going concern bases in preparing these financial statements.

Further the Directors have the responsibility to ensure that the Company maintains sufficient accounting records to be disclosed, with reasonable accuracy, the financial position of the Company and to ensure that the financial statements presented comply with the requirements of the Act. The Directors are also responsible for taking steps to safe guard the assets of the Company and in this regard to give proper consideration to the establishment of appropriate internal control systems with the view to preventing and detecting fraud and other irregularities.

The Directors are prepared to review financial statements and to provide the Auditors with every opportunity to take whatever steps necessary and undertake whatever inspections that they deem appropriate to enable them to give their Audit opinion.

The Directors are of the view that they have discharged their responsibilities as set out in this statement. They also confirm that to the best of their knowledge all statutory payments payable by the Company as at the balance sheet date have been paid, or where relevant, provided for.

On behalf of the Board



Chairman/ Managing Director



Executive Director

P.E. Mathew & Co.,

Chartered Accountants,
94 ¼, York Street, Colombo - 01

INDEPENDENT AUDITOR'S REPORT**TO THE SHAREHOLDERS OF KURUNEGALA PLANTATIONS LIMITED****Report on the Financial Statements**

We have audited the accompanying financial statements of Kurunegala Plantations Limited which comprise the balance sheet as at December 31, 2010, and the income statement, statement of changes in equity and cash flow statement 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 misstatement, 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 misstatement.

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 purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

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.

The Company has reduced the net lease liability to Janatha Estate Development Board (JEDB) by Rs. 37,297,387.96 being the carrying value of lands released as described in Note 19 to accounts. Lease agreements, however, have not been revised to reflect this change and no direct confirmation from the JEDB agreeing to the revised liability was available.

Report on Other Legal and Regulatory Requirements

In our opinion, these financial statements also comply with the requirements of the Companies Act No. 07 of 2007.

**CHARTERED ACCOUNTANTS**

Colombo, April 11, 2011

INCOME STATEMENT

<i>For the year ended December 31,</i>		<u>2010</u>	<u>2009</u>
	<u>Note</u>	<u>Rs.</u>	<u>Rs.</u>
Revenue	01	430,764,870.13	337,470,719.32
Cost of sales	02	(235,274,964.96)	(205,304,836.94)
Gross profit		195,489,905.17	132,165,882.38
Other operating income	03	41,112,866.61	55,808,065.76
Administration and general expenses		(73,440,475.48)	(72,962,544.48)
Profit from operating activities	04	163,162,296.30	115,011,403.66
Finance cost	05	(26,737,124.75)	(23,602,575.00)
Profit before other income		136,425,171.55	91,408,828.66
Other income - Interest		18,103,874.83	11,386,989.02
Profit before income tax expense		154,529,046.38	102,795,817.68
Income tax expense	06	(13,058,660.78)	(7,693,412.95)
Profit for the year		141,470,385.60	95,102,404.73
Earnings per share	07	7.07	4.76

The accounting policies and notes as set out on page 26 to 39 are an integral part of the financial statements.

BALANCE SHEET

<i>As at December 31,</i>		<u>2010</u>	<u>2009</u>
	<u>Note</u>	<u>Rs.</u>	<u>Rs.</u>
<u>ASSETS</u>			
<u>NON CURRENT ASSETS</u>			
Leasehold right under Janatha Estate Development Board (JEDB) –			
Lands	08	109,056,061.93	112,226,015.74
Immovable assets (Other than lands)	09	65,152,284.61	69,994,261.61
Mature and immature plantations	10	435,682,802.28	380,323,329.80
Property, plant and equipment	11	81,537,170.50	61,771,666.08
TOTAL NON CURRENT ASSETS		691,428,319.32	624,315,273.23
<u>CURRENT ASSETS</u>			
Inventories	12	22,790,543.26	26,221,000.15
Deposits and prepayments		2,193,309.28	2,397,477.43
Trade and other receivables	13	51,249,318.35	44,611,020.22
Short term investments	14	249,999,991.09	139,999,995.98
Cash and bank balances	15	24,978,702.75	22,149,040.44
TOTAL CURRENT ASSETS		351,211,864.73	235,378,534.22
TOTAL ASSETS		1,042,640,184.05	859,693,807.45


BALANCE SHEET cont...

<i>As at December 31,</i>		<u>2010</u>	<u>2009</u>
	<u>Note</u>	<u>Rs.</u>	<u>Rs.</u>
F I N A N C E D B Y:			
<u>EQUITY AND LIABILITIES</u>			
Capital and Reserves:			
Stated capital	16	200,000,010.00	200,000,010.00
Retained profit		522,631,767.06	381,161,381.46
		722,631,777.06	581,161,391.46
Deferred expenditure	17	(4,289,881.80)	(5,195,219.00)
		718,341,895.26	575,966,172.46
<u>NON CURRENT LIABILITIES</u>			
Retirement benefit obligations - Gratuity	18	62,791,390.47	57,701,218.44
Obligations under lease agreement – Net of current maturity -			
Janatha Estate Development Board (JEDB)	19	82,039,837.04	85,605,041.04
Deferred income - Grants and subsidies	20	8,937,791.70	7,589,693.71
Deferred tax liabilities	21	26,182,028.43	17,813,483.31
TOTAL NON CURRENT LIABILITIES		179,951,047.64	168,709,436.50

BALANCE SHEET cont...

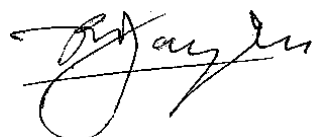
<i>As at December 31,</i>		<u>2010</u>	<u>2009</u>
	<u>Note</u>	<u>Rs.</u>	<u>Rs.</u>
<u>CURRENT LIABILITIES</u>			
Obligations under lease agreement - Current maturity -			
Janatha Estate Development Board (JEDB)	19	3,565,204.00	3,565,204.00
Welfare fund		371,342.21	344,483.72
Income tax		1,081,005.87	45,206.44
Advance received	22	16,514,961.67	1,615,903.00
Trade, expense and other creditors	23	122,814,727.40	109,447,401.33
TOTAL CURRENT LIABILITIES		144,347,241.15	115,018,198.49
TOTAL EQUITY AND LIABILITIES		1,042,640,184.05	859,693,807.45

These financial statements are in compliance with the requirements of the Companies Act No: 07 of 2007.


