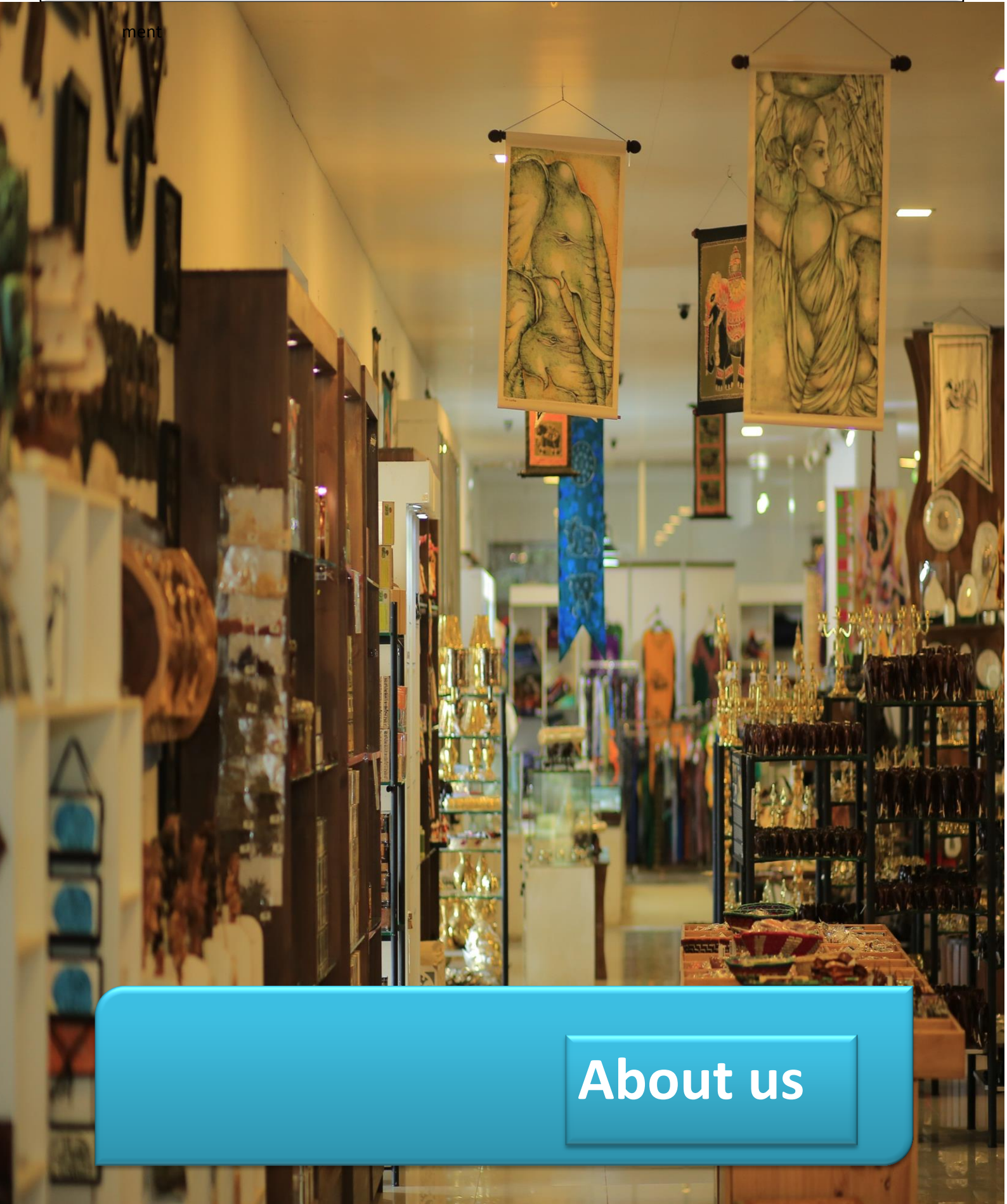


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About us

CORPORATE INFORMATION

NAME OF THE BOARD

SRI LANKA HANDICRAFTS BOARD - LAKSALA

LEGAL FORM

STATUTORY BOARD INCORPORATED BY THE NATIONAL CRAFTS COUNCIL & AFFILIATED INSTITUTIONS ACT NO. 35 OF 1982

HEAD OFFICE

NO : 215, BAUDHALOKA MAWATHA, COLOMBO 7

PHONE : 011 2055717 / 011 2055501

FAX : 011 2594872

E-MAIL : info@laksala.gov.lk

WEBSITE : www.laksala.gov.lk

SALES INQUIRIES

PHONE : 011 2680925

E-MAIL : info@laksala.gov.lk

AUDITORS

AUDITOR GENERAL'S DEPARTMENT

BANKERS

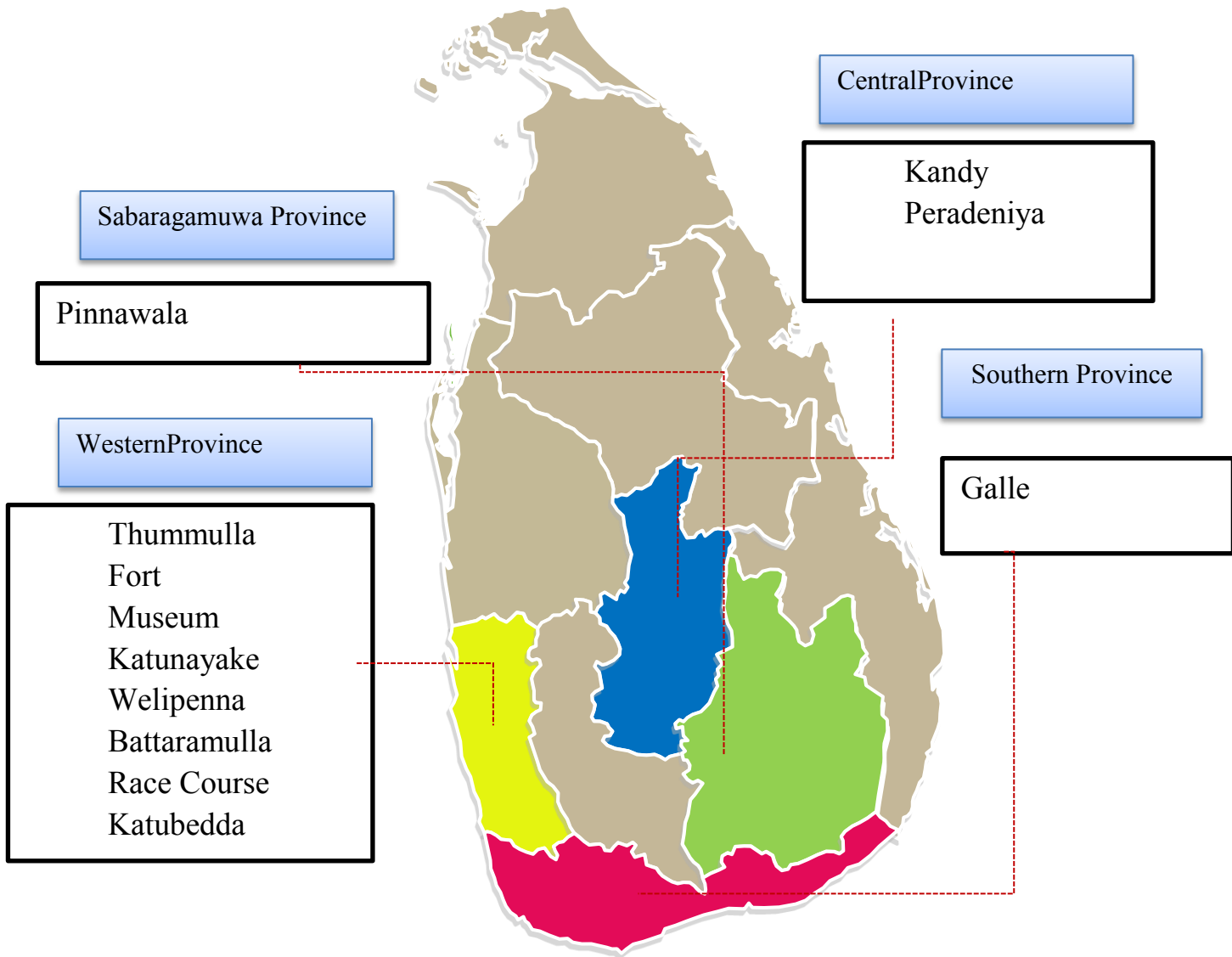
BANK OF CEYLON

PEOPLES' BANK

LAKSALA SHOWROOMS NETWORK

1.Fort	No. 60, York Street, Colombo 01.	0112323514
2.Thummulla	No.215, Baudhaloka Mawatha,Thummulla, Colombo 07.	0112580579
3.Kandy	No.05, Sangaraja Mawatha, Kandy.	0812222087
4.Katubedda	No.282, Galle Road, Katubedda, Moratuwa.	0112605600
5.National Museum	Laksala Museum Premises, Colombo 07.	0112698263
6.Battaramulla	Ape Gama, Pelawatta, Battaramulla.	0112786026
7.Race Course	Race Course Building, Reid Mawatha, Colombo 07.	0112677772
8.Welipenna I	Southern Expressway,Stopover, "A" BranchA4 & A5, Welipenna.	0342241607/8
09. Galle	No.74/1, Samudra Mawatha, Galle.	0912222783
10.Pinnawala	Elephant Orphanage, Pinnawala .	0352265015
11.Peradeniya	No.14, Botanical Gardens, Peradeniya.	0812389253/63
12.Katunayake	54 D, Departure Transit Area, Bandaranaike International Airport, Katunayake.	0112260167

Laksala Showrooms Network



Our Vision

To be the leader in the gift and souvenir items market in Sri Lanka.

Our Mission

To be a commercially viable institution of social responsibility expanding the growth potential in the sphere of gifts and souvenir items and opening up large scale marketing opportunities to rural manufacturers with high value added contribution to the tourism industry.

Our Core Values

- Quality, credibility and value for money.
- Affording opportunities for the best consumer choice through a diversified dimension.
- Value creation and exchange of values among rural community.
- Making the consumer extremely delightful.



Review of the Performance -
Year 2017

Background

I am pleased to present the review of the performance of Laksala – Sri Lanka Handicrafts Board for the year 2017. Laksala was established in the year 1964 with the objective of opening up local as well as overseas market opportunities for the local handicraft manufacturers and it has been incorporated as the Sri Lanka Handicrafts Board under the National Crafts Council and Affiliated Institutions Act No. 35 of 1982. Laksala has by now become the oldest and largest sales network owned by the government in this sphere of activity.



New Trend

With Sri Lanka in the present context gaining recognition as an island conducive for tourism amidst the peaceful environment prevailing in the country, business activities of Laksala too have seen an upward trend. Under the large scale international propaganda and marketing campaigns set in motion by the Ministry of Tourism, the anticipated tourist arrivals during the year 2017 will shot up to the mark of 3 million and the market of the local gifts and souvenir items required by these tourists will concurrently see an expanded range thereby creating a more wider market opportunity for Laksala.

Strategic Approach

Through the restructuring process initiated, Laksala attracted an expanded clientele essential for achieving its turnover and profitability as well as for maintaining its consistent sustenance whilst further strengthening the measures taken towards its robust performance in tandem with the modern day requirements and demand. Such measures were as follows:

- Gaining ground on a new market towards category expansion of the Laksala items on sale.
- Establishing the name of the institution in the market through branding.

- Developing positive attitudes within the members of the staff in such a manner as to deliver a pleasantly entertaining customer service.
- Further Developing the system of purchasing Laksala items via internet through extended online sales facilities.
- Making arrangements to lure foreign tourists to Laksala Showrooms on regular basis in liaison with the institutions such as Sri Lanka Tourism Board and Sri Lanka Tourism Promotion Bureau as well as with private sector institutions.

Range of all items marketed by Laksala Showrooms with the introduction under the brand name of “Laksala” will be further expanded and the steps necessary to make such items easily available as the most qualitative and exquisite gifts and souvenir items to both local and foreign travellers will also see a further boost. Accordingly, the Laksala whilst putting on show a wide range of very high quality items of trendy fashions will strive to expand its marketing drive needed to make Laksala the sole and exclusive government entity and one of the best commercial institutions in the field of marketing of the gifts and souvenir items in Sri Lanka with the local as well as foreign consumers carrying with them fond memories of the institution and to keep them further attracted to Laksala bringing in an enhanced clientele base.

Establishing the name of the Institution in the market through branding

Laksala transformed its sales showrooms into very high quality outlets in keeping with the modern market trends. Accordingly measures were also set in motion to keep up the showcasing of the items at a very higher level and to achieve the anticipated sales targets through branding by bringing the showrooms of Laksala onto an elevated pedestal in such a manner as to make them attractive to consumers in refurbished outlets with the introduction of products under the brand name of “Laksala”.



Developing positive attitudes within the members of the staff in such a manner as to deliver a pleasantly entertaining customer service

As Laksala was in a dire need of personnel to go hand in hand with the modern market trends action was taken to maintain a competent staff strength at a composition of 40% and 60% respectively on a fixed and contract basis with the enhancement of their efficiency by means of proper necessary training and through motivation. The entire process of new recruitments required for an excellent customer care was undertaken on the basis of contract appointments. These measures have therefore immensely contributed to further accomplish the primary objectives of the institution by way of linking the salaries and allowances they draw onto their increased efficiency and productivity levels.

Expansion of product categories

Under the new strategic measure, steps were taken towards expanding not only the activities of the institution but also the tasks involving the expansion of its category of trading products in collaboration with the National Designs Centre, National Crafts Council and other related institutions. Action was also taken to introduce to the market place innovative products following the manufacture of high quality new creations to cater to the present needs of the market safeguarding the identity of the local products whilst introducing items such as gems and jewellery, tea, spices, leather goods, ceramicware as well as masks in addition to other souvenir items. The New Creations Division of Laksala too endeavoured to launch a range of innovative products to the gifts and souvenir market sector by way of introducing an array of novel handicraft items.



