

SRI LANKA AYURVEDIC DRUGS CORPORATION

BALANCE SHEET ASA T 31.12.2002

AS AT 31.12.2001

COST	ACCU. DEP.		ACCU. DEP.	NET VALUE
Rs.	Rs.		Rs.	Rs.
7,622,222	2,985,895	FIXED ASSETS		
10,729,510	7,338,089	Land & Buildings	3,233,883	4,388,339
64,990	62,692	Plant & Machinery	8,128,470	2,948,934
129,745	114,828	Water Supply Plant	66,679	9,561
481,070	444,530	Lab Equipment	125,114	50,831
5,613,056	2,866,961	Tools & Plant	478,570	14,499
11,911,733	9,292,640	Office Equipments	3,320,635	2,454,021
<u>36,552,326</u>	<u>23,105,635</u>	Motor Vehicles	10,359,733	1,552,000
			<u>25,713,084</u>	<u>11,418,185</u>
		Working progreses(New Project)		19,962,436
		Current Assets		
	38,242,918	Closing Stocks 12.31.' 02	45,187,852	
23,136,206		Trade Debtors		
<u>1,611,526</u>	21,524,680	Less:Provision for doubtful debts	13,613,369	
	4,875,609	Advances	6,153,104	
	363,235	Deposits	363,235	
	6,604,075	Stock Gold	5,085,710	
	38,905	Stock Gold	867,825	
	94,905	Cash Balance	93,437	
	17,260,004	Bank Balance	32,235,040	
	<u>1,736,747</u>	Receivable interest	-	
	90,741,078		<u>103,599,572</u>	

SRI LANKA AYURVEDIC DRUGS CORPORATION

BALANCE SHEET ASA T 31.12.2002

Rs.	Rs.		Rs.	Rs.
		Less: Current Liabilities		

6,213,676	-	Trade Debtors	
10,165,462		Sales Advance	
39,838		Cash Control Account	
4,157,501		Other Creditors	
4,240,153		Accrued Expenses	
11,728,438		Allocations & Provision	
1,049,820		Interst for Treasury Loan	
195,700		Treasury Loan	
7,456,595		Provision for Income Tax (Previous Year)	
(688,344)		Trust Receipt Loan	
<u>44,558,839</u>			<u>46,193,430</u>
			<u>57,406,142</u>
			<u>88,786,763</u>

Represented by	
Approved Capital	<u>5,000,000</u>
Contributed Capital	<u>5,000,000</u>
Capital Reserve	1,923,741
Donation of Machine by W.H.O.	3,994,341
Treasury Contribution	52,300,629
Profit & (Loss) Account	<u>25,568,052</u>
	<u>88,786,763</u>

Dr.Nimal Samarasundara
Chairman

Finance Manager

Mrs. A.D.S. Premasinghe
Accountant

**SRI LANKA AYURVEDIC DRUGS CORPORATION
MANUFACTURING ACCOUNT
FOR THE YEAR ENDED 31.12.2002**

Rs.	Rs.		Rs.	Rs.
21,814,490		Raw Materials		
		Stocks as at 01.01.' 02	20,403,792	
36,269,928		Add:		
		Purchasing (Raw Materials)	38,220,667	
<u>20,403,792</u>				
	37,680,626	Less: Stocks as at 31.12.' 02	<u>16,122,075</u>	
		Raw Materials Consumed		42,502,384
4,093,319		Packing Materials		
		Stocks As at 01.01.' 02	2,881,462	
6,764,807		Add: Purchasing	9,012,801	
<u>2,881,462</u>				
	7,976,664	Less: Stocks as at 31.12.' 02	<u>2,422,008</u>	
894,570		Expenses of Imports	2,037,990	9,472,255
<u>13,233,381</u>	14,127,951	Direct Labour Expenses	<u>17,868,950</u>	19,906,940
		Factory Cost		
	2,320,550	Direct Expenses		3,026,039
		Less: Working Progress		
2,882,784		Add: Stocks as at 01.01.' 02	2,511,297	
<u>2,511,297</u>		Less: Stocks as at 31.12.' 02	<u>3,743,201</u>	
	371,487			(1,231,904)
	<u>12,810,980</u>	Indirect Expenses		<u>14,355,712</u>
	<u><u>75,288,258</u></u>			<u><u>88,031,426</u></u>

**SRI LANKA AYURVEDIC DRUGS CORPORATION
TRADING, PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED 31.12.2002**

Rs.	Rs.		Rs.	Rs.
115,090,040		Sales	122,777,915	
<u>7,570,926</u>		Less: Defence Levy	<u>4,413,882</u>	
	107,519,114	Net Sales		118,364,033
		Finished Good		
8,980,169		Stock as at 01.01.' 02	11,757,317	
75,288,258		Add: Cost of Production	88,031,426	

11,757,317	72,511,110
	<u>35,008,004</u>
	1,751,407
	<u>36,759,411</u>
19,209,311	
3,704,048	
1,804,552	
6,774,745	
609,079	
	<u>32,101,735</u>
	4,657,676
	<u>3,036,497</u>
	1,621,179
	1,736,747
	-
	<u>3,357,926</u>
	-
	3,357,926
	1,298,795
	<u>2,059,131</u>
14,747,061	
(395,973)	14,351,088
	<u><u>16,410,219</u></u>

Less:

Stocks as at 31.12.' 02

Gross Profit/(Loss)

Sundry Income

Less: Overhead

Administrative Expenses

Administrative Expenses(Security)

Sales & Distribution(Head Office)

Sales & Distribution (Sales Centers)