Manager – Finance

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Approved and signed for and on behalf of the Board of Directors.



Chairman/ Managing Director



Executive Director

The accounting policies and notes as set out on page 26 to 39 are an integral part of the financial statements.

Colombo
April 11, 2011

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2010

	Stated Capital Rs.	Retained Profit Rs.	Total Rs.
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Balance as at December 31, 2008 - as reported	200,000,010.00	305,616,362.70	505,616,372.70
Prior year adjustments -			
Under provision for deferred tax	-	(11,591,915.34)	(11,591,915.34)
Overprovision for gratuity	-	12,034,530.37	12,034,530.37
Adjusted balance as at December 31, 2008	200,000,010.00	306,058,977.73	506,058,987.73
Net profit for the year 2009 - as reported	-	98,405,665.20	98,405,665.20
Prior year adjustment -			
Under provision for deferred tax	-	(3,303,260.47)	(3,303,260.47)
Adjusted net profit for the year	-	95,102,404.73	95,102,404.73
Dividend - 2008	-	(20,000,001.00)	(20,000,001.00)
	-	75,102,403.73	75,102,403.73
Balance as at December 31, 2009	200,000,010.00	381,161,381.46	581,161,391.46
Net profit for the year 2010	-	141,470,385.60	141,470,385.60
Balance as at December 31, 2010	200,000,010.00	522,631,767.06	722,631,777.06

The accounting policies and notes as set out on page 26 to 39 are an integral part of the financial statements.

STATEMENT OF CASH FLOW

For the year ended December 31,

	<u>2010</u> <u>Rs.</u>	<u>2009</u> <u>Rs.</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from sale of produce	485,917,940.64	424,939,638.29
Cash paid to suppliers and employees	(276,434,182.58)	(251,888,328.72)
Income tax paid	(2,588,201.87)	(2,822,619.00)
NET CASH FROM OPERATING ACTIVITIES (NOTE A)	<u>206,895,556.19</u>	<u>170,228,690.57</u>
<u>CASH FLOWS FROM INVESTMENT ACTIVITIES</u>		
Improvements to property and purchase of equipment	(92,326,212.08)	(52,461,092.05)
JEDB loan recovery	-	5,000,000.00
Interest received	14,467,425.00	8,580,463.26
NET CASH USED IN INVESTMENT ACTIVITIES	<u>(77,858,787.08)</u>	<u>(38,880,628.79)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Lease rentals paid -JEDB	(17,509,838.01)	(15,155,369.00)
Interest on temporary bank loan	(266,720.75)	(10,959.00)
Grant received	1,569,447.07	1,371,409.96
Dividend paid	-	(30,000,001.00)
NET CASH USED IN FINANCING ACTIVITIES	<u>(16,207,111.69)</u>	<u>(43,794,919.04)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENT	<u>112,829,657.42</u>	<u>87,553,142.74</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>162,149,036.42</u>	<u>74,595,893.68</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>274,978,693.84</u>	<u>162,149,036.42</u>

STATEMENT OF CASH FLOW cont...**NOTE A:****Reconciliation of profit with cash flow from operating activities -**

	<u>2010</u>	<u>2009</u>
	<u>Rs.</u>	<u>Rs.</u>
Profit before income tax expense	154,529,046.38	102,795,817.68
Adjustments for:		
Depreciation/Amortization	24,918,180.38	23,857,829.63
Interest on lease agreement	26,470,404.00	23,591,616.00
Interest on temporary bank loan	266,720.75	10,959.00
Provision for gratuity	13,807,983.87	10,514,584.32
Amortization of grants	(221,349.00)	(187,064.00)
Interest income	(18,103,874.83)	(11,386,989.02)
Loss from disposal of property, plant and equipment	-	315,661.87
Income tax paid	(2,588,201.87)	(2,822,619.00)
Provision for performance incentive	13,294,211.45	13,249,220.00
Provision for bonus	6,771,428.00	6,362,932.43
Operating profit before Working Capital Changes	219,144,549.13	166,301,948.91
(Increase)/Decrease in inventories	3,430,456.89	18,281,863.73
(Increase)/Decrease in trade and other receivables	(4,067,962.66)	5,605,993.33
(Increase)/Decrease in deferred expenditure	905,337.20	622,804.65
Increase/(Decrease) in rent received in advance	14,899,058.67	1,615,903.00
Increase/(Decrease) in trade and other payables	11,670,320.69	845,507.88
(Increase)/Decrease in deposit and prepayment	204,168.15	(1,240,519.10)
Increase/(Decrease) in welfare fund	26,858.49	45,292.57
Gratuity paid	(8,717,811.84)	(9,422,731.68)
Performance incentive paid	(13,183,939.28)	(12,427,372.72)
Bonus paid	(17,415,479.25)	-
	206,895,556.19	170,228,690.57

The accounting policies and notes as set out on page 26 to 39 are an integral part of the financial statements.

ACCOUNTING POLICIES

A summary of the significant accounting policies followed by the Company is presented below to assist the reader in evaluating the financial statements and other data contained in this report.

1) GENERAL

1.1. Legal status

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

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

1.2. Statement of compliance

The financial statements have been prepared in accordance with the generally accepted accounting principles and the applicable Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka.

1.3. Nature of business

The company is engaged in agricultural activity and manages plantations basically with coconut and rubber. Its plantations are situated in different parts of the island which are organized under 10 planting areas as described below.

