



Tea Shakti Fund

" Committed to service like the sun"

ANNUAL REPORT-2011

MINISTRY OF PLANTATION INDUSTRIES

Content

Page

☉ Introduction	02
☉ Vision, Mission, Objectives	03
☉ Message of the chairman	04 – 05
☉ Financial Highlights	06
☉ Corporate Information	07
☉ Board of Directors & Senior Staff Members	08 – 09
☉ Report of the Board of Directors	10 – 13
☉ Financial and operational Review	14 – 28
☉ Accounting Policies	29 – 38
☉ Balance Sheet	39
☉ Income statement	40
☉ Cash Flow Statement	41
☉ Notes to the Accounts	42 – 61
☉ Statement of Changes in Equity	62
☉ Report of the Auditor General	63 – 82



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

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

TSF is floated with following six major objectives.

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

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

Vision

To be the centre of excellence committed to the advancement of the economic and social well being of Tea Small Holders.

Mission

To manage the Tea Shakthi fund efficiently and effectively in uplifting the standard of living of its members.

Objective

- ④ To inculcate and promote the savings habit in, and to improve the economic and social status of Tea Small Holders;
- ④ To promote necessary investments related to the tea industry.
- ④ To acquire and develop tea factories and to provide other facilities necessary for the manufacture of the produce of Tea Small Holders;
- ④ To promote and to develop the marketing of the produce of such tea factories;
- ④ 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;
- ④ Import, manufacture and sale of fertilizer required for plantation industry;
- ④ To continue as a strong self financing government organization;
- ④ To be a viable and profitable entity and maintain a net profit margin of 10%.
- ④ To achieve a sustainable growth of 25%.
- ④ To identify and systematically manager risk;

Message of the Chairman

I am very much pleased to present the Annual Report and the audited accounts of the Tea Shakthi Fund for the financial year ended on the 31st of 2011.

Tea Industry of Sri Lanka

According to the sources of the Central Bank of Sri Lanka, the overall average prices received in the years 2010 and 2011 at the Colombo tea auction were Rs.370.61 and Rs. 359.89 respectively. Accordingly, the overall average price of the tea auction has decreased. As per the sources indicated above, the local tea production had also decreased by 3.0 million kg in the year 2011 when compared that of in the year 2010.

Eventhough the average selling price per one Kilogram of made tea in the tea factories of the Tea Shakthi Fund in the years 2010 and 2011 were Rs. 336.49 and Rs. 318.27 respectively, it is actually a reduction by Rs. 34.12 and Rs.23.40 respectively when compared with the overall average price received at the tea auction in the previous two years. This implies a decrease in the standard of the tea produced in those factories.

Low level of productivity including the total production, selling cost, selling prices and purchasing of fresh tea leaves and percentage of output of the tea factories had affected the quality of the made tea.

The Performance of the Tea Shakthi Fund

As per the accounts audited, the inability of the Tea Shakthi Fund to achieve a considerable progress in the year under review is a matter of regret. An increase of the loss amounting to Rs. 84.40 million in the year 2011 had reported when compared with the loss amounting to Rs. 28.52 which had reported in the previous year. The major reasons for the increase in the loss was the reduction in the total income by Rs. 36.45 million and the increase of administrative expenses and financial expenses by Rs. 27.77 million in the year under review. Further, writing off of the revaluation profit amounting to Rs. 10.43 million which had taken place in the year 2006 as a result of the evaluation of the fixed assets not owned by the Fund and obtained under leasing had resulted in the deterioration of the financial result.

The situation of the Tea Industry which had already undergone various difficulties was further worsened by the increase in the wages of factory labourers with effect from the month of October 2011.

A decrease in the volume of Tea Shakthi made Tea production by 192,750 Kg was recorded in the made tea production of 2,406,184 Kg in the year 2011 when it is compared with the made tea production of 2,598,934 Kg in the year 2010.

As per the information derived from accounts of the Fertilizer Division, it is a pleasure to record a profit of Rs. 19.64 million in the year under review and to mark a growth of Rs. 14.98 million in the same year when compared that of in the previous year.

Tea Marketing Division had also been able to reduce the loss experienced at the beginning and to record a growth of Rs. 0.7 million.

A Vision for the Future

It is obvious that the Tea Shakthi Fund has to focus its special attention on the following matters owing to the prevailing global financial crisis, increasing prices of fuel, severe competition prevails in the purchase of fire wood and unethical acts conducted by the competitors of the private sector in the production of Tea.

1. Re-evaluation of the projects of Tea production, Fertilizer and Local Tea Marketing for the diversification of strategies and successful utilization of available resources and thereby increasing the market share.
2. Restructuring of the Tea factory Project which has been operating at loss for a long period of time and initiating new tea factories at places where the purchase of tender tea leaves is low or in a satisfactory level.

The major hindrances prevail in the successful implementation of the above tasks is the absence of a well defined policy frame work. Functioning in conformity with the Policy is one of very rare features in the field of Plantation Sector. I am glad to mention that we were able to achieve a progress by forwarding the policy issues of the Tea Shakthi Fund at the Monthly Progress Review Meetings and in the following up activities conducted by the present Minister of Plantation Industries. I firmly believe that we will be able to accomplish the future targets and the development of the Tea Shakthi Fund through the timely evaluation of the progress and deriving policy initiatives regarding the issues with the participation of all the officers serving in the Tea Shakthi Fund. On behalf of the Board of Directors, I would like to pay my heartfelt gratitude to our share holders, Hon. Minister and the Secretary of the Ministry of Plantation Industries and the staff of the Secretary, tea small holders, tea brokers and customers for their cooperation extended to me throughout the year. The advocacy offered to me by the Board of Directors with the intention of safeguarding the future of the Tea Shakthi Fund is highly appreciated.

Noel Padmasiri Kariyawasam
Chairman
Tea Shakthi Fund

Financial Priorities

Financial Summaries of three years as at the 31st of December

	2009	2010	2011
	Rs. Million	Rs. Million	Rs. Million
Income	913.27	904.28	873.58
Operating Expenses	770.09	800.77	791.84
Gross Profit	143.17	103.51	81.73
Other income	34.19	67.14	52.47
Financial Expenses	6.75	18.57	25.91
Net Profit/ Loss	(4.73)	(28.52)	(84.40)
Dividends	No	No	No
Total Assets	1150.96	1115.04	1109.30
Net Assets	679.83	213.80	115.53

Corporate Information

Name : Tea Shakthi Fund

Address : No.553 A, Madiwela Road, Thalawathugoda.
Telephone No: 011-7421121 Fax: 011-2796537,
011- 7421122 E-mail – tsf@teashakthi.gov.lk

Incorporated Act : Tea Shakthi Fund Act No. 47 of 2000

Year of Incorporation : 2000

Nature of the Business

- *Purchasing of fresh tender tea leaves from tea small holders on a bought leaf basis in terms of Tea Commissioner's Regulations and manufacturing and marketing tea through legally authorized channels
- *Mixing of fertilizer materials as per a recommended formula and selling of fertilizers to tea planters especially to tea small holders.
- *Distribution of tea blends for customers in the local market.

Auditors : Auditor General's Department

Bankers : Bank of Ceylon

Board of directors

Mr. Noel PadmasiriKariyawasam	- Chairman – Tea Small Holdings Development Authority and Tea Shakthi Fund
Mr. M.F.S.W. Stembo	- Member Observing
Mrs. SanjeewaniDayaratne	- Department of Treasury Operations
MrS.D.Nandasena/ Mr. P.B. Obeysekera	- General Manager, Tea Small Holdings Development Authority
Ven. Uhan-ovitaWimaladhammaThero	- Member Observing
Mr. WimalJayawardene	- Additional Secretary (Ministry of Plantation Industries)
Mr. G.W.D.P. Senanayake	- Chief Accountant(Ministry of Plantation Industries)
Dr. S.S.B.D. Jayawardene	- Member Observing
Mr. E.A.J.K. Edirisinghe	Member Observing
Mr. NevilRatnayake	- Chairman, All Ceylon Tea Small Holdings Divisional Society Organization
Mr. G.W. Jayawardene	- Chairman, Galle Tea Small Holdings Divisional Society Organization
Mr. J.M.B.J. Bandara	- Chairman,Ratnapura Tea Small Holdings Divisional Society Organization
Mr. K.L. Gunaratne	- Chairman,Kalutara Tea Small Holdings Divisional Society Organization
Mr. N.M.R. Jayatileke	- Chairman,Kegalle Tea Small Holdings Divisional Society Organization
Mr. K.D. Muhandiram	Chairman,Uva Tea Small Holdings Divisional Society Organization
Mr. W.R.S. Karunaratne	- Chairman,Nuwara-Eliya Tea Small Holdings Divisional Society Organization
Mr. B.G. Abeysinghe	- Chairman, Kandy Tea Small Holdings Divisional Society Organization
Mr. D.J.I.T. Fernando/ Mr.M.B. Cyril	- Secretary, Board of Management

Senior Staff

Mr. M.F.S.W. Stembo	Chief Executive Officer (Acting) (up to 05/2011)
Mr. A.J.M.D.P.B. Aviruppola	Chief Executive Officer (from 05/2011)
Mrs. P. Abeynayake	Chief internal Auditor
Mr. P.G.R. Tissa	Chief Accountant
Mr. Prasanna Edirisinghe	Chief Manager- Factories (Acting)
Mr. E.A.L. Edirisinghe	Manager (fertilizer)
Mr. W.B.T. Liyanage	Mechanical Engineer
Mr. E.A.D.M.A. Siriwardene	Accountant
Mr. M.A. Indikaratne	Manager- Welfare
Mr. R. Godakandaarachchi	Manager- Factories
Mr. Ananda Dhanasiri	Manager- Factories
Mr. A.J.R. Seneviratne	Manager- Factories
Mr. S.B.G.A.S.S. Bandara	Manager- Factories
Mr. D.M.N.P. Dissanayake	Manager- Factories
Mr. U.G.N. Manoj Kumara	Manager- Factories
Mr. R.U. Jayasekera	Manager- Factories

Report of the Board of Directors

We are pleased to report the performance of the Tea Shakthi Fund for the financial year ended on the 31st December 2011. Amidst the increasing trends in labour wages and other expenses, the Tea Shakthi Fund has been able to achieve a satisfactory and a reasonable level of progress in the previous year.

Major Activities

Major activities of the Tea Shakthi Fund have been analyzed in the page No. 07 and the change that took place in the year 2011 is the establishment of the Head Office in another place. No considerable alterations have taken place other than that.

Revenue Earned from Operations

Revenue earned from operations of the Tea Shakthi Fund during the financial year and the results of such operations have been included separately in the final accounts report given in the pages starting from 34 to 56.

Future Development

For 12 tea factories in operation,

- Establishment of factory Consultation Committees.
- Obtaining a higher price for made tea through brokers.
- Modernization of old machinery and repairing them.
- Anticipating to minimize the loss by leasing Tea Shakthi factories to Tea Shakthi Societies; and

Due promotion of distribution activities of fertilizer by the warehouse situated at Aramanagolla, Horana and stabilizing the local tea market by producing superior quality tea by the Local Tea Marketing Division.

Profits and Appropriations

Details regarding the sales and operational benefits obtained in relation to the year are as follows.

	2010 (Rs.)	2011 (Rs.)
Income earned from brokers' sales	781,932,988.34	745,024,496.04
Local tea sales	27,896,232.94	29,230,115.96
Sales of Fertilizer	34,596,272.50	29,553,027.50
Other Income	1,304,024.27	13,012,698.75
Income from waste tea	4,201,485.00	6,417,758.00
Discount from sales	-	(2,908,910.60)
Fertilizer Subsidy (Public)	54,354,087.21	53,249,063.40
Total Income	904,285,090.26	873,578,249.05
Total Operating Income	170,656,594.12	134,204,275.32
Administrative Expenses	(150,893,995.39)	(171,325,476.93)
Sales and distributing Expenses	(29,711,427.75)	(21,371,241.69)
Operating Profit before taxation	(9,948,829.02)	(58,492,443.30)
Financial Cost	(25,910,050.50)	(18,571,658.99)
Retained earnings	(9,026,409.72)	(93,428,903.52)

Dividends and Reserves

No dividends have been recorded during the year under review.

Corporate Donations

Any type of corporate donations had not been reported in the year 2011.

Capital Expenditure

Details regarding property, machinery and equipment of the Tea Shakthi Fund have been mentioned in the schedule No. 08.

Market Value of Non Current Properties

Further, the Tea Shakthi Fund was not in the possession of tangible and non current properties as at the 31st of December 2011.

Contributory Capital

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

Lease Agreements

Lease Agreements were entered into with Kalubovitiyana Tea Company and Hindurangala Tea Small Holdings Development Society on the basis of providing 25% of annual profit to the Fund earned by Hiniduma Tea Factory which is belonged to the Tea Shakthi Fund and on the basis of paying Rs.10 per one Kilogram of tea produced by Gileemale tea factory or paying a minimum monthly rental of Rs. 75,000 to the Fund.

Compliance with Applicable Rules and Regulations

We declare to the best of our knowledge that there had been no violations or any such situation that may create material financial adjustments that may be included in the financial statements or that may violate rules and regulations of the Fund or the jurisdiction within it.

Directors

The Board of Directors of the Tea Shakthi Fund has been mentioned in the page No. 09.

Consideration/ Preferences of Directors Regarding Contracts and Proposed Contracts.

No preferences were made by any Director in relation to any contracts entered into with or proposed to be entered into with the Tea Shakthi Fund during the year ended on the 31st of December 2011.

Each and every member of the Board of directors is responsible for informing the other members of the Board regarding their relationship or the preference when a member of the Board is having a certain relationship or a preference on a certain matter and thereby refraining from casting votes when they have to cast their votes in relation to such matters.

Environmental Protection

No adverse effects on the environment happen as a result of any of the business activities of the Tea Shakthi Fund. The policy of the Tea Shakthi Fund is to maintain the level of severe damages that may happen on the environment to its minimum while developing cooperation with relevant authorities and to function in compliance with their directions.

Going Concern

After reviewing the financial statements and considering the contribution made by small holders, forecasts, budget, requirements for borrowing, existing liabilities, financial tolerability, financial adaptability for changing environments, product and market trends, management strategies and strengths, weaknesses 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 the preparation of financial statements.

Equitable Treatment to All Statements and All the Stake holders

We value the patronage of our stake holders and the Fund has made all its endeavour to ensure equitable treatment to all the stake holders.

The Auditors

The audit of the financial statements of the Tea Shakthi Fund for the year ended on the 31st December 2011 was carried out under the directions of the Auditor General in pursuance of the Provisions stipulated in the Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka which read in conjunction with Section 13 (1) of the Finance Act No. 38 of 1971.

Review of Financial Operations

Review of Operational Results

The loss has increased up to Rs. 55.88 million in the year 2011 as the conversion expenses have increased by Rs. 21 million when compared with that of in the year 2010 in an instance where the revenue of the year 2011 falls by Rs. 31 million when compared that of in the year 2010. Eventhough this situation was financially intolerable to the Fund, the ability of the Fund to retain all its projects without allowing them to be collapsed was a huge victory achieved by the Fund.

The financial cost has increased when compared with that of in the year 2010. However, we have been able to reduce operational expenditure by Rs. 9.93 million. When compared with that of in the years 2009 and 2010, the revenue of the year 2011 has decreased by Rs. 8.99 million and Rs. 30.7 million respectively.

The Controlling Divisions of the Tea Shakthi Fund have been able to reduce the operational cost by Rs. 8.93 million though the inflation has gone up when compared with the inflation of the previous year.

