Lanka Sugar Company (Private) Limited.

ANNUAL REPORT 2016

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The beginning of a journey to
sweet success

CONTENTS

Our Philosophy

To Contribute to the 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 2019)

1). Achieve 50,000 Mt of sugar production
2). To support 15,000 farmer families
3). To provide 50,000 indirect employments
4). To increase the Net income up to Rs. 35,000 per month of a Farmer Family
5). To contribute 15% of national sugar requirement
6). Achieve Rs.1 Billion Net Profit
7). To save 15 Billion rupees worth of Foreign Exchange
8). Co-generate 45 MW of Power

MISSION 555 - LONG TERM - (5 Years by 2021)

1). Achieve 75,000 Mt of Sugar Production
2). To support 20,000 Farmer Families
3). To provide 60,000 indirect employments
4). To increase the Net income up to Rs. 35,000 per month of a Farmer Family
5). To produce 40% local sugar requirement
6). Achieve Rs. 2 Billion Net Profit
7). To save 20 Billion rupees worth of Foreign Exchange
8). Co-generate 60 MW Power

Strategies

1). Our grower based growing model for a Win-Win business partnership.
2.) Yield improvement with high yielding verities, better agricultural practices with an efficient extension service and ensuring better returns to farmers.
3). Farmer motivation through quantity and quality productivity incentives.
4). 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 Sugar Research Institute of Sri Lanka.

Corporate Social Responsibility

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

Fertile richness for
sweet success

Lanka Sugar Company (Private) Limited
FINANCIAL & OPERATIONAL HIGHLIGHTS - 2016

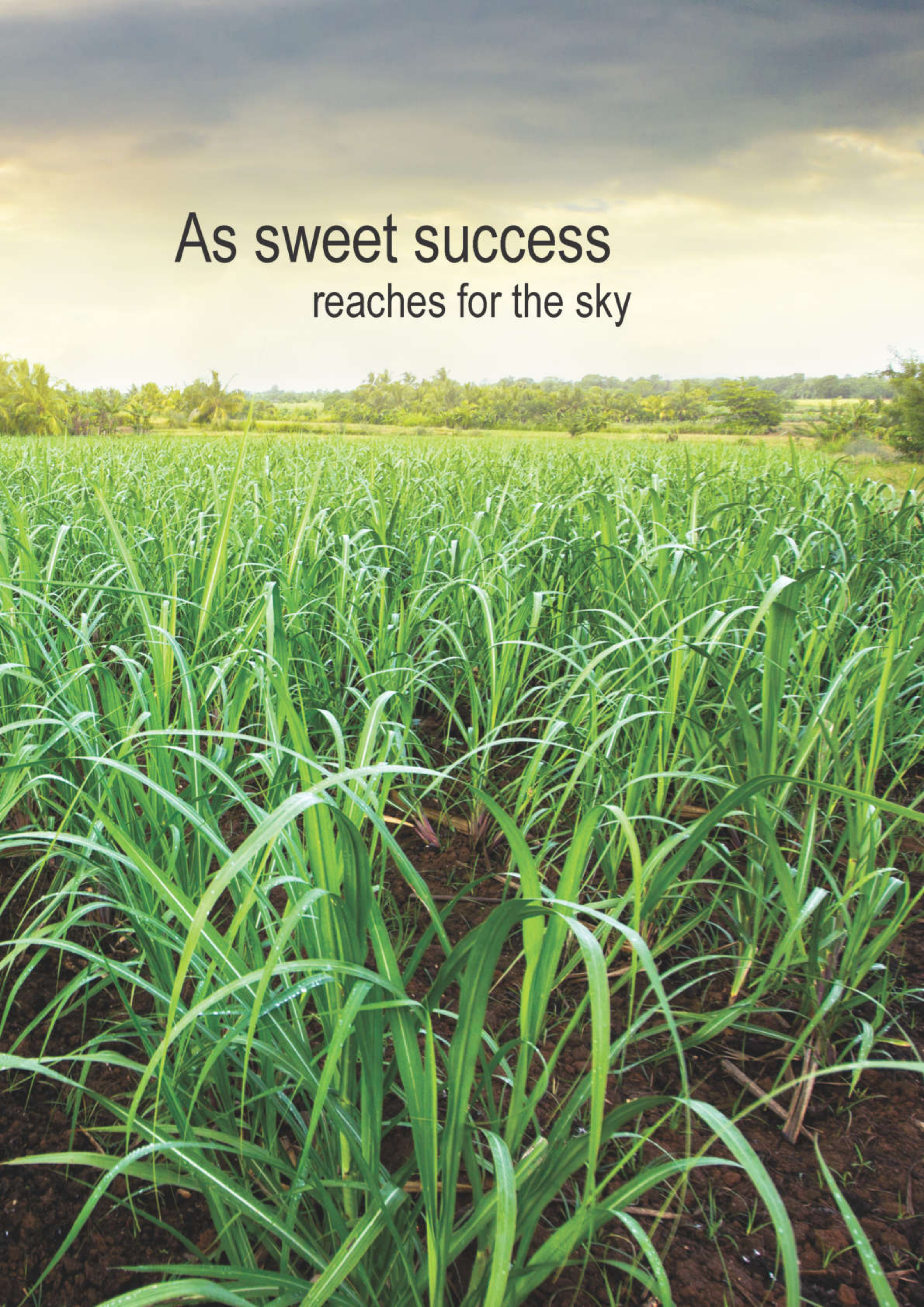
(Figures are in Rupees Million)	2016	2015	2014
Financial Highlights			
Turnover	7,728.89	4,881.64	5,539.31
Cost of Sales	5,547.83	(5,065.36)	(4,904.06)
Gross profit	2,181.06	(183.72)	635.25
Net Profit before tax	1,006.28	(1,052.40)	(211.01)

Operational Performance	2016	2015	2014
Land cultivation			
Cultivable (Hectare)	17,499	17,499	17,499
Area Cultivated (Hectare)	13,022	12,226	11,280
Area Cultivated %	74%	70%	64%

Harvesting programme	2016	2015	2014
Cane harvested (MT)	651,094	557,747	409,582
Percentage of Increase/ (Decrease) over last year	16%	36%	(20%)
Sugar Recovery Rate	7.89%	7.53%	7.90%

Sugar Production	2016	2015	2014
Production in Metric Tonnes	51,422	42,984	32,364
Tonnage Per Head Per Annum	10.49	6.32	6.17

Human Resource	2016	2015	2014
Permanent	1,429	1,488	1,557
Contract	1,176	510	492
Casual	1,731	3,129	2,645
Seasonal	527	-	510
Trainees	37	-	40
Total	4,900	5,127	5,244


As sweet success
reaches for the sky

Chairman's Statement

On behalf of the Board of Directors, I am pleased to submit the annual Report together with Financial Statement for the year ended 31st December 2016 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. Due to adverse conditions, sugar cane yield per hectare has decreased from 59.95 metric tons to 53.19 metric tons, but sugar recovery rate increased from 7.71% to 7.89%, making a positive impact on the production volume.

The Economic Environment

In 2016, the Sri Lankan economy grew by 4.4% in real terms compared to 4.8% in 2015, amidst numerous global and domestic challenges. Unfavourable weather conditions that prevailed during the year adversely impacted economic activity, primarily in the Agriculture, telecommunications, as well as transportation, and wholesale and retail trade. Industry related activities, which account for 26.8% of real GDP, recorded a notable growth of 6.7%, year-on-year, driven by the subsectors of construction and mining and quarrying. Within the Industry sector, the growth in manufacturing activities was low at 1.7%. Agriculture, Forestry and Fishing-related activities contracted by 4.2% in 2016, resulting in a reduction in their share in real GDP to 7.1% in 2016. Adverse weather conditions that prevailed in 2016 resulted in a contraction, mainly in paddy, tea and rubber subsectors.

Industry Overview

Sugar production recorded a considerable increase in production during 2016. Sugar production that rose remarkably to 55,972 metric tons in 2015, recorded a further increase of 10.9 per cent to 62,048 metric tons in 2016. Cultivation of high yielding sugar cane varieties, access to proper irrigation systems and field maintenance, and the expansion in planting activities of out-growers were the main contributory factors to the increased production in 2016.

In 2016, an upward trend in the price of sugar was evidenced in the world market. Therefore, the local market price of sugar increased up to Rs.120 per kg in the middle of the year. Accordingly, the Government imposed the MRP of sugar as Rs. 95/-for kg by reducing the Special Commodity Levy (SCL) in order to maintain a reasonable retail price in the local market. However, the world market price declined in the latter part of the year and the SCL was adjusted from time to time to convert the world market price gain for Government revenue while maintaining a reasonable MRP. Import of sugar has also increased compared to the previous years

Company Performance

During the financial year under review, the Company recorded revenue amounting to Rs. 7,729 Million compared to the revenue of Rs. 4,882 Million recorded in the previous year. The Company recorded Rs.1,006 Million operating profit before tax for the year 2016, it is a very significant improvement compared to operating loss before tax of Rs. 1,051 Million recorded in the year 2015. Sugar production has increased from 42,984 metric tons in the year 2015 to 51,422 metric tons in the year 2016. Also, it is 83% of local sugar production. ENA production has also increased from 7,317,351 liters in the year 2015 to 11,917,279 liters in the year 2016, as a result, ENA revenue has increased by Rs. 2,057 Million during the year. Total revenue has increased by Rs. 2,847 Million in the year, while cost of sale has increased by Rs. 484 Million. Administrative expenses have increased by Rs. 358 Million. Finance income has increased by Rs. 33 Million during the year while finance cost has decreased by Rs. 8 Million.

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 are 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 a definite commodity market. The management 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 better results.

Acquiring new lands and increasing productivity of our own plantation are also important. In addition to the main product, we are focusing on development of by products to reap the maximum benefits of the operation.

Appreciation

I would like to express my sincere thanks to the Board of Directors, the Management and the staff of the company for their efforts and valuable contribution made during the year 2016 and in the past.