Attanagalla	Katugampola
Dambadeniya	Kurunegala
Dhathusenapura	Mahayaya
Dodangaslanda	Narammala
Hiriyala	Wariyapola

1.4. Accounting convention

The financial statements of the company have been prepared in conformity with the Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka and have been applied consistently on a historical cost basis, with no adjustments being made for inflationary factors affecting the financial statements. The said financial statements have been prepared in Sri Lankan Rupees (Rs.).

Prior year figures and phrases have been re-arranged wherever necessary to conform to the current year's presentation.

1.5. Taxation

1.5.1. Income Tax

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and is computed in accordance with the provisions of the Inland Revenue Act No: 10 of 2006 and the subsequent amendments thereto

1.5.2. Deferred tax

Deferred taxation is provided on all taxable and tax deductible temporary differences, to the extent that they are expected to reverse in the future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits 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 credits and unused tax losses can be utilized. 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 asset to be utilized.

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

The entity enjoys a tax exemption on its agricultural income since April 01, 2006 which will end on March 31, 2011.

1.6. Events occurring after Balance Sheet date

All material post balance sheet events have been considered and where appropriate adjustments to or disclosures have been made in the financial statements.

1.7. Deferred Expenditure – Project Development Cost

The expenditure on projects, the economic benefits of which accrue over a period of time are capitalized and carried forward up to the time of income generation from such projects.

1.8. Borrowing Cost

Borrowing costs are recognized as an expense during the period in which they are incurred, except to the extent where borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that takes a substantial period of time to get ready for its intended use is capitalized as part of the specific asset.

2) ASSETS AND BASES OF THEIR VALUATION**2.1 Inventories**

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

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

Inventories other than agricultural produce are valued at the lower of cost and net realizable value, after making due allowance for obsolete and slow moving items.

Net realizable value is the price at which stocks can be sold in the normal course of business after allowing for cost of realization and/or cost of conversion from their existing state to saleable condition.

Growing Crop Nurseries are valued at the cost of direct materials, direct labour and an appropriate proportion of directly attributable overheads less provision for overgrown plants.

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

2.2 Trade and Other Receivables

Trade receivables are stated at the amounts they are estimated to realize inclusive of provisions for bad and doubtful debts.

2.3 Cash and Cash Equivalents

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

2.4 Property, plant and equipment

2.4.1 Cost/ Valuation

Property, plant and equipment are reported at cost/valuation less accumulated depreciation, which is provided for on the bases specified below:

The cost of an asset is the cost of purchase after deducting discounts and rebates or cost of construction together with any directly attributable costs of bringing the asset to working condition for its intended use.

2.4.2 Restoration Cost

Expenditure incurred on repairs or maintenance of property, plant and equipment in order to restore or maintain the future economic benefits, which was originally assessed as the standard or performance, is recognized as an expense when incurred.

2.4.3 Depreciation/ Amortization

The provision for depreciation is calculated on the cost or valuation of all property, plant and equipment in order to write off such amounts over the estimated useful lives by equal installments as follows:

Freehold Assets –

Improvements to Land and Buildings	over 40	years
Fencing	over 03	years
Machinery	over 13 1/3	years
Motor Vehicles	over 05	years
Equipment	over 08	years
Furniture and Fittings	over 10	years
Mature Plantations - Coconut	over 50	years
Rubber	over 20	years
Others	over 20	years

Leasehold Assets –

The leasehold rights over assets taken over from JEDB are being amortized in equal amounts over the following years. (Lower of lease period and economic useful life)

Bare Land	over 53	years
Buildings	over 25	years
Plant and Machinery	over 15	years
Mature Plantations	over 30	years
Land Development Cost	over 30	years

Full provision is made in the year of disposal and no provision is made in the year of purchase/transfer.

2.5 Permanent Land Development Cost

Permanent land development costs are those costs incurred to make major changes to land contours to build new access roads and other major infrastructure development. Such expenditure on leasehold land has been capitalized and depreciated over the remaining lease period.

Permanent impairments to land development costs are charged to the income statement in full or reduced to the net carrying amounts of such asset in the year of occurrence after ascertaining the loss.

2.6 Limited Life Land Development Cost (Immature and Mature Plantations)

The cost of new planting, replanting, inter planting and crop diversification incurred between the time of field development and being ready for commercial harvesting are classified as immature plantations. No depreciation is provided for immature plantations. The expenditure incurred on perennial crops, which come into bearing during the year, have been transferred to mature plantations and depreciated over its useful life. No depreciation has been charged in the year of transfer.

Permanent impairments to land development costs are charged to the income statement in full or reduced to the net carrying amounts of such asset in the year of occurrence after ascertaining the loss.

2.7 Infilling Cost

Infilling costs are those costs incurred in replacing plant vacancies in mature plantations. Where infilling results in an increase in the economic life or increase in yield/productivity; or improvement in quality of output of the relevant field beyond its previously assessed standard of performance, the costs are capitalized and depreciated over the useful life at rates applicable to mature plantations or the unexpired lease period whichever is less.

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

2.8 Leased Assets

Property, plant and equipment on finance leases (which effectively transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased items) are capitalized at their cash price and depreciated/amortized 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 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 the leased property is capitalized and depreciated over the unexpired period of the lease or the estimated useful lives of the improvements whichever is shorter.

3) LIABILITIES AND OTHER PROVISIONS

Liabilities classified as current liabilities on the Balance Sheet are those which fall due for payment on demand or within one year from the Balance Sheet date.

Noncurrent liabilities are those balances that fall due for payment after one year from the Balance Sheet date.

All known liabilities have been accounted for in preparing these financial statements. Provisions and liabilities are recognized when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.1 Terminal Benefits to employees

3.1.1 Defined Benefit Plan – Retirement Benefit

Retirement benefit of gratuity is measured based on the Projected Unit Credit method in accordance with the Sri Lanka Accounting Standards 16 (revised 2006) on Retirement Benefit Costs. This item is grouped under Retirement Benefit Obligations in the Balance Sheet.

