

SRI LANKA CEMENT CORPORATION

ANNUAL REPORTS

2013

Sri Lanka Cement Corporation
P.O.Box-1382,
27, Vauxhall street,
Colombo-02.

18.11.2015

The Secretary,
Ministry of Industry and Commerce,
73/1,Galle Road,
Colombo-03.

Dear Sir,

SRI LANKA CEMENT CORPORATION
ANNUAL REPORT FOR THE YEAR, 2013

In terms of Section 30 (1) of the State Industrial Corporation Act No.49 of 1957, I have pleasure in submitting the Report of the Board of Directors of the Corporation for the year, 2013 together with the following documents.

- a). Financial Statement for the year, 2013
- b). The Auditor General's Report and
- c). Observations of the Board on (b) above.

Yours faithfully,

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

Signed,
K.G.LEELANANDA
CHAIRMAN

SRI LANKA CEMENT CORPORATION

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SRI LANKA CEMENT CORPORATION

REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2013

1.0 BACKGROUND

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

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

In the year 1980 the name was changed to “Sri Lanka Cement Corporation” by a Gazette notification. This Corporation which functioned under the Ministry of Industries and Scientific affairs was brought under the purview of the Ministry of Local Government, Housing & Construction from 1st February 1985. After that, since 19th June 1997 the Corporation was again under the Ministry of Industrial Development and still continuing as same until 2010 and vested under the Ministry of State Resources & Enterprises Development up to February, 2015. Thereafter, Sri Lanka Cement Corporation functioned under the Ministry of Industry and Commerce.

The Corporation had invested Rs.1,083,618,910/= in the Lanka Cement Limited in 1981 and holds 62.45% of the Share Capital. The par value of the share is Rs.10/=. This investment has not paid and return since it's inception. However, the share price has sharply increased during the year 2009 and 2010 due to the ending of the crises situation in the North. The maximum market price of the share has gone as Rs.34.75 and 2011 market price of the share has come down as Rs.26.20. Now, the market value is Rs.8.20 per share.

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

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

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

2.0 PRESENT POSITION

a) Imports and Sales of Ordinary Portland Cement

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

During the year 2008, the Corporation has imported 12,390 MT and during the year 2009 has imported 84,308 MT of cement from M/s. D.G.Khan Cement Co. Ltd., Pakistan and distributed the same to the market under the brand name of „Kankesan“. During the year, 2010 the Corporation, the Corporation has imported 36,260 MT of Ordinary Portland Cement and for the year 2011 and 2012 also 58,352 M.T. and 28,249 MT respectively. In the year 2013, the Corporation has imported 20,300 MT from Pakistan.

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

Sales of Cement

Year	2011	2012	2013
Qty (MT)	59,762	27,231	20,512
Value (Rs.)	736,525,939	380,237,290	317,967,355

b) Manufacturing & Selling of Concrete Products

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

There was full production in the year 2009 and produced 3,312 Nos. of Poles and supplied to Ceylon Electricity Board and Sri Lanka Telecom stock. In addition Concrete blocks, beams, pavement slabs and fence posts are supplied to Building Department, Road Development Authority, University of Jaffna and the General Public. There were full production in the year 2010 and produced 2,117 Nos. Concrete Poles and 4,505 Nos. Panthal Post and in the year 2011 also produced 1,918 Nos. Concrete Poles and 1,892 Panthal Post and in the year 2012 also produced 2,687 Nos. concrete poles. The corporation has produced 2,003 Nos. Concrete Poles in the year 2013. These activities have found gainful employment for 64 employees, also form the present strength of work force.

Sales of Concrete Products

Year	2011	2012	2013
Concrete poles (Qty)	713	2,850	1,142
Panthan poles (Qty)	1,772	-	-
Concrete blocks	291	1,165	-
Total Value (Rs.)	6.86Mn	25.62Mn	4.02Mn

c) Medieval Procedures for attain efficiency of the organization

The organization confronts to unfavorable financial situation continually due to the reasons of closedown the cement manufacturing process and couldn't earn enough profits from importation & selling of Ordinary Portland Cement.

As a solution for that proceed the restructuring program for the organization and amalgamate with Lanka Cement PLC after converting to a company according to the Cabinet decision from 2015.

After getting clearance to the Kankasanthurei cement factory premises from Sri Lanka Army, the organization intend to convert it as a profitable & more effective state organization with engage with cement production.

3.0 PROFITABILITY

However, due to losing the Court Case No.77755/12 filed by the Consume Affairs Authorities, the Corporation had to discard 13,000 Nos. of cement bags. The loss incurred, has been calculated as Rs.9.1 Mn. and written off from the P & L Account.

The cement importation of the Corporation has stopped for nearly three months and bank interests and other related overheads have increased during the period of 2012. Further, according to a cabinet decision made, Sri Lanka Cement Corporation was payable a sum of US \$ 300,000 to Ital Trade International (American Company). Hence, Rs.40 Mn. has been paid to the plaintiff by obtaining a loan from Bank of Ceylon. Since no provision has been made for the same Rs.40 Mn. has been written off against the Profit and Loss account as an expense.

In the financial statements 2013, explicated the accounting loss of Rs.424, 603,476/-. The reasons for this downfalls ware impairment loss of the investment in Lanka Cement PLC was Rs.411, 775,168/- out of the initial investment. And also, the financial costs of hyper loan interest, Ital trade case loan interest & overdraft interest amount of Rs.20,202,730/-.

4.0 FUTURE ROLE OF SRI LANKA CEMENT CORPORATION

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

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

Also the Management has initiated action to study the possibilities to put a new Packing Plant at a suitable area in Hambantota, Galle and Kankesanturai, ensuring the supply of best quality and low price cement to the nation.

5.0 APPRECIATIONS

The Board of Directors sincerely thank the Honorable Minister, State Resources & Enterprises Development for the directives given to the SLCC, Officials of the Line Ministry, General Treasury, Sri Lanka Standard Institution, Sri Lanka Ports Authority and State Banks, Other Government Institutions and Cement Manufacturing Organizations for their co-operation given to the SLCC in 2013.

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

CORPORATE INFORMATION

Registered Head Office

Sri Lanka Cement Corporation

P.O. Box 1382, 7th Floor, S.E.C. Building
130, W.A.D. Ramanayake Mawatha Colombo 2.

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

Fax No. : 011-2448866

FACTORY

Kankesan Cement Works,

Kankesanturai.

Telephone No. : KKS 26, 95

CONCRETE PROJECT, JAFFNA

Kankesan Cement Works,
Kankesanturai.

Telephone No. : 021 321 5340/41

BANKERS

People's Bank

Bank of Ceylon.

Colombo-07.

Subsidiary Registered Head Office

Lanka Cement Limited

No.130, W.A.D. Ramanayake Mawatha
Colombo 2.

Telephone Nos. : 011-2447746,
011-2389703

FACTORY

Keerimalai Road,

Kankesanturai.

CEMENT STORES

472, Sri Sangarajah Mawatha,
Colombo.

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

AUDITORS

The Auditor General Department,

Colombo 07.

SRI LANKA CEMENT CORPORATION

The Board of Management for the year 2013 under review consisted of the following Directors.

01. Mr.N.S.M.Samsudeen	Chairman	- Appointed on 26.07.2012
02. Mr.J.K.N.C.Perera	Working Director	- Appointed on 26.07.2012
03. Mr.Arjuna Jayasinghe	Director	- Appointed on 26.07.2012
04. Mr.C.J.Wejeseekara	Director	- Appointed on 26.07.2012
05. Mr.Lal Abenayake	Director	- Appointed on 26.07.2012
06. Mr.S.Deniyawatta	Ministry observer	- Appointed on 03.06.2013
07. Mr.S.M.Piyathissa	Treasury rep.	- Appointed on 26.07.2012
08. Mr.T.O.R.Wanigarathne	Ministry observer	- Appointed on 13.08.2013

The Board of Management for the year 2015

Under review consisted of the following Directors.