The revenue gained in the year 2011 was Rs.873.58 million only which was a drop amounting to Rs. 30.70 million When compared with the revenue of Rs. 904.28 in the year 2010.

Local Tea Production in the Year 2011

As per the statistics of the Sri Lanka Tea Board, the local made tea production in the year has dropped by 3.0 million when compared with the production of the year 2010. Further, the price of one Kilogram of made tea had been reduced in the year 2011 when compared with that of in the year 2010.

Tea production of Sri Lanka in the year 2011

Zone	Amount- Million Kg 2010	Amount- Million Kg 2011
Up country	79.1 (23.9%)	79.2 (24.1%)
Mid country	56.1 (16.9%)	52.6 (16.0%)
Low Country	192.2 (59.2%)	196.2 (59.9%)
Total	331.4	328.4

Source: Tea Board, Sri Lanka.

General Prices at the Tea auction, Colombo (Price per Kilogram)

Zone	Price per Kilogram 2010	Price per Kilogram 2011
Up country	337.82	329.95
Mid country	330.88	319.77
Low Country	393.40	381.27
Total	370.61	359.89

Source: Tea Board, Sri Lanka.

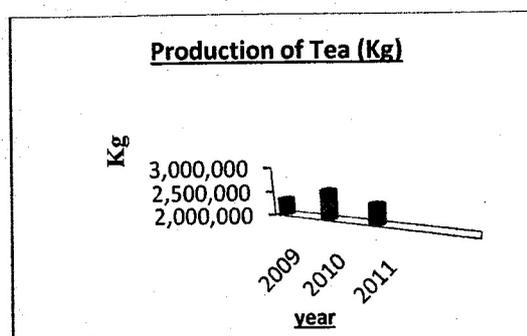
Review of Operational Output of the Factory

Production activities of one tea factory from among the thirteen tea factories was terminated temporarily during the year under review and thereby only twelve factories were operating during the year. Construction activities of Deraniyagala and Yatinuwara factories have already been commenced and further, it is expected to start manufacturing activities of Deraniyagala and Yatinuwara factories in the years 2012 and 2014 respectively.

The management of the Tea Shakthi Fund has focused their special attention on the nine factories that had been functioned at a loss during the year 2011 and the management has been making a great effort in transforming such factories into profitable entities.

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

Year	Production of Tea (Kg)
2009	2,343,289
2010	2,598,934
2011	2,406,184



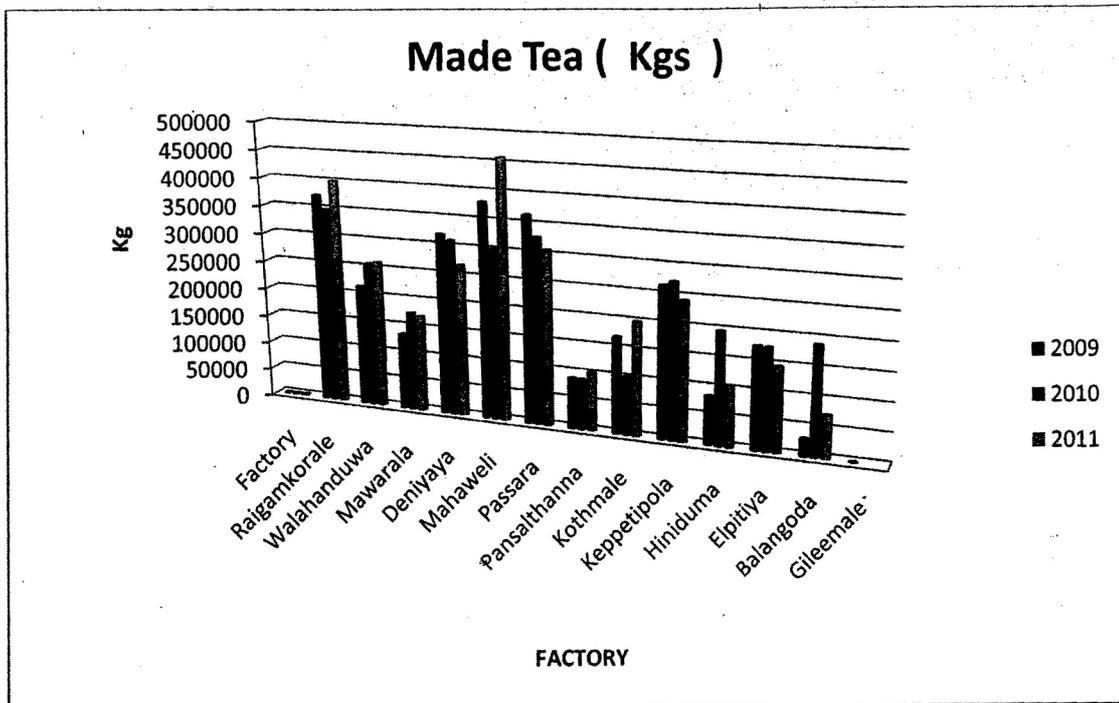
Source: Tea Shakthi Factory Division

It is expected to uplift the total tea production which had fallen down to 2.4 million Kg in the year 2011 upto 2.8 million Kg during the year 2012.

Made Tea (Kilograms)

Factory	2009	2010	2011
Rigamkorale	373,228	348,710	400,380
Walahanduwa	215,419	257,831	260,931
Mawarala	135,765	175,756	171,257
Deniyaya	320,422	310,725	269,055
Mahaweli	381,466	301,755	458,806
Passara	364,673	328,441	307,929
Pansalthenna	89,759	89,478	104,900
Kotmale	170,888	103,042	200,027
Keppetipola	266,069	273,322	243,507
Hiniduma	86,080	197,829	106,607
Elpitiya	178,521	178,077	148,022
Balangoda	30,799	189,991	74,291
Gileemale	253		
Total	2,613,342	2,754,957	2,745,710.5

Made Tea (Kilogram)

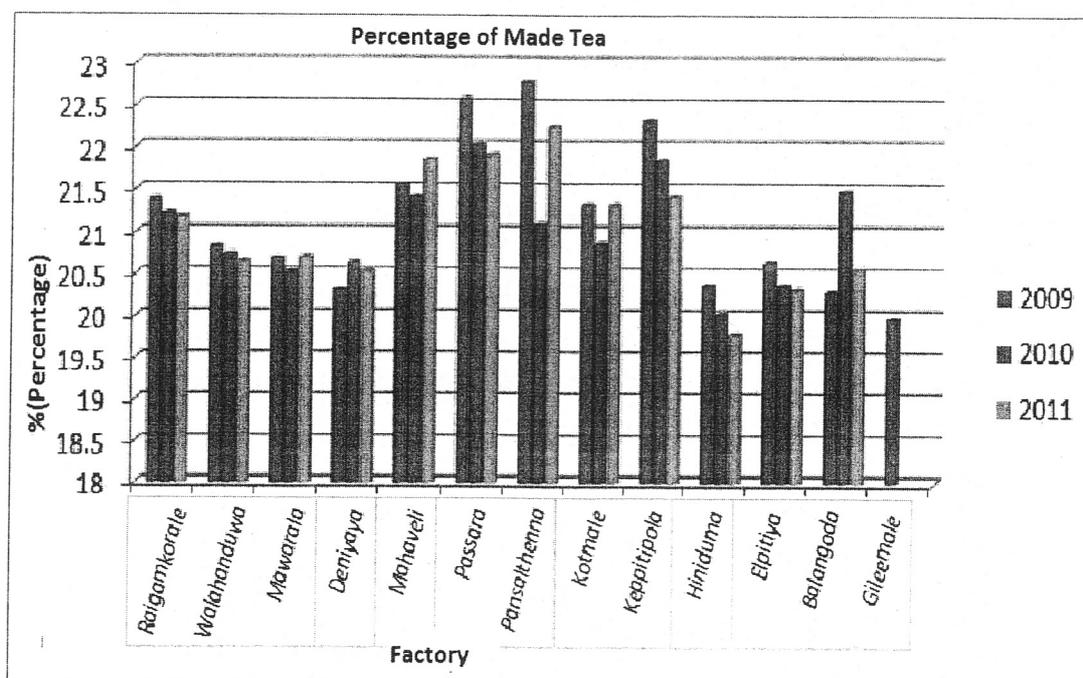


The percentage of made tea produced in all the factories has reduced during the year under review when compared to that of in the years 2009 and 2010. Only four (04) factories have achieved the anticipated percentage of 21.50. This factor has directly affected the profits earned in the year 2011.

In 2010 and 2011, Gileemale tea factory which was one of the tea factories had stopped its manufacturing activities and only factories located in the up country were capable of producing the anticipated percentage of made tea while the factories located in the low country were unable to achieve the anticipated percentage of made tea. Hiniduma factory had produced the minimum percentage of made tea among the factory system of the Tea Shakthi Fund and continuation of this situation may create a crisis situation in this factory. Therefore, the Management of the Tea Shakthi Fund has decided to focus their special attention in this regard.

Percentage of made Tea (%)

Factory	2009	2010	2011
Rigamkorale	21.37	21.21	21.17
Walahanduwa	20.81	20.73	20.64
Mawarala	20.68	20.51	20.7
Deniyaya	20.31	20.63	20.52
Mahaweli	21.55	21.4	21.85
Passara	22.57	22.02	21.91
Pansalthenna	22.77	21.08	22.24
Kotmale	21.32	20.86	21.32
Keppetipola	22.3	21.84	21.41
Hiniduma	20.36	20.02	19.78
Elpitiya	20.63	20.36	20.32
Balangoda	20.29	21.47	20.56
Gileemale	19.97		

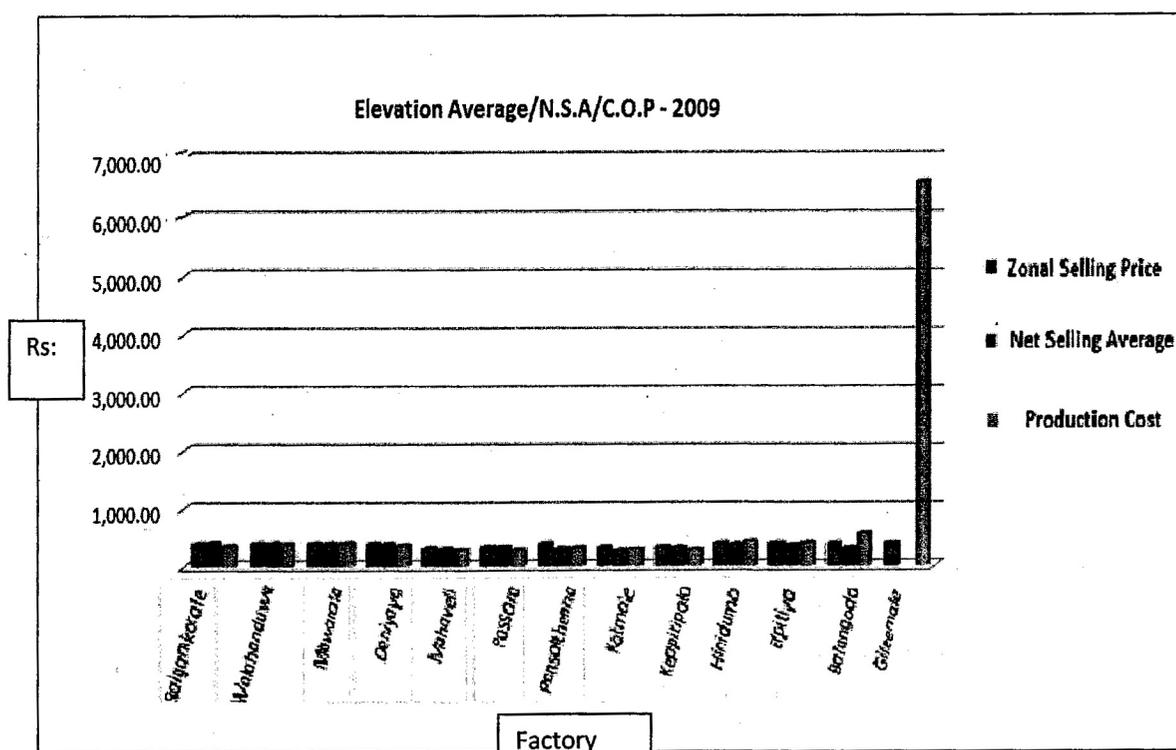


Elevation Average / N.S.A / C.O.P – 2009

The amount of made tea produced was not sufficient when compared with the harvest achieved and the tea factories that are situated in up country and mid country were able to produce an amount of made tea that was actually more than the expectation of the Fund.

Any of the factories of the Fund located in the low country was unable to achieve the expected amount of made tea during the year 2011. Even though the harvest of tender tea leaves in the year 2011 was more than that of in the year 2010, the factories were unable to produce the amount of made tea expected by the Fund due to the decrease in the production of made tea in the year 2011. This situation had unfavourably affected the profitability of the factories.

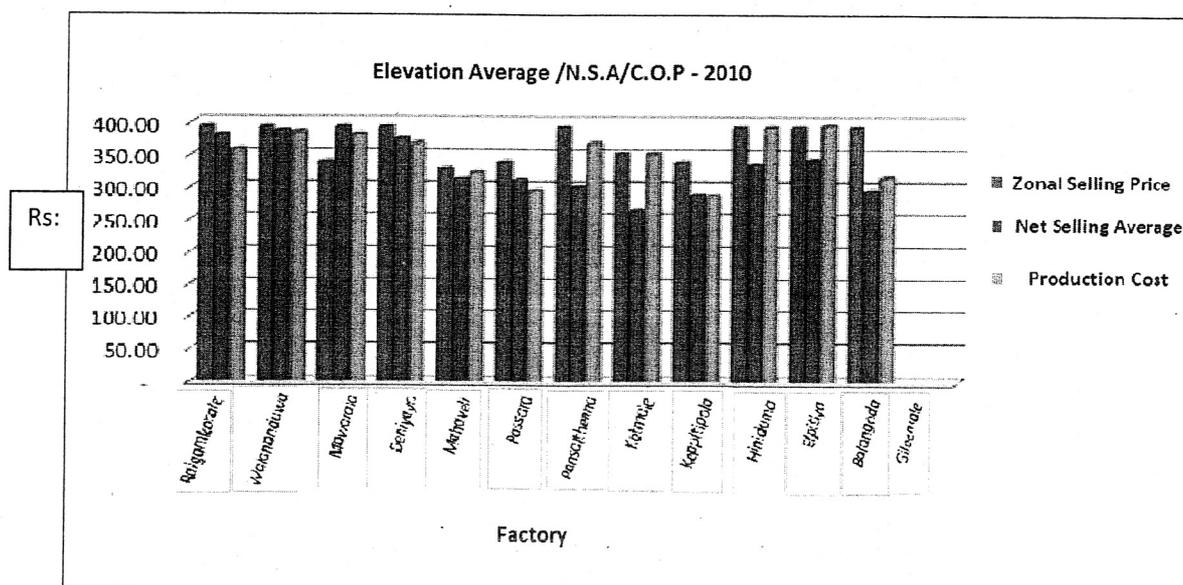
Factory	2009		
	Elevation Ave.	N.S.A	C.O.P
Raigamkorale	387.70	399.80	355.01
Walahanduwa	387.70	388.80	384.38
Mawarala	387.70	387.37	394.99
Deniyaya	387.70	384.78	360.44
Mahaweli	311.22	295.63	281.42
Passara	329.89	330.90	282.45
Pansalthanna	387.70	298.95	316.30
Kothmale	328.96	267.59	283.85
Keppetipola	329.89	316.59	277.64
Hiniduma	387.70	367.49	422.10
Elpitiya	387.70	351.90	395.55
Balangoda	387.70	304.61	558.91
Gileemale	387.70		6,598.32



Only three factories out of the twelve factories in operation during the year 2011 were in a profitable status and all the other nine factories were operating at a loss. Undisputedly, this has become a severe problem encountered by the Tea shakthi Fund. Eventhough, Tea factories of the Tea Shakthi Fund located in the low country had earned profits in the year 2010, they had been operating at severe losses during the year under review.

