

04.08.2003

Mr. L.H. Vidanapathirana
Depty. Auditor General
Auditor General's Department
Independence Square,
Colombo 7

Dear Sir,

**REPLY ON COMMENTS BY THE AUDITOR GENERAL UNDER SECTION 14 (2) (C)
OF THE FINANCE ACT NO. 38 OF 1971 ON FINANCIAL STATEMENT FOR THE
PEIRIOD ENDED 31ST DECEMBER 2002 OF STATE DEVELOPMENT &
CONSTRUCTION CORPORATION**

2 Accounts

2.1 Furnishing of Accounts

The accounts that had been furnished to Auditor General till 2001 carried a disclaimer of opinion. Therefore the whole concentration was given to rectify the accounts as directed by Auditor General in his previous report on which the disclaimer of opinion on the financial accounts had been based .

This rectification include reconciliation of figures disclosed in the 2002 financial statements with third party confirmations internal records kept by the other division etc. Therefore the delay was inevitable . But this effort yield us a good indication that financial statements are free from material misstatements . (Refer draft report on the audit of 2002 accounts of SD&CC by Audit Superintendent dated 2003.04.08 and SD&CC's reply on the same on 2003.04.10) .

The adjusted accounts based on the agreed comments by the Auditor General had been furnished to you on 22nd April 2003 which was the report submitted by your Department for the second opinion by another Depty. Auditor General .

After two sessions of discussions with the said Deputy Auditor General the adjusted final accounts based on his comments for 2002 have been submitted on 25th June 2003 on which we were convinced and appreciated as a fair and acceptable presentation of accounts by the Auditor General's Department .

2.2 Furnishing of Consolidated Accounts

The accounts of the subsidiary have not been audited from year 1998. The Board of Directors of SD&CC has no control of the subsidiary as the Minister concerned appoints the Board of Directors and SD&CC has no representative on the Board of the Subsidiary .

2.4.1 Accounting Policies

- a.) In the Final Accounts given by us to the Auditor General on 25th June 2002 the deficiency has been adjusted and there was no separate credit balance of Rs. 1,561,514.
- b). Though the creditors balance shown in the accounts amount to Rs. 32,073,932, there are no debit balances adjusted in the accounts furnished to the Auditor General on 25th June 2002 .
- c). We strongly object to the word deficiency for the payment of Bank Over Draft interest as in the major charges of companies on the world over engaged in business activities resort to loans & overdrafts resulting in payment of interest for the amounts so borrowed.

2.4.2 Unreconciled Control Accounts

Except few insignificant differences in the following Control Accounts, the balance accounts has been reconciled and is reflected so in the revised accounts given on 25th June 2003.

	<u>Acc. Balance</u>	<u>Schedule Balance</u>	<u>Difference</u>
Construction Debtors	48,379,121	48,379,121	Nil
Finished Products	28,596,543	28,596,543	Nil
Concrete Yard – Debtors	22,970,463	22,970,463	Nil
Other Deposits	1,738,640	1,738,640	Nil
Accrued Expenses	60,734,414	60,734,414	Nil
Refundable Deposits	2,331,916	2,331,916	Nil

- * The above differences have arisen and brought forward from previous years and there are no differences in the transactions pertaining to the Current year.
- * The other accounts as mentioned earlier, though of differences brought forward from previous years have been reconciled by us during the year under review.
- * The differences in the unreconciled accounts are not material and is being investigated with a view to writing off of any balance that cannot be reconcile.

2.4.3 **Receivable and Payable amounts.**

- a). We have called for confirmations from the debtors and creditors and have not received confirmation.
- b). /we shall analyse the creditors, though in most business the analysis is not considered important.

2.4.4 **No Evidence for Audit**

We have furnished the adjusted ledger on 2nd July and we implore you to check and verify the revised ledger accounts in spite of a further delay in the audit.

- * We are making this earnest request in view of the many years of qualified accounts and the mammoth effort. We have put in together with our Consultant Chartered Accountants, Jayasinghe & Co. to put things in order. At this stage we also wish remember the kind extension give to us by your consequent to our discussion with you.
- * All this day & night efforts would be fertile if you do not consider our revised accounts which were submitted on 25.06.2003 and naturally for all the hard work we have done. We would be demoralized if you do not check the amended accounts.
- * We wish to reiterate that the following ledger accounts mentioned in your report can be examined, vouched and /or verified by you as the accounts, schedules, supporting documents and other clarifications are available for your inspection.

Current Asset	Rs.	345,022,529.00
Current Liabilities		270,599,509.00
Net Profit		9,424,025.00
Stock Verification depreciations		6,525,396.00
Journal Entries		15,116,701.00
Construction Income		12,093,960.00
Work in Progress		802,830.00
Moddle House		331,534.00

- * If we examine closely, if there are transactions which cannot be verified then those transactions will be pertaining to previous years and not for the year under review.
- * The effort to make the Corporation profitable is not limited to proper accounts but also to efforts of the Chartered Engineer /chairman and Board of Directors and staff who have turned around the Corporation from a loss making to a profitable one by sheer commitment hard work.

