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වරුතාන්ත අර්ථිකක
Annual Report
2016



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MINISTRY OF PLANTATION INDUSTRIES

Content

	Page
1. Introduction	95-96
2. Vision, Mission and Objectives of the Tea Shakthi Fund	97
3. Message from the Secretary	98-99
4. Financial Analysis	100
5. Corporate Information	101
6. Board of Directors, Audit and Management Committee	
Members and Executive Staff	102-103
7. Summary of the Activities of the Institution	104-107
8. Tea Shakthi Projects	108
9. Operational and Financial Review	109-113
10. Income Statement	114
11. Balance Sheet	115
12. Statement of Changes in Equity	116
13. Cash Flow Statement	117
14. Accounting Policies	118-131
15. Notes to the Accounts	132-138
16 Auditor General's Report - 2016	

Introduction

Tea Shakthi Fund was established under the Tea Shakthi Fund Act No. 47 of with the purpose of uplifting the welfare and economic standards of the tea smallholders. A Social Security Scheme, a Farmers' Pension Scheme and a Tractor Project were established for the betterment of the tea smallholders. Later, a Fertilizer Project was also established with the intention of providing high quality fertilizer to the tea smallholders.

A sum of Rs. 437.5 million as the contribution of the government, a sum of Rs.208.9 million as the shares of 94,425 Tea Shakthi members and a sum of Rs. 133 million as subscriptions of the Tea Shakthi members were invested to establish the Tea Shakthi Fund. Later, with this investment, the Tea Shakthi Factory Project, Tea Shakthi Fertilizer Project, and Local Tea Sales Project were initiated.

Although the Tea Shakthi Fund had been maintained at profit since its inception, in terms of the Cabinet Decision No. අංඡ/16/1224/726/015-1 dated 05.07.2016 on the Cabinet Memorandum No. 37/2016 dated 21.06.2016 submitted by the Hon. Minister of Plantation Industries due to the working capital crisis faced by the Tea Shakthi Fund, the functions of the Board of Directors of the Tea Shakthi Fund were suspended and the said authority was assigned to the Secretary to the Ministry of Plantation Industries. As well, in terms of the Cabinet Decision, actions were taken to lease out / assign the management of 12 factories of the Tea Shakthi Fund, Mawarala Estate and the Fertilizer Warehouse at Aramanagolla, Horana to external parties. After restructuring, lease rentals from the factories and management fees are collected by the Tea Shakthi Fund and by the Cabinet Decision No. අංඡ/16/1427/726/015 II dated 17.08.2016 on the Cabinet Memorandum No. 38/2016 dated 21st July 2016, approval has been granted to settle the short-term liabilities in the future and build the Welfare Insurance Fund of Rs.135 million and to credit the balance to the Consolidated Fund.

At present, the functions of the Tea Shakthi Fund are performed by the Ministry of Plantation Industries. A limited number of employees who served in the Tea Shakthi Fund has been attached to the Ministry of Plantation Industries and a separate division has been established for the purpose.

In terms of the Cabinet Decision dated 21st July 2016, the services of a number of employees who served in the Tea Shakthi Fund have been terminated and compensation and gratuity have been paid, for which a sum of Rs.124 million has been allocated by the Ministry of Finance. In this context, the services of 19 employees of the Head office, 67 employees of the factory staff have been terminated and the consensus has been reached by the Lease/Management Agreements to retain the services of 374 workers who worked in the Tea Shakthi factories under the new

Lessee/Management assignee. As well, arrangements were made to release the gratuity for the relevant service period of the factory workers who have completed 05 years of continuous service as at 31.12.2016.

Among the employees of the Head office, five employees to the Rubber Development Department, four officers to the Tea Small Holdings Development Authority, one officer to the Coconut Cultivation Board, five officers to the Ministry of Plantation Industries and seven officers to the Tea Shakthi Fund were attached.

As well, approval has been granted to settle all short-term liabilities such as payment of salaries to the employees of the Tea Shakthi Fund, the loans obtained from brokers through the Tea Shakthi factories, payments for bought leaf, and an amount of Rs.167.87 million has been allocated from the General Treasury for the purpose.

Vision

To be the centre of excellence committed to the advancement of the economic and social well-being of Tea Smallholders

Mission

To manage the Tea Shakthi Fund efficiently and effectively in uplifting the standard of living of its members

Objectives of Tea Shakthi Fund

- Inculcating the savings habit in tea smallholders and uplifting their economic and social status.
- Promoting necessary investments related to the tea industry.
- Acquiring and developing tea factories and providing other required facilities to tea smallholders for manufacturing of their products.
- Improving and developing the marketing of the products of such tea factories.
- Taking such steps as may be necessary for the improvement of well-being of those who are engaged in the production of tea as smallholders.
- Importing, manufacturing and selling of fertilizer required for the plantation industry.
- Maintaining it as a strong self-financing organization.
- Converting into a viable and profitable entity and maintaining a net profit margin of 10%.
- Achieving a sustainable growth of 25%.
- Risk identification and proper management.

Message from the Secretary

Tea Shakthi Fund was established under the Tea Shakthi Fund Act No. 47 of 2000 and in terms of the Cabinet Decision No. අංශ/16/1224/726/015-1 dated 05.07.2016 on the Cabinet Memorandum dated 21.06.2016 submitted by the Hon. Minister of Plantation Industries due to the severe working capital crisis faced in the year 2016, the functions of the Board of Directors of the Tea Shakthi Fund were suspended and the said authority was assigned to the Secretary to the Ministry of Plantation Industries.

After restructuring of the Tea Shakthi Fund, the Ministry of Plantation Industries attends the duties of the Tea Shakthi Fund and a limited number of employees who served in the Tea Shakthi Fund has been attached to the Ministry of Plantation Industries for the purpose.

At the time of bringing the Tea Shakthi Fund under the direct supervision of the Ministry of Plantation Industries, there were short-term liabilities of about Rs.167 million to be paid by the Tea Shakthi Fund, and those liabilities consisted of the arrears of advances payable to green leaf owners for the purchase of green leaf to factories, outstanding amount of electricity bills, the arrears payable to suppliers of the factories, arrears of worker wages, arrears of staff salaries, Employees' Provident Funds, Employees' Trust Funds and arrears of gratuity. Accordingly, in line with the approval granted for the Cabinet Memorandum submitted by the Ministry, arrangements were made to obtain the relevant arrears from the General Treasury and to settle the said liabilities.

As well, in terms of the Cabinet Decision No. අංශ/16/1224/726/015-1 dated 05.07.2016 on the Cabinet Memorandum No. 37/2016 dated 21.06.2016, approval has been granted to lease out / assign the management of 12 factories of the Tea Shakthi Fund, Mawarala Estate and the Fertilizer Warehouse at Aramanagolla, Horana to external parties. Accordingly, arrangements were made to lease out / assign the management of Deniyaya, Gileemale and Deraniyagala Tea Shakthi factories to the external parties in the year 2016 by following the procurement method.

Although the concept of Tea Shakthi Fund is a timely and meaningful programme aimed at bringing the tea smallholders who have rapidly established their identity in the tea sector beyond the formal estate sector to an organizational level by realizing their contribution to the poverty

reduction of the country and the national economy, the desired objectives were not achieved due to its subsequent management deficiencies and therefore, actions were taken to make appropriate management decisions with approval of the Cabinet of Ministers.

B. L. A. J. Dharmakeerthi

Secretary

Ministry of Agriculture and Plantation Industries

Financial Analysis

Summaries of Financial Performance

up to 31st December 2016

	2014	2015	2016
	<u>Rs. Million</u>	<u>Rs. Million</u>	<u>Rs. Million</u>
<u>Income</u>	621.59	573.52	100.63
<u>Selling Cost</u>	(611.32)	(552.52)	(147.06)
<u>Gross Profit</u>	10.27	21.00	(46.42)
<u>Other Income</u>	44.08	43.84	152.34
<u>Sales and Distribution Expenses</u>	(15.51)	(14.93)	00
<u>Establishment and Administration Expenses (200.33)</u>	(188.38)	(178.44)	
<u>Government Grants write off</u>	43.75	119.30	43.75
<u>Net Financial Expenses</u>	(10.08)	(20.07)	(1.75)
<u>Net Profit / Loss</u>	(127.82)	(39.23)	(30.53)
<u>Dividends</u>	No	No	No
<u>Total Assets</u>	758.47	696.79	643.64
<u>Working Capital</u>	63.39	19.11	(1.08)
<u>Current Ratio</u>	1:1.9	1:0.98	1:0:98

The balances for the years 2014, 2015 and 2016 have been presented after making the adjustments in accordance with the Sri Lanka Financial Reporting Standards.

