PLANTATIONS PILLAGED

The Sunday Leader dealing with the privatisation of the plantations, analytically exposed, that though it has been held out and the public were thereby led to believe, that the controlling interests of 51% majority shareholdings in the profitable plantation companies were being disposed of, in actual fact, a much higher percentage of such shareholdings, ranging from 60.8% to as much as 71.2%, of these profitable plantation companies had been disposed of, by the tactical mechanism of mandatorily convertible debentures. This thereby only left shareholdings ranging from 28.8% to 39.2% of these profitable plantation companies in the hands of the state, whilst the public were led to believe otherwise.

By such strategic means, in these profitable plantation companies, 60.8% shareholdings, respectively, in Agalawatte, Horana and Kegalle, 69.4% shareholdings in Kotagala, 70.7% shareholdings in Bogawantalawa and 71.2% shareholdings in Kelani Valley had been disposed of for effective considerations of Rs. 121.6 M. each in the cases of Agalawatte, Horana and Kegalle and Rs. 138.7 M., Rs. 141.5 M. and Rs. 142.3 M. in the cases of Kotagala, Bogawantalawa and Kelani Valley, respectively.

Such controlling interests of majority shareholdings had been so disposed of, essentially towards the end of the calendar year 1995. The net profits after tax, registered by these profitable plantation companies for the calendar year 1995 and subsequently, achieved for the ensuing calendar year 1996 are - Agalawatte Rs. 58.4 M. and Rs. 107.2 M., Horana Rs. 40.4 M. and Rs. 52.9 M., Kegalle Rs. 66.2 M. and Rs. 91.4 M., Kotagala Rs. 113.7 M. and 140.1 M., Bogawantalawa Rs. 59.7 M. and Rs. 105.3 M., and Kelani Valley Rs. 45.8 M. and Rs. 85.9 M., respectively.

VERY SHORT PAY-BACK

Accordingly, the total net profits after tax of these six profitable plantation companies for the two calendar years 1995 and 1996 amounted to Rs. 967 M., whilst the controlling interests of majority shareholdings ranging for 60.8% to 71.2% of these profitable plantation companies have been disposed of for a total consideration of only Rs. 787.3 M., right in the midst of this two-year period, i.e. towards the end of the calendar year 1995. The total profit attributable to such majority shareholdings would be Rs. 639.8 M. Such sale of controlling interests of majority shareholdings had been at unbelievable price earnings [PE] ratios viz: Agalawatte - 2.4, Horana - 4.3, Kegalle - 2.5, Kotagala - 1.6, Bogawantalawa - 2.4, Kelani Valley 3.0 - the price earnings [PE] ratio actually indicates the pay-back period for such investment in number of years i.e. in this case ranging from 1.6 years to 4.3 years. The Colombo Stock Exchange on the other hand registered a average price earnings [PE] ratio of 12 for the year 1995.

Mackwoods Plantations (Pvt) Ltd. [Agalawatte], Ceyexxe Plantations Ltd. [Horana], RPK Management Services (Pvt) Ltd. [Kegalle], George Steuarts Management Services (Pvt) Ltd.[Kotagala], Metropolitan Management Services (Pvt) Ltd.[Bogawantalawa] and DPL Plantations Ltd. [Kelani Valley], the management companies, who were on profit sharing basis managing these profitable plantations companies, on management contracts expiring in December 1997, and who were given exclusive beneficial options, to acquire such controlling interests in these profitable plantation companies, only for a total consideration of Rs. 787.3 M. had, themselves, been then entitled to such profit shares for the calendar year 1995. Such approximate profit shares for 1995 from these profitable plantation companies, viz, in the case of Agalawatte Rs. 26.3 M., Horana Rs. 5.6 M., Kegalle 27.8 M., Kotagala Rs. 30 M., Bogawantalawa Rs. 18.5 M. and Kelani Valley Rs. 21.7 M., making a total of Rs. 130 M., would have further cushioned the total purchase consideration of Rs. 787.3 M. paid by the management companies, to acquire controlling interests in these profitable plantation companies.

