PERFORMANCE REPORT 2007

Department of Public Enterprises

Vision

"To be the apex body, which ensures good governance of Public Enterprises in Sri Lanka"

Mission

"Strengthening governance in Public Enterprises through best practices to optimize performance to safeguard the public interest"

Director General's Message

The Sri Lankan Economy under the "Mahinda Chinthana" paradigm has embarked on a new era of development. The State Owned Enterprises (SOE's) are being utilised as the catalyst in executing most of the development Project that the Government has undertaken.

The Department of Public Enterprises (PED) is entrusted with the role of ensuring better governance of the SOE's being the Government Portfolio of investments in order to enable optimized performance and thus a positive return on investment.

In 2007, PED while continuing with its traditional task of monitoring governance also was involved in the revival of defunct SOE's such as Hingurana Sugar Industries Ltd, and Kantale Sugar Industries Ltd and others. The PED also was actively involved in facilitating Private Public Partnership's an initiative under the Mahinda Chinthana.

2007 was a year of mixed fortunes, while some SOE's such as the State Banks, Bank of Ceylon, Peoples Bank, National Savings Bank, Ceylon Petroleum Corporation saw an increase in its profitability, the performance of the majority leaves much to be desired. It is acknowledged that SOE's while being afflicted with systemic inefficiencies, are faced with the dilemma of being commercially viable while implementing government policies that are favourable to the consumer at a cost to the SOE. As such measuring the performance of SOE's using the traditional yard stick of profitability does not suffice. It is required that a more broad based approach be adopted.

This is a challenge unique only to a public sector, portfolio manager such as the PED. In order to face this challenge better the PED reorganised itself into groups that were specialising in industry. It is envisaged that this will result in more focused and uniform approach in addressing the issues of similar SOE's in the same industry.

Considering the changes undergoing the Sri Lankan economy there is no doubt that the PED will be required to give a greater leadership to the SOE's to play a significant role in the development process.

The scope and the role of PED in the eyes of its stakeholders evolves continuously. The challenge is meeting the needs of these stakeholders with the limited resources available. Thus the reason for the PED to upgrade its Human resources to encompass a more multi skilled group of professionals with the ability to assist SOE's as Pricing, Asset Management, Risk analysis and etc.

The ultimate SOE is one that is commercially viable, has adopted best practices and can survive in the modern business environment and in short a Benchmark for the entire business sector both public and private.

It is definitely a challenge yet I am confident that it is one we can overcome in the future.

14th October 2008

Dr.B.M.S.Batagoda
Director General
Department of Public Enterprises

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Chapter 1

Department of Public Enterprises in 2007

Overview

The "Mahinda Chinthana 10 year horizon" has given priority for the development of public enterprises (PE) in the national development effort. The policy on Public Enterprises has been articulated in the Budget Speech 2006-

" ...Government does not believe that privatization is the only strategy for economic reforms. In fact we will not privatize State Owned Enterprises (SOEs) but will improve their performance through management reforms. Our enterprise reform will be ownership neutral. All SOEs should bring in dividend income. At the least they should not rely on the Treasury for funding. Therefore, all SOEs will be required to enter in to performance contracts with the Treasury..."

The government's development strategy therefore focuses on increasing productivity and efficiency of public enterprises. Public enterprises are to become viable entities and provide competition to their counterparts in the private sector while safeguarding the national interest as well as consumer welfare. In line with this policy, the Department of Public Enterprises (PED) of the Treasury facilitates the performance improvement of public enterprises.

As a step in this direction, the Department of Public Enterprises issued circular instructions to all public enterprises to improve their performance through management reforms by concentrating on the core business activities to become commercially viable entities. They are required to give emphasis to procurement efficiency, while ensuring transparency, accountability as well as implementing required pricing reforms and management improvement in this transformation. The commercial public enterprises need to be able to contribute to the consolidated fund on account of the capital contribution made by government, to these enterprises.

The role of the Public Enterprises Department to improve the performance of public enterprises has been strengthened:

- Performance review of Public Enterprises to ensure efficiency and effective utilization of resources towards achieving their goals and objectives.
- Provide guidelines to public enterprises on matters relating to financial management, accounting, financial reporting, human resource management operational and government issues with a view to enforce financial discipline and compliance .
- Enforce the provisions of Part II of the Finance Act No 38 of 1971 containing provisions applicable to Public Enterprises and the Public Enterprises guidelines for good governance.
- Facilitate the Committee on Public Enterprises (COPE) to carryout their oversight functions on Public Enterprises by submitting performance review reports on Public Enterprises and attending related review meetings.
- Assist in the reform process of public enterprises.

Financial Sector Monitoring Committee (FSMC) and Financial Management Cell (FMC) were set up to strengthen the monitoring of state banking and financial institutions by the Ministry of Finance and Planning. This forum also addresses issues raised at the review meetings of the COPE and by the Auditor General.

In line with Government's declared policy to move away from privatization, the Cabinet of Ministers in July 2007 decided to repeal the Public Enterprises Reform Act No 1 of 1996 and assign all work handled by the Public Enterprise Reform Commission (PERC) including post privatization monitoring, to the Department of Public Enterprises of the Treasury.

Recognizing public needs, the Government also proceeded to established new Public Enterprises such as the State Trading (Co-operative Wholesale) Company Limited, Paddy Marketing Board, Sri Lanka Savings Bank, Lankaputhra Development Bank, National Insurance Trust Fund and Mihin Lanka (Pvt) Limited to meet specific gaps in the economy.

Facilitating and Monitoring Measures

During the year 2007, the Department attended and provided related information at 20 meetings conducted by the Committee of Public Enterprises (COPE). Further, 17 meetings were held by the Financial Management Cell to review the performance of state owned financial institutions. A series of meetings were also held for the Chief Executive Offices and Chief Financial Officers of public enterprises to make them aware of government direction and policy, to be able to enhance their effectiveness. The PED under Fiscal Management Reform Programme (FMRP) organized several seminars to educate officials in public enterprises on the implications of the new Companies Act No 7 of 2007 and other new trends in Financial Management in the country. The department continued to facilitate Treasury representatives in PEs to perform their role more effectively, through a process of continuous dialogue.

Thus, the activities of the Department of Public Enterprises include follows.

1. Implementation of Code of Best Practice in Corporate Governance for Public Enterprises.
2. Examination of Corporate Plans, Budgets, Annual Reports, Accounts and Quarterly Performance Reports of Public Enterprises.
3. Recommend budgetary allocations to Statutory Boards on the basis of the above examination and also for other Public Enterprises, where applicable to the Department of National Budget.
4. Progress review and performance monitoring of the Public Enterprises and follow up actions.
5. Review cash flows of Statutory Boards and other Public Enterprises and recommend appropriate cash releases to the Department of Treasury Operations.
6. Impose Special levies on commercial corporations, recommended payments of dividends by government owned companies and follow up actions.
7. Servicing the parliamentary committee on Public Enterprises (COPE), attending COPE review meetings and follow up actions.
8. Issue guide lines to Public Enterprises on accounting policies, financial management and other operational issues.
9. Administration of Provisions of Part II of Finance Act No. 38 of 1971 which include;
    - Approval of capital expenditure
    - Appropriation of net revenue surplus
    - Authorization of investments of cash surplus
    - Fixing borrowing limits
    - Impose of special levies
10. Nominations/ Appointments of Members including Treasury Representatives to the Boards of Statutory Boards, Commercial Corporations and Government Owned Companies.
11. Maintain a data base of Public Enterprises and publish summarized performance reports.
12. Assist in the restructuring of Public Enterprises and attending matters relating to post privatization issues.
13. Attend matters relating to the role of "Golden Shareholder" of Plantation companies.

14. Appointments of proxies to attend Annual General Meetings of Government owned companies.
15. Preparation of observations Cabinet Memoranda on matters relating to Public Enterprises.
16. Follow up actions on Auditor General Reports/Management Letters relating to the accounts of Public Enterprises.
17. Advise/ Assist in preparation of corporate plans, System Manuals and other relevant documents of Public Enterprises.
18. Conduct work shops/ Seminars on matters relating to Public Enterprises.
19. Co-ordinate activities of other Treasury Departments on matters relating to Public Enterprises.
20. Advise Treasury Representatives on the Boards of Public Enterprises on matters relating to financial aspects of Public Enterprises.
21. Grant authority for purchasing of vehicles, foreign travels by using domestic funds, open new bank accounts and investment of surplus funds.

Human Resource Management

Staff Strength

Table 1.1

Cadre Position as at 31st December 2007

Designation	Approved Cadre	Existing Cadre	Vacant
Director General	1	1	0
Additional Director General	1	0	1
Directors	4	3	1
Deputy Directors	8	4	4
Assistant Director	6	7	0
Financial Analyst	2	0	2
Administration Officer	1	0	1
Research Assistant	11	6	5
Management Assistant	21	17	4
Data Entry Operators	5	2	3
Drivers	4	3	1
K.K.S.	6	5	1
Total	**70**	**48**	**22**

Source : Department of Public Enterprises

In the year 2007, two officers from Central Bank of Sri Lanka were assigned to the Financial Management Cell of this Department, which was established to closely monitor the performance of State Banks.

During this period following number of employees in each category were transferred from and to the Department of Public Enterprises.

Table 1.2

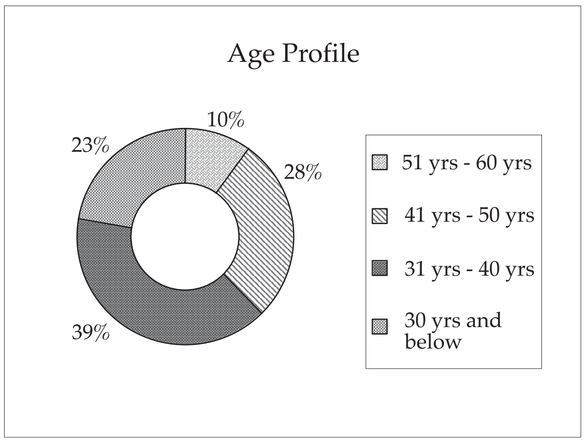
Transfers

Designation	Number of workers Transferred to PED	Transferred from PED
Deputy Directors	3	3
Assistant Directors	2	1
Research Assistants	1	2
Management Assistants	6	2
Drivers	2	2
K.K.S.	1	3

Source : Department of Public Enterprises

Chart 1.1

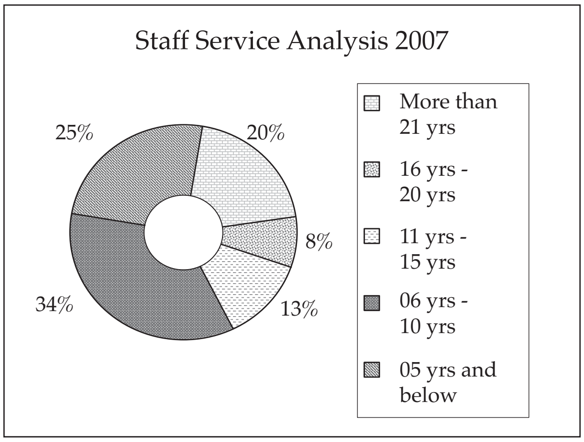
Staff Age Profile 2007



The 62% of the staff of Department of Public Enterprises falls within the age group of 31 years - 40 years and 30 yrs and below.

Chart 1.2

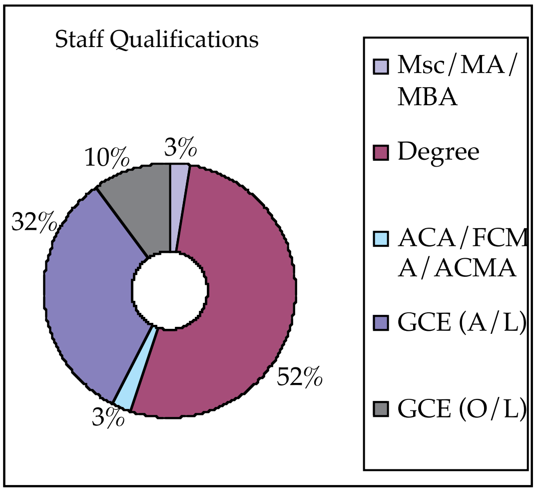
Staff Service Analysis 2007



We have an experienced and professional staff to perform the duties in the Department and 65% of them have the experience in Public service for more than 08 years.

Chart 1.3

Profile of Staff Qualifications 2007



All the graduates are degrees holders in Business Management, Business Administration, Accountancy, Commerce or Economics. Among them three staff officers are members of ICASL and one staff officer is a member of CIMA.

The human recourses development is an investment to increase the skills of the employees. We are very concerned about training our staff to give them opportunity to acquire necessary skills to perform their duties efficiently and effectively. Therefore we have trained our staff in locally recognized institutions as well as in foreign institutions.

Table 1.3

Training (Seminars / Courses/ Workshops) attended in the year 2007

	Title of the Training	Designation of the participant	Duration	Name
Local	Higher Level English Course - SLIDA	Management Assistant	03 months	Ms. D.B.R.Jayawardana
	Diploma in Financial & Management Accounting - NIBM	Management Assistant	06 months	Ms.K.G.A.Manushka Perera Ms.D.N.K.Ranasinghe
	Training Programme on Practical Communicational Skills Development in English for management Assistants	Management Assistants	05 Months	Mr. Janaka Kulathunga Ms. M.D.Sriyalatha
	Diploma in English for Professionals	Management Assistant	05 Months	Ms.A.A.S.K.K.Dharmasena
Foreign	Completion of Masters Degree	Assistant Director	1 ° years - USA	Ms. Vishaka Amarasekara
	Industry Visit	Director	02 weeks - India	Ms.S.P.M.K.Siriwardana
	Financial Management & Auditing	Assistant Director	02 Weeks - India	Mr. G.A.Ajith Priyantha
	Financial Management & Auditing	Research Assistant	02 Weeks - India	Mr. G.P.C.Perera
	Budgeting in Public Sector	Assistant Director	02 Weeks- China	Ms. I.T.K.Illangamugali
	Financial Fragility & Banking Crisis	Assistant Director	02 Weeks - Singapore	Ms. I.T.K.Illangamugali
	Banking & Finance	Assistant Director	01Month - India	Mr. H.N.S.Saman Kumara
	Financial Soundness Indicators	Research Assistant	2 weeks - Singapore	Ms. P.G.P.Rasanjalie

Source : Department of Public Enterprises

Chapter 2

Facilitating and Monitoring Measures

Committee on Public Enterprises (COPE)

The Department of Public Enterprises continues to service the Committee on Public Enterprises which has been constituted in terms of the Standing Orders of the Parliament to ensure the observance of financial discipline in public enterprises. The duty of the Committee is to report to Parliament on accounts examined, budgets and estimates, financial procedures, performance and management of Corporations Statutory Boards and Government Owned Companies.

The Public Enterprises Department took priority measures to monitor the actions taken by public enterprises on the issues highlighted and deficiencies identified by the COPE. During year 2007 the COPE examined more than 50 public enterprises. The Department facilitated this process briefing the COPE on the performance of these institutions. The PED also facilitated the institutions to comply with the all government regulations and to follow up actions on recommendations by the COPE. Special attention was given to encourage institutions to update their corporate plans and action plans in order to the set objectives. Issues identified by the Auditor General's reports were also frequently reviewed.

The COPE has issued two review reports highlighting issues of several Public Enterprises including Central Bank of Sri Lanka, Bank of Ceylon, People's Bank, National Savings Bank, State Mortgage and Investment Bank, Development Lotteries Board, National Lotteries Board, Employees Trust Fund Board, Securities and Exchange Commission and Ruhuna Development Bank.

The PED followed up with these institutions to comply with these COPE recommendations. In this regard the PED facilitated the Presidential Committee appointed under the Hon. Laxman Jayakody to follow up the implementations of COPE recommendations. The Presidential Committee on COPE has reviewed the implementation on COPE recommendations of Central Bank of Sri Lanka, Bank of Ceylon, People's Bank, National Savings Bank, State Mortgage and Investment Bank, Development Lotteries Board, National Lotteries Board, Employees Trust Fund Board, Securities and Exchange Commission and Ruhuna Development Bank.

Monitoring measures

Financial Sector Monitoring Committee (FSMC) and Financial Management Cell (FMC) were set up to strengthen the monitoring of state banking and financial institutions by the Ministry of Finance and Planning. This forum also addresses issues raised at the review meetings of the COPE and by the Auditor General.

During the year 2007, the Department attended and provided related information at 50 meetings conducted by the Committee of Public Enterprises (COPE). Further, 17 meetings were held by the Financial Management Cell to review the performance of state owned financial institutions.

A series of meetings were also held for the Chief Executive Offices and Chief Financial Officers of public enterprises to make them aware of government direction and policy, to be able to enhance their effectiveness. The PED under FMRP organized several seminars to educate officials in public enterprises on the implications of the new Companies Act No 7 of 2007 and other new trends in Financial Management in the country. The department continued to facilitate Treasury representatives in PEs to perform their role more effectively, through a process of continuous dialogue.

Box 1

Financial Sector Monitoring Committee (FSMC) and Financial Management Cell (FMC)

Public sector financial institutions have become increasingly important for the management of macro-economic environment and for the overall performance of the economy. Therefore, the Ministry of Finance and Planning felt the need for a strong monitoring mechanism to facilitate this sector. Financial Sector Monitoring Committee (FSMC) was established with a view to closely monitor and supervise the Financial Institutions coming under the Ministry of Finance and planning more efficiently. This committee aims at monitoring and reviewing the performance of financial institution individually in order to identify the problems early and provide solutions. It is envisaged that this proactive approach will enhance the performance of the financial sector institutions.

The FSMC consists of representatives from Ministry of Finance and Planning, Central Bank of Sri Lanka, Strategic Enterprises Management Agency (SEMA), Chairmen and Chief Executive Officers of respective financial institutions including banks and chaired by the Secretary to the Treasury. There are 22 institutions coming under the purview of FSMC including People's Bank, Bank of Ceylon, Housing Development Finance Corporation Bank, State Mortgage and Investment Bank, Lankaputhra Development Bank, National Insurance Trust Fund, National Development Trust Fund, National Lotteries Board, Development Lotteries Board and Six Regional Development Banks.

A Financial Management Cell (FMC) has been established in the Department of Public Enterprises (PED) to function as the secretariat of the Financial Sector Monitoring Committee. The FMC has been supported by experienced officers in the field drawn from the PED and officers from Central Bank of Sri Lanka. The FMC is responsible to review the performance and related issues of the financial sector institutions and report to the FSMC. The FMC reviews quarterly performance reports, Audit findings, Annual Reports & Accounts and COPE Reports of these institutions.

During the year 2007, seventeen (17) meetings of FSMC were held and took corrective measures. Based on the success of this initiative, it was decided to have monthly meetings of Chairmen and Chief Executive Officers in 2008 to review the financial sector. Thereby respective institutions were required to update Corporate Plans, Action Plans and Budget, to ensure the submission of annual accounts within the stipulated time. These review meetings were resulted in to receive clean reports of Auditor General for all institution and to clear COPE's outstanding issues.

Providing policy guidance

Public Enterprises use several governance systems to maximize their performance, including:

1. The government appoints Board of Directors / public employees to manage the enterprises creating a performance contract.
2. The government has entered into a management contract with private firms which manage the enterprise.
3. The government enters into regulatory contracts with the owners of private, regulated monopoly.

Various government institutions have been set up to monitor the performance of PEs i.e. Parliament, Courts, ministries and departments, special bodies etc. They exercise their monitory measures on PEs

- directly, by taking entrepreneurial decisions, for instance on prices, investments and financing deficits.
- indirectly, ex-ante, by appointing the Board to ensure the effective control
- indirectly, ex-post, by financial and managerial auditing
- indirectly, ex-post, by criticisms and inquiries as well as adjudication on disputes with third parties, e.g consumers

The Department has been carrying out its mission in the following ways. During the year the Department issued four (04) Circulars with a view to improve corporate governance and to provide continuous policy guidance and to improve formulation of budgets, preparation of annual reports and accounts and related matters to ensure compliance of statutes, guidelines and accounting standards. The Department processed one hundred and ten (110) Cabinet Papers on policy issues relating to Public Enterprises and prepared observations for the Hon. Minister of Finance and Planning to submit to the Cabinet of Ministers.

Enforcing the provisions of part II of the Finance Act No. 38 of 1971

Necessary approvals were granted in accordance with the provisions of Finance Act No.38 of 1971 for capital expenditure, borrowing limits, appropriation of net surpluses and investment of cash surplus. The department also facilitated the compliance of public enterprises guidelines for good governance.

During the year the Department was able to analyze and prepare summarized performance reports for the review and follow-up actions based on documents pertaining to corporate plans, budgets, annual reports and accounts and quarterly reports for two hundred and thirty four (234) public enterprises. The Budget estimates for one hundred and eighteen (118) enterprises were reviewed during the year and recommended for budgetary allocation for the year 2008 and cash releases were recommended for the year 2007 on the basis of their cash flows.

Department also actively coordinated with the functions of the SEMA and PERC during the year by attending regular meetings and providing necessary information.

The Department published a financial performance report of commercial enterprises for the year 2006, on containing the mission, major activities and performance trend for the year 2003 to 2006 and 2007 budgeted figures together with brief comments on the performance in respect of each enterprise.

Companies Act of No. 7 of 2007

The new Companies Act No 07 of 2007 came in to effect on the 3rd May 2007 and it replaced the Companies Act No 17 of 1982. The new Act has simplified several procedures including the provisions for the incorporation of a company, which can adopt the model articles of the Act or draft their own articles. The new Act holds board of directors more responsible and removes some of the barriers of the previous Act. This is expected to improve the performance of both public and private enterprises.

Major changes introduced into the Companies Act (see Box 2) are linked with the Government Owned Companies and special provisions has been made to safeguard the National Interest giving more power to Secretary to the Treasury to establish one shareholder companies and to appoint one proxy for every 10 percent share holding and to appoint 3 proxies to Golden share companies (Eg.Plantation companies which are having Golden shares). Secretary to the Treasury has more power to safeguard state owned companies on this provision. Treasury has appointed Representatives (Board Members) to the government owned Companies and Associate Companies, and Treasury Representatives are required play a major role in the boards of such companies to safe guard the Treasury interest and to maximize return to the Treasury while making a positive contribution to the National Economy. Secretary to the Treasury undertakes to implement practices of good governance in state owned companies through the Department of Public Enterprises.

The Department of Public Enterprises conducted several awareness programs to introduce the new Companies Act requirements to the Treasury Representatives in order to equip them with the skills necessary to be catalysts in enacting good boardroom practices in improving good governance. Further, the Department of Public Enterprises issued PED Circular No 49 stating salient features of the new Companies Act including the directors' responsibility as a Board of Director.

Department of Public Enterprises has planned to have further awareness programs for the benefit of the Treasury Representatives and the top management of the Government owned companies and the officers who are working in Public Enterprises. The Treasury must ensure that Government Owned Companies are complying with the provisions in the new Companies Act and to make use of Public resources and providing goods and services to the Public on reasonable prices providing reasonable return to the government and more job opportunities fulfilling social responsibilities to the general public.

Accordingly, PED is formulating a new strategy to be adopted for monitoring PEs in order to maximize performance. This Department should seem to be a "facilitator" to the viability of PEs rather than traditional "controller" of the business and operational activities of them. For this purpose, PED will issue general policy procedures, directions which will not affect operations of PEs in short run. PEs are encouraged to formulate their targets in respect of revenue, expenditure, human resource management and other operational areas. In this excise, the PEs, as articulated in the government policy on state owned enterprises, are required to enter in to performance and management contracts with the treasury in order to transfer some amount as dividend on its investments or to avoid of relieving on the national budget for the operational expenses.

Box 2

Some salient features of the new Companies Act No. 7 of 2007

〈 **Re Registration**

Under section 485 of the Act, an existing company is deemed to be incorporated under the new Act within 12 months from the 03rd of May 2007, which is the date on which the new act came in to operation, and obtain a new number. The company number must be used in all documents of the company.

〈 **Articles of Association**

The new Act does not have a document called the Memorandum of Association and it is only the Articles of Association, which applies in the case of existing companies, the old memorandum would be deemed to form part of the Articles with effect from 03rd May 2007. Further Act provides for the establishment of general business purpose companies, which would have no restrictions on the types of business it could carry out. However, there is no prohibition on the inclusion of objects in the Articles.

〈 **Names of the Companies**

A Private Limited Company could in addition to the words ' (Private Limited' use the abbreviated form of '(Pvt) Ltd'. A public company could use the term 'Ltd' instead of the current 'Limited' at the end of its name. In the case of a Public Quoted Company, the name should end with either the words 'Public Limited Company' or 'PLC'.

〈 **Capital**

Under the new Act, there is no concept of a par value of a share. The total amount received or due and payable to the Company in respect to the issue of shares, forms the stated capital of the company. Section 52 of the Act requires the Board to resolve that in its opinion the consideration on an issue of shares is fair and reasonable to the company and to all existing shareholders. Section 64 of the Act provides that a company could buy- back its shares with the board consent. The value should be fair and reasonable to the both parties.

〈 **Distribution and Solvency Test**

A distribution is the transfer of money or property of the company, other than shares, for the benefit of a shareholder. This includes the payment of dividends, any repurchase or redemption of shares and any reduction of Stated Capital involving the return of money to share holders.

A distribution must be authorized by the Board, and provide provision in the Company's Articles provide otherwise, must be approved by the shareholders by Ordinary Resolution. The Board must also be satisfied that after the proposed 'Distribution' the company will satisfy the solvency test.

A company is deemed to have satisfied the solvency test if, a) it is able to pay its debts as they become due in the normal course of business, and b) the value of the Company's assets is greater than the value of its liabilities and its stated capital.

〈 **Potential Insolvency and Serious Loss of Capital**

Section 219 of the Act requires a Director who believes that the company is not able to pay its debts as they fall due, to immediately call a Board meeting to decide whether the company should continue or be wound up. This section has very serious consequences for Directors as far as creditors are concerned and it is important that the procedural requirements as well as the assessment of its ability to pay debts is done correctly by the

Box 2

Some salient features of the new Companies Act No. 7 of 2007 Contd. ..

Directors in a timely manner. Section 220 of the Act provides that if it appears to a Director that the net assets of the Company are less than half its stated capital, the Board should convene an Extraordinary General Meeting of the shareholders.

〈 **Directors Duties**
The new Act has given new powers to Directors. Similarly, it has also imposed additional obligations and also specifically set out certain duties, which were hitherto part of the Common Law and not specifically set out in the Act. The general duties of a director may be briefly listed as follows:

- 〈 To act in good faith and in the best interests of the Company (section 187)
- 〈 To comply with the Act and the Company's Articles of Association (section 188)
- 〈 Not to act in a manner which is reckless or grossly negligent.

〈 **Special Rights of the Government**

The new Act has introduced the concept of single shareholder companies. The Secretary to the Treasury is empowered to incorporate a single shareholder company, to be owned by the Government.

Section 139 provides for the Secretary to the Treasury to appoint another person, as his proxy for every 10 percent or part thereof, of a shareholding of a company held by the Secretary to the Treasury on behalf of the Government, and to appoint 3 persons, as his proxies, when the Secretary on behalf of the Government is a holder of a 'Golden Share' in a company, to attend shareholders meetings on the same occasion.

Under section 144, subject to the Company's Articles, a Resolution signed by not less than 85 percent of the Shareholders entitled to vote, enables the company to pass Resolutions in writing on a matter that is required by the Act or by the Articles to be decided at a meeting of the Company. However, where the Secretary to the Treasury is a holder of a share in a company, any such resolution referred to in section 144 is not valid unless the Secretary to the Treasury's consent has been obtained in favor of such Resolution.

〈 **Major Transactions**
Section 186 of the Act provides that the Company shall not enter in to a major transaction unless approval has been obtained by way of special resolution for such transaction or the transaction is subject to such approval or it is expressly provided for in the Articles. A 'major transaction' is defined as: a) an acquisition or disposal involving more than half the value of the assets of the company or b) the acquisition of rights or obligations amounting to more than half the value of its assets or c) transactions which have the purpose or effect of substantially altering the nature of the business carried on by the company.

〈 **Minority Buy Out Rights**
A minority shareholder who has voted against the resolution is entitled to use his minority buy out rights and require the company to buy out his shares. The company would be required to purchase his shares at an agreed price, failing which a price considered fair and reasonable by the Auditors or failing which a price determined by court.

〈 **Accounts and Annual Return**
Section 148 of the Act requires a company to keep accounting records, which will a) enable the financial position of the Company to be determined at any time; b) enable the Directors to prepare accounts in accordance with the Act and c) enable the financial statements to be readily and properly audited.

Chapter 3

Contribution of Public Enterprises to the Government Revenue

Policy on Profits and Dividend Income to the Government

The levy and dividend income from public enterprises are Rs. 4,705 million in 2007 reflected a marginal decline from Rs. 4,769 million in 2006. This is due to several enterprises not being able to sustain surplus profits in their operations. Dividend transfers from Sri Lankan Airlines were not regular. There were also no profits transfers from Sri Lanka Port Authority in view of their large investments.

Although the Government owns a large number of commercial state owned enterprises, such as Ceylon Electricity Board, Ceylon Petroleum Corporation, National Water Supplies and Drainage Board etc, with each one commanding high turnover and net worth, they were not in a position to contribute to the government by way of profits and dividends owing to their operational losses and commitments on large investment. In fact, many of them are assisted by the National Budget.

The return on investment for the equity shareholding of the government in Public Enterprises is determined either in terms of the Finance Act No 38 of 1971 or the Companies Act, based on how the SOE is established or incorporated.

Section 9(2) of the Finance Act No 38 of 1971 specifies that a levy may be imposed based on the surplus/profit after tax while the Companies Act entails that a dividend be based on the estimated profit before tax.

The level of estimated dividend/levy is set by the Treasury after an assessment of the public enterprises' business plan, cash flow projections, debt service capacity and the reinvestment plan. In determining the levy/dividend, the Treasury also takes into account the profitability as well as the liquidity of the PE. Special consideration is given if the PE has made a commitment to invest in any development project in line with their corporate plans and governments public investment strategy.