Corporate Information

Name	: Tea Shakthi Fund
Address	: No.553A, Madiwela Road, Thalawathugoda (Up to 15th February2016)
Telephone	: 011-7421121
Fax	: 011-22796537, 011-7421122
Address	: Tea Small Holdings Development Authority, No.70, Parliament Road, Pelawatta, Battaramulla (Up to September 2016)
Telephone	: 011-7909020
Fax	: 011-2784925
Address	: Ministry of Plantation Industries, Tea Shakthi Fund, 10 th Floor, Sethsiripaya 2 nd Stage, Battaramulla
Telephone	: 011-2186207
Fax	: 011-2186202
E-mail	: tsf@teashakthi.gov.lk
Act of Incorporation	: Tea Shakthi Fund Act No. 47 of 2000
Year of Incorporation	: 2000
Nature of the Business	<ul style="list-style-type: none">* Purchasing of green leaf from tea smallholders on a bought leaf basis and manufacturing in terms of Tea Commissioner's Regulations and sale of tea through legally authorized channels.* Mixing of fertilizer material as per a recommended formula and selling of the fertilizer to tea growers especially to tea smallholders.* Distribution of tea blends for consumers in the local market.
Auditors	: Auditor General's Department
Banker	: Bank of Ceylon

Board of Directors, Audit and Management Committee Members and Executive Staff

Board of Directors

01. Mr. Wijeratne Dewagedara	- Director/ Chairman, Tea Small Holdings Development Authority
02. Mr. Daya Aviruppola	- Chief Executive Officer (Up to 02 nd February 2016)
03. Mr. Nevil Ratnayake	- Chief Executive Officer (After 02 nd February 2016)
04. Mr. D.P. Wimalasena	- Chief Accountant/Director, Treasury
05. Mr. S.R.S. De Silva	- General Manager, Tea Small Holdings Development Authority
06. Mr. A.W.H.I.C. Weerakoon	- Additional Secretary, Ministry of Plantation Industries
07. Mr. M.B. Cyril	- Director/ General Manager, Tea Small Holdings Development Authority
08. Mr. Nevil Ratnayake	- Director/Chairman, All Island Federation of Tea Smallholder Development Societies/Chief Executive Officer, Tea Shakthi Fund
09. Mr. J.M.B.J. Bandara	- Director/Chairman, Ratnapura Tea Smallholder Development Regional Organization
10. Mr. W.R.S. Karunaratna	- Director/Chairman, Nuwara Eliya Tea Smallholder Development Regional Organization
11. Mr. R.M. Gunasekara	- Director/Chairman, Badulla Tea Smallholder Development Regional Organization
12. Mr. B.G. Abeysinghe	- Director/Chairman, Kandy Tea Smallholder Development Regional Organization
13. Mr. P.H. Susantha De Silva	- Director/Chairman, Galle Tea Smallholder Development Regional Organization
14. Mr. K.L. Gunaratna	- Director/Chairman, Kalutara Tea Smallholder Development Regional Organization.
15. Mr. P.R.A. Rathnayake	- Director/Chairman, Kegalle Tea Smallholder Development Regional Organization

The Board of Directors was functioning till 07.07.2016. In terms of the Cabinet Decision No. 90/16/1224/726/015-1 dated 05.07.2016 on the Cabinet Memorandum No. 37/2016 dated 21.06.2016 submitted by the Hon. Minister of Plantation Industries, the Board of Directors was dissolved and the said authority was assigned to the Secretary to the Ministry of Plantation Industries.

Audit and Management Committee

13. Mr. M. S. H. Mohotti	- Chairman, Audit and Management Committee
14. Mr. R. U. P. R. Siriwardhana	- Convener, Audit and Management Committee
15. Mr. A. M. P. M. B. Atapattu	- Member, Audit and Management Committee
16. Mr. Nevil Ratnayake	- Member, Audit and Management Committee
17. Mr. J. M. B. J. Bandara	- Member, Audit and Management Committee
18. Mr. E.A. P. Ananda	- Member, Audit and Management Committee

Executive Officers

19. Mr. Daya Aviruppola	- Chief Executive Officer Up to February 2016
20. Mr. Nevil Ratnayake	- Chief Executive Officer (From February 2016 to 31 st December 2016)
21. Mr. P. G. R. Tissa	- Chief Accountant
22. Mr. M. S. H. Mohotti	- Internal Auditor
23. Mr. R. U. P. R. Siriwardhana	- Manager (Human Resources & Administration)
24. Mr. Nihal Weerasekara	- Manager (Fertilizer and Local Tea Sales)
25. Mr. W. A. A. S. Jayasundara	- Accountant
26. Mr. Chamila Jayawickrama	- Internal Audit Officer
27. Mr. A. H. C. K. Karunaratne	- Computer System Administrator
28. Mr. M. A. Indikaratne	- Welfare Officer

Summary of the Activities of the Institution

A decision was made to restructure the Fund due to the financial crisis faced by the Tea Shakthi Fund. Accordingly, the Tea Shakthi Fund was restructured in terms of the Cabinet Decision No. 404/16/1224/726/015-1 dated 05.07.2016 on the Cabinet Memorandum No. 37/2016 dated 21st June 2016.

Basic Activities

The following projects were implemented under the Tea Shakthi Fund, and the performance of the projects is detailed on pages 16, 17, 18 and 19 respectively.

01. Factory Project
02. Fertilizer Project
03. Local Tea Sales Project
04. Tea Shakthi Social and Welfare Security Scheme

Operating Income

During the year under review, the Factory Project, the Local Tea Sales Project and the Fertilizer Project have become loss incurring. This is shown in the final accounts report and the projects mentioned as 1, 2 and 3 above will not be implemented after July 2016.

Profits and Appropriations

Details of turnover and operating profits for the years 2015 and 2016 are given below.

	2016 (Rs.)	2015 (Rs.)
Income earned from brokers' sales	95,469,667	525,348,607.00
Local tea sales	2,870,003	28,146,840.00
Sales of fertilizer	573,000	14,872,520.00
Income from raw material	-	2,357.00
Income from refuse tea	1,727,187	5,426,424.00
Sales discount	-	(277,485.00)
Total Income	100,639,857.00	573,519,262.00
Selling Cost	(147,060,681.00)	(552,517,570.00)
Gross Profit	(46,420,824.00)	21,001,692.00
Other Income	152,340,999.00	43,844,841.00
Administrative Expenses	(178,445,015.00)	(188,377,711.00)
Selling and Distribution Expenses	-	(14,928,507.00)
Total operating Profit	(72,524,840.00)	(138,459,686.00)
Financial Cost	(1,755,101.00)	(20,073,109.00)
Write-off government grants	43,750,503	119,300,503
Operating Profit before Tax	(30,529,438.00)	(39,232,291.00)
Income Tax	-	-
Net Profit / Loss	(30,529,438.00)	(39,232,291.00)

Dividends and Reserves

No dividends had been paid as there was no profit for payment of dividends during the year under review.

Corporate Assistance

In the year 2016, a sum of Rs. 150,000,000.00 had been received as Treasury allocations.

Capital Expenditure

Details of property, plant and equipment of the Tea Shakthi Fund are given in Note No.20 of the financial statements.

Contributory Capital

Government Grants	Rs. 150,000,000.00
Share Capital	Rs. 206,014,150.00

Lease Agreements

In the year 2016, agreements were signed to lease out / assign management of the following factories.

