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இலங்கை மரமுந்திரிகை கூட்டுத்தாபனம்

SRI LANKA CASHEW CORPORATION

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வருடாந்த கணக்கும் அறிக்கையும்
ANNUAL REPORT AND ACCOUNTS

2013

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Sri Lanka Cashew Corporation

Chairman's Report for the Year 2013

(01). Establishment of the Sri Lanka Cashew Corporation

Sri Lanka Cashew Corporation (SLCC) was established under the State Agricultural Corporations Act no: 11 of 1972 as per the Gazette Extraordinary No: 60/7 dated 25th May 1973. From its inception, the Corporation is functioning as a public enterprise mainly providing services to the industry while engaging in commercial activities on a profit earning basis.

- **Vision**

Making Sri Lanka one of the leading cashew exporting countries in the world through the production of high quality cashew.

- **Mission**

Uplifting the cashew industry in a manner that ensures long term commercial potentiality by providing professional guidance to farmers and relevant parties to improve cashew cultivation, production, processing technology, value addition, research and marketing activities.

Targets

- Improving the cashew harvest through the diffusion of cashew cultivation.
- Enhancing the productivity of the cashew processing industry and of estates.
- Creating a globally accepted trade name for Sri Lankan cashew.
- Value addition and the development of new products.
- Encouraging cashew exports.

- Making Sri Lanka the leader of cashew production.
- Becoming a self-sufficient State Corporation through profit earning.

Objectives

- (a). Cultivation, processing and marketing of cashew and formulating plans with regard to the cashew production, processing and marketing and providing instructions for their implementation.
- (b). Conducting investigations and research with the objective of enhancing the cashew cultivation, processing and marketing and its production, processing and marketing.
- (c). Collecting, processing, publicizing and distributing technical, marketing and other information with regard to the cultivation, processing and marketing of cashew and its production, processing and marketing and liaising with others in the implementation of such activities.
- (d). Determining the locations of cashew & cashew products processing factories, their extent and the technical standards and establishing new factories and activating existing factories when necessary.
- (e). Purchasing, distributing, marketing and exporting cashew and cashew products.
- (f). Facilitating the training of persons required for the cultivation, processing and marketing of cashew and its production, processing and marketing.
- (g). Establishing the fundamental organizations required for the development of cashew cultivation, processing facilities and marketing and assisting in their establishment.
- (h). Initiating measures as deemed necessary for the popularization of cashew products and their sale, promoting the existing demand for these products in the world markets, financing the promotional or any other incidental activities, controlling, assisting and sponsoring such activities.

(02). Board of Directors of the Sri Lanka Cashew Corporation - 2013

(2.1) Members of the Board of Directors of the Corporation for the duration of the period from 01.01.2013 up to 21.09.2013

- (i). Mr. Sanath Weerakoon - Chairman**
- (ii). Mr. S.K. Gunapala - Deputy Chairman
- (iii). Mrs. M.D. Abegunawardene - Member of the Board of Directors
Representative of the General Treasury
- (iv). Mr. W.V.V. Fernando - Member, Board of Directors
- (v). Mr. W.P. Gnanasiri - Member, Board of Directors
- (vi). Mr. H. Gunawardene - Member, Board of Directors
- (vii). Mr. C.J. Andradi - Member, Board of Directors

(2.2) Members of the Board of Directors appointed as of 21.09.2013

- (i). Mr. Sanath Weerakoon - Chairman**
- (ii). Mr. H.I. Gunawardene - Deputy Chairman
- (iii). Mrs. M.D. Abegunawardene - Member, Board of Directors
Representative of the General Treasury
- (iv). Mr. U. Silva - Member, Board of Directors
- (v). Mr. L. Cooray - Member, Board of Directors
- (vi). Mr. A.M. Ambras - Member, Board of Directors
- (vii). Mr. K. Vidanapathirana - Member, Board of Directors

Secretary to the Board of Directors for the year 2013 - Mr. V.U. Liyanage

(2.3) The Audit and the Management Committee of the Sri Lanka Cashew Corporation - 2013

- (i). Mr. W.V.V. Fernando - Member, Board of Directors
(Committee Chairman up to 13.08.2013)
- (ii). Mrs. M.D. Abegunawardene - Member, Board of Directors
Representative of the General Treasury
(Committee member from 29.01.2013)

- (iii). Mr. H.I. Gunawaradene - Member, Board of Directors
(Committee member up to 13.08.2013)
- (iv). Mr. C.J. Andradi - Member, Board of Directors
(Committee member up to 30.04.2013)
- (v). Mr. D.K. Jayakodiarachchi - Committee Member-General Manager
- (vi). Mr. M.T.S.K. Pieris - Committee Member-Manager / Finance
- (vii). Mrs. S.R. Fernando - Committee Member (from 13.08.2013)
Acting Manager-Administration
- (viii). Mr. V.U. Liyanage - Committee Secretary-Internal Auditor
- (ix). Mrs. A.P.P. Athukorale - Committee Observer-Superintendent of Audit
Representative of the Auditor General's Department

(2.4) Senior Management of the Sri Lanka Cashew Corporation

- (i) Mr. D.K. Jayakodiarachchi - General Manager

(2.5) Board of Management of the Sri Lanka Cashew Corporation

- (i) Mr. S.S.B. Rathnayake - Manager, Plantations / Acting
Manager, Policy & Planning
- (ii) Mr. M.T.S.K. Pieris - Manager - Finance
- (iii) Mr. G.B.B. Surendra - Manager - Extensions
- (iv) Mr. V.U. Liyanage - Internal Auditor- Secretary to the Board of Directors
- (v) Mrs. S.R. Fernando - Acting Manager - Administration
- (vi) Mr. R.M.P. Jayathissa - Acting Manager - Marketing & Processing

(2.6) Registered Offices

Head office and Regional Offices

Head Office

Sri Lanka Cashew Corporation,
No: 1334, Old Kotte Rd,
Rajagiriya.

Telephone

Chairman	-	011-2871005
Deputy Chairman	-	011-2869844
General Manager	-	011-2876134

Fax - 011-2867843

E-mail - cashewco@dialogsl.net

Web address - www.cashew.lk

Regional Offices, Estates, Plant Breeding Centres and Processing Units.

(2.7) <u>Regional Offices</u>	<u>Districts being covered</u>
1. Puttlam Regional Office	- Puttlam / Kurunegala
2. Hambantota Regional Office	- Hambantota / Ratnapura
3. Anuradhapura Regional Office	- Anuradhapura / Vavuniya / Mannar / Mulaitivu
4. Naula Regional Office	- Matale / Polonnaruwa
5. Moneragala Regional Office	- Moneragala
6. Mahiyanganaya Regional Office	- Kandy / Badulla
7. Ampara Regional Office	- Ampara
8. Batticaloe Regional Office	- Batticaloe
9. Trincomalee Regional Office	- Trincomalee
10. Kilinochchi Regional Office	- Kilinochchi / Mulaitivu / Jaffna

(2.8) <u>Estates</u>	<u>District</u>
1. Kamandaluwa Estate	- Puttlam
2. Puttalama Achchigewatte Estate	- Puttlam
3. Eluwankulama Estate	- Puttlam
4. Hardy Estate	- Batticaloe
5. Mankerni Estate	- Batticaloe
6. Kondachchi Estate	- Mannar (being developed together with the Department of Civil Security)

- | | | |
|---------------------|---|-------------------------------------|
| 7. Poonerin Estate | - | Kilinochchi (being run by the Army) |
| 8. Madu Estate | - | Mannar – not functioning |
| 9. Oyamaduwa Estate | - | Anuradhapura |

(2.9) Plant Breeding Centres

District

- | | | |
|--|---|--------------|
| 1. Wilachchiya Plant Breeding Centre | - | Anuradhapura |
| 2. Nalanda Plant Breeding Centre | - | Matale |
| 3. Mahaoya Plant Breeding Centre | - | Ampara |
| 4. Suduwathura Ara Plant Breeding Centre | - | Moneragala |

(2.10) Central Plant Nurseries

Districts being covered

- | | | |
|---------------------------------|---|---|
| 1. Mihintale Plant Nursery | - | Anuradhapura / Vavuniya / Mannar /
Kilinochchi / Mulaitivu |
| 2. Dambulla Plant Nursery | - | Matale / Polonnaruwa |
| 3. Kamandaluwa Plant Nursery | - | Puttlam / Kurunegala |
| 4. Hardy Plant Nursery | - | Batticaloe / Trincomalee |
| 5. Kumbukkana Plant Nursery | - | Moneragala |
| 6. Aluththarama Plant Nursery | - | Badulla / Kandy |
| 7. Chandrika Weva Plant Nursery | - | Hambantota / Rathnapura |

(2.11) Cashew Processing Centres

District

- | | | |
|---------------------------------|---|---------|
| 1. Nedagamuwa Processing Centre | - | Gampaha |
| 2. Puttlam Processing Centre | - | Puttlam |

(2.12) Research Units

District

- | | | |
|------------------------------|---|---------|
| 1. Kamandaluwa Research Unit | - | Puttlam |
| 2. Puttlam Research Unit | - | Puttlam |

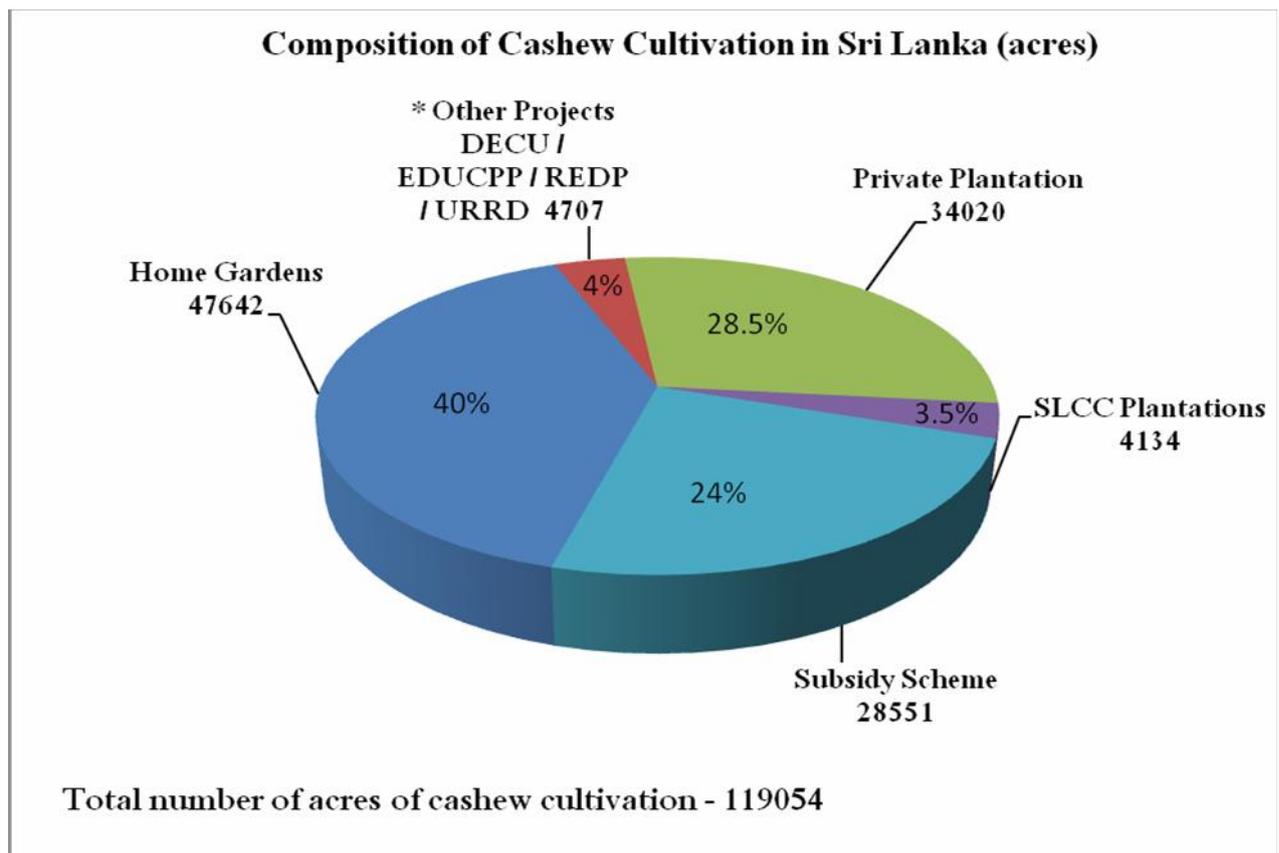
(03). Development Activities of the Corporation

The Sri Lanka Cashew Corporation is implementing 05 major programmes as development activities.

