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TEA SHAKTHI FUND

"Committed to service like the sun"

ANNUAL REPORT-2008

MINISTRY OF PLANTATION INDUSTRIES

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Introduction

Tea Shakthi Fund is a commercial Entity incorporated under tea shakthi fund Act No. 17 of 2000. The registered office is located at No. 384, Pannipitiya Road, Pelawatte , Battaramulla.

The principal Activities of tea shakthi fund are ;

- To operate thirteen Nos. of Tea factories (factory Project) as profitable strategic business units.
- To maintain tea shakthi fertilizer project profitably whilst maintaining the utmost care for quality, reliability , and on time availability
- To produce and distribute tea in the local market effectively.
- To maintain a social ,insurance scheme for the small holders.

The aim of these activities is to improve the economic and social wellbeing of the small holders, by enhancing the bargaining power of green leaf producers through effective operation of tea shakthi tea factories at their utmost efficiency and effectiveness.

TSF is floated with following six major objectives.

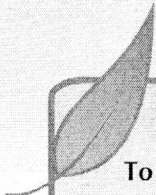
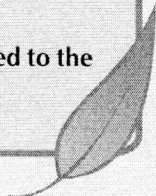
- To inculcate and promote to savings habits, in and to improve the economic and social states of small holders by increasing No. of smallholders suppliers for each TSF factory.
- To promote necessary investment related to the tea industry. Through continuous provision of technical knowhow with updated technology for the tea factory project.
- To promote and develop the marketing of the produce of tea factories through continues monitoring g and increasing no , of Kg of made tea Produce for tea auctions and for local tea sales project.
- To aquire and maintaining 2% of market share In fertilizer business.
- To achieve highest no of benefit holders under the social insurance scheme by insuring the provision of highest benefits to Tea small Holders.
- To achieve a sustainable annual growth of 25 % whilst indentifying and systemically managing risk.

This annual report brings you the evidence as to how well the management of Tea shakthi fund achieve its galls Towards the achievement of these objectives in the given year.



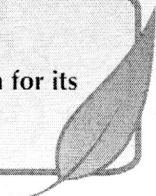
Vision

The Vision of the Tea Shakthi Fund is to be the centre of excellence committed to the advancement of the economic & social well being of Tea Small Holders.

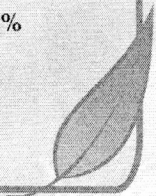


Mission

To manage the Tea Shakthi fund efficiently & effectively in creating Wealth for its members.



Objective

- To inculcate and promote the savings habit in, and to improve the economic and social status of Tea Small Holders;
 - To promote necessary investments related to the tea industry.
 - To acquire and develop tea factories and to provide other facilities necessary for the manufacture of the produce of Tea Small Holders;
 - To promote and to develop the marketing of the produce of such tea factories;
 - To take such steps as may be necessary for the improvement of well being of those who are engaged in the production of tea as Small Holders;
 - Import, manufacture and sale of fertilizer required for plantation industry;
 - To continue as a strong self financing government organization;
 - To be a viable and profitable entity and maintain a net profit margin of 10%
 - To achieve a sustainable growth of 25%
 - To identify and systematically manage risk;
- 

Financial Highlights

	2008	2007	2006	2005	2004
Revenue(RsMn)	1183.02	1388.47	772.27	817.10	753.31
Operating Expenses (RsMn)	1045.73	1143.07	642.28	695.73	632.42
Gross Profit (RsMn)	137.28	246.4	129.99	121.38	120.88
Other Income(RsMn)	17.99	12.52	8.37	19.59	7.38
Financial Expenses(RsMn)	11.12	0.75	0.60	12.77	0.53
Net Profit/(Loss) (RsMn)	(29.40)	94.46	3.63	10.69	28.67
Dividends (RsMn)	Nil	31.34	20.62	Nil	Nil
Total Assets (RsMn)	1188.00	1224.01	1021.72	1027.61	983.64
Net Assets (RsMn)	684.56	714.83	651.80	654.24	643.55
ROCE (%)	(1.54)	7.78	0.41	2.28	0.30
G.P Ratio (%)	11.60	17.75	16.83	14.85	16
N.P Ratio (%)	(2.49)	6.80	0.47	1.31	3.8
Current Ratio (times)	2.29:1	2.26:1	2.78:1	2.70:1	3.01:1

CORPORATE INFORMATION

Name : **Tea Shakthi Fund**

Address : 384 , Pannipitiya, Road Pelawatta , Battaramulla.
T:P-011-2784339 011-2784340,
Fax: 011-278433, E mail: tsf@teashkthi.gov.lk

Act of Incorporation : Tea shakthi Fund Act No-47 of 2000

Year of Incorporation : 2000

Nature of Business : Manufacturing small holders' green leaf (Tea) on a bought Leaf Basis in accordance with the Tea Commissioner's regulations and Selling through legally authorized channels.

Mixing and supplying Fertilizer mixtures of recommended formula to Cultivators, mainly to Tea small holders, at reasonable price retaining a Slight margin.

Distribution of customer oriented Tea blends in the local market.

Auditors : Auditor General's Department

Bankers : Bank of Ceylon

Report of the Chairman

I am pleased to present the annual report and the audited financial statements of the tea Shakthi fund for the financial year ended 31ST December 2008.

Situation in the country – Economic growth

According to the central bank statistics Sri Lankan Economy registered a healthy economic growth of 6.6% in first half of 2008 compared to 6.3% for the same period of 2007 in GDP terms. Though the growth momentum is expected to continue in to the second half of the year, high and volatile oil prices, sharp increases in food prices, and global economic slowdown in the backdrop of global financial crises on the external front, where as tight monetary policy to check impacts of inflation in the domestic front slightly slower the growth prospects to record overall growth around 6.2% in 2008, compared with 6.8% registered in 2007.

Over view in the industry

The central bank reports that the agriculture sector recorded a growth of 6.6%; largely attributable to a recovery in tea and paddy production during the first half of the year 2008. Where as the agricultural sector has been projected to expand by 6.6% for the year 2008. Exports mainly due to improved performance of agricultural exports, particularly tea, Rubber and other minor agricultural crops counts a 12.7% increase during the first eight months of 2008. Despite of 319 Mn of kilogram in tea production against 305 Mn Kilograms recorded for 2007, a complete reversal with sales average declining to a two year low, and accumulation of large portion of unsold catalogued volumes by end of the year hindered the targets of the tea industry.

The decline of oil prices from US \$ 147 to US \$ 36 in a matter of months has impacted catastrophically on the economies of the middle-east and the ex-soviet union countries significantly eroding both currencies and buying power of those two regions which for about 75% of Sri Lanka's tea export market, resulting an overall price reduction of 35% at the Colombo tea auction in the final Quarter. There fore despite the official statistics of economic growth prospects of the country, I opined that the tea markets would continue to maintain robust levels at least in to two quarters of the year 2009.

Even though the 1st few sales of January 2009 showed a hesitant sign of recovery without providing any courses for optimism, this is not a year which can be predicted on the basis of traditional buying patterns.

Tea Shakthi Fund Performance

Tea shakthi fund recorded a net loss of Rs.29.4 Mn for 2008, which was a 133% decline over the previous financial year. The commitments of tea shakthi fund towards it's primary stake holders, small tea holders to maintain reasonable prices for green leaf coupled with increased cost of production of tea and lower prices in the Colombo tea auction severely eroded profit margins and adversely affected tea shakthi fund cash flow.

Witness by unprecedented increases in international prices in oils and other commodities, the prices of fertilizer hindered the both profit and revenue targets of fertilizer segment.

Challenges faced by the Tea Shakthi Fund

Tea shakthi fund factories are 100% deplaned on bought leaf. Severe competition coupled with artificial green leaf prices by privets sector competitors are always creating obstacles to achieve revenue and profit targets.

Whilst adhering to Government rules and trade union's conditions on payment of salaries and other benefits, difficulties in recruiting and retaining qualified Planters, with adequate autonomy for all kinds of operational decisions at the factory level, scarcity of Factory officers and other skilled labor

due to inability to maintain higher levels of salaries and perks as done by the private sector are causes of some concern to the Tea Shakthi Fund as a Government organization which do not depend on Treasury allocations.

Though extended government policy under Mahinda Chinthana program to supply fertilizer at a concessionary rate of Rs.1000 for tea small holders expected to make a significant contribution towards revenue and profits, following a rapid increases in fertilizer raw material prices, the government subsidy calculation formula below the cost of raw materials also hindered the profit and revenue targets.

Non availability of an active mechanism to compensate the losses resulting from executing government policies also challenging and has already threaten the survival of Tea Shakthi Fund in the fertilizer industry. However, how the other private sector players in the industry would cope up with this phenomenon is still left to be seen.

Confidence in the future

The statistical prediction shows that in 2009, Sri Lanka's economy will grow up at a rate between 6.5 to 7 percent, where the agriculture sector is expected to grow moderately. However no doubt the recent global financial crises and looming global recession will pose Significant downside risks to the projected growth in 2009.

Tea, on the other hand on accounts of its growth and harvesting patterns and its labour intensive dynamics as well as TSF commitments for its mission to secure Tea Small Holders does not offer the opportunities for crop restrictive management. Whilst we unable to control or influence market forces we can, within limits, control expenditure without denying the operations the essential inputs. This will be our focus for the current year.

Conclusion

I take this opportunity to express my deep & sincere gratitude to the Hon D.M Jayarathne, minister of plantation Industries and secretary to the ministry of plantation industries for the co-operation and fullest attention extended towards the furtherance of the future of TSFIT is indeed necessary to thank our employees of all levels for there Contribution during the year. I am grateful to our buyers for their valued patronage, our brokers for their unstinted support, our suppliers for their services and my colleagues on the board for their able guidance and attention.

.....
Noel Pathmasiri Kariyawasam

Chairman

04-03-2010

Tea Shakthi Projects

<u>Factory Project</u>	<u>Manager</u>	<u>Contact No.</u>
Chief Manager	K.B Etipola (Acting)	011-7421141
Balangoda Tea factory	M.Karunarathne	045-7200823
Hiniduma Tea factory	Tissa Jayawardena	091-7200537
Elpitiya Tea factory	R.Godakanda arachchi	091-7200591
Kothmale Tea factory	K. Medawala	054-7200103
Keppetipola Tea factory	D.E.P. Premarathne	057-7200065
Passara Tea factory	A.U.R.Weerasekara	055-7200174
Pansaltenna Tea factory	A.G.D.Kariyawasam	066-7200176
Deniyaya Tea factory	S.Bandara	041-7200320
Walahanduwa Tea factory	J.R.Senevirathne	091-7200608
Giliemale Tea factory	Silent Factory	045-7201524
Mahaweli Tea factory	K.B.Etipola	054-7200102
Mawarala Tea factory	S.K.Jayawardene	041-7200945
Raigamkorale Tea factory	S.P.Edirisinghe	034-7200361

Fertilizer Project

Manager Fertilizer & Local Tea Sale	Laxman Edirisinghe	011-7421134
Mixing Plant – Aramanagolla- Horana		034-226056

BOARD OF DIRECTORS AND SENIOR STAFF

Board of Directors

Mr.Noel Padmasiri Kariyawasam - Chairman	- Tea Small Holdings Development Authority (TSHDA)
Mr. M.J.B Fernando - Director	- Chief Accountant – Ministry of plantation Industries
Mr. P.M.P Fernando - Director	- Director- Ministry of Finance & Planning
Mr. S.D Nandasena - Director	- General Manager –TSHDA
Mr. Nevil Rathnayake - Director	- Chairman Sri Lanka federation of tea small Holdings society
Mr. J.M.B.J Bandara - Director	- Chairman- Divisional Society- Rathnapura
Mr. Kumara Gunasinghe - Director	- Chairman- Divisional Society- Nuwaraeliya
Mr. Bandara Gunasekara - Director	- Chairman- Divisional Society- Uva
Mr. G.G Senevirathna - Director	- Chairman- Divisional Society- Kandy
Mr. G.W Jayawardena - Director	- Chairman- Divisional Society – Galle
Mr. K.L Gunarathna - Director	- Chairman- Divisional Society – Kaluthara
Mr. M.N.R Jayathilaka - Director	- Chairman- Divisional Society - Kegalle
Mr. P.M.P Fernando - Director	- Deputy Director- General Treasury

Audit & Management Committee

Mr. P.M.P Fernando - Director	- Deputy Director- General Treasury - Chairman
Mr. M.N.R Jayathilaka - Director	- Chairman- Divisional Society - Kegalle – Member
Mr. M.J.B Fernando - Director	- Chief Accountant – Ministry of plantation Industries Member
Mr. Nevil Rathnayake - Director	- Chairman Sri Lanka federation of tea small Holdings society - Member

Senior Staff Members

Mr. A.J.M.D.P.B Aviruppola	- Chief Executive Officer
Mr. G.G Kudabanda	- Chief Manager- Factories
Mr. P.G.R Tissa	- Chief Accountant
Mrs. P. Abenayake	- Chief Internal Auditor
Mr. E.A.L Edirisinghe	- Manager – Fertilizer
Mr. S.P Edirisinghe	- Senior Factory Manger- Raigamkorale

Board of Directors Report

It's our grateful pleasure to report on the performance of Tea Shakthi Fund for the financial year ended 31st December 2008. In spite of an increasing worker wages and other connected expenditures Tea Shakthi Fund fared reasonably compared to the last year.

