Fostering Vital Resources
Towards Excellence

Contents




Fostering Vital Resources **Towards Excellence**

At Ceylon Grain Elevators, it's not merely the product or the profit that has created a good year under review for the company, but in actuality, it has been our people, our technology and our processes. Hard-working, resourceful, forward-thinking and dynamic, our team have paved the way in making the company what it is today. The vital resources that make us empowered, respected and more dynamic are what will propel us to new heights.

Our corporate philosophy is centred upon the 3H principles of building a Healthy Organisation, being an Honourable Winner and making an Honest Fortune. This business philosophy is derived from our Parent Company, Prima Limited of Singapore.

Healthy Organisation

Developing a sound, effective and efficient organisation system. Promoting team spirit and reaching out to create a "PRIMA FAMILY" identity

Honourable Winner

Achieving success through fair competition. Striving towards excellence

Honest Fortune

Establishing trust, fairness and mutual benefits with all within our business circle. Contributing to the well-being of society

Our Vision

"To achieve complete poultry integration synergies, ultimately gaining export market competitiveness"

Our Mission

To tap and harness business opportunities by expanding into various vertical integration projects. This will lead to increase in Agriculture, Aquaculture and Livestock production, thus encouraging national progress through nutritious protein-rich food to the people of this Nation.

Our Corporate Goals

In line with our Chairman's directives and Prima Group corporate philosophy, we will continue to grow steadily in our primary activities with the ultimate goal of reaching the status of an integrated feed milling business.

Our future expansion plans shall be within our management capability and financial resources.

To establish "PRIMA" and "FARMERS' CHOICE" as a brand name synonymous with the very best in high quality products.

To establish high standards of good corporate governance, improve transparency and the standards of accountability to shareholders.

Our History

Life began for Ceylon Grain Elevators PLC (CGE) way back in December 1982, when the Government of Sri Lanka and Prima Limited of Singapore inked an agreement beginning a partnership that has endured over three decades of yeoman service to the poultry industry in the country.

Today, CGE is the largest operator in the poultry industry of Sri Lanka, establishing six subsidiary companies operating not only in the field of poultry, but also offering products and services in diverse fields.

CGE and the companies under its umbrella manufacture and distribute a wide range of feeds under the "PRIMA" and "FARMERS' CHOICE" brands. They also operate poultry and hatchery breeder farms, commercial poultry and livestock farms and also engage in the processing, packaging and retailing of poultry and other meat products, the import and sale of poultry equipment, veterinary products, produce aqua feed and provide a state-of-the-art laboratory and consultancy service to customers and farmers throughout the Island.

Dynamic, resilient, dedicated, our workforce has always been the backbone of our success and growth and we have always motivated them to become ever stronger.

Group Structure

CGE

Integrated poultry activities including feed milling, broiler farming, processing and distribution of chicken

100%
Ceylon Livestock and Agrobusiness Services (Private) Limited

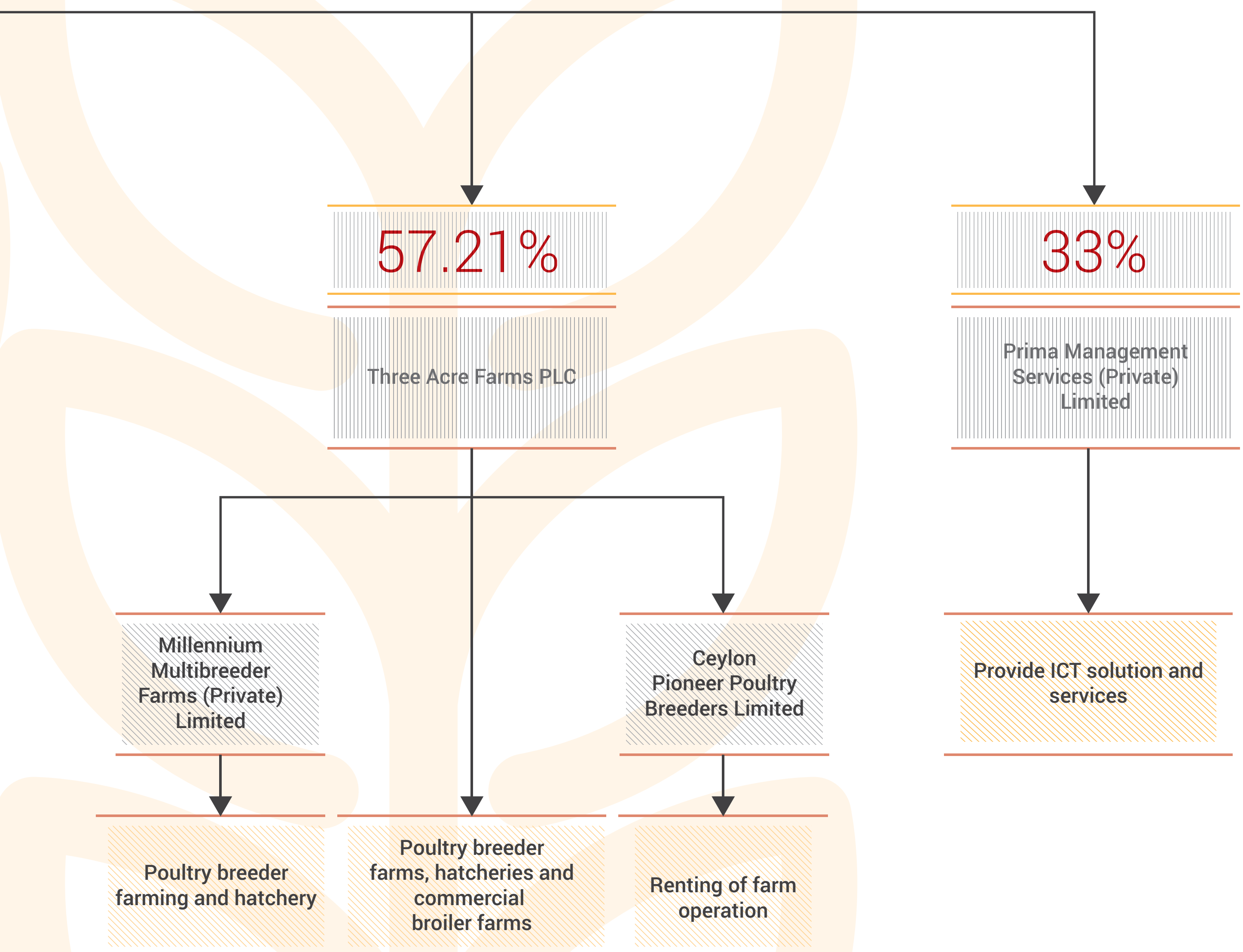
Import and sale of poultry equipment, drugs and vaccines

100%
Ceylon Warehouse Complex (Private) Limited

Provide storage facilities

100%
Ceylon Aquatech (Private) Limited

Integrated shrimp operation including breeding, processing and culture of shrimp


57.21%
Three Acre Farms PLC
33%
Prima Management Services (Private) Limited
Millennium Multibreeder Farms (Private) Limited
Ceylon Pioneer Poultry Breeders Limited
Provide ICT solution and services
Poultry breeder farming and hatchery
Poultry breeder farms, hatcheries and commercial broiler farms
Renting of farm operation

Milestones

2016

Lease of Ittapana land to increase the capacity of Breeder Farms

2013

Addition of a new feed mill line

2010

ISO Quality Management System certification (ISO 9001:2008)

2009

Implementation of ERP System

2007

Commencement of Environment Controlled House projects at Commercial Farms

1982

Incorporation of Ceylon Grain Elevators

1984

The Company was listed on the Colombo Stock Exchange

First invoiced sale of Animal Feed

1987

Breeder Farm Project at Kosgama started production of Commercial Day-Old Chicks

1991

Invest in the equity of Ceylon Livestock and Agrobusiness Services (Private) Limited which undertakes trading activities

1992

CGE Shares were introduced to the Central Depository System at the Colombo Stock Exchange

Bonus Issue of 1-for-3 share capitalising Rs.50 Million from capital reserve

Right Issue of Rs.10 Million ordinary shares for a premium of Rs. 35 per share raising CGE's Capital to Rs.300 Million

Acquisition of Three Acre Farms Limited

1993

Incorporation of Ceylon Pioneer Poultry Breeders Limited, a wholly-owned subsidiary of TAF

1994

Incorporation of Ceylon Warehouse Complex (Private) Limited, a wholly-owned subsidiary of CGE

Bonus Issue of 1-for-2 share capitalising Rs. 150 Million from share premium

Right Issue of 15 Million ordinary shares at a premium of Rs. 15/- per share to raise CGE's Issued Capital to Rs. 600 Million

1995

Ceylon Aquatech (Private) Limited was incorporated to venture further into integrated shrimp business

1996

Acquisition of Bulathsinhala and Halwathura Farms

1998

Agreement signed between SLPA and CWCL to reclaim land from the seabed at Mutwal, adjacent to CGE factory

1999

Incorporation of Millennium Multibreeder Farms (Private) Limited, a wholly-owned subsidiary of TAF

First Commercial Shrimp feed plant established in Sri Lanka. Launched "PRIMA SUPER SHRIMP FEEDS"

Construction of New Silos - CWCL

2003

Acquisition of Hijra Farms

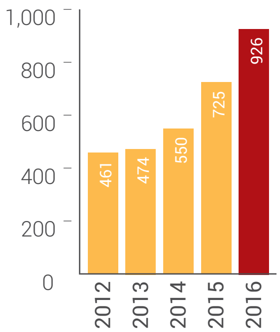
2006

Invest in Prima Management Services (Private) Limited, an Associate Company of CGE

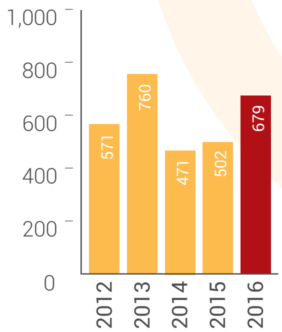
Financial Highlights

	2016	2015	Change%
Rs. Million			
GROUP			
Revenue	14,522	13,741	6
Profit for the year	1,682	1,179	43
Shareholders' fund (Equity)	5,066	3,794	34
Total assets	8,446	6,976	21
COMPANY			
Earnings Per Share (EPS) - (Rs.)	13.63	10.25	33
Return on Shareholders' Fund (ROE) (%)	24.51	23.81	3
Net Assets Per Share (Rs.)	55.62	43.02	29
Current ratio (No. of times)	2.40	1.82	32

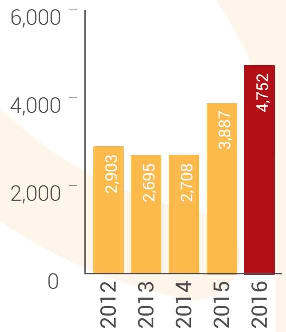
Group Earnings per Employee per annum *(Rs. 000)*



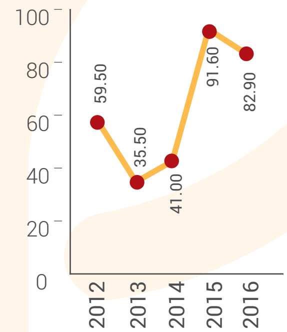
Group Net Cash Used in Investing Activities *(Rs. Million)*



Group Value Added *(Rs. Million)*



Market Price Per Share *(Rs.)*



Our Numbers at a Glance

1.96 Billion

Operating Profit - 42% over 2015

13.63 LKR

Company Earnings per share - 33% over 2015

2.50 LKR

Proposed Dividend per share - 127% over 2015

The building blocks of any quality product is the raw material of which it is comprised. That's why we ensure to use the best in order to manufacture the best.

Chairman's Message

CGE continues to maintain a diligent commitment towards the implementation and refinement of best practices in corporate governance and risk management in order to preserve and build on CGE's trusted reputation and rich legacy.

Dear Stakeholder,

It has been another prolific year for Ceylon Grain Elevators PLC (CGE), during which time your Company has once again been able to deliver unmatched value to stakeholders while further strengthening its dominant leadership position in the poultry industry. Bolstered by the powerful synergistic relationships developed through the continuing vertical integration of CGE's operations with that of its subsidiaries in Sri Lanka's bourgeoning Poultry Farming sector and related diversifications, and driven by steadfast performances across key operational segments, we are happy to report that your Company has recorded an unprecedented financial performance during the financial year ended 31 December 2016.

Breakthrough performance

The Company's continued emphasis on operational efficiency continued to yield significant benefits during the year in review. Streamlined costs and improvements in income from the Group's other investments enabled CGE to successfully convert improvements in turnover into substantially larger operating profits. In that regard, CGE's close relationships with long-standing customers in the poultry and livestock industry once again provided an additional measure of protection from general domestic market volatility. As a result of its exceptional performance across the year, CGE has proposed a First and Final dividend of Rs.2.50 per share for the financial year ended 31December 2016 subject to the approval of shareholders at the forthcoming Annual General Meeting.

Given the vertically integrated nature of the Company's business model, CGE's profitability remains intrinsically linked with the performance of the poultry and livestock industry. You will be satisfied to note that the country's poultry sector, including dominant producer CGE and its subsidiary, Three Acre Farms PLC (TAF), all recorded substantial growth during the year.

We also note with significant emphasis, the major positive ramifications for the performance of CGE and the wider poultry industry, arising out of the Government's long-awaited revision to the Maximum Retail Price (MRP) for chicken. Representing the most recent revision to the MRP since 2012, the positive impact of the Government's decision is clearly evidenced in the major improvements to operating margins of the Group as a result. In that context, we wish to convey our sincere gratitude to regulators and policy makers for responding favourably to representations made by the Group and its industry colleagues in the Poultry Producers Forum.

It is also important to note that the continued steadfast performance of CGE throughout 2016 was achieved despite some notable challenges stemming from macroeconomic conditions in the country. The Government was able to make significant progress in its reform agenda, instilling a greater degree of fiscal discipline, improving revenue through the expansion of tax collection and an easing of foreign currency outflows as a result of tighter monetary policy. Meanwhile the country's services and industrial sectors recorded improved performances, while worker remittances, tourist arrivals and earnings from tourism all reached record highs during the year in review. Nevertheless, economic growth proceeded at slower pace in 2016, hampered by weaker export sector performance and drastic cuts in production across the agriculture and plantations sector as a result of adverse weather conditions and other long-standing systemic challenges.

A positive outlook

Weaker economic growth combined with moderate increases in inflation, resulted in a moderation of purchasing power during the year, however despite these conditions, demand for poultry products continued to improve, supported in part by a booming tourism industry in addition to shifting dietary preferences among domestic demographics. These trends are anticipated to proceed at an increased rate over the medium to long term, which in turn will generate fresh opportunities for expansion alongside that the growth of the country's poultry industry and that of the wider economy.

Consequently, this will generate improvements to the general quality of living in Sri Lanka and place a greater share of wealth in the hands of the country's growing middle class, provided the Government is able to maintain and build on its reform agenda in the coming year. If successful, Sri Lanka could expect to attract substantial foreign inflows as investors seek out safe havens from which to weather global market volatility. All of the above mentioned facts could have tremendous positive ramifications for CGE and its subsidiaries, creating increased demand for its products in the process.

Going forward, CGE will continue to keep its growth momentum by exemplifying its expansion projects in order to cater the advanced technologies specifically by expanding its breeder and commercial farming operation through modern high-tech farming facilities and hatchery facilities. Moreover, recently acquired poultry processing facilities of the Group is also expected to further improve by automating the operational processes and expanding the production capacity. The Group will also look forward to further strengthen its market leadership by exploring new business opportunities with the promise to showcase stronger results in the coming years.

Sustainability through responsible leadership

You will be pleased to note that as in previous years, CGE continues to maintain a diligent commitment towards the implementation and refinement of best practices in corporate governance and risk management in order to preserve and build on CGE's trusted reputation and rich legacy while ensuring the continued economic and operation health of the organisation. The Group also prides itself on its resolute commitment towards maintaining transparency and promoting good governance through accountable management. In that regard, we note with pride, the performance of CGE at the CA Sri Lanka Annual Report Awards, where the Group was awarded a Bronze Medal for its 2015 Annual Report under the Food and Beverage sector.

However we also remain cognizant of CGE's responsibility as a market leader to set the standard for the industry as a whole with regard to corporate social responsibility. To that end, the Group was able to further expand its social outreach initiatives during the year, conducting workshops to educate farmers of best practices and working with communities across the island. On that note, I wish to also commend the Group for its response to calls for aid from displaced communities in the aftermath of catastrophic flooding during the course of 2016. During this time, CGE and its employees donating vital supplies – including food, clothing, dry rations and clean drinking water. In that context, we wish to express our gratitude to CGE's team of employees for their swift and unified response at a time of national crisis. Moving forward, the Group will continue to explore opportunities to further expand its CSR initiatives.

The Group also places a significant emphasis on the development of its most vital resource, its employees. CGE organises regular training and skills development sessions for its employees and also encourages individual employees to develop their professional skills and qualifications, including the provision of opportunities for staff members to undergo overseas training, all with a view to continuously incorporating the best international standards into our own business model.

Acknowledgements

The fact that CGE continues to perform at an extraordinary level is due in no small part to the relentless efforts of our team of employees and the unwavering commitment of our Management and Senior Management teams. Working together with our valued customers, they have taken CGE to new heights during the year in review, thus contributing to the further enhancement of the Group's trusted reputation for excellence. Therefore I wish to convey my heartfelt gratitude and sincere appreciation for their efforts in steering the Group towards even greater prosperity and I look forward to working with all stakeholders to further our vision of developing Ceylon Grain Elevators PLC into a competitive force in the South Asian region.

(Sgd.)
Wickrema Senaka Weerasooria
Non-Executive Independent Chairman

Colombo, Sri Lanka
30 March 2017

Chief Executive Officer's Review

Bolstered by exceptional performances across its core business operation, CGE was once again able to surpass its previous year's performance to post its best financial results on record in the form of a 46% YoY increase in Profits Before Tax up to Rs. 1.96 Billion

Dear Stakeholder,

It has been another exceptional year for Ceylon Grain Elevators PLC (CGE) during which your company was able to take important steps towards further consolidating its dominant position in the domestic market across all key business segments and deliver enhanced value to all of our stakeholders.

While the Company did face some notable challenges as a result of both global and domestic factors we are proud to report that CGE continues to thrive and display tremendous adaptability and resilience moving into the new financial year. The company's superior performance was possible due to the company's most vital resources – our people, our technology and our processes, and moving into a new year, they continue to remain our greatest asset in our quest to instill excellence across the company's entire spectrum of operation.

High-demand drives industry growth

Demand for poultry and livestock continued its upward momentum during the year parallel to increases in wages and private sector credit. These two factors resulted in an increase in real incomes and with it, a marginal increase in disposable incomes, particularly during the first half of 2016.

These were the primary factors driving an increase in the demand for poultry and livestock, an industry to which CGE supplies feeds. The per capita consumption of chicken also rose from 6.9 up to 7.3 Kg during the year.

It is notable that during the year in review, the Government took steps to grant an increase of the Maximum Retail Price (MRP) of chicken from Rs. 380 up to Rs. 410. As noted by our Chairman, this has been an urgent and long-standing request which had consistently been made both individually by CGE and collectively by the entire industry. This increase will help to ease pressure on margins across the industry.

Adverse weather leads to erosion in agri performance

In terms of its economic impact, the adverse weather conditions also had strong negative impacts on cultivation across the island, including the cultivation of Maize, which is a primary raw material input for Feed.

Maize cultivation during the 'Maha' season was modest due to poor rainfall prior to harvest leading to an estimated Maize cultivation of approximately 150,000 MT, since the poultry and livestock industry's annual requirement of Maize is estimated at 400,000 MT, accounting for approximately 50% of industry requirements. Given the inadequate supply and relatively lower quality of local Maize to match the requirements of the feed milling industry, it was necessary for the industry to rely on imports of Maize to match the demand. In that regard, we note that as with previous years, obtaining permits to import Maize has been a challenging task while the increase in the Special Commodity Levy (SCL) on such imports resulted in substantial increases in the cost of Feed production.

Record breaking financial performance

Despite some challenging macroeconomic conditions – including the fluctuation of exchange rates, and its consequent impact on inflation - CGE was nevertheless able to maintain a stable top-line performance during the year, with revenue expanding by 6% Year-on-Year (YoY) to Rs. 14.52 Billion during the period in review and a sharp 30% YoY improvement in Gross profit, which reached Rs. 2.31 Billion as a result of ongoing initiatives to streamline internal efficiencies during the period in review.

The Group also benefitted from significant increases in other income, which grew by 148% YoY to Rs. 164.7 Million which in turn generated significant improvements with respect to operating profit, which improved by 42% YoY to Rs. 1.96 Billion during the period in review.

Meanwhile, despite higher interest rates prevalent during the year, the Group reduced its exposure to borrowings during the year enabling major reductions in its net finance expenses, which were slashed by 85% YoY to Rs. 8.5 Million.

Bolstered by exceptional performances across its core business operation, CGE was once again able to surpass its previous year's performance to post its best financial results on record in the form of a 46% YoY increase in Profits Before Tax up to Rs. 1.96 Billion and a Profit After Tax of Rs. 1.68 Billion, reflecting a 43% YoY improvement over the Group's previous record-breaking performance in 2015. Consequently, the Group was able to once again deliver substantial value to its shareholders, having posted earnings per share of Rs. 22.23 in 2016, as compared with the previous year's earnings per share of Rs. 15.72.

Thriving in volatile conditions

From an international perspective, the coming financial year appears to be fraught with political and economic volatility across the globe. Similarly, the effects of climate change have presented in the form of increasingly disruptive weather patterns that could hamper agriculture both globally and locally. Consequently, the Company anticipates price hikes in key raw materials which could in turn exert pressure on CGE's margins.

In that regard, the Group, together with the wider industry will continue to request the Government to intervene in order to enable a more flexible policy on importation while also providing assistance to local farmers to boost production to meet the needs of our industry.

Notably, increased tax burden to the poultry industry has become a hurdle to the average consumer which makes it difficult to access to the widely available and the cheapest protein source of the country. Also the wider poultry industry urge that the Government will treat the industry the same way as the other competitor substitutes by equalising the tax regulations.

Sri Lanka continues to draw global attention as a vibrant emerging tourist hotspot. Developments in this industry combined with positive demographic changes – including projected population growth and a parallel increase in demand for meat and meat products capable of

Chief Executive Officer's Review (Contd.)

A critical driver of our Group's continued operational and performance excellence is an unwavering focus on achieving technical superiority through the adoption of cutting edge technology and processes and an integrated Human Resource Development strategy that aims to recruit, retain and up-skill employees on a consistent and progressive basis.

matching the needs of a larger and more diverse population are all expected to generate tremendous growth potential across all sectors, including the poultry industry within which CGE retains its dominant position.

The Group anticipates that the rapid momentum enjoyed by CGE in the last two years is likely to subdue as the market to adjust in line with the surplus of chicken currently prevailing in the local market. While opportunities for growth will not therefore be as robust as in the past, we remain confident that CGE will be able to prosper even within narrower margins. Hence the strategy for the coming year will be to focus on further consolidation of our dominant market position while exploring opportunities to improve efficiencies both within CGE and its subsidiaries in order to provide optimal value to all stakeholders.

Superior expertise

A critical driver of our Group's continued operational and performance excellence is an unwavering focus on achieving technical superiority through the adoption of cutting edge technology and processes and an integrated Human Resource Development strategy that aims to recruit, retain and up-skill employees on a consistent and progressive basis. This strategy has enabled the Group to drive down operational costs while securing continuous refinement of our production capacity. CGE maintains its commitment to these strategies in the coming year and over the long-term in order to deliver optimal value to internal and external stakeholders.

Consequently, the Group continues to place substantial emphasis on ensuring the long-term sustainability of its business model as evidenced by CGE's diligent efforts in the field of research and development aimed at further enhancing productivity and quality standards across the full spectrum of CGE's operation.

Similarly, CGE was also able to maintain stringent compliance with domestic and international food safety standards, in keeping with the Group's reputation as a trusted leader in the poultry industry. Supported by superior technology, a dedicated workforce and an unblemished legacy for delivering the very best products, CGE's growth momentum continues to gather strength as we move into the new financial year.

Acknowledgements

It has indeed been another landmark year for CGE during which time, your company was once again able to deliver tremendous value to all stakeholders. These achievements would not have been possible without the support from my fellow directors and our esteemed shareholders and the dedicated efforts of our employees, our vital and dynamic network of contract growers, suppliers, and most importantly our loyal customers.

In that regard, and on behalf of the Board of Directors, we wish to express our sincere and heartfelt gratitude to all of CGE stakeholders for their continuing trust and confidence in the Group. In the coming year we promise to uphold that trust and we are therefore totally committed towards once again facing the difficulties lie ahead with complete confidence in order to take Ceylon Grain Elevators PLC from strength to strength in the years to come.

(Sgd.)
Cheng Chih Kwong, Primus
Executive Director and Chief Executive Officer

Colombo, Sri Lanka
30 March 2017

The efficacy of our processes are indeed unrivaled as the merging of speed, skill and technology propel our production to new heights.

Board of Directors

Mr. Wickrema Senaka Weerasooria
Non-Executive Independent Chairman

Mr. Wickrema Senaka Weerasooria was appointed as a Non-Executive Independent Director with effect from 15 January 2015 and he was appointed as the Non-Executive Independent Chairman of the Board with effect from 25 February 2015.

Mr. Wickrema Senaka Weerasooria holds a Masters in Information Technology (University of Canberra, Australia), a Graduate Diploma in Commercial Law (Australian National University) (ANU) and a Bachelor of Science (ANU).

Currently, he is a Vice President of the FINCO Group of companies as the Chief Executive of Genesiis Software Pvt. Ltd. and FINCO Technologies Pvt. Ltd., and a Director of Wealth Trust Securities Ltd.

He has served as a Manager / Consultant at several Australian public sector agencies including the Department of Primary Industry, Department of Education and Department of Foreign Affairs and Trade.

Mr. Cheng Chih Kwong, Primus
Executive Director and Chief Executive Officer

Mr. Cheng Chih Kwong, Primus was the Chairman and Chief Executive Officer of the Prima Group and its subsidiary companies since 1998. He has stepped down as Chairman of the Board and will continue as an Executive Director and Chief Executive Officer of the Company with effect from 25 February 2015. He is a Certified Practicing Accountant (CPA) - Australia and also holds a Diploma in Business Studies.

Mr. Tan Beng Chuan
Executive Director and Group General Manager

Mr. Tan Beng Chuan is the Group General Manager of Prima Group of Companies, Sri Lanka since 2004. He was appointed as a Director of the Company and its subsidiary companies in 2004. He also serves as a Director of Three Acre Farms PLC and its subsidiaries, Ceylon Agro-Industries Limited and Prima Ceylon Machinery (Private) Limited.

He holds a MBA in Management and Marketing from University of Warwick, UK and B.Sc. (Hon) in Chemical Engineering from University of Surrey UK.

Mr. Tan Beng Chuan was the past President Mentor of Singapore (Sri Lanka) Club; Executive Committee member of Sri Lanka - Canada Business Council, Executive Committee member of Sri Lanka - Singapore Business Council and a Committee member of Sri Lanka - China Business Council.

Mr. Cheng Koh Chuen, Bernard
Non-Executive Director

Mr. Cheng Koh Chuen, Bernard has been a Director of the Company with effect from 1 August 2012. He also serves as an Executive Director of Prima Limited.

He holds a Bachelor of Science in Business Administration and also a MBA from the University of Southern California.

Mr. Cheng Eng Loong
Non-Executive Director

Mr. Cheng Eng Loong has been a Director of the Company with effect from 1 August 2012.

He holds a Bachelor of Science degree majoring in Biochemistry and Chemistry from the National University of Singapore.

Mr. Sunil Karunanayake
Non-Executive Independent Director

Mr. Sunil Karunanayake has been a Director of the Company since 2009. He was appointed as Senior Director of the Board with effect from 25 February 2015 and was re-appointed as Non-Executive Independent Director with effect from 15 April 2015. He holds fellowship of the Institute of Chartered Accountants of Sri Lanka and Chartered Institute of Management Accountants (UK) and a MBA from the Post Graduate Institute of Management of the University of Sri Jayawardenapura. He has also obtained a Diploma in Commercial Arbitration from the Institute of Commercial Law and Practice.

Corporate Governance Review

Ensuring exemplary governance across all aspects of business for the best interests of our stakeholders.

1. Corporate Governance

Ceylon Grain Elevators PLC (CGE) is committed to upholding the highest standards of integrity and transparency in its governance of the Company and its subsidiaries.

The mechanism of good governance promotes corporate fairness, transparency and accountability by incorporating modern ethical business practices with a view of providing strategic direction, achieving corporate objectives, ensuring accountable corporate behavior while safeguarding the business by effective risk management strategies.

We believe that a well established corporate structure, process and diligent practice of corporate governance is vital to stand through competitor rivalry, inspire shareholder confidence and their reliance on us.

2. Our Approach

CGE perceives effective corporate governance as the platform to enhance company value in a responsible manner; not a set of rules that suppresses growth. Responsible corporate behavior and transparency dictate our pursuit in creating value.

Over the years, CGE has won and kept the trust of its shareholders, customers, employees and stakeholders by keeping to a well set order of principles and practices. These entail integrity, fairness, transparency and responsibility at all times. Keeping to its proud history the governance structure embodies our core values and corporate social responsibilities that they are in keeping with the best practices of good corporate governance as laid out by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), the Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange.

3. The Code of Conduct

There is a well structured Code of Conduct that functions at CGE. This maintains the standard for sustainability, accountability and transparency across its entire operations. This Code is set out as follows:

- Trust, professionalism and integrity in all partnerships and transactions
- Continuous professional development along with the Company and individual compliance with all rules and regulations
- Conduct business in an ethical manner in keeping with international industry standards
- Always act in the best interests of the Company, ensuring transparency in all matters

4. Policy into Practice

The overall responsibility for good governance, transparency, stewardship and the accountability towards stakeholders is borne by the Board of Directors. Hence, the practicality of these relies on their ability to facilitate fulfillment of such responsibilities. The Board has in place a governance framework consisting of a governance structure and a process to execute its policies and monitor effectiveness. The framework includes the regulatory benchmarks, structure of the key stakeholder groups facilitated by an assurance mechanism which will ensure that good governance practices are properly adhered.

