Hatton Plantations Ltd

a sunshine enterprise

Introductory Document

Listing of 236,666,671 Ordinary Voting Shares on the Colombo Stock Exchange

Financial Advisors and Joint Managers to the Introduction

NDB Investment Bank

Joint Managers to the Introduction

ACUITY

A joint venture of DFCC Bank and HNB

This Introductory Document is dated January 19, 2018

The delivery of this Introductory Document shall not under any circumstance constitute a representation or create any implication or suggestion, that there has been no material change in the affairs of the Company since the date of this Introductory Document.

If you are in doubt regarding the contents of this document, you should consult your stockbroker, lawyer or any other professional advisor.

Responsibility for the Content of the Introductory Document

This Introductory Document has been prepared from information provided by Hatton Plantations Ltd (hereinafter referred to as "HPL" or the "Company") or which is publicly available. The Directors of the Company, collectively and individually, having made all reasonable enquiries confirm to the Financial Advisors and Joint Managers/Joint Managers to the Introduction and the public that to the best of their knowledge and belief, the information contained herein is true and correct in all material respects and that there are no other material facts, the omission of which, would make any statement herein misleading. HPL accepts responsibility for the information contained in this Introductory Document. While HPL has taken reasonable care to ensure full and fair disclosure, it does not assume any responsibility for any investment decisions made by investors based on information contained herein. In making an investment decision, prospective investors must rely on their own examination and assessments of the Company including the risks involved.

The Colombo Stock Exchange (the "CSE") has taken reasonable care to ensure full and fair disclosure of information in this Introductory Document. However, the CSE assumes no responsibility for the accuracy of the statements made, opinions expressed or reports included in this Introductory Document.

For further inquiries, please contact Financial Advisors and Joint Managers/Joint Managers to the Introduction.

Registration of the Introductory Document

A copy of this Introductory Document has been delivered to the Registrar General of Companies in Sri Lanka for registration. The following documents were also attached to the copy of the Introductory Document delivered to the Registrar General of Companies.

- **The written consent of the Financial Advisors and Joint Managers to the Introduction**
  Financial Advisors and Joint Managers to the Introduction have given and have not before the delivery of a copy of the Introductory Document for registration withdrawn their written consent for the inclusion of their names as Financial Advisors and Joint Managers to the Introduction and for the inclusion of the Research Report in the form in which it is included in the Introductory Document.

- **The written consent of the Joint Managers to the Introduction**
  Joint Managers to the Introduction have given and have not before the delivery of a copy of the Introductory Document for registration withdrawn their written consent for the inclusion of their names as Joint Managers to the Introduction.

- **The written consent of the Auditors and Reporting Accountants to the Company and to the Introduction**
  The Auditors and Reporting Accountants to the Company and to the Introduction have given and have not before the delivery of a copy of the Introductory Document for registration withdrawn their written consent for the inclusion of their name as Auditors and Reporting Accountants to the Company and to the Introduction and for the inclusion of their report in the form and context in which it is included in the Introductory Document.

- **The written consent of the Lawyers to the Introduction**
  The Lawyers to the Introduction have given and have not before the delivery of a copy of the Introductory Document for registration withdrawn their written consent for the inclusion of their name as Lawyers to the Introduction in the Introductory Document.

- **The written consent of the Bankers to the Company**
  The Bankers to the Company have given and have not before the delivery of a copy of the Introductory Document for registration withdrawn their written consent for the inclusion of their name as Bankers to the Company in the Introductory Document.

- **The written consent of the Company Secretaries**
  The Company Secretaries have given and have not before the delivery of a copy of the Introductory Document for registration withdrawn their written consent for the inclusion of their name as Company Secretaries in the Introductory Document.

- **The Declaration by the Directors**
  A declaration made by each of the Directors of the Company confirming that each of them are aware of the provisions of the Companies Act No. 7 of 2017 relating to the issue of this document and that those provisions have been complied with.

Registration of the Introductory Document in Jurisdictions Outside of Sri Lanka

This Introductory Document has not been registered with any authority outside of Sri Lanka. Non-resident investors may be affected by the laws of the jurisdictions of their residence. Such investors are responsible to comply with the laws relevant to the country of residence and the laws of Sri Lanka, when making their investment.

Representation

No person is authorised to give any information or make any representation not contained in this Introductory Document and if given or made, any such information or representation must not be relied upon as having been authorised by the Company.

Forward Looking Statements

Any statements included in this Introductory Document that are not statements of historical fact constitute “Forward Looking Statements”. These can be identified by the use of forward looking terms such as “expect”, “anticipate”, “intend”, “may”, “plan to”, “believe”, “could” and similar terms or variations of such terms. However, these words are not the exclusive means of identifying Forward Looking Statements. As such, all statements pertaining to expected financial position, business strategy, plans and prospects of the Company are classified as Forward Looking Statements.

Such Forward Looking Statements involve known and unknown risks, uncertainties and other factors including but not limited to regulatory changes in the sectors in which the Company operates and its ability to respond to them, the Company’s ability to successfully adapt to technological changes, exposure to market risks, general economic and fiscal policies of Sri Lanka, inflationary pressures, the performance of financial markets both globally and locally, changes in domestic and foreign laws, regulation of taxes and changes in competition in the industry and further uncertainties that may or may not be in the control of the Company.

Such factors may cause actual results, performance and achievements to materially differ from any future results, performance or achievements expressed or implied by Forward Looking Statements herein. Forward Looking Statements are also based on numerous assumptions regarding the Company’s present and future business strategies and the environment in which the Company will operate in the future.

Given the risks and uncertainties that may cause the Company’s actual future results, performance or achievements to materially differ from that expected, expressed or implied by Forward Looking Statements in this Introductory Document, investors are advised not to place sole reliance on such statements.

Investment Considerations

It is important that this Introductory Document is read carefully prior to making an investment decision. For information concerning certain risk factors, which should be considered by prospective investors, refer “Investment Considerations and Associated Risk Factors” in Section 9.0 of this Introductory Document.

Presentation of Currency Information and Other Numerical Data

The financial statements of the Company and currency values of economic data or industry data in a local context will be expressed in Sri Lanka Rupees. References in the Introductory Document to “LKR”, “Rupees”, and “Rs.” are references to the lawful currency of Sri Lanka. Reference to “USD” is with reference to United States Dollars, the official currency of the United States of America.

Certain numerical figures in the Introductory Document have been subject to rounding adjustments; accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Presentation of Macroeconomic and Industry Data

Economic and industry data used throughout this Introductory Document are derived from the Central Bank of Sri Lanka (CBSL) and various other industry data sources, which the Company believes to be reliable, but the accuracy and completeness of that information is not guaranteed. Similarly, industry surveys and other publications, while believed to be reliable, have not been independently verified and neither the Company nor the Joint Managers to the Introduction make any representation as to the accuracy of that information.

DEFINITIONS/INTERPRETATIONS

The following definitions/interpretations apply throughout this Introductory Document, unless the context otherwise requires:

"A:"	Acres
"Avg"	Average
"AWPLR"	Average Weighted Prime Lending Rate
"BC"	Bought Crop
"BMF"	Broken Mixed Fannings
"Bn"	Billion
"c."	Approximately
"cf."	Compared to
"CAGR"	Compound Annual Growth Rate
"CBSL"	Central Bank of Sri Lanka
"CDC"	Community Development Centre
"CESU"	Ceylon Estate Staffs' Union
"CIS"	Commonwealth of Independent Countries (former Soviet Union)
"COP"	Cost of Production
"CSE"	Colombo Stock Exchange
"CTC"	Cut, Tear and Curl
"CWC"	Ceylon Workers' Congress
"DCF"	Discounted Cash Flow
"EBIT"	Earnings before Interest and Tax
"EBITDA"	Earnings before Interest, Tax, Depreciation and Amortisation
"EFC"	Employees Federation of Ceylon
"EPS"	Earnings per Share
"Est"	Estimated
"EV"	Enterprise Value, i.e. the sum of market value of equity and market value of debt adjusted for cash and cash equivalents
"FAO"	Food & Agriculture Organisation of the United Nations
"FY"	Financial Year
"Ha"	Hectares
"HPL", "the Company"	Hatton Plantations Ltd
"HR"	Human Resource
"JEDB"	Janatha Estates Development Board
"kg"	Kilogram
"LKR"	Sri Lanka Rupees
"LJEWU"	Lanka Jathika Estate Workers' Union
"MENA"	Middle East and North Africa
"Mn","mn"	Million
"M/s"	Messrs
"MT"	Metric Tons / One Thousand Kilograms
"NAV"	Net Asset Value

“NCPI”	National Consumer Price Index
“NDBIB”	NDB Investment Bank Limited
“NESU”	National Estate Services Union
“NSA”	Net Sales Average
“P:”	Perches
“p.a”	Per Annum
“P/BV”,”PBV”	Price to Book Value Ratio
“P/E”	Price to Earnings Ratio
“PP&E”	Property Plant and Equipment
“Qty.”	Quantity
“R:”	Roods
“ROE”	Return on Equity
“RPC”	Regional Plantation Company
“RTD”	Ready-to-Drink
“SLSPC”	Sri Lanka State Plantations Corporation
“TRI”	Tea Research Institute
“TTM”	Trailing twelve months
“UAE”	United Arab Emirates
“UK”	United Kingdom
“USA”	United States of America
“USD”	United States Dollars
“UTZ”	United Trader Zone
“VP”	Vegetatively Propagated
“VWAP”	Volume Weighted Average Price
“WATA”	Watawala Plantations PLC
“YoY”	Year on Year
“YPH”	Yield Per Hectare

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1.0 CORPORATE INFORMATION

The Company	Hatton Plantations Ltd
Registered Office	No 60, Dharmapala Mawatha Colombo 03 Tel : +94 11 4702400 Fax: +94 11 4641473
Legal Form of the Company	A Public Limited Liability Company Incorporated in Sri Lanka on September 14, 2017 under the Companies Act No. 07 of 2007
Company Registration Number (as a Public Company)	PB 5414
Place of Incorporation	Colombo, Sri Lanka
Company Secretaries	Corporate Advisory Services (Pvt) Ltd No 47, Alexandra Place Colombo 07 Tel : +94 11 2695782 Fax: +94 11 2695410
Auditors to the Company	M/s PricewaterhouseCoopers (Chartered Accountants) No. 100, Braybrooke Place Colombo 02 Tel : +94 11 7719700 Fax: +94 11 2303198
Bankers to the Company	Commercial Bank of Ceylon PLC 'Commercial House' No. 21, Bristol Street P.O. Box 856 Colombo 1 Tel: +94 11 2430420 Fax: +94 11 2449889 Hatton National Bank PLC HNB Towers No. 479, T. B. Jayah Mawatha P.O. Box 837 Colombo 10 Tel: +94 11 2664664 Fax: +94 11 2662814

Bankers to the Company	Nations Trust Bank PLC No 242, Union Place Colombo 02 Tel: +94 11 4313131 Fax: +94 11 4313132	
Board of Directors	Mr. Sunil G. Wijesinha	Chairman/ Non-Executive Independent Director
	Mr. G Sathasivam	Non-Executive Non-Independent Director
	Mr. V Govindasamy	Managing Director/ Executive Non-Independent Director
	Mr. A N Fernando	Non-Executive Independent Director
	Mr. M S Mawzoon	Non-Executive Non-Independent Director
	Mr. L D Ramanayake	Non-Executive Independent Director
	Mr. N B Weerasekera	Non Executive Independent Director
	Mr. B A Hulangamuwa	Non-Executive Non-Independent Director

2.0 RELEVANT PARTIES TO THE INTRODUCTION

Financial Advisors and Joint Managers to the Introduction	NDB Investment Bank Limited Level 1, NDB Capital Building No. 135, Bauddhaloka Mawatha Colombo 04 Tel: +94 11 2300385 Fax: +94 11 2300393
Joint Managers to the Introduction	Acuity Partners (Private) Limited No. 53, Dharmapala Mawatha Colombo 03 Tel: +94 11 2206206 Fax: +94 11 2437149
Lawyers to the Introduction	Nithya Partners Attorneys-at-Law No. 97A, Galle Road Colombo 03 Tel: +94 11 4712625 Fax: +94 11 2328817
Auditors and Reporting Accountants to the Introduction	M/s PricewaterhouseCoopers (Chartered Accountants) No. 100, Braybrooke Place Colombo 02 Tel: +94 11 7719700 Fax: +94 11 2303198

3.0 DETAILS OF THE INTRODUCTION

3.1 Listing of Shares of Hatton Plantations Ltd

An application has been made by the Company to the CSE for permission for a listing of Two Hundred and Thirty Six Million Six Hundred and Sixty Six Thousand Six Hundred and Seventy One Ordinary Voting Shares (236,666,671) being the entirety of the Issued and Paid up Ordinary Shares represented in the Stated Capital of the Company by way of an Introduction and in principle approval of the CSE has been received by the Company for the listing of such shares on the "Diri Savi Board" of the CSE.

Considering the eligibility criteria for a listing on the Diri Savi Board, HPL has already complied with Rule 2.1.3 (a) and 2.1.3 (c) of the CSE Listing Rules. With regard to Rule 2.1.3 (b) and Rule 2.1.3 (d) of the CSE Listing Rules, the CSE by their letter dated January 12, 2018 has granted a waiver on the requirements of the said Rules and permitted the shares of HPL to be listed on the "Diri Savi Board" of the CSE via an Introduction subject to the Company's compliance with all other applicable Rules. The aforesaid waiver has been granted by the CSE to the Company considering the following:

(i) As a consequence of the Arrangement detailed in Section 5.0 of the Introductory Document, the operational assets and liabilities of Watawala Plantation PLC (WATA) were transferred to the HPL. If the CSE does not permit a listing of the shares of HPL, the shareholoders of WATA would suffer a loss since the reduction of the Net Asset Value of WATA post Arrangement would have a negative effect on the share price of WATA. Further, the shareholders of WATA will not be in a position to trade on the new shares of HPL allotted to them, if the said shares are not listed on the CSE.

(ii) The existing shareholders of WATA as at the date of the Arrangement (i.e. September 30, 2017) will be mirrored in the Company and thus, no new shares would be offered to any other third party.

Accordingly the entirety of the HPL shares in issue amounting to Two Hundred and Thirty Six Million Six Hundred and Sixty Six Thousand Six Hundred and Seventy One Shares (236,666,671) will be listed on the Diri Savi Board of the CSE at the Reference Price of Sri Lanka Rupees Seven and Cents Eighty (LKR 7.80) per Share.

3.2 Basis for Reference Price at an Introduction

The Reference Price of Sri Lanka Rupees Seven and Cents Eighty (LKR 7.80) per share was determined by the Company in consultation with Financial Advisors and Joint Managers to the Introduction, NDB Investment Bank Limited in accordance with the Research Report compiled by the Financial Advisors and Joint Managers to the Introduction in line with Rule 3.4.8. b (iii) of the CSE Listing Rules. A copy of the Research Report is enclosed as Annexure 1 of this Introductory Document.

The Net Asset Value (NAV) per share and the Price to Book Value (P/BV) at the Reference Price are as follows;

TABLE 3.1 : NET ASSET VALUE (NAV) AND PRICE TO BOOK VALUE (P/BV)

As at	Net Asset Value (LKR Mn)	Net Asset Value per Share (LKR)	P/BV at the Reference Price (x)
March 31, 2017†	1,845.9	7.80	1.00
June 30, 2017‡	1,803.5	7.62	1.02
September 30, 2017*	1,856.2	7.84	0.99

† NAV as of March 31, 2017 is based on the five year summary of Balance Sheet presented in Annexure 2.

‡ NAV as of June 30, 2017 is based on the Report of Factual Finding in Connection with the Assets and Liabilities Identified for the Purpose of the Re-arrangement of Business of Watawala Plantations PLC prepared by M/s PricewaterhouseCoopers, presented in Annexure 3.

** NAV as of September 30, 2017 is based on the Audited Statement of Financial Position of Hatton Plantations Ltd, presented in Annexure 4.*

The investors should read the following Section 3.2.1 and Section 3.2.2 with the risk factors included under Section 9 of this Introductory Document and the details of the Company and its financial statements included in this Introductory Document.

3.2.1 Quantitative Factors

The historical Earnings per Share and Return on Equity (ROE) based on the five-year summary of Income Statements presented in Annexure 2 is given below:

TABLE 3.2 : EARNINGS PER SHARE (EPS) AND RETURN ON EQUITY (ROE)

For the Period Ended	Basic Earnings per Share (LKR)	Diluted Earnings per Share (LKR)	ROE (%)†	P/E
March 31, 2015	(1.69)	(1.69)	(19.80%)	-
March 31, 2016	(1.27)	(1.27)	(16.05%)	-
March 31, 2017	0.12	0.12	1.58%	65.00
Average EPS	**(0.95)**	**(0.95)**		

† ROE = Net Income/Average Shareholder Equity as calculated by NDBIB, the Financial Advisor and Joint Manager to the Issue.

Price to Earnings Ratio (P/E Ratio)

The P/E Ratio in relation to the Reference Price of LKR 7.80 per share is,

- Based on the basic and diluted EPS for the period ending March 31, 2017 of LKR 0.12, the P/E Ratio is 65.00 times.
- Since the Average EPS of LKR (0.95) is negative, the P/E Ratio is not meaningful
- Industry P/E is given in Table 3.3.

TABLE 3.3 : THE P/E RATIO RANGE OF THE INDUSTRY PEERS

	Name of the Peer Company	P/E Ratio based on TTM Earnings for the period ending September 30, 2017*† (x)
Highest	Madulsima Plantations PLC	1,192.64
Lowest	Talawakelle Tea Estates PLC	2.44
Industry Composite**		**6.24**

† TTM Earnings is calculated by NDBIB using both audited and unaudited financial statements published by respective companies on the CSE.

** Market Capitalisation is based on the 3-month VWAP up to September 29, 2017. The market prices for shares in plantation sector is experiencing a significant increase since Mid-2017 and this increase might not hold in the long run. Hence, 3-month VWAP was used to normalise the market prices of peer companies.*

*** Sector Clasification: NDBIB, Financial Advisor and Joint Manager to the Issue, calculated the industry composite based on the performance of listed Companies with revenue contribution from Tea exceeds 95% of their total revenue i.e. Talawakelle Tea Estates PLC, Bogawantalawa Tea Estates PLC, Udapussellawa Plantations PLC, Maskeliya Plantations PLC, Madulsima Plantations PLC*

Enterprise Value to EBITDA Ratio (EV/EBITDA Ratio)

The EV/EBITDA Ratio in relation to the Reference Price of LKR 7.80 per share is,

- Based on the EBITDA for the TTM ending September 30, 2017 of LKR 597.4 Mn, the EV/EBITDA Ratio is 3.56 times.
- Based on the EBITDA for the financial year ending March 31, 2017 of LKR 289.9 Mn, the EV/EBITDA is 7.31 times.

TABLE 3.4 : THE EV/EBITDA RATIO OF THE INDUSTRY PEERS

	Name of the Peer Company	EV/EBITDA Ratio based on TTM EBITDA for the period ending September 30, 2017†* (x)
Highest	Madulsima Plantations PLC	8.64
Lowest	Talawakelle Tea Estates PLC	2.15
Industry Composite**		**4.20**

† TTM EBITDA is calculated by NDBIB using both audited and unaudited financial statements and Net Debt is taken from the unaudited interim financial statements as at September 30, 2017 published by respective companies on the CSE.

** Market Capitalisation is based on the 3-month VWAP up to September 29, 2017. The market prices for shares in plantation sector is experiencing a significant increase since Mid-2017 and this increase might not hold in the long run. Hence, 3-month VWAP was used to normalise the market prices of peer companies.*

***Sector Clasification: NDBIB, Financial Advisor and Joint Manager to the Issue, calculated the industry composite based on the performance of listed Companies with revenue contribution from Tea exceeds 95% of their total revenue i.e. Talawakelle Tea Estates PLC, Bogawantalawa Tea Estates PLC, Udapussellawa Plantations PLC, Maskeliya Plantations PLC, Madulsima Plantations PLC*

Net Asset Value (NAV) and Price to Book Value Ratio (P/BV Ratio)

The P/BV Ratio in relation to the Reference Price of LKR 7.80 is,

- Based on the NAV per Share as at March 31, 2017 of LKR 7.80, the P/BV Ratio is 1.00 times.
- Based on the NAV per share as at September 30, 2017 of LKR 7.84, the P/BV Ratio is 0.99 times.

The P/BV ratio for the peer group using NAVs as at September 30, 2017 and Market Capitalisation based on the 3-month VWAP up to Septmeber 29, 2017 are given in the table below;

TABLE 3.5 : P/BV RATIO RANGE OF THE INDUSTRY PEERS

Particulars	Name of the Peer Company	P/BV Ratio based on Net Asset Values as at September 30, 2017 †* (x)
Highest	Udapussellawa Plantations PLC	1.05
Lowest	Talawakelle Tea Estates PLC	0.55
Industry Composite**		**0.83**

† Net Asset Values as per the financial statements published on the CSE

** Market Capitalisation is based on the 3-month VWAP up to September 29, 2017. The market prices for shares in plantation sector is experiencing a significant increase since Mid-2017 and this increase might not hold in the long run. Hence, 3-month VWAP was used to normalise the market prices of peer companies.*

*** Sector Clasification: NDBIB, Financial Advisor and Joint Manager to the Issue, calculated the industry composite based on the performance of listed Companies with revenue contribution from Tea exceeds 95% of their total revenue i.e. Talawakelle Tea Estates PLC, Bogawantalawa Tea Estates PLC, Udapussellawa Plantations PLC, Maskeliya Plantations PLC, Madulsima Plantations PLC*

Peer Entity Accounting Ratios

The comparable ratios as per latest audited financial statements of the identified peers are given below.

TABLE 3.6 : COMPARISON OF KEY RATIOS ACROSS PEERS – AS PER AUDITED AINANCIAL STATEMENTS†

Peer Company	Net Asset Value per Share (LKR)	Earnings per Share (EPS) (LKR)	P/E Ratio* (x)	EV / EBITDA* (x)	P/BV Ratio* (x)	ROE** (%)
Talawakelle Tea Estates PLC	87.32	9.84	5.12	3.28	0.58	12.45%
Bogawantalawa Tea Estates PLC	16.51	0.74	21.43	6.18	0.95	4.76%
Udapussellawa Plantations PLC	25.28	(9.37)	NM	NM	1.45	(33.25%)
Maskeliya Plantations PLC	16.36	(1.72)	NM	8.70	1.05	(10.26%)
Madulsima Plantations PLC	14.60	(1.73)	NM	NM	1.06	(11.39%)

† *Financial Year for Udapussellawa Plantations PLC and Madulsima Plantations PLC ends in December 31 while the financial year for rest of the peer companies ends in March 31.*

**Market Capitalisation is based on the 3-month VWAP up to September 29, 2017. The market prices for shares in plantation sector is experiencing a significant increase since Mid-2017 and this increase might not hold in the long run. Hence, 3-month VWAP was used to normalise the market prices of peer companies.*

** *ROE as calculated by NDBIB, the Financial Advisor and Joint Manager to the Issue, using Average Net Asset Value for the year*

NM – Not Meaningful

Additionally, the peer multiples using TTM operations for the period ending September 30, 2017 is provided below;

TABLE 3.7 : COMPARISON OF KEY RATIOS ACROSS PEERS - AS PER TTM OPERATIONS FOR THE PERIOD ENDING SEPTEMBER 30, 2017**

Peer Company	Net Asset Value per Share (LKR)	Earnings per Share (EPS) (LKR)	P/E Ratio* (x)	EV / EBITDA* (x)	P/BV Ratio* (x)	ROE† (%)
Talawakelle Tea Estates PLC	92.00	20.66	2.44	2.15	0.55	26.22%
Bogawantalawa Tea Estates PLC	18.63	2.63	6.00	4.32	0.85	15.83%
Udapussellawa Plantations PLC	34.92	5.85	6.28	4.24	1.05	19.38%
Maskeliya Plantations PLC	19.62	4.83	3.54	3.71	0.87	28.93%
Madulsima Plantations PLC	15.91	0.01	1,192.64	8.64	0.97	0.08%

**Market Capitalisation is based on the 3-month VWAP up to September 29, 2017. The market prices for shares in plantation sector is experiencing a significant increase since Mid-2017 and this increase might not hold in the long run. Hence, 3-month VWAP was used to normalise the market prices of peer companies.*

***All the TTM parameters are calculated by NDBIB using both audited and unaudited financial statements published by respective companies on the CSE.*

† *ROE as calculated by NDBIB, the Financial Advisor and Joint Manager to the Issue, using Average Net Asset Value for the year*

3.2.2 Qualitative Factors

The qualitative factors considered in arriving at the Reference Price are disclosed in Section 5.0 of the Introductory Document.

3.3 Inspection of Documents

The Introductory Document and Articles of Association of the Company will be available on the website of the CSE, www.cse.lk, on the website of the Company, www.hattonplantations.lk on the website of the Financial Advisors and Joint Managers, www.ndbib.com and Joint Managers, www.acuity.lk, for a period of not less than seven (7) Market Days prior to the submission of the Declaration referred to in Appendix 2D of the CSE Listing Rules and not less than fourteen (14) Market Days from the date of submission of the aforesaid Declaration as stipulated in Rule 3.4.11 (a) (i) of the CSE Listing Rules.

The research report prepared by NDB Investment Bank Limited justifying the Reference Price (Annexure 1 to this Introductory Document) will be available on the website of the CSE, www.cse.lk, on the Company website, www.hattonplantations.lk and on the website of the Financial Advisors and Joint Managers, www.ndbib.com and Joint Managers, www.acuity.lk for a period of two (02) months from the date of granting approval in principle for the listing of shares of the Company by the CSE as stipulated in Rule 3.4.11 (a) (ii) of the CSE Listing Rules.

Further, details of share allotments carried out during twelve (12) months prior to the date of Initial Listing Application as disclosed in Section 8 would be made available for inspection by the public during normal working hours at the registered office of the Company, No 60, Dharmapala Mawatha, Colombo 3 and also be available on the website of the CSE, www.CSE.lk and on the website of the Company, www.hattonplantations.lk from the date of granting approval in principle for the listing of shares of the Company by the CSE up to the date of listing of the shares of HPL on the CSE.

3.4 Declaration to the CSE and Secondary Market Trading

The Company will submit a declaration to the CSE referred to in Appendix 2D of the CSE Listing Rules on the Market Day immediately following the day on which the Introductory Document is made available to the member firms and trading members of the CSE subject to the Company making the Introductory Document available on the websites mentioned under Section 3.3 for a period of not less than seven (7) Market Days prior to the submission of the Declaration. Trading of shares on the secondary market will commence on or before the third (3^{rd}) Market Day from the receipt of the declaration by the CSE as per the CSE Listing Rules.

4.0 TEA INDUSTRY

4.1 Overview – Global Tea Industry

Tea is considered as the second most popular beverage in the world after water (FAO). It is assumed to have originated from China, where it was considered to be a medicinal drink. Tea was introduced to the outside world by Dutch colonists in early 17th century. By the 18th century, Tea became a popular drink among the affluent British citizens, who preferred to consume Black Tea with milk and sugar. British colonists introduced Tea to India and Sri Lanka subsequently in the 19th century in order to eliminate the empire's heavy reliance on Chinese imports. Tea imports from India and Sri Lanka led to low Tea prices in Europe and thereby Tea became an affordable beverage for the masses. This resulted in an exponential growth of Tea plantations in South and South East Asia and Tea became a major source of foreign exchange earnings for the countries involved in plantations. By the 20th century, the Tea plantations were introduced to Africa. Since its initial commercial introduction in the 17th century, the Tea industry has witnessed many changes and developments, both in terms of production as well as consumption.

