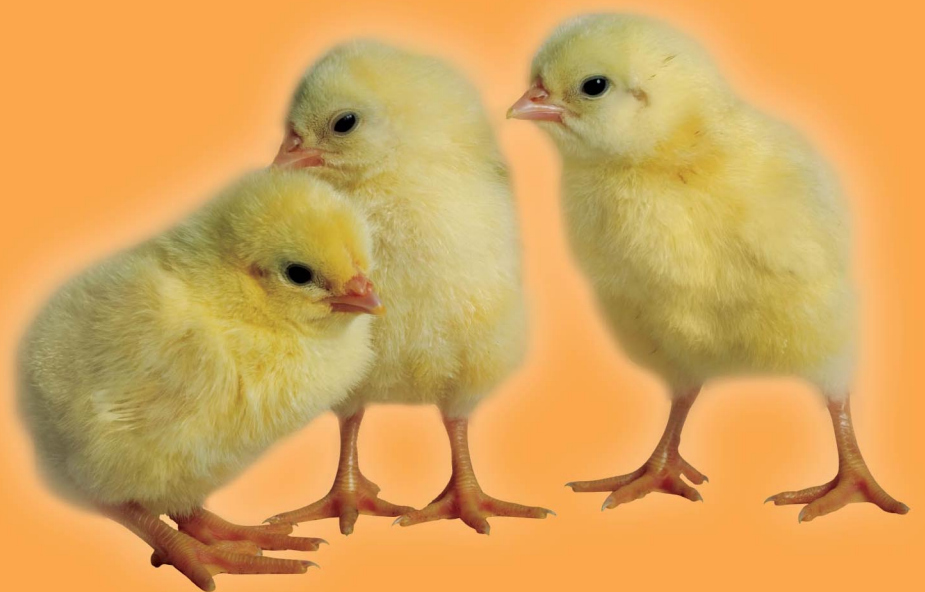


Three Acre Farms Limited
Annual Report 2007

*partnerships*³





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

History

Three Acre Farms Limited (TAFL) was established in 1963, primarily as a commercial layer farm. The Company's name was derived from the original three acres of land on which the farm was situated. On 2nd September 1992, TAFL was acquired by Ceylon Grain Elevators Limited for the purpose of expanding their own chick production facility.

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

vaccination, feeding and selection will hatch fertilized eggs after 6 months which when hatched will give rise to parent day old chicks. CPPBL holds the valuable sole franchise for "LOHMANN INDIAN RIVER" parent stock breed. CGE/TAFL also hold the franchise in Sri Lanka for "HY-LINE" breeds of commercial layers.

The Company currently operates from three (3) poultry breeder farms, viz., Meegoda, Kosgama and Halwathura while its wholly-owned subsidiaries, Ceylon Pioneer Poultry Breeders Limited operates from Aswatte and Makuluwatte and Millennium Multibreeder Farms (Pvt) Limited operates from Wevalpanawa. The first two farms are located along the High Level Road linking Colombo to Avissawella while Halwathura Farm is in the District of Kalutara. The Company is constantly upgrading its farm infrastructure to levels more commonly found in the more developed nations. The

farms at Bulathsinhala, Kalutara and Beruwela undertakes commercial and livestock farming.

Another significant achievement for the TAFL Group is that as at the end of the calendar year, it owned on a freehold basis a total land extent of 298 acres with a total cost in the books of SLR 356 Million. The Directors have sanctioned the expansion of the breeder farms and Management are constantly on the look-out for suitable land for this purpose.

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

Healthy Organisation

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

Honest Future

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

Honourable Winner

Achieving success through fair competition. Striving towards excellence.

*partnerships*³

At Three Acre Farms we have built our business on the strength of our relationship with our partners. The corner stone of our business philosophy is to build relationships with our partners that establish trust, fairness and mutual benefits to all within our business circle. More than attempting to establish standard partnerships, we at Three Acre Farms are constantly striving to create partnerships to the power of three. A stronger, deeper and more meaningful kind of partnership.



Contents

1 - Contents	2 - Chairman and Chief Executive's Review	
4 - Operational Highlights	5 - Report of the Directors on the State of Affairs of the Company	
8 - Auditors' Report	9 - Income Statement	10 - Balance Sheet
11 - Statement of Changes in Equity	12 - Cash Flow Statement	13 - Accounting Policies
18 - Notes to Financial Statements	31 - Five Year Financial Summary	32 - Shareholder Information
33 - Notice of Meeting	34 - Notes	35 - Proxy

Chairman and Chief Executive's Review ³

It is with great pleasure and sincere pride that I present to you the annual report and audited financial statements of Three Acre Farms Limited and its subsidiaries for the year 2007, on behalf of the board of directors.

We are proud to report that your Group has experienced tremendous success in all spheres of operation, no easy feat especially considering the challenging market conditions prevailing in the country. .

Despite the severe pressure felt by the industry at large however, TAFL managed not only to maintain our market dominance but also to achieve profitability in spite of increasing operating expenses, raw material costs and the fierce competition we are now facing.

Forging ahead

Though raw material costs rose significantly in the world market inevitably driving the cost of production up, the Group was able to cushion these additional cost burdens by increasing productivity, thereby easing the strain on profit margins. A reduction of market supply and the re-mergence of the small farmers after the avian influenza threat that prevailed in 2006 had abated, drove the demand for Day Old Chicks (DOCs) and layer birds up in 2007 despite customer reticence with regard to processed chicken.

With the selling price of DOCs increased significantly during the course of 2007, the Group recorded revenue of Rs 925 million, an increase of Rs 239 million compared to the previous year. This price hike and the marginal increase in demand volumes buffered the enormous production costs and helped TAFL to stabilise its finances and generate profits.



Fears of avian influenza, which plagued the industry during 2006, gradually eased during 2007, signaling a recovery in consumer confidence in poultry once again. The Group was also quick to recover from the labour strike of 2006 which resulted in a high mortality rate and poor performance. In 2007, the Group was able to negate many of the adverse effects of that labour unrest and improve performance.

Financial review

I am extremely happy to report that the Group has been able to make strides towards profitability in the year 2007 compared with the previous year. The net profits of the Group stood at Rs. 61.4 million, at the end of the year in review, a significant improvement from the mere Rs. 3.3 million in 2006. This achievement is even more laudable considering the adverse macro economic conditions prevailing in the country. The success has been attributed largely to the sound management policies adopted by the Group and the tireless efforts of our personnel who made it possible for the Group to increase its revenue by 35% in 2007. Although the challenges confronting us will not abate in the near future and the economic conditions prevalent in the country today provides corporate entities little hope for strong financial viability, I am more than confident that the strength of our team and our strategic partners will propel our march forward towards profitability and success in the year 2008.

Partners in progress

The strength of the Group has been in its ability to strategically readjust itself in the wake of evolving market conditions. To this end, we have been able to foster mutually beneficial partnerships with a number of strategic corporate allies. Fixed agreements with these partners has accounted for more than half of TAFL sales in the year under review and the Group hopes to strengthen and foster these ties in 2008.

The Group has managed to keep the PRIMA brand of commercial DOCs at the zenith of customer desirability by maintaining the high quality breeding standards. The brand remains at the top of the market, strengthened by the high quality, rapid growth and attractive yield that are the hallmark of TAFL chicks.

Our parent company, Ceylon Grain Elevators spoke for one third of commercial DOC sales while fixed agreements with processors and dealers accounted for the rest.