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

At last, but not 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

Dear All the Stake Holders,

Business Environment

Year 2016 delivered satisfactory results for the company resulting in positive impact for the financials. Even though adverse weather conditions prevailed during the year, sugar production increased by 8,438 metric tons and ENA production also increased significantly during the year. During the year 2016, the company was able to maintain an average selling price at LKR 95/- per kilogram for Sugar and LKR 300/- per liter for ENA. The above factors resulted in a total profit of Rs. 1,006 Mn for the company. This is the first time the Company was able to make profits after the year 2013.

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 in the previous year. 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 includes 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 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 an 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.

Mohamed Sheriffdeen Mohamed Fouzer
Director / Chief Executive Officer

Risk Management

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


Bright smiles,
sweet success

Our Culture & Values

OUR FARMERS

The farmer is our king. Lanka Sugar Company believes that the farmers are one of the major and most important stakeholders of the company. This is a critical factor in Sevanagala as they have only a limited area of land for their own cultivation as almost whole 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 who were engaged in sugar cane cultivation in many areas had a low level of income. This situation discouraged the farmers to be in this industry, instead they were moving out for other cultivations. Lanka sugar identified this 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 metric tons of cane whereas it was Rs 4,200/= per metric tons earlier. Thus, by now, LSCPL is the highest payer for Metric Ton of sugar cane in the history of sugar cane cultivation.

OUR CUSTOMER

Our customer is our hope. Over 20 million of our population is our customers. Providing them with quality and healthy sugar at reasonable price is our prime purpose. Per capita sugar consumption of a Sri Lankan per year is between 30 kg to 35 kg. As our production capacity remains at a low rate of 8%, the balance 92% has to be imported. More than 250 million US Dollars is spent annually for the importation of sugar. This is a major negative impact on our economy.

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 Chairman. Audit Committee which consists of three board members 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 land is 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 investments is another issue that is on our way. Most of the Banks want significant assets to be fledged when applying for loans, but, the ownership of the lands of Pelwatte and Sevanagala is not with Lanka Sugar Company (Private) limited. However we are in the process of arranging funds with the assistance of the General 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, 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.

Audit Committee Report

The Members of the Audit Committee of the company are appointed by the Board of Directors. The Audit Committee comprises of three 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 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 2016, 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


The clear route to
sweet success

Board of Directors

CHAIRMAN
Mr. Navin Adikarama

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

DIRECTOR
Mr. T.V. Weerasena

DIRECTOR
Dr. Nihal Samarappuli

DIRECTOR
Mr. U.P.P. Kavikeshawa

DIRECTOR
Mr. A.H.M. Alawi

DIRECTOR
Mr. Aruna Chathuraka Keerthiratne

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 Sheriffdeen Mohamed Fouzer

Mr. Mohamed Sheriffdeen Mohamed Fouzer is Director/Chief Executive Officer of Lanka Sugar Company (Private) Limited and is graduated from University of Middlesex (UK) and obtained Master of Business Administration (MBA) from University of Wolverhapton (UK). He is a marketer by profession.

- Master of Business Administration (MBA) , University of Wolverhapton (UK)
- BA (Hons) in Business Administration, University of Middlesex (UK)
- BTEC HND in Business Administration, Edexcel (UK)
- Diploma in Marketing Management , National Institute of Business Management (NIBM)

Professional Experience

- Director/Chief Executive Officer, Lanka Sugar Company (Private) Limited
- Chief Operations Officer. BCAS Campus
- Consultant – Marketing & Communication, Paradise Farm (Pvt) Ltd

BOARD OF DIRECTORS

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
- Charted Finalist
- Diploma in Professional English – SLIDA
- Diploma in Business Studies – Technical College

Dr. Nihal Samarappuli – B.Sc. (Special Degree in Agriculture). MSc. (Agriculture 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 Qualifications

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

Mr. U.P.P. Kavikeshawa

Mr. U.P.P. Kavikeshawa is an Engineer by profession and retired Commissioned Officer in Sri Lanka Army. He holds a Bachelor of Science degree from the University of Colombo. He is also a fellow of the Institution of Incorporated Engineers, Sri Lanka (IIESL) and a member of the Organization of Professional Association of Sri Lanka (OPA).

Mr. A.H.M. Alawi

Mr. A.H.M. Alawi serves as a member of the Board of Directors of Lanka Sugar Company (Pvt) Ltd representing the Ministry of Industry and Commerce.

Mr. Aruna Chathuraka Keerthiratne

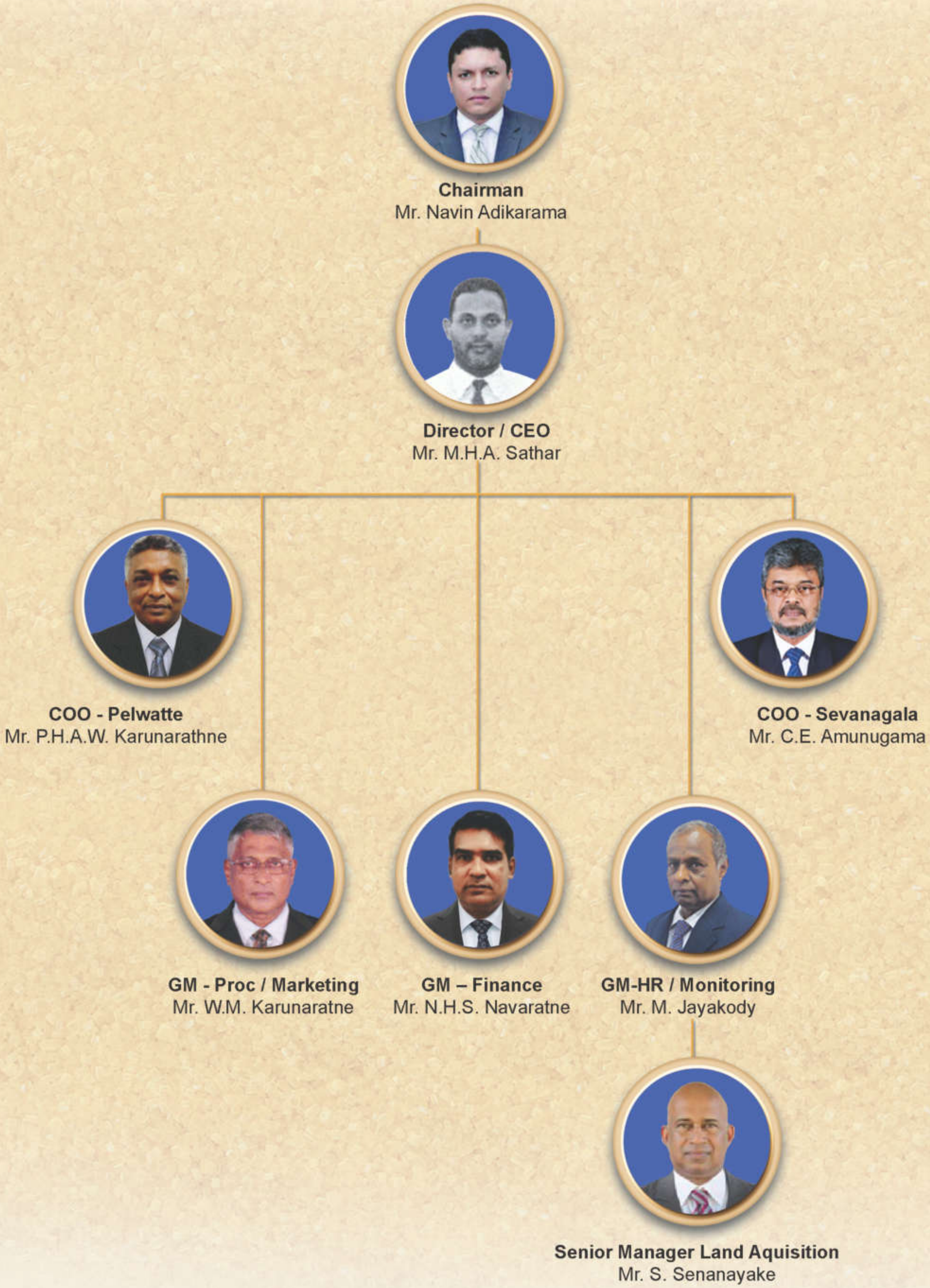
Mr. Aruna Chathuraka Keerthiratne is an IT Professional and is the Managing Director of NHK Holdings (Pvt) Ltd. He is the Young Entrepreneur of the year 2012 (National Winner and Sabaragamuwa Province) awarded by FCCISL.

Professional Experience

- NHK Holdings (Private) Ltd , Managing Director
- Lanka Sugar Company (Private) Limited, Director
- NSBM Green University Town , Consultant – Landscaping
- Represented as a delegate to Caaye Young Entrepreneur Summit 2012 ,2013 & 2014

Delivery time for sweet success

Senior Management Team & Head Office Organization Structure



Organization Structure - Pelwatte

- COO
  - DGM - Agriculture
    - MGR – Agriculture
    - MGR - ISFO
    - MGR - Agronomy
    - MGR – Nuclear Estate
    - MGR - Settler
    - MGR - Buying Section
    - MGR – Land Development
  - DGM - Factory
    - MGR -Factory Admin
    - MGR - Engineering
    - MGR - Production
    - MGR - Laboratory
    - MGR - Quality Control
  - DGM -HR
    - MGR – HR Admin
    - MGR – Medical Centre
    - MGR – Training Centre
  - DGM -Finance
    - MGR -Finance Admin
    - MGR -FA/MA
    - MGR -Stores
    - MGR - Fuel Station
    - MGR - Purchasing Department
    - MGR - IT
  - DGM - Operations
    - MGR -Security
    - MGR Estate Protection
    - MGR – Swimming Pool
    - MGR – Guest, Club & Mangt. Complex
    - MGR – Agri Work Shop
  - DGM - Distillery
    - MGR – Distillery Admin
    - MGR - Factory

Pelwatte Management Team

First Row (From Left to Right) :

Ms. M.E. Kosgahakumbura (Management Accountant), Mr. D.N. Dayaratne (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)