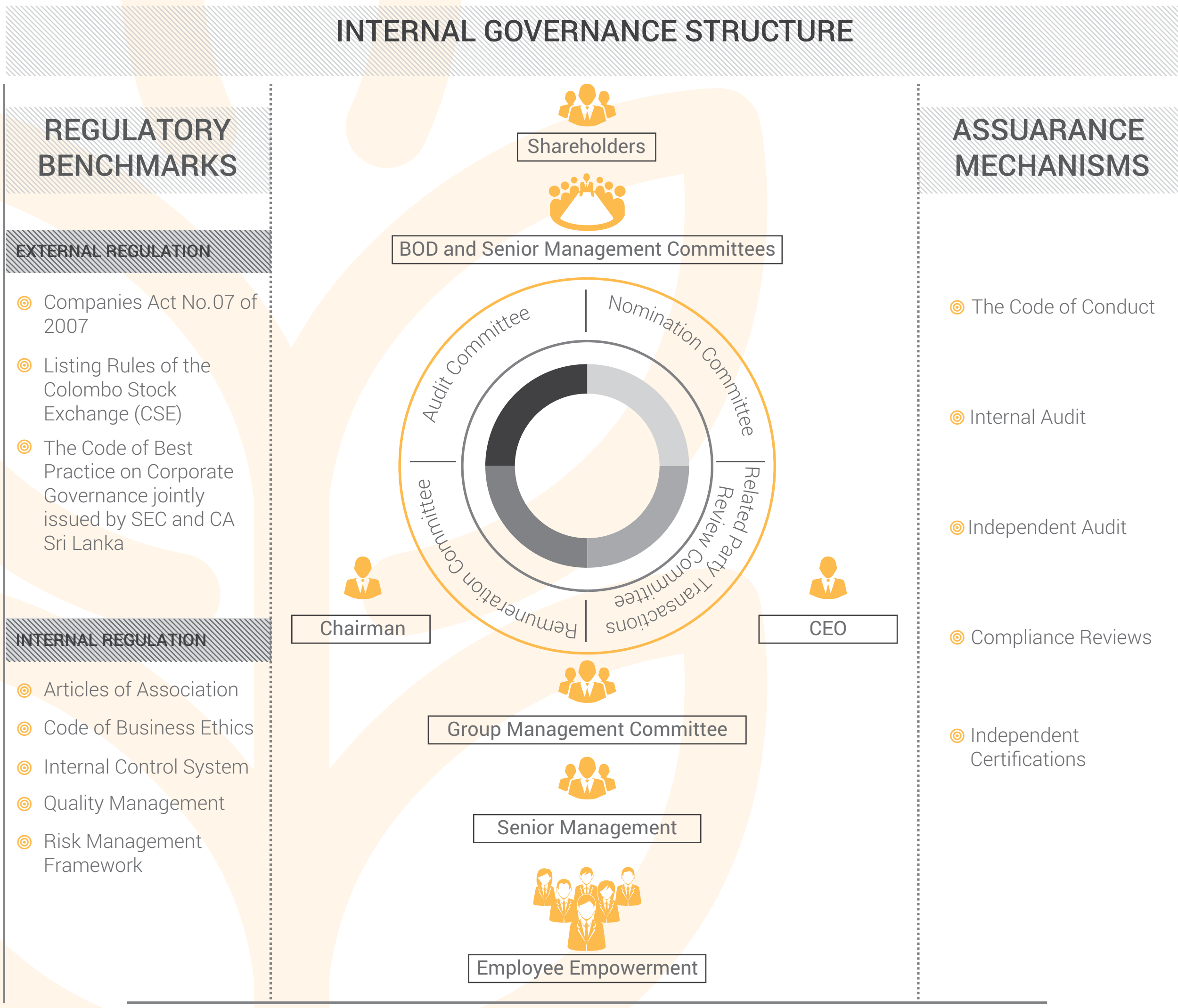
4.1 Internal governance structure

There is a well ordered structure as the internal governance structure of the Company which is made up of the Board of Directors and consists of the Executive Director and Chief Executive Officer (CEO), Executive Director and Group General Manager, two (2) Non-Executive Directors and two (2) Independent Non-Executive Directors who have a proper understanding of the business.

This internal governance structure is so designed that the executive authority is entrusted and designated through the committee structure. This stipulates that the CEO and the managers who function for each section are accountable and responsible for the day to day operations including the functioning of the business units of the Group. These responsibilities and accountabilities for each such sector are set in place and agreed upon in advance. This ensures that there is a seamless continuous flow of operations.

The Management Committee is a vital part of the Company's management structure and is headed by the CEO. He is empowered to act on behalf of the Company. The members of this Management Committee are: The Group General Manager, the General Manager, the Board of Directors, the Audit Committee and the Senior Management Committee. These positions and committees are complemented by strong internal governance procedures and systems. These are set in motion by the Group business plan. Such mechanisms within the governance structure ensure proper implementation and execution of the Group's corporate governance framework.

Figure 1: Governance Framework.



4.2 Governance Culture

Effective governance is always followed by a high level of commitment across the organisation and it is essential creating a culture which enables good governance right through the organisational processes which requires the awareness of all levels. Hence we expect all our employees to preserve the corporate values, the code of conduct as well as the business ethics in achieving the objectives individually and as a whole. The sustainability of the governance principles is facilitated by aligning the CGE's performance driven culture with business value creation along with the continuous efforts of improving the governance framework and processes.

Corporate Governance Review (Contd.)

5. The Board of Directors

5.1 Board responsibilities

In carrying out its responsibilities, the Board promotes a culture of openness, steadiness and consistency in decision making which enhances the transparency and accountability of the company's core functions.

The CGE Board of Directors are responsible for the following:

- Managing the Group efficiently and profitably on behalf of the shareholders.
- Ensuring that the Group accomplishes its goals.
- Meeting regularly to establish and maintain the Company's direction and position.
- Providing guidance and direction to ensure that the Group is adequately resourced and effectively controlled.
- Reviewing the Group's operating and financial performance.
- Ensuring compliance with laws, regulations and ethical standards.
- Ensuring stakeholder interests are considered in corporate decisions.

There are also a number of other duties the Board of Directors are responsible for. These include the supervision of corporate governance issues. In the current year the Board had sought professional advice on matters that needed specialised expertise such as litigation matters from the Company's lawyers. The provision for the Company's Director's to retire by rotation has also been recommended by the Board many times.

The Board collectively and the Directors individually act in accordance with the laws of the Country. Meanwhile the Board takes collective responsibility for the management, direction and performance of the Group.

5.2 Board's Principal Roles and Functions

- Providing Strategic Direction

The Board of Directors is collectively responsible to establish the Group's general directions, corporate policies, overall strategic objectives and corporate plans which are communicated to the Management Committee. They also lay out a schedule of issues and directions which could only be approved by the Board as monitoring controls.

Additionally, Board approval is required on all matters relevant to overall strategy, annual budget, business plans, management information, reported financial statements, dividends, investments and business acquisitions. The Board is also responsible for continually reviewing and monitoring of the performance of the Group against the set objectives while directing the Management Committee on specific action points.

- Communication with Shareholders

Communication with shareholders is important and CGE communicates with its shareholders on a number of issues as it believes in transparency. The Board is responsible for reporting statutory and relevant information to shareholders regularly and in a timely and accurate manner. In order to ensure transparency at all times, the Board has laid down very definite policies in relation to keeping accurate records of accounts together with the preparation of financial statements to represent a balanced view of the Group. The Board also takes measures to report statutory and all relevant information with full disclosure of all major transactions to shareholders' in a timely and accurate manner. Meanwhile, the Group welcomes shareholders independent advice on matters of investment and divestment. Quarterly and Annually results are prepared and presented in accordance with the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Colombo Stock Exchange (CSE) policies and the Securities and Exchange Commission (SEC) regulations.

- Overseeing Risk Management

Another important duty is overseeing risk management. The Board is responsible to regularly evaluate the risk factors of the Group and current control systems and regularly make policy recommendations on risk factors and the improvement of controls. The formulation of the risk management process overseen by the Board ensures that an effective system is implemented to identify, evaluate and manage significant risks encountered by the Group in protecting its assets and processes. This risk management process is regularly reviewed by the Board on the basis of guidelines set by relevant regulatory bodies. The Management Committee is responsible for the detail, design and operation of the system of internal controls with regard to the risk management. However, the Board maintains overall responsibility to manage risks within the Group. CGE has also in place a well established control framework consisting of clear structures and accountabilities, well understood policies, procedures with budgeting and review processes. Each business segment of the Group has a formal management structure with clear responsibilities operating within clearly defined policies which cover the areas of product safety, financial matters, health and safety, the environment, human resources, operation matters, purchasing and engineering.

- Compliance

The Board is also responsible to ensure that the Group always operates within the law, regulations and standards as laid down by the various regulatory bodies in the country. The Board is also constantly updated with information with regard to compliance and directs the Management Committee regarding any action that needs to be taken.

- Appointments to Board Committees

The Board of Directors is further responsible to appoint members to the various Board Committees and ensure that they act in accordance with the terms of reference as set out by the Board. The Board of Directors in turn appoints Directors to the Audit, Remuneration, Nomination and Related Party Transactions Review Committees along with Directors and Key Senior Management personnel to the Management Committee. Each such Committee would act within its own set of terms of reference. An expanded review of each such Committee's function is described further in this report.

5.3 Board Composition

The Board consisted of six members during the year 2016, with two (2) Executive Directors, two (2) Non-Executive Directors and two (2) Non-Executive Independent Directors. This composition complies with the Listing Rules of the Colombo Stock Exchange, which requires a minimum of two or one third of the Board be independent Directors.

The Group policy is to maintain a healthy balance between Executive, Non-Executive and Non-Executive Independent Directors in order that value addition is provided to all stakeholders with the Executive Directors bringing in deep knowledge of the business and the Non-Executive Independent Directors bringing in experience, objectivity and independent oversight.

5.4 Board Evaluations

The Board periodically appraises its own and its sub committees' performance in order to ensure that their responsibilities are properly carried out in fairness to the Company and to the stakeholders. For the year under consideration an assessment was made with regard to the Board composition and they reached the conclusion that the current knowledge and expertise of the current Board matches the strategic demands of the Group. A brief profile of individual members of the Board is carried on pages 24 to 25 in this report.

5.4.1 Appraisal of Chief Executive Officer

At the end of each fiscal year, the Remuneration Committee assesses the performance of the Chief Executive Officer on the basis of pre-agreed goals at the commencement of the fiscal year, set in consultation with the Board, covering the following broad aspects;

- Creating and adding shareholder value.
- Developing human capital.
- Building sustainable external relations.
- Enhancing the stakeholder value.
- Ensuring integrity and good governance in the Group.

5.5 Board Skills

Board diversity is an emerging factor to be considered when formulating the balance of a Board which enables them to make collective decisions more effectively with a wide exposure to the fields of finance, administration, management, law, economics, marketing, taxation and human resources. All directors possess the skills, knowledge and expertise along with a high sense of integrity and judgment. In addition, the Board has ensured the availability within it of those with financial acumen and knowledge to offer guidance on matters of finance.

CGE is ever mindful of the need to maintain an appropriate mix of skills and expertise in the Board hence timely review of its composition is performed by ensuring the skill representation is matched with the current and future needs of the Group. Furthermore, individual Directors are encouraged to seek expert opinion and/ or professional advice on matters where they may not have full knowledge or expertise in order to strengthen the decision making. This is generally coordinated through the Board Secretary.

5.5.1 Continuous Training and Development

The Group is dedicated for empowering every member of its team with opportunities to enhance their individual skills, knowledge and expertise. This facility is extended to the Board of Directors as well. Such development programmes available to Board members begin with a comprehensive induction programme that ensures new Board members garner the required knowledge to integrate well and perform efficiently. This programme which is conducted over a period of various months, includes presentations from key members of Senior Management and also visits to the various operating businesses of the Group. If a Director seek a deeper understanding on a particular area, further follow-up

Corporate Governance Review (Contd.)

meetings are arranged to make available the required knowledge to the Board member.

5.6 Changes to the Board

5.6.1 Board Tenure

Directors are appointed and recommended for re-election until their prescribed company retirement age.

5.6.2 Retirement

At all Annual General Meetings one third of the Directors retire by rotation on the basis prescribed in the Articles of the Association of the Company and are eligible for re-election. Directors who retire are those who have been longest in office since their appointment or re-election. In addition any new director who has been appointed to the Board during the year is required to stand for re-election at the next Annual General Meeting.

5.6.3 Re-election

The re-election of Directors ensures that the shareholders have an opportunity to reassess the composition of the Board. The names of the Directors submitted for re-election are provided to the shareholders in advance to enable them to make an informed decision concerning their election.

Names of retiring Directors eligible for re-election this year are given in the Notice of the Annual General Meeting of the Company.

5.7 Timely Supply of Information

All members of the Board are continually updated and supplied with timely, accurate and comprehensive information to enable them to perform their duties successfully. Therefore this enables board members to engage in a healthy debate and a process of optimised decision making towards the betterment of the Company. Directors are provided access to:

- Board minutes and reports which are circulated before Board meetings.
- Clarification on any matter contained in the minutes.
- The advice of experts and professionals if required.
- Advice and services provided by the Company Secretary.
- Information wherever necessary to carry out duties and responsibilities more effectively and efficiently.
- Information updates from management on topical matters, formulation of new regulations, and best practices as relevant to the Group's business.

5.8 The Chairman of the Board

The Non-Executive Independent Chairman of the Board Mr. Wickrema Senaka Weerasooria, is entrusted with a number of responsibilities including providing leadership to the Board, ensuring Board effectiveness in its myriad roles, also chairing Board meetings and steering it in the proper direction, taking responsibility for the Board's composition, facilitating the effective contribution of Non-Executive Directors and also ensuring that there is positive relationship between the Executive and Non-Executive Directors.

5.9 Board Meetings

In accordance with Company principles and practices the Board met four (4) times over the past year to review the overall strategic development of the Group. The Chairman is responsible to provide leadership to the Board and the conducting of business at meetings and also to facilitate the effective contribution of all members. He is also responsible to facilitate the effective contribution of all members and to implement strategies and ensure that the Board operates effectively in keeping with the interests of the shareholders.

The Company Secretaries, SSP Corporate Services, are in turn responsible on behalf of the Chairman to ensure that all Board meetings are conducted in a proper manner and that all Directors receive the necessary information prior to meetings so that the Board could review the Key Performance Indicators (KPI's).

In addition the Company Secretaries also guide the Board in order that good governance practices are considered and implemented. Meanwhile, the Board is brought up to date on the latest financial position of the Company by the Group General Manager.

5.9.1 Board Minutes

The Board minutes are prepared by the Company Secretary. In the event of a matter not being unanimously adopted at a Board meeting, the concerns expressed at such situations are recorded in the minutes of the meeting minutes. Minutes of the Board meetings are circulated to all Directors and adopted at a subsequent Board meeting.

5.10 Board Committees

Some functions of the Board have been delegated to Board Committees which are responsible to monitor, review and enhance the accountability in certain areas. These committees serve as an effective oversight mechanism over several activities of the company while safeguarding the good governance practices of the Group.
The five Board Sub Committees are as follows:

I. Management Committee
II. Remuneration Committee
III. Audit Committee
IV. Nomination Committee
V. Related Party Transactions Review Committee

The above committees carry out their duties and responsibilities in accordance with the terms of reference as set out by the Board. The proceedings of their meetings are regularly communicated to the Board.

Figure 2 : Composition of the Board and Board Committees and attendance at Meetings for 2016

Name of the Directors	Capacity	No. of shares held	Board			Audit Committee	Nomination Committee	Remuneration Committee	Related Party Transactions Review Committee
			Position	No. of meetings held	No. of meetings attended	Position	Position	Position	Position
Mr. Wickrema Senaka Weerasooria	Non-Executive Independent Chairman	2,800	Chairman	4	4	Member	Chairman	Chairman	Chairman
Mr. Cheng Chih Kwong, Primus	Executive Director and Chief Executive Officer	397	Member	4	3	-	Member	-	-
Mr. Tan Beng Chuan	Executive Director and Group General Manager	-	Member	4	3	-	-	-	Member
Mr. Cheng Koh Chuen, Bernard	Non-Executive Director	-	Member	4	4	-	-	-	-
Mr. Cheng Eng Loong	Non-Executive Director	-	Member	4	4	-	-	-	-
Mr. Sunil Karunanayake	Non-Executive Independent Director	-	Member	4	4	Chairman	Member	Member	Member

Corporate Governance Review (Contd.)

5.10.1 Group Management Committee

Members are selected by the Board. The Management Committee is responsible for the following:

- Implementing Group strategy.
- Monitoring business performance.
- Approve budgets and capital expenditure recommendations to the Board.
- Ensure efficient management to the Group.

The Management Committee has also been vested with the authority to implement Board decisions. This authority is exercised within the policy framework as stipulated by the Board.

The Management Committee meets once a month to discuss and evaluate various topics including segmental performance of the Group, business development plans, financial and operating budgets and forecasts, capital expenditure proposals, management issues and Key Performance Indicators (KPI's). The Board constantly reviews, reports from the Management Committee and also from executives and sectional heads of key risk areas and makes decisions pertaining to the segmental performance. The Management Committee has the right to run the business of the Group as they deem fit to meet the demand of the customers of the Group and the strategic and financial targets that have been set by the Board in addition to the required corporate guidelines. Such a deregulated structure is necessary to ensure that fast decisions are made and implemented, speedy innovation at a rate as demanded by the customer while providing products and services to consumers catering to their specific needs.

5.10.2 Remuneration Committee

This Committee is responsible to the Board to determine the remuneration policy for the Executive Directors and Senior Managers. Remuneration Committee comprises of two (2) Non-Executive Independent Directors, one of whom is the Chairman of the Committee who is appointed by the Board. The detailed report by the Remuneration Committee appears on page 42 of this report.

5.10.3 Nomination Committee

The Nomination Committee is entrusted with keeping the Board composition under review while facilitating a formal and transparent procedure for all new appointments to the Board. The Nomination Committee consists of one (1) Executive Director and two (2) Independent Non-Executive Directors one of whom is the Chairman of the Committee who is appointed by the Board. The report by the Committee appears on page 43.

5.10.4 Audit Committee

The Audit Committee is responsible to assist the Board in accomplishing its oversight responsibilities in the financial reporting process. The Audit Committee consists of two (2) Independent Non-Executive Directors one of whom is appointed by the Board and is the Chairman of the Committee. The detailed Audit Committee Report appears on page 40 of this report.

5.10.5 Related Party Transactions Review Committee

The Board formed a Related Party Transaction Review Committee on 4 April 2015 by adhering to the Code of Best Practices on Related Party Transactions issued by Securities and Exchange Commission of Sri Lanka (SEC) with the aim of strengthening the monitoring mechanism of related party transactions of the Group. The detailed report by the Committee appears on page 44.

6. Shareholder/Investor Relationship

Stakeholder Management is a key component in CGE's corporate governance mechanism.

The primary model of communication between the Company and its shareholders are through the Annual Report, Quarterly Reports and the Annual General Meetings (AGM).

6.1 Release of Information to the public and CSE

All the material and price sensitive information is timely communicated to the CSE in order to minimise the information gap among shareholders/investors.

6.2 Annual General Meetings (AGM)

The effective relationship with shareholders is maintained by conducting AGMs where every shareholder is given a chance to vote and raise specific queries regarding the Company operations.

6.3 Serious Loss of Capital

In the unlikely event that the Company's net assets fall below a half of the stated capital, the shareholders would be notified of an extraordinary general meeting (EGM) in terms of section 220 of the Companies Act No. 07 of 2007.

7. Internal Control Mechanism

The effectiveness of the internal control system of CGE is ensured via frequent reviews and a proper monitoring mechanism. The Board of Directors including the Audit Committee are responsible for the Company's system of internal controls and for reviewing its effectiveness. The system is designed to safeguard assets of the company against unauthorised use or disposal along with a well structured documentation procedure. It includes all controls as such financial, operational, risk management, compliance controls and etc.

The internal audit function of the Group is carried out by the Group internal audit division to make sure the internal control function of the Company is functioning properly according to the Company standards.

The Audit Committee carries out reviews of the process and effectiveness of risk management and internal controls, and to document to the Board in order for the Board to take the responsibility for the disclosures on internal controls where the ultimate responsibility of maintaining a sound system of internal controls relies.

8. Best Practices

The governance practices of CGE are based on the company core beliefs on corporate sustainability through good governance practices within the Group. Apart from being fully compliant with the regulatory requirements relating to good governance, we strongly believe the best practices are the backbone of the Group's transparency towards our ethical business philosophy which affirms the sustainable growth and shareholder satisfaction towards us.

8.1 Regulation Framework

The corporate governance is practiced in CGE via a well structured regulation framework which consists of statues, regulations, codes, internal and external governance systems, control and certification mechanisms (illustrated in figure 1) on page 27.

8.2 Compliance and Adherence

Compliance to the mandatory and voluntary regulatory governance requirements is confirmed via an effective monitoring mechanism within the Group by timely reviewing the governance structure and the level of adherence to those specific references by the Board of Directors and specific sub committees. The level of the compliance are stated in the table 1 appearing in page 33.

The extent of compliance with the Code of Best Practice on Corporate Governance jointly issued by SEC and CA Sri Lanka is presented from pages 36 to 37.

Table 1: The Level of Compliance and Adherence

Regulation	Specifics	Remarks
The Code of Best Practice on Corporate Governance jointly issued by SEC and CA Sri Lanka	The Code of Best Practices on Corporate Governance	All requirements of the Code and the level of compliance is disclosed on pages 36 to 37
Listing Rules of the CSE	Disclosure requirements for the Listed companies of CSE including on Corporate Governance	Complied. Disclosures are stated on pages 34 to 36
Articles of Association	Requirement stated in the Articles of Association of the Group	Complied
The Code of Ethics	Compliance requirements applicable to all employees	All the employees sign a declaration to the effect that they will follow the Code of Ethics
Sustainability Reporting	Report provides information to all stakeholders with regard to the most material areas that are identified through stakeholder engagement	Key sustainability initiatives are reported in the Sustainability Report on pages 62 to 65

Corporate Governance Review (Contd.)

9. Disclosures

The table given below provides the relevant details and disclosures mandated by the Companies Act No. 07 of 2007 and the Listing Rules of CSE.

9.1 Disclosures required by the Companies Act No. 07 of 2007.

Section Reference	Requirement	Annual Report Reference
168 (1) (a)	The nature of the business of the Group and the Company together with any change thereof during the accounting period	Page 79
168 (1) (b)	Signed Financial Statements of the Group and the Company for the accounting period completed	Pages 84 to 130
168 (1) (c)	Auditors' Report on Financial Statements of the Group and the Company	Page 83
168 (1) (d)	Accounting policies and any changes therein	Pages 88 to 97
168 (1) (e)	Particulars of the entries made in the interest register during the accounting period	Page 79
168 (1) (f)	Remuneration and other benefits paid to Directors of the Company during the accounting period	Page 128
168 (1) (g)	Corporate donations made by the Company during the accounting period	Page 79
168 (1) (h)	Information on the Directorate of the Company and its subsidiaries during and at the end of the accounting period	Page 24
168 (1) (i)	Amounts paid/payable to the External Auditor as audit fees and fees for other services rendered during the accounting period	Page 80
168 (1) (j)	Auditors' relationship or any interest with the company and its Subsidiaries	Page 80
168 (1) (k)	Acknowledgement of the contents of this Report and Signatures on behalf of the Board	Pages 81 to 82

9.2 Disclosures required by the Listing Rules of the CSE.

Rule No	Subject	Requirement	Compliance status	Remarks
Disclosures Regarding Board of Directors				
7.10.1 (a)	Non-Executive Directors	Two or one third of the total number of Directors shall be Non-Executive Directors, whichever is higher.	Compliant	Corporate Governance Review - Page 31
7.10.2 (a)	Independent Directors	Two or one third of Non-Executive Directors, whichever is higher shall be Independent.	Compliant	Corporate Governance Review - Page 31
7.10.2 (b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence / non-independence in the prescribed format.	Compliant	Non-Executive Directors have submitted declaration during the year 2016
7.10.3 (a)	Disclosure relating to Directors	Names of Independent Directors should be disclosed in the Annual Report.	Compliant	Board of Directors - Pages 24 to 25
7.10.3 (b)	Disclosure relating to Directors	The basis for the Board to determine a Director is Independent, if criteria specified for Independent is not met.	Compliant	The Board has determined the Independency / Non-Independency of each Non-Executive Director

Rule No	Subject	Requirement	Compliance status	Remarks
7.10.3 (c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the area of expertise.	Compliant	Board of Directors - Pages 24 to 25
7.10.3 (d)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the area of expertise.	Compliant	Board of Directors - Pages 24 to 25
7.10.4 (a-h)	Determination of Independence	Requirements for meeting criteria of 'Independence'.	Compliant	The Board has determined the Independency of each Non-Executive Director during the year 2016
Disclosures Regarding the Remuneration Committee				
7.10.5	Remuneration Committee	A Listed Company shall have a Remuneration Committee.	Compliant	Remuneration Committee Report - Page 42
7.10.5 (a)	Composition of Remuneration Committee	The Committee shall consist of Non-Executive Directors, a majority of whom shall be independent.	Compliant	Remuneration Committee Report - Page 42
7.10.5 (b)	Functions of Remuneration Committee	The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and Executive Directors.	Compliant	Remuneration Committee Report - Page 42
7.10.5 (c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out:		
		a. Names of Directors comprising the Remuneration Committee.	Compliant	Remuneration Committee Report - Page 42
		b. Statement of Remuneration Policy.	Compliant	Remuneration Committee Report - Page 42
		c. Aggregated remuneration paid to Executive and Non-Executive Directors.	Compliant	Note 32.1- Key Management Personnel information - Page 128
Disclosures Regarding the Audit Committee				
7.10.6	Audit Committee	A Listed Company shall have an Audit Committee.	Compliant	Audit Committee Report - Page 40
7.10.6 (a)	Composition of Audit Committee	The Committee shall comprise Non-Executive Directors, the majority of whom shall be independent. The Chairman of the Committee should be a Member of a recognized professional accounting body.	Compliant	Audit Committee Report - Page 40
7.10.6 (b)	Functions of Audit Committee	a. Overseeing of the preparation, presentation and adequacy of disclosures in the financial statements of a Listed Entity, in accordance with Sri Lanka Accounting Standards.	Compliant	Audit Committee Report - Page 40

Corporate Governance Review (Contd.)

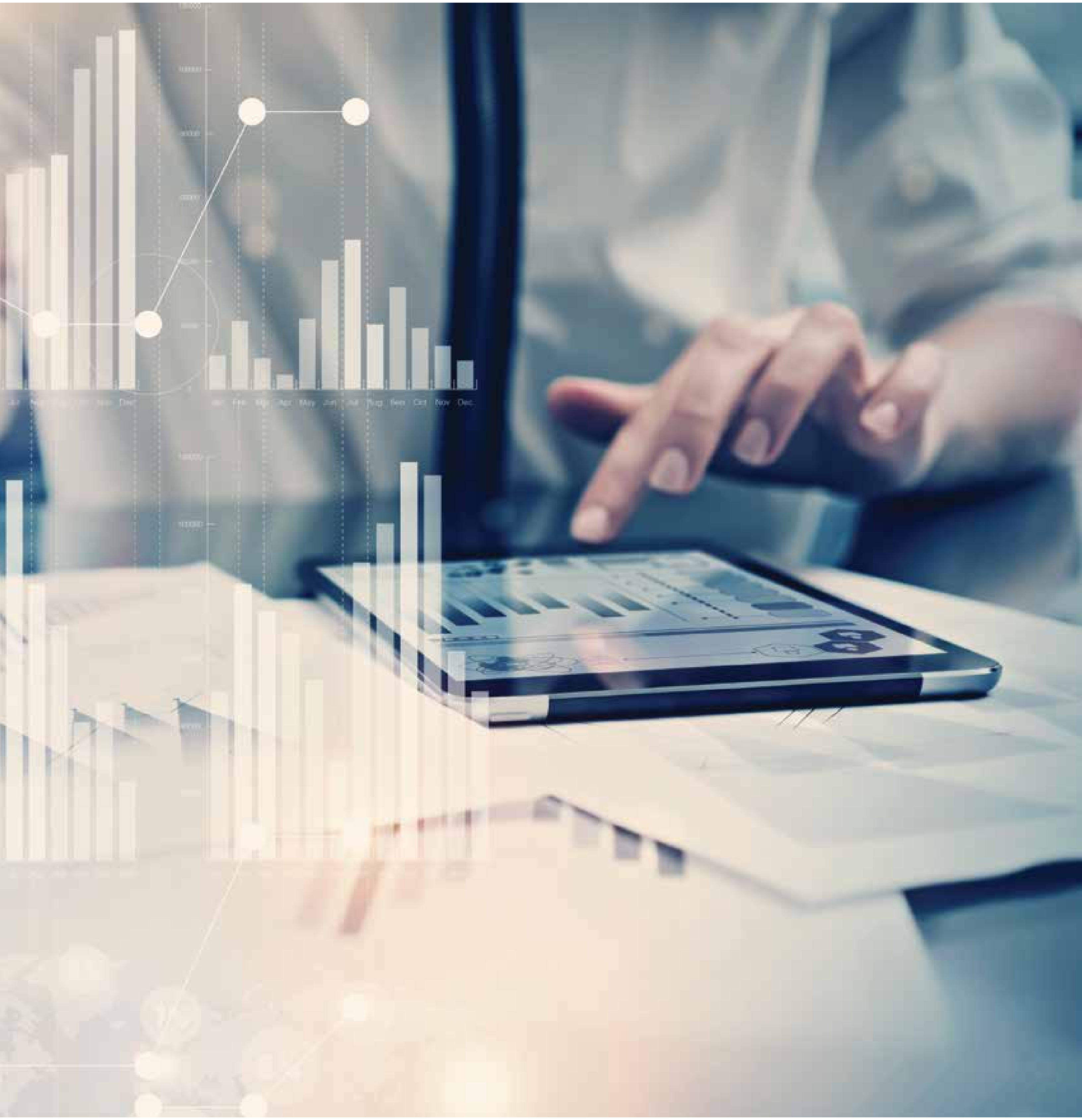
Rule No	Subject	Requirement	Compliance status	Remarks
7.10.6 (b)	Functions of Audit Committee (Contd.)	b. Overseeing of the Entity's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.	Compliant	Audit Committee Report - Page 40
		c. Overseeing the processes to ensure that the Entity's internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards.	Compliant	Audit Committee Report - Page 40
		d. Assessment of the independence and performance of the Entity's external auditors.	Compliant	Audit Committee Report - Page 40
		e. To make recommendations to the Board pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and Terms of Engagement of the external auditors.	Compliant	Audit Committee Report - Page 40
7.10.6 (c)	Disclosure in Annual Report relating to Audit Committee	a. Names of Directors comprising the Audit Committee.	Compliant	Audit Committee Report - Page 40
		b. The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination.	Compliant	Audit Committee Report - Page 40
		c. The Annual Report shall contain a Report of the Audit Committee setting out of the manner of compliance with their functions.	Compliant	Audit Committee Report - Page 40

9.3 Disclosures required by the Code of Best Practice on Corporate Governance jointly issued by SEC and CA Sri Lanka.

Rule	Subject	Compliance Status	Reference
A.	Directors		
A.1	Effective Board to Control the Company	Yes	Corporate Governance Section (5)
A.2	Chairman and Chief Executive Officer	Yes	No one individual has unfettered powers of decisions
A.3	Chairman's Role	Yes	Corporate Governance Section (5.8)
A.4	Financial Acumen	Yes	Corporate Governance Section (5.5)
A.5	Board Balance	Yes	Corporate Governance Section (5.3)
A.6	Supply of Information	Yes	Corporate Governance Section (5.7)
A.7	Appointments to the Board	Yes	Corporate Governance Section (5.10.3), Nomination Committee Report, Board Profiles
A.8	Re-election	Yes	Corporate Governance Section (5.6.3)
A.9	Appraisal of Board Performance	Yes	Corporate Governance Section (5.4)

Rule	Subject	Compliance Status	Reference
A.10	Disclosure of Information in respect of Directors	Yes	Board of Directors
A.11	Appraisal of Chief Executive Officer	Yes	Corporate Governance Section (5.4.1)
B	Director's Remuneration		
B.1	Remuneration Procedure	Yes	Corporate Governance Section (5.10.2), Remuneration Committee Report
B.2	The level and make up of Remuneration	Yes	Corporate Governance Section (5.10.2), Remuneration Committee Report
B.3	Disclosure of Remuneration	Yes	Corporate Governance Section (5.10.2), Remuneration Committee Report
C	Relations with Shareholders		
C.1	Constructive use of the AGM and conduct of general meetings	Yes	Corporate Governance Section (6.2)
C.2	Communication with shareholders	Yes	Corporate Governance Section (6)
C.3	Major and material transactions	Yes	Notes to the Financial Statements
D.	Accountability and Audit		
D.1	Financial Reporting	Yes	Corporate Governance Section (5.1), Report of the Directors, Statement of the Directors' Responsibility, Independent Auditors' Report, Management Discussion and Analysis, Notes to the Financial Statements relating to Related Party Transactions.
D.2	Internal Control	Yes	Risk Management Review, Corporate Governance Section (7)
D.3	Audit Committee	Yes	Audit Committee Report
D.4	Code of Business Conduct and Ethics	Yes	Corporate Governance Section (3)
D.5	Corporate Governance Disclosures	Yes	Corporate Governance Report
E.	Institutional Investors		
E.1	Shareholder Voting	Yes	Corporate Governance Section (6),Institutional Investors are encouraged to provide any feedback on the governance arrangements.
E.2	Evaluation of Governance Disclosures	Yes	Corporate Governance Review
F.	Other Investors		
F.1	Investing/ Divesting Decisions	Yes	The extensive nature of the information given in the annual report facilitates the shareholders in carrying out adequate analysis when making their decisions.
F.2	Shareholder Voting	Yes	Proxy Form
G.	Sustainability Reporting	Yes	Sustainability Review

Innovation is the cornerstone of our business and every segment has greatly benefited from our investment in technology that not only makes the production process faster but also makes us a cut above the rest.