Production

Although Tea was considered to be native to the East and South Asia, the production of Tea has now spread among many countries, covering Asia, Africa, Oceania and South America. Even though Tea is cultivated in about 35 countries worldwide on a commercial basis, global Tea production is primarily concentrated amongst seven key producers accounting for approximately 90% of the world's Tea production (http://worldteanews.com/news/global-tea-production-2015). In recent years Kenya, China and India have recorded considerable growth in the production of Tea.

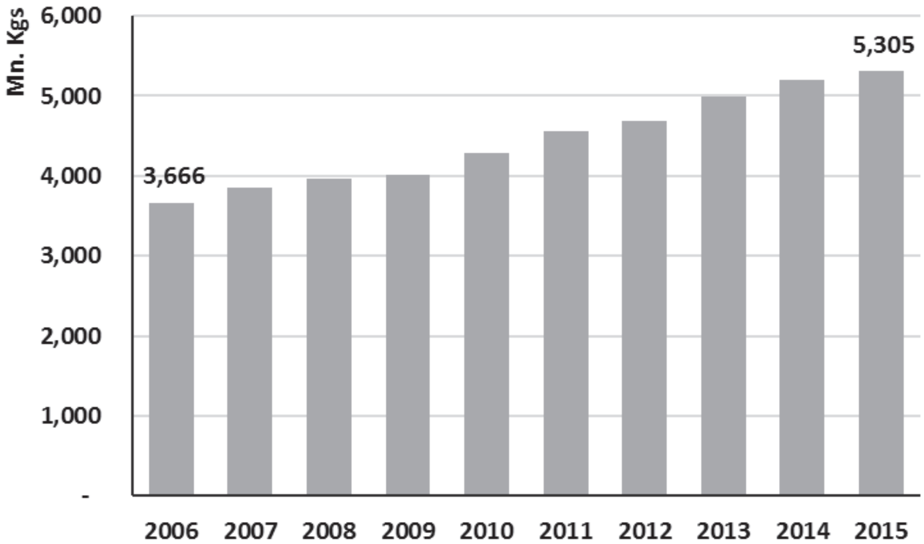
TABLE 4.1 : WORLD'S TOP TEA PRODUCING COUNTRIES IN 2015

Country	Production (Mn. Kgs)	Market Share (%)
China	2,278	42.94%
India	1,209	22.79%
Kenya	399	7.52%
Sri Lanka	329	6.20%
Turkey	259	4.88%
Vietnam	170	3.20%
Indonesia	129	2.43%
Others	532	10.03%
Total	**5,305**	**100.00%**

Source: International Tea Committee - Annual Bulletin of Statistics

While China, India and Sri Lanka used to dominate world Tea production, the share of African countries has increased significantly over the last two decades. Despite being the largest Tea producer in the world, more than 64% of the Chinese Tea production in 2014 came from Green Tea (Food & Agriculture Organisation of the United Nations, Committee on Commodity Problems, Intergovermental Group on Tea, Current Situation of Tea Prodcution and Marketing in China, 2016). Hence, India is the largest producer of Black Tea in the world.

FIGURE 4.1 : WORLD PRODUCTION OF TEA (2006-2015)



Source: International Tea Committee - Annual Bulletin of Statistics

The overall Tea production has grown at a CAGR of 4.19% from 2006 to 2015. This increase has been largely due to the increase in production in China which increased at a CAGR of 9.24% during the same time (International Tea Committee – Annual Bulletin of Statistics).

The production in 2016 is estimated to have reached 5,500 mn kgs, with China continuing to be the largest producer with an approximate quantity of 2,350 mn kgs. India's production is estimated to have contributed 23% to the world Tea production, maintaining its position as the largest black Tea producer, while Kenya has recorded its highest ever production of 475 mn kgs in 2016. The other main Tea producing countries including Sri Lanka, Turkey, Vietnam, Indonesia and Bangladesh are expected to have recorded lower production volumes than in 2015 (John Keells PLC, Tea Review 2016).

The production of green Tea is expected to demonstrate a higher growth rate than the production of Black Tea given the recent popularity of the health benefits of green Tea which has supported the growth in other markets. The total Green Tea production is expected to reach 2,970 mn kgs by 2023 (accounting for c.41.6% of total production) as per Food & Agriculture Organisation of the United Nations (FAO) (World Tea Production and Trade – Current & Future Development) estimates when compared with the estimated production of 1,580 mn kgs in 2015 (accounting for c.29.8% of total production). China accounted for more than 80% of global green Tea output in 2015.

In the recent years, the gap between production and apparent consumption has increased resulting in a surplus production, with the surplus reaching 307 mn kgs in 2015, thus affecting the prices. However, since 3Q2016 Tea prices have been witnessing a sharp increase due to the reduction in supply owing to adverse effects of changing weather patterns on Tea production as well as due to the increase in export demand from oil producing countries owing to the recovery in oil prices.

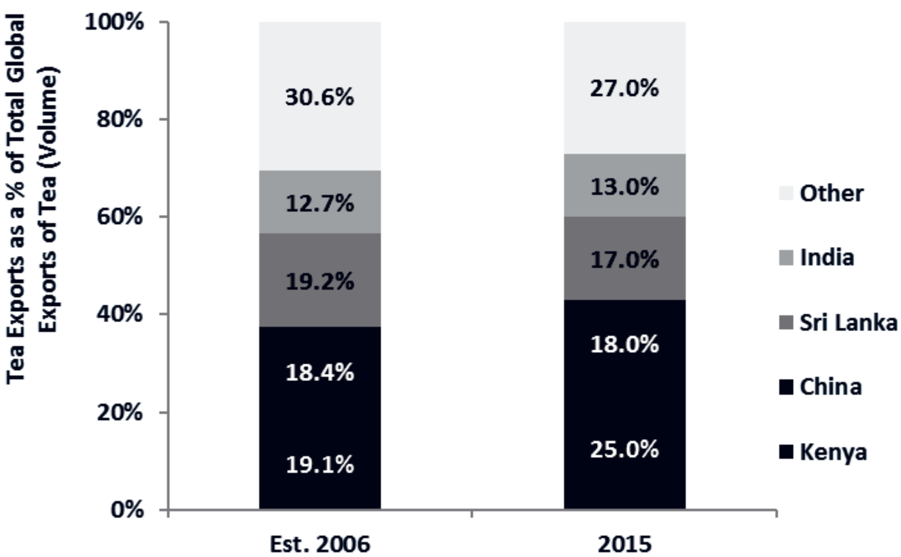
Tea Exports

The export volumes grew at a CAGR of 1.48% from 2006 to 2015, despite the CAGR for Tea production being 4.19% over the same period. This reflects the continuous growth in consumption within the producing countries (International Tea Committee – Annual Bulletin of Statistics). With the increasing trend of retention of production within the producing countries itself, Tea exports recorded a decline, with only 34% of the total production being exported in 2015, when compared to the 43% in 2006 (http://worldteanews.com/news/global-tea-production-2015).

The YoY export volume dipped by 1.6% to 1,802 mn kgs in 2015 cf. 1,830 mn kgs in 2014, owing to the sliding Tea prices from the peak experienced during 2010 – 2013. The political and economic downturn in the major importing economies i.e. Iran and other Middle Eastern countries, Russian Federation etc. contributed to this decline in volumes.

In 2015, Kenya led the exports with 25%, followed by China, Sri Lanka and India with 18%, 17% and 13% respectively (International Tea Committee – Annual Bulletin of Statistics). Over the last 10 years, China overtook Sri Lanka's position as the second largest Tea exporter through its growth in production volumes.

FIGURE 4.2 : WORLD TEA EXPORTS (2006 EST. – 2015)



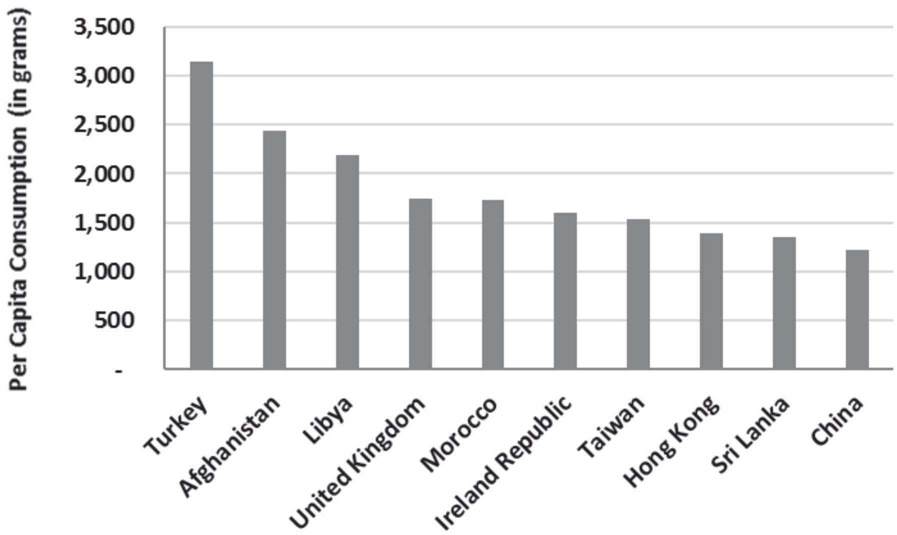
Source: International Tea Committee - Annual Bulletin of Statistics & Food & Agriculture Organisation of the United Nations

Consumption

World Tea consumption is estimated to have grown by approximately 3.8% p.a from 3,584 mn kgs in 2006 to 4,999 mn kg in 2015 (International Tea Committee – Annual Bulletin of Statistics). Tracing the exact consumption is difficult due to the lack of information, particularly on the consumption of Tea within the producing countries. The above mentioned figures have been estimated by experts using retention and import volumes.

China, India and Turkey are the largest consumers of Tea, with consumption of 1,812 mn kgs, 948 mn kgs and 253 mn kgs respectively in 2015. The annual per capita Tea consumption remains the highest in Turkey with 3.14 kg and followed by Afghanistan and Libya with 2.4 kg and 2.2 kg respectively, in 2015 (http://worldteanews.com/news/global-tea-production-2015).

FIGURE 4.3 : TOP 10 COUNTRIES WITH THE HIGHEST PER CAPITA TEA CONSUMPTION IN THE WORLD BASED ON THE TRIENNIAL AVERAGE (2013-2015)



Source: International Tea Committee - Annual Bulletin of Statistics

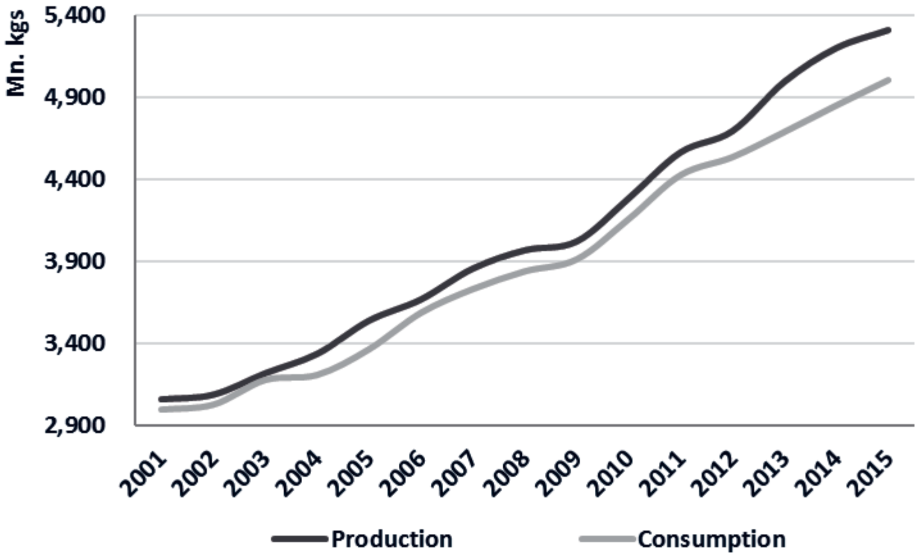
India and China recorded the highest growth in total Tea consumption given the increase in demand backed by growth in the population.

Significant domestic consumption among producing countries means that the major producers and major exporters do not necessarily correspond. India for example, consumes c.78% of its annual production, while Turkey, the fifth largest producer, consumes 97.7% of its production.

The Demand and Supply Balance

Over the past several years, the characteristics of the world Tea supply have changed considerably with the entry of many new producers to the market. The availability of sufficient resources such as land, cheap labour, and modern technology have enabled these countries to penetrate deeply into the markets of traditional suppliers like India and Sri Lanka.

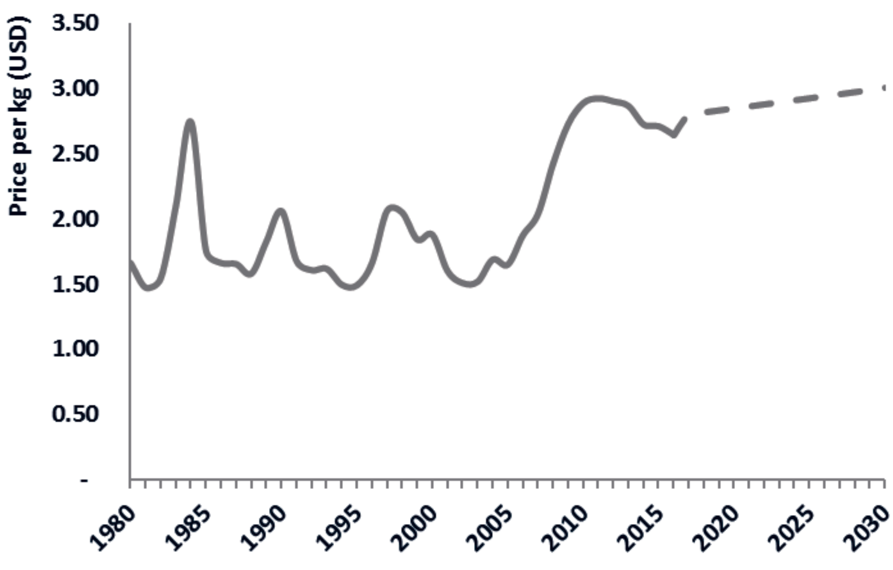
FIGURE 4.4 : WORLD PRODUCTION AND CONSUMPTION OF TEA (2001-2015)



Source: International Tea Committee - Annual Bulletin of Statistics

The demand and supply balance of Tea has more often than not been in equilibrium despite having a relatively shorter shelf life. World Tea production grew at a CAGR of 4.19% as opposed to a 3.8% growth in consumption during 2005-2015, based on the consumption estimates given by the International Tea Committee. Tea consumption has remained below production levels for over a decade which resulted in excess supply. The excess supply had an adverse impact on global Tea price.

FIGURE 4.5 : ANNUAL TEA PRICES - THREE AUCTION AVERAGE (1980-2030)



Source: World Bank – Commodity Prices – History & Projections (Updated April 2017)

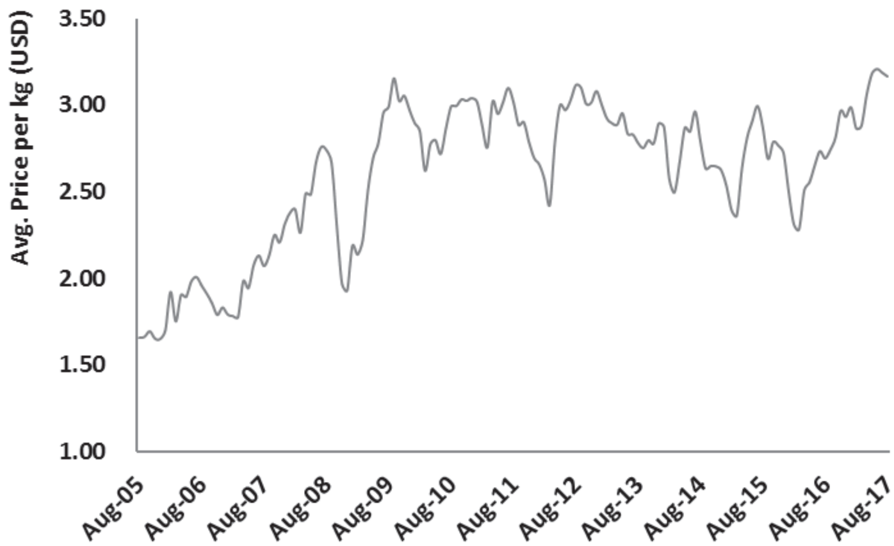
Tea prices (as indicated by the three-auction average of Colombo, Kolkata, and Mombasa) have dropped by 2.46% to USD 2.64 per kg during 2016, cf. USD 2.71 per kg in 2015. The Tea prices witnessed a declining trend from 2011 subsequent to the all-time high of more than USD 3.0 per kg during 2009.

From mid-2016 onwards, the global Tea prices have seen a recovery with a peak of USD 3.21 per kg recorded in July 2017. Increasing trend in the price is mainly attributable to the adverse climatic patterns that prevailed in some of the producer countries which led to lower production quantities.

Sri Lanka continues to attract higher prices for its Tea with significant peaks being evident from late 2016 with the prices reaching a high of USD 4.27 per kg in April 2017.

The African Tea auctioned in Mombasa recorded an average price of USD 2.80 per kg in 2017 (Jan-Aug 2017) and the Kolkata auction prices recorded an average of USD 2.38 per kg during the same period (World Bank – Commodity Prices – History & Projections (Updated April 2017)).

FIGURE 4.6 : MONTHLY WORLD TEA PRICES - THREE AUCTION AVERAGE (AUG 2005 – AUG 2017)



Source: World Bank – Commodity Prices – History & Projections (Updated April 2017)

Value Added Tea in the Global Context

Export of value added Tea has seen a steep growth compared to bulk Tea. Factors that contributed to the overall growth of the value added Tea segment includes;

- Success of refrigerated and Ready-to-Drink (RTD) Tea
- Growing consumer awareness and concerns over healthy eating and drinking habits
- Acquisitions to expand distribution channels (Sara Lee purchasing Tea Forte, Coca Cola purchasing Honest Tea and Nestle's acquisition of Sweet Leaf Tea)
- Rapid expansion of specialty Tea retailers
- Increased emphasis by world renowned coffee houses on their Tea offerings
- Sustained promotion of Tea by the big restaurant chains
- The proliferation of Tea rooms and other Tea offerings at food service

While loose Tea has become the "gourmet" Tea drinkers' form of Tea, industry experts expect the usage of Tea bags to improve significantly. The Tea bag segment is progressing strong with aesthetic improvements (pyramid shapes, higher quality Teas, and better product visibility within the Tea bag) as well as assembly improvements (eliminating staples, glue etc.).

Future Outlook

It is expected that the global Tea industry will expand by approximately 4% p.a. over the period from 2016 – 2020, mainly as a result of the rising awareness of several health benefits associated with the consumption of Tea (https://www.technavio.com/report/global-food-tea-market). Transparency Market Research forecasts the global Tea market to reach a value of USD 47.2 Bn by 2020 owing mainly to the growing popularity of green Tea.

Experts believe that it is critical for the industry to cut down on the supply in order to ensure a healthy price for Tea, while demand expansion is also considered a key factor particularly in the non-traditional markets, which is expected to be achieved by emphasising on the health benefits of Tea, since high level of consumption in traditional markets.

4.2 Sri Lanka Tea Industry

Overview

The origin of Sri Lanka's Tea industry dates back to 1824 with the first Tea plant brought to Ceylon by the British from China. However, Tea planting for commercial purposes began in 1867 when James Taylor started the first Tea plantation in Kandy. Subsequent to the successful implementation of the first plantation, the Tea plantations saw a rapid growth and the existing coffee estates were converted into Tea plantations. By 1927, Tea production in the country exceeded 100 mn kgs which was almost entirely exported. By 1965, Sri Lanka became the world's largest Tea exporter for the first time.

During 1971–1972, the Government of Sri Lanka nationalised privately owned estates including Tea, rubber, and coconut plantations. The Government operated and managed these estates through various bodies which were formed for this purpose, which in the case of Tea was mainly the Sri Lanka State Plantation Corporation (SLSPC) and Janatha Estate Development Board (JEDB). The Sri Lanka Tea Board, the direct successor of the Tea Propaganda Board, was also formed during the same time period. In early 1990s, owing to growing financial losses, labour issues as well as administrative difficulties, the Government of Sri Lanka carried out a large scale privatisation of the Tea estates, where management contracts under long term leases were offered to the private sector while the title of the lands were retained with the Government. During the same time period, the rise of the Tea small-holder was also witnessed where individuals commenced cultivating small plantations in land owned by them. The small-holders would pluck the Tea themselves and supply to nearby factories. This sector has grown considerably with constant support provided by the Government and is currently responsible for a large portion of the country's green leaf produce.

Contribution to the Economy

The Tea industry plays an important role in the Sri Lankan economy since it is one of the major sources of foreign exchange earnings and a top contributor to export earnings. Although Tea was the highest foreign exchange earning commodity in the past, its contribution has been reducing over the last few years, both in terms of the export value as well as the percentage of contribution to exports.

TABLE 4.2 : CONTRIBUTION OF THE TEA INDUSTRY TO EXPORT EARNINGS (2010-2016)

Year	Export Value of Tea (USD Mn)	% of Total Exports
2007	1,025.2	13.2%
2008	1,271.5	15.7%
2009	1,185.1	16.7%
2010	1,440.6	16.7%
2011	1,490.9	14.1%
2012	1,411.9	14.4%
2013	1,542.2	14.8%
2014	1,628.3	14.6%
2015	1,340.5	12.0%
2016	1,269.0	8.0%

Source: Central Bank of Sri Lanka Annual Report 2016

Sri Lanka Tea Production

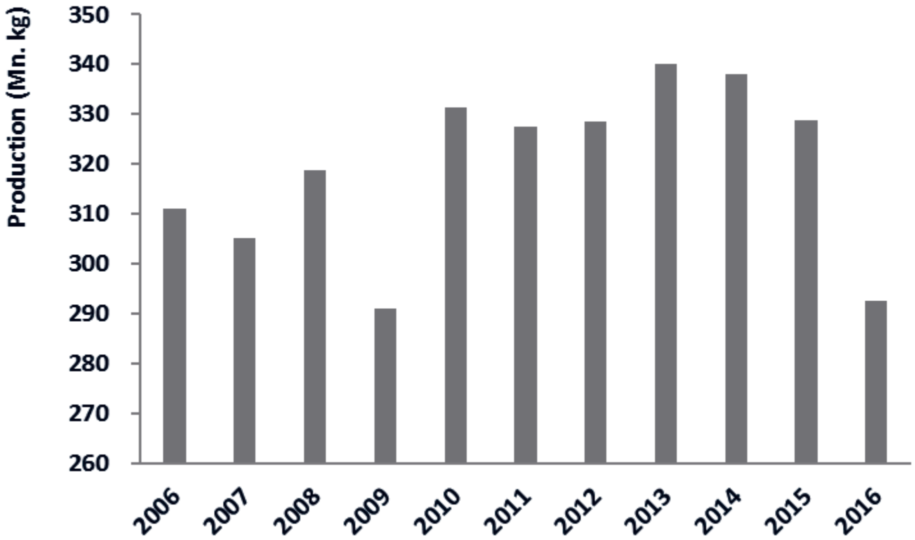
Sri Lanka produces Tea throughout the year and approximately 3.3% of the country's land mass accounts for Tea plantations (Central Bank of Sri Lanka Annual Report 2016). The Tea growing areas are mainly concentrated in the Central highlands and Southern inland areas of the island. They are broadly grouped according to the elevations as high grown (above 1,200 meters), medium grown (between 600 to 1,200 meters), and low grown (up to 600 meters). High grown Tea from Sri Lanka is reputed for its taste and aroma and is much sought after by blenders of Tea importing countries. The medium grown Tea provide a thick colour variety which is popular in Australia, Europe, Japan and North America. The Tea produced in low grown areas is mostly sought by the Western Asian, Middle Eastern and CIS countries.

Tea planting is mainly carried out by Tea small-holders and the Regional Plantation Companies (RPCs). The green leaf produced by the RPCs and the Tea small-holders are processed to manufacture black Tea and other varieties. The finished product is then sold through the Colombo Tea Auction to local and foreign buyers. Part of the Tea is consumed locally while bulk of the production is shipped to foreign countries by local and foreign owned export companies.

Traditionally, Sri Lanka produced orthodox Teas while a small portion was produced through other methods. In the recent years, there has been a significant shift towards unorthodox production methods. In 2016, orthodox methods were used to produce approximately 93% of the total production while unorthodox methods produced 7% (Sri Lanka Tea Board Tea Market Updates – Quarterly Reports 2016).

In the orthodox process of production, semi dried green shoots are ruptured by rolling achieved from a rotary movement. The rolling process ruptures and twists the leaves. When Tea leaves are crushed an oxidation process begins, which is followed by firing in order to produce the commonly known black Tea. Unorthodox production process mainly includes the production of CTC (cut, Tear, curl) Tea. The production process begins by cutting the withered leaf into a uniform size by machines. Then the leaves are fed into metal rollers to be crushed, torn and curled. The extracted cell cap is collected and added to the leaves again. The crushed leaves are then oxidised, dried and sorted.

FIGURE 4.7 : ANNUAL SRI LANKAN TEA PRODUCTION (2006-2016)



Source: Central Bank of Sri Lanka Annual Report 2016

The Tea production in 2016 substantially declined as a result of adverse weather conditions and inability to complete timely fertiliser applications as well as demand side pressures such as the low demand from major markets such as the Middle East due to drop in oil prices, political instability, currency fluctuations etc. Low grown Tea production, being the major contributor to the overall Tea production recorded a decline of 9.3% while high and medium grown Tea recorded reductions of 14.6% and 12.7% respectively. The smallholder segment continued to contribute the major portion to the overall production with a contribution of 74.5% to the total Tea production of the country in 2016 (Central Bank of Sri Lanka Annual Report 2016).

The prices recorded at the Colombo Tea Auction in 2016 were higher than the previous year's prices while the depreciation of the Sri Lanka Rupee also contributed towards high auction prices. Although producers were able to derive a higher price per kilogram produced, the cost of production was also higher due to lower yields. Year 2016 posed multiple issues for Tea factory owners as well as the RPCs. The escalating labour costs, stagnant or lower productivity and higher overheads per kilogram due to lower production volumes affected the RPCs. The smaller Tea factory owners sourcing adequate green leaf to operate the factories at a feasible level proved difficult, thus resulting in competition among them and higher prices to secure adequate leaf quantities.

The exporters too encountered a plethora of issues during 2016 resulting in large trading losses. Difficulties in making market predictions, currency devaluation leading to higher costs of packaging, inability to hold stock due to lower margins requiring sudden purchases to fulfil orders etc. were the troubles faced by the Tea export community in 2016.

