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TOP CA CASE STUDY EXAMINATION

DECEMBER 2010

ADVANCE INFORMATION

MOVING in SYNERGY

NEELAGIRI

These are some of the headlines that appeared in the country's leading newspapers in addition to the television news coverage on discriminated service at Neelagiri. In the first week of December 2009, national media picked up and ran the classy – non classy discrimination allegations against Neelagiri Food Corner (NFC). They claimed that business managers are responsible to society and they should not segment the community for their narrow business purpose. If a business does that, they should not appear as everybody's business externally. Being a member of a group of business prized by people, challenging multinational restaurants like KFC and McDonalds while continuing Sri Lankan traditions, NFC should not favour any particular group of people in a peaceful country. NFC spends a fair amount of money for different projects like free healthcare clinics and medical support for people in rural areas. The products of 'Neelagiri Foods' are popular among all the people irrespective of the level of income or social status. Neelagiri Foods appears as an entity for all Sri Lankans; in reality however, they serve only posh people at their city restaurants. The customers in executive dress are served early; if the same customers come in national dress next day, they are served late. This style of treatment was not new to NFC. But, the management has never accepted any of these complaints; the chairman of the group has instructed all his staff to treat all customers equally. The marketing manager of the NFC and five other marketing managers of the group never permitted selective treatment whatsoever in any of its restaurants or other business divisions.

NFC is an entity of a group food processing company, Neelagiri Foods PLC (NF), a public company with a number of poultry and dairy farms operating in different districts. NFC food prices are not that high, but the service culture has created a classical market. NFC at Union Place is open till midnight every day and has created the highest revenue during the recent past (See Appendix 1-Table 5). Majority of the NFC staff from the rural sector and, the staff of Snack bars are not employees of NFC. A clash between a group of students of an international school and NFC staff members at Majestic City-Snack bar was reported in 2008. NFC operates in Negombo (Snack bar), Kandy, Galle, Beruwala (Snack bar) and Gampaha. The snack bars are all franchises; each franchisee was given an interest free loan of about Rs. 2 million when the business started. NFC restaurants had employed 142 employees by the end of 2009. Each restaurant has a General Manager accountable for creating and running an energetic and valuable work environment, who is committed to serving the best at the fastest speed. The Restaurant General Manager reports directly to finance director at corporate office and is accountable for successfully implementing and maintaining all Company policies and procedures in relation to operations, customer service, cash handling, marketing, procuring, human resources, health and safety, administration, training and development. Restaurant General Managers are sourced internally, so they will need to earn this position in the Company through promotion. Assistant Managers help with day-to-day running of the restaurant.

This time the incident at Union Place was severe, because the customers were the top lawyers of the country. It was not apparent what really happened; regardless, the news and the charges were out. This is how one of the news articles reported: *16 lawyers, who had limited time –less than an hour to eat, ordered in rapid succession. When the six lawyers in casual wear realized that all the lawyers in office attire and one lady lawyer whose appearance was like a foreigner and who shared a table with those lawyers had been served but they had not, they sent one of them, to ask the waitress about it. She said their meals were on the way. When he asked to see the manager, she said he was on the phone. According to the article, after making numerous complaints, the lawyers had to leave without eating. A lawyer said he "felt humiliated" and that the incident was a "classic case of some kind of bias." The restaurant manager put it, "It's a service issue, not a discriminatory issue." Directors of NFC were to fire that manager for failing to report the lawyers' complaint to corporate office. The earliest anyone at corporate heard about the incident was when a reporter called for a comment. The whole thing seemed so ironic. Directors of NFC mentioned "It makes no sense that we would serve wealthy or well-dressed people creating a negative impact on our corporate values. Our competitors created an issue even last year that NFC discriminates wealthy and non-wealthy; these accusations are false. We're in tough times and need all the customers we can get."*

They needed to get a new message out broadly and quickly, yet real changes would take time to plan and to implement. Later, the management said in a press release 'NFC is everybody's home. We want to make it clear to all our valued customers that Neelagiri does not and will not tolerate discriminations of any kind. In a peaceful country, all Sri Lankans are served at our best. Discrimination is morally reprehensible and in direct opposition to our longstanding values and policies.

We are committed to enforcing these policies. We have served all Sri Lankans even in times where there were severe threats in Colombo. The group employs 403 farmers, 223 labourers and all are from rural areas. They all are the most valued strength of our group. White collar jobs are rare in our group. Being an agricultural and food processing company there is no reason to serve an upper income group, which is not the vision of the founder Deshamanya Neel Gunawardena. Thousands of our valued customers every day are not of a particular community group. We would like to thank them who continue to support and patronize our restaurants every day.'

NFC MENU

Occupancy and other operating costs, which remain relatively constant, have a disproportionately greater negative effect on operating results during quarters with lower restaurant sales. Many of the products sold in NFC restaurants are affected by commodity pricing and are, therefore, subject to price volatility. People like Sri Lankan meals, drawn from the soil and oceans of this tropical island they are always well-balanced and healthy. NFC strives to maintain this healthy tradition, by minimizing additives, trans-fats and like ingredients. They are always home-grown and authentic. Local favourites like hoppers, string hoppers and the cosmopolitan favourite, kottu are also in high demand, and one can find it laid out at every meal. Meat curries and rice dishes make up the main course, while vegetables find their way to the buffet wagon as curries and salads. The indispensable "mallum" a Sri Lankan preparation of various herbs shredded and seasoned with saffron, salt, lime and coconut is a must-try in the NFC spread. NFC business is moderately seasonal. Additionally, severe weather, flood and similar conditions may impact sales volumes seasonally in some operating regions. This volatility is caused by factors that are fundamentally outside of management control and are often unpredictable. In general, NFC purchase food products based on market prices or they set firm prices in purchase agreements with vendors. During 2009 and 2010, NFC's ability to lock in prices on several key commodities added to favorable product costs in an environment in which many commodity prices were on the rise. In addition, NFC's continued success with menu management helped to further reduce product costs. Promotional activities focused on menu items with lower food costs that still provided a compelling value to customers. The financial statements prepared not- for- publication are given in Appendix 1. Cost of franchise revenue in the income statement includes occupancy costs related to snack bars leased or subleased to franchisees. NFC manages exposure to fluctuations in interest rates on variable rate debt by entering into interest rate swaps. Interest rate differentials paid or received under the swap agreement have been recognized as adjustments to interest expense.

AMALGAMATION

Deshamanya Neel Gunawardena's father was able to run three coffee shops in Colombo. Neel wanted to start state-of-the-art fast food restaurants and this idea was supported by his family. Accordingly, Neel built his restaurant empire from the bottom up. He joined partner Piyal Giribawa, the owner of 'Giriba Hotels' and founded Neelagiri Food Corner, originally operating in Colombo and suburbs. Piyal was to sell his business to Neel, however, Neel wanted him to continue for at least some years. Piyal was a kinsman and the union of these partners was welcomed by the families.

