



வடிகி கர்மான் அமர்யாங் பெருந்தோட்டக் கைத்தொழில் அமைச்சு MINISTRY OF PLANTATION INDUSTRIES



வார்கிக வார்காவ வருடாந்த அறிக்கை Annual Report 2015

தேயிலை சக்தி நிதியம்
TEA SHAKTHI FUND



Tea Shakti FUND

“Committed to Service as the Sun”

Annual Report - 2015

Ministry of Plantation Industries

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Introduction

Tea Shakthi Fund was established on 18th August 2000 under the Tea Shakthi Fund Act No. 47 of 2000 enacted by the Parliament of the Democratic Socialist Republic of Sri Lanka. The Tea Shakthi Fund operates as an incorporated commercial enterprise and an amount of Rs. 437,505,030.22 as initial public financial contribution and Rs. 208,959,130.00 as share capital has been invested in the Fund.

The head office is located at No.553A, Madiwela Road, Thalawathugoda in the Kaduwela Divisional Secretary's division.

Major Objectives of the Tea Shakthi Fund

- Directing savings and capital activities to uplift the economic and social status of the tea smallholders.
- Promoting investments related to the tea industry.
- Providing necessary facilities for the green leaf production process of tea smallholders and sales promotion facilities.
- Uplifting the living standard of tea smallholders.

In order to achieve the objectives, the Tea Shakthi Fund has implemented 04 projects.

6. Factory Project Network of the Tea Shakthi Fund

10 operating factories belonging to this project are located in the districts of Kalutara, Galle, Matara, Kegalle, Nuwara Eliya, Ratnapura and Badulla, and there are nearly 4000 green leaf suppliers who supply Green leaf to the factories.

7. Tea Shakthi Fertilizer Project

The fertilizers produced at the fertilizer manufacturing complex located at Aramanagolla, Horanain Kalutara district is released as Tea Shakthi Society Fertilizer. High quality and standard fertilizers are produced mainly for tea, rubber and coconut cultivations. Fertilizers are distributed on the basis of Tea Shakthi factories, which also include direct sales agents. Approximately 2% of the total market has been acquired.

8. Tea Shakthi Local Tea Sales Project

Under the project, high quality fresh made tea is provided at cost effective to consumers and government and non-government organizations. The green leaf will be bought from the tea smallholders and used for packing the made tea produced by the Tea Shakthi factories. The project has acquired a reputation and a relatively significant market, and will continue to supply.

9. Welfare Project

The project will make payments of benefits under the Social and Welfare Insurance Scheme. It covers natural death, accident, elder death, surgery, disability, paralysis, accident benefit payments.

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

Message from the Secretary

Tea Shakthi Fund was established under the Tea Shakthi Fund Act No. 47 of 2000. 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. By the Gazette Extraordinary No. 2289/43 dated 22.07.2022, the Tea Shakthi Fund has been brought under the scope of the Ministry of Plantation Industries and the functions of the Fund are carried out by 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.

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 Shakthi 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 2015.

- 8.40 metric tons of green leaf was bought from tea smallholders for 09 factories and 1.7 million kg of made tea was produced.
- Due to the financial shortfall in the current year, fertilizers were not purchased through letters of credit, and the required basic fertilizers were purchased from the Ceylon Fertilizer Company Limited.
- The income of the Local Tea Sales Division was Rs.0.21 million in the year 2015 registering an increase compared to the year 2014.
- In the year 2015, a sum of Rs. 25 million was received as working capital from the General Treasury and as it was considered as an income, it shows a decrease in the loss compared to the last year.
- The Tea Shakthi Welfare Insurance Scheme, which is implemented for the social welfare of tea smallholders, had provided benefits of Rs.16.17 million to 537 tea smallholders.

It is established that 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 regrettable to remember that the expected objectives were not achieved due to the deficiencies in its management.

B.L.A.J. Dharmakeerthi

Secretary

Ministry of Plantation Industries

Financial Analysis

Summaries of Financial Performance for three years up to 31st December 2015

	2013	2014	2015
	Rs. Million	Rs. Million	Rs. Million
Income	773.03	621.59	573.52
Selling Cost	(702.63)	(611.32)	(552.52)
Gross Profit	70.39	10.27	21.00
Other Income	44.69	44.08	43.84
Sales and Distribution Expenses	(17.87)	(15.51)	(14.93)
Establishment and Administration Expenses	(195.66)	(200.33)	(188.38)
Government Grants write off	43.75	43.75	119.30
Net Financial Expenses	(4.67)	(10.08)	(20.07)
Net Profit / Loss	(59.36)	(127.82)	(39.23)
Dividends	No.	No.	No.
Total Assets	882.45	758.47	696.79
Working Capital	119.00	63.39	6.85
Current Ratio	1:1.38	1:1.19	1:0.98

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

Corporate Information

Name : Tea Shakthi Fund

Address : No.553A, Madiwela Road, Thalawathugoda

Telephone : 011-7421121

Fax : 0112796537, 0117421122

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 *

- * Purchasing of green leaf from tea smallholders on a bought leaf basis and manufacturing in terms of Tea Commissioner's Regulations and sale of tea through legally authorized channels.
- * Mixing of fertilizer material as per a recommended formula and selling of the fertilizer to tea growers especially to tea smallholders.
- * Distribution of tea blends for consumers in the local market.

Auditors : Auditor General's Department

Banker : Bank of Ceylon

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

- Mr. Noel Padmasiri Kariyawasam - Chairman, Tea Small Holdings Development Authority/
Tea Shakthi Fund (From 01st January to 12th February 2015)
- Mr. U.K.S. Mihindukulasuriya - Additional Secretary, Ministry of Plantation Industries/ Chairman,
Tea Small Holdings Development Authority
- Mr. Deepthi Abeywickrama - Director/ Chairman, Tea Small Holdings Development Authority
(From 30th April to 10th August)
- Mr. Deshabandu Wijerathna Dewagedara - Chairman, Tea Small Holdings Development Authority
(From 22nd December 2015 onwards)
- Mr. W.M.M.B.H. Gunarathna - Chief Accountant/ Director, Treasury
(From 17th March to 10th August 2015)
- Mr. D.P. Wimalasena - Chief Accountant/ Director, Treasury
(From 22nd December 2015 onwards)
- Mr. S.R.S. De Silva - General Manager, Tea Small Holdings Development Authority
- Mr. A.W.H.I.C. Weerakoon - Additional Secretary, Ministry of Plantation Industries
(From 22nd December 2015 onwards)
- Mr. A.M.P.M.B. Atapattu - Director, Finance and Planning, General Treasury
(From 22nd January to 15th October 2014)
- Mr. M.B. Cyril - Director/ General Manager, Tea Small Holdings Development
Authority
- Mr. Nevil Ratnayake - Director, All Island Federation of Tea Smallholder Development
Societies/ Chief Executive Officer, Tea Shakthi Fund
- Mr. W.R.S. Karunaratna - Director/ Chairman, Nuwara Eliya Tea Smallholder Development
Regional Organization
- Mr. R.M. Gunasekara - Director/ Chairman, Uva Tea Smallholder Development Regional
Organization
- Mr. J.M.B.J. Bandara - Director/ Chairman, Ratnapura Tea Smallholder Development
Regional Organization
- Mr. K.L. Gunaratna - Director/ Chairman, Kalutara Tea Smallholder Development
Regional Organization
- Mr. G.H. Susantha De Silva - Director/ Chairman, Galle Tea Smallholder Development Regional
Organization
- Mr. P.R.A. Rathnayake - Director/ Chairman, Kegalle Tea Smallholder Development Regional
Organization
- Mr. B.G. Abeysinghe - Director/ Chairman, Kandy Tea Smallholder Development Regional
Organization

Senior Staff

01. Mr. J.M.D.P.B. Aviruppola	- Chief Executive Officer
02. Mr. Nevil Ratnayake	- Chief Executive Officer (Acting)
03. Mr. P.G.R. Tissa	- Chief Accountant
04. Mr. M.N.S. Mohotti	- Internal Auditor
05. Mr. R. U. P. R. Siriwardhana	- Manager (Human Resources & Administration)
06. Mr. W.M.D. Nihal Weerasekara	- Manager (Fertilizer)
07. Mr. Aruna Jayasundara	- Accountant
07. Mr. M. A. Indikaratne	- Manager (Welfare)
08. Mr. R. Godakandaarachchi	- Manager (Factory)
09. Mr. Ananda Dhanasiri	- Manager (Factory)
10. Mr. P.H.R.P. Karunaratne	- Manager (Factory)
11. Mr. A.J.R. Senevirathna	- Manager (Factory)
12. Mr. U.P.N. Manoj Kumar	- Manager (Factory)

Report of the Board of Directors

It is with great pleasure to report on the performance of the Tea Shakthi Fund for the financial year ended 31st December 2015. Taking into consideration the last year, despite the rising labour wages and other related expenses, the Tea Shakthi Fund has achieved a significant reasonable level of improvement with a trend towards reducing losses.

Principal activities

The principal activities of the Tea Shakthi Fund have been analyzed under the corporate information. During the year, as a major change in operation, Yatinuwara and Hiniduma Tea Shakthi factories were fully leased out to Kalubowitiyana Tea Factory Limited on a long-term lease agreement, and other than that, there were no other significant changes.

Income generated from operations

The income generated from the operations of the the Tea Shakthi Fund during the financial year and the results of the operations have been included separately in the final accounts report given in the pages starting from 29 to 31.

Future Development

For 08 tea factories in operation,

- Appointment of Factory Advisory Committes
- Fetching a higher price for made tea through tea brokers
- Modernization of old machinery and repairing them
- Expecting to reduce the loss by leasing out the Tea Shakthi factories to the Tea Shakthi Societies and stabilizing in the local tea market by the Local Tea Sales Division through superior quality tea products.
- Installation and networking of CCTV camera systems.

Summary of the Activities of the institution

Principal activities

The principal activities of the Tea Shakthi Fund have been analyzed through financial and operational review.

Income generated from operations

The loss incurred from the operations of the the Tea Shakthi Fund during the financial year have been included separately in the final accounts report.

Future Development

A sum of Rs.200 million was requested from the General Treasury to use Rs.50 million as working capital to modernize the factories and Rs.150 million to purchase modern machines. However, Rs. 25 million only was allocated and the amount was used as working capital.

For factory development,

- Establishment of AdvisoryCommittes.
- Selling made tea at competitively high prices.
- Modernization of machinery.
- Leasing out tea factories to the societies and government institutions to minimize the loss.
- Sale of fertilizer at factory level.
- Distribution of quality tea to consumers.

