



Lanka Sugar Company (Private) Limited.

ANNUAL REPORT 2018



The beginning of a journey to
sweet success

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Our Philosophy

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

Our Vision

To become self-sufficient in sugar

Our Objectives

MISSION 333 - SHORT TERM (3 YEARS BY 2021)

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

MISSION 555 - LONG TERM - (5 Years by 2023)

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

Strategies

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

Research and Development

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

Corporate Social Responsibility

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





Fertile richness for
sweet success

Lanka Sugar Company (Private) Limited

FINANCIAL & OPERATIONAL HIGHLIGHTS - 2018

(Figures are in Rupees Million)	2018	2017	2016
Financial Highlights			
Turnover	6,242.95	7,616.94	7,728.89
Cost of Sales	(5,025.82)	(6,102.70)	(5,547.83)
Gross profit	1,217.13	1,514.24	2,181.06
Net Profit before tax	144.34	402.70	1,006.29

Operational Performance	2018	2017	2016
Land cultivation			
Cultivable (Hectare)	13,831	14,265	17,499
Area Cultivated (Hectare)	12,175	12,622	13,022
Area Cultivated %	88%	88%	74%

Harvesting programme	2018	2017	2016
Cane harvested (MT)	611,519	589,139	651,094
Percentage of Increase/ (Decrease) over last year	4%	-9.52%	16%
Sugar Recovery Rate	6.99%	7.27%	7.90%

Sugar Production	2018	2017	2016
Production in Metric Tonnes	42,770	42,822	51,422
Tonnage Per Head Per Annum	9.05	9	10.49

Human Resource	2018	2017	2016
Permanent	1,295	1,351	1,429
Contract	1,277	1,232	1,176
Casual	2,065	2,131	1,731
Seasonal	-	-	527
Trainees	89	111	37
Total	4,726	4,825	4,900

As sweet success
reaches for the sky



Chairman's Statement



On behalf of the Board of Directors, I am pleased to submit the annual Report together with Financial Statement for the year ended 31st December 2018 of Lanka Sugar Company (Private) Limited.

The year under review of the Company was indeed challenging with many macro and micro economic factors affecting the performance. Sugar cane yield per hectare has increased from 54.23 metric tons to 59.64 metric tons, but sugar recovery rate decreased from 7.27% to 6.99%, making a negative impact on the production volume.

The Economic Environment

The Sri Lankan economy continued to record a modest growth of 3.2 per cent in 2018 in real terms, compared to the growth of 3.1 per cent in 2017. Agriculture activities grew by 4.8 per cent in 2018, indicating a recovery from the effect of extreme weather conditions experienced in the previous year. Meanwhile, the growth momentum in industry activities moderated considerably during the year to 0.9 per cent from 4.1 per cent in the previous year. The slowdown in industry related activities was particularly due to the contraction in construction, mining and quarrying activities during the year. Service sector grew by 4.7 per cent in 2018 compared to the expansion of 3.6 per cent in the previous year. Within services activities, financial services continued to be the main contributor to economic expansion followed by wholesale and retail activities. Import expenditure on sugar and confectionary declined by 3.2 per cent in 2018.

Industry Overview

The slowdown witnessed in sugar production in 2017, continued during 2018 as well. Total domestic sugar production registered a decline of 7.7 per cent to 51,265 metric tons during the period under review, compared to a slowdown of 9.3 per cent recorded in year 2017. Accordingly around 720,259 metric tons of sugar cane was crushed in 2018 compared to 746,607 metric tons recorded in 2017. Sugar recovery rate declined to 7.1 per cent in 2018 from 7.4 per cent in 2017. Meanwhile, imports of sugar also increased by 29.5 per cent to 644,675 metric tons in 2018 from 497,952 metric tons in 2017, on account of low domestic production and low prices witnessed in the international market. Overall, domestic sugar manufactures were able to meet around nine per cent of the sugar demand of the country in 2018, in comparison to ten per cent in 2017, while the remaining domestic demand was met through imports.

Company Performance

Total sugar produced at the Sevanagala factory during 2018 was 14,709 metric tons compared to 15,179 metric tons recorded in previous year. Production at the Pelwatte factory witnessed an increase of 1.5 per cent to 28,061 metric tons. The estimated share of output from the Lanka Sugar Ltd to the overall national production was 83 per cent. ENA production has also increased from 7,045,223 liters in the year 2017 to 9,787,942 liters in the year 2018.

Welfare

Company spent substantial amount of money for welfare during the year. Separate maintenance staff has been allocated for maintaining the crèches and infrastructure. Company provides school transport for kids of worker families. Pre-School and Day care center are maintained by the Company.

Future Outlook

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

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

Appreciation

I would like to express my sincere thanks to the Board of Directors, the Management and the staff of the company for their efforts and valuable contribution made during the year 2018 and in the past.

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

Navin Adikarama
Chairman,

Director / Chief Executive Officer's Statement



Dear All the Stake Holders,

Business Environment

Year 2018 delivered mixed results for the company resulting in positive impact for the financials. Amidst adverse weather conditions prevailed during the year, sugar production decreased by 52 metric tons and ENA production increased by 2,742,719 liters during the year. The company was able to maintain an average selling price at LKR 97/- per kilogram for Sugar and LKR 360/- per liter for ENA during the year. During the financial year under review, the Company recorded revenue amounting to Rs. 6,242 Million compared to the revenue of Rs. 7,616 Million recorded in the previous year. The Company recorded Rs.144 Million operating profit before tax for the year 2018, it is a sharp decline compared to operating profit before tax of Rs. 402 Million recorded in the year 2017. During the year cost of sales has decreased by Rs. 1,077 Million. Administrative expenses have increased by Rs. 2 Million. Finance income has increased by Rs. 51 Million during the year while finance cost has increased by Rs. 32 Million.

Technical

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

Human Resource

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

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

Mohamed Sherifdeen Mohamed Fouzer

Director / Chief Executive Officer

Risk Management

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

Bright smiles,
sweet success



Our Culture & Values

OUR FARMERS

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

The average income from a hectare of cane cultivation is estimated at around Rs. 35,000/= per month. Farmers who were engaged in sugar cane cultivation in many areas had a low level of income. This situation discouraged the farmers to be in this industry, instead they were moving out for other cultivations. Lanka sugar identified this situation at the very inception and took many initiatives to help the farmers to increase their income. Presently, a farmer is paid Rs. 5,000/= per metric tons of cane whereas it was Rs 4,500/= per metric tons earlier. Thus, by now, LSCPL is the highest payer for Metric Ton of sugar cane in the history of sugar cane cultivation.

OUR CUSTOMER

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

OUR EMPLOYEE

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

GOOD GOVERNANCE

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

In addition to the external auditors, both Pelwatte and Sevanagala Divisions have Internal Audit Departments and reporting directly to the Chairman. Audit Committee which consists of three board members review the Internal Auditors' Report on a regular basis, call for explanations from the senior managers and submit the reports to the Board of Directors, together with their findings.

CONSTRAINTS

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

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

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

Management has already formulated strategies to achieve the targets set by GOSL. Funding of the new investments is another issue that is on our way. Most of the Banks want significant assets to be pledged when applying for loans, but, the ownership of the lands of Pelwatte and Sevanagala is not with Lanka Sugar Company (Private) limited. However we are in the process of arranging funds with the assistance of the General Treasury and the Ministry.

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

Audit Committee Report

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

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

THE MAIN ROLE AND RESPONSIBILITY OF THE AUDIT COMMITTEE

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

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

PROGRESS DURING THE FINANCIAL YEAR

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

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

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

Report of the Auditor General on the financial statements of LSCPL for the year ended 31 December 2018, together with management's responses, were discussed with management and the auditors and arrangements were made to rectify those unsatisfied areas highlighted by the auditors. Weaknesses of internal controls and mistakes of two (02) business units identified by internal audit division were discussed with CEO and COOs, and the significant areas were highlighted along with suitable recommendations to the Board of directors to take appropriate action.

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

T.V Weerasena

Chairman

Audit committee



The clear route to
sweet success

Board of Directors



CHAIRMAN
 Mr. Navin Adikarama



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



DIRECTOR
 Mr. T.V. Weerasena



DIRECTOR
 Dr. Nihal Samarappuli



DIRECTOR
 Mr. U.P.P. Kavikeshawa



DIRECTOR
 Mr. A.H.M. Alawi



DIRECTOR
 Mr. Aruna Chathuraka Keerthiratne

Directors' Profiles

OUR CHAIRMAN

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

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

He serves in the following Committees / Organisation as well:

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

OUR DIRECTOR / CHIEF EXECUTIVE OFFICER

Mr. Mohamed Sherifdeen Mohamed Fouzer

Mr. Mohamed Sherifdeen 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 Wolverhpton (UK). He is a marketer by profession.

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

Professional Experience

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

BOARD OF DIRECTORS

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

Professional Qualifications

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

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

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

Professional Qualifications

Tokyo Cement Company (Lanka) PLC, Colombo 03, Sri Lanka (Director – Economic Research) 2015

