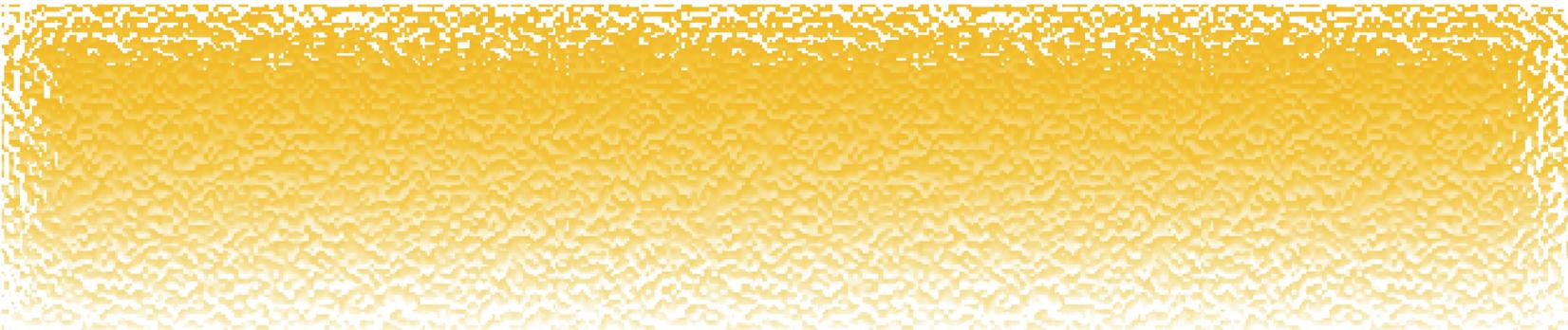


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Vision

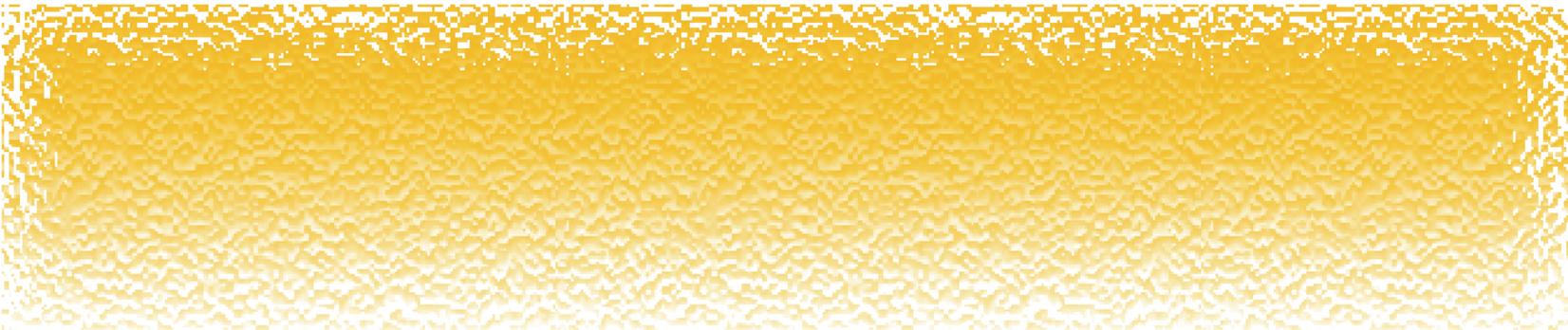
Remain as Sri Lanka's leading print media institution with other media service capabilities.

Mission

Transform the pioneer print media organization to be the most preferred provider of reliable and high quality media products / services in the country, with convergence as the key driver. We will achieve this by operational excellence and leveraging the brand value and effectively using extensive newsgathering and marketing infrastructure combined with state-of-the-art technology. We will relentlessly pursue clearly defined strategies to advance our market leadership and sustain profitability and growth, keeping national interest foremost in our dealings.

Values

- Culture : We will succeed by being innovative, collaborative, efficient and customer driven.
- Business : We will develop next generation of diversified media and market places.
- Journalism : We will produce reliable and highest quality locally focused coverage.
- Service : We will provide the customer the freedom to decide what they want, when they want, where they want and how they want it.
- Quality : We will strive for best practice in all aspects of our activities to sustain and improve operational efficiencies.
- Philosophy : We will keep the National interest foremost in our dealings.
- Team : We value diversity and reward high performance.



FINANCIAL HIGHLIGHTS

| | | 2013 | 2012 | Change | Change % |
|---|----------|------------------|-----------|-----------|-------------|
| <u>Earnings Highlights and Ratios</u> | | | | | |
| Turnover | Rs ' 000 | 3,592,966 | 3,699,667 | (106,701) | (2.9) |
| Profit Before Tax & Fair Value Adjustment | Rs ' 000 | 73,074 | 57,429 | 15,645 | 27.2 |
| Profit After Tax | Rs ' 000 | 58,945 | (8,280) | 67,225 | 811.9 |
| Turnover per Employee | Rs ' 000 | 1,887 | 1,918 | (31) | (1.6) |
| Profit Before Tax & F.V.Adjustment per Employee | Rs ' 000 | 38 | 30 | 8 | 26.7 |
| Revenue to National Economy | Rs ' 000 | 595 | 577 | (18) | (3.1) |
| Income from Investments | Rs ' 000 | 14,460 | 14,946 | (486) | (3.3) |
| Finance Cost | Rs ' 000 | 138,537 | 142,044 | (3,507) | (2.5) |
| Earning per share | Rs. | 17 | (2) | 19 | 950.0 |
| Profit Before Tax & F.V. Adjustment on Turnover | % | 2.0 | 1.5 | 0.5 | 33.3 |
| Return on Capital Employed | % | 15.4 | (2.6) | 18.0 | 692.3 |

Balance Sheet Highlights and Ratios (As at Balance Sheet Date)

| | | | | | |
|-----------------------------|----------|------------------|-----------|----------|--------|
| Total Assets | Rs ' 000 | 2,038,612 | 2,022,647 | 15,965 | 0.8 |
| Property, Plant & Equipment | Rs ' 000 | 326,537 | 372,570 | (46,033) | (12.4) |
| Long Term Financial Assets | Rs ' 000 | 135,362 | 137,397 | (2,035) | (1.5) |
| Total Equity | Rs ' 000 | 381,742 | 322,797 | 58,945 | 18.3 |
| No. of Shares in issue | '000 | 3,484 | 3,484 | - | - |
| Net Assets per Share | Rs. | 110 | 93 | 17 | 18.3 |
| Current Ratio | TIMES | 1.6 | 1.4 | 0.2 | 14.3 |
| Quick Ratio | TIMES | 1.1 | 1.00 | 0.1 | 10.0 |

CHAIRMAN'S REVIEW

On behalf of the Board of Directors of the Associated Newspapers of Ceylon Limited (ANCL), I am pleased to present to our share holders the Annual Report of the company together with the Audited Accounts and a review of our activities for the year ended 31st December 2013.

Economic Performance

The Sri Lankan economy rebounded strongly in 2013 with an annual real GDP growth of 7.3%, while inflation, which remained at single digit levels for the fifth consecutive year, gradually declined further to reach mid single digits by the end of the year. All sectors of the economy contributed positively to growth, and favorable weather conditions and the gradual recovery in external demand supported the steady rise in economic growth over the four quarters of the year. GDP in nominal terms grew by 14.5% to US dollars 67 billion, raising GDP per capita to US dollars 3,280 in 2013.

In spite of significant upward adjustment to domestic energy prices, prudent monetary management and improved domestic food supply resulted in a gradual decline in headline inflation while core inflation moderated to its lowest level. Monetary expansion decelerated towards desired levels in 2013 while the lag effect of tight monetary policy measures in the previous year and a steep decline in gold backed advances lowered credit disbursements to the private sector by commercial banks.

Continued low inflation allowed the Government to ease monetary policy further during the year to facilitate economic activity. Policies put in place by the government on 2012, along with the gradual recovery in major export markets, resulted in a marked improvement in the balance of payments (BOP), enabling a buildup of official reserves and supporting exchange rate stability. Continued commitment of the government to fiscal consolidation helped further reduce the fiscal deficit and debt to GDP ratio in 2013. Rehabilitation of loss making state owned enterprises could further improve the fiscal position.

Company Performance

Though there was a high competition in the print & electronic media Industry, we were able to make a profit of Rs. 73M before tax & fair value adjustment in the year 2013 as against the profit of Rs. 57 M in the year 2012.

The company showed a 2% growth in Gross Profit Ratio and 6% growth in Operational Profit in the year of 2013 compared to the previous year. But finance cost showed a decrease of 2% compared to previous year. Some steps have already been taken for the management of working capital to minimize finance cost and further steps are expected to be taken in the coming year.

Amount of Rs. 21M was invested in the acquisition of a perfect binder machine & 2 feeder units for Osaka Saddle Stitching Machine during the year to strengthen the commercial printing division that is expected to play a lead role in the future.

Despite the severity in competition, "ANCL" being the pioneer publisher in the country was able in improving its share in the market for advertising & circulation. This was mainly possible due to the innovative corporate strategies that were implemented in promoting the brand image, inbuilt in to the mindset of "ANCL" customers.

Advertising

The Associated Newspapers of Ceylon Limited had to face intense competition from electronic & print media in the year under review. The company registered advertising revenue of Rs. 2,280 million in the year 2013 recording a marginal decrease over year 2012. Despite active competition from other companies, we retain our position as the leader in the field of advertising in the print media.

During the year ANCL introduced with the leading mobile service providers to facilitate its subscribers to send their classified ads to the Sunday Observer and Silumina papers through mobile phones.

In order to serve the advertising customers in a more efficient & effective manner, a customized and exclusive helpline was launched during the year 2013.

Circulation

We publish 3 main daily newspapers and 3 main weekly newspapers in Sinhala, Tamil & English. The product portfolio also includes 17 periodicals and 5 magazines, focusing dynamic interest of different reader groups making the total portfolio to 28 as at 31st December 2013. In the year 2013, the company introduced 6 new periodicals namely Aloko Udapadi, Muthu Ahura-1, Muthu Ahura-2, Muthu Ahura-3, Muthu Ahura-4 and Budu Suwanda which are being performed quiet satisfactorily at present. All these publications generated total circulation revenue of Rs. 691 million in year 2013 compared to Rs. 674 million in the preceding year.

All these publications are circulated all over the Island mostly using our own vehicles, sub contracted vehicles and Ceylon Transport Board buses.

In improving market presence, we have conducted a number of Islandwide year 5 scholarship seminars, GCE O/L seminars, health camps, musical shows during the year which were very popular among the school children & the general public.

In keeping with our goal of establishing a wider readership and effective dissemination of news, we have regularly updated our correspondence and agency network to ensure wider coverage and distribution.

Commercial Printing

The commercial printing department (CPD) of the company expanded their technical capacity with modern machines in recent years. The introduction of perfect binding machinery & 2 feeder units for saddle stitching machine has enhanced the productivity and ensured delivery on time. The CPD has undertaken on large commercial orders, such as printing of Sri Lanka Telecom's national telephone directory & printing of government schools' text books for the Department of Education of Sri Lanka.

The commercial printing department has performed well recording a turnover of Rs. 598 million during the year 2013.

Production

For the first time in Sri Lanka, company secured a landmark deal with the leading mobile service providers, Dialog, Mobitel, Etisalat and Airtel to facilitate its subscribers to send their classified advertisements to the Sunday Observer and Silumina newspapers through mobile devices. By dialing #429# and following the instructions that appear on the screen, mobile subscribers were given the option to connect with ANCL and place their advertisement at any time of the day from anywhere in the country.

In order to serve the huge volume of advertising queries in a more efficient and effective manner, a customized and exclusive helpline (1949) with dedicated customer care executives was launched in July 2013. Customers have the option of clarifying any issues related to ANCL advertising from rates to policies and promotions by dialing 1949 from any telecommunication network in Sri Lanka. Approximately, around 40-50 calls a day are received to '1949'. These are pertaining mostly to advertising and some for editorial as well.

Daily News website was redesigned to create more user convenience and engagement by considering some of the latest design trends and support features. As a result page visits have increased ensuring strong global presence for www.dailynews.lk

In an effort to empower the news agent network of ANCL and branch office services E-booking module linked to Ad-Pro was introduced to 16 more locations in 2013. This enables direct booking of their advertisements with ANCL advertising system within a matter of minutes.

To give advertisers extra mileage Observer ADZ online version was launched. Advertisements appearing in Sunday Observer ADZ magazine are listed weekly in adz.lk under key categories such as Automobile, House & Property, Computer, Phones, Health etc. www.adz.lk

Liberty solution was extended to Silumina Editorial in April 2013 after the successes observed in Daily News, Dinamina and Sunday Observer. After conducting training sessions to the users implementation was carried out and entire Silumina Liberty system workflow along

CHAIRMAN'S REVIEW

with pagination was complete by July 2013. Rs.3.7 M was invested in licensing for Liberty Software.

Corporate Social Responsibility / Corporate Governance

As the country's foremost national print media institutions we are committed to discharge our responsibility to the society who is also our stake holders. During the year company has carried out & participated in the activities such as Deyata Kirula Exhibition, Mihintala Aloka Pooja, Vesak Amadahara, School Boy Cricketer of the year, Most Popular Rugby Player competition etc.

We give high priority to corporate governance and strive to manage the company not much difference from listed companies that are bound by the listing rules of the Colombo Stock Exchange and the Securities and Exchange Commission.

Staff Welfare

It has clearly understood by the company that a productive service could be obtained through a happy and contented staff. This year also the company has provided the staff with its usual welfare programme with a view to strengthen this ambition. In this process the company let the staff to benefit by granting them annual bonus, outdoor medical service, medical insurance scheme, loan facilities, gift vouchers for the children of the staff for Sinhala & Hindu New Year, exercise books, school uniform materials, shoes and school bags for school going children of the staff to support them in their education.

Recognizing the need for journalists & other staff members to read the latest book publication the company reimbursed upto sum of Rs.5,000/- per journalist & Rs.1,500/- per other staff members to purchase books during the literature month in September.

The Future

Considering the investments made and experience gained we are optimistic about the future. A high quality printing press is much felt, to print newspapers of high quality to face the heavy competition shown in the newspaper printing industry. I am confident that with the support of my colleagues in the Board together with the cooperation from employees we will be able to stand together strongly in year 2014.

Appreciation

On behalf of the Board of Directors, I wish to acknowledge the contributions made by all stakeholders in making the year 2013, another remarkable milestone in the annals of LAKE HOUSE. A highly loyal, motivated and productive staff along with a competent senior management continues to inspire and lead LAKE HOUSE. In steering the company as Chairman, I received support and guidance from my colleagues on the trust and confidence placed in my team to deliver another year of successful performance under challenging circumstances.