Elevation Average / N.S.A / C.O.P – 2010

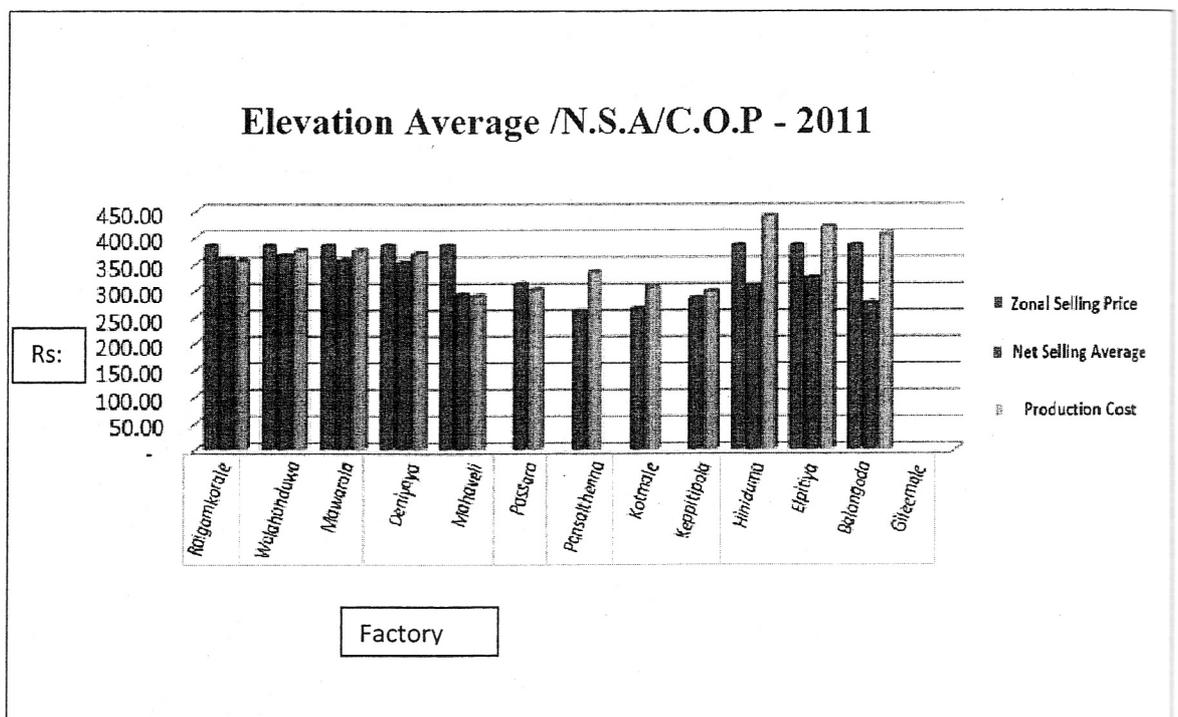
Factory	2010		
	Elevation Ave.	N.S.A	C.O.P
Raigamkorale	392.48	380.54	357.39
Walahanduwa	392.48	386.90	384.86
Mawarala	338.32	392.48	381.41
Deniyaya	392.48	374.40	367.67
Mahaweli	327.88	312.83	322.50
Passara	338.32	311.50	295.01
Pansalthanna	392.48	300.28	367.65
Kothmale	350.46	263.27	351.23
Keppetipola	338.32	286.88	286.08
Hiniduma	392.48	335.23	392.78
Elpitiya	392.48	341.85	395.78
Balangoda	392.48	294.99	316.03
Gileemale			



The cost of production has increased due to the lack of attention of the Fund regarding the elevation selling prices and as a result the net average selling prices of the factories had gone up and factories were operating at a loss.

Elevation Average / N.S.A / C.O.P – 2011

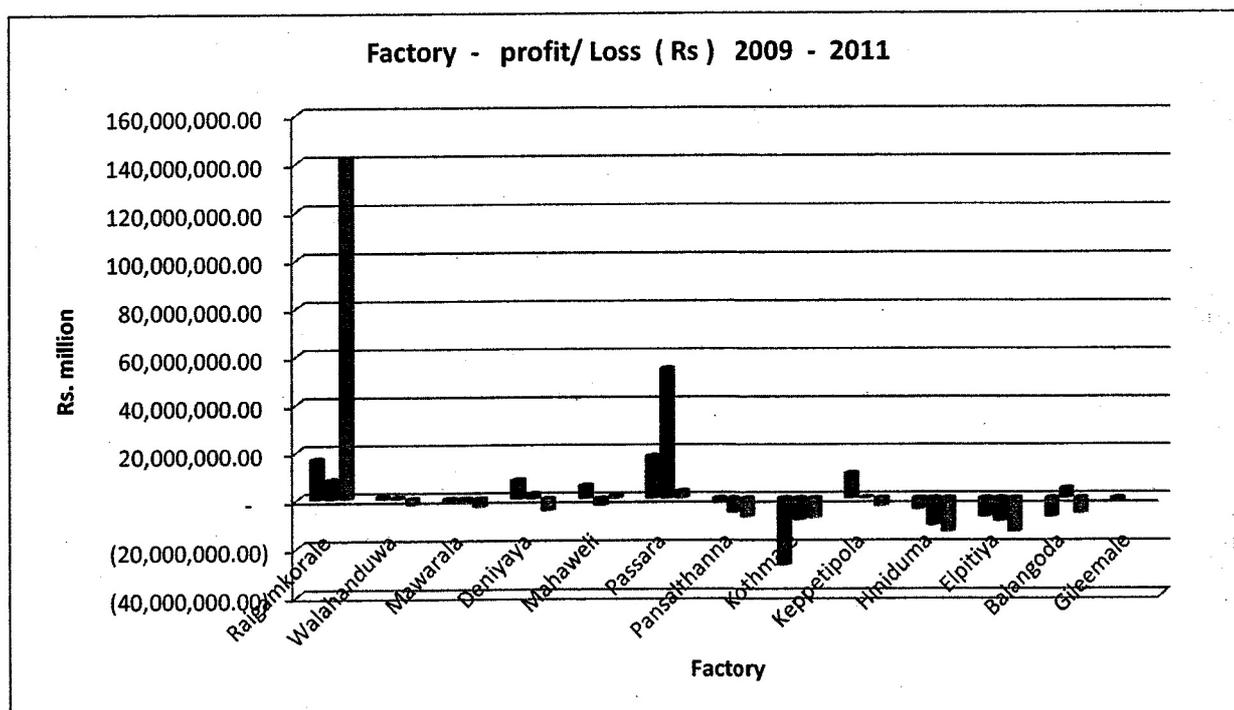
Factory	2011		
	Elevation Ave.	N.S.A	C.O.P
Raigamkorale	382.95	359.62	354.38
Walahanduwa	382.95	364.88	374.39
Mawarala	382.95	354.52	374.25
Deniyaya	382.95	349.87	368.45
Mahaweli	382.95	291.26	288.23
Passara		311.05	300.95
Pansalthanna		259.80	334.23
Kothmale		265.14	306.45
Keppetipola		283.89	297.70
Hiniduma	382.95	307.43	439.31
Elpitiya	382.95	322.64	417.57
Balangoda	382.95	275.35	403.85
Gileemale			



This unfavorable situation had occurred in the year 2011 as a result of non-availability of expected amount of made tea when compared that with the harvest obtained due to the shortcomings taken place in the manufacture of tea in factories even though the harvest obtained is quite sufficient.

Factory Division - Profit and Loss (Rupees) 2009 – 2011

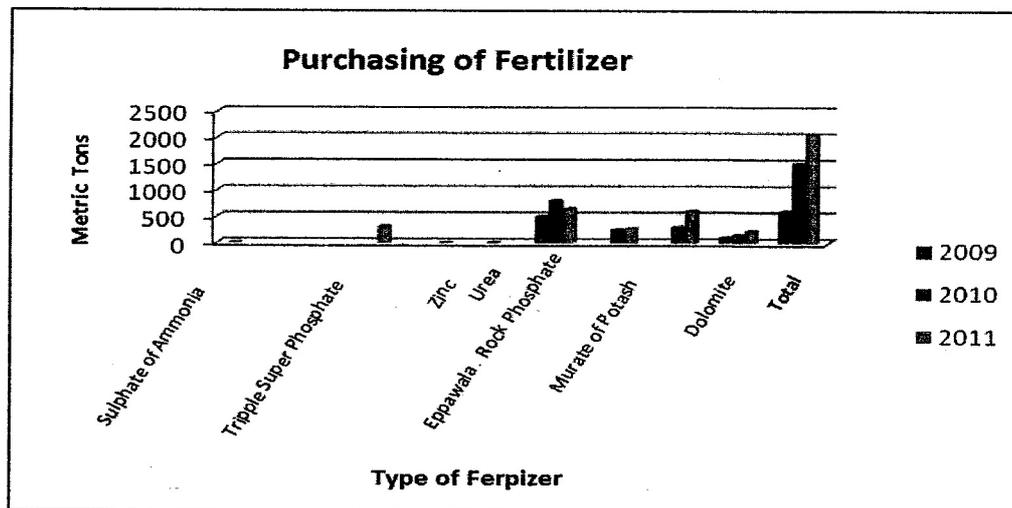
Factory	Profit/Loss		
	2009	2010	2011
Rigamkorale	16,716,882.12	8,072,636.50	141,885,453.21
Walahanduwa	952,151.98	525,975.24	(2,481,449.06)
Mawarala	(1,034,529.30)	(1,151,201.80)	(3,378,900.61)
Deniyaya	7,799,071.48	2,091,179.25	(4,999,041.90)
Mahaweli	5,421,595.22	(2,917,519.15)	1,390,182.18
Passara	17,668,406.85	54,159,992.09	3,110,082.90
Pansalthenna	(1,957,318.65)	(6,028,132.86)	(7,807,669.79)
Kotmale	(27,778,638.88)	(9,063,574.32)	(8,263,115.37)
Keppetipola	10,363,387.55	218,657.60	(3,362,831.67)
Hiniduma	(4,700,828.80)	(11,385,658.95)	(14,059,331.16)
Elpitiya	(7,792,441.65)	(9,603,692.61)	(14,051,681.00)
Balangoda	(7,832,185.70)	3,997,410.64	(6,546,210.70)
Gileemale	(1,669,374.14)		
Total	6,156,178.08	28,916,071.63	81,435,487.03



Recording losses by six factories except Raigamkorale tea factory out of seven factories belonged to low country area was a very unfortunate situation encountered by the Tea Shakthi Fund and factories which had recorded profits in previous years recorded losses in the year 2011. Passara tea factory which was among the factories belong to up country and mid country was able to maintain its profitable status continuously and even though Mahaweli Tea Factory had operated at loss in the year 2010 and it regained its profitable status again in the year 2011 as a result of the great effort made in that regard by the Administration of the factory. The issue that factories such as Walahanduwa, Deniyaya, Keppetipola and Balangoda which were among profitable factories in the year 2010 were operated at loss in the year 2011 should be immediately brought for the attention of the Tea Shakthi Fund in designing its future plans. Even though Hiniduma and Elpitiya factories have been operating at loss amounting to more than Rs. 28,100,000, Tea Small Holders have kept their confidence on us further as a result of maintaining such factories actively for them and it was a great victory achieved by the Tea Shskthi Fund.

Purchasing of Fertilizer

Type	Amount (Metric Ton)		
	2009	2010	2011
Sulphate of Ammonia			312
Tripple Super Phosphate			2
Zinc		5	
Urea	500	800	650
Eppawala Rock Phosphate		249	270
Murate of Potash		300	600
Dolomite	100	148	225
Total	600	1502	2059

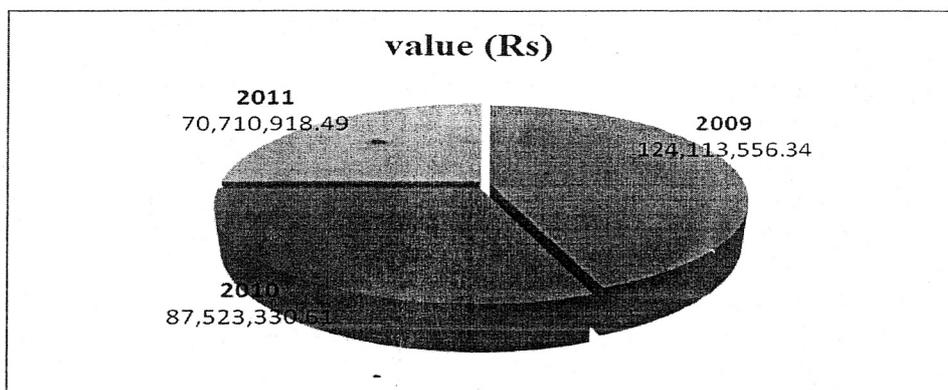
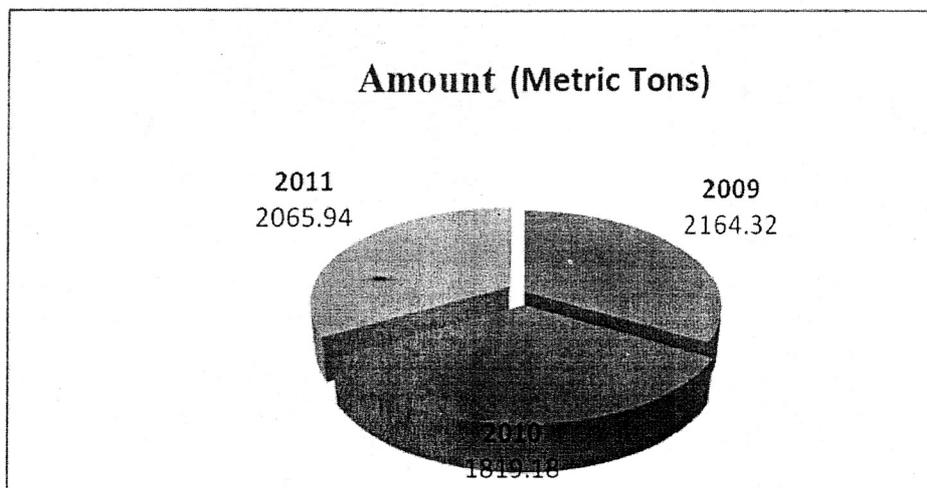


In the purchase of fertilizer, Sulphate of Ammonia and Tripple Super Phosphate had been purchased as new purchases and Fertilizer sector had been properly administered by the Head Office of the Fund and purchasing of Fertilizer had been effected more than that of in the previous years.

