

A LOCAL EFFORT A GLOBAL PRODUCT

Annual Report
2016



COLOMBO DOCKYARD PLC
"...an Odyssey of Excellence"



A LOCAL EFFORT

A GLOBAL PRODUCT

Not many companies can boast that their product makes a global impact but here at Colombo Dockyard, we create vessels that circle the world in more ways than one. Our hard work and attention to detail is on par with international standards and that's why we remain at top of mind for many of our repeat as well as prospective clients. This year, we bring attention to our craftsmanship and ingenuity par excellence and highlight how our local effort creates an exceptional global product.

"Yard No. NC-0230 a 450 Passenger ship built by Colombo Dockyard PLC for Government of India"



Contents

Vision, Mission	03
Corporate Profile	04
Quality Policy, Environment Policy, Safety Policy	05
Financial Highlights	06
Chairman's Review	07
Managing Director / CEO's Review	09
Board of Directors	14
Key Management Profile	16
Financial Review	18
Corporate Governance	22
Risk Management	27
Shareholder Information	31

Financial Reports

Financial Calendar 2016/2017	35
Annual Report of the Board of Directors on the affairs of the Company	36
Related Party Transactions Review Committee Report	42
Statement of Directors' Responsibilities	43
Chief Executive Officer's and Chief Financial Officer's Responsibility Statement	44
Independent Auditors' Report	45
Statement of Profit or Loss and Other Comprehensive Income	46
Statement of Financial Position	47
Statement of Changes in Equity	48
Statement of Cash Flows	50
Notes to the Financial Statements	52
Ten Years Financial Summary	96
Notice of Annual General Meeting	97
Form of Proxy	99
Corporate Information	Inner Back Cover





Vision

We pursue excellence and superior performance in all what we do to enhance the long-term interests of all our stakeholders in a socially responsible manner.

Mission

We strive:

- To be the most competitive and viable business entity in South in Shipbuilding, Shiprepairs, Heavy Engineering and allied activities:
- To efficiently and effectively manage all our resources:
- To achieve sustainable growth:
- To enhance the interests of our Stakeholders, and thereby contribute to the pursuit of our vision:

Corporate Profile

Colombo Dockyard PLC (CDPLC) established its operations way back in 1974 and at present operates as Sri Lanka's largest engineering facility leading in the business of ship repairs, shipbuilding, heavy engineering and offshore engineering with a Japanese collaboration. CDPLC Group includes two subsidiaries namely Dockyard General Engineering Services (Pvt) Ltd and Ceylon Shipping Agency (Pte) Ltd in Singapore to deal with heavy engineering for local customers and as a supply channel for material imports respectively. CDPLC is a public quoted Company listed in the Colombo Stock Exchange. It is also a licensed enterprise of the Board of Investment of Sri Lanka.

CDPLC is conveniently located within the port of Colombo, the hub of all major shipping lanes connecting the West, the Middle East, the Far East, as well as Africa and Australia, CDPLC has a strategic advantage to conduct both dry dock and afloat operations. Colombo Dockyard, as a state of the art engineering entity, operates four graving dry docks with a maximum capacity of 125,000 DWT and extensive repair berth facilities.

Colombo Dockyard, in existence for over four decades, continues to keep its eyes on the horizon, pre-empting trends and preparing for transformation. While the Company remains medium scale ship yard in the Asian region, our differentiation lies in the way we do business.

Five core values that have helped Colombo Dockyard in its odyssey,

**Flexibility,
Innovation,
Being Customer Centric,
Environment Friendly,
People Focused.**

Colombo Dockyard's niche position in building some of the world's most unique vessels holds the Company in good stead. The emphasis on absolute quality and the infusion of green initiatives (some of them, pioneering features in this region) as well as our processes, give us a competitive stance that is far ahead of those established in the South Asian region.

This has resulted in improving our capabilities of effecting difficult and sometimes unique processes, building techniques and repairs, that have helped us carve out our own special position in this industry.

Quality Policy

We always satisfy our customers' requirements consistently and cost effectively, strive to exceed their expectations and add value to the interests of our other stakeholders in a viable corporate environment.

Environment Policy

Our policy is to conduct our present and future operations in an environmentally friendly manner as befitting a good corporate neighbor and citizen, through the implementation of an Environmental Management System:

To meet our commitment, we shall:

- Meet or exceed applicable legislation and regulations as well as industry standards and practices
- Periodically review established environmental objectives and targets in order to continually improve our Environmental Management System performance
- Effectively communicate with employees, customers, neighbors and other stakeholders regarding our Environmental Management System and its performance.

Safety Policy

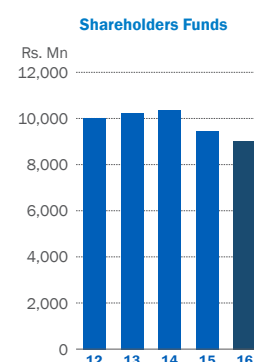
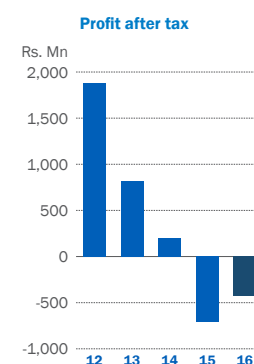
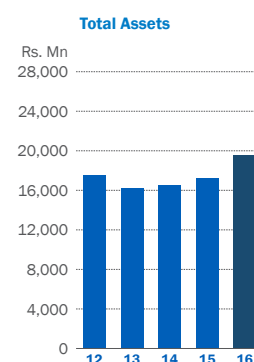
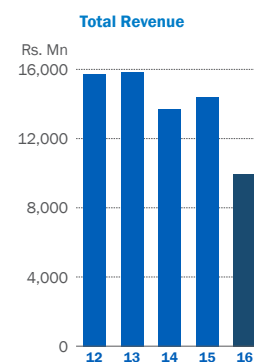
Colombo Dockyard PLC recognizes its corporate responsibility to provide a safe and healthy work environment for all personnel who have legitimate business in such work environment.

Colombo Dockyard PLC shall:

- Provide safe plant, machinery, equipment and systems of work;
- Ensure compliance with relevant statutory regulatory requirements; and
- Provide procedures, information, instructions training and supervision to employees, contractors, customers and visitors to ensure their safety

Financial Highlights

	2016	2015	Change	
	Rs. Mn	Rs. Mn	Rs. Mn	%
Results for the Year				
Revenue				
Shiprepairs	4,560	4,311	249	5.78
Shibuildings	5,374	10,087	(4,713)	(46.72)
Heavy Engineering	39	9	30	333.33
	9,973	14,407	(4,434)	(30.78)
Export Revenue	9,410	13,973	(4,563)	(32.66)
Local Revenue	563	432	131	30.32
Gross Profit	1,237	791	446	56.38
Operating Profit	(438)	(694)	256	36.89
Taxation	6	(14)	20	142.86
Net Profit after Tax	(432)	(708)	276	38.98
Profit Available for Appropriation	8,302	8,722	(420)	(4.82)
Company Value Addition	3,755	3,401	354	10.41
Company Value Addition %	37	23	14	60.87
Local Value Addition	5,556	7,108	(1,552)	(21.83)
Employees Salaries & Benefits	3,507	3,433	(74)	(2.16)
Balance Sheet				
Total Assets	18,982	17,209	1,773	10.30
Total Liabilities	9,950	7,757	(2,193)	(28.27)
Share Holders' Fund	9,031	9,452	(421)	(4.45)
Net Cash & Cash Equivalent	2,109	1,870	239	12.78
Information Per Ordinary Share				
Earnings (Rs.)	(6.01)	(9.85)	3.84	(38.98)
Net Assets (Rs.)	125.68	131.55	(6)	(4.46)
Market Value (Rs.)	78.60	150.10	(72)	(47.63)
Market Capitalization Rs. Mn	5,648	10,786	(5,138)	(47.63)
Financial Ratios				
Net Profit after Tax (%)	(4.3)	(4.9)	0.6	(11.85)
Return On Investment (%)	(1.7)	(4.1)	2.4	(59.17)
Return On Assets (%)	(1.6)	(4.1)	2.5	(60.98)
Interest Cover (Times)	(1.4)	(7.6)	6.2	(81.84)
Return On Equity (%)	(4.8)	(7.5)	2.7	(36.00)



Chairman's Review



“Onomichi Dockyard commenced its strategic relationship with Colombo Dockyard in 1993. In that time, Onomichi has consistently supported the development of Colombo Dockyard through extensive capacity building programs and technical transfers in order to improve the technical expertise of Sri Lankan personnel in the field of shipbuilding.”

Dear stakeholder

It is my pleasure as Chairman to present to you, our valued stakeholders, the annual report and audited financial statements of Colombo Dockyard PLC for the year ended 31st December 2016.

At the outset I wish to once again state that Colombo Dockyard is not expected to undergo any major changes in terms of its ownership and business model. Similarly, our strategic partner, the Onomichi Dockyard of Japan, does not envisage any changes to its current majority shareholding of 51% and will continue its appointment of three members to the Board of Directors, including the position of Chairman at Colombo Dockyard.

At present Colombo Dockyard's business is comprised of three core areas, namely: Shipbuilding, Ship Repairs, and Heavy Industries through its fully owned subsidiary the Dockyard General Engineering Services (DGES). This business composition will be continued into the next 2-3 years with expansion anticipated in all three areas. In this context my contribution to the Company will be in guiding it through a growth phase, by diversifying into new markets, expanding business and becoming more internationally competitive, over the next 3-5 years.

Knowledge Transfers and Business Expansion

Onomichi Dockyard commenced its strategic relationship with Colombo Dockyard in 1993. In that time, Onomichi has consistently supported the development of Colombo Dockyard through extensive capacity building programmes and technical transfers in

order to improve the technical expertise of Sri Lankan personnel in the field of shipbuilding.

Utilizing these valuable transfers of knowledge and technical skills, Colombo Dockyard has been able to integrate numerous best practices and advanced Japanese shipbuilding techniques into our own production processes on a regular basis. Through augmentation of such cutting edge knowledge and technical expertise into its own business models, Colombo Dockyard has steadily gained an international reputation for its specialized focus in high-spec, high-skilled products and services, which remains a crucial to Colombo Dockyard's continued resilience in the face of challenging market conditions.

Our capacity to produce technically sophisticated solutions to meet the market wants and needs of a diverse international clientele has paved the way for new business, with the Company undertaking shipbuilding license agreement for state-of-the-art new European ship designs. This new generation of vessels has proved to be quite popular with our clientele, not only as a result of their sleeker profile but also as a result of the substantial performance improvements – including improved hydrodynamics, greater fuel efficiency and stronger towing power.

Performance and Outlook

As in the previous financial year, adverse offshore vessel market conditions, contract cancellations and the further impact of contract re-negotiations resulted in a negative financial performance for Colombo Dockyard during the year ended 31st December 2016. However we note

Chairman's Review *Contd.*

with encouragement that despite these challenging circumstances, the Company was able to achieve substantial progress towards reversing losses suffered in the previous year, once again proving its resilience in the face of a challenging market environment.

Given the challenging conditions prevalent in the offshore petroleum industry, our Company has worked to further diversify its client portfolio in order to ensure that our strategy of continuous growth with stable earnings is maintained moving forward. While we will continue to maintain our strong relationships with existing clientele, Colombo Dockyard is also focusing on the construction of specialized vessels for other market sectors. Parallel to the rising global interest in renewable energy, we see significant opportunities for growth in the construction of support vessels for cable laying and offshore wind turbines. Additionally, the Company is also working to attract new inquiries for high-spec vessels, river vessels, and passenger boats for the tourism and leisure sector.

During the year in review, the International Maritime Organization (IMO) issued new directions requiring all of the estimated 60,000 currently active vessels to implement stringent ballast water management systems. As part of the new standard, vessel operators are now required to install ballast water treatment equipment. As more of vessels seek to achieve compliance with the global new standard, we anticipate a significant uptick in activity in terms of orders for ship repair and ship modification coming to Colombo Dockyard.

Seeking new business of Shipbuilding and Ship Repair, Colombo Dockyard anticipates a steady recovery in its financial performance and a return to profitability over the coming financial year and beyond.

Acknowledgements

I would like to extend my gratitude and warm appreciation to all the Board of Directors, employees, customers and the national authorities for the support of the Company during the year and I look forward to their continuous support and cooperation as we continue to channel local efforts into globally renowned products and services.



Dr. Toru Takehara
Chairman

09th March, 2017
Colombo

Managing Director / CEO's Review



“The drop in crude oil prices affected our business in recent time as we were fully focused on building high complex ships for the Oil and Gas exploration and production industry since 2006. Especially, there was a significant slowdown in the demand for Platform Supply Vessels (PSV) and Anchor Handling Tug Supply Vessels (AHTSV) which CDPLC was mainly focused on.”

Dear Stakeholder

It is my sincere pleasure to present to you the overview of the operational performance of Colombo Dockyard PLC for the year ended at 31st December 2016. I hope to elaborate in greater detail on some of the main obstacles constraining the Company's performance, and with regard to the strategies implemented by Colombo Dockyard in order to lay the foundations for greater profitability and success in the coming years.

Throughout the long and prestigious history of Colombo Dockyard PLC, our Company has consistently maintained a reputation for excellence in Shipbuilding, Ship repair and Heavy Engineering, catering to a diversified and well respected range of local and international clients, however, since 2006, the majority of them were competing in the offshore petroleum development industry. Meanwhile our fully-owned subsidiary, Dockyard General Engineering Services (Pvt) Ltd, has also become a trusted partner in the fields of Mechanical and Civil engineering in Sri Lanka having successfully tackled several large-scale infrastructure projects.

Challenging market conditions for our recent past major clientele, resulted in weaker demand for Colombo Dockyard's core range of Offshore Support Vessels (OSVs). Nevertheless, the Company was able to achieve notable improvements in key operational segments, and while Colombo Dockyard concluded the year on a subdued note, we emphasize with encouragement, the Company's resilience in the face of adversity. The fundamental strength of Colombo Dockyard stems from our proven ability to deliver the best

quality, while maintaining disciplined control of overheads, stringent health and safety standards and a dedicated commitment to labour harmony and customer satisfaction at all levels of our organization.

Shivering waves are common in shipping; Crisis in global economy and its impact

The global economy is going through one of its worst times; we are experiencing the brunt of the Eurozone vulnerabilities and the extremely slow recovery of the economies of the West and the US, in the shipping industry. By nature, shipping industry is cyclical. The industry is essentially dependent on and critically linked to international trade; hence the growth of the industry flows with the tide in the international trade and market trends. Globally, both the ship repair and shipbuilding sectors have been affected and it is undisputed that we are going through tough times.

As we have already known all three Asian shipping power houses (Korea, Japan & China) have suffered major losses and plunged in to a deep crisis. For an instance, Korean three biggest Shipbuilding firms Daewoo, Hyundai Heavy, and Samsung Heavy declared record combined losses in 2015, and still looks no better. According to shipping analysts more than half of the world's shipbuilding yards which mean that over 57 percent of facilities have been shutdown in recent past due to ongoing sluggish demand. Drop in crude oil prices (Price per barrel crashing from US \$ 100+ to less than US \$ 30), overproduction of ships in the early part of this decade and the general sluggishness of international trade, resulted this situation.

Managing Director / CEO's Review *Contd.*

Oversupply of vessels in the industry was caused by the widespread belief that the price of oil was going to continue trending upwards. However due to slowing down in the world economy and due to multitude of factors, the oil prices began to come down. This resulted to withdraw most of the operating rigs and reduced the charter opportunities for supply vessels and hundreds of vessels were laid up, cold stacked or even scrapped. This situation led to cancellation of orders already placed with shipyards while no new orders are being placed by the operators.

The drop in crude oil prices affected our business in recent time as we were fully focused on building high complex ships for the Oil and Gas exploration and production industry since 2006. Especially, there was a significant slowdown in the demand for Platform Supply Vessels (PSV) and Anchor Handling Tug Supply Vessels (AHTSV) which CDPLC was mainly focused on. The drop in oil prices adversely affected our business as the ship owners stopped investing in new ships as well. And the oversupply of all types of ships created an imbalance in the market. This situation resulted in decreasing of the order book for CDPLC similar to the impact on other shipyards within the industry during last few years.

Limited orders and growing regional competition

Similar with crude oil price crisis the competition for the limited market opportunity was grown in crucial manner. In one hand China was emerging as a new giant in shipbuilding industry with their low labour cost opportunity. On the other hand the

regional ports and shipyards have been growing steadily; the Government of India is investing heavily in developing the Indian shipyards and building naval vessels, while private sector shipyards are also gaining momentum. Indian government is giving their supportive hands to their shipbuilding industry (mainly the policy of "Made in India") by paving their way for grabbing a wide range market opportunity in South Asian region. It affected to our capable passenger shipbuilding sector directly, though there is a huge demand within India.

Meanwhile, in Middle East N KOM Qatar, Oman Drydocks and Dubai Drydocks have been aggressively competing for international/ regional tenders. However, there is a potential improvement in ship repairs in the Indian continent which keeps the momentum in our business even at a low pace.

Proper focus and appropriate backing by the Government will enable Sri Lanka also to experience success stories similar to India, China, Indonesia, Vietnam etc. where the respective governments provide export incentives to compete globally.

Domestic economy and increase cost of production

Similar to the performance of the global economy, the Sri Lankan economy preceded at a sluggish pace during the year, following a continued period of policy reform targeting the country's complex tax structure, with a view to raising Government revenue, a task which continues to be a serious concern moving into 2017. Along with this tax

composition increase in energy prices and other costs of local inputs due to the high inflation rates affect the industry due to the increase in the cost of production. Increased cost of production makes our products and services non-competitive, losing out on possible and low sized market opportunities currently available in and around the region.

Current labour laws and increasing costs are adversely affects the competitiveness, as the industry is unable to vary the labour force depending on the fluctuating demand. Having excess labour during a dip in the market condition, burdens the companies with additional overheads, which reduce our competitiveness in the international markets. In addition to that the availability of skilled manpower and the trend to move to industrial jobs by the youth in Sri Lanka have become a big question and hope the Government would focus it as a whole for a better future of the country.

Company performance

Primarily as a result of the global downturn in the offshore petroleum industry, Colombo Dockyards faced a challenging operating environment as demand for new offshore vessels recorded notable reductions. Consequently, the Company posted a revenue of Rs. 9,972.7 Mn during the year in review, contracting from a previous Rs. 14,407.0 Mn in 2015.

The contraction in the Company's topline performance together with the continuing cumulative impact of losses caused by contract re-negotiations in the previous year, resulted in the Company

“We were able to get certified our Occupational Health & Safety Management System & Environmental Management System against OSHAS18001:2007 and ISO 14001:2015 during the year 2016. With that Colombo Dockyard has become the first Sri Lankan organization to receive ISO14001:2015 from Lloyd’s Register Quality Assurance Ltd (LRQA)”

posting a loss of Rs. 432.1 Mn, however, we note with great encouragement that the Company’s losses were greatly reduced when compared with its performance over 2015, when Colombo Dockyards recorded a loss of Rs. 708.1 Mn, despite a stronger topline performance in that year. Similarly, the Company was able to sharply reduce losses per share from a previous Rs. 9.85 down to Rs. 6.01 per share at the end of the year in review.

This reduction in losses was aided substantially by a continuous focus on maintaining more ship repairs volumes amid adverse market conditions, as demonstrated by the overall reduction in the Company’s Cost of Sales and supporting contribution rewarded from depreciation of LKR against US\$ over the year. Our concerted efforts to improve operational efficiency also enabled Colombo Dockyard to make significant improvements to its overall reduction of financial losses by the end of 2016.

Ship building

Revenue generated from ship building operations reduced drastically from Rs. 10,086.3 Mn to Rs. 5,374.4 Mn during the period in review, largely as a result of subdued activity in the offshore petroleum development industry. Despite weaker turnover, the segment was able to contribute proportionate operating profits for the year, displaying once again the strong business and technical fundamentals underlying Colombo Dockyard’s shipbuilding operations.

Ship repair

The superior technical expertise of Colombo Dockyard continues to be one of its best assets, yielding continuous repeat business from long-standing clients who have come to trust and rely on the high quality output which Colombo Dockyards has long been synonymous with. Managing the regular client base has been a challenge, as the market conditions have been getting tighter and highly competitive as all international shipyards are fighting for survival. In this context we have been successful in maintaining our regular callers from the neighboring Indian subcontinent and penetrating into new markets.

Therefore, ship repair sector performed reasonably well to sustain the revenue levels in a highly competitive market conditions. We have managed to handle 76 vessels in dry-dock in 2016 as against 59 vessels in 2015. The total vessels handled in dry-dock and afloat are 147 in 2016 as against 113 in 2015. During the year in review, this legacy for quality served the Company well, with revenue expanding to Rs. 4,559.7 Mn, as compared with Rs. 4,311.4 Mn in the previous year.

Heavy engineering

The heavy engineering segment’s contribution to the Group’s top-line performance reduced from Rs. 870.8 Mn down to Rs. 541.6 Mn due to the lower volume of business handled during the year while material sales expanded from Rs. 193.4 Mn up to Rs. 267.4 Mn.

Managing Director / CEO's Review *Contd.*

Health, Safety and Environment

Health, safety and Environment continue to be key priorities for CDPLC for its sustainability. We continuously strive to inculcate a culture of discipline across all levels of the organization and we have closely focused on maintaining the highest safety standards and improving awareness of best practices.

We were able to get certified our Occupational Health & Safety Management System & Environmental Management System against OSHAS18001:2007 and ISO 14001:2015 during the year 2016. With that Colombo Dockyard has become the first Sri Lankan organization to receive ISO14001:2015 from Lloyd's Register Quality Assurance Ltd (LRQA), one of the leading certification bodies in the maritime world. Undoubtedly Ship Repair and building is a - 3D industry which involves Dirty, Difficult and Dangerous operations. In such a context, achieving international standards in Safety & Environmental aspects demonstrates the true commitment of top management and the employees. Remarkably the yard recorded its lowest Accident Frequency rate in 2016 as it proves the collective dedication towards safety in the organization.

Training and Development

As a pioneering engineering entity we actively play an integral part in skill and knowledge development within our organization. There are over 350 trainees, accommodating at once in Colombo Dockyard Plc. State of art training facilities provide by the training center and influx vast skill and knowledge to the organization continually.

The process which has started to empowering employees with required industrial knowledge by introducing National Vocational Qualification (NVQ) is continuing in progressive manner. By the year of 2016, 772 of employees achieved NVQ qualifications in different levels including 82 employees who were able to get the certificate in 2016. Apart to that Colombo Dockyard PLC has sponsored and provided technical assistant to develop the national competency standards of Blaster Painter and Crane Operator which specified to marine industry. CDPLC Employees were qualified for the trades of Blaster Painter and Crane Operator according to the national competency standards

Outlook

As a company that primarily focuses international clientele, Colombo Dockyards continues to maintain an intrinsic exposure to global headwinds, particularly in the context of the offshore petroleum development industry. While a recovery in crude oil prices to levels of approximately US\$ 60 – 80 would prove beneficial to the viability of offshore oil and gas exploration and extraction, present forecasts indicate that such a recovery is unlikely over the short term.

However, having anticipated such conditions during the year in review, measures were taken to diversify its product and client portfolio, in order to mitigate such conditions. These efforts yielded positive results for Colombo Dockyards, which became one of the first yards in the region to commence servicing a fledgling market for offshore wind energy support vessels. As countries across the globe begin to seek

out sustainable solutions to meet their energy requirements, we anticipate that our early steps into this new market will yield strong positive results for the Company over the medium to long term.

The rapid ascent of Sri Lanka as a global tourist hotspot is also expected to continue over the course of 2017, and with it, the Company anticipates substantial increases in maritime tourism. Around these developments, we anticipate significant opportunities to build and maintain passenger vessels for the Sri Lankan market, parallel to growing opportunities for the same across the South and East Asian region.

While our ship repair business has also performed exceedingly well during the year in review, Colombo Dockyards also anticipates further substantial improvements to the segment's performance as a result of increased demand for high-skill, high-tech services as vessels across the globe are made to comply with increasingly more rigorous operating standards, such as the International Maritime Organization's most recent directives on ballast water treatment

Meanwhile, Dockyard General Engineering Services (DGES) continues to serve as an increasingly important contributor to the performance of Colombo Dockyards, both through the expansion of its services into the domestic market, and through the significant value addition it offers the parent company in the form of sophisticated designing services and other invaluable value added services.

Backed by the support of Onomichi Dockyard, our Company continues to thrive and lay the foundations for a new wave of growth that will serve to further consolidate our position as one of South Asia's most skilled operators in the maritime industry. While we anticipate marginal improvements in the Company's traditional line of business, through the gradual recovery of the offshore petroleum development industry, volatility in the segment is also expected to continue. By taking strategic measures to mitigate this volatility over the course of 2017, we are confident that Colombo Dockyard will make a robust recovery in its bottom-line performance and secure new avenues of growth moving forward.

