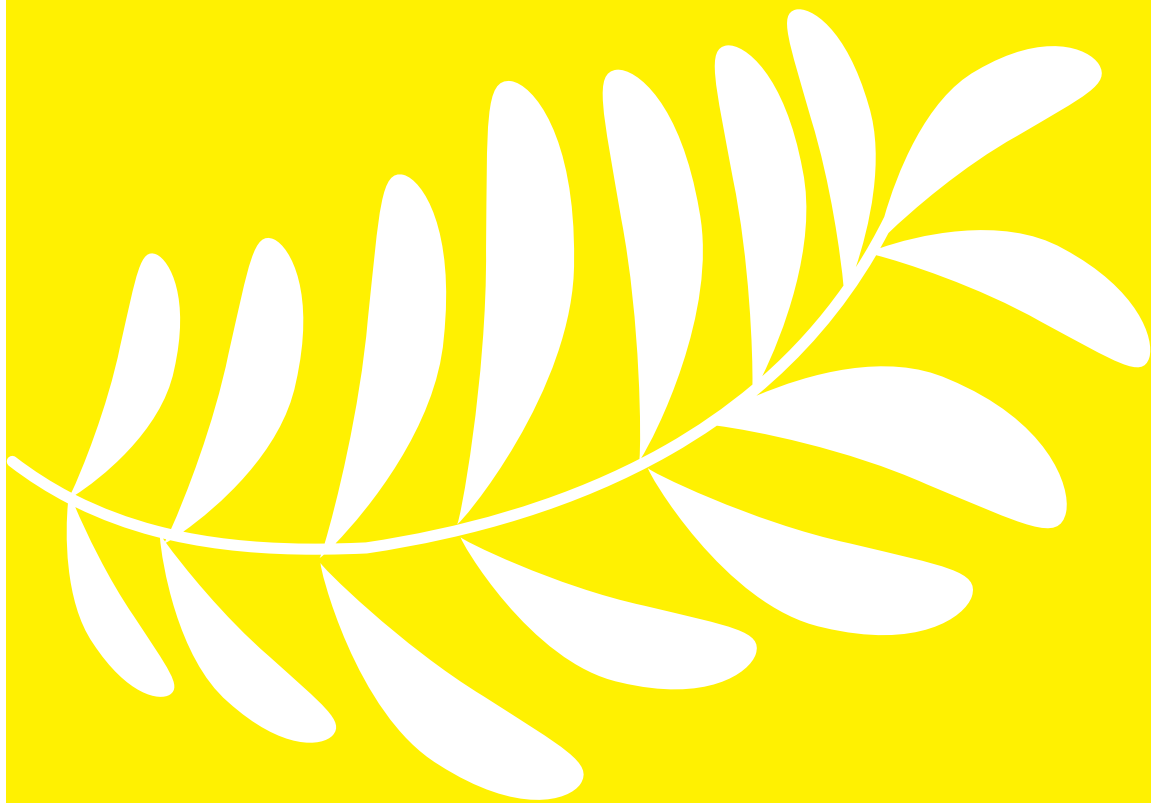




**CONTINUING TO  
ENERGIZE AGRICULTURE  
IN SRI LANKA**





## **Ministry of Agriculture**

80/5, 'Govi Jana Mandiraya'  
Rajamalwaththa Mawatha,  
Baththaramulla.

Telephone : 011 - 2 869 553  
Fax : 011 - 2 868 910  
E-mail : [ituagrimin@gmail.com](mailto:ituagrimin@gmail.com)  
Web : [www.agrimin.lk](http://www.agrimin.lk)

Concept, Creative Writing, Photography, Layout & Design



613/3, High Level Road, Gangodawila,  
Nugegoda, Sri Lanka.  
+94 11 302 4950 | +94 71 224 11 00  
[kalawainfo@gmail.com](mailto:kalawainfo@gmail.com)

---

# ANNUAL REPORT 2016

Ceylon Fertilizer Company Limited



**Ceylon Fertilizer Company Limited**

Lakpohora Swarna Jayanthi Mawatha,  
Hunupitiya, Wattala.

Telephone : 011-2 930 298 / 99 | Fax : 011-2 947 763

E-mail : lakpohora@slt.net.lk | Web : www.lakpohora.lk

# Awards



CNCI Achievers Awards  
2014 National Level Merit  
Award



Annual Reports Awards  
2014 Compliance  
Award



National Agri Business  
Awards 2014 Silver Award



ISO 14001: 2004 Environmental  
Quality Certification



JASTECA CSR Awards  
2014 Metit Award



Akimoto 5S Awards  
2014 Merit Award



National Business  
Excellence Awards 2014  
- Golden Award



SLCBCC Business Star  
2014 Silver Award



Human Resource  
Management Awards  
2014 Silver Award



National Productivity  
Awards 2014 - 2013/14  
Second Place



Human Resource  
Management Awards  
2014 Merit Award

## CONTENTS

The Journey So Far	08
Corporate Information	09
Vision & Mission	12
Financial Statements	15
Financial Summary for Last Ten Years	16
Message from the Chairman	18
General Manager's Statement	20
Board of Directors	24
Management Team	30
Management Review and Analysis	34
Human Resource Management	40
Our Community	45
Corporate Governance	51
Organizational Structure	53
Risk Management	54
Reports of Audit and Risk Management Committee	56
Our Geographical Coverage	59
Financial Statements	61
Statement of Directors' Responsibilities	63
Chairman's and Financial Manager's Responsibility Statement	64
Independent Auditor's Report	65
Statement of Comprehensive Income	70
Statement of Financial Position	71
Statement of Changes in Equity	72
Statement of Cash Flows	73
Notes to the Financial Statements	74
Form of Proxy	98



# **Straight Fertilizer for Paddy Cultivation**

Straight fertilizers including Urea, Muriate of Potash, Triple Super Phosphate, Zinc Sulphate are provided to farmers by us.



## THE JOURNEY SO FAR

Ceylon Fertilizer Company Limited (CFCL), a fully state owned company, operating under the Ministry of Agriculture was established in 1964 under the State Industrial Corporations Act of 49 in 1957 with financial and technological support from the Republic of Germany.

Its primary mandate is to fulfill the fertilizer needs of the greater Sri Lankan agricultural community and has been executing this responsibility with priority focus on product quality by importing chemical fertilizer, mixing and manufacturing quality fertilizer and distributing it to all parts of the island via its divisional fertilizer stores and authorized dealer network.

In compliance with state policy to transform government corporates and state owned business entities into government companies under act number 23 of 1987, it was re-established under this act with effect from 15<sup>th</sup> September 1992 under its original name and is currently registered under the Companies Act number 07 of 2007.



# CORPORATE INFORMATION



## Company Name

Ceylon Fertilizer Company Limited

## Company Registration Number

PB 499

## Legal Nature

A limited liability company incorporated in Sri Lanka with full ownership vested with the Secretary to the Ministry of Finance.

## Registered Office and Address

Ceylon Fertilizer Company Limited  
Lakpohora Swarna Jayanthi Mawatha, Hunupitiya, Wattala.  
Telephone : 011 2 930 298 / 99 | Fax : 011 2 947 763  
E-mail : lakpohora@slt.net.lk | Web : www.lakpohora.lk

## Board of Directors

### Chairman

**Mr. Roshana Waduge**

### Working Director

**Mr. Chandana Pelpita**      **Mr. Madhawa Waththegama**

### Director

<b>Mrs. J.M.S.D. Rathnayaka</b> (Additional Director General) National Policy Planning Department	<b>Mrs. Anoja Herath</b> Director Development Ministry of Agriculture
<b>Mr. Hemaka Lasith Balasuriya</b>	<b>Mr. Upul Peiris</b>

### Company Secretary

<b>Mr. S.P. Morawaka</b> (Attorney-at-Law and Notary Public)	<b>Mr. Sanjaya Amarathunga</b> S & A Consultants (Private) Limited
---	---

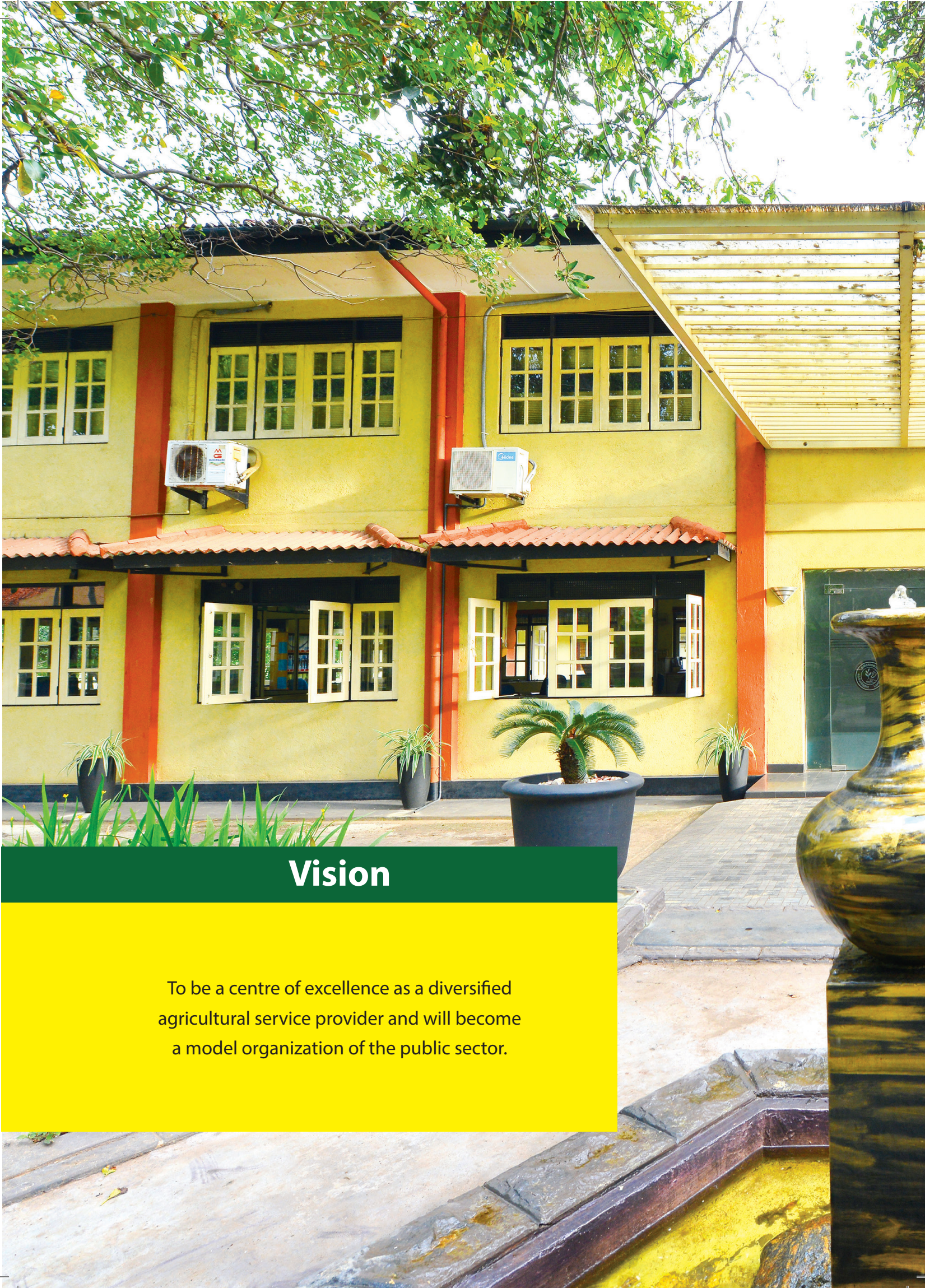
## Management Team

<b>Mr. P.R. Samaraweera</b> General Manager (Acting) Manager (Finance)	<b>Mr. B.D.L. Kumarasiri</b> Chief Internal Auditor
<b>Eng. D.M.N.A. Dissanayaka</b> Manager (Technical)	<b>Mr. R.A.P. Perera</b> Manager (Distribution)
<b>Mrs. R.P.S. Bodhipala</b> Manager (Sales & Marketing)	<b>Mr. C.P.P. Bulathsinghala</b> Manager (Acting) (Administration & Human Resources)
<b>Mr. G.G. Saman</b> Manager (Acting) (Procurement & Imports)	



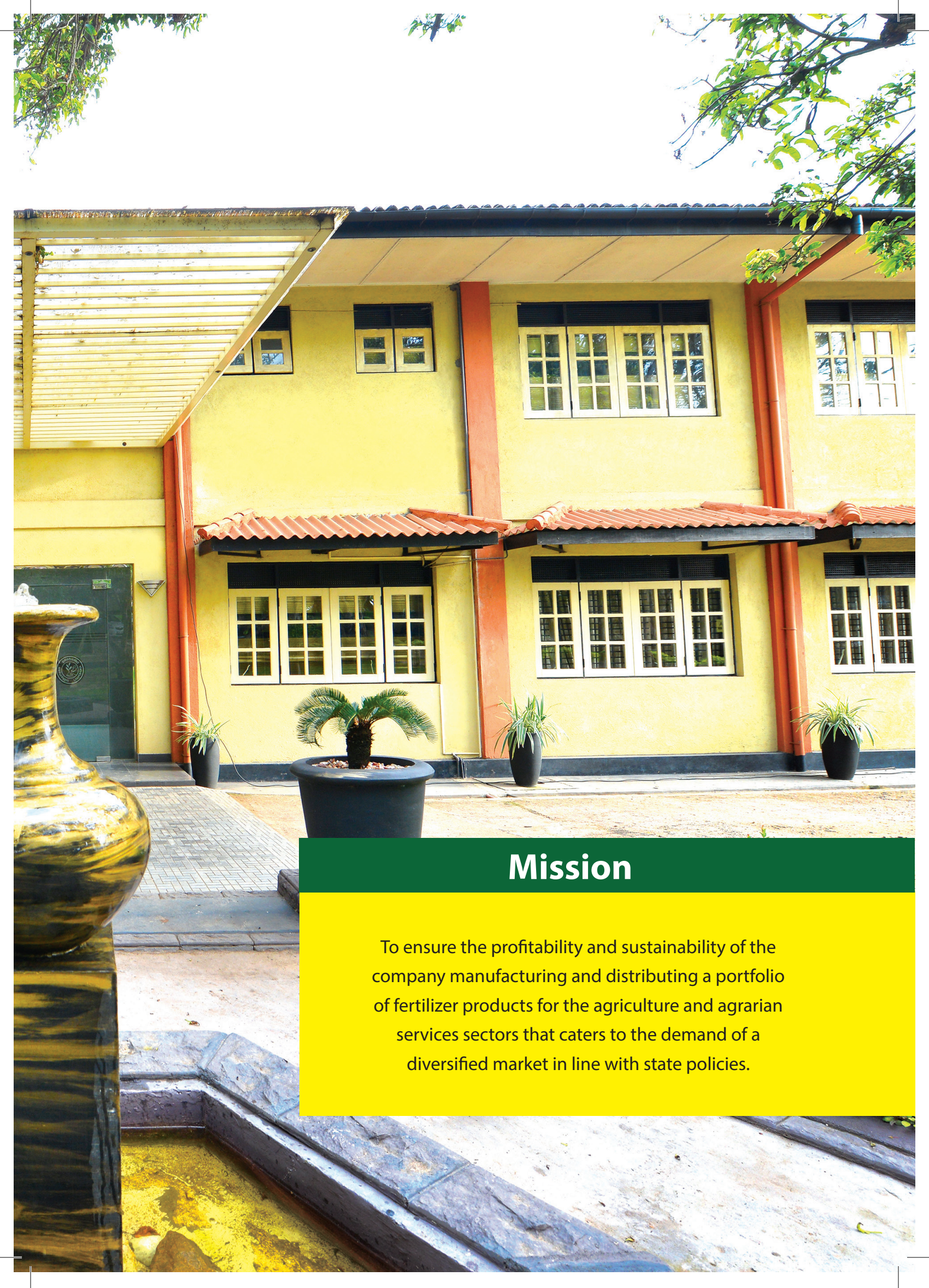
## For Tea Cultivation

T-65, T-200, T-750, UT-1625, UT-397,  
UT-752, VPLC-880, VPLC-945, VPUM-910,  
U-625, ST/UM-400, STUVA-435, U-709



## Vision

To be a centre of excellence as a diversified agricultural service provider and will become a model organization of the public sector.



## Mission

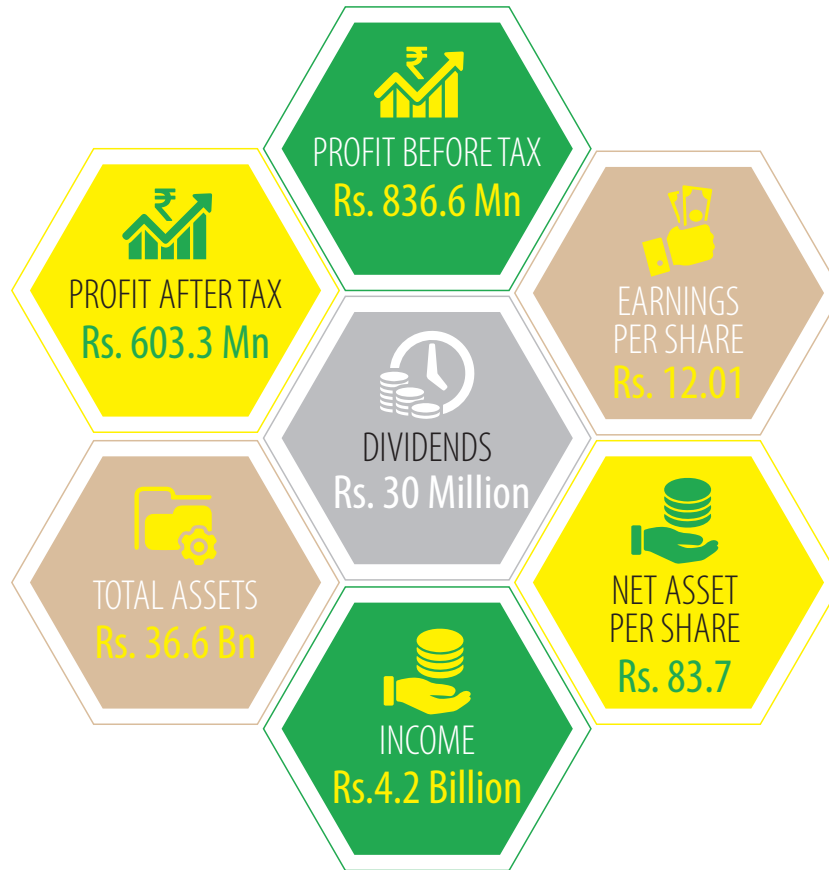
To ensure the profitability and sustainability of the company manufacturing and distributing a portfolio of fertilizer products for the agriculture and agrarian services sectors that caters to the demand of a diversified market in line with state policies.



## For Other Crops

Specially mixed fertilizers for vegetables, fruits, potatoes, chillies, cow-pea, peanuts, green gram, maize and sugar-cane etc.

# Financial Statements



Income Statements and Rates		2016	2015	Difference
		Rs.	Rs.	%
Income	Rs.	4,242,769,733	3,835,989,834	11%
Profit before tax	Rs.	836,604,005	520,200,738	61%
Income tax cost	Rs.	233,331,176	134,184,888	74%
Profit after tax for the year	Rs.	603,272,829	386,015,851	56%
Dividends	Rs.	30,000,000	115,804,755	(-74%)
Earnings per share	Rs.	12.01	7.68	56%
Benefits on assets	Rs.	165%	87%	-
Benefits on liabilities	Rs.	12.8%	9.2%	-
Financial Status Statements and Rates				
Total Assets	Rs.	36,603,359,337	44,549,598,217	(-18%)
Total Equity	Rs.	4,728,367,363	4,205,441,355	12%
Number of shares issued	No.	50,245,608	50,245,608	-
Net asset per share	Rs.	94.11	83.70	12%

# Financial Summary for Last Ten Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	SLAS	SLAS	SLAS	SLAS	SLAFS	SLAFS	SLAFS	SLAFS	SLAFS	SLFRS
	(For 7 Month) (For 7 Month)									
<b>Statement of Comprehensive Income</b>										
Revenue	1,597,921,714	900,461,713	1,370,080,315	1,904,299,851	2,246,402,738	2,496,268,383	2,450,132,816	2,563,549,727	3,835,989,834	4,242,769,733
Gross profit	236,228,785	204,414,682	221,286,371	322,826,103	414,124,001	310,189,751	621,684,097	575,467,461	855,558,167	1,097,447,923
Other income	146,931,059	76,899,044	130,892,642	132,287,779	157,164,017	197,912,757	108,809,998	93,172,755	142,197,667	122,926,594
Profit before taxation	3,599,741	26,957,610	35,088,271	42,411,705	73,979,009	159,544,495	199,894,319	241,328,764	520,200,738	836,604,005
Taxation	(13,771,790)	(19,766,392)	(25,092,763)	(35,000,000)	(43,666,668)	(52,315,944)	(73,037,738)	(62,869,312)	134,184,888	(233,331,176)
Profit for the year	(10,172,049)	7,191,217	9,995,508	7,411,705	30,312,341	107,228,551	126,856,581	178,459,452	386,015,851	603,272,829
<b>Statement of Financial Position</b>										
Stated capital	444,456,080	444,456,080	502,456,080	502,456,080	502,456,080	502,456,080	502,456,080	502,456,080	502,456,080	502,456,080
Revaluation reserve	1,616,307,519	1,616,307,519	1,616,307,519	1,986,087,280	1,986,087,280	1,836,179,780	1,835,723,580	1,835,723,580	1,833,071,080	1,833,071,080
Revenue reserves	184,198,282	191,389,499	201,385,007	208,796,713	224,109,054	1,285,578,730	1,397,891,510	1,500,363,432	1,869,914,195	2,392,840,203
Total equity	2,244,961,881	2,252,153,098	2,320,148,607	2,697,340,072	2,712,652,414	3,624,214,590	3,736,071,170	3,838,543,092	4,205,441,355	4,728,367,363
Property, plant and equipment	1,647,477,060	1,642,814,214	1,686,442,553	1,902,075,430	1,895,412,152	1,908,557,760	1,882,887,059	1,879,174,306	1,865,055,225	1,838,655,988
Capital working progress	17,895,434	17,895,434	20,024,735	15,934,103	542,901	-	-	-	29,982,587	32,152,294
Deferred tax expense	-	-	-	-	-	4,862,949	73,037,738	5,561,375	37,484,888	-
Investment in treasury bills	132,782,037	146,109,366	172,614,796	332,205,456	434,767,955	471,025,753	338,620,163	471,894,936	489,125,747	514,903,604
Intangible assets	-	-	-	-	-	-	669,017	344,717	115,417	79,667
Deferred tax assets	-	-	-	-	76,814,523	71,951,574	-	-	-	-
Net current assets	582,772,763	592,829,041	610,949,150	12,476,640,540	6,975,143,544	1,706,541,296	1,915,693,141	2,025,842,182	2,417,551,302	2,963,028,124
Deferred tax liabilities	-	-	-	-	-	-	1,086,164	6,647,539	44,132,427	40,928,542
Short/ Long term loan	-	-	-	11,837,929,928	5,369,929,928	-	-	17,728,367,618	31,304,325,268	-
<b>Cash Flow Statement</b>										
Net cash inflow/(out flow ) from operating activities	(5,537,840,553)	(9,812,750,171)	(23,925,719)	(12,169,047,254)	(16,012,155,140)	12,695,227,509	(9,517,159,808)	(5,094,105,859)	(9,560,794,959)	(738,963,570)
Net cash inflow/(out flow ) from investing activities	5,347,791,109	9,796,712,574	(85,865,511)	12,216,587,459	(36,565,665)	(8,458,411)	83,232,936	(508,688,188)	(1,021,212,231)	(1,086,700,012)
Net cash inflow/(out flow ) from financing activities	(40,493,187)	(19,176,247)	46,739,763	(159,725,222)	16,168,483,382	(13,079,312,780)	9,575,483,282	5,654,013,585	10,614,850,014	(3,843,885,272)
<b>Other Information</b>										
Earning per share (Rs)	(0.23)	0.16	0.22	0.17	0.60	2.13	2.52	3.55	7.68	12.01
Dividend per share (Rs)	-	-	0.06	0.06	0.18	0.18	0.76	1.05	2.3	3.60
Net asstes per share (Rs)	51	51	46	54	54	72	74	76.4	83.7	94
Current ratio (No.of times)	1.10	1.07	1.04	2.09	1.29	1.08	1.08	1.06	1.06	1.09





# For Coconut

YPM (W) / (D), APM (W) / (D),  
Toddy tapping (W) / (D)



Message from the  
**Chairman**

The company believes in understanding key performance and future goals for long term corporate sustainability.

