

Keells Food Products PLC (PQ3)
Annual Report 2010/2011

KEELLS®

The Taste of Goodness



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Unveiling *Innovation...*

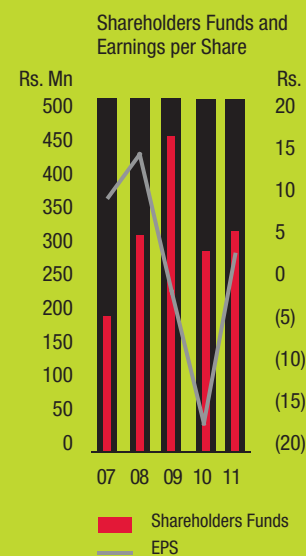
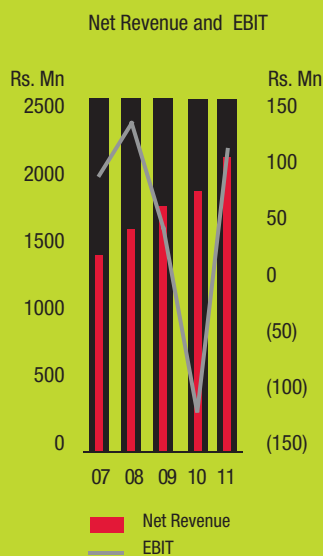
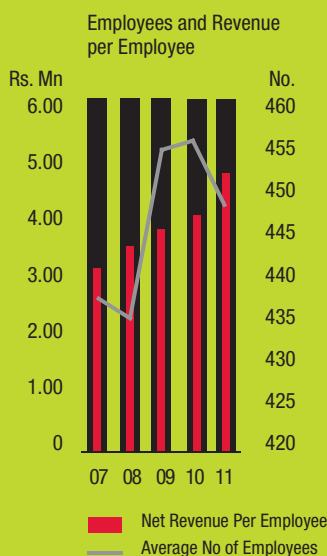
Here at Keells Foods, we have had a year of innovations, introducing new products into the market and thereby providing customers with variety and most importantly satisfaction. Whether it is through expansion of our ready to eat canned range or the introduction of gourmet products, we are developing through differentiation. Being a locally renowned company, quality and taste has always been our priority and our foray into new markets and technology will ensure that this remains our promise to our customers. We are unveiling innovation.

We are unveiling success.

Financial Highlights

Group		2011	2010	Change %
Revenue	Rs. 000	2,196,156	1,833,113	20
Profit / (Loss) before Interest & Tax	Rs. 000	110,209	(123,470)	189
Profit / (Loss) before Tax	Rs. 000	95,552	(137,268)	170
Profit / (Loss) after Tax	Rs. 000	30,363	(146,330)	121
Shareholders Funds	Rs. 000	322,963	289,567	12
Total Assets	Rs. 000	778,460	672,576	16
Total Debt	Rs. 000	198,355	108,283	83
Earnings per Share	Rs.	3.57	(17.22)	121
Return on Capital Employed	%	19.18	(27.45)	170
Return on Equity	%	9.91	(50.53)	125
Market Price per Share as at 31st March	Rs.	150.00	69.00	117
Market Capitalization	Rs. 000	1,275,000	586,500	117
Price Earning Ratio	No. of times	41.99	(4.01)	1,148
Quick Assets Ratio	No. of times	0.72	0.88	(19)

Note: Figures in brackets indicate an unfavourable fluctuation.





Chairman's Review

The performance of your Company during the year under review was satisfactory in terms of revenue and profits. The Company maintained its market leadership in the processed meats category. The increase in tourist arrivals and the general increase in consumption in the country resulted in higher volumes.

I am pleased to present to you the Annual Report and Financial Statements for the year ending March 31st 2011.

The country's macro indicators

With the end of the war in 2009, the country has seen an up-tick in economic activity and development. The forecasted GDP growth of 8% was achieved in 2010 and GDP growth of 8.5% is expected in 2011. Inflation was contained at mid-single digit levels, resulting in lower interest rates. There was a reduction of import duties on several consumer items, while the Sri Lankan Rupee was stable against the US Dollar.

Our Performance

The performance of your Company during the year under review was satisfactory in terms of revenue and profits. The Company maintained its market leadership in the processed meats category. The increase in tourist arrivals and the general increase in consumption in the Country resulted in higher volumes.

During the year several new products were introduced to the market, including a new Halal range of sausages and new canned products. The 400g cans of Keells Thunapaha Malu and Keells Beef Curry were added to the canned meatball range. In the Keells and Krest ranges, we introduced Keells Fish Sausages with Omega 3, Krest Halaal Chicken Sausages and extended the gourmet range with Keells Gourmet Chicken Bratwurst, Pork Bratwurst, Chicken Garlic, and Gourmet Chicken Frankfurter.

Our Indian Operation

As mentioned in my message last year, we were looking at a different strategy for our Indian operations. The new model we established, where we have a master distributor handling all the logistics on the ground, while we invest in brand building, has reduced the operating costs of the business and resulted in a significantly improved performance compared to the previous year.

Financial Performance

At a company level, net revenue for the year was Rs. 2,163 million, compared to last year's Rs. 1,814 million, a growth of 19%. We also saw overall volume recording a growth of 16%, including a growth of 21% in the domestic market.

Your Company posted a profit before impairment charge and tax of Rs. 131.2 million against a loss of Rs. 23.2 million in the previous year. The improved profitability was partly due to numerous initiatives introduced to improve productivity in manufacturing and prudent cost management. After providing Rs. 120.8 million as an Impairment charge for the fall in recoverable value of the foreign investments, the profit before tax was Rs. 10.5 million against a loss of Rs. 117.7 million in the previous year. After providing for taxation, the Company posted a loss of Rs. 54.7 million against a loss of Rs. 125.2 million in the previous year.

At a consolidated level, the Profit after Tax amounted to Rs. 30.4 million as against a loss of Rs. 146.3 million in the preceding year.

Enhancing Stakeholder relationships

We are working towards improving relationships with our retailers and end consumers, as well as our suppliers. Both chicken and pork are sourced from local suppliers, which creates sustainable income for entrepreneurs and small entities.

Our local sourcing was further expanded this year when we began working with the Spice Growers Association to obtain quality local spices for our manufacturing. This has enhanced a number of small and micro spice grower's livelihoods, while ensuring a supply of quality spices at economical market prices for us.

Maintaining integrity of our product is critical for us. Proper packaging, ensuring the maintenance of the cold chain, educating the distributor, retailer and consumer on the proper storage and safety mechanisms necessary to ensure optimum taste, flavour and health, are all priorities.

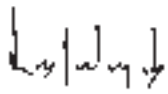
Prospects

With the hotel, restaurant and catering segments as well as general consumption in the country showing a significant upturn, we are excited about the future. In order to cater to this demand, we will look at expanding our production capacity at the right time. The tax reforms in the 2011 Fiscal Budget was positive for this business.

Conclusion

The results seen this year is a result of the motivation and hard work displayed by our team including our distributors and other valued business partners to whom we extend our very sincere appreciation.

I would also like to thank our Board of Directors for their support and guidance during the year.



Susantha Ratnayake
Chairman

26 May 2011





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Management Discussion and Analysis

Overview

The year under review has been the first full year of peace that Sri Lanka enjoyed, since the end of the conflict in May 2009 and it has certainly brought the anticipated peace dividends expected by both the corporate community and the populace in general. This year has been, by far, the most successful in terms of increased confidence and stability, heralding economic revival in our country.

The buoyancy hence was amply reflected in the change of purchasing mindset, where consumers were more open to choice and change and willing to spend more from their slice of disposable income. At a macro level, the Country's performance indicators accelerated with the GDP reaching its expected level of 8%. Key growth industries including tourism and agriculture performed above expectation and interest levels and inflation regimes were maintained under tight surveillance and kept in check. The tourism sector specifically was on a record breaking tenure and the cascading advantages and benefits were seen quite emphatically in numerous ancillary industries as well.

These positive features therefore permeated to our business, which is primarily dependent on consumer mindset and disposable income. This was further augmented, with the north and east being opened up and therefore our distribution channels widening. With these facets taking a turn for the better and being a reflection of the country's sense of optimism, the Company notched a satisfactory performance during the year with an increase in revenue and profitability.

Given the changes in the macro environment, the Company's key performance indicators were better than our initial estimates. Our overall volumes saw a growth of 16% compared to the previous year with the domestic market seeing an overall volume growth of 21% due to the positive consumer sentiment. However, export market volumes declined as a result of the reorganization of our operating model in India during the first half of the financial year. The increase in domestic volumes enabled our net revenue from local operations to increase by 25% whilst revenue from exports declined by 65%.

The improved profitability is also resultant to the sales volumes and the initiatives introduced in improving productivity in the manufacturing process and prudent cost management features we continued to introduce over the medium term.

It is rewarding indeed that the investment we have continued to infuse into our brand via strategic communication and promotional campaigns have reaped the desired results. The Keells brand continued to be rated among the country's most valuable brands as detailed in the annual survey conducted by Brand Finance, earning a brand rating of A- (minus). This is a reflection of the innovative strategies we have continually engaged in to ensure market leadership and earn the title of "trendsetter" in our industry category.

Having notched market leadership position for ourselves among the processed food segment over a decade ago, we continue to emphasize on growing our product portfolio in line with our brand promise - that of quality and at an economical price.

We have seen an increase in outdoor and special events which includes sports, entertainment and social functions and also an upward trend in domestic tourism. In order to serve our consumers over the counter with snacks and meals using our Keells and Krest products at these events and locations. Our chain of mobile units which has food preparation facilities have been enhanced and strengthened.

As explained in our previous year report winding down our Subsidiary operation in India took place in June 2010. Given the acceptance of products by the consumers as a superior product the Company continued with the Indian operation by appointing a master distributor in September 2010. Due to delays in getting required licenses to import processed meats to India by the distributor, we had to wait another six months to recommence exports and the first shipment was sent in March 2011.

The company has committed to assist in the communication and marketing campaigns to augment our presence in the market and are hopeful that by next year, our Indian operation will be sustainable.

The Keells Brand

Having notched market leadership position for ourselves among the processed food segment over a decade ago, we continue to emphasize on growing our product portfolio in line with our brand promise – that of quality and at an economical price. The product categories coming under the umbrella of the Keells brand include sausages, meatballs, cold cuts and raw meats and throughout the year, each category performed in exemplary fashion to clearly cut a swathe in setting trends, shaping market sentiments and cementing market leadership.

The primary contributor to the Keells brand remains the products coming under sausages, a category that saw a growth of 12% for the year, assisted by a product launch, seasonal promotions and Above the Line promotional campaigns conducted at retail points.

We continue to face intense competition in the retail market, marked significantly this year with the increased presence of unpackaged sausages sold loose to consumers, both in retail and wholesale markets, the latter primarily comprising of the smaller catering market. Given the health and safety features involved in this mode of sale, we sought to use various communication channels to educate and create awareness among our target markets on the use of such practices. These, and the fact that ours is a reputed brand that delivers on its promise gave impetus to turn the wheel towards alleviating some of these practices, which we hope will be further augmented with the introduction of more stringent quality compliance and policing methods, by authorities.

With most channels echoing upbeat sentiments, high growth was recorded in modern trade at over 25% due to the additional support extended through promotions and improved merchandising. We also observed similar growth patterns in both retail and mass channels which heralded an upward incline of 24% and 23% respectively, due to an increase in off-take support garnered by improved distribution. With the burgeoning tourism industry showcasing more spending power due to more arrivals and added capacity, the hotels channel too grew impressively.

Product development under the Keells brand gained added vigour this year, boosted by the concerted research and development efforts we constantly employ with specialised input from industry experts both local and foreign. The sausage product portfolio, was considerably added on to the platform of healthy eating, one of the cornerstones of our brand promises, with the Keells Fish Sausage with Omega 3 in a 200g pack. We also added a Gourmet range which essentially caters to the discerning consumer with a range of four different gourmet sausage options – Gourmet Chicken Bratwurst, Gourmet Pork Bratwurst and Gourmet Chicken Garlic and Gourmet Chicken Frankfurter.

Sales in the meatball category which comprises frozen meatballs, kirata/mirisata meatballs and chicken meatball curry in a can saw considerable growth this year with convenient healthy foods becoming the norm among the urban and even the rural consumer. The market trends, point to the Sri Lankan consumer enjoying meat products, that guarantee not only quality but health as well. The canned range has enabled us to offer a product outside the cold chain bringing in a greater part of the retail trade to our outlet base, The success of the canned meatballs therefore led us to introduce two more product categories into the canned range, namely, Keells Thunapaha Malu and Keells Ready to Eat Beef Curry. We also added Fill-O-Spread Chicken and Fill-O-Spread Fish into our new Spreads range.

With distribution also being emphasized with the additions to our product portfolio, we will continue our focus in the 'Ready to Eat' category and aim to add more products in this range.

Krest Brand

Krest has gradually been elevated to a household name that denotes quality quick snacks at an affordable price. The Krest range includes chinese rolls which have cornered the market with its flavoursome offering, formed meats, with nuggets, burgers, fish fingers, kiev's and french fries available for the mass catering channel. Krest French Fries, which is primarily marketed to the catering industry was launched in 1kg, 500g and 250g packs to enable, catering establishments and restaurateurs employed in multiple scales of business, to purchase our product.

Cognizant of the increasing preference for Halal foods among consumers, we repositioned the Krest Brand as a total Halal brand to cater to this demography. The brand is fully Halal compliant and saw volumes increase by 21% this year. We added further value to this aspect of our brand by launching a 250g of Krest Halal Chicken Sausage as well.

Supply Chain Management

Several successful initiatives were introduced during the year in terms of enhancing productivity to meet demand requirements as a result of increased volumes whilst our sourcing initiatives enabled us to ensure that all our raw material requirements were procured on a timely basis at the best possible price. As in the previous year the industry specific key raw materials continued to rise in price due to shortage of local supply. As in the previous year there was a shortage of supply of chicken meat resulting in the government having to import chicken from India. Whilst we were able to source most of our requirements locally we were also compelled to import part of our requirements at a significantly high cost due to high import duties. Due to the increase in volumes we paid special emphasis to improving our productivity which paid rich dividends as we were able to supply the market.

Ours is a unique arrangement constructed entirely on a sustainable business platform, permeating a two way relationship among our stakeholders to ensure a win-win partnership. Aligned to working on the triple bottom line concept of sustainability, we have instituted a strong and stable framework of local sourcing suppliers for meats, vegetables and spices required in our manufacturing process. What is also unique is that these valued business partners are not large entities but rather rural farmers, entrepreneurs and micro and small enterprises, working individually or in collective organisations. Due to our intervention, in requiring their produce, these stakeholders have multi-faceted benefits accruing to them, including a permeation and transfer of best practices in technology, know-how, fertilizer and feed, conformance to stringent quality standards which naturally sees the quality of their produce fetch a better price

**Management Discussion and
Analysis Contd.**

on the market and eventually a sustainable income that improves the quality of life and heralds a contribution to the development of the rural economy.

Our Research and Development team has also contributed to our increased volumes by developing a range of new products that were launched during the year. There are several other innovative products in the pipeline which we are hopeful of launching to the market in the near future.

Taxation implications as per Budget 2011

One of the bugbears we have been embattled in for a number of years was the high rate of taxation our Company was subjected to and the fact that we could not consciously pass on the impact of this to the consumer as it would seem unjust and uneconomical from the consumer's view point. Having made representations to various forums regarding the convoluted taxation regime, the business community did see some favourable implications via the Fiscal Budget 2011 presented in parliament in November 2010. The findings of the Taxation Commission too seem to have been taken into account in creating a more favourable tax regime for corporate Sri Lanka to function in.

While being most appreciative of the beneficial changes that have been brought into the tax regime, some of the significant impacts include the reduction of Nation Building Tax, which can also be fully claimed as an expense for income tax, restriction on deductibility of advertising expenses reduced to 25% with 75% allowed for income tax purposes and reduction of the Income tax rate.

2011 and beyond

We now see a firm foundation being constructed to take the country towards a renaissance, one which speaks of economic prosperity across the board. This augurs well for the consumer, who not only gains confidence in his own ability to manage his wealth and competencies, but also permeates that confidence into entire communities and the wider sphere.

Given that our products are based on the existing levels of disposable income where consumer purchasing power is dictated by their levels of daily priorities, the more positive sentiment will drive the consumer to purchase non-primary needs based on enjoyment, convenience and fun. Both Keells and Krest have a firm foothold in this segment of products and having further augmented our presence with a strong brand that delivers on its promises, where quality is paramount and best practices have been infused into creating a product of excellence, we see consumer trends moving towards seeking more than simply a primary need from a product.

While locally, we do face intense competition, some of it from unofficial players whose standards and market practices are not safe or healthy, we do believe that being a responsible corporate citizen, we have to take the mantle to

ensure that the consumer is equipped with the necessary knowledge to make an educated choice. This we will continue doing with targeted communication campaigns, adding value with an extended product range catering to diverse consumer segments. We intend to use our innovative R&D capabilities to bring to the market new products that serve the consumer of today, where value for money and quality are the overriding factors.

Management Committee

R. F. N. Jayasooriya	- Chief Executive Officer
K. A. V. Fernando	- Assistant Manager - Production
T. G. T. P. K. Gamage	- Manager - National Sales
J. O. Gregory	- Manager - Purchasing
T. Hathurusinghe	- Manager - Factory
D. C. A. Kalubowila	- Manager - Livestock Purchasing
J. D. Kanagaraj	- Manager - Finance
R. Karunaratne	- Manager - Marketing
A. A. N. Lalantha	- Assistant Manager - Research and Development
A. C. Morris	- Senior Accountant
M. C. R. Perera	- Manager - Credit
R. M. A. L. B. Rathnayake	- Assistant Manager - Quality Assurance
C. N. Soza	- Assistant Manager - Production - Krest
P. B. T. Weerasekara	- Manager - Logistics

Financial Review***Business Performance - Income Statement
Revenue***

Revenue at Company level increased by 19% to Rs. 2,163 million (Rs. 1,814 million in 2009/10) as a result of the off take experienced in the Sri Lankan market with the revival of the economy and the total volumes growing by a significant 16% YOY. Contribution to turnover from our Indian Subsidiary was marginal as there was a disruption to exports initially due to the change in the operating model and subsequently due to the delay in obtaining an import permit by our Indian distributor.

Group Turnover Increased by 20% to Rs.2,196 million (Rs.1,833 million in 2009/10).

Cost of Sales

Focused initiatives to derive cost benefits through sourcing initiatives of key raw materials, along with stringent cost control measures paid off in holding the cost of production at manageable levels during the year. Whilst we continued to engage in energy saving initiatives during the year, the increase of electricity tariffs resulted in a 20% increase in the total energy cost.

Gross Profit

Gross profit of the Company for the year amounted to Rs. 512 million representing a 30% increase against Rs. 394 million recorded in the previous year. The gross profit margin of the Company increased to 24% compared to 22% of last year due to, changes in the sales mix, selective price increases and containing of raw material price impact.

Other Operating Income

The increase in other operating income at Company level to Rs.22.4 million from Rs.4.6 million in the previous year was largely due to part recovery of dues provided as bad debts in the last financial year.

Selling and Distribution Expenses

Selling and Distribution expenses include the cost incurred in the distribution of products, advertising and promotional expenses as well as all other sales related expenses.

Distribution cost at the Company decreased to Rs. 238 million from Rs. 270 million in the previous year. In the previous year a provision was made for non recovery of trade dues from the subsidiary company amounting to Rs.84.6 million. After excluding this provision other distribution costs increased by 28% over the previous year mainly due to the increase in advertising cost to support new products launched, trade and consumer promotional activities such as POSM and merchandising and integrated marketing campaign to retain and gain consumers whilst sustaining our brand in the long term.

At Group level distribution cost was Rs.253 million against Rs.324 million, the reduction is due to the curtailed level of marketing and promotional activities undertaken by the Subsidiary with the change in its operating model.

Administration Expenses

Company administration cost was maintained at the same level as in the previous year. The Company was successful in keeping the administrative staff cost and all the other administrative cost below inflation. At a Group level administration costs reduced to Rs. 105 million against Rs. 142 million in the previous financial year due to the closure of the corporate office in India.

Provision for Fall in Value of Investments

The Company provided Rs. 120.8 million (Rs. 94.4 million in 2009/10) as provision for fall in value of investment in its Subsidiaries, John Keells Foods India (Pvt) Ltd and Keells Food Products Mauritius this year.

Finance Cost

Finance cost increased by 6% to Rs. 14.7 million from the Rs. 13.8 million in the previous year as a result of increase in the level of borrowing over the previous year.

Financial Position- Balance Sheet

Shareholders Funds

Shareholders' funds at Company level decreased to Rs. 320 million from Rs. 373 million as a result of the losses posted by the Company during the year mainly attributable to the impairment of its investments in Subsidiaries.

Shareholders' funds at Group level was at Rs. 323 million and Rs. 290 million in the previous year.

