Annual Report | 2018

Lakdiva Engineering Company (Pvt) Ltd

VISION

Contribute towards facilitating a better and
attractive service to the passengers.

MISSION

To repair the damaged buses belonged to the Sri Lanak Transport Board
as well as to the individual operators under concessionary basis
yet in high standard enabling to add them to the passenger service.

Corporate Information

Name of the Company	: Lakdiva Engineering Company (Pvt) Ltd.
Legal Status	: Incorporated under the Companies Act.
Date of Incorporation	: 01 October 2001
Registration No. of the Copmany	: PV21948
Head / Registered Office	: No. 73, Minuwangoda Road, Ekala, Ja-ela.

Board of Directors:

Mr. B.R.L. Gunawardene	- Chairman
M r. K.S.M. de Silva	- Director
Mr. Sarath Epa	- Director
Mr. A.M.R.J.K. Jayasinghe	- Director
Mr. G. Ajith Priyantha	- Director
Mr. Hemantha Rajapaksha	- Secretary of the Company

Staff:

Mr. K.S. Anura Kumara	- Engineer
Mr. Gayan Chandrasiri	- Accountant
Mr. J. Amaradivakara	- Administrative officer
Mr. Manjula Sampath	- Accounts Officer
Mr. L. Wijerathne	- Supplying Officer
Mr. Sajith Ravindra	- Chairman / Secretary

Contents

Introduction

Honourable Leslie Simon Gunawardena, former Minister of Transport has taken initiative to start this institution by vesting this productive land, which was precisely in the recognizable name of the Automobile Private (Lanka) Ltd, in progressively extend of 24 dedicated acres, for the effective use of the Ceylon Transport Board by powers vested in him under subsection (I) of section 25 of the Motor Transport Act No: 48 of 1957 by publishing a direct order in the Government Gazette No: 14933 of 1970.11.20.

Honourable Srimavo Bandaranayke, then Prime Minister of the United Front Government, started Ekala Central Workshop on 15.02.1974.

With the inception, this Institution is primarily reparing new bus bodies as well as old buse bodies. This workshop consisted precisely of two divisions. One workshop was operated as the Central workshop and organized Central workshop at Ekala belonged to the Sri Lanka Transport Board.

Both the organized workshops were amalgamated on 14.06.1993 to properly form Ekala Engineering works as a private company under the nationalization programme and was privatized.

Subsequently, this private company properly implemented a specific project for the 400 Great wall buses imported from China. Accordingly, since 2001, it was managed as the Lakdiva Engineering Company Private Ltd. as a Government affiliated company administered under the Ministry of Transport. This Institution builds bus bodies required by the country with the objective of achieving the economic development by engaging skilled youths.

In a progressive journey towards integrated reporting, Lakdiva Engineering (Pvt) Ltd. carefully presents its Annual Report for the successful year inevitably ended 31 December 2019. Adequate investigation of contingent financial and managerial and non-financial use is within the scope of operations. The valuable information mentioned is the general facts which effectively maintain the annual reporting cycle of Lakdiva Engineering (Pvt) Ltd. for the specified period from 01 January 2019 to 31 December 2019. The practical purpose of this report is to provide concise and direct communication to our responsible stakeholders regarding the company's strategic direction and successful performance. The financial information has been prepared and presented under the Sri Lanka Financial Reporting Standards in accordance with the Companies Act No. 07 of 2007.

The Board and senior management took the lead in the preparation of this report. This consolidated annual report has focused on all the material issues and presented only an objective view of the consolidated performance of the company and its effects.

Corporate Governance

The Board of Directors of Lakdiva Engineering (Pvt) Limited carefully maintains the best standards of corporate governance with utmost commitment and responsibility. Lakdiva Engineering (Pvt) Ltd. has developed its corporate governance policies and modern practice responsibly to ensure to its key stakeholders that the company pays due attention to its ethical responsibilities and creates unique long-term shareholder value.

The company promptly recognizes the significant interests of all its key stakeholders, including shareholders, loyal employees, long-term customers, key suppliers, loyal customers and the governance of other communities in which it effectively operates. Apart from this, mainly, the specific requirements of the Companies Act are equally considered in the corporate governance system. This statement sets out the responsible corporate governance policies, practices and processes to be followed by the Board. The Board traditionally consists of five responsible directors, one of whom is effectively an Executive Director and generally four are non-executive directors who have directly been elected.

During this successful year, the Board had met on at least four verifiable occasions. Prior to each meeting, directors responsible are provided with all the management information and background material relevant to the specific agenda to activate informed decisions and outstanding key board papers are formally presented in relation to the successful performance of the company, recent investments, capital projects and other key issues that reasonably require the specific board approval. The Chairman is responsible for the practical issues positively related to the policy on productivity and for maintaining regular interactions with the other directors of the Company, major shareholders and external stakeholders. He is also responsible for overall commercial, operational and strategic development.

Chairman's Review

It is my privilege to issue a direct message of heartfelt congratulations and a key note at the time of launching the Annual Report for the successful year of 2018. My sole general expectation is to gradually increase the economic productivity and the required income of the institution by carefully bringing in the fruitful cooperation of the Honourable Minister. I have a particular feeling that the problems faced by the employees in general can be solved as soon as possible and encouragement can be obtained by a moderate increase in economic output. The mandate of the Sri Lanka Transport Board is on the top of the opinion. Minor repairs and other mandatory services of the motor vehicles of the Ministries are done by our private company and my strong vision is to easily convert Lakdiva in to a Company operates as a going concern. Honourable Nimal Siripala de Silva, Minister of Transport, Honourable Ashok Abeysinghe, Deputy Minister, and the reelvant officers of the Ministry of Civil Aviation have given me advice and guidance and I wholeheartedly commend the Executive Board of Directors and the experienced management team for their commitment and unwavering loyalty to the established company.

The steadfast flexibility of our valued employees has again proven their long-term commitment towards the established company. I would like to humbly thank our valued buyers, official suppliers and business partners for their invaluable support and mutual loyalty. I hope to meet other Heads of Ministries immediately to obtain it further.