Network of Supplies

The network of Laksala supplies through its showrooms encompasses the purchase of gifts and souvenir items meant to be sold, planning of its production line, quality control as well as provision of modern designs. Local handicraft manufacturers registered as 8895 towards the end of the year 2016 have been increased further during this year and new marketing opportunities for new manufacturers to gain access into these fields were also widely made available.

Commencement and Opening up of new Laksala Sales Showrooms

Laksala during the year 2017 expanded its network of trading activities and also worked towards achieving its sales targets by way of developing the customer care facilities in the existing showrooms.

Staff Training and New Appointments

Training activities were geared up in a manner that develops the positive attitudes of the staff with a view to meeting the consumer requirements and the infrastructure facilities necessary for providing a customer service of its highest order at the international level were widened by way of imparting them theoretical as well as practical knowledge in novel strategies of marketing. In addition to it, special training opportunities were made available to a selected band of skilled workers on the identification of gems and marketing of jewellery based products in collaboration with the National Gem and Jewellery Authority.

Besides this, following training programmes for the members of the staff were also set to get underway during the year 2017.

- Workshop on the procurement and evaluation
- Motivation programme towards sales efficiency and service excellence
- Programme on the Right to Information Act
- Training programme on the role of the industrial relations
- Training programme on the office management and office equipment
- Training programme on the productivity and environmentally friendly services
- Workshop on the procedure of procurement
- Training programme on the termination of service

Gaining access into online sales facilities via internet

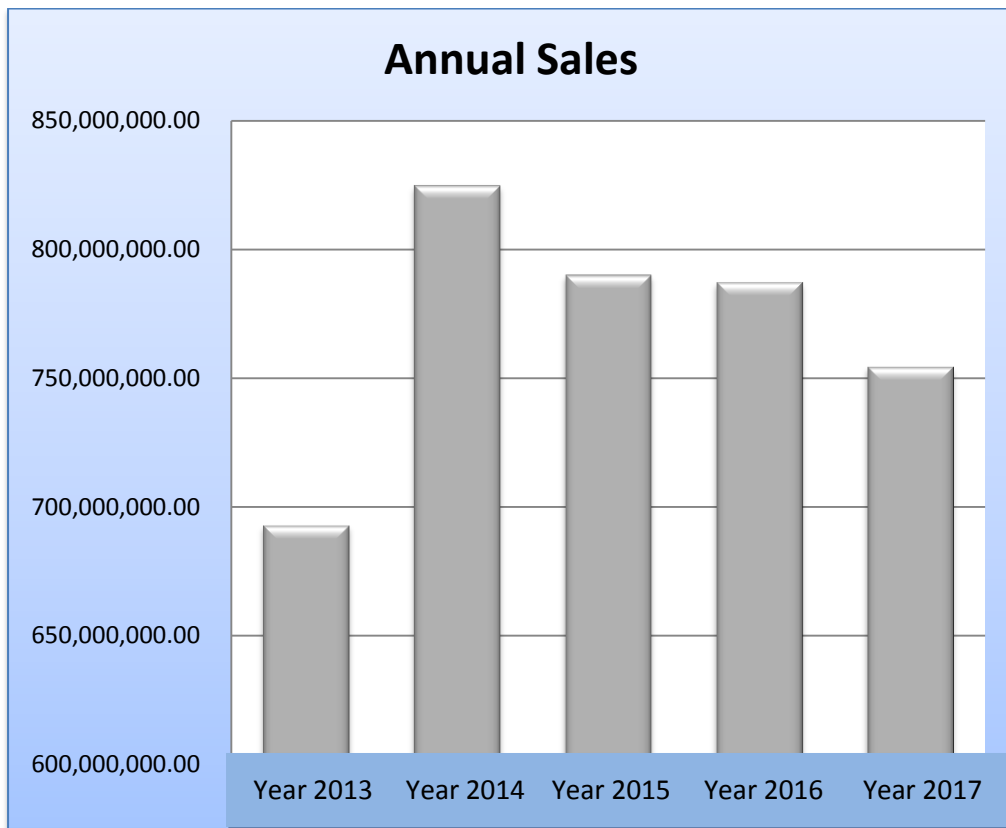
During the year 2017 too, Laksala implemented its marketing methods more extensively in such a manner as to enable its customers world over to gain access into online internet trading facilities to purchase the range of Laksala items of their choice from anywhere in the world.



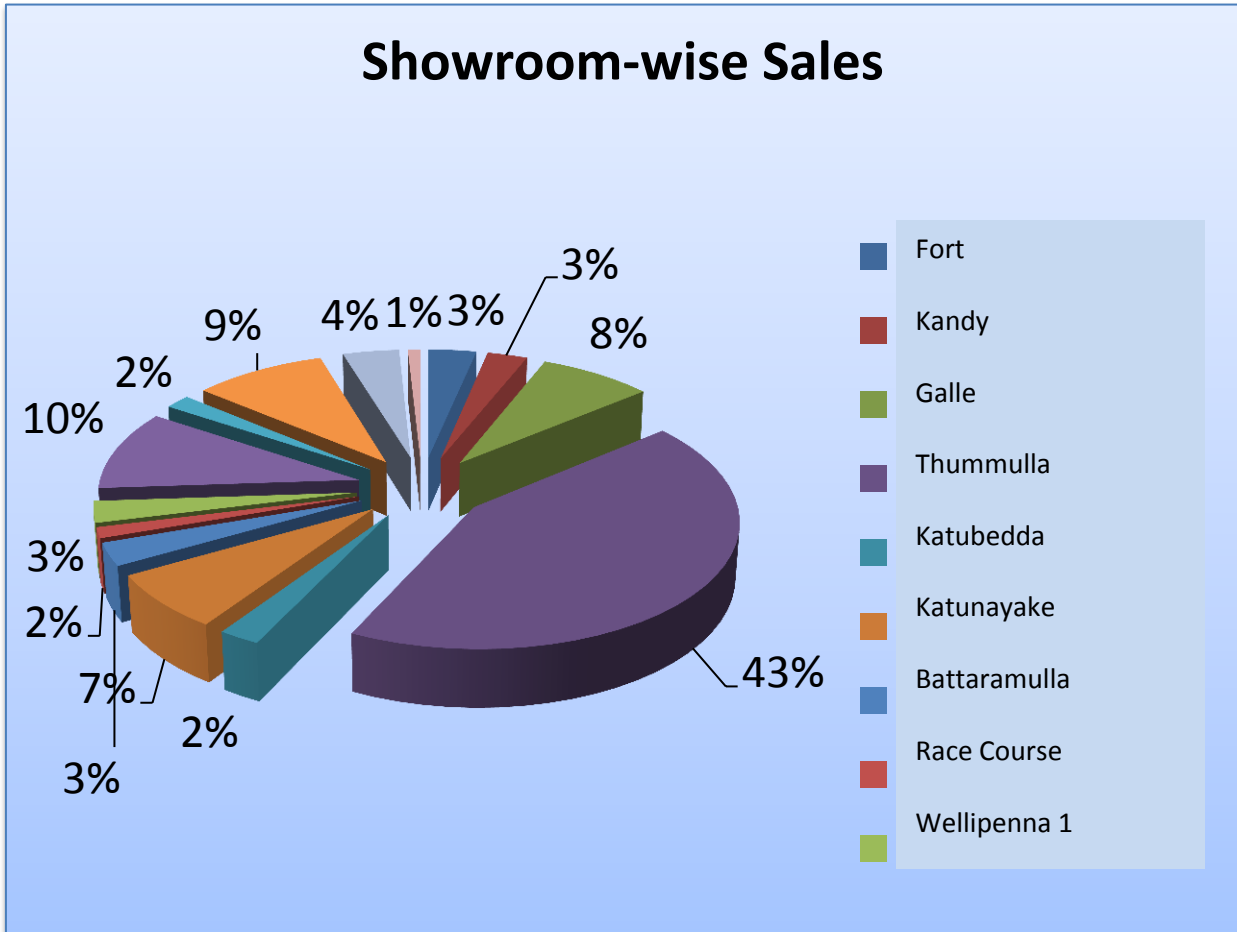
Operational Review

Financial Performance Summary

During the year under review 2017, Laksala recorded a total turnover of Rs.754, 869,257 whereas the respective cost of sales was Rs. 310,940,124. The graph below shows the operational summary of the Laksala over the past five years.

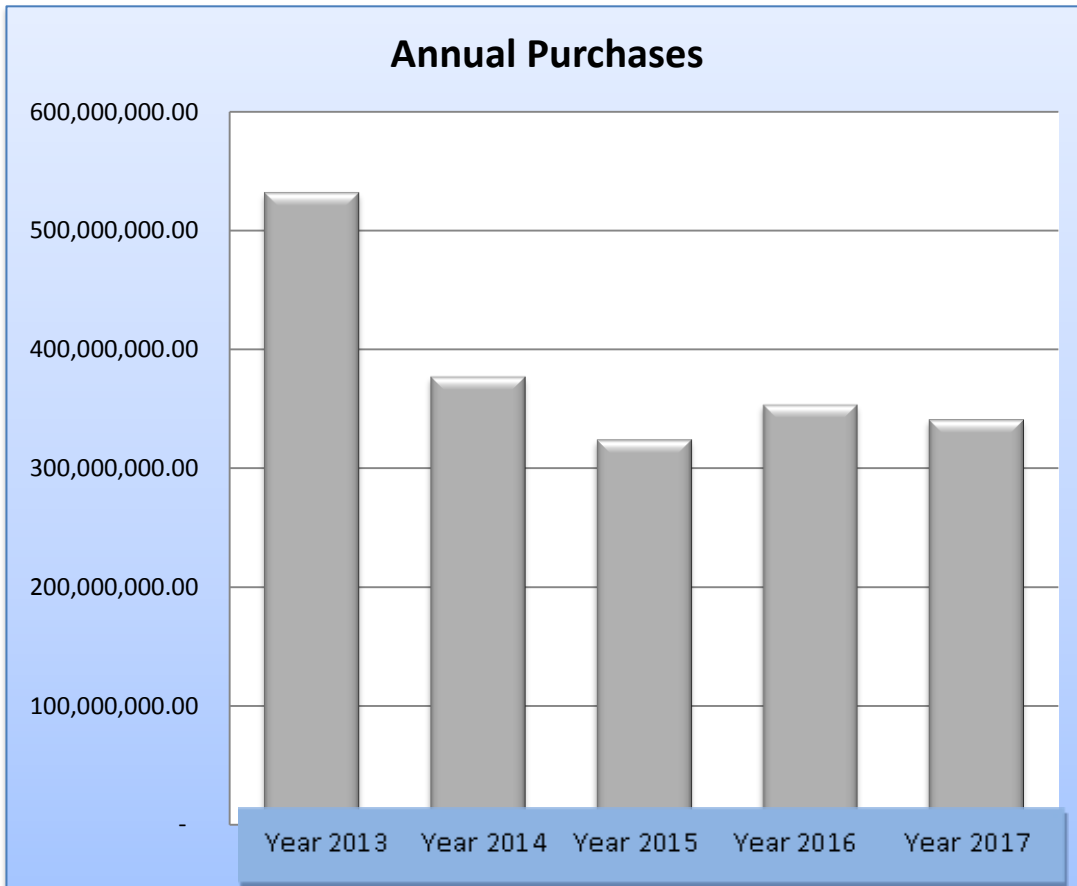


In the analysis of sales occurred during the year 2017 at length, Thummulla Showroom secured the place of major contributor in showroom sales amounting to Rs.326,117,671 whilst the Museum Showroom was the next main contributor of showroom sales accounting for a turnover of Rs. 77,726,202.

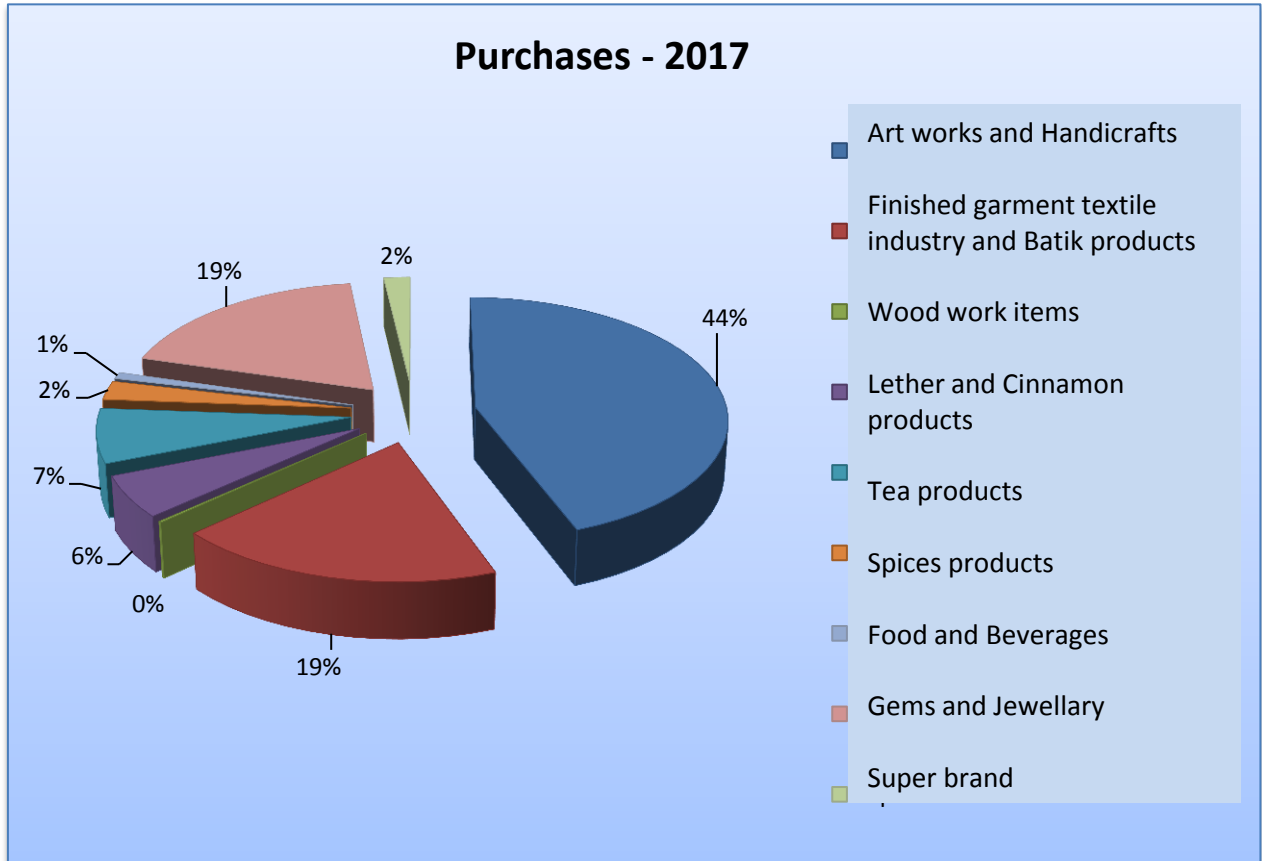


Analysis of Purchases

During the year 2017, Laksala has made purchases to the value amounting to Rs. 341,241,418. The graph below shows how Laksala made its purchases over the past five years.