3.2 **Physical Progress**

a. Construction Contracts

The projects that have been referred in your draft report on 2002 accounts are only 07 projects out of 22 projects that had been operated during the year 2002. Therefore the sample that had been selected to project performance for the year under review is not acceptable.

The delays inevitable when carrying out heavy civil engineering projects where if the delays are acceptable to the client, the construction period generally extended through the extension of performance bond which SD&CC has complied with and obtained due extensions for physical progress delays of the above projects.

If the delays are not acceptable the construction contract agreement exclusively provide a right to the client to impose liquidity damages which are deductible from the progress bills without awaiting till the project is completed. SD&CC has neither paid any liquidity damages on delays of projects nor clients have been furnished any claim on liquidity damages as at the balance sheet date.

Therefore your comment is strongly unacceptable .

b. Concrete Yards

- i. Of the 03 Pre- cast Yards in Ratmalana , Bopitiya and Weragantota only Ratmalana Yard could make profit due to high population of clients and availability of the market. Bopitiya and Weragantota are far away from Colombo whose clients are mainly State Organizations like Pradeshiya Saba and Provincial Councils. Due to non availability of adequate demand for the products of these two remote yards the sales were not sufficient to meet fixed overhead costs and thereby incurred losses for 2002.
- ii. With the appointment of the new management in 2002 a separate unit was established for progress monitoring . this progress is inevitable and it is on certified bills terms .
- iii. Due to severe competition in the construction industry SD&CC has been forced to Tender for projects at lower margins. In order to make sure the profits therein are achieved , it is a pre- requisite that continues and timely supply of material , labour and other direct consumables . Since SD&CC's all clients are State

Organizations delays in progress bills is an inherent feature which hampered the supply of needy items to sites and thereby incurred losses.

3.3 **Deficiencies in Management**

As mentioned earlier the appointment of Board of Directors is done by the subject Minister and as such representation was not under the Board of Directors of SD&CC .

- 3.4 The debtors , advances, refundable deposits referred in your report are long outstanding balances whose age analysis have been submitted to you. (outstanding for 06 years and above). This total amount of Rs. 56,945,871 have not been written off directly to the Profit / Loss Account for the year under review and it had been adjusted directly by writing off same to the Profit / Loss account, the accounts for 2002 would have shown a loss of Rs. 76m . But these balances have been adjusted against the provisions which had been already there in the accounts with an adequate basis, the report for same was submitted to you by our Management Consultants, Jayasinghe & Company on 06th March 2003 and writing off them will be done with the approval of proper authorities .

3.5 **Uneconomical Transactions**

There was no new investments that have been made in any private companies during the year under review. The investment of Rs. 11,710,740 is a balance in the investment in two companies that have been made 08 to 10 year before and the Corporation has not done any uneconomical transactions during the year under review .

3.6 **In proper transactions**

- a. The consumption of material , labour and direct services of contracts for the year under review was amounts to Rs. 363.34m including cost incurred on work – in progresses. Therefore 90% of these purchase are pertaining to consumables All these purchases have been done from both the registered suppliers and selected suppliers after proper tenders have been call for. There had been only 03 tenders during the year 2003 and all the purchases including the consumables referred above have been approved by the Central Tender Board on 22.10.2002 , 5.11.2002,11.12.2002 and by the Head Office Tender Boards on 01.11.2002, 11.11.2002 , 13.11.2002 & 12.12.2002. the minutes are available and may be produced with in a short notice by the Auditor General
- b. A legal action against the defaulting Joint Venture Partner still pending in the Court.
- c. Your attention is drawn to my reply on the above ‘a’ and on the facts referred under ‘c’ dated 2003.03.24 under my No. SDCC/IAD/ART /4/3 where I have clearly explained my views on the same.

Also, all activities connected with welfare of the staff is part of the business conducted by any normal business organization. As such ‘Bak Maha Ulela ‘ and other welfare

activities where staff participated has been done to lift the morale of the staff, thereby to increase the productivity of the Corporation

3.7 **Idle Assets**

- a. The details of motor vehicles , machineries and equipments amounting to 32 nos. referred in your report as idling is not given. Though the situation is such the idle assets as at the Balance Sheet has already been identified and have made arrangements to sale on tender after receipts of necessary approval from the Ministry of Irrigation and Water Management.
- b. This tyres and tubes been 05 Nos of tyres at Rs. 75,800/= and 05 Nos of tubes at Rs. 2,650 / is a stock kept for dump truck of which 02 Nos each have been issued as at todate. Therefore this is a moving stock . The Fan belt stock of Rs. 416,782/= are pertaining to vehicles and machineries which have been already sold as at the Balance Sheet date. These have been year marked for Tender and Sale. The book value of Spare parts as at the Balance Sheet date which have been identified as non moving is Rs. 17,861,128.89 of which the depreciated / market value is Rs. 8,469,749.50. these spare parts stock is been scrutinized to earmark for tendering..The cement stock is pertaining to the balance stock of red, black and brown cements that had been purchased at the time the Corporation was undertaking some building contracts and which cannot be used for any other purpose. These have been identified ear marked for sale