Finance Expenses

Net Profit Before the Tax and Depreciation

Less: Provision for Depreciation

Net Profit/(Loss) After Depreciation

Interest Income

Profit in Re-value of gold

Less:Peovision for doubtful debts

Provision for Taxation

Net Profit B/F from Last Year

Add:Last Year Adjustment

22,263,345	77,525,398
	<u>40,838,634</u>
	2,312,552
	<u>43,151,186</u>
25,039,491	
4,362,074	
1,066,851	
6,951,487	
554,662	
	<u>37,974,565</u>
	5,176,621
	<u>2,581,271</u>
	2,595,350
2,719,679	
828,920	3,548,599
	<u>6,143,949</u>
	2,459,731
	<u>3,684,218</u>
	1,289,476
	<u>2,394,742</u>
16,410,219	
6,763,091	23,173,310
	<u><u>25,568,052</u></u>

Report of the Board of Directors – 2002

In terms of Section 14(2) of the Finance Act No.8 of 1971 the Report for the year ending 31.12.2002 is submitted to the Hon.Minister of Health, Nutrition and Social Welfare and also to the Hon. Minister of Indigenous Medicine and Disaster Relief on behalf of the Board of Directors.

(01). Introduction

The Sri Lanka Ayurvedic Drugs Corporation was set up by the Hon.Minister of Industries and Fisheries through the Sri Lanka government Gazette notification No.14853/3 of 11th May 1969.in terms of the Government Industrial Statutory Corporations Act No. 49 of 1957.

(02) Main Objectives

The Sri Lanka Ayurvedic Drugs Corporation was set up for the purpose of achieving the following objectives.

01. Production, sale and distribution of Ayurvedic drugs, medical goods and processed Ayurvedic drugs.
02. Import and distribution of essential Ayurveda ' Siddha' and 'Unani' (raw and produced) drugs.
03. Conduct research and standardizing of Ayurvedic drugs literature medicaments.
04. Maintain Ayurveda clinics /pharmacies and produce local drugs out of Ayurveda items.

(03) Business Premises

3.1. Registered Office

Registered Office is situated at No. 22, Sri Soratha Mawatha , Gangodawila, Nugegoda.

3.2. Head Office and Factory

The head office and factory are situated at No.94, Old Kottawa Road, Nawinna, Maharagama.

3.3. The Medical Service of Specialists and Sales Centers

There are Specialist Medical Service Centers/Sales outlets located at No.22, Sri Soratha Mawatha, Gangodawila, Nugegoda, No.94, Old Kottawa Road, Nawinna, Maharagama as well as at No. 70, Yatinuwara Street, Kandy while the regional sales centers are located at Diyatalawa , Badulla and Anuradhapura. The Pettah sales center was operative until 30 November 2002.

(04). Board of Directors

- | | | | |
|-----|-------------------------|---|---------------------|
| 01. | Dr. Nimal Samarasundara | - | Chairman. |
| 02. | Mr. H. Darmasena | - | Managing Director. |
| 03. | Mr. Jerad Santhiyago | - | Working Director. |
| 04. | Mr. Ranjith Gunawardena | - | Director.(Projects) |
| 05. | Prof. W.S.Fernando | - | Director. |
| 06. | Mr. P.W. Ekanayake | - | Director. |
| 07. | Dr. L.P.R. Premasiri | - | Director. |

(05).Senior Executive Staff from 01.01.2002 to 31.12.2002.

- | | | | |
|-----|-------------------------|---|---------------------------------|
| 01. | Finance Manager | - | Mr. P. P. Ediriweera |
| 02. | Factory Manager | - | Mr. K.D.M. Arjuna Chandrasekera |
| 03. | Human Resources Manager | - | Mr. N.H.S. Fonseka |
| 04. | Supplies Manager | - | Mr. S.L. Kakirideniya. |
| 05. | Chief Pharmasists | - | Mrs. P.M.ramyawathi Tennakoon |
| 06. | Chief Internal Auditor | - | Mr. S.W. Piyasena |

(06). Structure of Employees - 2002

	Head office	Factory	Kandy Sale Centre	Diyatalawa Sale Centre	Wijerama Sale C.	Badulla Sale Centre	Anuradhapura Sale Centre	Total
Executive & Staff Grades	3	26	-	-	-	-	-	29
Clerical & Allied Grade	21	62	1	1	2	1	1	89
Labour & Allied Grade	2	107	2	1	3	1	1	117
Security	-	20	-	-	-	-	-	20
Total	26	215	3	2	5	2	2	255

(07). Production

Production During the year under review is shown below as units

Name of the Production		2002	2001	Variance	Variance %
01. Asawa	M.L.750	132,551	147,760	(15,209)	(10)
02. Arishta	M.L.750	175,214	169,872	5,342	3
03. Thaila	M.L.750	82,338	81,689	649	1
04. Quatha	M.L.750	30,913	25,023	5,890	23
05. Syrup	M.L.750	13,385	9,144	4,241	46
06. Vatika	K.G.	7,224	6,522	702	11
07. Kalka	K.G.	13,880	15,071	(1,191)	(7)
08. Rasa	K.G.	614	653	(39)	(5)
09. Choorna	K.G.	22,073	25,631	(3,558)	(13)
10. New Production	K.G.	4,407	-	4,407	-

(08). Welfare of the Staff

The Corporation Conducted the following welfare activities during the year under review.

01. Incentive payment for attendance.
02. Incentive payment based on production.
03. Provision of short eats and 02 cups of tea per employee daily.
04. Provision of Uniforms.
05. Provision of accident insurance for all employees.
06. Provision of annual bonus.
07. Provision of retirement benefits.
08. Provision of vehicle facilities for funerals.
09. Provision of annual trips.
10. Payment in lieu of unused medical leave.
11. Provision for productivity allowances.

