SRI LANKA CEMENT CORPORATION

ANNUAL REPORT

2012

Sri Lanka Cement Corporation
P.O.Box-1382,
130, W.A.D.Ramanayake Mawatha,
Colombo-02.

20.06.2014

Secretary,
Ministry of State Resources & Enterprise Development,
561/3,Elvitigala Mawatha,
Colombo-05.

Dear Sir,

SRI LANKA CEMENT CORPORATION
ANNUAL REPORT FOR THE YEAR, 2012

In terms of Section 30 (1) of the State Industrial Corporation Act No.49 of 1957, I have pleasure in submitting the Report of the Board of Directors of the Corporation for the year, 2012 togather with the following documents.

a). Financial Statement for the year, 2012
b). The Auditor General's Report and
c). Observations of the Board on (b) above.

Yours faithfully,

For and on behalf of the Board of Directors of the
SRI LANKA CEMENT CORPORATION

Signed,
N.S.M.SAMSUDEEN,
CHAIRMAN.

SRI LANKA CEMENT CORPORATION

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SRI LANKA CEMENT CORPORATION

REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2012

1.0 BACKGROUND

Sri Lanka Cement Corporation is the pioneer in Cement Industry in Sri Lanka.

The Cement Factory at Kankesanthurai which was established in 1950 under the Department of Industries was converted to a Public Corporation in 1956 under the provisions of the Government Sponsored Corporations Act No.19 of 1955 and named Kankesan Cement Works.

On 1st January 1959 the Corporation was reconstituted as Ceylon Cement Corporation under the Industrial Corporations Act No. 49 of 1957.

In the year 1980 the name was changed to "Sri Lanka Cement Corporation" by a Gazette notification. This Corporation which functioned under the Ministry of Industries and Scientific affairs was brought under the purview of the Ministry of Local Government, Housing & Construction from 1st February 1985. After that, since 19th June 1997 the Corporation was again under the Ministry of Industrial Development and still continuing as same until 2010 and vested under the Ministry of State Resources & Enterprises Development thereafter.

The Corporation had invested Rs.1,083,618,910/= in the Lanka Cement Limited in 1981 and holds 62.45% of the Share Capital. The par value of the share is Rs.10/=. This investment has not paid and return since it's inception. However, the share price has sharply increased during the year 2009 and 2010 due to the ending of the crises situation in the North. The maximum market price of the share has gone as Rs.34.75 and 2011 market price of the share has come down as Rs.26.20

Sri Lanka Cement Corporation also own 320,000 ordinary shares of Rs.10/= each in the Lafarge Mahaweli Cement Company Limited, and benefited by a Bonus issue of one new ordinary share for every two shares held by the Corporation as at 31st December, 1995. The Corporation now owns 480,000 ordinary shares in LMCCL which is 10% of the total share holding. The Corporation has been benefited by a very good return (dividend) on this investment up to 1999. After that except in the year 2004, the Corporation has not received any dividends from LMCCL.

With the peoplization of Puttalam Cement Works and Ruhunu Cement Works and transfer of ownership of Paper Bags Unit at Mattakuliya to the General Treasury the Sri Lanka Cement Corporation is only left with the Kankesan Cement Works which is also not in operation since June 1990 due to security situation in the North. Although the Treasury paid the salaries of the lay-by employees of the Kankesan Cement Works up to March 2001, it ceased to pay since April 2001. The heavy burden fall on the Corporation to fork out the funds.

The Government had introduced a Voluntary Retirement Scheme in 2003 and 2005. There were 173 and 21 employees had left the Organization under this Voluntary Retirement Scheme in the respective years. The treasury granted Rs.49.18 Mn. and Rs.8.51 Mn. for the payment of Compensation.

2.0 PRESENT POSITION

a) Sale of Cement

Importing the sales of cement operating during the latter part of 2008 as the Corporation has entered into the cement market in latter part of the year, 2008.

During the year 2008, the Corporation has imported 12,390 MT and during the year 2009 has imported 84,308 MT of cement from M/s. D.G.Khan Cement Co. Ltd., Pakistan and distributed the same to the market under the brand name of 'Kankesan'. During the year, 2010 the Corporation, the Corporation has imported 36,260 MT of ordinary Portland Cement and for the year 2011 and 2012 also 58,352 M.T. and 28,249 MT respectively from Pakistan.

It is to be noted that the entry of the Sri Lanka Cement Corporation to the cement market has had an impact and has shaken the monopoly of the private sector in the cement market that they have enjoyed all these days and forced them to reduce their prices to cater to maintain their market shares.

However, the sale of cement operation has not financially benefited to the Corporation as it has to face many obstacles from the competitors.

b) Manufacturing & Selling of Concrete Products

The Corporation also started a Concrete production Yard at Urumpirai in October 1997. The Unit has been mainly engaged in production of RC Poles for Ceylon Electricity Board and Telegraph poles for Sri Lanka Telecom. However, the production had been curtailed from mid of the year 2006 to early part year 2008 due to the prevailed situation that prevailed and non-availability of the raw materials supply.

There was full production in the year 2009 and produced 3,312 Nos. of Poles and supplied to Ceylon Electricity Board and Sri Lanka Telecom stock. In addition Concrete blocks, beams, pavement slabs and fence posts are supplied to Building Department, Road Development Authority, University of Jaffna and the General Public. There were full production in the year 2010 and produced 2,117 Nos. Concrete Poles and 4,505 Nos. Panthal Post and in the year 2011 also produced 1918 Nos. Concrete Poles and 1892 Panthal Post and in the year 2012 also produced 2,687 Nos. Concrete Poles.

These activities have found gainful employment for 64 employees, also form the present strength of work force.

3.0 PROFITABILITY

The Corporation received a sale income of Rs.2.600 Mn. in the year, 2011. However, the operation was experienced loss to the Corporation due to uncontrollable factors. Further, the Corporation received income of Rs.35,623 Mn. as other operating income from the sources of lease rental, interest on deposits, etc.

However, due to losing the Court Case No.77755/12 filed by the Consume Affairs Authorities, the Corporation had to discard 13,000 Nos. of cement bags. The loss incurred, has been calculated as Rs.9.1 Mn. and written off from the P & L Account. The cement importation of the Corporation has stopped for nearly three months and bank interests and other related overheads have increased during the period. Further, according to a cabinet decision made, Sri Lanka Cement Corporation was payable a sum of US $ 300,000 to Ital Trade International (American Company). Hence, Rs.40 Mn. has been paid to the plaintiff by obtaining a loan from Bank of Ceylon. Since no provision has been made for the same Rs.40 Mn. has been written off against the Profit and Loss account as an expense.

4.0 FUTURE ROLE OF SRI LANKA CEMENT CORPORATION

The Sri Lanka Cement Corporation is not presently engaged in production of cement due to the temporary closure of the factory at Kankesanturai, which is the only factory owned by SLCC. However, prospects for recommencing the production of cement by KCW, in the immediate future are difficult to forecast.

The main responsibility of the Corporation is to ensure the recommencement of the Kankesan Cement Works. In this regard several efforts have been made over the years wherein possibilities to recommence production have been comprehensively studied. Necessary reports have been forwarded to the relevant authorities and found feasible for implementation provided the security clearance is assured.

Also the Management has initiated action to study the possibilities to put a new Packing Plant at a suitable area in Hambantota, Galle and Kankesanturai, ensuring the supply of best quality and low price cement to the nation. A proposal has been put forward to utilize the jungle land available in the area surrounding the Puttalam/Palavi Cement Factory for plantation of Cashew trees.

Another Project proposal has been originated on the land situated at 287, Galle Road, Colombo-03, which was obtained from the Police Department after 30 years and to construct a multi storey building by obtaining financial assistance from Banks. Construction of a 25 multi storey building with state of the art designing, Four levels of parking space and land scaping of the complex is proposed. Estimated Project cost is Rs.4,500 Bn. Now it is converted as Hotel Project and already signed the MOU between Management and China National Electric Equipment Corporation in August, 2012. Total estimated cost for the said Project is US $ 60,000,000.