Bandula Padmakumara
Chairman & Managing Director

SRI LANKA ECONOMY AT A GLANCE

Key Economic Indicators

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013(a) |
|---|---------|---------|---------|---------|---------|---------|
| DEMOGRAPHY | | | | | | |
| Mid-year population ('000 persons) | 20,217 | 20,450 | 20,653 | 20,869 | 20,328 | 20,483 |
| Growth of population (%) | 1.1 | 1.1 | 1.0 | 1.0 | 0.9 | 0.8 |
| Labour force ('000 persons) | 8,082 | 8,074 | 8,108 | 8,565 | 8,454 | 8,802 |
| Unemployment rate (% of labour force) | 5.4 | 5.8 | 4.9 | 4.2 | 4 | 4.4 |
| OUTPUT | | | | | | |
| GDP at current market prices (Rs. billion) | 4,411 | 4,835 | 5,604 | 6,543 | 7,579 | 8,674 |
| Per capita GDP at market prices (Rs.) | 218,167 | 236,445 | 271,346 | 313,542 | 372,814 | 423,467 |
| REAL OUTPUT (% change) | | | | | | |
| GDP | 6.0 | 3.5 | 8.0 | 8.2 | 6.3 | 7.3 |
| PRICES AND WAGES (% change) | | | | | | |
| Colombo Consumers' Price Index (2002 = 100) - Annual Average | 22.6 | 3.4 | 5.9 | - | - | 0 |
| Nominal wage rate index for workers in all wages boards | 25.6 | 4.9 | 32.0 | 4.6 | 22.2 | 5.7 |
| EXCHANGE RATES | | | | | | |
| Annual average Rs/US\$ | 108.33 | 114.94 | 113.06 | 110.57 | 127.60 | 129.11 |
| End - year Rs/US\$ | 113.14 | 114.38 | 110.95 | 113.90 | 127.16 | 130.75 |
| INTEREST RATES (% per annum at end year) | | | | | | |
| Repurchase rate (overnight) | 10.50 | 7.50 | 7.25 | 7.00 | 7.50 | 6.50 |
| Reverse repurchase rate (overnight) | 12.00 | 9.75 | 9.00 | 8.50 | 9.50 | 8.50 |
| Treasury bill rate 91 days | 17.33 | 7.73 | 7.24 | 8.68 | 10.00 | 7.54 |
| 364 days | 19.12 | 9.33 | 7.55 | 9.31 | 11.69 | 8.29 |
| Deposit Rates | | | | | | |
| Commercial banks' Average Weighted Deposit Rate (AWDR) | 11.63 | 8.01 | 6.23 | 7.24 | 10.10 | 9.37 |
| Commercial banks' 12 month fixed deposit (max.) | 20.25 | 22.00 | 17.00 | 11.00 | 17.00 | 16.00 |
| Lending Rate | | | | | | |
| Commercial banks' Average Weighted Prime Lending Rate (AWPR) | 18.50 | 10.91 | 9.29 | 10.77 | 14.40 | 10.13 |
| CAPITAL MARKET | | | | | | |
| All Share Price Index (1985 = 100) | 1,503.0 | 3,385.6 | 6,635.9 | 6,074.4 | 5,643.0 | 5,912.8 |
| Milanka Price Index (1998 Dec = 1000) | 1,631.3 | 3,849.4 | 7,061.5 | 5,229.2 | 5,119.1 | 0 |
| S&P SL 20 Index | | | | | 3,085.3 | 3,263.9 |
| Market Capitalisation (Rs.billion) | 488.8 | 1,092.1 | 2,210.5 | 2,213.9 | 2,167.6 | 2,459.9 |

(a) Provisional

BOARD OF DIRECTORS

The Board of Directors as at 31st December 2013 was :

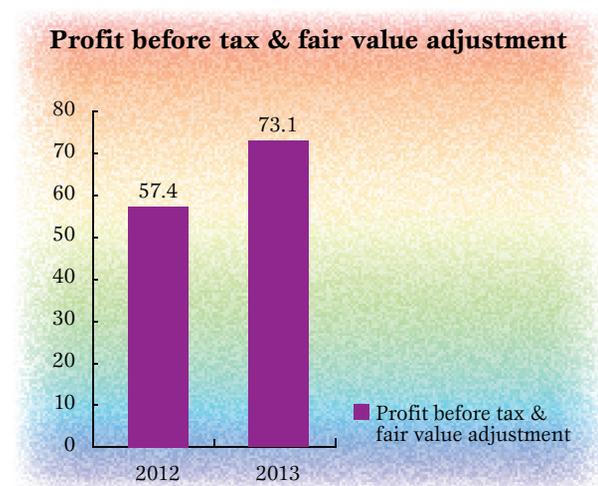
- | | | | |
|----|---------------------------------|---|------------------------------|
| 1. | Mr. Bandula Padmakumara | - | Chairman & Managing Director |
| 2. | Mr. E.V.P. Rasanga Harischandra | - | Director Legal |
| 3. | Mr. Upul R.S. Dissanayake | - | Director Operations |
| 4. | Mr. Seelaratna Senarath | - | Director Editorial |

1) Operating result

In 2013, the group achieved a Profit before tax & fair value adjustment amounting to Rs. 73.1 million recording an increase of Rs. 15.7 million over 2012 financial result. Revenue decreased by Rs. 106.7 million mainly due to lesser commercial printing revenue from school text book printing. The cost of sales decreased mainly due to commercial printing revenue drop, while other income showed a significant increase due to miscellaneous sales. Administrative expenses increased just by 2% over previous year while distribution expenses remained at the same levels. Though marginal, the less financial expenses indicates a positive trend towards the future.

Analysis of operating result

| Item | 2012 -Rs'mn | 2013 -Rs'mn | Change % |
|---|-------------|-------------|----------|
| Revenue | 3,699.7 | 3,593.0 | -3 % |
| Cost of sales | (1,993.4) | (1,873.2) | -6 % |
| Gross profit | 1,706.3 | 1,719.8 | 1 % |
| Other income | 105.7 | 137.7 | 30 % |
| Administrative expenses | (1,289.0) | (1,320.0) | 2 % |
| Distribution expenses | (323.5) | (325.9) | 1 % |
| Financing expenses | (142.1) | (138.5) | -3 % |
| Profit before tax & fair value adjustment | 57.4 | 73.1 | 27 % |



FINANCIAL REVIEW

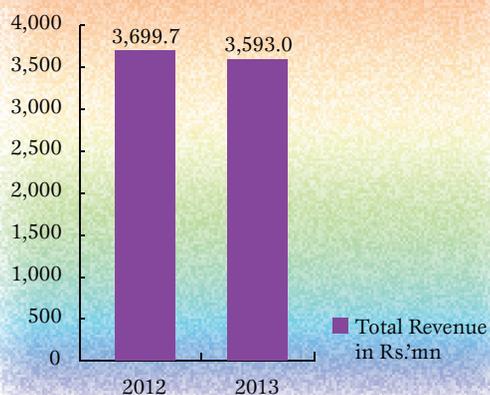
2) Revenue

Total revenue

The total revenue of the year decreased by Rs. 106.7 million recording a negative growth of 3% over 2012 as summarized below,

| Item | 2012 -Rs'mn | 2013 -Rs'mn | Change -Rs'mn | Change -% |
|---------------------------------|----------------|----------------|---------------|------------|
| Advertising revenue | 2,296.1 | 2,280.4 | -15.7 | -1% |
| Circulation revenue | 674.4 | 690.8 | 16.4 | 2% |
| Commercial printing revenue | 721.9 | 597.6 | -124.3 | -17% |
| Annual publication revenue | 6.7 | 3.9 | -2.8 | -42% |
| Digital printing | 0 | 3.8 | 3.8 | 0% |
| Info Media (Private) Ltd | 0.6 | 0 | -0.6 | -100% |
| Business Lanka AN (Private) Ltd | 0 | 16.5 | 16.5 | N/A |
| Total revenue | 3,699.7 | 3,593.0 | -106.7 | -3% |

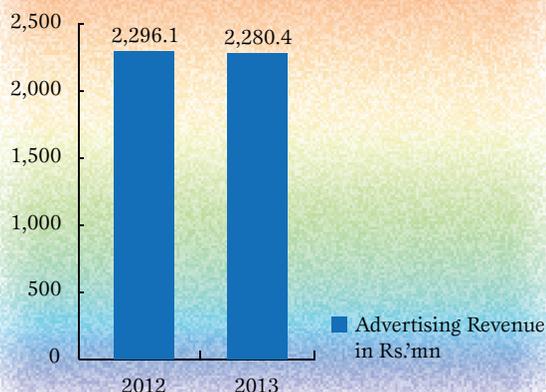
Total Revenue in Rs.'mn



Advertising revenue

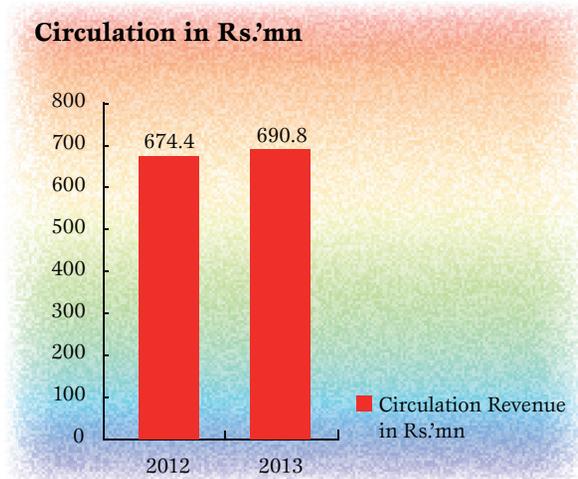
The major revenue source of the company, the advertising reported a year on year decrease of Rs. 15.7 million in 2013 recording a negative growth of 1%.

Advertising Revenue in Rs.'mn



Circulation revenue

Though the upcoming technology developments were challenging, the company was able to record a marginal growth of circulation revenue in 2013.

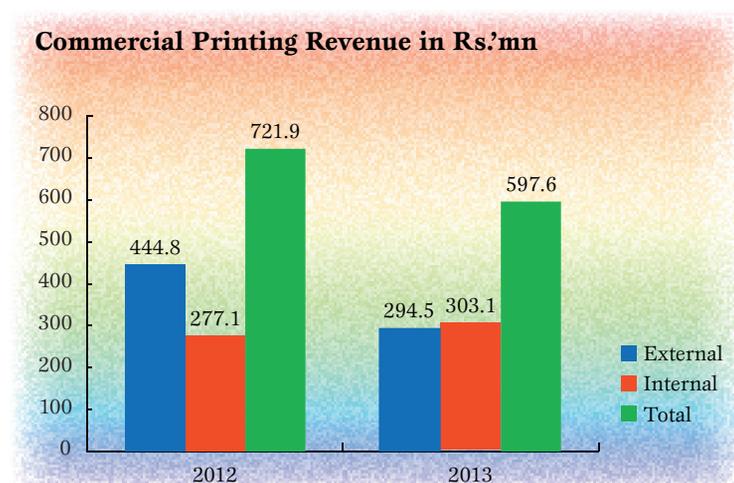


Commercial printing revenue

Over the last few years we have expanded the capacity and the quality of our Commercial printing division and we have been able to capture a sizeable volume of the Government school text book printing tender and the Sri Lanka Telecom National telephone directory printing job.

Apart from the external jobs, the Commercial printing division adds value to the newspapers of the company and the resultant turnover of the division is as follows,

| Item | 2012 -Rs'mn | 2013 -Rs'mn | Change % |
|----------------------|--------------|--------------|--------------|
| External Revenue | 448.8 | 294.5 | -34 % |
| Internal Revenue | 277.1 | 303.1 | 9 % |
| Total Revenue | 721.9 | 597.6 | -17 % |



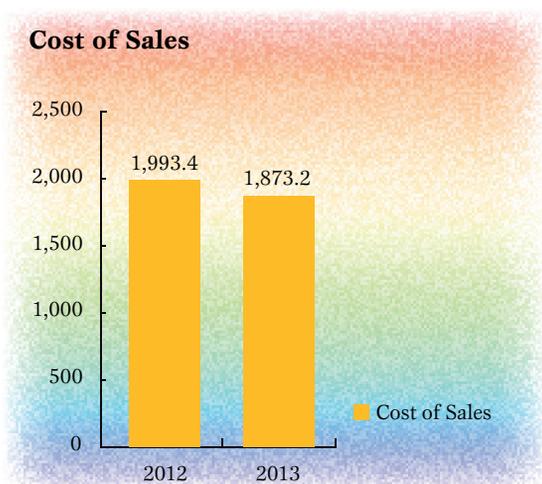
FINANCIAL REVIEW

3) Cost of sales

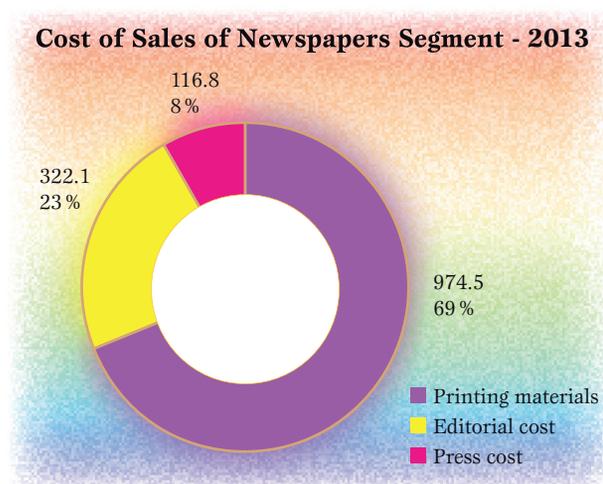
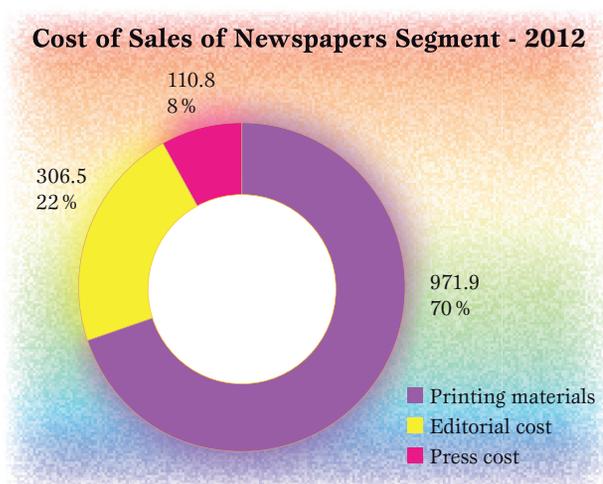
Analysis of company's cost of sales is as follows,

| Segment of business | 2012 -Rs'mn | 2013 -Rs'mn | Change % |
|---------------------|----------------|----------------|-------------|
| Newspapers | 1,389.2 | 1,413.4 | 2 % |
| Commercial Printing | 593.8 | 447.8 | -25 % |
| Others | 10.4 | 12.0 | 15 % |
| Total | 1,993.4 | 1,873.2 | -6 % |

As a result of decreased business volume, the commercial printing segment's cost of sales decreased by 25 % amounting to Rs. 146 million in 2013.



Analysis of newspapers segment's cost of sales is as follows,

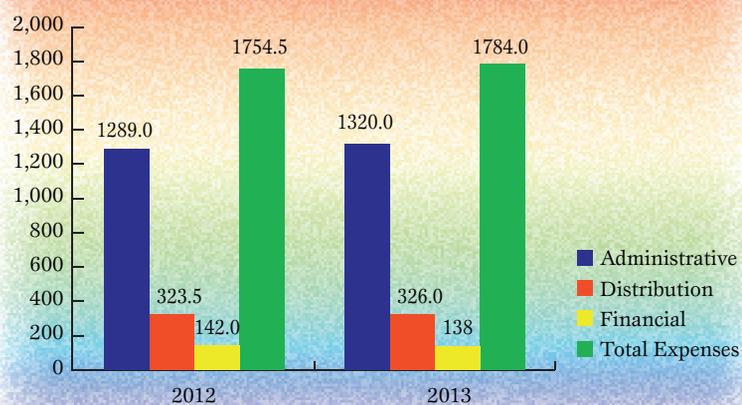


4) Expenses

Below analysis indicates that the total expenses have been increased only by Rs 29.5 million compared to previous year recording an increase of 2 %.

| Item | 2012 -Rs'mn | 2013 -Rs'mn | Change -Rs'mn | Change -% |
|-------------------------|----------------|----------------|---------------|------------|
| Administrative expenses | 1,289.0 | 1,320.0 | 31.0 | 2 % |
| Distribution expenses | 323.5 | 326.0 | 2.5 | 1 % |
| Financial expenses | 142.0 | 138.0 | -4.0 | -3 % |
| Total expenses | 1,754.5 | 1,784.0 | 29.5 | 2 % |

Total expenses in Rs.'mn



RISK MANAGEMENT

Now an Integral Part of our Business Process

Risk is an inescapable element of competing in a market economy. Managing risk is of crucial importance in order to make constant growth over the years whilst achieving the goals and objective of the company. We as a responsible company have been able to evaluate many types of risks and incorporate the results in to decision regarding investment and operations as well as into the systems used to monitor and evaluate the effectiveness of the actions taken.

Today, risk management has become an integral part of our proper management practices, placing equal importance as financial or facilities.

The major risks that are addressed in the company's Risk Management System are as follows.

(1) Credit Risk Management

Credit risk is the potential financial loss arising from the company's debtors defaulting to pay within the credit period. A significant economic downturn in a market and sharp increase of interest rates are among the factors that could reduce collection performance.