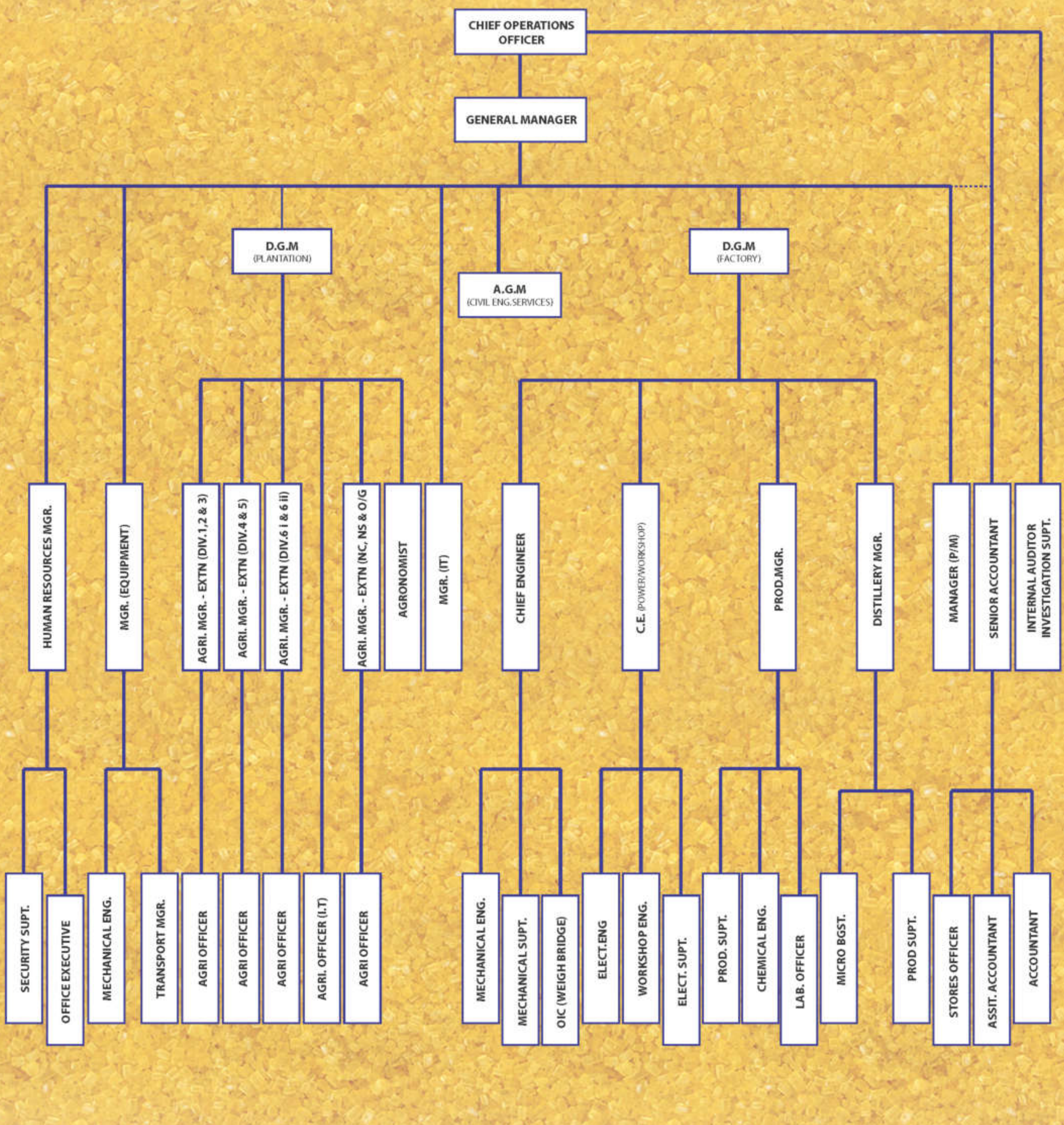
Second Row (From Left to Right) :

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 (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).

INDEPENDENT AUDITORS' REPORT

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கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය / எனது இல. / My No. PLA/D/LSC/01/16/01   ඔබේ අංකය / உமது இல. / Your No.   දිනය / திகதி / Date 11 January 2018

To the Shareholders of the,
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 2016

The audit of financial statements of the Lanka Sugar Company (Private) Limited ("the Company") for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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.

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.

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 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 Board, as well as evaluating the overall presentation of the financial statements.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka
+94-11-2887028-34   +94-11-2887223   oaggov@sltnet.lk   www.auditorgeneral.gov.lk

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

Basis for Qualified Opinion

(a) The net book value of the assets totaled Rs.760,763,929 which acquired from Distillery Section of the Pelwatta Factory in year 2012 had been taken in to the financial statements of the Company without being revalued. Further, overdue and unusable assets of the Sevanagala Factory had not been separately identified and accounted for. Hence, the value of assets shown in the financial statements for the year under review had not been fairly presented in the financial statements.

(b) Provisions for audit fees for the year under review had not been made in the financial statements.

(c) Stock items shown in negative value as Rs. 81,655,315 in the books of accounts of the Sevanagala Factory had been brought to the financial statements for the year under review instead of being brought the physically verified value of stocks.

(d) According to the calculations made by audit, the deferred tax liability was Rs. 153,121,987. However, it was shown in the financial statements as deferred tax assets of Rs. 92,167,028. Hence, the accuracy of the deferred tax shown in the financial statements could not be reliably accepted in audit.

(e) Age analysis for receivables from farmers amounting to Rs. 276,727,945 shown in the financial statements of the Sevanagala Factory had not been prepared and therefore, the accuracy of the provision for doubtful debts made thereon amounting to Rs. 6,286,560 could not be ascertained in audit.

(f) It is unable to verify the related party balance of Rs.19,168,293 due to non-submission of sufficient appropriate audit evidence.

(g) Details of adjustments made to the amalgamated financial statements had not been provided for audit in order to verify the accuracy and reliability of the balances shown in the amalgamated financial statements.

(h) Information relating to income tax computation had not been received to verify the provision for income tax amounting to Rs. 177,050,274 provided for the year under review.

(i) A proper cost accounting system had not introduced by the Company in order to calculate the factory production cost.

2

Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Lanka Sugar Company (Private) Limited as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by Section 163 (2) of the Companies Act No.07 of 2007, I state the followings:

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

(b) In my opinion:

- Except for the possible effects of the matters described in Basis for Qualified Opinion paragraph, I have obtained all the information and explanation that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company
- The financial statements of the Company comply with the requirement of Section 151 of the Companies Act No. 07 of 2007.

Report to Parliament

My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

W.P.C. Wickramaratne

Additional Auditor General
for Auditor General

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Lanka Sugar Company (Private) Limited
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Year ended 31 December 2016

	Note	2016 Rs.	2015 Rs.
Revenue	4	7,728,890,324	4,881,637,722
Cost of Sales		(5,547,832,698)	(5,065,357,085)
Gross Profit		2,181,057,626	(183,719,363)
Other Income and Gains	5	70,303,481	60,227,606
Administrative Expenses		(1,324,448,473)	(966,088,073)
Finance Cost	6	(72,092,275)	(80,753,493)
Finance Income	6	151,467,371	117,893,499
Profit/(Loss) before tax	7	1,006,287,730	(1,052,439,824)
Income Tax Expense	8	(177,050,274)	(14,860,706)
Profit/(Loss) for the year		829,237,456	(1,067,300,530)
Other Comprehensive Income for the period, net of tax		43,835,935	16,473,290
Total Comprehensive Income/ (Expense) for the period, net of tax		873,073,391	(1,050,827,240)
Earnings/(Loss) Per Share	9	8,292,375	(10,673,005)

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

Lanka Sugar Company (Private) Limited
STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

ASSETS	Note	2016 Rs.	2015 Rs.
Non-Current Assets			
Property, Plant and Equipment	10	2,425,649,078	2,599,758,724
Deferred Tax Asset	8	92,167,028	85,517,789
		2,517,816,106	**2,685,276,513**
Current Assets			
Inventories	11	2,308,335,528	1,426,404,923
Biological Assets	12	483,138,155	624,198,372
Trade and Other Receivables	13	137,274,446	87,686,733
Advances and Prepayments		55,328,859	52,300,501
Loans Due from Farmers	14	849,260,043	837,886,245
Amounts due from Related Parties	25.2	19,168,293	19,168,293
Investments	15	1,327,464,946	910,838,300
Cash and Cash Equivalents	21	29,520,476	43,492,326
		5,209,490,746	4,001,975,694
Total Assets		**7,727,306,852**	**6,687,252,207**
EQUITY AND LIABILITIES			
Capital and Reserves			
Stated Capital	16	1,000	1,000
Government Grant	17	4,047,943,334	4,047,990,194
Accumulated Profits		750,427,480	(122,644,911)
Total Equity		**4,798,371,814**	**3,925,346,283**
Non-Current Liabilities			
Retirement Benefit Liability	19	428,339,414	429,568,311
Interest Bearing Loans and Borrowings	18	102,774,368	127,417,201
		531,113,782	556,985,512
Current Liabilities			
Interest Bearing Loans and Borrowings	18	589,950,651	608,854,123
Trade and Other Payables	20	1,502,591,653	1,089,451,423
Income Tax Payable		305,278,952	506,614,866
Amounts due to Related Parties		-	-
		2,397,821,256	2,204,920,412
Total Equity and Liabilities		**7,727,306,852**	**6,687,252,207**

General Manager - Finance

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

Director

Director

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

22 December 2017
Colombo

Lanka Sugar Company (Private) Limited
STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2016

