Lanka Sugar Company (Private) Limited.

ANNUAL REPORT
2017

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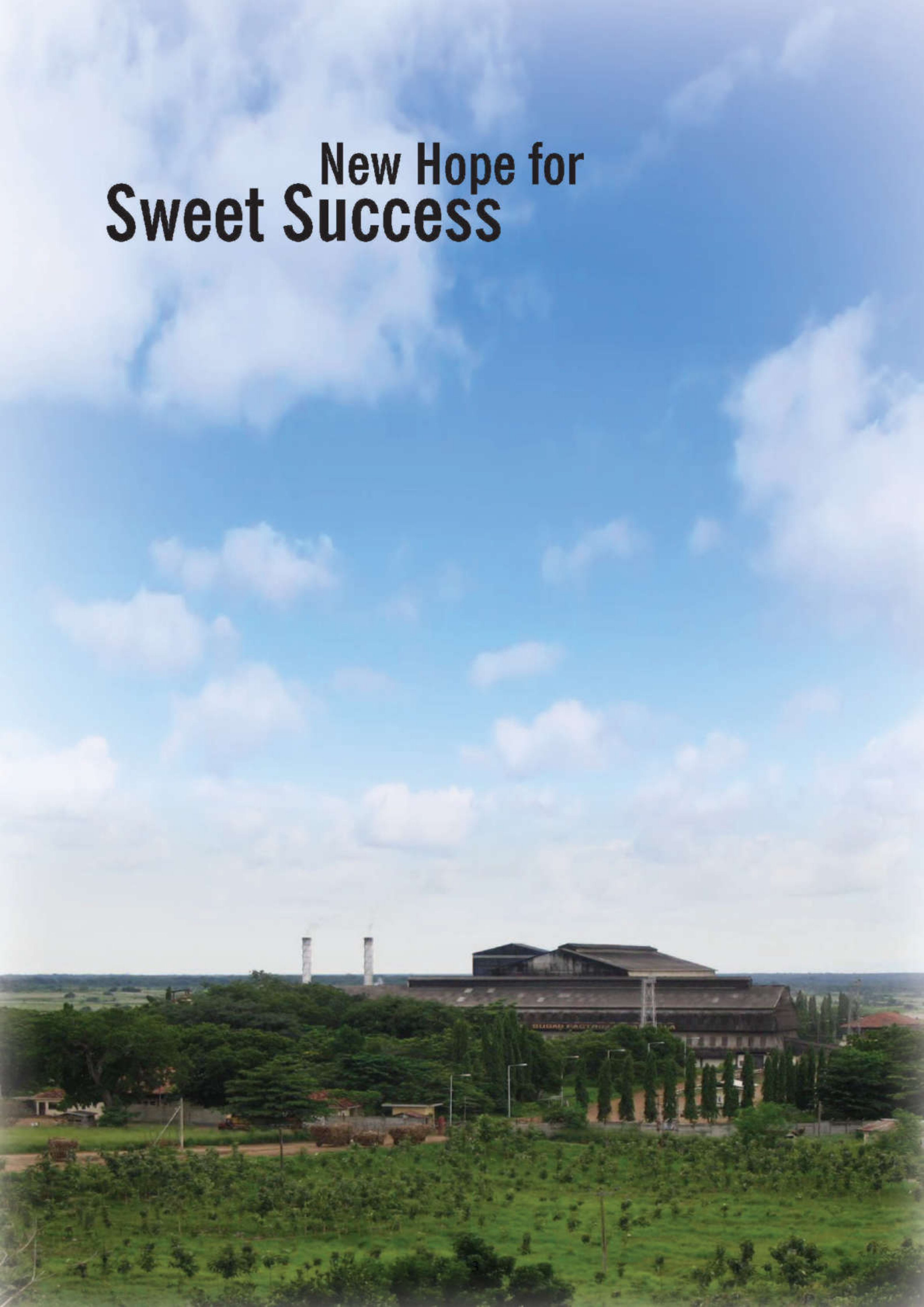
New Hope for Sweet Success



Contents

Company Overview

Lanka Sugar Company (Private) Limited is a public enterprise incorporated under Companies Act No.7 of 2007 whose golden shareholder , the Secretary to the Treasury and managed by a board of directors appointed by the Ministry of Plantation Industries & Export Agriculture. Being the largest sugar manufacturer in Sri Lanka, Lanka Sugar Company (Pvt) Ltd produces 8% of the annual sugar requirement of the country while it serves 37% of the ethanol requirement of the country.

Our Philosophy

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

Our Vision

To become self-sufficient in sugar

Our Objectives

MISSION 533 - SHORT TERM (3 Years by 2020)

- Achieve 50,000Mt of Sugar Production
- To support 15,000 Farmer Families
- To provide 50,000 indirect employments
- To increase the Net income up to Rs.35,000 per month of a Farmer Family
- To contribute 15% to the National Sugar requirement
- Achieve Rs.1 Billion Net Profit.
- To save 15 Billion rupees worth of Foreign Exchange.
- Co-generate 45 MW of Power

MISSION 555 - LONG TERM - (5 Years by 2022)

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

Strategies

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

Research and Development

Research and Development activities to increase sugar cane and sugar productivity are being carried out with 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.

FINANCIAL & OPERATIONAL HIGHLIGHTS - 2017

Figures are in Rupees Million	2016	2017
Financial Highlights		
Turnover	7,728.89	7,616.94
Cost of Sales	(5,547.83)	(6,102.70)
Gross Profit	2,181.06	1,514.24
Net Profit before Tax	1,006.29	402.70
Operational Highlights	**2016**	**2017**
Land Cultivation		
Cultivatable Area (Hectare)	17,499	14,265
Area Cultivated (Hectare)	13,022	12,622
Percentage of Area Cultivated (%)	74%	88%
Harvesting Programme	**2016**	**2017**
Cane Harvested - MT	651,094	589,139
Percentage of Increase / (Decrease) over last year	16%	-9.52%
Sugar Recovery Rate	7.90%	7.27%
Sugar Production	**2016**	**2017**
Production in Metric Tones	51,422	42,822
Tonnage Per Head Per Annum	10.49	9
Human Resource	**2016**	**2017**
Permanent	1,429	1,351
Contract	1,176	1,232
Casual	1,731	2,131
Seasonal	527	-
Trainees	37	111
Total	**4,900**	**4,825**

Chairman's Review

On behalf of the Board of Directors, I am pleased to provide the Integrated Annual Report and Financial Statements for the year ended 31st December 2017 of Lanka Sugar Company (Private) Limited.

During the year under review, the company had to face so many challenges including infavorable climatic conditions which adversely affected the sugar cane yield (YPH) as well as the sugar recovery rate (SRR) while it reported a substantial drop in sugar production during the year under unstable economic conditions compared to the previous year. However, company has managed to mitigate and achieve pre-tax profit of Rs.402 Million during the year which is 60% drop compared to the previous year.

The Economic Environment

Real economic growth in Sri Lanka in 2017 is recorded as 3.1%, compared to 4.5% in 2016. A slowdown in the growth of demand for Sri Lanka's traditional export markets had positively impacted the growth of the export sector while a strengthening Sri Lankan economy prompted short term capital outflows. The impact of these developments was offset to some extent by lower international commodity prices. Nevertheless, domestic consumption rebounded as incomes grew, particularly among public sector workers. All three sectors of the economy contributed to real economic growth in 2017. Agriculture and services related activities grew by 0.8% and 3.2%, respectively, while industry related activities grew by 3.9% during 2017. Inflation, as measured by the year-on-year change in the National Consumers' Price Index (NCPI, 2013 = 100), which increased at a higher rate of 11.3 per cent in 2017, compared to 3.1 per cent in 2016.

Industry Overview

Under unfavorable weather conditions, the local sugar industry has been badly affected during the year compared to the previous year. The company was able to produce 42,822 MT of sugar during the year with a drop of 16.72 % compared to the year 2016 and it is 7% of the domestic sugar requirement. Also, it was 86% of local sugar production.

Sugar prices globally had drastically dropped due to excess sugar production and imports during the year 2016 with compared to previous years and sugar manufacturers and importers had made their own buffer stocks. This caused selling prices to drop in the market and major wholes sellers were reluctant to buy the sugar at prices we offered. However, the government increased the cess on imported sugar and company was able to obtain better whole sale price for sugar above Rs.100/= per Kg during the latter part of the year.

Company Performance

During the financial year under review, the company recorded a revenue amounting to Rs. 7,616 Million with compared to the revenue of Rs.7,728 Million recorded in the previous year. The company recorded a pre-tax profit Rs.402 Million during the year 2017, which is a 60% drop compared to the year 2016. Sugar production has come down to 42,822 Mt during year 2017 from 51,422 MT in the year 2016. ENA production has decreased from 11,917,279 liters in the year 2016 to 7,045,223 liters in the year 2017, as a result, revenue has decreased by Rs. 113 Million during the year. However, due to 10% increase in cost of sales which amounts to Rs.555 million, has negatively impacted on pre-tax profit and has decreased by Rs. 604 Million. Finance cost has increased by Rs. 48 Million while finance income has increased by Rs. 50 Million during the year. All these factors have influenced in addition to the macro and other micro environmental factors to the sharp drop in net profit during the year.

Welfare

Company spent substantial amount of money on welfare during the year. Separate team of maintenance staff has been allocated for maintaining the crèches and infrastructure. Also, the company provides transport facilities for school children and kids of worker families and the members of LSCPL family. In addition we provide Pre-School, Day care center and Medical Centre in order to ensure the quality of employability and sustainability of our employees.

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 laternative investments. 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 are 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 members of Board of Directors, the Management and the staff of the company for their invaluable efforts and contribution made in the present and 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 members of Board of Directors who supports me and the senior management to guide the company towards the success.

Navin Adikarama
Chairman

Director/CEO's Review

"Failures, repeated failures, are finger posts on the road to achievement. One fails forward toward success. "

C.S.Lewis

We at Lanka Sugar, our perception to believe on our strength of being largest sugar and ethanol supplier in the country to cater better products and to achieve success with best ideas and strategies, speedily with greater commitment and well-skilled labour force.

We know that could do best of the best in achieving success by increasing the levels of productivity using our technical knowhow, world's newest technology and diversification. Through endless commitments as Sugar producer to the nation, it improvises me great pleasure to present my review for financial year 2017. After making consecutive losses during year 2012 to 2015, LSCPL has started to make profits in year 2016 & 2017 through management commitment and strategies implemented to increase the productivity and the better price for brown sugar and ethanol in 2016 & 2017.

More specially, in year 2017 Lanka Sugar Company (Pvt) Ltd has shown a phenomenal growth and accomplished a remarkable milestone of completing 05 years in existence as a State Owned Enterprise (SOE) which makes profits with self-financing since 2012.

Financial Review

For the year ended December 2017, LSCPL recorded a revenue of Rs. 7.6 billion and a pre-tax profit of Rs. 402 million as a result of implementation of new strategies by present Board of Directors chaired by Mr.Navin Adikarama since December 2015. During the financial year 2016, management introduced a re-engineering process in the company and it resulted a pre-tax profit of Rs.1 Billion in 2016 while recording a revenue of Rs.7.7 billion in the same year.

Operational Review

During the year 2017, company has produced 42,822 Metric tons of brown sugar and was a drop of 17% compared to year 2016. Also, the company managed to produce 7,045,223 Liters of ethanol in 2017 and was 40% drop in ethanol production compared to year 2016. However, this is a beginning of a golden era in Sugar industry in Sri Lanka.

Conclusion

I wish to express my sincere gratitude to our Chairman Mr.Navin Adikarama, Board of Directors, Senior Management and the staff for their guidance and support extended by them the during the year 2017 to achieve the success.

M.S.M. Fouzer
Director/ Chief Executive Officer

OUR CHAIRMAN

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

Our Chairman, Mr.Navin Adikarama is a over 23 years of extensive experience & proven track record in corporate Good Governance, Business Restructuring and Revitalization of defunct State Enterprise. A strategic leader, a proven visionary, a successful entrepreneur, seasoned Telecommunication Technology and Management executive with exposure in fortune-500 companies, multi-national, multi-cultural, multi-ethnicity environments in Sri Lanka & across the Globe including USA, UK, Singapore, China & Nepal. Highly conversant with Mix & Manage of pre-paid and post-paid services on multi-dimensional platforms, Spearheaded implementation of many CRM systems, OCS (online charging systems), telecom billing systems, Fraud Management systems on NGN platforms, SPD and VAS.