Chairman and Chief Executive's Review Contd... ³

Embracing the future

As part of its strategic restructuring efforts, the Group plans to relocate some of its operation at the Bulathsinghala farm to the ultra modern facility at Hijra. Once completed, the Hijra Farm will be top of the line, having been upgraded with the most modern poultry farming equipment and infrastructure. The Group hopes that the restructuring process will enhance productivity and farm management in the future.

Over the next two years the commercial broiler operation at Bulathsinghala will be relocated and the existing facility will be converted into a breeder farm. This transition is part of a plan to streamline the Group's assets through strategic realignment. In doing so, excess assets will be disposed of while an overall restructuring and modernising programme will be vigorously launched to maximize productivity. Poultry houses will be upgraded in accordance with the emerging international standards.

Dividend

The board has decided to refrain from declaring a dividend for the year ended 31 December 2007 due to the prevailing uncertain conditions. We hope our shareholders will bear us in the long term interest of the Group.

Acknowledgements

All credit for our success as always goes to our employees and sound strategies and direction from our management team. Their dedication from the very top to the lowest tier has kept us competitive and assured our good performance for the year in review. At the end of a remarkably successful and productive year, we sincerely thank our staff and stakeholders and hope to enlist their support in 2008 and the years ahead to help TAFL reach its optimum potential.

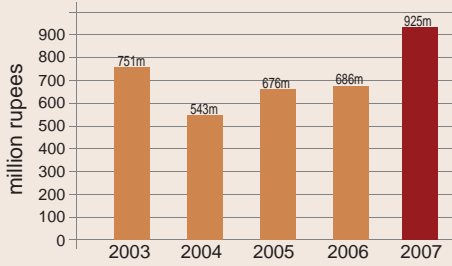
Cheng Chih Kwong Primus Chairman & CEO

Colombo, Sri Lanka
28 March 2008



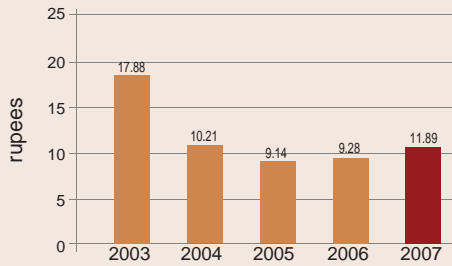
Operational Highlights ³

Turnover



A revenue increase of 35% and an increasing gross profits of 294% for the year .

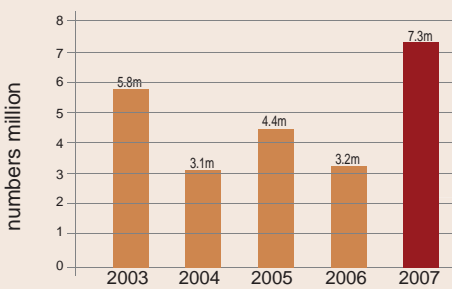
Net Asset Value per Share



Earnings per share have improved to Rs. 2.61 from Rs. 0.14 last year.

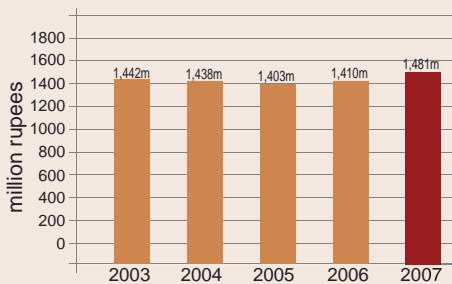
Net cash flows from operating activities improved to Rs. 478m from Rs. 173m last year.

Shares Traded



Post tax profits of Rs. 61.4m compared to a profit of Rs. 3.3m last year.

Total Assets



Report of the Directors on the State of Affairs of the Company³

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

1. Principal Activities

The principal activities of the Company are

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

2. Review of Performance for the year ended 31st December 2007 and Future Developments

A review of the Company's performance during the year, with comments on financial results for the year ended 31st December 2007 and future developments is contained in the Chairman's and Chief Executive's Review (page 2 to 3) and operational highlights (page 4). These reports, together with the financial statements reflect the state of affairs of the Company.

3. Financial Statements

The financial statements of the Company are given in pages 9 to 30.

4. Auditor's Report

The Auditor's report on the financial statements is given on page 8.

5. Accounting Policies

The accounting policies adopted in preparation of Financial Statements are given on pages 13 to 17. There were no material changes in the Accounting Policies adopted.

6. Interest Register

The Company maintains an interest register and the particulars of those directors who were directly or indirectly interested in a contract of the Company are stated there in.

7. Directors' Interest

None of the directors had a direct or indirect interest in any contracts or proposed contracts with the Company other than as disclosed in the Note 23 to the financial statement.

8. Directors Remuneration and Other Benefits

Directors' remuneration in respect of the Company for the financial year ended 31st December 2007 is given in Note 23.1 to the financial statements.

9. Corporate Donations

Donations made by the Company amounted to Rs. 19,500 (2006 – Rs 7,450). No donations were made for political purposes.

10. Directorate

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

Mr. Cheng Chih Kwong, Primus	- Chairman & Chief Executive Officer
Mr. Tan Beng Chuan	- Executive Director & Group General Manager
Mr. Cheng Chih Cheng, Robert	- Director
Mr. Sunil Leeniyagoda	- Director

All the Directors held office for the entire year ended 31st December 2007.

In accordance with the provisions of Article 94 of the Articles of Association of the Company, Mr. Sunil Leeniyagoda retires by rotation and offers himself for re-election.

11. Directors' Shareholdings

		As at 31/12/2007	As at 31/12/2006
Mr. Cheng Chih Kwong, Primus	-	19	19
Mr. Tan Beng Chuan	-	-	-
Mr. Cheng Chih Cheng, Robert	-	19	19
Mr. Sunil Leeniyagoda	-	-	-

12. Auditors

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

The Auditors Messrs KPMG Ford Rhodes Thornton & Co. were paid Rs.565,000 (2006 – Rs.435,000) as audit fees by the Company. In addition they were paid Rs Nil (2006 – Rs.Nil) by the Company for non-audit related work .

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

Report of the Directors on the State of Affairs of the Company Contd... ³

13. Group Turnover

Group turnover amounted to Rs. 924.547 Million (2006 – Rs. 685.972 Million)

14. Dividends

The directors do not recommend the payment of a dividend for the financial year ended 31 December 2007.

15. Investments

Details of investments held by the Company are disclosed in Note 10 to the financial statements.

16. Intangible Assets

An analysis of the intangible assets of the Company, additions and impairments during the year and amortisation charged during the year are set out in Note 9 to the financial statements.

17. Property, Plant and Equipment

An analysis of the property, plant and equipment of the Company, additions and disposals made during the year and depreciation charged during the year are set out in Note 8 to the financial statements.

18. Capital Commitments

Capital expenditure contracted for as at 31st December 2007 for which no provision has been made in the accounts amounted to Rs Nil (2006 – Rs Nil).

19. Stated Capital

The issued and fully paid up share capital of the Company is Rs. 235,450,000/- divided into 23,545,000 ordinary shares. There was no change in the stated capital of the Company during the year.

20. Reserves

Total accumulated losses as at 31st December 2007 amounted to Rs. 202.2 Million (2006 – Rs. 256.9 Million) The movement of accumulated losses is shown in the statement of changes in equity on page 11.

21. Events subsequent to the Balance Sheet date

No significant events have occurred since the balance sheet date other than those disclosed in Note 24 to the financial statement.

22. Employment Policies

The Company identifies Human Resource as one of the most important factors contributing to the survival and growth of the Company in the current competitive business environment. While

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

23. Taxation

The tax position of the Company is given in Note 06 to the Financial Statements.