Credit approval is made by experienced and qualified staff after a proper evaluation. Different level of authority is delegated for the credit approval. Securities such as letter of guarantees, deposits are obtained as an additional safeguard from the client. Credit procedures have been properly followed and adequate provisions are made for the doubtful debtors.

(2) Operational Risk Management

The risk that may result in losses as a result of human error, unsuitable or faulty internal processes, system failures and breaches in internal control, fraud, non-compliance of laws and regulations or external causes such as unforeseen catastrophes is called the operational risk.

Internal Audit Department which is an integral part of the company's internal control system reported to the Audit Committee. Adherence to internal controls and adequacy of internal controls are continuously reviewed by the company's internal audit department.

The company's tangible assets have been insured against identified risks. All insurance policies are subject to annual evaluation and review.

(3) Legal Risk Management

In the normal course of its business, ANCL is subject to proceedings, legal actions and other claims. All these matters are subject to risks & uncertainties and the outcome cannot be predicted with any level of certainty. Legal department ensure that all activities and events of the company are complied with legal and statutory requirements to mitigate the risk.

(4) Human Resource Related Risk Management

The company considers developing the human capital as vital for business continuity. The employees are being appropriately trained foreign and local based on needs assess by the human resource development function of the company.

(5) Health & Safety Risk Management

The risk related to employee health and safety in the work place receives the foremost attention as the company believes the safety of human capital as vital for business continuity. Safety precautions have been taken with regard to the all the machinery and equipment with a potential for injury, with trained personnel serving at each location.

(6) Information Risk Management

The company is able to produce accurate & relevant information fulfilling appropriate requirements of each stake holder with the aid of the computer system. The system is reviewed periodically and a maintenance agreement is in place with the software provider.

CORPORATE GOVERNANCE

Corporate Governance is understood to be a system by which companies are directed and controlled. The Board of Directors ensures that the activities of the company are always conducted in accordance with the highest ethical standards and in the best interest of all stakeholders. In this respect, it is guided by the principles and provisions of the code of best practice on corporate governance published by the Institute of Chartered Accountants of Sri Lanka.

The Board of Directors Composition

The Board of Directors comprises of a chairman and four executive directors. The public Trustee appoints three directors and the shareholders appoint two directors. Chairman is the Managing Director of the company and he is responsible for running the Board, preserves order and facilitates the effective discharge of Board functions.

Holding Regular Meetings and Attendance

The Board routinely holds meetings once in two weeks and special meetings are held when necessary. The Directors have a range of skills and experience and each brings an independent judgment and considerable knowledge to the Board's discussions. During the year 2013, the Board convened 18 meetings.

The Chart appearing below illustrates detail of attendance of each of the Directors.

| <u>Name of Director</u> | <u>No of Meetings attended</u> |
|---|--------------------------------|
| Mr. Bandula Padmakumara | 18 |
| Mr. Edirisinghe Vithanage Prasad Rasanga Harischandra | 18 |
| Mr. Upul Ranjan Samarasingha Dissanayake | 18 |
| Mr. Seelaratna Senarath | 18 |

Board Committees and their Composition

The Board has formed an Audit Committee and procurement committees for capital expenditure, imports & local purchases each comprising Directors and Senior Managers.

Financial Reporting and Transparency

The Financial Statements of the company have been prepared in accordance with the generally accepted accounting principles, concepts and the accounting standards laid down by the Institute of Chartered Accountants of Sri Lanka. The Financial Statements included in this Annual Report have been audited by the Auditor General.

Directors' responsibility for Preparation of Financial Statements

The statements of the Directors' responsibility for preparation of Financial Statements is given in Page 22 of this Annual Report.

Compliance with the Statutory Payments

The Board of Directors confirms that all known statutory payments have been paid up to date and all contributions payable on behalf of employees have been paid or provided in the Financial Statements.

Internal Controls

The systems of internal controls are designed to cover the risk arising from errors, omissions and mistakes, safeguarding the assets of the company and to record and maintain a proper set of books, through proper procedures by segregation of duties, authority levels and internal and external audit procedures.

The Board is responsible for ensuring that the company has adequate and effective internal controls in place. Day to day financial & non financial activities are reviewed regularly by the Internal Audit Department of the company.

Relationship with Shareholders

The Board of Directors has continuously recognized the important role played by the shareholders towards the company. ANCL always welcome active participation of the shareholders at the Annual General Meeting and their suggestions.

Corporate Social Responsibility

The company is well understood of its responsibilities towards the community and society at large.

Employee Matters & Communications

Employees are given unrestricted access to the management to voice their concern and solve their grievances then and there.

Environmental Protection

We have taken all possible measures to make sure that the company has not engaged in any activities, which have caused adverse effects on the environment and it has complied with the relevant environmental regulations.

Going Concern

The Board of Directors is satisfied that the company is a going concern and has adequate resources to continue in business for the foreseeable future. For this reason, the company follows the "going concern" basis when preparing Financial Statements.

Audit & Management Committee

The Audit & Management Committee meets on a quarterly basis and comprises of

| | | |
|-------------------------|---|--|
| Mr.Bandula Padmakumara | - | Chairman & Managing Director (Chairman of the Committee) |
| Mr.Rasanga Harischandra | - | Director Legal & Administration |
| Mr.Abaya Amaradasa | - | General Manager |
| Mrs.Kumudu Gunawardane | - | Company Secretary |
| Mr.Virajith Bois | - | Deputy General Manager-Finance |
| Mr.Sisira Nath Adikari | - | Chief Internal Auditor (Convener of the Committee) |

CORPORATE GOVERNANCE

The representatives of the Auditor General's Department who act as the company external auditors and the Ministry of Mass Media & Information join the meetings of the committee by invitation of its members as observers.

The committee convened on 04 occasions for the year ending 31st December 2013.

The Chief Internal Auditor carries out financial audits & system audits on a pre-planned basis to ensure effectiveness of the various functions, reviews the internal controls and systems introduced check compliance with the accounting standards and reports non compliance errors to the Chairman & Board of Directors and coordinates with concerned managers for rectification of corrective actions.

In addition, the Audit & Management Committee also meets with the External Auditor, Auditor General's Department to review the Audits and the objectivity and independence of the Auditors.

The Directors have pleasure in submitting their Annual Report for the year ended 31st December 2013 together with the Audited Statements of Accounts and Balance Sheet as at that date.

1. Company Activities

The principal activities of the company are printing, publishing and distribution of newspapers and periodicals. There have been no significant changes in the nature of the principal activities of the company during the financial year under review.

2. Financial Statements

The Financial Statements of the group are presented in this Annual Report.

3. Auditors' Report

The Auditors' report on the Financial Statements is given on page 23 of the Annual Report.

4. Significant Accounting Policies

Details of significant Accounting Policies adopted in the preparation of the Financial Statements are given under Accounting Policies stated in this Annual Report.

5. Review of the year

A review of operations of the company during the financial year and results of those operations are contained in the Chairman's Review and Financial Review presented in this Annual Report.

6. Revenue

The group achieved total revenue of Rs.3,593 Mn during the period ending 31st December 2013.

7. Profit & Appropriations (Rs.Mn)

| | <u>2013</u> | <u>2012</u> |
|----------------------------------|-------------|-------------|
| Profit / (loss) before Tax & FV | 73 | 57 |
| Taxation | (12) | (6) |
| Fair Value adjustment | (2) | (59) |
| Profit / (loss) after Tax | 59 | (8) |
| Brought forward (loss)/profit | - | - |
| Dividends | - | - |
| Retained profits carried forward | <u>59</u> | <u>(8)</u> |

8. Revenue Reserves

The company revenue reserve as at 31st December 2013 was Rs.346.9 Mn.

9. Property, Plant and Equipment

Capital expenditure on Property, Plant & Equipment and capital work-in-progress for the year 2013 amounted Rs. 40.7 Mn. The movement of Property, Plant & Equipment during the year is given in note 6 to the Financial Statements.

10. Donations

During the period company contributed Rs. 2,933 Mn. towards charitable institutions.

DIRECTORS' REPORT

11. Net Assets per Share

Net assets per share are Rs.109.57

12. Share Information

Information relating to earnings, dividends and net assets per share is presented in Financial Highlights and Decade at a Glance Statements.

Distribution of shareholding is indicated under Share Information Report.

13. Substantial Shareholding

The Public Trustee holds 87.5 % of the shareholding on behalf of the government of Sri Lanka.

14. Directors

The Directors of the company as at 31st December 2013 and their shareholding were as follows.

| | <u>No of shares</u> |
|--|---------------------|
| Mr. Bandula Padmakumara | Nil |
| Mr Edirisinghe Vithanage Prasad Rasanga Harischandra | 1 |
| Mr. Upul Ranjan Samarasingha Dissanayake | Nil |
| Mr. Seelaratna Senarath | 1 |

15. Resignation / New Appointments during the year

No resignations or new appointments have been carried out during the year.

16. Loans to Directors

No loans have been given to the directors of the company.

17. Directors' Interest in Contracts

Directors have no direct or indirect interest in any contract or proposed contract with the company for the year ended 31st December 2013.

18. Directors' Remuneration

Directors' remuneration in respect of the company for year 2013 is stated in Note 19 to the Financial Statements.

19. Post Balance Sheet Events

There was no material post balance sheet events affecting the accounts as at 31st December 2013.

20. Statutory Payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the government and employees have been paid up to date.

21. Going Concern

The Board of Directors is satisfied that the company is a going concern and has adequate resources to continue in business for the foreseeable future. For this reason, the company follows the "going concern" basis when preparing Financial Statements.

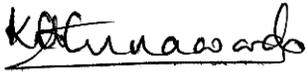
22. Environmental Protection

The Directors, to the best of their knowledge and belief, are satisfied that the company has not engaged in any activities, which have caused adverse effects on the environment and it has complied with the relevant environmental regulations.

23. Auditors

The Accounts for the year have been audited by the Auditor General as per Article 154 (3) of the constitution of the Democratic Socialist Republic of Sri Lanka.

By order of the Board of Directors,



Kumudu H. Gunawardana Imbulamure
Company Secretary

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors' responsibility in relation to the Financial Statements is detailed below. The report of the Auditors sets out their responsibility in relation to the Financial Statements.

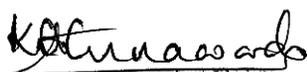
The Companies Act, No 07 of 2007 requires that the Directors prepare Financial Statements for each financial year, which reflects a true and fair view of the state of affairs of the company as at the end of the financial year and the profit for that financial year. In preparation of these Statements, the Directors are required to ensure that:

1. Appropriate accounting policies have been selected and applied on a consistent basis. Material departures, if any, are disclosed and explained.
2. Ensure that all applicable accounting standards have been followed.
3. The adjustments and estimates are reasonable and prudent.
4. The Directors are responsible for ensuring that the company keeps sufficient accounting records to disclose, with reasonable accuracy, the financial position of the company and to enable them to ensure that the Financial Statements comply with the Companies Act. They are also responsible for taking reasonable steps to safeguard the assets of the company and to establish appropriate system of Internal Controls, which provide reasonable though not absolute assurance to the Directors that assets are safeguarded and Internal Controls are in place with a view to the prevention and detection of fraud and error.
5. The Directors are required to prepare the Financial Statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspection they consider to be appropriate for the purpose of enabling them to give their audit report.

The Directors are of the view that they have discharged their responsibilities as set out in this Statement.

The Auditor General, the Auditors of the company have examined the Financial Statements made available by the Board of Directors together with all the financial records, related data, and minutes of shareholders and Directors' meetings, and express their opinion in their report presented in this Annual Report.

By order of the Board



The Associated Newspapers of Ceylon Limited
Kumudu H Gunawardana Imbulamure
Company Secretary

The Chairman,
The Associated Newspapers of Ceylon Limited

Report of the Auditor General on the Consolidated Financial Statements of the Associated Newspapers of Ceylon Limited for the year ended 31 December 2013 in terms of Section 14(2) (c) of the Finance Act, No.38 of 1971.

The audit of consolidated Financial Statements of the Associated Newspapers of Ceylon Limited and its subsidiaries for the year ended 31 December 2013 comprising the statements of financial position as at 31 December 2013 and the statement of comprehensive income, statements of changes in equity and statements of cash flow 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(3) 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 16 of the Associated Newspapers of Ceylon Limited (Special Provisions) Law No.28 of 1973. My comments and observations which I consider should be published with the Annual Report of the Company 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, will be issued to the Chairman of the Company in due course.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated Financial Statements in accordance with Sri Lanka Accounting Standards for Small and Medium Sized Entities (SLAS for SME's) and for such internal control as the management determines is necessary to enable the preparation of consolidated 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 consolidated Financial Statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards, consistent with International Standard of Supreme Audit Institution (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated Financial Statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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

AUDITOR-GENERAL'S REPORT

1.4 Basis for qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the adjustments arising from the matters described in paragraph 2.2 of this report, the consolidated Financial Statements give a true and fair view of the financial position of the Associated Newspapers of Ceylon Limited (ANCL) as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium - Sized Entities.

2.2 Comments on Consolidated Financial Statements

2.2.1 Consolidated Financial Statements

Audited Financial Statements of the Lake House Property Development (Private) Limited, Informedia (Private) Limited and Business Lanka (Private) Limited, which are fully owned subsidiaries of the Company, had been taken for prepare the consolidated Financial Statements.

2.2.2 Going Concern of the Company

When preparing the consolidated Financial Statements, the Management of the ANCL had not ascertained the Company's ability to continue the business, based on going concern concept as per Section 3.8 of the Sri Lanka Accounting Standards for SME's. Further it was observed that net assets of the Company had decreased during last five years by around 32 per cent which could be a threat to the existence of the Company. Eventhough, the Financial Statements of Info Media (Private) Limited was consolidated with the Company based on the assumption that the Company is in going concern, it was observed that the commercial operations of the Company had been ceased during the preceding year due to heavy losses incurred during past two years and as a result the net assets had also been deteriorated seriously.

2.2.3 Sri Lanka Accounting Standards for Small and Medium-Sized Entities (SME's)

The following observations are made.

- (a) Section 23.10 - The Company had not identified the revenue receivable from Annual Publication Section of the Company.
- (b) Section 20.13 - An accounting software package which had been acquired on lease basis and used by the Company had not been capitalized and disclosed in the Financial Statements.
- (c) Section 20.09 - The value of the land at Wijeyawardena Mawatha where the Company is located had not been valued and brought to the Financial Statements. The Chairman of the Company had informed me on 29 July 2014 that from the inception this asset was shown as an operating lease. The only payments with regard to this lease is an annual payment of Rs.8,966 to the Divisional Secretariat, Colombo.

AUDITOR-GENERAL'S REPORT

- (d) Section 8.5 - The accounting policy applied for the provision of bad and doubtful debts had not been disclosed in the Financial Statements.
- (e) Section 33.9 - During the year under review, the Company had obtained a loan amounting to Rs.175 million from a Commercial Bank by pledging the properties which was previously owned by the Lake House Property Development (Private) Limited. However, this was not disclosed in Financial Statements.

2.2.4 Accounting Deficiencies

The following observations are made.

- (a) Adjustments at the beginning and end of the year under review had not been made for the value of the returned papers allowed to accept in circulation of the newspapers in accordance to the accounting policy on recognition of income as stated in the notes to the consolidated Financial Statements. As a result, the financial results for the year under review had been overstated by Rs. 3,652,341.
- (b) Expenses pertaining to 16 items of capital assets which had been produced and handed over to other divisions by the Maintenance Department of the Company had been written off as expenditure instead of being capitalized. Further, details of the cost of these assets were not made available for audit.
- (c) A sum of Rs.2,453,125 had been incurred for printing of books during the year under review by the Annual Publication Department of the Company. However, value of unsold books printed by the Department as at 31 December 2013 had not been ascertained and brought to accounts.
- (d) According to the information made available for audit, an amount equivalent to the debtors outstanding for more than one year is provided as bad and doubtful debts. Nevertheless, the Company had not been made the provision for bad and doubtful debts according to the accounting policy. As a result, the provision of the bad and doubtful debts had been overstated by Rs. 14,452,315.

2.2.5 Unexplained Differences

The following observations are made.

