Vision

To be one of the leading
foreign exchange
earners in the country.

Mission

To optimize the worth of
heavy mineral beach
sands and other natural
resources accessible to
the company

CONTENTS

CORPORATE INFORMATION

Name	:	Lanka Mineral Sands Limited
Legal Form	:	A limited liability company fully owned by the Government of Sri Lanka
Company Registration No	:	PB 587
Registered Office	:	No. 341/21, Sarana Mawatha, Rajagiriya
Competent Authority	:	Mr. T. Asoka Peiris B.A. Hons Economics (Peradeniya) M.S.S.C (Kelaniya)

Management Team :

Mr. S.Gnaneswaran B.Sc. Eng., Associate Member of the Institute of Engineers	-	Deputy General Manager (Plant/Operations)
Mr. L.S. Abeyrathna Accountancy & Finance - Special	-	Acting Deputy General Manager (Human Reso-urces & Administration)
Mrs. W.K. Thamara L.I.C.A., APFA	-	Deputy General Manager (Finance)
Mr. M.A.I.G.Jayathilake L.I.C.A.	-	Chief Internal Auditor
Mr.W.W.D.W. Kumara B.Sc.	-	Supplies Manager
Mr. P.B.M. Wijebandara B.Sc.	-	Marketing Manager

CORPORATE INFORMATION

Auditors	:	Auditor General, Auditor General's Department, Polduwa Road, Battaramulla.
Bankers	:	Bank of Ceylon People's Bank Hatton National Bank
Secretaries	:	P W Corporate Secretarial (Pvt) Ltd., 3/17, Kynsey Road, Colombo – 08

COMPETENT AUTHORITY'S MESSAGE

It is with pleasure that I present the Annual Report for the year 2016. Lanka Mineral Sands Limited is a limited liability company fully owned by the Government of Sri Lanka and operates as a going concern under the purview of the Ministry of Industry and Commerce.

Sales during the year was Rs.1,174 mln. and which resulted in a profit after tax of Rs. 154 mln.

The staff strength at end of the year was 685. Workshops, Seminars and training programmes were conducted and which enabled employees gain valuable knowledge of the industry.

It is intended to increase production and thereby revenue with the exploration of new mineral sites and acquisition of new machinery.

Lanka Mineral Sands Limited has contuinuously generated its own finances and is confident that it could proceed from strength to strength.

Value addition is our prime motive and we are confident of achieving set targets in the ensuing year.

The assistance and encouragement given by the Hon. Minister, Secretary to the Ministry and the staff of the Ministry of Industry and Commerce is greatly appreciated.

I also thank the staff of Lanka Mineral Sands Limited for their commitment towards achieving set goals.

M. Gunaratne,
Competent Authority

REPORT OF THE COMPETENT AUTHORITY

The Competent Authority of Lanka Mineral Sands Limited present herewith his report, audited financial statements for the year ended 31st December 2016 and the Auditor's Report.

Principal Activities

The objectives in accordance with the Articles of Association of Lanka Mineral Sands Limited provide;-

1. The mining, separating, refining and processing of heavy mineral sands.
2. The manufacture and sale of any product of commercial or industrial value from heavy beach sands and any product derived there from.
3. The manufacture and sale of any by-product which may be produced as a result of refining and processing heavy beach mineral sands.

Production

Production for the year in M.T was:-

Ilmenite	22,890
Rutile	2,237
Zircon	628
Hi.Ti. Ilmenite	3,269
Non Magnetic Tailings	9,000
Spiral Fine Concentrate	226
Zircon Crude	2,788
Zircon Crude High Grade	2,996
Zircon Crude Low Grade	1,337
Crude Monazite	21
	45,392

Sales

Rs. 1,174 million was earned from the sale of 60,925 M.T of mineral sands.

	M.T	Rs.Mln.
Ilmenite	31,004	211
Rutile	2,121	216
Zircon	294	31
Hi.Ti.Ilmenite	3,000	28
Spiral Fine Concentrate	2,900	132
Non-Magnetic Tailings	9,000	191
Zircon Crude	7,363	230
Zircon Crude High Grade	1,975	90
Zircon Crude Low Grade	2,868	4
Crude Monazite	400	41
	60,925	1,174

Results and Dividends

The Company's profit after tax was Rs. 154 million. The profit would have been more if not for the unabsorbed overheads of the Plant amounting to Rs.305 million. The limited production and absence of direct shipments from Pulmoddai resulted in the unabsorbed overhead expenditure.

A dividend of Rs.53.9 million was provided.

Rs. Million

	2016	2015
Gross Revenue	1,174	1,688
Gross Profit	607	821
Net Profit	154	457

Property, Plant and Equipment

The written down value of property, Plant, and Equipment as at 31st December, 2016 was 43% of the original value, which was Rs. 1,186 million as per details in Note 12. Capital work-in-progress was 245 million. This is a clear indication for replacement and upgrading of plant and machinery.

Additions to fixed assets during the year were Rs. 7 million.

Stated Capital

The Stated Capital remains unchanged at Rs. 800 million comprising of 80 million shares, the sole shareholder being the Secretary to the Treasury. Details as per Note 24.

Reserves and Retained Earnings

There was a transfer from reserves of Rs. 111 million as the floating crafts are not in operation for production. as a result the retained earnings increased by this amount of Rs. 111 million.

Short Term Financial Assets

Short Term Financial Assets decreased from Rs. 209 million to Rs. 19 million.

Taxation

The normal tax in effect during the year was 28%. However, the company enjoyed a concessionary rate of 12% for its exports.

Share Information

Basic earnings per share was Rs.1.93.

Events Occurring After Statement of Financial Position Date

No circumstances have arisen since the Statement of Financial Position date that would require adjustment.

Employment Policies

The number of employees as at 31.12.2016 was 685. The management gave more attention to Human Resource Management during the year under review.

Training of employees through workshops, seminars and training programmes continued in 2016.

Statutory Payments

The Competent Authority to the best of his knowledge and belief is satisfied that all statutory payments in relation to employees and the government have been made up to date.

Directorate

The directorate of the company was changed to Competent Authority with effect from 29.09.2015 as follows:-

Mr. T. Asoka Peiris
(from 29.09.2015 to 07.02.2017)

Future Plans

Future plans of the company include:-

- Diversifying into new products and locations.
- Expanding to Value added products.
- Establishment of spiral gravity concentration plant on the Northern side of Kokillai.
- Complete construction of 12 units three storied staff quarters.
- Continue refurbishment of staff quarters.
- Increase welfare facilities of staff.
- Complete laying of P.E pipes for proposed raw water transmission pipe line from Yan Oya Water Intake Site to IRZ Plant, Pulmoddai.
- Renovation of internal electrical distribution system.
- Repair the existing damaged warehouse.
- Renovation of Rutile Plant.
- Gabin wall to protect coastal land used for coconut cultivation and housing scheme.
- Commissioning of fluidized bed dryer for dry zircon plant.
- Renovation & upgrading of the existing plant complex.
- Upgrading the laboratory to internationally recognized standards.
- Renovation of Wet High Intensity Magnetic Separation Plant.

- Upgrading the Laboratory to internationally recognized standards.
- Renovation of Wet High Intensity Magnetic Separation Plant.
- Upgrading the Civil, Mechanical & Electrical Workshops.
- Replacing 09 Nos. Wet Tables in the Wet Mill to increase Zircon production.
- Modifying the Sea Water Transmission Line of Block "A".
- Establishment of Spiral Gravity Concentration Plant to upgrade the tailings of Wet Gravity Upgrading Plant and Wet Mill Spiral Tailings.

Competent Authority's Shareholdings

Competent Authority did not hold any shares of the company. 100% of shares are held by the Secretary to the Treasury.