5.0 APPRECIATIONS

The Board of Directors sincerely thank the Honorable Minister, State Resources & Enterprises Development for the directives given to the SLCC, Officials of the Line Ministry, General Treasury, Sri Lanka Standard Institution, Sri Lanka Ports Authority and State Banks, Other Government Institutions and Cement Manufacturing Organizations for their co-operation given to the SLCC in 2012.

The Board of Directors also wishes to record its appreciation for the services rendered by the employees of the Sri Lanka Cement Corporation.

CHAIRMAN'S REPORT REGARDING THE PERFORMANCE OF THE ESTABLISHMENT IN THE YEAR 2012

Sri Lanka Cement Corporation, functioning under the Ministry of State Resources and Enterprise Development, now doing the import of cement and distribute it at reasonable price as its main function and involves in the cement related products engaging the employees now serving in the Kankesanthurai Cement Factory. By the Import and Distribution of cement 28,249 metric tons of ordinary Portland cement was imported and distributed. Concrete production is 2687 poles.

Total earnings of the year 2012 was 361,933,000 and the Gross Total Loss was Rs.10,603,000.Similarly a Net Loss of Rs.70,383,000 was incurred. Even this shows a downfall comparatively from last year, the bad situations made an impact on it can be shown as follows:

1. Because of the inclusion of the interest payable for the amount which should be paid for the letter of credit on loan basis obtained from Bank of Ceylon when importing cement as direct cost in to the cost of sale also shows a gross loss.

2. Similarly the rate of price payable to the supplying companies when importing cement is increased and non-availability of a chance to increase the price of sales in the competitive market had a direct impact on this.

3. The loss of Rs.9 million caused by the intervention of Consumer Authority and filing case against the cement becoming solid due to the limited storage facility and the lack of implementation of proper storage management in the year 2012 also had an impact on this.

4. Inclusion of the expenditure relevant to the payment of Rs.39 million to the Ital International Trading Company in to the Administrative expenditure according to the cabinet decision was also had an impact on this.

5. With the end of the era of war, establishment of competitive establishments for the production of related products to the cement produced in Kankesanthurai Cement Factory and the drop in demand for our products and the burden of payment of salaries and other expenditures of the 31 employees engaged in service there also the reasons for this net loss.

6. The interest payable to the bank loan and over draft prevailing in the establishment also had an impact on this.

In this situation, the Board of Directors including myself appointed in the middle of the year 2012 with fullest co-operation of the employees of the corporation and the commitment of all concerned and the conducive management, it is making efforts to approach development as a well-organized and productive establishment.

Signed
N.S.M.Samsudeen,
Chairman.
Sri Lanka Cement Corporation

SRI LANKA CEMENT CORPORATION

Statement of comprehensive income and retained earnings
For the five years period ended 31 December

	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000	2009 Rs.'000	2008 Rs.'000
Revenue	361,933	656,071	410,709	1,070,591	126,848
Cost of sales	(372,536)	(656,676)	(406,508)	(1,136,970)	(125,029)
Gross profit/(loss)	**(10,603)**	**(605)**	**4,201**	**(66,379)**	**1,819**
Other income	33,330	35,623	34,846	28,889	43,619
Distribution expenses	(5,776)	-	-	-	-
Administrative expenses	(72,540)	(20,873)	(33,973)	(41,883)	(36,940)
Finance costs	(14,749)	(11,545)	-	-	-
Profit/(loss) before tax	**(70,338)**	**2,600**	**5,074**	**(79,373)**	**8,498**
Income tax expense	-	-	-	-	-
Loss for the year	**(70,338)**	**2,600**	**5,074**	**(79,373)**	**8,498**

Figures in brackets indicate deductions.

SRI LANKA CEMENT CORPORATION

Statement of financial position

As at five years ended 31 December

	2012	2011	2010	2009	2008
ASSETS	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**
Non-Current assets					
Property, plant and equipment	547,396	550,705	543,939	544,440	544,351
Long term receivables	757,224	757,224	757,224	757,224	757,224
Investment in subsidiary & others	1,090,019	1,090,019	1,090,019	1,090,019	1,090,019
Other financial assets	28,860	25,526	68,123	44,593	40,361
	2,423,499	**2,423,474**	**2,459,305**	**2,436,276**	**2,431,955**
Current assets					
Inventories	22,843	20,532	28,689	10,098	67,163
Trade and other receivables	81,796	76,972	119,074	134,399	73,540
Prepayments	244	1,248	589	443	1,210
Cash and cash equivalents	3,084	14,071	9,762	3,220	1,047
	107,967	**112,823**	**158,114**	**148,160**	**142,960**
Total assets	**2,531,466**	**2,536,297**	**2,617,419**	**2,584,436**	**2,574,915**
EQUITY AND LIABILITIES					
Capital and Reserves					
Issued capital	966,972	966,972	966,972	966,972	966,972
General reserves	9,997	9,997	9,997	9,997	9,997
Revaluation reserve	536,119	536,119	536,119	536,119	536,119
Accumulated profits/(losses)	301,537	372,864	372,219	367,144	446,518
	1,814,625	**1,885,952**	**1,885,307**	**1,880,232**	**1,959,606**
Non-current liabilities					
Long term liabilities	546,177	492,426	492,426	492,426	492,426
Retirement benefit obligation	17,796	18,919	18,783	20,807	22,418
	563,973	**511,345**	**511,209**	**513,233**	**514,844**
Current liabilities					
Trade and other payables	124,791	62,857	61,730	38,849	42,538
Current portion of interest bearing borrowings	1,161	53,665	147,775	152,122	57,927
Cash and cash equivalents	26,916	22,478	11,398	-	-
	152,868	**139,000**	**220,903**	**190,971**	**100,465**
Total Equity and Liabilities	**2,531,466**	**2,536,297**	**2,617,419**	**2,584,436**	**2,574,915**

Audit Committee Report -2012

The Audit Committee of the Corporation consists of three Non-executive Directors, Internal Auditor of the Ministry of State Resources and Enterprise Development and a representative from the Auditor General's Department were the observers of the Committee. Mr.S.M. Piyatissa was the Chairman of the Committee during period under review. Mrs. W.J Handapangoda and Mr. Piyasena were the other two Non-executive Directors in the Committee until 30th June 2012 and on 20th July 2012 were replaced by Mr. L. Abenayake and Mr. A. Jayatinghe with change of the Board of Directors of the Corporation. The Main Role and the responsibilities of the Audit Committee includes,

a) Assist the Board in the task of overseeing to ensure that financial reporting is done in compliance with relevant Sri Lanka Accounting Standard and other applicable legal requirements.

b) Assist the board to ensure that all relevant rules and regulations and circulars issued by the government are complied with continuously reviewing and monitoring, making recommendation to the board on noncompliance.

c) Review the Internal / External Audit Reports and the recommendations of COPE. And help the board to take remedial actions.

d) Assist the board to introduce and implement adequate internal control system.

The Audit Committee inter alia engaged in the following activities during the financial year under review.

- Review of the unaudited monthly financial statement.
- Review of the audited financial statement for the year.
- Review of the audit reports issued by the Auditor General and monitoring and follow up action by the Management.
- Reviewing reports on compliance with statutory reporting and payment requirements.

sgd
S.M Piyatissa
Chairman
Audit Committee

CORPORATE INFORMATION

Registered Head Office
Sri Lanka Cement Corporation
P.O. Box 1382
No.130, W.A.D.Ramanayake Mawatha
Colombo 2.

Telephone Nos.: 011-2440201, 011-2440211, 011-2440212

Fax No. : 011-2448866

Subsidiary Registered Head Office
Lanka Cement Limited
7th Floor, S.E.C. Building
130,W.A.D.Ramanayake Mawatha
Colombo 2.

Telephone Nos. : 011-2447746, 011-2389703

FACTORY

Kankesan Cement Works,
Kankesanturai.

Telephone No. : KKS 26, 95

FACTORY

Keerimalai Road,
Kankesanturai.

