

# **ANNUAL REPORT 2015**



**THE ASSOCIATED NEWSPAPERS OF CEYLON LIMITED**

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## **Vision**

Sri Lanka's most trusted and innovative media services provider.

## **Mission**

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

## **Values**

- ☆ We will place national interest first
- ☆ We will enrich our customers' lives
- ☆ We will work as one team



# FINANCIAL HIGHLIGHTS

		2015	2014	Change	Change
<b><u>Earnings Highlights and Ratios</u></b>					
Turnover	LKR ' 000	<b>3,253,737</b>	3,514,095	(260,358)	(7) %
Profit Before Tax & Fair Value Adjustment	LKR ' 000	<b>16,204</b>	71,877	(55,673)	(78) %
Profit After Tax & Fair Value Adjustment	LKR ' 000	<b>33,859</b>	64,716	(30,857)	(48) %
Turnover per Employee	LKR ' 000	<b>1,867</b>	1,929	(62)	(3) %
Profit Before Tax & F.V.Adjustment per Employee	LKR ' 000	<b>9</b>	39	(30)	(77) %
Revenue to National Economy	LKR ' 000	<b>415</b>	590	(175)	(30) %
Income from Investments	LKR ' 000	<b>14,414</b>	15,121	(707)	(5) %
Finance Cost	LKR ' 000	<b>58,502</b>	83,150	(24,648)	(30) %
Earning per Share	LKR.	<b>10</b>	19	(9)	(47) %
Return on Capital Employed		<b>7%</b>	14.5 %	(7.5) %	(52) %

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

Total Assets	LKR ' 000	<b>1,661,893</b>	2,052,072	(390,179)	(19.0) %
Property, Plant & Equipment	LKR ' 000	<b>283,989</b>	327,471	(43,482)	(13.3) %
Long Term Financial Assets	LKR ' 000	<b>179,941</b>	151,251	28,690	19.0 %
Total Equity	LKR ' 000	<b>480,317</b>	446,458	33,859	7.6 %
No. of Shares in Issue	'000	<b>3,484</b>	3,484	-	-
Net Assets per Share	LKR.	<b>138</b>	128	10	7.8 %
Current Ratio	TIMES	<b>2</b>	1.7	0.3	17.6 %
Quick Ratio	TIMES	<b>1.6</b>	1.1	0.5	45.5 %

# CHAIRMAN'S REVIEW

It is with much pride and pleasure that I present the Annual Report and Financial Statements for the year ending 31st December 2015.

## Company Performance

2015 was a year of change; a Presidential Election on January 08<sup>th</sup> and General Elections in August. This period of change led to many companies adopting a holding pattern of trimming expenses until the emergence of better economic clarity in the latter part of the year. The sentiments of the initial part of the year had an adverse impact on Company revenues as corporate advertising was impacted by this caution. Despite the challenging external market dynamics, attention to the primary expense elements and streamlining the revenue side allowed the company to end the year profitably.

The Company recorded a turnover of LKR 3.3 Billion and recorded a LKR 34 Million Net Profit After Tax and Fair Value Adjustment. This is a creditable performance by the Lake House team in a year characterized by a degree of economic uncertainty, strong print media competition and with companies continuing to allocate greater advertising budgets to electronic and social media platforms.

During the year, many strategic actions were initiated to ensure sustainability and improve long term performance. These include, first and foremost, a decision to enhance training and foster capability enhancement and growth of the team at Lake House with emphasis on reward for performance. Critical skill gaps were addressed through short term consultancies or new hires. Throughout this process, the focus on right - sizing the company remained.

An emphasis on productivity and processes led to improvements in capacity utilization of the presses, the streamlining of the editorial processes as well as those in advertising and

newspaper sales. To complement this sales focus, a series of brand building activities and promotion campaigns strengthened the Lake House brand across many market segments.

Revamping internal controls to minimize returns, production wastage, overheads, stock holding period and improved operational efficiency were instrumental in ensuring profitability.

IT networks, IT systems, mobile news apps, updated websites for the digital consumption of news and SMS breaking news were additional areas the company started to invest in. Continued focus on these areas, and other business choke-points together with weekly operational reviews should deliver strong and sustained performance in the coming years.

## Dividends

The Directors propose a final dividend of LKR 1.80 per share amounting to LKR 6.27 Million for the year ending on 31st December 2015. The Board of Directors will obtain a Certificate of Solvency from the Auditors prior to the date of dispatch of the final dividend payment.

## Corporate Social Responsibility

In aspiring to be the country's most trusted and innovative media company, we must discharge our responsibility to society and stakeholders. Some of the activities to which the company provided leadership are:

- Vesak Amadahara
- Observer Mobitel School Boy Cricketer of the Year Awards
- Mihinthala Aloka Pooja
- Christmas Carols

## Staff Welfare

The Company takes a proactive stance in maintaining a happy and contented

# CHAIRMAN'S REVIEW



# CHAIRMAN'S REVIEW

workforce. Regular management meetings with employees and Unions have been formalized. Lake House employees enjoy benefits that are generous in comparison with other comparable media organizations. Benefits include:

- 4 ½ months Annual Bonus
- Medical Insurance Scheme
- NRCOL LKR 168,000 per annum
- Funds for the Sports club
- Attendance Bonus for unutilized leave
- A Medical camp
- Indoor and outdoor medical service
- Annual Employee Picnic
- School uniform materials, school bags and books for school going children of the staff
- Gift vouchers for the children of the staff for Sinhala & Hindu New Year

## Future

Lake House should be able to deliver significant growth as we continue to focus on the key business drivers and eliminate business bottle necks. We are investing for the future across all digital platforms and in automation to benefit our readers with timely news and entertainment, and in IT systems to increase productivity and benefit our business partners and suppliers with ease of doing business. We are also investing in our most valuable asset - our people to ensure Lake House continues to thrive in an era of dramatic change in how news is generated and consumed. But, controlling headcount

and being a highly productive team will be a critical success factor. A sound and stable political and economic environment will be an incentive for such growth.

## Appreciation

I express my gratitude to the Board of Directors and the Executive Committee for their support throughout the year. I thank all our employees for their dedication. I value the loyalty and support of our readers, news agents, advertising agents, suppliers & I acknowledge with gratitude, the trust of our share holders in the Board of Directors and the Management and look forward to another productive year of team work.



**Kavan Ratnayaka**  
Chairman & Managing Director

OUR PRODUCTS



Sunday Observer



Daily News



# BOARD OF DIRECTORS



The Board of Directors as at 31st December 2015.

- |  |  |   |  |   |
|--|--|---|--|---|
| <b>Mr. Sirimewan<br/>Dias Piyasena</b><br>Director Legal | <b>Mr. Saman<br/>Wagarachchi</b><br>Director Editorial | <b>Mr. Kavan<br/>Ratnayaka</b><br>Chairman &<br>Managing Director | <b>Mr. Lakshman<br/>Hewapanna</b><br>Director Operations | <b>Dr. Emerick<br/>Fernando</b><br>Director Finance |
|--|--|---|--|---|

# MANAGEMENT TEAM



**Mr. M.O. Jayah**

DGM - Pre-Press Systems Administration

**Mr. W.H. Mallawaarachchi**

DGM - Advertising

**Mr. V.S. Bois**

DGM - Finance

**Mrs. K.H. Gunawardena**

Company Secretary

**Mr. K.G.A.B. Amaradasa**

General Manager

**Miss. B.P. Pushpika**

Chief Administrative Officer

**Mr. D.K. Wijesuriya**

Senior DGM - Printing & Maintenance

**Mr. K.H.W.K.N. Sumanarathne**

DGM - Human Capital

**Mr. H.S.D.R. Karunarathne**

DGM - Administration

# CHIEF EDITORS



**Mr. L. Piyasena**  
Editor Silumina

**Mr. K. Kunarasa**  
Editor Thinakaran

**Mrs. L.P.S. Rowel**  
Editor Dinamina

**Mr. L. Allahakoon**  
Editor in Chief  
All English Newspapers

**Absent** - **Mr. L.F.B. Gunasekara** - Editor - Sunday Observer, **Mr. I. Senthivelavar** - Editor - Varamanjari, **Mr. I.K. Bandara** - Editor - Silumina

# EVENTS OF THE YEAR

## SERVICE AWARD CEREMONY



# EVENTS OF THE YEAR

## AMADAHARA VESAK KALAPAYA



# EVENTS OF THE YEAR

## AMADAHARA VESAK KALAPAYA



## D.R. WIJEWARDENE MEMORIAL PINKAMA



# EVENTS OF THE YEAR



**DAILY NEWS &  
THARUNEE  
PROMOTION  
CAMPAIGN**



**106<sup>TH</sup>  
ANNIVERSARY OF  
“DINAMINA”**

**NEWS AGENTS'  
GET TOGETHER**



# EVENTS OF THE YEAR



**KATARAGAMA  
NEW REST  
OPENING**



**MIHINTHALA  
ALOKA POOJA**



## EVENTS OF THE YEAR



**MOBITEL  
SCHOOL BOY  
CRICKETER OF  
THE YEAR**

## LAUNCHING FOLLOWING TABLOIDS FOR ANCL MAIN PAPERS



**ADIKARANAYA WITH  
DINAMINA**

## MAWBIMA LANKA WITH DINAMINA



# EVENTS OF THE YEAR

## LAUNCHING FOLLOWING TABLOIDS FOR ANCL MAIN PAPERS



**SURAKSHA WITH  
DINAMINA**



**VIDYA WITH  
DINAMINA,  
DAILY NEWS &  
THINAKARAN**

## 1) Financial Reporting & Achievements

The Associated Newspapers of Ceylon Limited adopts best practices in its financial reporting and keeps itself updated on new developments in the financial reporting environment. The financial reports on page 54 onwards have been prepared in compliance with the Institute of Chartered Accountants of Sri Lanka (CASL) and every attempt has been made to provide stakeholders with a clear and comprehensive understanding of the Financial Statements.

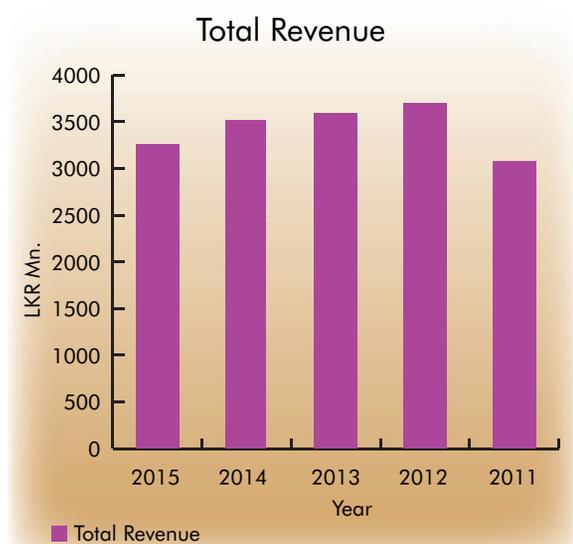
## Financial Performance

### Group Financial Performance at a glance

Item	2015 LKR Mn.	2014 LKR Mn.	Change LKR Mn.	Change	Key Factor
Revenue	3,254	3,514	(260)	-7%	Decrease in Circulation Revenue & Advertising Revenue
Cost of Sales	1,684	1,844	(160)	-9%	Cost of sales decrease in relation to the above
Other Income	124	137	(13)	-9%	Decrease of Miscellaneous Income
Administrative Expenses	1,286	1,320	(34)	-3%	Decrease in business related costs such as communication, legal fee
Distribution Expenses	333	332	1	-	Decrease in transport costs
Finance Expenses	58	83	(25)	-30%	Decrease in loan interest
Tax Expenses	11	23	(12)	-52%	Decrease in income tax
Fair Value Adjustment	29	16	13	81%	Increase in fair value of shares
Profit After Tax & Fair Value Adjustment	34	65	(31)	-48%	Decrease in Profit After Tax of subsidiaries

### Group Revenue

The group recorded revenue of LKR 3,254 Mn for the year 2015, which recorded a 7% decrease compared to LKR 3,514 Mn in 2014.



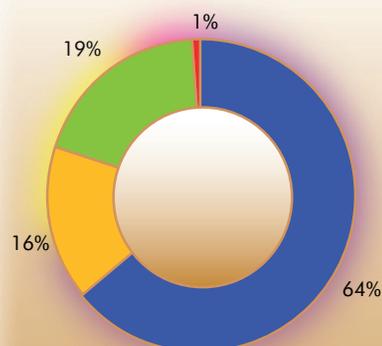
# FINANCIAL REVIEW

## Sources of Revenue

The major revenue source of the company, the advertising reported a decrease of LKR 230 Mn in the year 2015 recording a drop of 10% mainly due to shifting the print media advertising market towards alternative electronic & web based advertising. The circulation revenue also decreased by LKR 118 Mn which is a drop of 18% compared to the year 2014.