Principle Activities

The principle activities of Tea Shakthi Fund are described in page no.05 and there had been no significant changes in the nature of principle activities of during the year.

Revenue from Operations

Revenue from operations of Tea Shakthi Fund during the financial year and the results of those operations are contain in the Chairman's message on pages 6-7 and financial operating review on pages 13-16 respectively of this report.

Future Development

The TSF has planned to complete and open Deraniyagla and Yatinuwara tea factories to reach Tea Small Holders in Kegalle and Kandy districts.

Audit Committee

All the members of the committee are non Executive Directors and their report is contained on page 17 of this report.

Profit and Appropriations

The details of turnover and operating profit for the year are as follows;

	2008 (Rs.)	2007 (Rs.)
Revenue	1,183,002,981	1,388,468,652
Income from Broker Sales	1,003,273,979	1,201,205,733
Local Tea Sales	36,743,268	32,469,621
Sale of Fertilizer	142,985,734	150,918,726
Other Income	17,996,555	12,516,685
Net Income	155,272,827	258,912,113
Administration Expenses	(143,954,398)	(138,818,183)
Selling and Distribution Expenses	(29,597,332)	(24,883,029)
Operating Profit before Tax	(18,278,902)	94,459,309
Finance Cost	(11,125,942)	(751,592)
Dividends	Nil	(31,343,870)
Retained Profits	24,224,781	53,629,625

Dividends and Reserves

No dividends have been declared during the year under review.

Reserves

The total reserves as at 31st December 2008 amounted to Rs. 38,094,954.00 (In 2007, Rs. 68,361,435.00) movements of which are given on page 39 in the statements changes in equity.

Corporate Donations

No corporate donations were given during the 2008.

Capital Expenditure

The details of property, plant & equipments of the Tea Shakthi are shown in note 08 on page 47

Market Value of Immovable Properties

Tea Shakthi Fund does not own tangible immovable properties as at 31st December 2008 other than those disclosed in the note no 08 on page 47

Contributed Capital

The Tea Small Holders island wide has contributed the capital amounting Rs. 208,959,130.(Rs. 208,959,130. in 2007)

Statutory Payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the government and employees have been made up to date.

Taxation

No income tax has been provided for in the financial statements as Tea Shakthi Fund enjoys a tax exemption period of 10 years for agriculture sector.

Compliance with Applicable Laws and Regulations

To the best of our knowledge there had been no violations or possible violations of laws or regulations in the fund or any jurisdiction who's effects should be disclosed or that would give rise to a material financial adjustments required in the financial statements.

Directors

The Board of Directors Tea Shakthi Fund has been disclosed on the page 08.

Directors Interest in Contracts and Proposed Contracts

No Director was directly or indirectly interested in and contract or proposed contract with the Tea Shakthi Fund for the year ended 31st December 2008.

The Directors have disclosed their other directorships and connections at board meetings so as to ensure that they have refrained from voting on matters in which they have an interest.

Environmental Protection

All business activities of Tea Shakthi Fund effects the environment in one way or another. It is the policy of Tea Shakthi to keep adverse effects on the environment to a minimum and to promote corporation and compliance with the relevant authorities and regulations.

Events After Balance Sheet Date

There have been no material events occurring at the Balance Sheet date that require adjustments to or disclose in the financial statements.

Going Concern

After reviewing the financial statements and considering the Small Holder involvement, forecasts, Budgets, borrowing requirements, existing liabilities and contingencies, financial adaptability to changing circumstances, product and market trends, management strategies & strengths, weaknesses, opportunities and threats, the board is satisfied that the Fund has adequate resources to continue its operations in the foreseeable future without materially curtailing its operations. Therefore, we continued to adopt the Going Concern basis in preparing the financial statements.

Equitable Treatment to All Statement to all Stakeholders

While valuing the patronage of our stakeholders, the Fund has made all endeavors to ensure equitable treatment to all our stakeholders.

The Auditors

The audit of financial statements of Tea Shakthi Fund for the year ending 31st December 2008 was carried out under the Auditor General directions 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.

FINANCIAL AND OPERATIONAL REVIEW

The financial statement of the Tea Shakthi Fund (TSF), which form a part of this annual report set out the financial performance. The operational and financial review discusses an overview of the TSF's operational and financial performance.

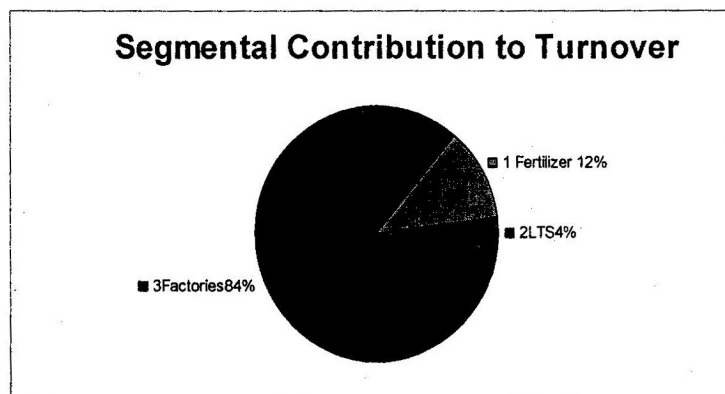
RESULTS OF FUND

The total turnover decreased by 15% to Rs.1183 Mn. In the year under review from Rs. 1388.5 Mn in 2007.

The revenue from sales of tea through Colombo tea brokers were Rs.1003 Mn. For the year under reference. This is a 2.7% decrease compared to Rs. 1030.7 Mn recorded for 2007.

The Turnover from sale of fertilizer recorded a decrease by 5.25% to Rs. 143.67 Mn. For 2008 from Rs.151.64 Mn 2007 the turnover from fertilizer include sale of fertilizer under "Mahinda Chintanaya" Program. Due to adverse marketing Condition in the tea sector, no doubt the farmers concentrated only on the survival.

There was a sharp decrease in local Tea sales by 63% to Rs.12.13 Mn. For 2008 from Rs.32.5 Mn in 2007 giving a major impact to the revenue decrease in 2008.



Segmental representation in the total turnover for last five years (In %)

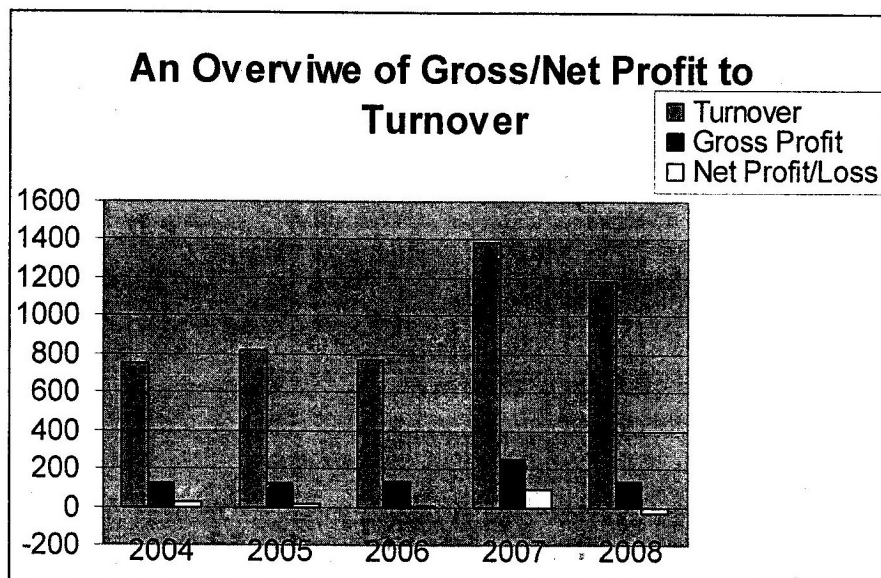
<u>Segment</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Broker Sales	87%	86.5%	83%	85%	85%
Fertilizer Sales	12%	11%	14.5%	11%	11.6%
Local Tea Sales	1%	2.5%	2.5%	4%	3.4%

The segmental dependency is a area where the Management of tea shakthi has paid its attention as matter of high operating risk and there for is of the opinion that the measures should be taken to increase the contribution from other two projects/ segments.

OPERATING PROFITS

The earnings before interest and tax (EBIT) was decreased by 119% due to a loss of Rs. 18.29 Mn. And net profit decreased by 130% to a loss of Rs. 29.4 Mn for 2008. there for EBIT became a loss of Rs. 95 Mn compared to Rs. 94.46 EBIT in 2007. Which shows decrease of 200%. In addition to the 15% decrease in revenues; the reduction in EBIT and net profits was mainly due to 6.7% increase in direct cost of sales and the increases in interest cost by 1379% to Rs.11.12 Mn in 2008 from Rs. 751,592 in 2007.

The drop in revenues mainly driven by down turn trends in tea prices at the Colombo tea auction in the final quarter of the year following low auction demand arising from the collapse of global financial systems and depreciation of major currencies in the middle-east and Ex-soviet union countries which counts 75% of Sri Lankan tea export market.



Tea Shakthi factory project performance against industry production and the world tea Production (in Kg mns)

<u>Year</u>	<u>world Production</u>	<u>Sri Lanka Production</u>	<u>Tea Shakthi Production</u>
2008	3750	318.07	4.807
2007	3761	304.6	4.480
2006	3573	310.8	3.754
2005	3458	317.2	4.065

FERTILIZER PROJECT

Tea shakthi fund operating a fertilizer project in Aramanagolla, Horana and sells fertilizer products applicable for Tea, Rubber and Cinnamon cultivation. With the implementation of fertilizer subsidy program for Tea Small Holders under "Mahinda Chinthnaya", a major portion of fertilizer sales is achieved through fertilizer subsidy program Fertilizer Division recorded a turnover of Rs. 143 Mn. Which is a drop by 5.3% compared to previous year of Rs. 151 Mn. The calculation formula for fertilizer subsidy program coupled with reduction in demand were the drawbacks to decline in margins on fertilizer sales.

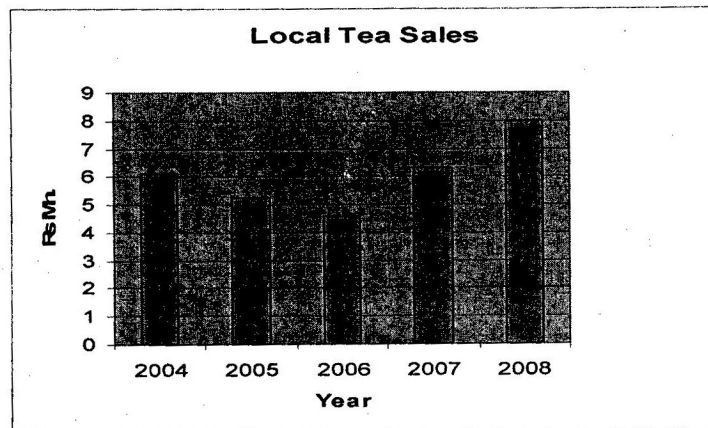
Fertilizer Application in the Sri Lanka Tea Industry Vs. Tea Shakthi Fertilizer sales
(in 000 Mtns)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Fertilizer Application in Sri Lanka	131.8	157.2	165.4	178.2
Tea Shakthi fertilizer Sales	2.0	3.8	4.4	5.6

Lack of a active Marketing Mechanism has been hindered the sales targets in subsequent years after 2005. The management is of the view that sales can be increase so as to capture 5% of the Market share and working towards with the Operational Management and the TSHDA societies to achieve this target.