	Stated Capital Rs.	Government Grant Rs.	Accumulated Profits Rs.	Total Rs.
As at 1 January 2015	1,000	4,048,080,194	924,011,372	4,972,092,566
Repayment of Government Grant	-	(90,000)	-	(90,000)
Revaluation of Plant and Machinery	-	-	-	-
Adjustment Entry in Head Office Balance Sheet			4,170,957	4,170,957
Dividends Paid	-	-	-	-
Loss 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
Repayment of Government Grant	-	-	-	-
Adjustment Entry in Head Office Balance Sheet		(46,860)	(1,000)	(47,860)
Paid by Company on behalf of previous owner	-	-	-	-
Profit for the year	-	-	829,237,456	829,237,456
Other Comprehensive Income			43,835,935	43,835,935
Total comprehensive income	-	-	873,073,391	873,073,391
As at 31 December 2016	1,000	4,047,943,334	750,427,480	4,798,371,814

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

Lanka Sugar Company (Private) Limited
STATEMENT OF CASH FLOWS
Year ended 31 December 2016

Cash flows From / (Used in) Operating Activities	**Note**	**2016 Rs.**	**2015 Rs.**
Profit/(Loss) before Taxation		1,006,287,730	(1,052,439,824)
Adjustments for,			
Depreciation	10	321,801,429	307,601,752
Loss on sale of property, plant and equipment		100,081	-
Finance Income	6	(151,467,371)	(117,893,499)
Finance Cost	6	71,992,194	80,753,493
Provision for Retirement Benefit Liability	19	69,730,649	67,391,139
Operating Profit before Working Capital Changes		1,318,444,712	(714,586,940)
(Increase)/Decrease in Inventories		(881,930,605)	57,185,679
Increase in Trade and Other Receivables		(52,616,071)	26,644,024
Decrease in Loans Due from Farmers		(11,373,798)	92,276,236
Increase/(Decrease) in Trade and Other Payables		413,140,230	(66,689,383)
Net Cash From Operating Activities		785,664,469	(605,170,384)
Income Tax Paid		(385,035,428)	(30,000,000)
Retirement Benefit Liability Paid	19	(27,123,616)	(34,046,693)
Net Cash Flows From Operating Activities		373,505,425	(669,217,077)
Cash Flows From/(Used in) Investing Activities			
Acquisition of Property, Plant and Equipment		(147,791,872)	(124,470,572)
Net (increase)/decrease in investments in Fixed Deposits		(416,626,646)	823,035,165
Investment in Biological Assets		141,060,217	(196,179,994)
Proceeds from the sale of Property, Plant and Equipment		-	9,488,000
Finance Income Received	6	151,467,371	117,893,499
Net Cash Flows Used in Investing Activities		(271,890,930)	629,766,099
Cash Flows From / (Used in) Financing Activities			
Loans/Finance Leases obtained		59,137,600	-
Loans settlements	18	(14,979,472)	2,056,073
Repayment of government grant	17	-	(90,000)
Principle payments under finance lease obligation	18	(40,450,309)	(26,975,280)
Interest paid	6	(71,992,194)	(80,753,493)
Dividends paid		-	-
Net Cash Flows Used in Financing Activities		(68,284,375)	(105,762,701)
Adjustment to Head Office Reserves		(47,860)	4,170,957
Net Increase/(Decrease) in Cash and Cash Equivalents		33,282,260	(141,042,721)
Cash and Cash Equivalents at the beginning of the year	21	(533,290,327)	(392,247,607)
Cash and Cash Equivalents at the end of the year	21	(500,008,067)	(533,290,327)

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

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2016

1. CORPORATE INFORMATION

1.1 General

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

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

1.2 Principal Activities and Nature of Operations

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

1.3 Date of Authorization for Issue

The financial statements of Lanka Sugar Company (Private) Limited for the year ended 31st December 2016 were authorized for issue, in accordance with a resolution of the Board of Directors on 22 December 2017

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 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 Statement of Cash Flows together with the Accounting Policies and Notes to the Financial Statements.

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

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

2.1.1 Statement of Compliance

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

2.1.2 Going Concern

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

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.2.1 Functional and Presentation Currency

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

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

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

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

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2016

2.2.2 Revenue recognition

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

Sale of Goods

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

Interest income

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

Gains and losses on Disposal of Assets

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

2.2.3 Taxation

Current Taxes

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

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

Sales tax

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

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

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

Deferred tax

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

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2016

2.2.4 Expenses

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

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

2.2.4.1 Borrowing Cost

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

2.2.4.2 Finance Cost

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

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

2.2.5 Property, Plant and Equipment

Owned Assets

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

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2016

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

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

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

Subsequent expenditure

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized in accordance with the de-recognition policy given below.

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

De-recognition

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

Depreciation

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

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

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

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

2.2.6 Inventories

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

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2016

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

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

2.2.7 Financial Instruments – initial recognition and subsequent measurement
i) Financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and receivables

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

Derecognition

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

* The rights to receive cash flows from the asset have expired
* The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either

(a) The company has transferred substantially all the risks and rewards of the asset, or
(b) The company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2016

ii) Impairment of financial assets

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

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

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

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

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

Financial liabilities

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2016

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 derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the profit or loss.

2.2.8 Cash and Cash Equivalents

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

2.2.9 Impairment of non- financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

2.2.10 Liabilities and Provisions

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

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

2.2.10.1 Employee Benefits

Defined contribution plan

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

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

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2016

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.

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

2.3 USE OF ESTIMATES AND JUDGEMENTS

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

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

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

Impairment of non-financial assets

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

Depreciation of Property, Plant and Equipment

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

Impairment of Receivables

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

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

(i) 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.

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

(ii) SLFRS 15 -Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

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 2016

4. REVENUE	2016 Rs.	2015 Rs.
Sales of Goods	7,728,890,324	4,881,637,722
	7,728,890,324	4,881,637,722

4.2 Revenue is derived from the following:		
Sugar	4,059,937,569	3,270,409,558
Molasses	738,750	333,950
ENA	3,668,214,005	1,610,894,214
	7,728,890,324	4,881,637,722

4.3 Segment Information

	Head Office Rs.	Pelwatte Division Rs.	Sevanagala Division Rs.	Elimination Rs.	Total Rs.
Segment Revenue	34,800,000	4,956,031,617	2,772,858,707	(34,800,000)	7,728,890,324
Segment Results					
Gross Profit /(Loss)	34,800,000	1,004,353,174	1,176,704,453	(34,800,000)	2,181,057,627
Other					
Capital Expenditure	1,542,408	95,150,712	75,335,621	-	172,028,741
Depreciation	2,686,529	213,624,656	105,333,340	-	321,644,525
Segment Assets					
Non Current Assets	9,244,106	1,955,123,142	546,799,617	-	2,511,166,864
Current Assets	40,070,368	3,226,128,979	2,036,193,531	(93,295,772)	5,209,097,106
Segment Liabilities					
Non Current Liabilities	-	432,026,712	99,087,066	-	531,113,778
Current Liabilities	50,672,267	1,522,530,980	733,820,629	(93,295,772)	2,213,728,103

5. OTHER INCOME AND GAINS	2016 Rs.	2015 Rs.
Other Service Income	40,274,918	59,915,306
Sundry Income	30,028,563	312,300
	70,303,481	60,227,606

6. FINANCE COST AND INCOME

6.1 Finance Cost		
Interest Expenses on Bank Loans	13,955,202	288,783
Interest Expenses on Bank Overdrafts	49,837,683	61,674,985
Finance Charges on Lease Liabilities	8,199,309	18,789,726
Loss on Disposal of Fixed Assets	100,081	-
	72,092,275	80,753,493
6.2 Finance Income		
Interest Income on Loans Due from Farmers	61,600,660	39,255,255
Interest Income on Fixed Deposits	89,538,596	78,636,482
Other Interest Income	328,115	1,763
	151,467,371	117,893,499

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2016

7. PROFIT BEFORE TAX

Stated after Charging	2016 Rs.	2015 Rs.
Included in Cost of Sales		
Employee Benefits including the following		
- Defined Contribution Plan Costs - EPF and ETF	176,489,982	195,715,532
Depreciation	270,717,322	268,013,210
Included in Administrative Expenses		
Employee Benefits including the following		
- Defined Benefit Plan Costs - Gratuity	36,000,000	67,391,138
- Defined Contribution Plan Costs - EPF and ETF	47,455,070	50,582,073
Depreciation	51,075,025	39,588,542
Audit Fees	850,000	928,701
Bad Debts on Farmers Loans	33,425,595	365,864

8. INCOME TAX EXPENSE/(REVERSAL)

	2016 Rs.	2015 Rs.
Current Income Tax	183,699,514	14,311,840
Deferred Tax Charge/ (Reversal) (Note 8.2)	(6,649,239)	548,866
	177,050,275	14,860,706

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

	2016	2015
Accounting profit /(loss) before tax	1,006,287,730	(1,052,439,824)
Adjustment for prior year profits	(1,000)	4,170,957
Adjusted accounting profit/(loss) before tax	1,006,286,730	(1,048,268,867)
Aggregate disallowed items	404,493,267	-
Aggregate allowed items	(488,654,435)	-
Business profit/(Loss) for tax purpose	922,125,562	(1,048,268,867)
Other Sources of Income Liable to Tax		
Interest Income	89,538,596	51,113,713
Total Assessable Income	1,011,664,158	51,113,713
Tax losses utilized during the year	(355,594,467)	-
Taxable Income	656,069,692	51,113,713
Income Tax at @ 28%	183,699,514	14,311,840
Tax losses brought forward	1,281,797,347	200,504,463
Tax losses incurred during the year	-	1,108,815,652
Tax losses utilized during the year	(355,594,467)	(27,522,769)
Tax losses carried forward	926,202,880	1,281,797,347

8.2 Deferred Tax Assets

	Statement of Financial Position		Statement of Profit and Loss	
	2016	2015	2016	2015
Deferred Tax Liability	Rs.	Rs.	Rs.	Rs.
On Property, Plant & Equipment	(37,040,188)	(31,759,458)	(5,280,730)	(2,270,909)
	(37,040,188)	(31,759,458)	(5,280,730)	(29,488,549)
Deferred Tax Asset				
On Property , Plant & Equipment	-	-	-	-
On Retirement Benefit Obligation	129,207,216	117,277,247	11,929,969	-
	129,207,216	117,277,247	11,929,969	-
			6,649,239	(29,488,549)
Deferred Income Tax reversal	-			
Net Deferred Tax Asset/(Liability)	92,167,028	85,517,789		