Asset Base

The Asset base at the Company increased to Rs. 773 million, from Rs. 709 million despite the provision of Rs. 120.8 million for fall in value of investments. Substantial increases in Inventory and Trade and other receivables resulted in a increase in the asset base. The Company acquired assets worth of Rs.14.5 million during the financial year.

The Group's total asset base as at the 31st March 2011 was Rs. 778 million as against Rs. 673 million in 2009/10.

Cash Flow and Liquidity

Cash generated after working capital changes at Company level decreased to Rs. 6million compared to Rs. 94 million in the previous year mainly due to the increase in inventory levels during the last quarter of the year.

The net working capital position of the Company as at the Balance Sheet date amounted to Rs. 175 million.

The Company's key sources of finance, for the foreseeable future is likely to be cash generated from operations with an effective combination of long term and short term borrowings. Therefore it is expected that the said sources of finance will provide sufficient capacity of liquidity to service debt and meet future working capital and capital expenditure requirements.

Shareholder Value

The Group endeavours by its strategic priorities to be focused on delivering, to its shareholders value through the achievement of sustainable, capital efficient and profitable long term growth.

The Group's Earning per share was at Rs. 3.57.

The Company's share price was Rs. 69 at the beginning of the financial year and increased to Rs. 150 as at 31st March 2011 moving within a range of Rs.65 and Rs. 175 during the year. The market capitalization of the Company as at the year end was Rs. 1,275 million.

Return on Capital employed (ROCE) at group level was 19.18% against a negative 27.45% in the previous year.

Sustainability Report

We have been in the business of pre-cooked meats and processed meats for decades and have in that time, nurtured stakeholder relationships as an investment for the future. As a pioneer in the industry, this investment was pragmatic but one that has today, reaped in the returns far in excess of the forecast.

While our shareholders have been the bedrock upon which our business remains solidly constructed, our consumers drive our innovative powers to create products that are ahead of their time, demanding only the best quality in our products. This innovative spirit is honed in our team, who possess an indomitable spirit and passion to achieve results beyond expectation, a feature further fueled by our valued business partners, who build for us a solid foundation of healthy Sri Lankan produce steeped in quality in order to give us the edge in manufacturing the best quality product in the market. Into this we add our focus on astute waste management practices, pragmatic occupational health and safety initiatives and a conscious effort to reduce our energy consumption. Our stakeholders thus have jointly cemented a business that remains true to the values of a totally Sri Lankan entity but with vision that creates an innovative product portfolio that encompasses best practices and international standards to give the consumer a truly global product.

We have an unique and pioneering brand that has the added positive dynamic of strong management resolve, creating the apt environment to take the business forward. We have established a business that is 'by the people, for the people' infusing innovation, creativity, dynamism and continuous improvement into our very own canvas of success to bring about a constantly evolving product portfolio that remains incomparable within the industry today. Our passion and focus in remaining true to our ideals has resulted in creating sustained brand equity through a holistic value chain, innovation and emphasis on quality that culminates in the products we take to the consumer. The consequences to this have been that we have been responsive to our stakeholder needs, in addition to being proactive with all our stakeholders and ensuring that the end result of our responses remains sustainable.

The added fillip we gain in ensuring that we remain steeped in the tenets of responsible corporate stewardship is in the fact that we are a part of the John Keells Group which is under the aegis of John Keells Holdings PLC. The group-wide commitment to sustainability is a holistic one, with focused projects and initiatives that have a strong flavour of sustainability, rather than philanthropy. The ethos therefore permeates group companies, instilling in each, a sense of responsibility towards each group of stakeholder to ensure their sustainability. This also quantifies the positive impact we have in our relationship with them.

We strongly subscribe to the philosophy of building relationships on long term platforms where trust, honesty, accountability and sincerity of action form the

foundation to strengthening these multi-faceted relationships, Governance, ethics, values and principles remain fundamental to the overall picture of sustainability.

Responsible Sourcing

Ours is an interesting and unique value chain, one that is unusual in that a majority of our raw material is sourced from micro and small entrepreneurs. To most large manufacturing businesses, local sourcing can be time consuming and fraught with challenges. To us, its a win-win relationship.

Our valued business partners are those who have vision to better themselves although the avenues for such betterment were limited. We began using the existing network of collective associations and entities to gain access to these farmers and growers, believing strongly that being a Sri Lankan Company, we are tasked with a large responsibility of impacting tangibly due to our presence in this country.

The network of farmers thus has now grown considerably and our sourcing avenues have become expansive, with chicken, pork, vegetables and spices all sourced locally from agricultural areas around the country. With Matale and Dambulla being added to our network through the sustainable integrated farmer community for vegetables and all our spices requirements and 142 farmers from seven districts and twenty villages in the Rattthota area all employed directly under the Kandy Vanilla Growers Association supplying us with our requirements of onions and sweet potatoes, we are now self sustaining in the raw material cog of our value chain.

Sustainable Sourcing Projects of Keells Food Products PLC 2010/11

Product	Location	No. of farmers	Total Annual Supply
Pork	Kaluaggala, Diulapitiya Bujjampola, Giriulla Weliweriya, Katana Kosgama, Pamunugama Dambulla, Kandy	25	537,625 kgs
Chicken	Wennappuwa, Hanwella, Kosgama, Meethirigala Kosgama, Hanwella Meethirigala	2200	1,507,959 kgs
Spices	Meegammana West, Wattegama, Kandy	2300	5,430 kgs
Vegetables	Meegammana West, Wattegama, Kandy	2300	71,971 kgs

However, it must be remembered, that we produce a product that speaks of high quality, best practices and standards, that form our consumer imperatives. This then must cascade to the raw material sources as well. Keeping this in focus, we have over the years begun imparting technical know how and agricultural best practices to these farmers, which has seen a tangible improvement in the raw material we gain and has enabled these farmers to gain better prices for their produce.

Farm management, breeding, feeding, animal health and quality control have all been infused into the everyday work activity of the farmer which permeates to a stability in supply, volume and prices, while enhancing knowledge levels among them. Our drive for quality and the influence it has on our valued business partners is evidenced with the Kandy Vanilla Growers Association obtaining GMP Certification from the Sri Lanka Standards Institute for its processing facility and grinding mill at Ratthota this year.

The sustainable income that ensues to the farmer due to the ready market for their produce enables a definite improvement in their lifestyles and aspirations, while for us, this stakeholder intervention forms a steady and sustainable value chain to manufacture quality products to suit the consumer's discerning palate, which all collectively reflect very positively on our bottom line.

Responsible Manufacturing

Present day consumers are discerning and are most demanding in their expectations. We realise this and welcome it because it is these traits that constantly drive us to create better products and improve on what we offer our consumer. The communication we continue to engage in with our consumers help us determine the evolving trends and therefore, lead us to manufacture goods according to these aspirations. We also know that the consumer demands quality, convenience and value for money, all fundamental tenets in our brand promise. This therefore dons a mantle of immense responsibility on our shoulders to ensure that the A to Z of our manufacturing process conforms not only to the legal and regulatory requirements of a manufacturing facility, but also that we give our consumers high quality economical product expected from us.

We work in a milieu of 'beyond compliance', where the stringent international standards of ISO certifications for hygiene and safety and the Sri Lankan SLS Standard are steeped into our everyday operations. Our unshakeable focus on maintaining standards has seen us continually strive towards imbuing the culture of beyond compliance, introducing quality driven initiatives that have seen us being certified in all facets of our business, from sourcing, to product innovation, manufacturing, marketing and consumer care. We remain the only meat processing company in Sri Lanka to obtain SLS certification and have also obtained ISO 9001 and ISO 22000 for Food Safety Standards.

We are very conscious of the responsibility we have in ensuring that our products not only conform to the highest quality standards but are manufactured in an environment that is safe, clean and hygienic with immense focus on managing environmental standards as well. The constant monitoring helmed by a dedicated team especially in Occupational Health and Safety ensures that our products conform to very high, hygiene standards, an unequivocal assurance we give our consumer.

Specialist skill is infused in our very modern laboratory, equipped with some of the world's best technology related to our industry and a team that remains very focused on exceeding quality standards. The systems and processes that we have introduced over the years creates an enabling environment for the quality controllers to function in, complimenting their knowledge and skill, which is eventually seen in the products that we manufacture.

Responsible manufacturing encompasses the complete cycle of manufacture and the final step of getting our products to the consumer. Storage, transport and distribution of our product too therefore come into this chain of events. We are cognizant of the challenges that ensue due to logistical constraints vis a vis transport and storage especially of pre-cooked and processed meat products, and have therefore, implemented a system that brings in distributors and retailers who buy into our vision of responsible product delivery.

The distribution network and the retail network are handpicked by the company, to ensure total conformance to the standards we expect of them. Distribution vehicles and storage rooms equipped with the apt equipment and retailers whose storage and selling points are aligned to the health and safety controls we have within the company are compulsory and are not compromised. Continuous monitoring, spot checks and knowledge enhancement initiatives regarding quality controls, health and safety are imbued to all our external partners, to ensure that the end product given to the consumer carries our most important brand pillar of quality.

Responsible Product Innovation

We have created and continue to develop an innovative product portfolio that surpasses the competition within the local market. We also remain cognizant of consumer trends and expectations given the continuous two way communication channels we maintain with our consumers both at point of sale and point of consumption. These have helped us charter our innovation map, where product development gains a more focused angle and we are therefore able to apply research and development more productively into exceeding consumer expectations.

The research and development process in our company is a highly driven one, manned by a team who is skilled and specialised. This is amply seen in the

Sustainability Report Contd.

development of the Keells Fish Sausage with Omega 3, wherein the increasing trend of eating healthy was brought into focus, while having observed the increasing number of consumers preferring Halal foods, the Krest Halal Chicken Sausage was developed, also leading to the entire Krest brand transcending to a complete Halal brand.

With extended working hours and modern lifestyles demanding convenience foods, we also extended our canned range, adding Keells Thunapaha Malu and Keells Beef Curry to the very successful first ever curry product in a can - Keells Chicken Meatball Curry.

Responsible Marketing

Our marketing is conducted in an ethical, just and transparent manner, where truth remains paramount. Our communication campaigns are conceptualised to educate the consumer, while promoting our products, which we assure them is of high quality and value for money. Our brand promises and deliverables are aligned to the fundamental premise of commitment to our lofty principles of ethical marketing, where consumers are very much aware of every facet of the product they eventually consume.

We are transparent in our communication and are committed to accountability in every facet of our business. We adhere very strictly to the laws and regulations that govern FMCG and food products in Sri Lanka and given that we do have an expanding export portfolio, remain cognizant to the regulatory requirements prevalent in those countries as well.

Youth Empowerment

With our corporate stewardship platform encompassing initiatives that create avenues of sustainable development for our stakeholders, education for enhanced livelihoods remains a primary initiative in our social responsibility calendar. As we have collated an extensive network of farmers and given them a strong market base and sustainable income, while imparting a knowledge base to better their ultimate product, we have also focused on enhancing knowledge among our youth, empowering them to gain better avenues of employment and career advancement.

Our continuous programme of developing selected undergraduates interested in the food and beverage industry saw a total of 38 undergraduates undergoing training in a gamut of related subjects this year. The students hail from impoverished backgrounds and are studying for degrees in Agriculture, Food Sciences, Microbiology and Marketing Management at universities located across the country. The comprehensive programmes conducted by our in-house specialists encompass quality, product development, livestock handling and marketing and is a significant value addition to their curriculum.

Responsible Environmental Management

Manufacturing is an energy intensive process which can both be expensive and utilizing natural resources indiscriminately, reflecting eventually on a company's bottom line and stakeholders as well. Astute environmental management is a responsibility that cannot be taken lightly and to us, it is a priority of our corporate agenda.

Energy efficiency and management is an imperative that has been our focus for a number of years. While we source a significant amount of energy from the country's main grid, we have instituted a number of initiatives within the company to reduce energy consumption. Being a food manufacturing company, we also utilize a considerable amount of water, which is sourced from tube and surface wells located within our facility, all treated to ensure compliance with health and safety standards.

Our solid waste disposal system conforms to the standards required from a fully fledged food manufacturing facility. The incinerator currently in use has a capacity of disposing 6,000 kgs of solid waste with complete safety mechanisms in place. Waste water is treated through a biological waste water treatment plant prior to release into the public drainage system, having ensured that the released water is contaminant and toxic proof, readied completely for human habitat.

Having obtained Central Environmental Authority certification to eliminate or limit sound pollution emanating from our factories, we also continually monitor emission levels and disposal processes, conforming stringently to the regulatory requirements dictated by the Central Environmental Authority.

Responsibly empowering our people

The success we have seen in the last year proves that it is our people who are the backbone to our success. The positive focus they espouse, the dynamism, motivation and entrepreneurial spirit is undoubtedly what lies as the firm foundation to taking our Company forward. Being a people centric organisation, the quality of people is paramount and we in turn, are absolutely committed to ensuring that our people remain aligned to our vision, goals and objectives, while not compromising quality in any way, so that their own individual career goals are met.

Promoting a knowledge driven culture that revolves on team spirit and innovativeness, we are constantly creating avenues to stimulate them in order to optimize on their capabilities and competencies, steeped in an equitable work/life balance that will help them attain new heights, hone their knowledge and skills continuously and develop professionalism.

Open Dialogue

An imperative to continuous improvement, sharing opinions, ideas, problem solving and mentoring remain integral to the culture of open dialogue we promote. Weekly team briefings, monthly meetings and open door policies are inherent in our working culture, where an interactive atmosphere discussing goals, company objectives and priorities form the roots for growing our platform of consumer excellence. Employee feedback and suggestions are a key component to our inner workings, helping strengthen team spirit and encourage consistent focus on business goals, while we encourage our team to be proactive in their contribution to the Company.

Equal Opportunity Employer

We are ingrained into the precepts of the ILO standards and other global best practices pertaining to equality in employment and conform to the very high standards and mechanisms practiced by our parent company John Keells Holdings. Believing firmly in the premise of being an equal opportunity employer, we are keen on presenting sustainable employment to all levels of abilities, working on true meritocracy.

Training & Development

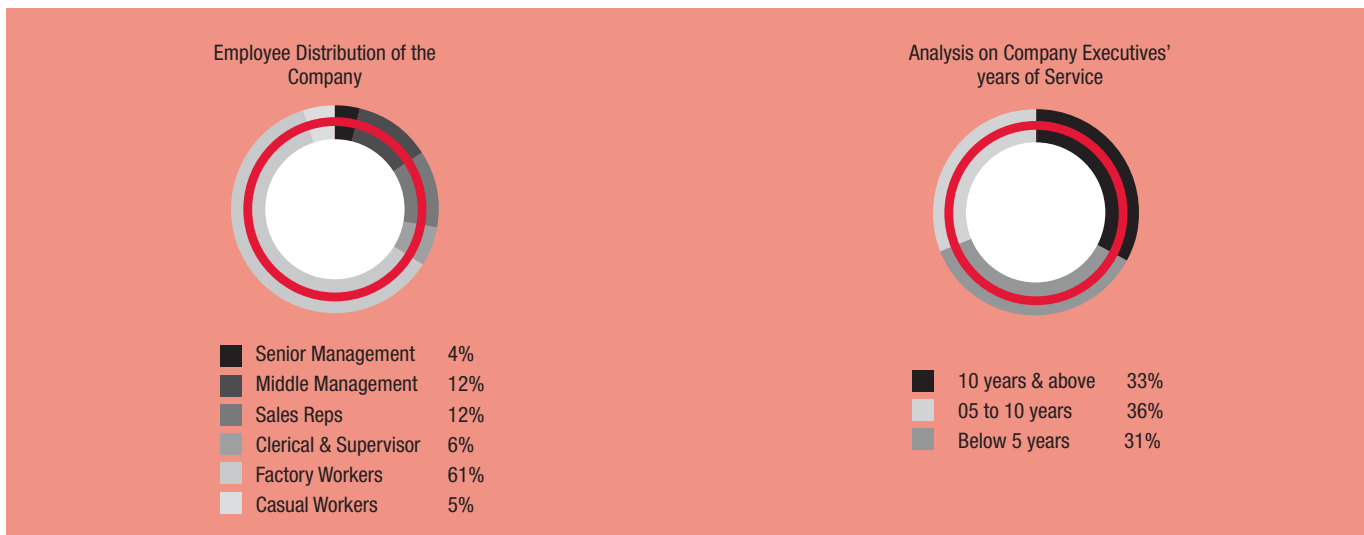
Ours is an industry that is constantly evolving, where customer preferences transform quickly and we must be ready to take on the challenge of anticipating those preferences. Our knowledge culture revolves on the axis of intense training and development, with innovation forming the truss upon which we stay ahead of competition. The 360 degree Performance Management System is a comprehensive tool that enables us to identify training needs, bridge the

gaps and create a team that is knowledgeable and skilled in order to conquer rising consumer expectations.

Employee Distribution and Service

Employee Distribution of the Company	2011	2010
Senior Management	16	13
Middle Management	51	42
Sales Reps	54	56
Clerical & Supervisor	27	24
Factory Workers	270	265
Casual Workers	22	34
TOTAL	440	434

Analysis on Company Executives' years of Service	2011	2010
10 years & above	22	23
05 to 10 years	24	17
Below 5 years	21	14
TOTAL	67	54



Enterprise Governance

Keells Food Products PLC and its Subsidiaries John Keells Foods India Private Limited and Keells Food Products Mauritius are referred to as the “Group” and through its holding company John Keells Holdings PLC (JKH) has a Corporate Governance philosophy founded on a culture of performance within a framework of conformance and compliance to succeed in today’s competitive business environment in a manner that is sustainable and equitable to all our stakeholders. This philosophy has been institutionalised at all levels in the Group through a strong set of corporate values and a written code of conduct that all employees, senior management and the Board of Directors are required to follow in the performance of their official duties and in other situations that could affect the Group’s image. Directors and employees at all levels are expected to display ethical and transparent behaviour through their communication and role modeling. All the Group’s recognition schemes insist, as a minimum, that all nominees have lived the JKH values and the behaviour of the senior management of the Group, is monitored through an annual 360 degree feedback programme.

JKH Code of Conduct

- allegiance to the company and the group
- compliance with rules and regulations applying in the territories that the Group operates in
- conduct of business in an ethical manner at all times and in keeping with acceptable business practices
- exercise of professionalism and integrity in all business and ‘public’ personal transactions

The Chairman of the Board affirms that there has not been any material violation of any of the provisions of the aforementioned Code of Conduct. In the instances where violations did take place, they were investigated and handled through the Company’s well established procedures which, among others, include direct and confidential access to an independent, external ombudsperson.

The Group Corporate Governance policies are in full compliance with the following and where necessary, any deviations as allowed by the relevant rules and regulations have been disclosed.

- The Companies Act No. 7 of 2007
- The Listing rules of the Colombo Stock Exchange(CSE) (revised April 2011)
- The recommendations of the Combined Code of 2008 to the extent that they are practicable in the context of the nature of our diverse businesses and their risk profiles.
- All provisions of the Code of Governance of the Institute of Chartered Accountants of Sri Lanka.

Corporate Governance framework

The Group is committed to the highest standards of business integrity, ethical values and professionalism in all its activities towards rewarding all its stakeholders with greater creation of value, year-on-year. Our governance framework which has been communicated to all levels of management and staff in individual businesses and functional units is based on the following –

- The Board is responsible to the shareholders to fulfill its stewardship obligations, in the best interest of the Company and its stakeholders
- Maximising shareholder wealth-creation on a sustainable basis while safeguarding the rights of multiple stakeholders
- The methods we employ to achieve our goals are as important to us as the goals themselves
- No one person has unfettered powers of decision making
- Building and improving stakeholder relationships is an integral aspect of board effectiveness and a responsible approach to business
- Opting, when practical, for early adoption of best practice governance regulations and accounting standards
- Our resolve to maintain strong governance practices which present strong commercial advantages especially through a lowering of our cost of capital as a result of the strengthened stakeholder confidence, particularly the confidence of our investors, both institutional and individual
- The making of business decisions and resource allocations, in an efficient and timely manner, within a framework that ensures transparent and ethical dealings which are compliant with the laws of the country and the standards of governance our stakeholders expect of us.

Board of Directors

The Board of Directors is the focal point of the Group’s Enterprise Governance process and is ultimately accountable and responsible for the performance and affairs of the Group.

Board composition and directors’ independence

The Board of Directors of Keells Food Products PLC consists of the Chairman who is a Non-Executive Non-Independent Director, three Non-Executive Non-Independent Directors and four Non-Executive Independent Directors. The Board members have a wide range of expertise as well as significant experience in corporate, marketing, legal and financial activities enabling them to discharge their governance duties in an effective manner. A brief profile of each Director is set out on pages 28 and 29.