The following graph further depicts the purchases involving the year 2017 according to the classifications of items. In the consideration of the purchases in 2017, the representation of the high percentage attributes to art work items and handicraft items.



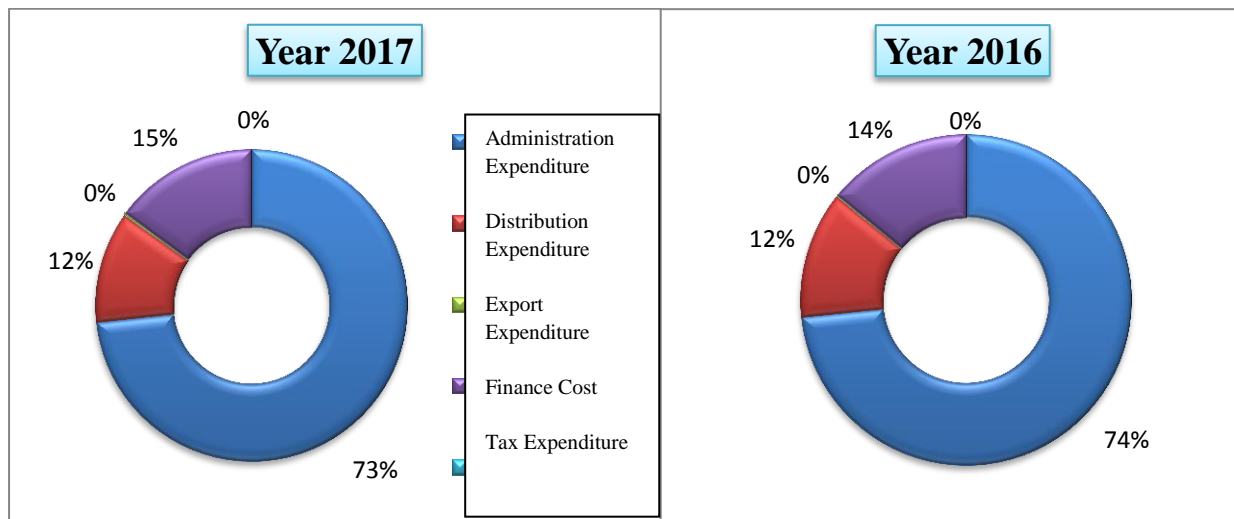
Expenditure Analysis

As a cost reduction measure during the year 2017, total expenditure has been curtailed up to Rs. 471,437,721 which was a 6.3% achievement when it is compared with the previous year.

	2017	2016	%
Administration Expenditure	345,498,343.00	368,665,413.00	6.3
Distribution Expenditure	54,397,792.00	62,043,483.00	12.3
Export Expenditure	1,173,468.00	1,120,532.00	-4.7
Finance Cost	70,368,118.00	70,615,035.00	0.3
Tax Expenditure	-	-	
	471,437,721.00	502,444,463.00	6.2

The graphs below show the composition of the total expenditure in comparison with the previous year.

Expenditure Analysis



Results achieved

Even though the performance of Laksala during the year 2017 yielded a net profit situation amounting to Rs. 97,672,468/- before tax and financial costs, it has decreased to Rs. 27,304,350/- in the context of the financial expenditure incurred on the bank loans that have been obtained. Furthermore, this Board was instrumental in strengthening the economy of the local small and medium scale handicraft manufacturers supplying goods being linked to it resulting in the purchase of their creative items of production worth Rs. 330,419,413.



Management

Sri Lanka Handcrafts Board – Laksala has carried out its functions in accordance with the Acts, Government Circulars and other financial and administrative instructions relating to overall operational functions and ensured the implementation as per guidelines of Good Governance and Procurement. The Administration and Human Resource Division played a substantial role in the management towards achieving goals and objectives of the organization as well as for the provision of the other support services. During the year under review the staff constituted 158 personnel, details of which are as follows:

Overall Staff as at 31.12.2017

Senior Level	08
Secondary Level	08
Tertiary Level	56
Preliminary Level	<u>10</u> 82
Staff on Contract Basis	<u>76</u>
Total	<u>158</u>

The staff strength during the year under review in comparison to the previous year has been decreased to 158 from 163. Building up of a well-trained, committed and efficient work force has become a very vital aspect for the implementation of a properly drawn out short term, medium term and long term business plan in an environment of competitive trading. Therefore, measures have been taken to improve the quality and the productivity of the employees by implementing training and development programs for the sales staff as well as the support staff and also by introducing an attractive incentive payment scheme for them. Apart from this, the new organizational structure with overall cadre strength of 194 personnel has been met with the approval of the Department of Management Services. In addition, further instructions have been issued for maintaining the overall staff strength comprising 40% of fixed employees and 60% of contract employees. As such, it is commendable that the institution was able to maintain a suitably qualified new staff for its Sales Division as well as for the other divisions with less commitment and responsibility towards the entity.

Sri Lanka Handicrafts Board - Laksala**Present Board of Directors**

No.	Name	Designation
01	Dr. S.M.M.Ismail	Chairman
02	Mr. R.L.L. Udaya Kumara	Board Member
03	Mr. K.P.H. Wijewardena	Board Member
04	Mr. Niel Ravindra Munasingha	Board Member (up to 29.12.2017)
05	Mr. H.G. Dandeniya	Board Member
06	Mr. G. W. Somaratna	Board Member (from 29.12.2017)
07	Mr. D.M.H.M. Wazeer	Board Member
08	Mr. Izadeen Riyaz	Board Member
09	Mr. P.G. Ratnayake	Advisor to the Board of Directors (Observer Mr. Mr. Mr.)

Sri Lanka Handicrafts Board - Laksala**Senior Management Team**

Mr. M.N.M.A. Ahlam	Director General / Chief Executive
Mr. C.N. Dahanayaka	Director(Human Resources / Administration)
Mr. K.C. Jayawardena	Director (Sales)
Mr. E. Alan Delilkan	Acting Director (Finance)
Mr. K.P.P.S.K. Pathirana	Chief Internal Auditor
Mrs. Devika Kumari Athukorala	Deputy Director (Distribution)
Mrs. Vajira Samararatna	Deputy Director (Procurement)
Mr. Sampath Seneviratna	Assistant Director (Human Resources / Administration)
Mr. J.D. Harischandra	Assistant Director
Mr. Dinesh Abeykoon	Head of Information Technology

Our Gratitude

On behalf of Laksala, I first of all profusely thank His Excellency the President of the Democratic Socialist Republic of Sri Lanka, the Hon. Prime Minister, the Hon. Minister of Industry and Commerce and the Hon. Deputy Minister. And I also wish to extend my gratitude to the members of the Board of Directors for making judgements and decisions that are incessantly required to elevate the institution into a higher pedestal.

Furthermore, I owe a debt of gratitude to the Secretary of the Ministry and other Ministry officials for extending us support for the progression of the institution when and where necessary.

I also thank the Heads of Divisions who marshalled their members of the staff fluently for better administration, finance and marketing activities of the institution as well all other members of the entire staff whose contribution was instrumental in keeping up the business of the institution more efficiently and effectively.

My special thanks go to the manufacturers supplying handicraft and souvenir items including traditional and innovative products bringing forth new creations after identifying consumer needs having joined hands with us and our amiable and valued local as well as foreign clientele who reposed trust in our institution at all times.

I, in conclusion, whilst stating that our institution will in future resort to all necessary measures to strengthen the Sri Lankan rural economy and uplift the living standard of the rural community, do also expect to achieve the mark of sales income up to Rs. 1000 million in the years that lie ahead.

I do expect to expand the sales of the institution accordingly garnering the expert services required towards achieving further increase in marketing and sales of the institution during the year 2017.

Moreover, plans have been drawn out to keep the profit percentage of the institution on the increase during the year 2018 by way of curtailing overhead expenditure of the institution by a considerable margin according to a planned out strategy to obtain the effective and efficient contribution of the entire staff through the systematic management of the material and human resources of the institution.

I, in conclusion, whilst stating that our institution will in future resort to all necessary measures to strengthen the Sri Lankan rural economy and uplift the living standard of the rural community, do also expect to achieve the mark of sales income up to Rupees One Billion in the years that lie ahead.


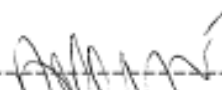

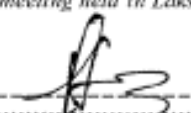
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Chairman
Sri Lanka Handicrafts Board

Financial Statements

SRI LANKA HANDICRAFTS BOARD			
STATEMENT OF			
AMALGAMATED FINANCIAL POSITION (LAKSALA + PROJECT)			
As at 31st December 2017			
	Notes	2017	2016
	Laksala project	LKR	LKR
ASSETS			
Property, Plant & Equipment	7	1,040,666,126	1,086,806,762
Non-current assets		1,040,666,126	1,086,806,762
Display/Antique Items		4,984,780	4,984,780
Inventories	8 6	573,964,215	553,449,274
Trade Deb. & Other Receivables	9 7	196,464,192	162,730,488
Cash & Cash Equivalents	10 8	9,470,676	10,496,611
Current assets		784,883,863	731,661,153
Total assets		1,825,549,989	1,818,467,914
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Stated Capital		73,628,878	73,628,878
Capital Reserves		510,806	510,806
Revaluation Reserves		454,366,157	454,366,157
Grants Received		103,951,172	103,951,172
Other Reserve (prior year adjustment)	11	(38,180,995)	(35,648,094)
Profit & Loss		(10,674,813)	(35,536,977)
Total capital & reserves		583,601,205	561,271,942
Retirement Benefit Obligations	12	38,062,261	33,987,980
Deferred Income		125,524,713	150,864,714
Loan	14	197,828,391	308,849,965
Non-current liabilities		361,415,365	493,702,658
Tax Liabilities	13	47,767,042	40,306,326
Creditors and Accruals	15 9	505,098,876	475,984,607
Loan Obligation	14.1	298,600,257	236,236,803
Bank Overdraft	16	29,067,244	10,965,578
Current liabilities		880,533,419	763,493,314
Total equity & liabilities		1,825,549,990	1,818,467,915
 Mr. E.A. Delikan Director Finance(acting)			
<p><i>The Accounting policies and Notes form an integral part of these Financial Statements. The Board of Directors is responsible for the preparation and presentation of these Financial Statements. The Financial Statements were approved by the Board of Directors and signed on their behalf on 30-july 2018 at the Board meeting held in Laksala Thunmulla,</i></p>			
 Mr. M.N.M.A. Ahlam DG/Chief Executive Officer			
 Mr. R.A.L. Udaya Kumara Board Director			
 Mr. Muhammed Hanza Chairman			

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF
AMALGAMATED COMPREHENSIVE INCOME (LAKSALA + PROJECT)
For the year ended 31st December 2017

	Note	2017	2016
	lak pro	LKR	LKR
Revenue	01	755,425,556	785,110,048
Less :- Cost of Sales	1.1 02	(315,568,451)	(310,926,921)
GROSS PROFIT/(LOSS)		439,857,104	474,183,128
Grants Received		50,340,000	25,340,000
Other Income	02	10,650,257	12,116,373
		500,847,361	511,639,501
Less:- Expenditure			
Administrative Expenses	03 03	(349,774,444)	(373,838,435)
Distribution Cost	04 04	(54,616,043)	(62,146,274)
Export Expenses	05	(1,173,468)	(1,120,532)
Operating Profit/ (Loss) Before Finance Expenses		95,283,405	74,534,259
Finance Cost	06 05	(70,421,241)	(70,617,239)
Net Profit/(Loss) Before Tax		24,862,164	3,917,020
Tax expense			
Net Profit/(Loss) After Tax		24,862,164	3,917,020

SRI LANKA HANDICRAFTS BOARD

STATEMENT OF

AMALGAMATED CHANGES IN EQUITY - Laksala+ Project

For the year ended 31st December 2017

	STATED CAPITAL LKR	CAPITAL RESERVES LKR	REVALUATION RESERVES LKR	GRANT LKR	PROFIT & LOSS LKR	PRIOR YEAR ADJUSTMENT LKR	TOTAL LKR
BALANCE AS AT 1 ST JANUARY 2016	73,628,878	510,806	454,366,157	103,951,172	(39,564,767)	(20,009,299)	572,882,947
PROFIT /(LOSS) FOR THE YEAR - Laksala	-	-	-	-	9,109,065	-	9,109,065
- Project	-	-	-	-	(5,081,275)	-	(5,081,275)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	-	-	-	-	-	-
PRIOR YEAR ADJUSTMENT	-	-	-	-	-	(15,638,795)	(15,638,795)
BALANCE AS AT 31ST DECEMBER 2016	73,628,878	510,806	454,366,157	103,951,172	(35,536,977)	(35,648,094)	561,271,942
BALANCE AS AT 1 ST JANUARY 2017	73,628,878	510,806	454,366,157	103,951,172	(35,536,977)	(35,648,094)	561,271,942
PROFIT /(LOSS) FOR THE YEAR - Laksala	-	-	-	-	27,304,350	-	27,304,350
- Project	-	-	-	-	(2,442,185)	-	(2,442,185)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	-	-	-	-	-	-
PRIOR YEAR ADJUSTMENT	-	-	-	-	-	(2,532,901)	(2,532,901)
BALANCE AS AT 31ST DECEMBER 2017	73,628,878	510,806	454,366,157	103,951,172	(10,674,813)	(38,180,995)	583,601,205

