



TEA SHAKTHI FUND

"Committed to the service like the sun"

Annual Report – 2009



Ministry of Plantation Industries

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Introduction

Tea Shakthi Fund is a commercial Entity incorporated under Tea Shakthi Fund Act No. 47 of 2000. The registered office is located at No. 384, Pelawaththa, Baththaramulla.

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 asocial, 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 acquire and maintaining 2% of marke tshare 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

	2009	2008	2007	2006	2005
Revenue(RsMn)	913.27	1183.02	1388.47	772.27	817.10
Operating Expenses (RsMn)	770.09	1045.73	1143.07	642.28	695.73
Gross Profit (RsMn)	143.17	137.28	246.4	129.99	121.38
Other Income(RsMn)	34.19	17.99	12.52	8.37	19.59
Financial Expenses (RsMn)	6.75	11.12	0.75	0.60	12.77
Net Profit/(Loss) (RsMn)	(4.73)	(29.40)	94.46	3.63	10.69
Dividends (RsMn)	Nil	Nil	31.34	20.62	Nil
Total Assets (RsMn)	1150.96	1188.00	1224.01	1021.72	1027.61
Net Assets (RsMn)	679.83	684.56	714.83	651.80	654.24
ROCE (%)	0.18	(1.54)	7.78	0.41	2.28
G.P Ratio	15.68	11.60	17.75	16.83	14.85
N.P Ratio	(0.52)	(2.49)	6.80	0.47	1.31
Current Ratio (times)	2.55:1	2.29:1	2.26:1	2.78:1	2.70:1

CORPORATE INFORMATION

<i>Name</i>	-	<i>Tea Shakthi Fund</i>
<i>Address</i>	-	<i>384, Pannipitiya Road, Pelawatta, Battaramulla.</i> <i>T.P. : 011-2784339 / 011-2784340, Fax:011-2784335</i> <i>Email : tsf@teashkthi.gov.lk</i>
<i>Act of Incorporation</i>	-	<i>Tea Shakthi Fund Act No 47 of 2000</i>
<i>Year of Incorporation</i>	-	<i>2000</i>
<i>Nature of Business</i>	-	• <i>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.</i> • <i>Mixing and supplying Fertilizer mixture of recommended formula to cultivators, mainly to Tea Small Holders, at reasonable price retaining a Slight margin.</i> • <i>Distribution of customer oriented Tea blends in the local market.</i>
<i>Auditors</i>	-	<i>Auditor General's Department</i>
<i>Bankers</i>	-	<i>Bank of Ceylon</i>

Report of the Chairman

I have pleasure in presenting the annual report and the audited Accounts of Tea Shakthi Fund for the financial year ended 31st December 2009.

Tea Industry in the Global Position

According to the Sri Lanka Tea Board and Central Bank statistics, the global production of tea in the year 2009 was around 3,860Mn. Kgs, which was about 4Mn Kgs less than 2008. Even though the China was able to contribute 52Mn Kgs of tea more than they produced in the year 2008, there had been a huge deficit in production from 02 major black tea producing countries, namely Kenya and Sri Lanka which recorded crop deficit of 32 Mn Kgs, 29 Mn Kgs respectively.

Situation in the Sri Lanka Economy

The end of a three decade war in Sri Lanka; has ushered in a period of peace, political and macroeconomic stability and high expectation of a prosperous future. After three decades of internecine conflict, this nation has been freed from both the economic and political burdens of managing the strife. The state should now be able to concentrate and focus both time and resources for the development of its major engines of economic growth undoubtedly; one of the key areas should be the plantation industry. The Sri Lankan economy registered a growth of 3.5% in GDP terms, lower compared to 6% in the previous year still a commendable performance given the effect of the global recession and escalation in conflict that ended in may 2009. Three major divisions of economic activities, namely agriculture, industry and services showed positive growth rates of 3.2%, 4.2% and 3.3% respectively.

Sri Lanka Tea Industry

According to the market statistics by Sri Lanka Tea Board, Sri Lanka tea production for the year at 289.8Mn Kgs, which had been the lowest recorded since 1999, when a crop of 283.8Mn Kgs was harvested. Also this was 9% year to year drop.

The year under review began with the global recession at its peak and tea prices were at a three year low. From the three elevations, high grown recorded the biggest drop of 14% whilst the medium and low grown were recorded declines of 6% and 7% respectively.

Performance of the Tea Shakthi Fund

As per the audited account, the Fund could make a considerable progress during the year under review and recorded a net loss Rs. 4.730 Mn against Rs. 29.40 Mn recorded for the last year. The very poor commodity prices in the 1st Quarter compounded by exceptionally dry weather conditions adverse to tea and as a result sales in fertilizer drop drastically due to low input by farmers.

The extraordinary wage increase of 42%, which became effective from April 2009 imposed, a further burden on an already beleaguered industry. Whilst prices of tea improved by the 3rd Quarter, the industry was denied the full benefit of better prices by erratic weather patterns. This combination of adverse events resulted a loss of Rs. 4.37Mn by Tea Shakthi for the year 2009

Tea Shakthi made tea production dropped to 2,577,110 Kgs from 4,087,326.50 largely on account of adverse weather conditions with a proportionate decline being reflected in the national volumes, across comparable agro climate areas.

The TSF realized an overall net sales average of Rs. 345.51 against the elevation average of Rs. 370.50. The poor averages was mainly due to lower crop and lack of adequate personal in the factory managerial grades. This lower NSA coupled with higher average COP of Rs. 359.42 eroded the margins contributing towards this overall loss of Rs. 4.73 mn.

Even though the net sales averages has been increased in average of 31% over the previous year, Even such increases had not been adequate to compensate the losses; given the fact that all Tea Shakthi factories are operating under 100% bought leaf intakes. The other major reasons for increased cost of production is higher prices paid for the green leaf supplied by the Small Holders.

Future Out Look

With the global financial crisis, escalating fuel prices, intense competition for bought leaf and unethical practices in tea manufacturing by private sector competitors, it is important that Tea Shakthi focus on;

- Diversification strategies and to reevaluate Fertilizer and Local Sales projects with a view to optimizing exiting resources and thereby to increase market share.
- To reorganize factory project by renting out or closing down long term loss making factories and to open new factories where the competition for bought leaf is minimal or fair.

One of the major impediment for effective implementation of the above tasks is for lack of clear cut policy guide lines. Policy consistency is an area in which the plantation sector had a poor record. In this regard I welcome the initiative taken by the present Minister of Plantation Industry and Human Rights to have regular progress meeting in addition to progress monitoring by directing policy issues of the Tea Shakthi Fund. I trust aforesaid strategic focus would be able to address existing problems in capital formation and future development of making our SBUs on a sustainable basis.

On be half of Board of Directors I wish to place on record my sincere appreciation to our share holders, Hon Minister and Secretary to the ministry of Plantation Industries and her staff, employees Tea Small Holders, Brokers and customers for continual support they have provided over the year. I am grateful to my colleagues on the Board to their valid advises extended towards furtherance of Tea Shakthi Fund.

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Noel Padmasiri Kaariyawasam

Chairman

Tea Shakthi Projects

<u>Factory Project</u>	<u>Manager</u>	<u>Contact No.</u>
Chief Manager	G.G.Kudabanda	0117421141
Balangoda Tea factory	W.A.Danasiri	0457200823
Hiniduma Tea factory	S.Maginaarachchi	0917200537
Elpitiya Tea factory	R.Godakanda arachchi	0917200591
Kothmale Tea factory	K. Medawala	0547200103
Keppetipola Tea factory	D.E.P. Premarathne	0577200065
Passara Tea factory	A.U.R.Weerasekara	0557200174
Pansaltenna Tea factory	A.G.D.Kariyawasam	0667200176
Deniyaya Tea factory	S.Bandara	0417200320
Walahanduwa Tea factory	J.R.Senevirathne	0917200608
Giliemale Tea factory	Silent Factory	0457201524
Mahaweli Tea factory	K.B.Etipola	0547200102
Mawarala Tea factory	S.K.Jayawardene	0417200945
Raigamkorale Tea factory	S.P.Edirisinghe	0347200361

Fertilizer Project

Manager Fertilizer & Local Tea Sale

Laxman Edirisinghe 0117421134

Mixing Plant – Aramanagolla- Horana 0342260563

BOARD OF DIRECTORS AND SENIOR STAFF

Board of Directors

Mr. Noel Padmasiri Kariyawasam	-	Chairman - Tea Small Holdings Development Authority (TSHDA)
Mr. E.M.K.B. Ekanayake	-	Director - Chief Accountant - Ministry of Plantation Industries
Mr. A. Kumarasiri	-	Director - Deputy Director - Ministry of Finance & Planning
Mr. S.D. Nandasena	-	Director - General Manager - TSHDA
Mr. Nevil Rathnayake	-	Director - Chairman, Sri Lanka Federation of Tea Small Holding Society
Mr. J.M.B.J. Bandara	-	Director - Chairman Divisional Society - Rathnapura
Mr. Kumara Gunasinghe	-	Director - Chairman Divisional Society - Nuwaraeliya
Mr. Bandara Gunasinghe	-	Director - Chairman Divisional Society - Uva
Mr. G.G. Senavirathna	-	Director - Chairman Divisional Society - Kandy
Mr. G.W. Jayawardhana	-	Director - Chairman Divisional Society - Galle
Mr. K.L. Gunarathna	-	Director - Chairman Divisional Society - Kaluthara
Mr. M.N. R. Jayathilake	-	Director - Chairman Divisional Society - Kegalle

Audit and Management Committee

Mr. A. Kumarasiri	-	Chairman - Deputy Director - Ministry of Finance & Planning
Mr. E.M.K.B. Ekanayake	-	Director & Member-Chief Accountant - Ministry of Plantation Industries
Mr. Nevil Rathnayake	-	Director & Member-Chairman, Sri Lanka Federation of Tea Small Holding Society
Mr. M.N. R. Jayathilake	-	Director & Member-Chairman Divisional Society - Kegalle

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. Abeynayake	-	Chief Internal Auditor
Mr. E.A.L. Edirisinghe	-	Manager – Fertilizer
Mr. S.P. Edirisinghe	-	Senior Factory Manager – Raigamkoral

Board of Directors Report

It is our grateful pleasure to report on the performance of Tea Shakthi Fund for the financial year ended 31st December 2009. 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.07 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 contained in the Report of the Chairmen on pages 4&5 and financial operating review on pages 13-20 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 21 of this report.

Profit and Appropriations

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

	2009 Rs.	2008 Rs.
Revenue	<u>913,266,846</u>	<u>1,183,002,981</u>
Income from Broker Sales	753,598,779	1,003,273,979
Local Tea Sales	31,721,364	36,743,268
Sale of Fertilizer	127,946,703	142,985,734
Other Income	34,193,796	17,996,555
Net Income	177,369,111	155,272,827
Administration Expenses	(155,675,670)	(143,954,398)
Selling and Distribution Expenses	(19,672,776)	(29,597,332)
Operating Profit before Tax	2,020,665	(18,278,902)
Finance Cost	(6,751,368)	(11,125,942)
Retained Profits	19,494,078	24,224,781

Dividends and Reserves

No dividends have been declared during the year under review.

Reserves

The total reserves as at 31st December 2009 amounted to Rs. 33,364,252.00 (In 2008, Rs. 38,094,954.00) movements of which are given on page 39 in the statements changes in equity.

