



# TEA SHAKTHI FUND

"Committed to service like the sun"

Annual Report  
2010

MINISTRY OF PLANTATION INDUSTRIES

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## **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.

## **Objectives**

- 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;
- To achieve a sustainable annual growth of 25% whilst identifying and systematically managing risk

## 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. 553/A Madiwela Road, Thalawathugoda.

The principal Activities of tea shakthi fund are

- To operate thirteen No. of Tea factories ( factory Project) as profitable strategic business units.
- To maintain tea shakthi fertilizer project profitably whilst maintaining the utmost care for quality, reliability , and on time availability
- To produce and distribute tea in the local market effectively.
- To maintain a social, insurance scheme for the small holders.

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

TSF is floated with following six (6) 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 know how 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 market share In fertilizer business.
- To achieve highest no of benefit holders under the social insurance scheme by insuring the provision of highest benefits to Tea small Holders.
- To achieve a sustainable annual growth of 25 % whilst indentifying and systemically managing risk.

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

# Report of the Chairman

I am honoured to present the Tea Shakthi Fund's Annual Report and Financial Statements for 2010.

## Tea Industry in the Global Position

Global tea production for 2010 was at a record of 4067 mnkgs which was approximately 135 mnkgs more than 2009. The key contributor was the Kenya with a gain of 85 mnkgs whilst Sri Lanka too recorded an increase of nearly 40 mnkgs over the last year. Also Argentina recorded an increase of 12 mnkgs whilst China recorded a gain of 11 mnkgs compared to 2009. Uganda and Vietnam too recorded a marginal increase in production whilst Malawi and Tanzania recorded a marginal decline. The biggest drop had come from North India with a drop of almost 12 mnkgs whilst South India too had a marginal drop in production during the year.

## Position of the Economy

Sri Lanka's economy grew by 8% in GDP terms for the year 2010 and is considered to be on the path of recovery, when compared to the corresponding year where an economic growth was recorded at only 3.5%. This achievement was contributed by the agriculture sector recorded a 7% increase compared to the 3.2% in 2009.

## Sri Lanka Tea Industry

The most significant features relating to Sri Lankan Tea Industry were the increase in production, sales averages and exports. Sri Lanka's National Tea Sales averages of Rs.370.6 in 2010 were an all time high, easily surpassing the previous best of Rs.360.45 in 2009. All elevations recorded all time record averages. Despite of a much larger weight of tea being available worldwide, it was pleasing to witness Sri Lanka's tea sale averages advancing significantly in the first half of 2010.

Sri Lanka harvested a record crop of 331.4 mnkgs during the year surpassing its previous best of 318.7 mnkgs recorded in 2008. This has been a 14% increase over 2009. There was an increase of 6.8 mnkgs from the high grown region whilst the mediums accounted for an increase of 11.8 mnkgs. The main contribution however was from low grown planting districts with an increase of 23 mnkgs during the year.

## Performance of the Tea Shakthi Fund

The year under review was a very challenging one for the Tea Shakthi Fund. Based on the audited financial statements, Tea Shakthi made a loss of Rs.28.5 million against Rs.4.7 million in 2009. This was a significant decline from the phenomenal performance of the previous financial year. The continues decline in overall profit against 2007 results is a clear indication of the unprecedented challenges faced by the Tea Shakthi and also by the country's tea sector as a whole. The fertilizer project made a 3.5 million profit against Rs.8.94 million recorded in the previous year. Even the Tea Shakthi Fund tea production was increased by 5.42% over the previous year, such increase was not adequate to compensate the loss due to increase in cost of production. The overall cost of production of tea factory project was increased by 3% whilst experiencing a drop in sales by 4% over the last year. The higher cost of production where wages cost law quality of green leaf, political turmoil conditions in some Sri Lanka's main tea exporting markets dented this optimism.

## **Sustainability**

As Tea Shakthi Fund has been emphasizing regularity sustainability of our business is of our prime importance. Accordingly, we have identified a set of five levels of sustainability commitments by which we now guide our actions to evaluate our success.

- **Business Commitment**

We seek to address issues in factory capacity improvement plans and factory development plans and risk management plans by demonstrating that it is more financially rewarding to be sustainable.

- **People Commitment**

We strive to make Tea Shakthi Fund an enjoyable and rewarding place to work. A place that nurtures and develops our people for the benefit of the individual, the fund and the community.

- **Suppliers and Communities commitment**

We will take an active leadership role in dealing with sustainability issues and share our knowledge for benefit of our leaf suppliers due to fact that the function of the entire fund remains driven by concerns of leaf quality assurance, Tea small holder welfare and share holder value appreciation, which are core contents of Tea Shakthi policy.

- **Products and Services Commitment**

We will develop, reengineer and provide sustainable products and services that contribute positively to the health and wellbeing of tea small holder community and the society at large. These long term commitments which need to be supported by tangible actions and appropriate measures and targets.

- **MIS & Internal Controls Commitment**

As the fund is greatly concerned of strategic movements in the business, it needs the vital backbone of comprehensive information for rational decision making and technology solutions that well accommodate all aspects of the fund is operations, stream-line internal and external systems and processes. Therefore we are in the processes of upgrading our existing MIS and IT system. The proposed new IT & MIS system expected to be fully integrated production in all areas of our operations and automate all procedures, thereby back and manpower, time and other resources.

## **Future Prospects**

I see good opportunities for growth in the future for Tea Shakthi Fund, but the main threats are over inflated wage increase that could stifle industry growth prospects, intense competition for out grower's/small holder's leaf whilst Tea Shakthi Fund operating with lot of red tapes in financial aspects.

We expect tea prices to remain at 2010 levels, due to the slowing down of exports from India and China creating a vacuum which could be filled by the local traders. This is why we foresee the market retaining its present strength in to 2011. However it is important to realize that the cost of production will most like to increase further with an impending wage increase during the year. Looking ahead, Tea Shakthi Fund is driving prosperity by proactively seeking of new growth opportunities, for example seeking of new

avenues of increasing the intake of Green Leaf to own factory especially in the southern province start supply of fertilizer for crops like rubber and coconut through respective government representative bodies.

### **Symbol of Care**

The symbol of care as depicts in the Tea Shakthi Fund's logo denotes to critical factors towards the success of an organization. Every decision and action taken should justify the utmost care intended with the identified fund's sustainability commitments by which have to be guided and the actions evaluate the success. Therefore it is in the utmost important that the red tapes that have been hampered the Tea Shakthi Fund performance to be removed.

We have 6 key strategic objectives to focus on over the next years to come. First and foremost was needed to increase the share holders' values. Secondly we need to reduce the complexity and effects of red tapes operations. Thirdly we need to ensure be product process quality to get close to our buyers and brokers. Fourthly we need to identify and systematically manage risk and fifth and sixth be to develop human resources including institutional development of the Tea Shakthi Fund to next future challenges and to develop infrastructure and the IT requirements to meet the physical targets of goals and objectives.

It should be noted however, the 2011 commenced with erratic weather conditions in all districts of the country. The production in all districts of the country. The production of tea could be badly affected. Also as a result of save an intense competition for bought leaf will occur and both will have an adverse impact on the Tea Shakthi Fund is performed during the year 2011.

### **Acknowledgement**

On the behalf of the Board of Directors, I would like to convey my sincere appreciation to honorable Minister of Plantation Industry, Secretary and the subordinate staff, our Share Holders, Brokers for their continual support and the confidence placed in us. Our sincere appreciation to all our employees for their dedication and commitment. It is also my pleasant duty to extend my sincere gratitude to my fellow Board members for their guidance and wisdom.

  
Noel Padmasiri Kariyawasam

Chairman

2013, November

# Financial Highlights

	2010	2009	2008	2007	2006
Revenue(RsMn)	904.29	913.27	1183.02	1388.47	772.27
Operating Expenses (RsMn)	800.77	770.09	1045.73	1143.07	642.28
Gross Profit (RsMn)	103.51	143.17	137.28	246.4	129.99
Other Income(RsMn)	67.14	34.19	17.99	12.52	8.37
Financial Expenses(RsMn)	18.57	6.75	11.12	0.75	0.60
Net Profit/(Loss) (RsMn)	28.52	(4.73)	(29.40)	94.46	3.63
Dividends (RsMn)	Nil	Nil	Nil	31.34	20.62
Total Assets (RsMn)	1115.04	1150.96	1188.00	1224.01	1021.72
Net Assets (RsMn)	725.35	679.83	684.56	714.83	651.80
ROCE ( %)	0.89	0.18	(1.54)	7.78	0.41
G.P Ratio	11.45	15.68	11.60	17.75	16.83
N.P Ratio	(3.15)	(0.52)	(2.49)	6.80	0.47
Current Ratio (times)	1:0.04	2.55:1	2.29:1	2.26:1	2.78:1

## CORPORATE INFORMATION

Name	-	Tea Shakthi Fund
Address	-	384, Pannipitiya Road, Pelawatta, Battaramulla. T.P. : 011-2784339 011-274340, Fax: 011-27433, Email : <a href="mailto:tsf@teashkthi.gov.lk">tsf@teashkthi.gov.lk</a>
Act of Incorporation	-	Tea Shakthi Fund Act No-47 of 2000
Year of Incorporation	-	2000
Nature of Business	-	<ul style="list-style-type: none"><li>• 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.</li><li>• Mixing and supplying Fertilizer mixture of recommended formula to cultivators, mainly to Tea Small Holders, at reasonable price retaining a Slight margin.</li><li>• Distribution of customer oriented Tea blends in the local market.</li></ul>
Auditors	-	Auditor General's Department
Bankers	-	Bank of Ceylon

## **BOARD OF DIRECTORS AND SENIOR STAFF**

### **Board of Directors**

- Mr. Noel PadmasiriKariyawasam - 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. NevilRathnayake - 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. BandaraGunasinghe - Director - Chairman Divisional Society - Uva
- Mr. G.G. Senavirathna - Director - Chairman Divisional Society - Kany
- 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

### **Senior Staff Members**

- Mr. A.J.M.D.P.B. Aviruppola - Chief Executive Offer
- 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 – Raigmakorale

## Tea Shakthi Projects

<b>Factory Project</b>	<b>Manager</b>	<b>Contact Number</b>
Chief Manager	: G.G. Kudabanda	0117421141
Balangoda	: Ananda Danasiri	0457200823
Hiniduma	: S.K. Nawaratne	0917200537
Elpitiya	: S.P. Edirisinghe (Actg)	0347200361
Kothmale	: S.K. Jayawardane	0417200945
Keppetipola	: Godakanda Arachchi	0917200591
Passara	: D.N.P. Dissanayake	0557200174
Pansaltenna	: S.M.K.B. Agalawatte	0667200176
Deniyaya	: Sampath Bandara	0417200320
Walahanduwa	: Senevirathne Rohith	0917200608
Gilimale	: S. Maginarachchi	0917200537
Mahaweli	: S.K. Jayawardana	0417200945
Mawarala	: R.U. Jayasekara	0417200945
Raigama	: S.P. Edirisinghe	0347200361

### Fertilizer Project

Manager Fertilizer & Local Tea Sale - Laxman Edirisinghe	:	0117421134
Mixing Plant – Aramanagolla – Horana	:	0342260563

## Report of the Board of Directors

It is our grateful pleasure to report on the performance of Tea Shakthi Fund for the financial year ended 31<sup>st</sup> December 2010. 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 01 and there had been no significant changes in the nature of principle activities of during the year.

### Revenue from Operations

Revenue from operations of Tea Shakthi Fund during the financial year and the results of those operations are contain in the Chairman's message on pages 2-4 and financial operating review on pages 12-19 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 35. of this report.

### Profit and Appropriations

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

	2010 Rs.	2009 Rs.
Revenue	904,285,090	913,266,846
Income from Broker Sales	781,932,988	753,598,779
Local Tea Sales	32,071,04	31,721,364
Sale of Fertilizer	90,254,394	127,946,703
Other Income	67,142,221	34,193,796
Net Income	171,018,373	177,369,111
Administration Expenses	(150,893,995)	(155,675,670)
Selling and Distribution Expenses	(29,711,428)	(19,672,776)
Operating Profit before Tax	(9,587,050)	2,020,665
Finance Cost	(18,571,659)	(6,751,368)
Retained Profits	(8,664,631)	19,494,078

## **Dividends and Reserves**

No dividends have been declared during the year under review.

## **Reserves**

The total reserves as at 31<sup>st</sup> December 2010 amounted to Rs. 4,843,764.50.( In 2009, Rs.33,364,252.15.).

## **Corporate Donations**

No corporate donations were given during the 2010.

## **Capital Expenditure**

The details of property, plant & equipments of the Tea Shakthi are shown in note 08 on page 57.

## **Market Value of Immovable Properties**

Tea Shakthi Fund does not own tangible immovable properties as at 31<sup>st</sup> December 2010 other than those disclosed in the note no 08 on page 57.