01. Mr.K.G.Leelananda	Chairman	- Appointed on 13.02.2015
02. Mr.Reyyaz Sally	Working Director	- Appointed on 16.02.2015
03. Mr.W.D.Janaka	Director	- Appointed on 25.02.2015
04. Mr.M.S.M.Kabeer	Director	- Appointed on 18.03.2015
05. Mr.N.M.Murawar	Director	- Appointed on 31.03.2015
06. Mr.A.Rafeek	Director	- Appointed on 30.04.2015
07. Mr.D.S.A.Costa	Treasury rep.	- Appointed on 30.10.2015
08. Mr.T.O.R.Wanigarathne	Ministry observer	- Appointed on 10.03.2015

SENIOR MANAGEMENT COMMITTEE

01. Mr.S.Selvakumar	Supplies Officer	Head Office
02. Mrs.M.G.A.T.R.Jayathilaka	Accountant	Head Office
03. Mrs.P.S.D.Fernando	Internal Audit Officer	Head Office
04. Mrs.E.S.Chandani	Personal Officer	Head Office
04. Mr.R.Rajanayagam	Asst. Engineer (Concrete Project)	Jaffna Office

SRI LANKA CEMENT CORPORATION

HUMAN RESOURCES MANPOWER AS AT 31.12.2013

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

CHAIRMAN'S REPORT REGARDING THE PERFORMANCE OF THE ESTABLISHMENT IN THE YEAR – 2013.

Sri Lanka Cement Corporation functioned under the Ministry of State Resources Enterprise & Development up to February, 2015. Now, we are functioning under the Ministry of Commerce & Industries.

The principal activity of the organization is manufacturing of the cement and distribution. Due to the security situation in the North, we are not operating our factory situated at Kankasanturi since June, 1990. Currently we are doing import of cement and distribute it by head office branch and involves in the production of concrete poles in K.C.W. staff.

We import 20,300 metric tons of Ordinary Portland Cement and sales 20,512 metric tons in the year 2013. And, concrete poles production was 1,961 poles and sales 1,107 poles in the same year.

The total earnings of the year 2013, was Rs.287,913,931/-. Even this shows a 20% downfall comparatively with last year. The reasons for this as follows;

01. We were unable to open letter of credit continuously for import of cement due to the unfavorable financial situation & highest loan outstanding.
02. We were unable to achieve target income from concrete based product project conduct by K.C.W. branch, due to the reason of more competition for the product.
03. The profits generated from import of cement and manufacturing of concrete based products in-suffocation for cover the expenses related with salaries & wages and other expenses amount of Rs.2.5Mn per month.

In the financial statements 2013, explicated the loss of Rs.424, 603,476/-. That shows a 50% declension with last year figures. The reasons for that as follows;

01. The impairment loss of the investment in Lanka Cement PLC was Rs.411,775,168/- out of the invested amount Rs.1,083,618,910/- and it identified as a expense for the year.
02. And also, the financial costs increased by 33% compare with last year and hyper loan interest Rs.10,174,975/-, Ital trade case loan interest Rs.6,152,681/- & overdraft interest Rs.3,875,074/- include in the fiancé costs.

As per the above analysis, the organization earned the profit of Rs.7, 645,751/- without accounting adjustments & financial costs in the year 2013 from import & sales of Ordinary Portland Cement project. As a whole, we incurred losses due to the factors uncontrolled by us.

However, we attempt to achieve stability and efficiency situation for the organization together with newly appointed board of directors in 2015 and the staff.

Signed,
K.G.Leelananda,
Chairman
Sri Lanka Cement Corporation

SRI LANKA CEMENT CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December, 2009-2013

	2013	Restated 2012	2011	2010	2009
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Income	287,913	365,333	656,071	410,709	1,070,591
Costs of sales	(272,178)	(374,016)	(656,676)	(406,508)	(1,136,970)
Gross profit/(loss)	15,735	(8,683)	(605)	4,201	(66,379)
Other income	34,885	32,751	35,623	34,846	28,889
Distribution costs	(6,670)	(4,906)	-	-	-
Administrative costs	(448,079)	(78,899)	(20,873)	(33,973)	(41,883)
Financial costs	(20,474)	(15,362)	(11,545)	-	-
Profit/(loss) before tax	(424,603)	(75,099)	2,600	5,074	(79,373)
Taxation	-	-	-	-	-
Net profit/(loss) after tax	(424,603)	(75,099)	2,600	5,074	(79,373)

Figures in brackets indicate deductions.

SRI LANKA CEMENT CORPORATION
STATEMENT OF FINANCIAL POSITION
As at year ended 31 December, 2009-2013

	2013	Restated 2012	2011	2010	2009
ASSETS	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Non-current assets					
Property, plant & equipment	779,486	608,596	550,705	543,939	544,440
Long term receivables	757,223	757,224	757,224	757,224	757,224
Investments	678,244	1,090,019	1,090,019	1,090,019	1,090,019
Financial assets	31,247	28,280	25,526	68,123	44,593
	2,246,200	2,484,119	2,423,474	2,459,305	2,436,276
Current assets					
Inventories	39,024	19,739	20,532	28,689	10,098
Trade & other receivables	89,549	84,242	76,972	119,074	134,399
Pre-payments	261	244	1,248	589	443
Cash & cash equivalents	3,592	4,201	14,071	9,762	3,220
	132,426	108,426	112,823	158,114	148,160
TOTAL ASSETS	2,378,626	2,592,545	2,536,297	2,617,419	2,584,436
EQUITY & LIABILITIES					
Equity					
Stated capital	966,971	966,972	966,972	966,972	966,972
General reserves	9,997	9,997	9,997	9,997	9,997
Revaluation reserves	713,619	536,119	536,119	536,119	536,119
Retained earing	(66,820)	357,783	372,864	372,219	367,144
	1,623,767	1,870,871	1,885,952	1,885,307	1,880,232
Non-current liabilities					
Long term liabilities	519,054	578,543	492,426	492,426	492,426
Retirement benefit obligation	18,290	17,952	18,919	18,783	20,807
	537,344	596,495	511,345	511,209	513,233
Current liabilities					
Trade & other payables	85,224	96,195	62,857	61,730	38,849
Current position of interest bearing liabilities	103,875	2,068	53,665	147,775	152,122
Cash & cash equivalents	28,416	26,916	22,478	11,398	-
	217,515	125,179	139,000	220,903	190,971
TOTAL EQUITY & LIABILITIES	2,378,626	2,592,545	2,536,297	2,617,419	2,584,436

Figures in brackets indicate deductions.

Audit Committee Report -2013

The Audit Committee of the Corporation consists of three Non-executive Directors, Internal Auditor of the Ministry of State Resources and Enterprise Development and a representative from the Auditor General's Department were the observers of the Committee. Mr.S.M. Piyatissa was the Chairman of the Committee during period under review. Mr. L. Abenayake and Mr. A. Jayatinghe were the other two Non-executive Directors.

The Main Role and the responsibilities of the Audit Committee includes,

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

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

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

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

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

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

Signed,
S.M Piyatissa,
Chairman,
Audit Committee



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கணக்காய்வாளர் தலைமை அறிப்பித் திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

TCl/A/Sl.CC/I/2013/04

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

17 June 2015

The Chairman,
Sri Lanka Cement Corporation.

Report of the Auditor General on the Consolidated Financial Statements of the Sri Lanka Cement Corporation of Sri Lanka and its subsidiary Sri Lanka Cement Company for the year ended 31 December 2013 in terms of the Section 14(2)(c) of the Finance Act, No. 38 of 1971

The audit of Consolidated financial statements of the Sri Lanka Cement Corporation of Sri Lanka and its subsidiary Sri Lanka Cement Company for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with the Section 13(1) of the Finance Act, No. 38 of 1971 and the State Industrial Corporations Act, No. 49 of 1957. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act was furnished to the Chairman of the Authority on 10 March 2015.

1.2 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810).

1.4 Basis for Disclaimer of Opinion

As a result of the significance of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of the recorded or unrecorded items, and the elements making up the statement of financial position, statement of comprehensive income, statement of changes in equity and the cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Disclaimer of Opinion – The Group

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Consolidated financial statements of the Sri Lanka Cement Corporation and its Subsidiary Company, Lanka Cement Company. Accordingly, I do not express an opinion on those financial statements.