(09) Value of the drugs Sold in each Sales Center

Sales Centers	2002	2001	(In Rs.million)	
			Variance	Variance %
Sales to Government Sector	102.9	95.8	7.1	7
Wijerama (Wedagedara)Sale Center	6.4	4.7	1.7	36
Mobile Sale	4.4	7.8	(3.4)	(44)
Kandy Sales Center	3.0	2.7	0.3	11
Diyatalawa Sales Center	1.0	1.5	(0.5)	(33)
Anuradhapura Sales Center	0.4	0.6	(0.2)	(33)
Badulla Sales Center	0.7	0.5	0.2	40
Pettah Sales Center	2.1	1.5	0.6	40
Nawinna Sales Center	<u>1.8</u>	<u>0</u>	<u>1.8</u>	<u>0</u>
	<u>122.7</u>	<u>115.1</u>	<u>7.6</u>	<u>7</u>

(10). Income Distribution

Considering the total income from business to be 100 and description of income and expenditure is as follows.

	2002	2001	Variance
Sales	100.00	100.00	0
Less:			
Cost of sales	<u>65.50</u>	<u>67.45</u>	<u>(1.95)</u>
Gross Profit	34.50	32.55	1.95
Add:			
Other income	<u>1.95</u>	<u>1.63</u>	<u>0.32</u>
	36.45	34.18	2.27
Less:			
Establishment and Administrative Costs	24.84	21.31	3.53
Sales and distribution expenses	6.75	7.98	(1.19)
Finance Expenditure	0.46	0.57	(0.11)
Provision for Depreciation	<u>2.18</u>	<u>2.83</u>	<u>(0.65)</u>
	<u>34.26</u>	<u>32.68</u>	<u>1.58</u>
Operational Profit	2.20	1.50	0.69
Add:-			
Income from interest	2.30	1.51	0.79
Profit in Re-value of Gold	<u>0.70</u>	<u>-</u>	<u>0.70</u>
	5.20	3.01	2.18
Less:-			
Provision for bad debtors	<u>2.08</u>	<u>-</u>	<u>2.08</u>
Net Profit	<u>3.12</u>	<u>3.01</u>	<u>0.10</u>

11. Profitability

	(In Rs. Million)			
	2002	2001	Variance	Variance %
Sales	118.36	107.52	10.84	10
Less:				
Cost of sales	<u>77.52</u>	<u>72.51</u>	<u>5.01</u>	<u>6</u>
Gross Profit	40.83	35.00	5.83	16
Add:				
Other income	<u>2.31</u>	<u>1.75</u>	<u>0.56</u>	<u>32</u>
	43.15	36.76	6.39	17
Less:				
Establishment and Administrative Costs	29.40	22.91	6.49	28
Sales and distribution expenses	8.02	8.57	(0.55)	(6)
Finance Expenditur	0.55	0.61	(0.06)	(9)
Provision for Depreciation	2.58	3.04	(0.46)	(15)
	<u>40.55</u>	<u>35.13</u>	<u>5.42</u>	<u>15</u>
Operational Profit	<u>2.60</u>	<u>1.62</u>	0.98	1
Add:-				
Income from Interests	2.72	1.74	0.98	1
Profit in Re-value of Gold	<u>0.83</u>	<u>0</u>	<u>0.83</u>	<u>0</u>
	6.15	3.36	2.79	83
Less:-				
Provision for bad debtors	<u>2.46</u>	<u>0</u>	<u>2.46</u>	<u>0</u>
Net Profit	<u>3.69</u>	<u>3.36</u>	<u>0.33</u>	<u>9</u>

(12). Capital Expenditure.

Rs. 20.5 millions have been incurred as capital expenditure from the Treasury grant provided for the Redevelopment of the Factory Project during the year.

Acknowledgment.

Board of Directors express our sincere thanks to the Hon.Minister of Health Nutrition and Social Welfare and the Hon.Minister of Indigenous Medicine and Disaster Relief for their valuable guidance, and assistance. The Secretary and the Additional Secretary (Indigenous Medicine) deserve a special word of thanks for the co-operation extended. I also thank the staff of the Sri Lanka Ayurvedic Drugs Corporation as well as the Department of Ayurveda.

**Dr. Nimal Samarasundara,
Chairman,
Sri Lanka Ayurvedic Drugs Corporation.**

The Chairman,
Sri Lanka Ayurvedic Drugs Corporation.

**Report of the Auditor General on the Accounts of the Sri Lanka Ayurvedic
Drugs Corporation for the year ended 31 December 2002 in terms of Section
14(2) (c) of the Finance Act No.38 of 1971**

The audit of accounts of the Sri Lanka Ayurvedic Drugs Corporation for the year ended 31 December 2002 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. My observations which I consider should be published with the annual report of the Corporation in terms of Section 14(2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7) (a) of the Finance Act will be furnished in due course.

1:2 Scope of Audit

Audit opinion, comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and the extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit included examination of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles and significant estimates and judgements made in the preparation of financial statements, evaluation of their overall presentation and determining whether accounting policies adopted were appropriate, consistently applied and adequately disclosed. Sub-sections (3) and (4) of Section 13 of the Finance Act No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

2. Accounts
- 3.

2.1 Audit Opinion

Except for the effects of the adjustments arising from the matters referred to in paragraph 2:2 of this report, I am of opinion that, the financial statements have been satisfactorily prepared to present fairly, in all material respects, the financial position of the Corporation as at 31 December 2002 and the operating results of it for the year then ended in accordance with Sri Lanka Accounting Standards other than the Standards referred to in this report and stated accounting policies as set out in notes 1 to 11 to the financial statements.

2:2 Comments on Accounts

2:2:1 Accounting Policies

The following observations are made.