Sale of Fertilizers

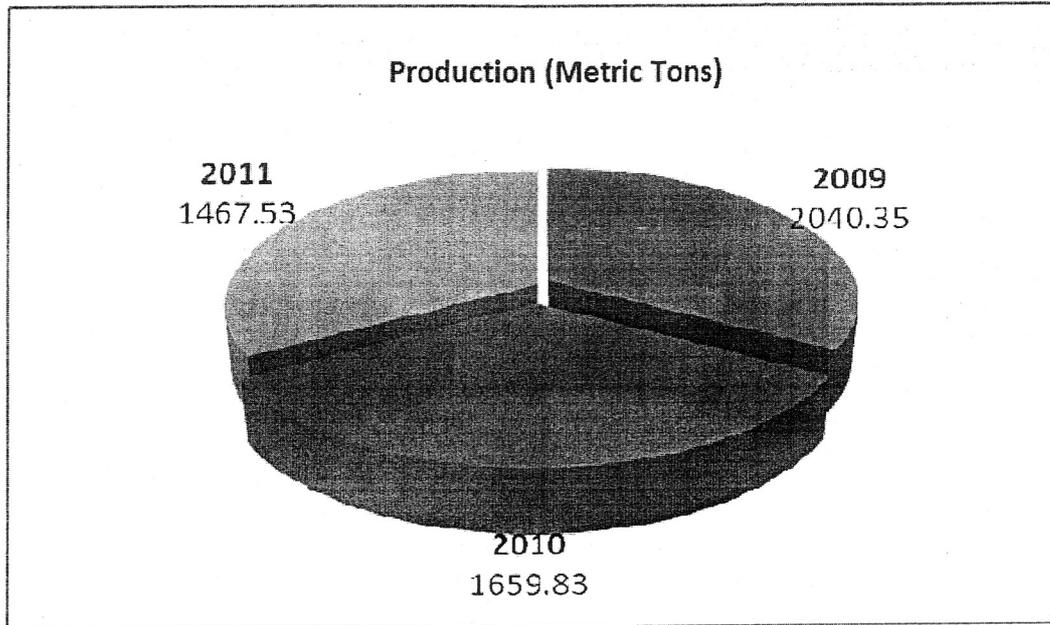
Year	Amount (Metric Ton)	Value (Rs.)
2009	2164.32	124,113,556.34
2010	1819.18	87,523,330.61
2011	2065.94	70,710,918.49

A growth in the sales of fertilizer had recorded in the year 2011 when compared that of in the year 2010. It is a considerable growth achieved by the Fertilizer Sector.



Production of Fertilizer

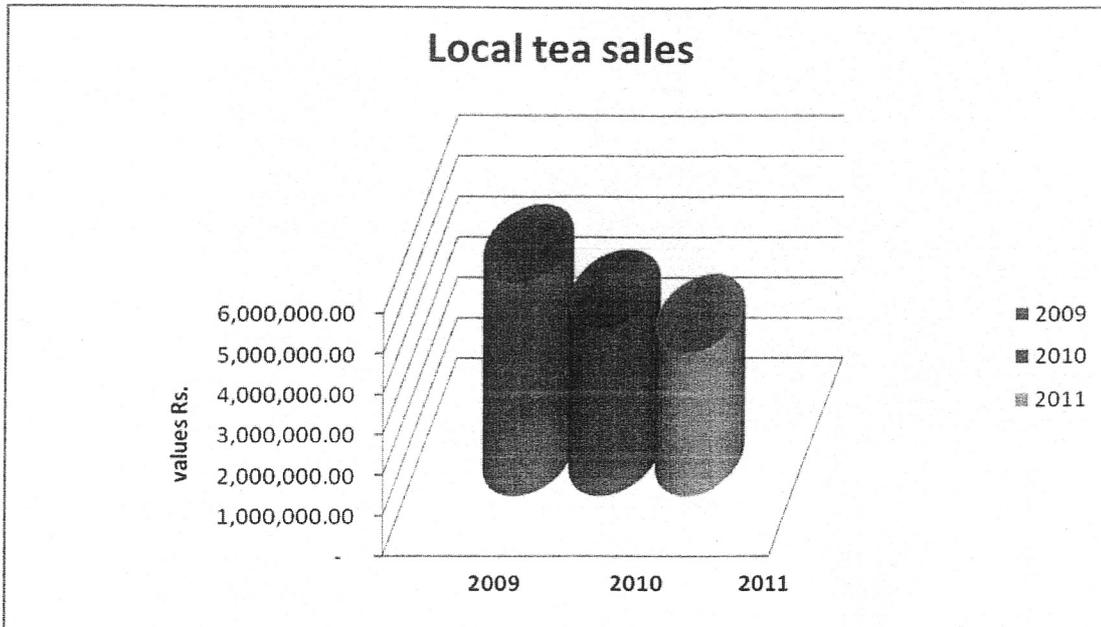
Year	2009	2010	2011
Production (Mt)	2040.35	1659.83	1467.53



The production of fertilizer is effected in the Horana Aramanagolle Fertilizer warehouse and the fertilizer production in the year had dropped by 572.82, 193.3 metric tons respectively in the year when compared that of in the years 2009 and 2010.

Local Tea Sales

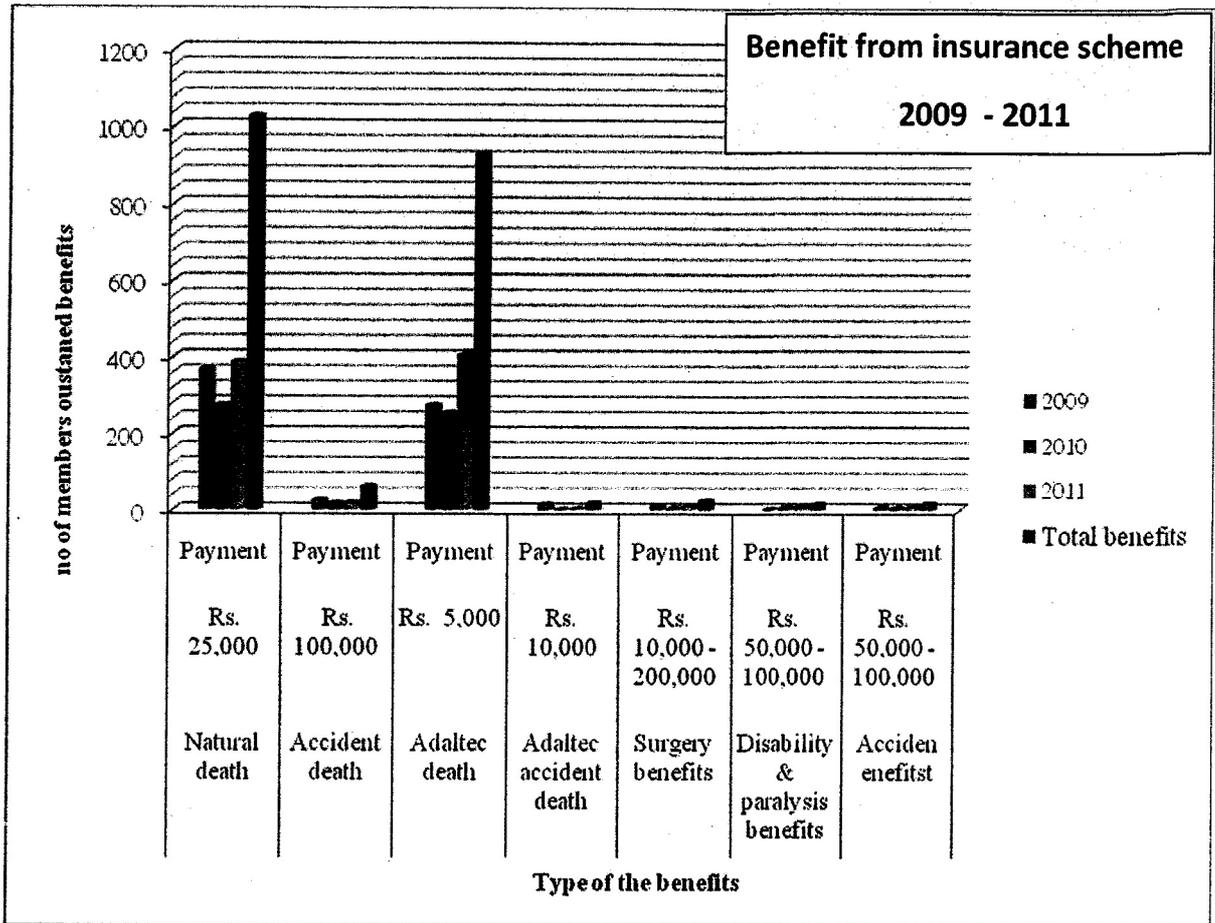
Year	2009	2010	2011
Value (Rs.)	5,291,574.50	4,174,807.94	3,569,103.00



A continuous decrease had reported in the local Tea Marketing Division in the year 2011 when compared that of in the years 2009 and 2010. It has been depicted in the note and the sales of the year 2011 had dropped by Rs. 1,722,471.50 million when compared that of in the year 2009. This situation has directly affected the net loss of the Tea Shakthi Fund in the year 2011. It is expected to increase sales in the year 2012 by launching Marketing Promotion Programs and by increasing the quality of tea. When the Cost of Production of tea is taken into consideration, there is a reduction in the year 2011 when compared to that of in the years 2009 and it is a favorable outcome for the Marketing Division

TEA SHAKTHI WELFARE GROUP INSURANCE 2009 – 2011

		Accidental Deaths	Allowances to elders (Deaths)	Allowances to elders	Surgeries	Disabilities, Strokes	Accidents
	Rs. 25,000	Rs. 100,000	Rs. 5,000	Rs. 10,000	Rs. 10,000 - 200,000	Rs. 50,000 - 100,000	Rs. 50,000 - 100,000
	Payments	Payments	Payments	Payments	Payments	Payments	Payments
2009	367	25	273	14	10	2	5
2010	273	17	253	1	4	5	4
2011	386	19	405	3	10	8	8
Total	1026	61	931	18	24	15	17

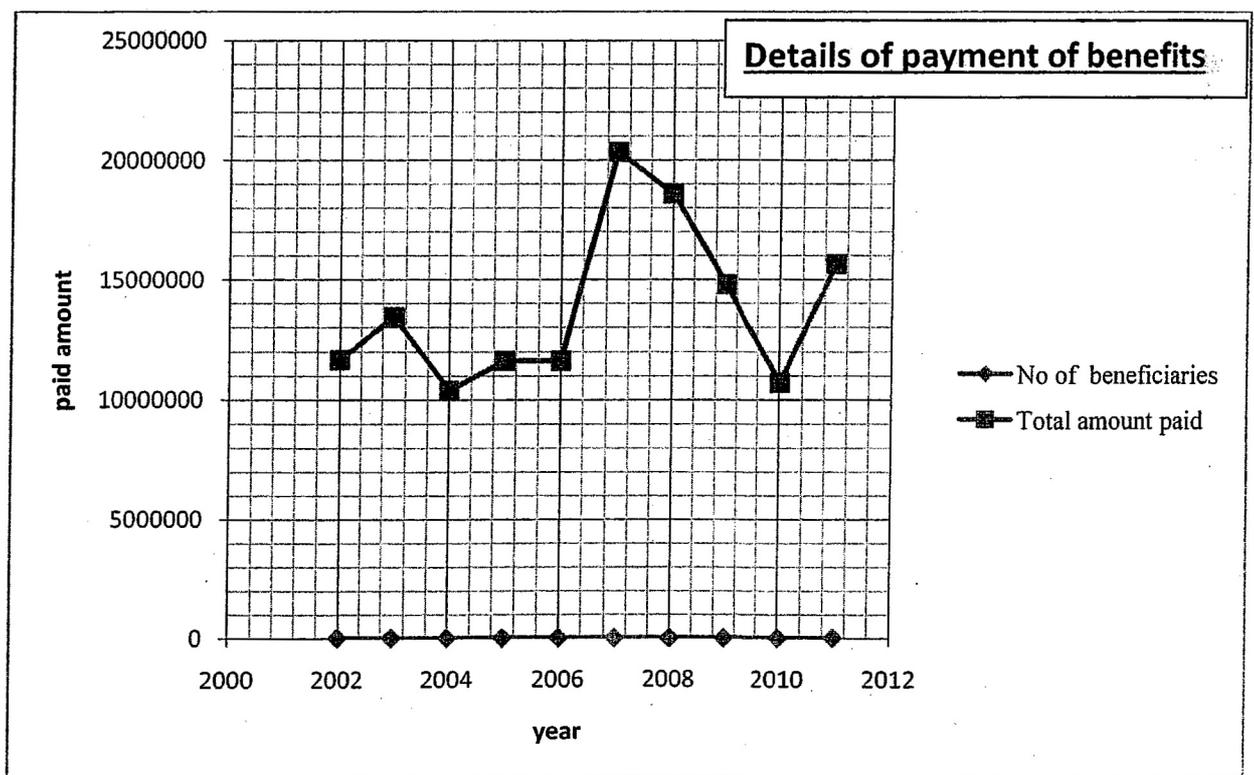


Details of the payment of benefits

The issue of shares to Tea small Holders by the Tea Shakthi Fund was initiated in the year 2002 and 97,000 of tea small holders purchased shares. Tea total amount received by the fund through the issue of shares was Rs. 208,959,130 million. However, the fund was able to provide a total amount of benefits amounting to Rs. 211,369,716.49 comprised of Rs.138,794,271.99 million for 6126 beneficiaries as insurance benefits while Rs. 72,575,444.50 million was issued as dividends of shares.

Details of payment of benefits 2002 - 2011

Year	No. of Beneficiaries	Total amount paid
2002	489	11,655,914.85
2003	495	13,434,401.26
2004	382	10,381,544.60
2005	425	11,616,720.43
2006	413	11,615,418.15
2007	947	20,340,570.93
2008	883	18,595,621.00
2009	696	14,793,304.77
2010	557	10,705,000.00
2011	839	15,655,776.00
	6126	138,794,271.99



TEA SHAKTHI FUND
FINANCIAL YEAR ENDED 31ST DECEMBER 2011
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 31st December 2009 and for the year then ended, have been prepared in accordance with Sri Lanka accounting standards adopted by the Institute of Chartered Accountants of Sri Lanka and the requirements of Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.

These financial statements presented in Sri Lankan Rupees have been prepared on a historical cost basis except for produce tea & the revaluation of

certain property, plant and equipment and current investments, which are stated at since realizable value & market values respectively.

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

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

2.1.2 Use of estimates & Judgments

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

Estimate and 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 31st December.

2.1.6 Segmental Reporting

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

Since the individual segments are located close to each other and operate in the same industrial environment, geographical segmentation has no impact.

The segmental results are shown under note 1-B In the notes to the financial Statements.

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

2.1.7 Income Tax

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

2.1.8 Infilling costs

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

2.1.9 Borrowing Costs

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

2.2 Valuation of Assets and their Measurement Bases

2.2.1 Inventories

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

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

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

2.2.2 Trade Debtors and Other Receivables

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

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

2.2.3 Cash and Cash Equivalents

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

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

2.2.4 Property, Plant and Equipment

a) Owned Assets

Items of Property, Plant & Equipment are recorded at cost less accumulated depreciation.

b) Cost and Valuation

All items of Property, Plant & Equipment are initially recorded at cost. Where items of Property, Plant and Equipment are subsequently revalued, the entire class of such assets is revalued. Revaluations are made with sufficient regularity to ensure that their carrying amounts do not differ materially from their fair values as at the balance sheet date. Subsequent to the initial recognition as an asset at cost, revalued Property, Plant and Equipment are carried at revalued

amounts less any subsequent depreciation thereon. When assets are revalued no depreciation is provided in the year of revaluation and depreciation will be provided on revalued assets in subsequent years at their respective rates. All other Property, Plant and Equipment are stated at historical cost less depreciation.