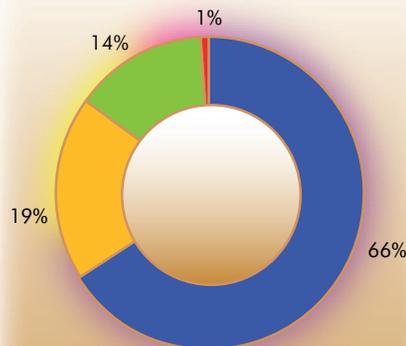
Sources of Revenue	2015 - LKR MN	2014 - LKR MN
Advertising	2,088	2,318
Circulation	536	654
Commercial Printing	612	512
Other Revenue	18	30
<b>Total</b>	<b>3,254</b>	<b>3,514</b>

Sources of Revenue - 2015



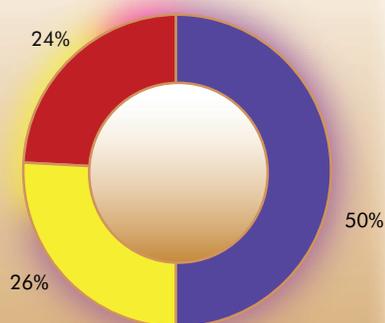
■ Advertising  
 ■ Circulation  
 ■ Commercial Printing  
 ■ Others

Sources of Revenue - 2014



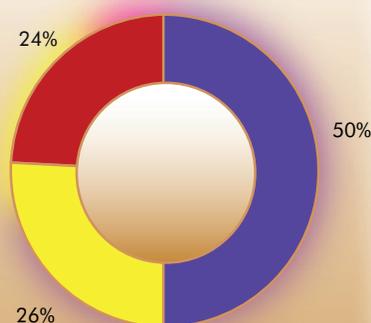
■ Advertising  
 ■ Circulation  
 ■ Commercial Printing  
 ■ Others

Composition of Gross Profit 2015



■ Revenue  
 ■ Cost of Sales  
 ■ Gross Profit

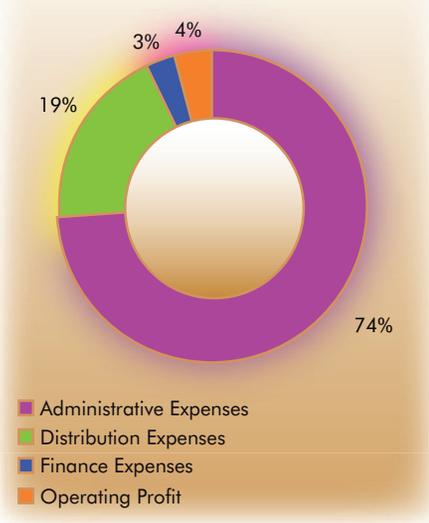
Composition of Gross Profit 2014



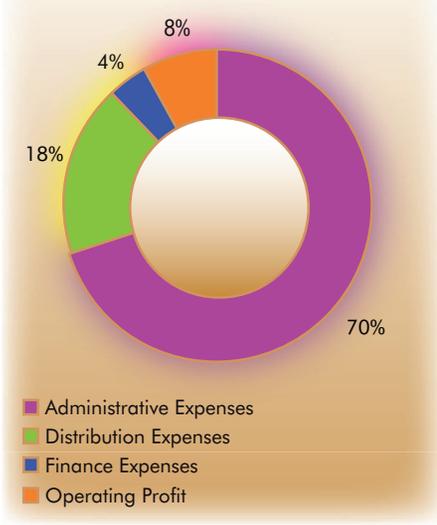
■ Revenue  
 ■ Cost of Sales  
 ■ Gross Profit

# FINANCIAL REVIEW

Composition of Operating Profit  
2015



Composition of Operating Profit  
2014



# RISK MANAGEMENT

Sustainable growth is underpinned by effective risk management which ensures that growth and risk considerations are duly balanced in the Organization's strategy. At ANCL, risk considerations form a critical input in formulating strategy as well as in the day to day running of the Company as it has successfully created a risk management culture permeating all individuals and departments.

## Credit Risk

Credit Risk is defined as the risk arising from financial losses if any of its customers fail to fulfill their contractual obligations to the Company.

Key aspects of the Company credit risk management framework are as follows.

- Credit approval is made by experienced and qualified staff after proper evaluation.
- Credit procedures have been followed and adequate provisions are made for the doubtful debts.

## Operational Risk

Operational risk is defined as the direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events.

Key aspects of the Company operational risk management framework are as follows.

- Implementation of a Business Continuity Plan to minimize interruption to operations in the event of system & process failures.
- Clear well defined job responsibilities which ensure segregation of duties.
- Ongoing assessments are carried out by the Internal Audit department to identify failures in internal control systems.

During the year under review, there were no significant losses arising from operational risk.

## Strategic Risk

Strategic risk is the potential losses arising from the possibility of the Company's future business plans and strategies being inadequate.

Key aspects of the Company strategic risk management framework are as follows.

- Implementation of a Board approved corporate plan which takes cognizance of industry trends, stakeholder needs and the strengths and weaknesses of our value creation model.
- Reviewing performance of the corporate plan against pre determined performance indicators on a consistent basis.
- Persistently monitoring industry trends including market dynamics, macro economic changes and competitor behavior.

## Compliance Risk

Compliance risk is the risk arising out of non compliance with applicable laws, regulations, and codes of conducts and standards of good practice culminating in finance loss or loss to the Company reputation. Compliance checks are conducted for all departments on regular basis and action is taken in instances of non compliance.

## IT Risk

Risk associates with IT are assessed in the process of risk management.

Key aspects of the Company IT risk management framework are as follows.

- Use of licensed software
- Use of Anti Virus software
- Close monitoring of internet usage
- Use of Firewall software
- Mail Server operations

# CORPORATE GOVERNANCE

Strong Corporate Governance practices are the bedrock of stakeholder value creation and long term sustainability. ANCL is committed to the highest standards of business ethics, accountability and transparency as evinced in its comprehensive policy frameworks and clear governance structures which facilitate an appropriate balance of power. ANCL Corporate Governance framework has been designed inline with the requirements of the CA Sri Lanka.

## 1. The Board of Directors

The board comprises of directors who have the appropriate balance of skills, experience, independence and knowledge, which enable them to discharge their responsibilities effectively. The board which meets at least twice a month is the key decision making body for the matters which are significant to the Company.

<u>Name of the Director</u>	<u>Number of meetings held</u>	<u>Number of meetings attended</u>
Mr. Kavan Ratnayaka - Chairman and Managing Director	19	19
Mr. Saman Wagaarachchi	19	17
Dr. Emerick Manley Fernando	19	17
Mr. Lakshman Hewapanna	19	18
Mr. Sirimewan Dias Piyasena	19	15

## 2. Board Committees and their composition

Board has formed the following committees

### 2.1 Executive Committee (EXCO)

EXCO is responsible to provide appropriate and timely information to the Board to enable the Board efficiently discharge their responsibilities. The EXCO members are the following.

- General Manager
- Company Secretary
- Chief Administrative Officer
- Senior DGM - Printing & Maintenance
- DGM - Finance
- DGM - Human Capital
- DGM - Administration
- DGM - Advertising

### 2.2 Audit Committee

The Audit Committee which meets once a quarter continuously reviews and monitors the effectiveness of internal controls to ensure that the Company has sound financial discipline. The Audit Committee approves in advance the Annual Audit Action Plan of the Internal Audit and monitors its execution and progress. The Audit committee members are the following.

- Chairman & Managing Director
- Director- Finance
- Director - Legal
- Director - Operations
- General Manager
- DGM - Finance
- Chief Internal Auditor
- A representative from Auditor General's Department
- A representative from Ministry of Mass Media & Parliamentary Reforms

# CORPORATE GOVERNANCE

## 2.3 Procurement Committee

The procurement committee (value of over LKR 1 Mn) is established to ensure consistent and correct application of procurement practices and processes. The procurement committee members are the following.

- Chairman & Managing Director
- Director- Finance
- Director - Legal
- General Manager
- DGM - Administration
- DGM - Finance
- Chief Internal Auditor
- Head of Procurement

## 2.4 Grievance Committee

The grievance committee is established to consider the remedies for workers' grievances. During the year 233 grievances have been handled out of which 108 have been settled. The Grievances committee members are the following.

- Director - Legal
- Director - Operations
- General Manager
- DGM - Human Capital

## 3. Financial Reporting & Transparency

The Financial Statements of the Company have been prepared in accordance with the Generally Accepted Accounting Principles, concepts and the Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka. The Financial Statements included in this Annual Report have been audited by the Auditor General.

The ANCL adopts best practices in its Financial Reporting & keeps itself updated on new developments in the financial reporting environment. The Financial Statements on pages 54 - 72 have been prepared in compliance with the Sri Lanka Financial Reporting Standards for SME issued by CA Sri Lanka.

## 4. Directors' Responsibility for Preparation of Financial Statements

The statement of the Directors' responsibility for preparation of Financial Statements is given in page 29 of this Annual Report.

## 5. Internal Controls

The systems of internal controls are designed to cover the risk arising from errors, omissions and mistakes, safeguarding the assets of the Company and to record and maintain a proper set of books, through proper procedures by segregation of duties, authority levels and internal and external audit procedures. The Board is responsible for ensuring that the Company has adequate and effective internal controls in place. Day to day financial & non financial activities are reviewed regularly by the Internal Audit Department of the Company.

## 6. Compliance with the Statutory Payments

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

# CORPORATE GOVERNANCE

## **7. Relationship with Share Holders**

We maintain regular contact and communication with our share holders.

## **8. Corporate Social Responsibility**

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

## **9. Employee Matters & Communications**

Employees are given unrestricted access to the management to voice their concern and solve their grievances then and there. No labour disruptions occurred during the year.

## **10. Environment Protection**

Company has not engaged in any activity which is harmful to the environment.

## **11. Going Concern**

The Directors after making necessary inquiries and review including reviews of the Company budget for the coming year, Capex requirements, future prospects, risks, cash flows and borrowing facilities have a reasonable expectation that the Company and the group have adequate resources to continue in operational existence for the foreseeable future.

Therefore, the going concern basis has been adapted in the preparation of the financial statements.

# DIRECTORS' REPORT

The Directors have pleasure in submitting their Annual Report for the year ended 31st December 2015 together with the Audited Financial Statements.

## 1. Company Activities

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

## 2. Financial Statements

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

## 3. Auditors' Report

The Auditors' report on the Financial Statements is given on page 30 of the Annual Report.

## 4. Significant Accounting Policies

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

## 5. Review of the year

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

## 6. Revenue

The group achieved total revenue of LKR 3,254 Mn during the period ending 31st December 2015.

## 7. Profit & Appropriations (LKR Million)

	2015	2014
Profit / (loss) before Tax & FV	16	72
Taxation	(11)	(23)
Fair Value adjustment	29	16
Profit / (loss) after Tax Brought forward (loss)/profit	34	65
Dividends	-	-
Retained profits carried forward	<b>34</b>	<b>65</b>

## 8. Revenue Reserves

The company revenue reserve as at 31st December 2015 was LKR 445 million.

## 9. Property, Plant and Equipment

Capital expenditure on Property, Plant & Equipment and capital work-in-progress for the year 2015 amounted to LKR 59 million. The movement of Property, Plant & Equipment during the year is given in note 6 to the Financial Statements.

## 10. Donations

During the period company contributed LKR 2.5 Mn towards charitable institutions.

## 11. Net Assets per share

Net assets per share is LKR137.86

## 12. Share Information

Information relating to earnings, dividends and net assets per share is presented in Financial Highlights and Ten Year Summary. Distribution of shareholding is indicated under Share Information Report.

## 13. Substantial Shareholding

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

## 14. Directors

The Directors of the company as at 31<sup>st</sup> December 2015 and their shareholding were as follows.

	No. of shares
Mr Kavan Ratnayaka	Nil
Mr Saman Wagaarachchi	Nil
Dr Emerick Manley Fernando	Nil
Mr. Sirimewan Dias Piyasena	1
Mr Lakshman Hewapanna	1

## 15. Resignation / New Appointments during the year

The following resignations and new appointments were made during the year.

<b>Resignation</b>	- Mr Bandula Padmakumara
	- Mr Edirisinghe Vithanage Prasad Rasanga Harischandra
	- Mr Upul Ranjan Samarasinghe Dissanayake
	- Mr Seelaratna Senerath
<b>New Appointments</b>	- Mr Kavan Ratnayaka
	Mr Saman Wagaarachchi
	Dr Emerick Manley Fernando
	Mr Lakshman Hewapanna
	Mr Sirimevan Dias Piyasena

# DIRECTORS' REPORT

## 16. Loans to Directors

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

## 17. Directors' Interest in Contracts

Directors have no direct or indirect interest in any contract or proposed contract with the company for the year ended 31st December 2015.

## 18. Directors' Remuneration

Directors' remuneration in respect of the company for year 2015 is stated in Note 20 to the Financial Statements.

## 19. Post Balance Sheet Events

There was no material post balance sheet event affecting the accounts as at 31st December 2015.

## 20. Statutory Payments

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

## 21. Going Concern

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

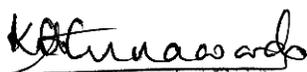
## 22. Environmental Protection

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

## 23. Auditors

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

By order of the Board of Directors,



**Kumudu H. Gunawardana Imbulamure**  
Company Secretary

# DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

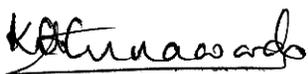
The Companies Act. No 07 of 2007 requires that the Directors prepare Financial Statements for each financial year, which reflects a true and fair view of the state of affairs of the company as at the end of the financial year and the profit for the financial year. In preparation of these Statements,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

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

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

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

By order of the Board



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

# AUDITOR-GENERAL'S REPORT

30th November 2016

**The Chairman  
The Associated Newspapers of Ceylon Limited**

**Report of the Auditor General on the Consolidated Financial Statements of  
The Associated Newspapers of Ceylon Limited (ANCL)  
for the year ended 31 December 2015  
in terms of Section 14(2)(c) of the Finance Act, No. 38 of 1971**

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The audit of Consolidated Financial Statements of the Associated Newspapers of Ceylon Limited (the Company) and its Subsidiaries for the year ended 31 December 2015 comprising the Statements of Financial Position as at 31 December 2015 and the Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flow for the year then ended and a summary of significant Accounting Policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 16 of the Associated Newspapers of Ceylon Limited (Special Provision) Law, No. 28 of 1973. My comments and observations which I consider should be published with the Annual Report of the Company in terms of Section 14(2) (c) of the Finance Act appear in this report. I was assisted by a firm of Chartered Accountants in public practice to conduct the audit of a Subsidiary out of three Subsidiaries functioning under the Company. A detailed report in terms of Section 13(7)(a) of the Finance Act will be issued in due course.

## **1.2 Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SME's) and for such internal control as the management determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatements, whether due to fraud or error.

