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Our History

|| Not only does PSIPLC provide precious jobs for these villagers,
but also improves the local infrastructure with
projects such as construction and renovation
of new tanks, continued maintenance of schools
and an extensive road network that
nourish local agricultural production ||

Pelwatta Sugar Industries PLC operates Sri Lanka's largest and most technologically-advanced sugar factory, situated in the Moneragala District of the Uva Province. It cultivates sugar cane under rain-fed conditions, and produces sugar and other by-products from the raw cane.

The PSIPLC factory produced around 40,000 tons of sugar in 2004/05, and the Company projects to produce as much as 55,000 to 60,000 tons in the next twelve months, with a medium-term goal of 70,000 tons annually.

A subsidiary company, Pelwatta Sugar Distilleries (Pvt) Ltd., produces potable and technical alcohol utilizing molasses, a by-product of the sugar factory. PSIL uses bagasse, another cane by-product, as fuel for a facility that can generate up to 3 MW of power during the harvesting season when the material is available. The Company utilizes the electricity generated, in the factory, office complex, residential quarters and the surrounding township.

The PSIPLC factory receives its sugar cane from three main sources. The Company manages the 2,700-hectare Nucleus Estate and a Settlement Estate of 3,500 hectares, where PSIPLC has settled 1,500 families with the assistance of the Sri Lankan Government. More than 7,600 private outgrowers also cultivate cane for commercial sale to the factory.

As the economic nucleus for the Moneragala District, which is among the poorest in Sri Lanka, the PSIPLC factory provides coveted employment opportunities for 1,500 local residents, and part-time and seasonal work for 4,000 more. All told, as many as 100,000 people benefit from the presence of the factory.

2004/05 was a significant milestone as the Company operated at a profit for the first time after privatization.

PSIPLC has appealed to the Government to establish fair competition between foreign and indigenous sugar producers, pointing out that successful Sri Lankan enterprise benefits the national economy, and more importantly the disadvantaged residents of Moneragala District. Not only does PSIPLC provide precious jobs for these villagers, but also improves the local infrastructure with projects such as construction and renovation of new tanks, continued maintenance of schools and an extensive road network that nourish local agricultural production.

Finally, PSIPLC produces a home grown natural product for Sri Lankans. Unlike bleached, processed white sugar, the natural brown sugar produced and packaged by PSIPLC provides a key basic food product that promotes good health for people across the country.

Chairman's Review

|| We intend facilitating plantation of over 3,000 ha.
by outgrowers in 2008/09, including 1,000 ha.
at Wandama and 1,100 ha. of currently fallow land
at Badalkumbura, Pelwatte, Wellawaya and Buttala ||

On behalf of the Board of Directors of the Company, I have pleasure in welcoming you to the 25th Annual General Meeting of Pelwatte Sugar Industries PLC and to present the Annual Accounts for the year ended 31st March 2008.

Lending Perspective - the Performance of the National Economy

Quoting from the Annual Report of the Central Bank for the year 2007, "In 2007 the Sri Lankan economy recorded a growth of well above 6% for the third consecutive year for the first time since independence, demonstrating that Sri Lanka has now moved on to a higher growth path of about 6% per annum from the historical average of around 4-5%".

The recorded growth in the economy was 6.8% and unemployment level was also reported to be at the lowest ever recorded level of 6%. The report also indicated that the per capita income in Sri Lanka had risen to US\$ 1,617 compared to US\$ 1,421 in 2006. This performance is noteworthy when considering the very turbulent environment prevailing with heightened security concerns and rapidly rising petroleum and commodity prices globally.

The high inflationary tendencies which continued during this year have now reached alarming proportions with the point-to-point inflation reaching around 28% which exceeds the highest inflation ever recorded in the country. The expenditure on the war to eradicate terrorism is inevitable. However, unless excessive Government

expenditure is curtailed, the high inflationary threat will continue to have a very severe adverse impact on all industrial and commercial operations in the country.

Your Company's Performance

Special Projects

PSIPLC's investment in the Dairy Industry is embodied in a project approved by the Ministry of Industrial Development under the Gamata Karmantha Programme and the BOI. We have made progress, with our new Milk Processing Plant currently undergoing installation, for commissioning in the near future. The investment was funded through an interest free loan of € 2,265,000 from the Government of Denmark (DANIDA) under their provisions for Mixed Credit Funding for developing countries.

Expenditure on the construction of chalets for our Leisure Project was suspended due to severe cash constraints resulting from the substantial losses sustained by the Sugar Cane Industry this year. Work will only be resumed after the Company effects a turn around in business to achieve sustainable profitability.

Production

Sugar cane production was affected by a number of factors during the year in review and consequently dropped drastically to levels that constitute the worst on record in recent times.

Crops were badly affected by an infestation of a pest known as the 'Woolly Aphid', and despite extensive crop spraying as a preventive measure, we were not making adequate headway in redressing the problem. However, on the advice of the Sugar Cane Research Institute, the adoption of biological control measures, through the introduction of a predatory insect named 'Dipha Aphidivora', combined with continued crop spraying, is at last bringing the menace under control.

We are confident that we have got over the worst of the crisis.

It is also intended to introduce a resistant variety of sugar cane, identified by the Sugar Cane Research Institute from India. When planting material is made available, we intend propagating this variety in the seed cane nurseries and introducing it in our fields.

We were very badly let down by the outgrowers this year with the area under cane cultivation being reduced to around 3,200 ha. Outgrower farmers moved away from sugar cane cultivation due to escalation of costs. Fertilizer prices as well as fuel costs increased by more than 100%, resulting in land preparation costs increasing substantially. The cost of cultivation increased to around Rs. 150,000/- per ha. from Rs. 100,000/- per ha. a 50% increase.

Assistance was given to the farmers by the Central Bank through the Non-Comprehensive Rural Credit Scheme (NCRCS), whereby the Company was given a loan of Rs. 200 Million at 8% interest to purchase standing cane on a forward contract, repayable after 300 days. These funds were utilized by the Company to reduce the cost of production of the farmers by around Rs. 50,000/- to Rs. 52,000/- per ha., with land preparation cost being subsidized. PSiPLC also offered a 20% fertilizer subsidy to farmers amounting to Rs. 2,810/- per ha.

The subsidies given for promoting the plantation of rubber and maize has also resulted in 800 ha. of land, from Badalkumbura previously used for sugar cane, being diverted to these two crops, as outgrowers found it more remunerative to cultivate such crops, instead of sugar cane.

We intend facilitating plantation of over 3,000 ha. by outgrowers in 2008/09, including 1,000 ha. at Wandama and 1,100 ha. of currently fallow land at Badalkumbura, Pelwatta, Wellawaya and Buttala.

Sugar Cane Harvest

The chart appearing on this page summarizes the cane harvested, sugar produced, rendement achieved and sugar sales, during the last 10 years. It graphically portrays the drastic reduction in the crop harvested in 2007/08.

Year	Nucleus MT	Settlers MT	Outgrowers MT	Total MT	Sugar Produced MT	Rendement %	Sugar Sales Rs. Mn.
1997/98	55,621	98,297	371,387	525,305	44,150	8.40	1,400
1998/99	80,533	93,328	316,792	490,653	40,300	8.21	1,237
1999/00	78,383	109,977	307,403	495,763	42,900	8.65	1,700
2000/01	59,752	117,490	309,322	486,564	39,195	8.06	919
2001/02	39,457	83,143	179,127	301,727	26,449	8.77	815
2002/03	43,264	67,718	160,530	271,512	23,892	8.80	718
2003/04	113,962	134,098	250,162	498,222	42,442	8.52	1,116
2004/05	92,918	114,422	262,478	469,818	40,152	8.55	1,204
2005/06	82,422	132,536	258,340	473,298	39,141	8.28	1,529
2006/07	72,619	121,148	210,479	404,246	34,750	8.60	1,746
2007/08	58,543	70,912	108,759	238,214	18,982	7.90	899

The rendement achieved was the lowest on record during the last 10 years due to the Woolly Aphid infestation.

This chart further illustrates our very poor performance in 2007/08. It details sugar cane received by the Company from various sources and records a drop of 59% in cane harvested, when compared with the results of 2006/07.

	2007/08 Harvest	2006/07 Harvest	Reduction in Harvest	Percentage Reduction
Nucleus Estate	58,543	72,619	(14,076)	(19%)
Outgrower	92,833	188,919	(96,086)	(51%)
Settler	70,912	121,148	(50,236)	(42%)
ISFO	15,926	21,560	(5,634)	(26%)
Total	238,214	404,246	(166,032)	(41%)

The overall decline in sugar cane harvest reflected the general decline in the Industry in Sri Lanka in the year 2007, as highlighted in the Central Bank Report, which is quoted below:

“Domestic sugar production decreased by 43% in 2007, mostly due to decrease in cane supply and labour unrest at the Sevanagala sugar factory. The drought weather condition and relatively higher fertilizer prices too contributed to the decline. The area harvested in 2007, declined by 21% as many farmers have shifted to banana cultivation due to unfavourable market conditions. As a result the total cane harvest decreased by 40%. Private cane purchases have also declined almost by half.”

Nucleus Estate

There was a substantial decrease of 166,032 MT of cane when compared with last year, and yield per ha. has decreased from 44 to 33.

Outgrowers

Outgrowers (excluding ISFO) delivered only 92,833 MT of cane in 2007/08 when compared with 188,920 MT in 2006/07. The percentage of cane delivered by outgrowers, as a component of total supplies received in 2007/08 was reduced to 39% from 47% during 2006/07. The yield per ha. achieved also declined to 32 per MT.

The Integrated Sugar Cane Farmers' Organization (ISFO) supplied only 15,926 MT as against 21,560 MT of cane supplied last year and the recorded yield was only 35 MT per ha. when compared with 46 MT per ha. achieved last year.

Settler Scheme

Cane delivered by the settlers was reduced to 70,909 MT when compared to supply of 121,148 MT last year.

Cost of Production

The COP increased substantially due to the high inflation prevailing in the country, and was adversely affected by the poor crops harvested. The COP per MT reached unprecedented levels of Rs. 99,700/-. The increased cost was also affected by an increase in the labour wages by Rs. 60 Million per annum, on the basis of a wage increase of Rs. 1,000/- per month from December 2007.

Our Financial Performance

The Company recorded a substantial loss of Rs. 701 Million, which is the worst performance recorded in recent times, with relatively low prices obtained for sugar cane, averaging around Rs. 42/- per kg. compared to Rs. 55/- per kg. last year. The reduction in selling prices was due to pressure exerted on domestic pricing by imports from India and Thailand. The VAT payable, amounting to Rs. 280 Million for the year was a severe burden on the profitability and the cash flow of the Company. With strong representations being made to the authorities, the Government decided to exempt sugar cane from VAT with effect from 1st January 2008. However, the unpaid VAT liability of Rs. 280 Million has to be met by the Company.

Consolidated Accounts also reflect a down turn in the sugar cane operation and there was a loss after tax of Rs. 732 Million, when compared with a profit of Rs. 254 Million recorded in 2006/07.

Pelwatte Sugar Distilleries PLC (PSDPLC)

There was a reduction in production of alcohol from 573,163,088 Million bulk litres to 358,034,000 Million bulk litres achieved last year. This was due to the short fall of molasses available for distillation as a result of the sharp decline in the sugar cane crop and consequentially PSDL was not in production for 6 months.

The profit before tax in 2007/08 was Rs. 11.20 Million, compared with the profit of Rs. 106.9 Million in 2006/07.

Our alcohol production continued to yield savings in valuable foreign exchange, which would otherwise have been expended on import of alcohol to Sri Lanka.

Main Liabilities

As at 31st March 2007, the total borrowings of the Company amounted to Rs. 940 Million with banking facilities obtained from Bank of Ceylon, after repaying the earlier existing overdraft facility of Rs. 560 Million at Hatton National Bank. The total facilities utilised by the Company as at 31st March 2008, are detailed below:

Bank of Ceylon - Temporary overdraft	190
NCRCS loan	200
Short-Term Loan - BOC	150
Lanka Orix factors	75
Commercial Bank - STL	155
Advances from customers	170
Total	940

Future Prospects

As indicated earlier, we intend planting an additional 3,000 ha. during the year, in addition to an extent of 1,540 ha. planted last year. Special attention has been paid to revive outgrower cultivation by better supervision and giving more assistance to outgrowers. We anticipate a harvest of over 400,000 MT in the current year, on the basis of a critical assessment of the availability of cane.

Sugar prices have been maintained at a relatively high level of around Rs. 50/- per kg. and if they prevail at this level over the ensuing year, the Company will return to profitability within the same year.

The rate of inflation continues to increase and there appears to be no prospect of returning to reasonable levels, in the near future. The overall pressure on wages would result in increasing the Cost of Production, which will adversely affect the profitability. Our endeavour is to ensure that we achieve reasonable levels of profitability in 2008/09 under very difficult and challenging circumstances.

Dividend

No dividend can be declared due to the substantial loss recorded this year.

Conclusion

2007/08 has been our worst year since privatization. Most of the reasons for this downturn were due to factors beyond our direct control. Perhaps the management was also to be blamed for not being proactive in observing the changes in the economic environment and a drastic escalation in the cost of production, resulting in a substantial down turn in sugar cane cultivation. This has resulted in cultivators moving into more productive crops like banana, maize and rubber to the detriment of sugar cane cultivation. With the assistance from Central Bank, through the Non-Comprehensive Rural Credit Scheme (NCRCS), we have succeeded in reactivating the outgrowers to resume sugar cane cultivation, and we are confident of a substantial increase in the delivery of cane from the outgrowers.