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

C) Subsequent Expenditure

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

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

d) Deracination

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

e) Permanent land development cost

Permanent land development those cost are incurred in making major infrastructure development and new access roads to factories. These cost are capitalized and amortized over the remaining lease period when there are pertaining to lease hold assets.

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

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

useful economic life of mature plantation or the unexpired lease period 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 3rd parties the final outcomes of these cases are still pending. So that no provisions have been made in the financial statements as at the balance sheet date.

2.6 Cash Flow Statement

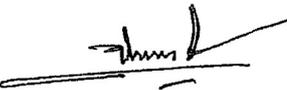
The cash flow statement has been prepared using the "indirect method" interest paid are classified as operating cash flows and interest received are classified as investing cash flows while government grants received are classified as financing cash flows for the purpose of presenting the cash flow statements.

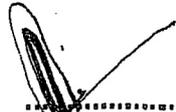
TEA SHAKTHI FUND**BALANCE SHEET****AS AT 31ST DECEMBER 2011**

	Note	This Year	Last Year
			Rs.
ASSETS			
Non-current Assets			
Property Plant & Equipment			
<i>Free Hold</i>		436,158,753.26	414,170,600.68
<i>Lease Hold</i>		14,492,056.13	44,605,468.65
	8	450,650,809.39	458,776,069.33
Capital work-in -progress	9	31,297,634.95	22,318,110.42
Sub Total of Non-current Assets		481,948,444.34	481,094,179.75
Immatured Crops			
Tea Cultivation	10	7,291,873.19	5,020,518.86
Other Cultivation	10	6,367.00	27,883.36
Sub Total of Immatured Crops		7,298,240.19	5,048,402.22
Current Assets			
Inventories & Stocks	11	166,125,475.81	179,394,388.16
Trade Debtors & Other Receivable	12	244,326,775.71	290,076,132.40
Advance, Prepayment & Deposits	13	43,972,773.84	37,615,857.66
Short Term Investments	14	103,174,788.55	113,886,936.32
Cash in Hand & Bank	15	49,532,158.16	(5,736,220.11)
Inter Current Account	16	12,925,396.23	13,662,284.71
Sub Total Of Current Assets.		620,057,368.30	628,899,379.14
TOTAL ASSETS		1,109,304,052.83	1,115,041,961.11
EQUITY AND LIABILITIES			
Share Capital	17	208,959,130.00	208,959,130.00
Revaluation Surplus			13,870,173.86
Retained Earning/(Loss)		(93,428,903.52)	(9,026,409.36)
TOTAL EQUITY		115,530,226.48	213,802,894.50
Un amortized Government Grants	18	437,505,030.22	437,505,030.22
Members Benovolent Fund			
Member Contributions for Insuarance sch.	19	134,875,964.88	134,645,004.88
Non Current Liabilities			
Contributions by T.S.H.D.A	20	74,048,541.30	74,048,541.30
Bank Over Draft	15-A	84,370,975.58	
Current Liabilities			
Creditors & Payables	21	133,884,027.69	177,608,954.32
Bank Loan		22,410,785.00	
Accrued Expenses	22	106,678,501.68	77,431,535.89
		262,973,314.37	255,040,490.21
TOTAL EQUITY AND LIABILITIES		1,109,304,052.83	1,115,041,961.11

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 2011		This Year	Last Year
	Note		Rs.
Revenue	1-A	873,578,249.05	904,285,090.26
Cost of Sales	2	(791,843,086.07)	(800,770,717.29)
<i>Gross Operating Profit</i>		81,735,162.98	103,514,372.97
Other Income	3	52,469,112.34	67,142,221.15
<i>Total Income</i>		134,204,275.32	170,656,594.12
Administration Expenses	4	(171,325,476.93)	(150,893,995.39)
Distribution Expenses	5	(21,371,241.69)	(29,711,427.75)
		(192,696,718.62)	(180,605,423.14)
<i>Profit/(Loss) From Operating Activities</i>		(58,492,443.30)	(9,948,829.02)
Finance Cost	6	(25,910,050.50)	(18,571,658.99)
Profit/(Loss) For the year	1-B	(84,402,493.80)	(28,520,488.01)
Brought Forward Profit/(Loss)	7	(9,026,409.72)	19,494,078.29
Profit Before Appropriation		(93,428,903.52)	(9,026,409.72)
Profit/(LOSS) Carried Forward		(93,428,903.52)	(9,026,409.72)

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

CASH FLOW STATEMENT**AS AT 31ST DECEMBER 2011**

<u>Operating Profit Before Taxation</u>		(84,375,750.37)
Adjustments For		
Depreciation	30,011,579.62	
Amortization of erroneous revaluation surplus	10,428,160.33	
Provision for Gratuity	8,058,120.87	
Intrest Income	(15,047,309.16)	
Intrest Expense	25,910,050.50	59,360,602.16
	<hr/>	
<i>Operating profit before working capital changes</i>		(25,015,148.21)
(Increase)/Decrease in Stoks and Finished Goods	30,396,281.59	
(Increase)/Decrease in Working Progress	(9,554,495.53)	
(Increase)/Decrease in Immatured Crops	(4,669,890.43)	
(Increase)/Decrease in Debtors & Other Recivables	(35,545,486.20)	
(Increase)/Decrease in Short Term Diposits	20,887,488.03	
(Increase)/Decrease in Inter Current A/C & Funds Transfers	2,145,821.76	
(Increase)/Decrease in Advance,Prepayments & Deposits	(6,861,489.53)	
Increase/(Decrease) in Trade Creditors & Payables	(64,160,099.40)	
Increase/(Decrease) in Sundry creditors & Accruals	41,537,563.43	
Increase/(Decrease) in Member Contribution	523,589.30	(25,300,716.98)
	<hr/>	
Cash Generated from Operations		(50,315,865.19)
Intrest Paid	(8,165,273.48)	
Gratuity Paid	(1,432,028.63)	(9,597,302.11)
	<hr/>	
Net Cash Flow from Operating Activities		(59,913,167.30)
Cash Generated from Investing Activities		
Purchase of property plant & Equipments	(33,394,533.32)	
Receipt of abank loan	25,370,700.00	
Dividents expense taken back to fertilizer Project	9,002,232.13	
Payment of bank loan	(2,959,915.00)	
Intrest received	32,792,086.18	30,810,569.99
	<hr/>	
Net Cash used in Investing Activities		(29,102,597.31)
Net Increase in Cash & Cash Equivalents		(29,102,597.31)
Cash & Cash Equivalents of the Beginning of the year		(5,736,220.11)
Cash & Cash Equivalents of the end of the year		(34,838,817.42)
		<hr/>
<u>Analysis of Cash & Cash Equivalents</u>	As at 31-12-2011	As at 31-12-2010
Over Deaft	(84,370,975.58)	(29,592,464.24)
Cash at Bank	49,532,158.16	23,792,209.63
Petty Cash		64,034.50
Total	(34,838,817.42)	(5,736,220.11)
	<hr/>	<hr/>

Notes to the Accounts
for the year ended 31st December

Schedule No:- C1-A

REVENUE

Description	Fertilizer	Local Tea Sales	Factories	2011	2010
Sales					
Sales-by brokers			745,024,496.04	745,024,496.04	781,932,988.34
Fertilizer sales	29,553,027.50			29,553,027.50	34,596,272.50
Material Sales(Direct)	13,012,698.75			13,012,698.75	938,331.27
Tea sales Local		3,569,103.00	25,661,012.96	29,230,115.96	27,896,232.94
Sundry Sales				-	365,693.00
Subsidy Income-GOV	53,249,063.40			53,249,063.40	54,354,087.21
Sales-Discount	(2,908,910.60)			(2,908,910.60)	
Refuse Tea Sales			6,417,758.00	6,417,758.00	4,201,485.00
Total	92,905,879.05	3,569,103.00	777,103,267.00	873,578,249.05	904,285,090.26

Annual Accounts 2011

Notes to the Accounts
for the year ended 31st December

Schedule No:- 02

COST OF SALES

Description	Fertilizer	Local Tea Sales	Factories	2011	2010
Cost Of Sales					
Cost of Material Consumption	73,733,914.03	2,311,033.74		76,044,947.77	78,242,844.94
Transport	1,772,940.52	7,323.60		1,780,264.12	1,139,225.81
Loading expense	462,749.55			462,749.55	361,778.54
Mixing chargers	496,460.49			496,460.49	338,066.20
Unloading chargers				0.00	26,403.50
Bought leaf exp			650,283,213.65	650,283,213.65	691,825,392.38
Manufacturing exp.			173,312,953.38	173,312,953.38	162,237,319.03
Labour Wages	531,856.00			531,856.00	461,676.80
Closing Stock-Factory/ Broker			(111,069,358.89)	(111,069,358.89)	(133,861,989.91)
Total	76,997,920.59	2,318,357.34	712,526,808.14	791,843,086.07	800,770,717.29

Annual Accounts 2011

Notes to the Accounts*for the year ended 31st December***Schedule No:- 03****OTHER INCOME**

Description	Head Office	Fertilizer	Welfare	Factories	Local Tea Sales	2011'	2010
Other income							
Interest income		9,680,521.67	20,435,544.44	2,468,126.76	207,893.31	32,792,086.18	48,239,621.27
Other income			192,787.23		102,568.00	295,355.23	2,076,564.44
Sundry Income	1,304,516.91	1,976,958.78		212,259.91		3,493,735.60	4,568,097.42
Supplier Registration Documents	120,000.00					120,000.00	
Tea Field Income				5,772,581.00		5,772,581.00	5,775,012.00
Demurrage Income		425,000.00				425,000.00	
Dividend Provision Readjustment		8,003,160.85			1,567,193.48	9,570,354.33	
Total	1,424,516.91	20,085,641.30	20,628,331.67	8,452,967.67	1,877,654.79	52,469,112.34	60,659,295.13

Note:-

1) The income of the welfare project includes Rs.17,744,777.02 paid by factory project for their annual interest contribution against Rs.118 Million internal loan by welfare project to factory project

Annual Accounts 2011

Notes to the Accounts
for the year ended 31st December

Schedule No:- 04

ADMINISTRATION EXPENSES

Description	Head Office	Fertilizer	Welfare	Local Tea Sales	Factories	2011	2010
Administration Expense							
Adult Insurance			2,484,091.41			2,484,091.41	1,388,199.98
Audit Fees		135,000.00		22,500.00	302,275.00	459,775.00	
Depreciation expenses		928,089.89	60,674.54	130,151.41	944,013.20	2,062,929.04	53,205.94
Director Board sitting allowances		350,103.60		58,350.60	758,557.78	1,167,011.98	207,051.11
E.P.F		919,345.14		152,146.19	1,977,900.46	3,049,391.79	2,585,693.09
E.T.F		190,910.65		31,818.44	413,639.75	636,368.84	564,719.05
Electricity		271,309.80		40,006.30	470,135.90	781,452.00	297,727.88
Entertainment		10,400.20	4,360.00	3,004.20	85,736.60	103,501.00	386,550.38
ESPS					331,920.75	331,920.75	293,470.19
Gratuity Expenses		902,931.67		150,488.61	2,105,026.59	3,158,446.87	364,202.71
Member Insurance Premium			14,122,635.00			14,122,635.00	14,552,003.01
Legal & Professional Expenses		100,072.01		16,678.67	359,352.68	476,103.36	2,695,794.00
Maintenance -Building		173,653.23		29,990.54	315,451.99	519,095.76	1,096,732.36
Maintenance- Computer		84,885.89	11,000.00	14,147.65	183,919.43	293,952.97	45,941.64
Maintenance- Equipment		247,478.84	4,000.00	12,116.70	86,342.10	349,937.64	222,498.25
Office Expenses		73,180.23		16,607.63	154,870.95	244,658.81	576,408.64
Office Rent		528,660.00		208,110.00	1,145,430.00	1,882,200.00	2,203,207.76
OT & Traveling expenses		75,774.00		12,629.00	371,898.01	460,301.01	767,083.85
Other expenses		211,049.48	1,067,955.35	106,960.10	93,305.18	1,479,270.11	178,260.97
Postage expense		52,085.40	37,780.50	8,680.90	112,851.70	211,398.50	184,750.63
Printing		90,809.03		105,269.34	93,240.39	289,318.76	273,129.53
Salaries & allowances		7,472,412.32		1,350,588.05	10,370,766.49	19,193,766.86	8,175,881.55
Security expenses		249,554.80		32,002.30	416,029.90	697,587.00	712,551.74
Stationary		195,728.99		32,621.50	427,279.47	655,629.96	343,829.13
Staff Training					9,596.00	9,596.00	90,431.00
Telephone charges		241,255.62		43,580.08	423,434.65	708,270.35	1,132,733.03
Tender Board sitting allowances		64,900.00				64,900.00	61,300.00
Insurance Expenses		129,574.43				129,574.43	145,576.11
Water expenses		30,709.35		5,118.23	66,536.93	102,364.51	54,824.32
Welfare Staff/Other		237,678.57		33,696.43	460,061.52	731,436.52	195,595.96
Deraniyagala Security					148,400.00	148,400.00	116,000.00
Deraniyagala Factory Expenses					253,850.89	253,850.89	347,091.92
Medical Fund Expenses		300,000.00			433,264.07	733,264.07	34,205.18
Revaluation Accumulated 2006					10,428,160.33	10,428,160.33	
Mawarala Depreciation					383,142.21	383,142.21	
Changing in Accounts Adjustment	1,570,220.79					1,570,220.79	
Bad Debtor				62,228.11		62,228.11	60,377.64
Total	1,570,220.79	14,267,553.14	17,792,496.80	2,679,490.98	34,126,390.92	70,436,152.63	40,407,028.55

Admin. Expenses Continued

Description	Head Office	Fertilizer	Welfare	Local Tea Sales	Factories	2011	2010
General Charges-Factories							
Manager Salaries & Allowance					5,886,370.52	5,886,370.52	22,321,993.49
Staff Salaries & Allowance					7,568,270.64	7,568,270.64	1,328,365.00
Supervision Vehicle					38,423.00	38,423.00	436,500.00
Contingencies					7,396.80	7,396.80	28,437.06
Levies Subscription & Visiting					1,081,765.66	1,081,765.66	1,258,427.05
Legal					53,690.18	53,690.18	56,276.41
Stationery					901,222.11	901,222.11	947,004.63
Bank Commission					706,076.72	706,076.72	1,143,919.82
Insurance					555,012.45	555,012.45	689,218.58
Watcher					487,725.50	487,725.50	574,420.20
Roads					254,837.68	254,837.68	96,652.94
Bungalow					4,859,396.62	4,859,396.62	3,795,102.56
Minor Buildings					243,712.69	243,712.69	219,022.50
Lines					133,713.00	133,713.00	161,879.92
Postage					839,774.57	839,774.57	605,281.47
Medical Aid					1,866,686.60	1,866,686.60	2,613,052.65
Welfare & Sports					2,524,672.36	2,524,672.36	1,280,223.15
Employees Provident Fund					8,617,723.93	8,617,723.93	8,012,424.82
Holiday Pay					2,268,070.22	2,268,070.22	2,244,209.35
Terminal Benefits					4,899,674.50	4,899,674.50	5,730,755.70
Water Supply					242,457.50	242,457.50	379,881.75
Estate Staffs Provident Society					278,834.10	278,834.10	271,729.95
Statutory Holidays					448,970.00	448,970.00	451,725.00
Employees Trust Fund					2,018,694.41	2,018,694.41	1,872,680.85
Depreciation					24,722,779.67	24,722,779.67	30,445,192.03
Depreciation Other					892,785.54	892,785.54	
Communication Telephone					1,144,946.45	1,144,946.45	1,344,036.71
Price Wage Supplement					4,368,615.81	4,368,615.81	4,782,930.23
Attendance Incentive					10,080,468.66	10,080,468.66	9,903,339.47
Economic Service Charges					2,220,644.94	2,220,644.94	418,207.73
VAT Output					1,721,624.28	1,721,624.28	1,806,945.21
National Arrears					2,475,460.15	2,475,460.15	
Tea Field Expenditure					4,158,617.00	4,158,617.00	4,170,455.00
Provisions -tea shortage					1,669,613.04	1,669,613.04	
Factory & Bungalow Rent					375,000.00	375,000.00	
Refuse Tea Sale - Expenses					33,902.00	33,902.00	69,880.54
Other Expenditure					241,695.00	241,695.00	492,665.57
Sub Total					100,889,324.30	100,889,324.30	109,952,837.34
Grand Total	1,570,220.79	14,267,553.14	17,792,496.80	2,679,490.98	135,015,715.22	171,325,476.93	150,359,865.89