## **1.3 Auditor's Responsibility**

My responsibility is to express an opinion on these Consolidated Financial Statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards, consistent with International Standard of Supreme Audit Institution (ASSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatements.

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

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

# AUDITOR-GENERAL'S REPORT

## 1.4 Basis for Qualified Opinion

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

## 2. Financial Statements

### 2.1 Qualified Opinions

#### (a) Qualified Opinion - Company

In my opinion, except for the effects of the adjustments arising from the matters described in paragraph 2.2.2 of this report, the Financial Statements give a true and fair view of the Financial Position of the Associated Newspapers of Ceylon Limited (the Company) as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities.

#### (b) Qualified Opinion - Group

In my opinion, except for the effects of the adjustments arising from the matters described in paragraph 2.2.1 and 2.2.2 of this report, the Consolidated Financial Statements give a true and fair view of the Financial Position of the Associated Newspapers of Ceylon Limited (the Company) and its subsidiaries as at 31 December 2015 and their financial performances and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities.

### 2.2 Comments on Financial Statements

#### 2.2.1 Comments on Group Financial Statements

Audited Financial Statements of the Lake House Property Development Private Limited, Info Media (Private) Limited and Business Lanka AN (Private) Limited, which are fully owned Subsidiaries of the Company, had been taken for preparing the Consolidated Financial Statements.

The following deficiencies are made in this regard.

- (a) Info media (Private) Limited, one of the Subsidiaries of the Company has been non-operating since 2012 and on 08 February 2016, the Board has decided to write off total current asset balance of Rs. 185,511 and total current liability balance of rs. 4,681,768 which has resulted in a negative equity capital balance of Rs. 4,496,257 in the Financial Position of the Company. These Financial Statements were consolidated with the Company without disclosing the above fact.
- (b) Business Lanka AN (Private) Ltd, one of the Subsidiaries of the Company has been experiencing continuous business losses, negative working capital and negative solvency margin. Main operation of the company and service of key management personnel have been terminated with effect from 01 of April 2016. These events indicate a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. However, the Financial Statements of the Subsidiary were consolidated with the Company without disclosing the above fact.

# AUDITOR-GENERAL'S REPORT

## 2.2.2 Comments on Financial Statements of the Company

### 2.2.2.1 Compliance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SME's)

The following observations are made:

- (a) Section 2.52      The Company had offset a credit balance of Rs. 2,338,126 against the trade debtors instead of being shown as trade creditors
- (b) Section 4.14      Although a decision had been taken to dispose a printing machine at a cost of Rs. 24,215,536, it had not been disclosed accordingly.
- (c) Section 10.21     Although adjustments of Rs. 10,242,898 had been made for the opening stock balance, it had not been shown retrospectively.
- (d) Section 16.3      If the property meets the definition of the investment property under an operating lease, it can be classified as such. However, a circuit bungalow at Kataragama which is on operating lease had not been recognized as an investment property.
- (e) Section 17.19     Fully depreciated assets at a cost of Rs. 925,027,381 had been used to generate cash flows continuously without reviewing its useful life.
- (f) Section 20.13     Lease amount of Rs. 2,634,000 had been shown incorrectly as borrowings in the Statement of Financial Position.
- (g) Section 20.16     Although the main land where the Company's building is situated under lease terms for 99 years and only nine years have remained for the laps of lease period, this had not been disclosed in the Financial Statements for the year under review.
- (h) Section 23.30(b)   Although the Company had earned revenue from sales of newspapers as well as advertisements, it had not been separately disclosed.
- (i) Section 28.41      The Company had not followed the disclosure requirements in Sub-sections (c), (f), (i), (j) and (k) of the Standard.

### 2.2.2.2 Accounting Deficiencies

The following observations are made:

- (a) As the system of internal controls on accounting had failed to provide reasonable assurance for the entries made in the general journal, journal entries had been prepared throughout the year by making adjustments in the accounts without having proper and relevant supporting documents and approvals. Further, on many occasions, it was observed that journal entries had been created and confirmed by the same person.

# AUDITOR-GENERAL'S REPORT

- (b) The deductions from salaries of employees due to late attendance, and as other fines aggregating Rs. 4,509,155 had been credited to the fine fund account, and accumulated credit balane of that account amounting to Rs. 12,338,537 had been shown as creditors as at 31 December 2015.
- (c) Administrative expenses relating to inter divisional expenses of the Company had been overstated by Rs. 16,815,000 due to accounted it twice.
- (d) The sale proceeds of old newspapers was Rs. 34,533,000 whereas, the cost of those newspapers was Rs. 187,951,000. However, the sale proceeds had been taken as other income without being recognized the net amount of Rs. 153,418,000 as other expenditure.
- (e) Profit for the year under review had been understated by Rs. 213,170,000 due to the followings
  - (i) Revenue had been overstated by Rs. 294,640,000 due to erroneously computed the inter departmental sales
  - (ii) Non adjustment of cost of newspapers issued free, newspapers returned and inter departmental production cost against cost of sales, that account had been overstated by Rs. 507,810,000.
- (f) Spare parts of a printing machine kept for disposal valued at Rs. 8,582,981 had not been shown separately.
- (g) Although the actual overdraft balance was Rs. 228,074,649, it was shown in the Financial Statements as Rs. 194,368,000 after deducting favourable bank balances of Rs. 9,428,176 relating to 17 bank accounts and cheques received but not deposited as at 31 December 2015 of Rs. 24,278,473. As such, the cash and cash equivalents as at the end of the year under review had been understated by Rs. 33,706,649.
- (h) The plan asset of Rs. 297,930,452 against the retirement benefit obligations of the Company had not been brought to the Financial Statements for the year under review.

### **2.2.2.3 Un-reconciled Differences**

The following observations are made:

- (a) A Difference of Rs. 1,531,000 was observed between schedule of age analysis and the corresponding amount shown in the Financial Statements.
- (b) Differences aggregating Rs. 853,042 were observed between the revenue shown in the revenue register maintained by Commercial Printing Department of the Company and corresponding amount shown in the accounting system as at 31 December 2015.
- (c) A difference of Rs. 20,624,638 was observed between the value of stock shown in the ledger and the value of physically verified stock balances relating to 25 items. Out of the difference an amount of Rs. 4,050,335 had been recognized as unclear debits.

# AUDITOR-GENERAL'S REPORT

## 2.2.2.4 Accounts Receivable and Payable

The following observations are made:

- (a) According to the confirmations received in respect of debtors amounting to Rs. 586,664,670 as at the end of the year under review, the debtors amounting to Rs. 10,956,377 had been agreed in whole for their balances. However, the debtors valued at Rs. 11,749,278 had not been agreed for their balances. Confirmations for debtors amounting to Rs. 563,959,015 had not been received even up to 30 June 2016.
- (b) The Company had issued newspapers, valued at Rs. 7,414,522 exceeding the customers' subscriptions which they kept with the Company.
- (c) A sum of Rs. 107,563,000 shown under trade debtors were outstanding for more than one year. Further a sum of Rs. 19,854,011 or 18 per cent of the above balance had been referred to the legal section for further actions.
- (d) An expenditure of Rs. 311,930 made by the Company exceeding the sponsored amount received for "Sarasaviya Film Festival" had been recorded as an amount receivable.
- (e) The Company had accepted seven cheques amounting to Rs. 253,665 relating to a particular debtor in 2014. At the time of accepting these cheques, the particular bank account had been non-operated and as such this amount had remained as receivables without being recovered up to the end of the year under review.

## 2.2.2.5 Lack of Evidence for Audit

The evidence indicated against the following each item appearing in the Financial Statements had not been furnished to audit.

Item	Value Rs.	Documentary Evidence not made available
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(a) Software Purchased	-	Dates and numbers of software packages purchased, initial cost and subsequent cost.
(b) Administrative Expenses - Materials	3,272,236	Journal entries, detailed schedules and accounts

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

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

# AUDITOR-GENERAL'S REPORT

<b>Reference to Laws, Rules, Regulations and Management Decisions etc.</b>	<b>Non-compliance</b>
(a) Section 13(5)(d) of the Finance Act, No. 38 of 1971	Half-yearly internal audit reports had not been furnished to the Auditor General
(b) Section 114(1) of the Inland Revenue Act, No. 10 of 2006 and Section 8.7 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.	The Company had paid a sum of Rs. 4,615,447 as Pay as You Earn (PAYE) tax from its own fund on the bonus payments made to the employees without deducting from employees. In this connection, the Company had replied that as the Company is under "F" category of State Owned Entities (SOE's) as per PED Circular No. 58(2), it should not follow PED Circulars.
(c) Public Enterprises Circular No. PED/12 of 02 June 2003:	
(i) Section 9.2(b) and (d)	Even though the approval of the Department of Public Enterprises should be obtained for the Organization Chart and the Cadre, it had not been done so.
(ii) Section 9.2(a)	The approval cadre of the Company should be indicated in the Corporate Plan. Nevertheless, the actual cadre as at 31 July 2006 and 30 November 2013 had been shown in the Corporate Plan prepared for the period from 2013 to 2016.
(iii) Section 9.3.1	The Scheme of Recruitment and Promotion for each post should be approved by the Board and the appropriate Ministry with the concurrence of the Department of Public Enterprises. However, the Company had not prepared a Scheme of Recruitment and Promotion as required.
(d) Section 3.2 of the Public Enterprises Circular No. 1/2015 of 25 May 2015	Approval of Secretary to the Line Ministry with the recommendation of the Board of Directors had not been obtained for the expenses of Rs. 1,586,000 incurred exceeding the approved fuel limit.

## 3. Financial Review

### 3.1 Financial Results

According to the Consolidated Financial Statements presented, the operations of the Company for the year ended 31 December 2015 had resulted in a pre-tax net profit of Rs. 26,111,000 as compared with the corresponding pre-tax net profit of Rs. 76,315,000 for the preceding year, thus indicating a deterioration in financial results by Rs. 50,204,000. Decrease of sales revenue from six newspapers and periodicals were the main reasons attributed for the deterioration in financial results for the year under review.

In analyzing financial results of the Company for last four years and the year under review, value addition had been slightly increased from 2011 to 2015. After considering salaries, taxes and depreciation charged for the years (before dividend) 2014 and 2015, the value addition was Rs. 1,783,535 and Rs. 1,785,233 respectively. Details are shown below.

# AUDITOR-GENERAL'S REPORT

	Value "000"				
	2015	2014	2013	2012	2011
Profit after Tax (before dividend)	15,344	53,340	60,980	51,648	7,682
Salaries	1,348,595	1,257,095	1,238,229	1,230,808	1,231,310
Taxes					
Income / Tax	16,354	23,050	12,094	5,781	2,136
NBT	57,888	64,810	64,080	64,067	63,947
Custom Duty	46,595	91,887	89,915	98,246	96,314
VAT	217,399	211,250	210,435	182,279	127,055
Depreciation	83,058	82,103	86,346	79,579	52,882
<b>Value Addition of the Company</b>	<b>1,785,233</b>	<b>1,783,535</b>	<b>1,762,079</b>	<b>1,712,408</b>	<b>1,581,326</b>
Percentage of increase compared to preceding year	0.09 %	1.2 %	2.9 %	8.28 %	-

## 3.2 Analytical Financial Review

### Significant Accounting Ratios

The gross profit margin and the profit markup of the Company for the year under review, as compared with the preceding year had increased slightly by 0.77 per cent and 2.85 per cent respectively. Certain matters revealed at an analytical review of the Financial Statements as compared with the preceding year are given below.

	2015 Percentage	2014 Percentage
Gross Profit Margin	48.29	47.52
Profit markup (Gross profit on cost of sales)	93.40	90.55
Administration Cost on Turnover	39.42	37.57
Selling and Distribution Cost on Turnover	10.00	9.45
Finance Cost on Turnover	1.81	2.37
Liquidity Ratio	2.05	1.66
Acid test Ratio	1.58	1.10

# AUDITOR-GENERAL'S REPORT

## 3.3 Legal Cases Instituted Against the Company

According to the information made available, 34 legal cases were instituted against the Company awaiting adjudication and legal fees paid during the year had been increased by Rs. 11.6 million or by 2049 per cent as compared with the preceding year.

## 3.4 Working Capital Management

Overdraft balance of the Company as at 31 December 2015 was amounted to Rs. 228 million and a sum of Rs. 15.9 million and Rs. 92,473 had been paid by the Company as overdraft interest and penalty charges respectively during the year under review due to poor working capital management.

## 4. Operating Review

### 4.1 Performance

The following observations are made:

- (a) The Company had published 06 kinds of newspapers and 09 kinds of periodicals during the year under review while these were 06 newspapers, 25 periodicals and 03 annual publications during the preceding year. The net contribution from the newspapers and periodicals published had been decreased by 320 million during the year under review as compared with the preceding year. 10 periodicals published by the Company had been discontinued during the year and 06 periodicals had been issued as supplementary together with newspapers without generating any cash flows to the Company.
- (b) Among the 15 newspapers and periodicals published during the year, all the newspapers had made a favourable contribution to the financial results of the Company. The following observations are made in this regard.
  - (i) The overall advertisement income of newspapers and periodicals of the Company had been decreased by Rs. 204 million of 9 per cent as compared with the preceding year.
  - (ii) Overall newspaper sales income of the Company had been decreased from Rs. 383.1 million in the preceding year to Rs. 343.9 million or by 10 per cent during the year under review.
  - (iii) The entire periodical circulation revenue of the Company had been decreased from Rs. 270.7 million to Rs. 190.8 million or by 29 per cent during the year under review.

### 4.2 Management Weaknesses

The following observations are made:

- (a) Business Lanka AN (Private) Limited, which commenced its operational activities during the year 2013, had incurred a cumulative loss of Rs. 12,740,116 as at 31 December 2015 was in solvent. Further, a sum of Rs. 5,527,010 had been provided for bad and doubtful debts as at 31 December 2015 due to approving the credit sales without scrutinizing credit worthiness or credibility of potential customers.
- (b) The Annual Publication Department of the Company had issued its publications to the bookshops on sale or return basis. However, the Company had not taken proper actions to recover the amount due from respective bookshops. Without quantifying the outstanding balance to be recoverable from bookshops, Annual Publication Department had been closed down during the year under review.