3.8 **Budgetary Control**

As a rule of thumb the corporation should achieve Rs. 35m of turnover per month in order to achieve a profit of Rs. 1.75m per month after Fixed over heads. This level of monthly turn over has been already identified as monthly target and construction sites & Pre-Cast Yard operations are directed through weekly Senior Staff Meetings to make sure that this level of turnover will be achieved . the Annual Budget is set in a manner that Corporation shall achieve a monthly turnover of Rs. 35m. therefore we strongly object to your comment that SD&CC has not make use the Budget as an effective controlling instrument.

4. **Systems & Controls**

A Control System is available for all items referred . But we understand that they are requiring further developments and noted for compliant.

Eng. B.V.SARATH KUMARA DE SILVA

CHAIRMAN

04.08.2003

Mr. S. C. Mayadunne
Auditor General
Auditor General's Department
Independence Square,
Colombo 7

Dear Sir,

REPLY ON COMMENTS BY THE AUDITOR GENERAL UNDER SECTION 14 (2) (C) OF THE FINANCE ACT NO. 38 OF 1971 ON FINANCIAL STATEMENT FOR THE PERIOD ENDED 31ST DECEMBER 2002 OF STATE DEVELOPMENT & CONSTRUCTION CORPORATION

With reference to the draft of comments by Auditor General on Financial Statements for the period ending 31st December , 2002 by your report dated 23rd June 2003, we herewith forward our observations as follows.

As we are not in a position to have a discussion before the deadline for the submission, ie. 4th August 2003, by considering the following points elaborated in our reply please give us an early time to discuss the report to before the final decision is taken as informed to our General Manager.

2 **Accounts**

2.1 **Furnishing of Accounts**

The accounts that had been furnished to Auditor General till 2001 carried a disclaimer of opinion. Therefore the whole concentration was given to rectify the accounts as directed by Auditor General in his previous report on which the disclaimer of opinion on the financial accounts had been based .

This rectification include reconciliation of figures disclosed in the 2002 financial statements with third party confirmations internal records kept by the other division etc. Therefore the delay was inevitable . But this effort yield us a good indication that financial statements are free from material misstatements . (Refer draft report on the audit of 2002 accounts of SD&CC by Audit Superintendent dated 2003.04.08 and SD&CC's reply on the same on 2003.04.10) .

The adjusted accounts based on the agreed comments by the Auditor General had been furnished to you on 22nd April 2003 which was the report submitted by your Department for the second opinion by another Deputy Auditor General .

After two sessions of discussions with the said Deputy Auditor General the adjusted final accounts based on his comments for 2002 have been submitted on 25th June 2003 on which we were convinced and appreciated as a fair and acceptable presentation of accounts by the Auditor General's Department .

It would be noted that SD&CC had made lot of improvements to the operations and administrations during year 2002, where individual officers were even given list of duties etc.

Turnover of the organization had been increased by about 41% as reflected in our draft report of 6th March 2002; not by infusing Capital Investment but by basically improving the efficiency. Introduction of the Progress Monitoring Division which is not even available in the private sector is one of the masseurs taken to monitor the progress of project and pre-cast yards.

2.2 Furnishing of Consolidated Accounts

The accounts of the subsidiary have not been audited from year 1998. The Board of Directors of SD&CC has no control of the subsidiary as the Minister concerned appoints the Board of Directors and SD&CC has no representative on the Board of the Subsidiary .

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- c.) We strongly object to the word deficiency for the payment of Bank Over Draft interest as major number of companies world over engaged in business activities resort to loans & overdrafts resulting in the normal course of business Payment of interest for the amounts so borrowed.

2.4.2 Un-reconciled Control Accounts

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- a). We have called for confirmations from the debtors and creditors and have not received confirmations from many of them.
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2.4.4 **No Evidence for Audit**

We have furnished the adjusted ledger on 2nd July and we implore you to check and verify the revised ledger accounts in spite of a further delay in the audit.

- * We are making this earnest request in view of the many years of qualified accounts and the mammoth effort, we have put in together with our Consultant Chartered Accountants, Jayasinghe & Co. to put things in order. At this stage we also wish to remember the kind extension given to us by you consequent to our discussion with you, with a view to clearing the many queries so that we could obtain a clear report.

- * All this day & night efforts would be futile if you do not consider our revised accounts which were submitted on 25.06.2003 and naturally for all the hard work we have done . We would be demoralized if you do not check the amended accounts so that justice could be meted out .
- * We wish to reiterate that the following ledger accounts mentioned in your report can be examined, vouched and /or verified by you as the accounts, schedules, supporting documents and other clarifications are available for your inspection.