- (3.1) Extension subsidy programme**
- (3.2) Estate development, rehabilitation and productivity development**
- (3.3) Development of marketing & processing industry**
- (3.4) Research & development**
- (3.5) ‘Divi Neguma’ ‘Deyata Kirula’ and other development programmes**

(3.1) Extension Subsidy Programme

(3.1.1) Composition of Cashew Cultivation in Sri Lanka



- * D.E.C.U - ‘Divi Neguma’ Economic Cultivation Units.
- E.D.U.C.P.P - Economic Development & Upliftment of Communities of the Poor Project.
- R.E.D.P - Regional Economic Development Project-Matale District.
- U.R.R.D - Joint Project with the Department of Upcountry Rural Rehabilitation.

(3.1.2) Extension of Cashew Cultivation Areas and Upliftment of National Production

(3.1.2.1) Increasing the Areas of Cultivation

The total estimated area of cashew cultivation in Sri Lanka is 119054 acres. Under the subsidy programme, 2500 acres of bud grafted cashew and 1750 acres of seedling cashew have been cultivated in 2013 covering 125 Divisional Secretary's Divisions. Under this 2545 beneficiary families have been benefitted.

Cashew Cultivation Subsidy Programme

District	Bud Grafted Cashew (acres)	Cashew Seedlings (acres)
1. Puttlam	500	-
2. Kurunegala	450	-
3. Hambanthota	275	-
4. Anuradhapura	400	-
5. Ampara	-	400
6. Badulla	125	-
7. Kandy	25	-
8. Ratnapura	25	-
9. Matale	150	-
10. Polonnaruwa	150	-
11. Moneragala	300	-
12. Batticaloe	50	450
13. Trincomalee	50	350
14. Vavuniya	-	100
15. Mannar	-	100
16. Mulaitivu	-	150
17. Kilinochchi	-	150
18. Jaffna	-	50
Total	2500	1750

(3.1.2.2) Payment of Subsidies to Famers

A sum of Rs. 3.4 million was paid to 1977 farmer families who cultivated cashew under the subsidy scheme in the Hambanthota, Puttlam, Kurunegala, Anuradhapura, Ampara, Polonnaruwa, Matale, Batticaloe, Trincomalee, Ratnapura, Vavuniya and Mannar districts.

A subsidy of Rs. 9,500/- per acre is paid for bud grafted cashew cultivation and in areas unsuitable for bud grafted cashew cultivation, a subsidy Rs. 3,500/- per acre for seedling cashew cultivation is paid.

(3.1.2.3) Expansion of Extension Services

Steps were taken to establish Trincomalee Regional office to cover the cultivation work being carried out in the Trincomalee district and the Northern Province Regional office covering Kilinochchi, Malaitivu and Jaffna districts was also established in the Northern Province. Under the cashew cultivation subsidy programme, 350 acres in the Kilinochchi, Jaffna and Mulaitivu districts were newly cultivated with the involvement of 300 beneficiary families.

(3.2) Development of Estates, Rehabilitation & Productivity Development

(3.2.1) Enhancing the Productivity of Cashew Cultivation

(3.2.1.1) Planting Material Production

1.1 million mother seeds were produced at plant breeding centres of the Corporation using Good Agricultural Practices (GAP).300,000 twigs obtained from these mother seeds and mother trees were used in the production of bud grafted plants and seedlings.

Plant Breeding Centre	District	Area in extent (acres)
1. Wilachchiya	Anuradhapura	25
2. Nalanda	Matale	75
3. Mahaoya	Ampara	81
4. SuduwathuraAra	Moneragala	50
Total		231

(3.2.1.2) Nursery Management

4,68,714 bud grafted plants of high quality new varieties were produced at the central nurseries of the Corporation and were issued for 'Divi Neguma' and for the subsidy programme.

Production of Budded Plants in 2013

Name of the Plant Nursery	Budded Plants Produced
1. Kamandaluwa	200341
2. Dambulla	60964
3. Mihintale	62312
4. Aluththarama	45320
5. Kumbukkana	42787
6. Hardy	16265
7. Chandrika Wewa	40725
Total	468714

48 plant nurseries have been established in Batticaloe, Trincomalee, Vavuniya, Mannar, Malaitivu, Kilinichchi, Jaffna and Ampara in order to produce 88529 seedlings required for the subsidy scheme.

(3.2.1.3) New Cultivation in Estates

Extensive development works were carried out in Puttlam, Kamandaluwa, Eluwankulama, Hardy, Oyamaduwa, Mankerni, Batticaloe estates of the Sri Lanka cashew corporation and about 660 acres were newly cultivated. While implementing these programmes, particularly in developing the Kondachchi Estate in the Northern Province and Mankerni Estate in the Eastern province, the assistance of the Department of Civil Security was obtained. The technical assistance and the cashew plants for

cultivation were provided by the Corporation. The estates in Poonerin are functioning in the custody of the Sri Lanka Army and advisory services for their maintenance are being provided continuously. In addition to this, rehabilitation works were carried out in 2500 acres of mature cashew cultivation and tractors and agricultural equipment necessary for estates were purchased.

(3.2.1.4) Enhancing the Productivity

Under the sponsorship of the National Institute of Plantation Management, 08 programmes on 'Enhancing the productivity of cashew cultivation through the use of Good Agricultural Practices' were conducted for cashew small holders and 360 cashew small holders from Puttlam, Kurunegala, Trincomalee, Mulaitivu and Anuradhapura districts participated in these programmes. In addition to this 86 training programmes on cashew cultivation, pest control, use of fertilizers and bud grafting have been conducted for 2000 farmer families.

(3.3) Development of Marketing and Processing Industry

(3.3.1) Post Harvest Technology Development

(3.3.1.1) Purchasing of Raw Cashew from Farmers

The Corporation purchased 27,000 kilograms of raw cashew from cashew farmers under competitive market conditions at the rate of Rs. 250/- per Kilo which resulted in the establishment of a competitive price range in the market. The cashew harvest of 70.0 metric tons, collected from the Corporation's estates was processed at the factories of the Corporation.

(3.3.1.2) Strengthening the Cashew Processing Industry

In order to earn a higher price by forwarding high quality cashew kernel products to the market, an advanced manufacturing mechanism is essential. Under this programme, cashew processors were provided with ovens and electric cashew cutting machines and they were trained with regard to the Good Agricultural Practices (GAP), value addition

and standards. Also processing societies were given assistance in obtaining financial facilities and in the market promotion. The training centre of the Nedagamuwa processing centre was utilized for this purpose.

(3.3.2) Development of Cashew Byproducts

(3.3.2.1) Establishment of a Cashew Winery

During each harvesting season, cashew apples go to waste, without any use being derived from it. As a result of the Corporation undertaking research in this regard, a winery was setup at the Puttlam Processing Centre. 4500 nos of wine bottles were produced by the end of the year 2013 and action will be initiated to add value to cashew apples by improving the winery's production capacity in the forthcoming years. These wines are made to a very high standard and have acquired the quality that can compete with imported brands.

(3.3.2.2) Producing Beverages from Cashew Apple

Sri Lanka Cashew Corporation is implementing an integrated programme with the private sector for the production of beverages using cashew apples. A special training programme was held in Brazil and steps have been taken to begin the production of beverages at research level with the gathering of the cashew harvest of 2014.

(3.3.3) Processing and Marketing of Cashew

Cashew Processing Centres owned by the Corporation are located in Puttlam and Nedagamuwa (Gampaha District). Raw cashew gathered from the estates of the Corporation and purchased from growers are processed and the value added cashew kernels are marketed through the Corporation's sales outlets in Kolpetty and Rajagiriya.

In addition to this, with a view to strengthening the marketing network, 06 new cashew products were sold to customers through authorized sales outlets in Horana, Bambalapitiya, Panadura, Kalutara, Ambalangoda, Galle, Hikkaduwa, Maggona, Narahenpita, Welisara and Balapitiya. The Corporation has been able to earn Rs. 79.43

million from the sale of high quality cashew products using new technological methods and through value addition.

(3.3.4) Export of Cashew Products and Earning of Foreign Exchange.

(3.3.4.1) In the year 2013, Sri Lanka earned Rs. 77 million foreign exchange by forwarding 51 metric tons of value added cashew kernels and high quality cashew kernels to the international market. Rs. 170 million foreign exchange has been earned by exporting 146 metric tons of value added cashew kernel in the year 2012. Accordingly, a decline in the export capacity and earning of foreign exchange is experienced. This has been due to the rapid increase of the tourism industry which paved the way for the local demand for cashew to go up, which in turn increased the local consumption. In addition to this, the drop in the expected cashew harvest due to inclement weather conditions has also contributed to this.

Export sources – Sri Lanka Customs

(3.3.5) Import of Cashew

(3.3.5.1) Import of Cashew for Local Consumption

With the increase of the local consumption of cashew and the decline in the cashew harvest due to climatic changes, the small scale processors experienced a shortage of raw cashew in the local market. As a solution to this, licences were provided to small scale cashew processors to import raw cashew under tax reliefs. As per the reports of the customs, 160 metric tons of raw cashews were imported by small scale producers and distributed among a large number of processors. Thus, the Corporation had the opportunity of intervening in stabilizing the livelihoods of families engaged in the cashew processing industry.

(3.4) Research & Development

Continuous research programmes have been carried out with regard to plant breeding, use of fertilizers, pest control of cashew crops, bud grafted and seedling cashew cultivation, harvesting and intercropping. These programmes were implemented jointly with the

Faculty of Agriculture and Plantation Management of the Wayamba University. The progress of these programmes was evaluated by the Research and Management Committee. The outcomes of these researches were made available to the farmers when they are given advisory services through the extensions service network as well as by means of field models, leaflets, videos and television programmes.

(3.5) ‘Divi Neguma’ ‘Deyata Kirula’ and Other Development Programmes

(3.5.1) ‘Divi Neguma’ National Development Programme

239588 bud grafted plants were produced and distributed for planting among 12 districts covering 85 Divisional Secretary’s Divisions.

(3.5.2) ‘Deyata Kirula’ National development Progarmme (Mobile Service)

Under this programme, Officers of the Sri Lanka Cashew Corporation took part in 935 mobile service programmes held in the Kurunegala & Puttlam districts. 816 problems encountered by farmers were solved. Problems related to cashew cultivation, provision of subsidy services including cashew plants, pest elimination, cashew processing industry, quality control, value addition, marketing etc. have been specially addressed and solutions were provided.

(3.5.3) ‘Deyata Kirula’ National Exhibition

During the period the Deyata Kirula exhibition was held, the corporation had its sales centre within the exhibition stall of the Ministry of Minor Export Crops Promotions, with cashew products and demonstaying the services being provided by the Corporation.