# AUDITOR-GENERAL'S REPORT

- (c) In order to minimize significant sales returns prevailed in the last few years, the Company had introduced Return Rates Systems for each Newspaper from time to time. The new amendments to the system had been brought on 01 August 2014. However, overall sales returns had been increased by Rs. 40,129,000 during the year under review. This was equivalent to 27 per cent increase of overall sales returns compared to the preceding year.
- (d) Out of debtor balances as at 31 December 2015, a sum of Rs. 125,729,624 to be receivable from 255 Government Institutions on behalf of advertisements received through the Advertising Agents. Out of above outstanding balance, a sum of Rs. 16,537,862 had been outstanding for more than one year and hence, the recoverability of the outstanding is in doubt. However, as a Government Owned Business Enterprise, the Company had not taken necessary steps to follow a proper procedure to attract the government advertisements directly to the Company.
- (e) Due to unavailability of a proper recovering policy, doubtful trade debts had been increased considerably. Accordingly, provision for doubtful debts had been increased by 19.6 million or 22 per cent as compared with the preceding year. This had been brought to the notice of the Chairman last year as well.
- (f) The Company had incurred severe losses from Colombo - Jaffna bus service. A loss of Rs. 29,821,430 had incurred for above service during the last four years.
- (g) Proper action had not been taken for 98 dishonored cheques valued at Rs. 4,522,303. Out of this, 66 cheques valued at Rs. 2,265,242 had been outstanding for more than one year.

## 4.3 Operating Weaknesses

As per industry norms, normal wastage of 5 per cent of gross run is acceptable. However, during the preceding four years period, it had been exceeded the accepted norm in relation to several newspapers and periodicals, incurring an additional cost of Rs. 24,598,476. During the year under review the Company had to incur an additional cost of Rs. 5,797,893 for the exceeded wastage.

## 4.4 Transactions of Contentious Nature

A condition of the Board decision in giving incentives for accredited advertising agencies was to settle all outstanding dues by 2015. In contrary to that, one accredited advertising agency had been paid an incentive of Rs. 2,354,186 even though its outstanding dues as at 31 December 2015 was amounted to Rs. 1,289,484.

## 4.5 Idle and Under-utilized Assets

A land with extent of 8 acres located at Hokandara had remained idle since the year 1985 without utilizing for intended purpose.

## 4.6 Uneconomic Transactions

Five thousand three hundred and seven books printed since 1996 to 2014, valued at Rs. 2,147,552 had remained at stores as at 31 December 2015, due to poor estimation of actual requirements.

# AUDITOR-GENERAL'S REPORT

## 4.7 Identified Losses

The following observations are made:

- (a) Info Media (Private) Limited, a fully owned Subsidiary discontinued its operations during the year 2012 due to its heavy losses incurred. The cumulative loss as at 31 December 2015 was Rs. 6,996,257 and the Company had written off outstanding amount of Rs. 4,420,434 to be recoverable from Subsidiary during the year under review. As a result, invested capital and additional funds provided amounting to 6.9 million were lost to the Company.
- (b) The stock of newsprint reel valued at Rs. 304,415 had been damaged at Kotahena stores.

## 4.8 Release of Human and Physical Resources to Other Institutions

Nine officers including five Journalists, Photographer, Proof Reader, Assistant Manager and General Assistant had been released for service of another external institution during the year under review. The Company had spent a sum of Rs. 6,361,085 as salaries, wages and allowances on behalf of them. Although five journalists released, six new journalists had been newly recruited during the year under review.

## 4.9 Personnel Management

The following observations are made:

- (a) No proper procedures had been followed for recruitments, promotions and demotions of the employees.
- (b) The Company had obtained the services of six consultants in the field of Human Resources, Information Technology and Editorial Services paying Rs. 3,523,000 during the year under review. However, details of the services provided for upgrading the Company's performance had not been furnished to the audit.
- (c) As per the Action Plan of the Company, it was planned to enhance the skills of employees by providing local and overseas training. However, no such training programme had been implemented during the year under review.
- (d) According to the approved cadre prepared by the Company there were 162 employees in excess in General Administration Department of the Company. Out of them 41 employees had been recruited during the year under review. Apart from that, services of 138 employees had been obtained from two man power agencies at a cost of Rs. 52,505,933 during the year under review. In the meantime, the Company had introduced a Voluntary Retirement Scheme (VRS) due to excess employees.

## 5. Accountability and Good Governance

### 5.1 Corporate Plan

Although a Corporate Plan for the period of 2013 - 2016 had been prepared by the Company, the salient features such as available current resources, organizational structure, proceeding three year operating results were not included and achievement of corporate objectives, particularly formulating strategy to enter into New Media, implementation of the Operational and Marketing Plan, improving product quality had not been evaluated by the management.

# AUDITOR-GENERAL'S REPORT

## 5.2 Annual Action Plan

In line with the Corporate Plan, an Annual Action Plan had been prepared for the year under review. However, the activities planned to be implemented during the year under review such as enhancement of circulation of all newspapers, commercialization of digital archives library, providing islandwide advertising network, acquisition of latest state-of-the-art web printing press, minimizing of bad and doubtful debts, acquisition of new information system to enhance financial reporting, upgrading human resource policies, practices and skills of employees and establishing logistic control system had not been performed as planned.

## 5.3 Audit Committees

An Audit Committee had been appointed and four meetings were held during the year under review. As per Section 7.4.1 of Public Enterprise Circular No. 12 of 02 June 2003 on "Public Enterprises Guidelines on Good Governance", the Audit committee should comprise at least three non-executive board members, chaired preferably by a Treasury representative or person possessing financial management skills. However, none of the directors were non executives or treasury representatives participated at such meetings.

## 5.4 Budgetary Control

The following observations are made:

- (a) According to Section 5.2.3 of PED Circular No. 12 of 02 June 2003, the time target for preparing of Budget and submission it to the line Ministry, Department of Public Enterprise, General Treasury and Auditor General had not been followed.
- (b) Considerable deviations ranging from 15 per cent to 30 per cent had been observed between the budgeted and the actual figures.

## 5.7 Unsolved Audit Matters

The following observations are made:

- (a) Due consideration had not been paid for the following matters which were emphasized from the audit report issued in the preceding year.
  - (i) Not received any returns on investment made at Lake House Property Development Ltd and Info Media (Pvt) Ltd. amounting to Rs. 7,500,000 and Rs. 2,500,000 respectively.
  - (ii) Differences appeared between ledger balances and corresponding age analysis.
  - (iii) Not taken action in respect of dishonored cheques.
- (b) The following matters which were discussed at the Committee on Public Enterprise held on 09 December 2013 had been continued even up to the year under review.
  - (i) Increasing long outstanding advertising debtors
  - (ii) Continuously decreasing the sales income of 6 newspapers

## 6. Systems and Controls

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

# AUDITOR-GENERAL'S REPORT

## Area

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## Observations

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- |                                |  |
|--------------------------------|--|
| (a) Debtors Management         | Obtaining confirmation from debtors, increase in outstanding debtors for more than one year and increase in provision for doubtful debts |
| (b) Inventory Control          | Differences between the ledger balances and verified stock balances.   |
| (c) Revenue Administration     | Non-adjustment of inter-departmental sales and cost of newspapers issued free of charge  |
| (d) Human Resources Management | Release of personnel to other institutes, less training and development programme  |
| (e) Accounting                 | Differences in debtor control accounts   |
| (f) Management of Subsidiaries | Continuous losses of Subsidiaries, poor return for the investments made  |



**H.M. Gamini Wijesinghe**  
Auditor-General

# CHAIRMAN'S COMMENTS ON AUDIT OBSERVATIONS

## 2.2 Comments on Financial Statements

### 2.2.1 Comments on Group Financial Statements

- a) Noted. This will be disclosed in the 2015 Group Annual Report.
- b) Carefully evaluating past performance, capability of team, and the competitive landscape including the number of publications in the domain addressed by BusinessLK - the magazine published by Business Lanka AN (Pvt) Ltd - the Board decided to discontinue publication of the magazine, despite the management decision referred to in paragraph 2. This decision was primarily to prevent accruing losses, and to the redeploy personnel to mere productive areas. To further elaborate, the Board did not decide to terminate operations of Business Lanka AN (Pvt) Ltd the Company. A subsequent board decision renamed the company and started it on a new line of business.

### 2.2.2 Comments of the Financial Statements of the Company

#### 2.2.2.1 Compliance with Sri Lanka Accounting Standards for Small and Medium-Sized Entities (SME's)

- a) Section 2.52 : Not agreed. We have not offset a credit balance of LKR.2,338,126/-.
- b) Section 4.14 : This will be disclosed in the 2015 Annual Report.
- c) Section 10.21 : Adjustments had been made as per Section 10.22.
- d) Section 16.3 : This will be presented in year 2016 Financial Statements.
- e) Section 17.19 : Actions will be taken to review useful life of assets.
- f) Section 20.13 : This will be presented in year 2016 Financial Statements.
- g) Section 20.16 : This will be disclosed in year 2015 Annual Report.
- h) Section 23.30 (b): Our policy is to disclose the total revenue; however, detail schedules were made available for audit purposes.
- i) Section 28.41 : The liability for retiring gratuity payable under Payment of Gratuity Act No. 12 of 1983 has been funded fully by creation of an independence Trust. The extra retiring gratuity to make up the total payable in accordance with the scheme of the Company has been provided fully in the accounts of the Company in respect of all the employees from the commencement of the employment. The liability of the gratuity is calculated using the simplifications allowed in Section 28 of the SLFRS for SME and disclosed in the Note 17 to the Financial Statements. However, we will consider the disclosure requirements as mentioned by you in year 2016.

# CHAIRMAN'S COMMENTS ON AUDIT OBSERVATIONS

## 2.2.2.2. Accounting Deficiencies

- a) Not agreed. In 2010, an accounting software package called Leobiz was introduced. In this system, adjustments to journal entries are affected with approval up to three staff levels. After entering the adjustment entry by one authorized officer, the confirmation is done by another authorized officer. For transactions requiring a third level of approval, this ability is permitted to Managers of the finance division. Therefore your comment cannot be accepted.
- b) The fund account was written back and transferred to other income. An accounting policy of crediting the fine to respective expenditure account will be adopted from the year 2016.
- c) Not agreed. Company policy was to recognize inter departmental sales and cost of sales/expenses separately in the Financial Statements. However, management has decided to change this policy in year 2016.
- d) Not agreed. Cost for the returned old newspapers has already been charged to profit and loss account in the respective years for which the returned newspaper belongs to. Therefore, total sale proceed can be recognized as other income. And also old newspapers are sold on kilogram basis and not on unit or paper wise basis. Therefore, it is impracticable to recognize the cost for those old newspapers accurately. However, there is no impact to profit and loss in application of this policy.
- e)
  - (i) Since year 2011 Company has separately identified revenue from inter departmental sales generated by the Commercial Printing Department. However, management has decided to change this policy in year 2016.
  - (ii) Not agreed. Adjustments have already been made to sales in respect of free issue newspapers and returned newspapers. Management has decided to change the policy on inter departmental revenue and expenses in year 2016.
- f) Goss Community Press to be disposed with spares had been advertised for the tender on 17th February 2016 and hence spare parts of a machine to be disposed will be separately recognized in year 2016.
- g) Not agreed. Bank over draft balance as at 31st December 2015 as per the ledger is LKR 218,412,381/-. Instruments in hand (balance of LKR 24,278,473/-) represents the cheques collected in hand, but not deposited (not transferred from the instrument in hand ledger to bank account) as at 31st December 2015. Therefore, actual over draft balance would be LKR 194,367,857/-. Favourable bank balances are separately shown in cash at bank as per Note 11 to the Financial Statements.
- h) Please refer the answer for 2.2.2.1 (i)

## 2.2.2.3 Un-reconciled Differences

- a) This mismatch was due to a timing difference arisen from the ledgers Hall Porter, School Dispatches and Street Seller as at 31st December 2015 and this difference had been reconciled subsequently.

# CHAIRMAN'S COMMENTS ON AUDIT OBSERVATIONS

- b) Cancellations for some reasons had not been adjusted in the revenue register maintained in the Commercial Printing Department and those adjustments have been made in the ledger.
- c) The noted LKR 20,624,638/- are mostly due to ledger posting errors which have been corrected shortly after the reconciliation. The LKR 4,050,335/- are "uncleared" debits which means goods have been received in stores and entered in the bin cards, but are not reflected in the respective ledger account as payment has not yet been made.

## 2.2.2.4 Accounts Receivables and Payable

- a) ANCL sent confirmation letters to debtors above LKR 200,000/- as agreed by the Auditor Generals Dept. However, only a few debtors responded and this position is beyond our control. Even though, there were no responses to the confirmation letters sent, most of the outstanding balances as at 31st December 2015 have been settled as at 30th June 2016.

- b) Subscription debtors ;

LKR

	Amount as at 31.12.2015	Amount as at 10.08.2016
2011	2,176,095	2,171,715
2012	1,051,979	1,051,978
2013	566,279	563,393
2014	149,093	129,095
2015	3,471,076	572,607
<b>Total</b>	<b>7,414,522</b>	<b>4,488,788</b>

Subscription debtors as at 31.12.2015 of LKR 7,414,522/- mainly due to the debtors arose in year 2011 to year 2014. However, we will introduce new mechanism to minimize these debtors in future.

- c) We are in the process of tightening the credit controls and recovery processes to minimize uncollected debts.
- d) Noted. This amount represented the expenses incurred for Sarasaviya Film Festival which is to be held on December 2016 and sponsors will be arranged for the same.
- e) Not agreed. ANCL had accepted cheques before the bank has informed the Company. However, we have already referred this matter to legal department to take recovery actions.