24. Share Information

Information relating to earnings, dividend, net assets and market price per share is given on page 31. Information on share trading is given on page 31.

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

	2007 Rs.cts	2006 Rs.cts
Market price per share as at 31 December	10.00	10.00
Highest and lowest share price this year	13.50/6.50	14.75/8.50
Earnings per share	2.32	0.10
Dividend per share	-	-
Net assets per share	17.89	15.57

26. Shareholding

The number of registered shareholders of the Company as at 31st December 2007 was 1,366. The distribution and analysis of shareholdings are given on page 32

27. Major Shareholders

The twenty largest shareholders of the Company as at 31st December 2007, together with an analysis are given on page 32

28. Statutory Payments

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

29. Environment, Health and Safety

The Company policy continues to ensure that all environmental, health and safety regulations are strictly adhered to, minimizing any adverse effects to the environment. Recycling of waste is carried out where ever possible. Employees are provided with all personal protective equipment as health and well being which are

Report of the Directors on the State of Affairs of the Company Contd...³

our prime concerns. Fire fighting and safety systems are in place to safeguard Company interest. Plans are in progress to introduce emission free machinery for in-house operations to eliminate air pollution.

30. Corporate Governance / Internal Control

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. However such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and provides only reasonable and not absolute assurance against material misstatement or loss.

The Board, whilst maintaining its overall responsibility for managing risk within the Company, has delegated the detail, design and operation of the system of internal controls to the management committee.

The Company maintains a well established control framework comprising clear structures and accountabilities, well understood policies, procedures and budgeting and review processes.

Each segment has a formal management structure with clear definition of responsibilities which operates within well defined policies, covering the areas of product safety, financial matters, health and safety, the environment, human resources, purchasing and engineering.

31. Contingent Liabilities

There were no material contingent liabilities outstanding as at 31st December 2007.

32. Annual General Meeting

The 46th Annual General Meeting of the Company will be held at No.15, Rock House Lane, Colombo 15 on Friday 9 May 2008 at 11:30 a.m.

By Order of the Board of
Three Acre Farms Limited

S S P Corporate Services (Private) Limited
Secretaries

Colombo 3
28 March 2008

Auditors' Report ³



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

Tel : +94 - 11 242 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
+94 - 11 254 1249
Internet : www.lk.kpmg.com

TO THE SHAREHOLDERS OF THREE ACRE FARMS LIMITED

We have audited the accompanying financial statements of Three Acre Farms Limited, the consolidated financial statements of the Company and its subsidiaries as at that date which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

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

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

Opinion

Company

In our opinion, except for the matter stated in the preceding paragraph, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2007 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2007 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Group

In our opinion, except for the matter stated in the preceding paragraph, the consolidated financial statements give a true and fair view of the state of affairs as at December 31, 2007 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the members of the Company.

Report on Other Legal and Regulatory Requirements

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

KPMG Ford, Rhodes, Thornton & Co.
Chartered Accountants
Colombo 03.
28 March 2008.

Income Statement ³

All amounts in Sri Lankan Rupees thousands.

Year ended 31 December	Notes	Group		Company	
		2007	2006	2007	2006
Revenue	1	924,547	685,972	825,114	556,148
Cost of sales		(790,117)	(651,830)	(646,505)	(518,595)
Gross profit		134,430	34,142	178,609	37,553
Other operating losses	2	(10,435)	(9,688)	(9,928)	(8,438)
Other operating (loss) / income	3	(940)	6,146	(1,450)	5,677
Administrative expenses		(33,083)	(31,192)	(83,581)	(35,778)
Operating profit / (loss)	4	89,972	(592)	83,650	(986)
Finance income	5	508	1,176	-	386
Profit before tax		90,480	584	83,650	(600)
Tax expense	6	(29,013)	2,673	(28,963)	2,864
Profit for the period		61,467	3,257	54,687	2,264
Attributable to:					
Equity holders of the parent		61,467	3,257	54,687	2,264
Basic earnings per share (Rs.)	7	2.61	0.14	2.32	0.10

The accounting policies on pages 13 to 17 and the notes on pages 18 to 30 form an integral part of these consolidated financial statements.

Balance Sheet ³

All amounts in Sri Lankan Rupees thousands.

As at 31 st December	Notes	Group		Company	
		2007	2006	2007	2006
ASSETS					
Non-current assets					
Property, plant and equipment	8	1,167,178	1,162,188	791,602	766,753
Intangible assets	9	7,211	9,014	7,211	9,014
Investments in subsidiary companies	10	-	-	-	10,000
Livestock	11	153,540	104,470	99,726	56,768
Non current receivables	12	-	-	380,795	523,140
Total Non-current assets		1,327,929	1,275,672	1,279,334	1,365,675
Current assets					
Inventories	13	90,231	65,143	53,496	47,511
Trade receivables and prepayments	14	12,382	25,242	12,239	6,833
Current tax receivables		40,710	38,079	19,148	32,072
Cash and cash equivalents	15	9,263	5,917	5,150	2,306
Total current assets		152,586	134,381	90,033	88,722
Total assets		1,480,515	1,410,053	1,369,367	1,454,397
EQUITY & LIABILITIES					
Stated capital	16	623,604	623,604	623,604	623,604
Revenue reserve		(343,637)	(405,104)	(202,271)	(256,958)
Total equity		279,967	218,500	421,333	366,646
LIABILITIES					
Non-current liabilities					
Payable to parent company	17	894,627	1,116,591	868,047	1,044,710
Deferred tax liabilities	18	28,590	8,406	28,590	8,406
Defined benefit obligations	19	7,383	8,388	4,347	6,026
Total Non-current liabilities		930,600	1,133,385	900,984	1,059,142
Current liabilities					
Trade and other payables	20	260,248	58,168	37,350	28,609
Bank loan		9,700	-	9,700	-
Total current liabilities		269,948	58,168	47,050	28,609
Total liabilities		1,200,548	1,191,553	948,034	1,087,751
Total equity and liabilities		1,480,515	1,410,053	1,369,367	1,454,397

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

The accounting policies on pages 13 to 17 and the notes on pages 18 to 30 form an integral part of these consolidated financial statements.

M. S. S. Peiris
Senior Manager Finance

These financial statements were approved by the Board of Directors on 28 March 2008.

Cheng Chih Kwong, Primus
Chairman & CEO

Tan Beng Chuan
Executive Director & Group General Manager

Statement of Changes in Equity³

All amounts in Sri Lankan Rupees thousands.

Group	Stated capital	Revenue reserve	Total
Balance as at 1 January 2006	623,604	(408,361)	215,243
Net profit	-	3,257	3,257
Balance as at 31 December 2006	623,604	(405,104)	218,500
Balance as at 1 January 2007	623,604	(405,104)	218,500
Net Profit	-	61,467	61,467
Balance as at 31 December 2007	623,604	(343,637)	279,967

Company	Stated capital	Revenue reserve	Total
Balance as at 1 January 2006	623,604	(259,222)	364,382
Net Profit	-	2,264	2,264
Balance as at 31 December 2006	623,604	(256,958)	366,646
Balance as at 1 January 2007	623,604	(256,958)	366,646
Net profit	-	54,687	54,687
Balance as at 31 December 2007	623,604	(202,271)	421,333

The accounting policies on pages 13 to 17 and the notes on pages 18 to 30 form an integral part of these consolidated financial statements.

Cash Flow Statement ³

All amounts in Sri Lankan Rupees thousands.