(4.0) Budget

(4.1)

Category	Investment of Funds – 2013 (Rs. million)		
	Government Investment	Funds Generated	Total
Capital Expenditure	48.67	36.38	85.05
Recurrent Expenditure	52.50	9.21	61.71
Total	101.17	45.59	146.76

(4.2) Earnings of 2013 through commercial activities

	(Rs. million)
Sale of cashew kernels	79.43
Sale of cashew mother seeds and plants	64.71
Sale of coconuts	0.45
Total	<u>144.59</u>

(5.0) Administration

(5.1) With the aim of providing a quality & an efficient service to cashew small holders, cashew processors and to customers, formal management applications were employed.

The assistance of all of the stakeholders of the Corporation was obtained, as the Corporation acts as a public enterprise providing services with a view to earning profits.

The unrestricted assistance of the Board of Directors, Managers and the entire staff was also secured. Accordingly, the Corporation was able to align itself with the new development strategies of the government with a view to generating incomes for the public and to fulfilling the objectives of the Corporation.

Approval has been granted to implement proposals related to the new organization structure of the Corporation, reorganization of the recruitment and the promotions procedure.

(5.2) Staff as at 31.12.2013

Approved Staff	As at 31.12.2013
Higher Management Grade	01
Management Grade	07
Executive Grade	05
Management & Assistant Grade	124
Minor Grade	55
Total	189

In addition to this, about 350 check roll labourers have been employed according to monthly requirements in processing centres, estates, plant breeding centres and central plant nurseries of the Corporation.

(8) Achievements

The Corporation was able to maintain the profit earning status recorded in 2011 and 2012, throughout the year 2013. The commercial and plant producing activities of the Corporation and the productive and the efficient guidance given by the Board of Directors and the dedication of the staff, all contributed towards the accomplishment of this feat.

The net profit earned by the Corporation during the year 2013 through commercial activities is Rs. 38.30 millions.

Owing to the following drawbacks the profit earned could not be elevated to a higher level than what has been generated.

- The drop of the cashew yield from expected levels due to inclement weather conditions.
- The cashew products having excessive prices owing to the inadequate supply of raw cashew to meet the local demand.

- High labour cost and material cost.
- The Corporation suffered drawbacks in initiating new programmes as well as fulfilling essential services due to the limiting of recurrent and capital grants. Hence, the funds generated by the Corporation had to be utilized in continuing these activities. As a repercussion of this, a lack of funds to be invested in commercial and development activities resulted.

(9) Acknowledgement

I have been successful in transforming Sri Lanka Cashew Corporation to an effective and efficient entity within a short period as 3 ½ years. I wish to offer my heartfelt gratitude to the Board of Directors for their cooperation extended to me in accomplishing this feat.

In particular, the General Manager, Managers and all staff member worked tirelessly with much dedication in executing all activities of the corporation efficiently and with a high productivity level and my sincere appreciation goes to them for the services rendered.

The support extended and the commitment made by all stake holders including small scale cashew processors, cashew products exporters, cashew small holders, government and nongovernmental organizations had been instrumental in establishing this level of success.

Also, I acknowledge and wish to express my sincere gratitude to the Hon. Reginald Cooray, Minister of Minor Export Crops Promotion, to the Secretary to the Ministry of Minor Export Crops Promotion and to the Ministry Staff for their guidance provided to us.



Sanath Weerakoon

Chairman

Sri Lanka Cashew Corporation

Report of the Board of Directors

On behalf of the board of directors I herewith submit the Audited Financial Statements for the year ended 31st December 2013.

In terms of the circular No: PED/12 issued on the 2nd of June 2003 by the Director General of the Department of Public Enterprises of the General Treasury, the Financial statements of Sri Lanka Cashew Corporation was submitted to the Auditor General before 28th February 2014.

Establishment

Sri Lanka Cashew Corporation was established with an initial capital of Rs.40 millions on 25th May 1973 by the gazette notification No: 60/7 issued under the subsection 01 of the section 02 of the state Agricultural Act No: 11 of 1972 and by the order of the Minister of Plantation Industries at the time.

Outcome

Financial outcome & data on change of equity in the current year have been disclosed by the statement on the change of equity and the financial statement.

Business Review

The Financial status of Sri Lanka Cashew Corporation in the year ended 31st December 2012 is given in the Statement of Financial Position and an evaluation in this respect is included in the chairman's report.

Property, Plants & Equipment

Changes that had taken place with regard to Property, Plants and equipment during the current year have been indicated at Note no: 1 in the Statement of Financial Position as at 31.12.2012. The difference between the values indicated at this Note and their current market rates is immaterial.

Main Activities

The main activities of Sri Lanka Cashew Corporation are as follows.

- To advise the Minister on the formulation and implementation of plans pertaining to the cultivation, processing and marketing of cashew and cashew products.
- To undertake activities pertaining to the cultivation processing and marketing of cashew and cashew products.
- To undertake investigations and research with the object of improving the Cultivation, Processing and marketing of cashew and cashew products.
- To undertake and collaborate in the collection, preparation, publication and dissemination of technical marketing and other information pertaining to the cultivation, Processing and marketing cashew and cashew products.
- To determine the location, size and technical standards regarding the establishment of any factories and to new factories and operate existing ones where necessary, for the processing of cashew and cashew products.
- To purchase, distribute, sell and export cashew and cashew products.
- To provide facilities for training persons required to carry out the work of cultivation, processing and marketing of cashew and cashew products.
- To Establish and assist in the establishment of infrastructure necessary for the purpose of the development of cashew plantations, processing facilities and marketing.
- To take such steps as may be considered necessary to advertise and sell cashew products, to promote the demand for such products in the markets of the world and to initiate and sponsor the financing, supervision and supporting of propaganda work for such purpose or for other purposes connected therewith or incidental thereto.

No significant changes occurred in the activities of the corporation during the preceding financial year.

Reserves

The composition of the total reserves of the corporation is indicated in the statement on the change of equity.

Board of Directors (Up to 20th September 2013)

The Board of Directors appointed as at from 01st January 2013 to 20th September 2013 is as follows.

Mr. Sanath Weerkoon	-	Chairman
Mr. S.K. Gunapala	-	Deputy Chairman
Mrs. M.D. Abegunawardana	-	Director (Treasury Representative)
Mr. W.V. Fernando	-	Director
Mr. W.P. Gnanasiri	-	Director
Mr. H. Gunawardana	-	Director
Mr. C.J. Andradi	-	Director

Board of Directors (From to 21st September 2013)

Mr. Sanath Weerkoon	-	Chairman
Mr.H.Gunawardana	-	Deputy Chairman
Mrs M.D.Abeygunawardhana	-	Director (Treasury Representative)
Mr. U.Silva	-	Director
Mr. L.Coaray	-	Director
Mr.A.M.Ambras	-	Director
Mr.K.Widanapathirana	-	Director
Mr.V.U.Liyanage	-	Secretary to the Board

Audit & Management Committee

The corporation's Audit & Management committee has been established in accordance with the Public Enterprises Guide lines.

Statutory Payments

All statutory payments that should be made to the government & employees have been duly paid.

Environmental Security

The corporation has not been involved in any activity creating a threat to the environment.

Incidents subsequent to the Statement of Financial Position date.

No incident has been reported to be adjusted through accounts or for disclosure subsequent to the balance sheet date.

Auditors

The Financial Statements of Sri Lanka Cashew Corporation for the year ended 31st December 2013 has been subjected to the audit by the Auditor General.

By the order of the board of directors.



V.U.Liyanage

Secretary to the Board of Directors

Audit and Management Committee Report

The Audit and Management Committee of the Sri Lanka Cashew Corporation was established in terms of the Public Enterprises Department Circular no: 31 of 01.07.2005 (PED 31), as amended by Public Enterprises Department Circular no: 51, 53 and 55 (PED 51, PED 53 and PED 55) and comprises of 08 persons including seven members and an observer.

A non-executive director widely experienced in financial affairs acted in the post of committee chairman and the secretary to the Board of Directors / Internal Auditor of the Corporation acted in the post of committee secretary.

During the year 2013, the Audit and Management Committee was convened 03 times and the participation of the committee members and the observers in these meetings had been in the following manner.

- | | | | | |
|-----|--|---|--------------------|-----|
| 01. | Mr. W.V. Fernando | : | Committee Chairman | 3/3 |
| | Non executive member of the Board of Directors - from 16.01.2013 to 20.09.2013 | | | |
| 02. | Mrs. M.D. Abeygunawardene | : | Committee Member | 2/3 |
| | Non executive member of the Board of Directors - from 16.01.2013
(Representative of the General Treasury) | | | |
| 03. | Mr. Hasitha Gunawardene | : | Committee Member | 3/3 |
| | Non executive member of the Board of Directors - from 16.01.2013 to 20.09.2013 | | | |
| 04. | Mr. C.J. Andradi | : | Committee Member | 2/3 |
| | Non executive member of the Board of Directors - from 16.01.2013 to 30.04.2013 | | | |
| 05. | Mr. D.K. Jayakodiachchi | : | Committee Member | 2/3 |
| | General Manager | | | |
| 06. | Mr. M.T.S.K. Peiris | : | Committee Member | 2/3 |
| | Manager - Finance | | | |
| 07. | Mr. V.U. Liyanaage | : | Committee Member | 3/3 |
| | Internal Auditor and Secretary to the Board of Directors | | | |
| 08. | Mrs. S.R. Fernando | : | Committee Member | 1/3 |
| | Acting Manager - Administration - from 04.06.2013 | | | |
| 09. | Mrs. A.P.G. Athukorale | : | Committee Observer | 3/3 |
| | Representative of the Auditor General's Department | | | |

Since all non executive directors who had been appointed to the first Audit and Management Committee held in year 2013, were new committee members, the role of an Audit and Management Committee of a state owned enterprise was extensively discussed using the relevant circulars and guidelines. Also the new committee members were made knowledgeable about the daily activities of the Corporation.

At the second audit and management committee meeting held during the year an extensive review was made with regard to the matters contained in the financial and physical progress report relevant to the overall work of the Corporation which was prepared in respect of the first quarter of the year under review and forwarded to the 2nd committee meeting of the year. Accordingly, the relevant recommendations were submitted for the approval of the Board of Directors.

Also, a review was made on the observations contained in all of the internal audit reports issued by the internal audit division of the Corporation as at the date of the relevant committee meeting and on the courses of action taken by the Management with regard to these observations.

At the third Audit and Management Committee meeting held in the year under review, a review was made on the matters contained in the financial and physical progress report relevant to the overall work of the Corporation and matters contained in the summarized report of the internal audit reports issued as at that date and the recommendation were submitted to the Board of Directors for their perusal.



W.V. Fernando

Chairman

Audit and Management Committee

Sri Lanka Cashew Corporation

Performance Report for the year 2013

(01). Subsidy Scheme for Cashew Cultivation and Development Programmes

(1.1) Subsidy Scheme for Cashew Cultivation

Under the subsidy scheme for cashew cultivation, a total of 4350 acres which is made up of 2500 acres of bud grafted cashew and 1850 acres of seedling cashew have been cultivated covering 18 districts. 4008 farmer families benefited. The total cost incurred amounts to Rs. 13.48 millions.

(1.2) Expansion of Extension Services Network

For the first time, steps were taken to establish the Trincomalee Regional Office to cover the Trincomalee district and the Kilinochchi Regional Office to cover the Kilinochchi, Mulaitivu, Jaffna districts in the Northern Province.

(1.3) 'Divi Neguma' National Development Programme

Under the home garden cultivation programme, 2,94,000 bud grafted plants were produced for distribution among beneficiary families in 12 districts covering 85 Divisional Secretary's Divisions and by the end of the year 1,98,494 budded plants have been made available to the respective District Secretaries and Divisional Secretaries and planted in farming lands. The income generated by the Corporation from this amounted to Rs. 40 million. Due to the inclement weather conditions the issuing of plants to farmers was limited and it has been planned to issue the remaining plants at the beginning of the Yalaseason of 2014.