Prospective Business strategies

The outlook for the year 2017 is challenging, as the industry experts have been predicting the marine sector recession to continue up to 2018. Regional market condition changes could work out positively for Colombo as the mining ban in India/ Goa is expected to be lifted by end of 2017. Thus creating opportunities to reactivate the dormant fleet of vessels / work boats for the operations. All in all the ship repair market conditions are expected to remain the same during the year 2017 as well.


The company is expected to recover gradually back to its normal operations in the future with securing shipbuilding orders by mid of 2017 and gradual improvement on ship repair volumes expected in 2017-2018.

Even though, there was only one shipbuilding project that materialized during the year 2016 we believe that we

will be able to materialize few projects in current year that we started negotiating in the year 2016. Also we concentrate on different market segments by going beyond the boundaries of offshore support vessels market. Therefore, strategically CDPLC has diversified our product portfolio in to other types of ships such as; Harbour Tugs, Coast Guard Vessels, Passenger Vessels, LNG/ Product/ Tanker/ Bulker/ Container carriers, Landing Crafts & Work Boats, Cable Laying Vessels etc. while working with some new clients with the aspiration of exploring new market opportunities too.

Acknowledgements

I would like to conclude my message by thanking our shareholders, specially our main shareholder the Onomichi Dockyard of Japan, and the Board of Directors, for their guidance with patience during the year and all stakeholders including employees. I would like to thank the present Government, BOI, Sri Lanka Ports Authority, the Department of Customs, the Sri Lanka Navy, Department of Coast Guard and our bankers for their cooperation during the year. I thank our loyal customers and look forward to another productive work years with them.



D. V. Abeyasinghe
Managing Director/ CEO

17th March, 2017
Colombo

Board of Directors



Dr. Toru Takehara



Sarath De Costa



D. V. Abeysinghe

Dr. Toru Takehara
Chairman

Ph.D. in Mechanical Engineering Nagaoka University of Technology, Japan.

Appointed to Colombo Dockyard PLC (CDPLC) Board on 01st September 2014. Director of CDPLC Subsidiaries, Dockyard General Engineering Services (Pvt) Ltd and Ceylon Shipping Agency (Pte) Ltd, Singapore.

Sarath De Costa
Vice Chairman

Dip. Foundry Engineering

Former Consul General for Sri Lanka in Osaka, Japan.



T. Nakabe



M. Koshi



Lalith Ganlath

Appointed to CDPLC Board in June 1993. Present Chairman and Managing Director of AMANO & TIVOLI Group of Companies, President Imperial Trading Corporation Japan, Director of Central Industries PLC., Director Ceylon Shipping Agency (Pte) Ltd Singapore and Director Waters Edge Limited.

Also serves as Vice President of Sri Lanka - Japan Business Cooperation Committee, Life Member - Japan Sri Lanka Technical Co-operation and Member - Sri Lanka Japan Friendship Society.

Served as Representative in Japan for the Board of Investment of Sri Lanka, Patron - Department of Neurosurgery Trust (National Hospital), Trustee - National Health Development Fund (Ministry of Health), Special Envoy / Advisor- Board of Investment of Sri Lanka, Member of Advisory committee - Ministry of Wild Life Resources Conservation and Director of Industrial Development Board.

D. V. Abeysinghe
Managing Director/CEO

B Sc Engineering (Hons), C Eng., FIE(SL), FRINA(UK), MCPM(SL)

Appointed to Colombo Dockyard PLC (CDPLC) Board on 08/11/2016 as the Managing Director/CEO.

Received hishonors degree in the field of Mechanical Engineering from the University of Moratuwa, Sri Lanka and joined Colombo



H. A. R. K. Wickramathilake



T. M. R. Bangsa Jayah



C. J. P. Siriwardana

Dockyard in 1985. He has successfully completed various local and overseas trainings programs related to Shipbuilding, Naval Architecture, Ship Design and Quality Control including one year JICA training on Shipbuilding, Repairing and Maintenance in Japan in 1991.

He is a Chartered Mechanical Engineer and a Fellow Member of the Institution of Engineers Sri Lanka and a Fellow Member of Royal Institution of Naval Architectures, UK. He is also a Member of the Institute of Certified Professional Managers, Sri Lanka. He is a Member of Management of Lloyd's Register South Asia Advisory Committee and also a Member of the Indian Technical Committee of Nippon Kaiji Kyokai (NKK).

In his overall carrier in the Company, he has served in many managerial positions in various divisions in the company and has contributed for over 140 Shipbuilding projects and many Heavy Engineering constructions directly. He was appointed as the Senior General Manager/ Chief Operating Officer in June 2016 before his retirement on 07/11/2016.

T. Nakabe
Director

B.A (British American Literature) Tamagawa University.

Appointed to CDPLC Board in March 2010, and is the President of Onomich Dockyard Co, Ltd Japan.

M. Koshi
Director

Mr. Koshi holds a Bachelor's Degree in Mechanical Engineering, Kyushu Sangyo University in Japan.

He has worked in Onomichi Dockyard Co. Ltd, Japan as the General Manager – Technical Engine & Electrical Department since 1991 up to this appointment.

Lalith Ganlath
Director

Attorney at Law and NP, Solicitor (England and Wales) Barrister and Solicitor (ACT Australia)

Appointed to CDPLC Board in June 1993 and is the Proprietor of GANLATHS and Chairman of Ganlath's Secretarial Services (Pvt) Ltd, Foreign Investment Facilitators (Pvt) Ltd., Migration Facilitators (Pvt) Ltd., He is also a Director of Electro Amp (Pvt) Ltd., and D G Plantations (Pvt) Ltd., Registered Australian Migration Agent.

H. A. R. K. Wickramathilake
Director

FCA, B.Sc - Public Administration, Dip. in Shipping Norwegian Shipping Academy, Oslo

Appointed to the CDPLC Board in 1995. Chairman, Mercantile Marine Management Ltd., Mercantile Emerald Shipping (Pvt) Ltd., Royal Power (Pvt) Ltd and Royal Homes and Lands (Pvt) Ltd., Acting Chairman of Mercantile Shipping Company PLC and several other companies in the Mercmarine Group.

T. M.R. Bangsa Jayah
Director

Mr. T. M. R. Bangsa Jayah was appointed to the Board of Colombo Dockyard PLC on 20th April, 2015. He is a retired commissioned Police Officer, who has experience in the Police service for 29 years. During his career with the Police Department and he was the Chief of Security for the Deputy Speaker and North- East Governor. Mr. Bangsa Jayah is the present Joint Managing Director of Sri Lanka Insurance Corporation Ltd and the Chairman of Ceylon Asset Management Co. Ltd. He is a product of St. Anne's College, Kurunegala and has studied further in Aquinas College, Colombo. During his school period he has excelled in sports including Cricket and Soccer. He is a member of School Cadet Team. After his schooling he has completed his First In Laws at the Law Faculty, Colombo.

Mr. Bangsa Jayah has experience in construction industry for more than 15 years and he has been a principal partner in a well known piling company.

Mr. C. J. P. Siriwardana

B.Sc. Agriculture University of Ruhuna, MSc & PGD in Quantitative Development Economics from the University of Warwick U.K

He is an Assistant Governor of the Central Bank since 2010. He has served as an Assistant Governor in charge of both Price Stability Cluster and Financial System Stability Cluster of the Central Bank and currently is an Assistant Governor in charge of Risk Management, Legal and Compliance Policy Review and Monitoring, IT and EPF Departments.

He also has served as the Chairman in several internal committees including Market Operations Committee, Foreign Reserve Management Committee and Domestic Debt Management Committee and also served as a member of several committees including Monetary Policy Committee, Financial System Stability Committee, Steering Committee on Sovereign Bond Issues, Sovereign Rating Management Committee, Doing Business Committee etc.. In addition, he was the Head of the Financial Sector Consolidation Unit and the Secretary to the Monetary Board of the Central Bank. Mr. C.J.P. Siriwardana was the former Superintendent of Public Debt Department and has served the Central Bank for a period of 31 years. He has experience in the areas of Economic Research, Supervision of Banks and Non Bank Financial Institutions, Public Debt and Risk Management.

He has represented the Central Bank and served as a Director of various external institutions such as Ceylon Electricity Board (CEB), Board of Investments (BOI), Kandurata Development Bank and Institute of Policy Studies (IPFS) and currently representing the Central Bank at the Provident Property Lanka Ltd. Mr. Siriwardana has also authored many articles in reputed international and local journals in the fields of Public Finance, Debt Management and Capital Market Development.

Key Management Profile



D. V. Abeysinghe



Shantha Rathnayake



Mangala De Silva

D. V. Abeysinghe

Managing Director/CEO

B Sc Engineering (Hons), C Eng., FIE(SL), FRINA(UK), MCPM(SL)

Appointed to Colombo Dockyard PLC (CDPLC) Board on 08/11/2016 as the Managing Director/CEO.

Mr. Abeysinghe got his honours degree in the field of Mechanical Engineering from the University of Moratuwa, Sri Lanka and joined Colombo Dockyard in 1985. He has successfully completed various local and overseas trainings programs related to Shipbuilding, Naval Architecture, Ship Design and Quality Control including one year JICA training on Shipbuilding, Repairing and Maintenance in Japan in 1991.

He is a Chartered Mechanical Engineer and a Fellow Member of the Institution of Engineers Sri Lanka and a Fellow Member of Royal Institution of Naval Architectures, UK. He is also a Member of the Institute of Certified Professional Managers, Sri Lanka. He is a Member of Management of Lloyd's Register South Asia Advisory Committee and also a Member of the Indian Technical Committee of Nippon Kaiji Kyokai (NKK).

In his overall carrier in the Company, he has served in many managerial positions in various divisions in the company and has contributed for over 140 Shipbuilding projects and many Heavy Engineering constructions directly. He was appointed as the Senior General Manager/ Chief Operating Officer in June 2016 before his retirement on 07/11/2016.



K. B. P. Fernando



R. M. Vajira Rathnayake



Lal Hettiarachchi



M. Rohan De Silva



P. D. Gihan Ravinatha



Manori Mallikarachchi

Shantha Rathnayake

General Manager (Production)

B.Sc(Eng), C.Eng. CMarEng, M.I.Mar.ES(TUK), MBA

Over 29 yrs experience in the field of Heavy Engineering, ship building and ship repairs and held management positions in Quality Management, Project Management and Production Management.

Currently he serves as board Member of Faculty of Engineering Technology of Open University of Sri Lanka.



Ranil Wijeygunawardane

Mangala De Silva*General Manager (Human Resource Development & Administration)**MBA. (Sri.J), Dip. M . CIM (UK), MABE (UK), Attorney-At -Law*

Has over 25 years of experience at CDPLC in the field of Human Resource Management and Administration. A life member of the Bar Association of Sri Lanka, PIM Alumni Association and member of the Association of Business Executives (UK). Qualified as a Lead Auditor certified by LRQA. Trained in Solving Human & Organizational Problems, under AOTS in Nagoya, Japan.

K. B. P. Fernando*General Manager (Ship Repair Business)**MBA (University of Colombo), DOT Class II (Singapore)*

He is having over 30 years of exposure in this field. Out of which, 07 years had been at sea as a qualified Marine Engineer & the rest at CDPLC in the sectors of Ship Repairs, Ship Management, Invoicing & Commercial.

R. M. Vajira Rathnayake*General Manager (Supply Chain Management)**B.Sc., (Sri Lanka), GDMM (Singapore), MBA (Australia), Dip. (Shipping Law and Practice) (ICLP & CCC, Sri Lanka).*

Joined CDPLC in 1996. Has over 20 years of experience in the field of the Supply Chain Management. Served 03 Years as Manager of the Ceylon Shipping Agency (PVT) Ltd., Singapore.

Currently serving as an external board member of the Faculty of the Computing and Technology of the University of Kelaniya, Sri Lanka and also a member of the Industry Advisory Board of the same faculty. Associate Member of the Singapore Institute of Management.

Lal Hettiarachchi*General Manager (Ship Buildings)**B.Sc. Eng (Hons), C.Eng, MIE (Sri Lanka), MBA (PIM-USJ)*

He has served over 22 years in the fields of Ship Repair, Ship Design and Ship Building as an engineer as well as a senior manager. Underwent a 10 months training at Onomichi Shipyard Co.,Ltd Japan in 1999.

Currently serves as a Member of South Asia Technical Committee of Lloyds Register and visiting lecturer of kothalawala Defense University.

M. Rohan De Silva*General Manager (Finance & System Implementation)**MBA University of India, Dip MA (CIMA), MABE (UK), MCPM*

Joined Colombo Dockyard PLC in 1988 and has over 28 years of experience in the field of Finance and Management Accounting. Master of Business Management from Institute of Chartered Financial Analyst India. Member of the Association of Business Executives (UK), Member of Certified Professional Managers. Trained in General Management at National University of Singapore (NUS).

P D Gihan Ravinatha*Chief Financial Officer**FCA, MBA (PIM - USJ)*

Over 14 years' experience in the field of Finance, with 8 years at audit sector and 6 years at CDPLC. Fellow member of the Institute of Chartered Accountants of Sri Lanka. He has completed his MBA from Postgraduate Institute of Management, University of Sri Jayawardenapura (PIM)

Manori Mallikarachchi*Legal Consultant /Company Secretary**Attorney-at-Law & Notary Public*

Joined CDPLC in 1996. Has over 20 years of experience at CDPLC in the field of Legal, Secretarial & Compliance.

Ranil Wijeygunawardane*Managing Director/CEO (DGES)**FCA, FSCMA, PDM (Sri J.), Dip in Treasury Investment & Risk Management (IBSL)*

Over 32 Years' experience in the field of Finance & General Management of which 20 years at Colombo Dockyard PLC. Served as Managing Director /CEO of Colombo Dockyard PLC, Chairman of Dockyard General Engineering Services (Pvt) Ltd., Director of Ceylon Shipping Agency (Pte) Ltd., and Director of Sri Lanka Port Management & Consultancy Services (Pvt) Ltd. Committee Member of National Chamber of Exporters of Sri Lanka (NCE), Member of Lloyd's Register – South Asia Advisory Committee, Member of DNV GL – South Asia Committee. Exposure: Corporate Management Program organized by AOTS Japan (2011), IFRS – Study program conducted by CA Sri Lanka/ACCA (2011), Business Law for Managers conducted by National University of Singapore (NUS).

Financial Review

Group Financial Highlights

For the Year (Rs. Mn)	2016	2015	Change	%
Income Statement				
Revenue	10,735.6	15,442.7	(4,707.1)	-30%
Gross Operating Profit	1,570.3	1,121.0	449.3	40%
Profit after Tax	(289.0)	(589.4)	300.4	-51%
Balance Sheet				
Total Assets	20,394.1	18,263.1	2,131.0	12%
Total Liabilities	10,432.1	8,038.0	(2,394.4)	-30%
Shareholders' Funds	9,962.0	10,225.1	(263.1)	-3%
Net Cash & Cash Equivalent	2,652.3	2,356.1	295.6	13%
Interest bearing borrowings	7,422.5	4,516.1	(2,906.4)	-64%
Financial Ratios				
Earning Per Share (Rs.)	(3.99)	(8.21)	4.2	-51%
Dividend Per Share (Rs.)	0.00	0.00	0.00	0%
Net Assets Per Share (Rs.)	137.9	142.31	(4.4)	-3%
Return on Total Assets (%)	(1.41)	(3.2)	1.8	56%
Working Capital to Assets (%)	29.1	33.0	(3.9)	-12%

Colombo Dockyard PLC (CDPLC), is in the ship repairs, shipbuilding and heavy engineering business to deliver sustainable performance.

With total assets of Rs. 20,394.1 Mn (2015 - Rs. 18,263.1 Mn) as at end 2016, the Group serves a global customer base through its core business activities of ship repairs, shipbuilding and heavy engineering services to over 25 countries.

Majority of the key factors influencing our business are global and regional economic conditions, oil and gas exploration, shipping freights charges, currency fluctuations and international regulation on shipping and shipping environments.

As the Group's operations involve providing a range of products and services to a broad spectrum of customers in many geographical locations, no one factor, in the Management's opinion, determines the Group's financial condition or the profitability of the Company's operations.

Financial Performance

Group Revenue

The Group achieved a total revenue of Rs. 10,735.6 Mn (2015 - Rs. 15,442.7 Mn) for the financial year 2016 showing a reduction of 30.4% (Rs.4,707.1 Mn) as against last year recorded Rs. 15,442.7 Mn mainly attributing to the declining of new shipbuilding sector operations.

Segmental Contribution to the Group Revenue

Group revenue includes the Company's core activity of ship repairs, shipbuilding and heavy engineering & material sales from subsidiary companies. The major revenue contributor for the group has become shipbuilding with 50.1% compared to 65.0% recorded last year.

Export Revenue

The group's export revenue includes the revenue generated mainly from shipbuilding and ship repair operations. Total export revenue recorded for 2016 was Rs. 9,410.0 Mn compared to Rs. 13,973.0 Mn compared to last year. The major overseas market of the Group

during the year becomes Singapore with 49.8% (Rs. 5,345.0 Mn) of the total export revenue followed by India with 24.7% (Rs. 2,651.4 Mn).

However, the Indian market continued to be the major overseas market for the ship repair sector, with a contribution of 58.1% (Rs. 2,651.0 Mn) of the total export ship repair revenue under 2016. The dominant currency for export continued to be the US dollar, accounting for 100% of total exports. The depreciation & appreciation of the Sri Lankan Rupee continued to impact on the conversion of US dollar proceeds.

Earnings Before Tax and Depreciation

The Group's earnings before tax, depreciation and amortization recorded as Rs.211.4 Mn during the year compared to last year's loss of Rs. 74.7 Mn. The improvement during 2016 was primarily due to the positive contribution recorded from both ship repairs and shipbuilding activities compared to 2015.

Other Operating Income

Other operating income of the Group excluding interest income has decreased to Rs. 133.5 Mn during the year from Rs 169.8 Mn recorded for last year. The reduction of 21.5% (Rs. 36.6 Mn) was mainly due to the drop on exchange gain and disposal of steel scrap income compared to 2015.

Profit after Tax

The Company recorded a loss after tax of Rs.432.1 Mn during the year under review representing a 63.8% growth relative to the year 2015 loss of Rs. 708.1 Mn. The Company continued

to record losses during 2016 for the 2nd consecutive year after 22 years since its collaboration with parent Company Onomichi Dockyard Ltd Japan since 1993. This was mainly due to the impact of cancellation of one out of four shipbuilding contract and offer discounted price for balance three projects in 2015. We were compelled to go ahead with such agreement due to the adverse global crude oil prices crash during late 2015 where, offshore drilling industry has gone into deep recession, which has significantly impacted the entire shipbuilding operations globally particularly in offshore sector for which we were focused on our shipbuilding orders.

Contribution to Sri Lankan Economy.

The Colombo Dockyard PLC has generated direct foreign revenue of 9,410.8 Mn (over US\$ 65 Mn) and generated further Rs. 563.0 Mn as import substitutes

The direct value addition generated by the Company was Rs. 3,755.8 Mn, (2015- Rs. 3,401.0 Mn). This is mainly comprised of revenue generated from shipbuilding, ship repairs, heavy engineering and other non-operating income.

The local value addition generated by the Company was Rs. 5,556.2 Mn (55.7%) compared to Rs. 7,108.0 Mn (49.3%) recorded for 2015.

Company provides over 3,000 direct employments and over 350 on the job training facilities for National Institutes such as NAIT, ATI, IET and local Universities.

Colombo Dockyard PLC as a single business entity contributes average 1.10% to Sri Lankan annual industrial export earnings.

Exchange Rates

The external value of the Sri Lankan rupee remained relatively stable during the year up to end September 2016.

However, there existed a considerable depreciation pressure on the rupee, particularly during the first four months of 2016. This was mainly due to continued outflows in terms of import expenditure, debt service payments and the unwinding of investments in the government securities market in the aftermath of the rate hike by the US Federal Reserve amidst modest inflows, mainly to the financial account of the BOP.

The depreciation pressure on the rupee eased gradually from May onwards with the receipt of the first tranche under the IMF-EFF programme, the gradual reversal in outflows from the government securities market and proceeds from the ISB and syndicated loans. Overall, the Sri Lankan rupee recorded a depreciation of 1.8 per cent against the US dollar during the year up to end September. Reflecting cross currency exchange rate movements, the Sri Lankan rupee depreciated against the Japanese yen (17.72 per cent), the euro (4.37 per cent) and the Indian rupee (1.24 per cent) while appreciating against the pound sterling (12.31 per cent) on the backdrop of its depreciation against the US dollar after the 'Brexit' vote in June 2016.

Financial Review Contd.

Financial Position

Total Assets

The Company's total assets as at 31 December 2016 were Rs. 18,982.1 Mn, as against Rs. 17,209.4 Mn, the 10.3% (Rs. 1,772.7 Mn) increase represents mainly from growth on Trade & Other Receivables. Total non-current assets value of Rs. 4,631.6 Mn is a reduction of 4.5% (Rs. 219.3 Mn) against last.

Current Assets

Current assets of the Company has increased to Rs. 14,350.5 Mn in 2016 compared to Rs. 12,358.4 Mn in 2015, the 14% (Rs. 1,992.0 Mn) increase against last year is mainly attributed to the increase on trade debtors & other receivables.

Working Capital

The net working capital shows a marginal reduction during the year to stand at Rs. 5,238.4 Mn under review as against last year figure of Rs. 5,471.1 Mn.

Cash flow

Cash generated from the Group's operations before working capital changes stood at Rs. 375.7 Mn in 2016 compared with Rs. 84.1 Mn in the previous year. Cash generated from operations decreased compared to the previous year, due to negative working capital changes when compared with last year.

Net cash used in investment activities was Rs. 229.0 Mn during 2016, as against Rs. 520.2 Mn the previous year. The Group invested a total of Rs. 191.0 Mn in yard development and productivity improvement related investments.

The Group's cash and cash equivalents at the end of 31st December 2016 was Rs. 2,652.3 Mn, which is a 12.5% (Rs. 295.5 Mn) improvement over last year.

Net Assets Value per Share

In line with capacity and facility expansion, the net assets value per share of the Company dropped to Rs. 125.68 as at 31st December 2016 compared to Rs. 131.55 recorded for last year.

Capital Structure

Total assets of the group stands at Rs. 20,394.1 Mn as at 31st December 2016, compared with Rs. 18,263.1 Mn in the previous year. Assets were funded by shareholders funds (47.8 per cent), non-current liabilities (4.2 per cent) and current liabilities (47.0 per cent).

Debt

Group's total debt was Rs. 7,422.5 Mn as at balance sheet date, 64.4% (Rs. 2,906.3 Mn) more than in 2015. This was primarily due to the increase on short term interest bearing borrowings. Group's long-term debts continued to reduce and as at 31st December 2016, total long-term debt was zero.

The Company gearing level continues to be at zero level points, from 2013.

Performance of the Share

The share price of the Company as at 31st December 2016 recorded at Rs. 78.60, a reduction of 47.6% compared to last year's closing price of 150.10. A 4.5.0% declining trend is noted in All Share Price Index in the Colombo Stock Exchange as at 2016-12-31 compared

with 2015-12-31. The share price recorded the highest price of Rs. 153.00 on 04th January 2016 and lowest of price of 71.00 on 28th November 2016.

Financial Reporting

Colombo Dockyard Plc is committed to adopting the best practices in financial reporting with providing the most updated developments in financial reporting and disclosure. The financial reports on page 46 to 95 have been prepared in compliance with Sri Lanka Accounting Standards.

Our Achievement

The Company gives high priority to timely delivery of both quarterly and annual financial statements. Our comprehensive reporting has enabled shareholders and all other stakeholders to make a fair assessment of the company's performance.

Subsidiaries Performance

The total revenue from subsidiary companies recorded as Rs. 1,224.0 Mn of which Rs. 819.8 Mn from wholly owned Subsidiary of Dockyard General Engineering Services (Pvt) Ltd. (DGES), and Rs. 405.2 Mn (SGD 3.8 Mn) from Ceylon Shipping Agency (Pte) Ltd (CSA) with 51% holding.

DGES has recoded a net profit of Rs. 169.5 Mn for 2016 compared to Rs. 125.9 Mn profit reported for 2015. The CSA recored a net loss of SGD 44,223/- against net profit of SGD 10,541/- for 2015.