Tea Export Market

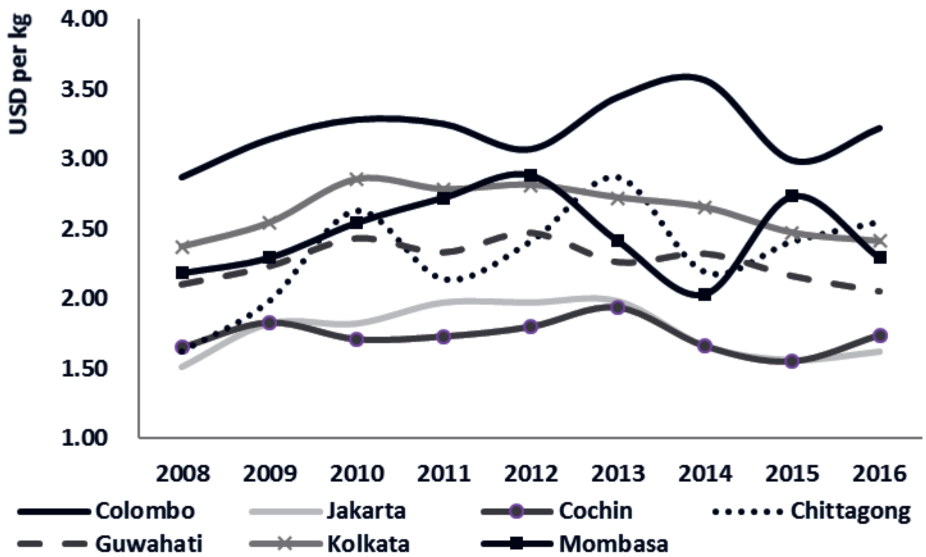
Sri Lankan Tea, known as 'Ceylon Tea' for generations is reputed worldwide for its taste and aroma. For over 150 years, the Tea industry has continued to support the country's economy as one of the largest Tea exporting nations of the world.

Sri Lanka used to be the leading Tea exporter in the world until it was overtaken by Kenya and China. In recent times Sri Lanka has encountered competition mainly from African countries in retaining its position as well as from the demand side pressures due to political unrest, currency devaluation and economic sanctions impacting the major export markets. Demand is expected to grow with the easing off of these matters and the oil price stability.

Despite increased competition, during the first quarter of 2017, a total of 77.4 mn kg were exported compared with 70.2 mn kg in the same period for 2010. Even though Sri Lanka is no longer the number one Tea exporter in terms of volume, it still continues to maintain its position as the world's highest Tea export revenue earner due to the ability to fetch higher prices.

Over 90% of the country's production is exported with a market share of approximately 17% (http://worldteanews.com/news/global-tea-production-2015).

FIGURE 4.8 : AVERAGE TEA PRICES AT MAJOR AUCTIONS (2008-2016)



Source: Sri Lanka Tea Board Annual Report 2010 and Tea Market Updates (2014 – 1st Quarter 2017)

The above graph illustrates the comparison of the average prices realized at the Tea auctions around the world. Compared to other Tea exporting countries, Sri Lanka has continuously fetched higher prices for its quality Tea.

Presently, Sri Lankan Tea exports reach approximately 145 countries (Sri Lanka Tea Board – Tea Market Update – 4th Quarter 2016). Out of the main export destinations, Russia and the Middle Eastern markets remain the most important markets for Ceylon Tea.

TABLE 4.3 : TOP 10 DESTINATIONS OF CEYLON TEA (2015 - 2016)

Country	Quantity (Mn. Kgs)		% of Total Exports	
	2016	2015	2016	2015
Russia	34.08	36.10	11.80%	11.76%
Iran	33.60	29.56	11.64%	9.63%
Iraq	32.41	31.04	11.22%	10.11%
Turkey	27.06	33.68	9.37%	10.97%
UAE	17.83	22.92	6.17%	7.47%
Libya	12.62	9.90	4.37%	3.23%
Syria	11.96	10.94	4.14%	3.56%
Azerbaijan	10.54	11.16	3.65%	3.64%
Japan	7.67	8.35	2.66%	2.72%
China	7.46	7.20	2.58%	2.35%
Total	**195.23**	**200.85**	**67.61%**	**65.44%**

Source: Sri Lanka Tea Board – Tea Market Update (4th Quarter 2016)

The Russian Federation retained its position as the largest buyer of Ceylon Tea, marginally increasing its share of the total Tea exports in 2016, to 11.8%. Both Iran and Iraq showed signs of recovery with larger export volumes to these countries. Despite the rankings based on the annual figures, by September 2016 Iraq surpassed Russia as well as Iran to emerge as the largest export market for Ceylon Tea, although Russia managed to retain its initial position by the end of 2016 (Sri Lanka Tea Board – Tea Market Update – 4th Quarter 2016).

During the first quarter of 2017, Russia was the largest importer of Ceylon Tea, followed by Iraq, Turkey, Iran and UAE, while the absorption by the top ten destinations surpassed 68% (Sri Lanka Tea Board – Tea Market Update – 1st Quarter 2017).

Future Outlook

The Sri Lankan Tea industry's future is expected to be heavily dependent on its ability to control the high cost of production. Being one of the highest in the world, owing to higher wage demands and other employee benefits, the labour costs are expected to put pressure on the margins. Furthermore, the current weedicide policy and removal of fertiliser subsidy from RPCs would impact the production. Additionally, the unpredictable weather patterns resulting from agro-climatic conditions are also expected to have a negative impact on the Tea production.

On the demand side, the recovery of the export markets combined with the depreciation of the Sri Lanka Rupee is likely to favourably affect the demand for Ceylon Tea. However, experts are of the opinion that despite high prices obtained for Ceylon Tea over the past few months, the long term sustainability would depend on the quality of the produce being maintained. Nevertheless, the producers would have to continuously improve the cost structure by adopting lean management practices.

5.0 BUSINESS OPERATIONS OF HATTON PLANTATIONS LTD

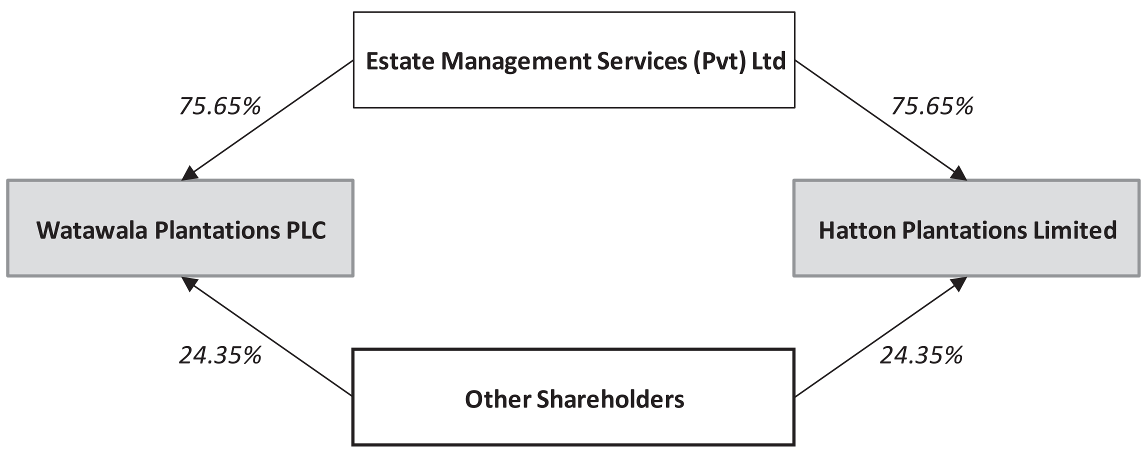
5.1 Overview of Hatton Plantations Ltd

Hatton Plantations Ltd (HPL) was incorporated on September 14, 2017 as a part of the "Arrangement" carried out by Watawala Plantations PLC (WATA) in terms of Section 256 (1) of the Companies Act No. 7 of 2007 which entailed vesting of all the operational assets and liabilities of the upcountry Tea business segment of WATA as at September 30, 2017 in HPL. In order to facilitate the said Arrangement, HPL on September 30, 2017 issued 236,666,671 shares of the Company to the shareholders of WATA as at end of trading on September 29, 2017 identical to their holding in WATA which is morefully disclosed in Section 8.0 of this document. Subsequent to the Arrangement, the palm oil business segment and other business segment (comprising primarily of Tea exports, cinnamon and income from other sources) continued to remain with WATA.

Directors of WATA decided and proceeded with the Arrangement in terms of the Companies Act as the best course of action for the segregation of the tea business with approval from Court and shareholders of WATA.

The structure of WATA and HPL post Arrangement is given below;

FIGURE 5.1: STRUCTURE OF WATAWALA PLANTAIONS PLC AND HATTON PLANTATIONS LTD (POST ARRANGEMENT)



5.2 Business Operations of HPL

Following the aforesaid Arrangement, the 'upcountry Tea business segment' of WATA was vested in HPL. This comprises of;

(i) Immovable property (i.e. the land) of the Tea estates identified in Table 5.2 below together with the factory buildings, bungalows and other buildings and structures, plant and machinery and fixtures and fittings located thereon;

(ii) Movable properties comprising of furniture and fittings, vehicles, stocks (including tradable or non-tradable stocks whether in transit, or lying in third party warehouses) and other properties lying in or around the Tea estates together with the equipment relating to the upcountry Tea business lying at the head office of WATA;

(iii) Investments in hydro power projects made by WATA*;

(iv) A bank deposit of LKR 200,548,536; and

(v) Liabilities relating to the upcountry Tea business including gratuity, bank loans, and trade payables.

** These hydro power investments consist of 621,818 shares (2.5% stake) of Sunshine Power (Pvt) Ltd valued at LKR 10.882 Mn and 1,076,300 shares (5% stake) of Unit Energy Lanka (Pvt) Ltd valued at LKR 10.765 Mn.*

Out of the approximately 11,350 hectares which had been leased out by WATA from JEDB and SLSPC, approximately 7,406 hectares relating to 17 Tea estates involved in the upcountry Tea business segment were vested in HPL. The 17 Tea estates in the upcountry Tea business segment are benchmarked with international best practices through external certifications given below;

TABLE 5.1 : EXTERNAL CERTIFICATIONS

Certification	Awarding Institution
RA Certificate	Rain Forest Alliance
Ethical Tea Partership Certificate	Ethical Tea Partnership
FLO Certificate	Fair Trade
ISO 22000:2005	Sri Lanka Standards Institute
HACCP	Sri Lanka Standards Institute

TABLE 5.2 : ESTATES VESTED IN HATTON PLANTATIONS LTD

	Name of Estate	Name of Lessor	Extent
1.	Waltrim	JEDB	578Ha / A:1427 R:2 P:25.6
2.	Kenilworth	JEDB	402Ha / A:992 R:3 P:30.4
3.	Abbotsleigh	JEDB	427.46Ha / A:1055 R:3 P:13
4.	Henfold	JEDB	540Ha / A:1333 R:0 P:0
5.	Darawella	JEDB	268Ha / A:662 R:0 P:0
6.	Lippakelle	JEDB	287.5Ha / A:710 R:0 P:20
7.	Agarakande	JEDB	229Ha / A:565 R:2 P:21
8.	Dickoya	JEDB	384.179Ha / A:949 R:1 P:12.5
9.	Wigton	JEDB	662Ha / A:1635 R:0 P: 0
10.	Vellai oya	JEDB	840Ha / A:2074 R:3 P:8
11.	Strathdon	JEDB	712Ha / A:1758 R:0 P:0
12.	Carolina	SLSPC	762 Ha / A:1882 R:0 P:22.4
13.	Binoya	SLSPC	320Ha / A:790 R:1 P:24
14.	Shannon	SLSPC	292Ha / A:721 R:0 P:0
15.	Hatton Pool Bank	SLSPC	94.47Ha / A:233 R:1 P:14
16.	Tangakelle	SLSPC	368Ha / A:908 R:3 P:33.6
17.	Ouvahkelle	SLSPC	240Ha / A:592 R:3 P:8

The aforesaid estates of HPL which are located in Hatton, Watawala and Lindula produce high and medium grown Teas, both in Orthodox (60% of production) and CTC form. The varieties of Tea facilitate the Company to cater to different consumer preferences. The varied product mix assists the Company to maintain a stable price for its Tea throughout the year despite seasonal and climatic fluctuations. The quality focused manufacturing strategy followed by WATA for Tea would continue to prevail under HPL with maximising productivity.

The success of this strategy is reflected in NSA, where NSAs of estates vested in HPL achieved an average NSA of LKR 517.26 during the FY2016/17 which was much higher than the industry average NSA of LKR 483.72 during the same financial year. Quality improvements have been done through the adoption of good agricultural practices such as advance pruning to manage rush crop and leaf quality, selective bought leaf purchasing, increase in worker knowledge through training on relevant areas, optimum fertiliser usage and improving the handling and care of fresh leaf once harvested.

At present, HPL has 11 factories with a total daily processing capacity of approximately 232,300 kg of green leaf.

TABLE 5.3 : FACTORIES LOCATED IN ESTATES UNDER HATTON PLANTATIONS LTD

	Factory	Manufacturing Type	Green Leaf Processing Capacity per Day (kgs)	Avg. Capacity Utilization (Green Leaf per Day – kgs)
1.	Agarakande	Orthodox/Rotorvane	12,000	8,000
2.	Henfold	Orthodox/Rotorvane	25,920	15,000
3.	Tangakelle	Orthodox/Rotorvane	18,345	11,500
4.	Waltrim	Orthodox/Rotorvane	24,000	16,000
5.	Shannon	Orthodox/Rotorvane	11,520	10,000
6.	Kenilworth	Orthodox/Leafy	15,840	13,000
7.	Carolina	CTC	20,280	14,000
8.	Strathdon	CTC	26,265	16,000
9.	Vellaioya	Orthodox/Rotorvane	20,040	18,000
10.	Dickoya	Orthodox/Rotorvane	19,440	12,000
11.	Abbotsleigh	CTC	28,155	25,000
	Total		**232,305**	**165,500**

During the FY2016/17, the upcountry Tea segment of WATA produced approximately 7,186,655 kgs of Tea (made Tea), which amounted to an utilisation of c. 50% of the total made Tea capacity. The capacity of the Company is split in the ratio of approximately 50% Orthodox/Rotorvane Teas, 10% Orthodox/Leaf Teas and 40% CTC Teas in made Tea terms. The Company cultivates and manufactures Tea which is then sent to be auctioned at the Colombo Tea Auction via brokers.

The Company's revenue generation mainly occur through selling an agricultural commodity. Therefore, the Company is a price-taker and the Company revenue is vulnerable for market movements. Additionally, much of the cost of production is dependent on several factors, which are not linked to Tea price movement. Hence, the movements in Tea prices would result in significant movements in profitability. The consecutive losses incurred in three financial years up to FY2016 is mostly due to the adverse market movements of Tea prices.

Hence forth, the Company expects to streamline its operations and improve the gross sales average rankings of its estates to ensure that it is less vulnerable to market movements. The segregation of assets and liabilities of the Upcountry Tea segment was done with a purpose of achieving the same. The Arrangement is expected to result in increasing strategic focus for the Tea segment and given its new status as a pure-play Tea cultivator, HPL is in a better position to attract fresh capital for further developments in its processes.

5.3 Human Resources

Employees engaged in upcountry Tea business segment of WATA as at September 30, 2017, continued to be employed under HPL on the same terms and conditions which they enjoyed with WATA. The experienced management Team employed at HPL is expected to contribute towards high growth and smooth operations in order to achieve the Company's future ambitions.

As at September 30, 2017, the Company's work force consisted of 7,628 employees and the break up of the work force is as follows;

TABLE 5.4 : WORKFORCE BREAKUP

Category	Number of Employees
Executive	66
Staff	425
Estate Workers	7,137
Total	**7,628**

The Company will continue to honour and effect the required agreements including the following, covering all associates and staff members. As in the case of WATA, subsequent to the Arrangement, the Company intends to be a party to the following agreements through an addendum;

- Workers Wage Collective Agreement signed between the Employers' Federation of Ceylon (EFC), Ceylon Workers' Congress (CWC), Lanka Jathika Estate Workers' Union (LJEWU) and Joint Plantations Trade Union Centre which covers areas such as the estate worker minimum daily wages, attendance linked incentives and productivity linked incentives; and

- Plantations Clerical Staff Collective Agreement signed between Employers' Federation of Ceylon (EFC) and Ceylon Estate Staffs' Union (CESU) which covers details with regard to estate staff including but not limited to appointment, salaries and increments, promotions, transfers and gratuity etc.

5.4 Future Direction of HPL

HPL intends to continue the focus on enhancing quality of Tea produced in order to improve the NSA above the respective elevational averages, and to improve the gross sales average rankings of the estates from its current rankings. In improving quality, the Company would focus on improving the quality of the raw materials to a minimum of 68% from its current level 60%-65% while it is also expected to bring down the damaged leaf average to less than 10%. These quality targets are expected to be met by introducing initiatives such as shear plucking with baskets, closer field plucking rounds, educating the pluckers on the importance of the quality of raw materials, carrying out the weighing at the field itself with the introduction of weighing sheds at the divisions and through the use of racks and handling baskets for leaf transportation**.** A social business model would be adopted to increase the quality of the bought leaf intake in CTC factories and from marginal fields.

In addition to this, the Company would also look in to value additions i.e. through the production and marketing of speciality Teas, direct sales of certain types of Teas etc. to move up the value chain of the Tea industry whilst also focusing on developing aspects such as online marketing.

HPL also plans to improve its ranking among the Regional Plantation Companies (excluding CTC) to the No. 2 position from its current ranking of No. 3 while obtaining the UTZ (United Trader Zone) certification for sustainable farming. Agarakanda and Henfold estates are expected to be amalgamated to reduce the cost of managing two separate estates.

With regard to replanting, the management expects to continue with the rehabilitation and planting low yielding seedling fields, while vacant areas would be infilled and category 'C' fields would be upgraded to category 'A' to improve productivity of the Vegetatively Propagated (VP) fields. The Company also expects to establish a centralised nursery in order to streamline the development and replanting processes. For the purposes of yield and field improvement, the management expects to implement measures such as burial pruning to improve soil carbon levels of fields, forking and deep draining, continuation of timely fertiliser and foliar application, consolidation of high and low shades, harvesting of marginal fields and weeding operations through a social business model and implementation of drip irrigation wherever possible.

In respect of labour force deployment, HPL expects to encourage shear harvesting and machine plucking to the extent possible whilst expecting to entirely mechanise the pruning process. The labour force would be deployed with priority given for harvesting while it is also expected to introduce a system of sharing labour with other estates within the Company in order to overcome any labour shortages. The management of HPL also expects to outsource or hire labour on contract basis for other agricultural work such as fertilizing, pruning etc. In order to improve attendance and enhance productivity, the estate workers are expected to be given additional cash advance payments while plans are underway to provide suitable accommodation for estate workers living in landslide prone areas. HPL would continue the initiative taken by WATA to disburse monthly wages to the estate workers through Bank accounts using the PAYFAST system.

It is also planned to assist in the improving of the infrastructural and living standards of the estate workers by converting Community Development Centres (CDCs) in to preschools and outsourcing the management of same, uplifting worker housing, enabling ex-workers to undertake certain field management and harvesting, providing training on shear harvesting and mechanisation etc.

The factories are also expected to be upgraded with energy efficient machinery and lighting wherever possible, while it is also expected to obtain the necessary certifications for the same.

Subsequent to carrying out relevant studies, HPL also intends to increase intercropping or planting multiple crops whereby it is expected to expand the planting of pepper, cinnamon, ginger, saffron as well as fruit plants. Marginal Tea lands and bare lands are expected to be converted to timber plantations while native plants are expected to be reintroduced for water and land conservation.

The management expects higher revenues as a result of anticipated price improvements at the auctions for the Tea produced by HPL owing to the recovery of the export markets as well as the superior quality of the Tea produced by HPL.

HPL also expects to sustain the margins through higher productivity and cost saving initiatives as well as appealing to customer preferences through international benchmark certification. In this regard, the Company expects to focus on either outsourcing or using contract workers for agricultural operations, weeding operations, factory firing and factory maintenance. The expected increase in the mechanised harvesting, use of high capacity vehicles for leaf transportation as well as the use of energy efficient methods would lead to overall cost savings.

The Arrangement is expected to assist the performance of the Company through detailed focus on the operations of the upcountry Tea segment with added flexibility in terms of catering to the changes in the external environment.

The Company intends to use both internally generated funds and borrowings from the banking system to fund the aforementioned projects. If necessary, the Company would raise fresh capital with the consent of its shareholders. The sources of funding and the funding mix would depend on several factors including but not limited to the attributes of a particular project, size of the investment, market interest rates prevailing at the time of implementation, the level of financial leverage of HPL at the time of implementation etc.

Further, HPL expects that following proposals highlighted during the Government Budget Speech 2018 for the development of the plantation sectors would be beneficial for HPL;

- Special loan scheme at a subsidized interest rate of 8% to invest in technology for the generation of solar power for individuals and companies engaged in agriculture and agro processing, including plantation.

- Budget allocation of LKR 250 Mn to the Ministry of Plantation Industries to strengthen the tea smallholders' productivity and the allocation of LKR 2,000 Mn to the Minsitry of Housing & Construction to construct houses for the plantation sector workers to shift accommodation from line rooms to houses.

5.5 Assumptions Relating to the Future Plans of HPL

The above mentioned future plans are based on the following assumptions;

- There will be no material changes in the economic and political environments of the main export markets, international competition and the global Tea industry which will affect the demand for Tea.
- The local economic and industrial policies will not undergo any material changes which will have an adverse effect on the Tea industry.
- There will not be any substantial adverse impacts on the cost of production as a result of unexpected wage increases/demands by the trade unions, fertiliser related cost escalations, energy cost hikes etc.
- There will be no significant labour shortages.
- There will be no material impact on the Tea industry from adverse weather conditions.

The future plans of HPL are dependent on the above assumptions and the general economic and political conditions of the premier Tea producing and importing countries throughout the world at the time of execution. Any significant changes in the economy, industry, competition etc may require amendments to the plans and strategies of the Company.

6.0 CORPORATE STRUCTURE

6.1 Board of Directors of HPL

The Board of Directors of HPL consists of four (04) Non-Executive Independent Directors (including the Chairman, three (03) Non-Executive Non-Independent Directors and one (01) Executive Director.

TABLE 6.1 : DETAILS OF BOARD OF DIRECTORS OF HPL

Name	Address	Designation
Mr. Sunil G Wijesinha	146/8, Havelock Road, Colombo 05	Chairman/ Non-Executive Independent Director
Mr. G Sathasivam	94/1, Lauries Road, Colombo 04	Non-Executive Non-Independent Director
Mr. V Govindasamy	5, Police Park Place, Colombo 05	Managing Director/ Executive Non-Independent Director
Mr. A N Fernando	10/2, Gower Street, Havelock Town, Colombo 05	Non-Executive Independent Director
Mr. M S Mawzoon	108, Lauries Road, Colombo 04	Non-Executive Non-Independent Director
Mr. L D Ramanayake	119, Park Road, Colombo 05	Non-Executive Independent Director
Mr. N B Weerasekera	146/8C, Dutugemunu Street, Dehiwala	Non-Executive Independent Director
Mr. B A Hulangamuwa	70/2, Hulangamuwa Road, Matale	Non-Executive Non-Independent Director

6.2 Profiles of the Board of Directors

TABLE 6.2 : PROFILES OF BOARD OF DIRECTORS OF HPL

Name	Qualifications/Business Experience
Mr. Sunil G Wijesinha	MBA - Postgraduate Institute of Management, University of Sri Jayawardenapura Fellow Member - Chartered Institute of Management Accountants (UK) Fellow Member - Institute of Management Services (UK) Associate Member - Institution of Engineers, Sri Lanka Possesses over 40 years of indusrty experience in private/public sector
Mr. G Sathasivam	Founder Chairman of the Sunshine Holdings Group Possesses over fifty years experience in pharmaceutical Industries and plantation. Initiated and spearheaded joint venture with Tata Group.
Mr. V Govindasamy	MBA - University of Hartford, USA Bachelor of Science in Electrical Engineering - University of Hartford, USA Possesses over 30 years of experience in local and international corporations

Name	Qualifications/Business Experience
Mr. A N Fernando	MBA - Finance, Industrial and Corporate Strategy - IMD Business School, Lausanne, Switzerland Fellow Member - Institute of Chartered Accountants of Sri Lanka Possesses over 40 years of experience as a practicing member
Mr. M S Mawzoon	Possesses over 30 years of experience in various business segments and a pioneer in palm oil processing industries
Mr. L D Ramanayake	MBA - Postgraduate Institute of Management, University of Sri Jayawardenapura. Fellow Member - Institute of Certified Professional Managers Member - Chartered Institute of Marketing Possesses over 40 years of experience in Tea industry in major conglamorates in Sri Lanka
Mr. N B Weerasekera	Fellow Member - Chartered Institute of Management Accountants, UK MA in Economics - University of Colombo Bsc (Hons) in Physics - University of Peradeniya Possesses over 30 years of experience in finance and operations of which 20 years in private equity
Mr. B A Hulangamuwa	MBA - University of Colombo Fellow Member - Institute of Chartered Accountants of Sri Lanka Fellow Member – Institute of Certified Management Accountants (CMA) Certified Fraud Examiner (USA) Possesses over 35 years experience in the industry and as a practicing member

6.3 Other Directorships Held by the Board of HPL

Other directorships held by the Board of HPL are as follows.

TABLE 6.3 : OTHER DIRECTORSHIPS

Name of Director	Other Directorships Held
Mr. Sunil G Wijesinha	**Chairman** Watawala Plantations PLC United Motors Lanka PLC Unimo Enterprises Ltd Orient Motor Company Ltd Watawala Dairy Ltd **Director** Siyapatha Finance PLC BizEx Consultancy (Pvt) Ltd TVS Lanka (Pvt) Ltd TVS Automotives (Pvt) Ltd Sampath Centre Ltd National Chamber of Commerce of Sri Lanka
Mr. G Sathasivam	**Chairman** Estate Management Services (Pvt) Ltd **Director** Watawala Plantations PLC Sunshine Holdings PLC Sunshine Energy (Pvt) Ltd Sunshine Healthcare Lanka Ltd
Mr. V Govindasamy	**Chairman** Tata Communications Lanka Ltd Sunshine Healthcare Lanka Ltd Healthguard Pharmacy Ltd Watawala Tea Ceylon Ltd Sunshine Energy (Pvt) Ltd **Group Managing Director** Sunshine Holdings PLC **Managing Director** Watawala Plantations PLC Watawala Dairy Ltd **Director** TAL Lanka Hotels PLC Estate Management Services (Pvt) Ltd
Mr. A N Fernando	**Former Chief Partner** KPMG Ford Rhodes Thornton and Co, Chartered Accountants **Director** Watawala Plantations PLC

Name of Director	Other Directorships Held
Mr. M S Mawzoon	**Managing Director** Pyramid Lanka (Pvt) Ltd Pyramid Wilmar (Pvt) Ltd Pyramid Wilmar Oils and Fats (Pvt) Ltd Pyramid Wilmar Plantations (Pvt) Ltd The Phone Company (Pvt) Ltd The Phone International (Pvt) Ltd **Director** Watawala Plantations PLC Estate Management Services (Pvt) Ltd Watawala Tea Ceylon Ltd Shangri La Hotels Lanka (Pvt) Ltd Shangri La Investments Lanka (Pvt) Ltd Jewelsco Restaurants (Pvt) Ltd
Mr. L D Ramanayake	**Former Chairman** Colombo Brokers' Association **Former Deputy Chairman** Tea Association of Sri Lanka **Former Executive Vice President** John Keells Holdings PLC **Director** Watawala Plantations PLC Watawala Tea Ceylon Ltd
Mr. N B Weerasekera	**Former Managing Director** The Abraaj Group **Director** Watawala Plantations PLC Sunshine Holdings PLC Waltrim Energy Ltd Sunshine Healthcare Ltd Healthguard Pharmacy Ltd John Keels Hotels PLC
Mr. B A Hulangamuwa	**Director** Watawala Plantations PLC Sunshine Holdings PLC Waltrim Energy Ltd Asia Siyaka Commodities PLC

6.4 Directors' Interest in Shares

6.4.1 Directors' Direct Shareholdings in the Company

The Directors direct shareholdings in the Company as at the date of the Initial Listing Application i.e.October 27, 2017 are as follows.