(1.4) 'Deyata Kirula' National Development Programme

Sri Lanka Cashew Corporation operated an exhibition stall with a sales outlet and a services counter, at the 'Deyata Kirula' national exhibition held in Kuliyaipitiya in 2013, housed within the exhibition stall of the Ministry of Minor Export Crops Promotion and was able to

provide those who showed interest in cashew cultivation with all necessary advisory services in printed media and through Research Officers. The cost incurred is Rs. 1.2 million.

(1.5) 'Deyata Kirula' Mobile Service

Officers of the Sri Lanka Cashew Corporation took part in 935 mobile service programmes conducted in the Kurunegala and Puttlam districts under the 'Deyata Kirula' programme and provided solutions for 816 problems encountered by farmers. Solutions were provided for problems related to cashew cultivation, provision of relief services, pest elimination, cashew processing, quality control, value addition, marketing, etc.

(2.0) Uplifting the Productivity of the Cultivation

(2.1) Planting material production

Plant breeding centres in Nalandain the Matale district, Wilachchiya in the Anuradhapura district, Mahaoya in the Ampara district and Suduwathuraara in the Moneragala district were maintained with a view to breeding new varieties suitable to various areas and to providing them to cashew smallholders. 1.1 million high quality mother seeds and 300000 buds were obtained from these centres, required for the production of bud grafted plants necessary for the extension services and commercial activities. The total cost incurred amounted to Rs. 6.5 million

(2.2) Enhancement of the Production

08 workshops were held in the districts of Anuradhapura, Mulaitivu, Puttlam, Kurunegala, Batticaloe and Trincomalee on the elimination of pests in cashew cultivation and productivity enhancement using Good Manufacturing Practices (GAP). 360 cashew small holders participated in these workshops funded by the National Institute of Plantation Management. The total cost incurred amounted to Rs 0.21 million.

(2.3) Plant Nursery Management

07 central plant nurseries of the Corporation have been set up in the Kamandaluwa estate, Aluththarama, Hardy, Mihintale, Chandrikaweva, Dambulla and Kumbukkana. With the aim of producing bud grafted plants using modern technological methods, 06 poly net houses have been setup in Kamandaluwa, Mihintale, Batticaloe and Aluththarama plant nurseries. For the Maha Season of 2013, 4,68,714 high quality bud grafted plants were produced at these nurseries and distributed among farmers.

(3.0) Research and Development Programmes

Research programmes are being implemented jointly with the Faculty of Agriculture and Plantation Management of the Wayamba University. Research programmes related to plant breeding, use of Fertilizer, Plant density, Pest elimination in cashew cultivation, inter cropping, bud grafted and seedling crops and harvesting, are being carried out. Farmers are being made aware of the research outcomes through workshops and extension ion services. The total cost incurred amounted to Rs. 3.0 million.

(4.0) Maintenance of Estates of the Corporation and Rehabilitation of Crops

Crop rehabilitation work was carried out in a total area of 630 acres in Kamandaluwa, Aachchigewatte, Puttlam, Hardy, Oyamaduwa, Kondachchi and Mankerni estates. Cultivation work was carried out in Kondachchi and Mankerni Estates with the assistance of the Civil Security Department. A raw cashew harvest of 72.0 metric tons was gathered from the estates. In addition to this, chemical fertilizers were applied and weeding carried out to ensure a higher level of productivity. 02 tractors and Agricultural equipment were purchased to meet the agricultural requirements of the estates. Total cost incurred was Rs. 13.9 million.

(5.0) Post Harvest Technology

(5.1) Marketing and the Promotion of the Processing Industry

The Corporation has purchased 27,000 kilograms of raw cashew at the rate of Rs. 200/- – Rs. 250/- per a kilogram of raw cashew under competitive market conditions. The harvest gathered from Corporation's estates and the raw cashew purchased from farmers were

processed at the processing centres in Puttlam and Nedagamuwa. They were sold at the main sales outlets of the Corporation as value added products. The network of Corporation's sales outlets, consisting of 11 authorized sales outlets was used for this purpose. 06 new value added products were introduced to the customers and small scale processors and exporters were trained and made knowledgeable about Good Manufacturing Practices. The total income earned by the Corporation from marketing activities was Rs. 79.43 million.

(6.0) Promoting Cashew Byproducts

(6.1) Establishment of a Winery

During every cashew season, cashew apples go to waste without any use being derived from them. As an outcome of the research carried out by the Corporation, a winery was established at the processing centre in Puttlam. 4500 wine bottles have been produced at this winery by the end of the year 2013 and steps will be taken to increase the production capacity with a view to providing a higher value to cashew apples. These wines are made to a high standard that can compete with imported brands.

(6.2) Manufacture of Beverages from Cashew Apple

Steps have been taken to obtain the necessary technology & training with the sponsorship of the Brazilian Government for the manufacturing of beverages using cashew apples which go to waste. A Research Officer of the Corporation and a fruit juice manufacturer in the private sector participated in this training programme and action has been taken to present these beverages to the market at research level upon the receipt of the cashew harvest of 2014.

(7.0) Human Resources Development

An in house training programme was held for 60 staff members with the sponsorship of the Department of Labour. In addition to this, a Management Skills Development Programme was held with the sponsorship of the Ministry of Minor Export Crops Promotion. 08 medium level officers and 28 Management Assistants participated in this programme. The total cost incurred amounted to 0.57 million.

Medium Term Measures to be Adopted for the Improvement of the Performance of the Sri Lanka Cashew Corporation.

Several measures are expected to be initiated by the Corporation with a view to improving its performance.

- (01). Increasing the area of cashew cultivation in Sri Lanka**
- (02). Increasing the productivity of cashew grown lands**
- (03). Promotion of post harvest technologies related to cashew cultivation**
- (04). Development of human resources and increasing productivity**

(01). Increasing the Area of Cashew Cultivation in Sri Lanka

(1.1) Cashew Cultivation under Extension Services

Primarily, cashew cultivation in Sri Lanka is limited to the dry zone. Nearly 30,000 acres of cashew grown lands were destroyed owing to the war which raged in these areas for the last three decades. However, under the extension programmes being implemented by the Corporation from 2010, more than 10,000 acres of land per year were reclaimed.

Under the extension subsidy scheme funded by the treasury, bud grafted and seedling cashew cultivation will be carried out during the next three years at the rate of 4500 acres per year.

Under the 'Divi Neguma' national programme, home garden programmes are being implemented in 12 districts and action will be taken to produce and plant a total of 8,00,000 plants, inclusive of 3,00,000 bud grafted plants and 500,000 seedling plants. This will be continued during the next three years. Accordingly, cashew will be cultivated in an additional area of nearly 8000 acres per year.

Under the 'Divi Neguma' commercial cultivation unit development programme, land units of 02 acres in extent will be developed by cultivating cashew. This programme is expected to be implemented next three years at the rate of 2000 acres per year.

(1.2) Rehabilitation of Plantations

Rehabilitation of old plantations and starting new plantations in the estates of the Corporation was undertaken from the year 2011. Under this, rehabilitation of the Kondachchi estate in the Northern Province and the Mankerni estate in the Eastern Province was undertaken jointly with the Department of Civil Security. It is expected to rehabilitate plantations / start new plantations at the rate of 300 acres per year in the Puttlam, Kamandaluwa, Eluwankulama and Hardy estates. It has been planned to cultivate about 2000 acres in the Kondachchi and Mankerni estates during the course of the next three years.

(1.3) New Cultivation

New cultivations will be carried out also in cashew grown lands of cashew small holders, at the rate of 500 acres per year. Through the implementation of all aforementioned cultivation programmes, the cashew grown land extent will be increased at least by 15000 acres each year.

A network of extension services consisting of 10 regional offices is being implemented for the successful completion of these activities and cashew cultivation development work in 18 districts is being covered through this network.

(2.0) Increasing the Productivity of Cashew Grown Lands

The extent of cashew grown lands in Sri Lanka amounts to 11,100 acres, of which 88% is made up of cashew small holdings. Seedling cashew trees have been cultivated in a majority of these lands and the cashew trees on these lands are aged 20-35 years, similar to those on the plantations of the Corporation and produce 3-5 kilograms of raw cashew per tree. In countries like Vietnam and India, where improved new varieties of cashew are being cultivated, a tree produces a yield of 10-15 kilograms of cashew. Accordingly, the Corporation is implementing the following activities with a view to increasing the productivity of the plantations.

(2.1) Introduction of New Varieties

The Corporation has introduced 08 new improved varieties to the cashew growers, which give a higher yield. The research work is being implemented jointly with the Faculty of Agriculture and Plantation Management of the Wayamba University and the 08 varieties, WUCC 1, WUCC 5, WUCC 8, WUCC 9, WUCC 13, WUCC 21, WUCC 23 have been cultivated on the Eluwankulama, Wilachchiya, Nalanda, Mahaoya, Suduwathuraara and Oyamaduwa estates and in Plant Breeding Centres. Action is being taken to obtain buds from these mother trees and to breed new varieties to suit various climatic zones of the island, which will be provided to the cashew growers. Two new varieties will be introduced annually with a view to increasing the cashew yield to 1000 kilograms per hectare.

(2.2) Application of Good Agricultural Practices

Each year cashew small holders are directed to remove seedling cashew trees which give a low yield and to start replanting. Training programmes for cashew growers are conducted annually with the involvement of the National Institute of Plantation Management, with a view to increasing the cashew yield through the application of Good Agricultural Practices. This is expected to be implemented during the course of the next three years. Visual media are being used for this purpose. Owing to heavy rainfall during the flowering season, shoot rotting disease may occur in plantations.

As a result, the cashew yield may drop by 30% - 40%. Hence the need to make the cashew small holders knowledgeable has become vitally important. With the intention of suppressing damages being caused by carpenter worms in mature cashew cultivations a programme is being implemented jointly with the research units and is scheduled to be implemented during the course of the next three years.

(2.3) Central Plant Nurseries

Central Plant Nurseries of the Corporation have been established in Mihintale, Dambulla, Kamandaluwa estate, Aluththarama, Kumbukkana, Hardy estate and Chandrikaweve. At these nurseries, high quality bud grafted plants are produced under the supervision of the Corporation's officials and are issued to growers. A total of 520,000 bud grafted plants are

produced annually at these plant nurseries and it is envisaged that 500,000 plants per year will be produced during the next 03 years. 06 polynet houses have been established within these nurseries under the 'Divi Neguma' national programme and accordingly the application of new technologies in the production of plants is being promoted.

(3.0) Promotion of Post Harvest Technologies of Cashew Corporation

A high demand for Sri Lankan cashew has arisen in the world market due to its taste, size and even colour. However, it is difficult to increase the export capacity immediately with the annual harvest of 10,000-12,000 raw cashew produced each year. Also, the local consumption of cashew kernels has increased.

In addition to this, due to the increase of the production cost of a kilogram of cashew kernels, the price of a kilo of cashew kernels ranges from Rs. 1800 - Rs. 2400. After taking these facts into consideration, the Corporation has initiated a number of measures to increase the standards of the cashew kernel products and the profit being earned.

(3.1) Good Manufacturing Practices

The Corporation encourages the use of standardization, value addition and the application of Good Manufacturing Practices to increase the quality of the products, the use of hygienic manufacturing practices, modernizing of the processing utilizing new technologies, the use of new packaging methods and the manufacture of new products among small scale entrepreneurs. The training centre of the Nedagamuwa processing centre is being used for this purpose.

(3.2) Training Programmes

The Corporation contributed towards the elevation of the products of small scale producers to reach the international standards and have conducted training programmes for 150 persons engaged in the processing industry annually. This will be continued during the course of the next three years.

Also a programme currently being implemented to provide those who embark on processing industries with electricity operated shelling machines and ovens at affordable prices with the involvement of the Corporation will also be continued.