- Raigamkorale Tea Shakthi Factory had been leased out to Dikhena Tea Smallholder Development Society on 10.06.2016 in line with a decision of the Board of Directors.

In terms of the Cabinet Decision No. අ/ව/16/1224/726/015-1 dated 05.07.2016 on the Cabinet Memorandum No. 37/2016 dated 21st June 2016 submitted on “Restructuring of Tea Shakthi Fund”, arrangements were made to invite proposals to lease out the factories, select lessees and management assignees and lease out and assign the management of the factories.

- Deraniyagala Factory - It has been leased out to Ratnapura Plantations (Pvt.) Ltd. on 28.12.2016.
- Gileemale Factory - It has been leased out to K.D. Asanka Priyadarshani Kuruppu on 24.11.2016.
- Deniyaya Factory - It has been leased out to Ajith Lasantha Gunawardena on 17.11.2016.

Compliance with Applicable Rules and Regulations

We declare to the best of our knowledge that there had been no activity or any such situation that may create material financial adjustments that may be included in the financial statements or that may violate rules and regulations of the Fund or the jurisdiction within it.

Board of Directors

The Board of Directors of the Tea Shakthi Fund is given in the page No. 09. The Board of Directors of Tea Shakti Fund was functioning till 7th July 2016 and in terms of the Cabinet Decision on the Cabinet Memorandum dated 21st June 2016, the Board of Directors was dissolved and the said authority was assigned to the Secretary to the Ministry of Plantation Industries.

Interests of Board of Directors in Contracts and Proposed Contracts

No Director is directly or indirectly interested in any contract or proposed contract during the period until the Board of Directors is dissolved up to 07th July 2016.

Each and every member of the Board of Directors is responsible for informing the other members of the Board of Directors regarding their interests or the preference when a member of the Board of Directors is having a certain interest or the preference on a certain matter and thereby refraining from casting votes when they have to cast their votes in relation to such matters.

Environmental Protection

No adverse impact on the environment is made as a result of any of the business activities of the Tea Shakthi Fund. The policy of the Tea Shakthi Fund is to maintain the level of damages that may make on the environment to its minimum, while promoting the relationships with relevant authorities and to comply with relevant regulations.

Post Balance Sheet Events

There were no ongoing events at the Balance Sheet date and therefore, no re-preparation or clarification of the Financial Statement was required.

Going Concern

The financial statements had been prepared on the assumption that the Tea Shakthi Fund will continue into the foreseeable future, and applying this concept, assets and liabilities had been classified as current and non-current and recorded in the financial statements.

Equitable Treatment to All Statements and All the Stakeholders

While appreciating the patronage of our stakeholders, the Tea Shakthi Fund has made all its efforts to ensure equitable treatment to all the stakeholders.

Audit Officers

The audit of the financial statements of the Tea Shakthi fund for the year ended 31st December 2016 was carried out under the directions of the Auditor General in pursuance of the Provisions stipulated in the Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka which read in conjunction with Section 13 (1) of the Finance Act No.38 of 1971.

Tea Shakthi Projects

8.1. Tea Shakthi Tea Factories

1. Badulla District

- Passara Tea Shakthi Factory

2. Nuwara Eliya District

- Keppetipola Tea Shakthi Factory
- Kotmale Tea Shakthi Tea Factory (On a lease basis from Mahaweli Development Authority)
- Mahaweli Tea Shakthi Factory

3. Kalutara District

- Raigamkorale Tea Shakthi Factory

4. Galle District

- Elpitiya Tea Shakthi Factory
- Walahanduwa Tea Shakthi Factory

5. Ratnapura District

- Gileemale Tea Shakthi Factory
- Balangoda Tea Shakthi Factory
- Pothuputiya Land

6. Matara District

- Deniyaya Tea Shakthi Factory
- Mawarala Tea Shakthi Fact

7. Kegalle District

- Deraniyagala Tea Shakthi Factory
- Bulathkohupitiya Tea Shakthi Factory (Constructions have not been completed)

8. Fertilizer and Local Tea Sales Projects

- Fertilizer and Local Tea Sales Projects
- Tea Blending Plant, Aramanagolla, Horana

Financial and Operational Review

Tea Shakthi Factory Project

9.2.1. Supply of Green Leaf and Made Tea Production

Buying of Green Leaf and Amount of Made Tea (Kg.) 2016

Factory	Amount of bought leaf	Amount of made tea	Other matters
Balangoda	Has been closed		
Deniyaya	10,993	2,317	January 2016
Elpitiya	32,223	6,928	2016
Keppetipola	18,962	4,077	2016
Kothmale	Productions have been stopped		
Mahaweli	13,541	2,911.5	2016.04/05
Mawarala	Productions have been stopped		
Passara	14,316	3,078	2016.04/05
Raigamkorale	263,624	52,818.75	Up to June 2016
Walahanduwa	17,939	3,857	2016.02
Deraniyagala	Productions have been stopped		

- Deraniyagala Factory - It has been leased out to Ratnapura Plantations (Pvt.) Ltd. on 28.12.2016.
- Gileemale Factory - It has been leased out to K.D. Asanka Priyadarshani Kuruppu on 24.11.2016.
- Deniyaya Factory - It has been leased out to Ajith Lasantha Gunawardena on 17.11.2016.
- Raigamkorale Factory - It was leased out to Dikhena Tea Smallholder Development Society on 10.06.2016.

After January 2016, tea production at Deniyaya Tea Shakthi Factory was stopped. In the year 2016, 75,987 kg of made tea has been produced by the factories of the Tea Shakthi Fund. The Tea Shakthi Fund had earned an amount of Rs.95.47 million as tea production income in the year 2016.

Tea Shakthi Fertilizer Project

The Tea Shakthi Fertilizer Project operates in Horana, Aramanagolla area, where the fertilizer required for crops such as tea, rubber and cinnamon was produced and sold. However, due to the working capital shortage caused by the financial crisis that arose in the year 2016, the Tea Shakthi Fund was unable to purchase the basic fertilizers required for the production of fertilizers, and as a result, the fertilizer project became loss-making.

Fertilizer Income - 2015 / 2016

Category	2015	2016
Value (Rs.)	14,592,678	573,000

In terms of the Cabinet Decision No.පෙ/16/1224/726/015-1 dated 05.07.2016 on the Cabinet Memorandum No. 37/2016 dated 21st June 2016, actions were taken to wind up the Fertilizer Project that was implemented by the Tea Shakthi Fund.

Tea Shakthi Local Tea Sales Project

Local Tea Sales Income up to the year 2015 / 2016

Category	2015	2016
Local Tea Sales (Rs.)	2,830,159	2,848,418

In terms of the Cabinet Decision No. ୫୭୯/୧୬/୧୨୨୪/୭୨୬/୦୧୫-୧ dated 05.07.2016 on the Cabinet Memorandum No. 37/2016 dated 21st June 2016, actions were taken to wind up the Local Tea Sales Project that was implemented by the Tea Shakthi Fund.

Tea Shakthi Social and Welfare Insurance Scheme

The Welfare Insurance Fund is the one and only welfare project for tea smallholders. A sum of Rs.2,400 should be paid by a member to obtain lifetime membership. This scheme can be introduced as an important segment under the Tea Shakthi Fund.

Progress of the Welfare Project - From the year 2014 to the year 2016

Year	Number of Benefits paid	Value of Benefit Rs.
2014	505	9,471,548.00
2015	537	10,014,315.79
2016	633	12,202,796.00

Since the year 2014, no new members were enrolled to the Tea Shakthi Social and Welfare Insurance Scheme. However, in the year 2016, Rs.12,202,796.00 was paid as benefits to 633 beneficiaries.

