

මිහිරි සරළඳ இனிமையான வெற்றி **Sweet Success**

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வருடாந்த அறிக்கை -2014
Annual Report -2014



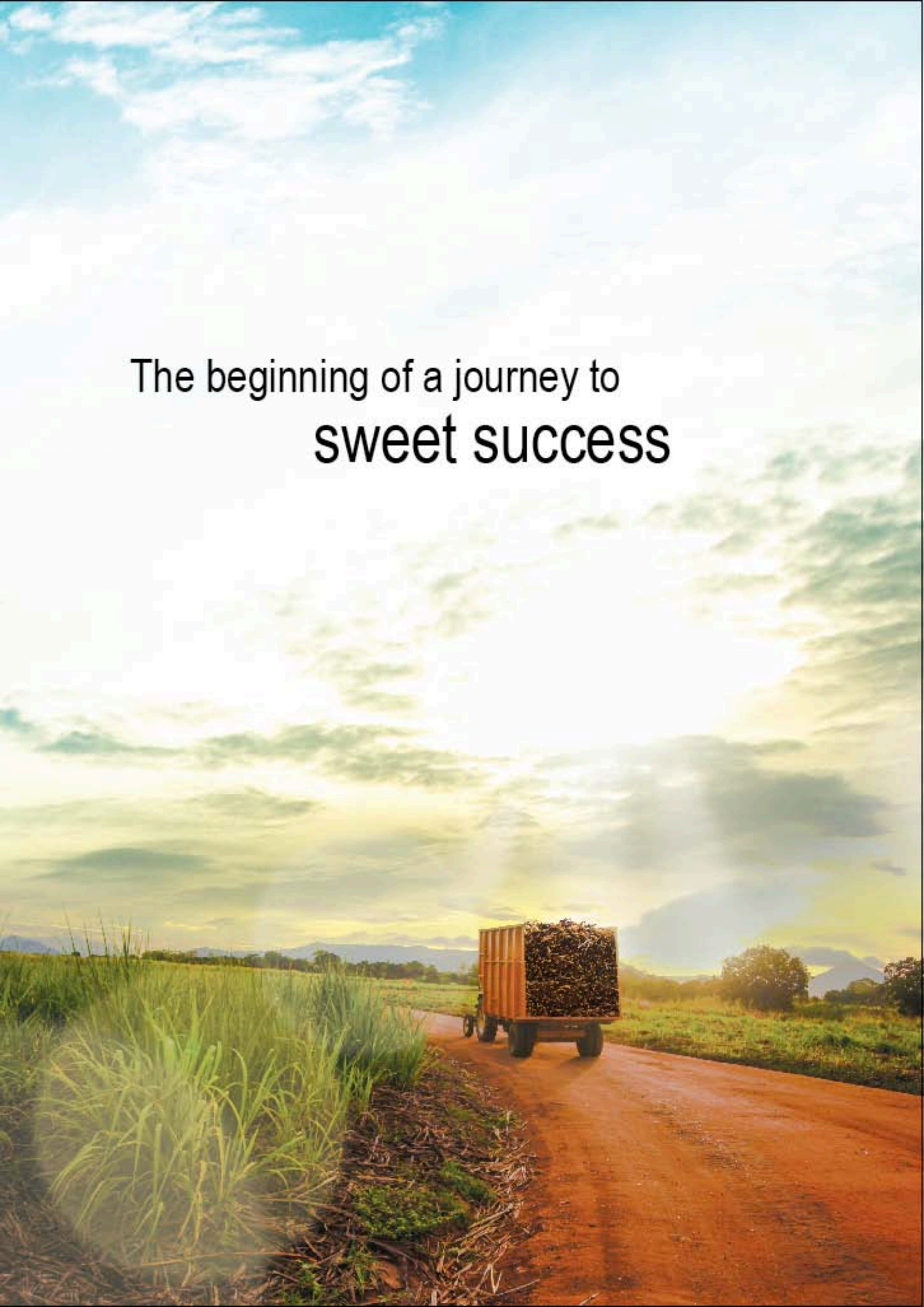
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லங்கா சீனி நிறுவனம் பிரிமீட்டட்
Lanka Sugar Company (Private) Limited.



Lanka Sugar Company (Private) Limited.

ANNUAL REPORT 2014

The beginning of a journey to
sweet success



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Our Philosophy

To Contribute to the National Development through improving rural economy, thereby increasing the Socio - economic status of farmers with a sugar based farming and industry.

Our Vision

To become self sufficient in sugar by 2025

Our Objectives

Mission 333 - Short term (3 years by 2017)

- 1). Achieve 80,000 Mt of sugar production
- 2). To support 15,000 farmer families
- 3). To provide 8,000 direct employments
- 4). To increase farmer family net income to Rs. 30,000 per month
- 5). To contribute 15% of national sugar requirement
- 6). Achieve Rs. 2.2 Bn net profit
- 7). To save Rs. 20 Bn foreign exchange
- 8). Co generate 30 MW of power

Mission 666 - Long term objectives (6 years by 2020)

- 1). Achieve 240,000 Mt of sugar production
- 2). To support 40,000 farmer families
- 3). To provide 18,000 direct employments
- 4). To increase farmer family net income to Rs. 40,000 per month
- 5). Achieve Rs. 7 Bn net profit
- 6). To save Rs. 16 Bn foreign exchange
- 7). Co generate 75 MW of power

Strategies

- 1). Out grower based growing model.
- 2). Yield improvement with high yielding varieties , better agricultural practices with efficient extension services and ensuring better returns to farmers.
- 3). Farmer motivation through quantity and quality productivity incentives.
- 4). Staff motivation based on performance based schemes and incentives on productivity.

Research and Development

Research and Development activities to increase sugar cane and sugar productivity are being carried out with Sugar Research Institute of Sri Lanka.

Corporate Social Responsibility

We believe that we must increase the income values of the sugar cane farmers and add value to the community and the environment in which we operate.



Fertile richness for
sweet success



Lanka Sugar Company (Private) Limited

FINANCIAL & OPERATIONAL HIGHLIGHTS - 2014

(Figures are in Rupees Million)	2014	2013
Financial Highlights		
Turnover Value	5,539.31	5,747.05
Cost of Sales	(4,904.06)	(3,833.75)
Gross profit	635.25	1,913.30
Net Profit before tax	(211.01)	1,345.72

Operational Performance	2014	2013
Land cultivation		
Cultivable (Hectare)	17,499	17,499
Cultivated (Hectare) 31/12	11,280	10,314
%of Cultivated area	64%	71%

Harvesting programme	2014	2013
Cane harvested (MT)	409,582	510,104
Percentage of Increase/(Decrease) over -2013	-20%	35%
Sugar recovery	7.90%	8.34%

Sugar Production	2014	2013
Metric Tonnes	32,364	42,549
Per Head Per Annum (MT)	6.17	7.57

Human Resource	2014	2013
Permanent	1,557	1,630
Contract	492	736
Casual	2,645	2,530
Seasonal	510	685
Trainees	40	41
Total	5,244	5,622

As sweet success
reaches for the sky



Chairman's Statement



On behalf of the Board of Directors, I am pleased to submit the Annual Report together with Financial Statement for the year ended 31st December 2014 of Lanka Sugar (Private) Limited.

The year under review of the Company was indeed challenging with many macro and micro economic factors affecting the performance. Severe drought condition during the 1st three quarters of the year affected the sugar cane yield and sugar recovery rate adversely. Thus, sugar cane yield per hectare dropped from 53.82 MT to 39.38 MT and Sugar recovery rate dropped from 8.40% to 7.90%, making a dual impact on the production volume. Our Sevenagala division was able to mitigate the effect as part of the cultivation had been on irrigated lands.

The Economic Environment

Despite the unfavorable conditions in the global Economy, Sri Lanka was able to maintain a GDP growth rate of 7.8 % in the year under review compared to the 6.5% growth in the year 2013. Thus, the Central Bank of Sri Lanka was able to reduce the Interest rates further and maintain low level of inflation. Major contributors to the Economic growth were Agricultural, industrial & service sectors.

Industry Overview

Even though, the nature affected badly on the industry, we were able to produce 32,364 MT of Sugar during the year and it is 5% of the domestic sugar requirement. Also, it is 62% of local sugar production.

Sugar prices globally had drastically dropped in the year, and during July, August and September, import of sugar has increased hugely compared to the previous years and importers had made their own buffer stocks. This caused selling prices to drop in the market and major wholesellers were reluctant to buy the sugar at prices we offered. Even though, later the Government increased the taxes on sugar, the impact could not be reverted completely. In the later part of the year the whole sale prices of sugar dropped below Rs.85/ per Kg.

Company Performance

During the Financial year under review, the Company recorded Rs. 211 million operating loss before tax. It is a 116% drop compared to 2013. Decline in the production volume which was a direct result of adverse weather condition and drop of selling price of sugar which is a resultant of import of sugar in high volume at low prices were collectively affected for drop of profitability. Salary increase of employees, drought relief allowance of Rs.75 million to the farmers & Badulla District sugar cultivation promotion programme which cost Rs. 4.17 million were apparently affected adversely on the profitability in the short run where as it is a part of futuristic thinking of the management. There is no doubt that benefit would be derived in the future.

Capital Expenditure

Our Pelwatte division invested Rs.80.4 Million on factory Plants & equipment, 26.7 Million on Field Plants & machinery and 7 million on Building whereas Sevenagala Division invested Rs. 69.6Mn on Motor vehicle and 7 million on Factory equipment.

Welfare

Company spent substantial amount of money for welfare during the year. Separate maintenance staff has been allocated for maintaining the crèches and infrastructure. Company provides school transport for kids of worker families. Pre- School and Day care centre is maintained by the Company. During the drought season, a drought relief allowance of Rs.75 million was paid to the farmers.

Recognition

In recognition of improving and uplifting the rural farming community and on account of the contribution to the national economic development, Lanka Sugar Company (Private) limited –Sevenagala Division was presented with the National Agribusiness Awards - 2014 by National Agribusiness Council.

Future Outlook

Looking forward, Sri Lankan economy is moving faster and supposed to achieve its development targets. Government policies and drop of Interest rates are inviting us to look for new investment alternatives. Our product has definite commodity market. The board is continuously focusing to increase the cultivation area of sugar cane. Motivating the existing farmers as well as, bringing new farmers to the industry is required in order to achieve good results.

Acquire new lands and increasing productivity of our own plantation is also important. In addition to the main product, we are focusing on development of by products to reap maximum benefit of the operation. We have evaluated Co-generation projects for Sevenagala and Palwatte that will generate 10 MW and 15 MW per hour respectively.

Appreciation

I would like to place on records my sincere thanks to the previous Board of Directors, the Management and the staff of the company for their efforts and valuable contribution during the year 2014 and in the past.

I also, thank the sugar cane farmers, customers, sugar wholesale dealers, and the Banks and other government institutions for being with the company, throughout.

At last, but, not the least, I would thank the the new Board of Directors who guides to bring the company towards the success.

Naveen Adikarama

Chairman,
December 01, 2015
Colombo.

Director / Chief Executive Officer's Statement



Dear All the Stake Holders,

The Environment.

The Financial year of 2014 has been a difficult one for Lanka Sugar Company (Private) limited as the import duties of Sugar were dropped during the period. As a result Sugar whole sellers made a buffer Stock reducing the demand for local Sugar. Thus, Lanka Sugar had to reduce its prices to compete with those prices. Budgeted selling price was Rs.93,250 per Mt of Sugar whereas the actual average selling price of a Metric Ton dropped to Rs.89,441 during the year. Thus, the Company has lost nearly Rs.122 million compared to the budget.

The operational environment too was very tough as there was a heavy drought in the beginning of the year. This resulted in the sugar cane supply dropping by 19% compared to the year 2013. (It was a drop of 38% compared to the Budget).

Strategies & Actions

In order to increase the cane yield per hectare, the area of drip irrigation has to be increased and the Company allocated Rs. 30 Million for Galamuna project – Pelwatte in its budget 2015 and will start the project in July 2015. In addition to that another Rs. 12 million was allocated for the Agronomy sector and Rs. 15 million was allocated for Nucleus Estates for irrigation equipment. In order to increase the cane supply, we encourage the out grower model and, during the year price of Sugar cane was increased by Rs.500 per Mt in 2015. Thus, we expect to see an increase in the number of sugar cane farmers.

Byproducts

The Sugar industry cannot reduce its cost of production unless it manages its molasses properly. The major product of Molasses is ENA (Extra neutralized Alcohol). By supplying ENA to the local Liquor manufacturers, the country can save the foreign exchange that is spent on importing liquor. Our ENA production during the year has reduced by 3.57% . The level of ENA production also has a direct relationship with both Cane production and Sugar extraction. Therefore, drop of sugar cane supply has resulted in a drop in the ENA production.

Lanka Sugar has taken a step forward and signed an agreement with Industrial Gas Company to extract Carbon Dioxide. Industrial Gas Company is supposed to pay Rs.25 for every kg of Carbon dioxide extracted. We expect to derive a minimum Rs. 15 million of net income annually from this project.

Human Resources

Retaining high caliber employees has been a challenge for us. Employee turnover is high as 9% in the year 2014. In order to address the issue, the Board introduced a retention allowance for the employees who are professionally qualified.

Enterprises Resource Planning (ERP)

In order to derive the benefit of the modern information systems, the Company has decided to implement an ERP system. As per our forecast, the total project will cost approximately Rs.150 million. The Functional Requirement Specifications, the Vendor Evaluation & selection, the software quality assurance , the project Implementation & management and the post implementation review were assigned to KPMG Sri Lanka and the project is forecasted to commence in the year 2016.

Future outlook

The Company has identified viable new projects. Cogeneration projects at Sevenagala and Pelwatte look very positive. Company plans to generate 12 MW and 15 MW of electricity from Sevenagala & Pelwatte, respectively. With these Projects the company can bring down its electricity bills to zero while earning additional income by selling the balance to the national grid.

Appreciation

Our achievement is the result of dedication of our team. Former Board members, Chief Operation Officers, General Managers, other senior Managers and all other employees of Lanka sugar Company (Private) limited , our sugar cane farmers, Other Material & Services suppliers, Customers and the Bankers are remembered with gratitude for the contribution they made. Even though the year 2014 has not been a fruitful year for Lanka Sugar, the company was able to sustain because of their contribution, effort and assistance. Your assistance will be required in the future in order to achieve our goals and objectives.