(3.3) Purchase of Raw Cashew from Cashew Growers

In addition to the harvest gathered from the plantations of the Corporation, raw cashew needed to continue the annual production at processing factories, were purchased last year from the cashew growers. The Regional Managers and Extension Officers of the Corporation are assigned with this task. This enabled the farmers to obtain a higher price for their products and to maintain a stable price since this prevented middlemen from buying raw cashew at a low price from farmers. Steps will be taken to purchase raw cashew from farmers during the course of the next three years. In addition to this cashew kernels have also been purchased from farmers.

(3.4) Promotion of cashew Byproducts

Raw cashews are separated from the cashew harvest and cashew apples go to waste without any use being derived from them. Accordingly, every year more than 10,000 cashew apples go to waste without any use being derived from them.

The Corporation has initiated the production of wine using cashew apples and a winery for this purpose has been established in the Puttlam processing centre. An annual production of 4500 no: of high quality wine bottles is envisaged and on its success, it is expected to continue the production of wine using cashew apples and issue them to the market during the course of the next three years.

In addition to this, a joint programme is being implemented with the private sector to conduct research on manufacturing of byproducts of cashew apples such as non alcoholic beverages, jams, cordials, to provide training and to market products. A special training programme was held in Brazil and the manufacturing of beverages at research level will start in the cashew harvesting season of 2014.

(4.0) Human Resources Development and Increasing the Productivity

(4.1) Training and Development of Human Resources

Steps have been taken to conduct in house training session necessary for the training and development of officers of all levels of the staff. An in house training programme was conducted for 60 members of the staff with the sponsorship of the Department of Labour. A programme to develop management skills was conducted with the sponsorship of the Ministry of Minor Export Crops Promotion. 08 junior Executive Officers and 50 Management Assistants took part in this programme. This programme enables them to acquire a higher level of productivity, in their respective works, updates their knowledge of the subject field, provides opportunities to obtain latest knowledge, enables to acquire a higher level of efficiency through self motivation. It has been planned to continue this training programme during the course of the next three years. The assistance of the Ministry of Minor Export Crops Promotion and the National Institute of Plantation Management are obtained in organizing these programmes.

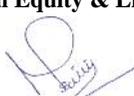
(4.2) Restructuring and Performance Evaluation of the Staff

Computers and fax machines have been provided to the network of regional offices of the Corporation. Accordingly, the communication facilities have been modernized with access to internet. Measures have been taken to restructure the staff to conform to the current development process of the Corporation and to revise the scheme of recruitment and promotion. This will ensure that the performance of the staff is maximized enabling the Corporation to overcome the challenges of the next few years. Steps have also been taken to evaluate the performance of all levels of the staff.

Sri Lanka Cashew Corporation
Amalgamated Statement of Financial Position As At 31.12.2013

31.12.2012
(Restated)

<u>Rs.</u>	<u>Assets</u>	<u>Notes</u>	<u>Rs.</u>	<u>Rs.</u>
	Non Current Assets			
64,986,141.84	Property Plant & Equipment	01	63,915,955.56	
31,619,684.51	Mature Area Expenditure	02	30,465,749.11	
19,981,804.19	Immature Area Expenditure	03	29,288,491.33	
-	Capital Work in Progress		215,375.77	
<u>707,535.39</u>	Other Small Projects	04	<u>618,787.46</u>	
117,295,165.93	Total Non Current Assets			124,504,359.23
	Current Assets			
46,135,309.65	Stocks	05	29,460,013.42	
70,822,069.30	Trade Debtors & Other Receivables	06	60,042,256.09	
3,373,592.53	Deposits, Advances & Prepayments	07	5,460,727.53	
<u>28,675,795.93</u>	Cash & Cash Equivalents	08	<u>66,529,295.29</u>	
149,006,767.41	Total Current Assets			<u>161,492,292.33</u>
<u>266,301,933.34</u>	Total Assets			<u>285,996,651.56</u>
	Equity & Liabilities			
	Equity			
40,000,000.00	Initial Capital		40,000,000.00	
34,959,185.36	Government Grant		58,744,656.00	
17,910,572.05	Grant from Other Parties	09	19,691,009.66	
23,676,376.25	Capital Reserves	10	22,241,383.25	
<u>77,787,906.97</u>	Profit & Loss Account		<u>81,339,297.02</u>	
194,334,040.63	Total Equity			222,016,345.93
	Non Current Liabilities			
31,271,754.62	Provision for Gratuity		33,874,951.54	
<u>6,513,024.00</u>	Vehicle Lease		<u>3,256,512.00</u>	
37,784,778.62	Total Non Current Liabilities		37,131,463.54	
	Current Liabilities			
<u>34,183,114.09</u>	Trade Creditors & Other Payables	11	<u>26,848,842.09</u>	
34,183,114.09	Total Current Liabilities			<u>63,980,305.63</u>
<u>266,301,933.34</u>	Total Equity & Liabilities			<u>285,996,651.56</u>


M.T.S.K. Peiris
Manager Finance



Sanath Weerakoon
Chairman

SRI LANKA CASHEW CORPORATION

Accounting Policies – 2013

- (1). The accounts have been prepared in accordance with the Sri Lanka Accounting Standards.
- (2). Fixed Assets depreciated on the fixed installments (i.e.) Straight line Basis. The depreciation for the year of purchase is provided in proportion to the date of purchase. Full depreciation is provided on buildings, in the year of completion of construction, irrespective of the date of completion.
- (3). The depreciation rates are as follows:

Vehicles	20%
Plant & Machinery	10%
Tools & Equipment / Office Equipment	10%
Tube Wells	10%
Furniture & Fittings	06%
Buildings – Permanent	03%
Buildings - Semi Permanent	33%

- (4). The basis followed in valuing of stock is as follows:
 - a. Cashew Kernels & Cashew Nut Shell Liquid - Cost and Net realizable Value whichever is lower.
 - b. Cashew Seeds - Guaranteed Floating/Marketing price
 - c. Sheep & Cattle - Market Price in the region (Live weight)
 - d. Coconut - Since realized Value
 - e. All other stocks - At cost
- (5). Head Office Charges have been apportioned among the cost centers on the basis of total salary expenditure incurred for the cost centers.
- (6). The basis of apportionment of Plantation General Expenditure to mature, immature area, nursery & Animal husbandry on the actual labour days.

- (7). Amortizing of Cashew & Coconut Mature Areas is at 5% per annum.
- (8). The provision for bad doubtful debts is made at 3.53% on total debts. Difference in the provision, Provision account is transferred to write off bad debts account for the final year.
- (9). Past service cost arising during the period of completion of the minimum period of service for illegibility, for gratuity payable under the Act, is charged to income during the accounting year the employees complete the minimum period of service. Present service cost arising during the period, after the completion of minimum period is charged to income during the related accounting year.
- (10). When the capital Grant is allocated and realized, to the corporation that is usually capitalized after identifying related capital assets and other development activities which are considered as long term assets in accordance with the Accounting Standards.

The actual value entered to the books of accounts by way of depreciation and amortization is written off from the capital assets and subsequently an equivalent value is identified from the Capital Grant as a revenue.

Sri Lanla Cashew Corporation

Note – 01

Property, Plant & Equipment:

Asset	Cost/Revaluation Value as at 01.01.2013 (Rs.)	Additions/ Revaluation During the Year (Rs.)	Disposal/ Transfer During the Year (Rs.)	Cost/Revaluation Value as at 31.12.2013 (Rs.)	Cumulative Depreciation as at 31.12.2013 (Rs.)	Written Down Value as at 31.12.2013 (Rs.)
Land	9,516,899.57	-	-	9,516,899.57	-	9,516,899.57
Buildings	38,295,231.84	1,437,411.54	-	39,732,643.38	13,523,254.98	26,209,388.40
Motor Vehicles	46,831,692.84	4,695,025.00	1,460,000.00	50,066,717.84	35,201,040.70	14,865,677.14
Plant & Machinery	10,968,023.45	3,082,514.00	11,217.00	14,039,320.45	8,495,727.42	5,543,593.03
Tools & Equipment	8,122,348.92	375,966.01	8,867.50	8,489,447.43	7,397,519.75	1,091,927.68
Office Equipment	9,340,078.49	428,849.00	925.00	9,768,002.49	7,128,006.07	2,639,996.42
Furniture & Fittings	5,393,592.46	736,312.00	42,017.64	6,087,886.82	3,527,220.04	2,560,666.78
Tube Well	420,785.00	405,897.00	-	826,682.00	378,245.85	448,436.15
Cultivation Well	428,699.00	70,800.00	-	499,499.00	68,953.23	430,545.77
Tank	608,824.62	-	-	608,824.62	-	608,824.62
	129,926,176.19	11,232,774.55	1,523,027.14	139,635,923.60	75,719,968.04	63,915,955.56

Sri Lanka Cashew Corporation

Note – 02

Mature Area Expenditure

		(Rs.)
Cashew	Schedule - 2A	27,818,035.17
Coconut	Schedule - 2B	2,647,713.94
	Total	30,465,749.11

Schedule - 2A

Mature Area - Cashew

Plantation	Cost up to maturity as at 01.01.2013 (Rs.)	Provision for Amortization as at 31.12.2013 (Rs.)	Net Value as at 31.12.2013 (Rs.)
Hardy Plantation	2,736,310.00	1,524,172.57	1,212,137.43
Kamandaluwa Plantation	14,089,138.40	9,189,675.47	4,899,462.93
Puttalam Plantation	27,311,754.96	15,323,207.67	11,988,547.29
Eluwankulama Seed Garden	13,933,185.28	7,478,919.30	6,454,265.98
Vilachchiya Plant Propagation Centre	655,569.86	64,848.82	590,721.04
Nalanda Plant Propagation Centre	3,054,708.90	381,808.40	2,672,900.50
Total	61,780,667.40	33,962,632.23	27,818,035.17

Schedule - 2B

Mature Area – Coconut

Plantation	Cost up to maturity as at 01.01.2013 (Rs.)	Provision for Amortization as at 31.12.2013 (Rs.)	Net Value as at 31.12.2013 (Rs.)
Hardy Plantation	1,369,822.51	342,455.65	1,027,366.86
Kamandaluwa Plantation	2,437,612.22	957,663.21	1,479,949.01
Puttalam Plantation	431,998.76	291,600.69	140,398.07
	4,239,433.49	1,591,719.55	2,647,713.94

Note - 03

Immature Area Expenditure

		(Rs.)
Cashew	Schedule - 3A	25,434,116.93
Coconut	Schedule - 3B	3,854,374.40
	Total	29,288,491.33

Sri Lanka Cashew Corporation

Schedule - 3A

Immature Area – Cashew

Plantation	Cost as at 31.12.2013
Hardy Plantation	892,934.72
Kamandaluwa Plantation	3,675,273.61
Puttalam Plantation	5,299,596.79
Eluwankulama Seed Garden	404,789.11
Manrkerni Plantation	987,343.50
Elkaduwa Seed Garden	2,714,062.67
Mahaoya Seed Garden	1,456,281.30
Monaragala Seed Garden	1,936,618.75
Research & Development	1,344,902.55
Nedagamuwa Processing Centre	135,360.40
Oyamaduwa Plant Propagation Centre	6,586,953.53
Total	25,434,116.93

Schedule - 3B

Immature Area – Coconut

Plantation	Cost as at 31.12.2013 (Rs.)
Hardy Plantation	1,647,938.19
Kamandaluwa Plantation	729,130.33
Puttalam Plantation	630,182.49
Oyamaduwa Plant Propagation Centre	847,123.39
	3,854,374.40

Note - 04

Other Small Projects

Project	Cost as at 31.12.2013 (Rs.)
Teak Plants Project	297,838.41
Papaya Project	320,949.05
	618,787.46