Notes to the Accounts
for the year ended 31st December

Schedule No:- (05)

Selling & Distribution Cost

Description	Fertilizer	Welfare	Factories	Local Tea Sales	2011	2010
Selling & Distribution Cost						
Advertising expense	280,043.92		189,546.36	45,256.92	514,847.20	619,824.18
Sales Promotion	64,025.00				64,025.00	39,225.00
Vehicle Fuel	456,302.91		1,024,164.76	76,050.49	1,556,518.16	1,821,253.75
Vehicle Repairing	224,056.49		520,687.74	37,342.75	782,086.98	1,364,031.61
Vehicle Service	97,421.70		211,080.35	16,236.95	324,739.00	472,586.36
Vehicle Rent	277,380.99		600,992.15	712,484.73	1,590,857.87	942,217.00
Vehicle Insurance	95,970.47		207,936.02	15,995.08	319,901.57	174,404.07
Licenses expense	119,712.40		20,658.95	28,013.15	168,384.50	159,798.50
Sample Test	27,229.00				27,229.00	45,083.20
Donation					-	25,000.00
Economic Service Charges	377,526.83			3,525.17	381,052.00	5,112,313.14
Brokerage/Handling charges			15,219,045.78		15,219,045.78	15,476,230.48
Deyatakirula Expenses				422,554.63	422,554.63	345,258.00
Discount for Customers						3,364,772.50
Total	2,019,669.71	0.00	17,994,112.11	1,357,459.87	21,371,241.69	29,961,997.79

Annual Accounts 2011

Notes to the Accounts

for the year ended 31st December

Schedule No:- 06

Finance Cost

Description	Head Office	Fertilizer	Welfare	Local Tea Sales	Factories	2011	2010
Finance Cost							
Debit tax		35,943.37	14,785.00	555.35	7,219.51	58,503.23	2,59,850.60
Interest-Loan BOC					2,016,614.19	2,016,614.19	
Bank chargers		26,209.38	11,120.25	378.19	40,616.40	78,324.22	5,87,031.29
Brokers Advance Intrest					1,689,369.62	1,689,369.62	
Bank OD Intrest					4,322,462.22	4,322,462.22	
Internal Finance Cost					17,744,777.02	17,744,777.02	17,744,777.02
Total		62,152.75	25,905.25	933.54	25,821,058.96	25,910,050.50	18,571,658.99

*** Note :**

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

Factories	65%
Fertilizer	30%
Local Tea Sales	5%

Annual Accounts 2011

for the year ended 31st December.

Schedule No:- 01-B

SEGMENTAL CONTRIBUTION FOR THE YEAR ENDING 2011

*

Description	Fertilizer	Local Tea Sales	Welfare	Factores	Head Office	Total
REVENUE	92,905,879.05	3,569,103.00		777,103,267.00		873,578,249.05
COST OF SALES	(76,997,920.59)	(2,318,357.34)		(712,526,808.14)		(791,843,086.07)
Gross Profit	15,907,958.46	1,250,745.66	-	64,576,458.86		81,735,162.98
OTHER INCOME	20,085,641.30	1,877,654.79	20,628,331.67	8,452,967.67	1,424,516.91	52,469,112.34
FINANCE CHARGES	(62,152.75)	(933.54)	(25,905.25)	(25,821,058.96)		(25,910,050.50)
SELLING & DISTRIBUTION	(2,019,669.71)	(1,357,459.87)	-	(17,994,112.11)		(21,371,241.69)
ADMINISTRATION EXPENSES	(14,267,553.14)	(2,679,490.98)	(17,792,496.80)	(135,015,715.22)	(1,570,220.79)	(171,325,476.93)
TOTAL EXPENSES	(16,349,375.60)	(4,037,884.39)	(17,818,402.05)	(178,830,886.29)		(217,036,548.33)
Profit/(Loss) for the year	19,644,224.16	(909,483.94)	2,809,929.62	(105,801,459.76)	(145,703.88)	(84,402,493.80)

Annual Accounts 2011

Notes to the Accounts
for the year ended 31st December

Schedule No:- 7 Retained Earnings 2011

Project	Balance as at 31/12/2010	Net Income 2011	Total
Fertilizer	98,663,501.16	19,644,224.16	118,307,725.32
			-
Head Office	17,453,649.21	(145,703.88)	17,307,945.33
			-
LTS	(17,275,323.29)	(909,483.94)	(18,184,807.23)
			-
Weifare	64,159,345.74	2,809,929.62	66,969,275.36
			-
M/Factory	(19,939,686.52)		(19,939,686.52)
			-
Factory	(115,884,358.14)	(105,801,459.76)	(221,685,817.90)
			-
Tea Export	(22,252,578.97)		(22,252,578.97)
			-
Tractor	(10,655,142.79)		(10,655,142.79)
			-
Radio	(3,295,816.12)		(3,295,816.12)
			-
Total	(9,026,409.72)	(84,402,493.80)	(93,428,903.52)

Annual Accounts 2011

Schedule No:- 08 Property, Plant & Equipments

Description	Land & Building	Machinery	Computer	Equipment & Tools	Furniture & Fittings	Motor Vehicles	Other property	Telephone	Total
Factories Cost									
as at 01/01/2011									
Free Hold Property	203,180,594.80	290,777,526.10			6,056,175.08	21,298,800.86	150,374.00		521,463,470.84
Lease Hold Property	8,515,204.07	6,625,306.12			114,285.71				15,254,795.90
Other Projects									
as at 01/01/2010									
Free Hold Property	9,254,999.38	2,197,447.34	3,831,445.02	2,556,705.99	6,568,891.06	4,074,558.24	363,551.06	1,079,263.13	29,916,861.22
Total Cost	220,950,798.25	299,600,279.56	3,831,445.02	2,556,705.99	12,739,351.85	25,373,359.10	513,925.06	1,079,263.13	566,615,127.96
as at 01/01/2010									
Additions / Adjustments during the year									
Factories	355,480.00	49,043,214.20			66,532.00				
Other Projects			2,957,894.21	635,161.68	304,231.57				49,455,226.20
Cost as at 31/12/2011	221,306,278.25	348,643,493.76	6,789,339.23	3,191,867.67	13,043,583.42	25,373,359.10	513,925.06	1,079,263.13	570,541,415.42
Depreciation									
Depreciation for the year									
Factories									
Pre Hold Property	3,555,995.29	21,127,506.91			852,775.26	1,823,880.08			27,360,157.54
Lease Hold Property	425,760.19	331,265.30			5,714.28				752,739.77
Other Projects									
Free Hold Property	253,995.34	219,744.73	383,144.50	226,437.21	656,889.11	4,190.00	36,355.11	107,926.31	1,818,682.31
Accumulated Depreciation									
Factories									
Pre Hold Property	16,816,102.13	95,874,300.51			2,595,418.20	9,273,943.70			124,559,764.54
Lease Hold Property									
Other Projects									
Free Hold Property	1,601,898.98	1,309,843.38	2,288,178.47	1,130,960.21	5,199,531.88	4,045,228.24	336,216.18	762,313.04	16,674,170.38
Written down value as at 31/12/2011									
Pre Hold Property	183,163,977.38	222,818,932.88	-	-	2,674,513.62	10,200,977.08	150,374.00	-	419,058,774.96
Lease Hold Property	8,089,443.88	6,294,040.82	-	-	108,571.43	-	-	-	14,482,056.13
Other Projects									
Free Hold Property	7,653,100.40	887,603.96	4,501,160.76	2,060,907.46	1,673,590.75	29,330.00	27,334.88	316,950.09	17,119,978.30
Total Written down value as at 31/12/2011	198,906,521.66	230,000,577.66	4,501,160.76	2,060,907.46	4,456,675.80	10,230,307.08	177,708.88	316,950.09	450,651,809.39

Notes to the Accounts
for the year ended 31st December

Schedule :- 09 Capital Work-in -Progress

Description	Factories	Total
Bulathkohupitiya	910,457.09	910,457.09
Yatinuwara	656,748.00	656,748.00
Pothupitiya	656,748.00	656,748.00
Kothmale	24,805.00	24,805.00
Deraniyagala	29,048,876.86	29,048,876.86
Grand Total	31,297,634.95	31,297,634.95

Annual Accounts 2011

Notes to the Accounts
for the year ended 31st December

Schedule :- 10 **Immatuared Crops**

Description	Othe Cultivtion	Mawarala	Total
TEA			
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	
Replanting - 2011		2,766,025.95	
Total TEA		7,786,544.81	
Less Accum. Depreciation -		(513,187.98)	7,273,356.83
		7,273,356.83	
Papaya Cultivation			
Elptiya			
Walahanduwa	6,367.00		6,367.00
Clove Cultivation		18,516.36	18,516.36
Sub Total	6,367.00	7,291,873.19	7,298,240.19
Grand Total	6,367.00	7,291,873.19	7,298,240.19

Annual Accounts 2011

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					1,257,608.85	1,257,608.85
Factory Tea Stock		35,507,766.89				35,507,766.89
Tea -Balance in Stores/Brokers		80,453,260.60				80,453,260.60
General Stocks		6,776,628.82				6,776,628.82
Fertilizer		769,408.67				769,408.67
Stationery Stocks		64,512.02				64,512.02
Leaf Boxes		1,669,116.52				1,669,116.52
Stationery Stocks	401,866.35					401,866.35
Raw Materials						-
Dolomite			45,674.97			45,674.97
Eppawala Rock Phosphate			2,222,521.27			2,222,521.27
Kieserite			1,016,127.00			1,016,127.00
Murate of Potash			14,202,776.82			14,202,776.82
Sulphate of Ammonia			1,255,579.17			1,255,579.17
Urea			6,183,683.38			6,183,683.38
TSP			44,660.00			44,660.00
ZnSO-4			143,175.00			143,175.00
WPP Bags			1,358,831.34			1,358,831.34
Sundry Stock						-
Finish Goods					36,982.62	36,982.62
T - 200			487,996.68			487,996.68
T - 750			1,459,553.01			1,459,553.01
U - 625						-
U - 709			6,089,453.28			6,089,453.28
VP - LC-1075			45,623.82			45,623.82
UT-397			37,231.95			37,231.95
UT-752			2,795,181.74			2,795,181.74
VP - LC-880			21,735.41			21,735.41
APM			1,297.85			1,297.85
Cinamon-SA			488,704.69			488,704.69
Cinamon-UREA						-
Inventory	17,217.20		100,375.86			117,593.06
Supplies Inventory			183,075.38			183,075.38
Disposable Assets			16,318.02			16,318.02
Polithene Stock					971,530.63	971,530.63
Grand Total	419,083.55	125,240,693.52	38,199,576.64	-	2,266,122.10	166,125,475.81

Annual Accounts 2011

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		111,105,509.14	74,528,171.68	8,693,991.13		19,903,064.75	21,041,545.32	235,272,282.00
Subsidy Reciveable			25,955,685.16					25,955,685.16
Thurusaviya					20,103.14			20,103.14
Account Reciveable -Tractor	920,071.00							920,071.00
Ministry Of Tea Small Holders	768,920.00							768,920.00
Randalu Mela Fund	384,700.00							384,700.00
Society Of TSH	118,130.12				50,068.75			168,198.87
TSHDA	80,000.00							80,000.00
Share Collection					19,300.00			19,300.00
Intrest Recivable					21,734,331.06			21,734,331.06
Loan TSHDA -Bandarawala			68,899.74					68,899.74
Loan TSHDA -Kandy			304,164.00					304,164.00
With Holding Tax- Reciv-Fertilizer								-
Reciveable from Factory								-
Reciveable from Fertilizer								-
RecI. from TSF Welfare Socity-HO								-
Other Reciveable	236,000.00							236,000.00
Fund In TFR-Inter- LTS								-
Fund In TFR-Inter- Fertilizer								-
Debtor Rigama								-
Loan fac								-
Insurance Clame Suspens								-
Divident A/C	208,129.90							208,129.90
Total	2,715,951.02	111,105,509.14	100,856,920.58	8,693,991.13	21,823,802.95	19,903,064.75	21,041,545.32	286,140,784.89
Deduct (-)								
Provision for Bad debts				(869,399.11)				(869,399.11)
10% Bad debts 2006								0.00
Provision for Bad debts								0.00
10% Bad debts 2010				807,171.00				807,171.00
Over Provision for Bad debts 2010				62,228.11				62,228.11
								0.00
Provision for Bad debts						(19,903,064.75)	(21,041,545.32)	(40,944,610.07)
10% Bad debts 2011				(869,399.11)				(869,399.11)
Grand Total	2,715,951.02	111,105,509.14	100,856,920.58	8,693,991.13	21,823,802.95	19,903,064.75	21,041,545.32	244,326,775.71

Notes to the Accounts*for the year ended 31st December***Schedule No:- 13****Advances, Prepayment & Deposits**

Description	Head Office	Factories	Local Tea sales	Total
Advances				-
Factory Advances		2,104,965.74		2,104,965.74
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
Waterman Construction		13,482,337.50		13,482,337.50
Festival Advance	352,050.00			352,050.00
Other Advance	14,500.00			14,500.00
Special Advance	38,050.00			38,050.00
Advance for Land	8,082,256.00			8,082,256.00
Prepayments				-
Other Deposit	226,000.00			226,000.00
Grand Total	8,712,856.00	35,259,917.84	-	43,972,773.84

Annual Accounts 2011

Notes to the Accounts*for the year ended 31st December***Schedule No:- 14 Investments**

Description	Factories	Fertilizer	Local Tea Sales	Welfare	Total
Investment in Treasury Bills					-
LC Security Diposit		53,865,771.80			53,865,771.80
Fix Diposit	23,225,085.87	1,500,000.00	709,556.32	23,874,374.56	49,309,016.75
Grand Total	23,225,085.87	55,365,771.80	709,556.32	23,874,374.56	103,174,788.55

Annual Accounts 2011

Notes to the Accounts

for the year ended 31st December

Schedule No:- 15 Cash & Bank Balance

Description	Head Office	Factories	Fertilizer	Local Tea Sales	Medical Fund	Welfare	Management Factories	Total
A/c No: 2937124	1,533,476.84							1,533,476.84
A/c no: 2937157			27,529,354.42					27,529,354.42
Cash at Bank		1,244,278.02						1,244,278.02
A/c no: 2937148					112,453.95			112,453.95
A/c no: 2937165		155,359.00						155,359.00
A/c no: 2937162						18,034,580.88		18,034,580.88
A/c no: 2937163						46,790.57		46,790.57
A/c no: 2937155							875,864.48	875,864.48
Grand Total	1,533,476.84	1,399,637.02	27,529,354.42	-	112,453.95	18,081,371.45	875,864.48	49,532,158.16

Note- Rs.25 Million, out of the Fertilizer Account Balance Rs. 26.5Million has been invested in Call Deposits in 2012.