Audit Committee Report

The Audit Committee is a sub - committee of the Main Board. The duties and responsibilities of the Committee are carried out in accordance with the Terms of Reference as approved by the Board. This report from the Committee is an overview of the functions and responsibilities pertaining to the Group as a whole.

Composition of the Committee

In compliance with the guidelines as set out by the Colombo Stock Exchange, the Committee comprises of two (2) Non-Executive Independent Directors and the company's Internal Auditor who functions as the Secretary to the Committee. Mr. Sunil Karunanayake who is Chairing the Committee is a Member of the Institute of Chartered Accountants of Sri Lanka.

Meetings

For the year under review, the Committee held four (4) meetings with the Management and Auditors of the Company, to discuss the relevant matters and to review the results of the company and of the Group. On invitation, these meetings are also attended by the Executive Director and Group General Manager, the General Manager and the AGM - Finance, of the Company.

The information on the attendance at the meetings by the Committee Members are given below.

Name	Capacity	No. of meetings held	No. of meetings attended
Mr. Sunil Karunanayake	Chairman / Non-Executive Independent Director	4	4
Mr. Wickrema Senaka Weerasooria	Member / Non-Executive Independent Chairman	4	4
Mr. Majintha Illankone	Secretary / Group Internal Auditor	4	3

Functions of the Committee

The key function of the Committee is to assist the Board to fulfill the oversight responsibility in the preparation and fair presentation of the financial statements of the Company and the Group, in compliance with the Accounting Standards of Sri Lanka.

In addition, the Committee is also responsible for the Internal Controls and Risk Management, compliance with legal and regulatory requirements, independence and performance of the External Auditors and the adequacy and performance of the Internal Auditors.

Review of Financial Statements

During the financial year, the Committee has reviewed the Group's quarterly and annual financial results with the Management and the External Auditors, prior to its publication. In this connection, the Committee partners with the Board in ensuring that the financial and non - financial information that is supplied to the Shareholders is a fair assessment of the position of the Company.

this review includes;

- the evaluation of the appropriateness of the accounting policies and practices adopted by the Company in the preparation and presentation of the financial statements;
- compliance with the relevant accounting standards, laws and regulations;
- assessing the adequacy and validity of the estimates and judgments made by the Management;
- assessing the Company's ability to continue as a going concern in the foreseeable future.

Internal Controls and Risk Management

The Committee is responsible to ensure the adequacy and effectiveness of a sound system of Internal Controls and Risk Management procedures adopted by the Company. Risk mitigating strategies include the establishing of internal and external audit functions and incorporating recommendations made by them, developing a Risk Management framework to identify and evaluate risks, carrying out employee Whistle Blower Policy. As a result of these, the Company is able to safeguard the investment of the Shareholders in the Company and meet other expectations of stakeholders' of the Company.

Internal Audit

Internal Auditors have direct access to the Audit Committee and submit their reports on a quarterly and annual basis to the Committee. The Committee is responsible to evaluate the effectiveness of internal audit functions and act appropriately on the recommendations made.

External Audit

The Committee reviews the independence, performance and the objectivity of the External Auditors and is further responsible for;

- making recommendations to the Board regarding the appointment and re-appointment of the External Auditors at the Annual General Meeting;
- approve the remuneration and Terms of Engagement of the External Auditors;
- discussion of the external audit plan and the key audit findings and their recommendations;
- discussion of the company's financial statements made quarterly and annually;
- reviewing of the Non Audit Services provided by the External Auditors and evaluate how it affects their objectivity and independence and disclose the basis for such determinations.

The Audit Committee has recommended to the Board of Directors that KPMG Sri Lanka, Chartered Accountants be re-appointed as External Auditors for the financial year ending 31 December 2017 subject to the approval of Shareholders at the Annual General Meeting.

Evaluation of the functions of the Committee

The functions of the Audit Committee have been evaluated by the Board throughout the year and they have concluded that the Committee has performed their responsibilities to the complete satisfaction of the Board and seek the continued support of the Committee in the future in achieving the Stakeholders' expectations.

(Sgd.)
Sunil Karunanayake
Chairman, Audit Committee

Remuneration Committee Report

The Committee was established for the purpose of recommending the remuneration of the Executive Directors and Key Management Personnel to the Board of Directors. The Committee has acted within the parameters set out by its Terms and References and therefore independent of the Management and is totally free from any interference in making judgments and decisions.

Functions of the Committee

The Remuneration Policy is designed to reward, motivate and retain the company's Executive Team to support the continued success of the business and creation of shareholder value. All Non-Executive Independent Directors receive a fee for serving on the Board and the Board's sub committees. They do not receive any performance related incentive payments.

Composition of the Committee

The Board appointed Remuneration Committee comprises of two (2) members both of whom are Non-Executive Independent Directors as required by the guidelines set out by the Colombo Stock Exchange.

Meetings

Remuneration Committee meetings were held when necessary and a total of four (4) meetings were conducted over the past years.

The information on the attendance of the meetings by the Committee members are given below.

Name	Capacity	No. of meetings held	No. of meetings attended
Mr. Wickrema Senaka Weerasooria	Chairman / Non-Executive Independent Chairman	3	3
Mr. Sunil Karunanayake	Member / Non-Executive Independent Director	3	3
Mr. M.C.M. De Costa	Secretary	3	3

The Group General Manager who is responsible for the overall management of the Group provides information to the Committee and participates in all deliberations except in relation to those matters where the committee objectives impaired with his presence. Group Treasurer and the General Manager were also attended to the meetings on invitation.

Evaluation of the functions of the Committee

The annual evaluation of the Committee was carried out by the Board and it was concluded that the Committee continues to operate effectively.

(Sgd.)
Wickrema Senaka Weerasooria
Chairman, Remuneration Committee

Nomination Committee Report

The Nomination Committee is entrusted with keeping the Board composition under review while facilitating a formal and transparent procedure for all new appointments to the Board.

Composition of the Committee

The Committee, as end of the year 2016, consisted of three (3) members including two (2) Non-Executive Independent Directors and the Chief Executive Officer of the Company in compliance with the guidelines as set out by the Colombo Stock Exchange. The Non-Executive Independent Chairman was appointed as the Chairman of the Committee.

Terms of Reference

The Nomination Committee oversees a range of responsibilities which include;

- providing up-to-date advice and recommendations to the Board or Chairman concerning any new appointments to the Board;
- evaluating the competencies, skills, knowledge and experience of any individual who is recommended to the Board;
- reviewing the structure, size and composition of the Board;
- evaluating the performance of the members of the Board to determine whether they are adequately performing their duties and responsibilities.

Meetings

The Committee met on two (2) occasions during the year 2016 in order to discharge their responsibilities in keeping with the combined knowledge and experience of the Board according to the strategic demands of the Company.

Name	Capacity
Mr. Wickrema Senaka Weerasooria	Chairman / Non-Executive Independent Chairman
Mr. Cheng Chih Kwong, Primus	Member / Executive Director and Chief Executive Officer
Mr. Sunil Karunanayake	Member / Non-Executive Independent Director
Mr. M.C.M. De Costa	Secretary

On invitation, these meetings were also attended by the Executive Director and Group General Manager, the General Manager and the Group Treasurer of the Company.

(Sgd.)
Wickrema Senaka Weerasooria
Chairman, Nomination Committee

Related Party Transactions Review Committee Report

The Board formed a Related Party Transactions (RPTs) Review Committee on 13 November 2015 in compliance with Code of Best Practices on Related Party Transactions issued by Securities and Exchange Commission of Sri Lanka (SEC) together with Colombo Stock Exchange (CSE) to exercise supervision on behalf of the Board over all related party transactions of the Group.

Composition of the Committee

The Committee comprises of two (2) Non-Executive Independent Directors and an Executive Director in accordance with Listing Rule No. 9.2.2 of the CSE. The Company's Internal Auditor functions as the Secretary to the Committee.

Meetings

For the financial year ended 31 December 2016, the Committee met three times during the period and one time in the following year to comply with Listing Rule No. 9.2.4 of the Colombo Stock Exchange. The details of attendance of members at meetings held for the year under review are as follows;

Name	Capacity	No. of meetings held	No. of meetings attended
Mr. Wickrema Senaka Weerasooria	Chairman / Non-Executive Independent Chairman	4	4
Mr. Sunil Karunanayake	Member / Non-Executive Independent Director	4	4
Mr. Tan Beng Chuan	Member / Executive Director and Group General Manager	4	3
Mr. Majintha Illankone	Secretary / Group Internal Auditor	4	3

Policies and procedures

The members of the Board of Directors of the Company have been identified as Key Management Personnel. In accordance with the Related Party Transactions policy, the declarations are obtained from each Key Management Personnel of the Company for the purpose of identifying parties related to them.

Functions of the Committee

The key function of the Committee is to ensure on behalf of the Board, that all RPTs of the Company and its listed subsidiaries are consistent with the Code of Best Practices on Related Party Transactions.

The Committee is responsible for ;

- designing reporting templates and getting them approved by the Committee and introducing processes to obtain annual disclosures in required areas of the Group;
- making immediate market disclosures on applicable RPTs as required by section 9 of the continuing listing requirement of CSE ;
- providing information to the Board of Directors on the RPTs of the Company ;
- making appropriate disclosures on RPTs in the Annual Report of the company as required by the continuing listing requirement of CSE.

Activities during the year

The first meeting was held during the year to identify, review and recommend the related parties and the policy to the Board. In addition, the Board of Directors were updated on the RPTs of the Group on a quarterly basis.

As such all RPTs other than the exempted transactions have been reviewed either prior to the transaction being entered into or if the transaction is expressed to be conditional on such review prior to the completion of the transaction.

Disclosures on the Related Party Transactions during the year are given on page 129 under Note 32 - Related party transactions, to the financial statements.

The Related Party Transactions Review Committee convenes quarterly. The minutes of all meetings are properly documented and communicated to the Board of Directors.

(Sgd.)
Wickrema Senaka Weerasooria
Chairman, Related Party Transactions Review Committee

We care about consumer and customer safety which means that stringent measures are taken that our output is not only of high quality but safe.

Our Business Model

VISION

MISSION

STRATEGIES

INPUTS

Financial Capital

Equity : **Rs. 6,093 Million**
Debt: Rs. Nil

Manufactured Capital

Property plant and equipment :
Rs. 2,338 Million
Leasehold right over land and building:
Rs. 177 Million

Human Capital

No. of employees: **1,238**

Social Capital

No. of customers: **547**
No. of suppliers: **1,167**

Natural Capital

Energy
Raw Materials

BUSINESS OPERATION

- Feed milling operation
- Processing and distribution of chicken
- Breeder farming and selling of DOC
- Commercial broiler farming
- Trading of poultry equipments and vaccines
- Providing warehousing facilities

SUPPORT SERVICES

- Procurement and Warehousing
- Lab services
- Research and Development
- IT Services

ENTERPRISE RISK MANAGEMENT

CORPORATE GOVERNANCE

VALUE CREATED

For Shareholders

Profit: **Rs. 1,334 Million**

For Providers of Finance

Interest: **Rs. 2 Million**

For Employees

Employee cost **Rs. 1,146 Million**

For Suppliers

Purchases: **Rs. 9,934 Million**

For Customers

Sales: **Rs. 14,522 Million**

For Government

Taxes: **Rs. 2,398 Million**

For Community

Rs. 995 Thousands

Retained within the Business

Rs.1,188 Million

- **Human Resource Management**
- **Engineering**
- **Finance**

Operating Environment

In a rapidly interconnected world where business opportunities converge across global organisations and supply chains, the impact of fluctuations in economic and sociopolitical conditions can have drastic impacts on the operational success of conglomerates. Hence success demands that companies carefully observe and scrutinise international and domestic conditions in order to ensure optimal performance.

In this section of the report, we review the global and local economy in general and relevant trends and developments impacting directly or indirectly to the operations of CGE Group in order to provide context for our strong performance during the year under review.

Global economy

Global economic growth continued at an approximate rate of 2.5% during the year in review, largely as a result of improved performances in key markets, and particularly with regard to the final quarter of the year during which time the pace of economic activity increased but still failed to reach the 3% rate of growth achieved in the global economy at the end of the previous year. Meanwhile, as per the World Trade Organization (WTO), the volume of world merchandise trade is expected to increase by 2.8% in 2016 and 3.6% in 2017.

Weaker growth was largely a result of historic geopolitical uncertainty across advanced economies in the Euro zone and America. The United Kingdom's ongoing withdrawal from the European Union (EU) was a primary example of such downside risks to growth in the region as policymakers attempt to determine the exit mechanisms for withdrawal from the EU. The withdrawal is expected to result in changes to trade, and immigration policy. Similarly, Brexit also resulted in significant uncertainty for the EU despite generally encouraging signs of economic recovery, with the region recording notable improvements to unemployment rates, and to rates of industrial production. Similarly, Germany and France, also continued to witness notable developments in its energy sector, with substantial expansions in renewable energy capacity anticipated to gather further momentum in 2017.

Growth in the EU will however be constrained by continuing political uncertainty in the face of key elections in Germany, France and the Netherlands, the outcomes of which could result in major reversals of existing policies on immigration and trade, the two most pressing concerns in the region while improved labor market conditions as a result of lowered unemployment is currently projected to result in a minimum growth rate of 1.5% during the coming year.

Global inflation continued on an upward trend during the course of 2016, rising to 3.7% by December and averaging 3.4% for the year. During this time commodity prices, including the price of crude oil rose after rebounding from historic lows of US$ 40 per barrel to cross US$ 50 per barrel following the announcement of an OPEC agreement to cut production of oil in November 2016. The agreement resulted in oil prices soaring by the end of the year and this trend is expected to continue at a slower pace during 2017. While such trends may have limited positive implications for Sri Lanka's export sector, they may also trigger increased balance of payments pressure in addition to the general build-up of further inflationary pressure across the globe.

A notable development during the year which indirectly affected the performance of CGE and that of the global and Sri Lankan poultry industry in particular was the serious outbreak of the H5N8 strain of avian influenza across large parts of Europe. The outbreak decimated the region's domesticated poultry populations and resulted in a rapid decline in the supply poultry across international and domestic markets.

Domestic Economy

Economic growth continued at a reduced momentum during the year in review with GDP growth rates contracting from 4.8% in 2015, to marginally below 4.4% by the end of the year. Economic growth was primarily driven by the country's services and industrial sectors. Service sector growth was led by the financial services segment, followed by insurance, telecommunications, education and wholesale and retail trade.

During the year in review, the historic low-inflation environment witnessed around the globe in 2015 began to record a reversal, on the back of rising commodity prices and the announcement of OPEC oil production cuts. Domestically, this resulted in more pronounced fluctuations in inflation rates which commenced the year at 2% only to thereafter record major spikes across the first half of 2016, before finally concluding the year at 4.1%.

During this time the Sri Lankan rupee continued to depreciate against a stronger US Dollar falling from Rs. 144 down to Rs. 150, generating further inflationary pressure as a result of the country's large import bill. A stronger dollar combined with increased Government spending and the partial repayment of maturing bond.

Nevertheless, provisional figures indicate that Sri Lanka's primary budget deficit fell to Rs. 84 Billion at the end of 2016, performing better than the IMF's stipulated target of Rs. 97 Billion, while tax revenues also recorded notable improvements, rising from Rs. 1.36 Trillion up to Rs. 1.46 Trillion at the end of the period in review.

The country's external sector recorded marginal deterioration through the year, with cumulative export earnings for the first ten months of 2016 dropping 2.6% YoY to US$ 8.62 Billion reflecting lower proceeds from Agricultural exports, such as tea and spices

Worker remittances also continued to play a vital role, increasing sharply to US$ 7.24 Billion at the end of the year, as compared with US$ 6.98 Billion in 2015.

Inflows in the form of foreign direct investments (FDI) remained subdued during the first half of 2016. As FDI related inflows declined to US$ 336 Million during the first half of 2016, as compared with a previous US$ 534 Million recorded during the corresponding period of 2015.

Export earnings are projected to increase by 9.6 % of GDP in 2017 with the expected improved economic conditions in the global economy and improvements in trade relations with main trading partners.

As the Government's reform agenda begins to yield results, Sri Lanka's economy is projected to undergo a partial resurgence in 2017 with GDP growth projected at a rate of 5% in 2018.

Industry Atmosphere

Crucially however, the country's agriculture sector, the largest provider of employment in the Sri Lankan economy was badly affected by adverse weather conditions, contracting by 2.5% during the year. The country's plantation sector in particular continues to struggle with long-standing systemic roadblocks, weaker international demand, labour shortages and generally low productivity.

Decreasing yields across the agriculture sector also had direct impacts on the operations of CGE as well as that of the wider Sri Lankan feed milling industry, given that the maize is a primary ingredient in poultry and animal feed. Maize cultivation during the year continued to fall well below the industry's requirements for quantity and quality, with the country's poultry and livestock industry still requiring maize-based feed well in excess of what can currently be produced locally. This resulted in a continued dependence on imports subject to the government approved license and hence, continued exposure to foreign exchange rate fluctuation.

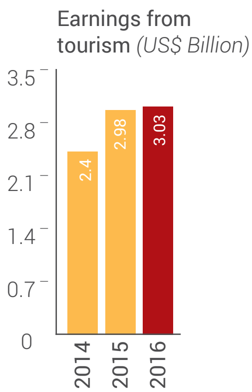
Contractions in Sri Lanka's agri-sector also carried through to the livestock subsector which recorded a contraction of 3.3% YoY. Reductions in growth reflected poor performances across all agricultural sub categories while fisheries activities contracted owing to a significant decline in inland fish production. However the sub-sector nevertheless retains potential for growth, if provided with adequate strategic support, investment, and access to finance over the medium to long term. Preliminary Government efforts to support the development of the livestock sub sector were therefore a welcome step in the correct direction and the Group urges the State to further expand its support to the development of other agricultural products moving forward.

Adverse weather conditions also gave rise to serious hardship for communities across the island as a result of severe flooding and landslides which increased in frequency moving into second quarter of 2016 and the country is now expected to endure a similarly intense period of drought into the opening months of 2017.

Industrial sector growth led by high rates of activity in the country's construction sector which continued to record tremendous activity parallel to increasing demand for new commercial and residential space across the island's largest urban centers also indirectly reinforced the demand for poultry products.

The country's tourism sector which serves as an important indicator for increased potential demand for CGE and its related companies achieved record breaking performances during the year, expanding by a significant 14% Year-on-Year (YoY) including crossing the 2 Million mark for visitors to the island. The sector also witnessed major increases to overall capacity as new hospitality projects in the formal and informal hospitality sector came on line during the year while similarly important investments were also secured for further development across 2017 and 2018, including the establishment of several large scale international hospitality franchises in the domestic market. Such developments will naturally provide increased foreign exchange earning capacity for the country.

Operating Environment (Contd.)



Policy highlights

Responding to consistent requests from the industry, the Sri Lankan Government made a revision to the Maximum Retail Price (MRP) on chicken, raising the price from Rs. 380 up to Rs. 410. The last upward revision on the MRP took place in 2012, resulting in a protracted period of time during which poultry producers were forced to absorb general increases in operating costs without being able to pass any of that excess cost to the consumer as a result of the MRP. Such developments put pressure on operating margins and restricted the ability of producers to make investments necessary for the expansion of capacity. These expansions will enable the Group to continue to cater the increasing demand for poultry and livestock products, which in turn serves as the core customer base of CGE.

In that regard, the recent revision of the chicken MRP during the third quarter of the 2016 was a welcome development for the performance of CGE, as demonstrated in the Company's financial performance for the year. However, the increase of VAT rate from 11% to 15% with effect from 01 November 2016 caused to minimise benefit of the revision of MRP.

Meanwhile, domestic maize prices remained at historic highs over the year as a result of a continuing shortage in supply. Given that the portion of locally produced maize that is suitable in quality for the requirements of the feed milling industry, the industry was compelled to rely on imports of Maize to match the demands of Sri Lanka's poultry and livestock industry. Further, we note that as with previous years, obtaining permits to import Maize has been a challenging task while the increase in the Special Commodity Levy (SCL) on such imports ultimately resulted in further increases in the cost of feed production.

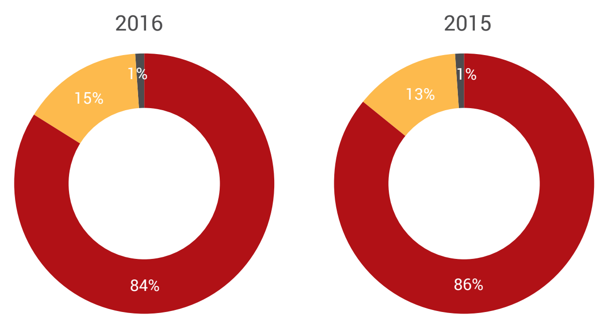
Sector Review

Segmental Analysis

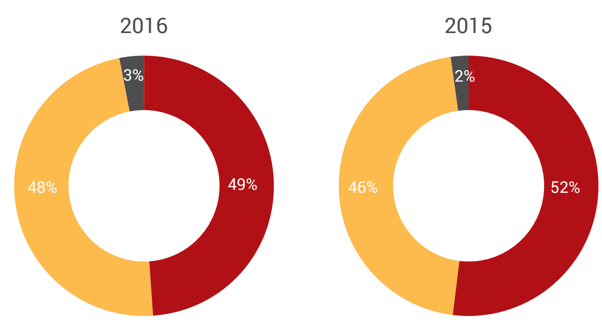
The year in review has been a prominent year for the Group, during which the Company was able to increase its operational performance thereby further enhancing the reputation of "PRIMA" name across the Island. The Group performed satisfactorily in all its operational and financial disciplines by taking timely measures to increase efficiency while satisfying all key objectives of its stakeholders.

The integrated poultry business of the Group operates under three main business segments namely, Milling and farming, Poultry breeding and commercial and Other segment. All three segments, individually and as a single integrated poultry business, provided valuable contribution to the remarkable performance of the Group.

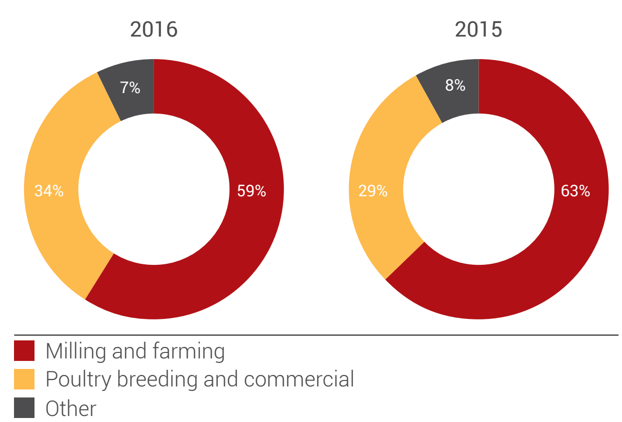
Revenue	2016 (Rs. Million)	2015 (Rs. Million)
Milling and farming	14,010	13,450
Poultry breeding and commercial	2,545	2,089
Other	133	105



Profit for the year	2016 (Rs. Million)	2015 (Rs. Million)
Milling and farming	818	615
Poultry breeding and commercial	813	551
Other	52	25



Asset Base	2016 (Rs. Million)	2015 (Rs. Million)
Milling and farming	5,198	4,708
Poultry breeding and commercial	2,980	2,140
Other	616	581



Sector Review (Contd.)

Milling and farming

Being one of the core operating segments of the Group, Milling and farming is comprised of milling of poultry and other animal feeds operation, and chicken processing operation. The segment contributes 84%, 49% and 59% of Group revenue, profit after tax and assets base respectively.

As the preliminary component in the poultry integration process, feed milling operation warrants a higher consideration in the Group's concern towards maintaining quality. These operations directly impact the performance of rest of the poultry integration process including the end product of chicken meat and table eggs. The Group therefore strives to adhere to the highest standards in its feed operations within the company as well as with regard to the quality of the raw materials and labour force.

Maintaining effective feed formulation with available raw materials was key to the success of the segment while improving quality of the feed. Maize, the main ingredient of feed production plays a major role with regard to the cost and quality of the feed. However, during the period under review the supply of local Maize and its quality were not sufficient to the industry requirements which lead to the increase in Maize purchase prices. As there is restriction on import of Maize and difficulty in obtaining permits, the Group had to adopt substitute materials despite the higher associated costs. These factors caused self mixtures to move into main producers and accordingly resulted a steady demand for feed during the entire year.

Farming of live birds and the Chicken processing operation also contributed significantly to segmental performance despite many challenges due to global and local economic and climatic conditions. Farming of live birds were affected by the increase in material cost, utility expenses and adverse climatic changes. Ultimately, the cost of live birds increased but recovered from as a result of the revised MRP of end product of Chicken. However, the increase in VAT rate from 11% to 15% adversely affected the margin of chicken segment at the end quarter of the year as MRP was not shifted accordingly.

The segment recorded strong performances during the year with the Group's Milling and farming segment posting revenue of Rs. 14.0 Billion, as compared with Rs. 13.5 Billion in 2015. Improved turnover in the Milling segment supported notable improvements to bottom-line performance, with the segment's profits expanding from Rs. 614.7 Million to its present levels of Rs. 818.0 Million at the end of 2016. A total of Rs. 5.2 Billion of the total assets of the Group is made up by the Milling and farming segment contributing 2.7 times of its assets turnover.

Figure - Key Indicators and contribution

(Rs. Million)	2016	2015		Change
Revenue*	14,010	13,450	↑	560
EBIT	821	702	↑	119
PBT	968	713	↑	255
PAT	818	615	↑	203
TA	5,198	4,708	↑	490
TL	1,861	2,126	↓	(265)

* Revenue includes inter-company sales

Poultry Breeding and Commercial

Poultry breeding and commercial segment is considered as the second largest core operating segment of the Group where contributing 15%, 48% and 34% of Group revenue, profit after tax and assets base respectively. The segment includes breeding, hatching and sale of commercial layer and broiler day old chicks (DOC) by operating breeder farming facilities and operating commercial broiler farms.

The segment primarily focuses on live products such as producing DOCs and growing of broiler chicken to the milling and farming segment of the Group. Accordingly, segment divided into two sub segments named breeder farming and commercial farming.

Breeder farming focus on production of quality day old chicks (DOC) via sophisticated breeder farming facilities such as modern hatchery facilities and sourcing branded high quality grandparent and parent birds. CGE subsidiary, Three Acre Farms PLC (TAF) holds valuable sole franchise for Indian River Broiler Parent birds and also holds franchise for Hy-Line Layer Parent birds producing commercial broiler DOCs for chicken farming and Layer DOCs for produce table eggs.

During the period in review, the demand for the commercial DOCs has gone up as a result of increased demand for chicken and table eggs. However, the restrictions on import of parent birds due to the expand of Avian Flu across the globe affected the commercial DOC supply to the market resulting an increase in cost of production. Further, the segment was able to find demand for Parent DOCs in the South Asian regional countries during the year and also contribute to the segment results.

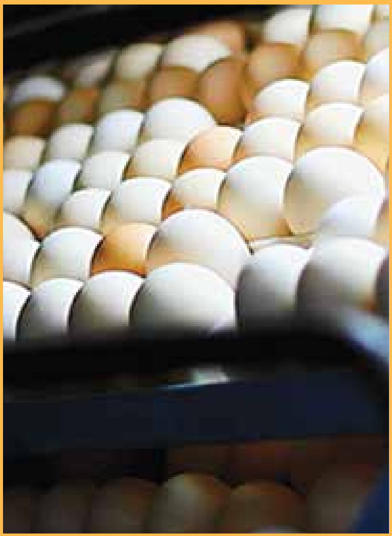
The commercial farming of the segment provide contract-grower farming facilities to the Group, which has been upgraded to the latest technology of environmentally controlled housing concept which also highly preserve the bio-security inside farming facilities. Environmentally controlled houses are capable of increased operational performance in terms of mortality rate and productivity. Hence, commercial farming segment was able to report valuable contribution to the Group despite the adverse climatic change.

The poultry breeding and commercial segment generated strong performances during the year, with revenues increasing from Rs. 2.09 Billion in 2015, up to Rs. 2.55 Billion during the period in review. Profitability within the segment also posted significant increases during the period in review, driven in part by significant improvements to operational efficiency. Total profits in the segment at the end of 2016 stood at Rs. 812.8 Million, as compared with Rs. 550.6 Million in the previous year. The Asset base of the segment amounted to Rs. 3.0 Billion consuming 34% of the Group's Total Assets, despite a marginal decrease of 0.13 times of assets turnover compared to the previous year.

Figure - Key Indicators and contribution

(Rs. Million)	2016	2015		Change
Revenue*	2,545	2,089	↑	456
EBIT	931	618	↑	313
PBT	932	603	↑	329
PAT	813	551	↑	262
TA	2,980	2,140	↑	840
TL	582	506	↑	76

* Revenue includes inter-company sales




Sector Review (Contd.)

Others

In addition to the improved performances across its core operating segments, the Group also continued to record increased contributions from its other revenue generating activities such as the renting of warehouse storage space, the supply of specialised equipment and the supply of drugs and vaccines to the poultry industry which covered all the aspects of integrated poultry business.

The Group also carried out a business of renting-out warehouse space under its Silo and Warehouse Complex segment which preserves the quality of key raw materials while storing it in order to ensure the quality of poultry feed production. As a result, the Group also enjoys a distinct advantage in the purchase of bulk material thereby enabling a better price advantage. Additionally, by outsourcing its excess storage facilities to third party sources, the Group was able to further augment its revenue streams.