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF
AMALGAMATED CASH FLOWS

For the year ended 31st December 2017

	2017 LKR	2016 LKR
CASH FLOWS FROM OPERATING ACTIVITIES		
NET PROFIT/LOSS AFTER TAX EXPENSES - LAKSALA	27,304,350	9,109,065
NET PROFIT/LOSS AFTER TAX EXPENSES - PROJECT	(2,442,185)	(5,081,275)
NET PROFIT/LOSS AFTER TAX EXPENSES - APE GAMA		
NET PROFIT/ LOSS AFTER TAX EXPENSES	24,862,164	4,027,790
ADJUSTED FOR		
VRS	999,909	-
Depreciation	28,398,039	26,622,402
Amortization	22,960,906	22,960,906
Retirement Benefit Obligations (Note 12)	6,467,127	6,821,449
Interest expenses	70,032,379	68,819,369
Prior Year Adjustment	(2,532,901)	-
Deffered Revenue Rent & Revaluation	(25,340,000)	(25,340,000)
Operating Profit/Loss Before Working Capital Changes	125,847,622	103,911,916
CHANGES IN		
Inventories	(20,514,942)	(19,243,028)
Trade & Other Receivables	(34,396,884)	(27,016,418)
Trade & Other Payables	29,114,270	43,201,654
Tax Liabilities	7,460,716	3,664,384
	107,510,783	104,518,508
(-) VRS Paid	(336,729)	-
(-) Gratuity Paid	(2,392,845)	(117,665)
(-) Interest Paid	(70,490,799)	(64,426,583)
(+) Government Grant Received	-	-
CASH FLOW FROM OPERATING ACTIVITIES	34,290,411	39,974,260
CASH FLOW FROM INVESTING ACTIVITIES		
Realization Of Investment	-	-
Purchase Of Property,Plant & Equipment (Note 07)	(5,218,310)	(7,734,526)
Net.Cash Flows Used In Investing Activities	(5,218,310)	(7,734,526)
CASH FLOW FROM FINANCING ACTIVITIES		
Loan obtained	68,208,925	50,000,000
Loan Repayment	(116,408,626)	(99,026,232)
Net.Cash Flows Used In Financing Activities	(48,199,701)	(49,026,232)
Net Increase/Decrease In Cash & Cash Equivalents	(19,127,600)	(16,786,498)
Cash & Cash Equivalents At The Beginning Of The Year	(468,967)	16,317,528
Cash & Cash Equivalents At The End Of The Year	(19,596,566)	(468,969)
Bank Overdraft	(29,067,244)	(10,965,578)
Cash In Hand & At Bank	9,470,678	10,496,611
	(19,596,566)	(468,968)

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF FINANCIAL POSITION - LAKSALA
AS AT 31ST DECEMBER 2017

	Note	2017 LKR	2016 LKR
ASSETS			
Property, Plant & Equipment	07	977,628,150	1,023,768,785
Non-current assets		977,628,150	1,023,768,785
Display/Antique Items		4,984,780	4,984,780
Inventories	08	572,147,251	552,597,162
Trade Debtors & Other Receivables	09	176,155,996	146,752,384
Cash & Cash Equivalents	10	9,216,155	8,720,876
Current assets		762,504,182	713,055,202
TOTAL ASSETS		1,740,132,332	1,736,823,987
EQUITY & LIABILITIES			
CAPITAL & RESERVES			
Stated Capital		73,628,878	73,628,878
Capital Reserves		510,806	510,806
Revaluation Reserves		433,201,333	433,201,333
Grants Received		62,000,000	62,000,000
Other Reserve	11	(38,180,995)	(35,648,094)
Retained earning		36,294,238	8,989,888
Total capital & reserves		567,454,260	542,682,811
Retirement Benefit Obligations	12	38,062,261	33,987,980
Deferred Income		125,524,714	150,864,714
Loan Obligation	14	197,828,391	308,849,965
Non-current liabilities		361,415,366	493,702,658
Tax Liabilities	13	47,767,042	40,306,326
Trade & Other Payable	15	435,828,164	412,929,810
Loan Obligation	14.1	298,600,257	236,236,804
Bank Overdraft	16	29,067,244	10,965,578
Current liabilities		811,262,707	700,438,518
Total Equity & Liabilities		1,740,132,333	1,736,823,988

**SRI LANKA HANDICRAFTS BOARD
STATEMENT OF COMPREHENSIVE INCOME - LAKSALA
FOR THE YEAR ENDED 31ST DECEMBER 2017**

	Note	2017 LKR	2016 LKR
Revenue	01	748,691,938	781,077,283
Cost of Sales		(310,940,124)	(306,980,127)
Gross Profit		437,751,814	474,097,156
Grants Received		50,340,000	25,340,000
Other Income	02	10,650,257	12,116,373
		498,742,071	511,553,529
Administrative Expenses	03	(345,498,343)	(368,665,413)
Distribution Expenses	04	(54,397,792)	(62,043,483)
Export Expenses	05	(1,173,468)	(1,120,532)
Operating Profit/ (Loss) Before Finance Expenses		97,672,468	79,724,100
Less :- Finance Costs	06	(70,368,118)	(70,615,035)
Net Profit/(Loss) Before Tax		27,304,350	9,109,065
Less:- Taxation			-
Net Profit/(Loss) After Tax		27,304,350	9,109,065

The accounting policies and notes from 1 to 16 form an integral part of these financial statements.

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF
CHANGES IN EQUITY - LAKSALA

For the year ended 31st December 2017

	STATED CAPITAL LKR	CAPITAL RESERVES LKR	REVALUATION RESERVES LKR	GRANT LKR	PROFIT & LOSS LKR	PRIOR YEAR ADJUSTMENT LKR	TOTAL LKR
BALANCE AS AT 1 ST JANUARY 2016	73,628,878	510,806	433,201,333	62,000,000	(119,177)	(20,009,299)	549,212,541
PROFIT FOR THE YEAR	-	-	-	-	9,109,065	-	9,109,065
OTHER COMPREHENSIVE INCOME FOR THE PRIOR YEAR ADJUSTMENT	-	-	-	-	-	(15,638,795)	(15,638,795)
BALANCE AS AT 31ST DECEMBER 2016	73,628,878	510,806	433,201,333	62,000,000	8,989,888	(35,648,094)	542,682,811
BALANCE AS AT 1 ST JANUARY 2017	73,628,878	510,806	433,201,333	62,000,000	8,989,888	(35,648,094)	542,682,811
PROFIT FOR THE YEAR	-	-	-	-	27,304,350	-	27,304,350
OTHER COMPREHENSIVE INCOME FOR THE PRIOR YEAR ADJUSTMENT	-	-	-	-	-	(2,532,901)	(2,532,901)
BALANCE AS AT 31ST DECEMBER 2017	73,628,878	510,806	433,201,333	62,000,000	36,294,238	(38,180,995)	567,454,260

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF
CASH FLOWS

For the year ended 31st December 2017

	2,017 LKR	2016 LKR
CASH FLOWS FROM OPERATING ACTIVITIES		
NET PROFIT/ LOSS AFTER TAX EXPENSES	27,304,350	9,109,065
ADJUSTED FOR		
VRS	999,909	-
Depreciation	28,398,039	26,622,402
Amortization	22,960,906	22,960,906
Retirement Benefit Obligations	6,467,127	6,821,449
Interest expenses	70,032,379	68,819,369
Prior Year Adjustment	(2,532,901)	-
Deffered Revenue Rent & Revaluation	(25,340,000)	(25,340,000)
Operating Profit/Loss Before Working Capital Changes	128,289,808	108,993,191
CHANGES IN		
Inventories	(19,550,089)	(19,187,008)
Trade & Other Receivables	(30,066,792)	(24,948,682)
Trade & Other Payables	22,898,354	36,231,294
Tax Liabilities	7,460,716	3,664,384
	109,031,996	104,753,179
(-) VRS Paid	(336,729)	-
(-) Gratuity Paid	(2,392,845)	(117,665)
(-) Interest Paid	(70,490,799)	(64,426,583)
(+) Government Grant Received	-	-
CASH FLOW FROM OPERATING ACTIVITIES	35,811,624	40,208,931
CASH FLOW FROM INVESTING ACTIVITIES		
Realization Of Investment		
Purchase Of Property,Plant & Equipment	(5,218,310)	(7,734,526)
Net.Cash Flows Used In Investing Activities	(5,218,310)	(7,734,526)
CASH FLOW FROM FINANCING ACTIVITIES		
Long Term Loan/Short Term Loan obtained	68,208,925	50,000,000
Loan Repayment	(116,408,626)	(99,026,232)
Net.Cash Flows Used In Financing Activities	(48,199,701)	(49,026,232)
Net Increase/Decrease In Cash & Cash Equivalents	(17,606,386)	(16,551,825)
Cash & Cash Equivalents at the beginning of the year	(2,244,702)	14,307,123
Cash & Cash Equivalents At The End Of The Year	(19,851,088)	(2,244,702)
Bank Overdraft	(29,067,244)	(10,965,578)
Cash In Hand & At Bank	9,216,155	8,720,876
	(19,851,088)	(2,244,702)

NOTES TO THE FINANCIAL STATEMENTS**1. CORPORATE INFORMATION****1.0 Company**

Sri Lanka Handicrafts Board popularly known and operating under the trade name “LAKSALA” is the only state owned organization marketing handicrafts that are produced in throughout Sri Lanka.

1.1 Principal Activities and Nature of Operations

Principal activities of the Board are marketing and selling of gift and souvenir Items to the local and foreign market

2. GENERAL ACCOUNTING POLICIES**2.0 Basis of measurement**

The Statement of Financial position, Statements of comprehensive income, Statement of changes in equity and statement of cash flows, together with accounting policies and notes (Financial Statement) of the Board as at 31st December 2017 and for the year ended, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs) issued by the Institute of Chartered Accountants of Sri Lanka.

These financial statements have been prepared under the historical cost convention, except for financial assets and liabilities which are measured at fair value. The preparation of financial statements in conformity with SLFRSs requires the use of certain critical accounting estimates. All values are presented in Sri Lankan Rupees.

2.1 Use of Accounting Estimates, Assumptions and Judgments

The preparation of Financial Statements are in conformity with LKAS (Sri Lanka Accounting Standards) and SLFRS which requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments on the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates 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 affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

2.2 Going Concern

When preparing the Financial Statements, we have made an assessment of the liability of the organization to continue as a going concern in the foreseeable future. We do not foresee a need for liquidation or cessation of trading, taking into account all available information about the future.

2.3 Comparative Information

The accounting policies have been consistently applied by the company and are consistent with those used in the previous year and reclassified for fair presentation where required.

2.4 Summary of Significant Accounting Policies.

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, and have been applied consistently by the Board.

2.4.1 Foreign Currency Transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the time of transaction.

Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated to Sri Lankan Rupees at the foreign exchange rate ruling at that date.

2.4.2 Property, Plant and Equipment

a) Recognition and Measurement

Property Plant and Equipment other than land are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost materials, direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Where an item of Property, Plant and Equipment comprise major components having different useful lives, they are accounted for as separate items of Property, Plant and Equipment.

Gains and losses upon disposal of items of Property, Plant and Equipment are determined by comparing the proceeds from disposal with the carrying amount of Property, Plant and Equipment, and are recognized in Statement of comprehensive income.

b) Depreciation

The provision for depreciation is calculated using a straight line method on the cost of all Property, Plant and Equipment other than freehold land, in order to write off such amounts over the estimated useful lives.

The principal rates used are as follows.

1. Building	2.5%
2. Machinery Equipment	10%
3. Inventory Articles	10%
4. Furniture & Fittings	10%
6. Computer Hardware & Software	20%

c) Profit / Loss from Sales of Property, Plant and Equipment.

Any gains or losses on retirement or disposal of Property, Plant and Equipment are recognized in the period in which the sale occurs and is classified as other Operating Income.

2.4.3 Capital Work in Progress

Capital expenses incurred during the year, which are not completed as at the date of the financial statements are shown as advance payments, whilst the capital assets which have been completed during the year end put to use have been transferred to Property, Plant and Equipment.

2.4.4 Intangible Assets

Intangible assets that are acquired by the Board, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

a) Basis of Recognition

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the assets will flow to the entity and cost can be measured reliably and carried at cost less accumulated amortization and accumulated impairment losses.

b) Subsequent Expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific assets to which it relate. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in the income Statement as incurred.

c) Retirement and Disposal

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use and subsequent disposal.

d) Amortization

Amortization is recognized in the income Statement on a straight-line basis over the estimated useful lives of intangible Assets, from the date that they are available for use. A policy was developed to amortize or charge the cost incurred on renovation or construction on the basis of the following criteria.

