



**வார्षிக வர்வால
ஆண்ட அறிக்ை
Annual Report**

2014

**தேயிசை சக்தி நிதி
Tea Shakti FUND**

வரவிலி கர்வாஜை அலாைாண்டை

**பெருந்தோட்ட கைத்தொழில் அமைச்சு
Ministry of Plantation Industries**



Tea Shakti FUND

“Committed to Service as the Sun”

Annual Report - 2014

Ministry of Plantation Industries

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2. Introduction

Tea Shakthi Fund was established under the Tea Shakthi Fund Act No. 47 of 2000 by the Tea Small Holdings Development Authority in collaboration with the All Island Federation of Tea Smallholder Development Societies with the purpose of uplifting the welfare and economic standard of the tea smallholders. The office of Tea Shakthi Fund, established as a commercial entity, is located at No.553A, Madiwela Road, Thalawathugoda.

The Tea Shakthi Fund is an organization funded and owned by tea smallholders with the intention of pooling the resources of tea smallholders and bringing together the full potential of the larger community. The Fund operates in 1,200 societies covering 1.5 million tea smallholders who are engaging in tea cultivation.

The following activities are included to fulfill the principal functions of Tea Shakti Fund.

1. Operating 13 Nos. of tea factories as profitable strategic business units.
2. Maintaining the Tea Shakthi Fertilizer Project and the Local Tea Sales Project profitably while securing the credibility and on time availability with strict focus on quality.
3. Producing tea and distributing them in the local market efficiently.
4. Maintaining a Social Security Scheme for tea small holders.
5. Distributing quality fertilizer among tea smallholders through the Fertilizer Project.

The main objective of carrying out the above activities is to uplift the economic and social well-being of tea smallholders by improving the bargaining power of the green leaf producer in operating the tea factories with maximum productivity and efficiency.

This Annual Report will give you an evidence of how far the management of Tea Shakthi Fund has achieved its objectives in the current year, the challenges faced, the threats and the actual events of the year.

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.

3. Message from the Secretary

Tea Shakthi Fund was established under the Tea Shakthi Fund Act No. 47 of 2000. Later, in terms of the Cabinet Decision No. අමප/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 staff who served in the Tea Shakthi Fund has been attached to the Ministry of Plantation Industries for the purpose.

As well, actions were taken to hand over 12 factories, Mawarala Estate and Fertilizer Warehouse at Aramanagolla, Horana owned by the Tea Shakthi Fund to external parties on lease basis or the management basis. After restructuring, the lease rentals and management fees from the factories are received by the Tea Shakti Fund, and approval of the Cabinet of Ministers has been granted to credit the remaining sum of money to the Consolidated Fund after settlement of the short term liabilities and the formation of Welfare Insurance Fund of Rs.135 million.

The Tea Shakthi Fund had carried out following activities in the year 2014.

- In the year 2014, 8.08 million kg of green leaf were bought from small tea smallholders for 10 factories of Tea Shakti Fund which were in operation at that time and 1.69 million kg of made tea was produced. By selling the tea through brokerage companies, an income of Rs.556.47 million has been earned and it shows a drop of Rs.149.27 million compared to the year 2013.
- The Tea Shakthi Fertilizer Project had generated an income of Rs.31.28 million and it shows an increase of Rs.1.03 million compared to the year 2013.
- Although the Local Tea Sales Division generated an income of Rs.2.65 million, it shows a decline of Rs.0.21 million compared to the year 2013.
- Although an income of Rs.621.58 million was generated from all investments in the current year, it shows a decrease of Rs.151.44 million as against the year 2013.

- 22 new members have been enrolled in the Insurance Compensation Scheme implemented by the Tea Shakthi Fund.
- A sum of Rs.9.47 million was paid to 506 members as insurance benefits in the current year.

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 country's poverty reduction and national economy. However, it is observed that the expected objectives were not achieved due to the deficiencies in its management later on.

The Annual Report-2014 for the period before the dissolution of the Board of Directors of the Tea Shakthi Fund in the year 2016 will be submitted this year.

B.L.A.J. Dharmakeerthi

Secretary

Ministry of Plantation Industries

4. Financial Analysis

Summaries of Financial Performance for three years up to 31st December 2014

	2012	2013	2014
	<u>Rs. Million</u>	<u>Rs. Million</u>	<u>Rs. Million</u>
<u>Income</u>	<u>657.70</u>	<u>773.03</u>	<u>621.59</u>
<u>Selling Cost</u>	<u>(528.63)</u>	<u>(702.63)</u>	<u>(611.32)</u>
<u>Gross Profit</u>	<u>129.07</u>	<u>70.39</u>	<u>10.27</u>
<u>Other Income</u>	<u>161.77</u>	<u>44.69</u>	<u>44.08</u>
<u>Sales and Distribution Expenses</u>	<u>(8.54)</u>	<u>(17.87)</u>	<u>(15.51)</u>
<u>Administrative Expenses</u>	<u>(198.54)</u>	<u>(195.66)</u>	<u>(200.33)</u>
<u>Net Financial Expenses</u>	<u>(1.56)</u>	<u>4.67</u>	<u>(10.08)</u>
<u>Government Grants write off</u>	<u>50.63</u>	<u>43.75</u>	<u>43.75</u>
<u>Net Profit / Loss</u>	<u>82.20</u>	<u>(59.36)</u>	<u>(127.82)</u>
<u>Dividends</u>	<u>No</u>	<u>No</u>	<u>No</u>
<u>Total Assets</u>	<u>935.00</u>	<u>882.45</u>	<u>758.47</u>
<u>Working Capital</u>	<u>184.01</u>	<u>119.00</u>	<u>63.39</u>
<u>Current Ratio</u>	<u>1:1.74</u>	<u>1:1.38</u>	<u>1: 1.9</u>

Balances for the years 2012, 2013 and 2014 have been presented after making adjustments in accordance with the Sri Lanka Financial Reporting Standards.

5. Corporate Information

Name	: Tea Shakthi Fund
Address	: No.553A, Madiwela Road, Thalawathugoda
Telephone	: 011-7421121
Fax	: 011-2796537, 011-7421122
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

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

Board of Directors

- | | |
|--------------------------------------|--|
| 8. Mr. Noel Padmasiri Kariyawasam | - Director/ Chairman, Tea Small Holdings Development Authority |
| 9. Ven. Uhanovita Wimaladhamma Thero | - Director (From 22 nd January 2014 to 31 st December 2014) |
| 10. Mr. A.M.P.M.B. Atapattu | - Director/ Deputy Director, Ministry of Finance and Planning (From 13 th November 2013 to 31 st December 2014) |
| 11. Mr. K.G.B. Obesekara | - Director/ General Manager, Tea Small Holdings Development Authority |
| 12. Mr. Nevil Ratnayake | - Director/ Chairman, All Island Federation of Tea Smallholder Development Societies |
| 13. Mr. J.M.B.J. Bandara | - Director/ Chairman, Ratnapura Tea Smallholder Development Regional Organization |
| 7. Mr. W.R.S. Karunaratna | - Director/ Chairman, Nuwara Eliya Tea Smallholder Development Regional Organization |
| 8. Mr. R.M. Gunasekara | - Director/ Chairman, Badulla Tea Smallholder Development Regional Organization |
| 9. Mr. B.G. Abeysinghe | - Director/ Chairman, Kandy Tea Smallholder Development Regional Organization |
| 10. Mr. G.H. Susantha De Silva | - Director/ Chairman, Galle Tea Smallholder Development Regional Organization |
| 11. Mr. K.L. Gunaratna | - Director/ Chairman, Kalutara Tea Smallholder Development Regional Organization |
| 12. Mr. P.R.A. Rathnayake | - Director/ Chairman, Kegalle Tea Smallholder Development Regional Organization |
| 13. Mr. M.F.S.W. Stembo | - Consultant/ MPI Managing Director Kalubowitiyana Tea Factory Ltd. |
| 14. Mr. S.S.B.D. Jayawardena | - Observer/ Chairman, Tea Research Institute, Talawakelle |
| 15. Mr. E.A.J.K. Edirisinghe | - Observer/ Tea Commissioner, Sri Lanka Tea Board |
| 16. Mr. K.G.D.D. Abeysundara | - Observer/ Chairman, Kalubowitiyana Tea Factory Ltd. |
| 17. Mr. G.W.D.P. Senanayake | - Observer/ Chief Accountant, Ministry of Plantation Industries |
| 18. Mr. Sarath Sirisena | - Observer, Lanka Commodity Brokers Ltd. |
| 19. Mr. A.H. Sunil Gunawardhana | - Director (Temporary)/Deputy Director, Ministry of Finance (From 21 st November 2014 to 23 rd December 2014) |
| 20. Mr. M.B. Cyril | - Deputy General Manager (Development), Tea Smallholdings Development Authority/ Secretary of the Board of Directors |
| 21. Mr. C. J. I. T. Fernando | - Deputy General Manager (Service Extensions), Tea Smallholdings Development Authority/ Secretary of the Board of Directors (From 02 nd October 2014 to 31 st December 2014) |

Audit and Management Committee

10. Mr. G.W.D.P. Senanayake	- Chairman, Audit and Management Committee
11. Mr. R. U. P. R. Siriwardhana	- Convener, Audit and Management Committee
12. Mr. A.M.P.M.B. Atapattu	- Member, Audit and Management Committee
13. Mr. M.F.S.W. Stembo	- Member, Audit and Management Committee
14. Mr. Nevil Ratnayake	- Member, Audit and Management Committee
15. Mr. J.M.B.J. Bandara	- Member, Audit and Management Committee
16. Mr. E.A. P. Ananda	- Member, Audit and Management Committee

Executive Officers

11. Mr. A.J.M.P.B. Aviruppola	- Chief Executive Officer
12. Mr. P.G.R. Tissa	- Chief Accountant
13. Mr. S.D.K. Athukorala	- Chief Manager (Development)
14. Mr. M. S. H. Mohotti	- Internal Auditor
15. Mr. R. U. P. R. Siriwardhana	- Manager (Human Resources & Administration)
16. Mr. Nihal Weerasekara	- Manager (Fertilizer and Local Tea Sales)
17. Mr. W.A. A.S. Jayasundara	- Accountant
18. Mr. Chamila Jayawickrama	- Internal Audit Officer
19. Mr. A. H. C. K. Karunaratne	- Computer System Administrator
20. Mr. M. A. Indikaratne	- Welfare Officer

In addition, Lieutenant Colonel (Retired) Mr. G.L.F. Marshall performed duties as a Factory Consultant.

7. Summary of the Activities of the Institution

In the year 2014, in addition to an Internal Auditor, an Internal Audit Officer and a Computer System Controller were newly recruited for the vacancy fell after the retirement of the Chief Internal Auditor who served in Tea Shakthi Fund.

Basic Activities

The following projects were implemented under the Tea Shakthi Fund, and the performance of the projects is detailed on pages 137,145, 146 respectively.

1. Factory Project
2. Fertilizer Project
3. Local Tea Sales Project

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 account report.