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

Mr. U.P.P. Kavikeshawa

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

Mr. A.H.M. Alawi

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

Mr. Aruna Chathuraka Keerthiratne

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

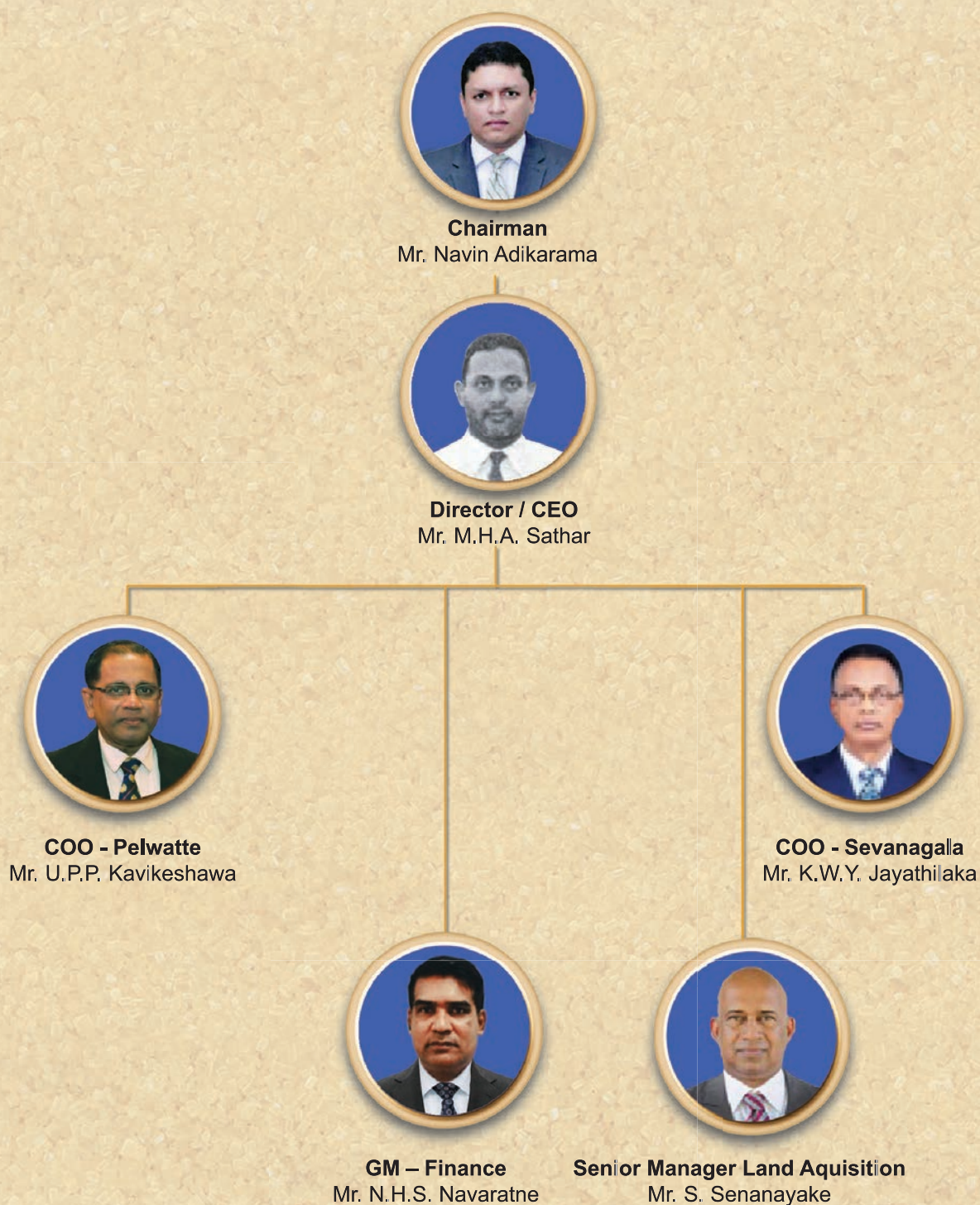
Professional Experience

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

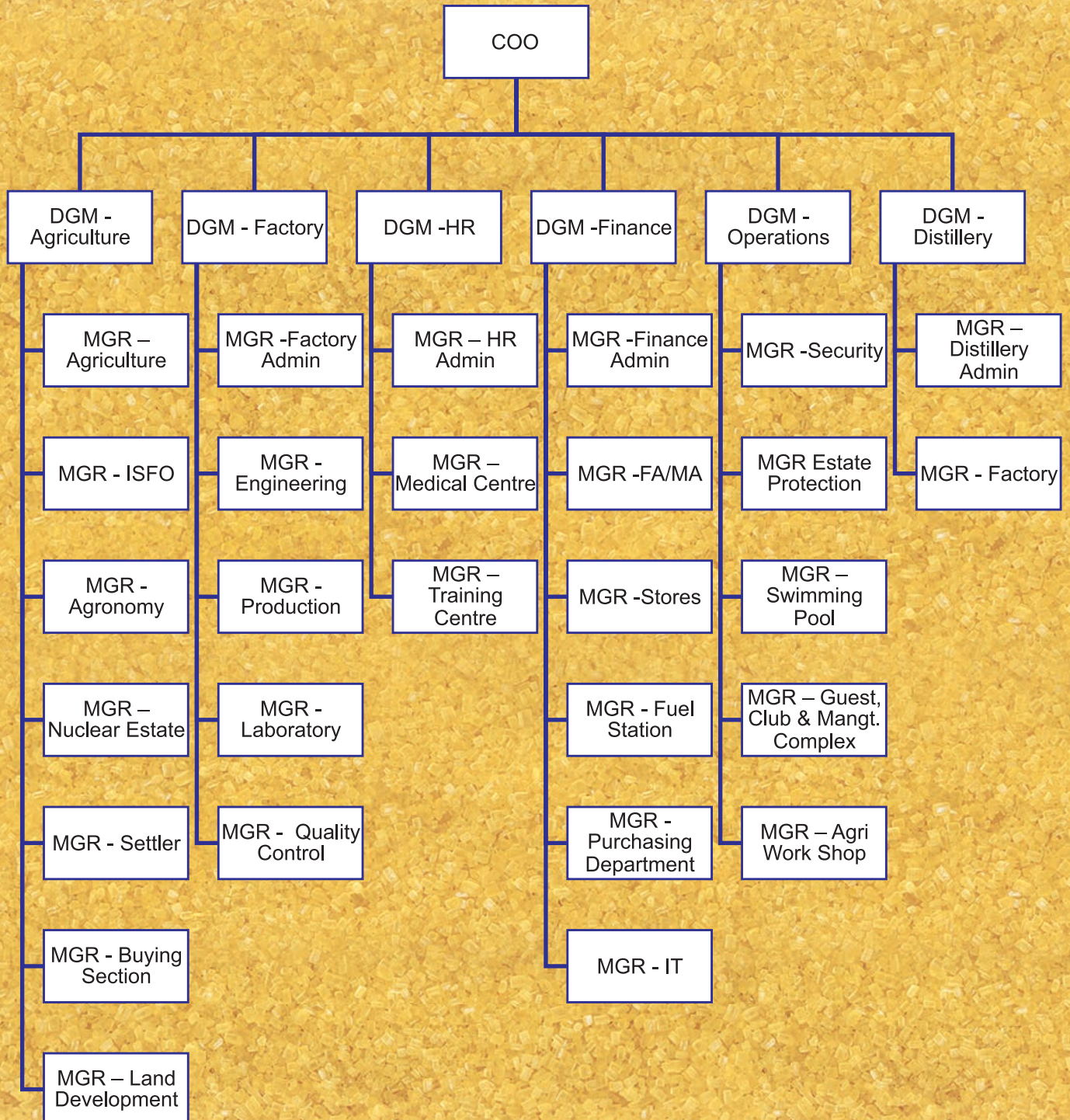


Delivery time for
sweet success

Senior Management Team & Head Office Organization Structure



Organization Structure - Pelwatte



Management Team - Pelwatta



Seated from left to right

Mrs. Lily M. Hettiarachchi - Executive Corporate Information, Mr. K L J Fernando - Act. Deputy General Manager (HR), Mr. DMS Bandara -Deputy General Manager (Agriculture),
 Mr. U P P Kawikeshawa - Chief Operations Officer, Mr. R M W Hemakumara -Act. Deputy General Manager (Factory) / Production Manager (Distillery),
 Mr. R M J Bandara -Deputy General Manager (Distillery), 7. Mr. D M A Dissanayake - Financial Accountant.

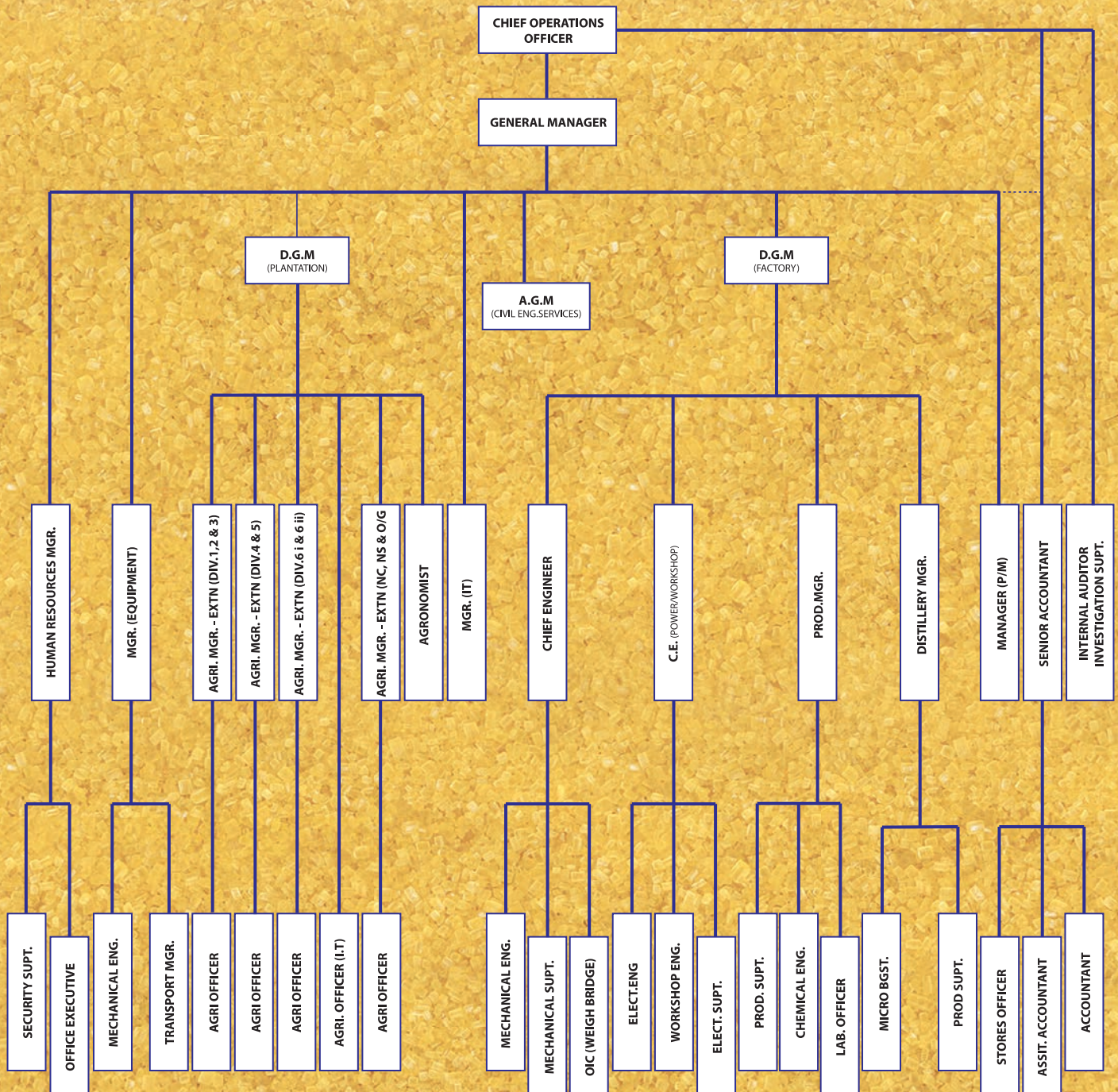
Standing from left to right (01st row)

Mr. Samantha Weerasekara - Manager (Golf and Resort), Mr. J P D P Pragnaseelie - Manager (Transport, Loading and Buying), Mr. J A N Kumara - Acting Settler Estate Manager,
 Mr. H M T A K Katugaha - Production Manager (Factory), Mr. H M S T Kumarasiri -Electrical Engineer, Mr. S K Kottage - Management Accountant,
 Mr. R M N Karunaratna - Manager (Estate Protection and Fire), Mr. W A K Parakrama - Investigation Assistant,
 Mr. K B Vidurasinghe - Divisional Out grower Manager (Wellwaya and Wandama), Mr. T M D Thennaloon - Security Manager (Covering).

Standing from left to right (02nd row)

Mr. M B Chandana - Chief Engineer (Agriculture Workshop), Mr. Anura Wijesinghe - Stores Manager, Mr. R A M Chandana - Agronomist,
 Mr. L A C Prasanna - Divisional Out grower Manager (Pelwatta, Buttala and Badalkumbura), Mr. R M C Pushpakumara - Purchasing Manager,
 Mr. Anurudhha Masachchi - Chief Internal Auditor, Mr. WSK Rathnayake - Land Development Manager, Mr. K M K Kithsisi Bandara - Manager (Information Technology),
 Mr. M M Athula Bandara - Engineering Manager.

Organization Structure - Sevanagala



Management Team-Sevanagala



Seated From left to right

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

Standing From left to right

Mr.W.A.Lionel Wickramarachchi (Manager-Transport), Mr.H.S.B.Pillallegedara (Manager-Procurement & Marketing), Mr.M.Upal 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)

INDEPENDENT AUDITORS' REPORT

PLA/D/LSC/01/18/06

On 13 May 2021

Chairman
Lanka Sugar Company (Pvt) Limited

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Lanka Sugar Company (Pvt) Limited for the year ended 31 December 2018 in terms of Section 12 of the National Audit Act No. 19 of 2018

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lanka Sugar Company (Pvt) Limited ("Company") for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of profit and loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 read in conjunction with provisions of the National Audit Act No. 19 of 2018. My report in pursuance of Article 154 (6) of the Constitution will be tabled in Parliament in due course.