CONCRETE PROJECT, JAFFNA

Kankesan Cement Works,
Kankesanturai.

Telephone No. : 021 321 5340/41

CEMENT STORES

472, Sri Sangarajah Mawatha,
Colombo.

Tel. : 011-3030041, Fax : 011-4923959

BANKERS

People's Bank
Bank of Ceylon.
Commercial Bank of Ceylon Ltd.

AUDITORS

The Auditor General
Colombo-07

SRI LANKA CEMENT CORPORATION

The Board of Management for the year under review consisted of the following Directors.

01. Mr.N.S.M.Samsudeen	Chairman	-	Appointed on 26.07.2012
02. Mr.J.K.N.C.Perera	Working Director	-	Appointed on 26.07.2012
03. Mr.Arjuna Jayasinghe	Director	-	Appointed on 26.07.2012
04. Mr.C. J. Wijesekara	Director	-	Appointed on 26.07.2012
05. Mr.Lal Abeynayake	Director	-	Appointed on 26.07.2012
06. Mr.D.D.Amaratunga	Director	-	Appointed on 26.07.2012
07. Mr.S.M.Piyatissa	Director	-	Appointed on 05.07.2010

SENIOR MANAGEMENT COMMITTEE

01.	Mr.S.Selvakumar	Supplies Officer	Head Office
02.	Miss.C.I.Karunathilaka	Accountant	Head Office
03.	Mrs.P.S.D.Fernando	Internal Audit Officer	Head Office
04.	Mr.P.Vimalathas	Asst. Engineer (Concrete Project)	Jaffna Office

SRI LANKA CEMENT CORPORATION

HUMAN RESOURCES MANPOWER AS AT 31.12.2012

CATEGORY	Senior Mgt.	Middle Mgt.	Junior Mgt.	Management Assistant	Primary Level	TOTAL
Head Office	02	01	05	12	08	28
Released to N.E.M.O	--	--	01	--	--	01
Kankesan Cement Works	--	--	01	04	30	35
TOTAL	02	01	07	16	38	64

S R I L A N K A C E M E N T C O R P O R A T I O N

ACCOUNTING POLICIES

01. GENERAL ACCOUNTING POLICIES

The Corporation accounting policies are in accordance with the generally accepted accounting principles. No adjustments have been made for inflationary factors affecting the Accounts.

02. CONVERSION OF FOREIGN EXCHANGE

All foreign exchange transactions are converted at the rate of exchange prevailing at the time transactions were effected.

03. ASSETS AND BASIS OF THEIR VALUATION

3.1 Fixed Assets and Depreciation

Fixed Assets are stated at cost or valuation less aggregate depreciation.

3.2 Depreciation

Depreciation is provided on original cost or at value on a straight-line basis and is calculated to write off assets over the estimated useful lives.

3.3 Depreciation is not provided for in the year of purchase of the assets.

3.4 No depreciation is provided on free hold land.

3.5 Rates at which depreciation is charges are as follows :

Building	6.67 %
Plant & Machinery	12.50 %
Earth Moving & Heavy Equipment	25.00 %
Motor vehicle	25.00%
Loose Tools & Movable Equipment	25.00 %
Fixture Fittings & Furniture	25.00 %
Rail & Roadways	10.00 %

3.6 Capitalization

Tools and Fixtures & Fittings below the value of Rs.10,000/= are not capitalized and instead charged to Profit & Loss account in the year of purchase.

3.7 Investment

Long term Investments in listed Company's shares are maintained at the Par Value/Cost due to the fluctuation in the share prices during the year which is reported.
Short Term Investment is stipulated at the market value.

3.8 Stock & Work in Progress

Stock & Work in progress are valued at cost or net realizable value.

3.9 Debtors

Trade and sundry debtors are shown at invoiced value less provisions for bad and doubtful debts.

4.0 LIABILITIES AND PROVISIONS

4.1 Provision for Gratuities

Full provision is made on account of gratuities that may fall due for payment under the payment of gratuities Act No.12 of 1983.

4.2 Contingent Liabilities

Provision is not made in the accounts for contingent liabilities which exist as at Balance Sheet date details of such contingencies are disclosed in the notes to the accounts.

4.3 Short Term Liabilities

All payables, Import Bank Loans, Bank Overdraft Balances which are due within twelve months have been taken as Short Term Liabilities.

4.4 Long Term Liabilities

All the payables which are due over twelve months have been taken as Long Term Liabilities.

5.0 PROFIT & LOSSES

5.1 Turn Over

The Turn over represents sales to customers and sales within the Corporation intended for internal consumption.

5.2 Cost of Sales

It is arrived the cost of importation including CIF Value, Custom's Duties, SLPA Charges, Shipping Liner Service Charges, Container Handling Charges, Transportation Cost, Loading & Unloading Cost, Holding Cost, Finance Charges, any loss due to damage or shortage and any other direct costs.

5.3 Expenses

All the indirect expenses in connection with administration, production, sales expenses incurred during the year which are paid and accrued.

5.4 Profit after Taxation

The profit after tax of the Corporation is arrived at after:
Providing for bad and doubtful debts, all known liabilities, stock adjustments and depreciation of fixed assets.

Charging all expenditure incurred in the running of the business and in maintaining the capital assets in a state of efficiency.

SRI LANKA CEMENT CORPORATION

STATEMENT OF FINANCIAL POSITION
AS AT 31st DECEMBER 2012

(Rs.'000)

	NOTE	2012	2012	2011	2011
ASSETS					
Non-current assets					
Property , plant & equipment	**1**	547,396		550,705	
Long term receivables	**2**	757,224		757,224	
Investment in subsidiary & others	**3**	1,090,019		1,090,019	
Other financial assets		28,860		25,526	
			2,423,499		**2,423,474**
Current assets					
Inventories	**4**	22,843		20,532	
Trade and other receivables	**5**	81,796		76,972	
Prepayments		244		1,248	
Cash and cash equivalents	**6**	3,084		14,071	
			107,967		**112,823**
Total assets			**2,531,466**		**2,536,297**
EQUITY AND LIABILITIES					
Capital and Reserves					
Issued capital		966,972		966,972	
General reserves		9,997		9,997	
Revaluation reserves		536,119		536,119	
Retained earnings		301,537		372,864	
			1,814,625		**1,885,952**
Non-current liabilities					
Long term liabilities	**7**	546,177		492,426	
Retirement benefit obligation	**8**	17,796		18,919	
			563,973		**511,345**
Current liabilities					
Trade and other payables	**9**	124,791		62,857	
Current portion of interest bearing liabilities		1,161		53,665	
Cash and cash equivalents	**10**	26,916		22,478	
			152,868		**139,000**
Total Equity and Liabilities			**2,531,466**		**2,536,297**

C.I.Karunathilaka,
Accountant.

J.K.N.C.Perera,
Working Director.

N.S.M.Samsudeen,
Chairman.