He serves in the following Committees/ Organizations 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

DIRECTOR - TREASURY REPRESENTATIVE

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

Mr. T.V. Weerasena is the Additional Director General of Sri Lanka Treasury and serving as Treasury representative member of Board of Directors of Lanka Sugar Company (Pvt) Ltd since its inception in year 2013. He also chairs the Audit Committee of LSPL from the inception.

Professional Qualifications/ Exposure

·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

OUR DIRECTOR/ CHIEF EXECUTIVE OFFICER

Mr.M.S.M.Fouzer - MBA (UK) ,BA (Hons) in Business Administration (UK)

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 Wolverhampton (UK). He is a marketer by profession.

He serves below mentioned commercial establishments

·Director General - Consumer Affairs Authority

·Chief Operations Officer - BCAS Campus

·Consultant – Marketing & Communication , Paradise Farm (Pvt) Ltd

DIRECTOR

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 Qualification /Exposure

·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

Board of Directors

DIRECTOR

Lt.Col.U.P.P. Kavikeshawa

Mr.U.P.P.Kavikeshawa is cuurently serving as a member of the Board of Directors of Lanka Sugar Company (Private) Limited and is graduated from University of Colombo and obtained Bachelor of Science Degree in Physical Science with 2nd Upper Division. He is an Engineer by profession and was Commissioned Officer in Sri Lanka Army. Also, He is a Fellow of Institution of Incorporated Engineers, Sri Lanka (IIESL) and a Member of the Organization of Professional Associations of Sri Lanka (OPA).

Professional Qualification /Exposure

He serves below mentioned commercial establishments.

·General Manager - Venora International Projects (Pvt) Ltd
·Project Auditor - Maxaire (Pvt) Ltd
·Commissioned Officer - Sri Lanka Army

DIRECTOR

Mr.A.H.M.Alawi

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

DIRECTOR

Mr.Aruna Chathuraka Keerthirathne

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 Qualification /Exposure

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

Corporate Governance

Lanka Sugar Company (Pvt) Ltd (LSCPL) practices coporate governance framework to ensure the accountability, transparency , fairness and responsibility of the Board of Directors or senior management and the system of directing, controlling and managing the corporate affairs.The best practices of coporate governance guides and drives towards progress by way of developing and implementing appropriate corporate strategies. These corporate governance practices improve quality of deceision making and ensure the growth, profitability and sustainability of the company.

Composition of the Board

The Board of Directors of LSCPL, led by the Chairman, is commited to ensuring the governance structure,policies and progresses are sufficiently robust and relavant in a dynamic environment.The Board currently comprises of five Non-Executive Directors and two of Executive Directors including Chairman and Director / Chief Executive Officer appointed by the Treasury of Sri Lanka Government. The Board would report to Secretary to the Treasury of Sri Lanka Government and to the Ministry of Plantation Industries.

Board of Directors, senior management , and all employees of LSCPL are required to embrance this framework in the performing their duties and reponsibilities that could affect the goodwill of the company and act in the best interest of the company and its stakeholders in fulfilment of stewardship obligation of the Board of Directors. LSCPL adopts the framework of corporate governance in accordance with guidelines issued by the Department of Public Enterprises and Board takes in to account the regulatory requirements , voluntary codes , market best practices and the need to deliver value to stakeholders in a trasparent manner.The Board comprises of highly respected individuals who have reached the pinnacle of their chosen fields often displaying multi-disciplinary competencies and are appointed by the Sri Lanka Treasury based on the recommendations made by an independent committee comprises of experts in various sectors. The Board approves a strategic plan and key policies for the Company and effectively the monitors their implementation through the Board sub- committees and Key Management Personnel.

Audit Committee and Internal Audit Function

Lanka Sugar Company (Pvt) Ltd (LSCPL) always reviews the system of internal controls to ensure best practices of professional due care, ethics , transparency and intergrity in operating the company affairs in achieving corporate goals and objectives. Hence, LSCPL recognizes the value of goods Corporate Governance and trust that it provides opportunities to manage risks and add value to its stakeholders while ensuring a viable sustainable business. Further, we wish to state that our commitment to best practices of corporate governance by the existence of a vibrant audit committee, which comparises of three Non Executive Directors with multi disciplinary professional competencies.

Corporate Governance

Board Meetings

IThe Borad meets once a month to discuss and to make strategic decisions to ensure the smooth running of corporate affairs of the company. Also, Board reviews Management accounts and the progress reports in addition to other matters of importance such as the formulation of strategies, business policies and to assure growth and the successful implementation of such strategies. Further, Board approves the corporate plans, annual budgets, capital expenditure,new investments and new ventures after reviewing the proposals of investments.

Company Secretaries and Independent Professional Advice

The Board and the senior management of Lanka Sugar Company (Pvt) Ltd (LSCPL) seek independent professional advises from the Company Secretaries and various external professional bodies as and when it requires to do so. Also, company closely works with Agriculture, Technical and Financial experts to improve the concurrent technical needs in line with the corporate strategy of the company.

Business Acumen and Management Meetings

The Company conducts weekly operational meetings at the level of Strategical Business Unit to ensure the smooth running of the day to day operations of the Unit. Also, LSCPL conducts monthly management meetings in order to review and monitor the operations of the company in addition to the monthly Board meetings. These management meetings are conducted at every Thursday and Friday of the third week of the month in Pelwatte and Sevangala Units respectively and is chaired by Chairman and/or Director/ CEO. All Divisional Heads and Sectional Heads participate to these meetings and are expected to present their performance of the previous month and to discuss the challenges they face and strategies to overcome those challenges in order to achieve expected results during the month.

Financial Reporting

The Board of Directors of LSCPL considers to timely publication of its Annual Reports as a statutory requirement for State owned Enterprises. These Annual Reports consist of Financial Statements comprising Statement of Comprehensive Income, Statement of Financial Position and Statement of Cash Flows and other required operational information. These Financial Statements are prepared in accordance with Sri Lanka Accounting Standards and generally accepted accounting principles.

Risk Management Review

Type of Risk	Description	Action Plan
Operational Risk	Sourcing of lands for sugar cane cultivation.	· Increasing the Sugar cane price from Rs. 4,500/- to Rs. 5,000/-. 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.	Giving more responsibilities to the staff for recovering.
Inflation Risk	Potential impact on profitability due to the increased cost of inputs and overheads.	Focusing on increasing productivity and decreasing cost of production.
Market Risk	Import of sugar by local sugar suppliers at low prices.	Increasing the production volume to bring down the unit overhead cost.
Environmental Risk	Damages arising from the sugar cane crop by elephants & weather changes may lead to drop in yield.	Developing elephant trenches, fences and human barriers at company cost.

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 that they have only a limited amount of land for their own cultivation as almost all the land is cultivated by the farmers.

The average income from a hectare of cane cultivation is estimated at around Rs. 35,000/= per month. Farmers engaged sugar cane cultivation in many areas had a low level of income.this situation discouraged the farmers to be in this industry instead, they were moving on to other cultivations. Lanka sugar identified the situation at the very inception and took many initiatives to help the farmers to increase their income. Presently, a farmer is paid Rs. 5,000/= per MT of cane where as it was Rs 4,500/= per MT before. Thus, by now ,LSCPL is the highest payer for Metric Ton of Cane in the history of sugar cane cultivation. In order to encourage the farmer, in 2013, the Management decided to allocate 10% of its profit for farmer incentives.

OUR CUSTOMER

Our customer is our hope. Over 20 million of our population is our customers. Providing them with quality and organization sugar at reasonable price is our prime purpose. Per capita sugar consumption of a Sri Lankan per year is between 30 to 35 kg. As our production capacity remains at a low rate of 6%, the balance 94% has to be imported. More than 250 million US Dollars are being spent annually for the importation of sugar. This is a major negative impact on our National Income.

OUR EMPLOYEE

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

GOOD GOVERNANCE

Our Statutory Auditors were M/s Auditor General's Department. In addition to the external auditors, both Pelwatte and Sevanagala Divisions have Internal Audit Departments and reporting directly to the Chief Executive Officer & Chairman. Audit Committee which consists of three board members are review the Internal Auditors' Report on a regular basis, call for explanations from the senior managers and submit the reports to the Board of Directors, together with their findings.

CONSTRAINTS

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

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

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

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

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

Report of the Audit Committee

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

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

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

Composition

Name	Attendance
Mr.T.V. Weerasena - Additional Director GeneralSri Lanka Treasury(Non Executive Director - LSCPL)	06/06
Mr.U.P.P.Kavikeshawa - Member (Non Executive Director - LSCPL)	06/06
Mr.A.C. Keerthirathne - Member (Non Executive Director - LSCPL)	06/06

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

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

Report of the Auditor General on the financial statements of LSCPL for the year ended 31 December 2015, together with management's responses, were discussed with management and the auditors and made arrangements to rectify those mistakes 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 highlighted the significant areas 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 was invaluable for the company's continuous success.

T.V.Weerasena
Chairman - Audit Committee

Senior Management Team & Head Office Organization Structure

Mr.Navin Adikarama
Chairman

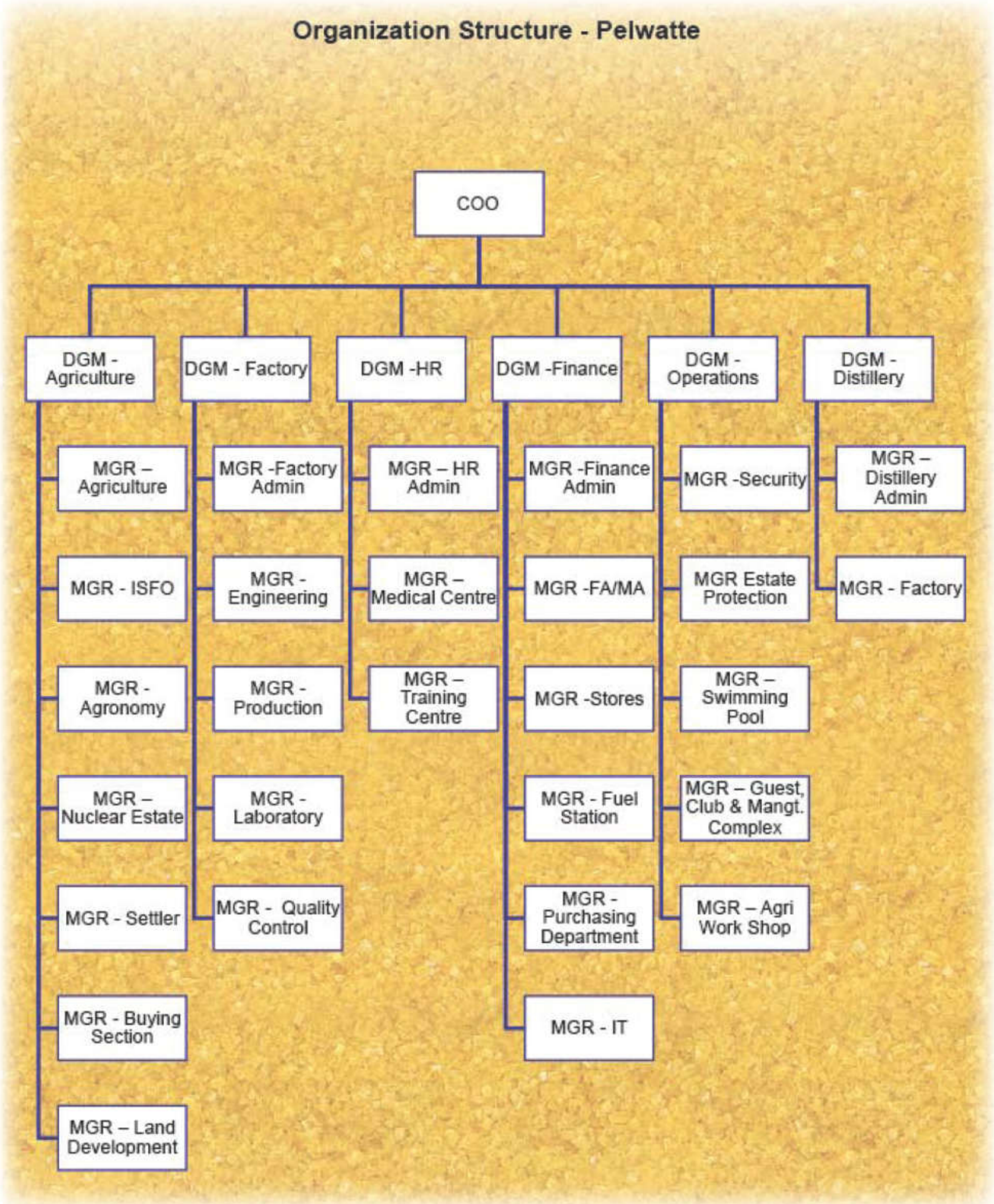
Mr.M.S.M.Fouzer
Director / CEO

Mr.D.L.D.Jayantha
Chief Operations Officer (Actg.)