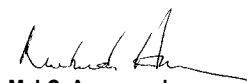
Mr. Ariyaseela Wickramanayake, the Managing Director's endeavour to maintain his close involvement with all aspects of the management is appreciated. His efforts to supervise vital aspects of the management, and funding of the Company during this difficult period enabled us to overcome serious financial problems during the year.

My appreciation is due, on behalf of the Board to the Management Team, for their efforts to control costs during the most critical year since privatization.

I also wish to convey my sincere thanks to the Board Members for their contributions to the deliberations of the Board.

On behalf of the Board, I wish to convey our appreciation to the Auditors, Messrs Ernst & Young for their expeditious completion of the audit and for their continued advice to the Management throughout the year on all financial and accounting matters.

I thank all our shareholders for the trust and confidence they have placed in the abilities of all of us who administer it on their behalf. I wish to reassure them that we have firm plans and strategies to redress this year of setback and am confident that we are on the right track to set PSiPLC on a winning path once again.


M.J.C. Amarasuriya
Chairman

Managing Director's Review

**We continued to make progress over the years
through prudent management practices**

The privatization of Pelwatte Sugar Industries in 2002 ushered in a period of rapid progress with substantial improvements ensuing in the land under cane cultivation and the amount of sugar produced. This fact is acknowledged in the Annual Report of the Central Bank for the year 2003.

We continued to make progress over the years through prudent management practices.

Coming to the present, and the year 2007, we have managed to repay our loans including the mortgage of the Distillery, despite being unfairly burdened by the imposition of VAT by the authorities, which has so far drained Rs. 770 Million from the Company's coffers. Additionally, the Department of Inland Revenue is demanding the payment of a further Rs. 400 Million from the Company as arrears. We have repeatedly drawn the attention of the authorities to this unfair practice of charging VAT from us, when we were not liable for GST. On the other hand, importers of Gas and Wheat and Cellular Operators are exempt from these payments and are also provided with extended tax holidays with other concessions by the authorities, whilst most of the profits from these enterprises are not being retained in the country.



Had such concessions been extended to Pelwatte Sugar Industries, and had the VAT payments we had to make to the authorities, been available for investment in the Sugar Industry instead, specifically to develop its' infrastructure, purchase irrigation equipment to achieve higher yields, improve production facilities, plant thousands more hectares of cane and build tanks to irrigate the crop during the dry season to achieve better cane yields, we would have been able to make giant strides in our mission to make Sri Lanka self-sufficient in Sugar and Alcohol and provide favourable returns to our Stakeholders whilst saving huge amounts of foreign exchange for the country.



It is relevant to mention here that Sugar Cane farmers do not qualify to receive subsidized fertilizer from the Government whereas farmers growing other crops are granted this concession. We also contribute Rs. 7,000 Million to the Government coffers annually as Excise Duty through the sale of good quality alcohol, matching international standards to all major liquor producers in Sri Lanka.

As shareholders of Pelwatte Sugar Industries you should be very proud that your Company is an Agro-based enterprise, working very closely with the farmers in a District where poverty levels are the highest in Sri Lanka. We are not a Trading Company attempting to make profits by importing and selling items made elsewhere in the world.

We are very mindful of the core role we embrace, as a responsible corporate citizen, and within our CSR activities, we support the local sugar cane farmers, numbering over 25,000, with our extensive network of Agricultural Extension Services and provide them with Resources such as Seed Cane, Fertilizer, Chemicals, assistance for land preparation amongst other benefits, to grow sugar cane which is purchased by the Company at a very fair price. We provide employment opportunities for people in the District with over 8,000 directly employed at the Factory and its connected Agricultural activities and save foreign exchange for the country through increased sugar and alcohol production. We give preference to employing Engineering, Agricultural, Science and Management Graduates from the District and provide them with Training to enable them to function successfully. Our ultimate objective is to make Pelwatte Sugar Industries and its' subsidiary companies Model Industries in the sectors of Eco Tourism, Dairy, Animal Feed, Power Generation and Ethanol Production in Sri Lanka.

We continued our operations against a backdrop as already explained, and in spite of all the constraints, strove hard to meet our objectives for the financial year 2007/08.

As Shareholders of Pelwatte Sugar Industries, you were paid dividends on a regular basis since privatization.

It is unfortunate that our sugar cane plantations including the harvest in the Outgrower and Settler areas were adversely affected by approximately 35%-40% by the 'Wholley Aphid Pest' during the year

under review, resulting in the cane harvest being the lowest in recent history. The Sugar Cane Research Institute, after studying the problem with assistance from India, has concluded that the development of a 'Natural Predator' is the best option rather than to resort to the usage of chemicals to eradicate this pest. This pest attack in the plantations caused a major setback to our plans for the year and we had to curtail our expenditure in all areas. There was also an escalation of costs in fuel, wages, cane purchase price and fertilizer during this period. In addition, a Restructuring of Top Management was carried out to achieve more efficient operations with the accent on Productivity and Performance.

In view of these negative impacts on our business, we are regretfully not in a position to declare a dividend to our Shareholders for the year 2007/08. However, we wish to assure our Shareholders that the projects in the 'pipe-line' which are all subsidiary companies of Pelwatte Sugar Industries will bear fruit and 'Add Value' to the portfolio of our investors.

We view the performance of the year 2007/08 as a temporary set-back, and are very confident that we have effective strategies in place to achieve better performance in the coming years, including plans to add 4,000 ha. of cane each year. We have purchased over 100 new land preparation equipment machines (Counties and Tractors) and have expanded the factory processing capacity to 4,500 TCD.



The installation of the Animal Feed Factory is completed and will be commissioned shortly. This is the largest plant in Sri Lanka and is linked to our plans to develop the Dairy Industry in the District.

The machinery for the 100,000 litres per day milk processing plant has already reached our site from Europe and installation is proceeding.

This plant will produce flavoured milk, cheese, ice creams, yoghurt and powdered milk.



The construction work on our Eco-Tourism project was curtailed due to financial constraints, but will continue when the situation improves.

This hotel project is being advertised by its American Tour Operator in prestigious international magazines as one under construction.

As the biggest sugar producer in the country, we are also actively lobbying with the authorities to propagate the usage of Ethanol to replace imported fossil fuel.

I would like to conclude by reaffirming that I am totally committed to making Pelwatte Sugar Industries a success story. I thank our shareholders for their commitment and faith in PSIL's journey thus far. I would request them to continue to extend their fullest support and cooperation as we strive to reach our goals.

In conclusion, I wish to leave these thoughts with you. As shareholders and responsible citizens of the country, we need to raise our voices to make our case heard by the authorities, vis-à-vis the environment within which PSIL must operate. As the majority shareholder, I have not accepted dividends declared by the Company, as I strongly believe that Pelwatte Sugar Industries has to be supported at this juncture to expand to its' full potential.

A handwritten signature in black ink, appearing to read 'D.A. De S. Wickramanayake'. The signature is fluid and cursive.

D.A. De S. Wickramanayake

Managing Director

Corporate and Social Responsibilities

|| To Pelwatte, 'living well' means a corporate life well spent...in pursuing business goals whilst being a caring and responsible member of society and the world around us ||

Living Well

To many, the words 'living well' could mean a life of comfort, financial well-being and all the trappings of luxury.

To Pelwatte, 'living well' means a corporate life well spent...in pursuing business goals whilst being a caring and responsible member of society and the world around us.

The Pelwatte Group is a well-knit community, sharing all the qualities of togetherness and sense of belonging to a common family. We are mindful firstly, of our geographic location situated as we are in the most unforgiving natural surroundings of Buttala, where terrain and society share the harsh rigours of impoverishment both natural and societal. This is precisely why Pelwatte includes the wider community in its core being.

It is impossible for us not to contemplate this issue and take it to heart.

Our activities have always included people far beyond those on our direct payroll. From our outgrowers, to the children in surrounding villages, we have found a way to include them all in the heart of the Company.

PSIPLC has taken a very focussed approach when deciding on how best we could respond to community needs, given the characteristics and nature of our location. We chose to do what we could to open avenues for people to build lucrative lives for themselves and their families.

Thus in our CSR initiatives, there is a very definite focus on education as a means of uplifting rural youth and providing them with the means to seek lucrative futures.

Let us now present to you an account of what we have been able to achieve during the year in review.

Education

PSIPLC has an ongoing initiative which provides for a regular intake of trained graduates from the Uva Province, who after a one year training period, are offered managerial grade employment with the Company.

Since 2002, PSIPLC has employed graduates, whose degrees span a gamut of disciplines such as Agriculture, Engineering, Accountancy and Finance, Food Science, Survey, Banking and Finance, Accounting, Marketing, HR, Entrepreneurship and Sociology.

We provide training facilities for students following instruction at Universities, NDT (National Diploma in Technology), Technical Colleges, NAITA (National Apprentice and Industrial Training Authority) and the Institute of Engineering Technology.

As an example, training facilities are afforded to those following Bachelor of Science Degree courses in Engineering (Mechanical), Engineering (Chemical), Business Management and Agriculture, as well as to students following BBA courses in Accounting and Finance and Human Resources Management.

We offer training facilities to students following NDT courses in selected fields of speciality e.g., Chemical Engineering and Mechanical Engineering.

In-plant training is offered to students from the Technical Colleges - for example, those from the Technical Colleges of Moneragala and Badulla.

In accordance with the agreement we have with NAITA, we have provided training facilities to students in trades/positions as diverse as Accounts Clerk, Motor Mechanic, Electrician, Boiler Attendant, Fitter, Latheman, Carpentry, Refrigeration and Air-Conditioning, Hydraulic Mechanic, Diesel Engine Mechanic and Room Boy, to name a few.

Educational Support Services

In May 2006, we commenced an initiative to fund the provision of teachers to rural schools in the Moneragala area namely, Pelwatte Navodya MV, Ranjan Wijeratne MV, Kukurampola KV, Kumaragama KV and Munasinghe KV.

PSIL has allocated substantial funds for this purpose.

PSIL conducts seminars on topical subjects annually, for Year-5 and GCE 'O' Level students drawn from schools in the Moneragala District. Participants are provided transport facilities as well as lunch and refreshments by the Company.



The Company also encourages students to attend schools as regularly as they can by providing funding for nine buses that run each day to and from schools in the vicinity of our premises at Buttala. We have provided an outlay of Rs. 25,000/- per day for this transport scheme.

There is tremendous talent on display in schools within the settler areas, in the field of sports. PSIPCL is committed to nurturing this talent. We've begun by providing heavy machinery required to prepare playgrounds in the Ranjan Wijeratne MV, the Pelwatte Navodya MV and the Kukurampola KV.

The Company also comes in as the main sponsor of sports meets and the cultural activities of schools in the vicinity of our enterprise.



Social Development in Settler Areas

In this area too, PSIPCL undertakes a considerable quantum of work each year, to uplift and sustain these communities.

The Company provides for teachers in 10 Pre-Schools situated in settler areas. This is our contribution, to give children a head start in life and hopefully to help lead them to a more prosperous future.

We also build community centres and provide sports equipment for Youth Societies in these areas.

The Company funds a medical clinic on a once-a-week basis for settler farmers. We also provide them with Medical and Ambulance facilities.



The Company conducts farmer training programmes for settler farmers as described - in-house training on household dairy farming; outbound training programmes at Mahaberiyatenne Mid-Country Livestock Development Centre; mobile training programmes with video presentations in collaboration with our subsidiary, Pelwatta Dairy Industries (Pvt.) Ltd.



PSIPLC also seeks to support and conduct cultural activities in the region with the objective of enhancing the abilities and skills of students in rural schools, higher educational institutions and art institutions in the Moneragala District.

Thus we organize cultural festivals that include drama competitions, essay writing, folk singing, dancing and art exhibitions which are conducted in collaboration with the Cultural Officers attached to the District Secretariat of Moneragala.

The Company has looked into the development of general infrastructure in our locality and have involved ourselves in road maintenance work in the settler areas. We've also built a bridge in the Kukurampola area, which has reduced significantly the transportation problems that prevailed hitherto.

Living in Harmony with Wildlife

PSIPLC spends close upon Rs. 50 Million annually on a programme to protect the elephant. We are situated in the heart of elephant country, with the perennial problem of how to get humans and elephants to live in harmony. The expenditure under this programme goes to ensure that crops and human beings are protected from elephant incursions.

The main elements of the scheme involve an 'electric fence' and the employment of over 250 workers equipped with 30 tractors to patrol the borders and to maintain elephant trenches to prevent elephants crossing over to human habitation. To date PSIPLC has completed over 40 kms. of trenches as a preventive measure against elephant incursions.

And in the End...

Thankfully, there is a healthy momentum growing amongst the businesses of today, all around the world. That 'corporate deafness'... that 'corporate blindness' to the social, environmental and economic conditions around us, which almost always spells doom for businesses, is fast giving way to 'corporate awareness', and redefined core values.

The year in review has not been one of success for us in purely business terms. However, one lives by core values, morals and ethics. One has one's own personality and character - this is why, we do not know any other way to live - than to continue to live by our beliefs. And this is why we will never 'change' what we do as a responsible citizen of Sri Lanka.

At the end of the day, all of us at the Pelwatta Group have felt truly fortunate to have been able to do what we can to support and nourish our communities.

Directors' Report

The Directors are pleased to submit their Report for the year ended 31st March 2008, together with the Audited Financial Statements of the Company.