The revenue posted from the segment amounted Rs. 133.2 Million, as compared with Rs. 105.3 Million in the previous year, recording a significant 26% YoY increase mainly led by warehouse renting operations. Notably, the segment recorded a profit after tax of Rs. 52.3 Million contributing 3% of the Group's profit for the year in review. The segment's asset base stood at Rs. 616.2 Million resulting in a marginal improvement over its performance in the previous year when the segment's asset base was recorded at Rs. 580.8 Million which was around 7% of the total assets of the Group

Figure - Key Indicators and contribution

(Rs. Million)	2016	2015		Change
Revenue*	133	105	↑	28
EBIT	59	21	↑	38
PBT	60	33	↑	27
PAT	52	25	↑	27
TA	616	581	↑	35
TL	141	154	↓	(13)

**Revenue Includes inter-company sales*



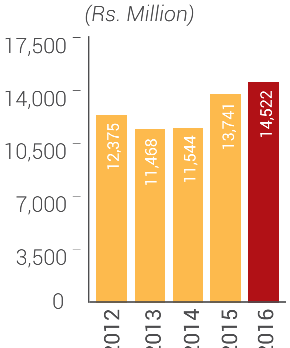

Financial Review

Revenue

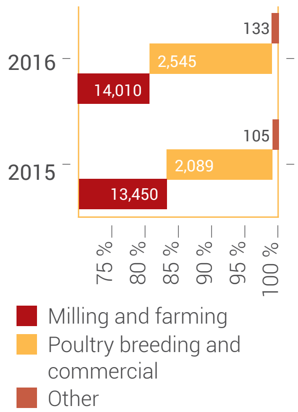
The Group posted revenue growth of 6% YoY to conclude the year with a revenue of Rs. 14.52 Billion(Rs. 13.74 Billion in 2015) primarily led by contributions from feed milling and breeder farming operations. Demand for the end product of Chicken meat and table eggs continued to grow at a stable rate leading to positive results despite adverse climatic conditions prevalent during the year in review.

Group revenue is a composition of three main business segments namely Milling and farming, Poultry breeding and commercial and Others such as the sale of drugs and vaccines and providing storage facilities. Milling and farming segment contributed 84% of the Group revenue while 15% contribution was provided by the poultry breeder and commercial segment and the remaining 1% from others segment.

Revenue
(Rs. Million)



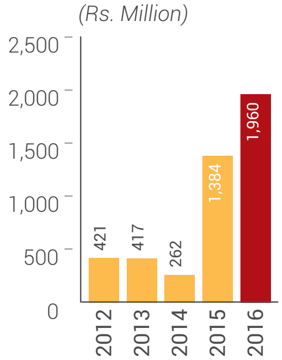
Group Revenue Composition



Gross Profit

During the year under review, the gross profit of the Group posted 30% YoY notable growth amounting Rs. 2.31 Billion, as compared with Rs. 1.78 Billion in the previous year. Gross Profit Margin of the Group improved to 16% as against 13% in the previous year, reflecting improvements in internal efficiencies and the scale of economies in the production process.

Operating profit
(Rs. Million)



Other Income

Other income of the Group mainly comprises of the interest income, fair value gain or loss on biological assets and other sundry income earned during the year. Interest income during this period amounted to Rs. 151.2 Million, against Rs. 27. 3 Million earned in 2015 in line with improved operational cash flows, while fair value loss on biological assets amounting to Rs. 16.2 Million against fair value gain of Rs. 25.5 Million reported in previous year.

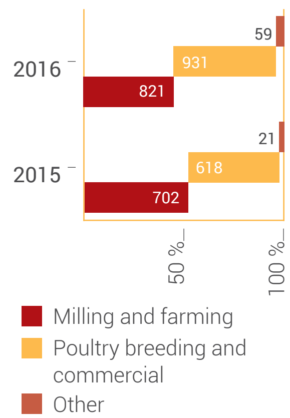
Collectively, other income for the period recorded a drastic growth of 148% YoY during this time, contributing Rs. 164.7 million to overall performance, resulting in substantial improvements to the Group's operating profits which stood at Rs. 1.96 Billion during the period in review, representing a 42% YoY improvement over the previous year.

Further details on Other Income can be found in the Note 8 - Other Income to the Financial Statements.

Earnings before Interest and Tax (EBIT)

Group's EBIT increased by significant 35%YoY to Rs.1.81 Billion compared to Rs. 1.34 Billion in 2015 driven by steady demand during the year, improved operational efficiencies, despite an increase in VAT rate from 11% to 15% during the year. The composition of the EBIT has been changed as a result of noteworthy improvements in poultry breeding and commercial segments which lead by improved demand for commercial DOCs and operational efficiencies.

Group EBIT Composition



Net Finance Cost

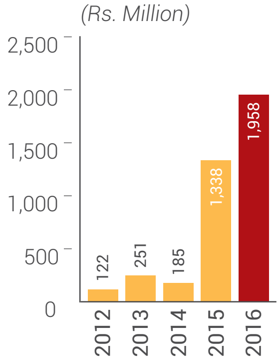
The Group's net finance expense position also recorded highly commendable improvements during the year, largely due to the Group's lessor borrowings exposure and the decrease in LKR depreciation during the year compared to the previous year by approximately 50%. Hence, the Group was able to reduce net finance expenses down to Rs. 8.5 Million, amounting to a 85% YoY reduction over 2015's results.

During this period, the Group's exchange losses were notably cut from Rs. 25.5 Million down to Rs. 6.21 Million while interest

Financial Review (Contd.)

expense on bank borrowings decreased from Rs. 30.5 Million to Rs. 2.3 Million.

Profit before tax
(Rs. Million)



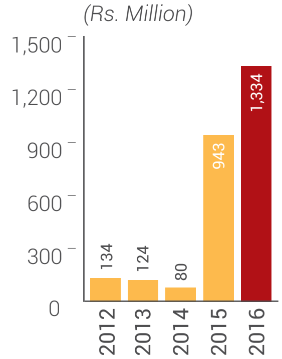
Taxation

Taxation of the Group was Rs. 276.7 Million as against Rs. 159.1 Million in 2015. Taxes paid to the Government increased from Rs. 5.1 Million up to Rs. 14.0 Million during the year under review. Income tax expense of the Group increased from Rs. 83.4 Million to Rs. 184.6 Million. The current year income tax expense on ordinary activities of both Group and Company has grown due to the increase in profit from ordinary business.

Profit for the year

Bolstered by exceptional performances across its core business operations, Ceylon Grain Elevators PLC was once again able to surpass its previous year's performance to post its best financial results on record in the form of a 46% YoY increase in profits before tax up to Rs. 1.96 Billion. Similarly, Profit After Tax for the period increased to Rs. 1.68 Billion, reflecting a 43% YoY improvement over the Group's previous record-breaking performance in 2015. Profit attributable to the equity holders of the parent stood Rs. 1.33 Billion for the period in review, compared to the Rs. 0.94 Billion reported in previous year.

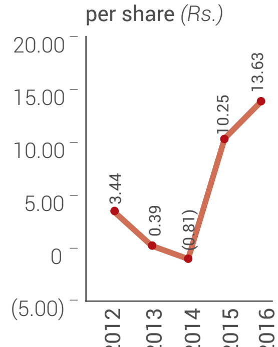
Profit after tax
(Rs. Million)



Earnings Per Share (EPS)

Consequently, the Company was able to once again deliver substantial value to its shareholders, having posted earnings per share of Rs. 13.63 in 2016, as compared with the previous year's earnings per share of Rs. 10.25.

Company Basic Earnings /(loss) per share *(Rs.)*



Price Earnings Ratio

The price-to-earnings ratio of the Company as at 31 December 2016 was 6.08 times against 8.94 times as at 31 December 2015. During the period under review, the Company's share price ranged between Rs. 55.00 and Rs. 98.40, closing the year at Rs. 82.90.

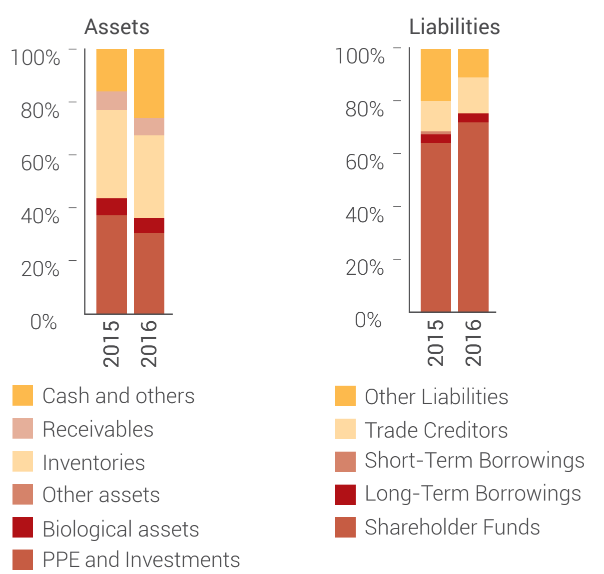
Dividend

Company paid a First and Final dividend of Rs. 1.10 per share amounting to Rs. 66 Million during the year in respect of the year ended 31 December 2015. The Directors has proposed a First and Final dividend of Rs. 2.50 per share amounting to Rs. 150 Million for the year ended 31 December 2016 subject to the shareholder approval at the Annual General Meeting. The Company has access to necessary funds to finance the payment of the final dividend.

Solvency

In accordance with the section 56 of the Companies Act No. 07 of 2007, the Board of Directors has carried out solvency test in respect of approving First and Final Dividend of Rs. 2.50 for the financial year 2016 and satisfied that the Company is solvent after paying of said dividend amount. This has been certified by the chartered accountants Messrs KPMG and issued a certificate of solvency in favour of payment of Dividends .

Financial Position Structure

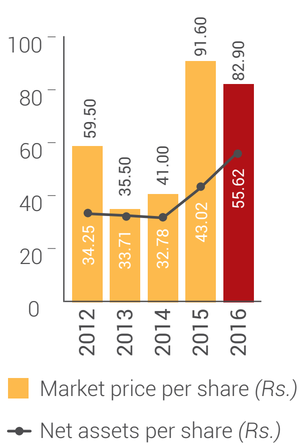


Asset Base

Improved performances across all aspects of the business supported a continued expansion of Group's asset base, which stood at Rs. 8.45 Billion as at 31 December 2016, as compared with Rs. 6.98 Billion in the previous year. By maintaining a strong asset base with the aim of maximising the shareholder wealth, the Group was able to establish its position in the industry among its competitors. Net assets per share expanded from Rs. 63.24 up to Rs. 84.44 per share establishing the financial solidity of the Group.

Total current assets of the Group amounted to Rs. 5.39 Billion during the year under review compared to Rs. 3. 94 Billion in the previous year, the primary cause behind the increase of 37% was the improved cash and cash equivalent position of the Group which was amounted Rs. 2.19 Billion (Rs. 1.03 Billion in 2015). Hence, the Group was able to maintain a steady current ratio of 2.60 times during the year compared to 1.75 times in the preceding.

Company Net Assets Per Share Vs. Market Price Per Share



Shareholders' Funds

The Group's total equity attributable to shareholders also posted similar improvements, expanding to Rs. 5.07 Billion from a previous Rs. 3.79 Billion which is a significant hike of 34% YoY primarily led by the improved profitability of the Group. The Company total equity increased by Rs. 755.7 Million over the previous year to Rs. 3.34 Billion.

Total Liabilities

Total liabilities of the Group marginally decreased by 5% to reach Rs. 2.35 Billion (Rs. 2.48 Billion in 2015) while the company total liabilities decreased by 12% to reach Rs. 1.86 Billion (Rs. 2.13 Billion in 2015) which was primarily led by an effective management of working capital during the year.

Cash Flow

The Group's cash and cash equivalents increased to Rs. 2.19 Billion by the end of the year with an increase in cash and cash equivalents during the year by Rs. 1.16 Billion. The Group net cash generated from operating activities during the year amounted to Rs. 1.92 Billion compared to Rs. 2.80 Billion in 2015. This is attributable to increase in level of inventories during the year and the effects of the working capital cycle. Net cash used in investing activities amounted Rs. 679.1 Million (Rs. 501.6 Million in 2015) mainly due to increase in purchases of biological assets and property, plant and equipment. The Group was able to settle its total interest bearing borrowings in previous year and accordingly, the net cash used in financing activities decreased to Rs. 87.2 Million during the year compared to Rs. 1,116.7 Million in 2015.

Even though we've led the fray in the feed and poultry industry for many decades, we will not rest in achieving new levels of quality and excellence.

Sustainability Review

Our Philosophy

Ceylon Grain Elevators PLC (CGE) is centered on values which promote good governance, transparency and sustainability across its business operations. Standing as the dominant leader in the Sri Lankan poultry industry, the Group is always cognizant of its responsibility to set industry standards and lead by example through the adoption and refinement of efficiency and sustainability related best practices at every level of the organisation.

Such initiatives are implemented following extensive feasibility analysis coupled with continuous stakeholder engagements aimed at ensuring that the operations of the Group are conducted in a manner that is mutually beneficial to all stakeholders – from investors, employees and customers to communities across the island. In that regard, the Group remains deeply committed to optimising its reporting standards in order to further develop on its policy of open communication on its economic, social and environmental impacts and the numerous initiatives taken during each calendar year to drive consistent improvements to standards and practices across each of these aspects, through the continuous internalisation of sustainable business practices and values across the organisational hierarchy.

By cultivating such meaningful relationships, the Group continues to benefit from catering to the requirements of the strongest customer base in the domestic market. Additionally, CGE has continued to secure reliable suppliers to provide the highest-quality inputs for the Group's operations, while ensuring minimal negative impacts to the Group's varied stakeholder groups, and to the environment and rich biodiversity of Sri Lanka.

Sustainable value creation

Value creation for all stakeholder groups is the driving force behind CGE's sustainability framework. The first step in this process commences with the clear and systematic categorisation of Group initiatives in order to provide a clearer understanding of its economic, environmental, and social impacts and the measures taken to mitigate such impacts while strengthening the Group's stewardship role with respect to sustainability in both the feed milling and poultry industries, thus maximizing value to shareholders and internal and external stakeholders over the short-medium term. In this manner CGE, diligently works to ensure the long-term interests of each stakeholder group is met, through a process of continuous evaluation and action.

In that regard, stakeholder feedback continues to be a vital aspect of the Group's sustainability framework, and CGE works closely with its customers, suppliers, and with communities in proximity to the Group's network of operations in order to develop strategies that generate sustainable value. CGE's approach to sustainability is also holistic in nature, and to that extent, the sphere of influence of each of the Group's activities tends to overlap with other sustainability related criteria as follows:

Economic Sustainability → Environmental Sustainability → Social Sustainability → Employee welfare → Product Responsibility

Economic Sustainability

CGE considers economic sustainability as the first step towards achieving sustainability across all other aspects of its operations. Hence, the Group aims to firstly ensure that its business operations continue to function in a manner which ensures the continued profitability of CGE over the short-medium term and most importantly over the long-term. The Group continues to maintain a dominant

market leadership position in the feed milling industry, providing the majority of feed requirements to the country's growing poultry and livestock industry. Similarly, the Group also maintains market leadership in the domestic commercial Layer and Broiler DOC market.

This unmatched leadership position has enabled the Group to forge long-standing relationships with customers and suppliers based on mutual trust and respect. CGE continues to leverage on the strength of these relationships to secure long-term contracts with its customers, thus promoting a higher level of certainty across the supply chain and providing substantial buffers against macro-economic, market, and industry volatility.

In addition to cultivating transparent and open stakeholder relationships, the Group continuously strives to refine internal processes in order to promote a higher degree of efficiency and cost optimisation across the business, and among its subsidiaries, through the adoption of new technologies and growth-oriented strategies. The Group operates across clearly defined key performance targets which are regularly evaluated while the Group's senior Management is required to conduct regular meetings in order to determine the reasons for shortcomings in performance, if any, and direct its teams of employees to take corrective action to mitigate such shortcomings in future.

The Group strives to instill a performance-driven culture among its teams of employees, rewarding and grooming its best performers while taking appropriate remedial action in order to inspire optimal performance out of its team of employees. Similarly Corporate Governance and Risk Management are also a vital aspect of the Group's planning activities.

Environmental sustainability

In addition to ensuring the long-term economic viability of the Group, CGE also remains cognisant of the fundamental importance of its commitments toward protection and preservation of the environment from direct and indirect results of its operation. In this regard, the Group also maintains a sincere commitment towards general advocacy for practices that serve to preserve the integrity of Sri Lanka's environment, in addition to its role in leading the feed milling and poultry industry, and its related industries in the fields of environmental best practices.

The Group's efforts to promote environmental sustainability are primarily related to the efficient use and sustainable use of natural resources and basic inputs for its operations while striving to maintain stringent compliance with all applicable domestic environmental regulations.

Water and waste management

The Group's operations are designed to optimize usage of water across the production process. Similar efforts are also dedicated towards treatment and responsible disposal of effluents, generated through the production process without damage to the environment.

Further initiatives were also taken to optimise water usage with a view towards reducing its dependency on the national water supply. Moving forward, the Group aims to further bolster its water conservation initiatives through the implementation of rainwater harvesting.

The Group adheres to a standardised process of waste disposal across its primary operations in feed milling, and with regard to its subsidiary's poultry operations which are maintained in strictest conformity with all applicable Central Environmental Authority (CEA) standards. The Group has also adopted independent standardised protocols aimed at further minimising the environmental impact of its operations; including the operations of its water treatment plant, rendering plant and other investments in gully bowsers. Additionally, CGE, through its subsidiary companies also encourages the conversion and utilisation of poultry waste as

Sustainability Review (Contd.)

a natural source of fertiliser, which is recycled at all of the Group's farms and distributed to farmers in close proximity.

Energy optimisation

All of the Group's production facilities operate in accordance with a rigid maintenance schedule in order to ensure optimal efficiency of plant and equipment, thereby reducing energy consumption to optimal levels. During the year in review, the Group continued to acquire and install new equipment with a view to further optimising operational efficiency across the production process, thereby reducing the Group's energy requirements from the national grid.

Additionally, The Group conducts periodic energy audits in order to identify areas where waste can be reduced and efficiencies enhanced. In that regard, the Group's efforts to install energy efficient LED lighting as a substitute to traditional incandescent lighting, while also re-designing its production facilitates to make maximum usage of natural lighting wherever possible, has already yielded immense energy savings for the Group, and these savings continue to be reflected in overall improvements to the Group's operating costs.

Notably, the Group plans to carry out strategic investments to develop clean, renewable, sustainable energy capacity to supplement production. During the period in review, the Group evaluated proposals for the installation of renewable energy capacity within CGE, TAF and its other subsidiaries, with a view to reducing its dependence on non-renewable energy drawn from the grid while also serving as a positive example among its industry peers.

Social sustainability

Responsible a vibrant community outreach and investment continues to be a pillar of the Group's Corporate Social Responsibility (CSR) strategy. Through these stakeholder engagements, the Group aims to continuously improve its understanding of the needs of communities situated in proximity to the operations of CGE and its subsidiary, Three Acre Farms PLC (TAF) During the year in review, the Group maintained its investments into rural empowerment including programmes to rehabilitate and expand road networks in rural communities in addition to providing further support to facilitate the hosting of celebrations marking the Sinhala and Tamil New Year, Wesak, and other important events. Similarly, the Group also maintained its sponsorship of under-15 inter school cricket tournaments with a view to supporting and developing the talents of young children while instilling in them values of sportsmanship and fair play.

Additionally, the Group also sponsored programmes to train undergraduates in the practical workings of the feed milling and poultry industry, in order to support the development of the country's next generation of agricultural specialists and also with a view to refining and attracting new talent into the organisation.

During the year in review CGE, in concert with TAF, conducted several workshops to educate farmers, breeders and related stakeholders across the island on best practices and techniques that will improve their productivity and generate substantial improvements to their overall earnings potential over the medium term.

As noted in our Chairman's and CEO's reviews for the year, intense flooding that took place created serious disruptions to the safety, and livelihoods of Sri Lankans from across the island. Responding to these emergency conditions, the Group's employee's rallied together with corporates and fellow citizens across the island to gather and distribute vital supplies to distressed communities in the form of food, clothing, dry rations and clean drinking water. Drastic volatility in weather patterns over the course of 2016 also resulted in parts of the island suffering intense drought towards the latter half of the year. As with its response to flooding in the early part of the year, the Group also worked to gather and distribute similar relief supplies to drought stricken areas of the country during the year in review.

Group Overview and Executive Reviews
Governance Reports
Management Discussion and Analysis
Financial Statements
Investor Highlights and Information

Employee welfare

CGE's highly committed workforce remains as one of its strongest assets and the Group therefore places substantial emphasis on ensuring healthy labour relations and an open, transparent, and performance driven organisational culture. Training and development is consequently a top priority for CGE and its subsidiaries with employees being provided extensive internal and external training aimed at further enhancing core competencies and facilitating the adoption of international best practices in production, quality and bio security.

In that regard, the health and safety of its employees working both in the Group's factories and its farms, is also a top priority for Ceylon Grain Elevators and employees are therefore provided extensive training on safety practices, and proper handling of hazardous material and equipment while the Group continues to operate a strict, standardised set of safety protocols across its operations. Similarly the Group also ensures that its employees are provided with all necessary insurance coverage. Consequently, during the year in review, the Group was once again able to achieve another year without any notable incidents of breaches of workplace safety.

The Group lends extensive support to employees seeking to develop their own potential through the achievement of academic and professional qualifications. Additionally, the Group's employees are also able to gain invaluable exposure to international best practices through CGE's relationship to the Prima Group. Staff retention rates and turnover rates were maintained at optimal levels during the year. As part of its commitment towards cultivating a performance driven culture, the Group continues to conduct annual performance evaluations aimed at providing management with better understanding of overall performances within the Group as well as highlighting the efforts of the Group's most motivated employees subsequently followed by attractive increments, promotions and other benefits.

Product responsibility

Given CGE's leading role in the Sri Lankan market, the Group is unreservedly committed towards ensuring the highest quality and safety standards of its products from manufacturing to distribution. The Group strives to ensure that its products are all times safe for our customers, and for the end consumer.

Focusing on end product of poultry industry, chicken meat and table eggs, CGE strives to use only the recommended and quality verified raw materials for feed production in order to safeguard end consumers while absorbing additional cost of maintaining the same standards. Supporting with the same concept, the Group holds valuable sole franchise for world highest quality Indian River Broiler Parent birds and franchise for Hy-line Layer Parent birds to produce commercial DOCs.

In addition to the above, the Group engage a group of veternity doctors in order to facilitate and educate the farmers to produce healthy and quality end products as a privilege service. Also the Group employs nearest advance technology and continues research and laboratory checkups in order to secure the product quality and ultimately consumers.

CGE leads its industry in terms of quality, safety and hygiene, having maintained compliance with international and domestic quality standards including accreditations for ISO 9001 - 2008 and HACCP certification while also achieving strict conformity with international safety and manufacturing standards including those stipulated in the Animal Feeds Act.

Furthermore, the Group conducts regular quality audits and checkups undertaken by highly qualified professionals utilising advanced laboratory equipment and testing procedures throughout the year in order to ensure that its products are keeping with its quality commitments, and in alignment with the trusted legacy of Ceylon Grain Elevators PLC.

Enterprise Risk Management Review

Overview

Every entity exists to provide value for its stakeholders, despite facing many uncertainties in today's unstable business environment, both in terms of risks and opportunities with the potential to weaken or enhance value to stakeholders. Therefore it is a key responsibility of the Group's Management, to analyse and respond to uncertainty in order to achieve greater value.

'Enterprise Risk Management' (ERM), is the process which has been adopted across the entire Group of Ceylon Grain Elevators, by the Management in strategy setting of which has designed to identify potential events that may affect the entity and manage risks within the company's risk appetite (i.e. the amount of risk an entity is willing to accept). Hence, ERM provides a reasonable assurance regarding the achievement of entity's objectives.

Risk management includes identifying, evaluating and managing the risks across the organisation to support achievement of financial, operational and social objectives. With the view of managing risks, Ceylon Grain Elevators has identified following sub objectives to enhance the risk culture of the Group.

- create an environment promoting sustainable long term growth in the entity;
- articulate a clear policy and deploy effective and efficient processes on risk management;
- clearly define roles and responsibilities for managing risks across the entity;
- create a risk awareness culture by informing, training and motivating employees to consider risks within their day-to-day business activities and decision making;
- deploy an effective project management processes and controls across all business lines.

Risk management roles and responsibilities

The Board

The Board has the overall responsibility for risk management as an essential part of their corporate governance responsibilities. Hence they are delegated the functions of identifying potential risks and appropriate actions are taken on timely basis. Further, they have created a risk awareness culture within the Group, where everyone gets involved in effective risk management process within their capacity. Additionally, the Board;

- determine the Group's risk appetite;
- monitors risks;
- formulates appropriate strategies, policies and procedures on risk management and internal controls

Audit Committee

The Audit Committee plays a vital role in risk management of the Group, which is responsible for monitoring and supervising risk identification and management. They are mainly responsible for;

- monitoring overall exposure to risk and ensures that these risks are within the limit (risk appetite) set by the Board;
- assessing the effectiveness of risk management system of the entity and internal controls;
- providing warnings in advance to the Board on emerging risk issues and significant changes to the company's exposure to risks.

Senior Management

Senior Management of the Group deliver their responsibilities in the following manner;

- communicating risk management policies and procedures to the employees and proving guidance on the same;
- implementation of risk management strategies within the Group;
- deliver required information to the Board on potential risks and their impact on the business.

Employees

Among all of the above parties, employees of the oraganisation play a key role in ERM while achieving organisation overall objectives. They are responsible for;

- following risk management procedures established by the Management;
- alert on conditions and events that may arise unfavorable results to the organisation;
- report on failure of existing risk controls.

Risk awareness culture in CGE

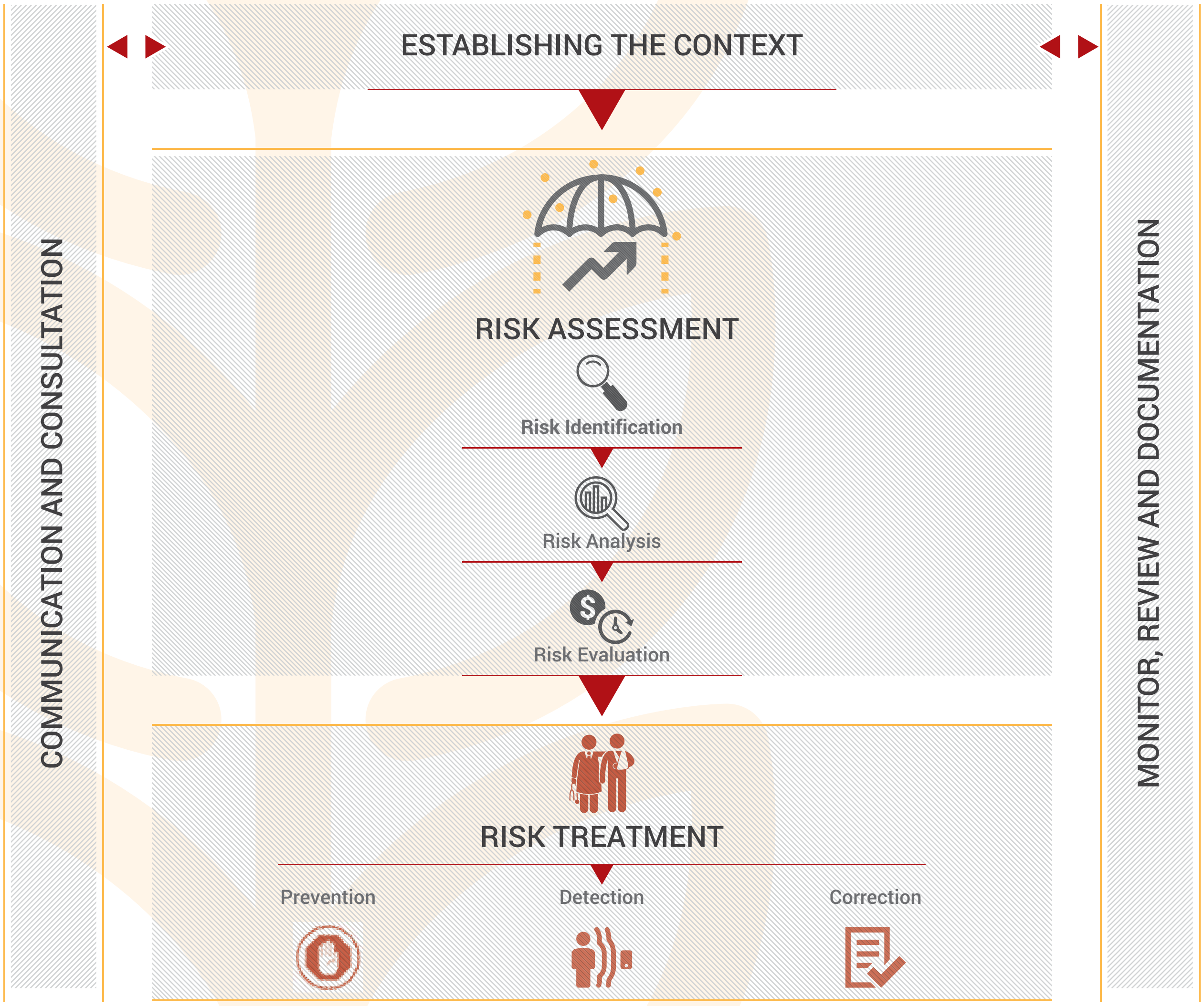
People cannot be expected to avoid risks if they are not aware of and educated on risks. Therefore, embedding the Risk Management Framework into oragaisation culture plays a vital role and it should be communicated to all the levels across the entity, on what the risk management philosophy is and what is expected from the organisation's people.

Accordingly, risk management process is driven through a combination of a 'top-down' (driven by the Board) and 'bottom-up' (originating from business unit level) approaches where people are educated through numerous ways such as;

- discuss risks and risk responses with employees;
- induction session for new employees;
- consult employees with higher management on appropriate when new risk events are identified;
- regularly communicate ERM policies, procedures and standards across the entity;
- conducting awareness workshop and training on risk management to enhance the understanding and given them a stake in the risk management of the entity.

Risk Management Framework (RMFW)

CGE as a business operates in the poultry industry, exposed to myriad of risks and uncertainties in doing their business operation. In order to overcome these risks, the management has developed a Risk Management Framework, which facilitates the management to identify all potential risks related to Environment, Business, Operation and product and evaluates the impact on the business by considering both financial and non financial factors and apply strategies to overcome the threat of those risks while assisting them to make proactive decisions.



Enterprise Risk Management Review (Contd.)

The RMFW emphasises the importance of proper management and the company's system of internal controls that implement the policies, procedures, processes and systems to monitor, detect, correct, prevent and report matters relating to the continued effectiveness of the framework.

The risk management process identifies risks, evaluates them by mapping them and assessing the potential impact and identifies mitigating action following a rigorous review and monitoring process. All potential risks are identified in the process which enables CGE to take necessary precautionary actions accordingly. The impacts of such identified risks are assessed in terms of potential loss or damage.

Risk Categorisation

CGE Group involves in a diverse range of business activities which relate to the livestock industry spanning across different market segments and geographical locations. Hence the risk relating to the business could be broadly categorised as follows;

Environment Related

- Exchange rate fluctuations
- Competition
- Laws and regulations
- Environmental issues

Business Related

- Market demand for Day Old Chicks (DOC)
- Procurement and supply chain

Operational Related

- Credit Risk
- Human capital and Labour
- Major breakdowns
- Information technology

Product Related

- Product quality
- Outbreak of diseases

Environment Related

The businesses of CGE are affected by the micro and macro environment factors which arise both favorable and unfavorable results to the Company. The following are the key risk factors and the strategies adopted by the management to mitigate the potential impact.

Exchange Rate Risk

Since the Group regularly imports a large percentage of raw materials it incurs a sizeable volume of payments in foreign currency denominations. If there is a decline in the rate for the Sri Lankan Rupee against such foreign currencies, it will result in an increase in raw material price which would consequently affect the sales margins and increase the debt burden in rupee terms. In the current context, as the Sri Lankan rupee has been set to free float by the government, adverse impacts are expected and precautionary strategies are put into effect.

Strategies

- raw material price fluctuations in the international market are inbuilt in the selling price of the Group's products in the local market. This provides a natural hedge against changes in global prices and fluctuations in the value of the rupee.
- effective treasury operation with active monitoring of market together with real time decision making on bill settlements.

