



Towards Excellence

Three Acre Farms PLC

Annual Report
2011



Our Corporate philosophy is centred upon the 3H principles of building a Healthy Organisation, being an Honourable Winner and making an Honest Fortune. This business philosophy is derived from our Parent Company, Prima Limited of Singapore.

Healthy Organisation

Developing a sound, effective and efficient organisation system. Promoting team spirit and reaching out to create a "PRIMA FAMILY" identity.

Honest Fortune

Establishing trust, fairness and mutual benefits with all within our business circle. Contributing to the well-being of society.

Honourable Winner

Achieving success through fair competition. Striving towards excellence.

History

Three Acre Farms PLC (TAF) was established in 1963, primarily as a commercial layer farm. The Company's name was derived from the original three acres of land on which the farm was situated. On 02 September 1992, TAF was acquired by Ceylon Grain Elevators PLC (CGE) for the purpose of expanding their own chick production facility.

The main business of the Company is the selective breeding, hatching and sale of commercial day old chicks, both broiler (for chicken meat) and layer (for the production of table eggs). The Company has two wholly-owned subsidiaries, viz., Ceylon Pioneer Poultry Breeders Limited (CPPBL) which undertakes grand parent farm operations and Millennium Multibreeder Farms (Pvt) Limited (MMF) which employs advanced technology

farming. The grand parent poultry farm imports grand parent day old chicks and after careful high - technology breeding, vaccination, feeding and selection will hatch fertilized eggs after 6 months which when hatched will give rise to parent day old chicks. TAF holds the valuable sole franchise for "LOHMANN INDIAN RIVER" parent stock breed. CGE/TAF also hold the franchise in Sri Lanka for "HY-LINE" breeds of commercial layers.

The Company currently operates from five (5) poultry breeder farms, viz., Meegoda, Kosgama, Halwathura, Aswatta and Makuluwatte. While its wholly-owned subsidiary, MMF operates from Wewelpanawa. The farms are located along the High Level Road linking Colombo to Avissawella while Halwathura Farm is in the District of Kalutara. The Company is constantly

upgrading its farm infrastructure to levels more commonly found in the more developed nations. The farms at Bulathsinhala and Beruwela undertake commercial and livestock farming.

Another significant achievement for the TAF Group is that as at the end of the calendar year, it owned on a freehold basis a total land extent of 289 acres with a total cost in the books of LKR 321 Million. The Directors have sanctioned the expansion of the breeder farms and Management are constantly on the look-out for suitable land for this purpose.

The Company was listed on the Colombo Stock Exchange on 20 March 1995 and is quoted in the Food & Beverage Sector. The holding company, CGE, held 57.21% of the issued share capital of TAF at the Balance Sheet date.



Towards Excellence

Over the past year, Three Acre Farms has been at the cutting edge of new technologies and has persevered to maintain its position as the market leader. This has helped us to bring to all our stakeholders the best of both profits and products.

Three Acre Farms will not stop at this – instead, we will strive to raise our own standards. There are new heights to be reached in terms of our products, performance, technological innovation, efficiency and perseverance. With the trust that you have placed in Three Acre Farms, we will work towards shelling out not just the best profits but also the best value for our shareholders, customers, suppliers and employees.

In 2012, your company, Three Acre Farms, will reach new heights by working towards excellence...

Contents

Chairman & Chief Executive Officer's Review	2	Income Statement	20
Management Discussion and Analysis	3	Balance Sheet	21
Corporate Governance Review	5	Statement of Changes in Equity	22
Audit Committee Report	9	Cash Flow Statement	23
Remuneration Committee Report	10	Notes to the Financial Statements	24
Board of Directors	11	Five Year Financial Summary	46
Risk Management Review	12	Statement of Value Added	47
Report of the Directors on the State of		Shareholder Information	48
Affairs of the Company	15	Notice of Meeting	49
Statement of the Directors' Responsibility	18	Notes	50
Independent Auditors' Report	19	Form of Proxy	51

Chairman & Chief Executive Officer's Review

Dear Shareholder,

It is with great pleasure that I present to you the Annual Report and Audited Financial Statements of Three Acre Farms PLC and its subsidiaries for the financial year ended 31 December 2011. I am pleased to invite you to the 50th Annual General Meeting which will be held on 14 May 2012 at the Sri Lanka Foundation Institute Auditorium, No. 100, Independence Square, Colombo-07 at 11.15 a.m.

The year 2011 brought on a new set of challenges for the Company as well as for the industry, notwithstanding these, the Company revenue grew by 11%. However there was a decrease in the Company's profit due to high operational cost attributable to external factors, which had a negative impact to the entire industry. It is noteworthy to mention, however, that even in the midst of these challenges the Company continued to operate satisfactorily by taking strategic decisions to maintain high operational efficiency. Thus, this year has been about expanding operational capabilities and further enhancing the efficiency of existing operations within the Company.

The economic situation

Even though 2011 began with many hopes that the global economy would continue to recover from a long and painful deleveraging process, optimism and momentum faded by mid-year as troubling global events dominated headlines. The devastating earthquake and tsunami in Japan, political unrest in the Middle East, rising oil prices, a US credit downgrade, the threat of another global recession, and an escalating debt crisis in Europe weighed heavily on markets.

The Sri Lankan economy however, was better prepared for the global economic situation and thus its economy proved to be more resilient. The country enjoyed a significant growth of 8.3%, maintaining the rate from the year before. The country's gross domestic production was estimated at US\$ 59 billion and per capita income at US\$ 2,830 compared to US\$ 50 billion and US\$ 2,400 respectively in 2010. Sri Lanka maintaining its economic growth and the increase in per capita income saw an improvement in the purchasing power of Sri Lankans. Thus the per capita consumption of Chicken Meat increased significantly to 5.7Kg against 5Kg the previous year, and will continue to increase during the coming years.

Challenges faced during the year

With the intervention by the government to import layer hatching eggs to increase supply of day old chicks during the 4th quarter of 2010, the industry entered into a cycle of excess supply of DOC in 1st quarter of 2011. Subsequently the market showed a shortage of demand for poultry products in the 2nd and 3rd quarter of 2011, when major players were forced to scale down their operations to reduce losses. Consequently when the market normalized around the final quarter of the year, the local production was insufficient to meet the demands for day old chicks. These fluctuations in demand pattern greatly contributed to increased operational costs within the Company and the poultry industry as a whole.

TAF responded to these challenges by taking swift and decisive steps to strike a balance between supply and demand in production planning, adjusting output in tandem with market trends.

Towards the future

The poultry industry is anticipated to be over capacity in the coming years due to the rapid expansion of key players in the market and in view of this we expect margins will be affected in the coming years. However, to maintain its leading position in the country, the Company has to refurbish its facilities to improve productivity in the coming years, and at the same time expand its capacity in line with the market demand. TAF aims to invest in new technology to improve productivity and quality of DOC, and continue to be the market leader in poultry breeding in Sri Lanka.

With growing market trends and the Sri Lankan economy predicted to reach over 8% growth in 2012, it can easily be said that the poultry industry's contribution to the economy will increase multiple-fold in the coming years. We expect that the consumption of Chicken Meat will increase to about 8Kg per capita by 2016, which is highly favourable for the poultry industry in general and TAF in particular. TAF remains committed and dedicated to face the oncoming challenges of a growing market while looking forward to many new opportunities for growth. With a heightened emphasis on infrastructure development by the government, we hope 2012 will see new markets emerging with the necessary framework for new farms to be established throughout the island.

Financial review

Our financial accomplishments for the year under review recorded a revenue of Rs. 1,287.86 million, which is an increase of 11% against Rs. 1,157.78 million in 2010. Your Company has reported a net profit after tax of Rs. 157.52 million as compared to Rs. 229.08 million the year before, due to heightened operational costs.

Dividends

As the Company is planning for capital investment on capacity expansion in the year 2012, the Board of Directors believes it would be prudent to refrain from declaring a dividend for the financial year ended 31st December 2011. We trust our decision will be understood and appreciated by Shareholders as being one that will bode well for the Company in the future.

Acknowledgements

On behalf of the Board of Directors, I take this opportunity to thank you for the trust placed in Three Acre Farms as its valued Shareholders. I would like to express my sincere appreciation towards our dedicated employees and customers for their determination and commitment during 2011. I wish to convey to all our Shareholders and Investors a message that the future will be a promising one for Three Acre Farm PLC as many potential opportunities await us in the years ahead.

**Cheng Chih Kwong, Primus
Chairman & Chief Executive Officer**

Colombo, Sri Lanka
10 April 2012

Management Discussion and Analysis

Industry Overview

The year 2011 has been a tough one for most economies. Global economic development was disrupted by many crisis situations, from the distressing earthquake in Japan to the predicament of the Middle East. However, in light of some of the world's strongest economies going back into recession after a period of revival in 2010, Sri Lanka's economy proved to be resilient, maintaining a comparatively high growth rate of 8.3%, marginally higher from 8% in 2010.

Sri Lanka's stable inflation rate of 6.7% assisted in expansion efforts, while strong macroeconomic conditions, surging Gross Domestic Production (GDP) rates and appropriate and timely monetary policies helped the island nation maintain its growth. The agriculture sector grew by 2% in 2011, contributing US\$ 7 billion to the economy. While the agriculture sector contributed around 12% of National GDP, the livestock sub sector contributes around 1.2% of National GDP.

About 70% of the contribution to the livestock sub-sector in Sri Lanka comes from chicken meat and eggs, which remains as the cheapest source of animal protein. With the country's economic progress, the domestic per capita income also increased to US\$ 2,830 (from US\$ 2,400 in 2010) improving Sri Lankan purchasing power. Currently the annual consumption of chicken meat in Sri Lanka is approximately 5.7kg and 54 eggs per person. Chicken meat consumption is expected to increase to 8kg per capita within the next four to five years, a good indicator for the business lines of Three Acre Farms.

During the year 2011, the poultry industry has also grown marginally. However it showed an overall instability, seeing excess supply and surge in demand at varying points of the year causing reverberations felt through the entire industry. The Government imposed restriction on importing maize; along with bad weather affected local maize production caused feed prices to increase within the year. However this could not be passed on to the consumers due to the maximum retail price (MRP) on chicken meat imposed by the Government. The Rupee's depreciation by 3% also increased the price of imported Day Old parent chicks.

However, the industry is expected to benefit from Sri Lanka's present political stability and ongoing peaceful outlook, gradual increase in tourism and fast expanding market in the North and East provinces. The demand for chicken has increased in year 2011 with the flourishing tourism industry, to the point where the Government imported processed chicken to avoid a price increment due to tight supply. We expect to face over capacity problems in day old chick production during 2012 due to excessive expansions by players in the industry, making the years ahead more challenging.

Breeder Operations

TAF's main business line of Breeder Operation focuses on the selective breeding, hatching and sale of commercial Day Old Chicks, both Broiler (for chicken meat) and Layer (for production of table eggs).

Breeder Operation sales revenues were up by 11% from Rs. 1,157.78 million in 2010 to Rs. 1,287.86 million in 2011, while EBIT for the sector increased 2% from last year to Rs. 211 million due to higher operational costs and normalisation of selling price for day old chicks.

The fluctuating demand for both Broiler and Layer DOCs during the year along with higher costs for feed has caused an increase in the production cost of DOCs. Other factors affecting the sector's performance included the depreciation of the rupee increasing the cost of importing grandparent and parent bird stocks. During late 2010, the Government made a move to increase importing layer hatching eggs with an aim to increase the supply of DOCs to the market which was undersupplied at the time. This unfortunately resulted in the industry suffering from excess poultry product supplies at the beginning of 2011. During the 2nd and 3rd quarters



Management Discussion and Analysis (Contd.)

of the year, the market showed a decreased in demand forcing major players to reduce the scale of their operations. At this point, DOCs had to be sold at lower prices to avoid destroying excess supplies. Towards the end of the year when the market normalized, local DOC production had become insufficient to meet market demands.

The Company took measures to improve the quality of DOCs by importing high quality grandparent birds during the year, which will benefit future stocks of DOCs.

(Rs' 000)	2011	2010	Change %
Revenue	1,287,858	1,157,777	11%
Earnings Before Interest and Taxes	211,217	206,717	2%
Total Assets	1,396,448	1,231,101	13%
Return on Investments	15%	17%	(12%)

Commercial Farming

The Commercial Farming sector of Three Acre Farms consists of contracted broiler chicken farming operation for its parent company Ceylon Grain Elevators PLC. This service earns the Company a rearing profit / loss based on a standard formula.

Commercial Farming rearing income decreased 20% from Rs. 174.88 million in 2010 to Rs. 140.05 million in the year under consideration. EBIT for the sector fell substantially from Rs. 38.75 to a loss of Rs. 38.95 million, caused by unforeseen challenges in the sector.



(Rs' 000)	2011	2010	Change %
Rearing Income	140,046	174,882	(20%)
Earnings Before Interest and Taxes	(38,952)	38,752	NM
Total Assets	812,917	748,975	8%
Return on Investments	(5%)	5%	NM

The Commercial Farming sector of TAF suffered a loss due to higher mortality rates along with weight loss caused by severe climatic changes in the country. The significant decrease in volume of the out grower scheme also affected the overall output volume.

The Company continues to invest and improve the facilities and capacity of our own farms, with the completion of four (4) new modern environmental controlled (EC) broiler houses in 2011. TAF plans to continue the modernisation of our own farm facilities in the coming years, we are confident that with this the performance of this sector will be improved in the years to come.