Disclaimer of Opinion – Corporation

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on those financial statements.

2.2 Comments of Financial Statements

2.2.1 Consolidated Financial Statements

As the Sri Lanka Cement Corporation owns 62.45 percent of the Sri Lanka Cement Company Ltd, the Subsidiary Company of the Sri Lanka Cement Corporation, consolidated financial statements had been presented.

2.2.2 Going Concern of the Institution

The capital of the Sri Lanka Cement Corporation amounted to Rs.967 million while the accumulated loss amounted to Rs.67 million. According to the consolidated statement of changes in equity the capital of the Lanka Cement Company Ltd and the accumulated loss amounted to Rs.2,702 million and Rs.2,238 million respectively due to the State Cement Company sustaining losses continuously, though such position has no impact on the going concern of the Corporation.

In view of the erosion of 82.8 percent of capital, it was observed during the course of examination of the accounts consolidated with the Lanka Cement Company Ltd, that an uncertainty on the maintenance of the Company continuously has been created.

2.2.3 Maintenance of Both Institutions for the same Purpose

It was observed that both institutions are performing the same function as the key function of the Lanka Cement Company Ltd is the import of cement and selling in the domestic market. In addition, the Board of Governors of the Corporation function as the Board of Governors of this company.

2.2.4 Sri Lanka Accounting Standards

Sri Lanka Accounting Standard 16 (LKAS 16)

The following observations are made.

- (a) Two motor vehicles costing Rs.3,929,169 fully depreciated but being used at present had not been revalued and brought to account.

- (b) Even though an asset should be regularly depreciated from the date on which it is brought to usable condition, the assets of three categories valued at Rs.927,898 purchased by the Corporation during the year under review had not been depreciated.

2.2.5 Accounting Policies

The following observations are made.

- (a) Corrections had been made in the financial statements for the year 2013 in respect of debit balances and credit balances totaling Rs.11,884,804 and Rs.12,435,964 respectively of the financial statements for the year 2010, debit and credit balances totaling Rs.76,680,411 and Rs.76,362,683 respectively in the financial statements for the year 2011, debit and credit balances totaling Rs.40,853,368 and Rs.40,884,747 respectively in the financial statements for the year 2012. Accordingly, it was not possible to be satisfied in audit that such situation would not recur in the future.
- (b) The land belonging to the Corporation situated in Kollupitiya pledged to a State Bank as security for bank overdrafts and loan facilities amounting to Rs.172 million had been disclosed in the Note No. 8.2 presented with the financial statements. A proposal made by a Review Committee appointed by the Cabinet of Ministers, for the lease of the land on a 99 year lease to a foreign investor had been disclosed in Note No. 2.07(b). Whether such proposal had been approved by the Cabinet of Ministers had not been disclosed.

2.2.6 Accounting Deficiencies

The following observations are made.

- (a) The following deficiencies were observed in connection with the lands and buildings owned by the Corporation.

- (i) The land 5,352 acres in extent at Aruwakkalu in Puttalam where the limestone deposit is situated had not been valued and brought to account.
- (ii) The limestone deposit of 751 acres in extent, the factory and the buildings complex situated at Kankasanthurai and stated as belonging to the Corporation under Note No. 8.2 of the notification published the Gazette No. 14012 of 1964 had not been valued and brought to account. Even though 104 acres of the land had been rented out to the Lanka Cement Company, rent income had not been received up to date.
- (iii) Out of 221 acres 03 roods 27.8 perches of the Atta Villu Forest situated at Kalladi in Puttalam, the value of 69 acres had not been assessed and brought to account.
- (iv) The land 1,191 acres in extent including the Kaolin and limestone deposit with an extent of 604 acres situated at Puliyadi Irakkam in the Mannar District, revealed from the documents as owned by the Corporation on the long term lease basis, had not been disclosed in the financial statements.

2.2.7 Lack of Evidence for Audit

Action had not been taken to identify accurately the lands and buildings belonging to the Corporation and bring to account. The schedules relating to the current assets totaling Rs.111,576,652 and the current liabilities totaling Rs.37,705,069 had not been furnished to audit.

2.3 Balances Receivable and Payable

The following observations are made.

- (a) The trade liabilities balances payable as at 31 December of the current year under review totalling Rs.85,224,411 and out of that balances totalling Rs.11,712,123 , Rs.14,434,353 and Rs.30,846,822 had been balances old between 1 – 2 years, 2-3 years and over 3 years respectively.

- (b) The trade and other balances receivable as at 31 December of the year under review totalling Rs.89,809,582 and out of that balances totalling Rs.19,855,327, Rs.2,985,059 and Rs.54,718,680 had been old between 1 – 2 years, 2-3 years and over 3 years respectively.

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

The non-compliances with the following laws, rules, regulations and management decisions were observed during the course of audit.

Reference to Laws, Rules, Regulations, etc.,	Non-compliance
(a) Financial Regulation 756 of the Democratic Socialist Republic of Sri Lanka	Even though a survey of the assets should be conducted immediately after the close of the financial year and furnish reports thereon to audit, it had not been so done in connection with fixed assets valued at Rs.779,485,898.
(b) Treasury Circular No. IAI/2002/02 of 28 November 2002	A separate Register of Fixed Assets had not been maintained for computers, accessories and software.
(c) Public Enterprises Circular No. PED/12 of 02 June 2003	
(i) Section 4.2.2	Even though the Corporate Plan, budget and performance should reviewed on a timely basis, it had not been so done in connection with the year under review.

- (ii) Section 8.3.8 Donations and assistance amounting to Rs.75,000 had been made in the year under review without obtaining the prior approval of the Cabinet of Ministers.
- (iii) Section 8.3.9 Even though the resources of Public Corporations and Boards should not be given for the purposes of the Line Ministry, the double cab motor vehicle purchased of January 2011 by the Corporation for Rs.4.8 million had been given for use security duties of the Line Ministry since the date of purchase up to the date of audit.
- (d) Section 2 of the Nation Building Tax Act, No. 09 of 2009 Nation Building Tax totaling Rs.4,641,762 which should have been remitted to the Commissioner General of Inland Revenue had not been remitted.
- (e) Section 2.1 of the Value Added Tax Act, No. 14 of 2002 Value Added Tax totaling Rs.9,147,692 which should have been remitted to the Commissioner General of Inland Revenue during the year under review had not been remitted. Action had not been taken to adjust the reimbursable Value Added Tax totaling Rs.8,725,533 from the Value Added Tax payable to the Commissioner General of Inland Revenue.



- (f) Section 3 of the Finance Statute of the Western Provincial Council, No. 6 of 1990 Business Turnover Tax totaling Rs.7,101,932 which should have been remitted to the Western Provincial Commissioner of Revenue had not been remitted.
- (g) Treasury Circulars No. 842 of 19 December 1978 and No. DMA/2009/02 of the Department of Management Audit A Register of Fixed Assets in terms of these Circulars had not been maintained.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Corporations during the year under review had resulted in a deficit of Rs.424,603,476 as compared with the corresponding deficit of Rs.75,099,975 for the preceding year. The increase of the deficit for the year under review as compared with the preceding year by a sum Rs.349,503,501 indicated a deterioration of the operating results. The financial loss of Rs.411,775,186 resulting from the diminutions of the market value of the investment made in the shares of Lanka Cement Company and the decrease of sales income by a sum of Rs.77,419,150 or 21 percent had been the main reasons for the deterioration.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The imports of cement during the year under review amounted to 21,700 metric tonnes of cement or 434,000 bags of cement and 28,249 metric tonnes of cement or 564,980 bags of cement had been imported in the preceding year. The import of cement during the year under review as compared with the preceding year indicated a decrease of 33 percent.

- (b) The Cement Concrete Production and Sales Division at Kankasanthurai had been sustaining losses continuously due to incurring expenditure exceeding the total income. The particulars of losses sustained during the seven preceding years are given below.