NATURE OF EXPENSE/INCOME	OWNERSHIP	BASIS	PERIOD
Renovation	Owned	Amortize the cost incurred over a period of 10 Years	10 Yrs
Construction	Owned	Capitalization of cost of construction & normal depreciation will be charged at 2.5%.	40 Yrs
	Leased	Cost of construction /renovation amortized over the period of the lease or 10 years period whichever is less.	10 Yrs
	Occupied	Neither owned nor leased – Capitalize the cost of construction & amortize over a period of 10 years	10 Yrs
Grants Received	-	Grants received to meet the renovation & construction expenses should be amortized over a period of 10 years	10 Yrs

Table (A)

AMORTIZATION OF RENOVATION EXPENSES AND CONSTRUCTION EXPENSES

Site	Year	Nature Of Expenditure	Cost(Lkr)	Unamortized Balance C/F 01/01/17	Basis	Amortization CHARGE	Unamortized Balance C/F
Museum	2013	Constructions	172,847,765	140,227,574.15			
	2014		1,881,295				
	2015		389,177				
Total			175,118,237		5%	8,755,911.85	131,471,661.84
Battaramulla	2013	Constructions	117,704,905	108,985,517.97			
	2014		7,119,771				
	2015		9,744,207				
Total			134,568,885		5%	6,728,444.15	102,257,071.82
Pinnawala	2013	Renovation	10,086,000	6,051,600.00			
Total			10,086,000		10%	1,008,600.00	5,043,000.00
Wagolla		Renovation		567,342.38			
	2014		810,487				
Total			810,487		10%	81,048.70	486,293.68
Peradeniya	2013	Renovation	31,657,966	25,814,403.19			
	2014		8,968,353				
	2015		677,220				
Total			41,303,539		10%	4,130,353.90	21,684,049.29
Welipanna	2013	Renovation	10,269,019	6,161,410.15			
	2014						
Total			10,269,019		10%	1,026,901.90	5,134,508.25
Race Course	2013	Renovation	1,113,613	668,169.72			
	2014						
Total			1,113,613		10%	111,361.30	556,808.42
Katunayake	2013	Renovation	1,060,000	636,000.00			
	2014						
Total			1,060,000		10%	106,000.00	530,000.00
Unawatuna	2013	Renovation	1,000,000	600,000.00			
	2014						
Total			1,000,000		10%	100,000.00	500,000.00
K-Zone	2013	RENOVATION	8,353,071	5,011,843.05			
					10%	835,307.10	4,176,535.95
Thunmulla	2015	RENOVATION	769,766	615,813.25			
Total					10%	76,976.60	538,836.65
Grand Total			384,452,621			22,960,905.50	272,378,765.90

2.4.5 Impairment

The carrying amounts of the board's assets are reviewed at each of the financial statements balance sheet date to determine where there is any indication of impairments. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the Income Statement.

2.4.6 Trade and Other Receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.4.7 Inventories

Inventories are valued at the lower of cost and net realizable value, after making provision for obsolete and repairable items. Cost is determined using the Weighted Average Cost (WAC) method. Net realizable value is the price at which inventories can be sold in the ordinary course of business. Damaged stock and repair stock are shown under stock schedule.

Damaged stocks need careful identification of repairable & un-saleable items. A committee has been appointed for these purposes. Until the committee segregate the un-saleable items & determine the value the damaged items are stated at cost price.

Due to large volumes of art & craft & gift ware items handled during a year, damages or shortages cannot be ruled out. Therefore in order to minimize the losses on damages & shortages a policy has been developed in order to decide the quantum of allowable damages or shortages from the saleable stocks. Accordingly a provision will be created based on the value of the stocks to meet any contingencies arising out of damages & shortages.

However discrepancy in stocks, have been identified starting from year 2011 to 2017. This has been largely due to wrong opening balance entries in the year 2011 & manually selling & not updating the sales in the earlier years when SAP system was introduced. Hence the Board of Directors of SLHB advised to take an accurate physical stock verification as at 31st December 2017 & the authority was given under the board decision No. BP 48 F02 of 20/9/16 to transfer the discrepancy to a suspense account. Board of Directors advised to submit the required disclosure to identify the clear differences & under Note -08 the details have been provided.

2.4.8 Cash and Cash Equivalents

Cash and Cash Equivalents are defined as cash in hand and short term highly liquid investments, readily convertible to know amounts of cash for the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and net of outstanding bank overdrafts, short term borrowings and short term investments.

2.4.9 Cash Flow Statements

The Cash Flow Statements have been prepared using the indirect method in accordance with Sri Lanka Accounting Standard No. LKAS 07 – Cash flow statements.

2.4.10 Employee Benefits

a) Defined Benefit Plan – Retirement Gratuity

The liability for Retirement benefit obligation under the payment of Gratuity Act. No. 12 of 1983 is a defined benefit plan covering 155 employees of the organization in the period of 2017. In order to meet this liability a provision is carried forward as at the date of the financial statements equivalent to an amount calculated based in a half month 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 the 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 statement of comprehensive income.

b) Define Contribution Plan

Employee's Provident Fund & Employee's Trust Fund. Employees are eligible for Employees Provident Fund contribution and Employees Trust Fund contributions in line with respective statutes and regulation. The Board contributes 12% and 3% on gross employments of employees to Employee's Provident fund and Employee's Trust Fund respectively.

2.4.11 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings.

a) Bank of Ceylon – Rs. 950 M

Rs.150 Mn facility to meet the supplier payments on revolving credit basis and Rs.300 M to finance the working capital requirements to meet construction expenditure and supplier payments was obtained from the Bank of Ceylon mortgaging the Fort building valued at Rs.497M. (*Note No. 14*)

b) Regional Development Bank- Rs. 215 M

Rs. 215 M facility was obtained from the Rural Development Bank, Kelaniya branch to meet urgent working capital requirements. No security was offered by us as General Treasury has arranged the loan facility.

c) Treasury loan – 15M

Rs. 15M facility was obtained from government treasury to settle the supplier payments at the rate of 0%.

d) Bank of Ceylon – Rs.50M (Additional Loan request)

A Loan of Rs.50 Mn was applied from BOC in 2017 & was approved by the Board of Directors to cover up the working capital & operational requirements but only Rs.38.3 Mn was received during the financial year.

2.4.12 Liabilities and provisions

Liabilities and provisions are recognized in the financial statements when there is a present legal /constructive obligation as a result of the past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits. Obligations payable at the demand of the creditor or within one year from the financial statements date are treated as current liabilities in the financial statements. Liabilities payable after one year from the financial statements date are treated as non- current liabilities in the comprehensive statement of financial position.

a) Trade and Other Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the country where the Company operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.4.13 Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services rendered in the ordinary course of the Company's activities. Revenue is stated net of all applicable taxes and levies, returns, rebates and discounts.

* Sale of Goods

Revenue from the sales of goods is measured at fair value of the consideration received or receivable net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated cost and possible return of goods can be estimated reliably and there is no continuing management involvement with goods. Transfer of risks and rewards vary depending on the individual terms of the contract of sales.

* Other Operating Income

a) Profit & Loss from Sale of Property, Plant and Equipment.

Any gains or losses on retirement or disposal of Property, Plant and Equipment are recognized in the period in which the sales, occurs and is classified as other Operating Income.

* Grants Received

- Capital Grants received

Capital Grants received have been recognized as differed Income and amortized over a period of 10 years.

Rs.100,000,000 was received from the Ministry of Economic Development , under Divi Naguma program to reconstruct and refurbishment of the Museum Sales Complex in the year 2012 and Rs.107,262,626/= was received from the General Treasury under the National budget proposal in the year 2013. A further Rs.46,137,374/= was received in the year 2014.

The grants received during the year under review have been accounted as follows:

AMORTIZATION OF GRANTS RECEIVED

RECEIVED FROM	YEAR	GRANT RECEIVED	Amortised amount as 01-01-2017	INCOME FOR 2017	UNAMORTIZED BALANCE C/F 31-12-2017
Economic Development	2012	100,000,000	50,000,000	10,000,000	40,000,000
Ministry	2013	36,000,000	14,400,000	3,600,000	18,000,000
Budget Allocations	2013	10,224,643	4,089,857	1,022,464	5,112,321
Budget Allocations	2013	42,109,637	12,632,891	4,210,964	25,265,782
Budget Allocations	2013	11,099,920	4,439,968	1,109,992	5,549,960
Budget Allocations	2013	7,828,426	3,131,370	782,843	3,914,213
Economic Development	2014	35,000,000	10,500,000	3,500,000	21,000,000
Budget Allocations	2014	11,137,374	3,341,212	1,113,737	6,682,424
		253,400,000	102,535,299	25,340,000	125,524,701

- Supplementary budget allocation received

An operating grant was received from the general treasury in the year 2017 as a supplementary budget allocation, This amount was given to pay suppliers & get trading stocks to run the operation smoothly.

Grants Received (Amortized amount for 2017) - Rs. 25,340,000

Grant Received during 2017 - Rs. 25,000,000

Total Accounted Grants for 2017 - Rs. 50,340,000

2.4.14 Expense Recognition**a) Revenue Expenditure**

The profit earned by the Board as shown in the Income Statement is after providing for all known liabilities and for depreciation of Property, Plant and Equipment.

For the purpose of presentation of the Income Statement, the Directors are of the opinion that the function of expenses method present fairly the elements of the enterprise's performance, hence this presentation method is adopted.

b) Capital Expenditure

Expenditure incurred for the purposes of extending or improving assets of a permanent nature by means to carry on the business or for the purposes of increasing the earning capacity of the business has been treated as Capital Expenditure.

Gains or losses of revenue nature on the disposal of property, plant and Equipment have been accounted for in the Income statement.

c) Deferred revenue expenditure

Cost incurred on VRS

During the under review as part of the re-structuring process, 20 employees opted for VRS offered under the PED 10 and Rs. 10,432,332.25 have been incurred. In order to spread the cost over the balance service period an accounting policy was adopted. Accordingly the cost incurred on each employee is spread over the balance period of service on even basis. The unamortized balance remains as deferred revenue expenditure. The amount amortized and the unamortized balance is comprised as follows.

	Amount (Rs.)
Total cost incurred for VRS	10,432,332
(-) Amortised in previous years	(6,491,060)
Balance as at 01 st January 2017	3,941,272
(-) Amortised charge for the year (Note 03)	(663,180)
Unamortised balance as at 31 st December 2017	3,278,092

2.4.16 Borrowing costs

Borrowing costs are recognized as an expense in the year in which they are incurred.

2.4.17 Comparative information

Comparative information has been reclassified where necessary to confirm to the current year's presentation.

2.4.18 Commitments and Contingencies

Contingencies are possible assets or obligations that arise from a past event and would be confirmed only on the occurrences or non- occurrence of uncertain future events, which are beyond the Board's control.

Contingent Liabilities

Pending litigations against the board:

Court No.	Case filed on	Detail	Current status
C.A.(Writ) Application No526/15	10 th February 2016	Regarding interdiction of previous staff and litigation filed on appeal court	Decision still pending and no probable commitment prevail at the reporting date
DMR/0280/13	13 th July 2015	Breach of contract regarding solar panel and litigation filed on magistrate court	
DMR/2255/16	09 th May 2016	Breach of contract by demanding retention and litigation filed on divisional court	
21/376/2016	09 th May 2016	Regarding interdiction of previous staff and litigation filed on labour court	Restate the employment and settle the arrears salary

Further board has been incurred Rs. 672,342 as legal charges in 2017 for above litigations.

2.5 Ape Gama Project

The Ape gama project was handed over to the Education Ministry at the end of the year 2015 as per the Gazette notification No. 1933/13. A cabinet paper was forwarded to recover the investment made by the Laksala from the Educational Ministry. Such negotiations are still in progress.

The current financial position of the Ape gama project as 31st December 2017 has been extracted in note No. 2.5.1 (page No. 39)

2.6 Craft Training division

The activities of the Craft Training Division have been ceased with effect from the year 2009 as all the staff have been transferred and almost all the available physical assets have been handed over to the National Crafts Council in terms of the Cabinet decision dated 21/12/2008.

However, the balances remaining in the books as at that date have not been removed or transferred from the books and remain unsettled. Action has now been taken to settle these balances with the approval of the General Treasury until the formal approval is obtained and the remaining balances are disclosed with the financial statements as a separate entity. Comparative figures relating to these items have been adjusted accordingly. Please refer page No.40 (Craft Training Division).

Balances remaining unsettled in the Craft Training division have been disclosed in note No.2.6.1 (Page No.40) separately pending approval from the General Treasury comparative figures relating to these items have been adjusted accordingly.

2.4.19 Events Occurring After the Balance Sheet Date

All material post Balance Sheet events have been considered disclosed and adjusted where applicable.

NOTES TO THE FINANCIAL STATEMENTS -LAKSALA

NOTE 01-SALES ANALYSIS

	2017 LKR	2016 LKR
Laksala Branches		
Fort	25,334,213	32,601,059
Kandy	21,032,749	25,021,453
Galle	59,482,530	58,444,197
Thummulla	326,117,671	338,707,940
Katubadda	17,418,404	19,194,068
Katunayaka	54,935,264	61,494,566
Battaramulla	22,398,837	25,725,642
Racecourse	10,502,420	9,538,125
Welipenna - 1	20,923,586	18,750,456
Museum	77,726,202	75,069,803
Pinnawala	13,665,474	22,679,273
Welipenna - 2	-	11,851,065
Peradeniya	69,474,446	77,038,051
Direct Sales-Special Orders	29,403,657	10,882,355
Super brand	6,453,803	-
	754,869,257	786,998,051
Less :- NBT	(6,177,319)	(5,920,768)
ESC	-	-
	748,691,938	781,077,283

	2017 LKR	2016 LKR
NOTE 1. 1 - Cost Of Sales		
Opening stock	552,667,963	533,410,154
(+) Purchases	330,419,413	326,237,936
(-) Stock damage	-	-
(-) Stock adjustments/Transferred to Suspense account	(85,854,835)	-
(-) Closing stock	(486,292,416)	(552,667,963)
	310,940,124	306,980,127

NOTE 02-OTHER INCOME

	2017 LKR	2016 LKR
Other Income	11,328,730	11,229,909
Circuit Reservation	151,500	314,750
Miscellaneous Income	106,000	144,000
Foreign exchange gain/loss	449,932	1,441,138
	12,036,162	13,129,797
Less :- VAT	(1,385,905)	(1,013,424)
	10,650,257	12,116,373

