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வருடாந்த அறிக்கை
Annual Report

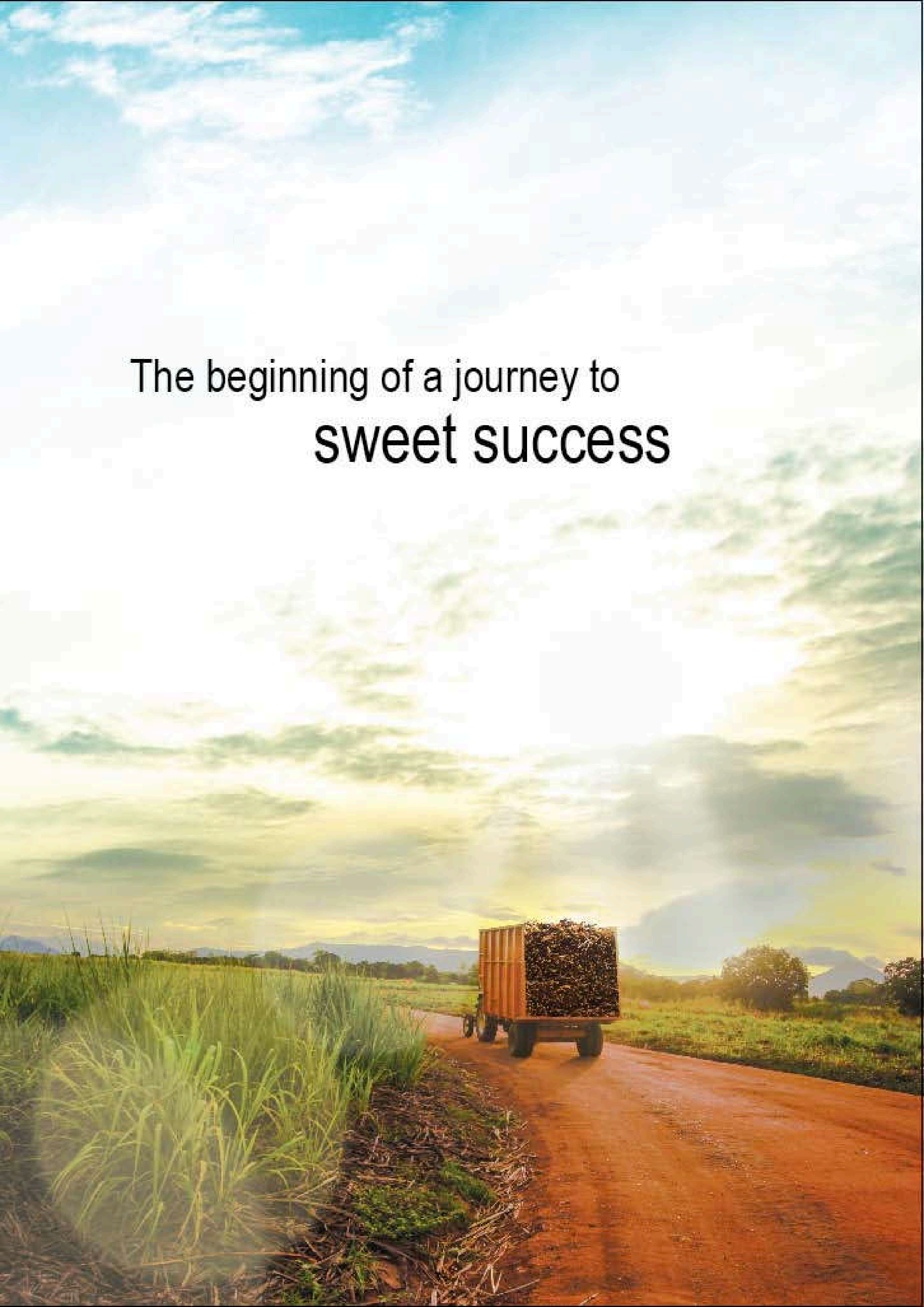
2015

සීමාසහිත ලංකා සීනි සමාගම
லங்கா சீனி நிறுவனம் லிமிட்டெட்
Lanka Sugar Company (Private) Limited.

Lanka Sugar Company (Private) Limited.

ANNUAL REPORT 2015

27,Melbounre Avenue, Colombo 4, Sri Lanka. Tel: +94 11 523 2583 Fax : +94 11 2500674 E mail : infosugarsrilanka@gmail.com


The beginning of a journey to
sweet success

Contents

Our Philosophy

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

Our Vision

To become self-sufficient in sugar

Our Objectives

MISSION 333 - SHORT TERM (3 Years by 2018)

- Achieve 80,000Mt of Sugar Production
- To support 15,000 Farmer Families
- To provide 8,000 direct employments
- To increase the Net income up to Rs.35,000 per month of a Farmer Family
- To contribute 15% to the Local Sugar requirement
- Achieve Rs.2.2 Billion Net Profit.
- To save 10 Billion rupees worth of Foreign Exchange.
- Co-generate 30 MW of Power

MISSION 777 - LONG TERM - (7 Years by 2022)

- Achieve 100,000Mt of Sugar Production
- To support 20,000 Farmer Families
- To provide 10,000 direct employments
- To increase the Net income up to Rs.40,000 per month of a Farmer Family
- To produce 20% of local sugar requirement.
- Achieve Rs.3.5 Billion Net Profit
- To save 20 Billion rupees worth of Foreign Exchange
- Co-generate 50MW Power

Strategies

- Our grower based growing model for a win-win business partnership
- Yield improvement with high yielding varieties, better agricultural practices with an efficient extension service and ensuring better returns to farmers.
- Farmer motivation through quantity and quality productivity incentives.
- Staff motivation through incentives based on productivity and performance.

Research and Development

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

Corporate Social Responsibility

We believe that we must increase the income levels 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 - 2015

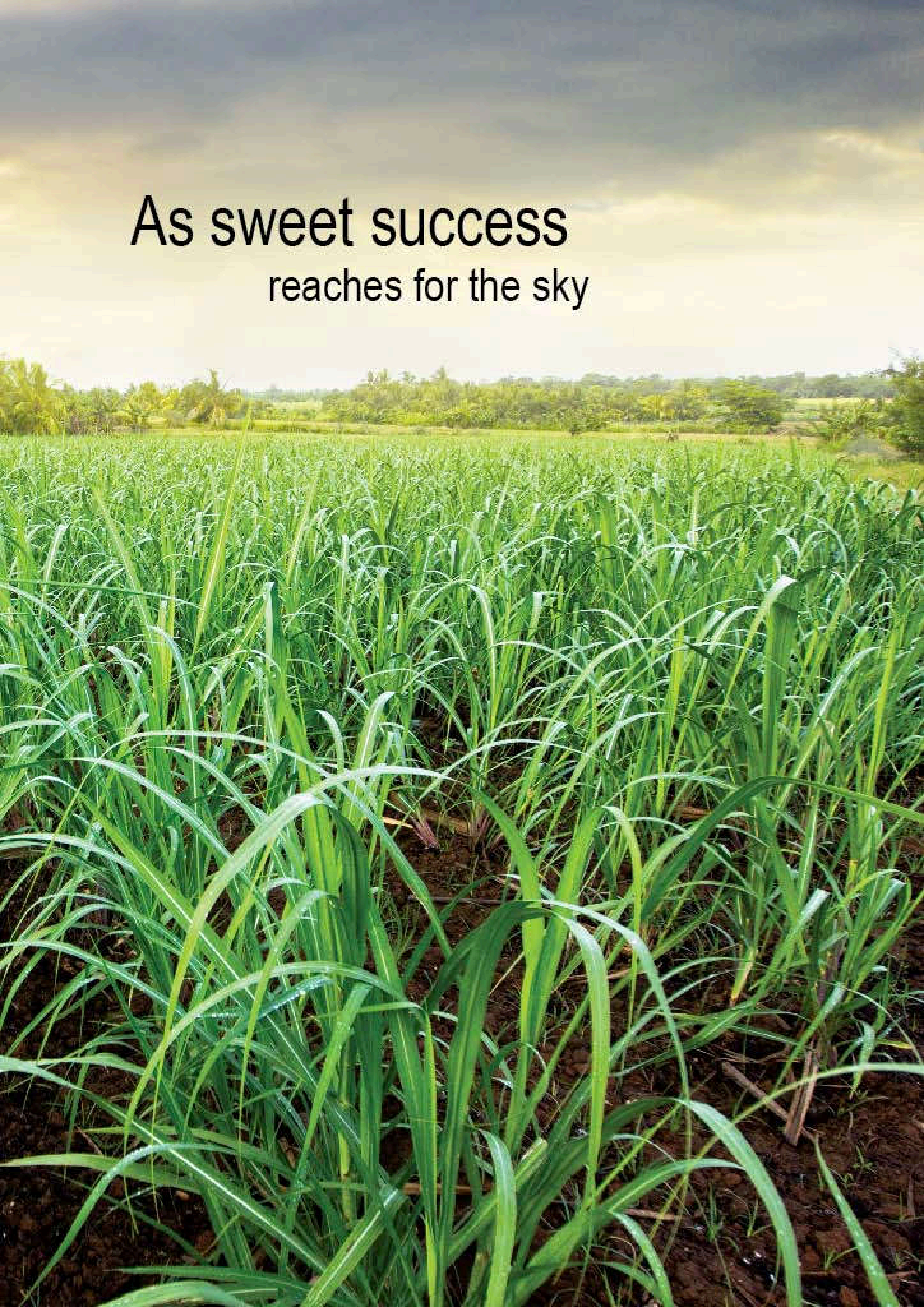
Figures are in Rupees Million	2015	2014	2013
Financial Highlights			
Turnover	4,881.64	5,539.31	5,747.05
Cost of Sales	(5,065.36)	(4,904.06)	(3,833.75)
Gross Profit	(183.72)	635.25	1,913.30
Net Profit before Tax	(1,052.40)	(211.01)	1,345.72

Operational Performance	2015	2014	2013
Land Cultivation			
Cultivatable Area (Hectare)	17,499	17,499	17,499
Area Cultivated (Hectare)	12,226	11,280	10,314
Percentage of Area Cultivated (%)	70%	64%	59%

Harvesting Programme	2015	2014	2013
Cane Harvested - MT	557,747	409,582	510,104
Percentage of Increase / (Decrease) over last year	36%	-20%	35%
Sugar Recovery Rate	7.53%	7.90%	8.34%

Sugar Production	2015	2014	2013
Production in Metric Tonnes	42,984	32,364	42,549
Tonnage Per Head Per Annum	8.19	6.17	7.57

Human Resource	2015	2014	2013
Permanent	1,488	1,557	1,630
Contract	510	492	736
Casual	3,129	2,645	2,530
Seasonal	-	510	685
Trainees	-	40	41
Total	**5,127**	**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 Statements for the year ended 31st December 2015 of Lanka Sugar Company (Private) Limited.

The year under review of the Company was indeed challenging with many macro and micro economic factors affecting the performance. However, amidst adverse conditions, sugar cane yield per hectare has increased from 39.38 MT to 59.95 MT, but sugar recovery rate dropped from 7.90% to 7.53%, making an impact on the production volume.

The Economic Environment

Real economic growth in Sri Lanka in 2015 recorded 4.8%, compared to 4.9% in 2014. A slowdown in the growth of demand in Sri Lanka's traditional export markets impacted the growth of the export sector while a strengthening US economy prompted short term capital outflows. The impact of these developments was offset to some extent by lower international commodity prices. Nevertheless, domestic consumption rebounded as incomes grew, particularly among public sector workers. All three sectors of the economy contributed to real economic growth in 2015. Agriculture and services related activities grew by 5.5% and 5.3%, respectively, while industry related activities grew by 3.0% during 2015. Inflation, as measured by the year-on-year change in the Colombo Consumers' Price Index (CCPI), was in negative territory during July-September 2015.

Industry Overview

Even though, the nature affected badly on the industry, we were able to produce 41,989 MT of sugar during the year and it is 7% of the domestic sugar requirement. Also, it is 72% of local sugar production. Sugar prices globally had drastically dropped in the year, and import of sugar has increase 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 wholes 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 later part of the year the whole sale prices of sugar dropped below Rs.90/= per Kg.

Company Performance

During the financial year under review, the Company recorded revenue amounting to Rs. 4,882 Million compared to the revenue of Rs. 5,539 Million recorded in the previous year. The Company recorded Rs.1052 Million operating loss before tax for the year 2015, it is a 500% drop compared to the year 2014. Sugar production has increased from 32,364 MT in the year 2014 to 41,989 MT in the year 2015. However proportionate increase in revenue from sugar could not be attained due to drop in selling price of sugar, which is a result of import of sugar in high volume at low prices. ENA production has decreased from 9,575,757 liters in the year 2014 to 7,317,351 liters in the year 2015, as a result, revenue has decreased by Rs. 762 Million during the year. Even though, total revenue has decreased by Rs. 658 Million in the year, cost of sale has increased by Rs. 161 Million. Finance cost has increased by Rs. 30 Million while finance income has decreased by Rs. 43 Million during the year. All these factors have contributed to the sharp drop in net profit of the Company.

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 center is also maintained by the Company.

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.

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 made during the year 2015 and in the past.

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

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

Navin Adikarama
Chairman,

Director / Chief Executive Officer's statement

Business Environment

Year 2015 delivered mixed results for the company resulting in negative impact for the financials. Adverse impacts of year 2014 along with operational practices carried out prior to this year affected the crop yield for both Sevanagala and Pelwatte plantations. The non-occurrence of monsoonal rains further aggravated this situation. Absence of proper selling procedures too deprived the company gaining price advantage over the seasonally fluctuating Sugar and ENA markets. During the year 2015, the company was compelled to maintain an average selling price at LKR 72/- per kilogram for Sugar and LKR 290/- per liter for ENA in both local and international markets. The above factors resulted in a total loss of over LKR 1Bn for the company.