The mandate of the Ceylon Fertilizer Company Limited is to fulfill the needs of the agrarian community of Sri Lanka in accordance with state policy. It is observed that the company have moved into a distinctive position through its activities in 2016 which were firmly tied into larger state recommendations and initiatives to strengthen the agricultural sector of the country. From this standpoint, it is imperative that clarity is achieved as to the position of the company as well as ways in which the company can contribute towards future development strategies through mechanisms that are aligned and harmonized with the overarching strategies of the organization.

Considering the challenges and problems that agriculture faces in other countries, Sri Lanka has seen a geometric rise in development of the agrarian sector and has succeeded in assuring for itself a foremost position among those efforts that have created a positive economic development within the country.

I observe that the ability of the company to successfully and continuously provide fertilizer to the nation through its island wide distribution network has contributed significantly to the economic development and growth of the CFCL. It is with heartfelt sincerity that I thank His Excellency President Maithripala Sirisena for his blessings and advice, toe co-operation of Hon. Minister of Agriculture Duminda Dissanayake and the unstinted support of Ministry Secretary and key ministerial officials towards achieving the objectives of the organization.

The net assets of the CFCL increased to Rs. 4,728 million during the fiscal year ending March 2016 while it recorded the highest increase in profit before tax in the history of the company with a year-on-year increase of Rs. 316 million from Rs. 520 million to Rs. 836 million.

At present, the corporate has a strong balance sheet with total assets amounting to Rs. 36.6 Billion and I am pleased to announce that the Board of Directors has planned to pay a dividend of Rs. 30 Million to its only shareholder, the treasury.

Total taxes paid to the government in the year ending March 2016 was Rs. 233 Million. The company has been able to operate profitably without any financial assistance from the integrated state fund.

The company has established a network of 1,500 authorized dealers across Sri Lanka while it distributes its products through 50 divisional fertilizer stores that enhances the ability of the company to directly engage with its customers.

An efficient strategic process has been implemented by the company to gain market share and as a result of that the sales capacity has grown. As a result of achieving sales targets in the highly competitive market, the company's sales income and profit have been increased by Rs. 217 million.

In order to achieve short and long term strategic goals the work force has been managed in a very productive manner and recruitments under the processes of employee recruitments and promotions approved by the Management Services Department have been standardized, enabling all employees the opportunities of obtaining promotions based on their skills and qualifications.

A very efficient deployment of information technology optimizing the management information system is being maintained by the company while continuous training programs to educate users on the latest software are held to maximize inter-office process efficiency.

Ceylon Fertilizer Company Limited always contributes towards the community and regards it as a social responsibility. The company believes in understanding key performance and future goals for long term corporate sustainability. Towards this, the company is in the process of formulating a strategic roadmap by classifying and drilling down into short and long term strategies.

My special thanks go to the senior management team and their unstinted effort to provide strong and capable leadership lead the company into a new age. I also thank the management and staff of the company who execute the directives of the Board and senior management with total commitment to the mandate and executive goals of the Ceylon Fertilizer Company Limited.

  
**Roshana Waduge**  
Chairman



## General Manager's Statement

---

Ceylon Fertilizer Company Limited has been recognized as a state owned reputed company that has offered services to the Sri Lankan farming community over 50 years.

As another year comes to a successful end, I am pleased to present the audited financial statement and the annual report for the financial year of 2015/16 and address all of you, our valued stakeholders when yet another financial year comes to an end. As all of you know, Ceylon Fertilizer Company Limited has been recognized as a state owned reputed company that has offered services to the Sri Lankan agriculture community over 50 years.

As a result, we have been able to import, blend and successfully distribute fertilizer products that are uniquely localized to be optimally beneficial to crops under Sri Lankan conditions. I am pleased to note that due to our incessant commitment to use cutting edge technologies, innovation approaches and quality controls in the agrochemical industry, we have been able to win ourselves top-of-mind awareness among consumers of our products.

Against the existing economic situations of the country, the company used a series of mechanisms to optimize business goals in the year under review. These included focusing on increasing the business capacity of our fertilizer stores network, increasing their efficiency and profitability resulting in high profits being recorded at the divisional storage facilities.

Due to our efforts to modernize our operations during the year, significant work was done to develop and centralize expert skills and thereby develop the entrepreneurial potential and capacity of the company.

Further, we focused attention on increasing brand recognition as well as improving the customer experience at our divisional stores by modernizing their external and internal layouts and environments. It is of special importance that we positioned some in areas where we anticipate a significant increase in agrarian activities in the near future.

Our staff are not only the driving force behind our push for sustainable development but also the key factor that enables us to remain highly competitive in a volatile marketplace. Therefore, we have been able to inculcate a culture of learning, sharing and advice within the company in order to mutually add value to the organization and seamlessly increase our knowledge base. Furthering this line of

thinking, we constantly strive to enable our staff to achieve their personal career goals while ensuring that our hiring regime is in line with the directives issued by the Management Services Department to obtain the services of qualified and capable staff to fill all positions within the company. The growth we have experienced during the year under review can be directly attributed to the attention we have given to constantly improving staff performance.

Simultaneously, we have taken steps to use the funds allocated to training and development to expand the anticipated results of such efforts and to develop leadership skills at all levels of the organization. We can unequivocally state that these efforts yielded innovative ideas and provided the necessary critical mass to the management to increase productivity and profitability and modernize the overall organizational business effort. Therefore I can confidently state that the reason why we are in the vanguard of agro-industry due to the incessant commitment of our team to align and harmonize with the organization's vision.

Having obtained ISO-9001-2008 certification for high quality service and administration in 2011 and obtaining ISO/IEC 17035-2005 certification for our fertilizer testing laboratory, the company achieved a new victory by obtaining environment compliance certification with ISO 14001:2004 in 2015.

We hope to further our own development plans in line with overall state development plans in the year 2016/2017. Here our aspiration is to expand into developing markets. We are confident that we have both the capacity and the capability to identify and respond to various challenges that develop in environs and win through successfully. A key factor in our development strategy is to introduce an ERP system to modernize and upgrade our ICT resources to increase productivity and improve efficiency and profitability. While our strategy in 2015/2016 is to develop the collateral crop market, we will focus increased attention on this division in order to ensure that our activities reflect market dynamics and realities.

Due to the fact that we hope for increased growth and the fact that we have the technical capacity to respond with optimal speed to our

customers with state policy changing towards sustainable agriculture, the company has now initiated pilot programmes in a number of agrarian sectors to manufacture and promote organic inputs. We will maximize the use of our marketing effort to comply with and promote the vision of the state to dilute the culture of addiction to agrochemicals. We will also invest significantly in order to improve our skills base through training on technology, soft skills and leadership in order to better prepare and better respond to an increasingly more competitive market.

Since the emerging market development rates have decreased last year's business objectives will remain unchanged in this year too. Focusing on increasing the profit margins by continuing our corporate strategies is also a goal we have for 2015/16. Our expectation hence is to see 2016/17 as a year of challenges.

Yet another goal of ours on our way towards the future with confidence would be to generate income for our shareholders. We commit ourselves and contribute towards achieving Sri Lanka's economic and development goals with a corporate strategy that would be in line with the national strategy for income generation.

With our experienced and efficient team of employees we will always be able to secure new development opportunities. I commit myself to

give leadership, vision and strategic direction to the Chairman and the Board of Directors as I did in the last year, to make a new era of development with a wider vision in the next business year.

I wish to express my heart-felt gratitude to the Chairman and the Board of Directors who extended their guidance and continuous support to make the year of 2015/16 yet another year of special achievements irrespective of many hurdles and difficulties. I am thankful to the Management team and all the members of the family of Lakpohora who have continuously committed themselves towards achieving the vision of our company.

The customers who placed their trust in us are the foundation of our success so far and I assure that we will be committed more and more to fulfill their needs in the years to come. Last but not least, our shareholder who extended its support and always stayed with us deserve my appreciation and gratitude. We are ready to welcome the new year with self-determination and dedication.



**Priyantha Samaraweera**  
General Manager



# For Rubber Cultivation

Special mixed fertilizer including  
R A - 465, R U - 462, R U - 465,  
R/Y B, R/S A



# BOARD OF DIRECTORS

**Mrs. J.M.S.D. Rathnayake**  
*Director*

---

**Mr. Upul Peris**  
*Director*

---

**Mr. Hemaka Lasith Balasuriya**  
*Director*

---

**Mr. Roshana Waduge**  
*Chairman*

---

**Mrs. Anoja Herath**  
*Director*

---

**Mr. Madhawa Wattedgama**  
*Working Director*







# BOARD OF DIRECTORS



**Mr. Roshana Waduge**  
Chairman

An old boy of Mahanama College, Colombo, he has obtained a diploma from Australia on Business Administration and followed a vocational training course on Motor Mechanism in Japan.

He was the captain of the school cricket team under 15 and a member of the cricket team under 17. He held positions as the president of the Lions Club and the vice president of the school radio club.

He presided over the Lions Club of the capital city of Kotte for 3 years and performed duties as its member Director for 3 years and works as the Director of the District 306 C International Lions Club.

He established the Arya Lanka Foundation, a non-governmental organization for social services and performs duties as its Chairman and holds positions as President of the Lanka United Transporters Society and Vice President of the Lanka Vehicles Importers Society.

He was awarded with the 'Jeewanasoori' Award by the Sri Lanka United Nations Friendship Organization in 2006.



**Mr. Chandana Pelpita**  
Working Director

After completing his primary and secondary education at Asoka College and Ananda College, Colombo, he has obtained Master's Degree in Industrial Relationships and Human Resource Management from the University of Delhi, India.

He has a Diploma in Business Management from the National Institute of Labour Education and Management in India and gained experience in the management field by working at the senior management level over 15 years in India and Sri Lanka.



**Mr. Madhawa Wattegama**  
Working Director

Having completed his secondary school education at Nalanda College, Colombo and obtained the Post graduate Degree in Business Administration from the University of New Castle he qualified in Examinations I and II of the Business Executives Association in London. He has obtained Diploma qualifications including those on Auto cad from Geocomp in Western Australia and Auto cad Windows from Arab Computer Service in Sultan State of Oman.

He is presently working as Chairman/ Managing Director of Silver Bird International (Pvt) Company, Chairman of Independence Architectural Homes (Pvt) Company and Colombo Global Shipping (Pvt) Company, and has worked as a Working Director at Central Cultural Fund.



**Mr. Hemaka  
Lasith Balasuriya**  
Director

Obtained his Post-Graduate Degree in Business Administration from the University of Wales and a Post Graduate Diploma in Marketing from the Institute of Chartered Marketers.

A winner of the black belt in the Six Sigma concept from the Sri Lanka National Institute of Management, he has gained expertise over 16 years in many fields playing a multitude of roles covering many areas of work including frontline operations in telecommunication (sole operations), business processes, sales management, group management, customer retention, business planning and administration, knowledge management and customer experience management.

# BOARD OF DIRECTORS



**Mr. Upul Peiris**  
Director

A product of St, Thomas' College, Mount Lavinia, he is a former Director of the Plantations Corporation of Sri Lanka and the Land reform and Development Board of Sri Lanka.

He has worked as the Co-ordination Secretary to the former Chief Minister of the Uva Province. He has been working as a member of the Board of Directors of Ceylon Fertilizer Company Limited from February 4, 2015.



**Mrs. Shiranthi Dhammika Rathnayaka**  
Director

Having obtained her Bachelor of Science Degree (Physical Science) from the University of Kelaniya, she has pursued higher education in other disciplines and obtained Post Graduate Degrees on Economic Development from the University of Colombo, Development Studies from the IDEAS School in Tokyo, Japan and State Policies and Management from the University of Melbourne, Australia.

Being a member of the Sri Lanka Economics Association and Sri Lanka Policy Planning Association, she has worked as a Standards Officer at the Sri Lanka Standards Institute (1993- 1994), as an Assistant Director of the Finance and National Implementations Department (1994 - 2004), as an Assistant Director in the Development Finance Department of the same Ministry and as the Project Director of the Program for Rural Finance Sector Development. After performing her duties as the Director in the Department of Budget Preparations of the same Ministry from 2011 to 2013, she is presently working as the Director General - Economics in the Ministry of National Implementations.

She has taken part in research studies of a number of local and international universities including the University of Melbourne in Australia, IDEAS School in Japan and the University of Colombo.



**Mrs. Anoja Herath**  
Director

A past student of Devi Balika College, Colombo she has obtained a Bachelor of Science (Agriculture) (Special) Degree from the University of Peradeniya and the Masters Degree in Sociology from the University of Kelaniya.

Having started her career life as a lecturer at the University of Peradeniya, she joined the Ministry of Environmental Affairs and Natural Resources as a Research Assistant and joined the Sri Lanka Administrative Service in September, 2003 as an apprentice officer.

She has worked as an Assistant Commissioner in the Department of Land Settlement, Assistant Director in the Ministry of Environment and Renewable Energy and as a Director in the Ministry of Technology and Research and is presently working as a Director in the Ministry of Agriculture. She has worked as Project Coordinator of the Project for assessment of technological requirements with regard to reception and balancing of climatic changes in Sri Lanka. She has attended a number of international conferences on Environmental and Sustainable Development representing Sri Lanka as a specialist and participated as Sri Lanka's State Representative in many conferences held when the United Nations' Climatic Changes Pact and the Neon Protocol were being prepared.

Being an expert who has done a number of researches on organic tea in Sri Lanka and published them.



**Mr. S. P. Morawaka**  
Secretary

Being a lawyer who has gained his training on The Intellectual Property Law in countries like France, Germany and Switzerland, Mr. S. P. Morawaka has worked as the former Company Registrar. He has been working as the Company Secretary of Ceylon Fertilizer Company Limited for last 11 years.



## Management Team

**Mr. R.A.P. Perera**

Manager  
(Distribution)

**Eng. D. M. N. A. Dissanayaka**

Manager  
(Technical)

**Mr. B.D.L. Kumarasiri**

Chief Internal  
Auditor



**Mr. P.R. Samaraweera**

General Manager (Acting) &  
Manager (Finance)

**Mr. C.P.P. Bulathsinghala**

Acting Manager (Administration  
& Human Resources)

**Mr. G.G. Saman**

Acting Manager  
(Procurement & Imports)

**Mrs. R.P.S. Bodhipala**

Manager  
(Sales & Marketing)

# Management Team



## Mr. P.R. Samaraweera

**General Manager (Acting) and Manager (Finance)**

He has obtained a Degree in Commerce (Special) from the University of Sri Jayawardhanapura. He holds the higher membership of the Public Finance and Development Accountants Institute of Sri Lanka, the Chartered Business Administrators Institute, the Sri Lanka Public Financial Accountants Association and the reference membership of the Professional Institute of Accountants in Sri Lanka. Joining the Ceylon Fertilizer Company Limited in 1987 he has come a long way with us and has become the most senior Manager of the company.



## Mr. B.D.L. Kumarasiri

**The Chief Internal Auditor of the company**

He has a Degree in Commerce (Special) from the University of Kelaniya. He holds the fellow memberships of the Sri Lanka Public Financial Accountants Association and the Public Finance and Development Accountants Institute of Sri Lanka. He has received certificates for internal auditing from the Public Accounts and Finance Institute and the Internal Auditors Institute. He has worked as Accountant and Chief Internal Auditor at the National Equipment Machinery Organization.



## Eng. D. M. N. A. Dissanayaka

**The Manager (Technical)**

He has a BSc Engineering Degree from the University of Peradeniya and a Masters in Business Administration (Finance) from the University of Kelaniya. He is a member of the Sri Lanka Institute of Engineers and a member of the Engineering Division Committee of the same institute.





**Mr. R.A.P. Perera**

**The Manager  
(Distribution)**

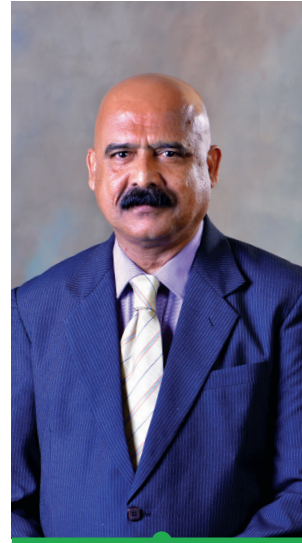
He has a special degree in Sociology from the University of Colombo. Additionally he holds diplomas in Management and Information Technology. He has successfully completed diploma program on productivity at the National Productivity Secretariat and is an expert in human resource management, industrial health and safety, fire safety and machinery and equipment maintenance.



**Mrs. R.P.S. Bodhipala**

**The Manager  
(Sales & Marketing)**

She holds a Science Special Degree in Agriculture (Plantation Management) from the University of Sabaragamuwa and a Masters in Business Administration from the Post Graduate Institute of Agricultural Science of the University of Peradeniya. She has sound experience in plantation industry management.



**Mr. C.P.P. Bulathsinghala**

**The Acting Manager  
(Administration & Human Resources)**

He holds a Degree in Arts from the University of Jayewardanepura and also holds a diploma in Human Resource Management from the Management Training Institute. He has 35 years' experience at the company. He is also a Justice of the Peace for All Island.



**Mr. G.G. Saman**

**The Acting Manager  
(Procurement & Imports)**

He holds a degree in arts from the University of Colombo. He is currently following a diploma in procurement and contract management at the Development Administration Institute of Sri Lanka.



## MANAGEMENT REVIEW AND ANALYSIS

### GENERAL ECONOMIC OVERVIEW FOCUSED ON THE AGRARIAN SECTOR

Sri Lanka's economic growth slowed to 4.8% in 2015 compared with a 4.9% growth witnessed in 2014 amidst the challenging domestic and global economic environment. Growth was supported by the expansion of domestic demand emanating from increased consumption spending owing to enhanced disposable income from lower petroleum and essential food prices coupled with increased salaries and wages. All production sectors of the economy, Agriculture, Industry and Services, contributed positively to the overall growth in 2015. Meanwhile, the unemployment rate remained less than 5.0% level. The annual average inflation, as measured by the Colombo Consumer Price Index (CCPI-2006/07 base year), declined to 0.9% by end 2015 from 3.3% in 2014 and was maintained at single digit level for the seventh consecutive year benefiting from improved domestic supply conditions and reduction of commodity prices.

Agriculture and services related activities grew by 5.5% and 5.3%, respectively while Agriculture

activities, which account for 7.9% of GDP, expanded by 5.5%, mainly due to the significant growth in growing of rice (23.3%) and vegetables (24.9%), amidst the contraction in growing of rubber (-10.1%) and growing of tea (-2.6%).

2015 marked the highest annual paddy production on record reaching a total of 6,761,803 MT. Compared with the years of relatively higher paddy yields, the number of farmers who obtained fertilizer and the quantity of fertilizer issued has been reduced, while the net extent harvested and the paddy production has increased.

During 2015, a total volume of 463,672 MT of fertilizer was issued under the fertilizer subsidy scheme for other crops out of which 390,549 MT of fertilizer was used. This subsidy has enabled the farmers to expand their cultivating capacity from one crop to multiple crops and to increase the productivity of crops other than paddy. The

subsidy granted by Government as a percentage of the market price on a 50 kg bag of straight fertilizer remained between 28% - 80%. Tea received 189,068MT (48%) of subsidized fertilizer, rubber received 100,532 MT (26%), vegetables received 64,584 MT (17%), coconut received 29,287 MT (7%) and other crops received 7.077 MT (2%).

Expenditure incurred on fertilizer subsidy during 2015 increased by 56% (Rs. 49,570 million compared to Rs. 31,802 million in 2014). As such, 2015 recorded the highest expenditure thus far on fertilizer subsidy. A major reason for such high expenditure in 2015 is due to the settlement of arrears accrued in previous years. Nearly 99% of the budgetary provision for fertilizer subsidy was utilized during 2015.

### CORPORATE REVIEW

The key objective of Ceylon Fertilizer Company Limited, Sri Lankan farmer's friend in need who imports fertilizer and distributes it in mixed and straight forms, is to function as a state institute that is committed to develop the agricultural industry.

Fully committed to distribute quality fertilizer as and when it is necessary to the farmers island wide, our company ensures the highest standard of all imported fertilizer by getting them tested for quality by industrial research institutes and samples of each type of fertilizer are tested at our own laboratory, which has been authorized by the Sri Lanka Accreditation Board (SLAB) and ISO/IEC/17025:2005 certified.

### SALE OF SUBSIDY FERTILIZER

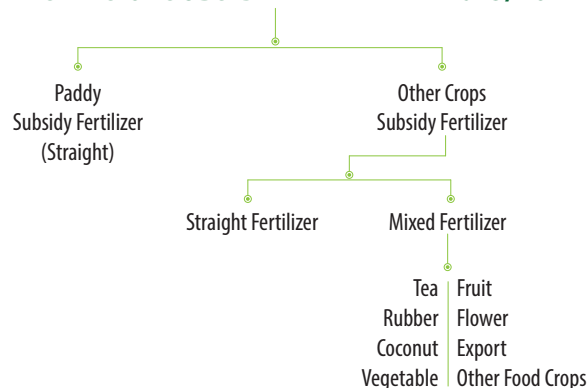
Year	Sales (Mt.)	
	Paddy	Other Crops
2014/2015	199,359.240	116,491.416
2015/2016	222,474.315	126,645.583

Our company's central warehouse complex in Hunupitiya, Wattala has a capacity of 67,000MT and the main regional stores complex in Polonnaruwa has a capacity of 18,500MT. In addition to that, the total capacity of the stores network consisting 51 divisional stores island wide is 20,000 MT.

Manufacture of mixed fertilizer is done as per state recommended ratios to suit each crop at the central warehouse complex. Introduction of the five-fold (5S) concept to the Head Office has boosted the efficiency of our staff and the company has achieved the ISO 9001:2008 Quality Management System Certificate.

Without limiting ourselves to supplying straight fertilizer for paddy cultivations, we supply special chemical fertilizer for tea, coconut, rubber, vegetables, fruits and other crops also and presently we are making arrangements to introduce organic fertilizer under the name of 'Sanstha Compost' to the farmers in due course.

### SALES OF SUBSIDY FERTILIZER - 2015/16



Our new products are marketed through our island wide dealer network and the supermarkets including Arpico, Cagills and Keels promoting our brand name 'Lakpohora' to a wider range of customers.