## **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 list of Board of Directors Tea Shakthi Fund has been disclosed on the page 07

## **Directors Interest in Contracts and Proposed Contracts**

No Director was directly or indirectly interested in any contract or proposed contracts with the Tea Shakthi Fund for the year ended 31<sup>st</sup> December 2010

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 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.

## **Goingconcern**

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 31<sup>st</sup> December 2010 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

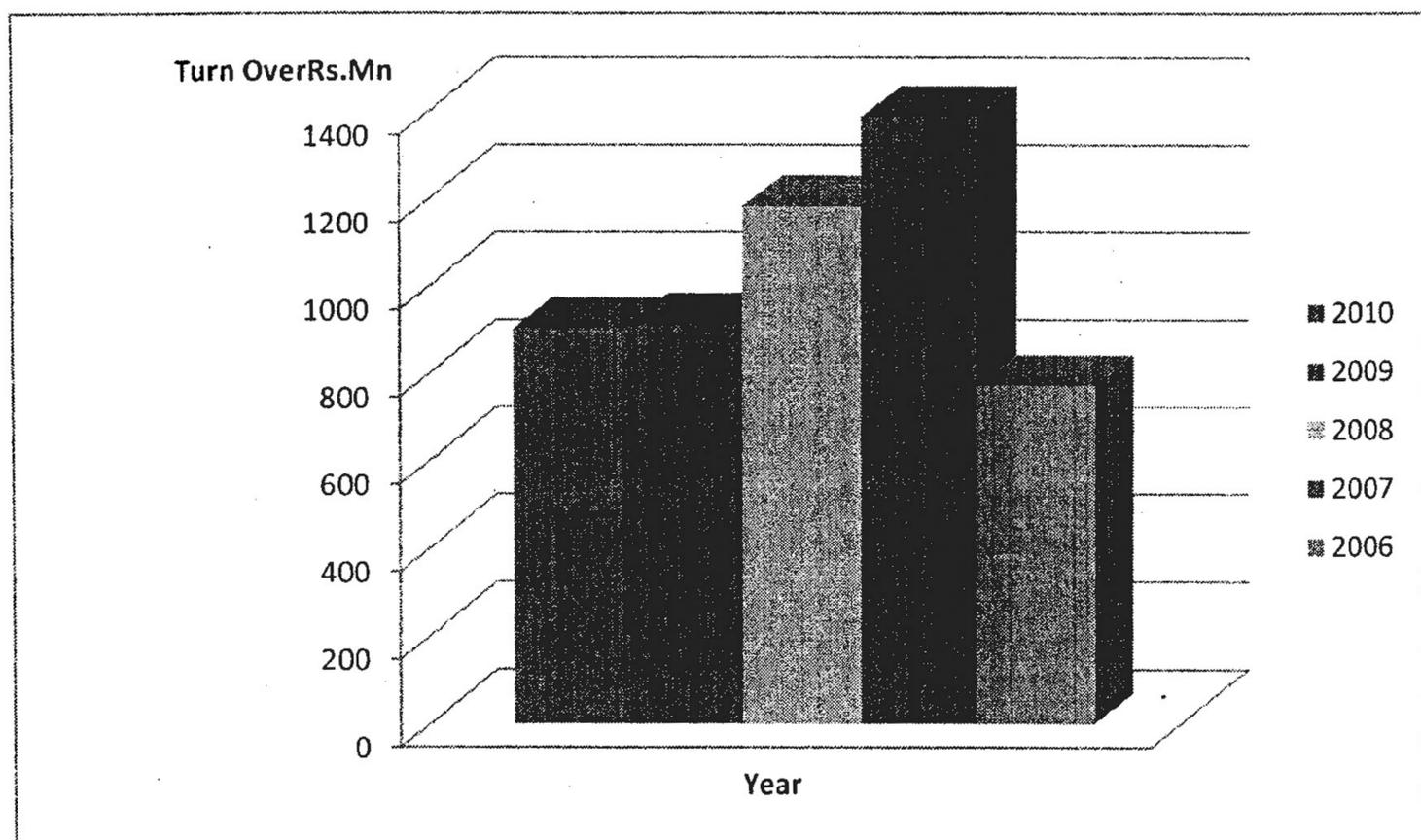
### Review of Operating Results

Tea Shakthi Fund recorded an operating loss of Rs. 9.95 Mn for the year under review against a profit of Rs. 2.02Mn recorded in the year 2009.

### Turn Over

The consolidated turnover was dropped by 1% to Rs. 904.29 Mn in the year under review from Rs. 913.27 Mn in 2009.

<u>Year</u>	<u>Turn over Rs. Mn</u>
2010	904.29
2009	913.27
2008	1183.02
2007	1388.47
2006	772.27



The drop in profitability was as a result of increase in Cost of Production of Tea and the drop in Sales of Fertilizer compared to the last year.

### Revenue and Overall Profitability (Rs.Mn)

	2010	2009	2008	2007	2006
Total Revenue	904.29	913.27	1183.00	1388.47	772.27
Gross Profit	103.51	143.18	137.28	246.40	129.99
Profit from operations	(32.34)	2.02	(18.28)	(95.21)	4.23
Net Profit/Loss	(50.17)	(4.73)	(29.40)	94.6	3.36

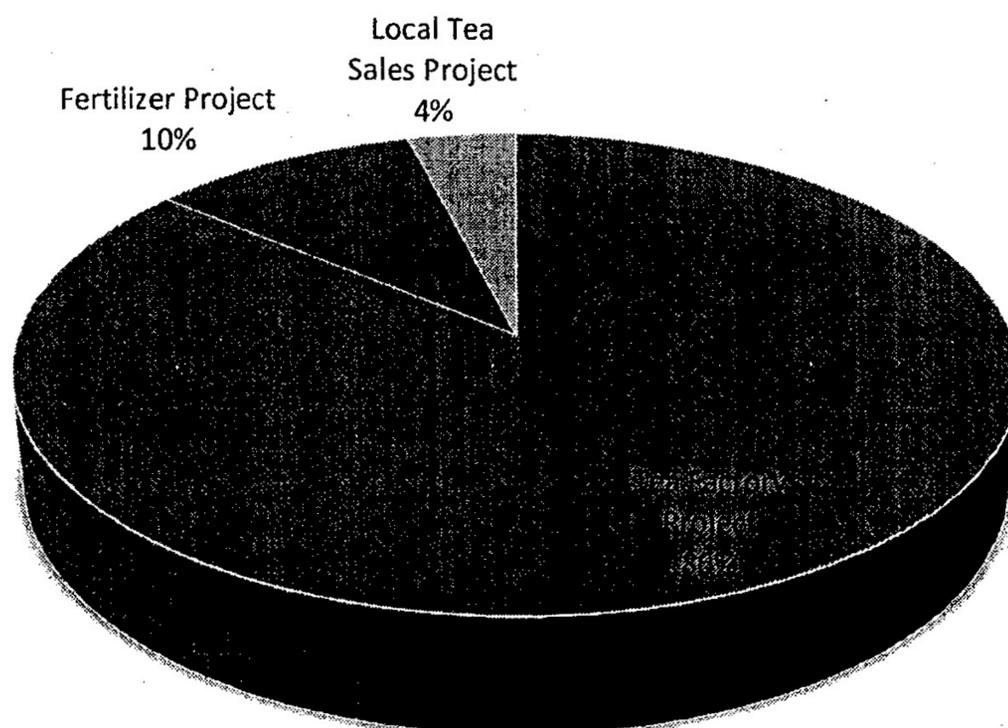
As indicated by the figure, the main reason to record loss after 2007 by the Tea Shakthi Fund is continuing losses by Tea Factory Project which is explained in the segmental review.

The policy that Tea Shakthi Fund's Factory Project is to operate so as to create and improve the bargaining power of Tea Small Holders whilst no deductions from field weight to factory weight, cause leaf and boiled leaf, use of price formula beyond the formula set by the Sri Lanka Tea Board to pay for leaf supplies has created a barrier towards the progress of factories. Inability to maintain factory's NSA in far with elevation averages due to poor condition of factory machinery with no repairs as a result of lack of funds and the increased cost of production has hampered achieving profitability, in addition to high-tended risk of oil and other commodity price increases, natural disasters and adverse weather conditions which had transmitted negative impacts further.

### Segmental Contribution to Turnover by Each Project – Rs.Mn

Year	Tea Factory Project (Rs. Mn)	Fertilizer Project (Rs. Mn)	Local Tea Sales Project (Rs. Mn)
2010	781.93	92.91	27.54
2009	753.60	124.21	31.73
2008	1003.3	86.28	36.12
2007	1201.21	109.09	32.47
2006	641.75	95.59	17.78

## Segmental Contribution - 2010



### Physical performance of Tea Shakthi Factories against the capacity during the year 2010

Factory	Green Leaf		Made Tea		Outturn %		NSA Rs.		COP Rs.	Made Tea Production Against Factory Capacity
	Capacity	Actual	Capacity	Actual	Capacity	Actual	Budgeted	Actual		
Passara	1,800,000	1,491,534	387,000	328,441	21.5	22.02	338.32	311.5	295.01	85%
Keppetipola	1,800,000	1,251,739	387,000	273,322	21.5	21.84	338.32	286.88	286.08	71%
Raigamkorale	3,300,000	1,637,597	709,500	348,710	21.5	21.29	392.48	380.54	357.39	49%
Pansaltenna	2,688,000	424,476	578,064	89,478	21.5	21.08	392.48	300.28	367.65	15%
Elpitiya	3,300,000	874,488	709,500	178,077	21.5	20.36	392.48	341.85	395.78	25%
Kothmale	2,100,000	493,987	451,500	103,042	21.5	20.86	350.46	263.27	351.23	23%
Balangoda	2,688,000	884,746	578,064	189,991	21.5	21.47	392.48	294.99	316.03	33%
Mahaweli	3,600,000	1,410,220	774,000	301,755	21.5	21.4	327.88	312.83	322.50	39%
Deniyaya	2,100,000	1,506,140	451,500	310,725	21.5	20.63	392.48	374.4	367.67	69%
Mawarala	2,400,000	856,827	516,000	175,756	21.5	20.51	338.32	392.48	381.41	34%
Walahanduwa	2,400,000	1,244,025	516,000	257,831	21.5	20.73	392.48	386.9	384.86	50%
Hiniduma	2,688,000	988,307	578,064	197,829	21.5	20.02	392.48	335.23	392.78	34%
<b>Average</b>	<b>30,864,000</b>	<b>13,064,086</b>	<b>529,930</b>	<b>229,580</b>	<b>21.5</b>	<b>21.02</b>	<b>370.05</b>	<b>331.76</b>	<b>351.53</b>	<b>44%</b>

## Factory Project Financial Performance ( Rs. Mn)

	Deniyaya	Mawarala	Elpitiya	Walahanduwa	Hiriduma	R. Korale	Balangoda	Mahaweli	Gilimale	Pansaitenna	Kothmale	Keppetipola	Passara	Total
Revenue	100.6	57.90	50.53	89.27	52.56	116.31	49.82	82.26	-	21.43	23.96	71.43	93.72	809.79
Cost of Sales	87.3	51.39	48.84	75.40	56.30	94.81	45.76	72.89	-	21.92	27.71	61.40	75.40	719.12
Contribution	13.3	6.51	1.69	13.87	(3.8)	21.50	4.06	9.37	-	(0.49)	(3.75)	10.03	18.32	90.61
Selling & Dist.	(1.91)	(1.05)	(1.09)	(1.63)	(1.18)	(2.19)	(0.95)	(1.58)	-	(0.40)	(0.45)	(1.33)	(1.71)	(15.47)
Other Income	-	5.97	-	0.02	-	-	-	-	-	-	-	-	0.04	6.03
Gross Profit	11.39	11.38	0.6	12.26	(4.98)	19.31	3.11	7.79	-	(0.89)	(4.20)	8.70	16.65	81.12
Admin Expenses	8.7	10.33	9.81	10.40	7.21	9.99	5.98	(9.00)	(2.18)	(5.75)	(6.63)	(6.12)	(8.59)	24.15
Finance Cost	-	-	(1.60)	-	(2.09)	-	(0.60)	(0.38)	(0.51)	(1.10)	(1.7)	-	-	(7.98)
Profit for the year	2.69	(5.99)	(10.81)	1.86	(14.28)	9.32	(3.47)	1.59	(2.69)	(7.74)	(8.78)	(2.58)	8.06	(32.82)
GP Ratio %	13.22	11.24	3.34	15.54	(7.24)	18.49	8.15	11.39	-	(2.29)	(15.65)	(14.04)	19.55	61.7
NP Ratio %	2.67	(10.35)	(21.39)	2.08	(27.20)	8.01	(7.0)	1.93	-	(36.12)	(36.64)	24.47	8.60	(90.94)
Made Tea	310725	175756	178077	257831	197829	348710	189991	301755	-	89478	103042	273322	328441	2754957
GP Per Kg Rs.	36.66	64.75	3.37	47.55	(25.17)	55.38	16.37	25.82	-	(9.95)	(40.76)	31.83	50.69	256.53
NP Per Kg Rs.	8.66	(34.08)	(60.70)	7.21	(72.19)	26.73	(18.26)	5.27	-	(86.50)	(85.21)	(9.44)	24.54	(293.97)