Profits and Appropriations

Details of the sales and operational benefits in the relevant year are given below.

	2015 (Rs.)	2014 (Rs.)
Income earned from brokers' sales	525,348,607.00	556,475,091.00
Local tea sales	28,146,840.00	28,607,143.00
Sales of Fertilizer	14,872,520.00	31,277,680.00
Income from raw material	2,357.00	326,302.00
Income from refuse tea	5,426,424.00	5,626,443.00
Sales discount	(277,485.00)	(722,985.00)
Total Income	573,519,262.00	621,589,674.00
Selling Cost	(552,517,570.00)	(611,323,143.00)
Gross Profit	21,001,692.00	10,266,531.00
Other Income	43,844,841.00	44,085,060.00
Administrative Expenses	(188,377,711.00)	(200,329,899.00)
Selling and Distribution Expenses	(14,928,507.00)	(15,508,944.00)
Total operating Profit	(138,459,686.00)	(161,487,253.00)
Financial Cost	(20,073,109.00)	(10,086,984.00)
Operating Profit before Tax	(39,232,292.00)	(127,823,734.00)
Income Tax	-	-
Net Profit / Loss	(39,232,292.00)	(127,823,734.00)

Dividends and Reserves

No dividends had been recorded during the year under review.

Corporate Donations

No corporate donations had been recorded in the year 2015.

Capital Expenditure

Details of machinery and equipment of the Tea Shakthi Fund are given in page No.34 of the Annual Accounts Reports.

Market Value of Non-Current Property

The Tea Shakthi Fund was not in the possession of intangible non-current asset as at the 31st of December 2015.

Contributory Capital

Government Grants	Rs. 437,505,030.22
Share Capital	Rs. 208,959,130.00

Lease Agreements

The Hiniduma Tea Factory which belongs to the Tea Shakthi Fund has been leased out to the Kalubowitiyana Tea Factory Limited on the basis of providing 25% of the annual profit to the Fund. Although the Gileemale Tea Factory was leased out to the Hindurangala Tea Smallholder Development Society, the agreement was canceled and it was re-possessed on 01.01.2015.

Yatinuwara and Hiniduma factories were assigned to the Kalubowitiyana Tea Factory Limited and a sum of Rs.50 million was received by the Tea Shakthi Fund.

Compliance with Applicable Rules and Regulations

It may be stated that no activity had taken place in violation of rules and regulations of the Tea Shakthi Fund in the preparation of financial statements.

Board of Directors

The Board of Directors of the Tea Shakthi Fund is given in the page No. 09.

Interests of Board of Directors in Contracts and Proposed Contracts

No Director had been directly or indirectly interested in any contract entered into with the Tea Shakthi Fund or proposed contract for the year ended 31st of December 2015.

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

The policy of the Tea Shakthi Fund is to carry out activities in compliance with the relevant regulations while keeping the level of damages that may make on the environment to its minimum and actions had been taken to carry out all business activities of the Tea Shakthi Fund while maintaining the level of damages that may make on the environment to its minimum.

Going Concern

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

Equitable Treatment to All Statements and All the Stakeholders

While appreciating the patronage of our stakeholders, the Tea Shakthi Fund make 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 2015 was carried out under the directions of the Auditor General in pursuance of the Provisions stipulated in the Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka which read in conjunction with Section 13 (1) of the Finance Act No.38 of 1971.

Tea Shakthi Projects

Tea Shakthi Tea Factories

1. Badulla District

- Passara Tea Shakthi Factory

2. Nuwara Eliya District

- Keppetipola Tea Shakthi Factory
- Kotmale Tea Shakthi Tea Factory
- Mahaweli Tea Shakthi Factory

3. Kalutara District

- Raigamkorale Tea Shakthi Factory

4. Galle District

- Elpitiya Tea Shakthi Factory
- Walahanduwa Tea Shakthi Factory
- Hiniduma Tea Shakthi Factory

5. Ratnapura District

- Gileemale Tea Shakthi Factory
- Balangoda Tea Shakthi Factory
- Pothupitiya Tea Shakthi Factory

6. Matara District

- Deniyaya Tea Shakthi Factory
- Mawarala Tea Shakthi Factory

8. Kandy District

- Yatinuvara Tea Shakthi Factory

8. Kegalle District

- Deraniyagala Tea Shakthi Factory
- Bulathkohupitiya Tea Shakthi Factory

10. Fertilizer and Local Tea Sales Projects

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

Financial and Operational Review

The loss had come down to Rs.39.23 million in the year 2015 as the administrative expenses decreased by Rs.11.95 million compared to the year 2014 when the income declined by Rs.48.07 million in the year 2015 as against the year 2014. Although this is difficult for the Fund to bear, it is a victory for us to be able to maintain any project owned by the Fund without allowing it to collapse.

The financial cost had increased by Rs.9.99 million in the year 2015 as against the year 2014. However, it was able to reduce the total operating expenses by Rs.11.95 million in the year 2015. A decline of Rs. 48.07 million in the income had shown in the year 2015 compared to the year 2014.

Although the inflation had increased compared to the previous year, the Administration Division was able to reduce the operating expenses by Rs.11.95 million.

Local Tea Production in the year 2015

As per the statistics of the Sri Lanka Tea Board, the local tea production had decreased by 9.27 mn kg of tea in the year 2015 compared to the year 2014.

Tea production of Sri Lanka in the year 2015

Elevation	2014 Amount (Mn. Kg.)	2014 Amount As a percentage	2015 Amount (Mn. Kg.)	2015 Amount As a percentage
High Grown	78.87	23.33%	75.42	22.9%
Mid Grown	49.20	14.56%	50.96	15.53%
Low Grown	209.95	62.11%	202.37	61.57%
Total	338.02		328.75	

Source: Sri Lanka Tea Board

Tea Shakthi Tea Factory Project

Average price at the Colombo Tea Auction (Price per kilogram)

Tea growing areas	Selling Price of Tea (Rupees)	
	2014	2015
High Grown	430.59	396.30
Low Grown	488.61	417.50
Mid Grown	414.41	360.00

Source: Sri Lanka Tea Board

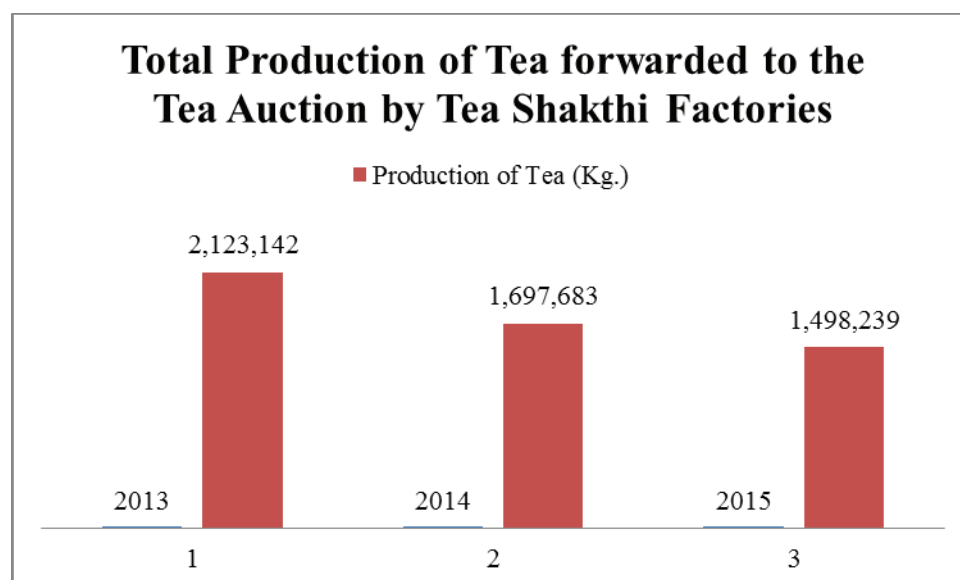
Review of Operating Results of the Factory

The Tea Shakthi Fund had temporarily stopped productions in one out of ten factories during the year under review as compared to previous years, and the number of factories in operation was reduced to 09.

Total Production of Tea forwarded to the Tea Auction by Tea Shakthi Factories

2013 - 2015

Year	Production of Tea (Kg.)
2013	2,123,142
2014	1,697,683
2015	1,498,239

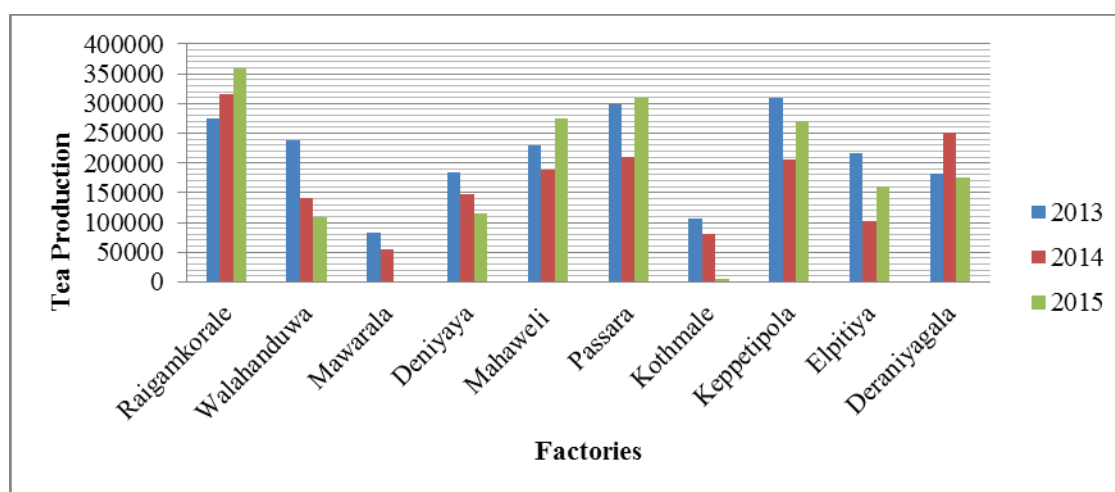


Source: Tea Shakthi Factory Division

Made Tea Production (Kilograms)