Corporate Social Responsibility

The company spent only Rs.59,000/= to discharge corporate social responsibility. Sponsorship of social welfare activities, religious activities, educational activities etc. were undertaken.

Competent Authority's Interest In Contracts

The Competent Authority has no direct or indirect interest in any contract or proposed contract with the Company.

Corporate Governance/Internal Control

The Competent Authority acknowledges his responsibility for Company's internal control. The system is designed to give assurance inter alia on the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information generated. However, any system can ensure only reasonable and not absolute assurance that errors and irregularities are prevented or detected within a reasonable time.

The Competent Authority is satisfied with the effectiveness of the systems of internal control for the period up to the date of signing the Financial Statements.

Going Concern

Competent Authority has adopted the going concern basis in preparing the Financial Statements.

Auditors

Auditor General's Department functioned as external auditors for the year ended 31st December, 2016.

Secretaries

P.W. Corporate Secretarial (Pvt) Ltd., continued as secretaries.

By order of the Board,
P.W. Corporate Secretarial
(Pvt)Ltd.,
Secretaries.

FINANCIAL HIGHLIGHTS FOR THE LAST FIVE YEARS

		2012	2013	2014	2015	2016
Gross Sales Revenue	- Rs.mln.	1,985	679	1,220	1,688	1,174
Gross Profit	- Rs.mln.	1,628	500	694	821	607
Other Income	- Rs.mln.	224	56	56	136	55
Profit before Tax	- Rs.mln.	1,373	30	328	503	170
Profit after Tax	- Rs.mln.	1,190	20	329	457	154
Unabsorbed Overheads	- Rs.mln.	292	358	259	277	305
Total Assets	- Rs.mln.	2,029	2,400	2,829	2,764	3,100
Total Liabilities	- Rs.mln.	249	715	847	489	556
Shareholders' Equity	- Rs.mln.	1,780	1,684	1,981	2,276	2,544
Income Tax	- Rs.mln.	182	10	(2)	46	16
Dividend to Treasury	- Rs.mln.	1,700	43	14	158.5	54
Number of employees		595	629	636	847	685
Net Profit Before Tax to Equity		77%	2%	17%	22%	7%
Net Profit Before Tax to Total Assets		68%	1%	12%	18%	5%
Current Ratio		5:1	2:1	2:1	4:1	4:1

AUDIT AND MANAGEMENT COMMITTEE REPORT

Lanka Mineral Sands Limited has been functioning for the entire year 2016 under the Competent Authority. There was no board of Directors and as such no appointments were made to the audit and Management Committee.

Based on recommendations of the Secretary line Ministry an Audit and Management Committee was appointed in august, 2016 and to be headed by the Competent Authority. It consisted of 3 members and although 5 meetings were convened. None were held due to other commitment of its members. However, the Audit and Management Committee meetings would be activated in the year 2017 and 4 meetings would be held under review.

විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

My No. } IMU/A/LMSL/1/16/FA   Your No. }   Date } 07 February 2018

The Chairman
Lanka Mineral Sand Limited

Report of the Auditor General on the Financial Statements of the Lanka Mineral Sand Limited for the year ended 31 December 2016

The audit of the financial statements of the Lanka Mineral Sand Limited ("The Company") for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. To carry out this audit I was assisted by a firm of Chartered Accountants in Public Practice.

Board's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with Sri Lanka Auditing Standards. Because of the matters described in the Basis for Disclaimer of Opinion paragraph; however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

No. 306/72, Polduwa Road, Battaramulla, Sri Lanka
+94-11-2887028-34   +94-11-2887223   oaggov@sltnet.lk   www.auditorgeneral.gov.lk

Basis for Disclaimer of Opinion

(a) In terms of decision of the Cabinet of Ministers dated 09 November 2011, the Company has granted an advance of Rs. 500,000,000 to the State Resources Management Corporation Limited (SRMCL) on 10 January 2012. However, I was not provided with third party confirmation for this advance and there were no repayments until as at the reporting date. Further, as per Section 5 of Memorandum of Understanding (MOU) entered into between two parties, repayment terms regarding the advance of Rs. 500,000,000 and interest of Rs.12,421,448 receivable thereon were not included therein. Moreover, according to Section 6 of MOU, the General Treasury has been nominated as third party to settle the dues in case of default by SRMCL. Nevertheless, such clause is not valid since the required consent had not been obtained from the General Treasury. Due to these facts the recoverability of said advance of Rs.500,000,000 and the interest receivable of Rs.12,421,448 is in doubtful and impairment, if any, has not been assessed and recognized in the financial statements.

(b) (i) During the previous 2 years and in the year under review, the management has identified and accounted a raw sand stock (block A tailings) which was treated as normal waste before 2014 and valued this as Rs.434,867,518 (year 2014 as Rs.159,562,130 year 2015 as Rs. 152,791,602 and year 2016 as Rs. 122,513,786) by considering the future production cost and restated the financial statements accordingly even though this stock is presently still in the form of waste sand. According to the valuation reports submitted to me by the Company, this raw stock has only 7.88 per cent mineral content. But the current machinery has been designed to process sand which has at least a mineral content of 40 per cent. Therefore, there is substantial uncertainty as to whether the Company would process the raw sand stock to extract the mineral content and thereby the valuation of the said stock as at the year-end could be misstated. Moreover, it was observed in audit that the top management of the Company has not taken any strategic decision to process the wastage. Furthermore, the Company had paid an incentive of Rs.1,815,896 to its staff based on the adjusted inventory value.

(ii) As a result of the above inventory adjustment, the operating profit for the year under review had been overstated by Rs. 122,513,786 and if this adjustment had not been made in the financial statements, the operating profit for the year under review would be the operating loss of Rs. 4,352,211

2

(c) I noted that the directly attributable cost in relation to unsold inventories had not been considered in the valuation of inventories. The Company had recognized the unabsorbed overheads amounting Rs.305,270,258 under other operating expenses in the statement of comprehensive income, instead of considering it for the valuation of inventories. This is a non-compliance with the requirements of **Sri Lanka Accounting Standards, LKAS 02 – *Inventories*** and thereby the value of the inventory as at the year-end is understated.

(d) As per the requirements of **LKAS 18 – *Revenue***, the Company should recognize revenue when the risks and rewards of ownership of the goods are transferred to the buyer. As per the terms agreed with the buyers, the risks and rewards of ownership of the goods are transferred to the buyer when the goods are dispatched from the factory. However, it was observed that the Company recognizes the revenue at the time of raising the commercial invoices after receiving the bill of lading. Hence, there is a delay in recognizing revenue due to incorrect application of cut off. I was unable to quantify the effect of this misstatement since I was not provided with the required waybills to perform the cut-off testing.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis of Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Report on Other Legal and Regulatory Requirements.

As required by Section 163(2) of the Companies Act No. 7 of 2007, I state the following:

a) The basis of opinion and Scope and Limitations of the audit are as stated above.

b) In my opinion :
I have not obtained all the information and explanations that was required for the audit as stated above and hence, I do not express an opinion on these financial statements.