Shareholders/ Co-shareholders

	(Rs.)
1. Government of Sri Lanka (Initial capital)	437,505,030.22
11. Tea Smallholders	
a. Contribution of Shareholders (stakeholders)	206,014,150.00
b. Contribution of Tea Shakthi Members	135,243,850.00

Basic Earnings per Share from the year 2012 to the year 2016

Year	Basic Earnings per Share (Rs.)
2012	3.93
2013	(2.88)
2014	(6.20)
2015	(1.90)
2016	(1.48)

Details of the Issue of Tea Shakthi Shares

No. of Shares purchased	No. of Shareholders purchased
1 - 24	19,781
25 - 50	18,342
51 - 100	19,876
101 - 200	16,883
201 - 300	6,007
301 - 400	1,243
401 - 500	3,784
501 - 1,000	4,985
1,001 - 2,000	1,835
2,001 - 3,000	775
3,001 - 4,000	101
4,001 - 5,000	476
5,001 - 10,000	333
10,001 <	4
Total	94,425

In the year 2002, the Tea Shakthi Fund initiated the issue of shares, which raised Rs. 10/- par value shares were issued. An income of Rs.209,000,000/- was earned by issuing 20,900,000 shares to 94,425 Tea Shakthi members and the said income was utilized for establishment of the Tea Shakthi Fund.

TEA SHAKTHI FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016	2015
Revenue	6	100,639,857	573,519,262
Cost of Sales		(147,060,681)	(552,517,570)
Gross Profit		(46,420,824)	21,001,692
Other Income	7	152,340,999	43,844,841
Selling and Distribution Expenses		-	(14,928,507)
Administrative Expenses		(178,445,015)	(188,377,711)
Profit/(Loss) from Operation		(72,524,840)	(138,459,685)
Interest Income	8	588,508	394,909
Interest Expenses	8	(2,343,609)	(20,468,018)
Write back of Government Grants		43,750,503	119,300,503
Profit/(Loss) Before Taxation		(30,529,438)	(39,232,291)
Income Tax Expenses		-	-
Profit/(Loss) for the year		(30,529,438)	(39,232,291)
Basic Earnings / (Loss) Per Share (Rs.)			
11		11	(1.48)
Profit/(Loss) for the year			(30,529,438)
Other Comprehensive Income		-	-
Total Comprehensive Income/(Loss)		(30,529,438)	(39,232,291)

The Accounting Policies and Notes to the Financial Statements from pages 05 to 25 form an integral part of these Financial Statements.

TEA SHAKTHI FUND

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016	2015
ASSETS			
Non Current Assets			
Property, Plant & Equipment	12	272,543,007	285,261,613
Intangible Assets - Computer Software	13	2,600,000	2,600,000
Investment Property	14	31,709,123	33,433,585
Mature/Immature Plantation	15	13,932,571	14,158,054
Investment in Fixed Deposits		-	14,879,240
Total Non - Current Assets		320,784,701	350,332,492
Current Assets			
Inventories	17	4,387,922	69,590,593
Trade and Other Receivable	18	271,543,470	270,897,621
Statutory Receivables	19	2,790,822	2,790,822
Cash and Cash Equivalents	20	44,134,539	3,181,092
Total Current Assets		322,856,753	346,460,128
TOTAL ASSETS		643,641,454	696,792,620
EQUITY AND LIABILITIES			
Equity			
Stated Capital	21	206,014,150	206,014,150
Revaluation Reserve	21	50,249,773	50,249,773
Retained Earnings (at Debit)	21	(398,528,527)	(367,912,464)
Total Equity		(142,264,604)	(111,648,541)
Non Current Liabilities			
Members Contribution Fund	22	135,243,850	135,221,950
Government Grants	23	218,752,515	262,503,018
Kalubowitiyana Tea Factory Ltd (LRIA)	24	48,833,264	48,833,264
Interest Bearing Borrowings (NCP)	25		6,008,533
Retirement Benefits Obligation	26	59,135,276	28,521,886
Total Non - Current Liabilities		461,964,905	481,088,651
Current Liabilities			
Trade and Other Payables	27	318,946,968	309,758,086
Statutory Payables	28	4,545,276	4,545,276
Bank Over Drafts	20	448,909	13,049,148
		323,941,153	327,352,510
TOTAL EQUITY AND LIABILITIES		643,641,454	696,792,620

The Accounting Policies and Notes to the Financial Statements from pages 05 to 25 form an integral part of these Financial Statements. The Secretary of the Ministry of Plantation is responsible for preparation and presentation of these Financial Statements.

B. L. A. J. Dharmakeerthi
Secretary
Ministry of Plantation Industries

P. S. M. Senadeera
Chief Financial Officer
Ministry of Plantation

TEA SHAKTHI FUND
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

	2016	2015
Cash Flow from Operation Activities		
Profit/(Loss) Before Taxation	(30,529,438)	(39,232,292)
Adjustments for:		
Depreciation	14,356,442	31,858,162
Receipt of Government Grants - Recurrent	(150,000,000)	-
Amortization of Government Grants - Capital	(43,750,503)	(119,300,503)
Amortization of Matured Plantations	225,483	860,510
Amortization of Lease Rentals - KFLtd	-	(1,166,736)
Provision for Gratuity	2,335,941	5,791,088
Interest Income	(588,508)	(394,909)
Interest Expenses	2,343,609	20,468,018
Operating Profit/(Loss) before Changes in Working Capital	(175,606,974)	(101,116,662)
Changes in Working Capital		
Inventories	65,202,671	44,460,337
Trade and Other Receivables	(645,849)	(7,845,510)
Statutory Receivables	-	624,991
Trade and Other Payables	9,188,883	(5,733,592)
Statutory Payables	-	946,074
Cash Generated from Operations	(101,861,269)	(68,664,362)
Gratuity Paid	(1,722,551)	(3,700,585)
Interest paid	(2,343,609)	(20,468,018)
Net Cash Flow from Operating Activities	(105,927,429)	(92,832,965)
Cash Flow from Investing Activities		
Acquisition of Property , Plant and Equipment	-	(3,762,769)
Acquisition of Intangible Assets	-	(165,000)
Acquisition of Immature Plantations	-	(1,590,656)
Proceeds from Maturity of Fixed Deposits & Other Financial Assets	14,879,240	(6,467,261)
Receipt of Government Grants	150,000,000	50,000,000
Advance Lease Rentals from KFLtd	-	50,000,000
Interest Received	588,508	394,909
Net Cash used in Investing Activities	165,467,748	88,409,223
Cash flows from Financing Activities		
Contribution from Members	21,900	37,200
Term Loan Obtained	-	-
Repayments of Loan	(6,008,533)	(12,372,864)
Net Cash used in Financing Activities	(5,986,633)	(12,335,664)
Net Changes in Cash and cash Equivalents during the year	53,553,686	(16,759,406)
Cash and Cash Equivalents at the beginning of the year	(9,868,056)	6,891,350
Cash and Cash Equivalents at End of the Year (Note 20)	3,685,630	(9,868,056)

The Accounting Policies and Notes to the Financial Statements from pages 05 to 25 form an integral part of these Financial Statements.

TEA SHAKTHI FUND

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Stated Capital	Revaluation Reserve	Retained Earnings (at debt)	Total
Balance as at 31 December 2015	206,014,150	50,249,773	(367,912,464)	(111,648,541)
Profit/(Loss) for the year			(30,529,438)	(30,529,438)
Prior Year Adjustments			(86,625)	(86,625)
Balance as at 31 December 2016	206,014,150	50,249,773	(398,528,527)	(142,264,604)

The Accounting Policies and Notes to the Financial Statements from pages 05 to 25 form an integral part of these Financial Statements.

TEA SHAKTHI FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

1. CORPORATE INFORMATION

1.2 GENERAL

The Tea Shakthi Fund herein after referred to as “The Fund” is incorporated under the Parliament Act No. 47 of 2000 and domiciled in Sri Lanka. The registered office of the Fund is located at the 10th Floor, Sethsiripaya 2nd Stage, Battaramulla. The main objective of the Fund is to improve the economic and social status of the tea small holders by fetching better price for their produce of green leaf through quality manufacture in the competitive market and providing them with inputs at a reasonable price.

1.3 PRINCIPLE ACTIVITIES AND NATURE OF THE OPERATION

The principal activities of the Tea Shakthi Fund are the Manufacture & Sale of Tea and Fertilizer.