Factory	2013	2014	2015
Raigamkorale	275,321	316,688	358,525
Walahanduwa	238,541	141,814	108,880
Mawarala	82,126	55,380	
Deniyaya	184,519	146,651	115,894
Mahaweli	228,485	188,065	275,144
Passara	298,578	209,097	309,379
Pansalthenna	It has been returned to Elkaduwa Plantations Limited		
Kothmale	107,593	80,351.5	4,837
Keppetipola	309,395	206,235	270,036
Hiniduma	It has been leased out		
Elpitiya	216,272	102,435	159,632
Balangoda	Operations have been suspended		
Gileemale	It has been leased out to Hindurangala Tea Smallholder Development Society		
Deraniyagala	182,312	250,966.5	174,912
Total	2,123,142	1,697,683	1,777,239

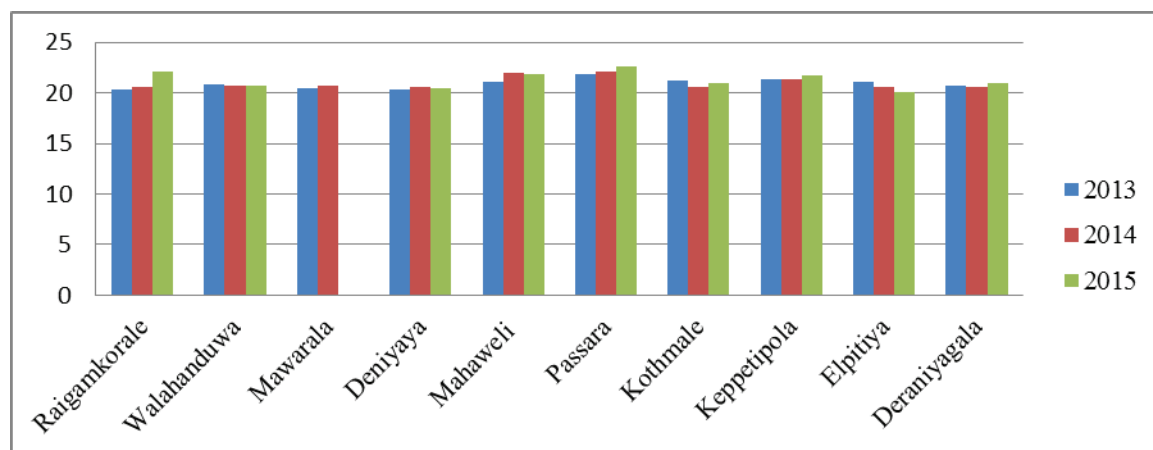
Kilograms



According to the above table, there has been an increase in made tea production in only a few factories in the year 2015. The total amount of made tea produced in the year 2015 has increased by 79,556 kg compared to the year 2014.

Made Tea Output Ratio (%)

Factory	2013 %	2014 %	2015 %
Raigamkorale	20.31	20.58	22.16
Walahanduwa	20.84	20.74	20.65
Mawarala	20.50	20.68	
Deniyaya	20.33	20.55	20.51
Mahaweli	21.13	21.96	21.82
Passara	21.90	22.04	22.57
Pansalthenna	It has been returned to Elkaduwa Plantations Limited		
Kothmale	21.17	20.62	20.97
Keppetipola	21.37	21.36	21.70
Hiniduma	-	-	-
Elpitiya	21.05	20.57	20.04
Balangoda	Operations have been suspended		
Gileemale	It has been leased out to Hindurangala Tea Smallholder Development		
Deraniyagala	20.65	20.53	20.94
Total	20.98	21.00	21.15



In the years 2014 and 2015, the tea factories located in the High Grown elevation and Raigamkorale tea factory in the Low Grown elevation have achieved the projected percentage of made tea. In the year 2015, the lowest percentage of made tea from the factory system was obtained from Elpitiya Tea Factory, while the highest percentage of made tea was recorded from Passara Tea Factory. The impact of the factories with low percentage of made tea in the year had led to continued losses in the tea factory system.

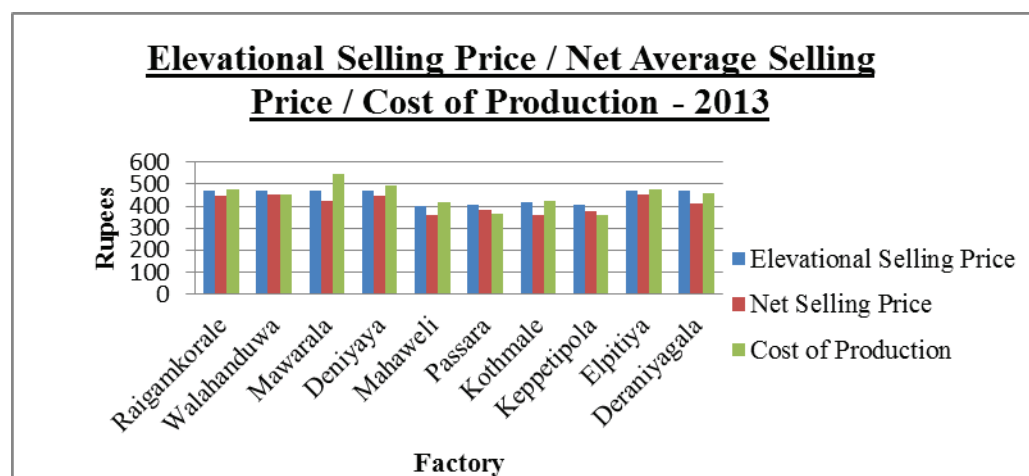
Elevational Selling Price/ Net Average Selling Price / Cost of Production - 2013- 2015

The amount of made tea produced was not sufficient compared to the quantity of green leaf yielded, and the tea factories belonging to the High Grown and Mid Grown elevations had supplied more than the amount of made tea projected by the Fund. Apart from the Walahanduwa factory belonging to the Low Grown elevation, no factory had made a profit in the year 2013. Keppetipola and Passara tea factories from High Grown elevation had made profits. Although the harvest in the year 2015 was higher than in the year 2013, the factories were unable to supply the quantity of made tea projected by the Fund due to the drop in the production of made tea in the year 2015. Therefore, this situation has severely affected the profitability of the factories.

The Price per Kg. of Tea

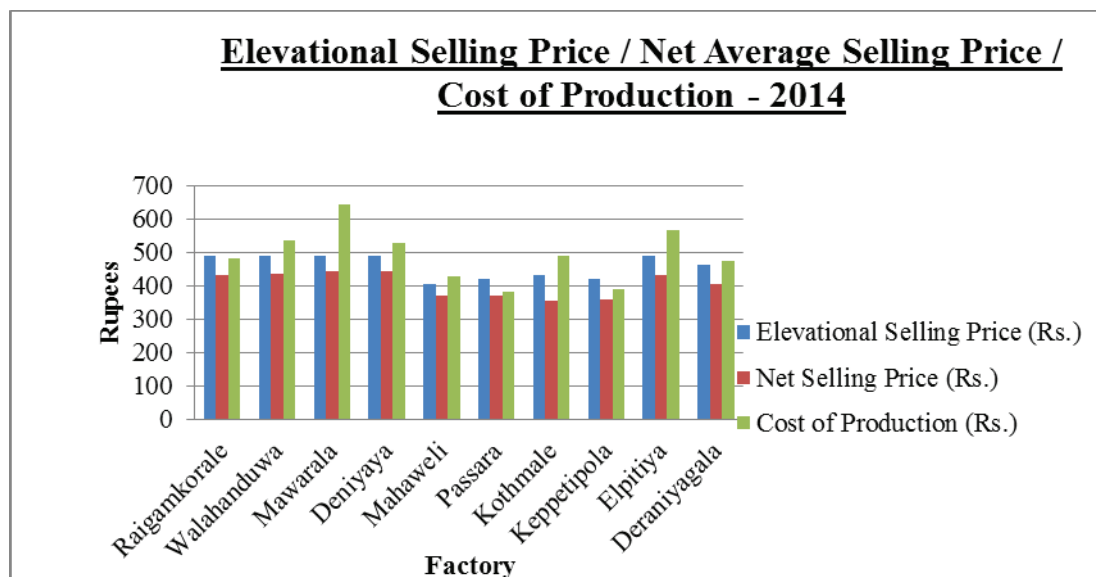
Factory	Elevational Selling Price (Rs.)	Net Selling Price (Rs.)	Cost of Production (Rs.)
Raigamkorale	470.55	448.51	478.37
Walahanduwa	470.55	452.43	450.88
Mawarala	470.55	422.24	548.88
Deniyaya	470.55	448.22	492.11
Mahaweli	398.53	358.69	419.07
Passara	408.15	382.91	366.68
Kothmale	415.67	356.65	423.52
Keppetipola	408.15	375.55	361.59
Elpitiya	470.55	455.42	473.74
Deraniyagala	470.55	409.67	460.04

Elevational Selling Price / Net Average Selling Price / Cost of Production - 2013



Elevational Selling Price / Net Average Selling Price / Cost of Production
– 2014 – Per Kg. of Made Tea

Factory	Elevational Selling Price (Rs.)	Net Selling Price (Rs.)	Cost of Production (Rs.)
Raigamkorale	488.21	431.25	483.02
Walahanduwa	488.21	436.95	537.70
Mawarala	488.21	441.97	644.51
Deniyaya	488.21	441.97	527.22
Mahaweli	404.85	370.71	428.92
Passara	419.94	372.27	382.53
Kothmale	432.03	354.11	488.36
Keppetipola	419.94	358.92	391.10
Elpitiya	488.21	433.64	565.26
Deraniyagala	461.86	406.53	472.53



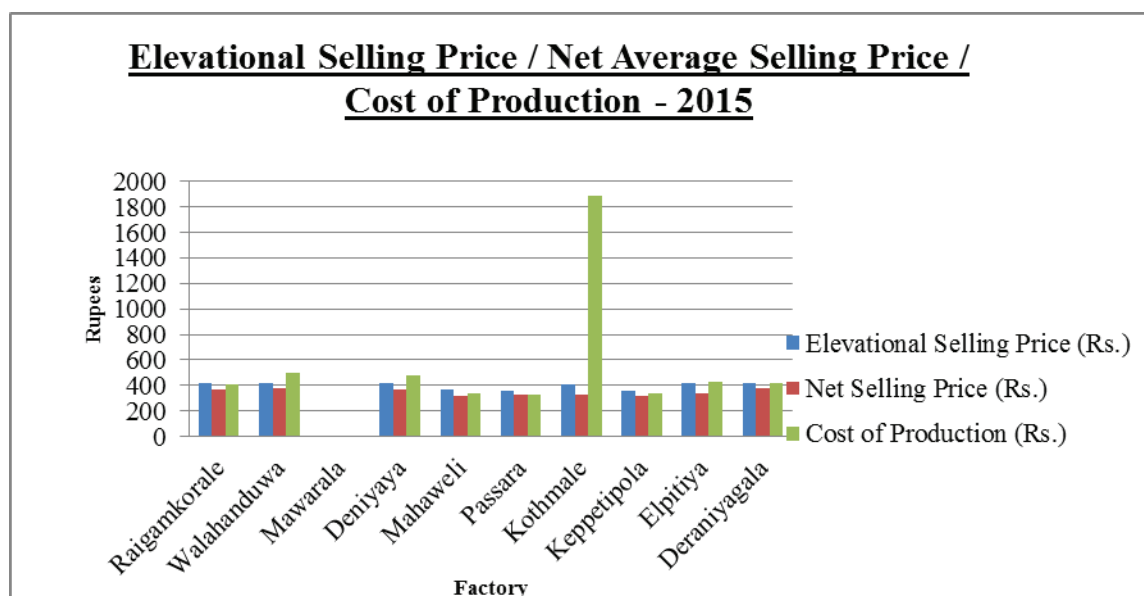
It was a huge problem that the Tea Shakthi Fund had to face with a severe financial crisis due to all the factories operating in the year 2014 becoming unprofitable.