Report to Parliament

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

H.M. Gamini Wijesinghe
Auditor General

3

STATEMENT OF COMPREHENSIV E INCOME

FOR THE YEAR ENDED 31ST DECEMBER	NOTE	2016 Rs.	2015 Rs.
Gross Revenue	3	1,173,915,676	1,688,079,113
Value Added Tax		(326,289)	(184,815)
Net Revenue		1,173,589,387	1,687,894,298
Cost of Sales	4	(566,332,585)	(866,415,748)
Gross Profit		607,256,802	821,478,550
Other Operating Income	5	3,083,602	65,927,211
		610,340,404	887,405,761
Distribution Cost	6	(6,633,016)	(14,163,023)
Administrative Expenses	7	(170,221,121)	(163,079,380)
Other Operating Expenses	8	(315,324,692)	(277,045,734)
		(492,178,829)	(454,288,137)
Operating Profit		118,161,575	433,117,624
Finance Income	9	52,337,064	69,636,884
Profit before Income Tax for the year		170,498,639	502,754,508
Income Tax Expenses	10	(16,360,033)	(45,984,819)
Profit after Income Tax for the year		154,138,606	456,769,689
Net Profit for the year		154,138,606	456,769,689
Other Comprehensive Income (Item that will not be reclassified subsequently to profit or loss)			
Net Actuarial Gain (Loss) on Retirement Benefit Obligation		2,859,003	(3,873,677)
Total Comprehensive Income for the year		156,997,609	452,896,012
Basic Earnings Per Share	11	1.93	5.71

The accounting policies and notes from 01 to 39 form an integral part of these financial statements.

STATEMENT OF

AS AT 31ST DECEMBER	NOTE	2016 Rs.	2015 Rs.
ASSETS			
NON-CURRENT ASSETS			
Property, Plant & Equipment	12	758,802,341	779,562,362
Lease Hold Assets	13	21,645,046	22,476,452
Intangible Assets	14	357,054	258,250
Advance	15	557,421,448	554,921,448
TOTAL NON CURRENT ASSETS		1,338,225,889	1,357,218,512
CURRENT ASSETS			
Inventories	16	948,590,005	800,158,127
Short Term Financial Assets	17	18,981,226	208,640,110
Fixed Deposits	18	365,313,874	-------
Advances and Deposits	19	46,955,953	14,414,611
Prepaid Expenses	20	32,618,903	35,444,787
Other Receivable	21	302,938,689	--------
Income Tax Receivable	22	20,918,976	330,084,215
Cash & Cash Equivalents	23	25,353,081	18,457,054
TOTAL CURRENT ASSETS		1,761,670,707	1,407,198,904
TOTAL ASSETS		3,099,896,596	2,764,417,416
EQUITY AND LIABILITIES			
EQUITY			
Stated Capital	24	800,000,000	800,000,000
Other Reserves	25	906,544,343	1,017,544,343
Retained Earnings /(Loss)	26	837,317,294	458,024,737
Total Share holders Equity		2,543,861,637	2,275,569,080
LIABILITIES			
Non-Current Liabilities			
Retirement Benefit Obligations	27	58,424,744	63,551,328
Deferred Taxation	28	48,460,989	32,100,956
Income Tax Payable	29	--------	6,096,184
		106,885,733	101,748,468
CURRENT LIABILITIES			
Trade & Other Creditors	30	404,937,520	306,930,104
Provisions and Accrued Expenses	31	44,211,706	80,169,764
Short Term Loan	32	---------	---------
		449,149,226	387,099,868
TOTAL LIABILITIES		556,034,959	488,848,336
TOTAL EQUITY AND LIABILITIES		3,099,896,596	2,764,417,416

I certify that the financial statements comply with the the requirement of the Companies Act No. 7 of 2007.

Sgd – Mrs. W.K.Thamara – Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these financial statements. Approved and signed for and on behalf of the Board by,

Sgd. Mr. M. Gunaratne – Competent Authority

Date: 24th October, 2017

The accounting policies and notes from 01 to 39 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December, 2016

Rs.

	STATED CAPITAL	RETAINED EARNINGS	FLOATING CRAFT INSURANCE SINKING FUND RESERVE	REPLACEMENT /UPGRADING PLANT & MACHINERY SINKING FUND RESERVE	HEAD OFFICE BUILDING SINKING FUND RESERVE	TSUNAMI REPAIR SINKING FUND RESERVE	WORKMEN'S COMPENSATION SINKING FUND RESERVE	TOTAL
Balance as at 01 January,2015	800,000,000	206,233,360	111,000,000	706,346,960	171,149,672	18,801,474	10,246,237	2,023,777,703
Total Comprehensive Income for the year	-------	587,233,348	-------	-------	-------	-------	-------	587,233,348
Total Other Comprehensive Income for the year	-------	(3,873,677)	------	-------	-------	-------	-------	(3,873,677)
Dividend to Treasury		(158,500,000)						(158,500,000)
Balance as at 31 December, 2015	800,000,000	631,093,031	111,000,000	706,346,960	171,149,672	18,801,474	10,246,237	2,448,637,374
Balance as at 01 January,2016	800,000,000	631,093,031	111,000,000	706,346,960	171,149,672	10,246,237	18,801,474	2,448,637,374
Total Comprehensive Income for the year	-------	154,138,606	-------	-------	-------	-------	-------	154,138,606
Total Other Comprehensive Income for the year	-------	2,859,003	-------	-------	-------	-------	-------	2,859,003
Floating Craft Sinking Funds Adjustment	-------	111,000,000	(111,000,000)	-------	-------	-------	-------	------
Adjustment of W.H.T	-------	163,066	-------	-------	-------	-------	-------	163,066
Under Provision of Income Tax Y/A 2015/2016	-------	(7,988,412)	-------	-------	-------	-------	-------	(7,988,412)
Dividend to the Treasury	-------	(53,948,000)	-------	-------	-------	-------	-------	(53,948,000)
Balance as at 31 December, 2016	800,000,000	837,317,294	---------	706,346,960	171,149,672	10,246,237	18,801,474	2,543,861,637

The accounting policies and notes from 01 to 39 form an integral part of these financial statements.

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31ST DECEMBER	2016 Rs.	2015 Rs.
Profit/ (Loss) before Taxation	**170,498,639**	**502,754,508**
Adjustments:		
Depreciation and Amortization	75,839,656	76,021,456
Interest Income	(52,337,064)	(69,636,884)
Gratuity	11,708,997	10,517,230
Prior year adjustment	(256,203)	(234,357)
Actuarial Loss on retirement benefits obligation	------	---------
Profit on Disposal of Property, Plant & Equipment	(1,025,093)	(1,977,103)
Operating Profit before working capital changes	**204,428,932**	**517,444,849**
(Increase)/Decrease in Inventories	28,441,335	160,600,261
(Increase)/Decrease in Trade & Other Receivables	(244,804,859)	(13,533,799)
Increase/(Decrease) in Trade & Other Payables	62,049,358	(454,821,613)
Increase/(Decrease) in Credit Facility	---------	(72,797,811)
Cash Generated from Operations	**50,114,766**	**136,891,887**
Gratuity Paid	(13,720,373)	(13,187,595)
Income Tax Paid	(30,893,654)	(5,748,387)
Net Cash from Operating Activities	**5,500,739**	**117,955,906**
Cash Flow From Investing Activities		
Deposits placed with Investments	114,113,335	151,929,023
Interest Income	(52,337,064)	69,636,884
Capital Work-in Progress	(52,106,097)	(192,226,654)
Acquisition of Property, Plant & Equipment and Intangible Assets	(4,568,344)	(148,648,727)
Proceeds from Disposal of Property, Plant & Equip.	1,794,197	2,041,434
Net Cash flow from Investing Activities	**6,896,027**	**(117,268,040)**
Cash Flow From Financing Activities		
Dividend paid	---------	(14,000,000)
Net Cash Flow from Financing Activities	---------	(14,000,000)
Net Increase/(Decrease)in Cash & Cash Equivalents	**6,896,027**	**(13,312,134)**
Cash & Cash Equivalents at the beginning of the period	18,457,054	31,769,187
Cash & Cash Equivalent at the end of the period	**25,353,081**	**18,457,054**
Analysis of Cash & Cash Equivalents		
Cash at Banks	25,178,229	18,275,903
Cash in Hand	154,852	161,151
Petty Cash	20,000	20,000
	25,353,081	**18,457,054**

The accounting policies and notes from 01 to 39 form an integral part of these financial statements.