Mr. B.R.L. Gunawardene,

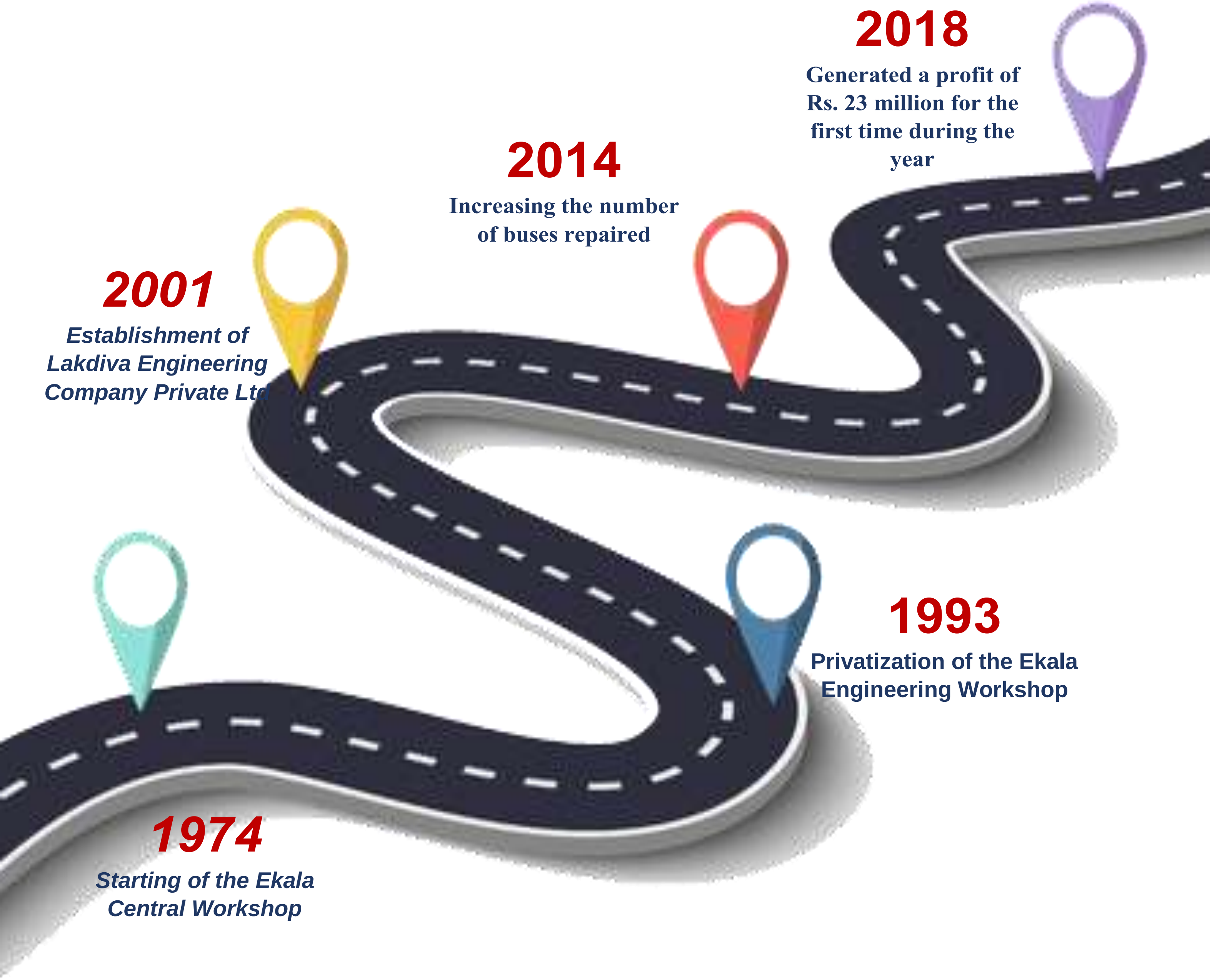
Chairman,

Lakdiwa Engineering (Pvt) Ltd.,
Ekala, ja-ela.

Objectives

- To Serve SLTB buses for general public at a lower cost and highest quality.
- Produce a skilled workforce for the economic development.
- To carry on the business of the vehicle testing, training in driving motor mechanism, and other related areas. Provide services as management consultants, joint venture agents and representatives.
- To buy sell. assemble, let on hire. repair, alter and deal in machinery, component parts, accessories and fittings of all kinds for motors other things and all articles and things or capable of being used in connection with the manufacture, maintenance and working thereof.
- To carry on the business of garage proprietors, taxi cab. Omnibus, motor car, lorry, motor cycle or other public or private conveyance proprietors, job masters, motor car, lorry, motor cycle or other vehicle manufactures and repairs, garage builders, dealers in motor accessories of all kinds, motor and mechanical engineers, dealers in oil and petroleum products of all kinds of carriers and hirers of vehicles of all description.
- To manufacture, assemble, import, buy, sell, export, exchange, alter or improve and deal in vehicles of any kind so constructed as to progress by means of automatic power, whether by means of means of oil, electricity, steam, gas or otherwise.
- To manufacture, assemble, buy, sell, exchange, alter, improve, manipulate, prepare for market and otherwise deal in all kinds of plant, machinery, apparatus, tools, utensils, substances, materials and thing necessary's business or proceedings or usually dealt in by persons engaged in the like.
- To maintain and operate a passenger transport business and to provide a business of haulage in any part of the country.