Corporate Governance Review

Three Acre Farms PLC firmly believes that good corporate governance is pivotal to enhance and retain shareholder and stakeholders trust. Thus the Company constantly seeks to ensure that it is compliant with its governance framework and thereby provides integrity and transparency to all stakeholders of the Company. Our disclosures always seek to attain and pursue the best practices of good corporate governance as published by the Institute of Chartered Accountants of Sri Lanka, the Companies Act of 2007 and the Listing Rules of the Colombo Stock Exchange.

The Three Acre Farms Code of Conduct is as follows:

- Always act in the best interest of the Company, ensuring transparency in all matters
- Conduct business in an ethical manner at all times and in keeping with international industry standards
- Compliance with all statutory and legal requirements
- Continuous professional development along with the Company and Individual compliance with all rules and regulations
- Trust, professionalism and integrity in all partnerships and transactions

The Chairman and the Company asserts that there have not been any violations of the Three Acre Farms Code of Conduct in the year 2011.

Board of Directors

The Board of Directors of Three Acre Farms PLC are responsible to the shareholders for continued efficient management of TAF while ensuring that it accomplishes set targets and goals. The Board meets frequently to establish the Company's strategic direction and to provide guidance to ensure that TAF is adequately resourced and effectively controlled, while reviewing the Company's operating and financial performance. During the year under consideration, the Board has sought professional advice on matters that needed outside expertise, including litigation advice from the Company Lawyers. The Board collectively, and Directors individually, act in accordance with the laws of the Country, while all members of the Board take collective responsibility for the management, direction and performance of the Company.

Board Composition

The Board of Directors is made up of six (6) members. Three Acre Farms PLC is committed to maintain a balanced Board to ensure long-term value addition for all stakeholders, with a correct mix of Executive,

Non-Executive and Independent Non- Executive Directors. The intimate knowledge of the industry and business brought forward by these individuals will enable the Company to make better decisions for a sustainable and profitable future. In keeping with this belief, the Board comprises two (2) Executive Directors, two (2) Non-Executive Directors, and two (2) Independent Non-Executive Directors. The Board composition complies with the Listing Rules of the Colombo Stock Exchange, which requires a composition of a minimum of 2 or 1/3 of the Board to be Independent Non-Executive Directors. While board appointments follow a formal and transparent procedure, the Board periodically appraises their own performance in order to ensure that their responsibilities are satisfactorily discharged in fairness to both the Company and its stakeholders. In the year under consideration, an assessment was made of the Board composition and it was concluded that the combined knowledge and experience of the current Board matches the strategic demands and direction of the Company. A brief profile of individual Board members is given in page 11 of this report.

<i>Name of Director</i>	<i>Capacity</i>	<i>Shareholding</i>
Mr. Cheng Chih Kwong, Primus	Chairman and Chief Executive Officer	19
Mr. Tan Beng Chuan	Executive Director & Group General Manager	Nil
Mr. Cheng Chih Cheng, Robert	Non-Executive Director	19
Mr. Sunil Leeniyagoda	Non-Executive Director	Nil
Dr. Wickrema Sena Weerasooria	Independent Non-Executive Director	Nil
Mr. Sunil Karunanayake	Independent Non-Executive Director	Nil

The Chairman of the Board

Mr. Cheng Chih Kwong, Primus is the Chairman / CEO of the Board, and provides leadership to the board while ensuring its effectiveness in its multiple roles. The Chairman's duties include chairing Board meetings to provide direction, responsibility for the Board's composition, facilitating the effective contribution of Non-Executive Directors and ensuring positive relations between Executive and Non-Executive Directors. In line with Governance principles, the Chairman has met with Non-Executive Directors without the presence of Executive Directors twice in the year under

Corporate Governance (Contd.)

consideration. The Board of Directors annually assesses performance of the Chairman / CEO.

With a view to have a proper balance of power on the Board, the posts of Chairman and Executive Director have been separated with clear roles defined for each. The suitability of combining the roles of Chairman and CEO has been discussed and reviewed regularly. On the basis of such discussions and reviews, the Board has deemed that combining the two roles is more appropriate for the Company at present to meet stakeholder and company objectives.

<i>Name of Director</i>	<i>Capacity</i>	<i>Member of Audit Committee</i>	<i>Member of Remuneration Committee</i>
Mr. Cheng Chih Kwong, Primus	Chairman and Chief Executive Officer	No	No
Mr. Tan Beng Chuan	Executive Director & Group General Manager	No	No
Mr. Cheng Chih Cheng, Robert	Non-Executive Director	No	No
Mr. Sunil Leeniyagoda	Non-Executive Director	Yes	Yes
Dr. Wickrema Sena Weerasooria	Independent Non-Executive Director	Yes	Yes
Mr. Sunil Karunanayake	Independent Non-Executive Director	Yes	Yes

Board Committees

In keeping with industry best practices, the Board has established two special committees at a Board level to monitor, review and enhance accountability which in turn will ensure a good governance practices within the Company. These Board Committees and their functions are as follows:

- **Audit Committee**

The Audit Committee is responsible for assisting the Board of Directors in fulfilling its oversight responsibilities in the financial reporting process. The Audit Committee consists of two (2) Independent Non-executive Directors and one (1) Non-Executive Director. The Chairman of the Committee, who is appointed by the Board, is an Independent Non-Executive Director. The detailed Audit Committee Report appears on page 9 of this Report.

- **Remuneration Committee**

The Remuneration Committee is responsible to the Board for determining the remuneration policy for Executive Directors and Senior Managers. The Remuneration Committee consists of two (2) Independent Non-executive Directors and one (1) Non-Executive Director. The Chairman of the Committee, who is appointed by the Board, is an Independent Non-Executive Director. The detailed Remuneration Committee Report appears on page 10 of this Report.

Board Meetings

During the year 2011, the Board met twice to discuss and review the overall strategic development of the Company, in keeping with the company governance principles. The Board did not deem it necessary to meet more than twice as the strategies discussed at meetings were successfully implemented. The Chairman holds responsibility for providing leadership to the Board and the business at these meetings, facilitating the effective contribution of all members, implementing strategies and ensuring that the Board operates effectively, keeping with the interests of shareholders. Board Minutes are kept to ensure that concerns are recorded in case of Directors having concerns about matters of the Company which cannot be unanimously resolved, although such a need did not arise during the year under consideration. On behalf of the Chairman, the Company Secretaries, SSP Corporate Services, holds responsibility for ensuring that all Board meetings are properly conducted and that Directors receive necessary relevant information prior to the meetings, where the Board reviews the key performance indicators (KPIs). The Company Secretaries also provide guidance to the Board to ensure that good governance requirements are considered and implemented. The Group General Manager updates the Board on current business matters and reports on the latest financial position at Board meetings.

Corporate Governance (Contd.)

Communication with Shareholders

The Company believes in maintaining transparency at all times. The Board takes measures to report all statutory and relevant information along with disclosure of all major transactions to Shareholders in a timely and accurate manner, while the Company encourages shareholders to seek independent advice on investing and divesting decisions. All quarterly and annual results are prepared and presented in accordance with the Sri Lanka Accounting Standards, the Companies Act No. 07 of 2007, the Colombo Stock Exchange policies and the Securities & Exchange Commission regulations.

Training and Development

The Company provides training development for its Board of Directors, beginning with comprehensive induction programmes to ensure that new Board members gather the required knowledge to carry out their duties. If a Director should require a deeper understanding on a particular area, further follow-up meetings are arranged to provide this knowledge to the Board member.

Supply of Information

The Board of Directors are supplied with timely, accurate and comprehensive information, including Board minutes and reports which are circulated prior to Board meetings. All Directors have access to the advice and services provided by the Company's Secretary in case they should require specific information.

Regulatory Compliance

The Board of Directors are responsible for TAF's compliance with laws, regulations and other standards as laid down by regulatory bodies of the country. To this end, the Board is regularly updated with information pertaining to compliance.

Going Concern

TAF has considerable financial resources together with a diversified business model, with a range of businesses. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they will continue to adopt the going concern basis in preparing accounts.

Corporate Governance (Contd.)

Corporate Governance Compliance

<i>CSE Rule Number & Subject</i>	<i>Corporate Governance Principle</i>	<i>Compliance Details</i>
7.10.1(a) Non-Executive Directors	Two or one third of the total number of Directors shall be Non-Executive Directors, whichever is higher.	Four of the Directors are classified as Non-Executive Directors (Out of a total of six).
7.10.2(a) Independent Directors	Two or one third of Non-Executive Directors whichever is higher shall be independent.	Two of the Directors are classified as Independent Directors (Out of a total of four Non-Executive Directors).
7.10.2(b) Independent Directors	Each Non-Executive Director should submit a declaration of independence / non-independence in the prescribed format.	Each Non-Executive Director has submitted his declaration of independence in the prescribed form to the Board.
7.10.3(a) Disclosure relating to Directors	Names of Independent Directors should be disclosed in the Annual Report.	The names of the Independent Directors are provided on page 11 of the Annual Report.
7.10.3(b) Disclosure relating to Directors	The basis for the Board to determine a Director is Independent, if criteria specified for Independent is not met.	The Board has determined that only Two of the Non Executive Directors out of the Six satisfy the criteria for "Independence" as set out in the Listing Rule.
7.10.3(c) Disclosure relating to Directors	A brief résumé of each Director should be included in the Annual Report including the area of expertise.	A synopsis of the Directors is provided on page 11 of the Annual Report.
7.10.5 Remuneration Committee	A Listed Company shall have a Remuneration Committee.	Please refer page 10 of the Annual Report for more details on the Committee and its functions.
7.10.5(a) Composition of Remuneration Committee	The Committee shall consist of Non-Executive Directors, a majority of whom shall be independent.	The Committee consists of three members of which two are Independent Non-Executive Directors.
7.10.6 Audit Committee	A Listed Company shall have an Audit Committee.	Please refer page 9 of the Annual Report for more details on the Committee and its functions.
7.10.6(a) Composition of Audit Committee	The Committee shall comprise of Non-Executive Directors, the majority of whom shall be independent. The Chairman of the Committee should be a Member of a recognized professional accounting body.	The Committee consists of three members of which two are Independent Non-Executive Directors. The Chairman of the Committee is also a member of a recognised accounting body (CA Sri Lanka).

Audit Committee Report

The Three Acre Farms PLC Audit Committee is responsible for assisting the Board of Directors in fulfilling its oversight responsibilities in the financial reporting and compliance process, while keeping a good relationship with the Group's external auditors. The Audit Committee also overlooks reviewing of the Company's internal financial resources, controls and the audit process. Furthermore, its duties include assisting the Board in ensuring that financial and non-financial information supplied to shareholders, presents a balanced assessment of Three Acre Farms PLC's current position.

In line with the guidelines set out by the Colombo Stock Exchange, the Audit Committee consists of three (3) members. These members are appointed by the Board of Directors from amongst the Directors of the Company and consists of three Non-Executive Directors. Mr. Sunil Karunanayake, who acts as the Committee Chairman, is a Member of the Institute of Chartered Accountants of Sri Lanka.

The Committee met four (4) times during 2011. Meetings of the Audit Committee were held at such times as it was deemed appropriate and necessary. During the year under consideration, the Committee received reports from the management and the auditors and also held discussions with them in this regard.

During the year 2011, the TAF Audit Committee has completed multiple duties, including:

Approving the auditors terms of engagement, including their remuneration. The Committee has, in discussion with the auditors, assessed their independence and objectivity and recommended their re-appointment for the coming year at the Annual General Meeting.

The Committee has also reviewed multiple areas pertaining to Company auditing including:

- The financial statements published in the name of the Board and the quality and acceptability of the related accounting policies, practices and financial reporting disclosures
- The scope of the work of the Group's Finance Department and reports from that department
- The effectiveness of the systems for internal control, risk management and compliance with financial services legislation and regulations

- The results of the external audit
- Reports from the internal and external auditors on audit planning and their findings on accounting and internal control systems

Name	Capacity	No. of meetings held	No. of meetings attended
Mr. Sunil Karunanayake	Chairman / Independent Non-Executive Director	4	4
Dr. Wickrema Sena Weerasooria	Member / Independent Non-Executive Director	4	4
Mr. Sunil Leeniyagoda	Member / Non-Executive Director	4	4
Mr. Darshana De Silva	Secretary / Group Internal Auditor	4	4

Sunil Karunanayake

Chairman, Audit Committee

Remuneration Committee Report

The TAF Remuneration Committee's key function is to recommend to the Board of Directors the remuneration policy for Executive Directors and Senior Managers. The Committee fulfils requirements laid down in the Listing Rules of the Colombo Stock Exchange, where the term 'Remuneration' means cash and all non-cash benefits whatsoever received in consideration of employment with TAF, excluding statutory entitlements such as the Employees Provident Fund and the Employees Trust Fund.

The Remuneration Committee which is directly responsible to the Board of Directors has its members chosen by the Board from amongst the Company's Directors. In line with the guidelines set out by the Colombo Stock Exchange, the Remuneration Committee consists of three (3) members who are Non-Executive Directors.

It is a regulated requirement that the Remuneration Committee meets at least once a year to discuss matters pertaining to remuneration policies relevant to the committee. They met four (4) times during the year 2011.