New Management

Aiming for a better growth potential new management took over the company which had heavy financial burden along with low plantation yields per hectare (YPH). At the point of management take over the average yield stood at 60Mt per hectare which is below industry average. Heavy factory losses during crushing process and drought during December 2015, were amongst other main contributing factors for the high losses. Other key issue were the delays in harvesting and staling harvested sugarcane in fields. However, the new management was determined to address all key issues at its best and minimize detrimental impacts whilst to increase its profitability potential.

Technical

Mammoth tasks were set ahead to the technical team in order to stabilize the cash flow issues. This include analyzing and establishing proper and transparent selling methods, assess all technicalities, diagnose issues and to fix the factory loss which is above 4% prior to the commencement of 2016 long campaign crushing. The tasks were also extended to rectify quality related issues of the distillery. Harvesting delays were to be addressed by sourced cane harvesters partly mechanizing thus to expedite harvesting. A fleet of loaders were added thus crop staling could be minimized. Factories were to be tuned, in order to further their capacities and to accommodate additional crop that will flow in as result of irrigation plan and additional plantation plans.

Human Resource

The success of the company is driven by its employees. The employees are guided with company values and is focused on Safety, Our Employees, Customers, Excellence, Integrity, Sustainability and Our Community. Training and development will be key to retain and develop of most valuable resource; personnel this includes our famers too. Therefore it will be utmost priority of the management in coming years to maintain proper training programs.

I would like to take this opportunity to thank all employees and management for their dedication and hard work. The overall effort is greatly appreciated and together we will continue to optimize each opportunity as presented to benefit all stake holders.

M.H.A Sathar
Director / CEO,

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 Framers.	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 Importers at a low price.	Increase the production volume to bring down the unit overhead cost.
Environmental Risk	Damages arising from the sugar cane crop from elephants & weather changes may lead to drop in yield.	Developing elephant trenches, fences and human barriers at company cost

Our Culture & Values

OUR FARMER

The farmer is our king. Lanka Sugar Company believes that the farmers are one of the major and most important stakeholders 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 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 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. our prime purpose is to provide suger with better quality at a reasonable to our customers price. 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 250 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 are 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, and promotions etc, knowing these facts, Lanka Sugar began to address the issues as priority.

GOOD GOVERNANCE

Our Statutory Auditors were M/s Auditor General's Department.

In addition to the external auditors, both Pelwatte and Sevanagala Divisions have Internal Audit Departments and reporting directly to the Chief Executive Officer and Chairman. Audit Committee which consists of three board members are review the Internal Auditors' Report 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.

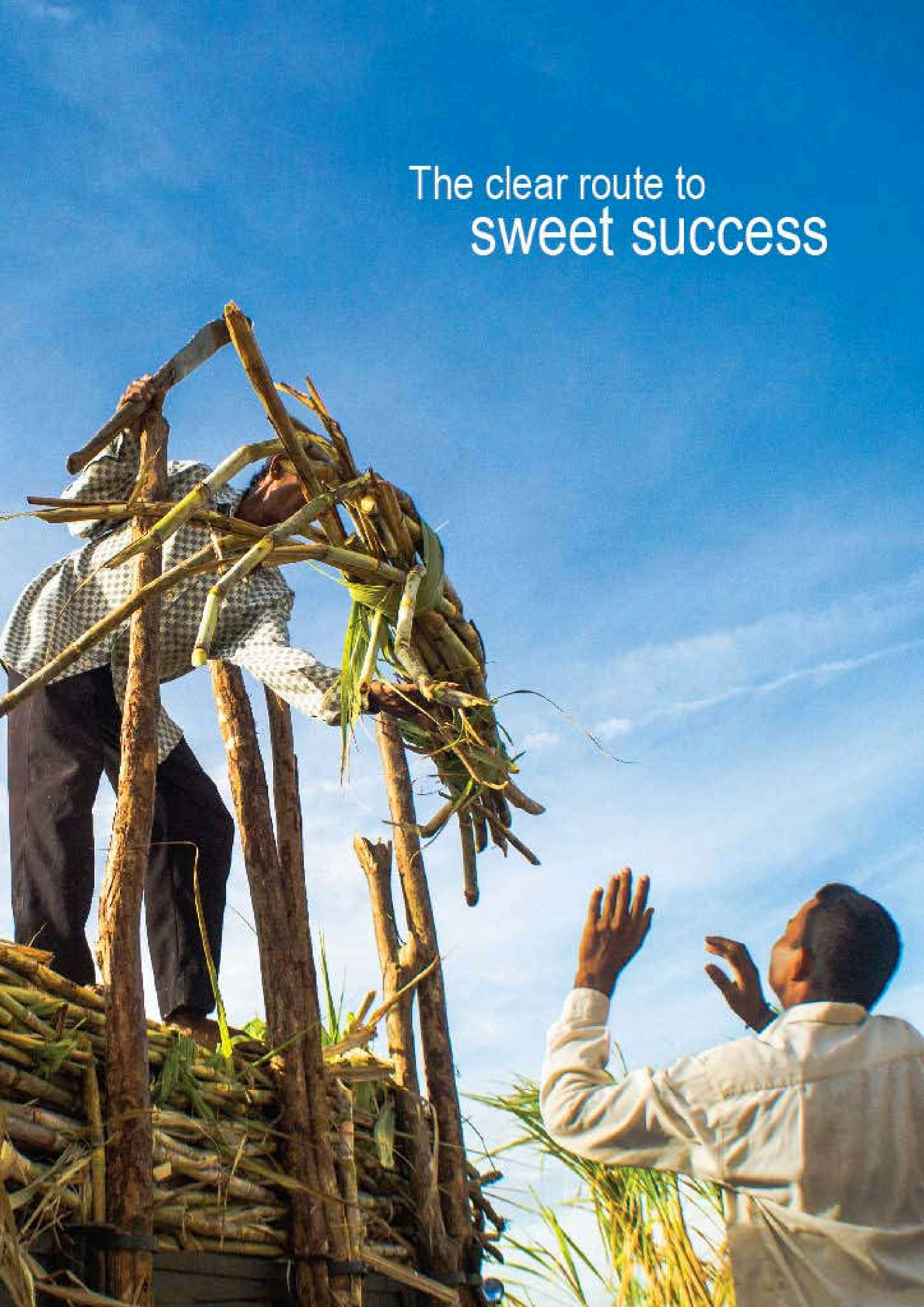
Both Pelwatte and Sevanagala locations are still held up with the movable assets which are not owned by the company. We are waiting until the legal process is completed so those can be removed or absorbed to the process.

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 Banks want significant assets to be fledged 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 initiative to obtain the books and records from the previous Management of Sevanagala Sugar Company Ltd.

The clear route to sweet success



Audit Committee Report

The Members of the Audit Committee of the company are appointed by the Board of Directors. The Audit Committee comprises of thee Non- Executive Directors.

The Audit Committee Meetings were scheduled as needed under the Chairmanship of the Audit Committee, who is the Board Member representing the Treasury. The Chairman, Director/ Chief Executive Officer, Chief Operating Officers and Senior Managers participate these meetings by invitation and the meetings were coordinated by the General Manager-HR & Administration.

The below mentioned Board Members were appointed to the Audit Committee with effect from 28th April 2015 and they met 2 times during the year 2015 and their attendance were as follows.

	28.04.2015	13.08.2015	Attendance
Mr.T.V.Weerasena Chairman-Audit Committee Additional Director General/ Treasury Representative	✓	✓	02/02
Mr.D.Winsant Dais Committee Member Director	✓	✓	02/02
Mr.Thusith Gunawardane Committee Member Director	✓	✓	02/02

The main Role and Responsibility of the Audit Committee

Exercising oversight responsibilities relating to the quality and integrity of the Company's financial statements and financial reporting process including the preparation, presentation and adequacy of disclosures in the financial statements of the company in accordance with the Sri Lanka Accounting Standards.

Exercising responsibilities over processes to ensure that the company internal control and risk management are adequate and compliance by the Company with legal and statutory requirements including circulars and guidelines issued by the General Treasury from time to time.

Progress during the Financial Year

The proceedings of the Audit Committee are regularly reported to the Board of Directors for approval and implementation.

The audit committee reviews and monitors the scope of the audit, the objectivity and its effectiveness. The committee also reviews the operations of LSCPL along with future prospects.

Actions taken by the management in response to the issues raised, as well as the effectiveness of the internal controls in place, were discussed with the heads of business units/ Superintendents and corrective measures were recommended.

Report of the Auditor General on the financial statements of LSCPL for the year ended 31 December 2015, together with management's responses, were discussed with management and the auditors and arrangements were made to rectify those unsatisfied areas highlighted by the auditors. Weaknesses of internal controls and mistakes of two (02) business units identified by internal audit division were discussed with CEO and COOs, and the significant areas were highlighted along with suitable recommendations to the Board of directors to take appropriate action.

The audit committee wishes to acknowledge with thanks the services rendered by the Internal Audit Division and their efforts to meet the requirements and expectations of the company. The contribution made by the members of the committee is acknowledged with grateful appreciation. Their competence in financial matters and relevant experience is invaluable for the company's continuous success.

T.V.Weerasena

Chairman - Audit Committee

Delivery time for 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, mutli-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 Excutive 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.
* Director Premier TK20 Singapore (Pvt) Limited. (2012 todate)
* 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 Wageningan, 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 Suger 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

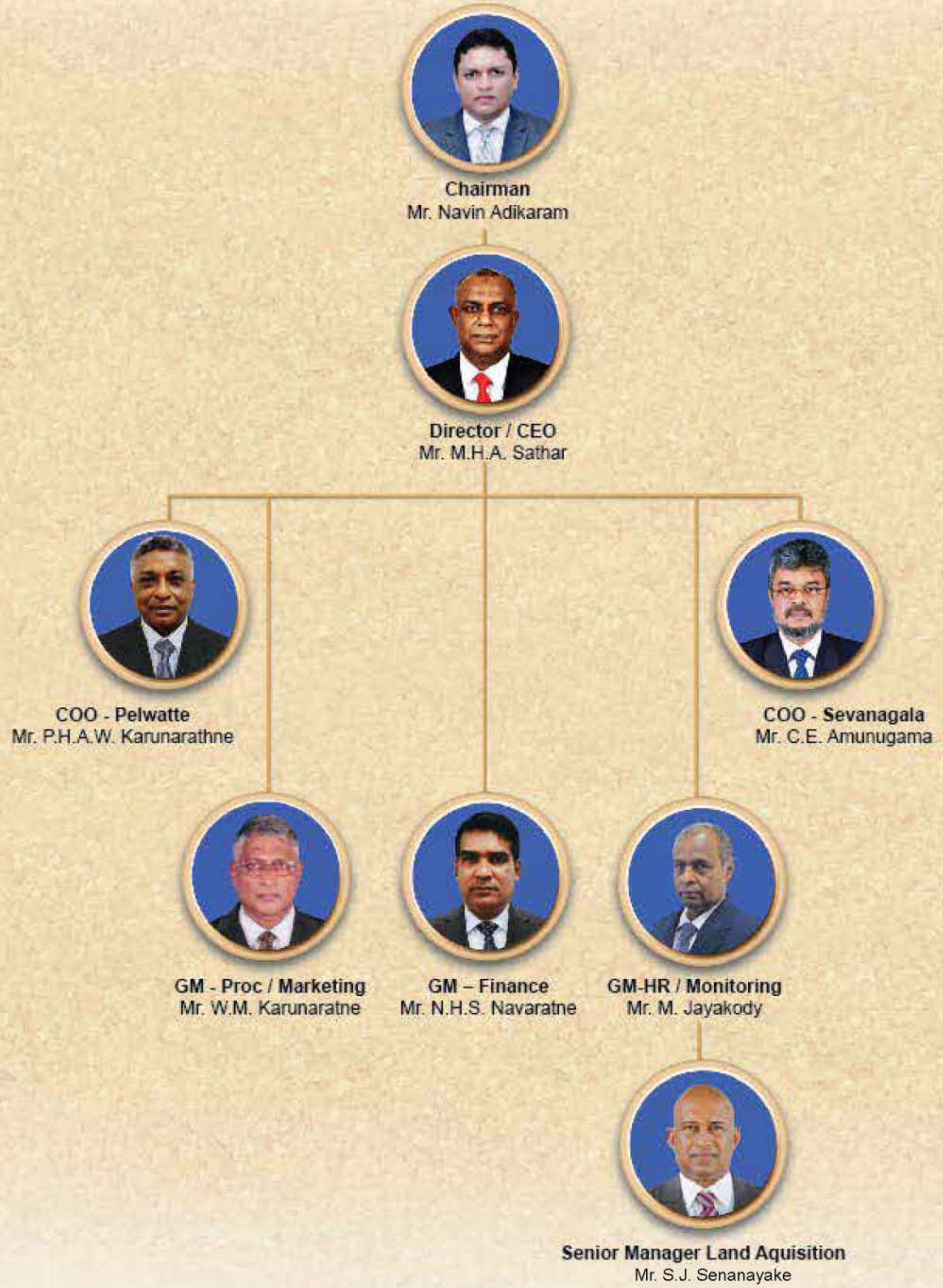
Dr. Nihal Samarappuli - B.Sc. (Special Degree in Agriculture), MSc. (Agricultural Extension), PhD (Economics)

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.