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- * The effort to make the Corporation profitable is not limited to proper accounts but also to efforts of the Chartered Engineer / Chairman and Board of Directors and Staff who have turned around the Corporation from a loss making to a profitable one by sheer commitment and hard work.

3.2 **Physical Progress**

a. Construction Contracts

The projects that have been referred in your draft report on 2002 accounts are only 07 projects out of 22 projects that had been operated during the year 2002. Therefore the sample that had been selected to project performance for the year under review is not acceptable.

The delays were inevitable when carrying out heavy civil engineering projects where if the delays are acceptable to the client, the construction period generally extended through the extension of performance bond which SD&CC has complied with and obtained due extensions for physical progress delays of the above projects.

If the delays are not acceptable the construction contract agreement exclusively provide a right to the client to impose liquidity damages which are deductible from the progress bills without awaiting till the project is completed . SD&CC has neither paid any liquidity damages on delays of projects nor clients have furnished any claim on liquidity damages as at the balance sheet date. We wish to emphasis that these delays were caused due to the reasons beyond the control of SD&CC and clients have never complained about the progress of these projects. Some of the projects were completed ahead of the scheduled date of completion.

Therefore your comment is strongly unacceptable .

b. Concrete Yards

1. Of the 03 Pre- cast Yards in Ratmalana , Bopitiya and Weragantota only Ratmalana Yard could make profit due to high population of clients and availability of the market. Bopitiya and Weragantota are far away from Colombo whose clients are mainly State Organizations like Pradeshiya Saba and Provincial Councils. Due to non availability of adequate demand for the products of these two remote yards the sales were not sufficient to meet fixed overhead costs and thereby incurred losses for 2002.

Some of the yards were virtually dead at the time of taking over by new management, and vast improvements were made to put the operations right and the capacity was enhanced. The yards have acquired sufficient capacity to cater for the new requirements of pre-cast products for North - East rehabilitation work. With the peace process is prospering we hope to undertake more orders.

- ii. With the appointment of the new management in 2002 a separate unit was established for Progress Monitoring. The turnover considered for the report is only the certified income. If the uncertified income was also considered all the projects would have shown profit .
- iii. Due to severe competition in the construction industry SD&CC has been forced to Tender for projects at lower margins. In order to make sure the profits therein are achieved , it is a pre- requisite that continues and timely supply of material , labour and other direct consumables . Since SD&CC's all clients are State Organizations delays in progress bills is an inherent feature which hampered the supply of needy items to sites and thereby incurred losses. Turnover considered for the report is only the certified income. If the uncertified income was also considered all the projects would have shown profits.

3.3 Deficiencies in Management

As mentioned earlier the appointment of Board of Directors is done by the subject Minster and as such representation was not under the Board of Directors of SD&CC .

- 3.4 The debtors , advances, refundable deposits referred in your report are long outstanding balances whose age analysis have been submitted to you. (outstanding for 06 years and above). This total amount of Rs. 56,945,871 have not been written off directly to the Profit / Loss Account for the year under review and it had been adjusted directly by writing off same to the Profit / Loss account, the accounts for 2002 would have shown a loss of Rs. 76m . But these balances have been adjusted against the provisions which had been already there in the accounts with an adequate basis, the report for same was submitted to you by our Management Consultants, Jayasinghe & Company Chartered Accounts on 06th March 2003 and writing off them pending with the approval of proper authorities .

3.5 **Uneconomical Transactions**

There was no new investments that have been made in any private companies during the year under review. The investment of Rs. 11,710,740 is a balance in the investment in two companies that have been made 08 to 10 years before and the Corporation has not done any uneconomical transactions during the year under review .

3.6 **Improper Transactions**

- a. The consumption of material , labour and direct services of contracts for the year under review amounted to Rs. 363.34m including the cost incurred on work – in progresses. Therefore 90% of these purchase are pertaining to consumables All these purchases have been done from both the registered suppliers and selected suppliers after proper tenders have been call for. There had been only 03 tenders during the year 2003 and all the purchases including the consumables referred above have been approved by the Central Tender Board on 22.10.2002 , 5.11.2002,11.12.2002 and by the Head Office Tender Boards on 01.11.2002, 11.11.2002 , 13.11.2002 & 12.12.2002. the minutes are available and could produced on demand to the Auditor General
- b. Legal action against the defaulting Joint Venture Partner is still pending in the Court.
- c. Your attention is drawn to my reply on the above ‘a’ and on the facts referred under ‘c’ dated 2003.03.24 under my No. SDCC/IAD/ART /4/3 where I have clearly explained my views on the same (a copy of the same is also annexed herewith for your easy reference for which no consideration appears to have been given).

Also, all activities connected with welfare of the staff is part of the business conducted by any normal business organization. As such ‘Bak Maha Ulela ‘ and other welfare activities where staff participated has been done to lift the morale of the staff, thereby to increase the productivity of the Corporation

3.7 **Idle Assets**

- a. The details of motor vehicles , machineries and equipments amounting to 32 nos. referred in your report as idling is not given. Though the situation is such the idle assets as at the Balance Sheet has already been identified and arrangements have been made to sell on tender after receipt of necessary approval from the Ministry of Irrigation and Water Management.