Year	Income	Expenditure	Loss
-----	-----	-----	-----
	Rs.	Rs.	Rs.
2007	1,537,141	21,063,774	(19,526,633)
2008	17,916,478	24,782,357	(6,865,879)
2009	36,893,564	43,994,616	(7,101,052)
2010	27,334,174	27,364,472	(30,298)
2011	6,860,513	16,283,680	(9,423,167)
2012	32,456,800	38,120,118	(5,663,318)
2013	4,491,387	19,274,456	(14,783,069)

- (c) The Corporation had not paid adequate attention for the achievement of the objectives targeted in the Annual Action Plan and had failed to achieve over 25 percent of the targeted sales of any of the months. The sales during September, October and November of the year under review had been very weak and had not reached even 10 percent. The achievement out of the targeted sales of the Action Plan had been only 16.5 percent.
- (d) Even though plans made for the year 2013 included the import of 400 containers of cement per month, construction of a new building on the land at Kollupitiya, increase the production of cement posts at Kankasanthurai and to open a cement packing factory at Kankasanthurai for raising the performance of the Corporation, none of these targets had been achieved even by the end of the year under review.

4.2 Management Inefficiencies

The following observations are made.

- (a) The debtors balances remaining recoverable as at the end of the year totalling Rs.61,028,486 due to the management inefficiencies such as the failure to obtain security bond commensurate with the value of credit granted in the award of sales agencies for the sale of cement on credit basis, non-inclusive of the maximum credit allowed in the agreements, non-inclusion of the methodology for the recovery of debts from the debt defaulters in agreement, further supplies made on credit basis in cases of non-settlement of debts, giving false information for Bank Guaranties, failure to take disciplinary action against officers who approve credit irregularly and lack of follow-up action on the debtors balances recoverable.
- (b) The inability to cover the cost of import of cement and the administrative, distribution and finance expenses from the sales income indicates that the management continuously sustaining losses under such conditions revealed the existence of the risky situation for the going concern / stability of the Corporation.

4.3 Uneconomic Transactions

The following observations are made.

- (a) Even though the Corporation had invested a sum of Rs.6,400,000 in a private firm from the year 2004 and invested Rs.1,083,618,910 in the Lanka Cement Company over a period exceeding 16 years, the Corporation had not received any returns up to the end of the year under review.
- (b) In view of the failure to take action in accordance with the terms of an agreement entered into with a company domiciled in the United States of America in the year 1990 for the import clinker, a raw material used in the manufacture of cement, compensation amounting to U.S.\$ 1.3 million had to be paid to that company. Out

of that U.S.\$ 1 million had been paid by the Puttalam Cement Company. The payment of the balance amount had been agreed to in terms of the decision of the Cabinet of Ministers No. CM/12/1458/553/019 dated 01 November 2012. Accordingly, the Corporation had paid the balance sum of U.S.\$ 0.3 million in the preceding year by obtaining a Bank loan of Rs.38,704,668. Interest on the loan amounting to Rs.6,152,681 had to be paid during the year under review.

4.4 Identified Losses

The following observations are made.

- (a) A sum of Rs.6,169 had been paid during the year under review as surcharge due to the failure to remit the contributions to the Employees Trust Fund on the due dates.
- (b) A loss of Rs.258,576 had been caused due to 7,679 cement bags damaged and 189 cement bags lost, out of 434,000 cement bags imported during the year under review. Action had not been taken for the recovery of the money from those responsible.

4.5 Idle and Underutilised Assets

The following observations are made.

- (a) Even though sums of Rs.577,429 and Rs.27,429 had been spent in the year 2011 for the container machine and its accessories respectively, the machine had been kept idling since the date of purchase without being used.
- (b) Lands 152 acres in extent belonging to the Corporation situated in Puttalam, Palavi and Kalladi had been idling. Unauthorized occupants had built houses on 9 acres overgrown with scrub and left unprotected and without being used.



- (c) The land 751 acres in extent situated in Kankasanthurai and the buildings including the factory owned by the Corporation situated in the High Security Zone remaining under the charge of Sri Lanka Army and the land 211 acres in extent at Murunkan, Mannar had been idling over long periods due to the war.

4.7 Staff Administration

The approved staff for the year 2013 had been 76 officers while the actual staff had been 63 and the number of vacancies had been 13.

4.8 Resources of the Corporation given to other Government Institutions

- (a) The Engineer who served the Corporation had been released to the National Equipment and Machinery Organisation on the basis of reimbursement of salary and an Office Aide had been released to the Presidential Secretariat with effect from 12 March 2013. The Corporation had paid a sum of Rs.654,819 as the salary of the Engineer up to 31 December 2012. Action had not been taken to obtain reimbursement of the salaries and allowances paid to the above two officers during the year under review together with the above amount.
- (b) A sum of Rs.464,607 had been paid during the year under review to an officer without the basic qualifications required in terms of the Circular No. MSD/30 of 17 November 2011, to the post of Sales and Marketing Officer.

5. Accountability and Good Governance

5.1 Action Plan

The targeted sales income according to the Action Plan for the year under review amounted to Rs.3,750,000,000 whereas the actual income amounted to Rs.307,462,755. Accordingly the progress represented 8.2 percent of the targeted income.

5.2 Procurement Plan

A Procurement Plan had not been prepared in terms of Section 5 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

5.3 Budgetary Control

Reconciliation of the budgeted income and expenditure of the budget for the year 2013 with the actual income and expenditure revealed variances ranging from 26 percent to 231 percent, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.4 Unresolved Audit Paragraphs

Sri Lanka Cement Corporation had leased out to a private company a limestone deposit situated in a land 5,352 acres in in extent at Aruwakkalu in the year 1995 for a period of 50 year for mining of limestone for the production of cement. According to the agreement, the annual lease rental amounted to Rs.26,516,620 and the Corporation could not revise the annual rental during the entire period of 50 years as the agreement did not include a clause on revision of the lease rent periodically. Even though the Committee on Public Enterprises had, at the meeting held on 16 August 2011, directed the Corporation to revise the lease agreement, action thereon had not been taken even by 30 November 2014.



6. **Systems and Controls**

Deficiencies observed during the course of audit were brought to the notice of the Chairman from time to time. Special attention is needed in respect of the following areas of control.

- (a) Financial Control
- (b) Debts Receivable and Payable
- (c) Fixed Assets
- (d) Stores Control

W.P.C. Wickramaratne
Acting Auditor General

SRI LANKA CEMENT CORPORATION

**Statement of consolidated comprehensive income and retained earnings
For the year ended 31 December 2013**

		2013	Restated 2012	2013	Restated 2012
		SLCC	SLCC	Conso.	Conso.
	Notes	Rs.	Rs.	Rs.	Rs.
Revenue	03	287,913,931	365,333,081	518,620,925	445,095,749
Cost of sales		(272,178,886)	(374,016,351)	(481,851,675)	(460,133,917)
Gross profit/(loss)		15,735,045	(8,683,270)	36,769,250	(15,038,168)
Other income	04	34,885,181	32,750,510	36,035,426	36,419,464
Distribution expenses		(6,670,245)	(4,906,026)	(7,773,766)	(6,386,181)
Administrative expenses		(448,079,416)	(78,899,615)	(493,913,438)	(459,723,095)
Finance costs	05	(20,474,041)	(15,361,574)	(20,475,195)	(15,580,317)
Profit/(loss) before tax	06	(424,603,476)	(75,099,975)	(449,357,723)	(460,308,297)
Income tax expense		-	-	-	-
Loss for the year		(424,603,476)	(75,099,975)	(449,357,723)	(460,308,297)
Retained earnings at start of year	07	357,782,825	432,882,800	(1,789,304,261)	(1,352,783,633)
Prior year adjustments		-	-	-	23,787,669
Retained earnings at end of year		(66,820,651)	357,782,825	(2,238,661,984)	(1,789,304,261)

Figures in brackets indicate deductions.

The accounting policies and notes to the financial statements from pages 25 to 36 form an integral part of these Financial Statements.