Corporate Donations

No corporate donations were given during the 2009.

Capital Expenditure

The details of property, plant & equipments of the Tea Shakthi are shown in note 08 on page 61.

Market Value of Immovable Properties

Tea Shakthi Fund does not own tangible immovable properties as at 31st December 2009 other than those disclosed in the note no 08 on page 61.

Contributed Capital

The Tea Small Holders island wide has contributed the capital amounting Rs. 208,959,130.(Rs. 208,959,130. in 2008)

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 09.

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 2009.

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

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 2009 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 OPERATING REVIEW

Review of Operating Results

Tea Shakthi Fund recorded a operating profit of Rs. 2Mn for the year under review against loss of Rs. 18.3Mn recorded for 2008. This represent an improvement of 110% over the last year. Where as loss before tax was decreased by 84%.

Income from Broker Sales

The income from broker sales has been dropped by 25%, From Rs.1003.27mn in 2008 to Rs.753.6mn in 2009. This was mainly due to Drop in made tea as a result of lower crop and there by low net sales averages.

Factory Project Financial Performance 2009 - Rs. mm

	Deniyaya	Mawarala	Elpitiya	walahanduwa	Hiniduma	R. Korale	Balangoda	Mahaweli	Giliemale	pansaltenna	Kothmale	Keppetipola	Passara	Total
Revenue	108.9	45.2	52.9	71.3	15.1	123.9	3.6	105.5	0.1	24.1	44.1	75.2	110.2	780.0
Cost of sales	(87.9)	(38.9)	(50.8)	(57.6)	(15.5)	(93.6)	(6.1)	(89.3)	(1.2)	(18.5)	(39.9)	(58.0)	(81.8)	(639.1)
Contribution	21.0	6.3	2.1	13.6	(0.5)	30.3	(2.4)	16.2	(1.1)	5.6	4.2	17.2	28.4	140.9
Factory Direct Exp.	(9.8)	(9.5)	(7.8)	(9.9)	(4.9)	(8.4)	(5.4)	(10.3)	(2.4)	(8.9)	(8.4)	(5.6)	(8.8)	(100.1)
Selling & Dist.	(1.8)	(0.7)	(1.0)	(1.0)	(0.3)	(2.5)	(0.1)	(2.2)	(0.1)	(1.2)	(1.2)	(2.1)	(2.3)	(16.5)
Other Income	0.9	4.7	0.9	0.9	0.9	0.9	0.9	0.9	0.7	0.9	0.9	0.9	0.9	15.5
Gross Profit	10.3	0.7	(5.7)	3.7	(4.8)	20.3	(7.0)	4.7	(2.9)	(3.6)	(4.5)	10.4	18.2	39.8
Admin.expenses	(3.6)	(1.5)	(2.0)	(2.4)	(1.0)	(4.2)	(0.3)	(4.3)		(1.0)	(1.9)	(3.0)	(4.1)	(29.3)
Finance Cost	(0.6)	(0.4)	(0.5)	(0.5)	(0.3)	(0.5)	(0.6)	(0.6)		(0.5)	(0.5)	(0.4)	(0.6)	(6.3)
Profit for the Yr	6.1	(1.2)	(8.2)	0.7	(6.1)	15.6	(8.0)	(0.2)	(2.9)	(5.2)	(6.9)	6.9	13.5	4.1
GP Ratio %	9.5	1.6	(10.8)	5.1	(31.7)	16.4	(192.3)	4.5	(2,258.8)	(15.0)	(10.2)	13.8	16.5	5.1
NP Ratio %	5.6	(2.7)	(15.6)	1.0	(40.3)	12.6	(219.1)	(0.2)	(2,258.8)	(21.4)	(15.7)	9.2	12.3	0.5
Made Tea	320,422	135,765	178,521	215,418	86,098	373,228	30,799	381,466		89,759	170,888	266,069	364,673	2,613,106
GP Per Kg Rs.	32.3	5.4	(32.0)	17.0	(55.5)	54.4	(226.6)	12.3		(40.4)	(26.3)	38.9	50.0	15.2
NP Per Kg Rs.	17.5	(19.8)	(87.2)	4.7	(468.3)	33.7	(7,114.6)	(0.5)		(238.4)	(92.1)	34.7	33.6	0.2

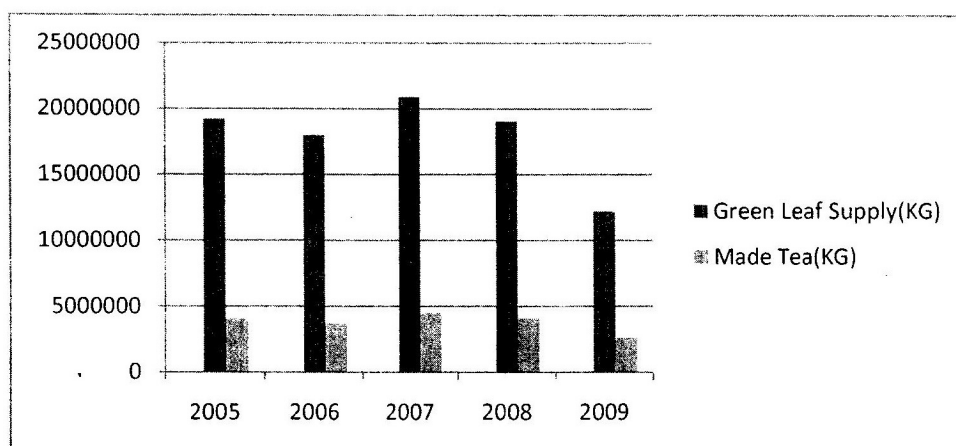
Made tea Production

Due to adverse dry weather conditions prevailed during the last Quarter, the low country and mid country tea growing areas recorded a shortfall in green leaf supply. Year to year comparison of green leaf supply and made tea for last five years ending 31st December 2009 are given in table.

Year	Green Supply (Kg)	Made Tea (Kg)
2009	12,223,467	2,613,342
2008	19,078,944	4,087,507
2007	20,932,625	4,498,378
2006	18,007,591	3,753,607
2005	19,226,865	4,065,459

PHYSICAL PERFORMANCE OF FACTORIES FOR THE YEAR 2009

Factory	Green Leaf		Made Tea		Outturn %		NSA Rs.		COP Rs.	Made Tea per Factory Capacity
	Capacity	Actual	Capacity	Actual	Capacity	Actual	Capacity	Actual	Actual	
Passara	1,800,000	1,615,684	387,000	364,673	21.5	22.57	329.89	330.90	282.45	0.94
Keppetipola	1,800,000	1,193,267	387,000	266,069	21.5	22.3	329.89	316.59	277.64	0.69
Raigamkorale	3,300,000	1,746,707	709,500	373,228	21.5	21.37	387.70	339.00	355.01	0.53
Pansaltenna	2,688,000	395,222	578,064	89,759	21.5	21.08	387.70	298.95	316.30	0.16
Elpitiya	3,300,000	865,239	709,500	178,521	21.5	20.63	387.70	351.90	395.55	0.21
Gilimale	1,176,000	1,267	252,900	253	21.5	19.97	387.70	N/A	6598.32	Nil
Kothmale	2,100,000	801,561	451,500	170,888	21.5	21.32	387.70	267.59	283.85	0.38
Balangoda	2,688,000	151,794	578,064	30,799	21.5	21.47	392.48	254.99	316.03	0.05
Mahaweli	3,600,000	1,770,202	77,400	381,466	21.5	21.4	311.22	295.63	281.42	0.49
Deniyaya	2,100,000	1,540,691	451,500	320,725	21.5	20.8	387.70	384.78	360.44	0.71
Mawarala	2,400,000	656,593	516,000	135,765	21.5	20.68	387.70	387.37	394.99	0.26
Walahanduwa	2,400,000	1,035,305	516,000	215,419	21.5	20.8	387.70	388.80	384.38	0.42
Hiniduma	2,688,000	422,873	578,064	86,080	21.5	30.36	387.70	367.49	422.10	0.20

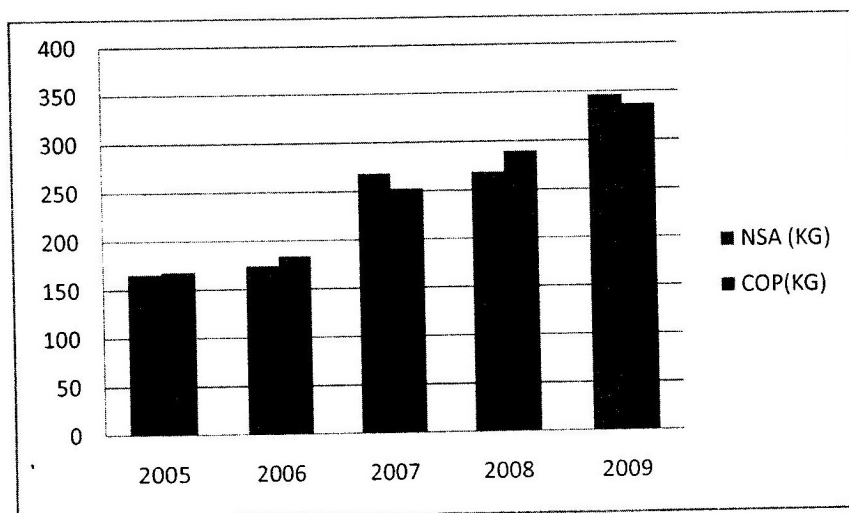


According to the Sri Lanka Tea Board statistics, drop in total made tea production recorded low of 6Mn Kg compared to previous year of which 2.62Mn Kg, being 44% drop compared to 2008 was due to low crop counts in the Small Holder sector. Out of the 12 number of running factories 9 factories are located in the low country areas. The drop in green leaf by Small Holders in low country areas amounts to 14 Mn Kg over the previous year. Adverse dry weather conditions coupled with low applications of fertilizer contributed towards this drop.

Net Sales Averages

Even though the prices of low grown teas continued to be at attractive levels, drop in green leaf supply in the Small Holder sector directly affected the factory operations as all Tea Shakthi factories are depend on 100% bought leaf from Small Holders. The drop in made tea badly affected both the net sales averages and cost of production eroding the margins and thereby overall performance of the factory project.

<u>Year</u>	<u>NSA Rs.Per Kg</u>	<u>COP Per Kg.</u>
2005	166.22	168.73
2006	174.47	184.35
2007	268.34	252.57
2008	268.51	289.51
2009	346.84	337.04



Out of the 12 nos of running factories, except for Deniyaya, Keppetipola, Mahaweli, Passara, Raigamkorale and Walahanduwa tea factories, Six other factories, Namely Balangoda, Elpitiya, Hiniduma, Kothmale, Mawarala and Pansaltenna tea Shakthi tea factories made a total loss of Rs.25.7mn.

The Management is very concern about this position and being scrutinized in to details of cost elements and operational reasons involved in this loss. Also due to low salary scales and the scarcity of skilled personnel including factory managers have been badly affected the performance of the factory project. The management is of the view that if the recruitment of new staff for factories is not going to resolve the operational issues and the long term caring losses, The restructuring of the factory project with consultation of the Ministry of Plantation is required.

Profitability of the factory Project.