LOCAL TEA SALES

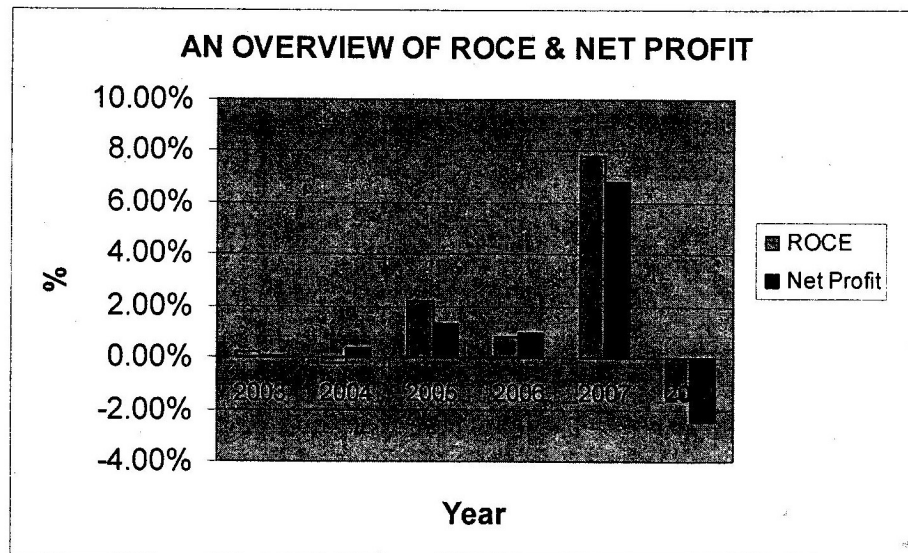
The local Tea Sales Recorded Rs. 7.97 Mn showing an increase by 26% compeered to the previous year Rs.6.32 Mn. Continues attention to increase sales through welfare units of other government institutions, active participation in "Deyata Kirula" Program contributed for this upwards trends. If a proper sales mechanism is in force, the manager local tea sales is of the view that the sales could be further improved.



NET ASSETS

The year to year drop in net assets was 4.23% resulting from reduction in the value of property plant equipment due to Provision for depreciation of Rs. 34.42 Mn for the year under review. The addition of fixed assets of Rs. 4 Mn was Negligible compared to the value of ware and tare of those assets.

ROCE & NET PROFIT



Contribution towards the social responsibility

Our contribution towards the social responsibility is done through the ,

1 Welfare insurance scheme

The welfare project could contribute towards the wellbeing of its small holder members by paying Rs. 11.62mn as compensations against the insurance premium expenditure of Rs. 8.9mn.

2 Small Holder pension Scheme.

Small holders, those who are in the ages between 18-60years of age, who are also the members of the social welfare insurance scheme are entitle to enter in to the small holder pension scheme if the are not under going through any other such retirement benefit plan. during the year under review , Rs. 172,571 has been paid for the beneficiaries under this scheme, against Rs.44740 paid in 2007.

Tea Shakthi Fund
Audit & Management Committee Report – 2008

The committee on Audit & Management pertaining to Tea Shakthi Fund had fulfilled a vast scope of activities during the year of 2008.

The Audit & Management committee met quarterly in order to review the activities of the fund.

The Committee had the chance to recommended and implement certain proposals in order to upgrade the status of Audit to enable to highlight important areas in deep in a transparency way in the functions connected to the Fund.

The main focus of the Committee is to review the functions and activities related to tea factories to upgrade them to its highest level of service to gain the maximum benefit to the people of sri lanka.

The Internal Audit Unit of the Fund established under the supervision of the Chief Internal Auditor was able to recommend and implement several internal control measures to cover most critical areas pertaining to the tea manufacturing process the internal control systems were properly adopted in the administration and finance fields too.

The Committee had given a prompt attention with regard to the proposals submitted by the government Audit Department.

The Committee had taken timely actions to provide most important information such as final accounts, Budget estimates and cadre positions in the Tea Shakthi Fund., during the year under purview.

P. Abenayake

Chief Internal Auditor

Coordinator-Audit and Management Committee

TEA SHAKTHI FUND**PROFIT & LOSS ACCOUNT****FOR THE YEAR ENDED 31ST DECEMBER 2008**

	Note	This Year Rs.	Last Year Rs.
Revenue	1	1,183,002,981.22	1,388,468,651.57
Cost of Sales	2	(1,045,726,709.38)	(1,142,073,224.29)
<i>Gross Operating Profit</i>		137,276,271.84	246,395,427.28
Other Income	3	17,996,555.30	12,516,685.65
<i>Total Income</i>		155,272,827.14	258,912,112.93
Administration Expenses	4	(143,954,397.62)	(138,818,182.83)
Distribution Expenses	5	(29,597,331.82)	(24,883,028.92)
		(173,551,729.44)	(163,701,211.75)
<i>Profit/(Loss) From Operating Activities</i>		(18,278,902.30)	95,210,901.18
Finance Cost	6	(11,125,941.51)	(751,591.86)
Profit/(Loss) For the year		(29,404,843.81)	94,459,309.32
Brought Forward Profit/(Loss)	7	53,629,624.73	(9,485,814.80)
Profit Before Appropriation		24,224,780.92	84,973,494.52
Dividends			(31,343,869.50)
Profit/(LOSS) Carried Forward		24,224,780.92	53,629,624.73

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

TEA SHAKTHI FUND

BALANCE SHEET

AS AT 31ST DECEMBER 2008

	Note	This Year Rs.	Last Year Rs.	
ASSETS				
Non-current Assets				
Property Plant & Equipment	8	487,519,214.67	515,437,685.53	27,918,470.86
Capital work-in -progress	9	21,743,139.42	21,743,139.42	-
		509,262,354.09	537,180,824.95	27,918,470.86
Immatured Crops				
Tea Cultivation	10	2,337,880.58	5,284,509.16	-
Other Cultivation	10	9,367.00	80,364.96	-
Rubber Cultivation	10		564,419.00	-
		2,347,247.58	5,929,293.12	3,582,045.54
Current Assets				
Inventories & Stocks	11	202,132,527.38	198,637,464.19	(3,495,063.19)
Trade Debtors & Other Receivable	12	168,848,661.20	179,330,351.87	10,481,690.67
Advance, Prepayment & Deposits	13	68,006,078.17	57,549,762.30	(10,456,315.87)
Short Term Investments	14	230,622,385.05	226,297,503.76	(4,324,881.29)
Cash in Hand & Bank	15	(7,470,405.59)	6,241,985.76	13,712,391.35
Inter Current Account	16	14,260,427.73	12,845,901.90	(1,414,525.83)
		676,399,673.94	680,902,969.78	4,503,295.84
TOTAL ASSETS		1,188,009,275.61	1,224,013,087.85	36,003,812.24
EQUITY AND LIABILITIES				
Share Capital	17	208,959,130.00	208,959,130.00	-
T.S.H.D.A (Government) Grant	18	437,505,030.22	437,505,030.22	-
Revaluation Surplus		13,870,173.86	14,731,809.86	861,636.00
Retained Earning/(Loss)		24,224,780.92	53,629,625.02	29,404,844.10
TOTAL EQUITY		684,559,115.00	714,825,595.10	30,266,480.10
Members Benovalent Fund				
Member Contribution	19	133,853,375.58	133,465,892.58	(387,483.00)
Non Current Liabilities				
T.S.H.D.A	20	74,048,541.30	74,048,541.30	-
Current Liabilities				
Creditors & Payables	21	198,318,240.16	214,643,042.32	16,324,802.16
Bank Loan		48,809,520.00		(48,809,520.00)
Accrued Expenses	22	48,420,483.57	87,030,016.55	38,609,532.98
		295,548,243.73	301,673,058.87	6,124,815.14
TOTAL EQUITY AND LIABILITIES		1,188,009,275.61	1,224,013,087.85	

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

.....
Noel Padmasiri Kariyawasam
Chairman
Tea Shakthi Fund

.....
Daya Aviruppola
Chief Executive Officer
Tea Shakthi Fund

.....
P.G.R Tissa
Chief Accountant
Tea Shakthi Fund

TEA SHAKTHI FUND

CASH FLOW STATEMENT

AS AT 31ST DECEMBER 2008

	This Year Rs	Last Year Rs
<u>Cash Flows From Operating Activities</u>		
Operating Profit	(29,404,844)	63,115,440
Adjustment For		
Depreciation	34,421,221	29,666,782.53
Revaluation Surplus	(861,636.00)	93,642.01
<i>Operating profit before working capital changes</i>	4,154,741	92,875,864
Increase/Decrease in Stoks	(3,495,063.19)	(54,371,855.70)
Increase/Decrease in Debtors	10,481,690.67	(33,652,454.60)
Increase/Decrease in Advance,Prepayment & Deposits	(10,456,315.87)	(11,973,231)
Increase/Decrease in Creditors	(16,324,802.16)	56,454,360
Increase/Decrease in Accrued Expenditure	(38,609,532.98)	82,596,407
Increase/Decrease in Inter Current A/C & Funds Transfers	(1,414,525.83)	2,179,331
Bank Loan	48,809,520.00	
<i>Net cash flows from operating activities</i>	(11,009,029)	41,232,556
<u>Cash Flows From Investing Activities</u>		
Acquisition of Tangible Assets	(4,003,375.76)	(2,400,533.38)
Short Term Investments	(4,324,881.29)	(147,632,012)
Investment in Immature Plantation	3,582,045.54	(80,365)
<i>Net cash flows from investing activities</i>	(4,746,212)	(150,113,010)
<u>Cash Flows From Financing Activities</u>		
Members Benevolent Fund	387,483	219,191
Dividends Paid		
Reserve Fund Account		
<i>Net cash flows financing activities</i>	387,483	219,191
Net Increase/(Decrease) in Cash in Hand & At Bank	(13,712,391)	(15,972,683)
Cash in Hand and at Bank at beginning of period	6,241,986	22,214,669
Cash in Hand and at Bank at end of the period	(7,470,406)	6,241,986

Statement of Changes in Equity
For the year ended 31st December 2008

Rs.

Description	Share Capital	Capital Reserves	Retained Earnings	Total
Balance as at 1st January 2008	208,959,130	14,731,810	53,629,625	277,320,564.83
				-
Appropriations				-
Adjustment to Revaluation		(861,636.00)		(861,636.00)
Net loss for the year			(29,404,846)	(29,404,845.81)
				-
Balance as at 31/12/2008	208,959,130	13,870,174	24,224,779	247,054,083

TEA SHAKTHI FUND
FINANCIAL YEAR ENDED 31ST DECEMBER 2008
ACCOUNTING POLICIES

1. CORPORATE INFORMATION

1.1 General -

Tea shakthi fund is incorporated under the Parliament act No.47 of 2000 and domiciled in Sri Lanka. The registered office and the principal place of business of the Fund is located at No-384, Pannipitiya Road Pelawatta Battaramulla. The main objective of the fund is to improve the economic and social status of the small holders by fetching better prices for their produce of green leaf through quality tea manufacture in the competitive market and providing them with inputs at reasonable prices. The places of Business activities have been scattered in Horana, Matara, Galle, Badulla, Kandy, Nuwaraeliya and Matale districts.

1.2 Comparative information

The Accounting Policies have been consistently applied by the Fund and are consistent with those used in the previous year's figures and phrases have been rearranged where necessary to conform to the current presentation.

1.3 Principal Business Activities

The principal Business activities of the Fund are Manufacture & sale of teas and Fertiliser

1.4 Number of Employees

The number of employees at the end of the year was 255

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 General Accounting Policies

2.1.1 Basis of Preparation

The balance sheet, statements of income, changes in equity and cash flows, together with accounting policies and notes, ("Financial Statements") of the Fund as at 31st December 2008 and for the year then ended, have been prepared in accordance with Sri Lanka accounting standards adopted by the Institute of Chartered Accountants of Sri Lanka and the requirements of Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.

These financial statements presented in Sri Lankan Rupees have been prepared on a historical cost basis except for produce tea & the revaluation of certain property, plant and equipment and current investments, which are stated at since realizable value & market values respectively.