Milestones

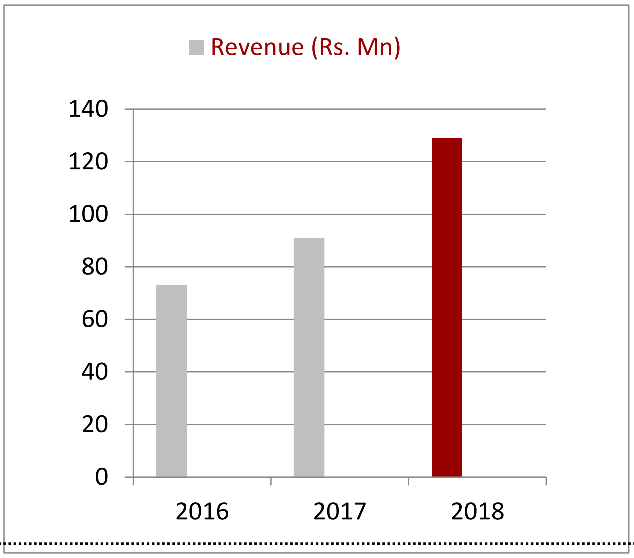


1974
Starting of the Ekala Central Workshop
1993
Privatization of the Ekala Engineering Workshop
2001
Establishment of Lakdiva Engineering Company Private Ltd
2014
Increasing the number of buses repaired
2018
Generated a profit of Rs. 23 million for the first time during the year

Financial Highlights

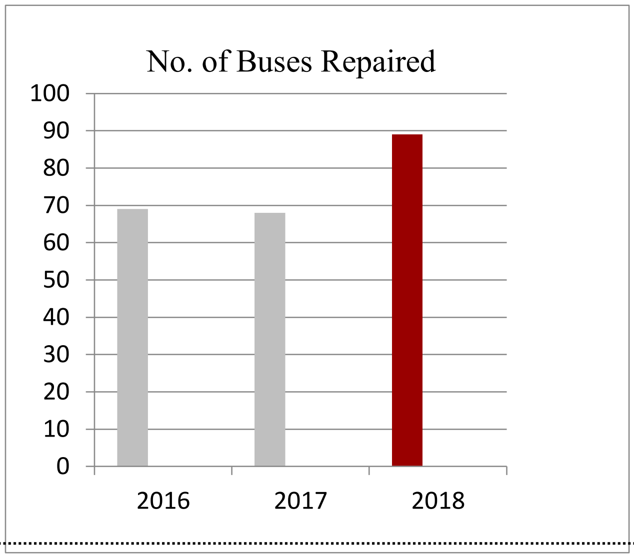
Revenue (Rs. Million)

Year	2016	2017	2018
Income earned from repairs	73	91	129



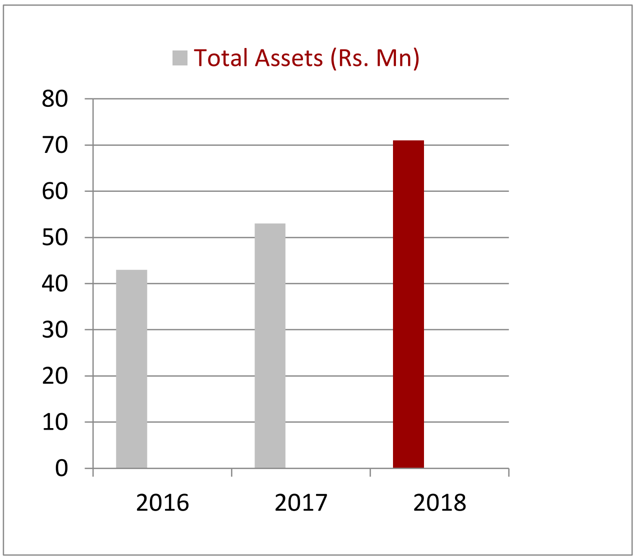
No. of Buses Repaired

Year	2016	2017	2018
Buses Repaired (qty)	69	68	89



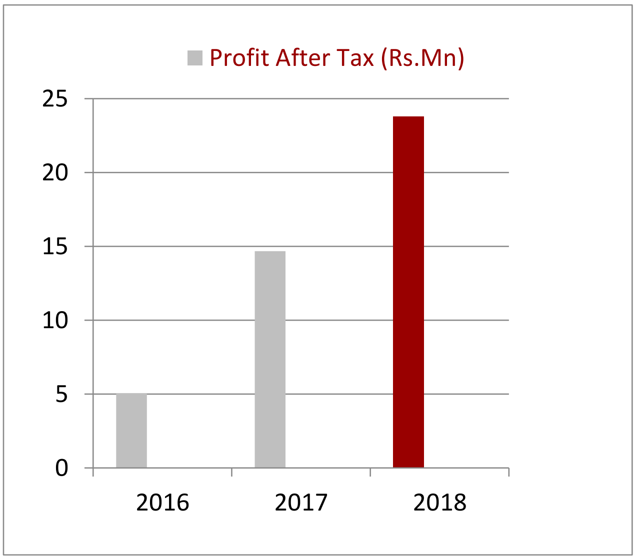
Total Assets (Rs. Million)

Year	2016	2017	2018
Total assets	43	53	71



Profit After Tax (Rs. Million)

Year	2016	2017	2018
Profit After Tax	5.08	14.68	23.79



Activities and Responsibilities

➲ Financial Reporting

The Committee systematically reviewed and quantitatively discussed the financial reporting system adopted by the Company in preparing the annual financial statements with the management and external auditors to ensure the reliability of the process and the consistency of the accounting policies adopted and the compliance with the Sri Lanka Accounting Standards and the provisions of the Companies Act No. 7 of 2007.

➲ Risks and Controls

The Committee duly identified and systematically reviewed key business risks and mitigation measures taken or considered for each business segment. In particular, the committee discussed the financial impact on the company arising from labour issues, wage hikes etc. and appraised the Board as appropriate.

➲ Internal Audit

The internal audit was conducted by the Internal Auditor of the Ministry of Transport and Civil Aviation. The committee carefully reviewed the specific findings of the audit, their urgent recommendations, responses of the Management and regular follow-up on progress. Implementation of such key recommendations is used to improve the overall control environment.

➲ External Audit

The Audit Committee duly met with the external auditors to thoroughly discuss the ambitious scope and audit strategy and specific risk factors positively impacted by the company's smooth operation.

➲ Conclusion

The Audit Committee is sufficiently satisfied with respect to the Company. Reasonable assurance was provided to the accounting policies, operational controls and risk management process. The company's economic affairs were efficiently managed in accordance with government policies and the company's capital assets were properly accounted and adequately safeguarded.