Future Development Programmes

It is opportune to implement the following points for the development of the 10 factories in operation, the Fertilizer Project and the Local Tea Sales Project within the Tea Shakthi Fund.

- Improving the quality of made tea.
- Using new technologies and introducing new machinery.
- Introducing value added products.
- Focusing on obtaining certifications from the Sri Lanka Standards Institution.
- Selling quality tea and identifying new buyers for the Local Tea Sales Division.
- Enhancing sales of fertilizer at factory level and by appointing new Sales Agents.
- Planning to be competitive with more benefits to shareholders and tea smallholders.

Profits and Appropriations

Details of turnover and operating profits for the years 2013 and 2014 are given below.

	2013 (Rs.)	2014 (Rs.)
Income earned from brokers' sales	705,746,466.00	556,475,091.00
Local tea sales	31,402,999.00	28,607,143.00
Sales of fertilizer	30,572,963.00	31,277,680.00
Direct income from raw material	322,363.00	326,302.00
Income from refuse tea	6,129,858.00	5,626,443.00
Sales discount	(818,847.00)	(722,985.00)
Total Income	773,033,440.00	621,589,674.00
Selling Cost	(702,639,456.00)	(611,323,143.00)
Gross Profit	70,393,984.00	10,266,531.00
Other Income	44,692,274.00	44,085,060.00
Administrative Expenses	(195,661,407.00)	(200,329,899.00)
Sales and Distribution Expenses	(17,870,755.00)	(15,508,944.00)
Total operating Profit	(98,445,904.00)	(161,487,253.00)
Financial Cost	(4,670,387.00)	(10,086,984.00)
Operating Profit before taxation	(59,365,788.00)	(127,823,734.00)
Income Tax	-	-
Net Profit / Loss	(59,365,788.00)	(127,823,734.00)

Dividends and Reserves

No dividends have been declared during the year under review.

Corporate Donations

During the year 2014, a sum of Rs.25,550,000.00 has been received as Treasury allocations.

Capital Expenditure

Details of property, plant and equipment of the Tea Shakthi Fund are given in Note No.12 on page No.38.

Contributory Capital

Government Grants	Rs. 437,505,030.00
Share Capital	Rs. 208,959,130.00

Statutory Payments

Based on the decisions of the Board of Directors, the statutory dues payable to the government and the employees for the current year have been duly made.

Lease Agreements

While income tax is not shown in the Financial Statement, the Tea Shakthi Fund enjoys the 10-year tax exemption which has been granted to the agriculture sector.

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.127.

Interests of Board of Directors in Contracts and Proposed Contracts

No Director is directly or indirectly interested in any contract or proposed contract for the year ended 31st December 2014.

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

After reviewing the financial statements and considering the involvement of the tea smallholders, forecasts, budget, requirements for borrowings, existing liabilities, financial tolerability, financial adaptability for changing environments, products and market trends, management strategies and strengths, weaknesses, situations and threats, the Board is satisfied that the Fund has adequate resources to continue its operations in the foreseeable future without materially curtailing its operations. Therefore, we continued to adopt the Going Concern basis in the preparation of 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 2014 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.

8. Tea Shakthi Projects

8.1. Tea Shakthi Tea Factories

1. Badulla District

- Passara Tea Shakthi Factory - Mr. D.M.N.P. Dissanayake
Factory Manager

2. Nuwara Eliya District

- Keppetipola Tea Shakthi Factory - Mr. R. Godakandaarachchi
Factory Manager
- Kotmale Tea Shakthi Tea Factory - Mr. R.U. Jayasekara
Factory Manager

(On a rental basis from Mahaweli Development Authority)

- Mahaweli Tea Shakthi Factory - Mr. Ananda Dhanasiri
Factory Manager

3. Kalutara District

- Raigamkorale Tea Shakthi Factory - Mr. S.D.K. Athukorala
Factory Manager

4. Galle District

- Elpitiya Tea Shakthi Factory - Mr. Sampath Bandara
Factory Manager
- Walahanduwa Tea Shakthi Factory - A. J. R. Mr. Seneviratne
Factory Manager
- Hiniduma Tea Shakthi Factory - Have been assigned to Kalubowitiyana
Tea Factory Ltd.

5. Ratnapura District

- Gileemale Tea Shakthi Factory - Have been closed.
- Balangoda Tea Shakthi Factory - Have been closed.
- Pothupitiya Tea Shakthi Factory - Proposed.

6. Matara District

- Deniyaya Tea Shakthi Factory - Mr. D. G. Neil Dias
Factory Manager
- Mawarala Tea Shakthi Factory - Mr. S. Maginarachchi
Factory Manager (Acting)

7. Kandy District

- Yatinuvara Tea Shakthi Factory - Have been assigned to Kalubowitiyana
Tea Factory Ltd.

8. Kegalle District

- Deraniyagala Tea Shakthi Factory - Mr. U.G.N. Kumara
Factory Manager
- Bulathkohupitiya Tea Shakthi Factory - Proposed.

8.2. Fertilizer and Local Tea Sales Projects

- Fertilizer and Local Tea Sales Center - Mr. Nihal Weerasekera, Manager
- Tea Blending Plant, Aramanagolla, Horana - Mr. Nihal Weerasekera, Manager

9. Operational and Financial Review

In the year 2014, the administrative expenses had declined by Rs.4.67 million and the distribution expenses had increased by Rs.2.36 million compared to the year 2013.

9.1. Category wise contribution and financial performance

Category wise contribution (Rs. million) 2013 – 2014

Category	2014	2013	Variance
Tea Brokers' Sales	556.47	705.74	(149.27)
Local Tea Sales	28.60	31.40	(2.80)
Fertilizer Sales	31.27	30.25	1.02

9.1.1. Made Tea Income from Brokers

Compared to the previous year, the tea sales income received from tea brokers has declined by Rs.149.28 million. The total amount of made tea produced in the factories has dropped as the amount of green leaf received by the factories were reduced due to the decrease in the tea yield. Further, the decline in the price received at the tea auction for made tea produced in the year 2014 compared to the year 2013 had also caused for the drop.

9.1.2. Income from Local Tea Sales

The income from local tea sales in the year 2014 is Rs.28.60 million, which is a drop of Rs.2.80 million compared to the previous year. Weaknesses in the tea sales sector, poor strategies in competing with other tea sales competitors and adoption of old sales strategies have mainly caused to the decline in the sales income.

9.1.3. Income from Fertilizer Projects

The Fertilizer Project had generated an income of Rs.31.27 million from sales during the year, which is an increase of Rs.1.02 million compared to the previous year. The increased demand for high-quality fertilizer production and reduction in the cost of mixing fertilizers have been the main factors in increasing sales income of the Fertilizer Project.

9.1.4. Financial Performance - 2012 – 2014

Description	2014	2013	2012
ROCE %	16.85	6.73	8.8
GP Ratio %	1.65	9.1	19.6
ROA Times	1 : (0.16)	1: (0.067)	1 : 0.90
Net Profit Ratio	-20.56%	-7.68%	12.49%
Gross Profit Kg. (Rs.)	0.60	33.15	63.48
Net Profit Kg.	(75.29)	27.96	40.43
Total Assets (Rs.)	758,475,681	882,457,653	935,066,212
Current Ratio	1:1.9	1:1.38	1:1.74

According to the financial ratios shown in the above table, it is observed that the year 2014 is the most unfavourable year of performance from the year 2012 to the year 2014.

Further, summaries of Income and Expenditure Accounts from the year 2012 to the year 2014 had clearly shown this situation.

9.1.4. Income and Overall Profitability (Rs.)

The income from the sale of made tea in the year 2014 has declined by Rs.149.27 million compared to the year 2013. Accordingly, as a whole, a loss of Rs.15.1 million has been incurred in the year 2014.

It can be attributed to the decline in the made tea production in the year 2014 compared to the year 2013 and various other factors not being managed efficiently and effectively.

9.2. Tea Shakthi Factory Project

9.2.1. Supply of Green Leaf and Made Tea Products

During the period from April to July in the current year, a dry weather condition was observed in the entire island. It starts to rain in May for the North Central and Eastern Provinces and from August to December in the Southwest regions. The supply of green leaf for each factory during the last 05 years is given in the following table with an annual comparison.

Buying of Green Leaf (Kg.) from the year 2010 to the year 2014

Factory	Buying Green Leaf				
	2010	2011	2012	2013	2014
Balangoda	884,746	361,250	Closed	-	-
Hiniduma	988,307	538,928		-	-
Pansalthenna	424,476	471,726		-	-
Deniyaya	1,506,140	1,310,992	1,074,155	907,490	713,628
Elpitiya	874,488	728,562	558,006	1,027,287	497,958
Keppetipola	1,251,739	1,137,382	1,204,787	1,447,584	965,544
Kothmale	493,987	938,351	442,018	508,090	389,658
Mahaweli	1,410,220	2,099,827	1,601,808	1,081,351	856,455
Mawarala	856,827	827,292	537,241	400,610	267,805
Passara	1,491,534	1,405,541	1,299,076	1,363,587	948,561
Raigamkorale	1,637,597	1,891,541	1,446,959	1,355,290	1,538,794
Walahanduwa	1,244,025	1,264,174	1,168,658	1,144,529	683,708
Deraniyagala		-	192,832	882,710	1,222,146
Total	13,064,086	12,975,566	9,525,540	10,118,528	8,084,257

According to the above table, the year under review is the year in which all other factories, except Raigamkorale and Deraniyagala factories, have recorded less buying of green leaf in 05 years and it is observed that the Deraniyagala factory, which was established in the latter half of the year 2012, has increased its supply of green leaf annually. It is observed that the supply of green leaf in Deniaya, Mawarala and Walahanduwa factories has continuously reduced, while the annual supply of green leaf has fluctuated in other factories.

The maximum amount of bought leaf that is 2,099,827 Kg. was reported from the Mahaweli Tea Shakthi Tea Factory in the year 2011, and the lowest amount of bought leaf that is 192,832 Kg. was reported from Deraniyagala Tea Shakthi Tea Factory in the year 2012.

Deraniyagala Tea Shakthi Tea Factory initiated its operations in October 2012, and they could not buy enough green leaf in that short period of time. The amount of green leaf bought for Tea Shakthi factories can be increased by conducting awareness programmes for small tea smallholders, attracting skilled workers and building strong relationships with Tea Inspectors, Regional Managers, local political authority and tea brokers. The amount of bought leaf they reported in the year 2014, which is 1,222,146 Kg. is a significant increase.