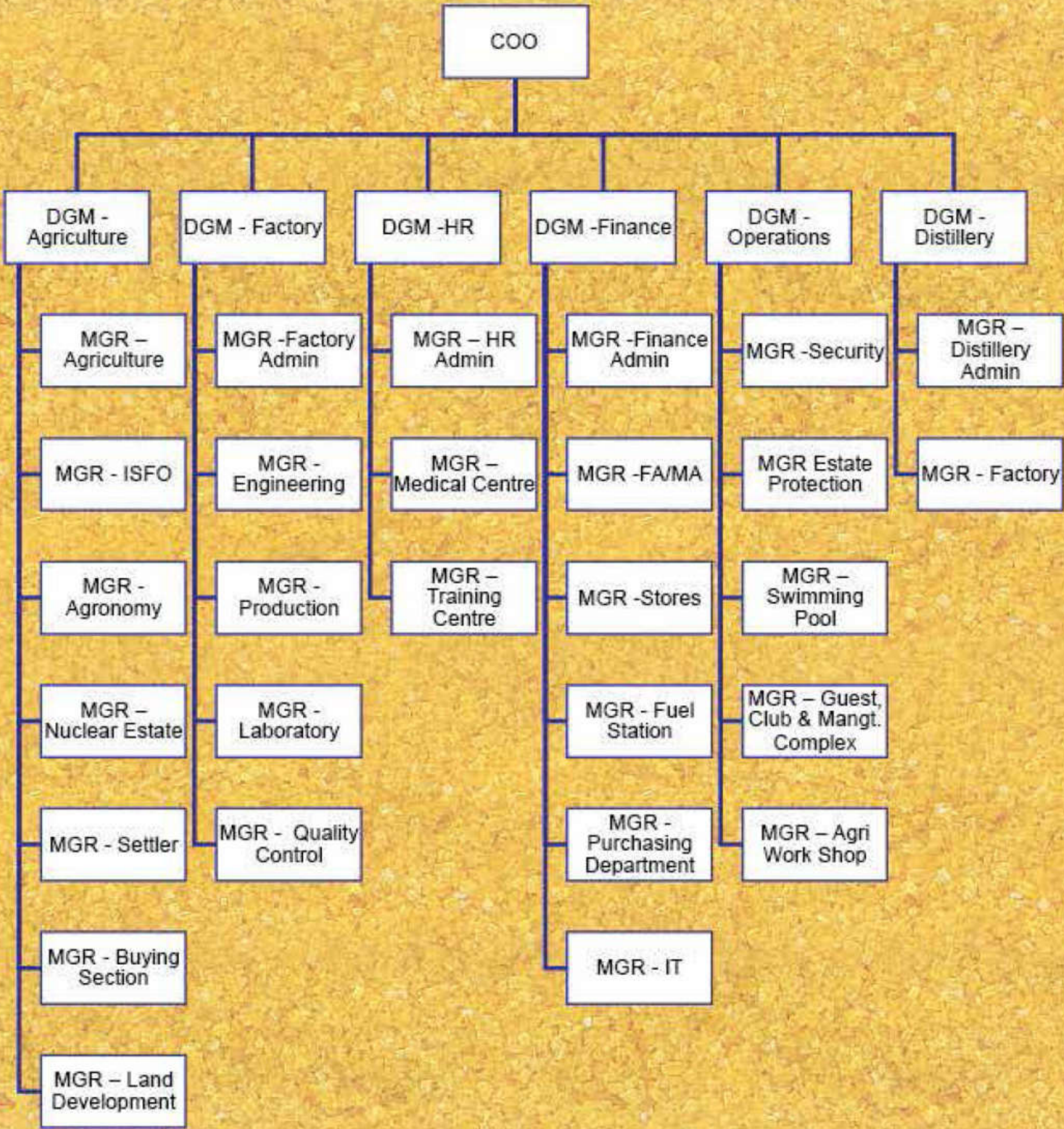
Professional Experience

* 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

Senior Management Team & Head Office Organization Structure



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)

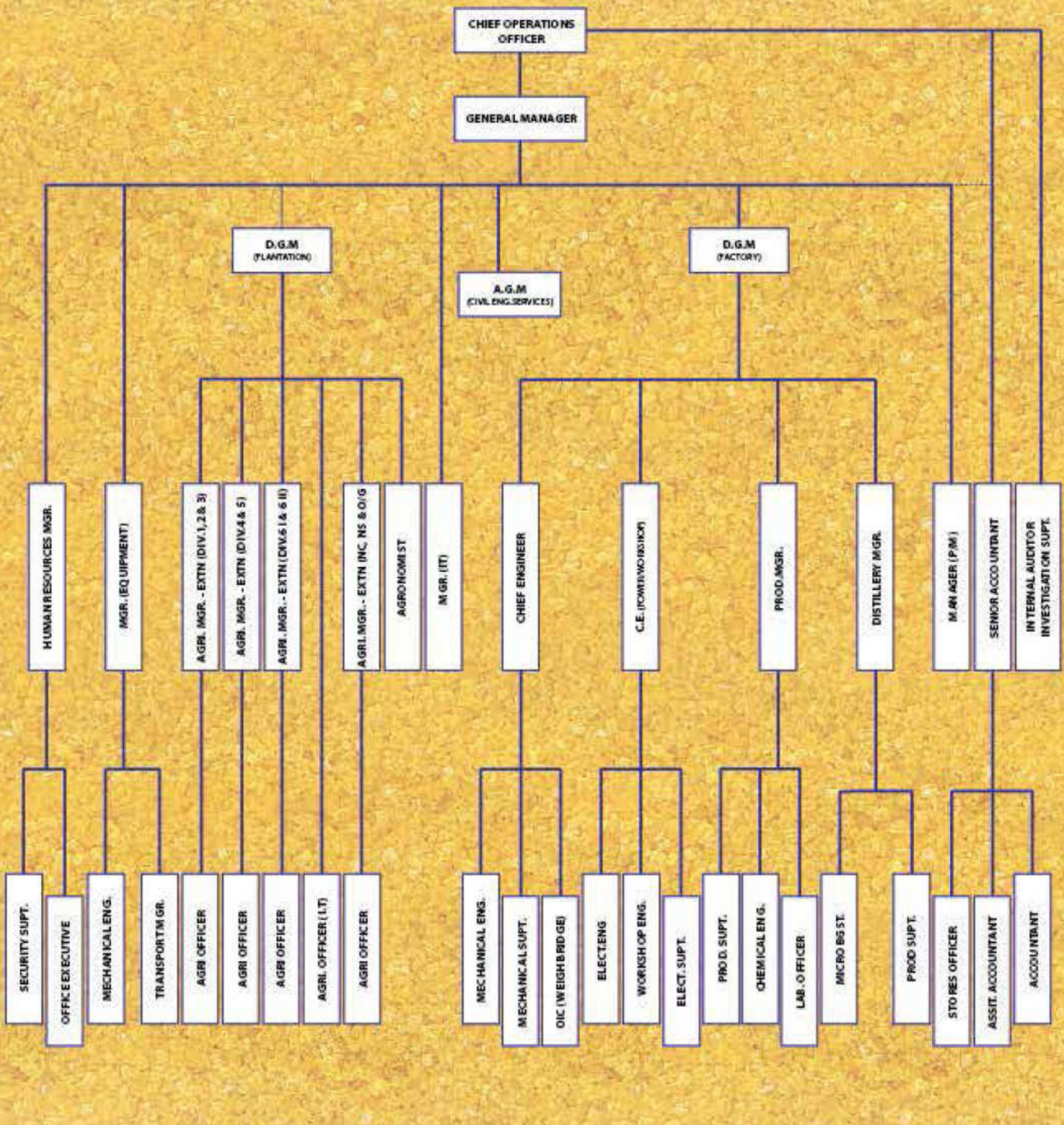
Second Row (From Left to Right) :

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.I.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. Walter** (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 Pihillegedera** (Manager (Procurement & Marketing), **Mr. M Shantha Weerasiri** (Internal Auditor/Investigation Supdt.), **Mr. Kingsly Pathirana** (Senior Accountant).

විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය / எனது இல. / My No. PLA/D/LSC/01/15/06 ඔබේ අංකය / உமது இல. / Your No.

දිනය / திகதி / Date 20 December 2016

The Chairman,
Lanka Sugar Company (Private) Limited

Report of the Auditor General on the Financial Statements of the Lanka Sugar Company (Private) Limited for the year ended 31 December 2015

The audit of financial statements of the Lanka Sugar Company (Private) Limited (The Company) comprising the statement of financial position as at 31 December 2015 and the statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My comments and observations which I consider should be published with the Annual Report of the Company appear in this report.

1.2 Establishment and Ownership of the Company

The Sri Lanka Sugar Company is a limited liability Company incorporated under the Companies Act, No. 07 of 2007 and re-registered under the Companies Act, No. 07 of 2007. This is a fully owned Government Company and the Secretary to the Treasury is being the single shareholder of the Company.

1.3 Board's Responsibility for the Financial Statements

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

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව, - இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka
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reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 Company's preparation and fair presentation of the financial statements 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Lanka Sugar Company (Private) Limited as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Compliance with Sri Lanka Accounting Standards (LKAS/SLFRS)

The following observations are made.

a) **LKAS 10 – Events after the Reporting Period**

Even though the date when the financial statements were authorized for issue should be disclosed, the Company had not complied with this.

b) **LKAS 24 – Related Party Disclosures**

The information with regard to the related party transactions had not been disclosed in the financial statements for the year under review.

c) **LKAS 37 – Provisions , Contingent Liabilities and Contingent Assets**

As per the Standard, the provisions had to be made for contingent liabilities by considering the present situations of court cases as at the date of statement of financial position and had to be disclosed in the financial statements. However the Company had not complied with this. Further, it was failed to present the confirmation letters of the lawyers with regarding the available court cases.

d) **LKAS 39 – Financial Instruments Recognition and Measurement**

According to paragraphs 09 (ii), 46 (a) and (b) of the Standard, the balances of staff loans and other debtors had to be disclosed in the financial statements by adjusting under effective interest method. Further, the fixed assets kept for its maturity should be categorized under "Held to Maturity" and recognized in the financial statements by measuring at amortize cost using effective interest method. However the Company had not complied with these.

Meanwhile, the deposits amounting to Rs. 910,838,300 shown in the financial statements under current assets had not been categorized and measured as per paragraphs 9 and 45 of the Standard.

e) **LKAS 41 - Agriculture**

Although the biological transformation should be recognized and shown as biological assets under non-current assets as per provisions in the Standard, the biological asset valued at Rs. 624,198,372 had been shown under current assets by the Company. It was further observed that the details with regarding the biological assets had not been disclosed in the financial statements for the year under review. Even though the biological assets should be calculated and recognized in the accounts at the fair value, the actual expenditure incurred in sugarcane cultivation had been calculated and shown as biological assets in the accounts.

f) **SLFRS 07 – Financial Instruments Disclosures**

Though the comparison should be presented separately for impairment provisions, doubtful debts had been deducted directly from the assets and shown under loans due from farmers.

g) **SLFRS 08 – Operating Segments**

Disclosures with regard to the reportable segments had not been shown in the financial statements in terms of paragraph 22 and 28 of the Standard,.

2.2.2 Accounting Deficiencies

The following observations are made.

a) An asset with a minus value of Rs. 14,170 had been included in the asset register of the Sevanagala Sugar Industries belonging to the Company.

b) Even though the policy of the Company in depreciating the land developments shown under fixed assets of Pelwatta Sugar Industries is two per cent per annum, the land developments worth Rs.8,384,151 of Mahawewa project had been depreciated by four per cent per annum and accounted accordingly.

c) The balance of Rs. 760,763,929 shown under the fixed assets of Pelwatta Sugar Industries belonging to the Company had been adjusted the depreciations for the whole year instead of considering the date of purchases.

d) Interest payable amounting to Rs. 19,038,439 with relating to 08 lease agreements of Pelwatta Sugar Industries had not been brought to the financial statements. Therefore, the profit for the year under review had been overstated by that amount.

e) No age analysis for inventory items had been prepared in order to identify the provisions for obsolete stocks while five inventory items of Sevanagala Sugar Industries belonging to the Company had been a minus value of Rs. 36,435,394.

f) Cost of sales in the financial statements of Pelwatta Sugar Industries had been computed by deducting Rs.1,847,711 and adding Rs.4,813,390 as 'valuation adjustments'. Therefore, the accuracy of the total cost of sales of Pelwatta Sugar Industries amounting to Rs.3,710,632,390 which had been calculated without following proper cost accounting techniques could not be ascertained in audit.

g) Assets belonged to previous management could not be identified from the assets shown under fixed assets of Pelwatta and Sevanagala Sugar Industries and these assets were not shown in fair value as they were not revalued.

h) Income tax and deferred tax computations had not been done in accordance with the provisions in Inland Revenue Act, No. 10 of 2006.

2.2.3 Unidentified differences

The following observations are made.

a) Even though the net balance of plant and machinery shown in the financial statements of Sevanagala Sugar Industries belonging to the Company was Rs. 440,242,580, as per the schedule it was Rs.430,194,601 hence, there was a difference of Rs. 10,047,979.

b) Field plant and equipment, and vehicles costing Rs. 442,730 and Rs.442, 924 respectively included in the financial statements of Pelwatta Sugar Industries were different from the cost balances shown in the the fixed assets register.

c) There were differences between the balances taken by the Head Office for the preparation of financial statements of the Company with regarding Sevanagala and Palwatta Sugar Industries and the accounts presented for audit by the Sevanagala and Palwatta Sugar Industries. Accordingly, there was a difference of Rs. 67,560,469 in four account balances of Palwatta Sugar Industries and a difference of Rs. 26,435,833 in five account balances of Sevanagala Sugar Industries.

d) As per the financial statements of Sevanagala and Pelwatta Sugar Industries, there was a difference of Rs.1,084,930 in the balance payable to Sevanagala Sugar Industries while in the case of balance payable to the Head Office, there was a difference of Rs.2,000,390. There was also a difference of Rs.45,596,272 in the balance receivable from Head Office as shown in the above mentioned financial statements.

2.2.4 Accounts Receivable and Payable

2.2.4.1 Accounts Receivable

The following observations are made.

a) Actions had not been taken to recover long outstanding balances of Rs. 592,930,256 remained in the accounts since 1987 which was to be recovered from farmers by the Pelwatta Sugar Industries. Further, actions had not been taken to recover the outstanding balances of Rs. 1,578,177 shown under trade and other receivable since 2012 in the financial statements of Pelwatta Sugar Industries which was receivable from staff club along with the balances of Rs.2,564,708 which are shown under advances and prepayments since 2012 as revealed by the financial statements of Pelwatta Sugar Industries.

b) Advances and prepayments balances shown in the financial statements of Pelwatta Sugar Industries belonging to the Company were included a balance of Rs.1,348,314 made to suppliers in 2013/2014 and the Company had not taken actions to recover those balances.

c) Provisions had not been made for bad and doubtful debts through an age analysis and actions had not been taken to set off the balance of Rs. 319,114,107 to be recovered from farmers shown in the financial statements of Sevanagala Sugar Industries.

d) Credit balance in debtor accounts amounting to Rs.50,225 had also included in the financial statements in relation to Pelwatta Sugar Industries without being cleared.

e) Advances and prepayments shown in the financial statements of Pelwatta Sugar Industries were included goods in transit of Rs. 26,304,842 from 2013 to 2015 and this balance had not been settled even up to 31 December 2015.

f) The loan facilities given to farmers by the previous management before the time of acquisition by the Government had been accounted by the Pelwatta Sugar Industries. However, it had not been identified and accounted by the Sevanagala Sugar Industries.