TABLE 6.4 : DIRECTORS' SHAREHOLDING IN HPL

Name of Director	Number of Shares Held	Percentatge (%)
Mr. Sunil G Wijesinha	1	-
Mr. A N Fernando	1	-

6.4.2 Sale or Purchase of Shares by the Directors

Other than the promoter shares allotted by HPL to the directors as disclosed in Section 6.4.1, there were no sales, transfers or purchases of shares made by the Directors of the Company since incorporation of the Company.

6.5 Details of Transactions Relating to Property

Other than the vesting of operational assets of WATA under Arrangement stated in Section 5.1 and Section 5.2 of this document there were no transactions relating to the property since incorporation of HPL in which any vendor of the property to the Company or any person who is or was at the time of the transaction, a promoter or a director or proposed director of the Company had any interest, direct or indirect.

Furthermore, as of the date of the Application, no director holds any interest in the promotion of or in the property proposed to be acquired by the Company.

6.5.1 Directors' Interest in Material Contracts

There are no contracts or arrangements in force as at the date of Initial Listing Application in which the Directors of the Company are materially interested in relation to the business of the Company.

6.5.2 Directors' Emoluments

The Directors are expected to be remunerated in the form of fees, salaries, bonuses and profit sharing payments during FY 2017/18 to an approximate extent of LKR 1,330,000 in consistence with WATA.

6.5.3 Statement - Board of Directors

No Director or a person nominated to become a Director of the Company is or was involved in any of the following events:

- A petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation of which he was an executive officer;
- Convicted for fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification.

6.6 Corporate Governance Practices

The constitution of the Board in compliance with the listing rules of the CSE is as follows:

TABLE 6.5 : COMPOSITION OF THE BOARD OF DIRECTORS

Type	Number of Directors	Names of Directors
Non-Executive Independent Directors	04	Mr. Sunil G Wijesinha Mr. A N Fernando Mr. L D Ramanayake Mr. N B Weerasekera
Non-Executive Non-Independent Directors	03	Mr. G Sathasivam Mr. M S Mawzoon Mr. B A Hulangamuwa
Executive Non-Independent Directors	01	Mr. V Govindasamy
Total	**08**	

The Board has also appointed the following committees as required to support the corporate governance functions:

- Audit Committee
- Nomination and Remuneration Committee
- Related Party Transaction Review Committee

6.6.1 Audit Committee

The Audit Committee undertakes, on behalf of the Board, responsibility for ensuring the integrity of the company's financial reports by having oversight of internal control, the financial reporting process and compliance with regulatory matters as given in the Audit Committee Charter. It sets out high standards of corporate disclosure, corporate responsibility, integrity and accountability to the shareholders.

The Audit Committee comprises the following four members, three of whom, including the Chairman, are Independent Non-Executive Directors;

Mr. A N Fernando (Chairman)	Non-Executive Independent Director
Mr. S G Wijesinha	Non-Executive Independent Director
Mr. L D Ramanayake	Non-Executive Independent Director
Mr. B A Hulangamuwa	Non-Executive Non-Independent Director

Corporate Advisory Services (Pvt) Ltd., the Secretaries functions as the Secretaries to the Audit Committee. The Chief Executive Officer and Senior Finance Manager normally attend meetings of the Audit Committee. The Head of Internal Audit also attends these meetings by invitation.

6.6.2 Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible to the Board for recommending remuneration of the Executive Directors including the Chief Executive Officer, members of the Executive Committee, and setting the broad parameters of remuneration for senior executives.

The Committee is made up of four Directors namely;

Mr. G Sathasivam	Non-Executive Non-Independent Director
Mr. A N Fernando	Non-Executive Independent Director
Mr. S G Wijesinha	Non-Executive Independent Director
Mr. N B Weerasekera	Non-Executive Non-Independent Director

Corporate Advisory Services (Pvt) Ltd. acts as the Secretaries to the Remuneration Committee.

6.6.3 Related Party Transactions Review Committee

The Related Party Transactions Review Committee is responsible for ensuring that the interests of the shareholders are taken into account when entering into Related Party Transaction. It further provides certain measures to prevent Directors, CEOs or substantial shareholders taking advantage of their position.

The Committee is made up of four Directors namely;

Mr. S G Wijesinha	Non-Executive Independent Director
Mr. A N Fernando	Non-Executive Independent Director
Mr. L D Ramanayake	Non-Executive Independent Director
Mr. B A Hulangamuwa	Non Executive Non-Independent Director

Corporate Advisory Services (Pvt) Ltd. acts as the Secretaries to the Related Party Transaction Review Committee.

6.7 Senior Management of HPL

The senior management Team of the Company is headed by the Chief Executive Officer. The senior management personnel set out below are responsible for managing the affairs of HPL in addition to managing their key responsibilities.

Mr. Binesh Neomal Pananwala – Chief Executive Officer
Address: 380/A, Sudarshana Mawatha, Nungamugoda, Kelaniya.

Mr. Pananwala counts an experience of 25 years in the Plantation sector. He started his career as a Trainee Assistant Superintendent under Janatha Estates Development Board and continued with Watawala Plantations PLC. He holds a MSc in Crop Science from the University of Peradeniya. He holds a MBA from Manipal Sikkim University and a holder of Diploma in Management of Plantations from Kothari Agriculture Management Center and undergone extensive Higher Management Training at the NUS, Singapore.

Mr. Anandh Vaithylingam – General Manager

Mr. Vaithylingam counts 22 years of experience in diversified sectors out of which 5 years of experience in plantations sector India. He holds Business Administration Degree from University of Chennai India and MBA from Buckinghanshire New University.

Mr. Alex C Samuel – General Manager (Human Resources)

Mr. Samuel counts an experience of 33 years in the Plantation sector. He holds a Diploma in Plantation Management and a Diploma in ABE (Association of Business Executives). He also holds an MBA from the Cardiff Metropolitan University – UK.

Mr. Thusith Jayawardana - Senior Finance Manager

Mr. Jayawardana counts an experience of 19 years in the financial management in Plantations, FMCG and Energy sectors and a finalist of the Institute of Chartered Accountant of Sri Lanka.

Mr. Uditha Karunaratne – Manager (Marketing)

Mr. Karunaratne specialises in Business, Planning and Operations with 19 years of work experience including 6 years of managerial responsibility and commitment. Out of the 19 years of experience, 6 years have been in Information Technology and 13 years in the Tea industry. His professional experience comprises of manifold aspects of Tea Tasting/Grading/Manufacturing/Marketing and Brokering, and is currently working as the Manager-Marketing cum Tea Taster.

He holds a Diploma in Marketing Management with a first Class awarded by Indian Institute of Management & Technology (Chennai). He is an Associate Member of the United Kingdom Association of Professionals (UK) and an Associate Member of Institute of Certified Professional Managers, Sri Lanka (CPM).

Mr. Dinesh Perera – Deputy General Manager (Lindula Region/Marketing)

Mr. Dinesh Perera counts an experience of 25 years in the Plantation sector out of which 3 years in Central Africa. He worked for Maskeliya Plantations PLC and Kegalle Plantations PLC and then joined Watawala Plantations PLC in the year 2009. He holds a Diploma in Plantation Management from National Institute of Plantations Management (NIPM) and a member of the executive committee of the Fairtrade Labelling Organisation.

Mr. Robin Winter – Deputy General Manager (Hatton/Watawala Region)

Mr. Winter counts 25 years' experience in the plantation sector. He holds a Diploma in Plantation Management from NIPM.

6.8 Senior Management Emoluments

The Senior Management is expected to be remunerated in the form of salaries and bonuses during FY 2017/18 to an approximate extent of LKR 47,362,613/-.

6.9 Statement – Chief Executive Officer

The Chief Executive Officer of the Company has not been involved in any of the following:

- A petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation of which he was an executive officer;
- Convicted for fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification.

7.0 OTHER INFORMATION

7.1 Degree of Dependence on Key Customers and Suppliers

There is no material dependency on key customers or suppliers in terms of the overall business operations of the Company.

7.2 Dividends

7.2.1 Dividend Policy

The Company may, subject to the provisions of the Articles of Association and the Companies Act No. 07 of 2007, make dividend payments by way of interim and final dividends to its shareholders in relation to the profits made from time to time. Such dividends would be paid after taking into consideration the Company's earnings, capital investment requirements and other financial conditions.

7.2.2 Dividend History

The Company was incorporated on September 14, 2017 and has not paid any dividends to its Shareholders.

7.3 Details of Material Indebtedness

7.3.1 Details of Term Loans and Other Borrowings as at September 30, 2017 (i.e. Post Arrangement).

TABLE 7.1 : DETAILS OF TERM LOANS AND OTHER BORROWINGS

Facility	Balance as at September 30, 2017 (LKR Mn)
Term Loan	214
Other Term Loans	94

Other than the details stated above, there were no term loans, other borrowings or indebtedness in the nature of borrowing including bank drafts and liabilities under acceptance or acceptance credit as at September 30, 2017.

7.4 Details of Leases, Lease Purchases and Capital Commitments

The particulars of leases, lease purchases, hire purchases and capital commitments as at September 30, 2017 (Post Arrangement) are as given below;

TABLE 7.2 : LEASES, LEASE PURCHASES, HIRE PURCHASES AND CAPITAL COMMITMENTS AS AT SEPTEMBER 30, 2017

Liability	Balance as at September 30, 2017 (LKR Mn)
Lease liability to JEDB/SLSPC	199

7.4.1 Details of Mortgages or Charges on Assets of HPL as at September 30, 2017

The Company has not provided any mortgages or charges on its assets as at September 30, 2017.

7.5 Litigation, Disputes and Contingent Liabilities

As at September 30, 2017, the Company has no material legal, arbitration or mediation proceedings which may have or have had in the recent past any significant effects on the Company's financial position or profitability.

Further, as at September 30, 2017 there are no penalties imposed by any regulatory or state authority against the Company.

Details of contingent liabilities as at September 30, 2017 are as follows.

TABLE 7.3 : DETAILS OF BANK GUARANTEES AS AT SEPTEMBER 30, 2017

Description	LKR Mn
SLSPC-Carolina Estate	2
SLSPC-Strathdon Estate	2
Total	**4**

There are no material contingent liabilities as at September 30, 2017 other than as disclosed above.

7.6 Shared Service Agreement

HPL intends to become a party to the centralised group human resource service agreement entered between Sunshine Holdings PLC and subsidiaries/sub-subsidiaries. This arrangement was formed as part of the group strategy to enhance the performance of subsidiaries/sub-subsidiaries within the group through economies of scale and cost rationalisation. As per the said agreement, HPL would be required to reimburse on a monthly basis, all the cost and expenses associated with the services to be provided by the key employees of Sunshine Holdings PLC.

7.7 Material Contracts

There are no material contracts entered into by the Company other than those contracts entered into in the ordinary course of business.

7.8 Details of Commissions Paid

No commission has been paid by the Company or payable since incorporation on September 14, 2017 for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares of the Company.

7.9 Details of Benefits Paid to Promoters

No benefits have been paid or given to any promoters since incorporation on September 14, 2017 and there are no benefits intended to be paid or given to any promoter.

8.0 CAPITAL STRUCTURE

As at the date of this Introductory Document, the Stated Capital of the Company is Sri Lanka Rupees One Billion Eight Hundred and Three Million Four Hundred Thousand and Thirty Three (LKR 1,803,400,033/-) divided into Two Hundred and Thirty Six Million and Six Hundred and Sixty Six Thousand Six Hundred and Seventy One (236,666,671) fully paid up Ordinary Shares.

8.1 An Overview of the Capital Structure

The detailed breakdown of the Stated Capital of HPL as at the date of Introductory Document is given below.

TABLE 8.1 : STATED CAPITAL OF HPL

Stated Capital (LKR)	1,803,400,033
Number of Ordinary Shares in Issue Refer Note 8.1.1	236,666,671

8.1.1 Issue of Shares

As part of the "Arrangement" under Section 256(1) of the Companies Act No. 07 of 2007 which entailed vesting of operational assets and liabilities of up country Tea business segment of WATA in HPL, on September 30, 2017, HPL issued 236,666,671 new ordinary shares to 15,822 shareholders (including 3 promoter shares) at the ratio of One (01) ordinary share of HPL for each ordinary share held in WATA at the price of LKR 7.62 per share (based on the Net Asset Value as at June 30, 2017 as per "Report of Factual Finding in Connection with the Assets and Liabilities Identified for the Purpose of the Re-arrangement of Business of WATA" prepared by Auditors of WATA, M/s PricewaterhouseCoopers) which in the opinion of the Board of HPL is a fair and reasonable price to the Company and all its existing shareholders as required by the Companies Act No. 07 of 2007.

8.1.2 Nature of Shares

Ordinary Shares of HPL shall confer on the holder thereof the right to one vote on a poll at a meeting of the Company on any resolution, the right to an equal share in any dividend that may be declared by the Company from time to time and the right to an equal share in the distribution of the surplus assets of the Company in a liquidation.

8.2 Shareholding Structure of HPL

Top 10 shareholders of HPL as at the date of the Initial Listing Application (i.e. October 27, 2017) are illustrated below.

TABLE 8.2 : TOP 10 SHAREHOLDERS OF HPL

	Name	Number of Shares	Percentage (%)
1	Estate Management Services (Pvt) Ltd	179,034,370	75.64%
2	Sampath bank PLC/Seylan Bank PLC/Dr.T. Senthilverl	22,987,352	9.71%
3	K.C. Vignarajah	2,195,785	0.93%
4	Deutsche Bank AG AS Trustee to Candor Opportunities Fund	1,800,000	0.76%
5	HSBC International Nominees Ltd-SSBT-Deustche Bank	1,638,551	0.69%
6	Vyjayanthi & Company Limited	1,000,000	0.42%
7	J.B. Cocoshell (Pvt) Ltd	810,642	0.34%
8	Deutsche Bank AG AS Trustee to Candor Growth Fund	614,914	0.26%
9	N. Muljie	552,900	0.23%
10	First Capital Limited	400,000	0.17%
		211,034,514	**89.17%**
	Others (15,812 shareholders)	25,632,157	10.83%
	Total	**236,666,671**	**100.00%**

8.3 Details of the Non-Public Shareholders of the Company

TABLE 8.3 : NON-PUBLIC SHAREHOLDERS OF HPL

Name	Number of Ordinary Shares	Percentage (%)	Relationship with HPL
Estate Management Services (Pvt) Ltd	179,034,370	75.65%	Parent Company
Mr. Sunil G Wijesinha	1	-	Director
Mr. A N Fernando	1	-	Director

8.4 Details Pertaining to Locked-In Shares

The Securities and Exchange Commission of Sri Lanka (SEC) by their letter dated November 24, 2017 granted a waiver on the lock-in requirement for shares issued by HPL during the period of twelve (12) months prior to the date of an Initial Listing Application, however subject to lock-in of shares issued to the major shareholder of HPL for a period of twelve (12) months from the date of allotment or six (06) months from the date of listing, whichever is longer. Accordingly, 179,034,370 shares issued to the major shareholder, Estate Management Services (Pvt) Ltd, would be lock-in for a period of twelve (12) months from the date of allotment (i.e. September 30, 2017) and would not be available for trading on the CSE subsequent to its listing of shares, until the expiry of the aforesaid twelve (12) months period from the date of allotment as given in Table 8.4.

TABLE 8.4 : DETAILS OF "LOCKED-IN SHARES"

Category of Shareholders	Locked-in Shares	Months After Which the Shares will be Available for Trading	Number of Shares	Number of Shares as a Percentage of Total Number of Shares in Issue
Non-Public	Locked	12 Months from the date of allotment (i.e. September 30, 2017)	179,034,370	75.65%
Non-Public*	Not Locked-in	-	2	-
Public**	Not Locked-in	-	57,632,299	24.35%
Total			**236,666,671**	**100.00%**

**include shares issued to Directors as given in Table 8.3.*

***'Public' defined under the definition mentioned in the CSE Listing Rules*

Since there were no share transfers during the period of twelve (12) months immediately preceding the date of the Initial Listing Application, no further shares will be subject to a lock-in, in terms of CSE Listing Rule 2.1.1 (f) (iii). Further, the Company shall not allot any shares or transfer existing shares during the interim period between the date of the Initial Listing Application and the date of listing of the shares of the Company.

The Company as at September 30, 2017 has a Public Float of 24.35%, constituting 57,632,299 shares held by 15,819 public shareholders.

8.5 Free Transferability of Shares

There are no restrictions on the transferability of the shares and shares shall be freely transferable subsequent to the shares being listed on the CSE.

8.6 Other Securities

The Company has not issued any convertible debt securities or any other class of shares other than the shares stated above. Further there are no securities of the same or other class subscribed or sold privately in conjunction with this Introduction.

8.7 Share Re-Purchases or Redemptions

The Company has not engaged in any share re-purchase, redemption or stated capital reduction exercises since incorporation of the Company on September 14, 2017.

8.8 Takeover Offers

There have been no takeover offers by third parties in respect of the Company's shares since incorporation and no takeover offers have been made by the Company in respect of shares of third parties.

9.0 INVESTMENT CONSIDERATIONS AND ASSOCIATED RISK FACTORS

Prior to investing in the shares, prospective investors should pay particular attention to the fact that the Company and its business activities are subject to a number of risk factors which may be within or outside the control of the Company.

The risk factors that follow may be considered material to investors in making an informed judgment on the Company. If any of the considerations and uncertainties given below develops into actual events, the Company's business, financial conditions or results of operations and prospects could be adversely affected. However, given the importance of the industry and the strategic initiatives employed by the Company, the business operations of the Company are expected to be sustainable in the foreseeable future.

9.1 Risks Related to the Business

9.1.1 Climate Change

Tea plantations thrive on conducive agro-climatic conditions. Cultivation of Tea requires warm temperature and consistent rainfall to maintain a consistent production of green leaf. The change in weather patterns would result in loss of crop and thereby lead to loss of revenue. Further, adverse weather conditions could have a negative impact on the cost of production. Additionally, extreme weather conditions could result in natural disasters, which would disrupt the production process and cause physical damages to fields, factories, employees, and estate residents. The weather conditions are becoming more unpredictable globally due to the effects of climate change. As a result, the production of Tea has become more vulnerable to the changing weather conditions.

The Estates of HPL have taken several measures to reduce the impact of climate change. These measures include improving water retention capacities on estates through drought tolerant cultivars, folio application to prevent excessive transpiration during dry spells, introducing weather resistant clones, maintaining adequate liquidity reserves to buttress adverse effects, managing shade trees etc. Additionally, the estates are implementing early preparation plans for natural disasters. These early preparation plans include identifying landslide prone areas, analysing and forecasting weather patterns, designing contingency plans etc.

9.1.2 Change in Government Policy

The changes in Government policy could have a major impact on the business operations of the Company. The Government policy on minimum wages could have a significant impact on the cost of production since labour cost accounts for more than 70% of the total cost of production. There have been few instances where the Government has intervened on behalf of estate workers in wage negotiations. Additionally, the plantation sector has been a beneficiary of Government Grants and subsidies. Any changes to the Government policy on these grants and subsidies would have an adverse effect on estates' cost structure. In 2016, the Government limited the fertiliser subsidy to small-holders and made RPCs ineligible for the subsidy. Further, there had been numerous requests from both the Government and the provincial councils with regards to acquisition of land belongs to RPCs for various other developments. There is a possibility of RPCs loosing arable land extent if there are changes to the Government policy on land. More importantly, government policy could impact the existence of private plantation companies.

The government nationalised plantation companies in 1970s before privatising them in 1990. Despite the probability of Government adopting a policy of nationalisation being low, the impact of such a policy would be disastrous as it would cease the private ownership of plantation companies.

The companies in the plantation sector have been lobbying the Government through the Planters' Association to prevent such adverse policy changes. As an industry association, the Plantaters' Association has been pressing for consultation with the Planters before any major changes in Government policy. At the company level, most of the companies tend to anticipate and devise contingency plans for such policy changes.

9.1.3 Continuous Escalation of Cost of Production

The cost of production per kilogram of black Tea produced in Sri Lanka is the highest among the Tea producing countries in the world. This is mainly attributable to the high labour cost, which accounts for approximately 70% of total cost of production. Tea plantation is a labour intensive industry and heavily dependent on the supply of labour. Further, labour in the plantation sector is unionised and most of the employee contracts are governed under collective agreements. At the same time, biennial wage increases are not linked to productivity. Hence, the industry would be under constant pressure of labour cost escalations without a corresponding improvement in productivity.

Additionally, the increase in cost of other inputs and difficulties in achieving economies of scale would also have a negative impact on the cost of production. The cost of other inputs would include costs relating to fertiliser, energy, pesticides and expenses related to field maintenance. The increases in local energy prices and fertiliser costs could have a significant contribution towards the total cost of production.

The industry is pressing for productivity based wage structure to eliminate the inconsistency between wage increases and productivity. The industry is also proposing outgrower/social business model as an alternative to improve the productivity and reduce costs. Additionally, the estates have employed better HR tactics, more engagement, and motivational programmes to increase productivity.

The estates of HPL have undertaken quite a few initiatives to reduce the energy costs. The estates are using solar energy for firewood drying sheds and increasingly use cheaper fuelwood substituting rubber fuelwood. In terms of the machinery, the estates are in the process of replacing old boilers with fuel efficient larger capacity boilers and have installed variable speed drives and capacitor banks to reduce power consumption.

9.1.4 Fluctuating Tea Prices

Tea being a commodity, the Tea planters are price takers rather than price setters. Therefore, the planters are exposed to significant fluctuations in prices received at the Tea auction. The prices at the Tea auction would vary significantly depending on the supply and demand existing at a given time for a particular category of Tea. Although the supply could be fairly stable in the short to medium term, the demand may vary owing to quite a few macro-factors i.e. geopolitical uncertainties, global supply of Tea, export demand for Tea etc. Therefore, auction prices could fluctuate significantly in the short run. Such fluctuations would have a direct impact towards the top line of Tea plantations.

The estates of HPL have moved to a “quality driven” strategy. The improvement of quality enables the estates to reach niche market segments with less volatility. Further, the estates try to negotiate forward sale contracts to avoid the price fluctuations.

9.1.5 Dependence of Bought Leaf

The estates of HPL are relying on bought leaf to maximise their output and factory capacity. The production from bought leaf accounted for 36% of the total Tea production in FY2016/17. Hence, the availability of quality bought leaf would have a significant impact on the HPL’s business performance. The drop in quality in bought leaf would impact the NSA achieved by the estates, which would lead to loss of revenue. Simultaneously, the lack of quality in bought leaves would result in higher cost of production since it increases the refuse Tea.

The estates of HPL employ various strategies to ensure the sourced bought leaf has the required quality. The estates enforce strict guidelines when accepting leaf from bought leaf suppliers. Also, the estates try to maintain a close relationship with the bought leaf suppliers and invest in educating the regular bought leaf suppliers on the leaf quality. Additionally, some of the estates have developed reward schemes to reward the quality leaf suppliers.

9.1.6 Low Land Productivity (Yields)

The amount of black Tea produced per hectare of mature Tea extent would depend on number of factors. The key factors in determining the yields include soil conditions, weather conditions, age profile of Tea bushes, level of replanting, differences in terrain of cultivated land, labour productivity, and application of fertiliser and management of fields.

Sri Lanka has been using the existing estate land for the cultivation of crops for generations, therefore the natural nourishment of the soil has largely been consumed. Further, frequent landslides and soil erosion have led to the deterioration of soil conditions, especially in the up country region in Sri Lanka. In contrast, in countries such as Kenya, Tea is cultivated mostly on virgin forest land with better soil conditions.

The estates try to improve the land productivity through better agricultural practices. This involves using better fertilisers, pesticides and employing optimum pruning methods. Additionally, the estates intend to undertake replanting on a year on year incremental basis to improve the yields.

9.2 Risks Related to Future Plans

The future plans and strategies of the Company discussed in Section 5.4 will be subject to the risk factors mentioned under Section 9.1, in addition to the specific risks mentioned below.

9.2.1 Limitations for Replanting

Continuous replanting is required to maintain the quality of the final produce and the yields at an acceptable level. Empirical studies have indicated that continuous replanting reaps adequate benefits, ranging from financial profitability to satisfactory social engagement of the estate community. The Tea Research Institute (TRI) recommends an annual replanting of at least 2%-3% of the mature extent.

HPL expects to carry out continuous replanting to improve future yields of its estates. However, the process of replanting involves significant capital expenditure and requires a longer time period to breakeven.

As such, the proposed replanting plan of HPL would require the Company to obtain external capital to support the replanting activities. The ability of the Company to source external capital, in the form of either equity or debt at an attractive price will depend on market conditions.

HPL intends to implement replanting on an incremental basis and hence the capital outlay for a single series of replanting would be manageable. HPL expects to utilise internally generated funds in a prudent manner for replanting to ensure the external debt would not exceed desired levels.

9.2.2 Challenges in Implementing the Proposed Cost Reduction Initiatives

HPL is proposing to carry out cost reduction initiatives, including mechanisation of Tea plucking and pruning and outsourcing and/or using contract workers for plantation activities. However, HPL could encounter resistance from the existing employees when implementing these changes given the impact of these initiatives to the employees and the presence of strong labour unions.

Additionally, the outsourcing of plantation activities such as fertilizing, pruning etc. to third parties could create additional challenges. In general, outsourcing is expected to help the Company to reduce costs. However, outsourcing could result in the required quality being compromised if the output from these activities is not properly supervised. Further, outsourcing operations would result in losing in-house expertise. This could prove critical to HPL's long-term competitiveness and increase the dependence on the outsourced parties. Hence HPL may lose control over operating costs in the long term.

HPL intends to keep the employees properly informed on the proposed changes prior to implementation. Further, the Company intends implement them with the concurrence of the plantation workers in a manner that will ensure that there would be mutual benefits to both the Company and the employees through the proposed cost reduction initiatives.

HPL intends to provide adequate supervision and control of the outsourced activities to ensure that the required quality levels would be maintained by the outsourced parties. Further, HPL would retain most of the core operational activities within the Company to ensure the Company would maintain its long term competitiveness.

9.3 Capital Market Related Risks

9.3.1 Non-existence of Prior Market for the Shares

Prior to the listing of shares of HPL there has been no public market for the Company's shares. There can be no assurance that an active trading market for the shares will develop or if developed, will be sustained, or that the market price of the shares shall not decline below the Reference Price.

9.3.2 Price Volatility in the Secondary Market

The price of the shares may fluctuate due to and not limited to the following: variations in operating results, changes in operating environment, transitions in the regulatory front, strategic alliances or acquisitions, industrial or environmental laws, fluctuations in the market prices for products or raw materials, macroeconomic factors and external events. Price of shares may follow general investor sentiment prevalent in the market at a given time. In addition, the price of the shares in the market will fluctuate as a result of share trading volumes.

9.3.3 Listed Shares May Not be a Suitable Investment for All Investors

Each potential investor in shares must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to evaluate shares, the merits and risks of investing in shares and the information contained or incorporated by reference in this Introductory Document;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in shares and the impact the shares will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in shares, including where the settlement currency is different from the currency in which such investor's principal financial activities are denominated;
- understand thoroughly the terms of shares and be familiar with any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

10.0 STATUTORY DECLARATION

Statutory Declaration by the Directors

This Introductory Document has been seen and approved by us and we collectively and individually accept full responsibility for the accuracy of the information given and confirm that after making all reasonable enquiries and to the best of our knowledge and belief, there are no other facts the omission of which would make any statement herein misleading or inaccurate.

Also, as per Section 40 (1) b the Companies Act No. 07 of 2007, the persons named in the Introductory Document, being Directors of the Company do hereby declare that we are aware of the provisions of this Act relating to the issue of this document and those provisions have been complied with to the best of our knowledge and belief.