SRI LANKA CEMENT CORPORATION**Statement of consolidated financial position**

As at 31 December 2013

		2013	Restated	2013	Restated
		SLCC	2012	Conso.	2012
ASSETS	Notes	Rs.	SLCC	Rs.	Conso.
			Rs.		Rs.
Non-current assets					
Property, plant and equipment	08	779,485,898	608,595,912	1,217,988,718	1,068,906,906
Long term receivables	09	757,223,883	757,223,883	757,223,883	757,223,883
Investments	10	709,490,975	1,118,299,330	709,490,975	1,118,299,330
		<u>2,246,200,756</u>	<u>2,484,119,125</u>	<u>2,684,703,576</u>	<u>2,944,430,119</u>
Current assets					
Inventories	11	39,024,030	19,738,690	39,060,850	19,738,690
Trade and other receivables	12	89,809,582	84,486,311	106,566,075	94,206,393
Cash & cash equivalents	13	3,592,030	4,201,680	20,150,239	14,549,378
		<u>132,425,642</u>	<u>108,426,681</u>	<u>165,777,164</u>	<u>128,494,461</u>
Total assets		<u>2,378,626,398</u>	<u>2,592,545,806</u>	<u>2,850,480,740</u>	<u>3,072,924,580</u>
EQUITY AND LIABILITIES					
Equity					
Stated capital		966,971,845	966,971,845	2,702,079,325	2,702,079,325
General reserves		9,996,952	9,996,952	9,996,952	9,996,952
Revaluation reserves		713,619,419	536,119,419	713,619,419	536,119,419
Retained earnings		(66,820,651)	357,782,825	(2,238,661,984)	(1,789,304,261)
		<u>1,623,767,565</u>	<u>1,870,871,041</u>	<u>1,187,033,712</u>	<u>1,458,891,435</u>
Non-current liabilities					
Interest bearing liabilities	14	24,859,459	72,858,817	24,859,459	74,038,178
Long term payables	15	519,053,946	505,684,501	1,288,177,829	1,262,908,384
Retirement benefit obligation	16	18,290,428	17,952,300	25,140,601	25,243,724
Grant		-	-	74,197,970	70,997,970
		<u>562,203,833</u>	<u>596,495,618</u>	<u>1,412,375,859</u>	<u>1,433,188,256</u>
Current liabilities					
Trade payables	17	85,224,411	96,194,816	143,640,580	151,636,057
Current portion of Interest bearing liabilities	14	79,014,686	2,068,137	79,014,686	2,068,137
Cash & cash equivalents	14	28,415,903	26,916,194	28,415,903	27,140,695
		<u>192,655,000</u>	<u>125,179,147</u>	<u>251,071,169</u>	<u>180,844,889</u>
Total liabilities		<u>754,858,833</u>	<u>721,674,765</u>	<u>1,663,447,028</u>	<u>1,614,033,145</u>
Total equity and liabilities		<u>2,378,626,398</u>	<u>2,592,545,806</u>	<u>2,850,480,740</u>	<u>3,072,924,580</u>

Figures in brackets indicate deductions.

The accounting policies and notes to the financial statements from pages 25 to 36 form an integral part of these Financial Statements.

Signed,

M.G.A.T.R.Jayathilaka

Accountant

The Directors are responsible for the fair presentation & preparation of Financial Statements. Signed for and on behalf of the Board,

Signed,

Reyyaz Sally

Working Director

15.08.2014

Signed,

K.G.Leelananda

Chairman

SRI LANKA CEMENT CORPORATION**Statement of consolidated changes in equity****For the year ended 31 December 2013****Rs.**

	Capital Contributed	Revaluation Reserves	General Reserves	Retained Profit	Total
Balance as at 31.12.2011	2,702,079,325	536,119,419	9,996,952	(1,328,995,964)	1,919,199,732
This year (2012)	-	-	-	(460,308,297)	(460,308,297)
Balance as at 31.12.2012	2,702,079,325	536,119,419	9,996,952	(1,789,304,261)	1,458,891,435
This year (2013)	-	177,500,000	-	(449,357,723)	(271,857,723)
Balance as at 31.12.2013	2,702,079,325	713,619,419	9,996,952	(2,238,661,984)	1,187,033,712

Figures in brackets indicate deductions.

The accounting policies and notes to the financial statements from pages 25 to 36 form an integral part of these Financial Statements.

Statement of consolidated cash flow
For the year ended 31 December 2013

	Notes	2013 Rs.	SLCC 2012 Rs.	2013 Rs.	Consolidated 2012 Rs.
Cash flows from operating activities					
Loss for the year		(424,603,476)	(75,099,975)	(449,357,723)	(460,308,297)
Adjustments for non-cash income and expenses:					
Depreciation of property, plant and equ.	08	4,930,412	3,339,403	26,950,696	25,376,972
Depreciation for disposal assets	08	(3,818,704)	-	(3,818,704)	-
Loss in financial instruments		411,775,186	-	411,775,186	-
Revaluation surplus		177,500,000	-	177,500,000	-
Gratuity provision		1,686,913	1,490,465	1,686,913	1,645,521
Disposal loss of buildings		2,607,500	-	2,607,500	-
Disposal loss of spare stock		4,622,278	-	4,622,278	-
Disposal profit of vehicles		(2,025,000)	-	(2,025,000)	-
Interest on deposits		(2,966,831)	(3,387,056)	(3,414,526)	(3,933,545)
Written - off balance		-	-	-	338,601,122
Cash flow included in investing activities:		169,708,278	(73,657,163)	166,526,620	(98,618,227)
Changes in operating assets and liabilities					
Decrease/ (increase) in inventories	11	(19,285,340)	831,310	(19,322,160)	4,730,592
Decrease (increase) in trade and other receivables	12	(5,323,271)	(6,266,311)	(12,359,682)	14,376,301
Increase (decrease) in trade payables	17	(10,970,405)	33,337,816	(7,995,477)	2,276,981
		134,129,262	(45,754,348)	126,849,301	(77,234,353)
Less :					
Gratuity paid	16	(1,348,785)	(2,457,018)	(1,790,036)	(2,633,311)
Net cash from operating activities		132,780,477	(48,211,366)	125,059,265	(79,867,664)
Cash flows from investing activities					
Purchases of equipment	08	(178,427,898)	(61,200,000)	(178,640,008)	(61,200,000)
Disposal of equipment	08	6,426,204	-	6,426,204	-
Lease rental receivables		13,369,445	13,258,311	13,369,445	13,258,311
Invested into treasury bills		(2,966,831)	(3,387,056)	(2,966,831)	(3,933,545)
Net cash used in investing activities		(161,599,080)	(51,328,745)	(161,811,190)	(51,875,234)
Cash flows from financing activities					
Loan obtained & repayments		29,017,498	86,342,451	59,806,105	92,439,901
Lease repayments		(2,308,254)	(1,109,854)	(2,308,254)	(2,289,215)
Net cash used in financing activities		26,709,244	85,232,597	57,497,851	90,150,686
Net increase (decrease) in cash and cash equivalents		(2,109,359)	(14,307,514)	20,745,926	(41,592,212)
Cash and cash equivalents at beginning of year	13 & 14	(22,714,514)	(8,407,000)	(12,591,317)	29,000,895
Cash and cash equivalents at end of year		(24,823,873)	(22,714,514)	8,154,609	(12,591,317)

Figures in brackets indicate deductions.

The accounting policies and notes to the financial statements from pages 25 to 36 form an integral part of these Financial Statements.

SRI LANKA CEMENT CORPORATION

Accounting policies and explanatory notes to the consolidated financial statements

For the year ended 31 December 2013

1. General information

Ceylon Cement Corporation was reconstituted under the Industrial Corporation Act No.49 of 1957. In the year 1980 the name was changed to "Sri Lanka Cement Corporation" by a Gazette notification. The address of its head office of business is No:130,W.A.D.Ramanayaka Mawatha, Colombo 02. The current principal activities are the import & sales the bags of ordinary Portland cement and manufacturing & sales of concrete products.

The immediate and ultimate holding company of Sri Lanka Cement Corporation is Lanka Cement PLC.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements have been prepared in accordance with the Sri Lanka Accounting Standard issued by the Institute of Chartered Accountants of Sri Lanka. These Financial Statements are presented in Sri Lankan Rupees Rs and all financial information presented in Sri Lankan Rupees has been rounded to the nearest Rupee.