In my opinion, except for the effects of the matters described in basis for qualified opinion section of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

- (a) The Company had stated the bank overdraft amounting to Rs. 665,484,944 under short-term bank loans in the statement of financial position although the bank overdraft should be indicated as cash and cash equivalents in the financial statements in terms of paragraph 08 of Sri Lanka Accounting Standard No. 07.
- (b) Even though the assets had been revalued in the years 2013 and 2014 after taking over of Pelwatte Sugar Factory and Sevanagala Sugar Factory to Lanka Sugar Company (Pvt) Limited, action had not been taken to adjust the revaluation values of the other assets, except a portion of the machines and machinery of the Sevanagala Factory, in the accounts. Revaluation errors and issues pertaining to the ownership of assets were cited as the reasons for that in the financial statements.

Accordingly, the book value amounting to Rs. 2,900,032,369 of the assets of the Pelwatte factory taken over had been included in the financial statements without making arrangements to revalue the assets again in terms of Sri Lanka Accounting Standard No. 16 after rectifying the relevant errors and action had not been taken to transfer and account the other assets, except assets of the Sevanagala factory that were purchased later. As a result, it was observed that those assets and their corresponding depreciation values were not reasonably disclosed in the financial statements.

- (c) The actuarial loss amounting to Rs.1,283,929, related to the provision for gratuity in the year under review had been written off against the profit by the Sevanagala Factory without indicating it under the other comprehensive income in terms of paragraph 57 of Sri Lanka Accounting Standards No. 19.
- (d) Although property, plant and equipment, of which the cost was Rs. 650,635,732 and which had been fully depreciated by the end of the year under review, were further in use as the useful life of non-current assets had not been reviewed annually in terms of paragraph 51 of Sri Lanka Accounting Standard No. 16, action had not been taken to revise that estimated error in terms of Sri Lanka Accounting Standards No. 08 and to indicate the accurate carrying value in the financial statements.

- (e) Although the Company had been unable to recover a total of Rs. 19,498,293, receivable from five related parties and outstanding for over 5 years, provision had not been made for possible losses related thereto in terms of paragraph 59 of Sri Lanka Accounting Standard No. 36.
- (f) Profit of the year under review and net value of fixed assets had been understated by Rs.1,448,623 due to overstating the value of depreciation related to the year under review by that amount as the depreciation of fixed assets purchased during the year under review by the Sevanagala Factory had been calculated for the entire month of purchase without calculating the depreciation starting from the date that the asset was available for use.
- (g) Although the fixed deposits interest income received in cash during the year 2018 for Pelwatte and Sevanagala factories were Rs. 76,324,750 and Rs. 109,531,116 respectively, investment activities had been overstated by Rs. 12,978,985 and Rs.15,317,079 respectively and operating activities had been understated by those amounts in the cash flow statement due to stating interest income received in cash under investment activities as Rs. 89,303,735 and Rs. 124,848,195 respectively and adjusting that difference under working capital changes.
- (h) Tax on output amounting to Rs. 10,453,438 had not been calculated on other service income amounting to Rs. 43,889,267 and on miscellaneous income amounting to Rs. 25,800,321 which were subject to Value Added Tax earned by the Company within the year of assessment.
- (i) The income tax expenditure for the year of assessment had been over-allocated by Rs.70,746,831 as the Company had applied the capital allowance ratio of 33 1/3 percent although the capital allowance ratio to be used in terms of the Inland Revenue Act No. 24 of 2017 in the calculation of the capital allowance for factory, plant and equipment is 20% and the Company had deducted only 35 percent of the Statutory income even though the Company was able to deduct the losses amounting to Rs.642,147,147, carried forward for 06 years prior to the year of assessment that should be considered in terms of Gazette Extraordinary No. 2064/53 dated 01 April 2018 issued in respect of 2018/2019 assessment year, in the calculation of profit for taxes.

- (j) Although trade and other receivables of Pelwatte Factory amounting to Rs.86,968,862 and Sevanagala Factory amounting to Rs. 209,621,311 and loan balances of farmers in the Sevanagala Factory amounting to Rs. 219,190,134 had been stated in the financial statements, those values had been stated in debtor schedules as Rs. 75,471,697, Rs. 221,118,476 and Rs.216,891,926 respectively and as a result, differences amounting to Rs. 11,497,165, Rs. 11,497,165 and Rs. 2,298,208 respectively could be observed.
- (k) Although the total value of the lease balance of 04 leased vehicles in the Sevanagala Factory had been Rs. 15,621,410 according to the financial statements, a difference of Rs. 1,708,080 was observed as the value according to the balance confirmation letters was Rs.17,329,490.
- (l) Although the revenue was Rs. 6,312,743,943 as per the financial statements, differences of Rs. 201,935,512 and Rs. 52,779,339 respectively were observed as the revenue bases used for the preparation of nations building tax returns and economic service charge returns were Rs. 6,110,708,431 and Rs. 6,259,864,604 respectively.
- (m) Although factory spare parts worth Rs. 5,924,850 ordered from 2013 to 2017 by Pelwatte Factory had been brought to accounts as transit stocks, sufficient evidence had not been submitted to audit to confirm as to what factory spare parts had thus been ordered and the reason for not receiving those stocks so far. This transaction is observed as a transaction of contentious nature in the audit.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Auditor's Responsibility on the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- ◆ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ◆ Obtain an understanding of internal control relevant to the audit 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.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- ◆ Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ◆ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2 Report on Other Legal and Regulatory Requirements

National Audit Act, No. 19 of 2018 and Companies Act, No. 7 of 2007 include specific provisions for following requirements.

- ◆ Except for the effect of the matters described in the Basis for Qualified Opinion section of my report, I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company as per the requirement of section 163 (2) (d) of the Companies Act, No. 07 of 2007 and section 12 (a) of the National Audit Act, No. 19 of 2018.
- ◆ The financial statements of the Company comply with the requirement of Section 151 of the Companies Act, No. 07 of 2007.
- ◆ The financial statements presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- ◆ The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

- ◆ To state that any member of the governing body of the Company has any direct or indirect interest in any contract entered into by the Company which are out of the normal cause of business as per the requirement of Section 12 (d) of the National Audit Act, No. 19 of 2018.
- ◆ To state that the Company has not complied with any applicable written law, general and special directions issued by the governing body of the Company as per the requirement of Section 12 (f) of the National Audit Act, No. 19 of 2018, except for;

Reference to Laws and Rules/ Direction Description

- | | |
|---|---|
| <p>(a) Section 26 (1) of the Value Added Tax Act No. 14 of 2002 and Section 04 (i) of the Nation Building Tax Act No. 09 of 2009</p> | <p>Although taxes calculated on the last day of each month should be remitted to the Inland Revenue Department on or before the 20th day of the ensuing month, action had not been taken to pay value added tax value, amounting to Rs.35,054,595, payable from 2012 to 2017 and the Nation Building Tax value, amounting to Rs.93,091,778.</p> |
| <p>(b) Section 6 of the Economic Service Charges Act No. 13 of 2006</p> | <p>Although the economic service charges calculated on the last day of each quarter should be paid on or before the 20th day of the first month of the ensuing quarter, the Company had remitted a tax totaling to Rs. 6,000,000 related to two months of the year under review with a delay of 181 days and 271 days respectively.</p> |
| <p>(c) Section 6.5.1 of the Public Enterprises Circular No. PED / 12 of 02 June 2003</p> | <p>Although the financial statements and draft annual report should be submitted to the Auditor General within 60 days after the end of the financial year, the financial statements for the year 2018 were submitted to the Auditor General on 31 July 2020 with a delay of 17 months and the financial statements had been approved by the Board of Directors on 31 October 2019.</p> |
-
- ◆ to state that the Company has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018. (b)

 - ◆ to state that the resources of the Company had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.

3 Other Audit Observations

- (a) Provision of Rs. 9,251,437 for obsolete stocks that existed at the time of taking over of the Pelwatte Factory to the Government had not been eliminated from the financial statements and the amount had been carried forward through the financial statements up to the end of the year under review.
- (b) Although the project that had incurred a sum of Rs. 37,410,797 and existed before taking over of the Pelwatte Sugar to the Government and five other projects, which had incurred Rs.53,701,955 and had started after the Government took over the Pelwatte Sugar were stopped without completion, the Board of Directors had not focused their attention on that and the projects had been stated as work in progress in the financial statements.

	Value (Rs.)
Land Development - Pelwatte	19,794,226
Building – Pelwatte	4,259,866
Compost Plant	571,362
Power Generation Project	2,008,690
Water Treatment Plant	27,067,811
	<u>53,701,955</u>

- (c) Action had not been taken until the end of the year under review to obtain supplies related to advances amounting to Rs. 4,074,404, provided to the suppliers of factory spare parts of the Pelwatte Sugar Factory from 2000 to 2017 or to recover the amount.
- (d) Loans of the farmers of the Pelwatte Sugar Factory amounting to Rs. 326,014,262 and Loans of the farmers of the Sevanagala Sugar Factory amounting to Rs.6,475,123 and an amount of Rs. 7,741,248, receivable to the Sevanagala Sugar Factory from a private company had not been recovered for a period over 3 to 5 years.
- (e) Action had not been taken to settle a total of Rs. 36,789,984, payable to 4 suppliers in the Pelwatte Sugar Factory and outstanding for a period over 5 to 7 years.
- (f) Action had not been taken to recover a sum of Rs. 1,202,124, receivable from the year 2014 to the Pelwatte Sugar Factory from 07 private parties.



W.P.C. Wickramaratne
Auditor General

Lanka Sugar Company (Private) Limited

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Note	2018 Rs.	2017 Rs.
Revenue	4	6,242,954,355	7,616,939,721
Cost of Sales		(5,025,819,435)	(6,102,695,984)
Gross Profit		<u>1,217,134,920</u>	<u>1,514,243,737</u>
Other Income and Gains	5	69,689,588	47,857,289
Administrative Expenses		(1,261,139,692)	(1,259,377,613)
Finance Cost	6	(152,670,574)	(120,545,127)
Finance Income	6	271,328,127	220,524,878
Profit/(Loss) before tax	7	<u>144,342,369</u>	<u>402,703,163</u>
Income Tax Expense	8	(307,729,392)	(275,043,322)
Profit/(Loss) for the year		<u>(163,387,022)</u>	<u>127,659,841</u>
Other Comprehensive Income for the period, net of tax		83,725,670	29,830,638
Total Comprehensive Income/ (Expense) for the period, net of tax		<u><u>(79,661,352)</u></u>	<u><u>157,490,479</u></u>
Earnings/(Loss) Per Share	9	(1,633,870)	1,276,598

The Accounting Policies and Notes on pages 39 to 59 form an integral part of these financial statements.