The parties to the Introduction have submitted declarations to the Company declaring that they have complied with all regulatory requirements applicable to such parties, and that such parties have no conflict of interest with the Company.

Name	Designation	Signature
Mr. Sunil G Wijesinha	Chairman/ Non-Executive Independent Director	Sgd.
Mr. G Sathasivam	Non-Executive Non-Independent Director	Sgd.
Mr. V Govindasamy	Managing Director/ Executive Non-Independent Director	Sgd.
Mr. A N Fernando	Non-Executive Independent Director	Sgd.
Mr. M S Mawzoon	Non-Executive Non-Independent Director	Sgd.
Mr. L D Ramanayake	Non-Executive Independent Director	Sgd.
Mr. N B Weerasekera	Non-Executive Independent Director	Sgd.
Mr. B A Hulangamuwa	Non-Executive Non-Independent Director	Sgd.

ANNEXURE 1 - RESEARCH REPORT PUBLISHED BY NDB INVESTMENT BANK LIMITED, FINANCIAL ADVISORS AND JOINT MANAGERS TO THE INTRODUCTION TO ASCERTAIN THE REFERENCE PRICE OF THE ORDINARY SHARES OF HATTON PLANTATIONS LTD

HATTON PLANTATIONS LTD

Research Report

Financial Advisor and Joint Manager to the Introduction

NDB Investment Bank Limited

November 22, 2017

NDB Investment Bank
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November 22, 2017

Board of Directors
Hatton Plantations Ltd
No. 60, Dharmapala Mawatha
Colombo 03.

Dear Sirs,

REFERENCE PRICE FOR THE LISTING OF SHARES OF HATTON PLANTATIONS LTD ("HPL") VIA AN INTRODUCTION

We refer to the Research Report submitted on October 20, 2017 by us, in the capacity of Financial Advisors and Joint Managers to the Introduction of HPL, in accordance with Section 3.4.8. b (iii) of the Listing Rules of the Colombo Stock Exchange. Through letter dated November 20, 2017, Colombo Stock Exchange has requested us to update the Research Report since all the Plantation companies have published their quarterly reports for September 30, 2017 subsequent to the issue of initial Research Report.

The updated valuation leads to the following valuation results.

	Net Asset Value Method	Discounted Cash Flow Method	Peer Median EV/EBITDA	Peer Median P/BV	Average
Equity Value of HPL (LKR Mn)	1,856.2	1,661.3	2,247.6	1,619.5	1,846.2
Value per Share (LKR)	7.84	7.02	9.50	6.84	**7.80**

Based on the updated valuation, the intrinsic value of HPL shares is within the range of **LKR 6.84 to LKR 9.50.** Given the Company's business fundamentals and the industry dynamics, NDBIB believes that the HPL shares would have a fair value of c. LKR 7.80 per share.

Hence, NDBIB revised its recommendation to a price of **LKR 7.80 per share** as the Reference Price for trading purposes of HPL shares at the Colombo Stock Exchange.

The updated Research Report is enclosed herewith for your reference.

Thank you.

Yours faithfully,
NDB INVESTMENT BANK LIMITED

Darshan Perera
Director/Chief Executive Officer

NDB Investment Bank Limited *(Company Reg. No. PB 975)*

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DEFINITIONS AND INTERPRETATIONS

The following definitions/interpretations apply throughout this Introductory Document, unless the context otherwise requires:

"Avg"	Average
"AWPLR"	Average Weighted Prime Lending Rate
"BC"	Bought Crop
"BMF"	Broken Mixed Fannings
"Bn"	Billion
"c."	Approximately
"cf."	Compared to
"CAGR"	Compound Annual Growth Rate
"COP"	Cost of Production
"CSE"	Colombo Stock Exchange
"CTC"	Cut, Tear and Curl
"DCF"	Discounted Cash Flow
"EBITDA"	Earnings before Interest, Tax, Depreciation and Amortisation
"EV"	Enterprise Value
"FY"	Financial Year
"HPL", "the Company"	Hatton Plantations Ltd
"HR"	Human Resource
"JEDB"	Janatha Estates Development Board
"kg"	Kilogram
"LKR"	Sri Lanka Rupees
"MENA"	Middle East and North Africa
"Mn"	Million
"MT"	Metric Tonnes / One Thousand Kilograms
"NAV"	Net Asset Value
"NDBIB"	NDB Investment Bank Limited
"NSA"	Net Sales Average
"p.a"	Per Annum
"P/BV","PBV"	Price to Book Value Ratio
"P/E"	Price to Earnings Ratio
"PLC"	Public Limited Company
"PP&E"	Property Plant and Equipment
"Qty."	Quantity
"RPC"	Regional Plantation Company
"SLSPC"	Sri Lanka State Plantations Corporation
"TTM"	Trailing Twelve Months
"USD"	United States Dollars
"VP"	Vegetatively Propagated
"WATA"	Watawala Plantations PLC
"YPH"	Yield per Hectare
"YoY"	Year on Year

1.0 BACKGROUND

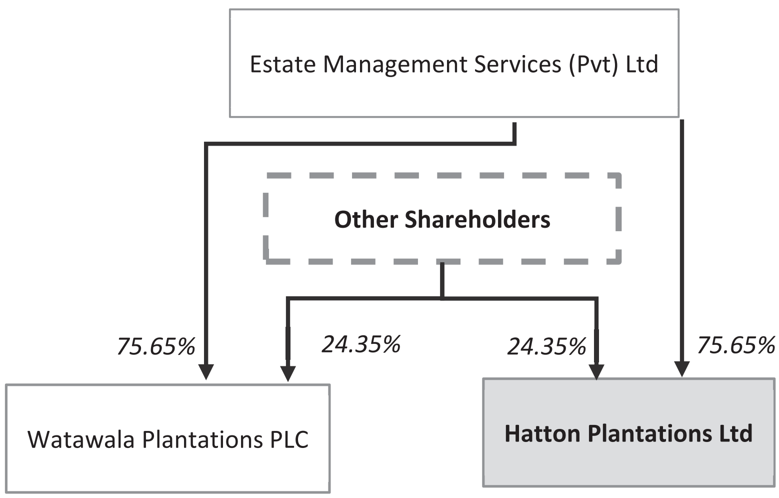
Hatton Plantations Ltd (“HPL” or “the Company”), was incorporated on September 14, 2017 as a part of the Arrangement proceedings carried out by Watawala Plantations PLC (“WATA”) under the Section 256 of the Companies Act No. 07 of 2007. As per the Arrangement proceedings, the operational assets and liabilities of the Upcountry Tea Business Segment of WATA were vested to HPL on September 30, 2017 and the Company issued HPL shares mirroring the shareholding of WATA as at end of day trading on September 29, 2017. Subsequently, the shares of HPL are expected to be listed in Colombo Stock Exchange (“CSE”) via an Introduction.

In this regard, the Board of Directors of Hatton Plantations Ltd has appointed NDB Investment Bank Limited (“NDBIB”) as the Financial Advisor and Joint Manager to the proposed listing of HPL via an Introduction. In compliance with Section 3.4.8. b (iii) of the Listing Rules of the Colombo Stock Exchange (“CSE”), NDBIB in the capacity of the Financial Advisor and Managers to the Introduction has carried out a valuation on the shares of HPL for the purpose of ascertaining the reference price.

The assessed valuation and the underlying assumptions pertaining to the same are set out in this Research Report.

1.1. Hatton Plantations Ltd (“HPL” or “The Company”)

The shareholding structure of HPL post Arrangement is as given below;



The vested Upcountry Tea Business Segment is involved in the cultivation and production of Tea from 17 estates located in the hills of the Central Province of Sri Lanka. These estates have over 4,465 hectares of arable land at elevations reaching 4,800 feet above the sea level. Apart from the estates, the factory buildings, bungalows, other buildings and structures, plant and machinery, fixtures and fittings located on these estates, movable properties including vehicles lying in or around the tea estates, third party warehouses and certain equipment identified with the Upcountry Tea Business Segment lying at the head office, certain identified trademarks relating to tea, investment in mini hydro power projects, etc. were vested to HPL through the arrangement proceedings. Similarly, all the liabilities relating to the Upcountry Tea Business Segment were vested to HPL through the arrangement proceedings. Hereinafter the operations of Upcountry Tea Business Segment would be referred as HPL in this Research Report.

HPL produces high and medium grown teas in the key regions of Hatton, Watawala and Lindula and uses both Orthodox and CTC (Cut, Tear, Curl) manufacturing methods. Given the versatility in the production facilities, the Company is well-positioned to cater to different export and local market preferences. Presently, HPL owns 11 factories with a total daily processing capacity of approximately 232,300 kg of green leaf. Majority of the tea processed at HPL, c. 90%, is sold at the Colombo Tea Auction through brokers while the remaining production is directly sent to buyers.

2.0 INDUSTRY OVERVIEW

2.1. Tea Industry Background

Tea is considered to be the second most popular drink in the world after water. The tea plantation was introduced to Sri Lanka by the British in the 19th century and currently Sri Lanka is the fourth largest tea producer and the third largest tea exporter in the world and has been known for its premier black tea with the strong brand equity of "Ceylon Tea". Tea is also the third highest foreign exchange earner for Sri Lanka and accounts for c. 14% of total exports (Source: Central Bank Annual Report 2015/16) and contributes c. 2.0% (Source: Sri Lanka Tea Board) to the GDP of Sri Lanka.

The significance of the tea industry to the national economy is further enhanced in respect to socio-economic development, poverty reduction and environmental conservation initiatives the sector consciously engages in. The entire plantation sector of Sri Lanka employs, directly and indirectly, over 1.2 million people, and in addition, tea planting by smallholders is the source of employment for thousands whilst it is also the main form of livelihoods for tens and thousands of families. Besides the 22 Regional Plantation Companies ("RPC") the industry consist of hundreds of smallholders who contribute c. 60% of total production of the country. (Source: Watawala Plantations PLC – Annual Report 2016/17)

Being a commodity, the Tea industry is vulnerable to global demand and supply factors and as a result individual produces more often become price takers. The demand could vary significantly in the short run due to geopolitical conditions, macro-economic factors among key export markets, the prices of substitute beverages e.g. coffee, cocoa etc. and the changes in consumer preferences. The key supply factors would primarily include the changes in weather patterns, availability of arable land and soil conditions, and the availability and productivity of labour.

2.1.1. Demand Factors

China and India are the largest consumer of tea, but the two countries are also the largest producers of tea. Hence, they are net exporters of tea. The demand for tea imports are mainly driven by Russia, countries in the Middle East and North Africa ("MENA") region, Western Europe and USA. The top 5 importers of Tea accounts for 83% of global Tea imports and includes Russia, UK, USA, Pakistan and Egypt. The countries in MENA region has the highest per Capita tea consumption and Turkey is the global leader with an average per capita tea consumption of 7.7kg per annum. (Source: FaoStat Reports)

The high geo-political sensitivity among the countries in MENA and Russia has contributed significantly towards the fluctuations in global import demand for Tea. Further, crude oil prices are a key determinant of import demand from MENA given the significant reliance of crude oil income by the countries of this region.

In terms of the substitutes, Coffee is the main substitute for tea as a caffeine based product. Historically the tea prices have been positively correlated with coffee prices. A forecast of increasing coffee prices would have a positive impact on Tea.

Since Tea being mostly consumed as a hot beverage, the consumption patterns have a seasonality. The volume of tea imports is high during the winter and slows down during summer.

Globally there is an increasing trend for more value-added tea. The value-added tea segment helps the producers to improve margins since the product differentiation allows the producers to be less reliant on prices determined by the markets. Sri Lankan tea planters are in a position to capitalise on this new trend since the Sri Lankan tea is renowned for its high quality, unique aroma and taste. The presence of three major geographical zones and the unique methods of plucking have given the Sri Lankan planters a variety of specialities of the tea products in Sri Lanka. Further, Sri Lankan Tea industry has consistently managed to maintain the quality of the product and hence the brand "Ceylon Tea" carries a significant brand equity with it in the global markets.

2.1.2. Supply Factors

The Tea cultivation is generally confined only to certain regions of the world due to specific requirements of agro climatic conditions and soil. The tea cultivating areas are mainly in Asia and Africa. China, India, Sri Lanka and Indonesia are the key producers in Asia while Kenya, Malawi, Rwanda, Tanzania and Uganda are the key producers in Africa. Global annual production of tea has been growing at a CAGR of 4.3% from 2003 to 2013.

The Tea supply in the short run could vary significantly due to weather conditions among tea producing countries. Tea cultivation is strongly correlated to climate conditions. Whilst rainfall impacts the quantities produced, climatic conditions of plantation imparts to the product a variety of flavours and aromas, synonymous with quality. Since weather patterns are becoming erratic and unpredictable owing to global warming, controlled production of specific varieties has become a challenge for the industry.

The humidity, cool temperature, and rainfall of Sri Lanka's central highlands provide a climate that favours the production of high-quality tea. On the other hand, tea produced in low-elevation areas such as Matara, Galle and Ratnapura districts with high rainfall and warm temperature has high level of astringent properties. The tea biomass production itself is higher in low-elevation areas. Such tea is popular in the Middle Eastern countries.

The availability of arable land and soil conditions is one of the main factors affecting the Global Supply of tea. The top 4 producers of tea namely, China, India, Kenya and Sri Lanka accounts for approximately 70% of the Global Tea Production. (Source: Statista Reports) However, China and India are facing the threat of scarcity of land for cultivation due to the increased competition for land as a result of the accelerating population growth in their countries.

Tea plantations are highly labour intensive and generally requires 1 worker for every 0.5 hectares. Globally, the labour costs accounts for more than 50% of the total production cost base for tea. The plantations around the world are affected by shortage of labour. Additionally, the plantation sector in Sri Lanka is heavily unionised and almost all the employees in RPCs are under collective agreements with their employers. The scarcity of labour and the prevalence of labour unions have resulted in relatively higher daily wages in Sri Lanka compared to its key counterparts. Simultaneously, Sri Lanka has been recording the lowest productivity per employee. The amount of tea plucked by an employee per day is just 18kg in Sri Lanka cf. 28kg in Indian and 48kg in Kenya (Source: The Financial Times, March 2015). Higher wages and low productivity have caused the Sri Lankan Plantation sector to incur significantly high labour costs compared to its counterparts. The labour cost as a percentage of total production cost is more than 70% for Sri Lankan planters. This has negatively affected the Sri Lankan supply of tea to the Global Market.

3.0 FORECASTING METHODOLOGY AND SOURCES OF INFORMATION

The following methodology was adopted in forecasting the financial statements of HPL:

I. The financial statements were forecast for a period of five years based on the business plans of HPL;
II. Inputs from the key management of HPL were obtained with a view to better understand the nature of the operations of the respective companies;
III. The Audited Financial Statements and the Management Accounts of WATA were analysed in order to review the historical performance of the Upcountry Tea Business Segment and to identify possible trends and key performance indicators;
IV. Future growth plans of HPL have been duly incorporated in the forecast financials based on discussions with the Management.
V. The forecast financial performance for HPL was assessed in light of the future outlook for tea sector during the next five years.

The Financial Advisor and Joint Manager to the Introduction has established that all assumptions used in the forecasts and outlook given in this report are fair and reasonable to the best of their knowledge.

4.0 FORECAST ASSUMPTIONS

4.1. Revenue Assumptions

4.1.1. Production

Land Extent

HPL owns 17 tea estates which are spread across Watawala, Lindula and Hatton regions. The total mature plantation extent was 3,827 hectares as at March 31, 2017. Currently, the Company is not contemplating on increasing its land extent and has not planned a major replanting initiative for the foreseeable future. NDBIB assumed that the amount of land taken out for replanting would be approximately similar to the amount of immature land released for harvesting. Accordingly, total mature plantation as at March 31, 2017 was expected to remain the same during the forecast period.

Mature Extent as at March 31, 2017	Hectares
Watawala	865
Hatton	1,393
Lindula	1,570
Total	**3,827**

Yield Per Hectare ("YPH")

The total in-house tea production was forecasted based on the amount of final produce manufactured per a Hectare of land extent i.e. Yield Per Hectare. The Yield per Hectare varies based on each sub region and hence YPH for the three regions was forecasted separately. Historical YPH for HPL saw a sudden drop in FY2016 and FY2017 following the adaptation of "quality driven" strategy where the management focusing on producing lesser quantity of tea at a superior quality rather than focusing on maximizing YPH. However, YPH for HPL estates increased by 28.3% in the first four months of FY2018F compared to the same period last year. The improvement is attributable to favourable weather conditions and the Company's efforts to capitalise the higher demand prevailed in the auction during this period.

NDBIB expects the increase in YPH to continue for the rest of FY2018F in the absence of any adverse market conditions foreseen for the rest of the year. The YPH beyond FY2018F was assumed to increase at a lower rate of 2% on a year-on year basis as NDBIB expects the Company to not to focus on maximizing YPH.

Yield Per Hectarage (kg)	FY2017	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
Watawala	1,269	1,428	1,457	1,486	1,515	1,546
Hatton	1,224	1,619	1,651	1,684	1,718	1,752
Lindula	1,152	1,545	1,576	1,607	1,639	1,672
Total	**1,205**	**1,545**	**1,576**	**1,608**	**1,640**	**1,673**
YoY Growth		*28.3%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*

Own Crop Production

Based on the forecasted YPH, the Own Crop production for HPL would be as follows.

Own Crop Production (Metric Tonnes)	FY2017	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
Watawala	1,097	1,235	1,260	1,285	1,311	1,337
Hatton	1,705	2,255	2,300	2,346	2,393	2,441
Lindula	1,809	2,425	2,474	2,523	2,574	2,625
Total	**4,611**	**5,915**	**6,033**	**6,154**	**6,277**	**6,403**

Production from Bought Crop ("BC")

HPL manufactures Tea from green leaves bought from third party suppliers apart from its Own Crop. The historical mix of Bought Crop to Total Crop production has been fairly consistent for the last fifteen years. However, NDBIB observed a gradual drop in the Bought Crop to Total Crop ratio from 39% in FY2014 to around 33% in first four months of FY2018F following the implementation of its "quality driven" strategy. This could be asserted to the Company's policy of selectively purchasing good quality leaves from bought leaf suppliers.

NDBIB arrived at the quantity of Bought Crop production through a forecasted Bought Crop to Total Crop ratio. The management has indicated that the probability of further reducing the proportion of Bought Crop production is low since there would be a consistent supply of quality green leaves if the factor affecting the green leaf production i.e. weather, supply of labour etc. remain unchanged. Further, the factors affecting third-party planters would have a similar impact on HPL's Own Crop. Additionally, the Company would have a significant idle capacity if the Bought Crop production is further reduced. Therefore, the Bought Crop to Total Crop ratio for the forecast period was assumed to be same as the Bought Crop to Total Crop ratio during first four months of FY2018F.

	FY2017	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
BC to Total Production Mix						
Watawala	42.0%	42.0%	42.0%	42.0%	42.0%	42.0%
Hatton	50.7%	46.0%	46.0%	46.0%	46.0%	46.0%
Lindula	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
Total	**35.8%**	**32.5%**	**32.5%**	**32.5%**	**32.5%**	**32.5%**
Quantity of Bought Crop (MT)						
Watawala	796	896	914	932	951	970
Hatton	1,755	1,921	1,959	1,998	2,038	2,079
Lindula	25	34	35	35	36	37
Total	**2,576**	**2,850**	**2,907**	**2,966**	**3,025**	**3,085**

Total Tea Production

The Total Tea Production was arrived by adding the Own Crop Production and Bought Crop Production.

Total Tea Production (MT)	FY2017	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
Watawala	1,893	2,131	2,173	2,217	2,261	2,306
Hatton	3,459	4,175	4,259	4,344	4,431	4,520
Lindula	1,834	2,459	2,509	2,559	2,610	2,662
Total	**7,187**	**8,765**	**8,941**	**9,120**	**9,302**	**9,488**

4.1.2. Net Sales Average ("NSA")

HPL sells more than 90% of its produce through the Colombo Tea Auction. Net Sales Average represents the average sale price obtained (over a period of time) after deducting selling costs e.g. brokerage fees. The auction prices would depend on the demand and supply prevailing for each category of tea at a given time.

The Colombo Tea Auction fetches the best price compared to its global peers given the high quality in the Sri Lankan produce. The average price in Colombo Tea Auction was USD 4.04 per kg during the 1Q2017 cf. the global average of USD 2.77.

Auction Centres	1Q2017		2016		2015	
	Qty. (MT)	USD/kg	Qty. (MT)	USD/kg	Qty. (MT)	USD/kg
Colombo	**75,469**	**4.04**	**277,059**	**3.22**	**315,058**	**2.99**
Mombasa	93,841	2.82	400,924	2.29	359,385	2.73
Cochin	11,400	1.92	46,748	1.74	54,785	1.55
Kolkata	39,620	1.92	142,240	2.41	143,416	2.47
Chittagong	18,291	1.76	72,021	2.55	63,529	2.41
Malawi	3,242	1.75	8,747	1.55	8,412	1.56
Guwahati	33,809	1.68	138,649	2.05	145,428	2.16
Jakarta	-	-	27,003	1.62	20,118	1.56
World	**275,672**	**2.77**	**1,113,391**	**2.48**	**1,110,131**	**2.59**

Source: Publication of Tea Promotion Division - Sri Lanka Tea Board

NDBIB forecasted the NSA based on historical NSA trends and HPL's NSA position relative to the industry. The NSA achieved by HPL compared to the industry is as follows.

NSA in LKR Terms	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Watawala	356.9	332.8	402.3	426.8	406.7	414.0	525.5
Hatton	349.3	320.5	397.5	411.7	386.5	401.2	509.9
Lindula	352.5	343.3	401.6	414.7	407.2	432.5	522.8
HPL Average	**352.3**	**330.3**	**399.9**	**417.0**	**397.6**	**413.7**	**517.4**
National High-Elevation Average	340.7	333.8	378.9	405.7	417.0	387.2	455.4
National Average	371.5	360.7	392.4	445.8	459.0	401.5	473.2

Source: Company; Central Bank of Sri Lanka Annual Reports 2010 – 2016, Sri Lanka Tea Board – Tea Market Update 1Q 2017

NDBIB analysed the NSA achieved by HPL for each region for the last fifteen years. The 10-yr NSA CAGR in LKR and USD terms for the periods ending FY2011 to FY2017 are as follows.

10-Year CAGR in LKR Terms	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
HPL Average	10.1%	9.5%	11.7%	11.0%	8.2%	8.6%	8.7%
National High-Elevation Average	10.2%	9.4%	10.8%	11.4%	9.3%	8.5%	8.3%
National Average	10.6%	9.6%	10.2%	11.6%	9.8%	8.0%	9.1%

Source: Company; Central Bank of Sri Lanka Annual Reports 2010 – 2016, Sri Lanka Tea Board – Tea Market Update 1Q 2017

10-Year CAGR in USD Terms	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
HPL Average	6.3%	7.3%	8.4%	7.8%	5.5%	5.2%	5.1%
National High-Elevation Average	6.4%	7.2%	7.6%	8.1%	6.5%	5.2%	4.8%
National Average	6.8%	7.4%	6.9%	8.3%	7.0%	4.7%	5.5%

Source: Company; Central Bank of Sri Lanka Annual Reports 2010 – 2016, Sri Lanka Tea Board – Tea Market Update 1Q 2017

The 10-year National High-Elevation NSA CAGR in LKR terms ranges from 8.3% to 11.4% while the 10-year NSA CAGR in USD terms ranges from 4.8% to 8.1% indicating an average USD/LKR depreciation of approximately 3.0% for the analysed period.

Based on the above observations, NDBIB forecasted the NSA to increase 5.0 % YoY in USD terms during the forecast period. The average USD/LKR depreciation was assumed to be 3.0% per annum. Hence, HPL is expected to experience a NSA growth of 8.2% YoY in LKR terms during the forecast period.

Net Sales Average (LKR per kg)	FY2017	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
Watawala	525.5	572.7	619.4	669.9	724.5	783.5
Hatton	509.9	537.0	580.8	628.1	679.3	734.7
Lindula	522.8	547.3	591.9	640.2	692.3	748.8
Total	**517.3**	**548.6**	**593.3**	**641.7**	**693.9**	**750.5**
YoY Growth		*6.1%*	*8.2%*	*8.2%*	*8.2%*	*8.2%*

4.1.3. Total Tea Revenue

Based on the aforementioned assumptions, NDBIB arrived at the following forecast Tea Revenue for HPL.

Tea Revenue (LKR Mn)	FY2017	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
Watawala	994.7	1,220.4	1,346.2	1,485.1	1,638.2	1,807.2
Hatton	1,763.9	2,242.2	2,473.5	2,728.6	3,010.0	3,320.4
Lindula	958.9	1,346.0	1,484.9	1,638.0	1,806.9	1,993.3
Total	**3,717.4**	**4,808.7**	**5,304.6**	**5,851.6**	**6,455.1**	**7,120.8**
YoY Growth						
Watawala	*-3.5%*	*22.7%*	*10.3%*	*10.3%*	*10.3%*	*10.3%*
Hatton	*2.3%*	*27.1%*	*10.3%*	*10.3%*	*10.3%*	*10.3%*
Lindula	*-4.6%*	*40.4%*	*10.3%*	*10.3%*	*10.3%*	*10.3%*

4.1.4. Revenue from Reprocessed Tea

HPL produces Reprocessed Tea from the crop produced in its estates. NDBIB forecasted the reprocessed tea sales volume based on YoY growth rates. The growth rates for the quantity sold in FY2018F was based on the growth in quantities sold for the first four months of FY2018F. The growth rates for the rest of the forecast period was based on the growth in Own Crop production in the corresponding years.

The average sales price for reprocessed tea was forecasted based the same assumptions made on NSA for Tea. The total Reprocessed Tea revenue based on the above assumptions is as follows.

Revenue from Reprocessed Tea (LKR Mn)	FY2017	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
Reprocessed Tea Revenue	129.0	185.6	204.7	225.8	249.1	274.8
YoY Increase (%)		*43.9%*	*10.3%*	*10.3%*	*10.3%*	*10.3%*

4.1.5. Total Revenue

The forecast total revenue resulting from the aforementioned assumptions is as follows.

Total Revenue (LKR Mn)	FY2017	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
Revenue from Own Crop Production	2,391.2	3,245.6	3,580.3	3,949.6	4,356.9	4,806.2
Revenue from Bought Crop	1,326.1	1,563.1	1,724.3	1,902.1	2,098.2	2,314.6
Revenue from Reprocessed Tea	129.0	185.6	204.7	225.8	249.1	274.8
Total Revenue	**3,770.7***	**4,994.2**	**5,509.3**	**6,077.5**	**6,704.2**	**7,395.7**
YoY Growth		*32.4%*	*10.3%*	*10.3%*	*10.3%*	*10.3%*

**Net of Stock Adjustments*

4.1.6. Non-Operating Income

The vested Upcountry Tea Business Segment has assets which generate income from sources other than cultivation and manufacturing tea. These non-operating income streams include but not limited to the following.

1. Lease rent from the hydro power plant in Waltrim
2. Investment Income from the investment fund
3. Fair Value gains/losses from Consumable Biological Assets
4. Amortization of capital grants
5. Tower rental Income
6. Sale of scrap and other items
7. Bungalow rentals
8. Dividend from Available for Sale Investments
9. Income from other crops
10. Sale of fixed assets
11. Sale of trees and other assets

The total non-operating income has not exceeded more than 3.5% of total revenue during the past five years and some of the income streams are non-recurring. NDBIB has categorised non-operating income based on their materiality and recurrence. The material income streams were analysed individually and were forecasted based on the following bases and assumptions.