### Made Tea Production

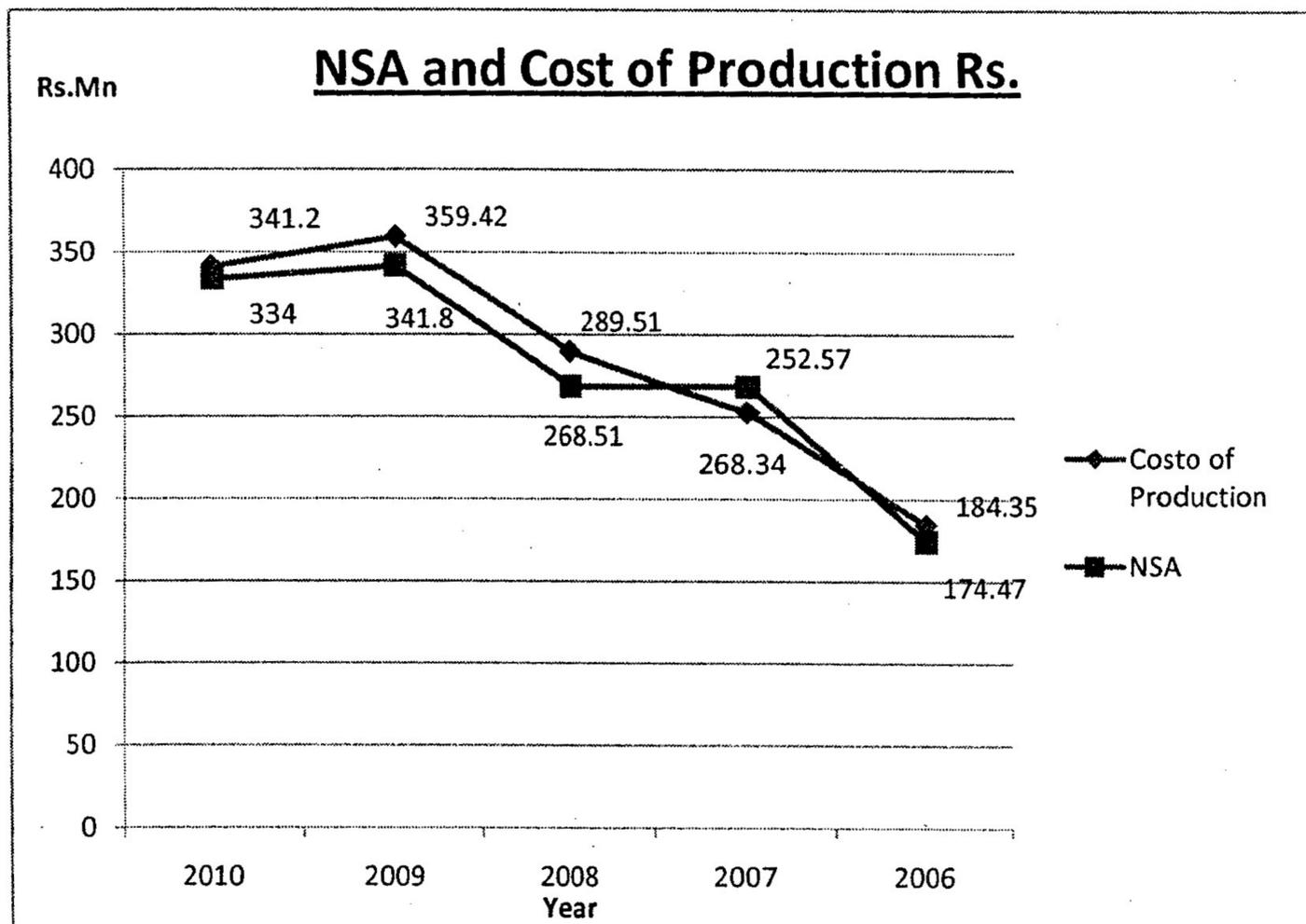
Year to year comparison of Green Leaf Supply and Made Tea for the last five years ending 31<sup>st</sup> December 2010 are given in the table.

<u>Year</u>	<u>Green Supply (Kg)</u>	<u>Made Tea (Kg)</u>
2010	13,064,086	2,754,960
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

Even though the Broker Sales has been increased by 4% compared to the last year, drop in leaf intake by the major factories with higher leaf capacity has been resulted to record a low turnover. Also increase in the made tea has not been compensated with the increase in cost of production.

**NSA and Cost of Production per Kg of Made Tea in Rs.**

Year	Cost of Production Rs.	NSA.Rs
2010	341.20	334.00
2009	359.42	341.80
2008	289.51	268.51
2007	252.57	268.34
2006	184.35	174.47



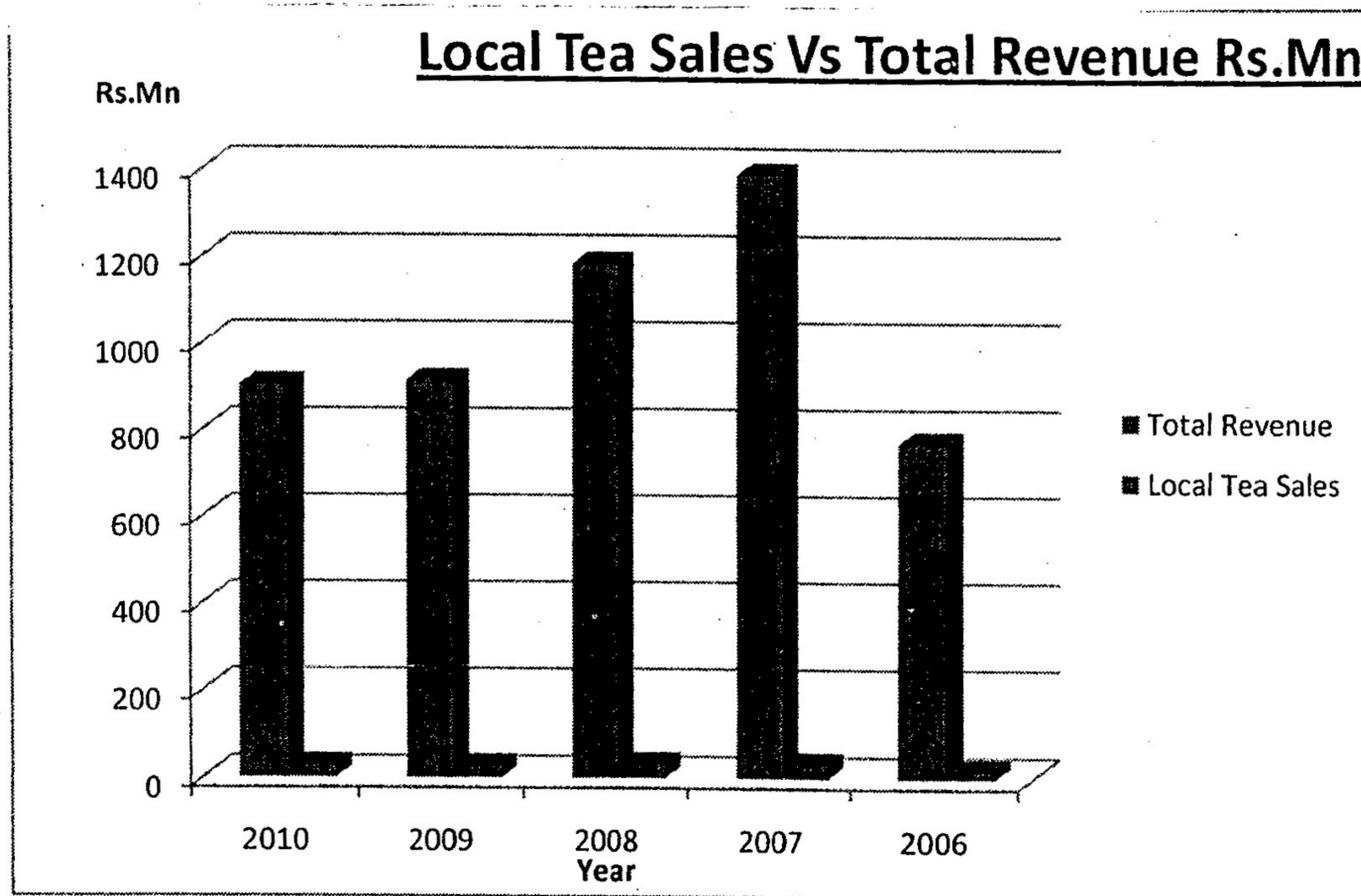
Out of the 12 operating factories only Deniyaya, Walahanduwa, Raigama, Mahaweli and Passara Tea Factories have made profits for 2010. But the profits so earned has not been adequate to compensate losses by the others. Adverse impacts due to up ward wage revisions, frequent revision of diesel and furnace oil prices are significant challenges. Tea Shakthi Fund has to grapple with such impacts over last ten years, and will continue to have to do so with very little ability to control. Any wage increases or revision in the next years would need to be linked with the productivity.

Another significant challenge that Tea Shakthi Fund facing in the volatility in NSAs where the fluctuations often have no specific pattern. Price/NSA volatility could vary across factories in the similar agro climate averages due to factory specific factors such as factory conditions including machinery, the availability of leaf for manufacturing. This seems to reflect the fact that the policies like not deducting for course leaf, water, boiled leaf are no longer effective towards the going concern of the Tea Shakthi and requires reengineering of all policies with which Tea Shakthi Factories run by. One protective mechanism against such NSA volatilities in the same agro climate averages is to manufacture integration by consolidation of manufacturing process but it's aware that more is required and possible.

### **Local Tea Sales**

The Local Tea Sales project has been formed to sell teas in whole and retail, covering Head Office and Factories. This project has made Rs. 27.08 mn of sales against Rs. 27.54 mn made in 2009. However the contribution from this project is appeared to have been decreased as this project recorded a margin of Rs. 1.35 mn against Rs. 1.58 mn recorded for the year 2009. The management believes that the solution may be that to increase the value additions with a well structured marketing plan there by to increase the distribution. Also for long term, Tea Shakthi Fund considers it is essential that the project maximizes the contribution per Kg of Tea and thereby the unit per capita so as to dilute adverse effects to Tea Factory project when the prices of tea in the Colombo auction reduced.

Year	Total Revenue (Rs.Mn)	Local Tea Sales (Rs.Mn)
2010	904.30	27.89
2009	913.27	27.54
2008	1183.00	31.95
2007	1388.47	32.46
2006	772.27	17.78

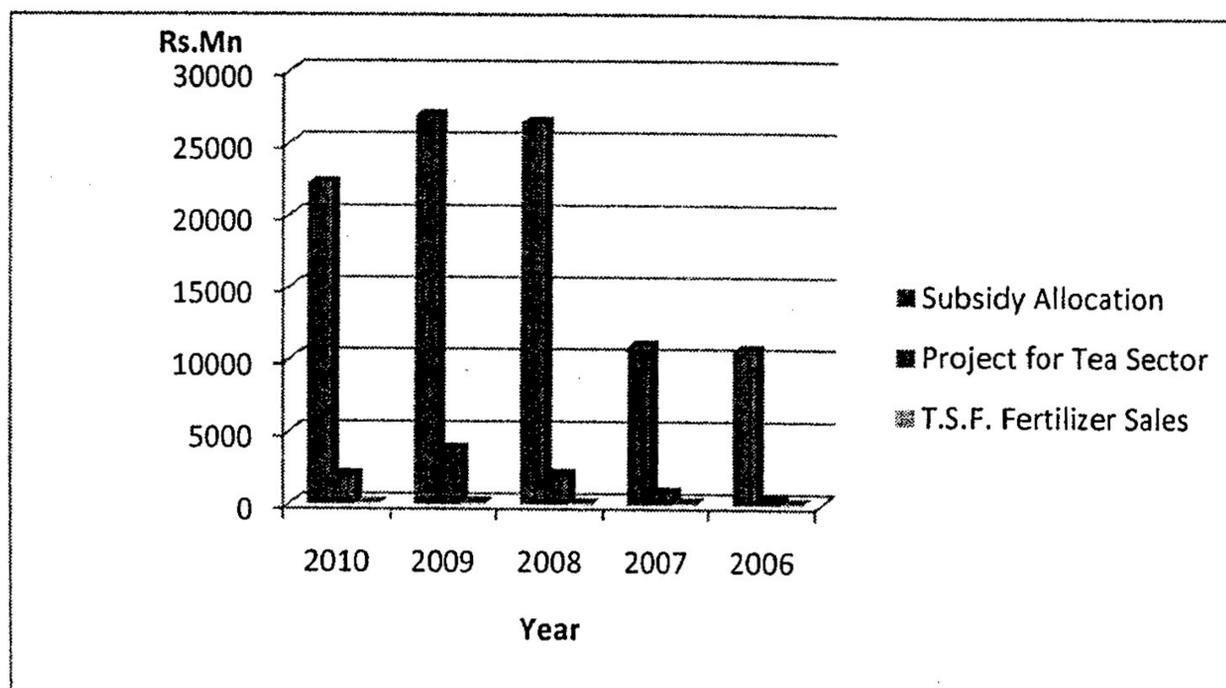


### Fertilizer Project

The fertilizer project has made a contribution of Rs. 12.51 mn as against Rs. 0.64 mn reported for the last year. After charging the administrative expenses, the project made Rs. 3.54 mn against Rs. 5.4 mn loss reported in the year 2009.