Name	Capacity	No. of meetings held	No. of meetings attended
Dr. Wickrema Sena Weerasooria	Chairman / Independent Non-Executive Director	4	4
Mr. Sunil Leeniyagoda	Member / Non-Executive Director	4	4
Mr. Sunil Karunanayake	Member / Independent Non-Executive Director	4	4
Mr. M. C. M. De Costa	Secretary / AGM (Personnel, Security & General Affairs)	4	4

The general remuneration policy of the Company focuses on:

- Attracting and retaining talented executive management personnel by providing alignment between remuneration and the Company's business objectives
- Motivating and rewarding executive management personnel to achieve challenging performance goals
- Ensuring that executive rewards are in line with shareholder value
- Recognising both individual and corporate achievements thereby adding value to the Company

The total of Directors' remuneration paid during the year under review is set out in Note 25.1 to the Financial Statements.

Dr. Wickrema Sena Weerasooria

Chairman, Remuneration Committee

Board of Directors

Mr. Cheng Chih Kwong, Primus

Chairman and Chief Executive Officer

Mr. Cheng Chih Kwong, Primus is the Chairman and Chief Executive Officer of the Prima Group and its subsidiary companies. He is a Certified Practising Accountant (CPA) - Australia and also holds a Diploma in Business Studies.

Mr. Cheng Chih Kwong, Primus is the Patron of Yuhua Citizens Consultative Committee and has served as the former Patron of the Ulu Pandan Community Centre Building Fund Committee and as the Vice- Chairman (General Affairs Committee), Singapore Chinese Chamber of Commerce & Industry (1999-2001).

Mr. Tan Beng Chuan

Executive Director and Group General Manager

Mr. Tan Beng Chuan has been a Director of the Company and its subsidiary companies since 2003. He is the Group General Manager of Prima Group of Companies, Sri Lanka since 2003. He holds a B.Sc. Hon in Chemical Engineering from University of Surrey, UK and a MBA in Management and Marketing from University of Warwick, UK. Mr. Tan Beng Chuan is currently the President Mentor and Ex-President of Singapore (Sri Lanka) Club and Executive Committee Member of Sri Lanka-Canada Business Council.

Mr. Cheng Chih Cheng, Robert

Non-Executive Director

Mr. Cheng Chih Cheng, Robert has been a Director of the Company since 1992. He also serves as a Director of Supra Limited (Hong Kong), Prima Ceylon (Private) Limited (Sri Lanka), Hapiways Management Services Pte Ltd (Singapore) and also as the Assistant to the CEO at Prima Limited (Singapore).

Mr. Sunil Karunanayake

Independent Non-Executive Director

Mr. Sunil Karunanayake has been a Director of the Company since 2009. He holds fellowships of the Institute of Chartered Accountants of Sri Lanka & Chartered Institute of Management Accountants (UK) and a MBA from the Post Graduate Institute of Management of the University of Sri Jayawardenapura. He has also obtained a Diploma in Commercial Arbitration from the Institute of Commercial

Law and Practice. Mr. Sunil Karunanayake was formerly a Director/ Secretary of Brooke Bond Ceylon Limited and Commercial Controller of Unilever Ceylon Ltd - Tea Division. Currently he serves as the Chief Financial Consultant at Associated Newspapers of Ceylon Ltd. In addition, he also serves two other listed companies in the capacity of Non-Executive Director.

Dr. Wickrema Sena Weerasooria

Independent Non-Executive Director

Dr. Wickrema Sena Weerasooria has been a Director of the Company since 2009. He holds LLB (Hons.) and Ph.D (London). He is an Attorney-at-law Supreme Court of Sri Lanka, a Barrister and Solicitor - Supreme Court of Victoria. Dr. Wickrema Sena Weerasooria is a well known lawyer and legal academic. He was formerly Secretary of the Ministry of Plan Implementation, Sri Lanka's High Commissioner to Australia, Consultant to the Central Bank and a former Associate Professor of Law Monash University, Australia. He is currently a Senior Consultant to the Post Graduate Institute of Management (PIM)

Mr. Sunil Leeniyagoda

Non-Executive Director

Mr. Sunil Leeniyagoda joined the Prima Group in October 2001 as the Group Treasurer and was appointed as a Director of Three Acre Farms PLC in July 2004. Mr. Sunil Leeniyagoda is a professional banker and counts more than 25 years experience in commercial banking out of which 14 years was in the area of Treasury Management. He started his career at Bank of Ceylon and later moved to ABN Amro Bank and at the time of joining Prima he was the Vice President, Treasury. He holds a Post Graduate Diploma in Bank Management and is also a board member of Prima Ceylon Limited, Prima Land (Private) Limited, Prima Management Services (Private) Limited and Prima Logistics Services (Private) Limited.

Risk Management Review

The Risk Management Review is a walkthrough of the risk Management systems and processes that are followed by Three Acre Farms PLC.

Risk Management can be defined as the systematic application of management policies, procedures and practices for the establishment of relevant context, identification, analysis, mitigation, monitoring and thereby communication of all risks. The Risk Management framework at TAF ensures a complete identification and understanding of the risks to which the Company is exposed. It is integrated into the planning process which focuses on the efficient

delivery and achievement of objectives via effective mitigation of related risks. Risks are identified and evaluated at appropriate levels throughout the organisation through an agreed process, which helps to implement an effective plan to prevent losses or reduce the impact of any loss in the event that it occurs.

Overall, TAF's Risk Management structure, planning and reporting systems and review processes provide a robust and tenacious basis for the integration of Risk Management into the entity's entire management process.

The principal risks associated with the Company's activities and their mitigation procedures are as follows.

<i>Risk Factor</i>	<i>Risk Mitigating Strategies</i>
<p>Exchange Rate Risk</p> <p>This risk arises from negative changes in exchange rates in terms of foreign currency transactions. The Company imports GPDOCs and has loans denominated in foreign currencies. In the event of a decline in the value of the Sri Lankan Rupee against foreign currencies, there is an increase in prices affecting sales margins and increasing in the debt burden in rupee terms.</p>	<p>Changes in international prices are passed on to the selling prices of the Company's products. This provides a natural hedge against changes to global prices and fluctuations in the value of the rupee. A substantial fall of the Rupee against the US Dollar however can have a negative impact on the Company's operations and finances. Although TAF is able to increase its products' selling prices, these adjustments may require time depending on the severity of the currency fall and existent Government price controls.</p>
<p>Credit Risk</p> <p>Credit Risk is the risk of financial losses arising due to the unwillingness or inability of counter-parties to meet their financial or contractual obligations in time and in full.</p>	<p>The Company encourages customers to purchase goods on cash terms. Thorough credit checks pertaining to credit worthiness are performed on customers before granting sales on credit. The Company's Finance and Sales Divisions closely monitor credit sales to ensure repayment on due dates and also tie future sales based on outstanding value.</p>
<p>Human Capital & Labour Risk</p> <p>Human Capital & Labour Risk is associated with losing talented employees and experiencing an environment of unpleasant labour relations.</p>	<p>The Company uses a series of strategies in motivating, developing, and retaining its human capital. TAF has a Career Development program for its staff, which focuses on helping employees to achieve their optimum potential and thereby improve job performance and satisfaction. The Company has clear policies for Career Development, providing performance based career advancement.</p> <p>TAF maintains healthy relationships with employees through regular dialogues, ensures compliance with all regulatory requirements with regard to benefits applicable to employees and provides attractive financial and performance based incentives.</p>

Risk Management Review (Contd.)

Risk Factor	Risk Mitigating Strategies
<p>Information Technology Risk</p> <p>IT Risk is the risk associated with computer security, hardware, software and other information technology systems failing and causing disruption to business operations of the Company.</p>	<p>A well thought-out and secure Information Technology security infrastructure has been implemented Company wide, including recovery strategies, data back-ups stored at off-site locations, regular updating of virus scanners and firewalls, maintenance of spare servers and other critical ICT hardware components, and regular IT audits.</p>
<p>Risk of Outbreaks of Disease</p> <p>Outbreaks of communicable animal diseases can result in significant losses of poultry flocks within a very short period of time.</p>	<p>The Management of the Company provides training to the farmers with regard to identifying and controlling disease outbreaks. TAF also offers veterinarian services in order to ensure the general health of poultry. The Company periodically reviews its Bio-Security Practices and Policies to ensure that TAF policies are on par with industry standards, placing emphasis on environmental safety and sustainability.</p> <p>TAF is committed to the usage of updated vaccines and medicines for more effective disease control, while stressing on proper housing taking into consideration animal welfare. Company feed formulation strategies focus on building the health status of birds with the aim of better hygiene.</p>
<p>Regulatory & Compliance Risk</p> <p>Regulatory Risk is associated with changes in Government policies, laws, regulations and statutes. Compliance Risk relates to the Company being able to comply with all the laws, regulations and statutes applicable to the country.</p>	<p>The Company keeps abreast of changes to the regulatory framework and ensures that TAF is always in compliance with all requirements. TAF works in a collaborative manner with trade associations in the industry, the All Island Poultry Association, and other trade chambers who are part of advising and assisting regulatory bodies on developing and adjusting regulations.</p>
<p>Competitive Risk</p> <p>Competitive Risk is the risk that customers will purchase competitor or alternative products due to variances in the product offering.</p>	<p>The Company takes innovative measures to mitigate Competitive Risks by keeping abreast of changing trends, needs and behaviours of the industry. The Company ensures that the right competitive strategies are practiced to keep TAF ahead. To this end, TAF captures customer feedback on future needs and tracks social and cultural trends that influence consumer demand. TAF has put in place the industry's best quality standard process and ensures via its quality assurance systems, that a consistently high level of quality is maintained.</p>
<p>Risk of Environmental Issues</p> <p>The Risk of Environmental Issues refers to environmental issues which can be raised by housing and settlements in farm neighbourhoods.</p>	<p>The Management of the Company provides equipment for the disposal of solid waste. TAF provides knowledge of good management practices for environmental protection to staff. The Company ensures cleanliness and good housekeeping procedures that should always be practiced.</p>

Risk Management Review (Contd.)

Risk Factor	Risk Mitigating Strategies
<p>Risk of Market Demand for DOC</p> <p>This refers to the risk of destroying DOCs due to a drop in demand. As DOCs cannot be kept for more than a day, there is a risk of destroying chicks when there is no demand for DOC.</p>	<p>The Company ensures that there is no unnecessary culling of DOC due to decreased demand by keeping abreast of market trends. By predicting market demand ahead TAF is able to minimise the risk of destroying DOCs. In the event that an unforeseen drop in demand occurs, measures deemed necessary by the Management will be taken to ensure continued quality and adherence to company policies and product regulations.</p>
<p>Procurement & Supply Chain Risk</p> <p>This risk relates to the availability of quality feed, GPDOCs and other supplies in the needed quantity, on the required date and at the right price. Risks in this segment includes restrictions on the import of drugs and vaccines; receiving contaminated cargo; and key DOC importation countries being affected with Avian Influenza or other diseases.</p>	<p>The Company will turn to the closest suitable substitute in case of a shortage of drugs or vaccines, while taking strict measures in accordance with its Quality Management System to handle contaminated cargo. As the Company keeps track of multiple DOC sources, it will develop new suppliers in case key suppliers are unable to deliver.</p>

Report of the Directors on the State of Affairs of the Company

The Board of Directors is pleased to present their Report and the Audited Financial Statements of the Company for the year ended 31 December 2011. The details set out herein provide pertinent information required by the Companies Act No.7 of 2007, the Colombo Stock Exchange Listing rules and are guided by recommended best accounting practices.

1. Principal Activities

The principal activities of the Company are;

- The hatching and sale of day old chicks
- The operation of poultry breeder farms raising grandparent and parent stock and hatcheries and
- Commercial farming

2. Review of Performance for the year ended 31 December 2011 and Future Developments

A review of the Groups' performance during the year, with comments on financial results for the year ended 31 December 2011 and future developments is contained in the Chairman and Chief Executive officers Review (page 2) and Management Discussion and Analysis (page 3). These reports, together with the Financial Statements reflect the state of affairs of the Company.

3. Financial Statements

The financial statements of the Company are given in pages 20 to 45.

4. Independent Auditors' Report

The Independent Auditors' Report on the financial statements is given on page 19.

5. Accounting Policies

The accounting policies adopted in preparation of financial statements are given on pages 24 to 31. There were no material changes in the Accounting Policies adopted.

6. Interest Register

The Company maintains an Interest Register and the particulars of those Directors who were directly or indirectly interested in a contract of the Company are stated therein.

7. Directors' Interest

None of the Directors had a direct or indirect interest in any contracts or proposed contracts with the Company other than as disclosed in the Note 25 to the financial statements.

8. Directors Remuneration and Other Benefits

Directors' remuneration in respect of the Company for the financial year ended 31 December 2011 is given in Note 25.1 to the financial statements.

9. Corporate Donations

Donations made by the Company amounted to Rs. Nil (2010 - Rs.135,875/-). No donations were made for political purposes.

10. Directorate

The names of the Directors who held office during the year are given below.

Mr. Cheng Chih Kwong, Primus - Chairman & Chief Executive Officer

Mr. Tan Beng Chuan - Executive Director & Group General Manager

Mr. Cheng Chih Cheng, Robert - Non-Executive Director

Mr. Sunil Leeniyagoda - Non-Executive Director

Dr. Wickrema Sena Weerasooria - Independent Non-Executive Director

Mr. Sunil Karunanayake - Independent Non-Executive Director

In accordance with the provisions of Article 87 of the Articles of Association of the Company, Mr. Sunil Karunanayake retires by rotation and offers himself for re-election.