Brig.K.W.Y.Jayathilake (Rtd.)
Chief Operations Officer

Mr.N.H.S.Navaratne
General Manager - Finance

Mr.S.J.Senanayake
DGM - Sales & Marketing (Actg.)


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

Management Team 2017

Lanka Sugar Company Pvt. Ltd
Pelwatte

Seated from Left to Right

Mr Jayathunga Bandara - Production Manager (Distillery), Mrs. Lily M Hettiarachchi (Executive - Corporate Information), Mr. B G T Prasanga - Deputy General Manager (HR), Mr D M S Bandara - Deputy General Manager (Agriculture), Mr. D L D jayantha - Act. Chief Operations Officer / General Manager (Production), Mr. R M W Hemakumara - Deputy Genaral Manager (Factory), Mr. Ananda Dissnayaka (Financial Accountant), Mr. Indika Katugaha - Production Manager (Factory)

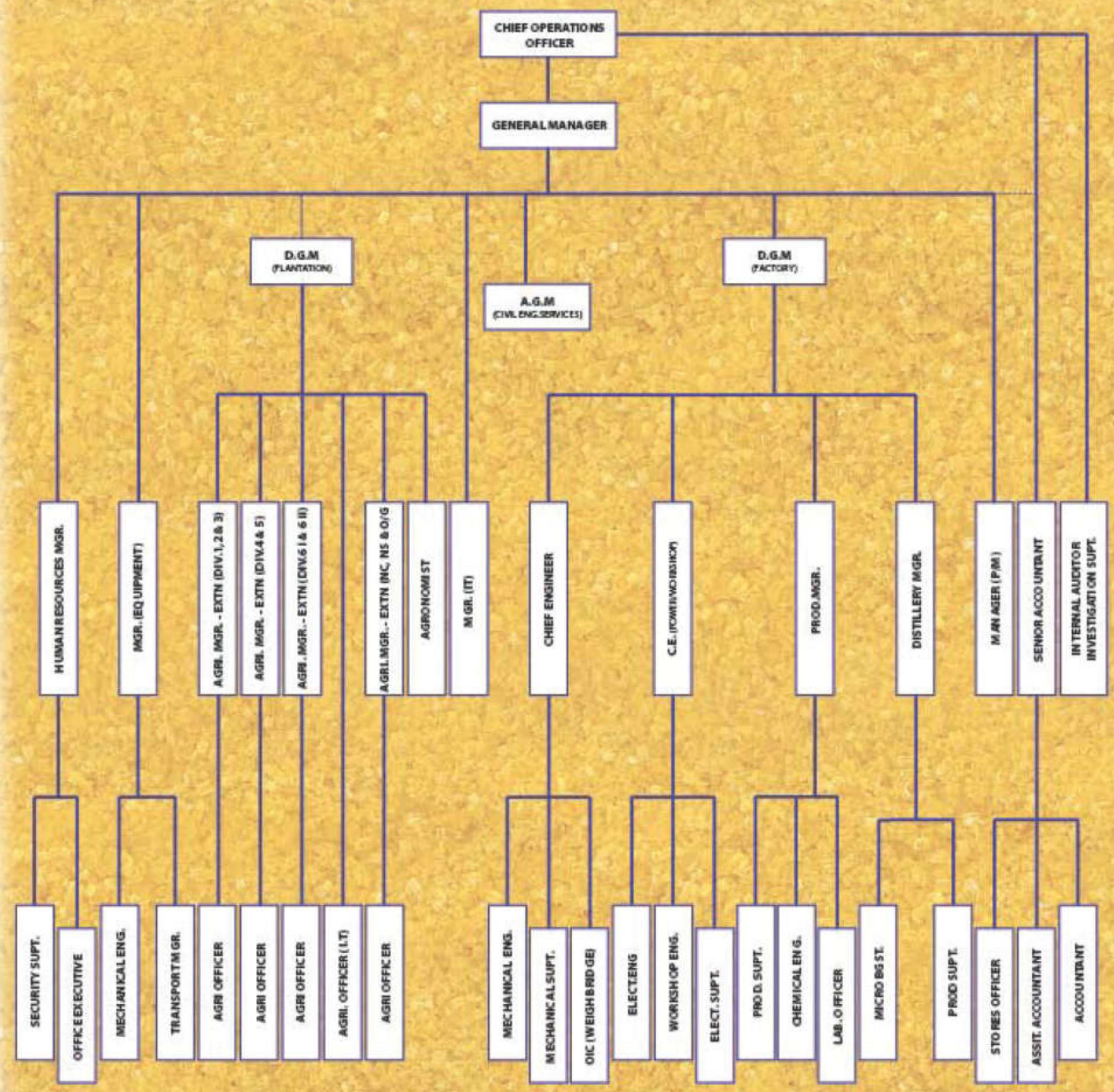
Standing from Left to Right (First Row)

Mr Chandana Pushpakumara - Manager (Purchasing), Mr. J P D P Pragnasheela - Manager (Harvesting, Buying and Loading) Mr. T M D Thennkoon - Manager (Security) Covering, Mr J A A N Kumara - Manager (Settler Estate), Mr. Supun Kumarasiri - Electrical Engineer , Mr Saminda Kottage - Managament Accountant, Mr. R M N Karunarathna - Assistant Manager (Estate Protection), Mr. K B Vidurusinghe - Crop Auditor, Mr. Sarinda Perera- Investigation Officer

Standing from Left to Right (Second Row)

Mr Mahesh Chandana - Agronomist, Mr. M B Chandana - Chief Engineer (Agricultural Workshop), Mr Anura Wijesinghe - Manager (Stores) Mr. W S K Rathnayake- Manager (Land Development), Mr K M K K Bandara - Manager (IT), Mr. L A C Prasanna - Manager (Nucleus Estate) Mr M M A Bandara - Engineering Manager, Mr. Anurudhdha Masachchi - Chief Internal Auditor

Organization Structure - Sevanagala



Management Team-Sevanagala

Seated From left to right

Mr.S.A.Kamalasena (Acting Deputy General Manager-HR),Eng.D.K.W.De Silva (Deputy Genaral Manager-Factory),Eng.K.A.Walter (Genaral Manager),Brig KWY Jayathilaka (Retd) (Chief Operations Officer) Mr.H.M.S.Samaraweera (DeputyGenaral Manager-Agriculture),Mr.K.C.Pathirana (Deputy Genaral Manager-Finance)

Standing From left to right

Mr.W.A.Lional Wickramarachchi (Manager-Transport),Mr.H.S.B.Pihillegedara (Manager-Procurement & Marketing),Mr.M.Upul Kumara (Manager-Agriculture Extension),Mr.Athula Siridewa (Manager-Agriculture Extension),Eng.D.C.Hettiarachchi (Chief Engineer-Power & Workshop),Eng.S.V.D.S.Priyantha (Chief Engineer),Mr.N.A. Wimalaratna (Acting Manager-Equipment), Mr.P.A.K.Nandadewa (Manager-Agriculture Extension),Mr.S.W.Kodithuwakku (Manager-Agriculture Extension)

ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. / My No. PLA/D/LSC/01//17/06 | ඔබේ අංකය / உமது இல. / Your No. | දිනය / திகதி / Date 18 October 2019

The Chairman,

Lanka Sugar Company (Private) Limited.

Report of the Auditor General on the Financial Statements of the Lanka Sugar Company (Private) Limited for the year ended 31 December 2017

The audit of financial statements of the Lanka Sugar Company (Private) Limited for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 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.

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 fully depreciated property, plant and equipment valued at cost of Rs.1,425,160,007 are being continuously utilized by the Company, without revaluing the useful economic life time of such assets and make necessary adjustment accordingly.

(b) According to the Inland Revenue Act, No.24 of 2017, when computing the deferred tax assets/ liabilities, the Company should use the tax rate imposed at the end of the accounting period as described in paragraphs 46 and 47 of the Sri Lanka Accounting Standard No.12. However, the Company had applied 12 per cent tax rate instead of being use the applicable tax rate of 28 per cent. As a result, the deferred tax expense for the year under review had been understated by Rs.295,600,375.

(c) Trade and other receivable amounting to Rs.1,184,931 had remained without being recovered since year 2014. However, proper actions had not been taken by the Company to recover them.

(d) The advances paid by the Company to suppliers and service providers amounting to Rs.3,379,359 and Rs.1,037,081 respectively had remained without being recovered since year 2013. However, proper actions had not been taken by the Company to recover them.

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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 Wickramarathna

Auditor General

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Note	2017 Rs.	2016 Rs.
Revenue	4	7,616,939,721	7,728,890,324
Cost of Sales		(6,102,695,984)	(5,547,832,698)
Gross Profit		1,514,243,737	2,181,057,626
Other Income and Gains	5	47,857,289	70,303,481
Administrative Expenses		(1,259,377,613)	(1,324,448,473)
Finance Cost	6	(120,545,127)	(72,092,275)
Finance Income	6	220,524,878	151,467,371
Profit/(Loss) before tax	7	402,703,163	1,006,287,730
Income Tax Expense	8	(275,043,322)	(177,050,274)
Profit/(Loss) for the year		127,659,841	829,237,456
Other Comprehensive Income for the period, net of tax		29,830,638	43,835,935
Total Comprehensive Income/ (Expense) for the period, net of tax		157,490,479	873,073,391
Earnings/(Loss) Per Share	9	1,276,598	8,292,375

The Accounting Policies and Notes on pages 37 to 57 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

ASSETS	Note	2017 Rs.	2016 Rs.
Non-Current Assets			
Property, Plant and Equipment	10	2,203,255,444	2,425,649,078
Deferred Tax Asset	8	-	92,167,028
		2,203,255,444	2,517,816,106
Current Assets			
Inventories	11	1,889,639,351	2,308,335,528
Biological Assets	12	577,842,993	483,138,155
Trade and Other Receivables	13	121,239,226	137,274,446
Advances and Prepayments		47,689,488	55,328,859
Loans Due from Farmers	14	834,376,028	849,260,043
Amounts due from Related Parties	25.2	19,168,293	19,168,293
Investments	15	1,461,238,692	1,327,464,946
Cash and Cash Equivalents	21	250,426,762	29,520,476
		5,201,620,834	5,209,490,746
Total Assets		7,404,876,277	7,727,306,852
EQUITY AND LIABILITIES			
Capital and Reserves			
Stated Capital	16	1,000	1,000
Government Grant	17	4,047,990,194	4,047,943,334
Accumulated Profits		997,226,537	750,427,480
Total Equity		5,045,217,729	4,798,371,814
Non-Current Liabilities			
Deferred Tax Liability	8	128,557,251	-
Retirement Benefit Liability	19	425,505,136	428,339,414
Interest Bearing Loans and Borrowings	18	102,671,934	102,774,368
		656,734,321	531,113,782
Current Liabilities			
Interest Bearing Loans and Borrowings	18	252,814,946	589,950,651
Trade and Other Payables	20	1,288,549,102	1,502,591,653
Income Tax Payable		161,560,180	305,278,952
Amounts due to Related Parties		-	-
		1,702,924,227	2,397,821,256
Total Equity and Liabilities		7,404,876,277	7,727,306,852

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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 37 to 57 form an integral part of these financial statements.