2.1.2 Foreign Currency Translation

All foreign exchange transactions are converted to Sri Lankan Rupees, which is the reporting currency, at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lanka Rupee equivalents using year-end spot foreign exchange rates. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. The resulting gains and losses are accounted for in the income statement.

2.1.3 Parent & Subsidiary Relationship

The Fund has not maintained parent or subsidiary relationship with any institution either Government or private during the year under review.

2.1.4 Income Tax

No provision has been made in the accounts for income tax based on the accounting profit in the income statement using the tax rate enacted at the balance sheet date.

2.1.5 Borrowing Costs

Borrowing costs are recognized as an expense in the period in which they are incurred except to the extent where borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use, are capitalized as part of that asset.

2.2 Valuation of Assets and their Measurement Bases

2.2.1 Inventories

Stocks of teas are valued at the since realizable value and other Inventories are valued at the lower of cost and net realizable value, after making due allowances for obsolete and slow moving items. Net realizable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost of completion of the sale.

The cost incurred in bringing inventories to its present location and condition is accounted using the following cost formulae:-

Stock of Tea – With brokers At factories	- At since realizable Value.
Fertilizer – Finished products Raw materials	- At the net realizable value. - At actual cost on first in first out basis
Consumables, Stationary & Spares	- At First in First out basis

2.2.2 Trade Debtors and Other Receivables

Trade debtors are stated at the amounts they are estimated to realize net of provisions for bad and doubtful debtors.

Other receivables and dues are recognized at cost less provision for bad and doubtful receivables.

2.2.3 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturity, i.e. three months or less from the date of acquisition are also treated as cash equivalents.

2.2.4 Property, Plant and Equipments

a) Cost

Property, Plant & Equipment is recorded at cost less accumulated depreciation.

b) Cost and Valuation

All items of Property, Plant & Equipment are initially recorded at cost. Where items of Property, Plant and Equipment are subsequently revalued, the entire class of such assets is revalued. Revaluations are made with sufficient regularity to ensure that their carrying amounts do not differ materially from their fair values as at the balance sheet date. Subsequent to the initial recognition as an asset at cost, revalued Property, Plant and Equipment are carried at revalued amounts less any subsequent depreciation thereon. When assets are revalued no depreciation is provided in the year of revaluation and depreciation will be provided on revalued assets in subsequent years at their respective rates. All other Property, Plant and Equipment are stated at historical cost less depreciation.

When an asset is revalued, any increase in the carrying amount is credited directly to a revaluation surplus unless it reverses a previous revaluation decrease relating to the same asset, which was previously recognized as an expense. In these circumstances the increase is recognized as income to the extent of the previous written down value. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized as an expense unless it reverses a previous increment relating to that asset, in which case it is charged against any related revaluation surplus, to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. Any balance remaining in the revaluation surplus in respect of an asset, is transferred directly to Accumulated Profits on retirement or disposal of the asset.

c) Restoration Costs

Expenditure incurred on repairs or maintenance of property, plant and equipment in order to restore or maintain the future economic benefits expected from originally assessed standard of performance, is recognized as an expense when incurred.

d) Depreciation

The provision for depreciation is calculated by using the straight line method on the cost or valuation of all property, plant and equipment other than freehold land, in order to write off such amounts over the following estimated useful lives by equal installments.

Land	Over prolonged of Period
Buildings @ 2.5%	Over 40 Years
Machinery @ 7.5%	Over 13.4 Years
Motor vehicles (Land Vehicles) @ 10%	Over 10 Years
Motor vehicles Other than Land Vehicles @20%	Over 05 Years
Equipments, Furniture, Fixtures & Fittings, and office Equipments @ 10%	Over 10 Years

Full provision is made in the year of disposal and non in the year of Purchase or revaluation.

Assets pledged as Securities

No assets have been pledged as securities against any liability as at the balance sheet date.

2.2.5 Leases

a) Finance Leases

Property, plant and equipment on finance leases, which effectively transfer to the Fund substantially all of the risk and benefits incidental to ownership of the leased item are capitalized at their cash price and disclosed as property, plant and equipment and depreciated over the period the Fund is expected to benefit from the use of the leased assets. (I.e. depreciated over the shorter of the estimated useful life of the asset or the lease term)

The corresponding principal amount payable to the lesser is shown as a liability. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

The interest applicable for the year calculated using sum of digits method has been charged to Profit & Loss Account.

The cost of improvements to or on leasehold property is capitalized, disclosed as leasehold improvements, and depreciated over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is shorter.

b) Operating Leases

Leases where the lesser effectively retains substantially all the risks and benefits of ownership over the leased term are classified as operating leases.

Rentals paid under operating leases are recognized as an expense in the income statement on a straight-line basis over the lease term.

2.2.6 Investments

Current Investments

Current investments are stated at lower of cost and market value determined on an aggregate portfolio basis.

The cost of an investment is the cost of acquisition inclusive of brokerages, fees, duties and bank charges.

Unrealized gains and losses on current investments carried at market value i.e. reduction to market value and reversals of such reductions required to reflect current investments at the lower of cost and market value, are credited or charged to income statement.

b) Associate Company Investments

Investments in associate companies are accounted for on the equity method, whereby the share of profit of the associates attributable to the company is accounted for as income and the value of the investment (which was initially recognized at cost) adjusted by a like amount.

2.3 Liabilities and Provisions

2.3.1 Retirement Benefit Obligations

a) Defined Benefit Plan – Gratuity

Gratuity is a defined Benefit Plan. The Fund is liable to pay gratuity in terms of the relevant statute. In order to meet this liability, a provision is carried forward in the balance sheet, equivalent to an amount calculated based on a half month's salary of the last month of the financial year of all employees for each completed year of service, commencing from the first year of service. The resulting difference between brought forward provision at the beginning of a year and the carried forward provision at the end of a year is dealt with in the income statement.

The gratuity liability is not funded nor actuarially valued. This item is grouped under Provisions and Other Liabilities in the Balance Sheet.

2.3.2 Bad debts Provision

2.3.2.1 Provision for Debtors

If there is a doubt of possibility of recovery, for balance debtors, provisions are made for debtors, taking with the account the age analysis, moments and the current position there in?

2.4 Income Statement

2.4.1 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Fund and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

a) Sale of goods

The revenue from broker sales, local sales and sale fertilizer as at the balance sheet date is recognized as income in full at the point of invoicing.

b) Interest income

Interest income is recognized as the interest accrues (taking into account the effective yield on the asset) unless collectibles is in doubt.

c) Others

Other income is recognized on an accrual basis.

Net Gains and losses of a revenue nature on the disposal of property, plant & equipment and other non current assets including investments are accounted for in the income statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses. On disposal of revalued property, plant and equipment, amount remaining in Revaluation Reserve relating to that asset is transferred directly to Accumulated Profit.

Gains and losses arising from incidental activities to main revenue generating activities and those arising from a group of similar transactions which are not material, are aggregated, reported and presented on a net basis.

2.4.2 Expenditure Recognition

Expenses are recognized in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

2.5 Contingent Liabilities

The Fund has filled 20nos of cases against various parties as at the balance sheet date. Also there are 3 nos. of cases have been filled against the Fund by 3rd parties the final outcomes of these cases are still pending. So that no provisions have been made in the financial statements as at the balance sheet date.

Notes to the Accounts
for the year ended 31st December

Schedule No:- 01

REVENUE

Description	Fertilizer	Local Tea Sales	Factories	2008	2007
Sales					
Sales-by brokers			1,003,273,978.66	1,003,273,978.66	1,030,690,516.45
Fertilizer sales	92,783,961.59			92,783,961.59	101,216,549.85
Tea sales Local		7,961,244.50		7,961,244.50	32,469,620.69
Sales Realised Br/Fac			23,992,626.52	23,992,626.52	170,515,216.34
Material Sales(Direct)	880,125.00			880,125.00	9,898,187.50
Politene & Used Bags sales	187,320.50	6,927.50		194,248.00	694,807.55
Sundry Sales	21,720.00			21,720.00	430,959.91
Other Income				0.00	3,459,038.33
Subsidy Income-GOV	49,719,992.74			49,719,992.74	39,858,169.93
Sales-Discout	(614,314.00)			(614,314.00)	(764,414.98)
Recovery Tea Shortage			620,652.21	620,652.21	
Refuse Tea Sales			4,168,746.00	4,168,746.00	
Total	142,978,805.83	7,968,172.00	1,032,056,003.39	1,183,002,981.22	1,388,468,651.57

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Notes to the Accounts
for the year ended 31st December

Schedule No:- 02

COST OF SALES

Description	Fertilizer	Local Tea Sales	Factories	2008	2007
Cost Of Sales					
Cost of Material Consumption	97,167,053.18			97,167,053.18	111,152,979.05
Packing metirial				0.00	15,360.00
Transport	1,511,538.93	12,900.00		1,524,438.93	1,748,091.99
Loading expense	67,438.35			67,438.35	128,626.50
Mixing chargers	493,941.00			493,941.00	660,772.70
Unloading chargers	115,740.75			115,740.75	120,467.55
Sundry Raw Meterial				0.00	29,287.00
Bought leaf exp			823,118,825.70	823,118,825.70	843,404,256.73
Manufactoring exp.			119,158,005.02	119,158,005.02	180,528,250.27
Cost Of Tea Purchases		5,607,190.96		5,607,190.96	4,078,911.91
Tea Wadiya Expenses		41,542.00		41,542.00	17,601.00
Labour Wages	144,209.00			144,209.00	257,250.31
Stock Variation	(1,799,000.29)	87,324.78		(1,711,675.51)	(68,630.72)
Total	97,700,920.92	5,748,957.74	942,276,830.72	1,045,726,709.38	1,142,073,224.29

Notes to the Accounts
for the year ended 31st December

Schedule No:- 03

OTHER INCOME

Description	Head Office	Fertilizer	Welfare	Factories	2008	2007
Other income						
Interest income	198,209.30	6,286,140.49	467,511.33	10,563,128.77	17,514,989.89	<i>11,525,673.75</i>
other income				118,181.20	118,181.20	<i>406,231.90</i>
Sundry Income		22,600.00		24,804.74	47,404.74	<i>34,200.00</i>
Somerville Brokers Interest					-	<i>540,580.00</i>
Interest Incom-Factory					-	
Tender Document	156,250.00		18,000.00		174,250.00	
Changing in Accounts Adjestment		141,729.47			141,729.47	
Donation from Brokers						<i>10,000.00</i>
Total	354,459.30	6,450,469.96	485,511.33	10,706,114.71	17,996,555.30	12,516,685.65

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Notes to the Accounts
for the year ended 31st December