Statement of Value Addition (Company)

	2016 Rs. 000	2015 Rs. 000
Ship Repairs	4,559,697	4,311,434
Shipbuildings	5,374,446	10,086,302
Heavy Engineering	38,586	9,361
Operating Revenue	9,972,729	14,407,097
Other Income	143,186	176,802
Total Revenue	10,115,915	14,583,899
Less: Cost of Materials & Services		
purchased from External Sources	6,245,915	11,182,622
Value Addition	3,870,000	3,401,277
Value Addition as a % on Revenue	38.3%	23.3%
Distributed as Follows:		
To Employees as Remuneration & Benefits	3,507,129	3,433,083
To Shareholders as Dividends	-	215,579
To Lenders as Interest	235,167	96,557
To Government Taxes	125,874	153,071
Retained in the Business		
-as Depreciation	433,932	426,718
-as Revenue Reserves	(432,102)	(923,731)
Value Distribution	3,870,000	3,401,277
Value Distribution %		
To Employees as Remuneration & Benefits	90.6%	100.9%
To Shareholders as Dividends	0.0%	6.3%
To Lenders as Interest	6.1%	2.8%
To Government Taxes	3.3%	4.5%
To Retained in the Business	-22.3%	-14.6%

Corporate Governance

Colombo Dockyard PLC (CDPLC) is committed to meeting high standards of Corporate Governance. Its Corporate Governance Principles reflect its strong belief in protecting and enhancing shareholder value in a sustainable way. The Group firmly believes that the professionalism, integrity and commitment of its Board members and employees, supported by a sound system of policies, practices and internal controls are prime concerns that will enable us to preserve long-term value and returns for its shareholders.

Overview

Under the guidance of its Board, Colombo Dockyard PLC (CDPLC) is committed to achieving high standards of corporate governance to protect shareholder value. The Company recognises the important role that clearly defined corporate governance processes play in enhancing corporate accountability and sustainability.

This report outlines the Company's corporate governance processes and activities for the financial year 2016 with reference to the Code of Best Practice of the Institute of Chartered Accountant Sri Lanka, the requirements of the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange.

In addition to comply with the statutory requirements, effective governance systems and practices towards improving transparency, disclosures, internal controls and ethics at work-place have been institutionalized.

CDPLC recognizes that good Corporate Governance is a continuing exercise and reiterates its commitment to pursue the highest standards of Corporate Governance in the overall interest of all the stakeholders.

Board of Directors

The core responsibility of the directors is to exercise their judgment to act in what they reasonably believe to be the best interests of the Company and for the creation of long-term value and return for shareholders. The Board is responsible for the Group's overall performance objectives, financial plans and annual budget, major investments, divestment and funding proposals, financial performance reviews, risk management and corporate governance practices. To ensure the efficient discharge of its responsibilities and to provide Independent oversight of Management, the Board has established Board Sub Committees, including the Audit Committee, Remuneration Committee and Related Party Transaction Review Committee. These committees are primarily made up with Non-Executive Directors. The respective roles and responsibilities of each of the Board sub Committees are included in this report.

Board Members	Audit Committee	Remuneration Committee	Related Party Transaction Review Committee
H. A. R. K. Wickramathilaka (FCA)	Chairman	Chairman	Chairman
Lalith Ganlath	Member	Member	Member
Sarath De Costa	Member	Member	Member
D. V. Abeysinghe	-	-	Member

The current Board comprises of nine Directors; six of them are Non-Executive Directors. The Board's Chairman, Dr T. Takehara and Mr. Koshi are Executive Directors. Mr. D. V. Abeysinghe who is the Managing Director & CEO, of Colombo Dockyard PLC is also an Executive Director. All Non Executive Directors submit a Declaration annually to the Board regarding their independence. Non-Executive Directors, Mr. H. A. R. K. Wickramathilake and Mr. Lalith Ganlath are independent except for the fact that they hold offices over nine consecutive years, which has been duly ratified and determined by the Board that they are nevertheless independent for the current year, as provided under the Listing Rules of CSE, as they have been duly reelected by the shareholders at the Annual General Meeting of each year.

The Board so determined based on the annual declaration submitted by the Non-Executive Directors.

Director	Position on the Board	Date of Appointment	Nature of Appointment
Dr. T. Takehara	Chairman	01 Sep. 2014	Executive/Nominee Director
Sarath De Costa	Vice Chairman	21 June 1993	Non-executive/Nominee Director
D. V Abeysinghe	Managing Director/CEO	08 Nov 2016	Executive/Nominee Director
M. Koshi	Director	07 April 2015	Executive/Nominee Director
T. Nakabe	Director	24 March 2010	Non-executive/Nominee Director
L. Ganlath	Director	21 June 1993	Non-executive/Public Director (Independent)
H. A. R. K. Wickramathilake	Director	28 April 1995	Non-executive/Public Director (Independent)
T. M. R. Bangsa Jayah	Director	20 April 2015	Non-executive/Nominee Director
C. P. J. Siriwardane	Director	10 Nov 2016	Non-executive/Nominee Director

The composition of the Board Sub Committees ensures an equitable distribution of responsibilities among Board Members to maximize the effectiveness of the Board and foster active participation and contribution.

Diversity of experience and appropriate skills are considered along with the need to maintain appropriate checks and balances between the different committees with its greater involvement in key business and executive decisions, and membership of the Audit, Remuneration and Related Party Transactions Review Committees, with their respective oversight roles, is mutually exclusive.

The composition of the Board Sub Committees ensures an equitable distribution of responsibilities among Board Members to maximize the effectiveness of the Board and foster active participation and contribution.

Type of Meetings	Number of Meetings Held	Attendance
Board Meetings	09	80%
Audit Committee	04	83%
Remuneration Committee	01	67%
Related Party Transactions Review Committee	02	88%

To focus on a director's attendance at formal meetings alone may lead to a narrow view of a director's contribution.

Contributions from each director can be made in many forms, such as bringing strategic relationships to the Group and providing guidance to Management or exchanging of views outside the formal environment of the Board and/or Board Sub Committee meeting.

The Board members are free to discuss and voice their concerns on proposals that are raised for the Board's consideration and approval.

Audit Committee

The Audit Committee comprises of three Non-Executive Directors of whom two Directors are independent, namely Mr. H. A. R. K. Wickramatilleka, Chairman, and Mr. Lalith Ganlath, who are Public Directors, and other Directors namely Mr. Sarath De Costa, who have been nominated to the Board by a major shareholder.

Corporate Governance *contd.*

Report of the Audit Committee

In terms of the Listing Rules of the Colombo Stock Exchange the Audit Committee will assist the Board to improve the existing system to be more transparent. It will focus on system of internal control financial reporting process compliance with the laws and regulations and other best practices for Corporate Governance.

The Committee examined the independence of the External Auditors and satisfied with the information provided to independence of the Auditors and further recommend reappointment of the Auditors.

The Committee has reviewed internal control systems of all the areas and recommendations received were submitted to the Board for implementation. As a result the following areas were reviewed and shortcomings were rectified and systems were improved by obtaining services of experts in relevant fields.

- Stores Management (outside party)
- Investment Management
- Invoicing (SR)

In addition to the above, the Committee regularly reviews the quarterly accounts and audited accounts before these are presented to the Board of Directors.

During the period under review the Committee met on 04 Occasions and reports on meeting were presented to the Board.

The Managing Director/CEO and Chief Financial Officer on our request assisted

us at these meetings to formulate our recommendation.

The Directors are equipped with complete, adequate and timely information and resources. The Management of Colombo Dockyard PLC provides adequate managerial and operational reports and financial statements of the Group to the Board on a regular basis. As a general rule, the necessary reports/information is submitted to Directors at least four days before the meeting. So that Directors get a better understanding about the matters prior to the meeting. Thus the discussion may be more focused on the questions that the Board or sub Committee has about the matters. Senior managers who can provide insight into the matters at hand would be present at the relevant time during the meetings.

Quarterly financial highlights performance and developments of the Group are presented at Board Meetings. The General Manager (Finance) and senior managers if necessary are also present at the meeting to address queries the Board may have. The Company Secretary assists the Chairman with the preparation of meeting agenda and administers, attends and prepares minutes of Board proceedings, ensuring good information flow within the Board and its Committees. The Secretary assists the Board on the compliance with its Articles of Association, laws and regulations, including requirements of the Companies Act, Rules of Colombo Stock Exchange and Securities and Exchange Commission of Sri Lanka Act.

Remuneration Committee

The Remuneration Committee comprises of three Non-Executive Directors, namely Mr. H.A.R.K. Wickramatileka, Chairman, and Mr. L. Ganlath, who are independent, and Mr. Sarath De Costa, who has been nominated to the Board by a major shareholder.

Report of the Remuneration Committee

Policy

The Committee makes recommendations regarding remuneration of the Managing Director/CEO to the Board for final determination.

Functions

The Committee will assist the Board to decide on certain parameters in formulating the Remuneration Policy with the view to retaining highly qualified, experienced personnel in a very competitive environment while looking at the cost aspect for the benefit of all stakeholders of the Company.

The Committee will have meetings as and when it deemed necessary to decide on the remuneration of the Managing Director/CEO.

The aggregate remuneration paid to the executive and non-executive Directors are given in Note 08 to the Financial Statements.

Related Party Transactions Review Committee

The Related Party Transactions Review Committee comprises of three Non-Executive Directors, namely Mr. H.A.R.K. Wickramatileka, Chairman, and Mr. L. Ganlath, who are independent, and

Mr. Sarath De Costa, who has been nominated to the Board by a major shareholder and one Executive Director namely Mr. D V Abeysinghe, Managing Director/CEO who has been nominated to the Board by a major shareholder .

During the period under review the Committee met on 02 occasions and the Committee discussed and reviewed the related party transactions and found that during the year under review none of the transactions were needed to be referred to the Board since the value of transactions were far below the required norms.

Annual General Meeting

The Company's 33rd Annual General Meeting (AGM) was held on 21st day of June 2016. At the AGM 167 shareholders were present by person or by proxy.

The resolutions passed at the AGM were as follows:

- To receive the Annual Report of the Board of Directors on the affairs of the Company, the Audited Accounts for the year ended 31st December 2015 and the Report of the Auditors.
- Re-election of Directors in terms of the Articles of Association of the Company.
- Appointment of KPMG, Chartered Accountants as the External Auditors of the Company for 2016 and to authorize the Directors to approve their remuneration.

- To authorise the Directors to determine donations for the year 2016 and up to the date of the next AGM.

Company Compliance with Corporate Governance Rules as per Section 7.10 of the Listing Rules of the Colombo Stock Exchange and discloses the level of compliance in this report as appropriate.

The Management of the Company is committed to assist the Board to implement and strengthen good corporate governance practices. The Board exercises its discretion to seek independent professional advice if deemed necessary to ensure that full information and advice is available before any important decision is made.

Independent Internal Audit Function

The Internal Audit Function of the Company is provided by the Internal Audit Staff (Financial & System Review) provided by the, B.R De Silva & Co, Chartered Accountants, which reports directly to the MD/CEO on all audit matters. The internal audits performed are aimed at assisting the Board and Management in the discharge of their corporate governance responsibilities as well as improving and promoting effective and efficient business processes within the Company.

Subsidiary Monitoring Framework

As the major shareholder, the Colombo Dockyard PLC. nominates its representatives for the Boards of subsidiary companies namely, Dockyard General Engineering Services (Pvt) Ltd., and Ceylon Shipping Agency

(Pte) Ltd., Singapore and monitors the performance of such companies, by the following means:

- (a) The Board of Directors reviews Financial Statements Monthly/Quarterly.
- (b) A statement containing all significant transactions and contracts entered by subsidiaries are placed before the Board.

Corporate Responsibility for Sustainable Business Performance

Sustainability at Colombo Dockyard PLC is about striving for excellence and continuous improvement in identifying, understanding and responding to evolving environmental, social and governance challenges facing our business today.

Corporate responsibility towards society and the environment is regarded as a fundamental aspect of our strategy execution and decision-making process and is prominently placed in the Company's corporate priorities and core values. The Company ensures that it does not compromise this responsibility even at the expense of its economic performance. One of the most important developments of sustainability at Colombo Dockyard is the formation of our "Health, Environment, Safety and Productivity Improvement" (HESPI) Committee representing organization wise employees headed by the General Manager (HRD & A).

Following a satisfactory Technical Review, Colombo Dockyard PLC has been approved by LRQA (Lloyd's Register Quality Assurance Limited) as meeting

Corporate Governance *contd.*

the requirements of ISO 14001:2015 (Environmental Management System – EMS). to the scope detailed on the approved certificate.

Accordingly, the Colombo Dockyard PLC is the first organization in Sri Lanka to get certified by LRQA Mumbai office for ISO 14001:2015.

The Company Secretary

The Company secretary plays a key role in ensuring that the Board procedures are followed and regularly reviewed. The Company secretary ensures that all relevant information, details, documents are made available to the directors for effective decision making at the meetings.

The Company Secretary is primarily responsible to ensure compliance with applicable statutory, new regulations and is the interface between the management and the regulatory authorities for governance matters.

Communication with Shareholders

All CDPLC price-sensitive information is disseminated to its shareholders via the Colombo Stock Exchange (CSE).

Disclosure is never done on a selective basis. Financial and other performance data is given where appropriate, to give shareholders a better insight into the Company's performance. The Annual Report and Quarterly Report produced with group information and as per the

rules of the Securities & Exchange Commission and Colombo Stock Exchange are produced to the CSE and then to the shareholders. The website (www.cdl.lk) maintained by the Company offers macro level information of the Company to interested persons.

The Board of Directors of the Company always encourages its shareholders to attend and actively take part in the AGM. The Board of Directors have arrange a special corporate Management team to be available at the AGM to answer any queries raised by shareholders.

Risk Management

Introduction

Risk management is identifying and managing all the existing and potential internal & external risks that could severely impact the stability and growth of the Company. Generally, this involves reviewing operations of the organization, identifying potential risks and the likelihood of their occurrence, and taking appropriate actions to address them, in order to prevent most likely threats.

The Group manages risks under an overall strategy determined by the Board of Directors, supported by the aboard level sub Committees and the General Management team who reviews and enhances the effectiveness of the Group's risk management plans, systems, processes and procedures giving especial attention the principles and generic guidelines provides under the ISO 31000:2009 on risk management.

The concept of risk management became a serious management criterion, with the recent market developments, changes in maritime rules and regulations, employee-related lawsuits, promoting discipline that a company should report on their major business risks and on how management deals with them.

Today, risk management has become an integral part of most of the international management systems including ISO 9001, OHSAS18001, ISO 27001, placing equal importance as financial or facilities.

Our Approach

Being an integral part of the business process risk management is done on a continuing basis, in order to reduce risk volatility and improve returns. As the risk based thinking is incorporated to the upcoming ISO9001:2015 standard the yard has taken several initiatives to educate the respective Managers on new risk management principals. In par with that the yard has invited General Manager (Client training services, South West Asia) of LRQA to conduct a training session on Risk based thinking & Risk based decision making in line with the new ISO 9001 standard requirements.

Marine and shipping industry in the wide meaning of the term, involves highly specialized activities and is also called as a 3D industry, dirty, dangerous and difficult. It is wedded with high risks, both internal and external.

Thus, we as a responsible business entity, focus on long term sustainable value to all our stakeholders by identifying the risks, both existing and potential: the objective being, to assess all the risks identified determine their most probable impact, and take precautions as far as reasonably practicable by taking prompt actions to mitigate them.

The following Key Risks are identified as existing risks, to which we are exposed, on our core and related businesses and have categorized them as Internal and external, for assessment and to facilitate taking adequate precautionary measures. Risk Assessment can include both qualitative and quantitative

assessments of the likelihood of the various risks occurring and the impact of these in terms of cost, schedule and/or performance. The assessment of such risks and the related responses are set out below:

- Operational Risk Management
- Information Technological Risk Management
- Market Risk Management
- Product Risk Management
- Financial Risk Management

Internal Risks

Operational Risk Management

Our Concern

Operational risk, which is inherent in all business activities, is the risk of potential financial loss and/or business instability arising from failures in internal controls, operational processes or the systems that support them.

It is recognized that operational risk can never be entirely eliminated and that the cost of minimizing it may outweigh the potential benefits. Accordingly, the Group manages operational risk by focusing on risk management and incident management. The Group has also put in place operating manuals, standard operating procedures, delegation of authority guidelines and a regular reporting framework, which encompasses operational and financial reporting.

Risk Management *contd.*

Our core business activities are in keeping to international standards, compliance to such international conventions and regulatory procedures, is required. In addition, the framework under ISO 9001-2015 QMS provides for management at various levels in CDPLC to systematically review and ensure Compliance with the requirements.

Our Impact

Failure to address these risks promptly and prudently will have a serious negative impact to its operations and the principle of “going concern”.

Our Response

Safety and Health of all our employees and visitors are considered as a prime responsibility and a Safety Culture that is not second to any of the developed international shipyards are inculcated through systematic education, training and prudent implementation of a Safety Management System that we envisage to conform to OHSAS 18001.

In addition, the framework under ISO 9001 : 2015 Quality Management System audited and certified by an accredited International Agency; namely, Lloyd’s Register of Quality Assurance provides a prudent framework for encompassing all operational procedures to an integrated management System, giving sound control to the Management of what is being done in the Organisation.

Risk of fire and potential damage is mitigated by taking proactive measures such as identifying potential fire risks, checking on combustible gases, both using Company Experts and third party inspectors; i.e., the Analysts of the Government Analyst Department,

development of fire guards, fire prevention and control equipment etc. In addition, employee training, on good housekeeping, continuous training, and systematic monitoring and control measures are taken to create a risk-free working environment.

Acknowledging that operational risk can never be entirely eliminated and that the cost of elimination may outweigh the potential benefits, a preventive management approach is taken, with continuous upgrading.

The measures taken are: updating operating manuals & standard operating procedures, checking regularly on the accuracy of functionality of tools, equipment & machinery, delegation of authority, work system permits, guidelines and a regular reporting framework, creating awareness and consciousness and accountability in the operational activities.

Prudent Communication being identified as an important aspect in creating better understanding amongst different groups and levels, the CDPLC Management pays very special attention to inculcate an organization culture that allows a two-way communication process, free debate and discussion, consensus decision making process and transparency, resulting in creating sustainable industrial harmony.

The assignment of the internal audit to a third party is another step taken to improve transparency and accountability.

Thus, both the Quality Management Systems Procedures are subject to independent, competent auditors

improving the overall control over these processes and transparency.

In addition, where applicable, the risk mitigation actions are supported by risk transfer mechanisms such as insurance.

Safety & Health of all engaged in the yard, including our visitors, are our prime concern and we address this thoroughly, with the continuous education, compliance and audits, carried out by our own Health, Environment & Safety Advisory Committee, the importance of which is now ingrained in to each individual.

Information Technological Risk & Management

Our Concern

Company sustainability depends on accurate information generated through an Integrated Management Information System for prudent and timely decision making.

Our Impact

Any disruption or failures of such a system, infrastructure and applications, may have a negative impact to the Company operations and perhaps would lead to financial losses.

Our Response

This has been addressed by way of daily backups, standby file servers, regularized maintenance etc. Insurance cover is also taken to safeguard unforeseen losses. Our ICT Department has formulated a strategy for 2014-2018 as Road Map to eFuture, where they identified to conduct ICT Business Continuity and Disaster Recovery Examination every month.

External Risks

Market (Strategic) Risk & Management

Our Concern

Both our Shiprepair and Shipbuilding businesses are mainly generated from the foreign market. Accordingly, our competition too is global and perhaps more specifically regional. Today, severe competition is faced from China, India, Pakistan, Indonesia, Malaysia, Vietnam and Thailand. In addition, both Dubai and Singapore, which are larger players, can impact on the upper levels of the pricing. In view of these market pressures, it is essential that CDPLC focuses on providing competitive products and services, irrespective of the fact that our competitors continue to benefit from lower wage costs (in comparison with efficiency and productivity), flexible labour laws, supportive tariff structure, comparatively low energy costs and Government subsidies amongst others.

Our Impact

The pressure from international price competition on our Ship repairs, Shipbuilding and Offshore Engineering market share too will have a serious impact on business generation. The absence of protectionism in the local market and severe competition on Heavy Engineering business by other local contenders too affect the generation of business volumes and price. The country risk, attributed by the security situation, though completely beyond the control of the company, is covered by financial instruments, satisfying and easing the prospective customers, where eventually, the payments made are refundable, on demand.

Our Response

Capitalizing on the current market circumstances and its futuristic forecasts, globally and regionally, the Company has adopted strategies to diversify its products portfolio and position itself in a niche market, based on competitive advantage.

We are adopting new marketing strategies focusing on new geographical markets, new market segments and new channels.

Focused yard expansion projects are in the pipeline, to attract available opportunities as much as possible, conquering the space limitations.

Financial Risk Management

Financial risks relates to our ability to meet financial obligations and mitigate credit risks, liquidity risks, currency risks, interest rate risk and price risks.

To manage these risks, the Group's policies and financial authority limits are reviewed periodically. The Group's activities are exposed to a variety of financial risks, including changes in interest rates, foreign exchange rates and liquidity as well as credit risk.

Interest Rate Risk

Our Concern

The Group's objective is to maintain an efficient optimal interest cost structure to minimize the adverse effects on fluctuating interest rates.

Our Impact

Impacts the Company's interest earnings, costs, cash flow and profitability.

Our Response

The Group utilizes various financial instruments to manage exposures to interest rate risks arising from operational, financing and investment activities. Borrowing and investing interest rates are always being negotiated to the most feasible extent, in our favor.

Foreign Exchange Risk

Our Concern

Risk on foreign-currency fluctuation on sales and purchases, denominated primarily by the US dollar, Euros and the Singapore dollar, is high.

Our Impact

Exchange rates fluctuations make substantial impact on both revenue and cost structure leading to changes in final profitability.

Our Response

This risk is minimized by hedging the currency: either by forward foreign exchange contracts in respect of actual or forecasted currency exposures or hedged naturally by matching sales or purchase of matching assets or liability of the same currency and amount. Where feasible, contracts are executed on a basket of currencies, minimizing the potential risks.

Risk Management contd.

Liquidity Risk

Our Concern

The Group manages its working capital requirements with the view to minimize the cost and maintain a healthy level of liquidity appropriate to the operating environment and expected cash flow of the Group. Working capital requirements are maintained within the credit facilities established and are adequate and available to the Group to meet its obligations.

Our Impact

Inadequate net working capital would lead to unnecessary financing costs to the bottom line.

Our Response

To measure liquidity risk, the Company closely monitors its net operating cash flow, maintains a level of cash and cash equivalents and secured committed funding facilities from financial institutions.

Credit Risk

Our Concern

The Group, has no significant concentration on credit risk exposure to sales and trade with any single counter party.

Our Impact

Possibility of incurring bad and doubtful debts and cost increases.

Our Response

Group credit exposure is closely monitored. Credit given is reviewed within the pre-determined approval procedures and contractual agreements made for long-term & high value transactions.

Product Risk Management

Our Concern

Our core business operations, of building ships, repairing ships, offshore and heavy engineering, is to acceptable quality and to international standards. As such, we have to align ourselves continually with new technological developments and other requirements, rules and regulations, for our products to be marketable and services acceptable.

Our Impact

Failure and non-compliance of above factors would immediately lead to changing the market preference.

Our Response

To mitigate the potential risk, we have adopted a quality assurance approach, which ensures required levels of quality in our products and services: through the ISO 9001-2008 Quality Management System, certified by Lloyd's Register of Quality Assurance. Further, all our products and services are strictly subject to the approval and certification by Classification Societies, such as

- Det Norske Veritas- Germanischer Lloyd of Shipping (DNV-GL)
- Indian Register of Shipping
- American Bureau of Shipping
- Lloyd's Register of Shipping Ltd.
- Bureau Veritas
- Class NK

Moreover, Product & Technological Innovation is given high priority and relevant employees are trained overseas to remain competitive in an evolving market.

Shareholder Information

Our Shareholders

Colombo Dockyard PLC (CDPLC) takes a proactive approach in reaching out to its institutional and retail shareholders, by providing shareholders access to management and adopting a policy of regular, fair, timely and open communications with investors, the Group aims to improve the investing community's understanding of its business and strategies.

Investor Communication

The Group's investor relationship is an important and integral part of its commitment to high standards of corporate governance and transparency. The Legal Consultant /Company Secretary has been dedicatedly assigned to maintain long-term relationships with the investors and analysts and addresses their queries on the Group's business activities.

CDPLC is committed to have a proper communication with its shareholders and other investors too. Thus, during the year 2016 the Company continued to provide, timely, accurate disclosures like quarterly financial announcements, press releases and interviews with media, publication of the Annual Report etc.

Encouraging the full participation of shareholders at the Annual General Meeting (AGM) adequate notice is given together with the Annual Report enabling them to prepare in advance.

Further, the company is very much concerned about its statutory commitments to society. Thus, the Company audited the Financial Statement and Balance Sheet for the

year 31st December 2016 has been made available to CSE within six months of the Balance Sheet date.

Financial Performance

During the year under review, the Company achieved total revenue of Rs. 9,972.7 Mn (2015 - Rs. 14,407 Mn) and net loss of Rs 432.1 Mn. (2015 - Net Loss Rs. 708.1 Mn) leaving the shareholders' value with Rs. 9,031.1 Mn (2015 - Rs. 9,451.6 Mn).

Dividend

No Dividend has been approved for the financial year end 2016-12-31 (2015 - NIL) considering the net loss recorded for the year 2016.