The Principal Activities of the Company

During the financial year, principal activities of the Company were cultivating of sugar cane, manufacturing of sugar and marketing of sugar and molasses. Principal activities of the Subsidiary Company were manufacturing and marketing of alcohol spirits.

Results

The operating loss of the Company before interest costs and income tax was Rs. 569.64 Million. The loss after interest costs of the Company was Rs. 677.89 Million.

In the opinion of the Directors:

- The Profits & Loss Account is drawn up so as to give a true and fair view of the profit or loss of the Company for the financial year ended 31st March 2008;
- The Balance Sheet is drawn up so as to give a true and fair view of the state of the affairs of the Company as at 31st March 2008; and
- At the date of this statement there are reasonable grounds to believe that the Company will be able to meet all its commitments as and when they fall due.

Significant Changes in the State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company during the year under review that has not been disclosed in the Report or the Financial Statements.

Market Value of Ordinary Shares

Market value of the Company's ordinary share during the financial year is set out below:

	Rs.
Highest	41.50
Lowest	22.25
As at 31.03.2008	22.50

Analysis of Shareholders as at 31st March 2008

			No. of Holders	Total Holdings	%
Less than	1,001	Shares	2,223	537,116	0.8
1,001	to	5,000	990	1,959,988	2.9
5,001	to	10,000	99	763,342	1.1
10,001	to	50,000	89	2,080,400	3.1
50,001	to	100,000	11	824,000	1.2
100,001	to	500,000	6	1,271,300	1.9
500,001	to	1,000,000	2	1,217,400	1.8
Over		1,000,000	3	59,323,345	87.3
Total			3,423	67,976,891	100.0

Top 20 Shareholders as at 31st March 2008

Name	No. of Shares	
	31.03.2008	31.03.2007
1. Master Divers (Pvt) Ltd.	55,563,845	55,563,845
2. Mr. D.A. De S. Wickramanayake	2,203,700	2,203,700
3. J.B. Cocoshell (Pvt) Ltd.	1,555,800	1,668,200
4. Mrs. P.N. Bhatt	641,000	641,000
5. Seylan Bank Ltd./ Priyani Dharshini Ratna Gopal	576,400	543,500
6. Mr. S.K. Beng	500,000	500,000
7. Thurston Investments Ltd.	206,700	206,700
8. Goodhope Holding Ltd.	175,000	165,800
9. Ceylon Biscuits Ltd.	146,600	102,400
10. Cinnovation Incorporated	141,300	185,900
11. Dr. (Mrs.) V. Sivaprakasapillai	101,700	-
12. Mr. E.A. Sumanasiri	100,000	80,000
13. Mr. Y. Thilakasena	94,300	94,300
14. Waldock Mackenzie Ltd./ Delmege Forsyth & Co.	94,200	94,200
15. National Development Bank PLC/ Mouldex Ltd.	87,700	87,700
16. Mr. M.G. Wambeek	79,100	79,100
17. Fall Creek Management	68,900	68,900
18. Bank of Ceylon A/c Cetbank Century Growth Fund	66,600	-
19. Mr. M.J.C. Amarasuriya	65,000	65,000
20. Mrs. S.M. Warnakulasooriya	60,400	34,000

Public Shareholding

Excluding the following	No. of Shares	%
Master Divers (Pvt) Ltd.	55,563,845	81.74
Mr. D.A. De S. Wikramanayake	2,203,700	3.24
Mr. Y. Thilakasena	94,300	0.14
Mr. M.J.C. Amarasuriya	65,000	0.10
Mr. N.V.T.A. Weragoda Mrs. H.M.C.T.K.K. Weragoda }	500	0.00
	57,927,345	85.22
Public Shareholding	10,049,546	14.78
Total	67,976,891	100.00

Directors Shareholding as at 31st March 2008

Name	No. of Shares
Mr. M.J.C. Amarasuriya	65,000
Mr. D.A. De S. Wikramanayake	2,203,700
Mr. Y. Thilakasena	94,300
Mr. N.V.T.A. Weragoda Mrs. H.M.C.T.K.K. Weragoda }	500

Number of Employees

The number of employees of the Company at the end of the year was 6,181 while in the year 2007 it was 7,389.

Re-Appointment of Auditors

Messrs Ernst & Young, who audited the accounts for the financial year 2007/08 being eligible and available, offers themselves for reappointment.

Auditors

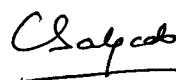
Messrs Ernst & Young, Chartered Accountants, are willing to continue as Auditors of the Company, and a resolution will be tabled at the Annual General Meeting.

Amounts paid and payable by the Company as Audit fees and expenses for the financial year ended 31st March 2008 are Rs. 1,287,800/-. Fees and expenses paid and payable by the Company for other services provided by the Auditors amounts to Rs. 205,925/-.

The Directors confirm that to the best of their knowledge the Auditors have no other relationship or interest in the Company or any of its subsidiaries other than as Auditors.

The Auditors confirm that they are independent in accordance with the Code of Ethics of the Institute of Chartered Accountants of Sri Lanka.

By Order of the Board



Managers & Secretaries (Pvt) Ltd.

Secretaries

Colombo

August 4, 2008

Statement of Directors' Responsibilities

The following statement sets out the responsibilities of the Directors in relation to the Financial Statements of the Company. These differ from the responsibilities of the Auditors, which are set out in their report appearing on page 30.

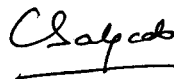
The Companies Act No. 7 of 2007 requires the Directors to prepare Financial Statements for each financial year giving a true and fair view of the state of affairs of the Company as at the end of the profit and loss of the Company for the financial year. In preparing the Financial Statements, appropriate accounting policies have been selected and applied consistently, reasonable and prudent judgments and estimates have been made and applicable accounting standards have been followed.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and to enable them to ensure that the Financial Statements have been prepared and presented in accordance with the Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka and provide the information required by the Companies Act No. 7 of 2007.

They are also responsible for taking reasonable measure to safeguard the assets of the Company and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to prevent and detect fraud and other irregularities.

The Financial Statements have been prepared on the going concern basis as the Board is satisfied that the Company will continue its operations in the foreseeable future.

By Order of the Board.



Managers & Secretaries (Pvt) Ltd./Business Intelligence Ltd.

No. 212, De Saram Place
Colombo 10

Colombo
August 4, 2008

Financial Reports

Financial Calendar

1st Quarter Report	–	30th June 2006
2nd Quarter Report	–	30th September 2006
3rd Quarter Report	–	31st December 2006
Annual Report 2006/07	–	25th May 2007
24th Annual General Meeting	–	17th September 2007
Final Dividend Proposed	–	17th September 2007
Final Dividend Payable	–	24th September 2007

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Independent Auditor's Report



Chartered Accountants

201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : (0) 11 2463500
Fax Gen : (0) 11 2697369
Tax : (0) 11 5578180
eysl@lk.ey.com

TO THE SHAREHOLDERS OF PELWATTE SUGAR INDUSTRIES PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Pelwatte Sugar Industries PLC, the consolidated financial statements of the Company and its subsidiaries which comprise the balance sheets as at 31 March 2008, and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

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 plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2008 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2008 and its loss and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at 31 March 2008 and the loss and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

Without qualifying our opinion, we draw attention to Notes 2.1.2, 18.2 and 18.3 to these financial statements.

Report on Other Legal and Regulatory Requirements

In our opinion, these financial statements also comply with the requirements of Section 151 (2) and 153 (2) to 153 (7) of the Companies Act No. 07 of 2007.

August 4, 2008
Colombo

Income Statements

Year ended 31st March	Note	Group		Company	
		2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
Revenue	3	1,257,128,520	2,321,027,748	1,089,612,588	1,958,147,973
Cost of Sales		(1,501,071,426)	(1,671,395,232)	(1,380,971,648)	(1,505,970,624)
Gross Profit/(Loss)		(243,942,906)	649,632,516	(291,359,060)	452,177,349
Other Income and Gains	4	3,050,829	884,971	2,984,024	599,798
Selling and Distribution Expenses		(399,028)	–	–	–
Administrative Expenses		(346,523,024)	(315,901,387)	(281,271,858)	(231,443,302)
Finance Cost	5	(194,568,046)	(114,122,373)	(194,011,102)	(107,264,608)
Finance Income	5	88,212,664	78,974,637	85,771,158	78,486,704
Profit/(Loss) before Tax		(694,169,511)	299,468,364	(677,886,838)	192,555,941
Tax Expense	7	(37,973,644)	(44,992,302)	(23,176,701)	(12,832,848)
Profit/(Loss) for the year		(732,143,155)	254,476,062	(701,063,539)	179,723,093
Attributable to:					
Equity Holders of the Parent		(716,969,876)	242,014,742	(701,063,539)	179,723,093
Minority Interest		(15,173,279)	12,461,320	–	–
		(732,143,155)	254,476,062	(701,063,539)	179,723,093
Basic Earnings per Share	8	(10.54)	3.56		
Dividend per Share		1.25	1.00		

The Accounting Policies and Notes on pages 23 to 44 form an integral part of these Financial Statements.

August 4, 2008
Colombo

Balance Sheets

As at 31st March	Note	Group		Company	
		2008 Rs.	2007 Restated Rs.	2008 Rs.	2007 Restated Rs.
ASSETS					
Non-Current Assets					
Property, Plant & Equipment	9	1,426,549,184	1,059,567,318	847,482,816	784,947,982
Biological Assets		912,461	–	–	–
Investment in Subsidiaries	10	–	–	100,000,100	100,000,000
Other Investments	11	4,000,000	4,000,010	4,000,000	4,000,010
Amount due from Related Parties	24	–	–	23,623,293	–
		1,431,461,645	1,063,567,328	975,106,209	888,947,992
Current Assets					
Investments	11	242,645,000	684,134,382	242,645,000	684,134,382
Inventories	12	542,968,986	432,015,871	529,667,516	422,777,613
Trade and Other Receivables	13	89,663,471	106,372,603	45,420,229	82,292,936
Loan Due from Farmers	14	269,464,307	179,773,564	269,464,307	179,773,564
Amount Due from Related Parties	24	–	45,150,152	95,228,813	45,150,152
Cash & Cash Equivalents	15	28,959,432	92,663,336	28,806,032	72,767,812
		1,173,701,196	1,540,109,908	1,211,231,897	1,486,896,459
Total Assets		2,605,162,841	2,603,677,236	2,186,338,106	2,375,844,451
EQUITY AND LIABILITIES					
Capital and Reserves					
Stated Capital	16	679,768,910	679,768,910	679,768,910	679,768,910
Reserves	18	374,393,173	374,393,173	374,393,173	374,393,173
Accumulated Losses		(819,020,278)	(85,704,135)	(1,058,545,479)	(345,230,725)
Shareholders' Funds		235,141,805	968,457,948	(4,383,396)	708,931,358
Minority Interest		52,733,035	72,001,266	–	–
Total Equity		287,874,840	1,040,459,214	(4,383,396)	708,931,358
Non-Current Liabilities					
Interest Bearing Loans & Borrowings	19	282,493,325	21,019,845	13,814,993	21,019,845
Deferred Tax Liabilities	20	2,689,539	1,480,735	–	–
Retirement Benefit Liability	21	194,772,326	167,708,528	191,419,878	164,988,248
		479,955,190	190,209,108	205,234,871	186,008,093
Current Liabilities					
Trade and Other Payables	22	694,065,512	415,231,891	574,958,838	332,618,887
Income Tax Liabilities		77,891,022	55,898,237	24,821,812	16,194,322
Amounts Due to Related Parties	23	67,319,305	66,198,761	393,163,198	340,040,813
Interest Bearing Loans & Borrowings	19	998,056,972	835,680,025	992,542,783	792,050,978
		1,837,332,811	1,373,008,914	1,985,486,631	1,480,905,000
Total Equity and Liabilities		2,605,162,841	2,603,677,236	2,186,338,106	2,375,844,451

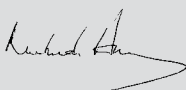
These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



Financial Controller

Prasad Haputhanthrie

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Signed for and on behalf of the Board by:



Director

Mahendra Amarasuriya



Director

Ariyaseela Wickramanayake

The Accounting Policies and Notes on pages 23 to 44 form an integral part of these Financial Statements.