FOREIGN SHAREHOLDINGS

Section 2.25 of the respective Offer Sales Documents issued by these six profitable plantation companies stipulated: - "In terms of Government restrictions placed on shareholdings in the Company, approved country funds, approved regional funds, corporate bodies incorporated outside Sri Lanka and individuals resident outside Sri Lanka (inclusive of Sri Lankans resident outside Sri Lanka) may collectively own only up to a maximum of 49% of the issued share capital of the Company. - "Accordingly, at the very time the controlling interests of majority shareholdings of these profitable plantation companies were so disposed of, with the fragmented sale of 20% minority shareholdings through the Colombo Stock Exchange, it had been very clearly and patently held out, that upto 49% of the shareholdings in these profitable plantation companies could be held by non-residents or foreigners.

Since 60.8% to 71.2% of the shareholdings of these six profitable plantation companies were to be disposed of to the management companies, on the basis of the exclusive share purchase options, then such 49% non-resident or foreign shareholdings permitted, obviously could only have materialised through the sub-division of such majority shareholdings, exclusively made available on share purchase options to the management companies. Accordingly, the management companies were tacitly permitted to collaborate with non-residents or foreigners in the purchase of such controlling interests of majority shareholdings in these profitable plantation companies for which they alone had exclusive options, at prices far below the market prices realisable on open competitive bidding. Significantly, in relation to the freely transferable debentures, mandatorily convertible into ordinary shares, the Offer Sales Documents clearly spelt out that the purchase of such debentures could be by the management companies or by any other party/parties arranged by the management companies, thereby clearly soliciting such collaboration.

PERC CAUTIONED?

R.N. Asirwatham, Chairman Public Enterprises Reform Commission [PERC] advertised on May 8th, 1995 calling for proposals for acting as managers/underwriters to the sales of shares of the plantation companies and PERC subsequently issued guidelines for parties expressing interest in purchasing 51% shares in the plantation companies. Had not written representations been made by a knowledgeable and interested party and PERC cautioned as far back as July 22nd, 1995, stating, inter-alia, - "However, they are great dangers inherent in the present proposal and we urge the government to re-examine the policy in the light of what has been stated above." ?

The disposal to the management companies of such controlling interests of majority shareholdings in these six profitable plantation companies on the basis of such exclusive beneficial share purchase options well below the market prices realisable on open competitive bidding, had been effected on the basis of a ludicrously absurd price formula at the lowest price proffered for the fragmented sale of 20% minority shareholdings of such companies in the Colombo Stock Exchange, whereas, a controlling interests of a majority shareholdings would command a premium well above the highest price, at which minority shareholdings trade. This is very basic and elementary knowledge in stock markets. Ordinarily and normally, controlling interests of majority shareholdings would have been placed on the Stock Exchange, with a reserve floor price, below which the seller would not dispose of such shareholdings, such reserve floor price being determined on the basis of professional valuations.

SHARE VALUATIONS

The Sunday Leader in the public interest has endeavoured to simulate share valuations, that may be reckoned in respect of these six profitable plantation companies, given the annual net profit scenarios and the range of price earnings [PE] ratios that were prevalent in the Colombo Stock Exchange at the relevant time. According to the official Quarterly Reports of the Colombo Stock Exchange, the price earnings [PE] ratios that were prevalent during the calendar year 1995 have been reported as follows: January - 16.3, February - 13.8, March - 13.6, April - 12.2, May -11.5, June - 11.2, July - 11.3, August - 11.5, September - 10.2, October - 10.7, November - 10.9 and December - 11.2, i.e. an average of 12.0.