Dividend Pay Out Ratio

As per Colombo Stock Exchange Listing Rule No: 7.6 (xi), Company Dividend Payout Ratio was zero during 2016 as well as 2015 financial years.

Financial Reporting

CDPLC is committed to adopting the best practices in financial reporting for both quarterly and annual financial performances to the shareholders.

	1st Quarter Rs. Mn	2nd Quarter Rs. Mn	3rd Quarter Rs. Mn	4th Quarter Rs. Mn	2016 Rs. Mn	2015 Rs. Mn
Revenue	2,531	2,426	2,980	2,036	9,973	14,407
Gross Operating Profits	292	410	199	336	1,237	791
Profit after Tax	(112)	31	(245)	(106)	(432)	(708)
Shareholders' Fund	9,338	9,370	9,125	9,031	9,031	9,452
Total Assets	19,283	19,670	18,620	18,982	18,982	17,209

Shareholders Information

Share Capital

	31/12/2016	31/12/2015
Stated Capital Rs.	718,589,240	718,589,240
Number of Shares	71,858,924	71,858,924
Number of Shareholders	4,833	4,786
Voting Rights	1 Vote per Share	1 Vote per Share
Class of Shares	Ordinary Share	Ordinary Share

Shareholder Information *contd.*

Distributing of Shareholding as at 31st December 2016

(As per Rule No: 7.6 (x) of the Listing Rules of the Colombo Stock Exchange)

From	To	No of Share Holders	No of Shares	%
1	1,000	3,879	641,350	0.89
1,001	10,000	814	2,380,379	3.31
10,001	100,000	114	3,452,776	4.81
100,001	1,000,000	19	4,649,256	6.47
1,000,001 above		7	60,735,163	84.52
		4,833	71,858,924	100.00

Public Shareholding

As per Rule No: 7.6 (iv) of the Colombo Stock Exchange, percentage of shares held by the Public as at December 2016 is 48.94% (2015 – 48.94%)

List of Largest 20 Shareholders

As per Rule No: 7.6 (iii) of Listing Rules of the Colombo Stock Exchange, twenty largest shareholders:

	Name	2016-12-31	%	2015-12-31	%
01	Onomichi Dockyard Company Ltd	36,648,051	51.000	36,648,051	51.000
02	Employees Provident Fund	11,744,009	16.343	11,744,009	16.343
03	Sri Lanka Insurance Corporation Ltd –General Fund	3,592,998	5.000	3,592,998	5.000
04	Sri Lanka Insurance Corporation Ltd - Life-Fund	3,592,548	4.999	3,592,548	4.999
05	Sri Lanka Ports Authority	2,186,191	3.042	2,186,191	3.042
06	Employees Trust Fund Board	1,736,660	2.417	1,735,060	2.415
07	National Savings Bank	1,234,706	1.718	1,234,706	1.718
08	Bank of Ceylon No. 1 Account	897,622	1.249	897,622	1.249
09	Mellon Bank N.A. Florida Retirement System	480,580	0.669	429,046	0.597
10	Bank of Ceylon No. 2 Account	335,900	0.467	336,000	0.468
11	HSBC Intl Nom Ltd-SSBT-Russell Institutional Fund	316,984	0.441	256,644	0.357
12	Deutsche Bank AG as Trustee for JB Vantage Value Equity Fund	277,827	0.387	262,086	0.365
13	Peoples Bank	249,362	0.347	249,362	0.347
14	Union Assurance PLC/No-01 A/C	238,350	0.332	238,350	0.332
15	Star Packaging (Pvt) Ltd	235,000	0.327	217,000	0.302
16	Lanka Milk Foods (CWE) Limited	219,948	0.306	219,948	0.306
17	HSBC Intl Nom Ltd-State Street Munic C/o SSBT-Universal Investment Gesellschaft Mbh for Apt-Universal Fund	194,119	0.270	173,369	0.241
18	Mercantile Investments and Finance PLC	169,050	0.235	169,050	0.235
19	DFCC Bank PLC A/C 1	160,000	0.223	160,000	0.223
20	David Pieris Motor Company Limited	151,487	0.211	175,787	0.245

Composition of Shareholding

The total number of shareholders of CDPLC is 4,833 as at 31st December 2016, which is 0.98% increase compared to 4,786 as at 31st December 2015.

	No of Shareholders	No of Shares	%
Local Individuals	4,542	4,443,132	6.18
Local Institutions	201	28,697,628	39.94
Foreign individuals	76	570,156	0.79
Foreign institutions	14	38,148,008	53.09
	4,833	71,858,924	100.00

Market Value per Share

As per Rule No: 7.6 (xi) of the Listing Rules of the Colombo Stock Exchange, at the end of the year 2016, the share price of Colombo Dockyard PLC recorded a negative growth of 47.6% (Rs. 71.50) compare to the previous year's closing price.

Market price per Share	As at 31/12/2016	As at 31/12/2015
Highest during the year	153.00 (04/01/2016)	196.00 (06/01/2015)
Lowest during the year	71.00 (28/11/2016)	145.00 (29/12/2015)
As at end of the year	78.60 (31/12/2016)	150.10 (31/12/2015)

Market Capitalization

CDPLC has recorded its market capitalization as at the balance sheet date of 31st December 2016 as Rs. 5,648.10 Mn. (2015 – Rs. 10,780.0 Mn.). CDPLC represent 0.20% (2015 – 0.24%) of the total market capitalization.

Shares Trading

	As at 31-12-2016	As at 31-12-2015
No of Transaction	2,388	1,394
No of Shares traded	732,816	562,262
Value of Share traded (Rs.)	71,416,456	90,979,404

Earnings per Share

The Earning per share (EPS) of Rs. (6.01) in the year 2016 recorded a growth of 64% compare to the last year EPS value of Rs. (9.85) EPS is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

The level of Stakeholder Satisfaction is the yardstick of our future sustainability. Thus Economic Progress, Environmental Concern, Customer and Supplier Relations, and Social Inclusiveness are our main business concerns.





Financial Reports

Financial Calender 2016/2017	35
Annual Report of the Board of Directors on the affairs of the Company	36
Related Party Transactions Review Committee Report	42
Statement of Directors' Responsibilities	43
Chief Executive Officer's and Chief Financial Officer's Responsibility Statement	44
Independent Auditors' Report	45
Statement of Profit or Loss and Other Comprehensive Income	46
Statement of Financial Position	47
Statement of Changes in Equity	48
Statement of Cash Flows	50
Notes to the Financial Statements	52
Ten Years Financial Summary	96

Financial Calender 2016/2017

2016

Interim Report - 4th Quarter-2015	April 06, 2016
Approval of Financial Statements	May 16, 2016
Interim Report - 1st Quarter-2016	May 13, 2016
Despatch of Annual Report - 2015	May 30, 2016
33rd Annual General Meeting - 2015	June 21, 2016
Interim Report - 2nd Quarter-2016	August 15 2016
Interim Report - 3rd Quarter-2016	November 15, 2016
Financial Year-end	December 31, 2016

2017

Interim Report - 4th Quarter-2016	February 28, 2017
Approval of Financial Statements	March 09, 2017
Despatch of Annual Report - 2016	March 22, 2017
34th Annual General Meeting - 2016	April 18, 2017
Interim Report - 1st Quarter-2017	May 15, 2017
Interim Report - 2nd Quarter-2017	August 15, 2017
Interim Report - 3rd Quarter-2017	November 15, 2017
Financial Year-end	December 31, 2017

Annual Report of the Board of Directors on the affairs of the Company

The Directors present their report to the members together with the audited Financial Statements of Colombo Dockyard PLC and Consolidated Financial Statements of the group for the year ended 31st December 2016, conforming to the requirements of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards. The Financial Statements were accepted and approved by the Board of Directors on 09th March 2017. The report also includes certain disclosures required to be made under Listing Rules of the Colombo Stock Exchange and are guided by the recommended best practices on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and the Colombo Stock Exchange.

Review of Business

A review of the operation of the Company during the financial year and results of those operations and future developments are stated in the Chairman's Review on page 07 to 08 and Managing Director/CEO's Review on page 09 to 13 in this Annual Report. These reports form an integral part of the Report of the Directors'.

Principal Activities

The principle activities of the Company and Group are presented below following the requirement by the section 168 (1) (a) of the Companies Act No. 07 of 2007. There were no significant changes in the nature of the principal activities of the Company and the Group during the financial year under review.

Company	Principal Business Activities
Colombo Dockyard PLC	The core business activities of the Company continued to be the ship-repairs, shipbuilding, heavy engineering, and offshore engineering.
Subsidiaries	
Dockyard General Engineering Services (Pvt) Ltd	To cater to the country's needs in infrastructure development in civil, mechanical and electrical engineering areas while Providing excellent opportunity for discerning clients to procure High quality products and services in compliance with the appropriate and accepted standards.
Ceylon Shipping Agency (Pte) Ltd, Singapore	Supply channel for high-tech engineering items to purchasing and shipping to Colombo office with minimum time period.

Future Developments

An overview of the future prospects of the Company is covered in the Chairman's Review (page 07 to 08), the Managing Director/CEO's Review (page 09 to 13).

Financial Statements

The Financial Statement of the Company and the Group for the year ended 31st December 2016 are duly certified by the Chief Financial Officer and approved by two Directors together with the Company Secretary in complying with the Companies Act No. 07 of 2007 are given on page 46 to 95 of this Annual Report.

Auditors' Report

Company Auditors, KPMG, performed the audit on the Consolidated Financial Statements for the year end 31st December 2016, and the Auditors' Report issued thereon is given on page 45 of this Annual Report as required by the Section 168 (1) (c) of the Companies Act No. 07 of 2007.

Accounting Policies and Changes

The Accounting Policies adopted in the preparation of Financial Statements of the Company and the Group are given on page 52 to 63 of the Annual Report as required by Section 168 (1) (d) of the Companies Act

Going Concern

The Board of Directors are satisfied that the Company has the adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements are prepared based on the Going Concern Basis.

Gross Income

The revenue of the Group during the year was Rs. 10,735.6 Mn (2015 - Rs. 15,442.7 Mn), while the Company's revenue was Rs. 9,972.7 Mn (2015 - Rs. 14,407.1) Mn. Analysis of the revenue is given in Note 5 to the Financial Statement on pages 64 to 65 of this Annual Report.

Profit & Appropriation

	2016 Rs'000	2015 Rs'000
Profit for the year:		
Group post-tax profit	(289,063)	(589,426)
Amount attributable to Minority Interest	2,283	(378)
Profit attributable to the Shareholders of Colombo Dockyard PLC	(286,780)	(589,804)
Other Comprehensive Income	11,401	2,380
Retained Profit B/F	9,437,414	10,240,417
Dividends - Paid Rs. 0/- per share (2015 - Rs. 3/- per share)	-	(215,579)
	-	
Retained Profit C/F	9,162,035	9,437,414

Reserves

Total Group Retained Earning Reserves at 31st December 2016, was amounted to Rs. 9,162.0 Mn (2015 - Rs. 9,437.4 Mn). The movements of the Reserves during the year are shown in the Financial Statements of Changes in Equity on pages 48 to 49 on this Annual Report.

Taxation

It is the Company policy to provide for deferred taxation based on the liability method, on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Further details are given in taxation note 09 on page 67.

Dividends

The Board of Directors have not authorized payment of Dividend for the year ended 31st December 2016 (2015 - NIL). At the balance sheet date the Company was solvent and the net current assets was Rs. 5,238.4 Mn (2015 - Rs. 5,471.1 Mn) and the value of the Company's assets less liabilities and stated capital was Rs. 8,316.8 Mn (2015 - Rs. 8,737.2 Mn). The loss of the company attributable to the equity holders of the company was Rs. 432.1 Mn (2015 Loss - Rs. 708.1 Mn).

Shareholder Information

Information relating to earnings, dividends, and net assets per share and market value per share is given in from pages 31 to 33.

Property, Plant & Equipment

The Group's total capital expenditure on acquisition of Property, Plant and Equipment during the year amounted to Rs. 191.0 Mn (2015 - Rs. 503.7 Mn). The extent of the freehold lands held by the Group as at the balance sheet date is 1,103.7 perch (2015 - 1,103.7 perch) recorded at cost. The details of Property, plant and equipment are given in Note 11 to the Financial Statements on page 72.

Annual Report of the Board of Directors on the affairs of the Company *Contd.*

Market Value of Freehold Properties

The net book value of freehold properties owned by the Company and Group as at 31st December 2016 is included in the accounts at Rs. 4,126.0 Mn (2015 - Rs. 4,399.5 Mn).

An Independent Chartered Valuer/ Licensed Surveyors carried out a market value assessment of the Group's freehold land as at 31st December 2014. The details of freehold properties owned by the Company are given in Note 11 of the Financial Statement.

Statutory Payments

The Directors, to the best of their knowledge and belief, confirmed that all payments in respect of statutory liabilities to Employees and the Government have been made within the stipulated period during the financial year 2016.

Pending Litigation

In the opinion of the Directors and the Company Lawyer, pending litigation against the Company is disclosed in Note 33 of the Financial Statements and will not have a material impact on the financial position of the Company or its future operations.

Corporate Donations

Total donations made by the group during the year was amounted to Rs. 1,085,986/- (2015 - Rs. 516,410/-) in terms of the resolution passed at the last Annual General Meeting.

Company Records

The Directors have disclosed the nature and extent of their relevant interest in shares issued by the Company and interest in transactions or proposed transactions with the Company during the subject accounting period, to the Board of the Company and such information has been duly entered in the Interest Register of the Company which is a part and parcel of this Annual Report and is available for public inspection under the provisions of the Act.

All the Company Records that are required to maintain under the provisions of the Act are also available for public inspection.

The Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements of the Company and the Group for the year ended 31st December 2016 to reflect the true and fair view of the state of affairs. The Directors are of the view that Financial Statements, Accounting Policies and Note thereto appearing on pages 46 to 95 have been prepared in conformity with the requirement of the Sri Lanka Accounting Standards (SLFRSs/LKASs), Companies Act No. 07 of 2007 and Listing Rules of the Colombo Stock Exchange.

The Board of Directors

The Board of Directors of the Company consist of Nine (2015- 9) Directors with a wide range of Engineering, Financial, Legal and Commercial knowledge and experience. The following Directors held office as at the Balance Sheet date and their profiles appear on pages 14 to 15 of this Annual Report.

Executive Directors

Dr. T. Takehara – Chairman
Mr. D. V. Abeysinghe – Managing Director/CEO
Mr. M. Koshi – Non-Executive Directors

Non-Executive Directors

Mr. Sarath De Costa – Vice Chairman
Mr. T. Nakabe
Mr. Lalith Ganlath
Mr. H. A. R. K. Wickramathilake
Mr. T. M. R. Bangsa Jayah
Mr. C. J. P. Siriwardana – Alternate Directors

Alternate Directors

Mr. Y. Imai
Mr. N. Danjo
Mr. D. Liyanagamage

Directorate

The Board of Directors of Colombo Dockyard PLC as at the date of report are given on page 14 to 15 of the Annual Report. The change in the directorate from the date of the last report to this report is as follows.

- Mrs. Janaki Kuruppu, Nominee Director of Employees Provident Fund of Central Bank of Sri Lanka (EPF) resigned effective from 06/06/2016 and Mr. Buddhika Sarathchandra, Superintendent, Public Debt of the Central Bank of Sri Lanka was appointed as the nominee director of EPF on 06/06/2016 in place of Mrs. Kuruppu .
- Mr. Ranil Wijegunawardane, Managing Director/CEO who was appointed as a Nominee Director of Onomichi Dockyard Co., Ltd., Japan on 07/04/2014 resigned from his services on 08/11/2016 and Mr. Deiyandara Vidanelage Abeysinghe was appointed in place of Mr. Wijegunawardane as the Managing Director/CEO by the Onomichi Dockyard Co. Limited, Japan as its Nominee Director in terms of Articles of the Company, effective from 08/11/2016.
- Mr. Sarathchandra resigned on 10/11/2016 and Mr. C J P Siriwardana, Assistant Governor of Central Bank of Sri Lanka was appointed in place of Mr. Sarathchandra, effective from 10/11/2016 by the EPF in terms of the Articles of Association of the Company.

In terms of Article 87, Messrs. Lalith Ganlath and H. A. R. K. Wickramathilake, who retire at the close of the Annual General Meeting, being eligible for re-election, have offered themselves for re-election.

The Nominee Directors of Onomichi Dockyard Company Limited namely Dr. Toru Takehara, Messrs. Sarath de Costa, D. V. Abeysinghe, T. Nakabe and M. Koshi and the Nominee Directors of Employees Provident Fund and Sri Lanka Insurance Corporation Ltd namely Mr. C. J. P Siriwardana and Mr. T M R Bangsa Jayah respectively continue to hold office.

Board Sub-Committees

The Board of Directors have formed three Board subcommittees and attendances is given in page 22 and 26 under Corporate Governance of this Annual Report.

Director's Share Holdings

The Directors' and their spouses' holding of number of ordinary shares of the Company as at 31st December 2016:

	31/12/2016	31/12/2015
D. V Abeysinghe	733	733
L. Ganlath	578	578
H A R K Wickramathilake	1,103	1,103

Interest Register

The Interest Register is maintained by the Company as required under the Companies Act No. 07 of 2007 and Declarations made by all Directors during the year under review have been duly entered as required.

Human Resources

The Company continued to invest in Human Capital Development and implement effective human resource practices and policies to develop and build an efficient and effective workforce aligned with corporate objectives and to ensure that its employees are developing the skills and knowledge required for future success of the Company.

Annual Report of the Board of Directors on the affairs of the Company *Contd.*

Environmental Protection

The Company and Group, to the best of its knowledge have not engaged in activity, which is detrimental to the environment.

Following a satisfactory Technical Review, Colombo Dockyard PLC has been approved by LRQA (Lloyd's Register Quality Assurance Limited) as meeting the requirements of ISO 14001:2015 (Environmental Management System – EMS) to the scope detailed on the approved certificate.

Group Employment

The number of persons employed by Colombo Dockyard PLC and its Subsidiaries as at 31st December 2016 was as follows:

	2016	2015
Group	1,600	1,627
Colombo Dockyard PLC	1,573	1,600

Directors' Interest in Contracts and Related Party Transactions

Directors' interest in contracts of the Company is disclosed in Note 35 to the Financial Statement on page 91, and has been declared at meetings of the Directors and entered in the Interest Register of the Company. The Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

Directors' Meetings

Details of Directors' meetings which comprise of Board Meetings, and Board sub-Committee meetings of the Audit Committee, Remuneration Committees and Related Party Transaction Review Committees are presented on page 23 of this Annual Report.

Corporate Governance

The Board of Directors of the Company have acknowledged the adoption of good governance practices; an essential factor in today's corporate culture. The policies followed by the Company are explained in the Corporate Governance Statement on page 22 of this Annual Report. The Company confirms the compliance with the Corporate Governance Rules of the Colombo Stock Exchange as at the date of this Annual Report.

Substantial Share Holdings

The twenty major shareholders of the Company and the percentage held by each as at 31st December 2016 are given on page 32 of this report.

Contingent Liabilities and Commitments

There are no contingencies or commitments other than those disclosed in the Note 33 to the Financial Statements.

Events after Balance Sheet Date

Please refer No. 36 for circumstances have arisen during the period between the Balance Sheet date and Directors signing of Accounts, that require disclosure or adjustment to the Financial Statements together with those disclosed in the Note 36 to the Financial Statements on page 92 of this Annual Report.

Annual General Meeting

The Annual General Meeting of Colombo Dockyard PLC, will be held at the Balmoral at the Kingsbury No. 48, Janadipathi Mawataha, Colombo 1 Sri Lanka at 10.00 a.m. on the 18th day of April 2017.

The Notice to the Annual General Meeting is given on page 97.

Auditors

In accordance with the Companies Act No. 07 of 2007, resolution proposing the re-appointment of Messrs. KPMG Chartered Accountants, as Auditors to the Company will be submitted at the Annual General Meeting.

For and on behalf of the Board, Colombo Dockyard PLC



Dr. T. Takehara
Chairman



D.V. Abeysinghe
Managing Director/CEO



Manori Mallikarachchi
Company Secretary/Legal Consultant

09th March 2017
Colombo, Sri Lanka

Related Party Transactions Review Committee Report

Adoption of The Code of Best Practices on Related Party Transactions

The Committee & its Composition

The Company constituted the Related Party Transactions Review Committee (the “Committee”) as a Board Sub-Committee with effect from 1st January 2016, to review “Related Party Transactions”. The scope of the Committee covers the requirements of the Code of Best Practices on Related Party Transactions (“the Code”) issued by the Securities and Exchange Commission of Sri Lanka (SEC).

The Composition of the Committee is as follows:

Mr. H A R K Wickramathilake -
Chairman (IND/NED)

Mr. Lalith Ganlath- (IND/NED)

Mr. Sarath De Costa - ((NIND/NED))

Mr. D V Abeysinghe- (MD/CEO)

The Committee is assisted by the following Key Management Personnel (KMPs) of the Company who attend sittings on a regular basis.

Mr. P D Gihan Ravinatha -
Chief Financial Officer

Ms. Manori P Mallikarachchi -
Company Secretary

In addition, the Committee summoned other relevant officials of the Company to participate in the committee proceedings when required.

Terms of Reference and Scope of Operations

The Committee operates in accordance with the guidelines set by the board of directors on monitoring Related Party Transactions.

The principal functions of the Committee are the scrutiny of all Related Party

Transactions with Directors, Key Management Personnel (KMPs), substantial shareholders, Subsidiaries and Associate Companies of the Company and such other related parties

As defined in the Code with a view to determining that they have not received any favorable nor preferential consideration vis a vis the other shareholders and customers of the Company as well as to ascertain that their transactions and dealings are in strict conformity with statutory and regulatory requirements which the Company is obliged to adhere to.

The Committee relies on the integrity of periodically reportable Related Party Transactions data sourced via a comprehensive list of Related Parties based on latest available Declarations, signed off by the responsible Directors/ KMPs. This review is carried out by comparing Related Party Transactions with benchmarked criteria applicable for comparable Non Related Party Transactions, to determine that Related Parties have not received any favorable nor preferential consideration.

Wherever necessary, the Committee resorts to obtaining legal, financial & technical advice from competent authorities in such fields, to review transactions. Further the Committee has the right of access as well as the power to call for clarification and explanation from Management & Auditors (External & Internal).

In addition, the Committee will share information with the Board Audit Committee as necessary and appropriate to facilitate the Audit Committee to conduct its Statutory &

Regulatory responsibilities with regard to Related Party Transactions

Meetings

Meetings are held mandatorily, during 2016, 2 such meetings were held and the minutes were circulated to the Board of Directors for their information and review. In the opinion of the Committee there were no transactions with the related parties that were more favorable or preferential during the period under review and the Company had been compliant with the Code.

Self Appraisal of Committee Functions

A self-evaluation of the effectiveness of the Committee was conducted by the Chairman of the Committee with contributions from the individual assessments by the members of the committee, Managing Director/CEO, participating KMPs referred to at the outset of this Report and the review concluded that the Committee continues to operate effectively.

Review of TOR

The TOR/Policy on “Related Party” Transactions is subject to periodic review based on Regulatory as well as operational requirements.



H. A. R. K. Wickramathilake
Chairman

Related Party Transaction Review Committee

Colombo, Sri Lanka
09th March 2017

Statement of Directors' Responsibilities

The Directors of the Company are responsible to ensure compliance with the provisions of the Companies Act No 07 of 2007 and applicable laws and other regulations in preparing the Company's and Group Financial Statements.

The Directors are equally responsible to maintain accounting records of the Company and its subsidiaries, with reasonable accuracy to disclose the financial position.

The Directors accept the responsibility for the integrity and objectivity of the Financial Statements presented and also confirms compliance in preparing each of the Group and Company's Financial Statements, which are based on:

- Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka (SLFRSs/LKASs).
- Appropriate accounting policies selected and applied consistently.
- Estimates and judgments relating to the Financial Statements made on a prudent and reasonable basis to reflect the true and fair view of the Financial Statements.
- Required information by the Listing Rules of the Colombo Stock Exchange

Stock Exchange

Further, the Board of Directors wishes to confirm that the Company has met all the requirements under the Section 07 Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange. Company has taken proper and sufficient internal controls and

accounting records for safeguarding assets. The applications of the internal controls are monitored through an independent Financial & Management System Review Team contracted with B. R. De Silva & Co, Chartered Accountants.

The Board also wishes to confirm that, as required by the Section 166(1) and 167(1) of the Company Act, they have prepared this Annual Report in time and ensured that a copy thereof is sent every shareholder of the Company, who have expressed their desire to receive a hard copy or to other shareholders a soft copy in a CD containing the Annual Report within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) on Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange.

Company external auditors Messrs KPMG, appointed in accordance with the resolution passed at the last Annual General Meeting were provided with free access to undertake required inspection they considered appropriate to enable them to form their opinion on the Financial Statements.