August 4, 2008,
Colombo

Statement of Changes in Equity

Group

Group	Note	Attributable to Equity Holders of the Parent								Minority Interest	Total Equity
		Share Capital	Stated Capital	Revaluation Reserve	Funds Awaiting Allotment	Reserve on Offshore Loan Settlement	Reserve on Government Debentures	Accumulated Profits/(Losses)	Total		
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 1st April 2006		679,768,910	–	3,440,947	15,928,700	136,377,955	234,574,271	(275,670,686)	794,420,097	59,539,946	853,960,043
Effect of Correction of											
Prior Period Error	17	–	–	–	(15,928,700)	–	–	15,928,700	–	–	–
Net Profit for the Year		–	–	–	–	–	–	242,014,742	242,014,742	12,461,320	254,476,062
Dividends for 2005/06		–	–	–	–	–	–	(67,976,891)	(67,976,891)	–	(67,976,891)
Restated Balance											
as at 31st March 2007		679,768,910	–	3,440,947	–	136,377,955	234,574,271	(85,704,135)	968,457,948	72,001,266	1,040,459,214
Transfers	16	(679,768,910)	679,768,910	–	–	–	–	–	–	–	–
Share of Net Assets of Subsidiary		–	–	–	–	–	–	(4,095,052)	(4,095,052)	(4,094,952)	(8,190,004)
Net Loss for the Year		–	–	–	–	–	–	(716,969,876)	(716,969,876)	(15,173,279)	(732,143,155)
Dividend for 2006/07		–	–	–	–	–	–	(12,251,215)	(12,251,215)	–	(12,251,215)
As at 31st March 2008		–	679,768,910	3,440,947	–	136,377,955	234,574,271	(819,020,278)	235,141,805	52,733,035	287,874,840

Company

Company	Note	Attributable to Equity Holders of the Parent							Total
		Share Capital	Stated Capital	Revaluation Reserve	Funds Awaiting Allotment	Reserve on Offshore Loan Settlement	Reserve on Government Debentures	Reserve on Accumulated Profits/(Losses)	
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 1st April 2006		679,768,910	–	3,440,947	15,928,700	136,377,955	234,574,271	(472,905,627)	597,185,156
Effect of Correction of									
Prior Period Error	17	–	–	–	(15,928,700)	–	–	15,928,700	–
Net Profit for the Year		–	–	–	–	–	–	179,723,093	179,723,093
Dividends for 2005/06		–	–	–	–	–	–	(67,976,891)	(67,976,891)
Restated Balance									
as at 31st March 2007		679,768,910	–	3,440,947	–	136,377,955	234,574,271	(345,230,725)	708,931,358
Transfers	16	(679,768,910)	679,768,910	–	–	–	–	–	–
Net Loss for the Year		–	–	–	–	–	–	(701,063,539)	(701,063,539)
Dividend for 2006/07		–	–	–	–	–	–	(12,251,215)	(12,251,215)
As at 31st March 2008		–	679,768,910	3,440,947	–	136,377,955	234,574,271	(1,058,545,479)	(4,383,396)

The Accounting Policies and Notes on pages 23 to 44 form an integral part of these Financial Statements.

August 4, 2008,
Colombo.

Cash Flow Statements

Year ended 31st March	Note	Group		Company	
		2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
Cash Flows from Operating Activities					
Profit/(Loss) before Taxation		(694,169,511)	299,468,364	(677,886,838)	192,555,941
Non-Cash					
Depreciation		109,629,406	111,787,919	82,015,275	90,056,873
Finance Income		(88,212,664)	(78,974,637)	(85,771,158)	(78,486,704)
Profit on Sale of Property, Plant & Equipments		(853,367)	–	(853,367)	–
Finance Cost		194,568,046	114,122,373	194,011,102	107,264,608
Provision for Retirement Benefit Obligations		34,106,085	41,447,820	32,811,165	40,934,344
Provision for Bad Debts		9,603,081	46,035,922	9,603,081	46,035,922
Operating Profit/(Loss) before Working Capital Changes		(435,328,924)	533,887,761	(446,070,740)	398,360,984
Working Capital Adjustments					
(Increase)/Decrease in Inventories		(110,953,115)	(73,776,699)	(106,889,903)	(74,201,283)
(Increase)/Decrease in Trade and Other Receivables		7,106,051	(7,307,320)	27,269,626	(495,963)
(Increase)/ Decrease in Loans Due from Farmers		(89,690,743)	7,468,099	(89,690,743)	7,468,099
(Increase)/Decrease in Amounts Due from Related Parties		–	(45,150,152)	(73,701,954)	(45,150,152)
Increase/(Decrease) in Trade and Other Payables		278,833,621	21,922,489	242,339,951	(15,408,839)
Increase/(Decrease) in Amounts Due to Related Parties		1,120,544	(16,843,978)	53,122,385	109,612,247
Net Cash from/(used in) Operating Activities		(348,912,566)	420,200,200	(393,621,378)	380,185,093
Finance Cost Paid		(194,568,046)	(95,842,384)	(194,011,102)	(107,264,600)
Tax Paid		(14,769,046)	(12,513,516)	(14,591,761)	(5,210,721)
Retirement Benefit Obligations Paid		(7,042,287)	(6,648,210)	(6,379,535)	(6,622,260)
Net Cash from/(used in) Operating Activities		(565,291,945)	305,196,090	(608,603,776)	261,087,512
Cash Flows from/(used in) Investing Activities					
Acquisition of Property, Plant & Equipments		(439,615,465)	(233,364,167)	(127,448,771)	(230,455,466)
Proceeds from Sale of Property, Plant & Equipments		853,367	–	853,367	–
Investment in Deposits		–	(209,134,382)	–	(209,134,382)
Proceeds from Other Investments		441,489,382	–	441,489,382	–
Investment in Shares		–	(10)	(90)	(10)
Interest Received		88,212,664	79,937,278	85,771,158	79,449,345
Net Cash Flows from/(used in) Investing Activities		90,939,948	(362,561,281)	400,665,046	(360,140,513)
Cash Flows from/(used in) Financing Activities					
Repayment of Interest Bearing Borrowings		(59,856,445)	(191,620,900)	(59,856,445)	(122,320,900)
Long-Term Loan Obtained during the Year		616,966,290	121,050,000	366,202,951	121,050,000
Principal Payment under Finance Lease Liabilities		(9,330,708)	(2,475,835)	(6,314,268)	(2,475,835)
Dividend Paid		(12,251,215)	(15,986,101)	(12,251,215)	(15,986,101)
Net Cash Flows used in Financing Activities		535,527,922	(89,032,836)	287,781,023	(19,732,836)
Net Increase/(Decrease) in Cash & Cash Equivalents		61,175,925	(146,398,027)	79,842,294	(118,776,836)
Cash & Cash Equivalents at the beginning of the Year	15	(642,365,261)	(495,967,234)	(660,211,738)	(541,434,902)
Cash & Cash Equivalents at the end of the Year	15	(581,189,336)	(642,365,261)	(580,369,444)	(660,211,738)

The Accounting Policies and Notes on pages 23 to 44 form an integral part of these Financial Statements.

August 4, 2008,
Colombo.

Accounting Policies

1. CORPORATE INFORMATION

1.1 General

Pelwatte Sugar Industries PLC is a public limited liability Company incorporated and domiciled in Sri Lanka and is listed in the Colombo Stock Exchange. The Registered Office of the Company is located at No. 27, Melbourne Avenue, Colombo 4, and the principal place of business is situated in Buttala.

1.2 Principal Activities and Nature of Operations

During the financial year, principal activities of the Company were cultivating of sugar cane, manufacturing of sugar and marketing of sugar and molasses. Principal activities of the subsidiaries are:

Pelwatte Sugar Distilleries (Pvt) Ltd. -
Manufacturing and selling spirits

Pelwatte Dairy Industries (Pvt) Ltd. -
Producing and selling milk and milk based products

1.3 Parent Entity and Ultimate Parent Entity

The Company's parent undertaking is Master Divers (Pvt) Ltd., which is incorporated in Sri Lanka.

1.4 Date of Authorization for Issue

The Financial Statements of Pelwatte Sugar Industries PLC for the year ended 31st March 2008 were authorized for issue, in accordance with a resolution of the Board of Directors on 4th August 2008.

2. GENERAL POLICIES

2.1 Basis of Preparation

These Financial Statements have been prepared on a historical cost basis except for land situated in Colombo has been stated at valuation.

The Financial Statements are presented in Sri Lankan Rupees. The preparation and presentation of these Financial Statements is in compliance with the Companies Act No. 07 of 2007.

2.1.1 Statement of Compliance

Consolidated

The Financial Statements of Pelwatte Sugar Industries PLC and all its subsidiaries have been prepared in accordance with Sri Lanka Accounting Standards (SLAS).

2.1.2 Going Concern

These Financial Statements are prepared on the assumption that the Company is a going concern, i.e., as continuing in operation for the foreseeable future.

However, the Company incurred a net loss of Rs. 701.0 Million and accumulated losses of Rs. 1,058.0 Million as at 31st March 2008. The Company's current liabilities exceed its current assets by Rs. 774.2 Million and Company's total liabilities exceed its total assets by Rs. 4.4 Million as at 31st March 2008.

Taking these circumstances into consideration the Directors have made an assessment and are confident of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease trading as the significance of the above indications have been mitigated by the following actions.

- Planting over 3,000 hectares in order to increase the outgrower area up to 6,000 hectares by 31st March 2009, which will result in 11,000 hectares of total area under cane.
- Estimated average yield of 55 metric tones per hectare, Company can produce over 500,000 metric tones of sugar cane and 45,000 metric tones of sugar in 2009/2010.

- Initiated by the Non-Comprehensive Rural Credit Scheme (NCRCS) to encourage the farmers to expand the cultivation, the Company has been requested to provide land preparation free of charge to farmers. NCRCS will reimburse the Company with such cost incurred, in the form of a loan which is repayable following the harvesting (i.e., 360 days) at an interest rate of 8% p.a.

- Reduction in cost of furnace oil by Rs. 200 Million on average on operation of distillery by utilising the steam produced by sugar factory.

- Reduction in consumption of diesel by connecting the housing scheme to the national grid to supply electricity to staff quarters, which will result a saving of Rs. 250 Million annually.

- Continuous negotiations with the Government of Sri Lanka to grant subsidies to sugar cane farmers on their cultivation.

- Loan amount of Rs. 450 Million has been settled by utilizing the sales proceeds approximately Rs. 600 Million received in the first quarter of 2008/09 and the balance will be utilized for working capital requirements.

2.1.3 Comparative Information

The accounting policies applied by the Group are, unless otherwise stated, consistent with those used in the previous year. Previous year's figures and phrases have been re-arranged, wherever necessary, to conform to the current year's presentation.

2.1.4 Consolidation Policy

The consolidated Financial Statements comprise of Financial Statements of Pelwatte Sugar Industries PLC and its subsidiaries as at 31st March each year. The Financial Statements of the subsidiaries are prepared for the same reporting year as the parent company using consistent accounting policies.

All intra group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are consolidated from the date of acquisition being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The total profits and losses for the year of the Company and its subsidiaries included in consolidation are shown in the consolidated Income Statement.

Minority interest represent the portion of profit or loss and net assets not held by the Group and presented separately in the Income Statements and within equity in the consolidated Balance Sheet, separately from parent shareholders' equity.

Subsidiaries are those enterprises controlled by the parent. Control exists when the parent holds more than 50% of the voting rights or otherwise has a controlling interest.

Subsidiaries consolidated have been listed in the Note 10 to these Financial Statements.

All the subsidiary Companies are incorporated in Sri Lanka.

2.2 Summary of Significant Accounting Policies

2.2.1 Taxation

(a) Income Taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the Balance Sheet date.

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the relevant tax legislation.

Pelwatte Sugar Industries PLC

Section 17 of the Inland Revenue Act No. 10 of 2006 provides exemptions from income tax of the profits and income from any 'specified undertaking' for a period of five years. The Company falls within the definition of the 'specified undertaking' if the Company has incorporated before 1st April 2002 with a minimum investment of Rs. 50 Million in such undertaking and engaged in agriculture or agro processing. The management is of the view that Pelwatte Sugar Industries PLC falls within the definition of 'specified undertaking'. Hence, the Company is exempted from income tax for a period of 5 years commencing from the year of assessment 2006/07.

Pelwatte Dairy Industries (Pvt) Ltd.

Pursuant to agreement date 29th December 2006 entered into with Board of Investment under Section 17 of the Board of Investment Law No. 04 of 1978, the Company had been granted a tax exemption period of ten years under Inland Revenue Act No. 10 of 2006 relating to the imposition payment and recovery

of income tax in respect of the profits and income of the Company. The above period will commence from the year in which enterprise make profits or any year of assessment not later than two (02) years from the date of commencement of commercial operations which ever years is earliest.

The concessionary rate of 10% tax charges on profits and income for two years immediately succeeding the last date of the tax exemption period. Thereafter, 20% tax charges on profit and income.

(b) Deferred Taxation

Deferred income tax is provided, using the liability method, on temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilized except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

The carrying amount of deferred income tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Balance Sheet date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the Income Statement.

(c) Sales Tax

Revenues, expenses and assets are recognized net of the amount of sales tax except where the sales tax incurred on a purchase of assets or service is not recoverable from the taxation authorities in which case the sales tax is recognized as a part of the cost of the asset or part of the expense items as applicable and receivable and payable that are stated with the amount of sales tax included. The amount of sales tax recoverable and payable in respect of taxation authorities is included as a part of receivables and payables in the Balance Sheet.

2.2.2 Inventories

Inventories are valued at the lower of cost and net realizable value, after making due allowances for obsolete and slow moving items. Net realisable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

The cost incurred in bringing inventories to its present location and condition are accounted using the following cost formulae.

Produce Stock	At since realised price.
Standing Cane	At direct cost including nursery cost and part of overheads incurred thereon, up to the Balance Sheet date.
Spirit Stock	At the cost of direct materials, direct labour and an appropriate proportion of production overheads based on normal operating capacity.
Other Stocks	At standard cost.
Goods in Transit	At actual cost.

2.2.3 Biological Assets

Biological assets are stated at fair value with any resultant gain or loss recognized in the Income Statements. The fair value of the Biological Assets is based on the market price of Biological Assets of similar breed, age, pregnancy and genetic merit.

2.2.4 Trade and Other Receivables

Trade receivables are stated at the amounts they are estimated to realise net of provisions for bad and doubtful receivables.

Other receivables and dues from Related Parties are recognised at cost less provision for bad and doubtful receivables.