However, according to the Payment of Gratuity Act No. 12 of 1983, the liability for payment to an employee arises only after the completion of 5 years of continued services.

The liability is neither externally funded nor actuarially valued.

3.1.2 Defined Contribution Plans – EPF and ETF

Employees are eligible for employees' provident fund contributions and employees' trust fund contributions in line with respective statutes and regulations. The company contributes 12% and 3% of gross emoluments to employees' provident fund and employees' trust fund respectively.

3.2 Capital Commitments and Contingencies

All material capital commitments and contingent liabilities of the Company are disclosed in the notes to the accounts.

4) DEFERRED INCOME

Grants and Subsidies

Grants and subsidies are credited to the Income Statement over the periods necessary to match them with the related costs, which they are intended to be compensated on a systematic basis.

Grants related to assets, including non-monetary grants at fair value is deferred in the Balance Sheet and credited to the Income Statement over the useful life of the related asset.

Grants related to revenue nature are recognized in the Income Statement in the period in which it is received.

5) INCOME STATEMENT

5.1 Revenue Recognition

In keeping with the practices in the Plantation Industry, revenue and profit or loss on sale of Perennial crops are recognized in the financial period of harvesting. Revenue is recorded at invoice value net of point of sale expenses such as brokerage, sale expenses and other levies.

Gains or losses of a revenue nature on the disposal of property, plant and equipment have been accounted for in the Income Statement.

Interest and other income are recognized on accrual basis.

5.2 Expenditure Recognition

All expenditure incurred in the running of the business and in maintaining the Property, Plant and Equipment in a state of efficiency has been charged to revenue in arriving at the profit/ (loss) for the year.

For the purpose of presentation of Income Statement, the directors are of the opinion that functional classification of expenses presents fairly the enterprises' performance and hence such presentation method is adopted.

NOTES TO STATEMENT OF ACCOUNTS

For the year ended December 31, 2010

NOTE - 01 – REVENUE

		<u>Quantity</u>	<u>2010</u> <u>Rs.</u>	<u>Quantity</u>	<u>2009</u> <u>Rs.</u>
Coconut	(Nuts)	15,474,602	354,436,203.12	17,309,128	292,448,057.72
Rubber	(Kgs.)	200,778	69,911,162.81	202,680	36,999,576.60
Cinnamon			631,728.44		551,394.00
Pepper			107,047.50		22,905.00
Banana			2,596,089.10		3,021,133.00
Rambutan			1,314,775.00		1,402,197.00
Other crops			1,767,864.16		3,025,456.00
			<u>430,764,870.13</u>		<u>337,470,719.32</u>

NOTE - 01:01 – COCONUT

1. Revenue from coconut includes Rs. 12,678,180.00 from sale of 492,426 nuts at concessionary prices to Coconut Cultivation Board and Co-operative Wholesale Establishment during the year 2010. The market value of those nuts estimated at prevailed market prices was Rs. 17,246,318.00.
2. Company provides coconut to employees at a subsidized price of one rupee per nut as a welfare measure. The number of nuts so provided in the year 2009 was 390,179. The revenue loss amounting to Rs. 6,344,157.11 being the difference between the market price and the issue price of one rupee had been added to revenue by recognizing it as a welfare cost in the accounts for the year 2009. Both sides of this transaction has been derecognized by adjusting the figures affected and the comparative figures restated.

NOTE - 02 - COST OF SALES

	<u>2010</u> <u>Rs.</u>	<u>2009</u> <u>Rs.</u>
Coconut	191,322,313.15	166,631,037.75
Rubber	37,072,836.57	30,296,350.39
Cinnamon	793,240.38	575,627.00
Pepper	200,675.22	470,120.00
Banana	3,056,217.31	2,662,171.64
Rambutan	395,030.94	416,135.00
Other crops	2,434,651.39	4,253,395.16
	<u>235,274,964.96</u>	<u>205,304,836.94</u>

NOTE - 03 – OTHER OPERATING INCOME

	<u>2010</u> <u>Rs.</u>	<u>2009</u> <u>Rs.</u>
Sale of coconut trees	12,328,790.05	20,601,469.00
Sale of other trees	11,841,578.00	21,222,877.00
Sale of husk	5,497,562.60	3,339,520.00
Amortization of PHDT grants	221,349.00	187,064.00
Penalty income - Coconut	3,436,633.89	5,833,912.00
Rent income	3,653,978.92	2,568,912.00
Accrued expenses written back	397,925.67	-
Others	3,735,048.48	2,054,311.76
	41,112,866.61	55,808,065.76

**NOTE - 04 - PROFIT FROM OPERATING ACTIVITIES
IS STATED AFTER CHARGING THE FOLLOWING**

	<u>2010</u> <u>Rs.</u>	<u>2009</u> <u>Rs.</u>
Directors emoluments	3,748,525.85	2,987,791.00
Audit fees and expenses	695,784.00	488,750.00
Performance incentive	13,294,211.45	13,249,220.00
Bonus	6,771,428.00	6,362,932.00
Depreciation/Amortization-		
Leasehold rights to lands of JEDB	3,169,953.81	3,169,953.79
Leasehold rights to immovable assets of JEDB	4,841,977.00	4,841,976.73
Mature plantations	6,960,816.93	6,353,812.86
Property, plant and equipment	9,945,432.64	9,492,086.22
Personnel cost-		
Defined benefit plan cost - Retirement gratuity	13,807,983.87	10,514,584.32
Salaries, wages, PAYE, employees' provident and trust fund	161,964,213.00	159,900,544.92

NOTE - 05 - FINANCE COST

	<u>2010</u> <u>Rs.</u>	<u>2009</u> <u>Rs.</u>
Interest on lease - Janatha Estate Development Board (JEDB)	26,470,404.00	23,591,616.00
Interest on temporary bank loan	266,720.75	10,959.00
	<u>26,737,124.75</u>	<u>23,602,575.00</u>

NOTE - 06 - INCOME TAX EXPENSE

	<u>2010</u> <u>Rs.</u>	<u>2009</u> <u>Rs.</u>
Current income tax expense	4,690,115.66	2,822,619.00
Deferred taxation	8,368,545.12	4,870,793.95
	<u>13,058,660.78</u>	<u>7,693,412.95</u>

Reconciliation of the Accounting Profit and Taxable Profit

Accounting profit of the company (Rs. 154,529,046) comprises of agricultural income (Rs. 132,771,192) exempt from tax and other income (Rs. 21,757,854) taxable at normal corporate tax rate of 35%.