- (a) The depreciation policy of the Corporation is to depreciate buildings at 5% of the cost annually. But, the cost of the defensive barbed wire fence of the herbal gardens at Nikaweratiya amounting to Rs. 1,089,060 capitalized under land and buildings had been depreciated at 25% annually.
- (b) Annual depreciation on fixed assets had been adjusted to the net profit in the profit and loss Account, instead of being apportioned between the Factory and the Office at an appropriate rate. The annual depreciation so adjusted during the year under review amounted to Rs. 2,581,271.
- (c) The method adopted by the Corporation is to show the net balance in the accounts after setting off the credit balances in individual debtors accounts to the overall debit balance of the debtors.
- (d) Fixed assets are shown in the accounts at cost, based on book value by the Corporation as a regular feature. The value of fixed assets so shown in the accounts amounted to Rs. 37,131,269 as at 31 December 2002.

Although a physical verification of assets had been carried at the end of the year, shortages and excesses detected had not been ascertained and adjusted in the accounts.

2:2:2 Accounting Deficiencies

(a) Inappropriate Disclosures

The following inappropriate disclosures were observed.

- (i) Classification errors aggregating Rs. 4,626,952 were observed in relation to ten items of accounts.
- (ii) The balance of the fixed assets amounting to Rs. 37,131,269 included unidentified suspense balances aggregating Rs. 1,432,779.
- (iii) The lease rent liability as at beginning of the year under review amounted to Rs.108,569 and a sum of Rs. 340,704 had been paid as lease rent during the year under review. The entire amount so paid had been debited to the profit and Loss Account.
- (iv) Unclaimed Directors' Fees amounting to Rs.7,500 had been credited to Directors' Fees Account.
- (v) The stock of gold of the Corporation that had been shown at purchase price for over a long period had been revalued during the year under review and the resulting revaluation gain amounting to Rs. 828,920 had been brought to account as income for the year under review, without being credited to the Revaluation Reserve Account.
- (vi) Provision for employees gratuity amounting to Rs.10,864,436 had been classified under current liabilities without being disclosed as a long- term liability .
- (vii) Various assets including fixed assets had been auctioned as condemned items and the total sale proceeds amounting to Rs.154, 710 had been credited to the Income Account. No other adjustment for fixed assets had been made in the accounts in this regard.
- (viii) The bank balance of Rs.32,235,040 as at 31 December 2002 included bank deposits amounting to Rs.19,819,679 which is of investment nature with an interest income and a sum of Rs. 3,000,000 invested in short term Treasury bills.
- (ix) The packing machine purchased during 2001 had been capitalized at a cost of Rs.3,358,380 instead of the total cost of Rs. 4,723,402. The difference of Rs.1,365,022 had been included in the Capital Work-in-progress Account even as at 31 December 2002.
- (x) The cost of a building capitalized at Rs. 4,205,700 during the preceding year and depreciated by Rs. 420,570 as at 31 December 2002 had been inappropriately credited to the Prior Years Adjustment Account and debited the Capital Work-in-progress Account by Rs. 4,205,700. Therefore, the cost of the building had been included in the Buildings Account as well as the Work-in-Progress Account.

(b) Omissions in the Accounts

Seven items aggregating Rs. 1,914,267 had been omitted in the accounts.

(c) Overstatements and Understatements in the Accounts

- (i) Stock of "Gotukola" Tea valued at Rs. 10,908,447 included in the opening stock as at 1 January 2001 had not been included in the closing stock as at 31 December 2002. Therefore, cost of raw materials consumed had been overstated by Rs. 10,908,447.
- (ii) Stock of raw materials as at 31 December 2002 had been overstated by Rs.537,968 due to valuation of a stock of 4 categories of imported raw materials at a price higher than the actual purchase price and the stock of raw materials had been understated by Rs. 1,653,273 due to valuation of 12 categories of raw materials at a price lower than the actual purchase price.
- (iii) The interest income of Rs. 2,719,679 included a sum of Rs. 130,064 relating to the preceding year.

2:2:3 Unreconciled Accounts

- (a) Balances of 7 control accounts had not been reconciled with the subsidiary records resulting in differences aggregating Rs. 6,565,511.
- (b) The Cash Sales Control Account which had been introduced to control the cash sales and banking of proceeds from such sales normally contains a debit balance equivalent to the unbanked sale proceeds as at end of the year. But, there was an unsettled balance in this account for over a long period and the unsettled balance as at end of the preceding year amounted to Rs. 564,679.
- (c) Although the Salaries Control Account should be settled as at end of the year, there was a balance of Rs. 2,480,301 in the said account as at 31 December 2002. There was an unsettled balance in this account continuously and the balance as at end of the preceding year was Rs. 2,334,816.
- (d) There was a difference of Rs. 199,065 between the Employees Provident Fund contributions paid in respect of the year under review and the amount shown in the account.

2:2:4 Lack of Evidence for Audit

- (a) Nine items aggregating Rs. 46,775,107 could not be satisfactorily vouched or accepted in audit due to non-availability of evidence such as registers of assets, physical verification reports, confirmation of balances, deposit certificates etc.
- (b) Land and buildings shown in the accounts included a sum of Rs. 5,174,394 being the value of the land at Nawinna on which the Factory and other buildings were constructed. Documents had not been made available for audit to ensure that this land has been vested with the Corporation in terms of Chapter 454 Paragraph 222 of the Crown Lands Ordinance (Land Procedure Manual)

2.2.5 Non- compliance with Laws, Rules, Regulations , Management Decisions etc.

The instances of non-compliance with following laws, rules, regulations, management decisions etc. were brought to the notice of the Corporation from time to time.

- (a) Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 – Sri Lanka Accounting Standard Nos. 03,09,12 and 18.
- (b) Finance Act No. 38 of 1971 – Sections 8(1), 13(8) and 16 and Public Enterprises Circular No. PED-1
- (c) Government Financial Regulations - No 371 (2)(a)
- (d) Government Establishments Code – Paragraph 4.5 of Chapter xxiv
- (e) Public Finance Circular No. PF/PE 3 – 364 and 364(1)

3 Financial and Operating Review

3:1 Financial Results

The operations of the Corporation during the year under review had resulted in a net profit of Rs.2,394,742 as compared with the corresponding net profit of Rs. 2,059,131 for the preceding year indicating an improvement in financial results by Rs 335,611.