DATE
Colombo

STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2017

As at 31 December 2017

	Stated Capital Rs.	Government Grant Rs.	Accumulated Profits Rs.	Total Rs.
As at 1 January 2016	1,000	4,047,990,194	(122,644,911)	3,925,346,283
Repayment of Government Grant	-	-	-	-
Revaluation of Plant and Machinery	-	-	-	-
Adjustment Entry in Opening Balance Sheet		(46,860)	(1000)	(47,860)
Dividends Paid	-	-	-	-
Profit/(Loss) 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
Adjustment Entry Income Tax Reversal	-	-	89,783,484	89,783,484
Adjustment Entry in Pelwatte Balance Sheet/ Income Tax Reversal	-		(474,906)	(474,906)
Adjustment Entry in Opening Balance Sheet	-	46,860	-	46,860
Profit for the year	-	-	127,659,841	127,659,841
Other Comprehensive Income			29,830,638	29,830,638
Total comprehensive income	-	-	157,490,479	157,490,479
As at 31 December 2017	1,000	4,047,515,288	997,701,443	5,045,217,731

The Accounting Policies and Notes on pages 37 to 57 form an integral part of these financial statements.

Lanka Sugar Company (Private) Limited
STATEMENT OF CASH FLOWS

Cash flows From / (Used in) Operating Activities	Note	2017	2016
		Rs.	Rs.
Profit/(Loss) before Taxation		402,703,163	1,006,287,730
Adjustments for,			
Depreciation	10	352,440,192	321,801,429
Loss on sale of property, plant and equipment		40,323	100,081
Finance Income	6	(220,524,878)	(151,467,371)
Finance Cost	6	120,545,127	71,992,194
Provision for Retirement Benefit Liability	19	71,127,492	69,730,649
Provision for farmer loans	11	-	-
Bad Debts		-	-
Write Back of Liabilities		-	-
Operating Profit before Working Capital Changes		726,331,418	1,318,444,712
(Increase)/Decrease in Inventories		418,696,177	(881,930,605)
Increase in Trade and Other Receivables		23,674,591	(52,616,071)
Decrease in Loans Due from Farmers		14,884,015	(11,373,798)
Increase/(Decrease) in Trade and Other Payables		(214,042,552)	413,140,230
Net Cash From Operating Activities		969,543,648	785,664,469
Income Tax Paid		(108,207,480)	(385,035,428)
Retirement Benefit Liability Paid	19	(44,131,131)	(27,123,616)
Net Cash Flows From Operating Activities		817,205,038	373,505,425
Cash Flows From/(Used in) Investing Activities			
Acquisition of Property, Plant and Equipment		(130,086,876)	(147,791,872)
Net (increase)/decrease in investments in Fixed Deposits		(133,773,746)	(416,626,646)
Investment in Biological Assets		(94,704,838)	141,060,217
Proceeds from the sale of Property, Plant and Equipment		-	-
Finance Income Received	6	220,524,878	151,467,371
Net Cash Flows Used in Investing Activities		(138,040,583)	(271,890,930)
Cash Flows From / (Used in) Financing Activities			
Loans/Finance Leases obtained		65,950,000	59,137,600
Loans settlements	18	(21,174,192)	(14,979,472)
Payments made on behalf previous owner		-	-
Repayment of government grant	17	-	-
Principle payments under finance lease obligation	18	(41,954,449)	(40,450,309)
Interest paid	6	(120,545,127)	(71,992,194)
Dividends paid		-	-
Net Cash Flows Used in Financing Activities		(117,723,767)	(68,284,375)
Adjustment to Head Office Reserves		(474,906)	(47,860)
Net Increase/(Decrease) in Cash and Cash Equivalents		560,965,782	33,282,260
Cash and Cash Equivalents at the beginning of the year	21	(500,008,067)	(533,290,327)
Cash and Cash Equivalents at the end of the year	21	60,957,716	(500,008,067)

The Accounting Policies and Notes on pages 37 to 57 form an integral part of these financial statements.

1. CORPORATE INFORMATION

1.1 General

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

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

1.2 Principal Activities and Nature of Operations

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

1.3 Date of Authorization for Issue

The financial statements of Lanka Sugar Company (Private) Limited for the year ended 31st December 2017 were authorized for issue, in accordance with a resolution of the Board of Directors on 21st June 2019.

2. GENERAL POLICIES

2.1 BASIS OF PREPARATION

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

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

The financial statements are presented in Sri Lankan Rupees (Rs).

2.1.1 Statement of Compliance

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

2.1.2. Going Concern

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

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.2.1 Functional and Presentation Currency

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

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

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

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

2.2.2 Revenue recognition

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

Sale of Goods

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

Interest income

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

Gains and losses on Disposal of Assets

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

2.2.3 Taxation

Current Taxes

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

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

Sales tax

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

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

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

Deferred tax

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

2.2.4 Expenses

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

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

2.2.4.1 **Borrowing Cost**

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

2.2.4.2 **Finance Cost**

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

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

2.2.5 Property, Plant and Equipment

Owned Assets

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

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of that equipment.
When parts of an item of property, plant & equipment have different useful lives, they are accounted for as separate items (major components) of property, plant & equipment.

Leased Assets

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

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

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

Operating lease payments are recognized as an operating expense in the Statement of Profit or Loss on a straight-line basis over the lease term.

Subsequent expenditure

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

The costs of the day-to-day servicing of property, plant and equipment are recognized in the Statement of Profit and Loss as incurred.

De-recognition

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

Depreciation

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

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

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

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

2.2.6 Inventories

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

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

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

2.2.7 Financial Instruments – initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and receivables

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

De-recognition

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

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

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

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

Impairment of financial assets

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

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and borrowings

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

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

De-recognition

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

2.2.8 Cash and Cash Equivalents

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

2.2.9 Impairment of non- financial assets

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

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

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

2.2.10 Liabilities and Provisions

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

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

2.2.10.1 Employee Benefits

Defined contribution plan

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

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

Defined benefit plans

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

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

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

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

The liability is not externally funded.

Short-term benefits

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

2.2.10.2 Government Grant

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

2.2.10.3 Provisions

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

2.2.11 Changes in Accounting Policies

The accounting policies adopted are consistent with prior year.

2.3 USE OF ESTIMATES AND JUDGEMENTS

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

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

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

Impairment of non-financial assets

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

Depreciation of Property, Plant and Equipment

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

Impairment of Receivables

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

3. STANDARDS ISSUED BUT NOT YET EFFECTIVE

SLFRS 9 – Financial Instruments

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

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

SLFRS 15 – Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.
SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

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

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

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

4. REVENUE

	2017 Rs.	2016 Rs.
4.1 Summary		
Sales of Goods	7,616,939,721	7,728,890,324
	7,616,939,721	7,728,890,324
4.2 Revenue is derived from the following:		
Sugar	4,637,042,513	4,059,937,569
Molasses	987,750	738,750
ENA	2,978,909,458	3,668,214,005
	7,616,939,721	7,728,890,324

4.3 Segment Information

	Head Office Rs.	Pelwatte Division Rs.	Sevanagala Division Rs.	Elimination Rs.	Total Rs.
Segment Revenue	58,811,953	4,706,938,137	2,910,001,583	(58,811,953)	7,616,939,721
Segment Results					
Gross Profit /(Loss)	58,811,953	373,404,840	1,140,838,897	(58,811,953)	1,514,243,737
Other					
Capital Expenditure	1,144,461	75,383,798	56,691,339	-	133,219,598
Depreciation	3,230,529	232,284,484	116,925,178	-	352,440,192
Segment Assets					
Non Current Assets	7,117,715	1,725,673,089	470,464,640	-	2,203,255,444
Current Assets	184,989,984	3,151,526,160	2,380,356,715	(515,252,025)	5,201,620,835
Segment Liabilities					
Non Current Liabilities	-	494,651,006	162,083,310	-	656,734,317
Current Liabilities	183,314,224	1,476,540,931	574,813,765	(515,252,025)	1,719,416,895

5. OTHER INCOME AND GAINS

	2017 Rs.	2016 Rs.
Other Service Income	16,004,000	40,274,918
Sundry Income	31,853,289	30,028,563
	-	-
	47,857,289	70,303,481

6. FINANCE COST AND INCOME

	2017 Rs.	2016 Rs.
6.1 Finance Cost		
Interest Expenses on Bank Loans	32,358,024	13,955,202
Interest Expenses on Bank Overdrafts	80,584,514	49,837,683
Finance Charges on Lease Liabilities	7,562,267	8,199,309
Loss on Disposal of Fixed Assets	40,323	100,081
	120,545,127	72,092,275
6.2 Finance Income		
Interest Income on Loans Due from Farmers	57,319,129	61,600,660
Interest Income on Fixed Deposits	163,205,749	89,538,596
Other Interest Income	-	328,115
	220,524,878	151,467,371

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

7. PROFIT BEFORE TAX

Stated after Charging	2017 Rs.	2016 Rs.
Included in Cost of Sales		
Employee Benefits including the following		
- Defined Contribution Plan Costs - EPF and ETF	178,685,022	176,489,982
Depreciation	292,408,578	270,717,322
Included in Administrative Expenses		
Employee Benefits including the following		
- Defined Benefit Plan Costs - Gratuity	71,127,491	36,000,000
- Defined Contribution Plan Costs - EPF and ETF	50,087,154	47,455,070
Depreciation	59,634,601	51,075,025
Audit Fees	850,000	850,000
Bad Debts on Farmers Loans	62,228,740	33,425,595

8. INCOME TAX EXPENSE/(REVERSAL)

	2017 Rs.	2016 Rs.
Current Income Tax	54,319,043	183,699,514
Deferred Tax Charge/ (Reversal) (Note 8.2)	220,724,279	(6,649,239)
	275,043,322	177,050,275

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

	2017	2016
Accounting profit /(loss) before tax	402,703,163	1,006,287,730
Adjustment for prior year profits	-	(1000)
Adjusted accounting profit/(loss) before tax	402,703,163	1,006,286,730
Aggregate disallowed items	436,847,073	404,493,267
Aggregate allowed items	(363,677,132)	(488,654,435)
Adjustment for previous year profit		
Business profit/(Loss) for tax purpose	475,873,104	922,125,562
Other Sources of Income Liable to Tax		
Interest Income	220,524,878	89,538,596
Total Assessable Income	696,397,982	1,011,664,158
Tax losses utilized during the year	(243,739,294)	(355,594,467)
Taxable Income	452,658,688	656,069,692
Income Tax at @ 12%	54,319,043	183,699,514
Tax losses brought forward	926,202,880	1,281,797,347
Tax losses incurred during the year	434,310,991	-
Tax losses utilized during the year	(400,106,947)	(355,594,467)
Tax losses carried forward	960,406,925	926,202,880

8.2 Deferred Tax Assets

	Statement of Financial Position		Statement of Profit and Loss	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Deferred Tax Liability				
On Property, Plant & Equipment	(311,909,307)	(37,040,188)	(274,869,119)	(5,280,730)
	(311,909,307)	(37,040,188)	(274,869,119)	(5,280,730)
Deferred Tax Asset				
On Property , Plant & Equipment	-	-	-	-
On Retirement Benefit Obligation	183,352,056	129,207,216	54,144,840	11,929,969
	183,352,056	129,207,216	54,144,840	11,929,969
			(220,724,279)	6,649,239
Deferred Income Tax reversal	-			
Net Deferred Tax Asset/(Liability)	(128,557,251)	92,167,028		

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:	2017 Rs.	2016 Rs.
Net Profit/(Loss) Attributable to Ordinary Shareholders for Earnings Per Share	127,659,841	829,237,456

Numbers of Ordinary Shares Used as Denominator:	2017 Number	2016 Number
Weighted average Number of Ordinary Shares Applicable to Basic Earnings/(Loss) Per Share	100	100