Made Tea (Kg.) from the year 2010 to the year 2014

Factory	Made Tea				
	2010	2011	2012	2013	2014
Balangoda	189,991	74,291	Closed.	-	-
Hiniduma	197,829	106,607		-	-
Pansalthenna	89,478	104,899.5		-	-
Deniyaya	310,725	269,055	218,364	184,519	146,651
Elpitiya	178,077	148,021.5	118,400	216,272	102,435
Keppetipola	273,322	243,507	261,056	309,395	206,235
Kothmale	103,042	200,027	99,200	107,593	80,351.5
Mahaweli	301,755	458,806	351,989	228,485	188,065
Mawarala	175,756	171,257	111,197	82,126	55,380
Passara	328,441	307,929	290,487	298,578	209,097
Raigamkorale	348,710	400,380	300,603	275,321	316,688
Walahanduwa	257,831	260,930.5	241,296	238,541	141,814
Deraniyagala			40,599	182,312	250,966.5
Total	2,754,957	2,853,611	2,033,191	2,123,142	1,697,683

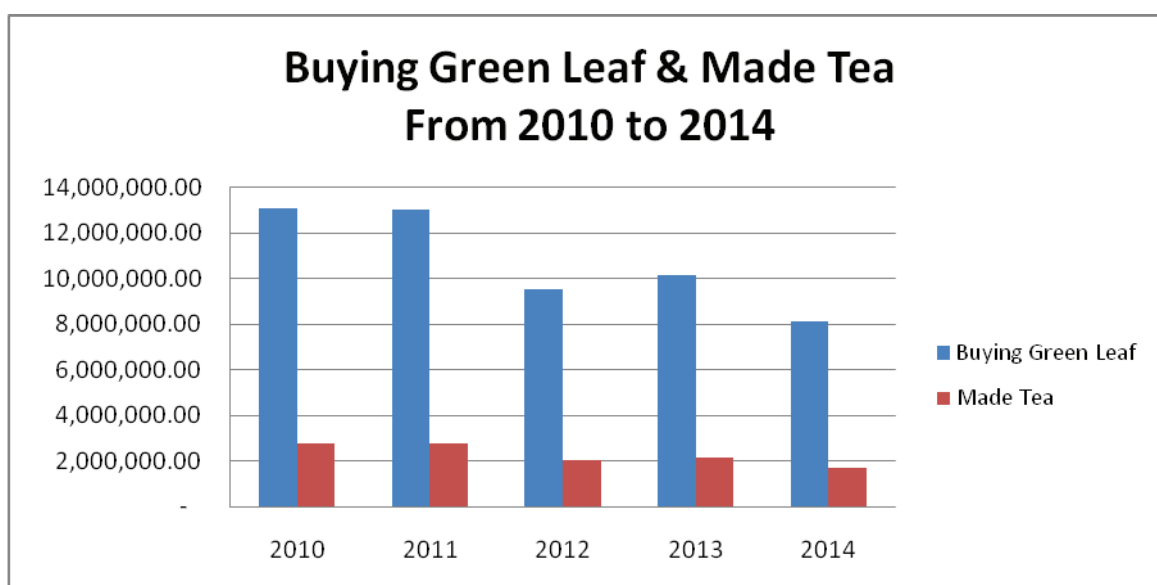
The annual comparative quantities of made tea for the last five years from the year 2010 to the year 2014 are given in the above table.

The lowest amount of made tea in the 05 years mentioned above, had been produced in the year under review, which is mainly due to the decrease in the supply of green leaf and the drop in the made tea output ratio. The lowest amount of tea produced annually in the 05 years had been produced in Mawarala factory in the year, and the amount is a very low value of 8.33% of the capacity of the factory. During the year, none of the factories were

operating at full capacity, and majority of the factories was operating at less than 50% capacity, which was the main factor for the Factory Project to become loss-incurring.

The highest amount of made tea produced during the period of five years which is 458,806 Kg. was reported from Mahaweli Tea Shakthi Tea Factory in the year 2011 and the minimum amount of made tea which is 40,599 Kg. was reported from Deraniyagala Tea Shakthi Tea Factory in the year 2012 within a period of three months.

Total amount of bought leaf and made tea (Kg.) from the year 2010 to the year 2014

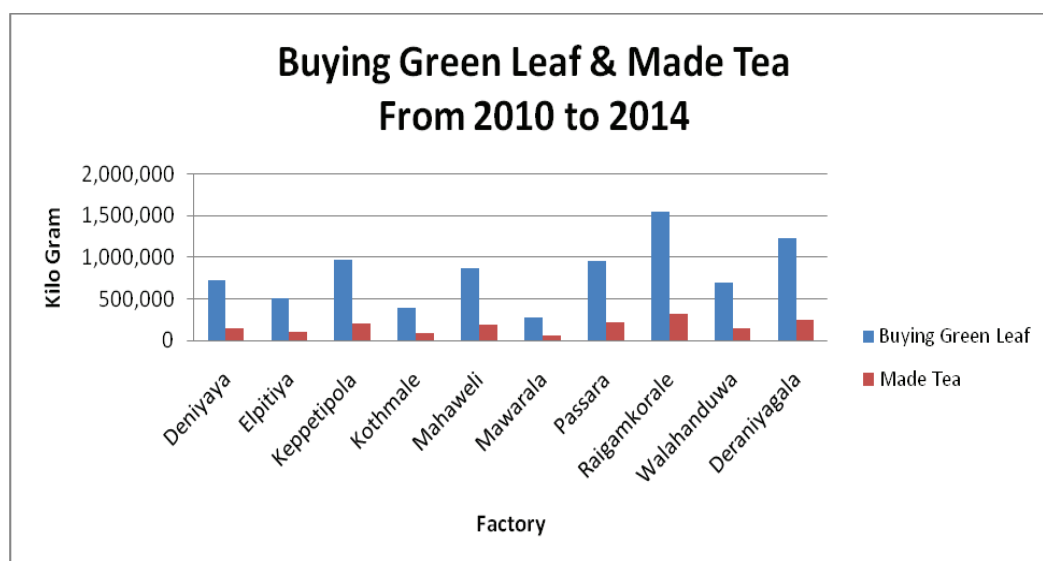


As per the bar graph given above, the annual drop in the purchase of green leaf is shown along with the decrease in the quantity of made tea products. It is observed that the percentage of made tea products has also been maintained at a lower value than the standard value, and this situation has also been one of the factors in increasing the losses.

Comparing the five-year period from the year 2010 to the year 2014, the year 2014 can be registered as the weakest year. The total quantity of bought leaf was 8,084,257 Kg. and the quantity of made tea was 1,697,683 Kg.

When this situation is examined, it is obvious that poor monitoring methods, the low quality green leaf, poor machinery, unfavourable relationships, low prices for made tea, inability to keep production ratios within limits (labour, net sales average), decrease in fertilizer sales (poor sales mechanism) are the root causes for the problem.

Purchase of green leaf and factory wise made tea (Kg.) in the year 2014



9.2.2. Profitability of the Factory Project

Serial No.	Name of the Factory	G/L-KG.	M/T-KG.	OUTTURN %	NSA-RS.	COP-RS.	P/L-Per-KG.	P/L-RS.	P/L-MN.
1	Deniyaya	713,628	146,651	20.55	441.97	527.22	(85.25)	(12,501,997.75)	(12.50)
2	Elpitiya	497,958	102,435	20.57	433.64	565.26	(131.62)	(13,482,494.70)	(13.48)
3	Keppetipola	965,544	206,235	21.36	358.92	391.10	(32.18)	(6,636,642.30)	(6.64)
4	Kothmale	389,658	80,351.5	20.62	354.11	488.36	(134.25)	(10,787,188.88)	(10.79)
5	Mahaweli	856,455	188,065	21.96	370.71	428.92	(58.21)	(10,947,263.65)	(10.95)
6	Mawarala	267,805	55,380	20.68	441.97	644.51	(202.54)	(11,216,665.20)	(11.22)
	Mawarala Watte							2,650,181.08	2.65
7	Passara	948,561	209,097	22.04	372.27	382.53	(10.26)	(2,145,335.22)	(2.14)
8	Raigamkorale	1,538,794	316,688	20.58	431.25	483.02	(51.77)	(16,394,937.76)	(16.39)
9	Walahanduwa	683,708	141,814	20.74	436.95	537.70	(100.75)	(14,287,760.50)	(14.29)
10	Deraniyagala	1,222,146	250,966.5	20.53	382.07	474.62	(92.55)	(23,226,949.58)	(23.23)
Total		8,084,257	1,697,683	21.00	399.47	471.11	(71.64)	(118,977,054.46)	(118.98)

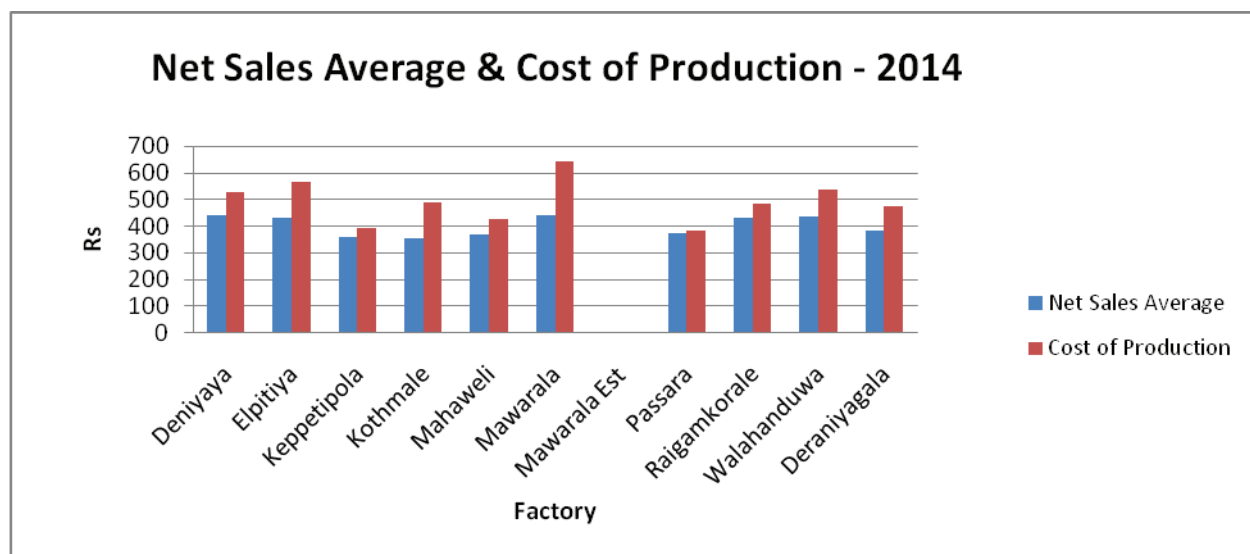
During the year under review, among the above Tea Shakthi Tea Factories that is, except for Deniyaya (12.5), Elpitiya (13.4), Keppetipola (6.6), Kothmale (10.7), Mahaweli (10.9), Mawarala (11.2), Passara (2.1), Raigamkorale (16.3), Walahanduwa. (14.2) and Deraniyagala (23.2) Mawarala Watte (2.6), other factories had reported a loss of millions of rupees in the year 2014.

In the year 2014, out of the ten tea factories, Raigamkorale Tea Shakthi Tea Factory had recorded the highest quantity of bought leaf which was 1,538,794 Kg., and the highest amount of made tea which was 316,688 Kg. However, a loss of Rs.51.77 per Kg. of made tea had been recorded as the Raigamkorale Tea Shakthi Tea Factory could not successfully maintain the net sales average and the cost of production.