Signed by
Mr. K. S. M. de Silva,
Chairman,
Audit Committee
31-12-2018

Annual Accounts 2018

Statement of Financial Position

As at 31 December 2018

	Notes	31.12.2018 Rs.	31.12.2017 Rs.
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	4.4	15,674,205	13,727,938
Intangible assets	4.5	365,067	234,000
		16,039,272	13,961,938
Current Assets			
Inventories	5	38,470,575	17,565,649
Trade and Other Receivables	6	1,908,974	15,182,219
Deposits and Advances	7	829,775	735,776
Fixed Deposit		5,641,432	2,000,000
Cash and Cash Equivalents	8	8,864,517	4,010,490
		55,715,272	39,494,135
Total Assets		**71,754,545**	**53,456,073**
EQUITY AND LIABILITIES			
Equity			
Stated Capital		20	20
Capital Reserves		33,293,621	33,293,621
Accumulated Reserve		22,873,493	(904,899)
Grants		-	-
		56,167,134	32,388,742
Non-Current Liability			
Retirement Benefit Obligation - Gratuity	9	11,063,586	16,092,226
Current Liabilities			
Trade and Other Payables	10	4,523,825	4,975,106
Bank Overdraft		-	-
		4,523,825	4,975,106
Total Equity and Liabilities		**71,754,545**	**53,456,073**

The Accounting Policies and Notes on pages 7 to 16 form an integral part of these Financial Statements.
These Financial Statements are prepared 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 this Financial Statements, Approved and signed for and on behalf of the Board.

CHAIRMAN
GOVERNMENT OWNED
LAKDIVA ENGINEERING CO (PVT) LTD
EKALA, JA-ELA.

Director
LAKDIWA ENGINEERING COMPANY (PVT) LTD
No 73, Minuwangoda Rd
Ekala, Jaela

Accountant
Government owned
LAKDIVA ENGINEERING COMPANY (PVT) LTD

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2018

	Notes	2018 Rs.	2017 Rs.
Revenue	11	128,741,397	90,728,459
Cost of Sales	12	(77,960,948)	(76,346,578)
Gross Profit		50,780,449	14,381,881
Other Income	13	4,931,809	29,023,535
		55,712,257	43,405,417
Administrative Expenses	14	(30,593,018)	(27,960,620)
Distribution Costs	15	(1,261,745)	(692,056)
Finance Costs	16	(79,102)	(75,180)
Profit before taxation		**23,778,392**	**14,677,560**
Income Tax Expense	17	-	-
Profit after taxation		**23,778,392**	**14,677,560**
Other comprehensive income		-	-
Total comprehensive income for the period		**23,778,392**	**14,677,560**

The notes form an integral part of these financial statements.
Figures in brackets indicate deductions.

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2018

	Stated Capital	Capital Reserve	Stated Capital	Capital Reserve
	Rs.	Rs.	Rs.	Rs.
Balance as at 31st December 2016	20	33,293,621	(15,582,459)	17,711,182
Profit for the year	-	-	14,677,560	14,677,560
Balance as at 31st December 2017	20	33,293,621	(904,899)	32,388,742
Profit for the year			23,778,392	23,778,392
2016 – Write off – Balance payable			14,187,676	
2016 – Write off – Balance payable Adjustment			(14,187,676)	
2016 – Write off – Balance Receivable			(1,957,647)	
2016 – Write off – Balance Receivable Adjustment			1,957,647	
Balance as at 31st December 2018	**20**	**33,293,621**	**22,873,493**	**56,167,134**

STATEMENT OF CASH FLOWS

For the Year Ended 31st December 2018

The accounting policies and notes on pages 7 to 16 form an integral part of these financial statements.ඕ

	2018 Rs.	2017 Rs.
Cash flows from operating activities		
Profit/(loss) before tax	23,778,392	15,002,756
Adjustments for:		
Depreciation of property, plant and equipment	839,472	648,249
Amortization	27,433	26,000
Gratuity	1,472,562	1,358,130
Interest income	(360,973)	(423,238)
Operating profit/(loss) before working capital changes	25,756,886	16,611,897
Working capital adjustments:		
(Increase)/Decrease in inventories	(20,904,926)	(793,625)
(Increase)/decrease in Trade and other receivables	13,273,245	(4,432,754)
Decrease/(increase) in deposits and advances	(93,999)	(7,700)
Increase/(decrease) in trade and other payables	(451,281)	24,314
	(8,176,960)	(5,209,765)
Cash generated from operations	17,579,926	11,400,529
Gratuity paid	(6,501,201)	(3,957,534)
Net cash generated from/(used in) operating activities	11,078,725	7,442,995
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,944,239)	(1,200,752)
Investment in fixed deposits	(3,641,432)	885,199
Interest received	360,973	423,238
Net cash used in investing activities	(6,224,697)	107,685
Net increase/(decrease) in cash and cash equivalents	4,854,028	7,550,679
Cash and cash equivalents at the beginning of the year	4,010,489	(3,540,189)
Cash and cash equivalents at the end of the year	**8,864,517**	**4,010,490**
Analysis of cash and cash equivalents at the end of the year		
Cash in hand	8,864,517	4,010,490
Bank overdraft	-	-
	8,864,517	**4,010,490**

Accounting Policies and Explanatory Notes to the Financial Statement

For the year ended 31 December 2018

1. GENERAL INFORMATION

1.1 Domicile and Legal Form

Lakdiva Engineering Company (Private) Limited is a limited liability company, incorporated and domiciled in Sri Lanka. The registered office of the Company is situated at No. 73, Minuwangoda Road, Ekala, Ja-Ela and the principal place of business is situated at the same place. The Company was incorporated on 15th August 2011.

1.2 Principal Activity and Nature of Operations

The Company is carrying out business of repairing bus bodies of Sri Lanka Transport Board.

1.3 Number of Employees

Total number of employees of the Company as at 31 December 2018 was 105. (It had been 103 as at 31 December 2017)

1.4 Authorization for the issue of the Financial Statements and the Revision after the Issue

These financial statements were authorized for the issue by the Board of Directors in September 2019. According to the LKAS-08, the Board of Directors has the power to revise the financial statements after issue; the entity shall disclose the fact.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes relevant to the financial statements of the Company have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs) issued by the Institute of Chartered Accountants of Sri Lanka and in compliance with requirements of the Companies Act, No.7 of 2007.