The optimum capital structure and the debt/capital ratios are deemed to be important in determining the dividend/levy policy for each PE in the long run. On average, the Government expects the Debt/Equity ratio of a PE as 1.5:1. The estimated dividend/levy is reflected in the annual budget estimates of the government and the business plan of a PE.

The government also encourages commercial PEs to raise funds on the strength of their own balance sheet with government guarantees for infrastructure development.

Table 3.1

Levy/Dividend Income from Public Enterprises

(Rs mn)

Institute	2004	2005	2006	2007
Levy				
National Savings Bank	1,060	1,310	810	1,060
Bank of Ceylon	763	1,150	1,173	847
People's Bank	755	818	668	816
State Mortgage & Investment Bank	50	135	116	25
State Timber Corporation	37	50	75	150
State Pharmaceuticals Corporation.	-	74	20	10
SL Export Credit Insurance Corporation.	-	-	-	16
Sri Lanka Rupavahini Corporation.	20	-	15	5
State Pharmaceutical Manu. Corporation.	10	5	5	5
National Lotteries Board	127	-	-	-
National Institute of Business Mgt	-	10	10	-
Sri Lanka Ports Authority	95	50	115	-
Dividend				
Milco Private Ltd	-	-	10	-
Local Loans & Development Fund	2	1	3	3
Ceylon Petroleum Storage Terminal ltd.	-	-	-	438
De La Rue Lanka Pvt Ltd		152		100
Sri Lanka Telecom	402	449	670	893
Airport & Aviation Sri Lanka Ltd	-	280	-	100
Sri Lankan Air Lines	656	-	788	-
Lanka Electricity Company	-	75	100	75
Lanka Mineral Sands Ltd.	9	132	98	50
Lanka Industrial Estates	37	20	20	45
Others	25	69	73	67
Total	**4,048**	**4,780**	**4,769**	**4,705**

Source: Department of Public Enterprises

Chapter 4

Performance of Public Enterprises

Financial Sector

The state banks operate 1,444 banking outlets or 41.1 percent of the banking branch network providing banking services to a broader geographical clientele. This was done with staff strength of 22,261 in 2007.

The total asset base of State Owned Banks valued at Rs. 1,149 billion at the end of 2007 indicating an increase of 14.7 percent over the previous year. The asset base of State Banks includes loans and advances (54.1 percent) and investments (29.3 percent). Total loans and advances of State Banks was Rs. 622 billion as of end 2007.

Table 4.1

Financial Performance of the State Banks

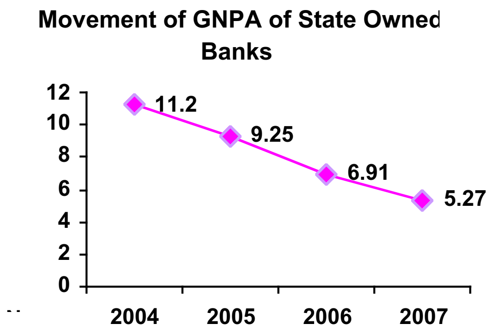
	2006				2007			
	Deposits Rs. mn	Net Advances	NPL %	Profit After Tax Rs. mn.	Deposits Rs. mn	Net Advances Rs. mn.	NPL %	Profit After Tax Rs. mn.
Bank of Ceylon	262,676	223,236	5.8	2,627	308,667	282,445	3.9	2,843
Peoples' Bank	269,947	207,136	7.2	3,157	300,956	238,293	5.9	2,374
National Savings Bank	212,233	33,790	1.5	1,885	235,304	54,238	1.4	1,573
State Mortgage & Investment Bank	5,663	9,488	35.8	213	7,517	10,995	34.1	83
Housing Development Finance Corporation	2,501	10,133	18.6	172	4,959	11,869	17.6	21
Lanka Puthra Development Bank	259	427	-	23	1,994	1,644	5.0	23
Rajarata Development Bank	1,636	1,627	6.6	18	1,755	2,018	5.3	26
Kandurata Development Bank	2,168	2,500	6.3	26	2,715	2,949	5.8	29
Sabaragamuwa Development Bank	4,280	4,158	5.5	52	4,968	4,607	6.1	86
Ruhunu Development Bank	3,176	4,137	6.2	80	3,742	4,645	6.1	136
Uva Development Bank*	1,646	1,869	7.5	42	2,419	2,187	7.7	12
Wayamba Development Bank	5,845	5,492	3.8	92	6,379	6,110	3.2	127

*Un audited

Source:- Department of Public Enterprises

Total Non-performing Loans (NPLs) recorded Rs. 34 billion in 2007. The improvement in assets quality of state owned banks together with a focused recovery effort made by State Banks contributed towards the reduction of NPL's by 2,388 million, a 6.53 percent over 2006. The Gross Non Performing Ratio (GNPA) also declined from 6.9 percent in 2006 to 5.3 percent by the end of 2007.

Chart 4.1



Total deposits mobilized by state banks amounted to Rs. 881.4 billion registering a growth of 14.2 percent over the previous year. This was in response to high interest rates as well as due to new services mobilization efforts by State banks.

The Return on Assets (ROA) and Return on Equity (ROE) ratios reported as 1.3 percent and 13.7 percent respectively.

The profitability of State Banks continued to improve in 2007. They made a profit before tax of Rs. 13.8 billion in 2007 registering a growth of7.0 percent over 2006. Net Interest Income as a percentage of average assets was 3.8 percent.

Chart 4.2

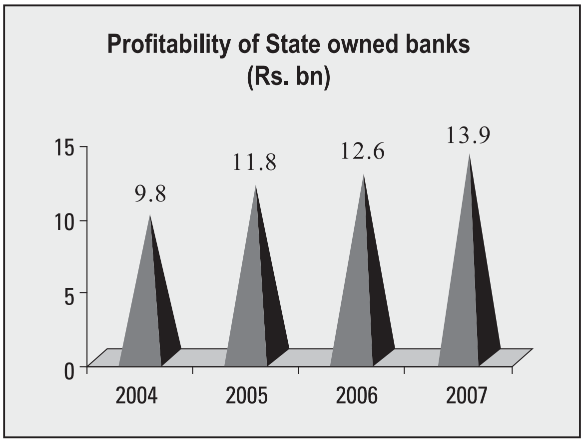


Chart 4.3

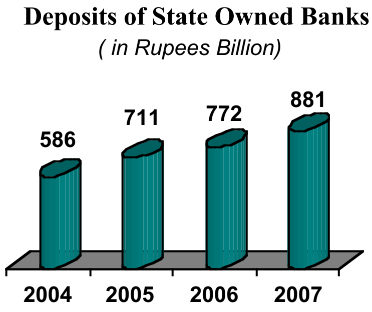


Chart 4.4

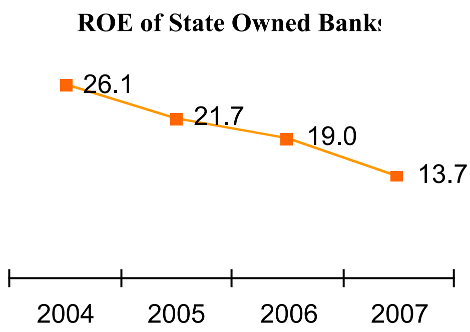
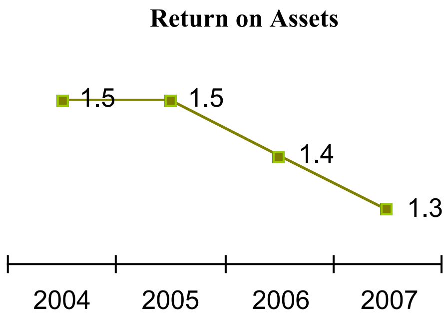


Chart 4.5



Source:- Bank's Annual Accounts

State Owned Banks have been rated by Fitch Rating Sri Lanka. All State banks continue to sustain this rating through improved performance.

Table 4.2

Performance of BOC

	2005	2006	2007
Number of Branches	304	305	307
Number of Employees.	8891	8363	8253
Assets (**Rs.bn**)	319.5	378.3	437.9
Deposits (**Rs.bn**)	232.5	262.6	308.6
Number of Deposit Accounts (**Rs. mn**)	5.8	6.2	7.0
Foreign Currency Deposits (**Rs. bn**)	91.6	90.3	106.3
Corporate and Retail Lending (**Rs. bn**)	165.7	223.2	282.4
Profit Before Tax (**Rs. mn**	3,120	4,137	4,518
Profit After Tax **(Rs. mn)**	1,894	2,627	2,843
Capital Adequacy Ratio (i)	12.7	11.9	12.1
Capital Adequacy Ratio (ii)	13.2	12.3	13.2
Non Performing Loans (**Rs mn**)	12,495	13,602	11,334
Non Performing Loan Ratio	7.2	5.8	3.9
Rating	AA	AA	AA

Source: Department of Public Enterprises/ Bank of Ceylon

Table 4.3

Ratings of State Banks

Bank	Rating
National Savings Bank	AAA
Bank of Ceylon	AA
People's Bank	A-
HDFC Bank	A-
SMIB Bank	A-
Rajarata Dev. Bank	BBB+
Ruhuna Dev. Bank	BBB+
Wayamba Dev. Bank	BBB+
Uva Dev. Bank	BBB
Kandurata Dev. Bank	BBB
Sabaragamuwa De. Bank	BBB-

Source: - Fitch Rating Sri Lanka

The commercial profitability of most of the State banks is grossly underestimated due to their contribution in implementing their development lending schemes.

In 2007, several important developments also took place in the state banking sector.

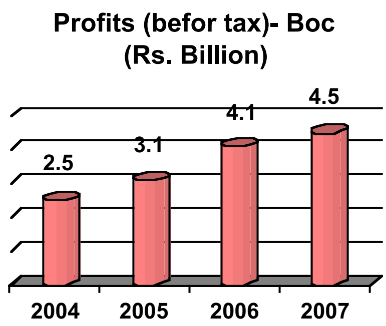
Completion of the amalgamation of the SME Bank with Lankaputra Development Bank (LDB) and the transfer of Assets and Liabilities of Private Sector Infrastructure Development Company (PSIDC) to LDB in an efforts to make LDB a premier development bank, incorporation of Sri Lanka Savings Bank to provide relief to depositors of failed private bank, initiation of preliminary steps towards the amalgamation of the 6 RDBs into one bank to form a strong regional development bank, are some of the key institutional development in this sector .

Bank of Ceylon (BOC)

The BOC consists the highest asset base of (Rs. 437.9 billion), deposit base (Rs. 308 billion), customer base (over 6.2 million customers) and leadership in offshore banking (38 percent of all off shore banking business of banks) and the largest corporate and retail lending portfolio (Rs 299 billion in 2007).

BOC's deposits also recorded a growth of 17.5 percent in 2007 compared to the growth of 13 percent in 2006. the BOC deposits accounts base is around 18 percent of total deposits of the banking industry. The decline of the NPL Ratio from 5.8 percent in 2006 to 3.9 percent in 2007 is a reflection the continued improvement in asset quality of the bank and loan recovery process. In 2007, the bank's profit (before tax) improved marginally to Rs. 4.5 billion from Rs.4.1 billion in 2006.

Chart 4.6



Source:- Bank's Annual Accounts

The BOC's assets grew by 21 percent in 2007 due mainly to growth of advances. The loan growth amounted to 26.2% in 2007. The bank has granted Rs. 9.5 billion of housing loans to government employees under the Government Employees' Housing Loan Scheme on secured basis. Further, BOC has approved over 5,000 loans amounting to Rs. 328 million under the *Krushi Navodaya* Credit Programme.

Peoples Bank (PB)

People's Bank operates with the largest network of 639 banking outlet catering to a clientele in entire country. The Bank holds 15.6 percent of the total asset base of the banking industry. Maintaining the momentum of profitability recorded by the PB in the last few years, the bank increased its profits before tax to Rs.5 billion in 2007 from Rs 4 billion reported in 2006. Its total assets and total deposits recorded a growth of 13 percent and 11.5 percent respectively during the year 2007.

Table 4.4

Performance of PB

	2005	2006	2007
Number of Branches/ outlets	624	630	639
Number of Employees.	9,531	9,516	8,416
Assets (**Rs.bn**)	275.3	338.5	380.9
Deposits (**Rs.bn**)	255.6	269.9	300.9
Number of Deposit Accounts (**Rs.mn**)	10.0	10.5	11.0
Foreign Currency Deposits (**Rs. Bn**)	23.9	26.9	34.3
Corporate and Retail Lending (**Rs bn**)	142.5	207.1	238.3
Profit Before Tax (**Rs.mn**)	4,035	4,079	5,002
Profit After Tax (**Rs.mn**)	2,771	3,157	2,374
Capital Adequacy Ratio (i)	1.5	3.7	5.3
Capital Adequacy Ratio (ii)	1.9	5.6	6.9
Non Performing Loans (**Rs.mn**)	16,796	15,951	14,865
Non Performing Loan Ratio	10.7	7.2	5.9
Rating	BBB+	A-	AA

Source: Department of Public Enterprises/ Peoples Bank

The PB also provided Rs. 9.6 billion of housing loans to 12,060 government employees under government employees housing loan scheme with security backing. The number of loans granted under Krushi Navodaya scheme was 3,975 to the value of Rs. 296.8. million.

The bank's Capital Adequacy Ratio (CAR) stood below the required minimum level of 10 percent during the past few years. Government infused Rs. 1.5 billion of fresh equity into the bank during 2007. This along with retained profits helped the bank to improve its Tier II CAR from 5.6 percent as at end 2006 to 6.5 percent at the end of 2007. The Bank won the people's award for the banking and financial brand for the year 2007.

National Savings Bank (NSB)

The NSB by its statute is required to invest not less than 60 percent of its deposits in government securities. As at end 2007, 65.5 percent of bank's assets was in government securities while only 20 percent was in the form of advances. This has helped the bank to maintain a very low ratio of non-performing advances at 1.4 percent as at end 2007. The bank has successfully ventured into housing finance and investing in corporate debt instruments.

Table 4.5

Performance of NSB

	2005	2006	2007
Number of Branches	114	114	117
Number of Employees.	2,890	2,900	2,867
Assets (**Rs.bn**)	222.1	235.5	270.5
Deposits (**Rs.bn**)	202.4	212.2	235.3
Number of Deposit Accounts **Mn.**)	14.6	15.1	15.4
Foreign Currency Deposits (**Rs. bn**)	30.2	460.7	1,342.8
Corporate and Retail Lending (**Rs. bn**)	25.4	33.8	54.2
Profit Before Tax (**Rs.mn**)	3,457	3,501	3,301
Profit After Tax (**Rs.mn**)	2,106	1,885	1,573
Capital Adequacy Ratio (i)	44.9	40.7	33.3
Capital Adequacy Ratio (ii)	21.82	11.7	12.2
Non PerformingLoans(**Rs.mn**)	700	521	740
Non Performing Loan Ratio (%)	2.7	1.5	1.4
Rating	AAA	AAA	AAA

Source: Department of Public Enterprises /National Savings Bank

However, declining profits and reducing market share of deposits had been key areas of concern for the bank. The bank's profits after tax which decreased from Rs 2.1 billion in 2005 to Rs 1.8 billion in 2006 further, declined to Rs 1.5 billion in 2007. The bank's market share of deposits of all Licensed Specialized Banks, which stood close to 89 percent in 2004, declined to 87 percent in 2006 and 82 percent in 2007.

Severe competition for mobilization of deposits from other banks and other financial institutions in the private sector is the main reason for the reduction in the market share of deposits while the thinning of margins due to escalation of market interest rates is the main reason for the low level of profits. The bank provided 3,277 loans to Government employees to the value of Rs. 3,610 million under Government guaranteed subsidized housing loan scheme for public servants. The bank also ventured into mobilize overseas remittances as part of its savings drive.

State Mortgage & Investment Bank (SMIB)

The SMIB predominantly concentrates on business of housing finance. Although the assets base expanded in this bank, performance was not conducive to maintain the overall rating in 2007.

Table 4.6

Performance of SMIB

	2005	2006	2007
Number of Branches	5	7	12
Number of Employees.	304	349	339
Assets (**Rs.bn**)	9.1	10.2	12.1
Deposits (**Rs.bn**)	4.7	5.7	7.5
Number of Customers	76,273	79,789	85,206
Corporate and Retail Lending (**Rs.bn**)	8.4	9.5	11.0
Profit Before Tax (**Rs.mn**)	415	318	124
Profit After Tax (**Rs.mn**)	312	213	83
Capital Adequacy Ratio (i)	87.3	81.2	56.9
Capital Adequacy Ratio (ii)	88.6	82.5	57.9
Non Performing Loans (**Rs.mn**)	3,492	3,431	3,773
Non Performing Loan Ratio	40.6	35.8	34.1
Rating	A	A	A-

Source: Department of Public Enterprises/State Mortgage & Investment Bank

The bank increased its advances and deposits growth in 2007. The growth of advances which stood at 5 percent and 11 percent in 2005 and 2006 respectively rose to 15 percent in 2007 while deposits recorded a 36.3 percent growth in 2007 compared to 20 percent in 2006. However, continuation of non-performing advances at a higher level as indicated by the 36 percent non-performing ratio is a reason for concern. High cost of funds also let the bank to record lower after tax profits to Rs. 83 million in 2007 compared to Rs. 213 million in 2006.

HDFC Bank (HDFCB)

The HDFC Bank, which is a public listed state bank operates predominantly as a housing finance bank

Table 4.7

Performance of HDFCB

	2005	2006	2007
Number of Branches	20	20	20
Number of Employees.	290	205	289
Assets (**Rs.bn**)	8.8	10.7	13.4
Deposits (**Rs.bn**)	1.5	2.5	4.9
Number of Deposit Accounts **Mn.**)	62,407	71,538	74,637
Corporate and Retail Lending (**Rs. bn**)	8.1	10.1	11.9
Profit Before Tax (**Rs.mn**)	162	239	47
Profit After Tax (**Rs.mn**)	117	172	21
Capital Adequacy Ratio (i)	42.1	37.6	31.0
Capital Adequacy Ratio (ii)	42.4	37.8	31.8
Non PerformingLoans(**Rs.mn**)	1,465	1,892	2,099
Non Performing Loan Ratio (%)	18.0	18.6	17.6
Rating	A	A	A

Source: Department of Public Enterprise /HDFCB

The bank's assets grew by 25 percent in 2007 mainly due to the increased advances by 17 percent. 90 percent of loans are for small and medium housing units.

During the year, the bank extended 9,562 housing loans to the value of Rs. 2,623 million out of this, the bank extended housing loans to public servants amounting to Rs. 1,075 million. The deposit base was increased to Rs. 4.9 billion in 2007 from Rs 2.5 billion in 2006. However, profits before tax declined to Rs. 47 million in 2007 from Rs. 239 million in 2006 due to the reduction in net interest income and the high level of non-performing advances. The bank's non-performing loans ratio as at end 2007 stood at 19 percent.

Lankaputhra Development Bank (LDB)

The LDB, which started its operations in February 2006, indicated a growth in its operations during the short time span that passed. While focusing on development oriented lending, the bank has adopted a selective approach in expanding its loan portfolio.

The bank recorded a moderate profit of Rs. 23.3 million in 2006 the first year of its operations, which decreased marginally to reach Rs 22.8 million in 2007. The LDB's presence is still limited to a few districts. While having its head office in Colombo, the bank has one branch each in Hambantota and Polonnaruwa districts and an extension office in Kegalle.

The bank's asset base amounted to 4 billion in 2007. Total advances portfolio amounted to Rs. 1.6 billion while mobilizing deposits amounting to Rs.1.9 billion at a growth of 20 percent over the previous year. Amidst this performance, bank's non-performing loans have remained at 5.3 percent in 2007.

With a view to making LDB a premier development bank, the government towards the end of 2007 took steps to merge the SME Bank with the LDB and also transferred the assets and liabilities of Private Sector Infrastructure Development Company to the LDB.

Regional Development Banks (RDBs)

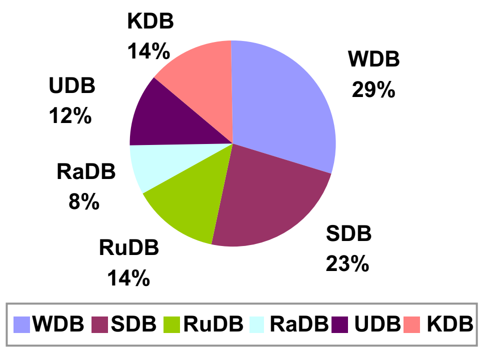
Six Regional Development Banks (RDBs) i.e. Wayamba (WDB), Ruhuna (RuDB), Kanduarata (KDB), Uva (UDB), Sabaragamuwa (SDB) and Rajarata (RaDB), which were established with view to develop the rural economy are operating with a network of 211 branches in provinces.

RDBs maintain 1.8 percent of total assets of the banking industry. Its share in the sector of Licensed Specialized Banks amounts to 7.9 per cent. The total asset base of all RDBs is valued at Rs. 30,667 million at the end of 2007, indicating an increase of 17 percent over the previous year.

The majority of RDB's assets constituted of loans and advances at 77.6 percent and investments in government securities 17 percent. The UDB recorded the highest rate of growth of assets in 2007 of 37.6 percent due to the increase in loans and advances 17 percent and investments by 152 percent, while WDB recorded the lowest 7.7 percent asset growth in 2007.

Chart 4.7

Share of Assets of RDBS in 2007



Net loans and advances amounting to Rs. 23,006 million by the end of 2007 indicated an increase of 18.8 percent over the last year. Although Net loans and advances of RDBs increased over the last few years, the growth momentum has gradually moderated.

Pawning advances to total loan portfolio of RDBs increased from 24.9 percent in 2006 to 29.6 percent in 2007. However, this ratio exceeded 40 percent in SDB and RaDB in 2007.

A significant portion of 27 percent of RDB's loans has been channeled to housing loans while a 16.7 percent has been granted for agriculture related activities. Small industry sector has received 10 percent in 2007.

Table 4.8

Performance of RDBs

	2005	2006	2007
Number of Branches	203	209	211
Number of Employees.	1,717	1,908	1,986
Assets (**Rs.bn**)	20.7	26.1	31.0
Deposits (**Rs.bn**)	14.2	18.7	21.9
Number of Deposit Accounts (**Mn.**)	2.4	2.7	2.9
Corporate and Retail Lending (**Rs. bn**)	15.7	19.3	23.0
Profit Before Tax (**Rs.mn**)	658	633	814
Profit After Tax (**Rs.mn**)	381	299	416
Capital Adequacy Ratio (i) (%)	8.7 –15.4	9.0 – 14.4	8.2 – 15.1
Capital Adequacy Ratio (ii) (%)	11.5 - 17	11.4 – 18.1	9.8 – 15.7
Non PerformingLoans (**Rs.mn**)	1,140	1,161	1,252
Non Performing Loan Ratio (%)	6.8	5.6	5.3
Rating	BBB+	BBB+	BBB+

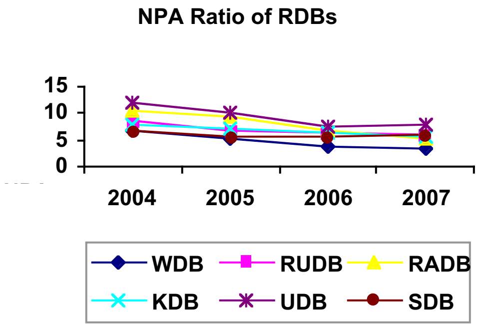
Source: Department of Public Enterprises /HDFCB

The improvement in the asset quality of RDBs has contributed towards the reduction of the non-performing ratio of many RDBs. The non-performing advances increased from Rs. 1,136 in 2006 to Rs. 1,252 million by 2007 indicating an increase of 10.2 percent. However, total advances increased from Rs. 19,354 million in 2006 to Rs. 23,006 million in 2007 recording an increase of 19 percent. Accordingly, the gross Non-performing Loan Ratio (NPL) declined from 5.6 percent in 2006 to 5.3 percent by 2007 due to increased total advances over the period.

The highest NPL Ratio was reported at UDB amounting to 7.7 percent. Only WDB (3.2 percent) and RaDB (5.3 percent) maintained a NPL below the average of 5.3 percent.

All RDBs except UDB and SDB reported a declining trend in the NPL Ratio throughout the entire period. However, SDB and UDB reported a marginal increase in the NPA in 2007 due to increased non- performing advances in 2007. Even though, non-performing advances of RuDB and KDB increased in 2007, NPA Ratio has declined due to the increase in loans and advances.

Chart 4.8



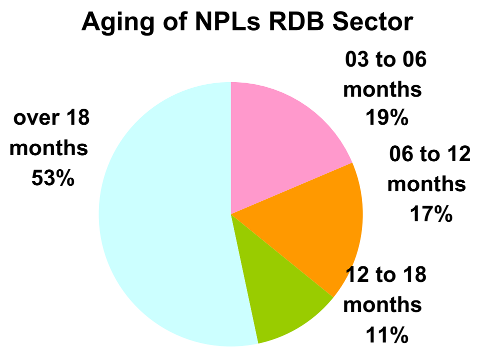
Source:- Bank's Annual Accounts

Age analysis of RDB's non-performing advances reveals that more than 54 percent of non-performing advances are over 18 months. This is mainly due to difficulties in realizing securities. However, adequate provisions have been made in 2007 covering 60.7 percent NPLs. Accordingly, the net exposure of banks (net non performing advances) declined to Rs. 394 million in 2007 from Rs. 463 million in 2006.

Total capital funds of RDBs amounted to Rs. 2,606 million by end 2007, indicating an increase of 17.2 percent over 2006. The highest capital growth was reported in KDB. The capital generation of UDB was marginal due to declined profitability of the bank in 2007.

The Capital Adequacy Ratio (CAR) of RaDB was below the minimum requirement stipulated by the Central Bank and reported at 9.8 percent. Other RDBs maintained CAR through low risk weighted assets.

Chart 4.9



Source:- Bank's Annual Accounts

Table 4.9

Capital funds of RDBs

	2006 (Rs. mn)	2007 (Rs. mn)	Change(%) (Rs. mn)
RuDB	596	717	20.3
WDB	612	709	15.8
SDB	303	368	21.4
UDB	223	228	2.2
RaDB	251	271	8.0
KDB	238	313	31.5
Total	2,223	2,606	17.2

Source:- Bank's Annual Accounts

Liquidity

By December 2007, all RDBs except RaDB maintained the required Statutory Liquid Assets Ratio (SLAR) stipulated by the Central Bank. The consolidated Credit Deposit Ratio of RDBs amounting 108.24 percent, reveals that banks have granted loans more than deposits they have mobilized. The RBDs are also meeting higher demand for credit by borrowing from outside. The sector has borrowed Rs. 3,272 million by end of 2007 indicating a slight reduction of 3.5 million over the previous year. RDBs face liquidity problems due to funding loans with long – gestation periods such as housing loans (27 percent of total loans and advances) using short-term borrowings.

Total deposits mobilized by RDBs registered a growth of 17.2 percent over the previous year, amidst competition from other banks. WDB mobilized highest deposits amounting to Rs 6,379 million or 29 percent of total deposits. 51.2 percent of total deposits mobilized by RDBs consist of fixed deposits, enabling the banks to forecast their funding capacity.

The entirety of RDB's income constituted of interest income from its loan portfolio and interest on investment in Treasury Bills. The net interest income of consolidated RDBs as a percentage of average assets (Interest Margin) amounted to 9.0 percent in 2007.

The operational cost of RDBs has increased by 10.7 percent in 2007 over 2006 and accounted to Rs. 1,479 million. The majority of operational costs constitute of staff costs, as most RDBs have not automated their functions. As a result, the Cost Income Ratio of RDBs remained at 72.8 percent in 2007. The highest Cost/Income of 79.2 percent was reported at UDB while RDB maintained the lowest of 67.7 per cent in 2007.

Staff cost of the sector as a percentage of total operating expenses amounted to 68.6 percent in 2007. KDB maintained the lowest staff cost/ total operating expenses ratio of 65.4 percent.

The profitability of consolidated RDBs grew by 28.6 in 2007 due to increased interest income from loans and advances followed by the growth of loan demand. The profit before tax amounted to Rs. 814 million in 2007. Out of this, 31.6 percent was contributed by WDB. However, profit of UDB was reported at Rs. 37 million in 2007, registering a decline of 47.1 percent.

Box 4

Major Treasury initiative on banking sector

- Amalgamation of the SME Bank with LDB. -This was the implemented as part of the national policy to create a premier Development Bank.
- Transfer of Assets and liabilities of Private Sector Infrastructure Development Company (PSIDC) to LDB
- Incorporation of the Sri Lanka Savings Bank with the aim of salvaging the depositors of the failed Pramuka Savings & Development Bank and promoting savings in the country.
- Decision to amalgamate the Regional Development Banks to create a well-capitalized strong regional development bank.
- Issue of a Special Treasury Bond of Rs.6.3 billion to the Bank of Ceylon – where Rs.1Billion was for re-capitalization and Rs.5.3 billion in lieu of the outstanding government debt.
- Re-capitalizing Peoples Bank by infusing Rs.1.5 billion.

Sri Lanka Insurance Industry

Government owned Insurance Institutions which are established under Parliamentary Acts are directly coming under the supervision of line ministries while Private Sector Public Insurance companies established under the Companies Act and registered as an insurer under the Regulation of Insurance Industry Act, No. 43 of 2000 are regulated by Insurance Board of Sri Lanka (IBSL)
Insurance Institutions which are established under Parliamentary Acts;

AAIB - Agricultural and Agrarian Insurance Act No. 20 of 1999

SLECIC - Sri Lanka Export Credit Insurance Corporation Act No. 15 of 1978

NITF - National Insurance Trust Fund Act No.28 of 2006

In 2006, 16 Public insurance companies were in operation (13 -engaged in both long term insurance business and general insurance business, 1- long term insurance business, 2- general insurance business). Janashakthi Insurance Company Ltd acquired National Insurance Corporation Ltd with effect from 31st December 2006.

Regulator - Insurance Board of Sri Lanka (IBSL)

IBSL is the statutory body established in terms of the Regulation of Insurance Industry Act, No. 43 of 2000, which came into operation with effect from 01st March 2001.

The object and responsibility of the Board is to ensure that insurance business in Sri Lanka is carried on with integrity and in a professional and prudent manner with a view to safeguarding the interests of the policy holders and potential policy holders.