Name of Director	Executive / Non Executive	Independent / Non Independent	Involvement/ Interest in Shareholding	Involvement/ Interest in Management	Continuously served for 9 years	Involvement/ Interest in Supply Contracts
Mr. S C Ratnayake - Chairman	Non Executive	Non Independent	Yes	No		No
Mr. A D Gunewardene	Non Executive	Non Independent	No	No		No
Mr. J R F Peiris	Non Executive	Non Independent	No	No		No
Mr. J R Gunaratne	Non Executive	Non Independent	No	No		No
Mr. S H Amarasekara	Non Executive	Independent	No	No	No	No
Mr. R Pieris	Non Executive	Independent	No	No	No	No
Mr. A D E I Perera	Non Executive	Independent	No	No	No	No
Mr. M P Jayawardena	Non Executive	Independent	No	No	No	No

Independence of the Directors have been determined in accordance with the criteria suggested by the Combined Code and the criteria of the CSE Listing Rules (revised in April 2011). The four Independent Non-Executive Directors have submitted signed confirmations of their independence

Board Responsibilities and Decision rights

The Board of Directors is accountable to the shareholders for the governance of the Company. All Directors are accountable for the proper stewardship of the company's affairs and share responsibility in ensuring the highest standards of disclosure and reporting, ethics and integrity across the group. Powers specifically reserved for the board decision matrix include –

- Providing direction and guidance to the Group in the formulation of its strategies and in the pursuance of its operational and financial goals.
- Monitoring systems of governance and compliance.
- Overseeing systems of internal control and risk management.
- Determining any changes to the discretions/authorities delegated from the Board to the executive levels.
- Approving major acquisitions and disposals and capital expenditure.
- Reviewing HR processes with emphasis on top management succession planning.
- Approving annual budgets and strategic plans.

Non Executive/Independent Directors and the Board Balance

The Board is of the view that its present composition ensures a right balance between executive expediency and independent judgment. Collectively, the Non-Executive Directors bring a range of value adding domestic and international experience and expertise in specialised functions. The Company is conscious of the need to maintain an appropriate mix of skills and experience on the Board and to refresh progressively its composition over time. The Company also notes the value that has been brought to bear by the Non-Executive Directors on the

governance of the Group. The Non-Executive Directors of the board collectively possess strong financial acumen and are in good positions to assess the integrity of the Group's financial reporting systems and controls, continually review and critique these systems and make changes to them as necessary.

All Non-Executive Directors are encouraged to propose discussion items for the board meetings.

Access to Management Information

The Board Members meet the senior management staff once every three months to review among other matters, the performance and Financial Statements for the period. Procedures exist to ensure that Directors receive relevant documentation in advance of each meeting. Guidelines with regard to the content and presentation have been established for all documents submitted. Quarterly accounts, including key operational and financial ratios, are circulated to the Board and discussed at the quarterly meetings. In addition controls are in place to ensure compliance with the policies of the Board. The Board of Directors have unrestricted access to all company information, records, documents, and property.

Chairman of the Board

The Chairman is a Non Executive Non Independent Director. The Chairman conducts Board Meetings ensuring effective participation of all Directors. The Chairman is responsible for providing leadership to the Board and ensuring that proper order and effective discharge of Board functions are carried out at all times by the Board Members. The roles of the Chairman and the Chief Executive Officer (CEO) are separate with a clear distinction of responsibilities between them. The executive responsibility for the functioning of the Company's business including implementation of strategies approved by the Board and developing and recommending to the Board the business plans and budgets that support the company's strategy has been entrusted to the CEO.

Enterprise Governance Contd.**Financial Expertise**

The Board of Directors consists of two senior qualified Accountants with significant experience in the corporate sector. Both of them possess the necessary knowledge and expertise to offer the Board of Directors guidance on matters of finance. One of them serves as the Finance Director of the parent company whilst the other as Chairman of the Audit Committee.

Board Meetings

The Board met 4 times during the year. The attendance at these meetings was as follows.

Name	26th April 2010	23rd July 2010	28th October 2010	25th January 2011
Mr. S C Ratnayake	Y	Y	N	N
Mr. A D Gunewardene	Y	Y	Y	Y
Mr. J R F Peiris	Y	Y	Y	Y
Mr. J R Guneratne	Y	Y	Y	Y
Mr. S. H. Amarasekera	Y	Y	Y	N
Mr. R Pieris	Y	Y	Y	Y
Mr. A. D. E. I. Perera	Y	Y	Y	Y
Mr. M P Jayawardena	Y	N	Y	N

Re-Election of Director's

At each Annual General Meeting one third of the Directors, retire by rotation on the basis prescribed in the Articles of Association of the company and are eligible for re-election. The Directors who retire are those who have been longest in office since their appointment / re-appointment. In addition any new Director who was appointed to the Board during the year is required to stand for re-election at the next Annual General Meeting.

The re-election of Directors ensure that shareholders have an opportunity to consider the composition of the Board. The names of the Directors submitted for re-election are provided to the shareholders in advance to enable them to make an informed decision on their election.

The retiring Directors eligible for re-election this year are mentioned in the Notice of the Annual General Meeting of the Company.

Audit Committee, External Auditors and independence

The Audit Committee comprises solely of Non-Executive, Independent Directors and conforms to the requirements of the Listing Rules of the Colombo Stock Exchange. It is governed by a Charter, which inter alia, covers the reviewing of policies and procedures of Internal Control, Business Risk Management, Compliance with Laws and Company Policies and Independent Audit Function.

The Committee is also responsible for the consideration and recommendation of the appointment of External Auditors, the maintenance of a professional relationship with them, reviewing the accounting principles, policies and practices adopted in the preparation of public financial information and examining all documents representing the final Financial Statements.

A quarterly self certification program requires the Head of Finance of the sector to confirm compliance, on a quarterly basis, with statutory requirements and key control procedures and to identify any deviations from the set requirements. In addition the CEO is also required to confirm operational compliance with statutory and other regulations and key control procedures, coupled with the identification of any deviations from the expected norms. These have significantly aided the committee in its efforts in ensuring correct financial reporting and effective internal control and risk management.

The Audit Committee had 5 meetings during the year and attendance of the Audit Committee members are indicated in the Audit Committee Report on page 23.

The CEO, the CFO, the Head of Finance and other operational heads are invited to the meetings of the Audit Committee. The detailed Audit committee report including areas reviewed during the financial year 2010/11 is given on pages 23 and 24.

Going concern and financial reporting

The Directors are satisfied that the company has sufficient resources to continue in operation for the foreseeable future. In the unlikely event that the net assets of the company fall below a half of shareholders funds, shareholders would be notified and an extraordinary resolution passed on the proposed way forward.

The going concern principle has been adopted in preparing the Financial Statements. All statutory and material declarations are highlighted in the Annual Report of the Board of Directors in the Annual Report. Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (SLAS), including all the new standards introduced during the subject year, and International Accounting Standards (IAS), as applicable.

Information in the Financial Statements of the Annual Report are supplemented by a detailed 'Management Discussion and Analysis' which explains to shareholders the strategic, operational, investment and risk related aspects of the Company that have translated into the reported financial performance and are likely to influence future results.

The Statement of Directors' Responsibilities in relation to financial reporting is given in the Financial Reports section of the Annual Report. The Directors' interests in contracts of the company are addressed in the Annual Report of the Board of Directors.

The directors have taken all reasonable steps in ensuring the accuracy and timeliness of published information and in presenting an honest and balanced assessment of results in the quarterly and annual Financial Statements. All price sensitive information has been made known to the Colombo Stock Exchange, shareholders and the press in a timely manner and in keeping with the regulations.

International Financial Reporting Standards (IFRS)

The John Keells Group has a committee comprising of financial personnel from within the Group working on the implementation of IFRS as per the guidelines set by the ICASL. As per the given requirements by the ICASL, IFRS is to be implemented by the start of the 2012/2013 financial year and the Company is in line to meet this requirement.

Remuneration Committee and Policy

The Remuneration Committee of the Parent Company John Keells Holdings PLC functions as the remuneration committee of the Company and conforms to the requirements of the Listing Rules of the Colombo Stock Exchange.

The Remuneration Committee of the parent Company consists of three Non Executive Independent Directors:

Name of Member

Mr. Franklyn Amerasinghe - Chairman

Mrs. S. Tiruchelvam

Mr. D. Rodrigo

The Remuneration Policy of the group is formulated to attract and retain high calibre executives and motivate them to develop and implement the business strategy in order to optimise long term Shareholder value creation.

The key principles underlying the Remuneration Policy of the Group are as follows:

- All executive roles across the JKH Group have been banded by an independent third party on the basis of the relative worth of jobs.
- Compensation be set at levels that are competitive to enable the recruitment and the retention of high caliber executives in the identified job classes/bands – as guided by the best comparator set of companies (from Sri Lanka and the region, where relevant)
- Compensation, comprising of fixed (base) payments, short term incentives and long term incentives be tied to performance, both individual and organisational.
- Performance be measured annually on well-defined objectives and matrices at each level- individual, business and group, thereby aligning shareholder interests through a well established performance management system.

- The more senior the level of management, the higher the proportion of the incentive component, thereby lower the proportion of the fixed (base) component of total compensation.
- As the seniority, and therefore the decision influencing capability of the position on organizational results, increases, the individual performance to hold lesser weightage than the organizational performance when determining total compensation and incentives.

The aggregate amount paid to the Non Executive Directors are disclosed in note number 26 of the Notes to the Financial Statements.

Risk Review and Internal Control

The Company also adopts the parent Company's Risk Management Programme which is given in page 25 to manage the significant risks.

The programme ensures that a multitude of risks, arising as a result of the Group's operations, are effectively managed in creating and preserving shareholder and other stakeholder wealth. The detailed Risk Management report of the Annual Report describes the process of risk management as adopted by the group and the key risks to the achievement of the Group's strategic business objectives.

The risk review programme covering the internal audit of the Company is outsourced to Messrs. Price WaterhouseCoopers (Pvt) Limited, a firm of Chartered Accountants and the reports arising out of such audits are, in the first instance, considered and discussed at the business / functional unit levels and after review by the CEO of the Company is forwarded to the Audit Committee on a regular basis. Further, the Audit Committees also assess the effectiveness of the risk review process and systems of internal control on a regular basis. Follow-ups on internal audits are done on a structured basis.

Compliance with Legal Requirements

The Board is conscious of its responsibility to the Shareholders, the Government and the Society in which it operates and is unequivocally committed to upholding ethical behavior in conducting its business. The Board strives to ensure that the Company complies with the laws and regulations of the Country.

The Board of Directors has also taken all reasonable steps to ensure that all Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards, the requirements of the Colombo Stock Exchange and other applicable authorities. The Directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future. Accordingly, the going concern principle has been adopted in preparing the Financial Statements.

The Sri Lanka Accounting Standards as set by The Institute of Chartered Accountants are those which govern the preparation of the Financial Statements.

Enterprise Governance Contd.

The International Accounting Standards are used in the rare instance where a Sri Lanka Accounting Standards does not exist. The Board is aware of the growing importance of the disclosure of critical accounting policies as a part of Corporate Governance and are of the opinion that there are no instances where the use of such a concept would have had a material impact on the Company's and the Group's financial performance.

Relations with Shareholders

Shareholders will have the opportunity at the forthcoming AGM, notice of which has been communicated, to put questions to the Board and to the Chairman. The contents of the Annual Report will enable existing and prospective stakeholders to make better informed decisions in their dealings with the Company.

Employee Relations

The HR units are designed in a manner that enables high accessibility by any employee to every level of management. Constant dialogue and facilitation are also maintained, relating to work-related issues as well as matters pertaining to general interest that could affect employees and their families.

Whistleblower policy

The employees can report to the Chairman through a communication link named 'Chairman Direct', on concerns about unethical behaviour and any violation of group values. Employees reporting such incidents are guaranteed complete confidentiality and such complaints are investigated and addressed via a select committee under the direction of the Chairman.

Ombudsperson

The Ombudsperson is to entertain complaints, from an employee or a group of employees, of alleged violations of the published Code of Conduct, when that employee or group of employees feel that an alleged violation has not been addressed satisfactorily using the available/existing procedures and processes.

The findings of the Ombudsperson and recommendations arising there from shall be confidential and be communicated to the Chairman or the Senior Independent Director of JKH, where applicable, in writing and the Ombudsperson's duty will thereupon cease forthwith.

The Chairman or the Senior Independent Director of JKH, as the case may be, will place before the Board-

- I. the decision and the recommendations
- II. action taken based on the recommendations
- III. where the Chairman or the Senior Independent Director disagrees with any or all of the findings and or the recommendations thereon, the areas of disagreement and the reasons therefore.

In situation (iii) the board shall consider the areas of disagreement and decide on the way forward. The Chairman or the Senior Independent Director of JKH is expected to take such steps as necessary to ensure that the complainant is not victimised for having invoked this process.

Levels of Compliance with the Colombo Stock Exchange's new listing rules - Section 7.10, Rules on Corporate Governance

Rule No.	Subject	Applicable requirement	Compliance Status	Applicable Section in the Annual Report
7.10.1(a)	Non Executive Directors	Two or at least one third of the total number of Directors should be Non-Executive Directors.	Compliant	Enterprise Governance
7.10.2(a)	Independent Directors	Two or one third of Non-Executive Directors, whichever is higher, should be independent.	Compliant	Enterprise Governance
7.10.2(b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence / non-independence in the prescribed format.	Compliant	Available with Secretaries for Review
7.10.3(a)	Disclosure relating to Directors	The Board shall annually make a determination as to the independence or otherwise of the Non-Executive Directors and names of Independent Directors should be disclosed in the Annual Report.	Compliant	Enterprise Governance
7.10.3(b)	Disclosure relating to Directors	The basis for the Board to determine a Director is Independent, if criteria specified for Independence is not met.	Compliant	Enterprise Governance

Rule No.	Subject	Applicable requirement	Compliance Status	Applicable Section in the Annual Report
7.10.3(c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report and should include the Directors areas expertise.	Compliant	Board of Directors (profile) section in the Annual Report
7.10.3(d)	Disclosure relating to Directors	Forthwith provide a brief resume of new Directors appointed to the Board with details specified in 7.10.3(a), (b) and (c) to the Exchange.	Compliant	No new Director was appointed during the year.
7.10.4 (a-h)	Determination of Independence	Requirements for meeting criteria	Compliant	Enterprise Governance
7.10.5	Remuneration Committee	A listed company shall have a Remuneration Committee.	Compliant	Enterprise Governance
7.10.5(a)	Composition of Remuneration Committee	Shall comprise of Non – Executive Directors a majority of whom will be Independent.	Compliant	Enterprise Governance
7.10.5.(b)	Functions of Remuneration Committee	The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and Executive Directors.	Compliant	Enterprise Governance
7.10.5.(c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out, a. Names of Directors comprising the Remuneration Committee b. Statement of Remuneration Policy c. Aggregated remuneration paid to Executive and Non – Executive Directors	Compliant Compliant Compliant	Enterprise Governance, the Board of Directors Reports and Note 26 of the Notes to the Financial Statements
7.10.6	Audit Committee	The Company shall have an Audit Committee.	Compliant	Enterprise Governance
7.10.6(a)	Composition of Audit Committee	Shall comprise of Non – Executive Directors a majority of whom will be Independent. A Non – Executive Director shall be appointed as the Chairman of the Committee. Chief Executive Officer and Chief Financial Officer should attend Audit Committee Meetings. The Chairman of the Audit Committee or one member should be a member of a professional accounting body.	Compliant Compliant Compliant Compliant	Enterprise Governance and the Board of Directors Reports

Enterprise Governance Contd.

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

Audit Committee Report

The powers and responsibilities of the Audit Committee are governed by the Audit Committee Charter which is approved and adopted by the Board. The Audit Committee is tasked mainly with assisting the Board in fulfilling its oversight responsibility to the shareholders, potential shareholders, the investment community and other stakeholders in relation to the integrity of the Company's and Consolidated Financial Statements and that the process is in accordance with the Company's Act and other legislative reporting requirements. Furthermore the Audit Committee also ensures that adequate disclosures are made in the Financial Statements in accordance with the Sri Lanka Accounting Standards.

The Audit Committee also has the responsibility to ensure that the internal controls and the risk management process are adequate to meet the requirements of the Sri Lanka Auditing Standards and that the Company is in compliance with legal, regulatory and ethical requirements.

The Committee evaluates the performance and the independence of the Company's internal audit functions and the Company's External Auditors. The Committee is also tasked with the responsibility of recommending to the Board the re-appointment and change of External Auditors and to recommend their remuneration and terms of engagement.

In fulfilling its purpose, it is the responsibility of the Audit Committee to maintain free and open communication between the Independent External Auditors, the Group Risk and Control Review Division, the outsourced Internal Auditors and the Management of the Company, and to ensure that all parties are aware of their responsibilities.

Composition of the Audit Committee

The Audit Committee is a sub committee of the Board of Directors appointed by and responsible to the Board of Directors. The Audit Committee consists of four Independent, Non-Executive Directors in conformity with the listing rules of The Colombo Stock Exchange who are,

- Mr. M. P. Jayawardena - Chairman
- Mr. S. H. Amarasekera
- Mr. A. D. E. I. Perera
- Mr. R. Pieris

The Audit Committee comprises of individuals with extensive experience and expertise in the fields of Finance, Corporate Management, Legal and Marketing. The Chairman of the Audit Committee is a Chartered Accountant. A brief profile of each member of the Audit Committee is given on pages 28 and 29 of this report under the section Directors Profile.

Meetings of Audit Committee

The Audit Committee meets as often as may be deemed necessary or appropriate in its judgment and at least quarterly each year. During the year under review there were five (05) meetings and the attendance of the Committee Members are given below.

The CEO, the Chief Financial Officer and the Head of Finance attended such meetings by invitation and briefed the Committee on specific issues. The External Auditors and the Internal Auditors are also invited to attend meetings when matters pertaining to official functions are taken up for consideration. The proceedings of the Audit Committee are reported to the Board of Directors by the Chairman of the Audit Committee.

Attendance at Audit Committee Meetings

Name	26th April 2010	22nd July 2010	25th October 2010	20th January 2011	3rd March 2011
Mr. M. P. Jayawardena	Y	N	Y	Y	Y
Mr. S. H. Amarasekera	Y	Y	Y	Y	Y
Mr. A. D. E. I. Perera	Y	Y	Y	N	Y
Mr. R. Pieris	Y	Y	Y	Y	N

Summary of Activities during the Financial Year

Oversight of Company and Consolidated Financial Statements

Reviewed the activities and the financial affairs of the Company and the Subsidiaries, and the financial reporting system adopted in preparation of the quarterly and annual Financial Statements to ensure reliability of the processes, appropriateness and consistence of accounting policies and methods adopted and that they facilitate compliance with the requirements of the Sri Lanka Accounting Standards (SLAS), the Companies Act No 07 of 2007 and other relevant statutory and regulatory requirements.

Reviewed the quarterly and year-end Financial Statements and recommended their adaptation to the Board.

Appointment of External Auditor

As mentioned in the Audit Committee report for 2009/10, the recommendation that Messrs Ernst and Young – Chartered Accountants be appointed as the new External Auditors of your Company was approved at the AGM held on 30th June 2010.

Audit Committee Report Contd.

Ernst & Young Advisory Services (Private) Limited (Associate Company of EY) who were previously providing outsourced internal audit services, ceased from providing such services to the Company in keeping with best practices in corporate governance and Messrs PricewaterhouseCoopers (Private) Limited, a firm of Chartered Accountants, were appointed as the new Internal Auditors with effect from 1st April 2010.

Review of Audit Committee Charter

The Audit Committee Charter was reviewed and revised during the year. The process adopted took into consideration the relevant provisions of the Companies Act No 07 of 2007, the Listing Rules of the Colombo Stock Exchange (CSE), the Code of Best Practices on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Code of Best Practices on Audit Committees issued by ICASL. The new Charter was adopted from July 2010.

Internal Audit

The internal audit function has been outsourced to Messrs PricewaterhouseCoopers (Private) Limited, a firm of Chartered Accountants. The Audit Committee has concurred with the Internal Auditor regarding the frequency of audits to be carried out, the scope of the audit, the areas to be covered and the fee to be paid for their services.

During the year under review, the Audit Committee met with the Internal Auditors to consider their reports, management responses and matters requiring follow up on the effectiveness of internal controls and audit recommendations.

The internal audit frequency depends on the risk profile of each area, higher risk areas being on a shorter audit cycle. The Audit Committee is of the opinion that the above approach provides an optimal balance between the need to manage risk and the costs thereof.

Risk and Control Review

The Audit Committee has reviewed the Business Risk Management Process and procedures adopted by the Company to manage and mitigate the effects of such risks and observe that the risk analysis exercise has been conducted within the Company. The key risks that could impact operations have been identified and appropriate action has been taken to mitigate their impact to the minimum extent.

In September 2010, the Audit Committee decided to shift the focus of the Internal Audit from mere financial reviews to a more operational business assurance review. The new operating model has since been effectively implemented.