2.2.5 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank

overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

2.2.6 Property, Plant & Equipment

Plant & equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the plant & equipment when that cost is incurred, if the recognition criteria are met.

Any revaluation surplus is credited to the revaluation reserve included in the equity section of the Balance Sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

An item of property, plant & equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement in the year the asset is derecognized.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Depreciation

The provision for depreciation is calculated using a straight-line method on the cost of all property, plant & equipment other than freehold land, in order to write-off such amounts over the estimated useful lives. The principal annual rates used are as follows:

(i) Land Development

Where the land tenure is 50 years or less, at such rates which will write-off the costs over the length of the tenure.

If in excess of 50 years	2%
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(ii) Buildings

2%

(iii) Field Machinery & Equipment

- Field Machinery & Equipment and Heavy Earth-Moving Plants	15%
- Other Agricultural Equipment and Implements, Trailers & Lorries	20%

(iv) Irrigation & Miscellaneous Equipment

- Irrigation & Miscellaneous Equipment including Pumps & Buried Mains	6%
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(v) Factory Plant & Equipment

- Plant & Equipment	5%
- Other Equipment & Laboratory Equipment	25%

(vi) Roads & Bridges and Tanks

5%

(vii) Motor Vehicles

- Motor Cars	20%
- Motor Cycles	50%

(viii) Furniture, Fittings & Equipment

20%

(ix) Settler Zone Infrastructure

- Roads & Other Specialized Foundations	33 1/3%
- Pumps & Water Conservation Constructions	15%
- Wells & Other Works	25%
- Secondary School, Market Centre & Temple	2%

Depreciation is charged to the Income Statement when assets are available for use over their estimated useful lives.

2.2.7 Leases

(a) Finance Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance cost are charged reflected in the Income Statement.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term. If there is reasonable certainty that the Company will obtain ownership by the end of the lease term, the depreciation policy for depreciable leased assets is consistent with that of depreciable asset that are owned as described in 2.2.6.

(b) Operating Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the leased term are classified as operating leases.

Operating lease payments are recognized as an expense in the Income Statement when it falls due.

2.2.8 Investments

(a) Initial Recognition

Cost of investment includes purchase cost and acquisition charges such as brokerages, fees, duties and bank regulatory fees. The Company distinguishes and presents current and non-current investment in the Balance Sheet.

(b) Measurement

Current Investment:

Current investments are carried at cost, determined on the basis of individual investment.

Long-Term Investments

Long-term investments are stated at cost. Carrying amounts are reduced to recognize a decline other than temporary, determined for each investment individually. These reductions for other than temporary declines in carrying amounts are charged to Income Statement.

Disposal of Investment

On disposal of an investment, the different between net disposals and proceed and the carrying amounts is recognized as income or expense.

2.2.9 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2.2.10 Retirement Benefit Obligations

(a) Defined Benefit Plan - Gratuity

Gratuity is a Defined Benefit Plan.

The Company is liable to pay Gratuity in terms of the relevant statute.

Pelwatte Sugar Industries PLC

The Company measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan with the advice of an actuary every 2 years, using the Projected Unit Credit (PUC) method as recommended by SLAS 16. An actuarial valuation was carried out by a professionally qualified Actuarial firm Messrs Actuarial and Management Consultants (Pvt) Ltd. as at 31st March 2007. Actuarial gains and losses are recognised as income or expenses over the expected average remaining working lives of the participants of the plan.

Current year actuarial valuation has been carried out by the Company based on the assumptions recommended in the Actuarial Valuation Report issued on 31st March 2007.

The key assumptions used by the actuary include the following:

- Rate of Interest - 10% p.a. (net of tax)
- Rate of Salary Increase - for all categories of staff - 8%

Pelwatte Sugar Distilleries (Pvt) Ltd. and Pelwatte Dairy Industries (Pvt) Ltd.

In order to meet this liability, a provision is carried forward in the Balance Sheet equivalent to an amount calculated based on a half month's salary of the last month of the financial year of all employees for each completed year of service, commencing from the first year of service. The resulting difference between the brought forward provision at the beginning of a year and the carried forward provision at the end of a year is dealt within the Income Statement.

(b) Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Company contributes 12%

and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

2.2.11 Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing is required for an asset, the Company makes an assessment of the assets' recoverable amount. When the carrying amount of an asset exceeds its' recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.2.12 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

(a) Sale of Goods

Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to buyer; with the Company retaining neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(b) Interest

Interest Income is recognised as the interest accrues unless collectability is in doubt.

(c) Rental Income

Rental Income is recognized on an accrual basis.

(d) Others

Other Operating Income is recognized on an accrual basis.

2.2.14 Segment Reporting

A business segment is distinguishable equipment of an enterprise that is engaged in providing and individual product or service or a group of related product or services that is subject to risk and return that are different from those of other business segment. The accounting policies adopted for segment reporting are the same accounting policies adopted for preparing and presenting consolidated Financial Statements of the Group.

2.3 Future Changes in Accounting Policies

Standards Issued but not yet Effective:

Sri Lanka Accounting Standard 16 (Revised) - Employee Benefits

A revised SLAS 16 was issued in 2007, and becomes effective for financial years beginning on or after 1st July 2007. Accordingly, the Financial Statements for year ending 31st March 2009 will adopt the revised SLAS 16.

As a result of the revision all short-term employee benefits of the Company will be required to be recognized when an employee has rendered service in exchange for those benefits. For post-employment benefits, the Company will be required to involve a qualified actuary in their measurement. Pending a detail review of this revised standard, the financial impact on the Group cannot be assessed with reasonable certainty.

Notes to the Financial Statements

Year ended 31st March	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
3. REVENUE				
3.1 Summary				
Turnover	1,257,128,520	2,321,027,748	1,089,612,588	1,958,147,973
3.2 Turnover is derived from the following:				
Sugar	899,417,323	1,745,961,518	899,417,323	1,745,961,518
Molasses	651,765	1,902,242	190,195,265	212,186,455
Spirits	354,342,345	573,163,988	–	–
Dairy Product	2,717,087	–	–	–
	1,257,128,520	2,321,027,748	1,089,612,588	1,958,147,973

3.3 Segment Information

Segment Revenue	Sugar		Spirits		Other/Molasses		Dairy Product	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
Gross Revenue								
- Others	899,417,323	1,745,961,518	354,342,345	573,163,988	651,765	1,902,242	2,717,087	–
- Related parties	–	–	–	–	189,543,500	210,284,213	–	–
Inter Segment Sales	–	–	–	–	(189,543,500)	(210,284,213)	–	–
Sales to Customers								
Outside the Group	899,417,323	1,745,961,518	354,342,345	573,163,988	651,765	1,902,242	2,717,087	–
Segment Results								
Profit/(Loss) Before Tax	(677,886,838)	192,555,941	11,197,245	106,912,424	–	–	(29,979,918)	–
Taxation	(23,176,701)	(12,832,848)	(16,277,678)	(32,159,454)	–	–	–	–
	(701,063,539)	179,723,093	(5,080,433)	74,752,970	–	–	(29,979,918)	–
Other								
Capital Expenditures	144,550,108	240,739,755	13,285,895	2,908,701	–	–	301,329,509	–
Depreciation	82,015,275	90,056,873	22,576,874	21,731,046	–	–	4,844,378	–
Segment Assets								
Non-Current Assets	975,106,209	888,947,992	265,328,357	274,619,336	–	–	314,650,471	–
Current Assets	1,211,231,897	1,486,846,459	343,943,271	345,335,482	–	–	42,989,123	–
	2,186,338,106	2,375,794,451	609,271,628	619,954,818	–	–	357,639,594	–
Segment Liabilities								
Non-Current Liabilities	205,234,871	186,088,093	7,410,221	4,201,015	–	–	292,414,125	–
Current Liabilities	1,985,486,631	1,480,905,000	172,913,982	165,945,964	–	–	103,395,291	–
	2,190,721,502	1,666,993,093	180,324,203	170,146,979	–	–	395,809,416	–

Year ended 31st March	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
4. OTHER INCOME & GAINS				
Profit on Sale of Property, Plant & Equipment	853,367	–	853,367	–
Rent Income	36,750	51,325	36,750	51,325
Sundry Income	2,093,907	833,646	2,093,907	548,473
Income from Wallugolla Farm	66,805	–	–	–
	3,050,829	884,971	2,984,024	599,798

	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
5. FINANCE COST AND INCOME				
5.1 Finance Cost				
Interest Expense on Bank Overdrafts	148,211,252	93,957,636	147,893,087	93,944,824
Interest Expense on Loans & Borrowings	40,526,362	19,227,454	43,301,495	12,382,501
Finance Charges on Lease Liabilities	5,830,432	937,283	2,816,520	937,283
	194,568,046	114,122,373	194,011,102	107,264,608
5.2 Finance Income				
Interest Income on Loans Due from Farmers	8,521,227	12,889,359	8,521,227	12,889,359
Interest Income on Deposits	79,691,437	66,085,278	77,249,931	65,597,345
	88,212,664	78,974,637	85,771,158	78,486,704

	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
6. PROFIT/(LOSS) BEFORE TAX				
Stated after charging the following:				
Depreciation	109,629,406	111,787,919	82,015,275	90,056,873
Staff Costs				
- Defined Benefit Plan Costs - Gratuity	34,106,085	41,447,820	32,811,165	40,934,344
- Defined Contribution Plan Costs - EPF & ETF	99,704,748	81,689,773	98,174,477	80,360,067
Legal Fees	1,659,569	218,612	633,979	218,612
Provision for Bad Debts	9,603,081	46,035,922	9,603,081	46,035,922
Management Fees	12,000,000	12,000,000	12,000,000	12,000,000

	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
7. TAX EXPENSES				
Current Income Tax				
Current Income Tax Expenses (Note 7.1)	35,466,317	46,456,835	20,393,722	15,084,423
Under/(Over) Provision of Current Tax of Previous year	1,298,524	(2,945,268)	2,782,979	(2,251,575)
	36,764,841	43,511,567	23,176,701	12,832,848
Deferred Income Tax				
Deferred Taxation Charge (Note 20)	1,208,803	1,480,735	–	–
	37,973,644	44,992,302	23,176,701	12,832,848

Year ended 31st March	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
7. TAX EXPENSES (contd.)				
7.1 Reconciliation between Tax Expense and the Product of Accounting Profit/(Loss)				
Accounting Profit/(Loss)	(694,169,511)	299,468,364	(677,886,838)	192,555,941
Aggregate Disallowable Items	125,120,140	28,910,259	88,755,182	-
Aggregate Allowable Expenses	(4,924,029)	(3,293,857)	-	-
Exempt Trade (Profit)/Loss	705,366,756	(126,907,271)	677,886,838	(126,907,271)
	131,393,356	198,177,495	88,755,182	65,648,670
Losses (Limited to 35% of the Statutory Income)	(31,064,314)	(66,757,878)	(31,064,314)	(22,977,035)
Taxable Profit	100,329,042	131,419,617	57,690,868	42,671,636
Statutory Tax Rate %	35%	35%	35%	35%
Current Income Tax Expense	35,115,165	45,996,866	20,191,804	14,935,072
Social Responsibility Levy @1%	351,152	459,969	201,918	149,351
	35,466,317	46,456,835	20,393,722	15,084,423
Tax Losses brought forward	(243,787,666)	(310,545,544)	(243,787,666)	(266,764,701)
Tax Losses set-off against Taxable Profit	31,064,314	66,757,878	31,064,314	22,977,035
Carried Forward Tax Losses	(212,723,352)	(243,787,666)	(212,723,352)	(243,787,666)

The Group tax expense is based on the taxable profit of each Group Company.

Deferred Tax has been computed taking into consideration the revised tax rates effective from 1st April 2007 applicable to Pelwatte Sugar Distilleries (Pvt) Ltd.

The other income of the Company is liable for income tax at the rate of 35%.

The Company has not provided for differed taxation due to the tax exemption period enjoyed by the Company.

During the year the Pelwatte Sugar Distilleries (Pvt) Ltd. has provided for income tax amounting to Rs. 13,588,140/- (2007 - Rs. 30,678,719/-) and the tax rate applicable to the Subsidiary is 35% (2007 - 35%).