2.2 Basis of Measurement

The financial statements of the Company are prepared under the historical cost convention other than the following items in the Financial Statements. Inventories are usually carried at the lower of cost and net realizable value.

Adjustments for Financial instruments (including those carried at amortized cost) have not been made for inflationary factors affecting the financial statements.

2.3 Comparative Figures

The previous year figures and phrases have been reclassified whenever necessary to conform to current year presentation.

2.4 Functional and Presentation Currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency) and rounded to the nearest rupee value.

These financial statements are presented in Sri Lankan Rupees (LKR), which is the Company's functional and presentation currency.

2.5 Use of Estimates and Judgments

The preparation of financial statements in conformity with the SLFRS requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

2.6 Materiality and Aggregation

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

3. Summary of Significant Accounting Policies

The financial statements of the Company are prepared in accordance with the SLFRSs issued by the Institute of Chartered Accountants of Sri Lanka. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Foreign Currency Transactions/ Conversions

Transactions in foreign currencies are translated to Sri Lankan Rupees at the foreign exchange rate rulings at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies as at the date of statement of financial position are translated to Sri Lankan Rupees at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the profit or loss. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to Sri Lankan Rupees at the foreign exchange rate ruling at the date of the transaction.

4. Property, Plant and Equipment

The company applies the requirements of LKAS 16 on 'Property Plant and Equipment' in accounting for its owned assets which are held for and use in for administration purpose and are expected to be used for more than one year.

4.1.1 Basis of Recognition

Property, Plant and Equipment is recognized if it is probable that future economic benefit associated with the assets will flow to the company and cost of the asset can be reliably

4.1.2 Measurement

Items of Property, Plant & Equipment are measured at cost (or at fair value) less accumulated depreciation and accumulated impairment losses, if any.

4.1.3 Owned Assets

The cost of Property, Plant & Equipment includes expenditures that are directly attributable to the acquisition of the asset. Such costs include the cost of replacing part of the property, plant and equipment and borrowing costs for long terms construction projects if the recognition criteria are met. The cost of self-constructed assets includes the cost of materials and direct labor, any other cost directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to them functionality of the related equipment is capitalized as a part of that equipment. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets (major components) with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipments a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the Statement of Profit or Loss as incurred. The present value of the expected cost for the decommissioning of the asset after its uses included in the cost of the respective asset if the recognition criteria for a provision are met.

Note-Land & Building is not an Owned property of the company (Central Transport Board have legal Ownership)

Depreciation and Amortization

Depreciation

Depreciation is recognized in the Statement of Profit or Loss on a straight-line basis over the estimated useful economic lives of each part of an item of Property, Plant & Equipment.

Category	No. of Years	Ratio %
Buildings	20	5
Motor Vehicles	5	20
Furniture and Equipment	10	10
Computers and Accessories	3	33.33
Plant and Machinery	10	10

➲ **Amortization**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

4.2 Changes in Accounting Policies and Disclosures

New and Revised Standards and Interpretations

The Company applied SLFRS 15 and SLFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below;

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

SLFRS 15– Revenue from Contracts with Customers

SLRS 15 supersedes LKAS 11 Construction Contracts, LKAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. SLFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be reorganized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

SLFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company adopted SLFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The standard has only been applied to contracts that were not completed by 01 January 2018.The cumulative effect of initially applying SLFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under LKAS 11, LKAS 18 and related
Interpretations. However, the adoption of SLFRS 15 does not have significant effect on the Company's Financial Statements.

SLFRS 9 – Financial Instruments

SLFRS 9 Financial Instruments replaces LKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company applied SLFRS 9 prospectively, with an initial application date of 1 January 2018. The Company has not restated the comparative information, which continues to be reported under LKAS 39. Differences arising from the adoption of SLFRS 9 have been recognized directly in retained earnings and other components of equity.

As at 01 January 2018

	Notes	LKAS 39		SLFRS 9	
		Original classification	**Amount (Rs.)**	**Amount (Rs.)**	**New classification**
Financial Assets					
Trade and Other Receivables	9	Loans and Receivables	1,908,974	1,908,974	Amortized Cost
Cash and Cash Equivalents	12	Loans and Receivables	8,864,517	8,864,517	Amortized Cost
Financial Liabilities					
Bank Overdraft	12	Loans and Receivables		-	Amortized Cost

The nature of these adjustments is described below:

(a) Classification and Measurement

Under SLFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortized cost, or fair value through OCI. The classification is based on two criteria: the Company's business model for managing the assets; and whether instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount the outstanding.

The assessment of the Company's business model was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

(b) Impairment

The adoption of SLFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing LKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. SLFRS 9 requires the Company to recognize an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Notes to the Financial Statements

4.4 Property, Plant and Equipment

	Plant and Equipment Rs.	Computer And Equipments Rs	Motor Vehicles Rs.	Furniture & Office Equipment Rs.	Total Rs.
Balance carried forward					8,290,423
Balance as at 1st January 2018	**3,892,222**	388,360	188,272	1,616,910	6,085,764
Additions during the period	2,034,130	66,300	110,000	575,309	2,785,739
Balance as at 31st December 2018	**5,926,352**	454,660	298,272	2,192,219	17,161,926
Accumulated depreciation					
Balance as at 1st January 2018	370,668	100,934	24,846	151,801	648,249
Additions during the period	483,217	130,613	58,570	167,071	839,472
Balance as at 31st December 2018	853,885	231,547	83,416	318,872	1,487,721
Balance as at 1st January 2018	3,521,554	287,426	163,426	1,465,109	13,727,938
Balance as at 31st December 2018	5,072,467	223,113	214,856	1,873,347	15,674,205

4.5 Intangible Assets

Costs	**Computer software**
Balance as at 01 January 2018	260,000
Additions during the period	158,500
Balance as at 31December 2018	418,500