Lanka Sugar Company (Private) Limited

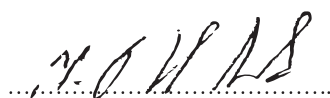
STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

ASSETS	Note	2018 Rs.	2017 Rs.
Non-Current Assets			
Property, Plant and Equipment	10	1,980,452,307	2,203,255,444
		1,980,452,307	2,203,255,444
Current Assets			
Inventories	11	3,282,576,901	1,889,639,351
Biological Assets	12	568,762,078	577,842,993
Trade and Other Receivables	13	297,054,164	121,239,226
Advances and Prepayments		32,898,652	47,689,488
Loans Due from Farmers	14	685,880,265	834,376,028
Amounts due from Related Parties	25.2	19,498,293	19,168,293
Investments	15	1,541,789,178	1,461,238,692
Cash and Cash Equivalents	21	55,793,285	250,426,762
		6,484,252,815	5,201,620,834
Total Assets		8,464,705,122	7,404,876,277
EQUITY AND LIABILITIES			
Capital and Reserves			
Stated Capital	16	1,000	1,000
Government Grant	17	4,047,990,194	4,047,990,194
Accumulated Profits		917,567,759	997,226,537
Total Equity		4,965,558,953	5,045,217,729
Non-Current Liabilities			
Deferred Tax Liability	8	365,539,736	128,557,251
Retirement Benefit Liability	19	381,093,042	425,505,136
Interest Bearing Loans and Borrowings	18	66,513,088	102,671,934
		813,145,866	656,734,321
Current Liabilities			
Interest Bearing Loans and Borrowings	18	1,253,463,373	252,814,946
Trade and Other Payables	20	1,202,378,569	1,288,549,102
Income Tax Payable		232,307,087	161,560,180
Amounts due to Related Parties		(2,148,726)	-
		2,686,000,303	1,702,924,227
Total Equity and Liabilities		8,464,705,122	7,404,876,277


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 39 to 59 form an integral part of these financial statements.

22 December 2017
Colombo

Lanka Sugar Company (Private) Limited

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Stated Capital Rs.	Government Grant Rs.	Accumulated Profits Rs.	Total Rs.
As at 1 January 2017	1,000	4,047,943,334	750,427,480	4,798,371,814
Income Tax Adjustment	-	-	89,783,484	89,783,484
Revaluation of Plant and Machinery	-	-	(474,906)	(474,906)
Adjustment Entry in Opening Balance Sheet	-	-	-	-
Adjustment	-	46,860		46,860
Profit/(Loss) 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	<u>1,000</u>	<u>4,047,990,194</u>	<u>997,226,537</u>	<u>5,045,217,731</u>
Repayment of Government Grant	-	-	-	-
Adjustment	-	-	2,575	2,575
Paid by Company on behalf of previous owner	-	-	-	-
Profit for the year	-	-	(163,387,022)	(163,387,022)
Other Comprehensive Income	-	-	83,725,670	83,725,670
Total comprehensive income	-	-	(79,661,352)	(79,661,352)
As at 31 December 2018	<u>1,000</u>	<u>4,047,990,194</u>	<u>917,567,760</u>	<u>4,965,558,954</u>

The Accounting Policies and Notes on pages 39 to 59 form an integral part of these financial statements.

Lanka Sugar Company (Private) Limited

STATEMENT OF CASH FLOWS

Year ended 31 December 2018

Cash flows From / (Used in) Operating Activities	Note	2018 Rs.	2017 Rs.
Profit/(Loss) before Taxation		144,342,369	402,703,163
Adjustments for,			
Depreciation	10	348,266,476	352,440,192
Loss on sale of property, plant and equipment		45,144	40,323
Finance Income	6	(271,328,127)	(220,524,878)
Finance Cost	6	152,670,574	120,545,127
Provision for Retirement Benefit Liability	19	68,682,140	71,127,492
Provision for farmer loans	11	(42,765,210)	-
Operating Profit before Working Capital Changes		399,913,366	726,331,418
(Increase)/Decrease in Inventories		(1,392,937,550)	418,696,177
Increase in Trade and Other Receivables		(161,354,101)	23,674,591
Decrease in Loans Due from Farmers		148,495,763	14,884,015
Increase/(Decrease) in Trade and Other Payables		(86,170,532)	(214,042,552)
Net Cash From Operating Activities		(1,092,053,053)	969,543,649
Income Tax Paid		-	(108,207,480)
Retirement Benefit Liability Paid	19	(29,368,561)	(44,131,131)
Net Cash Flows From Operating Activities		(1,121,421,614)	817,205,038
Cash Flows From/(Used in) Investing Activities			
Acquisition of Property, Plant and Equipment		(125,508,483)	(130,086,876)
Net (increase)/decrease in investments in Fixed Deposits		(80,550,486)	(133,773,746)
Investment in Biological Assets		9,080,916	(94,704,838)
Finance Income Received	6	271,328,127	220,524,878
Net Cash Flows Used in Investing Activities		74,350,074	(138,040,583)
Cash Flows From / (Used in) Financing Activities			
Loans/Finance Leases obtained		588,950,000	65,950,000
Loans settlements	18	(13,796,004)	(21,174,192)
Principle payments under finance lease obligation	18	(45,971,258)	(41,954,449)
Interest paid	6	(152,670,574)	(120,545,127)
Dividends paid		-	-
Net Cash Flows Used in Financing Activities		376,512,164	(117,723,767)
Adjustment to Head Office Reserves		-	(474,906)
Net Increase/(Decrease) in Cash and Cash Equivalents		(670,559,376)	560,965,783
Cash and Cash Equivalents at the beginning of the year	21	60,957,716	(500,008,067)
Cash and Cash Equivalents at the end of the year	21	(609,601,660)	60,957,716

The Accounting Policies and Notes on pages 39 to 59 form an integral part of these financial statements.

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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 2018 were authorized for issue, in accordance with a resolution of the Board of Directors on 31st October 2019.

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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 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)

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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.

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

2.2.4 Expenses

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

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

2.2.4.1 Borrowing Cost

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

2.2.4.2 Finance Cost

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

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

2.2.5 Property, Plant and Equipment

Owned Assets

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

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of that equipment.

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

Leased Assets

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

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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

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

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

Subsequent expenditure

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

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

De-recognition

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

Depreciation

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

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

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

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

2.2.6 Inventories

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

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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

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

2.2.7 Financial Instruments – initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and receivables

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

Derecognition

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

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

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

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

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

ii) Impairment of financial assets

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

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

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

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

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

Financial liabilities

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

De-recognition

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

2.2.8 Cash and Cash Equivalents

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

2.2.9 Impairment of non- financial assets

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

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

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

2.2.10 Liabilities and Provisions

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

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

2.2.10.1 Employee Benefits

Defined contribution plan

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

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

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Year ended 31 December 2018

Defined benefit plans

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

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

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

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

The liability is not externally funded.

Short-term benefits

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

2.2.10.2 Government Grant

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

2.2.10.3 Provisions

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

2.2.11 Changes in Accounting Policies

The accounting policies adopted are consistent with prior year.

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

2.3 USE OF ESTIMATES AND JUDGEMENTS

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

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

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

Impairment of non-financial assets

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

Depreciation of Property, Plant and Equipment

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

Impairment of Receivables

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

3 STANDARDS ISSUED BUT NOT ADOPTED

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

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

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

4. REVENUE				2018 Rs.	2017 Rs.
4.1 Summary					
Sales of Goods				<u>6,242,954,355</u>	<u>7,616,939,721</u>
				<u>6,242,954,355</u>	<u>7,616,939,721</u>
4.2 Revenue is derived from the following:					
Sugar				3,148,514,900	4,637,042,513
Molasses				672,750	987,750
ENA				<u>3,093,766,705</u>	<u>2,978,909,458</u>
				<u>6,242,954,355</u>	<u>7,616,939,721</u>
4.3 Segment Information					
	Head Office Rs.	Pelwatte Division Rs.	Sevanagala Division Rs.	Elimination Rs.	Total Rs.
Segment Revenue	34,800,000	3,669,838,737	2,573,115,619	(34,800,000)	6,242,954,355
Segment Results					
Gross Profit /(Loss)	34,800,000	370,009,344	847,125,576	(34,800,000)	1,217,134,920
Other					
Capital Expenditure	888,638	73,013,076	51,606,768	-	125,508,483
Depreciation	2,871,072	230,125,232	115,270,172	-	348,266,476
Segment Assets					
Non Current Assets	5,090,137	1,568,560,932	406,801,239	-	1,980,452,308
Current Assets	29,163,387	4,104,140,601	2,816,258,397	(465,309,571)	6,484,252,815
Segment Liabilities					
Non Current Liabilities	-	638,455,477	174,690,670	-	813,145,866
Current Liabilities	45,142,621	2,380,809,032	725,358,220	(465,309,571)	2,686,000,303
5. OTHER INCOME AND GAINS				2018 Rs.	2017 Rs.
Other Service Income				43,889,267	16,004,000
Sundry Income				<u>25,800,321</u>	<u>31,853,289</u>
				<u>69,689,588</u>	<u>47,857,289</u>
6. FINANCE COST AND INCOME				2018 Rs.	2017 Rs.
6.1 Finance Cost					
Interest Expenses on Bank Loans				55,461,980	32,358,024
Interest Expenses on Bank Overdrafts				92,825,700	80,584,514
Finance Charges on Lease Liabilities				4,337,750	7,562,267
Loss on Disposal of Fixed Assets				45,144	40,323
				<u>152,670,574</u>	<u>120,545,127</u>
6.2 Finance Income					
Interest Income on Loans Due from Farmers				57,176,197	57,319,129
Interest Income on Fixed Deposits				<u>214,151,930</u>	<u>163,205,749</u>
				<u>271,328,127</u>	<u>220,524,878</u>

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

7. PROFIT BEFORE TAX				
Stated after Charging			2018	2017
			Rs.	Rs.
Included in Cost of Sales				
Employee Benefits including the following				
- Defined Contribution Plan Costs - EPF and ETF			170,853,138	178,685,022
Depreciation			286,928,164	292,408,578
Included in Administrative Expenses				
Employee Benefits including the following				
- Defined Benefit Plan Costs - Gratuity			69,966,070	71,127,491
- Defined Contribution Plan Costs - EPF and ETF			50,936,193	50,087,154
Depreciation			61,338,312	59,634,601
Audit Fees			850,000	850,000
Bad Debts on Farmers Loans			24,133,855	62,228,740
8. INCOME TAX EXPENSE / (REVERSAL)			2018	2017
			Rs.	Rs.
Current Income Tax			70,746,907	54,319,043
Deferred Tax Charge/ (Reversal) (Note 8.2)			236,982,485	220,724,279
			<u>307,729,392</u>	<u>275,043,322</u>
8.1 Reconciliation between Current Tax Expense / (Income) and the product of Accounting Profit / (Loss)				
Accounting profit /(loss) before tax			144,342,369	402,703,163
Adjustment for prior year profits			-	-
Adjusted accounting profit/(loss) before tax			<u>144,342,369</u>	<u>402,703,163</u>
Aggregate disallowed items			435,883,005	982,978,297
Aggregate allowed items			(462,834,234)	(988,289,084)
Adjustment for previous year profit			-	-
Business profit/(Loss) for tax purpose			<u>117,391,140</u>	<u>397,392,376</u>
Other Sources of Income Liabile to Tax				
Interest Income			271,328,127	220,524,878
Total Assessable Income			<u>388,719,267</u>	<u>617,917,254</u>
Tax losses utilized during the year			<u>(136,051,744)</u>	<u>(216,271,039)</u>
Taxable Income			<u>252,667,524</u>	<u>401,646,215</u>
Income Tax at @ 28%			<u>70,746,907</u>	<u>48,197,546</u>
Tax losses brought forward			642,208,957	858,479,996
Tax losses incurred during the year			-	-
Tax losses utilized during the year			<u>(136,051,744)</u>	<u>(216,271,039)</u>
Tax losses carried forward			<u>506,157,214</u>	<u>642,208,957</u>
8.2 Deferred Tax Assets	Statement of Financial Position	Statement of Profit and Loss		
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.
Deferred Tax Liability				
On Property, Plant & Equipment	<u>(658,821,775)</u>	<u>(311,909,307)</u>	<u>(346,912,468)</u>	<u>(274,869,119)</u>
	<u>(658,821,775)</u>	<u>(311,909,307)</u>	<u>(346,912,468)</u>	<u>(274,869,119)</u>
Deferred Tax Asset				
On Property , Plant & Equipment	-	-	-	-
On Retirement Benefit Obligation	106,706,052	183,352,056	(76,646,004)	54,144,840
On Tax Loss /Provisions	<u>186,575,987</u>	<u>-</u>	<u>186,575,987</u>	<u>-</u>
	<u>293,282,039</u>	<u>183,352,056</u>	<u>109,929,983</u>	<u>54,144,840</u>
			<u>(236,982,485)</u>	<u>(220,724,279)</u>
Deferred Income Tax reversal	-	-		
Net Deferred Tax Asset/(Liability)	<u>(365,539,736)</u>	<u>(128,557,251)</u>		
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:			2018	2017
Net Profit/(Loss) Attributable to Ordinary Shareholders for Earnings Per Share			Rs.	Rs.
			<u>(163,387,022)</u>	<u>127,659,841</u>
Numbers of Ordinary Shares Used as Denominator:			2018	2017
Weighted average Number of Ordinary Shares Applicable to Basic Earnings/(Loss) Per Share			Number	Number
			<u>100</u>	<u>100</u>