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:	2016 Rs.	2015 Rs.
Net Profit/(Loss) Attributable to Ordinary Shareholders for Earnings Per Share	829,237,456	(1,067,300,530)
	2016	**2015**
Numbers of Ordinary Shares Used as Denominator:	**Number**	**Number**
Weighted average Number of Ordinary Shares Applicable to Basic Earnings/(Loss) Per Share	100	100

Lanka Sugar Company (Private) Limite
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2016

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

10.3 Net Book Values	2016 Rs.	2015 Rs.
Land	44,149,728	44,149,728
Land Development	101,106,116	73,499,670
Factory Buildings	100,149,706	105,193,999
Buildings Others	111,498,765	116,277,240
Field Machinery and Equipment	18,498,275	14,505,637
Irrigation and Miscellaneous Equipment	50,299,068	55,386,313
Factory Plant and Equipment	1,476,860,640	1,659,586,431
Other Plant and Machinery	67,943,811	74,462,248
Storage Tank	40,623,420	43,591,080
Roads and Bridges	10,244,497	11,870,782
Laboratory Equipment	14,455,644	18,911,202
Motor Vehicles	42,365,179	60,752,479
Furniture, Fittings and Equipment	28,471,699	29,592,743
Settler Zone Infrastructure	4,996,072	5,819,144
	2,111,662,620	2,313,598,696
Assets on Finance Lease		
Motor Vehicles	71,758,500	8,505,417
Field Machinery and Equipment	37,996,264	49,186,048
	109,754,764	57,691,465
In the Course of Construction		
Land Development	37,988,245	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
Power Generation Project	1,779,419	1,779,419
Water Treatment Plant	27,067,811	27,067,811
	107,718,563	107,718,563
In the Course of Construction - On Finance Leases		
Factory Plant and Equipment	96,513,131	120,750,000
	96,513,131	120,750,000
Total carrying amount of Property, Plant and Equipment	2,425,649,078	2,599,758,724

10.4 During the financial period, the company acquired Property, Plantand Equipment to the aggregate value of Rs.147,791,872/- (2015-Rs.130,209,508/-) for cash.

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

	2016	2015
Land Development	50 Years	50 Years
Factory Buildings	50 Years	50 Years
Buildings Others	50 Years	50 Years
Field Machinery and Equipment	5 - 6.67 Years	5 - 6.67 Years
Irrigation and Miscellaneous Equipment	16.67 Years	16.67 Years
Factory Plant and Equipment	10-20 Years	20 Years
Other Plant and Machinery	5 - 20 Years	5 - 20 Years
Roads and Bridges	20 Years	20 Years
Motor Vehicles	2 - 5 Years	2 - 5 Years
Furniture, Fittings and Equipment	4 - 5 Years	4 - 5 Years
Settler Zone Infrastructure	3 - 50 Years	3 - 50 Years

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2016

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.
Buildings	7,110,000,000	3,757,500,000
Plant and Machinery	766,250,000	769,500,000
Motor Vehicles	1,399,000,000	-
Agri Equipment	390,600,000	330,700,000
	72,000,000	-

11. INVENTORIES

	2016 Rs.	2015 Rs.
Produced Inventory (11.1)	1,541,499,600	857,055,156
Other Inventory (11.2)	766,835,928	569,349,767
	2,308,335,528	1,426,404,923

11.1 Produced Inventory

	2016 Rs.	2015 Rs.
Sugar	1,142,191,116	235,076,097
Molasses	162,713,574	443,564,830
ENA	236,594,910	178,414,229
	1,541,499,600	857,055,156

11.2 Other Inventory

	2016 Rs.	2015 Rs.
Fuel and Lubricants	45,494,914	34,953,800
Factory Chemicals	5,780,704	2,858,842
Production Items Distillery	896,136	1,582,813
Bags and Liners	5,374,975	1,579,251
Fertilizers	83,719,067	55,597,793
General	25,538,706	25,971,707
Agriculture Spares	166,528,800	145,490,862
Stationery	1,807,920	1,451,255
Factory Spares	354,751,732	276,196,486
Tires and Tubes	6,168,753	6,613,554
	696,061,708	552,296,363
Less: Provision for Obsolete Stocks	(9,251,437)	(9,251,437)
	686,810,271	543,044,926
Goods-in-Transit	80,025,657	26,304,842
	766,835,928	569,349,767

12. BIOLOGICAL ASSETS

	2016 Rs.	2015 Rs.
Standing Cane	483,138,155	624,198,372
	483,138,155	624,198,372

13. TRADE AND OTHER RECEIVABLES

	2016 Rs.	2015 Rs.
Trade Receivables	760,705	769,276
Other Receivables	127,576,313	77,048,132
Staff Loans (13.1)	8,937,428	9,869,325
	137,274,446	87,686,733

13.1 Staff Loans

	2016 Rs.	2015 Rs.
Balance at the beginning of the year	9,674,811	6,674,838
Loans granted during the year	55,168,057	57,079,450
Repayments made during the year	(55,905,440)	(53,884,963)
Balance at the end of the year	8,937,428	9,869,325

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2016

14. LOANS DUE FROM FARMERS

	2016 Rs.	2015 Rs.
Balance at the beginning of the year	1,193,322,671	1,284,963,044
Loans granted during the year	1,121,357,797	807,517,925
Loans recovered during the year	(1,072,191,163)	(899,158,298)
Total Loans Granted	1,242,489,304	1,193,322,671
Less: Provision for Doubtful Recoveries	(393,229,262)	(355,436,426)
Balance at the end of the year	849,260,043	837,886,245

15. INVESTMENTS

	2016 Rs.	2015 Rs.
Current		
Fixed Deposits	1,327,464,946	910,838,300
	1,327,464,946	910,838,300

16. STATED CAPITAL

	2016 Number	2016 Rs.	2015 Number	2015 Rs.
Fully Paid Ordinary Shares	100	1,000	100	1,000

17. GOVERNMENT GRANT

	2016 Rs.	2015 Rs.
As at beginning of the period	4,047,990,194	4,048,080,194
Revaluation of Plant and Machinery		
Repayments	(46,860)	(90,000)
	4,047,943,334	4,047,990,194

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

	2016 Amounts Repayable Within 1 Year Rs.	2016 Amounts Repayable After 1 year Rs.	2016 Total Rs.	2015 Amounts Repayable Within 1 Year Rs.	2015 Amounts Repayable After 1 year Rs.	2015 Total Rs.
Bank Loans (18.1)	16,221,615	8,454,439	24,676,054	15,521,955	24,133,571	39,655,526
Bank Overdrafts (21.2)	529,528,543	-	529,528,543	576,782,652	-	576,782,652
Finance Leases (18.2)	44,200,493	94,319,929	138,520,422	16,549,515	103,283,630	119,833,145
	589,950,651	102,774,368	692,725,019	608,854,123	127,417,201	736,271,324

18.1 Bank Loan

	As at 01.01.2016 Rs.	New Loans Obtained Rs.	Repayments Rs.	As at 31.12.2016 Rs.
Bank of Ceylon	39,655,526		14,979,472	24,676,054
	39,655,526	-	14,979,472	24,676,054

18.2 Finance Leases

	As at 01.01.2016 Rs.	New Leases Obtained Rs.	Repayments Rs.	As at 31.12.2016 Rs.
Vallibal Finance PLC	1,921,311	-	1,921,311	-
Bank of Ceylon	140,985,577	46,345,000	45,104,649	166,252,493
Gross Liability	142,906,888	46,345,000	47,025,960	166,252,493
Finance Charges Allocated to Future Periods	(23,073,743)			(27,732,071)
Net Liability	119,833,145			138,520,422

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2016

19. RETIREMENT BENEFIT LIABILITY	2016 Rs.	2015 Rs.
As at the beginning of the period	428,560,861	412,697,156
Interest Cost	42,519,108	38,174,487
Liability established for Sevanagala Division	24,365,366	-
Current service cost	2,846,175	28,209,201
Benefit Paid	(27,123,616)	(34,046,693)
Actuarial (Gain)/Loss	(43,835,934)	(16,473,290)
As at the end of the period	428,339,411	428,560,861

19.1 Messers Actuarial and Management Consultation (Private) Limited Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity on 31 December 2016. 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:

	2016	2015
Pelawatte Division		
Discount Rate	10.50%	9.25%
Rate of Salary Increase	1.50%	1.55%
Retirement Age	55 Years	55 Years
Sevanagala Division		
Discount Rate	10.50%	9.25%
Rate of Salary Increase	Fixed amount	Fixed amount
Retirement Age	55 Years	55 Years

20. TRADE AND OTHER PAYABLES	2016 Rs.	2015 Rs.
Trade Payables (20.1)	413,727,641	275,712,593
Advances Received from customers	344,788,760	255,088,347
Other Payables (20.2)	199,301,324	258,849,596
Sundry Creditors including Accrued Expenses (20.3)	460,166,770	215,193,729
Distilleries Company of Sri Lanka PLC	24,784,659	24,784,659
Recovered from Farmers	59,822,499	59,822,499
	1,502,591,653	1,089,451,423
20.1 Trade Payables		
Trade Creditors	413,727,641	275,712,593
	413,727,641	275,712,593
20.2 Other Payables		
VAT Payable	51,119,095	47,443,513
NBT Payable	148,182,229	211,406,083
	199,301,324	258,849,596
20.3 Sundry Creditors including Accrued Expenses		
Sundry Creditors	160,351,440	139,718,036
Accrued Expenditure	299,815,330	75,475,693
	460,166,770	215,193,729

21. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

Components of Cash and Cash Equivalents	2016 Rs.	2015 Rs.
21.1 Favorable Cash and Cash Equivalents Balances		
Cash and Bank Balances	29,520,476	43,492,326
21.2 Unfavorable Cash and Cash Equivalent Balances		
Bank Overdrafts	(529,528,543)	(576,782,652)
Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement	(500,008,067)	(533,290,327)

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2016

22. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

As per the provisionsof the Act of Revivalof UnderperformingEnterprises and UnderutilizedAssets No.43 of 2011. Governmenthas acquired the immovableassets 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	311,756,810	Investment
Fixed Deposits	Overdraft facility of A/C No 75751012 Bank Of Ceylon	243,408,656	Investment
Fixed Deposits	Lease facility for overhead Crane	30,000,000	Investment
Fixed Deposits	Bank Loan facility (from Sampath bank Buttala)	17,997,225	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

	2016 Rs.	2015 Rs.
Ministry of Plantation Industries	1,102,344	1,102,344
Receivable from Kanthale Sugar Industries	6,831,204	6,831,204
Receivable from Hingurana Sugar Industries	1,115,789	1,115,789
Ministry Of Sugar Industry Receivable	3,453,231	3,453,231
SSP Project - Badulla	6,665,725	6,665,725
	19,168,293	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	2016 Rs.	2015 Rs.
Directors Fee	3,650,000	465,000

Lanka Sugar Company (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2016

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 2016

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	529,528,543	-	60,422,108	102,774,368
Trade and other payables	1,502,591,653	-	-	-
	2,032,120,196	-	60,422,108	102,774,368

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 2016.