The report of the Auditors, given on page 45, set out their responsibilities in relation to the Financial Statements.

Compliance Report


The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company and its Subsidiaries, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and its subsidiaries, and all other known statutory dues and payable by the Company and its subsidiaries as

at the Balance Sheet have been paid or provided where relevant except as specified in Note No 33 to the Financial Statements on Contingent Liabilities on page 90.

The Directors further confirm that after considering the Company's financial position, operational conditions, market environment, regulatory and other factors, the Directors have reasonable expectation that the Company and its subsidiaries possess adequate resources to continue in operation for the foreseeable future adopting the Going Concern basis in preparing the Financial Statements.

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

By order of the Board



Manori P. Mallikarachchi
Company Secretary

09th March 2017
Colombo, Sri Lanka

Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The Financial Statements of Colombo Dockyard PLC (Company) and the Consolidated Financial Statements of the Company and its Subsidiaries (Group) as at 31st December 2016 are prepared and presented in compliance with the following:

- Sri Lanka Accounting Standards (SLFRSs/LKASs) issued by The Institute of Chartered Accountants of Sri Lanka,
- Sri Lanka Accounting and Auditing Standards Act No: 15 of 1995,
- Companies Act No. 07 of 2007,
- Code of Best Practices on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka,
- Listing Rules of the Colombo Stock Exchange, and
- Other applicable statutes to the extent applicable to the affairs of the Company/Group.

There are no departures from the prescribed accounting standards in their adoption. The accounting policies used in the preparation of the Financial Statements are most appropriate and are consistently applied.

The Board of Directors and the management of your Company accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to the Financial Statements were made on a prudent and reasonable basis, in order that the Financial Statements reflect in a true and fair manner, the form

and substance of transactions and reasonably present the Company's state of affairs.

In order to ensure such compliance, the Company has taken proper and adequate interest in enabling internal controls and maintaining accounting records, for safeguarding assets and for preventing and detecting fraud as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. The Internal Audit function of the Company is carried out by the Internal Audit Team (Financial & System Review) provided by the, B R De Silva & Co., Chartered Accountants, who reports their findings directly to the Managing Director/CEO. All audit activities have been conducted periodically to provide reasonable assurance that the established policies and procedures of the Company were consistently followed.

The Financial Statements were audited by Messrs KPMG Chartered Accountants, the Company's External Auditors.

The Audit Committee of your Company meets periodically with the Internal Auditors to review the manner in which these auditors are performing their responsibilities and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

It is also declared and confirmed that the Company has complied with and ensured compliance by the Auditor

with the guidelines for the audit of listed companies where mandatory compliance is required. It is further confirmed that all the other guidelines have been complied with.

We confirm that:

- the Company and its Subsidiaries have complied with all applicable laws, regulations and prudential requirements;
- there are no material non-compliances ; and
- there are no material litigations that are pending against the Group other than those disclosed in the Note No. 33 to the Financial Statements in the Annual Report.



D. V. Abeysinghe
Managing Director/CEO



P. D. Gihan Ravinatha
Chief Financial Officer

09th March 2017
Colombo, Sri Lanka

Independent Auditors' Report



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

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

TO THE SHAREHOLDERS OF COLOMBO DOCKYARD PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Colombo Dockyard PLC, ("the Company"), and the consolidated financial statements of the company and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on Pages 46 to 95 of the annual report .

Board's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

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

CHARTERED ACCOUNTANTS

Colombo
9th March 2017.

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne FCA
R.H. Rajan ACA

P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyaratne FCA
R.M.D.B. Rajapakse FCA

C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

Statement of Profit or Loss and Other Comprehensive Income

For the year Ended 31st December,	Note	Group		Company	
		2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)
Revenue	5	10,735,674	15,442,722	9,972,729	14,407,098
Cost of Sales		(9,165,303)	(14,321,675)	(8,735,583)	(13,615,635)
Gross Profit		1,570,371	1,121,047	1,237,146	791,463
Other Income	6	133,583	169,898	143,186	176,802
Distribution Expenses		(27,303)	(25,515)	(20,927)	(17,246)
Administrative Expenses		(1,971,192)	(1,857,580)	(1,802,428)	(1,697,603)
Other Operating Income / (Expenses)		(4,929)	(6,702)	(4,929)	(6,702)
Net Finance Income	7	51,130	71,253	9,838	59,152
Profit / (Loss) before Tax	8	(248,340)	(527,599)	(438,114)	(694,134)
Income Tax Expenses	9	(40,723)	(61,827)	6,012	(14,019)
Profit / (Loss) for the Year		(289,063)	(589,426)	(432,102)	(708,153)
Other Comprehensive Income					
Fair value change of Available for Sale Financial Assets		12,149	2,914	(203)	(38)
Foreign currency transaction differences - foreign operations		2,390	6,251	-	-
Defined benefit plan actuarial gains / (losses)		12,238	(782)	12,783	(50)
Tax on Other Comprehensive Income - Reversal / (Expenses)		(837)	210	(990)	5
Other Comprehensive Income for the year, net of tax		25,940	8,593	11,590	(83)
Total Comprehensive Income for the year		(263,123)	(580,833)	(420,512)	(708,236)
Profits / (Losses) attributable to;					
Owners of the Company		(286,780)	(589,804)	(432,102)	(708,153)
Non - Controlling interests		(2,283)	378	-	-
Profit / (Loss) for the year		(289,063)	(589,426)	(432,102)	(708,153)
Total Comprehensive Income attributable to;					
Owners of the Company		(262,011)	(584,274)	(420,512)	(708,236)
Non - Controlling interests		(1,112)	3,441	-	-
Total Comprehensive Income for the year		(263,123)	(580,833)	(420,512)	(708,236)
Earnings / (Loss) per Share (Rs.)	10.1	(3.99)	(8.21)	(6.01)	(9.85)

The Accounting Policies and Explanatory Notes set out in the pages 52 to 95 form an integral part of these Financial Statements.
(Figures in brackets indicate deductions)

Statement of Financial Position

As at 31st December,		Group		Company	
	Note	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)
ASSETS					
Non-Current Assets					
Property, Plant and Equipment	11	4,126,068	4,399,500	4,038,396	4,305,397
Investment Property	12	-	-	2,865	2,865
Intangible Assets	13	38,213	4,364	36,243	2,005
Investment in Subsidiaries	14	-	-	3,141	2,503
Investments Classified as Available for Sale	15.1	175,367	138,218	15,062	15,266
Deferred Taxation	16	134,018	101,069	127,795	101,069
Other Financial Assets	19	417,203	427,689	408,108	421,809
		4,890,869	5,070,840	4,631,610	4,850,914
Current Assets					
Inventories	17	1,310,425	1,057,930	1,234,514	984,551
Trade and Other Receivables	18	11,228,832	9,614,689	10,825,984	9,321,818
Other Financial Assets	19	150,648	153,634	148,796	151,573
Amounts due from Related Parties	20	-	-	31,692	30,856
Investments Classified as Fair Value through Profit or Loss	15.2	148,255	-	-	-
Cash and Cash Equivalents	21	2,665,157	2,366,055	2,109,540	1,869,698
		15,503,317	13,192,308	14,350,526	12,358,496
Total Assets		20,394,186	18,263,148	18,982,136	17,209,410
EQUITY AND LIABILITIES					
Stated Capital	22	714,396	714,396	714,396	714,396
Exchange Equalization Reserve		4,857	3,637	-	-
Available for Sale Reserve		27,305	15,156	14,953	15,156
Retained Earnings		9,162,035	9,437,414	8,301,784	8,722,093
Equity Attributable to Equity holders of the Parent		9,908,593	10,170,603	9,031,133	9,451,645
Non-Controlling Interest		53,432	54,544	-	-
Total Equity		9,962,025	10,225,147	9,031,133	9,451,645
Non-Current Liabilities					
Deferred Tax Liabilities	16	-	1,272	-	-
Retirement Benefits Obligation	25	854,257	882,093	838,925	870,402
		854,257	883,365	838,925	870,402
Current Liabilities					
Interest Bearing Borrowings	23	7,409,743	4,506,916	7,409,743	4,506,916
Other Financial Liabilities including Derivatives	24	18,617	27,701	19,256	28,120
Trade and Other Payables	26	2,054,263	2,504,799	1,554,086	2,217,217
Amounts due to Related Parties	27	-	-	102,802	86,244
Income Tax Payable	28	56,286	66,354	-	-
Dividends Payable	29	26,191	39,588	26,191	39,588
Bank Overdrafts	21	12,804	9,278	-	9,278
		9,577,904	7,154,636	9,112,078	6,887,363
Total Equity and Liabilities		20,394,186	18,263,148	18,982,136	17,209,410

The Accounting Policies and Explanatory Notes set out in the pages 52 to 95 form an integral part of these Financial Statements. These Financial Statements have been prepared in compliance with the requirements of the Companies Act No.7 of 2007.



P.D. Gihan Ravinatha
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Approved and signed for and on behalf of the Board of Directors of Colombo Dockyard PLC.



Dr. Toru Takehara
Chairman



D. V. Abeysinghe
Managing Director/CEO



Manori P. Mallikarachchi
Company Secretary

09th March 2017
Colombo, Sri Lanka.

Statement of Changes in Equity

Group	Attributable to equity holders of parent				Total (Rs.'000)	Non-Controlling Interest (Rs.'000)	Total equity (Rs.'000)
	Stated Capital (Rs.'000)	Retained Earnings (Rs.'000)	Available for Sale Reserve (Rs.'000)	Exchange Equalization Reserve (Rs.'000)			
Balance as at 1st January 2015	714,396	10,240,417	15,194	449	10,970,456	51,103	11,021,559
Total Comprehensive income for the year							
Profit / (loss) for the year	-	(589,804)	-	-	(589,804)	378	(589,426)
Other comprehensive income							
- Actuarial gain / (loss) on Retirement Benefit Obligation	-	(782)	-	-	(782)	-	(782)
- Deferred tax effect on Actuarial gain / (loss) on Retirement Benefits Obligation	-	210	-	-	210	-	210
- Fair Value gain / (loss) of Available for sale Financial Assets	-	2,952	(38)	-	2,914	-	2,914
- Foreign Currency transaction differences - Foreign operations	-	-	-	3,188	3,188	3,063	6,251
Transactions with owners of the company, Contributions and distributions							
- Dividends Paid	-	(215,579)	-	-	(215,579)	-	(215,579)
Balance as at 31st December 2015	714,396	9,437,414	15,156	3,637	10,170,603	54,544	10,225,147
Total Comprehensive income for the year							
Profit / (loss) for the year	-	(286,780)	-	-	(286,780)	(2,283)	(289,063)
Other comprehensive income							
- Actuarial gain / (loss) on Retirement Benefit Obligation	-	12,238	-	-	12,238	-	12,238
- Deferred tax effect on Actuarial gain / (loss) on Retirement Benefits Obligation	-	(837)	-	-	(837)	-	(837)
- Fair Value gain / (loss) of Available for sale Financial Assets	-	-	12,149	-	12,149	-	12,149
- Foreign Currency transaction differences - Foreign operations	-	-	-	1,219	1,219	1,171	2,390
Transactions with owners of the company, Contributions and distributions							
- Dividends Paid	-	-	-	-	-	-	-
Balance as at 31st December 2016	714,396	9,162,035	27,305	4,857	9,908,593	53,432	9,962,025

	Stated Capital	Retained Earnings	Available for Sale Reserve	Total
Company	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)
Balance as at 1st January 2015	714,396	9,645,870	15,194	10,375,460
Comprehensive income for the year				
Profit / (loss) for the year	-	(708,153)	-	(708,153)
Other comprehensive income				
- Actuarial gain / (loss) on Retirement Benefit Obligation	-	(50)	-	(50)
- Deferred tax effect on Actuarial gain / (loss) on Retirement Benefits Obligation	-	5	-	5
- Fair Value gain (loss) of Available for sale Financial Assets	-	-	(38)	(38)
Transactions with owners of the company,				
Contributions and distributions				
- Dividends Paid	-	(215,579)	-	(215,579)
Balance as at 31st December 2015	714,396	8,722,093	15,156	9,451,645
Comprehensive income for the year				
Profit / (loss) for the year	-	(432,102)	-	(432,102)
Other comprehensive income				
- Actuarial gain / (loss) on Retirement Benefit Obligation	-	12,783	-	12,783
- Deferred tax effect on Actuarial gain / (loss) on Retirement Benefits Obligation	-	(990)	-	(990)
- Fair Value gain (loss) of Available for sale Financial Assets	-	-	(203)	(203)
Transactions with owners of the company				
Contributions and distributions				
- Dividends Paid	-	-	-	-
Balance as at 31st December 2016	714,396	8,301,784	14,953	9,031,133

The Accounting Policies and Explanatory Notes set out in the pages 52 to 95 form an integral part of these Financial Statements.
(Figures in brackets indicate deductions)

Statement of Cash Flows

For the Year Ended 31st December	Group		Company	
	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)
Cash Flow from Operating Activities				
Profit / (Loss) Before Tax	(248,340)	(527,599)	(438,114)	(694,134)
Adjustments for,				
Depreciation of Property, Plant and Equipment	454,195	446,653	428,871	420,807
Amortization of Intangible assets	5,597	6,334	5,060	5,914
Provision for Retirement Benefits Obligations	138,763	132,907	135,111	129,545
Provision for/(Reversal) of Bad and Doubtful Debts	12,208	17,442	-	-
Provision for/(Reversal) of Obsolete Stocks	7,428	8,668	2,691	4,702
(Profit)/Loss on Disposal of Property, Plant and Equipment	1,529	(7,294)	3,790	(5,347)
Foreign Exchange (Gain)/Loss (Unrealized)	69,575	53,976	66,401	53,976
Net Change in Fair Value of Financial Instruments	(7,339)	47,448	(9,084)	47,448
Amortization of Corporate Guarantees	-	-	(419)	(491)
Interest Income	(158,091)	(99,087)	(115,516)	(86,654)
Dividend Income	(32)	-	(9,892)	(8,429)
Interest Expenses	100,244	4,688	100,235	4,094
Operating Profit / (Loss) Before Working Capital Changes	375,737	84,136	169,134	(128,569)
(Increase)/Decrease in Inventories	(259,924)	3,008	(252,655)	(33,782)
(Increase)/Decrease in Trade and Other Receivables	(1,545,284)	(1,337,862)	(1,427,291)	(1,466,846)
(Increase)/Decrease Amounts Due from Related Parties	-	-	(836)	(18,696)
Increase/(Decrease) Trade and Other Payables	(498,882)	278,855	(711,477)	350,482
Increase/(Decrease) Amounts Due to Related Parties	-	-	16,558	(4,421)
Cash Generated from/(used in) Operating Activities	(1,928,353)	(971,863)	(2,206,567)	(1,301,832)
Interest Paid	(100,244)	(4,688)	(100,235)	(4,094)
Gratuity Paid	(154,359)	(118,198)	(153,805)	(116,214)
Tax paid (Income Tax / ESC)	(108,802)	(19,074)	(44,657)	-
Net Cash Generated from/(used in) Operating Activities	(2,291,758)	(1,113,823)	(2,505,264)	(1,422,140)

For the Year Ended 31st December	Group		Company	
	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)
Cash Flow from Investing Activities				
Purchases of Property, Plant and Equipment	(191,052)	(503,781)	(169,643)	(473,224)
Proceeds from Disposal of Property, Plant and Equipment	8,763	9,838	3,981	6,222
Interest Received	154,249	105,973	119,320	94,078
Staff Loans granted during the year	(165,585)	(193,090)	(158,518)	(190,750)
Staff Loans recovered during the year	179,056	181,734	174,996	179,095
Investments in FVTPL Financial Assets	(150,000)	-	-	-
Investments in AFS Financial Assets	(25,000)	(120,000)	-	-
Acquisition of Intangible Assets	(39,445)	(910)	(39,298)	(547)
Dividends Received	-	-	7,198	8,429
Net Cash Generated from/(used in) Investing Activities	(229,014)	(520,236)	(61,964)	(376,697)
Cash Flow from Financing Activities				
Short Terms Loans Obtained during the year	11,583,387	9,659,941	11,583,387	9,659,941
Repayment of Short Term Loans	(8,753,642)	(8,428,442)	(8,753,642)	(8,428,442)
Dividends Paid	(13,397)	(202,355)	(13,397)	(202,355)
Net Cash Generated from/(used in) Financing Activities	2,816,348	1,029,144	2,816,348	1,029,144
Net Increase/(Decrease) in Cash and Cash Equivalents during the year	295,576	(604,916)	249,120	(769,693)
Cash and Cash Equivalents at the beginning of the year	(Note 21) 2,356,777	2,961,693	1,860,420	2,630,113
Cash and Cash Equivalents at the end of the year	(Note 21) 2,652,353	2,356,777	2,109,540	1,860,420

The Accounting Policies and Explanatory Notes set out in the pages 52 to 95 form an integral part of these Financial Statements.
(Figures in brackets indicate deductions.)

Notes to the Financial Statements

1. REPORTING ENTITY

Colombo Dockyard PLC is a public limited liability company incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The Company's registered office is situated in Port of Colombo.

The consolidated financial statements of the Company as at and for the year ended 31st December 2016 comprise the Company and its Subsidiaries (together referred as the "Group").

The Group provides a vast variety of services with regard to ship repairs, shipbuilding and heavy engineering works.

Of the two subsidiaries within the Group, the Company has 100% holding of Dockyard General Engineering Services (Private) Limited (incorporated in Sri Lanka) and 51% holding of Ceylon Shipping Agency (Private) Limited (incorporated in Singapore).

Onomichi Dockyard Co. Ltd, incorporated in Japan is the parent company of Colombo Dockyard PLC.

All the companies in the group have a common financial year, which ends on 31st December.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The consolidated financial statements of the Group and the separate financial statements of the Company which comprise of statement of comprehensive income, statement of financial position, statement of changes in equity and the statement of cash flows, together with the accounting

policies and notes (the "financial statements") have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs / LKASs) as issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No, 07 of 2007

The Board of Directors is responsible for the preparation and presentation of the financial statement of the Company and its subsidiaries as per provisions of Companies Act No, 07 of 2007 and the Sri Lanka Accounting Standards.

2.2 Basis of Measurement

The financial statements of the Group and the Company have been prepared on an accrual basis and under the historical cost basis except for the following items in the Statement of Financial Position.

- Derivative financial instruments measured at fair value
- Non derivative financial instruments measured at amortised Cost.
- Available-for-sale financial assets measured at fair value.
- Liability for defined benefit obligation recognized based on actuarial valuation. (LKAS 19)

2.3 Functional and Presentation Currency

The consolidated financial statements are presented in Sri Lankan Rupees which is the Group's functional currency, except for the foreign subsidiary whose functional currency is different as it operates in different economic environment (See Note 38).

All financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand, unless stated otherwise.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the periods presented in these Financial Statements and have been applied consistently by the Company and its subsidiaries, unless otherwise stated.

3.1 Basis of Consolidation

The Consolidated Financial Statements (referred to as the "Group") comprise the Financial Statements of the Company and its subsidiaries.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions/ events in similar circumstances and where necessary, appropriate adjustments have been made in the consolidated financial statements.

3.1.1 Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights or otherwise has a controlling interest. All financial statements of subsidiaries prepared for the same reporting period as the parent company which is twelve months ending 31st December. Subsidiaries are consolidated from the date on which control is transferred to the Company and commences until the date that control ceases.

There are no restrictions on the ability of the subsidiaries to transfer funds to the Company (The Parent) in the form of cash dividends or repayment of loans and advances.

3.1.2 Transactions eliminated on consolidation

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

3.2 Foreign Currency

3.2.1 Functional Currency and Presentation Currency

The individual Financial Statements of each entity in the Group are measures using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Consolidated Financial Statements are presented in Sri Lankan Rupees, which is also the Company's functional currency.

3.2.2 Foreign Currency Transactions

In preparing the Financial Statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions.

At each reporting date, monetary items denominated in foreign currencies are translated at the closing rate.

Non-monetary items measured at fair value are translated at the rates prevailing on the date when the fair value was determined.

Non-monetary items measured at historical cost are translated at the rates prevailing on the date of transaction.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period except for the Group's net investment in foreign operations/subsidiaries.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences which are recognised in other comprehensive income.

3.2.3 Foreign Operations/ Subsidiaries

The statement of financial position and income statement of overseas subsidiary which is deemed to be foreign operations are translated to Sri Lankan Rupees at the rate of exchange prevailing as at the reporting date and at the average annual rate of exchange for the period respectively.

The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognize in other comprehensive income relating to that particular foreign operation is recognized in the income statement.

3.2.4 Foreign exchange forward contracts

Foreign exchange forward contract are fair valued at each reporting date. Gains and losses arising from changes in fair value are recognized in the income statement under finance income or finance cost respectively.

3.3 Assets And The Bases Of Their Valuation

Assets classified as current assets in the statement of financial position are cash, bank balances and those which are expected to be realized in cash, during the normal operating cycle of the Company's business, or within one year from the reporting date, whichever is shorter. Assets other than current assets are those which the Company intends to hold beyond a period of one year from the reporting date.

3.3.1 Property, Plant & Equipment

3.3.1.1 Recognition and Measurement

Property, plant and equipment are recognized if it is probable that future economic benefit associated with the asset will flow to the Group and the cost of the asset can be reliably measured.

Property, Plant and Equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

Notes to the Financial Statements *Contd.*

3.3.1.2 Owned Assets

The cost of an item of property, plant and equipment comprise its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labor, and any other costs directly attributable to bringing the asset to the working condition for its intended use. This also includes cost of dismantling and removing the items and restoring in the site on which they are located and borrowing costs that are directly attributable to the qualifying assets.

3.3.1.3 Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, using the production of supply of goods or services or for administrative purposes. Investment property is measured at cost. When the use of property changes from investment property to owner occupied property it is reclassified as property, plant & equipment.

3.3.1.4 Subsequent Costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized.

The costs of the day to day servicing of property, plant and equipment are recognised in profit or loss as incurred.

3.3.1.5 Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses on derecognition are recognised in the profit and loss when the asset is derecognised.

3.3.1.6 Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives and depreciation rates are as follows:

Company – Colombo Dockyard PLC

Asset Category	Useful Life (Years)	Depreciation Rate (%)
Dry-docks	25-50	4% - 2%
Buildings	20-25	5% - 4%
Roadways	10	10%
Plant & Machinery	10 - 40	2.5% - 10%
Electrical Installations	10	10%
Furniture Fittings & Office Equipment	6.6	15%
Motor Vehicles	5	20%
Boats & Launches	6.6	15%
Inventory Items	6.6	15%
Loose Tools	2	50%

Group – Dockyard General Engineering Services (Private) Limited

Asset Category	Useful Life (Years)	Depreciation Rate (%)
Buildings	10	10%
Plant & Machinery	10	10%
Motor Vehicles	4	25%
Furniture Fittings & Office Equipment	6.6	15%
Inventory Items	6.6	15%
Loose Tools	2	50%

Ceylon Shipping Agency (Private) Limited

Asset Category	Useful Life (Years)	Depreciation Rate (%)
Office Equipment	10	10%
Computers	3	33.3%
Furniture and Fittings	10	10%
Office Renovation	5	20%

Depreciation of an asset begins when it is available for use where as depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

Depreciation method, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, when appropriate.

3.3.2 Intangible Assets

An Intangible Assets is recognised if it is probable that economic benefits are attributable to the assets will flow to the entity and cost of the assets can be measured reliably. Intangible assets that are acquired by the Group/Company are measured at cost less accumulated amortization and accumulated impairment losses.

3.3.2.1 Software

All computer software cost incurred, which are not internally related to associate hardware, which can be clearly identified, reliably measured and its probable that they will lead to future economic benefits, are included in the statement of financial position under the category of intangible assets.

3.3.2.2 Subsequent Expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

3.3.2.3 Amortisation

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in the profit or loss on a straight line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives and depreciation rates are as follows:

Asset Category	Useful Life (Years)	Depreciation Rate (%)
Computer Software	03	33.3%

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate.

3.3.3 Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is comprised all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sales. The cost of the inventories is assigned by using specific identification of their individual costs and first-in-first out formulas.

Inventory items shipped, but not received by the company as at the reporting date are treated as goods-in transit. In such situations, estimates are made for unpaid bills in order to value goods-in transit.

3.3.4 Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances, call deposits, demand deposits and short term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Bank overdrafts those are repayable on demand are included as a component of cash and cash equivalent for the purpose of the Statement of Cash Flows.

3.3.5 Impairment of Non Financial Assets

The Group 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 for an asset is

Notes to the Financial Statements *Contd.*

required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of the value in use and its fair value less cost to sale and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rates that reflect current market assessments of the time value of money and the risk specific to the asset. In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no such transaction can be identified, an appropriate valuation model is used.