M.H.A. Shathar
December 1, 2015



NATIONAL AGRI BUSINESS AWARDS 2014

LANKA SUGAR COMPANY LTD - SEVANAGALA

Was the Proud Winner of

ALL ISLAND GOLD AWARD WINNER
FOR PRODUCER - LARGE CATAGORY



Risk Management

Type of Risk	Description	Action Plan
Operational Risk	Sourcing of lands for Sugar Cane cultivation.	◆ Increasing the Sugar Cane Price from Rs.4,200/- to Rs. 4,500/-. ◆ Offering crop advances and other materials on loan basis. ◆ Sugar cane farmers also benefited by the Government introduced Fertilizer Subsidy.
Credit Risk	Bad Debts arising from the Inputs given to the Farmers.	Given more responsibilities to the staff for recovering.
Inflation Risk	Potential Impact on profitability due to the increased cost of Inputs and overheads.	Focusing on increase productivity and decreasing of cost of production.
Market Risk	Import of sugar by the local sugar Suppliers at a low price.	Increase the production volume to bring down the unit overhead cost.
Environmental Risk	Damages arising for the sugar cane crop from elephants & weather changes may lead to drop in yield.	Developing elephant trenches, fences and human barriers on company cost.



Bright smiles,
sweet success

Our Culture & Values

OUR FARMERS

The farmer is our king. Lanka Sugar Company believes that the farmers are one of the major and most important stake holders of the company. This is a critical factor in Sevanagala, that they have only a limited amount of land for their own cultivation as almost all the land is cultivated by the farmers.

The average income from a hectare of cane cultivation is estimated at around Rs.35,000/= per month. Farmers engaged in sugar cane cultivation in many areas had a low level of income. This situation discouraged the farmers to be in this industry. Instead, they were moving on to other cultivations. Lanka Sugar identified the situation at the very inception and took many initiatives to help the farmers to increase their income. Presently, a farmer is paid Rs.4,500/= per MT of cane where as it was Rs 4,200/= per MT before. Thus, by now, LSCPL is the highest payer for a Metric Ton of cane in the history of sugar cane cultivation. In order to encourage the farmer, in 2013, the Management decided to allocate 10% of its profit for farmer incentives.

OUR CUSTOMER

Our customer is our hope. Over 20 million of our population is our customers. Providing them with quality and organic sugar at a reasonable price is our prime purpose. Per capita sugar consumption of a Sri Lankan per year is between 30 to 35 kg. As our production capacity remains at a low rate of 6%, the balance 94% has to be imported. More than 500 million US Dollars are being spent annually for the importation of sugar. This is a major negative impact on our National Income.

OUR EMPLOYEE

Our employee is our wealth. No organization can be successful without loyal and motivated employees. Operational results is a reflection of the level of dedication and effort of our employees. The human resource is in a key focus of Lanka Sugar. In the past, employees in the sugar industry were facing numerous predicaments in their lives with regard to the terms of employment, low level of monthly income, bonus related issues, promotions etc.,. Knowing these facts, Lanka Sugar began to address the issues as priority.

GOOD GOVERNANCE

Our Statutory Auditors were M/s Ernst & Young (Chartered Accountants).

In addition to the external auditors, both Pelwatte and Sevanagala Divisions have internal Audit Departments and are reporting directly to the Chief Executive Officer & the Chairman. Audit committee which consists of three board members are reviewing the Internal Auditors' Reports on a regular basis, call for explanations from the senior managers and submit the reports to the Board of Directors, together with their findings.

CONSTRAINTS

There are key issues yet to be resolved so that we can keep constantly focused on the future.

Both Pelwatte and Sevanagala locations are still held up with the movable assets which are not owned by the new company. We are waiting until the legal process is completed so those can be removed or absorbed to the process.

Land acquisition process looks very slow and we have to hold up our medium term and long-term plans until the sufficient area of lands are acquired. This is beyond the control of the Management.

Management has already formulated strategies to achieve the targets set by GOSL. Funding of the new investment is another issue that is on our way. Most of the Banks want significant assets to be pledged where the ownership of the lands of Pelwatte and Sevanagala is not with Lanka Sugar Company (Private) limited. However we are process of arranging the funds with the assistance of the treasury and the ministry.

IT system at the Pelwatte has the historical and current information of the operation whereas at Sevanagala, the previous Management has taken all the records of the employees and hence, the gratuity payments, provisions and any other employee related matters are on hold. The Government should take the initiative to obtain the books and records from the previous Management of Sevanagala Sugar Company.

Audit Committee Report

In accordance with the Corporate Governance Guidelines the Audit Committee has been duly constituted by the Board of Directors. The Audit Committee is empowered by the Board of Directors to oversee the financial reporting, Legal and regulatory compliance, internal controls, risk management and assessment of independence and performance of external auditors. The Audit Committee comprises of three Non - Executive Directors chaired Treasury Representative. The Audit Committee of 2014 was as follows :

Mr.T.V Weerasena – Chairman
Mr. Thisath Wijayagunawardane
Mr. Awantha Amaraweera

ROLE OF COMMITTEE

The Committee reviews the operations and effectiveness of internal control systems, ensuring that a good financial reporting system is in place, and oversees the preparations, presentation and adequacy of disclosures in the financial systems in accordance with Sri Lanka Accounting standards, Companies Act and other relevant financial reporting regulations. The Committee monitors the internal and external audit functions of the company.

INTERNAL AUDIT

The internal audit comprises of two Internal Audit Divisions (Palwatte and Sevenagala) which function under two Internal Audit Officers and 21 Audit Assistants. They continuously work in their respective offices and report directly to the Chairman through General Manager (I A). In addition to two Internal Audit units, a special audit assignment had been awarded to Magamage & Co.(Chartered Accountants) to study the internal control system.

EXTERNAL AUDIT

The Committee reviewed the Management Letter submitted by the External Auditors with the Management Response. The management implements the Recommendations and the Audit Committee follows up on the implementation of these recommendations.

The Committee makes Recommendations to the Board on appointment, re-appointment and removal of External Auditors and approval of terms of engagement and remuneration.

MEETINGS AND ACTIVITIES

The Committee held two (2) meetings during the year. The Chief Executive Officer, General Manager – Finance, General Manager - IA and Chief Operating Officers of both Palwatte and Sevenagala attended meetings by invitation. During the year, the Committee reviewed five (5) reports forwarded by the internal Auditors including the Quarterly Management Reports of Magage & Co. The reports are submitted monthly by internal Auditors as they carry out the audits according to a scheduled programme. In addition Special Internal Audit Team (Maganage & Co.) carried out special audits on assignment basis. During its meetings the Committee reviewed the adequacy of the internal controls and procedures in place, to provide reasonable assurance that the company's activities are properly carried out and assets safeguarded. The Committee also reviewed the Company's Annual Report and Accounts for reliability, consistency and compliance with the Sri Lanka Accounting Standards and other statutory Requirements, including the Companies Act No 07 of 2007. Further, the Chief Executive Officer General Manager – Finance and the Company Secretaries also provide assurance statements for the applicable compliances.

The audit committee has recommended to the Board of Directors that M/S BDO Partners, Chartered Accountants be re-appointed as auditor's subjects to the approval of the shareholders.

T.V Weerasena
Chairman
Audit committee

The clear route to
sweet success





Board of Directors



CHAIRMAN
Mr. Navin Adikaram



DIRECTOR / CHIEF EXECUTIVE OFFICER
Mr. M.H.A. Sathar



DIRECTOR
Mr. Thisath Wijayagunawardane
Attorney-at-Law



DIRECTOR
Mr. R.M. Gamini Rathnayaka



DIRECTOR
Mr. Vincent Dias



DIRECTOR
Mr. T.V. Weerasena



DIRECTOR
Dr. Nihal Samarappuli

Directors' Profiles

OUR CHAIRMAN

Mr. Navin Adikarama - Central Missouri State University, Kansas City, Missouri, USA Bachelor of Science

Our Chairman, Mr. Navin Adikarama is a over 21 years of extensive experience & proven track record in Corporate Good Governance, Business Restructuring and Revitalization of defunct State Enterprise. a strategic leader, a proven visionary, a successful entrepreneur, seasoned Telecommunication Technology and Management executive with exposure in fortune-500 companies, multi-national, multi-cultural, multi-ethnicity environments in Sri Lanka & across the Globe including USA, UK, Singapore, China & Nepal. Highly conversant with Mix & Manage of pre-paid and post - paid services on multi-dimensional platforms. Spearheaded implementation of many CRM systems, OCS (online charging systems), telecom billing systems, Fraud Management systems on NGN platforms, SDP and VAS.

He serves in the following Committees / Organisation as well:

- * Council Member of the South Eastern University of Sri Lanka
- * Director - Sri Lanka Land Reclamation and Development Corporation
- * Director - Sri Lanka Rest Houses Limited
- * Advisory Committee Member - Project Management Institute, Sri Lanka Chapter

OUR DIRECTOR / CHIEF EXECUTIVE OFFICER

Mr. Mohamed Hilmy Abdul Sathar

Our Chief Executive Officer Mr. Mohamed Hilmy Abdul Sathar is a Professional in the Management Field,

Key Skills

- * Extensive knowledge in the field of Ministerial activities and administration.
- * Updated knowledge of the current national and international political scenario and practice of good governance.
- * Effective written, verbal communication and presentation skills.
- * Strong media management and public relation management abilities

Professional Experience

- * Chief Executive Officer, M/s. Lanka Sugar Company (Private) Limited, Sri Lanka. (2015 February to date)
- * Director Premier TK20 Singapore (Pvt) Limited. (2012 to date)
- * Consultant on Investment to Shanfari Group - Oman. (2009 to 2011)
- * Director at Ministry of Housing. (2004 to 2005)
- * Honorary Adviser to state Trading Corporations and CWE under the Ministry of Trade and Commerce. (2002 to 2004)
- * Partner TKS Trading, Colombo - Sole importers of Automotive Batteries and Main Government Suppliers. (1995 to 2000)
- * Executive Stores Manager for Siyanco Group for Jeddha Port Project. (1989 to 1993)

BOARD OF DIRECTORS

Mr. Thisath Wijayagunawardane - Attorney -at - Law

Mr. Thisath Wijayagunawardane obtained a Masters Degree in Law from the University of Reading, England. He serves as the Director/ Consultant of Chancellor Consultancies (Pvt) Limited and J T S Power Company (Private) Limited. He was appointed to the Board on 01st October 2012 and serves up to date.

Mr. R.M. Gamini Kuda Bandara Rathnayake - Bachelor of Science, Master of Science – MAKS

Mr. R.M. Gamini Kuda Bandara Rathnayake obtained a Bachelor of Science (Specialized in Agriculture) – University of Peradeniya, Peradeniya, Sri Lanka. Certificate (Training Programme), Land Reform & Rural Development, Land Reform & Training Institute, Taiwan & Philippines. Master of Science – MAKS (Management of Agriculture Knowledge System), University of Wageningen, the Netherlands. Certificate (Training Programme), Watershed programme with a Special Focus on Drought Prone Areas, National Institute of Rural Development, Guwahati, Assam, India (jointly organized by center for Integrated Rural Development for Asia and Pacific and National Institute of Development of Rural Development, India).

Mr. Don Vincent Dias - Former Elected Member of Parliament from Badulla

Mr. Don Vincent Dias is a Professional in the Management,

Experience

- * 1975 Elected UNP Organizer Badulla.
- * 1977 Elected Member of Parliament for Badulla.
- * 1983 Elected Deputy Minister Regional Development.
- * 1993 Member Uva Provincial Council UNP.
- * 1993 – 1994 Working Director ITN.
- * 1994 – Chairman Pharmaceuticals Corporation.
- * 1993 – 2009 Member Uva Provincial Council.
- * 2015 - Director Lanka Sugar Company & Lanka Salusala

Mr. T.V. Weerasena - B com (special) degree, Post Graduate Diploma in Accounting & Financial Management

Professional Qualifications

- * Sri Lanka Accountants Service Fellow Membership of the Association of Public Financial Accountants of Sri Lanka (Public Sector Wing of CA Sri Lanka)
- * Higher National Diploma in Accountancy – Technical College
- * Diploma in Public Financial Management – SLIDA
- * Chartered Finalist
- * Diploma in Professional English – SLIDA
- * Diploma in Business Studies- Technical College

Dr. Nihal Samarappuli - B.Sc. (Special Degree in Agriculture), MSc. (Agricultural Extension), PhD (Economics)

Dr. Nihal Samarappuli is a Economist / Policy Analyst by profession with over 35 years of work experience in premier State and Private Sector establishments. He has also worked as a Consultant to International Organizations such as Asian Development Bank (ADB) and International Fund for Agricultural Development (IFAD) – a UN Agency. He has published / written over 300 reports, policy papers, research papers on a wide range of disciplines and he has gained special expertise on Development Planning, Policy Analysis, Investment & Trade Promotion, International Treaty Negotiations.

Professional Experience

- * Tokyo Cement Company (Lanka) PLC, Colombo 03, Sri Lanka (Director – Economic Research) 2015
- * Ministry of Investment Promotion (Director General - Investment) 2013 - 2014
- * Board of Investment of Sri Lanka (Executive Director - Research & Policy Advocacy) 2001 - 2014
- * Board of Investment of Sri Lanka (Director - Research) 1998 - 2001
- * Rubber Research Institute of Sri Lanka, Dartonfield, Agalawatta, Sri Lanka (Agricultural Economist) 1991 - 1998
- * Rubber Research Board, Nivitigalakele, Matugama, Sri Lanka (Training Officer) 1981 - 1991
- * Mahaweli Development Board, Sri Lanka (Asst. Soil Chemist) 1979 - 1981