Share valuations simulated on the basis of the average net profits after tax for the calendar years 1995 and 1996 achieved by these six profitable plantation companies at price earnings ratios of 8, 10 and 12, respectively, are set out in the given chart. At price earnings ratios of 8, 10 and 12, respectively, in the context of the net profit performances of 1995 and 1996, the share price levels indicated are - Agalawatte Rs. 33/10, Rs. 41/10, Rs. 49/70; Horana Rs. 18/65, Rs. 23/35; Rs. 28/-; Kegalle Rs. 31/50, Rs. 39/40, Rs. 47/30; Kotagala Rs. 50/75, Rs. 63/35, Rs. 76/15; Bogawantalawa Rs. 33/-, Rs. 41/25, Rs. 49/50; and Kelani Valley Rs. 26/35, Rs. 32/95, Rs. 39/55. Such indicative share price levels simulated could be reckoned in the light of the actual price levels at which these shares are now being traded at the Colombo Stock Exchange - viz: Agalawatte Rs. 35/50, Horana Rs. 34/-, Kegalle Rs. 35/25, Kotagala Rs. 37/50, Bogawantalawa Rs. 41/50 and Kelani Valley Rs. 34/50.

SIMULATED SHARE VALUATIONS

NAME	EFFECTIVE OWNERSHIP % SOLD %	EFFECTIVE SALES PRICE Rs.M.	PROFITS AFTER TAX 1995 Rs.M.	PROFITS AFTER TAX 1996 Rs.M.	AVERAGE PROFITS 1995/1996 Rs.M.		SHARE VALUATIONS At Price/Earnings Ratios 8 Rs.M.	10 Rs.M.	12 Rs.M.
Agalawatte Plantations Ltd.	60.8%	121.6	58.4	107.2	82.8		662	828	994
						per share	33/10	41/10	49/70
Horana Plantations Ltd.	60.8%	121.6	40.4	52.9	46.7		373	467	560
						per share	18/65	23/35	28/-
Kegalle Plantations Ltd.	60.8%	121.6	66.2	91.4	78.8		630	788	946
						per share	31/50	39/40	47/30
Kotagala Plantations Ltd.	69.4%	138.7	113.7	140.1	126.9		1,015	1,269	1,523
						per share	50/75	63/45	76/15
Bogawantalawa Plantations Ltd.	70.7%	141.5	59.7	105.3	82.5		660	825	990
						per share	33/-	41/25	49/50
Kelani Valley Plantations Ltd.	71.2%	142.3	45.8	85.9	65.9		527	659	791
						per share	26/35	32/95	39/55
		787.3	384.2	562.8	483.5		3,868	4,835	5,804

On the other hand 51% controlling interests of majority shareholdings of 10,200,000 shares in each of the loss making plantation companies, Watawala, Maskeliya, Hapugastenna, Balangoda were sold at Rs. 30/- [December 1995], Rs. 21/50 [January 1996], Rs. 23/75 [August 1996], and Rs. 41/25 [September 1996] respectively, and 51% controlling interests of majority shareholdings of 7,599,000 shares in Agarapatana and 4,845,000 shares in Udapussellawa were sold at Rs. 35/25 [August 1996] and Rs. 65/25 [October 1996], respectively, at the Colombo Stock Exchange, on the basis of open competitive bidding.

These six profitable plantation companies, all having tea and rubber estates, according to the respective Offer Sale Documents had the following extents of land in hectares - Agalawatte 11,300 ha, Horana 7837 ha, Kegalle 9806 ha, Kotagala 12,838 ha, Bogawantalawa 16,220 ha and Kelani Valley 13,144 ha. The agro economic evaluation would also have a bearing particularly on the valuation of controlling interests of majority shareholdings.

LOSSES TO THE STATE

On the basis of the simulated share valuations and the actual effective purchase considerations, at which such controlling interests of majority shareholdings in the six profitable plantation companies were disposed of, at a total consideration of only Rs 787.3 M., the reckoned estimated losses to the state, i.e. the public on such sales, simulated over the range of price earnings [PE] ratios 8, 10 and 12, respectively, are set out in the given chart, after providing premia of 20%, 15% and 10% respectively, for the valuation of such controlling interests of majority shareholdings, in conformity with characteristics prevalent in established stock markets.