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

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10. PROPERTY, PLANT AND EQUIPMENT

10.1	Gross Carrying Amounts	Balance As at 01.01.2018 Rs.	Additions/ Transfers Rs.	Disposals/ Transfers Rs.	Balance As at 31.12.2018 Rs.
	Land	44,149,728	-	-	44,149,728
	Land Development	165,206,052	-	-	165,206,052
	Factory Buildings	244,364,780	-	-	244,364,780
	Buildings Others	229,159,601	-	-	229,159,601
	Field Machinery and Equipment	424,910,845	-	-	424,910,845
	Irrigation and Miscellaneous Equipment	207,205,545	-	-	207,205,543
	Factory Plant and Equipment	2,779,940,005	45,212,072	-	2,825,152,077
	Other Plant and Machinery	153,158,403	-	-	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	25,380,000	-	187,506,356
	Furniture, Fittings and Equipment	183,419,343	11,556,325	(104,179)	194,871,490
	Settler Zone Infrastructure	73,193,739	-	-	73,193,739
		4,890,703,912	82,148,397	(104,179)	4,972,748,130
	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	19,794,226	4,020,796	-	23,815,022
	Building - Others	4,259,866	-	-	4,259,866
	Factory Plant and Equipment	2,254,850	33,225,432	-	35,480,282
	Hotel Project	37,410,797	-	-	37,410,797
	Compost Plant	571,362	-	-	571,362
	Irrigation Project / Tube Well	1,175,818	6,113,858	-	7,289,676
	Power Generation Project	2,008,690	-	-	2,008,690
	Water Treatment Plant	27,067,811	-	-	27,067,811
		94,543,421	43,360,086	-	137,903,507
	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	5,263,264,003	125,508,483	(104,179)	5,388,668,307
10.2	Depreciation	Balance As at 01.01.2018 Rs.	Charge for the year Rs.	Disposals Rs.	Balance As at 31.12.2018 Rs.
	Land Development	67,571,740	3,471,804	-	71,043,544
	Factory Buildings	146,868,129	5,476,710	-	152,344,839
	Buildings Others	122,250,902	4,873,918	-	127,124,820
	Field Machinery and Equipment	412,248,756	13,275,946	-	425,524,703
	Irrigation and Miscellaneous Equipment	151,010,441	9,970,370	-	160,980,811
	Factory Plant and Equipment	1,479,687,929	236,143,194	-	1,715,831,123
	Other Plant and Machinery	63,099,697	6,518,437	-	69,618,134
	Storage Tank	25,742,715	2,967,660	-	28,710,375
	Roads and Bridges	102,536,473	1,571,862	-	104,108,336
	Laboratory Equipment	39,291,440	4,455,558	-	43,746,998
	Motor Vehicles	148,715,217	16,709,623	-	165,424,839
	Furniture, Fittings and Equipment	159,675,303	13,110,988	(59,035)	172,727,255
	Settler Zone Infrastructure	69,020,739	823,072	-	69,843,812
		2,987,719,480	319,369,142	(59,035)	3,307,029,588
	Assets on Finance Leases				
	Motor Vehicles	25,697,750	11,602,750	-	37,300,500
	Field Machinery and Equipment	46,591,334	17,294,584	-	63,885,918
		72,289,084	28,897,334	-	101,186,418
	Total Depreciation	3,060,008,564	348,266,476	(59,035)	3,408,216,005

Lanka Sugar Company (Private) Limite

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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

10.3	Net Book Values	2018 Rs.	2017 Rs.
	Land	44,149,728	44,149,728
	Land Development	94,162,508	97,634,312
	Factory Buildings	92,019,941	97,496,651
	Buildings Others	102,034,781	106,908,699
	Field Machinery and Equipment	(613,857)	12,662,089
	Irrigation and Miscellaneous Equipment	46,224,732	56,195,102
	Factory Plant and Equipment	1,109,320,955	1,300,252,076
	Other Plant and Machinery	83,540,269	90,058,707
	Storage Tank	34,688,100	37,655,760
	Roads and Bridges	7,071,180	8,643,042
	Laboratory Equipment	5,544,528	10,000,086
	Motor Vehicles	22,081,517	13,411,140
	Furniture, Fittings and Equipment	22,144,235	23,744,042
	Settler Zone Infrastructure	3,349,927	4,172,999
		<u>1,665,718,544</u>	<u>1,902,984,432</u>
	Assets on Finance Lease		
	Motor Vehicles	20,713,250	32,316,000
	New Holland Tractor	30,524,000	30,524,000
	Field Machinery and Equipment	4,843,002	22,137,586
		<u>56,080,252</u>	<u>84,977,586</u>
	In the Course of Construction		
	Land Development	23,815,022	19,794,226
	Building - Others	4,259,866	4,259,866
	Factory Plant and Equipment	35,480,282	2,254,850
	Hotel Project	37,410,797	37,410,797
	Compost Plant	571,362	571,362
	Irrigation Project	7,289,676	1,175,818
	Power Generation Project	2,008,690	2,008,690
	Water Treatment Plant	27,067,811	27,067,811
		<u>137,903,506</u>	<u>94,543,421</u>
	In the Course of Construction - On Finance Leases		
	Factory Plant and Equipment	120,750,000	120,750,000
		<u>120,750,000</u>	<u>120,750,000</u>
	Total carrying amount of Property, Plant and Equipment	<u>1,980,452,302</u>	<u>2,203,255,439</u>
10.4	During the financial period, the company acquired Property, Plant and Equipment to the aggregate value of Rs.125,508,482/- (2017 - Rs.130,086,876/-) for cash.		
10.5	The useful lives of the assets is estimated as follows;		
		2018	2017
	Land Development	50 Years	50 Years
	Factory Buildings	50 Years	50 Years
	Buildings Others	50 Years	50 Years
	Field Machinery and Equipment	5 - 6.67 Years	5 - 6.67 Years
	Irrigation and Miscellaneous Equipment	16.67 Years	16.67 Years
	Factory Plant and Equipment	10-20 Years	10-20 Years
	Other Plant and Machinery	5 - 20 Years	5 - 20 Years
	Roads and Bridges	20 Years	20 Years
	Motor Vehicles	2 - 5 Years	2 - 5 Years
	Furniture, Fittings and Equipment	4 - 5 Years	4 - 5 Years
	Settler Zone Infrastructure	3 - 50 Years	3 - 50 Years

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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

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

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

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

	Pelwatte Division Rs.	Sevanagala Division Rs.
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	2018 Rs.	2017 Rs.
Produced Inventory (11.1)	2,281,632,725	1,111,341,731
Other Inventory (11.2)	1,000,944,171	778,297,613
	<u>3,282,576,896</u>	<u>1,889,639,344</u>
11.1 Produced Inventory		
Sugar	1,772,165,915	777,386,584
Molasses	149,684,200	236,465,300
ENA	359,782,610	97,489,847
	<u>2,281,632,725</u>	<u>1,111,341,731</u>
11.2 Other Inventory		
Fuel and Lubricants	45,713,161	43,532,411
Factory Chemicals	8,740,672	6,827,933
Production Items Distillery	1,955,212	1,105,793
Bags and Liners	3,770,703	4,907,330
Fertilizers	135,110,025	71,121,693
General	30,610,576	56,323,145
Agriculture Spares	195,140,265	182,811,996
Stationery	2,140,488	3,318,777
Factory Spares	186,958,053	249,540,715
Other Inventory	243,911,408	135,197,791
Tires and Tubes	74,483,887	8,657,655
	<u>928,534,451</u>	<u>763,345,240</u>
Less: Provision for Obsolete Stocks	(9,251,437)	(9,251,437)
	<u>919,283,013</u>	<u>754,093,803</u>
Goods-in-Transit	81,661,157	24,203,810
	<u>1,000,944,170</u>	<u>778,297,613</u>
12. BIOLOGICAL ASSETS	2018 Rs.	2017 Rs.
Standing Cane	568,762,078	577,842,993
	<u>568,762,078</u>	<u>577,842,993</u>
13. TRADE AND OTHER RECEIVABLES	2018 Rs.	2017 Rs.
Trade Receivables	719,165	276,920
Other Receivables	264,953,534	101,242,870
Staff Loans (13.1)	31,381,465	19,719,436
	<u>297,054,164</u>	<u>121,239,226</u>
13.1 Staff Loans		
Balance at the beginning of the year	19,719,435	8,937,428
Loans granted during the year	79,709,665	65,128,502
Repayments made during the year	(68,047,634)	(54,346,494)
Balance at the end of the year	<u>31,381,466</u>	<u>19,719,436</u>

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

14. LOANS DUE FROM FARMERS

	2018 Rs.	2017 Rs.
Balance at the beginning of the year	1,289,834,030	1,242,489,304
Loans granted during the year	706,715,952	1,054,471,408
Loans recovered during the year	(831,077,867)	(1,007,126,682)
Total Loans Granted	1,165,472,115	1,289,834,030
Less: Provision for Doubtful Recoveries	(479,591,857)	(455,458,002)
Balance at the end of the year	685,880,258	834,376,028

15. INVESTMENTS

Current

	2018 Rs.	2017 Rs.
Fixed Deposits	1,541,789,178	1,327,464,946
	1,541,789,178	1,327,464,946

16. STATED CAPITAL

	2018 Number	2018 Rs.	2017 Number	2017 Rs.
Fully Paid Ordinary Shares	100	1,000	100	1,000

17. GOVERNMENT GRANT

	2018 Rs.	2017 Rs.
As at beginning of the period	4,047,990,194	4,047,943,334
Revaluation of Plant and Machinery		
Repayments	-	46,860
	4,047,990,194	4,047,990,194

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

18. INTEREST BEARING LOANS AND BORROWINGS

	2018			2017		
	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)	565,763,915	39,891,942	605,655,857	16,221,615	8,454,439	24,676,054
Bank Overdrafts (21.2)	665,484,944	-	665,484,944	529,528,543	-	529,528,543
Finance Leases (18.2)	22,214,514	26,621,146	48,835,660	44,200,493	94,319,929	138,520,422
	1,253,463,373	66,513,088	1,319,976,461	589,950,651	102,774,368	692,725,019