- (a) Differences aggregating Rs. 4,050,364 had been observed between the value of ledger balances and the value of physically verified stock balances relating to 13 items of stocks of which reconciliations had been made. In addition, differences aggregating Rs. 3, 967,520 had been observed between the value of ledger balance and the value of physically verified stock balances relating to 8 items of stocks of which reconciliations had not been made.
- (b) A difference of Rs.680,270 on the debit balance and a difference of Rs.191,762 on the credit balance were observed between debtor's ledger balances and the corresponding amounts shown in the Financial Statements.
- (c) Differences aggregating Rs.588,715 had been observed between the outstanding loan balances of the employees as per Company records as at 31 December 2013 and corresponding amounts furnished to audit by the Employees Provident Fund.

AUDITOR-GENERAL'S REPORT

2.2.6 Accounts Receivables and Payables

The following observations are made.

- a) Proper action had not been taken for 185 dishonored cheques valued at Rs.9,490,377. According to the information made available for audit, out of this, 116 dishonored cheques valued at Rs.4,693,656 had been outstanding for more than one year.
- b) Letters calling for confirmations had been sent to the trade debtors to the value of Rs.645,835,280 and out of that Rs. 19,773,464 had been agreed in whole. At the meantime, debtors valued at Rs. 7,805,803 had not been agreed while confirmations for Rs. 618,256,013 had not been received up to 30 April 2014. Further letters calling for confirmations, to the value of Rs.35,290,509 had been returned.
- c) A sum of Rs.65,464,439 had been shown under trade debtors were outstanding for more than one year. Out of that an amount of Rs.20,726,548 or 31 percent had been referred to the Legal Section considered as unrecoverable.
- d) Unidentified debits and credits amounting to Rs.69,863 and to Rs.1,037,572 respectively were remained in six Bank accounts of the Company, without being cleared for over six months.

2.2.7 Lack of Evidence for Audit

The Company owns fixed assets amounting to Rs.320,028,287 except land and buildings. Neither a fixed assets register nor verifications reports were maintained by the Company in order to ensure the existence of these assets.

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

The following instances of non-compliance were observed in audit.

| Reference to Laws, Rules, Regulations and Management Decisions etc. | Non-compliances |
|--|---|
| (a) Section 13 (5) (d) of the Finance Act, No.38 of 1971. | Half - yearly internal audit reports had not been furnished to the Auditor General. |
| (b) Section 114 (1) of the Inland Revenue Act, No.10 of 2006 and Section 8.7 of the Public Enterprises Circular No. PED/12 dated 02 June 2003. | The Company had paid a sum of Rs.5,085,678 as the Pay As You Earn tax on behalf of bonus payment made to the employees without been deducted from employees. |
| (c) Public Enterprises Circular No. PED/12 of 02 June 2003; (i) Section 9.2 (b) | Even though the approval of the Department of Public Enterprises should be obtained for the Organization Chart and the Cadre of the Company, it had not been done so. |

(ii) Section 9.2 (a)

The approved cadre of the Company should be included in the Corporate Plan. Nevertheless, the actual cadre as at 31 July 2006 and as at 30 November 2013 had been included in the Corporate Plan prepared for the period from 2013 to 2016.

(iii.) Section 9.3.1

Every public enterprise should have schemes of recruitment and promotion for each post and the schemes should be approved by the Board and the appropriate Ministry, with the concurrence of the Department of Public Enterprises and the General Treasury. However, the Company did not have a scheme of recruitment and promotion procedure so approved. Hence, the Company had failed to determine specific educational and professional qualifications that required for higher management posts.

(d) Section 2.5 of the Public Enterprises Circular No.58(2) of 15 September 2011

Concurrence of the Hon. Minister of Finance and Planning had not been obtained to determine the transport allowance, fuel allowance and driving allowance and providing vehicles on hire basis to accommodate the transport facilities for the officers of the Company. At the meantime a sum of Rs.70,407,461 had been spent by the Company for the above purposes for the year under review.

3. Financial Review

3.1 Financial Results

According to the consolidated Financial Statements presented, the operations of the Company for the year ended 31 December 2013 had resulted in a pretax net profit of Rs.73,072,209 before taking into accounts the fair value adjustment of Rs. 2,034,813 as compared with the corresponding pretax net profit of Rs. 57,429,835 before taking into account the fair value adjustment of Rs.59,928,374 for the preceding year, thus indicating an improvement of Rs. 15,642,375 in financial results. The increase of net revenue of the Commercial Printing Department and decrease of cost of sale of the newspapers and periodicals were mainly attributed for this improvement in the financial results for the year under review.

3.2 Analytical Financial Review

The gross profit margin and the profit mark up of the Company for the year under review, as compared with the preceding year had increased by 1.74 per cent and 6.22 per cent respectively. Certain matters revealed at an analytical review of the Financial Statements as compared with the preceding year are given below.

AUDITOR-GENERAL'S REPORT

| | 2013 | 2012 | Variance (Favorable / Adverse) |
|--|-------|-------|--------------------------------------|
| | (%) | (%) | (%) |
| Gross Profit Margin | 47.86 | 46.12 | 1.74 |
| Profit Mark up (Gross profit on cost of sales) | 91.81 | 85.59 | 6.22 |
| Administration Cost on Turnover | 36.74 | 34.84 | 1.90 |
| Selling and Distribution Cost on Turnover | 9.07 | 8.74 | 0.33 |
| Finance Cost on Turnover | 3.86 | 3.84 | 0.02 |
| Liquidity Ratio (Number of times) | 1.59 | 1.41 | 0.18 |
| Acid Test Ratio (Number of times) | 1.13 | 1.00 | 0.13 |

3.3 Legal Cases Filed Against the Company

According to the information made available, 70 legal cases are pending against the Company and awaiting adjudication. The further details relating to the legal cases had not been furnished to audit. However, according to the Financial Statements, a sum of Rs.1,611,200 had been provided as contingent liabilities during the year under review.

3.4 Working Capital Management

The working capital position of the Company was deteriorated during the year under review, due to lack of efficient debts collection procedure and proper working capital management policy. As a result, the Company had borrowed a sum of Rs.175 million with a view to mitigate the working capital issues. The loan should be repaid in monthly installments of Rs.3 million with the approximate interest rate of 10 per cent. Appropriateness of the long-term loans to the fulfillment of short-term working capital requirement was not evaluated by the management.

In addition to that, a sum of Rs. 38.4 million had been paid by the Company as over draft interest during the year under review.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The Company had published 6 newspapers, 22 periodicals and 3 annual publications during the year under review while 6 newspapers, 16 periodicals and 02 annual publications had been published during the preceding year. The net contribution of the newspapers, periodicals and annual publications had decreased by Rs. 15.6 million during the year under review, as compared with the preceding year. Although the Company had introduced 6 periodicals during the year under review, all of them had been earned negative contributions of Rs. 5.127 million.
- (b) Six newspapers published by the Company had made a favourable contribution to the financial results of the Company. The following observations are made in this regard.
 - (i) The overall advertisement income of the newspapers of the Company had decreased by Rs. 15.8 million or 0.7 percent as compared with the preceding year whereas the company had made no price revision during the year under review.

AUDITOR-GENERAL'S REPORT

- (ii) Overall newspaper sales income of the Company had decreased from Rs. 421.4 million in the preceding year to Rs. 408.9 million or 3 percent in the year under review eventhough the prices of one newspaper had increased by 20 percent with effect from 06 January 2013. The Chairman of the Company had informed me on 29 July 2014 that the group is carrying with 28 publications, 3 subsidiaries, commercial printing, annual publication and digital printing specially where and the audit opinion is expressed on consolidated Financial Statements. There is a drop of Rs.107 million in group turnover mainly due to drop in commercial printing amounting to Rs.124 million over last year. Therefore, it is evident that, apart from commercial printing the group turnover has been increased.

4.2 Management Inefficiencies

The following observations are made.

- (a) Business Lanka AN (Private) Limited, which registered as a subsidiary of the Company during the year under review had earned a revenue of Rs.16 million. However, out of the total revenue, debtors amounting to Rs.9.9 million or 62 percent were outstanding as at 31 December 2013. As per the Financial Statements prepared as at 30 April 2014 debtors amounting to Rs.1,296,960 were outstanding for more than one year.
- (b) In addition to the fifteen per cent of Agents' commission, an incentive scheme was also introduced for advertising agents during the year 2012, in order to attract the advertisements. However, the Agents had not taken any obligation to recover the debtor balances related to the commercial advertisements. Under this context recoverability of this debtor balances are doubtful. It was further observed that outstanding debtor balance related to the commercial advertisements for over one year amounting to Rs.12,917,653.
- (c) The Company had not revised the minimum deposit balance that should be kept by the News Agents since several years. It was observed that amount of deposits made by the Agents had been exceeded the receivables to the Company from the Agents. As a result, some of the agents were suspended, terminated or retired for legal action.
- (d) Out of debtor balances as at 31 December 2013, a sum of Rs. 53,445,776 to be receivable from 104 Government Institutions for advertisements received through the advertising Agents. In this regard, the Company had paid an amount of Rs.9,431,607 as commissions to the Agents. However, as a Government Owned Business Enterprise, the Company had not taken necessary steps to follow a proper procedure to attract the Government's advertisement directly to the Company.
- (e) The Department of Annual Publications had incurred continuous losses due to executing printing activities without being done a cost benefit analysis, ineffective promotional programmes and weaknesses in distribution system etc. As such the Department had incurred a loss of Rs.4.8 million during the year under review too.
- (f) In order to minimize significant sales returns prevailed during last few years, the Company had introduced Return Rates Systems for each Newspaper from time to time. However, after introducing the new system, overall sales returns had been increased by Rs.35,177,498 or 41 per cent during the year under review.
- (g) As a usual job, paper reels were sent to an outside Company for cutting before using them for printing activities. Due to unavailability of records, the variations between weight of reels sent for cutting and weight of reels received after cutting could not be verified in audit. The weight of papers sent for cutting and received after cutting during the period from 20 December 2013 to 25 February 2014 were 44,375 Kg and 38,567 Kg

AUDITOR-GENERAL'S REPORT

respectively. Hence the abnormal loss was 5,808 Kg or 13 per cent of the papers sent for cutting. However, the management had not implemented a proper internal control to minimize this loss.

4.3 Operational Inefficiencies

The following observations are made.

- (a) According to the Board decision, a separate Branch had been established in Kilinochchi District in order to promote the newspapers of "Thinakaran" and "Wannawanawil". After the establishment of new branch the sale of these two newspapers had decreased. During the year under review and preceding year the Company had incurred a sum of Rs.628,500 and Rs.854,749 as salaries and wages respectively, without being obtained any services from this Branch.
- (b) During the preceding year a separate Digital Printing Section was established by acquiring a digital printing machine for Rs.1,680,000. According to the information made available for audit, net loss from the operation of this Section during the year under review was Rs.867,262.

4.4 Transactions of Contentious Nature

In addition to the payments of discounts to the Advertising Agents ranging from 1 per cent to 55 per cent of on their collected advertisement values, an incentive scheme for the Advertising Agents who accomplished the desired targets, had also been introduced by the Company in the year 2012 without having an approval of the Board of Directors. Under the proposed incentive scheme sums of Rs. 2,196,577 and Rs. 12,491,960 had been paid for the years 2012 and 2013 respectively. However, the total advertising revenue had been decreased by Rs. 15,755,000 as compared with the preceding year, even though the Company had incurred additional payment of Rs. 14,688,537 as incentive payments for the year under review and for the previous year. Therefore, introducing an incentive scheme is questionable. The Chairman of the Company had informed me on 29 July 2014 that to maintain the market share, we should continue the incentive payments scheme for future period too. Therefore introducing of the incentive payment scheme is vital for our business operation.

4.5 Idle and Under-utilized Assets

The following observations are made.

- (a) A plate making machine and hundred and seventy one items such as camera equipment and accessories and other equipment etc. which were scheduled to be disposed had been kept in the premises of Commercial Printing Department and Editorial Photographic Sections for more than two years without being disposed. Values of these items were not made available for audit.
- (b) Heidelberg Sordz machine, used for the printing of newspapers by Infor Media (Private) Limited had remained idle for over two years. The estimated value of the machine as per the valuation report was Rs.5.5 million.
- (c) A land with an extent of 8 acres located at Hokandara, vested with the Lake House Property Development (Pvt) Ltd had remained idle since the year 1985. The value of this land was not made available for audit.

4.6 Uneconomical Transactions

The following observations are made.

AUDITOR-GENERAL'S REPORT

- (a) According to the Board decision taken on 13 December 2012 the Company had obtained a land from the Department of Railways to build a vehicle park for the Company on an agreement to pay a sum of Rs.143,000 per month. However, after paying an amount of Rs.715,000 as rent, the land was retransferred to the Department of Railways without being built such vehicle park.
- (b) According to the instructions given by the Chief Editor of "Denamuthu" magazine, 21,000 copies in 7 books had been printed during the year under review. However, 13,592 copies valued at Rs. 951,440 had been remained at the stores since September 2013 due to over estimation.
- (c) During the year under review, the Company had purchased Prime Mover on operational lease by incurring a sum of Rs. 4.8 million for the purpose of transporting 49 Mt of news print. However, at present only 6 Mt of news prints had been transported by using this vehicle. Therefore the expected saving could not be achieved by this expenditure.
- (d) The Company had made certain investments in long-term financial assets (share capital) of several companies. The value of the investment portfolio as at 31 December 2013 was Rs. 135,362,000. The following observations are made in this regard.
 - (i) Return on this investment was only ranging from 1.4 per cent to 1.5 per cent during the year under review and during the preceding year.
 - (ii) Even though a sum of Rs.1.2 million had been invested in Lanka Puwath in 2008, the Company had not received any return from this investment up to 31May 2014.

With regard to our first observation, the Chairman of the Company had informed me on 29 July 2014 that the cost of these investments made several years ago was Rs.1 million and the market value as at the balance sheet date was Rs.134.4 million. This position clearly shows the increase in return, though the dividends paid on nominal values are less.

4.7 Identified Losses

The following observations are made.

- (a) The Company had filed a case against a Government Institution to recover outstanding balance of Rs. 43,447,015. However, with the approval of the Board of Directors the case was withdrawn, and as a result the net refundable VAT related to the said debtor had been deprived by the Company.
- (b) Infor Media (Private) Limited a fully owned subsidiary discontinued its operations during the year 2012 and accumulated loss of the subsidiary was Rs.6,993,757. As a result, the invested capital and additional funds provided amounting to Rs.6,313,833 were lost by the Company.

4.8 Release of Human and Physical Resources of the Company to Other Institutions

The following observations are made.

- (a) Four hired vehicles of the Company had been released to other State Institutions in contrary to Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003, and the Company had spent a sum of Rs.2,520,000 as rent for these vehicles during the year under review.

AUDITOR-GENERAL'S REPORT

- (b) Three officers including an Assistant Manager of Annual Publications Department had been released for service of another external Institution and the Company had spent a sum of Rs. 2,256,098 as salaries and wages and vehicle allowances during the year under review.

4.9 Personnel Administration

The following observations are made.

- (a) Even though 133 staff had been recruited exceeding the approved cadre as at 31 December 2014, no proper approval had been obtained for those recruitments.
- (b) According to the information made available for audit, salaries and wages of the senior management and Directors had increased by 5.2 per cent and 108 per cent respectively during the year under review.

5. Accountability and Good Governance

5.1 Corporate Plan

A Corporate Plan for the period of 2013 - 2016 had been prepared by the Company in terms of Section 5 of the Public Enterprise Circular No. PED/12 of 02 June 2003. However, achievement of corporate objectives, particularly enhancement of circulation of the newspapers of the Company was declined significantly compared to the main competitive newspapers in the market.

5.2 Annual Action Plan

An Annual Action Plan had been prepared for the year under review in line with the Corporate Plan. However, the activities planned to be implemented during the year under review such as obtaining all government printing and advertising jobs, preparation of succession plan for key positions, opening of new branches for revenue generation, reduction of transport costs, introducing of new inventory module and eliminating of sales returns had not been executed according to the Action Plan.

5.3 Procurement Plan

A Procurement Plan had not been prepared for the year under review and without having a Procurement Plan capital expenditure amounting to Rs.40 million had been incurred by the Company during the year under review.