1.4 Restructuring of the Tea Shakthi Fund

When April 2016, only three out of twelve tea factories belonging to the Tea Shakthi Fund were in operation. The payments in outstanding for the green leaf of the smallholders, staff salaries, worker wages and other daily expenditure was Rs. 55.8 million and payable advances/loans of tea brokers was around Rs. 64 million. Since payments were not made, a very low quantity of green leaf which was below the capacity of the factories received and all the proceeds from the sale of tea produced in said factories was charged by the Tea Brokers. The accumulated loss of the Tea Shakthi Fund was Rs. 367.9 million as at 31.12.2015.

Therefore, the Minister of Plantation Industries submitted three Cabinet Memorandums dated 04.04.2016, 21.06.2016 and 21.07.2016 to the Cabinet of Ministers and requested approval for Restructuring the Tea Shakthi Fund and the approval was granted as follows.

- a. To suspend forthwith the functions of Board of Directors of the Tea Shakthi Fund, to assign the said authority to the Secretary of Plantation Industries, and to make decisions by the Secretary of the Ministry of Plantation Industries and the Secretary of the Ministry of Finance to pursue actions on the Tea Shakthi Fund.
- b. To hand over the management of 12 factories of the institution on a lease basis to outsiders.
- c. To assign the Welfare Insurance Project which is being implemented for the benefit of the tea smallholders to the Tea Smallholdings Development Authority.
- d. To Take action to utilize the lease income of the factories to benefit the shareholders and to reimburse the amount of Rs. 135 million obtained from the Welfare Insurance Project for factory operations and credit the balance of the lease income to the Treasury.
- e. To take action to wind up the Fertilizer Project and Local Tea Sales Project implemented by the Tea Shakthi Fund.

- f. To attach the permanent staff of 46 who serve in the Head Office of the Tea Shakthi Fund to the vacancies of the other institutions coming under the Ministry on approval of the Department of Management Services and If vacancies are not available, to attach them to the said institutions on the supernumerary basis as personal to them.
- g. To terminate the services of 74 employees in the factory staff and to implement a compensation scheme under the instructions of Commissioner General of Labour and other relevant parties, to reach a consensus with the lessees to retain the services of 371 laborers who work in the factories and if a consensus could not be reached, to terminate their services and implement a compensation scheme as mentioned above.
- h. To terminate immediately the services of the employees who serve in the Tea Shakthi Fund on a daily and contract basis.
- i. To allocate a sum of Rs. 167.87 million from the General Treasury to the Tea Shakthi Fund to settle loans obtained from the brokers, to make payment for the green leaf of the tea smallholders, to make payment of unpaid salaries & wages of the staff/workers and to settle the short-term liabilities.

1.5 Implementation of Cabinet Decisions on Restructuring of the Tea Shakthi Fund

The proposals submitted to the Cabinet of Ministers for restructuring of the Tea Shakthi Fund have been implemented in terms of Cabinet Decisions, as follows.

- a. The functions of the Board of Directors of the Tea Shakthi Fund have been suspended and said authority has been assigned to the Secretary of the Ministry of Plantation Industries and accordingly, all restructuring activities have been carried out by the Secretary in consultation with the Secretary of the Ministry of Finance and the institutions coming under the Ministry of Finance as the case may be.
- b. The management of 11 tea factories, the tea estate at Mawarala and the Fertilizer Warehouse Complex in Horana have been handed over to the other parties in terms of the Government Procurement Guidelines. Having considered the nature of the ownership of said properties with the Tea Shakthi Fund, the assignments have been made under a Lease Agreement or a Memorandum of Understanding. The Raigamkorale Tea Factory had been leased out to a Tea Smallholder Development Society on the decision of the Board of Directors in June 2016, before the powers were vested with the Secretary of Plantation Industries.
- c. The Welfare Insurance Project has been assigned to the Tea Small Holdings Development Authority, which comes under the purview of the Ministry of Plantation Industries and the Local Tea Sale Project has been wind up.
- d. The service of the following staff of the Tea Shakthi Fund has been terminated

Head Office Staff 19

Factory Staff 67

Check-roll Workers 226

- e. Out of the staff of the Tea Shakthi Fund, 09 Management Assistants and 01 Office Assistant have been attached to the Institutions coming under the Ministry. The functions of the Fund are carried out by 06 Management Assistants, 01 Assistant Factory Officer and 01 Office Assistant.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The Financial Statements of the Tea Shakthi Fund have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs). The Financial Statements have been prepared under the historical cost convention, as modified by the fair value of revaluation of property, plant and equipment. The preparation of financial statements in conformity with Sri Lanka Accounting Standards (SLFRSs) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgments or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2.2 Changes in Accounting Policies

The changes in accounting policies set out below have been applied consistently to the periods presented in the condensed financial statements and to the opening SLFRS statement of financial position at the date of transition to SLFRSs, unless otherwise indicated.

2.3 Functional and Presentation Currency

Transactions and Balances included in the Financial Statements are measured using the currency of the primary economic environment in which the entity operates. The Financial Statements are presented in Sri Lanka Rupees (LKR) which is the fund presentation currency.

2.4 Property, Plant and Equipment

Property Plant and equipment are initially recognized at cost including any directly attributable to bringing the assets to the present location and condition necessary for it to be capable of operating in the manner intended by the management.

Property, plant and equipment were carried out at revalued amount in the statement of financial position prepared in the accordance with SLAS before the 31st December 2015. The fund has elected revalued amount of property, plant equipment as deemed cost at the date the revaluation as the assets were broadly comparable to fair value. Upon election, as deemed cost, property, plant and equipment are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses.

Subsequent cost is included in the asset's carrying amount or recognized as an asset, only when it is probable that future economic benefits associated with the item will flow to the fund and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Land is not depreciated, depreciation on other assets is calculated using of Written Down Value method to arrive at the approximate value of depreciation. To allocate an Asset's cost or revalued amount, their estimated useful lives are, as follows.

Assets Category	Expected useful life As at the Revaluation
Building	40 years
Plant and Machinery	13 years
Furniture and Fittings	10 years
Motor Vehicles	10 years
Computers	10 years
Equipment and Tools	10 years
Telephone	10 years
Mature Plantation - Tea	33 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.5 Intangible Assets

Acquired computer software has been capitalized based on the cost incurred to acquire and bring to use the specific software and system. Intangible assets acquired are stated at cost less accumulated amortization and accumulated impairment losses. This cost was amortized over their estimated useful lives, as follows.

Computer Software 5 years

The cost associated with maintaining computer software is recognized as an expense incurred.

2.6 Handing over of Hiniduma Hills Tea Factory and Manikdiwela Tea factory to the Kalubowitiyana Tea Factory Limited

Since the Tea Shakthi Fund incurred losses continuously from 2008, there were difficulties to maintain the factories owned by the Fund. Hence, the management of the Hiniduma Hills Tea Factory was handed over to Kalubowitiyana Tea Factory Limited in 2012 under a Memorandum of Understanding, based on providing 1/3 profit to the Fund. In 2015, the Kalubowitiyana Tea Factory Limited has provided a loan of Rs. 50 million to the Fund, due to financial constraints faced by the Fund and agreed to settle the loan in 36 installments at a yearly interest rate of 11%. At the time, the partially constructed Manikdiwela Tea Factory owned by the Fund was handed over to the Kalubowitiyana Tea Factory Limited for developing and maintaining the factory. Due to the financial constraints of the Fund, the loan has not been settled. Therefore, having considered the Net Asset Values of the said factories and investments made by the Fund and The Kalubowitiyana Factory Limited, the two Factories were handed over to the Kalubowitiyana Tea Factory Limited on the approval granted by the Cabinet decision, dated 19th March 2019.

2.7 Investment Property

Investment property is a property held either to earn rental or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes.

Investment properties were carried at the revalued amount in the statement of financial position prepared under SLAS before 31st December 2015. The fund has elected revalued amount of the Investment properties as deemed at the date of the revaluation as the Investment properties were broadly comparable to fair value. Investment property held to earn rentals is measured initially at its cost and subsequently, the property is measured at cost less any accumulated impairment losses.