Year ended 31 December	Notes	Group		Company	
		2007	2006	2007	2006
Operating activities					
Profit / (loss) before tax		90,480	584	83,650	(600)
Adjustments for:					
Depreciation	8	49,779	49,550	28,775	27,927
Impairment of intangible assets	9	1,803	-	1,803	-
Amortisation of parent and grandparent livestock	11	152,733	129,864	95,802	75,321
Provision for impairment of investments		-	-	10,000	5,000
Profit on sale of property, plant and equipment	3	5,404	(1,547)	5,404	(1,547)
Interest income		-	(1,176)	-	(386)
Write off of capital work-in-progress		-	1,130	-	1,130
Changes in working capital:					
- trade and other receivables		12,862	(17,508)	(1,656)	63,060
- inventories		(25,088)	3,997	(5,985)	8,298
- payables		202,080	15,747	8,742	(79,714)
Defined benefit obligations	19	(269)	2,711	(1,168)	2,741
Cash generated from operations		489,784	183,352	225,367	101,230
Interest received	5	-	1,176	-	386
Defined benefit obligations paid	19	(736)	(11,416)	(511)	(7,303)
Tax paid		(11,462)	-	395	-
Net cash generated from operating activities		477,586	173,112	225,251	94,313
Cash flows used in investing activities					
Purchase of property, plant and equipment	8	(65,173)	(12,106)	(64,028)	(11,484)
Purchase of parent and grandparent livestock	11	(201,803)	(167,383)	(138,760)	(89,661)
Proceeds from disposal of property, plant and equipments		5,000	1,903	5,000	1,903
Net cash used in investing activities		(261,976)	(177,586)	(197,788)	(99,242)
Cash flow used in financing activities					
Funds from related company		-	-	142,344	-
Funds from parent company		(221,964)	-	(176,663)	-
Bank borrowings		9,700	-	9,700	-
Net cash used in financing activities		(212,264)	-	(24,619)	-
Increase / (decrease) in cash and cash equivalents		3,346	(4,474)	2,844	(4,929)
Movement in cash and cash equivalents					
At start of year		5,917	10,391	2,306	7,235
Increase / (decrease) in cash and cash equivalents		3,346	(4,474)	2,844	(4,929)
Cash and cash equivalents as at 31 December	15	9,263	5,917	5,150	2,306

The accounting policies on pages 13 to 17 and the notes on pages 18 to 30 form an integral part of these consolidated financial statements.

Accounting Policies³

1. CORPORATE INFORMATION

Three Acre Farms Limited (TAFL) was established in 1963, primarily as a commercial layer farm. The Company's name was derived from the original three acres of land on which the farm was situated. On 2nd September 1992 TAFL was acquired by Ceylon Grain Elevators Limited for the purpose of expanding their own production facility.

The main business of the Company is selective breeding, hatching and sale of commercial day old chicks, both broiler (for chicken meat) and layer (for the production of table eggs).

The Company has two fully owned subsidiaries; they are Ceylon Pioneer Poultry Breeders Limited (CPPBL) (incorporated on 24th September 1993) which undertakes grandparent farm operations and Millennium Multibreeder Farms (Private) Limited which employs advanced technology farming.

The Company was listed in the Colombo Stock Exchange on 20th March 1995 in the Food & Beverage Sector. The parent Company, Ceylon Grain Elevators Limited, holds 57.21% (as at 31/12/2007) of the issued stated capital of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

Three Acre Farms Limited is a Company incorporated and domiciled in Sri Lanka. The registered address is No.15, Rock House Lane, Colombo 15, and Sri Lanka. The Company is in the agriculture industry. The financial statements were authorized to issue by the Directors on 28 March 2008.

The consolidated financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLAS), adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the requirements of the Companies Act No.7 of 2007 and Sri Lanka Accounting and Auditing Standard Act No.15 of 1995.

2.2 Basis of preparation

The financial statements are presented in rupees, rounded to the nearest thousand. They are prepared on the historical cost basis.

The preparation of financial statements in conformity with SLASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income

and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if revision affects both current and future periods.

2.3 Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

Associates are those entities in which the Group has significant influence, but not control, over their financial and operating policies. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates on an equity accounted basis, after adjustments to align their accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the group's share of losses exceeds its interest in an associate, the group carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of an associate.

Transactions eliminated on consolidation

Intra-group balances, and any unrealized gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized

gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

2.4 Foreign currencies

Foreign currency transactions

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

Foreign exchange differences arising on translation are recognized in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of transaction.

2.5 Events occurring after the balance sheet date

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

2.6 Comparative figures

Where necessary, comparative figures have been reclassified to conform with the current year's presentation.

2.7 Commitments and contingencies

Contingencies are possible assets or obligations that arise from a past event and would be confirmed only on the occurrence or non-occurrence of uncertain future events, which are beyond the Company's control.

3 ASSETS AND BASES OF THEIR VALUATION

Assets classified as current assets on the balance sheet are cash and bank balances and those which are expected to be realized in cash during the normal operating cycle or within one year from the balance sheet date, whichever is shorter.

3.1 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses except for land and buildings, which are stated at their revalued

amounts. The revalued amount is the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

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

Subsequent costs

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

Depreciation

Depreciation is charged to the income statement on straight line basis over the estimated useful lives of each part of an item of property, plant & equipment. Land is not depreciated.

The estimated useful lives are as follows:

	No. of years
Freehold building	50,20
Plant and machinery	16 2/3
Electrical and factory equipment	10
Farm equipment	8,10
Furniture and fittings and office equipment	10
Motor vehicles	05

Capital work in progress

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

3.2 Intangible assets

Goodwill

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

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is no longer amortised but annually tested for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associates. Goodwill on the acquisition of subsidiaries is presented as intangible assets.

Goodwill is tested for impairment as described in accounting policy 3.7.

3.3 Livestock

Livestock represent the unamortized parent and grandparent livestock used to breed day old commercial chicks. Parent and grand parent birds include the growing birds and the laying birds. The growing birds are valued at cost. The laying birds are valued at costs less amortization. The amortization is made on straight line basis over the laying period after making due allowances carcass value.

3.4 Inventory

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

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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

Compounded feed

Cost is calculated using the weighted average cost formula and the cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and appropriate share of related production overheads based on normal operating capacity, but excludes interest expenses.

Eggs

Eggs are valued at their estimated realizable values, net of direct selling expenses.

Poultry equipments, drugs, vaccine and sundry inventories

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

3.5 Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

3.6 Cash & cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

3.7 Impairment of assets

The carrying amounts of the Group's assets reviewed at each balance sheet date to determine whether there is any indication for impairment. If any such indication exists, the assets' recoverable amounts is estimated. Assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

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

Calculation of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of

the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for cash generating unit to which the asset belongs.

Reversal of impairment

An impairment loss in respect of goodwill is not reversed.

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

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

4 LIABILITIES AND PROVISIONS

4.1 Employee benefits

Defined contribution plans

All local employees of the Company and Group are members of the Employees' Provident Fund and Employees' Trust Fund, to which their employers contribute 12% and 3%, respectively, of such employees' basic salary and all other allowances. Obligations for contributions to defined contribution plans are recognized as an expense in the income statement as incurred.

Defined benefit plans

Terminal benefits are provided for all employees of the Company and Group at the rate of one half of the basic salary applicable for the last month of the financial year for each year of completed service. However under the payment of gratuities act No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

The liability is not externally funded, nor is it actuarially valued. The gratuity liability would be actuarially valued from year 2008 onwards as required by the revised Sri Lanka Accounting Standard 16.

4.2 Provisions

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an out flow of economic benefits will be required to settle the obligation.