Delivery time for
sweet success





Senior Management Team & Head Office Organization Structure



Chairman
Mr. Navin Adikaram



Director / CEO
Mr. M.H.A. Sathar



COO - Pelwatte
Mr. P.H.A.W. Karunaratne



COO - Sevanagala
Mr. C.E. Amunugama



GM - Proc / Marketing
Mr. W.M. Karunaratne



GM - Finance
Mr. N.H.S. Navaratne



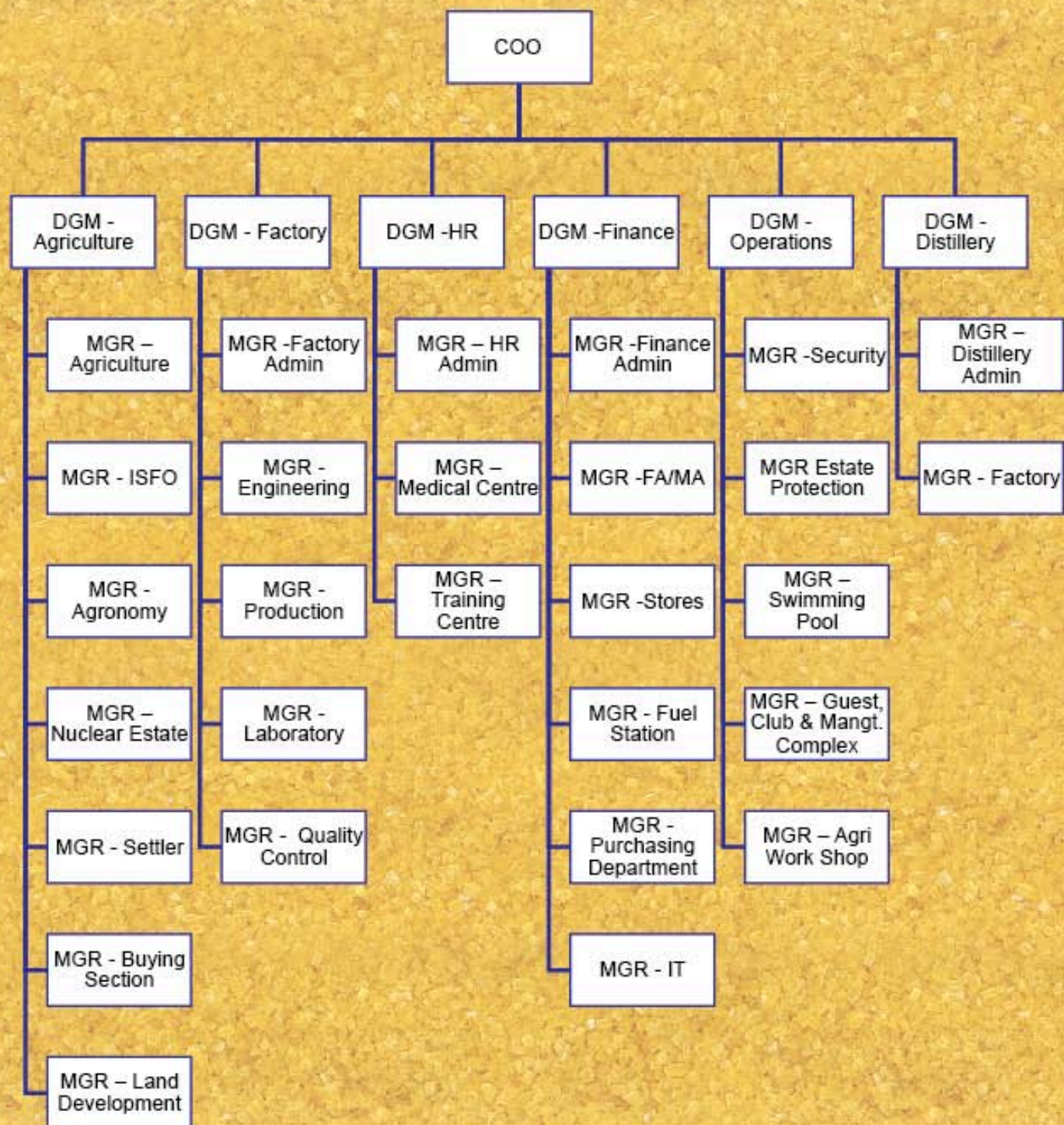
GM-HR / Monitoring
Mr. M. Jayakody



Senior Manager Land Aquisition
Mr. Sahadeva



Organization Structure - Pelwatte



Pelwatte Management Team



First Row (From Left to Right) :

Ms. M.E. Kosgahakumbura (Management Accountant), Mr. D.N. Fayaratne (DGM Factory), Ms. M.P.N. Sandaruwani (DGM Finance), Mr. B.A.G.N. Illangakoon (DGM Operations), Mr. Wimal Karunaratna (Chief Operations Officer), Mr. D.L.D. Jayantha (GM Distillery), Mr. M.M.D.S.N. Perera (DGM Agriculture), Ms. Lily M. Hettiarachchi (Executive Corporate Information)

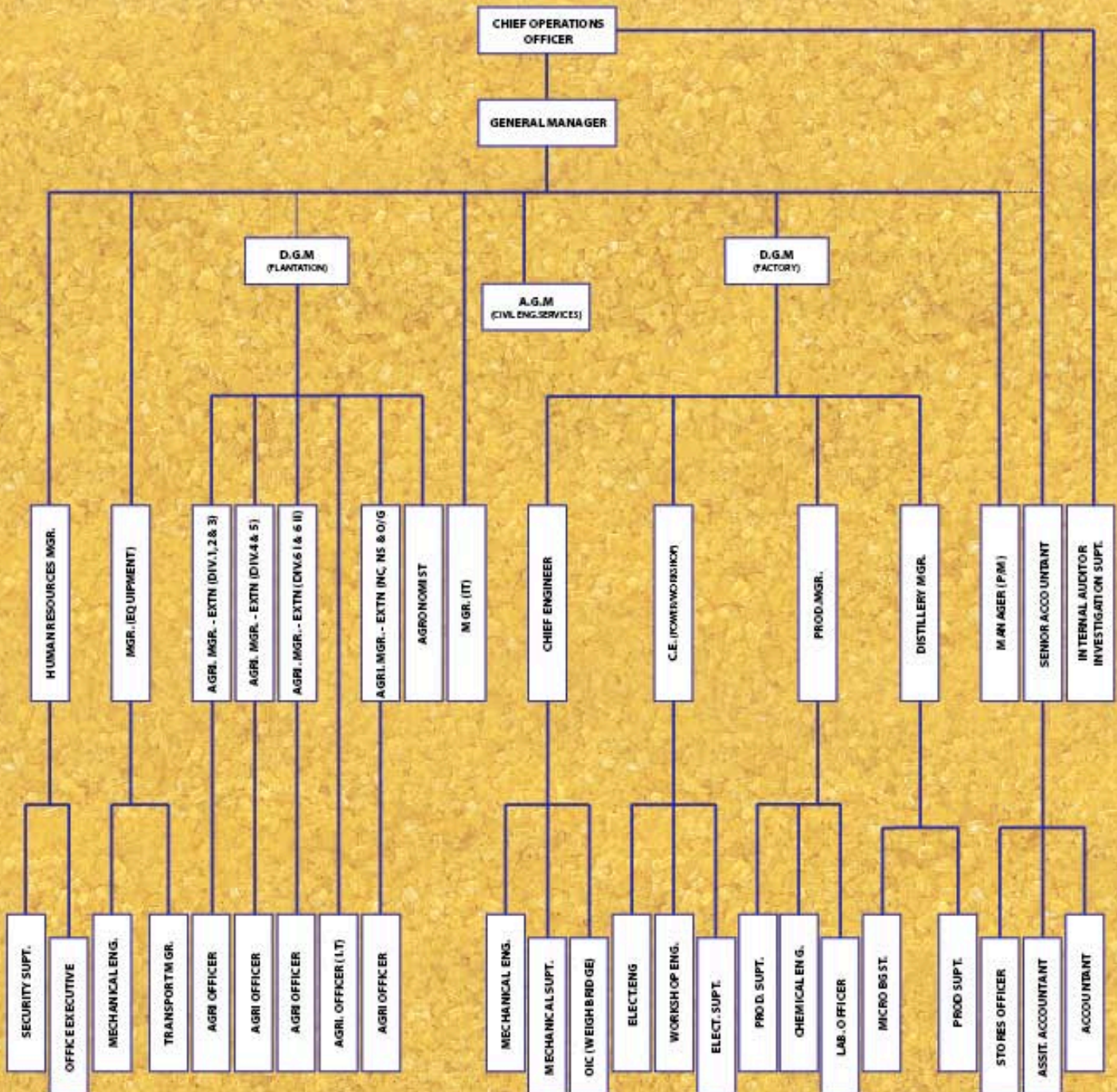
Second Row (From Left to Right) :

Mr. S. Weerasekera (Manager - Golf & Resort), Mr. R.M.J. Bandara (Production Manager-Distillery), Mr. D.A. Chandraraj (Electrical Engineer - Factory), Mr. K.L.J. Fernando (Manager - HR), Mr. H.M.J.A.K. Katugaha (Production Manager - Factory), Mr. K. Vidurasinghe (Manager - Harvesting & Buying Station), Mr. N. Wimalasena (Chief Investigation Officer), Mr. Malinda De Silva (Assistant Manager - EP), Mr. B.G.T. Prasanga (Assistant Manager - HR & Admin)

Third Row (From Left to Right) :

Mr. L.A.C. Prasanna (Manager - NE), Mr. K.A.G.S. Sisiwath (Engineering Manager - Factory), Mr. W.S.K. Ratnayake (Manager - Land Development), Mr. D.M.S. Bandara (Manager - Outgrower), Mr. E.P. Suranga (Manager - Factory), Mr. A. Masachchi (Chief Internal Auditor, Mr. R.A.M. Chandana (Agronomist), Mr. Anura Wijesinghe (Manager - Purchasing), Mr. K.A.D. Kalansooriya (Manager - Settler Estate), Mr. M.B. Chandana (Chief Engineer - Agric. Workshop)

Organization Structure - Sevanagala



Sevanagala Management Team



Seated from left to right

Mr. N.A. Wimalaratne (Acting Manager-Equipment), Mr. J.R. Malalgoda (Asst. General Manager-Civil Engineering Services), Mr. D. K. W. De Silva (Deputy General Manager – Factory),
 Mr. C.E. Amunugama (Chief Operations Officer), Mr. K.A. Walker (General Manager), Mr. H.M.S. Samaraweera (Deputy General Manager – Agriculture), Mr. S.V.D.S. Priyantha (Chief Engineer)

Standing from right to left

Mr. S W Kodithuwakku (Manager Agriculture Extension), Mr.P.A.K. Nandadewa (Manager Agriculture Extension), Mr. M. Upul Kumara (Manager Agriculture Extension), Mr. Athula
 Siridewa (Manager Agriculture Extension), Mr. D.C. Hettiarachchi (Chief Engineer – Power & Workshop), Mr.Jayantha Fernando (Senior Manager – HR), Mr. Sapumal Phillegedera
 (Manager (Procurement & Marketing), Mr. M Shantha Weerasiri (Internal Auditor/Investigation Supdt.), Mr. Kingsly Pathirana (Senior Accountant).

INDEPENDENT AUDITORS' REPORT



Ernst & Young
Chartered Accountants
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Sri Lanka

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Fax : +94 11 5578180
aysl@lk.ey.com
ey.com

MPDC/RD/ND/AD

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF LANKA SUGAR COMPANY (PRIVATE) LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Lanka Sugar Company (Private) Limited ("the Company"), which comprise the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as board determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Scope of Audit and Basis of Qualified 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

Lanka Sugar Company (Private) Limited is the succeeding company of managing the properties owned by Pelwatte Sugar Industries PLC and Sevenagala Sugar Industries Limited, which was taken over by the Government of Sri Lanka under the Revival of Underperforming Enterprises or Underutilized Assets Act No. 43 of 2011. During the process of takeover, the immovable assets on the said properties were vested with the Competent Authorities representing the Government of Sri Lanka (GOSL) being Pelwatte Sugar Industries and Sevenagala Sugar Industries respectively. Subsequently on 01 October 2012 all the assets and liabilities vested with the Competent Authorities were transferred to Lanka Sugar Company (Private) Limited. Furthermore the management of the properties which was overlooked by the Competent Authorities was transferred to the Board of Directors of Lanka Sugar Company (Private) Limited which is now responsible for running the establishment.

Due to unexplained reasons much of the assets and liabilities taken over in physical form lacked documentation to substantiate valuations on the date of takeover, and the competent authorities where ever possible attempted to obtain such values, through other collaborative means, some of which were accepted as audit evidence where ever possible. Much of the accuracy relating to opening balances obtained was later based on management representation and other collaborative audit evidence that was disclosed by the competent authorities to Ernst & Young. However the matters referred to in paragraphs A and B has to be taken into consideration in this regard.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

Partners: A.D.B.Talawatta FCA FCMA M.P.D.Cooray FCA FCMA R.N.de Saram ACA FCMA Ms.N.A.De Silva ACA Ms.Y.A.De Silva FCA W.R.H.Fernando FCA FCMA
W.K.B.S.P.Fernando FCA FCMA A.P.A.Gunasekera FCA FCMA A.Harath FCA FCMA LLB (Lond) H.M.A.Jayasinghe FCA FCMA
Ms.A.A.Ludowyke FCA FCMA Ms.G.G.S.Manatunga ACA N.M.Sulaiman ACA ACMA B.E.Wijesuriya ACA ACMA

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

- A. With the effect of the Revival of Underperforming Enterprises and Underutilised Assets Act No. 43 of 2011 ("Act") the Company has taken over the assets vested at the Pelwatte and Sevenagala premises. However the Company did not carry out a detailed assessment to identify the fair value of the assets acquired. Further the Company does not have a complete fixed asset register to determine assets vested from previous owners as at 11 November 2011. Per the Act, the Company was required to recognise the vested assets at fair value in these financial statements.

Without proceeding as above Pelwatte Division has taken the continuing book balances of previous owners to their books and adopted depreciation rates accordingly, whilst the Sevanagala Division did not account for assets / liabilities transferred from the previous owners including property, plant and equipment, opening inventory balances, depreciation of property, plant and equipment.

Therefore, we were unable to obtain sufficient audit evidence to justify the reasonability of the value of assets, depreciation rates used in depreciating its property, plant and equipment and the reasonability of the depreciation expense charged to the statement of profit or loss.

Even though Pelwatte Division did receive valuation reports from the Department of Valuation for the division's buildings, plant and machinery, motor vehicles and agri equipment, such valuations have not been incorporated into these financial statements due to several inconsistencies identified by management in the information contained in such reports. Further whilst the Sevanagala Division did receive valuation reports from Department of Valuation for the division's buildings, plant and machinery, inventory and motor vehicles, only the value relating to Plant and Machinery has been incorporated into these financial statements due to several inconsistencies identified by management in the information contained in such reports.

Therefore the Government grant stated in the statement of financial position which amounts to Rs. 4,048,080,194/- does not reflect the fair value and further we were unable to obtain alternative audit evidence to support this.

- B. The Revival of Underperforming Enterprises or Underutilised Assets Act No.43 of 2011 has empowered the Cabinet of Ministers to appoint a tribunal to address issues pertaining to valuation of assets and liabilities for purpose of compensation to the former owner/shareholders. Any potential liability by way of claims, demand requests etc. resulting from the takeover will be dealt by the said tribunal which is an independent body not aligned or related to Lanka Sugar (Private) Limited. Other than the content included in the act, no documentation is available with the Company to assess any claims, or other liability that could crystallize on the said acquisition, in these financial statements.

Opinion

In our opinion, except for the effect on the financial statements of the matters referred above in Notes A - B, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2014 and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

a) The basis of opinion and scope and limitations of the audit are as stated above.

b) In our Opinion:

- * we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company
- * the financial statements of the Company, comply with the requirements of section 151 of the Companies Act

27 May 2015
Colombo



Lanka Sugar Company (Private) Limited
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

	Note	2014 Rs.	2013 Rs.
Revenue	4	5,539,305,323	5,747,048,373
Cost of Sales		(4,904,055,968)	(3,833,756,677)
Gross Profit		<u>635,249,355</u>	<u>1,913,291,696</u>
Other Income and Gains	5	55,818,240	53,278,760
Administrative Expenses		(1,012,541,959)	(724,583,331)
Finance Cost	6	(50,047,247)	(32,313,316)
Finance Income	6	160,508,676	136,043,131
Profit/(Loss) before tax	7	<u>(211,012,935)</u>	<u>1,345,716,941</u>
Income Tax Expense	8	60,175,975	(528,888,640)
Profit/(Loss) for the year		<u>(150,836,960)</u>	<u>816,828,301</u>
Other Comprehensive Income for the period, net of tax		59,138,063	48,678,394
Total Comprehensive Income/ (Expense) for the period, net of tax		<u><u>(91,698,897)</u></u>	<u><u>865,506,695</u></u>
 Earnings/(Loss) Per Share	9	 (1,508,370)	 8,168,283

The Accounting Policies and Notes on pages 32 to 52 form an integral part of these financial statements.