The Depreciation of the building and Plant & Machinery are calculated based on the Written Down Value method (to arrive at the approximate value of depreciation) to allocate their cost or deemed cost over their estimated useful lives, as follows.

Building 29 years

Plant and Machinery 13 years

2.8 Biological Assets — Immature and Mature Plantation

Biological assets are classified into mature biological assets and immature biological assets. Mature biological assets are those that have attained harvestable specifications or can sustain regular harvests. Immature biological assets are those that have not yet attained harvestable specifications. Tea and timber plantations are classified as biological assets.

The cost of land preparation, new planting and re-planting, and fertilizing incurred between the time of planting and harvesting are classified as immature plantations. These immature plantations are stated at direct cost-plus and attributable overheads.

Biological assets are further classified as bearer biological assets and consumable biological assets. Bearer biological asset includes tea plants, those are not intended to be sold or harvested, however, used to grow for harvesting agriculture produce. Consumable biological assets include timber plantations which are to be harvested as agricultural produce from biological assets or sold as biological assets.

The expenditure incurred on bearer biological assets which come into bearing during the year has been transferred to mature plantations. Expenditure incurred on consumable biological assets is recorded at cost at the initial recognition.

The fund recognizes the biological assets when, and only when, the entity controls the assets as a result of the past event, it is possible that future economic benefits associated with the assets will flow to the fund and the fair value or cost of the assets can be measured reliably.

The bearer biological assets are measured at cost less accumulated depreciation and accumulated impairment losses, if any, in terms of LKAS 16 — Property, Plant & Equipment as per the ruling issued by CA Sri Lanka.

The timber plantations are measured on initial recognition and at the end of each reporting period at its fair value less cost to sell in terms of LKAS 41.

2.9 Impairment of Non-Financial Assets

At each end of the reporting period, the fund reviews the carrying amounts of its property, plant and equipment, intangible assets and investment property to determine whether there is any indication that those assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the fund determines the cash-generating unit (CGUs) and estimates the recoverable amount of the CGUs to which the asset belongs.

The recoverable amount is the higher of fair value less, costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

if the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income.

2.10 Financial Assets

(a) Classification

The fund determines the classification of its financial assets at initial recognition and classifies its financial assets as follows:

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. Loans and receivables of the fund comprise trade and other receivables, investments in term deposits, advances, prepayments & deposits and cash and cash equivalents at the end of the reporting period.

(b) Recognition and Initial Measurement

Financial Assets classified as loans and receivables have recognized the date on which the fund originates the transaction. Other financial assets are recognized on the trade – date on which the fund becomes a party to the contractual provision of the financial instrument.

A financial asset is measured initially at fair value plus, in the case of an asset not at fair value through profit or loss, directly attributable to the transaction cost.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the fund has transferred substantially all risk and rewards of ownership of the financial asset.

(c) Subsequent Measurement

After initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less provision for impairment.

(d) Impairment of Financial Assets

The fund assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or event) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For loans and receivables carried at the amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced and the amount of the loss is recognized in the statement of comprehensive income.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the statement of comprehensive income.

2.11 Inventories

(a) Finished Goods Manufactured from Agriculture Produce of Biological Assets

Inventories are stated at a lower cost and net realizable value. Cost is determined using the ordinary course of business, less the cost of compilations and selling expenses.

(b) Fertilizer

Inventories are stated at cost minus subsidy. Cost is determined using the weighted average cost method. The cost of mixed fertilizer comprises raw materials, direct labor, other direct cost and related production overhead. Net realizable value is the subsidized value in the ordinary course of business less applicable selling expenses.

(c) Agricultural produce harvested from biological assets

Agricultural produce is measured at their fair value less cost to sell at the point of harvest. The finish and semi-finish inventories from agricultural products are valued by adding the cost of conversion to the fair value of the agricultural produce.

2.12 Trade Receivables

Trade receivables are amounts due from customers for the sale of goods in the ordinary course of business. The collection is expected in the normal operating cycle of the business (within one year or less) and the receivables are classified as current assets. Trade receivables are recognized initially at fair value (invoice value) and subsequently measured at the original invoice value less provision for impairment as the dues are expected to receive in the normal operating cycle of the business.

The fund assesses at the end of each reporting whether there is objective evidence that trade receivables are impaired. Objective evidence of impairment for trade receivables includes the fund's experience in collecting payments, significant financial difficulties of the debtor and default payments. Trade receivables are impaired and impairment losses are incurred, only if there is objective evidence of impairment. Trade receivables are assessed individually for impairment.

2.12 Cash and Cash Equivalents

In the statement of cash flows cash and cash equivalents include cash in hand, term deposits, held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less net of bank overdrafts.

2.14 Stated Capital

Ordinary shares are classified as equity.

2.15 Financial liabilities

The fund classifies financial liabilities into other financial liabilities. The fund's other financial liabilities include trade and other payables and interest-bearing loans. The other financial liabilities are recognized initially at fair value plus any directly attributable transaction cost. Subsequent initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The fund derecognizes the financial liability when its contractual obligations are discharged, canceled, or expired.

2.16 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due in the normal operating circle of business (within one year or less). If not, they are classified as a non-current liability.

Trade payables are recognized initially at fair value (transaction price) and subsequently measured at the transaction price as they are expected to pay in the normal operating circle of the business.

2.17 Borrowings

Borrowings are recognized initially at fair value, net of transaction cost incurred. Borrowings are subsequently carried at amortized cost using the effective interest method. Floating rate borrowing are measured in each subsequent period at amortized cost using floating interest rate (effective interest rate) prevailing in the period. Legal and documentation fees are recognized as transaction costs of the borrowings.

2.18 Borrowing Cost

Borrowing costs are recognized in the statement of comprehensive income in the period in which they are incurred.

2.19 Government Grants

Grants from the government are recognized at fair value where there is reasonable assurance that the grant will be received and the fund will comply with all attached conditions.

Fertilizer subsidies relating to import cost are recognized in the statement of comprehensive income to match them with the cost that they are intended to compensate. Fertilizer subsidies to compensate for import costs already incurred are recognized as subsidy receivable where there is a reasonable assurance that the subsidy will be received.

Government grants relating to property, plant and equipment are included in none current liabilities as differed government grants and are recognized in the statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

None monitory grants are measured at the carrying value of the non- monitory asset and account for both grant and asset at the carrying value.

2.20 Current and Deferred Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of the comprehensive income statement, except to the extent that it relates to items recognized in other comprehensive income. In this case, the tax is also recognized in other comprehensive income. The current income tax charge is calculated based on the tax laws enacted at the reporting period end applicable for the fund operating and generating taxable income. Management establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

The Deferred tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not accounted for if it arises from initial recognition of asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates that have been enacted at the reporting period end date and are expected to apply when the related deferred tax asset is realized or the deferred income tax liability is settled.

The Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority.

2.21 Employee Benefits

The fund has both defined benefit and defined contribution plans.

(a) Defined Contribution plan

A defined-contribution plan is a post-employment benefit plan under which the fund pays fixed contributions into a separate entity. The fund has no legal or constructive obligations to pay further contributions. The contributions are recognized as employee benefit expenses when they are due.

The fund contributes 12% for factory employees and 15% for other employees on gross emoluments to Employee Provident Fund (EPF) and 3% on gross emoluments of the employee to Employee Trust Fund (ETF).

(b) Defined benefit plan

The fund obligation in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is measured annually using the projected unit credit method calculated to use the gratuity formula. The present value of the defined benefit obligation is determined by discounting the estimated future benefit that employees have earned in return for their services in the current and prior period.

Gains and losses arising from changes in the assumptions, current service cost and interest are recognized in the statement of comprehensive income in the period in which they arise. The retirement benefit obligation is not externally funded.

(c) Short-term employee benefit

Short-term employee benefit obligations are measured on an undiscounted amount expected to be paid for related services provided by the employees.

2.22 Provisions and Contingent Liabilities

Provisions for the legal claim and other operational expenses are recognized when the fund has a present legal or constructive obligation as a result of a past event, an outflow of economic resources will probably be required from the fund and amounts can be estimated reliably.