### Fertilizer Subsidy Allocation Vs Tea Shakthi Fund Fertilizer Sales (Rs. Mn)

Year	Gov. Subsidy Allocation	Subsidy paid for Tea Sector	T.S.F. Fertilizer Sales
2010	22277	2000	87.52
2009	26935	3817	124.11
2008	26449	2067	86.28
2007	10998	831	109.05
2006	10699	318	95.95



Even though

we foresee that a greater market potential is available for Tea Shakthi Fertilizer, lack of field staff vehicles for on time distribution and financial facilities like L/C facilities have been the major impediments for growth in sales & profits.

### **Welfare Project**

The welfare project of Tea Shakthi Fund, being the social welfare arm for Tea Small Holders continued its functions to serve over 95,000 members for 2010.

The progress of the Welfare project for last immediate five years is as follows.

Year	No. of members	Insurance Premium Rs.	No. of Benefits Claims paid	Value of benefits pyed in Rs.
2006	95000	9.8 mn	413	11.62 mn
2007	94650	8.9 mn	947	20.34 mn
2008	89043	8.3 mn	883	18.6 mn
2009	91350	10.8 mn	696	14.8 mn
2010	194889	14.74 mn	557	10.71 mn

### **The way forward**

Since our main line of business is to Manufacture & Sale of Tea, a slight drop in tea prices at the Colombo tea auction may have an adverse effect on Tea Shakthi Fund for a unforeseeable future. Out of the total turn over 86% contribution was from factory project for 2010. This shows that the impact on the T.S.F performance would be heavy therefore a sound Risk Mitigating Strategies are required soon. Therefore T.S.F is planning to spread the risk by investing in the fertilizer and local tea sales business. Further drop in the Tea Auction prices would enhance the requirements to improve margins in retail marketing of Tea. Also attempting to obtain international standards such as fair trade and ethical tea partnership would make some value additions to our teas.

## Tea Shakthi Fund

### Audit & Management Committee Report – 2010

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

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 2010.

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 the following sections:

**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 Local Tea Sales and Distribution activities were streamlined and implemented several control measures.

Proper Internal Control measures were adopted in the Administration and Finance fields to continue efficient service.

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.

*P. Abeynaike*

P. Abeynaike  
Chief Internal Auditor  
(Coordinator Audit and Management Committee)

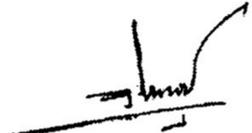
**TEA SHAKTHI FUND****BALANCE SHEET**

AS AT 31ST DECEMBER 2010

	Note	This Year	Last Year
			Rs.
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Property Plant & Equipment			
		<b>414,170,600.68</b>	408,802,657.52
		<b>44,605,468.65</b>	48,690,269.16
	8	<b>458,776,069.33</b>	457,492,926.68
Capital work-in -progress	9	<b>22,318,110.42</b>	21,743,139.42
		<b>481,094,179.75</b>	<b>479,236,066.10</b>
<b>Immatured Crops</b>			
Tea Cultivation	10	<b>5,020,518.86</b>	2,600,466.40
Other Cultivation	10	<b>27,883.36</b>	27,883.36
		<b>5,048,402.22</b>	<b>2,628,349.76</b>
<b>Current Assets</b>			
Inventories & Stocks	11	<b>179,394,388.16</b>	196,521,757.40
Trade Debtors & Other Receivable	12	<b>290,076,132.40</b>	208,781,289.51
Advance, Prepayment & Deposits	13	<b>37,615,857.66</b>	37,111,284.31
Short Term Investments	14	<b>113,886,936.32</b>	123,297,107.13
Cash in Hand & Bank	15	<b>(5,736,220.11)</b>	88,317,322.29
Inter Current Account	16	<b>13,662,284.71</b>	15,071,218.01
		<b>628,899,379.14</b>	<b>669,099,978.65</b>
<b>TOTAL ASSETS</b>		<b>1,115,041,961.11</b>	<b>1,150,964,394.51</b>
<b>EQUITY AND LIABILITIES</b>			
Share Capital	17	<b>208,959,130.00</b>	208,959,130.00
T.S.H.D.A (Government ) Grant	18	<b>437,505,030.22</b>	437,505,030.22
Revaluation Surplus		<b>13,870,173.86</b>	13,870,173.86
Retained Earning/(Loss)		<b>(9,026,409.36)</b>	19,494,078.29
<b>TOTAL EQUITY</b>		<b>651,307,924.72</b>	<b>679,828,412.37</b>
<b>Members Benovolent Fund</b>			
Member Contribution	19	<b>134,645,004.88</b>	134,352,375.58
<b>Non Current Liabilities</b>			
T.S.H.D.A	20	<b>74,048,541.30</b>	74,048,541.30
<b>Current Liabilities</b>			
Creditors & Payables	21	<b>177,608,954.32</b>	197,594,127.09
Bank Loan			
Accrued Expenses	22	<b>77,431,535.89</b>	65,140,938.17
		<b>255,040,490.21</b>	<b>262,735,065.26</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,115,041,961.11</b>	<b>1,150,964,394.51</b>

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

  
 Noel Padmasiri Kariyawasam  
 Chairman  
 Tea Shakthi Fund

  
 Daya Aviruppola  
 Chief Executive Officer  
 Tea Shakthi Fund

  
 P.G.R Tissa  
 Chief Accountant  
 Tea Shakthi Fund

**TEA SHAKTHI FUND****PROFIT & LOSS ACCOUNT****FOR THE YEAR ENDED 31ST DECEMBER 2010**  
**Note****This Year****Last Year**  
**Rs.**

	Note	This Year	Last Year
Revenue	1-A	904,285,090.26	913,266,846.30
Cost of Sales	2	(800,408,938.75)	(770,091,531.69)
<i>Gross Operating Profit</i>		<b>103,876,151.51</b>	<b>143,175,314.61</b>
Other Income	3	67,142,221.15	34,193,796.11
<i>Total Income</i>		<b>171,018,372.66</b>	<b>177,369,110.72</b>
Administration Expenses	4	(150,893,995.39)	(155,675,669.50)
Distribution Expenses	5	(29,711,427.75)	(19,672,776.33)
		<b>(180,605,423.14)</b>	<b>(175,348,445.83)</b>
<i>Profit/(Loss) From Operating Activities</i>		<b>(9,587,050.48)</b>	<b>2,020,664.89</b>
Finance Cost	6	(18,571,658.99)	(6,751,367.52)
<b>Profit/ (Loss) For the year</b>	1-B	<b>(28,158,709.47)</b>	<b>(4,730,702.63)</b>
Brought Forward Profit/(Loss)	7	19,494,078.29	24,224,780.92
Profit Before Appropriation		<b>(8,664,631.18)</b>	<b>19,494,078.29</b>
Dividends			
Profit/(LOSS) Carried Forward		<b>(8,664,631.18)</b>	<b>19,494,078.29</b>

**\*\* Accounting policies and notes to the accounts form an integral part of this financial statement!**

**TEA SHAKTHI FUND****CASH FLOW STATEMENT****AS AT 31ST DECEMBER 2010**

(28,158,709.47)

**Operating Profit Before Taxation****Adjustments For**

Depreciation	30,508,804.82	
Provision for Gratuity	6,094,957.71	
Intrest Income	(48,239,621.27)	
Intrest Expense	567,031.29	(11,068,827.45)

***Operating profit before working capital changes*****(39,227,536.92)**

(Increase)/Decrease in Stoks and Finished Goods	17,127,369.30	
(Increase)/Decrease in Working Progress	(574,971.00)	
(Increase)/Decrease in Immatured Crops	(2,420,052.46)	
(Increase)/Decrease in Debtors & Other Recivables	(81,294,842.89)	
(Increase)/Decrease in Short Term Diposits	9,410,170.81	
(Increase)/Decrease in Inter Current A/C & Funds Transfers	1,408,933.30	
(Increase)/Decrease in Advance,Prepayment & Deposits	(504,573.35)	
Increase/(Decrease) in Trade Creditors & Payables	(27,929,677.31)	
Increase/(Decrease) in Sundry creditors & Accruals	12,290,547.72	
Increase/(Decrease) in Member Contribution	292,629.30	(72,194,466.58)

**Cash Generated from Operations****(111,422,003.50)**

Intrest Paid	(567,031.29)	
Gratuity Paid	(2,259,631.07)	(2,826,662.36)

**Net Cash Flow from Operating Activities****(114,248,665.86)****Cash Generated from Investing Activities**

Purchase of property plant & Equipments	(27,682,719.27)	
Intrest received	48,239,621.27	20,556,902.00

**Net Cash used in Investing Activities****(93,691,763.86)****Net Increase in Cash & Cash Equivalentents****(93,691,763.86)****Cash & Cash Equivalentents of the Beginning of the year****88,317,322.29****Cash & Cash Equivalentents of the end of the year****(5,374,441.57)****Analysis of Cash & Cash Equivalentents**

	<b>As at 31-12-2010</b>	<b>As at 31-12-2009</b>
Over Deaft	(29,592,464.24)	(14,448,067.98)
Cash at Bank	23,792,209.63	102,715,390.27
Petty Cash	64,034.50	50,000.00
<b>Total</b>	<b>(5,736,220.11)</b>	<b>88,317,322.29</b>

**TEA SHAKTHI FUND**  
**FINANCIAL YEAR ENDED 31<sup>ST</sup> DECEMBER 2010**  
**ACCOUNTING POLICIES**

**1. CORPORATE INFORMATION**

**1.1 General -**

Tea shakthi fund here in after 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 55.

**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 31<sup>st</sup> 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 underlying 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 31<sup>st</sup> 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%	Over 10 Years
Motor vehicles Other than Land Vehicles @20%	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 3<sup>rd</sup> 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	2010	2009
<b>Sales</b>					
Sales-by brokers			781,932,988.34	781,932,988.34	<b>753,598,778.89</b>
Fertilizer sales	34,596,272.50			34,596,272.50	<b>45,405,679.74</b>
Tea sales Local		4,174,807.94	23,721,425.00	27,896,232.94	<b>27,543,822.77</b>
Sales Realised Br/Fac				0.00	<b>0.00</b>
Material Sales(Direct)	938,331.27			938,331.27	<b>829,055.00</b>
Politene & Used Bags sales				0.00	<b>257,871.50</b>
Sundry Sales	365,693.00			365,693.00	<b>24,955.00</b>
Subsidy Income-GOV	54,354,087.21			54,354,087.21	<b>82,625,023.70</b>
Sales-Discout				0.00	<b>(1,199,077.50)</b>
Recovery Tea Shortage				0.00	<b>0.00</b>
Refuse Tea Sales			4,201,485.00	4,201,485.00	<b>4,180,737.20</b>
<b>Total</b>	<b>90,254,383.98</b>	<b>4,174,807.94</b>	<b>809,855,898.34</b>	<b>904,285,090.26</b>	<b>913,266,846.30</b>

Notes to the Accounts  
for the year ended 31st December

**Schedule No:- 01-B**

**SEGMENTAL CONTRIBUTION FOR THE YEAR ENDING 2010**

Description	Fertilizer	Local Tea Sales	Welfare	Factores	Head Office	Total
REVENUE	90,254,383.98	4,174,807.94		809,855,898.34		<b>904,285,090.26</b>
COST OF SALES	(77,748,416.17)	(2,821,579.62)		(720,200,721.50)		<b>(800,770,717.29)</b>
Gross Profit	<b>12,505,967.81</b>	<b>1,353,228.32</b>	<b>0.00</b>	<b>89,655,176.84</b>	<b>0.00</b>	<b>103,514,372.97</b>
OTHER INCOME	10,424,296.07	252,525.58	42,114,957.85	9,865,468.06	<b>4,484,973.59</b>	<b>67,142,221.15</b>
	22,930,263.88	1,605,753.90	42,114,957.85	99,520,644.90	4,484,973.59	<b>170,656,594.12</b>
FINANCE CHARGES	(215,266.42)	(3,720.91)	(33,455.06)	(18,319,216.60)		<b>(18,571,658.99)</b>
SELLING & DISTRIBUTION	(5,050,986.79)	(591,706.50)	0.00	(24,068,734.46)		<b>(29,711,427.75)</b>
ADMINISTRATION EXPENSES	(14,124,510.77)	(2,406,440.33)	(16,199,957.43)	(118,163,086.86)		<b>(150,893,995.39)</b>
	<b>(19,390,763.98)</b>	<b>(3,001,867.74)</b>	<b>(16,233,412.49)</b>	<b>(160,551,037.92)</b>		<b>(199,177,082.13)</b>
						<b>0.00</b>
Profit/(Loss) for the year	<b>3,539,499.90</b>	<b>(1,396,113.84)</b>	<b>25,881,545.36</b>	<b>(61,030,393.02)</b>	<b>4,484,973.59</b>	<b>(28,520,488.01)</b>