1. CORPORATE INFORMATION

1.1 General

Lanka Mineral Sands Limited is a limited liability company fully owned by the Government of Sri Lanka incorporated and domiciled in Sri Lanka. The registered office of the company is located at No 341/21, Sarana Mawatha, Rajagiriya.

1.2 Nature of Operations and Principal Business Activities

The principal activity of the company is mining, processing and marketing of heavy mineral sands.

1.3 Number of Employees

The number of employees of the company as at the end of the year was 685. (year 2015 was 847)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements of Lanka Mineral Sands limited have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs). The financial statements have been prepared under the historical cost convention. The preparation of financial statements in conformity with Sri Lanka Accounting Standards (SLFRSs) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgments or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2A.

The financial statements for the period ended 31 December, 2016 were authorized for issue by the Board of Directors on 24th October, 2017.

2.2 Changes in accounting policies

The presentation and classification of the financial statements of the previous year have been amended, where relevant, for better presentation and to be comparable with those of the current year.

2.3 Foreign currency translation

2.3.1 Functional and presentation currency

Transaction and balances included in the financial statements of the company is measured using the currency of the primary economic environment in which the entity operates. The financial statements are presented in Sri Lanka Rupees (LKR), which is the company's presentation currency.

2.3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

2.3 Property, plant and equipment

Property, plant and equipment are initially recognized at cost including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Company's management.

Property, plant and equipment are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as an asset, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:-

Site Development	20 Years	5%
Buildings	20 Years	5%
Plant& Machinery	10 Years	10%
Loose Tools& Equipment	10 Years	10%
Furniture, Fitting& equipment	10 Years	10%
Motor Vehicles	6.5-5 Years	15%-20%

Water Supply	10 Years	10%
Floating craft	10 Years	10%
Slime-pit	4 years	25%
Computer Hardware	4 Years	25%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.4 Intangible Assets

Acquired computer software and operating systems are capitalized on the basis of the costs incurred to acquire and bring to use the specific software and systems. Intangible assets acquired are stated at cost less accumulated amortization and accumulated impairment losses. These costs are amortized over their estimated useful lives, as follows:-

Computer Software	4 Years	25%

Costs associated with maintaining computer software programs are recognized as an expense incurred.

2.6 Impairment of non-financial assets

At each end of reporting period, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss(if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company determines the cash-generating unit and estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income.

2.7 Financial Assets

2.7.1 Classification

The company determines the classification of its financial assets as loans and receivables at initial recognition as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The company's loans and receivables comprise trade and other receivables, repurchase government securities, investment in State Institution Temporary Surplus Fund, prepayments, deposits, loans to employees and cash and cash equivalents at the end of reporting period.

2.7.2 Recognition and Initial Measurement

Financial assets classified as loans and receivables are recognized on the date on which the company originates the transaction. A financial asset is measured initially at fair value plus directly attributable transaction costs.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership of the financial assets.

2.7.3 Subsequent Measurement

Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less provision for impairment.

2.7.4 Impairment of financial assets
Assets carried at amortized cost

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For loans and receivables carried at amortized cost, 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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the financial assets is reduced and the amount of the loss is recognized in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the statement of comprehensive income.

2.8 Inventories

Inventories are stated at lower of cost or net realizable value. Cost is determined on the basis of weighted average cost (WAC). Net realizable value represents the estimated selling price for inventories less all estimated cost of sale completion and cost necessary to make the sale.

2.9 Trade Receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. Collection is expected in the normal operating cycle of the business and they are classified as current assets.

Trade receivables are recognized initially at fair value, which is the invoice amount and subsequently measured at the original invoice amount less provision for impairment as they are expected to be received within short period, such that the time value of money is not significant.

The company assesses at the end of each reporting period whether there is objective evidence that trade receivables is impaired. Objective evidence of impairment for trade receivables could include the company's past experience of collecting payments, an increase in the number of delayed payments. Trade receivables are impaired and impairment losses are incurred, only if there is objective evidence of impairment.

2.10 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.11 Stated Capital

Stated Capital represents the value of shares that have been issued.
Ordinary shares are classified as equity.

2.12 Financial Liabilities

The company classifies financial liabilities into other financial liabilities. The Company's other financial liabilities include trade and other payables. The other financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at the original invoice amount as they are expected to be paid within short period, such that the time value of money is not significant.

The company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

2.13 Trade and Other Payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities as they are in the normal operating cycle of the business.

Trade and other payables are recognized initially at fair value, which is the transaction price and subsequently measured at the original invoice amount as they are expected to be paid within a short period, such that the time value of money is not significant.

2.14 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income. In this case, the tax is also recognized in other comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted at the reporting period end applicable for the company and generate taxable income. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred tax is determined using tax rates that have been enacted at the reporting period end date and are expected to apply when the related deferred tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority.

2.15 Employee benefits

The company has both defined benefit and defined contribution plans.

2.15.1 Defined Contribution plan

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions. The contributions are recognized as employee benefit expense when they are due.

The company contributes 12% of gross emoluments of employee to Employee Provident Fund (EPF) and 3% on gross emoluments of employees to Employee Trust Fund (ETF).

2.15.2 Defined benefit plan

The company obligation in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is measured annually using the projected unit credit method.

The cost of defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and the long – term nature, such estimates are subject to significant uncertainty and the obligation is highly sensitive to the changes of these estimates and assumptions. Details of the key assumptions used in the estimates are specified in Note 12 to the Financial Statements.

2.15.3 Short-term employee benefit

Short-term employee benefit obligations are measured on an undiscounted amount expected to be paid for related services provided by the employees.

2.16 Provisions and Contingent Liabilities

Provisions for operational expenses are recognized when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the company and amounts can be estimated reliably.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

All contingent liabilities are disclosed as a note to the financial statements unless the possibility of an outflow of resources is remote.

2.17 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for sale of goods stated at net of Value Added Taxes (VAT). The company recognizes revenue when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the entity.

The company applies the revenue recognition criteria set out below to each identifiable major type's revenue generated.

2.17.1 Sale of Goods

Revenue from the sale of goods is recognized at the time of raising commercial invoice after receiving the bill of lading from the buyer.

2.17.2 Interest Income

Interest Income is recognized using the effective interest method.

2.17.3 Gains and Losses on Disposal of Property, Plant and Equipment

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive income.

2.18 Expenses

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

2.19 Events Occurring after the Reporting Period

All material events after the reporting period have been considered and where appropriate adjustments or disclosures have been made in the respective notes to the financial statements.

2.20 Commitments

All material commitments at the reporting period end have been identified and disclosed in the notes to the financial statements.

2A. Significant Accounting Estimates and judgments

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

2A.1 The following are significant judgments in applying the accounting policies that have most significant effect on the financial statements.

2A1.1 Recognition of Deferred Tax Assets

The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the future taxable income against which the deferred tax assets can be utilized.

2A.2 Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are provided below:

2A.2.1 Useful life time of depreciable assets

Management reviews its estimate of the useful life time of depreciable assets at each reporting date, based on the expected economic utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and IT equipment.

2A.2.2 Defined benefit plan

The present value of the defined benefit plan obligations depends on a number of factors that are determined on the basis of projected unit credit method using a number of assumptions. The assumptions are used in determining the net cost and obligation for defined benefit plan including the discount rate. Any changes in these assumptions will impact the carrying amount of defined benefit obligation.