A Resolution for the re-appointment of Dr. Wickrema Sena Weerasooria, who was 70 years of age on 17th July 2009 will be proposed at the Annual General Meeting in terms of Section 211 of the Companies Act No.7 of 2007. A Special notice has been given of this intention.

11. Directors' Shareholdings

	As at 31.12.2011	As at 31.12.2010
Mr. Cheng Chih Kwong, Primus	19	19
Mr. Tan Beng Chuan	Nil	Nil
Mr. Cheng Chih Cheng, Robert	19	19
Mr. Sunil Leeniyagoda	Nil	Nil
Dr. Wickrema Sena Weerasooria	Nil	Nil
Mr. Sunil Karunanayake	Nil	Nil

Report of the Directors on the State of Affairs of the Company (Contd.)

12. Auditors

The financial statements for the year ended 31 December 2011 have been audited by Messrs KPMG, Chartered Accountants, who express their willingness to continue in office. In accordance with the Companies Act No.07 of 2007, a resolution relating to their re-appointment and authorising the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

The Auditors Messrs KPMG were paid Rs. 1,050,000/- (2010-Rs. 850,000/-) as audit fees by the Company. In addition they were paid Rs. Nil (2010 - Rs. Nil) by the Company for audit related work.

As far as the Directors are aware, the Auditors do not have any relationship (other than that of an Auditor) with the Company other than those disclosed above. The Auditors also do not have any interest in the Company.

13. Group Turnover

Group Turnover amounted to Rs. 1,288 Million (2010 - Rs.1,158 Million)

14. Dividends

The Directors have not recommended the payment of a dividend for the financial year ended 31 December 2011.

15. Investments

Details of investments held by the Company are disclosed in Note 12 to the financial statements.

16. Property, Plant and Equipment

An analysis of the property, plant and equipment of the Company, additions and disposals made during the year and depreciation charged during the year are set out in Note 11 to the financial statements. The market values of assets are not significantly different to those disclosed.

17. Capital Commitments

Capital expenditure contracted as at 31 December 2011 for which no provision has been made in the accounts amounted to Rs. Nil (2010 - Rs. Nil).

18. Stated Capital

The issued and fully paid up share capital of the Company is Rs. 623,604,000/- divided into 23,545,000 ordinary shares. There was no change in the stated capital of the Company during the year.

19. Reserves

Total accumulated losses as at 31 December 2011 amounted to Rs. 306 Million (2010 - Rs. 407 Million). The movement of accumulated losses is shown in the statement of changes in equity on page 22.

Total revaluation reserve as at 31 December 2011 amounted to Rs. 367 Million (2010 - Rs. 252 Million). The movement of revaluation reserve is shown in the statement of changes in equity on page 22.

20. Events subsequent to the Balance Sheet date

No significant events have occurred since the Balance Sheet date other than those disclosed in Note 26 to the financial statement.

21. Employment Policies

The Company identifies Human Resource as one of the most important factors contributing to the survival and growth of the Company in the current competitive business environment. While appreciating and valuing the service of our employees, a greater effort is made to hire the best talent from external sources, to bolster weak areas and continue to maintain the highest standards of the industry. Human Resource Head Count is considered as a key indicator and recruitment is based on annual manpower planning and the Company provides equal opportunities. Greater emphasis is given to the area of training, professional development and ethical business practices. All rewards and career opportunities are based on merit, and on performance.

22. Taxation

The tax position of the Company is given in Note 9 to the financial statements.

23. Share Information

Information relating to earnings, dividend, net assets, No. of shares traded and market price per share is given on page 46.

Report of the Directors on the State of Affairs of the Company (Contd.)

24. Disclosure as per CSE rule No.8.7 (1) (5)

	2011	2010
	Rs. Cts.	Rs. Cts.
Market price per share as at 31 December	103.80	90.20
Highest and lowest share price this year	242.00/75.00	92.00/8.25
Basic earnings per share	4.29	6.24
Dividend per share	-	-
Net assets per share	29.08	19.91

25. Shareholdings

The number of registered shareholders of the Company as at 31 December 2011 was 3,574. The distribution and analysis of shareholdings are given on page 48.

26. Major Shareholders

The twenty largest shareholders of the Company as at 31 December 2011, together with an analysis are given on page 48.

27. Statutory Payments

The Directors to the best of their knowledge and belief are satisfied that all statutory payments in relation to the Government and employees have been made on time.

28. Environment, Health and Safety

The Company policy continues to ensure that all environmental, health and safety regulations are strictly adhered to, minimizing any adverse effects to the environment. Recycling of waste is carried out wherever possible. Employees are provided with a range of all personal protective equipment as the health and well being of the employees are one of our prime concerns. Fire fighting and safety systems are in place to safeguard Company interests. Plans are in progress to introduce emission free machinery for in-house operations so as to eliminate air pollution.

29. Contingent Liabilities

There were no material contingent liabilities outstanding as at 31 December 2011.

30. Annual General Meeting

The 50th Annual General Meeting of the Company will be held at the Sri Lanka Foundation Institute Auditorium, No. 100, Independence Square, Colombo-07 on 14th May 2012 at 11.15 a.m.

By Order of the Board of
Three Acre Farms PLC

(Sgd.)

Cheng Chih Kwong, Primus

Chairman & Chief Executive Officer

(Sgd.)

Tan Beng Chuan

Executive Director & Group General Manager

(Sgd.)

S S P Corporate Services (Private) Limited

Secretaries

Colombo

10 April 2012

Statement of the Directors' Responsibility

The responsibility of the Directors in relation to the financial statements of the Company and the Group, is set out in the following statement. The responsibility of the auditors, in relation to the financial statements, is set out in their report appearing on page 19.

The Companies Act No. 07 of 2007 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the status of affairs of the Company and the Group and of the profit or loss for that year.

In preparing these financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whatever applicable accounting standards have been followed, subject to any material departures and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to ensure that the financial statements comply with the Companies Act.

The Directors are also responsible for taking such steps as they deem reasonable or required in order to safeguard the assets of the Company and the Group and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to prevent and detect fraud and other irregularities.

The Directors are required to prepare the financial statements to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections they may consider to be appropriate to enable them to express their audit opinion.

Compliance Statement

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

Three Acre Farms PLC

(Sgd.)

Cheng Chih Kwong, Primus

Chairman & Chief Executive Officer

(Sgd.)

Tan Beng Chuan

Executive Director & Group General Manager

Colombo

10 April 2012

Independent Auditors' Report



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
+94 - 11 254 1249
+94 - 11 230 7345
Internet : www.lk.kpmg.com

TO THE SHAREHOLDERS OF THREE ACRE FARMS PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Three Acre Farms PLC (the "Company"), and the consolidated financial statements of the company and its subsidiaries ("the Group") as at December 31, 2011 which comprise the balance sheet as at December 31, 2011, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 20 to 45 of this Annual Report.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinion

Company

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2011 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2011 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Group

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at December 31, 2011 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the members of the Company.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Sections 153(2) to 153(7) of the Companies Act No. 07 of 2007.

KPMG

Chartered Accountants
Colombo, Sri Lanka.

10 April 2012

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. M. P. Perera FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne ACA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne ACA
R.M.D.B. Rajapakse ACA
Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

Income Statement

All amounts in Sri Lanka Rupees thousands.

For the year ended 31 December	Notes	Group		Company	
		2011	2010	2011	2010
Revenue	4	1,287,858	1,157,777	1,012,884	888,514
Cost of sales		(1,063,068)	(937,458)	(854,750)	(755,840)
Gross profit		224,790	220,319	158,134	132,674
Other operating (loss)/profit	5	(38,952)	38,752	(38,952)	38,752
Other operating income	6	474	668	474	668
Administrative expenses		(14,911)	(15,007)	(13,010)	(13,361)
Operating profit	7	171,401	244,732	106,646	158,733
Net finance income	8	458	133	473	212
Profit before tax		171,859	244,865	107,119	158,945
Tax expense	9	(14,336)	(15,781)	(6,035)	(12,133)
Profit for the period		157,523	229,084	101,084	146,812
Attributable to:					
Equity holders of the parent		157,523	229,084	101,084	146,812
Basic Earnings per share (Rs.)	10	6.69	9.73	4.29	6.24

The notes on pages 24 to 45 form an integral part of these consolidated financial statements.

Balance Sheet

All amounts in Sri Lanka Rupees thousands.

As at 31 December	Notes	Group		Company	
		2011	2010	2011	2010
ASSETS					
Non-current assets					
Property, plant and equipment	11	1,711,074	1,477,819	1,319,564	1,151,013
Investments in subsidiary companies	12	-	-	-	-
Livestock	13	346,934	355,086	260,021	274,070
Non current receivables	14	-	-	183,180	174,933
Total Non-current assets		2,058,008	1,832,905	1,762,765	1,600,016
Current assets					
Inventories	15	64,907	62,197	56,869	54,192
Trade and other receivables	16	28,866	35,558	21,019	25,319
Current tax receivables		32,370	32,370	27,924	27,924
Cash and cash equivalents	17	25,214	17,046	24,882	16,716
Total current assets		151,357	147,171	130,694	124,151
Total assets		2,209,365	1,980,076	1,893,459	1,724,167
EQUITY & LIABILITIES					
Stated Capital	18	623,604	623,604	623,604	623,604
Revaluation reserve		455,839	269,163	367,303	252,334
Accumulated losses		(319,115)	(476,638)	(306,151)	(407,235)
Total Equity		760,328	416,129	684,756	468,703
LIABILITIES					
Non-current liabilities					
Payable to related companies	19	1,014,710	1,376,066	809,773	1,096,006
Deferred tax	20	68,281	52,660	48,020	49,690
Employee benefits	21	8,921	7,794	6,874	5,713
Total Non-current liabilities		1,091,912	1,436,520	864,667	1,151,409
Current liabilities					
Trade and other payables	22	93,641	116,133	81,564	93,116
Bank borrowings	17.1	263,484	11,294	262,472	10,939
Total current liabilities		357,125	127,427	344,036	104,055
Total liabilities		1,449,037	1,563,947	1,208,703	1,255,464
Total equity and liabilities		2,209,365	1,980,076	1,893,459	1,724,167

The notes on pages 24 to 45 form an integral part of these consolidated financial statements.

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

(Sgd.) K.A.R.S. Perera
Financial Controller

Signed for and on behalf of the Board of Directors on 10 April 2012.

(Sgd.)Cheng Chih Kwong, Primus
Chairman & Chief Executive Officer

(Sgd.)Tan Beng Chuan
Executive Director & Group General Manager

Statement of Changes in Equity

All amounts in Sri Lanka Rupees thousands.

For the year ended 31 December 2011

Group	Stated capital	Revaluation reserve	Accumulated losses	Total
Balance as at 1 January 2010	623,604	269,163	(705,722)	187,045
Profit for the year	-	-	229,084	229,084
Balance as at 31 December 2010	623,604	269,163	(476,638)	416,129
Balance as at 1 January 2011	623,604	269,163	(476,638)	416,129
Revaluation reserve	-	201,673	-	201,673
Transfer to deferred tax liability	-	(14,997)	-	(14,997)
Profit for the year	-	-	157,523	157,523
Balance as at 31 December 2011	623,604	455,839	(319,115)	760,328
Company	Stated capital	Revaluation reserve	Accumulated losses	Total
Balance as at 1 January 2010	623,604	252,334	(554,047)	321,891
Profit for the year	-	-	146,812	146,812
Balance as at 31 December 2010	623,604	252,334	(407,235)	468,703
Balance as at 1 January 2011	623,604	252,334	(407,235)	468,703
Revaluation reserve	-	116,195	-	116,195
Transfer to deferred tax liability	-	(1,226)	-	(1,226)
Profit for the year	-	-	101,084	101,084
Balance as at 31 December 2011	623,604	367,303	(306,151)	684,756

The notes on pages 24 to 45 form an integral part of these consolidated financial statements.

Cash Flow Statement

All amounts in Sri Lanka Rupees thousands.

For the year ended 31 December	Notes	Group		Company	
		2011	2010	2011	2010
Operating Activities					
Profit before tax		171,859	244,865	107,119	158,945
Adjustments for:					
Depreciation	11	82,850	74,930	61,640	53,643
Impairment of intangible assets		-	3,605	-	3,605
Amortisation of parent and grandparent livestock	13	361,147	316,200	288,197	250,309
Profit on sale of property, plant and equipment		(668)	-	(668)	-
Interest expenses	8	406	604	391	525
Exchange gain		(864)	(737)	(864)	(737)
Changes in working capital:					
- Trade and other receivables		(7,020)	11,660	(4,630)	3,014
- Inventories		(2,710)	36,173	(2,677)	29,721
- Payables		(22,680)	53,104	(11,740)	42,116
Employee benefits	21	2,094	1,732	1,715	1,478
Transfer from CPPBL		-	-	-	1,791
Cash generated from operations		584,414	742,136	438,483	544,410
Interest expenses		(219)	(604)	(204)	(525)
Exchange gain		864	737	864	737
Employee benefits paid	21	(967)	(631)	(554)	(505)
Tax paid		-	-	-	-
Net cash generated from operating activities		584,092	741,638	438,589	544,117
Investing Activities					
Purchase of property, plant and equipment	11	(114,432)	(108,663)	(113,996)	(108,603)
Purchase of parent and grandparent livestock	13	(352,994)	(446,999)	(274,148)	(337,341)
Proceeds from disposal of property, plant and equipment		668	-	668	-
Net cash used in investing activities		(466,758)	(555,662)	(387,476)	(445,944)
Financing Activities					
Funds to related company		-	-	(8,247)	(7,019)
Funds to parent company		(361,356)	(183,324)	(286,233)	(89,909)
Short term borrowing	17.1	250,000	-	250,000	-
Net cash used in financing activities		(111,356)	(183,324)	(44,480)	(96,928)
Increase in cash and cash equivalents		5,978	2,652	6,633	1,245
Movement in cash and cash equivalents					
At the beginning of the year		5,752	3,100	5,777	4,532
Increase in cash and cash equivalents		5,978	2,652	6,633	1,245
Cash and cash equivalents as at 31 December	17.1	11,730	5,752	12,410	5,777

The notes on pages 24 to 45 form an integral part of these consolidated financial statements.