During the year under review, Six tea shakthi tea factories, namely Deniyaya, Keppetipola, Mahaweli, Passara, Raigamkorale and Walahanduwa, contributed Rs.58.91mn to the gross profit showing an increase of Rs.42.47 mn over the previous year but such increase did not fairly adequate to compensate the loss of other five factories and the general administration cost. As given in the page No. 13 , the drop in small holder involvement in supply of green leaf has hampered the growth in income of the tea Shakthi Factory Project. Gilimale tea shakthi tea factory remained silent during the whole year. The Management has hold primary discussion to rent out it for tea small holder society in the area.

Local tea Sales.

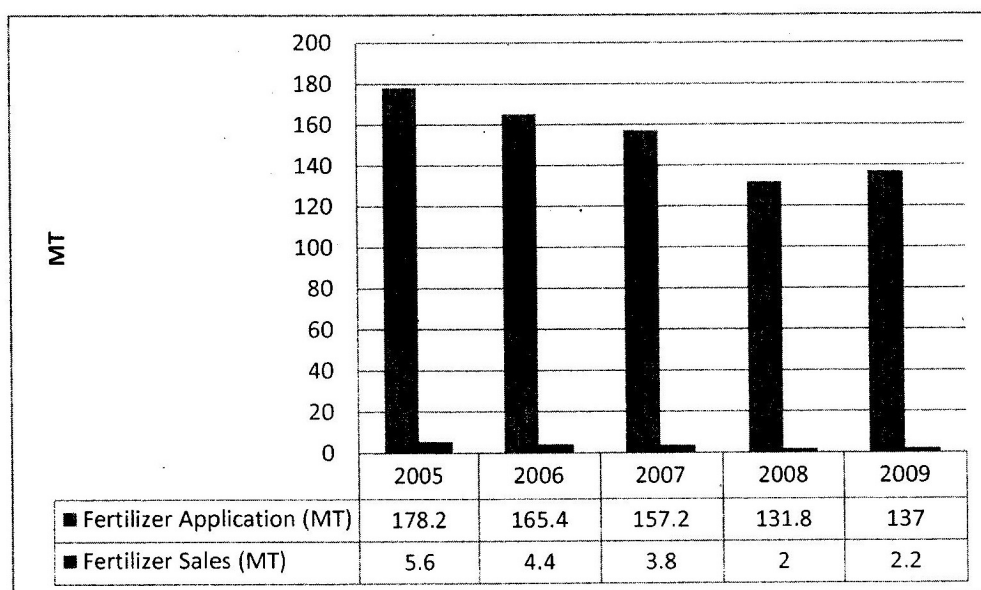
The marketing arm of tea Shakthi Fund to reach individual Customers is the local tea sales project Which is operates through factories and head office. This project made Rs.27.54mn sales during the year under review and out of which Rs.22.25mn at the factory level & Rs.5.29mn sales at the head office level. The project made Rs. 1.58 mn gross profit. How ever these figures are considered to be a drop of 14% compared to the last year. Lack of adequate Marketing Mechanism for local tea sales project to distribute own products has been a Major loophole to drop in sales and profit. The initiatives has been taken already and to be finalized no sooner the approval for the revised cadre for tea Shakthi is received.

Fertilizer project.

Fertilizer project made a net loss of Rs.5.42Mn against Rs.37.35mn net profit recorded for the previous year. The year to year drop in sales by 12% and increase in direct cost of sales by 28% mainly contributed towards this loss.

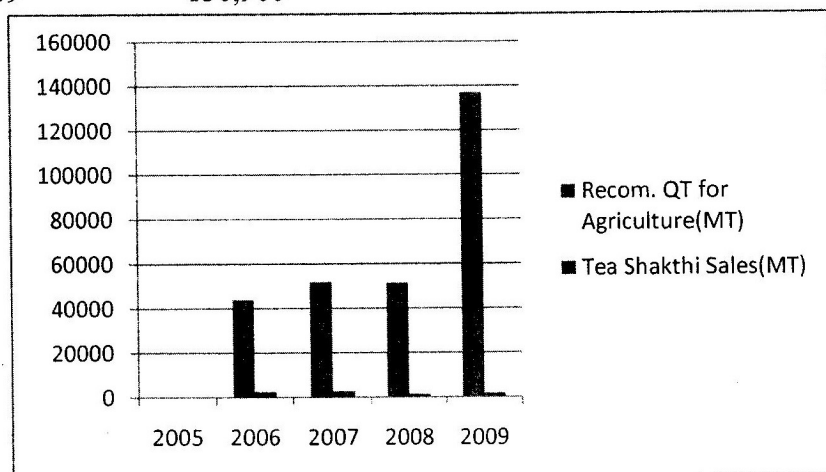
Fertilizer application by tea sector Vs Tea Shakthi sales

<u>. Year</u>	<u>Fertilizer application in Mtn,000s</u>	<u>Tea Shakthi Sales In Mtn,000s.</u>
2005	178.2	5.6
2006	165.4	4.4
2007	157.2	3.8
2008	131.8	2.0
2009	137.0	2.2



Recommended Fertilizer Application for Agricultural Sector under the Govt. Subsidy Scheme Vs Tea Shakthi Sales Under The Subsidy Scheme.

<u>Year</u>	<u>Recommended Qty forAgriculture</u> <u>sector In Mtns</u>	<u>Tea Shakthi Sales In Mtns</u>
2005	Not implemented	-----
2006	43,982	2,690
2007	51,917	2,875
2008	51,590	1,533
2009	136,900	1,888



Welfare Project

The welfare project function as the only social welfare arm to serve the tea small holders. The individual member should pay Rs. 2,400 to get the life time member ship. The progress of the welfare project for last five years is as follows

<u>Year</u>	<u>No.of Members</u>	<u>Insurance premium Rs.</u>	<u>No.of benefits paid</u>	<u>Value of Benefits Rs.</u>
2005	95,000	8.9Mn	425	11.62Mn
2006	95,000	9.8Mn	413	11.62Mn
2007	94650	8.9Mn	947	20.34Mn
2008	89043	8.3Mn	883	18.60Mn
2009	91350	10.8Mn	696	14.80Mn

Small Holder Pension scheme.

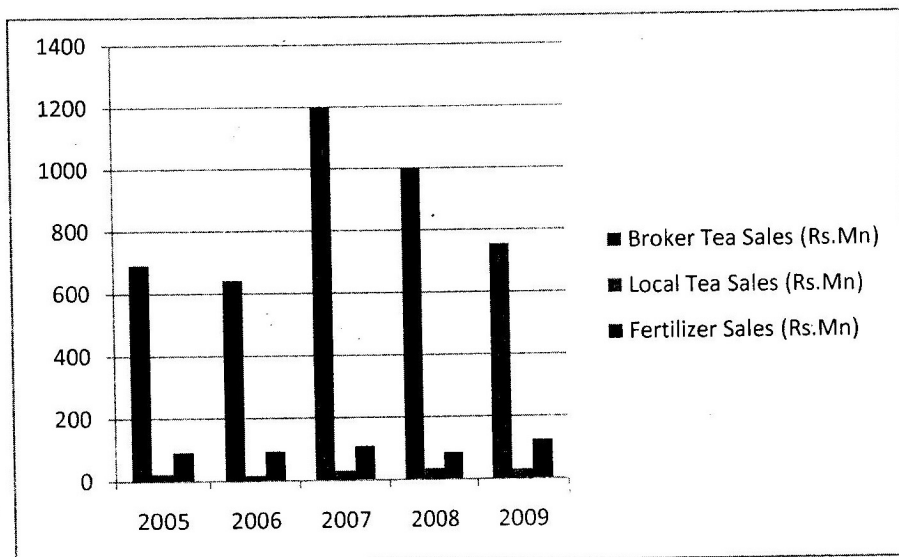
The small holders in ages between 18 – 60 , those who are members of the Insurance welfare scheme and do not under go in any other retirement benefit plans are entitle to be the members of the Small Holder Pension scheme. They are entitle to receive a monthly pension after reaching the age of 60 years depending on their contribution to the pension scheme. The pensions so paid for last 3 years is as follows.

<u>Year</u>	<u>Pensions paid Rs.</u>
2007	42,174
2008	172,571
2009	1,681,940

Segmental Contribution to Turnover

The segmental contribution to turnover by 3 projects for last five years can be shown as follows.

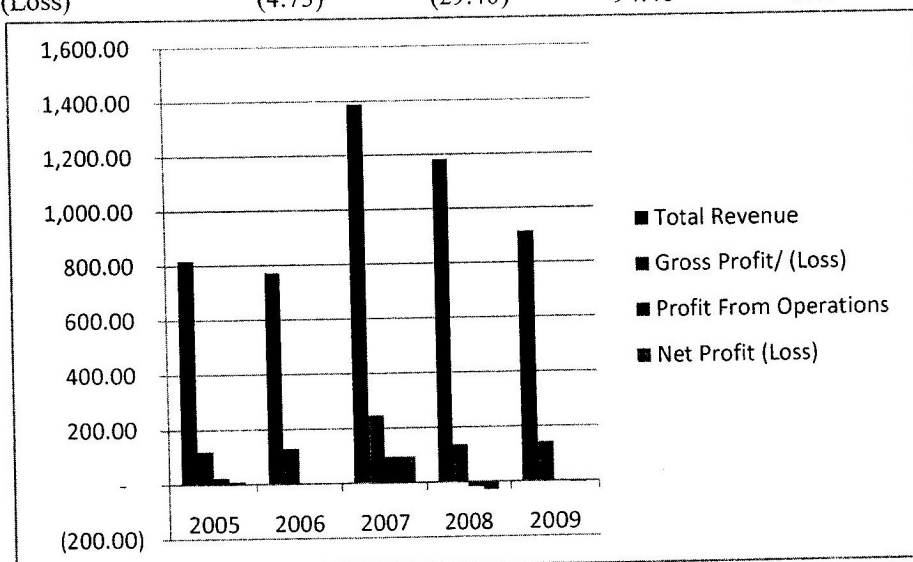
<u>Segment</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Broker Tea Sales (Rs.Mn)	753.60	1003.3	1201.21	641.75	691.33
Local Tea Sales (Rs.Mn)	31.73	36.12	32.47	17.78	23.42
Fertilizer Sales (Rs.Mn)	124.11	86.28	109.05	95.59	92.25



As Shown in the Sales Figures, for Broker sales and local tea sales have been dropping down after 2007 gradually due to poor leaf supply. Also lack of strong marketing arm to distribute the own products of Fertilizer and local Sales projects has been a major impediment for the growth in sales of those two segments. The ground works to implement own distribution channels has been already initiated and to be finalized no sooner the approval for Cadre positions is received.

Revenue and Overall Profitability(Rs,Mn)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total Revenue	913.27	1183.0	1388.47	772.27	817.10
Gross Profit/ (Loss)	143.18	137.28	246.40	129.99	121.38
Profit From Operations	2.02	(18.28)	95.21	4.23	23.46
Net Profit (Loss)	(4.73)	(29.40)	94.46	3.63	10.69



The year under review began with a global recession at its peak and tea prices were at a three year low. The very poor commodity prices, compounded by exceptionally dry weather conditions adverse both for tea fertilizer sales. The extraordinary wage increase of 42% which became effective from April 2009 imposed a further burden. In year to year comparison tea Shakti made tea production dropped by 36% and cost of production increased by 16%. And those two adverse indicators did not adequately compensate the increase in net sales averages by 29%.