3:2 Operating Ratios

Some significant ratios relating to the operation and the audit observations thereon are shown below.

<u>Type of Ratios</u>	<u>2002</u>	<u>2001</u>	<u>Observations</u>
(a) Return on Capital Employed	3.78 %	4.76 %	Capital employed during the year under review had been increased by Rs. 20,000,000 while the returns had been decreased by 01% .
(b) Gross Profit Ratio (on sales)	33.2%	29.51%	Stock of Gotukola Tea valued at Rs. 10,908,447 had been written off from the closing stock improperly when compared with the preceding year thus overstating production cost by Rs. 10,908,447 whilst the gross profit ratio for the year under review had been increased.
Gross Profit Ratio (on cost of sales)	52.6%	48.2%	
(c) Percentage of Operating Profit on Sales	0.26%	1.79%	Operating profit for the year under review had been increased due to increase of sales and decrease of cost of sales.

3.3 Performance

The increase of unit wise production for the year under review was in a very low level as compared with the preceding year. Further the Corporation had not proceeded with towards the achievement of its objectives i.e. running cattle farms to obtain pure milk requires for production of cow-ghee and improving the bee keeping as a cottage industry.

3.4 Uneconomic Transactions

(a) The rent paid by the Corporation in November 1992 was Rs. 15,000 and it had been increased to Rs.75,000 during the last ten years. Action had not been taken to obtain a valuation report from the government valuer on any occasion of rent revisions. Further, there was no rent agreement for the rent paid during the period 01 November 2001 to 30 June 2002. The No. of square feet occupied at the ground floor had been reduced since 01 July 2002 and the rent also had been reduced to Rs.30,000. Accordingly, the rent paid during the preceding period could have been reduced if only the required No. of square feet had been occupied.

(b) Two uneconomic transactions to the value of Rs. 2,704,367 were observed.

3:5 Funding Arrangement for Provision for Gratuity

The accumulated provision for gratuity as at 31 December 2002 amounted to Rs.10, 864,436. However, a fund had not been build up by the Corporation to meet the future liabilities.

3.6 New Project for Modernization and Development of the Factory

A new Project for modernization of the Factory had been commenced at a cost of Rs. 120 million which was expected to finance by a provision of Rs. 103.0 million from the Treasury and 17.0 million out of the Corporation's funds. Although it had been planned to complete this Project within a period of 2 years, the project had not been completed even by 31 December 2002. Further, expenditure statements relating to the project had not been made available for audit. A packing machine had been purchased at Rs. 4,723,402 under this project to pack products such as "Peyawa" and "Thambum Hodi". If this machine was operated 8 hours per day 9,216,000 packets could have been produced. But only 112,540 packets had been produced during the 8 months period for the year under review.

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The Corporation had not prepared a corporate plan.

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Significant variances were observed between the budget and the actual figures indicating that the budget had not been made us of as an effective instrument of management control.

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Special attention is needed in respect of the following areas of systems and controls.

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- (c) Accounting
- (d) Stocks
- (e) Purchases/Sales
- (f) Fixed Assets and Stocks
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(S.C.MAYADUNNE)
Auditor General

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Except in instance disclosed by made in the following balance sheets financial declarations have been prepared according to common accounting principles on a basis unchanged from previous years based on historic cost outlays.

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Value of final stock has been computed by considering the less value from cost and net gains.

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We have paid Rs. 20.5 million as capital expenditure and from this amount we added Rs. 0.5 million for fixed assets and rest for working capital during the year 2002.

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We have re-valued 798 grams of gold which is owned to the corporation on the rate of Rs.1087.50 per one gram and therefore increased the value of Gold in Rs. 828,920.00

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We have transferred Rs. 1,049,820 from treasury loan account which was recovered from retired employees under the Bulumulla Scheme. The payable interest was also adjusted.

Note No 11

The self-life expired stock of Gotukolla tea valued of Rs. 10,908,447.00 had not been included to the stock as at 31.12.2002.

									Total

Report of the Board of Directors – 2002

In terms of Section 14(2) of the Finance Act No.8 of 1971 the Report for the year ending 31.12.2002 is submitted to the Hon.Minister of Health, Nutrition and Social Welfare and also to the Hon. Minister of Indigenous Medicine and Disaster Relief on behalf of the Board of Directors.

(01). Introduction

The Sri Lanka Ayurvedic Drugs Corporation was set up by the Hon.Minister of Industries and Fisheries through the Sri Lanka government Gazette notification No.14853/3 of 11th May 1969.in terms of the Government Industrial Statutory Corporations Act No. 49 of 1957.

(02) Main Objectives

The Sri Lanka Ayurvedic Drugs Corporation was set up for the purpose of achieving the following objectives.

01. Production, sale and distribution of Ayurvedic drugs, medical goods and processed Ayurvedic drugs.
02. Import and distribution of essential Ayurveda ' Siddha' and 'Unani' (raw and produced) drugs.
03. Conduct research and standardizing of Ayurvedic drugs literature medicaments.
04. Maintain Ayurveda clinics /pharmacies and produce local drugs out of Ayurveda items.

(03) Business Premises

3.1. Registered Office

Registered Office is situated at No. 22, Sri Soratha Mawatha , Gangodawila, Nugegoda.

3.2. Head Office and Factory

The head office and factory are situated at No.94, Old Kottawa Road, Nawinna, Maharagama.

3.3. The Medical Service of Specialists and Sales Centers

There are Specialist Medical Service Centers/Sales outlets located at No.22, Sri Soratha Mawatha, Gangodawila, Nugegoda, No.94, Old Kottawa Road, Nawinna, Maharagama as well as at No. 70, Yatinuwara Street, Kandy while the regional sales centers are located at Diyatalawa , Badulla and Anuradhapura. The Pettah sales center was operative until 30 November 2002.