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

10. PROPERTY, PLANT AND EQUIPMENT

10.1 Gross Carrying Amounts

	Balance As at 01.01.2017 Rs.	Additions/ Transfers Rs.	Disposals/ Transfers Rs.	Balance As at 31.12.2017 Rs.
Land	44,149,728	-	-	44,149,728
Land Development	165,206,052	-	-	165,206,052
Factory Buildings	241,393,459	2,971,321	-	244,364,780
Buildings Others	229,159,601	-	-	229,159,601
Field Machinery and Equipment	415,045,104	9,865,741	-	424,910,845
Irrigation and Miscellaneous Equipment	195,178,651	12,026,894	-	207,205,545
Factory Plant and Equipment	2,728,688,860	51,251,145	-	2,779,940,005
Other Plant and Machinery	118,798,403	34,360,000	-	153,158,403
Storage Tank	63,398,475	-	-	63,398,475
Roads and Bridges	111,179,516	-	-	111,179,516
Laboratory Equipment	49,291,526	-	-	49,291,526
Motor Vehicles	162,126,356	-	-	162,126,356
Furniture, Fittings and Equipment	170,605,731	12,918,800	(105,188)	183,419,343
Settler Zone Infrastructure	73,193,739	-	-	73,193,739
	4,767,415,198	123,393,901	(105,188)	4,890,703,912
Assets on Finance Leases				
Motor Vehicles	58,013,750	-	-	58,013,750
New Holland Tractor	30,524,000	-	-	30,524,000
Field Machinery and Equipment	68,728,920	-	-	68,728,920
	157,266,670	-	-	157,266,670
In the Course of Construction				
Land Development	13,430,469	6,363,758	-	19,794,226
Building - Others	4,945,067	2,286,120	(2,971,321)	4,259,866
Roads and Bridges	161,400	-	(161,400)	-
Factory Plant and Equipment	2,254,850	-	-	2,254,850
Hotel Project	37,410,797	-	-	37,410,797
Compost Plant	571,362	-	-	571,362
Irrigation Project / Tube Well	-	1,175,818	-	1,175,818
Power Generation Project	2,008,690	-	-	2,008,690
Water Treatment Plant	27,067,811	-	-	27,067,811
	87,850,446	9,825,696	(3,132,721)	94,543,421
In the Course of Construction - On Finance Leases				
Factory Plant and Equipment	120,750,000	-	-	120,750,000
	120,750,000	-	-	120,750,000
Total Gross Carrying Amount	5,133,282,315	133,219,598	(3,237,909)	5,263,264,003

10.2 Depreciation

	Balance As at 01.01.2017 Rs.	Charge for the year Rs.	Disposals Rs.	Balance As at 31.12.2017 Rs.
Land Development	64,099,936	3,471,804	-	67,571,740
Factory Buildings	141,527,604	5,340,525	-	146,868,129
Buildings Others	117,376,984	4,873,918	-	122,250,902
Field Machinery and Equipment	394,212,382	18,036,374	-	412,248,756
Irrigation and Miscellaneous Equipment	144,879,583	6,130,858	-	151,010,441
Factory Plant and Equipment	1,251,828,220	227,859,709	-	1,479,687,929
Other Plant and Machinery	50,854,593	12,245,104	-	63,099,697
Storage Tank	22,775,055	2,967,660	-	25,742,715
Roads and Bridges	100,935,019	1,601,454	-	102,536,473
Laboratory Equipment	34,835,882	4,455,558	-	39,291,440
Motor Vehicles	126,814,177	21,901,039	-	148,715,217
Furniture, Fittings and Equipment	142,134,033	17,606,135	(64,865)	159,675,303
Settler Zone Infrastructure	68,197,667	823,072	-	69,020,739
	2,660,471,135	327,313,211	(64,865)	2,987,719,480
Assets on Finance Leases				
Motor Vehicles	14,095,000	11,602,750	-	25,697,750
New Holland Tractor	-	-	-	-
Field Machinery and Equipment	33,067,103	13,524,231	-	46,591,334
	47,162,103	25,126,981	-	72,289,084
Total Depreciation	2,707,633,237	352,440,192	(64,865)	3,060,008,564

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

10.3 Net Book Values

	2017 Rs.	2016 Rs.
Land	44,149,728	44,149,728
Land Development	97,634,312	101,106,116
Factory Buildings	97,496,651	100,149,706
Buildings Others	106,908,699	111,498,765
Field Machinery and Equipment	12,662,089	18,498,275
Irrigation and Miscellaneous Equipment	56,195,102	50,299,068
Factory Plant and Equipment	1,300,252,076	1,476,860,640
Other Plant and Machinery	90,058,707	67,943,811
Storage Tank	37,655,760	40,623,420
Roads and Bridges	8,643,042	10,244,497
Laboratory Equipment	10,000,086	14,455,644
Motor Vehicles	13,411,140	42,365,179
Furniture, Fittings and Equipment	23,744,042	28,471,699
Settler Zone Infrastructure	4,172,999	4,996,072
	1,902,984,432	2,111,662,620
Assets on Finance Lease		
Motor Vehicles	32,316,000	71,758,500
New Holland Tractor	30,524,000	-
Field Machinery and Equipment	22,137,586	37,996,264
	84,977,586	109,754,764
In the Course of Construction		
Land Development	19,794,226	13,751,376
Building - Others	4,259,866	
Roads and Bridges	-	
Factory Plant and Equipment	2,254,850	2,900,929
Hotel Project	37,410,797	37,410,797
Compost Plant	571,362	571,362
Irrigation Project	1,175,818	-
Power Generation Project	2,008,690	1,779,419
Water Treatment Plant	27,067,811	27,067,811
	94,543,421	83,481,694
In the Course of Construction - On Finance Leases		
Factory Plant and Equipment	120,750,000	120,750,000
	120,750,000	120,750,000
Total carrying amount of Property, Plant and Equipment	2,203,255,439	2,425,649,078

10.4 During the financial period, the company acquired Property, Plant and Equipment to the aggregate value of Rs.130,086,876/- (2016 - Rs.147,791,872/-) for cash.

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

	2017	2016
Land Development	50 Years	50 Years
Factory Buildings	50 Years	50 Years
Buildings Others	50 Years	50 Years
Field Machinery and Equipment	5 - 6.67 Years	5 - 6.67 Years
Irrigation and Miscellaneous Equipment	16.67 Years	16.67 Years
Factory Plant and Equipment	10-20 Years	10-20 Years
Other Plant and Machinery	5 - 20 Years	5 - 20 Years
Roads and Bridges	20 Years	20 Years
Motor Vehicles	2 - 5 Years	2 - 5 Years
Furniture, Fittings and Equipment	4 - 5 Years	4 - 5 Years
Settler Zone Infrastructure	3 - 50 Years	3 - 50 Years

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

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
		-

11. INVENTORIES

	2017 Rs.	2016 Rs.
Produced Inventory (11.1)	1,111,341,731	1,541,499,600
Other Inventory (11.2)	778,297,613	766,835,928
	1,889,639,344	2,308,335,528

11.1 Produced Inventory

Sugar	777,386,584	1,142,191,116
Molasses	236,465,300	162,713,574
ENA	97,489,847	236,594,910
	1,111,341,731	1,541,499,600

11.2 Other Inventory

Fuel and Lubricants	43,532,411	45,494,914
Factory Chemicals	6,827,933	5,780,704
Production Items Distillery	1,105,793	896,136
Bags and Liners	4,907,330	5,374,975
Fertilizers	71,121,693	83,719,067
General	56,323,145	25,538,706
Agriculture Spares	182,811,996	166,528,800
Stationery	3,318,777	1,807,920
Factory Spares	249,540,715	354,751,732
Other Inventory	135,197,791	-
Tires and Tubes	8,657,655	6,168,753
	763,345,240	696,061,708
Less: Provision for Obsolete Stocks	(9,251,437)	(9,251,437)
	754,093,803	686,810,271
Goods-in-Transit	24,203,810	80,025,657
	778,297,613	766,835,928

12. BIOLOGICAL ASSETS

	2017 Rs.	2016 Rs.
Standing Cane	577,842,993	483,138,155
	577,842,993	483,138,155

13. TRADE AND OTHER RECEIVABLES

	2017 Rs.	2016 Rs.
Trade Receivables	276,920	760,705
Other Receivables	101,242,870	127,576,313
Staff Loans (13.1)	19,719,436	8,937,428
	121,239,226	137,274,446

13.1 Staff Loans

Balance at the beginning of the year	8,937,428	9,674,811
Loans granted during the year	65,128,502	55,168,057
Repayments made during the year	(54,346,494)	(55,905,440)
Balance at the end of the year	19,719,436	8,937,428

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

14. LOANS DUE FROM FARMERS

	2017 Rs.	2016 Rs.
Balance at the beginning of the year	1,242,489,304	1,193,322,671
Loans granted during the year	667,655,009	1,121,357,797
Loans recovered during the year	(614,023,724)	(1,072,191,163)
Identified loans relating to previous management	-	-
Loans written off		
Total Loans Granted	1,289,834,030	1,242,489,304
Less: Provision for Doubtful Recoveries	(455,458,002)	(393,229,262)
Balance at the end of the year	834,376,028	849,260,042

15. INVESTMENTS

	2017 Rs.	2016 Rs.
Current		
Fixed Deposits	1,461,238,692	1,327,464,946
	1,461,238,692	1,327,464,946

16. STATED CAPITAL

	2017 Number	2017 Rs.	2016 Number	2016 Rs.
Fully Paid Ordinary Shares	100	1000	100	1000

17. GOVERNMENT GRANT

	2017 Rs.	2016 Rs.
As at beginning of the period	4,047,943,334	4,047,990,194
Revaluation of Plant and Machinery		
Repayments	46,860	(46,860)
	4,047,990,194	4,047,943,334

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

	2017			2016		
	Amounts Repayable Within 1 Year Rs.	Amounts Repayable After 1 year Rs.	Total Rs.	Amounts Repayable Within 1 Year Rs.	Amounts Repayable After 1 year Rs.	Total Rs.
Bank Loans (18.1)	13,744,242	84,019,030	97,763,272	16,221,615	8,454,439	24,676,054
Bank Overdrafts (21.2)	189,469,045	-	189,469,045	529,528,543	-	529,528,543
Finance Leases (18.2)	49,601,659	18,652,904	68,254,563	44,200,493	94,319,929	138,520,422
	252,814,946	102,671,934	355,486,880	589,950,651	102,774,368	692,725,019

18.1 Bank Loan

	As at 01.01.2017 Rs.	New Loans Obtained Rs.	Repayments Rs.	As at 31.12.2017 Rs.
Bank of Ceylon	13,266,731	27,000,000	13,793,660	26,473,071
Sampath Bank	11,209,323	-	2,443,957	8,765,366
NDB Bank	-	38,950,000	4,936,575	34,013,425
	24,476,054	65,950,000	21,174,192	69,251,862

18.2 Finance Leases

	As at 01.01.2017 Rs.	New Leases Obtained Rs.	Repayments Rs.	As at 31.12.2017 Rs.
Vallibal Finance PLC	-	-	-	-
Bank of Ceylon	166,252,493	-	54,509,544	111,742,949
Gross Liability	166,252,493	-	54,509,544	111,742,949
Finance Charges Allocated to Future Periods	(27,732,071)			(15,176,976)
Net Liability	138,520,422			96,565,973

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

19. RETIREMENT BENEFIT LIABILITY

	2017 Rs.	2016 Rs.
As at the beginning of the period	428,339,411	428,560,861
Interest Cost	44,975,638	42,519,108
Liability established for Sevanagala Division	-	24,365,366
Current service cost	26,151,854	2,846,175
Benefit Paid	(44,131,131)	(27,123,616)
Actuarial (Gain)/Loss	(29,830,638)	(43,835,934)
As at the end of the period	425,505,133	428,339,411

19.1 Messers Actuarial and Management Consultation (Private) Limited Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity on 31 December 2017. 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:

	2017	2016
Pelawatte Division		
Discount Rate	10.50%	10.50%
Rate of Salary Increase	1.50%	1.50%
Retirement Age	55 Years	55 Years
Sevanagala Division		
Discount Rate	10.50%	10.50%
Rate of Salary Increase	Fixed amount	Fixed amount
Retirement Age	55 Years	55 Years

20. TRADE AND OTHER PAYABLES

	2017 Rs.	2016 Rs.
Trade Payables (20.1)	286,567,372	413,727,641
Advances Received from customers	219,584,790	344,788,760
Other Payables (20.2)	160,296,573	199,301,324
Sundry Creditors including Accrued Expenses (20.3)	537,493,209	460,166,770
Distilleries Company of Sri Lanka PLC	24,784,659	24,784,659
Recovered from Farmers	59,822,499	59,822,499
	1,288,549,102	1,502,591,653
20.1 Trade Payables		
Trade Creditors	286,567,372	413,727,641
	286,567,372	413,727,641
20.2 Other Payables		
VAT Payable	47,502,082	51,119,095
NBT Payable	112,794,491	148,182,229
	160,296,573	199,301,324
20.3 Sundry Creditors including Accrued Expenses		
Sundry Creditors	186,796,026	160,351,440
Accrued Expenditure	350,697,182	299,815,330
	537,493,209	460,166,770

21. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

Components of Cash and Cash Equivalents	2017 Rs.	2016 Rs.
21.1 Favorable Cash and Cash Equivalents Balances		
Cash and Bank Balances	250,426,762	29,520,476
21.2 Unfavorable Cash and Cash Equivalent Balances		
Bank Overdrafts	(189,469,045)	(529,528,543)
Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement	60,957,716	(500,008,067)

22. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

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

23. ASSETS PLEDGED

Nature of Assets	Nature of Liability	Carrying Value Rs.	Included under
Fixed Deposits	Overdraft facility of A/C No 73947899 Bank Of Ceylon	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

	2017 Rs.	2016 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	2017 Rs.	2016 Rs.
Directors Fee	2,791,500	3,650,000

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.