The local tea sales also mirrored a similar pattern of declines due to weakened marketing arm. Tea Shakti was an indirect victim of the black tea market downturn in 2009 as Nine Nos. Tea Shakti factories out of 12 in operation are producing low grown black tea. Also historically, in times of price declines, specialty products are the first to be affected and the last to recover.

Tea Shakthi Fund

Audit & Management Committee Report – 2009

The Committee on Audit & Management pertaining to Tea Shakthi Fund had been able to cover many areas and fulfill a vast scope of activities during the year of 2009.

The Committee met several occasions during the year, in order to review the all activities of the fund.

The Committee had recommended and implemented several important proposals in order to upgrade the status of Audit. Committee was able to highlight important areas in deep where transparency was required to be highlighted critical areas connected to the Fund.

The main focus of the Committee was to review the expanded areas and functions in :

Tea Factories;

Local Tea Sales

Fertilizer Project

We could upgrade them to its highest level of service so as to gain the maximum benefit of the people of Sri Lanka.

The newly established Internal Audit Section of the Fund under the supervision of the Chief Internal Auditor was able to recommend and implement many Internal Control Measures to protect most critical areas pertaining to tea manufacturing process.

The Fertilizer Project activities were streamlined.

Proper Internal Control measures were adopted in the Administration and Finance fields and now under better control.

The Committee had given a prompt attention with regard to the proposals submitted by the Government Audit Department, and took every attempt, and prompt actions were taken to implement such implementations.

The Committee had taken timely actions to provide most important statutory information such as Final accounting Statements, Budget Estimates and Cadre Positions in the Tea Shakthi Fund, during the year under purview

Chief Internal Auditor - P. Abeynaike

(Coordinator Audit and Management Committee)

TEA SHAKTHI FUND

PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 2009	Note	This Year	Last Year Rs.
Revenue	1-A	913,266,846.30	1,183,002,981.22
Cost of Sales	2	(770,091,531.69)	(1,045,726,709.38)
<i>Gross Operating Profit</i>		143,175,314.61	137,276,271.84
Other Income	3	34,193,796.11	17,996,555.30
<i>Total Income</i>		177,369,110.72	155,272,827.14
Administration Expences	4	(155,675,669.50)	(143,954,397.62)
Distribution Expences	5	(19,672,776.33)	(29,597,331.82)
		(175,348,445.83)	(173,551,729.44)
<i>Profit/(Loss) From Operating Activities</i>		2,020,664.89	(18,278,902.30)
Finance Cost	6	(6,751,367.52)	(11,125,941.51)
Profit/(Loss) For the year	1-B	(4,730,702.63)	(29,404,843.81)
Brought Forward Profit/(Loss)	7	24,224,780.92	53,629,624.73
Profit Before Appropriation		19,494,078.29	24,224,780.92
Dividends			
Profit/(LOSS) Carried Forward		19,494,078.29	24,224,780.92

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

The Accounting Policies and notes is integral part of the Financial Statements

TEA SHAKTHI FUND**BALANCE SHEET****AS AT 31ST DECEMBER 2009**

	Note	This Year	Last Year Rs.
ASSETS			
Non-current Assets			
Property Plant & Equipment			487,519,214.67
<i>Free Hold</i>		408,802,657.52	
<i>Lease Hold</i>		48,690,269.16	
	8	457,492,926.68	
Capital work-in -progress	9	21,743,139.42	21,743,139.42
		479,236,066.10	509,262,354.09
Immatured Crops			
Tea Cultivation	10	2,600,466.40	2,337,880.58
Other Cultivation	10	27,883.36	9,367.00
		2,628,349.76	2,347,247.58
Current Assets			
Inventories & Stocks	11	196,521,757.40	202,132,527.38
Trade Debtors & Other Receival	12	208,781,289.51	168,848,661.20
Advance, Prepayment & Deposil	13	37,111,284.31	68,006,078.17
Short Term Investments	14	123,297,107.13	230,622,385.05
Cash in Hand & Bank	15	88,317,322.29	(7,470,405.59)
Inter Current Account	16	15,071,218.01	14,260,427.73
		669,099,978.65	676,399,673.94
TOTAL ASSETS		1,150,964,394.51	1,188,009,275.61
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	13,870,173.86
Retained Earning/(Loss)		19,494,078.29	24,224,780.92
TOTAL EQUITY		679,828,412.37	684,559,115.00
Members Benovalent Fund			
Member Contribution	19	134,352,375.58	133,853,375.58
Non Current Liabilities			
T.S.H.D.A	20	74,048,541.30	74,048,541.30

Current Liabilities

Creditors & Payables	21	197,594,127.09	198,318,240.16
Bank Loan			48,809,520.00
Accrued Expenses	22	65,140,938.17	48,420,483.57
		262,735,065.26	295,548,243.73

TOTAL EQUITY AND LIABILITIES		1,150,964,394.51	1,188,009,275.61
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Accounting policies and notes to the accounts form an integral part of these financial statements.

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Noel Padmasiri Kariyawasam
Chairman
Tea Shakthi Fund

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

.....
P.G.R. Tissa
Chief Excecutive Officer
Tea Shakthi Fund

TEA SHAKTHI FUND

CASH FLOW STATEMENT

AS AT 31ST DECEMBER 2009

<u>Operating Profit Before Taxation</u>		(4,730,702.63)
Adjustments For		
Depreciation	31,807,906.50	
Provision for Gratuity	8,384,915.77	
Intrest Income	(12,619,637.41)	
Intrest Expense	1,398,336.52	28,971,521.38
		24,240,818.75
<i>Operating profit before working capital changes</i>		
(Increase)/Decrease in Stoks and Finished Goods	5,610,769.90	
(Increase)/Decrease in Working Progress	(281,102.18)	
(Increase)/Decrease in Debtors & Other Recivables	(39,932,628.30)	
(Increase)/Decrease in Short Term Diposits	107,325,277.90	
(Increase)/Decrease in Inter Current A/C & Funds Transfers	(810,790.28)	
(Increase)/Decrease in Advance,Prepayment & Deposits	30,894,793.86	
Increase/(Decrease) in Trade Creditors & Payables	(7,848,057.88)	
Increase/(Decrease) in Sundry creditors & Accruals	16,720,454.60	
Increase/(Decrease) in Member Contribution	499,000.00	112,177,717.62
		136,418,536.37
Cash Generated from Operations		
Intrest Paid	(1,398,336.52)	
Gratuity Paid	(1,364,121.07)	(2,762,457.59)
		133,656,078.78
Net Cash Flow from Operating Activities		
Cash Generated from Investing Activities		
Purchase of property plant & Equipments	(1,678,468.31)	
Intrest received	12,619,637.41	10,941,169.10
		144,597,247.88
Net Cash used in Investing Activities		
Cash Generated from Financing Activities		
Repayment of Bank Loans		(48,809,520.00)
		95,787,727.88
Net Increase in Cash & Cash Equivalents		(7,470,405.59)
Cash & Cash Equivalents of the Beginning of the year		88,317,322.29
Cash & Cash Equivalents of the end of the year		
<u>Analysis of Cash & Cash Equivalents</u>	As at 31-12-2009	As at 31-12-2008
Over Deaft	(14,448,067.98)	(15,707,582.32)
Cash at Bank	102,715,390.27	8,187,176.73
Petty Cash	50,000.00	50,000.00
Total	88,317,322.29	(7,470,405.59)

Statement of Changes in Equity

For the year ended 31st December 2009

Rs.

Description	Share Capital	Capital Reserves	Retained Earnings	Total
Balance as at 1st January 2009	646,464,160	13,870,174	24,224,784	684,559,115
Appropriations				
Net loss for the year			(4,730,703)	
Balance as at 31/12/2009	646,464,160	13,870,174	19,494,081	684,559,115

TEA SHAKTHI FUND

FINANCIAL YEAR ENDED 31ST DECEMBER 2009

ACCOUNTING POLICIES

1. CORPORATE INFORMATION

1.1 General -

Tea shakthi fund hereinafter referred to as "The Fund" is incorporated under the Parliament act No.47 of 2000 and domiciled in Sri Lanka. The registered office 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 154.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 General Accounting Policies

2.1.1 Statements of compliance

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 2009 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.

No adjustments have been made for inflationary factors in the financial statements. The directors are responsible for the preparation and presentation of these financial statements.

The directors have made an assessment of the TSF's ability to continue as a going concern in the foreseeable future and they do not intend either to liquidate or to cease trading.

2.1.2 Use of estimates & Judgments

The preparation of financial statements in conformity with SLAS requires management to make judgments, estimates and assumptions that affects the application of accounting policies and reported amounts of assets, liabilities, income and Expenses. Actual results may differ those estimates and judgmental decisions.

Estimate and underling assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised; if the revision affect only that period, or in the period of the revisions and future periods, if the revision affects both current and future periods.

2.1.3 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.

2.1.4 Parent & Subsidiary Relationship

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

2.1.5 Financial Period

Fund has a common financial year which ends on 31st December.

2.1.6 Segmental Reporting

Segmental information is provided for the different business segments of the fund. Business segmentation has been determined based on the nature of goods provided by the fund after considering the risk and rewards of each type of product.

Since the individual segments are located close to each other and operate in the same industrial environment, geographical segmentation has no impact. The segmental results are shown under note 1-B In the notes to the financial Statements.

Revenue and expenses directly attributable to each segment are allocated to the respective segments. Revenue and Expenses not directly attributable to a segment are allocated on the basis of their resource utilization, wherever possible.

2.1.7 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.

2.1.8 Infilling costs

since the TSF has no major plantations, infilling cost has not capitalized and has been charged to the income statements in the year in which they are incurred.

2.1.9 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 Equipment

a) Owned Assets

Items of Property, Plant & Equipment are 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) Subsequent Expenditure

The cost of replacing part of an items of property, plant and equipments is recognized in the carrying amount of the items. If it is probable that the future economic benefits embodied with in the part will flow to the fund and its cost can be measured reliably. The carrying amount of those parts that are replaced is derecognized in accordance with the deracination policy given below.

The day today servicing cost of the property plant and equipment are recognized in profit or loss as incurred.

d) Deracination

The carrying amount of the item of property, plant and Equipment is derecognized on disposals, or when no future economic benefits are expected from its use or disposal gains or losses on derecognizing are recognized in profit or loss and gains are not classified as revenue.

e) Permanent land development cost

Permanent land development those cost are incurred in making major infrastructure development and new access roads to factories. These cost are

capitalized and amortized over the remaining lease period when there are pertaining to lease hold assets.

f) Limited Life Land Development cost (Immature and Matured Plantations)

The cost of land preparation, rehabilitation new planting inter planting and fertilizing, etc, incurred batwing the time of planting and harvesting (when Planted area attends maturity), are classified as Immature plantation. These immature plantations are shown at direct cost plus attributable over heads and depreciated over the remaining useful economic life of mature plantation or the unexpired lease pried is over.

g) 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.

h) 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.

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. Also depreciation methods useful lives and residual values are re assessed at the reporting date.

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.

i) Amortization

Lease hold rights of assets taken over from Mahaweli authority and Elkaduwa plantation are amortized in equal installments at the lower of lease period and useful economic life.

Land	Over 30 Years
Buildings	Over 30 Years
Machinery @ 7.5%	Over 13.4 Years
Motor vehicles (Land Vehicles) @ 10% Motor vehicles Other than Land Vehicles @20%	Over 10 Years Over 05 Years
Equipments, Furniture, Fixtures & Fittings, and office Equipments @ 10%	Over 10 Years

Assets pledged as Securities

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

2.2.5 Leased Assets

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

Liabilities classified as current liabilities on the balance sheet are those which fall due for payment on demand or within one year from the balance sheet date.