4.3 Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

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

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

5 INCOME STATEMENT

5.1 Revenue recognition

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes goods and services taxes or other sales taxes and is arrived at after deduction of trade discounts. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.

Interest income

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

Dividend income

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

Other operating income

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

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

5.2 Expenses

Net finance costs

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

5.3 Earnings per share

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

Notes to the Financial Statement ³

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

Note 01

Revenue

Sales are made up as follows:

	Group		Company	
	2007	2006	2007	2006
Local sales	1,092,643	813,483	946,394	641,868
Export sales	2,801	645	2,801	645
Value added tax	(170,897)	(128,156)	(124,081)	(86,365)
Net sales	<u>924,547</u>	<u>685,972</u>	<u>825,114</u>	<u>556,148</u>

Note 02

Other operating losses

Other operating losses wholly consist of losses arising from outgrower operations carried out at the Bulathsinhala farm, Hijra farms and Nilambe farm.

Note 03

Other operating income

Other operating income is made-up as follows

	Group		Company	
	2007	2006	2007	2006
Sale of fixed assets	(5,404)	1,547	(5,404)	1,547
Sundry income	4,464	4,599	3,954	4,130
	<u>(940)</u>	<u>6,146</u>	<u>(1,450)</u>	<u>5,677</u>

Notes to the Financial Statement Contd... ³

Note 04

Operating profit / (loss)

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

	Group		Company	
	2007	2006	2007	2006
Directors' emoluments	-	-	-	-
Auditors' remuneration - Audit	780	625	565	435
- Non Audit	-	-	-	-
Depreciation on property, plant and equipment - owned assets (Note 8)	49,779	49,550	28,775	27,927
Profit / (loss) on disposal of property, plant and equipment	(5,404)	1,547	(5,404)	1,547
Provision for impairment of investments	-	-	10,000	5,000
Provision for bad and doubtful debts	-	2,500	-	2,500
Repair and maintenance expenditure	19,321	25,396	15,840	22,603
Impairment of intangible assets - other intangible assets (Note 9)	1,803	-	1,803	-
Amortisation of parent and grand parent livestock				
- parent birds	133,712	108,059	95,802	75,321
- grandparent birds	19,021	21,805	-	-
	152,733	129,864	95,802	75,321

Staff costs

	Group		Company	
	2007	2006	2007	2006
Salaries and wages and other fringe benefits	158,633	141,458	99,116	87,695
Social security costs	457	370	183	339
Defined contribution plans	5,706	5,973	2,815	2,865
Defined benefit obligations (Note 19)	1,871	2,711	972	2,741
	<u>166,667</u>	<u>150,512</u>	<u>103,086</u>	<u>93,640</u>
Average monthly number of persons employed during the year :				
- Full time	247	141	89	86
- Part time	657	609	455	406
	<u>904</u>	<u>750</u>	<u>544</u>	<u>492</u>

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

Notes to the Financial Statement Contd... ³

Note 05

Finance income

Finance income wholly consists of interest income.

Note 06

Income tax

	Group		Company	
	2007	2006	2007	2006
Current tax	8,829	279	8,779	88
Deferred tax charge / (release) (Note 18)	20,184	(2,952)	20,184	(2,952)
	<u>29,013</u>	<u>(2,673)</u>	<u>28,963</u>	<u>(2,864)</u>

Reconciliation of effective tax rate

	Group		Company	
	2007	2006	2007	2006
Profit / (loss) before tax	90,480	584	83,650	(600)
Consolidation adjustments	(41,769)	3,208	-	-
	<u>48,711</u>	<u>3,792</u>	<u>83,650</u>	<u>(600)</u>

Income tax using the domestic corporation tax rate	7,306	569	12,548	(90)
Expenses not deductible for tax purposes	31,846	27,120	911	313
Tax exempt revenue	(31,078)	(26,883)	-	-
Tax losses not recognized as deferred tax assets	5,461	-	-	-
Temporary differences for deferred tax recognised	20,184	(2,952)	20,184	(2,952)
Effect of tax losses utilised	(4,706)	(527)	(4,680)	(135)
	<u>29,013</u>	<u>(2,673)</u>	<u>28,963</u>	<u>(2,864)</u>

	Group		Company	
	2007	2006	2007	2006
Income tax using the domestic corporation tax rate	15%	15%	15%	15%
Expenses not deductible for tax purposes	65%	715%	1%	(52)%
Tax exempt revenue	(63)%	(709)%	0%	0%
Tax losses not recognized as deferred tax assets	11%	0%	0%	0%
Temporary differences for deferred tax recognised	41%	(78)%	24%	492%
Effect of tax losses utilised	(10)%	(14)%	(6)%	23%
	<u>59%</u>	<u>(70)%</u>	<u>34%</u>	<u>478%</u>

Further information about deferred tax is presented in Note 18.

Tax losses of the Company available for carry forward as of 31 December 2007 amounted to Rs. 110,876,476/- (2006 - Rs.142,078,611/-). Ceylon Pioneer Poultry Breeders Limited, a subsidiary company, is not liable for tax in view of tax losses incurred. As at 31 December 2007 tax losses available for carry forward amounted to Rs. 214,295,799/- (2006 - Rs 177,884,009/-).

The other subsidiary company, Millennium Multibreeder Farms (Private) Limited, has obtained a five year tax holiday under section 17 jj of Inland Revenue Act, No. 24 of 1997 (amended), with effect from 12 March 2004.

Note 07

Basic earnings per share

The calculation of basic earnings per share at 31 December 2007 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 December 2007, calculated as follows:

	Group		Company	
	2007	2006	2007	2006
Profit attributable to ordinary shareholders	61,467	3,257	54,687	2,264
Weighted average number of ordinary shares as at 31 December (thousands)	23,545	23,545	23,545	23,545
Basic earnings per share (Rs.)	2.61	0.14	2.32	0.10

Notes to the Financial Statement Contd... ³

Note 08

Property, plant and equipment

Group	Land and building	Plant and machinery, electrical and farm equipment	Furniture and fittings and office equipments	Motor vehicles	Capital work in progress	Total
Cost						
Balance as at 01/01/2006	1,083,263	403,542	8,137	33,826	1,130	1,529,898
Acquisitions	-	6,294	12	5,800	-	12,106
Disposals	-	-	-	(4,164)	-	(4,164)
Adjustments	-	-	-	-	(1,130)	(1,130)
Balance as at 31/12/2006	1,083,263	409,836	8,149	35,462	-	1,536,710
Balance as at 01/01/2007	1,083,263	409,836	8,149	35,462	-	1,536,710
Acquisitions	515	2,215	-	3,580	58,863	65,173
Disposals	(10,404)	-	-	-	-	(10,404)
Transfer from WIP	10,380	29,210	-	-	(39,590)	-
Balance as at 31/12/2007	1,083,754	441,261	8,149	39,042	19,273	1,591,479
Depreciation						
Balance as at 01/01/2006	77,232	212,382	8,013	31,153	-	328,780
Depreciation charge for the year	14,554	33,770	-	1,226	-	49,550
Disposals	-	-	-	(3,808)	-	(3,808)
Balance as at 31/12/2006	91,786	246,152	8,013	28,571	-	374,522
Balance as at 01/01/2007	91,786	246,152	8,013	28,571	-	374,522
Depreciation for the year	14,606	33,062	19	2,092	-	49,779
Disposals	-	-	-	-	-	-
Balance as at 31/12/2007	106,392	279,214	8,032	30,663	-	424,301
Net Book Value						
As at 1st January 2006	1,006,031	191,160	124	2,673	1130	1,201,118
As at 31st December 2006	991,477	163,684	136	6,891	-	1,162,188
As at 01st January 2007	991,477	163,684	136	6,891	-	1,162,188
As at 31st December 2007	977,362	162,047	117	8,379	19,273	1,167,178