Since the Fund had not drawn attention to the elevational selling price, the cost of production had risen and the factories had become unprofitable on decline in the net average sales of the factories.

Elevational Selling Price / Net Average Selling Price / Cost of Production
– 2015 - Per Kg. of Made Tea

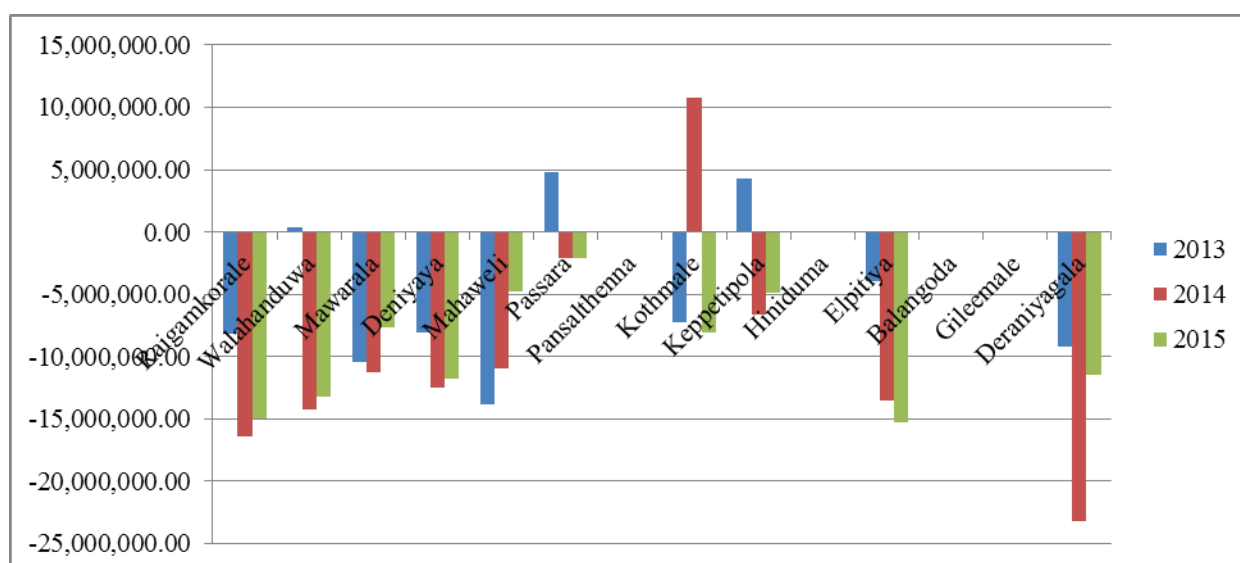
Factory	Elevational Selling Price (Rs.)	Net Selling Price (Rs.)	Cost of Production (Rs.)
Raigamkorale	416.44	370.34	411.96
Walahanduwa	416.44	380.36	494.87
Mawarala	-	-	-
Deniyaya	416.44	373.20	474.87
Mahaweli	365.28	322.67	340.11
Passara	361.13	324.90	331.6
Kothmale	407.02	330.02	1884.61
Keppetipola	361.13	322.66	340.6
Elpitiya	416.44	335.28	430.95
Deraniyagala	416.44	374.58	

Despite the increase in the amount of bought green leaf, due to the deficiencies in the production of tea in the factories, the projected amount of made tea was not received compared to the amount of green leaf and the increase in the cost of production led to losses in the year 2015.



Factory Division – Profit / Loss (Rupees) 2013 – 2015

Factory	Profit / Loss (Rs.)		
	2013	2014	2015
Raigamkorale	(8,221,085.06)	(16,396,360)	(14,923,000)
Walahanduwa	369,738.55	(14,287,056)	(13,221,244)
Mawarala	(10,400,436.64)	(11,216,876)	(7,613,862)
Deniyaya	(8,098,538.91)	(12,501,704)	(11,783,383)
Mahaweli	(13,795,924.30)	(10,947,642)	(4,797,294)
Passara	4,845,920.94	(2,145,770)	(2,073,488)
Pansalthenna	It has been returned to Elkaduwa Plantations Limited		
Kothmale	(7,194,743.91)	10,787,194	(8,092,037)
Keppetipola	4,319,154.20	(6,636,247)	(4,844,243)
Hiniduma	-	-	-
Elpitiya	(3,962,103.04)	(13,482,523)	(15,272,218)
Balangoda	Operations have been suspended		
Gileemale	It has been leased out to Hindurangala Tea Smallholder Development		
Deraniyagala	(9,183,055.44)	(23,227,045)	(11,443,239)
Total	(51,321,073.61)	(121,628,417)	(94,064,008)



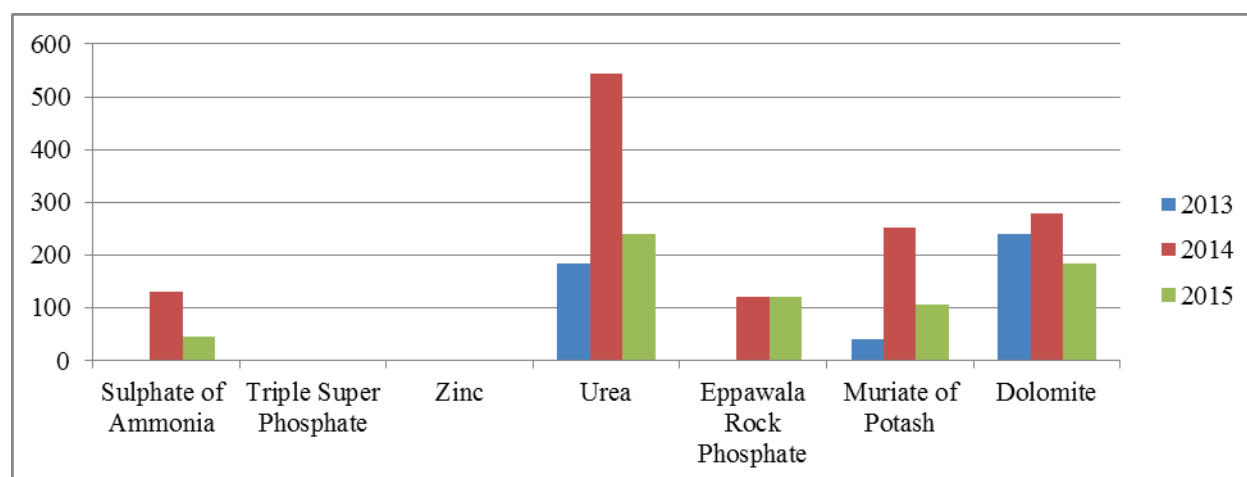
Although 03 factories in the tea factory system made profits in the year 2013, the fact that all the factories incurred losses in the years 2014 and 2015 can be given as the root cause for the financial crisis of the Tea Shakti Fund.

Due to this situation, the tea smallholders had gradually deviated from the Tea Shakti Fund.

Tea Shakthi Fertilizer Project

Purchase of Fertilizer

Type	Amount (Metric Ton)		
	2013	2014	2015
Sulphate of Ammonia		130.00	45.00
Triple Super Phosphate	-	-	-
Zinc	-	-	-
Urea	185.00	542.90	240.00
Eppawala Rock Phosphate	-	120.00	120.00
Muriate of Potash	40.00	252.50	105.00
Dolomite	239.75	279.75	184.90
Total	464.75	1,325.15	694.90



Although the import of fertilizers was temporarily suspended by the Letters of Credit due to the financial shortage in the year 2013, the main made tea fertilizers and the basic fertilizers such as Urea, Muriate of Potash and Ammonium Sulfate required for the preparation of fertilizer mixtures were purchased from the Ceylon Fertilizer Company Limited in terms of the agreements.

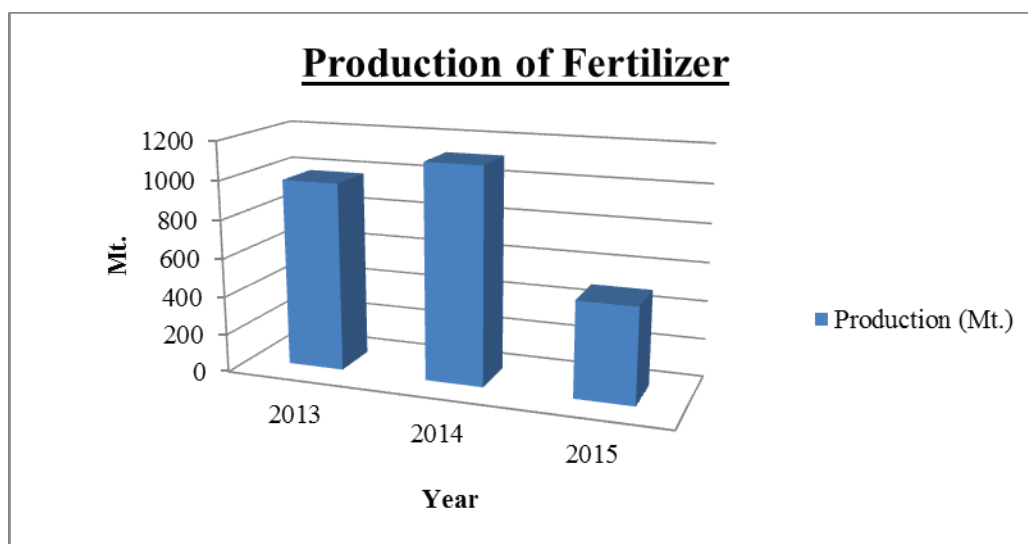
Sales of Fertilizer

Year	Quantity (Mt.)	Value (Rs.)
2013	1,340	30,165,082.50
2014	1,440.01	30,880,997.00
2015	714.69	14,597,392.00

The sale of Tea Shakthi fertilizer had shown a drop of 725.32 metric tons in the year 2015 as against the year 2014. Accordingly, its value had also shown a decrease of Rs.16,283,605.00 compared to the previous year.