9.2.3. Cost of Production and Net Sales Average (NSA)

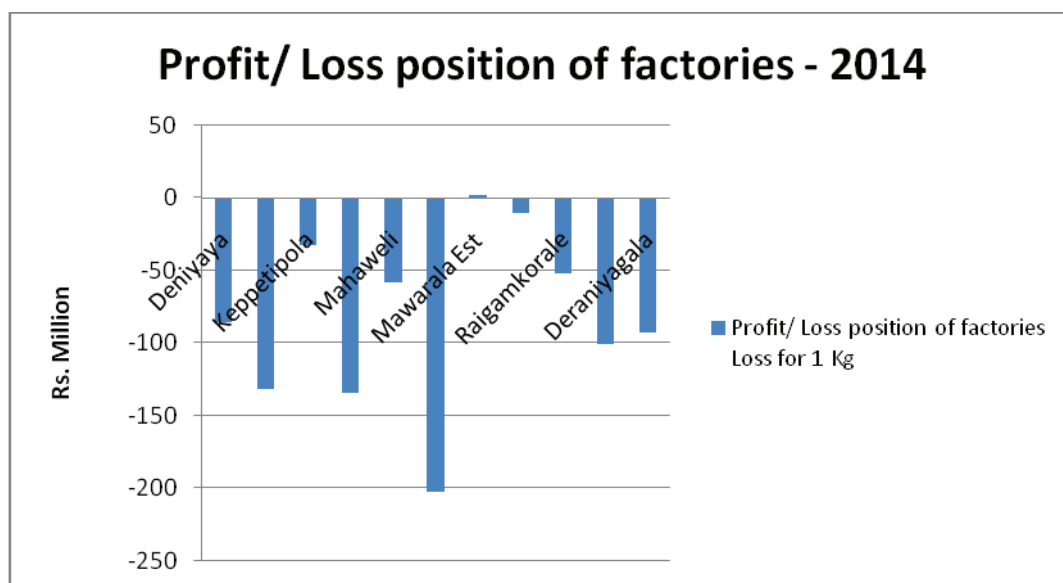
Since the Tea Shakthi Tea Factories are 100% dependent on green leaf bought from tea smallholders, the purchase of green leaf from the tea small holdings sector directly affects the operations of the Tea Shakthi Tea Factories.

Net Sales Average and Cost of Production - (Rs.) From the year 2010 to the year 2014



The excess labour, fetching lower prices for made tea at auctions, unnecessary expenses, inability to keep rates within the stipulated limits, making extra payments for green leaf, maintaining less productive support staff, increase in overtime, cost of transportation are factors that lead to higher production and lower net sales average.

9.2.4. Profit/ loss position of factories



In the current year, Deraniyagala Tea Factory had incurred the highest loss that is, Rs. 23.23 million, while the Pasara Tea Factory had incurred a low loss of Rs. 2.14 million. Although Mawarala Watte Tea Factory has shown a profit of Rs. 2.65 million, only supply of green leaf is done there.

The production of made tea in the Tea Shakthi Tea Factories has also decreased due to the overall weakness in the purchase of green leaf for the tea factories. This situation has also caused factories to become unprofitable.

Management should pay more attention to the Factory Managers, staff, manufacturing methods, machinery and green leaf contribution of tea smallholders in order to save the Tea Shakthi Tea Factories from this situation and make them profitable. It is also necessary to restructure the Factory Project to improve machinery and other technical areas within this short period.

**9.2.5. The estimated quantity of green leaf and the quantity of green leaf received –
From the year 2010 to the year 2014**

Year	Estimated quantity of Green Leaf Kg.	Quantity of Green Leaf received Kg.	Quantity of Green Leaf received as a percentage
2010	19,398,300	13,064,086	67.35%
2011	18,465,151	12,975,566	70.27%
2012	12,904,700	9,525,540	73.81%
2013	16,807,900	10,118,528	60.20%
2014	15,478,000	8,084,257	52.23%

Taking into account the purchase of green leaf comparatively on an annual basis for the five years ending 31st December, the highest purchase was recorded in the year 2010. It is 13,064,086 Kg. which is 67.35% of the estimated quantity of green leaf. The lowest quantity of bought leaf that was 8,084,257 Kg. which was 52.23% as a percentage was recorded in the year 2014.

Although the managers are responsible for achieving the budget targets, performance evaluation at the field level and activities had not been properly lined up. As a result, the deviation from the expected performance in the budget has happened through the management.

9.2.6. Total expenditure for bought leaf, expenditure for bought leaf at normal rates and expenditure for bought leaf at additional charges

Year	Total bought leaf expenditure Rs.	Bought leaf expenditure at additional charges Rs.	Bought leaf expenditure at normal rates Rs.
2010	691,289,590	17,736,070	673,553,521
2011	650,283,893	6,027,487	644,256,406
2012	519,092,972	5,918,867	513,174,105
2013	633,024,984	16,282,876	616,742,108
2014	526,129,770	20,809,981	505,319,789

The price to be paid for the bought leaf is determined by the price fixed at the auction for the made tea. If the factories are able to produce high quality made tea, such made tea will be reported as the best tea at the auction and the low quality made tea will be determined at a low price in the auction.

Through the information made available, it is obvious that the payment of additional charges is a failure (poor achievement rate %). A survey should be conducted regarding the matters such as low rates before payment of additional charges, low quality green leaf and perception of tea smallholders (B-60 programme), condition of machinery, training for workers and the staff and the cost factor. Then the management will have an opportunity to identify weak areas and areas to be developed.

9.3. 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 is sold. A large amount of fertilizer sales could be achieved with the implementation of the Fertilizer Subsidy Programme for tea smallholders in line with the “Mahinda Chinthana Idiri Dakma” Policy Statement.

In the year 2014, the Tea Shakthi Fertilizer Project had generated an income of Rs. 31,277,680 from the fertilizer sales. The highest sales income was recorded this year and the fertilizer sales income had increased by Rs. 1,112,597.50 compared to the previous year.

Fertilizer Sales and Income – From the year 2010 to the year 2014

Category	2010	2011	2012	2013	2014	Total
Quantity (Mt.)	2,164.32	2,065	909.80	1,340	1,440.01	7,919.13
Income (Rs.)	124,113,556.34	70,710,918.49	18,158,986.25	30,165,082.5	30,880,997	274,029,540.58

Recommended inputs in the agricultural sector under the Government Fertilizer Subsidy Project were started from the year 2006, and the year 2014 was the year with the highest sales compared to the year 2013.

As a whole, the Tea Shakthi Fertilizer Project had sold 7,919.13 Mt. of fertilizer during the period from the year 2010 to the year 2014 and the sales income was Rs. 274,029,540.58. The year 2010 can be mentioned as the year with the highest fertilizer sales and income, and 2,164.32 Mt. of fertilizer had been sold.

Tea Shakti Fund purchased Sulphate of Ammonia (SA), Kieserite, Urea, Eppawala Rock Phosphate (ERP) and Muriate of Potash (MOP) as straight fertilizer. By using such fertilizer, T-200, T-750, U-709, UT-397, U-752, U-625 for tea and rubber fertilizer, cinnamon fertilizer, coconut fertilizer had been produced and sold as mixed fertilizer. In addition, Dolomite and Zinc Sulfate had also been sold.

9. 4. Tea Shakthi Local Tea Sales

Comparing the sales income of the year 2014 with the year 2013, the total tea sales income has increased by Rs. 18,259.

Local Tea Sales Income from the year 2011 to the year 2014

Category	2011	2012	2013	2014
Local Tea Sales (Rs.)	3,569,103	2,290,100	2,830,159	2,848,418

It is necessary to work through the other public and private welfare agencies to increase the tea sales. It was invited to the small fairs organized by Parliament, Sri Jayewardenepura Hospital, Orange Private Limited etc. and the Deyata Kirula programme had also drawn attention. The Manager of the Local Tea Sales Division believed that the sales volume and income level can be further increased, if there is a well-skilled sales force and mechanism.

Local Tea Sales Project had also been implemented through the factories and the Head office to reach individual consumers.

Distributing one's own products is highly beneficial, if adequate sales mechanism and skilled workers are available for local tea sales and thereby enabling them to sustain their operations in a cost-effective manner. It is envisaged to take actions to make arrangements in this regard as soon as approval is granted for the revised cadre of the Tea Shakthi Fund.

9. 5. 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 can be introduced as an important segment under the Tea Shakthi Fund, which is called 'Community Social Responsibility' in the business community. Apart from Bangladesh and Vietnam, this is the one and only welfare movement where this project is made available.

Progress of the Welfare Project – From the year 2010 to the year 2014

Year	Number of Members	Insurance Gratuity	Number of Benefits paid	Value of Benefit Rs.
2010	96,000	14,737,379.96	557	10,705,000.00
2011	96,000	14,125,000.00	839	15,655,776.00
2012	97,000	13,661,120.00	745	16,177,732.00
2013	97,000	-	669	13,618,631.04
2014	93,574	9,834,830.88	505	9,471,548.00

The progress of this Welfare Project in the last five years is given above. Accordingly, the highest number of members that is, 97,000 have been recorded in the year 2012 and the year 2013. In the year 2014, there is a decrease in the number of members, which is given in the above table as 93,574.

A drop is shown in the insurance gratuity paid to the members in the year 2014. In order to speed up the payments of benefits in the year 2013 and avoid malpractices done by the Insurance Companies, the Tea Shakthi Fund made direct payment of benefits based on the decision made at the Board meeting held on 28.11.2012.

The number of beneficiaries was maintained at a normal level. The highest number of beneficiaries that is 839 in number had been recorded in the year 2011. The value of benefits paid in the year 2014 was Rs. 9,471,548, which can be shown as a decrease of Rs. 4,147,083.04 compared to the year 2013.

9.6. Pension Scheme of Tea Smallholders

The members of the Insurance Welfare Scheme and tea smallholders in the age group of 18 – 60 years who are not covered by any other pension benefit plan can become members of this Pension Fund of the tea smallholders. On completion of 60 years of age, they are entitled to a monthly pension based on their contribution to the pension fund.