Lanka Sugar Company (Private) Limited
STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

ASSETS	Note	2014 Rs.	2013 Rs.
Non-Current Assets			
Property, Plant and Equipment	10	2,792,377,905	2,183,552,013
Deferred Tax Asset	8	86,066,655	1,442,469
		<u>2,878,444,560</u>	<u>2,184,994,482</u>
Current Assets			
Inventories	11	1,483,590,602	1,664,308,155
Biological Assets	12	428,018,378	416,610,125
Trade and Other Receivables	13	54,759,867	58,635,978
Advances and Prepayments		131,039,684	129,350,987
Loans Due from Farmers	14	930,162,482	764,202,986
Investments	15	1,733,873,465	1,568,902,957
Cash and Cash Equivalents	21	6,851,025	58,983,083
		<u>4,768,295,504</u>	<u>4,660,994,271</u>
Total Assets		<u>7,646,740,064</u>	<u>6,845,988,753</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Stated Capital	16	1,000	1,000
Government Grant	17	4,048,080,194	3,554,855,177
Accumulated Profits		924,011,372	1,095,710,269
Total Equity		<u>4,972,092,566</u>	<u>4,650,566,446</u>
Non-Current Liabilities			
Retirement Benefit Liability	19	412,697,156	396,335,846
Interest Bearing Loans and Borrowings	18	143,104,631	43,713,223
		<u>555,801,787</u>	<u>440,049,069</u>
Current Liabilities			
Interest Bearing Loans and Borrowings	18	440,401,880	64,855,479
Trade and Other Payables	20	1,156,140,806	1,181,460,446
Income Tax Payable		522,303,025	509,057,313
		<u>2,118,845,711</u>	<u>1,755,373,238</u>
Total Equity and Liabilities		<u>7,646,740,064</u>	<u>6,845,988,753</u>


.....
General Manager - Finance

The Board of Directors is responsible for the preparation and presentation of these financial statements. Signed for and on behalf of the Board by:


.....
Director


.....
Director

The Accounting Policies and Notes on pages 32 to 52 form an integral part of these financial statements.

27 May 2015
Colombo

Lanka Sugar Company (Private) Limited
STATEMENT OF CHANGES IN EQUITY
 Year ended 31 December 2014

	Stated Capital Rs.	Government Grant Rs.	Accumulated Profits Rs.	Total Rs.
As at 01 January 2013	1,000	3,579,880,177	230,203,574	3,810,084,751
Repayment of Government Grant	-	(25,000,000)	-	(25,000,000)
Paid by Company on behalf of previous owner	-	(25,000)	-	(25,000)
Profit for the year	-	-	816,828,301	816,828,301
Other Comprehensive Income	-	-	48,678,394	48,678,394
Total comprehensive income	-	-	865,506,695	865,506,695
Total comprehensive income	-	-	865,506,695	865,506,695
As at 31 December 2013	1,000	3,554,855,177	1,095,710,269	4,650,566,446
Repayment of Government Grant	-	(774,983)	-	(774,983)
Revaluation of Plant and Machinery	-	494,000,000	-	494,000,000
Dividends Paid	-	-	(80,000,000)	(80,000,000)
Loss for the year	-	-	(150,836,960)	(150,836,960)
Other Comprehensive Income	-	-	59,138,063	59,138,063
Total comprehensive income	-	-	(91,698,897)	(91,698,897)
As at 31 December 2014	1,000	4,048,080,194	924,011,372	4,972,092,566

The Accounting Policies and Notes on pages 32 to 52 form an integral part of these financial statements.

Lanka Sugar Company (Private) Limited

STATEMENT OF CASH FLOWS

Year ended 31 December 2014

Cash flows From / (Used in) Operating Activities	Note	2014 Rs.	2013 Rs.
Profit/(Loss) before Taxation		(211,012,935)	1,345,716,941
Adjustments for,			
Depreciation	10	278,540,745	200,080,374
Loss on sale of property, plant and equipment		-	12,325,714
Finance Income	6	(160,508,676)	(136,043,131)
Finance Cost	6	50,047,247	32,313,316
Provision for Retirement Benefit Liability	19	121,540,071	77,094,525
Provision for slow moving inventory	11	8,194,045	-
Bad Debts		1,919,319	-
Write Back of Liabilities		(504,941)	-
Operating Profit before Working Capital Changes		88,214,875	1,531,487,738
(Increase)/Decrease in Inventories		161,115,254	(810,680,834)
Increase in Trade and Other Receivables		(9,015,085)	(60,566,718)
Decrease in Loans Due from Farmers		(167,878,815)	(230,730,971)
Increase/(Decrease) in Trade and Other Payables		(25,319,640)	727,555,782
Net Cash From Operating Activities		47,116,590	1,157,064,997
Income Tax Paid		-	(21,273,794)
Retirement Benefit Liability Paid	19	(46,040,698)	(25,499,179)
Net Cash Flows From Operating Activities		1,075,892	1,110,292,024
Cash Flows From/(Used in) Investing Activities			
Acquisition of Property, Plant and Equipment		(236,522,276)	(263,126,467)
Net increase in investments in Fixed Deposits		(164,970,508)	(824,382,918)
Proceeds from the sale of Property, Plant and Equipment		3,771,000	-
Finance Income Received	6	160,508,676	136,043,131
Net Cash Flows Used in Investing Activities		(237,213,109)	(951,466,254)
Cash Flows From / (Used in) Financing Activities			
Loans obtained		-	(32,313,316)
Loans settlements	18	(10,932,248)	(9,671,298)
Payments made on behalf previous owner		-	(25,000)
Repayment of government grant	17	(774,983)	(25,000,000)
Principle payments under finance lease obligation	18	(18,687,116)	(1,914,878)
Interest paid	6	(50,047,247)	(32,313,316)
Dividends paid		(80,000,000)	-
Net Cash Flows Used in Financing Activities		(160,441,594)	(101,237,808)
Net Increase/(Decrease) in Cash and Cash Equivalents		(396,578,812)	57,587,963
Cash and Cash Equivalents at the beginning of the year	21	4,331,205	(53,256,758)
Cash and Cash Equivalents at the end of the year	21	(392,247,607)	4,331,205

The Accounting Policies and Notes on pages 32 to 52 form an integral part of these financial statements.

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

1. CORPORATE INFORMATION

1.1 General

Lanka Sugar Company (Private) Limited is an entity incorporated and domiciled in Sri Lanka. The company was established as a private limited company after being vested by the government. The Registered Office of the Entity is located at No. 27, Melbourne Avenue, Colombo 04, and the principal place of business is situated in Embilipitiya and Buttala.

After being incorporate as a private limited company, the assets and liabilities of Pelwatte Sugar Industries and Sevenagala Sugar Industries were transferred to Lanka Sugar Company (Private) Limited on 01 October 2012.

1.2 Principal Activities and Nature of Operations

During the financial period, principal activities of the Entity were cultivating of sugar cane, manufacturing of and marketing of sugar and ethanol.

1.3 Date of Authorization for Issue

The financial statements of Lanka Sugar Company (Private) Limited for the year ended 31 December 2014 were authorized for issue, in accordance with a resolution of the Board of Directors on 27 May 2015.

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

2. GENERAL POLICIES

2.1 BASIS OF PREPARATION

The financial statements of the company comprise the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows together with the Accounting Policies and Notes to the Financial Statements.

The Financial Statements of the Company have been prepared on a historical cost basis, unless stated otherwise.

The Financial Statements are presented in Sri Lankan Rupees (Rs).

2.1.1 Statement of Compliance

The financial statements of Lanka Sugar Company (Private) Limited have been prepared in accordance with Sri Lanka Accounting Standards. The preparation and presentation of these financial statements is in compliance with the Companies Act No. 07 of 2007.

2.1.2 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern in the foreseeable future and they do not intend either to liquidate or to cease trading.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Company in preparing the financial statements :

2.2.1 Functional and Presentation Currency

The financial statements are presented in Sri Lanka Rupees (LKR) as commercial transactions are primarily carried out in by the company in LKR and such would better reflect the economic substance of underlying events and circumstances relevant to the enterprise.

Transactions in foreign currencies are translated to Sri Lanka Rupees at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Sri Lanka Rupees using the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the statement of profit or loss.

All differences are taken to the statement of profit or loss.

Non-monetary assets and liabilities which are carried in terms of historical cost in a foreign currency are translated at the exchange rate that prevailed at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

2.2.2 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

Sale of Goods

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

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of profit or loss.

Gains and losses on Disposal of Assets

Gains and losses on disposal of Assets are determined by comparing the net sales proceeds with the carrying amounts of the Assets and are recognised net within "other operating income" in statement of profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

2.2.3 Taxation

Current Taxes

Income tax expense comprises current income tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except :

- * When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- * Receivables and payables that are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for tax effect of temporary difference between the carrying amount of assets and liabilities for financial reporting purpose and the amounts used for taxation purpose.

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

2.2.4 Expenses

All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the period.

Repairs and renewals are charged to profit or loss in the period in which the expenditure is incurred.

2.2.4.1 Borrowing Cost

Borrowing costs are recognized as an expense in the period in which they are incurred, except to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalized as part of the cost of that asset.

2.2.4.2 Finance Cost

Finance costs comprise interest expense on borrowings that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

2.2.5 Property, Plant and Equipment

Owned Assets

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

The cost of property, plant and equipment 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 costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of that equipment.

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

Leased Assets

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

Finance leases that transfer to the company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the profit or loss on a straight-line basis over the lease term.

Subsequent expenditure

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 company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized in accordance with the de-recognition policy given below.

The costs of the day-to-day servicing of property, plant and equipment are recognized in the profit or loss as incurred.

De-recognition

The carrying amount of an item of property, plant & equipment is derecognized on disposal; or when no future economic benefits are expected from its use. Gains and losses on derecognition are recognized in the profit or loss and gains are not classified as revenue.

Depreciation

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Assets held under finance leases are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets unless it is reasonably certain that the company will have ownership by the end of the lease term. Freehold land is not depreciated.

Depreciation of an asset begins when it is available for use and ceases at the earlier of the dates on which the asset is classified as held for sale or is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

2.2.6 Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items. Net realisable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

The cost incurred in bringing inventories to its present location and conditions are accounted using the following cost formula :-

Produce Stock	-	At direct cost including other overheads incurred thereon, up to the balance sheet date
Standing Cane	-	At direct cost including nursery cost and part of overheads incurred thereon, up to the balance sheet date
Other Stocks	-	At actual cost
Goods in Transit	-	At actual cost

2.2.7 Financial Instruments – initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the company commits to purchase or sell the asset.

The company's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit and loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- * The rights to receive cash flows from the asset have expired
- * The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
 - (a) The company has transferred substantially all the risks and rewards of the asset, or
 - (b) The company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the company has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the company's continuing involvement in the asset. In that case, the company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

ii) Impairment of financial assets

The company assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is reflected in the profit or loss.

Financial liabilities

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The company's financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the profit or loss.

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the profit or loss.

2.2.8 Cash and Cash Equivalents

Cash and cash equivalents are cash in hand and demand deposits that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts.

2.2.9 Impairment of non- financial assets

The carrying amounts of the company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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, 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. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss. Impairment losses recognised 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 on a pro-rata basis.

2.2.10 Liabilities and Provisions

Liabilities classified as current liabilities on the Statement of Financial Position are those which fall due for payment on demand or within one year from the reporting date whereas non-current liabilities fall due for payment later than one year from the reporting date.

All known liabilities have been accounted for in preparing the financial statements.

2.2.10.1 Employee Benefits

Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to Provident and Trust Funds covering all employees are recognized as an expense in the profit or loss as incurred.

The company contributes 12% and 3% of gross emoluments to employees as Provident Fund and Trust Fund contribution respectively.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The defined benefit is calculated by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability.

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Year ended 31 December 2014

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Key assumptions used in determining the defined retirement benefit obligations are given in Note 19.1. Any changes in these assumptions will impact the carrying amount of defined benefit obligations.

Actuarial gains and losses for the defined benefit obligation is recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in retained earnings and are not reclassified to profit or loss in subsequent periods.

Provision has been made for retirement gratuities from the first year of service for all employees, in conformity with Sri Lanka Accounting Standards. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The liability is not externally funded.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

2.2.10.2 Government Grant

Government Grant reflected in the balance sheet consist of the net assets acquired with the effect of Revival of Underperforming Enterprises and Underutilised Assets Act No. 43 of 2011 and the subsequent working capital contributed to carry out the entity's operations.

2.2.10.3 Provisions

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

2.2.11 Changes in Accounting Policies

The Company applied, for the first time, certain standards and amendments that require restatement of previous financial statements.

The nature and the impact of each new standards and amendments is described below :

SLFRS 13 - Fair Value Measurement

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under SLFRS. SLFRS 13 defines fair value as an exit price. As a result of the guidance in SLFRS 13, the division re-assessed its policies for measuring fair values. SLFRS 13 also requires additional disclosures.

The application of SLFRS 13 has not materially impacted the fair value measurements of the Company.

LKAS 1 - Presentation of Items of Other Comprehensive Income – Amendments to LKAS 1

The amendments to LKAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the division's financial position or performance.

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

2.3 USE OF ESTIMATES AND JUDGEMENTS

The preparation of the company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence actual experience and results may differ from these judgments and estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period and any future periods.

In the process of applying the company's accounting policies, the key assumptions made relating to the future and the sources of estimation at the reporting date together with the related judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Depreciation of Property, Plant and Equipment

Management assigns useful lives and residual values to property, plant and equipment based on the intended use of assets and the economic lives of these assets. Subsequent changes in circumstances such as technological advances or utilization of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. Management reviews annually the residual values and useful lives of major items of property, plant and equipment.

Impairment of Receivables

Company reviews at each reporting date all receivables to assess whether an allowance should be recorded in the profit or loss. Management uses judgment in estimating such allowance considering the duration of outstanding and any other factors management is aware of that indicates uncertainty in recoverability.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following SLFRS have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these Financial Statements. Those SLFRS will have an effect on the accounting policies currently adopted by the Company and may have an impact on the future Financial Statements.