Sri Lanka Cashew Corporation

Note – 05

Stocks

	(Rs.)
Sundries	3,934,664.41
Wine	927,530.00
Animal Husbandry	3,150,025.00
Cashew Kernels	14,952,262.50
Raw Cashew	1,777,327.86
Plants	3,932,735.44
Packing Materials	770,216.21
Coconuts	15,252.00
	<u><u>29,460,013.42</u></u>

Note -06

Trade Debtors & Other Receivables

		(Rs.)
Trade Debtors	2,174,638.50	
Less : Pro. For Bad Debts	<u>76,765.00</u>	2,097,873.50
Sundry Debtors	69,021,778.59	
Less : Impairment Loss	<u>671,996.00</u>	57,944,382.59
		<u><u>60,042,256.09</u></u>

Note -07

Deposits, Advance & Prepayments

	(Rs.)
Advance	150,150.00
Prepayments	824,990.03
Deposits	4,485,587.50
	<u><u>5,460,727.53</u></u>

Note - 08

Cash & Cash Equivalents

	(Rs.)
Cash in Transit	84,020.90
Cash at Bank & Cash in Hand	<u>66,445,274.39</u>
Total	<u><u>66,529,295.29</u></u>

Sri Lanka Cashew Corporation

Note - 09

Grant from other Parties

	(Rs.)
North East Coastal Community Development Project	7,247,927.86
Ministry of Supplementary Plantation Crop. Development	1,612,451.80
Ministry of Minor Export Crop Promotion	10,830,630.00
	<u>19,691,009.66</u>

Note – 10

Capital Reserves

	(Rs.)
Revaluation Reserve - Vehicles	21,728,653.03
Other Capital Reserves	512,730.22
Total	<u>22,241,383.25</u>

Note – 11

Current Liabilities

	(Rs.)
Sundry Creditors	13,271,524.48
Accrued Expenses	13,577,317.61
Total	<u>26,848,842.09</u>

Note – 12

Subject to Sri Lanka Accounting Standard and Accounting Policies, the errors identified in prior year and required changes in accounting estimates have been adjusted and restated the comparative amounts in 2012.

Sri Lanka Cashew Corporation
Commercial Sector
Amalgamated Statement of Comprehensive Income For the Year Ended 31.12.2013

<u>31.12.2012</u>	Particulars	<u>31.12.2013</u>
	<u>Sales/Turn Over</u>	
47,224,171.89	Cashew Kernels	79,451,283.62
-	Cashew Mother Seeds	-
101,715,050.00	Cashew Plants	54,306,175.00
1,168,019.62	Coconut	447,484.03
-	Return Inward	24,570.00
150,107,241.51	Net Sales	134,180,372.65
	<u>Cost of Sales</u>	
1,804,244.42	(Increase)/Decrease In Stock	(2,379,414.63)
15,500,764.37	Cost of Plants Production	8,286,338.92
16,830,913.43	Cost of Kernels Production/Over Heads	53,777,950.91
17,805,186.39	Mature Area Admin. Expenditure	16,005,236.36
7,997,965.29	Mature Area Direct Expenses	6,895,925.38
59,939,073.90	Total Cost of sales	82,586,036.94
90,168,167.61	Gross Profit/ (Loss)	51,594,335.71
	<u>Expenditure</u>	
25,097,195.93	Administration Expenses (Processing Centres & Nurseries)	22,076,033.71
65,070,971.68	Profit / (Loss) Before Amortization	29,518,302.00
3,714,705.71	Amortization	3,044,757.11
61,356,265.97	Profit/(Loss) After Amortization	26,473,544.89
96,507.09	Profit/(Loss) Wine	(54,807.78)
87,000.00	Profit/(Loss) Processing Equip.	95,000.00
(797,479.00)	Profit/(Loss) Animal Husbandry	247,215.52
60,742,294.06	Operational profit / (Loss)	26,760,952.63
	<u>Other Income</u>	
25,909,934.00	Government Grant (Recurrent)	22,774,500.00
-	Profit/(Loss) Disposal of Fixed Assets	2,531,823.00
-	Interest Income	6,668,907.90
2,459,036.87	Sundry Income	846,271.90
-	Amortization - Grant from Other Parties	160,030.74
28,368,970.87	Total Other Income	32,981,533.54
	<u>Other Expenses</u>	
19,357,697.31	Administration Expenses (Head Office)	21,417,288.22
69,753,567.62	Net Profit/(Loss)	38,325,197.95

Sri Lanka Cashew Corporation

Service Sector

31.12.2012

Income & Expenditure Account for the Year Ended 31.12.2013

(Rs.)

Income

14,496,036.83	Government Grant - Capital	- Current Year	23,032,116.15
2,394,033.04		- Amortization	1,852,413.21
32,670,066.00		- Recurrent	29,725,500.00
49,560,135.87	Total Income		54,610,029.36

Less;

Expenditure

23,981,642.93	Head Office	27,954,053.91	
14,496,036.83	Under Capital Grant	23,032,116.15	
34,583,060.13	Extension Service	38,027,315.36	
2,019,132.45	Research & Development	2,192,343.89	
-	Oyamaduwa Plant Propagation Centre	762,504.52	
75,079,872.34	Total Expenditure		91,968,333.83

Expenditure Over Income during the Year

(25,519,736.47)	Transferred to Final Amalgamated Profit/Loss Account		(37,358,304.47)
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Sri Lanka Cashew Corporation
Final Amalgamated

<u>31.12.2012</u> (Restated) (Rs.)	Statement of Comprehensive Income For The Year Ended 31.12.2013	(Rs.)
69,753,567.62	Net Profit earned from the Commercial Sector	38,325,197.95
(25,519,736.47)	Expenditure Over Income for the Year - Service Sector	(37,358,304.47)
<hr/> 44,233,831.15 <hr/>		<hr/> 966,893.48 <hr/>

SRI LANKA CASHEW CORPORATION

CASH FLOW STATEMENT

Consolidated cash flow statement for the year ended 31st December 2013.

Year ending 31st December – 2013

	(Rs.)	(Rs.)
<u>Cash Flows from Operating Activities</u>		
Profit for the year		966,893.48
<u>Adjustments for items not involving movement of cash</u>		
Depreciation	11,974,188.19	
Amortization	3,044,757.11	
Provision for Gratuity	4,539,710.92	
Bad debtors written off & Pro. for Impairment Loss	654,384.00	
Losses on Dispose fixed Assets	(293,614.79)	
Written off Plantation Assets	(1,890,821.71)	
Written off Capital Reserves	1,434,993.00	
Government Grant Amortization	<u>(24,884,529.36)</u>	
		<u>(5,420,932.64)</u>
Operating Profit/(loss) before changes in items of working capital		(4,454,039.16)

SRI LANKA CASHEW CORPORATION

Changes in items of Working capital

Stocks - (Increase)/Decrease	16,675,296.23	
Debtors - (Increase)/Decrease	10,462,327.21	
Advances and Prepayments - (Increase)/Decrease	(2,087,135.00)	
Creditors - Increase/(Decrease)	(5,308,027.01)	
Accrued Expenses - Increase/(Decrease)	(2,026,244.99)	
Other Payables - Increase/(Decrease)	(3,256,512.00)	
	<hr/>	14,459,704.44
		<hr/>
		10,005,665.28
Payment of Gratuity		(1,936,514.00)
Cash used in/generated from operating activities		<hr/>
		8,069,151.28

Cash flows from Investing Activities

Purchase of fixed assets	(11,232,774.55)	
Capital Work in Progress	(215,375.77)	
Investment on New Planting	(9,306,687.14)	
Equity Grants Received	1,780,437.61	
Investments on Other Small Projects	88,747.93	
	<hr/>	(18,885,651.92)
		<hr/>
		(10,816,500.64)

SRI LANKA CASHEW CORPORATION

Cash Flows from Financial Activities

Government Grant		48,970,000.00
Increase in cash & cash equivalents		37,853,499.36
Cash & cash equivalents at beginning of the year	(Note-01)	<u>28,675,795.93</u>
		<u>66,529,295.29</u>

Note - 01

	<u>As at 01.01.2013</u>	<u>As at 31.12.2013</u>
Cash at Bank/in hand	28,510,500.82	66,445,274.39
Cash in Transits	<u>165,295.11</u>	<u>84,020.90</u>
	<u>28,675,795.93</u>	<u>66,529,295.29</u>

Sri Lanka Cashew Corporation
Changes in Equity Statement for the year ended 31.12.2013

Changes	Initial Capital	Government Grant-Capital	Grant from NECCD Project	Grant from MSPCD	Revaluation Reserve	Other Capital Reserves	Grant from MMECP	Profit & Loss Account	Total (Rs.)
Balance as at 31.12.2012	-	34,959,185.36	7,473,939.51	1,612,451.80	3,099,687,875.76	512,730.22	8,824,180.74	117,787,906.97	3,270,858,270.36
Correction of Govt. Grant Amortization		40,000,000.00	-	-	-	-	-	(40,000,000.00)	-
Reclassification of Govt Grant	40,000,000.00	(40,000,000.00)	-	-	-	-	-	-	-
Adjustment on Revaluation Reserve - Land	-	-	-	-	(3,076,524,229.73)	-	-	-	(3,076,524,229.73)
Balance as at 31.12.2012 (Restated)	40,000,000.00	34,959,185.36	7,473,939.51	1,612,451.80	23,163,646.03	512,730.22	8,824,180.74	77,787,906.97	194,334,040.63
Grant Received during the year	-	48,670,000.00	-	-	-	-	2,166,480.00	-	50,836,480.00
Transfers to Profit & Loss Account	-	(24,884,529.36)	(226,011.65)	-	-	-	(160,030.74)	-	(25,270,571.75)
Transfers to Assets disposal Account	-	-	-	-	(1,434,993.00)	-	-	-	(1,434,993.00)
Compensation received on Assets Written off	-	-	-	-	-	-	-	4,312,539.57	4,312,539.57
Prior year Adjustment	-	-	-	-	-	-	-	(1,728,043.00)	(1,728,043.00)
Net Profit for the period	-	-	-	-	-	-	-	966,893.48	966,893.48
Balance as at 31.12.2013	40,000,000.00	58,744,656.00	7,247,927.86	1,612,451.80	21,728,653.03	512,730.22	10,830,630.00	81,339,297.02	222,016,345.93

NECCD -North East Coastal Community Development Project
MSPCD - Ministry of Supplementary Plantation Crops Development
MMECP -Ministry of Minor Export Crops Promotion



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கணக்காய்வாளர் தலைமை அறிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



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Your No. }

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திகதி }
Date }

27 August 2014

The Chairman,
Sri Lanka Cashew Corporation

Report of the Auditor General on the Financial Statements of the Sri Lanka Cashew Corporation for the year ended 31 December 2013 in terms of Section 14(2)(c) of the Finance Act No. 38 of 1971

The audit of financial statements of the Sri Lanka Cashew Corporation for the year ended 31 December 2013, comprising the statement of financial position as at 31 December 2013 and the comprehensive income statement, Statement of changes in equity and cash flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act No. 38 of 1971 and Section 23 of the State Agricultural Corporations Act No. 11 of 1972. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act was issued to the Chairman of the Corporation on 21 April 2014.

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 Standards of supreme Audit Institutions (ISSAI 1000-1810). Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's Judgment, including the assessment of the risk of material misstatements of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation'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 Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub Sections (3) and (4) of the Section 13 of the Financial Act No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

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

1.4 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Cashew Corporation as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following non-compliances with Sri Lanka Accounting Standards (LKAS) observed in audit are given below.

- (a) LKAS - 02 - In valuing closing stock cost or net realizable value whichever is lower should be applied. Nevertheless, the stock of finished cashew kernels had been valued with a profit margin of 15 per cent from the selling price without being computed the cost and the net realizable value. Similarly, the value of finished stocks at processing centers had been computed at 90 per cent of the above cost and the semi-finished stock had been valued at 95 per cent of the finished stock.
- (b) LKAS - 16 - (i) The effective date of the revaluation and whether service of an independent valuer had been obtained for the revaluation had not been disclosed in respect of vehicles stated at revalued amount.