Competition

Competitive Risk arises when customers purchase competitive or alternative products due to variations in the product offering. The Group recognises the importance of sustaining mutually beneficial relationships with its customers, poultry farmers, dealers and out-growers. Providing customers with quality products as and when they require it, is the cornerstone of customer satisfaction. Should the Group fail to do so, they run the risk of losing valuable market share and consequently incurring a financial loss.

Strategies

- monitoring competitor activity and performance continuously and ensure the Group's competitiveness is maintained.
- close monitoring of customer requirements and ensure company's products are matching with both the customer and market needs.
- provide technological knowledge to farmers to ensure the quality of the products and guiding them in setting up farm infrastructure and keeping them updated with the latest rearing techniques.
- obtaining customer feedback on future needs, follow social and cultural trends that influence customer demand and focus on building customer loyalty to ensure the continuation of repeat purchasing trends.
- capture information on product returns, customer complaint indices, the number of interactions between the Group and its customers, the churn rate among the top 20 % of its customers and revenue growth factors among targeted customer groups and regularly measured in order to gauge the progress in managing these risks effectively.

Laws and regulations

This risk is associated with the changes that take place in Government policies, laws, regulations and statutes.

Strategies

- keeps updated on all changes that take place to the regulatory framework and ensures the Company is always in compliance with such requirements.
- works in a collaborative manner with trade associations, the All Island Poultry Association as well as other Trade Chambers that are a part of advising and assisting the regulatory bodies on developing and adjusting regulations and maintains cordial relationships with these regulatory bodies.

Enterprise Risk Management Review (Contd.)

Environmental Issues

The risk of environmental issues arise mainly through setting up of houses and factory building on farm lands, flowing out of waste to the environment and consumption of energy by CGE farms.

Strategies

- educating of farm staff on good management practices on environment protection and ensuring that poultry litter is not disposed of in an open environment.
- providing equipment for the disposal of solid waste and guidance on storing of waste under a sheltered space in the farm premises and disposing in an appropriate manner.
- provides comprehensive information on steps that should be taken to keeping poultry litter dry at all times along with awareness of cleanliness and good housekeeping practices that should always be followed.

Business Related

Agricultural business, by its nature, faces many uncertainties. Change in one factor may affect to the core business of the entity. The management of CGE is fully aware about the nature of business through the experience that they have accumulated during the last few decades. The following are the key risk factors that affect CGE's business continuity and the risk mitigating strategies implement by the Company.

Market demand for DOC

This is the risk of having unsold DOC owing to the drop in demand in the market as DOC cannot be kept for more than a day.

Strategies

- ensuring that there is no unnecessary culling of DOC owing to decreased demand by keeping abreast of market trends.
- foreseeing market demand for DOC and minimising the risk of having unsold DOC. In the event of an unforeseen drop in demand, required measures will be taken by the management to ensure the continued quality and adherence to company policies and product regulations.

Procurement and supply chain

This refers to the risk of lack of availability for high quality raw material in sufficient quantity, at the required time and at the correct price. Any shortfall in supply could stall the Group's ability to fulfill customer demands that in turn would reflect negatively on the bottom line.

These risks include but are not limited to the enforcement of a new CESS while the RM shipments are in transit, the local Maize being of insufficient quantity and quality, along with restrictions on imported Maize and substitutes, restrictions on the import of drugs and vaccines, receiving contaminated cargo, export restrictions on feed raw materials from India and key DOC importation countries being affected with Avian influenza and other diseases.

Strategies

- having multiple sources (both locally and internationally) to obtain raw materials and DOC while developing new suppliers in the loss of key suppliers or when they unable to deliver their products on time.
- developing long term relationships with its suppliers to gain influence and thereby enters into contractual agreements with them.
- maintaining appropriate inventory levels with sufficient lead time and will turn to the closest substitute in case of a shortage of any raw material.
- following strict measures in compliance with its Quality Management Systems to handle contaminated cargo.
- taking steps to permit the relevant authorities to take the required action to permit the import of Genetically Modified Foods and/or promote the cultivation of Soya in Sri Lanka in the case of a shortage of feed row materials.

Operational Related

An efficient, smooth and trouble free operation enables an organisation to be successful in the business and capture available market opportunities. Specially, in the business of agriculture, CGE has identified the importance of smooth operations in its day to day business. Accordingly, the following points are identified as key operational risks associated with these activities and risk mitigating strategies thereon.

Credit risk	Strategies
The Credit risk is the risk of financial losses that could arise owing to the unwillingness or the inability of counter parties to meet their financial obligations on time and in full when they fall due.	• providing discounts for cash purchases and hence encouraging customers to purchase goods on cash basis. • periodical analysis of trade receivables to understand the composition, aging and collecting of debt on time to avoid receivables being unpaid. • carrying out credit checks on potential customers before granting credit facilities. • closely monitoring of all credit sales by the Finance and Sales Divisions to ensure that repayment is made on due dates and future sales are made on outstanding value. • review of the credit approval process of the Group by the Internal Auditors. • regular reviews of Securities and collateral provided by Out Grower customers on Out Grower scheme. Further, it also ensures that the Out Grower Farmers receive a fair and sustainable Rearing Fee with a good extension of services to increase their productivity since a fair Out Grower Scheme is vital for the Company and its operation.

Human capital and labour	Strategies
This concerns the loss of talented employees and having to undergo an unpleasant environment owing to strained labor relations.	• provision of comprehensive career development programme for its staff, that helps employees to discover and fulfill their greatest potential in this manner, improve their performance while gaining job satisfaction. • providing staff with the required know-how, training and development and appropriate skills to achieve their personal development. • providing performance based advancement opportunities and attractive financial and performance based incentives which are in line with or above the industry standards. • providing an attractive living facility and a conducive environment on all its farms. • maintaining a strong relationship with all its employees by means of regular dialogue and discussion with them. • ensuring the compliance with all regulatory requirements concerning benefits accruing to employees.

Enterprise Risk Management Review (Contd.)

Major breakdown	Strategies
This refers to the risk of a major breakdown at the Poultry Processing plant and Feed Milling plant.	• continually maintaining a buffer stock of a minimum of one week's market demand of processed chicken for any breakdown at the Poultry Processing Plant. • running of a secondary feed milling plant with increased production capacity and mitigating any risk in the event of any breakdown in the main feed milling plant.

Information technology risk	Strategies
IT Risk is that which is associated with computer security hardware, software and the failing of other information technology systems which causes a disruption to the business operations of the organisation.	• implemented a carefully planned strategy for the complete securing of information technology security infrastructure throughout the entire organisation. • following up of recovery strategies, data back-ups stored at off-site locations, regular updating of virus scanners and firewalls, maintenance of spare servers and other critical ICT components, along with regular IT audits to ensure compliance relevant to the security infrastructure.

Product Related

Our range of products, their uniqueness and quality are the main priorities given by CGE to hold its market leadership over the past decades. To be competitive with its competitors and maintain customer satisfaction, CGE has highly focused on the following key risk indicators and the strategies of mitigating those risks.

Product quality	Strategies
Risks arise when there is a decrease in quality of the products owing to a default in the machinery, equipment, production or storing process. Product quality of the processed chicken may arise due to a default in the machinery or equipment. Commercial DOC may be affected by the quality of its grandparents or quality of its feed usage. Feed quality is measured based on the output it creates.	• regular upgrades to the plant's underperforming equipments with modern versions while replacing poultry equipment with new technology to achieve the desired quality of processed chicken. • established an exclusive long term relationship with its suppliers to obtain upgraded healthy grandparents to produce quality commercial DOC. • Feed productions continuously checked for the standard quality batch wise, in addition to the test on the input of raw materials and experimental farm tests.

Outbreak of disease	Strategies
Any outbreak of communicable animal diseases could result in great losses to the flock of poultry within a very short period of time. In recent times the chances of the Avian Flu being passed on to humans has also caused serious concerns about consuming poultry products.	• providing proper training to farmers and out growers with regard to identifying and controlling disease outbreaks. • offering other necessary services such as veterinary aid to ensure the general health of the animals. These timely actions have proved to be invaluable to both farmer and the Group by monitoring the development of the birds and mitigating the risk of disease. • regular reviews the Bio Security practices and policies. • ensuring environmental safety standards and sustainability practices are adhered to at the event of starting a new farm. • using the most updated vaccines and medicines that are most effective in disease control that help in preventing disease outbreaks. • constantly reviewing and improving of farm management practices, especially in the areas such as administration of vaccines and medicaments etc. • ensuring proper housing considering animal welfare and minimised stress to the birds. • following feed formulation strategies focuses on building the health of the birds with the aim of better hygiene while providing wholesome poultry products to consumers.

Outlook

Anticipated improvements to Sri Lanka's growth trajectory are expected to boost general performance across all business sectors in 2017. These improvements will be further supported by a projected increase in external sector performances, and bolstered by greater foreign inflows, including inflows of debt-related capital sourced from institutions including the IMF. Inflows to the Government will continue in the form of foreign project loans and through the issuance of international sovereign bonds. Sri Lanka will also continue to receive the remaining tranches under the IMF-EFF upon the successful meeting of performance targets. Such funds will play a vital role in supporting Sri Lanka's balance of payments position and strength the Rupee against US Dollar. The improvement of external sector buffers through the expected higher foreign currency inflows with non-debt creating flows, such as export earnings and FDI, will result in increased resiliency for the Sri Lankan economy. If these improvements can be implemented during the year, it will have a positive impact on for Sri Lanka's growth outlook.

However, sluggish global growth and continuation of weak global demand, possible increases to oil prices, expected rate hike in the US dollar and weaker growth in FDI and workers' remittances remain as downside risks to the envisaged path of external sector developments.

Further, Sri Lanka is in the process of obtaining concessional market access opportunities to the USA, China and Singapore through preferential trade agreements. It is expected that the country will also be able to secure concessional access for selected products to the EU market under the GSP+ facility in the near future. There would be a windows of opportunity for the poultry producers in Sri Lanka to step into the said markets under the concessionary and qualitative conditions as Sri Lanka is free from Avian flu. This will enable domestic producers to improve efficiency, expand the industry and improve job opportunities in relation to the wide range of sectors.

The ban of fish exports for Sri Lanka by the EU had an impact to the poultry industry as fish is the main protein rich substitute product for the chicken meat. The removal of the fish ban by the EU for Sri Lankan fish exports with effect from mid-2016 would also increase earnings from fish exports, thus supporting a revival, in not only one agricultural subsector but likely driving improvements to the poultry industry as well.

Inflationary pressure is expected to continue at a moderate pace in the coming year. Meanwhile, per capita income, reached US$ 3,286 in 2012, is projected to continue its growth in the coming years. Per capita income surpassed US$ 3,637.5 during the year, is forecasted to comfortably improve into upper-middle-income status, crossing US$ 5,500 over the next three years. Such improvements will drive major improvements to the average standard of living in Sri Lanka, and with it, an increased demand for poultry and livestock products. This is a field in which CGE is deeply engaged in, with long term ambitions of achieving complete vertical integration in the sector, ultimately reaching the point where the Group can effectively compete at the regional level.

In terms of challenges specific to the feed milling industry, the lack of availability, affordable prices and high quality raw materials, including Maize, Rice and Rice products are expected to continue through the coming year. This will result in, further pressure on operating margins arising out of the industry's continued exposure to international commodity prices, given that raw material requirements continue to be supplemented by imports. Thus, self mixtures activities will be affected by these conditions and will depend on processors which lead to steady demand for the poultry products in forthcoming year.

Dependence of import of raw materials will expose the Group to the exchange rate fluctuations while potential increases in taxation could also drive further pressure against the Group's bottom-line. Meanwhile, new entrants to the domestic market may result in marginal pressure on revenue.

In the case of the chicken market, the primary challenge to further expansion of revenue is the on-going surplus supply of chicken meat to the domestic market, which may constrain demand resulting over the short to medium term. From a production standpoint, the Group anticipates that difficulties in sourcing skilled labour and increasing wage rates will result in marginal increases to the Group's administrative costs for this segment over the coming year. However, the Group strive to implement brand marketing initiatives to improve product awareness, especially via social media networks and other direct engagement with the general public.

Production of DOCs is also expected to be mildly constrained by heat stress, which could have a negative impact on the average weight and yield of DOCs while restrictions on imports of Grand Parent and Parent Stocks are also expected to continue due to the on-going outbreak of avian flu in the industry's traditional supplier markets.

Overall, the Group anticipates that demographic and macroeconomic trends will place CGE on an extended positive growth trajectory over the short, medium and long term. While CGE will continue to carefully monitor the performance of exchange rates and their impact on import of raw materials, taking all necessary measures to mitigate the impacts of such fluctuation where possible, the Company will also continue to place greater emphasis on its policy of driving further optimisation of internal efficiencies with a view to reducing total costs. The management of the company also believes that improving the most vital resources of CGE, as measured by its key performance indicators, will enable the Group achieve greater success. In that regard, CGE continues to maintain a stringent commitment towards the quality of its products, food safety, cost management, technological adaptability, and an equal commitment to values of transparency and good governance with a view to further strengthening the ironclad reputation of the Group.

During the year in review, CGE channeled significant investments into the enhancement of fuel effectiveness and efficiency of boilers at its feed mill. Similar resources are also being channeled toward the construction of a high-tech experimental farm to carry out feed trials as part of continuous strategy of research and development. The Group also implemented initiatives to improve energy consumption at its main plants while installing new blast freezers to further enhance the capacity and quality of chicken storage. In addition to concerted improvements to bio-security across all of its main facilities, CGE also invested in environment controlled (EC) houses for its commercial farms.

CGE's investment strategy is also expected to continue at a steady pace over the coming year, including further improvements to the quality and capacity of the Group's storage facilities while establishing more Modern Breeder Farms with EC Houses and hatcheries in order to drive further improvements to DOC production capacity, increase yields and strengthen bio-security standards.

Subsequent to the year in review, CGE purchased a poultry processing plant on first month of year 2017 which has been previously rented by the Prima Group company, Ceylon Agro-Industries Limited to enhance the productivity and improve the value added product innovation to meet consumer requirement.

Looking ahead, the Group also plans to expand its commercial farming capacity in the coming year. As the dominant market leader in the industry, CGE also expects to benefit from expansions in capacity of its client base, which is also anticipated to positively impact demand for CGE products in the coming year, supporting the Group to sustain and further develop its growth momentum in 2017.

Formidable, unshaken and strengthened by the much valued asset of financial stability, we, like the silos that store our precious product, possess the fortitude to create significant development in the economy.

Financial Calendar

Financial Year Ended	**31 December 2016**

Results Announcements to the Colombo Stock Exchange

1st Quarter End	**31 March 2016**
Publication of Interim Financial Statement	5 May 2016
2nd Quarter End	**30 June 2016**
Publication of Interim Financial Statement	3 August 2016
3rd Quarter End	**30 September 2016**
Publication of Interim Financial Statement	10 November 2016
4th Quarter End	**31 December 2016**
Publication of Interim Financial Statement	24 January 2017

Publication of Annual Report 2015	27 April 2016
Publication of Annual Report 2016	6 April 2017

Meetings

33rd Annual General Meeting	19 May 2016
34th Annual General Meeting	3 May 2017

Financial Reports

Financial Statements

Investor Highlights and Information

Report of the Board of Directors on the State of Affairs of the Company

The Board of Directors is pleased to present their Report and the Audited Financial Statements of the Company for the year ended 31 December 2016. The details set out herein provide pertinent information required by the Companies Act No. 07 of 2007, Listing Rules issued by the Colombo Stock Exchange and are guided by recommended best accounting practices.

1. Principal Activities

The principal businesses of the Group are manufacturing and selling of poultry feed and other animal feed, importing and selling of poultry equipment, drugs and vaccines, operating of poultry breeder farms, raising grandparent and parent stock and hatcheries, hatching and selling of day old chicks, operation of commercial farms, poultry processing and distribution and provision of warehouse facilities.

2. Review of Performance for the year ended 31 December 2016 and Future Developments

A review of the Company's performance during the year, with comments on financial results for the year ended 31 December 2016 and future developments are contained in the Chairman's Message (pages 16 to 17) and Chief Executive Officer's Review (pages 18 to 21). These reports, together with the financial statements reflect the state of affairs of the Company.

3. Financial Statements

The financial statements of the Company are given on pages 84 to 130.

4. Independent Auditors' Report

The Independent Auditors' Report on the financial statements is given on page 83.

5. Accounting Policies

The accounting policies adopted in preparation of financial statements are given on pages 88 to 97. There were no material changes in the accounting policies adopted.

6. Interest Register

The Company maintains an Interest Register and the particulars of those Directors who were directly or indirectly interested in a contract of the Company are stated therein.

7. Directors' Interest

None of the Directors had a direct or indirect interest in any contracts or proposed contracts with the Company other than as disclosed in Note 32 – Related Party Transactions to the financial statements.

8. Directors' Remuneration and Other Benefits

Directors' remuneration in respect of the Company for the financial year ended 31 December 2016 is given in Note 32 - Related Party Transactions, to the financial statements.

9. Corporate Donations

Donations made by the Company amounted to Rs. 995,092/- (2015 - Rs. 757,272/-). No donations were made for political purposes.

10. Directorate

The names of the Directors who held office as at 31 December 2016 are given below.

Mr. Wickrema Senaka Weerasooria	- Non-Executive Independent Chairman
Mr. Cheng Chih Kwong, Primus	- Executive Director and Chief Executive Officer
Mr. Tan Beng Chuan	- Executive Director and Group General Manager
Mr. Cheng Eng Loong	- Non-Executive Director
Mr. Cheng Koh Chuen, Bernard	- Non-Executive Director
Mr. Sunil Karunanayake	- Non-Executive Independent Director

In accordance with the provisions of Article 87 of the Articles of Association of the Company, Mr. Sunil Karunanayake retires by rotation and being eligible offers himself for re-election.

A resolution for the re-appointment of Mr. Tan Beng Chuan, who is 70 years of age will be proposed at the Annual General Meeting in terms of Section 211 of the Companies Act No.07 of 2007. Mr. Tan Beng Chuan's appointment is recommended by the Directors.

11. Directors' Shareholdings

	Number of shares	
	As at 31/12/2016	As at 31/12/2015
Mr. Wickrema Senaka Weerasooria	2,800	2,800
Mr. Cheng Chih Kwong, Primus	397	397
Mr. Tan Beng Chuan	Nil	Nil
Mr. Cheng Koh Chuen, Bernard	Nil	Nil
Mr. Cheng Eng Loong	Nil	Nil
Mr. Sunil Karunanayake	Nil	Nil

Report of the Board of Directors on the State of Affairs of the Company (Contd.)

12. Auditors

The financial statements for the year ended 31 December 2016 have been audited by Messrs KPMG Chartered Accountants, who express their willingness to continue in office. In accordance with the Companies Act No.07 of 2007, a resolution relating to their re-appointment and authorising the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

The Auditors Messrs KPMG were paid Rs. 3,690,000 (2015 - Rs. 3,355,000) as audit fees by the Company. As far as the Directors are aware, the Auditors do not have any relationship (other than that of an Auditor) with the Company other than those disclosed above.

The Auditors also do not have any interest in the Company.

13. Group Turnover

Group Turnover amounted to Rs. 14,522 Million (2015 - Rs.13,741 Million).

14. Dividends

The Directors recommend a First and Final Dividend of Rs. 2.50 per share for the financial year ended 31 December 2016.

15. Investments

Details of investments held by the Company are disclosed in Note 15 – Investment in Associate Company and Note 16 – Investment In Subsidiary Companies, to the financial statements.

16. Intangible Assets

An analysis of the intangible assets of the Company, additions and amortisation charged during the year are set out in Note 14 – Intangible Assets, to the financial statements.

17. Property, Plant and Equipment

An analysis of the property, plant and equipment of the Company, additions and disposals made during the year and depreciation charged during the year are set out in Note 12 – Property, Plant and Equipment, to the financial statements.

18. Capital Commitments

Capital expenditure contracted for as at 31 December 2016 for which no provision has been made in the accounts are set out in Note 28 – Commitments, to the financial statements.

19. Stated Capital

The issued and fully paid up stated capital of the Company is Rs.1,017,996,000/- divided into 60,000,000 ordinary shares. There was no change in the stated capital of the Company during the year.

20. Reserves

Total reserves as at 31 December 2016 amounted to Rs. 2,319.0 Million (2015 – Rs. 1,563.3 Million). The movement of reserves is shown in the Consolidated Statement of Changes In Equity on page 86.

21. Events after the reporting period

No significant events have occurred after the reporting period other than those disclosed in Note 33 – Events After the Reporting Period to the financial statements.

22. Employment Policies

The Company identifies Human Resources as one of the most important factors bequeathing the survival and growth of the Company in the current competitive business environment. While appreciating and valuing the service of our employees, a greater effort is being made to hire the best talent from external sources, to bolster weak areas and continue to maintain the highest standards prevalent in the Industry. Human Resource Head Count is considered as a key indicator and recruitment is based on the annual manpower planning.

The Company provides equal opportunities. Greater emphasis is given to the areas of training, professional development and ethical business practices. All rewards and career opportunities are based on merit and on performance.

23. Taxation

The tax position of the Company is given in Note 10 – Taxation, to the financial statements.

24. Share Information

Information relating to earnings, dividend, market price, net assets per share and information on share trading is given on page 131.

Report of the Board of Directors on the State of Affairs of the Company (Contd.)

25. Disclosure as per CSE Rule No.7.6 (xi)

	2016 Rs. Cents	2015 Rs. Cents
Market price per share as at 31 December	82.90	91.60
Highest / lowest share price	98.40/55.00	120.00/35.50
Dividend per share (Proposed)	2.50	1.10
Earnings per share	13.63	10.25
Dividend payout ratio (%)	18.34	10.74
Net assets per share	55.62	43.02

26. Shareholding

The number of registered shareholders of the Company as at 31 December 2016 was 4,899. The distribution and analysis of shareholding are given on page 133.

27. Major Shareholders

The twenty largest shareholders of the Company as at 31 December 2016, together with an analysis are given on page 133.

28. Statutory Payments

The Directors to the best of their knowledge and belief are satisfied that all statutory payments in relation to the Government and the employees have been made on time.

29. Environment, Health and Safety

Company policy continues to ensure that all Environmental, Health and Safety regulations are strictly adhered to, minimising any adverse effects to the environment. Recycling of waste is carried out wherever possible. Employees are provided with all personal protective equipment as health and well being which are our prime concerns. Fire fighting and safety systems are in place to safeguard the Company interest. Plans are in progress to introduce emission free machinery for in-house operation to eliminate air pollution.

30. Corporate Governance / Internal Control

The Corporate Governance and internal Control Policies of the Company are given on pages 26 to 37.

31. Contingent Liabilities

Contingent Liabilities as at 31 December 2016 are set out in Note 27 – Contingent Liabilities to the financial statements.

32. Annual General Meeting

The 34th Annual General Meeting of the Company will be held at the Sri Lanka Foundation Institute Auditorium, No. 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo 7 on 3 May 2017 at 10.45 a.m.

By Order of the Board of
Ceylon Grain Elevators PLC

(Sgd.)
Wickrema Senaka Weerasooria
Non-Executive Independent Chairman

(Sgd.)
Cheng Chih Kwong, Primus
Executive Director and Chief Executive Officer

(Sgd.)
S S P Corporate Services (Private) Limited
Secretaries

Colombo, Sri Lanka
30 March 2017

Statement of the Directors' Responsibility

The responsibility of the Directors in relation to the financial statements of the Company and the Group is set out in the following statement. The responsibility of the auditors, in relation to the financial statements, is set out in their report appearing on page 83.

The Companies Act No. 07 of 2007 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss for that year.

In preparing these financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whatever applicable accounting standards have been followed, subject to any material departures and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to ensure that the financial statements comply with the Companies Act.

The Directors are also responsible for taking such steps as they deemed reasonable or required in order to safeguard the assets of the Company and the Group and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to prevent and detect fraud and other irregularities.

The Directors are required to prepare the financial statements to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections they may consider to be appropriate to enable them to express their audit opinion.

Compliance statement

The Directors are of the view that they have discharged their responsibilities as set out in this statement. They also confirm that to the best of their knowledge, all statutory payments payable by the Company and its subsidiaries as at the reporting date have been paid or where relevant, provided for.

By Order of the Board of
Ceylon Grain Elevators PLC

(Sgd.)
Wickrema Senaka Weerasooria
Non-Executive Independent Chairman

(Sgd.)
Cheng Chih Kwong, Primus
Executive Director and Chief Executive Officer

Colombo, Sri Lanka
30 March 2017

Independent Auditors' Report

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
+94 - 11 254 1249
+94 - 11 230 7345
Internet : www.lk.kpmg.com

TO THE SHAREHOLDERS OF CEYLON GRAIN ELEVATORS PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Ceylon Grain Elevators PLC, ("the Company"), and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information set out on pages 84 to 130.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

a) The basis of opinion and scope and limitations of the audit are as stated above.

b) In our opinion:

- We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company,
- The financial statements of the Company give a true and fair view of its financial position as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards,
- The financial statements of the Company, and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

KPMG

CHARTERED ACCOUNTANTS
Colombo, Sri Lanka
30 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

All amounts in Sri Lankan Rupees thousands

For the year ended 31 December

	NOTES	GROUP		COMPANY	
		2016	2015	2016	2015
Revenue	4	14,521,693	13,741,283	14,009,757	13,450,409
Cost of sales		(12,212,014)	(11,960,190)	(12,735,443)	(12,323,124)
Gross profit		2,309,679	1,781,093	1,274,314	1,127,285
Other income	8	164,690	66,454	189,330	69,336
Selling and distribution expenses		(197,277)	(187,379)	(185,245)	(181,670)
Administrative expenses		(316,652)	(276,282)	(302,398)	(260,531)
Operating profit	5	1,960,440	1,383,886	976,001	754,420
Net finance expenses	9	(8,526)	(55,969)	(8,425)	(40,987)
Share of profit of associate		6,494	9,919	-	-
Profit before tax		1,958,408	1,337,836	967,576	713,433
Taxation	10	(276,692)	(159,145)	(149,611)	(98,719)
Profit for the year		1,681,716	1,178,691	817,965	614,714
Other comprehensive income					
Actuarial gain / (loss) arising from defined benefit obligation - net of tax		4,936	(555)	3,738	(406)
Total comprehensive income for the year		**1,686,652**	**1,178,136**	**821,703**	**614,308**
Profit attributable to :					
Equity holders of the parent		1,333,909	943,067	817,965	614,714
Non-controlling interest		347,807	235,624	-	-
		1,681,716	**1,178,691**	**817,965**	**614,714**
Total comprehensive income attributable to :					
Equity holders of the parent		1,338,340	942,574	821,703	614,308
Non-controlling interest		348,312	235,562	-	-
		1,686,652	**1,178,136**	**821,703**	**614,308**
Basic earnings per share (Rs.)	11	22.23	15.72	13.63	10.25

The notes on pages 88 to 130 form an integral part of these consolidated financial statements.
Figures in brackets indicate deductions.

Consolidated Statement of Financial Position

All amounts in Sri Lankan Rupees thousands
As at 31 December

	NOTES	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
ASSETS					
Non-current assets					
Property, plant and equipment	12	2,338,482	2,398,503	446,299	415,656
Leasehold right over land and buildings	13	176,712	112,865	107,936	112,865
Intangible assets	14	45,821	58,924	45,821	58,924
Investment in associate company	15	24,145	18,652	33	33
Investment in subsidiary companies	16	-	-	330,920	353,730
Biological assets	17	473,534	439,170	-	-
Deferred tax assets	25	-	7,524	-	7,524
Total non - current assets		**3,058,694**	**3,035,638**	**931,009**	**948,732**
Current assets					
Biological assets	17	18,248	16,379	-	-
Inventories	19	2,624,655	2,317,978	2,552,310	2,241,694
Trade and other receivables	20	546,225	470,181	515,596	435,143
Amount due from related companies	18	-	-	39,591	114,202
Current tax receivable		11,686	25,921	7,469	7,469
Cash and cash equivalents	21	2,186,018	1,110,208	1,151,777	960,588
Total current assets		5,386,832	3,940,667	4,266,743	3,759,096
Total assets		**8,445,526**	**6,976,305**	**5,197,752**	**4,707,828**
EQUITY AND LIABILITIES					
Stated capital	29	1,017,996	1,017,996	1,017,996	1,017,996
Retained earnings		4,048,476	2,776,136	2,319,029	1,563,326
Total equity attributable to equity holders of the parent		5,066,472	3,794,132	3,337,025	2,581,322
Non - controlling interest	30	1,026,343	699,188	-	-
Total equity		6,092,815	4,493,320	3,337,025	2,581,322
Non-current liabilities					
Deferred tax liabilities	25	207,475	153,431	22,405	-
Employee benefits	26	76,970	75,278	57,753	57,474
Total non - current liabilities		284,445	228,709	80,158	57,474
Current liabilities					
Trade and other payables	22	1,168,230	798,669	878,416	608,459
Amount due to related companies	23	900,036	1,374,119	902,153	1,392,706
Interest bearing borrowings	24	-	81,488	-	67,867
Total current liabilities		2,068,266	2,254,276	1,780,569	2,069,032
Total liabilities		2,352,711	2,482,985	1,860,727	2,126,506
Total equity and liabilities		**8,445,526**	**6,976,305**	**5,197,752**	**4,707,828**

The notes on pages 88 to 130 form an integral part of these consolidated financial statements.
These financial statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

(sgd.)
K.A.R.S. Perera
General Manager

These financial statements were approved by the Board of Directors on 30 March 2017

(sgd.)
Wickrema Senaka Weerasooria
Non-Executive Independent Chairman

(sgd.)
Cheng Chih Kwong, Primus
Executive Director and Chief Executive Officer

Consolidated Statement of Changes in Equity

All amounts in Sri Lankan Rupees thousands
For the year ended 31 December

GROUP	Attributable to equity holders of the parent: Stated capital	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 1 January 2015	1,017,996	1,833,562	2,851,558	468,865	3,320,423
Profit for the year	-	943,067	943,067	235,624	1,178,691
Other comprehensive income					
Actuarial loss arising from defined benefit obligation	-	(493)	(493)	(62)	(555)
Dividend paid	-	-	-	(5,239)	(5,239)
Balance as at 31 December 2015	**1,017,996**	**2,776,136**	**3,794,132**	**699,188**	**4,493,320**
Balance as at 1 January 2016	1,017,996	2,776,136	3,794,132	699,188	4,493,320
Profit for the year	-	1,333,909	1,333,909	347,807	1,681,716
Other comprehensive income					
Actuarial gain arising from defined benefit obligation	-	4,431	4,431	505	4,936
Dividend paid	-	(66,000)	(66,000)	(21,157)	(87,157)
Balance as at 31 December 2016	**1,017,996**	**4,048,476**	**5,066,472**	**1,026,343**	**6,092,815**

COMPANY	Stated capital	Retained earnings	Total equity
Balance as at 1 January 2015	1,017,996	949,018	1,967,014
Profit for the year	-	614,714	614,714
Other comprehensive income			
Actuarial loss arising from defined benefit obligation	-	(406)	(406)
Balance as at 31 December 2015	**1,017,996**	**1,563,326**	**2,581,322**
Balance as at 1 January 2016	1,017,996	1,563,326	2,581,322
Profit for the year	-	817,965	817,965
Other comprehensive income			
Actuarial gain arising from defined benefit obligation	-	3,738	3,738
Dividend paid	-	(66,000)	(66,000)
Balance as at 31 December 2016	**1,017,996**	**2,319,029**	**3,337,025**

The notes on pages 88 to 130 form an integral part of these consolidated financial statements.