NOTES TO THE FINANCIAL STATEMENTS - LAKSALA

NOTE 03-ADMINISTRATIVE EXPENSES	2017	2016
	LKR	LKR
Salaries & Allowance	72,940,730	83,114,095
Over Time	5,373,902	7,539,587
Consultancy Fees	1,296,400	109,600
Incentive	8,555,422	12,397,109
Bonus	13,500	1,949,000
E.P.F. & E.T.F.	9,446,986	9,549,740
Gratuity	6,467,127	6,821,449
Staff Welfare	7,319,361	8,064,199
Cash Security Interest	240,440	-
Transport Allowance	14,210,749	15,593,211
Staff Training	279,000	642,569
Medical Expenses	1,786,608	2,087,216
Directors Fees & Board Meeting Expenses	1,469,870	797,175
Audit Fees/Profession Fees	1,787,863	561,320
Legal Fees	672,342	729,383
WHT	-	22,150
Advertisement	948,684	2,557,388
Security Service	20,648,798	27,224,103
Printing & Stationery	2,766,871	3,587,177
News Papers & Periodicals	109,064	-
Postage/Tele/Telex	15,473,944	14,884,045
Fuel & Lubricants	602,357	840,796
Stock Verification	634,094	279,176
Trade Licence Fees	405,575	345,303
Computer Expenses	1,086,351	86,511
Parking	-	4,536
Rent & Rates	52,124,454	49,123,215
Insurance	1,183,943	1,512,246
Water Bill	496,538	631,973
Electricity	22,539,649	26,164,334
Rep & Maint - Building	6,177,326	3,827,143
Rep & Maint - Machinery	560,452	1,171,004
Vehicle Rental Charges	15,459,728	17,227,178
Depreriaton	28,398,039	26,622,402
Amotization- Building	22,960,906	22,960,906
Cleaning Services	13,456,960	12,030,651
VRS	999,909	577,467
Membership Fee	10,000	72,250
Concession Fees	6,594,399	6,805,697
Opening Ceromany Expenses	-	-
Funeral Expenses	-	67,500
Stamp Fees	-	84,610
	345,498,343	368,665,413

NOTES TO THE FINANCIAL STATEMENTS -LAKSALA**NOTE 04-VARIABLE DISTRIBUTION COST**

	2017	2016
	LKR	LKR
Guide Commission	37,531,633	37,911,115
Sponsorships & Donations	780,494	907,337
Packing Materials Locals	10,133,935	13,010,192
Business Promotion	2,462,291	7,201,595
Rep.& Main.Purchase Goods	677,839	114,475
Exhibition and Trade Fair	-	72,926
Transport	2,793,101	2,096,323
Supplier Registration	10,000	-
Valuation Expenses	8,500	729,520
	54,397,792	62,043,483

NOTE 05-EXPORT EXPENSES

	2017	2016
	LKR	LKR
Insurance & Freight Charges	459,338	1,051,032
Others	714,130	69,500
	1,173,468	1,120,532

NOTE 06-FINANCE COST

	2017	2016
	LKR	LKR
Overdraft Interest	1,422,599	1,235,988
Bank Charges	335,739	559,678
Loan Interest	68,609,780	68,819,369
	70,368,118	70,615,035

NOTES TO THE FINANCIAL STATEMENTS - LAKSALA

NOTE 08-STOCKS	2017 Rs.	2016 Rs.
Fort	19,099,014	25,354,740
kandy	9,332,692	11,797,015
Galle	39,749,128	41,368,018
Battaramulla	18,346,754	24,367,756
Thummulla	128,468,314	158,189,994
Katubadda	11,189,233	14,353,226
Katunayaka	13,411,140	16,055,435
Race Course	7,953,575	11,184,742
Main Warehouse-Katubedda	10,444,088	7,884,438
Museum	133,194,382	147,365,486
Welipenna 1	9,466,758	9,051,871
Welipenna 2	1,320,012	1,320,012
Negative Inventory/Display Item	6,773,995	6,773,995
Peradeniya	32,013,076	25,129,974
Pinnawala	8,257,491	9,399,802
Havlock/Norris Canal w/house	13,445,379	23,521,060
Katubedda w/h Repair Items	935,539	610,863
Havlock/Norris Canal w/house Repair Items	4,026,080	3,889,740
Piinawala-Zoo	144,244	144,244
New Design Center	42,030	709,230
Thummulla W/H	7,788,043	7,788,043
Supplier Return W/H-Norris	554,501	751,610
Intransit	5,280,043	17,365,665
Super brand	3,271,643	-
Product Development	20,000	20,000
Special Order W/H	1,186,639	367,091
Institutional Sales	11,126	-
Exhibition and Trade Fair	567,495	444,043
Damages & Shortages	-	(12,610,931)
	486,292,416	552,597,162
(+) Stock Receivable(Suspense Account- Stock)	85,854,835	-
	572,147,251	552,597,162

NOTE 8.1- STOCK VARIANCES (Physical vs Actual)

Discrepancies of the physical stock & System stocks have been identified by way of a proper stock verification done at end of 31st December 2017. However the variance had decreased from Rs.106,988,676 in 2016 to Rs.85,854,835 in 2017. Such variances could have happened due to the following reasons.

- * Good receipt posted to system in order to facilitate showroom sales (Negative inventory)
- * Manual Sales Invoices /Stock transfers not entered in the SAP implementation periods
- * Genuine stock shortages /Excesses

	2017 Rs.	2016 Rs.
Stock Variances	85,854,835	106,988,676

The Board approval for stock variance write-off were not granted, hence the statement of financial position was presented without adjusting the stock variances. However the Board gave approval to transfer the variances to a suspense account & disclose it in the total trade inventories but remove from SAP & POS branch inventories in order to have a hassle free sales operation.

** Note- Stock Variance transfer to suspense account on certain warehouse have been done in 2018.

Hence not captured in 2017 variances.

NOTE 09-TRADE RECEIVABLE,DEPOSITS & PREPAYMENTS

	2017 Rs:	2016 Rs:
Trade Receivable (Note 9.1)	37,567,773	25,670,284
Other Receivable (Note 9.2)	4,477,411	2,826,514
Deposits & Prepayments (Note 9.3)	69,964,768	59,879,962
Receivable from related companies (Note 9.4)	64,146,044	58,375,624
	176,155,996	146,752,384

Note 9.1		
Trade Receivable		
Trade Debtors	13,897,718	11,473,945
Receivable Credit Card	23,670,055	14,196,340
	37,567,773	25,670,284
Note 9.2		
Other Receivable		
Festival Loans	155,000	135,000
Staff Loan	6,250	35,000
Rent Receivable	1,988,169	1,133,557
ESC Receivable	2,252,357	1,480,192
VAT Receivable	64,765	64,765
Gift voucher control	10,870	(22,000)
	4,477,411	2,826,514
Note 9.3		
Deposits & Prepayments		
Security Deposit (Parking)	1,849,424	1,799,424
Prepayment	16,531,699	9,632,106
Purchase Advance Non Merchandise	12,737,175	10,469,988
Damages or Repair/Stock Variance	19,851,107	17,988,081
Retention Money	500,000	500,000
Refundable Deposit	17,834,050	15,030,050
W. & O.P	77,993	77,993
Bank Guarantee	583,321	4,382,321
	69,964,768	59,879,962
Note 9.4		
Receivable from related companies		
Amount due from Project	38,485,563	32,715,143
Amount due from Ape Gama	25,660,481	25,660,481
	64,146,044	58,375,624
NOTE 10- CASH & CASH EQUIVALENTS		
	2017	2016
	Rs:	Rs:
Cash at bank (Note 10.1)	4,367,847	5,852,109
Cash in hand (Note 10.2)	4,673,263	2,711,407
Petty cash (Note 10.3)	175,046	157,360
	9,216,155	8,720,876
Note 10.1		
Cash at bank		
BOC Taprobane - 2026526	513,484	1,316,449
P/B Kandy - 003-1001-1-1199647	31,738	99,385
P/B Galle - 013-1001-9-1924484	34,211	468,356
Cash at Bank - N'Eliya	969	969
BOC Corporate - 2026591	-	1,394,613
P/B Thimbirigasyaya - 086-1001-4-1189760	136,528	718,669
P/B Battaramulla - 208-1001-2-0387264	63,002	7,898
P/B International div. - 004-1001-7-0210930	46,291	46,291
BOC Taprobane - 2026716	-	247,469
P/B Katunayaka - 004-1001-1-0210872	323,925	299,672
P/B First City - 046-1001-3-0000646	178,828	33,745
P/B First City - 046-1001-8-0000644	1,010	1,000
P/B - Molagoda	27,593	27,593
BOC Taprobane \$ - 72065536	287,795	129,005
P/B First City - 046-1001-5-0000645	1,048	1,000
P/B First City - 046-1001-7-0000649	1,213	59,995
P/B Moragalle - 084-1001-0-1864127	220,212	-
P/B - BENEVOLANT FUND (046-1001-7-0387311)	2,500,000	1,000,000
P/B Taplace - 004-1001-5-0210870	-	-
BOC Corporate- 2758815	-	-
	4,367,847	5,852,109

Note 10.2	2017	2016
Cash in hand	Rs:	Rs:
Fort	139,938	146,399
Kandy	98,723	111,850
Galle	329,840	149,690
Race Course	68,369	10,600
Katunayaka	124,858	126,791
Thummulla	1,556,268	758,131
Battaramulla	147,610	224,385
Katubadda	178,537	167,100
Welipanna 1	199,329	87,058
Welipanna 2	-	28,210
Museum	941,460	73,900
Pinnawala	121,340	70,306
Peradeniya	596,970	463,951
Pinnawala Zoo	0	720
SL Brands -Thummulla	170,023	292,316
	4,673,263	2,711,407

Note 10.3**Petty cash**

Petty Cash/Coin Imprest	175,046	157,360
	175,046	157,360

Note 11- OTHER RESERVE(PRIOR YEAR ADJUSTMENT)

		2016
		Rs:
Opening balance	35,648,094	20,009,299
EPF Arrears	-	11,149,882
ETF Arrears	-	2,567,914
Gratuity Provision for previous years	-	1,921,000
Salary Arrears	2,644,485	-
Previous year interest	(111,584)	-
	38,180,995	35,648,094

Note 11.1 - RESTATEMENT ADJUSTMENT

The other reserve included the residual effect on adjustment of restatement in prior period errors. Since the retrospective adjustment can not be made due to impracticability, prospective adjustment have been made accordingly.

NOTE 12-RETIREMENT BENEFIT OBLIGATIONS	2017	2016
	Rs:	Rs:
Opening balance	33,987,980	25,363,195
Gratuity provision for the year	6,467,127	6,821,449
Gratuity paid during the year	(2,392,845)	(117,665)
Plan improvement	-	1,921,000
Closing balance	38,062,261	33,987,980

The liability for Retirement benefit obligation under the payment of Gratuity Act. No. 12 of 1983 is a defined benefit plan covering 164 employees of the organization.

NOTE 13-TAX LIABILITIES	2017 Rs:	2016 Rs:
Opening balance	40,306,326	36,641,942
Tax provision for the year (Note 13.1)	8,474,139	8,414,384
Tax paid during the year	(1,013,423)	(4,750,000)
Closing balance	<u>47,767,042</u>	<u>40,306,326</u>
Note 13.1 Tax Provision		
Value Added Tax (VAT)	1,524,655	1,013,424
Nation Building Tax (NBT)	6,177,319	5,920,768
Economic Service Charge (ESC)	772,165	1,480,192
	<u>8,474,139</u>	<u>8,414,384</u>
NOTE 14-Loan obligation	2017 Rs:	2016 Rs:
Opening balance	442,592,787	479,542,634
Loan obtained during the year	38,300,000	50,000,000
Loan paid during the year	(116,408,626)	(86,949,847)
Closing balance	<u>364,484,161</u>	<u>442,592,787</u>
Payable within one year (Note 14. 1)	<u>166,655,770</u>	<u>133,742,822</u>
Payable after one year	<u>197,828,391</u>	<u>308,849,965</u>
NOTE 14.1- SHORT TERM LOAN OBLIGATION		
Loan payable within one year	166,655,770	133,742,822
Short term loan	128,010,122	98,101,196
Loan interest payable	3,934,366	4,392,785
	<u>298,600,257</u>	<u>236,236,804</u>
NOTE 15		
Trade & Other Payable		
Trade Payable (Note 15.1)	374,200,442	349,452,232
Other payable (Note 15.2)	33,332,608	24,404,602
Accrued Expenses	28,295,114	39,072,977
	<u>435,828,164</u>	<u>412,929,810</u>
NOTE 15.1		
Trade Payable		
Gross trade creditors	376,117,747	351,261,751
Supplier advances	(1,917,305)	(1,809,519)
	<u>374,200,442</u>	<u>349,452,232</u>
NOTE 15.2	2017 Rs:	2016 Rs:
Other Payable		
Ministry of T&R Ind.Development	6,571,317	6,571,317
Other Creditors	14,986,137	5,902,897
Refundable Tender Deposit & Other Deposit	872,000	812,000
Advanced Received	-	58,200
Unidentified receipts	65,455	65,345
PAYE	1,665,425	1,664,637
Staff Creditors	4,172,275	4,330,206
Benevolent Fund	5,000,000	5,000,000
	<u>33,332,608</u>	<u>24,404,602</u>
NOTE 16-BANK OVERDRAFT	2017 Rs:	2016 Rs:
P/B First City - 046-1003-6-0387264	7,918,464	4,592,300
BOC Corporate - 2758815	10,517,744	5,387,166
BOC Corporate - 2026591	7,237,632	-
P/B Battaramulla - 208-1001-2-0387264	-	-
BOC Taprobane - 2026716	2,407,292	-
BOC Taprobane \$ - 72065536	-	-
P/B Taplace - 004-1001-5-0210870	986,112	986,112
	<u>29,067,244</u>	<u>10,965,578</u>

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF
FINANCIAL POSITION - PROJECT

As at 31st December 2017

	Note	2,017 LKR	2016 LKR
ASSETS			
Property, Plant & Equipment		63,037,977	63,037,977
Non-current assets		63,037,977	63,037,977
Inventory	06	1,816,964	852,112
Trade Debtors & Other Receivables	07	20,308,196	15,978,104
Cash & Cash Equivalents	08	254,522	1,775,735
Current assets		22,379,682	18,605,950
TOTAL ASSETS		85,417,659	81,643,927
EQUITY & LIABILITIES			
CAPITAL & RESERVES			
Revaluation Reserve		21,164,824	21,164,824
Grants Received		41,951,172	41,951,172
Retained earning		(46,969,050)	(44,526,865)
Total capital & reserves		16,146,946	18,589,131
Other Liabilities	09	2,035,135	2,035,135
Non-current liabilities		2,035,135	2,035,135
Creditors and Accruals	09	67,235,578	61,019,662
Current liabilities		67,235,578	61,019,662
TOTAL EQUITY & LIABILITIES		85,417,659	81,643,927

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF
COMPREHENSIVE INCOME - PROJECT