Non current liabilities are those balances that fall due for payment after one year from the balance sheet date.

All known liabilities have been accounted for in preparing these financial statements. Provisions and liabilities are recognized when the fund has a legal or constructive obligations as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation.

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.

b) Defined contribution plan –Provident fund & Trust Fund

The fund contribute 12% on consolidated salaries of the factory employees to estates staff provident society (ESPS).

All the other employees of the fund are members of the Employee Provident Fund (EPF) and employee Trust Fund (ETF) to which the fund contributes 15% and 3% respectively on the consolidated salary of such employees.

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 therein?.

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.

2.6 Cash Flow Statement

The cash flow statement has been prepared using the "indirect method" interest paid are classified as operating cash flows and interest received are classified as investing cash flows while government grants received are classified as financing cash flows for the purpose of presenting the cash flow statements.

Notes to the Accounts
for the year ended 31st December

Schedule No:- 01-A **REVENUE**

Description	Fertilizer	Local Tea Sales	Factories	2009	2008
Sales					
Sales-by brokers			753,598,778.89	753,598,778.89	1,003,273,978.66
Fertilizer sales	45,405,679.74			45,405,679.74	92,783,961.59
Tea sales Local		5,294,770.00	22,249,052.77	27,543,822.77	7,961,244.50
Sales Realised Br/Fac				0.00	23,992,626.52
Material Sales(Direct)	829,055.00			829,055.00	880,125.00
Politene & Used Bags sales	257,871.50			257,871.50	194,248.00
Sundry Sales	24,955.00			24,955.00	21,720.00
Subsidy Income-GOV	82,625,023.70			82,625,023.70	49,719,992.74
Sales-Discourt	(1,195,882.00)	(3,195.50)		(1,199,077.50)	(614,314.00)
Recovery Tea Shortage				0.00	620,652.21
Refuse Tea Sales			4,180,737.20	4,180,737.20	4,168,746.00
Total	127,946,702.94	5,291,574.50	780,028,568.86	913,266,846.30	1,183,002,981.22

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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	2009	2008
Cost Of Sales					
Cost of Material Consumption	123,035,766.00			123,035,766.00	97,167,053.18
Transport	2,170,235.90			2,170,235.90	1,524,438.93
Loading expense	80,127.00			80,127.00	67,438.35
Mixing chargers	490,076.00			490,076.00	493,941.00
Unloading chargers	92,514.60			92,514.60	115,740.75
Bought leaf exp			519,528,805.76	519,528,805.76	823,118,825.70
Manafactoring exp.			119,542,414.64	119,542,414.64	119,158,005.02
Cost Of Tea Purchases		3,713,707.54		3,713,707.54	5,607,190.96
Tea Wadiya Expenses				0.00	41,542.00
Labour Wages	340,156.56			340,156.56	144,209.00
Stock Variation	1,097,727.69			1,097,727.69	(1,711,675.51)
Total	127,306,603.75	3,713,707.54	639,071,220.40	770,091,531.69	1,045,726,709.38

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Notes to the Accounts
for the year ended 31st December

Schedule No:- 03

OTHER INCOME

Description	Head Office	Fertilizer	Welfare	Factories	2009	2008
<u>Other income</u>						
Interest income		2,964,445.83	1,256,559.66	8,398,631.92	12,619,637.41	17,514,989.89
other income	2,095.00			2,933,751.69	2,935,846.69	118,181.20
Sundry Income	133,000.00		16,000.00	4,203,030.96	4,352,030.96	47,404.74
Tender Document	12,600.00	27,800.00			40,400.00	174,250.00
Insurance Claim Suspense Over Provision			9,245,881.05		9,245,881.05	
Government Subsidy Loss-Recover		5,000,000.00			5,000,000.00	
Changing in Accounts Adjustment					-	141,729.47
Total	147,695.00	7,992,245.83	10,518,440.71	15,535,414.57	34,193,796.11	17,996,555.30

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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	2009	2008
Administration Expense						
Adult Insurance		2,138,398.33			2,138,398.33	2,133,458.00
Audit Fees	38,639.10		6,439.85	83,718.05	128,797.00	19,875.00
Depreciation expenses	862,850.65	41,455.94	117,110.21	838,248.01	1,859,664.81	1,616,315.01
Director Board sitting allowances	91,451.25		15,241.88	198,144.38	304,837.51	403,377.70
E.P.F	666,392.12		111,065.35	1,443,849.59	2,221,307.06	1,898,929.67
E.T.F	154,981.07		25,830.18	335,792.32	516,603.57	459,882.89
Electricity	208,301.69		50,631.75	420,646.84	679,580.28	693,461.51
Entertainment			250.00	3,250.00	3,500.00	70,873.51
ESPS				247,176.75	247,176.75	168,690.42
Employer Federation					-	201,250.00
Gratuity Expenses	64,391.40		10,731.90	139,514.70	214,638.00	765,541.72
Member Insurance Premium		10,800,720.00			10,800,720.00	8,321,076.01
Legal & Professional Expenses	5,952.87		992.14	231,835.88	238,780.89	197,580.13
Maintenance -Building	147,252.17		26,187.78	238,741.13	412,181.08	334,864.43
Maintenance- Computer	21,996.00	1,000.00	3,166.00	97,332.60	123,494.60	186,213.40
Maintenance- Equipment	262,343.40	3,500.00	19,371.15	71,774.95	356,989.50	519,977.86
Office Expenses	41,034.47	12,500.00	6,839.08	151,756.01	212,129.56	209,753.63
Office Rent	778,454.04		129,742.34	1,719,650.41	2,627,846.79	2,406,750.00
OT & Traveling expenses	321,320.38	18,710.00	62,886.73	921,303.81	1,324,220.92	2,160,340.58
Other expenses	72,970.29	587.50	568.72	75,386.30	149,512.81	181,315.25
Postage expense	61,732.20	4,919.50	10,288.70	133,753.10	210,693.50	234,544.50
Printing	59,933.60		11,401.93	83,225.12	154,560.65	550,450.60
Salaries & allowances	5,976,609.78		1,123,790.00	8,858,069.58	15,958,469.36	15,809,218.81
Security expenses	406,862.47		18,512.44	250,661.67	676,036.58	647,392.70
Stationary	178,896.79	24,432.50	29,816.13	391,169.71	624,315.13	491,235.52
Staff Training	10,141.87		1,690.31	21,974.06	33,806.24	78,308.07
Telephone charges	292,354.13		59,802.18	598,340.63	950,496.94	1,033,863.89
Tender Board sitting allowances	33,000.00				33,000.00	63,300.00
Valuation Expenses Factory					-	30,868.50
VAT Expenses					-	93,187.50
Wadiya Rent			120,000.00		120,000.00	-
Water expenses	37,602.24		4,267.04	81,471.52	123,340.80	68,211.53
Welfare Staff/Other	177,889.33		19,239.78	235,117.08	432,246.19	721,265.92
Yatinuwara Security					-	63,385.50
Deraniyagala Security				120,000.00	120,000.00	100,000.00
Deraniyagala Factory Expenses				866,934.45	866,934.45	30,195.00
Medical Fund Expenses	25,963.55		4,327.26	56,254.37	86,545.18	46,726.14
Disposal Tea						-
Bad Debtor			116,732.28		116,732.28	169,074.90
Total	10,999,316.86	13,046,223.77	2,106,923.11	18,915,093.02	45,067,556.76	40,236,306.74

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Admin. Expenses Continued

Description	Fertilizer	Welfare	Local Tea Sales	Factories	2009	2008
General Chargers-Factories						
Salaries & Allowances				12,759,166.08	12,759,166.08	11,920,705.78
Factory & Bungalow Rent				4,351,260.00	4,351,260.00	961,994.40
Expenses Local Sales				114,039.33	114,039.33	102,965.53
Electricity Surcharge					-	4,920,802.40
Expenses Refuse Tea					-	213,902.13
Depreciation				29,948,241.69	29,948,241.69	28,089,953.98
Supervision Vehicle				950,722.59	950,722.59	1,775,868.24
Contingencies				1,435.00	1,435.00	26,586.04
Levies Subscription & Visiting				1,109,580.66	1,109,580.66	1,494,763.05
Legal				75,914.45	75,914.45	87,429.15
Stationery				767,912.71	767,912.71	873,530.55
Bank Commission				1,093,124.98	1,093,124.98	1,220,936.25
Insurance				556,046.87	556,046.87	678,043.59
Watcher				480,897.94	480,897.94	395,764.47
Roads				111,133.18	111,133.18	228,986.86
Bungalow				2,528,922.15	2,528,922.15	2,334,777.13
Lines				109,932.69	109,932.69	310,926.34
Minor Buildings				121,435.97	121,435.97	433,403.74
Postage				482,216.26	482,216.26	418,108.06
Medical Aid				2,111,130.82	2,111,130.82	1,476,950.71
Welfare & Sports				1,794,894.40	1,794,894.40	2,439,131.23
Employees Provident Fund				6,868,113.78	6,868,113.78	5,945,399.63
Holiday Pay				1,767,978.36	1,767,978.36	1,589,339.23
Terminal Benefits				8,170,277.77	8,170,277.77	2,771,228.52
Water Supply				192,174.15	192,174.15	95,035.10
Estate Staffs Provident Societ				384,529.24	384,529.24	246,325.54
Statutory Holidays				307,279.87	307,279.87	264,933.26
Employees Trust Fund				1,576,730.97	1,576,730.97	1,390,237.14
Communication Telephone				1,261,948.08	1,261,948.08	1,590,638.22
Price Wage Supplement				3,498,049.77	3,498,049.77	4,471,229.95
Attendance Incentive				8,740,307.54	8,740,307.54	8,940,057.54
Economic Service Charges				4,583,967.51	4,583,967.51	5,876,052.31
Labour Wages Arrears				6,803,859.40	6,803,859.40	
VAT Output				1,793,532.60	1,793,532.60	3,550,553.96
Tea Field Expenses				3,491,192.88	3,491,192.88	
Bank Charges				28,083.85	28,083.85	
Other Expenses				1,672,079.20	1,672,079.20	
Sub Total	10,999,316.86	13,046,223.77	2,106,923.11	110,608,112.74	110,608,112.74	98,581,876.09
Grand Total	10,999,316.86	13,046,223.77	2,106,923.11	129,523,205.76	155,675,669.50	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	2009	2008
<u>Selling & Distribution Cost</u>						
Advertising expense	303,265.62	10,080.00	215,190.61	12,594.97	541,131.20	591,132.51
Sales Promotion	391,420.60			237,875.83	629,296.43	1,123,167.91
Vehicle Fuel	653,456.03		1,473,158.32	107,932.59	2,234,546.94	3,431,600.27
Vehicle Repairing	340,564.94		701,940.40	51,573.32	1,094,078.66	1,897,558.21
Vehicle Service	144,302.10		312,654.55	24,050.35	481,007.00	242,330.00
Vehicle Rent	79,635.66		179,458.93	13,227.61	272,322.20	546,177.00
Vehicle Insurance	54,493.89		118,070.10	9,082.32	181,646.31	146,807.44
Licenses expense	79,152.50		13,806.50	600.50	93,559.50	131,796.50
Sample Test	29,920.38				29,920.38	15,020.00
Travel & Entertainment	4,606.00				4,606.00	-
Economic Service Charges	562,019.43			24,908.66	586,928.09	723,496.55
Brokerage/Handling charges			13,523,733.62		13,523,733.62	20,727,028.33
Tea Free Issues						21,217.10
Total	2,642,837.15	10,080.00	16,538,013.03	481,846.15	19,672,776.33	29,597,331.82