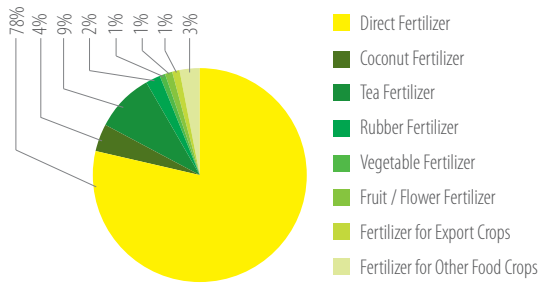
Organizing workshops and pocket meetings on our products and the usage of fertilizer, our representatives educate and support the customers continuously and as a result of such efforts, the quantity of subsidiary fertilizer for other crops sold by us in 2015/16 (126,645 MT) increased year-on-year by 8% in 2014/15 (116,491 MT). It is recorded as the highest sale of the company.

The company is continuing to make all the arrangements to introduce organic fertilizer manufacturing with the name of 'Sanstha Compost'.

### SALES OF MIXED FERTILIZER

Crop	Sales (Mt.)	
	2014/2015	2015/2016
Tea	15,646.031	11,874.699
Rubber	1,562.215	2,279.61
Coconut	5,138.631	5,559.962
Vegetable	1,547.215	2,229.486
Fruit	633.038	1,038.527
Flower	53.982	28.806
Export	1,039.605	1,002.323
Other Food Crops	2,538.707	3,827.104
	<b>28,159.424</b>	<b>27,840.517</b>

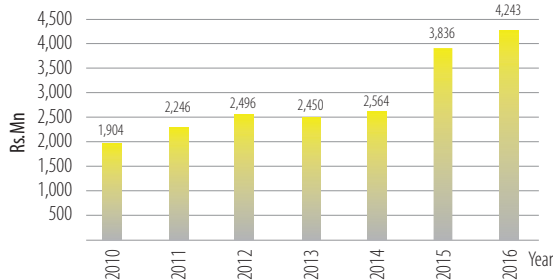
Sales in Other Crops 2015/2016 (MT.)



## FINANCIAL REVIEW

The Company recorded an income of Rs. 4.24 billion from the sale of fertilizer for paddy and other crops and that was an increase of 10% compared to the previous year.

Revenue

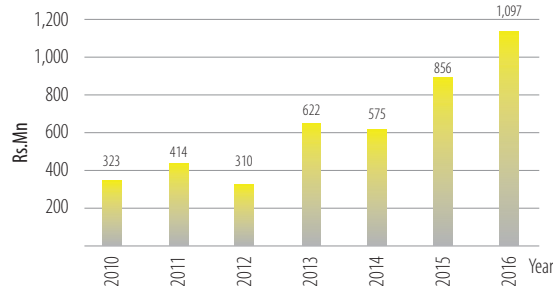


The growth has been lesser year-on-year in 2015/2016 compared to 2014/2015 due to a shift in buying patterns with increased numbers of farmers turning to alternative fertilizers. However, the 10% increase was contributed to by the sale of subsidized fertilizers.

## Gross Profit

Company had recorded a gross profit of Rs.1,097.4 Million in the financial year of 2015/16 and it was an increase of 28.27% compared to the previous year. Increased sales of subsidy fertilizers for other crops had greatly contributed towards this increase.

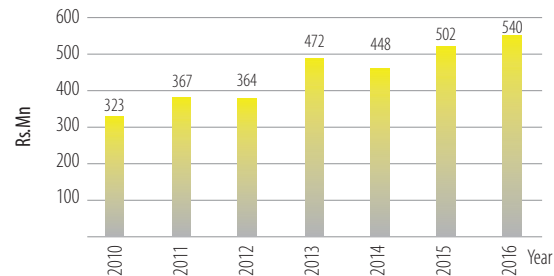
Gross Profit



## Administrative Expenses

Company's administrative expenses for the financial year was Rs.539.86 Million and it was an increase of 7.5% compared to the previous year.

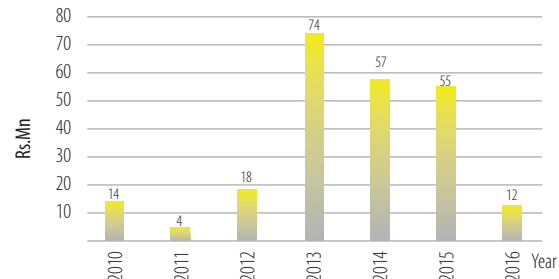
Administration Expenses



## Distribution expenses

Company's distribution expenses had dropped to Rs. 12 Million and as a result of effective and efficient management as well as improving the spread and efficiency of the distribution network.

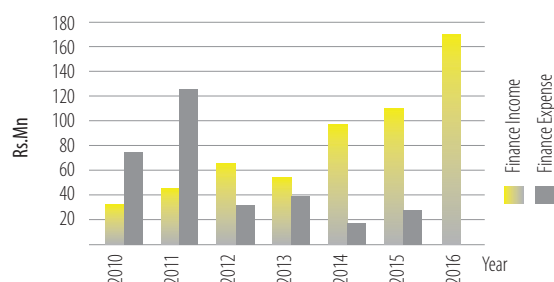
Distribution Expenses



## Financial income and expenses

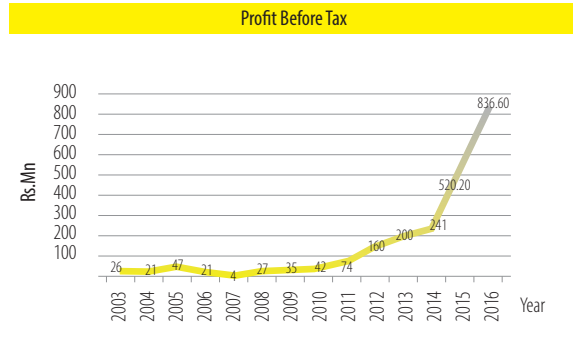
Company's financial income has increased to Rs.170 Million in the financial year. Due to internal efficiencies being leveraged, the financial expenses have dropped dramatically to Rs.1.76 million (53% decline).

Finance Income & Expense



## Profit before tax (PBT)

Company's highest ever profit before tax was recorded as Rs.837 Million and it was an increase of 60.8% compared to the previous year.

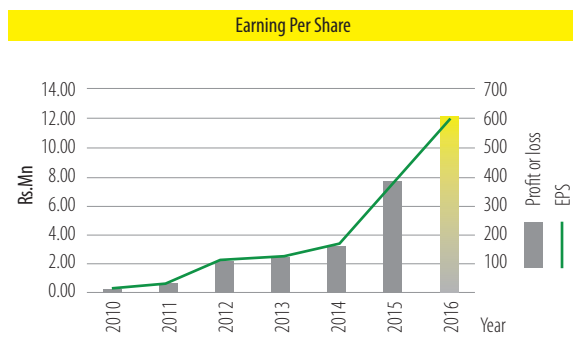


## Tax

Income tax cost for the financial year was Rs. 233 Million and it was Rs. 134 Million in 2014/15. Differed tax cost of Rs.<3.2 > Million is included in the income tax cost. According to the Income Tax Act of No. 10 in 2006 and the revisions made later on, the company is under an income tax credit obligation of <1%> % each.

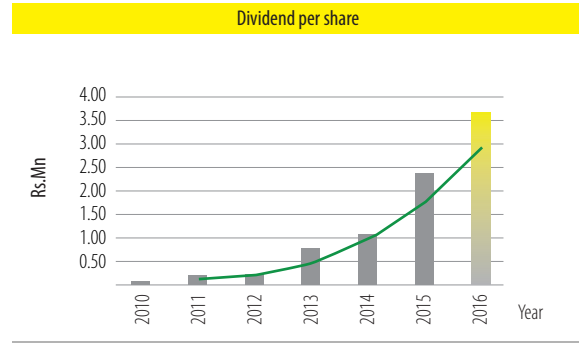
## Earnings Per Share (EPS)

The company recorded a value of Rs. 12 as highest ever earning per share in the financial year. This was an increase of 56.38% over the previous year.



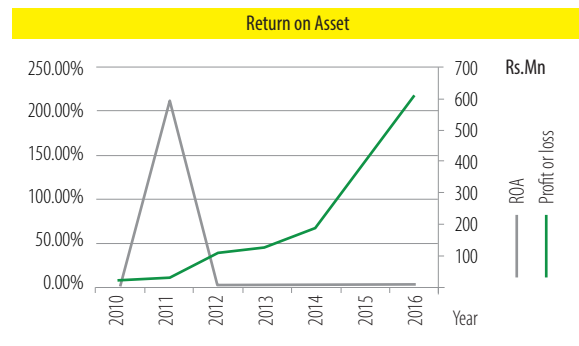
## Dividends Per Share (DPS)

Dividend Per Share in the financial year was Rs.3.60, the highest ever value recorded so far.



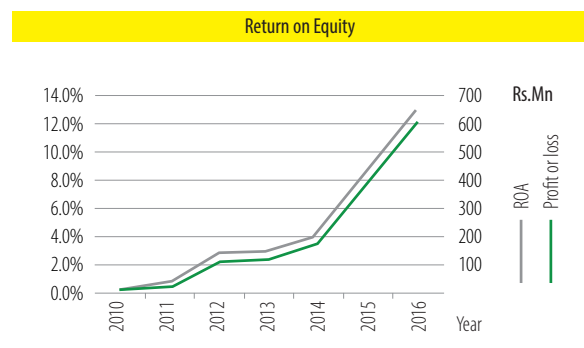
## Returns on Assets

The company was able to generate a re-profit of 1.65% on total assets in the projected year. This was an increase of <90%>% compared to the previous year.



## Returns on Equity (ROE)

The company generated a return on equity of 13% and it was an increase of <38%> % compared to the previous year.



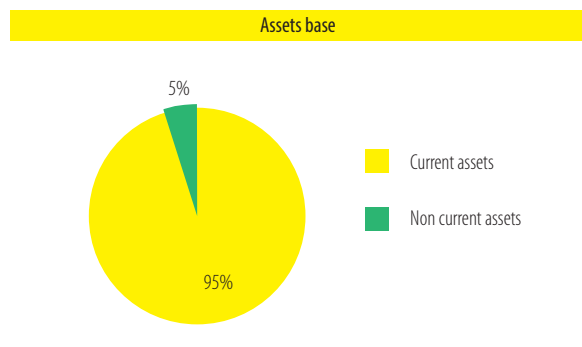


### Asset base

The company's total asset value, with non-current assets of 5% and current assets of 95%, was Rs. 36.6 Billion at the close of the financial year of 2016.

Total non-current asset of the company consisted mainly of properties, liabilities and equipment was Rs.1.87 Billion for the projected year.

Total assets had decreased by 17.8% compared to the last year.



### Cash flow and liquidity

Cash generated by way of operations and investments are the main cash sources of the company. Cash flow from operations was Rs. 4.8 Billion and the net cash flow from investments was Rs. 1.08 Billion in the projected financial year. Cash flow from the company's financial functions in the reviewed year was Rs. 3.8 Billion.

### Service credit and working capital requirements

The company was able to maintain a sufficient liquidity to pay capital costs and dividends.

### Shareholders' funds

100% shares owned by Government Treasury. Number of shares Issues 50,245,608



# For Home Gardens

Fertilizer in mini packs  
for fruits, vegetables and flowers

# HUMAN RESOURCES MANAGEMENT

## Good Practices in Human Resource Policies

Our Human Resources Management Strategies have been properly prepared in accordance with Shop and Office Act, Wages Board Ordinance, Guides issued by the Treasury and Linear Ministry and all the relevant Labour Laws presently being practiced in Sri Lanka. Adhering to the highest standards of the Administrative Regulations and E-code of the state, the company strives to optimize the management of its human resources while exercising due-diligence and transparency in creating its organizational structure, identifying its gaps and filling them against directives issued by the Salaries and Cadre Commission and giving promotions and establishing remuneration packages according to standards and directives established by the Department of Management Services.

## Employee Benefit Plan

Complying with state directives, the company contributes 15% of the gross salary for Employees' Provident Fund (EPF) and 3% of the gross salary for Employees' Trust Fund (ETF).

## Introduction of Benefit Plan

A qualified assessor calculates the benefit liability indicated in the financial statement each year in compliance with the accounting standards of Sri Lanka while provisions for pensions benefit liability is calculated from the first service year of every employee.

## Employee Motivation

The company pays serious attention to motivating its staff to maximize their performance and productivity by creating a harmonious work environment, improving facilities, reducing stress and giving employees a stronger sense of ownership in the day-to-day business of the company as well as its short and long term profit resulting in a significantly reduced level of attrition.

## Financial benefits

- An annual incentive program identifies individual performance of each employee according to internationally accepted standards for performance evaluation.
- Allowances for tea, food and clothing etc. are paid to eligible staff to reduce financial stress.
- Providing encashment for unutilized medical leave as an incentive to spend more days of the year at the place of work of all employees.
- Mobile phones are provided to eligible employees and mobile and direct line bills are reimbursed, once again, to reduce the burden on staff in conducting business operations on behalf of the company.
- Understanding its responsibility to the staff that goes beyond simple economic remuneration for work, financial assistance is offered to the children of our staff who excel in educational,





cultural or sports activities at the level of national or international arenas.

### Other benefits

- Official vehicles are provided to Regional Managers.
- Motorcycles are offered to District Marketing Executives in order to reduce fatigue and increase productivity.
- A medical insurance scheme is established to improve access to health services from a financial perspective for all employees and their family members.
- Incentivized local or foreign tours are offered to Field Staff who record the highest sales.
- An organizational culture is established encouraging a fear-free environment where open communication policies encourages the free and candid flow of information from bottom to top.
- Spiritual and skills related training programs are regularly offered to our staff and aims at overall improvement of mental health and career skills.

### Special programs

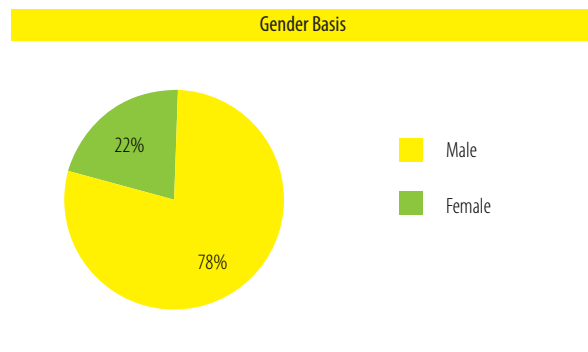
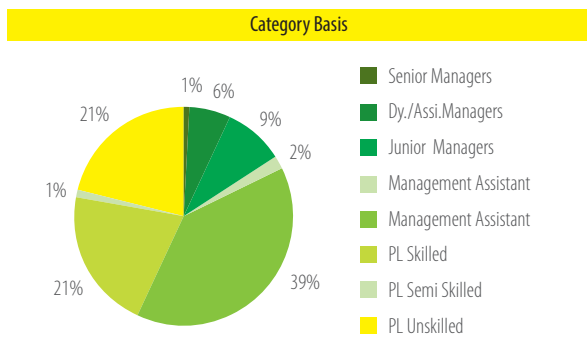
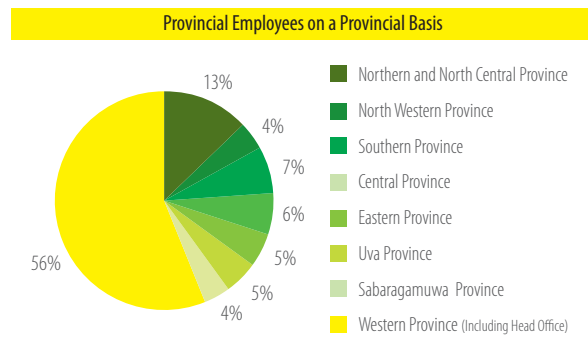
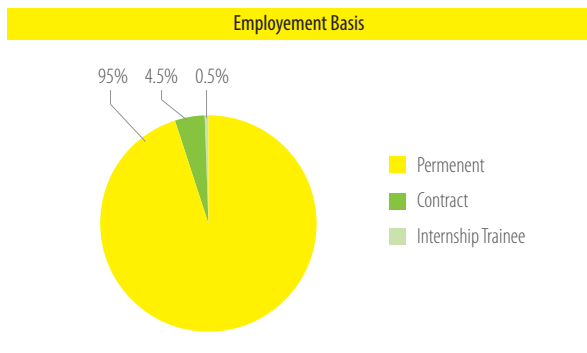
- The Lakpohora family day was held at the Aqua Pearl Lake Resort on 26<sup>th</sup> November 2015 where staff and family were given the opportunity

to relax, enjoy themselves and strengthen the sense of belonging to a larger company family. A thousand family members participated in this event. During this event, 3 staff members who had completed 25 years of service to the company were honored for the longevity of their effort on behalf of the company with an award of gold sovereigns.

- Going with the overall human resource strategy of improving capacity by identifying and developing staff skills, the company joins hands with the National Apprenticeship and Industrial Training Authorities to offer national vocational qualification certificates to employees with identified vocational skills even though they are not employed in the technical category.
- A sum of Rs. 4 million has been set aside in the budgets for staff training and development and efficiency bar examinations.
- A sum of Rs.1.4 million has been set aside for training and development.

### Our staff composition

The total commitment of the members of Lakpohora to achieving the overall goals of the company is the secret of our success. We have a team of 429 employees who have committed themselves to achieving key milestones and objectives by implementing key strategic plans of the company. Our employment categorization based on employment base, service category, areas and gender is given below.



### Employee health and safety

Employees' health is an essential factor for company's continuous performance and prioritizing our employees' health and safety is a foundation of our business process optimization process. This attention has yielded high performance and productivity results, reduced greivences among staff and increased overall confidence in the policies and strategies of the company. The effort complies with international standards of workplace safety and includes immediate review of any untoward event or incident where the health, safety or wellbeing of any staff member was compromised and steps taken to eradicate any possibility of recurrence of a similar issue.

### Welfare and human resources

We have well understood the importance of creating the sort of enabling environment that would support, help and facilitate performance enhancement, self-improvement, leadership and response to challenges among our valued staff and our commitment to this vital facet of the organization continues to be a matter of top priority for the management.

Additionally, as part of our overall human resource development activity cloud, we utilize the services of both internal and external professionals in many sectors, themes and thrusts to develop technical and leadership skills while increasing motivation, encouraging learning through experience and improving consultative capacity.

The company has been farsighted in providing the best possible learning environment for its staff and as such, library facilities have been provided for employees to update and improve their knowledge.

Special technical training programs are conducted for the Laboratory Staff to enable them to be more efficient and more technically consistent in standardizing fertilizer analyses in the modern laboratory.

### Retention

The company is proud of the achievement made by maintaining a lower employee cost and lower level of staff attrition in the financial year thanks



to employment satisfaction facilitated by staff development, equality, friendliness and the creation of a learning-enabled atmosphere where facilities and benefits are provided to optimize opportunities for developing professional proficiency.

**Employee Turnover by Age Group**

	Number of Employees	%
Below 30 Years	31	3.23
Between 31 - 49 Years	266	0.38
50 Years and above	103	7.77

**Employee Turnover by Gender**

	Number of Employees	%
Male	9	2.87
Female	1	1.16
Total Turnover (%)		4.03

**Spiritual development**

Special programs are organized by the company for the spiritual development of the employees.

Religious events are held at the Buddha Statues that are present in front of the office complex and at the Central Stores Complex in Hunupitiya under the guidance and auspices of the Buddhist Society.

Rituals are performed at the statue of the 'Lord Ganesh' installed in front of the company in order to encourage religious cooperation.

In addition, each year, our employees and their family members get together to celebrate 'Lakpohora' Family Day.

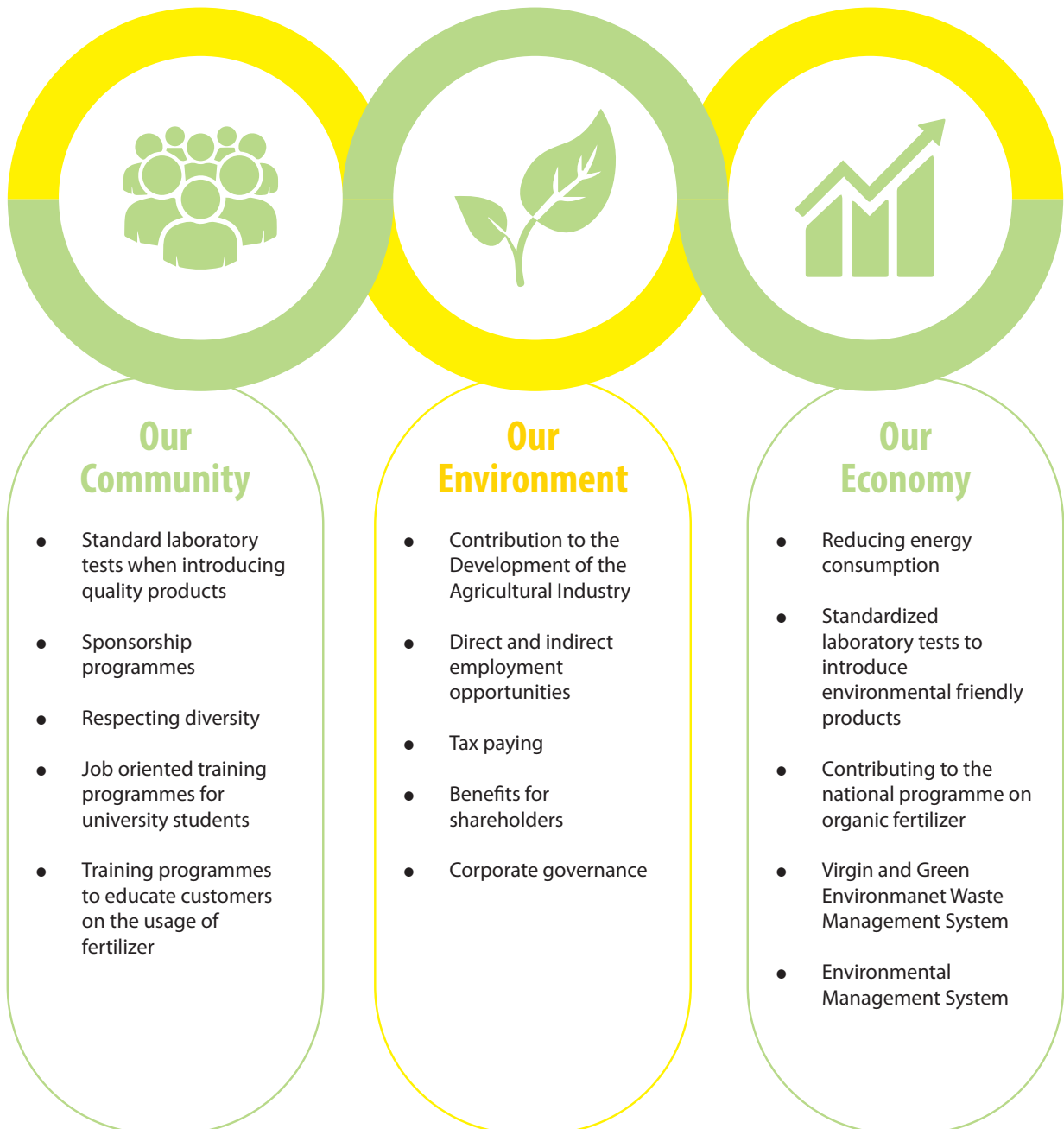




# OUR COMMUNITY

## Our Corporate Social Responsibility

Our Corporate Social Responsibility along with the policy led by it contributes towards the sustainable development of the country. With that, we grow as a company that is loved and trusted by all parties as well as society as a whole



# TECHNICAL DIVISION REPORT

The fact that Ceylon Fertilizer Company Limited is the foremost state agency importing and retailing fertilizer need not be constantly repeated or clarified. As the technical division of the company, we involve ourselves from the point of import to the point of delivery to our consumers and ensure that their satisfaction is optimized. Towards this ultimate goal we engage with the procurement, finance, retail and distribution divisions to optimize the bottom line of the company, provide the most conducive work environment for our staff through a 24 x 365 work ethic.