Notes to the Financial Statements

1. REPORTING ENTITY

1.1 General

Three Acre Farms PLC (the "Company") is a "Quoted Public Company" with limited liability, incorporated and domiciled in Sri Lanka. The address of the Company's registered office is No.15, Rock House Lane, Colombo - 15, Sri Lanka. The Company is in the Agriculture industry.

Three Acre Farms PLC (TAF) was established in 1963, primarily as a commercial layer farm. The Company's name was derived from the original three acres of land on which the farm was situated. On 02 September 1992 TAF was acquired by Ceylon Grain Elevators PLC for the purpose of expanding their- own production facility.

The consolidated financial statements of the Company as at and for the year ended 31 December 2011 comprises the Company and its subsidiaries.

The Company has two fully owned Subsidiaries; they are Ceylon Pioneer Poultry Breeders Limited (CPPBL) (incorporated on 24 September 1993), which terminated its operation in 2009 and is renting the farms to Three Acre Farms PLC and Millennium Multibreeder Farms (Pvt) Ltd (incorporated on 10 August 1999), which employs advanced technology farming in producing Broiler Day Old Chicks.

The Company was listed in the Colombo Stock Exchange on 20 March 1995 in the Food & Beverage Sector. The parent Company, Ceylon Grain Elevators PLC, holds 57.21% (as at 31 December 2011) of the stated capital of the Company.

1.2 Principal activities and nature of the operation

The main business of the Group is selective breeding, hatching and sale of commercial day old chicks, both broiler (for chicken meat) and layer (for the production of table eggs), grandparent farm operations, import grandparent day old chicks and advanced technology breeding.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLAS) as issued by the Institute of Chartered Accountants of Sri Lanka

(ICASL) and the requirements of the Companies Act No.7 of 2007.

2.2 Approval of Financial Statements by Directors

The consolidated financial statements were authorized for issue by the Board of Directors on 10 April 2012.

2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost concept, except for the revaluation of property as stated in note 3.3 (and measurement of investment property at revalued amounts)

2.4 Functional and presentation currency

The consolidated financial statements are presented in Sri Lanka Rupees, which is the Company's functional currency, rounded to the nearest thousand, unless otherwise stated.

2.5 Use of estimates and judgments

The preparation of financial statements in conformity with Sri Lanka Accounting Standards (SLAS) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Information about assumptions and estimation uncertainties and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are included in the following notes:

- Note 09 - Utilization of tax losses
- Note 21 - Measurement of defined benefit obligation

2.6 Materiality and Aggregation

Each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

Notes to the Financial Statements (Contd.)

3. CONSISTENCY OF ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities. Certain comparative amounts have been reclassified to conform to the current year's presentation.

3.1 Basis of consolidation

Subsidiaries

Subsidiary undertakings, which are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. In assessing control, potential voting rights which presently are exercisable are taken into account. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of control ceases. Accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Transactions eliminated on consolidation

Intra-group balances, and any unrealized gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Accounting for Investment in subsidiaries

When separate financial statements are prepared, investments in subsidiaries are accounted for using the cost method. Investments in subsidiaries are stated in the Company's balance sheet at cost less accumulated impairment losses.

3.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the Sri Lankan Rupees middle rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the Sri Lankan Rupees at the middle rate of exchange ruling at

that date. Foreign exchange differences arising on retranslation are recognized in the income statement.

Non monetary assets & liabilities denominated in foreign currency that are stated at historic cost at the Balance Sheet date are translated to Sri Lankan Rupees at the foreign exchange rates ruling at that date.

3.3 Property, plant and equipment

Property, Plant & Equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period.

Recognition and measurement

Items of property, plant and equipment are measured at cost or valuation less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

Gains and losses on disposal

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within "other income/ other expenses" in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value

Notes to the Financial Statements (Contd.)

and reclassified as investment property. Any gain arising on remeasurement is recognized in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in the statement of changes in equity and presented in the revaluation reserve in equity. Any loss is recognized in the statement of changes in equity and presented in the revaluation reserve in equity to the extent that an amount had previously been included in the revaluation reserve relating to the specific property, with any remaining loss recognized immediately in profit or loss.

Revaluation

Revaluations are carried out by an independent professional valuer regularly such that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

The Group revalues Land & Buildings at least once in every four years which is stated at its fair value at the date of revaluation less depreciation and any subsequent impairment losses. On revaluation, any increase in the revaluation amount is credited to the revaluation reserve unless it offsets a previous decrease in value of the same asset that was recognized in the income statement. A decrease in value is recognized in the income statement where it exceeds the increase previously recognized in the revaluation reserve. Upon disposal, any related revaluation reserve is transferred from the revaluation reserve to retained earnings and is not taken into account in arriving at the gain or loss on disposal. The details of revaluation are disclosed in Note 11 to the financial statements.

Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Derecognition

The carrying amount of an item of Property, Plant & Equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or

loss arising from the derecognition of an item of Property, Plant & Equipment is included in profit or loss when the item is derecognized. When replacement costs are recognized in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is derecognized. Major inspection costs are capitalized. At each such capitalization, the remaining carrying amount of the previous cost of inspections is derecognized.

Depreciation

Depreciation is based on the cost or revaluation of an asset or other amount substituted for cost, less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. No depreciation is provided on assets under construction.

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

	Life period	Rate
Freehold building	20, 50 years	5%,2%
Plant and machinery	16 2/3 years	6%
Electrical and factory equipment	10 years	10%
Farm equipment	8 - 10 years	12.5% - 10%
Furniture, fittings and office equipment	10 years	10%
Motor vehicles	5 years	20%

Land is not depreciated as it is deemed to have an indefinite life.

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 derecognized. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Notes to the Financial Statements (Contd.)

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Capital work in progress

Capital expenses incurred during the year which are not completed as at the Balance Sheet date are shown as capital work-in-progress, while the capital assets which have been completed during the year and put to use are transferred to property, plant and equipment.

3.4 Intangible assets

Goodwill

Goodwill and negative goodwill arise on the acquisition of subsidiaries. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in the consolidated income statement.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash generating units and is no longer amortised but annually tested for impairment. Goodwill on the acquisition of subsidiaries is presented as intangible assets.

3.5 Investment Property

Investment properties are those which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. An external, independent valuation Company, having an appropriate recognized professional qualification and recent experience in the location and category of property being valued, values the portfolio every 3 years. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognized in profit or loss. Rental income from investment property is accounted for as described in accounting policy.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognized directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognized in profit or loss immediately.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

3.6 Livestock

Livestock represents the unamortized parent and grandparent livestock, used to breed day old commercial chicks. Parent and grandparent birds include the growing birds and the laying birds.

The growing birds are valued at directly attributable cost incurred up to the commencement of laying period. The laying birds are valued at cost less subsequent amortizations. The amortization is made on straight line basis over the laying period after making due allowances for carcass value.

Livestock is not valued at its fair value as the fair value cannot be measured reliably due to non existence of active markets for parent and grandparent birds at different age categories and the complexity in determining expected future cash flows for parent and grandparent birds in different age, breed and genetic merit.

3.7 Inventories

Inventories are measured at the lower of cost and net realizable value after making due allowances for obsolete and slow moving items.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

The cost incurred in bringing inventories to its present location and conditions are accounted as follows.

Notes to the Financial Statements (Contd.)

Compounded feed

Cost is calculated using the weighted average cost.

Eggs

Hatching eggs are valued at direct cost together with an appropriate proportion of production overheads.

Broiler DOC

The cost of Broiler DOC as at the Balance sheet date includes the cost of hatched eggs and hatching chargers incurred in respect of broiler DOCs

Poultry equipment, drugs, vaccine and sundry inventories

Poultry equipment, drugs, vaccine and sundry inventories are valued at actual cost on weighted average basis after making due allowance for obsolete and slow moving items.

3.8 Trade and other receivables

Trade receivables are carried at anticipated realizable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

3.9 Cash & cash equivalents

Cash & cash equivalents comprise cash in hand, deposits held at call with banks, and investments in money market instruments.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and investments in money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

Cash Flow Statement is prepared under the "indirect" method as per Sri Lanka Accounting Standard 09 - Cash Flow Statements.

3.10 Impairment of assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. For goodwill, recoverable amount is estimated at each balance sheet date and impairment loss is recognized whenever the carrying

amount of an asset or its cash generating unit exceeds its recoverable amount.

Calculation of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

Recognition of Impairment loss

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in the income statement. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Reversal of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, impairment losses recognized in prior periods are assessed at each balance sheet date for any indications that the loss has decreased or no longer exists. An impairment loss has reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Notes to the Financial Statements (Contd.)

Reversals of impairment losses are recognized in the income statement.

3.11 Employee benefits

Defined benefit plan - gratuity

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. The liability recognized in the balance sheet in respect of defined benefit plan is the present value of defined benefit obligation at the balance sheet date. Benefits falling due more than 12 months after the balance sheet date are discounted to present value. The defined benefit obligation is calculated by independent actuaries using Projected Unit Credit (PUC) method as recommended by SLAS 16 - "Employees benefits". The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The gratuity liability is based on an independent actuarial valuation carried out once in 3 years.

The actuarial gains and losses are charged or credited to income statement in the period in which they arise.

The assumptions based on which the results of the actuarial valuation was determined, are included in Note 21 to the financial statements.

However, according to the Payment of Gratuity Act No.12 of 1983, the liability for the gratuity payment to an employee arises only on the completion of 5 years of continued service with the Company.

Defined contribution plan

A defined contribution plan is a post employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to defined contribution plans are recognized as expense in income statement as and when they are due.

(a) Employees' Provident Fund

The Group and employees contribute 12% and 8% respectively on the salary of each employee to the approved Employee Provident Fund.

(b) Employees' Trust Fund

The Group contributes 3% of the salary of each employee to the Employees' Trust Fund. The total amount recognized as an expense to the group for contribution to ETF is disclosed in the notes to Financial Statements.

3.12 Stated capital

Ordinary shares and share premium are classified as stated capital.

3.13 Interest bearing borrowings

Borrowings are recognized initially at the proceeds received.

3.14 Provisions

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

3.15 Revenue recognition

Sale of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognized. Revenue excludes value added taxes or other sales taxes.

Rental income

Rental income received or receivable in the course of ordinary activities is recognized as revenue in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income.

Notes to the Financial Statements (Contd.)

Rental income from investment property is recognised as other income in profit or loss on a straight-line basis over the term of the lease.

Interest income

Interest income from time deposits and other interest-bearing assets is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable unless collectability is in doubt.

Dividend income

Dividend income is recognized in the income statement when the right to receive payment is established.

Other income / Other operating profits/(losses)

Gains/(losses) on the disposal of investments held by the Group have been accounted for as other income in the income statement.

Gains/(losses) on the disposal of property, plant & equipment determined by reference to the carrying amount and related expenses, have been accounted for as other income in the income statement.

Other operating profits/(losses) consist of profits/(losses) arising from out grower operations carried out by the companies that use farms for out grower operations.

3.16 Expenses

Net finance expenses

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested and foreign exchange gains and losses that are recognized in the income statement.

3.17 Income tax expenses

Income tax expense comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax

Current tax is the expected tax payable on the taxable income

for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognized using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

The principal temporary differences arise from depreciation on property, plant and equipment, tax losses carried forward and provisions for defined benefit obligations. Deferred tax assets relating to the carry forward of unused tax losses are recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

Notes to the Financial Statements (Contd.)

3.18 Earnings per share

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

3.19 Events occurring after the balance sheet date

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

3.20 Commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. The Company's share of any contingencies and capital commitments of a Subsidiary for which the company is also liable severally or otherwise are also included with appropriate disclosures.

Contingencies are possible assets or obligations that arise from a past event and would be confirmed only on the occurrence or non-occurrence of uncertain future events, which are beyond the Company's control. Contingent liabilities are disclosed in Note 23 to the financial statements. Commitments are disclosed in Note 24 to the financial statements.

3.22 New Accounting Standards issued but not Effective as At Balance Sheet Date

The Institute of Chartered Accountants of Sri Lanka (ICASL) has issued a new volume of Sri Lanka Accounting Standards - 2011, applicable for financial periods beginning on or after 1 January 2012. These Standards have many changes and consequential changes from the adoption of LKAS 32 and 39. These new Accounting Standards are prefixed both SLFRS and LKAS which correspond to the relevant IFRS and IAS. Disclosure requirement under SLAS 10.30 and 10.31 have been exempted by the ICASL and therefore all differences and impacts arising from the new Standards are not presented in these financial statements.