Their business remained the fast-food and family-style restaurants that they owned, operated, and franchised. In 1981, Neelagiri incorporated under the name 'Neelagiri Foods' and Neel became the chairman. Under Neel's leadership Neelagiri Foods (NF) acquired Royal Family Restaurants, Colombo in 1998. Royal Family Restaurants made monthly revenue of Rs. 3 million at the time of acquisition. The deal increased NF's debt-to-capital ratio. Over the years, NF had grown from a coffee shop to one of the largest full-service restaurant chains. As the food-service market recognized the growing popularity of fried chicken, Neel thought to test the success of farming and food processing. Safe, fresh and nutritious food was the dream of the chairman; he wanted not only to reduce the cost of fresh meat and related items in facing the competition, but also to avoid dependency on a few suppliers. The chairman continuously steered subordinates with a unique management style to improve NF's bottom line. Neel's was a back-to-basics, common-sense strategy. With his background, Neel's greatest concerns were for unit-level people and store efficiency. Burdens on general managers at the store level were lessened, operations were simplified, and the administrative staff was reduced.

FARMS

Neelagiri Farm was started in 1985 with a 60 acre land in Gampaha. Broiler parent breeding farms and a hatchery were started and subsequently another breeder farm was established at Kondagahamulla. Commercial Broiler Farm operations commenced on a 65-acre site at Veyangoda in 1990 and a state-of-the art chicken processing factory equipped with advanced and sophisticated plant and machinery imported from Europe was also set up in the same year. The product range was named Neelagiri Farm Chicken - 'NFC', which became a popular brand later. The farms which grew, slaughtered, processed, and distributed whole chickens, chicken parts, and value-added poultry products to the retail food and food-service markets, are a leading poultry processor and marketer by now. Neelagiri ranked as the country's sixth-largest chicken producer. Neelagiri Foods traced its roots to four strong, regional poultry processors— Nisco Farm Gampaha, Marawila Poultry Marketing, Wariyapola Broilers, and Udugama Hill Foods. Udugama Hill was acquired in 1992. Neel did not want to market the products with the same brand, instead he marketed 'Nisco' chicken, 'MPM' chicken for Marawila Poultry Marketing and both Wariyapola and Udugama productions under 'BESTHill' brands. These brands were of high value for Neel when they were acquired and therefore Neel wanted to continue. Neel has been able to create a better loyalty for 'BESTHill' and 'MPM'. He used 'prime time' of Independent Television Network; a weekday evening drama telecast was sponsored by BESTHill, MPM and Ranbima Milk.

Neelagiri began trading publicly in 1994, when shares in the newly formed company were distributed to members of the Marawila Poultry as part of Neelagiri's acquisition of Marawila Poultry Marketing. While Giribawa owned 10% of the ownership, 60% of shares was held by the chairman.

The stock held by the Marawila Poultry represented nearly 15% of Neelagiri's total ownership and Neel's son (the head of dairy division now) owned 6%. NF's product offerings covers nearly the entire spectrum now, from whole birds to parts for retail, meat for further processing, further-processed parts, and value-added products, both cooked and uncooked. These products are sold through multiple channels of distribution, from retail to food-service. Value-added products made up nearly 34% of revenues in 2009.

The rise in the prevalence of the dual-income family is a characteristic of the new economy; it has created an increase in disposable income and a decrease in time available for food preparation in the household. Realizing this, NF began developing products that were value-enhanced, that is, products that saved time for the consumer by NF's performing some part of the preparation—removing the skin or bones, adding breading, marinating, precooking, or packaging the product with vegetables for a microwaveable dinner. In addition to being enthusiastically accepted by the consumer, the further-processed products also are more stable and higher in margins than basic commodity products. Higher-value products also have the advantage of reducing the costs of commodity-feed ingredients as a percentage of the total costs of production. Feed ingredients account for about 65% of costs for basic chicken products and less than 30% for value-added products. Value-added products include anything other than whole birds and bulk pack parts. Skinless, deboned tray pack parts had been around for some time. More recently, 'BESTHill' marinated or spiced parts and ground chicken had gained popularity. BESTHill Precooked products were perhaps the most promising area of growth. Neel was lucky to have innovative employees; an employee's patented process allowed for an extended shelf life of up to 10 weeks. In addition to traditional retail food products, Neelagiri also sold to food-service and fast-food customers. Neel's strategy was to continue growing internally and through acquisition. While he paid attention to maintain brands 'MPM' and 'Nisco', the efforts including 'NEEL'S FOODS-LOWEST COST: NFC' (See Figure 3 for a display at Havelock Town) low price chicken campaign has created a better market. Neelagiri's lean cost structure, high-quality product line, and pricing policy positioned it well to take advantage of the expected growth in demand for products. The Company's recent focus was on converting from a nearly pure commodity producer into a value-added food company. Marketing manager of NFC has suggested six new chicken products for the market including Crispy Fried Chicken, BBq Combo, Chicken Frankfurters and Chicken Nuggets. Capital spending had been strong for several years, while the company added new facilities and upgraded existing ones to improve productivity and allow further processing of birds and parts. Management expected that its focus on value-added products would lessen Neelagiri's susceptibility to the recurrent swings in commodity poultry and grain prices. A likely result would be a more stable and predictable revenue stream and higher return on capital that could enhance NF's valuation in the stock market. While Neelagiri would continue to expand its value-added product offerings, the Company stated that it did not want to abandon the commodity whole-bird market completely. Management believed that the Company had the necessary expertise to take advantage of the large swings that occurred in the commodity market while minimizing downside risk.

NEEL @ HUMAN RELATIONS

The chairman is admired; he has never charged any of them for disciplinary issues (see Table 1 for the employee position of the group). The employees call him 'Ape Mahattaya' and are prepared to do any work for the chairman without any pay. However, Neel paid attractive salaries to all employees.

The managers are given a car allowance equal to 40% of their salary, in addition to the incentives based on performance of their divisions. The group had no labor dispute, except the recent two employee labor cases. These two employees (minor staff) have been terminated on the ground of misconduct in 2005. They had instituted legal action at the labor tribunal against their termination. These actions were dismissed by the labor tribunal on the ground that the termination was legal, lawful and justifiable. However these two employees have challenged the judgment and appealed to the high court. The group retirement scheme introduced under an insurance policy was a unique benefit arranged by the chairman. The insurance scheme costs NF about Rs. 1.5 mn per month; under the scheme the employee receives a monthly pension of 75% of the salary at the retirement age. The management of NF is mindful of the responsibility to engage the interests of future generations. To this end, NF holds an annual business board game competition which promotes entrepreneurship among youths and young adults. It is called the NFC, where C stands for Challenge. Nearly 200 finalists competed at District-level in October 2009 for the chance to reach the national playoffs, which was recently held at the International Convention Centre in Colombo.

Table 1
Group employees

	2004	2005	2006	2007	2008	2009	2010
Number of employees- including all farm units	628	656	656	658	666	680	677
Number of employees in group leadership	28	28	42	42	58	59	46

RANBIMA STORY

When Neel offered 15% of his stake and Giribawa' s entire stake for sale to the public in 1997, NF planned to change further and embarked on an ambitious dairy development project in Manampitiya area. The Manampitiya farm, commonly known as Ranbima Farm, is situated in the Polonnaruwa District with an extent of 300 acres. 'Ranbima Dairy Products' has received a good customer response over the years. The Jayanthipura Farm, located in Giritale in Polonnaruwa District, has 100 acres. The production of Jayanthipura Farm goes under the same brand – "Ranbima Dairies". Neel's favourtie business now is dairy farming. He makes monthly visits to the Ranbima Farm with his family members. His son Ranil Gunawardena, a 27 year old management graduate, is the head of dairy division. It was Ranil who proposed to consolidate the ordinary shares of NF in January 2008, where the ratio was one for two and subsequently NF share price rose from Rs. 7.00 to Rs. 8.70. 'Ranbima Dairies' would be a separate company in future, and it has been suggested to run it as a fully owned subsidiary of NF. Currently the dairy division is fully decentralized and the accounts prepared using Sage Line 100. See Appendix 1 - Tables 6 and 7 for profit and loss accounts and balance sheets. Dairy division has a separate marketing manager, a finance controller, five agricultural and animal husbandry professionals including a doctor, 18 quality controllers, a general manager and three operations managers. Neel's vision is to provide the lowest priced fresh milk at the door step of every Sri Lankan by 2025.