## 2.2.2.5 Lack of Evidence for Audit

- a) Respective vouchers in relation to software purchased are available in the Accounts Department for perusal.
- b) Journal entries and other schedules are available in the accounts department for perusal and ledger can be viewed in Leobiz system.

# CHAIRMAN'S COMMENTS ON AUDIT OBSERVATIONS

## **2.3. Non-compliance with Laws, Rules, regulations and Management Decisions**

- a) Noted. Steps will be taken in due course.
- b) PAYE has been computed and remitted in accordance with the regulations of the Department of Inland Revenue. According to the Public Enterprise Circular No. 58 (2), the ANCL is categorized under the category "F". Hence, this circular will not apply to ANCL.
- c) to (d) According to the Public Enterprise Circular No. 58 (2), the ANCL is categorized under the category "F". Hence, this circular will not apply to ANCL.

## **3. Financial Review**

### **3.1 Financial Results**

Noted

### **3.2 Analytical Financial Review Significant Accounting Ratios**

Noted

### **3.3 Legal Cases Instituted Against the Company**

Not agreed. LKR 11.5 mn is the provision for 2015 for claims against the Company and not legal fees. In addition management has decided to enter into settlements and reach closure for cases where continuing the litigation will result in higher costs to the Company.

### **3.4 Working Capital Management**

The overdraft interest has reduced by LKR 4.5 mn compared to 2014.

The mortgage of the term loan facility was delayed due to certain practical issues mentioned in the letter issued by the People's Bank under reference No. CBD/CRM/08/15, dated 31st August 2015. (A copy is enclosed - Annexure A).

The bank has charged LKR 184,946.17 but reduced it by 50 % (LKR 92,473/=) considering our request.

## **4. Operating Review**

### **4.1 Performance**

- a) Noted
- b) Noted

### **4.2 Management Weaknesses**

- a) All possible measures are being taken to improve the collection and minimize bad debts. However, Business operation of Business Lanka AN (Pvt) Ltd was closed in 2016 due to continuous losses. The Company was renamed and a new business area identified that could utilize the available excess human resources at ANCL.

# CHAIRMAN'S COMMENTS ON AUDIT OBSERVATIONS

- b) Due to continuous losses and inefficiencies in the Annual Publication Department was closed during the year under review.
- c) Unsold return percentages had increased mainly due to delayed collection of returns from 2014 and the accumulated returns backlog. Additionally, a new return system has been introduced with close monitoring to ensure timely returns.
- d) Not agreed. There is strong competition for government advertisements among newspaper publications. Additionally the various ad placement mechanisms used by differing government entities can result in some bad debts.
- e) Not agreed. Recoveries are made in the best suitable and feasible manner. All possible measures are being taken to improve collection and minimize bad and doubtful debts.
- f) Accepted. Actions have been taken for reduction in costs.
- g) ANCL constantly maintains pertinent procedures to recover the balance outstanding due to dishonored cheques.

## 4.3 Operating Weaknesses

ANCL has not invested in new printing presses when it should have done so many years ago. The higher wastage is a consequence of this. A new press acquisition and press overhauls are on-going to address this.

## 4.4 Transactions of Contentious Nature

Not agreed.

Advertising incentives were given for advertising agencies who have settled their all outstanding dues for 2015 except for Selacine Advertising. Relevant details are given below.

Advertising Agency	Date of settlement - 2015 Outstanding	Incentive Payment Date
Jebz Advertising (Pvt) Ltd	20 <sup>th</sup> April 2016	16 <sup>th</sup> May 2016
Rukris Advertising (Pvt) Ltd	16 <sup>th</sup> March 2016	22 <sup>nd</sup> April 2016
Diadem DSM (Pvt) Ltd	10 <sup>th</sup> Feb 2016	9 <sup>th</sup> June 2016

Board approval was taken to utilize year 2015 advertising incentive of Selacine Advertising to set off the agency outstanding for year 2013 and 2014. Relevant Board Paper & Board Decision is attached herewith (Annexure B).

## 4.5 Idle and Under-utilized Assets

Accepted. Ownership of the Hokandara Land transferred to ANCL in year 2013.

## 4.6 Uneconomic Transactions

Not agreed. Copies were printed as per the requirement of the clients.

# CHAIRMAN'S COMMENTS ON AUDIT OBSERVATIONS

## 4.7 Identified Losses

- a) Info Media (Pvt) Ltd is a fully owned non-operating subsidiary of ANCL. Business operations of Info Media (Pvt) Ltd had been closed down during the year 2012 due to continuous losses. The Company was renamed and a new business area identified that can use the excess human resources available at ANCL.
- b) Noted. The stock of newsprint reels worth of LKR 568,900/- (13 reels) damaged however, 5 reels out of the 13 reels (LKR 264,485/-) had been used for printing.

## 4.8 Release of Human and Physical Resources to Other Institutions

Company had released the staff concerned for President Office, Prime Ministers Office and the Ministry upon their requests.

## 4.9 Personnel Management

- a) Company followed the proper procedure for recruitment and promotions.
- b) Company obtained the services of consultants to get expert opinions and improve Company performance.
- c) At present the Company has planned to appoint a Manager - Learning & Development and called applications for the post. The appointment will be made shortly.
- d) Not agreed. The overall number of employees at the Company reduced in 2015.

## 5. Accountability and Good Governance

### 5.1 Corporate Plan

Not agreed. The corporate plan was prepared to serve as a broad roadmap to the organization and not as a requirement of Public Enterprise Circular PED/12 of 2nd June 2003. The implementation of a new media strategy and updated marketing plans and product quality improvements occur precisely because these are evaluated by management.

### 5.2 Annual Action Plan

Though there are variances against the action plan, all the activities in general are carried out on a priority basis and closely supervised by the management.

### 5.3 Audit Committees

Noted

### 5.4 Budgetary Control

- a) According to the Public Enterprise Circular No. 58 (2), the ANCL is categorized under the category "F". Hence, this circular will not apply to ANCL.
- b) We also note that 2015 was a difficult year for the newspaper industry and budgeted revenues were not achieved.

# CHAIRMAN'S COMMENTS ON AUDIT OBSERVATIONS

## 5.7 Unresolved Audit Matters

- a)
  - i. Though there is no dividend from M/S Lake House Property Development (Pvt) Ltd, substantial capital appreciation has accrued as the land owned by the subsidiary has gone up many fold.
  - ii. Noted. Actions will be taken to rectify this difference.
  - iii. Please refer answer in 4.2 (g)
- b)
  - i. We are in the process of tightening the credit controls and recovery processes to minimize debtors of Advertising Agents.
  - ii. Management has decided to change the layout and content of the paper to improve the quality with the intention of increasing sales.

## 6. Systems and Controls

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



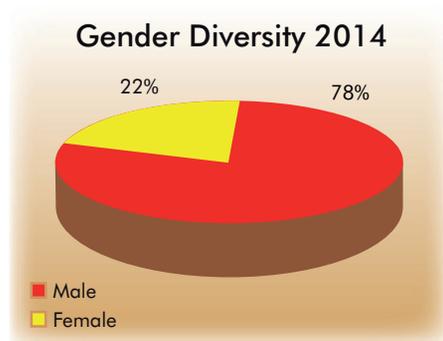
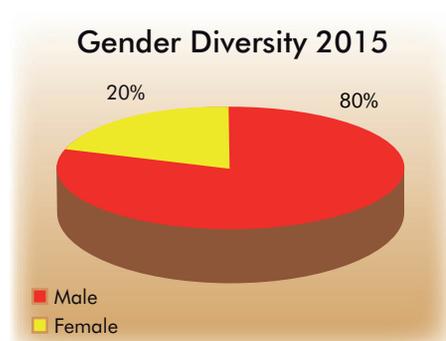
**Kavan Ratnayaka**  
Chairman & Managing Director

# HUMAN RESOURCES

ANCL has recognized its workforce as the heart of its business, while continuously evaluating human resources to recognize those who are ready to put forward their efforts towards the company. Having the idea of aligning human resources towards achieving the strategic goals, ANCL continued to attract, retain & widen their capabilities while expending welfare facilities to its workforce.

## Gender Diversity (As at 31st December)

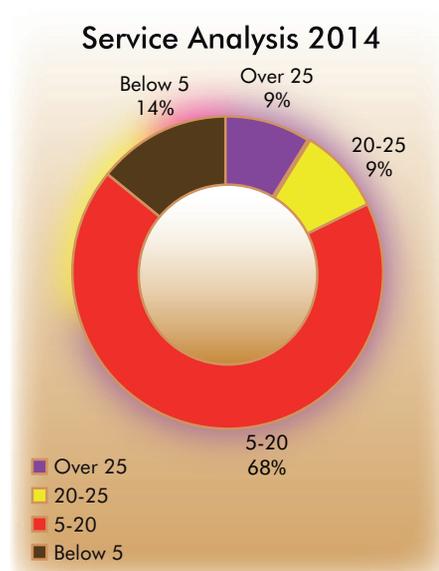
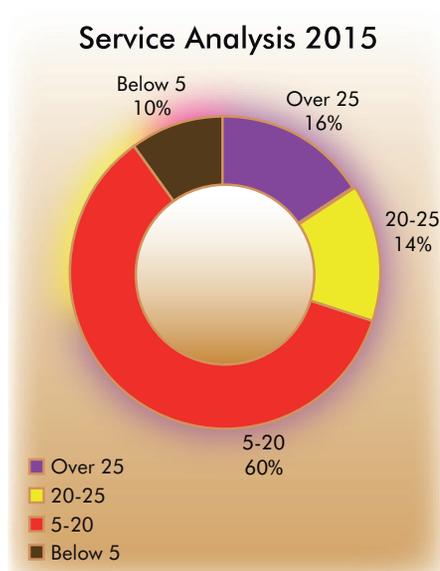
Gender	2015		2014	
	No.	%	No.	%
Male	1,387	80 %	1,420	78 %
Female	356	20 %	402	22 %
<b>Total</b>	<b>1,743</b>	<b>100 %</b>	<b>1,822</b>	<b>100 %</b>



## Service Analysis

### Avg Service Years of Employees

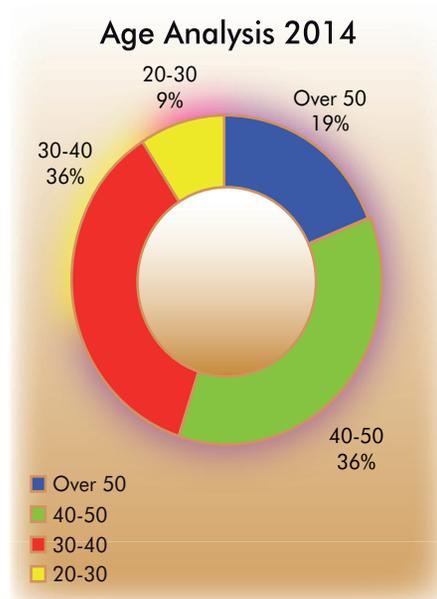
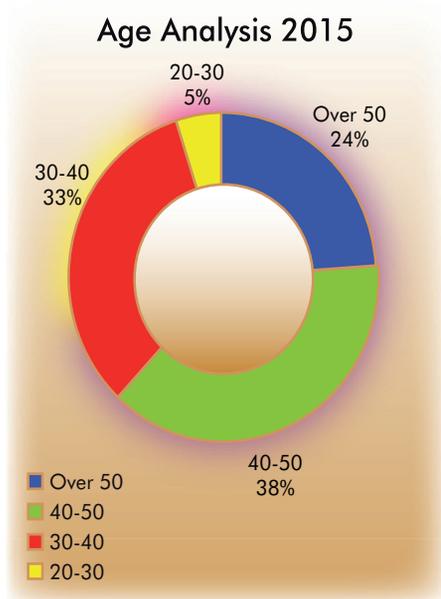
Service Years	2015		2014	
	No.	%	No.	%
Over 25	283	16 %	170	9 %
20-25	250	14 %	153	9 %
5-20	1,041	60 %	1,237	68 %
Below 5	169	10 %	262	14 %
<b>Total</b>	<b>1,743</b>	<b>100 %</b>	<b>1,822</b>	<b>100 %</b>



# HUMAN RESOURCES

## Age Analysis

Age	2015		2014	
	No.	%	No.	%
Over 50	412	24 %	346	19 %
40-50	660	38 %	660	36 %
30-40	586	33 %	657	36 %
20-30	85	5 %	159	9 %
<b>Total</b>	<b>1,743</b>	<b>100 %</b>	<b>1,822</b>	<b>100 %</b>