5.4 Budgetary Control

A detailed budget had not been prepared in accordance with the expenditure categories of the Company in order to make effective control over the expenditure, thus indicating that the budget had not made use as an effective instrument of management control.

5.5 Tabling of Annual Report

Annual Report for the year 2012 had not been tabled in Parliament even by 31 May 2014.

5.6 Unresolved Audit Paragraphs

The following observations are made.

AUDITOR-GENERAL'S REPORT

- (a) Attention had not been paid for the following matters which were emphasized from the audit report issued in the preceding year.
 - (i) Acquisition of vehicles on rent basis without approval of the Board of Directors.
 - (ii) Acquisition of vehicles without calling tenders and entering into the agreements.
 - (iii) No any return received on the investment of Rs.7,500,000 and Rs.2,500,000 made at Lake House Property Development Ltd and Infor Media (Pvt) Ltd respectively.
- (b) The following directives given by Committee on Public Enterprise held at 09 December 2013 had not been followed.
 - (i) To appoint a suitable person for the post of Finance Director.
 - (ii) To submit an Annual Procurement Plan to the Auditor General.
 - (iii) To take proper actions relating to the investment made in Lanka Puwath amounting to Rs. 1.2 million.

6. Systems and Controls

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

- (i) Procurements.
- (ii) Delegation of Authority.
- (iii) Vehicle utilization.
- (iv) Debtors.
- (v) Asset management.
- (vi) Stocks.
- (vii) Fixed assets.
- (viii) Commercial Printing.
- (ix) Working Capital Management.
- (x) Investments.



W.P.C. Wickramaratne
Acting Auditor General

CHAIRMAN'S COMMENTS ON AUDIT OBSERVATIONS

2.2 Comments of accounts

2.2.1 Consolidated Financial Statements

Accepted.

2.2.2 Going concern of the company

According to section No.3.9 of the Sri Lanka Financial Reporting Standards for SME, "When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern". The management has made an assessment of its ability to continue as a going concern this fact has been disclosed under item No.3.3 in notes to the consolidated Financial Statements.

The decrease in net assets from 1/1/2009 to 31/12/2013 by 32% and not by 39% amounting to Rs.184 mn is mainly due to VRS expenditure written off in full in the year of expense in 2009 & 2010 amounting to Rs.175 million. The benefit of the VRS is accruing over a longer period and if we had amortized that over a period, this decrease in net assets would have been a very minimum figure.

The total loss suffered by Infomedia (Pvt) Ltd during its entire operation is only Rs. 6.9 million and the impact of this would be very minimal when compared with the consolidated balances of the group.

2.2.3 Sri Lanka Accounting Standards for Small and Medium Sized Entities (SME's)

- a) Sec 23.10(a) of SLFRS for SME requires the recognition of sale only when the entity has transferred to the buyer the significant risks & rewards of ownership of the goods. As a practice we dispatch the annual publications to book sellers on sale and return basis. Sale is recognized only when goods are then sold by the bookshop.
- b) There has been an error in recording this transaction. This will be corrected in 2014 accounts.
- c) From the beginning this asset was shown as an operating lease. The only payments with regard to this lease is Rs.8,966/ annual payment to Divisional Secretariat, Colombo. Therefore even if we bring this asset to the books the significant that will have on the financial position would be very minimum.
- d) The accounting policy applied for provision of debt is disclosed in section 3.11.1 of accounting policies section of the annual report.
- e) Accepted.

2.2.4 Accounting Deficiencies

- a) In newspaper industry, the returns are deducted at the news agency bill which is generated at the month end. As disclosed in accounting policies, all dispatches during the month & all returns received during the month are recorded in this

CHAIRMAN'S COMMENTS ON AUDIT OBSERVATIONS

monthly bill. Therefore it is obvious that the monthly invoice includes only returns related to previous periods as always there is a time gap in returning. The details of these invoices are recorded in revenue & debtors which indicate the real account balance of respective newsagents. If we are to adjust the returns as commented by you, the actual bill (statement) will not agree with the real transactions effected during a particular period.

- (b) The company has several administrative departments of those, The structures & the layouts are changed from time to time in line with the commercial & operational requirements. Since the company maintains a carpentry section, most of these modifications are handled internally. These changes are very frequent & hence the relevant expenses incurred mainly for procurement of timber, ply wood & sundry material etc. are expensed instead of capitalizing.
- c) Accepted and noted to implement a stocking procedure in the future.
- d) Agreed. This over provision will be corrected in year 2014.

2.2.5 Unexplained Differences

- a) At the time of reconciliation of fuel stocks, certain advance payments for which the goods had been received has not been considered. Later this was detected and adjusted in 2014 accounts.

The said 08 accounts have been reconciled and the difference aggregating to Rs.3,967,520 is mainly due to ,in the Goss magnum spares, the item received on Received & Issued basis to the value of Rs. 4,943,026 is to be taken as stock items by the stores department, this has not been taken to the 2013 physical stock . Hence will be adjusted in 2014.

- b) The total debtor amount of Rs.878 million shown at the ledger as at 31/12/13 did not agreed with the age analysis produced by the computer system with difference of Rs. 680,720/- However this was corrected subsequently.
- c) No proper details of the differences were informed to us by the audit department. However it is an obvious fact that receivables from the employee record maintain by the company and the amount payable to employee record maintain by the provident fund do not agree with each other. Amount receivable to the company is mainly made of outstanding loans. The amount payable by the fund is referred to employee contribution balances. Hence these two amounts cannot be matched.

2.2.6 Accounts Receivable and Payable

- a) ANCL constantly maintains pertinent procedures to recover the balance outstanding due to dishonored cheques.

Following tabular shows the dishonored cheques statement as at 31.12.2013.

CHAIRMAN'S COMMENTS ON AUDIT OBSERVATIONS

| Year | Number of Cheques | Amount Rs. | Amount Rs. |
|--------------|-------------------|--------------|---------------------|
| 2009 | 08 | 215,701.00 | |
| 2010 | 29 | 946,058.52 | |
| 2011 | 15 | 797,995.60 | 1,959,755.12 * |
| 2012 | 14 | 483,177.00 | |
| 2013 | 49 | 2,346,868.78 | 2,830,045.78 |
| Total | 115 | | 4,789,800.90 |

* Please note that 115 cheques were dishonored up to the year 2013 and out of that only 52 cheques had been outstanding for more than one year.

- b) ANCL sent confirmation letters to debtors above Rs. 200,000/- as agreed by the Auditor Generals Dept. However, only few debtors responded and this position is beyond our control.
- c) Even though the debtors balances for more than 1 year as at 31st December 2013 was Rs.65,464,439/- , most of the balances outstanding have been recovered during the year 2014. For smoothening the credit control function, long outstanding dues have been referred to the Legal Section.
- d) Details pertaining to direct credit are not available as depositors have not given any information. Actions have been taken to get information some other ways. Most of direct debits have been identified and adjusted.

2.2.7 Lack of Evidence for Audit

- a) All fixed assets are recorded in the fixed assets register which is frequently referred by auditors themselves. Assets are annually verified and verification reports are available.

2.2.8 Non compliance with laws

- a) Accepted
- b) ANCL has complied with the Inland Revenue Act by paying the due amounts to the Inland Revenue department in a timely manner. However, the board of directors of the company has taken a decision that the PAYE tax arising from the payment of bonus would be borne by the company on behalf of its employees.
- c) I. Noted
II. Noted.
III. Noted.

CHAIRMAN'S COMMENTS ON AUDIT OBSERVATIONS

- d) According to Public Enterprise Cir No. 58(2) ANCL is listed under category " F ". The entire wording of Sec.2.5 of the circular is as follows.

" This circular will not apply to state owned enterprises in sub-category F. That are governed by the relevant act of Incorporation, The Companies Act, the respective Articles of Association and provisions of other applicable laws including Taxes and other Regulatory provisions. The payment of allowances to Chairman, Board of Directors etc. as well as the salaries and other allowances and the terms and conditions of key executive officers of state owned enterprises in this sub category will therefore be decided by the respective Board of Directors having regard to competitive market rates paid by similar institutions, the educational and competence level of the person concerned with the concurrence of the Hon. Minister of Finance and Planning."

Further the list of public enterprises exhibits in Treasury Department websites (www.treasury.gov.lk/2013-10-03-08-47-42.html) does not include ANCL.

3. Financial Review

3.1 Financial Results

Noted.

3.2 Analytical Financial Review

Noted.

3.3 Legal cases filed Against the company

The information requested on legal cases was duly submitted to you. As stated in Note 4 to the accounts the provision for contingent liabilities is Rs.10 Mn. And not Rs.1.6 Mn. Commented by the audit. However in the year 2014 the provision was increased up to Rs. 20 Mn.

3.4 Working Capital Management

After reviewing the working capital position, the management opted for a term loan facility in order to avoid overdue interest on hypothecation loans and maintain an effective working capital position. The total overdraft interest for the year is only Rs.28.2 Million.

4. Operating Review

4.1. Performance

- a) As a marketing strategy to capture the decreasing print media readership, 15 new publications were introduced during 2010 to 2013. The total contribution earned from these 15 publications during 2013 is Rs 7.7 million as detailed below.

CHAIRMAN'S COMMENTS ON AUDIT OBSERVATIONS

Financial performance of new publications -2013

Rs'000

| No | Publication | Total Revenue Recorded | Direct Expenditure Incurred | Contribution as per Accounts |
|--------------|---------------|------------------------|-----------------------------|------------------------------|
| 1 | Manchu | 51,558 | 24,628 | 26,930 |
| 2 | Arogya | 13,269 | 12,966 | 303 |
| 3 | Vidunena | 15,907 | 15,485 | 422 |
| 4 | Sithmina | 12,739 | 16,143 | (3,404) |
| 5 | Athuru Mithu | 12,207 | 12,950 | (743) |
| 6 | Wanna Wanavil | 2,809 | 5,796 | (2,987) |
| 7 | Aloko Udapadi | 3,075 | 4,360 | (1,285) |
| 8 | Muthu Ahura 3 | 2,629 | 3,095 | (466) |
| 9 | Muthu Ahura 2 | 2,575 | 3,105 | (530) |
| 10 | Muthu Ahura 1 | 4,028 | 4,946 | (918) |
| 11 | Muthu Ahura 4 | 2,123 | 2,829 | (706) |
| 12 | Namaskara | 3,677 | 6,656 | (2,979) |
| 13 | Mihithuru | 2,761 | 4,237 | (1,476) |
| 14 | Denamuthu | 1,433 | 4,666 | (3,233) |
| 15 | Budu Suwanda | 4,359 | 5,581 | (1,222) |
| Total | | 135,149 | 127,443 | 7,706 |

- b) I. We do not agree on commenting only on selected 6 publications where the group is carrying 28 publications, 3 subsidiaries, commercial printing, annual publication and digital printing specially where an the audit opinion is expressed on consolidated Financial Statements. There is a drop of Rs 107 million in group turnover mainly due to drop in commercial printing amounting to Rs 124 million over last year. Therefore, it is evident that, apart from commercial printing the group turnover has been increased.
- II. We totally disagree on commenting on drop of circulation revenue of 6 papers where in total the circulation revenue of all 28 publications have gone up by Rs 17 million from Rs 674 in 2012 to Rs 691 in 2013. The drop commented by you, though marginal, would impact very bad on us because we operate in a very competitive market where rival publishers capitalize these in grabbing our customers to their papers.

4.2 Management Inefficiencies

- a) Up to June 2014 we have collected Rs.4,048,940 (41 %) from last year debtors balance.
- Business Lanka AN(Pvt) Ltd is vigilant over collection and under most circumstances, providing credit facilities beyond the credit period is unavoidable.

CHAIRMAN'S COMMENTS ON AUDIT OBSERVATIONS

However recoveries are made in the most appropriate and viable manner without harming to the parent company and also all possible measures are been taken to improve collection & minimize bad debts.

b) In addition to the fifteen percent agency commission, an incentive scheme was also introduced for the best ten billing agencies based on their contribution to ANCL during the corresponding precedent year and their performance. Agency commission and the incentive schemes were offered based purely on ANCL business interest and the commitment to secure the maximum revenue as over rivals offered incredible discounts and other benefits to attract business. While ANCL is vigilant over collections and apprehensive over risk exposure is compelled to deal matters delicately in a more viable manner to safeguard business and to confront competitors. Under most circumstances providing credit facilities beyond credit period is unavoidable.

c) As a practice, Company keeps a seven week value of the newspapers as initial deposit. However, according to the present position of ANCL publications in the market, this may not been adopted for each and every case of new appointments. Presently, Company has taken steps to collect deposits as part payments in the nature of new appointments.

Value of weekly supplies may vary due to the increase of supplies, number of publications and cover price of the publications etc. Therefore, any newspaper publisher may not be able to maintain the required deposit as fixed deposit.

Company has taken level best to minimize the gap between the actual and the required deposit levels by incorporating monthly deposit installments. The average installment per month would be Rs. 400,000/- (approx.) However, some excess deposits also can be observed under the deposit accounts in some of the news agents.

d) There is drastic competition among the newspaper publishers and each trying to supersede others. Therefore in order to attract more business opportunities and to retain the client base Company had to pay commissions. Most of e-government advertisement are now scheduled through Selacine Advertising under Ministry of Mass Media & Information.

e) The cost of complementary diaries has incorrectly been posted to Annual publication department continuously without being expensed as marketing expenses. After this adjustment, the department makes a profit. This will be corrected in the future.

f) The revised return system which was introduced as a trial was discontinued recently by restoring to the older system.

g) We have introduced a new system where dispatched and received back quantities are recorded now.

4.3 Operational Inefficiencies

a) Accepted

b) We do not agree with this comment. The digital printing division has earned a positive contribution of Rs 1.5 million during the year. The salary cost was treated as sunk cost and it's not relevant.

CHAIRMAN'S COMMENTS ON AUDIT OBSERVATIONS

4.4 Transactions of Contentious Nature

In Year 2012 advertising promotional scheme was introduced purely on the approval of the chairman and managing director since the strategy was felt viable to be continued, accommodating the external auditor recommendation to , board approval already obtained for year 2013 and year 2014.

Due to the stiff competition among electronic and the print media various promotional packages were introduced to derive the maximum revenue. Although we could not achieve the revenue earned in year 2011, we maintain our market share amidst severe competition.

Hence, to maintain the market share, we should continue the incentive payments scheme for future period too. Therefore introducing of the incentive payment scheme is vital for our business operation.

4.5 Idle or Under Utilized Assets

- a) Due to change in technology of plate making process, number of plate making machines were disposed. Similarly, this fully depreciated very old machine will also be disposed in the future.
- b) This very old fully depreciated printing machine remain for early disposal
- c) Accepted. We have already obtained proposals to develop the property.

4.6 Uneconomic Transactions

- a) Accepted
- b) As a pilot project, 7 educational books were printed and the first lot was dispatched to Sarasaviya Book Shop. Sarasaviya Book Shop has now communicated us the sale performance and accordingly we are planning to dispatch the remaining books to other book shops.
- c) Earlier we had a prime mover with the 20ft trailer which can transport about 16 mt at a time. As the capacity of this vehicle is not sufficient and a new prime mover which can transport about 23 tones per turn was purchased. This new vehicle is successfully used for the operations now.
- d)
 - i) The cost of these investments made some several years ago was Rs 1 million and the market value as at balance sheet date (31/12/13) was Rs 134.4 million. This position clearly shows the increase in return, though the dividends paid on nominal values are less.
 - ii) Accepted

CHAIRMAN'S COMMENTS ON AUDIT OBSERVATIONS

4.7 Identified Losses

- a) The United Peoples Freedom Alliance owed the company Rs. 43,447,015.00 for poster printing jobs. Then the Board of Directors initiated legal action to recover this. However with the change of the board the new directors had decided to withdraw the case. As per tax laws tax concession could be obtained only if a court decides that the outstanding or if action has been initiated for recoveries. The company can't claim tax benefits once it withdraws its own case filed in court. However the VAT inputs on paper raw materials such as ink etc. required for the printing of the posters have been claimed.
- b) Accepted

4.8 Release of human and Physical Resources of the company to other institutions

- a) Accepted
- b) As per instructions given by the Presidential Secretariat three officers have been released to the Presidential Secretariat and Ministry of Investment Promotion.