Ranbima Farm's greenery, its wooden constructions, natural water systems, safety production methodologies and the loyal employees have been the best values of interest for the chairman. Neel suggested recently to move into fresh produce industry; production capacity of 4,000 cases of lettuce per month, with each case containing 24 heads of lettuce expected. Lowering the harvest-to-customer cycle would be a challenge to NF, but organic produce appears to be a sound decision on NF's part.

Ranbima Farm contributes about 2% of the country's milk production. Sri Lanka's milk production data has been given in Table 02 shown below. Average milk production per farm in Nuwara Eliya district has been the highest (9.6 *litres/*day) followed by Colombo district (8.2 *litres*/day) in 2009. The lowest daily average production per farm per day has been reported in Kegalle district 2 liters/day, All the other districts have recorded average milk production more than 3 litres per day. The United States Agency for International Development (USAID), funded Connecting Regional Economies (CORE) is also working with NF on a cost-shared basis, in forming a pilot scale dairy farmer network of 350 farmers in Manampitiya and Giritale to support NF's dairy supply requirements. The objective is to link the farmer groups to a consistent market to ensure an additional income stream to the participating farmers while expanding their income base. CORE together with NF is conducting technical training for all participating farmers. This includes better housing for the cattle, improved breeding practices, health and nutrition for the animals, milking practices and improved milk quality, and business basics for the farmers. In addition, CORE will provide grant assistance to farmers on a cost shared basis to introduce new housing for cattle, upgrade breeding stock and develop pasture lands. The programme will strengthen and expand dairy farmer organizational networks to include additional beneficiaries and enable them to actively participate in the restored dairy value chain in the Eastern Province.

Table 02
Average Monthly Production-milk

Product	Year (average per month)						
	2003	2004	2005	2006	2007	2008	2009
Cow Milk (Litres)	13,045,500	13,308,000	13,484,700	13,748,100	14,144,000	14,370,200	15,338,744
Buffalo Milk (Litres)	2,521,500	2,550,000	2,577,100	2,637,180	2,690,100	2,970,890	4,104,280
Total Milk (Litres)	15,567,000	15,858,000	16,061,800	16,385,280	16,834,100	17,341,090	19,443,024

Neelagiri Foods was awarded a Certificate of Compliance for the 1999-2000 Annual Report in the category of Food & Beverage Companies, in the Annual Report Competition organized by the Institute of Chartered Accountants of Sri Lanka. The Group was awarded the internationally recognized ISO 9002 Certificate for quality Management Systems. In addition, NF chicken Processing and Pre-cooked meat manufacturing factories were also simultaneously awarded the internationally acclaimed HACCP Food Safety Certificates.

For the second successive year NF was awarded a Certificate of Compliance for the Annual Report for the year 2000-01 in the category of Food & Beverage Companies in the Annual Report Competition organized by the Institute of Chartered Accounts of Sri Lanka. In its annual report for the year 2009-10, the chief executive officer Mr. Gamini Jayasekara who joined NF in 2009, mentioned that the group has planned for Rs. 500 million venture investment, recognizing the developmental state concept. The Government has set targets of *per capita* doubling within five years and tourist arrivals targeted to reach 2.5 million by 2016 from a current 500,000. The targets add to a number of developments that are taking place to enable Sri Lanka to reach a high standard of development and a quality of life that has eluded us over the years primarily due to the conflict and its cost. That opportunity is there now and we are gearing ourselves to cater to rising demand for chicken products from local consumers as well as from tourists, which are a few of the growth areas. Our performance has improved tremendously from the previous year when the Group encountered many difficulties that were similarly faced by businesses around the world due to the global financial crisis.

Falling demand, lower margins and shortage of credit were some of the issues. However, many of these issues do not exist today and the Company and the Group are looking forward to an era of sustained growth, given the enormous opportunities ahead which should provide more value to our stakeholders. The post-war era, the emergence of a peaceful environment - with no threat of bombs going off, etc. created unprecedented demand for chicken products. We had the chance to create new markets through supplying new processed chicken products to the existing markets. When I joined the Company, at the time when the share market did not grow, our share price increased by 6.9% from Rs. 8.6 even though the price came down to Rs. 6 as at 31 March 2010. We had an EPS of Rs. 11.598 in 2008/09 (this has been agreed with the annual report), however due to large investment in promotional activities the EPS for the year ended 31.03.2010 stood at Rs. 0.98 (negative) (this has been agreed with the annual report).

We expect a minimum of Rs. 12 in the next year. Our restaurant division, NFC was able to record a net profit of Rs. 16 million before interest and depreciation. Our supply chain takes only two days from the source to serve fried chicken at NFC. We bring chicken directly from slaughtering house which takes only half a day. Our chicken products reach the consumer in 3-4 days through the direct sales mobile service. This limited service in suburban areas is expected to be expanded in future. Direct supply chain helps freshness and secures nutrition too. Our promotion 'one to five' Rs. 200 standard meal package was very attractive. We offered this during January 2010. As the demand went high we had to stop the promotion campaign by 15th February. The campaign encouraged families, when they bought five standard meal packs one free pack was offered.

Mr. Jayasekara speaking to shareholders at Annual General Meeting said; 'If the demand continues and is sustained beyond the financial year under review, the Poultry Industry would be a major beneficiary from the development of the country which is expected to see rapid change in coming months. With income levels seen rising in a new development era, demand for consumer goods - particularly essentials like chicken and eggs - will rise, which would also put pressure on our current production facilities and capacities. As our Chairman states, there may be a need to look at investing in expanded facilities and ways of funding this expanded capacity.

Broiler farm operations and day-old-chicks performance of the broiler farms have been outstanding and these have in fact performed much better than the contract farmers in terms of productivity and other production parameters. The production of day-old-chicks not only helped to improve the bottom line but enhanced the performance both at the broiler farms and contract farms.'

ALI KHATIBI BIDS

Five Acre Farms PLC (FAF) was a leading poultry producer/processor in Sri Lanka. Since 1945, the company had acquired 11 farms in several areas. These acquisitions, together with growth in per-capita consumption of chicken, propelled FAF's production to one million broilers a week by the end of 2003. FAF is a foreign company, incorporated under the Companies Act of Sri Lanka. Early in 2004, Neel Gunawardena was contacted by Ali Khatibi, chairman of FAF, with a proposal to merge. The terms of proposal included an offer price of Rs.30 for a Neelagiri share. Although Neel had responded that Neelagiri was not for sale, he met informally with FAF to discuss the proposal.