SRI LANKA CEMENT CORPORATION

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER 2012

(Rs.'000)

		2012	2011
Income	**11**	361,933	656,071
Costs of sales	**12**	(372,536)	(656,676)
Gross profit		**(10,603)**	**(605)**
Other income	**13**	33,330	35,623
Selling & distribution expenses		(5,776)	-
Administrative expenses		(72,540)	(16,878)
Other operating expenses		-	(3,995)
Profit/(loss) from operation	**14**	**(55,589)**	**14,145**
Financial expenses	**15**	(14,749)	(11,545)
Loss before taxation		**(70,383)**	**2,600**
Taxation		-	-
Profit/(loss) after taxation		**(70,383)**	**2,600**

SRI LANKA CEMENT CORPORATION

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31st DECEMBER 2012

Rs. '000

	Capital Contributed	*Revaluation Reserves	General Reserves	Restated Retained Profit	Total
Balance as at 31.12.2007	**966,972**	**536,119**	**9,997**	**438,019**	**1,951,107**
This year profit (2008)	-	-	-	8,498	8,498
Balance as at 31.12.2008	**966,972**	**536,119**	**9,997**	**446,517**	**1,959,605**
This year loss (2009)	-	-	-	(79,373)	(79,373)
Balance as at 31.12.2009	**966,972**	**536,119**	**9,997**	**367,144**	**1,880,232**
This year profit (2010)	-	-	-	5,074	5,074
Balance as at 31.12.2010	**966,972**	**536,119**	**9,997**	**372,218**	**1,885,306**
This year profit (2011)	-	-	-	2,600	2,600
Adjustment related previous year	-	-	-	(1,954)	(1,954)
Balance as at 31.12.2011	**966,972**	**536,119**	**9,997**	**372,864**	**1,885,952**
This year loss (2012)	-	-	-	(70,383)	(70,383)
Adjustment related previous year	-	-	-	(944)	(944)
Balance as at 31.12.2012	**966,972**	**536,119**	**9,997**	**301,537**	**1,814,625**

SRI LANKA CEMENT CORPORATION

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31st DECEMBER 2012

	Note	Year ended 31st December			
		2012		2011	
Cash flows from operating activites					
Net profit/(loss) before taxation			**(70,383)**		**2,600**
Adjustments for non-cash income and expenses:					
Depreciation	**01**	3,339		562	
Restated amount		(944)		(1,954)	
Interest on employees loans		(260)		(270)	
Interest deposit on deposits		(3,967)		(2,419)	
Provision for retirement gratuity	**08**	1,335		1,385	
			(22,975)		(25,410)
Changes in operating assets and liabilities					
(Decrease) / increase in inventories		3,409		8,157	
(Decrease) / increase in trade & other receivables		(10,544)		42,102	
(Decrease) / increase in prepayments		1,004		(659)	
Increase (decrease) in trade & other payables		39,456		12,207	
			33,325		61,807
Less :			**(60,033)**		**(38,997)**
Income tax paid		-		-	
Gratuity paid		(2,458)		(1,249)	
			(2,458)		(1,249)
Net cash from/(used) operating activities			**(62,491)**		**37,748**
Cash flows from investing activities					
Acquisition of fixed deposits		(30)		(7,328)	
Interest received from deposits		3,967		2,419	
Interest received from employees loan		260		270	
Investment in treasury bills		(3,334)		42,597	
Net cash from in investing activities			**23,341**		**60,672**
Cash flows from financing activities					
Lease pre-payment		(52,504)		(94,110)	
Loan obtained		40,000		-	
Rent advance received		13,751		-	
Net cash used in financing activities			**1,247**		**(94,110)**
Net increase/(decrease) in cash and cash equivalents	**10**		(37,904)		4,310
Cash and cash equivalents at beginning of year			**14,072**		**9,762**
Cash and cash equivalents at end of year	**10**		**(23,832)**		**14,072**

Note:
This Cash Flow is prepared according to the requirement of LKAS 07 and depicted the indirect method.

SRI LANKA CEMENT CORPORATION
AS AT 31st DECEMBER 2012
NOTES TO THE FINANCIAL STATEMENT

Note 01
Property, plant & equipment
At costs

Description	Balance as at 01.01.2012	Addition during the year	Disposal during the year	Balance as at 31.12.2012
Land & building	538,003,481	-	-	538,003,481
Motor vehicle	18,490,035	-	-	18,490,035
Furniture, fixture & fittings	5,216,776	6,450	-	5,223,226
Tools & mobile equipment	1,073,323	23,550	-	1,096,873
Total	**562,783,615**	**30,000**	**-**	**562,813,615**

Acc. Depreciation				
Land & building	207,421	20,742	-	228,163
Motor vehicle	7,573,462	2,766,090	-	10,339,552
Furniture, fixture & fittings	3,274,953	487,930	-	3,762,883
Tools & mobile equipment	1,022,462	64,641	-	1,087,103
Total	**12,078,298**	**3,339,403**	**-**	**15,417,701**

Under the mortgage bond no.2426, the land at 287, Galle Road, Colombo-03 has been mortgage to get series of loan facility of Rs.172, 000,000/= on 25th February 2008. This Land value include in Land & building category.

The forest land 221 acres situated at Palavi, Puththalam It has been requested the Valuation Department to revalue the same and it will be included in the accounts once this valuation process is completed.

SRI LANKA CEMENT CORPORATION
AS AT 31st DECEMBER 2012
NOTES TO THE FINANCIAL STATEMENT

2011		2012
	Note (2) - Long Term Receivable - Rs.757,223,883/=	
424,169,977	Short term & Long term loan for formation of L.C.L	424,169,977
333,053,906	Internal transaction between L.C.L. And SLCC until the closure of the both factories	333,053,906
757,223,883		**757,223,883**
	Note (3) - Investment on Subsidiaries & Others - Rs.1,090,018,910/=	
	The market price of the share of the Lanka Cement Ltd. as at the balance sheet date was Rs.23.25. During the year 2011, the share price has gradually increased and the maximum share price was Rs.34/= during the year, 2012	
	Subsidiary - Lanka Cement Ltd. (PLC)	
1,083,618,910	62.45 % of shareholding 108,361,891 numbers of shares @ Rs.10/=	1,083,618,910
	Lafarge Cement Co. Ltd. (Pvt)	
6,400,000	320,000 Nos. shares @ Rs.15/=, 160,000 Nos. shares (Bonus issue in 1995)	6,400,000
1,090,018,910		**1,090,018,910**
	Note (4) - Inventories - Rs.17,123,489/=	
5,349,307	Stock of Raw material and Work in Progress for concrete production	3,856,289
9,424,700	Stock of finished goods of concrete poles etc.	10,051,000
37,741	Stock of Cement	3,216,200
14,811,748		**17,123,489**
	Note (5) - Trade and other receivable - Rs.87,515,965/=	
65,401,957	Head Office	60,439,022
11,569,564	Kankesan Cement Works (Jaffna Branch)	21,357,157
5,719,777	*Stock of spare parts belongs to Kankesan Cement Plant purchased in 1990 and stored at Puttalam Cement Works	5,719,777
82,691,298		**87,515,956**
	Note (6) - Cash and Cash Equivalents - Rs.3,084,430/=	
278,454	People's Bank, International Division	253,954
-	People's Bank Liberty Plaza	1,109,822
22,046	People's Bank , Vavuniya	22,046
11,388,824	Bank of Ceylon, Corporate Branch	-
2,346,995	Bank of Ceylon, Lake View	1,663,811
34,797	Commercial Bank- Union Place, Jaffna	34,797
14,071,116		**3,084,430**
	Note (7) - Long Term Liabilities - Rs.546,177,203/=	
-	Head Office payables	53,258,311
492,426,190	Treasury payable	492,426,190
-	Kankesan Cement Works (Jaffna branch)	492,703
492,426,190		**546,177,204**
	- Lease rental receivable from Holcim (Lanka) Limited for quarry land situtated at Aruwakkalu, Puttalam will remit to Bank of Ceylon for settle the laon liability of italtrade International USA within 5 years period from 2013.	
	Note (8) - The Gratuity provision made as follows:-	
18,783,093	Opening Balance of Provision for Retirement Gratuity	18,918,853
(1,249,433)	Payment made to 03 employees during the year 2012	(2,457,018)
17,533,660	Balance provision available as at 31.12.2012	16,461,835
1,385,193	Provision for the year	1,334,555
18,918,853	Provision entitlement for 62 employees as at 31.12.2012	**17,796,390**
	This amount which is lying in provision for retirement gratuity is deposited in the Treasury Bills.	