- b. This tyres and tubes viz 05 Nos of tyres at Rs. 75,800/= and 05 Nos of tubes at Rs. 2,650 / is a stock lot for dump truck of which 02 Numbers each have been already issued as at to date. Therefore this is a moving stock . The fan belt stocks amounting to Rs. 416,782/= are pertaining to vehicles and machineries which have been already sold as at the Balance Sheet date. These have been earmarked for Tender and Sale. The book value of spare parts as at the Balance Sheet date which have been identified as non moving is Rs. 17,861,128.89 of which the depreciated / market value amounts to Rs. 8,469,749.50. These spare parts stock is been scrutinized to earmark for tendering.. The cement stock is pertaining to the balance stock of red, black and brown cement that had been purchased at the time the Corporation was undertaking some building contracts and which cannot be used for any other purpose. These have been identified and earmarked for sale

3.8 **Budgetary Control**

As a rule of thumb the Corporation should achieve Rs. 35m of turnover per month in order to achieve a profit of Rs. 1.75m per month after charging fixed overheads. This level of monthly turnover has been already identified as a monthly target and construction sites & pre-cast yard operations are directed through weekly Senior Staff Meetings to ensure that this level of turnover will be achieved . The Annual Budget is set out in a manner that Corporation shall achieve a monthly turnover of Rs. 35m. and therefore we object to your comment that SD&CC has not made use the Budget as an effective control instrument.

4. **Systems & Controls**

A Control System is available for all items referred . However we are aware that further developments are required and we of the need for improvements of the same and are working towards achieving the objective.

In conclusion we once again impostor you to verify the amended set of accounts furnished to you on 25th June 2003. So that even with delays you could make for justice by given a suitable report as reward to our untiring efforts.

Eng. B.V.SARATH KUMARA DE SILVA

CHAIRMAN

- CC: 1. Secretary – Ministry of Finance
2. Secretary - Irrigation & Water Management
3.Mr. L.H. Vidanapathirana - Depty, Auditor General

EQUITY AND LIABILITIES

<u>INITIAL CAPITAL CONTRIBUTION</u>	NOTE	As At 31.12.2002	As At 31.12.2001
CAPITAL		16,671,650.72	16,671,650.81
CAPITAL GRANT		51,140,000.00	51,140,000.00
CAPITAL RESERVES		6,629,759.81	6,629,759.81
TOTAL		74,441,410.53	74,441,410.62
<u>RESERVES</u>			
FIXED ASSETS REVALUATION		212,663,171.42	212,663,171.42
PROFIT/(LOSS) ACCOUNT CARRIED FORWARD		#REF!	58,607,839.74
TOTAL		#REF!	271,271,011.16
<u>NON CURRENT LIABILITIES</u>			
LONG TERM LOANS (LIABILITY TO TREASURY)	12	71,643,500.00	71,643,500.00
GRATUITY PROVISION		34,897,945.75	34,165,803.00
TOTAL		106,541,445.75	105,809,303.00
<u>CURRENT LIABILITIES</u>			
TRADE CREDITORS	13	#REF!	34,882,192.29
GOODS AND SERVICES TAX AND VALUE ADDED TAX	14	868,925.08	(2,241,420.77)
SUNDRY CREDITORS AND ACCRUALS	15	#REF!	49,421,223.12
SALARIES, WAGES, EPF & ETF PAYABLE	16	2,884,150.22	2,120,240.70
REFUNDABLE ADVANCES AND RETENTIONS	17	#REF!	113,817,644.32
REFUNDABLE DEPOSITS	18	464,899.51	471,374.51
UNCLAIMED SALARIES, WAGES AND ADVANCES	19	1,037,678.38	999,508.95
BANK OVERDRAFT	20	14,665,033.36	4,954,066.46
COMPENSATION FUND		(945.15)	(945.15)
TOTAL		#REF!	204,423,884.43
TOTAL EQUITY AND LIABILITIES		Rs. #REF!	655,945,609.21
		#REF!	

The above Balance Sheet is to be read in conjunction with the Income Statement, the Cash Flow Statement, Accounting Policies and Notes to the Accounts on pages 03 to 23.

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Eng. S.K. De Silva
Chairman

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Eng. M.D.S. Wijebandara.
General Manager

.....
P.G.R. Tissa
Chief Financial Accountant

05th June 2003.
Colombo.
Ar/Adi

stant.