For the year ended 31st December 2017

	Note	2017 LKR	2016 LKR
Revenue		6,733,617	4,032,766
Less :- Cost of Sales	02	(4,628,327)	(3,946,794)
GROSS PROFIT/(LOSS)		2,105,290	85,972
Other Income		-	-
Less:- Expenditure			
Administrative Expenses	03	(4,276,101)	(4,992,915)
Distribution Costs	04	(218,251)	(172,128)
Operating Profit/ (Loss) Before Finance Expenses		(2,389,062)	(5,079,071)
Less :- Finance Costs	05	(53,123)	(2,204)
Net Profit/(Loss) Before Tax		(2,442,185)	(5,081,275)
Less:- Taxation		-	-
Net Profit/(Loss) After Tax		(2,442,185)	(5,081,275)

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF
CHANGES IN EQUITY - PROJECT

For the year ended 31st December 2017

	STATED CAPITAL LKR	CAPITAL RESERVES LKR	REVALUATION RESERVES LKR	GRANT LKR	PROFIT & LOSS LKR	PRIOR YEAR ADJUSTMENT LKR	TOTAL LKR
BALANCE AS AT 1 ST JANUARY 2016	-	-	21,164,824	41,951,172	(39,445,590)	-	23,670,406
PROFIT FOR THE YEAR	-	-	-	-	(5,081,275)	-	(5,081,275)
OTHER COMPREHENSIVE INCOME FOR THE PRIOR YEAR ADJUSTMENT	-	-	-	-	-	-	-
BALANCE AS AT 31ST DECEMBER 2016	-	-	21,164,824	41,951,172	(44,526,865)	-	18,589,131
BALANCE AS AT 1 ST JANUARY 2017	-	-	21,164,824	41,951,172	(44,526,865)	-	18,589,131
PROFIT FOR THE YEAR	-	-	-	-	(2,442,185)	-	(2,442,185)
OTHER COMPREHENSIVE INCOME FOR THE PRIOR YEAR ADJUSTMENT	-	-	-	-	-	-	-
BALANCE AS AT 31ST DECEMBER 2017	-	-	21,164,824	41,951,172	(46,969,050)	-	16,146,946

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF
CASH FLOWS- Project

For the year ended 31st December 2017

	2,017	2,016
	LKR	LKR
CASH FLOWS FROM OPERATING ACTIVITIES		
NET PROFIT/ LOSS AFTER TAX EXPENSES	(2,442,185)	(5,081,275)
ADJUSTED FOR		
VRS	-	-
Depreciation	-	-
Amortization	-	-
Retirement Benefit Obligations	-	-
Interest expenses	-	-
Prior Year Adjustment	-	-
Deffered Revenue Rent & Revaluation	-	-
Operating Profit/Loss Before Working Capital Changes	(2,442,185)	(5,081,275)
CHANGES IN		
Inventories	(964,852)	(56,020)
Trade & Other Receivables	(4,330,092)	(2,067,735)
Trade & Other Payables	6,215,916	6,970,360
Tax Liabilities	-	-
	(1,521,213)	(234,671)
(-) VRS Paid	-	-
(-) Gratuity Paid	-	-
(-) Interest Paid	-	-
(+) Government Grant Received	-	-
CASH FLOW FROM OPERATING ACTIVITIES	(1,521,213)	(234,671)
CASH FLOW FROM INVESTING ACTIVITIES		
Realization Of Investment	-	-
Purchase Of Property,Plant & Equipment	-	-
Net.Cash Flows Used In Investing Activities	-	-
CASH FLOW FROM FINANCING ACTIVITIES		
Loan obtained	-	-
Loan Repayment	-	-
Net.Cash Flows Used In Financing Activities	-	-
Net Increase/Decrease In Cash & Cash Equivalents	(1,521,213)	(234,671)
Cash & Cash Equivalents At The Beginning Of The Year	1,775,735	2,010,405
Cash & Cash Equivalents At The End Of The Year	254,522	1,775,734
Bank Overdraft	-	-
Cash In Hand & At Bank	254,523	1,775,735
	254,523	1,775,735

NOTE 02-COST OF SALES	2017	2016
	LKR	LKR
Opening stock	400,085	331,272
Add: Good Transfers	5,735,597	4,015,607
	6,135,682	4,346,879
Less: Closing Stock	(1,507,355)	(400,085)
	4,628,327	3,946,794
 NOTE 03-ADMINISTRATIVE EXPENSES		
Salaries & Allowances	1,900,511	2,445,675
Incentive & Overtime	128,442	60,698
E.P.F & E.T.F	254,156	282,888
Electricity	170,207	158,309
water	44,054	40,135
Staff Welfare	127,454	93,051
Security	1,133,240	1,196,656
Postage & Telephone	26,758	8,204
Medical	19,715	255,000
Printing	6,283	16,280
Transport	261,600	204,900
Cleaning	203,681	231,120
	4,276,101	4,992,915
 NOTE 04-DISTRIBUTION COST		
R/M - Building	94,274	55,670
Travelling	123,977	116,458
	218,251	172,128
 NOTE 05-FINANCE COST		
Bank Charges	53,123	2,204
	53,123	2,204

NOTES TO THE FINANCIAL STATEMENTS

	2017	2016
	LKR	LKR
<u>NOTE 06-STOCKS</u>		
Raw Material	309,609	452,027
Finished goods	1,507,355	400,085
	1,816,964	852,112
<u>NOTE 07-TRADE DEBTORS & OTHER RECEIVABLES</u>		
Advance	413,474	304,854
Trade Debtors - Project Katubadda	7,816,136	3,594,664
Security Deposit	76,022	76,022
Retention Money	12,002,564	12,002,564
	20,308,196	15,978,104
<u>NOTE 08-CASH AT BANK & CASH EQUIVALENTS</u>		
Project Katubadda A/C No 313-1001-5-3657002	73,414	1,594,626
Project Keselwatta A/C No 313-1001-2-3657008	181,109	181,109
Petty Cash- Katubedda	-	-
Project bag center	-	-
	254,523	1,775,735
<u>NOTE 09-CREDITORS & ACCRUALS</u>		
Accrued Charges - Project - Katubadda	199,232	298,735
Special Grant	25,467,530	25,467,530
Project C/A	41,568,815	35,253,396
	67,235,577	61,019,662

SRI LANKA HANDICRAFTS BOARD
Manufacturing Account - Project Division
For the year ended 31st December 2017

	Note	2017 LKR	2016 LKR
RAW MATERIALS			
Opening Stock		452,027	464,820
Purchases		<u>2,712,576</u>	<u>930,278</u>
		3,164,603	1,395,098
Less			
Stock as at 31/12/2017		<u>(309,609)</u>	<u>(452,027)</u>
		2,854,994	943,071
ADD			
Direct Expenses		<u>574,230</u>	<u>517,943</u>
Prime Cost		3,429,224	1,461,015
ADD			
Factory Overheads	01	<u>2,306,373</u>	<u>2,554,592</u>
		5,735,597	4,015,607
Add: Opening WIP		-	-
Less: Closing WIP		-	-
		<u>5,735,597</u>	<u>4,015,607</u>

NOTE 01-FACTORY OVERHEAD	2017	2016
	LKR	LKR
Salary	1,267,007	1,630,449
E.P.F & E.T.F	169,438	188,592
Electricity	255,311	230,320
Repair & Main. -Machinery		-
Incentive	85,628	31,798
Water	29,369	26,757
Staff Welfare	84,970	62,034
Printing Stationarey	3,971	
Postage & Telephone	17,839	16,323
Cleanning service charges	135,788	154,080
Transport	174,400	136,600
Travelling	82,652	77,639
	2,306,373	2,554,592

NOTE 2.5.1**Current Financial Position- Ape Gama**

As at 31st December 2017

	Note ^g	2017 LKR	2016 LKR
ASSETS			
Property, Plant & Equipment		30,580,126	30,580,126
Non-current assets		30,580,126	30,580,126
Inventories			
Trade Deb. & Other Receivables		(16,950)	(16,950)
Current assets		(16,950)	(16,950)
Total assets		30,563,176	30,563,176
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Retained earning		(8,452,980)	(8,452,980)
Total capital & reserves		(8,452,980)	(8,452,980)
Tax Liabilities		4,568,835	4,568,836
Non-current liabilities		4,568,836	4,568,836
Creditors and Accruals		34,447,321	34,447,321
Current liabilities		34,447,321	34,447,321
Total equity & liabilities		30,563,176	30,563,177

NOTE 2.6.1**CURRENT FINANCIAL POSITION - CRAFT TRAINING**

As at 31st December 2017

	2017
	LKR
ASSETS	
Property, Plant & Equipment	46,298,422
Non-current assets	46,298,422
Inventories	
Trade Deb. & Other Receivables	31,140,299
Cash & Cash Equivalents	31,177
Current assets	31,171,476
Total assets	77,469,898
EQUITY AND LIABILITIES	
CAPITAL AND RESERVES	
Stated Capital	
Capital Reserves	814,419
Revaluation Reserves	9,086,454
Grants Received	55,336,829
Profit & Loss	(17,524,970)
Total capital & reserves	47,712,732
Retirement Benefit Obligations	-
Deferred Tax Liabilities	12,345,384
Loan	
Non-current liabilities	12,345,384
Creditors and Accruals	14,475,754
Bank Overdraft	2,936,028
Current liabilities	17,411,782
Total equity & liabilities	77,469,898

The Financial statements are in compliance with the requirements of the LKAS.

Audit Report



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 தேசிய கணக்காய்வு அலுவலகம்
 NATIONAL AUDIT OFFICE



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 எனது இல. }
 My No. }

TCM/A/SLHB/98/2017/FA

ඔබේ අංකය
 உமது இல. }
 Your No. }

දිනය
 திகதி }
 Date }

24 January 2019

The Chairmen,
 Sri Lanka Handicrafts Board

Report of the Auditor General on the Financial Statements of the Sri Lanka Handicrafts Board for the year ended 31 December 2017 in terms of Section 14 (2)(c) of the Financial Act No.38 of 1971.

The audit of financial statements of the Sri Lanka Handicrafts Board for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity 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 the Section 13(1) of the Finance Act, No.38 of 1971 and Section 64(3) of the National Crafts Council and allied Institution Act No,35 of 1982. My comments and observations which I consider should be published with the Annual Report of the Board 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 Board on 12 October 2018.

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.

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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 consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 -1810). 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 Board'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 Board'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 financial statements. 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.

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

1.4 Basis for Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial position of the Sri Lanka Handicraft Board as at 31 December 2017 and its financial performance and its cash flows for the year then ended do not give a true and fair view of the affairs of the Board in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standard - 16

The following observations are made.

- (a) Even though, the total value of plant and machinery existed in the Katubedda and Keselwatta Projects belonged to the Board had been assessed at Rs.14,639,740 and brought to accounts during the year 2016, action had not been taken to depreciate such assets from the date of revaluation up to the year under review in terms of accounting standard 16.
- (b) Even though, Property, Plant and Equipment should be disclosed in the financial statements by a separate note in terms of paragraph 73(f) of the standard such disclosures had not been made in respect of fixed assets totalling Rs.63,037,977, in the project Division at Katubedda of the Board.



2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Instead of debiting the audit fees of Rs.924,194 paid during the year under review in respect of the previous year to the audit fees payable account, it had been posted as an expenditure of the year under review. Similarly, a sum of Rs.863,669 irrelevant to the audit fees had been posted as audit fees and the audit fees payable by a journal entry and as a result, audit fees of the year under review and the audit fees payable accounts had been overstated by Rs.1,787,863. A provision for audit fees for the year under review had also not been made.
- (b)
 - (i) Rent income of Rs.800,029 received for the year 2016 from the building rented out to a private company on rent basis and a sum of Rs.133,890 recovered as its electricity charges had been brought to accounts as rent income of the year under review and as such, the year's rent income had been over accounted by Rs.933,919.
 - (ii) As the relevant company had not included the Value Added Tax (VAT) when paying rent for the year under review, the Board had provided a sum of Rs.1,385,905 as VAT on that income.
- (c) As provision for economic service charges of 0.5 per cent of the total income of the Board had not been made for the year under review, the economic service charges payable had been under accounted by Rs.3,108,214.
- (d) An advance of Rs.1,000,000 paid in December 2017 for the purchase of T-shirts from a private company by the Board had been debited to the creditors account, instead of being debited to the advance account and as such the creditors account and the advance account had been understated by that amount in the financial statements as at 31 December 2017.



- (e) According to the rent agreement of the Katunayaka Showroom, the total rent payable by the Board for the year 2017 amounted to Rs.25,146,620 but according to the financial statements it was stated as Rs.28,160,340, thus overstating the rent expenditure by Rs.3,013,720. Even though a concession fee on the basis of sales of the showroom, should have been paid monthly in terms of the rent agreement, such fee payable relevant to the month of December 2017 had not been identified and accounted.
- (f) According to the stock verification reports of the Board, the value of stock as at the end of the year under review at weighted average cost method amounted to Rs.435,641,415, but it had been stated at Rs.457,642,667 in the statement of financial position and as such the value of closing stock was overstated by Rs.22,001,252.
- (g) Even though a balance of Rs.1,010,827 had existed in a saving account as at 31 December 2017 it had not been disclosed by the Financial Statements.
- (h) Instead of being adjusted and corrected the stock shortages and excesses to the stock account, a sum of Rs.85,854,835 had been adjusted through the suspense account.

2.2.3 Lack of Evidence for Audit

As evidence stated against the following items of accounts was not made available for audit, they could not be satisfactorily vouched or accepted in audit.



Item	Value	Evidence not made available for audit
	Rs.	
(a) Cash Book	37,818,555	25 related journal entries
(b) Cash in hand in 13 showrooms	4,673,263	Confirmation letters of cash in hand balances from showroom managers and evidence to substantiate in banking the money on the following day.
(c) Credit card Account and Sales Account	337,822,018	Approval for the journal entry and information to establish the correctness.
(d) Non-Trade Advances	5,120,760	Written evidence to check the schedule and the balance.
(e) Plant, Machinery and Equipment at Katubedda Project	10,645,350	Physical verification reports
(f) Light Engineering Training equipment at Panadura Keselwatta	3,988,500	Physical verification reports.
(g) Benevolent Fund – Current Account	2,500,000	Bank reconciliation statements and bank statements of the year 2017.