The Position of pending legal cases as at the balance sheet date is, the Tea Shakthi fund has been filed 14 cases against various parties. Out of which 2 cases had been awarded in favor of the Tea Shakthi Fund by the District Court, but the relevant parties have filed a case in the Supreme Court.

Whereas 142 number of parties had filled cases against Tea Shakthi Fund and out of therein could not be reasonably ascertained as at the Balance Sheet date.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

All contingent liabilities are disclosed as a note to the financial statement unless the possibility of an outflow of resources is remote.

2.23 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the sale of goods in the ordinary course of fund's activities, stated net of value-added tax (**VAT**) and nation-building tax (**NBT**). The fund recognizes revenue when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the fund.

The fund applies the revenue recognition criteria set out below to each identifiable major type of revenue.

(a) Sale of Goods

Revenue arises from the sale of goods recognized at the point that the risk and rewards of the goods have passed to buyer, which is the point where goods are delivered from stores.

(b) Sales to Tea Brokers

Revenue that arises from the sale of goods is recognized at the point that the risk and rewards of the goods have passed to the buyer, which is the point where the goods are sold by tea brokers to buyers in the auction.

The Revenue from tea sales to brokers is recorded considering, amounts payable to the brokers as at 31.12.2015, loans/advances received and settlements, during the financial year. As brokers informed, the amounts payable to the Tea brokers have been fully settled during the financial year.

(c) Interest Income

Interest income is recognized using the effective interest method.

(d) Gain and losses on Disposal of Property, Plant and Equipment

Gain and losses on disposals are determined by comparing proceeds with the carrying amount and are recognized in the statement of comprehensive income.

(e) Other Income

Other Income is recognized on an accrual basis.

2.24 Expenses

Expenditures incurred in the running of operation are to income in arriving at the profit for the reporting period. The expenditure incurred by Tea factories is recorded considering, cash and bank balances of factories as at 31.12.2015, funds transferred to the factories and cash/bank balances received from the factories, during the financial year.

2.25 Events Occurring after the Reporting Period

All material events after the reporting period have been considered and where appropriate adjustments or discloses have been made in the respective notes to the financial statement.

2.26 Commitments

At the end of the period, all material commitments have been identified and disclosed in the notes to the financial statement

3. Significant Accounting Estimates and Judgments

When preparing the financial statements, management undertakes several judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

The followings are significant judgments in applying the accounting policies that have the most significant effects on the financial statements.

(a) Recognition of Differed tax Assets

The extent to which differed tax assets can be recognized is based on an assessment of the probability of the future taxable income against which the differed tax assets can be utilized.

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below:

(b) Useful lifetime of Depreciable Assets

Management reviews its estimate of the useful lifetime of depreciable assets at each reporting date, based on the expected economic utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and IT equipment.

(c) Defined benefit plan

The present value of the defined benefit plan obligations depends on several factors that are determined on a projected unit credit basis by using several assumptions. The assumptions used in determining the net cost and obligation for the defined benefit plan including the discount rate are disclosed in note 26. Any changes in these assumptions will impact the carrying amount of defined benefit obligation.

4. First time adoption of SLFRS/LKAS

The financial statements for the reporting period ended 31 December 2011, are the first financial statements prepared under Sri Lanka Financial Reporting Standards (SLFRSs). Previous reporting periods including up to the reporting period ended 31 December 2014, the fund prepared its financial statements under Sri Lanka Accounting Standards (SLAS), which were effective up to 31 December 2011.

4.1 Optional exemptions from the retrospective application

In preparing the first financial statements under Sri Lanka Accounting Standards (SLFRSs), the fund has elected to apply for the following optional exemptions from the retrospective application of other Sri Lanka Accounting Standards (SLFRSs).

Fair Value or Revaluation as Deemed Cost

Property, plant and equipment and investment properties were carried at the revalued amount in the statement of financial position prepared under SLAS before 31 December 2011. The fund has elected that revaluation amount as deemed cost at the date of the revaluation as the assets were broadly comparable to fair value at the date of the revaluation.

4.2 Following optional exemptions do not apply to the fund:

- a. SLFRS 4 -Insurance contracts, since this application is not relevant to the funds.**
- b. IFRIC 4 - Determining whether an arrangement contains a lease since the fund does not have such arrangements.**
- c. LKAS 19 - Employee benefits, since the funds measure its defined benefits obligation using the formula method.**
- d. LKAS 21 -Cumulative translation differences, since the fund does not have a foreign operation.**
- e. LKAS 27 — Investments in subsidiaries, jointly controlled entities and associates, since the fund does not have group entities,**

- f.** Assets and liabilities of subsidiaries, associates and joint ventures, since the fund, does not have your entities. Page - 18
- g.** LKAS 32 - Compound financial instruments, since the fund does not have compound financial instruments.
- h.** LKAS 39 — Designation of previously recognized financial instruments, since the fund does not have A. and FVTPL financial instruments in previous reporting periods
- i.** Decommissioning liabilities included in the cost of property, plant and equipment since fund does not have decommissioning liabilities relating to property, plant and equipment.
- j.** IFRIC 12 - Service Concession Arrangements, since the fund does not have such arrangement.

4.3 Mandatory exceptions from retrospective application

In preparing the first financial statements under Sri Lanka Accounting Standards (SLFRSs), the fund has elected to apply the following optional exemptions from the retrospective application of other Sri Lanka Accounting Standards (SLFRSs).

1. Accounting Estimates

All accounting estimates at the date of transition to SLFRSs and as at 31 December, 2011 are consistent with the estimates made under SLAS.

2. Following mandatory exceptions are not applicable to the Fund:

- a. De-recognition of financial assets and financial liabilities.
- b. Hedge Accounting.
- c. Non-Controlling Interest.

5. Explanation of transition` to SLFRSs

The accounting policies set out in note 2 to 4 have been applied in preparing the financial statements for the reporting period ended 31 December 2015 together with comparative information for the reporting period ended 31 December 2016 and opening SLFRS statement as at 1 January 2011 which is the transition date of SLFRSs for the fund.

In preparing SLFRS financial statement of previous reporting periods, required adjustments have been made in accordance with Sri Lanka Accounting Standards (SLFRSs). The effect of the transition from SLASs to SLFRSs has been presented in the statement of reconciliation of equity, statement of comprehensive income and notes to the reconciliations.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED

31 DECEMBER **2016** **2015**

6 Revenue

Tea Sales	95,469,667	525,348,607
Local Tea Sales	2,870,003	28,146,840
Refuse Tea Sale	1,727,187	5,426,424
Fertilizer Sales	573,000	14,872,520
Row Material Direct Sales	-	2,356
Fertilizer Sales Discount	-	(277,485)
	100,639,857	573,519,262

7 Other Income

Government Grants - Recurrent	150,000,000	-
Write Back of Kalubowitiyana T. F. Ltd. Liability Yatinuwara	-	350,024
Write Back of Kalubowitiyana T.F. Ltd. Liability Hiniduma	-	816,713
Tea Field Income	1,777,570	10,188,324
H/O Charges (Factory)		31,169,380
Sundry Income	563,429	1,320,400
	152,340,999	43,844,841

8 Net Finance Cost

Interest Income		
Interest on Fixed Deposits	588,508	394,909
Interest Expenses		
Bank Borrowing Interest/ Interest on Broker Advances and Loans	2,343,609	20,468,018
Net Finance Cost	1,755,101	20,073,109

9 Profit Before Taxation

Profit before taxation is arrived at after charging all expenses including the following.
 Auditors Remuneration
 Depreciation
 Defined Benefit Plan Cost - Retiring Gratuity
 Staff Cost

10 The Fund is exempted from income tax for the period of five years under section 16 of Inland Revenue Act, No 10 of 2006, commencing from April 1 2006 and exemption was expired in 2011.

Currently the Fund is in the process of assessing its tax liability if any, in accordance with the Inland Revenue Act. As a result, no provision has been made after the exemption period.