(a) Property Plant & Equipment

Property, plant and equipment comprising individual components for which different depreciation methods or rates are appropriate, require to be depreciated separately. Further

PPE should be re-assessed for their useful life on an annual basis to include fully depreciated assets as well.

The resulting impact with regard to the above adjustment is in the process of being identified and the quantification is yet to be performed by the company.

(b) Live stock

The Company values its live stock at cost. The revised standard, LKAS 41 states that fair value can be measured reliably for biological assets. However, that presumption can be rebutted only on initial recognition for a biological asset for which market determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In such a case, these biological assets shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses.

Notes to the Financial Statements (Contd.)

All amounts in Sri Lanka Rupees thousands.

Note 04

REVENUE

Sales are made up as follows:

	Group		Company	
	2011	2010	2011	2010
Local sales	1,439,005	1,293,255	1,128,401	989,449
Export sales	4,863	4,728	4,863	4,728
Value added tax	(156,010)	(140,206)	(120,380)	(105,663)
Net sales	1,287,858	1,157,777	1,012,884	888,514

Note 05

OTHER OPERATING (LOSS) / PROFIT

Other operating (loss) / profit wholly consist of (loss) / profit arising from outgrower operations carried out at the Bulathsinhala farm, Hijra farms and Attanagalla farm.

Note 06

OTHER OPERATING INCOME

Other income is made-up as follows

	Group		Company	
	2011	2010	2011	2010
Sale of fixed assets	176	-	176	-
Sundry Income	298	668	298	668
	474	668	474	668

Note 07

OPERATING PROFIT

The following items have been charged / (credited) in arriving at operating profit :

	Group		Company	
	2011	2010	2011	2010
Directors' emoluments	120	120	120	120
Auditors' remuneration - Audit Services	1,350	1,100	1,050	850
Depreciation on property, plant and equipment - owned assets (Note 11)	82,850	74,930	61,640	53,643
Impairment of intangible assets	-	3,605	-	3,605
Legal fees	33	-	33	-
Amortisation of ERP system	1,255	947	947	947
Amortisation of parent and grand parent livestock				
- Parent birds	325,553	280,700	252,603	214,809
- Grandparent birds	35,594	35,500	35,594	35,500
	361,147	316,200	288,197	250,309

Notes to the Financial Statements (Contd.)

All amounts in Sri Lanka Rupees thousands.

Note 07 (Contd.)

Staff Cost

	Group		Company	
	2011	2010	2011	2010
Salaries and wages and other fringe benefits	154,481	149,156	127,626	120,973
Social security costs	21	203	4	151
Defined contribution plans	4,658	4,120	4,138	3,613
Employee benefits (Note 21)	2,094	1,732	1,715	1,478
	161,254	155,211	133,483	126,215
Average monthly number of persons employed during the year :				
- Full time	168	186	155	154
- Part time	623	664	520	553
	791	850	675	707

Part time employees include contracted labour hired from third parties, who work on a shift basis.

Note 08

NET FINANCE INCOME

	Group		Company	
	2011	2010	2011	2010
Interest expenses	883	983	861	896
Net exchange gain	(864)	(737)	(864)	(737)
Interest income	(477)	(379)	(470)	(371)
	(458)	(133)	(473)	(212)

Note 09

TAX EXPENSE

	Group		Company	
	2011	2010	2011	2010
Current tax	13,204	10,358	8,931	7,133
Deferred tax charge /(release) (Note 20)	624	5,000	(2,896)	5,000
ESC write off	508	423	-	-
	14,336	15,781	6,035	12,133

Tax Reconciliation

	Group		Company	
	2011	2010	2011	2010
Profit before tax	171,859	244,865	107,119	158,945
Add : Disallowable expenses	474,924	398,770	372,802	311,651
Deduct : Allowable expenses	(478,260)	(540,802)	(365,426)	(397,517)
Interest expenses	7	88	-	81
Deduct : Tax losses setoff	(59,200)	(36,251)	(40,073)	(25,606)
Taxable income	109,330	66,670	74,422	47,554

Notes to the Financial Statements (Contd.)

All amounts in Sri Lanka Rupees thousands.

Note 09 (Contd.)

Tax Reconciliation

	Group		Company	
	2011	2010	2011	2010
Income tax using the domestic corporation tax rate				
- at 12%	13,185	-	8,931	-
- at 28%	19	-	-	-
- at 15%	-	10,064	-	7,133
- at 35%	-	81	-	-
Current tax	13,204	10,145	8,931	7,133
Under provision in the previous years	-	213	-	-
Deferred tax charge/(release)	624	5,000	(2,896)	5,000
ESC Write off	508	423	-	-
	14,336	15,781	6,035	12,133

Further information about deferred tax is presented in Note 20.

Tax losses of the Company available for carry forward as of 31 December 2011 amounted to Rs. 414,229,418 (2010 - Rs. 453,875,777).

Ceylon Pioneer Poultry Breeders Limited, a subsidiary company, is liable to pay income tax at 28% on the profit and income earned by the company. As at 31 December 2011 tax losses available for carry forward amounted to Rs. 227,645,418/- (2010 - Rs. 227,682,800).

Millennium Multibreeder Farms (Private)Limited is liable to pay income tax at 15% on the profit and income earned by the Company. The tax losses available to carry forward as at 31 December 2011 amounted to Rs. 151,923,318 (2010 - Rs. 171,012,766/-)

Note 10

BASIC EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2011 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 December 2011, calculated as follows:

	Group		Company	
	2011	2010	2011	2010
Profit attributable to ordinary shareholders	157,523	229,084	101,084	146,812
Weighted average number of ordinary shares as at 31 December	23,545	23,545	23,545	23,545
Basic earning per share (Rs.)	6.69	9.73	4.29	6.24

Notes to the Financial Statements (Contd.)

All amounts in Sri Lanka Rupees thousands.

Note 11

PROPERTY, PLANT AND EQUIPMENT

Group	As at	Additions /	Revaluation	Disposals/	As at
Cost / Valuation	01.01.2011	WIP transfer		write off	31.12.2011
Land	276,616	-	44,157	-	320,773
Buildings	1,095,701	30,887	(30,615)	-	1,095,973
Hatchery Building	69,381	-	-	-	69,381
Plant, machinery electrical and farm equipment	594,400	83,664	188,131	(155)	866,040
Furniture, fitting and office equipment	8,159	265	-	-	8,424
Motor vehicles	48,295	-	-	(516)	47,779
Capital work in progress	1,666	(384)	-	-	1,282
	2,094,218	114,432	201,673	(671)	2,409,652

Depreciation	As at	Charge	Disposals /	As at
	01.01.2011	for the year	write off	31.12.2011
Buildings	154,057	25,708	-	179,765
Hatchery Building	10,096	1,387	-	11,483
Plant and machinery electrical and farm equipment	407,116	52,055	(155)	459,016
Furniture, fitting and office equipment	8,127	21	-	8,148
Motor vehicles	37,003	3,679	(516)	40,166
	616,399	82,850	(671)	698,578

Carrying amount	As at	As at
	01.01.2011	31.12.2011
Land	276,616	320,773
Buildings	941,644	916,208
Hatchery Building	59,285	57,898
Plant and machinery electrical and farm equipment	187,284	407,024
Furniture, fitting and office equipment	32	276
Motor vehicles	11,292	7,613
Capital work in progress	1,666	1,282
	1,477,819	1,711,074

Notes to the Financial Statements (Contd.)

All amounts in Sri Lanka Rupees thousands.

Note 11 (Contd.)

Property, plant and equipment

Company	As at 01.01.2011	Additions/ WIP transfer	Revaluation	Disposals /write off	As at 31.12.2011
Land	230,793	-	31,764	-	262,557
Buildings	854,880	30,887	(63,221)	-	822,546
Hatchery Building	947	-	-	-	947
Plant and machinery electrical and farm equipment	458,040	83,476	147,652	(155)	689,013
Furniture, fitting and office equipment	8,157	17	-	-	8,174
Motor vehicles	46,190	-	-	(516)	45,674
Capital work in progress	1,666	(384)	-	-	1,282
	1,600,673	113,996	116,195	(671)	1,830,193

Depreciation	As at 01.01.2011	Charge for the year	Disposals/ write off	As at 31.12.2011
Buildings	119,389	20,798	-	140,187
Hatchery Building	218	19	-	237
Plant and machinery electrical and farm equipment	287,028	37,123	(155)	323,996
Furniture, fitting and office equipment	8,127	21	-	8,148
Motor vehicles	34,898	3,679	(516)	38,061
	449,660	61,640	(671)	510,629

Carrying amount	As at 01.01.2011	As at 31.12.2011
Carrying Amount		
Land	230,793	262,557
Buildings	735,491	682,359
Hatchery Building	729	710
Plant and machinery electrical and farm equipment	171,012	365,017
Furniture, fitting and office equipment	30	26
Motor vehicles	11,292	7,613
Capital work in progress	1,666	1,282
	1,151,013	1,319,564

(a) The cost of fully depreciated assets at 31 December 2011 amounted to; Group - Rs. 365,621,908/- (2010 - Rs. 198,531,302/-), Company - Rs. 234,242,018/- (2010 - Rs. 182,639,048/-).

(b) The purchase of capital equipment in the process of being installed Group - Rs. 1,281,943/- (2010 - Group and Company, Rs. 1,665,636/-)

Notes to the Financial Statements (Contd.)

Note 11 (Contd.)

Property, plant and equipment

- (c) In compliance with the accounting policy, the Group revalued the land & buildings owned by the Group companies by an independent, professional valuer Mr J.C.Leuke Bandara-Incorporated Valuer(Graduate member of Institute of Valuers) as at 31 December 2011. The lands have been revalued on the basis of current market value and buildings were revalued at net present value. There are no tax implications or tax liabilities due to revaluation of land & buildings . The Group's share of the revaluation in excess of Rs. 201,672,324/- over the net book values as at 31 December 2011 has been placed to the credit of the revaluation reserve.

On reassessment of fair value of the Groups assets it has been identified that there is no permanent impairment of property, plant & equipment which requires provision in the financial statements.

Freehold land carried at revalued amount

<i>Company</i>	<i>Location</i>	<i>Last Revaluation Date</i>	<i>Land Extent</i>	<i>Carrying value as at 31.12.2011 Freehold Land</i>
Three Acre Farms PLC	Meegoda Farm, Meegoda	31.12.2011	24A-0R-03.17P	19,215,850
	Kosgama Farm, Aluthambalama, kosgama	31.12.2011	20A-3R-27.05P	10,041,150
	Halwathura Farm, Halwathura	31.12.2011	54A-0R-3.70P	29,796,324
	Bulathsinghala Farm, Agaloya, Bulathsinghala	31.12.2011	60A-3R-27.00P	56,045,250
	Hijra Farm, A Pagoda, Beruwala	31.12.2011	41A-2R-13.42P	66,531,200
	Hijra Farm, B, Beruwala	31.12.2011	8A-3R-03.71P	74,829,300
	Makuluwatta Farm,Waga	31.12.2011	12A-2R-18.90P	6,098,235
				262,557,309
Ceylon Pioneer Poultry Breeders Ltd	Aswatta Farm,Kosgama	31.12.2011	5A-3R-18.19P	7,522,838
	Nilambe farm, Office Junction Galaha	31.12.2011	33A-0R-28.82P	39,541,310
	Wewelpanawa farm. Wewelpanawa	31.12.2011	27A-3R-20.47P	11,151,175
				58,215,323
Total				320,772,632

Notes to the Financial Statements (Contd.)

Note 11 (Contd.)

Property, plant and equipment

Freehold buildings carried at revalued amount.

<i>Company</i>	<i>Location</i>	<i>Last Revaluation Date</i>	<i>No of buildings</i>	<i>Carrying value as at 31.12.2011 Freehold Building</i>
Three Acre Farms PLC	Meegoda Farm, Meegoda	31.12.2011	75	174,083,100
	Kosgama Farm, Aluthambalama, Kosgama	31.12.2011	50	56,436,575
	Halwathura Farm, Halwathura	31.12.2011	59	73,168,100
	Bulathsinghala Farm, Agaloya, Bulathsinghala	31.12.2011	79	182,813,125
	Hijra Farm, A Pagoda, Beruwala	31.12.2011	33	119,495,500
	Hijra Farm, B, Beruwala	31.12.2011	34	7,624,800
	Makuluwatta Farm, Waga	31.12.2011	45	69,447,700
				683,068,900
Ceylon Pioneer Poultry Breeders Ltd	Aswatte Farm, Kosgama	31.12.2011	36	51,085,000
	Nilambe farm, Office Junction Galaha	31.12.2011	15	9,619,730
				60,704,730
Millennium Multibreeder Farms (Pvt) Ltd	Wewelpanawa farm, Wewelpanawa	31.12.2011	45	231,565,950
				231,565,950
Total				975,339,580

Hatchery equipments & EC House equipments carried at revalued amount

<i>Company</i>	<i>Location</i>	<i>Last Revaluation Date</i>		<i>Carrying value as at 31.12.2011 Freehold Building</i>
Three Acre Farms PLC	Meegoda Farm, Meegoda	31.12.2011		87,731,500
	Kosgama Farm, Aluthambalama, Kosgama	31.12.2011		19,668,500
	Halwathura Farm, Halwathura	31.12.2011		5,125,000
	Bulathsinghala Farm, Agaloya, Bulathsinghala	31.12.2011		50,960,000
	Hijra Farm, A Pagoda, Beruwala	31.12.2011		108,240,000
				271,725,000
Millennium Multibreeder Farms (Pvt) Ltd	Wewelpanawa farm, Wewelpanawa	31.12.2011		40,692,500
				40,692,500
Total				312,417,500

The carrying amount of revalued assets that would have been included in the Financial Statements had the assets were carried at cost less accumulated depreciation, is as follows.