Steps taken by IBSL to make the industry more vibrant, efficient, fair, safe and stable are as follows.

- Appointed compliance officers to oversee with relevant laws & required standards
- Increased the paid up share capital to 500 mn
- To introduced risk based capital model with effect from 2009
- Redesigned the website and launched on 01.01.2007
- In association with SEC laid down the foundation for the establishment of a Financial Services Academy for conducting suitable courses in insurance and capital market

Agricultural & Agrarian Insurance Board (AAIB)

The co-function of the Board in terms of the Act is to establish and operate comprehensive insurance schemes for agriculturists in respect of crops, fisheries, forestry, livestock and equipment and other property and offer medical benefit and social security scheme for agriculturists.

Activities of major Insurance Scheme operated by AAIB and Ceylinco Insurance Company Ltd (CICL) is as follows.

Table 4.10

Performance of Major Insurance Schemes of AAIB and CICL

Season	Area cultivated (000' ha)	Area insured (000,ha) AAIB	CICL	Total	Premia collected (Rs.000,) AAIB	CICL	Total	Indemnity paid (Rs.000,) AAIB	CICL	Total
2004/05 Maha	581	5.80	6.30	12.10	4,448	10,673	15,121	3453	5051	8504
2005 Yala	357	3.60	1.28	4.88	3,271	2,169	5,440	379	759	1138
2005/06 Maha	591	5.20	9.76	14.96	3,777	17,296	21,073	1819	8376	10195
2006 Yala	319	2.45	8.25	10.70	1,749	15,111	16,860	269	9436	9705
2006/07 Maha	530	4.58	8.55	13.13	3,583	16,248	19,831	557	14,473	15,031
2007 Yala	294	2.73	4.18	6.91	2,410	7,505	9,915	226	7,151	7,639
Total	2672	24.36	38.32	62.68	19,238	69,002		6,703	45,246	
Average per hectare					789	1,800		275	1,180	

Source:-Central Bank Report 2007

Area insured by AAIB and CICL are 0.9% and 1.4% of the total area cultivated in the island respectively. Even though the premium collected by CICL is more than doubled compared to AAIB's premium, CICL indemnity is more attractive than AAIB and CICL gained a gross profit of Rs. 620,000 per hectare which is more by Rs. 106,000 compared to AAIB's gross profit.

Table 4.11

Financial Performances

Insurance Scheme Other Crops		2006 Acres	2006 Premium Rs.	2006 Indemnity Rs.	2007 Acres	2007 Premium Rs.	2007 Indemnity Rs.
Coconut		33.75	18,200	3950	6.80	1800	0
Maize		1626	789,800	0	5932.30	4,516,230	60,773
Sugar Cane		150	80,900	1,017,230	59.34	43,110	486,120
Big Onion		181.25	262,200	35,860	316.50	476,400	38,715
Export Agri		2	800	1750	78.86	272,870	17,270
Livestock	animals	24,283	4,819,259	3,407,658	8,254	8,835,893	4,629,150
Health	farmers	61,338	24,859,200	249,995	21,907	7,408,370	1,541,150

The indemnity paid for all Insurance Schemes in 2007 were Rs. 11.1mn against the total premium of Rs. 27.1mn collected by AAIB compared to Rs. 8.9 mn indemnity and Rs. 34.3 mn total premium in 2006.

1. Sri Lanka Export Credit Insurance Corporation

The objects of the Corporation is to issue insurance policies to exporters of goods and services against non-receipt /delays of payments; issue guarantees to grant pre-shipment/ post-shipment finance; provide financial assistance for promotion and development of exports; refinance for the promotion of exports and act as agent of the government to provide insurance and guarantees etc

Gross premium income collected in the year 2007 is Rs. 195.3 mn compared to Rs.194.7mn in 2006. Due to the increase of Claims substantially, during the year from 69.5mn to 116.9mn and the provision of Rs. 25mn for doubtful debts on Export bills financed, the net profit before tax came down from 114.8mn to Rs.64.74 mn in 2007.

Table 4.12

Financial Performance of SLECIC

Financial performance in Rs. Mn	2005	2006	2007
Gross premium	177	194	195
Claims	64	70	117
Reinsurance	15	15	40
Net Surplus of the Corp.	76	115	65

Source : Sri Lanka Exprot Credit Insurance Corporation.

National Insurance Trust Fund (NITF)

NITF was established by National Insurance Trust Fund Act No.28 of 2006 which was amended by NITF Act No.28 of 2007 with effect from 1st October 2006 with the intention of providing safety net for Government and Provincial Council officers and pensioners, Samurdhi beneficiaries, Farmers, Fishermen, Persons engaged in self employment and any other needy persons identified from time to time . It also provide safeguard for government properties.

Table 4.13

Financial Performance of NITF

Premium collected		Claims paid	
2006	2007	2006	2007
473,337	997,046	117,359	643,912

Source : National Insturance Trust Fund

NITF is a self financed Government owned institution.

The total premium collection and claims paid in 2007 is Rs. 997 million and Rs. 643 million respectively compared to Rs. 473 million and Rs. 117 million during the three months in 2006.

Table 4.14

Claimes forwarded to NITF

Type of claims	Applications received	Rejected	incomplete	Paid	Pending
Spectacles	36,561	2,719	2,919	25,630	5,293
Hospital charges	29,812	3,009	9,315	15,088	2,400
Child birth	8,586	526	1,499	6,085	476
Accidents	1,736	3	806	731	196
Medical charges	2,261	249	432	1351	229
Heart attacks	1,579	137	259	1065	118
Cancers	523	29	101	346	47
Normal death	1,567	0	805	674	88
Kidney	222	13	34	159	16
Paralysis	14	4	3	6	1
Total 2007	82,861	6,689	16,173	51,135	8,864
% 2007	100	8	20	62	10
Total 2006	76,081	8994	4297	61,877	913
% 2006	100	11	7	81	1

Source : National Insturance Trust Fund

Function	Current Activities
Agrahara Scheme	• Commencement of 3 days payment scheme • Issuing identity cards to all members covered
Re- insurance scheme	• 20% compulsory for all insurance companies. • Finalizing overseas re-insurance cover on excess loss basis
Strike, Riot, Civil & Commotion and Terrorism Fund (SRCC & TF)	• Absorbed all insurance companies to Compulsory SRCC&TF Cover • Terrorism Cover for Armed Forces

National Development Trust Fund Company Limited (NDTF)

National Development Trust Fund stemmed from the former Janasaviya Trust Fund with effect from September 1, 1995 and the National Development Trust Fund Company Limited by Guarantee was established under the Companies Act No 17 of 1982 in order to facilitate in establishing a sustainable Micro-Finance disbursement network to ensure accessibility for continued financing for income generating and Micro Entrepreneurship activities of the rural and urban poor, of Sri Lanka.

Table 4.15

Financial Performance of National Development Trust Fund Ltd.

Rs.

	2005	2006	2007
Interest on Loans to POs	23,259,987	62,101,910	80,866,539
Other Operating Income	300,001	675,000	825,000
Non Operating Income	63,104,824	16,311,599	61,325,989
Personnel Emoluments	5,226,679	11,977,465	9,453,639
Administrative Expenses	8,407,582	12,407,887	15,413,764
Other Operating Expenses	1,093,487	1,653,275	2,129,980
Credit Operation Expenses	1,712,218	1,562,522	2,628,297
Finance Costs	9,625,197	12,249,776	15,387,136
Net Surplus for the Year	60,599,649	39,237,583	98,004,712
Investments	350,000,000	174,000,000	646,382,192
Loans to Partner Organizations	943,080,396	1,481,152,243	1,352,112,581
Loans from NDTF (Trust)	800,952,751	800,952,751	800,952,751
Loans from ADB	364,757,727	671,113,477	897,435,299
Loans outstanding	943 Mn	1480 Mn	1352 Mn
Profitability			
Operating Profit Ratio	30.22%	56.03%	63.73%
ROCE	36.44%	19.09%	32.29%
Return on Total Assets	4.52%	2.31%	4.84%
Liquidity			
Current Assets Ratio	134.17	90.23	97.08
Average Rate of Interest paid to ADB	2.63%	1.82%	1.71%
Average Rate of Interest collected from POs	2.46%	4.19%	5.98%
% of Loans granted out of loans obtained	80.90%	100%	79.61%

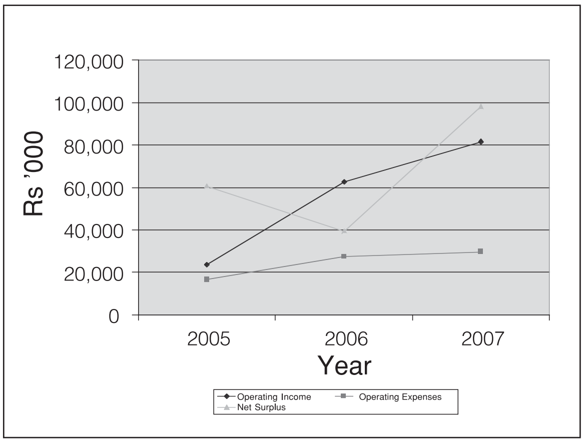
Source : National Development Fund Ltd.

The National Development Trust Fund Company is contributing to uplift the living standards of under privileged people of the country by various loan schemes with Partner Organizations (PO's) consisting of Rural Development Banks, Cooperative Rural Banks, Thrift and Credit Co-Operative societies,NGOs while separate direct lending schemes are operated under ADB project for tsunami assistance through NGOs and Aquaculture Development Department for which NDTF funds are channeled to the end users through Fisheries Associations.

The operating income of the company has increased by 30% while the interest income on loans has increased continuously. Non Operating Income, which consists of income from short term investments of Rs. 61.3 Mn for the year 2007. Reflecting a remarkable growth of 150%, the net surplus of the company has increased up to 98 Mn compared to the year 2006.

The funds awaiting for disbursements to partner organizations are investing in short term instruments. This investment portfolio consists of gilt-edged securities and interest bearing deposits with state banks.

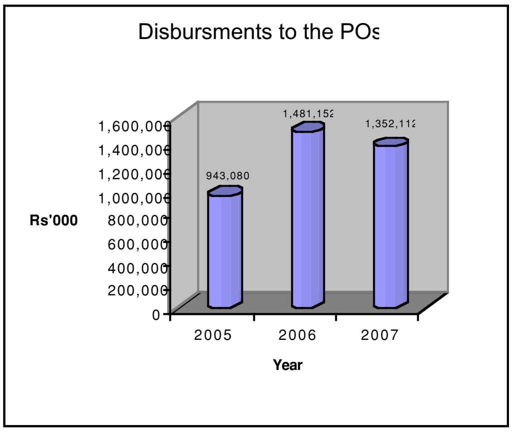
Chart 4.10



Source : Annual Report - National Development Trust Fund Ltd.

During the year 2007, the Company could disbursed only Rs.1,102 million through 123 Partner Organizations indicating an 31% decline over the year 2006. The amounts due to the NDTF on loans granted to the partner organizations were Rs. 1,352 million. This is a decline in loans outstanding by 8.65% compared to the last year.

Chart 4.11



Source : Annual Report - National Development Trust Fund Ltd.

Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)

The SLAASMB was established under the Sri Lanka Accounting and Auditing Standards Act No 15 of 1995 to enhance the quality of financial information and reports, furnished by leading economic entities of Sri Lanka, so that the economic decision makers and other users are assured of relevant, reliable, consistent and comparable financial information.

The Board monitors compliance with the Sri Lanka Accounting Standards and Sri Lanka Auditing Standards in the preparation, presentation and audit of financial statements of specified business enterprises.

Table 4.16

Performance of SLAASMB

	2005	2006	2007
Physical – Nos			
Financial Statements to be reviewed as at 1st January	660	689	492
Financial Statements received during the year for review	750	689	763
Financial Statements reviewed	254	266	202
Financial Statements rejected	467	620	612
Financial Statements to be reviewed as at 31st December	689	492	441
Financial- Rs. '000			
Recurrent Expenditure	14,762	15,618	16,894
Capital Expenditure	1,342	1,421	942
Treasury Grant	17,262	18,118	19,394

Source : Sri Lanka Accounting and Auditing Standards Monitoring Board.

The Board is fully dependent on Government grants, as it has no other income source. The Government grants during the year 2007 has represented an increase of 7% compared to the year 2006. There is no operating surplus or deficit of the income statement.

In 2007, the Board completed reviews of 202 sets of financial statements. This is a 24% drop compared to the year 2006. The reports with out deviations were 102 and the correspondence figure was 67 in 2006. The Board found 86 reports with deviations and has issued directions only for one report. The percentage of financial statements in which deviations from Sri Lanka Accounting and Auditing Standards were detected, had increased from 46% in 2006 to 50% in 2007. However, the percentage of financial statements in which recognition and measurement issues were detected, had decreased from 32% to 25%. There were 13 agreements reached by the Board during the year 2007.

To ensure the compliance with relevant standards, the Board has commenced reviewing audit working papers of specified business enterprises during the year 2007. The Board also carried out a comprehensive study on the basis of valuation of biological assets and initiated in developing guidelines for valuation of biological assets in managed plantations together with other relevant regulators and experts during the year.

Development Lotteries Board

Development Lotteries Board is a commercial enterprise established in terms of the Development Lotteries Board Act No. 20 of1997 for the conduct of Lotteries and matters connected therewith or incidental thereto.

Major Activity

Conducting lotteries to raise funds for Presidents Fund.

Table 4.17

Financial Performance of Development Lotteries Board

Number of tickets sold	2005 Rs.	2006 Rs.	2007 Rs.
Saturday Fortune	171,596,700	154,405,700	145,863,100
Development Fortune	149,142,500	143,234,300	146,597,300
Jayoda	115,811,300	97,311,000	104,939,800
Instant	46,309,800	47,620,000	69,541,200
Dayata Kirula	-	-	675,200
Double Fortune	-	-	-
Total	**482,860,300**	**442,571,000**	**467,616,600**
Average contribution per ticket	□	□	□
Saturday Fortune	2.25	2.11	2.10
Development Fortune	2.20	2.02	2.10
Jayoda	2.05	1.91	1.80
Instant	3.21	2.97	1.80
Dayata Kirula	-	-	2.00

Source : Annual Accounts - Development Lotteries Board.

In general, average contribution per ticket, reported a continuous reduction in year 2006 and 2007 with comparison to the year 2005. In 2007, only Development Fortune ticket has reported an increase of 4 percent compared to the previous year. Dayata Kirula which was introduced in 2007 for "Dayata Kirula exhibition" has contributed marginally amounting to Rs. 2.00 per ticket.

Table 4.18

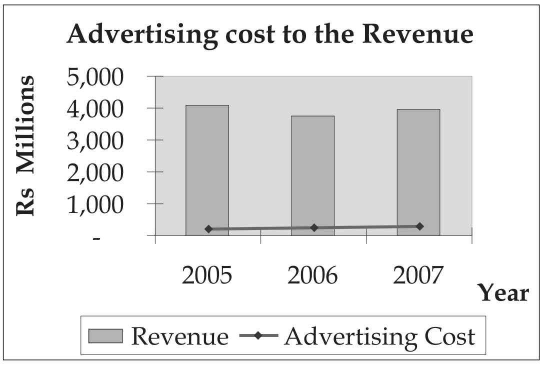
Key Performance Indicators

Profitability	2005	2006	2007
Revenue Growth (percent)	10	-8	5
Operating Profit Ratio (percent)	21	23	21
Net Profit Ratio (percent)	21	21	19
Advertising Cost to Turnover (percent)	6	6	7
Total Contribution to President Fund as a percentage of Revenue	21	25	21
Liquidity			
Current Asset Ratio	0.72 : 1	0.30 : 1	0.32 : 1
Efficiency ratio			
Fixed Assets Turnover Ratio (times)	8.97	8.19	8.25

Source : Department of Public Enterprises.

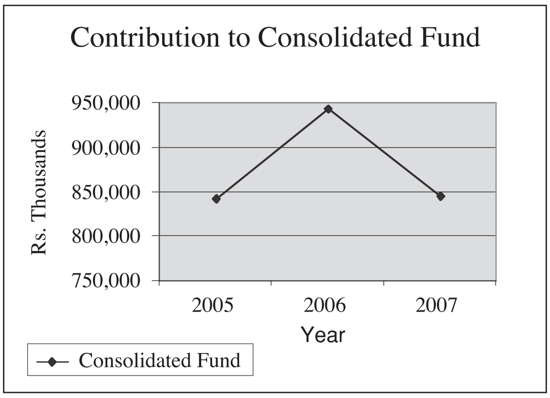
Revenue growth at 10 percent in 2005 declined up to -8 percent in 2006 due to removal of lottery counters by Urban Development Authority and Road Development Authority with road expansions, banned of using loudspeakers, natural disasters, and for security reasons. However, in 2007, slight increase of 5 percent was recorded in revenue.

Chart 4.12



Adequate increase in the revenue of Development Lotteries Board was not reported in comparison to the increase in advertising cost.

Chart 4.13



Increase in contribution to the President Fund in 2006 amounting to 12 percent declined by 10 percent in 2007.

Human Resource

Board has recruited employees contrary to the approved carder. Therefore the existing cardre (182) has exceeded the approved number of 148 as at 31.12.2007. Employees are recruited on the basis of casual, contract and permanent.

Social responsibilities and public relations

Development Lotteries Board has introduced new prizing schemes to increase the prizes distributed among customers. Development Lotteries board has distributed Rs. 2,516 Mn as follws.

	Rs
Saturday Fortune	801,440,250
Development Fortune	818,736,615
Jayoda	544,870,870
Instant	350,605,851
Dayata Kirula	500,000
Total	2,516,153,586

In 2007, Development Lotteries Board distributed bicycles on free of charge to sales representatives for the promotion of mobile sales service.

To facilitate the national sport, Development Lotteries Board contributed to a Volleyball tournament which was participated by leading sports clubs.

NATIONAL LOTTERIES BOARD

The National Lotteries Board was established under the Finance Act No. 11 of 1963 and certain sections of the above act were repealed and amended in 1997 under the (amendment) Act No 35 of 1997.

Major Activities

- Conduct superior lotteries with attractive prize structures to generate more prize winners.
- Generate more funds to contribute to the Consolidated Fund for development activities of the country.
- Increase self employment opportunities through expansion of the dealer agency network.
- Undertake development activities through various sponsorships as a corporate citizen.

Table 4.19

Financial Performance

	2005 Rs.	2006 Rs.	2007 Rs.
No. of tickets sold			
Mahajana Sampatha	217,978,710	238,838,350	211,238,295
Hospital Lotto	11,168,309	7,701,340	-
Vasana Sampatha	84,407,300	81,767,830	81,339,470
Govisetha	96,111,900	90,259,780	93,249,050
Samurdi	2,424,527	26,400	-
Shrama Vasana	983,960	3,600	-
Supiri Vasana	64,496,220	63,324,040	64,770,090
Jayawiru	66,911,790	65,201,480	64,017,870
Colombo Airport Super Draw	12,000	12,000	12,000
Shrama Vasana Passive	2,029,640	24,028,430	21,927,420
Suwasetha	-	12,177,270	32,820,900
Sevana	63,810,152	59,583,342	35,317,835
Sarana	3,583,100	-	-
Total	613,917,608	642,923,862	604,692,930
Average Contribution per ticket	0.62	0.54	0.53

Source : National Lotteries Board.

Generally, average contribution per ticket reported a continuous reduction in year 2006 and 2007 in comparison to the year 2005.

Table 4.20

Key Performance Indicators

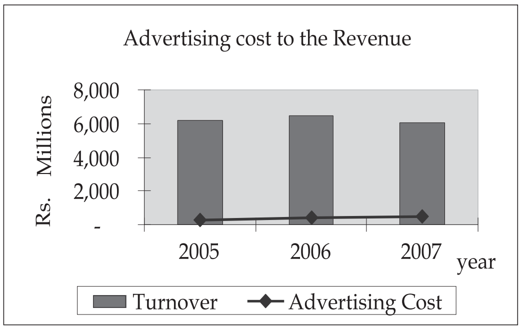
	2005	2006	2007
Profitability			
Revenue Growth (percent)	-5	5	-6
Operating Profit Ratio (percent)	32	31	31
Net Profit Ratio (percent)	20	17	16
Advertising Cost to Turnover (percent)	4	6	8
Total Contribution to Consolidated Fund as a percentage of Revenue	16	15	14
Liquidity			
Current Asset Ratio	3	2	3
Efficiency ratio			
Fixed Assets Turnover Ratio (times)	46	31	29

Source : Department of Public Enterprises.

Performance of the National Lotteries Board has been deteriorating with the decline of total revenue due to removal of lottery counters by Urban Development Authority and Road Development Authority with road expansions, banned of using loudspeakers, natural disasters, and for security reasons.

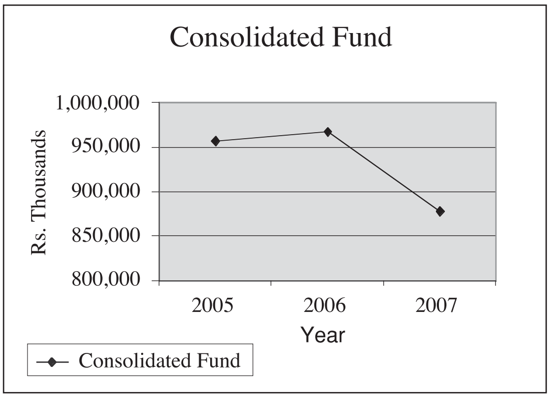
In 2007, only Govisetha and Supiri Vasana reported an increase of revenue with compared to the previous year.

Chart 4.14



In 2007, revenue of National Lotteries Board declined in comparison to the increase in advertising cost.

Chart 4.15



Increase in contribution of National Lotteries Board to the President Fund amounted to 1 percent in 2006. However it declined by 9 percent in 2007 in comparison to 2006.

Social responsibilities and public relations

In 2007, National Lotteries Board has distributed Rs. 7,347,050/- for social events as follows.

	Rs
Religious affairs	4,425,000
Constructions	622,050
Entertainments	200,000
Cultural Affairs	1,550,000
Sports	300,000
Educational	250,000
Total	7,347,050

Chapter 5

Performance of Public Enterprises

Infrastructure Development sector

Public Enterprises play a significant role in providing both economic and social infrastructure facilities such as electricity, transport, port services, water supply and communications services. These enterprises commands technical competence in each of these areas and public investment are undertaken by these enterprises.

The government having mobilized foreign finance on lend to related Public Enterprises to undertake such investment activities coming under the preview of these enterprises. Outstanding on lending to Public Enterprises by the Government amounted to Rs. 203 billion by the end of 2007, which is an increase of 27 percent. During the year the total amount on lend was around Rs. 50,875 million mainly to implement the infrastructure project of Ceylon Electricity Board and Sri Lanka Ports Authority.

The major infrastructure projects currently under the direct preview of public enterprises include Upperkotmale hydro power project (US$ 350 million), Puttalam coal power plant (US$ 455millionn), Kerawalapitiya power plant (US$ 300 million), Trincomalee coal power plant (US$ 500 million), Hambantota Port Development project (US$307 million), Colombo South breakwater project (US$300 million), Ampara water supply (US$ 163 million), Kandy water supply (US$ 190 million), Colombo water supply (US$ 187 million), Greater Galle water supply (US$ 71 million), Nuwara Eliya water supply (US$ 33 million), Matara water supply (US$ 18 million), Kurunagala water supply project (US$ 36 million).

Table 5.1

On-lending to Public Enterprises by the Government

(Rs. Mn)

Name of the Institution	Outstanding at end 2006	On-lending during 2007	Outstanding at end 2007
National Water Supplies & Drainage Board	14,640	1,905	16,545
Ceylon Electricity Board	32,523	18,563	51,086
Ceylon Petroleum Corporation	6,530	(647)	5,883
Sri Lanka Ports Authority	41,409	1,087	42,496
Airport & Aviation Services Ltd	3,136	10,409	13,545
Others	25,085	2,463	27,548
Total	**123,323**	**33,780**	**157,103**

Source: Department of Treasury Operations

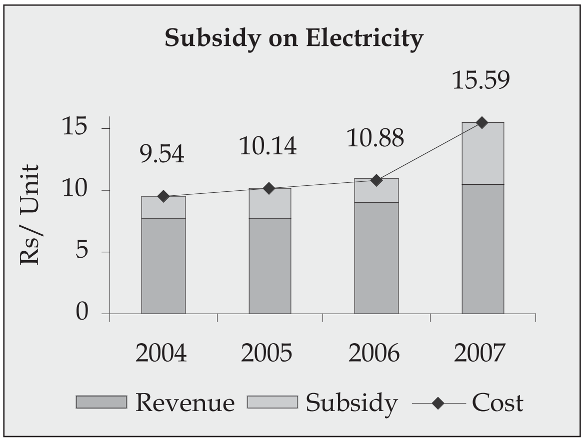
Ceylon Electricity Board (CEB)

Installed capacity for power generation marginally increased in 2007. The gross electricity generation grew at a relatively lower rate of 4.5 percent during 2007 compared to the growth of 7.1 percent in 2006. The increase in electricity sales (gross units) in 2007 moderated by 5.7percent, as the average price per unit increased by 1.57 Rs/kwh or by 17 percent. The revenue improved by 24 percent in 2007 consequent to an increase in the unit price as well as increased sales. The CEB expanded its domestic connections to 80 percent of total households in the country. As such, the average electricity consumption per capita increased by 5.1 percent in 2007 in comparison to 4.7 percent increase in 2006.

The cost of generating one unit of electricity was Rs.15.59 in 2007 while sales price was only Rs.10.53. This involved a higher unit subsidy to consumers in 2007 provided by the Government amounting to Rs.5 billion, the CEB incurred a loss of Rs.14 billion and tariff issues, despite the subsidy in 2007.

The CEB faced with a financially difficult time in 2007 due to increasing oil prices to Rs.7,669 million in 2007 from Rs.7,075 million in 2006.

Chart 5.1



Source: Ceylon Electricity Board

At the same time the Government has given a debt moratorium at a cost of Rs.7-10 billion per annum to the CEB until the commissioning of the Norochcholoi coal power plant which is expected to replace high cost thermal power generation. During 2007, Rs.13.4 billion was released to CEB through budgetary allocations to meet investment expenditure. As at end 2007 the total accumulated debt of CEB stood at Rs. 54 billion exclusively due to the Government on account of past borrowings largely for capital expenditure projects

Table 5.2

Ceylon Electricity Board

Category		Unit	2005	2006	2007(a)
Available Capacity		MW	2,411	2,434	2,443
Installed Capacity		"	2,411	2,434	2,443
CEB -	Hydro	"	1,207	1,207	1,207
	Thermal	"	548	548	548
	Wind	"	3	3	3
Private -	Hydro	"	84	107	116
	Thermal	"	567	567	567
Electricity Generation	GWh	8,769	9,389	9,814	
CEB -	Hydro	"	3,173	4,290	3,603
	Thermal	"	2,162	1,669	2,336
	Wind	"	2	2	2
Private -	Hydro	"	277	345	345
	Thermal	"	3,152	3,082	3,528
Total Sales by CEB		"	7,255	7,832	8,276
Domestic and Religious		"	2,444	2,622	2,771
Industrial		"	2,446	2,605	2,627
General Purposes		"	1,254	1,395	1,626
Local Authorities/LECO		"	1,027	1,111	1,114
Street Lighting		"	83	98	108
Total Revenue		Rs.Mn.	55,977	69,941	87,575
Consumer		No. Mn.	3,397	3,637	3,866
Average unit cost		Rs.	10.14	10.88	15.59
Average unit Revenue		"	7.71	8.99	10.53
Operational losses		Rs.Mn.	1,218	14,176	22,314
Investments		"	2,897	3,152	3,882
Bank Borrowings		"	5,903	7,669	7,075

Source: Department of Public Enterprises / Ceylon Electricity Board

Table 5.3

Number of Power Stations by ownership

	2005		2006	
	CEB	PPP	CEB	PPP
Hydro	16	48	16	60
Thermal	6	10	6	10
Wind	1	0	1	0
Total	**23**	**58**	**23**	**70**

PPP-Private Power Purchase
Source: Ceylon Electricity Board Statistical Digest 2006

As per the Auditor General's Report, the CEB has ignored the Circular PED/39, dated 09th October 2006, which recommends giving a fixed fuel allowance for eligible officers, and thus has issued fuel unlimitedly. Further, it has been noted that the CEB has conferred the ownership of the official vehicles used by General Managers and Additional General Managers at the point of their retirement, which contravenes Chapter 4 of the Circular mentioned above.

The liquidity, profitability and the efficiency of the CEB has been calculated as follows:

Table 5.4

	2006	2005	2004
Liquidity			
a) Current Ratio	0.83:1	0.44:1	0.46:1
b) Quick Asset Ratio	0.58:1	0.27:1	0.33:1
c) Cash & Bank Balances to Current Liabilities Ratio	0.03:1	0.03:1	0.02:1
Profitability			
a) Gross Profit Ratio (percent)	0.16	(10.62)	(20.43)
b) Net Profit Ratio (percent)	(8.76)	(12.24)	(30.73)
Efficiency			
a) Receivables Period (times)	62.33	48.07	55.88

Source : Department of Public Enterprises.

Thus it becomes clear that the CEB is confronted with severe liquidity problems, though has shown marginal improvements over the years. Coupled with this poor liquidity position, the critical failure in securing profitability which is explained by the operational loss of Rs. 6,562 million in 2006, has dragged the Board up to its unfavourable state.

Table 5.5

Operational Summary of CEB

	2006		2005		2004	
	(KWH)	Loss as a Percentage of Gross Generation	(KWH)	Loss as a Percentage of Gross Generation	(KWH)	Loss as a Percentage of Gross Generation
Gross Generation – A	9,389	-	8,769	-	8,043	-
Generation Loss – B	74	0.79	60	0.69	46	0.57
Net Generation (C=A-B)	9,315	-	8,709	-	7,997	-
Power issued for Distribution – D	8,952	-	8,374	-	7,719	-
Sales – E	7,832	-	7,255	-	6,667	-
Transmission Loss F(C-D)	363	3.87	335	3.82	278	3.46
Distribution Loss G (D-E)	1,120	11.93	1,119	12.76	1,052	13.09
Total System Loss B+F+G	1,557	16.58	1,514	17.27	1,376	17.12

Source:: Auditor General's Report

Thus it becomes clear that the CEB has continued to be on an increasing trend of Total System Losses in terms of Kilo Watt Hours, which was contributed by losses at all the three main points – generation, distribution & transmission. On more precise terms, reasons for such losses could be;

a) Usage of electricity via unauthorized means

b) Neglecting to switch off street lamps in day time (though they are billed only for 12 hours, and at the end 2006, total receivables classified as Street Lightning was Rs. 225 million)

c) Shortage of Electricity Meters, which results in preparing most bills on estimation basis.