The estimated losses to the state, i.e. the public, on the sale of such profitable plantation company shareholdings, so reckoned at price earnings [PE] ratios of 8, 10 and 12, in total reach levels of Rs. 2284 M., Rs. 2892 M. and Rs. 3437 M., respectively. This incisive analysis, in conformity with accepted principles and norms, is not to be reckoned biblically and rigidly, but is to be considered pragmatically and realistically to reckon the degree and levels of losses suffered by the state i.e. the public, by the disposal of such controlling interests of majority shareholdings in these six profitable plantation companies in a hasty and questionable manner, far below the market prices realisable on open competitive bidding.

RECKONED ESTIMATED LOSSES SIMULATED

NAME	EFFECTIVE OWNERSHIP % SOLD	EFFECTIVE SALES PRICE	SHARE VALUATIONS OF OWNERSHIP % SOLD At Price/Earnings Ratios			RECKONED ESTIMATED LOSSES At Price/Earnings Ratios		
			8	10	12	8	10	12
	%	Rs.M.	Rs.M.	Rs.M.	Rs.M.	Rs.M.	Rs.M.	Rs.M.
Agalawatte Plantations Ltd.	60.8%	121.6	403	503	604	281	382	483
Horana Plantations Ltd.	60.8%	121.6	227	284	340	105	162	219
Kegalle Plantations Ltd.	60.8%	121.6	383	479	575	262	358	454
Kotagala Plantations Ltd.	69.4%	138.7	705	881	1,057	566	742	919
Bogawantalawa Plantations Ltd.	70.7%	141.5	467	583	700	325	442	559
Kelani Valley Plantations Ltd.	71.2%	142.3	376	469	563	233	327	421
		787.3	2659	3199	3840	1772	2412	3053
Add: Premia for coontrolling interests of 60.8% - 71.2% [PE 8 -20%, PE10-15%, PE 12-10%]			512	480	384	512	480	384
			3071	3679	4224	2284	2892	3437

In the context of such analytical revelations, could not such total loss to the state i.e. the public, be conservatively gauged to be in the region of around Rs. 2,500 M.? If not, why and what would such loss be? The Offer Sale Documents, for the fragmented sale of the 20% minority shareholdings of these six profitable plantation companies, in connection with the sale of the controlling interests of majority shareholdings of such companies, were issued through the Colombo Stock Exchange between August 1995 and November 1995, i.e. well into the year 1995. Accordingly, the net profit trends during the year 1995 would have been reasonably well known and the immediately ensuing year 1996 net profits could have been reasonably well anticipatable, at that time.

In fact, in making the application to the Securities & Exchange Commission [SEC] and the Colombo Stock Exchange [CSE] for the approval of the Offer Sales Documents, is it not the normal mandatory requirement to include the profitability projections/forecasts for the purpose of appraisal and approval by the SEC, to consider such listing application for approval ? Accordingly, such realistic profitability levels would have been consciously known to the parties concerned, moreso for the current year 1995 and the immediately ensuing year 1996 at that point of time, of seeking a listing in the CSE for the sale of these shares, i.e. prior to effecting such sales.

Would not the Managers of such Offers for Sale, who have signed and affirmed to the Offer Sale Documents and who would have processed such SEC application have a fiduciary responsibility by their client, in this instance, the Secretary to the Treasury, to have advised on strategies to obtain the highest price to the state, the seller, that is the public? The Plantations Ministry Committee headed by A.S. Jayawardena, then Secretary to the Treasury had opined in their report, that the disposal of these shares should result in maximising government revenues. PERC had appointed Vanik Corporate Services Ltd. [Agalawatte, Bogawantalawa, Kelani Valley] and Waldock Mackenzie Ltd. [Horana, Kegalle, Kotagala] to act as managers for these Offers for sale. Significantly, there was no fanfare, publicity and promotional advertising campaign, normally associated with public share issues, carried out in this instance for the sale of these valuable profitable plantation company shares, considered a national asset, ownership of which was intended to be widely broad-based, as per the Plantation Ministry Report. Why was this?