Income Stream	Forecasting Basis	Assumption
Gain on Investment Fund - Upcountry	*Annual Return*	*10.0%*
Fair Value Gain/(loss) on Consumables	*Annual Appreciation of Consumables*	*2.2%*
Lease Rent - Hydro Power	*YoY Growth*	*3.0%*
Amortisation of Capital Grant	*Amortised over the remaining Useful Life*	*19 years*

Non-material and non-recurring income streams were grouped and analysed together. After evaluating their historical trends, NDBIB forecasted these income streams by applying a 3.0% YoY growth rate.

	FY2017	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
Total Non-Operating Income (LKR Mn)	130.4	130.1	135.0	140.2	145.6	151.5
Total Non-Operating Income as a % of Revenue	*3.5%*	*2.6%*	*2.4%*	*2.3%*	*2.2%*	*2.0%*

4.2. Cost Assumptions

4.2.1. Cost of Sales

Cost of Sales includes costs relating to Own Crop, Bought Crop, and Reprocessed Tea. The Cost of Own Crop Production includes cultivation, plucking, manufacturing, and other production overheads costs while the cost of Bought Crop includes the cost of bought leaves, manufacturing and other production overheads. The costs of Reprocessed Tea mainly include the manufacturing costs associated with reprocessing.

HPL has the production capacity to produce tea under both Orthodox and CTC (Cut, Tear, Curl) methods. Approximately 60% of HPL production is through Orthodox methods and the other 40% is through CTC.

Factory Capacity	%
Orthodox/Rotovane	50.0
Orthodox/Leafy	10.0
CTC	40.0

The labour cost consists of approximately 70% of the Cost of Production and hence it is the main driver of Cost of Production. The majority of HPL staff is under collective agreements and employee remunerations are negotiated once in every two years.

NDBIB forecasted Cost of Sales based on the Cost of Production per kilo of produce ("COP"). COP was forecasted based on YoY growth rates. The forecasted COP was multiplied by the quantity produce to arrive at the total production cost. Thereafter the production cost was adjusted for opening and closing inventory to arrive at the Cost of Sales.

COP for Own Crop

COP for FY2018F was assumed to be as same as the COP for the first four months of FY2018F. Beyond FY2018F, the COP for Own Crop was forecast based on a YoY growth rate of 12.9% in every two years starting from FY2019F and in between years were forecasted based on a YoY growth rate of 5.7%. NDBIB arrived at 5.7% annual growth rate based on its expected inflation rate for the forecast period. NDBIB expects the inflation during the forecast period would be similar to the annual average Core inflation, based on National Consumer Price Index (NCPI), from 2014 to September 2017. In financial years where the industry increases minimum wage rates, NDBIB expects the labour costs to increase by 16% while rest of the cost to increase by the expected inflation rate i.e. 5.7%. Assuming the labour costs to other costs ratio is 70:30, the weighted average growth rate amounts to 12.9%.

COP for Own Crop Production	FY2017	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
Cost of Production per kg (LKR)	577.1	517.1	583.8	617.0	696.6	736.1
YoY Increase (%)		*-10.4%*	*12.9%*	*5.7%*	*12.9%*	*5.7%*
Total Cost of Production (LKR Mn)	2,660.9	3,058.8	3,522.5	3,796.9	4,372.5	4,713.1
YoY Growth (%)		*15.0%*	*15.2%*	*7.8%*	*15.2%*	*7.8%*

COP for Bought Crop

Similar to Own Crop, the COP for Bought Crop for FY2018F was assumed to be as same as the Bought Crop COP for the first four months of FY2018F. Since the cost of purchasing bought leaves are strongly correlated with auction prices, NDBIB assumed the YoY growth rate for Bought Crop COP to be as same as YoY NSA growth rate beyond FY2018F i.e. 8.2%.

COP for Bought Crop	FY2017	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
Cost of Production per kg (LKR)	420.4	480.8	520.0	562.4	608.2	657.8
YoY Increase (%)		*14.4%*	*8.2%*	*8.1%*	*8.2%*	*8.2%*
Total Cost of Production (LKR Mn)	1,083.0	1,370.4	1,511.8	1,667.7	1,839.7	2,029.4
YoY Growth (%)		*26.5%*	*10.3%*	*10.3%*	*10.3%*	*10.3%*

COP for Reprocessed Tea

The forecast assumptions for Reprocessed Tea COP were as same as the Own Crop COP. The COP for first four months of FY2018F is expected to remain same for the rest of the year. Thereafter, Reprocessed Tea COP is expected to grow at the same rate as Own Crop COP.

COP for Reprocessed Tea	FY2017	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
Total Cost of Production (LKR Mn)	35.9	32.7	37.6	40.6	46.7	50.4
YoY Growth (%)		*-9.0%*	*15.2%*	*7.8%*	*15.2%*	*7.8%*

The forecast Cost of Production was arrived by adding Cost of Production for Own Crop, Bought Crop and Reprocessed Tea. This was adjusted for Opening and Closing Stocks to arrive at the Cost of Sales.

4.2.2. Administrative Expenses

Administrative Expenses of HPL mainly consists of Utilities, Rent, Head Office Staff Expenses and other General Administration Overheads. NDBIB assumed the Administrative Expenses to grow annually at the expected inflation rate i.e. 5.7%, over the forecast period.

Administrative Expenses	FY2017	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
Administrative Expenses (LKR Mn)	151.6	164.6	169.3	178.9	189.1	199.8
YoY Increase (%)		*8.6%*	*5.7%*	*5.7%*	*5.7%*	*5.7%*

4.2.3. Finance Cost/Income

HPL's current long-term borrowings are at a floating interest rate of AWPLR + 0.5%. NDBIB assumed HPL would be able to borrow at the same interest rates for future long-term projects. Further, NDBIB assumed market interest rates to remain constant throughout the forecast period.

The average interest rate for the Finance Lease Obligations to SLSPC and JEDB was 4.1% during last 5 years. NDBIB maintained the same average interest rate during the forecast period.

NDBIB assumed the Company would invest its excess cash and cash equivalents in short to immediate term investments. The average finance income from such investments were assumed to be 5.0% during the forecast period.

4.2.4. Taxation

The applicable income tax rates for HPL would differ based on the source of statutory income. HPL is liable for income tax at a rate of 28% for its statutory income generated from manufacturing while the applicable income tax rate for cultivation is just 10%. However, the applicable income tax rate for cultivation was increased to 14% from FY2019F onwards under the new Inland Revenue Act. Non-operating Income and Financial Income are taxed at 28%.

Historically the split of statutory income between cultivation and manufacturing has been 68% and 32% respectively. NDBIB assumed the historical split to continue during the forecast period.

Taxation (LKR Mn)	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
Income Tax Liability from Primary Income	69.2	51.2	75.7	53.0	79.8
Income Tax for Other Income	31.8	35.5	38.1	40.9	44.1
Total Income Tax Liability	101.0	86.7	113.8	93.9	123.9
Effective Tax Rate for Primary Income	*15.8%*	*18.5%*	*18.5%*	*18.5%*	*18.5%*
Effective Tax Rate for Total Income	*17.5%*	*20.3%*	*20.0%*	*20.5%*	*20.2%*

4.3. Balance Sheet Assumptions

4.3.1. Capital Expenditure

The Company would incur capital expenditure to upkeep the bearer plants and factory facilities. The Capital Expenses to Sales ratio for Upcountry Tea Business Segment ranged around 2.9% to 6.4% during the past five years. Considering the future business plans of the Company, NDBIB expects the Capital expenses to Sales ratio of HPL to remain around 3.0% of total Revenue.

Forecast Capex-to-Sales Ratio	%
Property Plant and Equipment	1.0%
Bearer Plants	2.0%

4.3.2. Working Capital

Inventory

NDBIB has arrived at the finished goods inventory by multiplying the forecast unsold inventory by the forecast average NSA for the respective year. The unsold inventory was forecasted by analysing the historical unsold inventory quantity compared to the total production in each year. The average NSA was derived by taking the average of NSA figures at the beginning and at the end of the year. Raw material and other inventory were forecasted as a percentage of Cost of Sales.

Inventory Assumptions	Forecasting Basis	Assumption
Qty. of Unsold Tea	*as a % of Qty. of Tea Production*	*8.4%*
Qty. of Unsold Reprocessed Tea	*as a % of Qty. of Reprocessed Tea Production*	*17.0%*
Qty. of Unsold BMF	*as a % of Qty. of BMF Production*	*25.0%*
Raw Material and Other Inventory	*as a % of Cost of Sales*	*2.3%*

The resultant Inventory days for HPL for the forecast period was approximately 38 to 39 days.

Inventory (LKR Mn)	FY2017	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
Tea	387.5	392.4	428.8	473.0	521.8	575.6
Reprocessed Tea	7.2	24.3	27.5	30.4	33.5	37.0
BMF	5.2	8.1	8.7	9.6	10.6	11.7
Raw Material/Other Inventory	87.0	95.9	110.6	120.0	136.5	148.2
Total Inventory	**486.8**	**520.7**	**575.7**	**633.1**	**702.4**	**772.5**
Inventory Days (days)	*47*	*38*	*38*	*38*	*38*	*38*

Trade Receivable and Trade Payables

Trade Receivables and Trade Payables were forecasted based on Historical Trade Receivables and Trade Payables days. More than 90% of HPL's produce is sold at the Colombo Tea Auction and the receivables at the Tea Auction are generally settled within 7 days. This is further evident from the Trade Receivable days for the past five years which ranged between 5 to 7 days. The historical trade payable days for the last five years range between 10 to 19 days.

The following assumptions were used to forecast Trade Receivables and Trade Payables of HPL.

	Assumption
Receivable Days	6
Payable Days	13

4.3.3. Borrowings and the Future Capital Structure

HPL's Debt to Equity ratio was 16.7% as at September 30, 2017 and its current commercial borrowings would get fully repaid by FY2021F. The management of HPL, however, indicated that they intend to partially fund the future capital expenditure by long term debt. The Company further intends to maintain its long run capital structure with a mixture of Debt and Equity where Debt to Equity ratio would be maintained just below 30%.

Accordingly, NDBIB increased the net debt raising for HPL gradually during the forecast period to maintain a debt-to-equity ratio of 25%-30%.

LKR Mn	FY2017	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
Total Debt	275.8	587.4	611.2	634.8	683.8	779.1
Total Equity	1,845.9	2,083.4	2,254.0	2,482.1	2,663.9	2,909.0
Debt Ratio (%)	*13.0%*	*22.0%*	*21.3%*	*20.4%*	*20.4%*	*21.1%*
Debt to Equity Ratio (%)	*14.9%*	*28.2%*	*27.1%*	*25.6%*	*25.7%*	*26.8%*

4.3.4. Dividend Policy

The average dividend pay-out ratio for Watawala Plantations PLC was approximately 33.0% for the last five years. NDBIB believes HPL could maintain a dividend pay-out ratio of approximately 50% during the forecast period.

4.3.5. Depreciation and Amortization Rates

NDBIB made the following assumption on Depreciation and Amortization rates.

	Assumption
Average Useful Life of Bearer Plants	*30 years*
Average Useful Life of PP&E	*12 years*
Annual Amortisation of Leasehold Land	*1.9%*
Annual Amortisation of Immovable Estate Assets	*3.2%*

The Depreciation Charge for PP&E was attributed to both Cost of Production and Administrative Expenses at a ratio of 85% to 15% during the past five years. NDBIB assumed the proportions to continue during the forecast period.

4.3.6. Other Balance Sheet Assumptions

The Other Balance Sheet items were forecasted based on the Company's accounting policies and disclosures in the WATA Annual Reports.

5.0 FORECAST FINANCIAL STATEMENTS

5.1. Forecast Income Statement

LKR Mn	FY2017	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
Revenue	3,770.7	4,994.2	5,509.3	6,077.5	6,704.2	7,395.7
Cost of Sales*	(3,329.2)	(4,225.8)	(4,875.4)	(5,288.3)	(6,012.7)	(6,528.8)
Gross Profit	**441.5**	**768.5**	**633.9**	**789.2**	**691.6**	**866.9**
Administrative Expenses	(151.6)	(160.2)	(169.3)	(178.9)	(189.1)	(199.8)
EBITDA	**289.9**	**608.2**	**464.6**	**610.3**	**502.5**	**667.0**
Depreciation & Amortisation	(121.5)	(124.2)	(132.1)	(140.8)	(150.4)	(160.9)
EBIT	**168.4**	**484.0**	**332.5**	**469.5**	**352.1**	**506.1**
Non-Operating Income	130.4	130.1	135.0	140.2	145.6	151.5
Finance Cost	(51.2)	(44.9)	(55.5)	(59.9)	(65.2)	(74.4)
Finance Income		7.0	15.7	20.3	24.9	30.9
Profit Before Tax	**247.6**	**576.1**	**427.7**	**570.1**	**457.5**	**614.0**
Income Tax	(88.7)	(101.0)	(86.7)	(113.8)	(93.9)	(123.9)
Profit After Tax	**158.9**	**475.2**	**341.0**	**456.3**	**363.6**	**490.2**

** The Depreciation and Amortisation included in Cost of Sales have been removed to present EBITDA separately.*

5.2. Forecast Statement of Financial Position

LKR Mn	FY2017	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
ASSETS						
Non-Current Assets						
Property, Plant and Equipment	1,101.2	1,057.3	1,014.1	971.9	930.5	890.2
Total Biological Assets	1,343.0	1,430.3	1,524.7	1,626.9	1,737.7	1,858.0
Other Non-Current Assets	399.9	195.1	191.0	186.8	182.6	178.4
Total Non-Current Assets	**2,844.0**	**2,682.7**	**2,729.8**	**2,785.5**	**2,850.8**	**2,926.6**
Current Assets						
Inventories	486.8	520.7	575.7	633.1	702.4	772.5
Trade and Other Receivables	248.4	256.1	264.6	273.9	284.2	295.6
Investment Fund*	-	220.6	242.7	266.9	293.6	323.0
Bearer Plants	16.6	16.6	16.6	16.6	16.6	16.6
Cash and Cash Equivalents	1.7	276.7	351.4	461.1	536.0	698.2
Total Current Assets	**753.5**	**1,290.7**	**1,451.0**	**1,651.6**	**1,832.9**	**2,105.8**
TOTAL ASSETS	**3,597.5**	**3,973.4**	**4,180.8**	**4,437.2**	**4,683.7**	**5,032.4**
LIABILITIES & EQUITY						
EQUITY						
Stated Capital		1,803.4	1,803.4	1,803.4	1,803.4	1,803.4
Reserve on Rearrangement		52.8	52.8	52.8	52.8	52.8
Retained Earnings		227.2	397.8	625.9	807.7	1,052.8
Total Equity	**1,845.9**	**2,083.4**	**2,254.0**	**2,482.1**	**2,663.9**	**2,909.0**
Non-Current Liabilities						
Long Term Borrowings	190.5	218.5	246.5	300.0	400.0	500.0
Other Non-Current Liabilities	1,075.7	1,061.5	1,047.1	1,032.5	1,017.8	1,002.8
Total Non-Current Liabilities	**1,266.2**	**1,280.0**	**1,293.6**	**1,332.5**	**1,417.8**	**1,502.8**
Current Liabilities						
Current Portion of Long Term Borrowings	85.3	172.0	172.0	146.5	100.0	100.0
Trade and Other Payables	396.0	433.7	456.9	471.6	497.4	515.7
Other Current Liabilities	4.0	4.2	4.4	4.5	4.7	4.9
Total Liabilities	**485.4**	**609.9**	**633.2**	**622.5**	**602.1**	**620.7**
TOTAL LIABILITIES & EQUITY	**3,597.5**	**3,973.4**	**4,180.8**	**4,437.2**	**4,683.7**	**5,032.4**

**The Investment Fund was under Other Non-Current Assets up until FY2017 and it was reclassified as a Current Asset on September 30, 2017*

5.3. Forecast Cash Flow Statement

LKR Mn	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
Cash Flow From Operating Activities					
Net Profit/(Loss) Before Taxation	576.1	427.7	570.1	457.5	614.0
Adjustments for Non-Cash Items	118.5	125.8	131.8	139.4	150.2
Cash Flow Before Changes in Working Capital Assets	694.6	553.5	701.9	596.9	764.3
Adjustments for Changes in Working Capital	(3.9)	(40.4)	(52.0)	(53.9)	(63.1)
Cash Generated from/(Used in) Operations	690.7	513.2	649.9	543.0	701.2
Tax Paid	(101.0)	(86.7)	(113.8)	(93.9)	(123.9)
Net Cash Flows From/(Used in) Operating Activities	**589.7**	**426.5**	**536.1**	**449.1**	**577.3**
Cash Flows From/(Used in) Investing Activities					
Capital Expenditure	(149.8)	(165.3)	(182.3)	(201.1)	(221.9)
Finance Income	7.0	15.7	20.3	24.9	30.9
Net Cash Flows from/(Used in) Investing Activities	**(142.9)**	**(149.6)**	**(162.0)**	**(176.2)**	**(191.0)**
Cash Flows From/(Used in) Financing Activities					
Dividend Paid	(237.6)	(170.5)	(228.1)	(181.8)	(245.1)
Net Borrowings	114.7	28.0	28.0	53.6	100.0
Repayment of Lease Principal	(4.0)	(4.2)	(4.4)	(4.5)	(4.7)
Interest Expenses Paid	(44.9)	(55.5)	(59.9)	(65.2)	(74.4)
Net Cash Flows from/(Used in) Financing Activities	**(171.9)**	**(202.2)**	**(264.4)**	**(198.0)**	**(224.2)**
Net Change in Cash & Cash Equivalents	**275.0**	**74.7**	**109.7**	**74.9**	**162.1**
Cash & Cash Equivalents at the Beginning of the Year	1.7	276.7	351.4	461.1	536.0
Cash & Cash Equivalents at the End of the Year	**276.7**	**351.4**	**461.1**	**536.0**	**698.2**

6.0 VALUATION METHODOLOGY

Some of the most commonly used techniques amongst the many different methodologies used in valuing companies are given below:

- Discounted Free Cash Flow (DCF) Method
- Net Asset Value Method
- Relative Valuation Method
- Residual Income Method

Considering HPL's business model and the industry in which it operates, NDBIB believes not all valuation methodologies could be considered as appropriate. In order to determine the reference price of the shares of HPL the following techniques have been used:

- Net Asset Value Method
- Discounted Cash Flow Method
- Relative Valuation Method

6.1. Net Asset Value Method

The Net Asset Value (NAV) per share can be calculated as follows:

$$\textbf{NAV per share} = \frac{(\textbf{Market Value of Total Assets} - \textbf{Market Value of Total Liabilities})}{\textbf{Number of Shares in Issue}}$$

- The NAV method of calculating the value of a company is based on both the stated and the contingent assets and liabilities of a company.
- Under this method, the book value of the company is considered as a proxy for NAV.

6.2. Discounted Cash Flow (DCF) Method

The theoretical framework of applying the Discounted Cash Flow (DCF) method of valuation can be summarised as follows:

- The business value attributable to the capital providers of the company consists of the present value of Free Cash Flows distributable to the providers of capital of the company.
- The strategic value of the company could be ascertained by considering the business value attributable to the capital providers adjusting for any non-operational assets/liabilities.
- In the DCF approach, the following formula is used to determine the business value attributable to the capital providers:

$$\mathbf{V_0} = \left[\sum_{t=1}^{n} \frac{\mathbf{FCFE}_t}{(\mathbf{1} + \mathbf{K_e})^{\mathbf{t}}}\right] + \mathbf{TV_0}$$

Where:

V_0 = *Intrinsic value in year 0*
$FCFE_t$ = *Free Cash Flow to Equity in year t*
K_e = *Cost of Equity*
TV_0 = *Present value of terminal value at year 0*

The FCFE is defined as

- Earnings Before Interest and Tax (EBIT)
- Add/(Less): Adjustments for items not involving any cash movements
- Less: Taxes
- Add/(Less): Decrease/(Increase) in working capital
- Less: Capital expenditure
- Add/(Less): Net borrowings
- (Less): Debt servicing costs

Further, the Gordon Growth Model (GGM) was used to derive TV_0 with the following formula

$$\mathbf{TV_0} = \frac{\mathbf{FCFE_n\,(1+g)}}{\mathbf{(K_e - g)(1+K_e)^n}}$$

Where:

g = *Terminal growth rate*
$FCFE_n$ = *Free Cash Flow to Equity in year n*

6.3. Relative Valuation Method

HPL can be valued based on the price multiples of its listed peers. The commonly used price multiples to calculate relative value of a share are Price to Earnings (P/E), Enterprise Value to EBITDA (EV/EBITDA) and Price to Book value (P/BV) ratios.

6.3.1. P/E

The relative value for HPL shares using peer Price to Earnings ratio would be calculated as follows:

$$\mathbf{Market\ Price} = \mathbf{EPS} * \mathbf{Applicable\ P/E}$$

Where:

EPS = *Earnings Per Share*
P/E = *Price to Earnings Ratio*

6.3.2. EV/EBITDA

EV/EBITDA Multiple is a commonly accepted relative valuation multiple to analyse companies with significant real assets. Further, EV/EBITDA eliminates the impact of capital structure differences among peer companies and thereby provides a better price multiple to evaluate a peer group with different financial strategies.

The Enterprise Value of HPL shares using peer Enterprise Value to EBITDA ratio would be calculated as follows:

$$\mathbf{Enterprise\ Value} = \mathbf{EBITDA} * \mathbf{Applicable\ EV/EBITDA\ multiple}$$

Where:

$EBITDA$ = Earnings before Interest, Tax, Depreciation and Amortization
EV= Enterprise Value

After arriving at the EV, the market value of equity shares can be derived by deducting Net Debt and adding non-operating assets to the EV.

$$\mathbf{Market\ Value\ of\ Equity} = \mathbf{EV} - \mathbf{Net\ Debt} + \mathbf{Non\ operating\ Assets}$$

Where:

$$\mathbf{Net\ Debt} = \mathbf{Interest\ Bearing\ Debt} - \mathbf{Cash}\ \&\ \mathbf{Cash\ Equivalents}$$

The market price per share can be derived by dividing the Market Value of Equity by the number of outstanding equity shares.

$$\mathbf{Market\ Price} = \frac{\mathbf{Market\ Value\ of\ Equity}}{\mathbf{Number\ of\ Equity\ Shares}}$$

6.3.3. P/BV

The relative value for HPL shares using peer average Price to Book Value ratio would be calculated as follows:

$$\textbf{Market Price} = \textbf{BVPS} * \textbf{Applicable P/BV}$$

Where:

$BVPS$ = *Book Value Per Share*
P/BV = *Price to Book Value ratio*

7.0 VALUATION RESULTS

The following section illustrates key valuation assumptions and the resultant equity valuations as at September 30, 2017 for the Company based on the three methods discussed in this Research Report.

7.1. Net Asset Value Method

Net Asset Value as at September 30, 2017 (LKR Mn)	**1,856.2**
Number of Shares in Issue (Mn)	**236.7**
Net Assets Value per Share (LKR)	**7.84**

Based on the Net Asset Value Approach, the total Equity Value of HPL amounts to
LKR 1.86 Bn with a per share value of LKR 7.84

7.2. Discounted Cash Flow Method

7.2.1. Cost of Capital

The following key assumptions were used in arriving at the Cost of Equity used in the DCF Valuation of HPL.

DCF Assumptions	
10yr Government Bond Rate†	10.3%
Corporate Bond Premium‡	1.9%
Equity Risk Premium	6.5%
Cost of Equity	**18.7%**
Terminal Growth Rate	2.0%

†Source: Central Bank of Sri Lanka as at September 29, 2017

‡Corporate Bond premium indicates the difference between the Company's long term borrowing rate and the Risk-free Rate.

7.2.2. Free Cash Flow to Equity

The forecast Free Cash Flow to Equity with the above assumptions is as follows.

Free Cash Flow to Equity	FY2018F*	FY2019F	FY2020F	FY2021F	FY2022F
Net Profit/(Loss) Before Taxation	**288.1**	**427.7**	**570.1**	**457.5**	**614.0**
Adjustments for Non-Cash items	59.2	125.8	131.8	139.4	150.2
Change in Net Working Capital	(3.9)	(40.4)	(52.0)	(53.9)	(63.1)
Tax Paid on Operating Activities	(84.6)	(76.1)	(101.4)	(79.4)	(107.0)
Net Cash Flows From/(Used in) Operating Activities	**258.8**	**437.0**	**548.6**	**463.6**	**594.2**
Capital Expenditure	(74.9)	(165.3)	(182.3)	(201.1)	(221.9)
Withholding Tax on Dividend	(16.6)	(23.9)	(31.9)	(25.4)	(34.3)
Free Cash Flow to Firm	**167.2**	**247.9**	**334.3**	**237.0**	**338.0**
Net Borrowings	57.3	28.0	28.0	53.6	100.0
Repayment of Lease Principal	(2.0)	(4.2)	(4.4)	(4.5)	(4.7)
Interest Expenses Paid	(22.5)	(55.5)	(59.9)	(65.2)	(74.4)
Free Cash Flow to Equity	**200.1**	**216.2**	**298.1**	**220.8**	**358.9**

**The Free Cash Flow to Equity for the six months' period from October 01, 2017 to March 31, 2018.*

Equity Value as per DCF Method	
Present Value of FCFE	**832.6**
PV of Terminal Value	**828.6**
Equity Value	**1,661.3**
Number of Shares in Issue	**236.7**
Equity Value per Share	**7.02**

Based on the Discounted Free Cash Flow Approach, the total equity value of HPL amounts to
LKR 1.66 Bn with a per share value of LKR 7.02

7.3. Relative Valuation Method

NDBIB carried out a relative value analysis on listed plantation companies in the Colombo Stock Exchange ("CSE"). CSE has 19 listed companies under the plantation sector. The peer group for HPL, however, could not accommodate all the companies given the differences in plantation mix among the companies in the plantation sector. NDBIB selected the following 5 companies based on similarities in plantation mix and business operations compared to HPL and the level of liquidity of the respective Company's shares.

Peer Company	% of Revenue from Tea
Talawakelle Tea Estates PLC	*97.1%*
Bogawantalawa Tea Estates PLC	*100.0%*
Udapussellawa Plantations PLC	*97.8%*
Maskeliya Plantations PLC	*100.0%*
Madulsima Plantations PLC	*100.0%*

NDBIB considered EV/EBITDA and P/BV as appropriate Relative Valuation Methods for the valuation of HPL shares. P/E ratio was not considered due to the significant variations in capital structure among the selected peer companies.

Company	Market Cap. *	EV/EBITDA (x) *‡†	P/BV(x) *†	EBITDA Margin ‡	ROE ‡†
Talawakelle Tea Estates PLC	1,196.1	2.15	0.55	18.2%	26.2%
Bogawantalawa Tea Estates PLC	1,319.9	4.32	0.85	13.4%	15.8%
Udapussellawa Plantations PLC	712.4	4.24	1.05	10.6%	19.4%
Maskeliya Plantations PLC	923.7	3.71	0.87	14.3%	28.9%
Madulsima Plantations PLC	2,625.7	8.64	0.97	15.4%	0.1%
Mean	**1,355.6**	**4.61**	**0.86**	**14.4%**	**18.1%**
Median	**1,196.1**	**4.24**	**0.87**	**14.3%**	**19.4%**

**Market Capitalisation is based on the 3-month VWAP up to September 29, 2017. The market prices for shares in plantation sector is experiencing a significant increase since Mid-2017 and this increase might not hold in the long run. Hence, 3 month VWAP was used to normalise the market prices of peer companies.*

‡EBITDA, Revenue, Earnings are on TTM basis for the period ending September 30, 2017 as per the financials published on CSE.