Table 5.6

The State of Debtors

	2006 (Rs Mn)	2005 (Rs Mn)	2004 (Rs Mn)	2003 (Rs Mn)
Total Sales of Electricity	69,941	55,977	51,119	47,719
	………	………	………	………
Total Debtors	14,283	10,783	10,664	10,311
Provision for Doubtful Debts	(2,319)	(3,412)	(2,806)	(2,471)
	………	………	……….	………
Net Debtors	11,964	7,371	7,858	7,840
Bad & Doubtful Debt Percentage	16	32	26	24

Source:: Ceylon Electricity Board

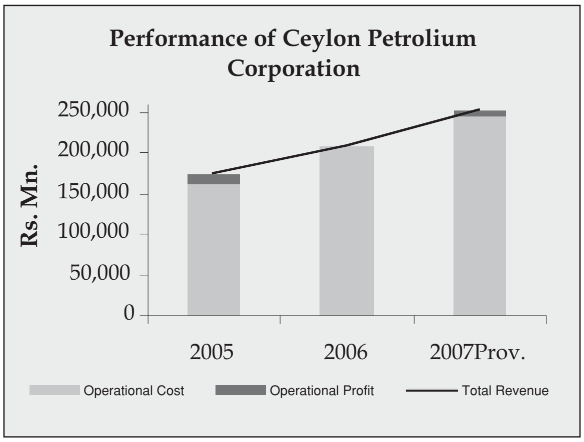
Further, it has been noted that the existing backward situation of the CEB could be attributed to several other reasons, one such being uneconomic transactions. For instance, during the year 2006, the CEB has paid Rs. 379.5 million, US $ 854,467 and ¥ 5 million as interest on delayed payments for private suppliers of electricity.

Moreover, according to the Auditor General's Report, cheques received from customers with a total value of Rs. 7,709,816 has been returned, leaving the CEB unable to take any remedial action even by the end 2006.

Ceylon Petroleum Corporation (CPC)

The CPC faced severe challenges primarily due to unprecedented increase in world oil prices. The purchase price of crude oil increased to an average of US$ 71.96 /bbl in 2007 from US$ 65.11 /bbl in 2006. The import price of refined products decreased from US$ 82.19./bbl in 2006 to US$ 81.07/bbl in 2007. The CPC raised prices of petroleum products to cope up with the rising oil prices. CPC also hedged part of its procurements to contain cost. The government successfully negotiated with the Government of Iran to supply oil at interest free basis for a period of 4 months with a provision to increase to a further 8 months on an interest basis. The CPC benefited significantly from these arrangements in 2007.

Chart 5.2



Source : Ceylon Petroleum Corporation

CPC's performance in 2007 witnessed a significant improvement, earning a profit after tax of Rs.2, 645 million against the loss of Rs.946 million in 2006.

Taking the fluctuations of oil prices and limited refinery capacity, into account, CPC has initiated action to revamp its refinery and storage capacity. It is expected to increase the Sapugaskanda refinery capacity to 100,000 MT/day from the present level of US$ 50,000 MT/day and modernize the existing refinery in improved petroleum efficiency with the assistance of the Government of Iran. The expansion and modernization project is expected to improve commercial viability as well as energy security in the country.

Table 5.7

Performance of Ceylon Petroleum Corporation

Category	Unit	2005	2006	2007(a)
Quantity Imported				
Crude Oil	MT'000	2,008	2,146	1,931
Refined Products (b)	"	1,823	1,926	2,200
Value of Imports (C & F)				
Crude oil	Rs.Mn	77,686	107,160	114,150
	US $ Mn	773	1,028	1,011
Refined Products	Rs.Mn	88,767	114,822	151,141
	US $ Mn	882	1,078	1,351
Average price of crude oil (C &F)	Rs/Barrel	5,241	6,748	7,988
	US $ /Barrel	52.14	65.11	71.96
Quantity of Exports (c)	MT '000	164	162	102
Value of Export	US $ Mn	71	85	75
Total Revenue	Rs. Mn.	173,854	208,583	253,345
Domestic sales	"	167,396	199,869	245,080
Exports		6,458	8,714	8,265
Direct Production cost	"	2,217	1,872	1,445
Overheads	"	9,018	10,360	11,342
Operational Profit / (Loss)	"	11,100	466	7,078
Local Sales	MT '000	4,243	3,553	3,802
Petrol (90 octane)	"	526	454	487
Petrol (95 octane)	"	23	24	31
Auto Diesel	"	1,862	1,633	1,752
Super Diesel	"	17	9	14
Kerosene	"	252	206	168
Furnace oil	"	1,026	912	986
Avtur	"	216	255	267
Naptha	"	181	60	97
L.P.Gas	"	165	170	180
Local Price (End Period)	Rs/ Litre			
Petrol (90 octane)	"	80 - 82.00	92. - 95.00	117.00
Petrol (95 octane)	"	83.00	95.00	120.00
Auto Diesel	"	50.00	60.00	75.00
Super Diesel	"	55.30	65.30	80.30
Kerosene	"	30.50	48.00	68.00
Furnace oil	"	28 -33.30	41 - 46.30	
Refinery capacity	'000 MT	2,300	2,300	2,300
Storage capacity	'000 MT	439	439	439
Refinery output	'000 MT	1,876	2,048	1,800
Value of production	Rs. Mn	77,088	110,639	117,425

Source: Ceylon Petroleum Corporation

(a) Provisional

(b) Imports by Ceylon Petroleum Corporation, Lanka IOC and Lanka Marine Services (Pvt) Limited

As reported by Ceylon Petroleum Corporation

The CPC being the largest importer to the country faced severe challenges primarily due to the unprecedented increase in the world oil prices. Sri Lanka adopted two-pronged strategy to meet these challenges targeting both the supply and demand side. In terms of the supply side, the country successfully negotiated with Iran to supply oil at a concessionary rate. The government in managing the demand side made a prudent decision to revise the fuel prices to be in line with the market prices. While the price increases were non- indiscriminate, frequent price increases occurred during the year mindful of the impact such increases would have on the cost of living. The CPC also benefited significantly from hedging. As a result, the CPC's performance in 2007 was a significant improvement from 2006 with the corporation earning a profit after tax of Rs.2645.75 million against the loss of Rs.946 million incurred in 2006. Foreign bills payable as at 31.12.2007 was Rs.61,378 million which is a 70 percent increase from 31.12.2006. The CPC's loan repayable within the last 5 years has decreased to Rs.13,727 million in 2007 from Rs.16,704 million in 2006. It is important to note that in 2007 CPC's administrative costs have decreased by 38 percent which was Rs.1,288.7 million in 2007 and Rs.2,068.9 million in 2006.

Taking the fluctuations of the Oil prices into account, the CPC has initiated action to revamp its refinery and storage capacity.

The performance of the CPC, in terms of liquidity, profitability, efficiency etc. could be examined as follows.

Table 5.8

	2004	2005	2006	2007
Liquidity				
a) Current Ratio	0.92:1	1.48:1	1.32:1	1.22:1
b) Quick Ratio	0.53:1	1.00:1	0.73:1	0.64:1
c) Net Working Capital Ratio	(0.06):1	0.26:1	0.20:1	0.15:1
Profitability				
a) Gross Profit Ratio (percent)	12.17	10.72	4.85	6.98
b) Net Profit Ratio (percent)	3.22	4.76	(0.48)	1.11
Efficiency				
a) Receivables Period (times)	26.80	30.41	34.00	48.76
b) Inventory Period (times)	46.25	34.17	52.33	66.16
c) Inventory Turnover Period (times)	7.89	8.18	6.97	5.52
d) Asset Turnover Period (times)	8.61	11.24	14.29	19.08

Source : Ceylon Petrolum Corporation.

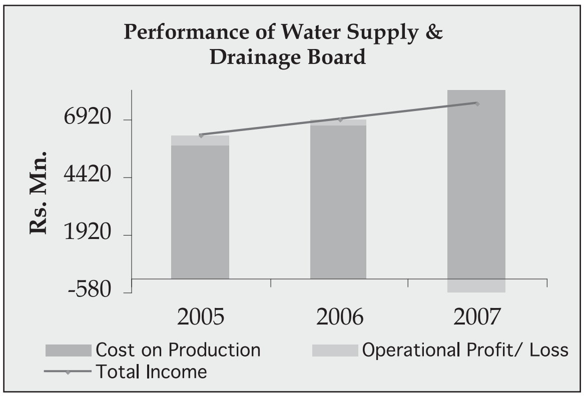
Though the indicators notify that the Corporation has been able to maintain a considerable level of liquidity in their operations during the recent past, when the actual performance is looked into, it is evident that the CPC is placed in a financially vulnerable situation. One of the major contributory factors for such an outcome could be the dues particularly from government entities such as the CEB, whose payments usually remain outstanding for more that 3 months. For instance, by the end 2006, the CEB had been in debt for CPC with Rs. 11,658 million out of which, Rs. 9435 million was more than three months old. Further, according to profitability indicators, it becomes clear that the entity has not been able to reach the standards where long term financial viability is ensured.

The year 2008 will be more challenging than 2007 with the oil prices expected to rise much higher. The rising cost of living in Sri Lanka will have to be taken into account when future fuel price increases are to be undertaken. The CPC faces a serious problem of collecting dues from Ceylon Electricity Board, Sri Lanka Railways, and Sri Lanka Transport Board which affects CPC's cash flows badly.

National Water Supply & Drainage Board (NWS&DB)

The National Water Supply & Drainage Board operates 308 water supply schemes that reach 32 percent of the total population. During 2007 the total water connections increased to 1,078,892 from 989,395 in 2006.

Chart 5.3



Source : Water Supply and Drainage Board

In 2007 the Board incurred a cost of Rs.34.80 per unit of water produced, which is a significant increase from Rs.27.28 in 2006. However the Board managed to recover only Rs. 22.82 per unit. The number of employees per 1000 connections has decreased to 8.2 in 2007 from 8.4 in 2006.

The total assets of the NWS & DB has been valued at Rs. 101 billion as at end 2007 comparison to Rs. 90 billion in 2006. The total billing income in 2007 amounted to Rs. 7,424 million which is an increase of 4.8 percent over the previous year. However, the Board incurred a loss of Rs.1, 278 million in 2007 as against the loss of Rs.214 million in 2006. The NWS & DB also incurred an operating loss of Rs.575 million in 2007 as against the operating profit of Rs.255 million earned in 2006 raising concerns about the rising operational cost in the context of rising energy cost which has increased from Rs. 1,218 million in 2005 to Rs. 1,588 million in 2007. The Board employed 8,768 employees at a cost of Rs.3, 471 million in 2007 in comparison to 8,255 at a cost of Rs. 2,922 Million in 2006. While administration overheads have increased from Rs. 1,349 million in 2006 to Rs. 1,763 million in 2007 an increase of 31 percent due to the salary increases as well as higher recruitment at management and skilled worker grade.

With regard to the use of foreign aid, the NWS&DB utilized 96.4 percent of the total amount allocated to the water supply & sanitation sector in 2007. In 2008 the NWS&DB is expected to supplement development projects by contributing at least Rs.500 million from internally generated funds. The Board should focus more on the timely completion of the development projects undertaken. It is noted that the board needs to prioritize utilization of capital funds effectively. Issue of free water supplied to tenement gardens needs to be looked at as it has a substantial effect on the total operational costs of the board.

Table 5.9

National Water Supply and Drainage Board

	Unit	2005	2006	2007
Asset value	Rs. Bn.	77,435	89,991	100,813
Water connections	No.	907,622	989,395	1,078,892
Cost per unit sold	Rs. Cbm	28.70	27.30	34.80
Water Production	Mn. Cbm	383	398	424
Water supply schemes (Revenue units)	No.	291	295	308
Turnover (Sales of Water)	Rs. Mn.	5,447	5,869	6,482
Total Income	Rs. Mn.	6,261	6,944	7,611
Non-operating income	"	32.6	114.5	203.4
Investments	"	672.6	1,650	851
Cost of Production	"	5,825	6,689	8,186
O/w Direct Operating cost	"	3,604	4,081	4,903
Administration overheads	"	999	1,349	1,763
Finance Cost	"	492	512	852
Operation profit / (loss)	"	436	255	(575)
Net Profit /(loss)	"	(91.9)	(214)	(1,278)
Revenue per Employee / month	Rs.	57,348	59,251	61,606
Cost of employment / employee /month	"	26,756	29,497	35,479
Cost of Production / employee / month	"	37,950	41,192	46,595
Energy cost	Rs. Mn.	1,218	1,361	1,588
Employees	No.	7,914	8,255	8,768
Managerial	"	512	549	766
Other	"	7,402	7,706	8,002

Source: National Water Supply and Drainage Board / Department of Public Enterprises

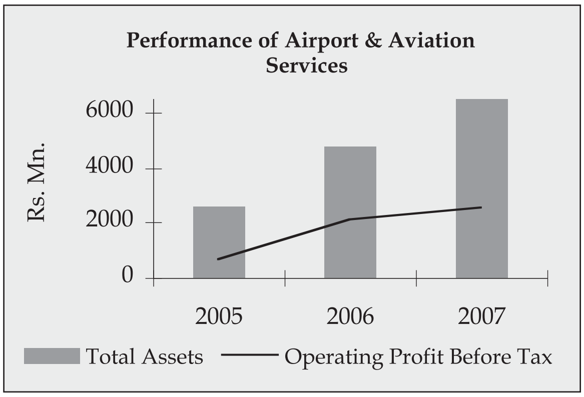
Reasons for the increase of operational cost

- Increase of employees by 854 from 2005 to 2007 mainly in executive and technical / skilled categories
- 26 percent increase in salary
- Increase in energy cost

Airport and Aviation Services Ltd (AASL)

In 2007, too the AASL continued to be a profit earning entity, generating an operating profit of Rs.2,014 million. The AASL continued to earn more revenue from non-aeronautical than from aeronautical avenues. The financial expenses incurred in 2007 decreased significantly to Rs.70, 840 from Rs.208, 465 in 2006. Investments of AASL as at end 2007 were Rs.4,069 million which is a significant increase from 2006.

Chart 5.4



Source: Airport & Aviation Services (SL) Ltd

Table 5.10

Airport & Aviation Services

Rs. Mn

	2005	2006	2007
Total Revenue	2,619	4,454	4,890
Total Expenditure	(1,950)	(2,334)	(2,876)
Staff cost	(1,325)	(1,576)	(1,984)
Other cost	(625)	(758)	(892)
Operating profit before tax	669	2,120	2,518
Profit /(loss) after tax	423	1,373	1,672
Total Assets	2,608	4,753	6,509
Total non current assets	128	477	625
Property, plant & equipment	128	109	160
Differed income tax assets	-	368	464
Total current assets	2,480	4,276	5,884
Short term investments	1,563	2,764	4,069
Cash & bank balances	121	530	548
Other receivables	796	982	1,266
Total shareholders equity	1,098	2,772	4,288
Earning per share (%)	39	50	39
Net profit ratio (%)	16	31	34

Source: Airport & Aviation Services (SL) Ltd

Sri Lanka Ports Authority (SLPA)

SLPA has been able to increase its total revenue by 13 percent in 2007, when compared to 2006. However, the operating profit recorded a significant decrease. SLPA also incurred a loss of Rs.2,765 million in 2007 mainly due to exchange variations on the Japanese Yen Loans. The SLPA has also incurred an operational loss as productivity per tonnage has declined with the total expense per tonnage exceeding the total revenue earned per tonnage.

Despite incurring a loss in 2007 the SLPA's liquidity position remained positive. The total foreign loans outstanding in 2007 amounted to Rs.78, 649 million. The Treasury has arranged on lending facility to the SLPA to the tune of Rs.39, 335 million for the development of Colombo South Port Extension project, the Hambantota, port development project, Galle port expansion project and Galle and Oluvil port development projects.

Contribution to the government has been decreased to Rs.61 million from Rs.153 million due to a decline in profitability.

The cost of wages & salaries and overtime have increased by 57 percent in 2007 resulting in an overall increase in the cost of operation. Administration expenses increased to Rs. 6,849 million in 2007 from Rs. 5,254 Million in 2006.

As at end of 2007, SLPA's total assets dropped by 2 percent, whilst the total liabilities increased by 38 percent.

Table 5.11

Sri Lanka Ports Authority

	Unit	2005	2006	2007
Vessels Arrived	Nos	5,092	5,117	5,366
Colombo	"	4,425	4,623	4,760
Galle	"	258	267	304
Trincomalee	"	409	267	302
Revenue	Rs. Mn.	20,550	23,004	25,913
Colombo	"	19,789	22,318	25,296
Galle	"	449	465	361
Tincomalee	"	312	221	256
Total expenditure	Rs.Mn.	14,370	18,216	23,562
Colombo	"	13,589	17,196	22,265
Galle	"	370	515	636
Tincomalee	"	411	506	661
Employment	Nos.	13,527	13,691	13,667
Colombo	"	12,217	12,383	12,470
Galle	"	622	689	577
Tincomalee	"	688	619	620
Revenue per Employee	Rs. Mn.	1.5	1.7	1.9
Total cost of employment	Rs./Ton	6,943	8,936	14,013
Net profit	"	223	155	74
Foreign loan	Rs. Mn	40,248	38,521	39,334
Interest on foreign loan	"	1,186	1,115	1,147
Foreign Exchange gain/loss	"	7,058	(1,168)	(3,944)

Source: Department of Public Enterprises / Sri Lanka Ports Authority

The Ceylon Transport Board (CTB)

Operated buses by CTB in 2007 totaled 4,074 in comparison to 3,776 busses in 2006.

The Operated passenger Km per day increased from 713,753 in 2006 to 851,119 in 2007. However revenue was inadequate to meet operational expenditure of CTB.

Table 5.12

Sri Lanka Transport Board

	Unit	2005	2006	2007
No of Operated Buses	No	3,557	3,776	4,074
Operated Passenger Kilometerage Per day	Km/Day	663,340	713,753	851,119
Revenue Per Km	Rs/Km	40.37	46.56	50.60
Total Revenue	Rs.Mn	10,007	12,665	15,440
Way Bill	"	6,417	7,917	10,695
Season Tickets	"	285	199	359
Special Hires	"	137	150	233
Advertising	"	4	6	3
School Season Tickets	"	226	227	473
Uneconomic Route subsidy	"	175	197	281
Other Income	"	251	422	345
Salary Subsidy	"	2,512	3,547	3,051
Total Expenditure	Rs.Mn	11,147	13,653	15,807
Cost Fuel	"	3,632	4,696	6,228
Cost of Tyres, Tubes & other Parts	"	1,362	1,576	1,886
Government Contribution				
Recurrent	Rs.Mn	3,891	4,976	3,654
Capital	"	1,437	3,984	2,612
Net loss	"	(1,140)	(984)	(366)
Total number of Employees	No	41,944	38,952	37,149
Total Cost of Employment	Rs.Mn	3,872	4,745	4,781
Revenue Per Employee	Rs.'000	238,580	325,144	415,624

Source: Sri Lanka Transport Board/Department of Public Enterprises

The investment programme of the CTB has directed towards developing 25 bus depots as model depots, installation of new engines and improved maintenance for existing bus fleet and addition of new buses. Measures are also being introduced to reduce operational expenditure of the CTB to make it a commercially viable venture.

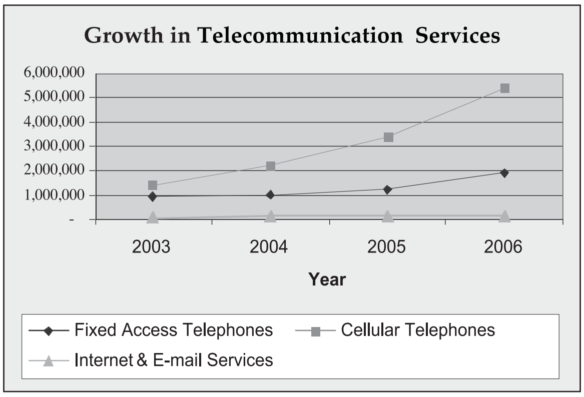
Sri Lanka Telecom Plc (SLT)

Telecommunication sector reflects a rapid growth as a result of the active participation of the private sector. The Telecommunication sector presently consists of 4 fixed line operators, 5 Mobile operators, 29 Internet Service Providers and 32 External Gateway Operators *(Source: Annual Report 2007 - Sri Lanka Telecom Plc).*

The disparity in telecommunication services in urban and rural areas is narrowing as a result of the benefits of liberalization and competition of the telecommunication sector. Rapid expansion of mobile networks and CDMA based wireless phones has assured the availability of the facility in any part of the country. The competition and the accessibility to sophisticated technology have enabled the service providers to make their service available at an affordable price to the public.

SLT, in which the government owns a substantial stake, has mainly contributed in establishing fixed line phones in the country in the past. The service levels of SLT are continuously improving and the number of SLT lines in service has increased to 1,400,000 (growth of 18%) by the end of 2007

Chart 5.5

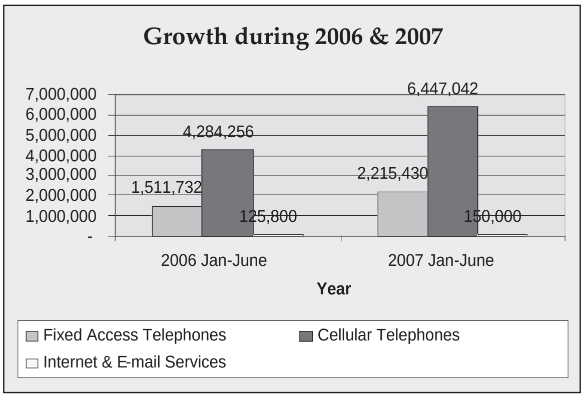


The subscriber network of the telecommunications sector grew by 59% in 2006 compared to 2005. The fixed access network grew by 52% largely due to expansion in wireless network (CDMA) technology. The phenomenal growth in the mobile phone services continued registering 61% increase in the subscriber network in 2006 after 52% increase in 2005.

In the industry, the growth momentum continued in year 2007. Fixed access telephone connections expanded by 47% during the first half of 2007 compared to the same period of 2006. The subscriber network of mobile telephones has increased by 50% during the year 2007.

The penetration of e-mail and Internet facilities is still relatively lower in the country due to limited availability of Computer facilities in suburb areas. However a substantial growth (15%) can be seen in e-mail & Internet services by the end of June 2007 when compared to year end 2006, where number of e-mail & Internet services has increased to 150,000 by the end of June 2007 from 125,800 at the end June of 2006 (Chart 5.6).

Chart 5.6



With these developments, the telephone density including cellular phones (telephones per 100 persons) has increased to 43% by the end of June 2007 from 36.7% at the end 2006.

After the proposed sales of shares of NTT are finalized the Government may have to play a bigger role in the SLT management.

Mihin Lanka (Pvt) Ltd (MLPL)

The establishment of the Mihin Lanka (Pvt) Ltd has enabled the government to venture into the untapped budget airline sector. The Treasury made an equity investment of Rs. 250 million in MLPL and in 2008 the government has also made a budgetary allocation of Rs. 500 million with a view to strengthening the company's financial position.

The year 2008 will be a challenging year especially with the ever-increasing cost of fuel. At the same time the strategic positioning of the Mihin Lanka Ltd along with the national carrier Sri Lankan Airlines needs to be examined more closely.

Sri Lankan Airlines

The global airline industry is expected to continue its overall growth over the next two years, according to forecasts by the International Air Transport Association (IATA).Over 1.6 billion people worldwide use air travel, and this number is expected to exceed 2.3 billion by 2010.In addition, over 40% of global trade, in terms of value of goods, is carried out by air.

The global air transport industry provides employment for 28 million people, directly and indirectly, a number which is expected to rise to 31 million by 2010.

Passenger revenue, recorded an annual growth of 5.2% in the calendar year 2006.IATA forecasts passenger revenue growth rates of 5.0% in 2007 and 6.0% in 2008. Cargo revenue, which recorded growth of 4.0% in 2006, was expected to see increased growth rates of 4.5% and 6.0% in 2007 and 2008 respectively.

The cost of fuel, accounted for 26% of an Airline's operating expenses in 2006 as against the 22% recorded in previous year. In comparison, the cost of fuel formed only 13% of the industry's operating expenses as recently as 2002.

Company Performance

The financial year under review was so far the most challenging year for the Airline. The steep escalation in aviation fuel prices and the downturn in tourist arrivals due to the deteriorating security situation in the Country were the two most significant factors that had a negative impact on the bottom-line of the Airline.

Table 5.13

Decade at a glance-Sri Lankan Airline

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Revenue	Rs Mn	17592	19171	24354	30437	29353	36235	45397	53809	61160	67964
Operating Expenses	Rs Mn	14657	16139	23423	31817	31308	33441	39442	54145	60720	69403
Net Profit/Loss	Rs Mn	1641	1273	3661	-4735	-2049	3347	7424	480	476	568
Share Capital	Rs Mn	5146.4	5146.4	5146.4	5146.4	5146.4	5146.4	5146.35	5146.35	5146.35	5146.35
Non Current Assets	Rs Mn	17882	16360	17526	14952	12827	12229	13073	10909	13410	12761
Current Assets	Rs Mn	11197	16091	14930	14247	10261	18713	24954	22303	21867	21347
Total Assets	Rs Mn	29109	32521	32527	29270	24959	31039	38123	33308	38003	37916
Current Liabilities	Rs Mn	9224	11477	13529	16886	11578	16641	20612	22382	25485	25007
Yield/Unit Cost											
Overall yeild	Rs.tkm	29.3	31.3	31.8	30.2	38.6	43	47.3	48.1	52.2	55.71
Unit Cost	Rs.tkm	20.8	20.4	22.9	24.5	27.5	31.5	34.8	36.2	37.62	40.3
Breakeven load factor	%	70.9	65.3	72	81.1	71.3	73.3	68.7	74.9	72	72.34
Revenue per RPK	Rs/RPK	3.2	3.3	3.4	3.1	3.8	4.3	4.9	5.1	5.3	5.6
Production											
Passenger Capacity	ASK Mn	5672.7	6209.8	8038.3	10892	8556.9	8422.8	9692.08	11326.54	11934.86	12735.62
Overall Capacity	ATK Mn	757.42	832.42	1088.4	1454.8	1148.7	1121.9	1289.94	1484.02	1590.55	1695.91
Traffic											
Passengers Carried	No.'000	1201	1260	1475	1891	1615	1806	2065	2423	3005	3176
Cargo Carried	Tonnes	36478	35566	41670	58618	46067	47650	54943	66977	82142	88833
Staff											
Average Strength	Nos.	4823	4832	5070	5196	4049	4182	4714	5163	5395	5272
Revenue per Employee	Rs.Mn.	3.6	3.9	4.8	5.8	7.2	8.6	9.6	10.4	11.3	12.8
Capacity per Employee	Tonne/km	157043	172329	214670	279981	283706	268266	273640	287433	294820	321683
Fleet											
L1011-500	Nos	2	2	_	_	_	_	_	_	_	_
L1011-100	Nos	1	1	_	_	_	_	_	_	_	_
L1011-50	Nos	1	1	_	_	_	_	_	_	_	_
A320-200	Nos	2	2	2	2	1	2	3	5	5	5
A330-200	Nos	_	_	4	6	4	4	4	4	4	4
A340-300	Nos	3	3	4	4	3	3	5	5	5	5
Turbo Otter	Nos	_	_	_	_	_	_	_	2	2	2
Total	Nos	9	9	10	12	8	9	12	16	16	16

Source : Sri Lanka Air Line

Air Craft Fleet as at 31 March 2007

	On Operating Lease	
A320-200 -	Nos.	5
A330-200 -	Nos.	4
A340-300	Nos.	2
Turbo Otter	Nos.	-
Total in service at the end	Nos.	11

When considering last 10 years the company revenue smoothly increased with a parallel increase in operational expenditure. In 2004 it has made the largest profit during last decade.

During the last 10 years the average staff of the company is constant except the decrease of 2002 and 2003. In 1998 it was 4,823 and 5,272 employees, in 2007.

Chart 5.7

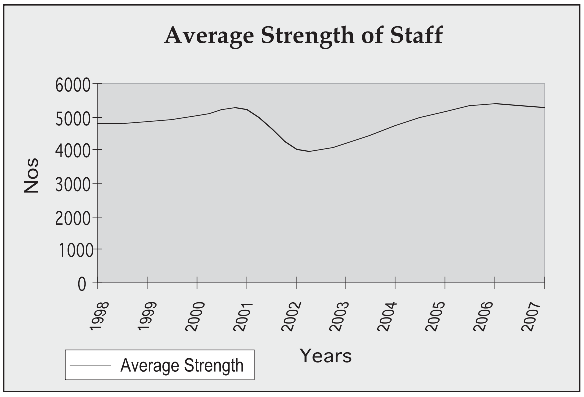


Table 5.14

Key Financial Indicators

	2007	2006	Change
Net Profit after Tax(Rs.Mn)	568.04	476.53	19.20%
Profit before Tax(Rs.Mn.)	571.89	512.65	11.56%
Earnings per shares(Rs)	11.04	9.26	19.22%
Return on Turnover(%)	0.84	0.78	0.06%
Return on Total Assets(%)	1.5	1.25	0.25%
Passengers (Mn)	54683	49413	10.67%
Cargo(Mn)	9430	8177	15.32%
Air Terminal Services(Mn)	3497	3218	8.67%
Duty Free(Mn)	354	352	0.57%
Total Revenue(Mn)	67964	61160	11.12%
Operating Expenditure.			
Staff(Mn)	9370	7867	-19.11%
Fuel(Mn)	23658	19236	-22.99%
Aircraft Maintanance(Mn)	5693	5266	-8.11%
Route(Mn)	14078	12360	-13.90%
Aircraft Lease & Depriciation(Mn)	9474	8832	-7.27%
Other Expenses(Mn)	7130	7159	-0.41%
Total Operating Expenditure	69403	60720	-14.30%

Source : Sri Lanka Air Line.