8. EARNINGS PER SHARE

8.1 Basic Earnings Per Share is calculated by dividing the net profit/(loss) for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

8.2 The following reflects the income and share data used in the Basic Earnings Per Share computations:

	Group	
	2008 Rs.	2007 Rs.
Amounts used as Numerator		
Profit/(Loss) Attributable to Equity Holders of Parent	(716,969,876)	242,014,742
Amounts used as Denominator		
Weighted Average Number of Ordinary Shares	67,976,891	67,976,891

	Balance As at 01.04.2007 Rs.	Additions Rs.	Transfers Rs.	Disposals Rs.	Balance As at 31.03.2008 Rs.
9. PROPERTY, PLANT & EQUIPMENT - GROUP					
9.1 Gross Carrying Amounts					
At Cost/Valuation					
Land	28,350,000	15,799,728	-	-	44,149,728
Land Development	112,122,456	14,180,705	-	-	126,303,161
Factory Buildings	248,126,025	-	-	-	248,126,025
Buildings Others	182,543,542	3,013,715	-	-	185,557,257
Field Machinery & Equipment	317,751,301	16,676,159	-	-	334,427,460
Irrigation & Miscellaneous Equipment	119,673,298	44,892,139	-	-	164,565,437
Factory Plant & Equipment	1,316,105,284	29,175,186	-	-	1,345,280,470
Other Plant & Equipment	91,233,874	282,168	-	-	91,516,042
Roads & Bridges	105,131,112	5,340,138	-	-	110,471,250
Motor Vehicles	57,015,951	721,000	-	(1,451,500)	56,285,451
Furniture, Fittings & Equipment	80,052,697	6,959,155	-	-	87,011,852
Laboratory Equipment	20,351,015	1,019,061	-	-	21,370,076
Storage Tanks	33,331,114	-	-	-	33,331,114
Settler Zone Infrastructure	57,855,288	8,925,292	-	-	66,780,580
	2,769,642,957	146,984,445	-	(1,451,500)	2,915,175,902
Assets on Finance Leases					
Motor Vehicles	15,765,565	26,278,522	-	-	42,044,087
Field Machinery & Equipment	-	13,496,837	-	-	13,496,837
Furniture, Fittings & Equipment	-	3,604,500	-	-	3,604,500
	15,765,565	43,379,859	-	-	59,145,424
Total Value of Depreciable Assets	2,785,408,522	190,364,304	-	(1,451,500)	2,974,321,326
	Balance As At 01.04.2007 Rs.	Incurred During the year Rs.	Transfers Rs.	Disposals Rs.	Balance as at 31.03.2008 Rs.
9.2 In the Course of Construction					
Building	-	290,267,500	-	-	290,267,500
Land Development & Roads	14,696,417	28,104,020	(38,475,175)	-	4,325,262
Factory Plant & Equipment	12,149,267	4,870,914	(9,564,167)	-	7,456,014
Hotel & Other Projects	61,590,665	12,215,441	(2,716,384)	-	71,089,722
Molasses PIT	-	1,544,819	-	-	1,544,819
Total Gross Carrying Amount	88,436,349	337,002,694	(50,755,726)	-	374,683,316

9. PROPERTY, PLANT & EQUIPMENT - GROUP (contd.)

	Balance as at 01.04.2007 Rs.	Charge for the Year Rs.	Transfers Rs.	Disposals Rs.	Balance as at 31.03.2008 Rs.
9.3 Depreciation					
At Cost/Valuation					
Land Development	39,227,369	2,386,754	-	-	41,614,123
Factory Buildings	96,384,605	4,683,587	-	-	101,068,192
Buildings Others	74,371,190	3,959,979	-	-	78,331,169
Field Machinery & Equipment	218,899,337	21,907,737	-	-	240,807,074
Irrigation & Miscellaneous Equipment	61,882,056	11,574,909	-	-	73,456,965
Factory Plant & Equipment	1,025,186,919	26,207,238	-	-	1,051,394,157
Other Plant & Equipment	36,474,666	4,631,870	-	-	41,106,536
Roads & Bridges	74,617,474	5,293,565	-	-	79,911,039
Motor Vehicles	54,517,019	2,433,577	-	(1,451,500)	55,499,096
Furniture, Fittings & Equipment	68,480,570	4,384,978	-	-	72,865,548
Laboratory Equipment	20,272,773	446,694	-	-	20,719,467
Storage Tanks	8,122,208	1,666,556	-	-	9,788,764
Settler Zone Infrastructure	29,356,668	11,800,134	-	-	41,156,802
Total Depreciation	1,807,792,854	101,377,578	-	(1,451,500)	1,907,718,932
Assets on Finance Leases					
Motor Vehicles	6,484,699	6,638,816	-	-	13,123,515
Field Machinery & Equipment	-	1,012,262	-	-	1,012,262
Furniture, Fittings & Equipment	-	600,750	-	-	600,750
	6,484,699	8,251,828	-	-	14,736,527
Total Depreciation	1,814,277,553	109,629,406	-	(1,451,500)	1,922,455,459

9.4 Net Book Values

	2008 Rs.	2007 Rs.
At Cost or Valuation	1,007,456,971	961,850,103
Capital Work-In-Progress	374,683,317	88,436,349
On Finance Leases	44,408,896	9,280,866
Total Carrying Amount of Property, Plant & Equipment	1,426,549,184	1,059,567,318

9. PROPERTY, PLANT & EQUIPMENT - COMPANY

	Balance as at 01.04.2007 Rs.	Additions Rs.	Transfers Rs.	Disposals Rs.	Balance as at 31.03.2008 Rs.
9.5 Gross Carrying Amounts					
At Cost/Valuation					
Land	28,350,000	15,799,728	–	–	44,149,728
Land Development	112,122,456	14,180,705	–	–	126,303,161
Factory Buildings	234,179,323	–	–	–	234,179,323
Buildings Others	182,543,542	2,688,611	–	–	185,232,153
Field Machinery & Equipment	317,751,301	16,676,159	–	–	334,427,460
Irrigation & Miscellaneous Equipment	119,673,298	44,892,139	–	–	164,565,437
Factory Plant & Equipment	1,014,219,403	18,251,849	–	–	1,032,471,252
Roads & Bridges	105,131,112	5,340,138	–	–	110,471,250
Motor Vehicles	54,180,951	633,100	–	(1,451,500)	53,362,551
Furniture, Fittings & Equipment	79,029,877	5,626,405	–	–	84,656,282
Settler Zone Infrastructure	57,855,288	8,925,292	–	–	66,780,580
	2,305,036,551	133,014,124	–	(1,451,500)	2,436,599,175
Assets on Finance Leases					
Motor Vehicles	15,765,565	–	–	–	15,765,565
Field Machinery & Equipment	–	13,496,837	–	–	13,496,837
Furniture, Fittings & Equipment	–	3,604,500	–	–	3,604,500
	15,765,565	17,101,337	–	–	32,866,902
Total Value of Depreciable Assets	2,320,802,116	150,115,461	–	(1,451,500)	2,469,466,077
9.6 In the Course of Construction					
Land Development & Road	14,696,419	28,104,020	(38,475,176)	–	4,325,263
Factory Plant & Equipment	12,149,266	4,870,914	(9,564,167)	–	7,456,013
Hotel & Other Project	61,590,664	12,215,440	(2,716,384)	–	71,089,720
	88,436,349	45,190,374	(50,755,727)	–	82,870,996
Total Gross Carrying Amount	2,409,238,465	195,305,835	(50,755,727)	(1,451,500)	2,552,337,073

9. PROPERTY, PLANT & EQUIPMENT - COMPANY (contd.)

	Balance as at 01.04.2007 Rs.	Charge for the year Rs.	Transfers Rs.	Disposal/ Written-off Rs.	Balance as at 31.03.2008 Rs.
9.7 Depreciation					
At Cost/Valuation					
Land Development	39,227,369	2,386,754	-	-	41,614,123
Factory Buildings	94,526,725	4,683,587	-	-	99,210,312
Buildings Others	74,092,255	3,671,292	-	-	77,763,547
Field Machinery & Equipment	218,899,337	21,907,737	-	-	240,807,074
Irrigation & Miscellaneous Equipment	61,882,056	11,574,909	-	-	73,456,965
Factory Plant & Equipment	905,109,066	10,646,370	-	-	915,755,436
Roads & Bridges	74,617,474	5,293,565	-	-	79,911,039
Motor Vehicles	51,682,019	2,421,857	-	(1,451,500)	52,652,376
Furniture, Fittings & Equipment	68,412,815	3,959,200	-	-	72,372,015
Settler Zone Infrastructure	29,356,668	11,800,134	-	-	41,156,802
	1,617,805,784	78,345,405	-	(1,451,500)	1,694,699,689
Assets on Finance Leases					
Motor Vehicles	6,484,699	2,056,858	-	-	8,541,557
Field Machinery & Equipment	-	1,012,263	-	-	1,012,263
Furniture, Fittings & Equipment	-	600,750	-	-	600,750
	6,484,699	3,669,871	-	-	10,154,570
Total Depreciation	1,624,290,483	82,015,275	-	1,451,500	1,704,854,258

	2008 Rs.	2007 Rs.
9.8 Net Book Values		
At Cost or Valuation	741,899,488	687,230,767
Capital Work-In-Progress	82,870,996	88,436,349
On Finance Leases	22,712,332	9,280,866
Total Carrying Amount of Property, Plant & Equipment	847,482,816	784,947,982

9.9 The Head Office Land situated in Colombo, owned by the Company was revalued during the year ended 31st March 2002 by the Government Valuation Department. The results of such revaluation were incorporated in these Financial Statements. Such assets were valued on an open market value for existing use basis. The surplus arising from the revaluation was transferred to a revaluation reserve.

10. INVESTMENTS IN SUBSIDIARIES

	Company Holding %	2008 Rs.	Company 2007 Rs.
Non-Quoted Investments			
Pelwatta Sugar Distilleries (Pvt) Ltd.	83.33	100,000,000	100,000,000
Pelwatta Dairy Industries (Pvt) Ltd.	50	100	-
		100,000,100	100,000,000

Year ended 31st March	Group		Company	
	2008 Rs.	2007 R s.	2008 Rs.	2007 Rs.
11. OTHER INVESTMENTS				
11.1 Non-Current				
Investments in Equity Securities (Note 11.1.1)				
- Non-Quoted	3,000,000	3,000,010	3,000,000	3,000,010
Investments in Debentures (Note 11.1.2)				
- Non-Quoted	1,000,000	1,000,000	1,000,000	1,000,000
	4,000,000	4,000,010	4,000,000	4,000,010

	No. of Shares	Cost 2008 Rs.	Directors' Valuation 2008 Rs.	Cost 2007 Rs.	Directors' Valuation 2007 Rs.
11.1.1 Investments in Equity Securities					
Non-Quoted					
Union Bank Ltd.	60,000	3,000,000	3,000,000	3,000,000	3,000,000
Pelwate Dairy Industries (Pvt) Ltd.	01	-	-	-	10
		3,000,000	3,000,000	3,000,000	3,000,010

	No. of Debentures	Carrying Value 2008 Rs.	Directors' Valuation 2008 Rs.	Carrying Value 2007 Rs.	Directors' Valuation 2007 Rs.
11.1.2 Investments in Debentures					
Non-Quoted					
Hatton National Bank Ltd.	10,000	1,000,000	1,000,000	1,000,000	1,000,000

Unsecured subordinated redeemable debentures interest rate of 10% per annum paid biannually and redeemable on 22nd July 2008.

	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
11.2 Current				
Investments in Fixed Deposits	242,645,000	684,134,382	242,645,000	684,134,382

	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
12. INVENTORIES				
Produced Inventory (Note 12.1)	48,874,680	67,161,614	40,308,002	60,283,290
Standing Cane and Bio-Mass	321,785,564	184,843,424	321,785,564	184,843,424
Spirits Inventory	-	2,359,934	-	-
Other Inventory (Note 12.2)	172,308,742	177,650,899	167,573,950	177,650,899
	542,968,986	432,015,871	529,667,516	422,777,613

12. INVENTORIES (contd.)

	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
12.1 Produced Inventory				
Sugar	22,158,002	49,883,290	22,158,002	49,883,290
Molasses	26,716,678	17,278,324	18,150,000	10,400,000
Total Produced Inventory	48,874,680	67,161,614	40,308,002	60,283,290
12.2 Other Inventory				
Fuel & Lubricants	9,809,537	11,957,097	9,809,537	11,957,097
Factory Chemicals	5,187,364	4,879,456	5,187,364	4,879,456
Bags & Liners	5,500,676	4,009,060	5,500,676	4,009,060
Fertilizers	24,441,307	8,713,799	24,441,307	8,713,799
General	10,996,313	9,294,270	6,349,837	9,294,270
Agriculture Spares	74,738,629	72,706,030	74,738,629	72,706,030
Stationery	1,207,646	1,209,091	1,207,646	1,209,091
Factory Spares	127,235,518	135,412,698	127,235,518	135,412,698
Feed Milk	88,316	-	-	-
Tyres & Tubes	3,630,447	3,165,876	3,630,447	3,165,876
	262,835,753	251,347,378	258,100,961	251,347,378
Less: Provision for Obsolete Stocks	(91,742,406)	(91,742,406)	(91,742,406)	(91,742,406)
	171,093,347	159,604,972	166,358,555	159,604,972
Goods-in-Transit	1,215,395	18,045,927	1,215,395	18,045,927
	172,308,742	177,650,899	167,573,950	177,650,899

	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
13. TRADE & OTHER RECEIVABLES				
Trade Debtors	1,639,525	36,758,020	1,261,684	13,479,220
Other Debtors	43,013,477	70,708,658	42,936,164	70,351,158
Advances & Prepayments	74,340,413	37,733,093	30,718,485	37,394,008
Less: Provision for Doubtful Debts	(35,230,092)	(43,442,484)	(35,230,092)	(43,442,484)
	83,763,323	101,757,287	39,686,241	77,781,902
Staff Debtors (Note 13.1)	5,900,148	4,615,316	5,733,988	4,511,034
	89,663,471	106,372,603	45,420,229	82,292,936
13.1 Staff Debtors				
Balance at the beginning of the year	4,615,316	4,953,308	4,511,034	4,888,818
Loans Granted during the year	64,921,627	64,961,419	64,779,744	64,779,744
	69,536,943	69,914,727	69,290,778	69,668,562
Less: Repayments	(63,636,795)	(65,299,411)	(63,556,790)	(65,157,528)
Balance at the end of the year	5,900,148	4,615,316	5,733,988	4,511,034

	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
14. LOANS DUE FROM FARMERS				
Outgrowers	152,980,610	115,050,033	152,980,610	115,050,033
Settlers	265,877,165	210,660,586	265,877,165	210,660,586
ISFO Farmers	20,935,725	14,789,057	20,935,725	14,789,057
	439,793,500	340,499,676	439,793,500	340,499,676
Less: Provision for Doubtful Recoveries	(170,329,193)	(160,726,112)	(170,329,193)	(160,726,112)
	269,464,307	179,773,564	269,464,307	179,773,564

	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
15. CASH AND CASH EQUIVALENTS				
15.1 Favourable Balances				
Cash in Hand & at Bank	2,959,432	16,663,336	2,806,032	7,767,812
Short-Term Investments	26,000,000	76,000,000	26,000,000	65,000,000
	28,959,432	92,663,336	28,806,032	72,767,812
15.2 Unfavourable Balances				
Bank Overdrafts	(610,148,768)	(735,028,597)	(609,175,476)	(732,979,550)
Total Cash & Cash Equivalents	(581,189,336)	(642,365,261)	(580,369,444)	(660,211,738)

	Stated Capital		Share Capital	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
16. STATED CAPITAL/SHARE CAPITAL				
Issued and Fully Paid				
Balance as at 1st April	-	-	679,768,910	679,768,910
Transferred to Stated Capital from Share Capital	679,768,910	-	(679,768,910)	-
Balance as at 31st March	679,768,910	-	-	679,768,910

The Authorized Capital and Par Value concept in relation to share capital were abolished by the Companies Act No. 07 of 2007. Therefore, comparative figures have been restated accordingly. The total amount received by the Company or due and payable to Company in respect of the issue and calls of the shares are referred to as Stated Capital.

