

P. R. SECRETARIAL SERVICES (PRIVATE) LIMITED

Registration No. PV 2631

59, Gregory's Road,
Colombo 7,
Sri Lanka.

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03rd December 2019

Ms. Nilupa Perera,
Head of Trading, Market Surveillance & Corporate Affairs,
Colombo Stock Exchange

Dear Madam,

Rectification of the Emphasis of matter on going concern in the Independent Auditors Report on the Audited Financial Statements for the year ended 31st March 2018/2019

We hereby acknowledge that the Company has taken necessary steps to resolve the Emphasis of matter on going concern in the Independent Auditors Report on the Audited Financial Statements for the year ended 31st March 2018. In terms of the listing rule 7.5 (d) (II) 9 (b) of the Colombo Stock Exchange Rules, please find the enclosed as follows,

1. The confirmation by the Audit Committee on the resolving matters.
2. Declaration by an Auditor of the Company as to the resolution of all matters giving rise to the Emphasis of matter on going concern.
3. Declaration by the Board of Directors.

Accordingly, the Company is of the view that it has fulfilled all the requirements under the CSE listing rules to resolve the respective audit qualifications as at to date.

Yours faithfully,

BY ORDER OF THE BOARD OF DIRECTORS SIERRA CABLES PLC

P. R. SECRETARIAL SERVICES (PRIVATE) LIMITED



Director
P.R. Secretarial Services (Pvt) Ltd.
Secretaries to **SIERRA CABLES PLC**



DECLARATION BY BOARD OF DIRECTORS

We the undersigned on behalf of the Board of Directors of Sierra Cables PLC ("the company") Declares that based on the financial statements for the year ended 31st March 2018 and in accordance with the Rule 7.5 (d) (II) (3) of the enforcement Rules of the Colombo Stock Exchange the shares were initially transferred to the "Watch List" with effect from 07th September 2018. Subsequently based on the financial statements for the year ended 31st March 2019, shares were transferred to "Watch List" for further period commencing from 04th September 2019.

We requested the external auditors of the company review the financial statements as at 31st October 2019.

The Audit Committee evaluated Auditors Review Report as at 31st October 2019 and we are in agreement with their opinion that there is no basis to continue the going concern in the respect of the Subsidiary company Sierra Cables East Africa Limited and full provision for the loss incurred by the said subsidiary has already been made in the books of accounts of the company.

Accordingly, the Emphasis of the Matter expressed on the financial statements as at 31st March 2018 and 31st March 2019 stands resolved.

Yours faithfully,
By the order of the Board for Sierra Cables PLC

A handwritten signature in black ink, appearing to be "W. A. P. Perera", written over a large, stylized circular mark.

W. A. P. Perera
Chairman

26th November 2019

A handwritten signature in black ink, appearing to be "D. S. Panditha", written over a horizontal line.

D. S. Panditha
Managing Director

Sierra Cables PLC.

Co.Reg. : PQ 166

P.O. Box 6, Kaduwela, Sri Lanka.

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DECLARATION OF THE AUDIT COMMITTEE ON RESOLVING EMPHASIS OF MATTER PERTAINING TO MATERIAL UNCERTAINTY ON THE GOING CONCERN ABILITY OF SUBSIDIARIES ON THE FINANCIAL STATEMENTS OF SIERRA CABLES PLC FOR THE YEAR ENDED 31ST MARCH 2018 & 31ST MARCH 2019.

Sierra Industries (Private) Limited was awarded with a contract for supply of materials to infrastructure project during the financial year ended 31st March 2018 and in compliance to the conditions laid down in the material supply agreement, company was to manufacture and deliver the substantial value of materials prior to the same financial year end. Despite company manufactured the materials in line with said agreement, materials were not delivered due to the constraints with the main contractor. As a result, Sierra Industries (Private) Limited recorded continuous losses and accumulated loss as at 31st March 2018 amounted to Rs. 276,202,484. However, during the financial year ended 31st March 2019, company was able to deliver the materials manufactured for the said infrastructure project, which resulted in recording of profit of Rs. 38.3 Mn (2017/2018 – Loss of Rs. 59.7 Mn). Hence net current liabilities exceeded net current assets improved to Rs. 116.9 Mn which was Rs. 120.6 Mn as at 31.03.2018. For ensuing financial year company has budgeted revenue of Rs. 800 Mn from said infrastructure project which will generate sufficient positive cash flows and as depicted in the note 35.1 on page 128 of the Annual Report for the year ended 31st March 2019. Accordingly, the material uncertainty on the going concern ability of the Sierra Industries (Private) Limited was resolved.

