**Gal Oya Plantation (Private) Limited - 2024/2025**

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## 1. Financial Statements

### 1.1 Opinion

The audit of the financial statements of the Gal Oya Plantation (Private) Limited ("Company") for the year ended 31 March 2025 comprising the statement of financial position as at 31 March 2025 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2025, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### 1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### 1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

### 1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company.

- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

### 1.5 Non-Compliance with Laws, Rules, Regulations and Management Decisions etc.

| Reference to Laws, Rules Regulations etc. | Non-compliance | Management Comment | Recommendation |
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| (a) Financial Regulations of the Government of Sri Lanka: FR 1646 | Fuel expenses of Rs. 3,054,302 and repair & maintenance expenses of Rs.4,222,225 for two pool vehicles were incurred without maintaining or submitting Daily Running Charts as required, preventing verification of efficiency and reasonableness. | As per the management company decision, running chart will not be maintained for the company vehicles used by the senior management. But repair & maintenance expenditure made according to the company procurement procedure. | Daily running charts should be maintained for all pool vehicles in accordance with Financial Regulations. |
| (b) Sub-section 4.2.1 of the Procurement Guidelines – 2006 of the Democratic Socialist Republic of Sri Lanka | The Master Procurement Plan should be prepared at least for a period of three years and should be regularly updated within a period not more than six months and thereafter a detailed Annual Procurement Plan should be prepared for the following year. However, the Company had failed to prepare the Master Procurement Plan. | The procurement plan is aligned with the annual budget and used as the Master Procurement Plan. Steps have been initiated to develop a formal three-year plan, which will be regularly reviewed to enhance procurement efficiency and ensure compliance. | Action should be taken to comply with the Guidelines. |
| (c) Public Enterprises Circular No. 01/2024 dated 28 February 2024 | | | |
| (i) Paragraph 05 | Funds should not be transferred to employees' welfare societies or utilized for other welfare activities such as death donations, scholarships for children, etc. However, it was observed that the Company had incurred an amount of Rs.3,223,000 on staff welfare and entertainment during the financial year 2024/2025. | The Company did not transfer funds to the employees' welfare society; instead, Rs. 3.2 million was spent directly on staff welfare under approved internal procedures. Welfare activities such as death donations and scholarships are handled separately by the Welfare Society using its own funds. | Action should be taken to comply with the provisions of the Circular. |

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| (ii) Paragraph 12 | The Company had spent Rs.3,443,000 on Corporate Social Responsibility (CSR) activities and distributed 5,175 kg of sugar (Rs. 1,423,125) and 22,330 kg of compost (Rs. 245,630) during 2024/2025 without obtaining the Ministerial approval, as required the Circular provision. | All CSR and donation expenditures were made within the Delegation of Authority limits and approved by the management company and the Board. Management considers that these activities, including distribution of sugar and compost, were carried out with proper governance, transparency, and accountability to support the community and stakeholders. | Action should be taken to comply with the provisions of the Circular. |
| (d) Section 5.1 of Operational Manual for State Owned Enterprises as per PE Circular No.01/2021 dated 16 November 2021 | The payment of bonus or profit-based incentives should be made to employees of SOEs after the distribution of levies/dividends as applicable. However, Rs.106,674,221 was paid as employee bonuses during the year 2024/2025 without being declared interim and final dividends. | Under Article 5 of the shareholder agreement, the management company oversees company operations and approved Rs. 106.7M in 2024/25 employee ex-gratia payments. Dividends will be considered only after passing the solvency test based on the audited financials, and the management expects to receive the solvency certificate from the auditor once the 2024/25 audited financials are finalized. | Employee bonuses or incentive payments should be made only in compliance with PE Circular provisions, after meeting dividend and solvency requirements. |

## 2. Financial Review

### 2.1 Financial Result

(a) The operating result of the year under review amounted to a loss of Rs.971,235,000 and the corresponding profit for the preceding year amounted to Rs.1,024,701,000. Therefore, a deterioration amounting to Rs. 1,995,936,000 of the financial result was observed. The reasons for the deterioration are mainly due to an increase in cost of sales and decrease Revenue of the company by Rs. 1,682,473,000 and 195,948,000 respectively.