	<u>2010</u> <u>Rs.</u>	<u>2009</u> <u>Rs.</u>
Taxable accounting profit	21,757,854.00	14,005,900.00
Tax @ 35%	7,615,248.90	4,902,065.00
Tax effects on donations of Rs. 535,000	(187,250.00)	(387,937.20)
Realization of deferred tax asset	(2,737,883.24)	(1,691,508.80)
Provision of deferred tax liability for the exempted agricultural operation based on enacted future tax rate applicable from 2011/12	8,368,545.12	4,870,793.95
Tax charged for the year	<u>13,058,660.78</u>	<u>7,693,412.95</u>

NOTE - 07 - EARNINGS PER SHARE

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

	<u>2010</u> <u>Rs.</u>	<u>2009</u> <u>Rs.</u>
Profit attributable to Ordinary Shareholders (Rs.)	141,470,385.60	95,102,404.73
Weighted average number of ordinary shares	20,000,001.00	20,000,001.00
Earnings per share (Rs.)	7.07	4.76

NOTE – 08 – LEASEHOLD RIGHT UNDER JANATHA ESTATE DEVELOPMENT BOARD (JEDB) – LANDS

8.1. The leasehold rights to the lands of all the estates have been taken into the books of the company as at June 18, 1992, immediately after the formation of the company, in terms of the ruling obtained from the Urgent Issues Task Force (UITF) of the Institute of Chartered Accountants of Sri Lanka. For this purpose, the Board has decided at its meeting held on March 08, 1995 that these lands would be revalued, at the values established for these lands, by the valuation specialist Mr. D.R. Wickramasinghe just prior to the formation of the company. The revalued amount taken to the Balance Sheet as of June 18, 1992 was Rs. 168,007,551.93. The carrying values are given in Note 8:3 below.

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

	Accumulated			Accumulated		
	Balance as at January 01, 2010	amortization as at January 01, 2010	Amortization for the year	amortization as at December 31, 2010	Balance as at December 31, 2010	Balance as at December 31, 2009
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Lands (53 years)	168,007,552.00	55,781,536.26	3,169,953.81	58,951,490.07	109,056,061.93	112,226,015.74

**NOTE - 09 - LEASEHOLD RIGHT UNDER
JANATHA ESTATE DEVELOPMENT BOARD (JEDB) –
IMMOVABLE ASSETS (OTHER THAN LANDS)**

As explained in Note 8, although all JEDB estate leases have not been executed to date in terms of the ruling of the UITF, all immovable assets in these estates under finance leases have been taken into the books of the company retroactive to June 18, 1992. For this purpose, the Board has decided at its meeting on March 08, 1995 that these assets be taken into the books at their book values as they appeared in the books of the JEDB on the day immediately preceding the date of formation of the company.

The Asset values taken to the June 18, 1992 Balance Sheet are given below:

<u>Revaluation</u>		<u>Rs.</u>
Land Development Cost	30 years	1,123,304.51
Buildings	25 years	22,130,873.00
Machinery	15 years	34,841.63
Mature plantations	30 years	43,001,122.00
Immature plantations		90,647,222.00
		<u>156,937,363.14</u>

The carrying values for the year are as follows.

<u>Revaluation</u>	As at January 01, 2010	Adjustments	As at December 31, 2010
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Land development cost	1,123,304.51	-	1,123,304.51
Buildings	17,693,752.40	-	17,693,752.40
Machinery	34,841.63	-	34,841.63
Mature plantations	122,903,502.70	-	122,903,502.70
	<u>141,755,401.24</u>	-	<u>141,755,401.24</u>

<u>Amortization</u>		Accumulated as at January 01, 2010	For the year	Accumulated as at December 31, 2010
		<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Land development cost	30 years	656,159.79	37,443.48	693,603.27
Buildings	25 years	12,206,552.31	707,750.10	12,914,302.41
Machinery	15 years	34,841.63	-	34,841.63
Mature plantations	30 years	58,863,585.90	4,096,783.42	62,960,369.32
		<u>71,761,139.63</u>	<u>4,841,977.00</u>	<u>76,603,116.63</u>
Carrying value		<u>69,994,261.61</u>		<u>65,152,284.61</u>

Investment in plantation assets which were categorized as immature at the time of handing over to the company by way of estate leases, are shown under immature plantations (revalued as at 18.06.1992). Investments in such immature plantations to bring them to bearing are shown under Note -10. When these plantations come in to bearing the additional investments incurred to bring them to such stage were transferred from the category immature plantations under Note -10 and a corresponding transfer from immature plantations to mature plantations was made in the above Note.

NOTE – 10 - MATURE AND IMMATURE PLANTATIONS

The following are the investments in plantations since the formation of the company. The assets (including plantation assets) taken over under estate leases are set out in Notes 08 and 09. Continuing investments in immature plantations, taken over under these leases are shown in the above Note. When such plantations come into bearing, the additional investments incurred since taking over to bring them to bearing had been transferred from immature to mature plantations in this Note. A corresponding transfer had been made from immature to mature plantations being the investment undertaken by JEDB on the particular plantation prior to the formation of the company as described in Note - 09.