Sierra Cables East Africa Limited recorded net loss of Rs.98.8 Mn for the financial year ended 31st December 2018 (2017/2018 – Net Loss of Rs. 14.9 Mn) and as at that date the current liabilities exceed current assets by Rs. 78.5 Mn as at 31st December 2018.

As at 31st October 2019, it was decided that in the books of accounts of the Sierra Cables PLC to provide provision of Rs. 182,735,166 against the investment and Rs. 10,670,796 against the balance receivable from Sierra Cables East Africa Limited.

M/s KPMG, external auditors of the company carried out the review of the financial statements as at 31st October 2019 and are in the opinion that there is no material uncertainty on the group's ability to continue as a going concern as at 31st October 2019.

Accordingly, the emphasis of matter concerning going concern ability of the subsidiaries on 31st March 2018 and 31st March 2019 have been resolved.

Yours faithfully

By the Order of the Audit Committee
Sierra Cables PLC

M. N. Gunasekara
Chairman – Audit Committee

26th November 2019

Sierra Cables PLC.

Co.Reg. : PQ 166

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KPMG
(Chartered Accountants)
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29th November 2019

The Board of Directors,

Sierra Cables PLC,

39/1A, Galwarusawa Road,

Korathota,

Kaduwela.

Dear Sirs,

Sierra Cables PLC- Material Uncertainty Relating to Going Concern in Audited Financial Statements for the Year Ended 31st March 2019 and Review of Condensed Interim Financial Statement as at 31st October 2019

We refer to the request made by your company as per the letter dated 18th October 2019 to conduct a review of the condensed interim financial statements of the Group and the Company as at 31st October 2019 and for the seven month (07) period then ended, as per SLSRE 2410 : *Sri Lanka Standard on Review Engagement*. This engagement was carried out with a view to assess the applicability of the material uncertainty relating to going concern of its subsidiary, Sierra Cables East Africa Limited in the condensed interim financial statements of Sierra Cables PLC as at 31st October 2019. Based on our review, we wish to state the following:

Continuity of Material Uncertainty Relating to Going Concern

The material uncertainty relating to going concern paragraph of our auditor's report dated 13th August 2019 on the financial statements of Sierra Cables PLC for the year ended 31st March 2019 is due to the going concern issue arising from its subsidiary, Sierra Cables East Africa Limited.

Current Status - Applicability of Material Uncertainty Relating to Going Concern Paragraph

Sierra Cables PLC, the parent company, had made full provision for its investment in Sierra Cables East Africa Limited amounting to Rs. 182,735,166/- and made provision amounting to Rs. 10,670,796/- on the balance receivable from Sierra Cables East Africa Limited in the aforesaid condensed interim financial statement of the Company as at 31st October 2019. Further, the Board of Directors has performed an assessment of the Group's ability to continue as going concern as at 31st October 2019 and the Board of Directors has concluded that no material uncertainty exists on the Group's ability to continue as a going concern as at 31st October 2019.



Consequent to the aforesaid provisions in the condensed interim financial statements of Sierra Cables PLC, the going concern of Sierra Cables East Africa Limited has no material impact to the consolidated condensed interim financial statements of the Sierra Cables PLC as at 31st October 2019. Therefore, the material uncertainty relating to going concern included in the auditor's report dated 13th August 2019 on the audited financial statements of the Company as at 31st March 2019 has been removed from the auditor's report on the reviewed condensed financial statements of Sierra Cables PLC as at 31st October 2019.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'KPMG', written over a horizontal line.

CHARTERED ACCOUNTANTS

Colombo, Sri Lanka

Notes to the Financial Statements Contd.

35. Going Concern

Sierra Industries (Private) Limited

The Company recorded continuous losses and the accumulated loss as at 31st March 2018 amounted to Rs. 276,202,484/- Further, the Company's net assets are less than half of its stated capital and face serious loss of capital situation as per Section 220 of the Companies Act No. 07 of 2007.