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	692,725,019
Trade and Other Payables	1,502,591,653
Less: Cash and Cash Equivalents	(29,520,476)
Net Debt	2,165,796,196
Equity	4,798,371,814
Total Capital	4,798,371,814
Gearing ratio	31.10%

27. FAIR VALUE MEASUREMENT

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

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

Segmental Financial Information - Pelwatte Division

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 Rs.	2015 Rs.
Revenue	4,956,031,617	3,317,289,592
Cost of Sales	(3,951,678,443)	(3,734,267,629)
Gross Profit	1,004,353,174	(416,978,037)
Other Income and Gains	549,691	468,800
Administrative Expenses	(571,358,647)	(434,912,710)
Finance Cost	(54,403,866)	(63,428,868)
Finance Income	82,807,687	91,630,486
Profit / (Loss) before tax	461,948,039	(823,220,328)
Income Tax Reversal / (Expense)	-	(11,312,770)
Profit / (Loss) for the year	461,948,039	(834,533,098)
Other Comprehensive Income for the period, net of tax		
Actuarial Gain	39,516,902	16,473,290
Total Comprehensive Income for the period, net of tax	501,464,941	(818,059,808)

Segmental Financial Information - Pelwatte Division

STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2016

ASSETS	2016 Rs.	2015 Rs.
Non-Current Assets		
Property, Plant and Equipment	1,885,706,496	2,028,417,311
Deferred Tax Asset	77,630,406	73,771,220
	1,963,336,902	2,102,188,531
Current Assets		
Inventories	1,477,190,417	784,257,354
Biological Assets	483,138,155	624,198,372
Trade and Other Receivables	34,699,439	31,860,636
Advances and Prepayments	44,489,046	33,358,978
Loans Due from Farmers	578,818,657	521,623,644
Amounts Due from Related Parties	-	824,135
Investments	603,162,691	567,812,300
Cash and Cash Equivalents	702,752	16,433,671
	3,222,201,157	2,580,369,091
Total Assets	5,185,538,059	4,682,557,621
EQUITY AND LIABILITIES		
Capital and Reserves		
Government Grant	3,468,770,753	3,468,770,753
Accumulated Profit	(259,586,511)	(743,541,266)
Total Equity	3,209,184,242	2,725,229,486
Non-Current Liabilities		
Retirement Benefit Liability	367,676,275	371,205,283
Interest Bearing Loans and Borrowings	64,350,437	99,639,259
	432,026,712	470,844,543
Current Liabilities		
Interest Bearing Loans and Borrowings	464,787,034	476,393,218
Trade and Other Payable	1,007,025,708	718,710,110
Income Tax Payable	23,423,210	235,586,004
Amounts Due to Related Parties	49,091,153	55,794,259
	1,544,327,105	1,486,483,591
Total Equity and Liabilities	5,185,538,059	4,682,557,621

Segmental Financial Information - Pelwatte Division

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Government Grant Rs.	Retained Earnings/(Loss) Rs.	Total Rs.
As at 01 January 2015	3,468,770,753	74,518,542	3,543,289,295
Profit for the year	-	(834,533,098)	(834,533,098)
Total Other Comprehensive Income for the year, net of tax	-	16,473,290	16,473,290
As at 31 December 2015	3,468,770,753	(743,541,266)	2,725,229,487
Loss for the year		444,437,852	444,437,852
Dividends paid		-	-
Total Other Comprehensive Income for the year, net of tax		39,516,902	39,516,902
As at 31 December 2016	3,468,770,753	(259,586,511)	3,209,184,242

Segmental Financial Information - Pelwatte Division

STATEMENT OF CASH FLOWS

As at 31 December 2016

	2016 Rs.	2015 Rs.
Cash Flows From / (Used in) Operating Activities		
Profit / (Loss) before Taxation	461,948,039	(823,220,328)
Adjustments for,		
Depreciation	213,624,657	212,914,430
Finance Income	(82,807,687)	(91,630,486)
Finance Cost	54,403,866	63,428,868
Provision for slow moving inventory	-	-
Provision for Loans from Farmers	33,425,595	635,864
Provision for Retirement Benefit Liability	61,485,894	58,747,432
Operating Profit/(Loss) before Working Capital Changes	742,080,364	(579,124,220)
(Increase)/Decrease in Inventories	(551,872,843)	(59,219,855)
(Increase)/Decrease in Trade and Other Receivables	(23,227,805)	34,302,074
Increase in Loans Due from Farmers	(90,620,608)	88,924,670
Decrease in Amounts Due from Related Party	824,135	2,453,194
Increase/(Decrease) in Amounts due to Related Parties	(6,703,106)	26,084,931
Increase/(Decrease) in Trade and Other Payables	288,315,597	(40,314,187)
Net Cash From Operating Activities	358,795,735	(526,893,393)
Finance Cost Paid	(54,403,866)	(63,428,868)
Income Tax Paid	(224,273,234)	-
Retirement Benefit Liability Paid	(25,498,000)	(31,553,140)
Net Cash From/ (Used in) Operating Activities	54,620,634	(621,875,400)
Cash Flows From / (Used in) Investing Activities		
Acquisition of Property, Plant and Equipment	(70,913,844)	(65,251,384)
(Investments)/Withdrawals in/of Fixed Deposits	(35,350,391)	398,061,165
Finance Income Received	82,807,687	91,630,486
Net Cash Flows Used in Investing Activities	(23,456,548)	424,440,268
Cash Flows From / (Used in) Financing Activities		
Dividends paid	-	-
Financing obtained during the period	21,366,800	24,488,000
Principle Payments under Finance Lease Liabilities	(17,867,215)	(15,317,869)
Principle Payments under Bank Loan Liabilities	(6,172,316)	(3,548,361)
Net Cash Flows Used in Financing Activities	(2,672,731)	5,621,770
Net Increase/(Decrease) in Cash and Cash Equivalents	28,491,356	(191,813,363)
Cash and Cash Equivalents at the beginning of the year	(459,959,546)	(268,146,184)
Cash and Cash Equivalents at the end of the year	(431,468,190)	(459,959,546)

Segmental Financial Information - Sevanagala Division

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 Rs.	2015 Rs.
Revenue	2,772,858,707	1,564,348,130
Cost of Sales	(1,596,154,255)	(1,331,089,456)
Gross Profit	1,176,704,453	233,258,673
Other Income and Gains	68,798,419	59,030,632
Finance Income	68,659,684	26,263,013
Administrative Expenses	(752,926,803)	(532,333,982)
Finance Cost	(17,578,219)	(17,035,843)
Profit before tax	543,657,534	(230,817,507)
Income Tax Expense	159,963,352	(3,547,937)
Profit for the year	383,694,182	(234,365,443)
Other Comprehensive Income		
Other Comprehensive Income for the year, net of tax	4,319,032	-
Total Comprehensive Income for the year, net of tax	388,013,214	(234,365,443)

Segmental Financial Information - Sevanagala Division

STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2016

	2016	2015
ASSETS	**Rs.**	**Rs.**
Non-Current Assets		
Property, Plant and Equipment	530,698,475	560,696,193
Deferred Tax Asset	16,101,142	12,295,435
	546,799,617	572,991,628
Current Assets		
Inventory	831,145,111	642,147,569
Allotees/Farmers Receivables	270,441,386	316,262,601
Amounts Due from Related Parties	103,570,218	112,252,942
Advances and Prepayments	10,113,693	18,097,253
Other Receivable	97,980,200	55,826,098
Investment in Fixed Deposits	701,302,255	320,026,000
Cash and Cash Equivalents	21,640,667	23,549,702
	2,036,193,531	1,488,162,165
Total Assets	2,582,993,148	2,061,153,793
EQUITY AND LIABILITIES		
Capital and Reserves		
Government Grant	579,172,586	579,220,441
Retained Earnings	1,010,949,515	622,936,301
Total Equity	1,590,122,101	1,202,156,742
Non Current Liabilities		
Retirement Benefit Liability	60,663,135	58,363,029
Interest Bearing Loans and Borrowings	38,423,931	33,941,954
	99,087,066	92,304,983
Current Liabilities		
Interest Bearing Loans and Borrowings	125,163,616	126,296,893
Trade and Other Payables	488,704,665	368,817,447
Income Tax Payable	279,915,700	271,577,727
	893,783,981	766,692,067
Total Equity and Liabilities	2,582,993,148	2,061,153,793

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

Segmental Financial Information - Sevanagala Division
STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2016

	Government Grant Rs.	Retained Earnings Rs.	Total Rs.
As at 01 January 2015	579,310,441	857,301,744	1,436,612,185
Profit/Loss for the year		(234,365,443)	(234,365,443)
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	622,936,301	1,202,156,742
Profit/Loss for the year		388,013,214	388,013,214
Adjustments	(47,855)		(47,855)
Paid by Company on behalf of previous owner			
As at 31 December 2016	579,172,586	1,010,949,515	1,590,122,101