Amortization	
Accumulated Amortization	26,000-
Additions during the period	27,433
Charge for the period	53,433
Balance as at 01 January 2018	234,000
Balance as at 31 December 2018	365,067

	Notes	31.12.2018 Rs.	31.12.2017 Rs.
5. INVENTORIES			
Work in progress		34,731,125	12,368,791
Spare parts		3,739,450	5,196,859
		38,470,575	17,565,649
6. TRADE AND OTHER RECEIVABLES			
Trade receivable		1,645,642	13,610,450
Interest – Fixed Deposits		-	1,308,437
Gratuity Receivable -CTB		263,332	263,332
		1,908,974	15,182,219
7.DEPOSITS AND ADVANCES			
Advances	7.1	829,775	735,776
		829,775	735,776
7.1 Advances			
Festival advances		829,775	735,776
Advances for arrears of wages (Staff that perform duties)		-	-
	7	829,775	735,776
8. CASH AND CASH EQUIVALENTS			
B.O.C		8,742,758	3,960,236
Petty cash		50,000	50,254
Fine fund balance		71,759	
		8,864,517	4,010,490
Stated Capital			
Issued and fully paid 2 Ordinary Shares		20	20
9. Retirement Benefit Obligations - Gratuity			
Retirement Benefit Obligation Balance as on January 01		16,092,226	18,109,704
Expenditure	**(Note 9.1)**	1,472,562	1,676,724
Payments made during the year under review		(6,501,201)	(3,694,202)
Balance as at 31 December		11,063,586	16,092,226

9.1 Expenses Recognized in the Statement of Comprehensive Income

Interest expense	1,565,966	1,553,309
Charges for the year	697,147	720,585
(Profit) / Loss arising from changes in assumptions	(790,551)	(597,170)
	1,472,562	1,676,723

The Company has developed these assumptions based on management's best estimates of the variables used to measure the pension benefit obligation. The discount rate is determined based on the market rates of long-term government bonds. The main assumptions used are as follows;

Discount Rate [%]	11.00	11.00
Avg of Future Salary Increase- Salary [%]	1.00	1.00
Staff turnover factor [%]	5.00	5.00
Retirement Age [Years]	60.00	60.00

Notes to the Financial Statements

	Notes	31.12.2018 Rs.	31.12.2017 Rs.
10. TRADE AND OTHER PAYABLES			
Trade Creditors		-	1,278,591
Accrued expenses and others	10.1	4,523,825	3,696,514
		4,523,825	4,975,106

10.1 Accrued Expenses and Others

Salaries and wages		1,085,749	1,277,410
Incentive		79,038	312,415
Contract wages		456,635	190,938
Chairman's and directors' - vehicle allowance		50,000	50,000
Chairman's and directors' – Telephone allowance		-	4,250
Chairman's and directors' - fuel allowance		21,250	16,150
Staff welfare society - Ekala		10,200	8,900
Staff welfare society - Sri Lanka Transport Board		1,400	1,400
Staff welfare society - Lakdiva		10,250	9,000
Fine Fund		-	61,171
Associations		5,395	22,315
Employees' Loans (Bank Loans)		444,215	560,570
Audit fees		292,024	24,243
Telephone		12,804	14,727
Electricity		145,664	91,884
Security		305,550	254,175
Stamp duty		1,515	2,350
Contractor Deposits		848,750	
Arrears in Employees' Provident Fund		631,607	676,249
Arrears in Employees' Trust Fund		85,868	91,956
Canteen deposits		17,500	-
Head Office of Sri Lanka Transport Board		18,411	21,411
	10	4,523,825	3,691,514

	Notes	2018 Rs.	2017 Rs.

11. REVENUE

Revenue from Repairs		128,741,397	90,728,459
		128,741,397	90,728,459

12. COST OF SALES

Work-in -Progress at the beginning of the year		12,368,791	5,336,112
Production Cost	12.1	100,323,282	83,377,235
Work-in-Progress at the end of the year		(34,731,125)	(12,368,791)
		77,960,948	76,344,556

12.1 Cost of production

Direct materials		41,175,066	34,134,012
Direct labour	12.1.1	30,945,104	31,288,992
Employees' Provident Fund		2,710,921	2,919,784
Employees' Trust Fund		677,731	729,946
Bus repairing and painting (outsource)		21,154,183	10,842,902
Incentives		3,177,060	3,092,952
Depreciation-Plant & Equipment		483,217	368,646
		100,323,282	83,377,235

12.1.1 Direct Labour

Salaries and wages		20,137,394	21,933,209
Salary arrears		316,509	15,149
Cost of living allowance		5,255,952	5,709,600
Overtime		409,739	578,988
Contractual wages		4,825,510	3,052,046
		30,945,104	31,288,992

13. OTHER INCOME

Grant received from Treasury		4,000,000	24,250,000
Passenger transport		309,070	745,533
Interest		360,973	423,238
Tender fees		7,100	3,000
Sundry		19,260	96,985
Scrap Sale		2,295	3,471,779
Supplier Registration Fees		87,000	33,000
Find Fund Interest		146,111	-
		4,931,809	29,028,535

Notes to the Financial Statements

	Notes	2018 Rs.	2017 Rs.
14. ADMINISTRATIVE EXPENSES			
Salaries and wages	14.1	10,517,974	10,590,522
Directors' Emoluments	14.2	1,617,759	1,435,800
Employees' Provident Fund		1,592,697	1,635,888
Employees' Trust Fund		398,174	408,972
Allowancea		299,268	262,360
Gratuity		1,472,562	1,676,724
Employee welfare		565,624	80,438
Electricity		1,156,962	1,139,244
Telephone		214,883	166,643
Rates & taxes		85,080	85,080
Vehicle Insurance		67,963	88,569
Security		6,269,625	5,478,675
Repair and maintenance		1,573,519	1,735,090
Fuel		1,141,092	1,231,629
Stationery		370,089	251,198
Translation charges		14,000	10,500
Agreement charges		36,000	49,830
Postage		2,571	7,334
Audit Committee charges		144,000	117,000
Audit fees		292,000	-
Secretarial fees		90,000	90,000
Legal fees		46,075	70,306
Fines and Surcharges -ETF		-	4,391
Donation		5,000	2,000
Sanitary		216,322	183,927
Miscelaneous		856,274	411,677
Advertisement & Publicity		133,268	67,678
Bonus		995,500	295,000
Expenses for Annual General Meeting		-	23,065
Company Registration Fees		8,050	57,500
Depreciation		-	-
▪ Computer and Equipment		130,613	100,934
▪ Motor Vehicles		58,570	24,846
▪ Furniture & Office Equipment		167,071	151,801
Amortization		27,433	26,000
		30,593,018	27,960,620

	Notes	2018 Rs.	2017 Rs.