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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	2009	2008
Finance Cost							
Debit tax		396,530.00	44,890.91	1,983.60	25,786.74	469,191.25	99,962.59
Interest-Loan BOC					1,398,336.52	1,398,336.52	8,911,264.61
Bank chargers		13,975.71	1, :50.00	877.57	181,542.15	197,645.43	85,982.61
Internal Finance Cost					17,744,777.02	17,744,777.02	2,028,731.70
Total		410,505.71	46,140.91	2,861.17	19,350,442.43	19,809,950.22	11,125,941.51

*** 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:

Factories	65%
Fertilizer	30%
Local Tea Sales	5%

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Notes to the Accounts
for the year ended 31st December
Schedule No:- 7

Retained Earnings 2009 - Project

Project	Balance as at 31/12/2008	Net Income 2009	Dividend Paid 2009	Balance as at 31/12/2009
Fertilizer	109,947,476.81	-5,420,314.70	-9,403,160.85	95,124,001.26
Head Office	12,820,980.62	147,695.00		12,968,675.62
LTS	-13,298,252.50	1,013,763.47	-1,567,193.48	-15,879,209.45
Welfare	27,803,221.65	10,474,578.73		38,277,800.38
Mawarala Factory	-19,939,686.52			-19,939,686.52
Factory	25,561,551.76	-8,918,898.19	-20,373,515.17	-54,853,965.12
Tea Export	-2,225,257,897.00			-22,252,578.97
Land vehicle	-10,655,142.43			-10,655,142.43
Radio	-3,295,816.12			-3,295,816.12
Total	55,568,650.78	-4,730,702.63	-31,343,869.50	19,494,078.65

Notes to the Accounts

for the year ended 31st December

Schedule No:- 08

Property, Plant & Equipments

Description	Land & Building	Machinery	Computer	Equipment & Tools	Furniture & Fittings	Motor Vehicles	Other property	Telephone	Total
Factories Cost									
as at 01/01/2011									-
Free Hold Property	202,782,783.80	250,699,951.81		5,264,706.53		21,298,800.86			480,046,243.00
Lease Hold Property	19,976,778.13	42,221,383.15		674,190.70					62,872,351.98
Other Projects									
as at 01/01/2010									-
Free Hold Property	9,254,999.38	2,197,447.34	3,002,586.26	2,021,587.16	6,106,161.57	4,074,558.24	349,433.06	1,051,463.13	28,058,236.14
Total Cost	232,014,561.31	295,118,782.30	3,002,586.26	7,960,484.39	6,106,161.57	25,373,359.10	349,433.06	1,051,463.13	570,976,831.12
as at 01/01/2010									-
Additions / Adjustments during the year									-
Factories	355,480.00	36,500.00		253,913.25					645,893.25
Other Projects			714,913.76	560,454.90	70,768.40		14,118.00	27,800.00	1,388,055.06
Cost as at 31/12/2011	232,370,041.31	295,155,282.30	3,717,500.02	8,774,852.54	6,176,929.97	25,373,359.10	363,551.06	1,079,263.13	572,364,886.18
Depreciation									-
Depreciation for the year									-
Factories									-
Pre Hold Property	2,593,954.14	10,777,766.62		424,936.65		2,129,880.08			15,926,537.49
Lease Hold Property	2,961,163.22	11,043,034.52		177,885.08					14,182,082.82
Other Projects									-
Free Hold Property	253,995.34	219,744.73	300,258.63	170,391.72	610,616.15	4,190.00	34,943.31	105,146.31	1,699,286.19
Accumulated Depreciation									-
Factories									-
Pre Hold Property	12,343,344.09	65,152,003.38		3,065,347.55		7,450,036.43			88,010,731.45
Lease Hold Property	2,961,163.22	11,043,034.52		177,885.08					14,182,082.82
Other Projects									-
Free Hold Property	1,093,907.80	870,353.92	1,533,283.97	803,371.59	3,924,949.78	4,041,038.24	263,505.96	546,460.42	13,076,871.68
Written down value as at 31/12/2011									-
Pre Hold Property	190,439,439.71	185,584,448.43	-	2,453,272.23		13,848,737.43	-	-	376,754,867.31
Lease Hold Property	17,015,614.91	31,178,348.63	-	496,305.62	-	-	-	-	48,690,269.16
Other Projects									-
Free Hold Property	8,161,091.58	1,430,243.62	2,184,216.05	1,778,670.47	2,251,980.19	37,710.00	100,045.10	532,802.71	16,476,759.72
Total Written down value as at 31/12/2011	215,616,146.20	218,193,040.68	2,184,216.05	4,728,248.32	2,251,980.19	13,886,447.43	100,045.10	532,802.71	457,492,926.68

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****Immatuured 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	
Replanting 2009		262,585.82	
Sub Total		2,600,466.40	2,600,466.40
<u>Papaya Cultivation</u>			
Elpitiya	3,000.00		
Walahanduwa	6,367.00		
Clove Cultivation		18,516.36	
Sub Total	9,367.00	18,516.36	27,883.36
Grand Total	9,367.00	2,618,982.76	2,628,349.76

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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					392,679.62	392,679.62
Fertilizer						-
Coir Laf Bags						-
Factory Tea Stock		150,597,689.13				150,597,689.13
Stationery Stocks	276,209.84					276,209.84
Dolomite			148,880.30			148,880.30
Eppawala Rock Phosphate			1,303,728.67			1,303,728.67
Kieserite			1,615,325.97			1,615,325.97
Murate of Potash			1,145,329.04			1,145,329.04
Sulphate of Ammonia			9,392,598.97			9,392,598.97
Urea			17,683,225.25			17,683,225.25
WPP Bags			3,705,009.57			3,705,009.57
Sundry Stock						-
Finish Goods					510,027.50	510,027.50
ST - UM			91,784.97			91,784.97
ST - UVA			19,420.11			19,420.11
ST - LC			14,589.38			14,589.38
T - 200			1,660,425.52			1,660,425.52
T - 750			2,512,154.79			2,512,154.79
U - 625			715,872.54			715,872.54
U - 709			128,199.99			128,199.99
VP - LC			522,539.61			522,539.61
VP - UM			831,925.58			831,925.58
VP - UVA			1,035,578.32			1,035,578.32
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						-
Disposable Assets			16,318.02			16,318.02
Polithene Stock					971,532.63	971,532.63
Grand Total	293,427.04	150,597,689.13	43,756,401.48	-	1,874,239.75	196,521,757.40

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		91,568,116.81	94,484,467.90	7,467,933.60		19,903,064.75	21,041,545.32	234,465,128.38
Subsidy Reciveable					20,103.14			20,103.14
Thurusaviya								920,071.00
Account Reciveable -Tractor	920,071.00							768,920.00
Ministry Of Tea Small Holders	768,920.00							384,700.00
Randalu Mela Fund	384,700.00							168,198.87
Society Of TSH	118,130.12				50,068.75			80,000.00
TSHDA	80,000.00							19,300.00
Share Collection					19,300.00			9,863,514.01
Intrest Recivable				101,663.01	9,761,851.00			68,899.74
Loan TSHDA -Bandarawala			68,899.74					304,164.00
Loan TSHDA -Kandy			304,164.00					1,092,581.96
With Hollding Tax- Reciv-Fertilizer	1,092,581.96							-
Reciveable from Factory								50,000.00
Reciveable from Fertilizer								236,000.00
RecI. from TSF Welfare Socity-HO			50,000.00					400,000.00
Other Reciveable	236,000.00							400,000.00
Fund In TFR-Inter- LTS			400,000.00					451,874.52
Fund In TFR-Inter- Fertilizer			400,000.00					571,107.42
Insurance Suspense					451,874.52			208,129.90
Debtor Rigama				571,107.42				
Divident A/C	208,129.90							
Total	3,808,532.98	91,568,116.81	95,707,531.64	8,140,704.03	10,303,197.41	19,903,064.75	21,041,545.32	250,472,692.94
Deduct (-)								
Provision for Bad debts				(746,793.36)				(746,793.36)
10% Bad debts 2006								0.00
Provision for Bad debts								0.00
10% Bad debts 2007				630,061.08				630,061.08
Over Provision for Bad debts 2008				116,732.28				116,732.28
								0.00
Provision for Bad debts						(19,903,064.75)	(21,041,545.32)	(40,944,610.07)
10% Bad debts 2009				(746,793.36)				(746,793.36)
Grand Total	3,808,532.98	91,568,116.81	95,707,531.64	7,393,910.67	10,303,197.41	0.00	0.00	208,781,289.51

Notes to the Accounts

for the year ended 31st December

Schedule No:- 13 Advances, Prepayment & Deposits

Description	Head Office	Factories	Fertilizer	Local Tea sales	Total
Advances		35,097,529.75			35,097,529.75
Factory Advances					-
BC Agrotechnics					-
Jinasena Eng. Technologies					-
General Eng. Services					-
Mobile Phone-Loan					-
Waterman Construction					-
Festival Advance	167,200.00			666,254.56	833,454.56
Depavali Advance					-
Special Advance	132,300.00				132,300.00
Salary Advance	10,000.00				10,000.00
Fabric for Staff-Loan					-
Prepayments					-
Other Deposit	226,000.00				226,000.00
Deposits for Vehicles					-
Deposit for Rent	692,000.00			120,000.00	812,000.00
CEB					-
Grand Total	1,227,500.00	35,097,529.75	-	786,254.56	37,111,284.31

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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	28,839,259.13	32,500,000.00		3,000,000.00	64,339,259.13
Seven day Call deposit					-
LC Security Deposit					-
Fix Deposit		45,657,848.00	400,000.00	12,900,000.00	58,957,848.00
Grand Total	28,839,259.13	78,157,848.00	400,000.00	15,900,000.00	123,297,107.13

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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	(2,819,650.11)							(2,819,650.11)
A/c no: 2937158					(1,112,680.89)			(1,112,680.89)
A/c no: 2937157			20,500,457.68					20,500,457.68
A/c no: 2937161		64,213,165.82						64,213,165.82
A/c no: 2937165								-
Cash in Hand								-
Cash at Bank								-
Cash at Bank-Fertilizer								-
A/c no: 2937164				(815,657.61)				(815,657.61)
A/c no: 2937023						(9,700,079.37)		(9,700,079.37)
A/c no: 2937162						17,052,368.29		17,052,368.29
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	(2,819,650.11)	64,213,165.82	20,550,457.68	(815,657.61)	(1,112,680.89)	7,425,822.92	875,864.48	88,317,322.29