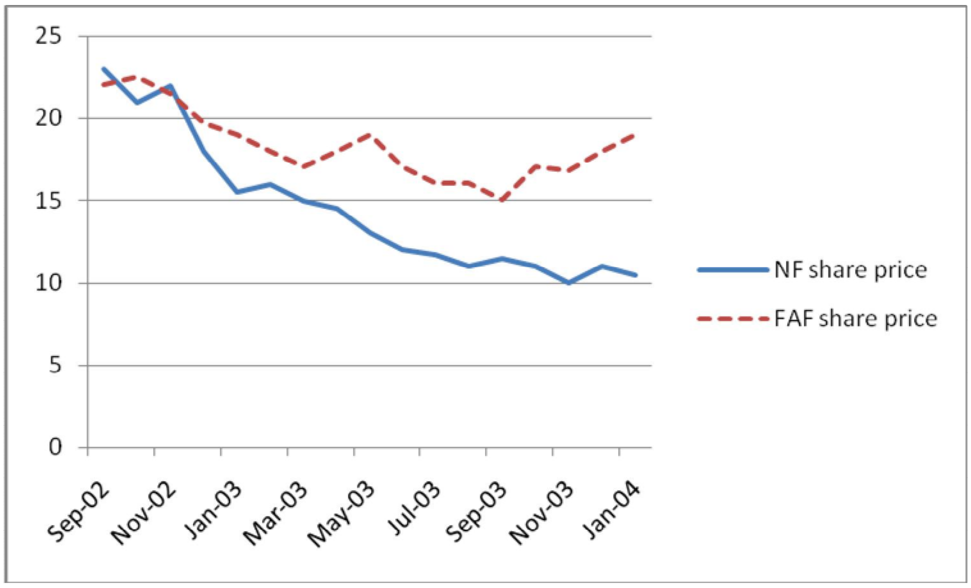
The offer was to purchase the entire company for Rs.30 a share. With approximately 11 million Neelagiri shares outstanding, the offer represented a purchase price of Rs.330 million for the equity, together with the assumption of approximately Rs.70 million in debt. At the time of the offer, FAF already owned 4% of NF's shares. The bid represented a 57% premium over Neelagiri's trading price of Rs.19 a share**.** After his meeting with Neel Gunawardena and despite Neel's indication that Neelagiri was not for sale, FAF sent a formal offer letter to Neelagiri's board. In this letter to the board, FAF stated that FAF would prefer an all-cash deal, but would consider negotiating a stock-and-cash transaction. The response by Neel, NF's president, was that FAF's offer was totally unsolicited, unwanted, and out of line with Neelagiri's long-term business plans and corporate philosophy.

In a press release issued the day after the offer, Neel said, "We certainly understand why FAF is interested in us—the problem is, we are not for sale." Some equity analysts predicted that a bid of Rs.30 or more could sway shareholders. "Definitely, at Rs.30 a share, this is a full and fair price for Neelagiri," said one analyst. A second analyst stated, "In our view, a transaction between the two companies will be completed within the next two to five months. This reflects FAF's past acquisitions history—including the protracted hostile acquisition of Cresent Farms—and also the significant premium being offered." FAF and Keels had been locked in a takeover battle for Cresent Farms in 1997. Finally, in 1999, after a two-year struggle, FAF won the fight, and Cresent came under the FAF umbrella. Other analysts argued that purchasing a poultry producer like Neelagiri was a more cost-efficient way of gaining market share than building a new plant, and it avoided such associated start-up problems as establishing a network of growers and building a feed mill and hatchery.

The poultry farmers who previously constituted the Marawila Poultry, however, were reluctant to allow control of Neelagiri to change. The farmers saw a change in control as potentially taking away the demand for their product; they feared FAF would shut down some Neelagiri operations if the deal was consummated. Moreover, the growers were also worried that they would lose bargaining power if there were one less company buying chicken.

And finally, the farmers had a personal relationship with Neelagiri management as well as some hometown pride at stake. Abeyratne, one of the hundreds of poultry farmers who grew chickens for Neelagiri and owned Neelagiri shares, was trying to get growers to sign a petition opposing FAF's bid. "I know business is business, but if I was buying something and you said no, and I tried to force you to, I don't think that is morally right,".

Figure 1
FAF and NF in the share market



To pressure NF's board to accept the deal, FAF had publicly argued that the offer was well above any level NF's stock price would likely reach and, therefore, represented a good deal for all stockholders. The company had also begun a campaign to reassure growers about how it treated its own suppliers. For example, one of its full-page ads in the local newspapers stated, "In the food business, if you're No. 1 or 2, you make a lot of money; No. 3 or 4, makes less; No. 5 and 6 don't make much at all." Although Neelagiri's operating margins were smaller, an acquisition could allow FAF to convert a portion of NF's fresh production to varying degrees of value-added product, resulting in a rise in NF's margin closer to its own. But a deal that looked good for FAF did not necessarily look the same to the Neelagiri executives who had spent years pumping profits back into the Company, building state-of-the-art plants, and making acquisitions of their own.

COUPON CRISIS

First week of July 2010 was a terrible period of time for NFC. The fiasco of its online promotion led the brand to a big crisis. The chairman said at a management meeting 'this is an issue created by so-called managers. Your promotion was designed to overcome the existing issues and it has created another issue. This is the reason I do not want to hire managers into our business. The good name I have created over decades is a result of my true interest in serving our customers with devotion and care. I have never cheated customers in my life.

I need people to continue our values and traditions. Now let's look back to the issue and try to learn some lessons from it.' NFC launched a campaign called Super Tuesday on its website early in July. The campaign was advertised two days ago in Sunday Lankadeepa. The paper advertisement invited consumers to access the web site of NFC on Tuesday. The rule of the campaign, dubbed a "one-second act," was set for 10:00 am and 2:00 pm on the day and involved 500 e-coupons for each "act." Unexpectedly, all the two types of e-coupons had been available to download from several online communities since late morning. They were soon spread out through various social media channels. *50% off coupon for the Rs. 1,000 NFC family bucket meal* was very much welcomed by consumers.

It was supposed to be released at 4:00 pm and only the first hundred people who managed to grab them were supposed to be able to use them, as NFC originally planned. However, the coupon itself was not clear on that. Instead, it was said the e-coupon could be used after it is printed and copies of coupons are also valid. During lunch time, consumers printed the coupon and brought it to NFC restaurants. Most of them were rejected with the excuse that the coupon was not supposed to be released and used until after 4:00 pm. Consumers understood the rule although they were disappointed. At 1:30 pm, NFC suddenly posted a statement on the campaign site, official site and official e-coupon site to shutting down the campaign.

"Dear valued customers: Following NFC releasing the first round of promotion, it received a warm response from many customers, but fake electronic coupons for the last round [of the promotion] have already appeared on specific websites. Because of this, NFC has temporarily decided to stop the second round of promotions. All coupons relating to the second round of promotion currently in the market are fake coupons, and NFC restaurants will not accept any of them. For any inconvenience this has brought to you, we ask for your understanding. With regard to the follow-up promotion, we will post a notice on the NFC official website later".

During dinner time, consumers who had read or not read the statement, came to the NFC restaurants with the coupons. Staff gave different excuses and some of them printed out the official statement and put it on the cashier's desk. This led to protests in many NFC restaurants by customers who felt they were cheated and being lied to. Some customers refused to leave, demanding explanations and that NFC honor their promotion.