<u>Cost</u>	Life of the Asset	As at	Additions/ Transfers in	(Disposals/ Transfers out)	As at
		January 01, 2010			December 31, 2010
		<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Mature plantations					
Coconut	50 years	224,722,752.71	-	-	224,722,752.71
Rubber	20 years	42,395,556.67	-	-	42,395,556.67
Others	20 years	6,931,680.91	-	-	6,931,680.91
		274,049,990.29	-	-	274,049,990.29
Immature plantations					
Coconut		119,093,917.63	52,553,118.59	-	171,647,036.22
Rubber		7,798,560.58	3,865,688.93	-	11,664,249.51
Others		21,635,863.32	5,972,514.71	(71,032.82)	27,537,345.21
		148,528,341.53	62,391,322.23	(71,032.82)	210,848,630.94
		422,578,331.82			484,898,621.23

Depreciation

	Accumulated as at January		(on disposals)	Accumulated as at December	
	01, 2010	For the year		31, 2010	
	<u>Rs.</u>	<u>Rs.</u>		<u>Rs.</u>	<u>Rs.</u>
Mature plantations -					
Coconut	26,964,611.63	4,494,455.05	-	31,459,066.68	
Rubber	13,587,690.69	2,119,777.83	-	15,707,468.52	
Others	1,702,699.70	346,584.05	-	2,049,283.75	
	42,255,002.02	6,960,816.93	-	49,215,818.95	
Carrying amount	380,323,329.80			435,682,802.28	

NOTE - 11 - PROPERTY, PLANT AND EQUIPMENT

Following are the assets vested in the company vis a vis the Gazette notification on the date of formation of the company on June 18, 1992 and all additions thereafter. The assets taken over by way of estate leases are set out in Note - 08 and 09 to the accounts.

<u>Cost</u>	Life time of the Asset	As at	Additions/ Transfer in	(Disposals/ Transfer out)	As at
		January 01, 2010			December 31, 2010
	<u>years</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Improvements to land and buildings	40	39,579,442.25	8,111,109.18	-	47,690,551.43
Work-in-progress		210,654.79	534,580.52	(210,654.79)	534,580.52
Irrigation systems	5	1,909,202.80	-	-	1,909,202.80
Motor vehicles	5	45,242,690.09	17,478,940.00	(14,000.00)	62,707,630.09
Machinery	13 1/3	-	661,000.00	-	661,000.00
Furniture and fittings	10	3,012,703.50	1,645,971.00	(1,813.50)	4,656,861.00
Equipment	8	10,207,121.87	1,082,914.15	(25,469.00)	11,264,567.02
Computer and accessories	5	1,183,895.00	420,375.00	-	1,604,270.00
		101,345,710.30	29,934,889.85	(251,937.29)	131,028,662.86

<u>Depreciation</u>	Accumulated as at January 01, 2010	For the year	(On Disposals)	Accumulated as at December 31, 2010
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Improvements to land and buildings	7,006,659.93	2,803,642.66	-	9,810,302.59
Irrigation systems	471,201.93	407,776.92	-	878,978.85
Motor vehicles	30,748,202.01	5,600,205.16	(8,400.00)	36,340,007.17
Furniture and fittings	2,133,595.35	143,941.20	(1,813.50)	2,275,723.05
Equipment	6,900,280.00	753,087.70	(17,771.00)	7,635,596.70
Computer and accessories	437,669.00	236,779.00	-	674,448.00
	<u>47,697,608.22</u>	<u>9,945,432.64</u>	<u>(27,984.50)</u>	<u>57,615,056.36</u>
	53,648,102.08			73,413,606.50
Acquisition of land - Head Office premises	8,123,564.00			8,123,564.00
Carrying value	<u><u>61,771,666.08</u></u>			<u><u>81,537,170.50</u></u>

The land called Polaththanapitiya, 1.416 hectare in extent where the Head office of the company is situated is a land acquired by the Divisional Secretary - Kurunegala and handed over to Janatha Estate Development Board (JEDB) on July 15, 1987. Since the legal title of the land was not transferred to JEDB the land is now owned by the government. Compensation upon acquisition had not been paid to the original owners of the land, H.L. De Mel and Company. Based on a court of appeal order the company was requested by the Ministry of Plantation Industries to pay the legal compensation of Rs. 3.5 Mn. to H.L. De Mel and Company which it has paid through the Divisional Secretary, Kurunegala on condition suggested by the Ministry that the land will be transferred to the company by the government. The legal interest payable on Rs. 3.5 Mn. for delaying the payment for 18 years was calculated to be Rs. 4,623,563.92 and the company has agreed to pay this amount at the request of the Ministry of Plantation Industries. The total of the amount paid and payable relating to the acquisition of the land is, therefore, Rs. 8,123,563.92. The full amount paid is disclosed in these accounts as acquisition cost of the land. The transfer of the land to the company has not yet been effected. The company is seeking a reduction of the lease rental payable to the Treasury on account of this payment.