2.1.1 Going Concern

The directors have made an assessment of the Corporation's ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

2.2 Investments in associates

2.2.1 Subsidiaries

Sri Lanka Cement Corporation had invested Rs.1, 083,618,910/= in the Lanka Cement Limited in 1981 and holds 62.45% of the Share Capital. The par value of the share is Rs.10/=. The Investment has not paid and return since its inception.

Lanka Cement Limited is control and monitoring by same management.

Investments in associates are accounted for at cost.

Dividend income from investments in associates is recognized when the Corporation's right to receive payment has been established. It is included in other income.

2.03 Revenue recognition

Revenue from carrying on buying & selling of the cement bags and manufacturing & selling of concrete products are recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured at the end of the reporting period . Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

SRI LANKA CEMENT CORPORATION

Accounting policies and explanatory notes to the consolidated financial statements

For the year ended 31 December 2013

b) Rendering of Services

Revenue from rendering of services is recognized by reference to the stage of completion, determined by taking into accounts the labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be measured reliability, revenue is recognized only to the extent of expenses incurred that are recoverable.

c) Interest

Revenue is recognized on a time proportion basis that takes in to accounts the effective interest rate on asset.

d) Others

Other income is recognized on an accrual basis.

2.04 Borrowing costs

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.05 Income tax

Income tax expense represents the sum of the tax currently payable.

The tax currently payable is based on taxable profit for the year.

2.06 Property, plant and equipment

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

Depreciation is charged so as to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The following annual rates are used for the depreciation of property, plant and equipment:

Building	6.67%
Plant & machinery	12.50%
Earth moving & heavy equipment	25.00%
Motor vehicles	25.00%
Loose tools & movable equipment	25.00%
Fixture fitting & furniture	25.00%
Rail & roadways	10.00%

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

Tools, fixture & fitting below the value of Rs.10, 000/= are not capitalized and instead charged as a expense in the year of purchase.

SRI LANKA CEMENT CORPORATION

Accounting policies and explanatory notes to the consolidated financial statements

For the year ended 31 December 2013

2.07 Investment Property

A. Land at Aruwakkalu

Sri Lanka Cement Corporation had leased out the limestone deposit at Aruwakkalu for an extent of 5,352 acres to a Holcim (Lanka) Limited in the year 1993 for a period of 50 years for excavation of limestone for the production of cement.

The said land at Aruwakkalu has been requested the Valuation Department to value the same and it will be included in the Financial Statement after the valuation process is completed.

B. Land at Kollupitiya

We are making arrangement to lease out the land for the period of 99 years to a foreign investor as per the recommendation of Standing Cabinet Appointed Review Committee (SCARC).

2.08 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Company. All other leases are classified as operating leases.

Rights to assets held under finance leases are recognized as assets of the Company at the fair value of the leased property (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring profit or loss. Assets held under finance leases are included in property, plant and equipment, and depreciated and assessed for impairment losses in the same way as owned assets.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

2.09 Inventories

Inventories are stated at the lower of cost and selling price less costs to complete and sell. Cost is calculated using the first-in, first-out (FIFO) method.

2.10 Trade and other receivables

Most sales are made on the basis of normal credit terms, and the receivables do not bear interest. Where credit is extended beyond normal credit terms, receivables are measured at amortized cost using the effective interest method. At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognized immediately in profit or loss.

2.11 Trade payables

Trade payables are obligations on the basis of normal credit terms and do not bear interest. Trade payables denominated in a foreign currency are translated into Sri Lankan Rupees (Rs.) using the exchange rate at the reporting date. Foreign exchange gains or losses are included in other income or other expenses.

2.12 Bank loans and overdrafts

Interest expense is recognized on the basis of the effective interest method and is included in finance costs.

Accounting policies and explanatory notes to the consolidated financial statements

For the year ended 31 December 2013

	2013 SLCC Rs.	Restated 2012 SLCC Rs.	2013 Conso. Rs.	Restated 2012 Conso. Rs.
03. Revenue				
Sales of cement	283,891,193	339,714,731	514,598,187	419,477,399
Sales of concrete poles	4,022,738	25,618,350	4,022,738	25,618,350
	<u>287,913,931</u>	<u>365,333,081</u>	<u>518,620,925</u>	<u>445,095,749</u>
04. Other income				
Lease of quarry land	26,516,620	22,478,228	26,516,620	22,478,228
Interest on deposits	2,966,831	3,387,056	3,180,318	3,933,545
Interest on employees loans	234,208	259,660	234,208	259,660
Disposal Profit of fixed assets	2,025,000	-	2,025,000	-
Sundries	3,142,522	661,735	4,079,280	3,484,502
Mill Power Project	-	5,963,831	-	5,963,831
Exchange gain	-	-	-	289,698
Dividend income	-	-	-	10,000
	<u>34,885,181</u>	<u>32,750,510</u>	<u>36,035,426</u>	<u>36,419,464</u>
05. Finance costs				
Bank Overdraft interest	3,875,074	3,395,384	3,876,228	3,395,384
Hyper loan interest	10,174,975	11,399,831	10,174,975	11,399,831
Term loan interest - ital	6,152,681	-	6,152,681	-
Lease interest	271,311	566,359	271,311	769,148
Lease other charges	-	-	-	15,954
	<u>20,474,041</u>	<u>15,361,574</u>	<u>20,475,195</u>	<u>15,580,317</u>
06. Loss before tax				
The following items have been recognized as expenses (income) in determining profit before tax:				
Staff costs	13,688,523	13,824,372	23,863,734	25,783,066
Directors remunerations	2,385,593	1,374,000	2,636,593	1,569,000
Depreciation	5,041,467	3,339,403	27,061,751	25,376,972
Audit Fees	120,000	120,000	120,000	220,000
Loss in Stock	137,993	12,242,577	137,993	12,242,577
Ital Case Expenses	-	38,704,668	-	38,704,668
Gratuity provision	1,686,913	1,490,465	1,686,913	1,801,430
Written-off balances	-	-	-	339,545,185
Loss in Financial Instrument	411,775,186	-	411,775,186	-

7.0 Restatements for the year ended 31/12/ 2012**Effect for the statement of comprehensive income & retained earnings****Sri Lanka Cement Corporation**

Retained earnings as previously reported	301,537,764	301,537,764
Effect of restatement	56,207,061	56,207,061
Retained earnings as restated	<u>357,744,825</u>	<u>357,744,825</u>

SRI LANKA CEMENT CORPORATION
Accounting policies and explanatory notes to the consolidated financial statements
As at 31 December 2013
08. Property, plant & equipment - Consolidated

	Balance as at 01.01.2013	Additions during the year	Disposals during the year	Balance as at 31.12.2013
Cost				
Land & Building	896,615,944	177,500,000	2,607,500	1,071,508,444
Plant & machinery	746,281,201	-	-	746,281,201
Motor Vehicles	18,875,562	721,150	3,818,704	15,778,008
Furniture, fixture & fitting	12,182,822	365,758	-	12,548,580
Tools & Mobile equipment	43,920,939	53,100	-	43,974,039
Assets in Finance lease				
Motor Vehicles	4,560,995	-	-	4,560,995
	<u>1,722,437,463</u>	<u>178,640,008</u>	<u>6,426,204</u>	<u>1,894,651,267</u>

	Balance as at 01.01.2013	Charges during the year	Disposals during the year	Balance as at 31.12.2013
Depreciation				
Land & Building	172,550,627	5,974,661	-	178,525,288
Plant & machinery	456,716,175	14,751,173	-	471,467,348
Motor Vehicles	13,388,808	4,551,516	3,818,704	14,121,620
Furniture, fixture & fitting	9,787,844	1,617,015	-	11,404,859
Tools & Mobile equipment	1,087,103	56,331	-	1,143,434
	<u>653,530,557</u>	<u>26,950,696</u>	<u>3,818,704</u>	<u>676,662,549</u>

Net book value	<u>1,068,906,906</u>			<u>1,217,988,718</u>
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Property, plant & equipment - Sri Lanka Cement Corporation