4.9 Personnel Administration

- a) After VRS on 31/08/2010, 107 employees have been appointed. Permanent (51) and new contract (56) to fulfill the requirements in various departments for vacancies existed after retirement, resignations, expiry of contracts.
- b) Accepted. Directors' emoluments are decided at the AGM.

5. Accountability and Good Governance

5.1 Corporate Plan

Not agreed. Most of the strategies stated in the corporate plan are implemented. Specially with regard to circulation, we strictly follows certain strategies to enhance market share. Accordingly we have recorded a growth in circulation in 2013.

5.2 Annual Action Plan

Though there are slight variances with the action plan, all the activities in general are carried out on priority basis.

5.3 Procurement Plan

Not agreed. We specially plan for capital expenditure, the details of which are presented with the budget.

5.4 Budgetary Control

Not agreed. We have provided the budget report and the actual reports when requested.

5.5 Tabling of Annual Report

This is being printed at present and will be tabled in the parliament shortly.

CHAIRMAN'S COMMENTS ON AUDIT OBSERVATIONS

5.6. Unresolved Audit Paragraphs

- a)
 - i) Vehicles are hired on rent with director approval.
 - ii) Not agreed. As confirmed by your query No 24, the only procured vehicle during 2013 was done through a tender.
 - iii) Though there is no dividend from M/S Lake House Property Development (Pvt) Ltd, substantial capital appreciation has accrued as the land owned by the subsidiary has gone up by many folds.
- b)
 - i) Noted.
 - ii) The budget which includes annual procurement plan was submitted to audit.
 - iii) We are taking steps to recover the amount paid.

6. Systems and Controls

The areas referred by you are being scrutinized at present an appropriate actions will be taken to strengthen the situation in the future.



Bandula Padmakumara
Chairman & Managing Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| For the year ended 31 December | Notes | 2013 Rs'000 | 2012 Rs'000 |
|--|-------|----------------|----------------|
| Revenue | 17 | 3,592,966 | 3,699,667 |
| Cost of sales | | (1,873,215) | (1,993,420) |
| Gross profit | | 1,719,751 | 1,706,247 |
| Other income | 18 | 137,699 | 105,694 |
| | | 1,857,450 | 1,811,941 |
| Administrative expenses | | (1,319,986) | (1,289,000) |
| Distribution expenses | | (325,854) | (323,468) |
| Operating profit | 19 | 211,610 | 199,473 |
| Finance expenses | | (138,537) | (142,044) |
| Profit before tax & fair value adjustment | | 73,074 | 57,429 |
| Tax expense | 20 | (12,094) | (5,781) |
| Fair value adjustment | 07 | (2,035) | (59,928) |
| Profit for the year | | 58,945 | (8,280) |
| Profit attributable to owners of the parent | | 58,945 | (8,280) |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| As at 31 December | Notes | 2013 Rs'000 | 2012 Rs'000 |
|--|-------|------------------|------------------|
| ASSETS | | | |
| Non Current Assets | | | |
| Property Plant & Equipment | 06 | 326,537 | 372,570 |
| Long term financial assets | 07 | 135,362 | 137,397 |
| Total Non Current Assets | | 461,899 | 509,967 |
| Current Assets | | | |
| Inventories | 08 | 455,864 | 439,211 |
| Trade & other receivables | 09 | 1,038,100 | 998,033 |
| Current tax assets | | 25,782 | 37,790 |
| Cash & cash equivalents | 10 | 56,967 | 37,646 |
| Total Current Assets | | 1,576,713 | 1,512,680 |
| Total Assets | | 2,038,612 | 2,022,647 |
| EQUITY & LIABILITIES | | | |
| Equity | | | |
| Stated capital | 11 | 34,837 | 34,837 |
| Retained earnings | | 346,905 | 287,960 |
| Total Equity | | 381,742 | 322,797 |
| Liabilities | | | |
| Non-current Liabilities | | | |
| Deposits | 12 | 166,829 | 177,870 |
| Borrowings | 13 | 187,132 | 154,983 |
| Employee benefit obligations | 16 | 298,579 | 283,802 |
| Provision for claims against the company | 14 | 10,000 | 10,000 |
| Total Non-current Liabilities | | 662,540 | 626,655 |
| Current Liabilities | | | |
| Trade & other payables | 15 | 209,654 | 357,066 |
| Borrowings | 13 | 784,676 | 716,129 |
| Total Current Liabilities | | 994,330 | 1,073,195 |
| Total Liabilities | | 1,656,870 | 1,699,850 |
| Total Equity & Liabilities | | 2,038,612 | 2,022,647 |

The accounting policies and other notes to the Financial Statements form integral part of these Financial Statements. It is certified that the financial statements have been prepared in compliance with the requirements of Companies Act No 7 of 2007.



Virajith Bois
DGM Finance

Board of Directors is responsible for the preparation and the presentation of Financial Statements. Approved and signed on 28th February 2014 for and on behalf of the Board.



Bandula Padmakumara
Chairman & Managing Director



Seelaratna Senarath
Director Editorial

CONSOLIDATED STATEMENT OF CASH FLOWS

| For the year ended 31 December | Notes | 2013 Rs'000 | 2012 Rs'000 |
|--|-----------|------------------|------------------|
| Operating activities | | | |
| Cash generated from operations | 21 | 80,468 | 205,813 |
| Interest paid | | (137,335) | (142,044) |
| Income tax paid | | (23) | (5,802) |
| Gratuity paid | | (27,239) | (24,751) |
| Payment for claims against the company | | (1,611) | (8,472) |
| Cash flow from operating activities | | (85,740) | 24,744 |
| Investing activities | | | |
| Purchase of property plant & equipment | | (40,696) | (236,595) |
| Sale of property plant & equipment | | 13,714 | 2,203 |
| Increase in deposits | | (11,041) | 2,376 |
| Interest received | | 11,248 | 12,994 |
| Dividend received | | 2,136 | 1,952 |
| Rental income received | | 30,567 | 29,115 |
| (Increase)/ decrease in capital wip | | (1,565) | 76,929 |
| Cash flow from investing activities | | 4,363 | (111,026) |
| Financing activities | | | |
| Increase/(decrease) in borrowings | | 189,524 | 26,502 |
| Cash flow from financing activities | | 189,524 | 26,502 |
| Net change in cash & cash equivalents | | 108,147 | (59,780) |
| Cash & cash equivalent at 1 January | | (291,755) | (231,975) |
| Cash & cash equivalent at 31 December | 10 | (183,607) | (291,755) |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| Attributable to owners of the parent | Stated capital Rs'000 | Retained earnings Rs'000 | Total Rs'000 |
|---------------------------------------|--------------------------|-----------------------------|-----------------|
| Carrying value as at 1 January 2012 | 34,837 | 296,240 | 331,077 |
| Profit for the year 2012 | | (8,280) | (8,280) |
| Carrying value as at 31 December 2012 | 34,837 | 287,960 | 322,797 |
| Profit for the year 2013 | | 58,945 | 58,945 |
| Carrying value as at 31 December 2013 | 34,837 | 346,905 | 381,742 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of operations

The principal activities of The Associated Newspapers of Ceylon Limited (the Company) include the printing & publishing of newspapers, periodicals, magazines and the commercial printing. The company has corporate headquarters and printing plants in Colombo and sells mainly in Sri Lanka.

The company formed its first fully owned subsidiary, the Lake House Property Development (Private) Limited in 1985 with the intention of diversifying in to property development businesses but has not commenced operations yet. During the year 2012, the company formed its second fully owned subsidiary, the Info Media (Private) Limited, to print Tamil language newspapers in Jaffna, in line with the Group's strategy to be the islandwide fastest provider of information and knowledge. Another fully owned subsidiary, Business Lanka AN (Private) Limited was formed during the year 2012 aiming diversification in to business magazine industry.

2. General information and statement of compliance with SLFRS for SMEs

The consolidated Financial Statements of the Group for the year ended 31 December 2013 have been prepared in accordance with the Sri Lanka Financial Reporting Standard for Small and Medium-sized Entities (SLFRS for SMEs) issued by the Institute of Chartered Accountants of Sri Lanka. The Financial Statements of the group are presented in Sri Lankan Rupees.

The Associated Newspapers of Ceylon Limited is the Group's ultimate parent company and is a limited liability company incorporated and domiciled in Sri Lanka. The address of its registered office and principal place of business is 35, D.R.Wijewardene Mawatha, Colombo 10, Sri Lanka.

3. Summary of accounting policies

3.1 Overall considerations

The significant accounting policies that have been used in the preparation of these consolidated Financial Statements are summarized below. These accounting policies have been used throughout all periods presented in the Financial Statements.

3.2 Basis of consolidation

The Group Financial Statements consolidate those of the parent company and all of its subsidiary undertakings. The Associated Newspapers of Ceylon Limited owns 100% of the shares of the Lake House Property Development (Private) Limited, The Info Media (Private) Limited and the Business Lanka AN (Private) Limited.

Unrealized gains and losses on transactions between Group companies are eliminated. When unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment. Amounts reported in Financial Statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

3.3 Going concern

The management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.4 Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown with in borrowings in current liabilities on the statement of consolidated financial position.

3.5 Foreign currency conversion

Foreign currency transactions are converted into the functional currency of the respective Group entity using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss.

3.6 Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services rendered, excluding sales taxes, rebates and trade discounts.

3.6.1 Sale of goods (Circulation)

The Group dispatches newspapers, periodicals and magazines to the newsagents, street sellers, corporate institutions and to individuals. Revenue is recognized when the customer has taken undisputed delivery of the goods.

3.6.2 Rendering of services (Advertising)

The Group publishes numerous newspapers, periodicals and magazines and sells advertising space in each publication. Other than prepaid advertisements, revenue is recognized on the date of issue of the relevant publication.

3.6.3 Rental income

Rental income from leased properties is recognized on accrual basis.

3.6.4 Interest and Dividend income

Interest income is recognized on an accrual basis using the effective interest method. Dividend income is recognized at the time the right to receive payment is established.

3.7 Borrowing costs

All borrowing costs are expensed in the period in which they are incurred.

3.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is recognized on a straight line basis to write down the cost less estimated residual value of property, plant and equipment other than freehold land. The periods generally applicable are:

| | |
|----------------------------|----------|
| Old buildings | 25 years |
| New buildings | 20 years |
| Plant and machinery | 08 years |
| Motor vehicles | 04 years |
| Furniture & fittings | 08 years |
| Computer and installations | 04 years |
| Air conditioners | 04 years |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Depreciation of an asset begins when it is available for use and ceases when the asset is derecognized. The assets' residual values, useful lives and depreciation methods are reviewed if there is an indication of a significant change since the last annual reporting date.

3.9 Leased assets

A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership of the leased asset to the Group. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental costs, if any. A corresponding amount is recognized as a finance lease liability. Depreciation methods and useful lives for assets held under finance lease agreements correspond to those applied to comparable assets which are legally owned by the Group. The corresponding finance lease liability is reduced by lease payments less finance charges, which are expensed as part of finance costs. The interest element of lease payments is calculated using the effective interest method to represent a constant proportion of the capital balance outstanding and is charged to profit and loss over the period of the lease. All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

3.10 Impairment testing of property plant and equipment

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash-inflows (cash-generating units - CGUs). As a result, some assets are tested individually for impairment and some are tested at the CGU level. Individual assets or CGUs are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in profit or loss for the amount by which the asset or CGU's carrying amount exceeds its recoverable amount. Impairment losses for CGUs reduce first the carrying amount of any goodwill allocated to that CGU. Any remaining impairment loss is charged pro-rata to the other assets in the CGU. With the exception of goodwill, all assets are subsequently assessed for indications that an impairment loss previously recognized may no longer exist. In that case the previous impairment loss is reversed through profit or loss during the no impairment was recognized.

3.11 Financial instruments

3.11.1 Financial assets

Trade and other receivables and cash and cash equivalents

These financial assets are recognized initially at the transaction price. Subsequently they are measured at amortized cost using the effective interest method, less provision for impairment. Sales are made on normal credit terms and trade receivables do not bear interest. Where there is objective evidence that the carrying amounts of receivables are not recoverable, an impairment loss is recognized in profit or loss. Trade receivables which are outstanding for more than a year are provided in full.

Long term financial assets

Long term financial assets comprise investments in equity securities. They are recognized initially at transaction price. After initial recognition, investments in equities that are publicly traded or for which the fair value can be measured reliably, are measured at fair value with changes in fair value recognized in profit or loss. Other equity investments are measured at cost less any impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.11.2 Financial liabilities

The Group's financial liabilities include borrowings and trade and other payables. Financial liabilities are recognized initially at transaction price. After initial recognition they are measured at amortized cost using the effective interest method. Trade payables are on normal credit terms and do not bear interest.

3.12 Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the first-in, first-out method. Inventories are assessed for impairment at each reporting date. Impairment losses on inventory are recognized immediately in profit or loss and presented within 'cost of sales'.

3.13 Income taxes

Current income tax assets and/or liabilities comprise those obligations to or claims from fiscal authorities relating to current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from accounting profit or loss. No deferred income tax is recognized in the Financial Statements.

3.14 Equity and reserves

Stated capital represents the nominal value of shares that have been issued and fully paid. Retained earnings include all current and prior period retained profits.

3.15 Post-employment benefits, short-term employee benefits and termination benefits

3.15.1 Post-employment benefits

a) Defined contribution plans (EPF, ETF)

The group provides post-employment benefits through defined contribution plans (EPF, ETF) under which the Group pays fixed contributions to independent entities. Contributions to the plans are recognized as an expense in the period when the contributions are payable and any unpaid amounts are recognized in current liabilities.

b) Defined benefit plans (Gratuity)

The liability for retiring gratuity payable under Gratuity Act No. 12 of 1983 has been funded fully by creation of an independent Trust. The extra retiring gratuity to make up the total payable in accordance with the scheme of the company has been provided fully in the accounts of the company in respect of all the employees from the commencement of the employment. The liability of the gratuity is calculated using the simplifications allowed under section 28 of SLFRS for SMEs.

Basis of payment of retiring gratuity for employees joined before 05th of June 2008 under the company's scheme is as follows;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| Service at retirement in number of years | No of weeks salary for each year of service |
|--|---|
| Over 25 | 6 |
| 20 to 25 | 4 |
| 05 to 20 | 3 |

Basis of payment of retiring gratuity for employees joined on or after 05th of June 2008 under the company's scheme is as follows

| Service at retirement in number of years | No of weeks salary for each year of service |
|--|---|
| Over 20 | 3 |
| 05 to 20 | 2 |

3.15.2 Short-term employee benefits

Short-term employee benefits including holiday entitlement are current liabilities included in 'other payables' and are measured at the undiscounted amount the Group expects to pay as a result of the unused entitlement.

3.15.3 Termination benefits (VRS)

Termination benefits are recognized as an expense when the Group has announced a detailed formal plan for the termination to the employees affected and are measured at the estimated expenditure required to settle the obligations at the reporting date.

4. Related party transactions

The Group's related parties include its subsidiaries and key management personnel. None of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances were unsecured and are usually settled in cash.

4.1 Transactions with subsidiaries

Lake House Property Development (Private) Ltd

During 2013, the Group concluded no transaction with Lake House Property Development (Pvt) Ltd, other than provisioning of loan interest of Rs 420,000.00 in respect of Rs 3,500,000.00 loan obtained from the subsidiary previously. However during the year the Parent incurred employment cost of Rs 535,539.49, tax expenses of Rs 23,333.00, general expenses of Rs 3,460.00 and audit expenses of Rs 12,500.00 on behalf of the subsidiary.

Info Media (Private) Ltd

During 2013, the Parent incurred a salary cost of Rs 132,944.00 on behalf of the subsidiary and together with that the total amount receivable stood at Rs 3,813,833.27 representing employment cost of Rs 1,805,734.20, printing cost of Rs 577,550.00 and utility expenditure of Rs 1,430,549.07.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Business Lanka AN (Private) Limited

From the inception in 2012, the Parent incurred a printing cost of Rs 3,706,625.00 and capital expenditure of Rs 1,548,296.66 on behalf of the subsidiary, which are outstanding in full at the year end.