Figures in brackets indicate deductions.

Consolidated Statement of Cash Flows

All amounts in Sri Lankan Rupees thousands
For the year ended 31 December

	NOTES	GROUP		COMPANY	
		2016	2015	2016	2015
Operating activities					
Profit before tax		1,958,408	1,337,836	967,576	713,433
Adjustments					
Depreciation	12	197,661	175,461	71,032	59,464
Amortisation of leasehold right over land and building	13	4,929	4,928	4,929	4,928
Amortisation of intangible assets	14	13,103	13,104	13,103	13,104
Usage of biological assets	17	420,995	433,880	-	-
Loss on disposal of property, plant and equipment		224	1,714	222	528
Change in fair value less cost to sell on biological assets		16,235	(25,487)	-	-
Impairment provision on investment in subsidiaries		-	-	22,810	-
Impairment provision on amount due from related companies		-	-	1,995	-
Dividend income		-	-	(32,677)	(21,344)
Exchange loss	9	6,170	25,498	6,191	25,330
Interest income	8	(151,187)	(27,308)	(148,935)	(27,113)
Interest expense	9	2,356	30,471	2,234	15,657
Written off of doubtful debts		8,987	199	8,987	199
(Reversal) / provision of doubtful debts	5	(5,624)	30,929	(5,624)	31,301
(Reversal) / provision for slow moving and obsolete items		(458)	2,570	(1,006)	2,544
Share of profit of associate		(6,494)	(9,919)	-	-
Changes in working capital					
- trade and other receivables		(79,407)	54,811	(83,816)	4,091
- inventories		(306,219)	248,608	(309,610)	246,920
- trade and other payables		200,034	119,521	166,196	129,582
- amount due from related companies		-	-	72,616	439,353
- amount due to related companies		(474,083)	412,395	(490,553)	330,692
Employee benefits	26	16,422	12,510	12,576	9,480
Cash generated from operations		1,822,052	2,841,721	278,246	1,978,149
Exchange loss		(6,170)	(25,498)	(6,191)	(25,330)
Interest received		133,157	27,308	132,471	27,113
interest paid		(2,356)	(30,471)	(2,234)	(15,657)
Employee benefits paid		(9,117)	(2,947)	(8,016)	(2,016)
Tax paid		(14,009)	(5,144)	-	-
Net cash generated from operating activities		1,923,557	2,804,969	394,276	1,962,259
Investing activities					
Purchase of property, plant and equipment	12	(137,918)	(100,194)	(101,951)	(60,229)
Purchase of leasehold assets	13	(68,776)	-	-	-
Proceeds from disposal of property, plant and equipment		54	1,550	54	890
Proceeds from dividend income		1,001	10,300	32,677	21,344
Purchase of biological assets		(473,463)	(413,286)	-	-
Net cash used in investing activities		(679,102)	(501,630)	(69,220)	(37,995)
Financing activities					
Dividend paid		(87,157)	(5,239)	(66,000)	-
Net settlements		-	(1,111,500)	-	(896,500)
Net cash used in financing activities		(87,157)	(1,116,739)	(66,000)	(896,500)
Increase in cash and cash equivalents		1,157,298	1,186,600	259,056	1,027,764
Movements in cash and cash equivalents					
At the beginning of the year		1,028,720	(157,880)	892,721	(135,043)
Increase in cash and cash equivalents		1,157,298	1,186,600	259,056	1,027,764
Cash and cash equivalents as at 31 December	21 (a)	2,186,018	1,028,720	1,151,777	892,721

The notes on pages 88 to 130 form an integral part of these consolidated financial statements.
Figures in brackets indicate deductions.

Notes to the Consolidated Financial Statements

1. REPORTING ENTITY

1.1 General

Ceylon Grain Elevators PLC (the 'Company') is a "Quoted Public Company" with limited liability, incorporated and domiciled in Sri Lanka. The address of the Company's registered office is No.15, Rock House Lane, Colombo - 15, Sri Lanka. The consolidated financial statements of the Company as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries and the Group's interest in associate, listed below.

Subsidiaries

- Three Acre Farms PLC
- Millennium Multibreeder Farms (Private) Limited
- Ceylon Pioneer Poultry Breeders Limited
- Ceylon Livestock and Agrobusiness Services (Private) Limited
- Ceylon Warehouse Complex (Private) Limited
- Ceylon Aquatech (Private) Limited

Associate

Prima Management Services (Private) Limited

Ceylon Grain Elevators PLC (CGE) was incorporated in 1982, when the government of Sri Lanka and Prima Limited of Singapore signed an agreement. The Company was listed on the Colombo Stock Exchange on 01 January 1984. The ultimate Parent company Prima Limited, Singapore, holds 45.45% of the issued share capital of the Company.

1.2 Principal activities and nature of the operation

The principal businesses of the Group are manufacturing and selling of poultry feed and other animal feed, importing and selling of poultry equipment, drugs and vaccines, operating of poultry breeder farms, raising grandparent and parent stock and hatcheries, hatching and selling of day old chicks, operation of commercial farms, poultry processing and distribution and provision of warehouse facilities.

1.3 Number of employees

The average numbers of employees of the Group and the Company for the year are as follows:

Group

Full time	546 (2015 - 505)
Part time	692 (2015 - 763)

Company

Full time	341 (2015 - 316)
Part time	141 (2015 - 144)

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of the Company and those consolidated with such comprise the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows together with the accounting policies and notes to the financial statements. The consolidated financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS) as issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the requirements of the Companies Act No. 07 of 2007.

2.2 Approval of financial statements by Directors

The consolidated financial statements were authorised for issue by the Board of Directors on 30 March 2017.

2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except the valuation of retirement benefit obligation and valuation of biological assets which are disclosed in Note 26 - Employee Benefits and Note 17 - Biological Assets to the financial statements.

2.4 Functional and presentation currency

The consolidated financial statements are presented in Sri Lankan Rupees, which is the company's functional currency, rounded to the nearest thousand, unless otherwise stated.

2.5 Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with Sri Lanka Accounting Standards (SLFRS) require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Information about assumptions and estimation uncertainties and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

Notes to the Consolidated Financial Statements (Contd.)

- Note 3.4.7 - lease hold right classification
- Note 3.5 - intangible assets
- Note 3.6 - biological assets
- Note 3.8 - key assumptions used in discounted cash flow projections
- Note 3.9.3 - measurement of defined benefit obligation
- Notes 3.10 and 3.18 - provisions commitments and contingencies
- Note 3.13 - deferred taxation

2.6 Measurement of fair value

A number of the Group's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair value.

This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair value and reports directly to the management.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments.

If third party information, such as broker quotes or pricing services, is used to measure fair value, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group's Audit Committee.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised at its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair value is included in Note 17 -Biological Assets.

2.7 Materiality and aggregation

Each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately, unless they are immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

3.1 Basis of consolidation

3.1.1 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date - i.e. when control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. In assessing control, the Group also takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements (Contd.)

The consideration transferred does not include amounts related to the settlement of pre-existing relationships such amounts are generally recognised in profit or loss. Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

3.1.2 Non-controlling interest

The total profit and loss for the year of the Company and its subsidiaries included in consolidation are shown in the consolidated statement of profit or loss with the proportion of profit or loss after taxation pertaining to minority shareholders of subsidiaries being deducted as 'Non-controlling interest'. All assets and liabilities of the Company and of its subsidiaries included in consolidation are shown in the consolidated statement of financial position. The interest of minority shareholders of subsidiaries in the fair value of net assets of the Group are indicated separately in the consolidated statement of financial position under the heading 'Non-controlling interest'.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interest is based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in profit or loss.

3.1.3 Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences, until the date that control ceases.

3.1.4 Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interest and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss.

3.1.5 Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for under the equity method and are recognised initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

3.1.6 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Notes to the Consolidated Financial Statements (Contd.)

3.3 Financial instruments

3.3.1 Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available for sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognised in profit or loss.

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost, using the effective interest method, less any impairment losses.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, current tax receivables, amount due from related companies and trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

3.3.2 Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements (Contd.)

Other financial liabilities comprise loans and borrowings, debt securities issued, bank overdrafts, amount due to related companies and trade and other payables. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the statement of cash flows.

3.3.3 Stated capital

Ordinary shares

are classified as equity. As per the Companies Act No. 07 of 2007, section 58 (1), stated capital in relation to a Company means the total of all amounts received by the Company or due and payable to the Company in respect of the issue of shares and in respect of call in arrears.

3.4 Property, plant and equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period.

3.4.1 Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets include the cost of materials and direct labour, any other costs directly attributable to bringing the asset to the working condition for its intended use and the cost of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing cost. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

3.4.2 Gains and losses on disposal

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within 'other income / other expenses' in profit or loss.

3.4.3 Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

3.4.4 Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

3.4.5 Depreciation

Depreciation is based on the cost or other amount substituted for cost, less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. No depreciation is provided on assets under construction.

The estimated useful lives for the current and comparative years are as follows:

Freehold building	20 - 50 years
Plant and machinery	16 2/3 years
Electrical and factory equipment	2 - 5 - 10 - 20 years
Farm equipment	5 - 20 years
Furniture and fittings and office equipment	10 years
Motor vehicles	5 - 10 years

Notes to the Consolidated Financial Statements (Contd.)

Land is not depreciated as it is deemed to have indefinite life. Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held-for-sale and the date that the asset is derecognised. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

3.4.6 Capital work-in-progress

Capital expenses incurred during the year which are not completed as at the reporting date are shown as capital work-in-progress, while the capital assets which have been completed during the year and put to use are transferred to property, plant and equipment.

3.4.7 Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased assets are measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and any prepayments are recognised in the consolidated statement of financial position as lease hold rights. The leasehold rights under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

The cost of improvements to or on leased property is capitalised and depreciated over the unexpired period of the lease or the estimated useful lives of improvements, whichever is shorter.

3.5 Intangible assets

3.5.1 Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

3.5.2 Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands are recognised in profit or loss as incurred.

3.5.3 Amortisation

Amortisation is recognised in profit or loss on a straight- line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The estimated useful lives for the current and comparative years are as follows:

Computer software 10 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.6 Biological assets

A biological asset is a living animal. Biological assets consist of grandparent and parent livestock, used to breed Hatchable eggs and commercial Day Old Chicks. Grandparent and parent birds include the growing birds and the laying birds.

Consumable biological assets are those that are to be harvested as agricultural produce or sold as biological assets. Hatchable eggs and commercial Day Old Chicks have been identified as Consumable biological assets.

Bearer biological assets are those other than Consumable biological assets. Bearer biological assets are not agricultural produce but, rather, are self-regenerating.

Company has identified grandparent and parent and livestock as Bearer biological assets.

Biological assets are measured at fair value less cost to sell within any changes therein recognised in profit or loss for the period in which it arises.

3.7 Inventories

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Notes to the Consolidated Financial Statements (Contd.)

The general basis on which cost is determined is as follows:

a) All inventory items except finished goods and working progress at purchased cost.

b) Manufactured goods and work in progress at factory cost which include all direct expenditure and production overhead at normal level of activity.

3.8 Impairment

3.8.1 Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence: that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets measured at amortised cost

The Group considers evidence of impairment for financial assets measured at amortise cost (loans and receivables and held-to-maturity financial assets) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment.

Those found not to be specifically impaired are, then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are, collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Equity- accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

3.8.2 Non-financial assets

The carrying amounts of the Group's non-financial assets, other than biological assets, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-life intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount.

Notes to the Consolidated Financial Statements (Contd.)

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.9 Employee benefits

3.9.1 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.9.2 Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(a) Employees' Provident Fund

The Group and employees contribute 12% and 8%, respectively, on the salary of each employee to the Employees' Provident Fund (EPF).

(b) Employees' Trust Fund

The Group contributes 3% of the salary of each employee to the Employees' Trust Fund (ETF). The total amount recognised as an expense to the group for contribution to ETF is disclosed in the notes to financial statements.

3.9.3 Defined benefit plan - Gratuity

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted.

The calculation is performed annually by a qualified actuary using the Projected Unit Credit (PUC) method as recommended by LKAS 19 - 'Employee Benefits'. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognised in profit or loss on a straight- line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The assumptions based on which the results of actuarial valuation was determined, are included in Note 26 - Employee Benefits, to the financial statements.

The Company recognises all actuarial gains and losses arising from defined benefit plan immediately in other comprehensive income and all expenses related to defined benefit plan in employee benefit expense in profit or loss.

The Company recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, any related actuarial gains and losses and past service cost that had not previously been recognised. However, according to

Notes to the Consolidated Financial Statements (Contd.)

the Payment of Gratuity Act No.12 of 1983, the liability for the gratuity payment to an employee arises only on the completion of 5 years of continued service with the Company.

3.10 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow, of economic benefits will be required to settle the obligation.

3.11 Revenue recognition

Sale of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised. Revenue excludes value added taxes or other sales taxes.

Rental income

Rental income received or receivable in the course of ordinary activities is recognised as revenue in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Dividend income

Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Other income

Gains / losses on the disposal of investments held by the Group have been accounted for as other income in profit or loss.

Gains / losses on the disposal of property, plant and equipment determined by reference to the carrying amount and related expenses, have been accounted for as other income in profit or loss .

Finance income

Finance income comprises interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets and fair value gains on financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

3.12 Expenses

Operating lease payments

Where the Company has the use of assets under operating leases, payments made under the leases are recognised in the statement of profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of profit or loss as an integral part of the total lease expense over the term of the lease. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Finance cost

Finance costs comprise interest expense on borrowings, unwinding of discounts on provisions and losses on disposal of available-for-sale financial assets, fair value losses on financial assets at fair value through profit or loss and impairment losses recognised on financial assets (other than trade receivables).

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

3.13 Taxation

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, nor differences relating to investments in

Notes to the Consolidated Financial Statements (Contd.)

subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

The principal temporary differences arise from depreciation on property, plant and equipment, tax losses carried forward, biological assets and provisions for defined benefit obligations. Deferred tax assets relating to the carrying forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

3.14 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3.15 Basic earnings / (loss) per share

The Group presents basic earnings / (loss) per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

3.16 Events occurring after the Reporting Period

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

3.17 Comparative figures

Where necessary, the comparative figures have been reclassified to conform to the current year's presentation.

3.18 Commitments and contingencies

Contingencies are possible assets or obligations that arise from a past event and would be confirmed only on the occurrence or non-occurrence of uncertain future events, which are beyond the Company's control. Contingent liabilities are disclosed in Note 27 - Contingent Liabilities, to the financial statements. Commitments are disclosed in Note 28 - Commitments, to the financial statements.

3.19 New standards and interpretations not yet adopted

The following standard, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, and have not been applied in preparing these consolidated financial statements.

These includes;

SLFRS 9 - Financial Instruments

SLFRS 09 as issued reflects the replacement of LKAS 39 - Financial Instruments: Recognition and Measurement, and applies to the classification and measurement of financial assets and liabilities as defined in LKAS 39. This standard becomes effective for annual periods beginning on or after 1 January 2018.

SLFRS 15 - Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces the existing revenue recognition guidance including LKAS 18 Revenue and LKAS 11 Construction Contracts. SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

SLFRS 16 - Leases

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). SLFRS 16 is effective from 1 January 2019. A company can choose to apply SLFRS 16 before that date but only if it also applies SLFRS 15-Revenue from Contracts with Customers (which is effective from 01st January 2018). SLFRS 16 replaces the existing leases Standard, LKAS 17 Leases, and related interpretations, IFRIC 4 - Determining whether an Agreement contains a lease, SIC 15 - Operating Leases - Incentives and SIC 27 - Evaluating the Substance of Transactions Involving Legal form of a lease.

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
For the year ended 31 December

4. SEGMENT INFORMATION

(a) Business Segments

For the year ended 31 December 2016	Milling and farming	Poultry breeding and commercial	Others	Elimination / adjustment	Consolidated
Sales to outsiders	13,216,733	1,242,099	62,861	-	14,521,693
Inter segmental sales	793,024	1,303,224	70,379	(2,166,627)	-
Total revenue	14,009,757	2,545,323	133,240	(2,166,627)	14,521,693
Segment results	786,671	938,183	59,137	11,759	1,795,750
Net finance (expenses) / income	(8,425)	14	(115)	-	(8,526)
Other income /(expenses)	189,330	(5,709)	700	(19,631)	164,690
Share of profit of associate company	-	-	-	6,494	6,494
Profit before tax	967,576	932,488	59,722	(1,378)	1,958,408
Taxation	(149,611)	(119,665)	(7,416)	-	(276,692)
Profit for the year	**817,965**	**812,823**	**52,306**	**(1,378)**	**1,681,716**
Other comprehensive income					
Actuarial gain arising from defined benefit obligation - net of tax	3,738	1,180	18	-	4,936
Total comprehensive income for the year	**821,703**	**814,003**	**52,324**	**(1,378)**	**1,686,652**

For the year ended 31 December 2015	Milling and farming	Poultry breeding and commercial	Others	Elimination / adjustment	Consolidated
Sales to outsiders	12,691,437	999,912	49,934	-	13,741,283
Inter segmental sales	758,972	1,089,292	55,397	(1,903,661)	-
Total revenue	13,450,409	2,089,204	105,331	(1,903,661)	13,741,283
Segment results	685,084	590,901	33,684	7,763	1,317,432
Net finance expenses	(40,987)	(14,771)	(211)	-	(55,969)
Other income / (expenses)	69,336	27,005	(780)	(29,107)	66,454
Share of profit of associate company	-	-	-	9,919	9,919
Profit before tax	713,433	603,135	32,693	(11,425)	1,337,836
Taxation	(98,719)	(52,483)	(7,943)	-	(159,145)
Profit for the year	**614,714**	**550,652**	**24,750**	**(11,425)**	**1,178,691**
Other comprehensive income					
Actuarial loss arising from defined benefit obligation-net of tax	(406)	(146)	(3)	-	(555)
Total comprehensive income for the year	**614,308**	**550,506**	**24,747**	**(11,425)**	**1,178,136**

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December

4. SEGMENT INFORMATION (Contd.)

(b) Business segments

As at 31 December 2016	Milling and farming	Poultry breeding and commercial	Others	Elimination / adjustment	Consolidated
Segment assets	5,158,128	2,980,315	613,858	(330,920)	8,421,381
Associate	33	-	-	24,112	24,145
Inter segment assets	39,591	-	2,385	(41,976)	-
Total assets	5,197,752	2,980,315	616,243	(348,784)	8,445,526
Segment liabilities	1,860,727	441,821	52,280	-	2,354,828
Inter segment liabilities	-	139,939	88,332	(230,388)	(2,117)
Total liabilities	1,860,727	581,760	140,612	(230,388)	2,352,711
Capital expenditure	101,951	32,904	3,062	-	137,917
Depreciation / amortisation	71,032	107,948	18,681	-	197,661
Amortisation of intangible assets	13,103	-	-	-	13,103

As at 31 December 2015	Milling and farming	Poultry breeding and commercial	Others	Elimination / adjustment	Consolidated
Segment assets	4,593,593	2,140,270	577,520	(353,730)	6,957,653
Associate	33	-	-	18,619	18,652
Inter segment assets	114,202	-	3,237	(117,439)	-
Total assets	4,707,828	2,140,270	580,757	(452,550)	6,976,305
Segment liabilities	2,105,972	310,727	66,286	-	2,482,985
Inter segment liabilities	20,534	195,547	87,775	(303,856)	-
Total liabilities	2,126,506	506,274	154,061	(303,856)	2,482,985
Capital expenditure	60,229	39,130	835	-	100,194
Depreciation / amortisation	64,392	100,795	15,202	-	180,389
Amortisation of intangible assets	13,104	-	-	-	13,104

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
For the year ended 31 December

4. SEGMENT INFORMATION (Contd.)

(c) Business segments (Contd.)

The Group is organised into three main business segments:

- Milling and farming - milling of poultry feeds, other feeds and chicken farming.
- Poultry breeder and commercial - breeding of commercial Day Old Chicks and broiler farming.
- Others- rental and trading.

The business segments have been indentified based on business activity from which earn revenue incur expenses and for which discrete financial information are available.

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash and exclude investments in subsidiaries. Segment liabilities comprise current and non-current liabilities. Capital expenditure comprises additions to property, plant and equipment.

(d) Sales are made up as follows :

	Notes	GROUP		COMPANY	
		2016	**2015**	**2016**	**2015**
Milling and farming		16,070,235	15,240,306	16,070,235	15,240,306
Poultry breeding and commercial		2,867,186	2,325,937	-	-
Others		148,933	111,434	-	-
		19,086,354	17,677,677	16,070,235	15,240,306
Elimination / adjustment		(2,166,627)	(1,899,662)	-	-
		16,919,727	15,778,015	16,070,235	15,240,306
Sales taxes	4 (e)	(2,398,034)	(2,036,732)	(2,060,478)	(1,789,897)
		14,521,693	**13,741,283**	**14,009,757**	**13,450,409**

(e) Sales taxes

	Notes	GROUP		COMPANY	
		2016	**2015**	**2016**	**2015**
Nation Building Tax		313,143	286,623	299,000	275,216
Value Added Tax		2,084,891	1,750,109	1,761,478	1,514,681
		2,398,034	**2,036,732**	**2,060,478**	**1,789,897**

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
For the year ended 31 December

5. OPERATING PROFIT

The following items have been charged / (credited) in arriving at operating profit:

	Notes	GROUP		COMPANY	
		2016	2015	2016	2015
Directors' emoluments	32	2,400	2,400	1,200	1,200
Auditors' remuneration - Audit service		6,138	5,621	3,690	3,355
- Other services		280	220	60	-
Legal fees		10,181	6,077	10,041	5,546
Depreciation on property, plant and equipment	12	197,661	175,461	71,032	59,464
Amortisation of leasehold right over land and buildings	13	4,929	4,928	4,929	4,928
Amortisation of intangible assets	14	13,103	13,104	13,103	13,104
Usage of biological assets	17	420,995	433,880	-	-
(Reversal) / provision of doubtful debts		(5,624)	30,929	(5,624)	31,301
Operating lease rentals - property		75,813	77,123	63,813	65,123
Staff expenses	7	1,146,070	919,156	771,381	630,980

6. TEMPORARY CESSATION OF OPERATION

On 1 November 2004 the directors temporarily ceased the operation of breeding, hatching and growing of prawns and sea cucumber of Ceylon Aquatech (Private) Limited, a subsidiary of the Company.

The Management of the Company is of the view that the commercial operations of the Chilaw Farm could be recommenced. The assets and liabilities as at the reporting date of the division were as follows:

	As at 31 December	
	2016	2015
Property, plant and equipment	59,127	60,549
Total assets	59,226	60,637
Total liabilities	(88,520)	(87,917)
Net assets	**(29,294)**	**(27,280)**

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
For the year ended 31 December

7. STAFF EXPENSES

	Notes	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Salaries and wages		1,090,065	869,779	729,196	593,690
Social security costs		90	1,238	42	1,222
Defined contribution plans		39,493	35,629	29,567	26,588
Employee benefits	26	16,422	12,510	12,576	9,480
		1,146,070	919,156	771,381	630,980
The average number of employees per month during the year:					
- Full time		546	505	341	316
- Part time		692	763	141	144
		1,238	1,268	482	460

Part time employees include out source workers hired from third parties.

8. OTHER INCOME

	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Sundry income	29,962	15,373	32,745	21,407
Interest income	151,187	27,308	148,935	27,113
Dividend income	-	-	32,677	21,344
Impairment provision on investment in subsidiaries	-	-	(22,810)	-
Impairment provision on amount due from related companies	-	-	(1,995)	-
Change in fair value less cost to sell	(16,235)	25,487	-	-
Loss on disposal of property, plant and equipment	(224)	(1,714)	(222)	(528)
	164,690	**66,454**	**189,330**	**69,336**

9. NET FINANCE EXPENSES

	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Foreign exchange transaction losses	6,170	25,498	6,191	25,330
Interest expense on bank borrowings	2,356	30,471	2,234	15,657
	8,526	**55,969**	**8,425**	**40,987**

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
For the year ended 31 December

10. TAXATION

	Notes	GROUP		COMPANY	
		2016	2015	2016	2015
Current tax		184,617	83,479	116,957	47,100
Under provision		27,914	-	-	-
Dividend tax		3,268	-	3,268	-
Deferred tax charge	25	60,893	71,993	29,386	47,946
ESC write off		-	3,673	-	3,673
		276,692	159,145	149,611	98,719

COMPANY

The Company is liable to pay 10% and 12% as income tax on profits and income earned respectively from sale of chicken and feed for the year ended 31 December 2016.

The Company is liable to pay 28% as income tax on interest income and other income earned by the Company. The tax losses carry forward as of 31 December 2016 amounted to Rs. Nill (2015 - Rs. 75,361,009/-).

GROUP

Three Acre Farms PLC is liable to pay income tax at 10% on profits and income earned by the Company. The tax losses available to carry forward as of 31 December 2016 amounted to Rs. 8,403,718/- (2015 - Rs. 293,221,518/-).

Ceylon Livestock and Agrobusiness Services (Private) Limited is liable to pay income tax at 28% on the profits and income earned by the Company.

Ceylon Pioneer Poultry Breeders Limited is liable to pay income tax at 28% on the profits and income earned by the Company. The tax losses available to carry forward as of 31 December 2016 amounted to Rs. 225,066,173/- (2015 - Rs. 227,140,221/-).

Millennium Multibreeder Farms (Private) Limited is liable to pay income tax at 10% on the profits and income earned by the Company. The tax losses available to carry forward as of 31 December 2016 amounted to Rs. 19,524,169/- (2015 - Rs. 58,205,566/-).

Ceylon Aquatech (Private) Limited is liable to pay income tax at 12% on the profits and income earned by the Company. However, the tax losses available to carry forward as of 31 December 2016 amounted to Rs.19,795,874/- (2015 - Rs. 19,194,527/-).

Ceylon Warehouse Complex (Private) Limited is liable for income tax on the profits and income earned by the company at the rate of 10%.

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
For the year ended 31 December

10. TAXATION (Contd.)

Reconciliation of the accounting profit to income tax expense

The tax on the results of the Group's operation and the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	GROUP		COMPANY	
	2016	2015	2016	2015
Profit before tax	1,958,408	1,337,836	967,576	713,433
Share of profit of associate	(6,494)	(9,919)	-	-
	1,951,914	1,327,917	967,576	713,433
Add: disallowable expenses	748,168	721,177	168,300	163,219
Deduct: allowable expenses	(830,619)	(714,769)	(250,585)	(158,091)
Profit from trade or business	**1,869,463**	**1,334,325**	**885,291**	**718,561**
Add: interest income	149,319	29,883	148,889	29,872
Deduct: tax loss claimed	(400,934)	(471,959)	(75,361)	(261,951)
Deduct: qualifying payments	(64,412)	(123,398)	(37,911)	(36,824)
Taxable income	**1,553,436**	**768,851**	**920,908**	**449,658**
Income tax using the statutory corporation tax rate				
at 10%	89,726	81,804	25,141	47,100
at 12%	71,734	-	71,734	-
at 28%	23,157	1,675	20,082	-
Current tax	**184,617**	**83,479**	**116,957**	**47,100**
Under provision	27,914	-	-	-
Deferred tax charge	60,893	71,993	29,386	47,946
Dividend tax	3,268	-	3,268	-
ESC write off	-	3,673	-	3,673
	276,692	**159,145**	**149,611**	**98,719**

Further information about deferred tax is presented in Note 25 - Deferred Taxation.

11. BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of shares in outstanding during the year.

	GROUP		COMPANY	
	2016	2015	2016	2015
Net profit attributable to shareholders	1,333,909	943,067	817,965	614,714
Weighted average number of ordinary shares (thousands)	60,000	60,000	60,000	60,000
Basic earnings per share (Rs.)	22.23	15.72	13.63	10.25

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

12. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP	As at 01.01.2016	Additions / WIP transfer	Disposals/ write off	As at 31.12.2016
Cost				
Land	346,659	-	-	346,659
Building	1,145,664	11,893	-	1,157,557
Leasehold buildings and improvements	526,209	14,578	-	540,787
Plant and machinery, electrical and farm equipment	1,292,650	81,124	(2,516)	1,371,258
Furniture and fittings and office equipment	144,959	6,388	(527)	150,820
Motor vehicles	165,694	11,048	(2,978)	173,764
Capital work-in-progress	48,127	12,887	-	61,014
	3,669,962	**137,918**	**(6,021)**	**3,801,859**

	As at 01.01.2016	Charge for the year	Disposals/ write off	As at 31.12.2016
Depreciation				
Building	130,146	27,834	-	157,980
Leasehold buildings and improvements	188,462	12,687	-	201,149
Plant and machinery, electrical and farm equipment	771,717	109,711	(2,500)	878,928
Furniture and fittings and office equipment	103,251	10,921	(456)	113,716
Motor vehicles	77,883	36,508	(2,787)	111,604
	1,271,459	**197,661**	**(5,743)**	**1,463,377**

	As at 01.01.2016	As at 31.12.2016
Carrying amount		
Land	346,659	346,659
Building	1,015,518	999,577
Leasehold buildings and improvements	337,747	339,638
Plant and machinery, electrical and farm equipment	520,933	492,330
Furniture and fittings and office equipment	41,708	37,104
Motor vehicles	87,811	62,160
Capital work-in-progress	48,127	61,014
	2,398,503	**2,338,482**

Property, plant and equipment include fully depreciated assets, the cost of which as at 31 December 2016 amounted to Rs. 486,718,245 /- (2015 - Rs. 438,510,429/-).

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

12. PROPERTY, PLANT AND EQUIPMENT (Contd.)

(b) COMPANY	As at 01.01.2016	Additions / WIP transfer	Disposal / write off	As at 31.12.2016
Cost or Deemed Cost				
Land	40,314	-	-	40,314
Building	32,079	6,557	-	38,636
Leasehold buildings and improvements	-	14,578	-	14,578
Plant and machinery, electrical and farm equipment	477,078	54,920	(1,341)	530,657
Furniture and fittings and office equipment	135,673	6,097	(527)	141,243
Motor vehicles	77,638	9,397	(2,977)	84,058
Capital work-in-progress	32,374	10,402	-	42,776
	795,156	**101,951**	**(4,845)**	**892,262**

	As at 01.01.2016	Charge for the year	Disposal / write off	As at 31.12.2016
Depreciation				
Building	3,045	669	-	3,714
Leasehold buildings and improvements	-	179	-	179
Plant and machinery, electrical and farm equipment	241,590	43,618	(1,326)	283,882
Furniture and fittings and office equipment	94,289	10,870	(456)	104,703
Motor vehicles	40,576	15,696	(2,787)	53,485
	379,500	**71,032**	**(4,569)**	**445,963**

	As at 01.01.2016	As at 31.12.2016
Carrying amount		
Land	40,314	40,314
Building	29,034	34,922
Leasehold buildings and improvements	-	14,399
Plant and machinery, electrical and farm equipment	235,488	246,775
Furniture and fittings and office equipment	41,384	36,540
Motor vehicles	37,062	30,573
Capital work in progress	32,374	42,776
	415,656	**446,299**

Property, plant and equipment include fully depreciated assets, the cost of which as at 31 December 2016 amounted to Rs. 195,225,873/- (2015 - Rs. 164,714,997/-).