NOTES TO

FOR THE YEAR ENDED 31ST DECEMBER

NOTE 03 REVENUE

	Gross Sales Rs.	VAT Rs.	2016 Rs.	2015 Rs.
Rutile	215,754,000	-----	215,754,000	91,792,400
Ilmenite	211,022,355	-----	211,022,355	283,964,199
Zircon	31,263,112	326,289	30,936,823	78,393,152
Hi.Ti. Ilmenite	27,778,214	-----	27,778,214	53,901,154
Non Magnetic	190,617,812	-----	190,617,812	1,157,136,561
Spiral Fine Concentrate	132,197,810	-----	132,197,810	22,891,647
Zircon Crude	229,965,362	-----	229,965,362	----------
Zircon Crude High Grade	89,880,676	-----	89,880,676	----------
Zircon Crude Low Grade	3,817,595	-----	3,817,595	----------
Crude Monazite	41,618,740	-----	41,618,740	----------
	1,173,915,676	326,289	1,173,589,387	1,688,079,113

NOTE 04 COST OF SALES

	2016 Rs.	2015 Rs.
Rutile	56,644,369	31,842,973
Ilmenite	110,925,238	254,435,525
Zircon	9,441,973	18,880,618
Hi.Ti. Ilmenite	43,665,024	144,202,750
Non Magnetic	72,019,638	285,263,255
Spiral Fine Concentrate	59,246,040	131,790,627
Zircon Crude	153,522,028	----------
Zircon Crude High Grade	45,299,060	----------
Zircon Crude Low Grade	8,488,891	----------
Crude Monazite	7,080,324	----------
	566,332,585	866,415,748

NOTE 05 OTHER OPERATING INCOME

	2016 Rs.	2015 Rs.
Demurrage Income	2,058,509	63,950,108
Profit on Sale of Assets	1,025,093	1,977,103
	3,083,602	65,927,211

NOTES TO

FOR THE YEAR ENDED 31ST DECEMBER		2016 Rs.	2015 Rs.

NOTE 06 DISTRIBUTION COST

		2016 Rs.	2015 Rs.
Salaries & Wages		4,016,334	3,711,447
Overtime		62,718	49,999
Attendance Incentive		146,400	152,000
Meal Allowance		222,900	246,900
Provident Fund Contribution		505,910	454,774
Medical Scheme		-------	65,333
Licence fees		122,384	104,547
Vehicle running Expenses - Rep & Main		---	200
Postage, & telephone		74,107	67,336
Subscription		----	14,959
Advertising & Sales Promotion - Local		1,065,500	----
Publicity & Exhibition		----	874,905
Bank Charges		----	2,079
Exchange Fluctuation		301,615	8,304,850
Employees Trust Fund		115,148	113,694
		6,633,016	14,163,023

NOTE 07 ADMINISTRATIVE EXPENSES

		2016 Rs.	2015 Rs.
Directors' payments		58,000	971,794
Chairman's payments		600,000	820,590
Travelling & Subsistence		-------	4,100
Entertainment		300,000	394,328
Fuel & Lubricants		205,409	318,090
Vehicle Running Expenses		298,667	1,980,568
Vehicle Hire Charges		12,462	-------
Postage & Telephone charges		113,903	118,443
Administrative / General Expenses	(Note 7A)	168,632,680	158,471,466
		170,221.121	163,079,380

NOTE 07A ADMINISTRATION/GENERAL EXPENSES

		2016 Rs.	2015 Rs.
Salaries & Wages		61,897,346	64,676,308
Overtime		5,972,932	5,849,413
Attendance Incentive		2,533,850	2,711,600
Gratuity		9,337,461	7,977,143
Meal Allowance		3,643,425	3,906,050
Staff Tea		648,364	678,712
Languages Allowance		151,771	-------
Provident Fund Contribution		7,850,239	7,644,577
Staff Welfare		2,369,582	2,459,300
Uniforms		2,394,562	1,887,124

NOTES TO

FOR THE YEAR ENDED 31ST DECEMBER	2016 Rs.	2015 Rs.
NOTE 07A ADMINISTRATION/GENERAL EXPENSES CONTD		
Medical Scheme	2,365,798	1,998,288
Travelling & Subsistence	447,732	483,229
Entertainment	38,321	8,798
Refreshment	359,828	203,183
Professional Charges	817,751	835,069
Electricity	2,500,140	2,173,085
Fuel & Lubricants	2,441368	3,036,063
Consumables	884,720	462,886
Repairs & Maintenance	2,483,449	1,903,687
Water	484,653	353,059
Freight Prepaid	142	5,600
Staff Training	2,417,525	489,722
Rent & Rates	10,261,647	7,216,999
Under provision of Rent & Rates - 2014	--------	1,154,726
Insurance – Motor Vehicles	655,417	612,177
Insurance – Personnel Accident	45,791	44,008
Insurance – Cash in Transit	2,146	------
Insurance – Fidelity Guarantee	203,828	159,773
Insurance - Fire	18,157	23,719
Insurance - Medical	5,103,074	4,663,958
Licence Fees	65,220	126,301
Vehicle Running Expenses	7,240,763	4,294,173
Vehicle Hire Charges	462,253	1,424,964
Postage & Telephone	1,528,097	1,283,793
Printing & Stationery	1,145,904	1,313,779
Books & Periodicals	83,407	------
Subscription	718,565	254,906
Sundry Expenses	264,064	197,163
Stores Miscellaneous	720	186,247
Audit Fees	215,005	209,767
Corporate Social Responsibility	30,552	262,500
Legal Expenses	529,857	1,211,801
Press Notices	1,332,835	2,132,900
Bank Charges	217,341	203,261
Depreciation	7,056,196	7,684,878
Amortization of Software	181,033	179,718
Amortization of Leasehold Land	831,406	456,943
Employees Trust Fund	1,963,148	1,909,910
Workmen Compensation	13,089,720	--------
Bonus	1,529,679	1,690,132
Profit Incentive	1,815,896	9,830,076
	168,632,680	158,471,466

NOTES TO

FOR THE YEAR ENDED 31ST DECEMBER	2016 Rs.	2015 Rs.

NOTE 08 OTHER OPERATING EXPENSES

Unabsorbed Overheads – Note 8.1	305,270,258	257,172,507
Hi.Ti. Ilmenite Stock adjustment -- NRV	5,699,101	19,751,757
Low Grade Crude Zircon -- NRV	4,375,637	------
Write Offs	(20,304)	114,670
Donation	--------	6,800
	315,324,692	277,045,734

NOTE 08.1 UNABSORBED PLANT OVERHEADS

Shipping	4,093,507	4,818,344
Magnetic Separation Plant	54,342,544	32,837,393
Wet & Dry Mill	18,520,318	12,678,232
Transferred from other cost centers	228,313,889	206,838,538
	305,270,258	257,172,507

NOTE 09 FINANCE INCOME

Interest on Gratuity Fund Investments	284,671	260,397
Interest on General Investments	36,817,791	27,223,468
Interest on Staff Loans and Other Income	4,943,264	6,942,974
Interest on Housing Loan – HDFC	2,216,459	2,371,178
Interest on Foreign Currency Account	149,351	249,976
Interest on S.R.M.C.L. Loan	2,500,000	2,500,000
Forfeited Tender Deposits	5,425,528	30,088,890
	52,337,064	69,636,884

NOTE 10 INCOME TAX EXPENSES

Income Tax Expenses for the year – Note 10.1	-----	28,500,000
Deferred Taxation	16,360,033	17,484,819
	16,360,033	45,984,819

FOR THE YEAR ENDED 31ST DECEMBER	2016 Rs.	2015 Rs.