External Audit

The External Auditors of the Company submitted a detailed audit plan for the financial year 2010/2011, which specified, inter alia, the areas of operations to be covered in respect of the Company. The audit plan specified 'areas of special emphasis' which have been identified from the last audit or from a review of current operations.

The areas of special emphasis have been selected due to the probability of error and the material impact it can have on the Financial Statements. At the conclusion of the audit, the Auditors met with the Audit Committee to discuss and agree on the treatment of any matter of concern discovered in the course of the audit. There were no issues of significance during the year under review.

The Audit Committee also reviews the audit fees of the External Auditor of the Company and recommends its adoption by the Board. It also reviews other services provided by the Auditors in ensuring that their independence as auditors are not compromised.

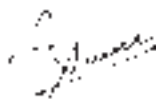
The Audit Committee has proposed to the Board of Directors that Messrs Ernst and Young, Chartered Accountants, be recommended for reappointment as auditors for the year ending 31st March 2012, at the next Annual General Meeting.

Compliance with financial reporting and statutory requirements

The Audit Committee receives a quarterly declaration from the Head of Finance, listing any departures from financial reporting, statutory requirements and Group policies. Reported exceptions, if any, are followed up to ensure that appropriate corrective action has been taken. With a view of ensuring uniformity of reporting, the Company has adopted the standardized format of Annual Financial Statements developed by the Parent Company.

Conclusion

The Audit Committee is satisfied that the effectiveness of the organisational structure of the Company and the Subsidiaries, in the implementation of accounting policies and operational controls, provide reasonable assurance that the affairs of the Company and the Subsidiaries are managed in accordance with accepted policies and that assets are properly accounted for and adequately safeguarded.



Preethi Jayawardena
Chairman, Audit Committee

26 May 2011

Risk Management

Introduction

Risk Management, an integral part of 'Sustainability' at John Keells Group, forms a part of our business process. The objective of the Risk Management Strategy of the company is to identify and manage risk, harness opportunities, adapt to changing environment and adopt long term and short term strategies which link well with the overall objectives of the Company and the John Keells Group.

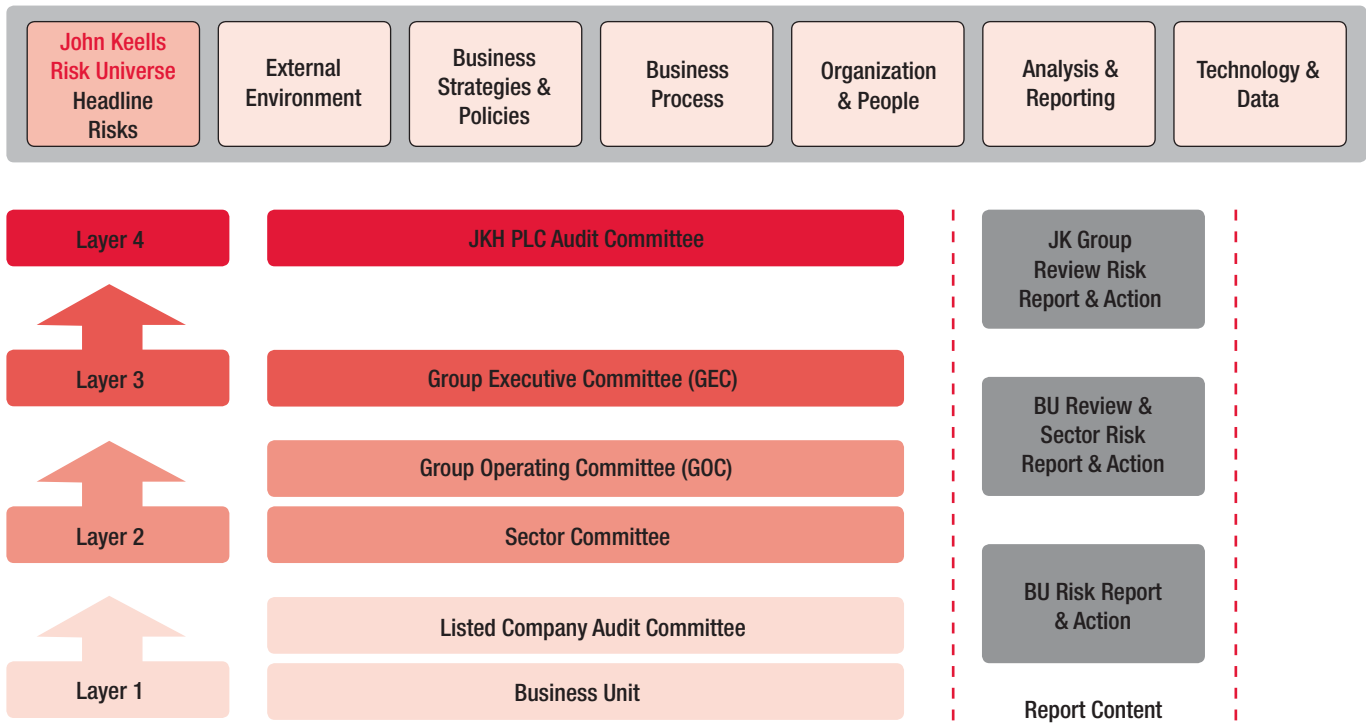
The individual risk categories are founded on the success factors which are critical for the implementation and attainment of Company objectives. The risk in the Company are identified and analysed using a uniform risk register, which over the years has been adopted by the John Keells Group. The key operational, strategic and financial risks include areas such as socio-economic factors, competition, internal processes, procurement, products, currency and interest rate fluctuations, information technology and human resources.

Control Strategies). Risk management takes place as a bottom-up approach, as depicted below.

Internal risk management is further complemented by the stakeholder engagement process. Risk issues identified during the stakeholder engagement process are considered and addressed through relevant indicator found in the Global Reporting Initiative (GRI) framework. Issues which are not directly addressed by the indicators are monitored through the relevant risk matrix. The risk matrices are reviewed quarterly with the emphasis on the outcome of either mitigation, transfer, avoidance or acceptance of the risk based on the risk appetite.

Risk Management Process

The risk management process has been designed to ensure identification of any event; situation or circumstances that would adversely effect the achievement of Company objectives and to accept and manage unavoidable risks and to ensure surprise events or situations are minimized. This process is aligned



The Company has adopted the John Keells Group Risk Management Strategy which is an on going process of identifying risk (Risk Mapping), measuring its potential impact and likelihood thereof against a broad set of assumptions (Risk Action/Decisions), establishing what are unacceptable exposures and initiating mitigating activities to reduce exposure to within tolerance levels (Risk

directly in to Company strategy, annual plans and audit committee process. The risk management process is outlined as follows-

Risk Identification - This part of the process will identify the events or scenarios that could prevent the Company from achieving its set objectives.

Risk Management Contd.

Risk Assessment and Evaluation - This is where it is determined whether the risk will have an ultra-high, high, moderate, low or insignificant impact on the operations of the Company. Also the likelihood of risk occurrence based on past experience as well as future projections is assessed. The Company Risk Management teams along with the functional and operational managers carry out the risk assessment and evaluation process.

Risk Mitigation Action plans - Identified and evaluated risks are assigned to risk owners. Risk mitigation action plans will be developed with timelines for implementation by the risk owners along with the management of the Company. When the action plans are formulated accepting and managing risk, transferring the risk to a third party, elimination of the risk by adopting an exit strategy, building controls into process to reduce risk, sharing the risk with another party, and insuring against risks are considered.

Monitoring - On a quarterly basis the risk mitigation action plans are monitored and reported to the Management Committee.

The risk management process is reviewed by the Risk Management Team headed by the CEO and functional and operational managers.

The Audit Committee of the Board of Directors is the prime mover in setting up policy and the monitoring of effective implementation of set policies on behalf of the Board.

The significant risk areas that impact the achievement of the Company's strategic business objectives and the measures taken to address these risks are given below;

Brand and Company Product Portfolio

Products manufactured and sold by the Company have a leading house hold brand name with high brand equity. Therefore it must be managed and protected to survive and prosper in years to come. The irreparable damage done to the brand following a crisis or catastrophe may substantially outway the immediate and visible costs. The brand strategy adopted by the business includes sub brands, which use the overall umbrella brand. The strategies used to manage brand risks include quantitative and qualitative tools, including market intelligence and competitive intelligence management systems, with a focus on negating potential risk factors, as well as developed proactive risk management practices.

Competitor activity and demand for Company products

The Company faces competition from other producers of processed meats. The Company has formulated a basis on which it competes with such producers which revolve mainly on brand identification, product portfolio, availability, communication, quality and distribution.

Supplier Stability and Price Volatility of Raw Materials

The Company relies extensively on local and international suppliers for its raw material requirements. The Company's manufacturing costs are largely dependant upon the cost of raw materials sourced. A supplier's inability to fulfill obligations to the Company could have a disruptive effect on the Company's operation. This risk is being addressed through actions to expand the supplier base for key raw materials and develop supplier relationships and contract prices.

Consistent Quality of Raw Materials

The Company regularly conducts supplier audits to ensure that the raw materials comply to the stipulated standards. Also we encourage and assist the suppliers to obtain necessary quality standards applicable to industry and preference is given to the suppliers who obtain such standards.

Capacity

In order to minimize possible capacity limitations, the Company continues to make investments by upgrading the efficiency levels of the machinery at the factories. This avoids any interruptions to the smooth supply of finished products especially during months in which demand is at a peak level.

Stability of Distribution Channels

Stability of the distribution channel largely depends on the viability and consistent performance of the distributors. It is extremely important to ensure the continued services of the distributors to deliver the products to end consumers. The Company has a very stringent process for selection of distributors and always monitors the distributor performance and guide and supports them to ensure the viability and growth of their business.

Human Resources (HR)

Key HR areas ranging from recruitment and selection, career management, performance management, training and development, competency frameworks and coaching skills to talent appreciation, reward and recognition and compensation and benefits have been reviewed and revised to modern standards.

The Company has 440 employees in its cadre and 270 of the staff are represented by unions. A deterioration of labor relations or a significant increase in labour costs would have a significant impact on the financial results. With a view to addressing the above concerns, key HR areas ranging from performance management, training and development, coaching and mentoring skills to reward and recognition and compensation and benefits have all been reviewed and revised in keeping with modern trends and methodologies. The Company maintains a dialogue, on a proactive basis with unionised employees to maintain cordial industrial relations.

Exposure to Credit Facilities

Credit facilities are offered to customers in keeping with the business environment. This may expose the Company to default of payments. The Company mitigates such risk by offering credit within set limits following an evaluation of creditworthiness together with measures to adequately safeguard exposures with sufficient asset backed securities.

Reliance on Effective Internal Controls

Segregation of duties, definition of authority limits, operating manuals, detective & preventive controls and internal & external audit procedures which are independent of each other enable the management to ensure that the operations are being carried out as per laid down procedures.

Meeting Quality Expectations

The food manufacturing industry is subject to general risks of food spoilage or contamination, consumer preferences with respect to nutrition and health related concerns, governmental regulations, consumer liability claims etc. Our quality assurance system administered by qualified specialists using international benchmarks considers all continuous product & process innovations necessary to maintain The Company's competitive edge and avoid any regulatory, health and nutrition related concerns. Company's risk management strategy has identified such risks and set in motion an action plan to mitigate the results of such risks. Towards addressing nutritional concerns the Company has a food nutritionist validating all products nutritional standards. With respect to Governmental regulations, the Company ensures only ingredients that satisfy international standards are used in its product formulation. The Company also ensures compliance to the ISO 22000 Food Safety Standard with the conduct of regular internal and external audits as applicable to the industries and product lines we operate.

Vulnerabilities from IT Related Risks

Dedicated professionals and use of appropriate software ensures continuity of business operations and safeguard from IT related risks including the setting up of early warning mechanisms to mitigate possible infrastructure failure.

Ensure Compliance Legal and Regulatory Requirements

Compliance Risk is managed through the use of legal advice from appropriately qualified and experienced legal professionals supplemented by the JKH legal team. We have put in place periodic reporting of compliance by the respective Functional Managers.

Liquidity

Exposure to liquidity risk arises in the general funding of the business activities and includes the risk of being unable to fund the business activities in a timely manner. The Company manages its liquidity risk by maintaining sufficient cash and available funding through unutilized credit facilities from various banks.

Changes in Interest Rates

The Company's policy is to manage its interest rate risk using a mix of fixed and variable rate debt taking advantage of the changes in the market rates. Guidance received from the Group Treasury division with respect to forecasting of exchange rates, interest rates etc has been of immense value in the management of this risk exposure.

Directors Profile

Susantha Ratnayake

Non Independent Non Executive, Chairman

Mr. Ratnayake was appointed to the Board of Keells Food Products PLC from 1st April 1993.

Mr. Ratnayake was appointed as the Chairman and CEO of John Keells Holdings PLC in January 2006 and has served on the JKH board since 1992/93. He is also the Chairman of many of the listed and un-listed companies within the Group. He is a council member of the Employers' Federation of Ceylon, serves on various clusters of the National Council of Economic Development (NCED) and is the Vice Chairman of the Ceylon Chamber of Commerce as well as the Chairman of the Sri Lanka Tea Board. He has over 33 years of management experience, all of which is within the John Keells Group.

Ajit Gunewardene

Non Independent Non Executive, Director

Mr. Gunewardene was appointed to the Board of Keells Food Products PLC from 1st October 2002.

Mr. Gunewardene is the Deputy Chairman of John Keells Holdings PLC and has been a member of their Board for over 18 years. He is a Director of many companies in the John Keells Group and is the Chairman of Nations Trust Bank PLC and Union Assurance PLC. He is a member of the board of Nanco (Pvt) Ltd, a company established for the development of Nanotechnology in Sri Lanka under the auspices of the Ministry of Science and Technology. He has also served as the Chairman of the Colombo Stock Exchange. Mr. Gunewardene has a degree in Economics and brings over 29 years of management experience.

Ronnie Peiris

Non Independent Non Executive, Director

Mr. Peiris was appointed to the Board of Keells Food Products PLC from 1st June 2003.

Appointed to the John Keells Holdings PLC Board in 2002/03, Mr. Peiris has overall responsibility for the Group's Finance and Accounting including Taxation, the Information Technology function and Group Initiatives. He was previously the Managing Director of Anglo American Corporation (Central Africa) Limited in Zambia.

He has 40 years of finance and general management experience in Sri Lanka and overseas. He is a Fellow of the Chartered Institute of Management Accountants, UK; Association of Chartered Certified Accountants UK and the Society of Certified Management Accountants, Sri Lanka and holds an MBA from the University of Cape Town, South Africa. He is a member of the committee of the Ceylon Chamber of Commerce, Chairman of its Taxation Sub Committee and also serves on its Economic, Fiscal and Policy Planning Sub Committee. He is the Vice President of the Sri Lanka Institute of Directors.

Jitendra Gunaratne

Non Independent Non Executive, Director

Mr. Gunaratne was appointed to the Board of Keells Food Products PLC from 1st July 2004.

Mr. Gunaratne is responsible for the Consumer Foods sector. Prior to his appointment as President, he overlooked the Plantation and Retail sectors. His 30 years of management experience in the Group also covers Leisure and Property. Jitendra holds a diploma in marketing and serves as a member of the advisory committee on consumer affairs of the Ceylon Chamber of Commerce.

Harsha Amarasekera

Independent Non Executive, Director

Mr. Amarasekera was appointed to the Board of Keells Food Products PLC from 1st July 2005 and is a member of the Audit Committee of the Board of Directors.

Mr. Amarasekera is an Attorney-at-Law by profession and has a wide practice in the Original Courts as well as in the Appellate Courts. He has specialized in Commercial Law, Business Law, Securities Law, Banking Law and Intellectual Property Law. He serves as an Independent Director in several listed companies in the Colombo Stock Exchange including CIC Holdings PLC, Amaya Leisure PLC and Vallibel Power Erathna PLC. He is also a Director of CIC Agri Business Private Limited, Vallibel One Limited and Expo Lanka Holdings Ltd.

Eardley Perera

Independent Non Executive, Director

Mr. Perera was appointed to the Board of Keells Food Products PLC from 1st October 2005 and is a member of the Audit Committee of the Board of Directors.

He is currently the Non Executive Chairman of M&E (Private) Limited and serves on the Boards of other public and private companies. He also serves as a Member on the Board of Study, Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura. He is a Chartered Marketer and senior member of the Chartered Institute of Marketing, UK with many years of experience in general management and marketing in trade and industry. His focus has been on strategic marketing and business strategy, in which areas he is also actively engaged in consultancy assignments.

Ranil Pieris

Independent Non Executive, Director

Mr. Pieris was appointed to the Board of Keells Food Products PLC from 1st July 2005 and is a member of the Audit Committee of the Board of Directors.

He previously was Director and Chief Operating Officer at Richard Pieris and Company PLC, at the time he was on the Board of 13 Subsidiary Companies of RPC and was Chairman of some of these. He conceptualized and spearheaded the Arpico Super Centres and introduced the hyper market concept to the local market. For a period he was CEO at EDNA. More recently he was CEO/ Managing Director of GTECH Lanka (Pvt) Ltd, a fully owned subsidiary of GTECH Corporation (USA).

Today he is involved in developing a project in Real Estate. In addition he is on the Board of Rajawella Holdings, Arel Holdings and a Trustee of the Lionel Wendt. Mr Pieris holds a Bachelors degree from Florida International University in the USA.

Preethi Jayawardena

Independent Non Executive, Director

Mr. Jayawardena was appointed to the Board of Keells Food Products PLC from 10th May 2007 and is the Chairman of the Audit Committee of the Board of Directors.

A Fellow of the Institute of Chartered Accountants of Sri Lanka and Certified Professional Managers. Managing Director/CEO of Chemanex PLC, Non - Executive Chairman of the Finance Company PLC, Non - Executive Director of CIC PLC, Ram Rating (Lanka) Limited and a number of unlisted companies in the CIC Group. Mr. Jayawardena served at Zambia Consolidated Copper Mines Limited for 13 years in several senior positions including Head of Treasury. He is a Member of the Monetary Policy Consultative Committee of the Central Bank and Deputy Chairman, Ceylon National Chamber of Industries.

Financial Calendar

First quarter released on	23 July 2010
Second quarter released on	28 October 2010
Third quarter released on	25 January 2011
Fourth quarter released on	26 May 2011
Annual Report 2010/2011	7 June 2011
Twenty Ninth Annual General Meeting	30 June 2011

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Annual Report of the Board of Directors

The Board of Directors of Keells Food Products PLC have pleasure in presenting their Report together with the Audited Financial Statements of Keells Food Products PLC and the Audited Consolidated Financial Statements of the Group for the year ended 31st March 2011.

The content in this report has taken into consideration the requirements of the Companies Act No. 7 of 2007 and the relevant listing rules of the Colombo Stock Exchange.

General

The Company was incorporated on 5th November 1982 as a Public Limited Liability Company and the shares of the Company are listed on the Colombo Stock Exchange. Pursuant to the requirements of the new Companies Act No.7 of 2007, the Company was re-registered and obtained a new Company Number PQ 3 on 15th June 2007.

Principal Activities

Company

The principal activities of the Company remained unchanged as manufacture and distributor of raw and processed food products.

Subsidiaries

The principal activity of John Keells Food India Private Limited is marketing of processed food products. The Company was incorporated on 07th April 2008.

Keells Food Products Mauritius is an investment company and was incorporated on 31st July 2008. The Company was removed from the Register of Companies, in terms of the Mauritius Companies Act with effect from 26th April 2011 pursuant to an application made by the Company in this regard.

Business Review

A review of the Group's performance during the financial year is given in the Chairman's Review and the Management Discussion and Analysis section. These reports form an integral part of the Directors Report and provide a fair review of the performance of the Company and the Group during the financial year ended 31 March 2011.

Future Developments

The Chairman's Review and the Management Discussion and Analysis provide a review of the future developments of the Group.

Financial Statements

The Financial Statements of the Company and Group are set out on pages 38 to 58 of the Annual Report.

Independent Auditors' Report

The Auditors' Report on the Financial Statements is given on page 37 of the Annual Report.

Significant Accounting Policies

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 42 to 46 of the Annual Report. There were no significant changes in the accounting policies adopted in the previous year.

Going Concern

The Board of Directors is satisfied that the Company and the Subsidiary have adequate resources to continue its operations in the foreseeable future. Accordingly the Financial Statements are prepared based on the "going concern concept".

Stated Capital

The total Stated Capital of the Company as at 31 March 2011 was Rs. 274.8 million (2009/10 - Rs. 274.8 million). The Stated Capital of the Company comprises of 8,500,000 Ordinary Shares fully paid up.

Revenue

The Net Revenue of the Company for the year was Rs. 2,163 million (2009/10 - Rs. 1,814 million), whilst the Consolidated net revenue of the of the Group amounted to Rs. 2,196 million (2009/10 - Rs. 1,833).

Results and Appropriations

Detailed description of the results and appropriations of the Group are given on page 33.

Provision for Taxation

Provision for taxation has been computed at the rates given in Note 27 to the Financial Statements.