POULTRY INDUSTRY

The poultry industry is characterized by discernible cycles, during which industry capacity tend to rise and fall according to poultry price levels. As poultry price levels rise, returns to producers generally rise as well. The increased returns attracted added capacity to the business, which in turn created price pressures that forced marginal producers out of business. Total feed costs accounted for nearly 65% of the cost of a chicken. Droughts, floods, or other extreme weather conditions could adversely affect producers' returns even in times of strong demand for poultry products. Sri Lanka has a total land area of 65,610 sq. km. Of this, around 2 million hectares or 30 percent is agricultural land. Almost 75% of the agricultural land is under smallholdings and the balance under estates.

The number of smallholdings is estimated at about 1.8 million and about 70% smallholdings is solely devoted to crop production; the remaining has a mixture of crops and livestock and in a few cases solely livestock. Based on the rainfall pattern and altitude, the country is divided into three main agro-ecological zones namely, low country, mid country and the hill country, and the low and mid country regions again being divided into a wet zone, an intermediate zone and a dry zone. The agricultural sector contributes around 16.8 percent of National Gross Domestic Production (GDP). The livestock sub sector contributes around 1.2% of national GDP. There are about 1.5 million cattle, 0.3 million buffaloes, 13 million poultry and 0.08 million pigs in the country with a negligible number of sheep, ducks and other species. The Department of Census and Statistics estimates approximately 154,000 poultry farms in the country. There are two grand parent farms which produce broiler and layer parents in Sri Lanka.

The farms faced the threat of several kinds of diseases during the recent past. Of the diseases, Salmonellosis which is transmitted vertically as well as horizontally is a major health problem in the poultry industry at present. It has been established that major source of infection derives from infected day old chicks produced by hatcheries which subsequently infect the other flocks. The government has taken measures to control diseases by implementing a special programme of screening breeder farms by regular testing at required time intervals. In addition government has set out Good Management Practices to strengthen biosecurity and health management which will contribute to the overall health improvement of breeder farms. Some of the leading poultry farms classified as free of such diseases by the Department of Animal Production & Health are listed below.

Table 3

Poultry farms certified

Asha Farm	Nelna Breeder Farm
Nova Breeder Farm	Regional Hatchery, Trincomalee
Dalugama Hatcheries	Bairaha Farm Hiripitiya Kottaramulla
Green Valley Farm	Nel Farm
Pussella Farm Kosgama	Marist Brothers' Farm
Nisadini Farm	NF Farms, Udugama, Marawila, Gampaha, Veyangoda
St Christoper Farms	MLE Farm
Marawila Farm	Pioneer GP Farm
Our Lady of Lourdes Farm	Fortune GP Farms
Sandalankawa Farm	Red Farm
Babywatte Farm	Five Acre Farms
Prima farms- Aswatta, Wewalpanawa, Meegoda, Makuluwaththa , Halwathura	CIC Farm
	Miriswatte Farm

Livestock are spread throughout all regions of Sri Lanka with concentrations of certain farming systems in particular areas due to cultural, market and agro climatic reasons. Dairy sector is the most important of all livestock sub sectors. This is primarily because of the influence it can have on the rural economy. Sri Lanka imports around 65,000 MT of dairy commodities, and dairy development is therefore seen as an instrument to replace this large volume of imported commodities and also to generate rural employment.

Unlike with pigs and poultry where certain religious and socio-cultural sentiments are seen in promoting the development of such species, dairying is acceptable to all ethnic groups and religious sectors. The milk production only constitutes about 17 percent of the requirement and the rest is imported. The import bill on dairy commodities is around 15 billion rupees or approximately 13 million USD. The government's attention is most focused on the dairy sub sector; to develop this sector into a '*local industry*'.

The government policy on dairy development is aimed at producing 50% of country's requirement of milk by the year 2015. Priority is therefore given for the dairy development in public sector investment programmes and several incentives offered to the private sector to engage in dairy sector. The dairy sector is predominantly based on small holders keeping 2-5 cows and their followers in most of the agro-ecological regions except the dry zone. In the dry zone the herds tend to be large, though the animals are mostly of the indigenous types with poor milk yields.

The estimated annual milk production in the country is 350 million liters and is produced in all the districts. The districts with a significant milk production are Kurunegala, Badulla, Anuradhapura and Nuwara-Eliya. Of the total milk that is available, the volume of milk entering the formal milk market annually is around 100 million liters and the rest is channeled via informal routes and consumed domestically. With the pressure on land for pasture production, the main milk production areas have recently been shifted from the mid and upcountry to the Northwestern and North Central provinces. From being a back-yard type of an industry, poultry industry of Sri Lanka has developed into a commercial industry over the past three decades.

In early 1950's the government of Sri Lanka launched a program to upgrade local indigenous poultry population in the country. Since then, this sector has shown a phenomenal growth, most prominently in the broiler sector, mainly due to active participation of the private sector. The industry today is in the hands of the private sector; the role of the state being confined mostly to implementation of poultry health management programmes, research and policy development for further consolidation of the industry. About 70% of the contribution to livestock sub-sector in Sri Lanka comes from chicken meat and eggs. With the current purchasing levels of consumers, the industry is capable of producing all local requirements of chicken meat and eggs. Sri Lanka produces about 120 million eggs per month, Kurunegala, Kandy, Colombo and Gampaha districts are the main areas of production. The table below depicts the chicken population of Sri Lanka over the recent years.

Table 4

Chicken population by Districts 2005-2009

	2005	2006	2007	2008	2009
Kurunegala	2,909,500	4,476,840	4,418,850	4,776,039	4,991,100
Colombo	987,900	791,930	1,361,880	1,209,461	896,340
Gampaha	1,071,300	1,109,678	1,330,200	1,139,416	1,260,540
Kandy	1,124,940	963,433	1,007,460	1,101,661	832,900
Puttalam	1,208,070	1,275,165	1,009,270	951,451	984,360

Source: Department of Census and Statistics

Chicken meat and eggs becoming relatively cheap compared to other animal products have thus made these products the most consumed animal protein sources in the average Sri Lankan diet. Chicken meat and eggs are available throughout the country, in supermarket chains in the main cities and in small retail shops in rural areas. The broiler industry is mostly integrated and employment opportunities are provided through contract grower system.

Branded chicken is marketed through 15 large and medium scale broiler processors. Manufacture of value added products has become a lucrative industry with export potential. Already four broiler processors and five further processing companies have obtained certification under internationally accepted HACCP system. Three local grand-parent farms produce around 70% of country's requirements of parent birds.

Quality poultry feed is produced by local feed manufactures and two multinational companies are also engaged in the feed business in the country. However, around 85% of feed raw material requirements are currently being imported. With the ever-increasing world market prices of raw materials, and possible shortage in the global market due to conversion of maize into 'bio – fuel', the Livestock Ministry together with the Ministry of Agriculture and the Central Bank of Sri Lanka has taken steps to develop and expand maize cultivation in Sri Lanka. There is a greater interest now by the private sector in maize growing using contract farmers and this will soon have a positive effect on the poultry sector.

Goat production is a traditional form of livestock production among farms especially in the dry zone. About 75% of goat population is located in the dry and intermediate zones in Sri Lanka and goat production is practiced as an extensive production system. However, there are other production systems also and the system of goat farming varies according to the agro-ecological zone, land/fodder availability, type of breed and socio-cultural patterns of the society. The extensive management system is mostly found in the dry zone and intermediate zones whereas semi-intensive management system is practiced mainly in the coconut triangle.