**Notes to the Accounts**  
for the year ended 31st December

**Schedule No:- 02**

**COST OF SALES**

Description	Fertilizer	Local Tea Sales	Factories	2010	2009
<b>Cost Of Sales</b>					
Cost of Material Consumption	75,421,265.32	2,821,579.62		<b>78,242,844.94</b>	<b>123,035,766.00</b>
Transport	1,139,225.81			<b>1,139,225.81</b>	<b>2,170,235.90</b>
Loading expense	361,778.54			<b>+</b>	<b>80,127.00</b>
Mixing chargers				<b>0.00</b>	<b>490,076.00</b>
Unloading chargers	26,403.50			<b>26,403.50</b>	<b>92,514.60</b>
Bought leaf exp			691,825,392.38	<b>691,825,392.38</b>	<b>519,528,805.76</b>
Manufacturing exp.			162,237,319.03	<b>162,237,319.03</b>	<b>119,542,414.64</b>
Cost Of Tea Purchases				<b>0.00</b>	<b>3,713,707.54</b>
Tea Wadiya Expenses				<b>0.00</b>	<b>-</b>
Pooduction Expenses	338,066.20			<b>338,066.20</b>	
Labour Wages	461,676.80			<b>461,676.80</b>	<b>340,156.56</b>
Stock Variation				<b>0.00</b>	<b>1,097,727.69</b>
- (Closing Stock)			(133,861,989.91)	<b>(133,861,989.91)</b>	
<b>Total</b>	<b>77,748,416.17</b>	<b>2,821,579.62</b>	<b>720,200,721.50</b>	<b>800,408,938.75</b>	<b>770,091,531.69</b>

**Notes to the Accounts**  
for the year ended 31st December

**Schedule No:- 03**

**OTHER INCOME**

Description	Head Office	Fertilizer	Welfare	Local Tea Sales	Factories	2010	2009
<b>Other income</b>							
Interest income		9,613,556.89	34,493,206.57	252,525.58	3,880,332.23	<b>48,239,621.27</b>	<i>12,619,637.41</i>
other income	127,000.00	810,739.18	1,138,825.26			<b>2,076,564.44</b>	<i>2,935,846.69</i>
Sundry Income	4,357,973.59				210,123.83	<b>4,568,097.42</b>	<i>4,352,030.96</i>
Tea Field Income					5,775,012.00	<b>5,775,012.00</b>	
Tender Document						-	<i>40,400.00</i>
Insurance Claim Suspense Over Provision			6,482,926.02			<b>6,482,926.02</b>	<i>9,245,881.05</i>
Government Subsidy Loss-Recover						-	<i>5,000,000.00</i>
Changing in Accounts Adjustment							
<b>Total</b>	<b>4,484,973.59</b>	<b>10,424,296.07</b>	<b>42,114,957.85</b>	<b>252,525.58</b>	<b>9,865,468.06</b>	<b>67,142,221.15</b>	<b>34,193,796.11</b>

Notes to the Accounts  
for the year ended 31st December

Schedule No:- 04

ADMINISTRATION EXPENSES

Description	Fertilizer	Welfare	Local Tea Sales	Factories	2010	2009
<b>Administration Expense</b>						
Adult Insurance		1,388,199.98			<b>1,388,199.98</b>	2,138,398.33
Audit Fees					-	128,797.00
Depreciation expenses		53,205.94			<b>53,205.94</b>	1,859,664.81
Director Board sitting allowances	54,345.90		9,057.65	143,647.56	<b>207,051.11</b>	304,837.51
Dividend Expenses					-	-
E.P.F	775,707.93		129,284.65	1,680,700.51	<b>2,585,693.09</b>	2,221,307.06
E.T.F	169,415.72		28,235.95	367,067.38	<b>564,719.05</b>	516,603.57
Electricity	251,647.95		46,079.93		<b>297,727.88</b>	679,580.28
Entertainment	95,760.61		15,626.43	275,113.34	<b>386,500.38</b>	3,500.00
ESPS				293,470.19	<b>293,470.19</b>	247,176.75
Employer Federation					-	-
Gratuity Expenses	109,260.81		18,210.14	236,731.76	<b>364,202.71</b>	214,638.00
Member Insurance Premium		14,552,003.01			<b>14,552,003.01</b>	10,800,720.00
Legal & Professional Expenses	1,022,601.20		117,907.45	1,555,285.35	<b>2,695,794.00</b>	238,780.89
Maintenance -Building	440,949.11		49,086.02	606,697.23	<b>1,096,732.36</b>	412,181.08
Maintenance- Computer	18,920.91		539.82	26,480.91	<b>45,941.64</b>	123,494.60
Maintenance- Equipment	120,000.00	78,151.00	18,982.45	5,364.80	<b>222,498.25</b>	356,989.50
Office Expenses	169,451.84		23,000.64	383,956.16	<b>576,408.64</b>	212,129.56
Office Rent	660,962.33		110,160.39	1,432,085.04	<b>2,203,207.76</b>	2,627,846.79
OT & Traveling expenses	149,874.35		24,979.06	592,230.44	<b>767,083.85</b>	1,324,220.92
Other expenses	57,815.97	103,581.00	15,564.00	1,300.00	<b>178,260.97</b>	149,512.81
Postage expense	47,254.24	24,816.50	7,875.71	104,804.18	<b>184,750.63</b>	210,693.50
Printing	62,102.16		156,745.53	54,281.84	<b>273,129.53</b>	154,560.65
Salaries & allowances	6,885,483.47		1,290,398.08		<b>8,175,881.55</b>	15,958,469.36
Security expenses	468,448.34		17,435.96	226,667.44	<b>712,551.74</b>	676,036.58
Stationary	107,134.84		16,322.81	220,371.48	<b>343,829.13</b>	624,315.13
Staff Training				90,431.00	<b>90,431.00</b>	33,806.24
Telephone charges	383,124.68		66,540.83	683,067.52	<b>1,132,733.03</b>	950,496.94
Tender Board sitting allowances	61,300.00				<b>61,300.00</b>	33,000.00
Valuation Expenses Factory					-	-
Insurance	145,576.11				<b>145,576.11</b>	
Vehicle Fuel	533,391.00				<b>533,391.00</b>	
VAT Expenses					-	-
Wadiya Rent					-	120,000.00
Water expenses	54,824.32				<b>54,824.32</b>	123,340.80
Welfare Staff/Other			13,971.14	181,624.82	<b>195,595.96</b>	432,246.19
Yatinuwara Security					-	-
Deraniyagala Security				116,000.00	<b>116,000.00</b>	120,000.00
Deraniyagala Factory Expenses				347,091.92	<b>347,091.92</b>	866,934.45
Medical Fund Expenses			34,255.18		<b>34,255.18</b>	86,545.18
Disposal Tea					-	-
Bad Debtor			60,377.64		<b>60,377.64</b>	116,732.28
<b>Total</b>	<b>12,845,353.79</b>	<b>16,199,957.43</b>	<b>2,270,637.46</b>	<b>9,624,470.87</b>	<b>40,940,419.55</b>	<b>45,067,556.76</b>

## Admin. Expenses Continued

Description	Fertilizer	Welfare	Local Tea Sales	Factories	2010	2009
<b>General Chargers-Factories</b>						
Salaries & Allowances				22,321,993.49	<b>22,321,993.49</b>	12,759,166.08
Factory & Bungalow Rent				1,328,365.00	<b>1,328,365.00</b>	4,351,260.00
Expenses Local Sales					-	114,039.33
Electricity Surcharge				418,207.73	<b>418,207.73</b>	-
Expenses Refuse Tea				69,880.54	<b>69,880.54</b>	-
Depreciation	915,606.52		126,559.98	29,403,025.53	<b>30,445,192.03</b>	29,948,241.69
Supervision Vehicela				436,500.00	<b>436,500.00</b>	950,722.59
Contingencies				28,437.06	<b>28,437.06</b>	1,435.00
Levies Subscription & Visiting				1,258,427.05	<b>1,258,427.05</b>	1,109,580.66
Legal				56,276.41	<b>56,276.41</b>	75,914.45
Stationery				947,004.63	<b>947,004.63</b>	767,912.71
Bank Commission				1,143,919.82	<b>1,143,919.82</b>	1,093,124.98
Insurance				689,218.58	<b>689,218.58</b>	556,046.87
Watcher				574,420.20	<b>574,420.20</b>	480,897.94
Roads				96,652.94	<b>96,652.94</b>	111,133.18
Bungalow				3,795,102.56	<b>3,795,102.56</b>	2,528,922.15
Lines				161,879.92	<b>161,879.92</b>	109,932.69
Minor Buildings				219,022.50	<b>219,022.50</b>	121,435.97
Postage				605,281.47	<b>605,281.47</b>	482,216.26
Medical Aid	205,531.12			2,407,521.53	<b>2,613,052.65</b>	2,111,130.82
Welfare & Sports	157,386.34			1,122,836.81	<b>1,280,223.15</b>	1,794,894.40
Employees Provident Fund				8,012,424.82	<b>8,012,424.82</b>	6,868,113.78
Holiday Pay				2,244,209.35	<b>2,244,209.35</b>	1,767,978.36
Terminal Benefits				5,730,755.70	<b>5,730,755.70</b>	8,170,277.77
Water Supply			9137.39	370,744.36	<b>379,881.75</b>	192,174.15
Estate Staffs Provident Societ				271,729.95	<b>271,729.95</b>	384,529.24
Statutory Holidays				451,725.00	<b>451,725.00</b>	307,279.87
Employees Trust Fund				1,872,680.85	<b>1,872,680.85</b>	1,576,730.97
Communication Telephone				1,344,036.71	<b>1,344,036.71</b>	1,261,948.08
Price Wage Supplement				4,782,930.23	<b>4,782,930.23</b>	3,498,049.77
Attendance Incentive				9,903,339.47	<b>9,903,339.47</b>	8,740,307.54
Economic Service Charges					-	4,583,967.51
Labour Wages Arrears					-	6,803,859.40
VAT Output				1,806,945.21	<b>1,806,945.21</b>	1,793,532.60
Daily Price Wagers					-	-
P.W.S Allowance					-	-
General Chargers-Estate					-	-
Stock Verification Expenses	633.00		105.50		<b>738.50</b>	-
Weedings					-	-
Consultant Fees					-	-
Tea Delivere Shorteg					-	-
Tea Field Expenses				4,170,455.00	<b>4,170,455.00</b>	3,491,192.88
Bank Charges					-	28,083.85
Other Expenses				492,665.57	<b>492,665.57</b>	1,672,079.20
<b>Sub Total</b>	<b>1,279,156.98</b>	<b>0.00</b>	<b>135,802.87</b>	<b>108,538,615.99</b>	<b>109,953,575.84</b>	<b>110,608,112.74</b>
<b>Grand Total</b>	<b>14,124,510.77</b>	<b>16,199,957.43</b>	<b>2,406,440.33</b>	<b>118,163,086.86</b>	<b>150,893,995.39</b>	<b>155,675,669.50</b>