SRI LANKA CEMENT CORPORATION
AS AT 31st DECEMBER 2012
NOTES TO THE FINANCIAL STATEMENT

2011		2012
	Note (9) - Trade & Other Payables - Rs.124,791,483/=	
68,547,555	Head office payable balance	114,103,084
16,785,357	Kankesan Cement Works (Jaffna branch)	10,688,398
85,332,912		**124,791,482**
	Note (10) - Cash and Cash Equivalents (unfavorable) - Rs.26,916,194/=	
-	People's Bank, Jaffna	792,813
-	Bank of Ceylon, Corporate Branch	26,123,381
-		**26,916,194**
	Note (11) - Revenue - Rs.361,933,397/=	
649,210,889	Sale of Cement – Colombo	336,315,047
6,860,513	Sale of concrete products - Jaffna	25,618,350
656,071,402		**361,933,397**
	Note (12) - Cost of Sales - Rs.372,536,046/=	
644,387,464	Cost of Sales of Cement - Colombo	343,472,460
12,288,400	Sale of concrete products – Jaffna (Manufacturing cost of concrete production including Direct Staff Cost of Rs.10, 736,115 Mn.)	29,063,586
656,675,864		**372,536,046**
	Note (13) - Other Operating Income - Rs.33,330,465/=	
22,713,936	Lease of quarry land	22,478,228
2,418,587	Interest on deposits	3,967,011
270,346	Interest on employees loans	259,660
756,697	Sundries	861,735
3,500,000	Furnace Oil	(200,000)
5,963,831	Mill Power Project	5,963,831
35,623,397		**33,330,465**
	Note (14) - Profit before tax - Rs.(70,382,929)/=	
	The following items have been recognized as expenses (income) in determining profit before tax:	
	Staff costs	16,688,428
	Directors remuneration	369,000
	Depreciation	3,339,403
	Damaged stock	9,100,000
	Provision for gratuity	1,334,556
	Monthly Emoluments made as	
	Rs. 45,000 - Rs. 40,000	
	Rs. 40,000 - Rs. 35,000 -02	
	Rs. 35,000 - Rs. 30,000 -01	
	Rs. 30,000 - Rs. 25,000 -27	
	Rs. 25,001 - Rs. 20,000 -29	
	Rs. 20,000 - Rs. 15,000 -04	
	Rs. 15,000 - Rs. 10,000 -06	
	Total 69	
	Note (15) - Financial costs - Rs.(3,458,588)/=	
3,693,058	Over draft interest	3,394,384
7,851,487	Hyper loan interest	11,399,831
11,544,545		**14,794,215**

The Chairman

Sri Lanka Cement Corporation

Report of the Auditor General on the Financial Statements of the Sri Lanka Cement Corporation for the year ended 31 December 2012 in terms of Section 14(2)(c) of the Finance Act. No. 38 of 1971.

The audit of financial statements of the Sri Lanka Cement Corporation for the year ended 31 December 2012 comprising the statement of financial position as at 31 December 2012 and the comprehensive income statement, 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 read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 29 of the State Industrial Corporations Act, No.49 of 1957. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act, appear in this report. A detailed Report in terms of Section 13(7)(a) of the Finance Act was furnished to the Chairman of the Corporation on 30 September 2013.

1.2 Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles 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.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my 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.

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2.6 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of the recorded or unrecorded items and the elements making up the statement of financial position, the comprehensive income statement, the statement of changes in equity and the cash flow statement.

2. Financial statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2.6 of this report, 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.

2.2 Comments on Financial Statements

2.2.1 Consolidated Financial Statements

Even though the Corporation owned 62.45 per cent of the shares of the Lanka Cement Company Ltd, consolidated financial statements had not been prepared in accordance with the Best Accounting Practices.

2:2:2 Accounting Policies

Even though a Bank Overdraft of Rs.26,916,193 and a loan of Rs.40,000,000 had been obtained from a Bank by pledging the land situated in Kollupitiya and the income receivable from the lease of the limestone deposit to a private company for obtaining the Bank Overdraft and the loan, the information relating to that pledge had not been disclosed in the financial statements.

2:2:3 Accounting Deficiencies

The following observations are made.

(a) The buildings, furniture and motor vehicles costing Rs.5,096,661 fully depreciated but in use at present had not been revalued and brought to account.

(b) Two tractors, 03 trailers and 04 motor vehicles and the stock of spare parts costing Rs.5,719,771 purchased in the year 1990 and parked at the Cement Factory at Puttalam had not been shown as stocks in the financial statements.

2.2.4 Unexplained Differences

The following observations are made.

(a) Differences amounting to Rs.5,424,828 existed between the balances in the financial statement and the trial balance of the Jaffna Branch.

(b) According to the financial statements, the balance of the Trade and Other Payables of the Head Office amounted to Rs.114,103,084 whereas according to the age analysis, that amounted to Rs.113,031,656. As such the difference amounted to Rs.1,071,428.

2.2.5 Balances Receivable and Payable

The following observations are made.

(a) The Trade and other Receivables balance of the Corporation in the year under review amounted to Rs.839,200,063. Out of that, a sum of Rs.13,435,491 represented balances older than 02 years while a sum of Rs.35,307,781 represented balances older than 03 years.

(b) The Trade and Other Payables balance as at the last date of the year under review amounted to Rs.616,960,673. Out of that, a sum of Rs.5,286,079 represented balances older than 02 years while a sum of Rs.22,526,199 represented balances older than 03 years.

2.2.6 Lack of Evidence for Audit

The following items shown in the financial statements could not be satisfactorily vouched or accepted in audit due to the non-submission of the evidence indicated against the items to audit.

	Item	Value	Evidence not made available
		Rs.	
(a)	Property, Plant and Equipment	547,395,912	The Register of Fixed Assets, Board of Survey Reports, Title Deeds
(b)	Stock	22,843,266	Stock Verification Reports
(c)	Trade and Other Receivable Balances	81,796,180	Confirmation of Balances and Age Analysis
(d)	Trade and Other Payable Balances	124,791,483	
(e)	Bank Overdraft	26,916,194	
(f)	Non-current Liabilities	563,973,594	
(g)	Current Liabilities	125,952,196	
(h)	Long Term Loans (Lanka Cement Company)	757,223,883	
(i)	Bank Balance	3,084,430	Confirmation of Balance

2.2.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following non-compliances were observed during the course of audit.

	Reference to Laws, Rules, Regulations, etc.	Non-compliance
(a)	Section 2 of the Nation Building Tax Act, No.9 of 2009	Nation Building Tax amounting to Rs.6,850,515 that should have been remitted to the Commissioner General of Inland Revenue, had not been remitted.
(b)	Section 2.1 of the Value Added Tax Act, No.14 of 2002	(i) The Output Tax relating to the Value Added Tax amounting to Rs.4,752,790 payable during the year under review to the Commissioner General of Inland Revenue had not been remitted. (ii) Action had not been taken to effect the set off through the Commissioner General of Inland Revenue the input tax relating to the Value Added Tax receivable amounting to Rs.6,431,738.
(c)	Section 3 of the Financial Statute No.6 of 1990 of the Western Province	The Business Turnover Tax amounting to Rs.7,101,932 relating to the preceding years that should have been remitted to the Western Provincial Commissioner of Revenue had not been remitted
(d)	Financial Regulation 756	Even though a Board of Survey should be conducted at the close of each financial year and reports should be furnished to the Auditor General, it had not been so done.
(e)	Treasury Circular No.1A1/2002/02 of 28 November 2002	A Register of Assets relating to Computers, Computer Accessories and Software had not been maintenance in terms of the Circular.

3. Financial Review

3:1 Financial Results

According to the financial statements presented, the operations of the Corporation for the year under review had resulted in a deficit of Rs.70,382,929 as against the surplus of Rs.2,600,231 for the preceding year. As such, as compared with the preceding year, the operating result of the year under review had deteriorated by a sum of Rs.72,983,160 or 2,807 per cent.

3.2 Analytical Financial Review

The following matters had mainly affected the deterioration of the financial results for the year under review by a sum of Rs.72,983,160 as compared with the preceding year.

(a) The compensation of Rs.38,704,668 paid to an International Company in the year under review and the finance cost of Rs.3,458,588.

(b) The decrease of sales income for the year under review as compared with the sales of the preceding year by a sum of Rs.294,138,005 or 45 per cent.

(c) The total sales of the year under review and the cost of sales relating thereto amounted to Rs.361,933,397 and Rs.383,935,878 resulting in a gross loss of Rs.22,002,481.