†NAV and Net Debt as at September 30, 2017 as per financials published on CSE.

NDBIB decided to calculate the Relative Value of HPL based on Median EV/EBITDA and Median PBV to determine the Relative value of HPL shares.

7.3.1. Relative Valuation Based on Peer Median EV/EBITDA

	(LKR Mn)
TTM EBITDA up to September 30, 2017	597.4
Peer Median EV/EBITDA	4.24
Enterprise Value	**2,531.3**
Less: Net Debt	(283.7)
Equity Value	**2,247.6**
Value per Share (LKR)	**9.50**

Based on the Peer Median EV/EBITDA Approach, the total equity value of HPL amounts to
LKR 2.25 Bn with a per share value of LKR 9.50

7.3.2. Relative Valuation Based on Peer Median P/BV

	LKR Mn
Net Asset Value as at September 30, 2017	**1,856.2**
Net Assets Value per Share	**7.84**
Median P/BV	0.87
Equity Value per Share (LKR)	**6.84**

Based on the Peer Median P/BV Approach, the total equity value of HPL amounts to
LKR 1.62 Bn with a per share value of LKR 6.84

8.0 THE RECOMMENDED REFERENCE PRICE

A summary of the valuation results highlighted in the preceding section is given below:

	NAV	DCF	Peer EV/EBITDA	Peer P/BV	Average
Equity Value (LKR Mn)	**1,856.2**	**1,661.3**	**2,247.6**	**1,619.5**	**1,846.2**
Value per Share (LKR)	**7.84**	**7.02**	**9.50**	**6.84**	**7.80**
P/BV	1.00	0.90	1.21	0.87	
Trailing EV/EBITDA	3.58	3.26	4.24	3.19	
Forward EV/EBITDA	3.99	3.63	4.72	3.55	

The Value of HPL shares based on the aforementioned valuation method indicates that the intrinsic value of HPL is within a range of LKR 6.84 to LKR 9.50. Given the Company's business fundamentals and the industry dynamics, NDBIB believes HPL shares would have a fair value of c. **LKR 7.80** per share.

Hence, NDBIB Recommends **LKR 7.80** as the reference price for HPL for trading purposes at the Colombo Stock Exchange.

9.0 RESEARCH TEAM

NDB INVESTMENT BANK LIMITED ("NDBIB")

Nilendra Weerasinghe –Vice President - Head of Corporate Advisory

Nilendra specialises in the structuring and placement of IPOs with over eight years of experience in investment banking. Nilendra has been part of the NDBIB team for numerous IPOs managed by the company including that of People's Leasing and Finance, Singer Finance, Access Engineering, Union Bank, People's Insurance and RIL Property. He also has a wide array of experience having been involved in in project financing, loan syndications and mergers and acquisitions.

Nilendra is a CFA Charterholder and a graduate in Computer Science and Engineering with a First Class Honours Degree from University of Moratuwa. He also holds an MBA in Strategy and Operations from National University of Singapore. His previous work experience includes Goldman Sachs in Singapore where he was involved in advising and raising equity funds via IPOs for clients in the Southeast Asian region.

Viraj Wijesinghe - Assistant Vice President

Viraj possesses over ten years of experience in corporate finance, financial risk management, and investment banking. He joined NDB Investment Bank as an Assistant Vice President in 2014. Viraj has been a part of quite a few transactions with the NDBIB Corporate Advisory team. Notable transactions include IPOs of People's Insurance and Ooredoo Maldives, the acquisition of E-channelling PLC, loan syndications to Atmosphere Hotels and Resorts.

Viraj is a CFA Charterholder, a certified Financial Risk Manager (FRM) from GARP in USA, an Associate Member of CIMA (UK), and an Attorney-at-Law. Further, he is a graduate in Finance, from the University of Colombo.

His previous work experience includes Universal Enterprises Private Limited in the Republic of Maldives, where he functioned as its Group Treasury Manager, and Amba Research Lanka Limited (Currently Moody's Analytics), where he worked as an Investment Research Analyst.

Sujani Perera – Manager

Sujani has been a team member of many successful equity and debt offering covering various industry sectors (banking, finance, leasing, construction, energy, IT etc.) including the second largest IPO on the CSE to date i.e. People's Leasing and Finance PLC. She has been with the Corporate Advisory Team for over nine years.

Sujani is responsible for the preparation of legal documents relating to IPOs, Listings via Introductions, loan syndication, debenture issues, group restructurings, Private Placements, Rights Issue, Preference Share Issue and Share Repurchase Transactions. Sujani was instrumental in executing over LKR 1 Bn loan syndication to facilitate the capital restructuring process of Resus Energy PLC (former Hemas Power PLC).

She obtained BSc in Finance (First Class) from University of Sri Jayewardenepura, Sri Lanka and Masters in Financial Economics, Merit Pass from University of Colombo. Sujani is an Associate Member CIMA (UK).

Mithum Peiris – Management Associate

Mithum is a graduate with a First Class Honours Degree in Civil Engineering from University of Moratuwa and a CFA Level III Candidate. He is a CIMA Passed Finalist, where he completed the examinations in May 2014. Mithum joined NDBIB in April 2017, and has since been involved in multiple transactions including equity and debt fund raisings, financial feasibility studies and corporate restructuring exercises.

10.0 DISCLAIMER

The information, forecasts, analyses, assumptions and opinions contained herein have been compiled or arrived at solely based on information provided to NDBIB by the Client/HPL. Such information has not been independently verified and no guarantee, representation or warranty, expressed or implied is made as to its accuracy, completeness or correctness. Nothing contained in this Research Report is, or shall be relied upon as, a promise or representation by NDBIB. All such information is subject to change without notice and such changes could be due to unforeseen circumstances. This Research Report is for information purposes only and does not purport to be a complete description of the subject matter presented herein.

Any estimate, projection, opinion, forecast and valuation contained in this Research Report involve significant elements of subjective judgment and analysis, which may or may not be correct. No representation is made that any estimate, projection or forecast will be achieved. The actual future events may vary significantly from the estimates, projections, forecasts or valuation and each estimate, projection, forecast or valuation is based on a number of assumptions and is subject to matters which are outside the control of NDBIB. Verification of assets of HPL and evaluation of agreements between clients of HPL have not been carried out during this exercise.

Accordingly, NDBIB shall not be liable for any loss or damage howsoever arising as a result of any person acting or refraining from acting in reliance on this document or information, forecast analysis and opinion contained herein. The recipients of this Research Report and/or Investors are expected to carry out their own independent evaluations taking into consideration macro-economic variables and other relevant conditions.

The valuation presented herein is valid for a period of six months (06) from the date of this Report i.e. November 22, 2017, however, subject to there being no material changes to the parameters impacting operations of HPL.

ANNEXURE 2 - ACCOUNTANTS' REPORT AND FIVE YEAR SUMMARY

pwc

NRG/0001489/2017

06 October 2017

Board of Directors
Hatton Plantations Limited,
60, Dharmapala Mawatha,
Colombo 3

Dear Sirs

Accountants report for inclusion in the Introductory Document in connection with the listing of Ordinary shares of Hatton Plantations Limited

Introduction

This document has been prepared for the inclusion in the introductory documents in connection with the listing of ordinary shares of Hatton Plantations Limited.

1 The Arrangement

Hatton Plantations Limited ("The Company ") was incorporated and domiciled in Sri Lanka under the Companies Act No 7 of 2007. The Company was incorporated based on an arrangement proposed by the Directors of Watawala Plantations PLC under section 256 (1) (a) of the Companies Act to vest the operational assets and liabilities relating to the upcountry tea business segment of Watawala Plantations PLC, since the directors believed that it would be in the best interest of Watawala Plantations PLC and its shareholders that the tea business segment relating to the upcountry estates be segregated from the rest of the businesses.

The registered office of the Company is located at No 60, Dharmapala Mawatha, Colombo 03.

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Partners **D.T.S.H. Mudalige FCA, C.S. Manoharan FCA, N.R. Gunasekera FCA, S. Gajendran FCA, Ms. S. Hadgie FCA, Ms. S. Perera ACA, T.U. Jayasinghe ACA**

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2 *Financial Statements of Watawala Plantations PLC*

For the purpose of this document, we have extracted the information from Watawala Plantations PLC, a company incorporated and domiciled in Sri Lanka under the Companies Act No 7 of 2007 and listed on the Colombo Stock Exchange. As noted above, the upcountry tea business segment of Watawala Plantations PLC has been transferred to Hatton Plantations Limited on an arrangement under section 256 (1) (a) of the Companies Act.

2.1 *Audits of financial statements and audit opinions*

As the statutory auditors of Watawala Plantations PLC, we have audited the consolidated financial statements of Watawala Plantations PLC for the years then ended 31 March 2013, 31 March 2014, 31 March 2015, 31 March 2016 and 31 March 2017.

We have issued unqualified audit opinions in respect of the financial statements of Watawala Plantations PLC for the said financial years.

The audited consolidated financial statements of Watawala Plantations PLC also comprise of the notes to the financial statements on segmental performance as per the segmental analysis by principle activities.

2.2 *Five-year summary of the upcountry tea business*

A summary of the pro-forma tea segment performance of the upcountry tea business has been attached in the Appendix A to this document which has been transferred to Hatton Plantations Limited.

The total upcountry tea segment performance, assets and liability of Watawala Plantations PLC for the years ended 31 March 2013, 31 March 2014, 31 March 2015, 31 March 2016 and 31 March 2017 has been extracted from the audited consolidated financial statements for the years ended 31 March 2013, 31 March 2014, 31 March 2015, 31 March 2016 and 31 March 2017.

In addition, we have agreed the segmental net assets to the management accounts of the said years of the respective estates.

2.3 *Application of accounting standards and accounting policies*

The accounting policies of Watawala Plantations PLC which comply with the Sri Lanka Accounting Standards, are stated in the audited financial statements for the years ended 31 March 2013 to 31 March 2017. All accounting policies were consistently applied over the years for all business segments. The adoption of amendments to the existing Sri Lanka Accounting Standards and adoption of new Sri Lanka Accounting Standards had been complied with in accordance with the provisions contained in those standards.

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For the year ended 31 March 2012, Watawala Plantations PLC had prepared its financial statements in accordance with the previous version of Sri Lanka accounting Standards (SLASs). Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards (IFRSs), the company adopted the new standards and the required adjustments have been made in accordance with the respective SLFRSs/LKASs, financial year ended 31 March 2013 were the first financial statements which Watawala Plantations PLC has prepared in accordance with the revised Sri Lanka Accounting Standards.

2.4 *Events after the reporting date*

There were no material events after the reporting date, which require adjustments to or additional disclosure in the consolidated financial statements of Watawala Plantations PLC or the segmental performance summary of the upcountry tea business.

3 *General*

The audit work of PwC on the financial statements of Watawala Plantations PLC was and is carried out in accordance with statutory obligations and the audit reports were and are intended for the sole benefit of Watawala Plantations PLC and the shareholders of Watawala Plantations PLC as a body, to whom they are addressed. The work performed by in issuing this document did not constitute an examination made in accordance with generally accepted auditing standards. Accordingly, we do not express such assurance.

This document relates only to the accounts and items specified above and does not extend to any financial statements of Hatton Plantations Limited, taken as a whole. PwC will not, by virtue of preparing this document or otherwise in connection with this engagement, assume any responsibility whether in contract, tort (including without limitation negligence) or otherwise in relation to the audits of the Company's financial statements; PwC and its respective members, partners, employees, agents and contractors shall have no liability whether in contract, tort (including without limitation negligence) or otherwise to any third parties in relation to the audits of the Company's financial statements.

This document is solely for your use in connection with the purpose specified above, which is to include in filings of the introductory documents; it is not to be used for any other purpose. We do not accept any liability or responsibility to any third party to whom our report is shown or into whose hands it may come.

Yours truly

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Appendix A – The Schedule

1. *Segmental Analysis of tea business for the past five years*

Watawala Plantations PLC

	2016/2017 LKR ('000)			2015/2016 LKR ('000)			2014/2015 LKR ('000)			2013/2014 LKR ('000)			2012/2013 LKR ('000)		
	Upcontry	**Udugama**	**Total**	**Upcontry**	**Udugama**	**Total**	**Upcontry**	**Udugama**	**Total**	**Upcontry**	**Udugama**	**Total**	**Upcontry**	**Udugama**	**Total**
Revenue - Tea	3,641,794	107,313	3,749,107	3,836,351	107,488	3,943,839	4,191,629	130,990	4,322,619	3,830,975	136,779	3,967,753	3,436,037	94,184	3,530,221
Revenue - R.Tea	128,954		128,954	174,283		174,283	393,920		393,920	196,807		196,807	125,523		125,523
Total Revenue	3,770,749	107,313	3,878,061	4,010,634	107,488	4,118,122	4,585,550	130,990	4,716,540	4,027,782	136,779	4,164,561	3,561,559	94,184	3,655,743
Cost of sale	3,433,241	104,436	3,537,677	4,029,994	110,717	4,140,711	4,632,589	162,381	4,794,970	3,941,085	135,102	4,076,187	3,208,493	129,767	3,338,260
Gross Profit / (loss)	**337,508**	**2,877**	**340,384**	**(19,360)**	**(3,229)**	**(22,589)**	**(47,039)**	**(31,391)**	**(78,430)**	**86,697**	**1,677**	**88,374**	**353,066**	**(35,583)**	**317,484**
Administrative expenses	(169,096)	(1,362)	(170,458)	(186,508)	(6,042)	(192,550)	(238,524)	(8,228)	(246,752)	(163,411)	(6,467)	(169,878)	(149,653)	(14,114)	(163,767)
Management fees										1,693	33	1,726	(36,959)	3,725	(33,234)
Operating profit/ (loss)	**168,412**	**1,515**	**169,927**	**(205,868)**	**(9,272)**	**(215,139)**	**(285,563)**	**(39,619)**	**(325,183)**	**(75,021)**	**(4,757)**	**(79,778)**	**166,454**	**(45,972)**	**120,482**
Net finance (cost)/income	(51,224)	(3,784)	(55,008)	(52,297)	(3,550)	(55,847)	(59,689)	(3,870)	(63,559)	(70,974)	(4,464)	(75,438)	(51,112)	(3,240)	(54,352)
Profit/ (loss) before tax	**117,188**	**(2,269)**	**114,919**	**(258,164)**	**(12,822)**	**(270,986)**	**(345,252)**	**(43,489)**	**(388,741)**	**(145,995)**	**(9,221)**	**(155,216)**	**115,342**	**(49,212)**	**66,130**
Tax (Revenue basis)	(88,710)	(2,525)	(91,235)	(42,083)	(1,128)	(43,211)	(54,451)	(1,555)	(56,006)	(77,361)	(2,627)	(79,988)	(37,433)	(990)	(38,423)
Profit/ (loss) After Tax	**28,477**	**(4,793)**	**23,684**	**(300,248)**	**(13,950)**	**(314,197)**	**(399,703)**	**(45,045)**	**(444,747)**	**(223,356)**	**(11,848)**	**(235,204)**	**77,909**	**(50,202)**	**27,707**
Actuarial gain on gratuity	55,474	16,057	71,531	81,778	16,928	98,706	16,639	3,212	19,851	(43,507)	(15,479)	(58,986)	37,815	16,510	54,325
Tax on actuarial gain on gratuity	(5,547)	(1,606)	(7,153)	(12,408)	(2,569)	(14,977)	(2,937)	(84)	(3,021)	16,711	567	17,278	(23,335)	(617)	(23,952)
Total other comprehensive income/(loss)	49,927	14,451	64,378	69,370	14,360	83,729	13,702	3,128	16,830	(26,796)	(14,912)	(41,708)	14,480	15,893	30,373
Total comprehensive income/ (loss) for the year	**78,404**	**9,658**	**88,062**	**(230,878)**	**410**	**(230,468)**	**(386,001)**	**(41,917)**	**(427,918)**	**(250,152)**	**(26,760)**	**(276,912)**	**92,389**	**(34,309)**	**58,081**
Sundry Income	130,400	12,408	142,808	112,702	21,490	134,192	118,934	217	119,151	70,949	18,604	89,554	111,575	29,000	140,574
Net profit/(Loss) after other income	208,804	22,066	230,870	(118,176)	21,900	(96,276)	(267,067)	(41,699)	(308,766)	(179,203)	(8,156)	(187,358)	203,964	(5,309)	198,655

Note 1 – The segmental information for the upcountry estates represents the tea business which has been transferred to Hatton Plantations Limited.

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2. *Segmental Net Assets*

Watawala Plantations PLC Tea Segment (Upcountry)	Balance as at 31-Mar-17 LKR ('000)	Balance as at 31-Mar-16 LKR ('000)	Balance as at 31-Mar-15 LKR ('000)	Balance as at 31-Mar-14 LKR ('000)	Balance as at 31-Mar-13 LKR ('000)
ASSETS					
Non-current assets					
Right to use of land	114,994	119,082	123,158	127,235	131,311
Immovable estate assets on finance lease (other than bare land)	62,687	73,496	84,306	95,568	106,831
Property, plant and equipment	1,066,746	1,155,279	1,205,699	1,098,351	1,040,214
Property , plant and equipment H/O Based on estate property, plant and equipment	34,405	44,163	65,526	73,343	91,881
Bearer plants	16,583	-	-	-	-
Biological assets - consumable	607,707	605,442	531,393	536,198	498,068
Biological assets - bearer	735,279	696,049	714,693	681,357	695,251
Investments to fund gratuity liability	200,549	188,267	177,336	158,508	101,257
Investment-others	21,645	21,645	10,882	-	-
Current assets					
Inventories	486,810	419,526	522,842	733,260	516,110
Trade and other receivables	67,034	143,442	39,398	54,814	32,896
Trade and other receivables based on estate receivables	181,319	202,325	157,478	134,321	165,109
Cash and cash equivalents	1,737	868	1,021	1,176	(3)
Total assets	**3,597,496**	**3,669,585**	**3,633,732**	**3,694,130**	**3,378,925**
Non-current liabilities					
Obligations under finance lease obtained from SLSPC & JEDB	196,925	194,867	198,477	201,942	205,295
Retirement benefit obligations	665,769	765,164	782,696	729,286	622,045
Retirement benefit obligations HO	19,527	19,364	26,596	23,385	15,864
Deferred income and capital grants	193,528	192,455	203,191	213,044	224,588
Current liabilities					
Borrowings-term loans short terms	62,000	62,000	18,333	42,541	450,594
Borrowings-term loans-Seylan Bank long term	170,450	232,490	174	-	-
Borrowings-Tea Board Loan Disbursement to the workers short term	13,311	14,805	-	-	-
Borrowings-Tea Board Loan-wage increment (Rs.2500) short term	30,069	-	-	-	-
Borrowings-term loans long term	-	22,671	10,457	44,002	72,183
Trade and other payables	243,245	242,342	267,279	257,441	281,197
Trade and other payables others	152,776	153,097	146,976	117,729	150,017
Obligations under finance lease obtained from SLSPC & JEDB	4,030	3,743	3,598	3,465	3,332
Total liabilities	**1,751,630**	**1,902,998**	**1,657,776**	**1,632,835**	**2,025,114**
Net Assets	**1,845,866**	**1,766,588**	**1,975,956**	**2,061,295**	**1,353,811**

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ANNEXURE 3 - REPORT OF FACTUAL FINDING IN CONNECTION WITH THE ASSETS AND LIABILITIES IDENTIFIED FOR THE PURPOSE OF THE RE-ARRANGEMENT OF BUSINESS OF WATAWALA PLANTATIONS PLC PREPARED BY M/S PRICEWATERHOUSECOOPERS

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12 September 2017

The Directors
Watawala Plantations PLC
60, Srimath Anagarika Dharmapala Mawatha
Colombo 3

Dear Sirs

Report of factual findings in connection with the assets and liabilities identified for the purpose of the rearrangement of business of Watawala Plantations PLC

This report is produced in accordance with the terms of our Contract dated 12 September 2017 to assist the Directors to verify the assets and liabilities for the purpose of rearrangement of business of Watawala Plantations PLC.

The management is responsible for ensuring that the Company maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company, and preparation of the schedule of assets and liabilities for the rearrangement of business of the Company ["the Schedule"] in accordance with the bases determined by management. The Schedule showing the assets and liabilities to be vested, for which the management is solely responsible, is attached to this report under Appendix A.

Our engagement was undertaken in accordance with the Sri Lanka Standard on Related Services 4400 – Engagements to Perform Agreed-Upon Procedures Regarding Financial Information. The procedures were performed solely to assist the Directors of the Company in evaluating the accuracy of information contained in the Schedule.

The procedures we performed and the factual findings thereof are as follows:

No	Procedures performed	Factual finding	Errors or exceptions identified
1	We obtained the head office consolidated management accounts of Watawala Plantations PLC ("the Company") and estate wise trial balances as at 30 June 2017 and agreed the assets and liabilities line items to the assets and liabilities line items as per the reviewed interim Financial Statements as at 30 June 2017.	With respect to procedure 1 the assets and liabilities line items in the head office consolidated management accounts of the Company and estate wise trial balances as at 30 June 2017 agreed to the assets and liabilities line items as per the reviewed interim Financial Statements as at 30 June on which we issued our audit opinion on 3 August 2017.	No exceptions were noted.

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No	Procedures performed	Factual finding	Errors or exceptions identified
2	We checked the mathematical accuracy of the head office consolidated management accounts of the Company and estate wise trial balances.	With respect to procedure 2 we found that the head office consolidated management accounts of the Company and estate wise trial balance mathematically accurate.	No exceptions were noted.
3	We agreed the assets and liabilities balances as per the head office consolidated management accounts of the Company and estate wise trial balances as at 30 June 2017 to the worksheet prepared by management for the purpose of identifying the assets and liabilities for the rearrangement of business.	With respect to procedure 3 we found that assets and liabilities line items as per the head office consolidated management accounts of the Company and estate wise trial balances as at 30 June 2017 agreed to the worksheet prepared for the purpose of identifying the assets and liabilities for the rearrangement of business.	No exceptions were noted.
4	We checked the value of Biological assets – Consumable and the Retirement benefit obligation as at 30 June 2017 to the reviewed interim reviewed Financial Statements as at 30 June 2017.	With respect to procedure 4 we found that the balances of Biological assets – Consumable and the Retirement benefit obligation agreed to the estate wise balances as at 30 June 2017 as per the reviewed interim Financial Statements as at 30 June 2017.	No exceptions were noted.
5	Where centrally controlled assets and liabilities are vested, we agreed the basis of calculation adopted by management as most appropriate, to the supporting documents and workings.	With respect to procedure 5 we agreed the following bases of calculation with the supporting documents and workings; i. Hectares used as the basis of vesting of Leasehold right to bare land of JEDB/SLSPC estates and Obligations under finance lease obtained from SLSPC & JEDB agreed to the hectares disclosed in the annual report for the year ended 31 March 2017;	No exceptions were noted.

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No	Procedures performed	Factual finding	Errors or exceptions identified
		ii. Vesting of centrally controlled property, plant and equipment in proportion to the value of estate property, plant and equipment was agreed to the listing of estate wise property, plant and equipment maintained by the management; iii. Vesting of deferred income and capital grant in proportion to the value of estate wise property, plant and equipment was agreed to the listing of estate wise property, plant and equipment maintained by the management; iv. Vesting of gratuity fund investment in proportion to the estate wise retirement benefit obligation was agreed to the actuarial valuation report as 31 March 2017.	
6	We checked the mathematical accuracy of the calculations of the worksheet prepared by management for the purpose of identifying the assets and liabilities for the rearrangement of business.	With respect to procedure 6 we found that worksheet prepared for the purpose of identifying the assets and liabilities for the rearrangement of business mathematically accurate.	No exceptions were noted.
7	We agreed the assets and liabilities vested as per the worksheets prepared by management for the purpose of identifying the assets and liabilities for the rearrangement of business to the Schedule included in Appendix A.	With respect to procedure 7 we found that assets and liabilities vested as per the worksheets agreed to the Schedule included in Appendix A. The value of assets to be vested exceed the liabilities by LKR 1,803,460,240.	No exceptions were noted.

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No	Procedures performed	Factual finding	Errors or exceptions identified
8	We checked mathematical accuracy of the Schedule included in Appendix A and agreed that the assets exceeded the liabilities.	With respect to procedure 8 we found that the Schedule included in Appendix A is mathematically accurate.	No exceptions were noted.

Based on the procedure performed by us, we found that;

a) The Schedule in Appendix A indicates that the value of the assets to be vested exceed the liabilities by LKR 1,803,460,240.

b) The assets and liabilities line items of the Company as per the Schedule in Appendix A agrees with the assets and liabilities line items in the Statement of Financial Positon of the Company as at 30 June 2017 on which we issued our review opinion on 3 August 2017.

Our procedures, as stated in the Contract, did not constitute an examination made in accordance with generally accepted auditing standards, the objective of which would be the expression of assurance on the contents of the Schedule. Accordingly, we do not express such assurance. Had we performed additional procedures or had we performed an audit or review of the Schedule in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to the accounts and items specified above and does not extend to any financial statements of the Company, taken as a whole.

The audit work of PwC on the financial statements of the Company was and is carried out in accordance with statutory obligations and the audit reports were and are intended for the sole benefit of the Company and the Company's shareholders as a body, to whom they are addressed. The audit of the Company's financial statements was not and will not be planned or conducted in contemplation of the requirements of anyone other than the members as a body, and consequently the audit work is not intended to address or reflect matters in which anyone other than the members as a body may be interested.

PwC will not, by virtue of preparing this Report or otherwise in connection with this engagement, assume any responsibility whether in contract, tort (including without limitation negligence) or otherwise in relation to the audits of the Company's financial statements; PwC and its respective members, partners, employees, agents and contractors shall have no liability whether in contract, tort (including without limitation negligence) or otherwise to any third parties in relation to the audits of the Company's financial statements.

This report is solely for your use in connection with the purpose specified above and as set out in the Contract; it is not to be used for any other purpose or to be copied or distributed or otherwise made available or referred to, in whole or in part, to any other party without our prior written consent. We do not accept any liability or responsibility to any third party to whom our report is shown or into whose hands it may come.

12 September 2017

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Appendix A – The Schedule

Assets and liabilities to be rearranged

Rearranged Balance sheet as at 30 June 2017

Description	Company Balance as at 30 June 2017 LKR	Southern [* See definition below] Balance as at 30 June 2017 LKR	Upcountry [* See definition below] Balance as at 30 June 2017 LKR	Vesting basis
Assets				
Leasehold right to bare land of JEDB/SLSPC estates	190,075,156	76,100,569	113,974,587	Vested on hectarage
Immovable estate assets on finance lease (other than bare land)	99,360,532	38,991,541	60,368,991	Actual amortisation
Property , plant and equipment	1,747,421,624	637,450,920	1,109,970,703	Actual by estate
Property , plant and equipment H/O Based on estate property, plant and equipment	36,762,100	13,410,636	23,351,465	Actual assets by estate
Biological assets - bearer	2,856,293,872	2,127,780,935	728,512,938	Actual by estate
Biological assets – consumable	612,701,779	-	612,701,779	As per valuation report
Investments to fund gratuity liability	269,507,446	50,043,224	219,464,222	As per actuarial valuation
Investment in subsidiaries	627,351,631	627,351,631	-	Actual by head office
Investment-others	21,644,900	-	21,644,900	Actual by head office
Inventories	618,917,391	116,603,483	502,313,909	Actual by estate
Trade and other receivables	65,527,368	13,733,490	51,793,878	Actual by estate
Export inventories based on estate inventory	83,115,258	83,115,258	-	Actual by estate
Bearer plants	35,451,902	18,869,072	16,582,830	Actual by estate
Trade and other receivables based on estate receivables	322,284,133	67,545,608	254,738,524	Actual by estate
Trade and other receivables taxes	168,171,973	168,171,973	-	Actual by head office
Amounts due from Related parties	442,756,630	442,756,630	-	Actual by estate
Cash and cash equivalents	3,497,134	674,557	2,822,577	Actual by estate
Cash and cash equivalents others	215,960,654	215,960,654	-	Actual by head office
Short term investments	797,649,594	797,649,594	-	Actual by head office
Total assets	**9,214,451,079**	**5,496,209,776**	**3,718,241,303**	

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Definitions

1. **Southern –** Remaining part of Watawala Plantations PLC, after rearranging the upcountry tea business segment, and include the assets and liabilities of the petrol service station and the tea cup restaurant.