**Notes to the Accounts**

*for the year ended 31st December*

**Schedule No:- 05**

**Selling & Distribution Cost**

Description	Fertilizer	Welfare	Factories	Local Tea Sales	2010	2009
<b>Selling &amp; Distribution Cost</b>						
Advertising expense	249,665.58		677,319.70	38,096.90	<b>965,082.18</b>	<i>541,131.20</i>
Sales Promotion Expenses	39,225.00				<b>39,225.00</b>	
Deyatakiuriula Expenses				283,360.96		
Discount For Suplper	3,364,772.50				<b>3,364,772.50</b>	<i>629,296.43</i>
Vehicle Fuel			1,198,424.25	88,898.50	<b>1,287,322.75</b>	<i>2,234,546.94</i>
Vehicle Repairing	409,209.48		886,620.55	68,201.58	<b>1,364,031.61</b>	<i>1,094,078.66</i>
Vehicle Service	148,495.91		300,941.13	23,149.32	<b>472,586.36</b>	<i>481,007.00</i>
Vehicle Rent	282,665.10		612,441.05	47,110.85	<b>942,217.00</b>	<i>272,322.20</i>
Vehicle Insurance	52,321.22		113,362.65	8,720.20	<b>174,404.07</b>	<i>181,646.31</i>
Licenses expense	89,835.10		59,742.80	10,220.60	<b>159,798.50</b>	<i>93,559.50</i>
Sample Test	45,083.20				<b>45,083.20</b>	<i>29,920.38</i>
Donation			25,000.00		<b>25,000.00</b>	
Travel & Entertanment					<b>0.00</b>	<i>4,606.00</i>
Economic Service Charges	369,713.70		4,718,651.85	23,947.59	<b>5,112,313.14</b>	<i>586,928.09</i>
Brokerage/Handling charges			15,476,230.48		<b>15,476,230.48</b>	<i>13,523,733.62</i>
Tea Free Issues					<b>0.00</b>	
<b>Total</b>	<b>5,050,986.79</b>	<b>0.00</b>	<b>24,068,734.46</b>	<b>591,706.50</b>	<b>29,711,427.75</b>	<b>19,672,776.33</b>

**Notes to the Accounts**  
for the year ended 31st December

**Schedule No:- 06**

**Finance Cost**

Description	Head Office	Fertilizer	Welfare	Local Tea Sales	Factories	2010	2009
<b>Finance Cost</b>							
Debit tax		192,035.39	33,455.06	2,139.81	32,220.42	<b>259,850.68</b>	<b>469,191.25</b>
Interest-Loan BOC						<b>0.00</b>	<b>1,398,336.52</b>
Bank chargers		23,231.03		1,581.10	542,219.16	<b>567,031.29</b>	<b>197,645.43</b>
Internal Finance Cost					17,744,777.02	<b>17,744,777.02</b>	<b>4,686,194.32</b>
<b>Total</b>		<b>215,266.42</b>	<b>33,455.06</b>	<b>3,720.91</b>	<b>18,319,216.60</b>	<b>18,571,658.99</b>	<b>6,751,367.52</b>

**\* 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:

<b>Factories</b>	<b>65%</b>
<b>Fertilizer</b>	<b>30%</b>
<b>Local Tea Sales</b>	<b>5%</b>

**Notes to the Accounts**  
for the year ended 31st December

**Schedule No:- 07 Retained Earnings 2010**

Project	Balance as at 31/12/2009	Net Income 2010	Balance as at 31/12/2010
Fertilizer	95,124,001.26	3,539,499.90	98,663,501.16
Head office	12,968,675.62	4,484,973.59	17,453,649.21
LTS	(15,879,209.45)	(1,396,113.84)	(17,275,323.29)
Welfare	38,277,800.38	25,881,545.36	64,159,345.74
M/Factory	(19,939,686.52)		(19,939,686.52)
Factory	(54,853,965.12)	(61,030,393.02)	(115,884,358.14)
Tea Export	(22,252,578.97)		(22,252,578.97)
Tractor	(10,655,142.43)		(10,655,142.43)
Radio	(3,295,816.12)		(3,295,816.12)
<b>Total</b>	<b>19,494,078.65</b>	<b>(28,520,488.01)</b>	<b>(9,026,409.36)</b>

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**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
<b>Factories Cost</b>									
as at 01/01/2010									-
Free Hold Property	202,632,409.80	250,736,451.81			5,418,669.78	21,298,800.86	150,374.00		480,236,706.25
Lease Hold Property	17,015,614.91	42,221,383.15			674,190.70				59,911,188.76
<b>Otheer Projects</b>									-
as at 01/01/2010									-
Free Hold Property	20,799,758.40	2,197,447.34	3,831,445.02	2,264,372.06	3,091,279.24		363,551.06	1,079,263.13	33,627,116.25
Total Cost	240,447,783.11	295,155,282.30	3,831,445.02	2,264,372.06	9,184,139.72	21,298,800.86	513,925.06	1,079,263.13	573,775,011.26
as at 01/01/2010									-
the year									-
Factories	548,185.00	19,967,980.34			121,620.00				20,637,785.34
Otheer Projects			953,644.21	449,107.68	15,108.80	4,078,748.24	1,548,325.00		7,044,933.93
<b>Cost as at 31/12/2010</b>	<b>240,995,968.11</b>	<b>315,123,262.64</b>	<b>4,785,089.23</b>	<b>2,713,479.74</b>	<b>9,320,868.52</b>	<b>25,377,549.10</b>	<b>2,062,250.06</b>	<b>1,079,263.13</b>	<b>601,457,730.53</b>
<b>Depreciation</b>									-
<b>Depreciation for the year</b>									-
<b>Factories</b>									-
Pre Hold Property	3,542,291.04	18,748,795.61			460,537.65	1,823,880.27			24,575,504.57
Lease Hold Property	850,780.72	3,166,603.73			67,416.06				4,084,800.51
<b>Otheer Projects</b>									-
Free Hold Property	570,029.06	219,744.73	382,158.05	226,437.21	301,659.27	4,190.00	36,355.11	107,926.31	1,848,499.74
<b>Accumulated Depreciation</b>									-
<b>Factories</b>									-
Pre Hold Property	12,343,344.09	66,082,470.38			2,134,880.55	7,450,063.43			88,010,758.45
Lease Hold Property		11,043,034.52			177,885.08				11,220,919.60
<b>Otheer Projects</b>									-
Free Hold Property	3,378,256.16	870,353.92	1,522,875.92	678,085.79	1,640,601.92	4,041,038.24	263,505.96	546,460.42	12,941,178.33
<b>Written down value as at 31/12/2010</b>									-
Pre Hold Property	187,294,959.67	185,873,166.16	-	-	2,944,871.58	12,024,857.16	150,374.00	-	388,288,228.57
Lease Hold Property	16,164,834.19	28,011,744.90	-	-	428,889.56	-	-	-	44,605,468.65
<b>Otheer Projects</b>									-
Free Hold Property	16,851,473.18	1,107,348.69	2,880,055.26	1,808,956.74	1,164,126.85	33,520.00	1,612,014.99	424,876.40	25,882,372.11
<b>Total Written down value as at 31/12/2010</b>	<b>220,311,267.04</b>	<b>214,992,259.75</b>	<b>2,880,055.26</b>	<b>1,808,956.74</b>	<b>4,537,887.99</b>	<b>12,058,377.16</b>	<b>1,762,388.99</b>	<b>424,876.40</b>	<b>458,776,069.33</b>

**Notes to the Accounts**  
for the year ended 31st December

**Schedule No:- 09 Capital Workin Progress**

Bulathkohupitiya	910,457.09
Yatinuwara	656,748.00
Pothupitiya	656,748.00
Kothamale	24,805.00
Deraniyagala	20,069,352.33
<b>Total</b>	<b>22,318,110.42</b>

**Notes to the Accounts**  
for the year ended 31st December

**Schedule No:- 09 Immatuered Crops**

Description	Othe Cultivtion	Mawarala	Total
<b>TEA</b>			
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	
Replanting - 2010		2,420,052.46	
<b>Total TEA</b>		<b>5,020,518.86</b>	<b>5,020,518.86</b>
<b>Papaya Cultivation</b>			
Elpitiya	3,000.00		
Walahanduwa	6,367.00		
Clove Cultivation		18,516.36	27,883.36
<b>Total</b>			<b>5,048,402.22</b>

**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					510,027.50	510,027.50
Fertilizer						-
Coir Laf Bags						-
Factory Tea Stock		41,883,450.81				41,883,450.81
Tea -Balance in Stores/Brokers		96,727,278.44				96,727,278.44
General Stocks	17,217.20	7,238,690.94				7,255,908.14
Fertilizer		2,090,201.19				2,090,201.19
Stationery Stocks	420,318.71	64,098.03				484,416.74
Nursery 2000						-
Nursery 2001						-
Nursery 2002						-
<b>Row Materials</b>						-
Dolomite						-
Urea			24,167,419.87			24,167,419.87
WPP Bags			2,555,279.87			2,555,279.87
Sundry Stock						-
<b>Finish Goods</b>			2,031,155.71			2,031,155.71
ST - UM						-
ST - UVA						-
Inventory			100,375.86			100,375.86
Supplies Inventory			183,075.38			183,075.38
Economy 100g						-
Bulk Stocks					417,950.00	417,950.00
Dust No-1 5kg						-
Disposable Assets			16,318.02			16,318.02
Polithene Stock					971,530.63	971,530.63
Dust No-1 Kothmale						-
<b>Grand Total</b>	<b>437,535.91</b>	<b>148,003,719.41</b>	<b>29,053,624.71</b>	<b>-</b>	<b>1,899,508.13</b>	<b>179,394,388.16</b>

**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	236,000.00	118,238,578.17		8,071,711.88	2,496,621.41	19,903,064.75	21,041,545.32	<b>169,987,521.53</b>
Subsidy Reciveable			31,523,905.08					<b>31,523,905.08</b>
Thurusaviya								<b>920,071.00</b>
Account Reciveable -	920,071.00							<b>768,920.00</b>
Ministry Of Tea Small Holders	768,920.00							<b>384,700.00</b>
Randalu Mela Fund	384,700.00							<b>118,130.12</b>
Society Of TSH	118,130.12							<b>80,000.00</b>
TSHDA	80,000.00							<b>-</b>
Share Collection								<b>18,258,377.05</b>
Intrest Recivable		167,160.00		101,663.01	17,989,554.04			<b>68,899.74</b>
Loan TSHDA -Bandarawala			68,899.74					<b>304,164.00</b>
Loan TSHDA -Kandy			304,164.00					<b>-</b>
With Hollding Tax- Reciv-Fertilizer								<b>-</b>
Reciveable from Factory								<b>109,205,095.05</b>
Reciveable from Fertilizer			109,205,095.05					<b>-</b>
RecI. from TSF Welfare Socity-HO								<b>-</b>
Fettilizer Debtors								<b>-</b>
Other Reciveable								<b>-</b>
Fund In TFR-Inter- LTS								<b>-</b>
Fund In TFR-Inter- Fertilizer								<b>-</b>
Insurance Suspense								<b>-</b>
Debtor Rigama								<b>-</b>
Divident A/C	208,129.90							<b>208,129.90</b>
<b>Total</b>	<b>2,715,951.02</b>	<b>118,405,738.17</b>	<b>141,102,063.87</b>	<b>8,173,374.89</b>	<b>20,486,175.45</b>	<b>19,903,064.75</b>	<b>21,041,545.32</b>	<b>331,827,913.47</b>
<b>Deduct (-)</b>								<b>(807,171.00)</b>
Provision for Bad debts				(807,171.00)				<b>0.00</b>
10% Bad debts 2006								<b>0.00</b>
Provision for Bad debts								<b>0.00</b>
10% Bad debts 2007								<b>0.00</b>
Over Provision for Bad debts 2008								<b>0.00</b>
Provision for Bad debts						(19,903,064.75)	(21,041,545.32)	<b>(40,944,610.07)</b>
10% Bad debts 2009								<b>0.00</b>
<b>Grand Total</b>	<b>2,715,951.02</b>	<b>118,405,738.17</b>	<b>141,102,063.87</b>	<b>7,366,203.89</b>	<b>20,486,175.45</b>	<b>0.00</b>	<b>0.00</b>	<b>290,076,132.40</b>

**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
<b>Advances</b>					-
Factory Advances		2,114,901.00			2,114,901.00
BC Agrotechnics		4,843,200.00			4,843,200.00
Jinasena Eng. Technologies		4,560,014.60			4,560,014.60
General Eng. Services		10,269,400.00			10,269,400.00
Mobile Phone-Loan					-
Waterman Construction		13,482,337.50			13,482,337.50
Festival Advance	303,050.00				303,050.00
Depavali Advance					-
Special Advance	27,300.00				27,300.00
Salary Advance					-
Fabric for Staff-Loan					-
<b>Prepayments</b>					-
Bank Bond			311,400.00		311,400.00
Other Deposit	226,000.00				226,000.00
Deposits for Vehicles				666,254.56	666,254.56
Deposit for Rent	692,000.00			120,000.00	812,000.00
CEB					-
Letter of Guarantee					-
<b>Grand Total</b>	<b>1,248,350.00</b>	<b>35,269,853.10</b>	<b>311,400.00</b>	<b>786,254.56</b>	<b>37,615,857.66</b>

**Notes to the Accounts**

*for the year ended 31st December*

**Schedule No:- 14    Short Term Investments**

<b>Description</b>	<b>Head Office</b>	<b>Factories</b>	<b>Fertilizer</b>	<b>Local Tea Sales</b>	<b>Welfare</b>	<b>Total</b>
Investment in Treasury Bills		9,832,840.00			7,469,656.00	<b>17,302,496.00</b>
Seven day Call deposit						-
LC Security Deposit						-
Fix Deposit		21,297,782.44	52,684,787.56	652,525.58	21,949,344.74	<b>96,584,440.32</b>
<b>Grand Total</b>	-	<b>31,130,622.44</b>	<b>52,684,787.56</b>	<b>652,525.58</b>	<b>29,419,000.74</b>	<b>113,886,936.32</b>