Schedule No:- 15-A Cash & Bank Balance-OD

Description	Head Office	Factories	Fertilizer	Local Tea Sales	Export	Welfare	Management Factories	Total
A/c no: 2937158					1,112,680.89			1,112,680.89
A/c no: 2937161		72,747,923.77						72,747,923.77
A/c no: 2937164				810,291.55				810,291.55
A/c no: 2937023						9,700,079.37		9,700,079.37
Grand Total	-	72,747,923.77	-	810,291.55	1,112,680.89	9,700,079.37	-	84,370,975.58

Annual Accounts 2011

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)	(114,136,961.34)	(21,306,389.09)	21,427,662.94	(4,293,186.02)	(2,654,912.01)	(185,398,899.47)
Factories	64,435,113.95		32,900,619.01	-(1,053,940.00)		(9,356,350.18)		86,925,442.78
Fertilizer	114,136,961.36	(23,241,818.01)		(757,260.00)	29,373,244.93		(250,000.00)	119,261,128.28
Local Tea Sales	21,306,389.09	1,904,660.00	757,260.00		1,000,000.00		(17,847,133.87)	7,121,175.22
Welfare	(21,427,662.94)		(29,373,244.93)				(472,056.00)	(51,273,963.87)
Management Factories	4,293,186.02	9,358,350.18	190,000.00					13,841,536.20
Export	2,654,912.01	389,499.00	250,000.00	17,847,133.87	472,056.02			21,613,600.90
Sub Total	185,398,899.49	(76,024,422.78)	(109,412,327.26)	(5,270,455.22)	52,272,963.89	(13,649,536.20)	(21,224,101.88)	12,091,020.04
Inter Factory Current Account Balance								834,376.19
Grand Total								12,925,396.23

Notes to the Accounts
for the year ended 31st December

Schedule :- 17 Share Capital
Authorised Share Capital

500,000,000.00

Fully paid ordinary shares (non voting)

Balance at the beginning of the year	197,984,666.00
Received (Reconciled) during the year	10,974,464.00
Balance at the end of the year	208,959,130.00

Schedule :- 18 TSHDA (Government) Grant

Grant received for the year 1998	26,690,873.44
Grant received for the year 1999	127,540,786.45
Grant received for the year 2000	69,540,270.33
Grant received for the year 2001	185,000,000.00
Grant received for the year 2002	23,500,000.00
Grant received for the year 2004	5,233,100.00
Total	437,505,030.22

Schedule :- 19 Member Contribution

Balance as at 01/01/2007	133,246,701.57
Collection during the year 2007	219,191.01
Collection during the year 2008	387,483.00
Collection during the year 2009	499,000.00
Collection during the year 2010	292,629.30
Collection during the year 2011	230,960.00
2011/12/31 Closing Balance	134,875,964.88

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

Factories	58,001,047.37
Head Office - TSF	2,151,761.41
Local Tea Sales	4,206,269.39
Welfare	9,689,463.13

Annual Accounts 2011

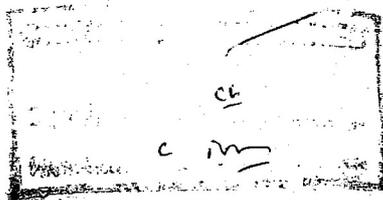
Notes to the Accounts
for the year ended 31st December

Schedule :- 21 Creditors and Payables

Description	Head Office	Factories	Fertilizer	Local Sales	Welfare	Management Factories	Tea Export	Total
Accounts Payable		98,487,082.12	76,475.00	1,308,650.00		7,166,014.80		107,038,221.92
Accounts Payable-Import			1,951,480.00					1,951,480.00
Audit Fees Provision	450,000.00							450,000.00
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
Crediters	40,000.00			14,053,378.06				14,093,378.06
Payee Taxes-Payable	27,963.14							27,963.14
Stamp Duty	871.83		2,001.00	152.00				3,024.83
Medical Fund-Head Office	25,316.25							25,316.25
Medical Fund-Factory	30,224.72							30,224.72
Payable Factory					500,000.00			500,000.00
Refundable Tender/ Other Dipost	19,950.00		77,500.00					97,450.00
Refundable Agent Fees			50,000.00	30,609.00				80,609.00
With Holding Tax-Payable			74,246.15					74,246.15
With Holding Tax-Payable-Div	2,060,709.05							2,060,709.05
Gratuity Provision	4,281,602.00							4,281,602.00
Devident Provision							208,129.90	208,129.90
Insurance Payable -To Members					2,007,750.48			2,007,750.48
Total	7,727,391.81	98,487,082.12	2,231,702.15	15,392,789.06	2,507,750.48	7,166,014.80	208,129.90	133,884,027.69

Schedule No:- 22 Accrued expenditure & Provisions

Description	Head Office	Fertilizer	Factories	Local Sales	Welfare	Management Factories	Tea Export	Total
Accrued Expenditure	71,883.90	69,205.18	106,528,212.60	9,200.00	-	-	-	106,678,301.68
Total	71,883.90	69,205.18	106,528,212.60	9,200.00	-	-	-	106,678,301.68



Chairman

Tea Shakthi Fund



Report of the Auditor General on the Financial Statements of the Tea Shakthi Fund for the year ended 31 December 2011 in terms of Section 14(2)(c) of the Finance Act, No. 38 of 1971

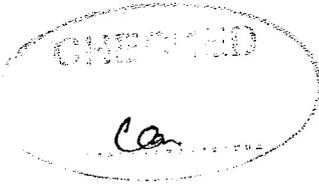
The audit of financial statements of the Tea Shakthi Fund for the year ended 31 December 2011 comprising the balance sheet as at 31 December 2011 and the profit and Loss Account and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act No.38 of 1971 and Section 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 11 January 2013.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit



to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers Internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. 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.

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

1.4 Basis for Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Tea Shakthi Fund as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1. Sri Lanka Accounting Standards

The following observations are made.

- (a) Action had not been taken to correctly identify the grants amounting to Rs.437,505,030 received from Government to procure fixed assets during the year 2004 and the previous years and adjust the accounts according to Sri Lanka Accounting Standard No. 24.
- (b) The land where the Kotmale Factory situated, building and the relevant fixed assets which were obtained on lease during the year 2003 without indicating the period had been valued at Rs. 15,354,796 and shown in the accounts as fixed assets and the lessor as the liability of the Fund without correctly identifying as operating lease or finance lease according to Sri Lanka Accounting Standard No. 19. Further, the leasing charges relating to the year had been debited to the lessor's Account and the depreciation on the fixed assets had been charged to the Profit and Loss Account. In this regard, the information had not been furnished to audit as to whether proper lease agreement had been entered into by both parties.

2.2.2 Accounting Policies

Although it had been indicated according to paragraph 2.2.4 (h) of the Notes to the accounts that the computation of depreciation should start from the time the assets were ready to use, it was also mentioned in the same paragraph that the Accounting Policy was that provision of depreciation would not be made on the year of purchase of assets. Therefore, contradictions in the Accounting Policies were observed.

2.2.3 Accounting Deficiencies

Following observations are made.

- (a) Although the Economic Service Charges that should be paid to the Department of Inland Revenue in respect of the tea turn over for the previous years was 0.25% of the total tea

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turn over, it had been incorrectly calculated by the Fund as 0.5%. Due to this, a sum of Rs. 9.839 million had been overpaid to the Department of Inland Revenue and although out of this amount a sum of Rs. 2.167 million had been deducted from the tax for the year under review the balance sum of Rs.7.671 had not been taken to account as receivable or not shown as a note.

(b) It was observed in audit that correct accounting procedures had not been adopted when accounting the under mentioned transactions shown in the Consolidated Factory Balance Sheet.

Factory	Item	Value	Type of discloser in the Final Accounts
-----	-----	-----	-----
		Rs.	
Passara	Prior year Adjustments	71,361	Debtors Account instead of Profit and Loss Account
Balangoda, Mahaweli, Elpitiya, Keppetipola	Miscellaneous Income	2,200,271	Creditors Account instead of Profit and Loss Account
Kotmale	Miscellaneous Income	442,275	Deducted from the Debtors Account and shown instead of Profit and Loss Account.
Gilimale, Hiniduma	Current Account	1,835,110	Deducted from the Debtors Account and shown instead of Creditors Account.

turn over, it had been incorrectly calculated by the Fund as 0.5%. Due to this, a sum of Rs. 9.839 million had been overpaid to the Department of Inland Revenue and although out of this amount a sum of Rs. 2.167 million had been deducted from the tax for the year under review the balance sum of Rs.7.671 had not been taken to account as receivable or not shown as a note.

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Kotmale	Miscellaneous Income	442,275	Deducted from the Debtors Account and shown instead of Profit and Loss Account.
Gilimale, Hiniduma	Current Account	1,835,110	Deducted from the Debtors Account and shown instead of Creditors Account.

Kotmale	Composed Fertiliser	11,484	Deducted from the Debtors Account and shown instead of showing under Account Payable.
	Sri Lanka Telecom	14,765	Deducted from the Creditors Account and shown instead of showing under Account Payable.
	Fertilizer Operational Expenditure	12,128	Deducted from the Creditors Account and shown instead of Profit and Loss Account.
	Debtors balances	20,004	Deducted from the Creditors Account and shown instead of Debtors Account.

- (c) A sum of Rs. 1,567,193 had been included in the income for the year under review as the unpaid dividends of the Local Tea Sales Division for the year 2007 and this amount had not been disclosed in the accounts as provision in the balances carried forward from previous years. Therefore, the information regarding the accounting of debit entry had not been furnished to audit and this amount had been deducted from the Creditors only in the accounts of the Local Tea Sales Division.
- (d) The cost of the assets relevant to the accumulated depreciation amounting to Rs. 930,467 of the Passara Factory had not been included in the schedule. In this regard, the Chairman had stated in his reply that because the provision for depreciation of Rs.3 per Kg of tea before June 2006 and the percentage of the value of fixed assets as depreciation after

June 2006 had been shown as accumulated depreciation, the depreciation could not be shown as to which fixed asset it was particularly related.

- (e) The balance of Rs. 1,067,955 as at 31 December 2010 remaining for a long time in the bank accounts maintained by the Welfare Division had been removed from cash book and debited as other expenditure in the year 2011 without proper approval.
- (f) According to the confirmation of balances as at 31 December 2011 provided by the Bank, a bank account having a balance of Rs. 56,560 had not been brought to accounts of the year under review.

2.2.4. Un-reconciled Control Accounts

Following observations are made.

- (a) A sum of Rs. 20,069,352 had been shown as work in-progress as at 31 December 2010 in the accounts of the Deraniyagala Factory and Rs. 8,404,553 had been spent by the Head Office for Deraniyagala Factory. Even though the balance of the above accounts as at the end of the year under review amounted to Rs. 28,473,905, this amount had been shown in the accounts of the Factory as Rs. 29,048,877 and a difference of Rs. 574,972 had been observed. It was observed in audit that the difference was due to the expenditure amounting to Rs. 574,972 during the year 2010 had been included in the expenditure incurred during the year 2011.
- (b) Although the balance of bank account of Welfare Division had been shown as Rs. 18,034,581 in the financial statements as at 31 December 2011, the cash book balance had been shown as Rs. 1,992,218 in the Bank Reconciliation Statement prepared as at 31 December 2011 and a difference of Rs. 16,042,363 had been observed. The reason for this difference had not been furnished to audit.
- (c) Un-reconciled amount of Rs. 36,555,735 had been observed in the opening balances of the under mentioned accounts of the Local Tea Sales Division.

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Details	Balance as at 31 December 2010	Balance as at 01 January 2011	Difference
	Rs.	Rs.	Rs.
Fixed Deposit	652,525	400,000	252,525
Creditors and balances payable	14,084,139	14,890,023	805,884
Head Office	3,656,197	21,306,389	17,650,192
Tea Export Division	-	17,847,134	17,847,134
Total			36,555,735

(d) Although the value of 9 fixed deposits had been Rs. 102,805,691 as at the end of the year according to the bank confirmations, it was Rs. 103,174,789 according to the final accounts and a difference of Rs. 369,098, had been observed in the fixed deposits.

2.2.5. Accounts Receivable and Payable

Following observations are made.

- (a) Unidentified inter-current account balance amounting to Rs. 12,925,396 had been shown under current assets without being settled for a long time.
- (b) Instead of recovering the amount of Rs. 19.9 million receivable in respect of the tea exported to Russia under ‘ Russian-Lanka Joint Agreement’, in the year 2002 and a sum of Rs. 21 million receivable in respect of the sale of tea to 14 private tea factories on credit basis, provisions had been made in the accounts for bad and doubtful debts for these recoveries.
- (c) Although a sum of Rs. 33,154,952 had been paid to 4 private parties as advances during the period 2001 to 2004 for the construction of factories and purchase of machineries, action had not been taken to complete the construction or settle the advances up to the date of audit of 30 September 2012.

- (d) Although the money should be received within seven days in respect of the tea sold to the Brokers in terms of Section 28 and 29(a) of the Tea Brokers Association Circular No. 59/2007, the money receivable from the Tea Brokers Association amounting to Rs. 19,744,732 from the years 2006 and 2007 remained outstanding during the year under review too. The Chairman stated that case had been filed in the Colombo Commercial Court to recover this money.
- (e) Balances amounting to Rs. 25,429,463 and Rs. 15,092,477 shown under balances receivable and payable had been carried forward in the accounts for a long time without settling the balances. An age analysis also had not been prepared in respect of these balances.
- (f) Expenditure amounting to Rs. 74,048,541 incurred by the Tea Small holdings Development Authority on behalf of the Fund had been shown in the financial statements as expenditure payable for a long time without change.
- (g) Action had not been taken even during the year under review to recover the shortage of diesel amounting to Rs. 403,524 occurred at the Elpitiya Factory and carried forward for a number of years.

2.3 Lack of Evidence for Audit.

The under mentioned evidence indicated against each of the accounts items had not been made available to audit.

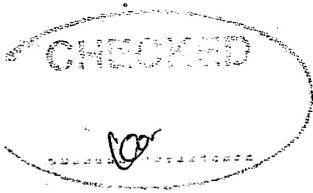
<u>Item</u>	<u>Value</u> Rs.	<u>Evidence not made available</u>
(a) Bank Direct Credits		
Fertiliser Division- 2009 and before	5,481,546	Information regarding the direct credits
- 2010	1,799,021	
(b) Local Tea Marketing Division		Confirmation of balances and schedules
- Debtors	4,639,991	
-Creditors	14,053,378	

(c) Interest Income on Treasury Bills	6,469,656	Detailed information relating to the journal entries crediting to interest income during the year 2010.
(d) Fixed Assets	450,650,809	Registers of fixed assets

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

Non-compliances observed in audit are shown below.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
-----	-----
(a) Section 14(3) of the Finance Act No. 38 of 1971	The Annual Reports of the Fund had not been tabled in Parliament after the year 2005
(b) Government Financial Regulations Financial Regulation No. 396	Action had not been taken in terms of the Financial Regulation in respect of 19 cheques relating to the factories of Raigam Korale, Deniyaya, Mahaweli and Kotmale, valued at Rs. 148,188 which had been issued but not presented for payment and lapsed as at 31 December 2011.
(c) Section 6.5.1 of Public Enterprises Circular No. PED/12 dated 2 June 2003.	The Draft Annual Report for the year 2011 had not been furnished to the Auditor General even as at 15 September 2012.