The Quality Circle Team comprising of about 20 staff members of the technical division provide yeoman services to our wages division staff, all registered transport service providers and their representatives, all registered retail distributors and those who engage with us from organizations providing us with various services. Since we have identified the fact that providing a friendly service directly results in increase of profits, we are committed to assuring such a high quality of service at all times.



We maintain accurate weighing platforms to make sure that the fertilizer issued by our company are correct.



We have constructed our storage facilities through stacker machines to optimize efficiencies and minimize costs of holding all our stores in Colombo.



Maintaining and refurbishing the organization's grounds and buildings



Assuring the staff of continuous water and electricity and maintaining the internal telephone systems.

## DISTRIBUTION DIVISION

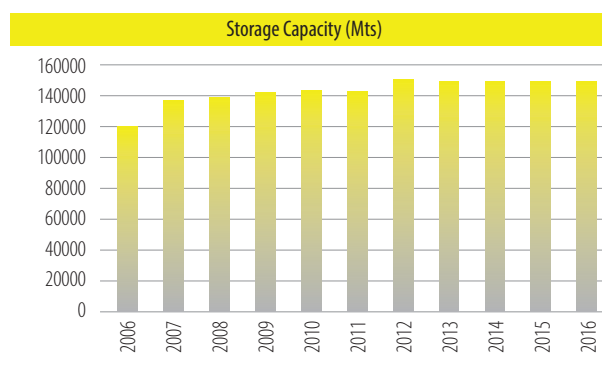


The main tasks of the distribution division is to store imported fertilizer at the Hunupitiya facility and distribute it efficiently through provincial stores and authorized dealers and distributors.

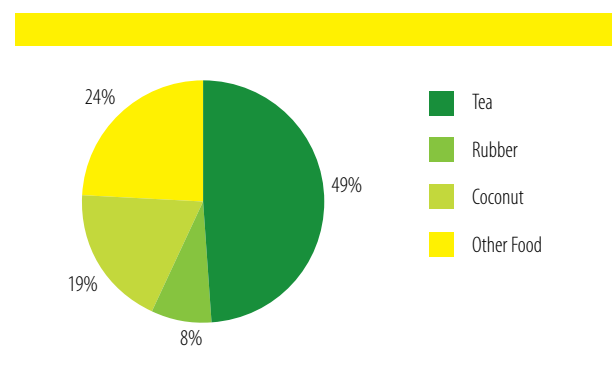
Additionally, mixing fertilizers that adhere to directives and standards issued by research

companies is another duty of this division.

Accordingly, 52 stores scattered around the island are administered by the distribution division while the total capacity of these stores is approximately 150,000 metric tons.



In the year 2015/2016, a total of 24,774 tons of fertilizer mixes were manufactured according to research agency directives on mix proportions for tea, rubber and coconut and arrangements made for their efficient distribution.

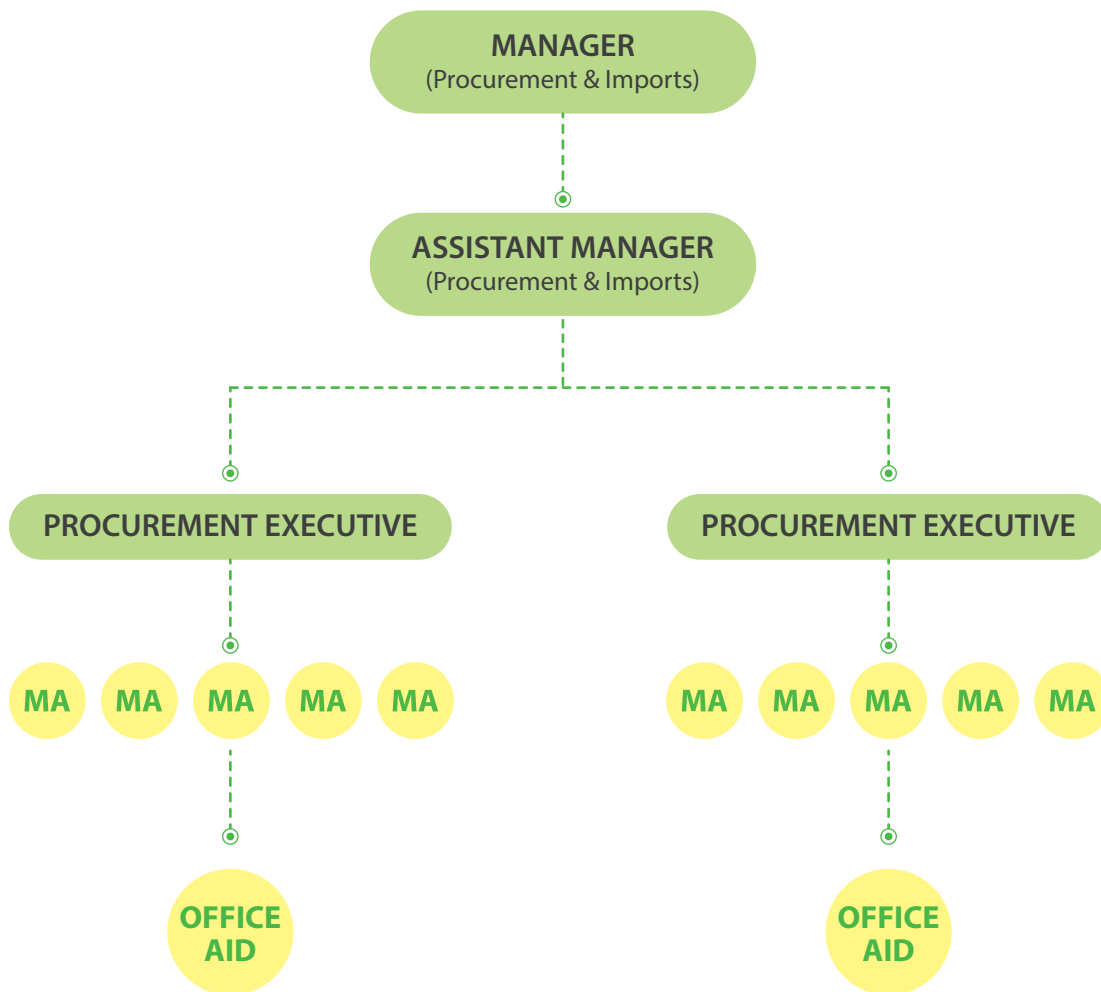


In the year 2015/2016 a larger percentage (49%) of mixed fertilizers were manufactured for the tea industry while the percentage of fertilizers for other crops stood at 24%, 19% for coconut and 8% for rubber.

# PROCUREMENT DIVISION

Optimizing the procurement process is vital to the bottom line of the company and our 15 member procurement team is trained to do exactly that through production and marketing of fertilizer to an extended and diversified market with insatiable demand of the agricultural and agrarian sector of Sri Lanka.

## Procurement Division Comprised 15 Employees which is constituted as follows:



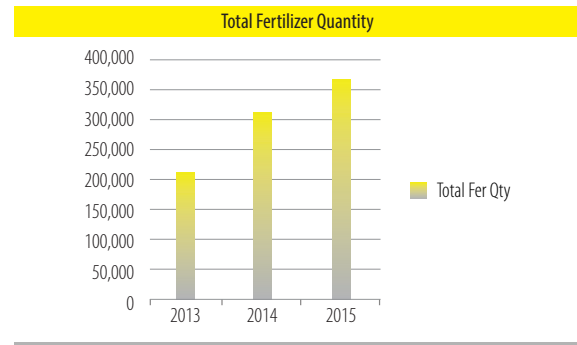


The duty of the division is to procure Goods, Services, Works and Consultancy Services as per the Procurement Guideline and Manuals. Our main focus is to obtain fertilizer adhering the Procurement Guideline which is part and parcel to the company.

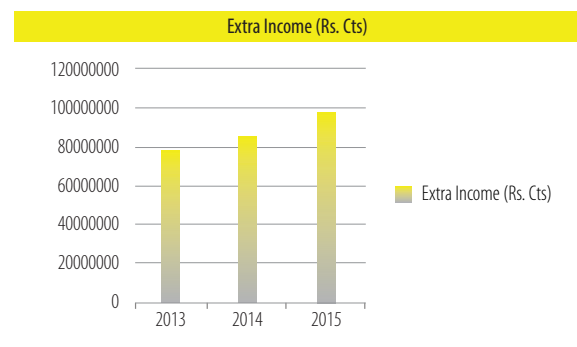
According to the Procurement Procedure approved by the cabinet of Ministers, recommendations were given by the standing cabinet appointed Procurement Committee (SCAPC) comprising several secretariat to Ministers assisted by a Technical Evaluation Committee (TEC).

CFCL does not get any financial assistance from the consolidated fund even though it is owned by the General Treasury of Sri Lanka. Additionally, the company has fulfilled nearly 65% to 75% of the overall needs of the country's requirement of fertilizer for paddy.

The following table depicts the Annual Fertilizer Imported by all Imports. Percentage share in MT during the period 2013-2015.



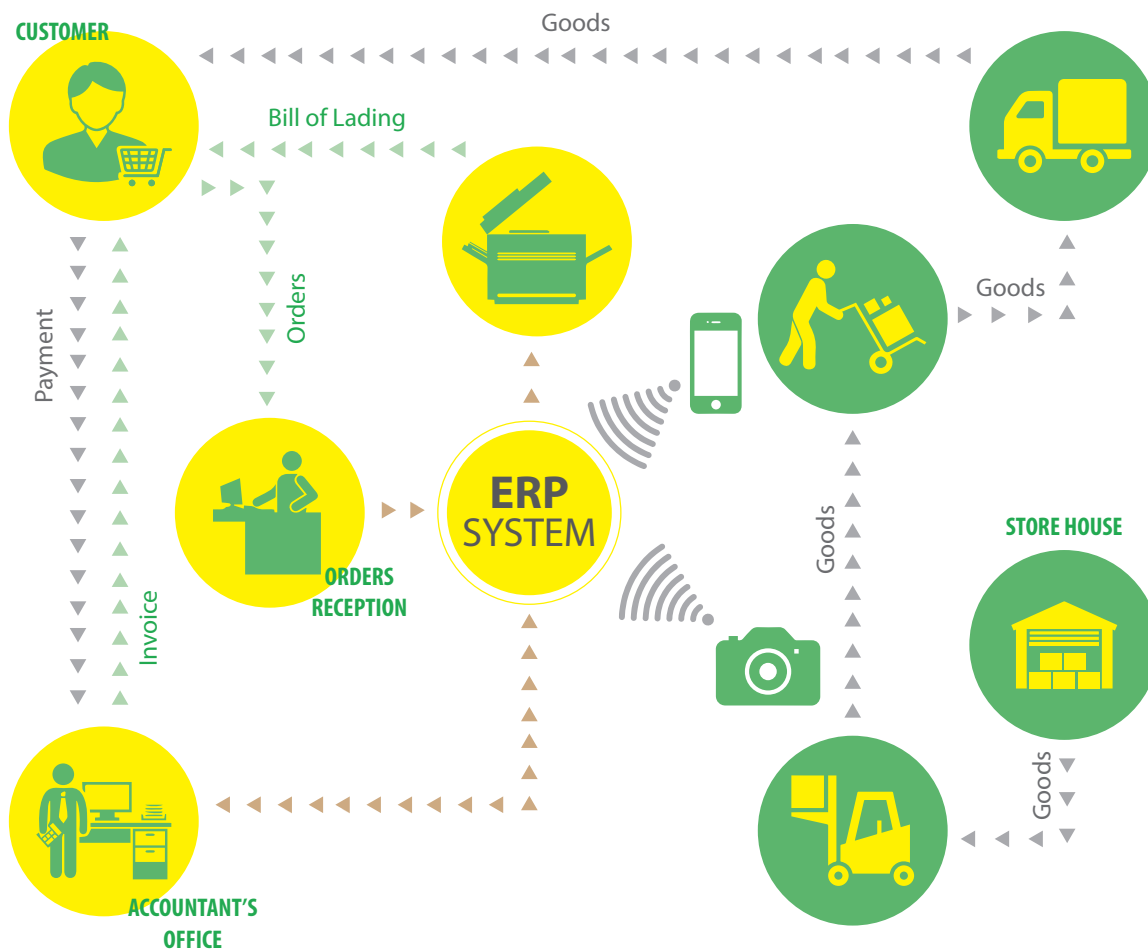
Last Three years extra income which is acquired through dispatch money, Marine Insurance no claim rebate, Bond claims are shown in table II.



# INFORMATION TECHNOLOGY DIVISION

Information Technology Division is expected to perform functions of IT policy and planning, application and maintenance of software, acquisition and maintenance of hardware, development and maintenance of networking, ensuring efficient and effective data/information management, website maintenance and information security.

- Implementing the introduced Enterprise Resource Plan (E.R.P) software system at Head Office of Ceylon Fertilizer Co. Ltd.
- Initially connecting 10 Regional Fertilizer Stores including Polonnaruwa, Weerawila, Kuruwita, Mathugama etc. through VPN with the ERP System.
- Upgrading Local Area Network to connect 200 computers in Head Office premises. (110 already connected).
- Introducing secure Wi-Fi zone within the Head Office premises to official mobile devices and laptops.



# CORPORATE GOVERNANCE



The company has been institutionalized with a code of strong corporate values and a hierarchy governed by a standard process of Human Resources Management.

The full responsibility of maintaining the corporate governance of Ceylon Fertilizer Company Limited in compliance with the highest standards lies with the Board of Directors. The mechanism of the company's corporate governance ensures an agreed upon value to all the parties. Corporate governance is carried out in compliance with the following regulations, laws and ordinances.

1. Companies Act of No. 07 in 2007
2. Public Enterprises guideline for Good Governance by the Department of Public Enterprises.
3. The code of best practice on corporate governance by the Department of Public Enterprises.

## Board of Directors

The responsibility of the Board of Directors is to ensure efficient and effective Management of public enterprise in compliance with public policies. This can be achieved by way of protecting the resources, maintaining proper accounts, ensuring the procurement of correct reports and obliging to all the statutory and other legal requirements with regard to management.

The Board of Directors ensure that the enterprise identifies its strategic goals and that the company function to achieve them. Through high quality oversight, the Board of Directors ensure that the internal system of governance and risk management in effective, that management activities are efficient and that resources and assets are effectively optimized. The Board of Directors annually evaluate the performances of the General Manager and the Senior Management Staff, provide interested parties with sufficient details on financial matters and communicate other requirements of the same nature from time to time.

The responsibility of appointing Audit and Risk Management Committees lies with the Board of Directors. The company has introduced a standard governance guide, code of ethics and the strategies of corporate governance. The Board of Directors ensure that the constitution and guides will be followed as per government circulars without causing any conflict with regard to the operations and ownership.

## Appointing the Board of Directors

When Board of Directors are appointed by the government, those appointments are done in a standard, competitive and responsible way. The liabilities, duties and responsibilities of the Board of Directors are clearly indicated by the authorized person in the letter of appointment.

The appointed Board of Directors will be assigned

with the responsibilities related to company's strategic targets and corporate goals, corporate governance of the company, management and administrative systems and procedures.

### **Board of Director Meetings**

The Board of Directors have held 12 meetings in the financial year of 2015/16 and the management has submitted timely and relevant information to the Board of Directors through Board of Director papers.

### **Directors' Allowances**

Directors are paid their allowances based on policies and scales of allowances designed by the government. Directors would not interfere in decisions on these allowances.

### **Chairman**

Chairman's role is of very important for the entire corporate structure and he is expected to steer the organization in the right direction. Chairman would ensure the smooth functions related to maintaining the corporate governance, treating every director equally, distributing responsibilities in the correct manner, balancing the power and authority, Ensuring the process of continuing the Board of Director Meetings he presides those meetings. He would contribute to the areas where he has expertise and stay away from getting actively involved in operations and play supervisory role whilst encouraging all the Directors to play a pre active role.

### **Secretary to the Board of Directors**

Professionally qualified Secretary to the Board of Directors is responsible for informing the Board of Directors of Board of Directors' Meetings and Annual General Meetings and updating the Board of Directors on relevant terms and regulations from time to time.

The Secretary ensures that the procedures related to having Board of Directors Meetings are followed, the Board of Directors perform effectively and Board of Directors' papers are distributed in time. Guidance with regard to responsibilities, terms and conditions related to the Board of Directors and instructions along with assistance to the members of the Board of Directors will be provided by him.

### **General Manager and The Senior Management**

General Manager and the Senior Management bear the responsibility of the Company's business management. They are responsible for implementing policies effectively and implementing the decisions made by the Board of Directors. General Manager and the Senior Management provide the Board of Directors with information and required explanations for their consideration and making decisions. They prepare operations, plans and budgets enabling the achievement of company's vision and mission whilst maintaining administrative and regulatory systems for effective management of the company.

Instructions of the allowance payment proposal are followed to determine the allowances for General Manager and the Senior Management.

### **Financial Reports**

Board of Directors are responsible for preparing annual financial reports indicating company's annual status and performance in an accurate and fair manner. Financial statements need to be prepared and presented in accordance with the financial recording standards of Sri Lanka and the Companies Act of No. 07 in 2007. Financial reports should fully reveal critical information as and when they are required enabling the Board of Directors and the Senior Management including the General Manager perform their responsibilities effectively.

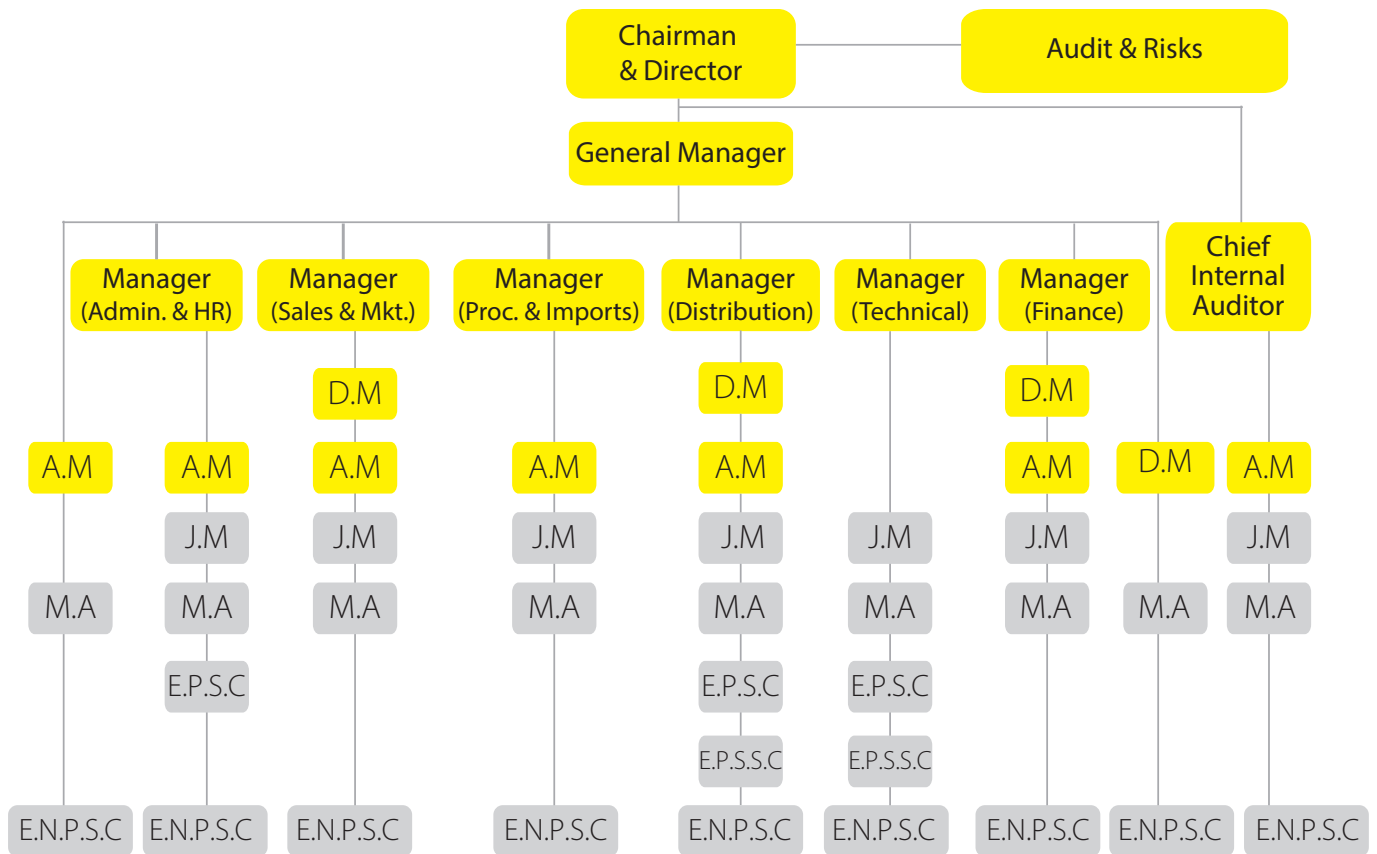
### **Annual Audit**

Annual Audit of the company is done by the Auditor Generals Department. The Annual Audit Report is reviewed by the Board of Directors and presented at the Annual General Meeting for approval.

### **Audit and Risk Management Committee**

The Audit and Risk Management Committee of the company plays an important role by helping the Board of Directors in administrative work. This committee consists three non-executive members of the Board of Directors including a financially qualified representative of the treasury. This representative holds the position of the President of the audit committee.

# ORGANIZATIONAL STRUCTURE OF THE COMPANY



- D.M** - Deputy Manager
- A.M** - Assistant Manager
- J.M** - Junior Manager
- M.A** - Management Assistant
- E.P.S.C** - Employees of the Primary Skill Services category
- E.P.S.C** - Employees of the Primary Semi Skill Services category
- E.N.P.S.C** - Employees of the Non-Primary Skill Services category

# RISK MANAGEMENT

## Risk management process

Identification and realization of a revealed risk of an organization is determined by risk management. It ensures that the organization prepares and implements an effective plan to avoid losses and minimize the impact caused by a loss. Risk management provides a clear and structured path to identify risks. By gaining a clear understanding about all the risks, an organization can evaluate and prioritize and take necessary steps to minimize those risks.

The Company has followed a strong, validated process to identify, evaluate, minimize and change negligence. The main objective of the system is to help in the operations of our business based on a risk focused approach to management.

Identification and evaluation of risks are of paramount importance and strategies that could be used to avoid, minimize and change the identified risks follow subsequently. The Board of Directors ensures the availability of an effective risk management system that focuses on the operations of the company.

## Key Risk Factors

Our company is exposed to a few risk factors in and uncertainty prevails in the operational set up.

Those risk factors faced by the company and the steps taken to minimize them are discussed later.

## Strategic Risks

Risks caused by uncertainties embedded in our strategic objectives and unused opportunities are called strategic risks. These types of risk arise mainly from key decisions made by the directors in line with the goals of the organization. The key concept behind strategic risk is the failure to achieve our proposed organizational goals. Taking this into consideration, the Board of Directors and the Management Team are carrying out systematic post reviews based on the future composite plan of five years, 3 year activity plan and the annual plan.