Production of Fertilizer (Mt.)

	2013	2014	2015
Production (Mt.)	980.88	1,118.63	497.46

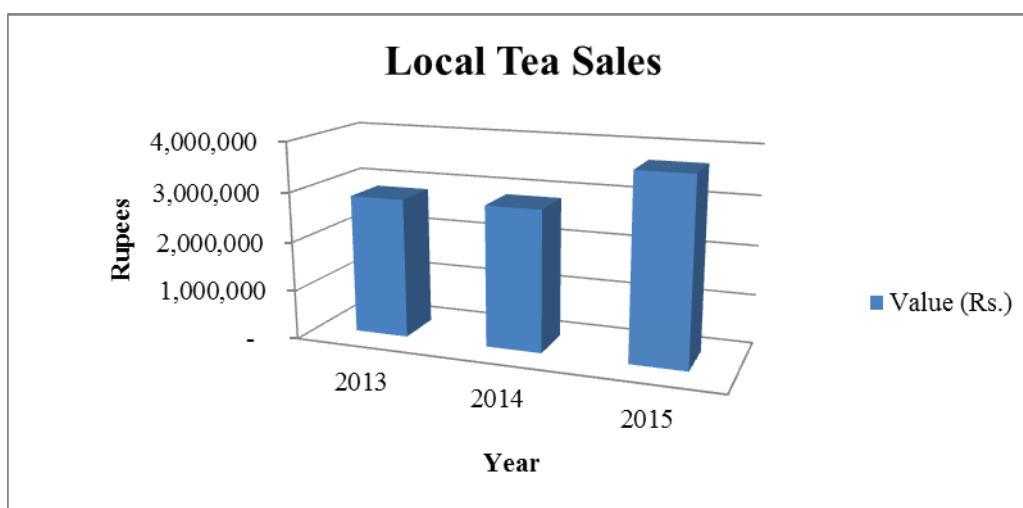


Production (Mt.)

The fertilizer production is done at Horana Aramanagolla Fertilizer Warehouse and the production had achieved an increase of 137.75 metric tons in the year 2014 compared to the year 2013. The total production fell to 497.46 metric tons in the year 2015. The lowest fertilizer production was done in the year 2015 compared to the years 2013 and 2014, and the highest fertilizer production was done in the year 2014.

Local Tea Sales

	2013	2014	2015
Value (Rs.)	2,830,159	2,848,418	3,713,253



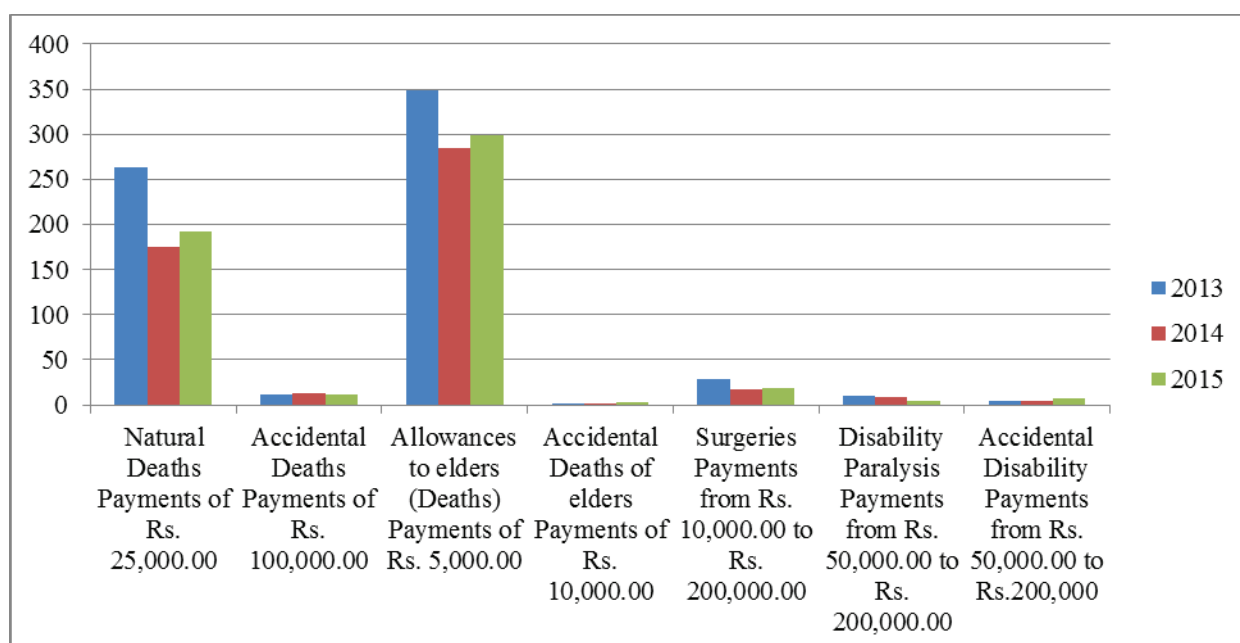
The sales of the Local Tea Sales Division have shown an increase in the year 2015 as against the year 2014 which is given in the chart, and the sales have increased by Rs.0.86 million in the year 2015 compared to the year 2014.

It was expected to further increase the sales in the year 2016 by launching sales promotion campaigns and improving the quality of tea. From 2013 to 2015, there had been a relative increase in tea sales revenue, which is a high trend in the Sales Division.

Tea Shakthi Welfare Insurance Scheme - Payment of Insurance Benefits 2013 – 2015

	Natural Deaths	Accidental Deaths	Allowances to elders (Deaths)	Accidental Deaths of elders	Surgeries	Disability Paralysis	Accidental Disability
	Rs. 25,000.00	Rs. 100,000.00	Rs. 5,000.00	Rs. 10,000.00	From Rs. 10,000.00 to Rs. 200,000.00	From Rs. 50,000.00 to Rs. 200,000.00	From Rs. 50,000.00 to Rs. 200,000.00
	Payments to Beneficiaries						
2013	264	11	349	2	28	10	5
2014	175	13	285	2	17	9	5
2015	192	12	299	3	19	5	7
Total	631	36	933	7	64	24	17

Details of Benefit Payments 2013 – 2015



The Tea Shakthi Fund had initiated the issue of shares to the tea small holders in the year 2002 and the total amount received by the Fund through the issue of shares to the tea small holders was Rs.208 million. From the year 2013 to the end of the year 2015, a sum of Rs. 3.31 million had been paid as insurance benefits to 1,711 tea smallholders.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER		2015	2014
	Note		
Revenue	6	573,519,262	621,589,674
Cost of Sales		(552,517,570)	(611,323,143)
Gross Profit		21,001,692	10,266,531
Other Income	7	43,844,841	44,085,060
Selling and Distribution Expenses		(14,928,507)	(15,508,944)
Administrative Expenses		(188,377,711)	(200,329,899)
Profit / (Loss) from Operation		(138,459,686)	(161,487,253)
Interest Income	8	394,909	6,617,864
Interest Expenses	8	(20,468,018)	(16,704,848)
Write Back of Government Grant		119,300,503	43,750,503
Profit / (Loss) Before Taxation	9	(39,232,292)	(127,823,734)
Income Tax Expenses	10		
Profit / (Loss) for the Year		(39,232,292)	(127,823,734)
Basic Earnings / (Loss) Per Share (Rs.)	11	(1.90)	(6.20)
Profit / (Loss) for the Year		(39,232,292)	(127,823,734)
Other Comprehensive Income			
Total Other Comprehensive Income			
Total Comprehensive Income / (Loss) for the Year		(39,232,292)	(127,823,734)

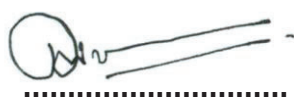
Notes to the Financial Statements on Pages 5 to 29 form an integral part of these Financial Statements.

TEA SHAKTHI FUND

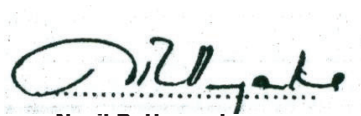
(Expressed in Sri Lankan Rupees)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER	Note	2015	2014
ASSETS			
Non-Current Assets			
Property, Plant & Equipment	12	285,261,613	330,775,955
Intangible Assets	13	2,600,000	2,435,000
Investment Property	14	33,433,585	16,014,636
Mature / Immature Plantation	15	14,158,054	13,427,908
Investment In Fixed Deposits		14,879,240	8,411,979
Total Non-Current Assets		350,332,493	371,065,477
Current Assets			
Inventories	17	69,590,593	114,050,930
Trade and Other Receivables	18	270,897,621	263,052,111
Statutory Receivables	19	2,790,822	3,415,813
Other Financial Assets			
Cash and Cash Equivalents	20	3,181,092	6,891,350
Total Current Assets		346,460,128	387,410,203
TOTAL ASSETS		696,792,620	758,475,681
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	(367,912,464)	(328,680,172)
Total Equity		(111,648,540)	(72,416,249)
Non-Current Liabilities			
Members Contribution Fund	22	135,221,950	135,184,750
Government Grants	23	262,503,018	331,803,521
Kalubowitiyana Tea Factory Limited (Lease rentals in Advance)	24	48,833,264	
Interests Bearing Borrowings - (Non - Current Portion)	25	6,008,533	13,455,505
Retirement Benefits Obligation	26	28,521,886	26,431,382
Total Non-Current Liabilities		481,088,651	506,875,158
Current Liabilities			
Trade and Other Payables	27	309,758,086	315,491,677
Interests Bearing Borrowings - (Current Portion)	25		4,925,892
Statutory Payables	28	4,545,276	3,599,202
Bank Overdrafts	20	13,049,148	
Total Current Liabilities		327,352,510	324,016,772
TOTAL EQUITY AND LIABILITIES		696,792,620	758,475,681