# TOWARDS EMPLOYEES



## YEAR 5 SCHOLARSHIPS TO EMPLOYEE CHILDREN



## TAMIL LANGUAGE PROGRAMME



# TOWARDS EMPLOYEES

## SPORTS CARNIVAL



## LAKE HOUSE KALA ULELA



## INTER DEPARTMENT CRICKET TOURNAMENT

# TOWARDS EMPLOYEES



## “API ALUTH WEMU” PROGRAMME



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December	Notes	Company		Group	
		2015 LKR'000	2014 LKR'000	2015 LKR'000	2014 LKR'000
Revenue	18	3,244,518	3,496,638	3,253,737	3,514,095
Cost of sales		(1,677,606)	(1,835,089)	(1,684,116)	(1,844,198)
Gross profit		1,566,912	1,661,549	1,569,621	1,669,897
Other income	19	124,182	136,246	124,474	137,353
		1,691,094	1,797,795	1,694,095	1,807,250
Administrative expenses		(1,279,053)	(1,312,535)	(1,286,149)	(1,320,140)
Distribution expenses		(327,051)	(325,379)	(333,240)	(332,083)
Operating profit	20	84,990	159,881	74,706	155,027
Finance expenses		(58,879)	(83,565)	(58,502)	(83,150)
Profit before tax & fair value adjustment		26,111	76,315	16,204	71,877
Tax expense	21	(10,767)	(22,975)	(11,035)	(23,050)
Fair value adjustment		28,690	15,888	28,690	15,888
<b>Profit for the year</b>		<b>44,034</b>	<b>69,229</b>	<b>33,859</b>	<b>64,716</b>
<b>Profit attributable to owners of the parent</b>		<b>44,034</b>	<b>69,229</b>	<b>33,859</b>	<b>64,716</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December	Notes	Company		Group	
		2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Property Plant & Equipment	06	283,311	326,266	283,989	327,471
Long term financial assets	07	179,941	151,251	179,941	151,251
Investment in subsidiaries	08	13,000	13,000	-	-
<b>Total Non Current Assets</b>		<b>476,252</b>	<b>490,517</b>	<b>463,930</b>	<b>478,722</b>
<b>Current Assets</b>					
Inventories	09	273,882	532,233	273,882	532,233
Trade & other receivables	10	907,494	951,226	909,378	948,800
Current tax assets		-	3,322	-	3,296
Cash & cash equivalents	11	14,592	74,613	14,703	89,021
<b>Total Current Assets</b>		<b>1,195,968</b>	<b>1,561,395</b>	<b>1,197,963</b>	<b>1,573,350</b>
<b>Total Assets</b>		<b>1,672,220</b>	<b>2,051,912</b>	<b>1,661,893</b>	<b>2,052,072</b>
<b>EQUITY &amp; LIABILITIES</b>					
<b>Equity</b>					
Stated capital	12	34,837	34,837	34,837	34,837
Retained earnings		453,432	409,397	445,480	411,621
<b>Total Equity</b>		<b>488,269</b>	<b>444,234</b>	<b>480,317</b>	<b>446,458</b>
<b>Liabilities</b>					
<b>Non-Current Liabilities</b>					
Deposits	13	173,464	173,815	173,464	173,815
Borrowings	14	75,132	146,440	71,632	142,940
Employee benefit obligations	17	332,675	322,093	332,675	322,093
Provision for claims against the company	15	19,250	20,000	19,250	20,000
<b>Total Non-Current Liabilities</b>		<b>600,521</b>	<b>662,348</b>	<b>597,021</b>	<b>658,848</b>
<b>Current Liabilities</b>					
Trade & other payables	16	294,190	431,749	295,313	433,183
Borrowings	14	289,240	513,582	289,242	513,584
<b>Total Current Liabilities</b>		<b>583,430</b>	<b>945,330</b>	<b>584,555</b>	<b>946,766</b>
<b>Total Liabilities</b>		<b>1,183,951</b>	<b>1,607,679</b>	<b>1,181,576</b>	<b>1,605,614</b>
<b>Total Equity &amp; Liabilities</b>		<b>1,672,220</b>	<b>2,051,912</b>	<b>1,661,893</b>	<b>2,052,072</b>

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



**Virajith Bois**  
DGM Finance

Board of Directors is responsible for the preparation and the presentation of Financial Statements.  
Approved and signed on 29th February 2016 for and on behalf of the Board.



**Kavan Ratnayaka**  
Chairman & Managing Director



**Emerick Fernando**  
Director Finance

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December		Company		Group	
		Notes	2015 LKR'000	2014 LKR'000	2015 LKR'000
<b>Operating Activities</b>					
Cash generated from operations	22	328,446	492,827	313,600	488,148
Interest paid		(58,879)	(83,565)	(58,502)	(83,150)
Income tax paid		(3,026)	-	(3,145)	(563)
Gratuity paid		(38,042)	(31,715)	(38,042)	(31,715)
Payment for claims against the company		(12,209)	(568)	(12,209)	(568)
Cash flow from operating activities		216,291	376,979	201,702	372,152
<b>Investing activities</b>					
Purchase of property plant & equipment		(59,180)	(68,800)	(59,180)	(64,999)
Sale of property plant & equipment		11,382	5,407	11,382	5,407
Increase/(decrease) in deposits		(351)	6,986	(351)	6,986
Interest received		11,868	11,824	12,160	12,932
Dividend received		2,254	2,189	2,254	2,189
Rental income received		33,760	30,711	33,760	30,711
(Increase)/decrease in capital WIP		19,603	(18,038)	19,603	(18,038)
Cash flow from investing activities		19,336	(29,721)	19,627	(24,812)
<b>Financing activities</b>					
Increase/(decrease) in borrowings		(332,526)	(232,205)	(332,526)	(232,205)
Cash flow from financing activities		(332,526)	(232,205)	(332,526)	(232,205)
<b>Net change in cash &amp; cash equivalents</b>		<b>(96,899)</b>	<b>115,053</b>	<b>(111,196)</b>	<b>115,135</b>
<b>Cash &amp; cash equivalents at 1st January</b>		<b>(82,877)</b>	<b>(197,930)</b>	<b>(68,472)</b>	<b>(183,607)</b>
<b>Cash &amp; cash equivalents at 31st December</b>		<b>(179,776)</b>	<b>(82,877)</b>	<b>(179,668)</b>	<b>(68,472)</b>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## Company

	Stated capital LKR '000	Retained earnings LKR '000	Total LKR '000
Carrying value as at 1st January 2014	34,837	340,168	375,005
Profit for the year 2014		69,229	69,229
Carrying value as at 31st December 2014	34,837	409,397	444,234
Profit for the year 2015		44,034	44,034
Carrying value as at 31st December 2015	34,837	453,432	488,268

## Group

	Stated capital LKR '000	Retained earnings LKR '000	Total LKR '000
Carrying value as at 1st January 2014	34,837	346,905	381,742
Profit for the year 2014		64,716	64,716
Carrying value as at 31st December 2014	34,837	411,621	446,458
Profit for the year 2015		33,859	33,859
Carrying value as at 31st December 2015	34,837	445,480	480,317

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Nature of Operations

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

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

## 2. General Information and Statement of Compliance with SLFRS for SMEs

The Financial Statements of the Group for the year ended 31<sup>st</sup> December 2015 have been prepared in accordance with the Sri Lanka Financial Reporting Standard for Small and Medium-sized Entities (SLFRS for SMEs) issued by the Institute of Chartered Accountants of Sri Lanka. The Financial Statements of the group are presented in Sri Lankan Rupees.

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

## 3. Summary of Accounting Policies

### 3.1 Overall Considerations

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

### 3.2 Basis of Consolidation

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

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

### 3.3 Going Concern

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

# NOTES TO THE FINANCIAL STATEMENTS

## 3.4 Cash and Cash Equivalents

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

## 3.5 Foreign Currency Translation

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

## 3.6 Revenue

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

### 3.6.1 Sale of Goods (Circulation)

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

### 3.6.2 Rendering of Services (Advertising)

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

### 3.6.3 Rental Income

Rental income from leased properties is recognized on accrual basis.

### 3.6.4 Interest and Dividend Income

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

## 3.7 Borrowing Costs

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

## 3.8 Property, Plant and Equipment

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

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

# NOTES TO THE FINANCIAL STATEMENTS

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

## 3.9 Leased Assets

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

## 3.10 Impairment Testing of Property Plant and Equipment

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

## 3.11 Financial Instruments

### 3.11.1 Financial Assets

#### Trade and Other Receivables and Cash and Cash Equivalents

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

#### Long Term Financial Assets

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

# NOTES TO THE FINANCIAL STATEMENTS

## 3.11.2 Financial Liabilities

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

## 3.12 Inventories

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

## 3.13 Income Taxes

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

## 3.14 Dividend

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's Financial Statements in the period in which the dividends are approved by the Company's shareholders. Provision for final dividends is recognized at the time the dividend recommended and declared by the Board of Directors, is approved by the shareholders.

## 3.15 Equity and Reserves

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

## 3.16 Post-Employment Benefits, Short-Term Employee Benefits and Termination Benefits

### 3.16.1 Post-Employment Benefits

#### a) Defined Contribution Plans (EPF, ETF)

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

#### b) Defined Benefit Plans (Gratuity)

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

# NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

### 3.16.2 Short-Term Employee Benefits

Short-term Employee Benefits including holiday entitlement are current liabilities included in 'Other Payables' and are measured at the undiscounted amount the Group expects to pay as a result of the unused entitlement.

### 3.16.3 Termination Benefits (VRS)

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

## 4. Related Party Transactions

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

### 4.1 Transactions with Subsidiaries

#### Lake House Property Development (Private) Ltd

The Subsidiary transferred its land & land development cost of LKR 3,801,362.62 in the year 2014 to the Parent and parent provided loan interest of LKR 420,000.00 in respect of LKR 3,500,000.00 loan obtained from the subsidiary previously. During the year, the Subsidiary has uplift the treasury bills amounting to LKR 13,958,641.15 (including the bank balance). Further the parent incurred tax expenses of LKR 75,016.81, financial expenses of LKR 40,986/- and audit expenses of LKR 13,750.00 on behalf of the subsidiary during the year 2015. Together with these transactions the total amount payable to the subsidiary stood at LKR 15,960,994/- as at 31st December 2015.

# NOTES TO THE FINANCIAL STATEMENTS

## **Info Media (Private) Ltd**

During 2015, the Parent settled the audit fees amounting to LKR 2,500/- of the subsidiary and balance stood at LKR 4,420,434/- as at 31st December 2015.

## **Business Lanka AN (Private) Limited**

As at balance sheet, the Parent is to receive a total sum of LKR 15,151,753 from this subsidiary in respect printing cost, editorial cost, taxes and stationery cost incurred on behalf of the subsidiary.

### **4.2 Transactions with Key Management Personnel**

The key management personnel of the Group are the members of the Board of Directors whose remunerations amounted to LKR 23.6 million is disclosed in note 20 to the Financial Statements.

## **5. Contingent Liabilities**

There are 34 cases pending against the company awaiting adjudication. Details of the provisions are disclosed in note 15 to the Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

## Note 06

### 6.1 Property Plant & Equipment (Company)

#### Cost

Item	Balance 01/01/2015 LKR'000	Additions in 2015 LKR'000	Disposals in 2015 LKR'000	Transfers in 2015 LKR'000	Balance 31/12/2015 LKR'000
Free hold land	3,830	-	-		3,830
Building	76,093	33,755	-		109,848
Computer and installations	195,932	13,859	(1,112)		208,680
Plant & machinery	1,193,664	6,742	(1,510)		1,198,896
Motor vehicle & garage equip;	66,816	22	(12,272)	23,750	78,316
Furniture fittings & equipments	30,320	4,802	(800)		34,322
Lease hold motor vehicles	28,550	-	-	(23,750)	4,800
<b>Total</b>	<b>1,595,205</b>	<b>59,180</b>	<b>(15,694)</b>	<b>-</b>	<b>1,638,691</b>

#### Depreciation

Item	Balance 01/01/2015 LKR'000	Additions in 2015 LKR'000	Disposals in 2015 LKR'000	Transfers in 2015 LKR'000	Balance 31/12/2015 LKR'000
Free hold land	-	-	-		-
Building	74,102	2,075	-		76,177
Computer and installations	170,050	13,790	(1,112)		182,728
Plant & machinery	926,436	63,850	(1,510)		988,776
Motor vehicle & garage equip;	65,727	640	(12,272)	23,750	77,845
Furniture fittings & equipments	27,178	977	(800)		27,355
Lease hold motor vehicles	25,049	1,200	-	(23,750)	2,499
<b>Total</b>	<b>1,288,542</b>	<b>82,532</b>	<b>(15,694)</b>	<b>-</b>	<b>1,355,380</b>

#### Carrying value

Item	As at 31/12 2015 LKR'000	As at 31/12 2014 LKR'000
Free hold land	3,830	3,830
Building	33,671	1,991
Computer and installations	25,952	25,882
Plant & machinery	210,119	267,228
Motor vehicle & garage equip;	471	1,089
Furniture fittings & equipments	6,967	3,142
Lease hold motor vehicles	2,301	3,501
Capital work-in-progress	-	19,603
<b>Total</b>	<b>283,311</b>	<b>326,266</b>

\* Head office and Kataragama lands which are on 99 year lease terms are treated as operating leases

\* Property plant and equipments pledged as securities are detailed in Note 14 to the Financial Statements

# NOTES TO THE FINANCIAL STATEMENTS

## Note 06

### 6.2 Property Plant & Equipment (Group)

#### Cost

Item	Balance 01/01/2015 LKR'000	Additions in 2015 LKR'000	Disposals in 2015 LKR'000	Transfers in 2015 LKR'000	Balance 31/12/2015 LKR'000
Free hold land	3,830				3,830
Building	76,093	33,755	-	-	109,848
Computer and installations	197,679	13,859	(1,112)	-	210,427
Plant & machinery	1,193,872	6,742	(1,510)	-	1,199,104
Motor vehicle & garage equip;	66,816	22	(12,272)	23,750	78,316
Furniture fittings & equipments	30,624	4,802	(800)	-	34,626
Lease hold motor vehicles	28,550	-	-	(23,750)	4,800
<b>Total</b>	<b>1,597,464</b>	<b>59,180</b>	<b>(15,694)</b>	<b>-</b>	<b>1,640,950</b>

#### Depreciation

Item	Balance 01/01/2015 LKR'000	Additions in 2015 LKR'000	Disposals in 2015 LKR'000	Transfers in 2015 LKR'000	Balance 31/12/2015 LKR'000
Free hold land	-	-	-	-	-
Building	74,102	2,075	-	-	76,177
Computer and installations	170,924	14,227	(1,112)	-	184,039
Plant & machinery	926,540	63,902	(1,510)	-	988,932
Motor vehicle & garage equip;	65,727	640	(12,272)	23,750	77,845
Furniture fittings & equipments	27,254	1,015	(800)	-	27,469
Lease hold motor vehicles	25,049	1,200	-	(23,750)	2,499
<b>Total</b>	<b>1,289,596</b>	<b>83,058</b>	<b>(15,694)</b>	<b>-</b>	<b>1,356,961</b>