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(h)	Ministry of Rural Industries (Creditors)	6,571,317	Creditor's file and letters of confirmation
(i)	Deposit Receivable	17,834,050	Letters of confirmation.
(j)	Rent Receivable	1,133,557	Schedules, letters of confirmation evidence and detailed files.
(k)	Retention money- Katubedda)	12,002,564	Sufficient written evidence to establish the balance.
(l)	Trade Creditors	30,695,360	Creditors schedules and creditors files.
(m)	Stock in Trade (in 13 stores)	28,649,747	Stock verification reports to ensure the existence of stock physically.
(n)	Damaged Stock	19,851,107	Physical verification reports.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Of the total trade debtor balances as at the end of the year under review amounting to Rs.45,383,909, total balances less than 01 year, '01' to 3 years and above amounted to Rs.33,046,747, Rs.3,545,631 and Rs.8,791,531 respectively. Action had not been taken to recover those debts.



- (b) Of the total trade and other creditors amounting to Rs.376,117,747 as at the end of the year under review, balances totalling Rs.186,583,251, Rs.73,547,495, Rs.24,329,151 and Rs.91,657,850 had remained for less than 01 year, 1 to 2 years, 2 to 3 years and over 3 year respectively. Action had not been taken to pay and settle those outstanding loan balances.

2.4 Non-compliance with laws, rules, regulations and management decisions

Non-compliances with Laws, Rules, Regulations and management decisions observed in audit are as follows.

Reference to Laws, Rules, Regulations etc.	Non-compliance
(a) Section 21(1) of Chapter III of the Value Added Tax Act No.14 of 2002.	VAT returns on rent income of the year 2017 had not been sent to the Department of Inland Revenue.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
(i) Financial Regulations 231(i) and 237(b)	In making payments to suppliers by using 37 paid vouchers totalling Rs.3,207,503, invoices and goods received notes (GRN) had not been presented along with vouchers.



(ii) Financial Regulations 257 and 264

Payments totalling Rs.56,579,468 by using 312 paid vouchers had been made during the year under review without being certified individual vouchers and without a formal receipt. In making payment of Rs.23,692,235 by using 131 paid vouchers, orders for goods and goods received notes had not been presented along with vouchers.

(c) Public Enterprises Circular No.PED/12 of 02 June 2003 Section 4.2.6

Even though the performance report should be reviewed by the Board of Directors and it should be submitted to the Department of Public Enterprises and the Treasury before 30 days after the end of a quarter it had not been complied with.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Board for the year under review had resulted in a net profit of Rs.24,862,164 as compared with the net profit of Rs.3,917,020 for the preceding year, thus indicating an improvement of Rs.20,945,144 in the financial results of the year under review as compared with the financial result of the preceding year. Even though, the revenue had decreased by Rs.29,684,492 as compared with the preceding year, increase of Treasury grants for recurrent expenditure by Rs.25,000,000 and decrease of establishments and administrative expenses by Rs.24,063,991 had mainly attributed to this improvement.



In the analysis of financial results of the year under review and the preceding 4 years, net profits had generated from the year 2013 to 2014 and a net loss had sustained in the year 2015 but it had again become a net profit in the years 2016 and 2017. However, employees remuneration and depreciation on non-current assets had been adjusted to the financial results, the contribution of Rs.112,348,260 of the Board in the year 2013 had gradually increased annually up to Rs.162,199,937 in the year under review.

3.2 Analytical Financial Review

The current assets ratio of the Board for 4 years from 2014 to 2017 had indicated 1.41, 1.03, 0.96 and 0.89 respectively. The increasing percentage of current liabilities had been more than that of the increasing percentage of current assets had mainly attributed to decrease the current ratio. The quick assets ratio from 2014 to 2017 had been 0.36, 0.24, 0.23 and 0.24 respectively and current assets depicted a very large percentage of closing stock had caused to decline the quick assets ratio and it was observed that the short term liquidity position of the Board had been at a low level.

4. Operating Review

4.1 Performance

4.1.1 Planning

The following observations are made.

- (a) In terms of Public Finance Circular No.01/2014 of 17 February 2014, a corporate plan should be prepared at least for a period of 3 years, enabling to manage business activities with a short term and long term vision. However, the Board had prepared a corporate plan for a period of 01 year of 2017 and it had been approved on 08 December 2017.



- (b) According to the Section 5(2) of the Public Finance Circular No.01/2014 of 17 February 2014, the action plan should be prepared based on the Corporate Plan but the plan for the year 2017 had not been prepared based on the Corporate Plan. Provision for each objective and targets had not been included in the human resources development plan shown in the action plan prepared.

4.1.2 Operations and Review

In terms of Section 45 of the National Crafts Council and Allied Institutions Act No.35 of 1982, the following observations are made in the achievement of powers and functions of the Board.

- (a) Even though the local sales of handicrafts items in the year 2016 amounted to Rs.773,477,578, sale of those goods in the year under review amounted to Rs.721,155,156. Accordingly, it had dropped by Rs.52,322,422.
- (b) It was planned to reach a targeted sale of Rs.45,000,000 under special orders during the year under review but the actual sales amounted to Rs.26,419,508. As such, only 58.7 per cent of the target sales could be achieved.
- (c) A decreasing tendency was observed in purchasing manufactured goods from Local Handicrafts manufactures after 2013. The value of such purchases amounting to Rs.354,146,791 in the year 2016 had dropped up to Rs.341,162,863 in the year 2017 by Rs.12,983,928.
- (d) According to the action plan, it was planned to repair and open Nuwaraeliya and Matale showrooms, opening new 3 showrooms in Mirissa, Pasikuda and Jaffna areas, open 2 regional purchasing centres in the Northern and Eastern Provinces and to open 2 shops in 2 foreign countries for sales promotions. Nevertheless, such activities had not been fulfilled due to existing financial difficulties of the Board.



4.2 Management Activities

The following observations are made.

- (a) Due to non-payment within the specific periods, Value Added Tax amounting to Rs.3,786,954, Nation Building Tax amounting to Rs.24,834,476 and Economic Service charges amounting to Rs.19,646,612 had to be paid by the end of the year under review.
- (b) As the previous management of the Board had not maintained a proper financial management system, long terms loan of Rs.364,484,163 obtained from the Treasury and 2 state banks had to be repaid in the year under review. In addition, a short terms loan of Rs.175,449,133 had also been obtained during the year under review. Similarly, a sum of Rs.68,609,778 as the interest of these loans and a sum of Rs.1,430,334 as interest on overdrafts obtained in addition to that, had to be paid during the year under review.
- (c) The total rates payable to the Colombo Municipal Council as at 31 December 2017 in respect of the showroom at Thunmulla and Laksala Building at Colombo Fort amounting to Rs.3,381,840 and Rs.9,485,849 respectively. Even though, it was informed that those arrears of rates should be paid and if not paid, action would be taken to recover same in terms of the Municipal Council Ordinance, the management had not complied therewith.
- (d) Five inactive bank current accounts of the Board as at 31 December 2017 had existed. Of these, a total favourable balances of Rs.228,369 in 3 accounts an overdraft balance of Rs.986,112 in one account and a nil balance of another bank account had existed as at 31 December 2017. The management had not taken to close down those inactive bank current accounts.

- (e) A contract had been awarded to a private entity in the year 2014 for the modernization of Colombo Fort Laksala Building without being complied with the procurement procedure. According to a report issued by the Construction Industries Development Authority to the Board relating to this construction, it was stated that an overpayments totalling Rs.30,069,309 had been made to the contractor by the Board. Even though the Attorney General's Department had issued a letter of Demand on 02 June 2017 to recover this overpayment, payment of this money had been rejected by the contractor. This matter had been referred to the Attorney General's Department by now for taking future action.
- (f) Despite, the buildings at Katubedda carpentry project Division were being idle, buildings had been obtained on rent basis from another entity during the year under review to operate the Accounts Division and some other divisions of the Board. A sum of Rs.9,000,000 had been paid as building rent during the year under review therefore.

4.3 Operating Activities

The balance Textile and textile related products valued at Rs.789,574 unsold at the Trade fair held in the Thummulla showroom premises and the balance of T-shirts and other textile materials totalling Rs.303,500 unsold and sent to the Katubedda store had been stored in the Katubedda Store.

4.4 Transactions of contentious nature

According to the decision of the Cabinet of Ministers of 14 November 2012, the land and building, 01 acre and 30.6 purchase in extent where Galle Unawatuna Salusala Branch was located approval was granted to transfer legally to the Handicrafts Board. The Board had paid a sum of Rs.15,248,575 as the purchase consideration therefor to the Public Resources Management Corporation Ltd. on 12 December 2012. The purpose of acquisition of this land had not been finalised even by August 2018, the date of audit on legal grounds. This paid amount had been erroneously debited to the Fort Laksala Land Account by the Board.



4.5 Idle and Under -utilized Assets

The following observations are made.

- (a) As the training activities of carpenters had been stopped since the year 2011, the land, 2 acres and 21 purchase in extent located at No.282 Galle Road, Katubedda, Carpentry Training shop, 11,200 square feet in extent which could be trained 80 students at a time, and equipment fixed thereto, teaching equipment, timber store with 2090 square feet and 2 storied hostel with 4680 square feet in extent, consisting of 40 double beds had remained as idle assets for periods more than 6 years.
- (b) Light Engineering equipment, the total value of which amounted to Rs.3,988,500, two storied building where 30 students could be trained at a time, old building and a land, 01 rood an 2 purchase in extent belonged to the Panadura Keselwatta Light Engineering Training Institute had become idle as it had not been used for light Engineering Training for more than 8 years since 2010. A total sum of Rs.1,045,969 had to be paid as a security charge to protect those properties.

4.6 Court cases filed against the Board

As the payment for contracts undertaken by the previous management during the periods 2010 to 2014 and other payment had not been made appropriately, a total sum of Rs.672,342 had been paid as legal and lawyers' fees during the year under review for court cases filed against the Board.



4.7 Personnel Administration

The following observations are made.

- (a) In terms of cadre approval Letter No.DMS/G3/60/2 dated 21 December 2012 of the Department of Management Services, the approved cadre was 194, consisting of 127 permanent staff and 67 contract basis staff. The actual permanent cadre by the end of the year 2017 was 82 out of which 47 employees had been employed in posts not approved. The actual contract basis employees were 76 and it was observed that 21 employees of them had been engaged in posts not approved by the end of the year under review.
- (b) Showroom Managers for 7 showrooms out of 12, operated by the Board Island wise during the year under review had not been recruited on permanent basis and all responsibilities of those showrooms had been entrusted to the officers recruited on contract basis.

5. Sustainable Development

5.1 Attainment of Sustainable Development Goals and targets

Every Public, entity should act in accordance with the 2030 Agenda of the United Nations on Sustainable Development. The Sri Lanka Handicrafts Board was aware about how to perform its functions in respect of activities coming under the scope of the Board. The following matters were observed in that regard.

- (a) Provision made for the purchase of arts creations of the rural traditional Handicrafts creators and the actual expenditure incurred had dropped in the year 2017 as compared with that of the year 2016. As such, the expected purchases of the products made by local Artists had dropped under the achievement of Sustainable Development Goals and Targets.



- (b) According to the expected sustainable development targets, action should have been taken to increase the registered suppliers and active suppliers from whom purchase of goods were made by all divisions. However, a decrease of number of suppliers from whom goods were purchased during the year under review, was observed.

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

In terms of paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements should be presented to the Auditor General within 60 days after the closure of financial year but the financial statements for the year under review had been presented to audit only on 03 August 2018.

6.2 Procurement and Contract Process

6.2.1 Procurements

A contract had been awarded to a private entity for the supply and installation of Light Boards and Light Boxes inside and outside of the Thummulla showroom in the year 2016 for a sum of Rs.2,332,074. An agreement in terms of guideline 8.9.1(a) of the procurement guidelines had not been entered into with the contractor and action had not been taken to obtain a bid bond as well in terms of guideline 5.3.11.

6.3 Budgetary Control

The following observations are made.

- (a) Excesses totalling Rs.40,959,557 in 10 expenditure objects ranging from 31 to 469 per cent between the budgeted expenditure and the actual expenditure in the year under review had existed.



- (b) Even though, the Board had incurred a sum of Rs.2,227,093 relating to 2 capital expenditure objects during the year under review, provisions therefor had not been made in the budget.
- (c) In comparing the estimated sales income of the year under review, with the actual sales income, diminution of actual sales income of 6 sales outlets had ranged from Rs.4,967,251 to Rs.10,464,526 or 19 to 43 per cent.

6.4 Tabling the annual reports

In terms of paragraph 6.5.3 of the Public Enterprises Circular No.PED/12 of 02 June 2003, Annual reports with audited accounts should have been tabled in Parliament in tri Lingual within 150 days after the closure of financial year but action had not been taken to table the annual reports for the year 2015 and 2016 in Parliament.

7. Systems and Controls

Weaknesses in systems and controls observed in audit were brought to the attention of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

<u>Areas of systems an control</u>	<u>Observations</u>
(a) Accounting	<p>(i) Passing journal entries without proper control and approval and existence of journal entries without numbers.</p> <p>(ii) The trial balance and the financial statements not prepared through the computerized Accounting System and as a result of special ability to account transactions to the computerised accounting system back dating</p>



these transactions at present, there would be a risk of pre auditing account balances.

- (iii) Cash book not maintained in written form, non-posting corresponding ledger account relating to payments to the cash book, non-posting vouchers in sequence order.

(b) Stock Control

It had been taken about 7 months for the physical count of stock, goods in showrooms not sold but action not taken to modernize them.

(c) Personnel Administration

Sixty per cent of the staff of the Board recruited on contract basis and action had not been taken to get the cadre approved and to recruit them on periodical requirement.

(d) Marketing Management

Lesser attention was paid in respect of handicrafts products for which sales had dropped in the local market in the long run and foreign sales.

(e) Advances Control

The advance register maintained by the Board had not been maintained in compliance with Financial Regulations 371 and 372.

H.M.Gamini Wijesinghe
 Auditor General