4.2 Transactions with key management personnel

The key management personnel of the Group are the members of the board of directors whose remunerations amounted to Rs 15.5 million is disclosed in note 19 to the Financial Statements.

5. Contingent liabilities

There are 70 cases pending against the company awaiting adjudication. Details of the provisions are disclosed in note 14 to the Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 06

Property plant & equipments

Cost

| Item | Balance 01/01/2013 Rs'000 | Additions in 2013 Rs'000 | Disposals in 2013 Rs'000 | Transfers in 2013 Rs'001 | Balance 31/12/2013 Rs'000 |
|--------------------------------|---------------------------------|--------------------------------|--------------------------------|--------------------------------|---------------------------------|
| Free hold land | 3,830 | | | | 3,830 |
| Building | 76,093 | | | | 76,093 |
| Computer and installations | 179,142 | 8,611 | | | 187,753 |
| Plant & machinery | 1,126,055 | 25,225 | (6,274) | | 1,145,006 |
| Motor vehicle & garage equip; | 94,572 | 539 | (18,349) | | 76,762 |
| Furnitur fittings & equipments | 29,121 | 1,521 | | | 30,642 |
| Lease hold motor vehicles | 23,750 | 4,800 | | | 28,550 |
| Total | 1,532,563 | 40,696 | (24,623) | - | 1,548,636 |

Depreciation

| Item | Balance 01/01/2013 Rs'000 | Additions in 2013 Rs'000 | Disposals in 2013 Rs'000 | Transfers in 2013 Rs'001 | Balance 31/12/2013 Rs'000 |
|--------------------------------|---------------------------------|--------------------------------|--------------------------------|--------------------------------|---------------------------------|
| Free hold land | - | | | | - |
| Building | 72,726 | 688 | | | 73,414 |
| Computer and installations | 136,025 | 21,008 | | | 157,033 |
| Plant & machinery | 819,133 | 56,209 | (4,851) | | 870,491 |
| Motor vehicle & garage equip; | 91,027 | 1,828 | (18,349) | | 74,506 |
| Furnitur fittings & equipments | 26,124 | 1,256 | | | 27,380 |
| Lease hold motor vehicles | 14,955 | 5,885 | | | 20,840 |
| Total | 1,159,990 | 86,874 | (23,200) | - | 1,223,664 |

Carrying value

| Item | As at 31/12 2013 Rs'000 | As at 31/12 2012 Rs'000 |
|--------------------------------|-------------------------------|-------------------------------|
| Free hold land | 3,830 | 3,830 |
| Building | 2,679 | 3,367 |
| Computer and installations | 30,720 | 43,117 |
| Plant & machinery | 274,515 | 306,921 |
| Motor vehicle & garage equip; | 2,256 | 3,545 |
| Furnitur fittings & equipments | 3,262 | 2,996 |
| Lease hold motor vehicles | 7,710 | 8,794 |
| Capital work-in-progress | 1,565 | - |
| Total | 326,537 | 372,570 |

- * Free hold land represents the acquisition cost of Kotahena land & the land and land development cost of Lake House Property Development (Pvt) Ltd
- * Head office and Kataragama lands which are on 99 year lease terms are treated as operating leases
- * Property plant and equipments pledged as securities are detailed in Note 13 to the Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 07

Financial assets and financial liabilities

| As at 31 December | 2013 | | 2012 | |
|--|------------------|--------------|------------------|--------------|
| | Rs'000 | No of Shares | Rs'000 | No of Shares |
| Financial assets | | | | |
| Measured at fair value through profit or loss | | | | |
| Long term financial assets | | | | |
| Cargills Ceylon Ltd, Ordinary shares of Rs 1/- | 117,577 | 799,840 | 116,377 | 799,840 |
| Commercial Bank, NV ordinary shares of Rs 10/- | 12,344 | 132,736 | 11,853 | 130,110 |
| Housing Dev.Fin.Corp. Ordinary shares of Rs 10/- | 5,382 | 180,000 | 9,108 | 180,000 |
| Total | 135,303 | | 137,338 | |
| Measured at cost less impairment | | | | |
| Long term financial assets | | | | |
| Lanka Puwath Ltd, Ordinary shares of Rs 1,000/- | 13 | 13 | 13 | 13 |
| Press Trust of Ceylon Ltd, Ord.shares of Rs 100/- * | - | 600 | - | 600 |
| National Newspaper & Paper Mills Ltd | 1 | 100 | 1 | 100 |
| Associated Investments Ltd, Ord.shares of Rs 100/- | 29 | 3,480 | 29 | 3,480 |
| Galle Face Hotel Co.Ltd, Ord.shares of Rs 100/- | 16 | 4 | 16 | 4 |
| Total | 59 | | 59 | |
| Total long term financial assets | 135,362 | | 137,397 | |
| Measured at amortised cost less impairment | | | | |
| Trade and other receivables | 1,038,100 | | 998,033 | |
| Cash and cash equivalents | 56,967 | | 37,646 | |
| Total | 1,095,067 | | 1,035,679 | |
| Financial Liabilities | | | | |
| Measured at amortised cost | | | | |
| Trade and other payables | 209,654 | | 357,066 | |
| Borrowings | 971,808 | | 871,112 | |
| Total | 1,181,462 | | 1,228,178 | |

* In respect of investment of Rs 60,000/- in Press Trust of Ceylon Ltd, 100 % provision is made in the accounts as the amount is unrecoverable

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 08 Inventories

| As at 31 December | 2013 Rs'000 | 2012 Rs'000 |
|--|------------------------------|------------------------------|
| Newsprint | 174,929 | 203,020 |
| Goods in transit | 363 | 1,449 |
| Machinery spares | 95,736 | 96,529 |
| Motor vehicle spares | 5,295 | 4,675 |
| Over issue newspapers | 78 | 1,019 |
| Commercial printing materials | 150,244 | 83,404 |
| Branch office | 9,173 | 9,558 |
| Others | 13,813 | 26,704 |
| Work-in-progress (commercial printing) | 6,233 | 12,853 |
| | 455,864 | 439,211 |
| Provision for obsolete/non moving stocks | - | - |
| Total | 455,864 | 439,211 |

Note 09 Trade and other receivables

| As at 31 December | 2013 Rs'000 | 2012 Rs'000 |
|--|------------------------------|------------------------------|
| Trade receivables | 877,725 | 835,742 |
| Provision for doubtful trade receivables | (65,464) | (51,939) |
| Net trade receivables | 812,261 | 783,803 |
| Staff receivables | 174,608 | 165,705 |
| Other receivables | 51,231 | 48,525 |
| Total | 1,038,100 | 998,033 |

a) The Group recognised an impairment loss of Rs 1,928,960/- on trade receivables from customers experiencing financial difficulties who were in default of payments

Note 10 Cash and cash equivalents

| As at 31 December | 2013 Rs'000 | 2012 Rs'000 |
|--------------------------|------------------------------|------------------------------|
| Cash at bank and in hand | 35,751 | 16,772 |
| Short term bank deposits | 21,216 | 20,874 |
| Total | 56,967 | 37,646 |

Cash and cash equivalents include the following for the purpose of the Cash flow statement,

| | | |
|---|------------------|------------------|
| Cash and cash equivalents as stated above | 56,967 | 37,646 |
| Bank overdrafts (Note 13) | (240,573) | (329,401) |
| | (183,607) | (291,755) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 11 Stated capital

| As at 31 December | 2013 Rs'000 | 2012 Rs'000 |
|--|----------------|----------------|
| Authorised capital, 5,000,000 ordinary shares of Rs 10/- each | 50,000 | 50,000 |
| Issued & fully paid capital, 3,483,714 ordinary shares of Rs 10/- each | 34,837 | 34,837 |

Note 12 Deposits

| As at 31 December | 2013 Rs'000 | 2012 Rs'000 |
|------------------------|----------------|----------------|
| Newspaper distributors | 114,673 | 114,913 |
| Regular advertisers | 43,020 | 55,178 |
| Other deposits | 9,136 | 7,779 |
| Total | 166,829 | 177,870 |

Note 13 Borrowings

| As at 31 December | 2013 Rs'000 | 2012 Rs'000 |
|---------------------------|----------------|----------------|
| Non-current | | |
| Bank loans | 180,324 | 145,479 |
| Finance lease liabilities | 6,808 | 9,504 |
| Total | 187,132 | 154,983 |
| Current | | |
| Bank overdrafts | 240,573 | 329,401 |
| Bank loans | 537,708 | 382,449 |
| Finance lease liabilities | 6,395 | 4,279 |
| Total | 784,676 | 716,129 |
| Total borrowings | 971,808 | 871,112 |

Securities pledged for borrowings

- 1) Negative pledge over Properties at No 35, Wijewardene mawatha, Colombo 10
- 2) Goss Magnum, Heidelberg Four colour & Saddle stitching machines
- 3) Long term financial assets referred to in Note 7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 14

Provision for claims against the company

| As at 31 December | 2013 | 2012 |
|---|---------------|---------------|
| | Rs'000 | Rs'000 |
| Carrying amount at the beginning of the year | 10,000 | 10,000 |
| Provision for the year | 1,611 | 8,472 |
| Payments made during the year | (1,611) | (8,472) |
| Carrying amount at the end of the year | 10,000 | 10,000 |

Note 15

Trade & other payables

| As at 31 December | 2013 | 2012 |
|---|----------------|----------------|
| | Rs'000 | Rs'000 |
| Trade payables | 75,168 | 284,807 |
| Gratuity trust fund | - | 6,543 |
| Value added tax | 46,182 | 39,369 |
| Nation building tax | 8,735 | 6,858 |
| Advances | 23,500 | - |
| Deferred income -unexpired subscription | 5,229 | 8,115 |
| Tender deposits | 2,079 | 3,555 |
| Other payables | 48,760 | 7,819 |
| Total | 209,654 | 357,066 |

Note 16

Employee benefits

Defined benefit plan -Gratuity

The liability for retiring gratuity payable under Payment of Gratuity Act no 12 of 1983 has been funded fully by creation of an independent Trust. The extra retiring gratuity to make up the total payable in accordance with the scheme of the company has been provided fully in the accounts of the company in respect of all the employees from commencement of the employment. The liability of the gratuity is calculated using the simplifications allowed in Section 28 of the SLFRS for SME and the calculations are based on the followings,

1) Number of years of service

Service period up to the year end from the date of commencement of employment is considered.

Though the entitlement commences from completion of five years of service, liability is recognised from the date of commencement of the employment. For calculation purposes, any fraction of year of service is considered as a full year.

2) Gratuity entitlement of employees joined before 05th June 2008

| Service at retirement in number of years | No of weeks salary entitled |
|--|-----------------------------|
| Over 25 | 6 |
| 20 to 25 | 4 |
| 05 to 20 | 3 |

3) Gratuity entitlement of employees joined on or after 05th June 2008

| Service at retirement in number of years | No of weeks salary entitled |
|--|-----------------------------|
| Over 20 | 3 |
| 05 to 20 | 2 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Movement of gratuity liability

| As at 31 December | 2013 Rs'000 | 2012 Rs'000 |
|---|----------------|----------------|
| Provision available in the accounts | | |
| Carrying amount at the beginning of the year | 283,802 | 259,735 |
| Payments made during the year | (27,239) | (24,751) |
| Provision for the year | 42,016 | 48,818 |
| Carrying amount at the end of the year | 298,579 | 283,802 |
| Amount held in the Gratuity Trust Fund | 274,711 | 262,367 |
| Total gratuity liability | 573,290 | 546,169 |

Note 17

Revenue

| For the year ended 31 December | 2013 Rs'000 | 2012 Rs'000 |
|---------------------------------|------------------|------------------|
| Sunday observer | 886,854 | 918,605 |
| Daily news | 866,072 | 848,200 |
| Dinamina | 373,525 | 385,233 |
| Silumina | 295,981 | 360,284 |
| Thinakaran | 141,911 | 131,611 |
| Varamanjaree | 24,619 | 25,219 |
| Tharunee | 118,020 | 90,925 |
| Mihira | 17,472 | 20,298 |
| Sarasaviya | 8,168 | 8,956 |
| Budusarana | 34,149 | 32,568 |
| Navayugaya | 3,970 | 2,525 |
| Subasetha | 16,481 | 20,860 |
| Kreeda | 6,166 | 8,612 |
| Arogya | 13,269 | 14,803 |
| Manchu | 51,558 | 46,714 |
| Vidunena | 15,907 | 22,949 |
| Namaskara | 3,677 | 5,034 |
| Vanna Vaanavil | 2,809 | 1,943 |
| Sithmina | 12,739 | 17,127 |
| Athurumithuru | 12,207 | 7,275 |
| Mihithuru | 2,761 | 308 |
| Denamuthu | 1,433 | 433 |
| Aloko Udapadi | 3,075 | - |
| Muthu ahura -1 | 4,028 | - |
| Muthu ahura -2 | 2,575 | - |
| Muthu ahura -3 | 2,629 | - |
| Muthu ahura -4 | 2,123 | - |
| Budu suwanda | 4,359 | - |
| Editorial graphics & supplement | 42,617 | - |
| | 2,971,154 | 2,970,482 |
| Commercial printing | 597,577 | 721,908 |
| Annual publications | 3,887 | 6,667 |
| Digital printing | 3,823 | 54 |
| Info Media (Private) Ltd | - | 556 |
| Business Lanka AN (Private) Ltd | 16,525 | - |
| Total | 3,592,966 | 3,699,667 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 18

Other income

| For the year ended 31 December | 2013 Rs'000 | 2012 Rs'000 |
|--------------------------------|----------------|----------------|
| Interest income | 12,324 | 12,994 |
| Sale of old newspapers | 20,360 | 26,083 |
| Rent income | 30,760 | 29,115 |
| Dividends | 2,136 | 1,952 |
| Branch office | 5,465 | 5,509 |
| Profit on disposal of assets | 12,291 | 1,662 |
| Sundry | 54,364 | 28,378 |
| Total | 137,699 | 105,694 |

Note 19

Operating profit

Operating profit for the year has been arrived after charging all expenses including those disclosed below :

| For the year ended 31 December | 2013 Rs'000 | 2012 Rs'000 |
|---|----------------|----------------|
| Directors emoluments | 15,483 | 7,422 |
| Depreciation | 86,346 | 79,579 |
| Auditors remuneration | 770 | 700 |
| Donations | 2,933 | 1,888 |
| Contributions to defined contribution plan -EPF | 71,671 | 72,515 |
| Contributions to defined contribution plan -ETF | 14,334 | 14,503 |
| Contributions to defined benefit plan -Gratuity | 50,507 | 62,087 |

Note 20

Tax expense

The parent company is liable for taxation at 28 %, Lake House Property Property Development (Pvt) Ltd liable at 12 %, Info Media (Private) Limited liable at 12 % and Business Lanka AN (Pvt) limited at 12 % . The group tax expense for the year is as follows,

| For the year ended 31 December | 2013 Rs'000 | 2012 Rs'000 |
|---------------------------------------|----------------|----------------|
| Current tax expense for the year | 12,094 | 5,781 |
| Deferred tax expense for the year | | - |
| Total tax expense for the year | 12,094 | 5,781 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 21

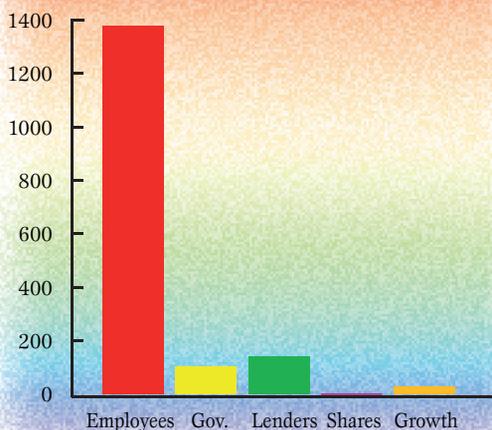
Cash generated from operations

| For the year ended 31 December | 2013 Rs'000 | 2012 Rs'000 |
|---|----------------|----------------|
| Net profit before taxation | 73,074 | 57,429 |
| Adjustments | | |
| Provision for claims against the company | 1,611 | 8,472 |
| Depreciation | 86,874 | 79,580 |
| Dividend income | (2,136) | (1,952) |
| Interest income | (12,324) | (12,994) |
| Rental income | (30,760) | (29,115) |
| Finance expenses | 138,537 | 142,044 |
| Gratuity provision | 42,016 | 48,818 |
| (Profit)/loss on sale of property plant & equipments | (12,291) | (1,662) |
| Operating cash flow before working capital changes | 284,601 | 290,620 |
| Changes in working capital | | |
| (Increase)/decrease in inventories | (16,653) | 48,047 |
| (Increase)/decrease in trade & other receivables | (40,067) | (212,336) |
| Increase/(decrease) in trade & other payables | (147,412) | 79,482 |
| Cash generated from operations | 80,468 | 205,813 |