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 2015

	Stated Capital	Revaluation Reserve	Retained Earnings (at debit)	Total
Balance as at 31 December 2014	206,014,150	50,249,773	(328,680,172)	(72,416,249)
Profit for the Year			(39,232,292)	
Balance as at 31 December 2015	206,014,150	50,249,773	(367,912,464)	(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.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER	2015	2014
Cash Flows from Operating Activities		
Profit Before Taxation	(39,232,292)	(127,823,734)
<i>Adjustments for;</i>		
Depreciation	31,858,162	32,134,270
Amortization of Government Grants	(119,300,503)	(43,750,503)
Amortization on Matured Plantation	860,510	592,250
Amortization on Matured Plantation		
Amortization on Matured Plantation		
Amortization of Lease rentals – KB Limited	(1,166,736)	
Provision for Gratuity	5,791,088	9,418,925
Interest Income	(394,909)	(6,617,864)
Interest Expenses	20,468,018	16,704,848
Operating Profit Before Changes in Working Capital	(101,116,662)	(119,341,808)
Changes in Working Capital		
Inventories	44,460,337	41,403,594
Trade and Other Receivables	(7,845,510)	(1,814,314)
Statutory Receivables	624,991	390,215
Trade and Other Payables	(5,733,592)	57,876,825
Statutory Payables	946,074	1,395,901
Cash Generated from Operations	(68,664,361)	(20,089,588)
Gratuity Paid	(3,700,585)	(3,262,765)
Interest Paid	(20,468,018)	(16,704,848)
Net Cash Flow from Operating Activities	(92,832,964)	(40,057,202)
Cash Flows from Investing Activities		
Acquisition of Property, Plant and Equipment	(3,762,769)	(1,056,447)
Acquisition of Intangible Assests	(165,000)	
Capital Work - in - Progress		(1,695,678)
Acquisition of Immature Plantations	(1,590,656)	(2,203,652)
Proceeds from maturity of Fixed Deposits & Other Financial Assets	(6,467,261)	52,515,085
Received From Government Grants	50,000,000	25,550,000
Advance Lease rentals form KB Limited	50,000,000	
Interest Received	394,909	6,617,864
Net Cash used in Investing Activities	88,409,223	79,727,172
Cash Flows from Financing Activities		
Contribution From Members	37,200	95,600
Term Loans Obtained	-	16,332,302
Repayment of Loans	(12,372,864)	(11,406,410)
Net Cash used in Financing Activities	(12,335,664)	5,021,492
Net Changes in Cash and Cash Equivalents During the Year	(16,759,405)	44,691,462
Retro & rectify adjustment		
Cash and Cash Equivalents at Beginning of the Year	6,891,350	(37,800,112)
Cash and Cash Equivalents at End of the Year	(Note 20) (9,868,056)	6,891,350

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 2015****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 2015 were authorized for issue in accordance with a resolution of the board of directors dated 19.10.2016

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.

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.

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 2015. 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 2015. 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	29 Years
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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 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.

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.

TEA SHAKTHI FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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.

TEA SHAKTHI FUND**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015**

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 and asset at the carrying value

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.

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.

TEA SHAKTHI FUND**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015**

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 2014, 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 such arrangements.
- c. LKAS 19 - Employee benefits, since the funds measures its defined benefits obligation using formula method.
- 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

2015

2014

6 Revenue

Tea Sales	525,348,607	556,475,091
Local Tea Sale	28,146,840	28,607,143
Refuse Tea Sales	5,426,424	5,626,443
Fertilizer Sales	14,872,520	31,277,680
Row Material Direct Sales	2,357	326,302
Fertilizer Sales Discount	(277,485)	(722,985)
	573,519,262	621,589,674

7 Other Income

Write Back of Kalubowitiyana Tea Factory Limited Liability- Yatinuwara	350,024	
Write Back of Kalubowitiyana Tea Factory Limited Liability- Hiniduma	816,713	
Tea Field Income	10,188,324	11,327,571
H/O Charges (Factory)	31,169,380	30,072,600
Rent Income		1,208,010
Sundry Income	1,320,400	1,476,879
	43,844,841	44,085,060

8 Net Finance Cost**Interest Income**

Interest on Fixed Deposits	394,908.78	6,617,864
	394,908.78	6,617,864

Interest Expenses

Bank Borrowings Interest	20,468,018	16,704,848
	20,468,018	16,704,848
	20,073,109	10,086,984

9 Profit Before Taxation

Profit Before Taxation is arrived at after charging all expenses including the following.

Auditors' Remuneration

Depreciation

Defined Benefit Plan Cost - Retiring Gratuity

Staff Cost

- 10** The fund is exempted from income tax for 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.)**Amount used as the Numerator**

Net Profit Attributable to Equity Holders (Rs.)	(39,232,292)	(127,823,734)
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Number of Ordinary Shares used as the Denominator

Weighted Average number of Shares in Issue (Nos)	20,601,415	20,601,415
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Basic Earnings Per Share (Rs.)**(1.90) (6.20)**

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

12 Property, Plant and Equipment	Freehold					Leasehold Assets				
	Land and Buildings	Plant and Machinery	Motor Vehicles	Furniture & Fittings	Computers	Equipment and Tools	Telephone	Land and Buildings	Furniture & Fittings	Total
Cost or Valuation										
Balance as at 31 December 2014	219,000,032	307,105,800	25,373,359	4,416,272	4,565,247	3,457,437	330,200	-	-	564,248,348
Additions	13,052,055	20,546,250		228,850		9,000				33,836,155
Transfer	(16,692,535)	(56,009,700)		(191,918)		(119,080)				(73,013,233)
Balance as at 31 December 2015	215,359,552	271,642,350	25,373,359	4,453,204	4,565,247	3,347,357	330,200	-	-	525,071,270
Depreciation										
Balance as at 31 December 2014	33,328,920	174,711,697	22,497,119	3,674,868	2,053,179	2,576,012	271,941			239,113,736
Additions	2,514,426	11,424,955		111,768		7,725				14,058,874
Transfer	(3,506,250)	(35,157,573)		(163,131)		(95,879)				(38,922,833)
Charges for the Year	4,105,748	20,226,444	1,923,740	265,864	428,437	228,783	34,694			27,213,710
Balance as at 31 December 2015	36,442,844	171,205,523	24,420,859	3,889,369	2,481,616	2,716,641	306,635	-	-	241,463,487
Net Carrying Values										
								2015	2014	
Freehold Assets										
Land and Buildings								178,916,708	185,671,112	
Buildings										
Plant and Machinery								100,436,827	132,394,103	
Motor Vehicles								952,500	2,876,240	
Furniture and Fittings								563,835	741,404	
Computers								2,083,631	2,512,068	
Equipment and Tools								630,716	881,425	
Telephone								23,565	58,259	
Work-in-Progress										
								283,607,783	325,134,612	
								1,653,830	5,641,342.28	
								285,261,613	330,775,955	

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEM		2015	2014
12.1 Capital Work-in-Progress (Buildings / Plant & Machinery)			
Balance as at 01 January		5,641,342	3,945,664
Additions/(Capitalized)			1,695,678
Transfer to Investment property		(3,987,512)	
Balance as at 31 December		1,653,830	5,641,342
13 Intangible Assets			
Computer Software			
Cost			
Balance as at 01 January		2,435,000	2,435,000
Additions / (Disposals)		165,000	
Balance as at 31 December		2,600,000	2,435,000
Net Carrying Value		2,600,000	2,435,000
14 Investment Property			
Cost			
Land & Building			
Balance as at 01 January		12,225,000	12,225,000
Additions		827,055	
Transfer for to Freehold Assets		(13,052,055)	
Transfer fom Freehold Assets		16,692,535	
Balance as at 31 December		16,692,535	12,225,000
Plant / Machinery & Others			
Balance as at 01 January		17,274,250	17,274,250
Additions		3,509,850	
Transfer for to Freehold Assets		(20,784,100)	
Transfer fom Freehold Assets		56,320,698	
Balance as at 31 December		56,320,698	17,274,250
Depreciation			
Balance as at 01 January		13,484,614	11,898,187
Additions		574,260	
Transfer for to Freehold Assets		(14,058,874)	
Transfer fom Freehold Assets		38,922,833	
Charges for the Year		4,644,327	1,586,427
Balance as at 31 December		43,567,160	13,484,614
Net Charring Value			
Land & Building		12,773,785	9,044,688
Plant / Machinery & Others		16,672,288	6,969,948
Work-in-Progress		3,987,512	
		33,433,585	16,014,636
15 Mature / Immature Plantation			
Mature Plantation (Tea)			
Cost			
Balance as at 01 January		7,319,420	4,749,958
Additions / (Disposals)		2,682,599	2,569,462
Balance as at 31 December		10,002,019	7,319,420
Amortization			
Balance as at 01 January		1,699,813	1,107,563
Charges for the Year		860,510	592,250
Balance as at 31 December		2,560,323	1,699,813
Net Book value		7,441,696	5,619,607
Immature Plantation (Tea)			
Cost			
Balance as at 01 January		7,808,301	8,174,111
Additions		1,590,656	2,203,652
Transfer		(2,682,599)	(2,569,462)
Balance as at 31 December		6,716,358	7,808,301
Total Net Book value		14,158,054	13,427,908

Figures in brackets indicates deductions.

Notes to the Financial Statements Continued

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEM

2015

2014

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)	282,511,012	274,665,507
Cash and Cash Equivalents	(Note 20)	3,181,092	6,891,350
		285,692,104	281,556,856

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

Total Financial Assets

285,692,104 **281,556,856**

FINANCIAL LIABILITIES**Other Financial Liabilities**

Borrowings	(Note 25)	6,008,533	18,381,397
Trade and Other Payables	(Note 27)	309,758,086	315,491,677
Bank Overdrafts	(Note 20)	9,868,056	
		325,634,675	333,873,074

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

Total Financial Liabilities

325,634,675 **333,873,074**

17 Inventories

Factory Tea Stock	25,743,830	42,169,446
Tea - Balance in Stores / Brokers	36,483,610	58,554,688
Raw Materials	1,020,555	1,213,600
Finish Goods	101,257	863,537
Tea Stock at LTS	1,132,852	1,982,699
General Stock	4,885,369	8,499,035
Stationery Items	27,136	183,075
Fertilizer	195,984	584,851
	69,590,593	114,050,930

18 Trade and Other Receivables

Trade Receivables	(Note 18.1)	119,848,226	126,568,420
Deposits and Advances	(Note 18.2)	40,372,471	40,322,856
Other Receivables	(Note 18.3)	110,676,924	96,160,834
Subsidy Receivables			
Pre - Paid Expenses			
		270,897,621	263,052,111

18.1 Trade Receivables

Provision for Impairment	(11,613,391)	(11,613,396)
	119,848,226	126,568,420

18.2 Deposits and Advances

Deposits	1,269,372	2,578,400
Advances Paid	39,103,099	37,744,457
	40,372,471	40,322,856

18.3 Other Receivables

Interest Receivables	61,143,439	50,968,658
Others	57,274,525	52,933,216
	118,417,964	103,901,874
Provision for Impairment	(7,741,040)	(7,741,040)
	110,676,924	96,160,834

Figures in brackets indicates deductions.