3. Financial Review

3.1 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. 84.402 million as compared with the net loss of Rs. 28.520 million for the preceding year thus indicating a deterioration of Rs. 55.882 in the financial results. The decrease in the total income for the year under review by Rs. 36.452 million and increase in the administration costs and finance costs by Rs. 27.77 million had been the main reason for such increase in the net loss. Further, the charging of Rs. 10.43 million during the year under review being the revaluation gain arisen from valuing the fixed assets not belonging to the Fund but obtained on lease during the year 2006 was also the reason for the decline in the financial results.

3.2 Analytical Financial Review.

According to the Corporate Plan for the years 2008 to 2012, although 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 end of the year 2012 had been targeted, the Fund had not been able to achieve the target as the Factories sustained the loss of Rs. 73.6 million and the National Tea Marketing Division sustained the loss of Rs. 0.91 million.

(a) Factory Division

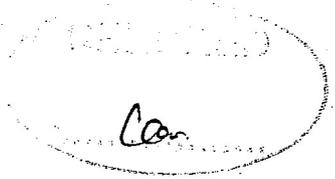
Financial Results of Factories

When compared with the previous year, the loss of factories of the Fund had increased by Rs. 39.230 million or 114 per cent. The decrease in the sales income during the year by Rs. 169.625 million or 18 per cent, in the decrease in the manufacturing cost by Rs. 167.338 million or 17 per cent and the increase in the operational expenditure of factories by Rs. 14.091 were the main cause for the increase in loss. The profit and losses sustained by each factory from the year 2007 up to the year under review are shown below.

Factory	Position of profit and loss				
	2011	2010	2009	2008	2007
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Deniyaya	(4,126)	1,054	7,913	6,709	18,563
Walahanduwa	(3,312)	558	1,436	1,940	13,107
Mawarala	(3,653)	158	(801)	(1,946)	3,191
Elpitiya	(16,604)	(10,105)	(8,994)	(13,298)	1,991
Hiniduma	(14,712)	(13,223)	(6,636)	(10,015)	(627)
Balangoda	(10,316)	(3,821)	(8,157)	(4,813)	(1,235)
Gilimale	(3,593)	(3,148)	(3,671)	(8,645)	(3,635)
Pansaltenna	(7,943)	(7,010)	(5,725)	(11,015)	(3,513)
Raigamkorale	2,191	7,670	16,977	10,712	18,667
Kotmale	(8,901)	(11,348)	(6,120)	(7,430)	(513)
Keppetipola	(5,223)	1,239	10,046	(4,199)	4,584
Passara	2,345	6,342	17,162	(1,032)	10,655
Mahaweli	245	(2,738)	2,345	3,265	16,805
Total	(73,602)	(34,372)	15,775	(39,767)	78,040

In this regard the following observations are made.

- (i) Out of the 13 factories, 5 factories had sustained continuous losses for 5 years from the year 2007 and except 3 factories all other factories had sustained losses as at 31 December 2011.
- (ii) At present, Gilimale and Pansaltenna Factories had been closed down and the management of Hiniduma Tea Factory regarding the production and marketing of tea had



been entrusted to Kalubowitiyana Tea Factory from May 2012 on the basis of receipt of 1/3 of the profit.(except first 3 months)

(iii) Although the production activities of Gilimale Factory had been stopped from the year 2009, a sum of Rs. 6.741 million consisting of Rs. 3.148 million and Rs. 3.593 million expenditure including depreciation of machineries for the maintenance activities of the Factory had been debited to profit for the year 2010 and for the year under review respectively. At present, this Factory had been given to a tea smallholding society.

(iv) According to Cabinet Paper No. 1313, it had been decided to close down the Pansaltenna Tea Factory, and hand over back the lands and buildings obtained from Elkaduwa Plantation Company on lease basis, to fix the machineries in this Factory which belonged to the Fund to the Yatinuwara Factory where the construction work was going on and to pay compensation to the employees working there. Accordingly, the machineries valued at Rs. 23.88 million had been fixed and it was observed that these machineries had been idling from 1 January 2012 to 30 September 2012.

(b) Local Tea Sales Division

Due to lack of marketing mechanism with adequate number of employees in the Local Tea Sales Division this Division was sustaining losses from the year 2006. As loss of Rs.0.91 million had been sustained in the year 2011 and when compared with the year 2010 an improvement of 0.07 million had been observed. The accumulated loss sustained by the Local Tea Sales Division from its commencement had been Rs. 18.8 million.

(c) Fertilizer Division

According to the profit and loss account of Fertilizer Division a profit of Rs.19.64 million had been obtained during the year under review as against a loss of Rs.4.66 million sustained during the previous year thus showing an improvement of Rs.14.98 million during the year under review. However, an operational loss of Rs. 0.44 million had been sustained by the Fertiliser Division during the year under review although interest income and other income during the year under review amounted to Rs.12.08 million and a

10

profit of Rs.19.64 million had been obtained due to bringing back to income the provision of dividend amounting to Rs.8.00 million made during the year 2007.

4. Operating Review

4.1 Performance

Following observations are made.

(a) Tea Production

(i) According to the performance reports furnished to audit the details of Tea production of each factory are shown below.

<u>Factory</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
	Kg	Kg	Kg	Kg	Kg
Deniyaya	269,055	310,725	320,422	362,019	443,352
Walahanduwa	260,930	257,830	215,419	328,902	430,060
Mawarala	171,257	175,756	135,765	170,915	214,070
Elpitiya	148,022	178,077	178,521	305,722	359,728
Hiniduma	106,607	197,829	86,080	117,190	260,679
Balangoda	74,290	189,991	30,799	236,181	218,398
Gilimale	-	-	253	103,656	136,132
Pansaltenna	104,900	89,478	89,759	237,718	162,080
Raigamkorale	400,380	348,710	373,228	415,690	435,393
Kotmale	200,027	103,042	170,888	306,975	299,764
Keppetipola	243,507	273,322	266,069	335,648	328,202
Passara	307,929	328,441	364,673	417,012	430,267
Mahaweli	458,806	301,755	381,466	749,879	761,754
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Total	2,745,710	2,754,956	2,613,342	4,087,507	4,479,879

When compared the year 2007 with 2008 the tea production in all factories had declined and when compared with the previous year the production in 07 factories out of 12 factories had declined.

(ii) The institution was unable to direct factory division towards the annual targets to achieve the objectives indicated in the Corporate Plan and when compared the Action Plan with Performance Report for the year 2011 the actual production was considerably less than the intended quantity. Details are given below:

Factory	Tea Production targeted to obtain according to Action Plan	Actual Tea Production according to Performance Report	Percentage of Variance (%)
	Kg	Kg	Kg
Deniyaya	417,115	269,055	(35.5)
Walahanduwa	390,000	260,930	(33.1)
Elpitiya	365,600	148,021	(59.5)
Hiniduma	301,000	106,607	(64.6)
Balangoda	289,900	74,291	(74.4)
Gilimale	140,100	-	-
Pansaltenna	202,370	104,899	(48.2)
Kotmale	301,000	200,027	(33.5)

(iii) According to the information furnished to audit it was observed that the capacity of machineries available in the factories of the Fund during the year under review had not been utilized properly and the relevant details are shown below:

Factory	Machinery Capacity	Machinery Utilization	Under- utilization
	Kg	Kg	Kg
Deniyaya	2,352,000	1,310,992	1,041,008
Walahanduwa	4,536,000	1,264,173	3,271,827
Elpittiya	3,696,000	724,613	2,971,387
Keppetipola	3,360,000	1,137,382	2,222,618
Raigamkorale	3,696,000	1,891,541	1,804,459
Kotmale	2,252,000	905,483	1,346,517
Mahaweli	4,032,000	2,103,202	1,928,798
Mawarala	2,688,000	827,292	1,860,708
Passara	2,016,000	1,405,534	610,466

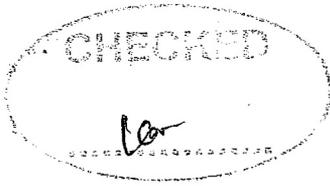
(b) **Welfare Division**

A sum of Rs.14.122 million had been paid for the year under review to the Insurance Company as insurance premium and Rs.15.656 million had been paid to 839 beneficiaries as benefits. The members consisted of 140,402 as at 31 December 2011 under the insurance benefit system and membership subscription amounting to Rs.230,960 had been received from 93 new members during the year under review.

4.2 **Idle and Under-utilized Assets**

Following observations are made.

- (a) A sum of Rs.31.297 million had been shown as work in progress in the accounts as at 31 December 2011 for construction works of 05 factories of which the construction works started from the year 2003. However, only one factory had been completed as at the end of the year and the construction works of all other factories had been stopped. The details of expenditure regarding the ongoing works of Rs.31.297 million had not been furnished to audit.



- (b) A sum of Rs.8,082,256 as installments had been paid to the Urban Development Authority on 31 March 2010 for a land consisting of 40 perches to the value of Rs.28 million on 50 years lease basis for the construction of Head Office building of the Fund and the construction works had not been commenced even as at the date of audit, 30 September 2012.
- (c) The stock of polythene valued at Rs. 971,532 had been idling in the stores of Local Tea Sales Division from the year of 2007 up to 30 September 2012 and the Chairman stated that these stock of polythene had been utilized for the issue of Tea rations to the internal staff.
- (d) Although a sum of Rs.1,548,000 as 70 per cent during the year 2010 and a sum of Rs.442,175 as 20 per cent during the year under review of the total value of Rs.2,278,360 had been paid for a computer based accounting software for the preparation of accounts of the Fund consolidating the Head Office and all factories, it was not possible to implement the consolidated accounts utilizing the computer software system even by 30 September 2012.

4.3 Identified Losses

Following observations are made

- (a) A cash fraud amounting to Rs.1,221,950 had been taken place at Kotmale Tea Factory during the period from 24 February to 10 July 2008 and the Fund was unable to recover the money as the Officer responsible for the loss had been deceased.
- (b) Outdated finished tea valued at Rs.510,027 at the Local Tea Sales Division had been included in the closing stock since the year 2008.

4.4 Management Inefficiencies

Following observations are made

(a) Cash and Bank

(i) Maintenance of Bank Overdraft Balances

Bank Overdraft facilities amounting to Rs.72,747,923 had been obtained as at 31 December 2011 and sum of Rs.4,322,462 had been paid as overdraft interest during the year. Further, overdraft balance of Rs.11,623,051 had been existing for a long period as per the cash book in 03 bank accounts of the Fund and Rs.306,238 in those accounts had been confirmed by the Bank as favourable balances. Bank Reconciliation statements had not been prepared in respect of these Bank balances.

(ii) Non- preparation of Bank Reconciliations

In addition to the above mentioned Bank accounts with over draft balances, Bank Reconciliations had not been prepared for the under mentioned Bank accounts.

<u>Bank Account</u>	<u>Cash book</u> <u>Balance as at 31</u> <u>December 2011</u>	<u>Balance according</u> <u>to Confirmation of</u> <u>Bank Balances</u>
-----	-----	-----
	Rs	Rs
Welfare Division	112,454	112,454
-do-	46,791	46,791
Factory Management Division	875,864	Confirmation of balance not furnished
Deniyaya – Fertilizer account	11,418	-do-
Gilimale – Factory account	46,768	-do-
Raigam Korale	1,000	32,232

(iii) Idle Bank Accounts

08 Bank accounts of the Fund had been idling as at 31 December 2011. A bank account with the balance of Rs.155,359 had been idling since the year 2009 and a



sum of Rs.10,425 had continuously existed in the Bank Reconciliation of the bank account as cheques issued but not presented for payments.

(iii) Fixed Assets

Although a sum of Rs.10, 422,335 had been shown in the financial statements as at 31 December 2011 as the cost of buildings in the accounts of Walahanduwa Factory, the ownership of the land in which the building situated had not been vested with the Fund even as at the date of audit and for this a sum of Rs.28,440 had been spent during the year under review.

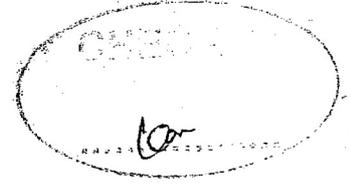
4.5 Human Resources Management

According to the letter number DMS/B/02/P1/16 dated 05 July 2011 of the Department of Management Services, the approved cadre of the Fund had been 90. Although the employees of 13 Tea factories were 199 (according to the collective agreement) these employees had not been included in the approved cadre as at 05 July 2011.

The details of employees of the Fund as at 31 December 2011 are as shown below:

Group	Approved Number	Actual Number	Number of Vacancies
Senior	03	02	01
Secondary	27	10	17
Tertiary	48	28	20
Minor employees	12	07	05
total	90	47	43

In addition to this one senior level post, two secondary level posts and nine tertiary level posts had been recruited on contract basis.



Factory Employees (According to collective agreement)

<u>Group</u>	<u>Approved Number</u>	<u>Actual Number.</u>	<u>Number of vacancies</u>
Non-staff	127	64	63
Minor employees	72	15	57
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Total	199	79	120
	=====	=====	=====

4.6 Motor Vehicle Utilization

The Fund had a fleet of 13 motor vehicles and 21 lorries and a sum of Rs.6, 443,977 payable to Tea Small holdings Development Authority as at 31 December 2008 in respect of 07 lorries purchased for 07 factories was not settled even as at 30 April 2013, the ownership of the lorries had not been vested by the Tea Smallholdings Development Authority. These Lorries had been operating without obtaining revenue license contrary to existing laws.

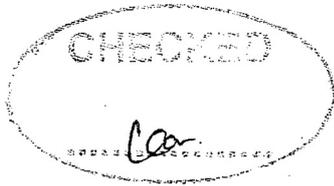
5. Accountability and Good Governance

Corporate Plan and Action Plan

Following observations are made

(a) Preparation of Corporate Plan

Important matters that should be included in the Corporate Plan according to Section 5.1.2 of the Public Enterprises circular No. P.E.D 12 dated 2 June 2003 such as Action Plan and Performance Indicators prepared including the responsibilities assigned to each manager, clearly indicating the Current Assets, Organization Plan, Strategic Plan for the period under review and the objectives and targets to be achieved within the planned period relating to the Fund had not been included in the Corporate Plan for the period 2008-2012.



(b) Annual Review of Corporate Plan

Although the Corporate Plan of the organization should be updated annually according to Section 5.1.3 of the above circular, the Corporate Plan of the Tea Shakthi Fund had not been done so

(c) Non- achievement of the Target of Profitability indicated in the Corporate Plan

Although it was aimed to increase the profit being received from the factories upto Rs.150 million by the year 2012 and to increase the profit received from the Local Tea Marketing Division by Rs.1 million each year towards increasing the economic benefits of the shareholders of the Fund, the factory profits had been decreasing from year to year since 2009 and the Local Tea Marketing Division had been sustaining loss from the year 2006.

6. Systems and Controls

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

- (a) Accounting
- (b) Cash Control
- (c) Inter - Division Current Accounts
- (d) Factory Operations
- (e) Utilisation of Assets
- (f) Balances Receivable and Payable
- (g) Vehicles Control

H. A .S. Samaraweera

Auditor General