NOTE 10.1 Reconciliation Between the Current Tax Expenses and the product of Accounting Profit

Accounting Profit before Taxation	170,498,638	502,754,508
Aggregated Expenses Disallowed for Tax	182,303,038	227,300,745
Aggregated Expenses Allowed for Tax	(132,079,266)	(203,283,830)
Aggregated Income for Other Sources	(46,911,535)	(39,547,993)
Taxable Business Profit/(Loss) for the year	173,810,875	487,223,430
Other Income Liable for Tax	46,762,184	39,398,017
Total Statutory Income	20,573,059	526,521,447
Deduction under Section 32	(82,806,351)	(118,083,423)
Assessable Income	137,766,708	408,438,024
Qualifying Payments	(151,721,711)	(171,381,869)
Taxable Income	------	237,056,155
Income Tax Expenses – @ 12 %	------	28,446,739
	------	28,500,000
	------	---------

NOTE 11 BASIC EARNINGS PER SHARE

The calculation of Basic Earning Per Share is based on the Net Profit attributable to Ordinary Shareholders divided by the Weighted Average Number of Ordinary Shares outstanding during the year.

Net Profit attributable to Ordinary Shareholders	154,138,606	456,769,689
Weighted Average Number of Ordinary Shares	80,000,000	80,000,000
Basic Earnings Per Share (Rs.)	1.93	5.71

NOTE 12 PROPERTY, PLANT & EQUIPMENT

Rs.

Description	As at 01.01.2016	Additions	Disposals/ Adjustments	As at 31.12.2016
COST				
Freehold Land	3,029,245	-------	------	3,029,245
Site Development	49,107,211	-------	------	49,107,211
Building	206,189,348	2,887,269	------	209,076,617
Plants & Machinery	629,614,415	2,239,665	------	631,854,080
Loose Tools & Equipment	44,981,627	939,623	225,775	45,695,476
Furniture, Fittings & Equip.	27,213,885	961,956	31,935	28,143,906
Motor Vehicles	178,381,671	-------	1,430,000	176,951,670
Water Supply Scheme	14,694,456	-------	------	14,694,456
Floating Crafts	10,931,234	-------	------	10,931,234
Computer Hardware	16,804,649	82,735	106,487	16,780,897
	1,180,947,741	7,111,248	1,794,197	1,186,264,792
DEPPRECIATION				
Freehold Land	-------	-------	------	------
Site Development	9,237,831	2,437,545	------	11,675,376
Building	58,062,363	8,053,144	------	66,115,507
Plants & Machinery	310,134,303	43,033,119	------	353,167,422
Loose Tools & Equipment	27,930,903	3,169,683	223,415	30,877,171
Furniture, Fittings & Equip.	13,221,180	2,247,373	31,823	15,436,730
Motor Vehicles	141,815,935	14,408,059	1,429,998	154,793,995
Water Supply Scheme	14,588,457	48,852	------	14,634,309
Floating Crafts	10,120,690	115,105	------	10,235,795
Computer Hardware	14,423,520	1,252,810	106,471	15,569,859
	599,535,182	74,762,690	1,791,707	672,506,164
Net Carrying Value	581,412,559	--------	-------	513,758,628
Capital Work-in-Progress	195,824,885	52,106,097	2,887,269	245,043,713
	777,237,444	52,106,097	-------	758,802,341

NOTES TO

NOTE 13 LEASE HOLD ASSETS

Rs.

Description	As at 01.01.2016	Additions	Disposals/ Adjustments	As at 31.12.2016
COST				
Leasehold Land	24,222,334	-----	---	24,222,334
AMORTIZATION				
Leasehold land	1,745,882	831,406	---	2,577,288
Net Carrying Value	22,476,452	(831,406)	---	21,645,046

NOTE 14 INTANGIBLE ASSETS

Rs.

Description	As at 01.01.2016 Rs.	Additions Rs.	(Disposals)/ Adjustments Rs.	As at 31.12.2016 Rs.
COST				
Computer Software	3,492,219	344,365	---	3,836,584
AMORTIZATION				
Computer Software	3,233,969	245,560	---	3,479,530
Net Carrying Value	258,250	98,805	---	357,054

FOR THE YEAR ENDED 31ST DECEMBER	2016 Rs.	2015 Rs.
NOTE 15 ADVANCE		
State Resources Management Corporation Ltd.	500,000,000	500,000,000
State Plantation Corporation	25,000,000	25,000,000
Janatha Estate Development Board	15,000,000	15,000,000
National Paper Company Ltd.	5,000,000	5,000,000
Interest Receivable	12,421,448	9,921,448
	557,421,448	554,921,448

NOTES TO

FOR THE YEAR ENDED 31ST DECEMBER	2016 Rs.	2015 Rs.

NOTE 16 INVENTORIES

Sundry Items	1,094,505	1,026,665
Consumables & Spares	185,158,284	205,816,125
Raw Materials and Intermediary Products	64,489,026	5,245,953
Finished & Semi Processes Goods		
- Ilmenite	51,679,615	136,803,434
- Rutile	22,982,438	23,794,882
- Zircon	9,874,631	5,203,489
- Crude Zircon	-----	--------
- Monazite	4,234,761	--------
- Hi.Ti. Ilmenite	23,777,868	13,027,816
- Crude Monazite	------	7,722,677
- Wet Table Middling	------	228,160,304
- Zircon Crude	68,436,878	------
- Spiral Fine Concentrate	6,181,258	55,999,529
- High Grade Zircon Crude	63,154,371	
- Magnetite	1,507,781	3,786,564
- Non Magnetic Tailings	-----	113,570,689
- Low Grade Zircon Crude	11,151,071	------
- Block A Tailings	434,867,518	------
	948,590,005	800,158,127

Details relating to restatement of prior year financial statement is disclosed in note no. 37.

NOTE 17 SHORT TERM FINANCIAL ASSETS

Treasury Bills	16,200,354	205,000,000
Interest Debtors	2,780,872	3,640,110
	18,981,226	208,640.110

NOTE 18 FIXED DEPOSITS

Hatton National Bank	215,313,874	------
Bank of Ceylon	150,000,000	------
	365,313,874	------

NOTE 19 ADVANCES AND DEPOSITS

Advances and Deposits	46,955,953	14,414,611
	46,955,953	14,414,611

NOTE 20 PREPAID EXPENSES

Prepaid Expenses	32,618,903	35,444,787
	32,618,903	35,444,787

FOR THE YEAR ENDED 31ST DECEMBER		2016 Rs.	2015 Rs.

NOTE 21 OTHER CURRENT ASSETS

VAT Recoverable		116,555,768	109,489,716
Sundry Debtors		1,000	1,000
Housing Loans – HDFC Bank in respect of Housing Loans		62,271,704	81,222,979
Other Debtors		5,676,489	27,025,170
Loans and Advances to Staff		118,658,809	112,570,332
		303,163,770	330,309,197
Less: Impairment	21.1	(224,981)	(224,982)
		302,938,689	**330,084,215**

NOTE 21.1 IMPAIRMENT

Movements in the impairments allowance for receivables are as follows:

As at 01st of January	224,981	224,982
Recoveries during the year	--------	------
Recovered during the year	224,981	224,982

NOTE 22 INCOME TAX RECEIVABLES

Balance As At 01 January	(6,096,184)	Pl refer Note No.29
Provision for the Year	---------	------
Payments made during the year	34,603,900	-----
Adjustment on Under/Over Provision	(7,588,740)	-----
Balance as at 31st December	20,918,976	-----

NOTE 23 CASH AND CASH EQUIVALENTS

Bank of Ceylon – Foreign Currency – A.C 0073449850	20,464,869	17,221,963
Bank of Ceylon – Corporate Branch– A.C 0000000931	3,753,866	572,561
Bank of Ceylon – Pulmoddai –A.C 00002367534	60,752	170,789
Hatton National Bank, Cinnamon Garden Branch – A.C 076010004078	771,135	257,329
People's Bank, Pulmoddai–A.C 352-1001-5-0000244	127,607	53,261
Cash in hand - Pulmoddai	154,852	161,151
Petty Cash – Head Office	20,000	20,000
	25,353,081	18,457,054

FOR THE YEAR ENDED 31ST DECEMBER	2016 Rs.	2015 Rs.