18.1 Bank Loan

	As at 01.01.2018 Rs.	New Loans Obtained Rs.	Repayments Rs.	As at 31.12.2018 Rs.
Bank of Ceylon	26,673,071	550,000,000	4,157,766	572,515,305
Sampath Bank	8,765,365	-	3,273,758	5,491,607
NDB Bank	34,013,425		6,364,480	27,648,945
	69,451,861	550,000,000	13,796,004	605,655,857

18.2 Finance Leases

	As at 01.01.2018 Rs.	New Leases Obtained Rs.	Repayments Rs.	As at 31.12.2018 Rs.
Bank of Ceylon	111,742,949	-	55,070,616	56,672,333
Gross Liability	111,742,949	-	55,070,616	56,672,333
Finance Charges Allocated to Future Periods	(15,176,975)		7,340,303	(7,836,673)
Net Liability	96,565,974		47,730,313	48,835,660

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

19. RETIREMENT BENEFIT LIABILITY	2018 Rs.	2017 Rs.
As at the beginning of the period	425,505,134	428,339,411
Interest Cost	44,678,039	44,975,638
Current service cost	24,004,102	26,151,854
Benefit Paid	(29,368,561)	(44,131,131)
Actuarial (Gain)/Loss	(83,725,670)	(29,830,638)
As at the end of the period	<u>381,093,042</u>	<u>425,505,134</u>
19.1 Messers Actuarial and Management Consultation (Private) Limited Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity on 31 December 2018. 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:		
Pelawatte Division	2018	2017
Discount Rate	11.00%	10.50%
Rate of Salary Increase	1.50%	1.50%
Retirement Age	60 Years	55 Years
Sevanagala Division		
Discount Rate	10.50%	10.50%
Rate of Salary Increase	Fixed amount	Fixed amount
Retirement Age	60 Years	55 Years
20. TRADE AND OTHER PAYABLES	2018 Rs.	2017 Rs.
Trade Payables (20.1)	284,036,550	286,567,372
Advances Received from customers	129,857,024	219,584,790
Other Payables (20.2)	131,969,324	160,296,573
Sundry Creditors including Accrued Expenses (20.3)	480,866,624	537,493,209
Incentive Provision for the Employees & Farmers	88,893,163	
Distilleries Company of Sri Lanka PLC	24,784,659	24,784,659
Recovered from Farmers	59,822,499	59,822,499
	<u>1,200,229,843</u>	<u>1,288,549,102</u>
20.1 Trade Payables		
Trade Creditors	<u>284,036,550</u>	<u>286,567,372</u>
	<u>284,036,550</u>	<u>286,567,372</u>
20.2 Other Payables		
VAT Payable	37,445,578	47,502,082
NBT Payable	94,523,746	112,794,491
	<u>131,969,324</u>	<u>160,296,573</u>
20.3 Sundry Creditors including Accrued Expenses		
Sundry Creditors	229,254,967	186,796,026
Accrued Expenditure	251,611,656	350,697,182
	<u>480,866,624</u>	<u>537,493,209</u>
21. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT		
Components of Cash and Cash Equivalents	2018 Rs.	2017 Rs.
21.1 Favorable Cash and Cash Equivalents Balances		
Cash and Bank Balances	55,793,285	250,426,762
21.2 Unfavorable Cash and Cash Equivalent Balances		
Bank Overdrafts	(665,484,944)	(189,469,045)
Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement	<u>(609,691,659)</u>	<u>60,957,716</u>

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

22. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

As per the provisions of the Act of Revival of Under performing 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	378,692,000	Investment
Fixed Deposits	Overdraft facility of A/C No 75751012 Bank Of Ceylon	288,305,394	Investment
Fixed Deposits	Lease facility for overhead Crane	30,000,000	Investment
Fixed Deposits	Bank Loan facility (from Sampath bank Buttala)	21,466,406	Investment
Fixed Deposits	Security for Bank Guaranty (Custom duty payable on boiler tubes purchased)	22,101,452	Investment
Fixed Deposits	Term Loan - Bank of Ceylon	45,000,000	Investment
Fixed Deposits	Permanent Overdraft - Peoples Bank	200,000,000	Investment
Fixed Deposits	Lease facility from NDB Bank	55,000,000	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

	2018 Rs.	2017 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	1,445,789	1,115,789
Ministry Of Sugar Industry Receivable	3,453,231	3,453,231
SSP Project - Badulla	6,665,725	6,665,725
	<u>19,498,293</u>	<u>19,168,293</u>

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

	2018 Rs.	2017 Rs.
Directors Fee	<u>1,007,500</u>	<u>2,791,500</u>

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

Market risk

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

Interest rate risk

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

Foreign currency risk

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

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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

Credit risk

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

Trade receivables

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

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

Liquidity risk

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

	On demand	Less than 3 months	3 to 12 months	1 to 5 years
Interest-bearing loans and borrowings	665,484,944	-	587,978,429	66,513,088
Trade and other payables	1,200,229,843	-	-	-
	<u>1,865,714,787</u>	<u>-</u>	<u>587,978,429</u>	<u>66,513,088</u>

Capital management

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

No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2018.

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

Interest Bearing Borrowings	1,319,976,461
Trade and Other Payables	1,200,229,843
Less: Cash and Cash Equivalents	(55,793,285)
Net Debt	<u>2,464,413,020</u>
Equity	<u>4,965,558,952</u>
Total Capital	<u>4,965,558,952</u>
Gearing ratio	33.17%

27. FAIR VALUE MEASUREMENT

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

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

Lanka Sugar Company (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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 Plantation Industries, 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.

29.1 Transactions with Key Management Personnel

29.1.1 Loans to Directors

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

29.1.2 Other Transactions With Key Management Personnel

There are no transactions with the key management personnel 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 31.12.2018

31. AGRICULTURE

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.

Segmental Financial Information - Pelwatte Division

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 Rs.	2017 Rs.
Revenue	3,669,838,737	4,706,938,137
Cost of Sales	(3,299,829,392)	(4,333,533,297)
Gross Profit	370,009,344	373,404,840
Other Income and Gains	9,017,684	755,406
Administrative Expenses	(569,420,464)	(543,865,758)
Finance Cost	(129,644,972)	(98,084,194)
Finance Income	127,294,277	107,508,492
Profit / (Loss) before tax	(192,744,131)	(160,281,213)
Income Tax Reversal / (Expense)	(161,333,482)	(144,495,101)
Profit / (Loss) for the year	(354,077,613)	(304,776,314)
Other Comprehensive Income for the period, net of tax		
Actuarial Gain	85,009,599	19,029,732
Total Comprehensive Income for the period, net of tax	(269,068,014)	(285,746,582)

Segmental Financial Information - Pelwatte Division

STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2018

ASSETS	2018 Rs.	2017 Rs.
Non-Current Assets		
Property, Plant and Equipment	1,568,560,932	1,725,673,088
Deferred Tax Asset		
	<u>1,568,560,932</u>	<u>1,725,673,088</u>
Current Assets		
Inventories	2,205,871,814	1,133,460,699
Biological Assets	568,762,078	577,842,993
Trade and Other Receivables	75,471,697	53,577,801
Advances and Prepayments	24,416,167	24,782,028
Loans Due from Farmers	472,976,690	576,090,443
Amounts Due from Related Parties	-	67,548,086
Investments	744,065,251	675,339,432
Cash and Cash Equivalents	1,079,739	42,884,678
	<u>4,092,643,435</u>	<u>3,151,526,160</u>
Total Assets	<u><u>5,661,204,367</u></u>	<u><u>4,877,199,248</u></u>
EQUITY AND LIABILITIES		
Capital and Reserves		
Government Grant	3,468,770,753	3,468,770,753
Accumulated Profit	(808,715,923)	(539,648,009)
Total Equity	<u>2,660,054,830</u>	<u>2,929,122,744</u>
Non-Current Liabilities		
Deferred Tax Liability	293,095,766	88,056,768
Retirement Benefit Liability	325,471,361	372,668,817
Interest Bearing Loans and Borrowings	19,888,350	33,925,422
	<u>638,455,477</u>	<u>494,651,006</u>
Current Liabilities		
Interest Bearing Loans and Borrowings	1,122,331,513	222,393,268
Trade and Other Payable	901,434,758	923,175,050
Income Tax Payable	(68,786,648)	(25,081,032)
Amounts Due to Related Parties	407,714,437	332,938,212
	<u>2,362,694,060</u>	<u>1,453,425,498</u>
Total Equity and Liabilities	<u><u>5,661,204,367</u></u>	<u><u>4,877,199,249</u></u>

Segmental Financial Information - Pelwatte Division

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 201

	Government Grant Rs.	Retained Earnings/(Loss) Rs.	Total Rs.
As at 01 January 2017	3,468,770,753	(259,586,511)	3,209,184,242
Profit for the year		(304,776,313)	(304,776,313)
Income Tax Adjustment 2016 - 2017		5,685,084	5,685,084
Total Other Comprehensive Income for the year, net of tax		19,029,732	19,029,732
As at 31 December 2017	<u>3,468,770,753</u>	<u>(539,648,008)</u>	<u>2,929,122,744</u>
Loss for the year		(354,077,613)	(354,077,613)
Adjustments		99	99
Total Other Comprehensive Income for the year, net of tax		85,009,599	85,009,599
As at 31 December 2018	<u><u>3,468,770,753</u></u>	<u><u>(808,715,923)</u></u>	<u><u>2,660,054,830</u></u>

Segmental Financial Information - Pelwatte Division

STATEMENT OF CASH FLOWS

As at 31 December 2018

	2018 Rs.	2017 Rs.
Cash Flows From / (Used in) Operating Activities		
Profit / (Loss) before Taxation	(192,744,131)	(160,281,213)
Adjustments for,		
Depreciation	230,125,232	232,284,484
Finance Income	(127,294,277)	(107,508,492)
Finance Cost	129,644,972	98,084,194
Provision for slow moving inventory	-	-
Provision for Loans from Farmers	24,133,855	(149,280,594)
Provision for Retirement Benefit Liability	59,729,750	62,265,355
Operating Profit/(Loss) before Working Capital Changes	123,595,402	(24,436,266)
(Increase)/Decrease in Inventories	(1,063,330,199)	249,024,878
(Increase)/Decrease in Trade and Other Receivables	(27,325,451)	828,657
Increase in Loans Due from Farmers	78,979,898	152,008,808
Decrease in Amounts Due from Related Party	67,548,086	(67,548,086)
Increase/(Decrease) in Amounts due to Related Parties	80,573,641	283,847,059
Increase/(Decrease) in Trade and Other Payables	(21,740,292)	(83,850,658)
Net Cash From Operating Activities	(761,698,916)	509,874,393
Finance Cost Paid	(129,644,972)	(98,084,194)
Income Tax Paid	-	(21,627,084)
Retirement Benefit Liability Paid	(21,917,607)	(38,243,081)
Net Cash From/ (Used in) Operating Activities	(913,261,495)	351,920,034
Cash Flows From / (Used in) Investing Activities		
Acquisition of Property, Plant and Equipment	(73,013,076)	(72,251,077)
(Investments)/Withdrawals in/of Fixed Deposits	(68,725,819)	(72,176,741)
Finance Income Received	127,294,277	107,508,492
Net Cash Flows Used in Investing Activities	(14,444,618)	(36,919,326)
Cash Flows From / (Used in) Financing Activities		
Dividends paid	-	-
Financing obtained during the period	550,000,000	-
Principle Payments under Finance Lease Liabilities	(27,901,522)	(24,114,927)
Principle Payments under Bank Loan Liabilities	(3,273,758)	(6,001,957)
Net Cash Flows Used in Financing Activities	518,824,720	(30,116,885)
Net Increase/(Decrease) in Cash and Cash Equivalents	(408,881,393)	284,883,824
Cash and Cash Equivalents at the beginning of the year	(146,584,366)	(431,468,190)
Cash and Cash Equivalents at the end of the year	(555,465,760)	(146,584,366)