STATE DEVELOPMENT AND CONSTRUCTION CORPORATION

INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2002

	NOTE	THIS YEAR	LAST YEAR
TURNOVER			
NET TURNOVER	21	#REF!	303,192,827.43
Less; DIRECT OPERATING EXPENSES	22	#REF!	(274,118,540.69)
GROSS OPERATING PROFIT		#REF!	29,074,286.74
OTHER INCOME	23	#REF!	11,969,348.77
PROFIT/(LOSS) ON SALE OF FIXED ASSETS	24	1,125,637.35	2,402,658.73
TOTAL		#REF!	43,446,294.24
ADMINISTRATION EXPENSES	25	#REF!	62,056,819.17
SELLING & DISTRIBUTION EXPENSES	26	26,028,684.82	
PROFIT/(LOSS) ON OPERATIONS		#REF!	(18,610,524.93)
FINANCIAL EXPENSES	27	1,503,229.95	1,621,268.31
NET PROFIT		#REF!	(20,231,793.24)
ADD - CHANGES IN ACCOUNTING ESTIMATES		-	58,025,431.39
PROVISION FOR LOSS ON INVESTMENT		-	(2,500,000.00)
PROFIT/(LOSS BEFORE TAXATION)		#REF!	35,293,638.15
PROVISION FOR TAXATION		#REF!	-
NET PROFIT AFTER TAXATION		#REF!	35,293,638.15
EXTRA ORDINARY ITEMS		-	-
NET PROFIT AFTER EXTRA ORDINARY ITEMS		#REF!	35,293,638.15
PRIOR YEAR ADJUSTMENTS	28	(24,951,998.59)	-
NET PROFIT AFTER PRIOR YEAR ADJUSTMENTS		#REF!	35,293,638.15
RETAINED PROFIT BROUGHT FORWARD		58,607,839.74	23,314,201.59
RETAINED PROFIT CARRIED FORWARD		Rs. #REF!	58,607,839.74

STATE DEVELOPMENT AND CONSTRUCTION CORPORATION

CASH FLOW STATEMENT AS AT 31ST DECEMBER 2002

CASH FLOWS FROM OPERATING ACTIVITIES

OPERATING PROFIT BEFORE TAXATION	#REF!
<u>ADJUSTMENT</u>	
ADJUSTMENT FOR DEPRECIATION	13,361,918.06
PROVISION FOR GRATUITY	3,560,477.44
INTEREST INCOME	(15,041,700.27)
INTEREST EXPENSE	987,007.83
PROFIT / LOSS ON SALE OF FIXED ASSETS	(224,544.37)
PRIOR YEAR ADJUSTMENTS	(24,951,998.59)
DIFERENCE IN FIXED ASSETS ACCOUNT	(77,250.13)

OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES **#REF!**

ADJUSTMENTS FOR WORKING CAPITAL CHANGES

DECREASE IN STOCK AND FINISHED GOODS	#REF!
INCREASE IN WORK -IN- PORGRESS	(16,710,191.08)
INCREASE IN DEBTORS	#REF!
INCREASE IN PURCHASE AND SUB CONTRACT ADVANCE	#REF!
INCREASE IN OTHER ADVANCES	#REF!
DECREASE IN LOANS AND ADVANCES	2,176,330.42
INCREASE IN TRADE CREDITORS	#REF!
INCREASE IN RECEIVABLE FROM COMMISSIONER G.I.R.	3,110,345.85
INCREASE IN SUNDRY CREDITORS AND ACCRUALS	5,521,168.74
DECREASE IN SALARIES, WAGES EPF & ETF PAYABLE	763,909.52
INCREASE IN MOBILIZATION AND MATERIAL ADVANCES AND RETENTION PAYABLE	#REF!
DECREASE IN DEPOSIT REFUNDABLE	(6,475.00)
INCREASE IN UNCLAIMED SALARIES, WAGES AND ADVANCES	38,169.43

CASH GENERATED FROM OPERATION **#REF!**

LESS; GRATUITY PAYMENT	(2,828,334.69)
INTEREST	(987,007.83)

NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES **#REF!**

CASH GENERATED FROM INVESTING ACTIVITIES

PURCHASE OF PROPERTY, PLANT & EQUIPMENT'S	(22,476,763.53)
PROCEEDS FROM SALES PROPERTY, PLANT & EQUIPMENT	280,600.00
INVESTMENT IN TREASURY BILLS	(15,618,125.95)
INTEREST RECEIVED	15,041,700.27
NET CASH INFLOW / (OUTFLOW) FROM INVESTING ACTIVITIES	(22,772,589.21)

CASH GENERATED FROM FINANCING ACTIVITIES

NET CASH INFLOW / (OUTFLOW) FROM FINANCING ACTIVITIES **-**

NET INCREASE/DECREASE IN CASH & CASH EQUIVALENTS **#REF!**

CASH & CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR **7,738,784.58**

CASH & CASH EQUIVALENTS AT THE END OF THE YEAR **Rs #REF!**

ANALYSIS OF CASH & CASH EQUIVALENTS

	AS AT 31.12.2002	AS AT 31.12.2001
CASH AT BANK	-	12,701,341.17
OVERDRAFT	(14,665,033.36)	(4,954,066.46)
CASH IN HAND	2,160,474.12	(8,490.13)
PETTY CASH	#REF!	-
TOTAL	Rs #REF!	7,738,784.58