FURTHER SALES HALTED

Right in the throes of the disposal of the 51% controlling interests of the majority shareholdings of 10,200,000 shares in each of the six profitable plantation companies at an equal purchase consideration of Rs. 102 M. each, at that very point of time in December 1995, the 51% controlling interests of majority shareholdings of 10,200,000 shares in another plantation company, Watawala Plantations Ltd., considered a loss making company, was sold through the Colombo Stock Exchange on open competitive bidding at Rs. 30/- per share, realising to the state a total purchase consideration in this instance of Rs. 306 M., compared to the Rs. 102 M. each in respect of the six profitable plantation companies. In the context of the mandatorily convertible debentures in this instance of Rs. 110 M. also convertible at the same price of Rs. 30/-, an effective ownership of 58.5% has been disposed of for an effective purchase consideration of Rs. 351.6 M. This should be compared with the total effective purchase consideration of Rs. 787.3 M. for the disposal of 60.8% to 71.2% controlling interest of majority shareholdings in the six profitable plantation companies.

In the context of the realisation of such Rs. 306 M. on the sale of 51% shareholding in a loss making plantation company, speculation was immediately rife that the profitable plantation companies would have fetched prices even far in excess of levels of Rs. 500 M. each, had they been aggressively marketed conventionally on an open competitive bidding basis, with stipulated reserve floor prices determined on the basis of professional valuations. In the background of such exposure, the government suddenly halted the disposal of 51% controlling interests of majority shareholdings in other profitable plantation companies. But is that adequate? Should not action have been taken against those, who caused such loss to the state, in such hasty and questionable manner? If not, why? This happened as far back as December 1995.

The trading floor of the Colombo Stock Exchange had successfully witnessed sales, such as the 51.3% controlling interests in Lanka Milk Foods [CWE] Ltd., realising a price of Rs. 527.8 Mn. in October 1991 and 60% controlling interests in Distilleries Co. of Sri Lanka Ltd. realising a price of Rs. 1,057.5 M. in February 1992, that too by a consortium led by Sri Lankan enterprise. Surely, in 1995, the market could have witnessed much higher values had the plantations company shares been properly promoted and marketed, as amply demonstrated in the case of Watawala, a loss making plantation company, which shares were also merely put up for bid, but not actually promoted and marketed according to conventional custom and practice developed.

VIEWS FROM THE SECTOR

The Ceylon Planters' Society, President, Parakrama Jayatilake has been reported in the Daily News of May 16, 1997 to have stated: - "The government should check erring regional plantation companies [RPC] by exercising the power vested in it by virtue of the golden share of each of these companies retained by it ... Privatisation is good. We support privatisation, but the objectives of privatisation are lost due to a few miscreants." - some of the charges levelled being - non payment of EPF dues, recruitment of expatriates on temporary resident permits, charging inflated management fees, reducing estate superintendents' emoluments, re-employing retired estate superintendents, non-settlement of small time estate suppliers' debts and not being alive to their sociological obligations by distancing themselves from the villages in the vicinity - "The government has still not finalised its investigations on a certain RPC, which has resulted in its management being unsure whether it's still the legitimate owner of that RPC or not. This seeming state of indecisiveness is not good for the industry ... Why is the government postponing the privatisation of the balance companies? "

Chairman, Planters' Association of Ceylon, M.J.C. Amarasuriya, also the Deputy Chairman of Hayleys Group, whose subsidiary DPL Plantations Ltd. acquired the controlling interests of majority shareholdings in Kelani Valley, had made representation by letter dated 1st August 1995 to Rajan Asirwatham, Chairman PERC, inter-alia, stating:- "We are writing to appeal to you to re-consider the quantum of the non-refundable payment of Rs. 5 million, for the undernoted reasons ... (4) Insisting on this high guarantee might result in many MAs not taking up the offer and thereby, adversely affecting the privatisation of plantations ... We are writing this letter on behalf of the Plantation Management Companies to appeal to you to re-consider the Rs. 5 million guarantee and to reduce it to an acceptable level in order to ensure the success of the privatisation of plantations."