Notes to the Financial Statement Contd... ³

Company	Land and building	Plant and machinery, electrical and farm equipment	Furniture and fittings and office equipments	Motor vehicles	Capital work in progress	Total
Cost						
Balance as at 01/01/2006	742,599	268,677	8,137	31,721	1,130	1,052,264
Acquisitions	-	5,672	12	5,800	-	11,484
Disposals	-	-	-	(4,164)	-	(4,164)
Adjustments	-	-	-	-	(1,130)	(1,130)
Balance 31/12/2006	742,599	274,349	8,149	33,357	-	1,058,454
Balance 01/01/2007	742,599	274,349	8,149	33,357	-	1,058,454
Acquisitions	265	1,320	-	3,580	58,863	64,028
Disposals	(10,404)	-	-	-	-	(10,404)
Transfer from WIP	10,380	29,210	-	-	(39,590)	-
Balance as at 31/12/2007	742,840	304,879	8,149	36,937	19,273	1,112,078
Depreciation						
Balance as at 01/01/2006	62,385	168,136	8,013	29,048	-	267,582
Depreciation charge for the year	8,705	17,996	-	1,226	-	27,927
Disposals	-	-	-	(3,808)	-	(3,808)
Balance as at 31/12/2006	71,090	186,132	8,013	26,466	-	291,701
Balance as at 01/01/2007	71,090	186,132	8,013	26,466	-	291,701
Depreciation for the year	8,752	17,912	19	2,092	-	28,775
Disposals	-	-	-	-	-	-
Balance as at 31/12/2007	79,842	204,044	8,032	28,558	-	320,476
Net book value						
As at 1st January 2006	680,214	100,541	124	2,673	1,130	784,682
As at 31st December 2006	671,509	88,217	136	6,891	-	766,753
As at 01st January 2007	671,509	88,217	136	6,891	-	766,753
As at 31st December 2007	662,998	100,835	117	8,379	19,273	791,602

Notes to the Financial Statement Contd... ³

- (a) The cost of fully depreciated assets at 31 December 2007 amounted to; Group - Rs 183,445,122 (2006 - Rs 152,590,483), Company - Rs 167,759,268 (2006 - Rs 138,499,971).
- (b) The purchase of capital equipment in the process of being installed Group - Rs 19,272,444 (2006 - Rs Nil), Company - Rs 19,272,444 (2006 - Rs Nil).
- (c) The Company's freehold land and buildings were last revalued in March 1994, by Prof. Shirley Fernando, a Chartered Valuer. Valuation was made on a depreciated replacement cost basis. The book value of the property was adjusted to the revalued amount and the resultant surplus net of deferred income taxes was credited to revaluation reserve and subsequently utilised to issue shares.

If the freehold land and building were stated on the historical cost basis, the amounts would be as follows:

	Group		Company	
	2007	2006	2007	2006
Cost	61,775	61,775	61,775	61,775
Accumulated depreciation	(14,289)	(13,054)	(14,289)	(13,054)
Net book amount	47,486	48,721	47,486	48,721

- (d) Provision for impairment in 2004 was made for impairment of plant and machinery at the Bulathsinhala farm amounting to Rs 22,758,025.

The recoverable amount of property (excluding land), plant and machinery equipment is determined based on value-in-use calculation. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the industry in which the TAFL group operates.

Key assumptions used for value-in-use calculations:

	%
Gross margin	15
Growth rate	5
Discount rate	20

These assumptions have been used for the whole TAFL group. Management determined budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates are pre-tax and reflect specific risk relating to the industry.

- (e) Adjustments represent write off capital work-in-progress to the income statement.

Notes to the Financial Statement Contd... ³

Note 09

Intangible assets

<u>Group and Company</u>	<u>Goodwill</u>
At 31 December 2006	
Cost	9,014
Impairment	-
Net book value	<u>9,014</u>
Year ended 31 December 2007	
Opening net book amount	9,014
Impairment	(1,803)
Net book value	<u>7,211</u>

The recoverable amount of property (excluding land) plant and machinery equipment is determined based on value-in-use calculation. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the industry in which the TAFL group operates.

Key assumptions used for value-in-use calculations:

	%
Gross margin	15
Growth rate	5
Discount rate	20

These assumptions have been used for the whole TAFL group. Management determined budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates are pre-tax and reflect specific risk relating to the industry.

The excess of the purchase consideration paid over the value of the net assets of the Kosgama Farm on acquisition is included in the balance sheet as goodwill at the net book value of Rs 7,211,354/-

Notes to the Financial Statement Contd... ³

Note 10

Investment in subsidiaries

	Group		Company	
	2007	2006	2007	2006
Balance as at 1st January 2007	-	-	15,000	15,000
Provision for impairment of investment	-	-	(15,000)	(5,000)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>

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

Name of Company	Proportion of nominal value of ordinary shares held	Business
Ceylon Pioneer Poultry Breeders Limited	100%	Operation of poultry breeder grand-parent.
Millennium Multibreeder Farms (Private) Limited	100%	Operation of modern poultry breeding and hatcheries utilising advanced technologies.

Financial years of the above companies end on 31 December 2007 and they are audited by KPMG Ford Rhodes, Thornton & Co. These companies were incorporated in Sri Lanka.

Notes to the Financial Statement Contd... ³

Note 11

Livestock

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

	Group		Company	
	2007	2006	2007	2006
(a) Parent birds				
Opening net book value	92,956	59,837	56,768	42,428
Additions	170,333	141,178	138,760	89,661
Amortisation	(133,712)	(108,059)	(95,802)	(75,321)
Closing net book value	129,577	92,956	99,726	56,768
(b) Grandparent birds				
Opening net book value	11,514	7,114	-	-
Additions	31,470	26,205	-	-
Amortisation	(19,021)	(21,805)	-	-
Closing net book value	23,963	11,514	-	-
Total net book value	153,540	104,470	99,726	56,768

A major part of the purchases is made from a subsidiary company under normal commercial terms. The cost of purchases, less the net realisable value of these birds, are amortised to the income statement over a period of 17 months or 13 months.

Note 12

Non current receivables

Non current receivables wholly consist of amounts receivable from subsidiary companies. These receivables are interest free, unsecured and have no fixed repayment terms [Note 23: 2 (iii)].