<i>Company</i>	<i>Cost as at 31.12.2011</i>	<i>Accumulated Depreciation</i>	<i>NBV 31.12.2011</i>
Land	234,193,883	-	234,193,883
Building	589,854,312	125,637,915	464,216,397
Hatchery equipments & EC House equipments	437,275,412	247,323,154	189,952,258
Total	1,261,323,607	372,961,069	888,362,538

<i>Group</i>	<i>Cost as at 31.12.2011</i>	<i>Accumulated Depreciation</i>	<i>NBV 31.12.2011</i>
Land	284,374,700	-	284,374,700
Building	881,062,192	174,929,156	706,133,036
Hatchery equipments & EC House equipments	553,093,193	362,673,457	190,419,736
Total	1,718,530,085	537,602,614	1,180,927,472

Notes to the Financial Statements (Contd.)

All amounts in Sri Lanka Rupees thousands.

Note 12

INVESTMENT IN SUBSIDIARIES

	Group		Company	
	2011	2010	2011	2010
Balance as at 1st January	-	-	15,000	15,000
Provision for impairment of investment	-	-	(15,000)	(15,000)
	-	-	-	-

Details of the companies, in which the Company held a controlling interest are set out below:

Proportion of value of ordinary shares held		
Ceylon Pioneer Poultry Breeders Limited	100%	Renting their own farms to Three Acre Farms PLC
Millennium Multibreeder Farms (Private) Limited	100%	Operation of modern poultry breeding and hatcheries utilising advanced technologies.

Financial years of the above companies end on 31 December and they are audited by KPMG. These companies were incorporated in Sri Lanka.

Note 13

LIVESTOCK

Parent birds and grandparent birds are retained to produce day old chicks. The movements in these accounts are given below:

	Group		Company	
	2011	2010	2011	2010
(a) Parent birds				
Opening net book value	319,060	191,636	238,043	154,387
Additions	322,996	408,123	244,150	298,465
Amortisation	(325,553)	(280,700)	(252,603)	(214,809)
Closing net book value	316,503	319,059	229,590	238,043
(b) Grandparent birds				
Opening net book value	36,027	32,651	36,027	32,651
Additions	29,998	38,876	29,998	38,876
Amortisation	(35,594)	(35,500)	(35,594)	(35,500)
Closing net book value	30,431	36,027	30,431	36,027
Total net book value	346,934	355,086	260,021	274,070

A major part of the purchases is made from related entities. The cost of purchases, less the net realisable value of these birds, are amortised to the income statement over a period of 12 months.

Notes to the Financial Statements (Contd.)

All amounts in Sri Lanka Rupees thousands.

Note 14

NON CURRENT RECEIVABLES

Non current receivables wholly consist of amounts receivable from subsidiary companies. These receivables are interest free, unsecured and have no fixed repayment terms [Note 25.2].

Note 15

INVENTORIES

	Group		Company	
	2011	2010	2011	2010
Hatching eggs	5,483	4,118	4,184	3,501
Broiler DOC	-	4,632	-	4,632
Consumables	59,424	53,447	52,685	46,059
	64,907	62,197	56,869	54,192

Note 16

TRADE AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	2011	2010
Trade receivables	1,594	-	-	-
Prepayments	529	1,056	463	1,049
Other receivables	26,743	34,502	20,556	24,270
	28,866	35,558	21,019	25,319

Note 17

CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	2011	2010
Cash at bank	24,524	466	24,242	466
Cash in hand	690	16,530	640	16,250
Short term bank deposits	-	50	-	-
	25,214	17,046	24,882	16,716

Note 17.1

For the purposes of the cash flow statement, the year end cash and cash equivalents comprise the following:

	Group		Company	
	2011	2010	2011	2010
Cash and bank balances	25,214	17,046	24,882	16,716
Bank overdraft	(13,484)	(11,294)	(12,472)	(10,939)
	11,730	5,752	12,410	5,777

(b) Interest bearing borrowings

	Group		Company	
	2011	2010	2011	2010
Bank overdraft	13,484	11,294	12,472	10,939
Bank borrowings	250,000	-	250,000	-
	263,484	11,294	262,472	10,939

Notes to the Financial Statements (Contd.)

All amounts in Sri Lanka Rupees thousands.

Note 18

STATED CAPITAL

	Number of shares in 000's	Stated Capital
As at 31 December 2010	23,545	623,604
As at 31 December 2011	23,545	623,604

Stated Capital includes share premium of Rs. 388.1 Million.

All shares rank equally with regard to the company's residual assets.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Note 19

PAYABLE TO RELATED COMPANIES

	Group		Company	
	2011	2010	2011	2010
Ceylon Grain Elevators PLC	1,014,710	1,376,066	675,800	964,318
Ceylon Pioneer Poultry Breeders Limited	-	-	133,973	131,688
	1,014,710	1,376,066	809,773	1,096,006

Non current borrowings consist of amounts payable to parent company. The amount payable is unsecured, interest free and has no fixed repayment terms.

Note 19 .1

Ceylon Grain Elevators PLC, the parent company of Three Acre Farms PLC confirms their commitment, in present circumstances to continue financial support in the business operations of Three Acre Farms PLC and to meet financial obligations. As the major share holders in Three Acre Farms PLC, they have no intention or inclination of withdrawing their support or reducing the scale of operations of the Company in the forth coming 12 months.

Note 20

DEFERRED TAX

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group		Company	
	2011	2010	2011	2010
Deferred tax assets	(69,428)	(70,245)	(50,952)	(70,245)
Deferred tax liabilities	137,709	122,905	98,972	119,935
	68,281	52,660	48,020	49,690

The gross movement on the deferred income tax account is as follows:

	Group		Company	
	2011	2010	2011	2010
At beginning of year	52,660	47,660	49,690	44,690
Income statement charge/(release) (Note 9)	624	5,000	(2,896)	5,000
Transfer from revaluation surplus	14,997	-	1,226	-
At end of year	68,281	52,660	48,020	49,690

Notes to the Financial Statements (Contd.)

All amounts in Sri Lanka Rupees thousands.

Note 20 (Contd.)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities:

Deferred tax liabilities of the Group and the Company wholly arose from accelerated tax depreciation and revaluation gain.

Deferred tax assets:

Deferred tax assets arose from the followings:

Group	Provision on assets	Tax losses	Defined benefit obligations	Total
At beginning of year	(525)	(68,863)	(857)	(70,245)
Current year	105	926	(214)	817
At end of year	(420)	(67,937)	(1,071)	(69,428)

Company	Provision on assets	Tax losses	Defined benefit obligations	Total
At beginning of year	(525)	(68,863)	(857)	(70,245)
Current year	105	19,156	32	19,293
At end of year	(420)	(49,707)	(825)	(50,952)

Note 21

EMPLOYEE BENEFITS

The amounts recognized in the balance sheet are as follows:

	Group		Company	
	2011	2010	2011	2010
Present value of unfunded obligations	8,921	7,794	6,874	5,713
Present value of funded obligations	-	-	-	-
Total present value of obligations	8,921	7,794	6,874	5,713
Fair value of plan assets	-	-	-	-
Total employee benefits	8,921	7,794	6,874	5,713
Movement in the present value of the employee benefit obligations				
Employee benefit obligations at beginning of the year	7,794	6,693	5,713	2,949
Transfer from CPPBL	-	-	-	1,791
Benefits paid by the plan	(967)	(631)	(554)	(505)
Current service costs	924	722	713	567
Interest cost	1,042	1,010	850	911
Actuarial loss during the year	128	-	152	-
Transition obligation/(asset) recognized in income statement	-	-	-	-
Employee benefit obligations at end of the year	8,921	7,794	6,874	5,713
Expense recognised in income statement				
Current service costs	924	722	713	567
Interest cost	1,042	1,010	850	911
Transition obligation/(asset) recognised in income statement	-	-	-	-
Actuarial loss /(gain) during the year	128	-	152	-
	2,094	1,732	1,715	1,478

Notes to the Financial Statements (Contd.)

All amounts in Sri Lanka Rupees thousands.

Note 21 (Contd.)

The actuarial valuation was carried out by professionally qualified actuary Piyal S Gunathilake of P & G Associates . The actuarial valuation was made on 31 December 2011 . The liability was not externally funded.

Actuarial assumptions

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

Discount rate at 31 December 2011	10%
Expected return on plan assets at 1 January 2011	0%
Future salary increases	10%

Assumptions regarding future mortality are based on published statistics and mortality tables:

- The average life expectancy of an individual retiring at age 55
- Staff turnover sliding scale by the age of employee retiring from 10%-1%

The provision for retiring gratuity for the year is based on the actuarial valuation made on 31 December 2011.

Note 22

TRADE AND OTHER PAYABLES

	Group		Company	
	2011	2010	2011	2010
Trade payable	24,296	34,346	22,137	32,594
Accrued expenses	41,488	48,237	37,743	36,112
Other payables	27,857	33,550	21,684	24,410
	93,641	116,133	81,564	93,116

Note 23

CONTINGENCIES

There were no material contingent liabilities existing as at the balance sheet date.

Note 24

COMMITMENTS

Capital commitments

There were no material capital commitments outstanding as at the balance sheet date.

Financial commitments

There were no material financial commitments outstanding as at the balance sheet date.

Notes to the Financial Statements (Contd.)

All amounts in Sri Lanka Rupees thousands.

Note 25

RELATED PARTY TRANSACTIONS

Note 25.1

Key management personnel

Key management personnel include all the members of the Board of Directors of the Company having authority and responsibility for planning, directing and controlling the activities of the Company as well as the subsidiaries, directly or indirectly. Directors of the Company and their immediate relatives do not have significant shareholding as at 31 December 2011.

Compensation paid to / on behalf of key management personnel of the Company is as follows.

	Group		Company	
	2011	2010	2011	2010
Short term employee benefits	120	120	120	120
Post employment benefits	-	-	-	-
	120	120	120	120

The Company is controlled by its parent company, Ceylon Grain Elevators PLC, a company incorporated in Sri Lanka which owns 57.21% of the Company's shares.

All the directors of the Company except Mr. Sunil Leeniyagoda are also directors of Ceylon Grain Elevators PLC.

Mr Cheng Chih Kwong, Primus, Mr Tan Beng Chuan and Mr Cheng Chih Cheng, Robert are also directors of Ceylon Pioneer Poultry Breeders Limited.

Mr Cheng Chih Kwong, Primus and Mr Tan Beng Chuan are also directors of Millennium Multibreeder Farms (Private) Limited.

Notes to the Financial Statements (Contd.)

All amounts in Sri Lanka Rupees thousands.

Note 25.2

Identity of related parties

The Group has a related party transactions with its subsidiaries and the parent as disclosed below:

Companies within the Group engage in trading transactions.

The following transactions were carried out with related parties:

(i) Sale of goods and services:

	Group		Company	
	2011	2010	2011	2010
Sale of goods and services:				
Ceylon Grain Elevators PLC	472,082	424,231	346,786	310,483
Millennium Multibreeder Farms (Private) Ltd	-	33,791	23,813	20,598
	472,082	458,022	370,599	331,081

(ii) Purchase of goods and services:

	Group		Company	
	2011	2010	2011	2010
Purchase of goods and services:				
Ceylon Grain Elevators PLC	630,838	556,607	483,353	425,967
Ceylon Pioneer Poultry Breeders Limited	-	-	1,440	1,440
Millennium Multibreeder Farms (Private) Limited	-	-	360	79
	630,838	556,607	483,713	426,046

(iii) Outstanding balances arising from sale / purchase of goods / services:

	Group		Company	
	2011	2010	2011	2010
Payable to related company				
Non-current				
Ceylon Grain Elevators PLC	1,014,710	1,376,066	675,800	964,318
Ceylon Pioneer Poultry Breeders Limited	-	-	133,973	131,688
	1,014,710	1,376,066	809,773	1,096,006
No interest is paid on the amount payable to the parent company.				
Receivables from subsidiaries				
Non-current				
Millennium Multibreeder Farms (Private) Limited	-	-	324,389	316,142
Provision for receivables	-	-	(141,209)	(141,209)
	-	-	183,180	174,933

(iv) The subsidiary companies use the facilities of the parent company and part of the accounting and administrative functions are also performed by the parent company and the ultimate parent company for which charges are made.

Note 26

Post balance sheet events

No events have occurred since the balance sheet date which would require adjustments to, or disclosure in, the financial statements.