(ii) The assets representing 41 per cent of the other fixed assets except land and buildings costing Rs. 37,451,944 had been fully depreciated but the Corporation had been using them. Action had not been taken to revalue these assets.

(c) LKAS - 19 - (i) Provision for gratuity had not been assessed by an Actuary and action had not been taken to identify the actuarial profit or loss.

(ii) Action had not been taken to invest the gratuity fund.

(d) LKAS 39, 32 - Recognition, measurements, presentation and disclosures of Financial assets and financial liabilities in respect of trade and SLFRS 07 debtors and other receivables, deposits, advances and pre-payments, cash and cash equivalent, trade creditors and other payables had not been done in accordance with standards.

(e) LKAS 41 - Biological assets such as cashew trees belonging to the Cashew Corporation had not been accounted at fair value and disclosed in terms of this standard.

2.2.2 Accounting Deficiencies

Cashew kernels, the selling price of which was Rs. 204,679 had been written off from stock books during the year under review without issue orders. Action had not been taken to issue these stocks by following a proper procedure and to account properly.

2.2.3 Accounts Receivable and Payable

The following matters were observed.

- (a) The external debtors balance of Rs.2,003,354 remained outstanding prior to the year 2010 had not been recovered even by 31 December 2013. A sum of Rs. 1,962,800 included therein had been a debtor balance created for the supply of plants to the Ministry of Nation Building in the year 2009. As an effective course of action had not been taken to recover this balance by the end of the year 2010, it had become unrecoverable debt as at 31 December 2013.
- (b) Action had not been taken to settle the following Liabilities since several years.

Institute	Value	Period
	Rs.	
Paddy Marketing Board	3,500,000	Since 2005
Subsidies Payable	2,429,612	Since 2010
Crop insurance	719,466	Prior to 2005
Total	6,649,078	

2.2.4 Non- compliance with Laws, Rules, Regulations and Management Decisions

The following non- compliances with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules and Regulations	Non- compliance
I. Inland Revenue Act No. 10 of 2006	Although the Corporation is liable for income tax, action had not been taken to prepare income tax return and to pay income tax for the assessment years 2011/2012 and 2012/2013.
II. Value Added Tax (VAT) Act No. 14 of 2002	A manufacturer of goods who supplies wholesale and retail goods and the annual turnover exceeds Rs. 12 million should register for VAT and pay VAT. Nevertheless, action had not been taken to recover taxes by the Corporation.
III. Nation Building Tax (NBT) Act No. 9 of 2009	Although the business entities which manufacture goods and its turnover exceeds Rs. 650,000 per quarter is liable for Nation Building tax, the corporation had not taken action to register and pay Nation Building Tax.
IV. Economic Service Charge (ESC) Act No. 13 of 2006	Although business entities whose turnover exceeds Rs 7.5 million per quarter should pay Economic Service Charge, the Corporation had not taken action to register and pay Economic Service Charge.



- V. Shop and Office Employees Act No. 19 of 1954 (Formalization of service and wages) Although overtime rate per hour had been calculated in terms of Shop and Office Employees Act in paying overtime for employees, the Shop and Office Employees Act had not been applied in calculating the overtime hours for work done.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Corporation had resulted in a surplus of Rs. 966,893 for the year ended 31 December 2013 as compared with the surplus of Rs. 44,233,831 for the preceding year. Accordingly, a decrease of Rs.43,266,938 in the financial results as compared with that of the preceding year was observed. Decline in sales income of cashew plants by Rs. 47,408,875 and increase of expenditure in the Service Division by Rs.16,888,461 had been the main reasons for this deterioration.

3.2 Analytical Financial Review

According to the financial statements presented, the financial results of the Corporation for the year ended 31 December 2013 as compared with that of the year ended 31 December 2012 are given below.



(a) Commercial Division

	Estate and Marketing Division			Commercial Plant Nursery Division		
	2013	2012	Percentage of change increase/ (decrease)	2013	2012	Percentage of change increase/ (decrease)
	Rs.	Rs.		Rs.	Rs.	
Total Income	85,411,920	57,375,124	49	54,307,276	101,947,112	(47)
Total Expenditure	91,462,288	61,367,823	49	20,728,222	36,115,643	(43)
Operating Profit/ (Loss)	(6,050,368)	(3,992,699)	51.5	33,579,054	65,831,469	(49)
Profit margin Percentage	(7)	(6.5)		162	182	

(b) Service Division

	2013	2012	Percentage of change
	Rs.	Rs.	Increase/ (decrease)
Government Grants - Capital	25,044,560	16,890,069	48
- Recurrent	52,500,000	58,580,000	(10)
Profit of the commercial Division	27,528,686	61,838,770	(55)
Interest Income	6,668,908	-	-
Profit from disposal of assets	2,531,823	-	-
Other Income	78,538	1,362,562	(94)
Total Income	114,352,515	138,671,401	(17.5)
Total expenditure of Service Division	113,385,622	94,437,570	20
Profit	966,893	44,233,831	



The following observations are made in this regard.

- (a) The operating loss of the Estates and Marketing Division had increased by 51.5 per cent as compared with that of 2012.
- (b) Cost of a seed cashew plant and a budded cashew plant in the year under review amounted to Rs. 27.50 and Rs.39 respectively, and the selling prices were Rs.100 and Rs.200 respectively. As a result a high profit margin of 162 per cent had been reached by the commercial plant nursery.
- (c) Although the income from sale of cashew plants had drastically increased since 2011 due to issue of cashew plants to Divineguma program, the cashew plant income had dropped by 47 per cent in the year under review as compared with that of the year 2012.
- (d) The cost of production in the processing centers had increased by 219 per cent as compared with that of 2012. Increase of cashew kernels production and the purchase of about 7000 Kg of cashew kernels valued at Rs.12,891,411 from an external party had been the reasons thereon.

3.2.1 Financial Structure

According to the financial statement, the financial structure of the corporation as at 31 December 2013 is given below as compared with that as at 31 December 2012.

Resources	As at 31 December			
	2013	Percentage	2012	Percentage
	Rs		Rs	
Capital	40,000,000	15	40,000,000	17
Government grants capital	58,744,656	23	34,959,185	15



Grants from other institutions	19,691,010	08	17,910,572	08
Capital Reserve	22,241,383	09	23,676,376	10
Long term liabilities	37,131,463	14	37,784,779	16
Profit/ Loss Brought forward	81,339,297	31	77,787,907	34
	-----	----	-----	----
	259,147,809	100	232,118,819	100
	=====	=====	=====	=====
Utilization				

Fixed Assets	64,131,331	25	64,986,142	28
Expenditure on Plantation Lands	60,373,028	23	52,309,024	22
Net current Assets	134,643,450	52	114,823,653	50
	-----	----	-----	----
	259,147,809	100	232,118,819	100
	=====	=====	=====	=====

As compared with the previous year, government capital grants had increased by 8 per cent.

4. Operating Review

4.1 Performance

(a) Particulars of production in the cashew estates belonging to the corporation and the cost of production are given below.

Estate	Production of cashew nuts	Cost of production	Cost per Kg	Matured cashew areas	Immatured cashew areas	Age Levels	
						Matured	Immatured
	Kg	Rs.	Rs.	Hectares	Hectares	Years	Years
Puttalam	15,882	9,437,857	594	191.04	110.3	More than 30	Less than 05
Kamandaluwa	28,542	7,728,507	271	129	37	More than 30	Less than 05
Eluwankulama	18,730	5,371,016	287	72.5	10.5	More than 11	Less than 05



Hardy	4,238	1,495,051	353	70.85	10.12	More than 30	Less than 05
Nalanda	2,782	1,082,281	389	20.24	8.1	More than 10	Less than 05
Vilachchiya	483	185,210	383	-	7.29	-	Less than 05
Mahaoya	196.7	-	-	-	10.12	-	Less than 05
Mirijjawila	112.6	-	-	-	40.49	-	Less than 05
Total	70,966.3			483.63	233.92		

The following observations are made in this regard.

- (i) Out of 484 hectares of fruitful lands belonging to the Corporation, 391 hectares or 81 per cent had passed more than 30 years of effective life time.
- (ii) The market price per 01 Kg of cashew kernels was about Rs. 225, but the cost of production per 01 Kg of cashew kernels at Puttalam, Kamandaluwa, Eluwankulama, Hardy, Nalanda and Mahavilachchiya estates had been over the market price.

(b) Subsidy Scheme

The matters observed in audit carried out on the implementation of Cashew subsidy Scheme in Kurunegala and Puttalam Districts are given below.

Year	District	Number of Farmers	Number of acreage	Number of Plants given	Number of succeeded cashew plants observed in 2013	Progress (As a percentage of Number of plants given)
2010	Puttalam	372	564	45,120	8,914	22.8
	Kurunegala	508	600	48,000	12,352	
2011	Puttalam	314	600	48,000	11,905	28.7
	Kurunegala	383	500	40,000	13,362	

It was observed that out of the plants distributed among farmers under the subsidy Programme the number of plants successfully grown had been at low level as 22.8 percent and 28.7 percent in the years 2010 and 2011 respectively.

4.2 Management Inefficiencies

Matters observed were as follows.

- (a) The following estates had incurred operating losses due to increase of direct and administrative expenditure as compared with the total income in the year under review.

Estate	Income	Cost of production	Operating loss
-----	-----	-----	-----
	Rs.	Rs.	Rs.
Puttalam Estate	4,259,421	9,459,727	5,200,306
Kamandaluwa Estate	7,845,919	8,233,640	387,721
Eluwankulama Estate	4,680,723	5,422,046	741,323
Nalanda Estate	859,106	1,286,266	427,160
Hardy Estate	1,534,199	1,875,950	341,751
 Total			 7,098,261 =====

- (b) The income of the wine manufacturing project commenced recently by the Corporation was Rs.234,150 whereas the expenditure was Rs.288,958 and as such the operating loss amounted to Rs. 54,808.

4.3 Personnel Administration

One vacancy had existed in the higher managerial posts of the corporation and out of the approved cadre there were 37 vacancies consisting of 24 in executive and non – executive grades and 12 minor employee grades.



5. **Accountability and Good Governance**

5.1 **Tabling the Annual Reports in Parliament**

The annual report for the year 2012 had not been tabled in Parliament even by 31 March 2014.

5.2 **Unresolved audit paragraph**

The issue on transfer of legal ownership of the cashew lands, of which the Corporation did not have the ownership which had been discussed at the meeting of the Committee on Public Enterprises met on 24 July 2012 had not been resolved even by 31 March 2014.

6. **Systems and Controls**

Deficiencies observed during the course of audit were brought to the notice of the Chairman of the Corporation from time to time. Special attention is needed in respect of the following areas of control.

- (a) Taking over of returned Cashew
- (b) Storing Cashew Stock
- (c) Issue of Cashew free of Charge
- (d) Allowing dry weight for cashew and standard wastage.

H.A.S. Samaraweera

Auditor General

Expression of opinions with regard to the issues raised by the Auditor General's Report issued in terms of the section 14 (2) (c) of the Financial Act No: 38 of 1971 on the Financial Statements of the Sri Lanka Cashew Corporation for the year ended 31st December 2013 and intimation of corrective measures expected to be taken.

2.2.1. (a) According to the calculations done on the cost methodologies of the Corporation and as per the percentage of the profit maintained on the sale of the cashew kernels, the cost of the sale of whole cashew kernels and half made cashew kernels have been calculated correctly.

Accordingly, the cashew kernels stock has been valued on the cost, which is the lowest out of the cost and the net realized value.