2.2.4.2 Accounts Payable

The following observations are made.

a) A sum of Rs.67,403,708 payable to creditors had been included in creditors control account of Pelwatta Sugar Industries since 2011 and the Company had not taken actions to settle those balances.

b) A balance of Rs.3,972,068 had been included in trade and other payables of Pelwatta Sugar Industries as anticipated payment account for more than one year without being taken action to settle.

c) A surcharge on Employee Provident Fund amounting to Rs.13,658,977 had been included since 2011 in trade and other payables of Pelwatta Sugar Industries and incentives payable for staff and farmers amounting to Rs.56,999 and Rs. 2,225,407 respectively had also been included in that balance.

d) A payable balance of Rs. 8,086,000 to Lanka Sathosa by Pelwatta Sugar Industries had been shown in the financial statements since 2013 without being taken actions to settle that balance.

e) Unclaimed wages aggregating Rs.4, 074,921 remained in the accounts for more than one year of the Pelwatta Sugar Industries even though the precautions should be taken on short time period as these balances would be caused to misconducts.

f) The Company had not taken actions to settle the balance of Rs. 152,132 shown under sundry creditors in the financial statements of Sevanagala Sugar Industries for more than one year.

g) Nations Building Tax (NBT) balance of Rs.160,442,120 relating to the Pelwatta Sugar Industries had been included in sundry creditors without being taken action to remit this balance to the Commissioner General of Inland Revenue.

h) Old credit balance of Rs.59,822,499 received from farmers had been erroneously shown in the financial statements of Sevanagala Sugar Industries as sundry creditors.

2.2.6 Lack of Evidence for Audit

The following observations are made.

(a) The evidence indicated against each item of accounts shown below had not been presented for audit.

Items of Account	Amount	Evidence not made available
	Rs.	
Hotel project balance - Pelwatta Sugar Industries	74,821,594	Supporting documents to verify the amounts.
Disposed field plant and equipment - Pelwatta Sugar Industries	210,000	
Current year adjustments	4,170,957	
Lease payable to the bank	11,812,500	Bank confirmations

(b) The list of assets transferred to the Company under the provisions in the Act of Revival of Underperforming Enterprises or Underutilized Assets No. 43 of 2011 had not been made available for audit.

2.2.7 Non- Compliance with Laws, Rules and Regulations

Instances of non-compliance observed in audit are given below.

Reference to Laws, Rules, and Regulations	Non-compliance
(a) Public Enterprises Circular No. PED12 of 02 June 2003	
I. Paragraph 9.2 (d)	Though the Organization Structure and approved Cadre should be registered in the Department of Public Enterprises of the General Treasury, the Head Office of the Company and Pelwatta and Sevanagala Sugar Industries had not complied with this.
II. Paragraph 5.2.5	Although a copy of the final updated budget approved by the Board of Directors of the Company should be submitted to Auditor General before elapsed of 15 days of the year begins, such budgeted estimates for the year 2016 had not been submitted to the Auditor General.
III. Paragraph 6.5.1	The financial statements should be presented to the Auditor General within 60 days after elapse of accounting year. Nevertheless, the Company had presented its financial statements for the year under review after delaying 5 months and 20 days.
(b) Public Administration Circulars No. 14/2008 and No. 22/99 of 26 June 2008 and 08 October 1999	I. A monthly transport allowance of Rs. 30,000 and a monthly fuel allowance entitle to relevant post could be paid to the officers who are entitle to have office vehicle for private use. However, a sum of

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respectively and Department of Public Enterprises Circular No. PED /1/2015 of 25 May 2015	Rs.240,000 for 04 officers attached to the Head Office in the year 2015 and a sum of Rs. 838,000 for 8 officers in Pelwatta Sugar Industries had been over paid in contrary to the provisions in the circulars and without obtaining the approval of the Board of Directors as well.
	II. Even though the officers getting transport and fuel allowances are not eligible to have a driver or driver allowance, the Deputy General Manager (Finance) had employed a driver in permanent cadre and that driver had been paid a salary of Rs. 488,542 by the Company in the year 2015. Further, that driver was provided a residence at Yalabowa housing scheme which was assigned to Management Level Officer.
(c) Extra Ordinary Gazette Notification No.1533/16 dated 25 January 2008	Environmental protection license had not been acquired by the Sevanagala Sugar Industry in terms of National Environment Act
(d) Government Procurement Guidelines 2006 Guidelines 2.14.1 and 3.2.1	Approval of the Ministry Procurement Committee had not been obtained by the Pelwatta Sugar Industries to procure a crane at a cost of Rs. 128,910,000 and market price reference method had been followed instead of calling national competitive biddings.
Guidelines 3.2.1	An approval of the Departmental Procurement Committee had not been acquired by the Sevanagala Sugar Industries to procure a crane at a cost of Rs.17,400,000
Guidelines 3.4.1. (a) and 7.12.2 (a)	Though the market price reference method should be followed when purchasing low value and urgent needs goods, this method had been used by Sevanagala Sugar Industries to procure two Shaft Mount Gear Boxes for worth

Rs. 11,872,000 and also wider publicity had not been made for calling bids.

2.2.8 Unauthorized Transactions

The following observations are made.

a) The top management personnel of Sevanagala Sugar Industries, the Head Office of the Company and Pelwatta Sugar Industries have been obtained various allowances of Rs.1,920,000, Rs.1,560,000 and Rs.22,537,806 respectively based on the approval of the Chief Executive Officer of the Company without obtaining the approval from the Department of Management Services.

b) Sales of ethanol for lower than the prices decided on 24 August 2015 had been caused a total loss of Rs. 46,218,000 comprising the loss of Rs.31,218,000 and Rs.15,000,000 in Pelwatta and Sevanagala Sugar Industries respectively. Further, the fixed selling price for ethanol had not been decided and many prices had been used to selling the ethanol to each institution during that period.

c) A sum of Rs.4,002,360 and Rs. 6,665,725 had been obtained from the Sevanagala Sugar Industries by the Head Office in order to meet the expenditure of Badulla and Kanthale projects respectively without having proper authority to spend.

d) A sum of Rs.26,462,500 had been deposited in a fixed deposit account of a private bank by taking cash from Sevanagala Sugar Industries in 2014. An interest of Rs.870,000 had been lost as it was withdrawn before the date of maturity on 13 March 2016.

e) A vehicle at a cost of Rs. 10,048,000 had been procured for Chief Executive Officer out of the money transferred amounting to Rs.10,600,000 to the Head Office from Sevanagala Sugar Industries. However, approvals had not been given to transfer the money or to procure this vehicle.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the operations of the Company for the year ended 31 December 2015 had resulted in a pre-tax net loss of Rs.1,052,439,824 as compared with the corresponding pre-tax net loss of Rs. 211,012,935 in the preceding year, thus indicating a further deterioration of Rs. 841,426,889 in the financial results for the year under review. Decrease of operating income by Rs.657,667,601 and increase in cost of sales by Rs.160,665,253 as compared with the preceding year were the main reasons attributed for this deterioration in the financial results.

3.2 The Value Addition of the Company

Even though the net loss for the year under review was Rs. 1,067.3 million, the contribution of the Company to the Country during the year under review was 1,305.6 million. The contribution of the Company to the Country during the year under review and in the previous three years period is as follows.

Description	2015	2014	2013	2012 (Last 03 Months)
	Rs.	Rs.	Rs.	Rs.
Profit/ (Loss) for the year	(1,067,300,530)	(150,836,960)	816,828,301	(174,323,817)
Add: - Staff Remuneration	2,092,819,358	1,658,235,775	1,540,551,175	1,414,038,931
Taxes paid to the Government	(14,860,706)	60,175,975	-	-
Depreciation	294,951,968	268,727,657	199,837,040	46,752,626
Value Addition	**1,305,610,090**	**1,836,302,447**	**2,557,216,516**	**1,286,467,740**

The following observation is made in this connection.

Total staff remunerations of the Company had been increased by Rs.434,583,583 as compared with the preceding year.

3.3 Significant Accounting Ratio

According to the information made available, some of the important ratio of the Company for the year under review and for the preceding year is given below.

	Year Under Review	Preceding Year
Current Asset Ratio	1 : 1.8	1 : 2.25
Quick Assets Ratio	1 : 1.7	1 : 1.55

The following observation is made in this connection.

The Company had invested a sum of Rs. 910.84 million and Rs. 1,733.87 million in the fixed deposits as at the end of the year 2015 and 2014 respectively and theses investments had been included in the current assets of the Company. As such the liquidity position of the company was in a satisfactorily level.

4. Operating Review

4.1 Management weaknesses

The following observations are made.

a) Two shaft mounted gear boxes valued at Rs. 11,872,000 procured as urgent needs in order to crushing sugarcanes had been received to main stores on 24 May 2014. However, these had been installed in the industry only on December 2015. Further, crushing of sugarcanes had been commenced in 2016 and the machine was out of order at the very first day of crushing sugarcanes.

b) Procurement of Cane Unloading Systems

I. A Cane Unloading System had been procured at a cost of Rs. 128,910,000 for the use of Pelwatta Sugar Industries and it had not been installed properly. As a result, the old crane available in the industry had been installed by spending a sum of Rs. 61,333,644.

II. Two Cane Unloading Systems procured during the year under review at a cost of Rs. 17,400,000 by the Sevanagala Sugar Industries were not in a working condition by 25 June 2015. However, the final payment amounting to Rs.1,809,600 had been paid by the Company on 27 November 2015 without taking proper action.

c) An Alcohol Flow Meter (Neptune) with air release waves used to issue ethanol to buyers of Sevanagala Sugar Industries had been procured at a cost of Rs. 1,951,019 in the year 2013. However, this meter had not given correct measurement data.

d) One hundred and twenty one vehicles, plant and equipment of Pelwatta Sugar Industry had been directed to its own agricultural workshop for repair. However, those vehicles were kept idle due to delay in repairing. Further, steps had not been taken by the Company to repair them.

e) Thirteen Tractors, three robin pumps, a lorry and a cab given to repair during December 2012 to the end of 2014 had been kept without performing the repairs.

f) Even though the contract had been awarded to complete the construction of waste water treatment plant for Rs. 27,067,812 by May 2014, it had not been completed even as at 31 August 2016. Therefore, the environment license required for the Industry could not be obtained.

g) Information relating to 21 accidents had been received to audit and 15 out of them were not claimed from insurance company by presenting bills for estimated losses. Further, vehicles sent to agricultural workshop for the purpose of repairing are being used without repairing as delays in the workshop.

h) The Company had not taken actions to repair 04 houses in Managers' Housing Scheme and 131 houses under the supervision of City Development Unit though these had been in repairable condition. Out of them 12 houses had not been repaired for more than 10 years.

i) The Company had not taken actions to recover rent from 07 officers attached to Pelwatta Sugar Industries and Bank of Ceylon Pelwatta Branch.

j) One Hundred and thirty two trailers, bowsers, cranes, loaders, excavators belonging to Pelwatta Sugar Industries had not been registered by the Company.

k) The land vested to Sevanagala Sugar Industries for the cultivation of sugarcane was 4198.41 hectares. However, out of that land 281.51 hectares had been cultivated other crops and 27.55 hectares had been used for unauthorized constructions.

l) Although a land with extent of 469.87 hectares had been given to the Company by Sri Lanka Mahaweli Authority on 99 years lease basis, the lease agreement was not made available in the Company. Therefore, the Company had not able to take legal actions against the unauthorized encroachments.

m) Fifty seven quarters of Sevanagala Sugar Industries had been used by the unauthorized parties and 26 houses were not suitable for living due to repairs not done. Actions had not been taken by the management by considering the steps to be taken in this regard.

n) A bowser of the Company had been damaged due to an accident. However, the Company had to bear the damage of Rs. 906,972 as the license and insurance was not acquired.

o) Though a sum of Rs. 2,218,134 had been given to Hingurana Sugar Industries in 04 instances for salaries by Sevanagala Sugar Industries, a sum of Rs. 1,115,789 had only been shown as salaries in the accounts of Hingurana Sugar Industries.

p) In order to re-establish the Kanthale Sugar Industries in the year 2014, a sum of Rs.7,446,704 had been spent for a project and it was included a sum of Rs.1,331,000 spent for cultivating sugarcanes and a sum of Rs. 1,463,153 for land development for new office at Kanthale. However, this project had been completed without getting any benefit and no follow up actions had been taken with relating sugarcanes.

q) Though the Company had established an Internal Audit Unit, a sum of Rs. 150,000 had been spent for a committee consisting of three outside persons to conduct a special audit.

r) Though Pelwatta Sugar Industries had maintained agricultural workshop to repairs of vehicles and machines, 11 vehicles and machines had been sent to outsiders during the period from November 2014 to March 2016.

s) The lands with extent of 791 hectares belonging to 9 Divisional Secretariats in Badulla district had been selected to cultivate sugarcanes and out of them, sugarcanes had been cultivated only in 60.6 hectares of lands in 6 Divisional Secretariats. The sugarcane cultivation in 03 Divisional Secretariats had been failed and the project had been abandoned on 28 August 2015 without being revealed the things happen to cultivated sugar canes. Therefore, the cost incurred for this was fruitless.