(04). Board of Directors

- | | | | |
|-----|-------------------------|---|---------------------|
| 01. | Dr. Nimal Samarasundara | - | Chairman. |
| 02. | Mr. H. Darmasena | - | Managing Director. |
| 03. | Mr. Jerad Santhiyago | - | Working Director. |
| 04. | Mr. Ranjith Gunawardena | - | Director.(Projects) |
| 05. | Prof. W.S.Fernando | - | Director. |
| 06. | Mr. P.W. Ekanayake | - | Director. |
| 07. | Dr. L.P.R. Premasiri | - | Director. |

(05).Senior Executive Staff from 01.01.2002 to 31.12.2002.

- | | | | |
|-----|-------------------------|---|---------------------------------|
| 01. | Finance Manager | - | Mr. P. P. Ediriweera |
| 02. | Factory Manager | - | Mr. K.D.M. Arjuna Chandrasekera |
| 03. | Human Resources Manager | - | Mr. N.H.S. Fonseka |
| 04. | Supplies Manager | - | Mr. S.L. Kakirideniya. |
| 05. | Chief Pharmasists | - | Mrs. P.M.ramyawathi Tennakoon |
| 06. | Chief Internal Auditor | - | Mr. S.W. Piyasena |

(06). Structure of Employees - 2002

	Head office	Factory	Kandy Sale Centre	Diyatalawa Sale Centre	Wijerama Sale C.	Badulla Sale Centre	Anuradhapura Sale Centre	Total
Executive & Staff Grades	3	26	-	-	-	-	-	29
Clerical & Allied Grade	21	62	1	1	2	1	1	89
Labour & Allied Grade	2	107	2	1	3	1	1	117
Security	-	20	-	-	-	-	-	20
Total	26	215	3	2	5	2	2	255

(07). Production

Production During the year under review is shown below as units

Name of the Production		2002	2001	Variance	Variance %
01. Asawa	M.L.750	132,551	147,760	(15,209)	(10)
02. Arishta	M.L.750	175,214	169,872	5,342	3
03. Thaila	M.L.750	82,338	81,689	649	1
04. Quatha	M.L.750	30,913	25,023	5,890	23
05. Syrup	M.L.750	13,385	9,144	4,241	46
06. Vatika	K.G.	7,224	6,522	702	11
07. Kalka	K.G.	13,880	15,071	(1,191)	(7)
08. Rasa	K.G.	614	653	(39)	(5)
09. Choorna	K.G.	22,073	25,631	(3,558)	(13)
10. New Production	K.G.	4,407	-	4,407	-

(08). Welfare of the Staff

The Corporation Conducted the following welfare activities during the year under review.

01. Incentive payment for attendance.
02. Incentive payment based on production.
03. Provision of short eats and 02 cups of tea per employee daily.
04. Provision of Uniforms.
05. Provision of accident insurance for all employees.
06. Provision of annual bonus.
07. Provision of retirement benefits.
08. Provision of vehicle facilities for funerals.
09. Provision of annual trips.
10. Payment in lieu of unused medical leave.
11. Provision for productivity allowances.

(09) Value of the drugs Sold in each Sales Center

Sales Centers	2002	2001	(In Rs.million)	
			Variance	Variance %
Sales to Government Sector	102.9	95.8	7.1	7
Wijerama (Wedagedara)Sale Center	6.4	4.7	1.7	36
Mobile Sale	4.4	7.8	(3.4)	(44)
Kandy Sales Center	3.0	2.7	0.3	11
Diyatalawa Sales Center	1.0	1.5	(0.5)	(33)
Anuradhapura Sales Center	0.4	0.6	(0.2)	(33)
Badulla Sales Center	0.7	0.5	0.2	40
Pettah Sales Center	2.1	1.5	0.6	40
Nawinna Sales Center	<u>1.8</u>	<u>0</u>	<u>1.8</u>	<u>0</u>
	<u>122.7</u>	<u>115.1</u>	<u>7.6</u>	<u>7</u>

(10). Income Distribution

Considering the total income from business to be 100 and description of income and expenditure is as follows.

	2002	2001	Variance
Sales	100.00	100.00	0
Less:			
Cost of sales	<u>65.50</u>	<u>67.45</u>	<u>(1.95)</u>
Gross Profit	34.50	32.55	1.95
Add:			
Other income	<u>1.95</u>	<u>1.63</u>	<u>0.32</u>
	36.45	34.18	2.27
Less:			
Establishment and Administrative Costs	24.84	21.31	3.53
Sales and distribution expenses	6.75	7.98	(1.19)
Finance Expenditure	0.46	0.57	(0.11)
Provision for Depreciation	<u>2.18</u>	<u>2.83</u>	<u>(0.65)</u>
	<u>34.26</u>	<u>32.68</u>	<u>1.58</u>
Operational Profit	2.20	1.50	0.69
Add:-			
Income from interest	2.30	1.51	0.79
Profit in Re-value of Gold	<u>0.70</u>	<u>-</u>	<u>0.70</u>
	5.20	3.01	2.18
Less:-			
Provision for bad debtors	<u>2.08</u>	<u>-</u>	<u>2.08</u>
Net Profit	<u>3.12</u>	<u>3.01</u>	<u>0.10</u>