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	(114,136,961.36)		114,136,961.34	(21,503,330.48)	22,535,170.16	(4,293,186.02)	(2,654,912.01)	(5,916,258.37)
Factories	64,435,113.95	(64,435,113.95)	23,241,818.01	(1,553,940.00)		(9,356,350.18)		12,331,527.83
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	2,435,160.00	358,400.00		1,000,000.00		(17,847,133.87)	7,252,815.22
Welfare	(22,640,170.12)		(19,166,684.93)				(472,056.00)	(42,278,911.05)
Management Factories	4,293,186.02	9,358,350.18	190,000.00					13,841,536.20
Export	2,654,912.01	389,499.00	250,000.00	17,847,133.87	472,056.02			21,613,600.90
Sub Total	(44,087,530.41)	(75,493,922.78)	119,010,494.42	(5,110,136.61)	43,173,911.11	(13,649,536.20)	(21,224,101.88)	2,619,177.65
Inter Factory Current Account Balance								12,452,040.36
Grand Total								15,071,218.01

Notes to the Accounts

for the year ended 31st December

Schedule :- 17 Share Capital

Authorised Share Capital	500,000,000.00
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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	<u>208,959,130.00</u>

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	<u>437,505,030.22</u>

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
Collection during the year 2009	499,000.00
2005/12/31 Closing Balance	<u>134,352,375.58</u>

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	<u>74,048,541.30</u>

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Notes to the Accounts

for the year ended 31st December

Schedule :- 21

Creditors and Payables

Description	Head Office	Factories	Fertilizer	Local Sales	Welfare	Management Factories	Tea Export	Total
Accounts Payable		109,453,988.06	2,747,800.00	2,301,150.00		7,166,014.80		121,668,952.86
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								-
Crediters	40,000.00							40,000.00
Payee Taxes-Payable	99,307.80			7,817,147.26				7,916,455.06
Casual Wages-Payable	10,478.80							10,478.80
Stamp Duty	6,603.06		1,601.00	152.00				8,356.06
TSWS Loan Payable	50,000.00							50,000.00
Medical Fund	36,743.22							36,743.22
Welfare Donation	25,000.00							25,000.00
Accounts Payable-Fertilizer Imp			28,642,399.00					28,642,399.00
Refundable Tender/ Other Dipost	37,870.00		120,000.00					157,870.00
Refundable Agent Fees			50,000.00	30,609.00				80,609.00
With Holding Tax-Payable	15,791.88		398,392.25					414,184.13
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	1,295,762.60							1,295,762.60
Devident Provision							208,129.90	208,129.90
Payable Welfare								-
Kothmale TSF				1,723,570.80				1,723,570.80
BOC-Loan								-
Insurance Suspense								-
Dividends / Insentives Provision-2007		20,373,515.17	9,403,160.85	1,567,193.48				31,343,869.50
Total	4,459,521.23	129,827,503.23	42,439,731.71	13,439,822.54	0.00	7,166,014.80	208,129.90	197,594,127.09

Schedule :- 22

Accrued expenditure & Provisions

Description	Head Office	Factories	Fertilizer	Local Sales	Welfare	Management Factories	Tea Export	Total
Accrued Expenditure	51,573.49	64,932,006.94	128,857.74	28,500.00	-	-	-	65,140,938.17

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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 2009 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 2009 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 27 October 2010.

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 a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and test were such as to enable as wide an audit coverage as possible within the limitation 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 the 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 2009 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 and give a true and fair view of the state of affairs of the Tea Shakthi Fund as at 31 December 2009 and the financial results of its operation and cash flows for the year then ended.

2:2 Comments on Financial Statements

2:2:1 Sri Lanka Accounting Standards

The following observations are made.

- (a) The provision for gratuities as at 31 December 2009 amounting to Rs.19,268,059 had not been separately invested in terms of Sri Lanka Accounting Standard No. 16.
- (b) Even though Sri Lanka Accounting Standard No. 18 stipulates that in the disposal of property, plant and equipment whose revaluation amounts are included in the equity, either the total surplus or the difference between the depreciation based on the carrying revaluation of the asset for the period of use of the asset or the depreciation on the total cost of the asset should be transferred to the retained earnings, the Fund had not done so in respect of the revaluation surplus of Rs.13,870,174 relating to the property, plant and equipment.
- (c) Even though the Pansaltenna and the Kotmale Factories and the fixed assets thereof procured under the operating leases for a period of 30 years should be written off as the lease rent annually in terms of Sri Lanka Accounting Standard No. 19 those had been shown in the accounted as fixed assets at the revalued amount of Rs.62,872,351 and as depreciation at Rs.5,255,295.

2:2:2 Accounting Deficiencies

The following observations are made.

- (a) The Government Grants amounting to Rs.437,505,030 received as capital contribution in the year 2004 and the preceding years had been shown as a part of the total equity without properly identifying them as capital and recurrent grants.

2:2 Comments on Financial Statements

2:2:1 Sri Lanka Accounting Standards

The following observations are made.

- (a) The provision for gratuities as at 31 December 2009 amounting to Rs.19,268,059 had not been separately invested in terms of Sri Lanka Accounting Standard No. 16.
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2:2:2 Accounting Deficiencies

The following observations are made.

- (a) The Government Grants amounting to Rs.437,505,030 received as capital contribution in the year 2004 and the preceding years had been shown as a part of the total equity without properly identifying them as capital and recurrent grants.

- (b) Instead of showing the cash and Bank balances amounting to Rs.102,765,390 and the Bank overdrafts amounting to Rs.14,448,068 separately in the financial statements, those had been set off against each other and the resulting favourable balance of Rs.88,317,322 had been shown in the financial statements. Nevertheless, the Bank Reconciliations and the confirmation of balance relating to the Bank overdraft of Rs.9,700,079 included in the above balance were not made available to audit.
- (c) In view of the methodology adopted for the accounting of advances, granted as expenditure at the time of granting such advances the unsettled advances amounting to Rs.485,184 as at 31 December 2009 had been treated as expenditure against the profit and written off from the accounts.
- (d) The interest receivable in respect of the year 2009 on the fixed deposits (automatically renewable) of the Fund amounting to Rs.58,597,848 according to the financial statements, had not been computed and brought to account.
- (e) The balance of interest amounting to Rs.101,663 receivable over several years on the investments of the Local Tea Sales Division had not been identified and adjusted in the accounts.
- (f) Instead of writing off the advance of Rs.4,000,000 paid on the procurement of the Pansaltenna Estate and the Factory on lease in the year 1999 at an annual lease rent of Rs.375,000 annually during the lease period, a sum of Rs.3,441,000 had been written off against the profit for the year under review.
- (g) Action had not been taken even up to 31 December 2009 for the write off of the lease rent advance of the Kotmale Factory brought forward from the year 2004 amounting to Rs.1,053,680 against the profit over the period of lease.
- (h) An understatement of interest amounting to Rs.8,562,568 in the Fixed Deposits Accounts and the Interest Income Account was observed due to the failure to make adjustments to the accounts by reconciling with the Bank Statements.

2:2:3 Unreconciled Control Accounts

The following observations are made.

- (a) The unreconciled credit balances and debit balances amounting to Rs.165,810 and Rs.1,067,955 respectively appearing in the Bank Reconciliation Statements of a Head Office Bank account and a Welfare Division Bank account had been brought forward over a long period. No action had been taken up to date to identify such balances and adjust the accounts.
- (b) A reconciliation of the balances of 03 Bank Accounts of the Head Office, the Welfare Division and the Fertilizer Division as at 31 December 2009 according to the financial statements presented to audit with the Bank balances appearing in the cash books revealed differences of debit balances and credit balances amounting to Rs.16,271,449 and Rs.1,143,790 respectively.
- (c) According to the financial statements, the value of the Treasury Bills and fixed deposits as at 31 December 2009 amounted to Rs.123,297,107 whereas according to the schedules presented that amounted to Rs.116,855,590 thus the unreconciled difference was amounted to Rs.6,441,517.
- (d) The following non-reconciliations were observed at a test check of the receipts and payments between the Head Office Accounts and the Factory Accounts.

Particulars	Balance according to the Head Office Accounts	Balance according to the Factory Accounts	Difference
	Rs.	Rs.	Rs.
Withholding Tax	1,092,582	1,076,379	16,203
Amounts payable by the Local Tea Sales Division to the Kotmale Factory	1,723,571	--	1,723,571
Amounts receivable from the Local Tea Sales Division to the Pansaltenna Factory	--	58,795	58,795
Debtors Account – Fertilizer Division	38,209,1154	30,491,826	7,717,328
Interest Receivable – Welfare Division	9,761,851	16,244,777	6,482,926

2:2:4 Accounts Receivable and Payable

The following observations are made.

- (a) Provision for bad and doubtful debts had been made in the accounts for a sum of Rs.19.9 million receivable on a stock of tea exported to Russia in the year 2002 under the “Russian Lanka Joint Agreement” and a sum of Rs.21 million receivable on tea sales made on credit basis to 14 private tea factories without recovering the amounts.
- (b) Even though advances totalling Rs.33,154,952 had been granted to 04 private parties during the period 2001 to 2004 for the construction of factories and the purchase of machinery, neither the construction works nor the settlement of advances had been completed.
- (c) Action had not been taken even up to 30 June 2010, the date of audit, for the settlement of the balances amounting to Rs.16,997,312 and Rs.84,244,484 shown under the Accounts Payable and the Accounts Receivable respectively.

- (d) According to paragraphs 28 and 29(a) of the Circular No. 59/2007 of the Colombo tea Brokers' Association, the money on the tea sold to Brokers should be recovered within 07 days from such sales. Nevertheless, a sum of Rs.19,744,732 receivable from the company of Tea Brokers in respect of the years 2006 and 2007 had not been recovered up to date. The Chairman of the Fund informed that a case had been filed against the relevant Company.

2:2:5 Lack of Evidence for Audit

The evidence indicated against each item was not made available to audit.

Item	Value	Evidence not made available
	Rs.	
(a) Fixed Assets	509,787,137	Detailed Schedules
(b) Pay As You Earn Tax – Local Tea Sales Division	7,817,147	Detailed Schedules
(c) Depreciation for the year	17,625,823	Particulars relating to Computation
(d) Accumulated Depreciation	101,087,680	
(e) Provision for - Head Office Gratuity	1,295,763	Schedules
- Factories	17,972,296	
(f) Fixed Assets Procured on Lease Basis - Kotmale Factory	29,653,398	Lease Agreement

2:2:6 Unidentified Balances

The unidentified Inter-Regional Current Accounts as at the end of the year had been shown under the current assets as Rs.15,071,218 without being settled under each other account. Out of that, a sum of Rs.12,845,902 had been brought forward from the year 2004 and the unidentified balance between the Inter-Regional Current Accounts in respect of the year under review amounted to Rs.810,790.

2:2:7 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with laws, rules, regulations, etc. are given below.

Reference to Rules, etc.	Non-compliance
(a) Government Financial Regulation	
(i) Financial Regulation 110	A separate register had not been maintained for losses and damage.
(ii) Financial Regulation 188	Unrealised deposits totalling Rs.1,013,688 of 02 Bank accounts had been brought forward over a period exceeding 06 months.
(iii) Financial Regulation 383	Direct credits valued at Rs.12,787,457 made by the Bank by the end of the year under review had not been identified and adjusted in the accounts.
(iv) Financial Regulation 386	Action in terms of the Financial Regulation had not been taken on the lapsed cheques valued at Rs.5,315,845 relating to the Bank accounts of the Head Office, the Welfare, Fertilizer and Factories Divisions.
(v) Financial Regulations 1645 and 1646	Even though the Daily Running Charts and the Monthly Performance Summaries of 06 motor vehicles for the year 2009 should have been presented to the Auditor General before the 15 th day of the month following, it had not been so done.