4.2 Operating Weaknesses

The following observations are made.

a) The contribution from ethanol is greater than sugar. However, the unused factory capacity in 2013, 2014 and 2015 had been increased by 1 per cent, 20 per cent and 45 per cent respectively. Therefore, the profitability of the Company had been decreased due to the decline of manufacturing and selling of ethanol.

b) A loss of Rs. 18,185,400 had been occurred in Pelwatta Sugar Industries in view of mixing 35,000 liters of unusable ethanol to usable ethanol stored in VAT 2 tank as such 60,618 liters of ethanol had become unusable. This was 60,731 liters as at 28 August 2015 and had been reduced to 60,618 liters as at 22 October 2015 resulting shortage of 113 liters.

c) A difference was observed between the Molasses pumped to distillery from the factory and actual receipts of Molasses to distillery of Pelwatta Sugar Industries. Therefore, a sum of Rs.22, 999,375 had been loss during the month of April 2015 with regarding 751 metric tons of molasses.

d) The Company had not taken actions to use a standard system to measure the ethanol at the time of sending them to storing VAT tanks which produced daily in Pelwatta Sugar Industries.

e) Even though the unusable sugar due to candied or any other reasons had been reprocessed in Pelwatta Sugar Industries, the proper system had not been implemented to document the amount input to the reprocess.

i. VAT 3 tank in Sevanagala Sugar Industries with a capacity of 143,892 liters of manufactured ethanol had been kept idle due to storing 35,642 liters of weak ethanol.

ii. An excess of 5715.28 liters of ethanol had been revealed in physical verification of closing stocks in Pelwatta Sugar Industries. The status, actual volume, shortage at that time, standard deviation etc. had not been based with regarding the ethanol stocks. Therefore, the systems and controls in placed could not be satisfied in audit.

f) The manuals including controls, policies and processes in order to directing sales, marketing, administration and operations in the factory had not been made available in the Company.

g) The management had not taken actions to replace or repair the unsound 30 years old plant and equipment and the hours closed the factory due to stalling of machines had been increased in 2015 by comparing with 2014 and it was 12 per cent of total factory hours.

h) A proper cost accounting system had not implemented by the Pelwatta Sugar Industries to calculate the unit production cost.

4.3 Transactions of Contentious Nature

The following observations are made.

a) Even though a sum of Rs. 1,600,000 had been paid as management fee to 6 employees of Pelwatta Sugar Industries attached to the Head Office in Colombo, the salary paid to same employees in the year 2015 by the Pelwatta Sugar Industries was 2,131,227.

b) The Pricing Committee had decided that the minimum and maximum selling price of ethanol produced by Pelwatta and Sevanagala Sugar Factories were Rs.290 and Rs.350 respectively. The Company had sold its ethanol at less or lower prices than the minimum price. Therefore, the sales income of ethanol had been decreased by Rs.760, 169,391 or 32 per cent in 2015 as compared with 2014.

Further, 90 per cent of ethanol had been sold at the minimum sales price of Rs. 290 per liter and the sales policy of the Company is to grant higher benefit to large scale alcohol manufacturers and thereby the Company had incurred a huge loss.

c) Even though the Pelwatta and Sevanagala had been vested to the Company as per the Cabinet decision dated 08 August 2014, Kanthale and Hingura Sugar Industries were in idle as these were not vested to the Company.

4.4 Uneconomic Transactions

a) An accounting package had been introduced by Pelwatta Sugar Industries for the preparation of accounts by paying an annual fee of Rs. 1,371,265. However, most of modules in this software had not been utilized by the Company.

b) An interest of Rs. 60,590,053 had been paid during the year under review for the bank overdraft of Rs.576,782,652 shown in the financial statements of the Company.

c) A sum of Rs. 1,000,000 had been paid as sponsorships for the distribution of deeds by the State Plantation Ministry among the workers in Badulla district which had not been directly related with the objectives of the Company.

d) A sum of Rs.. 6,628,619 had been spent for Small scale sugarcane farmers sugar manufacturing project – Badulla during the year under review. However, the supervision of relevant officer had not been made with regard to the correctness of those expenses. Further, the stationary procured for Rs. 782,843 could not be used for the intendant purpose as the details of a politician was printed in it.

e) An officer recruited under contract basis and subsequently granted permanency by the sugarcane research institute, had been recruited at the same time as coordinating officer to develop and distribute sugarcane cultivation in Badulla district and had been paid a sum of Rs. 1,100,000 for 11 months in 2014 by a sum of Rs. 100,000 per month.

4.5 Staff Administration

The following observations are made.

a) The actual cadre of the Head Office is 17 and 8 employees of Pelwatta Sugar Industries had included in this staff cadre. The approved cadre of the head office had not been clearly identified. Further, officers of managerial level had been recruited on the one year contract basis and those appointments had been renewed annually.

b) The approved cadre of Sevanagala Sugar Industries had not been recognized. Further, personal files of previous officers were not available in the factory.

c) Scheme of recruitment and cadre for Palwatta Sugar Industries had not been approved by the Department of Management Services.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

	Area of Control	Observations
(a)	Cost and Financial Accounting	Non-availability of proper cost and financial accounting system
(b)	Inventory Controls	Provisions or written off had not been made by identifying obsolete stocks.
(c)	Debtor and Creditor Balances	Provisions had not been made for bad debts and doubtful debts through a debtor/creditor age analysis and also actions had not been taken to setoff or recover long outstanding balances.
(d)	Accrued Expenses	Actions had not been taken to settle the long outstanding balances.
(e)	Human Resources Management	Approved Recruitment Procedure was not made available.
(f)	Purchases	Instructions in the procurement guidelines had not been followed.

H.M. Gamini Wijesinghe
Auditor General

Lanka Sugar Company (Private) Limited

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2015

	Note	2015 Rs.	2014 Rs.
Revenue	4	4,881,637,722	5,539,305,323
Cost of Sales		(5,065,357,085)	(4,904,055,968)
Gross Profit		(183,719,363)	635,249,355
Other Income and Gains	5	60,227,606	55,818,240
Administrative Expenses		(966,088,073)	(1,012,541,959)
Finance Cost	6	(80,753,493)	(50,047,247)
Finance Income	6	117,893,499	160,508,676
Profit/(Loss) before tax	7	(1,052,439,824)	(211,012,935)
Income Tax Expense	8	(14,860,706)	60,175,975
Profit/(Loss) for the year		(1,067,300,530)	(150,836,960)
Other Comprehensive Income for the period, net of tax		16,473,290	59,138,063
Total Comprehensive Income/ (Expense) for the period, net of tax		(1,050,827,240)	(91,698,897)
Earnings/(Loss) Per Share	9	(10,673,005)	(1,508,370)

The Accounting Policies and Notes on pages 8 to 28 form an integral part of these financial statements.

Lanka Sugar Company (Private) Limited

STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

ASSETS	Note	2015 Rs.	2014 Rs.
Non-Current Assets			
Property, Plant and Equipment	10	2,599,758,724	2,792,377,905
Deferred Tax Asset	8	85,517,789	86,066,655
		2,685,276,513	2,878,444,560
Current Assets			
Inventories	11	1,426,404,923	1,483,590,602
Biological Assets	12	624,198,372	428,018,378
Trade and Other Receivables	13	87,686,733	54,759,867
Advances and Prepayments		52,300,501	131,039,684
Loans Due from Farmers	14	837,886,246	930,162,482
Amounts due from Related Parties	25.2	19,168,293	-
Investments	15	910,838,300	1,733,873,465
Cash and Cash Equivalents	21	43,492,326	6,851,025
		4,001,975,694	4,768,295,504
Total Assets		6,687,252,208	7,646,740,064
EQUITY AND LIABILITIES			
Capital and Reserves			
Stated Capital	16	1,000	1,000
Government Grant	17	4,047,990,194	4,048,080,194
Accumulated Profits		(122,644,911)	924,011,372
Total Equity		3,925,346,283	4,972,092,566
Non-Current Liabilities			
Retirement Benefit Liability	19	429,568,312	412,697,156
Interest Bearing Loans and Borrowings	18	127,417,201	143,104,631
		556,985,513	555,801,787
Current Liabilities			
Interest Bearing Loans and Borrowings	18	608,854,123	440,401,880
Trade and Other Payables	20	1,089,451,423	1,156,140,806
Income Tax Payable		506,614,866	522,303,025
Amounts due to Related Parties		-	-
		2,204,920,412	2,118,845,711
Total Equity and Liabilities		6,687,252,208	7,646,740,064

....
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:

....
Chairman

....
Director

The Accounting Policies and Notes on pages 8 to 28 form an integral part of these financial statements.

DATE
Colombo

Lanka Sugar Company (Private) Limited

STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2015

	Stated Capital Rs.	Government Grant Rs.	Accumulated Profits Rs.	Total Rs.
As at 1 January 2014	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
Repayment of Government Grant	-	(90,000)	-	(90,000)
Adjustment Entry in Head Office Balance Sheet			4,170,957	4,170,957
Paid by Company on behalf of previous owner	-	-	-	-
Profit for the year	-	-	(1,067,300,530)	(1,067,300,530)
Other Comprehensive Income			16,473,290	16,473,290
Total comprehensive income	-	-	(1,050,827,240)	(1,050,827,240)
As at 31 December 2015	1,000	4,047,990,194	(122,644,911)	3,925,346,283

The Accounting Policies and Notes on pages 8 to 28 form an integral part of these financial statements.

Lanka Sugar Company (Private) Limited

STATEMENT OF CASH FLOWS

Year ended 31 December 2015

Cash flows From / (Used in) Operating Activities	**Note**	**2015 Rs.**	**2014 Rs.**
Profit/(Loss) before Taxation		(1,052,439,824)	(211,012,935)
Adjustments for,			
Depreciation	10	307,601,752	278,540,745
Loss on sale of property, plant and equipment		-	-
Finance Income	6	(117,893,499)	(160,508,676)
Finance Cost	6	80,753,493	50,047,247
Provision for Retirement Benefit Liability	19	67,391,139	121,540,071
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		(714,586,940)	88,214,875
(Increase)/Decrease in Inventories		57,185,679	161,115,254
Increase in Trade and Other Receivables		26,644,024	(9,015,085)
Decrease in Loans Due from Farmers		92,276,236	(167,878,815)
Increase/(Decrease) in Trade and Other Payables		(66,689,383)	(25,319,640)
Net Cash From Operating Activities		(605,170,384)	47,116,590
Income Tax Paid		(30,000,000)	-
Retirement Benefit Liability Paid	19	(34,046,693)	(46,040,698)
Net Cash Flows From Operating Activities		(669,217,077)	1,075,892
Cash Flows From/(Used in) Investing Activities			
Acquisition of Property, Plant and Equipment		(124,470,572)	(236,522,276)
Net (increase)/decrease in investments in Fixed Deposits		823,035,165	(164,970,508)
Investment in Biological Assets		(196,179,994)	-
Proceeds from the sale of Property, Plant and Equipment		9,488,000	3,771,000
Finance Income Received	6	117,893,499	160,508,676
Net Cash Flows Used in Investing Activities		629,766,099	(237,213,109)
Cash Flows From / (Used in) Financing Activities			
Loans obtained		-	-
Loans settlements	18	2,056,073	(10,932,248)
Payments made on behalf previous owner		-	-
Repayment of government grant	17	(90,000)	(774,983)
Principle payments under finance lease obligation	18	(26,975,280)	(18,687,116)
Interest paid	6	(80,753,493)	(50,047,247)
Dividends paid		-	(80,000,000)
Net Cash Flows Used in Financing Activities		(105,762,701)	(160,441,594)
Adjustment to Head Office Reserves		4,170,957	-
Net Increase/(Decrease) in Cash and Cash Equivalents		(141,042,721)	(396,578,812)
Cash and Cash Equivalents at the beginning of the year	21	(392,247,607)	4,331,205
Cash and Cash Equivalents at the end of the year	21	(533,290,327)	(392,247,607)

The Accounting Policies and Notes on pages 8 to 28 form an integral part of these financial statements.

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 Lanka Sugar Company (Private) Limited is located at No. 27, Melbourne Avenue, Colombo 04 and the principal place of business is situated in Embilipitiya and Buttala.

After being incorporated as a private limited company, the assets and liabilities of Pelwatte Sugar Industries and Sevanagala Sugar Industries were transferred to Lanka Sugar Company (Private) Limited on 01st 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 31st December 2015 were authorized for issue, in accordance with a resolution of the Board of Directors on 31st May 2016.

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 Cash Flow Statement 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 its 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 and 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)

2.2.2 Revenue recognition

Revenue is recognized 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 recognized 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 the 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 adjustment 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.

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

Financial 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 loses, 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.
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 Statement of 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 Statement of Profit and Loss as incurred.

De-recognition

The carrying amount of an item of property, plant & equipment is de-recognized on disposal; or when no future economic benefits are expected from its use. Gains and losses on de-recognition are recognized in the Statement of Profit or Loss and gains are not classified as revenue.

Depreciation

Depreciation is recognised in the Statement of 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 or 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.

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 reporting date
Standing Cane	At direct cost including nursery cost and part of overheads incurred thereon, up to the reporting date
Other Stocks	At actual cost
Goods in Transit	At actual cost

2.2.7 Financial Instruments – initial recognition and subsequent measurement

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 or loss.

De-recognition

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 pass-through 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.

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 statement of 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 statement of profit or loss.

Financial liabilities

Initial recognition and measurement

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 statement of 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 statement of profit or loss.

De-recognition

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 de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of 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 statement of 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.

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 accounting policies adopted are consistent with prior year.

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 statement of profit and 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.

3. STANDARDS ISSUED BUT NOT YET EFFECTIVE

SLFRS 9 – Financial Instruments

SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.

SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

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.
SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Pending the completion of the detailed impact analysis, possible Impact from SLFRS 9 and SLFRS 15 is not reasonably estimable as of the reporting date.

The following amendments and improvements are not expected to have a significant impact on the Company's financial statements.