CONTINUATION

NOTE 08 -OTHER ADVANCES AND DEPOSITS

	As at 31.12.2002	As at 31.12.2001
TENDER DEPOSITS (REFUNDABLE)	#REF!	112,575.00
TELEPHONE DEPOSITS	#REF!	37,835.00
ELECTRICITY BOARD DEPOSITS	#REF!	309,900.00
OTHER DEPOSITS	1,738,640.00	81,500.00
DEPOSIT BY CONSTRUCTION PROJECT	30,910.00	30,910.00
FUEL DEPOSIT - PUDALUOYA	-	35,000.00
FUEL DEPOSIT - GIRANDURUKOTTE	-	3,000.00
FUEL DEPOSIT - THALATHUOYA	-	45,000.00
FUEL DEPOSIT - MARD	-	6,468.85
FUEL DEPOSIT - BANDARAWELA	-	5,000.00
FUEL DEPOSIT - CONSTRUCTION	-	205,011.80
FUEL DEPOSIT - WEERAGANTOTA	-	20,000.00
FUEL DEPOSIT - 3RD ROAD PROJECT SRI	-	671.00
FUEL DEPOSIT - HEAD OFFICE -	-	50,000.00
FUEL DEPOSIT - C.M.E.	-	25,000.00
FUEL DEPOSIT - UNIVERSITY OF RUHUNA	-	30,000.00
FUEL DEPOSIT - WATTEGAMA	-	(20,000.00)
FUEL DEPOSIT - MALLIPOTHA	-	566.30
FUEL DEPOSIT - GATAMBE	60,000.00	30,000.00
FUEL DEPOSIT - KATUGAMPOLA	25,000.00	25,000.00
FUEL DEPOSIT - KIRIELLA	10,000.00	10,000.00
FUEL DEPOSIT - HURULUWEWA	-	15,000.00
FUEL DEPOSIT - TUDAWA	25,000.00	25,000.00
FUEL DEPOSIT - PACKAGE 6	-	100,000.00
FUEL DEPOSIT - MADIWELA	-	50,000.00
FUEL DEPOSIT - GALLE, HAMBANTHOTA, WELLAWAYA	-	50,000.00
FUEL DEPOSIT - MUTHUWADIYA	-	80,000.00
FUEL DEPOSIT -	50,000.00	-
FUEL DEPOSIT - HORANA -ANGURUWATOTA	50,000.00	50,000.00
FUEL DEPOSIT - WELIOYA	250,000.00	250,000.00
FUEL DEPOSIT AWISSAWELLA	75,000.00	-
FUEL DEPOSIT - NAGODA	-	30,000.00
FUEL DEPOSIT - PUGODA	30,000.00	-
WELIOYA - FUEL DEPOSIT	50,000.00	-
WATER DEPOSIT	#REF!	97,110.00
CEMENT DEPOSIT - WEERAGANTOTA	50,000.00	50,000.00
OTHER DEPOSIT - EMBILIPITIYA WATER	62,766.70	27,766.70
IMP.STORM WATER -P.K7.-NEGOMBO-FUEL	75,000.00	75,000.00
CONST. GUARANTEED FUND	1,433,278.81	1,433,278.81
	#REF!	3,376,593.46
PROVITION FOR OTHER ADVANCES AND DEPOSITS	(1,724,142.20)	(679,121.65)
TOTAL	Rs. #REF!	2,697,471.81

	As at 31.12.2002	As at 31.12.2001
<u>NOTE 17 - REFUNDABLE ADVANCES & RETENTIONS</u>		
MOBILIZATION ADVANCES FROM CLIENTS	#REF!	78,149,366.51
MATERIAL ADVANCES FROM CLIENTS	#REF!	(8,257,135.21)
ADVANCE AGAINST ODERS -CON.YARDS	1,580,635.18	18,600.00
ON ACCOUNT PAYMENT	12,486,869.25	24,394,382.33
PROVISION FOR MOB.ADV. FROM CLIENTS	-	18,718,001.03
SUB CONTRACTS - RETENTION	#REF!	789,257.27
RETENTION - E .R .	5,172.39	5,172.39
TOTAL	Rs. #REF!	113,817,644.32

<u>NOTE 18 - REFUNDABLE DEPOSITS</u>		
SECURITY DEPOSITS - EMPLOYEES	160,754.51	164,229.51
TENDER DEPOSITS	304,145.00	307,145.00
TOTAL	Rs. 464,899.51	471,374.51

<u>NOTE 19 - UNCLAIMED SALARIES & WAGES</u>		
UNPAID SALARIES & WAGES	906,024.88	864,705.45
UNPAID SALARIES & WAGES ADVANCE	131,653.50	134,803.50
TOTAL	Rs. 1,037,678.38	999,508.95