Table 5.15

Operational Performance by route/region of the Company in 2007 and 2006

Operating performance by route/region	2007	2006
Passengers Nos.(000)		
Regional	1320	1261
Middle East	723	699
South East Asian	690	612
Europe	443	433
System-Wide	3176	3005

Source : Sri Lanka Air Line.

Table 5.16

Age Analysis of the Company

Age Analysis(Nos.of Permanent Staff)	
>55 years	56
35-54 years	2531
25-34 years	1400
<25years	719
Total years	**4706**

Source : Sri Lanka Air Line.

Table 5.17

Service Analysis of the Company

Service Analysis(Nos.of Permanent Staff)	
< 1 year	411
1-5 years	1310
6-10 years	701
10-15 years	860
15-20 years	599
20-25 years	549
>25 years	276
Total	**4706**

Source : Sri Lanka Air Line.

Table 5.18

Risk Analysis

The Company considers below risk factors to fulfill their management strategies.

External Risk	Internal Risks
Country Risk	Compliance Risk
Fuel Price Risk	Operational Risk
Market Risk	System Risk
Credit Risk	Safety Risk
Exchange Rate Risk	Cost Overrun Risk
Interest Rate Risk	Procurement Risk

Source : Sri Lanka Air Line.

Chapter 6

Performance of Public Enterprises

Trading Sector

Trading Sector mainly consists of three sub sections Fisheries, Trading and Sales.

The fisheries section comprises of Ceylon Fisheries Corporation, Cey- Nor Foundation and Ceylon Fisheries Harbour Corporation.

The trading section consists of four institutions. These are State General Trading Company, Corporate Wholesale Establishment, Building Material Corporation and Laksathosa. The sales section consists of State Timber Corporation.

Table 6.1

Overview of Trading Sector for year 2007

Rs. Mn

Institute	Turnover	Profit	Net Asset	Acc/Profit Loss	Number of Employees
Trading					
S.G.T.C	242.85	(64.60)	1054.70	38.30	173
C.W.E.	353.10	(556.50)	(6857.90)	(8553.80)	
B.M.C.	146.40	(16.10)	35.80	298.00	309
Laksathosa	888.30	(20.50)	159.70	(23.96)	
Sub Total	1630.65	(657.70)	(5607.70)	(8241.46)	482
Fisheries					
Cey. Fisheries	1111.00	(9.10)	919.05	(299.30)	763
Cey. Nor	387.60	(24.60)	24.21	(99.40)	393
Fish. Habour	137.50	(23.90)	4924.50	(835.50)	687
Sub Total	1636.10	(57.60)	5867.76	(1234.20)	1843
Sales					
Timber Corp.	2297.60	150.00	1822.60	1781.10	2738
Sub Total	2297.60	150.00	1822.60	1781.10	2738
Total	5564.35	(565.30)	2082.66	(7694.56)	5063

Source : Department of Public Enterprises

The Trading Section under review of the Trading Sector incurred a loss during 2007 amounting to Rs. 657.70mn and 85% of the loss was incurred by C.W.E. In addition to that C.W.E recorded a negative net asset position of Rs. 6,857mn.

Total Turnover of the Fisheries Section under review in 2007 amounted to Rs.1,636mn of which 68% contributed by Ceylon Fisheries Corporation. This section could not earn profits during 2007. Total loss reported amounts to Rs.57.6mn and the accumulated loss is 1,234.2mn of which 68% is owed by Fisheries Harbour Corporation.

Sales section under review comprises of State Timber Corporation (STC) and is a profitable organization of the Trading Sector with a profit of Rs.150mn in 2007.

Ceylon Fisheries Corporation (CFC)

CFC present activities include purchasing and selling of fish on wholesale and retail basis, purchasing and selling of fisheries by-products, purchasing and marketing of fresh water fish, ice production and sales. The Ceylon Fisheries Corporation operates in 14 production regions, 8 marketing regions and 5 other project divisions. In addition the corporation has sales outlets covering Colombo and Colombo Suburbs and mobile fish sales outlets. Further, the corporation has introduced Fish fares and fish Mela in selected towns. In addition the Ceylon Fisheries Corporation supplies fish for many state institutions. Budget Shops were established at Rajagiriya, Welisera and Maligawatta. CFC sells fish at a marginal profit at these venues.

Chart 6.1

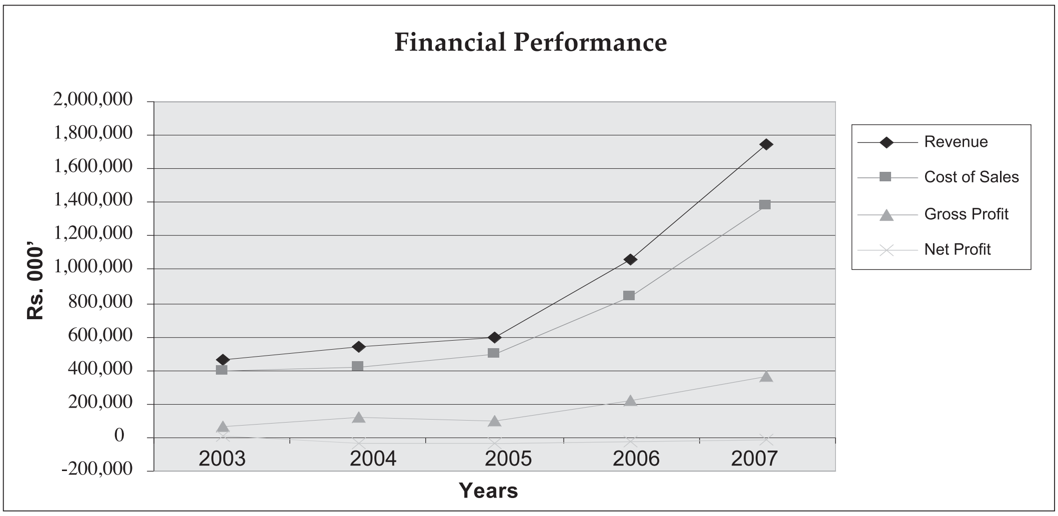


Table 6.2

Performance of Ceylon Fisheries Corporation

Description		*2004*	*2005*	*2006*	*2007*
Revenue	Rs.Mn	537	591	1061	1745
Average Price for Kg.	Rs.	154	183	203	255
Price Increase	(Rs.)	-	29	20	52
Price Increase	%	-	19%	11%	26%
Sales Quantity	MT	1891	1819	3100	3837
Sales Volumes Increase	MT	-	(72)	1281	737
Sales Volume increase	%	-	(3.6)	15%	24%
Fish purchasing Cost	Rs.Mn	259	271	472	752
Quantity Purchased	MT	2193	2987	3350	4033
Average Cost Per Fish Kg.	Rs.	118	136	141	186
Percentage Increased in Cost	%	-	15%	4%	32%

Source : Annual Accounts - Ceylon Fisheries Corporation.

The CFC has indicated a continuous increase in the revenue from year 2003 to 2007. Total revenue in 2007 was at Rs.1, 745 mn which was an increase at 64.4 % over previous years. This was mainly due to the increase in selling volume as well as selling price. In 2007, the corporation has sold 3,837MT of fish with a significant increase of 23.7% over previous year. As the corporation had not adopted an efficient Pricing Policy, PED recommended to increase the selling price up to 75% of market price. Further, as CFC has contributed only to 1.5% of market share, it can't dominate the price. The corporation has earned a Gross Profit of Rs. 361.8mn by the end of 2007. It was an increase of 63.3% over previous year.

The fish purchasing cost in the year 2004 was Rs.259Mn and it increased to Rs.752mn in 2007.

The reasons for the above increase are increase in purchased fish volume and increase of fish purchasing cost.

All the Administration Expenses, Selling and Distribution Expenses and Financial Expenses have increased by 63.3%, 59.3% and 114.3% respectively over 2006.

The Cost of employment has increased by Rs.72.3 mn (42.9%) in year 2007 together with an increase in number of employees by 36 over the previous year. Even though the Net Loss has decreased by substantial amount by.18.5mn (67%) over the last year the accumulated loss brought forward increased up to Rs.308.5mn in 2007.

Table 6.3

Ratio Analysis of Ceylon Fisheries Corporation

		2004	2005	2006	2007
Profitability (Core business without other income)					
Gross Profit Ratio	%	21.64	16.4	20.88	20.74
Net Profit Ratio	%	-5.78	-21.17	-7.33	-1.88
Assets Turnover	Times	2.36	2.28	1.12	1.84
Return on Capital Employed	%	-13.62	-48.30	-8.24	-3.47
Total Assets to Equity	%	.61	.69	2.51	2.51
Return on Equity	%	-8.25	-33.21	-20.65	-8.70
Percentage Analysis					
Cost of sales as a % of sales		78.36	83.60	79.12	79.26
Gross Profit as a % of sales		21.64	16.40	20.88	20.74
Expenses as a % of sales		27.42	37.52	28.21	22.62
Profitability (total business with other business)					
Gross Profit Ratio	%	21.64	16.40	20.88	20.74
Net Profit Ratio	%	8.09	-5.81	-2.60	-0.51
Assets Turnover	Times	1.19	1.25	.92	1.50
Return on Capital Employed	%	9.65	-7.23	-2.39	-0.78
Total Assets to Equity	Times	1.14	1.16	3.09	3.10
Return on Equity	%	11.54	-9.11	-7.33	-2.41
Liquidity Ratio					
Current Ratio	Times	1.25	1.34	0.96	0.98
Acid test Ratio	Times	1.10	1.20	0.74	0.71
Efficiency					
Finish Goods Stock Holding Period	Days	9.89	10.26	12.31	11.64
Debtors Collection Period	Days	46.38	35.48	25.78	16.90
Creditors Payment Period	Days	22.76	11.99	22.66	16.48
Cash Conversation period	Days	33.52	33.76	15.43	12.06

Source : Department of Public Enterprises

Cey-Nor Foundation Ltd

Cey-Nor Foundation was established in January 1990 under Companies Act No. 17 of 1982.

During the year the company was engaged in building and sale of Fiberglass Fishing Boats and manufacture and sale of Nylon Fishing Nets. The company also been entrusted with the responsibility of rebuilding and repair boats damaged by Tsunami.

Production of Boats and Multi-Filament Nylon Fishing Nets are as follows.

Table 6.4
Production of Boats and Multi-Filament Nylon Fishing Nets

Type	2005	2006	2007
3.5 mt Boats Nos.	15	67	01
Multi – Day Boats Nos.	-	12	15
Leisure Boats for Export Nos.	-	-	83
Nylon Fishing Nets (Kg)	322,701	337,556	275,063

Source : Cey-Nor Foundation Ltd.

During the year a prototype "Sashini" was built to sail both with the wind and motor engine. This was undertaken with the assistance of Belgium Government, to produce cost effective boats, with low operating cost.

Table 6.5

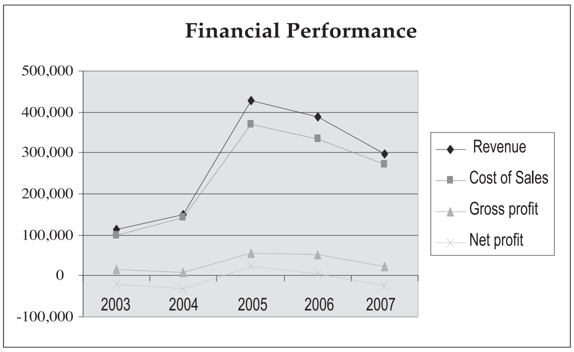
Financial Performances

Rs.000'

	2003	2004	2005	2006	2007
Rev Revenue	113,636	149,119	428,952	387,045	296,811
Cost of Sales	98,800	141,879	371,204	334,234	272,378
Gross Profit / Loss	14,836	7,240	57,747	52,810	24,432
Other Operating Income	-	5,339	25,313	29,527	6,494
Selling & Distribution Ex	-	6,124	8,355	11,905	7,495
Administration Ex	-	27,636	48,536	58,465	46,448
Profit/ Loss Before Tax	(19,735)	(30,567)	21,585	9,763	(24,631)
Income Tax	-	-	6,197	4,991	-
Net Profit/ Loss	-	(31,743)	15,388	4,772	(24,631)
Accumulated loss	-	94,451	79,063	74,291	99,440
Fixed Assets	72,928	67,163	72,383	72,041	92,103
Fixed Deposits	3,500	3,500	3,500	3,697	4,022
Current Assets	99,786	99,197	256,933	261,841	172,934
Capital & Reserves	60,874	29,132	44,520	49,292	24,143
Non Current Liabilities	10,578	23,417	101,982	128,688	112,923
Current Liabilities	105,531	117,824	187,313	159,954	131,993

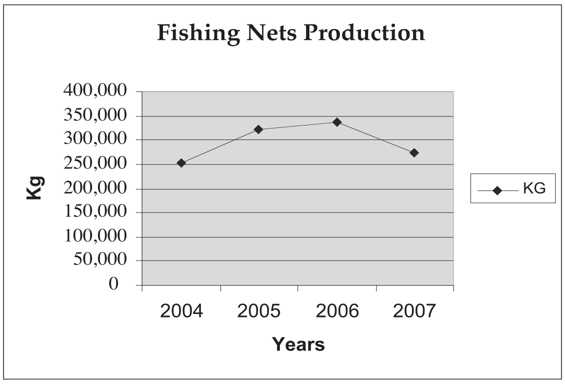
Source : Ceylon Foundation/Department of Public Enterprises.

Chart 6.2



The revenue of the company in 2006 was Rs. 387mn in comparison to Rs. 296mn in 2007, a decrease of Rs. 90mn or 23%. This is mainly due to production of only one 3.5mt boat against 67 boats in 2006 and reduction in sales of Nylon Fishing Nets by 62,493 Kgs from 337,556 Kg in 2006.

Chart 6.3



3.5mt boats and Nylon Fishing Nets were donated by NGO's and various international organizations to fishermen affected by Tsunami through Tsunami Rehabilitation Programme on livelihood restoration. Thus resulting in low demand

The other operating income has decreased considerably from Rs.29.5mn in year 2006 to Rs.6.5mn in year 2007 by Rs.23mn or 80%. This is mainly due to the decrease of handling Fees charged for Tsunami Project.

The fixed assets have increased by 20.1mn (28%) in 2007 over 2006 mainly due to the addition of Plant and Machinery of Rs.26.1mn the year 2007

Table 6.6

Ratio Analysis of Cey-Nor Foundation

	2004	2005	2006	2007
Profitability				
Gross Profit Ratio	4.86	13.46	13.64	8.23
Net Profit Ratio	(21.29)	3.59	1.23	(8.30)
Assets Turnover	0.88	1.28	1.15	1.10
Return on Capital Employed	(18.96)	4.61	1.41	(9.15)
Total Assets to Equity	4.71	6.60	5.89	5.70
Liquidity Ratio				
Current Ratio	0.84	1.37	1.64	1.31
Acid test Ratio	0.72	1.28	1.51	1.21
Efficiency				
Stock Holding Period	7.73	20.50	20.62	23.45
Finish Goods Stock Holding Period	26.20	120.61	147.52	151.99
Debtors Collection Period	55.56	174.18	84.95	68.89
Debtors Payment Period	99.94	99.73	129.94	142.22

Source : Department of Public Enterprises.

Cey-Nor Foundation's profitability reduced due to depleting gross profit margin in 2007 of 8% from 13% in 2006. This is due to increase in direct cost and inflationary effects.

Assets turnover ratio has decreased from 1.15 in 2006 to 1.10 in the year 2007. The reason being less demand for production in the market.

State Timber Corporation

The State Timber Corporation was established in April 1968 under the State Industrial Corporation's Act No 49 of 1967. State Timber Corporation comes under the Ministry of Environment and Natural Resources. The products marketed by STC are logs, Sawn timber, Railway sleepers, Electrical Transmission Poles, Furniture including Paneling and Charcoal.

Financial Performance 2007

Revenue of STC consists of selling logs, Sawn timber, Sleepers, Transmission poles, Round poles, Fence posts, Furniture and Firewood.

Chart 6.4

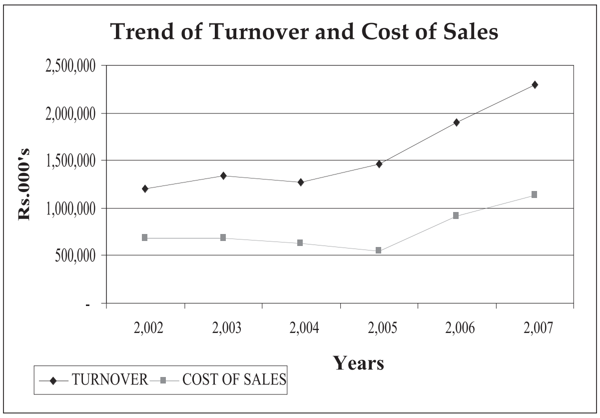


Table 6.7

Financial Performance

Rs. ' 000

Description	2002	2003	2004	2005	2006	2007
Revenue	1,200,755	1,334,576	1,271,542	1,463,529	1,901,323	2,297,648
Cost of Sales	682,192	676,526	633,163	545,293	911,632	1,132,858
Gross Profit	518,563	658,050	638,379	918,236	989,691	1,164,790
Expenditure	428,567	443,938	542,399	544,111	713,071	909,479
Taxation & Levy	20,000	121,592	109,000	233,940	342,504	338,506
Net Profit	123,438	176,043	52,837	223,809	138,136	150,030

Source : Department of Public Enterprises

Turnover reflects the gradual increase from 1200mn in 2002 to Rs. 2,297 mn in 2007. It indicates a 91% increase in revenue. The revenue has gone up from Rs.1, 901mn in 2006 to Rs.2, 297 mn in 2007, an increase of 21%.

Chart 6.5

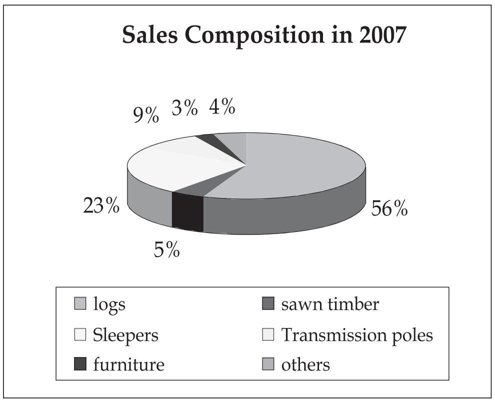


Table 6.8

Ratio Analysis

	2005	2006	2007
Profitability			
Gross Profit Ratio	62.74	52.05	50.69
Net Profit Ratio	15.29	7.27	6.53
Asset Turnover Ratio	0.66	0.75	0.80
Return on Equity	874.77	539.91	586.40
Liquidity			
Current Ratio	2.99	1.82	2.24
Acid Test Ratio	2.28	1.31	1.57
Gearing			
Debt Equit Ratio	11.15	13.35	14.49

Source : Department of Public Enterprises.

The STC's, Gross Profit Ratio has remained at 52.05% in 2006 and 50.69% in 2007. Net Profit Ratio in 2006 is 7.27% and decreased to 6.53% in the year 2007. The expenses of State Timber Corporation as a percentage have gone up over the period.

Asset turnover ratio has improved from 0.66 in 2005 and 0.75 in 2006 to 0.80 in 2007 indicating greater utilization of assets over the period.

The current ratio is 2.99 in 2005 and 2.24 in 2007 indicating a slight decrease. Since the industry standard of the Current ratio is 2:1, this indicates surplus funds for working capital purposes.

Chapter 7

Performance of Public Enterprises

Agriculture sector

In 2007 Sri Lankan economy grew by 6.8% showing a decrease of 0.9% over the year 2006, whilst the agriculture sector grew only by 3.3% representing sartorial decrease of 1.4% over 2006. The share of the agriculture export sector i.e. tea, rubber, coconut etc. accounted for 19.5% of the total export earnings in the year 2007.

In 2007 the PED initiated actions with the assistance of the Ministry of Public Estates Development and Management to revitalize the two government owned companies Kantale and Hingurana Sugar industries, which had been defunct since 1994.

Cultivation of sugar cane at Hingurana has already been started and production of sugar will commence in 2009. Growing of sugar cane at Kantale will commence during the early part of 2008. The project aims at reducing the expenditure on import of sugar and also enhancing the job opportunities in the field.

The national policy on agriculture resulted in the revival of the Paddy Marketing Board, which will be vital in ensuring a stable income for the farmers of the country while benefiting the consumers in controlling inflationary pressures in food prices in the future.

Milk Industries Lanka Company (Pvt) Ltd. (Milco)

Milco is a private limited liability Co. incorporated in Sri Lanka under the provisions of the Companies Act No.17 of 1982, which engages in Sri Lankan dairy industry for 52 years.

Major competitors of Milco at present are Nestle, Kotmale, Rich Life and Lucky Yoghurt.

It mainly purchases about 48% of the total milk collection of the country via an island wide milk collection network.

Milco is presently operating with 4 milk processing plants, 8 regional distribution centres, 9 regional dairy development centres, 1 cattle feed plant and 1 model farm.

The company produces a wider range of dairy products including; pasteurised milk, sterilised milk, yoghurt, curd, butter, ice cream, ghee, processed cheese, milk powder. At present, cheese and curd are provided to the public at a discount to increase the market share.

Chart 7.1

Milco Share in National Milk Collection

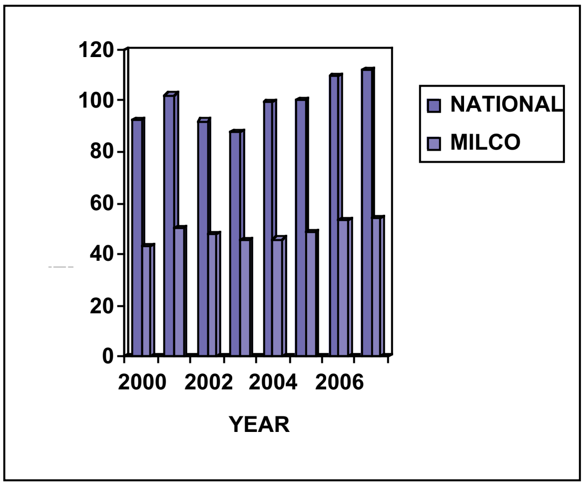


Table 7.1

Financial & Operational Review of Milco

	*2003/04	2004/05	2005/06	2006/07	2007/08
Total Turnover *(Rs. Mn)*	1,777	2,079	2,240	2,720	3,206
Gross Profit / (Loss) *(Rs. Mn)*	226	267	273	257	428
Profit Before Tax *(Rs. Mn)*	39	92	96	21	132
Total Cost of Employment for the year *(Rs. Mn)*	311	349	399	502	561
Current Assets as at end of the year*(Rs. Mn)*	1,220	1,226	1,361	1,408	1473
Current Liabilities as at end of the year*(Rs. Mn)*	815	720	757	846	784
Amount spent on Dairy Development Activities (Rs. Mn)	45	51	63	89	112
Total Milk Collection *(Ltrs. Mn)*	46	48	53	54	59
Number of Employees as at end of the year	1,288	1,277	1,449	1,483	1,459
Ratio Analysis					
Gross Profit (%)	12.72	12.84	12.19	9.45	13.34
Net Profit (Before Tax) (%)	2.43	4.40	3.96	0.68	4.04
Current Ratio	1.51	1.71	1.81	1.67	1.88
Return On Assets (%)	0.00	6.39	5.51	1.07	7.00
Total Cost of Employment per Employee (Rs.'000)	241.12	273.38	275.11	338.29	384.60

** Financial year end 31st March*
Source : Milk Industires Lanka Company (Pvt.) Ltd.

- Milco has continuously increased its turnover since 2000/01 and during the year 2006/07 it has gone up by 22% over previous year.
- Irrespective of the price increases taken place during the year, net profitability of the Company has come down by 78% due to increase in cost of sales by 25%, administration cost by 30%, distribution cost by 18% and finance cost by 30%.
- Cost of employment has increased significantly with the increase in numbers employed. At present Milco is operating with unstructured cadre and salary scheme and the requests made for the approvals are under consideration.
- Asset base and equity have increased marginally with the increase in current liability.
- Capital expenditure has increased considerably.
- At present sterilized milk plant and the milk powder plant operate at maximum capacity. These factories are outdated and need urgent replacements.
- At the end of the lease agreements had with Nestle Lanka Plc, Polonnaruwa Condensed milk factory has been handed over to Milco. Now Milco is operating Polonnaruwa factory successfully.

National Livestock Development Board (NLDB)

The redefined functions of the NLDB were aimed at arresting the dwindling National herd and to concentrate on a planned intensive programme of cattle and buffaloes both for milk and draught.

The Company engages in breeding and multiplication of livestock, issue of quality breeding materials to farmers at a reasonable price, establishment and maintenance of marketing outlets to supply quality farm products at reasonable prices, sale of fresh cow milk to the public to popularize consumption of fresh milk etc. The Board presently manages 30 livestock farms and a training centre. Further the Board has opened 84 stalls in various parts of the country.

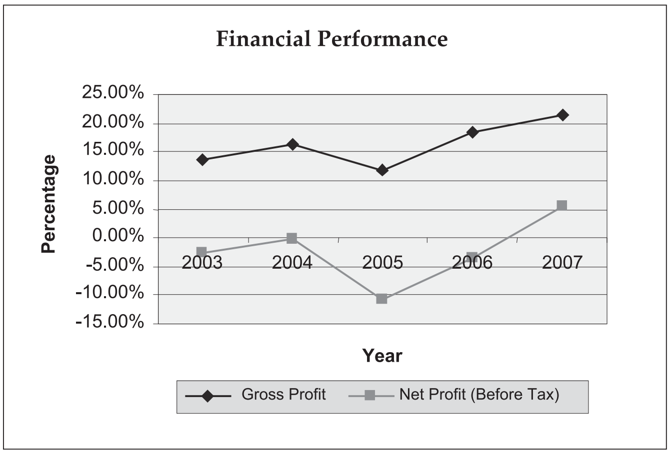
Table 7.2

Financial & Operational Review of NLDB

	2003	2004	2005	2006	2007
Total Revenue *(Rs. Mn)*	547	581	543	667	885
Gross Profit / (Loss) *(Rs. Mn)*	75	95	64	122	189
Profit Before Tax *(Rs. Mn)*	(15)	(1)	(58)	(23)	48
Total Cost of Employment for the year *(Rs. Mn)*	185	160	206	264	315
Current Assets as at end of the year *(Rs. Mn)*	221	215	245	296	300
Current Liabilities as at end of the year *(Rs. Mn)*	158	139	231	286	315
Number of Employees as at end of the year	2,589	2,519	2,493	2,448	2,449
Ratio Analysis					
Gross Profit (%)	13.64	16.28	11.83	18.24	21.34
Net Profit (Before Tax) (%)	-2.76	-0.16	-10.71	-3.43	5.39
Current Ratio	1.40	1.55	1.06	1.04	0.95
Total Cost of Employment per Employee (Rs.'000)	71.46	63.55	82.81	107.69	128.66

Source : Department of Public Enterprises

Chart 7.2: Financial Performance of NLDB



- Gross Profit margin and the Net Profit margin has shown a parallel trend over the period and the company has recorded a Net Profit of 48 million in 2007 despite the continuous loss up to 2006. This is due to the increase in sales and reduction of direct expenses as a percentage of sales.

- Total cost of employment has increased by 29%, 28% and 19% in 2005, 2006 and 2007 respectively with compared to the previous years.

- Current ratio of the Company is deteriorating over the period and is only 0.95 in 2007.

Ceylon Fertilizer Co. Ltd.

Ceylon Fertilizer Co. Ltd is the pioneer distribution arm of the Fertilizer Subsidy Scheme of the "Mahinda Chinthana" Development programme. The company engages in importing, blending and distributing fertilizers with a total of 331 employees.

The company imports fertilizer mainly from countries such as UAE, China, Ukrain, Egypt and State of Qatar in addition to the local purchases of Dolomite and Eppawala rock phosphate. The distribution network covers the entire island inclusive of the Northern and Eastern Provinces. Ceylon Fertilizer Company Ltd. had a major contribution in issuing fertilizer at a subsidized price as per the "Mahinda Chinthana".

Table 7.3

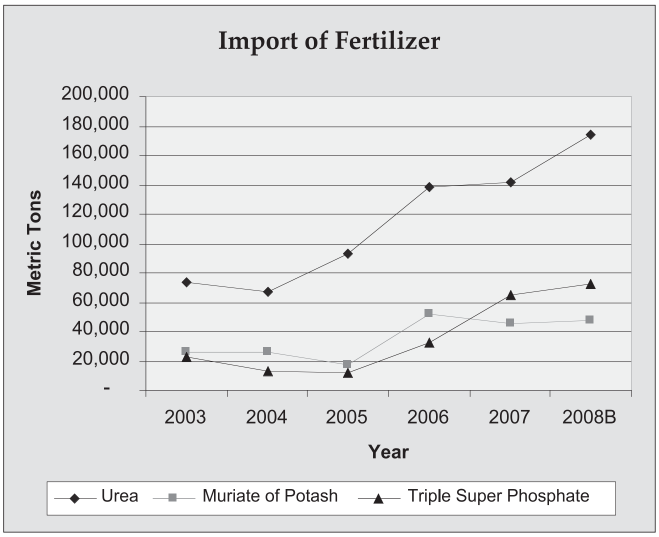
Financial and Operational Review of Ceylon Fertilizer Co. Ltd.