NOTE 24 STATED CAPITAL

Issued and Fully Paid 80,000,000 Ordinary Shares	800,000,000	800,000,000

NOTE 25 OTHER RESERVES

Floating Craft Insurance Sinking Fund Reserve	--------	111,000,000
Replacement/Upgrading of Plant & Machinery Sinking Fund Reserve	706,346,958	706,346,958
Head Office Building Sinking Fund Reserve	171,149,673	171,149,673
Workmen's compensation Sinking Fund Reserve	10,246,238	10,246,238
Tsunami Repair Sinking Fund Reserve	18,801,474	18,801,474
	906,544,343	1,017,544,343

NOTE 26 RETAINED EARNINGS /(LOSS)

Opening Balance	631,093,031	206,233,360
Dividend to the Treasury	(53,948,000)	(158,500,000)
Floating Craft Sinking Funds adjustment	111,000,000	---------
Adjustment of W.H.T	163,066	---------
Under provision of Income Tax Y/A 2015/2016	(7,988,412)	---------
Profit of (Loss) for the year	156,997,609	583,359,672
	837,317,294	631,093,031

NOTE 27 INVESTMENT AGAINST RETIREMENT BENEFIT OBLIGAIONS

Balance as at 01 January	67,657,864	66,454,553
Expenses recognized in Comprehensive Income (Note 26-1)	11,708,997	10,51,230
Actuarial (Gain)/loss Recognized in other Comprehensive Income	(2,859,003)	3,873,677
Payments made during the year	(13,720,373)	(13,187,595)
	62,787,484	67,657,865
Less: Fair Value of Planned Assets	(4,362,740)	(4,106,537)
Balance as at 31 December	58,424,744	63,551,328

NOTE 27.1 EXPENSES RECOGNIZED IN

Current Service Cost	3,089,385	3,366,720
Interest Charge for the Year	8,619,612	7,150,510
	11,708,997	10,517,230

NOTES TO

FOR THE YEAR ENDED 31ST DECEMBER	2016 Rs.	2015 Rs.

NOTE 27.2 ACTUARIAL ASSUMPTION

The principle actuarial assumption used in determining calculating the present value of the defined benefit obligation include.

Discount Rate	12.74 %	10.76 %
Salary Incremental Rate	-------	-------
Retirement Age	60 Years	60 Years
Staff Turnover Rate		
Upto 55	1.18 %	1.00 %
Thereafter	0.00 %	0.00 %

Rates of annual salary increment were based on management circular No. 30(1) issued by the Management Service Department of the General Treasury.

NOTE 28 DEFERRED TAX ASSETS AND LIABILITIES

Balance as at 01st January	32,100,956	14,616,137
Charge to Income Statement	16,360,033	17,484,819
Assets Recognition during the year	----------	---------
Balance as at 31st December	48,460,989	32,100,956

NOTE 28.1 DEFERRED TAX LIABILITY

Carrying amount tax base 31 Dec. 2016		
Deferred tax liability on capital allowance on PPE	267,642,378	334,738,508
Deferred tax assets on retirement benefits obligation	(62,787,485)	(67,657,864)
Net Temporary Difference	204,854,893	267,080,644
Deferred tax liability on capital allowance on PPE	32,027,157	40,120,418
	209,832	112,472
	32,236,989	40,232,890
Deferred tax assets on retirement benefits obligation	7,513,402	8,109,201
	49,225	22,733
	7,562,627	8,131,934
Net deferred Tax Liability as at 31 December	24,674,362	32,100,956

FOR THE YEAR ENDED 31ST DECEMBER	2016 Rs.	2015 Rs.

NOTE 29 INCOME TAX PAYABLES

Balance as at 01 January	Pl refer Note	16,655,430
Provision for the year	No. 22	(28,500,000)
Payments made during the year		3,000,000
Adjustment		2,748,387
Balance as at 31 December	---	6,096,184

NOTE 30 TRADE AND OTHER CREDITORS

Advance from Buyers	140,885,205	107,569,661
Sundry Creditors	10,862,244	10,054,748
Tender Deposits	3,671,322	2,929,526
Retention Money	21,051,156	17,895,201
Staff Emoluments	14,979,165	8,777,475
Gratuity payable	108,728	108,728
Dividend Payable	212,448,000	158,500,000
Trade Creditors	931,700	931,700
	404,937,520	306,767,038

NOTE 31 PROVISION AND ACCRUED EXPENSES

Provisions and Accrued Expenses	44,211,706	80,169,764

NOTE 32 SHORT TERM LOAN

Short Term Loan - BOC	----	----
Interest Payable	----	----
	----	----

NOTES TO

NOTE 33 RELATED PARTY DISCLOSURES

NOTE 33.1 TRANSACTIONS WITH KEY MANAGERIAL PERSONS

According to the Sri Lanka Accounting Standards LKAS 24 "Related Party Disclosures" key Management personnel are those having responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Directors (Including executive and Non-Executive Directors) has been classified as key management personnel.

Transactions with Key Managerial Persons are given below.

	31.12.2016 Rs.	31.12.2015 Rs.
Expenses Incurred to Key Managerial Persons	658,000	1,792,384
Loans and advances given to Key Managerial Persons	Nil.	Nil.

NOTE 33.2 RELATED PARTY TRANSACTIONS

Details of significant related party transactions are as follows:-

Name of the Institution	Relationship	Nature of Transaction	Value 2016 Rs.	Value 2015 Rs.
Geological Survey & Mines Bureau	Related entity	Royalty paid	82,806,351	118,083,423
Janatha Estate Development Board		Loan granted	15,000,000	15,000,000
National Paper Co. Ltd		Loan granted	5,000,000	5,000,000
State Management Resource Corporation	Related entity	Loan granted	500,000,000	500,000,000
State Plantation Corporation		Loan granted	25,000,000	25,000,000
Central Bank		Interest earned	33,136,012	----
Central Bank		Withdrawals of deposits	1,801,370,609	1,303,300,000

NOTE 34 EVENTS OCCURING AFTER THE REPORTING PERIOD END

There were no events which required adjustments or disclosure in these financial statements, subsequent to the reporting period end.

NOTE 35 COMMITMENTS

An overdraft facility of Rs. 100 million was obtained from Bank of Ceylon pledging stocks of mineral sands as security. This facility was not used as at the reporting date.

NOTE 36 CONTINGENCIES

There are no contingent liabilities which would require adjustments to or disclosure in the Financial Statements, subsequent to the reporting period end.

NOTE 37 EXPLANATION TO RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

The company has restated the financial statements reported previously. An explanation of how the restatement from previously reported result has affected the companies financial position, financial performance and cash flows is set outing the following tables and the notes that accompany the tables.