NOTE – 12 – INVENTORIES

	<u>2010</u>	<u>2009</u>
	<u>Rs.</u>	<u>Rs.</u>
Input materials	5,469,365.37	1,025,480.55
Spares and consumables	2,659,720.77	879,882.03
Growing crop nurseries	1,640,012.41	1,547,679.11
Produce unsold at the yearend valued at since realized price	11,917,720.62	19,791,800.14
Stocks at sales center	29,286.74	43,461.21
Others	477,359.31	1,571,907.44
Livestock	597,078.04	1,360,789.67
	<u>22,790,543.26</u>	<u>26,221,000.15</u>

NOTE - 13 – TRADE AND OTHER RECEIVABLES

	<u>2010</u>	<u>2009</u>
	<u>Rs.</u>	<u>Rs.</u>
Produce debtors	36,279,367.08	35,003,640.67
Other receivables -		
Staff debtors	3,390,054.55	1,248,251.58
Interest	7,214,556.47	4,644,221.00
Survey of land	1,661,180.14	1,527,277.64
Sundry debtors	1,971,521.93	294,688.89
Economic service charge (Note 13:01)	-	585,609.44
With-holding tax	-	664,206.00
Value added tax	305,297.00	-
Nation building tax	74,267.00	-
Income tax	643,125.00	643,125.00
	<u>51,539,369.17</u>	<u>44,611,020.22</u>
Provision for bad and doubtful debts	(290,050.82)	-
	<u>51,249,318.35</u>	<u>44,611,020.22</u>

NOTE - 13:01 - ECONOMIC SERVICE CHARGE

	<u>2010</u> <u>Rs.</u>	<u>2009</u> <u>Rs.</u>
Balance - beginning of the year	585,609.44	2,108,011.65
Add: Payments during the year	1,197,924.00	969,324.79
Recognition of understated ESC receivable	140,493.56	-
	<u>1,924,027.00</u>	<u>3,077,336.44</u>
Less: Set-off with income tax for the year	1,924,027.00	2,491,727.00
Balance - end of the year	<u>-</u>	<u>585,609.44</u>

NOTE - 14 - SHORT TERM INVESTMENTS

	<u>2010</u> <u>Rs.</u>	<u>2009</u> <u>Rs.</u>
Bank of Ceylon - Fixed deposits	96,500,000.00	86,000,000.00
Treasury bills	153,499,991.09	53,999,995.98
	<u>249,999,991.09</u>	<u>139,999,995.98</u>

NOTE - 15 - CASH AND BANK BALANCES

	<u>2010</u> <u>Rs.</u>	<u>2009</u> <u>Rs.</u>
Investment in repurchase agreements (REPO)	15,000,000.00	-
Cash at banks	9,585,197.96	19,939,032.16
Cash in hand	388,618.59	2,101,969.06
Cash in transit	-	103,662.52
Postage/stamps	4,886.20	4,376.70
	<u>24,978,702.75</u>	<u>22,149,040.44</u>

NOTE - 16 - STATED CAPITAL

	<u>2010</u> <u>Rs.</u>	<u>2009</u> <u>Rs.</u>
Number of Ordinary shares issued and fully paid	20,000,000.00	20,000,000.00
Golden share	1.00	1.00
	<u>20,000,001.00</u>	<u>20,000,001.00</u>
Issued and fully paid Ordinary shares	200,000,000.00	200,000,000.00
Golden share	10.00	10.00
	<u>200,000,010.00</u>	<u>200,000,010.00</u>

Golden share has been allotted to the Secretary to the Treasury on August 01, 1995. The Articles of Association of the company embodies the specific rights assigned to the Golden Shareholder on behalf of the State of Democratic Socialist Republic of Sri Lanka.

NOTE - 17 - DEFERRED EXPENDITURE

	As at January 01, 2010 <u>Rs.</u>	Additions <u>Rs.</u>	Disposal and Amortization for the year <u>Rs.</u>	As at December 31, 2010 <u>Rs.</u>
Non-perennial crops	5,195,219.00	3,378,724.14	(4,284,061.34)	4,289,881.80

NOTE - 18 - RETIREMENT BENEFIT OBLIGATIONS – GRATUITY

The company has adopted the Projected Unit Credit Method for the valuation of retirement benefit obligations (gratuity) during the year in accordance with Sri Lanka Accounting Standards 16, Retirement Benefit Costs.

Balance as at January 01, 2009 as previously reported	68,643,895.07
Prior year adjustment	(12,034,530.37)
Balance as at January 01, 2009 - as restated	<u>56,609,364.70</u>
Charged during the year	10,514,584.32
	67,123,949.02
Payments made/transferred to payable during the year	(9,422,730.58)
Balance as at December 31, 2009	<u>57,701,218.44</u>
Charged during the year	13,807,983.87
Payments made/transferred to payable during the year	(8,717,811.84)
Balance as at December 31, 2010	<u>62,791,390.47</u>

The gratuity liability is neither externally funded nor actuarially valued.

**NOTE - 19 - NET LIABILITY TO LESSOR
JANATHA ESTATE DEVELOPMENT BOARD (JEDB)**

	<u>2010</u> <u>Rs.</u>	<u>2009</u> <u>Rs.</u>
Gross lease liability	282,149,031.00	290,335,031.00
Less: Finance charges applicable to future periods	159,246,602.00	163,867,398.00
Net lease liability	122,902,429.00	126,467,633.00
Less : Value of lands alienated	37,297,387.96	37,297,387.96
	<u>85,605,041.04</u>	<u>89,170,245.04</u>
Payable after 5 years -		
Gross Liability	241,219,031.00	249,405,031.00
Less: Finance charges	136,142,622.00	140,763,418.00
Net lease liability	<u>105,076,409.00</u>	<u>108,641,613.00</u>
Payable within 2 to 5 years -		
Gross Liability	32,744,000.00	32,744,000.00
Less: Finance charges	18,483,184.00	18,483,184.00
Net lease liability	<u>14,260,816.00</u>	<u>14,260,816.00</u>
	119,337,225.00	122,902,429.00
Less : Value of lands alienation	37,297,387.96	37,297,387.96
	<u>82,039,837.04</u>	<u>85,605,041.04</u>
Payable within 1 year -		
Gross Liability	8,186,000.00	8,186,000.00
Less: Finance charges	4,620,796.00	4,620,796.00
Net lease liability	<u>3,565,204.00</u>	<u>3,565,204.00</u>
	<u>85,605,041.04</u>	<u>89,170,245.04</u>

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

The lease of the estates has been amended with effect from June 18, 1996 to an amount substantially higher than the previous nominal lease rental of Rs. 500/- per estate per annum.