4. Operating Review

4:1 Performance

The following observations are made.

(a) As the expenditure incurred by the Kankasanthurai Cement Concrete Production and Sales Division exceeded the total income, losses had been incurred continuously. The particulars of the losses of the five preceding years and the year under review are given below.

Year	Income	Expenditure	Loss
	Rs.Millions	Rs.Millions	Rs.Millions
2007	1.54	21.06	19.52
2008	17.92	24.78	6.86
2009	36.89	43.99	7.10
2010	27.33	27.36	0.03
2011	6.86	16.28	9.42
2012	32.46	38.12	5.66

(b) According to the Annual Action Plan, the sale of 121,000 metric tons of cement and earning an income of Rs.1,597,200,000 therefrom had been targeted. Nevertheless, the actual sales amounted to Rs.361,933,397 and as such only 23 per cent of the total expected sales had been achieved. The Corporation had failed to achieve the expected results of any of the months. As such the progress of the year under review had been at a very weak level.

(c) Even though the import of 400 cement containers per month, the construction of a new building in the land at Kollupitiya, the increase of construction of cement posts by the Kankesanthurai Factory up to 3,000 per year, and the construction of a new cement packaging factory at Kankesanthurai had been planned for the year 2012 for the enhancement of the performance of the Corporation, none of those targets had been achieved even by the end of the year under review.

4.2 Management Inefficiencies

The following observations are made.

(a) Sri Lanka Cement Corporation had leased out the limestone deposit at Aruwakkalu covering an extent of 5,352 acres to a private cement production company in the year 1995 for a period of 50 years for excavation of limestone for the production of cement. According to the agreement, the lease rent recoverable amounted to Rs.22,478,228 per year. According to the conditions of the lease agreement entered into, the Corporation did not have the right for the revision of the rent during the entire lease period of 50 years. Even though the Committee on Public Enterprises had discussed this matter at the meeting held on 16 August 2011 and directed the Corporation to revise the lease agreement, it had not been so done even by 31 August 2013.

(b) The lands about 150 acres in extent belonging to the Corporation situated in Puttalam, Palavi and Kalladi areas remained idle without being utilized for any productive purposes. Out of that, a land 09 acres in extent had been occupied by unauthorized persons by construction of houses. Such unauthorized occupation of lands could not be prevented as the lands overgrown with scrub had been left idling and unprotected.

(c) The cheque for Rs.1,656,000 given by a sales agent for 5,100 bags of cement supplied on credit basis in the year 2003 had been dishonoured. A case had been filed on 11 February 2008 for the recovery of the money together with legal interest. Even though the goods and property of the agent had been seized in accordance with the judgement, action had not been taken for the recovery of the money due to the Corporation over a period of 10 years at least by auctioning those properties.

(d) The total debtors balances which could not be recovered even by the end of the year under review due to the management inefficiencies such as the failure to obtain a guarantee commensurate with the amount of credit transactions in the appointment of agents, non-inclusion of credit limits in the agreement, non-inclusion of the methodology for the recovery of debts from the defaulting agents, uninterrupted supplies despite non-settlement of debts, providing bogus information for Bank Guarantees, failure to take disciplinary action against officers who approve credit irregularly and absence of follow up action on recoverable debtors amounting to Rs.44,467,236. A sum of Rs.3,832,137 out of that had been balances older than 09 years.

4.3 Uneconomic Transactions

The Corporation had not received any return up to the year under review for an investment of Rs.1,088,418,910 made in two private companies.

4.4 Payment of Compensation to an International Company – U.S. $ 300,000

The Corporation had entered into two agreements in the year 1990 with an International Company established in the United States of America, for the import of clinker, a raw material required for the production of cement. According to the conditions of the agreement, the Company had furnished a pro forma bond for U.S.$475,000 and the Corporation had opened the Letters of Credit from a local Bank for the import of clincker.

The Company had failed to supply clinker in terms of the agreement and at the request of the Company the period of the Letters of Credit had been extended twice. Nevertheless a controversy had been created between the Corporation and the Company due to the action taken for the transfer the bond to the Corporation for the minimization of the loss that could be caused to the advancement of the Corporation and the decrease of production of cement due to non-supply of clinker and not allowing any such further requests made. Even though certain courses of action had been taken by both parties in this connection, those had not reached final conclusion.

In the meantime, the Line Ministry of the Corporation and the Department of Attorney General had, in the year 2002, with the concurrence of both parties and the intervention of the Multilateral International Guarantee Agency of the World Bank, had reaching the final conclusion for the payment of US$1.3 million to that company by the Corporation together with the privatized Puttalam Cement Company. Accordingly, the private company had paid a sum of U.S.$ 1 million and the amount payable by the Corporation had been delayed due to the financial constraints.

Nevertheless the Cabinet of Ministers had, on 01 November 2012, approved the payment of compensation from Treasury provisions for the purpose of preserving the International Image of Sri Lanka. Accordingly the sum of Rs.38, 704,668 equivalents to the US$300,000 payable to that company had been paid in the year under review by utilizing Bank Loan Facilities.

4.5 Identified Losses

The following observations are made.

(a) A stock of 6,036 bags of solidified cement at the BCC Stores and 8,295 bags of cement at the Peliyagoda Stores detected at a raid conducted by the Consumer Affairs Authority had been sealed. The Corporation had incurred a loss of Rs.9,100,000 from the solidified cement.

(b) Bank Overdraft interest amounting to Rs.3,395,384 had been paid on the Bank overdrafts obtained in the year under review due to the lack of a proper financial management.

(c) Import of 28,249 metric tones or 576,156 bags of cement had been imported in the year under review. Out of that 221 bags of cement had been misplaced and the value of bags of cement misplaced amounted to Rs.163,578.

4.6 Underutilized Assets

The Corporation had purchased a conveyor machine in the year 2011 at a cost of Rs.550,000 while a sum of Rs.27,429 had been spent on the additional accessories required for the Conveyor. The Conveyor remained idle without being used for any purpose whatsoever since the date of purchase.

4.7 Resources given to other State Institutions

Even though the resources of Public Corporations and Boards should not be obtained for the purposes of the Line Ministries, contrary to that stipulation, a motor vehicle purchased by the Corporation for Rs.4,800,000 had been deployed for use by the Line Ministry.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the financial statements and the draft Annual Report for the year under review should have been presented to the Auditor General within 60 days after the close of the financial year, the financial statements for the year 2012 had been furnished only on 15 August 2013 after a delay of 05 months.

5.2 Corporate Plan

Even though a Corporate Plan for the 05 years 2011 to 2015 had been prepared, that did not disclose an adequate attention for the achievement of the Mission,Vision and the Objectives included therein. Nevertheless the Corporation which had been the only producer and seller of cement in the Island in the past has at present totally stopped the production of cement and limited itself only to the import of cement. Even though the Corporate Plan and the performance should be reviewed on a timely basis, it had not been so done in the year under review.

5.3 Procurement Plan

The Corporation had not prepared a Procurement Plan for the year 2012 in terms of Section 5 of the Public Enterprises Circular No.PED/12 of 02 June 2003.

5.4 Staff Administration

The particulars of the staff of the Corporation for the year 2012 are given below.

Category of Employees	**Number Approved**	**Actual Number**	**Number of Vacancies**	**Excess**
Executive Grades	07	08	-	01
Non-Executive Grades	24	16	08	-
Others	45	38	07	-
	---	---	---	--
Total	**76**	**62**	**15**	**01**

Despite the excess of one unapproved post in the Executive Grades being problematic, the existence of 08 vacancies in the Non-Executive Grades and 07 other vacancies had been a challenge in the uninterrupted maintenance of the operations of the Corporation. The management had not taken action even by the end of the year under review for filling those vacancies.

5.5 Budgetary Control

Significant variances were observed between the budgeted figures and the actual figures, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. System and Controls

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

(a) Accounting

(b) Debts Receivable and Payable

(c) Fixed Assets Management

(d) Stores Control

H.A.S Samaraweera
Auditor General

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Report of the Auditor General on the Financial Statements of the Sri Lanka Cement Corporation for the year ended 31 December 2012 in terms of Section 14(2)(c) of the Finance Act. No. 38 of 1971.