	Balance as at 01.01.2013	Additions during the year	Disposals during the year	Balance as at 31.12.2013
Cost				
Land & Building	599,203,481	177,500,000	2,607,500	774,095,981
Motor Vehicles	18,490,034	721,150	3,818,704	15,392,480
Furniture, fixture & fitting	5,223,226	153,648	-	5,376,874
Tools & Mobile equipment	1,096,873	53,100	-	1,149,973
	<u>624,013,614</u>	<u>178,427,898</u>	<u>6,426,204</u>	<u>796,015,308</u>

	Balance as at 01.01.2013	Charges during the year	Disposals during the year	Balance as at 31.12.2013
Depreciation				
Land & Building	228,163	26,412	-	254,575
Motor Vehicles	10,339,552	3,640,217	3,818,704	10,161,065
Furniture, fixture & fitting	3,762,884	1,207,452	-	4,970,336
Tools & Mobile equipment	1,087,103	56,331	-	1,143,434
	<u>15,417,702</u>	<u>4,930,412</u>	<u>3,818,704</u>	<u>16,529,410</u>

Net book value	<u>608,595,912</u>			<u>779,485,898</u>
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SRI LANKA CEMENT CORPORATION

Accounting policies and explanatory notes to the consolidated financial statements

As at 31 December 2013

Cont.....

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

In 2013, We have taken action to revalue the Land at Kollupitiya and record the same at Financial Statement, 2013.

In 2013, the forest land of 221 acres situated Palavi, Puttalam is identified as a land belongs to us and included in the Financial Statement, 2013.

Sri Lanka Cement Corporation has totally 751 acres land available at Kankesanturai but not recorded in our Financial Statements. Out of this, there is 231 acres land under the Plan No. A 2099 as state land and the balance land acquired by us in 1964 after compensation paid to the previous owners under the Land Acquisition Act No 40,012, 1964.

	2013	Restated	2013	Restated
	SLCC	SLCC	Conso.	Conso.
	Rs.	Rs.	Rs.	Rs.
09. Long term receivables				
Short term & Long term loan for formation of L.C.L	424,169,977	424,169,977	424,169,977	424,169,977
Internal transaction between L.C.L. And SLCC until the closure of the both factories	333,053,906	333,053,906	333,053,906	333,053,906
	757,223,883	757,223,883	757,223,883	757,223,883
10. Investments				
Treasury bills	31,247,251	28,280,420	31,247,251	28,280,420
<i>Investment in subsidiary & others</i>				
Subsidiary - Lanka Cement Ltd. (PLC)	671,843,724	1,083,618,910	671,843,724	1,083,618,910
Lafarge Cement Co. Ltd. (Pvt)	6,400,000	6,400,000	6,400,000	6,400,000
	709,490,975	1,118,299,330	709,490,975	1,118,299,330
11. Inventories				
*Stock of spare parts belongs to Kankesan Cement Plant purchased in 1990 and stored at Puttalam Cement Works	-	5,719,777	-	5,719,777
Stock of Raw material and Work in Progress for concrete production	1,639,336	3,894,290	1,639,336	3,894,290
Stock of finished goods of concrete poles etc.	15,966,986	10,051,000	15,966,986	10,051,000
Stock of Cement	21,417,708	73,623	21,454,528	73,623
	39,024,030	19,738,690	39,060,850	19,738,690

SRI LANKA CEMENT CORPORATION
Accounting policies and explanatory notes to the consolidated financial statements
As at 31 December 2013

	Restated		Restated	
	2013	2012	2013	2012
12. Trade and other receivables	SLCC	SLCC	Conso.	Conso.
	Rs.	Rs.	Rs.	Rs.
Trade debtors	61,028,486	53,226,142	63,958,431	48,267,276
Rent receivable	1,965,636	1,965,636	1,965,636	1,965,636
Mahaweli marine cement (Pvt) Ltd	2,816,000	2,816,000	2,816,000	2,816,000
Advance payment - local orders	2,531,622	1,517,247	2,929,989	1,517,247
Deposit receivables	2,945,576	6,319,896	5,242,083	6,319,896
Staff loan	3,106,927	2,819,577	3,993,354	3,225,909
Pre-paid expenses	261,001	244,009	261,001	244,009
Lanka Cement receivables	268,430	268,430	268,430	268,430
Salary advance	5,000	-	5,000	-
Sundry advance	152,021	56,576	152,021	56,576
Receivables from treasury bills	48,000	48,000	48,000	48,000
Insurance pre-payment	124,145	-	124,145	-
VAT receivables	8,725,533	10,746,861	10,691,550	10,746,861
ESC receivables	2,410,037	849,929	7,428,863	849,929
Withholding tax receivables	2,748,462	2,748,462	3,445,073	2,748,462
Other receivables	-	-	338,735	14,272,616
Interest receivables	-	-	2,225,058	-
NHDA receivable	672,706	672,706	672,706	672,706
NEMO receivables	-	186,840	-	186,840
	89,809,582	84,486,311	106,566,075	94,206,393
13. Cash & cash equivalents				
Cash at bank	3,588,357	4,201,680	20,089,066	14,491,878
Cash in hand	3,673	-	61,173	57,500
	3,592,030	4,201,680	20,150,239	14,549,378
14. Interest bearing liabilities				
Bank overdraft				
People's Bank	1,210,745	792,813	1,210,745	792,813
Bank of Ceylon	27,205,158	26,123,381	27,205,158	26,347,882
	28,415,903	26,916,194	28,415,903	27,140,695
Lease creditor	Payable within one year	Payable after one Year	Balance as at 31.12.2013	Balance as at 31.12.2012
Lease creditor	2,429,568	513,507	2,943,075	5,706,391
Interest in suspense	(222,363)	(20,065)	(242,428)	(716,529)
	2,207,205	493,442	2,700,647	4,989,862
Bank loan	Payable within one year	Payable after one Year	Balance as at 31.12.2013	Balance as at 31.12.2012
Loan-BOC bank 74129310	8,000,000	24,366,017	32,366,017	31,116,453
Loan-BOC bank - import of cements	68,807,481	-	68,807,481	40,000,000
	76,807,481	24,366,017	101,173,498	71,116,453
	79,014,686	24,859,459	103,874,145	76,106,315

SRI LANKA CEMENT CORPORATION

Accounting policies and explanatory notes to the consolidated financial statements

As at 31 December 2013

	2013	Restated 2012	2013	Restated 2012
	SLCC	SLCC	Conso.	Conso.
	Rs.	Rs.	Rs.	Rs.
15. Long term payables				
HLL advance	26,627,756	13,258,311	26,627,756	13,258,311
Treasury advance	492,426,190	492,426,190	492,426,190	492,426,190
Term loan from S.L.C.C.	-	-	757,223,883	757,223,883
Short term loan	-	-	11,900,000	-
	<u>519,053,946</u>	<u>505,684,501</u>	<u>1,288,177,829</u>	<u>1,262,908,384</u>
16. Retirement benefit obligation				
Opening Balance of Provision	17,952,300	18,918,853	25,243,724	26,075,605
Payment made during the year	(1,348,785)	(2,457,018)	(1,790,036)	(2,633,311)
Balance provision available as at end	16,603,515	16,461,835	23,453,688	23,442,294
Provision for the year	1,686,913	1,490,465	1,686,913	1,801,430
Provision entitlement as at end	<u>18,290,428</u>	<u>17,952,300</u>	<u>25,140,601</u>	<u>25,243,724</u>
17. Trade payables				
Trade creditors	3,765,402	8,404,118	8,137,999	15,218,015
Advance for cements	1,079,410	8,835,010	3,520,710	8,835,010
Accrued expenses	7,808,556	6,426,928	35,332,230	28,773,994
Rent payables	9,281,535	8,525,696	9,281,535	8,525,696
B.T.T. payables	7,101,932	7,101,932	7,761,751	7,101,932
Deposit payables	1,940,629	1,540,627	3,095,156	1,540,627
ESC payable	587,157	(339,585)	923,006	(339,585)
HLL advance	26,627,756	26,516,620	26,627,756	26,516,620
Kataragama Housing Project payable	5,882,831	5,882,831	5,882,831	5,882,831
NBT payable	4,641,762	5,118,675	4,641,762	5,118,675
Payroll control account	194,736	193,388	194,736	193,388
EPF payable	330,815	329,317	470,462	329,317
ETF payable	45,111	44,907	64,154	44,907
Sales commission payable	6,767,700	6,767,700	6,767,700	6,767,700
Income tax payable	-	-	8,155,638	8,155,638
Other payables	-	-	10,875,749	18,001,865
WHT payables	-	-	1,230,800	-
BMC payables	-	-	571,275	-
VRS payables	-	-	122,775	122,775
Insurance payables	-	-	635,487	-
PAYE tax payables	21,387	6,246	28,486	6,246
VAT payable	9,147,692	10,840,406	9,318,582	10,840,406
	<u>85,224,411</u>	<u>96,194,816</u>	<u>143,640,580</u>	<u>151,636,057</u>
18. Approval of financial statements				

These financial statements were approved by the board of directors and authorized for issue on 22nd August 2014.