17. RETROSPECTIVE RESTATEMENT OF ERROR

Company received Rs. 15,928,700/- as reimbursement in respect of the custom duty paid on capital assets. However, Company has incorrectly recognized such reimbursements as 'Fund Awaiting Allotment'. Hence, the Financial Statements of 2007 have been restated to correct this error. The effect of the restatement is indicated in the Statement of Changes in Equity. However, there is no effect on 2008 Financial Statements.

	Company	
	2008 Rs.	2007 Rs.
18. OTHER RESERVES		
Revaluation Reserve (Note 18.1)	3,440,947	3,440,947
Reserves on Offshore Loan Settlement (Note 18.2)	136,377,955	136,377,955
Reserve on Sri Lanka Government Debenture & Accrued Interest (Note 18.3)	234,574,271	234,574,271
	374,393,173	374,393,173

18.1 Revaluation reserve consists of the net surplus on the revaluation of Property, Plant & Equipment as described in Note 9.

	2008 Rs.	2007 Rs.
18.2 Reserve on Offshore Loan Settlement	136,377,955	136,377,955

The Government of Sri Lanka (GOSL) has assumed the responsibility to service the Company's Offshore loans with effect from 1st April 1992. The total amount repaid by the GOSL on behalf of the Company has been treated as Funds Awaiting Issue of Debentures, Offshore loans were obtained to fund the setting up of the Company. As at 31st March 1992, the balance payable on the Offshore loans was Rs. 1,451,637,363/-, out of which all loans were settled as at 31st March 1999. The Company entered into an agreement with the GOSL, whereby the GOSL would undertake to repay the Offshore loans from 1st April 1992 together with interest for and on behalf of the Company. As a consideration in this regard, the Company agreed to issue redeemable debentures at a premium of 4% on the respective repayment dates.

However, with the GOSL's decision to privatize the Company a letter was received from PERC on 2nd March 2002 stating that the GOSL has agreed to set off the amounts due to the Company in respect of the Minimum Sugar Price due, against the amount payable to the GOSL in respect of Offshore loans settled on behalf of the Company. Therefore, the net remaining surplus has been considered as Reserve on Offshore Loan Settlement.

18.3 Reserve on Sri Lanka Government Debenture and Interest Accrued

This includes debentures (16% p.a.) issued to the GOSL amounting to Rs. 150,574,271/- during the period under the Government control with interest accrued up to 31st March 2003 amounting to Rs. 84,000,000/-. The repayment with regard to above debentures has not been made by the Company.

As discussed in the preceding paragraph (20.2) the letter received from PERC dated 2nd March 2002, states "that the Government has agreed to set off the amount due to the Company in respect of the Minimum Sugar Price due, against the amount payable to the Government in respect of Offshore loans settled on behalf of the Company".

However, the Company is of the view that commitments with regard to the GOSL debentures had been settled at the time the GOSL sold its shares.

	Amounts Repayable within 1 year 2008 Rs.	Amounts Repayable after 1 year 2008 Rs.	Total 2008 Rs.	Amounts Repayable within 1 year 2007 Rs.	Amounts Repayable after 1 year 2007 Rs.	Total 2007 Rs.
19. INTEREST BEARING LOANS & BORROWINGS						
19.1 Group						
Finance Leases (Note 19.2)	12,257,598	31,729,986	43,987,584	3,654,653	7,132,520	10,787,173
Bank Loans (Note 19.3)	375,650,606	250,763,339	626,413,945	96,996,775	13,887,325	110,884,100
Bank Overdrafts	610,148,768	–	610,148,768	735,028,597	–	735,028,597
	998,056,972	282,493,325	1,280,550,297	835,680,025	21,019,845	856,699,870

	As at 01.04.2007 Rs.	New Leases Obtained Rs.	Repayments Rs.	As at 31.03.2008 Rs.	Current as at 31.03.2008 Rs.	Non-Current as at 31.03.2008 Rs.
19.2 Finance Leases						
Gross Liability	13,288,744	57,479,090	(15,161,140)	55,606,694	17,850,438	37,756,256
Finance Charges	(2,501,571)	(14,947,971)	5,830,432	(11,619,110)	(5,592,840)	(6,026,270)
Net Lease Obligation Liability	10,787,173	42,531,119	(9,330,708)	43,987,584	12,257,598	31,729,986

Securities for lease facilities are disclosed in Note 27.

	As at 01.04.2007 Rs.	New Loans Obtained Rs.	Repayments Rs.	As at 31.03.2008 Rs.
19.3 Bank Loans				
Commercial Bank - Short-Term Loan			19,304,100	–
Bank of Ceylon - Short-Term Loan			50,000,000	150,000,000
Sampath Bank - Corporate Loan			–	6,202,951
Sampath Bank - Irrigation Loan			–	10,000,000
Bank of Ceylon - NCRC Loan			–	200,000,000
Bank of Ceylon - Long-Term Loan			–	250,763,339
			69,304,100	616,966,290
				(59,856,445)
				626,413,945

19.4 Securities for loan facilities are disclosed in Note 27.

	Amounts Repayable within 1 year 2008 Rs.	Amounts Repayable after 1 year 2008 Rs.	Total 2008 Rs.	Amounts Repayable within 1 year 2007 Rs.	Amounts Repayable after 1 year 2007 Rs.	Total 2007 Rs.
19.5 Company						
Finance Leases (Note 19.6)	7,716,701	13,814,993	21,531,694	3,654,653	7,132,520	10,787,173
Bank Loans (Note 19.7)	375,650,606	–	375,650,606	55,416,775	13,887,325	69,304,100
Bank Overdrafts	609,175,476	–	609,175,476	732,979,550	–	732,979,550
	992,542,783	13,814,993	1,006,357,776	792,050,978	21,019,845	813,070,823

19. INTEREST BEARING LOANS & BORROWINGS (contd.)

	As at 01.04.2007 Rs.	New Leases Obtained Rs.	Repayments Rs.	As at 31.03.2008 Rs.	Current As at 31.03.2008 Rs.	Non-Current As at 31.03.2008 Rs.
19.6 Finance Leases						
Gross Liability	13,288,744	22,271,009	(9,130,788)	26,428,965	10,284,748	16,144,217
Finance Charges	(2,501,618)	(5,212,173)	2,816,520	(4,897,271)	(2,568,047)	(2,329,224)
Net Liability	10,787,126	17,058,836	(6,314,268)	21,531,694	7,716,701	13,814,993

	As at 01.04.2007 Rs.	New Loans Obtained Rs.	Repayments Rs.	As at 31.03.2008 Rs.
19.7 Bank Loans				
Commercial Bank - Short-Term Loan		19,304,100	–	14,304,000
Bank of Ceylon - Short-Term Loan		50,000,000	150,000,000	150,000,000
Sampath Bank - Corporate Loan		–	6,202,951	1,346,606
Sampath Bank - Irrigation Loan		–	10,000,000	10,000,000
Bank of Ceylon - NCRC Loan		–	200,000,000	200,000,000
		69,304,100	366,202,951	375,650,606

	Balance Sheet		Income Statement	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
20. DEFERRED TAX ASSETS, LIABILITIES (GROUP)				
Deferred Tax Liability				
Capital Allowances for Tax Purposes	3,823,520	2,432,833	1,390,687	–
Transitional Liability Recognized	–	–	–	1,480,735
	3,823,520	2,432,833	1,390,687	1,480,735
Deferred Tax Assets				
Defined Benefit Plans	1,133,981	952,098	181,884	–
	1,133,981	952,098		
Deferred Income Tax Income/(Expense)	–	–	1,208,803	1,480,735
Net Deferred Tax Liability	2,689,539	1,480,735		

	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
21. RETIREMENT BENEFIT LIABILITY				
As at the beginning of the year	167,708,528	132,908,918	164,988,248	130,676,164
Add: Provisions made during the year	34,106,085	41,447,820	32,811,165	40,934,344
Less: Payments made during the year	(7,042,287)	(6,648,210)	(6,379,535)	(6,622,260)
As at the end of the year	194,772,326	167,708,528	191,419,878	164,988,248

	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
22. TRADE & OTHER PAYABLES				
Trade Creditors (Note 22.1)	61,628,990	58,588,219	60,801,249	58,588,219
Other Creditors & Accruals (Note 22.2)	632,436,522	356,643,672	514,157,589	274,030,668
	694,065,512	415,231,891	574,958,838	332,618,887
22.1 Trade Creditors				
Trade Creditors	47,313,992	38,539,127	46,486,251	38,539,127
Accrued Cost of Cane - ISFO	1,991,968	776,448	1,991,968	776,448
Accrued Cost of Cane - Outgrower	4,148,553	2,812,866	4,148,553	2,812,866
Accrued Cost of Cane - Settlers	8,174,477	16,459,778	8,174,477	16,459,778
	61,628,990	58,588,219	60,801,249	58,588,219
22.2 Other Creditors & Accruals				
Sundry Creditors	143,086,117	59,874,818	141,764,995	48,630,824
Advance Received	182,245,853	2,852,962	160,567,500	2,852,962
Accrued Expenditure	26,929,369	20,583,905	26,479,853	15,833,441
VAT Payable	280,175,183	273,331,987	185,345,241	206,713,441
	632,436,522	356,643,672	514,157,589	274,030,668

	Relationship	Group		Company	
		2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
23. AMOUNTS DUE TO RELATED PARTIES					
Master Divers (Pvt) Ltd.	Parent Company	65,162,280	64,277,821	62,014,578	64,277,821
Mr. D.A. Wickramanayake	Director	2,157,025	1,920,940	1,837,025	1,920,940
Pelwatta Sugar Distilleries (Pvt) Ltd.	Subsidiary Company	-	-	329,311,595	273,842,052
		67,319,305	66,198,761	393,163,198	340,040,813

	Relationship	Group		Company	
		2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
24. AMOUNTS DUE FROM RELATED PARTIES					
24.1 Non-Current					
Pelwatta Dairy Industries (Pvt) Ltd.	Subsidiary	-	-	23,623,293	-
24.2 Current					
Pelwatta Dairy Industries (Pvt) Ltd.	Subsidiary	-	45,150,152	95,228,813	45,150,152

25. COMMITMENTS & CONTINGENCIES

25.1 Capital Expenditure Commitments

The Company does not have significant capital commitment as at the Balance Sheet date.

25. COMMITMENTS & CONTINGENCIES (contd.)

25.2 Contingencies

(a) National Security Levy

As per the assessment received by the Company dated 6th April 2004, the Department of Inland Revenue has assessed that the Company is liable to pay outstanding NSL including penalties amounting to Rs. 75,510,620/-. However, no conclusion has been reached in respect of this assessment as at the Balance Sheet date, and no provision has been made in these Financial Statements as the Directors do not expect to incur a material loss in respect of the same.

(b) The Company is a defendant in lawsuits filed in respect of the followings:

Type of Cases	No. of Cases 2008	Estimated Losses 2008 Rs.	No. of Cases 2007	Estimated Losses 2007 Rs.
Supreme Court	1	40,000,000	1	40,000,000
High Courts	6	200,000	4	200,000
District Courts	16	700,000	22	500,000
Labour Tribunal	50	2,300,000	64	2,800,000
Magistrate Courts	-	-	1	200,000
Arbitration	3	200,000	-	-
Domestic Inquiry	1	500,000	0	-
Appeal Courts	1	-	1	-
	78	43,900,000	93	43,700,000

Although there can be no assurance, the Directors believe based on the information currently available, that the ultimate resolution of such legal procedures would not likely to have a material adverse effect on the results of operations, financial position or liquidity. Accordingly, no provisions for any liability has been made in these Financial Statements.

(c) The Company has guaranteed loan of EUR 2,265,000 obtained by its subsidiary Pelwatte Dairy Industries (Pvt) Ltd., for the construction of the feed milk factory.