Impairment loss of continuing operations are recognized in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, carrying amount of the asset is increased to its recoverable amount. That increased amount cannot 'exceed' the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

3.4 Financial Instruments

3.4.1 Financial Assets

a) Initial recognition and measurement

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Purchase or sale of financial assets that require delivery of asset within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, unquoted equity investments and derivative financial instruments.

b) Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

A financial asset at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition

at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by LKAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in finance income or finance costs in the income statement.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss. The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognized in the income statement in finance costs.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognized in the income statement in finance costs.

Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as

available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement in finance costs and removed from the available-for-sale reserve. Interest income on available-for-sale debt securities is calculated using the effective interest method and is recognized in income statement.

The Group evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to

hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to the income statement over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

c) Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to the Financial Statements *Contd.*

3.4.2 Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

3.4.3 Financial Liabilities

a) Initial recognition and measurement

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, transaction costs that are directly attributable to the acquisition or issue of such financial liability.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

b) Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by LKAS 39.

Gains or losses on liabilities held for trading are recognized in the income statement.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the income statement.

c) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

d) Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

3.4.4 Fair value of Financial Instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 30.

3.4.5 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

3.5 Post Employment Benefits

3.5.1 Defined Benefit Plan

Company

The liability recognized in the statement of financial position is the present value of the defined benefit obligation at the reporting date, with the advice of an actuary, using the projected unit credit (PUC) method. Any actuarial gains or losses arise immediately recognize in other comprehensive income.

Local Subsidiary

The liability recognized in the Statement of Financial Position is the present value of the defined benefit obligation at the reporting date, according to the formula method, using the projected unit credit (PUC) method. Any gain or losses recognized to the profit or loss when incurred.

Foreign Subsidiary

Provisions are made in the financial statements in accordance with the respective legislative enactments in force, in the country of incorporation.

3.5.2 Defined Contribution Plans – Employees' Provident Fund and Employee Trust Fund

All employees who are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions are covered by relevant contributions funds in line with the relevant statutes. Employer's contributions to the defined contribution plans are recognized as an expense in profit or loss when incurred.

3.6 Provisions

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

All known provisions have been accounted for in preparing the financial statements.

3.6.1 Provision for Warranty

Provision for warranty jobs is made for all construction contracts based on the contractual and projects estimates figures. However, warranty provision for ship repair services is made based on historical experience. The estimates are revised annually.

3.6.2 Provision for Slow Moving Stocks

Provisions for slow moving stocks are made when the Company / Group identify the impairment in inventory through its regular assessments.

3.7 Income Statement

3.7.1 Revenue

The Group revenue represents revenue from ship building, ship repairing, heavy engineering and material sales to customers outside the group.

3.7.1.1 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue and the 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, and after eliminating sales within the Group. The following specific criteria are used for the purpose of recognition of revenue.

Notes to the Financial Statements *Contd.*

3.7.1.1.1 Ship Repairs, Ship Building, Offshore Engineering and Heavy Engineering

When the outcome of a construction / service contract can be estimated reliably, revenue is recognized in the comprehensive income by reference to the stage of completion of the respective project (Percentage-of-Completion Method). When the outcome of a construction / service contract cannot be estimated reliably, revenue is recognized to the extent of cost incurred that are likely to be recoverable. When it is probable that total cost will exceed total revenue, the expected loss is recognized as an expense immediately. The Stage of Completion is measured by reference to the proportion that, costs incurred for work performed to date bear to the estimated total costs.

3.7.1.1.2 Sale of Goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

3.7.1.1.3 Other Income

Revenue from dividends is recognized when the group's right to receive the payment is established.

Profits or losses from disposal of property, plant and equipments recognized having deducted from proceeds on disposal, the carrying value of the assets and the related expenses.

Foreign currency gains and losses are reported on a net basis.

Income from scrap sales are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term.

Other income is recognized on an accrual basis.

3.7.2 Expenditure Recognition

3.7.2.1 Operating Expenses

All expenses incurred in day to day operations of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the income statement in arriving at the profit for the year. Provision has also been made for impairment of financial assets, slow moving stocks, all known liabilities and depreciation on property, plant and equipment.

3.7.2.2 Warranty Claims/Provisions

Costs incurred by the Company under the terms of warranty entered with the customers are charged to the profit or loss only if the actual cost incurred is more than the provision already made.

3.7.2.3 Lease Payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received may recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.7.2.4 Borrowing Costs

Borrowing costs directly attributable to acquisition, construction or production of assets that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that Group incurs in connection with the borrowing of funds.

3.7.3 Net Finance Income / (Expenses)

Finance income comprises interest income on funds invested and staff loans, and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues, using the effective interest method.

Finance costs comprise interest expenses on borrowings (Not capitalized under LKAS – 23 'Borrowing Costs'), unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets (Other than trade receivable). Interest expenses are recognized in profit or loss using the effective interest method.

3.7.4 Taxation

As per Sri Lanka Accounting Standards – LKAS 12 on 'Income taxes', tax expense/(reversal) is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Therefore, it consists of current and deferred tax. Income tax expense/ (reversal) are recognised in the comprehensive income except to the extent it relates to items recognized directly in equity or in other comprehensive income. The group recognises liabilities for anticipated taxes, based on estimates of taxable income, where the final tax outcome of these matters may differ from the amounts, that were initially recorded. Such differences will be adjusted in the current year's income tax charge and / or deferred tax assets / liabilities as appropriate in the period in which such determination is made.

3.7.4.1 Current Taxes

Current income tax liabilities (assets) for the current and prior periods are measured at the amount expected to (be recovered from) paid to the Commissioner General of Inland Revenue. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

The provision for income tax on Sri Lankan operation is based on the elements of income and expenditures reported in the financial statements and computed with in accordance with the provisions of the Inland Revenue Act.

Income tax has been provided on overseas operations in accordance with the relevant statutes in force in the countries in which operations are carried out.

The relevant details are disclosed in the respective notes to the Financial Statements.(Note 9 and 28)

3.7.4.2 Deferred Taxation

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

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and carry forward of unused tax losses / credits can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred 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 as at the reporting date.

3.8 Segmental Information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group management committee (being the chief operating decision-maker) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Inter-segment transfers are based on fair market prices where the arm's length basis in manner similar to transaction with third parties is adopted. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The relevant details are disclosed in the respective notes to the Financial Statements.

3.9 Related Party Transaction

Disclosure has been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies/decisions of the other, irrespective of whether a price has been charged or not.

The relevant details are disclosed in the respective notes to the Financial Statements.

Notes to the Financial Statements *Contd.*

3.10 Cash Flow

The cash flow statement has been prepared using the 'indirect method' in accordance with Sri Lanka Accounting Standard - LKAS7 on 'Statement of Cash Flows'. Cash and cash equivalent comprise cash in hand, cash at bank and short term investments that are readily convertible to known amount of cash and subject to an insignificant risk of change in value.

Interest received and dividends received are classified as investing cash flows, while dividend paid is classified as financing cash flow and interest paid is classified under the operating cash flows for the purpose of presentation of Statement of Cash Flows.

Bank overdrafts and short term borrowings that are repayable on demand and forming an integral part of the Group's cash management are included as a component of cash and cash equivalent for the purpose of the Statement of Cash Flow.

3.11 Earning Per Share

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of shares outstanding during the period.

3.12 Events Occurring After the Reporting Period

Events after the reporting period are those events favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue.

The materiality of the events occurring after the reporting period is considered and appropriate adjustments to or disclosures are made in the financial statements, where necessary.

3.13 Sri Lanka Accounting Standards (SLFRSs/LKASs) Issued But Not Yet Effective

Standard issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards issued, which the Group reasonably expects to be applicable at a future date. The group intends to adopt those standards when they become effective.

a) SLFRS 9 – Financial Instruments

SLFRS 9 as issued reflects the replacement of LKAS 39 and applies to the classification and measurement of financial assets and financial liabilities as defined in LKAS 39. This standard becomes effective for annual periods beginning on or after January 01, 2018. The adoption of SLFRS 9 will have an impact on classification and measurement of Group's financial assets.

b) SLFRS 15 – Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance including LKAS 18 Revenue and LKAS 11 Construction Contracts.

SLFRS 15 is effective for annual reporting periods beginning on or after 01st January 2018, with early adoption permitted.

The Group is currently in the process of evaluating the potential effect of these standards on its financial statements and the impacts of the adoption of these standards have not been quantified as at the reporting date.

C). SLFRS 16 – Leases

SLFRS 16 sets out the principles for the recognition, presentation and disclosures of leases.

SLFRS 16 is effective for annual reporting periods beginning on or after 01st January 2019, with early adoption permitted.

The Group is currently in the process of evaluating the potential effect of these standards on its financial statements and the impacts of the adoption of these standards have not been quantified as at the reporting date.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with SLFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results which form the basis of making the judgments about the carrying amount of assets and liabilities that are not readily apparent from other sources.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimates uncertainties that have a significant risk of resulting in a material adjustment in the financial statements are included in the table below:

Critical Accounting Estimate/Judgement	Disclosure Reference	
	Note	Page
Income tax expenses	9	67
Property, plant and equipment	11	72
Intangible assets	13	76
Deferred tax assets / liabilities	16	77
Retirement Benefits Obligation	25	83
Provision for warranty claims	26	85

Notes to the Financial Statements *Contd.*

For the Year Ended 31st December,	Group		Company	
	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)
5. REVENUE				
Ship Repair	4,559,697	4,311,435	4,559,697	4,311,435
Shipbuilding	5,374,446	10,086,302	5,374,446	10,086,302
Heavy Engineering	541,680	870,874	38,586	9,361
Material and Other Sales	267,487	193,387	-	-
Gross Revenue (Note 5.1 , 5.2)	10,743,310	15,461,998	9,972,729	14,407,098
Turnover Tax	(7,636)	(19,276)	-	-
Total Revenue	10,735,674	15,442,722	9,972,729	14,407,098
Less: Cost of Sales	(9,165,303)	(14,321,675)	(8,735,583)	(13,615,635)
Gross Profit / Operating Results (Note 5.3)	1,570,371	1,121,047	1,237,146	791,463

5.1 Project Types Segment Revenue (Business Segment)

Ship Repair				
Tankers	1,270,360	1,538,566	1,270,360	1,538,566
General Cargo	298,090	293,741	298,090	293,741
Container Carriers	482,920	278,775	482,920	278,775
Passenger Vessels	203,190	432,485	203,190	432,485
Fishing Trawlers	5,030	9,941	5,030	9,941
Tugs	51,780	159,580	51,780	159,580
LPG Tankers	286,382	125,120	286,382	125,120
Dredgers	367,400	503,361	367,400	503,361
Naval Vessels	216,690	146,090	216,690	146,090
Cement Carriers	106,850	96,371	106,850	96,371
Offshore Support Vessels	296,506	17,820	296,506	17,820
Barge	139,160	173,010	139,160	173,010
Bulk Carriers	535,303	147,930	535,303	147,930
Research Vessel	224,520	244,195	224,520	244,195
Others	75,516	144,450	75,516	144,450
	4,559,697	4,311,435	4,559,697	4,311,435
New Construction				
Passenger Vessels	137,444	-	137,444	-
Supply Vessels	5,237,002	9,839,920	5,237,002	9,839,920
Tugs	-	139,661	-	139,661
Barges	-	106,721	-	106,721
	5,374,446	10,086,302	5,374,446	10,086,302

For the Year Ended 31st December,	Group		Company	
	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)
Heavy Engineering				
Heavy Fabrication	512,082	849,266	38,586	2,571
Services	29,598	21,608	-	6,790
	541,680	870,874	38,586	9,361
Material and Other Sales				
Material and Other Sales	267,487	193,387	-	-
Total Revenue	10,743,310	15,461,998	9,972,729	14,407,098

5.2 Geographical Segment Revenue

India	2,651,090	2,496,441	2,651,090	2,496,441
France	1,680	7,950	1,680	7,950
Korea	-	146,901	-	146,901
Maldives	161,470	616,783	161,470	616,783
China	122,430	136,410	122,430	136,410
Australia	-	26,230	-	26,230
UAE	189,150	25,715	189,150	25,715
Sri Lanka	1,363,181	1,519,362	595,790	464,712
Singapore	5,348,752	10,029,711	5,345,562	10,029,461
Japan	121,530	-	121,530	-
Germany	28,586	68,440	28,586	68,440
Greece	84,532	40,631	84,532	40,631
Hong Kong	69,531	-	69,531	-
USA	8,480	29,581	8,480	29,581
USSR	-	114,561	-	114,561
Ethiopia	-	82,319	-	82,319
Taiwan	-	17,965	-	17,965
Vietnam	24,510	-	24,510	-
Kuwait	-	330	-	330
Malta	-	21,075	-	21,075
Cyprus	224,805	76,980	224,805	76,980
Belgium	155,705	-	155,705	-
Denmark	83,150	-	83,150	-
Netherlands	21,490	-	21,490	-
Philippine	28,750	-	28,750	-
Others	54,488	4,613	54,488	4,613
	10,743,310	15,461,998	9,972,729	14,407,098

Notes to the Financial Statements *Contd.*

For the Year Ended 31st December,	Group		Company	
	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)

5. REVENUE (CONTD.)

5.3 Segmental Operating Results

Ship Repairs	998,958	717,770	998,958	717,770
Shipbuilding	225,226	60,370	225,226	60,370
Heavy Engineering	252,616	251,744	12,962	13,323
Material and Other Sales	93,571	91,163	-	-
	1,570,371	1,121,047	1,237,146	791,463

6. OTHER INCOME

Exchange Gains (both realized and unrealized)	30,952	46,874	30,952	46,874
Scrap Sales	78,084	89,261	78,084	89,261
Dividend Income	32	-	9,892	8,429
Profit / (Loss) on disposal of Property, Plant and Equipment	(1,529)	7,294	(3,790)	5,347
Management Fees	-	-	918	918
Amortization of Corporate Guarantees	-	-	419	491
Lease Rentals	248	-	1,999	1,778
Miscellaneous Income	25,796	26,469	24,712	23,704
	133,583	169,898	143,186	176,802

7. NET FINANCE INCOME

Interest Expense

Net Change in fair value of financial instrument at fair value through profit or loss	(30,154)	(47,448)	(28,409)	(47,448)
Interest on Bank Overdrafts and Short Term Loans	(100,244)	(4,688)	(100,235)	(4,094)
	(130,398)	(52,136)	(128,644)	(51,542)

Interest Income

Interest Income from Investments	110,434	50,837	68,643	38,942
Other Interest Income	47,657	48,250	46,873	47,712
Amortization of Pre paid staff cost (Note. 19.2)	23,437	24,302	22,966	24,040
	181,528	123,389	138,482	110,694
	51,130	71,253	9,838	59,152

For the Year Ended 31st December,	Group		Company	
	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)

8. PROFIT BEFORE TAX

Is stated after charging all expenses including the following;

Directors' Emoluments	17,828	20,016	17,828	20,016
Auditors Remuneration - On statutory audit	5,187	5,078	2,190	2,190
- For other services	65	65	65	65
Business Promotion Expenses	27,303	25,515	20,927	17,246
Depreciation on Property Plant & Equipment	454,195	446,653	428,871	420,807
Amortization of Intangible Assets	5,597	6,334	5,060	5,914
Donations	1,086	516	1,086	516

Provision for/ (Reversal of)

- Bad and Doubtful Debts	12,208	17,442	-	-
- Obsolete and Slow Moving Stocks	7,428	8,668	2,691	4,702
- Expected cost and cancellation cost of shipbuilding Project	-	1,171,066	-	1,171,066

Staff Related Cost

- Salaries and Wages	3,272,455	3,206,748	3,175,070	3,130,264
- Defined Benefit Plan Cost - Gratuity	138,763	132,125	135,111	129,495
- Defined Contribution Plan Cost - EPF	166,609	161,601	161,997	156,236
- ETF	41,652	40,400	40,499	39,059
Amortization of Pre-paid Staff Cost	23,437	24,302	22,966	24,040

9. INCOME TAX EXPENSE

On the Current years Profit (Note 9.4)	73,193	65,381	9,062	9,091
Under/ (over) Provision in previous year	(18,308)	(17)	(8,254)	-
Unrecoverable ESC	20,897	-	20,897	-
Deferred Taxation (Note 9.6)	(34,223)	(3,747)	(26,727)	4,923
Tax expense on Total Comprehensive Income	41,560	61,617	(5,022)	14,014
Deferred tax on Other Comprehensive Income	(837)	210	(990)	5
Total Tax expense on profit / (loss)	40,723	61,827	(6,012)	14,019

Notes to the Financial Statements *Contd.*

9. INCOME TAX EXPENSE (CONTD.)

9.1 Taxation on Profits

(i) Income Tax in Sri Lanka Company

In accordance with the Inland Revenue Act No. 10 of 2006 and subsequent amendments there on, the Company is liable to income tax at the following rates,

Shipbuilding (As per sections 52 and 60 of the above act)	12%
Others	28%

(Further refer 9.3 for applicable tax exemptions and concessions)

Subsidiary

Dockyard General Engineering Services (Pvt) Ltd

In accordance with the Inland Revenue Act No. 10 of 2006 and subsequent amendments there on, the Company is liable to income tax at the following rates,

Construction (As per section 46 of the above act)	12%
Others	28%

(ii) Income Tax on Overseas Operations

Ceylon Shipping Agency (Pte) Ltd. Singapore (CSA) is liable for taxation at the rate of 17% on its taxable profit and provision has been made in the accounts accordingly.

9.2 Economic Service Charge

Economic Service Charge (ESC) paid by Companies operating within Sri Lanka is available as Income Tax Credit. In instances where recoverability is not possible due to the tax status, sums paid are written off to the profit or loss.

9.3 Tax Exemptions and Concessions

As per the Section 13 (ddd) of the Inland Revenue Act No 10 of 2006, profits attributable to "ship repairs" which received in foreign currency are exempted from income tax commencing from the year of assessment 2011/2012.

Profits attributable to "Qualified Exports" are chargeable to income tax at the rate of 12% as per the section 52 in conjunction with section 60 of the inland revenue Act No 10 of 2006.

Profits attributable to local turnover which are received in foreign currency are chargeable to income tax at the concessionary rate of 12% under the section 52 of Inland Revenue Act No. 10 of 2006.

For The Year Ended 31st December,	Group		Company	
	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)

9.4 Reconciliation between current tax expense and the accounting profit

Profit / (Loss) before tax	(248,340)	(527,599)	(438,114)	(694,134)
Disallowable Expenses for Taxation	603,888	1,206,182	547,537	1,138,473
Allowable Expenses for Taxation	(673,077)	(1,213,831)	(641,751)	(1,181,179)
Profit Exempt from Tax	(81,453)	(697,642)	(81,453)	(697,642)
Statutory Profit/(Loss) from Business	(398,984)	(1,232,890)	(613,782)	(1,434,482)
Statutory Profit/(Loss) from Colombo Dockyard PLC	(613,782)	(1,434,482)	(613,782)	(1,434,482)
Statutory Profit/(Loss) from Dockyard General Engineering Services (Pvt)Ltd	229,337	200,684	-	-
Statutory Profit/(Loss) from Ceylon Shipping Agency (Pte) Ltd	-	908	-	-
Other sources of Income	49,790	51,170	49,790	51,170
Tax loss claimed during the year	(17,427)	(17,909)	(17,427)	(17,909)
Qualifying Payments	-	(794)	-	(794)
Taxable Income	261,700	234,059	32,363	32,467
Tax at the Rate of 12%	-	-	-	-
Tax at the Rate of 17%	-	154	-	-
Tax at the Rate of 28%	73,193	65,227	9,062	9,091
Provision for Taxation on Current Year Profit	73,193	65,381	9,062	9,091

9.5 Reconciliation of Tax Loss

Tax Loss Brought Forward	3,152,225	2,522,460	3,152,225	2,522,460
Tax Loss for the year of assessment	613,782	1,434,482	613,782	1,434,482
Setoff against the current taxable income	(17,427)	(17,909)	(17,427)	(17,909)
Adjustment for the previous year of assessment	119,083	(786,808)	119,083	(786,808)
Tax Loss Carried Forward	3,867,663	3,152,225	3,867,663	3,152,225

Notes to the Financial Statements *Contd.*

9. INCOME TAX EXPENSE (CONTD.)

9.6 Deferred Taxation

Company

Since the Company's income is liable for income tax at different rates, the deferred tax asset is arrived at by applying the income tax rates of 28%, 12% and 0% applicable for different sources of profit. The effective tax rate (Weighted Average) applicable for the year is 7.74%. (2015 - 9.24%)

As per the recent budget reading concluded on 10th November 2016 by Minister of Finance, the Company's income will be liable to pay tax at following rates.

Shipbuilding	- Local	28%
	- Foreign	14%

Ship Repair	- Local	28%
	- Foreign	14%

Since the New Tax Rates had not been published through a gazette by the Parliament as at the Reporting date, being December 31, 2016, the new rates were not considered to be substantially enacted as at that date. Accordingly, the Company has provided for Deferred Taxation at the existing rates of 12%, 28% & 0% in the Financial Statements for the year ended December 31, 2016.

Subsidiaries

Dockyard General Engineering Services (Pvt) Ltd.

The deferred tax asset is arrived at by applying the income tax rate of 28% to the temporary differences of Dockyard General Engineering Services (Pvt.) Ltd. as at 31st December 2016.

Ceylon Shipping Agency (Pvt) Ltd. (CSA)

The deferred tax liability is arrived at by applying the income tax rate of 17% to the temporary differences of CSA as at 31st December 2016.

10. EARNINGS/(LOSS) PER SHARE

10.1 Earnings/ (Loss) Per Share

The calculation of the earnings/(loss) per share has been derived by dividing profit/(loss) attributable to equity shareholders of Company by the weighted average number of ordinary shares in issue during the year and calculated as follows :

	Group		Company	
	2016	2015	2016	2015
Amount used as the Numerator				
Profit/ (Loss) for the period (Rs.'000)	(289,063)	(589,426)	(432,102)	(708,153)
Non Controlling Interest (Rs.'000)	2,283	(378)	-	-
Profit Attributable to Equity Shareholders of Colombo Dockyard PLC (Rs.'000)	(286,780)	(589,804)	(432,101)	(708,153)
Number of Ordinary Shares used as the Denominator				
Number of Ordinary Shares	71,858,924	71,858,924	71,858,924	71,858,924
Earnings/(Loss) Per Share (Rs.) based on weighted average number of shares in 2016	(3.99)	(8.21)	(6.01)	(9.85)

10.2 Foreign Currency Translations

The principle exchange rates used for conversion of foreign currency Transactions and balances are as follows;

	Annual Average Rate		Closing Rate			
	2016	2015	2016		2015	
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
			Selling	Buying	Selling	Buying
U. S. Dollar	145.85	136.13	151.35	148.35	145.50	142.00
Euro	161.21	151.36	160.72	155.12	159.94	153.91
Singapore Dollars	105.79	99.20	105.66	102.20	103.62	99.89
Danish Kroners	21.69	20.32	21.75	20.81	21.56	20.58
Japanese Yen	1.34	1.13	1.32	1.27	1.21	1.17

Notes to the Financial Statements *Contd.*

11. PROPERTY, PLANT AND EQUIPMENT

11.1 Group

FREEHOLD													
	Drydocks	Lands	Road ways	Buildings	Plant, Machinery & Equipment	Electrical Installation	Motor Vehicles	Inventory Items	Office, Furniture & Fittings	Loose Tools	Boats & Launches	Capital Work In Progress	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
COST													
Balance as at 01st January 2016	1,101,236	62,950	14,190	1,289,698	5,006,307	292,837	170,201	59,347	353,273	354,046	6,494	66,530	8,777,109
Additions during the year	924	-	-	7,735	81,532	1,056	18,349	11,872	20,198	10,094	-	189,516	341,276
Disposals during the year	-	-	-	-	(15,319)	-	(6,014)	(17)	(6,676)	(28,666)	-	-	(56,692)
Transfers during the year	-	-	-	(5)	5	-	-	-	96	-	-	(150,319)	(150,224)
Exchange Gain / Loss	-	-	-	-	-	-	-	-	48	-	-	7	55
Balance as at 31st December 2016	1,102,160	62,950	14,190	1,297,428	5,072,525	293,893	182,536	71,202	366,938	335,474	6,494	105,734	8,911,522
Accumulated Depreciation													
Balance as at 1st January 2016	583,097	-	8,052	479,807	2,316,461	235,255	118,268	44,591	277,739	309,150	5,173	15	4,377,609
Charge for the year	22,573	-	1,041	52,415	283,550	13,692	17,722	4,764	21,830	36,041	567	-	454,195
Disposals	-	-	-	-	(8,940)	-	(2,290)	(17)	(6,488)	(28,666)	-	-	(46,401)
Exchange Gain/Loss	-	-	-	-	-	-	-	-	45	-	-	7	52
Balance as at 31st December 2016	605,670	-	9,093	532,222	2,591,071	248,947	133,700	49,339	293,126	316,525	5,740	22	4,785,454
Carrying Amount													
As at 31st December 2016	496,490	62,950	5,097	765,206	2,481,455	44,946	48,836	21,863	73,812	18,949	755	105,712	4,126,068
As at 31st December 2015	518,139	62,950	6,138	809,891	2,689,846	57,582	51,933	14,756	75,534	44,896	1,321	66,515	4,399,500

11.2 Company

	FREEHOLD											Total
	Drydocks	Lands	Road ways	Buildings	Plant, Machinery & Equipment Installation	Motor Vehicles	Inventory Items	Office, Equipment Furniture & Fittings	Loose Tools	Boats & Launches	Capital Work In Progress	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
COST												
Balance as at 01st January 2016	1,101,236	45,785	14,191	1,271,578	4,934,868	292,836	134,143	59,349	338,359	311,329	6,495	66,416 8,576,585
Additions during the year	924	-	-	7,735	73,904	1,056	7,154	11,872	18,788	9,067	-	189,364 319,864
Disposals during the year	-	-	-	-	(10,983)	-	(4,974)	(17)	(6,454)	(28,666)	-	- (51,094)
Transfers during the year	-	-	-	(5,484)	5,177	307	-	-	-	-	-	- (150,221) (150,221)
Balance as at 31st December 2016	1,102,159	45,785	14,192	1,273,828	5,002,967	294,199	136,324	71,205	350,693	291,730	6,495	105,560 8,695,134
Accumulated Depreciation												
Balance as at 01st January 2016	583,097	-	8,052	461,686	2,286,078	235,254	92,981	44,585	268,183	286,097	5,175	- 4,271,188
Charge for the year	22,573	-	1,041	52,415	276,882	13,692	13,312	4,764	20,276	23,350	567	- 428,871
Disposals during the year	-	-	-	-	(7,102)	-	(1,261)	(17)	(6,277)	(28,666)	-	- (43,323)
Balance as at 31st December 2016	605,670	-	9,093	514,101	2,555,858	248,946	105,032	49,332	282,182	280,781	5,742	- 4,656,737
Carrying Amount												
As at 31st December 2016	496,489	45,785	5,099	759,727	2,447,109	45,253	31,292	21,873	68,511	10,949	753	105,560 4,038,396
As at 31st December 2015	518,139	45,785	6,139	809,892	2,648,790	57,582	41,162	14,764	70,176	25,232	1,320	66,416 4,305,397

Notes to the Financial Statements *Contd.*

11. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

11.3 The lands of the Group have been revalued by an independent chartered valuation firm, Sunil Fernando & Associates (Pvt) Ltd, as at 31st December 2014. This valuation had been carried out for the purpose of disclosing the market value of lands owned by the Group. Valuation details of the lands of the Group are as follows,

- (a) Land depicted as Lot No.01 in plan No. LS/P/223at Colombo Dockyard PLC,Port of Colombo, Colombo 15. This land is situated within the Port of Colombo, adjoining the Sri Lanka Port Authority.