The intensive management system is practiced in the urban and sub-urban areas, hill country and mid country and in the Jaffna peninsula. Goats in the extensive and in the semi-intensive systems are produced primarily for meat. Goat milk is becoming popular for its health benefits and, rearing dairy goats under intensive management is therefore becoming popular in recent times. Pig production is mainly concentrated in the coastal belts of Western and Northwestern provinces. Extensive, semi-intensive and intensive management systems are seen in this sector.

Present swine population is around 80,000 and, annual pork production is estimated to be around 9,500 MT. Pork contributes about 1% to the livestock component of the GDP. Similar to goat sector, swine industry also has not shown any remarkable growth over the past decades. Although there is a considerable demand for pork and pork products, lack of market development and diversification is a major constraint for industry expansion. Added to this, environmental related issues have become a major threat to pig farming in urban and semi-urban areas.

The leading milk collector in Sri Lanka Milco (Pvt) Ltd, processor and marketer of processed dairy products, holds a market share of about 54% of total milk collected in the formal market. Milk collection is done by nearly 2,000 Farmer Managed Societies (FMSs) spread throughout the country and established by this company. Of the private sector agencies involved in livestock activities Nestle' Lanka Limited, is a major player and is a subsidiary of Nestle'. It is the second largest milk processor next to Milco (Pvt) Ltd. They are engaged in producing a wide variety of dairy products including full cream milk powder. Kotmale Dairy Products, Lucky Lanka Dairies (Pvt) Ltd, Lanka Milk Foods (Pvt) Ltd, Fonterra Brands (Pvt) Ltd, Balangoda Farms, Ranbima Dairies, Hatton Creamery (Pvt) ltd, GoodLife Milk Foods are the other players of sizeable milk processing capacity. Also, there are several medium scale and small-scale private sector organizations and cooperatives involved in milk collection and milk processing in the country.

Rural poultry rearing has been the most popular livestock farming practice with many households engaged in layer farming with few birds to well managed medium scale farms. Established companies are engaged in contract growing which increases farmers' income and employment opportunities with no risk in marketing. The cost estimates reveal that feed alone accounts for about two third of total costs. Thus availability of quality feed at reasonable price for rural areas would provide an opportunity to produce more poultry products. Proper marketing facilities and price for products would go a long way in expanding the rural poultry industry in Sri Lanka. Private sector is very much involved in poultry feed manufacture, poultry breeder farm and hatchery management, large-scale commercial poultry production, and poultry processing. Two multinational companies are also engaged in integrated operations in the poultry sector. Similarly the private corporate sector involvement is active in the supply of veterinary pharmaceuticals and vaccines and in the supply of machinery and equipment, mainly for the poultry industry.

The following is a news item extracted from *Lanka Business online.*

> Sri Lanka's poultry industry has been squeezed by taxes on imported maize which pushed feed costs up and price controls on processed chicken which worsened a downturn in the industry, a top agricultural firm has told *Lanka Business Online*. Ceylon Grain Elevators group, a unit of Singapore's Prima, said an economic slump in early 2009 reduced demand for chicken as consumers ate out less and tourist arrivals also plummeted. In the annual report to shareholders, chairman stated: "With the continued downturn of the economy during the early part of the year, we witnessed a strain on consumer purchasing power and reduced demand for processed chicken. Lacklustre demand brought about a drastic scaling back of capacity in the poultry industry as a whole during the first few months of 2009."
> The group produces day-old chicks, processes and markets chicken and produces feed. As demand for chicken fell, the industry was hit by a government decision to restrict the import of maize through high duties pushing up the cost of chicken feed. Chairman said: "Though the Government's aim was to assist the local maize grower, the policy has had a negative impact across the industry.

> "The local grower, unable to meet the demand and desired quality levels, compelled the industry to purchase maize at higher prices. On average, the landed duty paid cost of imported maize was approximately 30 per cent cheaper than maize purchased in the local market." Grain Elevators says due to poor storage and harvesting facilities a majority of the maize grown locally is not of good quality in addition to being expensive. It cut its own costs, trimmed capital expenses and looked to re-formulate feed with the use of substitutes. Industry feed volumes were estimated to have dropped to 432,000 metric tonnes in 2009 from 456,000 a year earlier. The firm claims a 28 per cent market share. "In spite of cost-saving efforts, a significant number of poultry farmers shut down their farms during the year." A CEO of another company said day-old broiler chicken production had been cut by 10 per cent a month or 500,000 chicks and layer production had reduced to 0.05 million. When consumer demand picked up later in the year, there was not enough supply. We estimate the current shortfall at around 500,000 broiler chicks a month and 50,000 layers. But government price controls in processed chicken had badly hit poultry farmers, who would otherwise have been able to re-enter the industry with the help of higher margins, the firm said. "In a free market state of affairs, supply and demand would readjust itself at a natural equilibrium benefiting both consumers as well as the producers," CEO said. "But, with a stringent Government price control of 320 rupees for a kilogram of processed chicken, market instruments were unable to create this equilibrium. As a result, the market faced a shortage of processed chicken, while the industry lost an opportunity."

Neel Gunawardene, in their 2009/2010 annual report, mentioned; 'the national industry is recovering and increasing production following the relaxation of state restrictions. Sri Lanka's poultry industry has been hit badly recently by state price controls on chicken and import controls which 'protect' maize farmers but at the expense of chicken farmers. The state has now relaxed its controls on maize after the crisis in the poultry industry developed. The main challenge faced by our group was the Government's resistance to price increase as the Government desired to control price of chicken. However, after a prolonged delay a satisfactory price increase was eventually granted in February 2010. The government encouraged local cultivation of maize by not allowing imports but this led to a shortage of maize during certain months of the year. This policy was overturned following the realisation that there was an acute shortage of maize in the country. A limited quantity of maize was then allowed to be imported under a special permit scheme. Self service supermarkets in particular, which did not sell at 'black market prices' were frequently out of chicken last year due to price controls. Increased tourist arrivals are now creating more demand for poultry and demand is also coming from the North and the East of the island, after the end of the war. It took nearly 10 years for the Sri Lankan Poultry Industry to double its production and consumption, and now with the potential for massive growth, doubling production in a shorter period is not too far away, provided the consumption grows as expected.

Some of the analysts' view is that the future of the poultry industry is bright and the demand for poultry will increase at the expense of beef and high prices of fish which has been the main protein source in the traditional diet. Demand for poultry has been increasing due to urbanization and increasing disposable income and therefore fully integrated companies with good processing facilities will have a prosperous future.

"Consumers are suffering as a result of market failure due to wrong market interventions" an industry expert said to media in September 2010. Government had enforced a maximum price for processed chicken at Rs. 320/kg earlier and the farmers earned a loss due to the high cost of production. As a result supply declined and recently the government increased the maximum price to Rs.350/kg. However, according to the Department of Census and Statistics (DCS) the average open market price of fresh chicken in Colombo was reported to be Rs. 427.46/kg in August. It increased to Rs.486.32 in the first week of this month. I think once we see self-sufficiency in maize, rice and poultry products we will not see shortage in the future. At the moment decisions taken by policy makers to develop, agri-business sector is commendable.