Segment Reporting

Segmental analysis of the revenue of the Company and of the Group is given in Note 22.2 to the Financial Statements.

Corporate Donations

During the year the Company made donations amounting to Rs. 0.5 million (2009/10 - Rs. 0.4 million).

Property, Plant & Equipment

Information relating to the movement in property, plant & equipment is given in Note 2 to the Financial Statements. Capital expenditure of the Group on acquisition of property, plant & equipment during the year amounted to Rs.14.5 million (2009/10 - Rs.16.9 million).

Market Value of Property

The Land and Buildings owned by the Company were re-valued by a professionally qualified valuer as at 31 March 2008. The Directors are of the opinion that the re-valued amounts are not in excess of the current market values of such properties. The details of the re-valued land and buildings of the Company is given in Note 2 to the Financial Statements.

Group Results and Appropriations	Group		Company	
	2011 Rs.'000	2010 Rs.'000	2011 Rs.'000	2010 Rs.'000
Profit / (Loss) after providing for bad and doubtful debts, for all known liabilities and depreciation on Property, Plant & Equipment and before charging Interest and Taxation.	110,209	(123,470)	25,146	(103,880)
Finance Expenses	(14,657)	(13,798)	(14,657)	(13,798)
Profit / (Loss) before Taxation	95,552	(137,268)	10,489	(117,678)
Provision for Taxation	(65,189)	(9,062)	(65,189)	(7,551)
Profit / (Loss) after Taxation	30,363	(146,330)	(54,700)	(125,229)
Balance brought forward from the previous year	(94,662)	72,918	(15,127)	131,352
Final Dividend paid for 2008/2009	-	(21,250)	-	(21,250)
Balance carried forward	(64,299)	(94,662)	(69,827)	(15,127)

Investments

Investments of the Company as at 31st March 2011 amounted to Rs. 6 million (31st March 2010 Rs.90 million) after making a provision for fall in value of investments amounting to Rs.120.8 million. Detailed description of the long term investments held as at the Balance Sheet date are given in Note 3 to the Financial Statements.

Reserves

The Group Reserves as at 31st March 2011 amounted to Rs. 48.1million (2009/10 - Rs. 14.8 million). The details of which are stated in Notes 13 and 14 to the Financial Statements.

Events occurring after the Balance Sheet date

No material events have occurred after the Balance Sheet date which require adjustments to or disclosure in the Financial Statements, other than as stated in Note 32 of the Financial Statements.

Contingent Liabilities and Capital Commitments

There were no material Contingent liabilities or capital commitments as at 31 March 2011.

Human Resources

The number of persons directly employed by the Company as at 31 March 2011 was 440. (31 March 2010 - 434)

The Group is committed to pursuing various HR initiatives that ensure the individual development of all our team as well as facilitating the creation of value for themselves, the Company and all other stakeholders.

There were no material issues pertaining to employees and industrial relations in the year under review

Enterprise Governance

Enterprise Governance practices and principles with respect to the management and operations of the Company and the Group are set out on pages 16 to 22 of this report. The Directors confirm that the Company is in compliance with the Rules on Corporate Governance contained in the listing rules of the Colombo Stock Exchange.

The Directors declare that:

- The Company and the Subsidiary Companies have not engaged in any activities, which contravene laws and regulations
- The Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially involved.
- The Company has made all endeavours to ensure the equitable treatment of all shareholders.

Annual Report of the Board of Directors Contd.**Risk Management**

The Group Policy on Risk Management is set out on pages 25 to 27 of this report.

Audit Committee

The following Non Executive Independent Directors serve on the Audit Committee;

Mr. M.P Jayawardena - Chairman
Mr. S.H Amarasekera
Mr. A D E I Perera
Mr. R Pieris

The report of the Audit Committee is given on pages 23 and 24 of this Annual Report.

The Audit Committee has reviewed the other services provided by the external auditors to the Group to ensure that their independence as Auditor has not been compromised.

Remuneration Committee

As permitted by the listing rules of the Colombo Stock Exchange, the Remuneration Committee of John Keells Holdings PLC, the parent Company of Keells Food Products PLC, functions as the Remuneration Committee of the Company and Subsidiaries. The Remuneration Committee of John Keells Holdings PLC comprises of three Non Executive Independent Directors.

Mr. E.F.G. Amerasinghe - Chairman
Mrs. S. Thiruchelvam
Mr. P.D. Rodrigo

The Remuneration Policy of the Company and the Subsidiary is detailed in the Enterprise Governance Report on Page 19 of the Annual Report.

Stock Market Information

An Ordinary share of the Company was quoted on the Colombo Stock Exchange at Rs. 150/- as at 31 March 2011. (31 March 2010 – Rs. 69/-). Information relating to earnings, dividends, net assets and market value per share is given in “Key Ratios and Information” on page 62 and in the “Shareholders Information Section” on page 60.

Substantial Shareholdings

The names of the twenty largest shareholders, the number of shares held and the percentage held are given on page 60 of the Annual Report. The distribution schedule of the shareholders and public holdings are found on page 59 of the Annual Report.

Directorate

As at 31st March 2011 the Board of Directors of Keells Food Products PLC consisted of 8 Directors.

A brief profile of the Directors pertaining to their qualifications and experience appear on pages 28 to 29 of the Annual Report. The following persons served as Directors of the Company during the year and as at 31st March 2011:

Mr. S C Ratnayake (Chairman) - (Non - Executive, Non Independent)
Mr. A D Gunewardene - (Non - Executive, Non Independent)
Mr. J R F Peiris - (Non - Executive, Non independent)
Mr. J R Gunaratne - (Non - Executive, Non independent)
Mr. S H Amarasekera - (Non - Executive, Independent)
Mr. R Pieris - (Non - Executive, Independent)
Mr. A D E I Perera - (Non - Executive, Independent)
Mr. M P Jayawardena - (Non - Executive, Independent)

The Board of Directors of John Keells Foods India (Private) Limited who served during the year and as at the end of the financial year are given below. No other Director held office during the period under review.

Mr. S C Ratnayake (Chairman) - (Non - Executive, Non Independent)
Mr. J R F Peiris - (Non - Executive, Non Independent)
Mr. J R Gunaratne - (Non - Executive, Non Independent)
Mr. R.S. Fernando - (Non - Executive, Non Independent)

The Board of Directors of Keells Food Products Mauritius who served during the year and as at the end of the financial year are given below. No other Director held office during the period under review.

Mr. S C Ratnayake (Chairman) - (Non - Executive, Non Independent)
Mr. A D Gunewardene - (Non - Executive, Non Independent)
Mr. J R F Peiris - (Non - Executive, Non independent)
Mr. A. F. Soreefan - (Non - Executive, Independent)
Mr. K. D. Joory - (Non - Executive, Independent)

Retirement of Directors by rotation or otherwise and their Re-election

Mr. A D Gunewardene and Mr. J R F Peiris retire by rotation in terms of Article 83 of the Articles of Association of the Company, and being eligible offer themselves for re-election.

Directors Remuneration

The details of fees paid to the Directors are set out in Note 30.5 to the Financial Statements.

Directors and CEO Shareholding

Shareholding of Directors, CEO and of their spouses in the Company are as follows.

Name of Directors	Number of shares	
	As at 31/03/2011	As at 31/03/2010
S.C. Ratnayake	4,250	4,250
A D Gunewardene	-	-
J R F Peiris	-	-
J R Gunaratne	-	-
S H Amarasekera	-	-
R Pieris	-	-
A D E I Perera	-	-
M.P Jayawardena	-	-
R. F. N. Jayasooriya - CEO	-	-

Interests Register

The Company has maintained an Interests Register as contemplated by the Companies Act No. 7 of 2007.

In compliance with the requirements of the Companies Act No. 7 of 2007, this Annual Report contains particulars of entries made in the Interests Register.

Particulars of Entries in the Interests Register

- Interests in Contracts**
The Directors have all made a General Disclosure to the Board of Directors in compliance with the requirements of the Companies Act No. 7 of 2007.
- Share Dealings**
There have been no disclosures of share dealings as at 31st March 2011
- Indemnities and Remuneration**
There have been no new disclosures made in respect of indemnities and remunerations in the Interests Register as at 31st March 2011.

Suppliers

The Company endeavours to transact business with reputed organisations capable of offering quality goods and services at competitive prices with a view to building mutually beneficial business relationships.

Statutory payments

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

Environment Protection

The Group is conscious of the impact, direct and indirect, on the environment due to its business activities. Every endeavour is made to minimize the adverse effects on the environment to ensure sustainable continuity of our resources.

Internal Controls

The Directors acknowledge their responsibility for the Group systems of Internal Control and are satisfied with the effectiveness of the system of Internal Control for the period up to the date of signing the Financial Statements.

Auditors

The Financial Statements for the year have been audited by Messrs. Ernst and Young, Chartered Accountants. They have expressed their willingness to continue as Auditors of the Company and a resolution proposing their reappointment as auditors and authorising the directors to fix their remuneration will be tabled at the Annual General Meeting.

Related Party Transactions

Related party transactions which exceeds the lower of 10% of the Equity or 5% of the total assets of the Company is as detailed below,

Jaykay Marketing Services Pvt Ltd. Rs. 402.1 million
(2009/10 Rs. 362.6 million)

Notice of the Annual General Meeting

The Notice of the Annual General Meeting relating to the 29th Annual General Meeting is given on page 64 of the Annual Report.

This Annual Report is signed for and behalf of the Board of Directors.

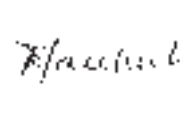
By Order of the Board
Keells Food Products PLC



J.R. Guneratne
Director



J R F Peiris
Director



Keells Consultants Private Limited
Secretaries

26 May 2011

The Statement of Directors' Responsibility

The responsibility of the Directors, in relation to the financial statements, is set out in the following statement.

The responsibility of the Auditors, in relation to the Financial Statements prepared in accordance with the provisions of the Companies Act No. 7 of 2007, is set out in the Independent Auditors Report on page 37 of the Annual Report.

The Financial Statements comprise of:

- A Balance Sheet, which presents a true and fair view of the state of affairs of the Company and its Subsidiaries as at the end of the financial year and
- An Income Statement which presents a true and fair view of the profit and loss of the Company and its Subsidiaries for the financial year.

The Directors are required to confirm that the Financial Statements have been prepared:

- Using appropriate accounting policies, which have been selected and applied in a consistent manner and material departures, if any have been disclosed and explained; and
- Presented in accordance with Sri Lanka Accounting Standards; and that
- Reasonable and prudent judgements and estimates have been made so that the form and substance of transactions are properly reflected; and
- Provides the information required by and otherwise comply with the Companies Act and the Listing Rules of the Colombo Stock Exchange

The Directors are also required to ensure that the Company and its Subsidiary have adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

Further, the Directors have a responsibility to ensure that the Company and its Subsidiaries maintain sufficient accounting records to disclose, with reasonable accuracy the financial position of the Company and of the Subsidiaries.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and of the Group, and in this regard to give a proper consideration to the establishment of appropriate Internal Control systems with a view to preventing and detecting fraud and other irregularities.

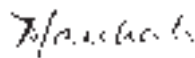
The Directors are required to prepare the Financial Statements and to provide the Auditors with every opportunity to take whatever steps and undertake whatever inspections they may consider to be appropriate to enable them to give their Audit opinion.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

Compliance Report

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

By Order of the Board
Keells Food Products PLC



Keells Consultants Private Limited
Secretaries

26 May 2011

Independent Auditors' Report to the Shareholders of Keells Food Products PLC



Chartered Accountants

201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : (91) 11 2463500
Fax Gen : (91) 11 2697369
Fax : (91) 11 5578180
eys@eey.com

Report on the Financial Statements

We have audited the accompanying Financial Statements of Keells Food Products PLC ("Company"), the consolidated Financial Statements of the Company and its subsidiaries which comprise the Balance Sheets as at 31 March 2011, and the Income Statements, Statements of Changes in Equity and Cash Flow Statements for the year then ended, and a summary of significant Accounting Policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material 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

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

In our opinion, the Consolidated Financial Statements give a true and fair view of the state of affairs as at 31 March 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 shareholders of the Company.

Report on Other Legal and Regulatory Requirements

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

A handwritten signature in black ink, appearing to read 'Ernst & Young', is written over a faint, larger version of the company logo.

26 May 2011
Colombo

Balance Sheet

As at 31 March	Note	Group		Company	
		2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Assets					
Non-current Assets					
Property, Plant and Equipment	2	173,635,230	176,004,977	173,635,230	173,220,726
Investments in Subsidiaries	3	-	-	6,132,376	90,028,038
Deferred Tax Asset	4	-	-	-	-
Other Non-Current Assets	5	18,635,999	12,815,505	18,635,999	12,815,505
		192,271,229	188,820,482	198,403,605	276,064,269
Current Assets					
Inventories	6	298,548,217	191,381,143	298,548,217	183,976,555
Trade and Other Receivables	7	212,169,165	186,519,283	209,699,673	175,526,835
Amounts due from Related Parties	8	64,675,298	50,196,925	64,675,298	50,196,925
Loans Granted to Related Party	9	-	-	-	1,185,823
Income Tax Receivable	10	-	20,734,841	-	20,734,841
Short Term Investments	11	8,957,384	29,483,502	-	-
Cash in Hand and at Bank		1,839,135	5,439,839	1,393,743	1,783,069
		586,189,199	483,755,533	574,316,931	433,404,048
Total Assets		778,460,428	672,576,015	772,720,536	709,468,317
Equity and Liabilities					
Stated Capital	12	274,815,000	274,815,000	274,815,000	274,815,000
Capital Reserves	13	94,653,862	92,803,095	94,653,862	92,803,095
Revenue Reserves	14	(46,506,114)	(78,050,842)	(49,387,761)	5,311,862
Total Equity		322,962,748	289,567,253	320,081,101	372,929,957
Non-current Liabilities					
Deferred Tax Liabilities	15	2,779,880	6,440,400	2,779,880	6,440,400
Employee Benefit Liabilities	16	50,648,242	45,456,371	50,648,242	45,456,371
		53,428,122	51,896,771	53,428,122	51,896,771
Current Liabilities					
Trade and Other Payables	17	169,592,278	210,632,386	166,734,032	165,526,044
Amounts due to Related Parties	18	8,791,540	12,196,584	8,791,540	11,029,454
Income Tax Liabilities	19	25,330,329	-	25,330,329	-
Borrowings from Related Parties	20	81,902,185	45,000,000	81,902,185	45,000,000
Bank Overdrafts		116,453,226	63,283,021	116,453,226	63,086,091
		402,069,558	331,111,991	399,211,312	284,641,589
Total Equity and Liabilities		778,460,428	672,576,015	772,720,536	709,468,317

I certify that the Financial Statements have been prepared in compliance with the requirements of the Companies Act No.7 of 2007.



S.R. Jayaweera
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of the Financial Statements.
Signed for and on behalf of the Board by,



J.R. Gunaratne
Director
26 May 2011



J.R.F. Peiris
Director

The accounting policies and notes as set out on pages 42 to 58 form an integral part of the Financial Statements.
Figures in brackets indicate deductions.

Income Statement

For the year ended 31 March	Note	Group		Company	
		2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Revenue	22	2,196,156,376	1,833,112,680	2,162,880,267	1,813,592,830
Cost of Sales		(1,666,073,373)	(1,426,589,146)	(1,650,583,338)	(1,419,573,066)
Gross Profit		530,083,004	406,523,534	512,296,929	394,019,764
Other Operating Income	23	8,883,337	11,728,517	22,427,416	4,664,286
Distribution Costs		(252,615,245)	(323,509,390)	(238,116,685)	(269,859,604)
Administrative Expenses		(104,849,934)	(141,518,036)	(87,255,765)	(86,610,896)
Impairment of Foreign Investments		-	-	(120,755,190)	(94,432,202)
Other Operating Expenses	24	(71,292,106)	(76,694,424)	(63,450,344)	(51,661,230)
Finance Expenses	25	(14,657,204)	(13,798,006)	(14,657,204)	(13,798,006)
Profit/(Loss) Before Tax	26	95,551,851	(137,267,805)	10,489,157	(117,677,888)
Tax Expense	27	(65,188,780)	(9,062,364)	(65,188,780)	(7,551,788)
Net Profit/(Loss) for the Year		30,363,071	(146,330,169)	(54,699,623)	(125,229,676)
Earnings Per Share	28	3.57	(17.22)		
Dividend Per Share	29	-	2.50		

The accounting policies and notes as set out on pages 42 to 58 form an integral part of the Financial Statements.

Figures in brackets indicate deductions.

Cash Flow Statement

For the year ended 31 March	Note	Group		Company	
		2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Cash Flows from Operating Activities					
Operating Profit Before Working Capital Changes	A	133,653,694	(97,147,213)	169,281,985	95,582,468
(Increase) / Decrease in Inventories		(107,167,074)	(1,624,403)	(114,571,663)	5,780,186
(Increase) / Decrease in Trade and Other Receivables		(25,347,607)	34,242,832	(33,120,126)	(46,852,661)
(Increase) / Decrease in Amounts Due From Related Parties		(14,478,373)	(12,560,841)	(14,478,373)	(5,044,699)
Increase / (Decrease) in Trade and Other Payables		(41,040,108)	65,519,271	946,356	46,258,312
Increase / (Decrease) in Amounts Due to Related Parties		(3,405,045)	(1,353,654)	(2,237,914)	(1,584,524)
Cash Generated from Operations		(57,784,513)	(12,924,008)	5,820,265	94,139,082
Interest Received		1,071,184	1,822,405	330,338	377,443
Finance Expenses Paid		(14,657,204)	(13,798,006)	(14,657,204)	(13,798,006)
Tax Paid		(18,300,083)	(31,602,895)	(18,300,083)	(31,583,138)
Retirement Benefit Obligations Costs Paid (Net)		(3,165,812)	(891,435)	(3,165,812)	(891,435)
Net Cash Flow from Operating Activities		(92,836,428)	(57,393,939)	(29,972,496)	48,243,946
Cash Flows From / (Used in) Investing Activities					
Purchase and Construction of Property, Plant and Equipment		(14,503,053)	(16,901,822)	(14,503,053)	(12,624,427)
Investment in Subsidiaries		-	-	(36,859,528)	(117,275,164)
Proceeds from Sale of Property, Plant and Equipment		806,482	1,145,600	70,000	1,145,600
Net of Staff Loan Recovered / (Granted)		(7,175,483)	(261,587)	(7,175,483)	(261,587)
Net Cash Flow From / (Used in) Investing Activities		(20,872,054)	(16,017,809)	(58,468,064)	(129,015,578)
Cash Flows From / (Used in) Financing Activities					
Dividends Paid		-	(21,250,000)	-	(21,250,000)
Net of Receipt / (Repayment) of Short Term Borrowings		36,902,185	30,001,006	35,716,362	30,001,006
Net Cash Flow Used in Financing Activities		36,902,185	8,751,006	35,716,362	8,751,006
Net Increase / (Decrease) in Cash and Cash Equivalents		(76,806,297)	(64,660,742)	(52,724,198)	(72,020,625)
Cash and Cash Equivalents at the Beginning of the Year		(28,359,680)	29,421,364	(61,303,022)	11,736,860
Cash and Cash Equivalents at the End of the Year		(105,165,977)	(35,239,378)	(114,027,220)	(60,283,765)
Analysis of Cash and Cash Equivalents					
Cash & Cash Equivalents as previously reported		(105,165,977)	(35,239,378)	(114,027,220)	(60,283,765)
Effect of Exchange Rate changes		(490,730)	6,879,698	(1,032,263)	(1,019,257)
Cash & Cash Equivalent as Restated		(105,656,707)	(28,359,680)	(115,059,483)	(61,303,022)
Favourable Balances					
Cash in Hand and at Bank		10,796,519	34,923,341	1,393,743	1,783,069
Unfavourable Balances					
Bank Overdrafts		(116,453,226)	(63,283,021)	(116,453,226)	(63,086,091)
Total Cash & Cash Equivalents		(105,656,707)	(28,359,680)	(115,059,483)	(61,303,022)
A) Operating Profit Before Working Capital Changes					
Profit / (Loss) Before Tax		95,551,851	(137,267,805)	10,489,157	(117,677,888)
Adjustments for:					
Interest Income		(1,071,184)	(1,822,405)	(330,338)	(377,443)
Finance Costs		14,657,204	13,798,006	14,657,204	13,798,006
Depreciation of Property, Plant and Equipment		15,084,181	16,282,997	14,088,551	14,526,369
Impairment of Property, Plant and Equipment		1,788,619	4,776,936	-	-
Provision for Retirement Benefit Obligations		8,357,683	5,600,235	8,357,683	5,839,433
(Profit)/Loss on Sale of Property, Plant and Equipment		(806,482)	(1,145,600)	(70,000)	(1,145,600)
Provision for fall in value of Investments		-	-	120,755,190	94,432,202
Provision for Bad and Doubtful Debts		302,275	6,478,132	302,275	85,168,132
Exchange (Gain)/Loss		(210,453)	(3,847,709)	1,032,263	1,019,257
		133,653,694	(97,147,213)	169,281,985	95,582,468

The accounting policies and notes as set out on pages 42 to 58 form an integral part of the Financial Statements.
Figures in brackets indicate deductions.