2.2 Comments on Financial Statements	**Director's Comments**
2.2.1 Consolidated Financial Statements	
(a) Even though the Corporation owned 62.45 per cent of the shares of the Lanka Cement Company Ltd, consolidated financial statements had not been prepared in accordance with the Best Accounting Practices.	(a) Action has been already taken to prepare the consolidated accounts. As soon as it is completed, we are able to submit to the Auditor's General.
2:2:2 Accounting Policies	
(b) Even though a Bank Overdraft of Rs.26,916,193 and a loan of Rs.40,000,000 had been obtained from a Bank by pledging the land situated in Kollupitiya and the income receivable from the lease of the limestone deposit to a private company for obtaining the Bank Overdraft and the loan, the information relating to that pledge had not been disclosed in the financial statements.	(b) In 1990 the outstanding arrears had pay to Ital Trade international for purchasing of clinker. The arrears was about 40 million, in order to settle the same Corporation taken the loan from Bank Of Ceylon while marging the lease value of the lime stone quarry which was leased to Holcim. In future we will take action to reveal the information in the final accounts.
2:2:3 Accounting Deficiencies	
The following observations are made.	
The buildings, furniture and motor vehicles costing Rs.5,096,661 fully depreciated but in use at present had not been revalued and brought to account.	(a) Assets are revaluing as soon as the process is over will take action to account the same.

(a)	Two tractors, 03 trailers and 04 motor vehicles and the stock of spare parts costing Rs.5,719,771 purchased in the year 1990 and parked at the Cement Factory at Puttalam had not been shown as stocks in the financial statements.	(b) Items which were lying at the Holcim Premises at Puttalam will take action to remove from stock A/c in the year.

2.2.4 Unexplained Differences

The following observations are made.

(a)	Differences amounting to Rs.5,424,828 existed between the balances in the financial statement and the trial balance of the Jaffna Branch.	(a) We have taken action to correct the balance of accumulated profit/(loss) account in Jaffna branch when the preparation of Annual Accounts - 2012.
(b)	According to the financial statements, the balance of the Trade and Other Payables of the Head Office amounted to Rs.114,103,084 whereas according to the age analysis, that amounted to Rs.113,031,656. As such the difference amounted to Rs.1,071,428.	(b)Take action to minimize the errors in future.

2.2.5 Balances Receivable and Payable

The following observations are made.

(a)	The Trade and other Receivables balance of the Corporation in the year under review amounted to Rs.839, 200,063. Out of that, a sum of Rs.13, 435,491 represented balances older than 02 years while a sum of Rs.35, 307,781 represented balances older than 03 years.	(a)We have taken action to submit the age analysis for Rs.778, 581,041 and also take measures to recover or write-off the long term outstanding after the necessary approvals.

(b)The Trade and Other Payables balance as at the last date of the year under review amounted to Rs.616,960,673. Out of that, a sum of Rs.5,286,079 represented balances older than 02 years while a sum of Rs.22,526,199 represented balances older than 03 years. (b) We have taken action to submit the age analysis for Rs.502,857,589 and also take measures to recover or write-off the	long term outstanding after the necessary approvals .

2.2.6 Lack of Evidence for Audit

The following items shown in the financial statements could not be satisfactorily vouched or accepted in audit due to the non-submission of the evidence indicated against the items to audit.

(a) <u>Property, Plant and Equipment-547,395,912</u> The Register of Fixed Assets, Board of Survey Reports, Title Deeds.	(a)We will take action to submit the Board of Survey - 2012 to the Auditor General.
(b) Stock-22,843,266 Stock Verification Reports	(b)We will take action to submit verification reports to Auditor General regarding the list of stock reports.

2.2.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following non-compliances were observed during the course of audit.

(a) Section 2 of the Nation Building Tax Act, No.9 of 2009 Nation Building Tax amounting to Rs.6,850,515 that should have been remitted to the Commissioner General of Inland Revenue, had not been remitted.	(a) Due to the unfavorable financial situation the Nation Building Tax could not remit on time. In future, we will take action to settle the same in time.

(b) Section 2.1 of the Value Added Tax Act, No.14 of 2002 (i) The Output Tax relating to the Value Added Tax amounting to Rs.4,752,790 payable during the year under review to the Commissioner General of Inland Revenue had not been remitted. (ii) Action had not been taken to effect the set off through the Commissioner General of Inland Revenue the input tax relating to the Value Added Tax receivable amounting to Rs.6,431,738.	(b) We already set off the VAT payable according to the guidelines issued by the Department of Inland Revenue, and further we will take an action to settle balance amount in future.
(c) Section 3 of the Financial Statute No.6 of 1990 of the Western Province The Business Turnover Tax amounting to Rs.7, 101,932 relating to the preceding years that should have been remitted to the Western Provincial Commissioner of Revenue had not been remitted.	(c) We will settle the Business Turnover Tax after the improving our financial situation.
(d) Financial Regulation 756 Even though a Board of Survey should be conducted at the close of each financial year and reports should be furnished to the Auditor General, it had not been so done.	(d) We will take action to submit the Board of Survey - 2012 to the Auditor General.
(e) Treasury Circular No.1A1/2002/02 of 28 November 2002 A Register of Assets relating to Computers, Computer Accessories and Software had not been maintenance in terms of the Circular.	(e) We will take action to submit verification reports to Auditor General regarding the list of Computers, Computer accessories and preparing items.

3. Financial Review

3:1 Financial Results

According to the financial statements presented, the operations of the Corporation for the year under review had resulted in a deficit of Rs.70, 382,929 as against the surplus of Rs.2, 600,231 for the preceding year. As such, as compared with the preceding year, the operating result of the year under review had deteriorated by a sum of Rs.72, 983,160 or 2,807 per cent.

3.1 The loss of Rs.9 Mn regarding the hardening cement in 2012, directly affected to the said loss of Rs.70, 382,929.

3.2 Analytical Financial Review

The following matters had mainly affected the deterioration of the financial results for the year under review by a sum of Rs.72, 983,160 as compared with the preceding year.

(a)The compensation of Rs.38,704,668 paid to an International Company in the year under review and the finance cost of Rs.3, 458,588.

(a) According to the instruction of Treasury, US $ 300,000/= was paid to Ital Trade International, USA. This is directly affected to the profit of the year, 2012.

(b)The decrease of sales income for the year under review as compared with the sales of the preceding year by a sum of Rs.294, 138,005 or 45 per cent.

(c) The total sales of the year under review and the cost of sales relating thereto amounted to Rs.361, 933,397 and Rs.383, 935,878 resulting in a gross loss of Rs.22, 002,481.

(b) & (c) We take action to increase the importation of cement & sell it and the production of concrete poles and sell them through tender procedures to improve the profit of KCW in futuer.

4. Operating Review

4:1 Performance

The following observations are made.

(a) As the expenditure incurred by the Kankasanthurai Cement Concrete Production and Sales Division exceeded the total income, losses had been incurred continuously.	(a) & (b) We have prepared suitable Action Plan to achieve the same.
(b) According to the Annual Action Plan, the sale of 121,000 metric tons of cement and earning an income of Rs.1, 597,200,000 therefrom had been targeted. Nevertheless, the actual sales amounted to Rs.361, 933,397 and as such only 23 per cent of the total expected sales had been achieved. The Corporation had failed to achieve the expected results of any of the months. As such the progress of the year under review had been at a very weak level.	
(c) Even though the import of 400 cement containers per month, the construction of a new building in the land at Kollupitiya, the increase of construction of cement posts by the Kankesanthurai Factory up to 3,000 per year, and the construction of a new cement packaging factory at Kankesanthurai had been planned for the year 2012 for the enhancement of the performance of the Corporation, none of those targets had been achieved even by the end of the year under review.	(a) To lease the Kollupitiya land & start a cement packing plant in Kankesanturai have been forwarded for the cabinet approval. We have taken action to increase the concrete poles production in future.