The first lease rental payable under the revised basis was Rs. 8,186,000/- from June 18, 1996 to June 17, 1997. The amount was to be inflated annually by the Gross Domestic Product (GDP) Deflator and is in the form of a contingent rental.

The payment due in each subsequent 12 month period till the end of lease on June 18, 2045 is the current year's last two quarters' total lease payment increased by the previous year's GDP Deflator and the next year's first two quarters' total lease payment increased by the current year's GDP Deflator. The charge to the Income Statement during the current period is Rs. 26,470,404 which comprises the interest portion of the fixed lease rental and the contingent lease rental.

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

NOTE - 20 - DEFERRED INCOME - GRANTS AND SUBSIDIES

	<u>2010</u> <u>Rs.</u>	<u>2009</u> <u>Rs.</u>
Capital -		
Balance - beginning of the year	8,853,963.12	7,482,553.16
Grant received during the year	1,569,447.07	1,371,409.96
Balance - end of the year	<u>10,423,410.19</u>	<u>8,853,963.12</u>
Amortization -		
Balance - beginning of the year	1,264,269.41	1,077,205.58
Amortization for the year	221,349.08	187,063.83
Balance - end of the year	<u>1,485,618.49</u>	<u>1,264,269.41</u>
	<u>8,937,791.70</u>	<u>7,589,693.71</u>

The above represents the following:

The company has received funding from the Plantation Human Development Trust (PHDT) for the development of workers' welfare facilities.

NOTE - 21 - DEFERRED TAX LIABILITIES

Balance as at January 01, 2010 as previously reported	2,918,307.50
Prior year adjustment	14,895,175.81
Balance as at January 01, 2010 - as restated	17,813,483.31
Charged during the year	8,368,545.12
Balance as at December 31, 2010	26,182,028.43

The company recognized deferred tax assets of Rs. 19,855,943.72 as at the balance sheet date, as the management is confident that the deferred tax assets would be realized in the future due to the availability of taxable profits in the future. Moreover, deferred tax liabilities have been reassessed based on the future tax rates enacted. Accordingly, deferred tax liabilities of Rs. 46,037,972.15 have been reassessed by restating the balance reported as at December 31, 2009. Net deferred tax liability as at December 31, 2010 is Rs. 26,182,028.43.

NOTE - 22 - ADVANCE RECEIVED

	<u>2010</u> <u>Rs.</u>	<u>2009</u> <u>Rs.</u>
For rent	1,159,726.67	1,615,903.00
For supply of coconut seedlings - Coconut Cultivation Board	14,130,235.00	-
Mahaweli Authority of Sri Lanka	1,225,000.00	-
	<u>16,514,961.67</u>	<u>1,615,903.00</u>

NOTE - 23 - TRADE, EXPENSE AND OTHER CREDITORS

	<u>2010</u> <u>Rs.</u>	<u>2009</u> <u>Rs.</u>
Trade creditors	18,941,590.87	2,759,870.89
Accrued expenses	23,588,258.68	23,893,554.62
Performance incentive payable	13,383,339.33	13,273,067.57
Bonus payable	6,999,100.00	17,643,151.25
Managing Agent's remuneration - L.H. Plantation	-	3,667,838.00
Lease rental payable - JEDB	54,086,281.99	41,560,512.00
Economic service charge	312,311.00	196,080.00
Refundable, tender, security deposits and retentions	5,503,845.53	6,453,327.00
	<u>122,814,727.40</u>	<u>109,447,401.33</u>

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Kurunegala Plantations Limited will be held at No 320, T.B Jayah Mawatha, Colombo 10 on 26, August 2011 at 2.00 p.m. for the following purposes.

1. To receive and consider the Statement of Accounts for the year ended 31st December 2010 with the Report of the Directors and Auditors thereon.
2. To appoint M/s, Dayananda Samarawickrema & Co., (Chartered Accountants) as auditors of the Company in place of the M/s. P E Mathew & Co. (Chartered Accountants), and to authorize the directors to determine the remuneration of M/s. Dayananda Samarawickrema & Co. (Chartered Accountants).
3. To declare a Final Dividend of Rs. 40,000,000 payable from the profits for the year ending 31st December 2010.
4. Any other business.

BY ORDER OF THE BOARD OF
KURUNEGALA PLANTATIONS LTD



CORPORATE ADVISORY SERVICES (PVT) LTD
SECRETARIES

Date: 04.08.2011

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

FORM OF PROXY

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

- | | |
|--------------------------------|----------------|
| Mr. Panduka Jayasinghe | or failing him |
| Mr. M A S Nimal Kurera | or failing him |
| Mr. R W M Jude Rukantha Perere | or failing him |
| Mr. D R Kularatne | or failing him |
| Mr. Mercilyn Appuhamy | or failing him |
| Mr. K D Peiris | or failing him |

.....
as my/our proxy to represent me/us and to vote for me/us and on my /our behalf at the Annual
General Meeting of the Company to be held on 26, August 2011 at 2.00 p.m. and at any
adjournment thereof, and at every poll which may be taken in consequence thereof.

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

	FOR	AGAINST
1 To receive and consider the Statement of Accounts for the year ended 31st December 2010 with the Report of the Directors and Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2 To appoint M/s. Dayananda Samarawickrema & Co., (Chartered Accountants) as auditors of the Company in place of the M/s. P E Mathew & Co. (Chartered Accountants), and to authorize the directors to determine the remuneration of M/s. Dayananda Samarawickrema & Co. (Chartered Accountants).	<input type="checkbox"/>	<input type="checkbox"/>
3 To declare a Final Dividend of Rs. 40,000,000 payable from the profits for the year ending 31st December 2010	<input type="checkbox"/>	<input type="checkbox"/>
4 Any other business.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this day of2011

.....
Signature
Shareholders NIC/ PP/ Co. Reg.No.

INSTRUCTIONS AS TO COMPLETION

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