(i) SLFRS 9-Financial Instruments: Classification and Measurement

In December 2014, CA Sri Lanka issued the final version of SLFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces LKRS 39 Financial Instruments, Recognition and Measurement. The standard introduces new requirements for classification and measurement impairment, and hedge accounting. SLFRS 9 is effective for annual periods beginning on or after 01 January 2018, with early application permitted. Retrospective application is required. But comparative information is not compulsory. The adoption of SLFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the division's financial liabilities.

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NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

(ii) SLFRS 15 -Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. This standard is effective for the annual periods beginning on or after 01 January 2017.

In addition to the above, SLFRS 14 -Regulatory Deferral Accounts will also be effective for the annual periods commencing on or after 01 January 2016.

The Company will adopt these standards when they become effective. Pending the completion of detailed review, the financial impact is not reasonably estimable.

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

4. REVENUE				2014	2013
				Rs.	Rs.
4.1 Summary					
Sales of Goods				5,539,305,323	5,747,048,373
				<u>5,539,305,323</u>	<u>5,747,048,373</u>
4.2 Revenue is derived from the following:					
Sugar				3,167,907,618	2,811,827,420
Molasses				334,100	19,171,770
ENA				2,371,063,605	2,916,049,183
				<u>5,539,305,323</u>	<u>5,747,048,373</u>
4.3 Segment Information					
	Head Office	Pelwatte Division	Sevanagala Division	Elimination	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Segment Revenue	-	3,390,606,266	2,148,699,057	-	5,539,305,323
Segment Results					
Gross Profit /(Loss)	-	45,663,251	586,115,544	3,470,550	635,249,345
Other					
Capital Expenditure	869,145	178,829,391	57,328,672	-	236,953,185
Depreciation	4,206,142	197,851,435	76,483,168	-	278,540,745
Segment Assets					
Non Current Assets	13,292,363	2,176,080,357	615,300,620	-	2,804,673,340
Current Assets	36,147,360	3,030,119,128	1,775,375,658	(73,346,641)	4,768,295,505
Segment Liabilities					
Non Current Liabilities	7,116,000	437,389,131	111,296,657	-	555,801,788
Current Liabilities	50,132,640	1,299,292,278	842,767,435	(73,346,641)	2,118,845,711
5. OTHER INCOME AND GAINS				2014	2013
				Rs.	Rs.
Other Service Income				54,994,146	42,795,184
Sundry Income				824,094	7,393,906
Profit on Transferring ENA to the previous management				-	3,089,670
				<u>55,818,240</u>	<u>53,278,760</u>
6. FINANCE COST AND INCOME				2014	2013
				Rs.	Rs.
6.1 Finance Cost					
Interest Expenses on Bank Loans				3,069,424	3,837,782
Interest Expenses on Bank Overdrafts				32,530,456	28,289,975
Finance Charges on Lease Liabilities				14,447,367	185,559
				<u>50,047,247</u>	<u>32,313,316</u>
6.2 Finance Income					
Interest Income on Loans Due from Farmers				26,163,780	25,241,963
Interest Income on Fixed Deposits				134,330,828	110,791,383
Other Interest Income				14,068	9,786
				<u>160,508,676</u>	<u>136,043,131</u>

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

7. PROFIT/(LOSS) BEFORE TAX

Stated after Charging

Included in Cost of Sales

Employee Benefits including the following

- Defined Contribution Plan Costs - EPF and ETF

Depreciation

Included in Administrative Expenses

Employee Benefits including the following

- Defined Benefit Plan Costs - Gratuity

- Defined Contribution Plan Costs - EPF and ETF

Depreciation

Audit Fees

Bad Debts on Farmers Loans

8. INCOME TAX EXPENSE/(REVERSAL)

Current Income Tax

Deferred Tax Charge/ (Reversal) (Note 8.2)

8.1 Reconciliation between Current Tax Expense/(Income) and the product of Accounting Profit/(Loss)

Accounting profit/(loss) before tax

Adjustment for prior year profits

Adjusted accounting profit/(loss) before tax

Aggregate disallowed items

Aggregate allowed items

Business profit/(Loss) for tax purpose

Other Sources of Income Liabile to Tax

Interest Income

Total Assessable Income

Tax losses utilized during the year

Taxable Income

Income Tax at @ 28%

Tax losses brought forward

Tax losses incurred during the year

Tax losses utilized during the year

Tax losses carried forward

8.2 Deferred Tax Assets

Deferred Tax Liability

On Property, Plant & Equipment

Deferred Tax Asset

On Property, Plant & Equipment

On Retirement Benefit Obligation

Deferred Income Tax reversal

Net Deferred Tax Asset

9. EARNINGS/(LOSS) PER SHARE

9.1 Basic Earnings/(Loss) Per Share is calculated by dividing the net profit/(Loss) for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

9.2 Amounts Used as Numerator:

Net Profit/(Loss) Attributable to Ordinary Shareholders for Earnings Per Share

Numbers of Ordinary Shares Used as Denominator:

Weighted average Number of Ordinary Shares Applicable to

Basic Earnings/(Loss) Per Share

2014 Rs.	2013 Rs.
184,237,286	191,702,397
252,586,859	189,605,767
121,717,782	28,416,132
37,673,352	27,804,508
25,953,886	9,997,137
2,242,970	2,216,600
40,557,693	23,925,477
2014 Rs.	2013 Rs.
24,448,211	530,331,109
(84,624,186)	(1,442,469)
(60,175,975)	528,888,640
(211,012,935)	1,341,898,939
-	733,478,503
(211,012,935)	2,075,377,442
451,784,967	368,313,455
(485,102,035)	(203,860,596)
(244,330,002)	2,239,830,301
134,330,828	131,686,487
134,330,828	2,371,516,788
(47,015,790)	(477,477,114)
87,315,038	1,894,039,674
24,448,211	530,331,109
-	477,477,114
244,330,002	-
(47,015,790)	(477,477,114)
197,314,212	-
Statement of Profit and Loss	
2014 Rs.	2013 Rs.
(29,488,549)	-
(29,488,549)	-
(1,442,469)	1,442,469
115,555,204	-
114,112,735	1,442,469
84,624,186	1,442,469
ordinary shareholders by the weighted	
2014 Rs.	2013 Rs.
(150,836,960)	816,828,301
2014 Number	2013 Number
100	100

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

10. PROPERTY, PLANT AND EQUIPMENT

10.1 Gross Carrying Amounts

	Balance As at 01.01.2014 Rs.	Additions/ Transfers Rs.	Disposals/ Transfers Rs.	Balance As at 31.12.2014 Rs.
Land	44,149,728	-	-	44,149,728
Land Development	126,303,161	-	-	126,303,161
Factory Buildings	234,179,323	7,214,136	-	241,393,459
Buildings Others	205,802,676	23,356,925	-	229,159,601
Field Machinery and Equipment	380,273,637	19,200,507	(1,632,551)	397,841,593
Irrigation and Miscellaneous Equipment	176,850,825	-	-	176,850,825
Factory Plant and Equipment	2,004,812,928	608,857,859	(3,771,000)	2,609,899,787
Other Plant and Machinery	136,604,268	-	-	136,604,268
Storage Tank	63,398,475	-	-	63,398,475
Roads and Bridges	111,179,516	-	-	111,179,516
Laboratory Equipment	49,291,526	-	-	49,291,526
Motor Vehicles	143,857,227	16,903,000	(294,870)	160,465,357
Furniture, Fittings and Equipment	126,729,060	19,422,832	-	146,151,892
Settler Zone Infrastructure	69,525,819	3,667,920	-	73,193,739
	<u>3,885,738,168</u>	<u>698,623,178</u>	<u>(5,698,421)</u>	<u>4,565,882,925</u>
Assets on Finance Leases				
Motor Vehicles	7,300,000	4,368,750	-	11,668,750
Field Machinery and Equipment	12,780,000	55,948,920	-	68,728,920
	<u>20,080,000</u>	<u>60,317,670</u>	<u>-</u>	<u>80,397,670</u>
In the Course of Construction				
Land Development	15,750,933	35,444,350	(7,468,101)	43,727,182
Factory Plant and Equipment	43,141,545	2,717,830	(42,958,446)	2,900,929
Hotel Project	37,410,797	-	-	37,410,797
Compost Plant	571,362	-	-	571,362
Irrigation Project	2,347,750	-	(2,347,750)	-
Power Generation Project	1,577,094	202,325	-	1,779,419
Water Treatment Plant	-	25,856,579	-	25,856,579
	<u>100,799,481</u>	<u>64,221,083</u>	<u>(52,774,297)</u>	<u>112,246,268</u>
In the Course of Construction - On Finance Leases				
Factory Plant and Equipment	-	120,750,000	-	120,750,000
	<u>-</u>	<u>120,750,000</u>	<u>-</u>	<u>120,750,000</u>
Total Gross Carrying Amount	<u>4,006,617,649</u>	<u>943,911,932</u>	<u>(58,472,718)</u>	<u>4,879,276,862</u>

10.2 Depreciation

	Balance As at 01.01.2014 Rs.	Charge for the year Rs.	Disposals Rs.	Balance As at 31.12.2014 Rs.
Land Development	56,105,172	2,528,459	-	58,633,631
Factory Buildings	126,140,932	5,014,234	-	131,155,166
Buildings Others	103,629,941	4,094,650	-	107,724,591
Field Machinery and Equipment	361,530,567	12,009,754	(1,632,553)	371,907,768
Irrigation and Miscellaneous Equipment	128,326,844	6,584,704	-	134,911,548
Factory Plant and Equipment	625,973,570	192,062,386	-	818,035,956
Other Plant and Machinery	32,413,589	10,089,144	-	42,502,733
Storage Tank	13,872,075	2,967,660	-	16,839,735
Roads and Bridges	95,815,458	1,783,672	-	97,599,130
Laboratory Equipment	21,469,208	4,455,558	-	25,924,766
Motor Vehicles	73,499,949	18,684,705	(294,870)	91,889,783
Furniture, Fittings and Equipment	105,098,870	8,067,336	-	113,166,206
Settler Zone Infrastructure	66,166,127	385,395	-	66,551,522
	<u>1,810,042,302</u>	<u>268,727,657</u>	<u>(1,927,423)</u>	<u>2,076,842,536</u>
Assets on Finance Leases				
Motor Vehicles	243,333	1,460,000	-	1,703,333
Field Machinery and Equipment	-	8,353,088	-	8,353,088
	<u>243,333</u>	<u>9,813,088</u>	<u>-</u>	<u>10,056,421</u>
Total Depreciation	<u>1,810,285,636</u>	<u>278,540,745</u>	<u>(1,927,423)</u>	<u>2,086,898,957</u>



Lanka Sugar Company (Private) Limite

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

10. PROPERTY, PLANT AND EQUIPMENT (Contd....)

10.3 Net Book Values	2014 Rs.	2013 Rs.
Land	44,149,728	44,149,728
Land Development	67,669,529	70,197,988
Factory Buildings	110,238,292	108,038,391
Buildings Others	121,435,009	102,172,734
Field Machinery and Equipment	25,933,826	31,523,069
Irrigation and Miscellaneous Equipment	41,939,277	48,523,981
Factory Plant and Equipment	1,791,863,831	1,378,839,359
Other Plant and Machinery	94,101,535	104,786,597
Storage Tank	46,558,740	49,526,400
Roads and Bridges	13,580,386	15,364,058
Laboratory Equipment	23,366,760	27,609,318
Motor Vehicles	68,575,574	70,357,278
Furniture, Fittings and Equipment	32,985,686	21,247,273
Settler Zone Infrastructure	6,642,216	3,359,691
	<u>2,489,040,389</u>	<u>2,075,695,866</u>
Assets on Finance Lease		
Motor Vehicles	9,965,417	7,056,667
Field Machinery and Equipment	60,375,832	-
	<u>70,341,249</u>	<u>7,056,667</u>
In the Course of Construction		
Land Development	43,727,182	15,750,933
Factory Plant and Equipment	2,900,929	43,141,545
Hotel Project	37,410,797	37,410,797
Compost Plant	571,362	571,362
Irrigation Project	-	2,347,750
Power Generation Project	1,779,419	1,577,094
Water Treatment Plant	25,856,579	-
	<u>112,246,268</u>	<u>100,799,481</u>
In the Course of Construction - On Finance Leases		
Factory Plant and Equipment	120,750,000	-
	<u>120,750,000</u>	<u>-</u>
Total carrying amount of Property, Plant and Equipment	<u>2,792,377,905</u>	<u>2,183,552,013</u>

10.4 During the financial period, the company acquired Property, Plant and Equipment to the aggregate value of Rs.236,522,276/- (2013 - 206,647,773/-) for cash.

10.5 The useful lives of the assets is estimated as follows;

	2014	2013
Land Development	50 Years	50 Years
Factory Buildings	50 Years	50 Years
Buildings Others	50 Years	50 Years
Field Machinery and Equipment	5 - 6.67 Years	5 - 6.67 Years
Irrigation and Miscellaneous Equipment	16.67 Years	16.67 Years
Factory Plant and Equipment	10-20 Years	20 Years
Other Plant and Machinery	5 - 20 Years	5 - 20 Years
Roads and Bridges	20 Years	20 Years
Motor Vehicles	2 - 5 Years	2 - 5 Years
Furniture, Fittings and Equipment	4 - 5 Years	4 - 5 Years
Settler Zone Infrastructure	3 - 50 Years	3 - 50 Years

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

10 PROPERTY, PLANT AND EQUIPMENT (Contd....)

- 10.6 Reference to the letters from the Department of Valuation dated 07 May 2013 and 26 May 2014, Pelwatte and Sevanagala Divisions did receive valuation reports for its buildings, plant and machinery, agri equipment and motor vehicles. However only the value relating to Plant and Machinery of Sevanagala Division has been incorporated into these financial statements due to several inconsistencies identified by the management in the information contained in such reports.

Whilst the provisions of the Revival of Underperforming Enterprises or Underutilised Assets Act No.43 of 2011 relate only to the transfer of immovable assets to the respective divisions, Pelwatte and Sevanagala Divisions in substance continues to use the assets transferred from the previous owners. However, in accounting for the assets acquired prior to the Act, the Property, Plant and Equipment of Pelwatte Division includes the continuing book balances of previous owners to their books on which depreciation rates have applied, whilst the Property, Plant and Equipment of Sevanagala Division only contains the value of Plant and Machinery based on the valuations carried out.

The value of those revalued amounts which have not been incorporated to these financial statements are as follows.