	2003	2004	2005	2006	2007
Total Revenue *(Rs. Mn)*	1,844	1,694	2,124	1,739	1,598
Gross Profit / (Loss) *(Rs. Mn)*	199	155	226	124	236
Profit Before Interest & Tax *(Rs. Mn)*	80	73	171	60	117
Total Cost of Employment *(Rs. Mn)*	79	93	95	133	147
Current Assets as at the end of the Year *(Rs. Mn)*	1,322	1,801	2,591	4,091	6,621
Current Liabilities as at the end of the Year *(Rs. Mn)*	752	1,328	1,991	3,490	6,038
Purchase of Fertilizer - Imports *(MT)*	122,081	106,335	122,338	221,834	252,112
Local *(MT)*	1,458	6,373	4,959	1,656	2,202
Sale of Fertilizer *(MT)*	131,130	125,727	151,372	245,106	231,039
Number of Employees	392	348	337	331	490
Ratio Analysis					
Gross Profit (%)	11	9	11	7	15
Net Profit (Before Tax) (%)	1	1	2	1	0.2
Current Ratio	1.76	1.36	1.30	1.17	1.10
Creditors Period *(In Days)*	107	1,041	177	385	1,466
Total Cost of Employment per Employee (Rs.'000)	201.51	267.80	283.01	402.44	299.38

Source : Ceylon Fertilizer Co. Ltd.

Chart 7.3

Import of Fertilizer by Ceylon Fertilizer Co. Ltd.



- There is an increasing trend in import of fertilizer from the year 2005.

- Gross Profit margin has experienced a fluctuation over the period whereas the Net Profit margin has remained almost constant over the period except for the very low margin of 0.2% in 2007 due to high financial cost.

- Total cost of employment has increased by 48 million in 2006 with compared to 2005 due to payment of incentive.

- Current ratio of the company remained between 1 – 2 over the period concerned.

- The company maintains a high unstable creditors period indicating that the company does not have a proper credit policy. Introduction of proper control systems is required to resolve this issue.

- Increasing cost of employment is a heavy burden to the entity. It is recommended to conduct a proper analysis of the existing employment and the real employment requirement of the company.

Thamankaduwa Agro Fertilizer Co. Ltd.

Although Thamankaduwa Agro Fertilizer Co. Ltd. is functioning as a separate entity the company engages in sale of fertilizers on consignment basis, supplied by Ceylon Fertilizer Co. Ltd, and receives a sales based commission.

Since both entities engage in similar business and one is operating as an agent of the other, and approval of the Cabinet of Ministers has been granted to amalgamate Ceylon Fertilizer Co. Ltd. & Thamankaduwa Agro Fertilizer Co. Ltd. Accordingly amalgamation process has already commenced.

Table 7.4

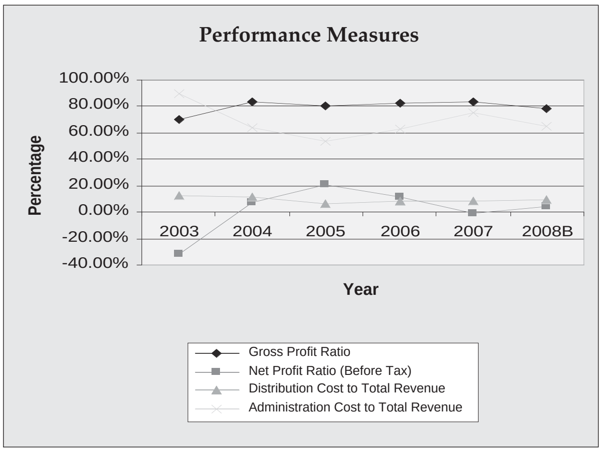
Financial and Operational Review of Thamankaduwa Agro Fertilizer Co. Ltd.

	2003	2004	2005	2006	2007
Total Revenue *(Rs. Mn)*	10.88	15.32	22.45	30.39	26.34
Gross Profit / (Loss) *(Rs. Mn)*	7.64	12.78	18.13	24.98	21.96
Profit / (Loss) Before Tax *(Rs. Mn)*	(3.50)	1.11	4.68	3.50	(0.12)
Total Cost of Employment *(Rs. Mn)*	7.10	7.42	7.28	12.96	13.16
Current Assets as at the end of the Year *(Rs. Mn)*	1.93	6.63	10.23	9.70	12.96
Current Liabilities as at the end of the Year *(Rs. Mn)*	12.13	15.78	13.39	6.04	8.95
Sale of Fertilizer *(MT)*	16,133	16,901	24,189	32,241	28,896
Number of Employees	34	34	33	35	30
Ratio Analysis					
Gross Profit (%)	70.22	83.42	80.76	82.20	83.37
Net Profit (Before Tax) (%)	-32.14	7.27	20.86	11.51	-0.46
Distribution Cost to Total Revenue (%)	12.68	11.41	6.20	7.94	8.47
Administration Cost to Total Revenue (%)	89.61	63.99	53.67	62.68	75.22
Current Ratio	0.16	0.42	0.76	1.61	1.45
Fixed Assets Turnover	0.31	0.24	0.37	0.51	0.47
Total Cost of Employment per Employee (Rs.'000)	208.76	218.09	220.64	370.29	438.67

Source : Thamankaduwa Agro Fertilizer Co. Ltd. / Department of Public Enterprises.

Chart 7.4

Financial Performance of Thamankaduwa Agro Fertilizer Co. Ltd.



- Gross Profit margin has remained almost constant over the period whereas the Net Profit margin has experienced a wide fluctuation.

- Administration costs and Distribution costs have increased by 61% and 67% respectively from 2006, with compared to previous year. This is mainly due to a drastic increase in overtime, incentive, gratuity and plant and vehicle maintenance cost.

- Cost of employment has been continuously increased even though the number of employees remained almost the same over the period due to increase in salaries and wages.

- Current ratio of the company had been weak over the last years and it is being recovered at present with 1.61 and 1.45 in 2006 and 2007 respectively. A lower current ratio of a company indicates a threat of probability of disposing its fixed assets to discharge current liabilities, if there is no government intervention.

- Fixed assets have not been utilized effectively and efficiently in generating revenue through out the period result in poor fixed assets turnover.

- To overcome most of these weaknesses the approved amalgamation process has to be expedited.

Colombo Commercial Fertilizer Co. Ltd.

The company at present is instrumental in materializing the Government's Policy of distributing fertilizer among the farmers cultivating paddy. The company engages in importing fertilizer, mixing of neat fertilizer according to prescribed proportions by the respective institutions for each plantation sector, distribution of fertilizer mixtures throughout the country via its distribution centers and dealers, mixing of fertilizer mixtures based on customer requests and testing of fertilizer mixtures for its quality.

Table 7.5

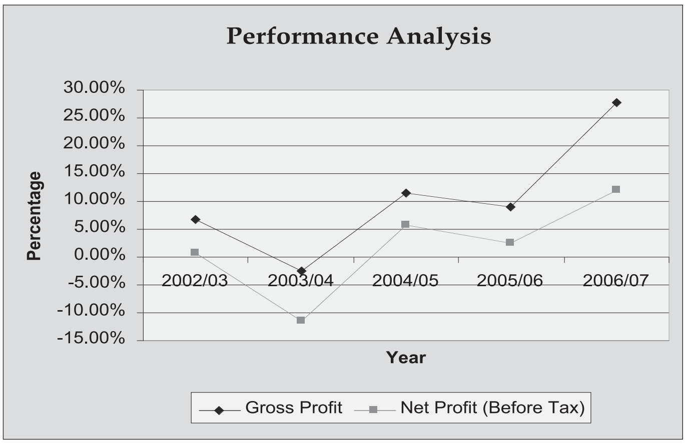
Financial Performance of Colombo Commercial Fertilizer Co. Ltd.

	2002/03	2003/04	2004/05	2005/06	2006/07
Total Revenue *(Rs. Mn)*	346	327	278	402	723
Gross Profit / (Loss) *(Rs. Mn)*	23	(8)	32	36	201
Profit / (Loss) Before Tax *(Rs. Mn)*	2	(37)	16	10	87
Total Cost of Employment *(Rs. Mn)*	39	44	31	24	46
Current Assets as at the end of the Year *(Rs. Mn)*	425	402	585	597	1,378
Current Liabilities as at the end of the Year *(Rs. Mn)*	220	292	485	485	1,184
Sale of Fertilizer *(MT)*	19,728	18,052	28,385	176,335	139,486
Number of Employees	89	96	96	93	109
Ratio Analysis					
Gross Profit (%)	6.66	-2.41	11.44	8.89	27.83
Net Profit (Before Tax) (%)	0.70	-11.42	5.86	2.57	12.06
Fixed Assets Turnover (Times)	0.36	0.38	0.43	0.29	0.30
Current Ratio	1.93	1.38	1.21	1.23	1.16
Total Cost of Employment per Employee (Rs.'000)	440.17	457.50	327.38	258.04	422.61

Source : Colombo Commercial Fertilizer Co. Ltd.

Chart 7.5

Financial Performance of Colombo Commercial Fertilizer Co. Ltd.



- Sales quantity of fertilizer has made a rapid increase of 512% in 2005/06 with compared to previous year due to fertilizer subsidy distribution.
- Gross Profit margin as well as the Net Profit margin has experienced a fluctuation over the period with a similar trend, and in 2006/07, a higher margin has been achieved.
- Poor fixed assets turnover of the company indicates that the fixed assets have not been utilized effectively and efficiently in generating revenue through out the period.
- Current ratio of the Company remained between 1 – 2 over the period concerned.

Chapter 8

Performance of Public Enterprises

Plantation sector

The sector consists of

1. 23 Regional Plantation Companies (RPCs)
2. Sri Lanka State Plantation Corporation
3. Janatha Estate Development Board

In order to ensure the long-term sustainability of the plantation sector, restructuring of the Janatha Estate Development Board and the Sri Lanka State Plantation Corporation was initiated during the year 2007 jointly with Strategic Enterprises Management Agency (SEMA). Both these entities faced severe financial crisis, but by the end of 2007 they indicated signs of recovery. It is however worth noting that both entities will have to continue to adopt strategies identified for restructuring, if a complete recovery is to be made.

Monitoring of Regional Plantation Companies has been strengthened particularly to protect the interest of the Treasury as the Golden Share Holder since it has been brought to the notice that some plantation companies do not follow guidelines. In order to increase efficiency, approval for the subleasing of land less than 5 acres was vested with the Plantation Management Monitoring Division of the Ministry of Plantation. As a result, collection of lease rentals has improved in 2007 with compared to 2006. However, the Department of Public Enterprises has taken actions against plantation companies that have subleased properties without the approval of the Treasury.

Regional Plantation Companies (RPCs)

Out of 23 Regional Plantation Companies, 20 privatized companies are operating under the management companies where as other three are fully owned by the government. Accordingly, Government receives share of dividends proportionate to the share holding and agreed upon lease rentals. Position of dividends and the lease rentals received and receivable during the year is shown in Table 8.1

Although immense efforts are being made to collect lease rentals, due to poor financial status of the RPCs lease rental payables have been accrued over the period. Further, some RPCs had never declared dividends.

From the above it could be observed that allowing to float the government share holding of RPCs at the share market is worthwhile rather than long term share ownership ensuring the protection of government interest through the Golden share holder rights.

Table 8.1

Lease Rentals & Dividends Received and Receivable From RPCs

	Company	Lease Rental Payments made in 2006 Rs.	Lease Rental Payments made in 2007 Rs.	Arrears as at 31.12.2007 Rs.	Receipt of Dividends during 2007 Rs.
1	Hapugastenna	15,181,248	25,302,080	10,120,833	-
2	Watawala	34,301,755	40,562,106	-	-
3	Balangoda	12,964,807	21,827,985	-	-
4	Kahawatte	-	15,012,829	13,296,107	-
5	Bogawantalawa	24,752,423	82,633,323	13,598,169	-
6	Malwatte Valley	30,688,560	24,550,848	-	-
7	Maskeliya	16,105,452	17,722,882	-	-
8	Agalawatte	4,000,000	31,643,037	35,842,823	-
9	Talawakelle	9,578,420	16,302,736	2,875,683	-
10	Kelani Valley	25,839,000	26,414,040	(574,999)	-
11	Horana	7,471,872	9,339,820	11,634,016	-
12	Maturata	1,000,000	2,989,053	23,411,044	-
13	Elpitiya	12,910,000	22,945,214	63,235,652	-
14	Madulsima	3,474,683	6,326,705	-	-
15	Kegalle	20,757,724	20,757,724	-	-
16	Pussellawa	29,955,141	43,440,188	29,298,985	-
17	Kotagala	28,628,062	54,965,399	52,512,541	10,600,000
18	Namunukula	3,814,045	4,065,016	19,761,203	-
19	Chilaw	15,122,027	16,640,694	-	-
20	Kuruneala	15,516,948	29,136,077	16,497,246	-
21	Elkaduwa	-	-	-	-
22	Agarapathana	-	-	-	-
23	Udupussallawa	-	-	-	-
	Total	310,062,207	512,588,776	291,509,310	-

Source : Department of Public Enterprises

Sri Lanka State Plantation Corporation.

Sri Lanka State Plantation Corporation is currently operating with the remaining 12 estates after handing over of SLSPC estates for the formation of RPCs.

Out of that extent of lands, tea had been cultivated in 3,881.32 Hectares. However, income generating tea lands amount to 3,701.06 Hectares. It is observed that this is only 38.32% of the total extent of lands.

Details of estates owned by the Corporation are

Tea cultivate.	3,881.32	40.19%
Other Land	5,777.08	59.81%
	9,658.40	100.00%

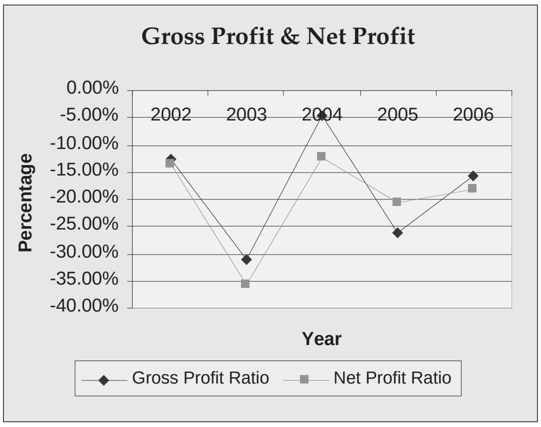
Table 8.2
Financial & Operational Review of SLSPC

State Plantation Corporation					
					Rs. Mn
	2002	2003	2004	2005	2006
Total Revenue	467.2	336.64	432.92	410.06	459.94
Cost of Sale	525.6	441.52	452.85	517.79	532.61
Gross Profit / (Loss)	(58.39)	(104.88)	(19.93)	(107.73)	(72.67)
Other Income	34.42	34.26	16.94	70.47	36.15
Net Profit / (Loss)	(62.58)	(120.55)	(53.51)	(84.15)	(83.37)
Finance Charges	0.15	0.06	0.03	0.08	0.09
Operating Profit / (Loss)	(97.15)	(154.87)	(50.55)	(154.71)	(119.62)
Total Fixed Assets	469.95	427.69	407.18	431.84	420.02
Investment	15.48	15.48	15.48	15.5	15.5
Current Assets	945.8	1067.92	969.82	907.39	894.74
Total Assets	1,411.7	1,500.19	1,381.88	1,344.25	1,319.78
Cash & Cash Equivalents	(15.22)	1.91	(5.55)	(2.71)	(8.82)
Current Liabilities	445.68	546.63	495.4	535.1	574.4
Stock	98.3	68.8	68.88	40.59	57.61
Debtors	149.4	132.19	176.45	216.61	196.46
Creditors	400.03	501.76	450.08	490.73	530.04
Share Capital	3897	3897	3897	3897	3897
Working Capital	500.12	521.29	474.42	372.29	320.34
Profitability ratios					
Gross Profit %	-12.49	-31.15	-4.60	-26.27	-15.79
Net Profit %	-13.39	-35.80	-12.36	-20.52	-18.12
Operating Profit %	-20.79	-46.00	-11.67	-37.72	-26.00
ROCE (Issued average share capital) %	-1.60	-3.09	-1.37	-2.15	-2.13
Return on Total Assets %	-4.43	-8.03	-3.87	-6.26	-6.31
Return on Fixed Assets %	-13.31	-28.18	-13.14	-19.48	-19.84
Liquidity ratios					
Current Ratio	2.12:1	1.95:1	1.95:1	1.69:1	1.55:1
Acid Test Ratio	1.9:1	1.82:1	1.82:1	1.62:1	1.46:1
Efficiency ratios					
Total Assets Turnover	33.09	22.43	31.32	30.50	34.84
Current Assets Turnover	49.39	31.52%	44.63	45.19%	51.40

Source : Sri Lanka State Plantation Corporation

Chart 8.1

Financial Performance of SLSPC



- The Corporation has not been able to submit their final accounts for the year 2007 at least by June 2008, despite the several reminders made by PED.

- Total employment strength of SLSPC at present is 6,103.

- SLSPC was making losses continuously with a wider fluctuation throughout the period. The existence of the Company is questionable as its Gross Profit Margin also remains negative.

- Current ratio and the Acid Test ratio of the Company is deteriorated over the period indicating liquidity problems of the Company.

- Further, it seems that the assets of the Company are not being used effectively in generating revenue.

- Going concern of the entity is doubtful with the continuous losses and liquidity problems. Therefore an early complete restructuring is required.

Janatha Estate Development Board

Janatha Estate Development Board is currently operating with the remaining 17 estates after handing over of JEDB estates for the formation of RPCs.

Table 8.3

Financial & Operational Review of JEDB

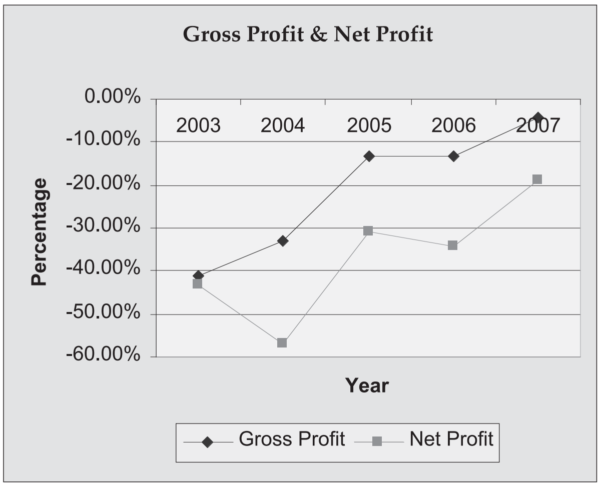
Rs. Mn

	2003	2004	2005	2006	2007
Total Revenue	349.58	355.23	439.24	415.92	594.40
Gross Profit	(143.09)	(116.69)	(59.22)	(55.95)	(26.19)
Net Profit / loss	(151.96)	(202.36)	(135.30)	(142.19)	(112.01)
Current Assets	673.49	683.62	715.18	779.85	1,174.19
Total Assets	1,475.65	1,480.15	1,512.74	1,576.02	1,677.66
Total Equity	(70.04)	(259.68)	(345.93)	(320.31)	(2,668.19)
Current Liabilities	811.84	1,004.43	1,090.48	1,119.39	2,626.66
Investment	319.49	318.28	315.63	312.64	-
Debtors	598.65	618.86	648.35	707.58	1,011.09
Cash & Cash Equivalents	(0.30)	(184.76)	(226.11)	(217.45)	(456.20)
Fixed Assets	482.66	478.24	481.92	483.52	503.47
Working Capital	(138.35)	(320.81)	(375.30)	(339.54)	(1,452.47)
Creditors	693.21	715.19	780.97	805.53	1,095.53
Profitability Ratios					
Gross profit %	-40.93	-32.85	-13.48	-13.45	-4.41
Net profit %	-43.47	-56.97	-30.80	-34.19	-18.84
Return on Total Assets %	-10.30	-13.67	-8.94	-9.02	6.68
Return on Fixed Assets %	-31.48	-42.31	-28.07	-29.41	22.25
Liquidity Ratios					
Current assets	0.8:1	0.68:1	0.66:1	0.69:1	0.45:1
Acid test	0.77:1	0.64:1	0.61.1	0.66:1	0.45:1
Efficiency Ratios					
Total assets turnover %	23.69	24.00	29.04	26.39	35.43
Current assets turnover %	51.91	51.96	61.41	53.33	50.62

Source : Janatha Estate Development Board

Chart 8.2

Financial Performance of JEDB



〈 Production has increased by 35.5% over 7 years from 1993 to 2000 due to the efficient management of cultivation practices.

〈 Gross profit and net profit have remained negative over the period with fluctuations.

〈 JEDB is operating with negative working capital indicating the uncertainty of going concern.

〈 JEDB faced ETF & EPF arrears problems, time to time in the absence of proper action plan for resources utilization.

〈 Increasing debtors and creditors outstanding balances indicate that the Board does not implement adequate internal control systems.

〈 Going concern of the entity is doubtful with the continuous losses and liquidity problems. Therefore an early complete restructuring is required.

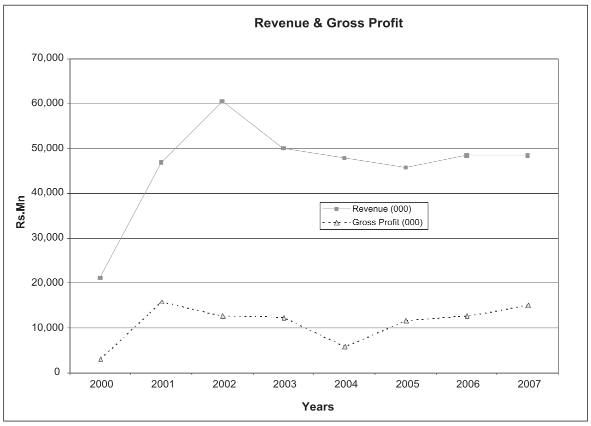
Sri Lanka Cashew Corporation

The corporation consists of five divisions namely Plantation, Extension, Marketing and Cashew Processing, Research & Development and Commercial Nursery Programmes.

Sri Lanka Cashew Corporation mainly generates revenue from sales of cashew kernels, raw cashew, cashew mother seeds, cashew plants and cashew shells.

Chart 8.3

Revenue & Gross Profit



Sales revenue has increased from 2000 to 2002 but there is a decreasing trend afterwards. 2006 and 2007 sales figures show a comparative improvement. In 2005 there was a drop in sales when comparing with the other years. In 2004 there was a remarkable decrease in the gross profit, which was 5.8 Mn due to high cost of production. The decline was 53% when comparing with 2003. After 2004 there has been an increasing trend. The Company was able to manage its cost of production in an appropriate manner.

Sales Analysis

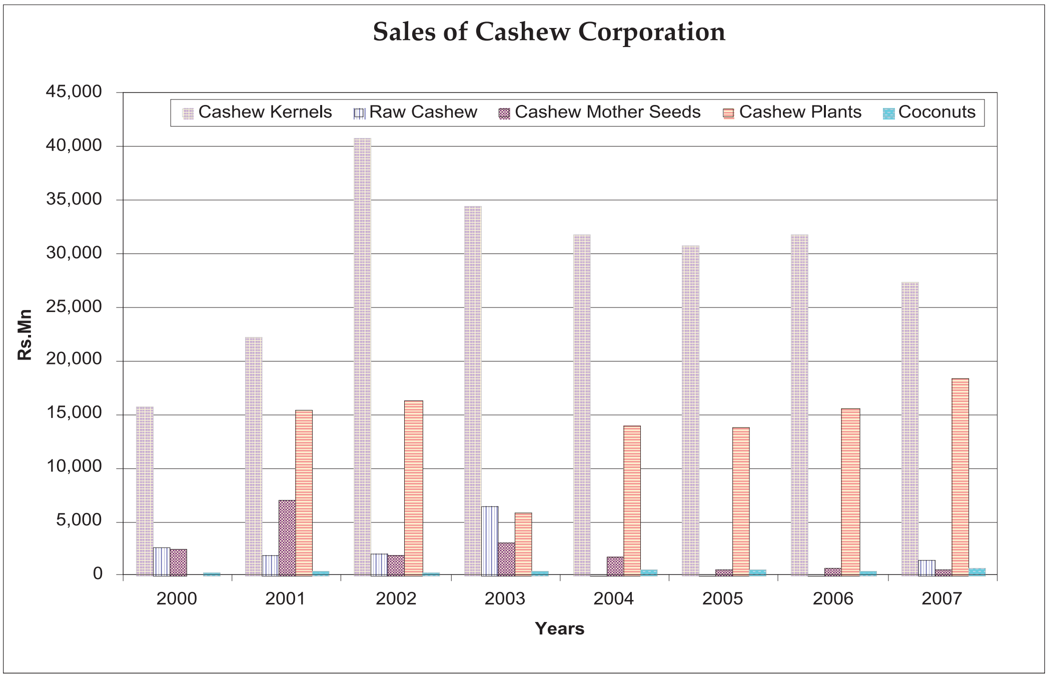
The main income generating source of the corporation is sales of cashew production.

The chart 8.4 depicts the sales categories of cashew production. Sales of Cashew Kernels and Cashew Plants contribute more in the total sales. There have been fluctuations in sales over the period. Sales of cashew kernels reached peak in 2002 and subsequently there has been a decreasing trend.

Sale of Cashew Plant was Rs.5.9 million in 2003. That was the lowest sales revenue of Cashew Plant during the period. There was a 17% increase in 2007 when comparing with the sales of 2006.

Coconut sales has continuously showed an increasing trend during the period even though the portion of the sales contribution is lower.

Chart 8.4


Sales of Cashew Corporation
Cashew Kernels
Raw Cashew
Cashew Mother Seeds
Cashew Plants
Coconuts
Rs.Mn
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
2000
2001
2002
2003
2004
2005
2006
2007
Years

Chapter 9

Performance of Public Enterprises

Industrial sector

Industrial Public enterprises in Sri Lanka play a vital role in the industrial sector other than the garments industry. There are 21 Public Enterprises under the purview of PED, functioning with a net worth Rs.7,770 Mn. During last few years 15 of these 21 Enterprises have gained marginal profits while the rest 6 enterprises have incurred losses. In 2007, 6 of these public enterprises have contributed Rs. 81.6 Mn. as dividend and levy.

Ceylon Ceramics Corporation (CCC)

Incorporated in 1957 under the State Industrial Corporation Act No. 49. At present, Corporation is engaged in manufacture and sale of roofing tiles, floor tiles and wire-cut bricks.

The CCC consists of 9 factories located at Bangadeniya, Weuda, Eragama, Mahiyangana, Bingiriya, Uswewa, Elayapattuwa, Yatiyana and Odduchudan. Out of 9 factories CCC currently operates only 7 having Odduchudan and Bangadeniya closed due to prevailing unfavorable political conditions in the country. From available 27.8 Mn units of manufacturing capacity, operated only at 17.73 Mn units of capacity in the year 2007.

Table 9.1

Financial Performance Rs .Mn

	2004	2005	2006	2007
Total Revenue	124.0	188.6	249.8	256.5
Gross profit for the year	(33.6)	(12.3)	2.9	10.2
Net Profit for the year	26.0	24.0	(9.9)	(20.4)
Current assets	128.0	98.5	107.4	31.0
Current liabilities	264.3	109.4	108.7	358.8
Financial Charges	2.0	2.6	3.2	3.8

Source: Annual Reports, CCC

Although there are marginal improvement during the recent years, overall performance of CCC remained at low levels as shown in the table below.

Table 9.2

Ratio Analysis

Rs. Mn

	2004	2005	2006	2007
Current Ratio (times)	0.48	0.90	0.34	0.37
Quick Ratio (times)	0.33	0.61	0.17	0.13
Net Working Capital Ratio (times)	(0.98)	(0.07)	(1.05)	(1.03)
Gross Profit Ratio (percent)	(27.10)	(6.53)	1.16	3.98
Net Profit Ratio (percent)	20.97	12.73	(3.96)	(7.95)
Receivables Period (times)	129.25	51.31	35.94	32.65
Inventory Period (times)	97.12	57.24	79.98	126.41
Inventory Turnover Ratio (times)	3.76	6.38	4.56	2.89
Asset Turnover Ratio (times)	11.17	11.64	2.70	2.83

Source : Department of Public Enterprises

The current ratio of CCC recorded unfavorably having been at 0.90 in 2005 and at 0.37 in 2007 depicting a severe liquidity problems that is further explained through lower quick ratios of 0.17 and 0.13 in 2006 and 2007 respectively.

Profitability of the Corporation has eroded drastically throughout the recent past. Even though the Corporation could earn net profits of Rs. 26 million and Rs.24 million in 2004 and 2005 respectively, subsequent years have witnessed a drastic decline of that profitability, as shown in Table 9.1. The Corporation earned a net profits in year 2004 and 2005 through other income from various sources, that off set the operating losses. Amongst such sources were the loading and transport charges (paid by the customers) and rent income. This situation, however, was reversed subsequently in year 2006 and 2007. Factors such as the increasing cost of raw material, obsolete machinery and competition from the private sector have been cited as the major contributors for the down turn of the Corporation.

Further, the efficiency ratios such as inventory period, receivable period, asset turnover etc. show evidence of the underperforming nature of the Corporation. Corporation earned consecutive net losses except for year 2004 and 2005

State Development and Construction Corporation (SD&CC)

The State Development and Construction Corporation was established in the Year 1971 under the Industrial Corporation Act No 49 of 1957 to undertake Heavy Civil Engineering Contracts.

The corporation contributes to the National Economy by undertaking construction contracts, manufacturing and selling of pre-cast concrete products for construction requirements.