Report of directors' comments to the Auditor General on the Financial statements of the Sri Lanka Cement Corporation for the year ended 31st December 2013 in the terms of section 14 2 (c) of the Finance Act No.38 of 1971.

2.Financial Statements

2.2 Comments of the Financial Statements

2.2.2 Going concern of the organization

We should be prepared consolidated financial statements for the corporation due to the subsidiary relationship with Lanka Cement PLC.

Lanka Cement factory closed for production due to the bad security situation and written-off the values of plant & machinery whatever decayed from accounts. That was a reason for this highest loss.

2.2.3 Maintenance of both institutions for the same purpose

Sri Lanka Cement Corporation and Lanka Cement PLC are control & monitoring by same management. This company commenced in 1990 as a third step of the K.C.W. factory for given the opportunities to privet investors.

2.2.4 Sri Lanka Accounting Standards

Lanka Accounting Standard No.16

- a). We will take action to revalue the assets and as soon as process is over, we will take action to account the same.
- b). As per the policy of the organization is not depreciated for the year of purchased.
We will take action to revise the policy as the provisions indicate by the Lanka Accounting Standards after getting board approvals.

2.2.5 Accounting policies

- a) We had been correct the accounting errors and differences after confirming the balances in Financial Statements with relating documents effect from 2010.
- b) The Standard Cabinet Appointed Review Committee recommends leasing out the land under the lease to foreign investor regarding to the development project presented by our ministry.

2.2.6 Accounting Deficiencies

- a). i.& ii. We will take action to account the values of lands after getting valuation reports from Valuation department.

iii. We already record the value of the land area of 69 acres at Kalladi, Puttalam, out of 221acres.

iv. We will take action to record the values of the land belonging to the Sri Lanka Cement Corporation as per the provisions of government gazette after getting valuation reports from Valuation department. (Plan no. TOPO-10 lot-70).

2.2.7 Lack of Evidence for Audit

We will take action to account the values of lands after getting valuation reports from valuation department.

The breakup for the value of current assets as follows;

- Inventory Rs.39,024,030/-
- Trade receivables Rs.89,809,582/-
- Trade payables Rs. 3,592,030/-

We already presented the relating documents for the confirming the above balances to the auditors.

2.3 Balances receivable and payable

- a). We will take action to recover these balances in future.
- b). We will take action to pay these balances according to the financial situation.

2.4 Non-compliance with laws, rules, regulations and management decisions

Reference to Laws, Rules, Regulations, etc. -----	Comments -----
(a) Financial Regulation 756 of the Democratic Socialist Republic of Sri Lanka	We will take action to present the survey of the assets for the fixed assets value of Rs.779,485,898.00.
(b) Treasury Circular No.1A1/2002/02 of 28 November 2002	We will take action to submit verification reports to Auditor General regarding the list of Computers, Computer accessories and preparing items.
(c) Public Enterprises Circular No.PED/12 of 02 June 2003	
(i) Section 4.2.2	Due to the reason of unfavorable financial situation of the corporation, we couldn't archive the target in corporate budget and budget for the year.
(ii) Section 8.3.8	No comments.
(iii) Section 8.3.9	We got back the said vehicle to the organization.
(d) Section 2 of the Nation Building Tax Act, No.9 of 2009	We will take an action to settle balance amount in future.

- | | |
|---|---|
| (e) Section 2.1 of the Value Added Tax Act, No.14 of 2002 | We already set off the payable amount of VAT with VAT receivable balance according to the guidelines issued by the Department of Inland Revenue, and further we will take an action to settle balance amount in future. |
| (f) Section 3 of the Financial Statute of Western Province No.6 of 1990 | Due to the unfavorable financial situation the Nation Building Tax could not remit on time. In future, we will take action to settle the same in time. |
| (g) Treasury circulars no.842 of 19 December 1978 and no. DMA/2009/02 of the Department of management audit | We will take action to maintain a register of fixed assets in terms of these circulars. |

3 Financial Review

3.1 Financial Results

The main reason for this default was impairment loss of the investment in Lanka Cement PLC due to the decrease of the share value.

4 Operating Review

4.1 Performance

a. We were unable to open letter of credit for cement importation due to the unfavorable financial situation.

b. The prices of our concrete products higher than the competitors due to the highest salaries and other direct costs. Then, the demand was very low for the products.

c. & d. We were unable to achieve the targets due to the unfavorable financial situation and the highest targets in the action plan.

4.2 Management Inefficiencies

a. We give consideration for prepare the proper procedures & statements related to the importation of cements. And, we have make arrangement to collect receivable balances & get the disciplinary action against officers who approve credit irregularly.

b. The costs of importation of cement cover from sales price but incurred the loss after deduct the overhead costs, administrative costs, distribution costs and financial costs.

4.3 Uneconomic Transactions

a. We couldn't receive any dividends from the investments of Lanka Cement PLC and Lafarge Cement Co. Ltd. (Pvt) due to the losses incurred by those companies.

- b. According to the instruction of General Treasury, Rs.38, 704,668.00 was paid to Ital Trade International, USA by obtaining a loan from Bank of Ceylon. And, we already proposed to written-off this loan & interest to the line ministry due to financial situation.

4.4 Identified Losses

- a. We paid this surcharge amount due to delay submission of the returns.
- b. We already recover the value of damage bags from insurance company and have requested to recover the value of shortage bags from our supplier.

4.5 Idle and Underutilized Assets

- a. We will take action to sale this vehicle after calling tender.
- b. According to the ministry instruction 50 acres released to Board of Investment and 12 acres leased out to Holcim Lanka LTD out of the total land area of 221acres.
Also, we take legal action against to the unauthorized occupants in this land under the court case no. BR232, Puttalam.
The corporation has not enough money for construct security bench for this land and we will take action to proposed development project for this land.
- c. We already requested to Sri Lanka Army for release the land area of 751 acres belonging to the Sri Lanka Cement Corporation.
Also, we couldn't get economic benefits from the resources belonging to the Sri Lanka Cement Corporation due to the side effects of security situation in the North.

4.6 Staff Administration

According to the financial situation, we are not in a position to fill the said vacancies.

4.7 Resources of the Corporation given to other Government Institutions

- a. We already reimburse the salary, allowances and gratuity payments paid to that employee from State Engineering Corporation in the year 2014.
- b. The officer appointed by the ministry engaged with the inspection regarding this matter.

5 Accountability and Good Governance

5.1 Action Plan

Due to the financial situation, we couldn't achieve the targets in the Action Plan.

5.2 Procurement Plan

We will take action to prepare a procurement plan from this year.

5.3 Budgetary Control

We will take action to use the budget as an effective instrument in the future.

5.4 Unresolved Audit Paragraphs

Sri Lanka Cement Corporation had leased out the land situated at Aruwakkalu in the year 1993. According to the instruction, we have discussed with Holcim Lanka Ltd to revise the agreement. And, Appointed the committee for increase the lease rental.

6 Systems and Controls

We will take necessary action to convert those areas as efficiency.