Segmental Financial Information - Sevanagala Division

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 Rs.	2017 Rs.
Revenue	2,573,115,619	2,923,591,583
Cost of Sales	(1,725,990,043)	(1,769,162,686)
Gross Profit	847,125,576	1,154,428,897
Other Income and Gains	77,551,173	50,077,264
Finance Income	124,848,195	94,026,662
Administrative Expenses	(669,910,675)	(723,302,626)
Finance Cost	(22,845,197)	(22,397,087)
Profit before tax	356,769,072	552,833,110
Incentive Provision for the Employees & Farmers on PBT- 20%	(88,871,286)	-
Income Tax Expense	(146,395,908)	(130,548,221)
Profit for the year	210,373,164	422,284,889
Other Comprehensive Income		
Other Comprehensive Income for the year, net of tax	(1,283,929)	10,800,906
Total Comprehensive Income for the year, net of tax	209,089,235	433,085,795

Segmental Financial Information - Sevanagala Division

STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2018

	2018	2017 Rs.
ASSETS		
Non-Current Assets		
Property, Plant and Equipment	406,801,239	470,464,640
Deferred Tax Asset	-	-
	<u>406,801,239</u>	<u>470,464,640</u>
Current Assets		
Inventory	1,076,705,087	756,178,652
Allotees/Farmers Receivables	212,903,575	258,285,586
Amounts Due from Related Parties	464,371,101	467,819,578
Advances and Prepayments	7,731,235	12,897,072
Other Receivable	221,118,476	66,924,638
Investment in Fixed Deposits	774,723,927	762,899,260
Cash and Cash Equivalents	58,595,608	55,351,930
	<u>2,816,149,007</u>	<u>2,380,356,716</u>
Total Assets	<u>3,222,950,246</u>	<u>2,850,821,356</u>
EQUITY AND LIABILITIES		
Capital and Reserves		
Government Grant	579,082,586	579,172,586
Retained Earnings	1,743,928,442	1,528,133,789
Total Equity	<u>2,323,011,028</u>	<u>2,107,306,376</u>
Non Current Liabilities		
Deferred Tax Liability	72,444,250	40,500,483
Retirement Benefit Liability	55,621,682	52,836,315
Interest Bearing Loans and Borrowings	46,624,739	68,746,512
	<u>174,690,670</u>	<u>162,083,310</u>
Current Liabilities		
Interest Bearing Loans and Borrowings	131,131,860	30,421,679
Trade and Other Payables	299,640,761	364,368,580
Income Tax Payable	294,475,928	186,641,411
	<u>725,248,549</u>	<u>581,431,670</u>
Total Equity and Liabilities	<u>3,222,950,246</u>	<u>2,850,821,356</u>

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

Segmental Financial Information - Sevanagala Division

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Government Grant Rs.	Retained Earnings Rs.	Total Rs.
As at 01 January 2017	579,172,586	1,010,949,514	1,590,122,100
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	<u>579,172,586</u>	<u>1,528,133,789</u>	<u>2,107,306,375</u>
Profit/Loss for the year		209,089,235	209,089,235
Adjustment - Income Tax -		6,705,417	6,705,417
Dividends paid during the year		-	
Paid by Company on behalf of previous owner	(90,000)		(90,000)
As at 31 December 2018	<u>579,082,586</u>	<u>1,743,928,441</u>	<u>2,323,011,027</u>

Segmental Financial Information - Sevanagala Division

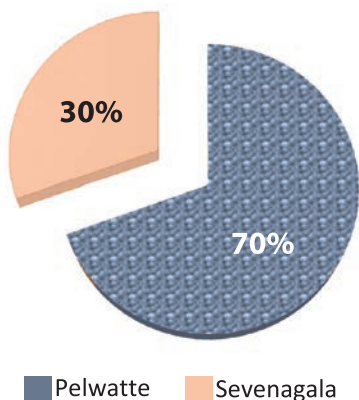
STATEMENT OF CASH FLOWS

As at 31 December 2018

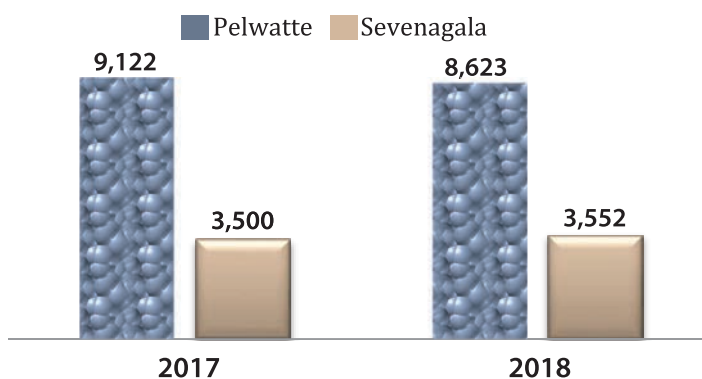
Cash flows From Operating Activities	2018	2017
Profit before Taxation	356,769,072	552,833,110
Adjustments for,		
Depreciation	115,270,172	116,925,179
Finance Income	(124,848,195)	(94,026,662)
Finance Cost	22,845,197	22,397,087
Bad Debts	-	-
Provision for Incentive for Employees & Farmers	-	-
Provision for Retirement Benefit Liability	8,952,391	8,862,136
Operating Profit/(Loss) before Working Capital Changes	378,988,636	606,990,850
(Increase)/Decrease in Inventories	(320,526,436)	74,966,459
Increase in Trade and Other Receivables	(21,348,573)	37,305,573
Increase in Amounts due from Related Parties	(78,848,939)	(364,249,360)
Increase/(Decrease) in Trade and Other Payables	(64,640,026)	(124,336,085)
Decrease in Amounts due from Related Parties	-	-
Finance Cost Paid	(22,845,197)	(22,397,087)
Income tax paid	-	(80,000,000)
Benefit Paid	(7,450,954)	(5,888,050)
Net Cash From Operating Activities	(136,671,488)	122,392,301
Cash Flows From Investing Activities		
Acquisition of Property, Plant and Equipment	(51,606,768)	(56,691,339)
Proceeds from the sale of Property, Plant and Equipment	-	-
Investment in Fixed Deposits	(11,824,667)	(61,597,005)
Finance Income Received	124,848,195	94,026,662
Repayment of Government Grant	(90,000)	-
Net Cash Flows Used in Investing Activities	61,326,760	(24,261,682)
Cash Flows From Financing Activities		
Proceeds from Interest Bearing Loans and Borrowings	-	65,950,000
Repayment of Interest Bearing Loans and Borrowings	(10,522,245)	(15,172,235)
Principle Payment under Finance Lease Liabilities	(19,828,791)	(17,839,521)
Payment of Dividends	-	-
Net Cash Flows From/ (Used in) Financing Activities	(30,351,037)	32,938,244
Net Increase/(Decrease) in Cash and Cash Equivalents	(105,695,765)	131,068,863
Cash and Cash Equivalents at the beginning of the year	55,351,930	(75,716,934)
Cash and Cash Equivalents at the end of the year	(50,343,835)	55,351,929

Graphical Segmental Comparison

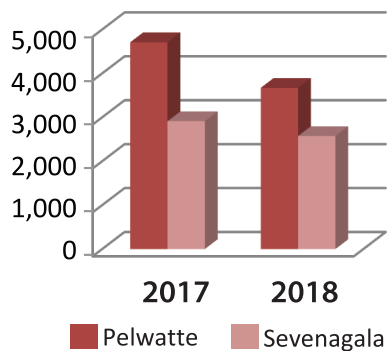
Cultivable Extent (Ha)



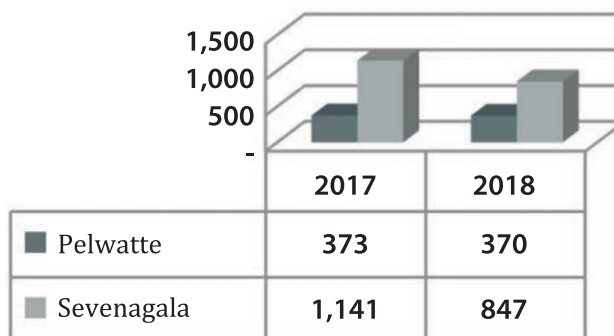
Extent Cultivated (Ha)



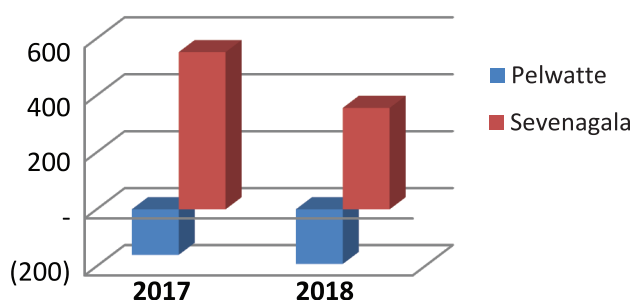
Segment Turnover (Rs. Million)



Segmental Gross Profit (Rs. Million)



Net Profit before Tax (Rs. Million)



Progress Report - 2018

INDUSTRY OVERVIEW

It is estimated that the overall domestic sugar production in 2018 was 51,265 Metric Tons and sufficient to meet 9 per cent of the total sugar requirement of the country. Low domestic production and low prices witnessed in the international market led to an increase in sugar imports by 29.5 per cent to 644,675 metric tons.

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

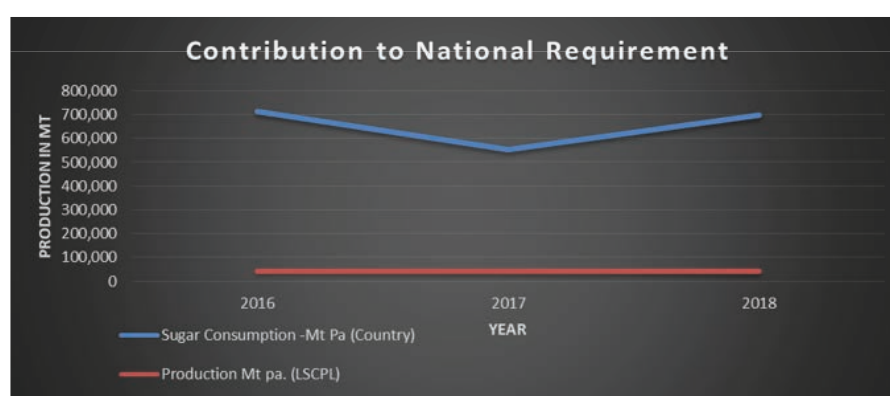
Considering the above facts, the "Development Policy for Sugar Industry" was published in 2016 which included seven policy pillars with comprehensive strategies. The pillars were, Institutional Policy, Investment Policy, Production and Land Policy, Pricing Policy, Import Policy, Water Resources and Infrastructure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

OUR CONTRIBUTION TO THE NATIONAL ECONOMY

2018 was indeed challenging with many macro and micro economic factors affecting the performance. During the year, sugar cane yield per hectare increased from 54.23 MT to 59.64 MT, however the sugar recovery rate decreased from 7.27% to 6.99%. Even though, the environmental conditions affected badly on the industry, the company was able to produce 42,770 MT of sugar during the year, which was 6.1% of the domestic sugar requirement.