Table 9.3
Annual Performance of SD & CC

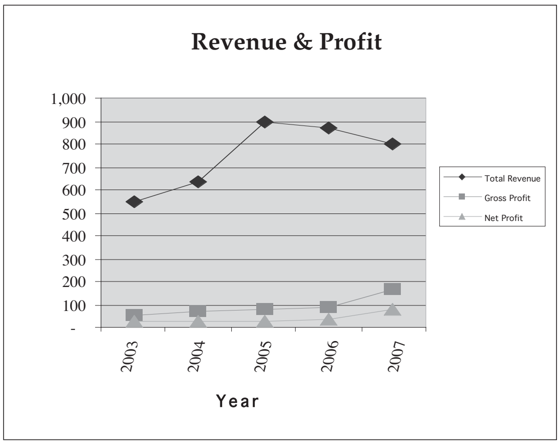
Rs. Mn

Year	2003	2004	2005	2006	2007
Total Revenue for the year	544	631	895	867	802
Gross Profit for the year	56	67	74	88	161
Net Profit before Interest and Tax for the year	22	22	29	37	82
Financial Charges for the year	3	3	8	15	18
Total Cost of Employment for the year	113	112	152	171	213
Capital Expenditure for the year	3	18	22	50	32
Non-Current Assets as at end of the year	326	640	910	938	907
Current Assets as at end of the year	446	571	694	881	1,207
Current Liabilities as at end of the year	326	433	541	734	989
Non-Current Liabilities as at end of the year	110	137	131	151	165
Equity as at end of the year	336	648	925	934	960
Investment as at end of the year	85	95	98	101	65
Number of Employees as at end of the year (No's)	591	564	597	527	550
Administration Cost	56	66	71	82	102
Key Performance Indicators					
Profitability					
Gross Profit ratio	10.29	10.62	8.27	10.15	20.07
Net Profit ratio	4.04	3.49	3.24	4.27	10.22
ROCE	4.93	2.80	2.75	3.41	7.29
Efficiency					
Return on Assets	0.98	0.89	1.08	0.84	0.58
Administration cost ratio	10.29	10.46	7.93	9.46	12.72
Liquidity & Solvency					
Current Ratio	1.37	1.32	1.28	1.20	1.22
Debtors collection period		89	70	72	73

Source: Annual Reports SD&CC

Although the Corporation's total revenue has indicated an increasing trend from year 2003 up to 2005, it has declined in 2007 by 7.4% over 2006. The highest revenue was recorded in 2005 amounting to Rs.895mn, due to diversification of its business activities and undertaking projects of maintenance and installation of traffic lights systems.

Chart 9.1



Gross profit has recorded impressive growth rate of 83% in year 2007 compared to the previous year due to the decline of cost of production. Increase of overdraft facilities resulted to increase the financial charges in year 2006 and continuing to the following year.

The administration cost of the corporation remained at a higher level due to the higher incentive payments and the special allowances. This cause to increase the cost per employee ratio drastically. However the Corporation could maintain the ratios such as profitability Return on sales, Return On Capital Employed and Assets Turn Over at a satisfactory levels.

Current Ratio is less than 2 and it indicates the liquidity problems of the Corporation. The Corporation had not achieved its budgeted average turnover growth of 25%.

The Corporation is required to adopt effective cost control system in order to reduce its expenses.

Central Engineering Consultancy Bureau (CECB)

The Central Engineering Consultancy Bureau was established in the year 1973 under State Industrial Corporations Act No.49 of 1957 to provide specialist engineering consultancy services on a commercial basis. It undertakes the activities such as preparation of feasibility reports, plans, designs and estimation of single and multi-purpose irrigation, flood control and power projects, highway projects, water supply and sewerage projects. Further, it carries out investigations, studies and research for the preparation of feasibility reports and plans. CECB supervise the construction of engineering projects and train engineering and technical personnel.

Table 9.4

Operational & Financial Review

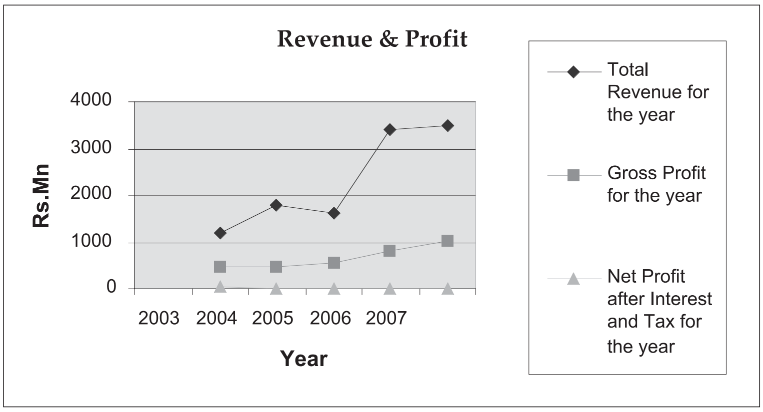
Rs.Mn

	2003	2004	2005	2006	2007
Revenue from Construction & Consultancy	1,158	1,745	1,572	3,161	3,319
Other Operating Income	40	44	35	233	155
Total Revenue for the year	1,198	1,789	1,607	3,394	3,474
Expenditure					
Direct Cost -Construction	738	1,334	1,057	2,573	2,447
Gross Profit for the year	460	455	550	821	1,027
Staff Cost	189	242	278	381	535
Other Operating Expenses	140	146	177	389	447
Financial Charges for the year	31	22	20	28	39
Net Profit before Interest and Tax for the year	101	38	65	52	44
Net Profit after Interest and Tax for the year	40	7	14	12	2
Non-Current Assets as at end of the year	178	195	209	275	322
Current Assets as at end of the year	1,839	1,475	2,565	3,756	4,210
Current Liabilities as at end of the year	1,669	1,257	2,342	4,032	3,296
Non-Current Liabilities as at end of the year	59	83	86	112	175
Equity as at end of the year	321	330	345	348	326
Number of Employees as at end of the year	594	616	666	823	1,007
Investment as at end of the year	31	31	31	31	55
Key Performance Indicators					
Profitability					
Gross Profit Ratio	38.40	25.43	34.23	24.19	29.56
Net Profit Ratio	8.72	2.18	4.13	1.65	1.33
ROCE	31.46	11.52	18.84	14.94	13.50
Efficiency					
Return on Assets	0.61	1.12	0.59	0.82	0.76
Administration Cost Ratio	4.67	3.69	4.42	2.42	2.91
Solvency & Liquidity					
Current Ratio	1.10	1.17	1.10	0.93	1.28
Debtors Turn Over	3	4	2	3	3
Debtors Collection Period	115	93	175	116	105

Source: Annual Reports CECB

The Corporation could increase its revenue for the third consecutive year by 2007 and reported at Rs.3,319 Mn. It was an increase of 5% over previous year.

Chart 9.2



The corporation has inherited organizational problems such as a heavy administrative division. Staff cost has increased drastically due to the increase in salary with the latest revision of wage rates.

State Pharmaceuticals Corporation (SPC)

State Pharmaceutical Corporation was established in 1971 with a view to Supply of generic medicine to the public at fair prices. Prior to 1978, SPC was the sole importer of pharmaceutical products and operated under the status of a monopoly trading institution. However, with the liberalization of the economy in 1978, other private Companies were allowed to import and sell drugs and other pharmaceutical products in the local market. With this policy change, SPC lost the monopoly and had to operate in a competitive market place. By 2007 the Corporation has continued as profitable venture for more than 35 years with the largest market share in the industry. Its main role is to provide safe, effective and high quality medical products, health services at affordable prices while promoting the usage of generic drugs is to be recognized.

As one of the major entities engaged in pharmaceutical trading activities, the SPC continued to play a significant role in procuring the needs of the state health sector during the year 2007 as well.

Business Structure

Corporation receives revenue mainly from two ways i.e from Department of Health Services (DHS) sales and SPC sales. DHS is the main customer of SPC and at present revenue from DHS is 77% of total revenue. This percentage has gradually increased from 69% in 2003 to 77% in 2007 during last 5 years.

SPC Sales are three folds

1. Bulk Sales
2. Retail sales through Osusala
3. Sale of Production of the three health care items (Jeevanee, Glucose and Benzil Bensovate Cream)

Bulk sales are again four fold

1. Direct Sales to Customers
2. Sales to Distributors
3. Sales to Franchise shops
4. Sales to Authorized Dealers

Total revenue has increased from Rs. 6,932Mn to Rs 11,437Mn by 65% during the prior 5 year period. Increase in total sales from 2006 to 2007 is 41% due to the increase in medical supplies to the DHS. DHS sales in 2003 Rs. 3,771Mn has increased to Rs. 8,816 Mn in 2007 by 134%.

Total revenue structure and composition of SPC sales depict in the following charts

Chart 9.3

Revenue structure 2003 - 2007

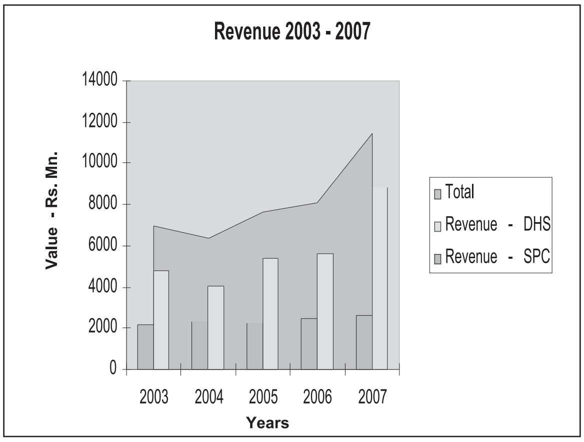


Chart 9.4

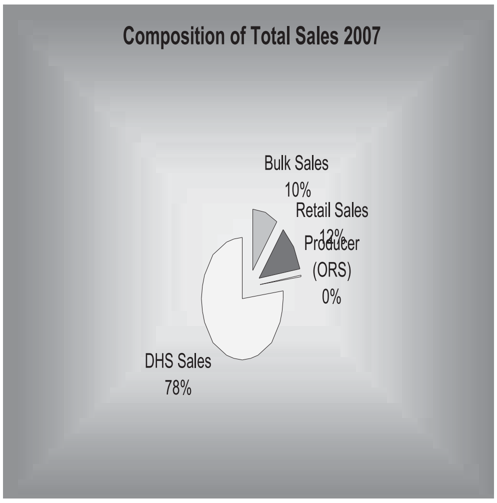


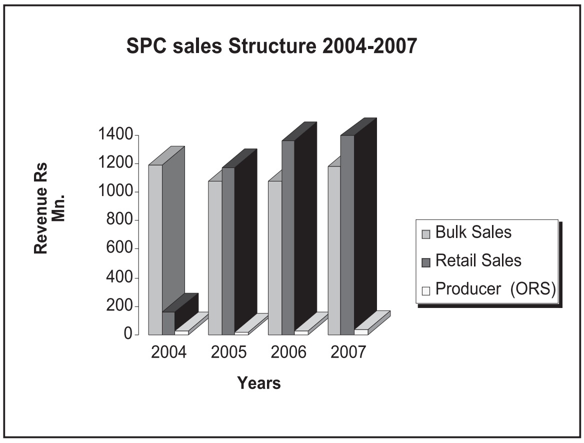
Table 9.5

SPC sales 2004 - 2007

	2004	2005	2006	2007
Bulk Sales	1196	1081	1079	1187
Retail Sales	160	1173	1360	1397
Producer (ORS)	25	21	28	37

Source Annual reports

Chart 9.5



The SPC sales which represent 23% of total sales have increased from Rs.2, 161 Mn. in 2003 to Rs.2, 621Mn in 2007 only by 21% during the last 5 years period, while the bulk sales Rs. 1,196 Mn. in 2003 has decreased to Rs. 1,187 Mn. by 1%. Retail Sales has increased from Rs.160 Mn in 2003 to Rs.1, 397 Mn. 2007 by 773% due to opening of new outlets, advertising, promoting and publishing the brand "SPC" .

Table 9.6

Financial highlights of SPC

		2003 Rs. ('Mn)	2004 Rs. ('Mn)	2005 Rs. ('Mn)	2006 Rs. ('Mn)	2007 Rs. ('Mn)
For the Year						
Revenue - SPC		2161	2299	2276	2467	2621
DHS		4771	4067	5360	5617	8816
Other Income		11668	7192	8265	9930	16303
Gross Profit - SPC		354	448	567	668	679
DHS		406	281	407	390	578
Other Income		12	7	8	1	16
Employee Cost		141	187	223	298	335
Net Profit before int. & Tax		331	348	431	386	699
Net Profit after int. & Tax		171	183	213	179	187
At the Year end						
Equity (Share cap + Reserves)		930	1136	1591	1745	1960
Non-Current Liabilities		31	50	52	79	87
Current Liabilities		2247	1348	2379	2356	2486
Net Assets		930	1136	1591	1745	1960
Non-Current Assets		234	247	556	555	594
Current Assets		2973	2287	3466	3626	39391
Contribution to Govt				75	20	20
Number of Employees Nos.		631	673	698	720	731
Key Performance ratios						
Profitability						
Return on Capital Employed (ROCE)	%	20.30	17.75	15.65	10.76	10.07
Gross Profit Ratio - Overall	%	10.96	11.46	12.76	13.09	10.99
SPC	%	16.38	19.50	24.92	27.09	25.92
DHS	%	8.51	6.92	7.60	6.94	6.56
Net Profit Ratio	%	2.47	2.88	2.79	2.22	1.63
Return on Total Assets	%	10.32	13.74	10.72	9.23	15.43
Return on Fixed Assets	%	73.02	74.10	38.35	32.35	31.42
Return on Working Capital	%	23.56	19.53	19.63	14.13	12.84
Cost per Employee	Rs ('000)	224	278	319	414	458
Liquidity						
Current Ratio (Times)	Times	1.32	1.70	1.46	1.54	1.58
Acid Test Ratio	Times	1.13	1.36	1.24	1.26	1.00
Efficiency						
Stock Turnover Ratio	Times	7.99	6.64	7.28	6.29	5.07
Fixed Assets Turnover Ratio	Times	29.57	25.73	13.73	14.58	19.26
Trade Debtors Collection Period	Days	191	199	157	187	105
Trade Creditors Payment Period	Days	40	41	30	38	30
Investment						
Gearing Ratio	%	3.25	4.20	3.17	4.35	4.23
Interest Cover	Times	2.83	5.46	3.46	3.01	1.25

Source Annual reports

Gross Profitability Ratio of the Corporation remains in and around 11% during last 5 years.

Chart 9.6

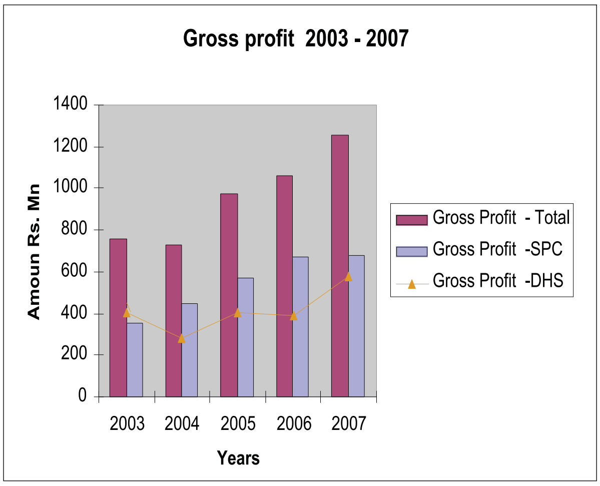


Chart 9.7

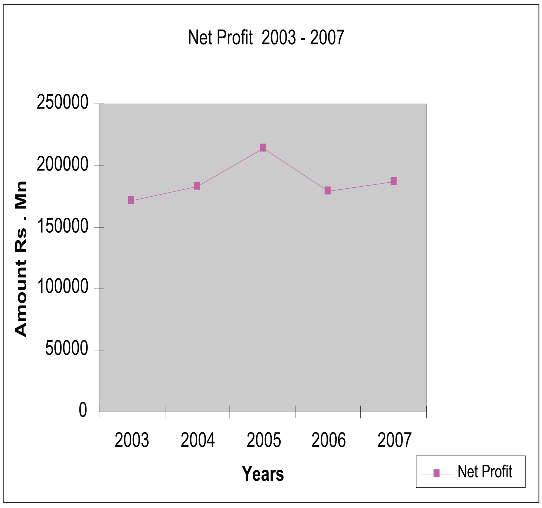


Chart 9.8

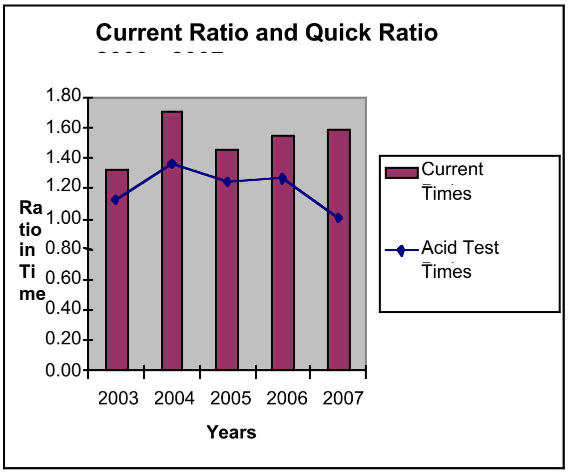


Table 9.7

Operation of Osu Sal

	2007	2006	2005	2004
No of Shops in operation	20	20	19	18
Earned Profit Rs (Mn.)	54.805	62.154	59.175	73.5
No of Loss Making Shops	8	6	4	3
Loss incurred Rs. (Mn.)	12.461	5.977	4.561	2.8

Source Annual reports

According to the Audit Report 2007 number of Osusal in operation has increased by 2 sales shops during last 4 years from 2004 to 2007. This increase is mainly due to increase volume of sales. Rupee value of total of loss making shops is Rs.2.8 Mn in 2004 and has increased to Rs 12.3 Mn in 2007 by 338% mainly due to increase of Overhead expenses.

There had been several instances, where Management of the corporation had not complied with rules regulations, treasury circulars and the mandatory requirements laid down in Finance Act.

In several instances management had incurred additional burden to the corporation due to inefficient decisions. These are,

1. Additional expenses incurred for several Medical Supplier Department supplies due to unavailability of proper import plan. The Items have been supplied by purchasing locally.
2. In the clearing goods demurrage of Rs 10.86 Mn in 2005, Rs.11.86 Mn in 2006 and 17.45 Mn in 2007 have incurred.
3. Stock (which was not within the specification) worth of Rs. 27.5 Mn has been lying in the stores since 2002
4. An Inventory of Rs.21.2 Mn has been written off as obsolete items.

5. Due to mismanagement in imports, Vaccinations Rs 4.37 Mn, Tablets Rs.2.9 Mn and Capsules Rs. 1.0 Mn have been destroyed.

Management of the Corporation has failed to adhere to the decision made by the COPE meeting held on 23.05.2006 to obtain approval for its Cadre.

State Pharmaceutical Manufacturing Corporation (SPMC)

State Pharmaceutical Manufacturing Corporation was established in 1987 under the State Industrial corporation act No. 49 of 1957 with the commitment to manufacture quality, effective and safe medicinal drugs at affordable price to public.

SPMC has achieved a formidable position in the field of Pharmaceutical manufacture in Sri Lanka. This has been made possible through the advanced technology provided by the Japanese government by way grant to the Government of Sri Lanka.

The Pharmaceuticals manufacturing facility of the SPMC is equipped with modern Japanese and German machines. The manufacturing facility has an ultra clean atmosphere and conforms to world health organization (WHO) and Good Manufacturing Practice (GMP) requirements. The atmosphere of the ultra clean zone where manufacture take place is strictly controlled with regard to temperature, humidity, microbial count and particulate matter.

At present SPMC manufactures 53 essential drugs under generic names, covering a wide spectrum of pharmacological activity. all the SPMC products comply with the USP (United States Pharmacopoeia), BP(British Pharmacopoeia) and JP(Japanese Pharmacopoeia) standards.

Organization Structure

There are seven members in SPMC Board headed by the Chairman. At present there are 194 employees in SPMC.

Chart 9.9

Departments and Senior Management Team

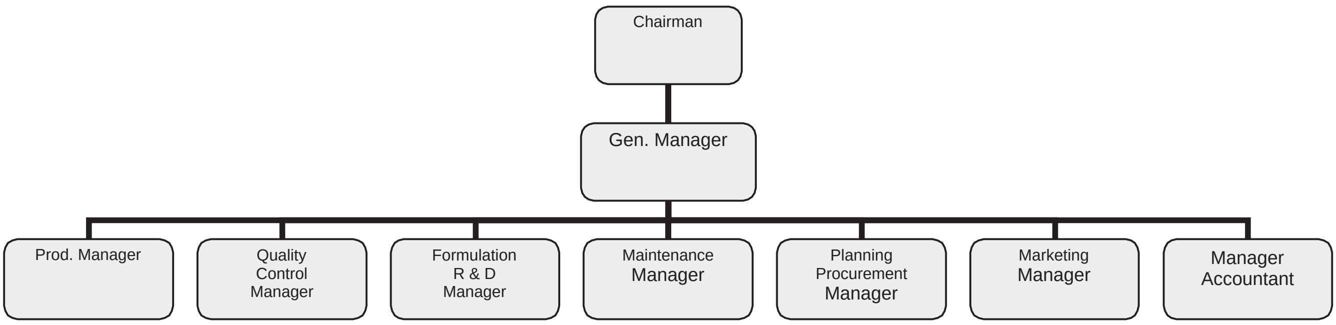


Table 9.8

Year	No of Employees
2003	155
2004	155
2005	148
2006	144
2007	189

Source Annual reports

Chart 9.10

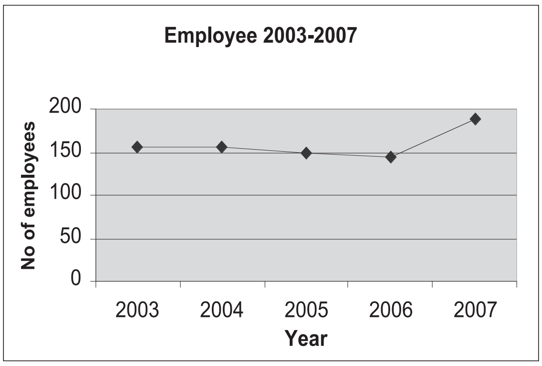


Chart 9.11

Annual Production - Capsules and Tablets

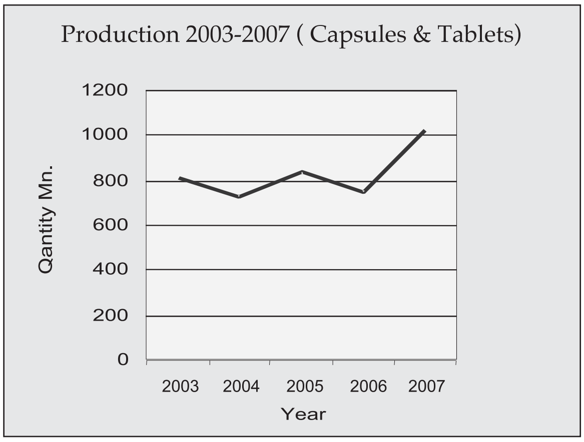


Table 9.9
Production of Capsules and Tablets

Year	Mn.
2003	812
2004	724
2005	837
2006	752
2007	1025

The production of Capsules and Tablets is the main activity of SPMC. During last 4 years up to 2006 production quantity has been continuously been around the 800 Mn mark. But in 2007 this amount has increased up to 1,025 Mn an increase of by 36%. This is as a result of introduction of shift operations (16 hours per day) with the consent of all the employees.

Table 9.10

Financial performance

Rs. Mn

	2003	2004	2005	2006	2007
Revenue	383.11	363.40	387.70	411.19	599.04
cost of sale	307.01	322	328.54	371.32	500.44
Gross Profit	76.10	41.41	59.16	39.88	98.59
Operating profit	34.34	-11.38	-5.40	-20.47	37.14
Interest Income	26.62	22.01	20.11	30.28	41.46
Net profit before Tax	61.39	10.71	14.71	9.21	77.33
Net profit after int. & Tax	59.03	10.71	9.56	9.16	32.91
Equity	1045.66	1021.78	1026.01	1034.24	1144.53
Finance cost	2.36	0.82	0.23	0.05	1.26
Non-Current Assets	368.37	461.95	547.92	429.14	421.09
Current Assets	687.85	582.67	508.58	342.36	415.40
Stock - Finished Goods	46.52	34.82	35.57	11.87	46.43
Raw Materials	87.82	96.80	110.94	155.89	125.38
WIP	23.37	18.48	20.03	30.42	44.87
Inventory	187.22	186.62	202.52	243.24	223.61
□	□	□	□	□	
Trade Receivables	122.16	111.03	118.14	137.63	149.06
Current Liabilities	22.71	14.61	21.36	28.66	18.20

Source : Annual reports

Total revenue of the Corporation are mainly from four major sources i.e Department of Health Services (DHS), SPC, Distribution and Exports. Total revenue of SPMC has indicated an increasing trend during the previous years. Total revenue of 2007 has reported a growth of 45.7 percent over the year 2006. The corporation reported a gross profit of Rs.98.5 Mn by end of 2007.

Chart 9.12

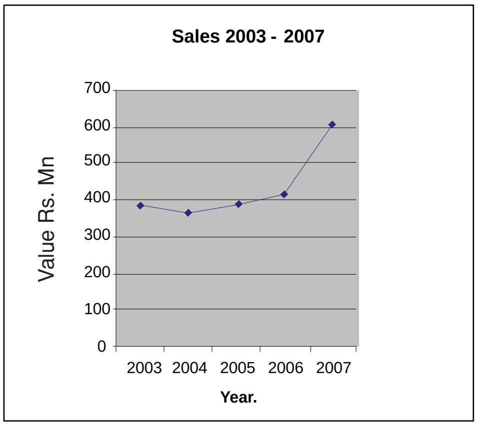


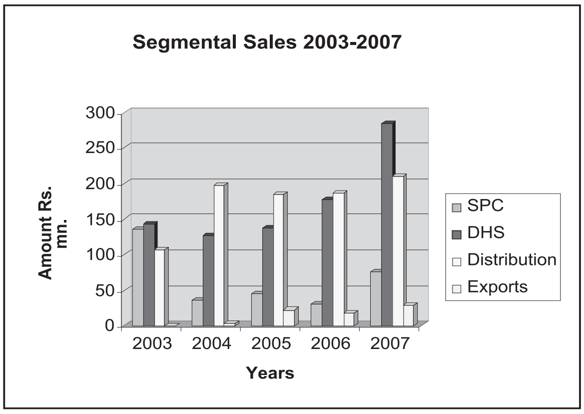
Table 9.11

Segmental Sales

	2003	2004	2005	2006	2007
SPC	135.15	36.29	44.45	30.36	76.34
DHS	142.12	126.47	137.01	177.12	284.17
Distribution	105.84	197.74	183.82	186.57	208.92
Exports	-	2.90	22.42	17.15	29.60

Source Annual reports

Chart 9.13



Sales to Department of Health Services (DHS) Rs.142.12 Mn, in 2003 represents 37 percent share of total revenue. This share has increased to Rs.284.17 Mn. i e 47 percent of total revenue in 2007. Exports began in 2004 and have reached 29.6 Mn. by 2007, particularly in exports to Fiji Island and Papua New Ginea.

The Operational profit during the year 2007 is Rs. 37.14 Mn. It is a significant increase from year 2006 where operating loss was Rs.20.47Mn.

Chart 9.14

Operating Profit

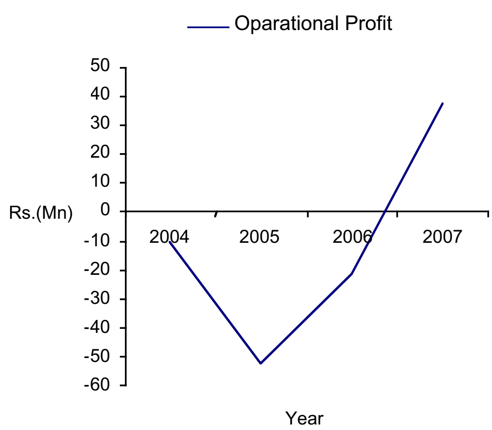
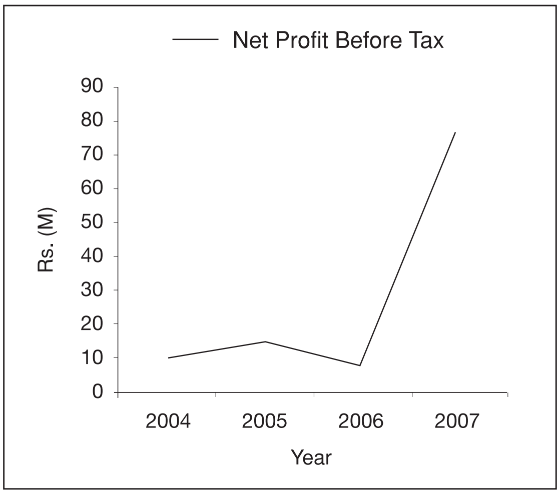


Chart 9.15



Net profit before taxation during the year 2007 was Rs.77.34 Mn.

Paranthan Chemicals Co. Limited (PCC)

Paranthan Chemicals Company Limited was incorporated in 1991 as a Public Limited Liability Company.

The following table depicts the past financial performance of PCC

Despite Paranthan Chemicals Company Limited being entitle to produce a number of products currently company is solely engaged in the import and sale of heavy chemicals such as liquid Chlorine, Caustic soda solid & Flakes and Hydrochloric Acid. The company is working on marketing Aluminium Sulphate and Sulphuric Acid.

Table 9.12

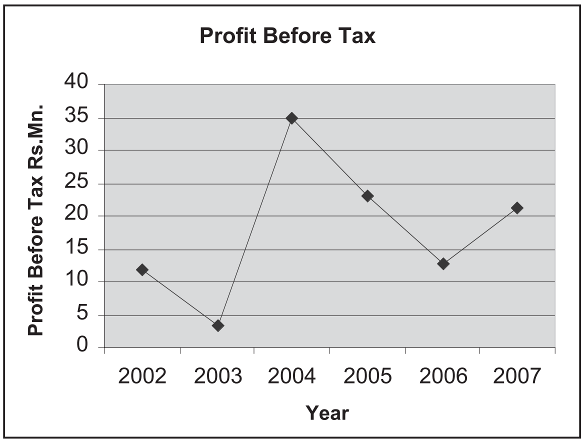
Financial performance of PCC

Rs.Mn.