Five Year Financial Summary

All amounts in Sri Lanka Rupees thousands

For the year ended 31 December	2011	2010	2009	2008	2007
GROUP					
OPERATING RESULTS FOR THE PERIOD					
Group revenue	1,287,858	1,157,777	836,457	874,981	924,547
Operating profit / (loss)	171,401	244,732	(198,231)	(193,370)	89,972
Finance income / (expenses)	458	133	(448)	591	508
Profit / (loss) before taxation	171,859	244,865	(198,679)	(192,779)	90,480
Taxation	(14,336)	(15,781)	6,817	22,556	(29,013)
Profit / (loss) attributable to the Group	157,523	229,084	(191,862)	(170,223)	61,467
BALANCE SHEET					
Stated capital	623,604	623,604	623,604	623,604	623,604
Revaluation reserves	455,839	269,163	269,163	-	-
Accumulated losses	(319,115)	(476,638)	(705,722)	(513,860)	(343,637)
Non - current liabilities	1,091,912	1,436,520	1,613,742	1,449,828	1,131,878
	1,852,240	1,852,649	1,800,787	1,559,572	1,411,845
Intangible assets	-	-	3,605	5,408	7,211
Property, plant and equipment	1,711,074	1,477,819	1,444,086	1,176,938	1,167,178
Investment in subsidiary companies	-	-	-	-	-
Livestock	346,934	355,086	224,287	221,112	153,540
Non current receivables	-	-	-	-	-
Current assets	151,357	147,171	200,588	216,703	152,586
Current liabilities	(357,125)	(127,427)	(71,779)	(60,589)	(68,670)
	1,852,240	1,852,649	1,800,787	1,559,572	1,411,845
COMPANY					
RATIOS AND OTHER INFORMATION					
Earnings / (loss) per share (Rs.)	4.29	6.24	(7.08)	(7.86)	2.32
Market price per share (Rs.)	103.80	90.20	9.25	5.50	10.00
Price earnings ratio	24.20	14.45	(1.31)	(0.70)	4.31
Net dividend pay out (Rs. 000)	-	-	-	-	-
Bonus issues (Ratio)	-	-	-	-	-
Rights issues (Ratio)	-	-	-	-	-
Rights price (Rs.)	-	-	-	-	-
Net assets per share (Rs.)	29.08	19.91	13.67	10.00	17.90
Current ratio (No of times)	2.63	1.19	2.74	3.36	1.91
Shares traded volume	31,666,600	43,456,700	7,441,400	6,294,500	7,322,500
US \$ Exchange rate - average	110.83	113.42	115.20	110.10	110.72
US \$ Exchange rate - year end	113.90	110.95	114.38	113.00	108.65

Statement of Value Added

All amounts in Sri Lanka Rupees thousands	2011	2010	2009	2008	2007
Revenue	1,287,858	1,157,777	836,457	874,981	924,547
Adjustment for other income	474	668	916	6,297	(940)
	1,288,332	1,158,445	837,373	881,278	923,607
less: Cost of materials and services purchased from external sources	729,812	558,031	725,775	633,890	474,797
Value Added	558,520	600,414	111,598	247,388	448,810

Distributed as follows:

In Rs. 000	2011	%	2010	%	2009	%	2008	%	2007	%
To employees as remuneration	161,254	28.88	155,211	25.85	137,109	122.86	170,561	68.94	166,667	37.14
To the government as taxes	156,010	27.93	140,206	23.35	104,999	94.09	190,401	76.96	170,897	38.08
To the providers of capital as Interest on loans	883	0.16	983	0.16	113	0.10	-	-	-	-
as Non-controlling Interest	-	-	-	-	-	-	-	-	-	-
To Shareholders as Dividends	-	-	-	-	-	-	-	-	-	-
Retained within the business as Depreciation & Amortization	82,850	14.83	74,930	12.48	61,239	54.87	56,649	22.90	49,779	11.09
as Reserves	157,523	28.20	229,084	38.16	(191,862)	(171.92)	(170,223)	(68.81)	61,467	13.70
	558,520	100.00	600,414	100.00	111,598	100.00	247,388	100.00	448,810	100.00

Shareholder Information

ANALYSIS OF SHAREHOLDERS ACCORDING TO THE NUMBER OF SHARES AS AT 31 DECEMBER 2011

Shareholdings	RESIDENT			NON RESIDENT			TOTAL		
	Number of Shareholders	Number of Shares	Percentage (%)	Number of shareholders	Number of Shares	Percentage (%)	Number of Shareholders	Number of Shares	Percentage (%)
01 - 1,000	2,801	894,786	3.80	20	9,623	0.04	2,821	904,409	3.84
1,001 - 10,000	671	2,001,561	8.50	6	17,706	0.08	677	2,019,267	8.58
10,001 - 100,000	63	1,618,845	6.88	6	188,800	0.80	69	1,807,645	7.68
100,001 - 1,000,000	2	245,700	1.04	3	1,565,372	6.65	5	1,811,072	7.69
over 1,000,000	1	13,469,980	57.21	1	3,532,627	15.00	2	17,002,607	72.21
	3,538	18,230,872	77.43	36	5,314,128	22.57	3,574	23,545,000	100.00

Categories of shareholders	Number of shareholders	No. of shares
Individual	3,418	3,941,518
Institutional	156	19,603,482
	<u>3,574</u>	<u>23,545,000</u>

LIST OF 20 MAJOR SHAREHOLDERS BASED ON THEIR SHAREHOLDINGS AS AT 31 DECEMBER 2011

No.	Name	31 December 2011		31 December 2010	
		Number of shares	Percentage	Number of shares	Percentage
1	Ceylon Grain Elevators PLC	13,469,980	57.21	13,469,980	57.21
2	Prima Limited, Singapore	3,532,627	15.00	3,532,627	15.00
3	Japfa Comfeed International Pte Limited, Singapore	993,121	4.22	993,121	4.22
4	Eka Limited, Singapore	313,262	1.33	313,262	1.33
5	Supra Limited, Hong Kong	258,989	1.10	258,989	1.10
6	Commercial Bank of Ceylon PLC / U.C. Bandaranayake	140,100	0.60	-	-
7	Mr. T.L.M. Imtiaz	105,600	0.45	-	-
8	Mrs. D M Fernando	100,000	0.42	250,000	1.06
9	Merchant Bank of Sri Lanka PLC / Mr. K.R.U. Gunawardena	80,000	0.34	-	-
10	Perpetual Capital (Private) Limited	78,300	0.33	443,200	1.88
11	Phillip Securities Pte Ltd	66,600	0.28	-	-
12	Mr. R.P.L. Eheliyagoda	65,200	0.28	-	-
13	Mr. H.V.M.S. De Silva	57,600	0.24	-	-
14	Dr. R.D. Kahandawa Arachchi	56,900	0.24	-	-
15	Mr. R. Felchlin	50,400	0.24	-	-
16	Mr. G.R. Pelawatta	49,100	0.21	-	-
17	Pan Asia Banking Corporation PLC / Mr. D.G. Wirasekara	40,000	0.17	-	-
18	Pan Asia Banking Corporation PLC / Mr. S.M. Muthalib / Mrs. F.R. Shehan	40,000	0.17	-	-
19	Mr. L.A.J.F. Morais	38,500	0.16	-	-
20	Mr. F.M. Hussain	38,500	0.16	-	-
	Total	19,574,779	83.14	19,261,179	81.80

The percentage of shares held by the public 2011 = 27.79 %

The percentage of shares held by the public 2010 = 27.79 %

Notice of Meeting

NOTICE IS HEREBY GIVEN that the 50th Annual General Meeting of the Company will be held on Monday 14th May 2012 at the Sri Lanka Foundation Institute Auditorium, No. 100, Independence Square, Colombo 07 at 11.15 a.m and the business to be brought before the Meeting will be:

1. To receive and consider the Report of the Board of Directors on the State of Affairs of the Company and the Statement of Accounts for the year ended 31 December 2011, with the Report of the Auditors thereon.
2. To re-elect Mr. Sunil Karunanayake Director who retires by rotation at the Annual General Meeting in terms of Article 87 of the Articles of Association of the Company.
3. To re-appoint Dr. Wickrema Sena Weerasooria, who retires having attained the age of 70 years on 17th July 2009, and the Company has received special notice to pass the under noted ordinary resolution in compliance with Section 211 of the Companies Act No.7 of 2007 in relation to his re-appointment.

Ordinary Resolution:

“That Dr. Wickrema Sena Weerasooria, a retiring Director, who has attained the age of 70 years on 17th July 2009 be and is hereby re-appointed a Director of the Company, in terms of Section 211 of the Companies Act No.7 of 2007 and it is hereby declared that the age limit of 70 years referred to in Section 210 of the Companies Act, shall not apply to the re-appointment of the said Director.”

4. To re-appoint Messrs KPMG, Chartered Accountants as Auditors and to authorise the Directors to determine their remuneration.
5. To authorise the Directors to determine contributions to charities and other purposes.

BY ORDER OF THE BOARD
S S P CORPORATE SERVICES (PRIVATE) LIMITED
SECRETARIES
Colombo 03

Date : 10 April 2012

Note:-

- (a) A member entitled to attend and vote at the above mentioned meeting is entitled to appoint a Proxy to attend and vote instead of him/her. Such Proxy need not be a member of the Company.
- (b) A Form of Proxy is annexed to this notice.
- (c) The completed Form of Proxy should be deposited at the Registered Office of the Company, No. 15, Rock House Lane, Colombo 15 not later than 48 hours before the time appointed for the holding of the meeting.

Form of Proxy

I/We of
being a
 member/s of Three Acre Farms PLC,.....
 hereby appoint.....of.....or failing him

Mr. CHENG CHIH KWONG, PRIMUS	of Colombo or failing him
Mr. TAN BENG CHUAN	of Colombo or failing him
Mr. CHENG CHIH CHENG, ROBERT	of Colombo or failing him
Mr. SUNIL LEENIYAGODA	of Colombo or failing him
Dr. WICKREMA SENA WEERASOORIA	of Colombo or failing him
Mr. SUNIL KARUNANAYAKE	of Colombo

as my/our Proxy to represent me/us and vote on my/our behalf at the Annual General Meeting of the Company to be held on Monday 14th May 2012, and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid meeting and to VOTE as indicated below:

	For	Against
1. To receive and consider the Report of the Board of Directors on the State of Affairs of the Company and the Statement of Accounts for the year ended 31 December 2011, with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mr. Sunil Karunanayake a Director who retires by rotation at the Annual General Meeting in terms of Article 87 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-appoint Dr. Wickrema Sena Weerasooria, who retires having attained the age of 70 years on 17th July 2009, a Director by passing the ordinary resolution set out in the notice.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint Messrs KPMG, Chartered Accountants as Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorise the Directors to determine Contributions to charities and other purposes.	<input type="checkbox"/>	<input type="checkbox"/>

As witness my/our hand/thisday of Two Thousand and Twelve.

Signature:

Note : Please delete the inappropriate words.

1. Instructions for completion of proxy are noted on the next page
2. A proxy need not be a member of the Company
3. Please mark "X" in appropriate cages, to indicate your instructions as to voting

Form of Proxy (Contd.)

INSTRUCTIONS TO COMPLETION OF FORM OF PROXY

1. Kindly perfect the Form of Proxy by filling in legibly your full name and address, your instructions as to voting, by signing in the space provided and filling in the date of signature.
2. Please indicate with a 'X' in the cages provided how your proxy is to vote on the Resolutions. If no indication is given the Proxy in his/her discretion may vote as he/she thinks fit.
3. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 15, Rock House Lane, Colombo 15, at least 48 hours before the time appointed for holding of the Meeting.
4. If the form of proxy is signed by an attorney, the relative power of attorney should accompany the completed form of proxy for registration, if such power of attorney has not already been registered with the Company.

Note:

If the shareholder is a Company or body corporate, Section 138 of the Companies Act No.7 of 2007 applies to Corporate Shareholders of Three Acre Farms PLC. Section 138 provides for representation of Companies at meetings of other Companies. A Corporation, whether a Company within the meaning of this act or not, may where it is a member of another Corporation, being a Company within the meaning of this Act, by resolution of its Directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company. A person authorised as aforesaid shall be entitled to exercise the same power on behalf of the Corporation which it represent as that Corporation could exercise if it were an individual shareholder.

Corporate Information

Company Name

Three Acre Farms PLC
Company Registration No. PQ 195

Registered Office

No. 15, Rock House Lane, Colombo 15, Sri Lanka
Tel: 2522556 or 8 / 2523580 / 2526378 to 2526383
Fax: +94(11)2524163
E-Mail: info.cge@prima.com.lk

Subsidiary Companies

Ceylon Pioneer Poultry Breeders Limited
Millennium Multibreeder Farms (Pvt) Limited

Bankers

National Development Bank PLC
Bank of Ceylon
Nations Trust Bank PLC
Seylan Bank PLC
Hatton National Bank PLC

Lawyers

Varners Lanka Law Office
D. L. & F. De Saram
H. E. Nevil Joseph

Auditors

KPMG, Colombo, Sri Lanka

Company Secretary

SSP Corporate Services (Pvt) Limited
No. 101 Inner Flower Road, Colombo 3

Name of Directors

Mr. Cheng Chih Kwong, Primus - Chairman
& Chief Executive Officer
Mr. Tan Beng Chuan - Executive Director &
Group General Manager
Mr. Cheng Chih Cheng, Robert - Non Executive Director
Mr. Sunil Leeniyagoda - Non Executive Director
Dr. Wickrema Sena Weerasooria - Independent
Non Executive Director
Mr. Sunil Karunanayake - Independent
Non Executive Director

Management

Mr. Tan Hoe Lai - General Manager
Mr. K. A. R. S. Perera - Financial Controller
Mr. Chng Sun Tick - AGM (Farms)
Mr. Ang Kian Huat - AGM (Farms)
Mr. M.C.M.De Costa - AGM (Personnel,
Security & General Affairs)
Mr. Neil Jayaweera - AGM (Processing)
Mr. Lalith Abeywardena - AGM (Sales)
Mr. Sumith Peiris - AGM (Material Management)