	Pelwatte Division Rs.	Sevanagala Division Rs.
Land	7,110,000,000	3,757,500,000
Buildings	766,250,000	769,500,000
Plant and Machinery	1,399,000,000	-
Motor Vehicles	390,600,000	330,700,000
Agri Equipment	72,000,000	-
11. INVENTORIES	2014 Rs.	2013 Rs.
Produced Inventory (11.1)	959,137,023	1,245,435,560
Other Inventory (11.2)	524,453,580	418,872,595
	<u>1,483,590,602</u>	<u>1,664,308,155</u>
11.1 Produced Inventory		
Sugar	649,880,160	1,100,816,393
Molasses	296,740,063	104,204,231
ENA	12,516,800	40,414,936
	<u>959,137,023</u>	<u>1,245,435,560</u>
11.2 Other Inventory		
Fuel and Lubricants	38,588,621	32,522,894
Factory Chemicals	4,173,062	4,258,391
Production Items Distillery	1,642,843	1,412,922
Bags and Liners	3,713,737	5,683,925
Fertilizers	79,408,052	43,489,396
General	25,527,265	25,447,247
Agriculture Spares	127,033,041	97,676,072
Stationery	1,835,885	1,603,237
Factory Spares	237,117,663	138,308,168
Tires and Tubes	14,664,848	6,863,523
	<u>533,705,017</u>	<u>357,265,773</u>
Less: Provision for Obsolete Stocks	(9,251,437)	(1,057,392)
	<u>524,453,580</u>	<u>356,208,381</u>
Goods-in-Transit	-	62,664,213
	<u>524,453,580</u>	<u>418,872,595</u>
12. BIOLOGICAL ASSETS	2014 Rs.	2013 Rs.
Standing Cane	428,018,378	416,610,125
	<u>428,018,378</u>	<u>416,610,125</u>
13. TRADE AND OTHER RECEIVABLES	2014 Rs.	2013 Rs.
Trade Receivables	444,800	313,473
Other Receivables	47,640,229	54,893,800
Staff Loans (13.1)	6,674,838	3,428,706
	<u>54,759,867</u>	<u>58,635,978</u>
13.1 Staff Loans		
Balance at the beginning of the year	3,428,706	3,425,620
Loans granted during the year	54,817,274	47,102,213
Repayments made during the year	(51,571,142)	(47,099,127)
Balance at the end of the year	<u>6,674,838</u>	<u>3,428,706</u>



Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

14. LOANS DUE FROM FARMERS

	2014 Rs.	2013 Rs.
Balance at the beginning of the year	764,202,986	843,627,145
Loans granted during the year	1,219,110,292	1,081,266,915
Loans recovered during the year	(707,112,460)	(842,916,066)
Identified loans relating to previous management	8,762,227	16,305,599
Loans written off	-	(19,208,373)
Total Loans Granted	<u>1,284,963,044</u>	<u>1,079,075,219</u>
Less: Provision for Doubtful Recoveries	<u>(354,800,562)</u>	<u>(314,872,233)</u>
Balance at the end of the year	<u>930,162,482</u>	<u>764,202,986</u>

15. INVESTMENTS

	2014 Rs.	2013 Rs.
Current		
Fixed Deposits	<u>1,733,873,465</u>	<u>1,568,902,957</u>
	<u>1,733,873,465</u>	<u>1,568,902,957</u>

16. STATED CAPITAL

	2014 Number	2014 Rs.	2013 Number	2013 Rs.
Fully Paid Ordinary Shares	<u>100</u>	<u>1,000</u>	<u>100</u>	<u>1,000</u>

17. GOVERNMENT GRANT

	2014 Rs.	2013 Rs.
As at beginning of the period	3,554,855,177	3,579,880,177
Revaluation of Plant and Machinery	494,000,000	-
Repayments	<u>(774,983)</u>	<u>(25,025,000)</u>
	<u>4,048,080,194</u>	<u>3,554,855,177</u>

Government acquired the company's land (including any building and fixtures or fittings which are part of such building and any building belonging to and appurtenant thereto or treated as part and parcel thereof) by the revival of Underperforming Enterprises or Underutilized Assets Act, No. 43 of 2011 on 11/11/2011 and appointed a competent Authority to govern the company. Competent authority has governed the company from 11/11/2011 to 30/09/2012. Effective from 01 October 2012 all the assets and liabilities which were vested with the Competent Authority, was transferred to Lanka Sugar Company (Private) Limited.

18. INTEREST BEARING LOANS AND BORROWINGS

	2014			2013		
	Amounts Repayable Within 1 Year Rs.	Amounts Repayable After 1 year Rs.	Total Rs.	Amounts Repayable Within 1 Year Rs.	Amounts Repayable After 1 year Rs.	Total Rs.
Bank Loans (18.1)	12,533,151	25,066,303	37,599,454	8,574,925	39,956,777	48,531,702
Bank Overdrafts (21.2)	399,098,632	-	399,098,632	54,651,878	-	54,651,878
Finance Leases (18.2)	28,770,097	118,038,328	146,808,425	1,628,676	3,756,446	5,385,122
	<u>440,401,880</u>	<u>143,104,631</u>	<u>583,506,511</u>	<u>64,855,479</u>	<u>43,713,223</u>	<u>108,568,702</u>

18.1 Bank Loan

	As at 01.01.2014 Rs.	New Loans Obtained Rs.	Repayments Rs.	As at 31.12.2014 Rs.
Bank of Ceylon	48,531,702	-	(10,932,248)	37,599,454
	<u>48,531,702</u>	<u>-</u>	<u>(10,932,248)</u>	<u>37,599,454</u>

18.2 Finance Leases

	As at 01.01.2014 Rs.	New Leases Obtained Rs.	Repayments Rs.	As at 31.12.2014 Rs.
Vallibal Finance PLC	7,068,943	-	(2,585,884)	4,483,059
Bank of Ceylon	-	216,913,920	(30,569,784)	186,344,136
Gross Liability	<u>7,068,943</u>	<u>216,913,920</u>	<u>(33,155,668)</u>	<u>190,827,195</u>
Finance Charges Allocated to Future Periods	<u>(1,683,821)</u>			<u>(44,018,769)</u>
Net Liability	<u>5,385,122</u>			<u>146,808,426</u>

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

19. RETIREMENT BENEFIT LIABILITY	2014	2013
	Rs.	Rs.
As at the beginning of the period	396,335,846	393,418,895
Interest Cost	43,596,943	47,682,370
Liability established for Sevanagala Division	49,742,529	-
Current service cost	28,200,599	29,412,155
Benefit Paid	(46,040,698)	(25,499,179)
Actuarial (Gain)/Loss	(59,138,063)	(48,678,394)
As at the end of the period	<u>412,697,156</u>	<u>396,335,846</u>
19.1 Messers Actuarial and Management Consultation (Private) Limited Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity on 31 December 2014. Appropriate and compatible assumptions were used in determining the cost of retirement benefits.		
The key assumptions used in determining the cost of employee benefits were:		
	2014	2013
Pelawatte Division		
Discount Rate	9%	12%
Rate of Salary Increase	2%	8%
Retirement Age	55 Years	55 Years
Sevanagala Division		
Discount Rate	9%	-
Rate of Salary Increase	Fixed amount	-
Retirement Age	55 Years	-
20. TRADE AND OTHER PAYABLES	2014	2013
	Rs.	Rs.
Trade Payables (20.1)	371,248,803	159,608,818
Advances Received from customers	222,616,097	443,165,935
Other Payables (20.2)	235,114,703	189,314,516
Sundry Creditors including Accrued Expenses (20.3)	243,416,223	314,388,422
Distilleries Company of Sri Lanka PLC	24,784,659	24,784,659
Recovered from Farmers	58,960,321	50,198,095
	<u>1,156,140,806</u>	<u>1,181,460,446</u>
20.1 Trade Payables		
Trade Creditors	371,248,803	159,608,818
	<u>371,248,803</u>	<u>159,608,818</u>
20.2 Other Payables		
VAT Payable	95,869,924	63,787,945
NBT Payable	139,244,780	125,526,571
	<u>235,114,703</u>	<u>189,314,516</u>
20.3 Sundry Creditors including Accrued Expenses		
Sundry Creditors	128,663,832	95,278,532
Accrued Expenditure	114,752,391	219,109,890
	<u>243,416,223</u>	<u>314,388,422</u>
21. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT		
Components of Cash and Cash Equivalents	2014	2013
	Rs.	Rs.
21.1 Favorable Cash and Cash Equivalents Balances		
Cash and Bank Balances	6,851,025	58,983,083
21.2 Unfavorable Cash and Cash Equivalent Balances		
Bank Overdrafts	(399,098,632)	(54,651,878)
Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement	<u>(392,247,607)</u>	<u>4,331,205</u>

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

22. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

As per the provisions of the Act of Revival of Underperforming Enterprises and Underutilized Assets No.43 of 2011, Government has acquired the immovable assets of Sevanagala Sugar Industries as at 11 November 2011. Previous Management has filed a case against this acquisition. Reference to above stated act, the liabilities should be settled through Labor Tribunal.

23. ASSETS PLEDGED

Nature of Assets	Nature of Liability	Carrying Value Rs.	Included under
Fixed Deposits	Permanent Overdraft - Peoples Bank	200,000,000	Investments
Fixed Deposits	Term Loan - Bank of Ceylon	45,000,000	Investments
Fixed Deposits	Overdraft Facility of A/C No. 7041902 Bank Of Ceylon	51,565,051	Investments
Fixed Deposits	Overdraft Facility of A/C No. 73947899 Bank Of Ceylon	348,805,076	Investments
Fixed Deposits	Overdraft facility of A/C No 75751012 Bank Of Ceylon	161,876,400	Investments
Fixed Deposits	Lease facility for overhead Crane	30,000,000	Investments

24. EVENTS OCCURRING AFTER THE REPORTING DATE

There have been no material events occurring after the reporting date that require adjustments or disclosure in the Financial Statements.

25. RELATED PARTY DISCLOSURES

25.1 Transactions with Key Management Personnel of the Company

The key management personnel of the Company are the members of its Board of Directors.

Key Management Personnel Compensation	2014 Rs.	2013 Rs.
Directors Fee	465,000	315,000

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2014

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial liabilities comprise interest bearing loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the company's operations. The Company has trade and other receivables, and cash and short-term deposits that arrive directly from its operations.

The Company is exposed to market risk, credit risk and liquidity risk.

The Company's management oversees the management of these risks. The Company's management determine on financial risks and the appropriate financial risk governance framework for the Company. The financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with company policies and risk appetite.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk. Financial instruments affected by market risk include loans and borrowings, deposits.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's short term deposits carrying floating interest rates. The Company manages its risk against fluctuating interest by borrowing on fixed interest rate and maintaining investment in floating interest bearing deposits at a insignificant level.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities.

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd...)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions.

Trade receivables

Customer credit risk is managed in accordance with the Company's established policy, procedures and control relating to customer credit risk management. Individual credit limits are defined in accordance with the prior experience with the customers. Outstanding customer receivables are regularly monitored. The amount of trade receivables were insignificant since most of the trading is done after receiving an advance from the customers. However the requirement for an impairment is analysed at each reporting date on an individual basis for major customers. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actually incurred historical data. The Company does not hold collateral as security. The company evaluates the concentration of risk with respect to trade receivables as low, as its customers are largely unrelated.

The maximum exposure to credit risk at the reporting date is the carrying value of trade and other receivables and deposits with banks and are disclosed in Note 13 and Note 15 respectively.

Liquidity risk

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years
Interest-bearing loans and borrowings	399,098,632	10,325,812	30,977,436	143,104,631
Trade and other payables	1,156,140,806	-	-	-
	<u>1,555,239,438</u>	<u>10,325,812</u>	<u>30,977,436</u>	<u>143,104,631</u>

Capital management

Capital includes equity attributable to the equity holders of the company. The primary objective of the Company's capital management is to ensure that it maintains a healthy capital ratios in order to support its business and maximise shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions.

No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2014.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents.

Interest Bearing Borrowings	583,506,511
Trade and Other Payables	1,156,140,806
Less: Cash and Cash Equivalents	(6,851,025)
Net Debt	<u>1,732,796,292</u>
Equity	<u>4,972,092,566</u>
Total Capital	<u>4,972,092,566</u>
Gearing ratio	25.84%

27. FAIR VALUE MEASUREMENT

Financial instruments of the Company reflected at amortised cost in these financial statements included cash, cash equivalents, trade receivables, other receivables, trade and other payables and interest bearing loans and borrowings.

The management assess that the fair value all financial instruments approximate their carrying amount largely due to the short term maturities and market based interest rates of these instruments

Segmental Financial Information - Pelwatte Division

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

	2014 Rs.	2013 Rs.
Revenue	3,390,606,266	3,689,654,381
Cost of Sales	(3,344,943,015)	(2,540,032,186)
Gross Profit	<u>45,663,251</u>	<u>1,149,622,195</u>
Other Income and Gains	570,178	9,802,439
Administrative Expenses	(475,042,187)	(507,567,221)
Finance Cost	(33,085,872)	(23,492,458)
Finance Income	112,113,436	106,600,726
Profit / (Loss) before tax	<u>(349,781,194)</u>	<u>734,965,682</u>
Income Tax Reversal / (Expense)	69,811,840	(245,547,030)
Profit / (Loss) for the year	<u>(279,969,355)</u>	<u>489,418,652</u>
Other Comprehensive Income for the period, net of tax		
Actuarial Gain	59,138,063	48,678,394
Total Comprehensive Income for the period, net of tax	<u>(220,831,292)</u>	<u>538,097,046</u>

Segmental Financial Information - Pelwatte Division

STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2014

ASSETS	2014 Rs.	2013 Rs.
Non-Current Assets		
Property, Plant and Equipment	2,176,080,357	2,090,940,899
Deferred Tax Asset	73,771,220	-
	<u>2,249,851,576</u>	<u>2,090,940,899</u>
Current Assets		
Inventories	921,217,494	1,223,422,199
Biological Assets	428,018,378	416,610,125
Trade and Other Receivables	33,303,351	48,205,282
Advances and Prepayments	66,218,337	52,948,527
Loans Due from Farmers	611,184,178	510,745,172
Amounts Due from Related Parties	3,277,329	4,559,618
Investments	965,873,465	1,003,902,957
Cash and Cash Equivalents	1,026,597	15,540,871
	<u>3,030,119,128</u>	<u>3,275,934,750</u>
Total Assets	<u>5,279,970,704</u>	<u>5,366,875,649</u>
EQUITY AND LIABILITIES		
Capital and Reserves		
Government Grant	3,468,770,753	3,468,770,753
Accumulated Profit	74,518,542	345,307,277
Total Equity	<u>3,543,289,295</u>	<u>3,814,078,030</u>
Non-Current Liabilities		
Retirement Benefit Liability	360,484,281	396,335,846
Interest Bearing Loans and Borrowings	76,904,850	-
	<u>437,389,131</u>	<u>396,335,846</u>
Current Liabilities		
Interest Bearing Loans and Borrowings	286,285,419	-
Trade and Other Payable	759,024,297	904,204,675
Income Tax Payable	224,273,234	224,273,234
Amounts Due to Related Parties	29,709,328	27,983,864
	<u>1,299,292,278</u>	<u>1,156,461,773</u>
Total Equity and Liabilities	<u>5,279,970,704</u>	<u>5,366,875,649</u>