4.2 Management Inefficiencies

The following observations are made.

(a) Sri Lanka Cement Corporation had leased out the limestone deposit at Aruwakkalu covering an extent of 5,352 acres to a private cement production company in the year 1995 for a period of 50 years for excavation of limestone for the production of cement. According to the agreement, the lease rent recoverable amounted to Rs.22, 478,228 per year. According to the conditions of the lease agreement entered into, the Corporation did not have the right for the revision of the rent during the entire lease period of 50 years. Even though the Committee on Public Enterprises had discussed this matter at the meeting held on 16 August 2011 and directed the Corporation to revise the lease agreement, it had not been so done even by 31 August 2013.	(a) Attorney General's Department has stated the lease agreement cannot be changed by one party. Later, we have discussed with Holcim (Lanka) Limited to change the lease agreement.
(b) The lands about 150 acres in extent belonging to the Corporation situated in Puttalam, Palavi and Kalladi areas remained idle without being utilized for any productive purposes. Out of that, a land 09 acres in extent had been occupied by unauthorized persons by construction of houses. Such unauthorized occupation of lands could not be prevented as the lands overgrown with scrub had been left idling and unprotected.	(b) We got approval to start a plantation project in this land as soon as our financial situation is improves.

(c) The cheque for Rs.1, 656,000 given by a sales agent for 5,100 bags of cement supplied on credit basis in the year 2003 had been dishonoured. A case had been filed on 11 February 2008 for the recovery of the money together with legal interest. Even though the goods and property of the agent had been seized in accordance with the judgement, action had not been taken for the recovery of the money due to the Corporation over a period of 10 years at least by auctioning those properties.	(c) We have submitted the list of debtors to the Courts and got orders to collect these debts. But, we are not in a position to precede the recovery/auctioning their properties due to our financial situation.
(e) The total debtors balances which could not be recovered even by the end of the year under review due to the management inefficiencies such as the failure to obtain a guarantee commensurate with the amount of credit transactions in the appointment of agents, non-inclusion of credit limits in the agreement, non-inclusion of the methodology for the recovery of debts from the defaulting agents, uninterrupted supplies despite non-settlement of debts, providing bogus information for Bank Guarantees, failure to take disciplinary action against officers who approve credit irregularly and absence of follow up action on recoverable debtors amounting to Rs.44,467,236. A sum of Rs.3,832,137 out of that had been balances older than 09 years.	(e) Legal action has been taken for the recovery of the long outstanding debts.

4.3 Uneconomic Transactions

The Corporation had not received any return up to the year under review for an investment of Rs.1,088,418,910 made in two private companies.	Lanka Cement factory at Kankasanturai was closed for production since 1990 due to the prevailed situation. Therefore, we couldn't receive any return for our investment.

4.4 Payment of Compensation to an International Company – U.S. $ 300,000

The Corporation had entered into two agreements in the year 1990 with an International Company established in the United States of America, for the import of clinker, a raw material required for the production of cement. According to the conditions of the agreement, the Company had furnished a pro forma bond for U.S.$475,000 and the Corporation had opened the Letters of Credit from a local Bank for the import of clincker.

The Company had failed to supply clinker in terms of the agreement and at the request of the Company the period of the Letters of Credit had been extended twice. Nevertheless a controversy had been created between the Corporation and the Company due to the action taken for the transfer the bond to the Corporation for the minimization of the loss that could be caused to the advancement of the Corporation and the decrease of production of cement due to non-supply of clinker and not allowing any such further requests made. Even though certain courses of action had been taken by both parties in this connection, those had not reached final conclusion.

In the meantime, the Line Ministry of the Corporation and the Department of Attorney General had, in the year 2002, with the concurrence of both parties and the intervention of the Multilateral International Guarantee Agency of the World Bank, had reaching the final conclusion for the payment of US$1.3 million to that company by the Corporation together with the privatized Puttalam Cement Company. Accordingly, the private company had paid a sum of U.S.$ 1 million and the amount payable by the Corporation had been delayed due to the financial constraints. Nevertheless the Cabinet of Ministers had, on 01 November 2012, approved the payment of compensation from Treasury provisions for the purpose of preserving the International Image of Sri Lanka. Accordingly the sum of Rs.38, 704,668 equivalents to the US$300,000 payable to that company had been paid in the year under review by utilizing Bank Loan Facilities.

According to the instruction of Treasury, US $ 300,000/= was paid to Ital Trade International, USA by obtaining a loan from BOC.

4.5 Identified Losses

The following observations are made.

(a) A stock of 6,036 bags of solidified cement at the BCC Stores and 8,295 bags of cement at the Peliyagoda Stores detected at a raid conducted by the Consumer Affairs Authority had been sealed. The Corporation had incurred a loss of Rs.9,100,000 from the solidified cement.	(a) As there is no proper cement stock controlling system in that time.
(b) Bank Overdraft interest amounting to Rs.3,395,384 had been paid on the Bank overdrafts obtained in the year under review due to the lack of a proper financial management.	(b) Due to the financial situation, we are unable to perform the cement business without obtaining the overdraft facilities. Therefore, we have to pay the overdraft interest in this year.
(c) Import of 28,249 metric tones or 576,156 bags of cement had been imported in the year under review. Out of that 221 bags of cement had been misplaced and the value of bags of cement misplaced amounted to Rs.163,578.	

4.6 Underutilized Assets

The Corporation had purchased a conveyor machine in the year 2011 at a cost of Rs.550,000 while a sum of Rs.27,429 had been spent on the additional accessories required for the Conveyor. The Conveyor remained idle without being used for any purpose whatsoever since the date of purchase.	We will take action to sell the conveyor machine according to the tender procedure.

4.7 Resources given to other State Institutions

Even though the resources of Public Corporations and Boards should not be obtained for the purposes of the Line Ministries, contrary to that stipulation, a motor vehicle purchased by the Corporation for Rs.4,800,000 had been deployed for use by the Line Ministry.	We are making arrangement to get back the said vehicle for our sales activities.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the financial statements and the draft Annual Report for the year under review should have been presented to the Auditor General within 60 days after the close of the financial year, the financial statements for the year 2012 had been furnished only on 15 August 2013 after a delay of 05 months.

5.2 Corporate Plan

Even though a Corporate Plan for the 05 years 2011 to 2015 had been prepared, that did not disclose an adequate attention for the achievement of the Mission, Vision and the Objectives included therein. Nevertheless the Corporation which had been the only producer and seller of cement in the Island in the past has at present totally stopped the production of cement and limited itself only to the import of cement. Even though the Corporate Plan and the performance should be reviewed on a timely basis, it had not been so done in the year under review.	Due to the war situation prevailed the KKS cement factory was closed from 1990. After that, from the year 2008 onwards, we have made arrangements to import & distribute the cement. Action will be taken to update the Corporate Plan.

5.3 Procurement Plan

The Corporation had not prepared a Procurement Plan for the year 2012 in terms of Section 5 of the Public Enterprises Circular No.PED/12 of 02 June 2003.	We will take action to prepare a procurement plan from this year.

5.4 Staff Administration

The particulars of the staff of the Corporation for the year 2012 are given below.

Category of Employees	Number Approved	Actual Number	Number of Vacancies	Excess
Executive Grades	07	08	-	01
Non-Executive Grades	24	16	08	-
Others	45	38	07	-
Total	**76**	**62**	**15**	**01**

Despite the excess of one unapproved post in the Executive Grades being problematic, the existence of 08 vacancies in the Non-Executive Grades and 07 other vacancies had been a challenge in the uninterrupted maintenance of the operations of the Corporation. The management had not taken action even by the end of the year under review for filling those vacancies.	According to our financial situation, we are not in a position to fill the said vacancies.

5.5 Budgetary Control

Significant variances were observed between the budgeted figures and the actual figures, thus indicating that the budget had not been made use of as an effective instrument of management control.	We will take action to use the budget as an effective instrument in the future.