26. LANDS

The Company has entered into lease agreements with the Government of Sri Lanka and the Ruhunu Kataragama Devale. The leases are for an initial period of 30 years for which annual lease rentals payable in respect of the first 10 years starting from 1985, and thereafter the annual lease rentals for each subsequent period of 10 years shall be determined by the respective lessors. However, such increments would not be more than 50% of the annual lease levied during the preceding 10 years.

Details of annual lease rental payments are as follows:

	2008 Rs.	2007 Rs.
Government of Sri Lanka - Nucleus Estate	508,677	508,677
- Factory	40,000	40,000
Ruhunu Kataragama Devale - 1st Lease	228,430	228,430
- 2nd Lease	111,778	111,778
	888,885	888,885

27. ASSETS PLEDGED

The following assets have been pledged as security for liabilities by Pelwatte Sugar Industries PLC and Pelwatte Sugar Distilleries (Pvt) Ltd. as at 31st March 2008:

Nature of Assets	Nature of Liability	Assets Under	Carrying Amount		Included under
			2008 Rs.	2007 Rs.	
Immovable Properties	First Mortgage for Loans and Borrowings	Pelwatte Sugar Distilleries (Pvt) Ltd.	265,328,357	274,619,336	Property, Plant & Equipment
Leased Assets	Charge over Leased Assets on Finance Lease Liabilities	Pelwatte Sugar Industries PLC	22,712,332	9,280,866	Property, Plant & Equipment
Finished Goods	Floating Mortgage over Sugar Stocks	Pelwatte Sugar Industries PLC	22,158,002	49,883,289	Inventories
Fixed Deposits	Under lien against Overdraft Facility	Pelwatte Sugar Industries PLC	242,645,000	749,134,381	Investments
Standing Cane	Under lien against NCRC Loan	Pelwatte Sugar Industries PLC	321,784,564	–	Inventories

28. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have been no material events occurring after the Balance Sheet date that require adjustment to or disclosure in the Financial Statements.

29. RELATED PARTY TRANSACTIONS

29.1 The Company carried out transactions in the ordinary course of the business at commercial rates with the following related entities:

	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
Parent	(65,162,280)	(64,277,821)	(62,014,578)	(64,277,821)
Subsidiaries	–	–	(210,459,489)	(228,691,900)
Key Management Personnel	(2,157,025)	(1,920,940)	(1,837,025)	(1,920,940)
Total	(67,319,305)	(66,198,761)	(274,311,092)	(294,890,661)

29. RELATED PARTY TRANSACTIONS (contd.)

Transactions with Related Parties

	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
Parent				
Management Fee Payable	(12,000,000)	(12,000,000)	(12,000,000)	(12,000,000)
Rendering of Services	8,063,243	–	8,063,243	–
Subsidiaries				
Sale of Goods	–	–	255,024,264	285,533,918
Purchases of Goods	–	–	(10,231,349)	(56,827,556)
Rendering of Services	–	–	126,883,297	341,831,415
Interest Paid	–	–	(4,693,612)	–
Funds Granted	–	–	23,623,302	–
Funds Received	–	–	(372,373,491)	(635,006,943)
Key Management Personnel				
Rendering of Services	403,915	62,390	83,915	62,390

29.2 Compensation to Key Management Personnel

Key management personnel include the Board of Directors of the Company and the Directors of the Subsidiary Companies.

	2008 Rs.	2007 Rs.
Short-Term Employment Benefit	754,619	523,707
	754,619	523,707

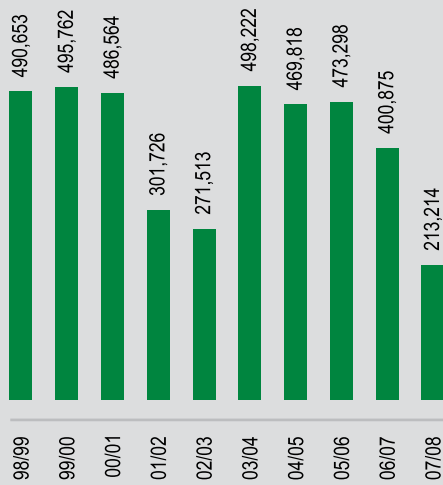
Ten Year Summary

Year ended 31st March 2008

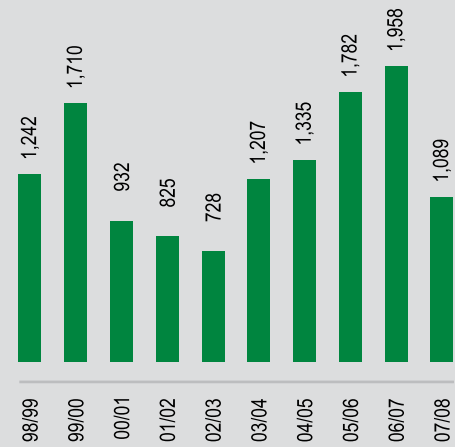
(In Rs. Millions)	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
Turnover	1,242	1,710	932	825	728	1,207	1,335	1,782	1,958	1,090
Operating/(Loss) Profit	146	551	(118)	26	(184)	(35)	76	313	300	483
Profit/(Loss) before Tax	86	440	(243)	(91)	(234)	(109)	8.7	233	193	(678)
Taxation	100	-	-	-	-	-	-	(58)	(13)	(23)
Extraordinary Items	-	-	-	-	-	-	-	-	-	-
Proposed Dividends	-	-	-	-	-	-	-	-	-	-
Retained Profit/(Loss) for the year	186	440	(243)	(91)	(234)	(109)	8.7	175	180	(701)
Share Capital & Reserves										
Stated Capital	696	696	696	696	696	696	696	696	696	680
Reverse & Retained Profit/(Loss)	(453)	(6)	(241)	51	(176)	(285)	(274)	(99)	(13)	(684)
Shareholders' Equity	243	690	455	747	520	411	422	597	709	(4)
Net Borrowing	30	-	-	-	-	-	-	-	-	0
	273	690	455	747	520	411	422	597	709	(4)
Assets & Liabilities										
Current Assets	1,458	1,934	1,702	614	587	708	922	1,231	1,487	1,211
Non-Current Assets	1,043	954	877	811	780	747	744	740	889	975
Total Assets	2,501	2,888	2,579	1,425	1,367	1,455	1,666	1,971	2,376	2,186
Less Liabilities	2,228	2,198	2,124	678	847	1,044	1,244	1,374	1,667	2,190
	273	690	455	747	520	411	422	597	709	(4)
Ratios & Other Information										
Operating Profit - Turnover	12%	32%	(12.6%)	3.2%	(25.3%)	-	5.7%	17.6%	15.31%	(44.31%)
Net Profit - Turnover	15.0%	25.7%	(26.1%)	(11.0%)	(32.1%)	(0.1%)	0.7%	9.8%	9.18%	(64.31%)
Current Assets/ Current Liabilities	1:0.68	1:0.62	1:0.53	1:0.97	1:1.07	1:1.18	1:1.16	1:0.98	1:1	1:0.61
Earning/(Loss) Per Share (Rs.)	2.73	6.47	(3.57)	(1.33)	(3.45)	(1.61)	0.13	2.58	2.64	(10.35)
Cane Milled (MT)	490,653	495,762	486,564	301,726	271,513	498,222	469,818	473,298	400,875	238,213
Sugar Produced (MT)	40,300	42,900	39,195	26,449	23,892	42,441	40,152	39,141	34,873	18,982
Molasses Produced (MT)	22,615	25,096	24,536	14,534	13,371	23,744	23,420	22,986	18,493	10,102

Performance at a Glance

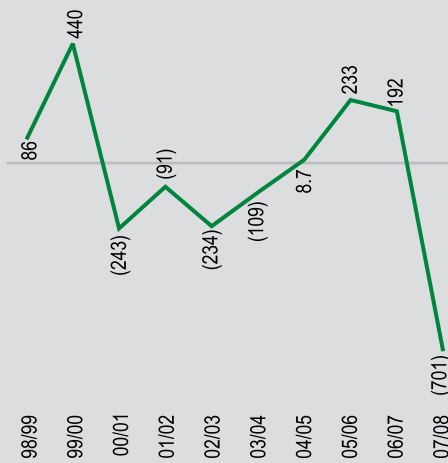
Cane Supply (MT)



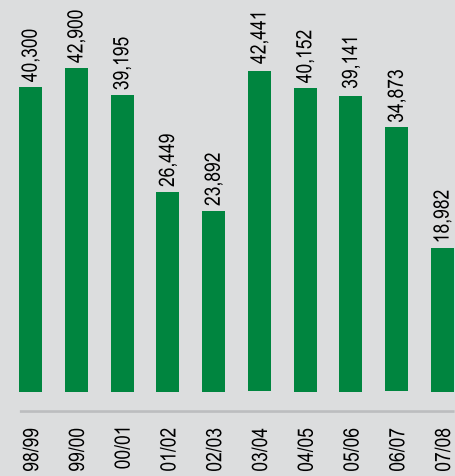
Turnover (Rs. Mn)



Profit and Loss Before Tax (Rs. Million)



Sugar Production (MT)



Notice of Meeting

NOTICE IS HEREBY GIVEN that the TWENTY-FIFTH ANNUAL GENERAL MEETING of Pelwatte Sugar Industries PLC will be held at Trans Asia Hotels PLC, on Tuesday, 30th September 2008 at 2.30 p.m. for the following purposes:

Business

1. To receive and consider the Report of the Directors and the Statement of Accounts for the year ended 31st March 2008 with the Report of the Auditors thereon.
2. To re-elect Mr. Y. Thilakasena as a Director of the Company in terms of the Articles of Association.
3. To appoint Auditors for the ensuing year and authorize the Directors to determine their remuneration.

By Order of the Board

(Sgd.)

Managers & Secretaries (Pvt) Ltd.

Secretaries

Colombo

August 4, 2008

Note

1. A member entitled to attend and vote at the abovementioned meeting is entitled to appoint a proxy to attend and vote instead of him/her.
2. A proxy need not be a member of the Company.
3. A Form of Proxy accompanies this notice.
4. A completed Form of Proxy must be deposited at the Registered Office, No. 27, Melbourne Avenue, Colombo 4, not less than 48 hours before the time fixed for the meeting.

Form of Proxy

I/We, the undersigned

.....

.....

of.....

.....

being a member/members of Pelwatte Sugar Industries PLC hereby appoint,

.....

of.....

.....

whom failing

of.....

.....

whom failing

of.....

.....

as my/our proxy to represent me/us and to vote for me/us on my/our behalf at the Twenty-Fifth Annual General Meeting to be held on September 2008 at and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this day of 2008.

.....
Signature

Note: Instructions as to completion are noted on the reverse hereof.



Instructions Regarding Form of Proxy

1. If you cannot attend the Annual General Meeting and would wish one of the Directors or any other person to represent you, kindly perfect the Form of Proxy by filling in legibly your name, address and signing in the space provided filling in the date of signature.
2. In the case of a corporation, the instrument appointing a proxy, shall be in writing and shall be signed by its Attorney or by an authorized officer on behalf of the Corporation.
3. If the Form of Proxy is signed by an Attorney, a copy of the relative Power of Attorney should also accompany the completed Form of Proxy if it has not already been registered with the Company.
4. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 27, Melbourne Avenue, Colombo 4, not later than 48 hours before the time fixed for the meeting.

Attendance Slip

Registered Office,
No. 27, Melbourne Avenue,
Colombo 4.

I
hereby record my presence at the ANNUAL GENERAL MEETING of the Company at Trans Asia Hotels PLC.

.....
(Signature of the Shareholder/Proxy)

1. Shareholders/Proxyholders are requested to bring this Attendance Slip with them when they come to the meeting and hand it over at the reception desk after affixing their signature on it.
2. Shareholders who attend the meeting are requested to bring their copies of the Annual Report 2006/07 with them.
3. Shareholders are requested to advise, indicating their Share Certificate No. the change in their address, if any, to the Company's Secretaries, Managers & Secretaries (Pvt) Ltd., No. 212, De Saram Place, Colombo 10.

Please fill in the detail below:

Name : Share Certificate No.:

Address :

Jointly with :

Corporate Information

Legal Form

A public limited liability company incorporated in Sri Lanka

Company Registration No.

PQ 30

Board of Directors

M.J.C. Amarasuriya (Chairman)

D.A. De S. Wickramanayake (Managing Director)

D.R. de S. Wickramanayake (Resigned on 11.07.2008)

N.V.T.A. Weragoda (Resigned on 08.08.2008)

Y. Thilakasena

Company Secretaries

Managers & Secretaries (Pvt) Ltd.

No. 8, Tickell Road, Colombo 8

Tel: 5579900

Legal Advisers

Julius & Creasy

Registered Office

No. 27, Melbourne Avenue, Colombo 4

Colombo Office

No. 27 Melbourne Avenue, Colombo 4

Phone: 011-2589390

Fax: 011-2500674

Estate Office

Private Mail Bag, Buttala

Phone: 055-2273977-79

Fax: 055-2273977

Auditors

Ernst & Young, Chartered Accountants

Registrars

Business Intelligence Ltd.

No. 8, Tickell Road, Colombo 8

Tel: 5579900

Bankers

Bank of Ceylon

People's Bank

Hatton National Bank

Commercial Bank

Sampath Bank



Management Team

R.E. Dias - General Manager - Head Office (Resigned on 31.08.2008)

Tissaka Perera - General Manager - HR

Ananda Wickrema - Acting Plantation Manager

Paliitha Premathunga - Factory Manager

Prasad Haputhanthrie - Financial Controller

D.L.D. Jayantha - Deputy General Manager - PSDPLC