Segmental Financial Information - Sevanagala Division

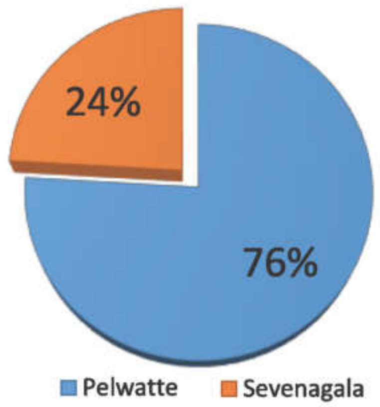
STATEMENT OF CASH FLOWS

As at 31 December 2016

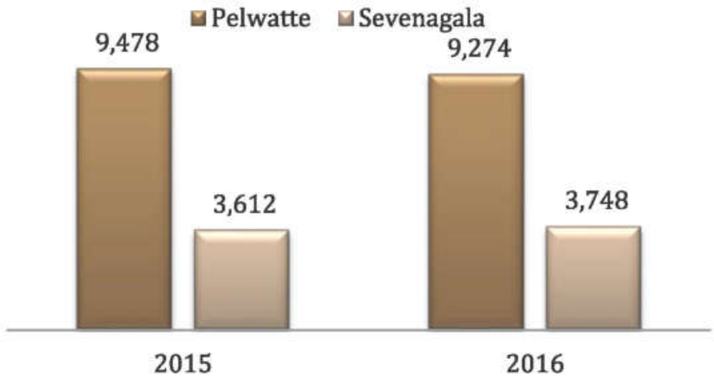
Cash flows From Operating Activities	**2016 Rs.**	**2015 Rs.**
Profit before Taxation	543,657,534	(230,817,506)
Adjustments for,		
Depreciation	105,333,334	91,402,300
Finance Income	(41,777,252)	(26,263,013)
Finance Cost	17,578,219	17,035,843
Bad Debts	4,367,241	-
Provision for Retirement Benefit Liability	3,925,723	6,150,154
Operating Profit/(Loss) before Working Capital Changes	633,084,798	(142,492,223)
(Increase)/Decrease in Inventories	(188,997,542)	(79,774,460)
Increase in Trade and Other Receivables	13,796,722	3,011,888
Increase in Amounts due from Related Parties	8,682,723	(42,105,021)
Increase/(Decrease) in Trade and Other Payables	(40,098,342	(27,845,018)
Finance Cost Paid	(17,578,219)	(17,035,843)
Income tax paid	2,386,221	(30,000,000)
Benefit Paid	(1,625,616)	
Net Cash From Operating Activities	409,650,745	(336,240,675)
Cash Flows From Investing Activities		
Acquisition of Property, Plant and Equipment	(75,335,622)	(49,093,309)
Investment in Fixed Deposits	(381,302,255)	424,974,000
Finance Income Received	41,777,252	26,263,013
Repayment of Government Grant	(47,855)	(90,000)
Net Cash Flows Used in Investing Activities	(414,908,480)	402,053,704
Cash Flows From Financing Activities		
Repayment of Interest Bearing Loans and Borrowings	(8,807,156)	(8,209,567)
Principle Payment under Finance Lease Liabilities	15,187,691	(11,657,413)
Net Cash Flows From/ (Used in) Financing Activities	6,380,535	(19,866,980)
Net Increase/(Decrease) in Cash and Cash Equivalents	1,122,,801	45,946,048
Cash and Cash Equivalents at the beginning of the year	(76,839,733)	(122,785,782)
Cash and Cash Equivalents at the end of the year	(75,716,934)	(76,839,733)

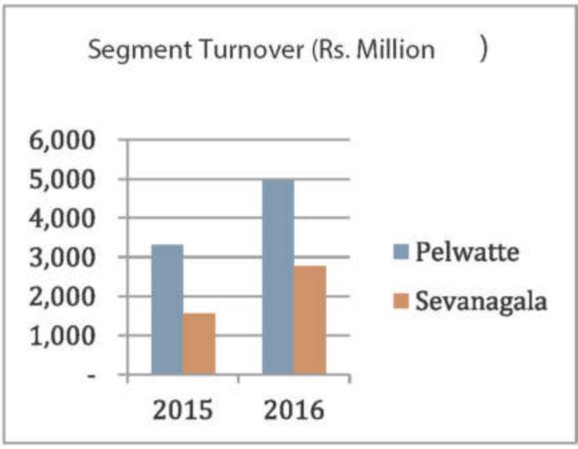
Graphical Segmental Comparison

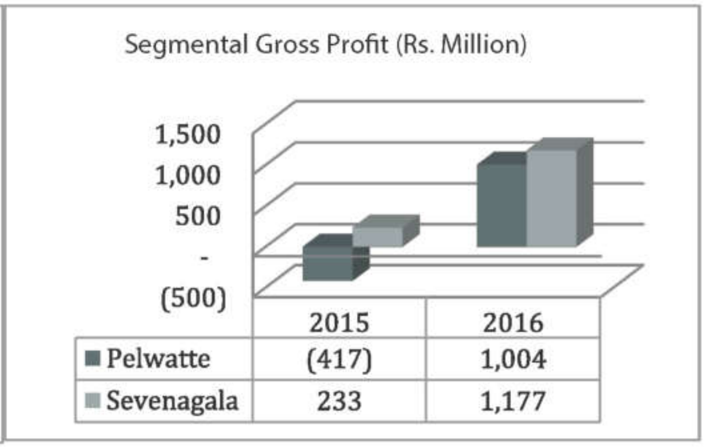
Cultivable Extent (Ha)



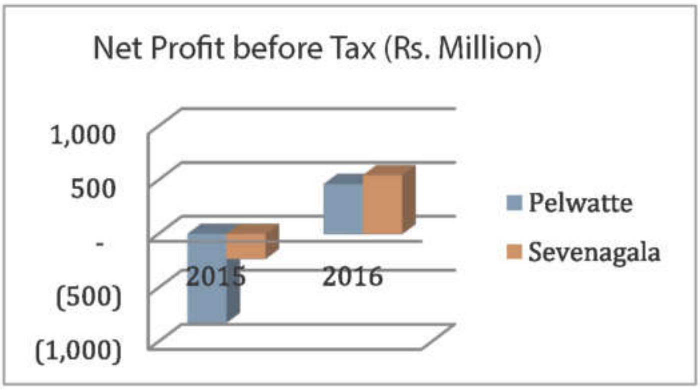
Extent Cultivated (Ha)







	2015	2016
Pelwatte	(417)	1,004
Sevenagala	233	1,177



Progress Report - 2016

INDUSTRY OVERVIEW

It is estimated that the overall domestic sugar production in 2016 was 62,048 Metric Tons and sufficient to meet 9.5 per cent of the total sugar requirement of the country. The increased demand, along with the low special commodity levy (SCL) on sugar imports, led to an increase in sugar imports by 4.4 per cent to 651,181 metric tons.

The local sugar industry has vast potential to contribute to GDP, employment, food and energy security and poverty alleviation. It could also lead to an upliftment of the economic status of the underdeveloped areas of the country since a large amount of foreign exchange flowed out from the country.

Considering the above facts, the "Development Policy for Sugar Industry" was published in 2016 which included seven policy pillars with comprehensive strategies. The pillars were, Institutional Policy, Investment Policy, Production and Land Policy, Pricing Policy, Import Policy, Water Resources and Infrastructure Development Policy and Manpower Development Policy. As per the targets set in the policy, through modernizing and expanding the existing sugar mills, establishing sugarcane cultivation and new processing complexes in rural areas which have suitable climate and weather conditions, a self-sufficiency level of 50 percent is expected to be achieved from local sugar consumption by the year 2020.

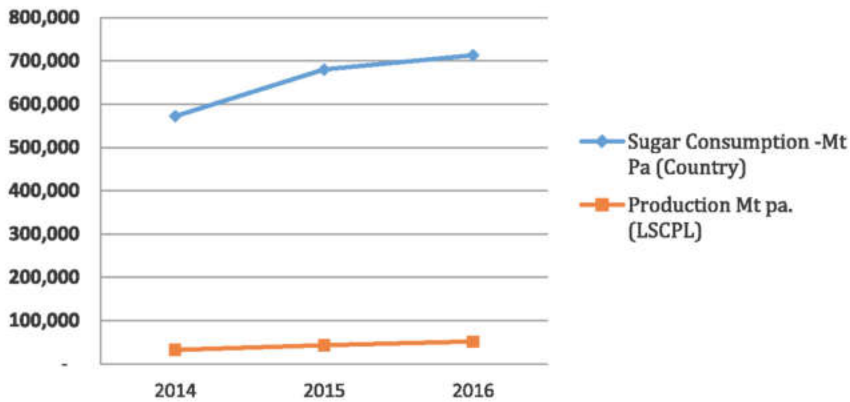
OUR CONTRIBUTION TO THE NATIONAL ECONOMY

2016 was indeed challenging with many macro and micro economic factors affecting the performance. During the year, sugar cane yield per hectare decreased from 59.95 MT to 53.19 MT, however the sugar recovery rate increased from 7.71% to 7.89%.Even though, and environmental conditions affected badly on the industry, the company was able to produce 51,422 MT of sugar during the year, which was 7.8% of the domestic sugar requirement.