11. Profitability

	(In Rs. Million)			
	2002	2001	Variance	Variance %
Sales	118.36	107.52	10.84	10
Less:				
Cost of sales	<u>77.52</u>	<u>72.51</u>	<u>5.01</u>	<u>6</u>
Gross Profit	40.83	35.00	5.83	16
Add:				
Other income	<u>2.31</u>	<u>1.75</u>	<u>0.56</u>	<u>32</u>
	43.15	36.76	6.39	17
Less:				
Establishment and Administrative Costs	29.40	22.91	6.49	28
Sales and distribution expenses	8.02	8.57	(0.55)	(6)
Finance Expenditur	0.55	0.61	(0.06)	(9)
Provision for Depreciation	2.58	3.04	(0.46)	(15)
	<u>40.55</u>	<u>35.13</u>	<u>5.42</u>	<u>15</u>
Operational Profit	<u>2.60</u>	<u>1.62</u>	0.98	1
Add:-				
Income from Interests	2.72	1.74	0.98	1
Profit in Re-value of Gold	<u>0.83</u>	<u>0</u>	<u>0.83</u>	<u>0</u>
	6.15	3.36	2.79	83
Less:-				
Provision for bad debtors	<u>2.46</u>	<u>0</u>	<u>2.46</u>	<u>0</u>
Net Profit	<u>3.69</u>	<u>3.36</u>	<u>0.33</u>	<u>9</u>

(12). Capital Expenditure.

Rs. 20.5 millions have been incurred as capital expenditure from the Treasury grant provided for the Redevelopment of the Factory Project during the year.

Acknowledgment.

Board of Directors express our sincere thanks to the Hon.Minister of Health Nutrition and Social Welfare and the Hon.Minister of Indigenous Medicine and Disaster Relief for their valuable guidance, and assistance. The Secretary and the Additional Secretary (Indigenous Medicine) deserve a special word of thanks for the co-operation extended. I also thank the staff of the Sri Lanka Ayurvedic Drugs Corporation as well as the Department of Ayurveda.

**Dr. Nimal Samarasundara,
Chairman,
Sri Lanka Ayurvedic Drugs Corporation.**

The Chairman,
Sri Lanka Ayurvedic Drugs Corporation.

**Report of the Auditor General on the Accounts of the Sri Lanka Ayurvedic
Drugs Corporation for the year ended 31 December 2002 in terms of Section
14(2) (c) of the Finance Act No.38 of 1971**

The audit of accounts of the Sri Lanka Ayurvedic Drugs Corporation for the year ended 31 December 2002 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. My observations which I consider should be published with the annual report of the Corporation in terms of Section 14(2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7) (a) of the Finance Act will be furnished in due course.

1:2 Scope of Audit

Audit opinion, comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and the extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit included examination of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles and significant estimates and judgements made in the preparation of financial statements, evaluation of their overall presentation and determining whether accounting policies adopted were appropriate, consistently applied and adequately disclosed. Sub-sections (3) and (4) of Section 13 of the Finance Act No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

2. Accounts
- 3.

2.1 Audit Opinion

Except for the effects of the adjustments arising from the matters referred to in paragraph 2:2 of this report, I am of opinion that, the financial statements have been satisfactorily prepared to present fairly, in all material respects, the financial position of the Corporation as at 31 December 2002 and the operating results of it for the year then ended in accordance with Sri Lanka Accounting Standards other than the Standards referred to in this report and stated accounting policies as set out in notes 1 to 11 to the financial statements.

2:2 Comments on Accounts

2:2:1 Accounting Policies

The following observations are made.

- (a) The depreciation policy of the Corporation is to depreciate buildings at 5% of the cost annually. But, the cost of the defensive barbed wire fence of the herbal gardens at Nikaweratiya amounting to Rs. 1,089,060 capitalized under land and buildings had been depreciated at 25% annually.
- (b) Annual depreciation on fixed assets had been adjusted to the net profit in the profit and loss Account, instead of being apportioned between the Factory and the Office at an appropriate rate. The annual depreciation so adjusted during the year under review amounted to Rs. 2,581,271.
- (c) The method adopted by the Corporation is to show the net balance in the accounts after setting off the credit balances in individual debtors accounts to the overall debit balance of the debtors.
- (d) Fixed assets are shown in the accounts at cost, based on book value by the Corporation as a regular feature. The value of fixed assets so shown in the accounts amounted to Rs. 37,131,269 as at 31 December 2002.

Although a physical verification of assets had been carried at the end of the year, shortages and excesses detected had not been ascertained and adjusted in the accounts.

2:2:2 Accounting Deficiencies

(a) Inappropriate Disclosures

The following inappropriate disclosures were observed.

- (i) Classification errors aggregating Rs. 4,626,952 were observed in relation to ten items of accounts.
- (ii) The balance of the fixed assets amounting to Rs. 37,131,269 included unidentified suspense balances aggregating Rs. 1,432,779.
- (iii) The lease rent liability as at beginning of the year under review amounted to Rs.108,569 and a sum of Rs. 340,704 had been paid as lease rent during the year under review. The entire amount so paid had been debited to the profit and Loss Account.
- (iv) Unclaimed Directors' Fees amounting to Rs.7,500 had been credited to Directors' Fees Account.
- (v) The stock of gold of the Corporation that had been shown at purchase price for over a long period had been revalued during the year under review and the resulting revaluation gain amounting to Rs. 828,920 had been brought to account as income for the year under review, without being credited to the Revaluation Reserve Account.
- (vi) Provision for employees gratuity amounting to Rs.10,864,436 had been classified under current liabilities without being disclosed as a long- term liability .
- (vii) Various assets including fixed assets had been auctioned as condemned items and the total sale proceeds amounting to Rs.154, 710 had been credited to the Income Account. No other adjustment for fixed assets had been made in the accounts in this regard.
- (viii) The bank balance of Rs.32,235,040 as at 31 December 2002 included bank deposits amounting to Rs.19,819,679 which is of investment nature with an interest income and a sum of Rs. 3,000,000 invested in short term Treasury bills.
- (ix) The packing machine purchased during 2001 had been capitalized at a cost of Rs.3,358,380 instead of the total cost of Rs. 4,723,402. The difference of Rs.1,365,022 had been included in the Capital Work-in-progress Account even as at 31 December 2002.
- (x) The cost of a building capitalized at Rs. 4,205,700 during the preceding year and depreciated by Rs. 420,570 as at 31 December 2002 had been inappropriately credited to the Prior Years Adjustment Account and debited the Capital Work-in-progress Account by Rs. 4,205,700. Therefore, the cost of the building had been included in the Buildings Account as well as the Work-in-Progress Account.