Statement of Changes in Equity

Year ended 31 March	Stated Capital Rs.	Revaluation Reserve Rs.	General Reserve Rs.	Dividend Reserve Rs.	Translation Reserve Rs.	Retained Earnings Rs.	Total Equity Rs.
Company							
As at 01 April 2009	274,815,000	92,803,095	20,305,176	133,875	-	131,352,487	519,409,633
Net Profit / (Loss) for the year	-	-	-	-	-	(125,229,676)	(125,229,676)
First and Final Dividend paid-2008/09	-	-	-	-	-	(21,250,000)	(21,250,000)
As at 31 March 2010	274,815,000	92,803,095	20,305,176	133,875	-	(15,127,189)	372,929,957
Deferred Tax Rate change impact on Revaluation	-	1,850,767	-	-	-	-	1,850,767
Net Profit/(Loss) for the year	-	-	-	-	-	(54,699,623)	(54,699,623)
As at 31 March 2011	274,815,000	94,653,862	20,305,176	133,875	-	(69,826,813)	320,081,101
Group							
As at 1 April 2009	274,815,000	92,803,095	20,305,176	133,875	(6,963,181)	72,918,885	454,012,850
Net Profit / (Loss) for the year	-	-	-	-	-	(146,330,169)	(146,330,169)
Currency Translation reserve	-	-	-	-	3,134,572	-	3,134,572
First and Final Dividend paid-2008/09	-	-	-	-	-	(21,250,000)	(21,250,000)
As at 31 March 2010	274,815,000	92,803,095	20,305,176	133,875	(3,828,609)	(94,661,284)	289,567,253
Net Profit / (Loss) for the year	-	-	-	-	-	30,363,071	30,363,071
Deferred Tax Rate change impact on Revaluation	-	1,850,767	-	-	-	-	1,850,767
Currency Translation reserve	-	-	-	-	1,181,657	-	1,181,657
As at 31 March 2011	274,815,000	94,653,862	20,305,176	133,875	(2,646,952)	(64,298,213)	322,962,748

The accounting policies and notes as set out on pages 42 to 58 form an integral part of the Financial Statements.

Figures in brackets indicate deductions.

Notes to the Financial Statements

1. ACCOUNTING POLICIES

Keells Food Products PLC (PQ3) is a public limited liability Company incorporated and domiciled in Sri Lanka, and is listed on the Colombo Stock Exchange. The registered office of the Company is at the office of Keells Consultants Ltd, located at No. 130, Glennie Street, Colombo 2, and the principal place of business is situated at No. 16, Minuwangoda Road, Ekala, Ja-Ela.

The Issued ordinary shares of the Company are listed on the Colombo Stock Exchange.

Principal Activities

Company

During the year, the principal activities of the Company were manufacture and sale of processed meats, crumbed products and sale of raw meats.

Subsidiaries

The principal activity of John Keells Foods India Private Limited is marketing of processed and formed meat products.

Keells Food Products Mauritius is an Investment Company.

In the report of the Directors and in the Financial Statements "the Company" refers to Keells Food Products PLC. "The Group" refers to the companies whose accounts have been consolidated therein. The Consolidated Financial Statements of the Group for the year ended 31 March 2011 were authorised for issue by the Directors on 25 May 2011.

The Company's ultimate parent and controlling entity is John Keells Holdings PLC, which is incorporated in Sri Lanka.

1.1 GENERAL POLICIES

1.1.1 Statement of Compliance

The Balance Sheet, Statements of Income, Changes in Equity and Cash Flows, together with Accounting Policies and Notes (the "Financial Statements") have been prepared in accordance with the Sri Lanka Accounting Standards (SLAS) adopted by the Institute of Chartered Accountants of Sri Lanka and the requirement of the Companies Act No.07 of 2007.

1.1.2 Basis of Preparation

The Financial Statements presented in Sri Lankan rupees have been prepared on a historical cost basis except for the revaluation of free hold land and buildings and building on leasehold land included in property plant and equipment.

1.1.3 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan rupees, which is the Group's functional currency and all financial information presented in Sri Lankan Rupees has been rounded to the nearest rupee.

1.1.4 Events After the Balance Sheet Date

All material events after the balance sheet date have been considered and where appropriate adjustments or disclosures have been made in the respective notes to these Financial Statements.

1.1.5 Comparative Information

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year. Presentation and classification of figures for the corresponding period of the previous years have been amended, where relevant, for the better presentation and to be comparable with those of the current year.

1.1.6 Use of estimates and judgments

The preparation of the Financial Statements of the Group require the management to make judgments, estimates and assumptions, which may affect the amounts of income, expenditure, assets, liabilities and the disclosure of contingent liabilities, at the end of the reporting period. In the process of applying the Group's accounting policies the key assumptions made relating to the future and the sources of estimation at the reporting date together with the related judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Employee Benefit Liability

The employee benefit liability of the Group is based on the actuarial valuation carried out by Messrs. Actuarial & Management Consultants (Pvt) Ltd., actuaries. The actuarial valuations involve making assumptions about discount rates and future salary increases. The complexity of the valuation and the long term nature of assumptions make defined benefit obligations sensitive to changes, in the underlying assumptions. All assumptions are reviewed at each reporting date. Details of the key assumptions used in the estimates are contained in Note 16.

Revaluation of property, plant and equipment

The Group measures land and building at revalued amounts with changes in fair value being recognised in the statement of Equity. The Group engages independent valuation specialists to determine fair value of land and buildings at intervals of every 5 years. For the land and building the valuer used valuation techniques based on open market values.

1.2 CONSOLIDATION POLICY

1.2.1 Basis of Consolidation

The consolidated Financial Statements include the Financial Statements of the Company as the Parent and its Subsidiaries over which it has control and have been prepared in compliance with the Group's accounting policies.

All intra group balances, income and expenses and profits and losses resulting from Intra group transactions that are recognised in assets, liabilities, income and expenses are eliminated in full.

1.2.2 Subsidiaries

Subsidiaries are those enterprises controlled by the Parent. Control exists when the parent has the power, directly or indirectly to govern the financial and operating policies of an enterprise.

Subsidiaries are controlled from the date the Parent obtains control until the date that control ceases. Acquisitions of Subsidiaries are accounted for using the purchase method of accounting.

The following Companies have been Consolidated under section 152 of the Companies Act No 7 of 2007, where the Company controls the composition of the Board of Directors of these Companies.

John Keells Foods India Private Limited	100%
Keells Food Products Mauritius	100%

John Keells Foods India Private Limited was incorporated in India on 7th of April 2008. Keells Food Products Mauritius was incorporated in Mauritius as a Private Company Limited by Shares on 31st July 2008.

The total profits and losses for the year, of the Company and of John Keells Foods India Private Ltd along with Keells Food Products Mauritius up to November 8th 2010 are included in Consolidated Income Statement. All assets and liabilities of the Company and of its Subsidiaries are included in the Consolidated Balance Sheet. The Consolidated Cash Flow Statement includes the cash flows of the Group and its Subsidiaries.

1.2.3 Financial Year

All Companies in the Group have a common Financial Year which ends on 31st March.

1.3 FOREIGN CURRENCY

1.3.1 Foreign Currency Transactions

The consolidated Financial Statements are presented in Sri Lanka rupees, which is the Company's functional and presentation currency.

The functional currency is the currency of the primary economic environment in which the entities of the group operate. All foreign exchange transactions are converted to Sri Lanka rupees, at the rates of exchange prevailing at the time the transactions are effected. Monetary assets and liabilities denominated in foreign currency are translated to Sri Lanka rupee equivalents at the exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. The resulting gains and losses are accounted for in the Income Statement.

The exchange rates applicable during the period were as follows:

	Balance Sheet		Income Statement Average rate	
	2010/11 Rs.	2009/10 Rs.	2010/11 Rs.	2009/10 Rs.
Indian Rupee	2.48	2.52	2.47	2.43

1.3.2 Foreign Operation

The Balance Sheet and Income Statement of the overseas subsidiaries which is deemed to be a foreign operation is translated to Sri Lankan rupees at the rate prevailing as at the Balance Sheet date and at the average rate of exchange for the period respectively.

The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the Income Statement.

1.4 TAXATION

1.4.1 Current Taxes

Provision for Income Tax is based on the elements of income and expenditure on reported in the Financial Statements and is computed in accordance with the provision of the relevant tax statutes.

1.4.2 Deferred Tax

Deferred taxation is the tax attributable to the temporary differences that arise when taxation authorities recognize and measure assets and liabilities with rules that differ from those of the Financial Statements.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets if any is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Notes to the Financial Statements Contd.

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

Deferred tax relating to items recognised directly in equity is recognised in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

1.5 VALUATION OF ASSETS AND THEIR BASES OF MEASUREMENT**1.5.1 Property, Plant and Equipment****a) Cost and Valuations**

Property, Plant and Equipment is stated at cost or valuation less accumulated depreciation and any impairment in value. The carrying values of Property, Plant & Equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The carrying values of property plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

All items of property, plant and equipment are initially recorded at cost. Where items of property, plant and equipment are subsequently revalued, the entire class of such assets is revalued. The Group has adopted a policy of revaluing Land and Buildings once in every 5 years.

When an asset is revalued, any increase in the carrying amount is credited directly to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Income Statement, in which case the increase is recognised in the Income Statement. Any revaluation deficit that offsets a previous surplus in the same asset is directly offset against the surplus in the revaluation reserve and any excess recognised as an expense. Upon disposal, any revaluation reserve relating to the asset sold is transferred to retained earnings.

Items of property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is included in the Income Statement in the year the asset is derecognised.

b) Depreciation

Provision for depreciation is calculated by using a straight line method on the cost or valuation of all property, plant and equipment, other than freehold land, in order to write off such amounts over the estimated useful economic life of such assets. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives of assets are as follows:

Assets	Years
Building on Freehold Land	50
Building on Leasehold Land	10
Plant and Machinery	10-15
Equipment, Furniture and Fittings	5-8
Motor Vehicles	5
Freezers	6
Other Assets	2

The useful life and residual value of assets are reviewed, and adjusted if required, at the end of each financial year.

c) Subsequent costs

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

d) Restoration Costs

Expenditure incurred on repairs or maintenance of Property, Plant and Equipment in order to restore or maintain the future economic benefits expected from originally assessed standards of performance, is recognised as an expense when incurred.

e) Impairment of Assets

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

Impairment losses are recognised in the Income Statement, except that, impairment losses in respect of property, plant and equipment are recognised against the revaluation reserve to the extent that it reverses a previous revaluation surplus.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. Previously recognised impairment losses other than in respect of goodwill, are reversed only if there has been an increase in the recoverable amount of the asset. Such increase is recognised to the extent of the carrying amount had no impairment losses been recognised previously.

1.5.2 Operating leases

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

Lease payments are recognised as an expense in the Income Statement on a straight-line basis over the term of the lease.

1.5.3 Investments

All unquoted securities, which are held as non current investments, are valued at cost. The cost of the investment is the cost of the acquisition inclusive of brokerage and cost of transaction. The carrying amounts of long term investments are reduced to recognise a decline which is considered other than temporary, in the value of investment, determined on an individual investment basis.

In the Group's Financial Statements investments in subsidiaries have been accounted for at cost, net of any impairment losses which are charged to the Income Statement. Incomes from these investments are recognised only to extent of dividends received.

1.5.4 Inventories

Inventories are measured at the lower of cost and net realizable value. Net realisable value is the estimated selling price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale. The cost incurred in bringing inventories to its present location and condition is accounted for as follows:-

Raw materials	- At actual cost on weighted average basis.
Manufactured finished goods	- At actual cost of direct materials, direct labour and an appropriate proportion of fixed production overheads based on normal operating capacity.
Finished goods purchased	- At actual cost on weighted average basis.
W o r k - i n - progress	- At actual cost of direct materials (excluding packing materials) and an appropriate proportion of direct labour and fixed production overheads based on percentage completed.
Spare Parts	- At actual cost on weighted average basis.
Other Stocks	- At actual cost.
Goods in transit	- At actual cost.

1.5.5 Trade and Other Receivables

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

Other receivables and dues from Related Parties are recognized at cost less allowance for bad and doubtful receivables.

A provision for doubtful debts is made when the debt exceeds 180 days, and collection of the full is no longer probable. Bad debts are written off when identified.

1.5.6 Cash and Cash Equivalents

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

For the purpose of the Cash Flow Statement, cash and cash equivalents consists of cash and cash equivalents as defined above net of outstanding bank overdrafts.

1.6 LIABILITIES AND PROVISIONS

1.6.1 Provisions, Contingent Assets and Contingent Liabilities

Provisions are made for all obligations (legal or constructive) existing as at the Balance Sheet date when it is probable that such an obligation will result in an outflow of resources and a reliable estimate can be made of the quantum of the outflow.

All contingent liabilities are disclosed as a note to the Financial Statements unless the outflow of resources is remote.

All contingent assets are disclosed where the inflow of economic benefit is probable.

1.6.2 Employee Benefit Liabilities

a) Defined Benefits Plans – Gratuity

The liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date using the projected unit credit method. Any actuarial gains or losses arising are recognised immediately in the Income Statement.

b) Defined contribution plan - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective Statutes and Regulations. The Group contributes the defined percentages of gross emoluments of employees to an approved Employees' Provident Fund and to the Employees' Trust Fund respectively, which are externally funded.

Notes to the Financial Statements Contd.**1.7 INCOME STATEMENT****1.7.1 Revenue Recognition**

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

The following specific criteria are used for recognition of revenue:

a) Goods sold

Revenue from the sale of goods is recognised when the significant risk and rewards of ownership of the goods have passed to the buyer with the Group retaining neither a continuing managerial involvement to the degree usually associated with ownership, nor an effective control over the goods sold.

b) Interest

Interest income is recognised on an accrual basis.

c) Gains and Losses

Net gains and losses of a revenue nature arising from the disposal of property, plant and equipment and other non-current assets, including investments, are accounted for in the Income Statement, after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

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

d) Other Income

Other income is recognised on an accrual basis.

1.7.2 Expenditure Recognition

Expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the Income Statement.

For the purpose of presentation of the Income Statement, the "function of expenses" method has been adopted, on the basis that it presents fairly the elements of the Company and Group's performance.

1.7.3 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred, unless they are incurred in respect of qualifying assets in which case it is capitalised.

1.8 SEGMENT INFORMATION**1.8.1 Reporting Segments**

The segment is determined based on the Group's geographical spread of operations. The geographical analysis of turnover is based on location of customers.

1.8.2 Segment Information

Segment information has been prepared in conformity with the accounting policies adopted for preparing and presenting the consolidated Financial Statements of the Group.

1.9 EFFECT OF SRI LANKA ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following standards have been issued by the Institute of Chartered Accountants of Sri Lanka.

- a) Sri Lanka Accounting Standard 44 Financial Instruments; Presentation (SLAS 44)
- b) Sri Lanka Accounting Standard 45 Financial Instruments; Recognition and Measurement (SLAS 45)

The effective date of SLAS 44 and 45 was changed during the year to be effective for financial periods beginning on or after 01 January 2012. These two standards have been amended and forms a part of the new set of financial reporting standards mentioned below.

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

Due to the complex nature of the effects of these standards the impact of adoption in the period of initial application cannot be estimated as at the date of publication of these Financial Statements.

2 PROPERTY, PLANT AND EQUIPMENT

YEAR ENDED 31 MARCH		Land and Buildings	Buildings on Leasehold Land	Plant and Machinery	Equipment, Furniture and Fittings	Motor Vehicles	Freezers	Other Assets	Capital WIP	Total 2011	Total 2010
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
2.1 Company											
Cost or Valuation											
As at 1 April 2010	122,843,305	6,200,000	188,571,782	44,459,294	3,058,334	39,777,057	23,173,725	-	428,083,497	420,037,784	
Additions	440,000	486,000	7,586,883	2,883,444	-	1,933,858	1,075,368	97,500	14,503,053	12,624,427	
Disposals	-	-	(2,002,115)	(7,442,400)	(34,167)	-	(12,193,304)	-	(21,671,986)	(4,578,715)	
Transfers	486,000	(486,000)	-	-	-	-	-	-	-	-	
As at 31 March 2011	123,769,305	6,200,000	194,156,550	39,900,338	3,024,167	41,710,915	12,055,789	97,500	420,914,564	428,083,496	
Accumulated Depreciation											
As at 1 April 2010	(2,618,026)	(1,021,795)	(152,071,824)	(41,513,460)	(3,058,334)	(31,912,349)	(22,666,981)	-	(254,862,770)	(244,915,114)	
Charge for the year	(1,455,482)	(516,567)	(7,797,065)	(1,229,978)	-	(2,501,711)	(687,747)	-	(14,088,550)	(14,526,369)	
Disposals	-	-	2,002,115	7,442,400	34,167	-	12,193,304	-	21,671,986	4,578,713	
As at 31 March 2011	(4,073,508)	(1,538,362)	(157,866,774)	(35,301,038)	(3,024,167)	(34,414,060)	(11,061,424)	-	(247,279,334)	(254,862,770)	
Carrying Value											
As at 31 March 2011	119,695,797	4,661,638	36,289,776	4,599,300	-	7,296,855	994,365	97,500	173,635,230	-	
As at 31 March 2010	120,225,278	5,178,205	36,499,958	2,945,834	-	7,864,708	506,744	-	173,220,726	-	
2.2 Group											
Cost or Valuation											
As at 1 April 2010	122,843,304	6,200,000	188,644,781	48,397,836	3,058,334	42,309,751	26,074,620	-	437,528,627	425,205,515	
Additions	440,000	486,000	7,586,883	2,883,444	-	1,933,858	1,075,368	97,500	14,503,053	16,901,822	
Disposals	-	-	(2,002,115)	(7,442,400)	(34,167)	-	(12,193,303)	-	(21,671,985)	(4,578,710)	
Transfers	486,000	(486,000)	-	-	-	-	-	-	-	-	
As at 31 March 2011	123,769,304	6,200,000	194,229,549	43,838,880	3,024,167	44,243,609	14,956,685	97,500	430,359,694	437,528,626	
Accumulated Depreciation											
As at 1 April 2010	(1,174,090)	(2,407,058)	(152,108,321)	(45,077,819)	(3,058,334)	(32,228,547)	(25,469,479)	-	(261,523,649)	(245,042,430)	
Charge for the year	(1,666,450)	(364,272)	(7,797,065)	(1,604,161)	-	(2,929,586)	(722,647)	-	(15,084,181)	(16,282,997)	
Impairment	-	-	-	-	-	(1,788,619)	-	-	(1,788,619)	(4,776,936)	
Disposals	-	-	2,002,115	7,442,400	34,167	-	12,193,303	-	21,671,985	4,578,714	
As at 31 March 2011	(2,840,540)	(2,771,330)	(157,903,271)	(39,239,580)	(3,024,167)	(36,946,754)	(13,998,822)	-	(256,724,464)	(261,523,650)	
Carrying Value											
As at 31 March 2011	120,928,764	3,428,670	36,326,278	4,599,300	-	7,296,855	957,863	97,500	173,635,230	-	
As at 31 March 2010	121,669,214	3,792,942	36,536,460	3,320,017	-	10,081,204	605,140	-	176,004,977	-	

Notes to the Financial Statements Contd.

As at 31 March	Group		Company	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.

2.3 Carrying Value

At Cost	49,277,796	50,542,822	49,277,796	47,817,243
At Valuation	124,357,434	125,462,155	124,357,434	125,403,483
	173,635,230	176,004,977	173,635,230	173,220,726

2.4 Land and Building

At Valuation	124,357,434	125,462,155	124,357,434	125,403,483
Net Book Value	124,357,434	125,462,155	124,357,434	125,403,483

Details of Land and Buildings stated at valuation are indicated below ;

Property	Method of valuation	Effective date of valuation	Independent Valuer
Land and Buildings of Keells Food Products PLC	Open Market Value Method	31 March 2008	Mr. P.B Kalugalagedera, Chartered Valuation Surveyor.

2.5 The carrying amount of Revalued Land and Building if they were carried at cost less depreciation, would be as follows,

As at 31 March	Group		Company	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Cost	28,461,000	28,461,000	28,461,000	28,461,000
Accumulated Depreciation	(22,496,531)	(21,430,371)	(22,496,531)	(21,430,371)
Carrying Value	5,964,469	7,030,629	5,964,469	7,030,629

2.6 Property Plant and Equipment with a cost of Rs. 195,773,548/- (2009/10 - Rs. 174,765,323/-) have been fully depreciated and continue to be in use by the Company. The value of the fully depreciated assets of the Group amounted to Rs.195,773,548/- (2009/10 - Rs. 174,839,969/-).