Extent of the Land	5Acres 1 Root and 12.5 Perches
Cost	Rs.20,931,444/-
Valuation	Rs.2,344,750,000/-

- (b) Land depicted as allotment of land in Plan No. 562 dated 27th August 1960 at Nuwara Eliya Holiday Bungalow of the Company is built on this land.

Extent of the Land	37.99 perches
Cost	Rs.1,807,000/-
Valuation	Rs.36,090,500/-

- (c) Land depicted as Lot A in Plan No.1347 dated 6th June 1981 at Colombo 15. Executive quarters of the Company is built on this land.

Extent of the Land	2 Roots and 9.62 Perches
Cost	Rs.3,219,000/-
Valuation	Rs.65,000,000/-

- (d) Land depicted as Lot No.01 in Plan No. 250 at Colombo 14, this land is leased to Dockyard General Engineering Services (Private) Limited as an operating lease.

Extent of the Land	2 Roots and 23.75 Perches
Cost	Rs.2,865,000/-
Valuation	Rs.41,500,000/-

Extent of the building is above freehold lands 25,134 sqm (2015- 25,134 sqm)

- (e) Land depicted as Lot No is plan No. 3347 at No. 2, Srimath Bandaranayaka Mawatha, Colombo 12. The land is used for Dockyard General Engineering Services (Private) Limited's Materials Sales Center.

Extent of the Land	7.15 Perches
Cost	Rs. 14,300,000/-
Valuation	Rs. 17,900,000/-

- (f) Land depicted as Lot No. 3B in plan No. 2579 at Colombo 15. This land is kept for the purpose of constructing office spaces.

Extent of the Land	12.69 Perches
Cost	Rs. 19,829,000/-
Valuation	Rs. 23,800,000/-

11.4 Gross carrying amount of fully depreciated Property Plant and Equipment.

As at 31st December	Group		Company	
	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)
Freehold Drydocks	5,215	1,534	5,215	1,534
Freehold Buildings	156,824	59,588	138,669	41,433
Roadways	3,784	3,784	3,784	3,784
Plant, Machinery and Equipment	1,330,209	891,955	1,323,222	871,594
Electrical Installations	172,406	49,468	172,406	49,468
Motor Vehicles	94,262	80,857	66,213	62,600
Inventory Items	35,776	-	35,776	-
Office Equipment, Furniture and Fittings	207,624	206,415	205,140	206,337
Boats / Launches	2,717	-	2,717	-
	2,008,817	1,293,601	1,953,142	1,236,750

As at 31st December	Group		Company	
	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)

12. INVESTMENT PROPERTY

Land rented to Dockyard General Engineering Services (Pvt) Ltd	-	-	2,865	2,865
--	---	---	-------	-------

Land depicted as Lot No.01 in Plan No.250 at Mahawatte,Colombo 14, which is leased to Dockyard General Engineering Services (Pvt.) Limited, has been revalued by an independent Chartered Valuation firm, Sunil Fernando & Associates (Pvt.) Ltd., as at 31st December 2014. Valuation details of the land is as follows,

Extent of the Land-	2 Roots and 23.75 Perches
Cost	Rs. 2,865,000/-
Valuation	Rs. 41,500,000/-

Notes to the Financial Statements *Contd.*

As at 31st December	Group		Company	
	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)

13. INTANGIBLE ASSETS

Cost

Balance at the beginning of the year	45,490	44,580	42,468	41,921
Additions during the year	39,446	910	39,298	547
Disposal	(25)	-	-	-
Balance at the end of the year	84,911	45,490	81,766	42,468

Amortization

Balance at the beginning of the year	41,126	34,792	40,463	34,549
Charge for the year	5,597	6,334	5,060	5,914
Disposal	(25)	-	-	-
Balance at the end of the year	46,698	41,126	45,523	40,463
Carrying Amount	38,213	4,364	36,243	2,005

As at 31st December	No of Shares	Percentage Holding	Company	
			2016 (Rs.'000)	2015 (Rs.'000)

14. INVESTMENTS IN SUBSIDIARIES

Dockyard General Engineering Services (Private) Limited - Incorporated in Sri Lanka	61,999	100%	2,146	1,727
Add: Fair Value of Financial Guarantees			639	419
Ceylon Shipping Agency (Private) Limited - Incorporated in Singapore	25,500	51%	357	357
			3,141	2,503

14.1 The Director's Assessment of the Fair Value of Investments.

The Board of Directors' assessed the fair value of investments in subsidiaries as follows based on the net assets attributable for the respective investments.

As at 31st December	2016 (Rs.'000)	2015 (Rs.'000)
Dockyard General Engineering Services (Private) Limited	823,954	663,656
Ceylon Shipping Agency (Pte) Ltd	56,140	57,298
	880,094	720,954

As at 31st December	Group		Company	
	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)

15. OTHER INVESTMENTS

15.1 Investments Classified as Available for Sale

15.1 (a) Investments in shares

Sri Lanka Port Management and Consultancy Services Limited	13,661	13,865	13,661	13,865
Associated Newspapers of Ceylon Limited	1,401	1,401	1,401	1,401
	15,062	15,266	15,062	15,266

15.1 (b) Investment in Unit Trusts

NDB Wealth Money Plus	83,905	77,137	-	-
First Capital Money Market Fund	76,400	45,815	-	-
	160,305	122,952	-	-
Total Investments Classified as Available for Sale	175,367	138,218	15,062	15,266

15.2 Investments Classified as Fair Value through Profit or Loss

Investment in Quoted Debentures

Sampath Bank PLC	49,453	-	-	-
Citizens Development Business Finance PLC	98,802	-	-	-
Total Investments Classified as Fair Value through Profit or Loss	148,255	-	-	-

16. DEFERRED TAXATION

16.1 Deferred Tax Asset

Balance at the beginning of the year	101,069	105,992	101,069	105,991
(Provision) /Reversal during the year (Note No. 16.3)	26,727	(4,923)	26,727	(4,922)
Transferred from Deferred Tax Liability	6,223	-	-	-
Balance at the end of the year	134,018	101,069	127,795	101,069

16.2 Deferred Tax Liability

Balance at the beginning of the year	1,273	9,942	-	-
Provision/(Reversal) during the year (Note 16.3)	(7,496)	(8,670)	-	-
Transferred to Deferred Tax Asset	6,223	-	-	-
Balance at the end of the year	-	1,272	-	-

16.3 Provision /(Reversal) for the year

Provision/(Reversal) during the year recognized in Comprehensive income	(35,060)	(3,537)	(27,717)	4,927
Provision /(Reversal) during the year recognized in Other Comprehensive Income	837	(210)	990	(5)
	(34,223)	(3,747)	(26,727)	4,923

Notes to the Financial Statements *Contd.*

16. DEFERRED TAXATION (CONTD.)

	2016		2015	
	Temporary difference	Tax effect on temporary difference	Temporary difference	Tax effect on temporary difference
	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)
Group				
Temporary Difference on Property Plant & Equipment	(3,205,280)	(257,393)	(3,136,303)	(299,748)
Temporary difference on Retirement Benefit Obligations	854,257	69,239	882,093	83,719
Temporary Difference on Stock Provision	62,707	7,249	55,279	6,436
Temporary Difference on Forward Contracts	18,617	1,441	27,701	2,560
Temporary Difference on Warranty Provision	75,023	14,064	104,917	15,488
Temporary Difference on Tax Losses carried forward	3,867,663	299,419	3,152,225	291,342
	1,672,986	134,018	1,088,900	99,797
Company				
Temporary Difference on Property Plant & Equipment	(3,159,603)	(244,604)	(3,083,489)	(284,988)
Temporary difference on Retirement Benefit Obligations	838,925	64,946	870,402	80,446
Temporary Difference on Stock Provision	50,888	3,940	48,197	4,454
Temporary Difference on Forward Contracts	18,617	1,441	27,701	2,560
Temporary Difference on Warranty Provision	34,273	2,653	75,516	7,256
Temporary Difference on Tax Losses carried forward	3,867,663	299,419	3,152,225	291,341
	1,650,763	127,795	1,093,542	101,069

Potential Impact of Income Tax Rate Change

As per the recent budget reading concluded on 10th November 2016 by Minister of Finance, the Company's income will be liable to pay Income Tax at following rates.

Shipbuilding - Local 28%
- Foreign 14%

Ship Repair - Local 28%
- Foreign 14%

Since the New Tax Rates had not been published through a gazette by the Parliament as at the Reporting date, being 31 December 2016, the new rates were not considered to be substantially enacted as at that date. Accordingly, the Company has provided for Deferred Taxation at the existing rates of 12%, 28% & 0% in the Financial Statements for the year ended 31 December 2016.

The potential impact on the deferred tax had the Company applied the proposed rates (as above) shown below:

	2016 Company
Balance at the beginning of the year	101,069
Deferred tax Income / (Expenses) recognized in profit or loss	142,429
Deferred tax Income / (Expenses) recognized in other comprehensive income	(1,871)
Balance at the end of the year	241,627

As at 31st December	Group		Company	
	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)

17. INVENTORIES

Raw Materials	1,359,682	1,099,874	1,271,952	1,019,413
Goods in Transit	13,450	13,335	13,450	13,335
	1,373,132	1,113,209	1,285,402	1,032,748
Less: Provision for Inventories (Note:17.1)	(62,707)	(55,279)	(50,888)	(48,197)
	1,310,425	1,057,930	1,234,514	984,551

17.1 Movement in Provision for Inventories

Balance at the beginning of the year	55,279	46,611	48,197	43,495
Provision/(Reversal) made during the year	7,428	8,668	2,691	4,702
Balance at the end of the year	62,707	55,279	50,888	48,197

18. TRADE AND OTHER RECEIVABLES

Trade Receivables	5,256,164	1,811,695	4,979,515	1,619,634
Less: Provision for Bad and Doubtful Debts (Note No 18.1)	(30,578)	(18,370)	-	-
	5,225,586	1,793,325	4,979,515	1,619,634
Accrued Revenue	3,723,448	5,573,934	3,642,514	5,553,458
VAT Recoverable	229,408	220,081	229,408	220,081
Deposits and Prepayments	1,628,480	1,669,753	1,626,212	1,667,529
Economic Service Charges	150,720	128,465	150,720	128,465
Other Receivables	271,190	229,131	197,615	132,651
	11,228,832	9,614,689	10,825,984	9,321,818

18.1 Movement in Provision for Bad and Doubtful Debts

Balance at the beginning of the year	18,370	928	-	-
Provision / (Reversal) made during the year	12,208	17,442	-	-
Bad debt write off	-	-	-	-
Balance at the end of the year	30,578	18,370	-	-

Notes to the Financial Statements *Contd.*

As at 31st December	Group		Company	
	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)
19. Other Financial Assets				
Non Current				
Loans given to employees (Note No. 19.1)	376,499	388,242	368,588	382,932
Pre paid Staff Benefits (Not No. 19.2)	40,703	39,447	39,520	38,877
	417,203	427,689	408,108	421,809
Current				
Loans given to employees (Note No. 19.1)	137,256	139,392	135,725	137,555
Pre paid Staff Benefits (Note No. 19.2)	13,392	14,242	13,071	14,018
	150,648	153,634	148,796	151,573
	567,850	581,322	556,904	573,382
19.1 Loans given to employees				
Balance at the beginning of the year	581,322	569,966	573,382	561,727
Loans Granted during the year	165,585	193,090	158,518	190,750
Loans Recovered during the year	(179,056)	(181,734)	(174,996)	(179,095)
	567,851	581,322	556,904	573,382
Transfer to Pre Paid Staff Benefits	(54,096)	(53,688)	(52,591)	(52,895)
Balance at the end of the year	513,755	527,634	504,313	520,487
Non Current	376,499	388,242	368,588	382,932
Current	137,256	139,392	135,725	137,555
19.2 Prepaid Staff Benefits				
Balance at the beginning of the year	53,688	64,286	52,895	63,298
Additions during the year	23,844	13,704	22,662	13,637
Amortization of Pre paid staff cost	(23,437)	(24,302)	(22,966)	(24,040)
Balance at the end of the year	54,096	53,688	52,591	52,895
Non Current	40,703	39,447	39,520	38,877
Current	13,392	14,242	13,071	14,018

The loans given to employees are secured and interest is charged at the following rates:

	Housing Loans	Vehicle Loans	Wedding Loans
Colombo Dockyard PLC	6.5%	10%	0%
Dockyard General Engineering Services (Private) Limited	7.5%	10%	-
Ceylon Shipping Agency (Private) Limited	3.0%	-	-

Relationship	Group		Company	
	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)

20. AMOUNTS DUE FROM RELATED PARTIES

Dockyard General Engineering Services (Pvt) Ltd	Subsidiary	-	-	31,692	30,856
		-	-	31,692	30,856

21. CASH AND CASH EQUIVALENTS

21.1 Favorable Balances

Fixed Deposits	2,312,675	1,744,980	1,891,538	1,537,116
Repurchase Agreements	-	68,000	-	-
Call Deposits	448	173,032	448	173,032
Cash at Bank	343,502	371,853	209,809	151,987
Cash in Hand	8,532	8,190	7,745	7,563
	2,665,157	2,366,055	2,109,540	1,869,698

21.2 Unfavorable Balances

Bank Overdrafts	(12,804)	(9,278)	-	(9,278)
Cash and Cash Equivalents for the purpose of the Statement of Cash Flow	2,652,353	2,356,777	2,109,540	1,860,420

Notes to the Financial Statements *Contd.*

As at 31st December	Group		Company	
	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)

22. STATED CAPITAL

71,858,924 Ordinary Shares (2015 - 71,858,924)	714,396	714,396	714,396	714,396
--	---------	---------	---------	---------

23. LOANS AND BORROWINGS

Payable within one year

Short Term Loans (Note No. 23.1)	7,409,743	4,506,916	7,409,743	4,506,916
	7,409,743	4,506,916	7,409,743	4,506,916

23.1 Short Term Loans

Balance at the beginning of the year	4,506,916	3,221,441	4,506,916	3,221,441
Loans obtained during the year	11,583,387	9,659,941	11,583,387	9,659,941
Loan Re-payments during the year	(8,753,642)	(8,428,442)	(8,753,642)	(8,428,442)
Adjustment in respect of Exchange Rate Fluctuations	73,082	53,976	73,082	53,976
Balance at the end of the year	7,409,743	4,506,916	7,409,743	4,506,917

As at 31st December	Group		Company	
	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)

24. OTHER FINANCIAL LIABILITIES INCLUDING DERIVATIVES

Current

Derivatives	18,617	27,701	18,617	27,701
Corporate Guarantees	-	-	639	419
	18,617	27,701	19,256	28,120

As at 31st December	Group		Company	
	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)

25. RETIREMENT BENEFITS OBLIGATION

Balance at the beginning of the year	882,093	867,384	870,402	857,071
Provision made in the profit / (loss) during the year (Note No. 25.3)	138,763	132,125	135,111	129,495
Payments made during the year	(154,359)	(118,198)	(153,805)	(116,214)
Actuarial (gain) / loss recognized in Other Comprehensive Income (Note 25.4)	(12,238)	782	(12,783)	50
Balance at the end of the year (Note No.s 25.1, 25.2)	854,257	882,093	838,925	870,402

25.1 The Amount Recognized in the Statement of Financial Position are as follows;

Present value of unfunded obligations	854,257	882,093	838,925	870,402
Present value of funded obligations	-	-	-	-
Total present value of obligations	854,257	882,093	838,925	870,402
Fair value of plan assets	-	-	-	-
Present value of net obligations	854,257	882,093	838,925	870,402
Unrecognized net actuarial gains/ (losses)	-	-	-	-
Recognized liability for defined benefit obligations	854,257	882,093	838,925	870,402

25.2 Movement in the Present Value of Defined Benefit Obligations

Liability for defined benefit obligations as at 1st January	882,093	867,384	870,402	857,071
Actuarial (gains)/ losses	(12,238)	782	(12,783)	50
Benefit paid by the plan	(154,359)	(118,198)	(153,805)	(116,214)
Current service costs	54,853	49,839	52,423	48,073
Interest Cost	83,910	82,286	82,688	81,422
Liability for defined benefit obligations as at 31st December	854,257	882,093	838,925	870,402

25.3 Expense Recognized in Profit or Loss for the year ended,

Current service costs	54,853	49,839	52,423	48,073
Interest on obligation	83,910	82,286	82,688	81,422
	138,763	132,125	135,111	129,495

25.4 Gain / (Loss) recognized in Other Comprehensive Income

Gain / (Loss) recognized in Other Comprehensive Income	12,238	(782)	12,783	(50)
	12,238	(782)	12,783	(50)

Notes to the Financial Statements *Contd.*

25. RETIREMENT BENEFITS OBLIGATION (CONTD.)

Colombo Dockyard PLC

The actuarial valuations carried out by M/s Piyal S Goonetilleke and Associates for retiring gratuity for employees as at 31st December 2016 amounting to Rs.838.92 Mn and used the following key assumptions.

	2016	2015
Rate of Interest	10.50%	9.50%
Rate of Salary Increment	8.50%	7.50%
Rate of COLA Increment	6%	5%
Staff Turnover Factor	1%	1%
Retiring Age (Years) - Male	55	55
- Female	50	50

Dockyard General Engineering Services (Pvt) Ltd

Dockyard General Engineering Services (Pvt)Ltd, applied the formula method and used the following key assumptions in arriving at the retirement benefit liability under Projected Unit Credit (PUC) method.

	2016	2015
Rate of Interest	11%	9.50%
Rate of Salary Increment	14%	14%
Staff Turnover Factor	1%	1%
Retiring Age (Years) - Male	55	55
- Female	50	50

25.5 Sensitivity of Assumptions Used

A quantitative sensitivity analysis for significant assumptions used by the Company as at 31st December 2016 is as shown below:

	Discount Rate	Rate of Salary Increments
Resulting Employee Benefit Obligation	(Rs.'000)	(Rs.'000)
As per the current assumptions	838,925	838,925
Increase by one percentage point	798,453	891,125
Decrease by one percentage point	883,838	790,911

The sensitivity analysis above have been determined based on a method that extrapolates the impact on employee benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting date.

As at 31st December,	Group		Company	
	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)

26. TRADE AND OTHER PAYABLES

Trade Payables	380,264	314,885	285,410	216,800
Subcontract Payables	405,731	585,466	405,731	585,466
Progress Bills	5,239	-	5,239	-
Provision for Warranty Claims (Note 26.1)	75,023	104,917	34,273	75,516
Accrued Expenses and Other Provisions	967,860	1,416,308	801,753	1,305,903
Other Payables	204,098	77,394	21,680	33,532
VAT Payable	16,048	5,829	-	-
	2,054,263	2,504,799	1,554,086	2,217,217

26.1 Provision for Warranty Claims

Balance at the beginning of the year	104,917	72,887	75,516	72,887
Provision/(Reversals) made during the year	(3,425)	67,541	(30,086)	38,140
Claims made during the year	(26,469)	(35,511)	(11,157)	(35,511)
Balance at the end of the year	75,023	104,917	34,273	75,516

27. AMOUNTS DUE TO RELATED PARTIES

Ceylon Shipping Agency (Pvt) Ltd	-	-	85,324	55,344
Dockyard general Engineering Services (Pvt) Ltd	-	-	17,478	30,900
	-	-	102,802	86,244

As at 31st December,	Group		Company	
	2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)

28. INCOME TAX PAYABLE

Balance at the beginning of the year	66,354	29,154	-	-
Provision for Income Tax on current year's profits	73,193	65,381	9,062	9,091
Under/(Over) provision of Income Tax in respect of prior year	(18,308)	(17)	(8,254)	-
Income Tax paid during the year	(64,145)	(19,074)	-	-
ESC Setoff	(808)	(9,091)	(808)	(9,091)
Balance at the end of the year	56,286	66,354	-	-

29. DIVIDENDS PAYABLE

Balance at the beginning of the year	39,588	26,364	39,588	26,364
Dividends declared during the year	-	215,579	-	215,579
Payments during the year	(13,397)	(202,355)	(13,397)	(202,355)
Balance at the end of the year	26,191	39,588	26,191	39,588

Notes to the Financial Statements *Contd.*

As at 31st December,	Note	Group		Company	
		2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)

30. FINANCIAL INSTRUMENTS

30.1 Financial Instruments - Statement of Financial Position (SOFP)

The Financial Instruments recognize in the Statement of Financial Position are as follows:

Financial Assets

Fair value through profit and loss

SOFP Line Item:

Investments Classified as FVTPL	15.2	148,255	-	-	-
Total		148,255	-	-	-

Loans and receivables

SOFP Line Item:

Other financial assets - Non Current	19	417,203	427,689	408,108	421,809
Trade and other receivables	18	5,662,193	1,979,570	5,397,223	1,739,429
Other financial assets - Current	19	150,648	153,634	148,796	151,573
Amounts due from related parties	20	-	-	31,692	30,856
Cash and cash equivalents	21	2,665,157	2,366,055	2,109,540	1,869,698
Total		8,895,201	4,926,948	8,095,359	4,213,364

Available-for-sale

SOFP Line Item:

Investment in subsidiaries		-	-	3,141	2,503
Available for Sale Investments15.1		175,367	138,218	15,062	15,266
Total		175,367	138,218	18,203	17,769
		9,218,823	5,065,166	8,113,562	4,231,133

As at 31st December,	Note	Group		Company	
		2016 (Rs.'000)	2015 (Rs.'000)	2016 (Rs.'000)	2015 (Rs.'000)
Financial Liabilities					
Fair value through profit and loss					
SOFP Line Item:					
Other financial liabilities including derivatives - Current	24	18,617	27,701	18,617	27,701
Total		18,617	27,701	18,617	27,701
Other Financial Liabilities					
SOFP Line Item:					
Bank Overdrafts	21	12,804	9,278	-	9,278
Loans and borrowings- Current	23	7,409,743	4,506,916	7,409,743	4,506,916
Trade and other payables	26	1,122,327	1,402,940	842,720	1,144,759
Other financial liabilities including derivatives - Current	24	-	-	639	419
Amounts due to related parties	27	-	-	102,802	86,244
Income Tax payable	28	56,286	66,354	-	-
Dividend payable	29	26,191	39,588	26,191	39,588
Total		8,627,351	6,025,076	8,382,095	5,787,204
		8,645,968	6,052,777	8,400,712	5,814,905

30.2 Financial Instruments Carried at Fair Value

The Group uses the following hierarchy to determine and disclose the fair value of financial instruments by valuation techniques.