(b) Public Enterprises Circular No.
PED/12 of 02 June 2003.

(i) Section 6.5.1

The Draft Annual Report for the year 2009 had not been presented to the Auditor General even up to 15 September 2010.

(ii) Section 7:3(d)

A Register of Fixed Assets had not been properly maintained for the fixed assets of the Fund.

(c) Management Services Circular No.
30 of 22 September 2006

The revision of employees' salaries and the Scheme of Recruitment and Promotions had not been approved by Department of Management Services even up to the date of this report.

(d) Public Administration Circular No.
14/90 of 10 October 1990.

The fuel consumption of each motor vehicle had not been tested by an independent officer.

3. Financial and Operating Review

3:1 Financial Review

3:1:1 Financial Results

According to the financial statements presented the overall financial results of the operations of the Fund for the year under review had been a loss of Rs.4,730,703 as compared with the loss of Rs.29,404,844 for the preceding year thus indicating an improvement of Rs.24,674,141 in the financial result. The decrease of Rs.275,635,177 in the cost of sales, the decrease of Rs.14,299,133 in the sales and distribution expenditure and finance costs and the increase of Rs.16,197,241 in the other income as compared with the preceding year had been the reason for such improvement.

3:1:2 Analytical Financial Review

(a) Factories Division

The total income of the Fund for the year 2009 as compared with the year 2008 had decrease by Rs.269.7 million or 22.8 per cent while the factories sales had decreased by Rs.252 million or 24 per cent. The profit of the factories of the Fund, as compared with the preceding year had increased by Rs.55.5 million or 139.7 per cent.

(b) Local Tea Sales Division

The Local Tea Sales Division established in the year 2001, had been incurring losses continuously since the year 2006 due to reasons such as poor supervision and lack of proper training. The loss incurred in the year 2009 amounted to Rs.1,013,763.

(c) Fertilizer Division

The Performance Reports of the Fertilizer Division for the year under review had not been presented to audit. According to the relevant financial statements, the operations of the Fertilizer Division had resulted in a loss of Rs.5,420,314 as against the profit of Rs.37,357,276 for the preceding year. Thus a deterioration of the profit by a sum of Rs.42,775,590 (114 per cent) in the year under review was observed. The decrease of Rs.47,378,282 in the fertilizer sales income and the increase of Rs.25,868,713 (27 per cent) in the cost of fertilizer sales as compared with the preceding year had been the main reasons for such loss.

3:2 Operating Review

3:2:1 Factories Performance

3:2:1 (a) Statement of Tea Production of each factory for 03 years is given below.

Year	Name of Factory													Total
	Walahan-duwa	Balan-goda	Deni-yaya	Elpitiya	Gilimale	Hini-duma	Keppe-tipola	Kotmale	Maha-weli	Mawarala	Passara	Pansal-tenna	Rigam-Korale	
	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)
2007	430,060	218,398	443,352	359,728	136,132	260,679	328,202	299,764	214,754	214,070	430,267	162,080	435,393	4,479,879
2008	328,902	236,181	362,019	305,722	103,656	117,190	335,648	306,975	749,879	170,915	417,012	237,718	415,690	4,087,507
2009	215,419	30,799	320,422	178,521	253	86,080	266,069	170,888	381,466	135,765	364,673	89,759	373,228	2,613,341
Percentage (Decrease)/ Increase as compared with the year 2008	(34.5)	(86.95)	(11.49)	(41.6)	(99.75)	(26.54)	(20.72)	(44.33)	(49.12)	(20.56)	(12.55)	(62.24)	(10.21)	(36.06)

The overall production of tea in the year under review as compared with the preceding year had decreased by 1,474,166 kilogrammes or 36.1 per cent. In addition, the production of all the factories as compared with the preceding year had decreased while the percentage of decrease of production of the Balangoda and Gilimale Factories represented 86.95 per cent and 99.75 per cent respectively.

(b) A Statement of Selling Price per kilogramme of Tea of each factory for 03 years is given below.

Year	Name of Factory													Total
	Walahan-duwa	Balan-goda	Deni-yaya	Elpitiya	Gilimale	Hini-duma	Keppe-tipola	Kotmale	Maha-weli	Mawarala	Passara	Pansal-tenna	Rigam-Korale	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
2007	304	240	309	282	254	298	233	234	246	312	230	225	313	268
2008	309	242	318	285	266	295	212	230	253	305	221	208	325	266
2009	389	305	385	352	0	367	316	267	296	387	331	299	400	314
Percentage (Decrease)/ Increase as compared with the year 2008	25.8	26.0	21.0	28.4	0	24.4	49.0	16.0	16.9	26.8	49.7	30.4	23.0	18.3

The average selling price of 01 kilogramme of finished tea of all factories, except the Gilimale Factory, as compared with the preceding year had increased by 18.3 per cent.

(c) A Statement of Profit/(Loss) of each factory for the 03 years is given below.

Year	Name of Factory													Total
	Walahan- duwa	Balan- goda	Deni- yaya	Elpitiya	Gilimale	Hini- duma	Keppe- tipola	Kotmale	Maha- weli	Mawarala	Passara	Pansal- tenna	Rigam- Korale	
	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
2007	14,260	(1,673)	771	3,015	(4,259)	(933)	5,284	6,076	22,959	3,971	12,688	(1,336)	21,033	99,798
2008	1,243	(6,228)	5,162	(16,332)	(7,644)	(8,206)	(7,461)	(6,382)	877	(3,192)	(3,924)	(11,802)	9,373	(54,527)
2009	952	(7,832)	7,798	(7,792)	(1,669)	(4,700)	10,363	(2,779)	5,421	(1,035)	17,668	(1,557)	16,718	31,556
Percentage (Decrease)/ Increase as compared with the year 2007	(23.41)	(25.75)	51.06	52.28	78.16	42.72	238.89	56.45	518.12	67.57	550.25	86.8	78.36	157.87

The profit of the Factories Division as compared with the preceding year had increased by Rs.86,083,000 or 157.87 per cent while the profits of all factories except the Walahanduwa and Balangoda Factories had recorded increases ranging from 42 per cent to 550 per cent.

(d) A Statement of Purchase of Green Leaf by each factory for 03 years is given below.

Year	Name of Factory													Total
	Walahan-duwa	Balan-goda	Deni-yaya	Elpitiya	Gilimale	Hini-duma	Keppe-tipola	Kotmale	Maha-weli	Mawarala	Passara	Pansal-tenna	Rigam-Korale	
	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)	(k.g.)
2007	2090902	1019880	2099483	1687326	679115	1282648	1503227	1387470	3595592	1035887	1940804	759657	2050534	20932525
2008	1580206	1079336	1718593	1472881	494538	566154	1539038	1396819	3598601	872694	191983	1103400	1944701	19078944
2009	1035305	151794	1577753	865239	1267	422873	1193267	801561	1770202	656593	1615684	395222	1746707	12233467
Percentage (Decrease)/ Increase as compared with the year 2008	(34.48)	(85.93)	(8.19)	(41.25)	(99.74)	(25.3)	(22.46)	(42.61)	(47.91)	(24.76)	(15.49)	(64.18)	(10.18)	(35.87)

The following observations are made.

- (i) The overall green leaf purchases as compared with the preceding year had decreased by 35.87 per cent.
- (ii) The purchase of green leaf by the Pansaltenna, Balangoda and Gilimale Factories had recorded a significant decreases ranging from 64.18 per cent to 99.74 per cent.
- (iii) Subsequent to the year 2005, the overall purchase of green leaf in the year under review had been at a very low level.

3:2:2 Deficiencies in Contract Administration

Even though a sum of Rs.21,743,140 had been shown in the accounts since the year 2002 as the work-in-progress relating to the construction of buildings of 05 factories of the Fund, action had not been taken even up to the end of the year under review to complete such construction works. According to the comments furnished by the Chairman of the Fund, the dispute with the contractor for the Deraniyagala Factory had been referred to an Arbitrator for settlement and the work on the Yatinuwara Factory was scheduled for commencement in the year 2011.

3:2:3 Underutilisation of Funds

According to the confirmation of Bank balances, sums totalling Rs.1,028,045 had been idling in 05 Bank Accounts over long periods by 31 December 2009. The Fund had not taken action for the effective utilization of those balances.

3:2:4 Idle and Underutilised Assets

Stocks of polythene valued at Rs.971,532 had been lying idle in the stores of the Local Tea Sales Division since the year 2007 to date.

3:3 Identified Losses

The following observations are made.

- (a) A cash fraud of Rs.1,221,950 had taken place in the Kotmale Tea Factory during the period 24 February 2008 to 10 July 2008. Action had not been taken up to date for the recovery of that amount from the officer responsible.

The Chairman of the Fund informed that the main accused relating to the matter had died.

- (b) A surcharge of Rs.80,433 had been paid in the year under review as the Head Office had failed to remit the contributions to the Employees' Trust Fund on the due dates.
- (c) According to the final accounts of the Fertilizer Division of the Tea Shakthi Fund an adverse variance of stocks of fertilizer valued at Rs.1,097,728 was indicated.
- (d) The loan of Rs. 50 million obtained on 30 November 2007 for the construction of the Yatinuwara and Deraniyagala Tea Factories had been invested in Treasury Bills without being used for construction works and earned a sum of Rs.7,478,407 as interest on investments while a sum of Rs.10,345,039 had been paid during that period as interest on the loan obtained. Thus, a loss of Rs. 2,866,632 had been incurred.

3:4 Utilization of Motor Vehicles

The following observations are made in connection with the fleet of 16 motor vehicles owned by the Fund.

- (a) Action had not been taken up to date for carrying out repairs or the sale of 02 double cab motor vehicles garaged and idling over a period exceeding 06 years. According to the reply of the Chairman, the 02 double cab motor vehicles owned by the Coconut Development Authority had been made available to the Tea Shakthi Fund and that action would be taken to sell them immediately after the ownership thereof is transferred to the tea Shakthi Fund.
- (b) According to the information obtained from the Transport Division of the Fund, the Tea Shakthi Fund had paid sums of Rs. 459,266 and Rs. 121,487 as the cost of fuel and the overtime and combined allowances of the driver respectively from the year 2007 to 2009 in connection with a motor vehicle not belonging to the Tea Shakthi Fund. Nevertheless, an examination of the Daily Running Charts of the motor vehicle did not reveal any evidence of its use on the duties of the Tea Shakthi Fund.

3:5 Action Plan

An Action Plan in conformity with the Corporate Plan 2008-2012 had not been prepared for the year 2009.

3:6 Budgetary Control

- (a) An overall budgeted balance sheet and a budgeted Cash Flow Statement of the Fund had not been prepared in terms of Section 5.2.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003.
- (b) Even though an estimate of Rs.117 million had been prepared as the capital cost of the Yatiyantota and Dernaiyagala Tea Factories under the Turnkey Project basis, no work had been done during the year under review.
- (c) Even though capital provision amounting to Rs.45,033,050 had been made for the factories in the annual budget for the year under review, the actual expenditure incurred in the year under review amounted to Rs.290,413 or 0.5 per cent.

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
- (b) Cash Control
- (c) Inter – Division Control Accounts
- (d) Factory Operations
- (e) Utilization of Motor Vehicles
- (f) Balances Receivable and Payable

(H.A.S. Samaraweera)
Acting Auditor General
-/-dk.