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 Rs	Less than 3 months Rs	3 to 12 months Rs	1 to 5 years Rs
Interest-bearing loans and borrowings	189,469,045		63,345,901	102,671,934
Trade and other payables	1,288,549,102			
	1,478,018,147	-	63,345,901	102,671,934

Capital management

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

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

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

	Rs
Interest Bearing Borrowings	355,486,880
Trade and Other Payables	1,288,549,102
Less: Cash and Cash Equivalents	(250,426,762)
Net Debt	1,393,609,220
Equity	5,045,217,729
Total Capital	5,045,217,729
Gearing ratio	21.70%

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

28. EVENTS AFTER THE REPORTING PERIOD

No any circumstances have arisen since the reporting date, which would require adjustments to or disclosure in the Financial Statements.

29 RELATED PARTY DISCLOSURE

Related Parties of Lanka Sugar Company (Private) Limited are Ministry of Industry & Commerce,General Treasury of Sri Lanka and the Board of Directors. There are no transactions with aforesaid related parties in the reporting financial year, except for the directors' emoluments and fee which already have been declared in the note 25 to this Financial Statements

29 Transactions with Key Management Personnel

-

29.1. Loans to Directors

No loans have been given to the Directors of the Company.

29.1. Other Transactions With Key Management Personnel

There are no other transanctions with the related parties during the reporting financial period.

30. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no contingent liabilities and assets reported during the financial year ended 31.12.2017

31. AGRICLUTURE

Biological Assets are stated at fair value and shown under current-assets since they realize within a period of one year and is given in the note 12 to this Financial Statements.

Lanka Sugar Company (Private) Limited - Pelwatte Division
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Year ended 31 December 2017

	2017 Rs.	2016 Rs.
Revenue	4,706,938,137	4,956,031,617
Cost of Sales	(4,333,533,297)	(3,951,678,443)
Gross Profit	373,404,840	1,004,353,174
Other Income and Gains	755,406	549,691
Administrative Expenses	(543,865,758)	(571,358,647)
Finance Cost	(98,084,194)	(54,403,866)
Finance Income	107,508,492	82,807,687
Profit / (Loss) before tax	(160,281,213)	461,948,039
Income Tax Reversal / (Expense)	(144,495,100)	(17,510,187)
Profit / (Loss) for the year	(304,776,313)	444,437,852
Other Comprehensive Income for the period, net of tax		
Actuarial Gain	19,029,732	39,516,902
Total Comprehensive Income for the period, net of tax	(285,746,581)	483,954,754

Lanka Sugar Company (Private) Limited - Pelwatte Division
STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

ASSETS	2017	2016
	Rs.	Rs.
Non-Current Assets		
Property, Plant and Equipment	1,725,673,089	1,885,706,496
Deferred Tax Asset	-	77,630,406
	1,725,673,089	1,963,336,902
Current Assets		
Inventories	1,133,460,699	1,477,190,417
Biological Assets	577,842,993	483,138,155
Trade and Other Receivables	53,577,801	34,699,439
Advances and Prepayments	24,782,028	44,489,046
Loans Due from Farmers	576,090,443	578,818,657
Amounts Due from Related Parties	67,548,086	-
Investments	675,339,432	603,162,691
Cash and Cash Equivalents	42,884,678	702,752
	3,151,526,160	3,222,201,157
Total Assets	**4,877,199,249**	**5,185,538,059**
EQUITY AND LIABILITIES		
Capital and Reserves		
Government Grant	3,468,770,753	3,468,770,753
Accumulated Profit	(539,648,008)	(259,586,511)
Total Equity	2,929,122,744	3,209,184,242
Non-Current Liabilities		
Deferred Tax Liability	88,056,768	-
Retirement Benefit Liability	372,668,817	367,676,275
Interest Bearing Loans and Borrowings	33,925,422	64,350,437
	494,651,006	432,026,712
Current Liabilities		
Interest Bearing Loans and Borrowings	222,393,268	464,787,034
Trade and Other Payable	923,175,050	1,007,025,708
Income Tax Payable	(25,081,032)	23,423,210
Amounts Due to Related Parties	332,938,212	49,091,153
	1,453,425,498	1,544,327,105
Total Equity and Liabilities	**4,877,199,249**	**5,185,538,059**

Lanka Sugar Company (Private) Limited - Pelwatte Division
STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2017

	Government Grant Rs.	Retained Earnings/(Loss) Rs.	Total Rs.
As at 01 January 2016	3,468,770,753	(743,541,266)	2,725,229,487
Profit for the year	-	444,437,852	444,437,852
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
Profit for the year		(304,776,313)	(304,776,313)
Adjustment - Income Tax 2016/2017		5,685,084	5,685,084
Dividends paid		-	-
Total Other Comprehensive Income for the year, net of tax		19,029,732	19,029,732
As at 31 December 2017	3,468,770,753	(539,648,008)	2,929,122,744

Lanka Sugar Company (Private) Limited - Pelwatte Division
STATEMENT OF CASH FLOWS
Year ended 31 December 2017

	2017	2016
Cash Flows From / (Used in) Operating Activities	Rs.	Rs.
Profit / (Loss) before Taxation	(160,281,213)	461,948,039
Adjustments for,		
Depreciation	232,284,484	213,624,657
Finance Income	(107,508,492)	(82,807,687)
Finance Cost	98,084,194	54,403,866
Farmer Loans written back	-	-
Provision for slow moving inventory	-	-
Provision for Loans from Farmers	(149,280,594)	33,425,595
Provision for Retirement Benefit Liability	62,265,355	61,485,894
Operating Profit/(Loss) before Working Capital Changes	(24,436,266)	742,080,364
(Increase)/Decrease in Inventories	249,024,878	(551,872,843)
(Increase)/Decrease in Trade and Other Receivables	828,657	(23,227,805)
Increase in Loans Due from Farmers	152,008,808	(90,620,608)
Decrease in Amounts Due from Related Party	(67,548,086)	824,135
Increase/(Decrease) in Amounts due to Related Parties	283,847,059	(6,703,106)
Increase/(Decrease) in Trade and Other Payables	(83,850,658)	288,315,597
Net Cash From Operating Activities	509,874,393	358,795,735
Finance Cost Paid	(98,084,194)	(54,403,866)
Income Tax Paid	(21,627,084)	(224,273,234)
Retirement Benefit Liability Paid	(38,243,081)	(25,498,000)
Net Cash From/ (Used in) Operating Activities	351,920,034	54,620,634
Cash Flows From / (Used in) Investing Activities		
Acquisition of Property, Plant and Equipment	(72,251,077)	(70,913,844)
(Investments)/Withdrawals in/of Fixed Deposits Finance	(72,176,741)	(35,350,391)
Income Received	107,508,492	82,807,687
Net Cash Flows Used in Investing Activities	(36,919,326)	(23,456,548)
Cash Flows From / (Used in) Financing Activities		
Dividends paid	-	-
Financing obtained during the period	-	21,366,800
Principle Payments under Finance Lease Liabilities	(24,114,927)	(17,867,215)
Principle Payments under Bank Loan Liabilities	(6,001,957)	(6,172,316)
Net Cash Flows Used in Financing Activities	(30,116,885)	(2,672,731)
Net Increase/(Decrease) in Cash and Cash Equivalents	284,883,824	28,491,356
Cash and Cash Equivalents at the beginning of the year	(431,468,190)	(459,959,546)
Cash and Cash Equivalents at the end of the year	(146,584,366)	(431,468,190)

Lanka Sugar Company (Private) Limited - Sevanagala Division

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017	2016
	Rs.	**Rs.**
Revenue	2,923,591,583	2,772,858,707
Cost of Sales	(1,769,162,686)	(1,596,154,255)
Gross Profit	1,154,428,897	1,176,704,453
Other Income and Gains	50,077,264	68,798,419
Finance Income	94,026,662	68,659,684
Administrative Expenses	(723,302,626)	(752,926,803)
Finance Cost	(22,397,087)	(17,578,219)
Profit before tax	552,833,110	543,657,534
Income Tax Expense	(130,548,221)	(159,963,352)
Profit for the year	422,284,889	383,694,182
Other Comprehensive Income		
Other Comprehensive Income for the year, net of tax	10,800,906	4,319,032
Total Comprehensive Income for the year, net of tax	433,085,795	388,013,214

Lanka Sugar Company (Private) Limited - Sevanagala Division

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	2017	2016
ASSETS	**Rs.**	**Rs.**
Non-Current Assets		
Property, Plant and Equipment	470,464,640	530,698,475
Deferred Tax Asset	-	16,101,142
	470,464,640	546,799,617
Current Assets		
Inventory	756,178,652	831,145,111
Allotees/Farmers Receivables	258,285,586	270,441,386
Amounts Due from Related Parties	467,819,578	103,570,218
Advances and Prepayments	12,897,072	10,113,693
Other Receivable	66,924,638	97,980,200
Investment in Fixed Deposits	762,899,260	701,302,255
Cash and Cash Equivalents	55,351,930	21,640,667
	2,380,356,716	2,036,193,531
Total Assets	**2,850,821,356**	**2,582,993,148**
EQUITY AND LIABILITIES		
Capital and Reserves		
Government Grant	579,172,586	579,172,586
Retained Earnings	1,528,133,789	1,010,949,515
Total Equity	2,107,306,376	1,590,122,101
Non Current Liabilities		
Deferred Tax Liability	40,500,483	-
Retirement Benefit Liability	52,836,315	60,663,135
Interest Bearing Loans and Borrowings	68,746,512	38,423,931
	162,083,310	99,087,066
Current Liabilities		
Interest Bearing Loans and Borrowings	30,421,679	125,163,616
Trade and Other Payables	364,368,580	488,704,665
Income Tax Payable	186,641,411	279,915,700
	581,431,670	889,097,050
Total Equity and Liabilities	**2,850,821,356**	**2,582,993,148**

Lanka Sugar Company (Private) Limited - Sevanagala Division
STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2017