2.7 The Company has constructed a Building on Land obtained on lease, the details of which are stated below;

Property	Period of Lease	Rental
New Port Estate, Temple Road, Ekala, Ja Ela	Renewed for 10 years from 1st September 2010	Rs.18,114/-

2.8 During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs.14,503,053/-.(2009/10 - Rs.12,624,427/-). Cash payments amounting to Rs.14,503,053/- .(2009/10 - Rs.12,624,427/-) were made during the year for purchase of Property, Plant and Equipment. The Group acquired Property, Plant & Equipment to the aggregate value of Rs.14,503,053/-.(2009/10 - Rs.16,901,821/-). Cash payments amounting to Rs.14,503,053/- .(2009/10 - Rs.16,901,821/-) were made during the year for purchase of Property, Plant and Equipment.

As at 31 March	Note	Group		Company	
		2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.

3 Investment in Subsidiaries

Unquoted Investments

John Keells Foods India Private Ltd		-	-	220,291,730	183,432,202
Keells Food Products Mauritius		-	-	1,028,038	1,028,038
		-	-	221,319,768	184,460,240
Less					
Allowance for Impairment of Investments	3.1	-	-	(215,187,392)	(94,432,202)
		-	-	6,132,376	90,028,038

3.1 During the year the Company impaired a further Rs.120,755,190/- on its investment in John Keells Foods India Private Limited, taking into consideration the remaining recoverable amounts and cash and bank balances. Keells Food Products Mauritius was fully impaired on 08th November 2010. Keells Food Products Mauritius was removed from the register of the Registrar of Companies in Mauritius, in terms of the Mauritius Companies Act with effect from 26th April 2011, pursuant of an application made by the Company in this regard.

As at 31 March	Group		Company	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.

4 Deferred Tax Assets

At the beginning of the Year	-	1,388,236	-	-
Charge / (Reversal)	-	(1,388,236)	-	-
At the end of the Year	-	-	-	-

4.1 The Group has carried forward tax losses amounting to Rs. 239,050,969/- (2009/10 - Rs. 232,655,950/-). Deferred Income Tax Asset arising from the carried forward losses have not been recognised in the Subsidiary Company's Financial Statements as it is not probable that taxable profits will be available in the foreseeable future against which the deductible temporary differences can be utilized.

As at 31 March	Group		Company	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.

5 Loans to Staff

At the beginning of the year	18,282,281	18,020,694	18,282,281	18,020,694
Loans Granted	17,824,308	9,128,750	17,824,308	9,128,750
Loans Recovered	(10,648,825)	(8,867,163)	(10,648,825)	(8,867,163)
At the end of the year	25,457,764	18,282,281	25,457,764	18,282,281
5.1 Loans to Staff - Non current	18,635,999	12,815,505	18,635,999	12,815,505
5.2 Loans to Staff - Current	6,821,765	5,466,776	6,821,765	5,466,776
	25,457,764	18,282,281	25,457,764	18,282,281

Notes to the Financial Statements Contd.

As at 31 March	Note	Group		Company	
		2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
6 Inventories					
Raw Materials		157,238,409	84,081,511	157,238,409	84,081,511
Work-in-Progress		19,828,485	19,764,694	19,828,485	19,764,694
Finished Goods		106,084,633	74,700,634	106,084,633	67,296,045
Spare Parts		15,163,415	12,517,405	15,163,415	12,517,406
Other Stocks		233,275	316,899	233,275	316,899
		298,548,217	191,381,143	298,548,217	183,976,555
7 Trade and Other Receivables					
Trade and Other Receivables		209,326,699	194,872,502	206,857,207	177,913,715
Less					
Provision for doubtful debts		(3,979,299)	(13,819,995)	(3,979,299)	(7,853,656)
		205,347,400	181,052,507	202,877,908	170,060,059
Loans to Staff	5.2	6,821,765	5,466,776	6,821,765	5,466,776
		212,169,165	186,519,283	209,699,673	175,526,835

As at 31 March	Relationship	Group		Company	
		2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
8 Amounts Due from Related Parties					
Asian Hotels and Properties PLC	Fellow Subsidiary	1,794,715	3,542,998	1,794,715	3,542,998
Ceylon Cold Stores PLC	Fellow Subsidiary	-	11,646	-	11,646
Keells Hotel Management Services Ltd.	Fellow Subsidiary	828,615	-	828,615	-
Habarana Lodge Ltd.	Fellow Subsidiary	586,708	526,194	586,708	526,194
Habarana Walk Inn Ltd.	Fellow Subsidiary	319,870	902,127	319,870	902,127
JayKay Marketing Services (Pvt) Ltd.	Fellow Subsidiary	59,667,895	43,843,300	59,667,895	43,843,300
Kandy Walk Inn Ltd.	Fellow Subsidiary	741,611	450,057	741,611	450,057
Trans Asia Hotels PLC	Fellow Subsidiary	645,863	920,603	645,863	920,603
Trinco Holiday Resorts (Pvt) Ltd.	Fellow Subsidiary	81,166	-	81,166	-
John Keells Office Automation (Pvt) Ltd.	Fellow Subsidiary	8,855	-	8,855	-
John Keells Foods India Private Ltd.	Subsidiary	-	-	64,166,728	84,656,339
Less		64,675,298	50,196,925	128,842,026	134,853,264
Provision for doubtful debts		-	-	(64,166,728)	(84,656,339)
		64,675,298	50,196,925	64,675,298	50,196,925
9 Loans Granted to Related Parties					
Keells Food Products Mauritius		-	-	1,185,823	1,185,823
Less					
Provision for doubtful debts		-	-	(1,185,823)	-
		-	-	-	1,185,823

As at 31 March	Group		Company	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
10 Income Tax Receivable				
At the beginning of the year	20,734,841	261,400	20,734,841	261,400
Provision	-	(11,129,454)	-	(11,109,697)
Payments/ Economic Service Charge	-	31,602,895	-	31,583,138
Set-off against Income Tax Payable	(20,734,841)	-	(20,734,841)	-
At the end of the year	-	20,734,841	-	20,734,841
11 Short Term Investments				
Call Deposits	8,957,384	29,483,502	-	-

As at 31 March	2011		2010	
	Number of Shares	Value of Shares Rs.	Number of Shares	Value of Shares Rs.
12 Stated Capital				
Issued and Fully paid Capital	8,500,000	274,815,000	8,500,000	274,815,000

As at 31 March	Note	Group		Company	
		2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
13 Capital Reserves					
Revaluation Reserve	13.1				
Opening Balance		92,803,095	92,803,095	92,803,095	92,803,095
Deferred Tax Rate change impact on Revaluation		1,850,767	-	1,850,767	-
		94,653,862	92,803,095	94,653,862	92,803,095

13.1 Revaluation reserve consists of the net surplus on the revaluation of Property, Plant and Equipment.

As at 31 March	Note	Group		Company	
		2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
14 Revenue Reserves					
General Reserve	14.1	20,305,176	20,305,176	20,305,176	20,305,176
Dividend Reserve	14.2	133,875	133,875	133,875	133,875
Translation Reserve	14.3	(2,646,952)	(3,828,609)	-	-
		17,792,099	16,610,442	20,439,051	20,439,051
Retained Earnings		(64,298,213)	(94,661,284)	(69,826,812)	(15,127,189)
		(46,506,114)	(78,050,842)	(49,387,761)	5,311,862

Notes to the Financial Statements Contd.

14.1 General Reserve represents amounts set aside by the Directors for future expansion, and to meet any contingencies.

14.2 Dividend Reserve represents amounts available for Dividends payments.

14.3 Translation Reserve consist of currency translation differences from Foreign Subsidiaries.

As at 31 March	Group		Company	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
15 Deferred Tax Liabilities				
At the beginning of the year	6,440,400	9,998,309	6,440,400	9,998,309
Charge / (Release)	(1,809,753)	(3,557,909)	(1,809,753)	(3,557,909)
Transfer to revaluation reserve	(1,850,767)	-	(1,850,767)	-
At the end of the year	2,779,880	6,440,400	2,779,880	6,440,400
The closing Deferred Tax Liability balance relates to the following:				
Accelerated Capital Allowances for Tax purposes	16,961,388	21,605,832	16,961,388	21,605,832
Employee Benefit Liabilities	(14,181,508)	(15,165,432)	(14,181,508)	(15,165,432)
	2,779,880	6,440,400	2,779,880	6,440,400
16 Employee Benefit Liabilities				
At the beginning of the year	45,456,371	40,747,571	45,456,371	40,508,372
Charge	3,844,345	3,120,778	3,844,345	3,359,977
Transfers	828,615	1,179,031	828,615	1,179,031
Interest cost	4,545,637	4,038,494	4,545,637	4,038,494
Payments	(3,994,427)	(2,070,466)	(3,994,427)	(2,070,466)
Actuarial Gain / (Loss)	(32,299)	(1,559,037)	(32,299)	(1,559,037)
At the end of the year	50,648,242	45,456,371	50,648,242	45,456,371

The employee benefit liability is based on the actuarial valuation carried out by Messrs. Actuarial and Management Consultants (Pvt) Ltd; Actuaries.

The principal assumptions used in determining the cost of employee benefits were:

Financial Assumptions

Rate of Discount	10% p.a
Long Term Salary Increment Rate	10% p.a

Retirement Age

Clerical and Labour Staff	55 Years
Sales Representatives	55 Years
Executive Staff	55 Years

The liability to the above Employee Benefits is not externally funded.

As at 31 March	Group		Company	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
17 Trade and Other Payables				
Trade Payables	104,699,827	146,309,782	105,046,787	121,240,836
Sundry Creditors including Accrued Expenses	51,798,788	57,861,753	49,190,932	40,047,312
Other Payables	13,093,663	6,460,851	12,496,313	4,237,896
	169,592,278	210,632,386	166,734,032	165,526,044

As at 31 March	Relationship	Group		Company	
		2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
18 Amounts Due to Related Parties					
John Keells Holdings PLC	Parent	2,238,051	5,359,580	2,238,051	5,359,580
Ceylon Cold Stores PLC	Fellow Subsidiary	3,123,274	4,601,796	3,123,274	4,601,796
DHL Keells (Pvt) Ltd.	Fellow Subsidiary	153,197	43,728	153,197	43,728
InfoMate (Pvt) Ltd.	Fellow Subsidiary	278,975	332,397	278,975	295,041
JayKay Marketing Services (Pvt) Ltd.	Fellow Subsidiary	57,000	10,045	57,000	10,045
John Keells PLC	Fellow Subsidiary	20,601	20,288	20,601	20,288
John Keells Office Automation (Pvt) Ltd.	Fellow Subsidiary	-	15,754	-	15,754
Keells Consultants (Pvt) Ltd.	Fellow Subsidiary	44,685	31,693	44,685	31,693
John Keells Logistic Lanka (Pvt) Ltd.	Fellow Subsidiary	1,659,608	634,302	1,659,608	634,302
Keells Hotel Management Services Ltd.	Fellow Subsidiary	640,626	-	640,626	-
Mackinnons American Express Travel (Pvt) Ltd.	Fellow Subsidiary	85,231	-	85,231	-
Trinco Holiday Resort (Pvt) Ltd.	Fellow Subsidiary	50,255	-	50,255	-
Auxicogent International Lanka (Pvt) Ltd.	Fellow Subsidiary	31,530	-	31,530	-
Union Assurance PLC	Fellow Subsidiary	408,506	17,227	408,506	17,227
Serene Holidays (Pvt) Ltd.	Fellow Subsidiary	-	732,106	-	-
John Keells Logistic India (Pvt) Ltd.	Fellow Subsidiary	-	397,668	-	-
		8,791,540	12,196,584	8,791,540	11,029,454

19 Income Tax Liabilities

At the beginning of the year	-	-	-	-
Provision for the year	66,998,533	-	66,998,533	-
Payments / Economic Service Charge	(18,302,461)	-	(18,302,461)	-
Set off against Refunds	(23,365,743)	-	(23,365,743)	-
At the end of the year	25,330,329	-	25,330,329	-

20 Short Term Borrowings from Related Parties

John Keells Holdings PLC	81,902,185	45,000,000	81,902,185	45,000,000
	81,902,185	45,000,000	81,902,185	45,000,000

The above loans have been obtained to finance the general working capital requirements of the Group. The loans have been obtained on a 3-6 months tenor and rolled over. Rate of Interest paid during the year ranged from 8.25% to 8.5%.

Notes to the Financial Statements Contd.

21 Security and Repayment Terms of Borrowings

Type of Facility	Lending Institution	Nature of Facility	Interest Rate	Security	Repayment Terms
Short Term	HSBC	Bank Overdraft	SLIBO + 0.5%	Negative Pledge over Company's Unencumbered Assets	On Demand
Short Term	DB	Bank Overdraft	8.00%	Clean Basis	On Demand
Short Term	NTB	Bank Overdraft	9.00%	Clean Basis	On Demand
Short Term	BOC	Bank Overdraft	13%	Corporate Guarantee	On Demand

For the year ended 31 March	Group		Company	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.

22 Revenue**22.1 Net Revenue**

Net Revenue	2,196,156,376	1,833,112,680	2,162,880,267	1,813,592,830
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Value Added Tax of Rs.207,085,159/- (2009/10 - Rs.175,063,489/-) has been deducted in arriving at the Net Revenue of the Company. The revenue related taxes for the Group amounted to Rs.208,420,126/- (2009/10 - Rs.180,493,476/-).

For the year ended 31 March	Group		Company	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.

**22.2 Geographical Segment Analysis of Revenue
(By Location of Customers)**

Sri Lanka	2,120,779,996	1,694,374,522	2,120,779,996	1,694,374,522
Asia (Excluding Sri Lanka)	75,376,380	138,738,158	42,100,271	119,218,308
	2,196,156,376	1,833,112,680	2,162,880,267	1,813,592,830

23 Other Operating Income

Interest Income	1,071,184	1,822,405	330,338	377,443
Exchange Gain	821,809	4,866,966	-	-
Profit on Sale of Property, Plant and Equipment	806,482	1,145,600	70,000	1,145,600
Other Income	5,843,939	3,893,546	3,203,758	3,141,243
Recovery of Bad Debts	-	-	18,483,397	-
Unclaimed Dividend Over 6 Years written back	339,923	-	339,923	-
	8,883,337	11,728,517	22,427,416	4,664,286

24 Other Operating Expenses

Nation Building Tax	48,314,013	40,057,299	48,314,013	40,057,299
Other Expenses	22,978,093	36,637,125	15,136,331	11,603,931
	71,292,106	76,694,424	63,450,344	51,661,230

For the year ended 31 March	Group		Company	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.

25 Finance Costs

Short Term	14,657,204	13,798,006	14,657,204	13,798,006
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For the year ended 31 March	Group		Company	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.

26 Profit / (Loss) Before Tax is stated after charging all expenses including the following

Remuneration to Non Executive Directors	4,421,800	4,200,000	4,200,000	4,200,000
Auditor's remuneration - Audit Services	2,049,091	1,535,830	438,256	414,000
Employee Benefits				
Defined Benefit Plan Cost	8,357,683	5,600,235	8,357,683	5,839,434
Defined Contribution Plan Cost - EPF and ETF	24,384,654	21,089,690	23,929,766	18,828,120
Staff Expenses	253,169,891	271,693,827	241,267,744	217,356,395
Depreciation	15,084,181	16,282,997	14,088,551	14,526,369
Profit / (Loss) on Disposal of Property Plant and Equipment	-	(1,145,600)	-	-
Bad and Doubtful Debts	4,251,728	6,478,132	2,942,455	85,168,132
Allowance for Impairment of Foreign Investments	-	-	120,755,190	94,432,202
Impairment of Property, Plant and Equipment	1,788,619	4,776,936	-	-
Donations and Corporate Social Responsibility	729,700	402,000	729,700	402,000

For the year ended 31 March	Notes	Group		Company	
		2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.

27 Income Tax Expenses

Income Tax		66,998,533	11,109,697	66,998,533	11,109,697
Deferred Tax (Reversal)	27.2	(1,809,753)	(2,067,090)	(1,809,753)	(3,557,909)
Fringe Benefit Tax		-	19,757	-	-
	27.1	65,188,780	9,062,364	65,188,780	7,551,788

Applicable Rates of Income Tax and Social Responsibility Levy

The Tax Liability of the Company is Computed at the Standard Rate of 35% (2009/10-35%) and for Qualified exports at the rate of 15% (2009/10-15%).

Social Responsibility Levy for the Company has been charged at the rate of 1.5% (2009/10 - 1.5%) on the Income Tax Liability, which is included in the Income Tax expense.

Notes to the Financial Statements Contd.

27.1 Reconciliation between Income Tax Expense and the Product of Accounting Profit

For the year ended 31 March	Note	Group		Company	
		2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Profit/(Loss) Before Tax		95,551,851	(137,267,805)	10,489,156	(117,677,888)
Consolidation Adjustments		(84,241,425)	(177,585,061)	-	-
Aggregate Accounting Profit		11,310,426	(314,852,866)	10,489,156	(117,677,888)
Profit not charged to income tax		(1,455,325)	-	-	-
Exempt Profit		-	1,274,451	-	-
Accounting Profit/(Loss) Liable to Income Tax		9,855,101	(313,578,415)	10,489,156	(235,355,776)
Income Tax on Accounting Profit/(Loss) at applicable rates		3,510,752	(100,674,071)	3,510,752	(39,260,415)
Income Tax Under Provision		2,280,000	2,595,797	2,280,000	2,595,797
Aggregate Disallowable Deductions		61,657,538	44,170,929	58,614,547	44,170,929
Tax Effect on Deductions Claimed		(3,179,991)	-	-	-
Net Tax Effect of Unrecognised Deferred Tax Assets		137,000	62,924,232	-	-
Qualifying Payment Relief		(172,950)	(111,765)	(172,950)	(111,765)
Social Responsibility Levy		956,431	157,242	956,431	157,242
Total Income Tax Expense		65,188,780	9,062,364	65,188,780	7,551,788
Income tax charged at					
Standard Rate - CSE Listed Companies		63,197,069	8,053,921	63,197,069	8,053,921
Concessionary Rate of 15%		565,033	302,737	565,033	302,737
Social Responsibility Levy		64,718,533	8,513,900	64,718,533	8,513,900
Deferred Tax Rate Differentials on Opening Balance	27.2	(450,828)	-	(450,828)	-
Deferred Tax Rate Differentials arising During the Year	27.2	(1,358,925)	(2,067,090)	(1,358,925)	(3,557,909)
Fringe Benefit Tax		-	19,757	-	-
Income Tax Under Provision		2,280,000	2,595,797	2,280,000	2,595,797
Total Income Tax Expense		65,188,780	9,062,364	65,188,780	7,551,788

The Company Income Tax Provision for the year includes an additional tax provision of Rs. 43 million made on account of the impairment loss of Rs. 120 million provided for John Keells Foods India Private Ltd, which is not tax deductible.

For the year ended 31 March	Group		Company	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.

27.2 Deferred Tax Expense

Deferred tax arising from				
Accelerated Depreciation for Tax Purposes	(2,793,677)	(2,021,715)	(2,793,677)	(1,907,002)
Post Employment Benefits	983,924	(1,569,482)	983,924	(1,650,907)
Preliminary Expenses	-	771,573	-	-
Leave Encashment & Statutory Payments	-	649,950	-	-
Other Items	-	102,584	-	-
Total Deferred Tax Reversal	(1,809,753)	(2,067,090)	(1,809,753)	(3,557,909)

Deferred tax liabilities have been computed taking into consideration the revised average tax rate effective from 1st April 2011, which is 28% (2009/10-35%).

As at 31 March	Group	
	2011 Rs.	2010 Rs.

28 Earnings/(Loss) per Share

28.1 Basic Earnings Per Share

Profit/(Loss) attributable to Ordinary Equity holders	30,363,071	(146,330,169)
Weighted average number of Ordinary Shares	8,500,000	8,500,000
Basic Earnings per Share	3.57	(17.22)

28.2 Amount used as Denominator

Weighted average number of Ordinary Shares	8,500,000	8,500,000
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As at 31 March	Group	
	2011 Rs.	2010 Rs.

29 Dividend

29.1 Declared and Paid During the Year

Final Dividend	-	21,250,000
Total Dividend	-	21,250,000

Previous years final dividend paid in following year.

29.2 Dividend Per Share

First and Final Dividend	-	2.50
Total Dividend per share	-	2.50

As at 31 March	Group		Company	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.

30 Related Party Disclosures

30.1 Amounts due from Related Parties

Subsidiaries	-	-	64,166,728	84,656,339
Provision for doubtful debts	-	-	(64,166,728)	(84,656,339)
Companies under Common Control	64,675,298	50,196,925	64,675,298	50,196,925
	64,675,298	50,196,925	64,675,298	50,196,925

30.2 Amounts due to Related Parties

Parent Company	2,238,051	5,359,580	2,238,051	5,359,580
Companies under Common Control	6,553,489	6,837,004	6,553,489	5,669,874
	8,791,540	12,196,584	8,791,540	11,029,454

Notes to the Financial Statements Contd.