Chairman, Hayleys Group, Sunil Mendis, a co-director of then Chairman, PERC Rajan Asirwatham on the Bank of Ceylon Board, in his Chairman's statement in the Kelani Valley Annual Report for the year 1996, as reported in the Daily News of May 13th, 1997, inter-alia, has described the privatisation of the plantations as a, - "Courageous move by the government, which has been acclaimed as one of the largest privatisation schemes attempted in the agricultural sector worldwide".

GOVERNMENT POLICIES

Had members of the Plantations Ministry Committee and subsequently, the members of PERC conceived and strategised the sale of such controlling interests of majority shareholdings in the profitable plantation companies on their very own? Or had, such ludicrously absurd price formula on a strategy doomed to have failed, together with the strategy of mandatorily convertible debentures, with permissibility for 49% non-resident/foreign shareholdings, been inspired or fostered upon by the jockeying and lobbying by those interested? In the context of such considerable loss to the state, the public are entitled to know the answers, without such important issues being relegated away from public scrutiny, particularly more so by a government committed to uphold transparency and public accountability.

The government policy statement to Parliament by Her Excellency President Chandrika Bandaranaike Kumaratunga on January 6th, 1995, on the government economic policies, inter-alia, stated:— "In the name of privatisation, the past regime had engaged in virtual daylight robbery of valuable national assets ... Many of these ventures were grossly undervalued by reducing their sale price by as much as 2/3rd or 3/4th of the actual value ... Nowhere in the entire world would you come across such brazen pillage and plunder of a people's wealth ... The Government's approach to privatisation will be distinguished by full transparency and accountability, which have been notoriously absent in the past. There will be no crony privatisation in the future ... We have also to ensure that the process of government is transparent and free of corruption, and that everyone in public life is accountable for their actions."

CORRECTIVE ACTION

In the context of such unconscionable windfall profits, achieved questionably through private treaty and arrangement and not by a process of open competitive bidding, at the cost and expense of a considerable loss to the state, that is the public, should not a responsible government take appropriate corrective action to recompense such social inequitability? Roaring repetitive rhetoric of rip-offs alone obligates and compels the government to take corrective action, even through special legislation, to make socially equitable adjustment warranted, to recover realistic purchase prices for such public property disposed of in such manner by the government, thereby being responsible therefor to the public. Otherwise, would it not be a clear case of brazen pillage and plunder of the plantations, the wealth of the public, in a socially inequitable manner?

Chandrika — policies transgressed, warranting action?

Sirimavo — why did her wisdom and caution go unheeded?

Bernard — can he be indifferent and acquiesce now?

The Report of the Commission of Inquiry on Agency Houses and Brokering Firms, appointed in 1971, chaired by Bernard Soysa, present senior Cabinet Minister, makes revealing reading of enlightening and critical analysis and diagnosis of the plantation sector. Having stated all that, as an elder statesman, could Bernard Soysa, as a responsible senior Cabinet Minister, be indifferent to and acquiesce with what has happened now?

Prime Minister, Sirimavo Dias Bandaranaike, the respected matriarch of Sri Lankan politics, time and again cautioned and questioned the hasty approach to privatisation. Those who handled the privatisation chose not to heed the good lady's concerns expressed with experience and wisdom. Nationalisation of the plantations, over which she presided as then Prime Minister, may not have been the answer to the social evils then in the plantation sector that were expounded by the Bernard Soysa Commission Report, but would privatisation in such hasty and questionable manner, in addition to the considerable loss caused to the state, prevent the resurgence of such improprieties and misdemeanours such report then highlighted?

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