Schedule No:- 04

ADMINISTRATION EXPENSES

Description	Fertilizer	Welfare	Local Tea Sales	Factories	2008	2007
Administration Expense					2,133,458.00	1,910,209.96
Adult Insurance		2,133,458.00				129,010.00
Audit Fees	3,300.00		550.00	16,025.00	19,875.00	1,488,333.50
Depreciation expenses	753,910.60	29,763.34	109,913.40	722,727.67	1,616,315.01	274,996.32
Director Board sitting allowances	113,786.39	14,453.86	27,395.81	247,741.64	403,377.70	2,162,854.95
E.P.F	543,121.26	53,115.28	121,504.12	1,181,189.01	1,898,929.67	336,201.81
E.T.F	131,394.70	13,140.00	29,564.60	285,783.59	459,882.89	496,805.97
Electricity	238,769.51	10,737.49	47,051.05	396,903.46	693,461.51	27,555.60
Entertainment	20,262.05	500.00	2,418.68	47,692.78	70,873.51	377,874.17
ESPS				168,690.42	168,690.42	24,600.00
Employer Federation				201,250.00	201,250.00	1,056,760.00
Gratuity Expenses	86,020.50		14,336.75	665,184.47	765,541.72	8,994,850.00
Member Insurance Premium		8,321,076.01			8,321,076.01	335,668.89
Legal & Professional Expenses	53,254.44	3,837.00	10,780.66	129,708.03	197,580.13	226,988.50
Maintenance -Building	115,848.92	9,053.89	19,847.56	190,114.06	334,864.43	179,570.64
Maintenance- Computer	48,707.44	1,928.98	5,776.48	129,800.50	186,213.40	200,884.12
Maintenance- Equipment	361,355.21	16,225.79	17,133.38	125,263.48	519,977.86	222,885.66
Office Expenses	52,547.50	16,257.18	18,241.27	122,707.68	209,753.63	1,528,200.00
Office Rent	676,225.00	73,600.00	185,637.50	1,471,287.50	2,406,750.00	1,520,780.64
OT & Traveling expenses	520,814.12	48,763.27	114,164.26	1,476,598.93	2,160,340.58	366,607.20
Other expenses	39,565.80	8,250.00	5,146.55	128,352.90	181,315.25	246,541.00
Postage expense	58,496.05	35,360.00	13,422.30	127,266.15	234,544.50	231,906.38
Printing	266,536.40	104,483.96	77,995.71	101,434.53	550,450.60	32,283.59
Professional Fees					-	50,594.65
Rate & Taxes					-	12,550,203.20
Salaries & allowances	5,107,807.24	590,068.28	1,331,582.03	8,779,761.26	15,809,218.81	575,778.38
Security expenses	369,628.01	8,982.39	24,010.73	244,771.57	647,392.70	551,401.20
Stationary	113,792.08	94,933.55	27,961.25	254,548.64	491,235.52	113,446.00
Staff Training	66,338.13	577.00	11,392.94		78,308.07	998,983.42
Telephone charges	358,758.31	17,858.81	71,237.27	586,009.50	1,033,863.89	45,300.00
Tender Board sitting allowances	63,300.00				63,300.00	30,868.50
Valuation Expenses Factory				30,868.50	30,868.50	93,187.50
VAT Expenses	93,187.50				93,187.50	1,739,096.52
Wadiya Rent					-	279,800.00
Water expenses	19,106.56	2,713.80	4,767.48	41,623.69	68,211.53	32,346.40
Welfare Staff/Other	237,203.23	16,652.17	32,036.78	435,373.74	721,265.92	366,627.85
Yatinuwara Security				63,385.50	63,385.50	27,845.97
Deraniyagala Security				100,000.00	100,000.00	96,000.00
Deraniyagala Factory Expenses				30,195.00	30,195.00	27,000.00
Medical Fund Expenses				46,726.14	46,726.14	
Disposal Tea						282,410.00
Bad Debtor			169,074.90		169,074.90	23,128.00
Total	10,513,036.95	11,625,790.05	2,492,943.46	18,548,985.34	43,180,755.80	40,236,306.74

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Admin. Expenses Continued

Description	Fertilizer	Welfare	Local Tea Sales	Factories	2008	2007
General Chargers-Factories						
Salaries & Allowances				14,260,044.75	14,260,044.75	11,920,705.78
Factory & Bungalow Rent				535,260.00	535,260.00	961,994.40
Expenses Local Sales				104,720.15	104,720.15	102,965.53
Electricity Surcharge				-	-	4,920,802.40
Expenses Refuse Tea				1,170,361.47	1,170,361.47	213,902.13
Depreciation				28,375,247.74	28,375,247.74	28,089,953.98
Supervision Vehicle				1,199,188.33	1,199,188.33	1,775,868.24
Contingencies				177,026.12	177,026.12	26,586.04
Levies Subscription & Visiting				1,100,535.34	1,100,535.34	1,494,763.05
Legal				46,970.77	46,970.77	87,429.15
Stationery				997,520.78	997,520.78	873,530.55
Bank Commission				2,175,278.87	2,175,278.87	1,220,936.25
Insurance				661,470.55	661,470.55	678,043.59
Watcher				471,016.98	471,016.98	395,764.47
Roads				312,856.45	312,856.45	228,986.86
Bungalow				2,361,522.61	2,361,522.61	2,334,777.13
Lines				152,609.60	152,609.60	310,926.34
Minor Buildings				634,847.86	634,847.86	433,403.74
Postage				444,779.76	444,779.76	418,108.06
Medical Aid				1,956,521.16	1,956,521.16	1,476,950.71
Welfare & Sports				2,394,266.69	2,394,266.69	2,439,131.23
Employees Provident Fund				6,897,865.69	6,897,865.69	5,945,399.63
Holiday Pay				1,881,359.27	1,881,359.27	1,589,339.23
Terminal Benefits				3,956,374.01	3,956,374.01	2,771,228.52
Water Supply				188,527.51	188,527.51	95,035.10
Estate Staffs Provident Societ				446,593.58	446,593.58	246,325.54
Statutory Holidays				393,075.30	393,075.30	264,933.26
Employees Trust Fund				1,539,401.39	1,539,401.39	1,390,237.14
Communication Telephone				1,359,851.93	1,359,851.93	1,590,638.22
Price Wage Supplement				4,150,861.32	4,150,861.32	4,471,229.95
Attendance Incentive				9,753,984.98	9,753,984.98	8,940,057.54
Economic Service Charges				5,621,755.42	5,621,755.42	5,876,052.31
VAT Output				2,686,926.00	2,686,926.00	3,550,553.96
Provisions to Shortage				620,652.21	620,652.21	
Provisions to Financial				1,668,309.10	1,668,309.10	
Other Expenses				76,058.13	76,058.13	
Sub Total	10,513,036.95	11,625,790.05	2,492,943.46	100,773,641.82	100,773,641.82	98,581,876.09
Grand Total	10,513,036.95	11,625,790.05	2,492,943.46	119,322,627.16	143,954,397.62	138,818,182.83

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Notes to the Accounts
for the year ended 31st December

Schedule No:- 05

Selling & Distribution Cost

Description	Fertilizer	Welfare	Factories	Local Tea Sales	2008	2007
Selling & Distribution Cost						
Advertising expense	276,067.25	26,185.00	180,386.63	108,493.63	591,132.51	804,401.08
Sales Promotion	1,035,154.97		88,012.94		1,123,167.91	914,977.58
Vehicle Fuel	901,804.22	73,231.71	2,263,800.14	192,764.20	3,431,600.27	2,386,233.21
Vehicle Repairing	537,551.91	57,065.50	1,180,060.61	122,880.19	1,897,558.21	892,838.25
Vehicle Service	69,744.25	5,909.50	151,605.00	15,071.25	242,330.00	160,574.21
Vehicle Rent	136,313.00	24,473.00	348,396.25	36,994.75	546,177.00	181,280.00
Vehicle Insurance	43,595.77	892.92	94,531.92	7,786.83	146,807.44	117,766.93
Radio Programme					0.00	226,751.00
Licenses expense	82,250.10	1,500.00	32,203.80	15,842.60	131,796.50	41,015.60
Sample Test	15,020.00				15,020.00	8,885.00
Travel & Entertainment					0.00	7,144.00
Economic Service Charges	678,476.91			45,019.64	723,496.55	506,001.65
Brokerage/Handling charges			20,727,028.33		20,727,028.33	18,604,483.41
Tea Free Issues				21,217.10	21,217.10	30,677.00
Total	3,775,978.38	189,257.63	25,066,025.62	566,070.19	29,597,331.82	24,883,028.92

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Notes to the Accounts
for the year ended 31st December

Schedule No:- 06 Finance Cost

Description	Head Office	Fertilizer	Welfare	Local Tea Sales	Factories	2008	2007
Finance Cost							
Debit tax		50,399.28	18,325.31	5,043.71	26,194.29	99,962.59	<i>382,470.48</i>
Interest-Loan BOC					8,911,264.61	8,911,264.61	<i>216,719.73</i>
Bank chargers		31,664.36	16,456.00	918.51	36,943.74	85,982.61	<i>152,401.65</i>
Internal Finance Cost					2,028,731.70	2,028,731.70	
Total		82,063.64	34,781.31	5,962.22	11,003,134.34	11,125,941.51	751,591.86

*** Note :**

All expenses incurred in the head office which cannot be attributed specific area of activity are apportioned among the profit centers considering utilization of resources as follows:

Up to 2008-April

Factories	55%
Fertilizer	25%
Local Tea Sales	10%
Welfare	10%

After 2008-April

Factories	65%
Fertilizer	30%
Local Tea Sales	5%

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For Management Purposes only

Description	Fertilizer	Local Tea Sales	Welfare	Factores	H/O	Total
REVENUE	142,978,805.83	7,968,172.00		1,032,056,003.39		1,183,002,981.22
COST OF SALES	(97,700,920.92)	(5,748,957.74)		(942,276,830.72)		(1,045,726,709.38)
Gross Profit	45,277,884.91	2,219,214.26	0.00	89,779,172.67	0.00	137,276,271.84
OTHER INCOME	6,450,469.96	0.00	485,511.33	10,706,114.71	354,459.30	17,996,555.30
						0.00
FINACE CHARGES	(82,063.64)	(5,962.22)	(34,781.31)	(11,003,134.34)		(11,125,941.51)
SELLING & DISTRIBUTIO	(3,775,978.38)	(566,070.19)	(189,257.63)	(25,066,025.62)		(29,597,331.82)
ADMINISTRATION	(10,513,036.95)	(2,492,943.46)	(11,625,790.05)	(119,322,627.16)		(143,954,397.62)
	(14,371,078.97)	(3,064,975.87)	(11,849,828.99)	(155,391,787.12)	0.00	(184,677,670.95)
						0.00
Profit/(Loss) for the year	37,357,275.90	(845,761.61)	(11,364,317.66)	(54,906,499.74)	354,459.30	(29,404,843.81)
B/F Profit/(Loss)						53,629,625.02
C/F Profit/(Loss)						24,224,781.21

Notes to the Accounts
for the year ended 31st December

Schedule No:- 7 Retained Earnings 2008

Project	Balance as at 31/12/2007	Net Income 2008	Dividend Paid 2008	Total
Fertilizer	72,590,200.91	37,357,275.90		109,947,476.81
Head Office	12,466,521.25	354,459.37		12,820,980.62
LTS	(12,452,490.89)	(845,761.61)		(13,298,252.50)
Welfare	27,337,688.31	465,533.34		27,803,221.65
M/ Factory	(19,939,686.52)			(19,939,686.52)
Factory	41,174,798.98	(66,736,350.74)		(25,561,551.76)
Tea Export	(22,252,578.97)			(22,252,578.97)
Tractor	(10,655,142.43)			(10,655,142.43)
Radio	(3,295,816.12)			(3,295,816.12)
Total	84,973,494.52	(29,404,843.74)	(31,343,869.50)	24,224,780.92

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Notes to the Accounts
for the year ended 31st December

Schedule :- 08 Property, Plant & Equipments

Description	Land & Building	Machinery	Computer	Equipment & Tools	Furniture & Fittings	Motor Vehicles	Other property	Telephone	Total
Cost									
as at 01/01/2008	231,481,086.80	294,987,332.30	2,307,901.26	1,543,375.81	10,257,071.40	25,335,649.10	326,518.06	738,710.63	566,977,645.36
Additions / Adjustments during the year	533,474.51	131,450.00	694,685.00	1,714,250.75	551,948.00	41,900.00	22,915.00	312,752.50	4,003,375.76
Cost as at 31/12/2008	232,014,561.31	295,118,782.30	3,002,586.26	3,257,626.56	10,809,019.40	25,377,549.10	349,433.06	1,051,463.13	570,981,021.12
Depreciation									
Depreciation for the year	8,076,893.86	22,041,218.08	230,790.13	112,575.58	1,723,340.15	2,129,880.05	32,651.81	73,871.00	34,421,220.66
Accumulated Depreciation	10,589,302.41	55,024,845.95	1,233,025.34	1,563,446.87	5,024,277.53	9,357,031.59	228,562.65	441,314.11	83,461,806.45
Written down value as at 31/12/2008	221,425,258.90	240,093,936.35	1,769,560.92	1,694,179.69	5,784,741.87	16,020,517.51	120,870.41	610,149.02	487,519,214.67

Notes to the Accounts
for the year ended 31st December

Schedule :- 09 **Capital Work-in -Progress**

Description	Factories	Total
Bulathkohupitiya	910,457.09	910,457.09
Yatinuwara	656,748.00	656,748.00
Pothupitiya	656,748.00	656,748.00
Kothamale	24,805.00	24,805.00
Deraniyagala	19,494,381.33	19,494,381.33
Grand Total	21,743,139.42	21,743,139.42

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Notes to the Accounts
for the year ended 31st December