14.1 Salaries and wages

	Notes	2018 Rs.	2017 Rs.
Salaries and wages		7,667,606	7,428,193
Salary arrears		18,950	249,040
Cost of living allowance		2,754,648	2,870,400
Overtime		76,770	42,890
	14	10,517,974	10,590,523

14.2 Directors' Emoluments

	Notes	2018 Rs.	2017 Rs.
Fuel allowance		242,248	193,800
Other Allowances		1,080,000	1,080,000
Telephone Allowance		153,028	51,000
Director Travelling Expenses		120,000	100,000
Medical Charges		-	11,000
Director – Expenses for Refreshment		22,483	-
	14	1,617,759	1,435,800

	2018 Rs.	2017 Rs.
15. DISTRIBUTION COSTS		
Travelling and transport expenses	677,874	72,127
Vehicle rent	583,871	600,000
	1,261,745	672,127
16. FINANCE COSTS		
Interest on bank overdrafts	27,589	34,218
Bank charges	51,513	17,000
	79,102	51,218
18. INCOME TAX EXPENSE		
Tax on ordinary activities	-	-

18. EVENTS AFTER THE END OF THE REPORTING PERIOD

There were no events occurring after the end of the reporting period that required adjustments to or disclosures in the Financial Statements.

19. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no material contingent liabilities or capital commitments as at the date of Statement of Financial Statements.

20. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting date no circumstances have arisen which could require adjustments to, or disclosure in these Financial Statements.

21. FINANCIAL RISK MANAGEMENT

Introduction and overview

Financial risk comprises the potential loss to earnings and / or the capital position arising from Liquidity Risk, Currency Risk and Interest Rate Risk. So, Management is in the position to mitigate the risk by monitoring of liquidity position and assessment of future cash requirements through rolling forecast, keeping long outstanding relationships with correspondent banks and also maintaining diversified funding systems. Company has entered into a fixed term interest rate contracts for short term borrowings and there by interest rate risk can be reduced. Management continuously monitors fluctuations for pro-active actions to mitigate the possible losses.

The company's management monitors regularly and manages the financial risks relating to the operations of the Company by analyzing exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and equity price risk) credit risk and liquidity risk.

21.1 Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and equity prices.

a) Foreign Currency Risk

The Company is exposed to currency risk on purchases that are denominated in a currency other than Sri Lankan Rupees. The foreign currencies in which these transactions primarily denominated are United Stated Dollars (USD). As at 31 December 2018 and as at 31 December 2019, trade payables denominated in foreign currency are zero. Hence, the Company is not exposed to foreign currency risk.

b) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's short-term debt obligation. The Company utilizes various financial instruments to manage exposures to interest rate risks.

At the reporting date, interest-bearing financial instruments are nil and the company is not exposed to interest rate risk.

c) Equity Price Risk

Equity price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

The Company is not exposed to equity risk as they do not have equity investment.

21.2 Credit Risk

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

Exposure to Credit Risk

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

As at 31 December	Notes	2018	2017
Trade and Other Receivables	**6**	**1,908,974**	15,182,219
Balances of Bank and Fixed Deposits		**14,505,948**	6,010,490
		16,414,922	21,192,709

Trade receivables

The company's exposure to credit risk is mainly influenced by the individual characteristics of each customer. Management has established a credit policy whereby each new customer is individually analyzed for creditworthiness prior to the company's standard payment and delivery terms.

An impairment analysis is performed at each reporting date using a provisioning matrix to measure expected credit losses. Provision rates are based on past due dates for grouping different segments of customers with similar loss patterns (ie, geographical area, product type, customer type and rating and covered by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, time value of money and reasonable and supportive information available at the reporting date about past events, current conditions and future economic conditions.

21.3 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

22. Fair Value Measurements

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

'Level 1: Quoted market price (unadjusted) in an active market for an identical instrument

'Level 2: Valuation techniques based on observable inputs.

'Level 3: Valuation techniques using significant unobservable inputs

23. Related Party Transactions

(a) Identity of related parties

The Company carries out transactions in the ordinary course of business with parties who are defined as related parties as per Sri Lanka Accounting Standard - LKAS 24 Related Party Disclosures.

(b) Transactions with key management personnel

Key Management Personnel comprise of Directors of the Company.

(i) Loans to directors

There were no loans given to Directors of the Company during the financial period or as at the period end.

(ii) Key management personnel compensation

No compensation was paid to/on behalf of key management personnel of the Company.

Name of Related Party	Nature of Relationship	Details of Transactions	Balance as at 31.12.2017. Rs.	Transactions during the Year Rs.	Balance as at 31.12.2018 Rs.
Sri Lanka Transport Board	Government Owned	Payments of Bus Body Repairs	13,610,450	128,741,397 (140,706,205)	**1,645,642**
		Gratuities Receivable	263,332	-	**263,332**
National Transport Commission	Government Owned	Payments received for Vehicle Repairs	-	178,350 (178,350)	-
Airport Services (Sri Lanka) Company	Government Owned	Payments received for Vehicle Repairs	-	1,232,555 (1,232,555)	-

Report of the Auditor General

CTPA/LEC/FA/06/2018/02 On 30 January 2020

Chairman
Lakdiva Engineering Company (Pvt) Ltd.