(b) Omissions in the Accounts

Seven items aggregating Rs. 1,914,267 had been omitted in the accounts.

(c) Overstatements and Understatements in the Accounts

- (i) Stock of "Gotukola" Tea valued at Rs. 10,908,447 included in the opening stock as at 1 January 2001 had not been included in the closing stock as at 31 December 2002. Therefore, cost of raw materials consumed had been overstated by Rs. 10,908,447.
- (ii) Stock of raw materials as at 31 December 2002 had been overstated by Rs.537,968 due to valuation of a stock of 4 categories of imported raw materials at a price higher than the actual purchase price and the stock of raw materials had been understated by Rs. 1,653,273 due to valuation of 12 categories of raw materials at a price lower than the actual purchase price.
- (iii) The interest income of Rs. 2,719,679 included a sum of Rs. 130,064 relating to the preceding year.

2:2:3 Unreconciled Accounts

- (a) Balances of 7 control accounts had not been reconciled with the subsidiary records resulting in differences aggregating Rs. 6,565,511.
- (b) The Cash Sales Control Account which had been introduced to control the cash sales and banking of proceeds from such sales normally contains a debit balance equivalent to the unbanked sale proceeds as at end of the year. But, there was an unsettled balance in this account for over a long period and the unsettled balance as at end of the preceding year amounted to Rs. 564,679.
- (c) Although the Salaries Control Account should be settled as at end of the year, there was a balance of Rs. 2,480,301 in the said account as at 31 December 2002. There was an unsettled balance in this account continuously and the balance as at end of the preceding year was Rs. 2,334,816.
- (d) There was a difference of Rs. 199,065 between the Employees Provident Fund contributions paid in respect of the year under review and the amount shown in the account.

2:2:4 Lack of Evidence for Audit

- (a) Nine items aggregating Rs. 46,775,107 could not be satisfactorily vouched or accepted in audit due to non-availability of evidence such as registers of assets, physical verification reports, confirmation of balances, deposit certificates etc.
- (b) Land and buildings shown in the accounts included a sum of Rs. 5,174,394 being the value of the land at Nawinna on which the Factory and other buildings were constructed. Documents had not been made available for audit to ensure that this land has been vested with the Corporation in terms of Chapter 454 Paragraph 222 of the Crown Lands Ordinance (Land Procedure Manual)

2.2.5 Non- compliance with Laws, Rules, Regulations , Management Decisions etc.

The instances of non-compliance with following laws, rules, regulations, management decisions etc. were brought to the notice of the Corporation from time to time.

- (a) Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 – Sri Lanka Accounting Standard Nos. 03,09,12 and 18.
- (b) Finance Act No. 38 of 1971 – Sections 8(1), 13(8) and 16 and Public Enterprises Circular No. PED-1
- (c) Government Financial Regulations - No 371 (2)(a)
- (d) Government Establishments Code – Paragraph 4.5 of Chapter xxiv
- (e) Public Finance Circular No. PF/PE 3 – 364 and 364(1)

3 Financial and Operating Review

3:1 Financial Results

The operations of the Corporation during the year under review had resulted in a net profit of Rs.2,394,742 as compared with the corresponding net profit of Rs. 2,059,131 for the preceding year indicating an improvement in financial results by Rs 335,611.

3:2 Operating Ratios

Some significant ratios relating to the operation and the audit observations thereon are shown below.

<u>Type of Ratios</u>	<u>2002</u>	<u>2001</u>	<u>Observations</u>
(a) Return on Capital Employed	3.78 %	4.76 %	Capital employed during the year under review had been increased by Rs. 20,000,000 while the returns had been decreased by 01% .
(b) Gross Profit Ratio (on sales)	33.2%	29.51%	Stock of Gotukola Tea valued at Rs. 10,908,447 had been written off from the closing stock improperly when compared with the preceding year thus overstating production cost by Rs. 10,908,447 whilst the gross profit ratio for the year under review had been increased.
Gross Profit Ratio (on cost of sales)	52.6%	48.2%	
(c) Percentage of Operating Profit on Sales	0.26%	1.79%	Operating profit for the year under review had been increased due to increase of sales and decrease of cost of sales.

3.3 Performance

The increase of unit wise production for the year under review was in a very low level as compared with the preceding year. Further the Corporation had not proceeded with towards the achievement of its objectives i.e. running cattle farms to obtain pure milk requires for production of cow-ghee and improving the bee keeping as a cottage industry.

3.4 Uneconomic Transactions

(a) The rent paid by the Corporation in November 1992 was Rs. 15,000 and it had been increased to Rs.75,000 during the last ten years. Action had not been taken to obtain a valuation report from the government valuer on any occasion of rent revisions. Further, there was no rent agreement for the rent paid during the period 01 November 2001 to 30 June 2002. The No. of square feet occupied at the ground floor had been reduced since 01 July 2002 and the rent also had been reduced to Rs.30,000. Accordingly, the rent paid during the preceding period could have been reduced if only the required No. of square feet had been occupied.

(b) Two uneconomic transactions to the value of Rs. 2,704,367 were observed.

3:5 Funding Arrangement for Provision for Gratuity

The accumulated provision for gratuity as at 31 December 2002 amounted to Rs.10, 864,436. However, a fund had not been build up by the Corporation to meet the future liabilities.

3.6 New Project for Modernization and Development of the Factory

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(S.C.MAYADUNNE)
Auditor General

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