There are hidden gems (hidden brains) in some of the agri business institutions and I think they will make agri-business sector a vibrant sector in the future by providing support service to the farmers by introducing new harvest methods, better storage facilities and high yield maize varieties etc. There will be long term positive effects on the industry. Industry cannot increase suddenly. It is same in other countries as well. There are shortages in many countries. Globally meat, chick and poultry prices will go up further in the coming decade. In Sri-Lanka, companies such as Bairaha, Prima, Cargills, Nelna, Keels and Neelagiri are expanding their business gradually. I heard NF has already purchased their new land to build another large broiler farm and they are into maize projects as well. They are investing gradually now and they will expand their business further in the future. These main poultry processors have to produce chicks not only for the local market but also for the export market now. In addition, they have to supply value added products to hotels and future important events in Sri Lanka. They also have new markets such as North and East. Rapid economic development, higher per capita income also will create more demand for chicken, eggs and value added products in the future. Poultry companies, poultry farmers, self-employment projects, customers, consumers, maize growers and rice famers all should benefit. If we can maintain cost competitiveness in the industry there will be more export opportunities in this sector in the coming two decades.’

Table 5
Poultry Industry statistics

Item Year	Poultry Population (Mn)	Availability of Chicken Meat ('000 MT)	Production of Eggs (Mn)	Human Population (Mn)	Per Capita Availability	
					Chicken Meat (Kg.)	Eggs (No.)
1999	9.92	56.20	748	18.21	3.09	41.08
2000	10.62	66.50	769	18.47	3.60	41.64
2001	10.65	71.30	788	18.73	3.81	62.57
2002	10.61	74.71	742	19.00	3.93	67.84
2003	9.77	80.31	737	19.30	4.16	67.05
2004	11.04	77.77	728	19.44	4.00	80.40
2005	11.63	86.27	1449	19.66	4.39	73.70
2006	13.11	85.25	1243	19.87	4.29	62.55
2007	13.77	100.06	1252	20.08	4.98	63.00
2008	14.46	102.51	1380	20.44	5.01	67.51
2009	13.61	100.15	1355	20.44	4.90	66.31

Table 6
Poultry (Number)

Poultry	2003	2004	2005	2006	2007	2008	2009
Cock Birds	1,350,400	1,585,300	1,692,840	1,836,369	1,966,320	2,149,680	1,906,141
Hens	5,158,800	6,104,300	6,368,890	7,214,306	7,496,740	7,882,140	7,216,104
Chicks	3,262,900	3,352,360	3,574,040	3,935,076	4,315,550	4,299,350	4,493,046
Total Chicken	9,772,100	11,041,960	11,635,770	13,116,920	13,778,610	14,462,274	13,615,290
Ducks	15,970	16,440	16,155	16,390	16,050	18,410	15,244

Value added meat products (i.e. sausages, meat balls) are popular among Sri Lankan consumers, particularly with younger generation. Less than ten meat processing companies are presently engaged in manufacturing these products. Quantities (MT) of value added products manufactured by these companies during 2004 to 2009 (up to June) are given in *Table 7*.

Table 7
Manufacture of value added meat products (MT)

Product	2004	2005	2006	2007	2008	2009
Chicken	5050.27	5544.79	5224.34	5411.81	7858.1	2902.74
Beef	1126.43	1045.44	316.5	276.15	495.93	105.48
Pork	269.18	292.89	1031.2	722.43	185.36	298.95
Mutton	125.27	92.15	99.88	78.1	35.9	45.02
TOTAL	6571.15	6975.27	6671.92	6488.49	8575.29	3352.19

ECONOMIC OUTLOOK

Colombo bourse has become a new investment hotspot following the end of the three decade long war against the back drop of positive macro economic outlook, increasing corporate earnings and falling interest rates. Of course the market re-rated itself to a newer and higher valuation plane with all time high levels where the market is currently trading at a four quarter trailing Price Earnings of 27. However with the bourse exhibiting irrational exuberance over the past few months it gained +100% YTD, the valuation of considerable number of counters have become unattractive. Stock brokers and analysts have recommended investors to take profit and increase the cash allocation with the rapid and sharp appreciation in the prices. On the back of stable political and economic environment coupled with low interest rates and higher corporate earnings the market holds long term potential. However the hasty and sharp appreciation in prices has made the valuations unattractive for many counters.

Table 8
Share Market Developments

	Market Capitalisation Rs. Bn	Share price indices	
		CSE All Share	Food
2005	584	1,922	1,890
2006	834	2,722	3,208
2007	820	2,541	3,184
2008	488	1,503	2,510
2009	1,092	3,385	5,382

Figure 2

Table 9
Economic indicators

	Unit	2005	2006	2007	2008	2009
Gross Domestic Product (GDP), at constant prices	Rs. Billions	1,941.60	2,090.50	2,232.60	2,365.50	2,449.30
GDP, current prices	$ Billions	24.4	28.2	32.3	39.6	41.3
GDP per capita, current prices	$	1,241	1,421	1,634	2,014	2,053
Market Price Earnings Ratio	Times	12.4	13.9	11.6	5.4	14.4
Treasury Bill Yield 12 months	% p.a.	10.37	12.96	19.96	19.12	9.33
Treasury bonds 1+ Years	% p.a.	13.4	13.62	19.34	21.05	10
SLIBOR	% p.a.	14.2	14.73	21.75	13.74	9.03
Commercial banks deposit rates AWDR	% p.a.	6.25	7.6	10.31	11.63	8.03

Table 10
Government debt rates

T- Bond %		
Maturity	Bid	Ask
1/3/2011	9.58	9.65
15/04/2012	10.55	10.6
1/2/2013	10.75	10.9
15/07/2014	11.65	11.75
15/03/2015	11.9	12

Appendix 1 - Table 1
Financial information of NF
Internal Accounts : Summary of group Profit and Loss Account

Rs. Mn

	2006	2007	2008	2009	2010
Revenue	2,502.00	2,486.50	2,365.00	2,220.25	1,998.48
Cost of sales	(1,919.00)	(2,070.25)	(1,890.75)	(1,697.25)	(1,440.62)
Gross profit	583.00	416.25	474.25	523.00	557.86
Distribution costs	(270.00)	(251.00)	(247.50)	(222.68)	(255.00)
Administrative cost	(241.00)	(217.25)	(208.00)	(188.80)	(230.00)
Other expense	(4.00)	(5.00)	(19.50)	(17.24)	(17.50)
Profit from operations	68.00	(57.00)	(0.75)	94.28	55.36
Finance expense	(102.00)	(132.50)	(135.00)	(107.50)	(112.50)
Other income	48.20	54.50	30.25	70.00	53.25
Profit before tax	14.20	(135.00)	(105.50)	56.78	(3.89)
Income tax	(23.00)	55.00	47.50	7.00	(1.50)
Net income	(8.80)	(80.00)	(58.00)	63.78	(5.39)

Appendix 1: Table 2

NF

Internal Accounts : Summarized Balance Sheet

Rs. Mn

	2007	2008	2009	2010
Cash and bank (net of overdrafts)	1.4	1.4	1.1	4.4
Debtors (net of Advances)	296.0	326.0	260.0	267.0
Inventory	554.0	492.0	402.0	415.0
Other current assets	76.0	59.0	24.0	68.0
Property plant and equipment	808.0	793.0	722.0	702.0
Investment property and intangibles	144.0	154.0	234.0	244.0
Other assets	104.0	117.0	137.0	114.0
	1,983.4	1,942.4	1,780.1	1,814.4
Accounts payable	232.0	252.0	268.0	279.0
Current portion of long term debt	643.0	256.0	241.0	252.0
Other Short Term borrowings	202.0	204.0	184.0	221.0
Tax liability	11.0	4.0	6.0	9.0
Other payables	108.4	103.4	84.1	143.4
Long term debt	234.0	674.0	526.0	454.0
Deferred tax liability	123.0	77.0	21.0	11.0
Share holders equity	430.0	372.0	450.0	445.0
	1,983.4	1,942.4	1,780.1	1,814.4

Appendix 1: Table 3

Internal Accounts: NF Restaurants Profit and Loss Account.