2.2.1 (b) (i) The revaluation of the Corporation's vehicles was carried out by a committee which comprised of a qualified government mechanical engineer and the revaluation date had been 01.01.2009. Actions are being taken to include relevant disclosures in the financial statements.

2.2.1 (b) (ii) According to the relevant accounting standards, a certain part of the fixed assets, coming under a particular category of fixed assets cannot be calculated and recorded in accounts books, but all fixed assets coming under the particular category of fixed assets should be revalued at one time.

The Corporation owns a large number of outer offices and since there are a number of machinery, furniture and fittings and other equipment at those offices including those at the head office, it is difficult to revalue them all at one time.

However, action will be taken to revalue relevant fixed assets and to enter the results in the books of accounts as soon as adequate financial provisions are received.

2.2.1 (c) (i) With much difficulty contacts were established with a qualified assessor for the purpose of assessing the gratuity provisions of the year 2013. Prior to the starting of the work, a quotation stating his professional charges for the relevant work was

obtained. A very high price had been stated as charges for his professional services and the Corporation lacked funds to settle this amount. Also we were unable to establish contacts with another qualified assessor and therefore by using our knowledge and experience, we substituted values for gratuity provisions in a manner that suits practically and adjustments were made in the books of accounts.

2.2.1. (c) (ii) Only a book entry is made in the books of accounts of the Corporation with regard to the gratuity provisions and such gratuity provisions are paid by utilizing government funds. These funds are received by the Corporation from time to time. Accordingly, a gratuity fund that could be used for investments does not accumulate in cash.

2.2.1. (d) Relevant disclosures will be made in the financial statements in the current year.

2.2.1 (e) Since we do not possess sufficient technology to assess the biological assets owned by the Corporation, attempts were made during the year under review to establish contact with assessors with the relevant expertise, which did not succeed.

However, necessary action will be taken to implement this task also by considering the provisions of 2014.

2.2.2 These processed cashew kernel stocks have been issued free of charge to be utilized in sales promotional activities and the value of cashew kernels thus issued free of charge, amounted to the very low percentage of 2% of the total value of the Corporations cashew kernels sales for the year 2013.

All these free issue of cashew have been entered in the relevant Bin Cards and accordingly they have been adjusted to suit the processed cashew stocks.

The value of cashew kernel issued free of charge for above sales promotional work had not been entered in the books of accounts, by mistake. However, it did not have any impact whatsoever on the results shown in the financial statements.

However, in order to further ensure the regularity of the free issuances of cashew, necessary internal control practices have been implemented.

2.2.3 (a) Out of the external debtor's value mentioned in the audit query, which amounts to Rs. 2,003,354/-, 98% (Rs. 1,962,800/-) consists of a loan value receivable from the Ministry of Nation Building, which has been closed down from several years back without a successor. This value is payable for bud grafted cashew plants provided by the Corporation for a cultivation project carried out by the Corporation jointly with the Ministry of Nation Building and Samurdhi Development Authority.

Since there is no method that could be adopted for the recovery of the relevant loan amount under these circumstances, action will be taken to write off this loan amount from the books of accounts after obtaining necessary approvals.

2.2.3 (b) Action will be initiated in future to settle the value payable to the Paddy Marketing Board and the subsidy value, herein mentioned as payable accounts, after taking the financial conditions of the Corporation into consideration and according to the nature of receiving provisions.

Since the value payable under harvest insurance is a very old value and obtaining current details of payment beneficiaries is a difficult task, action will be taken in future to include necessary entries in the books of accounts to remove it from liabilities after obtaining relevant approval.

2.2.4 (i) to (iv) The Corporation's Board of Management has focused its attention on the matters mentioned in the audit query and accordingly discussions will be held with the Department of Inland Revenue on how the taxes mentioned herein that are payable to the government viz, income tax, value added tax, nation building tax and economic services charges, apply to the Sri Lanka Cashew Corporation which is a government institution providing cashew extension services and necessary action will be taken in future.

2.2.4 (v) From its inception in the year 1973, this procedure had been adhered to in paying overtime for the staff of the Corporation.

However, discussions will be held with regard to the changes that should be made and steps will be taken in future according to requirements.

4.1 (a) (i) The treasury provisions being received by the Corporation for initiating new cultivations on the estates owned by the Corporation, is very limited. Therefore, new cultivations has to be carried out at a very small scale. However, a new cashew cultivation of 660 acres has been initiated on the Corporation's estates within the year under review.

4.1. (a) (ii) During the year under review, the expected cashew harvest severely declined due to inclement weather and climatic conditions that prevailed island wide during the cashew harvesting season which was beyond the control of the Corporation.

Since the majority of the expenditure of the estates are incurred prior to the harvesting season and targeted on the gathering of the cashew harvest, it is unavoidable that the production cost of a kilo of cashew exceeds its market price due to unexpected drop of cashew yield owing to aforesaid weather and climatic conditions that are beyond the control of the Corporation.

4.1 (b) The subsidy scheme for the bud grafted cashew cultivation was initiated in the year 2000 and under this a subsidy of Rs. 9,500/- was granted to respective beneficiaries for the cultivation of an acre of land. Even though a period of 14 years have elapsed since the inception of this subsidy scheme, no increase of the amount of subsidy being granted has been made.

Under these circumstances, in particular, the farmers suffering from acute poverty, who are the targeted beneficiaries of this project, are faced with the problem of properly maintaining their crops and this has severely affected the success of the crop to decline.

As a remedial measure, requests had been made on several occasions to obtain the approval from the General Treasury to increase the subsidy amount per acre of

cultivated land to Rs. 25,000- for which no responses has been received thus far.

The subsidy being granted to the other major economic crops such as coconut & sugarcane being cultivated in dry zone lands that are suitable for cashew cultivation is relatively higher than the subsidy being granted for cashew cultivation. Under these circumstances, the interest shown by farmers to cultivate cashew has dwindled.

Even though the field officers of the Corporation put their maximum effort into maintaining the success levels of the cashew cultivations by educating the farmers the dwindling of interest of farmers as mentioned above has severely affected the success of the crop to decline.

The planting of cashew plants under the subsidy project is carried out during the period from October to December of the year which coincides with the rain of the Maha season. Generally a rainfall of 1000 mm is expected during this period and it has been confirmed that the expected rainfall has not been received by the Puttlam district in 2011 and 2013, by analyzing the rain data. Accordingly, the Puttlam district has received a rainfall of 423.5 mm and 374.3 mm in the year 2011 and 2013, respectively. This state has also had a negative impact on the success of the cultivation.

As a remedial measure, necessary steps have been initiated to conduct farmer training programmes on the financial provisions of the National Institute of Plantation Management, to provide solutions to the farmer's issues identified by the research division of the Corporation, to provide modern technical instructions to farmers. In addition to this, through the recently concluded 'Deyata Kirula' mobile services, steps has been taken to educate the farmers at village level.

Also, Action will be taken to provide the farmers with cashew plants for infilling, in place of the first installment of the subsidy grant payable under the cashew extension subsidy programme of the year 2013, according to the condition of their crops.

By adopting the above methodology, it is expected to maintain the percentage of the successful cashew plants of the cashew cultivated lands owned by farmers, at the level of over 75%.

4.2 (a) During the year under review, the expected cashew yield dropped significantly owing to inclement weather and climatic conditions that prevailed island wide during the cashew harvesting season which was beyond the control of the Corporation which resulted in incurring operating losses of the estates.

4.2 (b) The wine production project of the Corporation commenced in the middle of the year under review (2013). A minor loss from the activities of the wine project occurred, owing to the inability to earn an income from wine sales that could be defined as profitable when compared with the expenses. The high value of non production cost that could not be included in the cost of wine stock which is remaining at the end of the year without being sold although borne in respect of the wine project during the year under review and the fact that the sale of wine bottles commenced at the end of the year 2013 after finalizing the wine production process as targeted, contributed to this loss.

However, since the sale of wine is done satisfactorily from the beginning of the current year and the non production costs in the current year acquire a relatively low level, the wine project has the potentiality of continuing profitably.

4.3 Action will be initiated in future to fill these vacancies according to the official requirements of the Corporation at present.

5.1 At present, the annual report of the Corporation for the year 2012 has been sent to the line Ministry seeking for the recommendation required to be tabled in Parliament.

5.2 According to the procedure adopted in transferring the legal ownership of the lands herein mentioned to the Corporation, a lengthy period of time will have to be spent in finalizing this task. Accordingly, necessary measures are being formulated jointly with the line Ministry.

6 (a) to (d) Special attention will be paid to these areas of control in future and act accordingly.

Sri Lanka Cashew Corporation

Five Year Summary

	2013	2012	2011	2010	2009
	Rs.	Rs.	Rs.	Rs.	Rs.
PROFIT & LOSS ACCOUNT					
Net Salaes	134,180	150,107	117,750	71,171	64,678
Cost of sales	(82,586)	(59,939)	(58,707)	(50,135)	(42,200)
Gross Profit	51,594	90,168	59,043	21,036	22,478
Other income	10,494	1,846	2,947	1,301	1,829
Recurrent Grant	22,775	25,910	22,403	16,959	42,500
Administration Expenses	(43,493)	(44,455)	(35,383)	(29,403)	(18,072)
Amortization	(3,045)	(3,715)	(3,491)	(3,590)	(3,428)
Net Profit From Commercial Sector	38,325	69,754	45,519	6,303	45,307
Expenses Over Income From Service Sector	(37,358)	(25,520)	(25,070)	(21,358)	(57,066)
Net Profit/Loss	967	44,234	20,449	(15,055)	(11,759)
BALANCE SHEET					
Non Current Assets					
Propety Plant & Equipment	63,916	64,986	4,509,794	4,506,381	70,232
Mature Area Expenditure	30,466	31,620	66,480	67,803	71,401
Capital Working Progress	215	-	-	-	385
Immature Area Expenditure	29,288	19,982	40,559	41,039	38,325
Other Small Projects	619	707	739	807	609
Total Non Current Assets	124,504	117,295	4,617,572	4,616,030	180,952
Current Assets					
Stock	29,460	46,135	37,706	25,102	30,688
Trade Debtors & Other Receivables	60,042	70,822	7,744	10,916	14,996
Advance & Prepayments	5,461	3,374	2,464	2,480	1,456
Cash & Cash Equivalents	66,529	28,676	45,787	5,864	13,619
Total Current Assets	161,492	149,007	93,701	44,362	60,759
TOTAL ASSETS	285,996	266,302	4,711,273	4,660,392	241,711
Equity & Liabilities					
Equity					
Initial Capital	40,000	40,000	-	-	-
Government Grant	58,745	34,959	258,822	251,952	244,032
Grant from Other Parties	19,691	17,911	13,570	13,570	13,570
Capital Reserves	22,241	23,676	4,464,179	4,464,178	23,676
Profit & Loss Account	81,339	77,788	(88,803)	(109,252)	(101,552)
Total Equity	222,016	194,334	4,647,768	4,620,448	179,726
Non Current Liabilities					
Provision for Gratuity	33,875	31,272	27,835	24,451	22,911
Vehicle Lease	3,257	6,513	-	-	-
Total Non Current Liabilities	37,132	37,785	27,835	24,451	22,911
Current Liabilities					
Trade Creditors & Other Payables	26,849	34,183	35,670	15,492	39,075
Total Current Liabilities	26,849	34,183	35,670	15,492	39,075
TOTAL EQUITY & LIABILITIES	285,997	266,302	4,711,273	4,660,391	241,712
Return on Net Assets	%	0.44	22.76	0.44	(0.33)
Net Profit Ratio	%	0.7	29.5	17.4	(21.2)
Current Ratio	Times	6.0	4.4	2.6	2.9
Quick Asset Ratio	Times	4.9	3.0	1.6	1.2
Total Income to Total Expenditure		1.0	1.3	1.2	(0.9)