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to SLFRS 11)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to LKAS 16 and LKAS 38)
- Equity Method in Separate Financial Statements (Amendments to LKAS 27)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to SLFRS 10 and LKAS 28)
- Annual Improvements to SLFRSs 2012–2014 Cycle – various standards
- Investment Entities: Applying the Consolidation Exception (Amendments to SLFRS 10, SLFRS 12 and LKAS 28)
- Disclosure Initiative (Amendments to LKAS 1)

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

4. REVENUE

	2015 Rs.	2014 Rs.
4.1 Summary		
Sales of Goods	4,881,637,722	5,539,305,323
	4,881,637,722	5,539,305,323
4.2 Revenue is derived from the following:		
Sugar	3,270,409,558	3,167,907,618
Molasses	333,950	334,100
ENA	1,610,894,214	2,371,063,605
	4,881,637,722	5,539,305,323

4.3 Segment Information

	Head Office Rs.	Pelwatte Division Rs.	Sevanagala Division Rs.	Elimination Rs.	Total Rs.
Segment Revenue	33,047,625	3,317,289,592	1,564,348,130	(33,047,625)	4,848,590,097
Segment Results					
Gross Profit /(Loss)	33,047,625	(416,978,037)	233,258,673	(33,047,625)	(216,766,988)
Other					
Capital Expenditure	10,125,877	70,990,321	49,093,310	-	130,209,508
Depreciation	3,285,021	212,914,430	91,402,301	-	307,601,752
Segment Assets					
Non Current Assets	10,645,217	2,102,188,531	572,991,628	-	2,685,825,376
Current Assets	37,885,677	2,580,369,091	1,488,162,165	(104,441,239)	4,001,975,694
Segment Liabilities					
Non Current Liabilities	-	470,844,543	92,304,983	-	563,149,525
Current Liabilities	50,570,847	1,475,170,821	763,144,131	(104,441,239)	2,184,444,560

5. OTHER INCOME AND GAINS

	2015 Rs.	2014 Rs.
Other Service Income	59,915,306	54,994,146
Sundry Income	312,300	824,094
	60,227,606	55,818,240

6. FINANCE COST AND INCOME

	2015 Rs.	2014 Rs.
6.1 Finance Cost		
Interest Expenses on Bank Loans	288,783	3,069,424
Interest Expenses on Bank Overdrafts	61,674,985	32,530,456
Finance Charges on Lease Liabilities	18,789,726	14,447,367
	80,753,493	50,047,247
6.2 Finance Income		
Interest Income on Loans Due from Farmers	39,255,255	26,163,780
Interest Income on Fixed Deposits	78,636,482	134,330,828
Other Interest Income	1,763	14,068
	117,893,499	160,508,676

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2015

7. LOSS BEFORE TAX

Stated after Charging	2015 Rs.	2014 Rs.
Included in Cost of Sales		
Employee Benefits including the following		
- Defined Contribution Plan Costs - EPF and ETF	195,715,532	184,237,286
Depreciation	268,013,210	252,586,859
Included in Administrative Expenses		
Employee Benefits including the following		
- Defined Benefit Plan Costs - Gratuity	67,391,138	121,717,782
- Defined Contribution Plan Costs - EPF and ETF	50,582,073	37,673,352
Depreciation	39,588,542	25,953,886
Audit Fees	928,701	2,242,970
Bad Debts on Farmers Loans	365,864	40,557,693

8. INCOME TAX EXPENSE/(REVERSAL)

	2015 Rs.	2014 Rs.
Current Income Tax	14,311,840	24,448,211
Deferred Tax Charge/ (Reversal) (Note 8.2)	548,866	(84,624,186)
	14,860,706	(60,175,975)

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

	2015 Rs.	2014 Rs.
Accounting profit /(loss) before tax	(1,052,439,824)	(211,012,935)
Adjustment for prior year profits	4,170,957	-
Adjusted accounting profit/(loss) before tax	(1,048,268,867)	(211,012,935)
Aggregate disallowed items	-	451,784,967
Aggregate allowed items	-	(485,102,035)
Business profit/(Loss) for tax purpose	(1,048,268,867)	(244,330,002)
Other Sources of Income Liable to Tax		
Interest Income	51,113,713	134,330,828
Total Assessable Income	51,113,713	134,330,828
Tax losses utilized during the year	-	(47,015,790)
Taxable Income	51,113,713	87,315,038
Income Tax at @ 28%	14,311,840	24,448,211
Tax losses brought forward	197,314,212	-
Tax losses incurred during the year	1,048,268,867	244,330,002
Tax losses utilized during the year		(47,015,790)
Tax losses carried forward	1,245,583,080	197,314,212

8.2

Deferred Tax Assets	Statement of Financial Position		Statement of Profit and Loss	
	2015	2014	2015	2014
Deferred Tax Liability	Rs.	Rs.	Rs.	Rs.
On Property, Pant & Equipment	(31,759,458)	(29,488,549)	(2,270,909)	(29,488,549)
	(31,759,458)	(29,488,549)	(2,270,909)	(29,488,549)
Deferred Tax Asset				
On Property , Pant & Equipment	-	-	-	(1,442,469)
On Retirement Benefit Obligation	117,277,247	115,555,204	1,722,043	115,555,204
	117,277,247	115,555,204	1,722,043	114,112,735
			(548,866)	84,624,186
Deferred Income Tax reversal				
	85,517,789	86,066,655		
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:	2015 Rs.	2014 Rs.
Net Profit/(Loss) Attributable to Ordinary Shareholders for Earnings Per Share	(1,067,300,530)	(150,836,960)

Numbers of Ordinary Shares Used as Denominator:	2015 Number	2014 Number
Weighted average Number of Ordinary Shares Applicable to Basic Earnings/(Loss) Per Share	100	100

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2015

10. PROPERTY, PLANT AND EQUIPMENT

10.1 Gross Carrying Amounts

	Balance As at 01.01.2015 Rs.	Additions/ Transfers Rs.	Disposals/ Transfers Rs.	Balance As at 31.12.2015 Rs.
Land	44,149,728	-	-	44,149,728
Land Development	126,303,161	8,384,151	-	134,687,312
Factory Buildings	241,393,459	-	-	241,393,459
Buildings Others	229,159,601	-	-	229,159,601
Field Machinery and Equipment	397,841,593	2,228,080	(210,000)	399,859,673
Irrigation and Miscellaneous Equipment	176,850,825	18,327,826	-	195,178,651
Factory Plant and Equipment	2,609,899,787	66,606,665	-	2,676,506,452
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	160,465,357	23,819,750	(17,790,000)	166,495,107
Furniture, Fittings and Equipment	146,151,892	9,631,803	-	155,783,695
Settler Zone Infrastructure	73,193,739	-	-	73,193,739
	4,565,882,925	128,998,276	(18,000,000)	4,676,881,200
Assets on Finance Leases				
Motor Vehicles	11,668,750	-	-	11,668,750
Field Machinery and Equipment	68,728,920	-	-	68,728,920
	80,397,670	-	-	80,397,670
In the Course of Construction				
Land Development	43,727,182	-	(5,738,937)	37,988,245
Factory Plant and Equipment	2,900,929	-	-	2,900,929
Hotel Project	37,410,797	-	-	37,410,797
Compost Plant	571,362	-	-	571,362
Irrigation Project	-	-	-	-
Power Generation Project	1,779,419	-	-	1,779,419
Water Treatment Plant	25,856,579	1,211,233	-	27,067,811
	112,246,268	1,211,233	(5,738,937)	107,718,563
In the Course of Construction - On Finance Leases				
Factory Plant and Equipment	120,750,000	-	-	120,750,000
	120,750,000	-	-	120,750,000
Total Gross Carrying Amount	4,879,276,862	130,209,508	(23,738,937)	4,985,747,434

10.2 Depreciation

	Balance As at 01.01.2015 Rs.	Charge for the year Rs.	Disposals Rs.	Balance As at 31.12.2015 Rs.
Land Development	58,633,631	2,554,010	-	61,187,642
Factory Buildings	131,155,166	5,044,293	-	136,199,459
Buildings Others	107,724,591	5,157,769	-	112,882,360
Field Machinery and Equipment	371,907,768	13,656,269	(210,000)	385,354,036
Irrigation and Miscellaneous Equipment	134,911,548	4,880,790	-	139,792,338
Factory Plant and Equipment	818,035,956	212,004,915	-	1,030,040,870
Other Plant and Machinery	42,502,733	6,518,437	-	49,021,170
Storage Tank	16,839,735	2,967,660	-	19,807,395
Roads and Bridges	97,599,130	1,709,604	-	99,308,734
Laboratory Equipment	25,924,766	4,455,558	-	30,380,324
Motor Vehicles	91,889,783	22,154,845	(8,302,000)	105,742,628
Furniture, Fittings and Equipment	113,166,206	13,024,745	-	126,190,952
Settler Zone Infrastructure	66,551,522	823,072	-	67,374,595
	2,076,842,536	294,951,968	(8,512,000)	2,363,282,504
Assets on Finance Leases				
Motor Vehicles	1,703,333	1,460,000	-	3,163,334
Field Machinery and Equipment	8,353,088	11,189,784	-	19,542,872
	10,056,421	12,649,784	-	22,706,206
Total Depreciation	2,086,898,957	307,601,752	(8,512,000)	2,385,988,709

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

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

10.3 Net Book Values

	2015 Rs.	2014 Rs.
Land	44,149,728	44,149,728
Land Development	73,499,670	67,669,529
Factory Buildings	105,193,999	110,238,292
Buildings Others	116,277,240	121,435,009
Field Machinery and Equipment	14,505,637	25,933,826
Irrigation and Miscellaneous Equipment	55,386,313	41,939,277
Factory Plant and Equipment	1,646,465,582	1,791,863,831
Other Plant and Machinery	87,583,098	94,101,535
Storage Tank	43,591,080	46,558,740
Roads and Bridges	11,870,782	13,580,386
Laboratory Equipment	18,911,202	23,366,760
Motor Vehicles	60,752,479	68,575,574
Furniture, Fittings and Equipment	29,592,744	32,985,686
Settler Zone Infrastructure	5,819,144	6,642,216
	2,313,598,697	2,489,040,389
Assets on Finance Lease		
Motor Vehicles	8,505,416	9,965,417
Field Machinery and Equipment	49,186,048	60,375,832
	57,691,464	70,341,249
In the Course of Construction		
Land Development	37,988,245	43,727,182
Factory Plant and Equipment	2,900,929	2,900,929
Hotel Project	37,410,797	37,410,797
Compost Plant	571,362	571,362
Irrigation Project	-	-
Power Generation Project	1,779,419	1,779,419
Water Treatment Plant	27,067,811	25,856,579
	107,718,563	112,246,268
In the Course of Construction - On Finance Leases		
Factory Plant and Equipment	120,750,000	120,750,000
	120,750,000	120,750,000
Total carrying amount of Property, Plant and Equipment	2,599,758,724	2,792,377,905

10.4 During the financial period, the company acquired Property, Plant and Equipment to the aggregate value of **124,470,572** /- (2014 - Rs.236,522,276/-) for cash.

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

	2015	2014
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	10-20 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 2015

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 it's 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 resepctive divisions, Pelwatte and Sevanagala Divisions in substance continues to use the assets transferred from the previous owners. However, in accounting for the assets aquired 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

	2015 Rs.	2014 Rs.
Produced Inventory (11.1)	857,055,156	959,137,023
Other Inventory (11.2)	569,349,767	524,453,580
	1,426,404,923	1,483,590,602

11.1 Produced Inventory

	2015 Rs.	2014 Rs.
Sugar	235,076,097	649,880,160
Molasses	443,564,830	296,740,063
ENA	178,414,229	12,516,800
	857,055,156	959,137,023

11.2 Other Inventory

	2015 Rs.	2014 Rs.
Fuel and Lubricants	34,953,800	38,588,621
Factory Chemicals	2,858,842	4,173,062
Production Items Distillery	1,582,813	1,642,843
Bags and Liners	1,579,251	3,713,737
Fertilizers	55,597,793	79,408,052
General	25,971,707	25,527,265
Agriculture Spares	145,490,862	127,033,041
Stationery	1,451,255	1,835,885
Factory Spares	276,196,486	237,117,663
Tires and Tubes	6,613,554	14,664,848
	552,296,363	533,705,017
Less: Provision for Obsolete Stocks	(9,251,437)	(9,251,437)
	543,044,926	524,453,580
Goods-in-Transit	26,304,842	-
	569,349,767	524,453,580

12. BIOLOGICAL ASSETS

	2015 Rs.	2014 Rs.
Standing Cane	624,198,372	428,018,378
	624,198,372	428,018,378

13. TRADE AND OTHER RECEIVABLES

	2015 Rs.	2014 Rs.
Trade Receivables	769,276	444,800
Other Receivables	77,048,132	47,640,229
Staff Loans (13.1)	9,869,325	6,674,838
	87,686,733	54,759,867

13.1 Staff Loans

	2015 Rs.	2014 Rs.
Balance at the beginning of the year	6,674,838	3,428,706
Loans granted during the year	57,079,450	54,817,274
Repayments made during the year	(53,884,963)	(51,571,142)
Balance at the end of the year	9,869,325	6,674,838

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2015

14. LOANS DUE FROM FARMERS

	2015 Rs.	2014 Rs.
Balance at the beginning of the year	1,284,963,044	764,202,986
Loans granted during the year	807,517,925	1,219,110,292
Loans recovered during the year	(899,158,298)	(707,112,460)
Identified loans relating to previous management	-	8,762,227
Loans written off		-
Total Loans Granted	1,193,322,672	1,284,963,044
Less: Provision for Doubtful Recoveries	(355,436,426)	(354,800,562)
Balance at the end of the year	837,886,246	930,162,482

15. INVESTMENTS

	2015 Rs.	2014 Rs.
Current		
Fixed Deposits	910,838,300	1,733,873,465
	910,838,300	1,733,873,465

16. STATED CAPITAL

	2015 Number	2015 Rs.	2014 Number	2014 Rs.
Fully Paid Ordinary Shares	100	1,000	100	1,000

17. GOVERNMENT GRANT

	2015 Rs.	2014 Rs.
As at beginning of the period	4,048,080,194	3,554,855,177
Revaluation of Plant and Machinery		494,000,000
Repayments		(774,983)
	4,048,080,194	4,048,080,194