2. **Upcountry –** Assets and liabilities of the Tea business segment in the upcountry estates included in Appendix B.

Description	**Company** Balance as at 30 June 2017 LKR	**Southern** [* See definition below] Balance as at 30 June 2017 LKR	**Upcountry** [* See definition below] Balance as at 30 June 2017 LKR	Vesting basis
Liabilities				
Obligations under finance lease obtained from SLSPC & JEDB	326,646,672	130,779,836	195,866,836	Based on Hectarage
Retirement benefit obligations	842,678,847	156,471,989	686,206,857	As per valuation report
Retirement benefit obligations HO	25,795,502	4,789,812	21,005,690	Vested as per estate liability
Deferred income and capital grants	191,017,695	-	191,017,695	As per fixed assets by estates
Net deferred tax liability	346,216,506	346,216,506	-	Non-vested head office liability
Borrowings-term loans short terms	93,250,001	31,250,001	62,000,000	Actual by estates
Borrowings-term loans-Seylan Bank long term	154,940,000	-	154,940,000	Actual by estates
Borrowings-Tea Board Loan Disbursement to the workers short term	6,649,600	1,325,400	5,324,200	Actual by estates
Borrowings-Tea Board Loan-wage increment (Rs.2500)	29,556,000	6,169,150	23,386,850	Actual by estates
Borrowings-Tea Board Loan-wage increment (Rs.2500) short term	8,444,250	1,762,547	6,681,703	Actual by estates
Borrowings-term loans long term	117,187,486	117,187,486	-	Actual by estate and head office
Borrowings-Tea Board Loan-(74mn) long term	47,193,323	47,193,323	-	Actual by estates
Borrowings-Tea Board Loan-(74mn) short term	23,903,287	23,903,287	-	Actual by estates
Trade and other payables	402,511,177	133,114,264	269,396,913	Actual by estate and head office
Trade and other payables others	440,411,013	145,648,099	294,762,914	Based on actual by estate and head office
Obligations under finance lease obtained from SLSPC & JEDB	6,989,996	2,798,591	4,191,405	Vested as per hectarage
Income tax payable	203,263,063	203,263,063	-	Non-vesting head office liability

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Description	**Company** Balance as at 30 June 2017	**Southern** **[* See definition below]** Balance as at 30 June 2017	**Upcountry** **[* See definition below]** Balance as at 30 June 2017	Vesting basis
Total liabilities	3,266,654,418	1,351,873,355	1,914,781,063	
Net assets	5,947,796,661	4,144,336,421	1,803,460,240	**Note [a]**

Note [a]

The assets and liabilities to be rearranged out from the Company comprise the tea related business of the upcountry estates identified by management and included in **Appendix B.**

Definitions

1. **Southern –** Remaining part of Watawala Plantations PLC, after rearranging the upcountry tea business segment, and include the assets and liabilities of the petrol service station and the tea cup restaurant.

2. **Upcountry –** Assets and liabilities of the Tea business segment in the upcountry estates included in Appendix B.

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ANNEXURE 4 - STATEMENT OF FINANCIAL POSITION OF HPL AS AT SEPTEMBER 30, 2017

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HATTON PLANTATIONS LTD

STATEMENT OF FINANCIAL POSITION
30 SEPTEMBER 2017

HATTON PLANTATIONS LTD

STATEMENT OF FINANCIAL POSITION
30 SEPTEMBER 2017

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Independent auditor's report to the shareholders of Hatton Plantations Limited

We have audited the accompanying Statement of Financial Position of Hatton Plantations Limited ["the Company"] as at 30 September 2017 and a summary of significant accounting policies and other explanatory information as set out in pages 3 to 18.

Management's Responsibility for the Statement of Financial Position

Management is responsible for the preparation and fair presentation of this Statement of Financial Position in accordance with Sri Lanka Accounting Standards relevant to preparing such Statement of Financial Position as set out in in summary of significant accounting policies, and for such internal control as management determines is necessary to enable the preparation of the Statement of Financial Position that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement of Financial Position based on our audit. We conducted our audit in accordance with Sri Lanka Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Statement of Financial Position is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement of Financial Position. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement of Financial Position, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement of Financial Position in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the Statement of Financial Position.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Statement of Financial Position presents fairly, in all material respects, the financial position of Hatton Plantation Limited as at 30 September 2017 in accordance with Sri Lanka Accounting Standards relevant to preparing such Statement of Financial Position as disclosed in summary of significant accounting policies and notes to the Statement of Financial Position.

Basis of accounting and restriction on use

The Statement of Financial Position was prepared for the purpose of vesting assets and liabilities of the upcountry tea business segment of Watawala Plantations PLC in Hatton Plantations Limited. We draw attention to Note 2 to the Statement of Financial Position, which describes the basis of vesting of assets and liabilities which comprise the opening balances of the Company. The Statement of Financial Position do not comprise a full set of financial statements prepared in accordance with Sri Lanka Accounting Standards. As a result, the financial information may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

7 November 2017
COLOMBO

PricewaterhouseCoopers
CHARTERED ACCOUNTANTS

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PricewaterhouseCoopers is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

HATTON PLANTATIONS LTD

Statements of financial position
As at 30 September 2017

(all amounts in Sri Lankan Rupees thousands)

ASSETS	Notes	2017
Non-current assets		
Right to use of land	5	112,956
Immovable estate assets on finance lease (other than land)	6	66,615
Property, plant and equipment	7	1,152,463
Bearer plants	8	679,725
Biological assets - consumable	9	640,131
Available for sale investments	10	21,645
		2,673,535
Current assets		
Inventories	11	498,737
Biological assets-growing crops on bearer plants	12	16,687
Trade and other receivables	13	356,168
Cash and cash equivalents	14	3,734
		875,326
Total assets		**3,548,861**
EQUITY AND LIABILITIES		
Capital and reserves		
Stated capital		1,803,400
Reserve on rearrangement		52,798
Total Net Assets		**1,856,198**
Non-current liabilities		
Borrowings	15	206,388
Lease Liability to -SLSPC and JEDB	16	194,970
Retirement benefit obligations	17	688,599
Deferred income and capital grants	18	136,991
		1,226,948
Current liabilities		
Borrowings	15	101,824
Lease Liability to -SLSPC and JEDB	16	4,191
Trade and other payables	21	359,700
		465,715
Total liabilities		1,692,663
Total equity and liabilities		**3,548,861**

.... 06.11.2017
Senior Manager-Finance **Date**

The Board of Directors is responsible for the preparation and presentation of the Statement of Financial Position.
The Statement of Financial Position was authorised for issue by Board of Directors on 6 November 2017.

....
Director **Director**

06.11.2017 06.11.2017
Date **Date**

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The notes on pages 3 to 18 form an integral part of the Statement of Financial Position.
Independent auditor's report- page 1.

HATTON PLANTATIONS LIMITED

Notes to the statement of financial position

(In the notes all amounts are shown in Sri Lanka Rupees thousands unless otherwise stated)

1 Reporting entity

Hatton Plantations Limited ("The Company ") was incorporated and domiciled in Sri Lanka under the Companies Act No 7 of 2007. The Company was incorporated based on an arrangement of Watawala Plantations PLC under section 256 (1) (a) of the Companies Act to vest the operational assets and liabilities relating to the upcountry tea business segment of Watawala Plantations PLC. The registered office of the Company is located at No 60, Dharmapala Mawatha, Colombo 03. The Company's objective is to primarily engage in cultivation, manufacture and sale of tea. The plantations are situated in the planting districts of Hatton, Watawala and Lindula.

The Company's parent undertaking is Estate Management Services (Private) Limited.

The Opening Statement of Financial Position represents the opening balances of the Company as at 30 September 2017. It was authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 6 November 2017.

2 Basis of preparation of the Statement of Financial Position

2.1 Basis of vesting of assets and liabilities

Consequent to the arrangement under the Section 256(1) of the Companies Act No7 of 2007, the High Court of the Western Province(Exercising Civil Jurisdiction) in Case No HC(CIVIL)/28/2017 CO ordered the vesting of net assets of the upcountry tea business segment of Watawala Plantations PLC (WPL) as at 30 September 2017 to Hatton Plantations Limited (HPL). The value of net assets acquired has been credited to stated capital where the shares have been issued to existing share holders of Watawala Plantation PLC at the same proportion. The basis of vesting of the identified assets and liabilities of Watawala Plantations PLC as submitted and approved by the courts is noted below;

Description	Vesting basis	Value
Assets		
Leasehold right to bare land of JEDB / SLSPC e	Vested on hectarage	Net carrying value at cost
Immovable estate assets on finance states lease (other than bare land)	Actual amortisation	Net carrying value at cost
Property , plant and equipment	Actual by estate	Net carrying value at cost
Property , plant and equipment H/O Based on estate property, plant and equipment	Actual assets by estate	Net carrying value a cost
Biological assets - bearer	Actual by estate	Net carrying value at cost
Biological assets - consumable	As per valuation report	Net carrying value at fair value
Investment-others	Actual by head office	Net carrying value at cost
Inventories	Actual by estate	Net carrying value at cost
Trade and other receivables	Actual by estate	Net carrying value at cost
Bearer plants	Actual by estate	Net carrying value at fair value
Trade and other receivables based on estate receivables	Actual by estate	Net carrying value at cost
Inter Company receivables	Actual by estate	Net carrying value at cost
Cash and cash equivalents - Estates	Actual by estate	Net carrying value at cost

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HATTON PLANTATIONS LIMITED

Notes to the statement of financial position

2 Basis of preparation of the Statement of Financial Position (contd)

2.1 Basis of vesting of assets and liabilities (contd)

Description	Vesting basis	Value
Liabilities		
Obligations under finance lease obtained from SLSPC & JEDB	Based on Hectarage	Net carrying value at amortised cost
Retirement benefit obligations	As per valuation report	Net carrying value at fair value
Retirement benefit obligations WPL Head Office	As per valuation report	Net carrying value at fair value
Deferred income and capital grants	As per fixed assets by estates	Net carrying value at cost
Borrowings-term loans short terms	Actual by estates	Net carrying value at amortised cost
Borrowings-term loans-Seylan Bank long term	Actual by estates	Net carrying value at amortised cost
Borrowings-Tea Board Loan Disbursement to the workers short term	Actual by estates	Net carrying value at amortised cost
Borrowings-Tea Board Loan-wage increment (Rs.2500)	Actual by estates	Net carrying value at amortised cost
Borrowings-Tea Board Loan-wage increment (Rs.2500) short term	Actual by estates	Net carrying value at amortised cost
Borrowings-term loans long term	Actual by estate and WPL head office	Net carrying value at amortised cost
Borrowings-Tea Board Loan-(74mn) long term	Actual by estates	Net carrying value at amortised cost
Borrowings-Tea Board Loan-(74mn) short term	Actual by estates	Net carrying value at amortised cost
Trade and other payables - Estates	Actual by estate and head office	Net carrying value at amortised cost
Trade and other payables others	Based on actual by estate and head office	Net carrying value at cost
Obligations under finance lease obtained from SLSPC & JEDB	Vested as per hectarage	Net carrying value at amortised cost

The Statement of Financial Position is prepared in accordance with Sri Lanka Accounting Standards which comprise Sri Lanka Financial Reporting Standards(SLFRS),Sri Lanka Accounting Standards(LKAS),pronouncements by the Standards interpretation Committee(SIC) and the International Financil Reporting Interpretations as described in the accounting polices and notes.

The Statement of Financial Position have been prepared under the historical cost convention except for assets carried at fair value as disclosed in the summary of principal accounting policies in Note 3.

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HATTON PLANTATIONS LIMITED

Notes to the statement of financial position (contd)

2 Basis of preparation of the Statement of Financial Position (contd)

2.2 Use of Estimates and Judgements

The preparation of the statement of financial position in conformity with Sri Lanka Accounting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial position. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities

3 Significant accounting policies

3.1 Property, plant and equipment

Property plant & equipment comprise tangible assets and Bearer plants.

Recognition and measurement

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the company and the cost of the asset can be measured reliably. All property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. The cost includes expenditure that is directly attributable to the acquisition of assets. The self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Capital work-in-progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. Capital work-in-progress would be transferred to the relevant asset when it is available for use. Capital work-in-progress is stated at cost less any accumulated impairment losses.

Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Bearer plants

Bearer plants are living plants used in the production or supply of agricultural produce;are expected to bear produce for more than one period;and have a remote likelihood of being sold as agricultural produce,except for incidental scrap sales. Bearer plants mainly include mature and immature tea and oil palm plantations. Immature plantations are stated at acquisition cost which includes costs incurred for field preparation,planting,fertilising and maintenance.Capitalisation of borrowing costs incurred on loans used to finance the development of immature plantations and an allocation of other indirect costs based on planted hectares.Mature plantations are stated at acquisition cost less accumulated depreciation and impairment.Mature plantations are depreciated on a straight line basis over its estimated useful life,upon commencement of commercial production.

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

The right to use land vested is recognised at cost together with the corresponding lease liability .

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HATTON PLANTATIONS LIMITED

Notes to the statement of financial position (contd)

3 Significant accounting policies (contd)

Depreciation and amortisation

Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful lives. Assets held under finance lease are amortised over the shorter of the lease term and their useful lives, in equal amounts.

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

The economic useful lives of assets are estimated below for depreciation / amortisation purposes.

	Vested assets (Years)
Right to use of land	27
Improvements to land	27
Vested other assets	30
Buildings	40
Plant and machinery	13
Equipment	8
Computer equipment	4
Computer software	6
Furniture and fittings	10
Motor vehicles	5
Sanitation, water and electricity	20
Roads and bridges	40
Fences and security lights	3
Mini hydro plants	10
Bearer plants	
- Tea	33
- Caliandra	10
- Cinnamon	30

3.2 Biological assets

Biological assets comprise forestry, livestock and growing agricultural produce on bearer plants.

Consumer biological assets

Timber plantation that are managed by the Company is classified as consumer biological assets and are measured on initial recognition and at the end of each reporting period at fair value less cost to sell. Cost to sell include all costs that would be necessary to sell the assets, including transportation costs if any. The fair value of trees younger than 5 years cannot be reliably estimated and are carried at cost less impairment. The cost include direct material, direct labour and appropriate proportion of directly attributable overheads.

Gains or losses arising on initial recognition of timber plantation at fair values less costs to sell and from the change in fair values less costs of plantations at each reporting date are included in profit or loss for the period in which they arise. All costs incurred in maintaining the assets are included in profit or loss for the period in which they arise.

Proceeds from sale of consumer biological assets are credited to the profit and loss when the risk and rewards associated with the sale is transferred to the buyer. Standing timber is transferred to inventories at its fair value less cost to sell at the date of harvest.

Nursery cost includes the cost of direct materials,direct labour and an appropriate proporttion of directly attributable overheads,less provision for overgrown plants. Nurseries are measured at cost less accumulated impairment.

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Notes to the statement of financial position (contd)

3 Significant accounting policies (contd)

Produce growing on bearer plants

Produce that grows on mature plantations are measured at fair value less estimated cost to sell.Cost to sell include all costs that would be necessary to sell the produce.

3.3 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

3.4 Financial assets

3.4.1 Classification

The Company classifies its financial assets in the following categories; at fair value through profit or loss, loans and receivables, available for sale and held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. During the reporting period and as at the statement of financial position date, the Company did not have financial assets classified as fair value through profit or loss and held to maturity.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's's loans and receivables comprises of 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non current.

b) Available-for-sale financial assets

AFS financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within twelve (12) months from the end of the reporting period.

3.4.2 Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Company commit to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. AFS financial assets are subsequently carried at fair value unless they are equity investments in non quoted private entities which are carried at cost. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

3.5 Offsetting financial instruments

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

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HATTON PLANTATIONS LIMITED

Notes to the statement of financial position (contd)

3 Significant Accounting Policies (contd)

3.6 Impairment of financial assets

Assets carried at amortised cost

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

Evidence of impairment may include indications that the debtors is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the income statement.

Assets classified as available-for-sale financial assets

The Company at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity securities classified as AFS, in addition to the criteria for 'Assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indicator that the assets are impaired. If any such evidence exists for AFS financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the statement of comprehensive income. The amount of cumulative loss that is reclassified to the statement of comprehensive income is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments classified as AFS are not reversed through the statement of comprehensive income.

3.7 Inventories

(i) Produce stock

The company has valued unsold produce stock (tea) at since realised prices. The company takes into consideration of the most recent selling prices available subsequent to the year end in estimating the since realised price for valuing the unsold produce stock as at the date of the financial position.

(ii) Finished goods manufactured from agricultural produce of biological assets

These are valued at the lower of cost and estimated net realisable value. Net realisable value is the estimated selling price at which stocks can be sold in the ordinary course of business after allowing for cost of realisation and/ or cost of conversion from their existing state to saleable condition.

(iii) Raw material, spares and consumables.

These are Valued at actual cost on weighted average basis.

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HATTON PLANTATIONS LIMITED

Notes to the statement of financial position (contd)

3 Significant accounting policies (contd)

3.8 Trade receivables

Trade receivables are amounts due from customers for commodities sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

3.9 Cash and cash equivalents

In the statements of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

3.10 Stated capital

Ordinary shares are classified as stated capital in equity.

3.11 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

3.13 Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognised in the profit or loss on a straight-line basis over the period of the lease.

The comapany leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the commencement of the lease at lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is recognised in the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

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HATTON PLANTATIONS LIMITED

Notes to the statement of financial position (contd)

3 Significant accounting policies (contd)

3.14 Employee benefits

3.14.1 Defined benefit plan - Gratuity

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

The Group and Company have adopted a defined benefit plan as required under the Payment of Gratuity Act No. 12 of 1983 for all eligible employees. The benefit plan is internally and partially funded.

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

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

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

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

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

3.15 Grants

Grants relating to the purchase of property, plant and equipment are included in non current liabilities as deferred income and are credited to other income on a straight line basis over the expected lives of the related

The grants that compensate the Group for expenses or losses already incurred are recognised in other income of the period in which it becomes receivable and when the expenses are recognised.

3.16 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be measured reliably. Provisions are not recognised for future operating losses.

Provisions are measured at the Directors' best estimate of the cost of settling these liabilities and are discounted to present value where the effect is material. All known liabilities and provisions have been accounted for in preparing the financial statements.

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Notes to the statement of financial position (contd)

4 Critical accounting estimates and judgments

The Comapny makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Pension benefits - Gratuity

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the company considers the interest rates of government bonds, and that have terms to maturity approximating the terms of the related pension liability.

Estimated useful lives of property, plants and equipment

The Company reviews annually the estimated useful lives of property, plant and equipment based on factors such as business plans, strategies, expected level of usage and future technological developments. Future result of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property, plant and equipment which increases the recorded depreciation charge and decreases the carrying value of property, plant and equipment.

Provisions

The Company recognises provisions when they have a present legal or constructive obligation arising as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligations and a reliable estimate can be made. The recording of provision requires the application of judgment about ultimate resolution of their obligations.

Impairment of trade receivables

The Company assesses at the date of statement of financial position whether there is an objective evidence that trade receivables have been impaired. Impairment loss is calculated based on a review of the current status of existing receivables and historical collections experience. Such provisions are adjusted periodically to reflect the actual anticipated impairments.

Consumer biological assets

In measuring fair value of trees management estimates and judgement are required. These estimates and judgement relates to the market prices, average volume of trees and quality of trees. Trees grow at different rates and there can be a considerable spread in the quality and volume of trees and that affect the prices achieved.

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HATTON PLANTATIONS LTD

Notes to the statement of financial position (contd)

5 Right to use land

In Rs. '000s	2017
Cost	
As at 30 September	112,956
	112,956
Accumulated amortisation	
As at 30 September	-
As at 30 September	-
Carrying value	
As at 30 September	112,956

Leasehold rights of the estates vested by the operation of law, under the court order of section 256 of the Companies Act No. 7 of 2007 and dated 26 September 2017.

The leases of JEDB / SLSPC estates will be assigned to the Company for a period of 27 years as per the vesting arrangement under the High Court order HC(Civil) 28/2017/CO. The leasehold rights to the land on all the estates have been taken into the books of the Company as at 30 September 2017 after the arrangement was approved by the courts on 26 September 2017 . The bare land has been recorded at the net carrying value in the books of Watawala Plantations PLC immidiately prior to the vesting. Corresponding liability is shown as a lease payable to JEDB/SLSPC.

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Notes to the statement of financial position (contd)

6 Immovable estate assets on finance lease (other than land)

In Rs. '000s	Improvements to land	Other vested assets	Bearer plants	Roads and bridges	Water supply	Buildings	Mini-hydro power plant	Machinery	Total
Cost									
As at 30 September 2017	354	1,319	64,755	187	-	-	-	-	66,615
As at 30 September 2017	**354**	**1,319**	**64,755**	**187**	**-**	**-**	**-**	**-**	**66,615**
Accumulated amortization									
As at 30 September 2017	-	-	-	-	-	-	-	-	-
As at 30 September 2017	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
							-	-	
							-	-	
Carrying value									
As at 30 September 2017	**354**	**1,319**	**64,755**	**187**	**-**	**-**	**-**	**-**	**66,615**

(a) Assets in estates that will be held under leasehold right to use have been vested at their net book value as they appeared in the books of Watawala Plantations PLC on 30 Spetember 2017.

(b) Investment by the Company on mature and immature plantations is shown separately under Bearer Plants.

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HATTON PLANTATIONS LTD

Notes to the statement of financial position (contd)

7 Property, Plant and Equipment

In Rs. '000s	Buildings	Capital work in progress	Motor vehicles	Plant and machinery	Equipment	Computer	Furniture and fittings	Others	Total
Cost									
As at 30 September 2017	526,697	29,242	69,093	422,703	19,559	1,316	5,986	77,867	1,152,463
									-
As at 30 September 2017	**526,697**	**29,242**	**69,093**	**422,703**	**19,559**	**1,316**	**5,986**	**77,867**	**1,152,463**
Accumulated depreciation									
As at 30 September 2017	-	-	-	-	-	-	-	-	-
As at 30 September 2017	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Carrying value									
As at 30 September 2017	**526,697**	**29,242**	**69,093**	**422,703**	**19,559**	**1,316**	**5,986**	**77,867**	**1,152,463**

Assets that are freehold have been vested at their net book value as they appeared in the books of Watawala Plantations PLC on 30 Spetember 2017.

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HATTON PLANTATIONS LTD

Notes to the statement of financial position (contd)

8 Bearer plants

Bearer plants

In Rs.'000'	Nurseries	Immature plants	Mature plants	Total
Cost				
As at 30 September 2017	560	120,217	558,948	679,725
As at 30 September 2017	**560**	**120,217**	**558,948**	**679,725**

Bearer plants that are on leasehold land have been vested at their net book value as they appeared in the books of Watawala Plantations PLC on 30 September 2017.

9 Biological assets

Consumable biological assets

In Rs.'000'	Nurseries	Immature plantations	Mature plantations	Total
Cost				
As at 30 September 2017	1,117	89,014	550,000	640,131
As at 30 September 2017	**1,117**	**89,014**	**550,000**	**640,131**

Timber trees that comprise of the consumer biological assets that are on leasehold land have been vested at their fair value as they appeared in the books of Watawala Plantations PLC on 30 September 2017. The fair value of the consumer biological assets were performed by Messers S. Sivakantha, Bsc Estate Management and Valuation.

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HATTON PLANTATIONS LTD

Notes to the statement of financial position (contd)

10 Available for sale investments

In LKR.'000'	
As at 30 September 2017	**2017**
Unit Energy Lanka	10,763
Waltrim Hydro Power (Private) Limited	10,882
Closing balance	**21,645**

11 Inventories

In Rs.'000'	
	2017
Produce stock	377,880
Raw materials, spares and consumables	120,857
	498,737

12 Biological assets-Produce on bearer plants

In Rs.'000'	
	2017
As at 30 September 2017	
Fair value of growing crops	16,687
As at 30 September 2017	**16,687**

The produce of bearer plants that comprise of plucked tea leaves on 30 September 2017 has been vested on the market price for such green leaves on 30 September 2017.

13 Trade and other receivables

In Rs.'000'	
	2017
Trade receivables	68,160
Employee advances	2,807
Deposits and Prepayments	7,353
Inter company receivables -Watawala Plantations Plc (Refer a)	219,961
Other receivables	57,887
	356,168

(a) The inter company receivable from Watawala Plantations Plc represents the amount receivable on account of the fund investments accruing to the Company.

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HATTON PLANTATIONS LTD

Notes to the statement of financial position (contd)

14 Cash and cash equivalents

In LKR.'000'	2017
Cash at bank - local currency	3,734
	3,734

15 Borrowings

Movement of borrowings during the year:

In LKR.'000'	Tea Board	Term loans	2017 Total
As at 30 September 2017			
Tea Board	93,618	-	93,618
Seylan Bank	-	201,430	201,430
NDB Bank	-	13,164	13,164
	93,618	**214,594**	**308,212**

Analysis of borrowings by year of repayment

In LKR.'000'	Notes	2017
Repayable within one year		
Tea Board		34,277
Seylan Bank		62,000
NDB Bank		5,547
		101,824
Repayable after one year		
Tea Board		59,341
Seylan Bank		139,430
NDB Bank		7,617
		206,388
Total borrowings		**308,212**

16 Lease Liability to SLSPC and JEDB

In Rs. '000's	2017
Gross liability	335,073
Less: Interest in suspense	(135,912)
Net liability to lessor	199,161
Less: Repayable within one year	(4,191)
Repayable after one year	194,970

The lease liability for the estates vested in the Company is to be assigned by entering into agreements with Watawala Plantations Plc, Hatton Plantations Ltd, JEDB, SLSPC and the Secretary to Treasury. As per the agreements, the lease liabilities will be settled over 27 years which is the remaining period of the original lease with Watawala Plantations PLC. The annual lease payments will remain unchanged.

HATTON PLANTATIONS LTD

Notes to the statement of financial position (contd)

17 Retirement benefit obligations

In Rs. '000's	2017
As at 30 September 2017	688,599
Liability in the statement of financial position	**688,599**

The retirement benefit obligation comprising of gratuity payable has been vested at the actuarial valuation performed as at 30 September 2017.

18 Deferred income and capital grants

In Rs. '000's	2017
Capital grants	
As at 30 September 2017	136,991
As at 30 September 2017	**136,991**

Funds have been received from the Plantation Human Development Trust (PHDT) and Ministry of Estate Infrastructure for workers' welfare facilities including re-roofing of line rooms, latrines, water supply, sanitation, etc. Grants received from the Ministry of Estate Infrastructure for construction of crèches, farm roads and community centers are also included above. The amounts spent have been capitalised under the relevant property, plant and equipment category. The capital grants are amortised on a straight-line basis over the useful life of the respective asset.

19 Trade and other payables

In Rs. '000's	2017
Trade payables	96,758
Employee related dues	140,789
Provisions and accruals	96,851
Other payables	25,302
	359,700

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