## Business Risks

These risks include those related to production, marketing and sale of products, economic risks that affect the production cost and the risks arising due to change in the technical environment and in customers' choices. The main internal risks related to our business are the inability to deal with existing products and the risks connected to new product development. Inability to deal with existing products is four-fold: i.e. the inability to understand the customer's needs, technology, industrial and economical facts and theoretical needs.

The company conducts systematic surveys on customers' satisfaction and assesses need changes among them. To understand future changes in regulations and recommendations that could take place in the company, it works closely with leading legal boards and organizations such as the state, Coconut Research Institute, Tea Research Institute and the Rubber Research Institute.

New products are introduced only after a complete study of the market and customer needs.

## Non-Business Risks

This risk is not related to the main business and is primarily related to long term financing. Sources are identified to fulfill these financial requirements by pre assessing long term financial needs of the company through the composite plan for future 5 years and the active plan prepared for 3 years. The cash flow coming into and going out of the company is made efficient through a planned annual budget and procurement plan, eradicating the need for instand cash.

## Operational Risks

This gives an idea of what is happening at the grass root level of the organization. Operational risks are directly connected to internal resources, systems, processes and employees of the organization. This also includes natural scenarios like malfunctioning of stores and machinery, cost of employees and bad weather conditions.

- A large fire safety system including adequate fire extinguishers and alarms is maintained by the company.
- The company has purchased a fire insurance cover and an additional electronic insurance for ultra-sensitive laboratory equipment in order to cover the damages that could happen due to a fire.
- The company has purchased insurance for mobile cash and cash safes to minimize the effect of burglary and corruption.
- The company has adequate marine insurance certificates for each imported cargo shipment.
- Due to cash and non-cash motivational employee programs, the cost for employees of the company is at a lower level.

## Cash Risks

The company has cash risks including credit risk, liquidity risk and the market risk in using cash equipment.

## Credit Risk

If the corresponding parties fail to face up with the agreed upon responsibilities of the company, the credit risk is the risk related to the financial loss of the company. The credit risk arises mainly due to sales on credit and deposits with financial organizations. In order to minimize risks,

- Before appointing distributors, a comprehensive analysis of the ability of each individual is done by a team consisting of Regional Marketing Managers, Chief Internal Auditor, Finance Manager, and Company's Legal Officers.
- Bank guarantees are obtained from distributors and corresponding parties before releasing credit facilities.

- Credit periods and value limits are indicated according to the conclusions made at credit analyses for distributors and corresponding parties.

## Liquidity Risk

The company's inability to face up to financial responsibilities is called liquidity risk. The company's approach to manage liquidity is to ensure there is an adequate amount of cash to face up to both general events and unexpected emergencies. The composite plan for the next five years and the activity plan for the next three years help in pre-assessing of the outflow of cash from the company and the sources of these cash flows and the cash flows that come into and go out of the company are made efficient and facilities are provided for settling all financial responsibilities through the procurement plan outlined in the annual report.

## Market Risk

Fluctuation of market price due to the fluctuation of interest rates (Interest Risk) of the fluctuation of foreign exchange (Exchange Currency Risk) is called the market risk which could affect the company's income and the capacity of maintaining financial equipment. 12.2.9. Exchange Currency Risk Risk caused by the fluctuation of Sri Lanka Rupee value against US Dollar puts the company at the Exchange Currency Risk.

## Interest Risk

Fluctuation of market interest rates for credit purchases under a fixed interest rate and holding interest with bank deposits is called the Interest Risk

## Regulatory Risk

When the state regulations with regard to the import, production, distribution and consumption of fertilizer, and the recommendations enforced by the state organizations such as the Coconut Research Institute, Tea Research Institute and the Rubber Research Institute are changed, the company has the regulatory power to act accordingly. In identifying any possible change in the regulatory setting, the company works closely with these organizations. However, the risk factors are not limited to this list and the company is very cautious about such changes that could affect its operations.

# AUDIT AND RISK MANAGEMENT COMMITTEE REPORTS

In the year ended on 31<sup>st</sup> March 2016, the Audit and Risk Management Committee has acted in accordance with the work rules recommended by the Board of Directors.

## Composition of the committee

The Board of Directors appoints the Audit and Management Committee and it comprises of three non-executive directors. The treasury representative acts as the chairman of the committee. In addition, a representative from the Auditor General's department which is the external auditor and a representative of the chief internal auditor of the Ministry of Agriculture attend the committee meetings as observers. The following directors have been designated as Audit and Management Committee Members for the year 2015/16.

1. Ms. J. M.S.D. Rathnayake  
Committee Chairperson
2. Ms. Anoja Herath  
Committee Member
3. Mr. Hemaka Lasith Balasuriya  
Committee Member
4. Ms. R.P. Sunanda Padmini  
Observer
5. Mr. P.L. Namasena  
Observer

## Committee Meetings and Attendance

The audit committee has formally met 3 times in this financial year. The Chief Internal Auditor has functioned as the convener of the audit committee and upon the invitation of the committee, the General Manager, relevant divisional heads and other officials have attended the meetings to provide explanations. Attendance at the meetings were as follows:

Date	Ms. J.M.S.D. Rathnayake	Ms. Anoja Herath	Mr. Hemaka Lasitha Balasuriya
2015.05.15	√	√	x
2015.12.15	√	√	√
2016.03.30	√	√	√
	3/3	3/3	2/3

## Duties of the Committee

1. Analyzing the accuracy and fairness of the financial statements to ensure that the financial statements have been prepared according to Sri Lankan and international accounting standards.
2. Ensuring, reviewing and assessment of economy, efficiency and effectiveness of the company's internal control systems.
3. Reviewing the effectiveness of the company's risk management system.
4. Discussing with external auditors and reviewing the auditor's management letter.
5. Ensuring whether the compliance with the articles of association, regulations, terms and circulars.
6. Reviewing internal audit reports / external audit reports.
7. Implementing the recommendations / orders of the Committee On Public Enterprises.

## Activities in the year

The committee reviewed the financial reporting system that has been activated to ensure the accuracy and authenticity of the information provided to relevant parties and made its observations paying special attention to Sri



Lankan and international accounting standards and related partial transactions.

### Internal Audit

The company has a well-organized internal audit division and its staff comprises of experienced professionals representing many areas including auditing, financial accountancy, taxation and business administration.

### Key Objectives of the Internal Audit Division:

1. Reviewing accounting and internal control systems
2. Scrutinizing financial and operational information
3. Reviewing the economy, efficiency and effectiveness of the operations
4. Ensuring that the operations and the programs assigned to managers are in control and with a fair assessment confirming that the operations and programs are carried out as planned and that the operational results are in line with established goals and targets
5. Ensuring that the laws, regulations and other external requirements are in line with management policies
6. Conducting special investigations

The audit committee supervised the internal audit process during the period of reporting, focusing on internal audit plan, audit programs of regional fertilizer stores, regulatory risk assessment methodology and audit plans based on risks. The audit committee has held discussions with the internal auditor to consider the internal auditor's reports and recommendations in the reviewed year.

Internal audit reports of 52 regional fertilizer stores and 09 key divisions were reviewed and

a considerable growth was observed in total internal control systems and internal audit process.

The company's Chief Internal Auditor attends the Audit and Management Committee Meetings held at the Ministry of Agriculture to discuss important matters on quarterly basis. An information technology audit unit has been established to obtain information ensuring confidentiality from the public and interested parties who wish to provide information to control bribery and corruption in the distribution of subsidy fertilizer.

The support extended by the Auditor General's Department, Attorney General's Department and the Department of Police in this respect is highly appreciated.

### External Audit

The Auditor General's Department has functioned as the company's External Auditor.

### Support given to the committee

The expected support was given to the committee by the Committee Chairmen and Management Committee Members, and it was of great help for the committee to function effectively during the period of reporting.

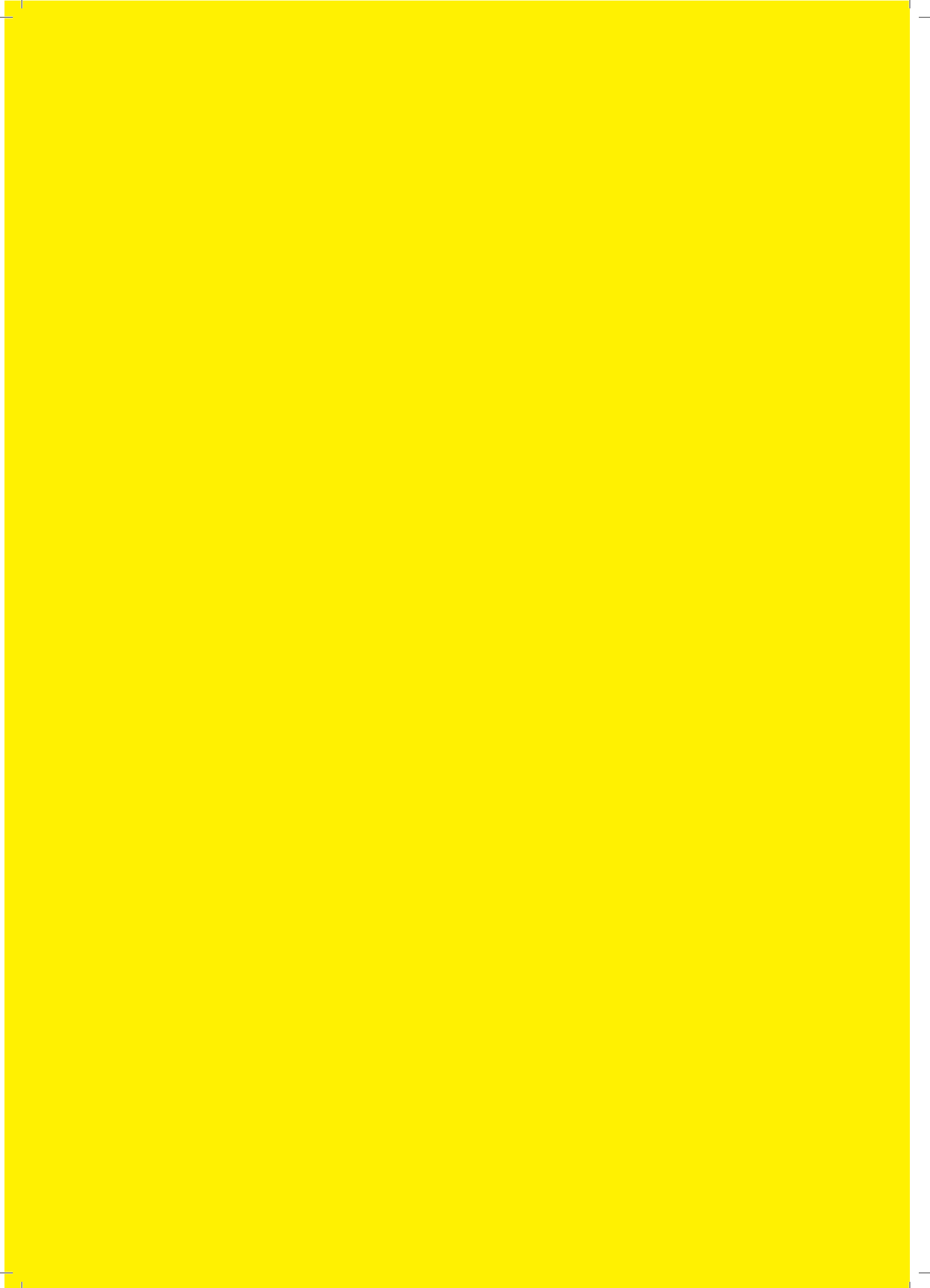
### Committee Assessment

The committee's work process is assessed by the Board of Directors doing its review as well. The Board of Directors have concluded that the committee's work process has been effective.

Yours faithfully,



**Mrs. J. M. S. D. Rathnayake**  
Chairperson  
Audit and Risk Management Committee  
5<sup>th</sup> November 2016



# OUR GEOGRAPHICAL COVERAGE

**53** Island wide fertilizer distribution warehouse network....



## Ceylon Fertilizer Co. Ltd. Islandwide Fertilizer Distribution Network

- Northern Region**  
Kondavil  
Kilinochchi  
Varani  
Olumadu  
Murankan

- North Central Region**  
Padaviya  
Medawachchiya  
Horowpathana  
Nochchiyagama  
Kiralogama  
Hingurakgoda  
Welikanda  
Polonnaruwa

- North Western Region**  
Anamaduwa  
Maho  
Kuliyapitiya  
Kurunegala  
Nattandiya  
Polgahawela

- Central Region**  
Dambulla  
Nagolla  
Matale  
Gampola  
Rikillagaskada  
Nuwara-Eliya

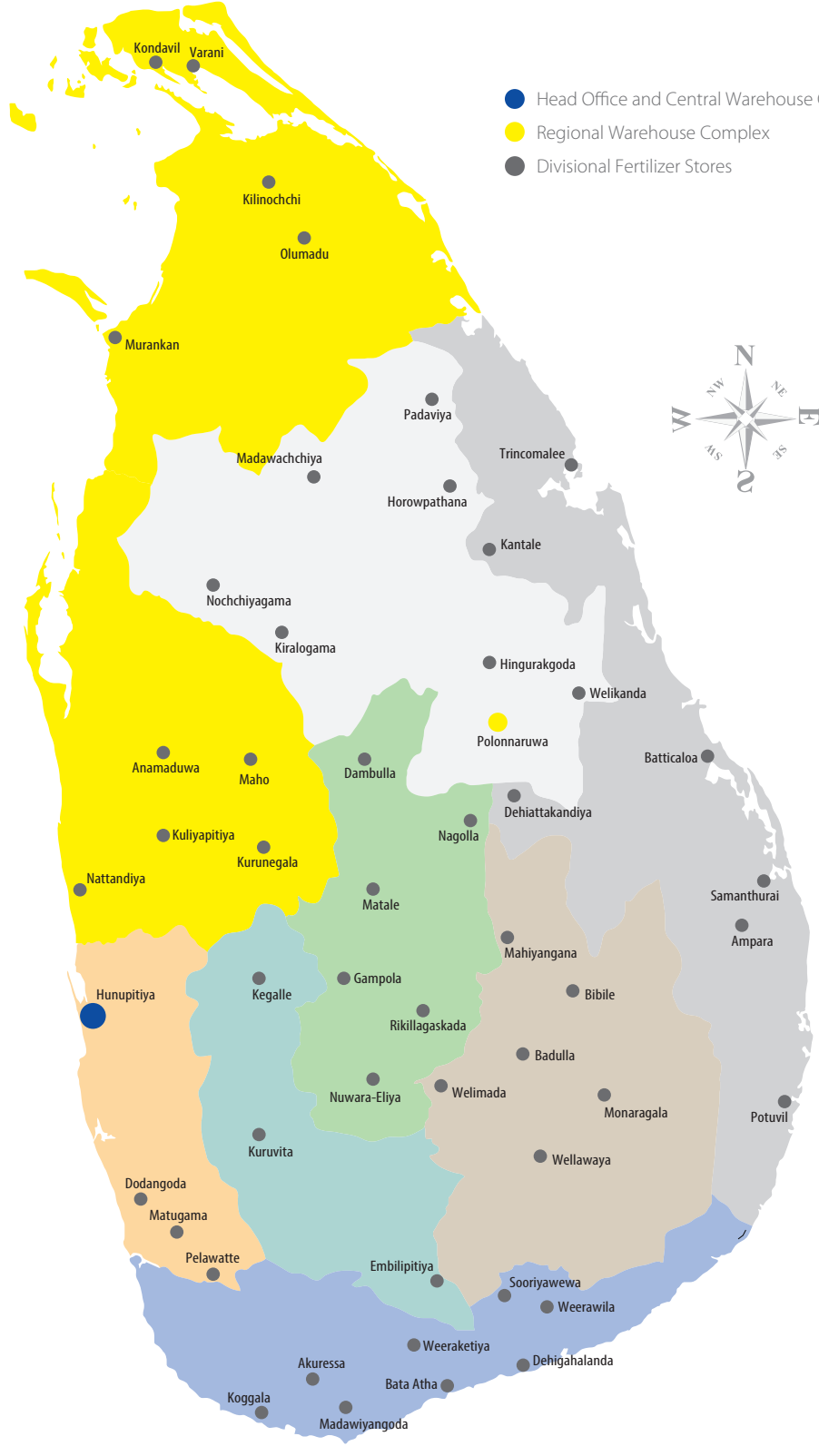
- Eastern Region**  
Trincomalee  
Kantale  
Batticaloa  
Dehiattakandiya  
Samanthurai  
Ampara  
Pothuvil

- Western Region**  
Hunupitiya  
Dodangoda  
Matuhgama  
Pelawatte

- Sabaragamuwa Region**  
Kegalle  
Kuruwita  
Embilipitiya

- Uva Region**  
Mahiyanganaya  
Bibile  
Badulla  
Welimada  
Monaragala  
Wellawaya

- Southern Region**  
Sooriyawewa  
Weerawila  
Dehigahalanda  
Weeraketiya  
Bata-Atha  
Medawiyangoda  
Akuressa  
Koggala



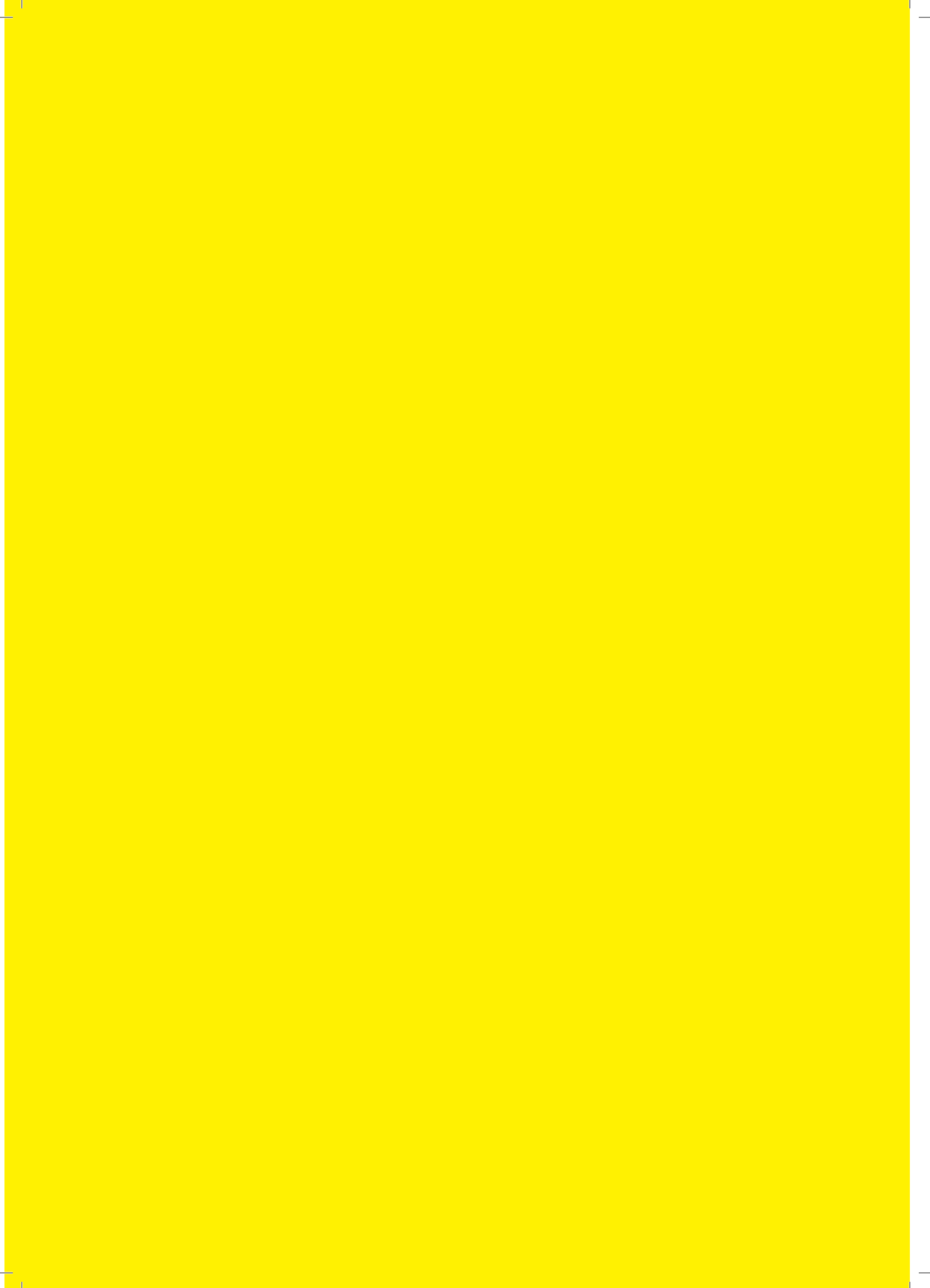




# Financial Statements

for the year ended 31<sup>st</sup> march 2016

Ceylon Fertilizer Company Limited



# Statement of Directors' Responsibilities

The Directors are responsible under Sections 150 (1), & 151 of the Companies Act No. 07 of 2007, to ensure compliance with the requirements set out therein to prepare Financial Statements for each financial year giving a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit & loss of the Company for the financial year.

The Directors are also responsible, under Section 148, for ensuring that proper accounting records are kept to enable for determination of financial position with reasonable accuracy, preparation of Financial Statements and audit of such statements to be carried out readily and properly.

The Board accepts responsibility for the integrity and objectivity of the Financial Statements presented. The Directors confirm that in preparing the Financial Statements, appropriate accounting policies have been selected and applied consistently while reasonable and prudent judgments have been made so that the form and substance of transactions are properly reflected.

They also confirm that the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards- SLFRS and Companies Act No. 07 of 2007.

Further, the Financial Statements provide the information required by the Companies Act.

The Directors are of the opinion, based on their knowledge of the Company, key operations and specific inquiries, that adequate resources exist to support the Company on a going concern basis over the next year. These Financial Statements have been prepared on that basis.

The Directors have taken reasonable measures to safeguard the assets of the Group and, in that context, have instituted appropriate systems of internal control with a view to preventing and detecting fraud and other irregularities. As required by Section 56 (2) of the Companies Act, the Board of Directors has authorised distribution of the dividend now proposed, being satisfied based on information available to it that the Company would satisfy the solvency test after such distribution in accordance with Section 57 of the Companies Act, and have sought in respect of the dividend now proposed, a certificate of solvency from the Auditors.

The Auditor General who was empowered to audit the Ceylon Fertilizer Co. Ltd., Under the provisions of Nineteenth amendment to the constitution of Democratic Socialist Republic of Sri Lanka, was provided with every opportunity to undertake the inspections they considered appropriate to enable them to form their opinion on the Financial Statements.

## Compliance Report

The Directors confirm that to the best of their knowledge, all statutory payments relating to employees and the Government that were due in respect of the Company as at the Balance Sheet date have been paid or where relevant, provided for.



**Roshana Waduge**

Chairman

Ceylon Fertilizer Co. Ltd.

June 29<sup>th</sup> 2016

# Chairman's and Financial Manager's Responsibility Statement

The Financial Statements of Ceylon Fertilizer Co.Ltd. As at 31<sup>st</sup> March 2016 are prepared and presented in compliance with the requirements of the following.

- Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka;
- Companies Act No. 07 of 2007;
- Code of Best Practice on Corporate Governance issued by General Treasury

We confirm that the significant accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied, as described in the Notes to the Financial Statements. The prescribed Accounting Standards have been adopted without any deviations. The significant accounting policies and estimates that involved a high degree of judgment and complexity were discussed with the Audit Committee and the Auditor General.

We have also taken proper and sufficient care in installing systems of internal control and accounting records, to safeguard assets, and to prevent and detect frauds as well as other irregularities. These have been reviewed, evaluated and updated on an ongoing basis. Reasonable assurances that the established policies and procedures of the Company have been consistently followed were provided by periodic audits conducted by company's internal auditors. However, there are inherent limitations that should be recognised in weighing the assurances provided

by any system of internal controls and accounting.

The Audit Committee of the Company meets periodically with the Internal Auditors and the Independent Auditors to review the effectiveness of the audits, and to discuss auditing, internal control and financial reporting issues. The Auditor General and the Internal Auditors have full and free access to the Audit Committee to discuss any matter of substance.

The Financial Statements were audited by the Auditor General to the Democratic Socialist Republic of Sri Lanka.



**Roshana Waduge**  
Chairman



**Priyantha Samaraweera**  
Finance Manager

June 29<sup>th</sup> 2016.





විගණකාධිපති දෙපාර්තමේන්තුව  
கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்  
**AUDITOR GENERAL'S DEPARTMENT**



AGL/C/CFC/1/15/FA

The Chairman  
Ceylon Fertilizer Co. Ltd.

## Report of the Auditor General on the Financial Statements of the Ceylon Fertilizer Company Ltd., for the year ended 31 March 2016.

The audit of financial statements of the Ceylon Fertilizer Company Ltd., for the year ended 31 March 2016 comprising the statement of financial position as at 31 March 2016 and the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My comments and observations which I consider should be published with the Annual Report of the Company appear in this report. A detailed report was issued to the Chairman of the Company on 26 August 2016.

### 1.2 Establishment of the Company

The Ceylon Fertilizer Corporation has been incorporated under the State Industrial Corporations Act No. 49 of 1957 with the financial and technical assistance of the Federal Republic of Germany in the year 1954. It had been re-established as Ceylon Fertilizer Company Ltd., with effect from 15 September 1992 in terms of the transformation of Government Corporations and Government Owned Business Undertaking into limited liability companies Act No. 23 of 1987 and it has been registered and operated under the Companies Act No. 07 of 2007 at present.

### 1.3 Management's Responsibility for the Financial Statement

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 statement that are free from material misstatements, whether due to fraud or error.

### 1.4 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 Auditing Standards of Supreme Audit Institutions (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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව, . - இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka



+94-11-2887028-34



+94-11-2887223



oaggov@sltnet.lk



www.auditorgeneral.gov.lk

considers internal control relevant to the Company's preparation and fair presentation of the 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 financial statements.

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

### 1.5 Basis for Qualified Opinion

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

## 2. Financial Statement

### 2.1 Qualified Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Ceylon Fertilizer Company Ltd., as at 31 March 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### 2.2 Comments on Financial Statements

#### 2.2.1 Sri Lanka Accounting Standards

Assets costing Rs. 78,606,015/= had been fully depreciated due to failure in annually reviewing the useful life for non-current assets in terms of Standard 16. However, they had still been in use. As such, action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 8.

#### 2.2.2 Accounting Deficiencies

The following observations are made,

- (a) Even through the interest income on fixed deposits and Treasury bills amounted to Rs. 164,141,923, according to the financial statement, it had been shown as Rs. 1167,801,299/= and as such, the interest income had been overstated by Rs. 3,659,376/=.

- (b) Even through the value of fixed deposits amounted to Rs. 3,042,587,476 as at 31 March 2016, according to the statement of financial position presented, it had been shown as Rs. 3,046,991,327 and as such, it had been overstated by Rs. 4,403,851/=.
- (c) Long term loans amounting to Rs. 21,366,705,534 obtained in the year 2013 and 2014 for settlement of Letters of Credit had been shown under Current Assets.

#### 2.2.3 Unexplained Differences

- (a) Even through the interest income received for fixed deposits under Assessable Income had been shown as Rs. 125,399,320, the actual interest received had been Rs. 120,995,571 thus indicating a difference of Rs. 4,403,749.
- (b) Even through the interest income received for Treasury Bills under Assessable Income had been shown as Rs. 29,022,874, thus indicating a difference of Rs. 338,154.
- (c) Even through the Hypothetical Tax Value had been shown as Rs. 3,307,720 under tax liability, that value had been Rs. 3,224,764 thus indicating a difference of Rs. 82,956.

### 2.3 Accounts Receivable and Payable

The following observations are made,

- (a) A sum of Rs. 86,408,870 shown as balances receivable from three institutions had remained irrecoverable from a period over 10 years.
- (b) Compensation amounting to Rs. 12,600,000 recoverable due to failure in claiming entitlement for the portion of land of 28 perches in extent acquired for the Colombo-Katunayake Highway Project could not ascertained.

## 2.4 Non-compliance with laws, Rules, Regulations and Management Decisions.

The following instances of non-compliances were observed.

Reference to laws, Rules, regulations and Management Decisions	Non-compliance
(a) Public Enterprises Circular No. 57 of 11 February 2011 and Paragraph 08 of the National Budget Circular No. 2/2015 of 31 January 2015	A sum of Rs. 2,521,000 had been incurred contrary to the objectives in the year under review for various publicity and sponsorship expenditure.
(b) Cabinet Decision No. 11/2360/549/034 of 12 January 2012	Even though a methodology should be prepared in determining fertilizer transpiration fees to regional stores, action had not been taken accordingly. The rates determined by the Procurement Committee of the Ministry on 25 March 2009, transport fees had been approved by the Chairman from time to time with the recommendation of the Rates Revision Committee and the Contract had been awarded subsequently. Even through 7 years had lapsed; rates had not been revised by obtaining the decisions of the Procurement Committee of the Ministry.
(c) Paragraph 02 of the Public Enterprises Circular No. 02/2015 of 25 May 2015.	Even though the maximum monthly telephone charges including taxes that can be paid to a Working Director had been Rs. 10,000/=, monthly telephone charges of Rs. 12,000/= had been paid to the Working Director of the Company.
(d) Section 47 of the Employees' Provident Fund Act No. 15 of 1958.	A sum of Rs. 28,999,236 had been paid as the Employees' Provident Fund in the year under review and Employees' Provident Fund including interim allowances and special allowances which do not fall into the earning category, had been paid.

## 2.5 Transactions not supported by Adequate Authority

The following observations are made,

- (a) A sum of Rs. 300,000 had been spent as sponsorship and aid in 05 instances in the year under review without obtaining the approval of the Board of Directors.
- (b) Despite having 03 Jeeps and 03 Double Cab vehicles in the pool, a Hybrid motor vehicle had been obtained for a Working Director of the Company for a monthly rental of Rs. 95,000 and a sum of Rs. 1,485,813 had been spent thereon in the year under review.

an increase of Rs. 316,403,267 in the pre-tax profit of the year under review as compared with the preceding year. The increase in the income by Rs. 406,779,899 and the decrease in the distribution cost by Rs. 43,695,688 had been the main reasons for this increase.

In the analysis of the financial results of the year under review and 04 preceding years, it was observed that the surplus of RS.159,544,495 for the year 2011/2012 had increased up to RS. 836, 604, 005 continuously by the year 2015/2016.

In considering the employees' remuneration, provisions for depreciations and tax paid to the government, the contribution of the company amounting to RS. 281,337,813 in the year 2011/2012 had improved up to RS.1, 172, 751, 116 continuously by the year 2015/2016.

## 3. Financial Review

### 3.1 Financial Results

According to the financial statements presented, the operations of the Company for the year under review had resulted in a pre-tax profit of Rs. 836,604,005 as compared with the corresponding pre-tax profit of Rs. 520,200,738 for the preceding year thus indicating

## 4. Operating Review

### 4.1 Performance

The Ceylon Fertilizer Company had been established under the mission of ensuring profit maximization and sustainability through production and marketing of fertilizer for extended, diversified market demand,

while actively contributing to increase income and profitability in the Agriculture and Agrarian Service Sector in Sri Lanka in compliance with the state policies.

## 4.2 Management Activities

- (a) Even though 03 months had elapsed after ending the period of agreements in 03 stores out of 08 stores for which lease rentals are paid, new lease agreements had not been entered and lease agreements of for regional stores had not been registered. Fertilizer stores had been maintained in 13 places of which the ownership had not been ascertained and action had not been taken to enter into lease agreements in respect of those buildings.
- (b) Bank overdrafts had been obtained from the Current Account maintained in the People's Bank due to improper financial management and as such, a sum of Rs.1,726,619 had been paid as Interests on overdrafts during the year under review.

## 4.3 Operating Activities

About 38 types of non-moving fertilizer of 678.48 metric tons had remained in the fertilizer stores of the company and it was observed that the space allocated for this stock of fertilizer valued at Rs. 2,014,431 had remained idle as well.

## 4.4 Losses and Damages

The following observations are made.

- (a) Action had not been taken to recover a sum of Rs. 714,753 further recoverable from the loss amounting to Rs. 2,382,510 occurred due to shortage of the stock in the Regional Stores at Madampitiya in the year 2012.
- (b) A loss of Rs. 336,772 had been sustained by the company due to a shortage of the stock in the Regional Fertilizer Stores at Pelawatta in the year 2015 and out of that, a sum of Rs. 104,940 had been paid to the company by the stock officer. Despite a sum of Rs. 231,832 further recoverable from this officer, he had been deployed in the service as the stock officer in the Regional Stores on Trincomalee. Even though charge sheets thereon had been send on 14th December 2015, inquiries had not been concluded even by 8th July 2016.

- (c) Legal action had not been taken even by 8th July 2016 to recover the loss of Rs. 15,629, 218 sustained by the company due to frailer in the depositing a sum of Rs. 21,382,468 received from the sale of fertilizer and as a result of the shortages of the stocks made by the stock officer in the fertilizer stores in Pothuvil.

## 4.5 Idle and underutilized Assets

Even though laboratory equipment valued at Rs. 17,617,653 granted by the ministry of Agriculture and a laboratory of accredited level with the qualified staff are owned by the company, the fertilizer Secretariat had carried out quality tests for samples of Fertilizer from external institutions by paying additional chargers and as such, though assest had remained idle.

## 4.6 Deficiencies in Contract Administration

- (a) Estimates valued at Rs. 27,998,598 had been approved in the year 2013 for the construction of the NuwaraEliya Circuit Bungalow and even though a sum of Rs. 1,474,655 had been paid exceeding the estimated amount for additional work, the approval of the procurement committee had not been obtained thereon. Even though a certificate of completion of works should be obtained from the consulting company in terms of Guideline 8.12.2 of the government Procurement Guidelines, action had not been so taken.
- (b) And agreement had been entered into with a contractor for tarring roads of the premises of the Head Office of the company and a mobilization advance of Rs. 8,859,708 had been paid on band bond subsequently, the contractor had stopped the work on the company had failed to get back the money paid within the validity period of the bond.

## 4.7 Apparent Irregularities

A sum of Rs. 1,324,674 had been paid by submitting false registers stating that the employees had been deployed for the coordination of distribution of fertilizer to the Districts Stores and those false registers of arrival and departure had been prepared and submitted by an officer of the company. Disciplinary action had not been taken against those officers.

## 4.8 Staff Administration

The following observations are made

- (i) It was observed that 63 employees had been deployed by the company exceeding the limit approved by the Department of Management Services.
- (ii) Even though it had been decided at the meeting of the Board of Directors of the company held on 28 August 2014, to effect the rules not included in the Personal Procedure prepared by the Company in the respect of administrative functions and personal administration of the Company, the approval of the Treasury had not been obtained thereon. There were instances where action had been taken by superseding the Shops and Office Employees' Ordinances relating to the Company, observed at the examination carried out in respect of working days, duty hours, overtime payments, leave and allowances.

## 4.9 Resource of the Company given to other Government Institutions

Even though a laborer of the Distribution Division whose salary is paid by the Company had been deployed for the duty at the president's House from

1 January 2016, the proper approval had not been obtained thereon.

## 5. Good Governance and Accountability

### 5.1 Annual Reports

A draft annual report had not been submitted alone with the financial statement for the year 2015/2016 in the terms of Public Finance Circular No. PF/PE/21 of 24 May 2002.

### 5.2 Budgetary Control

Variances ranging from 23 per cent to 1654 per cent were observed between the budgeted and the actual income and expenditure of 79 items thus indicating that the budget had not been made use of as an effective instrument of financial control.

## 6. Systems and Controls

Deficiencies 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.

### Areas of Systems and Controls

Areas of Systems and Controls	Observations
(a) Financial Control	Action had not been taken to incur expenditure in a manner of achieving the objectives of the Company and to confirm the payments by documentary evidence.
(b) Staff Administration	Approval for proper Procedural Rules had not been obtained from the Treasury and instances were observed where action had not been taken in accordance with the shops and office Employees. Ordinance, Establishments Code and financial Regulations.
(c) Contract Administration	Instances were observed where action had been taken deviating from the Procurement Guidelines.
(d) Stores Control	<ol style="list-style-type: none"><li>(i) A methodology had not been prepared for the transportation of fertilizer to regional stores.</li><li>(ii) Agreements relevant for regional stores obtained on lease rent basis had not been entered into</li><li>(iii) An internal control had not been implemented for maintenance of stocks of regional fertilizer stores and financial position.</li></ol>



**H.M. Gamini Wijesinghe**  
Auditor General  
22<sup>nd</sup> December 2016

**CEYLON FERTILIZER COMPANY LIMITED**  
Statement of Comprehensive Income  
For the Year Ended 31<sup>st</sup> March

(Expressed in Sri Lankan Rupees)

	Note	2016	2015
Revenue	3	4,242,769,733	3,835,989,834
Cost of Sales	4	(3,145,321,810)	(2,980,431,667)
<b>Gross Profit</b>		<b>1,097,447,923</b>	<b>855,558,167</b>
Other Operating Income	5	122,926,594	142,197,667
Administrative Expenses	6	(539,859,112)	(502,180,495)
Distribution Expenses	7	(11,712,957)	(55,408,645)
<b>Profit from Operation</b>		<b>668,802,448</b>	<b>440,166,694</b>
Finance Income	8	169,528,176	110,255,269
Finance Cost	8	(1,726,619)	(30,221,225)
<b>Profit Before Taxation</b>		<b>836,604,005</b>	<b>520,200,738</b>
Income Tax Expenses	9	(233,331,176)	(134,185,932)
<b>Profit for the Year</b>		<b>603,272,829</b>	<b>386,014,806</b>
Other Comprehensive Income		-	-
<b>Total Comprehensive Income for the Year</b>		<b>603,272,829</b>	<b>386,014,806</b>
<b>Basic Earnings Per Share (EPS)</b>	<b>10.1</b>	<b>12.01</b>	<b>7.68</b>
<b>Dividends Per Share (DPS)</b>	<b>10.2</b>	<b>3.60</b>	<b>2.30</b>

Figures in brackets indicate deductions

Notes to the Financial Statements on Pages 74 to 97 form an integral part of these Financial Statements.

**CEYLON FERTILIZER COMPANY LIMITED**  
 Statement Of Financial Position  
 For the Year End 31<sup>st</sup> March


(Expressed in Sri Lankan Rupees)

	Note	2016	2015
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, Plant and Equipment	11	1,838,655,988	1,865,055,224
Capital Work-in-Progress	12	32,152,294	29,982,586
Intangible Assets	13	79,667	115,417
<b>Total Non-Current Assets</b>		<b>1,870,887,948</b>	<b>1,895,153,227</b>
<b>Current Assets</b>			
Inventories	14	251,765,999	495,391,114
Trade and Other Receivables	15	30,855,598,803	39,729,774,663
Employees Loans and Advances	16	46,209,130	33,861,873
Held-to-Maturity Investments (HTM)	17	514,903,604	489,125,747
Other Financial Assets	18	3,046,991,327	1,833,364,544
Cash and Cash Equivalents	19	17,002,525	72,927,049
<b>Total Current Assets</b>		<b>34,732,471,389</b>	<b>42,654,444,990</b>
<b>Total Assets</b>		<b>36,603,359,337</b>	<b>44,549,598,216</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Stated Capital	20	502,456,080	502,456,080
Revaluation Reserve	21	1,833,071,080	1,833,071,080
Retained Earnings		2,392,840,203	1,869,914,195
<b>Total Equity</b>		<b>4,728,367,363</b>	<b>4,205,441,355</b>
<b>Non-Current Liabilities</b>			
Retirement Benefits Obligation	22	61,731,050	50,189,133
Government Grants	23	2,889,117	12,941,616
Deferred Taxation	24	40,928,542	44,132,427
<b>Total Non-Current Liabilities</b>		<b>105,548,709</b>	<b>107,263,176</b>
<b>Current Liabilities</b>			
Trade and Other Payables	25	3,799,678,633	8,587,796,896
Interest Bearing Borrowings	26	27,460,439,996	31,304,325,268
Deposits and Advances Received	27	142,371,790	164,340,003
Current Tax Liability	28	180,984,083	53,690,008
Accrued Expenses and Provisions	29	164,200,505	120,185,335
Bank Overdrafts	19	21,768,258	6,556,178
<b>Total Current Liabilities</b>		<b>31,769,443,265</b>	<b>40,236,893,688</b>
<b>Total Equity and Liabilities</b>		<b>36,603,359,337</b>	<b>44,549,598,219</b>
<b>Net Asset Value Per Share</b>		<b>94.11</b>	<b>83.70</b>

Figures in brackets indicate deductions

Notes to the Financial Statements on Pages 74 to 97 form an integral part of these Financial Statements.

I certify that these Financial Statements of the Company comply with the requirements of the Companies Act No. 07 of 2007.

  
Finance Manager

The Board of Directors is Responsible for Preparation and Presentation of these Financial Statements.  
Approved and Signed for and on behalf of the Board,

  
Chairman

  
Director

**CEYLON FERTILIZER COMPANY LIMITED**  
Statement Of Changes In Equity  
For The Year Ended 31<sup>st</sup> March

(Expressed in Sri Lankan Rupees)

	Stated Capital	Revaluation Reserve	Retained Earnings	Total
<b>Balance as at 01 April 2014</b>	<b>502,456,080</b>	<b>1,835,723,580</b>	<b>1,500,363,432</b>	<b>3,838,543,092</b>
Profit for the Year	-	-	386,015,851	386,015,851
Prior Year Adjustments	-	-	(19,117,588)	(19,117,588)
Disposal of Revalued Assets	-	(2,652,500)	2,652,500	-
<b>Balance as at 31 March 2015</b>	<b>502,456,080</b>	<b>1,833,071,080</b>	<b>1,869,914,195</b>	<b>4,205,441,355</b>
Profit for the Year	-	-	603,272,829	603,272,829
Prior Year Adjustments	-	-	35,457,620	35,457,620
Provision of Dividend	-	-	(115,804,442)	-
<b>Balance as at 31 March 2016</b>	<b>502,456,080</b>	<b>1,833,071,080</b>	<b>2,392,840,203</b>	<b>4,844,171,805</b>

Figures in brackets indicate deductions

Notes to the Financial Statements on Pages 74 to 97 form an integral part of these Financial Statements.



**CEYLON FERTILIZER COMPANY LIMITED**  
Statement of Cash Flows  
For the Year End 31<sup>st</sup> March

(Expressed in Sri Lankan Rupees)

	2016	2015
<b>Cash Flows from Operating Activities</b>		
Profit Before Taxation	836,604,005	520,200,738
<b>Adjustments for;</b>		
Depreciation	29,148,977	34,667,000
Reversal of Impairment of Property, Plant and Equipment	-	(680,000)
Amortization of Intangible Assets	107,750	324,300
Amortization of Government Grants	(5,643,699)	(7,586,175)
(Profit) / Loss on Sale of Property, Plant and Equipment	(6,527,192)	(527,317)
Impairment of Trade Receivables	992	35,153,452
Gratuity Charge for the Year	17,591,797	4,589,102
Impairment of Non-Moving Inventory	-	645,582
Interest Income	(169,528,176)	(110,255,269)
Bad Debt Written-off	24,874	1,157,815
Interest Expenses	1,726,619	30,221,225
Prior Year Adjustments	35,457,620	(19,117,588)
<b>Operating Profit before Working Capital Changes</b>	<b>738,963,570</b>	<b>488,792,865</b>
Inventories	243,625,115	(127,278,662)
Trade and Other Receivables	8,874,149,993	(7,059,908,259)
Employees Loans and Advances	(12,347,257)	64,779
Trade and Other Payables	(4,903,922,705)	(2,775,173,251)
Deposits and Advances Received	(21,968,213)	48,078,206
Accrued Expenses and Provisions	44,015,170	(52,969,512)
<b>Cash Flow from / (Used in) Operations</b>	<b>4,962,515,673</b>	<b>(9,478,393,834)</b>
Gratuity Paid	(6,049,880)	(4,589,102)
Interest Paid	(1,726,619)	(30,221,225)
Taxes Paid	(95,290,494)	(47,590,798)
<b>Net Cash Flow from / (used in) Operating Activities</b>	<b>4,859,448,679</b>	<b>(9,560,794,959)</b>
<b>Cash Flows from Investing Activities</b>		
Acquisition of Property, Plant and Equipment	(5,698,774)	(19,867,919)
Acquisition of Intangible Assets	(72,000)	(95,000)
Work-in-Progress	(3,629,474)	(29,982,586)
Proceeds from Sale of Property, Plant and Equipment	6,527,191	527,317
Investment in Treasury Bills / Fixed Deposits	(1,479,404,640)	(17,290,811)
Withdrawal of (Net of Interest) in Treasury Bills / Fixed Deposits	240,000,000	(1,064,758,502)
Interest Received	155,577,685	110,225,269
<b>Net Cash used in Investing Activities</b>	<b>(1,086,700,012)</b>	<b>(1,021,242,231)</b>
<b>Cash Flows from Financing Activities</b>		
Government Grants Received	-	10,546,350
Dividends Paid During the Year	-	(53,537,836)
Borrowings During the Year	14,023,172,748	17,993,705,500
Settlements of Borrowings During the Year	(17,867,058,020)	(7,335,864,000)
<b>Net Cash Flow from / (used in) Financing Activities</b>	<b>(3,843,885,272)</b>	<b>10,614,850,014</b>
<b>Net Changes in Cash and Cash Equivalents During the Year</b>	<b>(71,136,605)</b>	<b>32,812,824</b>
Cash and Cash Equivalents at Beginning of the Year	66,370,872	33,528,048
<b>Cash and Cash Equivalents at End of the Year (Note 19)</b>	<b>(4,765,733)</b>	<b>66,340,872</b>

Figures in brackets indicate deductions

Notes to the Financial Statements on Pages 74 to 97 form an integral part of these Financial Statements.

## **1. CORPORATE INFORMATION**

### **1.1 General**

Ceylon Fertilizer Company Limited is a Limited Liability company incorporated and domiciled in Sri Lanka and is fully owned by the Government of Sri Lanka.

### **1.2 Principal Activities and Nature of Operations**

The principal activity of the company is importing, blending and marketing fertilizer required for paddy, tea, coconut, rubber and other crops.

### **1.3 Financial Year**

The Company's financial reporting period ends on 31st March.