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

	2015			2014		
	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)	15,521,955	24,133,571	39,655,526	12,533,151	25,066,303	37,599,454
Bank Overdrafts (21.2)	576,782,652	-	576,782,652	399,098,632	-	399,098,632
Finance Leases (18.2)	16,549,515	103,283,630	119,833,145	28,770,097	118,038,328	146,808,425
	608,854,123	127,417,201	736,271,324	440,401,880	143,104,631	583,506,511

18.1 Bank Loan

	As at 01.01.2015 Rs.	New Loans Obtained Rs.	Repayments Rs.	As at 31.12.2015 Rs.
Bank of Ceylon	37,599,454	24,488,000	22,431,928	39,655,526
	37,599,454	24,488,000	22,431,928	39,655,526

18.2 Finance Leases

	As at 01.01.2015 Rs.	New Leases Obtained Rs.	Repayments Rs.	As at 31.12.2015 Rs.
Vallibal Finance PLC	4,483,059	-	2,561,748	1,921,311
Bank of Ceylon	186,344,136		55,054,657	140,985,577
Gross Liability	190,827,195	-	57,616,405	142,906,888
Finance Charges Allocated to Future Periods	(44,018,769)			(23,073,743)
Net Liability	146,808,426			119,833,145

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2015

19.	**RETIREMENT BENEFIT LIABILITY**	**2015 Rs.**	**2014 Rs.**
	As at the beginning of the period	412,697,156	396,335,846
	Interest Cost	38,174,487	43,596,943
	Liability established for Sevanagala Division	-	49,742,529
	Current service cost	28,209,201	28,200,599
	Benefit Paid	(34,046,693)	(46,040,698)
	Actuarial (Gain)/Loss	(15,465,840)	(59,138,063)
	As at the end of the period	429,568,312	412,697,156

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:

	2015	**2014**
Pelawatte Division		
Discount Rate	9%	9%
Rate of Salary Increase	2%	2%
Retirement Age	55 Years	55 Years
Sevanagala Division		
Discount Rate	9%	9%
Rate of Salary Increase	Fixed amount	Fixed amount
Retirement Age	55 Years	55 Years

20.	**TRADE AND OTHER PAYABLES**	**2015 Rs.**	**2014 Rs.**
	Trade Payables (20.1)	275,712,593	371,248,803
	Advances Received from customers	255,088,347	222,616,097
	Other Payables (20.2)	258,849,596	235,114,703
	Sundry Creditors including Accrued Expenses (20.3)	215,193,729	243,416,223
	Distilleries Company of Sri Lanka PLC	24,784,659	24,784,659
	Recovered from Farmers	59,822,499	58,960,321
		1,089,451,423	1,156,140,806
20.1	**Trade Payables**		
	Trade Creditors	275,712,593	371,248,803
		275,712,593	371,248,803
20.2	**Other Payables**		
	VAT Payable	47,443,513	95,869,924
	NBT Payable	211,406,083	139,244,780
		258,849,596	235,114,703
20.3	**Sundry Creditors including Accrued Expenses**		
	Sundry Creditors	139,718,036	128,663,832
	Accrued Expenditure	75,475,693	114,752,391
		215,193,729	243,416,223

21.	**CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT**		
	Components of Cash and Cash Equivalents	**2015 Rs.**	**2014 Rs.**
21.1	**Favorable Cash and Cash Equivalents Balances**		
	Cash and Bank Balances	43,492,326	6,851,025
21.2	**Unfavorable Cash and Cash Equivalent Balances**		
	Bank Overdrafts	(576,782,652)	(399,098,632)
	Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement	(533,290,327)	(392,247,607)

Lanka Sugar Company (Private) Limited

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Year ended 31 December 2015

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	Overdraft facility of A/C No 73947899 Bank Of Ceylon	290,190,538	Investment
Fixed Deposits	Overdraft facility of A/C No 75751012 Bank Of Ceylon	230,621,762	Investment
Fixed Deposits	Lease facility for overhead Crane	30,000,000	Investment
Fixed Deposits	Bank Loan facility (from Sampath bank Buttala)	17,000,000	Investment
Fixed Deposits	Term Loan - Bank of Ceylon	45,000,000	Investment
Fixed Deposits	Permanent Overdraft - Peoples Bank	200,000,000	Investment

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 Amounts due from Related Parties

	2015 Rs.	2014 Rs.
Ministry of Plantation Industries	1,102,344	-
Receivable from Kanthale Sugar Industries	6,831,204	-
Receivable from Hingurana Sugar Industries	1,115,789	-
Ministry Of Sugar Industry Receivable	3,453,231	-
SSP Project - Badulla	6,665,725	-
	19,168,293	-

25.2 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	2015 Rs.	2014 Rs.
Directors Fee	465,000	465,000

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

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 2015

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	576,782,652	11,424,627	20,646,843	127,417,201
Trade and other payables	1,089,451,423			
	1,666,234,075	11,424,627	20,646,843	127,417,201

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	736,271,323
Trade and Other Payables	1,089,451,423
Less: Cash and Cash Equivalents	(43,492,326)
Net Debt	1,782,230,420
Equity	3,925,346,283
Total Capital	3,925,346,283
Gearing ratio	31.23%

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

Lanka Sugar Company (Private) Limited - Pelwatte Division

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2015

	2015 Rs.	2014 Rs.
Revenue	3,317,289,592	3,390,606,266
Cost of Sales	(3,734,267,629)	(3,344,943,015)
Gross Profit	(416,978,037)	45,663,251
Other Income and Gains	468,800	570,178
Administrative Expenses	(434,912,710)	(475,042,187)
Finance Cost	(63,428,868)	(33,085,872)
Finance Income	91,630,486	112,113,436
Profit / (Loss) before tax	(823,220,328)	(349,781,194)
Income Tax Reversal / (Expense)	(11,312,770)	69,811,840
Profit / (Loss) for the year	(834,533,098)	(279,969,355)
Other Comprehensive Income for the period, net of tax		
Actuarial Gain	16,473,290	59,138,063
Total Comprehensive Income for the period, net of tax	(818,059,808)	(220,831,292)

Lanka Sugar Company (Private) Limited - Pelwatte Division

STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

ASSETS	2015 Rs.	2014 Rs.
Non-Current Assets		
Property, Plant and Equipment	2,028,417,311	2,176,080,357
Deferred Tax Asset	73,771,220	73,771,220
	2,102,188,531	2,249,851,576
Current Assets		
Inventories	784,257,354	921,217,494
Biological Assets	624,198,372	428,018,378
Trade and Other Receivables	31,860,636	33,303,351
Advances and Prepayments	33,358,978	66,218,337
Loans Due from Farmers	521,623,644	611,184,178
Amounts Due from Related Parties	824,135	3,277,329
Investments	567,812,300	965,873,465
Cash and Cash Equivalents	16,433,671	1,026,597
	2,580,369,091	3,030,119,128
Total Assets	4,,682,557,621	5,279,970,704
EQUITY AND LIABILITIES		
Capital and Reserves		
Government Grant	3,468,770,753	3,468,770,753
Accumulated Profit	(743,541,266)	74,518,542
Total Equity	2,725,229,486	3,543,289,295
Non-Current Liabilities		
Retirement Benefit Liability	371,205,283	360,484,281
Interest Bearing Loans and Borrowings	99,639,259	76,904,850
	470,844,543	437,389,131
Current Liabilities		
Interest Bearing Loans and Borrowings	476,393,218	286,285,419
Trade and Other Payable	718,710,110	759,024,297
Income Tax Payable	235,586,004	224,273,234
Amounts Due to Related Parties	55,794,259	29,709,328
	1,486,483,591	1,299,292,278
Total Equity and Liabilities	4,682,557,621	5,279,970,704

Lanka Sugar Company (Private) Limited - Pelwatte Division

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Government Grant Rs.	Retained Earnings/(Loss) Rs.	Total Rs.
As at 01 January 2014	3,468,770,753	345,307,277	3,814,078,030
Profit 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	3,468,770,753	74,518,542	3,543,289,295
Loss for the year		(818,059,808)	(818,059,808)
Dividends paid			-
Total Other Comprehensive Income for the year, net of tax			-
As at 31 December 2015	3,468,770,753	(743,541,266)	2,725,229,486

Lanka Sugar Company (Private) Limited - Pelwatte Division

STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	2015	2014
Cash Flows From / (Used in) Operating Activities	**Rs.**	**Rs.**
Profit / (Loss) before Taxation	(823,220,328)	(349,781,194)
Adjustments for,		
Depreciation	212,914,430	197,851,435
Finance Income	(91,630,486)	(112,113,436)
Finance Cost	63,428,868	33,085,872
Provision for slow moving inventory	635,864	8,194,045
Provision for Loans from Farmers		
Provision for Retirement Benefit Liability	58,747,432	69,327,196
Operating Profit/(Loss) before Working Capital Changes	(579,124,220)	(153,436,082)
(Increase)/Decrease in Inventories	(59,219,855)	282,602,407
(Increase)/Decrease in Trade and Other Receivables	34,302,074	(2,327,259)
Increase in Loans Due from Farmers	88,924,670	(100,439,006)
Decrease in Amounts Due from Related Party	2,453,194	3,007,753
Increase/(Decrease) in Amounts due to Related Parties	26,084,931	-
Increase/(Decrease) in Trade and Other Payables	(40,314,187)	(145,180,378)
Net Cash From Operating Activities	(526,893,393)	(115,772,566)
Finance Cost Paid	(63,428,868)	(33,085,872)
Retirement Benefit Liability Paid	(31,553,140)	(46,040,698)
Net Cash From/ (Used in) Operating Activities	(621,875,400)	(194,899,136)
Cash Flows From / (Used in) Investing Activities		
Acquisition of Property, Plant and Equipment	(65,251,384)	(178,829,391)
(Investments)/Withdrawals in/of Fixed Deposits	398,061,165	38,029,492
Finance Income Received	91,630,486	112,113,436
Net Cash Flows Used in Investing Activities	424,440,268	(28,686,464)
Cash Flows From / (Used in) Financing Activities		
Dividends paid	-	(49,957,443)
Financing obtained during the period	24,488,000	-
Principle Payments under Finance Lease Liabilities	(15,317,869)	(10,144,011)
Bank Loan Capital Payment	(3,548,361)	
Net Cash Flows Used in Financing Activities	5,621,770	(60,101,454)
Net Increase/(Decrease) in Cash and Cash Equivalents	(191,813,363)	(283,687,053)
Cash and Cash Equivalents at the beginning of the year	(268,146,184)	15,540,870
Cash and Cash Equivalents at the end of the year	(459,959,546)	(268,146,184)

Lanka Sugar Company (Private) Limited - Sevanagala Division

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2015

	2015 Rs.	2014 Rs.
Revenue	1,564,348,130	2,148,699,057
Cost of Sales	(1,331,089,456)	(1,562,583,513)
Gross Profit	233,258,673	586,115,544
Other Income and Gains	59,030,632	57,371,546
Finance Income	26,263,013	48,395,240
Administrative Expenses	(532,333,982)	(529,654,378)
Finance Cost	(17,035,843)	(16,961,375)
Profit/(Loss) before tax	(230,817,507)	145,266,577
Income Tax Expense	(3,547,936)	(9,635,865)
Profit/(Loss) for the year	(234,365,443)	135,630,712
Other Comprehensive Income		
Other Comprehensive Income for the year, net of tax	-	-
Total Comprehensive Income/(Loss) for the year, net of tax	(234,365,443)	135,630,712

Lanka Sugar Company (Private) Limited - Sevanagala Division

STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	2015	2014
ASSETS	**Rs.**	**Rs.**
Non-Current Assets		
Property, Plant and Equipment	560,696,193	603,005,184
Deferred Tax Asset	12,295,435	12,295,435
	572,991,628	615,300,619
Current Assets		
Inventory	642,147,569	562,373,109
Allotees/Farmers Receivables	316,262,601	318,978,304
Amounts Due from Related Parties	112,252,942	70,147,921
Advances and Prepayments	18,097,253	64,821,348
Other Receivable	55,826,098	9,398,189
Investment in Fixed Deposits	320,026,000	745,000,000
Cash and Cash Equivalents	23,549,702	4,656,787
	1,488,162,165	1,775,375,658
Total Assets	2,061,153,793	2,390,676,277
EQUITY AND LIABILITIES		
Capital and Reserves		
Government Grant	579,220,441	579,310,441
Retained Earnings	622,936,302	857,301,744
Total Equity	1,202,156,743	1,436,612,185
Non Current Liabilities		
Retirement Benefit Liability	58,363,029	52,212,875
Interest Bearing Loans and Borrowings	33,941,954	59,083,782
	92,304,983	111,296,657
Current Liabilities		
Interest Bearing Loans and Borrowings	126,296,893	148,075,179
Trade and Other Payables	368,817,447	396,662,465
Income Tax Payable	271,577,727	298,029,791
	766,692,067	842,767,435
Total Equity and Liabilities	2,061,153,793	2,390,676,277

Lanka Sugar Company (Private) Limited - Sevanagala Division

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Government Grant Rs.	Retained Earnings Rs.	Total Rs.
As at 01 January 2014	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	-	(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
Profit for the year	-	(234,365,442)	(234,365,442)
Revaluation of Plant and Machinery	-	-	-
Dividends paid during the year	-	-	-
Paid by Company on behalf of previous owner	(90,000)	-	(90,000)
As at 31 December 2015	579,220,441	622,936,302	1,202,156,743