Note 13

Inventories

	Group		Company	
	2007	2006	2007	2006
Hatching eggs	21,331	22,546	14,265	14,224
Consumables	68,900	42,597	39,231	33,287
	90,231	65,143	53,496	47,511

Notes to the Financial Statement Contd... ³

Note 14

Trade receivables and prepayments

	Group		Company	
	2007	2006	2007	2006
Trade receivables	(1,067)	17,211	(1,067)	(1,031)
Prepayments	5,100	3,398	5,030	3,361
Other receivables	8,349	4,633	8,276	4,503
	<u>12,382</u>	<u>25,242</u>	<u>12,239</u>	<u>6,833</u>

Note 15

Cash and cash equivalents

	Group		Company	
	2007	2006	2007	2006
Cash at bank and in hand	9,171	2,558	5,150	2,306
Short term bank deposits	92	3,359	-	-
	<u>9,263</u>	<u>5,917</u>	<u>5,150</u>	<u>2,306</u>

The weighted average effective interest rate on short term bank deposits was 10.31% in 2007

Note 16

Stated capital

	Number of share in 000's	Stated capital	Total
At 31 December 2006	23,545	623,604	623,604
At 31 December 2007	<u>23,545</u>	<u>623,604</u>	<u>623,604</u>

Stated capital included share premium of Rs. 388.1 Million

Notes to the Financial Statement Contd... ³

Note 17

Payable to parent company

	Group		Company	
	2007	2006	2007	2006
Payable to parent company [Note 23:2 (iii)]	894,627	1,116,591	868,047	1,044,710
	<u>894,627</u>	<u>1,116,591</u>	<u>868,047</u>	<u>1,044,710</u>

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

Note 18

Deferred tax assets and liabilities

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

	Group		Company	
	2007	2006	2007	2006
Deferred tax assets	(17,808)	(22,769)	(17,808)	(22,769)
Deferred tax liabilities	46,398	31,175	46,398	31,175
	<u>28,590</u>	<u>8,406</u>	<u>28,590</u>	<u>8,406</u>

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

	Group		Company	
	2007	2006	2007	2006
At beginning of year	8,406	11,358	8,406	11,358
Income statement charge/(release) (Note 6)	20,184	(2,952)	20,184	(2,952)
At end of year	<u>28,590</u>	<u>8,406</u>	<u>28,590</u>	<u>8,406</u>

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

Deferred tax liabilities:

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

Deferred tax assets arose from the following;

Group and Company	Provision on assets	Tax losses	Defined benefit obligations	Total
At beginning of year	(525)	(21,340)	(904)	(22,769)
Current year	-	4,709	252	4,961
At end of year	<u>(525)</u>	<u>(16,631)</u>	<u>(652)</u>	<u>(17,808)</u>

Notes to the Financial Statement Contd... ³

Note 19

Defined benefit obligations

The amounts recognized in the balance sheet are as follows:

	Group		Company	
	2007	2006	2007	2006
At beginning of year	8,388	17,093	6,026	10,588
Unclaimed gratuity	(2,140)	-	(2,140)	-
Charge for the year	1,871	2,711	972	2,741
Contributions paid	(736)	(11,416)	(511)	(7,303)
At end of year	7,383	8,388	4,347	6,026

The gratuity liability would be actuarially valued from year 2008 onwards as required by the revised Sri Lanka Accounting Standard 16.

Note 20

Trade and other payables

	Group		Company	
	2007	2006	2007	2006
Trade advances	203,204	20,424	1,926	2,129
Accrued expenses	29,774	29,716	22,447	21,463
Other payables	27,270	8,028	12,977	5,017
	260,248	58,168	37,350	28,609

Note 21

Contingencies

The paddy field owners neighboring the Bulathsinhala farm have filed action against the Company in the Matugama District court claiming for losses incurred on their paddy fields due to waste which flowed from the above farm. According to the Company's lawyers, the said farmers have claimed Rs 1,000,000 as damages. pending the outcome of the above case, no provision has been made in the books of the Company.

Other than the above, there were no material contingent liabilities existing as at the balance sheet date.

Note 22

Commitments

Capital commitments

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

Financial commitments

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

Note 23

Related party transactions

Note 23.1

Key management personnel

Key management personnel include all the members of the Board of Directors of the Company having authority and responsibility for planning, directing and controlling the activities of the Company as well as the subsidiaries, directly or indirectly. Directors of the Company and their immediate relatives do not have significant shareholding as at 31 December 2007. No remuneration has paid during the year.

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

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

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

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

Notes to the Financial Statement Contd... ³

Note 23: 2

Identity of related parties

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

Companies within the Group engage in trading transactions under normal commercial terms.

The following transactions were carried out with related parties:

(i) Sale of goods and services:

	Group		Company	
	2007	2006	2007	2006
Sale of goods:				
Ceylon Grain Elevators Limited	268,924	206,534	87,152	51,294
Millennium Multibreeder Farms (Private) Ltd.	35,523	25,411	35,523	25,411
	<u>304,447</u>	<u>231,945</u>	<u>122,675</u>	<u>76,705</u>

(ii) Purchase of goods and services:

	Group		Company	
	2007	2006	2007	2006
Purchase of goods:				
Ceylon Grain Elevators Limited	504,806	340,680	339,274	238,748
Ceylon Pioneer Poultry Breeders Limited	-	-	96,107	69,248
Millennium Multibreeder Farms (Private) Limited	-	-	58,084	35,418
	<u>504,806</u>	<u>340,680</u>	<u>493,465</u>	<u>343,414</u>

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

	Group		Company	
	2007	2006	2007	2006
Payable to parent company				
Non-current				
Ceylon Grain Elevators Limited	894,627	1,116,591	868,047	1,044,710
No interest is paid on the amount payable to the parent company.				
Receivables from subsidiaries				
Non-current				
Ceylon Pioneer Poultry Breeders Limited	-	-	27,261	111,047
Millennium Multibreeder Farms (Private) Limited	-	-	394,743	412,093
Less: provision for receivables	-	-	(41,209)	-
	<u>-</u>	<u>-</u>	<u>380,795</u>	<u>523,140</u>

(iv) The subsidiary companies use the facilities of the parent company and part of the accounting and administrative functions are also performed by the parent company and the ultimate parent company for which no charges are made. The Company also uses the facilities of the parent company for which no charge is made.

Note 24

Post balance sheet events

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

Five Year Summary ³

For the year ended 31 December	2007	2006	2005	2004	2003
(All figures in Rs. '000s)					
OPERATING RESULTS FOR THE PERIOD					
Group revenue	924,547	685,972	675,772	543,375	751,108
Operating profit / (loss)	89,972	(592)	(23,834)	(212,709)	34,449
Fall in value of intangible assets	-	-	-	-	(82,047)
Non operating income	-	-	-	496	16,768
Finance income	508	1,176	345	582	1,042
Profit before taxation	90,480	584	(23,489)	(211,631)	(29,788)
Taxation	(29,013)	2,673	(1,602)	10,889	(15,582)
Profit / (loss) attributable to the Company	61,467	3,257	(25,091)	(200,742)	(45,370)
BALANCE SHEET					
Stated capital	623,604	623,604	623,604	623,604	603,579
Revenue reserve	(343,637)	(405,104)	(408,361)	(383,270)	(182,528)
Non - Current liabilities	930,600	1,133,385	1,157,808	1,170,283	992,207
	1,210,567	1,351,885	1,373,051	1,410,617	1,413,258
Intangible assets	7,211	9,014	9,014	11,268	13,497
Property, plant and equipment and investments	1,167,178	1,162,188	1,201,118	1,253,058	1,197,949
Other investments	153,540	104,470	66,951	58,933	99,187
Current assets	152,586	134,381	125,702	110,725	131,593
Current liabilities	(269,948)	(58,168)	(29,734)	(23,367)	(28,968)
	1,210,567	1,351,885	1,373,051	1,410,617	1,413,258
RATIOS AND OTHER INFORMATION					
Earnings / (loss) per share (Rs)	2.32	0.10	0.63	(6.07)	(0.78)
Market price per share (Rs)	10.00	10.00	10.00	9.50	18.00
Y/E price earnings ratio	4.31	100.00	15.87	-	-
Net dividend pay out (Rs 000)	-	-	-	-	-
Bonus issues (Ratio)	-	-	-	-	-
Rights issue (Ratio)	-	-	-	-	-
Rights price (Rs)	-	-	-	-	-
Net assets per share (Rs)	17.89	15.49	15.48	14.84	20.43
Current ratio (No of times)	1.91	3.10	4.39	4.53	4.70
Shares traded	7,322,500	3,208,400	4,404,100	3,103,700	5,854,182
US \$ Exchange rate - average	110.72	104.24	100.56	101.52	96.53
US \$ Exchange rate - year end	108.65	107.72	102.15	105.10	96.80