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	(56,090.57)							(56,090.57)
A/c no: 2937158					(1,112,680.89)			(1,112,680.89)
A/c no: 2937157			1,555,620.65					1,555,620.65
A/c no: 2937161		(18,723,613.41)						(18,723,613.41)
A/c no: 2937165		155,359.00						155,359.00
Cash in Hand		57,651.48						57,651.48
Cash at Bank		1,443,232.40						1,443,232.40
Cash at Bank-Fertilizer		14,116.04						14,116.04
A/c no: 2937164				613,747.47				613,747.47
A/c no: 2937023						(9,700,079.37)		(9,700,079.37)
A/c no: 2937162						19,003,084.11		19,003,084.11
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		14,034.50	50,000.00					64,034.50
<b>Grand Total</b>	<b>(56,090.57)</b>	<b>(17,039,219.99)</b>	<b>1,605,620.65</b>	<b>613,747.47</b>	<b>(1,112,680.89)</b>	<b>9,376,538.74</b>	<b>875,864.48</b>	<b>(5,736,220.11)</b>

**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	64,435,113.95		114,136,961.36	21,306,389.09	(22,640,170.12)	4,293,186.02	2,654,912.01	<b>184,186,392.31</b>
Factories	(64,435,113.95)	(118,298,513.57)	23,241,818.01	2,435,160.00		9,356,350.18	389,499.00	<b>(147,310,800.33)</b>
Fertilizer	(114,136,961.36)	(23,241,818.01)		358,400.00	(18,719,825.38)	190,000.00	1,650,000.00	<b>(153,900,204.75)</b>
Local Tea Sales	(3,656,196.61)	(1,553,940.00)	(705,884.09)					<b>(5,916,020.70)</b>
Welfare	22,535,170.16	118,298,513.58	19,166,684.93	1,000,000.00			472,056.00	<b>161,472,424.67</b>
Management Factories	(4,293,186.02)	(9,356,350.18)						<b>(13,649,536.20)</b>
Export		(2,654,912.01)	(250,000.00)	(17,847,133.87)	(472,056.00)			<b>(21,224,101.88)</b>
<b>Sub Total</b>	<b>(99,551,173.83)</b>	<b>(36,807,020.19)</b>	<b>155,589,580.21</b>	<b>7,252,815.22</b>	<b>(41,832,051.50)</b>	<b>13,839,536.20</b>	<b>4,383,917.92</b>	<b>2,875,604.03</b>
<b>Inter Factory Current Account Balance</b>								<b>10,786,680.68</b>
<b>Grand Total</b>								<b>13,662,284.71</b>

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**Notes to the Accounts**  
for the year ended 31st December

**Schedule :- 17 Share Capital**

Authorised Share Capital	500,000,000.00
<b>Fully paid ordinary shares (non voting)</b>	
Balance at the beginning of the year	197,984,666.00
Received (Reconciled) during the year	10,974,464.00
<b>Balance at the end of the year</b>	<b><u>208,959,130.00</u></b>

**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
<b>Grand Total</b>	<b><u>437,505,030.22</u></b>

**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
Collection during the year 2010	292,629.30
<b>2005/12/31 Closing Balance</b>	<b><u>134,645,004.88</u></b>

**Schedule :- 20 T.S.H.D.A**

Transactions during the year 1998	11,657,453.84
Transactions during the year 1999	8,174,383.76
Transactions during the year 2000	20,352,904.53
Transactions during the year 2001	1,531,563.69
Transactions during the year 2002	32,178,212.13
Transactions during the year 2003	- 15,893,470.58
Factories	58,001,047.37
Head Office - TSF	2,151,761.41
Local Tea Sales	4,206,269.39
Welfare	9,689,463.13
<b>Grand Total</b>	<b><u>74,048,541.30</u></b>

**Notes to the Accounts**  
for the year ended 31st December

**Schedule :- 21 Creditors and Payables**

**Creditors Continued**

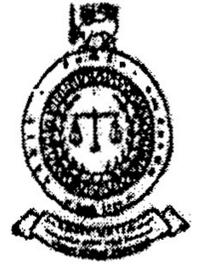
Description	Head Office	Factories	Fertilizer	Local Sales	Welfare	Management Factories	Tea Export	Total
Accounts Payable	31,288.99	122,229,792.20	2,747,800.00			7,166,014.80		132,174,895.99
C/A Kaluthara R/O	189,147.00							189,147.00
C/A Kegalle	102,932.40							102,932.40
C/A Mathra	240,134.48							240,134.48
C/A Rathnapura	249,040.94							249,040.94
C/A Walahanduwa								-
Crediters	40,000.00		16,841,199.00	14,084,139.06				30,965,338.06
Payee Taxes-Payable	89,483.80							89,483.80
Casual Wages-Payable								-
Stamp Duty	101.60		1,701.00	152.00				1,954.60
TSWS Loan Payable	50,000.00							50,000.00
Medical Fund	60,885.10							60,885.10
Welfare Donation	25,000.00							25,000.00
Accounts Payable-Fertilizer Imp								-
Refundable Tender/ Other Dipost	19,950.00		100,000.00	30,609.00				150,559.00
Refundable Agent Fees			50,000.00					50,000.00
With Holding Tax-Payable	2,060,709.05							2,060,709.05
With Holding Tax-Payable-Div								-
With Holding Tax-Payable H/O			98,137.16					98,137.16
Gratuity Provision	1,373,765.99							1,373,765.99
Devident Provision							208,129.90	208,129.90
Payable Welfare								-
Kothmale TSF								-
Fertilizer Suppliers Control A/C			115,680.00					115,680.00
Insurance Suspense								-
Dividends / Insentives Provision-2007			9,403,160.85					9,403,160.85
<b>Total</b>	<b>4,532,439.35</b>	<b>122,229,792.20</b>	<b>29,357,678.01</b>	<b>14,114,900.06</b>	<b>0.00</b>	<b>7,166,014.80</b>	<b>208,129.90</b>	<b>177,608,954.32</b>

**Schedule :- 21 Accrued expenditure & Provisions**

Description	Head Office	Factories	Fertilizer	Local Sales	Welfare	Management Factories	Tea Export	Total
Accrued Expenditure	77,530.00	77,303,481.81	22,024.08	28,500.00	-	-	-	77,431,535.89



**විගණකාධිපති දෙපාර්තමේන්තුව**  
**கணக்காய்வாளர் தலைமை அறிப்பி திணைக்களம்**  
**AUDITOR GENERAL'S DEPARTMENT**



මගේ අංකය }  
 எனது இல }  
 My Number }

පීටීසී/ඒ/විපීසීඑස්/එස්/2010

ඔබේ අංකය }  
 உமது இல }  
 Your No. }

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 திகதி }  
 Date }

2012 මාර්තු ෪ දින

සභාපති  
 නේ ශක්ති අරමුදල

නේ ශක්ති අරමුදලේ 2010 දෙසැම්බර් 31 දිනෙන් අවසන් වර්ෂය සඳහා වූ මූල්‍ය ප්‍රකාශන පිළිබඳව  
 1971 අංක 38 දරන මුදල් පනතේ 14 (2) (සී) වගන්තිය ප්‍රකාර විගණකාධිපති වාර්තාව

සමාංක හා 2012 ජනවාරි 05 දිනැති මාගේ ලිපියට යොමුවේ.

02. ඉහත සඳහන් ලිපිය සමඟ එවන ලද මාගේ වාර්තාවේ ඉංග්‍රීසි අනුවාදය මේ සමඟ එවා ඇත.

*D.*  
 ටී.ඒ.එස්.සමරසිංහ  
 විගණකාධිපති.

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- 02. ලේකම් - මුදල් හා ක්‍රම සම්පාදන අමාත්‍යාංශය



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**கணக்காய்வாளர் தலைமை அறிபதி திணைக்களம்**  
**AUDITOR GENERAL'S DEPARTMENT**



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எனது இல } PY/A/TSF/FA/2010  
My Number }

ඔබේ අංකය }  
உமது இல }  
Your No. }

දිනය }  
திகதி } 05 January 2012  
Date }

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 2010 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 2010 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 21 September 2011.

**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.

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කොළඹ 07, ශ්‍රී ලංකාව

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### 1:3 Scope of Audit and Basis of Opinion

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My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I 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

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### 2:1 Opinion

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In view of the comments and observations appearing in this report, I am unable to express an opinion on the financial statements of the Tea Shakthi Fund for the year ended 31 December 2010 presented for audit.

### 2:2 Comments on Financial Statements

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#### 2:2:1 Presentation of Financial Statements

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In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the draft Annual Report and the Financial Statements of the Fund should be presented for audit within 60 days after the close of the financial year. Nevertheless, the financial statements of the Fund for the year 2010 and the amended financial statements of the Fund had been presented on 03 June 2011 and 27 October 2011 respectively.

#### 2:2:2 Sri Lanka Accounting Standards

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Instead of accounting for grants amounting to Rs.437,505,030 received in the year 2004 and the preceding years for the purchase of Capital Assets in terms of Sri Lanka Accounting Standard 24, those had been shown in the financial statements as a part of the total equity.

### 2:2:3 Accounting Deficiencies

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The following observations are made.

- (a) A consolidated trial balance had not been prepared in order to ensure the accuracy of the overall accounts of the Fund.
- (b) The lands and buildings of the factories of the Pansalthenna and Kothmale procured on the lease basis had also been revalued for Rs.19,750,000 and shown in the accounts.
- (c) Instead of showing the cash and bank balance amounting to Rs.23,856,244 and the Bank overdrafts amounting to Rs.29,592,464 separately in the financial statements, those had been set off against each other and the resulting unfavourable balance of Rs.5,736,220 had been shown in the financial statements. The Bank Reconciliation or the Confirmation of Bank balance in respect of a sum of Rs.9,700,079 included in the above overdraft balance had not been furnished to audit. The Chairman informed me that the above overdraft exists over a number of years due to an accounting error and that action will be taken in the year 2011 to rectify the error.
- (d) A test check of the purchases of fertilizer by the Fertilizer Division revealed that a stock of 120 metric tons of fertilizer valued at Rs.912,000 relating to GRN 42955 to GRN 42961 and 12 metric tons of fertilizer received by the stores under GRN 36827 had been omitted in the accounts for the year under review.
- (e) The value of the land of the Walahanduwa Factory maintained by the Fund had not been computed and brought to account.

### 2:2:4 Unreconciled Control Accounts

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The following observations are made.

- (a) According to the Bank Reconciliation Statement as at 31 December 2010 of a Bank Account maintained by the Welfare Division, an unreconciled difference of Rs.1,067,955 existed.
- (b) According to financial statements presented for audit, unreconciled, unfavourable balance of Rs.1,084,300 and favourable balance of Rs.16,167,972 were existed between the Bank balances and the cash book balances as at 31 December 2010 of the Head Office, the Welfare Division and the Fertilizer Division.
- (c) Non-reconciliations in the opening balances existed in the following Inter-current Accounts of the Local Tea Marketing Division.

Inter Current Account	Opening Balance according to Accounts for 2010	Closing Balance according to the Financial Statements for the year 2009
-----	-----	-----
	Rs.	Rs.
Exports Division	-	(17,847,124)
Head Office	(3,656,197)	21,306,390

#### 2:2:5 Accounts Receivable and Payable

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The following observations are made.

- (a) Provision for bad and doubtful debts had been made 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, action had not been taken to complete the construction works or for the settlement of advances even up to 30 September 2011.
- (c) 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 a Company of Tea Brokers in respect of the years 2006 and 2007 had not been recovered up to 30 September 2011.
- (d) Balances amounting to Rs.25,429,463 and Rs.15,092,477 shown under the Accounts Payable and the Accounts Receivable respectively had been brought forward over a long period without being settled.
- (e) Action had not been taken up to 30 September 2011 to pay the dividends/incentives amounting to Rs.9,403,161 allocated by the Fund from the profit for the year 2007 as payable to the owners of tea smallholdings.
- (f) Expenditure amounting to Rs.74,048,541 incurred by the Tea Smallholdings Development Authority on behalf of the Fund had been brought forward over a long period without any change.

- (g) Instead of settling the unidentified Inter-Regional Current Accounts balances against each other, those had been shown as at the end of the year under the current assets as Rs.13,662,285. Out of that, a balance amounting to Rs.12,845,902 represented balances brought forward from the year 2004.

#### 2:2:6 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) Pay As You Earn Tax – Local Tea Sales Division	7,817,147	Detailed Schedules
(b) Provision for Gratuity - Head Office - Factories	1,373,766 5,730,756	
(c) Debtors-Local Tea Sales Division	5,148,051	
(d) Fixed Assets Procured on lease basis - Kotmale Factory - Pansaltenna	44,605,469	Lease Agreements/Title Deeds
(e) Interest Income on Treasury Bills	6,469,656	Detailed information on Journal Entry No.JVO-WE000008

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

Non-compliance with laws, rules, regulations, etc. observed during the course of audit are given below.