Schedule :- 10 Immatuered Crops

Description	Other Cultivation	Mawarela	Total
<u>Tea</u>			
Replanting 2001-2003		963,004.12	
Replanting 2005-2006		381,021.33	
Replanting 2006		114,743.32	
Replanting 2007		99,496.81	
Replanting 2008		779,615.00	
Sub Total		2,337,880.58	2,337,880.58
<u>Papaya Cultivation</u>			
Elpitiya	3,000.00		
Walahanduwa	6,367.00		
Sub Total	9,367.00	2,337,880.58	2,347,247.58
Grand Total	9,367.00	2,337,880.58	2,347,247.58

Notes to the Accounts
for the year ended 31st December

Schedule No:- 11

Inventory & Stocks

Description	Head Office	Factories	Fertilizer	Welfare	Local Tea Sales	Total
Tea Stock at LTS					315,272.16	315,272.16
Fertilizer		2,096,969.67				2,096,969.67
Coir Laf Bags		2,704.15				2,704.15
Factory Tea Stock		99,635,535.20				99,635,535.20
Stationery Stocks	427,869.63	20,797.14				448,666.77
Dolomite			131,302.73			131,302.73
Eppawala Rock Phosphate			1,554,202.73			1,554,202.73
Kieserite			1,615,325.97			1,615,325.97
Murate of Potash			17,897,163.78			17,897,163.78
Sulphate of Ammonia			9,392,598.97			9,392,598.97
Urea			46,781,621.53			46,781,621.53
WPP Bags			2,788,170.24			2,788,170.24
Sundry Stock		8,275,667.77	34,185.00			8,309,852.77
Finish Goods					510,027.50	510,027.50
ST - UM			127,846.89			127,846.89
ST - UVA			19,420.11			19,420.11
ST - LC			14,589.38			14,589.38
T - 200			2,715,867.20			2,715,867.20
T - 750			3,491,352.61			3,491,352.61
U - 625			747,227.93			747,227.93
U - 709			173,426.71			173,426.71
VP - LC			892,982.91			892,982.91
VP - UM			268,154.76			268,154.76
Wanawaga			2,242.63			2,242.63
YPM-W			91.78			91.78
APM			201.68			201.68
Cinamon-SA			785,267.16			785,267.16
Cinamon-UREA			142,240.39			142,240.39
Inventory	17,217.20		100,375.86			117,593.06
Supplies Inventory			183,075.38			183,075.38
Bulk Stocks						-
Polithene Stock					971,532.63	971,532.63
Grand Total	445,086.83	110,031,673.93	89,858,934.33	-	1,796,832.29	202,132,527.38

Notes to the Accounts
for the year ended 31st December

Schedule :- 12 Debtors and Receivables

Description	Head Office	Factories	Fertilizer	Local Sales	Welfare	Tea Export	M.Factories	Total
Account Reciveable		57,717,624.73	50,337,906.21	6,306,170.84		19,903,064.75	21,041,545.32	155,306,311.85
Subsidy Reciveable			36,371,739.68					36,371,739.68
Thurusaviya					20,103.14			20,103.14
Account Reciveable -Tractor	920,071.00							920,071.00
Ministry Of Tea Small Holders	768,920.00							768,920.00
Randalu Mela Fund	384,700.00							384,700.00
Society Of TSH	118,130.12				50,068.75			168,198.87
TSHDA	80,000.00							80,000.00
Share Collection					19,300.00			19,300.00
Intrest Recivable				101,663.01	9,761,851.00			9,863,514.01
Loan TSHDA -Bandarawala			68,899.74					68,899.74
Loan TSHDA -Kandy			304,164.00					304,164.00
With Holding Tax- Reciv-Fertilizer	1,092,581.96							1,092,581.96
Reciveable from Factory			400,000.00					400,000.00
Reciveable from Fertilizer					3,500,000.00			3,500,000.00
RecI. from TSF Welfare Socity-HO			50,000.00					50,000.00
Other Reciveable	236,000.00							236,000.00
Fund In TFR-Inter- LTS	63,693.10							63,693.10
Fund In TFR-Inter- Fertilizer	370,251.62							370,251.62
Debtor Rigama				226,753.48				226,753.48
Divident A/C	208,129.90							208,129.90
Total	4,242,477.70	57,717,624.73	87,532,709.63	6,634,587.33	13,351,322.89	19,903,064.75	21,041,545.32	210,423,332.35
Deduct (-)								
Provision for Bad debts				(630,061.08)				(630,061.08)
10% Bad debts 2006								0.00
Provision for Bad debts								0.00
10% Bad debts 2007				460,986.18				460,986.18
Over Provision for Bad debts 2008				169,074.90				169,074.90
								0.00
Provision for Bad debts						(19,903,064.75)	(21,041,545.32)	(40,944,610.07)
10% Bad debts 2008				(630,061.08)				(630,061.08)
Grand Total	4,242,477.70	57,717,624.73	87,532,709.63	6,004,526.25	13,351,322.89	0.00	0.00	168,848,661.20

Notes to the Accounts
for the year ended 31st December

Schedule No:- 13

Advances, Prepayment & Deposits

Description	Head Office	Factories	Local Tea sales	Total
Advances				-
Factory Advances		30,662,666.30		30,662,666.30
BC Agrotechnics		4,843,200.00		4,843,200.00
Jinasena Eng. Technologies		4,560,014.60		4,560,014.60
General Eng. Services		10,269,400.00		10,269,400.00
Mobile Phone-Loan	11,006.00			11,006.00
Waterman Construction		13,482,337.50		13,482,337.50
Festival Advance	106,300.00	1,210,661.36		1,316,961.36
Depavali Advance				-
Special Advance	75,300.00			75,300.00
Salary Advance	2,500.00			2,500.00
Fabric for Staff-Loan	3,500.00			3,500.00
Prepayments				-
Other Deposit	226,000.00	76,446.85		302,446.85
Deposits for Vehicles			666,254.56	666,254.56
Deposit for Rent	692,000.00		240,000.00	932,000.00
CEB		878,491.00		878,491.00
Grand Total	1,116,606.00	65,983,217.61	906,254.56	68,006,078.17

Notes to the Accounts
for the year ended 31st December

Schedule No:- 14 Investments

Description	Factories	Fertilizer	Local Tea Sales	Welfare	Total
Investment in Treasury Bills	116,664,537.05			9,000,000.00	125,664,537.05
Seven day Call deposit					-
LC Security Deposit		90,157,848.00			90,157,848.00
Fix Deposit		1,500,000.00	400,000.00	12,900,000.00	14,800,000.00
Grand Total	116,664,537.05	91,657,848.00	400,000.00	21,900,000.00	230,622,385.05

Notes to the Accounts
for the year ended 31st December

Schedule No:- 15 Cash & Bank Balance

Description	Head Office	Factories	Fertilizer	Local Tea Sales	Export	Welfare	Management Factories	Total
A/c No: 2937124	(2,954,689.50)							(2,954,689.50)
A/c no: 2937158					(1,112,680.89)			(1,112,680.89)
A/c no: 2937157			(1,292,658.02)					(1,292,658.02)
A/c no: 2937161		(168,306.57)						(168,306.57)
A/c no: 2937165		338,608.58						338,608.58
Cash in Hand		546,580.48						546,580.48
Cash at Bank								-
Cash at Bank-Fertilizer								-
A/c no: 2937164				(479,167.97)				(479,167.97)
A/c no: 2937023						(9,700,079.37)		(9,700,079.37)
A/c no: 2937162						6,352,589.19		6,352,589.19
A/c no: 2937163						73,534.00		73,534.00
A/c no: 2937155							866,900.05	866,900.05
A/c no: 2937158							8,964.43	8,964.43
Petty Cash			50,000.00					50,000.00
Grand Total	(2,954,689.50)	716,882.49	(1,242,658.02)	(479,167.97)	(1,112,680.89)	(3,273,956.18)	875,864.48	(7,470,405.59)

Notes to the Accounts
for the year ended 31st December

Schedule No:- 16 Inter Current Account

Description	Head Office	Factories	Fertilizer	Local Tea Sales	Welfare	Management Factories	Export	Total
Head Office	(114,136,961.34)		114,136,961.34	(21,503,330.48)	22,535,170.16	(4,293,186.02)	(2,654,912.01)	(5,916,258.35)
Factories	64,435,113.95	(64,435,113.95)	23,241,818.01	(1,853,940.00)		(9,356,350.18)		12,031,527.83
Fertilizer		(23,241,818.01)		100,000.00	19,166,684.93		(250,000.00)	(4,225,133.08)
Local Tea Sales	21,306,389.09	2,735,160.00	358,400.00		1,000,000.00		(17,847,133.87)	7,552,815.22
Welfare	(22,640,170.12)		(19,166,684.93)				(472,056.00)	(42,278,911.05)
Management Factories	4,293,186.02	9,356,350.18	190,000.00					13,839,536.20
Export	2,654,912.01	389,499.00	250,000.00	17,847,133.87	472,056.02			21,613,600.90
Sub Total	(44,087,530.39)	(75,195,922.78)	119,010,494.42	(5,410,136.61)	43,173,911.11	(13,649,536.20)	(21,224,101.88)	2,617,177.67
Inter Factory Current Account Balance								11,643,250.06
Grand Total								14,260,427.73

Notes to the Accounts*for the year ended 31st December***Schedule :- 17 Share Capital**

Authorised Share Capital

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500,000,000.00

Fully paid ordinary shares (non voting)

Balance at the beginning of the year

197,984,666.00

Received (Reconciled) during the year

10,974,464.00

Balance at the end of the year**208,959,130.00****Schedule :- 18 TSHDA (Government) Grant**

Grant received for the year 1998

26,690,873.44

Grant received for the year 1999

127,540,786.45

Grant received for the year 2000

69,540,270.33

Grant received for the year 2001

185,000,000.00

Grant received for the year 2002

23,500,000.00

Grant received for the year 2004

5,233,100.00

Grand Total**437,505,030.22****Schedule :- 19 Member Contribution**

Balance as at 01/01/2007

133,246,701.57

Collection during the year 2007

219,191.01

Collection during the year 2008

387,483.00

2005/12/31 Closing Balance**133,853,375.58****Schedule :- 20 T.S.H.D.A**

Factories

58,001,047.37

Head Office - TSF

2,151,761.41

Local Tea Sales

4,206,269.39

Welfare

9,689,463.13

Grand Total**74,048,541.30***Annual Report 2008*

Notes to the Accounts
for the year ended 31st December

Schedule :- 21

Creditors and Payables

Description	Head Office	Factories	Fertilizer	Local Sales	Welfare	Managemen t Factories	Tea Export	Total
Accounts Payable				4,713,110.01		7,166,014.80		11,879,124.81
C/A Kaluthara R/O	189,147.00							189,147.00
C/A Kegalle	102,932.40							102,932.40
C/A Mathra	240,134.48							240,134.48
C/A Rathnapura	249,040.94							249,040.94
C/A Walahanduwa				3,211.97				3,211.97
Crediters	40,000.00	78,294,752.76		3,194,697.75				81,529,450.51
Payee Taxes-Payable	129,897.43							129,897.43
Casual Wages-Payable	10,809.60							10,809.60
Stamp Duty	3,966.06			102.00				4,068.06
TSWS Loan Payable	50,000.00							50,000.00
Medical Fund	70,089.21							70,089.21
Accounts Payable-Fertilizer Imp			52,743,600.00					52,743,600.00
Refundable Tender/ Other Dipost			105,000.00	30,609.00				135,609.00
Refundable Agent Fees			50,000.00					50,000.00
With Holding Tax-Payable	4,445.51		532,596.59					537,042.10
With Holding Tax-Payable-Div	2,060,709.05							2,060,709.05
With Holding Tax-Payable H/O			1,076,378.61					1,076,378.61
Gratuity Provision	1,185,340.10							1,185,340.10
Devident Provision							208,129.90	208,129.90
Payable Welfare			3,500,000.00					3,500,000.00
Kothmale TSF				1,723,570.80				1,723,570.80
BOC-Loan								-
Insurance Suspense					9,245,881.05			9,245,881.05
Dividends / Incentives Provision-2007								31,343,869.50
Total	4,336,511.78	78,294,752.76	58,007,575.20	9,665,301.53	9,245,881.05	7,166,014.80	208,129.90	198,318,240.16

Notes to the Accounts
for the year ended 31st December

Schedule No:- 22

Accrued expenditure & Provisions

Description	Head Office	Fertilizer	Factories	Local Sales	Total
Accrued Expenditure			47,838,804.77		47,838,804.77
Lesion Fees		28,371.50			28,371.50
Hanshin Lanka PVT Ltd	209,000.00				209,000.00
Deniyaya Transport Service		8,742.00			8,742.00
Sri Lanka Telecom	45,342.74	4,538.19			49,880.93
Ceylon Electricity Board		4,165.00			4,165.00
Allowances	2,173.99				2,173.99
JDBE Security	30,146.70				30,146.70
Master Scales Service		115,338.80			115,338.80
Computer Repairs		3,000.00			3,000.00
Swedish Trading		98,758.70			98,758.70
Laber Salary Payment		4,352.50			4,352.50
Other Expenses				27,748.68	27,748.68
Grand Total	286,663.43	267,266.69	47,838,804.77	27,748.68	48,420,483.57

The Chairman
Tea Shakthi Fund

**Report of the Auditor General on the Financial Statements of the
Tea Shakthi Fund for the year ended 31 December 2008 in terms of
Section 14(2)(c) of the Finance Act, No. 38 of 1971**

The audit of Financial Statements of the Tea Shakthi Fund for the year ended 31 December 2008 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act No.38 of 1971 and Section 13(2) of the Tea Shakthi Fund Act. No. 47 of 2000. My comments and observations which I consider should be published with the annual report of the Fund in terms of Section 14(2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act was furnished to the Chairman of the Fund on 24 November 2009.