NOTES TO

NOTE 37.1 RECONCILIATION OF COMPREHENSIVE INCOME

	Note	Previously reported balance (Rs.)	Adjustments (Rs.)	As re-stated balance (Rs.)
Gross Revenue	1	1,173,915,676	----	1,173,915,676
Cost of Sales		(673,968,131)	107,635,546	(566,332,585)
Gross Profit		499,621,256	107,635,546	607,256,802
Other Operating Income		3,083,602	-----	3,083,602
Distribution Cost		(6,633,016)	-----	(6,633,016)
Administrative Expenses		(174,784,395)	4,563,274	(170,221,121)
Other Operating Expenses		(340,106,502)	24,781,810	(315,324,692)
Operating Profit/(Loss)		(18,819,055)	136,980,630	118,161,575
Finance Income		52,337,064	-----	52,337,064
Profit before Income Tax for the year		33,518,009	136,980,630	170,498,639
Income Tax Expenses		7,426,594	(23,786,627)	(16,360,033)
Profit after Income Tax for the year		40,944,603	113,194,003	154,138,606
Other Comprehensive Income				
Net Actuarial Gain on Retirement Benefits		2,859,003	---------	2,859,003
Total Comprehensive Income for the year		43,803,606	113,194,003	156,997,609

NOTE 37.2 RECONCILIATION OF SHARE HOLDERS EQUITY

	As at 31.12.1015			As at 31.12.2014		
	Previously reported balance Rs.	Adjustment Rs.	Re-stated balance Rs.	Previously reported balance Rs.	Adjustment Rs.	Re-stated balance Rs.
ASSETS						
Non-current Assets						
Property, Plant & Equipment	779,562,362	(2,324,919)	777,237,443	514,148,994	(285,465)	513,863,529
Lease Hold Assets	22,476,452	----	22,476,452	22,779,862	----	22,779,862
Intangible assets	258,250	----	258,250	578,613	----	578,613
Advance	554,921,448	-----	554,921,448	552,421,448	-----	552,421,448
Total Non Current Assets	1,357,218,512	(2,324,919)	1,354,893,593	1,089,928,917	(285,465)	1,089,643,452
Current Assets						
Inventories	800,158,127	176,873,213	977,031,340	960,758,388	44,370,100	1,005,128,488
Short Term Financial Assets	208,640,110	-----	208,640,110	360,569,133	-----	360,569,133
Fixed Deposits	------	-----	------	-----	-----	------
Advances and Deposits	14,414,611	-----	14,414,611	95,354,664	-----	95,354,664
Prepaid Expenses	35,444,787	-----	35,444,787	33,621,382	-----	33,621,382
Other Current Assets	330,084,215	(1,480,000)	328,604,215	239,933,767	(1,480,000)	238,453,766
Income Tax Receivable	------	-----	------	16,655,430	-----	16,655,430
Cash & Cash equivalents	18,457,054	-----	18,457,054	31,769,189	-----	31,769,189
Total Current Assets	1,407,198,904	175,393,213	1,582,592,117	1,738,661,953	42,890,100	1,781,552,052
TOTAL ASSETS	2,764,417,416	173,068,294	2,937,485,710	2,828,590,870	42,604,635	2,871,195,504

NOTES TO

	As at 31.12.1015			As at 31.12.2014		
	Previously reported balance Rs.	Adjustment Rs.	Re-stated balance Rs.	Previously reported balance Rs.	Adjustment Rs.	Re-stated balance Rs.
EQUITY AND LIABILITIES						
Equity						
Stated Capital	800,000,000	------	800,000,000	800,000,000	------	800,000,000
Other Reserves	1,017,544,343	------	1,017,544,343	1,017,544,343	------	1,017,544,343
Retained Earnings /(Loss)	458,024,737	173,068,294	631,093,031	163,628,724	42,604,635	206,233,359
Total Share holders Equity	2,275,569,080	173,068,294	2,448,637,374	1,981,173,067	42,604,635	2,023,777,702
Liabilities						
Non-Current Liabilities	63,551,328	-----	63,551,328	62,582,374	-----	62,582,374
Retirement Benefit Obligations	32,100,956	-----	32,100,956	14,616,137	-----	14,616,137
Deferred Taxation	6,096,184	----	6,096,184	----	----	-----
Income Tax Payable	101,748,468	----	101,748,468	77,198,511	----	77,198,511
Current Liabilities						
Trade & Other Creditors	303,930,104	----	306,930,104	662,307,371	-----	662,307,371
Provisions and Accrued Expenses	80,169,764	----	80,169,764	35,114,109	----	35,114,109
Short Term Loan	----	----	-------	72,797,811	----	72,797,811
	387,099,868	----	387,099,868	770,219,291	----	770,219,291
TOTAL LIABILITIES	488,848,336	----	488,848,336	847,417,802	----	847,417,802
TOTAL EQUITY AND LIABILITIES	2,764,417,416	173,068,294	2,937,485,710	2,828,590,869	42,604,635	2,871,195,504

EXPLANATION TO RE-STATEMENT

1. An amount of Rs. 110,345,384 included under capital work in progress in the previous year was capitalized and transferred to respective accounts. The depreciation applicable amounting to Rs. 2,324,919 was not recognized in the previous financial years. The said error was corrected to as per LKAS 08 – Accounting policies, changes in accounting estimates & errors.

   The impact arising from the error correction is summarized as follows:-

Statement of financial position as at	31.12.2015 Rs	31.12.2014 Rs.
Property, Plant & Equipment		
Previously reported balance	779,562,362	514,148,994
Re-statement adjustment	(2,324,919)	(285,465)
Re-stated balance	777,237,443	513,863,529
Re-statement adjustment		
Property Plant & Equipment		
WDV of asset capitalized	8,420,153	-----
Asset capitalized	98,752,498	8,705,618
Depreciation	(2,039,454)	(285,465)
Net adjustment	105,133,197	8,420,153

2. Stock of Block "A" Tailings which was rejected as wastage in the previous years, was taken into account in 2016.

The said error was corrected to as per LKAS 08 – Accounting policies, changes in accounting estimates and errors.

The impact arising from the error correction is summarized as follows:-

Statement of financial position as at	31.12.2015 Rs	31.12.2014 Rs.
Inventories		
Previously reported balance	800,158,127	960,758,388
Re-statement adjustment	176,873,213	44,370,100
Re-stated balance	977,031,340	1,005,128,488

3. Adjustment to the retained earnings

Retained Earnings		
Carried forward impact	42,604,635	-----
Depreciation charge	(2,324,919)	(285,465)
Re-statement adjustments	132,788,578	42,890,100
Net adjustment	173,068,294	42,604,635

NOTE 38 FINANCIAL RISK MANAGEMENT

The company's activities are exposed to a variety of financial risks such as Market Risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management process focuses on the unpredictability of financial risks and seeks to minimize potential adverse effects on the Company's financial performance. Risk Management is performed by the Finance Department under policies approved by the Board of Directors.

The principal financial instruments of the Company comprise of short term deposits, money market investments, and cash. the main purpose of these financial instruments is to raise and maintain liquidity for the Company's operations, and maximize returns on the Company's financial reserves. The Company has various other financial instruments such as trade receivables and trade payables which arise directly from its business activities.

NOTES TO

(a) Credit risk

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

(b) Trade receivables

Trade receivables consist of local customers. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The company does not have a significant credit risk exposure to any single counterparty or any group of counterparties. The company has established policies and procedures to evaluate the clients before approving credit terms.

(c) Liquidity risk

Cash flow forecasting is performed by the Finance division monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs. Surplus cash held over and above balance required for working capital management is invested in deposits with banks. At the reporting date, the Company held deposits of Rs. 412,269,827/= (31/12/2016 – Rs. 25,353,081/=) that are expected to readily generate cash inflows for managing liquidity risk.

(d) Interest rate risk

The Company has cash and bank balances including deposits placed with government and creditworthy banks. The company monitors interest rate risk by actively monitoring the yield curve trends and interest rate movements.

(e) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost capital.

NOTES TO

NOTE 39 EFFECT OF ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards which will become applicable for the financial periods beginning on or after 1st January, 2015.

SLFRS 9 – Financial Instruments： Classification & Measurement

SLFRS 9, as issued, reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets & Liabilities.

SLFRS 9, is applicable for the financial periods beginning on or after 1st January, 2018. Early application is permitted.

SLFRS 15 – Revenue from contracts with customers

SLFRS 15 includes specific guidance on consignment sales. Under this guidance, if an entity delivers a product to another party for sale to end customers, then the entity assesses whether the other party has obtained control of the product – i.e revenue is not recognized upon delivery of a product to another party if the delivered product is held on consignment. IFRS 15 includes a list of indicators to assess whether an arrangement is a consignment arrangement.

SFFRS 15, is applicable for the financial periods beginning on or after 1st January, 2017. Early application is permitted.