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Lakdiva Engineering Company (Pvt) Ltd. for the year ended 31 March 2018 in terms of Section 12 of the National Audit Act, No. 19 of 2018

----

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Lakdiva Engineering Company (Pvt) Ltd. (Company) for the year ended 31 March 2018 comprising the statement of financial position as at 31 March 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

The financial statements of the Company as at 31 March 2018 and its financial performance and cash flows for the year then ended give a true and fair view in accordance with the Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs).

1.2 Basis for Disclaimer of Opinion

i. The Company had not maintained a fixed asset register. The fixed assets of the Company as at 01 January 2018 amounting to Rs.8,290,423 had not been identified and accounted. Furthermore, the fixed assets amounting to Rs.9,290,003 purchased from the year 2016 had not been classified according to the nature of assets in the main ledger and the total value had been accounted as capital equipment.

ii. The Company had not carried out a physical verification of stocks for the financial year ended 31 December 2018. the audit could not be satisfied about the accuracy of the stock of Rs.38,470,575 prevailed on that date even by adopting alternative methods.

iii. It was observed that the Company had not registered for Income Tax, Nation Building Tax and Value Added Tax.

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

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

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

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

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

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My responsibility is to conduct an audit of the Company's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate to provide a basis for an audit opinion on these financial statements.

2. Report on Other Legal and Regulatory Requirements

Specific provisions are included in the following requirements of the Companies Act No. 07 of 2007and the National Audit Act, No. 19 of 2018.

- I have not obtained all the information and explanation that considered necessary for the purpose of audit and as far as it appears from my examination, I was unable to determine whether proper accounting records have been kept by the Company as per the requirement of section 163 (1) (d) of the Companies Act, No. 7 of 2007 and section 12 (a) of the National Audit Act, No. 19 of 2018.
- The financial statements of the Company have complied with the requirements of Section 151 of the Companies Act No. 07 of 2007, other than the effect of the matters set out in paragraph of Basis for disclaimer of opinion in this report.

- The financial statements presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

- to state that any member of the governing body of the Company has any direct or indirect interest in any contract entered into by the Institution which are out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.

- to state that the Institution has not complied with any applicable written law, general and special directions issued by the governing body of the Institution as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018 excluding the following observations;

Reference to Law/ Direction	**Non-compliance**
--------------------	----------------------
Paragraph 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003	Even though the financial statements and draft annual report for the year under review should be submitted to the Auditor General within 60 days after the end of the Accounting Year, the financial statements

	for the year 2018 had been submitted for audit on 18 November 2019, after a delay of 08 months and 20 days.
National Environment Act No. 47 of 1980 as amended by Act No. 56 of 1988 and No. 53 of 2000	Even though the vehicle servicing organizations should obtain a license in that regard, the Company had not taken any action to obtain the said licenses even by 22 November 2019, the date of audit.
Procurement Guidelines 2006	
Section 3.2	Aluminum sheets worth Rs.9,104,750 had been purchased from a private company during the year under review, and the sheets had been purchased without inviting national competitive bids and without evaluating prices.
Section 3.4.3	Even though applicants should be registered and a list should be prepared containing the names of suppliers who can provide such goods and services for the procurement of low-value items, where advertising is economically disadvantageous, or for the purchase of respective items of frequent use, this had not been done.
Section 4.2	Action had not been taken to prepare a master procurement plan and procurement schedule.

- to state that the Institution has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018.

- to state that the resources of the Institution had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.

a) The Company is operated in an area of 23 acres located in Ja-ela in Ekala, and the Company does not own the property. The Company had not entered into a lease agreement or any other legal agreement with the owner of the property.

b) Amounts of Rs. 77.96 million and Rs. 128.74 million had been indicated as sales cost and income respectively in the financial statements of 2018, and the following matters were observed during the examination of its performance.

i. Even though a formal document should be maintained in the engineering department, after bringing buses by the Company for repairs, it was observed that such a formal document had not been maintained. As a result, the audit could not confirm the time spent for repairing buses in the year 2018, the date of completion of repair, how long the bus was in each section and it was observed that the internal controls related thereto were in a weak level.

ii. Twelve (12) contracting institutions had been registered with the company in the year 2018 for bus repair work and the audit could not confirm the number of members, which decides the experience of those institutions, and the fields they belong to. Moreover, an amount of Rs. 4.82 million had been paid to the contractors in the year 2018 for bus repairs without following any procurement methodology.

iii. Even though a full estimate should be prepared for the repair work of a bus after the bus was brought for repairing, and the variations should be checked during the work and after the completion of the work, the engineering department had not prepared the relevant estimates and checked the variations in the year 2018.

W.P.C. Wickramaratne
Auditor General

My number – LEC/AC/AQU/02/2018

13/02/2020
Superintendent of Audit,
Auditor General's Department,
No. 306/72, Polduwa Road,
Battaramulla.

Regarding the report of the Auditor General bearing No. - CTP/A/LEC/FA/2018/02 dated 30/01/2020 on the Financial Statements of Lakdiva Engineering Company (Private) Limited for the year ended 31 December 2018.

1.2

(i) I will take action to account in the relevant correct methods in the future.

(ii) I will take action not to adopt to alternative methods and to conduct a physical verification of stocks in the future years.

(iii) I will carry out the registration activities according to the proper period in the ensuing years.

2 I will take action to maintain proper financial records.

Reference to Laws/ Direction

- I will make arrangements to submit the financial statements to the Auditor General within the prescribed period.
- I will make arrangements to obtain licenses annually for the vehicle service centre.
- I will purchase goods in the future according to a proper procurement plan.
- I will make arrangements to prepare the relevant lists in the future.
- I will submit the master procurement plan without defects.
- I will work in accordance with the powers, duties and functions of the Company in the future.

(a) I will make arrangements to prepare the relevant agreements properly.

(b) (i) I will prepare and execute the relevant document promptly.

(ii) I will make arrangements to follow the procurement methodologies in repairing buses.

(iii) I will take action to prepare and complete the relevant estimates and variances expeditiously.

Eng. E.A.T. Edirisooriya,

Chairman,

Lakdiwa Engineering (Pvt) Ltd.,
Ekala, ja-ela.