#### Carrying value

Item	As at 31/12 2015 LKR'000	As at 31/12 2014 LKR'000
Free hold land	3,830	3,830
Building	33,671	1,991
Computer and installations	26,388	26,755
Plant & machinery	210,171	267,332
Motor vehicle & garage equip;	471	1,089
Furniture fittings & equipments	7,157	3,370
Lease hold motor vehicles	2,301	3,501
Capital work-in-progress	-	19,603
<b>Total</b>	<b>283,989</b>	<b>327,471</b>

\* Head office and Kataragama lands which are on 99 year lease terms are treated as operating leases

\* Property plant and equipments pledged as securities are detailed in Note 14 to the Financial Statements

# NOTES TO THE FINANCIAL STATEMENTS

## Note 07

### Financial Assets and Financial Liabilities

As at 31st December	2015		2014	
	LKR'000	No. of Shares	LKR'000	No. of Shares
<b>Financial assets</b>				
<b>Measured at fair value through profit or loss</b>				
<b>Long term financial assets</b>				
Cargills Ceylon Ltd, Ordinary shares of Rs 1/-	151,170	799,840	122,376	799,840
Commercial Bank, NV ordinary shares of Rs 10/-	16,634	135,234	16,918	135,234
Housing Dev.Fin.Corp. Ordinary shares of Rs 10/-	12,078	180,000	11,898	180,000
<b>Total</b>	<b>179,882</b>		<b>151,192</b>	
<b>Measured at cost less impairment</b>				
<b>Long term financial assets</b>				
Lanka Puwath Ltd, Ordinary shares of Rs 1,000/-	13	13	13	13
Press Trust of Ceylon Ltd, Ord.shares of Rs 100/- *	-	600	-	600
National Newspaper & Paper Mills Ltd	1	100	1	100
Associated Investments Ltd, Ord.shares of Rs 100/-	29	3,480	29	3,480
Galle Face Hotel Co.Ltd, Ord.shares of Rs 100/-	16	4	16	4
<b>Total</b>	<b>59</b>		<b>59</b>	
<b>Total long term financial assets</b>	<b>179,941</b>		<b>151,251</b>	

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

## Note 08

### Investment in Subsidiaries

As at 31st December	Share Holding		Company	
	2015 - %	2014 - %	2015 - LKR'000	2014 - LKR'000
Lake House Property Development (Pvt) Ltd	100 %	100 %	7,500	7,500
Infomedia (Pvt) Ltd.	100 %	100 %	2,500	2,500
Business Lanka AN (Pvt) Ltd.	100 %	100 %	3,000	3,000
<b>Total</b>			<b>13,000</b>	<b>13,000</b>

# NOTES TO THE FINANCIAL STATEMENTS

## Note 09 Inventories

As at 31st December	Company		Group	
	2015 LKR'000	2014 LKR'000	2015 LKR'000	2014 LKR'000
Newsprint	98,439	232,399	98,439	232,399
Goods in transit	484	-	484	-
Machinery spares	101,209	99,820	101,209	99,820
Motor vehicle spares	3,661	4,352	3,661	4,352
Over issue newspapers	-	-	-	-
Commercial printing materials	55,570	164,289	55,570	164,289
Branch office	-	8,625	-	8,625
Others	11,421	19,205	11,421	19,205
Work-in-progress (commercial printing)	3,098	4,873	3,098	4,873
	<b>273,882</b>	<b>533,563</b>	<b>273,882</b>	<b>533,563</b>
Less - Provision for inventories	-	(1,330)	-	(1,330)
<b>Total</b>	<b>273,882</b>	<b>532,233</b>	<b>273,882</b>	<b>532,233</b>

## Note 10

### Trade and Other Receivables

As at 31st December	Company		Group	
	2015 LKR'000	2014 LKR'000	2015 LKR'000	2014 LKR'000
<b>Trade receivables</b>				
Trade receivables	783,605	758,989	800,343	774,899
Provision for doubtful trade receivables	(107,563)	(87,930)	(118,875)	(93,715)
Net trade receivables	676,042	671,058	681,468	681,184
<b>Other receivables</b>				
Staff receivables	168,572	190,982	168,641	191,102
Current Accounts with Subsidiaries	3,611	12,677	-	-
Other receivables	66,006	99,771	66,006	99,775
	238,188	303,430	234,647	290,877
Provision for doubtful other receivables	(6,737)	(23,261)	(6,737)	(23,261)
Net other receivables	231,452	280,169	227,910	267,616
<b>Total</b>	<b>907,494</b>	<b>951,227</b>	<b>909,378</b>	<b>948,800</b>

# NOTES TO THE FINANCIAL STATEMENTS

## Note 11

### Cash and Cash Equivalents

As at 31st December	Company		Group	
	2015 LKR'000	2014 LKR'000	2015 LKR'000	2014 LKR'000
Cash at bank and in hand	2,035	62,170	2,145	63,011
Short term bank deposits	12,557	12,443	12,557	26,011
<b>Total</b>	<b>14,592</b>	<b>74,613</b>	<b>14,703</b>	<b>89,021</b>

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

Cash and cash equivalents as stated above	14,592	74,613	14,703	89,021
Bank overdrafts (Note 14)	(194,368)	(157,492)	(194,370)	(157,494)
	<b>(179,776)</b>	<b>(82,878)</b>	<b>(179,667)</b>	<b>(68,473)</b>

## Note 12

### Stated Capital

As at 31st December	Company		Group	
	2015 LKR'000	2014 LKR'000	2015 LKR'000	2014 LKR'000
Authorised capital, 5,000,000 ordinary shares of Rs 10/- each	50,000	50,000	50,000	50,000
Issued & fully paid capital, 3,483,714 ordinary shares of Rs 10/- each	34,837	34,837	34,837	34,837

## Note 13

### Deposits

As at 31st December	Company		Group	
	2015 LKR'000	2014 LKR'000	2015 LKR'000	2014 LKR'000
Newspaper Agents	113,608	115,890	113,608	115,890
Regular advertisers	49,010	48,107	49,010	48,107
Other deposits	10,846	9,817	10,846	9,817
<b>Total</b>	<b>173,464</b>	<b>173,815</b>	<b>173,464</b>	<b>173,815</b>

# NOTES TO THE FINANCIAL STATEMENTS

## Note 14 Borrowings

As at 31st December	Company		Group	
	2015 LKR'000	2014 LKR'000	2015 LKR'000	2014 LKR'000
<b>Non-current</b>				
Bank loans	70,284	140,306	70,284	140,306
Finance lease liabilities	1,348	2,635	1,348	2,635
Loan from subsidiary	3,500	3,500	-	-
<b>Total</b>	<b>75,132</b>	<b>146,441</b>	<b>71,632</b>	<b>142,941</b>
<b>Current</b>				
Bank overdrafts	194,368	157,492	194,370	157,494
Bank loans	93,586	351,884	93,586	351,884
Finance lease liabilities	1,286	4,206	1,286	4,206
<b>Total</b>	<b>289,240</b>	<b>513,582</b>	<b>289,242</b>	<b>513,584</b>
<b>Total borrowings</b>	<b>364,373</b>	<b>660,023</b>	<b>360,875</b>	<b>656,525</b>

### Securities pledged for borrowings

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

## Note 15 Provision for Claims against the Company

As at 31st December	Company		Group	
	2015 LKR'000	2014 LKR'000	2015 LKR'000	2014 LKR'000
Carrying amount at the beginning of the year	20,000	10,000	20,000	10,000
Provision for the year	11,459	10,568	11,459	10,568
Payments made during the year	(12,209)	(568)	(12,209)	(568)
<b>Carrying amount at the end of the year</b>	<b>19,250</b>	<b>20,000</b>	<b>19,250</b>	<b>20,000</b>

## Note 16 Trade & Other Payables

As at 31st December	Company		Group	
	2015 LKR'000	2014 LKR'000	2015 LKR'000	2014 LKR'000
Trade payables	156,795	250,549	156,795	250,808
Income tax	4,419	-	4,595	-
Value added tax	41,337	103,945	41,640	104,440
Nation building tax	9,576	8,740	9,630	8,822
Advances	-	-	-	-
Deferred income -unexpired subscription	5,475	6,658	5,475	6,658
Tender deposits	3,040	2,887	3,040	2,887
Other payables	73,548	58,969	74,136	59,568
<b>Total</b>	<b>294,190</b>	<b>431,749</b>	<b>295,313</b>	<b>433,183</b>

# NOTES TO THE FINANCIAL STATEMENTS

## Note 17

### Employee Benefits

#### Defined benefit plan - Gratuity

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

#### 1) Number of years of service

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

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

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

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

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

#### Movement of Gratuity Liability

<b>As at 31st December</b>	<b>2015</b>	<b>2014</b>
	<b>LKR'000</b>	<b>LKR'000</b>
<b>Provision available in the accounts</b>		
Carrying amount at the beginning of the year	322,093	298,579
Payments made during the year	(38,042)	(31,715)
Provision for the year	48,624	55,229
<b>Carrying amount at the end of the year</b>	<b>332,675</b>	<b>322,093</b>
<b>Amount held in the Gratuity Trust Fund</b>	<b>289,530</b>	<b>284,611</b>
<b>Total gratuity liability</b>	<b>622,205</b>	<b>606,704</b>

# NOTES TO THE FINANCIAL STATEMENTS

## **Note 18** **Revenue**

For the year ended 31st December	Company		Group	
	2015 LKR'000	2014 LKR'000	2015 LKR'000	2014 LKR'000
Sunday Observer	747,434	825,204	747,434	825,204
Daily News	825,361	905,535	825,361	905,535
Dinamina	365,260	403,255	365,260	403,255
Silumina	213,956	265,347	213,956	265,347
Thinakaran	162,500	164,296	162,500	164,296
Varamanjaree	28,585	28,072	28,585	28,072
Tharunee	120,202	124,443	120,202	124,443
Mihira	18,068	16,082	18,068	16,082
Sarasaviya	6,409	7,778	6,409	7,778
Budusarana	27,595	28,592	27,595	28,592
Navayugaya	4,643	6,797	4,643	6,797
Subasetha	16,055	14,709	16,055	14,709
Kreeda	1,644	5,875	1,644	5,875
Arogya	3,160	11,405	3,160	11,405
Manchu	32,055	38,936	32,055	38,936
Vidunena	3,922	13,125	3,922	13,125
Namaskara	135	1,930	135	1,930
Vanna Vaanavil	2,497	2,786	2,497	2,786
Sithmina	2,258	10,118	2,258	10,118
Athurumithuru	4,251	12,124	4,251	12,124
Mihithuru	1,801	2,091	1,801	2,091
Denamuthu	540	748	540	748
Aloko Udapadi	64	707	64	707
Muthu Ahura -1	1,453	5,071	1,453	5,071
Muthu Ahura -2	1,460	5,385	1,460	5,385
Muthu Ahura -3	1,565	5,184	1,565	5,184
Muthu Ahura -4	1,460	5,304	1,460	5,304
Budu Suwanda	812	3,513	812	3,513
Kutti Chutti	912	3,340	912	3,340
Little Star	476	641	476	641
Sethmina	5,002	3,027	5,002	3,027
Google	9,268	1,710	9,268	1,710
Editorial Graphics & Supplement	12,457	48,859	12,457	48,859
	2,623,259	2,971,989	2,623,259	2,971,989
Commercial printing	612,009	511,958	612,009	511,958
Annual publications	3,124	5,022	3,124	5,022
Digital printing	6,125	7,319	6,125	7,319
Dinamina City FM	-	350	-	350
Business Lanka AN (Private) Ltd	-	-	9,220	17,457
<b>Total</b>	<b>3,244,518</b>	<b>3,496,638</b>	<b>3,253,737</b>	<b>3,514,095</b>

## **Note 19** **Other Income**

For the year ended 31st December	Company		Group	
	2015 LKR'000	2014 LKR'000	2015 LKR'000	2014 LKR'000
Interest income	11,868	11,824	12,160	12,932
Sale of old newspapers	34,533	34,759	34,533	34,759
Rent income	33,760	30,711	33,760	30,711
Dividends	2,254	2,189	2,254	2,189
Branch office	2,971	4,623	2,971	4,623
Profit on disposal of assets	11,382	5,407	11,382	5,407
Sundry	27,414	46,732	27,414	46,732
<b>Total</b>	<b>124,182</b>	<b>136,246</b>	<b>124,474</b>	<b>137,353</b>

# NOTES TO THE FINANCIAL STATEMENTS

## Note 20

### Operating Profit

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

For the year ended 31st December	Company		Group	
	2015 LKR'000	2014 LKR'000	2015 LKR'000	2014 LKR'000
Directors emoluments	23,633	16,035	23,633	16,035
Depreciation	82,532	81,576	83,058	82,103
Auditors remuneration	900	850	915	876
Donations	2,511	1,104	2,511	1,104
Contributions to defined contribution plan -EPF	73,541	72,305	73,541	72,305
Contributions to defined contribution plan -ETF	14,708	14,461	14,708	14,461
Contributions to defined benefit plan -Gratuity	62,213	59,150	62,213	59,150

## Note 21

### Tax Expense

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

For the year ended 31st December	Company		Group	
	2015 LKR'000	2014 LKR'000	2015 LKR'000	2014 LKR'000
Accounting profit before Tax	26,111	76,315	16,207	71,876
Taxable profit	89,640	66,574	90,384	68,225
Tax on taxable profit	16,362	18,641	16,571	18,839
Under/(Over) provision	(5,595)	4,334	(5,503)	4,334
Notional Tax adjustment	-	-	(32)	(123)
<b>Total Tax expense for the year</b>	<b>10,767</b>	<b>22,975</b>	<b>11,035</b>	<b>23,050</b>