11 Basic Earnings/ (Loss) per share(Rs.)

Amount used as the Numerator

Net Profit Attributable to Equity Holders (Rs.) (30,529,438) (39,232,292)

Number of Ordinary Shares used as the Denominator

Weighted Average number of Shares in Issue (Nos) 20,601,415 20,601,415

Basic Earnings/(Loss) Per Share (Rs.) (1.48) (1.90)

Basic Earning per share is calculated by dividing the profit attributable to the equity holders by the weighted average number of ordinary shares in issue during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

12 Property, Plant and Equipment

Cost or Valuation	Freehold Assets							Leasehold Assets		Total
	Land and	Plant and	Motor	Furniture &	Computers	Equipment	Telephone	Land and	Furniture &	
	Buildings	Machinery	Vehicles	Fittings		and Tools		Buildings	Fittings	
Balance as at 01.01.2016	215,359,552	271,642,350	25,373,359	4,453,204	4,565,247	3,347,357	330,200	-	-	525,071,269
Less:Depreciation										
Balance as at 01.01.2016	36,442,844	171,205,523	24,420,859	3,889,369	2,481,616	2,716,641	306,635	-	-	241,463,487
Charge for the Year	4,472,918	7,733,636	95,250	56,384	208,363	63,072.00	2,357.00	-	-	12,631,980
	40,915,762	178,939,159	24,516,109	3,945,753	2,689,979	2,779,713	308,992	-	-	254,095,467
Balance as at 31.12.2016	174,443,790	92,703,191	857,250	507,451	1,875,268	567,644	21,208	-	-	270,975,802
	Net Carrying Values							2016	2015	
	Freehold Assets									
	Land and Buildings							174,443,790	178,916,709	
	Plant and Machinery							92,703,191	100,436,827	
	Motor Vehicles							857,250	952,500	
	Furniture and Fittings							507,451	563,835	
	Computers							1,875,268	2,083,631	
	Equipment and Tools							567,644	630,716	
	Telephone							21,208	23,565	
	Add: Work-in-Progress							270,975,802	283,607,783	
								1,567,205	1,653,830	
								272,543,007	285,261,613	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED

31. DECEMBER

2016

2015

12 1 Capital Work-in-Progress (Building, Plant and Machinery)

Balance as at 01st January	1,653,830	5,641,342
Adjustments for the Previous Years	(86,625)	-
Transfer to Investment Property	-	(3,987,512)
Balance as at 31st December	1,567,205	1,653,830

13 Intangible Assets - Computer Software

Balance as at 01st January	2,600,000	2,435,000
Additions/ (Disposal)	-	165,000
Balance as at 31st December	2,600,000	2,600,000

14 Investment Property

Cost

Land & Building

Balance as at 01st January	16,692,535	12,225,000
Additions	-	827,055
Transferred to Freehold Assets	-	(13,052,255)
Transferred from Freehold Assets	-	16,692,535
Balance as at 31st December	16,692,535	16,692,535

Plant / Machinery & Others

Balance as at 01st January	56,320,698	17,274,250
Additions	-	3,509,850
Transferred to Freehold Assets	-	(20,784,100)
Transferred from Freehold Assets	-	56,320,698
Balance as at 31st December	56,320,698	56,320,698

Depreciation

Balance as at 01st January	43,567,160	13,484,614
Additions	-	574,260
Transferred to Freehold Assets	-	(14,058,874)
Transferred from Freehold Assets	-	38,922,833
Charge for the year	1,724,462	4,644,327
	45,291,622	43,567,160

Net Carrying Value

Land & Building	12,333,089	12,773,785
Plant / Machinery & Others	15,388,522	16,672,288
Work-in-Progress	3,987,512	3,987,512
	31,709,123	33,433,585

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED

31. DECEMBER

2016

2015

17 Inventories

Factory Tea Stock	3,439,789	25,743,830
Tea Stock at Stores/Brokers	-	36,483,610
Raw Materials	-	1,020,555
Finished Goods	-	101,257
Tea Stock - LTS	-	1,132,852
General Stock	-	4,885,369
Stationery - Factory	-	27,136
Fertilizer Stock - Factories	948,133	195,984
	4,387,922	69,590,593

18 Trade and Other Receivables

Note

Trade Receivables	18.1	119,848,226	119,848,226
Deposits and Advances	18.2	41,018,320	40,372,471
Other Receivables	18.3	110,676,924	110,676,924
		271,543,470	270,897,621

18 1 Trade receivables

Provision for Impairment	(11,613,391)	(11,613,391)
	119,848,226	119,848,226

18 2 Deposits and Advances

Deposits	1,269,372	1,269,372
Advances Paid	39,748,948	39,103,099
	41,018,320	40,372,471

18 3 Other Receivables

Interest Receivable	61,143,439	61,143,439
Others	57,274,525	57,274,525
	118,417,964	118,417,964
Provision for Impairment	(7,741,040)	(7,741,040)
	110,676,924	110,676,924

19 Statutory Receivables

Economic Service Charges (ESC)	2,790,822	2,790,822
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20 Cash and Cash Equivalents

Favorable Balances		
Cash in Hand	-	36,936
Cash at Bank	44,134,539	3,144,156
	44,134,539	3,181,092
Unfavorable Balances		
Bank Overdrafts	(448,909)	(13,049,148)
Cash and Cash Equivalents for the Purpose of Cash Flow St.	43,685,630	(9,868,056)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED

31. DECEMBER

2016

2015

21	Stated Capital		
	Issued and fully paid		
	20,601,415 Ordinary Shares	206,014,150	206,014,150

Revaluation Reserve	50,249,773	50,249,773
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Retained Earnings (at Debit)

Balance as at 1st January	(367,912,464)	(328,680,172)
Adjustments in Work in Progress	(86,625)	-
Profit/(Loss) for the year	(30,529,438)	(39,232,292)
	(398,528,527)	(367,912,464
Balance as at 31 December))

22 Member's Contribution Fund

Balance as at 01st January	135,221,950	135,184,750
Receipts during the year	21,900	37,200
Balance as at 31 December	135,243,850	135,221,950

23 Government Grants

Balance as at 01st January	262,503,018	331,803,521
Receipts during the year	-	50,000,000
Amortization of Government Grants	43,750,503	(119,300,503)
Balance as at 31 December	218,752,515	262,503,018

24	Kalubovitiyana Tea Factory Ltd	48,833,264	50,000,000
	Amortization of Liability	-	(1,166,736)
		48,833,264	48,833,264

25 Barrowings

Non - Current Portion

Term Loans	25.1	-	18,381,397
Current Portion		-	
Term Loans	25.1	-	(12,372,864)
		-	6,008,533

The carrying amounts of borrowings are stated at fixed and floating rates are as follows.

Floating rate

Carring Amounts of the Term Loans and Short Term Borrowings - - -

Fixed Rate

Carring amounts of Term Loans and Short Term Borrowings - - -

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED

31. DECEMBER

2016

2015

25 1 Term Loans

Balance as at 01 st January	6,008,533	18,381,397
Loans Obtained/(Re-Payments)	(6,008,533)	(12,372,864)
Balance as at 31 December	-	6,008,533
Current Portion	-	(12,372,864)
Non Current Portion	-	18,381,397
	-	6,008,533

26 Retirement Benefit Obligation

Balance as at 1 st January	28,521,886	26,431,383
Expenses Recognized in Comprehensive Income	32,335,941	5,791,088
Payments made during the year	(1,722,551)	(3,700,585)
Balance as at 31 December	59,135,276	28,521,886

26 1 Expense Recognized in Comprehensive Income

Current service Cost	-	3,474,653
Interest Charges for the year	-	2,026,881
(Gain) / Loss Arising from changes in the Assumptions	-	289,554
	-	5,791,088

These assumptions developed by the Fund , are based on the management s best estimates of variables used to measure the retirement benefits obligation. Discount rate is determined on the basis of market rates of long term Government bond.

The principal assumptions used are as follows.

Discount Rate	-	10.75%
Future Salary Increases	-	2%
Staff Turnover Factor	-	3%
Retirement Age (Years)	55	55

27 Trade and Other Payables

318,946,968 309,758,086

28 Statutory Payables

Withholding Tax (WHT)

4,545,276 4,545,276