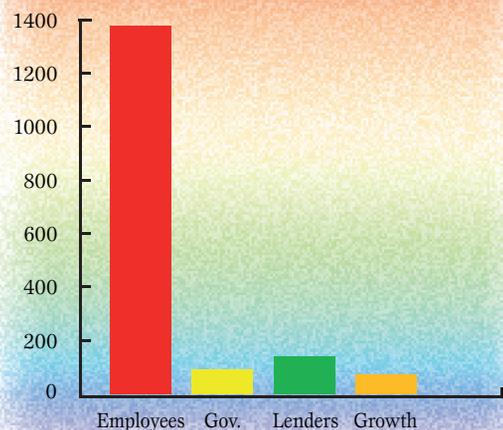
STATEMENT OF VALUE ADDED

| | 2013 | | 2012 | |
|---|--------------|------------|--------------|--------------|
| | Rs.Mn | % | Rs.Mn | % |
| Value Added | | | | |
| Revenue | 3,593 | | 3,699 | |
| Other income | 138 | | 106 | |
| | 3,731 | | 3,805 | |
| Brought in material & service | (1,965) | | (2,122) | |
| | 1,766 | | 1,683 | 100 % |
| Distribution of Value Added | | | | |
| To Employees | | | | |
| Salaries, Wages & Other Benefits | 1,497 | 85 % | 1,378 | 82 % |
| To Government | | | | |
| Income Tax | 12 | 0.7 % | 6 | 0 % |
| NBT | 67 | 4 % | 64 | 4 % |
| Rates | 24 | 1 % | 21 | 1 % |
| To Lenders | | | | |
| Interest & Related Charges | 139 | 8 % | 142 | 8 % |
| To providers of Capital | | | | |
| Dividend to shareholders | | 0.0 % | | |
| To Business Expansion & Growth | | | | |
| Depreciation | 86 | 5 % | 80 | 5 % |
| Differed Taxation | | 0 % | - | |
| Reserves | (59) | -4 % | (8) | 0 % |
| | 1,766 | 100 | 1,683 | 100 % |

Distribution of Value Added 2013



Distribution of Value Added 2012



DECADE AT A GLANCE

| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|----------|---------|---------|---------|---------|----------|----------|----------|----------|----------|
| <u>Selected Financial Data (Rs Mn)</u> | | | | | | | | | | |
| <u>Trading Results</u> | | | | | | | | | | |
| Turnover | 3,593.0 | 3,699.7 | 3,358.7 | 2,920.2 | 2,887.4 | 3,098.2 | 3,095.6 | 2,959.0 | 2,631.3 | 2,221.8 |
| Annual Sales Growth | (2.9) | 10.2 | 15.0 | 1.1 | (6.8) | 0.1 | 4.6 | 12.5 | 18.4 | 9.0 |
| Profits Before Taxation | 73.1 | 57.4 | 17.5 | (359.8) | 82.4 | (385.5) | 31.9 | 14.9 | 187.2 | 50.9 |
| Taxation on Profits | 12.1 | 5.8 | 25.1 | 2.9 | 27.5 | 11.6 | 10.8 | - | 74.9 | 29.8 |
| Profits After Taxation | 58.9 | (8.3) | 13.1 | (337.6) | 54.9 | (233.9) | 21.1 | 14.9 | 112.2 | 21.2 |
| <u>Shareholder' Fund</u> | | | | | | | | | | |
| Share Capital | 34.8 | 34.8 | 34.8 | 34.8 | 34.8 | 34.8 | 34.8 | 34.8 | 34.8 | 34.8 |
| Reserves | 346.9 | 288.0 | 296.2 | 248.5 | 586.1 | 531.2 | 760.7 | 757.0 | 761.0 | 648.8 |
| | 381.7 | 322.8 | 331.1 | 283.4 | 621.0 | 566.1 | 795.6 | 791.8 | 795.8 | 683.6 |
| Non Current Liabilities | 662.5 | 626.7 | 608.0 | 584.0 | 415.4 | 629.1 | 498.9 | 427.2 | 386.1 | 344.9 |
| Capital Employed | 1,044.3 | 949.5 | 939.1 | 867.3 | 1,036.3 | 1,195.2 | 1,294.5 | 1,219.0 | 1,181.9 | 1,028.5 |
| <u>Assets Employed</u> | | | | | | | | | | |
| Fixed Assets | 326.5 | 372.6 | 293.0 | 397.1 | 355.3 | 347.3 | 89.2 | 110.8 | 105.0 | 116.5 |
| Long Term Investment | 135.4 | 137.4 | 197.3 | 7.9 | 7.9 | 7.9 | 7.9 | 147.6 | 147.6 | 147.6 |
| Working Capital | 582.4 | 439.5 | 448.7 | 462.4 | 673.2 | 840.0 | 1,197.4 | 960.6 | 929.3 | 764.4 |
| | 1,044.3 | 949.5 | 939.0 | 867.3 | 1,036.3 | 1,195.2 | 1,294.5 | 1,219.0 | 1,181.9 | 1,028.5 |
| <u>Ratio Analysis</u> | | | | | | | | | | |
| <u>Profitability</u> | | | | | | | | | | |
| Profit before Taxation to Gross Turnover (%) | 2.0 | 1.6 | 0.5 | (12.3) | 2.85 | (12.44) | 1.03 | 0.51 | 7.12 | 2.29 |
| Profit before Taxation to shareholders' Fund (%) | 19.1 | 17.8 | 5.3 | (127.0) | 13.26 | (68.10) | 4.01 | 1.89 | 5.38 | 7.45 |
| Profit after Taxation to shareholders' Fund (%) | 15.4 | (2.6) | 3.9 | (119.1) | 8.84 | (41.31) | 2.66 | 1.89 | 3.11 | 3.09 |
| Earning per share (Rs) | 16.9 | (2.4) | 3.8 | (96.9) | 15.76 | (67.13) | 6.07 | 4.29 | 32.24 | 6.08 |
| <u>Liquidity</u> | | | | | | | | | | |
| Current Assets to Current Liabilities (Ratio) | 1.59 : 1 | 1.41:1 | 1.50:1 | 1.46:1 | 2.32:1 | 2.48 : 1 | 7.15 : 1 | 4.84 : 1 | 4.35 : 1 | 4.08 : 1 |
| Quick Assets to Current Liabilities (Ratio) | 1.13 : 1 | 1.00:1 | 0.96:1 | 1.04:1 | 1.80:1 | 1.78 : 1 | 5.56 : 1 | 3.85 : 1 | 3.86 : 1 | 3.12 : 1 |
| <u>Dividends Proposed</u> | | | | | | | | | | |
| Dividends (Gross) | 0 | - | 6.27 | - | - | - | 6.27 | 6.27 | 6.27 | 6.27 |
| Dividend per share (Rs) | 0 | - | 1.80 | - | - | - | 1.80 | 1.80 | 1.80 | 1.80 |
| Dividend cover (No of Time) | 0 | - | (1.8) | - | - | - | 3.37 | 2.39 | 17.91 | 3.37 |
| <u>Long Term Solvency</u> | | | | | | | | | | |
| Non Current Assets to Shareholders' Fund % | 121.0 | 158.0 | 148.0 | 142.9 | 58.5 | 62.7 | 12.2 | 32.6 | 31.7 | 38.6 |
| Non Current Assets to working capital % | 79.3 | 116.0 | 109.3 | 87.6 | 53.9 | 42.3 | 10.9 | 26.9 | 27.2 | 34.5 |
| Net assets per share at year end (Rs.) | 109.6 | 92.7 | 95.0 | 81.3 | 178.3 | 162.5 | 228.4 | 227.5 | 228.7 | 196.4 |

SHARE INFORMATION

Twenty Largest Shareholders

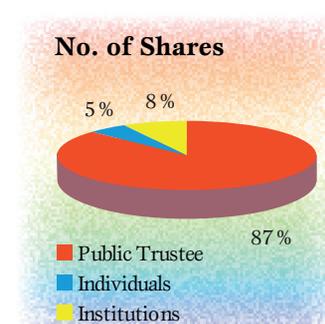
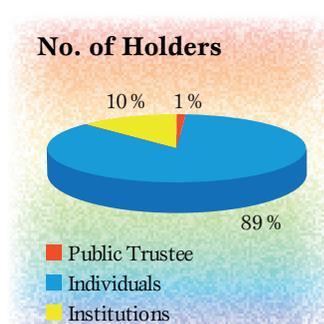
| | 2013 | | 2012 | |
|---|---------------|-------|---------------|-------|
| | No. of Shares | % | No. of Shares | % |
| Public Trustee on behalf of the Government of Sri Lanka | 3,050,380 | 87.56 | 3,050,380 | 87.56 |
| Ceylon Petroleum Corporation | 61,206 | 1.76 | 61,206 | 1.76 |
| Insurance Corporation of S/L | 61,206 | 1.76 | 61,206 | 1.76 |
| Ceylon Shipping Corporation | 31,206 | 0.90 | 31,206 | 0.90 |
| Phillip Sivali Wijewardene | 20,000 | 0.57 | 20,000 | 0.57 |
| Ranjit Sujiva Wijewardene | 20,000 | 0.57 | 20,000 | 0.57 |
| National Savings Bank | 20,000 | 0.57 | 20,000 | 0.57 |
| Paddy Marketing Board | 20,000 | 0.57 | 20,000 | 0.57 |
| State Film Corporation | 20,000 | 0.57 | 20,000 | 0.57 |
| State Gem Corporation | 20,000 | 0.57 | 20,000 | 0.57 |
| Sriyan Rajitha Gomes | 15,821 | 0.45 | 15,821 | 0.45 |
| Rukmalie Shalini Hurulle | 14,822 | 0.43 | 14,822 | 0.43 |
| Ceylon Port Services Ltd. | 10,000 | 0.29 | 10,000 | 0.29 |
| Ceylon Shipping Lines Ltd. | 10,000 | 0.29 | 10,000 | 0.29 |
| Colombo Dockyard Ltd. | 10,000 | 0.29 | 10,000 | 0.29 |
| Asoka Chandralal Wijewardene | 7,925 | 0.23 | 7,925 | 0.23 |
| Aswini Kumar Wijewardene | 7,919 | 0.23 | 7,919 | 0.23 |
| Kamalika Janaki Wijewardene (Mrs.) | 6,944 | 0.20 | 6,944 | 0.20 |
| Amitha Lal Gooneratne | 5,967 | 0.17 | 5,967 | 0.17 |
| Arjun Indrajit Gooneratne | 5,967 | 0.17 | 5,967 | 0.17 |
| Ayoma Irandathi Wijesundere | 5,967 | 0.17 | 5,967 | 0.17 |

Shareholdings as at 31 December 2013

| From | To | No of Holders | No of Shares | % |
|----------------|-----------|---------------|------------------|------------|
| 1 | 1,000 | 58 | 5,100 | 0.15 |
| 1,001 | 5,000 | 12 | 21,903 | 0.63 |
| 5,001 | 10,000 | 15 | 102,070 | 2.93 |
| 10,001 | 50,000 | 9 | 181,849 | 5.22 |
| 50,001 | 100,000 | 2 | 122,412 | 3.51 |
| 100,001 | 500,000 | Nil | - | - |
| 500,001 | 1,000,000 | Nil | - | - |
| Over 1,000,000 | | 1 | 3,050,380 | 87.56 |
| | | 97 | 3,483,714 | 100 |

Categories of Share holders

| | No. of Holders | No. of Shares | % |
|----------------|----------------|---------------|-------|
| Public Trustee | 1 | 3,050,380 | 87.56 |
| Institutions | 10 | 263,618 | 7.57 |
| Individuals | 86 | 169,716 | 4.87 |



NOTICE OF MEETING

Notice is hereby given that 41st Annual General Meeting of the Shareholders of the company will be held in terms of the Associated Newspapers of Ceylon Ltd (Special Provisions) Law, No 28 of 1973, at the registered office of the company at Lake House, No. 35, D.R. Wijewardene Mawatha, Colombo 10 at 3.00 p.m. on 24th June 2015.

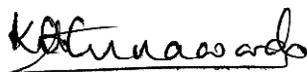
1. To read the Notice convening the meeting.
2. To confirm the minutes of the Annual General Meeting held on 19th August 2014.
3. To confirm the minutes of the Extra Ordinary General Meeting (EGM) held on 26th February 2015.
4. To receive and consider the report of the Directors and the Financial Statements of the company for the year ended 31st December 2013 with the auditor's report thereon.
5. The appointment of three Directors by the Public Trustee.
6. To elect two Directors in terms of proviso (i) to section 6 (i) (g) of the Associated Newspapers of Ceylon Ltd.(Special Provision) Law, No. 28 of 1973.
7. To fix remuneration of the Directors.
8. To authorize Directors to determine contribution to charities.

Notes

1. Any shareholder unable to attend the meeting may appoint another person who is a member of the company to act for him/her proxy. The proxy form is annexed for this purpose and must be deposited at the registered office of the company not less than 48 hours before the time appointed for the holding of meeting.
2. In the case of corporation and corporate bodies which are shareholders of the company, attention is invited in regard to their representation at the annual general meeting, to section 138(1) (a) of the Companies Act, No. 07 of 2007, which read as follows:

"A corporation, whether a company within the meaning of this act or not, may where it is a member of another corporation, being a company within the meaning of this Act, by resolution of its Directors or other governing body authorize such person as it thinks fit to act as its representative at any meeting of the company or at any meeting of any class of members of the company".

By order of the Board of Directors,



Kumudu H. Gunawardana Imbulamure
Company Secretary

Name of Company

The Associated Newspapers of Ceylon Ltd.

Legal Form

Public Limited Liability Company Incorporated in 1926,
Governed by the Special Provision Law, No.28 of 1973,
Companies Act No.07 of 2007 and Finance Act No.38 of 1971
(for Accounts and audit)

Share Capital

Authorized : Rs.50,000,000/ =
Issued : Rs 34,837,140/ =

Secretary

Mrs.Kumudu H.Gunawardana Imbulamure

Auditors

The Auditor General, Auditor General's Department,
Colombo 07.

Bankers

Bank of Ceylon, Colombo & Branches
People's Bank, Colombo & Branches
Commercial Bank, Seylan Bank Ltd,

Registered Office

35,D.R.Wijewardene Mawatha,
Colombo 10, Sri Lanka.

Branch Offices

Dalada Veediya, Kandy
New Town, Anuradhapura
Sri Rewatha Mawatha, Kataragama
Bus Stand Building, Matara
K.K.S Road, Jaffna.



FORM OF PROXY

ANCL Annual Report 2013

I/We of
..... Member/s of the
Associated Newspapers of Ceylon Limited hereby appoint
..... (NIC No.
.....) of
as my/our proxy to represent me/us and vote for me/us on my/our behalf at the
Annual General Meeting of the Associated Newspapers of Ceylon Limited to be held
on 24.06.2015 or any adjournment thereof.

As witness my/our hand on this day of
..... 2015.

.....
Signature/s of Shareholder/s

.....
NIC/PP/Co.Reg. No. of Shareholder/s

Notes

- (1) Instructions as to completion of this Form of Proxy are given overleaf.
- (2) If the Form of Proxy is signed by an Attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration in the event such POA has not already been registered with the company.
- (3) If the Shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal or in such other manner as may be provided for in its constitutional documents, if any, or signed by its Attorney or by an Officer on behalf of the company/corporate body in accordance with its Articles of Association/Statute.
- (4) Every alteration or addition to the Form of Proxy must be duly authenticated by the full signature of the Shareholder signing the Form of Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.
- (5) The use of the word “Member/s” herein is a reference to “Shareholder/s”.