<u>NOTE 20 - BANK OVERDRAFTS</u>		
INDOSUEZ BANK - 10695 10055	17,955.70	17,955.70
BANK OF CEYLON - YORK ST. A/C. 6600100414	-	1,999,323.90
BANK OF CEYLON - IDAMA MORATUWA 1024	468,304.06	-
BANK OF CEYLON C/Y 1134	6,953,193.67	-
P/B RANDENIGALA 349	200.00	200.00
BANK OF CEYLON ARA;AGANWILA SITE 636	31,213.86	31,213.86
BANK OF CEYLON 6600100724	-	1,458,898.85
BANK OF CEYLON ALUTHGAMA	200.00	200.00
PEOPLES BANK H/O WALAWE	2,605.70	2,605.70
BANK OF CEYLON MINIPE NAGADEEPA	59,236.81	59,236.81
BANK OF CEYLON (A/C 991-C)A	206,119.00	206,119.00
BANK OF CEYLON - A/C 610208649	1,176,263.75	-
SAMPATH BANK - A/C 195	2,249,997.53	105,578.54
SAMPATH BANK - A/C 241	-	340,950.60
SAMPATH BANK - 001860000 357	1,025,959.49	-
SAMPATH BANK - 001860000 365	2,422,369.00	-
SAMPATH BANK - 001860000 349	51,414.79	731,783.50
TOTAL	Rs 14,665,033.36	4,954,066.46

NOTE 29-CONTINGENT LIABILITIES

<u>Case No.</u>		<u>Present Position</u>
1	CA 267/99	Pending
2	Colombo High Court 89/200	Pending
3	Distric Court Negombo 8887/M	Pending
4	LT Colombo 1/AD/7154/90	Pending
5	LT Colombo 2/140/97	Pending
6	LT Colombo 2/198/97	Pending
7	LT Colombo 151/98	Pending
8	Kandy 3/410/99	Pending
9	Workmen Compensation Case No C 03/G/78/97 Kandy	Pending
10	LT Colombo T/17/2001	Pending

NOTE 29-LONG OUTSTANDING DEBTORS AND CREDITORS

The opening balance as at 01.01.2002 include non existing & long outstanding debtors and creditors. In this regard the corporation having reviewed these balances by an independent Firm of Chartered Accountants, have identified the doubtful balances and have written off/written back the identified amounts in the final accounts.

To reflect the actual situation the financial statements prepared for the year under review have been adjusted by charging to the Profit & Loss Account an amount of Rs.523,195.50 being the net effect arising from the adjustments.

STATE DEVELOPMENT & CONSTRUCTION CORPORATION.

NOTES TO THE ACCOUNTS

NOTE 01 - FIXED ASSETS AND DEPRECIATION

1.1 PROPERTY, PLANT AND EQUIPMENT

DESCRIPTION	COST EXCLUDING SCRAP VALUE				DEPRECIATION				W. D. V. AS AT 31-12-2002
	AS AT 01-01-2002	ADDITIONS	DISPOSALS	AS AT 31-12-2002	AS AT 01-01-2002	FOR THE YEAR	DISPOSAL	AS AT 31.12.2002	
LANDS(REVALUED)	160,100,000.00	-	-	160,100,000.00	-	-	-	-	160,100,000.00
BUILDINGS (REVALUED)	51,992,820.00	2,185,514.84	-	54,178,334.84	15,300,000.00	2,708,916.75	-	18,008,916.75	36,169,418.09
OFFICE EQUIPMENTS	6,766,206.38	4,626,602.46	-	11,392,808.84	4,385,014.22	826,348.94	-	5,211,363.16	6,181,445.68
PLANT & MACHINERY	124,979,767.87	10,812,150.23	1,121,114.87	134,670,803.23	89,961,700.07	6,433,851.77	1,065,059.24	95,330,492.60	39,340,310.63
MOTOR VEHICLES	52,230,851.08	4,852,496.00	-	57,083,347.08	42,910,883.40	3,392,799.60	-	46,303,683.00	10,779,664.08
OTHER ASSETS	674,375.00	-	-	674,375.00	337,187.50	-	-	337,187.50	337,187.50
TOTAL	Rs. 396,744,020.33	22,476,763.53	1,121,114.87	418,099,668.99	152,894,785.19	13,361,917.06	1,065,059.24	165,191,643.01	252,908,025.98

1.2. NON - VALUATION OF FIXED ASSETS

The following Properties have not been valued and taken into the books of accounts as at 31st December 2002 due to non availability of vesting orders.

Location	Land Area	Buildings
Peliyagoda Block 01	0.1645 Perc.	1
Peliyagoda Block 02	0.1222 Perc.	3
Veragantota	4 Acr & 0.8 Perc.	0
Peradeniya Block 01	2 Hect. & 0.95 Perc	2
Peradeniya Block 02	12.7 Perc.	0
Medawachchiya	2 Acres	1
Polwatta	116 Perc	1

Fixed Assets Revaluation

The Freehold Lands & Buildings at Ratmalana and at No.,07, Gregory's Avenue , Colombo 7 have been revalued in 1995 and the valued amounts have been incorporated in to the accounts in the year ended 31st December 1995.