The Company was awarded the contract for the Attangalle Water supply project, which will generate revenue of USD 5 Mn in the ensuing financial years. As a strategic move, the Company is now focusing on the institutional and project market instead of the competitive retail market. Accordingly, the Company is in the process of the initialising the preliminary engagement work for the supply of PVC pipes and fittings to upcoming major projects.

As a result the directors are of the view that the company would be able to generate sufficient revenue in the ensuing financial years, where by accumulated losses could be reduced gradually. Further Parent entity will continue to provide the financial support to the Company.

Sierra Cables East Africa Limited

The Company recorded an accumulated loss amounting to Rs.17,040,451/- as at 31st December 2017 and it's current liabilities exceeded it's current assets as at 31st December 2017 by Rs.91,495,374/-.

Even though Sierra Cables East Africa Limited was incorporated in 2015 and able to secure sufficient orders from Rural Electrification Authority of Kenya to run the factory profitably, the Company was unable to operate at optimum capacity and recover the fixed overhead. This was primary due to non-availability of sufficient funds to import required raw materials.

With the financial support from the parent entity, Directors are of the view that the company would be able to generate sufficient revenue during the ensuing financial year, where by accumulated losses could be reduced gradually.

36. Financial Risk Management

36.1 Introduction and Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

i. Credit Risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations, and this principally arises from the Group's receivables from customers.

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Director

Notes to the Financial Statements

34.2 KEY MANAGEMENT PERSONNEL (KMP)

Key Management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Group. Accordingly the Directors of the Company (including Executive and Non-Executive Directors) have been classified as Key Management Personnel of the Company. Group.

34.2.1 Transactions with Key Management Personnel

i. Loans to Directors No loans have been given to the Directors of the Company.

ii. Key Management Personnel Compensation.

As at 31st March	Group		Company	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Directors' Fees	9,900,000	10,800,000	9,900,000	10,800,000
Short Term Employee Benefits	13,437,500	13,437,500	13,437,500	13,437,500
	23,337,500	24,237,500	23,337,500	24,237,500

iii. Other Transactions with Key Management Personnel

The names of Directors of Sierra Cables PLC, who are also directors of subsidiaries and equity accounted investees companies are stated on page 75.

Details of directors and their share holdings are given on page 76. There were no other transactions with key management personnel other than those disclosed in Note 34 to the Financial Statement.

35. GOING CONCERN

35.1 SIERRA INDUSTRIES (PRIVATE) LIMITED

The Company recorded a profit of Rs. 38.3 Mn during the year ended 31st March 2019 (2017/2018 - loss of Rs. 59.7 Mn) and as at that date, the current liabilities exceeded the current assets by Rs. 116.9 Mn (2017/2018 - Rs. 120.6 Mn). However, due to losses incurred in previous years, the Company's net assets are less than half of its stated capital and faces a serious loss of capital situation as at the reporting date.

The Company is implementing water supply projects in Attanagalle and Jaffna and has a budgeted revenue of Rs. 800 Mn in the ensuing financial year.

As a result, the Directors are of the view that the Company would generate sufficient revenue whereby the accumulated losses would be reduced gradually. Having taken to consideration the future prospects, the Directors have reasonable expectation that the Company has adequate resources to continue to be in operation in the foreseeable future. The Directors are of the view that the subsidiary is able to continue as a going concern and the financial statements of the subsidiary have been prepared on the assumption of going concern.

35.2 SIERRA EAST AFRICA (PRIVATE) LIMITED

The Company recorded a loss of Rs. 98.8 Mn during the year ended 31st December 2018 (2017/2018 - loss of Rs. 14.9 Mn) and as at that date, the current liabilities exceeded the current assets by Rs. 78.5 Mn (2017/2018 - Rs. 84.2 Mn).

The Company was incorporated in 2015 and commenced commercial operations in 2017. The Company was unable to operate at optimum capacity and recover fixed overhead due to non-availability of sufficient orders during the year under review.

With the financial support from the parent entity, purchase orders already received for orders and bids made for further orders, the Directors are of the view that the Company would be able to generate sufficient revenue during the ensuing financial year, whereby the accumulated losses could be reduced gradually. The Directors are of the view that the subsidiary is able to continue as a going concern and the financial statements of the subsidiary have been prepared on the assumption of going concern.

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Director