1:2 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

1:3 Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of

transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. Sub sections (3) and (4) of Section 13 of the Finance Act No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

2. Financial Statements

2:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Tea Shakthi Fund had maintained proper accounting records for the year ended 31 December 2008 and except for the effects on the financial statements of the matters referred to in paragraph 2:2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards, give a true and fair view of the state of affairs of the Tea Shakthi Fund as at 31 December 2008 and the financial results of its operation and cash flows for the year then ended.

2:2 Comments on Financial Statements

2:2:1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003 Draft Annual Report and the financial statements of the Fund should be presented to audit within 60 days after the closure of the financial year. However the draft financial statements had been presented on 03 August 2009 and the final financial statements of the Fund for the year 2008 was presented for audit only on 16 March 2010.

2:2:2 Sri Lanka Accounting Standards

- (a) The provision for gratuity amounting to Rs. 12,144,114 had not been invested separately in terms of Sri Lanka Accounting Standard No. 16.
- (b) Government Grants amounting to Rs. 437,505,030 received on 2004 and prior years had been recognized as capital contribution by the Government and shown as a part of the total equity instead of amortizing over the periods on systematic basis to match them with the related costs, in terms of Sri Lanka Accounting Standard No. 24.
- (c) Fully depreciated vehicles which are being used at present had not been revalued in terms of Sri Lanka Accounting Standard No. 18.

2.2.4 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) According to the Factory Accounts, an advance of Rs.4 million had been shown under receivables to the Pansalatenna Factory for a long period. It was observed in audit that this amount representing a lease rent advance paid to a private company for 30 years since 1999 and it had not been proportionately charged against the profit for the relevant years.
- (b) An unidentified inter divisional current account balance of Rs.14,260,428 had been shown under current assets as at the end of the year under review without settling each other. Out of which a sum of Rs. 12,845,902 was brought forward since the year 2004.
- (c) A provision had not been made for audit fees for the year under review and previous year.

2:2:5 Un reconciled Accounts

The following observations are made.

- (a) Differences totaling Rs. 2,499,376 had been observed with regard to the brought forward opening balances of fixed assets and accumulated depreciation on fixed assets accounts.
- (b) A difference amounting to Rs. 292,334 had been observed in written down values of fixed assets as at the end of the year under review when compared with the relevant schedules.

- (c) A difference amounting to Rs. 2,115,027 was observed in the automatic renewal basis fixed deposit accounts of Fertilizer, Welfare and Local Tea Sales Divisions as these balances had not been reconciled with the relevant bank conformations as at the end of the year under review. This difference was occurred due to non accounting of interest received on the due dates.
- (d) Differences totaling Rs. 1,131,905 were observed in the bank balances shown in the Balance Sheet in respect of Head Office and Fertilizer division as at 31 December 2008 when compared with the relevant balances taken to reconcile the bank balances in the bank reconciliation statements.
- (d) According to the bank reconciliation statements relating to two bank accounts for the month of December 2008 following unidentified balances had been brought forward for a long period and action had not been taken to identify these balances.

	Rs.
Direct credits	2,139,280
Direct debits	94,436
Cash at cash book but not at the bank	1,013,689
Un reconciled balances	165,810
Cheques issued but not presented	2,608,114

2:2:6 Accounts Receivable and Payable

The following observations are made.

- (a) A sum of Rs.40.9 million comprising of a sum of Rs.19.9 million receivable for the stock of tea exported to Russia in the year 2002 under the "Russia Lanka Joint Agreement" and a sum of Rs.21 million relating to tea sales on credit basis to 14 private tea factories were outstanding for a long period without recovering those balances. The possibility of recovering these dues were doubtful and a provision for total amount had been made as bad and doubtful debts in the accounts.

According to the Chairman's comments, "Rs.19.9 million due from Tea Exported to Russia in 2002 is not recoverable at all since the entire Tea Consignment said to have been fallen on to the hands of a gang of Russian Mafia. Even though the actions have been initiated by TSF through Attorney General's Department with the assistance of Embassy of Russia, the efforts

did not become fruitful. Out of Rs. 21 million provided on credit basis sales only one factory have been already agreed upon to settle the dues among these 14 private factories.” It was observed in audit that if proper procedures had been followed at least a considerable amount could have been recovered.

- (b) Advances totaling Rs.33,154,952 granted to 04 private parties for the construction of factories and purchase of machinery remained unsettled for a period exceeding 05 years. However it was observed in audit that these activities were abandoned due to the non receipt of sufficient funds from the Government.
- (c) Action had not been taken to settle the following receivables for more than two years.
 - (i) A sum of Rs. 2,271,821 receivable from Tea Small Holding Development Authority and it's societies.
 - (ii) Interests amounting to Rs. 9,863,514 receivable to the welfare division from Factory division.
- (d) Action had not been taken to recover following dues for a long period of time.
 - (i) Value Added Tax receivables amounting to Rs. 1,873,188 with regard to 11 factories.
 - (ii) A sum of Rs. 666,255 shown as vehicle deposits under Local Tea Sales division.
- (e) Action had not been taken to settle the long outstanding balance amounting to Rs.74,048,541 to Tea Small Holdings Development Authority. Further according to Tea Small Holdings Development Authority this balance was Rs. 74,001,446. Action had not been taken to reconcile it.
- (f) A sum of Rs. 6,443,977 had been shown as payable to the Tea Small Holdings Development Authority as at 31 December 2008 for the purchase of Lorries to 07 Factories of the Fund. However no settlement had been made up to the date of this report and as a result the ownership of the lorries had not been transferred by the Tea Small Holdings Development Authority. It was also observed in audit that these lorries were running without revenue licenses

contrary to the existing laws.

- (g) The overpayment amounting to Rs. 2,700,805 made to green leaves suppliers during the previous year had not been recovered yet.
- (h) According to the balance sheet as at 31 December 2008, balances in three bank current accounts totalling Rs. 949,398 and an overdraft balance of Rs. 1,112,690 of the Fund had been brought forward continuously from long period without making necessary action to clear the accounts even up to the end of the year under review.
- (i) According to the Factory Accounts, festival advances amounting to Rs.313,869 paid to the estates employees of 4 factories during the period 1999 to 2007 had not been recovered up to the end of the year under review.

2:2:7 Suspense Accounts

A Suspense Account balance amounting to Rs.3,442,758 under the debtors of then Management Factory Division and 04 Suspense Account balances amounting to Rs.16,341 under the ledger accounts of 04 factories of the Factory Division had been shown in the accounts since 2004. Action had not been taken to clear these suspense accounts.

2:2:8 Lack of Evidence for Audit

The following item of accounts could not be satisfactorily vouched in audit due to non-availability of evidence indicated against each item.

<u>Item</u>	<u>Value</u> Rs.	<u>Evidence not made</u> <u>available</u>
(a) Subsidy Receivables – Fertilizer Division	36,371,740	Detailed Schedules, Confirmation of Balances and Age Analysis
(b) Accounts Payables – Local Tea Sales Division and Management Factories Division	11,879,125	
(c) Creditors-Local Tea Sales and Head Office	3,234,698	

(d) Depreciations for the year	34,421,221	} Detailed Schedules
(e) Accumulated Depreciation	83,461,806	
(f) Insurance Indemnity in Suspense – Welfare	9,245,881	
(g) Provision for Gratuity -Head Office	1,185,340	} Schedules
- Factory	10,958,774	
(h) Bank Current Accounts	8,066,986	Confirmations

2:2:9 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with Laws, Rules, etc. observed in audit are given below.

<u>Reference to Laws, Rules, etc.</u>	<u>Non-compliance</u>
(a) Government Financial Regulations	
(i) No. 104(2)	Accidents occurred during the year under review on three vehicles accidents had not been reported to Auditor General.
(ii) No. 110	Separate registers for losses had not been maintained.
(iii) No. 387	Paying officers had not paid attention to ensure whether adequate balances were available in the bank accounts before writing cheques.
(iv) No. 396	Action had not been taken relating to 215 lapsed cheques valued at Rs.3,974,434 in terms of the Financial Regulation.
(v) No. 395 (c)	Bank reconciliation statements had not been prepared before 15 of the following months and presented to audit.
(b) Public Enterprises Circular No.PED/12 of 02 June 2003 Section 7.3(d)	A Register of Fixed Assets had not been maintained.
(c) Management Services Circular No. 30 of 22 September 2006	Salary revision, recruitment and promotion procedure in accordance with the new salaries and promotion schemes had not been prepared up to the date of audit on 15 October 2009

(e) Letter No MPI/4/1/6 (over time) dated 03 August 2007 of the Secretary to the Ministry of Plantation Industries

Overtime amounting to Rs.314,926 had been paid to the factory employees of Passara from January to August 2008 by exceeding the limit of 40 hours without obtaining approvals from the Secretary to the Ministry of Plantation Industries.

(f) Tea Commissioner's Circulars No.TC/R/2005/1 dated 24 June 2005 and No TC/R/2008/01 dated 12 March 2008

Mahawali and Pansalthenna Tea Shakthi Factories had charged low rates than the rates introduced for transporting tea leaves. According to the internal audit reports losses amounting to Rs.2.08 million and Rs.2.3 million respectively for the year under review had been incurred due to charging low of rates.

3. Financial and Operating Review

3:1 Financial Review

3:1:1 Financial Results

According to the financial statements presented, the operations of the Fund during the year under review had resulted in a loss of Rs.29,404,844 as against the profit of Rs. 94,459,309 for the preceding year, thus indicating a deterioration of Rs.123,864,153 in the financial results. This deterioration occurred mainly due to the decrease of sales by Rs. 198,447,503 as compared with previous year. According to the Chairman, "Tea Shakthi Fund experienced the worst drop in the entire tea industry following the world Market recession during 2008 to 2009 mid period" .

3:1:2 Analytical Financial Review

The total income for the year 2008 as compared with the year 2007 had decreased by Rs.103.6 million or 40 per cent and the factory sales had decreased by Rs.174 million or 14 per cent.

The profit of the factories of the Fund had decreased by Rs. 118 million or 15 per cent when compared with previous year.

3.2 OPERATING REVIEW

3.2.1 Factory Performance

(a) Production (Kg.)