9.7. Shareholders/ Co-shareholders

	(Rs.)
1. Government of Sri Lanka	437,505,030.22
11. Tea Smallholders	
a. Shareholders (stakeholders)	208,959,130.00
b. Tea Shakthi Members	133,465,892.58

Basic earnings per share from the year 2011 to the year 2014

Year	Initial Earnings per Share (Rs.)
2011	(4.10)
2012	3.93
2013	(2.88)
2014	(6.20)

Details of the Issue of Tea Shakthi Shares

No. of Shares purchased	No. of Shareholders purchased
1 - 24	19,780
25 - 50	18,341
51 - 100	19,875
101 - 200	16,682
201 - 300	6,006
301 - 400	1,242
401 - 500	3,783
501 - 1,000	3,984
1001 - 2,000	1,834
2001 - 3,000	774
3,001 - 4,000	100
4,001 - 5,000	475
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

(Expressed in Sri Lankan Rupees)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER		2014	2013
	Note		
Revenue	6	621,589,674	773,033,439
Cost of Sales		(611,323,143)	(702,639,456)
Gross Profit		10,266,531	70,393,983
Other Income	7	44,085,060	44,692,274
Selling and Distribution Expenses		(15,508,944)	(17,870,755)
Administrative Expenses		(200,329,899)	(195,661,407)
Profit / (Loss) from Operation		(161,487,253)	(98,445,904)
Interest Income	8	6,617,864	8,758,135
Interest Expenses	8	(16,704,848)	(13,428,522)
Write Back of Government Grant		43,750,503	43,750,503
Profit / (Loss) Before Taxation	9	(127,823,734)	(59,365,788)
Income Tax Expenses	10	-	-
Profit / (Loss) for the Year		(127,823,734)	(59,365,788)
Basic Earnings / (Loss) Per Share (Rs.)	11	(6.20)	(2.88)
Profit / (Loss) for the Year		(127,823,734)	(59,365,788)
Other Comprehensive Income			-
Total Other Comprehensive Income		-	-
Total Comprehensive Income / (Loss) for the Year		(127,823,734)	(59,365,788)

Figures in brackets indicate deductions.

Notes to the Financial Statements on Pages 5 to 29 form an integral part of these Financial Statements.

TEA SHAKTHI FUND

(Expressed in Sri Lankan Rupees)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER		2014	2013
	Note		
ASSETS			
Non-Current Assets			
Property, Plant & Equipment	12	330,775,955	358,571,676
Intangible Assets	13	2,435,000	2,435,000
Investment Property	14	16,014,636	17,601,061
Mature / Immature Plantation	15	13,427,908	11,816,506
Investment In Fixed Deposits		8,411,979	60,927,063
Total Non-Current Assets		371,065,477	451,351,306
Current Assets			
Inventories	17	114,050,930	155,454,523
Trade and Other Receivables	18	263,052,111	261,237,796
Statutory Receivables	19	3,415,813	3,806,028
Other Financial Assets			
Cash and Cash Equivalents	20	6,891,350	10,607,999
Total Current Assets		387,410,203	431,106,346
TOTAL ASSETS		758,475,681	882,457,653
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	(328,680,172)	(200,856,438)
Total Equity		(72,416,249)	55,407,486
Non-Current Liabilities			
Members Contribution Fund	22	135,184,750	135,089,150
Government Grants	23	331,803,521	350,004,024
Tea Small Holder Development Authority	24	-	-
Interests Bearing Borrowings - (Non - Current Portion)	25	13,455,505	9,574,365
Retirement Benefits Obligation	26	26,431,382	20,275,222
Total Non-Current Liabilities		506,875,158	514,942,761
Current Liabilities			
Trade and Other Payables	27	315,491,677	257,614,853
Interests Bearing Borrowings - (Current Portion)	25	4,925,892	3,881,140
Statutory Payables	28	3,599,202	2,203,302
Bank Overdrafts	20	-	48,408,111
Total Current Liabilities		324,016,772	312,107,406
TOTAL EQUITY AND LIABILITIES		758,475,681	882,457,653

Accounting policies and notes to the accounts form an integral part of this financial statements.



Deshabandu Wijerathna Dewagedara
Chairman
Tea Shakthi Fund



Nevil Rathnayake
Chief Executive Officer (Acting)
Tea Shakthi Fund



P.G.R Tissa
Chief Accountant
Tea Shakthi Fund

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

	Stated Capital	Revaluation Reserve	Retained Earnings (at debit)	Total
Total Comprehensive Income				
Balance as at 31 December 2013	206,014,150	50,249,773	(200,856,438)	55,407,486
Profit for the Year			(127,823,734.33)	
Balance as at 31 December 2014	206,014,150	50,249,773	(328,680,172)	(72,416,249)

Figures in brackets indicate deductions.

Notes to the Financial Statements on Pages 5 to 29 form an integral part of these Financial Statements.

TEA SHAKTHI FUND

(Expressed in Sri Lankan Rupees)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER	2014	2013
Cash Flows from Operating Activities		
Profit Before Taxation	(127,823,734)	(59,365,788)
<i>Adjustments for;</i>		
Depreciation	32,134,270	32,250,893
Amortization of Government Grants	(43,750,503)	(43,750,503)
Amortization on Matured Plantation	592,250	343,349
(Gain)/Loss on Disposal of Property, Plant & Equipment		
Write Back of Stated Capital		(2,944,980)
Provision for Gratuity	9,418,925	3,101,401
Interest Income	(6,617,864)	(8,758,135)
Interest Expenses	16,704,848	13,428,522
Operating Profit Before Changes in Working Capital	(119,341,808)	(65,695,241)
Changes in Working Capital		
Inventories	41,403,594	5,991,943
Trade and Other Receivables	(1,814,314)	(19,790,003)
Statutory Receivables	390,215	2,258,540
Trade and Other Payables	57,876,825	52,508,737
Statutory Payables	1,395,901	68,346
Cash Generated from Operations	(20,089,588)	(24,657,678)
Gratuity Paid	(3,262,765)	(3,195,001)
Interest Paid	(16,704,848)	(13,428,522)
Net Cash Flow from Operating Activities	(40,057,202)	(41,281,202)
Cash Flows from Investing Activities		
Acquisition of Property, Plant and Equipment	(1,056,447)	(2,025,368)
Capital Work - in - Progress	(1,695,678)	(695,761)
Acquisition of Immature Plantations	(2,203,652)	(2,303,600)
Proceeds from maturity of Fixed Deposits & Other Financial Assets	52,515,085	22,518,670
Receipt during the year	25,550,000	
Interest Received	6,617,864	8,758,135
Net Cash used in Investing Activities	79,727,172	26,252,076
Cash Flows from Financing Activities		
Contribution From Members	95,600	87,725
Term Loans Obtained	16,332,302	1,443,000
Repayment of Loans	(11,406,410)	(5,324,140)
Net Cash used in Financing Activities	5,021,492	(3,793,415)
Net Changes in Cash and Cash Equivalents During the Year	44,691,462	(18,822,541)
Retro & rectify adjustment		(6,340,168)
Cash and Cash Equivalents at Beginning of the Year	(37,800,112)	(12,637,403)
Cash and Cash Equivalents at End of the Year	6,891,350	(37,800,112)

Figures in brackets indicate deductions.

Notes to the Financial Statements on Pages 5 to 29 form an integral part of these Financial Statements.

TEA SHAKTHI FUND**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014****1. CORPORATE INFORMATION****1.2 GENERAL**

Tea Shakthi Fund hereinafter 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 No – 384, Pannipitiya Road, Pelawatta, Battaramulla. And the principle place of business is located at 70, Paliment Road, Pelawatha, Battaramulla. The main objective of the fund is to improve the economic and social status of the small holders by fetching better price for their produce of green leaf through quality tea manufacture in the competitive market and providing them with inputs at reasonable price. The place of Business activities have been scattered in Horana, Matara, Galle, Badulla, Kandy, Nuwaraelliya, and Matale Districts.

1.3 PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

The principal activities of the Fund are manufacture & Sales of Tea & Fertilizer.

1.4 NUMBER OF EMPLOYEES

The number of permanent employees of the fund at the end of the year was 558 persons.

1.5 DATE OF AUTHORIZATION FOR ISSUE

The financial statements of Tea Shakthi Fund for the year ended 31 December 2014 were authorized for issue in accordance with a resolution of the board of directors dated 09.05.2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**2.1 Basis of Preparation**

The financial statements of Tea Shakthi Fund (the “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.

The fund prepared its financial statements for previous periods including the reporting period ended 31 December 2011 in accordance with SLAS which were effective up to 31 December 2011. The financial statements are first SLFRS financial statements prepared in accordance with SLFRS 1 First-time Adoption of Sri Lanka Accounting Standards. The effect of the transition to Sri Lanka Accounting Standards (SLFRSs) on previously reported financial positions and financial performances of the fund is given in note 33 to the financial statements.

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.

The presentation and classification of the financial statements of the previous year have been amended, where relevant, for better presentation and to be comparable with those of the current year.

2.3 Foreign Currency Translation**(a) Functional and presentation currency**

Transaction 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.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

Translation differences related to changes in amortized cost are recognized in the statement of comprehensive income.

TEA SHAKTHI FUND**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014****2.4 Property, Plant and Equipment**

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

Property, plant and equipment were carried at revalued amount in the statement of financial position prepared in accordance with SLAS prior to 31 December 2011. The fund has elected revalued amount of property, plant and equipment as deemed cost at the date of 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 costs are 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 the straight-line method to allocate their cost over their estimated useful lives, as follows:

Assets Category	Expected Useful Life As at the Revaluation
Buildings	40 Years
Plant & Machinery	13 years
Furniture and Fittings	10 Years
Motor Vehicles	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 are capitalized on the basis of the costs incurred to acquire and bring to use the specific software and systems. Intangible assets acquired are stated at cost less accumulated amortization and accumulated impairment losses. These costs are amortized over their estimated useful lives, as follows:

Computer Software	5 Years
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Costs associated with maintaining computer software are recognized as an expense as incurred.

Investment Property

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

Investment properties were carried at revalued amount in the statement of financial position prepared in accordance with SLAS prior to 31 December 2011. The fund has elected revalued amount of the Investment properties as deemed cost 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.

Depreciation on buildings is calculated using the straight-line method to allocate their cost or deemed cost over their estimated useful lives, as follows:

Investment Properties	40 Years
-----------------------	----------

2.6 Biological Assets – Immature and Mature Plantation

Biological assets are classified in to mature biological assets and immature biological assets. Mature biological assets are those that have attained harvestable specifications or are able to sustain regular harvests. Immature biological assets are those that have not yet attained harvestable specifications. Tea and timber plantation 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 attributable overheads.

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

The expenditure incurred on bearer biological assets which come in to 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 recognize the biological assets when, and only when, the entity controls the assets as a result of 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.

2.7 Impairment of Non-Financial Assets

At each end of 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 impaired. If any such indication exists, the recoverable amount of the asset is estimated in order 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.

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.

2.8 Financial Assets**(a) Classification**

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

I. 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. The funds's loans and receivables comprise trade and other receivables, investments in term deposits, advances, prepayments & deposits and cash equivalents in the end of reporting period.

(b) Recognition and Initial Measurement

Financial assets classified as loans and receivables are recognized on 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 assets not at fair value through profit or loss, directly attributable transaction costs.

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 risks and rewards of ownership of the financial assets

(c) Subsequent Measurement

Subsequent to 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 events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For loans and receivables carried at 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 assets 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.

2.9 Inventories**a) Finished Goods Manufactured From Agricultural Produce Of Biological Assets**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

b) Fertilizer

Inventories are stated at cost minus subsidy. Cost is determined using weighted average cost method. The cost of mixed fertilizer comprises raw materials, direct labour, other direct costs and related production overheads. 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 are measured at their fair value less cost to sell at the point of harvest. The finished and semi-finished inventories from agricultural produce are valued by adding the cost of conversion to the fair value of the agricultural produce.