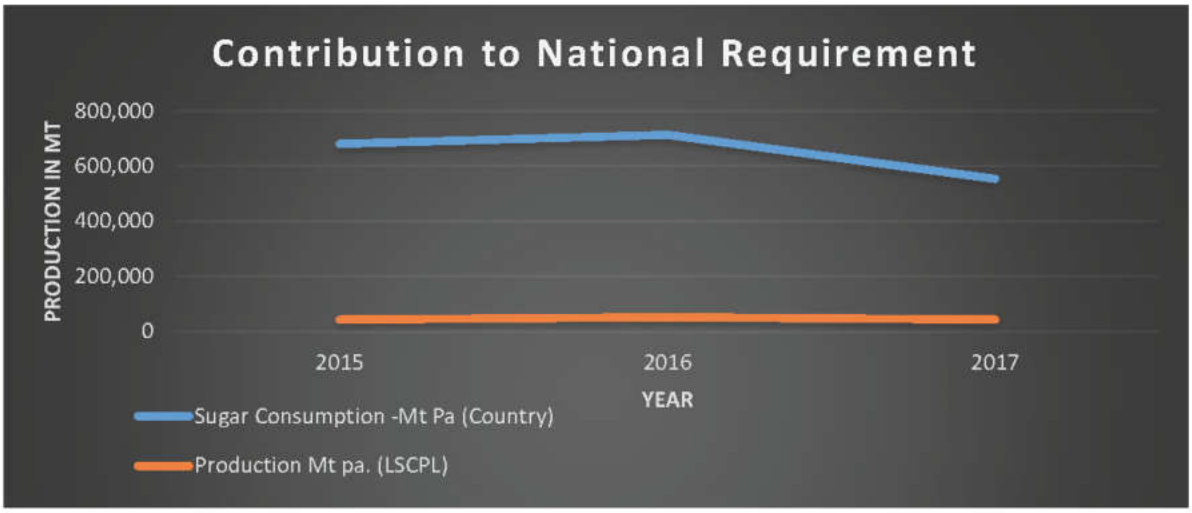
	Government Grant Rs.	Retained Earnings Rs.	Total Rs.
As at 01 October 2012	111,270,858	361,456,965	472,727,823
Profit for the period	-	66,664,978	66,664,978
Paid by treasury on behalf of previous owner	(160,434)	-	(160,434)
As at 01 January 2013	111,110,424	428,121,943	539,232,367
Profit for the year	-	323,591,646	323,591,646
Repayment of Government Grant	(25,000,000)	-	(25,000,000)
Paid by Company on behalf of previous owner	(25,000)	-	(25,000)
As at 31 December 2013	86,085,424	751,713,589	837,799,013
Profit for the year		135,630,713	135,630,713
Revaluation of Plant and Machinery	494,000,000		494,000,000
Dividends paid during the year		(30,042,557)	(30,042,557)
Paid by Company on behalf of previous owner	(774,983)		(774,983)
As at 31 December 2014	579,310,441	857,301,744	1,436,612,185
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)
Paid by Company on behalf of previous owner	579,220,441	622,936,301	1,202,156,742
As at 31 December 2015		388,013,212	388,013,212
Profit/Loss for the year			
Adjustments	(47,855)		(47,855)
As at 31 December 2016	579,172,586	1,010,949,514	1,590,122,101
Profit/Loss for the year		433,085,795	433,085,795
Adjustment - Income Tax - 2016/2017		84,098,480	84,098,480
Dividends paid during the year			
Paid by Company on behalf of previous owner			
As at 31 December 2017	579,172,586	1,528,133,789	2,107,306,375

Lanka Sugar Company (Private) Limited - Sevanagala Division
STATEMENT OF CASH FLOWS
Year ended 31 December 2017

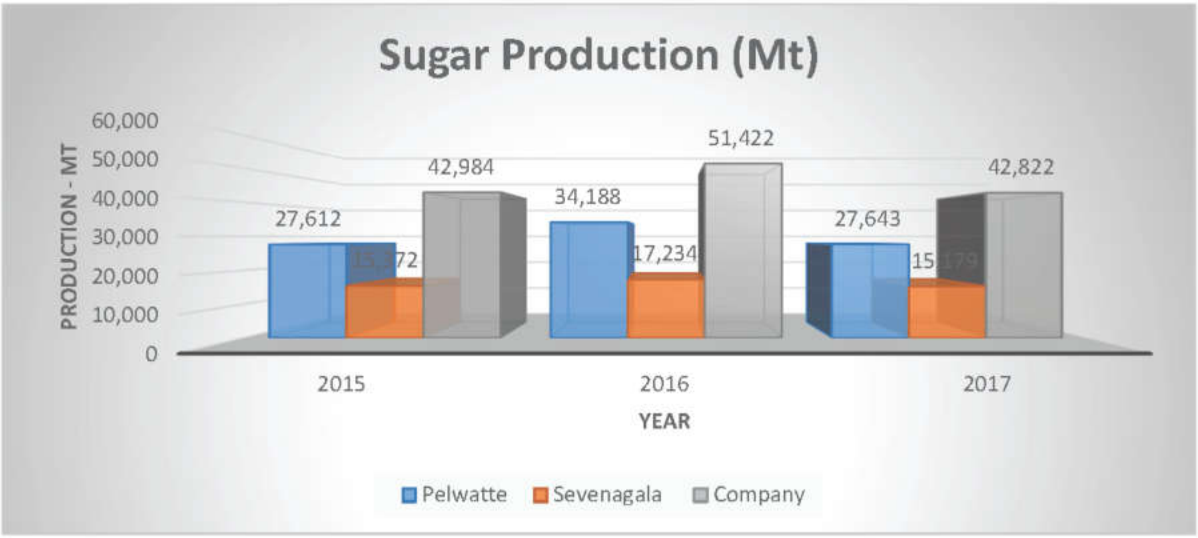
Cash flows From Operating Activities	**2017**	**2016**
	Rs.	**Rs.**
Profit before Taxation	552,833,110	543,657,534
Adjustments for,		
Depreciation	116,925,179	105,333,334
Finance Income	(94,026,662)	(41,777,252)
Finance Cost	22,397,087	17,578,219
Bad Debts	-	4,367,241
Provision for doubtful advance		
Provision for Retirement Benefit Liability	8,862,136	3,925,723
Operating Profit/(Loss) before Working Capital Changes	606,990,850	633,084,798
(Increase)/Decrease in Inventories	74,966,459	(188,997,542)
Increase in Trade and Other Receivables	37,305,573	13,796,722
Increase in Amounts due from Related Parties	(364,249,360)	8,682,723
Increase/(Decrease) in Trade and Other Payables	(124,336,085)	(40,098,342)
Decrease in Amounts due from Related Parties		
Finance Cost Paid	(22,397,087)	(17,578,219)
Income tax paid	(80,000,000)	2,386,221
Benefit Paid	(5,888,050)	(1,625,616)
Net Cash From Operating Activities	122,392,301	409,650,745
Cash Flows From Investing Activities		
Acquisition of Property, Plant and Equipment	(56,691,339)	(75,335,622)
Proceeds from the sale of Property, Plant and Equipment	-	-
Investment in Fixed Deposits	(61,597,005)	(381,302,255)
Finance Income Received	94,026,662	41,777,252
Repayment of Government Grant	-	(47,855)
Net Cash Flows Used in Investing Activities	(24,261,682)	(414,908,480)
Cash Flows From Financing Activities		
Proceeds from Interest Bearing Loans and Borrowings	65,950,000	-
Repayment of Interest Bearing Loans and Borrowings	(15,172,235)	(8,807,156)
Principle Payment under Finance Lease Liabilities	(17,839,521)	15,187,691
Payment of Dividends	-	-
Net Cash Flows From/ (Used in) Financing Activities	32,938,244	6,380,535
Net Increase/(Decrease) in Cash and Cash Equivalents	131,068,863	1,122,801
Cash and Cash Equivalents at the beginning of the year	(75,716,934)	(76,839,733)
Cash and Cash Equivalents at the end of the year	55,351,929	(75,716,934)

OUR CONTRIBUTION TO THE NATIONAL ECONOMY

Description	2015	2016	2017
Sugar Consumption -Mt Pa (Country)	680,057	713,168	553,336
Production Mt pa. (LSCPL)	42,984	51,422	42,822
Contribution to the Economy	6.32%	7.21%	7.74%

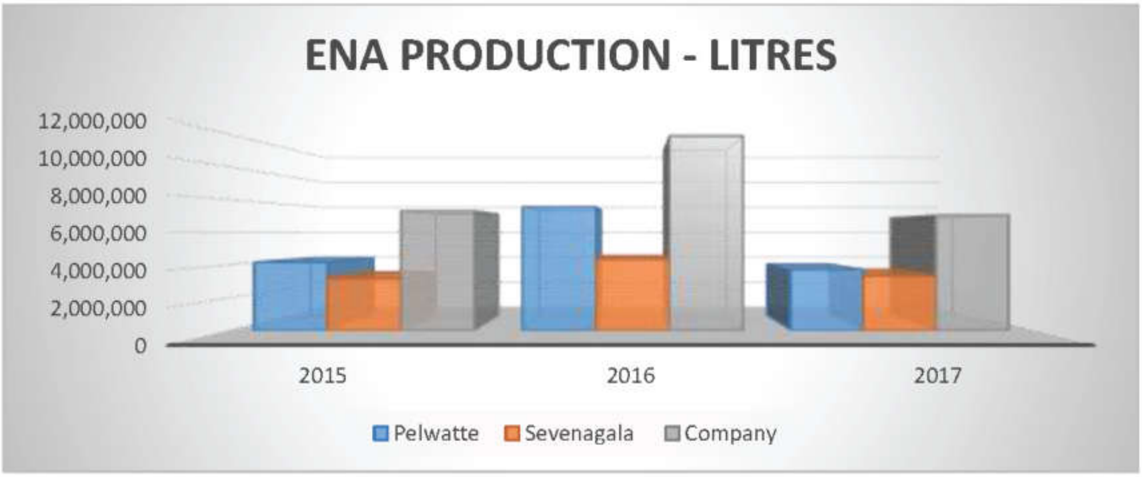


Sugar Production (Mt)			
Division	2015	2016	2017
Pelwatte	27,612	34,188	27,643
Sevenagala	15,372	17,234	15,179
Company	42,984	51,422	42,822



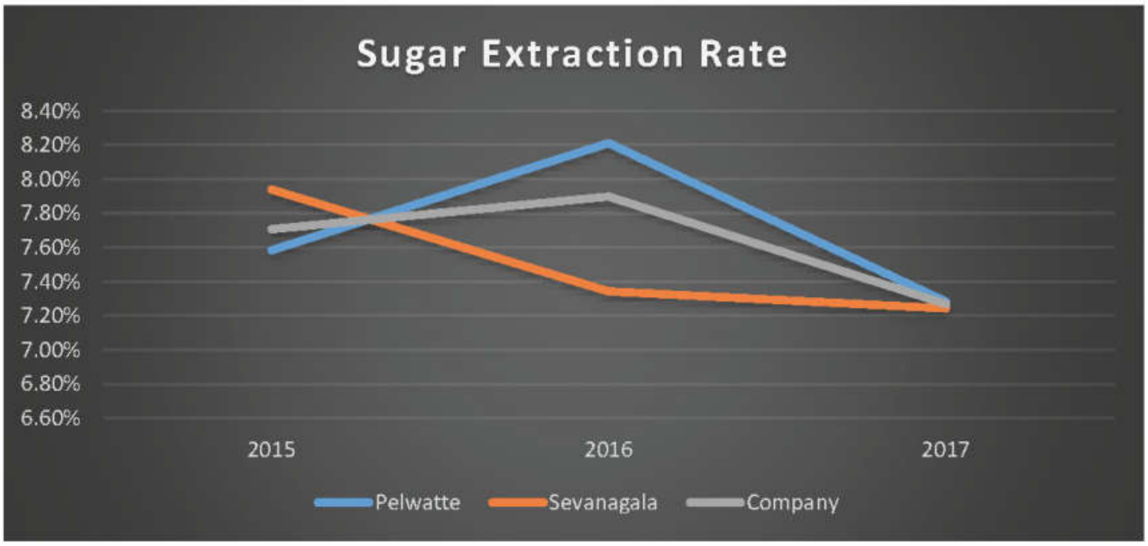
Ethanol Production (Liters)

Division	2015	2016	2017
Pelwatte	4,162,662	7,576,197	3,713,831
Sevenagala	3,154,689	4,341,082	3,331,392
Company	7,317,351	11,917,279	7,045,223



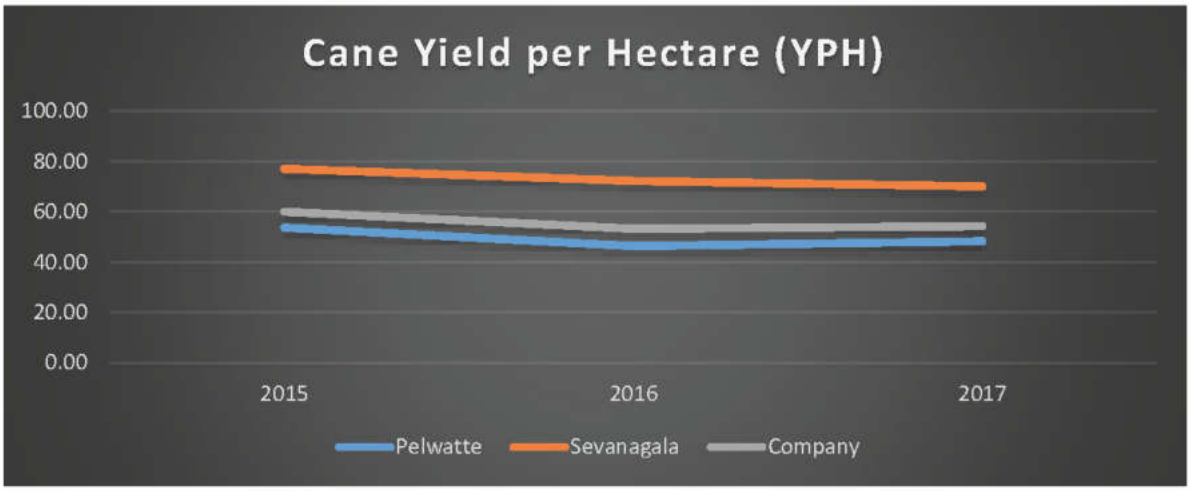
Sugar Recovery Ratio (Mt/Cane)