(b) The direct cost of Extra Neutral Alcohol (ENA) had increased by 94.71 percent in the year under review, rising from Rs.1,803,234,000 in the previous year to 3,511,109,000, while the revenue had decreased by 2.44 percent in the year under review, declining from Rs.8,031,788,000 in the previous year to Rs.7,835,840,000. As a result, the Company’s gross profit decreased from Rs. 4,254,952,000 in the previous year to Rs. 2,376,530,000 in the year under review by Rs. 1,878,422,000 or 44.15 percent and there was a net loss of Rs.971,235,000 in the year under review.

## 3. Operational Review

### 3.1 Management Inefficiencies

| | Audit Issue | Management Comment | Recommendation |
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| **(a)** | According to the information provided to audit, the Company had paid Rs.621,658 as assessment tax to the Damana Pradeshiya Sabha from 2022 to 2025. However, out of 210 quarters, 186 were occupied by unauthorized individuals. In this regard, the Company had not initiated legal action to reclaim these quarters from unauthorized occupants. | Galoya Plantations was established under a Shareholder Agreement with the Government (51%) and private parties (49%). The government's Rs. 516 Mn share includes assets and 30-year land lease rentals over 277.7539 ha, though the lease agreement is not yet finalized. Despite lacking legal authority over encroached quarters, the company has paid all assessment taxes. The lease finalization is in progress, after which the company can take appropriate actions. | The land lease agreement should be finalized without delay, and necessary action to be taken to regularize or recover the unauthorized quarters. |
| **(b)** | As per the Cabinet decision dated 06 March 2009, the Company was granted a 30-year lease for 207.3584 hectares of land in the Damana Divisional Secretariat Division for sugarcane cultivation. Although more than 16 years of the lease period have elapsed, the Company has not yet obtained the formal lease ownership. A lease plan for 170.7345 hectares has been prepared and submitted to the Ampara Survey Office, while the remaining 36.6239 hectares are still pending survey and documentation. | The land lease agreement is being finalized with support from the Ministry of Finance, the Land Commissioner General's Department, and the Ampara District Secretary. Documentation for 184.7921 hectares has been completed and submitted for Presidential approval, while survey work for an additional 17.686 hectares is in progress. The remaining land extent will be finalized in the next phase. | Action should be taken to secure the lease ownership. |
| **(c)** | A total of Rs. 2,009,435,000 had been shown as farmers' loans receivable as at 31 March 2025. According to the loan agreements, these loans were to be recovered in three phases immediately after the cultivation period. However, action had not been taken to recover the loans as agreed. As a result, an outstanding loan balance of Rs.132,842,093 remained unrecovered, even though 03 years had lapsed since the loans were granted. | Management acknowledged that farmer loans totaling Rs. 132.84 million had remained outstanding for over three years as at 31 March 2025. By 31 October 2025, Rs. 9.68 million (about 7%) had been recovered. Although recovery has been slow due to field-level challenges, the Company is continuing to monitor the situation and implement strategies to improve collections. | Loan recovery monitoring mechanisms should be strengthened, and recovery timelines should be strictly enforced in accordance with the terms and conditions of the loan agreements. |

| | Audit Issue | Management Comment | Recommendation |
|---|---|---|---|
| **(d)** | During the audit of the Sugar Factory stores as at 31 March 2025, 10,807.8 metric tons of sugar valued at Rs.649,563,463 and 2,504,608 liters of Extra Neutral Alcohol (ENA) valued at Rs.1,450,370,347 were found in the stores. In this regard, out of the total stock, 7,785.50 metric tons of sugar (155,710 bags) and 100,000 liters of ENA valued at Rs. 57,908,078 were sold to buyers but remain uncollected from the company's warehouses. Although company policy requires collection within two weeks, these goods sold 1 to 9 months ago are still stored. Despite this prolonged delay, the Company had not taken any effective measures to address the situation and continues to store the sold goods in its warehouse on behalf of the buyers. | Brown sugar stock has piled up because fewer people are buying it. Local factories face tough competition from imported white sugar, and a new VAT added in January 2024 has made things harder. To keep cash flowing, the company worked with other factories to sell at low prices in 2024. But customers still couldn't sell the sugar at those rates, so it remained in warehouses. Charging penalties for not picking up stock wasn't a good option, as it could have pushed customers away. | Strict collection timelines for sold goods should be enforced, and appropriate penalties or revised contractual terms should be introduced to prevent prolonged occupation of warehouse space. |
| **(e)** | Monthly electricity bills for four primary connections were not settled on time, resulting in additional interest charges of Rs. 2.75 million by the Ceylon Electricity Board in the year under review. | The delays occurred due to non-moving sugar and ENA resulted cash flow constraints during the period. | Monthly electricity bills should be settled promptly to avoid additional interest charges and unnecessary financial losses. |