Notes to the Financial Statements Continued

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEM		2015	2014
19 Statutory Receivables			
Economic Service Charges (ESC)		2,790,822	3,415,813
Current Tax			
Value Added Tax (VAT)			
		2,790,822	3,415,813
20 Cash and Cash Equivalents			
Favorable Balances			
Cash in Hand		36,936	206,577
Cash at Bank		3,144,156	6,684,772
		3,181,092	6,891,350
Unfavorable Balances			
Bank Overdrafts		(13,049,148)	
Cash and Cash Equivalents for the Purpose of Cash Flow Statement		(9,868,056)	6,891,350
21 Stated Capital			
Issued and fully paid			
20,895,913 Ordinary Shares		206,014,150	206,014,150
(-) Purchase of Shares			
		206,014,150	206,014,150
22 Members Contribution Fund			
Balance as at 01 January		135,184,750	135,089,150
Receipt during the year		37,200	95,600
Balance as at 31 December		135,221,950	135,184,750
23 Government Grants			
Balance at 01 January		331,803,521	350,004,024
Receipt during the year		50,000,000	25,550,000
Amortization of Government Grants		(119,300,503)	(43,750,503)
Balance at 31 December		262,503,018	331,803,521
24 Kalubowitiyana Tea Factory Limited			
Balance at 01 January			
Receipt during the year		50,000,000	
Amortization of kalubowitiyana Tea Factory Limited Liability		1,166,736	
Balance at 31 December		48,833,264	
25 Borrowings			
Non-Current Portion			
Term Loans (Note 25.1)		18,381,397	13,455,505
		18,381,397	13,455,505
Current Portion			
Term Loans (Note 25.1)		(12,372,864)	4,925,892
		(12,372,864)	4,925,892
Bank Overdrafts (Note 20)			
		6,008,533	18,381,397

Figures in brackets indicates deductions.

Notes to the Financial Statements Continued



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கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்

AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No. }

PLA/B/TSF/01/2015

ඔබේ අංකය
உமது இல.
Your No. }

දිනය
திகதி
Date }

18 May 2017

Secretary,
Ministry of Plantation.

Report of the Auditor General on the Financial Statements of the Tea Shakthi Fund for the year ended 31 December 2015 in terms of Section 14(2)(c) of the Finance Act no.38 of 1971.

The audit of the financial statements of the Tea Shakthi Fund for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended and the 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 term of section 13(7) (a) of the Finance Act has been issued to the secretary to ministry on 10 January 2017.

1.2. Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards 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 (ISSAI 1000-1810) of the Supreme Audit Institutions. 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 misstatement 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 Company'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 the financial statements.

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

As a result of matters described in paragraph 2.2 of this report, my opinion is Qualified.

2. Financial Statements

2.1 Qualified opinion

Except for the effects on the financial statements of the matters referred to in paragraph 2.2 of this report, I am of opinion that the financial statements of Tea Shakthi Fund as at 31 December 2015 have been prepared in accordance with Sri Lanka Accounting Standards and give a true and fair view of the fund's financial position, financial performance and cash flows for the year then ended.

2.2 Comments on Financial Statements

2.2.1 Re-structural program of the fund

When considering the financial results of the fund for last 5 years it had been made continuous losses other than 2012. Since the Capital grants amounted to Rs.437.5 million received from the Treasury to the fund before 2005 had been adjusted, against Sri Lankan Accounting Standards, to the income from 2012 at an annual rate of 10 per cent, so that low level of loss had been shown and as a result of adjusting government grants, received in last year, of Rs. 25.55 million in comprehensive income statement, lower level of loss had been shown in the year under review. Further, a payable amount of Rs.74 million to Minor Tea Estate Development Authority had been considered as income and due to this profitability had been shown in 2012.

Net assets value of Rs. 553.04 million of the fund in 2011 were been converted as net liabilities valued to Rs.72.42 million in 2014 and this had been increased to Rs.111.65 million by the end of the year under review. Similarly, production in factories of the fund had been stopped by July 2016 and the fund had focused to a Re-structural program.

2.2.2. Sri Lanka Accounting Standards

The following observations are made.

a. Sri Lanka Accounting Standard 10

The date of approval to issue Financial Statements has not been disclosed in financial statements.

b. Sri Lanka Accounting Standard 16

When the carrying amount of a revalued asset is materially dissimilar to its fair value, it needs to be revalued again but the non-current assets of the fund have not been revalued after 2006.

2.2.3. Accounting Policies

The following observations are made.

- a. Even though the fund had prepared its financial statements on accrual basis; interest on investment had been accounted on cash basis. As a result receivable interest on investment for the year under review amounted to Rs. 777,940 had not been accounted.
- b. As per the notes to the Financial Statements, effective life time of tea plantation had as 33 years, however it had been considered as 10 years in accounting.

2.2.4. Accounting Deficiencies

The following observations are made.

- a. Amortization on tea plantation of the fund had been overstated in accounting by Rs. 599,775 for the year under review.

- b. Depreciation on machinery and fittings had been overstated by Rs. 518,627 in accounts for the year under review.
- c. The Tea factory at Yatinuwara had been rented out to an external party and the factory buildings constructed in that premises had not been assessed and taken into accounts under the fixed assets.
- d. A payment of Rs. 8,512,921 related to nine motor vehicles which the legal title does not exist with the fund has been capitalized under non-current assets.

2.2.5 Unexplained Differences

Although a difference of Rs. 96,449 was observed in total amounts to between the cash book balance and the ledger account balance when preparing bank reconciliation statements relating to two bank accounts; actions had not been taken to identify those discrepancies.

2.2.6. Lack of Evidence for Audit

Conformations balance and detail schedules for trade and other receivables amounted to Rs.119,848,226 and trade and other payables amounted to Rs. 34,900,729 at the end of the year under review, had not been presented for audit.

2.3. Accounts Receivable and Payable

The following observations are made.

- (a) An advance payment aggregated to Rs.18,042,351 made in 2001 to construct tea factories at Bulathkohupitiya and Pothupitiya had not been settled even up to the end of the year under review and the construction of factories also been abandoned.

- (b) Though the tea factory at Yatinuwara had been rented out to Kalubowitiyana tea Company and an advance payment of Rs. 10,269,400 made to a private company in the construction stage of the factory in 2005, had been shown under current assets without taking actions to settle it.
- (c) A receivable sum of Rs.1,661,828 to the fund, when demising the Hiniduma tea factory to Kalubowitiyana tea company on rent basis, had been brought forward since 2012 without taking actions for recovery.
- (d) A sum of Rs 2,691,324 for 13 vehicles possessed to estate societies, which had been given to the fund by the Minor Tea Estate Development Authority, had been brought forward and recorded as receivable under current assets without identifying a recoverable party for number of years.

2.4. Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed in auditing.

Reference to Laws ,Rules, Regulations and Management Decisions	Non-compliances
(a) Financial regulations of the Democratic socialist republic of Sri Lanka Financial regulation 110	A register of losses and damage had not been maintained.
(b) Establishment code of the Democratic socialist republic of Sri Lanka Section 13.3 in paragraph II	Though an acting appointment should be given to a permanent position subjected to maximum of 03 months period, two officers had been appointed on acting basis for the posts of accountant and book keeper to the fund from 2012 and 2010 respectively.

(c) Treasury Circulars

Circular no. IAI/2002/02 dated 28 November 2002 A fixed assets register for computer and software had not been maintained.

2.5. Transactions not confirmed with adequate Authority

A sum of Rs. 25,500,000 received in 2014 from the Ministry of Plantation only for modernization of factory Machineries had not been utilized for the intended purpose and had been spent for recurrent expenditure of the year under review. However, proper authority had not been obtained in this regard.

3. Financial Review

3.1. Financial Results

According to the Financial Statements presented, the financial result of the fund as at 31 December 2015 had been a deficit of Rs. 39,232,292 as compared with corresponding deficit of Rs. 127,823,734 for the preceding year, thus indicating an improvement of Rs. 88,591,442 representing 69 per cent in the financial result of the year under review as compared with the preceding year. The decrease in administration expenses of the year under review by Rs.11, 952,188 and adjustment of government grants amounted Rs. 75,550,000 to comprehensive income statement had mainly attributed to above improvement.

When analyzing the financial results of the year under review and last 4 years, a financial deficit had been made in other years except 2012, but the contribution of the fund had been favourable when considering the staff remuneration and depreciation on non-current assets. But the contribution in 2014 had been decreased significantly and it had been increased again by 94 per cent in the year under review.

3.2 Analytical Financial Review

Current ratio and Quick ratio of the year under review were 1.1 and 0.23 respectively and these ratios were not in the best position. Further a depression had been observed in these ratios comparing with the preceding year.

3.3 Legal Actions Instituted against or by the Institution

The following observations are made.

- (a) The fund had filed 11 cases against 11 managerial factories to recover the money receivable to the fund and a case had been filed in district court of Colombo in relation to a cash fraud of Rs. 250,019 in the marketing section of the fund.
- (b) A case had been filed against an external institute to recover a receivable amount of Rs. 19,211,584 to the fund, even though the judgment had been given as favourable to the fund on 20 June 2014, and the Defence had filed an appeal at Commercial High Court of Colombo.
- (c) The workers had filed 8 cases against the fund at Labour Tribunal, even though the judgment had been given as favourable to the fund for a case filed by a worker at District Court the pursuer had filed an appeal.
- (d) Two cases had filed against the fund at District Courts in relation to land disputes of the fund.

4. Operational Review

4.1. Performance

Objectives of the fund in brief, as per the paragraph 7 of the Tea Shakthi Fund Act, no. 47 of 2000 are given bellow.