	2008	2009	2010
	Rs. '000	Rs. '000	Rs. '000
Company restaurant sales	644,621	548,264	388,948
Franchise revenue	26,123	28,238	27,200
	670,744	576,502	416,148
Costs of company restaurant sales			
Product costs	185,943	137,545	104,861
Payroll	155,710	171,933	117,612
Occupancy	50,977	40,415	31,937
Other	123,310	100,182	73,496
	515,940	450,075	327,906
Costs of franchise revenue	12,005	13,933	12,626
Administrative expenses	67,374	60,970	57,282
Depreciation	49,347	39,766	32,343
	644,666	564,744	430,157
Profit from operations	26,078	11,758	(14,009)
Interest	22,957	21,457	22,600
Net	3,121	(9,699)	(36,609)

Appendix 1: Table 4
Internal Accounts: NF Restaurants Balance Sheet.

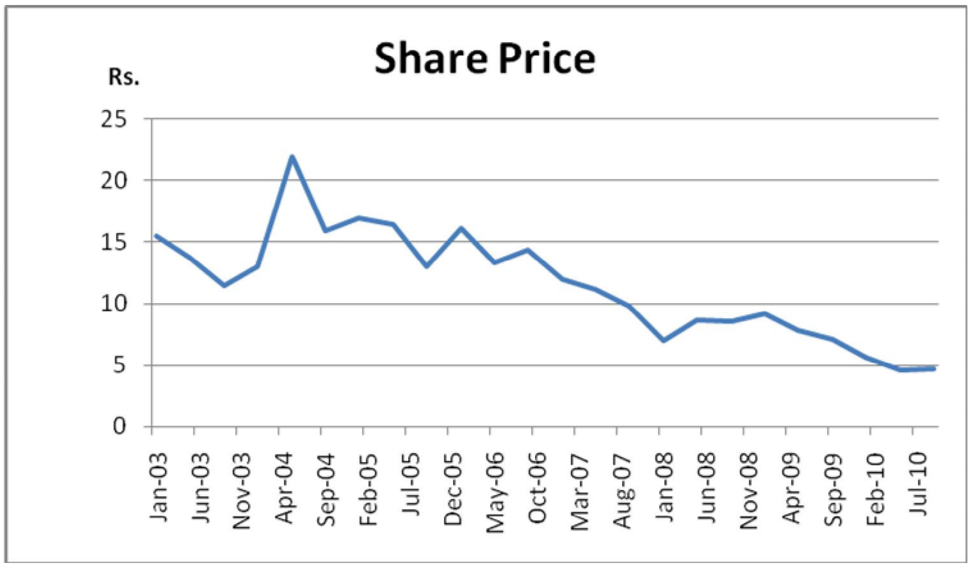
	2009	2010
	Rs. '000	Rs. '000
Cash	21,042	26,525
Receivables	15,146	18,106
Inventories	15,455	14,165
Assets held for sale	2,285	-
Prepaid & other assets	9,531	9,549
Property, Plant Equipment	159,978	131,484
Intangibles	93,441	87,550
Investment property	3,879	2,676
Other	31,041	32,572
	351,798	322,627
Current maturities of term loans	1,403	900
Current maturities of leases	3,535	3,725
Accounts payable	25,255	22,842
Other current liabilities	76,924	64,641
Long-Term loans	300,617	254,357
Lease liability	22,084	19,684
Deferred Liability	25,832	21,687
Deferred tax	12,345	13,016
other liabilities	63,237	49,273
NF account	(179,434)	(127,498)
	351,798	322,627

Appendix 1: Table 5
Sales at NFC Rs. Mn

	December 2009	March 2010	June 2010
Union Place	11	8	6
Colpetty	9	7	6
Rajagiriya	6	4	4
Kandy	5	4	4
Galle	4	3	3
Gampaha	5	4	5

Figure 3
NFC's Digital Displays

Appendix 1: Figure 1
Behaviour- NF share price



Appendix 1: Table 6

NF Dairy Division: Ranbima Dairies

Summary of Income Statement

Year Ended 31 December	**2007**	**2008**	**2009**	**2010**
	Rs.	Rs.	Rs.	Rs.
Revenue	220,037,143	429,953,652	541,325,482	519,802,417
Cost of Sales	(172,747,919)	(322,477,593)	(455,696,407)	(340,219,617)
Gross Profit	47,289,224	107,476,059	85,629,075	179,582,800
Amortisation of Grant	1,273,933	1,910,900	1,910,904	1,910,904
Other Operating Income	5,644,255	2,056,445	11,848,515	14,441,038
Distribution Costs	(19,444,865)	(35,018,234)	(51,805,704)	(87,547,710)
Administrative Expenses	(19,337,519)	(28,849,497)	(30,925,348)	(59,916,222)
Finance Costs	(8,730,753)	(21,867,666)	(11,127,681)	(19,973,494)
Profit before Tax	6,694,275	25,708,007	5,529,761	28,497,316
Income Tax Expenses	-	(804,665)	(6,733,254)	(14,245,822)
Net Profit for the Year	**6,694,275**	**24,903,342**	**(1,203,493)**	**14,251,494**

Appendix 1: Table 7

NF Dairy Division: Ranbima Dairies

Summary of Balance Sheet

Year Ended 31st December	**2007**	**2008**	**2009**	**2010**
	Rs.	Rs.	Rs.	Rs.
Non-current assets				
Property, Plant and Equipment	111,331,550	129,863,476	140,249,929	130,528,521
Intangibles	78,312,923	74,191,190	85,408,033	77,408,033
Biological Assets	0	0	1,500,000	1,500,000
Current Assets				
Inventories	9,315,957	35,608,720	39,313,408	34,428,443
Trade Receivables	71,627,154	86,115,369	118,379,810	167,231,205
Prepayments, Deposits and Advances	4,922,991	4,351,437	8,569,525	10,193,794
Other Receivables	54,198,328	54,286,905	31,001,979	32,836,265
Short Term Investment			16,306,362	
Cash and Cash Equivalents	2,312,299	1,450,491	21,410,871	31,142,490
Total Assets	**332,021,202**	**385,867,588**	**462,139,917**	**485,268,751**
NF Account	106,278,416	119,423,618	230,549,479	249,767,277
Non-Current Liabilities				
Deferred Liability	16,242,650	14,331,750	12,420,846	10,509,942
Long Term Borrowing	66,546,995	119,015,157	27,212,460	20,018,974
Retirement Benefit Obligations	3,443,076	4,282,925	5,451,099	7,442,251
Current Liabilities				
Trade Payables	63,623,312	84,140,262	110,705,866	118,977,970
Short Term Borrowing	50,380,208	21,586,027	18,939,527	19,394,951
Other Payables	225,000	4,990,000	36,986,139	16,011,861
Bank Overdraft	25,281,545	18,097,849	19,874,501	43,145,525
	332,021,202	**385,867,588**	**462,139,917**	**485,268,751**