TEA SHAKTHI FUND**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**

2.10 Trade Receivables

Trade receivables are amounts due from customers for sale of goods in the ordinary course of business. 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 period whether there is objective evidence that trade receivables are impaired. Objective evidence of impairment for trade receivables include the fund's past 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.

2.11 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 three months or less net of bank overdraft.

2.12 Stated capital

Ordinary shares are classified as equity.

2.13 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 costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

2.14 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 cycle of the business (within one year or less). If not, they are classified as non-current liabilities.

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 cycle of the business.

2.15 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost using the effective interest method. Floating rate borrowings 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.

2.16 Borrowing Cost

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

2.17 Government grants

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

Fertilizer subsidies relating to import costs are recognized in the statement of comprehensive income to match them with the costs 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 noncurrent liabilities as deferred government grants and are recognized in the statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

Non-monetary grants are measured at carrying value of the non-monetary asset and account for both grant at ' ' at the carrying value

TEA SHAKTHI FUND**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014****2.18 Current and Deferred Tax**

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of 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 on the basis of the tax laws enacted at the reporting period end applicable for the fund operate and generate taxable income. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor 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.

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.

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.

2.19 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 expense 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 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 use the gratuity formula. The present value of the defined benefit obligation is determined by discounting the estimated future benefit that employee 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.

2.20 Provisions and Contingent Liabilities

Provisions for 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, it is probable that an outflow of economic resources will be required from the fund and amounts can be estimated reliably.

The Position of pending legal cases as of the balance sheet date are that Tea Shakthi has been filled 14 cases against various parties and out of which 2 cases had been awarded in favor of Tea Shakthi.

TEA SHAKTHI FUND**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**

Whereas 12 no of parties had filled cases against tea shkthi and out come 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 statements unless the possibility of an outflow of resources is remote.

2.21 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for sale of goods in the ordinary course of fund's activities, stated net of Value Added Taxes (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 types of revenue.

(a) Sales of Goods

Revenue arises from sale of goods is recognized at the point that the risks 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 arises from sale of tea made through tea brokers, is recognized at the point that the risks and rewards of the goods have passed to buyer, which is the point where goods are sold by tea brokers to buyers in auction. Revenue from sales to tea brokers is recorded at invoice value net of brokerage, sale expenses and taxes.

(c) Interest Income

Interest income is recognized using the effective interest method.

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

Gains and losses on disposals are determined by comparing the 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.

2.22 Expenses

Expenditures incurred in the running of the operation are to income in arriving at the profit for the reporting period.

2.23 Events Occurring after the Reporting Period

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

2.24 Commitments

All material commitments at the reporting period end have been identified and disclosed in the notes to the financial statements.

3. Sri Lanka Accounting Standards (SLFRS/LKAS) issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the financial statements are listed below. The fund intends to adopt those standards when they become effective.

a) SLFRS 9-Financial Instruments: SLFRS 9 as issued reflects the replacement of LKAS 39 and applies to recognition, classification and measurement of financial assets and financial liabilities as defined in LKAS 39. The standard is effective for annual periods beginning on or after 1 January 2015.

b) SLFRS 13-Fair Value Measurement: SLFRS 13 establishes guidance for all fair value measurements and disclosures. The fund is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2014.

4. Significant Accounting Estimates and judgments

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

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

(a) Recognition of Deferred Tax Assets

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

(a) Useful life time of depreciable assets

Management reviews its estimate of the useful life time 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.

(b) Defined benefit plan

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

5. First time adoption of SLFRS/LKAS

The financial statements for the reporting period ended 31 December 2012, are the first financial statements prepared in accordance with Sri Lanka Accounting Standards (SLFRSs). Previous reporting periods including up to the reporting period ended 31 December 2011, the fund prepared its financial statements in accordance with Sri Lanka Accounting Standards (SLAS), which were effective up to 31 December 2011.

In preparing these financial statements, the opening statement of financial position was prepared as at 1 January 2011, which is date of transition to Sri Lanka Accounting Standards (SLFRSs). This note explains the principal adjustments made in restating its SLAS financial statements to SLFRSs financial statements for the reporting period as of 1 January 2011, 31 December 2011.

5.1 Optional exemptions from the retrospective application

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

a. Fair Value or Revaluation as Deemed Cost

Property, plant and equipment and investment properties were carried at revalued amount in the statement of financial position prepared in accordance with SLAS prior to 31 December 2011. The fund has elected those 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.

2. Following optional exemptions are not applicable to the fund:

- a. SLFRS 4 - Insurance contracts, since this application is not relevant to the funds.
- b. IFRIC 4 - Determining whether arrangement contains a lease, since the fund does not have lease arrangements.
- c. LKAS 19 - Employee benefits, since the funds measures its defined benefits obligation using formula method.

TEA SHAKTHI FUND**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**

- d. LKAS 21 -Cumulative translation differences, since the fund does not have 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 group entities.
- 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 AFS 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.

5.2 Mandatory exceptions from retrospective application

In preparing the first financial statements in accordance with Sri Lanka Accounting Standards (SLFRSs), The fund has elected to apply following mandatory exceptions 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 in accordance with 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.

5.3 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 2012 together with comparative information for the reporting period ended 31 December 2011 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		2014	2013
6 Revenue			
Tea Sales		556,475,091	705,746,466
Local Tea Sale		28,607,143	31,402,999
Refuse Tea Sales		5,626,443	6,129,858
Fertilizer Sales		31,277,680	30,250,600
Row Material Direct Sales		326,302	322,363
Fertilizer Sales Discount		(722,985)	(818,847)
		621,589,674	773,033,439
7 Other Income			
Write Back of Tea Small Hold Development Authority Liability			
Write Back of Government Grant / Other Payables			
Gain on Disposal of Property, Plant & Equipment			
Other Income			
Tea Field Income		11,327,571.00	9,503,156
H/O Charges (Factory)		30,072,600.00	32,782,639
Demurrage Income			
Rent Income		1,208,010.00	1,970,493
Sundry Income		1,476,878.96	435,987
		44,085,060	44,692,274
8 Net Finance Cost			
Interest Income			
Interest on Fixed Deposits		6,617,864	8,758,135
		6,617,864	8,758,135
Interest Expenses			
Bank Borrowings Interest		16,704,848	13,428,522
		16,704,848	13,428,522
		10,086,984	4,670,387
9 Profit Before Taxation			
Profit Before Taxation is arrived at after charging all expenses including the			
Auditors' Remuneration			
Depreciation			
Defined Benefit Plan Cost - Retiring Gratuity			
Staff Cost			
10	The fund is exempted from income tax for periods of five years under section 16 of Inland Revenue Act, No 10 of 2006 commencing from April 1 2006 and the 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.)			
<i>Amount used as the Numerator</i>			
Net Profit Attributable to Equity Holders (Rs.)		(127,823,734)	(59,365,788)
<i>Number of Ordinary Shares used as the Denominator</i>			
Weighted Average number of Shares in Issue (Nos)		20,601,415	20,601,415
Basic Earnings Per Share (Rs.)		(6.20)	(2.88)

Basic Earnings 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.

Figures in brackets indicates deductions.

Notes to the Financial Statements Continued

TEA SHAKTHI FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

12 Property, Plant and Equipment	Freehold				Leasehold Assets			
	Land and Buildings	Plant and Machinery	Motor Vehicles	Furniture & Fittings	Equipment and Tools	Land and Buildings	Furniture & Fittings	Total
Cost or Valuation								
Balance as at 31 December 2013	218,914,782	306,424,893	25,373,359	4,416,272	3,293,937	330,200	-	563,191,944
Additions	85,250	680,907			163,500			1,056,404
Balance as at 31 December 2014	219,000,032	307,105,800	25,373,359	4,416,272	3,457,437	330,200	-	564,248,348
Depreciation								
Balance as at 31 December 2013	29,121,604	151,755,349	20,367,239	3,227,566	2,259,241	237,247		208,565,893
Charge for the Year	4,207,316	22,956,348	2,129,880	447,302	316,771	34,694		30,547,843
Balance as at 31 December 2014	33,328,920	174,711,697	22,497,119	3,674,868	2,576,012	271,941		239,113,736
Net Carrying Values								
						2014	2013	
Freehold Assets								
Land and Buildings						185,671,112	189,793,178	
Plant and Machinery						132,394,103	154,669,544	
Motor Vehicles						2,876,240	5,006,120	
Furniture and Fittings						741,404	1,188,706	
Computers						2,512,068	2,840,853	
Equipment and Tools						881,425	1,034,696	
Telephone						58,259	92,953	
Leasehold Assets								
Land and Buildings							-	-
Furniture and Fittings							-	-
Work-in-Progress								
						325,134,612	354,626,052	
						5,641,342.28	3,945,664	
						330,775,955	358,571,716	

Figures in brackets indicates deductions.
Notes to the Financial Statements Continued

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER

2014

2013

12.1 Capital Work-in-Progress (Buildings / Plant & Machinery)		
Balance as at 01 January	3,945,664	3,249,903
Additions/(Capitalized)	1,695,678	695,761
Balance as at 31 December	5,641,342	3,945,664
13 Intangible Assets		
Computer Software		
Cost		
Balance as at 01 January	2,435,000	2,435,000
Additions / (Disposals)		
Balance as at 31 December	2,435,000	2,435,000
Net Carrying Value	2,435,000	2,435,000
14 Investment Property		
Cost		
Land & Building		
Balance as at 01 January	12,225,000	12,225,000
Additions / (Disposals)		
Balance as at 31 December	12,225,000	12,225,000
Plant / Machinery & Others		
Balance as at 01 January	17,274,250	17,274,250
Additions / (Disposals)		
Balance as at 31 December	17,274,250	17,274,250
Depreciation		
Balance as at 01 January	11,898,187	10,311,762
Charges for the Year	1,586,427	1,586,425
Balance as at 31 December	13,484,614	11,898,187
Net Charring Value		
Land & Building	9,044,688	9,332,813
Plant / Machinery & Others	6,969,948	8,268,248
	16,014,636	17,601,061

Figures in brackets indicates deductions.

Notes to the Financial Statements Continued

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER

2014

2013

15 Mature / Immature Plantation**Mature Plantation (Tea)***Cost*

Balance as at 01 January	4,749,958	2,337,881
Additions / (Disposals)	2,569,462	2,412,077
Balance as at 31 December	7,319,420	4,749,958

Amortization

Balance as at 01 January	1,107,563	764,214
Charges for the Year	592,250	343,349
Balance as at 31 December	1,699,813	1,107,563

Net Book value

5,619,607	3,642,395
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Immature Plantation (Tea)*Cost*

Balance as at 01 January	8,174,111	8,282,588
Additions	2,203,652	2,303,600
Transfer	(2,569,462)	(2,412,077)
Balance as at 31 December	7,808,301	8,174,111

Total Net Book value

13,427,908	11,816,506
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Figures in brackets indicates deductions.