- Establishment and Improvement of saving habits among minor tea estate owners, and improvement of their economic and social status, and promote investments in relation to tea industry.
- Acquisition of tea factories, development, provision of other facilities to tea factories required in production, provide facilitate to minor tea estate owners in their yield production.
- Take actions which are necessary to enrich the well-being of minor tea estate owners those who are engage in tea production.

Even the fund had not taken new actions in achieving above objectives, only 10 factories and insurance benefit scheme for shareholders in the fund had been continued during the year under review, furthermore the following observations are made.

(a) Factory profit/loss

Even though the fund owned 15 factories only 10 factories were operating during the year under review. According to the factory accounts the loss earned by those factories during the year under review was Rs.88,770,617, further this had been decreased by Rs. 26,712,320 representing 23 per cent, comparing with the preceding year.

The Profit/losses earned by factories, which were in operating condition, from the year ended 2011 to the end of the year under review are given below.

Factory	For the years ended 31 December				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Deniyaya	(11,735)	(11,913)	(7,777)	(7,349)	(4,126)
Walahanduwa	(12,245)	(14,068)	731	(2,297)	(3,312)
Mawarala	(7,614)	(10,279)	(10,229)	(6,108)	(3,653)
Elpitiya	(14,675)	(13,482)	(3,409)	(7,990)	(16,604)
Raigamkoralaya	(13,737)	(15,885)	(7,479)	(7,579)	2,191
Kothmale	(8,092)	(9,683)	(6,933)	(6,132)	(8,901)
Keppitipola	(4,000)	(5,628)	5,421	(1,285)	(5,223)
Passara	(1,643)	(1,769)	5,772	6,640	2,345
Mahaweli	(4,360)	(10,054)	(13,079)	(899)	245
Deraniyagala	(10,669)	(22,722)	(8,770)	(3,989)	-
	-----	-----	-----	-----	-----
	(88,770)	(115,483)	(45,752)	(36,988)	(37,038)
	=====	=====	=====	=====	=====

In order to purchase more buds for minimizing factory losses a high price had been paid for tea buds from 2010 continuously. However the objective had not been achieved and an extra cumulative cost incurred there on was Rs. 73,494,328.

(b) Tea production

The information presented in relation to tea production is as follows.

Factory	production cost per tea Kg		Production		Machine capacity (over production)	Amounts Produced from tea buds used in production (standard percentage 21.5)	Average net sale per tea Kg
	(Rs)		(Kg)		(Kg)	%	(Rs)
	2014	2015	2014	2015		2015	2015
Deniyaya	527.22	498.72	146,651	115,894	451,500	20.51	373.02
Deraniyagala	474.62	447.46	250,966	174,912	387,000	20.94	346.96
Kothmale	488.36	-	80,351	4,837	451,500	-	-
Passara	382.53	349.31	209,097	309,379	387,000	22.57	326.68
Walahanduwa	537.70	513.05	148,814	108,880	516,000	20.65	372.49
Keppitipola	391.10	360.08	206,235	270,036	387,000	21.70	324.54
Mahaweli	428.92	357.36	188,065	275,144	774,000	21.82	329.23
Elpitiya	565.26	447.96	102,435	159,632	516,000	20.04	327.52
Raigamkoralay	483.02	431.76	316,688	358,525	516,000	20.16	373.68
a							
Mawarala	644.51	-	55,380	-	322,500	-	-

The following observations are made.

- (i) Capacity of machines in the whole factory system of the fund was under-utilized during last 3 years and the tea production in 6 factories had decreased more than 50 per cent out of their tea production capacity and 3 factories had utilized the capacity only up to 80 per cent during the year under review. Accordingly, the cost of manufacturing per tea kilo had been increased due to factory overhead cost of production.

- (ii) The production in Mawarala tea factory had been ceased in 2015 and the tea factory in Kothmale was not in operational condition since March. Out of 8 factories that are in operational condition 5 factories were failed to achieve the optimum level of tea production of 21.5 per cent and due that the direct expenses on raw tea bud had increased.

As per (i), (ii) above, the cost of production per tea kilo had exceeded the net average selling price per tea kilo in the factories of the fund.

- (c) The production of tea according to the action plan and performance reports for the year under review is as follow.

Factory	Targeted purchase of raw tea buds as per the action plan	Actual purchase of tea buds	Targeted production of tea as per the action plan	Actual production of tea	Percentage of variance
-----	-----	-----	-----	-----	-----
	(kilo grams)	(kilo grams)	(kilo grams)	(kilo grams)	--
Deniyaya	1,200,000	565,013	258,000	115,894	55.08
Walahanduwa	1,130,000	527,228	242,950	108,880	55.18
Mawarala	1,016,800	-	218,655	-	-
Elpitiya	950,000	796,446	204,250	159,632	21.84
Raigamkoralaya	1,800,000	1,778,508	387,000	358,525	7.36
Deraniyagala	1,484,650	835,151	319,200	174,912	45.20
Kothmale	1,168,000	128,396	251,100	4,837	98.07
Keppitipola	1,395,000	1,244,335	299,925	270,036	9.96
Passara	1,334,500	1,370,669	287,000	309,379	(7.8)
Mahaweli	1,700,000	1,261,161	365,500	275,144	24.72
	-----	-----	-----	-----	
Total	13,178,950	8,506,907	2,833,580	1,777,239	
	=====	=====	=====	=====	

As per the action plan for the year under review, though it was expected to purchase 13,178,950 kilo grams of raw tea buds, only 8,506,907 kilo grams of tea buds had been purchased since the percentage variance was 35.45. As per the action plan for the year under review, the targeted tea production was 2,833,580 kilo grams, whereas the actual production was 1,777,239 kilo gram that is 62.72 per cent. When factory vice considered, the variance was in a range of 25 per cent to 98 per cent in factories at Deniyaya, walahanduwa, kothmale and Deraniyagala.

(d) Local tea sales section

Although it was planned to achieve a sale of Rs.9,286,555 from the local tea selling section, the actual sales was Rs. 3,713,253 and it was 40 per cent of the targeted amount of the year under review.

(e) Fertilizer section

Although the targeted manure sales for the year under review, were 3,827 metric tons the actual sales were 679 metric tons which is only 17 per cent. Nevertheless in an event of targeted fertilizer sales of 8,525 metric tons for the year representing 16.89 per cent at an amount of 1,440 metric tons had been sold; Accordingly there was a drawback in setting targets as well as in progress during the year under review.

(f) Welfare section

The tea factories have not settled the loans of Rs. 118,300,000 until the end of the year under review, which was given by the welfare fund of the members of minor tea estate society at Tea Shakthi Fund from 2000 to 2003 in order to fulfill the financial needs in tea factories of Tea Shakthi Fund. Though the expected interest on this loan during the year under review was Rs. 16,244,777, the settlement of loans and interest has been uncertain due to continuous losses in factories.

- (g) As at 31 December 2015, 94,425 shareholders possessed shares valued at Rs. 206,014,150. The fund had not been operated in order to give benefits to these shareholders since 2007 to the year under review. Though the vision of the institute is to become the best institute that devoted itself for uplifting socio economic condition of

minor tea estate owners, by increasing the share capital value of members, it was unable to fulfill the goal due to above mention particulars.

4.2. Management Activities

After closing down the factory at Balangoda, due to weak supervision of the management, 18.59 perches in 6 plots of land were captured by external party and a case in this regard was been examined in district court at Balangoda.

4.3 Idle and underutilized Assets.

The following observations are made.

- (a) Nearly 47 acres out of the land of 97 acres which belongs to Mawarala tea factory had not been cultivated; meanwhile a paddy field valued at Rs. 240,000 owned by the same factory had not been cultivated and remained idle.
- (b) Though a fertilizer mixing machine, valued at Rs. 2,197,447 to mix fertilizer at store premises of the fund, had been purchased and this machine was remained idle due to having higher expenditure and time taken to mixing.
- (c) After closing the factory at Balangoda the Residency and the lavatory system of the factory had been destroyed due to weak maintenances of buildings. At the end of the year under review, the factory land at Balangoda valued at Rs. 1,350,000 and buildings valued at Rs. 10,000,000 had been remained idle without using for any purpose.
- (d) A computer software system valued at Rs. 2,435,000 had been purchased in 2010 to prepare consolidated accounts for the head office and all factories of the fund; this had not been used for preparing accounts even up to 20 December 2016.

4.4. Damages and Losses

The following observations are made.

- (a) Although a sum of Rs. 2,105,980 for purchasing spare parts and a sum of Rs.438,819 renovating the machines of the tea factory at Walahanduwa had been spent in 2013, renovation work had not been completed so as to bring the drying machine to an operational condition even up to the reporting date.
- (b) According to the reports of Sri Lanka Tea Board, 7,247 kilograms of tea valued at Rs.3,242,743 had been destroyed in the tea factory at Deraniyagala, during the year under review due to an un-eligible condition for human consumption.
- (c) Actions had not been taken to charge from officers those who are responsible in shortage of tea bulks in factories at Elpitiya and Deniyaya, valued at Rs. 1,669,613 and Rs.1, 258,758 respectively.

4.5 Land and Buildings which were not formally taken over.

Even though the value of factory buildings were recorded as Rs. 81,655,360 in accounts, actions had not been taken by the fund to take over the ownership of the land where those buildings are located, even up to the end of reporting date.

4.6 Personnel Administration

The approved cadre to the fund was 90, while the actual staff was 47 there were 43 vacancies including 20 staff officer vacancies as at 31 December of the year under review. Being the approved cadre for factories were 199 and actual factory staff was 77, there were 122 vacancies including 19 technical officers so as 53 per cent vacancies had existed.

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 concluded of the financial year according to 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 presented to audit on 19 October 2016, after a delay of 233 days. Moreover, the draft annual report had not been presented to audit even up to 20 December 2016.

5.2 Internal Audit

Even though an internal audit unit to the fund had been established only two officers had been appointed to that section.

5.3 Budgetary Control

According to the budget of the fund, variances of 22 per cent to 100 per cent were observed between budgeted income and expenditure and actual income and expenditure, thus observing that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Weaknesses in the systems and controls observed during the course of audit were brought to the notice of the Chairman of the fund from time to time. Special attention is needed in respect of the following areas of control.

Systems and Controls areas	Observations
(a) Accounting	Delays in presenting financial statements
(b) Receivable and Payable Balances	Existence of receivables and unsettled balances from long term
(c) Budgetary control	Significant variances were observed between budgeted and actual figures
(d) Financial control	Bank Overdraft facilities had been taken
(e) Operational control in the factories	All the factories earn losses
(f) Utilization of assets	Existence of idle assets

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Auditor General