Lanka Sugar Company (Private) Limited - Sevanagala Division

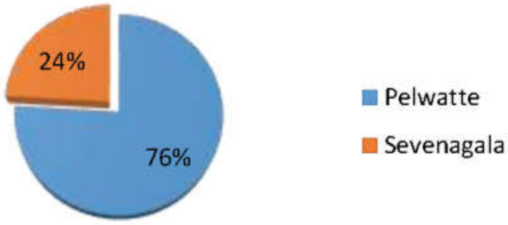
STATEMENT OF CASH FLOWS

Year ended 31 December 2015

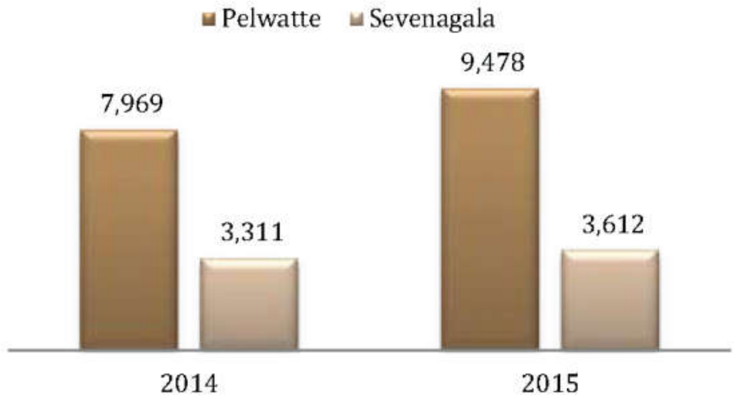
Cash flows From Operating Activities	**2015 Rs.**	**2014 Rs.**
Profit before Taxation	(230,817,506)	145,266,577
Adjustments for,		
Depreciation	91,402,301	76,483,167
Finance Income	(26,263,013)	(48,395,240)
Finance Cost	17,035,843	16,961,375
Bad Debts	-	1,919,319
Provision for Retirement Benefit Liability	6,150,154	52,212,875
Operating Profit/(Loss) before Working Capital Changes	(142,492,223)	244,448,073
(Increase)/Decrease in Inventories	(79,774,460)	(121,487,153)
Increase in Trade and Other Receivables	3,011,888	(65,522,538)
Increase in Amounts due from Related Parties	(42,105,021)	(17,412,464)
Increase/(Decrease) in Trade and Other Payables	(27,845,018)	120,736,580
Decrease in Amounts due to Related Parties	-	-
Finance Cost Paid	(17,035,843)	(16,961,375)
Income tax paid	(30,000,000)	-
Net Cash From Operating Activities	(336,240,675)	143,801,123
Cash Flows From Investing Activities		
Acquisition of Property, Plant and Equipment	(49,093,310)	(57,328,672)
Proceeds from the sale of Property, Plant and Equipment	-	3,771,000
Net Investment in Fixed Deposits	424,974,000	(200,000,000)
Finance Income Received	26,263,013	48,395,240
Repayment of Government Grant	(90,000)	(774,983)
Net Cash Flows Used in Investing Activities	402,053,704	(205,937,415)
Cash Flows From Financing Activities		
Repayment of Interest Bearing Loans and Borrowings	(8,209,567)	(7,374,248)
Principle Payment under Finance Lease Liabilities	(11,657,413)	(8,543,105)
Payment of Dividends	-	(30,042,557)
Net Cash Flows From/ (Used in) Financing Activities	(19,866,980)	(45,959,910)
Net Increase/(Decrease) in Cash and Cash Equivalents	45,946,049	(108,096,202)
Cash and Cash Equivalents at the beginning of the year	(122,785,782)	(14,689,580)
Cash and Cash Equivalents at the end of the year	(76,839,733)	(122,785,782)

Graphical Presentation

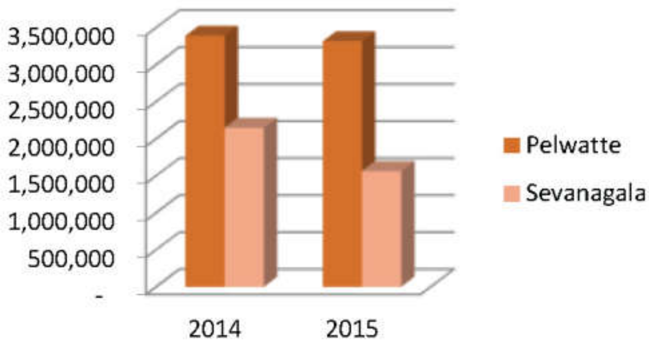
Cultivable Extent (Ha)



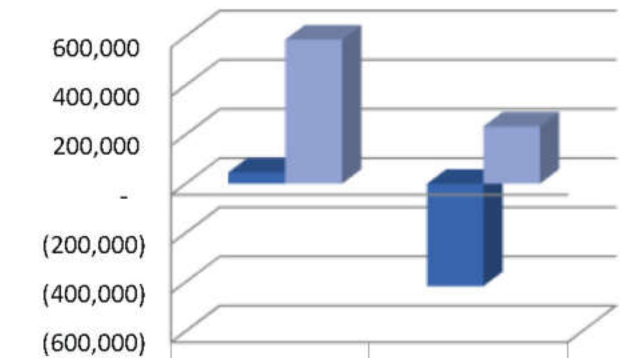
Extent Cultivated (Ha)



Segment Turnover (Rs.Million)

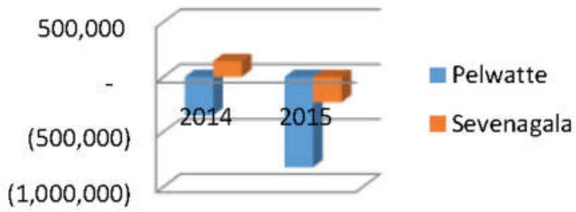


Segmental Gross Profit (Rs.Million)



	2014	2015
Pelwatte	45,663	(416,978)
Sevenagala	586,116	233,259

Net Profit before Tax (Rs.Million)



Progress Report - 2015

INDUSTRY OVERVIEW

Globally, sugar prices had drastically dropped in the year, 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 seller 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. 90/= per kg and demand for Ethanol drastically dropped during the year 2015 compared to the year 2014.

OUR CONTRIBUTION TO THE NATIONAL ECONOMY

2015 was indeed challenging with many macro and micro economic factors affecting the performance. During 2015, company managed to increase sugar cane yield per hectare from 39.38 MT to 59.95 MT, though the sugar recovery rate dropped from 7.90% to 7.53%.

Even though, environmental conditions affected badly on the industry, the company was able to produce 42,984 MT of sugar during the year, 72% of the domestic sugar requirement. It was 7% of local sugar production.

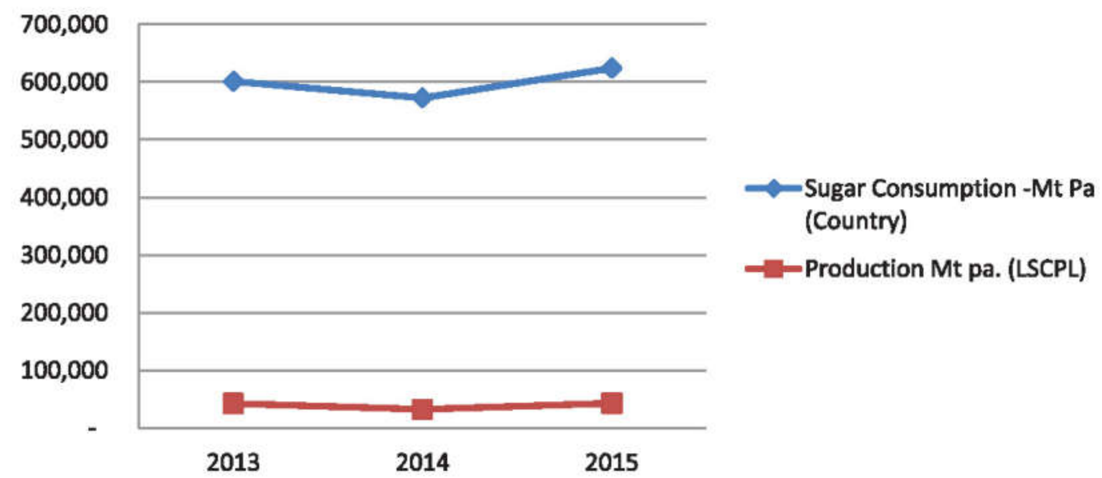
The country's sugar production has increased with the increase of sugar production in our pelwatte unit by 53.7% and Sevanagala Unit by 6.75%. However, 7% of the country's demand for sugar was catered during the year and the company's projection for the next year is 52,000 MT and it is 8% of the country's annual demand.

OUR CONTRIBUTION TO THE NATIONAL ECONOMY (PROJECTED)

Description	2013	2014	2015
Sugar Consumption -Mt Pa (Country)	601,061	572,342	680,057
Production Mt pa. (LSCPL)	42,548	32,364	42,984
Contribution to the Economy	7.08%	5.66%	7%

Sugar production in the country is lesser than the country's requirement and the 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

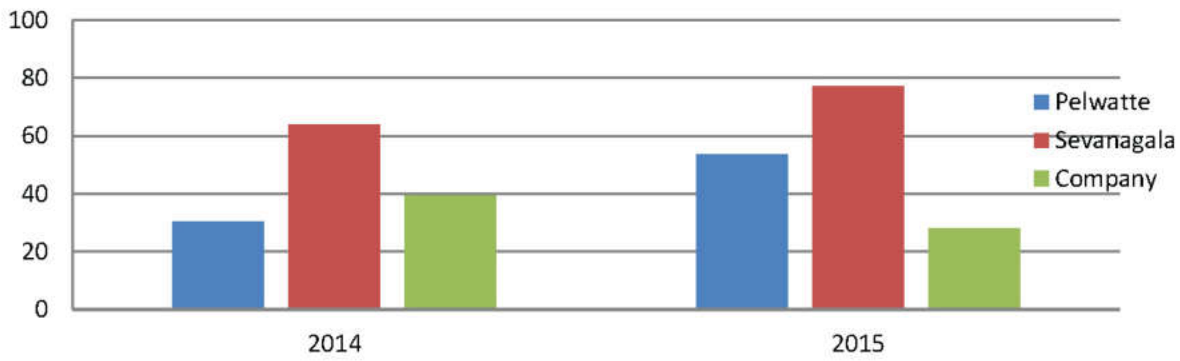


Yield per Hectare (MT)

Division	2014	2015
Pelwatte	30.25	53.63
Sevanagala	64.01	77.02
Company	39.38	59.95

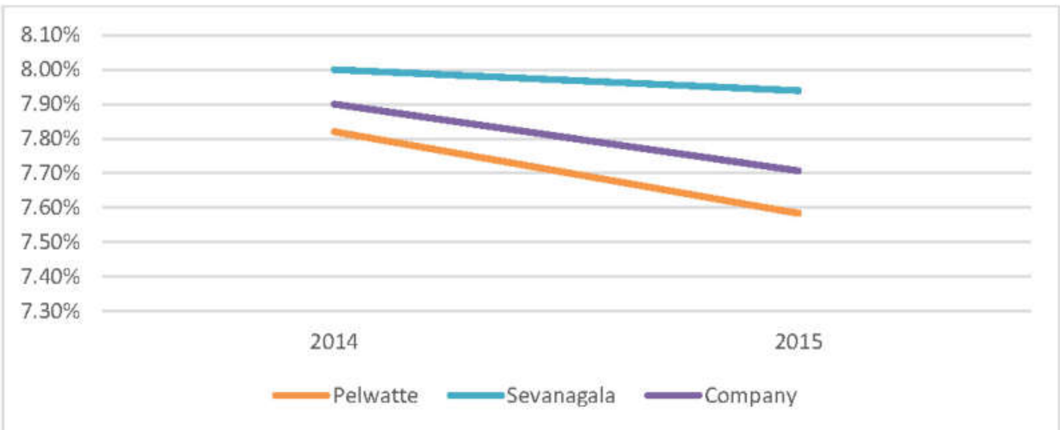
Even though bad weather conditions prevailed during the year, company has maintained cane yield at a satisfactory level in both the divisions. As a result, total cane supply has increased.

Yield per Hectare (MT)



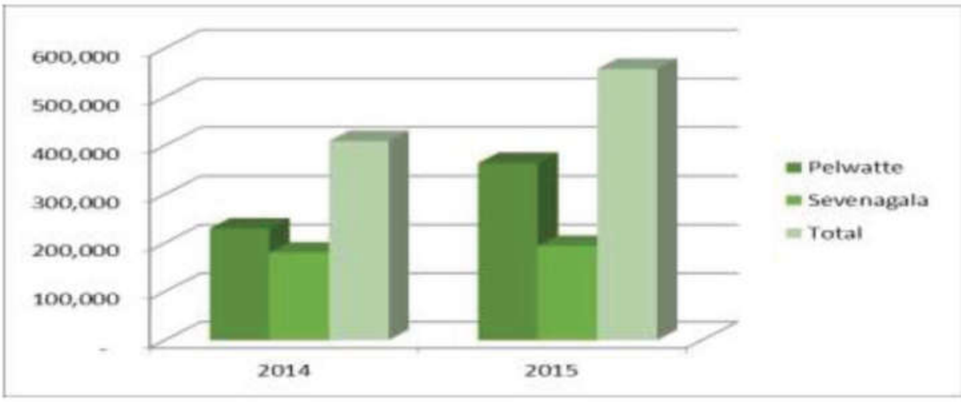
Sugar Recovery Ratio (Mt/Cane)

Division	2014	2015
Pelwatte	7.82%	7.58%
Sevanagala	8.00%	7.43%
Company	7.90%	7.53%



2014	2015	Cane supply
229,582	364,123	Pelwatte
180,941	193,624	Sevenagala
410,523	**557,747**	**Total**

Cane Supply (MT)



Company Performance

During the Financial year under review, the company recorded Rs. 1,052.44 million operating loss before tax. It is Rs. 211 Million in the year 2014. Decline in the production volume of Ethanol and drop of selling price of sugar, which is a result of import of sugar in high volume at low prices collectively contributed for the drop of profitability. Salary increases of employees by Rs.10,000/- per employee as per government circular also affected adversely on the profitability.

Year (Rs.Million)	2014	2015
Turnover	5,539.31	4,881.64
Gross profit	635.25	(183.72)
Net profit/(loss) before Tax	(211.01)	(1,052.44)

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
Auditor General's Department
306/72, Polduwa Road,
Battaramulla

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 Karunarathne - 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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27, මෙල්බෝර්න් ඇවනිව්, කොළඹ 4, ශ්‍රී ලංකාව. දුරකථනය: 94 11 523 258 ෆැක්ස්: 94 11 250 0674 ඊ මේල්: infosugarsrilanka@gmail.com

லங்கா சீனி கம்பெனி (பிரைவேட்) லிமிட்டட்

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