Notes to the Financial Statements Continued

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 2013

16 Financial Instruments**Categories of Financial Assets And Financial Liabilities**

The carrying value of the financial assets and liabilities reported in the statement of financial position are as follows,

The Carrying Values of Financial Assets and Liabilities

FINANCIAL ASSETS	Note		
Loans and Receivables			
Trade and Other Receivables	(Note 18)	274,665,507	270,054,571
Cash and Cash Equivalents	(Note 20)	6,891,350	10,607,999
		281,556,856	280,662,570

Loans and receivables are stated at their carrying value as their carrying value approximates the fair value.

Total Financial Assets	281,556,856	280,662,570
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FINANCIAL LIABILITIES**Other Financial Liabilities**

Borrowings	(Note 25)	18,381,397	13,455,505
Trade and Other Payables	(Note 27)	315,491,677	257,614,853
Bank Overdrafts	(Note 20)		48,408,111
		333,873,074	319,478,469

Other financial liabilities are stated at their carrying value as their carrying value approximates the fair value.

Total Financial Liabilities	333,873,074	319,478,469
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Figures in brackets indicates deductions.

Notes to the Financial Statements Continued

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER

2014

2013

17 Inventories

Factory Tea Stock	42,169,446	40,900,709
Tea - Balance in Stores / Brokers	58,554,688	91,421,609
Raw Materials	1,213,600	2,963,493
Finish Goods	863,537	309,985
Tea Stock at LTS	1,982,699	1,685,257
General Stock	8,499,035	7,165,883
Stationery Items	183,075	385,400
Fertilizer	584,851	458,521
	114,050,930	145,290,858

18 Trade and Other Receivables

Trade Receivables	(Note 18.1)	126,568,420	131,334,168
Deposits and Advances	(Note 18.2)	40,322,856	40,409,793
Other Receivables	(Note 18.3)	96,160,834	86,697,214
Subsidy Receivables			2,796,621
Pre - Paid Expenses			
		263,052,111	261,237,796

18.1 Trade Receivables

Provision for Impairment	138,181,816	142,947,564
	(11,613,396)	(11,613,396)
	126,568,420	131,334,168

18.2 Deposits and Advances

Deposits	2,578,400	1,908,176
Advances Paid	37,744,457	38,501,617
	40,322,856	40,409,793

18.3 Other Receivables

Interest Receivables	50,968,658	44,723,885
Others	52,933,216	49,714,369
	103,901,874	94,438,254
Provision for Impairment	(7,741,040)	(7,741,040)
	96,160,834	86,697,214

Figures in brackets indicates deductions.

Notes to the Financial Statements Continued

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER		2014	2013
19 Statutory Receivables			
Economic Service Charges (ESC)		3,415,813	3,806,028
Current Tax			
Value Added Tax (VAT)			
		3,415,813	3,806,028
20 Cash and Cash Equivalents			
Favorable Balances			
Cash in Hand		206,577	62,992
Cash at Bank		6,684,772	10,545,007
		6,891,350	10,607,999
Unfavorable Balances			
Bank Overdrafts			(48,408,111)
Cash and Cash Equivalents for the Purpose of Cash Flow Statement		6,891,350	(37,800,112)
21 Stated Capital			
<i>Issued and fully paid</i>			
20,895,913 Ordinary Shares		206,014,150	208,959,130
(-) Purchase of Shares			(2,944,980)
		206,014,150	206,014,150
22 Members Contribution Fund			
Balance as at 01 January		135,089,150	135,001,425
Receipt during the year		95,600	87,725
Balance as at 31 December		135,184,750	135,089,150
23 Government Grants			
Balance at 01 January		350,004,024	393,754,527
Receipt during the year		25,550,000	
Amortization of Government Grants		(43,750,503)	(43,750,503)
Balance at 31 December		331,803,521	350,004,024
The above grants received from the Government of Sri Lanka to open factories to strengthen bargain power of tea small holders . As a result of insufficient documentary evidences, the fund is not in the position to ascertain whether these grants had bee utilized for capital assets or operational expenses. Consequently, the Board has passed a resolution (No.152.33) on 18 February 2014 to write back the said grant over the period of ten years commencing from the financial year 2012.			
24 Tea Small Holder Development Authority			
Balance at 01 January			
Write Back of Liability			
Balance at 31 December		-	-
The net amount payable to Tea Small Holder Development Authority (TSHDA) for expenses incurred on behalf of Tea Shakthi Fund (TSF) is recognized as liability, which has been outstanding for a long period. As a result, Department of Public Finance of General Treasury has granted approval to write back the long outstanding to TSHDA.			
25 Borrowings			
Non-Current Portion			
Term Loans	(Note 25.1)	13,455,505	9,574,365
		13,455,505	9,574,365
Current Portion			
Term Loans	(Note 25.1)	4,925,892	3,881,140
		4,925,892	3,881,140
Bank Overdrafts	(Note 20)	-	48,408,111
		18,381,397	57,982,476

Figures in brackets indicates deductions.

Notes to the Financial Statements Continued

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DEC

2014

2013

25 Borrowings Contd.,

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

Floating Rate:

Carrying Amounts of the Terms Loans & Short-term Borrowings

- -

Fixed Rate

Carrying Amounts of the Terms Loans & Short-term Borrowings

18,381,397 13,455,505

18,381,397 13,455,505**25.1 Term Loans****Balance as at 01 January****13,455,505 17,336,645**

Loans Obtained During the Year

16,332,302 1,443,000

Repayments During the Year

(11,406,410) (5,324,140)

Balance as at 31 December**18,381,397 13,455,505**

Current Portion

4,925,892 3,881,140

Non-Current Portion

13,455,505 9,574,365

18,381,397 13,455,505**26 Retirement Benefits Obligation****Balance as at 01 January****20,275,222 20,368,822**

Expenses Recognized in Comprehensive Income

(Note
26.1)

9,418,925 3,101,401

Payments Made During the Year

(3,262,765) (3,195,001)

Adjustments in Retained Earning at the Date of Transition to SLFRSs

- -

Balance as at 31 December**26,431,382 20,275,222****26.1 Expense Recognized in Comprehensive Income**

Current Service Cost

5,651,355 1,860,840.70

Interest Charge for the Year

3,296,624 1,085,490.41

(Gain) / Loss Arising from Changes in the Assumptions

470,946 155,070.06

9,418,925 3,101,401

These assumptions are developed by the fund is 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

The principal assumptions used are as follows.

Discount Rate [%]

10.75% 10.75%

Future Salary Increases - Salary [%]

2% 2%

Staff Turnover Factor [%]

3% 3%

Retirement Age [Yrs]

55 55

27 Trade and Other Payables

Trade Payables

220,242,249 165,231,638.37

Other Payables

95,249,428 92,383,214.50**315,491,677 257,614,853****28 Statutory Payables**

Withholding Tax (WHT)

3,599,202 2,203,302**3,599,202 2,203,302**

Figures in brackets indicates deductions.

Notes to the Financial Statements Continued



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

PLA/B/TSF/01/2014/05

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

05 January 2017

Secretary,

Ministry of Plantation Industries.

Report of the Auditor General on the Financial Statements of the Tea Shakthi Fund for the year ended 31 December 2014 in terms of Section 14(2)(c) of the Finance Act no.38 of 1971.

The audit of financial statements of the Tea Shakthi Fund for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 13(2) of the Tea Shakthi Fund Act, No.47 of 2000. My comments and observations which I consider should be published with the Annual Report of the Fund in terms of Section 14 (2) (c) of the Finance Act appear in this report. A detailed report in terms of section 13(7) (a) of the finance Act, was issued to the chairman of the fund on 19 August 2016

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2:2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except of the matters described in paragraph 2:2 of this report the financial statements give a true and fair view of the financial position of the Tea Shakthi Fund as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2. Going concern of the Fund

In considering the financial results for the last 5 years, of the Fund, the loss for the year 2010 amounting to Rs.28.52 million had become Rs.127.82 million in the year 2014, being increasing annually except for the year 2012. As 10 per cent of the sum of Rs.437.5 million given by the Treasury as capital grants prior to the year 2005 had been adjusted to the revenue annually since 2012 contrary to Sri Lanka Accounting standards the above loss position had been understated. In view of taking a sum of Rs.74 million to the revenue which had to be paid to the Tea Smallholding Development Authority, a profit was shown in the year 2012.

In considering the net assets of the Fund it was Rs.651.31 million in the year 2010 and it had reduced up to Rs.55.41 million in the year 2013 and it had converted into net liability position of Rs.72.42 million by 2014. Similarly the production activities of the factories belonged to the Fund had been stopped by July 2016 and as such employee remunerations for 2 months had not been paid. Accordingly, it was observed that going concern of the fund appears to be uncertain without government or any other financial assistance.

2.2.2 Sri Lanka Accounting Standards

Instances of non-compliance with Sri Lanka Accounting Standards are given below.

(a) Sri Lanka Accounting Standard 01

In the preparation of financial statements, except required or permitted by a standard, income and expenditure should not be off set each other. Nevertheless, the net rent income of Rs.1,208,010 had been brought to accounts under other income after deducting the maintenance expenditure from the rent income of the year under review.

(b) Sri Lanka Accounting Standard 16

When the fair value of a revalued asset is materially difference from the carrying value an another revaluation has to be done. However, the fixed assets of the fund had not been revalued after the year 2016.

2.2.3 Accounting Deficiencies

Depreciation on Plant and Machinery of the year under review had been under accounted by Rs.588,624.

2.2.4 Lack of Evidence for Audit

Age analysis and confirmation of balances in respect of receivable balances and payable balances totalling Rs.263,052,111 and Rs.315,491,677 respectively included in the final accounts of the year under review were not made available for audit.

2.2.5 Unexplained Differences

A difference of Rs.96,450 was observed between the cash book manually prepared and the computerized cash book and action had not been taken to identify this difference.

2.3 Accounts receivable and Payable

The following observations are made.

- (a) Advances totaling Rs.18,042,351 given for the construction of Bulathkohupitiya and Pothupitiya factories in the year 2001 had not been settled even by the end of the year under review. The construction of these factories had been halted halfway.
- (b) The construction of Yatinuwara factory had been given to a private company in the year 2005. As the construction of the factory had been halted halfway, the advance of Rs.10,269,400 paid to that company had not been recovered even by the end of the year under review.
- (c) The Hiniduma Tea factory had been vested in the Kalubovitiyana Tea company since 2012 on lease basis and action had not been taken to recover the dues amounting to Rs.1,661,828 receivable to the Fund.
- (d) The loan balance of Rs.2,099,029 receivable in respect of lorries given to small tea holding societies for the use of factories belonging to the Tea Shakthi Fund had been brought forward since the year 2013 without being recovered.

2.4 Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following instances of non-compliances with Laws, Rules, and Regulations, were observed.