CONTRIBUTION TO THE NATIONAL ECONOMY

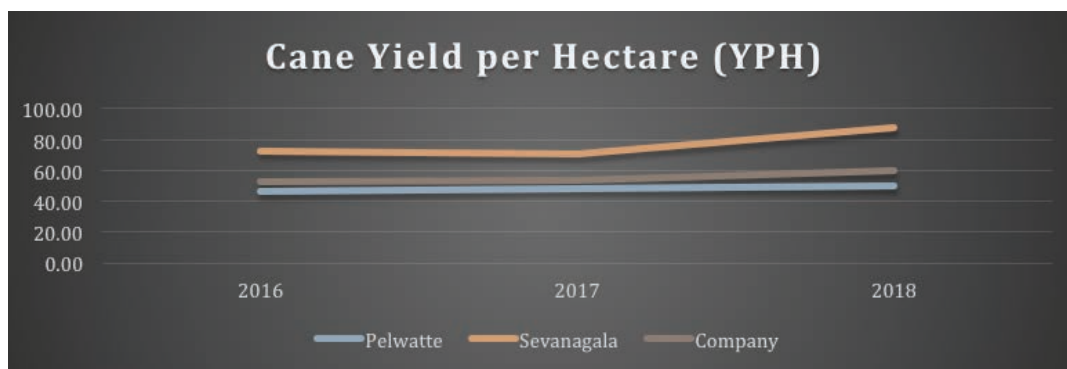
Description	2016	2017	2018
Sugar Consumption -Mt Pa (Country)	713,168	553,366	696,040
Production Mt pa. (LSCPL)	51,422	42,822	42,770
Contribution to the Economy	7.21%	7.74%	6.14%



Yield per Hectare (MT)

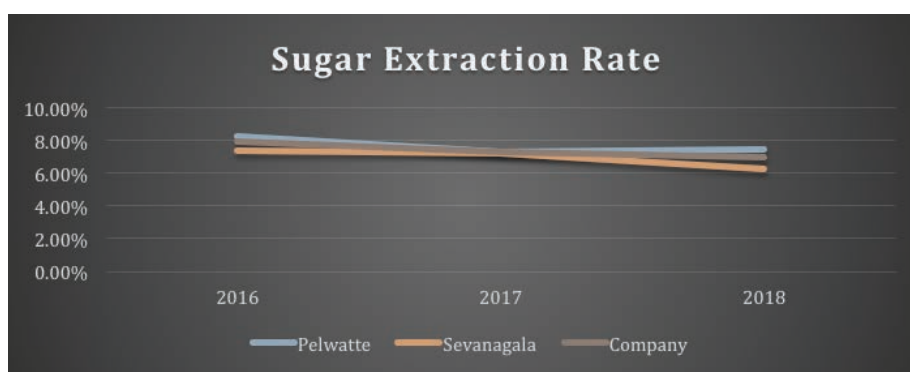
Division	2016	2017	2018
Pelwatte	46.31	48.22	49.86
Sevenagala	72.22	70.02	86.93
Company	53.19	54.23	59.64

Company was able to increase the total cane supply during the year 2018 due to cultivation of high yielding sugar cane varieties, access to proper irrigation systems and field maintenance, and the expansion in planting activities of out-growers.



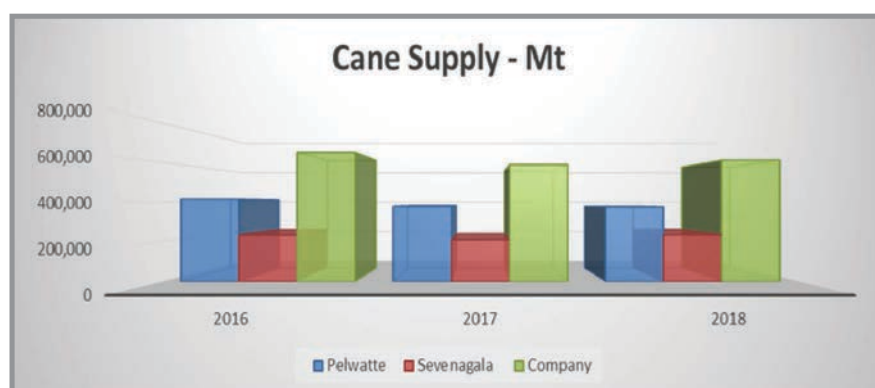
Sugar Recovery Ratio (Mt/ Cane)

Division	2016	2017	2018
Pelwatte	8.21%	7.28%	7.46%
Sevanagala	7.34%	7.24%	6.25%
Company	7.89%	7.27%	6.99%



Cane Supply (MT)

Division	2016	2017	2018
Pelwatte	416,386	379,572	376,275
Sevanagala	234,708	209,567	235,244
Company	651,094	589,139	611,519

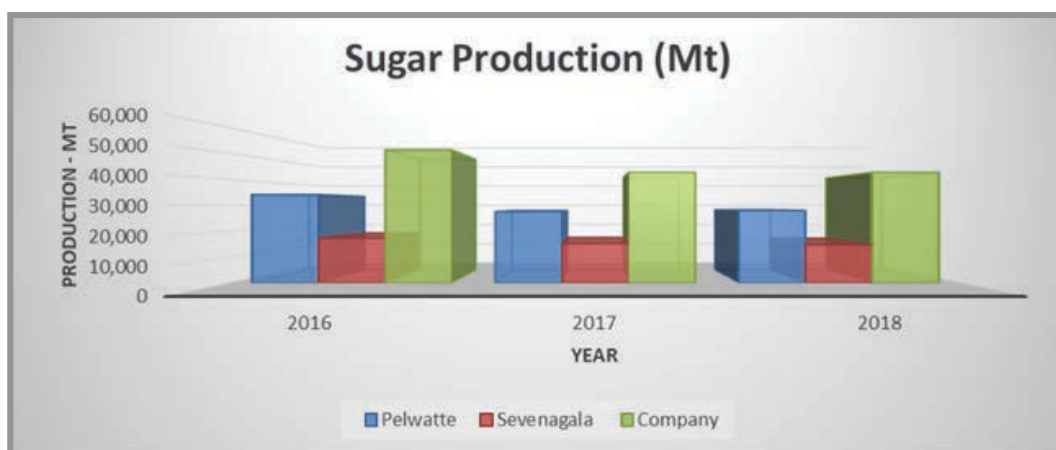


Company Performance

Sugar production has decreased from 42,822 metric tons in the year 2017 to 42,770, metric tons in the year 2018. The Pelwatte factory reported a 1.5 per cent increase in production, to 28,061 metric tons in 2018. The Pelwatte factory, which accounted for 64.5 per cent of the total sugar production in 2017, consolidated its position further during the year by increasing its share to 65.6 per cent. The Sevanagala factory recorded a 3 per cent decrease in production to 14,709 metric tons in 2018. ENA production has increased from 7,045,223 liters in the year 2017 to 9,787,942 liters in the year 2018.

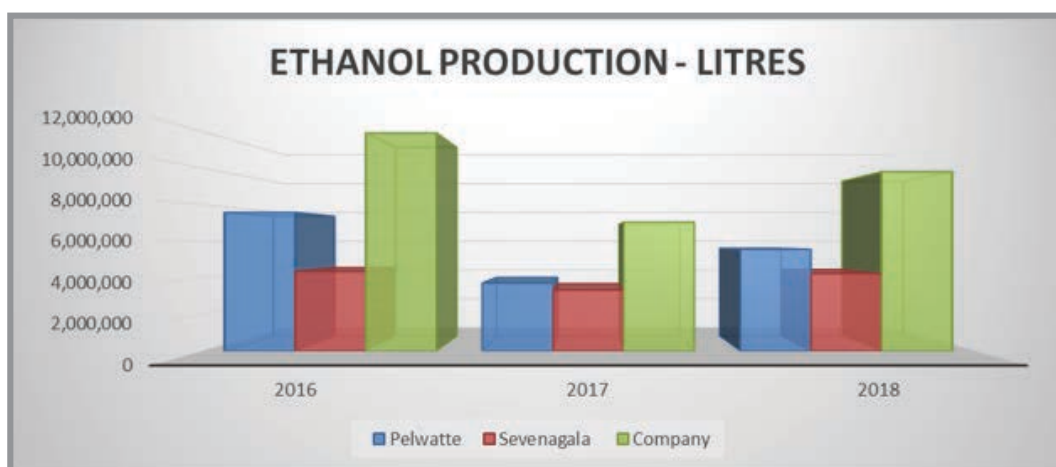
Sugar Production

Division	2016	2017	2018
Pelwatte	34,188	27,643	28,061
Sevenagala	17,234	15,179	14,709
Company	51,422	42,822	42,770



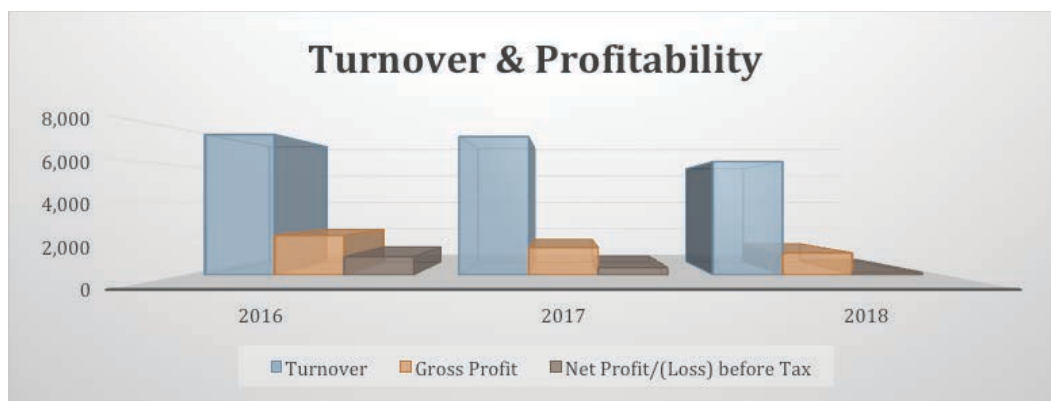
Ethanol Production

Division	2016	2017	2018
Pelwatte	7,576,197	3,713,831	5,555,920
Sevenagala	4,341,082	3,331,392	4,232,022
Company	11,917,279	7,045,223	9,787,942



During the financial year under review, the Company recorded revenue amounting to Rs. 6,242 Million compared to the revenue of Rs. 7,616 Million recorded in the previous year. The Company recorded Rs.144 Million operating profit before tax for the year 2018, it is a sharp decline compared to operating profit before tax of Rs. 402 Million recorded in the year 2017.

Year (Rs. Million)	2016	2017	2018
Turnover	7,728.89	7,616.93	6,242.95
Gross profit	2,181.06	1,514.24	1,217.13
Net profit / (loss) before tax	1,006.29	402.70	144.34



Corporate Information

Name of the Company

Lanka Sugar Company (Private) Limited.

Legal Form

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

Ownership

100% owned by the Government of Sri Lanka.

Registered Office

No.27, Melbourne Avenue,
Colombo 04, Sri Lanka.
Telephone: 011-5232583
Fax : 011-2500674
E-Mail : infosugarsrilanka@gmail.com
Website: www.lankasugar.lk

Company Registration Number

PV 87884

Tax Payer Identification Number

174878846

Bankers

Bank of Ceylon
People's Bank

Auditors

Auditor General's Department
No.306/72,
Polduwa Road,
Battaramulla.

Secretary

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

Directorate

Navin Adikarama - Chairman
M.S.M. Fouzer - Director /Chief Executive Officer
T.V. Weerasena - Director
Nihal Samarappuli – Director
U.P.P. Kavikeshawa - Director
A.H.M. Alawi- Director
A.C. Keerthiratne - Director

Management Team - Head Office

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

Management Team - Pelwatte

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

Management Team - Sevanagala

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