Division	2015	2016	2017
Pelwatte	7.58%	8.21%	7.28%
Sevanagala	7.94%	7.34%	7.24%
Company	7.71%	7.90%	7.27%



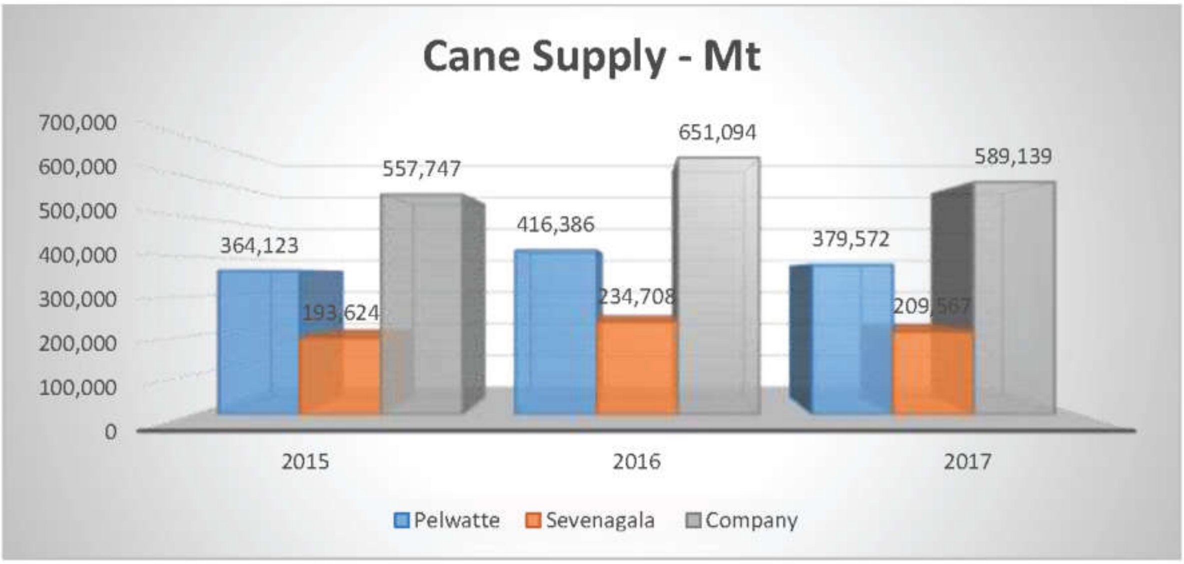
Yield per Hectare (Mt)

Division	2015	2016	2017
Pelwatte	53.63	46.31	48.22
Sevanagala	77.02	72.22	70.02
Company	59.95	53.19	54.23



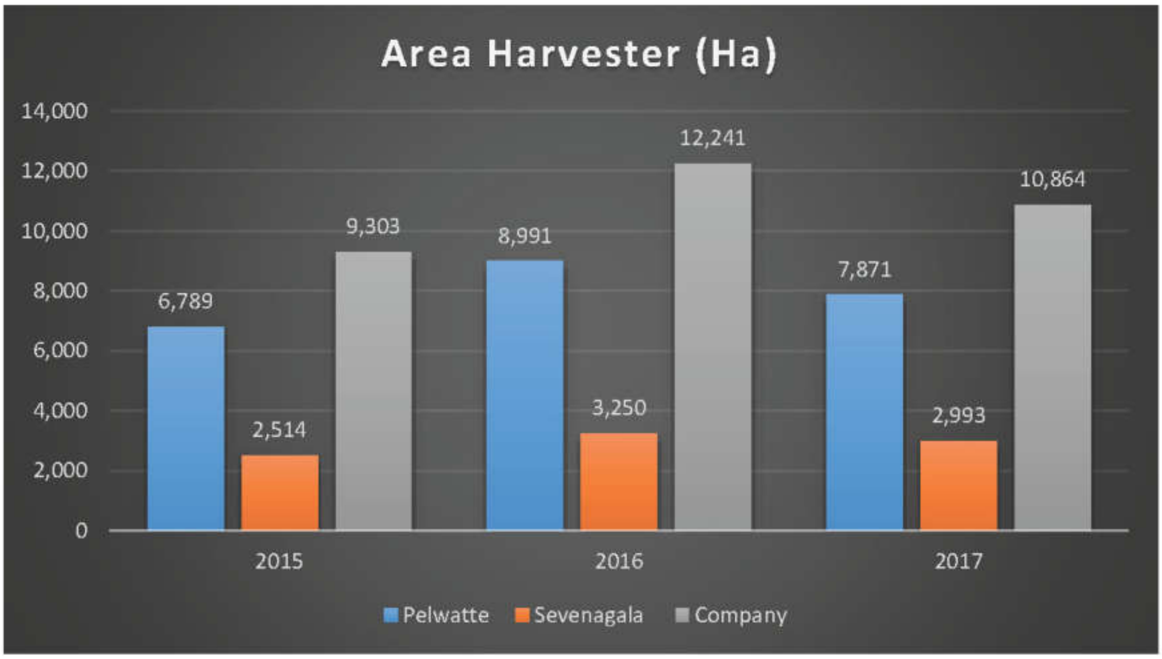
Cane supply (Mt)

Division	2015	2016	2017
Pelwatte	364,123	416,386	379,572
Sevenagala	193,624	234,708	209,567
Company	557,747	651,094	589,139



Area Harvested (Ha)

Division	2015	2016	2017
Pelwatte	6,789	8,991	7,871
Sevenagala	2,514	3,250	2,993
Company	9,303	12,241	10,864



Progress Report - 2017

INDUSTRY OVERVIEW

Globally, sugar prices had drastically dropped in the year, import of sugar had increased hugely compared to the previous years and importers had made their own buffer stocks. This caused selling prices to drop in the market and major whole seller were reluctant to buy the sugar at the prices we offered, even though, later the Government increased the taxes on sugar, the impact could not be reverted completely. However, LSCPL has managed to kept at average whole sale prices of sugar around Rs. 100/= per kg and demand for Ethanol at a minimum level during the year 2017 compared to the year 2016.

OUR CONTRIBUTION TO THE NATIONAL ECONOMY

2017 was indeed challenging with many macro and micro economic factors affecting the performance. During 2017, company managed to increase sugar cane yield per hectare (YPH) from 53.39 MT to 54.23 MT, though the sugar recovery rate (SRR) dropped from 7.90% to 7.27%.

OUR CONTRIBUTION TO THE NATIONAL ECONOMY (PROJECTED)

Description	2015	2016	2017
Sugar Consumption -Mt Pa (Country)	680,057	713,168	553,366
Production Mt pa. (LSCPL)	42,984	51,422	42,822
Contribution to the Economy	6.32%	7.21%	7.74%

Sugar production in the country is lesser than the country's requirement and the balance is imported. Annually, the country spends approximately about Rs.39 billion for importation of sugar, which is comparatively a higher amount.

Even though, environmental conditions affected badly on the industry, the company was able to produce 42,822 MT of sugar during the year, 6.86% of the domestic sugar requirement.

Sugar Recovery Ratio (Mt/Cane)

Division	2015	2016	2017
Pelwatte	7.58%	8.21%	7.28%
Sevanagala	7.94%	7.34%	7.24%
Company	7.71%	7.90%	7.27%

The country's sugar production has decreased with the decrease of sugar production in our pelwatte unit by 19.15% and Sevanagala Unit by 11.92%. However, 6.86% of the country's demand for sugar was catered during the year and the company's projection for the next year is 45,000 MT and it is 7.20% of the country's annual demand.

Lanka Sugar Company (Pvt) Ltd
Annual Report - 2017
OPERATIONAL HIGHLIGHTS
Yield per Hectare (Mt)

Division	2015	2016	2017
Pelwatte	53.63	46.31	48.22
Sevanagala	77.02	72.22	70.02
Company	59.95	53.19	54.23

Under unfavourable weather conditions prevailed during the year, company has maintained cane yield at a satisfactory level in both the divisions resulting increased sugar cane supply as expected.

Cane supply (Mt)

Division	2015	2016	2017
Pelwatte	364,123	416,386	379,572
Sevenagala	193,624	234,708	209,567
Company	557,747	651,094	589,139

Sugar Production (Mt)

Division	2015	2016	2017
Pelwatte	27,612	34,188	27,643
Sevenagala	15,372	17,234	15,179
Company	42,984	51,422	42,822

Ethanol Production (Liters)

Division	2015	2016	2017
Pelwatte	4,162,662	7,576,197	3,713,831
Sevenagala	3,154,689	4,341,082	3,331,392
Company	7,317,351	11,917,279	7,045,223

FINANCIAL PERFORMANCE

During the Financial year under review, the company recorded a pre-tax profit of Rs. 402 million with compared to the a pre-tax profit of Rs. 1,006 Million in the year 2016. Decline in the production volume of Ethanol and increase in sugar cane prices affected adversely on the profitability.

Year (Rs.Million)	2015	2016	2017
Turnover	4,881.64	7,728.89	7,616.93
Gross profit	(183.72)	2,181.06	1,514.24
Net profit/(loss) before Tax	(1,052.44)	1,006.28	402.70

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: info@lankasugar.lk
Website: www. lankasugar. lk

Company Registration Number
PV87884

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
U.P.P. Kavikeshawa - Director
T.V. Weerasena - Director
Nihal Samarappuli - Director
Aruna Keerthiratne - Director
A.H.M. Alawi - 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)
A.S.R.Hettige - Financial Analyst
M.J.M.Minhaj - Assistant Manager - Procurement & Sales

Management Team - Pelwatte
D.L.D. Jayantha - Chief Operations Officer (Acting)
D.L.D. Jayantha – Senior General Manager (Production)
D.M.S. Bandara - Deputy General Manager (Agriculture)
R.M.W. Hemakumara - Deputy General Manager (Factory)
B.G.T. Prasanga -Deputy General Manager (HR)
Ananda Dissanayake - Financial Accountant
R.M.J. Bandara - Production Manager (Distillery)
H.M.I.A.K. Katugaha - Production Manager (Factory)
Saminda Kumara Kottege - Management Accountant
Lily M. Hettiarachchi - Executive Corporate Information
R.M.C. Pushpakumara – Purchasing Manager
J.P.D.P. Pragnaseela - Manager (Harvesting, Buying & Loading)
J.A.A.N. Kumara - Settler Estate Manager
M.B. Chandana - Chief Engineer (Agri. Workshop)
T.M.D.Tennakoon - Security Manager (Covering)
Supun Kumara - Electrical Engineer (Factory)
K.B. Vidurasinghe - Crop Auditor
Sarinda Perera - Investigation Officer
L.A.C. Prasanna - Manager (NE)
W.S.K. Ratnayake - Manager (Land Development)
Anura Wijesinghe - Manager (Stores)
M.M.A.Bandara - Engineering Manager
A. Masachchi - Chief Internal.Auditor
Mr.K.M.K.K.Bandara - Manager - IT
R.A. M. Chandana - Agronomist
R.M.N.Karunaratne - Assistant Manager (Estate Protection)

Management Team - Sevanagala
K.Y.E. Jayathilake - 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)
S.A.Kamalasena - Acting Deputy General Manager (HR)
S. W. Kodithuwakku -Manager (Agriculture Extension)
Athula Siridewa -Manager (Agriculture Extension)
P.A.K. Nandadewa - Manager (Agriculture Extension)
M. Upul Kumara - Manager (Agriculture Extension)
H.S.B.Pihillegedera - Manager (Procurement & Marketing)
S.V.D.S. Priyantha - Chief Engineer
D.C. Hettiarachchi - Chief Engineer (Power & Workshop)
N.A. Wimalaratne - Acting Manager (Equipment)
W.A.Lional Wickramarachchi - Manager (Transport)