### **1.4 Registered Office**

Registered office of the Company is at Bishop hill, Hunupitiya, Wattala

### **1.5 Number of Employees**

The number of employees of the Company as at 31 March 2016 was 416 (2015 - 420)

### **1.6 Date of Authorization for Issue**

The financial statements of the Company for the year ended 31 March 2016 were authorized for issue in accordance with a resolution of the Board of Directors dated 20th Sep 2016.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **2.1 Basis of Preparation**

The financial statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings. The preparation of financial statements, in conformity with Sri Lanka Accounting Standards (SLFRSs), requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.26.

The financial statements of the Company have been prepared on the historical cost basis except for the following items in the statement of financial position:

- liability of defined benefit obligation is recognized as the present value of the defined benefit obligation
- Freehold land and buildings are measured at cost at the time of acquisition and subsequently at revalued amounts, which are the fair values at the date of revaluation

The financial statements of the Company comprise the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows together with accounting policies and notes thereto have been prepared in accordance with Sri Lanka Accounting Standards (LKASs)

and SLFRSs) issued by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No.07 of 2007.

## **2.2 Changes in Accounting Policies**

The changes in accounting policies set out below have been applied consistently to the periods presented in the financial statements, unless otherwise indicated.

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

## **2.3 Foreign Currency Translation**

### **2.3.1 Functional and Presentation Currency**

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

### **2.3.2 Transactions and Balances**

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

Translation differences related to changes in amortized cost are recognized in the statement of comprehensive income.

### **2.4.1 Property, Plant and Equipment**

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

The Company measures land and buildings at revalued amounts and changes in fair value was recognized in the statement of equity. The Company engaged independent valuation specialists to determine fair value of land and buildings in 2010.

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

Land is not depreciated; depreciation on other assets is calculated using straight-line method to allocate their cost or revalued amount over their estimated useful lives, as follows:

Buildings	40 Years
Plant and Machinery	05 -10 Years
Motor Vehicles	05 Years
Bicycles	03 Years

Office Furniture	03 Years
Office Equipment	03 Years
Workshop Tools	05 Years
Lab Equipment	03 Years
Other Equipment	03 Years
Canteen Equipment	05 Years
Computer Accessories	03 Years

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

#### 2.4.2 Intangible Assets

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

Computer Software	03 Years
-------------------	----------

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

#### 2.4.3 Impairment of Non-Financial Assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

### 2.5 Financial Assets

#### 2.5.1 The Company determines the classification of its financial assets at initial recognition and the Company classifies its financial assets as follows:

- a) Held-to- Maturity Investment
- b) Loans and receivables
- a) Held-to- Maturity Investment ( HTM)

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments

are classified as HTM if the Company has the positive intention and ability to hold them until maturity. HTM investments are included in current assets.

b) Loans and receivables

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

### 2.5.2 Recognition and Initial Measurement

Financial assets classified as loans and receivables are recognized on the date on which the Company originates the transaction. Other financial assets are recognized on the trade-date on which the Company becomes a party to the contractual provisions of the financial instrument. A financial asset is measured initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

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

### 2.5.3 Subsequent Measurement

a) Held-to- Maturity Investment ( HTM)

HTM investments are measured subsequently at amortized cost using the effective interest method. Amortized cost is computed taking into account of discount or premium on acquisition and transaction costs.

b) Loans and receivables

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

### 2.5.4 Impairment of Financial Assets

#### Assets carried at amortized cost

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

For loans and receivables and held-to-maturity investments carried at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the financial assets is reduced and the amount of the loss is recognized in the statement of comprehensive income.

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

## **2.6 Inventories**

Inventories (Direct and Mixed Fertilizers) are stated at cost minus subsidy. Cost is determined using the first-in, first-out (FIFO) method. The cost of mixed fertilizer comprises raw materials, direct labour, other direct costs and related production overheads. Inventories purchased locally are stated at cost. Net realizable value is the subsidized value in the ordinary course of business, less applicable selling expenses.

Consumables and packing material are stated at cost.

## **2.7 Trade Receivables**

Trade receivables are amounts due from customers for sale of goods in the ordinary course of business. Collection is expected in the normal operating cycle of the business and they are classified as current assets. Trade receivables are recognized initially at fair value, which is the invoice value and subsequently measured at the original invoice value less provision for impairment.

The Company assesses at the end of each reporting period whether there is objective evidence that trade receivables is impaired. Objective evidences of impairment for trade receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments past the maximum credit period of 90 days. Trade receivables are impaired and impairment losses are incurred, only if there is objective evidence of impairment. All trade receivables are assessed individually for impairment.

The model and basis used to assess the trade receivables for impairment is as follows:

Individual Evaluation Model: Following types of trade receivables are reviewed individually to measure the impairment loss.

- i) Multi Purpose Co-operative Societies
- ii) Agrarian Service Centers
- iii) Authorized Dealers
- iv) Government Institutions and Departments

## **2.8 Cash and Cash Equivalents**

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

## **2.9 Stated Capital**

Ordinary shares issued to the Government of Sri Lanka are classified as equity.

## **2.10 Financial Liabilities**

The Company classifies financial liabilities into other financial liabilities. The Company's other financial liabilities include borrowings, trade and other payables and bank overdraft. The other financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the

effective interest method. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

#### **2.11 Trade and Other Payables**

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

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

#### **2.12 Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost using the effective interest method.

#### **2.13 Borrowing Cost**

Borrowing costs are recognized in the statement of comprehensive income in the period in which they are incurred.

#### **2.14 Government Grants**

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Fertilizer subsidies relating to import costs are recognized in the statement of comprehensive income to match them with the costs that they are intended to compensate. Fertilizer subsidies to compensate for import costs already incurred are recognized as subsidy receivable where there is a reasonable assurance that the subsidy will be received.

Government grants relating to property, plant and equipment are included in noncurrent liabilities as deferred government grants and are recognized in the statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

#### **2.15 Current and Deferred Tax**

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

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

Deferred tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is

determined using tax rates that have been enacted at the reporting period end date and are expected to apply when the related deferred tax asset is realized or the deferred income tax liability is settled.

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

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

## **2.16 Employee Benefits**

The Company has both defined benefit and defined contribution plans.

### **a) Defined Contribution plan**

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

The Company contributes 15% on gross emoluments of employee to Employee Provident Fund (EPF) and 3% on gross emoluments of employee to Employee Trust Fund (ETF).

### **b) Defined benefit plan**

The company obligation in respect of defined benefit plan is the present value of the defined benefits obligation at the end of the reporting period. The defined benefits obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefits obligation is determined by discounting the estimated future benefit that employee have earned in return for their services in the current and prior period.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The company will re-measure the define benefit obligation when the amounts recognized in the financial statements will differ materially from the amount that would be determine at the end of the reporting period.

Past service costs are recognized immediately in the statement of comprehensive income. The retirement benefits obligation is not externally funded.

### **c) Short-term employee benefit**

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

## **2.17 Provisions and Contingent Liabilities**

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



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

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

## **2.18 Revenue Recognition**

Revenue is measured at the subsidized value received or receivable, and represents amounts receivable for sales of goods, stated net of Value Added Taxes (VAT) and Nation Building Tax (NBT). The Company recognizes revenue when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the Company.

The Company applies the revenue recognition criteria set out below to each identifiable major types of services rendered.

### **a) Sale of Fertilizer**

The Company import and sells direct and mixed fertilizers in the wholesale and retail markets. Sales of goods are recognized at the point that the risks and rewards of the goods have passed to the customer, which is the point of dispatch from the store.

### **b) Interest Income**

Interest income is recognized using the effective interest method.

### **c) Rent Income**

Rent income is recognized on an accrual basis over the term of lease.

### **d) Gain and Losses on Disposal of Property, Plant and Equipment**

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

### **e) Other Income**

Other income is recognized on an accrual basis.

## **2.19 Expenses**

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

## **2.20 Events Occurring after the Reporting Period**

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

## **2.21 Commitments**

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

## **2.22 Significant Accounting Estimates and Judgments**

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

### **2.22.1 The following are significant judgments in applying the accounting policies that have most significant effect on the financial statements.**

(a) Recognition of Deferred Tax Assets

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

### **2.22.2 Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below:**

(a) Useful life time of Depreciable Assets

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

(b) Defined benefit plan

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

## **2.23 Sri Lanka Accounting Standards (SLFRS/LKAS) issued but not yet effective**

Standards issued but not yet effective up to the date of issuance of the financial statements are listed below. The group intends to adopt those standards when they become effective.

- I. SLFRS 9-Financial Instruments: SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 Financial instruments; Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instrument, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forwards the guidance on recognition of financial instrument from LKAS 39. Effective date of IFRS 9 is 1 January 2018.
- II. SLFRS 15 – Revenue from contracts with customers: SLFRS 15 establish a comprehensive framework for determining whether, how much and when revenue is recognized. It replace existing revenue recognition guidance, including LKAS 18 Revenue and LKAS 11 construction Contracts. SLFRS 15 is effective for annual reporting period beginning on or after 1 January 2017.

The Company is assessing the potential impacts on its financial statements resulting from the application of SLFRS 15 / SLFRS 9.

(Expressed in Sri Lankan Rupees)

		2016	2015
<b>3</b>	<b>Revenue</b>		
	Sale of Fertilizer	<b>4,242,769,733</b>	<b>3,835,989,834</b>
<b>4</b>	<b>Cost of Sales</b>		
	Purchases	4.1 2,195,444,513	2,343,962,264
	Direct Expenses	4.2 706,080,500	755,041,799
	<b>Cost of Production</b>	<b>2,901,525,014</b>	<b>3,099,004,063</b>
	Finished Goods as at 01 April	472,387,199	353,814,803
	Finished Goods as at 31 March	(228,590,402)	(472,387,199)
		<b>3,145,321,810</b>	<b>2,980,431,667</b>
<b>4.1</b>	<b>Purchases</b>		
	Fertilizer Import Bills	15,494,384,181	13,525,770,075
	Insurance	8,205,729	9,618,360
	Duty and Duty Surcharge	31,066.00	19,142
	Port and Airport Development Tax	787,110,378	648,096,063
	Miscellaneous (Sri Lanka Port Authority)	4,636,760	-
	Discharging Expenses	5,385,523	3,253,942
	Landing Charges	27,475,553	27,598,917
	Stevedoring Charges	239,059,065	186,022,743
	Custom Duty and Charges	2,151,751	6,569,185
	Operational Expenses	-	9,122,404
	Demurrage Charges	2,332,998	397,299
	Sampling Charges	5,592,308	5,100,348
	Transport and Handling Charges	272,739,942	262,655,716
	Letter of Credit Charges	68,143,522	109,247,482
	Bank Charges	559,029	963,118
	Local Purchase	47,666,700	47,123,580
	Packing Materials	31,578,628	28,335,653
	Detention Charges	4,382,014	1,945,082
	Local Agency Commission	2,616,387	878,183
	Exchange (Gain) / Loss	789,636,490	162,241,068
	Subsidy Claimed	(15,598,243,511)	(12,690,996,096)
		<b>2,195,444,513</b>	<b>2,343,962,264</b>
<b>4.2</b>	<b>Direct Expenses</b>		
	Mixing Charges	26,470,825	23,313,443
	Provision for Impairment of Non Moving Inventories	-	645,582
	Handling Charges	158,218,034	145,291,035
	Labour Charges	15,223,069	19,949,101
	Transport Charges to District Fertilizer Stores	514,489,459	439,429,234
	Trading Stock (Excess) / Shortage	(640,667)	-
	Stocks Transfers / Adjustments	(7,680,219)	126,413,404
		<b>706,080,500</b>	<b>755,041,799</b>

Figures in brackets indicates deductions.  
 Notes to the Financial Statements Continue

(Expressed in Sri Lankan Rupees)

	2016	2015
<b>5 Other Operating Income</b>		
Income from Penalties - Local	3,411,467	443,097
Liquidated Damages Income	-	5,953,168
Circuit Bungalow Income - Polonnaruwa	1,196,587	994,450
Dispatch Income	83,396,482	100,957,948
Sales of Polythene and WPP Bags	6,912,435	5,049,430
Non Refundable Tender Deposit Income	1,564,475	765,475
Amortization of Government Grant	5,643,699	7,586,176
Rent Income	104,502	85,643
Profit on Disposal of Property, Plant and Equipment	6,527,192	527,317
Earnings from Transport	512,400	64,617
Laboratory Testing Income	178,102	42,395
Other Income	13,960,806	17,451,028
Reversal of Impairment	-	680,000
Profit / (Loss) on Scraps Disposals	(481,551)	1,596,923
	<b>122,926,594</b>	<b>142,197,667</b>
<b>6 Administrative Expenses</b>		
Directors' Remuneration	3,417,136	2,593,616
Motor Vehicles Running Chairman / Directors	1,053,441	587,999
Telephone,Fax,E-mail and Internet Charges-Chairman/Directors	436,767	59,226
Secretary Fees	109,160	158,490
Salaries - Executive	35,354,522	29,975,366
Salaries - Non Executive	154,257,440	123,859,256
Overtime	43,848,678	42,941,972
Travelling and Subsistence	4,926,059	4,218,750
Employees' Provident Fund	28,999,236	23,607,653
Employees' Trust Fund	5,799,852	4,697,146
Government Pension	56,190	190,990
Fuel Allowance for Managers	2,703,244	4,303,590
Fuel Allowance for Field Staff	1,822,865	1,802,898
Tea and Dust Allowance	7,081,234	6,261,926
Annual Bonus	5,329,930	5,253,188
Medical Leave Payment	9,014,190	9,387,193
Employees on Contract Basis	4,835,463	4,189,527
Training and Scholarships	1,512,647	1,091,248
Weekend and Other Allowances	1,626,534	1,771,818
Employee Compensation	158,579	163,575
Medical Expenses	2,987	35,890
Clothing and Medical Allowance	3,138,842	3,302,387
Medical Insurance	7,899,876	2,304,871
Other Allowances	279,125	941,140
Employee Valuation Expenses	28,217	518,575
Staff Transport	1,672,675	1,685,738
Annual Incentive	42,015,503	40,619,226
Staff Welfare	4,844,069	6,206,673
Entertainment	563,432	1,218,927
Electricity	6,175,008	6,641,585

Figures in brackets indicates deductions.  
Notes to the Financial Statements Continue

(Expressed in Sri Lankan Rupees)

	2016	2015
Telephone,Fax,E-mail and Internet Charges	5,411,454	4,473,917
Fire Insurance	298,680	134,463
License and Insurance	1,369,415	1,252,251
Cash in Transit and Cash in Safe Insurance	171,294	114,302
Postage	777,271	940,637
Printing and Stationery	4,552,633	7,729,870
Periodicals and Books	91,182	87,852
Office Equipment Maintenance	787,726	1,065,985
Foot Bicycle Maintenance	12,695	-
Office Expenses	1,111,939	3,202,500
Vehicle Running Expenses	6,229,095	8,401,984
Vehicle Maintenance	7,590,569	7,261,967
Water Bill	2,550,695	2,815,691
Legal Fees	4,060,378	944,020
Security Charges	30,645,042	36,166,386
Lab/Equipment Maintenance	137,091	256,842
Plant , Machinery and Equipment Maintenance	941,691	1,249,727
Building Maintenance	8,628,241	22,904,082
Furniture and Fittings Maintenance	29,514	71,395
Public Notice Charges	4,182,433	2,486,690
Internal Road Construction	-	74,600
Computer and Accessories Maintenance	1,381,701	2,115,130
Rent and Rates	13,592,873	2,813,348
Expenses for Temporary Storage	9,430,873	12,264,032
Depreciation	29,148,977	34,667,000
Amortization of Intangible Assets	107,750	324,300
Audit Fees	476,623	262,500
Non Audit Fees	18,745	39,950
Audit Related Fees	-	125,000
Consultancy Fees	656,395	1,352,450
Work Shop Tools Expenditure	134,410	99,167
Sanitary Facilities	2,221,715	2,213,572
Vehicle Hiring Charges	3,551,346	-
Circuit Bungalow Expenses	765,785	2,251,653
Other Equipment Maintenance	622,411	
Gratuity	17,591,797	4,589,102
Bank Charges	860,358	739,113
Write Off / (Back)	(952,840)	795,350
Sports Equipment Maintenance	31,486	-
(Over) / Under Provision of Recurrent Expenses	(1,077,101)	(916,275)
Circuit Bungalow Expenses	313,134	240,356
Gardening and Landscaping Expenses	1,802,533	2,934,960
Charity and Donations	-	93,000
Corporate Social Responsibility	-	2,200,945
Natural Disaster Expenses	30,000	110,000
Laboratory Building Maintenance	66,773	238,882
Laboratory Expenses	510,912	370,923
Laboratory Equipment Insurance	30,516	30,437
	<b>539,859,112</b>	<b>502,180,495</b>

Figures in brackets indicates deductions.  
Notes to the Financial Statements Continue

(Expressed in Sri Lankan Rupees)

<b>7</b>	<b>Distribution Expenses</b>		
	Advertising and Publicity Notices	6,452,750	14,036,851
	Written-off of Bad Debts	24,874	362,465
	Impairment of Trade Receivables	992	35,153,452
	Sales Commission	5,096,590	5,855,877
	Coporate Social Responsible	137,750	-
		<b>11,712,957</b>	<b>55,408,645</b>
<b>8</b>	<b>Net Finance Income</b>		
	<b>Interest Income</b>		
	Interest on Fixed Deposits and REPO Investments	167,801,299	108,832,911
	Interest from Employees Loans	1,726,878	1,422,358
	Interest Income From Trade Debtors	-	-
		<b>169,528,176</b>	<b>110,255,269</b>
	<b>Interest Expenses</b>		
	Interest on Overdrafts/Loans	(1,726,619)	(30,221,225)
		<b>(1,726,619)</b>	<b>(30,221,225)</b>
		<b>167,801,557</b>	<b>80,034,044</b>
<b>9</b>	<b>Income Tax Expenses</b>		
	Current Year	9.1	236,535,061
	Deferred Tax Charge		(3,203,885)
			<b>233,331,176</b>
			<b>134,185,932</b>
<b>9.1</b>	<b>Reconciliation between current tax expenses/(reversal) and the accounting profit/(loss);</b>		
	<b>Accounting Profit/(Loss) before Taxation</b>	<b>836,604,005</b>	<b>520,200,738</b>
	Non Business Income	(168,176,565)	(120,645,684)
	Aggregate of Disallowable Expenses	47,949,035	83,383,936
	Aggregate of Allowable Claims	(22,513,982)	(62,428,271)
	<b>Tax Adjusted Profit</b>	<b>693,862,493</b>	<b>420,510,719</b>
	Income from Other Sources	162,532,866	110,782,585
	<b>Total Statutory Income</b>	<b>856,395,359</b>	<b>531,293,304</b>
	Loss Claimed	(11,627,286)	(185,952,656)
	<b>Taxable Income</b>	<b>844,768,074</b>	<b>345,340,648</b>
	Tax Charged at Statutory Tax Rate of 28%	236,535,061	96,695,381
	Rounding off Adjustment	-	4,619
	<b>Current Tax Provision</b>	<b>236,535,061</b>	<b>96,700,000</b>
	<b>Current Tax on Ordinary Activities for the Year</b>	<b>236,535,061</b>	<b>96,700,000</b>
	<b>Tax Losses</b>		
	Loss Brought Forward	11,594,036	197,546,692
	Loss Adjustment	33,250	-
	Loss Utilized	(11,627,286)	(185,952,656)
	<b>Loss Carried forward</b>	<b>(0)</b>	<b>11,594,036</b>

Figures in brackets indicates deductions.  
Notes to the Financial Statements Continue

(Expressed in Sri Lankan Rupees)

	2016	2015
<b>10 Basic Earnings per Share/Dividends per Share</b>		
<b>10.1 Basic Earnings per Share (EPS)</b>		
Net Profit Attributable to Ordinary Shareholders (Rs.)	603,272,829	386,015,851
Weighted Average Number of Ordinary Shares in Issue	50,245,608	50,245,608
<b>Basic Earnings per Share</b>	<b>12.01</b>	<b>7.68</b>
Basic Earnings per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.		
<b>10.2 Dividends Per Share (DPS)</b>		
Dividends Paid / Proposed	180,981,849	115,804,442
Number of Ordinary Shares	50,245,608	50,245,608
<b>Dividend per Share</b>	<b>3.60</b>	<b>2.30</b>

Figures in brackets indicates deductions.  
 Notes to the Financial Statements Continue

(Expressed in Sri Lankan Rupees)

<b>11 Property, Plant and Equipment</b>				
<b>Cost</b>	<b>01 April 2015</b>	<b>Additions</b>	<b>(Disposals)</b>	<b>31 March 2016</b>
Land	1,512,855,000	-	-	1,512,855,000
Road Construction	820,000	1,988,041	-	2,808,041
Buildings	340,576,742	1,459,767	-	342,036,509
Plant and Machinery	6,588,905	-	-	6,588,905
Motor Vehicle	73,456,376	-	(5,511,000)	67,945,376
Furniture and Fittings	13,930,988	264,845	(63,200)	14,132,633
Office Equipment	6,230,790	830,284	(36,597)	7,024,477
Computer Equipment	16,279,650	1,523,124	(95,125)	17,707,649
Other	27,017,211	1,092,480	(45,500)	28,064,191
<b>Total</b>	<b>1,997,755,662</b>	<b>7,158,541</b>	<b>(5,751,422)</b>	<b>1,999,162,781</b>

<b>Depreciation</b>	<b>01 April 2015</b>	<b>Charge for the Year</b>	<b>(Disposals)</b>	<b>31 March 2016</b>
Buildings	42,004,508	8,550,913	-	50,555,420
Plant and Machinery	3,559,849	802,845	-	4,362,695
Motor Vehicle	41,415,346	9,004,075	(1,102,200)	49,317,221
Furniture and Fittings	11,169,705	1,148,342	(63,200)	12,254,847
Office Equipment	4,481,206	767,322	(36,597)	5,211,931
Computer Equipment	11,265,347	2,624,895	(95,125)	13,795,117
Other	18,804,477	6,250,585	(45,500)	25,009,563
	<b>132,700,438</b>	<b>29,148,977</b>	<b>(1,342,622)</b>	<b>160,506,793</b>

<b>Written Down Value</b>	<b>2016</b>	<b>2015</b>
Land	1,512,855,000	1,512,855,000
Road Construction	2,808,041	820,000
Buildings	291,481,089	298,572,234
Plant and Machinery	2,226,210	3,029,056
Motor Vehicle	18,628,155	32,041,030
Furniture and Fittings	1,877,787	2,761,283
Office Equipment	1,812,546	1,749,584
Computer Equipment	3,912,532	5,014,303
Other	3,054,628	8,212,734
	<b>1,838,655,988</b>	<b>1,865,055,224</b>

Land and buildings of some of the district fertilizer stores located at Hingurakgoda, Akuressa, Matale, Kurunagala, Nuweraeliya Kegalle Polgahawela, Madhavachchiya, Kuruvita, Dodangoda, Mathugama, Koggala and Weeravila used for operational activities are not recognized under property, plant and equipment as ownerships or leasing arrangements of such assets are not clear. Currently, the company is in process of making contractual arrangements to transfer the legal title of such assets.

(Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of Rs 78,606,015/-)

Figures in brackets indicates deductions.  
Notes to the Financial Statements Continue



(Expressed in Sri Lankan Rupees)

12	Capital Work-in-Progress	01 April 2015	Expenditure Incurred	Amount Capitalized	31 March 2016
	Nuwara Eliya Bungalow	27,698,199	3,777,365	-	31,475,564
	Kataragama Bungalow	2,284,388	(147,891)	(1,607,658)	676,730
		<b>29,982,587</b>	<b>3,629,474</b>	<b>(1,607,658)</b>	<b>32,152,294</b>
The Board has decided to temporarily suspend the construction of bungalow in Kataragama at the board meeting held on 26 February 2016.					
<b>13</b>	<b>Intangible Assets</b>				
	Cost	01 April 2015	Additions (Disposals)		31 March 2016
	Computer Software	972,901	72,000		1,044,901
		<b>972,901</b>	<b>72,000</b>		<b>1,044,901</b>
	Amortization	01 April 2015	Charge for the Year		31 March 2016
	Computer Software	857,484	107,750		965,234
		<b>857,484</b>	<b>107,750</b>		<b>965,234</b>
	<b>Written Down Value</b>			<b>2016</b>	<b>2015</b>
	Computer Software			79,667	115,417
<b>14</b>	<b>Inventories</b>			<b>2016</b>	<b>2015</b>
	Direct Fertilizer			224,192,876	453,562,639
	Mixed Fertilizer			4,397,526	18,824,559
	Consumables			8,780,039	6,625,564
	Packing Material			16,409,989	18,392,783
				<b>253,780,430</b>	<b>497,405,545</b>
	Provision for Impairment			(2,014,431)	(2,014,431)
				<b>251,765,999</b>	<b>495,391,114</b>
<b>15</b>	<b>Trade and Other Receivables</b>				
	Trade Receivables	15.1		100,363,353	122,158,723
	Provision for Impairment			(87,565,255)	(87,706,966)
				<b>12,798,098</b>	<b>34,451,757</b>
		15.2		30,842,800,705	39,695,322,903
				<b>30,855,598,803</b>	<b>39,729,774,661</b>
<b>15.1</b>	<b>Trade Receivables</b>				
	Government Departments			97,770,351	115,796,433
	Shortage on Sale			24,318	3,407,250
	Debtors on Loan			-	2,955,040
	Agrarian Service Centers			123,492	-
	Authorized Dealers			2,445,192	-
				<b>100,363,353</b>	<b>122,158,723</b>
	The ageing of the trade receivables are as follows				
	Up to 3 Months			12,773,780	34,451,757
	More than One (1) Year			1,180,702	1,298,095
	Over Ten (10) Years			86,408,871	86,408,871
				<b>100,363,353</b>	<b>122,158,723</b>
Trade receivables have been reviewed for impairment. Certain trade receivables are found to be impaired and provision for impairment has been made on the basis as stated in note 2.11.					

Figures in brackets indicates deductions.  
 Notes to the Financial Statements Continue

(Expressed in Sri Lankan Rupees)

	2016	2015
<b>15.2 Other Receivables</b>		
General Treasury - Subsidies	30,743,926,124	39,660,734,217
Sri Lanka Port Authority	7,230	26,251
Road Development Authority	12,600,000	12,600,000
Interest Receivable	52,049,811	-
Others (Note I)	26,703,811	-
Deposits	544,215	13,665,797
Advance and Prepaid Expenses	6,969,514	-
	<b>30,842,800,705</b>	<b>39,687,026,265</b>

Note I : During the financial year 2015/16, in the Pothuwil Stores an aggregate amount of Rs. 9,984,313.21/- had been identified as stock shortage and adjustment also incorporated in the financial statements net of recoveries. However, in the internal investigation carried out by the Internal Audit Department, subsequent to the financial year, corresponding to stock movement in the same store, it was evidenced to suspect that certain fraudulent transactions had been occurred even before the financial year 2015 / 16. Consequently, it was identified an aggregated amount of Rs. 7,934,279/- has been subjected to misappropriation of inventories which results stock shortage/ loss to the company as of the date of signing of these financial statements. Since, this amount has not been finalized and it is subject to further investigation any losses or shortages has not been recognized in the financial year 2015/16.

<b>16 Employees Loans and Advances</b>	<b>2016</b>	<b>2015</b>
Festival Advances	161,500	63,000
Motor Cycle Loans	1,350,832	764,247
Personal Loans	44,696,799	33,034,626
	<b>46,209,130</b>	<b>33,861,873</b>

Personal loans are measured at fair value using the interest rate of 4.2% instructed by the Government circular under procurement guidelines para XXIV subsection 3.8 since the company is covered under establishment code, the rate at which the loans have been granted is considered as the market interest rate for employees working at government organizations.

<b>17 Held-to-Maturity Investments (HTM)</b>		
Treasury Bills	<b>514,903,604</b>	<b>489,125,747</b>
The investments in treasury bills amounts to Rs.72,076,562 ( 2015 -70,975,536.42) are maintained separately for the gratuity commitments.		

<b>18 Other Financial Assets</b>		
Fixed Deposits	<b>3,046,991,327</b>	<b>1,833,364,544</b>
The investment in fixed deposits amounts to Rs.206,000,000 (2015 - 206,000,000) has been pledged as a part of security against bank borrowings.		

<b>19 Cash and Cash Equivalents</b>		
Favorable Balances		
Current Accounts	13,201,122	69,343,652
Saving Deposits	3,801,403	3,583,397
	<b>17,002,525</b>	<b>72,927,049</b>
Unfavorable Balances		
Bank Balance Overdraft	21,768,258	6,556,178
	<b>21,768,258</b>	<b>6,556,178</b>

Figures in brackets indicates deductions.  
Notes to the Financial Statements Continue

(Expressed in Sri Lankan Rupees)

	2016	2015
<b>20 Stated Capital</b>		
Number of Ordinary Shares Issued and Fully Paid	50,245,608	50,245,608
Ordinary Share Capital Issued and Fully Paid	<b>502,456,080</b>	<b>502,456,080</b>
<b>21 Revaluation Reserve</b>		
The revaluation reserve relates to the revaluation surplus of property, plant and equipment, once the respective revalued assets have been disposed, portion of revalued surplus is transferred to retained earnings.		
<b>22 Retirement Benefits Obligation</b>		
<b>Balance as at 01 April</b>	<b>50,189,133</b>	<b>50,189,133</b>
Expenses Recognized in Comprehensive Income	17,591,797	4,589,102
Payments Made During the Year	(6,049,880)	(4,589,102)
<b>Balance as at 31 March</b>	<b>61,731,050</b>	<b>50,189,133</b>
<b>22.1 Expense Recognized in Comprehensive Income</b>		
Current Service Cost	3,397,800	2,661,194
Interest Charge for the Year	14,193,997	4,483,652
	<b>17,591,797</b>	<b>7,144,846</b>
These assumptions developed by independent actuarial consultant are based on the management's best estimates of variables used to measure the retirement benefits obligation.		
The principal assumptions used are as follows		
Discount Rate [%]	11	10.50
Future Salary Increases [Rs.] - Executive	1,150	1,150
Future Salary Increases [Rs.] - Other	240	240
Staff Turnover Factor [%]	1 - 2	1 - 5
Retirement Age [Yrs]	60	55
Actuarial Gain / Loss does not arise as the company has not done an actuarial valuation of the gratuity liabilities for the previous year.		
In addition to the above, demographic assumptions such as mortality, withdrawal and disability are considered for the actuarial valuation. The 2007 mortality table issued by the London Institute of Actuaries (A 1967/70 mortality table) has also been used in the valuation.		
<b>22.2</b>	The sensitivity of the present value of retirement benefits obligation (gratuity provision at the reporting date) to changes in the weighted principle assumptions by 1% are:	
	<b>Sensitivity [%]</b>	
	<b>Gratuity Liability Change</b>	
<b>The Principle Assumptions</b>	<b>Increase in 1%</b>	<b>Decrease 1%</b>
	<b>Increase in 1%</b>	<b>Decrease 1%</b>
Discount Rate [%]	(5.92)	6.64
Salary Escalation Rate [%]	Considered as not significant	
<b>23 Government Grants</b>	<b>2016</b>	<b>2015</b>
<b>Balance as at 01 April</b>	<b>12,941,616</b>	<b>9,981,441</b>
Grants Received During the Year	-	10,546,350
Disposals During The Year	(4,408,800)	-
Amortization of Government Grants	(5,643,699)	(7,586,175)
<b>Balance as at 31 March</b>	<b>2,889,117</b>	<b>12,941,616</b>
The company have decided to amortize the grant received on lab equipment within 3 years.		

Figures in brackets indicates deductions.  
 Notes to the Financial Statements Continue

(Expressed in Sri Lankan Rupees)

	2016	2015
<b>24 Deferred Taxation</b>		
<b>Balance as at 01 April</b>	<b>44,132,427</b>	<b>6,647,539</b>
(Originated) / Reverse for the Year	(3,203,885)	37,484,888
<b>Balance as at 31 March</b>	<b>40,928,542</b>	<b>44,132,427</b>
<b>24.1 The Analysis of Deferred Tax Assets and Liabilities</b>		
Deferred Tax Liability		
From Accelerating Depreciation	83,295,548	86,554,749
	<b>83,295,548</b>	<b>86,554,749</b>
Deferred Tax Assets		
From Retirement Benefits Obligation	17,284,694	14,052,957
From Brought Forward Tax Losses	0	3,247,374
From Impairment Provisions - Trade Debtors	24,518,271	24,557,950
From Impairment Provisions - Slow Moving Stocks	564,041	564,041
	<b>42,367,006</b>	<b>42,422,322</b>
	<b>40,928,542</b>	<b>44,132,427</b>
"Deferred tax assets are recognized for provision for retirement benefits obligation, impairment provision for trade and other receivables and non-moving stocks to the extent that the realization of the related tax benefits through future taxable profits are probable and deferred tax liabilities are recognized for accelerating depreciation and revaluation surplus."		
<b>25 Trade and Other Payables</b>		
Trade Payables	3,623,767,962	8,536,449,271
Other Payables	175,910,670	51,347,623
	<b>3,799,678,633</b>	<b>8,587,796,894</b>
<b>25.1 Other Payables</b>		
Sundry Creditors	169,006,372	44,176,945
Retention Money	1,249,937	1,425,285
General Treasury	5,519,095	5,519,095
PAYE Tax	121,168	-
Others	14,098	226,298
	<b>175,910,670</b>	<b>51,347,623</b>
<b>26 Interest Bearing Borrowings</b>		
People's Bank		
<b>Balance as at 01 April</b>	<b>31,304,325,268</b>	<b>20,646,483,768</b>
Obtained During the Year	14,023,172,748	17,993,705,500
Paid During the Year	(17,867,058,020)	(7,335,864,000)
<b>Balance as at 31 March</b>	<b>27,460,439,996</b>	<b>31,304,325,268</b>
These loans are arranged by the treasury and may be settled during the next year as fund are available		

Figures in brackets indicates deductions.  
Notes to the Financial Statements Continue

(Expressed in Sri Lankan Rupees)

	2016	2015
<b>27 Deposits and Advances Received</b>		
Refundable Performance Bond	110,939,860	110,005,728
Staff Security Deposits	3,801,403	3,633,397
Refundable Deposits	2,049,500	6,023,430
Receipt in Advance	24,883,854	44,633,998
Sundry Salary Deduction	24,289	43,450
Excess on Sales	672,884	
	<b>142,371,790</b>	<b>164,340,003</b>
<b>28 Current Tax Liability</b>		
<b>Balance as at 01 April</b>	<b>53,690,008</b>	<b>4,580,806</b>
Payments Made for Previous Year	(50,312,403)	(4,580,806)
Provision for the Current Year	236,535,061	96,700,000
Self Assessment Payments Made During the Year	(44,978,091)	(35,250,000)
Withholding Tax (WHT) Recoverable	(13,950,491)	(7,759,992)
<b>Balance as at 31 March</b>	<b>180,984,083</b>	<b>53,690,008</b>
<b>29 Accrued Expenses and Provisions</b>		
Accrued Expenses	164,200,505	117,242,079
Provision for Legal Claim	-	2,943,256
	<b>164,200,505</b>	<b>120,185,335</b>
<b>30 Capital and Other Commitments</b>		
The company has entered in to construction contractors with the following two contractors for :		
	<b>Expense Incurred</b>	
	<b>In Year 2016</b>	<b>In Prior Years</b>
(a) Constructing a propose holiday bungalow at Nuwara Eliya for Rs. 29Mn	3,777,365	27,698,199
(b) Over layering of Asphaltting at hunupitiya premises for Rs. 49 Mn	-	2,284,388
<b>31 Events Occurring after Reporting Period</b>		
There were no events occurred, which required adjustments or disclosure in these financial statements between the 31 March reporting date and the date of authorization.		
<b>32 Contingent liabilities</b>		
The Company has contingent liabilities in respect of legal claims arising in the ordinary course of business. Unless recognized as a provision (Note 29), management considers these claims to be unjustified and possibility of an outflow of resources for their settlement is remote. This evaluation is consistent with legal advices of the company's legal division. Accordingly, no provision has been made for such legal claims.		
However, a court case is pending as at the reporting date filed against the company by D.S.S Construction in relation to the construction bill outstanding net of tenders deposit recovered amounting to Rs. 7,243,400/- for the Road Construction carried out in the Head Office premise. Since, the legal proceeding is in the preliminary stage provision for legal claims or the losses could not be ascertained and no adjustments relating to the transactions have been recognized in the financial statements.		

Figures in brackets indicates deductions.  
Notes to the Financial Statements Continue

<b>33 Related Party Disclosures</b>			
The Company's related parties includes Government of Sri Lanka, State-Owned Enterprises, Other Related Entities and key management personnel.			
<b>Transactions with Key Management Personnel</b>			
According to the Sri Lanka Accounting Standards LKAS.24 "Related Party disclosures" Key Management Personnel are those having responsibility for planning, directing and controlling the activities of the entity directly or indirectly. Accordingly, the Board of Directors and the General Manager have been classified as Key Management Personnel.			
<b>Transactions with Key Management Personnel are given below.</b>			
		<b>2015/ 16</b>	<b>2014/ 15</b>
Remuneration and Other Short - Term Employee Benefits		4,907,344	3,240,842
<b>Related Party Transactions</b>			
Details of significant related party transactions that company carries out are as follows:			
<b>Name of the Related Party</b>	<b>Nature of Transactions</b>	<b>Transaction Value (Rs.)</b>	<b>Balance (Due to)/ Due from</b>
Government of Sri Lanka	Capital Grants	-	2,889,117
	Subsidies Received out of the claims made amounts to Rs. 15,741,151,537/-	15,598,243,510.79	30,743,926,124
	Sales of Goods	4,278,778,469	
	Recoveries of Trade Receivables	113,208,313	97,770,351
State-Owned Enterprises	Short-term Loans borrowed	14,023,172,748	
	Settlements of Loans	(17,867,058,020)	
	<b>Investments In Treasury Bills and Repo's</b>		514,903,604
	Proceeds from Maturity of Investment	28,240,133	
	Interest Received	29,769,481	
	<b>Investments In Fixed Deposits</b>		3,046,991,327
	Investment during the year	1,209,222,934	
	Interest Received	91,771,241	
	Call Deposits and Saving Deposits	-	3,801,403
	Current Accounts	-	21,768,258
	Current Accounts - Overdraft	-	
	Recoveries of Trade Receivables	244,152,541.41	2,445,191.00
Other Government Related Entities	Recoveries of Trade Receivables	12,698,430	123,492

Figures in brackets indicates deductions.  
Notes to the Financial Statements Continue

	2016	2015
<b>34 Financial Instruments and Risk Management</b>		
The accounting classification of each category of financial instruments and their carrying amounts reported in the statement of financial position are stated below.		
<b>The Carrying Values of Financial Assets and Liabilities.</b>		
The carrying amount of the financial assets and liabilities reported in the statement of financial position are as follows,		
<b>FINANCIAL ASSETS</b>		
Held-to-Maturity Investments		
HTM investments are stated at amortized cost using the effective interest method		
<b>Loans and Receivables</b>		
Trade and Other Receivables	251,765,999	495,391,114
Employees Loans and Advances	46,209,130	33,861,873
Other Financial Assets	3,046,991,327	1,833,364,544
Cash and Cash Equivalents	17,002,525	72,927,049
	<b>3,361,968,982</b>	<b>2,435,544,580</b>
The loans and receivables are stated at carrying values as their carrying value approximates the fair value.		
<b>TOTAL FINANCIAL ASSETS</b>	<b>3,876,872,586</b>	<b>2,924,670,327</b>
<b>FINANCIAL LIABILITIES</b>		
<b>Other Financial Liabilities</b>		
Interest Bearing Borrowings	27,460,439,996	31,304,325,268
Trade and Other Payables	3,799,678,633	8,587,796,896
Deposits and Advances Received	142,371,790	164,340,003
Bank Overdrafts	21,768,258	6,556,178
<b>Total Financial Liabilities</b>	<b>31,424,258,676</b>	<b>40,063,018,345</b>
The financial liabilities are stated at amortized cost using the effective interest method.		

#### Risk Management

##### A. Financial Risk Factors

The company has exposure to the following risks from its use of financial instruments.

01. Credit Risk
02. Liquidity Risk
03. Market Risk (Currency Risk and Interest Rate Risk)

The financial instruments of the company comprise of investments in term deposits and government securities, bank deposits, and short-term bank borrowings. The company also has trade receivables and payables and subsidy receivables arising from its core business activities. The main purpose of investment in short-term deposits and short-term borrowings are to raise and maintain liquidity for the operations.

##### 01. Credit Risk

Credit risk is the risk of financial loss to the company if counterparty fails to meet its contractual obligations. Credit risk arises principally from deposits held with banks and financial institutions, cash and cash equivalents (excluding cash in hand), receivables from customers and subsidy receivables from the Treasury.

The maximum risk exposures of financial assets that are subject to credit risk are equal to their carrying amounts.

Figures in brackets indicates deductions.  
 Notes to the Financial Statements Continue

Following table depicts the maximum risk exposure of financial assets reported at the reporting date.

<b>Risk Exposure to Financial Assets</b>	<b>2016</b>	<b>2015</b>
Cash and Cash Equivalents	17,002,525	72,927,049
Other Financial Assets	3,046,991,327	1,833,364,544
Trade and Other Receivables	30,855,598,803	39,729,774,663

**Trade and Other Receivables**

The company trades mainly with agrarian service centers, government institutions and authorized dealers. The management assesses the credit quality of authorized dealers based on the past experience and other factors such as financial guarantees from them. In addition, outstanding balances are monitored on an ongoing basis by the management and the Board.

The age analysis of the company's trade receivables is given in Note 15.

The company establishes policy for provision for impairment (Refer note 2.7 to the financial statements) that represents the estimate of incurred losses in respect of trade receivables. According to the impairment policy established, customers are reviewed individually to measure the impairment loss. Please refer note 15 to the financial statements relating to trade receivables and details of provision for impairment losses.

**Subsidy Receivables**

The receivables represent fertilizer subsidies to be received from the Treasury to compensate for import costs already incurred. The subsidy receivable is expected to recover within a period of 180-270 days. The company's exposure to credit risk arises from default in meeting contractual obligation of the Treasury, with a maximum exposure equal to the carrying amount of the receivables.

**Other Financial Assets**

Credit risk arising from other financial assets of the company comprises deposits held with banks and financial institutions, cash and cash equivalents. The company's exposure to credit risk arises from default in meeting contractual obligation of contractual parties, with a maximum exposure equal to the carrying amount of these financial instruments. The company manages its credit risks with regard to these financial instruments by mainly placing its fund with state financial institutions and other government institutions.

**02. Liquidity Risk**

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash to meet its liabilities when due, under both normal and unexpected conditions, without incurring unacceptable losses.

Company monitor financial assets and liabilities and prepares variance report quarterly by comparing with the annual budget. The management monitors the daily bank balances and liquidity requirements to ensure that the company has sufficient cash to meet operational needs.

The following table depicts the company's financial assets and liabilities maturity analysis as at 31 March 2016 based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.



<b>Financial Assets and Liabilities</b>	<b>Carrying Amount</b>	<b>6 Months or Less</b>	<b>6-12 Months</b>	<b>More than 1 Year</b>
<b>Financial Assets</b>				
Held-to-Maturity Investments	514,903,604	-	514,903,604	-
Other Financial Assets	3,046,991,327	-	3,046,991,327	-
Cash and Cash Equivalents	17,002,525	17,002,525	-	-
Trade and Other Receivables	30,855,598,803	30,855,598,803	-	-
Employees Loans and Advances	46,209,130	161,500	-	46,047,630
<b>Total Undiscounted Financial Assets</b>	<b>34,480,705,389</b>	<b>30,872,762,828</b>	<b>3,561,894,931</b>	<b>46,047,630</b>
<b>Financial Liabilities</b>				
Interest Bearing Borrowings	27,460,439,996	11,025,734,462	4,932,000,000	11,502,705,534
Trade Payables	3,799,678,633	3,799,678,633	-	-
Other Payables	142,371,790	142,371,790	-	-
Bank Overdraft	21,768,258	21,768,258	-	-
<b>Total Undiscounted Financial Liabilities</b>	<b>31,424,258,676</b>	<b>14,989,553,143</b>	<b>4,932,000,000</b>	<b>11,502,705,534</b>
<b>Net Undiscounted Financial Assets / (Liabilities)</b>	<b>3,056,446,713</b>	<b>15,883,209,686</b>	<b>(1,370,105,069)</b>	<b>(11,456,657,903)</b>

### 03. Market Risk (Currency)

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates which will affect the company's income or the carrying value of holdings of financial instruments.

#### Currency Risk

The company's exposure to currency risk arising from fluctuations in the value of US Dollar (USD) against the Sri Lankan Rupee after Central Bank of Sri Lanka allowed the Sri Lanka Rupees to freely float against USD during the reporting period. The company's functional currency in respect of imports fertilizers is USD however settlements of imports are made through rupee accounts. Revenue is USD in which most of the transactions are denominated. Certain bank balances are denominated in USD.

The company has reported foreign exchange losses included in the operating results for the reporting period 2016 is Rs. 789,636,490/-.

#### Interest Rate Risk

"The company's exposure to interest risk is the changes in market interest rates relate to the interest bearing borrowings with a fixed interest rate Rs.27,460,439,995.79 (2015: Rs. 31,304,325,268) of the company's interest bearing loans and borrowings carried interest at fixed rates. The company has bank balances including term deposits placed with state banks. The company monitors interest rate risk by actively monitoring interest rate movements."

Figures in brackets indicates deductions.

**FORM OF PROXY**  
**CEYLON FERTILIZER COMPANY LIMITED.**

I/We.....  
.....being a member of the above named Company hereby appoint Mr./  
Mrs.....  
.....of failing him/  
her,Mr./Mrs. ....  
.....as my Proxy to vote for me on by behalf at the  
Annual General Meeting of the Company to be held on .....

2016 and at any adjournment thereof.

Signed this

- (a) In terms of the Article 71 of the Articles of Association of the Company;  
The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorized in writing, or where the appointer is a corporation, either under seal, or under the hand of and of an officer or attorney duly authorized. A proxy need not to be a member of the Company.

In terms of the Article 73 of the Articles of Association of the Company.

The instrument appointing a proxy and the power of attorney or other authority, if any under which it is signed or a notarially certified copy of that power of authority shall be deposited at the registered office of the company or at such other place within Sri Lanka as it specified for that propose in the notice convening the meeting not less than forty-eight hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument purposes to vote, or in the case of a poll, not less than twenty-four hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid.

- (b) The full name and the registered address of the shareholder appointing the Proxy should be legibly entered in the form of proxy.
- (c) In the case of shareholder resident in Sri Lanka- a stamp duty of Rupees Twenty Five must be affixed and the shareholder must write his name and sign his initials over the stamp.
- (d) 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 alternation or addition intended to be authenticated.

Signed on this ..... day of.....2016.

.....  
Signature of Shareholder