Reference to Laws, Rules, and Regulations	Non-compliance
(a.) Establishments code of the Democratic Socialist Republic of Sri Lanka Section 13.3 of Chapter ii	An acting appointment should be made until a permanent appointment is made as a temporary measure. Nevertheless, two officers had been appointed as acting basis for the Accountant Post and the Book Keeper post of the fund since 2012 and 2010 respectively.
(b.) Financial Regulation of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 110	A register for losses and damages had not been maintained.
(ii) Financial Regulation 396	Action in terms of financial regulation had not been taken in respect of 17 cheques totaling Rs.179,138, issued but



not presented to the bank relating to 3 bank accounts and lapsed for more than 6 months.

- (c.) Treasury Circular No.IAI/2002/02 dated 28 November 2002 A register of fixed assets had not been maintained for computers and software.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund as at 31 December 2014 had been a deficit of Rs.127,823,734 as compared with the deficit of Rs. 59,365,788 in the preceding year thus observing a deterioration of Rs.68,457,946 or 115 per cent in the financial results of the year under review as compared with the preceding year. Even though the cost of sales had decreased by Rs.91,316,313 the decrease of revenue of the year by Rs.151,443,765 had mainly attributed to this deterioration.

3.2 Legal cases initiated against or by the Fund

The following observations are made.

- (a) Ten cases had been filed by the management in the court of law against 10 factories to recover a sum of Rs.9,409,291 and a case had been filed in the District court of Colombo in respect of a cash fraud of Rs.250,019 in the Marketing Division of the Fund.
- (b) A case had been filed against an external institution to recover a sum of Rs.19,211,584 due to the Fund and the decision was given in favour of the Fund on 20 June 2014 but the defence had made an appeal in the commercial high court of Colombo on 20 August 2014.
- (c) Employees had filed 4 cases in the Labour Tribunal against the Fund.



4. Operating Review

4.1 Performance

The following observations are made.

(a) Factory Profits/ Losses

The Fund owned 14 factories out of which only 10 factories were in operation in the year under review. The loss sustained by those factories in the year under review (except head office expenses) amounted to Rs.115,482,937. When it compared with the preceding year, the loss had increased by Rs.69,730,592 or 152 per cent. Profits/ losses incurred by those factories under operating condition from the year 2010 to the end of the year under review are given below.

Factory	Profitability				
	'000'				
	2014	2013	2012	2011	2010
	Rs.	Rs.	Rs.	Rs.	Rs.
Deniyaya	(11,913)	(7,777)	(7,349)	(4,126)	1,054
Walahanduwa	(14,068)	731	(2,297)	(3,312)	558
Marawila	(10,279)	(10,229)	(6,108)	(3,653)	158
Elpitiya	(13,482)	(3,409)	(7,990)	(16,604)	(10,105)
Raigamkoralaya	(15,885)	(7,479)	(7,579)	2,191	7,670
Kothmale	(9,683)	(6,933)	(6,132)	(8,901)	(11,348)
Keppetipola	(5,628)	5,421	(1,285)	(5,223)	1,239
Passara	(1,769)	5,772	6,640	2,345	6,342
Mahaweli	(10,054)	(13,079)	(899)	245	(2,738)
Deraniyagala	(22,722)	(8,770)	(3,989)	-	-
Total	(115,483)	(45,752)	(36,988)	(37,038)	(7,170)

The following observations are made in this regard.

- (i) Eventhough Walahanduwa, Keppetipola and Passara factories had earned profits in the preceding year, all 10 operating factories had incurred loss in the year under review. Similarly, the Kothmale Tea factory since 2010 and the Deraniyagala factory, opened in the year 2012 had continuously incurred losses.



- (ii) Eventhough tea leaves had been purchased by paying high prices in order to minimize factory losses with the objective of purchasing more tea leaves, this objective had not been achieved and only the increase in cost had been incurred due to incurring additional cost.

(b) Tea Production

The following observations are made in this regard.

	2014	2013	Increase/ (Decrease)	Percentage of different
	-----	-----	-----	-----
Raw Tea purchased Quantity (kg)	8,084,257	10,118,528	2,034,271	20.10
Tea manufactured (kg)	1,697,683	2,123,142	425,459	20.40
Cost of production per kg Rs.	435.27	471.11	35.86	7.61
Net average selling price per kg	399.47	411.10	11.63	2.91
Average selling price per kg at Colombo Tea Auction on location Rs.	461.86	444.42		

- (i) As compared with the preceding year, the quantity of raw tea leaves purchased by factories had decreased by 2,034,271 kg and the overall tea production in the factories had dropped by 20.04 per cent in the year under review. Eventhough tea production in Mawarala, Raigam Korale and Deraniyagala tea factories had increased, tea production of all the factories had decreased ranging from 18 to 53 percentages.
- (ii) (ii) The cost of production per kg of tea had increased by 7.61 per cent and the net selling price had decreased by 2.9 per cent. It was observed that the net selling price per kg of tea had been less than the cost of production of one kg of tea in all factories belonging to the Fund.
- (iii) The overall average price of one kg of tea at Colombo tea auction in the last 5 years had observed a decrease as compared with the average selling price of the factories belonging to the Fund.

- (c) According to the Action Plan for the year under review and the performance reports, the tea productions in the tea factories are as follows.



Factory	Targeted purchase of raw tea leaves as per Action Plan	Actual purchase of tea leaves	Targetted tea production as per Action Plan	Actual Tea Production	Percentage of progress
	(kg)	(kg)	(kg)	(kg)	
Deniyaya	1,500,000	713,628	322,500	146,651	45.47
Walahanduwa	1,500,000	683,708	322,500	141,814	43.97
Mawarala	1,110,000	267,805	238,650	55,382	23.21
Elpitiya	1,500,000	497,958	322,500	102,435	31.76
Raigamkoralaya	1,950,000	1,538,794	419,250	316,688	75.54
Deraniyagala	1,500,000	1,222,146	322,500	250,966	77.82
Kothmale	1,168,000	389,658	251,100	80,351	31.40
Keppetipola	1,800,000	965,544	392,400	206,235	52.56
Passara	1,650,000	948,651	363,000	209,097	57.60
Mahaweli	1,800,000	856,455	387,000	188,064	48.60
Total	15,478,000	8,084,257	3,341,400	1,697,683	

According to the Action Plan of the year under review, it was expected to purches 15,478,000 kg of raw tea leaves during the year under review but only 8,084,257 kg of raw tea leaves or 52.23 per cent had been purchased. As such, the targeted tea production according to the action plan of the year under review amounted Rs.3,341,400 kg and the actual production was only 1,697,683 kg or 50.81 per cent. As considered factory wise performance, except Deraniyagala and Raigam Korale factories had ranged from 23 per cent to 58 per cent.

(d) Domestic Tea Marketing Division

Eventhough it was planned to market tea valued at Rs.6,794,010 according to the action plan during the year under review in the Domestic Tea Marketing division, the actual tea sales amounted to Rs.2,848,418, representing only 42 per cent of the target.

(e) Fertilize Division

The sales target of Fertilize during the year under review was 8,525 MT but the actual sales amounted to 1,440 MT or 16.89 percent only.



(f) Welfare Division

A loan of Rs.118,300,000 had been given to the factories of the fund during the period from 2000 to 2003 from the welfare fund of the members of Tea Small Holders, operated by the Tea Shakthi Fund. Nevertheless, those factories had not settled those loans even up to the end of the year under review. As the factories are running at losses continuously there was an uncertainty in settling the loan balance and the accumulated interest totalling Rs.50,968,658 up to the end of the year under review.

- (g) Dividends to 94,425 shareholders who owned shares valued at Rs.206,014,150 as at 31 December 2014 had not been paid after the year 2007 up to the year under review. Eventhough the vision of the Fund is to become an excellent institution dedicated to foster tea smallholders' economic and social existence by increasing the share capital values of member shareholders, that objective could not be achieved due to the above issues.

4.2 Management Activities

The following observations are made.

- (a) A formal lease agreement with the Kothmale Tea Factory belonging to the Mahaweli Authority operated under the Fund for 12 years had not been entered into. However, according to the decision No. අමප/07/1906/309/019 dated 21 June 2007 of the Cabinet of Ministers, the approval had been granted to vest this factory and land and the factory bungalow belonged to it by a transfer note but action had not been taken accordingly. As such a sum of Rs.5,084,970 had been paid as rent and penalties during the period from 2008 to 2014.
- (b) Action had not been taken to transfer the ownership of 9 motor vehicles belonging to the tea small holders societies, which had been shown in the accounts of the Fund at a cost of Rs.8,512,921.
- (c) In view of the weak management supervision, 6 plots of land, 18.59 purchase in extent had been encroached by an external party after being closed down the Balangoda factory. A case in the District court of Balangoda is being heard in this connection.
- (d) Without taking action to set off the economic service charge totalling Rs.1,403,526 payable for the year under review and the previous year against the balance of Rs.3,415,813 receivable from the Department of Inland Revenue it had been brought to accounts as a payable balance as at the end of the year.



4.3 Idle and Underutilized Assets

The following observations are made.

- (a) Eventhough a fertilize grinder for Rs.2,197,447 had been purchased in the year 2006 to mix fertilize at the fertilize stores complex of the Fund, it had been idle without being utilized as a result of mixing cost and the time spent thereon at a high level.
- (b) After the closure of the Balangoda factory, the official quarters and the toilet system had been dilapidated due to non-maintenance of buildings properly. The land valued at Rs.1,350,000 in which the Balangoda factory was located and the buildings valued at Rs.10,000,000 had been idle without being utilized for any purposes by the end of the year under review.
- (c) Eventhough a computer software system valued at Rs.2,435,000 had been purchased in the year 2010 in order to prepare consolidated accounts of the Head Office of the Fund and all factories, it had not been utilised for the preparation of accounts even by 20 June 2016.

4.4 Apparent Discrepancies

Action had not been taken to identify and to recover the value of shortage of tea stock at the Elpitiya tea factory from the parties responsible thereon.

4.5 Commencement of projects in the lands not formally vested

Eventhough the value of factory lands stated in the accounts as Rs.62,391,999, the Fund had not taken action to vest the ownership of those lands up to 30 June 2016.

4.6 Personnel Administration

The approved and actual cadre of the Fund as at the year under review stood at 90 and 60 respectively and as such there were 30 vacancies which included 14 staff officers posts. The approved and actual factory staff stood at 199 and 79 respectively existing 120 vacancies which included 19 Technology officers representing 53 per cent vacancies.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the financial statements should be presented to the Auditor General within 60 days after the closure of the financial year in terms of Paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements for the year under review had been presented to



audit on 29 April 2016. Further, the draft annual report had not been presented to audit even by 20 October 2016.

5.2 Budgetary Control

According to the budget of the Fund, variances between the budgeted revenue and expenditure and actuals were observed ranging from 39 per cent to 100 per cent, thus the budget had not been made use of an effective instrument of management control.

6. Systems and Controls

Weaknesses in systems and controls were brought to the attention of Chairman of the Fund from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Financial Control
- (c) Factory Operations
- (d) Utilisation of Assets
- (e) Vehicles Control
- (f) Stock Control

H.M.Gamini Wijesinghe

Auditor General