Shareholder's Information ³

ANALYSIS OF SHAREHOLDERS ACCORDING TO THE NUMBER OF SHARES AS AT 31ST DECEMBER 2007

Share holding	Resident			Non Resident			Total		
	Number of Shareholders	Number of Shares	Percentage (%)	Number of Shareholders	Number of Shares	Percentage (%)	Number of Shareholders	Number of Shares	Percentage (%)
01 - 1,000	1,053	280,443	1.19	14	4353	0.02	1,067	284,796	1.21
1,001 - 5,000	191	507,440	2.16	3	9,006	0.04	194	516,446	2.20
5,001 - 10,000	46	380,217	1.61	3	22,970	0.10	49	403,187	1.71
10,001 - 50,000	33	721,382	3.06	3	82,000	0.35	36	803,382	3.41
50,001 - 100,000	7	430,160	1.83	1	67,800	0.29	8	497,960	2.12
100,001 - 500,000	5	767,250	3.26	2	572,251	2.43	7	1,339,501	5.69
500,001 - 1,000,000	1	934,500	3.97	2	1,762,621	7.48	3	2,697,121	11.45
over 1,000,000	1	13,469,980	57.21	1	3,532,627	15.00	2	17,002,607	72.21
	1,337	17,491,372	74.29	29	6,053,628	25.71	1,366	23,545,000	100.00

Categories of Shareholders	Number of shareholders	No. of shares
Individual	1,302	4,405,831
Institutional	64	19,139,169
	<u>1,366</u>	<u>23,545,000</u>

LIST OF 20 MAJOR SHAREHOLDERS

No	Name	31 st December 2007		31 st December 2006	
		Number of shares	Percentage %	Number of shares	Percentage %
1	Ceylon Grain Elevators Limited	13,469,980	57.21	13,469,980	57.21
2	Prima Limited	3,532,627	15.00	3,532,627	15.00
3	Japfa Cornfeed International Pte Ltd, Singapore	993,121	4.22	993,121	4.22
4	Mrs D M Fernando	934,500	3.97	1,110,700	4.72
5	Mr S A S Al Hokoani	769,500	3.27	-	-
6	Elka Limited, Singapore	313,262	1.33	313,262	1.33
7	Supra Limited, Hong Kong	258,989	1.10	258,989	1.10
8	Mrs C B Peiris	210,340	0.89	220,340	0.94
9	Mr H A Pieris	207,500	0.88	100,000	0.42
10	Mr L L Samarasinghe	138,900	0.59	124,900	0.53
11	Mrs M A Tharmaratnam	110,170	0.47	110,170	0.47
12	Mrs V D Fernando	100,340	0.43	180,340	0.77
13	Employees Trust Fund Board	92,060	0.39	92,060	0.39
14	Mr A J Pathmarajah	67,800	0.29	67,800	0.29
15	Dr H H S Samarasiri	60,000	0.25	-	-
16	Waldock Mackenzie Ltd/Mr M Z M Wafik	59,200	0.25	-	-
17	Waldock Mackenzie Ltd/Hi-Line Trading (Pvt) Ltd	57,000	0.24	-	-
18	Waldock Mackenzie Ltd/Mr Lalith Prabath Hapangama	56,300	0.24	-	-
19	J B Cocoshell (Private) Limited	53,900	0.23	378,000	1.61
20	Sabaragamuwa Holdings (Private) Limited	51,700	0.22	-	-
	Total	21,537,189	91.47	20,952,289	89.0

The percentage of shares held by the public 2007 = 27.79%

The percentage of shares held by the public 2006 = 27.79%

Notice of Meeting³

NOTICE IS HEREBY GIVEN that the 46 Annual General Meeting of the Company will be held on Friday 9 May 2008 at the Registered Office of the Company No. 15, Rock House Lane, Colombo 15 at 11.30 a.m. and the business to be brought before the Meeting will be:

1. To receive and consider the report of the Board of Directors on the State of Affairs of the Company and the Statement of Accounts for the year ended 31st December 2007, with the Report of the Auditors thereon.
2. To re-elect Mr. Sunil Leeniyagoda, Director who retires by rotation at the Annual General Meeting in terms of Article 94 of the Articles of Association of the Company.
3. To re-appoint the retiring Auditors Messrs KPMG Ford, Rhodes, Thornton & Company as Auditors and to authorise the Directors to determine their remuneration.
4. To authorise the Directors to determine contributions to charities and other purposes.

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

Colombo 3
31 March 2008

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

Form of Proxy³

I/We of
being a member/s of
 Three Acre Farms Limited, hereby appoint
 ofor failing him

Mr. CHENG CHIH KWONG, PRIMUS	of Colombo or failing him
Mr. TAN BENG CHUAN	of Colombo or failing him
Mr. CHENG CHIH CHENG, ROBERT	of Colombo or failing him
Mr. SUNIL LEENIYAGODA	of Colombo

as my/our Proxy to represent me/us and vote on my/our behalf at the Annual General Meeting of the Company to be held on 9 May 2008, and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid meeting and to VOTE as indicated below:

	FOR	AGAINST
1. To receive and consider the Report of the Board of Directors on the State of Affairs and the Statement of Accounts for the year ended 31st December 2007, with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mr. Sunil Leeniyagoda a Director who retires by rotation at the Annual General Meeting in terms of Article 94 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-appoint Messrs KPMG Ford, Rhodes, Thornton & Company as Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
4. To authorise the Directors to determine Contributions to charities.	<input type="checkbox"/>	<input type="checkbox"/>

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

Signature:

Note : Please delete the inappropriate words.

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

INSTRUCTIONS TO COMPLETION OF FORM OF PROXY

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

Note:

In Terms of Article 77 of the Article of Association of the Company any Corporation which is a member of the Company may by resolution of its Directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of members of the Company, and the person so authorised shall be entitled to exercise the same power on behalf of such Corporation as the Corporation could exercise if it were an individual member of the Company.

Corporate Information ³

Company Name

Three Arce Farms Limited

Registered Office

No. 15, Rock House Lane, Colombo 15, Sri Lanka

Tel: 25222556 or 8 / 2523580 / 2526378
to 2526383

Fax: +94(11)2524163

E-Mail: info.cge@prima.com.lk

Subsidiary Companies

Ceylon Pioneer Poultry Breeders Limited

Millenium Multibreeder Farms (Pvt) Limited

Bankers

National Development Bank PLC

Deutsche AG Bank

Bank of Ceylon

Seylan Bank PLC

Lawyers

Varners Lanka Law Office

Janaprith S Fernando

Auditors

KPMG Ford, Rhodes, Thornton & Co.

Company Secretary

SSP Corporate Services (Pvt) Limited

No. 101 Inner Flower Road, Colombo 3.

Name of Directors

Mr Cheng Chih Kwong, Primus - Chairman & CEO

Mr Tan Beng Chuan - Executive Director & GGM

Mr Cheng Chih Cheng, Robert - Director

Mr Sunil Leeniyagoda - Director

Management

Mr Tan Hoe Lai - General Manager

Mr Xie Sheng Gang - Deputy General Manager

Mr M. S. S. Peiris - Senior Manager (Finance)

Mr Neil Jayaweera - AGM (Processing)

Mr M C M De Costa - AGM (Personnel, Logistic,
Security & General Affairs)

Mr Chng Sun Tick - AGM (Farms)

Mr Ang Kian Huat - AGM (Farms)