Reference to Laws, Rules, Regulations etc.	Non-compliance
(a) Tea Shakthi Fund Act, Nos.47 of 2000 Section 3 Paragraph 2(iii)	Although it was mentioned that the Deputy General Manager (Finance) of the Tea Small Holdings Development Authority should be appointed as an ex-officio member of the Board of Directors, the Finance Manager should be appointed as a member as there is no such post in the Authority. However he/she had not been appointed as a member of the Board of Directors.
(b) Finance Act, No.38 of 1971 Section 14(3)	The Annual Reports of the Fund for the years after the year 2005 had not been tabled in Parliament.

- (c) Government Financial Regulation
- (i) Financial Regulation 110 A Register of Losses and Damage had not been maintained.
- (ii) Financial Regulation 188(2) Unrealized Cheque deposits totalling Rs.368,967 of the Fertilizer Division had been brought forward over a period exceeding 06 months.
- (iii) Financial Regulation 383 Direct credits valued at Rs.7,987,029 made by the Bank by the end of the year under review had not been identified and adjusted in the accounts.
- (iv) Financial Regulation 396 Action in terms of the Financial Regulation had not been taken on the lapsed cheques valued at Rs.1,160,339 relating to 05 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 2010 should have been presented to the Auditor General before the 15<sup>th</sup> day of the month following, it had not been so done.
- (d) Treasury Circular No.842 of 12 December 1978 A Register of Fixed Assets had not been maintained in terms of Circular.
- (e) Public Enterprises Circular No. PED/12 of 02 June 2003.
- Section 6.5.1 The Draft Annual Report for the year 2010 had not been furnished to the Auditor General even up to 15 September 2011.
- (f) 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 30 September 2011.

### 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 net loss of Rs.28,520,488 as compared with the net loss of Rs.4,730,703 for the preceding year thus indicating an increase of Rs.23,789,785 in the net loss. The increase of the cost of sales, the sales and distribution expenditure and finance costs for the year under review had been the reason for such increase in the net loss.

##### 3:1:2 Analytical Financial Review

According to the Corporate Plan for the years 2008 to 2012, the increase of the annual net profit from factories to Rs.150 million and the increase of the net profit from the Local Tea Sales Division to Rs.5 million by the year 2012 had been targeted. Nevertheless, the progress thereon by the end of the year 2010 had been as follows.

###### (a) Factories Division

The total sales income for the year 2010 as compared with the year 2009 had increased by Rs.166.7 million or 21 per cent. The factory losses of the Fund for the year under review amounting to Rs.41.7 million as compared with the profit of Rs. 5.9 million for the preceding year indicated a deterioration of Rs.47.6 million. The profit/loss of each factory from the year 2007 up to end of the year under review is given below.

Factory	2010	2009	2008	2007
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Deniyaya	1,054	7,913	6,709	18,563
Walahanduwa	558	1,436	1,940	13,107
Mawarala	158	(801)	(1,946)	3,191
Elpitiya	(10,105)	(8,994)	(13,298)	1,991
Hiniduma	(13,223)	(6,636)	(10,015)	(627)
Balangoda	(3,821)	(8,157)	(4,813)	(1,235)
Gilimale	(3,148)	(3,671)	(8,645)	(3,635)
Pansaltenna	(7,010)	(5,725)	(11,015)	(3,513)
Raigam Korale	7,670	16,977	10,712	18,667
Kotmale	(11,348)	(6,120)	(7,430)	(513)
Keppetipola	1,239	10,046	(4,199)	4,584
Passara	6,342	17,162	(1,032)	10,655
Mahaweli	(2,738)	2,345	3,265	16,805
Total	(34,372)	15,775	(39,767)	78,040

Out of the above 13 factories of the Fund, 05 factories had incurred continuous losses during the 04 years from the year 2007. Out of those factories, the production of Gilimale, Balangoda and Hiniduma factories had been stopped from January 2009 and the staff had been shifted to other factories. Even though 02 of the 03 factories had commenced production at present, work at Gilimale Factory had not been commenced. Nevertheless, a sum of Rs.3,173,611 had been spent in the years 2009 and 2010 on the maintenance of that factory.

(b) Local Tea Sales Division  
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The Local Tea Sales Division established in the year 2001, had been incurring losses continuously since the year 2006 due to lack of a marketing mechanism with adequate staff. The loss incurred in the year 2010 amounted to Rs.1.6 million and the total accumulated loss incurred from its inception amounted to Rs.17.3 million.

(c) Fertilizer Division  
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According to the Profit and Loss Account of the Fertilizer Division for the year under review, the profit amounted to Rs.3,539,500 and the loss for the preceding year amounted Rs.5,420,314.

(c) Welfare Division  
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A sum of Rs.14,552,003 had been paid to the Insurance Corporation of Sri Lanka as the insurance premium for the year under review and the respective beneficiaries had received a sum of Rs. 10,805,249. The insurance benefits receivable by 99 members as at 03 February 2011 amounted to Rs.4,090,000.

## 3:2 Operating Review

## 3:2:1 Factories Performance

(a) Statement of Tea Production of each factory form the year 2007 up to the end of the year under review 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	761,754	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
2010	257,830	189,991	310,725	178,077	-	197,829	273,322	103,042	301,755	175,756	328,441	89,478	348,710	2,754,957
Percentage (Decrease)/ Increase as compared with the year 2007	(40.0)	(13.0)	(30.0)	(50.5)	-	(24.1)	(16.7)	(65.6)	(60.4)	(17.9)	(23.7)	(44.8)	(19.9)	(38.5)

The production of tea of all factories in the year under review as compared with the year 2007 had decreased and the overall decrease had been 38.5 per cent. Nevertheless, the production of tea compared with the preceding year had received a slight increase of 5.42 per cent.

- (b) A Statement of Selling Price per Kilogramme of Tea of each factory from the year 2007 up to the end of the year under review is given below.

<u>Year</u>	<u>Name of Factory</u>													<u>Average Price</u>
	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.	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
2010	387	316	374	342	0	335	287	263	313	375	312	300	381	332
Percentage Increase as compared with the year 2007	27.3	31.7	21.0	21.3	0	12.4	23.2	12.4	27.2	20.2	35.6	33.3	21.7	23.9

The selling price of all factories except the Gilimale Factory as compared with the year 2007 indicated an improvement of 23.9 per cent and as compared with preceding year the improvement of the average selling price had been 5.7 per cent.

(c) A Statement of Purchase of Green Leaf by each factory from the year 2007 up to the end of the year under review is given below.

<u>Year</u>	<u>Name of Factory</u>													<u>Total</u>
	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	2,090,902	1,019,880	2,099,483	1,687,326	679,115	1,282,648	1,503,227	1,387,470	3,395,592	1,035,887	1,940,804	759,657	2,050,534	20,932,525
2008	1,580,206	1,079,336	1,718,593	1,472,881	494,538	566,154	1,539,038	1,396,819	3,398,601	872,694	191,983	1,103,400	1,944,701	19,078,944
2009	1,035,305	151,794	1,577,753	865,239	1,267	422,873	1,193,267	801,561	1,770,202	656,593	1,615,684	395,222	1,746,707	12,233,467
2010	1,244,025	884,746	1,506,140	874,488	-	988,307	1,251,739	493,987	1,410,220	856,827	1,491,534	424,476	1,637,597	13,064,086
Percentage (Decrease)/ Increase as compared with the year 2007	(40.5)	(13.2)	(28.2)	(48.2)	-	(22.9)	(16.7)	(64.4)	(58.5)	(17.3)	(23.1)	(44.1)	(20.1)	(37.6)

The purchase of green leaf by all the factories in the year under review as compared with the year 2007 had decreased and that amounted to 37.6 per cent. The purchase of green leaf as compared with the proceeding year indicated an improvement of 830,619 Kifogrammes or 6.8 per cent.

### 3:2:2 Contract Administration

The following observations are made.

- (a) A sum of Rs. 21,743,140 paid from the year 2003 for the construction of buildings in 05 factories belonging to the Fund had been shown under the work-in-progress. Nevertheless, those constructions had been stopped by the end of the year under review.
- (b) Even though a sum of Rs.8,082,256 had been paid on 31 December 2010 to the Urban Development Authority as the instalment payable on the 40 perch block of land valued at Rs. 28 million obtained on lease basis for a period of 50 years for the construction of the Head Office Building of the Fund, the construction of the building had not been commenced even up to 31 August 2011, the date of audit.

### 3:2:3 Underutilization of Funds

The following 05 Bank Accounts of the Fund had been dormant over a long period.

Division	Balance According to Financial Statements	Dormant Period	Balance as at 31 December 2010 as Confirmed by Bank
	Rs.		Rs.
Welfare	{ 9,700,079 73,534	From 2008 From 2004	No Bank Confirmation 46,791
Tea Export	(1,112,681)	-Do -	585,035
Factory Management	{ 866,900 8,964	-Do- -Do-	No Bank Confirmation 447,026

### 3:2:4 Idle and Underutilised Assets

The following observations are made.

- (a) A stock of polythene valued at Rs.971,532 remained idle in the stores of the Local Tea Sales Division from the year 2007 to 30 September 2011.

- (b) Even though a sum of Rs.1,548,400 representing 70 per cent of the total cost of a computer software system, to enable the preparation of accounts jointly by the Head Office and all the factories, amounting to Rs.2,278,360 had been paid in the year under review, the computer system linking the Head Office and factories for preparation of accounts had not been in operation for accounting purposes even by 30 September 2011.

### 3:2:5 Identified Losses

The following observations are made.

- (a) A cash fraud amounting to Rs.1,221,950 had taken place in the Kotmale Tea Factory from 24 February to 10 July 2008. Action had not been taken up to date for the recovery of that amount from the officer responsible for the fraud.
- (b) A stock of outdated finished tea valued at Rs.510,027 of the Local Tea Sales Division had been included in the closing stock since the year 2008.

### 3:2:6 Human Resources Management

The position of the staff of the Fund as at 31 December 2010 is given below.

#### Head Office

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
Senior Level	24	16	08
Tertiary Level	28	35	02
Secondary Level	9		
Primary Level	14	10	04
Total	75	61	14

#### Factories

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
Tertiary Level	68	82	45
Secondary Level	59		
Primary Level	72		
Total	199	97	102

The following observations are made.

- (a) Out of the overall cadre 116 of the Fund or 42 per cent was vacant and the vacancies in the staff grades represented 33 per cent.  
Nevertheless, according to the letter No: DMS/B/02/P1/16 of 05 July 2011 of the Department of Management Services, a Cadre of 90 for the Fund, except the factories, had been approved.
- (b) The Scheme of Recruitment of the Fund had not been approved in terms of the Management Services Circular No.30 of 22 September 2006 even up to 31 October 2011, the date of audit.

#### 3:2:7 Motor Vehicles Utilization

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The following observations are made in connection with the motor vehicles fleet of 13 vehicles and 21 Lorries of the Fund.

- (a) Two double cab motor vehicles made available by the Coconut Development Board had been parked idling for over 06 years without taking action to takeover the ownership and repair or dispose of them even up to 30 September 2011.
- (b) A driver of the staff of the Fund had been released with effect from August 2009 as the President of the All Sri Lanka Federation of Associations and a sum of Rs.548,390 had been spent on that driver as his salary, overtime and travelling expenses during the year under review. Action had not been taken even up to 30 September 2011 to obtain reimbursement of the amount from that institution.
- (c) The balance sum of Rs.6,443,977 shown as payable to the Tea Smallholdings Development Authority as at 31 December 2008 on accounts of the purchase of lorries for 07 factories of the Fund had not been settled up to date. As such the Tea Smallholdings Development Authority had not transferred the ownership of the lorries to the Fund. As such these lorries had been run even without obtaining the revenue licenses contrary to the prevailing laws.

#### 3:2:8 Corporate Plan and Action Plan

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The following observations are made.

- (a) The Corporate Plan prepared for the years 2008 to 2012 had not assigned the responsibilities relating to the targets expected to be achieved during the period of 05 years to the respective officers. The financial values of the targets had not been included in the Action Plan. In the circumstances, the actual physical and financial progress could not be evaluated against the Action Plan.

- (b) The information on the Organization Chart of the Fund had not been included in the Corporate Plan.

3:2:9 Budgetary Control

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Significant variances were observed between the budgeted and the actual amounts, thus indicating that the budget had not been made use of as an effective instrument of management control.

4. Systems and Controls

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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 Current Accounts
- (d) Factory Operations
- (e) Assets Utilization
- (f) Balances Receivable and Payable
- (g) Motor Vehicles Control

H.A.S. Samaraweera

Auditor General