CONTRIBUTION TO THE NATIONAL ECONOMY (PROJECTED)

Description	2014	2015	2016
Sugar Consumption -Mt Pa (Country)	572,342	680,057	713,168
Production Mt pa. (LSCPL)	32,364	42,984	51,422
Contribution to the Economy	5.66%	6.32%	7.21%

Production Vs Demand within the Country

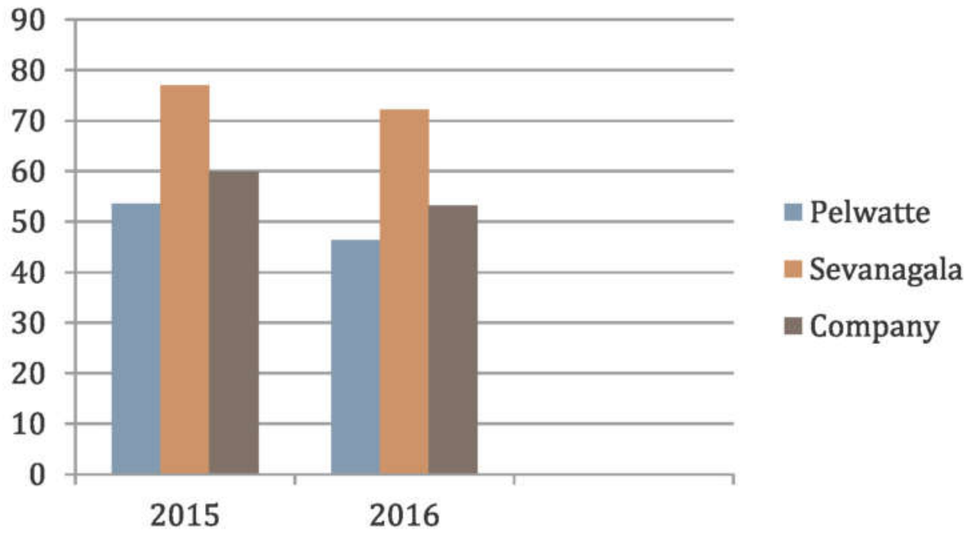


Yield per Hectare (MT)

Division	2015	2016
Pelwatte	53.63	46.31
Sevenagala	77.02	72.22
Company	59.95	53.19

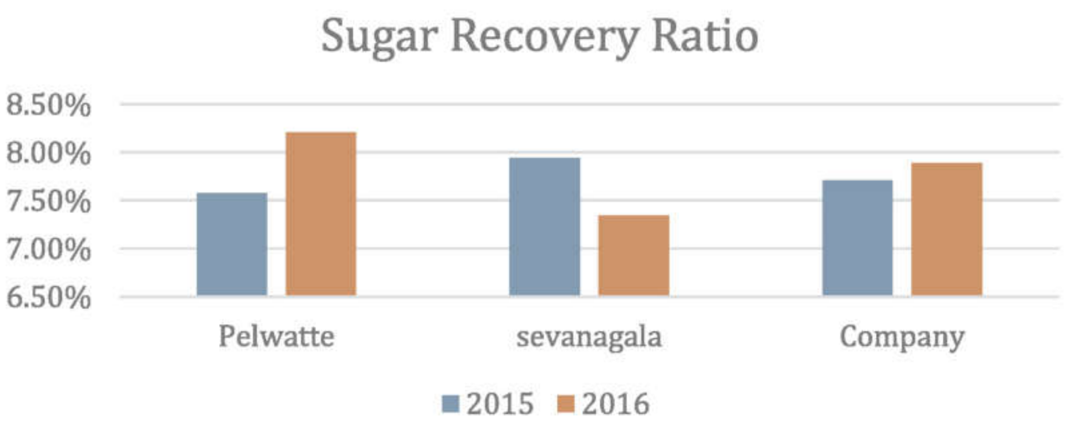
Company was able to increase the total cane supply during the year 2016 due to cultivation of high yielding sugar cane varieties, access to proper irrigation systems and field maintenance, and the expansion in planting activities of out-growers.

Yield per Hectare (MT)



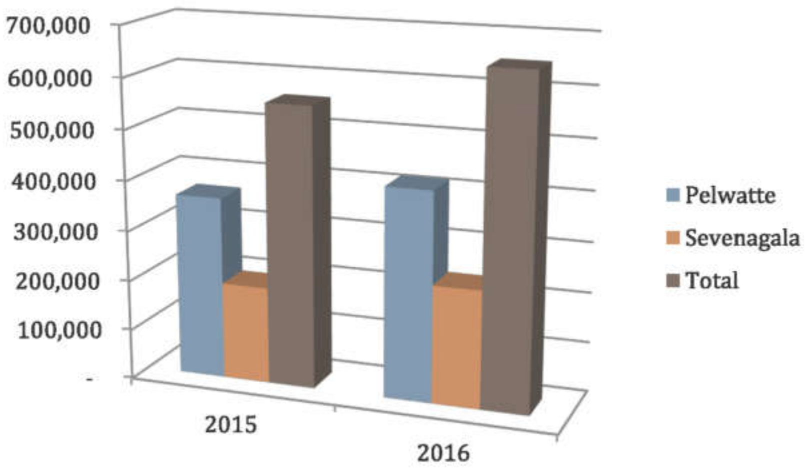
Sugar Recovery Ratio (Mt/ Cane)

Division	2015	2016
Pelwatte	7.58%	8.21%
Sevenagala	7.94%	7.34%
Company	7.71%	7.89%



Cane Supply (MT)	2015	2016
Pelwatte	364,123	416,386
Sevenagala	193,624	234,708
Total	**557,747**	**651,094**

Cane Supply (MT)

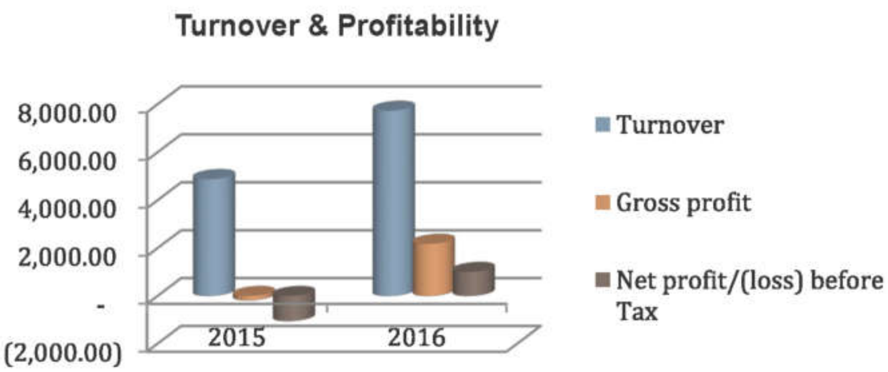


Company Performance

Sugar production has increased from 42,984 metric tons in the year 2015 to 51,422 metric tons in the year 2016. The Pelwatte factory reported a 23.8 per cent increase in production, to 34,188 metric tons in 2016. The Pelwatte factory, which accounted for 49.3 per cent of the total sugar production in 2015, consolidated its position further during the year by increasing its share to 55.1 per cent. The Sevanagala factory recorded a 19.9 per cent increase in production to 17,234 metric tons in 2016. ENA production has also increased from 7,317,351 liters in the year 2015 to 11,917,279 liters in the year 2016.

During the financial year under review, the Company recorded revenue amounting to Rs. 7,729 Million compared to the revenue of Rs. 4,882 Million recorded in the previous year. The Company recorded Rs.1,006 Million operating profit before tax for the year 2016, it is a very significant improvement compared to operating loss before tax of Rs. 1,051 Million recorded in the year 2015.

Year (Rs. Million)	2015	2016
Turnover	4,881.64	7,728.89
Gross Profit	(183.72)	2,181.06
Net profit/(loss) before Tax	(1,052.44)	1,006.28



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
No.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
Navin Adikarama - Chairman
M.S.M. Fouzer - Director /Chief Executive Officer
T.V. Weerasena - Director
Nihal Samarappuli – Director
U.P.P. Kavikeshawa - Director
A.H.M. Alawi- Director
A.C. Keerthiratne - Director

Management Team - Head Office
Navin Adikarama - Chairman
M.S.M. Fouzer - Director /Chief Executive Officer
N.H.S. Navaratne - General Manager (Finance)
S.J. Senanayaka – Deputy General Manager (Sales/Marketing)

Management Team - Pelwatte
P.H.A.W. Karunarathne - Chief Operations Officer (Acting)
D.L.D. Jayantha – Senior General Manager (Production)
D.N. Dayaratne - Deputy General Manager (Factory)
B.A.G.N. Illangakoon - Deputy General Manager (Operations)
K.A.D. Kalansooriya - Acting Deputy General Manager (Agriculture)
M.E. Kosgahakumbura - Management Accountant
S. Weerasekera - Manager (Golf & Resort)
K.A.D. Kalansooriya - Settler Estate Manager
M.B. Chandana - Chief Engineer (Agri. Workshop)
H.M.I.A.K. Katugaha - Production Manager (Factory)
Lily M. Hettiarachchi -Executive Corporate Information
R.M.J. Bandara - Production Manager (Distillery)
D.A. Chandraraj - Electrical Engineer (Factory)
K.L.J. Fernando - Assistant Manager (HR)
K. Vidurasinghe -Manager (Harvesting & Buying Station)
N. Wimalasena -Chief Investigation Officer
B.G.T. Prasanga -Manager (HR & Admin)
L.A.C. Prasanna -Manager (NE)
W.S.K. Ratnayake - Manager (Land Development)
D.M.S. Bandara - Manager (Outgrower)
A. Masachchi -Chief Internal.Auditor
R.A. M. Chandana -Agronomist
Anura Wijesinghe -Manager (Purchasing)

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)
Kingsley Pathirana - Deputy General Manager (Finance)
Deepal Wanigathunga - Senior Manager (HR)
N.A. Wimalaratne - Acting Manager (Equipment)
S. W. Kodithuwakku -Manager (Agriculture Extension)
Athula Siridewa -Manager (Agriculture Extension)
Sapumal Pihillegedera - Manager (Procurement & Marketing)
S.V.D.S. Priyantha - Chief Engineer
D.C. Hettiarachchi - Chief Engineer (Power & Workshop)
P.A.K. Nandadewa - Manager (Agriculture Extension)
M. Upul Kumara - Manager (Agriculture Extension)
M. Shantha Weerasiri (Internal Auditor/Investigation Supdt.)

PROUD STORY OF SWEET SUCCESS