Segmental Financial Information - Pelwatte Division

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

	Government Grant Rs.	Retained Earnings/(Loss) Rs.	Total Rs.
As at 01 January 2013	3,468,770,753	(192,789,769)	3,275,980,984
Profit for the year	-	489,418,652	489,418,652
Total Other Comprehensive Income for the year, net of tax	-	48,678,394	48,678,394
As at 31 December 2013	<u>3,468,770,753</u>	<u>345,307,277</u>	<u>3,814,078,030</u>
Loss for the year	-	(279,969,355)	(279,969,355)
Dividends paid	-	(49,957,443)	(49,957,443)
Total Other Comprehensive Income for the year, net of tax	-	59,138,063	59,138,063
As at 31 December 2014	<u><u>3,468,770,753</u></u>	<u><u>74,518,542</u></u>	<u><u>3,543,289,295</u></u>

Segmental Financial Information - Pelwatte Division

STATEMENT OF CASH FLOWS

As at 31 December 2014

	2014 Rs.	2013 Rs.
Cash Flows From / (Used in) Operating Activities		
Profit / (Loss) before Taxation	(349,781,194)	734,965,682
Adjustments for,		
Depreciation	197,851,435	185,346,701
Finance Income	(112,113,436)	(106,600,726)
Finance Cost	33,085,872	23,492,460
Provision for slow moving inventory	8,194,045	-
Provision for Retirement Benefit Liability	69,327,196	77,094,525
Operating Profit/(Loss) before Working Capital Changes	(153,436,082)	914,298,642
Decrease/(Increase) in Inventories	282,602,407	(706,032,870)
Increase in Trade and Other Receivables	(2,327,259)	(33,187,992)
Increase in Loans Due from Farmers	(100,439,006)	(104,201,016)
Decrease in Amounts Due from Related Party	3,007,753	25,978,610
Increase/(Decrease) in Trade and Other Payables	(145,180,378)	572,121,289
Net Cash From Operating Activities	(115,772,566)	668,976,663
Finance Cost Paid	(33,085,872)	(23,492,460)
Retirement Benefit Liability Paid	(46,040,698)	(25,499,179)
Net Cash From/ (Used in) Operating Activities	(194,899,136)	619,985,024
Cash Flows From / (Used in) Investing Activities		
Acquisition of Property, Plant and Equipment	(178,829,391)	(176,854,799)
Investments/(Withdrawals) of/in Fixed Deposits	38,029,492	(460,434,913)
Finance Income Received	112,113,436	106,600,726
Net Cash Flows Used in Investing Activities	(28,686,464)	(530,688,986)
Cash Flows From / (Used in) Financing Activities		
Dividends paid	(49,957,443)	-
Principle Payments under Finance Lease Liabilities	(10,144,011)	-
Net Cash Flows Used in Financing Activities	(60,101,454)	-
Net Increase/(Decrease) in Cash and Cash Equivalents	(283,687,053)	89,296,038
Cash and Cash Equivalents at the beginning of the year	15,540,870	(73,755,168)
Cash and Cash Equivalents at the end of the year	(268,146,184)	15,540,870

Segmental Financial Information - Sevanagala Division

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

	2014 Rs.	2013 Rs.
Revenue	2,148,699,057	2,057,393,991
Cost of Sales	(1,562,583,513)	(1,282,611,929)
Gross Profit	<u>586,115,544</u>	<u>774,782,062</u>
Other Income and Gains	57,371,546	42,737,184
Finance Income	48,395,240	29,442,406
Administrative Expenses	(529,654,378)	(231,207,538)
Finance Cost	(16,961,375)	(8,820,858)
Profit before tax	<u>145,266,577</u>	<u>606,933,256</u>
Income Tax Expense	(9,635,865)	(283,341,610)
Profit for the year	<u>135,630,712</u>	<u>323,591,646</u>
Other Comprehensive Income		
Other Comprehensive Income for the year, net of tax	-	-
Total Comprehensive Income for the year, net of tax	<u>135,630,712</u>	<u>323,591,646</u>

Segmental Financial Information - Sevanagala Division

STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2014

	2014	2013
	Rs.	Rs.
ASSETS		
Non-Current Assets		
Property, Plant and Equipment	603,005,184	75,981,753
Deferred Tax Asset	12,295,435	1,442,469
	<u>615,300,619</u>	<u>77,424,222</u>
Current Assets		
Inventory	562,373,109	440,885,956
Allotees/Farmers Receivables	318,978,304	253,457,814
Amounts Due from Related Parties	70,147,921	52,735,457
Advances and Prepayments	64,821,348	76,402,469
Other Receivable	9,398,189	6,977,465
Investment in Fixed Deposits	745,000,000	545,000,000
Cash and Cash Equivalents	4,656,787	39,962,298
	<u>1,775,375,658</u>	<u>1,415,421,458</u>
Total Assets	<u>2,390,676,277</u>	<u>1,492,845,680</u>
EQUITY AND LIABILITIES		
Capital and Reserves		
Government Grant	579,310,441	86,085,424
Retained Earnings	857,301,744	751,713,589
Total Equity	<u>1,436,612,185</u>	<u>837,799,013</u>
Non Current Liabilities		
Retirement Benefit Liability	52,212,875	-
Interest Bearing Loans and Borrowings	59,083,782	29,481,223
	<u>111,296,657</u>	<u>29,481,223</u>
Current Liabilities		
Interest Bearing Loans and Borrowings	148,075,179	64,855,479
Trade and Other Payables	396,662,465	275,925,885
Income Tax Payable	298,029,791	284,784,079
	<u>842,767,435</u>	<u>625,565,444</u>
Total Equity and Liabilities	<u>2,390,676,277</u>	<u>1,492,845,680</u>

These financial statements are in compliance with the requirement of the Companies Act No. 7 of 2007.

Segmental Financial Information - Sevanagala Division

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

	Government Grant Rs.	Retained Earnings Rs.	Total Rs.
As at 01 January 2013	111,110,424	428,121,943	539,232,367
Profit for the year	-	323,591,646	323,591,646
Repayment of Government Grant	(25,000,000)	-	(25,000,000)
Paid by Company on behalf of previous owner	(25,000)	-	(25,000)
As at 31 December 2013	86,085,424	751,713,589	837,799,013
Profit for the year	-	135,630,712	135,630,712
Revaluation of Plant and Machinery	494,000,000	-	494,000,000
Dividends paid during the year	-	(30,042,557)	(30,042,557)
Paid by Company on behalf of previous owner	(774,983)	-	(774,983)
As at 31 December 2014	579,310,441	857,301,744	1,436,612,185



Segmental Financial Information - Sevanagala Division

STATEMENT OF CASH FLOWS

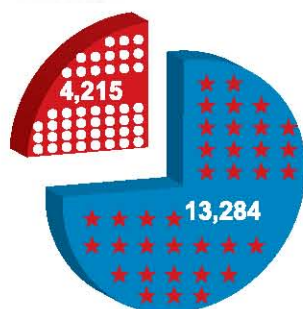
As at 31 December 2014

Cash flows From Operating Activities	2014 Rs.	2013 Rs.
Profit before Taxation	145,266,577	606,933,256
Adjustments for,		
Depreciation	76,483,167	10,698,203
Finance Income	(48,395,240)	(29,442,406)
Finance Cost	16,961,375	8,820,858
Bad Debts	1,919,319	(3,000,000)
Provision for Retirement Benefit Liability	52,212,875	-
Operating Profit/(Loss) before Working Capital Changes	244,448,073	594,009,911
(Increase)/Decrease in Inventories	(121,487,153)	(104,647,947)
Increase in Trade and Other Receivables	(65,522,538)	(164,938,872)
Increase in Amounts due from Related Parties	(17,412,464)	(29,265,863)
Increase/(Decrease) in Trade and Other Payables	120,736,580	121,977,977
Decrease in Amounts due to Related Parties	-	(2,535,916)
Finance Cost Paid	(16,961,375)	(8,820,858)
Net Cash From Operating Activities	143,801,123	405,778,433
Cash Flows From Investing Activities		
Acquisition of Property, Plant and Equipment	(57,328,672)	(74,421,660)
Proceeds from the sale of Property, Plant and Equipment	3,771,000	-
Investment in Fixed Deposits	(200,000,000)	(363,948,005)
Finance Income Received	48,395,240	29,442,406
Repayment of Government Grant	(774,983)	(25,024,999)
Net Cash Flows Used in Investing Activities	(205,937,415)	(433,952,258)
Cash Flows From Financing Activities		
Repayment of Interest Bearing Loans and Borrowings	(7,374,248)	(6,113,298)
Principle Payment under Finance Lease Liabilities	(8,543,105)	(454,880)
Payment of Dividends	(30,042,557)	-
Net Cash Flows From/ (Used in) Financing Activities	(45,959,910)	(6,568,178)
Net Increase/(Decrease) in Cash and Cash Equivalents	(108,096,202)	(34,742,004)
Cash and Cash Equivalents at the beginning of the year	(14,689,580)	20,052,424
Cash and Cash Equivalents at the end of the year	(122,785,782)	(14,689,580)

Graphical Segmental Comparison

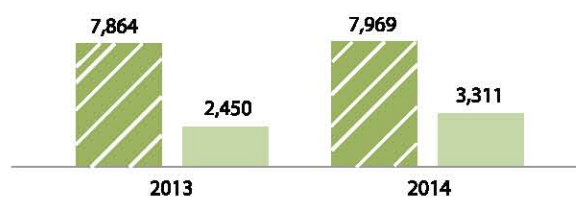
Cultivable Extent (Ha)

■ Pelwatte ■ Sevenagala

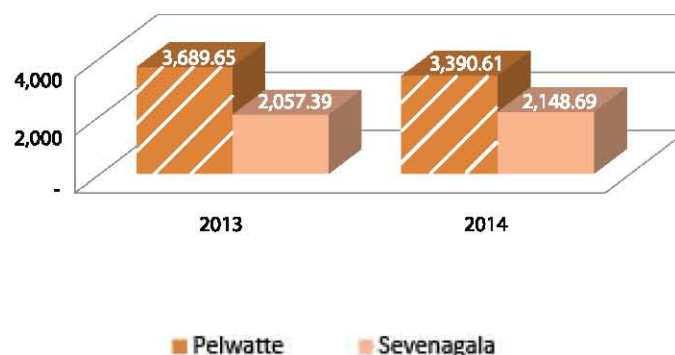


Extent Cultivated (Ha)

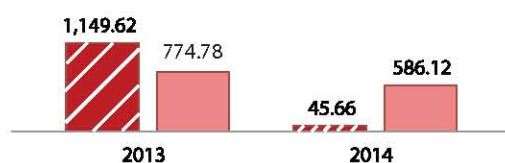
■ Pelwatte ■ Sevenagala



Segment Turnover (Rs.Million)

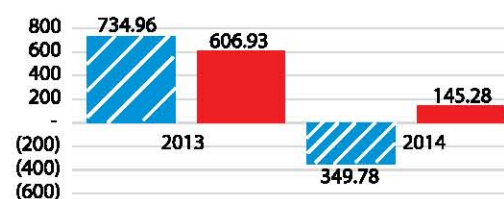


Net Profit before Tax (Rs.Million)



■ Pelwatte ■ Sevenagala

Segmental Gross Profit (Rs.Million)



■ Pelwatte ■ Sevenagala

Progress Report - 2014

INDUSTRY OVERVIEW

Globally, sugar prices had drastically dropped in the year, and during July, August and September, import of sugar had increased hugely compared to the previous years and importers had made their own buffer stocks. This caused selling prices to drop in the market and major whole sellers were reluctant to buy the sugar at prices we offered. Even though, later the Government increased the taxes on sugar, the impact could not be reverted completely. In the latter part of the year the whole sale prices of sugar dropped below Rs.85/ per Kg.

OUR CONTRIBUTION TO THE NATIONAL ECONOMY

2014 was indeed challenging with many macro and micro economic factors affecting the performance. Severe drought condition during the 1st three quarters of the year affected the sugar cane yield and sugar recovery rate adversely. Thus, sugar cane yield per hectare dropped from 53.82 MT to 39.38 MT and Sugar recovery rate dropped from 8.34% to 7.90%, making a dual impact on the production volume.

Even though, enviromental conditions affected badly on the industry, the company was able to produce 32,364 MT of sugar during the year, 6% of the domestic sugar requirement. It was 62% of local sugar production.

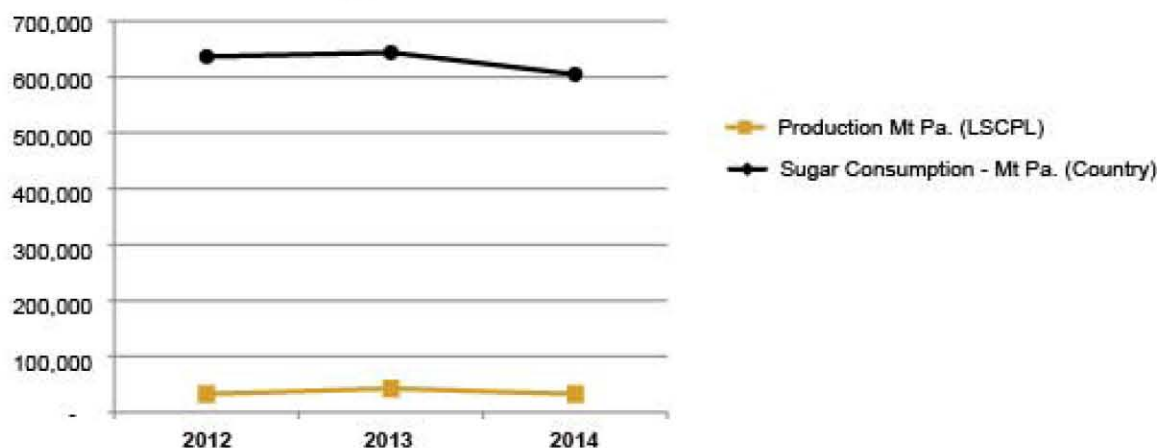
The country's sugar production came down with the drop of sugar production in our Pelwatte unit by 36.7% . However, 9.2% of the country's demand for sugar was catered from within. The Company's Projection for the next year is 50,620 MT and it is 9% of the country's annual demand.

CONTRIBUTION TO THE NATIONAL ECONOMY (PROJECTED)

Description	2012	2013	2014
Sugar Consumption -Mt Pa (Country)	604,659	601,061	572,342
Production Mt pa. (LSCPL)	32,343	42,549	32,364
Contribution to the Economy	5.35%	7.08%	5.66%

Sugar production in the country is lesser than the the country's requirement and balance is imported. Annually, the country spends approximately about Rs.50 billion for importation of sugar, which is comparatively a higher amount.