**3.2 Operational Inefficiencies**

| | Audit Issue | Management Comment | Recommendation |
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| **(a)** | During the audit, it was observed that 250 MT of sugar was sold on 11 July 2024 for Rs.81,125,000, although the original tender was for 750 MT. Even though two companies submitted identical bids, it was awarded to Company without verifying its financial capacity. As a result, out of the total amount, only Rs.10,000,000 was received, leaving an outstanding balance of Rs. 71,125,000. This transaction also violated the company's cash-only sales policy. As 219.18 MT, amounting to Rs. 71,125,000 remains unpaid, it will now have to be sold at the current market price of Rs. 271.40 per kilogram instead of the sold price of Rs. 324.50 per kilogram. This may result in a potential loss of Rs. 11,638,636. | Out of 750 metric tons offered for sale, only 250 MT were sold. The buyer, a long-standing customer, made a partial payment of Rs. 10 million and asked for more time to pay the rest. Although full payment is normally required before dispatch, management accepted the partial payment due to the strong relationship. When the buyer failed to pay the balance, the Sales Committee cancelled the unsold portion with a credit note. Later attempts to sell the remaining stock at other prices failed due to weak market demand. | Buyers' financial capacity should be properly assessed before approving high-value sales, and the cash sales policy should be strictly followed. |

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| **(b)** | The Company had obtained leasehold rights to the land and buildings of the Hingurana factory complex for a period of 30 years commencing from 20 August 2009. Accordingly, a sum of Rs. 294 million had been recognized as Right-of-Use assets, and the property was subsequently revalued to Rs. 3,517 million during the year 2024/2025. However, it was observed that no profit remittances or lease payments had been made to the Government of Sri Lanka since the commencement of the lease period. Further, the lease agreement relating to this arrangement had not been made available for audit verification, and the lease rentals payable from 2009 to date had neither been computed nor accounted for in the financial statements. | The government hold 51% right of ordinary shares of the company worth of Rs. 222Mn Plant, Equipment, Vehicle, etc and worth of Rs. 294Mn for NPV value of right to use of Land and buildings for 30 years period. The government entitles to receive dividends on ordinary shares as declared time to time by company. Previously, company board of directors has been approved dividend but company was unable to paid it due to insolvency. Therefore, the company couldn't liable to pay either lease rental or financial consideration to shareholders except dividend. | The lease agreement should be formalized and made available for audit verification, account for outstanding lease rentals, and regularize its financial obligations to the Government while improving solvency. |

### 3.3 Procurement Management

| Audit Issue | Management Comment | Recommendation |
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| The Company had purchased MCPA 60 and Diuron biochemical from a Company on 12 September 2022 for Rs.68,500,000. In this regard, the normal procurement process typically requires 26 days. However, the purchase process had been commenced on 12 September 2022 and payment made the next day, completing the transaction in just 2 days, undermining transaction efficiency and transparency. Further, the Company had not submitted the registered supplier details to audit, preventing verification of the supplier's authenticity. The supplier was also found to lack of Registration of Pesticides (ROP). | Galoya Plantations urgently procured MCPA 60 and Diuron for sugarcane weed control during a market shortage, as leading suppliers were unable to supply. An SLS-certified sample was tested satisfactorily, and management proceeded with the purchase due to supply risks. Legal action is now ongoing to recover the resulting loss. The incident occurred during a nationwide agrochemical and fertilizer scarcity due to import restrictions. | Emergency procurement procedures should be properly documented and approved, with post-procurement reviews conducted to ensure transparency. Procurement should be made only from verified suppliers, and complete and accurate records should be maintained. |