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees
As at 31 December 2016

12. PROPERTY, PLANT AND EQUIPMENT (Contd.)

(c) Freehold Land carried at cost:	Location	Land extent	Cost
Ceylon Grain Elevators PLC	Attanagalla farm, Attanagalla	12 A - 2 R - 15.7 P	40,314,000
			40,314,000
Three Acre Farms PLC	Meegoda farm, Meegoda	24 A - 0 R - 3.17 P	19,215,850
	Kosgama farm Aluthambalama, Kosgama	20 A - 3 R - 27.05 P	10,041,150
	Halwathura farm, Halwathura	54 A - 0 R - 3.76 P	29,796,324
	Bulathsinhala farm Agaloya, Bulathsinhala	60 A - 3 R - 27 P	56,045,250
	Hijra farm - A, Pagoda, Beruwala	41 A - 3 R - 13.42 P	41,034,200
	Hijra farm - B, Beruwala	8 A - 3 R - 3.71 P	74,829,300
	Makuluwatta farm, Waga	12 A - 2 R - 18.90 P	6,098,235
			237,060,309
Ceylon Pioneer Poultry Breeders Limited	Nillambe farm, Office Junction, Galaha	33 A - 0 R - 28.82 P	39,541,310
	Aswatta farm, Kosgama	5 A - 3 R - 18.19 P	7,522,838
	Wewelpanawa farm, Wewelpanawa	27 A - 3 R - 20.47 P	11,151,175
			58,215,323
Ceylon Aquatech (Private) Limited	Chilaw farm	49 A - 1 R - 18 P	11,068,865
			11,068,865
Total			**346,658,497**

The Group has done an assessment on the market value of land by an independent, professional valuer Mr.J.C Leuke Bandara Incorporated valuer (Graduate member of Institute of Valuers) and identified that there were no any substantial differences between the market value and the book value.

(d) Freehold building carried at cost:	Location	Number of Buildings	Cost
Ceylon Grain Elevators PLC	Attanagalla farm, Attanagalla	56	38,636,016
			38,636,016
Three Acre Farms PLC	Meegoda farm, Meegoda	75	174,495,552
	Kosgama farm Aluthambalama, Kosgama	52	57,741,461
	Halwathura farm, Halwathura	60	75,347,139
	Bulathsinhala farm Agaloya, Bulathsinhala	95	196,352,793
	Hijra farm - A, Pagoda, Beruwala	62	179,049,107
	Hijra farm - B, Beruwala	42	17,832,302
	Makuluwatta farm, Waga	36	69,447,700
			770,266,054
Ceylon Pioneer Poultry Breeders Limited	Nillambe farm, Office Junction, Galaha	15	9,619,730
	Aswatta farm, Kosgama	45	51,085,000
			60,704,730
Millennium Multibreeder Farms (Private) Limited	Wewelpanawa farm, Wewelpanawa	45	231,565,950
			231,565,950
Ceylon Aquatech (Private) Limited	Chilaw farm	32	56,384,600
			56,384,600
Total			**1,157,557,350**

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

13. LEASEHOLD RIGHT OVER LAND AND BUILDING

	GROUP		COMPANY	
	2016	**2015**	**2016**	**2015**
Balance at the beginning of the year	112,865	117,793	112,865	117,793
Addition during the year	68,776	-	-	-
Amortisation for the year	(4,929)	(4,928)	(4,929)	(4,928)
Balance at the end of the year	**176,712**	**112,865**	**107,936**	**112,865**

Company
The Company has an agreement to mortgage for Rs. 495 Million over leasehold land and building, plant, machinery and equipment at No.15, Rock House Lane, Colombo 15 as security for credit facilities.

The leasehold land and building are recognised as Operating Lease based on the substance of lease agreement.

The lease period of the leasehold land expired on 19 September 2012 and the Board of Directors have taken necessary action to renew the lease for a further period of 30 years.

Group
Three Acre Farms PLC entered into a 99 years lease agreement on Ittapana land and recognised as operating lease based on substance of lease agreement.

14. INTANGIBLE ASSETS

	GROUP		COMPANY	
	2016	**2015**	**2016**	**2015**
ERP Software				
Cost				
Balance at the beginning of the year	131,034	131,034	131,034	131,034
Additions during the year	-	-	-	-
Balance at the end of the year	**131,034**	**131,034**	**131,034**	**131,034**
Amortisation				
Balance at the beginning of the year	(72,110)	(59,006)	(72,110)	(59,006)
Amortisation for the year	(13,103)	(13,104)	(13,103)	(13,104)
Balance at the end of the year	(85,213)	(72,110)	(85,213)	(72,110)
Carrying amount	**45,821**	**58,924**	**45,821**	**58,924**

15. INVESTMENT IN ASSOCIATE COMPANY

Prima Management Services (Private) Limited is the only Associate of which the Group owns. It is one of the Group's strategic suppliers of provision of IT services and is principally engaged in the business of ICT solution and services for the Group. Prima Management Services (Private) Limited is not a listed entity.

	GROUP		COMPANY	
	2016	**2015**	**2016**	**2015**
Prima Management Services (Private) Limited	24,145	18,652	33	33
	24,145	**18,652**	**33**	**33**

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

15. INVESTMENT IN ASSOCIATE COMPANY (Contd.)

(a) Prima Management Services (Private) Limited

	GROUP	
	2016	2015
Balance at the beginning of the year	18,652	19,033
Share of profit after tax	6,494	9,919
(-) Share of dividend distributed	(1,001)	(10,300)
Balance at the end of the year	**24,145**	**18,652**

(b) Summarised financial information of Prima Management Services (Private) Limited

The following table summarises the financial information of Prima Management Services (Private) Limited as included in its own financial statements adjusted for fair value adjustments at the acquisition and differences in accounting policies. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in Prima Management Services (Private) Limited.

	GROUP	
Statement of financial position	2016	2015
Total assets	124,813	106,932
Total liabilities	(52,377)	(50,977)
Net assets	**72,436**	**55,955**
Statement of comprehensive income		
Revenue	234,783	175,876
Profit	**19,482**	**29,757**

(c) Share of profit of associate company

	Group's share of profit after tax	
	2016	2015
Prima Management Services (Private) Limited	6,494	9,919
	6,494	**9,919**

(d) Investment in associate company - unquoted

	GROUP				COMPANY			
	No. of shares	Holding %	2016	2015	No. of shares	Holding %	2016	2015
Prima Management Services (Private) Limited	3,334	33%	24,145	18,652	3,334	33%	33	33
Net book value as at 31 December	-	-	24,145	18,652	-	-	33	33
Share of movement in equity value	-	-	-	-	-	-	-	-
Equity value in investments	-	-	24,145	18,652	-	-	33	33

The Company has invested Rs. 33,334/- in Prima Management Services (Private) Limited acquiring 33% stake during the year 2006.

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

16. INVESTMENT IN SUBSIDIARY COMPANIES

	Notes	2016	2015
Investment in subsidiary companies - quoted	16 (a)	148,625	148,625
Investment in subsidiary companies - unquoted	16 (b)	213,000	213,000
Investment in subsidiary companies - cost		361,625	361,625
Provision for impairment		(30,705)	(7,895)
		330,920	**353,730**

Provision has been made for the investment in Ceylon Aquatech (Private) Limited.

(a) Investment in subsidiary company- quoted	**No of shares**	**Company holding %**	**Group holding %**	**2016**	**2015**
Three Acre Farms PLC	13,469,980	57.21%	57.21%		
Net book value as at 31 December				148,625	148,625
Market value as at 31 December				1,819,794	1,625,827

(b) Investment in subsidiary companies - unquoted	**No of shares**	**Company holding %**	**Group holding %**	**2016**	**2015**
Ceylon Warehouse Complex (Private) Limited	1,500,002	100%	100%	150,000	150,000
Ceylon Aquatech (Private) Limited	6,000,000	100%	100%	60,000	60,000
Ceylon Livestock and Agrobusiness Services (Private) Limited	300,002	100%	100%	3,000	3,000
Net book value as at 31 December				**213,000**	**213,000**

(c) Details of the companies incorporated in Sri Lanka, in which the Company held an interest of 50% or more are set out below:

Name of the Company	Proportion of ordinary shares held			
	2016	Movement	2015	
Ceylon Livestock and Agrobusiness Services (Private) Limited	100%	-	100%	Import and sale of poultry equipment, drugs and vaccines
Ceylon Warehouse Complex (Private) Limited	100%	-	100%	Provides storage facilities
Ceylon Aquatech (Private) Limited	100%	-	100%	Integrated shrimp operation including breeding, processing and culture of shrimp
Three Acre Farms PLC	57.21%	-	57.21%	Poultry breeder farms, hatcheries and commercial broiler farms
Ceylon Pioneer Poultry Breeders Limited	57.21%	-	57.21%	Renting of farm operation
Millennium Multibreeder Farms (Private) Limited	57.21%	-	57.21%	Poultry breeder farming and hatchery

All the above companies, the financial years of which end on 31 December are audited by KPMG. These Companies were incorporated in Sri Lanka.

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

17. BIOLOGICAL ASSETS

		GROUP		COMPANY	
	Notes	2016	2015	2016	2015
Fair value less cost to sell at the beginning of the year		455,549	450,656	-	
Additions during the year		473,463	413,286	-	-
Usage for the year	5	(420,995)	(433,880)	-	-
Change in fair value less cost to sell	8	(16,235)	25,487	-	-
Fair value less cost to sell at the end of the year		**491,782**	**455,549**	**-**	**-**
Non-current		473,534	439,170	-	-
Current		18,248	16,379	-	-
		491,782	**455,549**	**-**	**-**

(a) Biological assets

A biological asset is a living animal . Biological assets consist of parent and grandparent livestock, used to breed commercial Day Old Chicks, hatchable eggs and broiler birds. Parent and grandparent birds include the growing birds and the laying birds.

Biological assets - non-current

Bearer biological assets are those other than consumable biological assets and recognised as "Biological assets - Non-current". Bearer biological assets are not agricultural produce but, rather, are self generating. Parent and grandparent livestock have been identified as bearer biological assets.

Biological assets - current

Consumable biological assets are those that are to be harvested as agricultural produce or sold as biological assets. Hatchable eggs and Commercial Day Old Chicks have been identified as consumable biological assets.

(b) Measurement of fair value

(i) Fair value hierarchy

The fair value measurement of livestock have been categorised as level 3 fair values based on the inputs to the valuation technique used.

(ii) Level 3 fair values

The following table shows a breakdown of the total gains / (losses) recognised in respect of level 3 fair values.

	GROUP		COMPANY	
	2016	2015	2016	2015
Change in fair value less cost to sell included in 'Other Income'				
Biological assets - non-current	(17,211)	25,363	-	-
Biological assets - current	976	124	-	-
	(16,235)	**25,487**	**-**	**-**

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

(iii) Valuation technique and significant unobservable inputs

Following table shows the valuation technique used in measuring level 3 fair value as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Biological assets Bearer biological assets comprise Broiler Grandparent, Broiler Parent and Layer Parent	Discounted Cash Flows The valuation model considers the present value of the net cash flows expected to be generated by breeder farming. The expected net cash flows are discounted using a risk adjusted discount rate.	DOC yield	The FV will; - increase when DOC yield increased - decrease when DOC yield decreased
		DOC selling price	- increase when selling price increased - decreased when selling price decreased
		Discounting rate	- increase when discounting rate decreased - decreased when discounting rate increased
		Mortality	- Increase when mortality rate decreased - decrease when mortality rate increased
Consumable Biological Assets Consumable biological assets comprise of Hatchable Eggs and Commercial Day Old Chicks (DOCs). DOCs are fair valued at the market price and cost is approximated as fair value for Hatchable Eggs as no or only little biological change was observed as at the year end.			

(c) Risk management strategy related to the biological assets

(i) Regulatory and environmental risks

The Group is subject to laws and regulations in various countries in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws.

(ii) Supply and demand risks

The Group is exposed to risks arising from fluctuations in the price and sales volume of commercial Day Old Chicks. When possible, the Group manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analyses for projected harvest volumes and pricing.

(iii) Climate and other risks

The group's biological assets are exposed to the risk of damage from climatic changes, diseases, and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular health inspection and implementing disease control policies and procedures. The Group is also insured against natural disasters such as floods and hurricanes.

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

18. AMOUNT DUE FROM RELATED COMPANIES

	GROUP		COMPANY	
	2016	2015	2016	2015
Three Acre Farms PLC	-	-	25,140	-
Millennium Multibreeder Farms (Private) Limited	-	-	14,451	-
Ceylon Aquatech (Private) Limited	-	-	88,332	87,775
Ceylon Pioneer Poultry Breeders Limited	-	-	100,080	210,897
Ceylon Livestock and Agrobusiness Services (Private) Limited	-	-	-	1,947
	-	-	228,003	300,619
Less: Provision for receivables	-	-	(188,412)	(186,417)
	-	**-**	**39,591**	**114,202**

Provisions have been made for receivables from Ceylon Aquatech (Private) Limited and Ceylon Pioneer Poultry Breeders Limited amounting to Rs. 88,332,000/-and Rs. 100,080,000/- respectively.

19. INVENTORIES

	GROUP		COMPANY	
	2016	2015	2016	2015
Raw materials and consumables	1,774,282	1,468,705	1,699,843	1,390,875
Goods in transit	499,021	626,371	499,021	626,371
Finished goods				
- Feeds	100,432	81,402	100,432	81,402
- Chicken	119,889	34,941	119,889	34,941
Out grower stock	167,458	143,444	167,458	143,444
	2,661,082	2,354,863	2,586,643	2,277,033
Less: provision for slow moving and obsolete items	(36,427)	(36,885)	(34,333)	(35,339)
	2,624,655	**2,317,978**	**2,552,310**	**2,241,694**

Inventories are on an 'agreed to mortgage' condition, against short term bank borrowings .

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

20. TRADE AND OTHER RECEIVABLES

		GROUP		COMPANY	
	Notes	**2016**	**2015**	**2016**	**2015**
Trade receivables		547,789	591,162	534,341	565,964
Less: provision for doubtful debts		(254,889)	(260,513)	(244,865)	(250,489)
		292,900	330,649	289,476	315,475
Prepayments		31,818	25,151	20,754	15,021
Other receivables	20 (a)	221,507	114,381	205,366	104,647
		546,225	**470,181**	**515,596**	**435,143**

(a) Other receivables

	GROUP		COMPANY	
	2016	**2015**	**2016**	**2015**
Deposits and advances	20,909	17,614	9,709	12,326
Staff loans	616	10,884	77	7,322
Other receivables	199,982	85,883	195,580	84,999
	221,507	**114,381**	**205,366**	**104,647**

21. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2016	**2015**	**2016**	**2015**
Cash at bank	131,257	575,309	105,530	426,195
Investment in short term Deposits	1,635,000	-	900,000	-
Investment in Government securities	415,800	532,000	143,000	532,000
Cash in hand	3,961	2,899	3,247	2,393
	2,186,018	**1,110,208**	**1,151,777**	**960,588**

The Group's weighted average effective interest rate on short term bank deposits was on Average Weighted Deposit Rate (AWDR).

(a) Net cash and cash equivalents

For the purposes of the consolidated statement of cash flows, the year end cash and cash equivalents comprise the followings:

		GROUP		COMPANY	
	Notes	**2016**	**2015**	**2016**	**2015**
Cash and bank balances		2,186,018	1,110,208	1,151,777	960,588
Bank overdrafts	24	-	(81,488)	-	(67,867)
		2,186,018	**1,028,720**	**1,151,777**	**892,721**

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

22. TRADE AND OTHER PAYABLES

		GROUP		COMPANY	
	Notes	2016	2015	2016	2015
Trade payables		175,653	131,782	129,370	74,532
Accrued expenses		230,238	325,185	188,560	293,668
Dividend payable		514	513	514	513
Other payables	22 (a)	761,825	341,189	559,972	239,746
		1,168,230	798,669	878,416	608,459

(a) Other payables

	GROUP		COMPANY	
	2016	2015	2016	2015
Deposit and advances	96,306	90,887	66,781	66,552
Government taxes	308,625	22,070	223,643	648
Other payables	356,894	228,232	269,548	172,546
	761,825	341,189	559,972	239,746

23. AMOUNT DUE TO RELATED COMPANIES

	GROUP		COMPANY	
	2016	2015	2016	2015
Ceylon Agro-Industries Limited	10,593	12,269	10,593	12,269
Prima Ceylon (Private) Limited	222,280	493,823	222,280	493,823
Prima Management Services (Private) Limited	1,903	2,143	1,903	2,143
Hapiways Management Services Pte Limited	665,260	865,884	665,260	865,884
Three Acre Farms PLC	-	-	-	15,350
Ceylon Livestock and Agrobusiness Services (Private) Limited	-	-	911	-
Ceylon Warehouse Complex (Private) Limited	-	-	1,206	3,237
	900,036	1,374,119	902,153	1,392,706

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

24. INTEREST BEARING BORROWINGS

	GROUP		COMPANY	
	2016	2015	2016	2015
Current				
Bank overdraft	-	81,488	-	67,867
	-	81,488	-	67,867

The interest rate exposure of the borrowings of the Group and the Company was as follows:

	GROUP		COMPANY	
	2016	2015	2016	2015
Total borrowings:				
- at fixed rates	-	-	-	-
- at floating rates	-	81,488	-	67,867
	-	81,488	-	67,867

	GROUP / COMPANY	
	2016	2015
Weighted average effective interest rates:		
- bank overdrafts	AWPLR+0.50%	AWPLR+0.50%

Short term loans are borrowed at money market rates.

Bank borrowings were obtained to finance the import of raw materials relating to the production of poultry and animal feed. Security for these borrowings are inventories and receivables and agreement to mortgage for Rs. 495 Million over leasehold land and buildings, plant and machinery equipment at No.15, Rock House Lane, Colombo 15.

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

25. DEFERRED TAXATION

25.1 Deferred tax assets

The gross movement in the deferred income tax account is as follows:

		GROUP		COMPANY	
	Notes	2016	2015	2016	2015
At the beginning of the year		7,524	55,425	7,524	55,425
Deferred tax charge recognised in profit or loss	10	(7,524)	(47,946)	(7,524)	(47,946)
Deferred tax release recognised in other comprehensive income		-	45	-	45
At the end of the year		-	7,524	-	7,524

Deferred tax has been computed by applying the weighted average tax rate which is 12.7% in year 2016 (2015 - 10%).

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	2016		2015	
	Temporary difference	Tax effect on temporary difference	Temporary difference	Tax effect on temporary difference
Property, plant and equipment	-	-	(337,265)	(33,727)
Provision for doubtful debt	-	-	250,489	25,049
Defined benefit obligation	-	-	57,474	5,747
Tax losses	-	-	69,208	6,921
Provision for obsolete items	-	-	35,339	3,534
	-	-	75,245	7,524

25.2 Deferred tax liabilities

The gross movement in the deferred income tax account is as follows:

		GROUP		COMPANY	
	Notes	2016	2015	2016	2015
At the beginning of the year		153,431	129,401	-	-
Deferred tax charge recognised in profit or loss	10	53,369	24,047	21,862	-
Deferred tax charge / (release) recognised in other comprehensive income		675	(17)	543	-
At the end of the year		207,475	153,431	22,405	-

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

25. DEFERRED TAXATION (Contd.)

COMPANY

	2016		2015	
	Temporary difference	Tax effect on temporary difference	Temporary difference	Tax effect on temporary difference
Property, plant and equipment	268,504	34,100	-	-
Defined benefit obligation	(57,753)	(7,335)	-	-
Provision for obsolete items	(34,331)	(4,360)	-	-
	176,420	**22,405**	-	-

GROUP

Ceylon Pioneer Poultry Breeders Limited has been computed deferred taxation by applying the statutory tax rate of 28%.

Ceylon Warehouse Complex (Private) Limited has been computed deferred taxation by applying the statutory tax rate of 10%.
The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	2016		2015	
	Temporary difference	Tax effect on temporary difference	Temporary difference	Tax effect on temporary difference
Property, plant and equipment	1,618,343	181,936	1,394,640	152,335
Biological assets	473,534	47,353	439,170	43,917
Defined benefit obligation	(76,970)	(9,256)	(17,804)	(1,780)
Tax losses	(46,483)	(7,988)	(372,294)	(40,569)
Provision for doubtful debts	-	-	(3,168)	(317)
Provision for obsolete items	(36,427)	(4,570)	(1,547)	(155)
	1,931,997	**207,475**	**1,438,997**	**153,431**

Unrecognised deferred tax assets.
Deferred tax assets have not been recognised on tax losses carried forward for the following companies, since it is not probable that the future taxable profit will be available against which the Company can utilise the benefit thereon.

	2016	2015
Ceylon Pioneer Poultry Breeders Limited		
Tax losses carried forward	225,066	227,140
Tax effect thereon at 28%	**63,018**	**63,599**
Ceylon Aquatech (Private) Limited		
Tax losses carried forward	19,796	18,555
Tax effect thereon at 28%	**5,543**	**5,195**

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

26. EMPLOYEE BENEFITS

	GROUP		COMPANY	
	2016	**2015**	**2016**	**2015**
Employee benefit obligation as at 1 January	75,278	65,099	57,474	49,559
Provisions made during the year	10,809	13,126	8,295	9,931
Benefits paid by the plan	(9,117)	(2,947)	(8,016)	(2,016)
Employee benefit obligation as at 31 December	**76,970**	**75,278**	**57,753**	**57,474**
The amounts recognised in the consolidated statement of financial position are as follows:				
Present value of unfunded obligations	76,970	75,278	57,753	57,474
Recognised liability for defined benefit obligations	**76,970**	**75,278**	**57,753**	**57,474**
Movement in the present value of the defined benefit obligations				
Employee benefits as at 1 January	75,278	65,099	57,474	49,559
Benefits paid by the plan	(9,117)	(2,947)	(8,016)	(2,016)
Current service cost	8,809	6,975	6,676	5,267
Interest on obligation	7,613	5,535	5,900	4,213
Actuarial loss during the year	(5,613)	616	(4,281)	451
Change in actuarial assumption	-	-	-	-
Defined benefit obligations at the end of the year	**76,970**	**75,278**	**57,753**	**57,474**
Expense recognised in the consolidated statement of profit or loss				
Current service cost	8,809	6,975	6,676	5,267
Interest on obligation	7,613	5,535	5,900	4,213
	16,422	**12,510**	**12,576**	**9,480**
Expense recognised in the consolidated statement of other comprehensive income				
Actuarial loss during the year	(5,613)	616	(4,281)	451
	(5,613)	**616**	**(4,281)**	**451**

The actuarial valuation was carried out by professionally qualified actuary Mr. Piyal S Goonetilleke of Piyal S Goonetilleke Associates for retiring gratuity for employees as at 31 December 2016.

The liability is not externally funded.

Actuarial assumptions

Principal actuarial assumptions at the reporting date (expressed as weighted averages) :

	2016	**2015**
Discount rate	11.0%	8.5%
Future salary increases	10.0%	10.0%

Assumptions regarding future mortality are based on published statistics and mortality tables.

The average life expectancy of an individual retiring at age 55 years
Staff turnover sliding scale by the age of employee retiring from 10% - 1%
The provision for retiring gratuity for the year is based on the actuarial valuation made on 31 December 2016

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

26. EMPLOYEE BENEFITS (Contd.)

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	2016		2015	
GROUP	**Increase**	**Decrease**	**Increase**	**Decrease**
Movement by 1%				
Discount rate	(4,660)	5,213	(5,156)	5,825
Future salary scale	4,937	(4,493)	6,077	(5,475)

	2016		2015	
COMPANY	**Increase**	**Decrease**	**Increase**	**Decrease**
Movement by 1%				
Discount rate	(3,555)	3,972	(3,886)	4,385
Future salary scale	3,758	(3,425)	4,573	(4,125)

27. CONTINGENT LIABILITIES

(a) 284 / 2008 MR- Green Valley Farm (Private) Limited Vs Ceylon Grain Elevators PLC

Green Valley Farm (Private) Limited filed the above case against CGE claiming Rs. 195,775,306/- as losses resulted from the business affairs, it had with CGE. The judgment of the case was delivered on 21 November 2014.

It was decided that Green Valley Farm (Private) Limited is entitled to recover only a sum of Rs. 47,223,869/- from CGE and that amount to be set off against the amount due to be paid by Green Valley Farm (Private) Limited to CGE.

The Company has filed an Appeal against the said judgment and case is pending before the Supreme court.

(b) A 3175 - Inter Company Employees Union Vs CGE and Subsidiaries

Employees of CGE and subsidiary companies went on strike on 20 March 2006 and those who went on strike were terminated. The dispute was referred to the Commissioner of Labour and the reference was gazetted by the Minister dated 26 May 2006 referring the case for hearing at the Industrial Court.

At the Industrial Court CGE took up a preliminary objection that Composite reference (referring to employees of six companies in one reference) is bad in law as they are separate legal entities and cannot be referred in one dispute. The Industrial Court gave its verdict rejecting the preliminary objection and thereafter the Company made an appeal against the interim order in the Court of Appeal (C/A796/2007). Court of Appeal delivered its judgment on 18 May 2010 rejecting the appeal filed by CGE. Accordingly the case was taken up for hearing before the Industrial Court.

On 20 October 2014 the Counsel appearing for CGE informed the Court that he needs to lead fresh evidence instead of previously led evidence as the earlier bench was not properly constituted which was allowed by the Industrial Court.

The matter is coming for Written Submissions on 5 April 2017.

(c) A 3174 - Inter Company Employees Union Vs CGE and Global Engineering & Supplies

Employees who worked under Labour Contractor, Global Engineering & Supplies were also involved in the strike.

This case was also referred to the Commissioner of Labour and reference was gazetted by the Minister dated 26 May 2006 referring the case for hearing at the Industrial Court.

This dispute was referred as 'Non offer of employment'. Lawyers appearing for CGE took up an objection in the Industrial Court that there is no such dispute called 'Non offer of employment'. The Industrial Court in its preliminary order rejected the said objection and thereafter CGE made an Appeal to the Court of Appeal. Court of Appeal delivered its judgment by rejecting the appeal filed by CGE and referring the case back to the Industrial Court for hearing.

This matter is coming on 6 April 2017 for evidence in chief of the first witness of the Company.

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

28. COMMITMENTS

No capital commitments outstanding as at the reporting date except the followings:

	Within one year	Within 1-5 years	More than 5 years	Total
COMPANY				
(a) Hapiways Management Services Pte Limited:				
for the consultancy services rendered outside Sri Lanka.	36,024	144,096	756,504	936,624
(b) Operating Lease commitment:				
the Divisional Secretariat of Colombo for the use of land and buildings at No. 15, Rock House Lane, Colombo 15.	44,020	176,080	924,420	1,144,520
(c) Sri Lanka Ports Authority:				
operating lease rentals for the use of Woodland Warehouse.	19,793	79,172	415,653	514,618
GROUP				
(d) Ceylon Warehouse Complex (Private) Limited:				
operating lease rentals to Sri Lanka Ports Authority for the use of land.	12,000	48,000	252,000	312,000
	111,837	**447,348**	**2,348,577**	**2,907,762**

(e) With respect to (b), (c) and (d) above, the Company has exercised its option provided by the original Agreement and the related leases to renew for a further period of 30 years, before the Agreement and the related leases expired on 19 September 2012. In a letter dated 18 September 2012, the Government of Sri Lanka has expressed its willingness to consider an extension of the Agreement and the related leases subject to mutually acceptable terms and conditions and to permit the Company to continue to operate under the existing Agreement and the related leases pending negotiations to enter into a new Agreement and leases. The terms and conditions of the new leases have yet to be finalised at the date of this annual report. The operating lease commitments relating to these operating lease agreements have been stated based on the current lease rental rates.

(f) The Company is the Parent Company of Ceylon Aquatech (Private) Limited and confirms their commitment, in present circumstances to continue financial support in the business operations and to meet financial obligations. As the ultimate Parent Company of the above company, CGE has no intention or inclination of withdrawing their support or reducing the scale of operations of the above company in the forthcoming 12 months.

(g) The Company has provided a corporate guarantee of Rs. 250,000,000/- to Hatton National Bank PLC for a banking facility obtained by its subsidiary company, Three Acre Farms PLC.

29. STATED CAPITAL

	COMPANY	
	2016	**2015**
60,000,000 Ordinary shares	600,000	600,000
Share premium	417,996	417,996
	1,017,996	1,017,996

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

30. NON - CONTROLLING INTERESTS

(a) Movements in non-controlling interest (NCI) during the period ended 31 December

	GROUP	
	2016	**2015**
As at the beginning of the year	699,188	468,865
Share of net profit of subsidiaries	347,807	235,624
Share of other comprehensive income / (expenses) of subsidiaries	505	(62)
dividend paid	(21,157)	(5,239)
At the end of the year	**1,026,343**	**699,188**

(b) NCI Percentage for the period ended 31 December

	Principal place of business	Operating Segment	Ownership interest held by NCI 2016	2015
Three Acre Farms PLC	Sri Lanka	Poultry breeding and commercial	42.79%	42.79%

(c) Summarised financial statements of Three Acre Farms PLC

	2016	2015
Statement of financial position		
Non-current assets	2,038,239	2,010,143
Current assets	942,076	130,127
Non-current liabilities	(170,877)	(136,132)
Current liabilities	(410,883)	(370,142)
Net assets	2,398,555	1,633,996
Carrying amount of NCI	**1,026,343**	**699,188**
Statement of profit or loss and other comprehensive income		
Revenue	2,545,323	2,089,204
Profit for the year	812,823	550,652
Other comprehensive income / (expenses) for the year, net of tax	1,180	(146)
Total Comprehensive Income	814,003	550,506
Profit attributable to NCI	347,807	235,624
Other comprehensive income/ (expenses) attributable to NCI, net of tax	505	(62)
Total comprehensive income attributable to NCI	**348,312**	**235,562**
Net cash generated from operating activities	627,037	491,861
Net cash used in investing activities	(246,104)	(193,305)
Net cash used in financing activities	(21,157)	(97,237)
Net increase in cash and cash equivalent	**359,776**	**201,319**

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

31. FINANCIAL INSTRUMENTS

The Group has an exposure to the following risks arising from financial instruments;

- Credit risk
- Liquidity risk
- Currency risk
- Interest rate risk
- Market risk

Risk Management Framework

The Group's Board of Directors have overall responsibility for the establishment and oversight of the Group's risk management framework, developing and monitoring the Group's risk management policies and report regularly to the Board of Directors on its activities.

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. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors of Ceylon Grain Elevators PLC, oversee how management monitors compliance with the Company's risk management policies and procedures and review the adequacy of the risk management framework in relation to the risks faced by the Group.