## Note 22

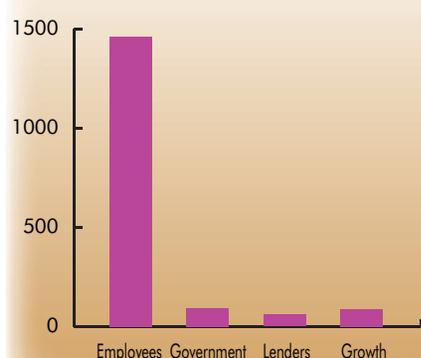
### Cash generated from Operations

For the year ended 31st December	Company		Group	
	2015 LKR'000	2014 LKR'000	2015 LKR'000	2014 LKR'000
<b>Net profit before Tax &amp; fair value adjustment</b>	<b>26,111</b>	<b>76,315</b>	<b>16,204</b>	<b>71,877</b>
<b>Adjustments</b>				
Provision for claims against the company	11,459	10,568	11,459	10,568
Depreciation	82,532	81,576	83,058	82,103
Dividend income	(2,254)	(2,189)	(2,254)	(2,189)
Interest income	(11,868)	(11,824)	(12,160)	(12,932)
Rental income	(33,760)	(30,711)	(33,760)	(30,711)
Finance expenses	58,879	83,565	58,502	83,150
Gratuity provision	48,624	55,229	48,624	55,229
(Profit)/loss on sale of property plant & equipment	(11,382)	(5,407)	(11,382)	(5,407)
<b>Operating cash flow before working capital changes</b>	<b>168,341</b>	<b>257,122</b>	<b>158,292</b>	<b>251,688</b>
<b>Changes in working capital</b>				
(Increase)/decrease in inventories	258,351	(76,369)	258,351	(76,369)
(Increase)/decrease in trade & other receivables	43,732	87,789	39,422	89,300
Increase/(decrease) in trade & other payables	(141,978)	224,286	(142,465)	223,529
<b>Cash generated from operations</b>	<b>328,446</b>	<b>492,828</b>	<b>313,600</b>	<b>488,148</b>

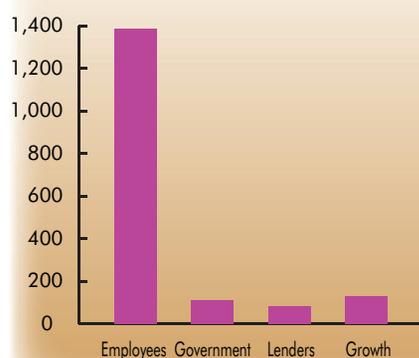
# STATEMENT OF VALUE ADDED

	2015		2014	
	LKR Mn.	%	LKR Mn.	%
<b>Value Added</b>				
Revenue	3,254		3,514	
Other Income	124		137	
	3,378		3,651	
Brought in Material & Service	(1,681)		(1,942)	
	<b>1,697</b>		<b>1,709</b>	
<b>Distribution of Value Added</b>				
<b>To Employees</b>				
Salaries, Wages & Other Benefits	1,460	86 %	1,386	81 %
<b>To Government</b>				
Income Tax	11	1 %	23	1 %
NBT	58	3 %	65	4 %
Rates	22	2 %	22	1 %
<b>To Lenders</b>				
Interest & Related Charges	59	3 %	83	5 %
<b>To Providers of Capital</b>				
Dividend to Shareholders				
<b>To Business Expansion &amp; Growth</b>				
Depreciation	82	5 %	82	5 %
Differed Taxation	-		-	-
Reserves	5	0 %	48	3 %
	<b>1,697</b>	<b>100</b>	<b>1,709</b>	<b>100</b>

Distribution of Value Added 2015



Distribution of Value Added 2014



# TEN YEAR SUMMARY

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b><u>Selected Financial Data (LKR Million)</u></b>										
<b><u>Operational Results</u></b>										
Revenue	3,253.7	3,514.1	3,593.0	3,699.7	3,358.7	2,920.2	2,887.4	3,098.2	3,095.6	2,959.0
Annual Sales Growth	(7.4)	(2.2)	(2.9)	10.2	15.0	1.1	(6.8)	0.1	4.6	12.5
Profits Before Taxation	16.2	71.9	73.1	57.4	17.5	(359.8)	82.4	(385.5)	31.9	14.9
Taxation on Profit	11.0	23.0	12.1	5.8	25.1	2.9	27.5	11.6	10.8	-
Profit After Taxation	33.9	64.7	58.9	(8.3)	13.1	(337.6)	54.9	(233.9)	21.1	14.9
<b><u>Shareholders' Fund</u></b>										
Share Capital	34.8	34.8	34.8	34.8	34.8	34.8	34.8	34.8	34.8	34.8
Reserves	445.5	411.6	346.9	288	296.2	248.5	586.1	531.2	760.7	757.0
	480.3	446.5	381.7	322.8	331.1	283.4	621.0	566.1	795.6	791.8
Non Current Liabilities	597.0	658.8	662.5	626.7	608.0	584.0	415.4	629.1	498.9	427.2
Capital Employed	1,077.3	1,105.3	1,044.3	949.5	939.1	867.3	1,036.3	1,195.2	1,294.5	1,219.0
<b><u>Assets Employed</u></b>										
Fixed Assets	284.0	327.5	326.5	372.6	293.0	397.1	355.3	347.3	89.2	110.8
Long Term Investments	179.9	151.3	135.4	137.4	197.3	7.9	7.9	7.9	7.9	147.6
Working Capital	613.4	626.6	582.4	439.5	448.7	462.4	673.2	840	1,197.4	960.6
	1,077.3	1,105.3	1,044.3	949.5	939.0	867.3	1,036.3	1,195.2	1,294.5	1,219
<b><u>Ratio Analysis</u></b>										
<b><u>Profitability</u></b>										
Profit Before Taxation to Gross Turnover (%)	0.5	2.0	2.0	1.6	0.5	(12.3)	2.9	(12.4)	1.0	0.5
Profit Before Taxation to Shareholders' Fund (%)	3.4	16.1	19.1	17.8	5.3	(127)	13.3	(68.1)	4.0	1.9
Profit After Taxation to Shareholders' Fund (%)	7.0	14.5	15.4	(2.6)	3.9	(119.1)	8.8	(41.3)	2.7	1.9
Earning Per Share (Rs)	9.7	18.6	16.9	(2.4)	3.8	(96.9)	15.8	(67.1)	6.1	4.3
<b><u>Liquidity</u></b>										
Current Assets to Current Liabilities (Ratio)	2.05:1	1.66 :1	1.59:1	1.41:1	1.50:1	1.46:1	2.32 : 1	2.48 : 1	7.15 : 1	4.84 : 1
Quick Assets to Current Liabilities (Ratio)	1.58:1	1.09 : 1	1.13:1	1.00:1	0.96:1	1.04:1	1.80 : 1	1.78 : 1	5.56 : 1	3.85 : 1
<b><u>Dividends Proposed</u></b>										
Dividends (Gross)	-	-	-	-	-	-	-	-	6.27	6.27
Dividend Per Share (Rs)	-	-	-	-	-	-	-	-	1.8	1.8
Dividend Cover (No. of Times)	-	-	-	-	-	-	-	-	3.37	2.39
<b><u>Long Term Solvency</u></b>										
Non Current Assets to Shareholders' Fund %	96.6	107.2	121	158	148	142.9	58.5	62.7	12.2	32.6
Non Current Assets to Working Capital %	75.6	76.4	79.3	116	109.3	87.6	53.9	42.3	10.9	26.9
Net Assets Per Share at year end (Rs.)	137.9	128.2	109.6	92.7	95.0	81.3	178.3	162.5	228.4	227.5

# SHARE INFORMATION

## Twenty Largest Shareholders

	2015		2014	
	No. of Shares	%	No. of Shares	%
Public Trustee on behalf of the GOSL	3,050,378	87.56	3,050,380	87.56
Ceylon Petroleum Corporation	61,206	1.76	61,206	1.76
Sri Lanka Insurance Corporation	61,206	1.76	61,206	1.76
Ceylon Shipping Corporation	31,206	0.90	31,206	0.90
Phillip Sivali Wijewardene	20,000	0.57	20,000	0.57
Ranjit Sujiva Wijewardene	20,000	0.57	20,000	0.57
National Savings Bank	20,000	0.57	20,000	0.57
Paddy Marketing Board	20,000	0.57	20,000	0.57
State Film Corporation	20,000	0.57	20,000	0.57
State Gem Corporation	20,000	0.57	20,000	0.57
Sriyan Rajitha Gomes	15,821	0.45	15,821	0.45
Rukmalie Shalini Hurulle	14,822	0.43	14,822	0.43
Ceylon Port Services Ltd.	10,000	0.29	10,000	0.29
Ceylon Shipping Lines Ltd.	10,000	0.29	10,000	0.29
Colombo Dockyard Ltd.	10,000	0.29	10,000	0.29
Asoka Chandralal Wijewardene	7,925	0.23	7,925	0.23
Aswini Kumar Wijewardene	7,919	0.23	7,919	0.23
Kamalika Janaki Wijewardene	6,944	0.20	6,944	0.20
Amitha Lal Gooneratne	5,967	0.17	5,967	0.17
Arjun Indrajit Gooneratne	5,967	0.17	5,967	0.17
Ayoma Irandathi Wijesundere	5,967	0.17	5,967	0.17

## Shareholdings as at 31st December 2015

From	To	No. of Holders	No. of Shares	%
1	1,000	60	4,992	0%
1,001	5,000	12	22,013	0%
5,001	10,000	15	102,070	3%
10,001	50,000	9	181,849	5%
50,001	100,000	2	122,412	4%
Over 100,000		1	3,050,378	88%
		<b>99</b>	<b>3,483,714</b>	<b>100%</b>

## Categories of Shareholders

	No. of Holders	No. of Shares	%
Public Trustee	1	3,050,378	88%
Institutions	10	263,618	7%
Individuals	88	169,718	5%
<b>Total</b>	<b>99</b>	<b>3,483,714</b>	<b>100%</b>

# NOTICE OF MEETING

Notice is hereby given that 43rd Annual General Meeting of the Shareholders of the Company will be held in terms of the Associated Newspapers of Ceylon Ltd (Special Provisions) Law No. 28 of 1973, at the Dukes Court 2, Cinnamon Lakeside, Colombo, No.115, Sir Chittampalam A. Gardiner Mawatha, Colombo 02 at 11.30 a.m. on 22<sup>nd</sup> March 2017.

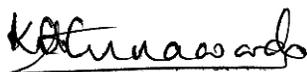
1. To read the Notice convening the meeting.
2. To confirm the minutes of the Annual General Meeting held on 4th May 2016.
3. To receive and consider the report of the Directors and the Financial Statements of the Company for the year ended 31st December 2015 with the Auditor's Report thereon.
4. The appointment of three Directors by the Public Trustee.
5. To elect two Directors in terms of Provision (i) to Section 6 (i) (g) of the Associated Newspapers of Ceylon Ltd. (Special Provisions) Law No. 28 of 1973.
6. To declare a dividend of LKR 1.80 per share.
7. To fix remuneration of the Directors.
8. To authorize Directors to determine contribution to charities.

## Notes :

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

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

By order of the Board of Directors,



**Kumudu H. Gunawardana Imbulamure**  
Company Secretary

# CORPORATE INFORMATION

<b>Name of the Company</b>	<ul style="list-style-type: none"><li>● The Associated Newspapers of Ceylon Ltd</li></ul>
<b>Registered Office</b>	<ul style="list-style-type: none"><li>● No.35. D.R. Wijewardene Mawatha, Colombo 10.</li></ul>
<b>Legal Form</b>	<ul style="list-style-type: none"><li>● Public Limited Liability Company Incorporated in 1926, Governed by the Special Provision Law, No.28 of 1973, Companies Act No.07 of 2007 and Finance Act No.38 of 1971 (For Accounts and Audit)</li></ul>
<b>Accounting Year End</b>	<ul style="list-style-type: none"><li>● 31<sup>st</sup> December</li></ul>
<b>Principal Line of Business</b>	<ul style="list-style-type: none"><li>● Printing &amp; Publishing Newspapers, Periodicals &amp; Magazines</li></ul>
<b>Subsidiaries</b>	<ul style="list-style-type: none"><li>● Business Lanka AN (Private) Limited</li><li>● Info Media (Private) Limited</li><li>● Lake House Property Development (Private) Limited</li></ul>
<b>Company Secretary</b>	<ul style="list-style-type: none"><li>● Mrs. Kumudu H. Gunawardana Imbulamure</li></ul>
<b>Bankers</b>	<ul style="list-style-type: none"><li>● Bank of Ceylon</li><li>● People's Bank</li><li>● Commercial Bank</li><li>● Seylan Bank</li><li>● Hatton National Bank</li></ul>
<b>Auditors</b>	<ul style="list-style-type: none"><li>● The Auditor General's Department</li></ul>

# FORM OF PROXY

ANCL Annual Report 2015

I/We ..... of  
..... Member/s of  
The Associated Newspapers of Ceylon Limited hereby appoint  
..... (NIC No.  
.....) of .....  
as my/our proxy to represent me/us and vote for me/us on my/our behalf at the  
Annual General Meeting of the Associated Newspapers of Ceylon Limited to be held  
on 22.03.2017 or any adjournment thereof.

As witness my/our hand this ..... day of  
..... 2017.

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

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

## Notes :

Instructions as to completion of this Form of Proxy are given below:

- (i) If the Form of Proxy is signed by an Attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration in the event such POA has not already been registered with the company.
- (ii) If the Shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal or in such other manner as may be provided for in its constitutional documents, if any, or signed by its Attorney or by an Officer on behalf of the company/corporate body in accordance with its Articles of Association/Statute.
- (iii) Every alteration or addition to the Form of Proxy must be duly authenticated by the full signature of the Shareholder signing the Form of Proxy. Such signature should, as far as possible, be placed in proximity to the alteration or addition intended to be authenticated.
- (iv) The use of the word "Member/s" herein is a reference to "Shareholder/s".
- (v) The proxy holder appointed need not be a shareholder of the Company.