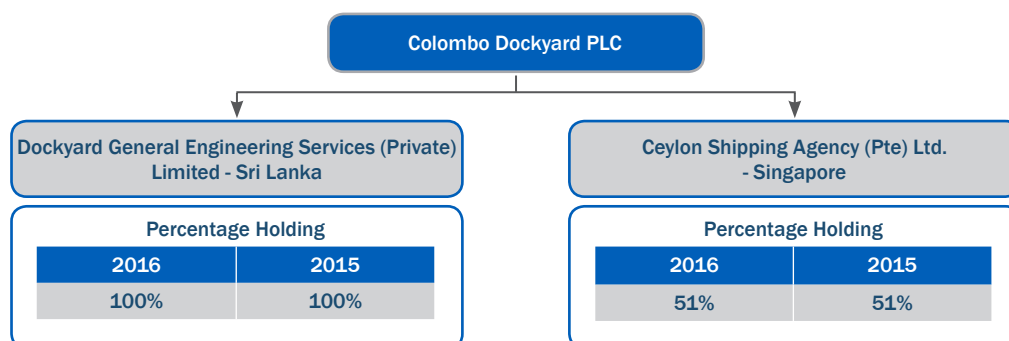
- Level 01 : Quoted (unadjusted) prices in active market for assets or liabilities.
- Level 02 : Other techniques for which all inputs with significant effect on the recorded fair values are observable either directly or indirectly.
- Level 03 : Techniques that use inputs that have significant effect on the recorded fair value that are not based on observable market data.

Notes to the Financial Statements *Contd.*

30. FINANCIAL INSTRUMENTS (CONTD.)

	Group			Company		
	Level 01	Level 02	Level 03	Level 01	Level 02	Level 03
	(Rs. '000)	(Rs. '000)	(Rs. '000)	(Rs. '000)	(Rs. '000)	(Rs. '000)
As at 31.12.2016						
Financial Assets						
Available for Sale Investments - Unquoted shares	-	-	15,063	-	-	15,063
Available for Sale Investments	-	160,304	-	-	-	-
Foreign exchange forward contracts	-	-	-	-	-	-
	-	160,304	15,063	-	-	15,063
Financial Liabilities						
Foreign exchange forward contracts	-	18,617	-	-	18,617	-
Corporate Guarantee	-	-	-	-	-	639
	-	18,617	-	-	18,617	639
As at 31.12.2015						
Financial Assets						
Available for Sale Investments	-	122,952	-	-	-	-
Available for Sale Investments - Unquoted shares	-	-	15,266	-	-	15,266
	-	122,952	15,266	-	-	15,266
Financial Liabilities						
Foreign exchange forward contracts	-	27,701	-	-	27,701	-
	-	27,701	-	-	27,701	-

31. LIST OF SUBSIDIARIES



32. NON-CONTROLLING INTEREST

	Principal place of business	Operating segment	Ownership interest held by NCI	
			2016	2015
Ceylon Shipping Agency (Private) Limited	Singapore	Trading agent	49%	49%

The following is summarized financial information of Ceylon Shipping Agency (Private) Limited, modified for fair value adjustments on acquisition and differences in the Group's accounting policies. The information is before intercompany eliminations.

31st December,	2016 (Rs.'000)	2015 (Rs.'000)
Revenue	405,203	567,756
Profit / (Loss)	(4,660)	771
Profit / (Loss) attributable to NCI	(2,283)	378
Other comprehensive income	2,390	6,251
Total comprehensive income	(2,270)	7,022
Total comprehensive income attributable to NCI	(1,112)	3,441
Current assets	176,588	170,275
Non-current assets	121	137
Current liability	(67,634)	(59,055)
Non-current liability	-	(43)
Net asset	109,045	111,314
Net asset attributable to NCI	53,432	54,544
Cash flow from operating activities	(25,295)	3,396
Cash flow from investing activities	74	69
Cash flow from financing activities	-	-
Net increase in cash and cash equivalents	(25,221)	3,465
Dividend paid to NCI during the year	-	-

Notes to the Financial Statements *Contd.*

33. CONTINGENT LIABILITIES

(a) On behalf of Colombo Dockyard PLC banks have given Bank Guarantees to the Company's Suppliers / customers amounting to Rs. 198,234,000/- (2015 - Rs. 1,626,288,000/-) as at the reporting date.

Bank	Letter of Credit (Rs.'000)	Performance & Bid Bonds (Rs.'000)	Advance and (Rs.'000)	Miscellaneous Bonds (Rs.'000)	Total (Rs.'000)
Bank of Ceylon PLC	47,438	13,495	26,990	47,060	134,983
National Development Bank PLC	-			25,000	25,000
Commercial Bank PLC	3,474				3,474
Hatton National Bank	34,777				34,777
Sampath Bank PLC	-				
	85,689	13,495	26,990	72,060	198,234

(b) Colombo Dockyard PLC has issued Corporate Guarantees behalf of its Subsidiary amounting to Rs. 527,000,000/- (2015 - Rs. 527,000,000/-) as at the reporting date.

Name of the Company	Relationship	Performance (Rs.'000)	Refund (Rs.'000)	Miscellaneous (Rs.'000)	Total (Rs.'000)
Dockyard General Engineering Services (Private) Limited	Subsidiary	-	-	527,000	527,000
		-	-	527,000	527,000

- I. Labor tribunal inquiry regarding a application filed by a sub contact employee (against the sub contract company), regarding a termination of employment, making Colombo Dockyard PLC as a party to the inquiry - LT/2 Add/3714/15
- II. Appeals filed against the High Court orders to Supreme Court in respect of termination of employment- SC/CA/LA/3/15 and SC (Spl/LA)49/2015 (Pending proceedings)
- III. An Application filed by a custom officer seeking a writ against the inquiring officer and several other and the order made with regard to conclusion / finalisation of custom inquiry in which Colombo Dockyard PLC was a Party. CA 487/2015

The company's legal professionals are of the opinion that the Company will be able to defend against these Cases. Therefore no provision is made for contingent liabilities in the Financial Statements.

34. CAPITAL COMMITMENTS

There was no contracted capital expenditure approved by the Board of Directors as at 31st December 2016.

35. TRANSACTIONS WITH RELATED PARTIES

Company	Name of Director	Nature of Interest	Particulars of Financial Dealings	Value of Transaction Rs.'000'
Dockyard General Engineering Services (Pvt) Ltd	Dr. Toru Takehara Mr. Ranil Wijegunawardena Mr. M Koshi	Subsidiary	Purchase of Material	1,147
			Management Services	918
			Lease Rental Received	1,751
			Subcontractor Services	41,964
			Heavy Engineering	10,098
			Dividend Received	8,872
			Bond Handling	1,070
			Transportation	5,825
Ceylon Shipping Agency (Pte) Ltd	Dr. Toru Takehara Mr. D. V. Abeysinghe Mr. C. S. W. De Costa	Subsidiary	Purchase of Material	402,012
Onomichi Dockyard Company Ltd	Mr. T. Nakabe	Parent	Technical services	85,508

This note should be read in conjunction with Note Nos. 8, 14, 20, 27, and 35(A) to these Financial Statements.

(A) Transactions With Key Management Personnel

According to Sri Lanka Accounting Standards LKAS 24 - Related Party Disclosures, Key Management personnel, are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Directors (including Executive and Non-Executive Directors), Chief Executive Officer and the General Managers of the Company who are in the very next level to the Board of Directors have been classified as Key Management Personnel of the Company/Group.

(i) Loans to the Directors

No loans have been granted to the Directors of the Company

(ii) Compensation paid to Key Management Personnel

	2016 Rs.'000	2015 Rs.'000
Short Term Employment Benefit	58,903	64,526
Long Term Employment Benefit	41,143	38,697

(iii) Other Transactions with Key Management Personnel

There were no other transactions with key Managerial Personnel other than those disclosed in Note 35(A) to these Financial Statements.

Notes to the Financial Statements *Contd.*

36. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Subsequent to the reporting date, no circumstances have arisen which would require adjustment to or disclosure in the Financial Statements.

37. COMPARATIVE INFORMATION

To facilitate comparison and where relevant, balances pertaining to the previous year have been reclassified as follows:

Group	As per Audited Financial Statements Rs. 000'	Change Rs. 000'	Re-classified Rs. 000'
01) Statement of Financial Position			
Other Financial Assets - Non-Current (Refer Note 01)	550,641	(122,952)	427,689
Investments Classified As Available For Sale (Refer Note 01)	15,266	122,952	138,218

Note 01- Investment in Unit Trusts

Above Re-Classification pertaining to the Investment in Unit Trusts amounting to Rs. 122,952/- which was previously recognized under Other Financial Assets - Non-Current has been re-classified under the Investments Classified As Available For Sale.

38. FINANCIAL RISK MANAGEMENT

The Group has trade and other receivables, other financial assets including loans given to employees and cash and short term investments that arise directly from its operations. The Group also holds available-for-sale investments and enters into derivative transactions. The group principal financial liabilities comprise of short term borrowings, trade and other payables and other financial liabilities.

In the course of its business, the Group is exposed to a number of risks arising from financial instruments, including :

- Credit Risk
- Liquidity Risk
- Market Risk (Including currency risk and interest rate risk)

The board of directors has the overall responsibility of establishing and overlooking the Groups' Risk Management Framework. The Groups' risk management policies are established to identify and analyze the risk faced by the Group, to set appropriate risk limits and to controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities

38.1 Credit Risk

Credit risk is the risk that a counter party will not meet its obligation under a financial instrument and leading to a financial loss. The Group is exposed to credit risk from its operating activities and from its financing activities, including trade receivables, short term investments and other financial assets.

The Group trades only with recognized, credit worthy third parties. It is the group policy that all balances are monitored on an ongoing basis (approval procedures) and obtaining bank guarantees from third parties when required, result that the Group's exposure to bad debt is not significant. The Group limits its exposure to credit risk by investing only in short term liquid assets with the counter parties that have an existing business relationship.

The carrying amount of financial assets represent the maximum credit exposure. The maximum credit risk, without considering collateral (if any), at the reporting date was as follows :

As at 31st December	Group		Company	
	2016 (Rs. '000)	2015 (Rs. '000)	2016 (Rs. '000)	2015 (Rs. '000)
Trade and other receivables	5,662,193	1,979,570	5,397,223	1,739,429
Other financial assets	567,851	581,323	556,904	573,382
Investments Classified as FVTPL	148,255	-	-	-
Cash at bank and in hand	2,665,157	2,366,055	2,109,540	1,869,698
Amount due from related parties	-	-	31,692	30,856
Available for Sale Investments	175,368	138,218	18,203	17,769
Total exposure to the credit risk	9,218,823	5,065,166	8,113,562	4,231,133
Trade and Other Receivables				
Gross amount	5,692,771	1,997,940	5,397,223	1,739,429
Provision for impairment	(30,578)	(18,370)	-	-
Carrying value as at reporting date	5,662,193	1,979,570	5,397,223	1,739,429

Notes to the Financial Statements *Contd.*

38. FINANCIAL RISK MANAGEMENT (CONTD.)

38.2 Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligation associate with its' financial liabilities that are settled by delivering cash or another financial asset.

To measure and mitigate liquidity risk, the Group monitor its net operating cash flow, maintain a appropriate level of cash and cash equivalents and secured committed funding facilities from financial institutions.

Followings are the contractual maturity of financial liabilities as at 31 December 2016:

Financial Liabilities	Less than one year	Group More than one year	Total	Less than one year	Company More than one year	Total
Fair value through profit or loss	18,617	-	18,617	18,617	-	18,617
Other Financial Liabilities	8,614,547	-	8,616,547	8,382,095	-	8,382,095
Bank overdrafts	12,804	-	12,804	-	-	-
	8,645,968	-	8,647,968	8,400,712	-	8,400,712

Following are the contractual maturity of financial liabilities as at 31 December 2015

Financial Liabilities	Less than one year	Group More than one year	Total	Less than one year	Company More than one year	Total
Fair value through profit or loss	27,701	-	27,701	27,701	-	27,701
Fair value through profit or loss	6,015,798	-	6,015,798	5,777,926	-	5,777,926
Bank overdrafts	9,278	-	9,278	9,278	-	9,278
	6,052,777	-	6,052,777	5,814,905	-	5,814,905

38.3 Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates etc.; will effect the Groups' income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the returns.

38.3.1 Currency Risk

The group exposed to currency risk on sales, purchases, borrowings and investments that are denominated in a currency other than the functional currency which is Sri Lankan Rupees.

The risk is minimized by hedging the currency either by forward foreign exchange contracts in respect of actual or forecasted currency exposures or hedge naturally by a matching sales and purchases or matching assets and liabilities of the same currency and amounts.

The principal exchange rates used by the Group for conversion of foreign currency balances and transactions, for the year as follows :

Currency	Annual Average rate	Closing rate	
		Selling	Buying
U. S. Dollar	145.85	151.35	148.35
Euro	161.21	160.72	155.12
Singapore Dollars	105.79	105.66	102.20
Danish Kroner	21.69	21.75	20.81
Japanese Yen	1.34	1.32	1.27

38.3.2 Interest Rate Risk

Interest rate risk is the risk that the fair value of the future cash flows of financial instruments fluctuate because of changes in market interest rates. The group exposed to the risk of changes in market interest rates relates primarily to the Group's short term debt obligation and investments with floating interest rates. Group does not have any floating rate long term borrowings or investments as at the reporting date, which results material interest rate risk.

Ten Years Financial Summary

For the year Ended 31st December	2016 Rs. Mn	2015 Rs. Mn	2014 Rs. Mn	2013 Rs. Mn	2012 Rs. Mn	2011 Rs. Mn	2010 Rs. Mn	2009 Rs. Mn	2008 Rs. Mn	2007 Rs. Mn
Income Statement										
Revenue	9,973	14,407	13,707	15,861	15,728	12,195	14,057	13,160	10,929	8,621
Cost of Production	(8,736)	(13,616)	(12,508)	(14,246)	(13,028)	(10,164)	(10,978)	(9,798)	(8,428)	(6,496)
Gross Profit	1,237	791	1,199	1,615	2,700	2,031	3,079	3,362	2,501	2,125
Other Expenses	(1,828)	(1,714)	(1,607)	(1,697)	(1,411)	(1,193)	(1,579)	(1,349)	(1,110)	(1,029)
Profit before Other Income	(591)	(923)	(408)	(82)	1,289	838	1,500	2,013	1,391	1,096
Other Operating Income	143	170	347	536	470	641	147	128	123	195
Profit from Operation	(448)	(753)	(61)	454	1,759	1,479	1,647	2,141	1,514	1,291
Net Interest Costs	10	59	281	279	144	(83)	174	183	161	(5)
Profit before Tax	(438)	(694)	220	733	1,903	1,396	1,821	2,324	1,675	1,286
Taxation	6	(14)	(11)	91	(14)	43	193	(199)	(252)	(203)
Net Profit for the Year	(432)	(708)	209	824	1,889	1,439	2,014	2,125	1,423	1,083
Retained Profit b/f	8,722	9,646	9,724	9,507	7,829	6,937	5,363	3,717	2,522	1,635
Profit available for Appropriation	8,290	8,938	9,933	10,331	9,718	8,376	7,377	5,842	3,945	2,718
Issue of Bonus Shares	-	-	-	-	(34)	-	-	-	(32)	-
Final Dividends / Other comprehensive Income	12	(216)	(287)	(575)	(411)	(547)	(547)	(479)	(196)	(196)
	8,302	8,722	9,646	9,756	9,273	7,829	6,830	5,363	3,717	2,522
As at 31st December										
Balance Sheet										
ASSETS										
Property Plant & Equipment	4,038	4,328	4,281	4,147	3,900	2,514	2,254	2,051	2,146	1,826
Investments & Taxes	594	523	520	532	522	486	131	112	77	1
	4,632	4,851	4,801	4,679	4,422	3,000	2,385	2,163	2,223	1,827
Current Assets										
Inventories	1,235	985	956	753	1,202	638	624	754	937	887
Trade & Other Receivables	11,005	9,503	8,052	7,467	8,051	6,684	5,251	6,893	5,642	7,175
Cash & Short -term funds	2,110	1,870	2,631	3,329	3,864	3,892	5,933	3,880	3,606	1,683
	14,350	12,358	11,639	11,549	13,117	11,214	11,808	11,527	10,185	9,745
Total Assets	18,982	17,209	16,440	16,228	17,539	14,214	14,193	13,690	12,408	11,572
EQUITY & LIABILITIES										
Stated Capital	714	714	714	714	714	684	684	684	684	652
Available for Re-sale Reserves	15	15	15	14	10	9	-	-	-	-
Revenue Reserves	8,302	8,722	9,646	9,756	9,362	7,829	6,830	5,363	3,717	2,522
Share Holders Fund (Net Worth)	9,031	9,451	10,375	10,484	10,086	8,522	7,514	6,047	4,401	3,174
Non-Current Liabilities										
Interest bearing Borrowings	-	-	-	-	52	161	61	94	148	227
Deferred Taxation	-	-	-	-	-	-	-	-	-	62
Retirement benefit Obligation	839	870	857	816	931	963	951	786	689	468
	839	870	857	816	983	1,124	1,012	880	837	757
Current Liabilities										
Trade & Other Payables	1,676	2,332	1,958	2,760	4,548	3,920	4,732	6,048	5,435	5,341
Interest bearing Borrowings	7,410	4,507	3,221	2,141	1,880	538	897	315	1,246	1,676
Income Tax Payable	-	-	-	-	16	46	-	305	329	319
Dividends Payable	26	40	27	23	19	17	15	13	7	6
Bank Overdraft	-	9	2	4	7	47	23	82	153	299
	9,112	6,888	5,208	4,928	6,470	4,568	5,667	6,763	7,170	7,641
	18,982	17,209	16,440	16,228	17,539	14,214	14,193	13,690	12,408	11,572

Notice of Annual General Meeting

COLOMBO DOCKYARD PLC

(Company Registration No. PQ 50)

P.O. Box 906, Graving Docks, Port of Colombo, Colombo 15

NOTICE IS HEREBY GIVEN that the Thirty Fourth Annual General Meeting of Colombo Dockyard PLC will be held at The Kingsbury (Balmoral), Colombo 1, Sri Lanka at 10.00 a.m. on the 18th day of April 2017 for the following purposes.

1. To receive the Annual Report of the Board of Directors on the Affairs of the Company, the Audited Accounts for the year ended 31st December 2016 and the Report of the Auditors.
2. To re-elect Mr. Lalith Ganlath in terms of Article 87 of the Articles of Association of the Company.
3. To re-elect Mr. H A R K Wickramathilake in terms of Article 87 of the Articles of Association of the Company.
4. To re-appoint Messrs. KPMG, the retiring Auditors and authorize the Directors to fix their remuneration.
5. To authorize the Directors to determine donations for the year 2017 and up to the date of the next Annual General Meeting.

By order of the Board

COLOMBO DOCKYARD PLC



Manori P. Mallikarachchi

Company Secretary

17th March 2017

Colombo, Sri Lanka

Notes

1. Any member, entitled to attend and vote, 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. The Form of Proxy is enclosed for this purpose.
4. The completed Form of Proxy must be deposited at the Registered Office of the Company Graving Docks, Port of Colombo, Colombo 15, Sri Lanka, not later than 45 hours prior to the time appointed for the holding of the meeting.

Please bring your National Identity Card when attending the meeting.

Notes

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

Form of Proxy

COLOMBO DOCKYARD PLC

(Company Registration No. PQ 50)

P.O. Box 906, Graving Docks, Port of Colombo, Colombo 15

I/We of

(NIC No.)..... of

being a member/members of Colombo Dockyard PLC, hereby appoint,

..... of

(or failing him/her)

Dr. T. Takehara	of Colombo (or failing him)
Mr. Sarath de Costa	of Colombo (or failing him)
Mr. D. V. Abeysinghe	of Colombo (or failing him)
Mr. T. Nakabe	of Colombo (or failing him)
Mr. M. Koshi	of Colombo (or failing him)
Mr. Lalith Ganlath	of Colombo (or failing him)
Mr. H.A.R.K. Wickramathilake	of Colombo (or failing him)
Mr. T M R Bangsa Jayah	of Colombo (or failing him)
Mr. C.J.P. Siriwardana	of Colombo

as my/our Proxy to represent and speak and vote for me/us* and on my/our behalf at the Thirty Fourth Annual General Meeting of the Company to be held on 18th April 2017 at 10.00 a.m. and at any adjournment thereof and at every poll which may be taken in consequence thereon.

In witness my/our* hands this day of Two Thousand Seventeen.

.....
Signature

Notes: * Delete what is not applicable
Instructions as to completion appear overleaf.

INSTRUCTIONS FOR COMPLETION

1. Kindly perfect the Form of Proxy by filling in legibly your full name, address and the National Identity Card number and by signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company, Graving Docks, Port of Colombo, Colombo 15, Sri Lanka on or before forty five hours before the time appointed for the meeting.
3. If you wish to appoint a person other than the Chairman or a Director of the Company as your proxy, please insert the relevant details at the space provided (above the names of the Board of Directors) on the Proxy Form.
4. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should accompany the Form of Proxy for registration if such Power of Attorney has not already been registered with the Company.
5. If the appointor is a Company/incorporated body, this Form must be executed in accordance with the Articles of Association/ Statute.

Please fill the details :

Share Certificate No./CDS Account No :

Name :

Address :

Jointly with :

Corporate Information

Name of Company

Colombo Dockyard PLC

Legal Form

A Public Quoted Company with Limited Liability. Incorporated and domiciled in Sri Lanka.

Company Registration Number

PQ 50 Founded 1974

BOI Registration Number

A Licensed Enterprise under section 17 of the Board of Investment of Sri Lanka (formerly GCEC) Law No. 4 of 1978 Registration No. 91/17/03/1983.

Tax Registration Numbers

VAT	-	124085896-7000
SVAT	-	SVAT 000846
Income tax	-	124085896-0000
ESC	-	124085896-8000
NBT	-	124085896-9000

Directors

Dr. T. Takehara - Chairman
Sarath de Costa - Vice-Chairman
D. V. Abeysinghe - Managing Director/CEO
T. Nakabe
M. Koshi
Lalith Ganlath
H. A. R. K. Wickramathilake
T. M. R. Bangsa Jayah
C. J. P. Siriwardana
Y. Imai - Alternate Director
N. Danjo - Alternate Director
D. Liyanamange - Alternate Director

Audit, Remuneration & Related Party Transaction Review Committees

H. A. R. K. Wickramathilake (Chairman)
Lalith Ganlath
Sarath de Costa

Company Secretary

Mrs. Manori P. Mallikarachchi
Graving Docks, Port of Colombo,
Colombo 15, Sri Lanka

Key Management

D. V. Abeysinghe – Managing Director/
CEO
Shantha Rathnayake - General Manager
(Production)
K. B. P. Fernando – General Manager
(Ship Repair Business)
W. M. De Silva – General Manager
(Human Recourse Redevelopment &
Administration)
R. M. V. Rathnayake - General Manager
(Supply Chain Management)
Lal Hettiarachchi - General Manager
(Ship Building)
M Rohan De Silva - General Manager
(Finance & System Implementation)
P. D. Gihan Ravinatha – Chief Financial
Officer
Manori P. Mallikarachchi – Legal
Consultant/Company Secretary

Auditors

KPMG
Chartered Accountants
32A, Sir Mohamed Macan Markar
Mawatha, Colombo 3, Sri Lanka.

Accounting Year End

31st December

Registrars

P & W Corporate Secretarial (Pvt) Ltd,
No.3/17,
Kynsey Road,
Colombo 8.

Subsidiary Companies

Dockyard General Engineering
Services (Pvt) Ltd.
223, Jayantha Mallimarachchi Mawatha,
Colombo 14, Sri Lanka. www.dges.lk

Ceylon Shipping Agency (Pte) Ltd
No. 35, Selegie Road # 09-16,
Parklane Shopping Mall
Singapore – 188307.

Bankers

Bank of Ceylon
People's Bank
Commercial Bank of Ceylon PLC
State Bank of India
Sampath Bank PLC
National Development Bank PLC
The Hongkong & Shanghai Banking
Corporation Limited
Hatton National Bank PLC

Contact Details

P O Box 906 Port of Colombo
Colombo 15 Sri Lanka
Tel : 94 112429000,
Fax : 94 11 2446441,
94 11 2471335
Email : coldock@cdl.lk
Internet : www.cdl.lk



www.cdl.lk



COLOMBO DOCKYARD PLC
"...an Odyssey of Excellence"