For the year ended 31 March	Group		Company	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
30.3 Transactions with Related Parties				
Parent Company				
Receiving of services	14,548,343	17,624,881	14,548,343	17,624,881
Interest paid	6,317,978	2,376,781	6,317,978	2,376,781
Companies under common control				
Sale of goods	463,724,346	396,296,974	463,551,348	396,396,974
Payments for goods / services received	39,152,542	18,032,680	38,687,499	12,798,799
Interest Paid	-	2,758,562	-	2,758,562
Companies controlled /jointly controlled/significantly influenced by Key Management Personnel				
Purchase of Goods	-	2,303,540	-	2,303,540
30.4 Post Employment Benefit Plan				
Contribution to Provident Funds	3,683,233	3,683,233	3,683,233	3,683,233
30.5 Compensation of Key Management Personnel				
Short Term Employee Benefits	4,421,800	4,200,000	4,200,000	4,200,000

Key Management Personnel include members of the Board of Directors of Keells Food Products PLC and its Parent Company John Keells Holdings PLC.

30.6 Short Term Borrowings from Related Parties

Parent Company	81,902,185	45,000,000	81,902,185	45,000,000
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The above loans have been obtained to finance the general working capital requirements of the Company. The loans have been obtained on 3-6 months tenor and rolled over. Rate of Interest paid during the year ranged from 8.25% to 8.5%.

30.7 Terms and Conditions of Transactions with Related Parties

Transactions with related parties are carried out in the ordinary course of business. Outstanding current account balances at the year end are unsecured, interest free and settlement occurs in cash.

31 Capital Commitments and Contingencies

There were no capital commitments or material contingencies as at the Balance Sheet date.

32 Events after the Balance Sheet Date

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

Keells Food Products Mauritius was removed from the register of the Registrar of Companies in Mauritius, in terms of the Mauritius Companies Act with effect from 26 April 2011 pursuant to an application made by the Company in this regard.

Your Share in Detail

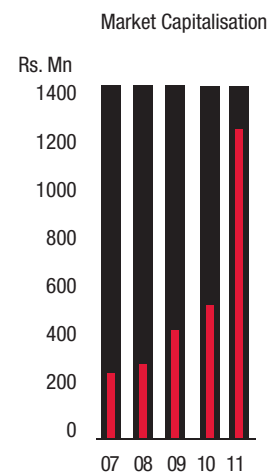
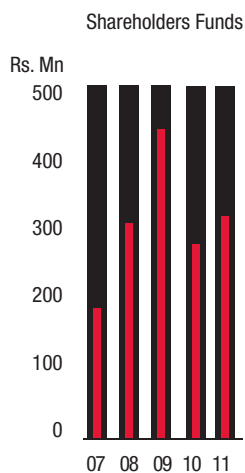
Ordinary Shareholding

Issued Share Capital - 8,500,000

Distribution of Shareholders

Shareholding Range	31st March 2011			31st March 2010		
	No. of Shareholders	No. of Shares Held	%	No. of Shareholders	No. of Shares Held	%
Less than or equal to 1000	791	173,619	2.04	767	161,954	1.91
1,001 to 10,000	113	388,061	4.57	105	342,858	4.03
10,001 to 100,000	19	565,693	6.66	10	346,661	4.08
100,001 to 1,000,000	7	1,791,320	21.07	7	2,067,220	24.32
Over 1,000,001	1	5,581,307	65.66	1	5,581,307	65.66
Total	931	8,500,000	100.00	890	8,500,000	100.00

Categories of Shareholders	31st March 2011			31st March 2010		
	No. of Shareholders	No. of Shares Held	%	No. of Shareholders	No. of Shares Held	%
John Keells Holdings PLC & Subsidiaries	10	7,180,063	84.47	10	7,180,063	84.47
Directors & Spouses	1	4,250	0.05	1	4,250	0.05
Public	920	1,315,687	15.48	879	1,315,687	15.48
Total	931	8,500,000	100.00	890	8,500,000	100.00
Sri Lankan Residents	922	8,451,763	99.43	877	8,451,163	99.43
Non-Residents	9	48,237	0.57	13	48,837	0.57
Total	931	8,500,000	100.00	890	8,500,000	100.00



Your Share in Detail Contd.

Top 20 Shareholders

As at 31st March

	2011		2010	
	No. of Shares Held	% of Issued Capital	No. of Shares Held	% of Issued Capital
John Keells Holdings PLC	5,581,307	65.66	5,581,307	65.66
John Keells PLC	788,784	9.28	788,784	9.28
Walkers Tours Ltd.	380,000	4.47	380,000	4.47
Mackinnon Mackenzie & Company (Shipping) Ltd.	162,500	1.91	162,500	1.91
John Keells Logistics Lanka (Pvt) Ltd.	125,000	1.47	125,000	1.47
Alliance Finance Company PLC	120,719	1.42	396,619	4.67
Mack Air (Pvt) Ltd.	109,597	1.29	109,597	1.29
Mr. J.B. Hirdaramani/ Janaka Bhagwandas	104,720	1.23	104,720	1.23
Waldock Mackenzie Ltd./ Mr. L.P. Hapangama	84,000	0.99	-	-
Waldock Mackenzie Ltd./ Mr. Chamil A Damion Kohombarwickramage	77,200	0.91	44,100	0.52
Mr. J.R. de Silva	66,463	0.78	98,363	1.16
Dawi Investment Trust (Pvt) Ltd	50,061	0.59	52,961	0.62
Waldock Mackenzie Ltd./ Delmege Forsyth and Company (Shipping) Ltd.	30,100	0.35	-	-
Mr. D.J.M. Blacker	30,000	0.35	30,000	0.35
Mr. H. Abdulhusein	29,900	0.35	62,000	0.73
Waldock Mackenzie Ltd./ Mr. M Haradasa	26,600	0.31	-	-
Waldock Mackenzie Ltd./ Mr. L.H.L.M.P Haradasa	22,700	0.27	-	-
Mrs. F.A.A. Mack	21,000	0.25	-	-
Mackinnon Mackenzie & Company of Ceylon Ltd.	20,000	0.24	20,000	0.24
Waldock Mackenzie Ltd./ Lewis Brown & Company	19,000	0.22	-	-
Mr. N. Ruwan Pathirane	-	-	28,100	0.33
Mr. S. Kumaranayagam	-	-	18,750	0.22
Rosewood (Pvt) Ltd.	-	-	15,000	0.18
Colour Products Ltd.	-	-	10,887	0.13
Mrs. N.M. Guruge	-	-	10,600	0.12
Mrs. K.Fernando	-	-	10,000	0.12
Mr. R.M. David	-	-	10,000	0.12
	7,849,651	92.35	8,059,288	94.82

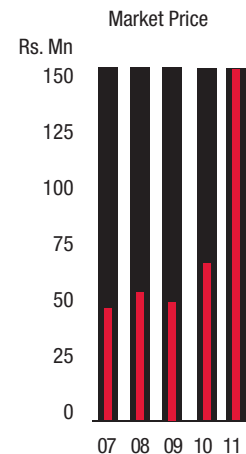
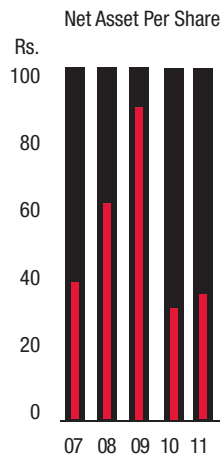
As at 31st March

2011

2010

SHARE PRICES - (Rs.)

Beginning of the year	69.00		50.50	
Highest for year	175.00	(14.02.11)	90.00	(15.01.10)
Lowest for year	65.00	(23.06.10)	50.00	(21.04.09)
As at 31st March	150.00		69.00	



Ten Year Information at a Glance

	2011 Group	2010 Group	2009 Group	2008	2007	2006	2005	2004	2003	2002
Revenue	2,196,156	1,833,113	1,792,635	1,552,000	1,401,620	1,201,182	1,153,900	1,055,396	957,512	840,410
Profit / (loss) from Operating activities	110,209	(123,470)	41,364	132,458	91,215	(11,654)	54,312	35,364	7,892	4,491
Finance charges	(14,657)	(13,798)	(24,995)	(10,948)	(15,162)	(13,674)	(12,161)	(15,868)	(15,368)	(18,877)
Dividends received	-	-	-	-	-	-	134	154	-	-
Trading Profit/(Loss) after Finance charges	95,552	(137,268)	16,369	121,510	76,054	(25,328)	42,151	19,496	(7,476)	(14,252)
Taxation	(65,189)	(9,062)	(28,583)	(45,428)	(29,359)	(918)	(13,740)	(5,150)	1,002	840
Net Profit/(Loss) after Tax	30,363	(146,330)	(12,215)	76,082	46,695	(26,245)	28,411	14,346	(6,474)	(13,412)
WHAT WE OWNED										
Property, Plant & Equipment	173,635	176,005	180,163	170,853	114,920	131,086	151,575	164,361	170,532	156,048
Non Current Assets / Goodwill	18,636	12,816	15,382	14,466	-	-	-	120	231	342
Investments	-	-	-	-	-	-	-	-	-	450
Inventories	298,548	191,381	189,757	156,796	155,582	124,041	90,381	85,710	88,904	84,345
Trade and Other Receivables	276,844	236,716	263,698	215,968	193,846	151,055	181,529	155,675	133,306	133,363
Other Current Assets	10,797	55,658	41,344	10,058	48,736	15,936	98,128	31,379	25,229	22,737
	778,460	672,576	690,343	568,141	513,084	422,118	521,614	437,245	418,202	397,285
WHAT WE OWED										
Stated Capital	274,815	274,815	274,815	99,815	99,815	99,815	99,815	99,815	99,815	99,815
Capital Reserves	94,654	92,803	92,803	92,803	32,417	35,223	35,223	35,223	35,223	32,482
Revenue Reserves	(46,506)	(78,051)	86,395	123,072	59,490	12,795	49,041	20,750	6,404	12,877
Shareholders' Funds	322,963	289,567	454,013	315,690	191,723	147,833	184,079	155,787	141,442	145,174
Long Term Liabilities	53,428	51,897	50,746	49,294	46,326	73,424	98,131	50,686	48,596	47,656
Loans payable within one year and Interest Bearing Borrowings	198,355	108,283	26,921	35,013	128,727	90,479	136,390	161,780	176,581	140,645
Trade and Other Payables and Amounts due to Related Parties	178,384	222,829	158,663	150,189	124,859	110,382	103,015	68,991	51,584	63,810
Provision for Taxation & Government - Levies	25,330	-	-	17,955	21,449	-	-	-	-	-
	778,460	672,576	690,343	568,141	513,084	422,118	521,614	437,245	418,202	397,285

The above indicates the simplified Income Statement and the Balance Sheet of the Company for the year 2002 to 2008 and the Group for the year 2009 to 2011.

The Balance sheet is categorised in to its key Assets and Liabilities.

All figures given in Rs. 000's unless otherwise stated.

Key Ratios and Information

	2011 Group	2010 Group	2009 Group	2008	2007	2006	2005	2004	2003	2002
KEY INDICATORS										
(A) Profitability & Return to Shareholders										
Net Profit ratio (%)	1.39	(7.98)	(0.68)	4.90	3.33	(2.18)	2.46	1.36	(0.68)	(1.60)
Earnings/(Loss) per Share (Rs.)	3.57	(17.22)	(2.17)	14.49	8.89	(5.00)	5.41	2.73	(1.23)	(2.55)
Return on shareholders' funds (%)	9.91	(39.36)	(3.17)	29.99	27.50	(15.81)	16.72	9.65	(4.52)	(8.83)
Return on capital employed (%)	19.18	(27.45)	7.78	31.69	23.50	(3.74)	12.97	9.60	2.15	1.35
Dividend per Share (Rs.)	-	2.50	3.50	2.50	-	2.00	-	-	-	-
Debt Equity Ratio (%)	61.42	37.39	5.93	11.09	69.07	79.53	101.52	103.85	124.84	96.88
(B) Liquidity										
Current ratio (No. of Times)	1.46	1.46	2.67	1.88	1.45	1.45	1.55	1.18	1.08	1.18
Interest cover (No. of Times)	7.52	(8.95)	1.65	12.10	6.02	(0.85)	4.47	2.23	0.51	0.24
(C) Investors Ratios										
Price earnings ratio (No. of Times)	41.99	(4.01)	(23.22)	3.86	5.60	(6.80)	7.02	6.23	(11.38)	(4.90)
Dividend cover (No. of Times)	-	(0.87)	4.14	3.56	-	2.71	-	-	-	-
Net assets per share - as at year end (Rs.)	38.00	34.07	90.80	63.14	38.34	29.57	36.82	31.16	28.29	29.03
(D) Share Valuation										
Market value per share - as at year end (Rs.)	150.00	69.00	50.50	56.00	49.75	34.00	38.00	17.00	14.00	12.50
(E) Other Information										
Number of employees	440	456	455	434	435	439	452	490	483	478
Turnover per employee (Rs. '000)	4,991	4,020	3,940	3,576	3,222	2,736	2,553	2,154	1,982	1,758
Value added per employee (Rs. '000)	1,642	1,108	1,376	1,566	1,231	1,014	987	772	672	625

The Above ratio are based on the Income Statement and the Balance Sheet of the Company from year 2002 to 2008 and the Group for the year 2009 to 2011.

Glossary of Financial Terminology

Accrual Basis

Recording Revenues and Expenses in the period in which they are earned or incurred regardless of whether cash is received or disbursed in that period.

Capital Employed

Shareholders' Funds plus Debt.

Contingent Liabilities

A condition or situation existing at the Balance Sheet date due to past events, where the financial effect is not recognised because:

1. The obligation is crystallised by the occurrence or non occurrence of one or more future events or,
2. A probable outflow of economic resources is not expected or,
3. It is unable to be measured with sufficient reliability.

Current Ratio

Current Assets over Current Liabilities.

Debt / Equity Ratio

Debt as a percentage of Shareholders Funds.

Dividend Cover

Earnings per Share over Dividends per Share.

Dividends Payout Ratio

Total Dividend as percentage of Company Profits.

Earnings per Share (EPS)

Profit After tax attributable to ordinary shareholding over weighted average numbers Shares in issue during the period.

Earnings yield

Earnings per Share as a percentage of Market price per Share end of the period.

Effective Rate of Taxation

Income Tax, including deferred tax over Profit before Tax.

Interest cover

Profit before Interest and Tax over Finance Expenses.

Market Capitalisation

Number of Shares in issue at the end of period multiplied by the Market price at end of period.

Net Assets

Total assets minus Current Liabilities minus Long Term Liabilities minus Minority Interest.

Net Asset per Share

Net Assets, over number of Ordinary Shares in issue.

Net Debt

Net Debt minus (Cash plus Short Term Deposits).

Net Turnover per Employee

Net Turnover over average number of employees.

Price Earnings Ratio

Market Price per Share over Earnings per Share.

Quick Ratio

Cash plus Short term Investments plus Receivables over Current Liabilities.

Return on Assets

Profit After Tax over Average Total Assets.

Return on Capital Employed

Earning Before interest and Tax as percentage of Average Capital Employed.

Return on Equity

Consolidated Profit after Tax as a Percentage of Average Shareholder's Funds.

Shareholders Funds

Stated Capital, Capital Reserves and Revenue Reserves.

Total Debt

Long Term Loans plus short Term Loans and Overdrafts.

Total Value Added

The difference between revenue (including other income) and expenses, cost of materials and services purchased from external sources.

Total Assets

Fixed Assets plus Investments plus Non Current Assets plus Current Assets.

Notice of Meeting

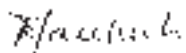
Notice is hereby given that the 29th Annual General Meeting of Keells Food Products PLC will be held at the Human Resources Auditorium, of John Keells Holdings PLC, No.130, Glennie Street, Colombo 2, on Thursday, 30th June 2011 at 3.30 p.m. The business to be brought before the meeting will be:

- To read the Notice convening the meeting.
- To receive and consider the Annual Report of the Directors and the Financial Statements for the Financial Year Ended 31st March 2011 with the Report of the Auditors thereon.
- To re-elect as Director, Mr. Ajit Damon Gunewardene who retires by rotation in terms of Article 83 of the Articles of Association.
- To re-elect as Director, Mr. James Ronnie Felitus Peiris who retires by rotation in terms of Article 83 of the Articles of Association
- To authorise the Directors to determine and make donations.
- To re-appoint Messrs Ernst and Young, Chartered Accountants as Auditors and to Authorise the Directors to determine their remuneration.
- To consider any other business of which due notice has been given.

Note:

- A member unable to attend is entitled to appoint a proxy to attend and vote in his/her place.
- A proxy need not be a member of the Company.
- A member wishing to vote by proxy at the meeting may use the proxy form enclosed.
- To be valid, the completed proxy form must be lodged at the Registered Office of the Company not less than 48 hours before the meeting.

By Order of the Board
Keells Food Products PLC



Keells Consultants Private Limited
Secretaries

Colombo
7 June 2011

Form of Proxy

I/We of
 being a
 member/s of Keells Food Products PLC., hereby appoint:

..... of
 or failing him/her

- | | |
|--|----------------|
| Mr. Susantha Chaminda Ratnayake of Colombo | or failing him |
| Mr. Ajit Damon Gunewardene of Colombo | or failing him |
| Mr. James Ronnie Felitus Peiris of Colombo | or failing him |
| Mr. Jitendra Romesh Gunaratne of Colombo | or failing him |
| Mr. Shiran Harsha Amarasekera of Colombo | or failing him |
| Mr. Athulugamage Damian Eardley Ignatius Perera of Colombo | or failing him |
| Mr. Ranil Pieris of Colombo | or failing him |
| Mr. Mahinda Preethiraj Jayawardena | of Colombo |

as my/our proxy to vote for me/us on my/our behalf at the 29th Annual General Meeting of the Company to be held at 3.30 p.m. on the 30th of June 2011 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

To re-elect as Director, Mr.A. D Gunewardene, who retires in terms of Article 83 of the Articles of Association of the Company.

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To re-elect as Director, Mr. J. R. F. Peiris, who retires in terms of Article 83 of the Articles of Association of the Company.

--	--

To authorise the Directors to determine and make donations.

--	--

To re-appoint Auditors and to authorise the Directors to determine their remuneration.

--	--

Signed this day of Two Thousand and Eleven.

.....
 Signature/s of shareholder/s

INSTRUCTIONS AS TO COMPLETION OF FORM OF PROXY ARE SET OUT ON THE REVERSE HEREOF.

Form of Proxy Contd.

INSTRUCTIONS AS TO COMPLETION OF PROXY

1. Kindly complete the Form of Proxy by filling in legibly your full name and address and that of the Proxy holder. Please sign in the space provided and fill in the date of signature.
2. The instrument appointing a Proxy shall, in the case of an individual, be signed by the appointer or by his Attorney and in the case of a Corporation must be executed under the Common Seal or in such other manner prescribed by its Articles of Association or other Constitutional documents.
3. If the Proxy Form is signed by an Attorney the relevant Power of Attorney or a notarially certified copy thereof, should also accompany the completed Form of Proxy if it has not already been registered with the Company.
4. To be valid, the completed Form of Proxy should be deposited at the Registered Office of the Company at 130, Glennie Street, Colombo 2 not less than 48 hours before the time appointed for the holding of the meeting.

Corporate Information

Name of Company

Keells Food Products PLC

Company Registration Number

PQ 3

Legal Form

Public Limited Liability Company
Established in 1982

Registered Office of the Company

NO. 130, Glennie Street, Colombo 2, Sri Lanka
Tel: 2421101

Ekala Factory

No. 16, Minuwangoda Road, Ja-Ela, Ekala.
Tel: 2236317
Telefax: 2236359
E-Mail: foods@keells.com

Board of Directors

S. C. Ratnayake (Chairman)
A. D. Gunewardene
J. R. F. Peiris
J. R. Gunaratne
S. H. Amarasekera
R. Pieris
A. D. E. I. Perera
M. P. Jayawardena

Audit Committee

M. P. Jayawardena
R. Pieris
S. H. Amarasekera
A. D. E. I. Perera

Secretaries & Registrars

Keells Consultants (Pvt) Ltd.
No.130, Glennie Street, Colombo 02
Sri Lanka

Auditors

Ernst & Young, Chartered Accountants,
201, De Saram Place,
Colombo 10, Sri Lanka

Bankers

Hongkong & Shanghai Banking Corporation Ltd.
Deutsche Bank AG
Nations Trust Bank PLC

Stock Exchange Listing

The Ordinary Shares of the Company are Listed with the Colombo Stock Exchange of Sri Lanka.

Subsidiary Companies

John Keells Foods India Private Limited.
Keells Food Products Mauritius.

KEELLS®

The Taste of Goodness

Keells Food Products PLC (PQ3)
No. 130, Glennie Street, Colombo 2,
Sri Lanka.