31.1 Financial Instruments - Consolidated statement of financial position

		GROUP		COMPANY	
	Note	2016	2015	2016	2015
Financial Assets					
Loans and receivables					
Trade and other receivables	20	492,882	416,532	485,056	400,474
Amount due from related companies	18	-	-	39,591	114,202
		492,882	416,532	524,647	514,676
Cash and cash equivalents	21	2,186,018	1,110,208	1,151,777	960,588
		2,678,900	**1,526,740**	**1,676,424**	**1,475,264**
Financial Liabilities					
Other financial liabilities					
Amount due to related companies	23	900,036	1,374,119	902,153	1,392,706
Trade and other payables	22	629,367	451,414	466,213	314,143
		1,529,403	1,825,533	1,368,366	1,706,849
Bank overdrafts	24	-	81,488	-	67,867
		1,529,403	**1,907,021**	**1,368,366**	**1,774,716**

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

31. FINANCIAL INSTRUMENTS (Contd.)

31.2 Financial Instruments - Consolidated statement of profit or loss

	2016		2015	
	Gain / income	Losses / expenses	Gain / income	Losses / expenses
GROUP				
Interest bearing financial instruments	151,187	2,356	27,308	30,471
Total	151,187	2,356	27,308	30,471
COMPANY				
Interest bearing financial instruments	148,935	2,234	27,113	15,657
Total	148,935	2,234	27,113	15,657

31.3 Credit risk

Credit risk is the risk of financial loss to the Group, if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers, placements with banking institutions and in government securities.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was;

		GROUP		COMPANY	
	Notes	2016	2015	2016	2015
Amount due from related companies	18	-	-	228,003	300,619
Trade and other receivables	20	514,407	445,030	494,842	420,122
Cash and cash equivalents	21	2,186,018	1,110,208	1,151,777	960,588
		2,700,425	1,555,238	1,874,622	1,681,329

31.4 Impairment losses

The aging of trade and other receivables at the reporting date was;

	2016		2015	
GROUP	Gross	Impairment	Gross	Impairment
Not past due	110,649	-	70,389	-
Post due 0 - 30 days	212,266	-	209,744	-
Past due 31 - 365 days	149,247	-	49,820	-
More than one year	297,134	254,889	375,590	260,513
	769,296	254,889	705,543	260,513

	2016		2015	
COMPANY	Gross	Impairment	Gross	Impairment
Not past due	75,990	-	60,966	-
Post due 0 - 30 days	209,024	-	197,472	-
Past due 31 - 365 days	153,647	-	49,820	-
More than one year	301,046	244,865	362,353	250,489
	739,707	244,865	670,611	250,489

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

31. FINANCIAL INSTRUMENTS (Contd.)

The movements in the allowance for impairment in respect of loans and receivables during the year was as follows:

	GROUP		COMPANY	
	2016	**2015**	**2016**	**2015**
Balance as at 1 January	260,513	229,584	250,489	219,188
Impairment loss (reversed) / recognised	(5,624)	30,929	(5,624)	31,301
Balance as at 31 December	**254,889**	**260,513**	**244,865**	**250,489**

Based on the historic default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables not past dues or past due by more than 365 days, which includes the amount owed by the Group's most significant customers, relates to customers that have a good payment record with the Group.

The aging of amount due from related companies at the reporting date was:

	2016		2015	
COMPANY	Gross	Impairment	Gross	Impairment
Not past due			-	-
Past due 0 - 365 days	228,003	188,412	300,619	186,417
More than 365 days	-	-	-	-
	228,003	188,412	300,619	186,417

The movement in the allowance for impairment in respect of amount due from related companies during the year was as follows;

	GROUP		COMPANY	
	2016	**2015**	**2016**	**2015**
Balance as at 1 January	-	-	186,417	186,417
Impairment loss recognised	-	-	1,995	-
Balance as at 31 December	**-**	**-**	**188,412**	**186,417**

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

31. FINANCIAL INSTRUMENTS (Contd.)

31.5 Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

As at 31 December 2016	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	1 - 2 years	2 - 5 Years	More than 5 years
GROUP							
Non-derivative financial liabilities							
Bank loans	-	-	-	-	-	-	-
Trade and other payables	629,367	(629,367)	(629,367)	-	-	-	-
Amount due to related companies	900,036	(900,036)	(900,036)	-	-	-	-
Bank overdraft	-	-	-	-	-	-	-
	1,529,403	(1,529,403)	(1,529,403)	-	-	-	-
COMPANY							
Non-derivative financial liabilities							
Bank loans	-	-	-	-	-	-	-
Trade and other payables	466,213	(466,213)	(466,213)	-	-	-	-
Amount due to related companies	902,153	(902,153)	(902,153)	-	-	-	-
Bank overdraft	-	-	-	-	-	-	-
	1,368,366	(1,368,366)	(1,368,366)	-	-	-	-

As at 31 December 2015	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	1 - 2 years	2 - 5 Years	More than 5 years
GROUP							
Non-derivative financial liabilities							
Bank Loans	-	-	-	-	-	-	-
Trade and other payables	451,414	(451,414)	(451,414)	-	-	-	-
Amount due to related companies	1,374,119	(1,374,119)	(1,374,119)	-	-	-	-
Bank overdraft	81,488	(81,488)	(81,488)	-	-	-	-
	1,907,021	(1,907,021)	(1,907,021)	-	-	-	-
COMPANY							
Non-derivative financial liabilities							
Bank Loans	-	-	-	-	-	-	-
Trade and other payables	314,143	(314,143)	(314,143)	-	-	-	-
Amount due to related companies	1,392,706	(1,392,706)	(1,392,706)	-	-	-	-
Bank overdraft	67,867	(67,867)	(67,867)	-	-	-	-
	1,774,716	(1,774,716)	(1,774,716)	-	-	-	-

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amount.

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

31. FINANCIAL INSTRUMENTS (Contd.)

31.6 Currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument of fluctuating due to changes in foreign exchange rate.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	2016		2015	
	USD	EUR	USD	EUR
GROUP				
Trade and other receivables	-	-	-	712
Cash and cash equivalents	152,194	-	32,031	-
Trade payables	(319,794)	-	(117,796)	-
Amount due to related companies	(4,432,149)	-	(6,010,576)	-
	(4,599,749)	**-**	**(6,096,341)**	**712**

	2016		2015	
	USD	EUR	USD	EUR
COMPANY				
Trade and other receivables	-	-	-	-
Cash and cash equivalents	21	-	30,545	-
Trade payables	(227)	(3)	(33,079)	-
Amount due to related companies	(4,432,149)	-	(6,010,576)	-
	(4,432,355)	**(3)**	**(6,013,110)**	**-**

The following significant exchange rates applied during the year:

	Average Rate		Reporting date spot Rate	
	2016	2015	2016	2015
USD	147.16	137.01	150.10	144.06
EUR	158.48	150.84	154.93	157.37

31.7 Interest rate risk

At the reporting date the interest rate profile of the Group's interest bearing financial instruments were;

	GROUP		COMPANY	
	2016	2015	2016	2015
Fixed rate instruments				
Financial assets	-	-	-	-
Financial liabilities	-	-	-	-
	-	-	-	-
Variable rate instruments				
Financial assets	2,050,800	532,000	1,043,000	532,000
Financial liabilities	-	(81,488)	-	(67,867)
	2,050,800	**450,512**	**1,043,000**	**464,133**

31.8 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates and interest rates affecting to the Company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

32. RELATED PARTY TRANSACTIONS

32.1 Key Management Personnel information

Key Management personnel include all the members of the Board of Directors of the Company having authority and responsibility for planning, directing and controlling the activities of the Company as well as the subsidiaries, directly or indirectly. Compensation paid to key management personnel on behalf of the companies are as follows:

	Notes	GROUP		COMPANY	
		2016	2015	2016	2015
Short-term employee benefits	5	2,400	2,400	1,200	1,200
Post employment benefits		-	-	-	
		2,400	2,400	1,200	1,200

Mr. Wickrema Senaka Weerasooria, Mr. Cheng Chih Kwong, Primus, Mr. Tan Beng Chuan, Mr. Cheng Koh Chuen, Bernard, Mr. Cheng Eng Loong and Mr. Sunil Karunanayake the Directors of the Company are also the Directors of the following companies as set out below and carried out with transaction as mentioned in Note 32.2 - Related party transactions.

Name of the related party	Name of the Director	Nature of transaction
Three Acre Farms PLC (TAF) - Subsidiary	Mr. Wickrema Senaka Weerasooria Mr. Cheng Chih Kwong, Primus Mr. Tan Beng Chuan Mr. Cheng Koh Chuen, Bernard Mr. Sunil Karunanayake	CGE sells feed to TAF. Also Company purchases broiler DOC and culled birds from TAF.
Ceylon Pioneer Poultry Breeders Limited (CPPBL) - Subsidiary	Mr. Cheng Chih Kwong, Primus Mr. Tan Beng Chuan	CGE provides financial support to meet CPPBL liabilities.
Ceylon Aquatech (Private) Limited (CAT) - Subsidiary	Mr. Cheng Chih Kwong, Primus Mr. Tan Beng Chuan	No inter-company transactions have been carried out during the year.
Ceylon Livestock and Agrobusiness Services (Private) Limited (CLAS) - Subsidiary	Mr. Cheng Chih Kwong, Primus Mr. Tan Beng Chuan	CLAS supplies veterinary drugs, medicine and poultry equipment to the Company's outgrower farms. Also the Company Sells drugs and vaccine to CLAS.
Ceylon Warehouse Complex (Private) Limited (CWCL) - Subsidiary	Mr. Cheng Chih Kwong, Primus Mr. Tan Beng Chuan	CWCL provides storage facilities to the Company.
Millennium Multibreeder Farms (Private) Limited (MMF) - Subsidiary	Mr. Cheng Chih Kwong, Primus Mr. Tan Beng Chuan	CGE sells feed to MMF. Also the Company purchases broiler DOC and culled birds from MMF.
Prima Ceylon (Private) Limited (PCL) - Group Company	Mr. Cheng Chih Kwong, Primus Mr. Tan Beng Chuan	CGE purchases raw materials from PCL.Also the Company sells processed chicken to PCL.
Prima Management Services (Private) Limited (PMS) - Associate Company	Mr. Cheng Chih Kwong, Primus	PMS provides ICT solutions and services to the Company.
Hapiways Management Services Pte Limited (HMS) - Group Company	Mr. Cheng Chih Kwong, Primus	Purchases of all kind of imported raw materials, feed additives, spare parts and other significant imports from HMS.
Ceylon Agro-Industries Limited (CAI) - Group Company	Mr. Cheng Chih Kwong, Primus Mr. Tan Beng Chuan	The Company is purchasing local Maize and hiring the poultry processing plant, rendering plant and storage facilities from CAI. Also the Company sells processed chicken to CAI.
Wealth Trust Securities Limited (WTS) Common Directorship	Mr. Wickrema Senaka Weerasooria	The Company received interest income on investment made on Government Securities.

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
For the year ended 31 December 2016

32. RELATED PARTY TRANSACTIONS (Contd.)

32.2 Related party transactions

The Group has a related party relationship with its subsidiaries, associates and related group companies as disclosed in Note 32.1.Key Management Personnel Information.

Companies within the Group engage in trading transactions. The following transactions were carried out with related parties during the year ended 31 December 2016.

(a) Transaction with Subsidiaries

COMPANY	CWCL	CLAS	CAT	TAF	MMF	CPPBL	Total 2016	Total 2015
Sale of goods	-	-	-	603,331	189,693	-	793,024	758,973
Purchase of goods	-	(431)	-	(450,074)	(219,225)	-	(669,730)	(617,989)
Sale of services	600	300	-	8,399	2,460	-	11,759	7,762
Purchase of services	(67,430)	-	-	(633,925)	-	-	(701,355)	(523,983)
Recovery of expenses	66	123	-	10,978	10,339	-	21,506	87,723
Settlement of third party dues	33,387	17,426	645	127,148	9,287	783	188,676	58,955
Settlement of intercompany dues	-	-	-	-	-	-	-	(2,800)
Funds paid / (received)	45,050	(20,265)	(88)	434,909	20,925	(111,600)	368,931	(88,143)

(b) Transactions with Related Parties

COMPANY	WTS	HMS	CAI	PCL	PMS	Total 2016	Total 2015
Sale of goods	-	-	126,113	4,267	-	130,380	111,140
Purchase of goods	-	(5,322,285)	(11,187)	(1,263,364)	-	(6,596,836)	(7,033,257)
Sale of services	-	-	4,167	-	-	4,167	474
Purchase of services	-	(35,317)	(204,541)	(13,769)	(32,763)	(286,390)	(304,476)
Interest income received	29,352	-	-	-	-	29352	16,612
Funds paid	-	5,558,572	109,008	1,725,806	37,939	7,431,325	6,632,407

GROUP	WTS	HMS	CAI	PCL	PMS	Total 2016	Total 2015
Sale of goods	-	-	126,113	4,267	-	130,380	111,140
Purchase of goods	-	(5,339,253)	(11,650)	(1,263,364)	-	(6,614,267)	(7,059,874)
Sale of services	-	-	4,167	-	-	4,167	474
Purchase of services	-	(35,317)	(204,541)	(13,769)	(32,763)	(286,390)	(304,476)
Interest income received	29,352	-	-	-	-	29,352	16,612
Funds paid	-	5,575,539	109,534	1,725,806	37,939	7,448,818	6,658,543

Notes to the Consolidated Financial Statements (Contd.)

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

32.3 Terms and Conditions of Transactions with Related Parties

Transactions with related parties are carried out in the ordinary course of the business at commercial rates. Outstanding balances at the year end are unsecured and no interest was charged during the year.

(c) The receivables from related companies and payables to related companies on sale / purchase of goods / services are set out in Note 18 and Note 23 respectively. These receivables and payables are unsecured, interest free and have no fixed repayment terms.

(d) The subsidiary companies use some facilities of the Company free of charge and part of the accounting and administrative functions of the subsidiary companies are also performed by the Company for which no charges are made.

33. EVENTS AFTER THE REPORTING PERIOD

There are no events which require adjustment to, or disclosure in the financial statements except for the followings;

(a) The Company entered into the following related party transactions with Ceylon Agro-Industries Limited on 18 January 2017.

    (i) The Company acquired a poultry processing plant and related machinery and equipments amounting to Rs. 215,000,000/-.

    (ii) Sub-lease of land and premises of poultry processing plant for Rs. 57,000,000/- for a period of twenty years.

(b) The Directors propose for payment a First and Final dividend of Rs. 2.50 per share for the year ended 31 December 2016 on 30 March 2017.

34. COMPARATIVE INFORMATION

Comparative figures have been reclassified wherever necessary to conform to the current year's presentation.

35. DIRECTORS' RESPONSIBILITY

The Board of Directors are responsible for the preparation and fair presentation of these financial statements.

Five Year Financial Summary

All amounts in Sri Lankan Rupees thousands
As at 31 December 2016

As at 31 December	2016	2015	2014	2013	2012
GROUP					
Operating results for the period					
Revenue	14,521,693	13,741,283	11,543,764	11,468,100	12,375,045
Operating profit	1,960,440	1,383,886	262,000	416,858	420,993
Net finance expenses	(8,526)	(55,969)	(81,673)	(168,614)	(303,332)
Share of results of associate	6,494	9,919	4,643	3,218	4,108
Profit before tax	1,958,408	1,337,836	184,970	251,462	121,769
Taxation	(276,692)	(159,145)	(34,679)	(52,184)	27,688
Profit from ordinary activities	1,681,716	1,178,691	150,291	199,278	149,457
Non-controlling interest	(347,807)	(235,624)	(70,739)	(75,453)	(15,302)
Profit attributable to the Company	**1,333,909**	**943,067**	**79,552**	**123,825**	**134,155**
Financial position					
Stated capital	1,017,996	1,017,996	1,017,996	1,017,996	1,017,996
Retained earnings	4,048,476	2,776,136	1,833,562	1,762,128	1,642,968
Non-controlling interest	1,026,343	699,188	468,865	399,081	320,668
Non-current liabilities	284,445	228,709	194,500	216,131	365,395
	6,377,260	**4,722,029**	**3,514,923**	**3,395,336**	**3,347,027**
Intangible assets	45,821	58,924	72,028	85,131	98,235
Property, plant and equipment and investments	2,515,194	2,518,892	2,650,252	2,755,515	2,622,532
Investment in an associate company	24,145	18,652	19,033	14,390	11,172
Biological assets	473,534	439,170	430,629	431,049	369,298
Current assets	5,386,832	3,940,667	3,244,126	2,457,327	2,809,679
Current liabilities	(2,068,266)	(2,254,276)	(2,901,145)	(2,348,076)	(2,563,889)
	6,377,260	**4,722,029**	**3,514,923**	**3,395,336**	**3,347,027**
COMPANY					
Key ratios and other information					
Basic earnings / (loss) per share (Rs)	13.63	10.25	(0.81)	(0.39)	3.44
Dividend per share - propose (Rs.)	2.50	1.10	-	-	0.14
Dividend pay out ratio - propose (%)	18.34	10.74	-	-	4.07
Market price per share (Rs)	82.90	91.60	41.00	35.50	59.50
Price earnings ratio (No. of times)	6.08	8.94	(50.62)	(91.03)	17.29
Debt / equity ratio (No. of times)	-	-	0.46	0.29	0.31
Interest cover (No. of times)	367.45	44.83	0.36	0.86	3.68
Net assets per share (Rs)	55.62	43.02	32.78	33.71	34.25
Current ratio (No. of times)	2.40	1.82	1.39	1.53	1.62
Shares traded (No. of shares)	32,287,273	33,983,884	13,246,893	10,487,311	10,884,718
US $ Exchange rate (average)	147.16	137.01	130.78	129.40	128.40
US $ Exchange rate (year end spot)	150.10	144.06	132.00	130.75	127.16

Consolidated Value Added Statement

In Rs. '000	2016	2015	2014	2013	2012
Revenue	14,521,693	13,741,283	11,543,764	11,468,100	12,375,045
Adjustment for other income	164,690	66,454	18,726	47,770	525,013
	14,686,383	13,807,737	11,562,490	11,515,870	12,900,058
Less: Cost of materials and services purchased					
from external sources	9,934,244	9,920,873	8,854,527	8,820,566	9,996,964
Value Added	4,752,139	3,886,864	2,707,963	2,695,304	2,903,094

Distributed as follows:

In Rs. '000	2016	%	2015	%	2014	%	2013	%	2012	%
To employees as remuneration	1,146,070	24.12	919,156	23.65	707,883	26.14	600,390	22.28	573,160	19.74
To the government as taxes	2,398,034	50.46	2,036,732	52.40	1,742,907	64.36	1,760,674	65.32	1,975,460	68.05
To the providers of capital										
as interest on loans	2,356	0.05	30,471	0.78	68,928	2.55	118,351	4.39	89,860	3.10
As Minority interest	(348,312)	(7.33)	(235,562)	(6.06)	(69,784)	(2.58)	(75,235)	(2.79)	(15,700)	(0.54)
To Shareholders as proposed dividends	150,000	3.16	66,000	1.70	-	-	-	-	8,400	0.29
Retained within the business										
as depreciation and amortisation	215,693	4.54	193,493	4.98	186,595	6.89	167,813	6.23	142,853	4.92
as reserves	1,188,298	25.00	876,574	22.55	71,434	2.64	123,311	4.57	129,061	4.44
	4,752,139	100.00	3,886,864	100.00	2,707,963	100.00	2,695,304	100.00	2,903,094	100.00

Shareholder Information

1. Analysis of shareholders according to the number of shares as at 31 December 2016

Shareholding	Resident			Non Resident			Total		
	Number of shareholders	Number of shares	Percentage	Number of shareholders	Number of shares	Percentage	Number of shareholders	Number of shares	Percentage
1 - 1,000	3,493	928,573	1.55	24	10,634	0.02	3,517	939,207	1.56
1,001 - 10,000	1,082	3,836,034	6.39	23	102,926	0.17	1,105	3,938,960	6.56
10,001 - 100,000	235	6,623,924	11.04	10	441,778	0.74	245	7,065,702	11.78
100,001 - 1,000,000	26	6,592,507	10.99	2	1,397,225	2.33	28	7,989,732	13.32
Over 1,000,000	1	5,350,549	8.92	3	34,715,850	57.86	4	40,066,399	66.78
	4,837	23,331,587	38.89	62	36,668,413	61.12	4,899	60,000,000	100.00

	No. of shareholders	No. of ordinary shares
Categories of shareholders		
Individual	4,605	11,293,573
Institutional	294	48,706,427
	4,899	60,000,000

2. List of 20 major shareholders based on their shareholding

No.	Name	As at 31 December 2016		As at 31 December 2015	
		Number of Shares	Percentage	Number of Shares	Percentage
01	Prima Limited, Singapore	27,270,800	45.45	27,270,800	45.45
02	Employees Provident Fund	5,350,549	8.92	5,350,549	8.92
03	Supra Limited, Hong Kong	5,179,797	8.63	5,179,797	8.63
04	Eka Limited, Singapore	2,265,253	3.78	2,265,253	3.78
05	Laugfs Gas Limited	1,000,000	1.67	1,000,000	1.67
06	Mellon Bank N.A. -Commonwealth of Massachusetts	941,581	1.57	259,074	0.43
07	Pan Asia Banking Corporation PLC / S.R. Fernando	591,045	0.99	522,800	0.87
08	Mellon Bank N.A. - Acadian Frontier Markets Equity Fund	455,644	0.76	112,907	0.18
09	Bank of Ceylon No. 1 Account	403,709	0.67	-	-
10	Timex Garments (Pvt) Ltd	400,000	0.67	400,000	0.67
11	Mrs. R. A. D. R. P. Kumari	354,000	0.59	-	-
12	Mr. P. A. J. Kumara	350,000	0.58	345,000	0.58
13	Ayenka Holdings Private Limited	300,000	0.50	-	-
14	Mr. K. S. R. Nissanka	280,000	0.47	285,000	0.48
15	Hatton National Bank PLC / S.R.N. Kumara	265,224	0.44	-	-
16	Mr. S. P. Malalasekera	263,000	0.44	-	-
17	Global Rubber Industries Private Limited	219,719	0.37	-	-
18	Mr. R. E. Rambukwelle	192,205	0.32	179,300	0.30
19	Seylan Bank Ltd / Govindasamy Ramanan	191,050	0.31	-	-
20	Ms. F. A. A. Mack	182,250	0.30	-	-
	Total	46,455,826	77.43	43,170,480	71.96

	2016	2015
The percentage of shares held by the public	54.54%	54.54%
The number of shareholders representing the public holding	4,896	4,703

Glossary of Financial Terminology

Accrual Basis
Recording Revenues and Expenses in the period in which they are earned or incurred regardless of whether cash is received or disbursed in that period.

Capital Employed
Shareholders' Fund plus Debt.

Contingent Liabilities
A condition or situation existing at the end of the reporting period due to past events, where the financial effect is not recognised because:

1. The obligation is crystallised by the occurrence or non occurrence of one or more future events or,
2. A probable outflow of economic resources is not expected or,
3. It is unable to be measured with sufficient reliability.

Current Ratio
Current Assets over Current Liabilities.

Quick Ratio
Cash plus Short Term Investments plus Receivables over Current Liabilities.

Debt / Equity Ratio (Gearing)
Debt as a percentage of Shareholders' Funds.

Dividend Cover
Earnings per share over dividend per share.

Dividend Payout Ratio
Total Dividend as a percentage of Company profits.

Dividend Yield
Dividend per share as a percentage of market price of share at the end of the period.

Earnings Per Share (EPS)
Profit after tax attributable to Ordinary Shareholders over weighted average number of shares in issue during the period.

Enterprise value
Market capitalisation plus debt minus total cash and cash equivalents.

Earnings Yield
Earnings per share as a percentage of Market Price per share at the end of the period.

Effective Rate of Taxation
Income Tax including Deferred tax over Profit Before Tax.

Interest Cover
Profit Before Interest and Tax over Finance Expenses.

Market Capitalisation
Number of shares in issue at the end the of period multiplied by the share price at the end of the period.

Net Assets
Total Assets minus Current Liabilities minus Long Term Liabilities minus Minority Interest.

Net Asset per Share
Net Assets divided by number of Ordinary Shares in issue at the end of the period.

Net Debt
Debt minus Cash and Short Term Deposits.

Net Turnover per Employee
Net Turnover over average number of employees.

Price Earnings Ratio
Market Price of Share over Earnings per Share.

Return on Assets
Profit After Tax over Average Total Assets.

Return on Capital Employed
Earnings before interest and tax as a percentage of average of shareholders' funds plus total debt.

Return on Equity
Consolidated Profit after Tax as a Percentage of Average Shareholders' Funds.

Shareholders' Fund
Stated Capital, Capital Reserves and Revenue Reserves.

Shareholders' Equity Ratio
Total Equity divided by Total Assets.

Total Assets
Non-Current Assets plus Current Assets.

Total Debt
Long Term Loans plus Short Term Loans and Overdraft.

Total Debt / Total Assets
Total Debt divided by Total Assets.

Total Value Added
The difference between Revenue (including Other Income) and Expenses, Cost of Materials and Services purchased from External Sources.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the 34th Annual General Meeting of the Company will be held on Wednesday, 3 May 2017 at the Sri Lanka Foundation Institute Auditorium, No. 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo 7 at 10.45 a.m. and the business to be brought before the Meeting will be:

1. To receive and consider the Report of the Board of Directors on the State of Affairs of the Company and the Financial Statements for the year ended 31 December 2016, with the Report of the Auditors thereon.
2. To declare a First and Final dividend of Rs. 2.50 per share for the year ended 31 December 2016.
3. To re-elect Mr. Sunil Karunanayake, a Director who retires by rotation at the Annual General Meeting in terms of Article 87 of the Articles of Association of the Company.
4. To consider and if thought fit to pass the following Ordinary Resolution pertaining to the re-appointment of Mr. Tan Beng Chuan, as a Director who is over 70 years of age, in compliance with Section 211 of the Companies Act No. 07 of 2007 and whose re-appointment has been recommended by the Board of Directors.

Ordinary Resolution

"That the age limit of 70 years referred to in Section 210 of the Companies Act No. 07 of 2007 shall not apply to Mr. Tan Beng Chuan, Director, who is 70 years of age (having reached 70 years of age on 14 October 2016) and accordingly that Mr. Tan Beng Chuan be and is hereby re-appointed a Director of the Company in terms of Section 211 of the Companies Act No. 07 of 2007".

5. To re-appoint Messrs KPMG, Chartered Accountants as Auditors and to authorise the Directors to determine their remuneration.
6. To authorise the Directors to determine contributions to charities and other purposes.

By order of the Board

(Sgd.)
S S P CORPORATE SERVICES (PRIVATE) LIMITED
Secretaries

Colombo, Sri Lanka
6 April 2017

Note:
(a) A member entitled to attend and vote at the above mentioned meeting is entitled to appoint a Proxy to attend and vote instead of him/her. Such Proxy needs not be a member of the Company.
(b) A Form of Proxy is annexed to this notice.
(c) The completed Form of Proxy should be deposited at the Registered Office of the Company, No. 15, Rock House Lane, Colombo 15 not later than 48 hours before the time appointed for the holding of the meeting.
(d) Shareholders/proxy holders are requested to bring with them their National Identity Card or any other form of clear/valid identification and present same at the time of registration.

Notes

Notes

Notes

Form of Proxy

I/We ……………………………………………………………………………………(NIC No.……………………………………) of
……………………………………………………………………………………………………being a member/s of
Ceylon Grain Elevators PLC, hereby appoint ………………………………………………………………………
(NIC No.……………………………………………) of ……………………………………………or failing him

Mr. WICKREMA SENAKA WEERASOORIA	of Colombo or failing him
Mr. CHENG CHIH KWONG, PRIMUS	of Singapore or failing him
Mr. TAN BENG CHUAN	of Colombo or failing him
Mr. CHENG ENG LOONG	of Singapore or failing him
Mr. CHENG KOH CHUEN, BERNARD	of Singapore or failing him
Mr. SUNIL KARUNANAYAKE	of Colombo

as my/our Proxy to represent me/us and vote on my/our behalf at the Annual General Meeting of the Company to be held on Wednesday, 3 May 2017 and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid meeting and to VOTE as indicated below:

		FOR	AGAINST
1.	To receive and consider the Report of the Board of Directors on the State of Affairs of the Company and the Financial Statements for the year ended 31 December 2016, with the Report of the Auditors thereon.		
2.	To declare a First and Final dividend of Rs. 2.50 per share for the Year ended 31 December 2016.		
3.	To re-elect Mr. Sunil Karunanayake a Director who retires by rotation at the Annual General Meeting in terms of Article 87 of the Articles of Association.		
4.	To re-appoint Mr. Tan Beng Chuan, who is over 70 years of age as a Director of the Company by passing the ordinary resolution set out in the Notice of Meeting.		
5.	To re-appoint Messrs KPMG, Chartered Accountants as Auditors and to authorise the Directors to determine their remuneration.		
6.	To authorise the Directors to determine contributions to charities and other purposes.		

As witness my/our hand/this ……………………day of ……………………………… Two Thousand and Seventeen.

Signature: ………………………

Note : Please delete the inappropriate words.

1. Instructions for completion of Proxy are noted on the next page
2. A Proxy need not be a member of the Company
3. Please mark "X" in appropriate cages, to indicate your instructions as to voting

Form of Proxy (Contd.)

Instructions to Completion of Form of Proxy

1. Kindly perfect the Form of Proxy by filling in legibly your full name and address, your instructions as to voting, by signing In the space provided and filling in the date of signature.
2. Please indicate with a 'X' in the cages provided how your proxy is to vote on the Resolutions. If no indication is given the Proxy in his/her discretion may vote as he/she thinks fit.
3. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 15, Rock House Lane, Colombo 15, at least 48 hours before the time appointed for holding of the Meeting.
4. If the form of proxy is signed by an attorney, the relative power of attorney should accompany the completed form of proxy for registration, if such power of attorney has not already been registered with the Company.

Note:
If the shareholder is a Company or body corporate, Section 138 of the Companies Act No.7 of 2007 applies to Corporate Shareholders of Ceylon Grain Elevators PLC. Section 138 provides for representation of Companies at meetings of other Companies. 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 authorise such person as it thinks fit to act as its representative at any meeting of the Company. A person authorised as aforesaid shall be entitled to exercise the same power on behalf of the Corporation which it represent as that Corporation could exercise if it were an individual shareholder.

Corporate Information

Company Name
Ceylon Grain Elevators PLC

Company Registration No.
PQ 161

Registered Office
No.15, Rock House Lane, Colombo 15, Sri Lanka.
Tel : +(94) (11) 2522556 or 8 / 2523580 / 2526378 to 2526383
Fax : +(94) (11) 2524163
E-mail : info.cge@prima.com.lk

Subsidiary Companies
Three Acre Farms PLC
Millennium Multibreeder Farms (Private) Limited
Ceylon Pioneer Poultry Breeders Limited
Ceylon Livestock and Agrobusiness Services (Private) Limited
Ceylon Warehouse Complex (Private) Limited
Ceylon Aquatech (Private) Limited

Associate Company
Prima Management Services (Private) Limited

Bankers
Hatton National Bank PLC
Nations Trust Bank PLC
National Development Bank PLC
Sampath Bank PLC
Union Bank of Colombo PLC
Bank of Ceylon
Commercial Bank of Ceylon PLC
Axis Bank Limited
DFCC Vardhana Bank PLC

Lawyers
Varners Lanka Law office
D.L. & F. De Saram

Auditors
KPMG, Colombo, Sri Lanka.

Company Secretary
S S P Corporate Services (Private) Limited.
No. 101, Inner Flower Road, Colombo 3.

Board of Directors
Mr. Wickrema Senaka Weerasooria - Non-Executive Independent Chairman
Mr. Cheng Chih Kwong, Primus - Executive Director and Chief Executive Officer
Mr. Tan Beng Chuan - Executive Director and Group General Manager
Mr. Cheng Koh Chuen, Bernard - Non-Executive Director
Mr. Cheng Eng Loong - Non-Executive Director
Mr. Sunil Karunanayake - Non-Executive Independent Director

Management
Mr. K.A.R.S. Perera - General Manager
Mr. Chng Sun Tick - AGM (Farms)
Mr. Ang Kian Huat - AGM (Farms)
Mr. Akram Ansar - AGM (Finance)
Mr. Jeff Li Zhen Jie - AGM (Technical)
Mr. Lalith Abeywardena - AGM (Sales)
Mr. M.C.M. De Costa - AGM (Personnel, Security and General Affairs)
Mr. Sumith Peiris - AGM (Material Management)
Mr. Neil Jayaweera - AGM (Processing)
Mr. Waruna Jayathilaka - AGM (Human Resources)

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Ceylon Grain Elevators PLC
No. 15, Rock House Lane, Colombo 15, Sri Lanka.
Tel: +94 11 252 2556
Fax: +94 11 252 4163