Name of Factory	Walahanduwa	Balangoda	Deniyaya	Elpitiya	Gilimale	Hiniduma	Keppetipola	Kotmale	Mahaweli	Mawarala	Passara	Pansaltenna	Raigam Korale	Total
	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)
Year														
2003	588,938	265,632	456,837	358,648	132,234	-	356,034	296,360	684,851	407,518	-	354,736	564,107	4,465,895
2004	483,011	294,342	447,190	359,177	-	131,460	247,142	262,530	550,423	423,652	-	248,712	530,482	3,978,121
2005	425,863	265,601	418,241	442,910	126,898	152,854	216,181	281,742	513,481	288,941	215,305	162,472	554,969	4,065,458
2006	448,560	219,689	403,317	370,257	58,381	130,874	182,866	325,826	564,573	178,911	217,554	146,349	448,560	3,695,717
2007	430,060	218,398	443,352	359,728	136,132	260,679	328,202	299,764	761,754	214,070	430,267	162,080	435,393	4,479,879
Percentage decrease / increase as compared with the year 2006	(4.13)	(6)	9.9	(2.9)	133	99	79.4	(8)	34.9	19.7	97.8	10.7	(3)	21.2

The following observations are made

(i) The overall tea production in the year under review as compared with the preceding year had increased by 784,162 Kg. or 21 percent.

(ii) As compared with the preceding year the production of Kotmale, Walahanduwa, Raigam Korale and Elpitiya factories had decreased by 8 percent, 4 per cent 3 per cent and 3 per cent respectively.

(b) Sales Income

Name of Factory	Walahanduwa	Balangoda	Deniyaya	Elpitiya	Gilimale	Hiniduma	Keppetipola	Kotmale	Mahaweli	Mawarala	Passara	Pansaltenna	Raigam Korale	Total
	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)
Year														
2003	92,357	33,586	73,372	56,784	15,583	-	40,787	35,272	93,625	64,705	-	42,804	90,347	639,222
2004	89,951	45,552	85,534	69,019	-	20,069	31,965	36,822	80,658	78,028	-	31,872	99,693	669,163
2005	83,624	40,459	81,025	85,140	19,595	25,938	20,747	44,233	79,924	53,798	29,468	23,579	104,472	692,002
2006	92,075	33,768	79,868	70,807	9,920	21,883	26,978	53,823	96,158	33,956	34,347	23,452	98,535	675,570
2007	132,673	54,059	139,833	102,709	35,937	79,463	77,860	70,877	188,484	67,415	101,072	35,308	137,330	1,223,020
Percentage increase as compared with the year 2006	44	60	75	45	262	263	188.6	31.6	96	98.5	194.2	50.5	39.3	81

(1) The sales income of all factories had increased in the year under review due to the increase in the market prices. The income, as compared with the preceding year had increased by Rs. 547,450,000

(c) Selling Price per Kilogramme

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Name of Factory	Walahanduwa	Balangoda	Deniyaya	Elpitiya	Gilimale	Hiniduma	Keppetipola	Kotmale	Mahaweli	Mawarala	Passara	Pansaltenn.	Raigam Korale	Average Colombo Price Tea Auction	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Year															
2003	156	126	160	158	117	-	114	119	134	158	-	120	160	138	149
2004	186	154	191	192	-	152	129	140	146	184	-	128	187	168	180
2005	196	152	193	192	154	169	132	157	155	186	136	145	188	172	185
2006	205	153	198	191	169	167	147	165	170	187	157	160	194	180	198
2007	304	240	309	282	254	298	233	234	246	312	230	225	313	268	-
Percentage increase as compared with the year 2006	48.3	56.8	56	47.6	50.29	78.4	58.5	41.8	44.7	66.8	46.5	40.6	61.3	48.8	-

The average selling price per kilogramme of made tea had increased by 48.8 percent and except for 04 factories the average selling price of the other factories had recorded even higher prices.

(d) Profit/Loss for the year

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Name of Factory	Walahanduwa	Balangoda	Deniyaya	Elpitiya	Gilimale	Hiniduma	Keppetipola	Kotmale	Mahaweli	Mawarala	Passara	Pansaltenn.	Raigam Korale	Total
	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)	(Rs.'000)
Year														
2003	3,833	(1,248)	4,477	1789	(4041)	-	(1073)	364	7375	4283	-	24	7592	23375
2004	7,335	1,343	9,134	5248	-	-	(1636)	1086	4950	8232	-	(489)	13925	52709
2005	4,492	(72)	5,963	2667	(5246)	3576	(4553)	2845	4151	656	(4140)	(803)	9330	11033
2006	5,907	(4,652)	4,821	(1,411)	(3798)	(4257)	(4712)	1808	3374	(4010)	130	(1089)	5550	(2137)
2007	13,107	(1,235)	18,563	1991	(3635)	(4055)	4584	(512)	16805	3190	10656	(3512)	18667	78041
Percentage decrease / increase as compared with the year 2006	121.9	73.0	285.0	241.0	4.2	4.7	197.0	(128)	398.0	179.0	8096.0	(222)	236.3	3751.0

The following observations are made

- It was observed that the profit of the Factory Division as compared with the preceding year had improved by Rs. 80,178,000.
- Nevertheless, according to the Performance Reports of the Factory Division the profit amounted to Rs. 99,798,550 while the profit according to the records of the Accounts Division amounted to Rs. 78,041,529, thus indicating a difference of Rs. 21,757,021 in the profit.
- Even though the sales income, as compared with the preceding year had increased by Rs. 547 million, the profit for the year had improved by Rs. 80 million only. Had the closing stock been adjusted correctly, as observed in audit, even that profit could have decreased.
- Out of the 13 factories, 05 factories had incurred losses amounting to Rs. 12,949,000.

(e) Purchase of Greenleaf

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Name of Factory	Walahanduwa	Balangoda	Deniyaya	Elpitiya	Gilimale	Hiniduma	Keppetipola	Kotmale	Mahaweli	Mawarala	Passara	Pansaltenna	Raigam Korale	Total
	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)	(Kg.)

Year

2003	2841531	1223036	2148905	1682292	642518	-	1658534	1381875	3179558	1927638	-	1577031	2665885	20928803
2004	2309062	1361212	2133050	1572912	-	649304	1153469	1267365	2579096	2014340	-	1122954	2503849	18666613
2005	2051692	1277261	2000443	2060570	620418	766841	1007110	1306791	2389035	1422943	961796	769458	2642507	19276865
2006	2175565	1070770	1945633	1731656	306699	651873	858653	1526066	2634676	916610	1009206	690497	2489687	18007591
2007	2090902	1019880	2099483	1687326	679115	1282648	1503227	1387470	3395592	1035887	1940804	759657	2050534	20932525
Percentage decrease / increase as compared with the year 2006	(3.9)	(4.7)	8	(2.5)	21	97	75	(9)	29	13	92	10	(17.6)	16

The following observations are made

- (i) The overall purchase of greenleaf, as compared with the preceding year, had increased by 16.24 percent.
- (ii) The Raigam Korale Factory and the Kotmale Factory had shown significant decreases of 17.6 percent and 9 percent respectively in the purchase of green leaf.
- (iii) Since the year 2003, a significant increase in the purchase of green leaf by the Factory Division had been indicated only during the year under review.

3:2:2 Financial Management

The following observations are made.

- (a) A sum of Rs.19,211,584 and interest thereon amounting to Rs.540,580 relating to the years 2006 and 2007 were receivable from a firm of Tea Brokers for marketing the tea of 05 tea factories of the Fund. Even though the money should be paid within 07 days in accordance with Section 28 and 29(a) of Circular No. 59/2007 of the Colombo Tea Brokers Association, the company had delayed their payments for a long period and legal action had not been taken against this Broker Company up to the date of audit on 15 October 2009. Furthermore it was observed in audit that this Broker Company had not been registered under the Companies Act No 07 of 2007. Although the Chairman informed me that the legal action had been taken now, the reasons for the delay to initiate legal action has not been explained to audit. According to the accounts presented for the year under review, out of this five Factories three factories were running at losses.
- (b) Although a sum of Rs.21,743,140 had been shown in the accounts as work in progress in respect of construction of 05 Factories of the Fund since 2003, the construction works had not been completed even up to end of the year under review.
- (c) An application for a loan of Rs.100 million had been made to the Revolving Fund of the Tea Development Project of the Bank of Ceylon for the construction of Yatinuwara and Deraniyagala Tea Factories and a sum of Rs. 50 million as loan had been received on 30 November 2007. Following observations are made in this connection.

Bills

- (i) The entire amount of Rs. 50 million had been invested in Treasury instead of utilizing for the intended purposes.
- (ii) Further a sum of Rs. 7,478,407 had been earned as interest from the Treasury Bills for the period July 2007 to February 2009 and a sum of Rs.10,345,039 had been paid as interest for this loan for the same period. Therefore a loss of Rs. 2,866,632 had been sustained by the Fund from this transaction.

- (iii) The loan of Rs. 50 million had been paid back to the bank on 28 February 2009 without utilizing to construct the said Factories, and the Board decision in this regard was not made available for audit.

According to the Chairman's comments, "Due to the Tea Industry crisis during the year 2008, Tea shakthi fund was advised to stop all major capital works by the line Ministry until crisis situation is settled and TSF deposited the same in Treasury Bills until industry crisis in the Tea Sector is over."

- (d) Proper financial discipline had not been exercised by the Fund during the year under review and previous years. Therefore an overdraft balance of Rs. 7,470,406 was shown in the cash book whilst favorable balances were available in the bank current accounts. Further the bank reconciliations for the year 2008 in respect of Local Tea Sales Division had not been made available for audit.
- (e) According to the Internal Audit reports, the colour separators of Pansalthenna and Kothmale Tea Factories had been out of order from the year 2007 and sums of Rs. 218,025 and Rs. 124,150 had been paid for repairs during the year under review. However, those colour separators were being repaired as at the end of the year under review and a sum of Rs. 1,009,087 had been paid to external parties for colour separation during the year under review.
- (f) As per Factory performance report, the average cost of fuel/ firewood for driers were Rs. 10.75 per kilogramme of made tea. However, the average cost of fuel /firewood of Elpitiya Tea Shakthi Factory marked an exceptional higher rate of Rs.38.08 per kilogramme due to the drier solely running on diesel instead of firewood.

3:2:3 Assets Management

Following observations are made.

- (a) Polythine stocks valued at Rs. 971,532 as at 31.December 2007 had been idling in the stores of Local Tea Sales Division up to the end of the year under review. According to the Chairman, "This Polythine stocks were printed in the name of Tea Small Holding Authority by the then in charge for the local sales division. Therefore Tea Shakthi fund cannot use them."

- (b) Action had not been taken to recover the diesel shortages amounting to Rs. 403,524 occurred in Elpitiya Tea Factory.
- (c) A cash fraud amounting to Rs. 1,221,950 had been occurred during the period 24 February 2008 to 10 July 2008 at Kothmale Tea Factory. However this amount had not been recovered from the officers responsible up to the date of audit on 30 October 2009 and according to the Chairman "legal action has now been commenced."

3:2:4 Identified Losses

Following identified losses were observed in audit.

- (a) A surcharge amounting to Rs. 10,422 had been paid to the Employees Trust Fund due to delay in payment of contributions for the years 2005 and 2006.
- (b) According to the internal audit reports a loss amounting to Rs. 190,775 had been occurred at Deniyaya Factory relating to private tea sales from January to August 2008 due to sell at low prices than prices marked in the Tea auction.

3:2:5 Utilization of Vehicles

The Fund had owned 16 vehicles in its fleet. The following observations are made in this regard.

- (a) Two double cabs had been lying idle in the private garages for more than five years without being repaired up to the date of audit on 15 September 2009.
- (b) Five motor vehicles had been hired during the year 2008 without calling for quotations from the firms supplying motor vehicles on hire basis. According to the internal audit reports, the payments made thereon during the year 2008 was Rs.388,225.
- (c) Vehicle register, log books and monthly summaries for the vehicles had not been maintained by the Fund. It was observed in audit that vehicles at Deniyaya Tea Shakthi Factory were running without milometer for a long period.

3.2.6 Action Plan

A proper Action Plan had not been prepared for the year 2008.

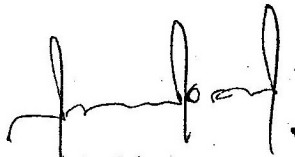
3.2.7 Budgetary Control

- (a) An overall budget for the year under review had not been prepared by the Fund.
- (b) According to the budgets prepared by each divisions of the Fund significant variations were observed between the budgeted and actual figures thus indicating that the budget had not been made use of as an effective instrument of management control.

4. Systems and Controls

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

- (a) Accounting and maintenance of accounting records.
- (b) Cash Control
- (c) Inter-Divisional current Accounts
- (d) Factory Operations
- (e) Utilization of Vehicles
- (f) Receivables and Payables.



S. Swarnajothi
Auditor General