Production Vs Demand within the Country

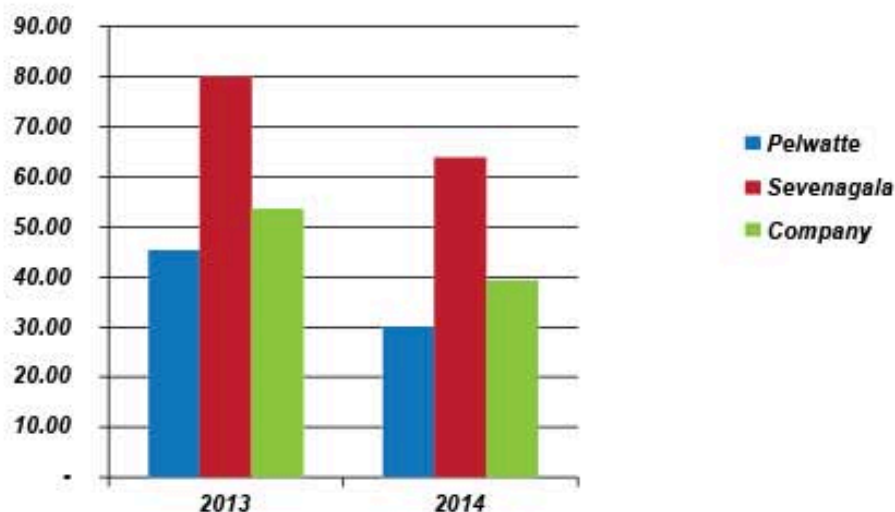


Yield per Hectare (MT)

Division	2013	2014
Pelwatte	45.89	30.25
Sevenagala	80.37	64.01
Company	53.82	39.38

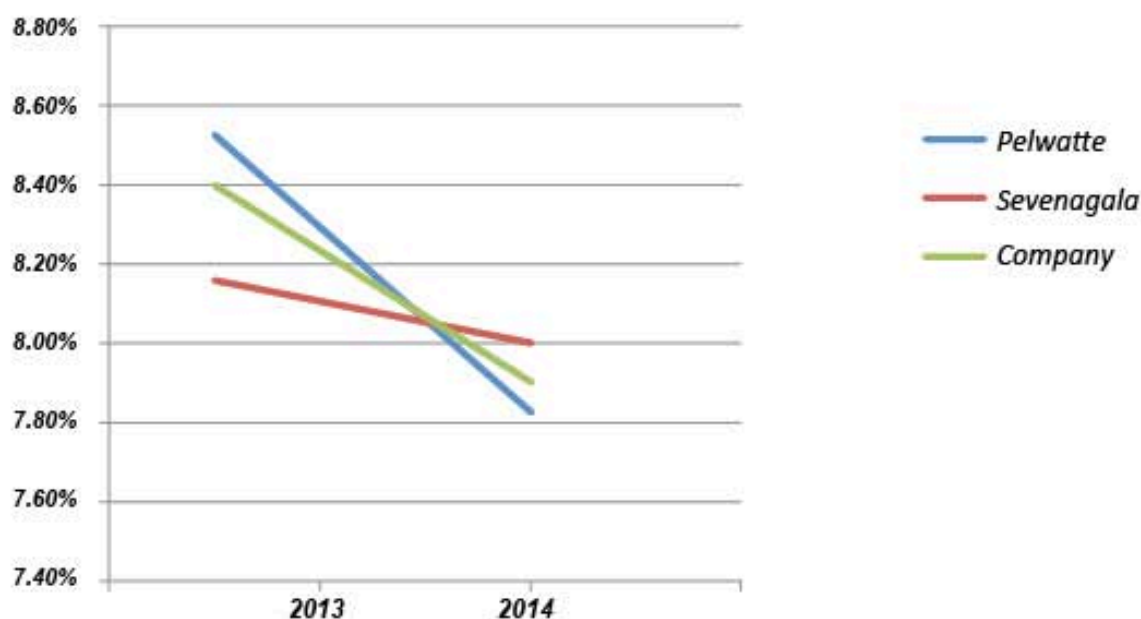
Due to the Bad weather condition, cane yield severely dropped in both the divisions. As a result the total cane supply as well as sugar recovery ratio have dropped. Finally, the total production dropped and the cost of production increased.

Yield per Hectare (MT)



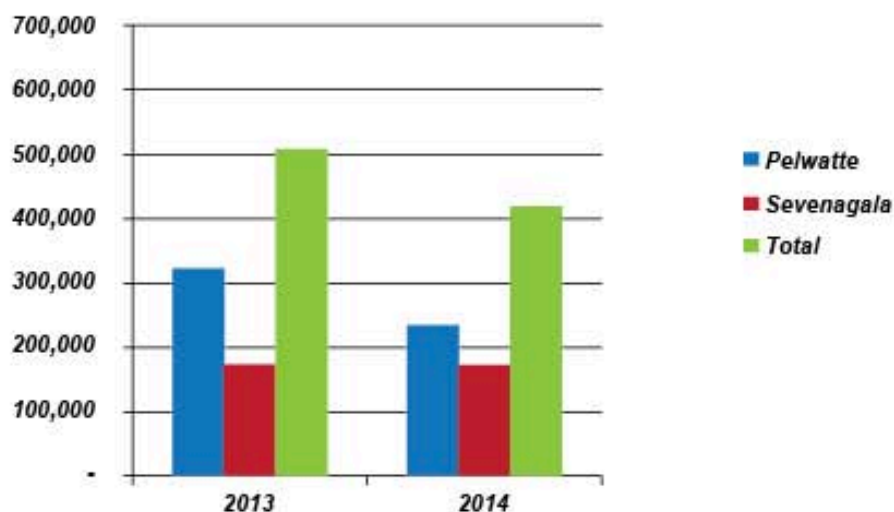
Sugar Recovery Ratio (Mt/ Cane)

Division	2013	2014
Pelwatte	8.53%	7.82%
Sevenagala	8.16%	8.00%
Company	8.40%	7.90%



Cane Supply (MT)	2013	2014
Pelwatte	332,635	229,582
Sevenagala	173,910	180,000
Total	506,545	409,582

Cane Supply (MT)

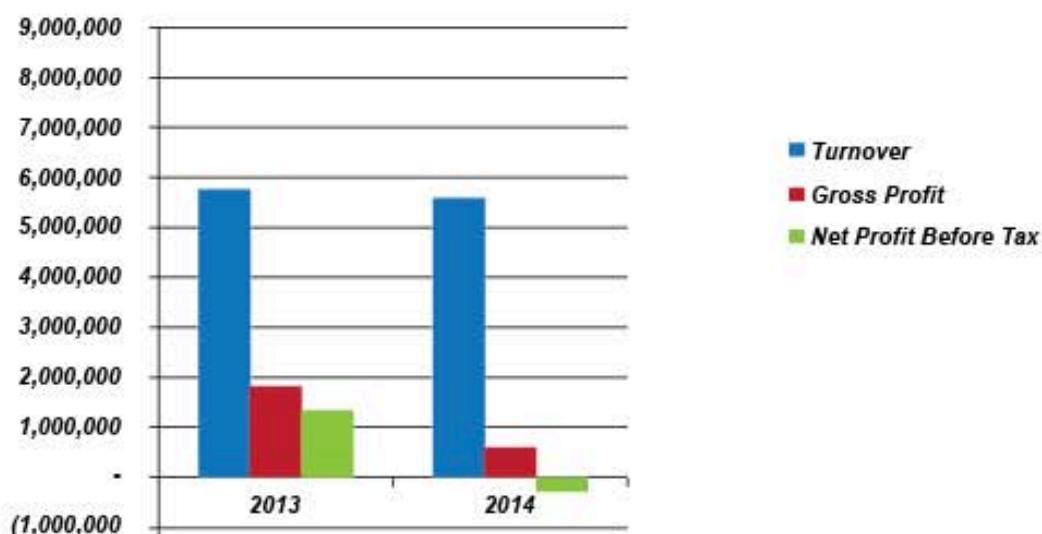


Company Performance

During the Financial year under review, the Company recorded Rs. 211.01 million operating loss before tax. It is a drop of 115.7% compared to the year 2013. Decline in the production volume which was a direct result of adverse weather condition and drop of selling price of sugar which is a resultant of import of sugar in high volume at low prices were collectively affected for drop of profitability. Salary increase of employees, drought relief allowance of Rs.75 million to the farmers & Badulla District sugar cultivation promotion programme which cost Rs. 4.60 million apparently affected adversely on the profitability.

Year (Rs. Million)	2013	2014
Turnover	5,747.05	5,539.31
Gross Profit	1,913.29	635.25
Net profit / (loss) before tax	1,345.72	(211.01)

Turnover & Profitability



Capital Expenditure

Pelwatte division invested Rs.80.4 Million on factory Plants & Equipment, 26.7 Million on Field Plants & machinery and 7 million on Building whereas Sevenagala Division invested Rs. 69.6 Mn on Motor vehicle and 7 million on Factory equipment.

Corporate Social Responsibility

The company spent substantial amount of money for welfare during the year. Separate maintenance staff has been allocated for maintaining the crèches and infrastructure. Company provides school transport for kids of worker families. Pre - School and Day care centers at Sevenagala & Pelwatte are maintained by the Company. During the drought season, a drought Relief allowance of Rs.75 million was paid to the farmers.

Glimpse from the farmer tour to India

Farmers who supplied the highest cane supply in 2013, were sent on a study tour to India.



Vesak Lantern Competition

On the invitation of the Chief Minister of Uva Province, the staff of Pelwatte participated at the Vesak Kalapaya lantern competition at Buttala - Pelwatte security section won the first prize.



Proxy

I/we the undersigned.....of.....herein a member/members of Lanka Sugar Company (Private) Limited do hereby appoint.....of.....whom falling as my/our proxy to represent me/us and.....to vote on my/our behalf at the Annual General Meeting of the Company to be held on and any adjournment thereof, and at every fall which may be taken in consequence thereof. I/we the undersigned hereby authorize my/our proxy to vote on my/our behalf in accordance with the performance indicate below:

	For	Against
1. To receive and consider the Audited Financial Statements for the year Ended 31 st December 2014 and the report of the auditors thereon	☐	☐
2. To confirm the appointment of auditors M/s. Ernst & Young, Chartered Accountants to hold the office until the conclusion of the next Annual General Meeting and to authorize the Directors to determine their Remuneration.	☐	☐

As witness my / our hand this.....Day.....of.....
TWO THOUSAND FOURTEEN.

.....

Signature of Shareholder

Please indicate with an "X" in the space provided how your proxy is to vote

Corporate Information

Name of the Company

Lanka Sugar Company (Private) Limited.

Legal Form

A company with limited liability, incorporated as a private company in Sri Lanka on 24th August 2012 under the Companies Act No. 07 of 2007.

Ownership

100% owned by the Government of Sri Lanka.

Registered Office

No.27, Melbourne Avenue,
Colombo 04, Sri Lanka.

Telephone: 011-5232583

Fax : 011-2500674

E-Mail : infosugarsrilanka@gmail.com

Website: www.lankasugar.lk

Company Registration Number

PV 87884

Tax Payer Identification Number

174878846

Bankers

Bank of Ceylon
People's Bank

Auditors

Ernst & Young
Chartered Accountants
No. 201,
De Saram Place,
Colombo 10.

Secretary

Mr. Pasindu Prabath Widyananda
(Attorney-at-Law),
Notary Public & Company Secretary,
No 11/2, 1st Lane, Old Nawala Road,
Nawala.

Directorate

Naveen Adkarama - Chairman
M.H.A. Sathar - Director /Chief Executive Officer
Thisath Wijagunawardena - Director
R.M.Gamini Rathnayaka - Director
Vincent Dias - Director
T.V. Weerasena - Director
Nihal Samarappuli - Director

Management Team - Head Office

Naveen Adkarama - Chairman
M.H.A. Sathar - Director/ Chief Executive Officer
N.H.S. Navaratne - General Manager (Finance)
W.M. Karunaratne - General Manager (Procurement / Marketing)
M. Jayakody - General Manager (HR / Aud. & Monitoring)
S.J. Senanayaka - Senior Manager (Land Acquisition)

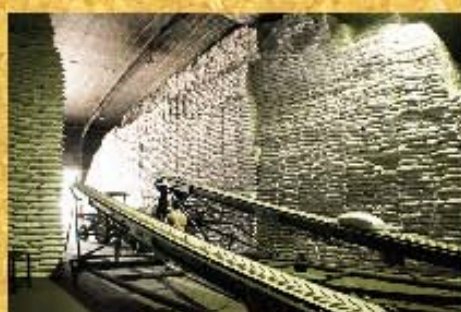
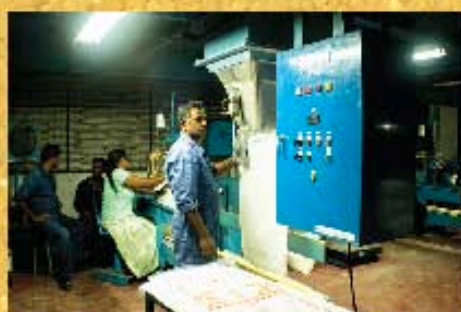
Management Team - Pelwatte

Wimal Karunaratne - Chief Operations Officer
D.L.D. Jayantha - General Manager (Distillery)
Surath Perera - Deputy General Manager (Agriculture)
W.W.R.W.M.M.H.B. Weerasooriya - Deputy General Manager (HR)
B.A.G.N. Illangakoon - Deputy General Manager (Operations)
M.P.N. Sandaruwani - Acting Deputy General Manager (Finance)
E.P. Suranga - Factory Manager
S. Weerasekera - Manager/ Guest House/ Resort & Golf Course
K.A.D. Kalansooriya - Settler Estate Manager
K. Vidurasinghe - Harvesting & BS Manager
M.B. Chandana - Chief Engineer (Agri. Workshop)
K.A.G.S. Sisiwath - Engineering Manager (Factory)
H.M.I.A.K. Katugaha - Production Manager (Factory)
M.E. Kosgahakumbura - Management Accountant
Aruni Gamage - Legal Officer

Management Team - Sevanagala

C.E. Amunugama - Chief Operations Officer
K.A. Walter - General Manager
H.M.S. Samaraweera - Deputy General Manager (Agriculture)
D.K.W. De Silva - Deputy General Manager (Factory)
J.R. Malalgoda - Asst. General Manager - Civil Engineering Services
N.A. Wimalaratne - Acting Manager - Equipment
S.V.D.S. Priyantha - Chief Engineer
D.C. Hettiarachchi - Chief Engineer - Power & Workshop
L.B.C. Jayavilal - Senior Manager (HR)
Kingsley Pathirana - Senior Accountant

PROUD STORY OF SWEET SUCCESS







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27, මෙල්බෝර්න් ඇවිනිය, කොළඹ 4, ශ්‍රී ලංකා.
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