	2002	2003	2004	2005	2006	2007
Sales Revenue	100	102	120	117	123	153
Gross Profit	49	43	54	45	42	54
Profit from operation	12	3.5	36	24	13	21.4
Profit after Tax	6.4	0.07	35	16	10.6	16.6
Non current assets	32	29	25	26	34	37
current assets	73	71	98	112	106	112
Non current liabilities	17.6	17.6	19	17	15	10
Current liabilities	11	7	11	12	10.2	11
Shareholders' Equity	77	76	93	109	115	129
Stock	12	8	10	24	23	7.2
Short term investment	26	38	53	62	53	66
Share capital	40	40	40	40	40	40
Profitability						
Gross Profit Ratio	49.00	42.16	45.00	38.46	34.15	35.2
Net Profit Ratio	6.40	0.07	29.17	13.68	8.62	10.84
Liquidity						
Current Assets Ratio	6.6	10	9	9	10	10
Acid Test Ratio	5.5	9	8	7	8	9.5
Efficiency ratio						
Stock turnover ratio (times)	4.25	5.90	7.33	4.24	3.40	6.55
Fixed assets turnover ratio (times)	3.13	3.52	4.80	4.50	3.62	4.25
Investment ratio						
Basic Earning per share (Rs.)	-0.43	0.37	6.63	4.65	1.09	4.18
Gearing to shareholdesrs' fund	22.86	23.16	20.43	15.60	13.04	7.7

Source: PCC Annual Reports

Chart 9.16



The net profit before tax for the year 2006 was Rs.12.8Mn as against Rs.23.40 Mn. during the year 2005. The main reason for the drop in profits is due to fluctuation of the exchange rate and increase of expenditure. However PCC was able to catch up in 2007 by earning Rs.21.21 Mn profits (Chart 9.16).

During the past five years Current liabilities have been increased mainly due to the increasing of stocks. PCC has been able to keep the, ending stock, lower in the year 2007. Short term investment has increased in last couple of years having invested in call deposits and fixed deposits.

Lanka Mineral Sands Limited (LMSL)

Lanka Mineral Sands Limited is a fully government owned company engaged in mining, processing and exporting of heavy mineral sands. Although the company has earned high profits in the past, recent adverse security conditions at pulmoddai has disturbed the marketing and mining activities of LMSL and affected the existing operations of exporting raw mineral sands and LMSL's plans to produced value added products.

The following table depicts the past financial performance of LMSL

Table 9.13

Financial performance of LMSL

Rs.Mn.

	2002	2003	2004	2005	2006	2007
Gross Sales Revenue	247	273	1,063	870	618	906
Gross Profit	118	182	764	512	259	427
Profit before Tax	(34)	30	594	420	126	333
Profit after Tax (Net profit)	(34)	30	530	357	85	237
Non current assets	28	21	19	31	29	33
current assets	807	778	1430	1663	1698	1908
Non current liabilities	117	38	55	55	71	80
Current liabilities	19	39	265	190	103	138
Dividends to Treasury		10	140	90	20	50
Number of employees	527	494	476	646	667	639
Cost per employee	0.226	0.185	0.299	0.285	0.319	0.465
Stock	328	298	191	97	104	119
Short term investment	191	269	828	803	682	876
Profitability						
Gross Profit Ratio %	47.77	66.67	71.87	58.85	41.91	47.13
Net Profit Ratio %	(13.77)	10.99	49.86	41.03	13.75	26.15
Liquidity						
Current Assets Ratio (times)	42	20	5	9	16	14
Acid Test Ratio (times)	25	12	4.5	8	15	13
Efficiency ratio						
Stock turnover ratio (times)	0.39	0.20	0.68	2.00	3.56	4.21
Fixed assets turnover ratio (times)	8.82	13.00	55.95	48.33	32.53	45.30
Investment ratio						
Basic Earning per share (Rs.)	(0.43)	0.37	6.63	4.65	1.09	2.97
Gearing to shareholders'' fund %	16.74	5.26	4.87	3.80	4.57	4.51

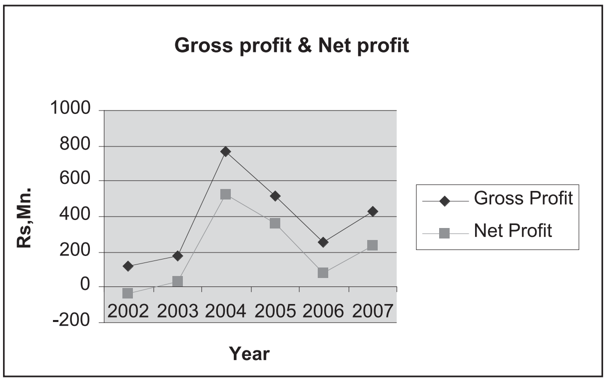
Source: Company Annual Reports

Several Terrorist attacks disturbed the sales and production of mineral sand and a considerable stocks piled up since 2004.The highest revenue of Rs.1,063 million was recorded in 2004 as a result of disposal of large accumulated stocks.

Although company was able to earn profits during last four years, profits deteriorated. Net profit has substantially increased by 190% in 2007 compared to 2006.

LMSL shows high current and assets ratios due to piled up stocks. However LMSL faces liquidity issues because it is not easy to dispose the stocks.

Chart 9.17



Chapter 10

Performance of Public Enterprises

Service Sector

Public enterprises play a noteworthy role in the service sector as well. In this regard, two major enterprises – Sri Lanka Broadcasting Corporation and the Sri Lanka Rupavahini Corporation – could be figured out.

Sri Lanka Broadcasting Corporation (SLBC)

Established under SLBC (Special Provisions) Act No 08 of 1996 (Ceylon Broadcasting Corporation Corp Act No 37 of 1966), the SLBC was meant to act as the national radio broadcasting service that caters for the needs of its listeners, while being cautious of social and cultural boundaries.

Irrespective of how and to what extent those objectives have been met so far, the salient feature of the SLBC's current status is a financial crisis at its zenith. Thus, despite the increase in total revenue, mainly by means of air time sales, the Corporation has been incurring losses continuously and culminating in an accumulated loss of Rs. 747.9 million by the end 2007.

Table 10.1

Financial Performance

(Rs Mn)

	2003	2004	2005	2006	2007
Total Revenue	482.3	546.1	534.7	612.9	671.5
Gross profit for the year	(12.51)	(4.61)	(82.2)	(74.4)	(22.8)
Net profit before interest and tax	(21.9)	(29.8)	(97.9)	(87.2)	(37.4)
Financial charges	9.4	25.2	16.7	12.7	14.9
Current assets	214.6	209.6	196.7	195.7	214.2
Current liabilities	166.4	159.1	157.7	200.4	203.2
Non-current liabilities	483.3	486.9	486.7	453.7	402.3
Cost of employment	226.3	273.7	349.1	392.8	430.2

Source : Sri Lanka Broadcasting Corporation

Amongst the liquidity indicators, Current Ratio was not satisfactory, lagging far behind the standard 2:1 range during the recent past [0.98:1 (2006) & 0.05:1 (2007)]. Coupled with this were cash and bank balances falling short of the required working capital and thus getting the SLBC to resort to bank overdraft. Accruals and sundry creditors too had been accumulating over the years (Table 10.2) resulting in short term loans worth Rs. 88 million by the end 2007.

Table 10.2

Rs. Mn

	2004	2005	2006	2007
Cash & Bank balances	23.7	5.8	9.2	(27.5)
Accruals and sundry creditors	93	98	111	135

Source : Sri Lanka Broadcasting Corporation

The Corporation being saddled with around 500 employees in excess that makes the cost of personnel emoluments to count for 63 percent of the total expenditure could be one major contributor for such a failure.

The end result of all is the burden placed on the Treasury by means of recurrent and capital grants around Rs. 193 million annually.

Thus it is evident that the dire requirement of the Corporation is to address the issue of employees in such a way to harness the maximum benefit possible. Then, the SLBC would be back on track of a financially viable public enterprise, easing the irrational burden on public funds with number of alternative uses.

Table 10.3
Financial Performance of SLRC

Rs.mn

	2003	2004	2005	2006	2007
Total Revenue	1366.9	1397.0	1533.1	1708.0	1761.1
Net profit before interest and tax	203.2	218.2	204.7	206.6	30.2
Financial charges	3.6	4.4	12.2	19.8	19.8
Current assets	806.6	918.0	1048.6	1440.5	1165.1
Current liabilities	254.5	274.2	328.5	511.8	327.9
Non-current liabilities	56.0	117.6	119.7	127.0	170.6
Cost of employment	228.4	307.6	414.9	459.9	548.7

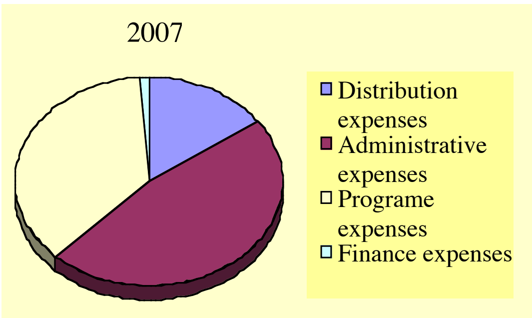
Source : Sri Lanka Rupavahini Corporation

Sri Lanka Rupavahini Corporation (SLRC)

SLRC, who deals in television broadcasting in the country, is established under Sri Lanka Rupavahini Corporation (Amendment) act No.43 of 1988 (SLRC Act no. 47 of 1971).

The Rupavahini Corporation has continued to operate as a profitable entity ensuring noteworthy profit margins over the years. However, the critical point that has brought into light by draft accounts is the sharp decline in profit from Rs. 206 million in 2006 to Rs. 30 million by end 2007. Causes for this have been attributed to cost-push factors such as increased cost of employment by Rs 89 million and escalating prices of copy/prod TV Right by 135 million.

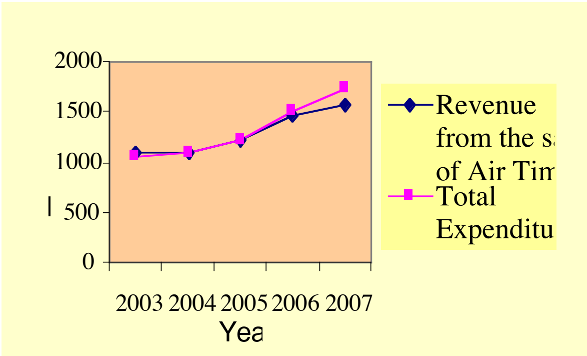
Chart 10.1



Major components of the Corporations cost structure are as follows.

The main source of revenue for SLRC i.e. sale of TV time, varied with total expenditure as follows.

Chart 10.2



Net earning ratio (profit after tax/Total assets) fluctuated within a wider range in the following manner.

Table 10.4

Net Earnings ration

2003	2004	2005	2006	2007
10%	5.90%	9%	6%	0.14%

As per the liquidity, SLRC has recorded cash and bank balances of Rs.171 million against Rs 54 million in 2006 showing sound liquidity position.

The number of actual employees remained around 1000 while approved cadre is 1204.

Table 10.5

Liquidity State SLRC

Rs. Mn

	2003	2004	2005	2006	2007
Cash & Bank balance	43	144	180	54	171
Trade and other payables	237	258	303	362	313
Trade and other receivables	521	569	664	813	772

Source : Annual Report SLRL

SLRC has not reported long term loans for outsiders except short term loan of Rs.14 million in bank overdrafts.

SLRC has long term Treasury bills worth Rs 413 million and fixed deposits Rs 22 million in 2007, against Rs 505 million and 22 million respectively in 2006.

As per the contribution to the consolidated fund, Special levy of Rs.40 million was imposed during the year 2007. Levy of Rs.15 million each was imposed for 2005 and 2006 and Rs 20 million for 2004

Tourism

Tourism is another sector with huge growth potentials for a country like Sri Lanka. The main institutional arrangement with which such activities are entrusted was the Sri Lanka Tourist Board until the introduction of the new Tourism Act No 38 of 2005 that resulted in the restructuring of the Sri Lanka Tourists Board into 4 institutions - the Tourism Development Authority, Tourism Promotions Bureau, Sri Lanka Convention Bureau and the Sri Lanka Hotels School. This was undertaken with the aim of developing tourism by the adoption of a multi pronged strategy.

During the year 2007 the total tourists' arrivals to the country decreased by 11.7% over 2006. However the total revenue earned from tourism increased in 2007. The months January, July, August and December were the peak months for tourists arrivals in 2007.

Direct revenue to the government from tourism is earned by way of the Tourism embarkation levy, Tourism Development levy, and fees imposed when visiting the cultural triangle, the botanical gardens, national parks etc.

Table 10.6

Government Performance in Tourism Sector

(Rs.Mn)

	2004	2005	2006	2007
Source of Revenue				
Tourism Embarkation Levy	780.4	674.2	696.0	600.6
Tourism Development Levy	300.6	172.5	177.5	214.3
Tourist Board Income	30.9	39.0	3 4.0	
Embarkation Tax on Foreign Tourists	566.2	549.3	559.6	747.3
Cultural Triangle	543.1	284.7	400.9	279.8
Botanical Gardens	70.7	32.6	44.2	66.6
Zoological Gardens	119.5	61.4	82.6	133.1
National Parks	113.8	62.7	99.6	72.7
Museums	1.5	3.9	6.5	4.2
Total	**2,526.6**	**1,880.3**	**2,100.9**	**2118.6**

Source : Department of Public Enterprises

Chapter 11

Restructuring of Non- Performing Enterprises

In the year 2006 the Cabinet Sub Committee examined 39 defunct/nonfunctional and under performing enterprises. Committee recommended that 22 of them should be restructured with the assistance of PERC and 3 enterprises with the assistance of SEMA. This recommendation of the committee was approved by the Cabinet of Ministers on 15th November 2006 with a direction that out come of the restructuring process should be reported within 6 months for the review of the Cabinet Sub Committee.

PERC and SEMA had several discussions with the institutions and relevant line Ministries with regard to the restructuring of the enterprises assigned to them and our department actively participated in those discussions on monitoring the progress.

Treasury has been providing funds for these non performing enterprises to pay the salaries of the employees and to meet the shortfall in enterprises.

List of Non Functional Institutions

BCC Lanka Ltd
Building Material Company (BMC)
Ceylon Ceramic Corporation
Corporative Wholesale Establishment
Elkaduwa Plantation Ltd
Hingurana Sugar Industries Ltd
Janatha Estate Development Board
Kahagolla Engineering Services Co. Ltd
Kahatagaha Graphite Lanka Ltd
Kantale Sugar Industries Ltd
Lakdiva (Engineering) Co. Pvt Ltd
Lanka Salusala Ltd
Lanka Synthetic Fibre Co. Ltd
Lanka Tractors Ltd
National Paper Company Ltd
Pugoda Textiles Lanka Ltd
Ruhunu Agro Fertilizer Ltd
Sathosa Retail Ltd
SL State Plantation Corporation
Sri Lanka Broadcasting Corporation
Sri Lanka Cement Corporation
Sri Lanka Handicraft Board
Sri Lanka National Craft Council
Sri Lanka National Design Center
Sri Lanka Rubber Manufacturing & Export Corporation Ltd
State Engineering Corporation
Werahera Engineering Services Co. Ltd

However, presently one of the key roles of the Department of Public Enterprises (PED) is to facilitate the Government's restructuring process on defunct public enterprises with a view to revive these institutions as commercially viable entities as recommended by the said Cabinet Decision. Accordingly, substantial progress was made on restructuring of following institutions with the assistance of line ministries, management of the said institutions and other relevant authorities.

Hingurana Sugar Industries Ltd

The re- opening of Hingurana Sugar Industries Ltd (HSIL) in 2007 after ten years of its production cessation is one such initiative.

The HSIL was first privatized in 1993. However, the company was unable to operate it in a viable manner, in the interest of safeguarding both the livelihood of the 1,300 employees as well as farmers who depend on the organization. Hence, the company was re-vested with the government in January 1997. The production of the factory had ceased since September1997 due to the non-availability of funds to rehabilitate the factory and revitalize the sugar cane plantation. Several attempts were made to attract an investor to re – commence the operation, which had not been successful up to the year 2006.

The HSIL project consists of a total of 7,658 hectares, out of which 5,202 hectares are cultivable land. Only about 150 hectares of nucleus land are owned by HSIL. The rest of the cultivable area has been allotted among 4,000 sugar cane farmers. There are also further 2000 sugar cane out-grower farmers who produce their cane for HSIL. It is estimated that around 30,000 people are directly affected with the closure of HSIL.

In view of the large capital investment and the technological know how required to operate the HSIL successfully, it was decided to get private sector participation that the company be revitalized as a commercially viable entity. The Cabinet Sub Committee on Investment Facilitation chaired by H.E. the President on 25th August 2006 granted approval to a proposal made by a consortium comprising of Brown & Company (B&C), Lanka Orix Leasing Company (LOLC) and Government of Sri Lanka (GOSL) for re-commencing operation of HSIL. Accordingly, a new company known as "Galoya Plantation Ltd" was incorporated with GOSL to have 51percent, and the balance 49 percent to LOLC and B&C. The HSIL was re-opened operations on 17th July 2007 as per the Cabinet Decision dated 25.04.2007.

The government's objective of this intervention is to revive this defunct enterprise through Public Private Partnership and to assist the industry to become more competitive, optimize the use of resources and increase employment. It will also help the development of some of the most undeveloped areas in the country. This will benefit the farming community in the districts such as Monaragala, Hambanthota and Ampara.

Kahatagaha Graphite Lanka Ltd (KGLL)

Kahatagaha Graphite Lanka Ltd (KGLL) which was incorporated in 1991 was privatised in September 1992, with a 90% stake being sold to Ceylon Graphite Mining Company (Pvt) Ltd and the remaining 10% shares gifted to its employees. Non payment of salaries and other statutory liabilities led to worker unrest and the mines were closed and production suspended in December 1994.

The company's main business is mining, processing and exporting of graphite from the Kahatagaha/Kolongha mines. The mines are located in the Kurunegala District near Dodangalanda. It is situated on approx. 106 acres of freehold property.

In January 1997, KGLL was vested with the GOSL under the rehabilitation Act and a Competent Authority was appointed to manage the company. Subsequently, Board of Directors was appointed in April 2000 to run the company.

Consequent to the vesting with the government, KGLL carried out the small scale production. However, Production was again ceased in mid 2003 as the company faced in severe financial difficulties. The employees were given a Voluntary Retirement Scheme (VRS) at a cost of Rs 170 million to the Treasury in August 2003.

In keeping with the government's restructuring policy, KGLL was revived in March 2007 after four years of its closure, with the funds generated through the sale of buffer stocks.

KGLL has produced 239 MT of graphite up to 16th May 2008 and has generated 55 employments. The monthly target of revitalised KGLL is to mine 50MT of graphite. This reveals that revitalised KGLL has made a substantial progress upto date while contributing to the economic developments of the country.

Kanthale Sugar Industries Ltd (KSIL)

In March 1993, 90% shares of KSIL were divested to Lanka Agencies Ltd. As the investor inter alia failed to settle outstanding statutory payments of employees, in 1995, action was taken through the Attorney General's Department to terminate the Share Sale and Purchase Agreement.

KSIL was vested with the government in January 1997 in terms of the Rehabilitation Act. A VRS package was offered to all employees by the Treasury. A few employees were retained on contract basis for security and maintenance purposes and monthly payments are being met by the Treasury. Subsequent to the vesting with the Government, Treasury has funded Rs 518 million to KSIL by the end of 2007.

In July 2000, the PERC facilitated the leasing of 7,286 acres of land out of 21,000 acres land of KSIL to Agro Trading Lanka Pvt. Ltd (ATL) for a BOI approved maize cultivation project. However, in November 2006, the Cabinet of Ministers has decided to taken back the possession of said land from ATL. Since ATL has not handed over the land, Divisional Secretary has filed a case in the Magistrate Courts to evict ATL. When ATL presented its "Agreement to Lease", the court has upheld the right to possession as per the said agreement still effective. In August 2007, The Land Commissioner has requested Secretary to the Treasury to annul the above Lease Agreement.

However, Director General, Dept of Public Enterprises sought Attorney General's advice and accordingly, Attorney General's Dept. has advised that in terms of Clause 10 of the aforesaid agreement, it would be necessary to call upon ATL to pay the rentals in default and give three months notice to rectify the breach before terminating the lease.

Currently, with the assistance of PED, BOI has initiated action to hand over the KSIL to Company called Castle AG Pvt Ltd in terms of the Cabinet approval on "revitalization of Kanthale Sugar Industry" and Cabinet Paper submitted by the Minister of Supplementary Plantation Crops Development.

With the implementation of aforesaid restructuring program some non functional institutions could carry out their operations, without the financial assistance from the Treasury. Both Capital and recurrent grants to the non financial institutions dropped for the year 2007 which indicates that most of the non functional institutions were able to function with out burden on the Treasury.

Chapter 12
Financial performance

Financial Management

The Budgetary allocation and actual expenditure of the department for the year 2007 with comparative figures for the year 2006 are as follows.

Table 12.1

Budgetary allocation and actual expenditure for year 2006 & 2007

Rs.'000

	Project 1		Project 2		Total	
	2006	**2007**	**2006**	**2007**	**2006**	**2007**
Budgetery allocation						
Recurrent	21,410	23,393	2,045	_	23,455	23,393
Capital	1,090	320,319		_	1,090	320,319
Total	**22,500**	**343,712**	**2,045**	_	**24,545**	**343,712**
Actual Expenditure						
Recurrent	14,646	20,835	1,104	_	15,750	20,835
Capital	253	319,497		_	253	319,497
Total	**14,899**	**340,332**	**1,104**	_	**16,003**	**340,332**

Source : Audited accounts of Department of Public Enerprises

Public Officers Advance Account

The operation of the Public Officers Advance Account was within the limits authorized by the Parliament. The limits authorized and the actual in respect of expenditure , receipt and debit balance for 2007 are as follows:

Table 12.2

Public Officers Advance Accounts 2007

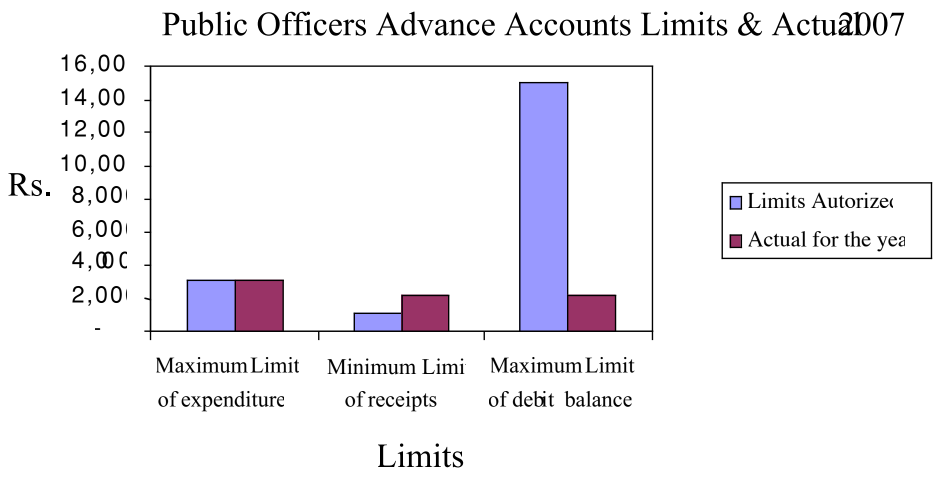
Public Officers Advance Accounts Limits & Actual

Rs.'000

	Limits Authorized	Actual at the end of the year
Maximum Limit of expenditure	3,000	2,986
Minimum Limit of receipts	1,080	2,199
Maximum Limit of debit balance	15,000	10,374

Source : Audited Accounts of Department of Public Enterprises.

Table 12.1



The annual Appropriation Account and the Annual Reconciliation Statement in respect of Advances to Public Officers Accounts for the year 2007 have been audited and all audit queries received from the General Audit was answered. Overall the annual accounts was examined by Auditor General and no adverse comments were made.

Chapter 13

Way forward

Privatization had been considered the principal strategy for public enterprises reform in the last two decades. However, the present government does not believe that the privatization is the only strategy for economic reform.

The government medium term development strategy envisages the Public Enterprises to improve their performance through management reform aimed of rasing productivity and operate efficiently. Accordingly enterprises should minimize their losses and turn them into profit making institutions and improve their goods and services delivery.

The department has been tasked with creating an enabling environment that would meet to greater commercial and operational autonomy, strengthening of the boards and management as well as ensuring the accountability and good governance that would lead to strong financial disciplines and better service quality in these enterprises. Exercising ownership rights and supervision over these critical resources is necessary for the well being of society and facilitates the implementation of public policy objectives. Improving the operational and financial efficiencies in these enterprises has the potential to make the significant impact on economic growth and the social welfare of the country.

All state owned enterprises need to perform at maximum output capacity and deliver services to the nation in an efficient manner. Further all SOEs should bring in dividend income to the government and avoid reliance on the Treasury funding.

Initiatives for developing performance indicators bench marks and reporting formats and setting up and strengthening the management information system for monitoring financial and operational outcomes will be implemented in the coming years.

One of the major challenges of the Commercial Public Enterprises is the application of sound pricing policies that ensure commercial viability. Pricing decisions are affected by social and welfare considerations. As a result, the prices of goods and services offered by the Public Enterprises remain below cost of production, which leads to continuous losses and under investments in the enterprises. Such losses also affect the management of the National Budget as it required to provide transfers to meet operational losses. Therefore, in order to make all Public Enterprises profitable and encourage them to undertake investment on maintenance, expansion and modernization, the existing pricing and tariff strategy needs to be guided by cost recovery considerations.

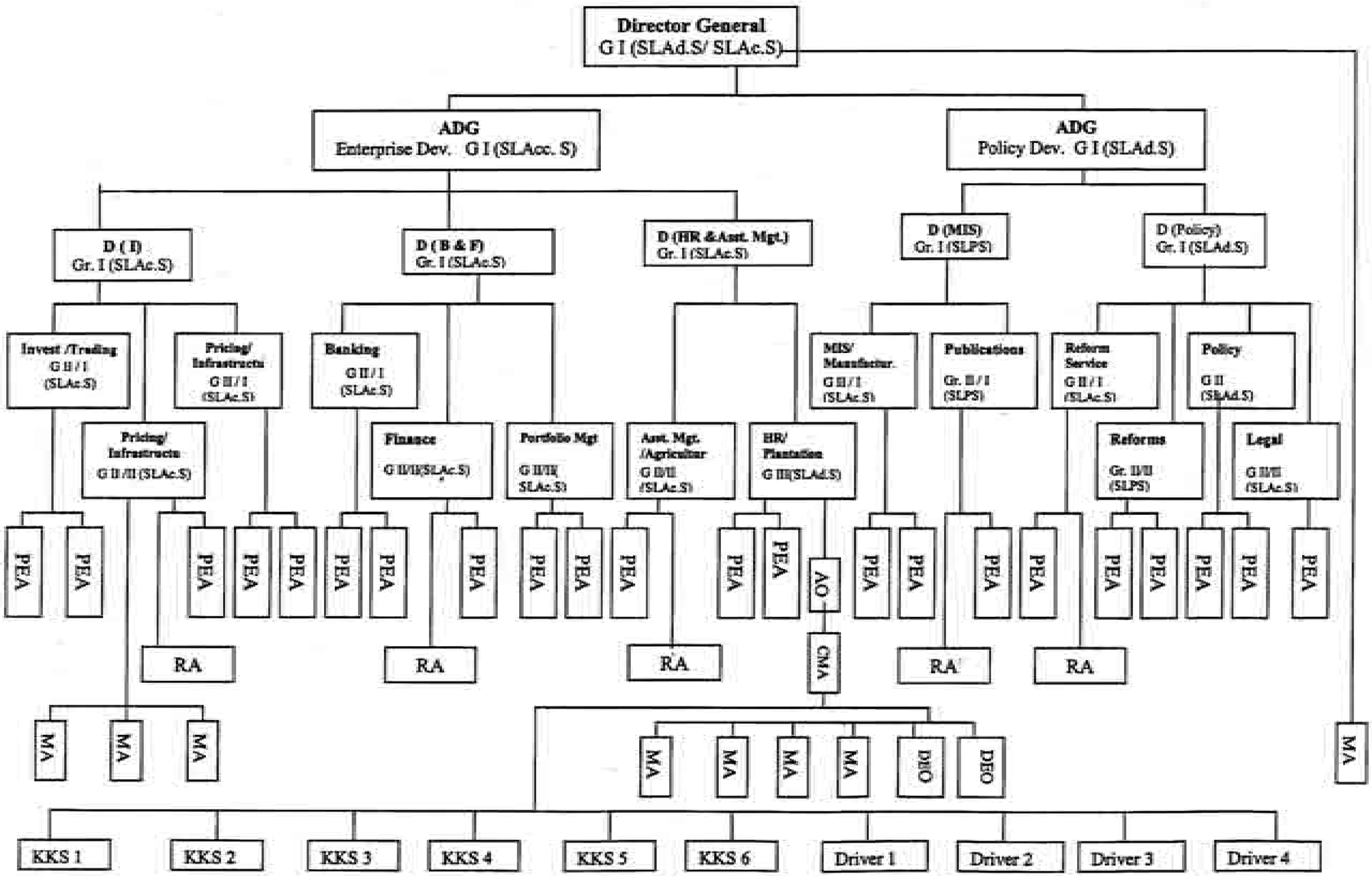
Another main challenge is the improvement in productivity through better labour management and human resource planning and development, budget controls and cadre management. Improvement in productivity will involve the maximization of revenue per employee, the use of energy efficiency technology, resorting to efficient procurement practices, and better maintenance expenditure to contain operational inefficiencies.

Public Enterprises should have strong Human Resource Management strategy. Most of Public Enterprises have mismatching labour demand and labour supply. Sri Lanka Transport Board has identified around 7,000 such employment positions. At the same time, most of these institutions do not have adequate professional staff to meet the emerging human resource management challenges. This suggests that the entire Human Resource profile of these enterprises needs to be re-evaluated to improve the efficiency and productivity.

The common deficiencies observed in respect of the performance of public enterprises include :

Lack of a guidance in investment portfolio to meet the emerging needs, over staffing and human resource issues, in adequate expertise to meet the challenges in project management, procurement management and financial management, inadequate internal control systems, management review and supervision, weak arrangement for management audit committees, grievance committees, labour relationship and productivity management.

Proposed - Organizational Structure - Department of Public Enterprises



D (I)	- Director (Investment)	AO	- Administrative Officer
D (B &F)	- Director (Banking & Finance)	PEA	- Public Enterprises Analyst
D (HR & Asst..Mgt.)	- Director (Human Resources & Assets Management)	RA	- Research Assistant
D (MIS)	- Director (Management Information System.)	CMA	- Chief Management Assistant
D Poli	- Director (Policy)	MA	- Management Assistant
SLAc.S	- Sri Lanka Accountants' Service	DEO	- Data Entry operator
SLPS	- Sri Lanka Planning Service	KKS	- Karyala Karya Sahayaka
SLAd.S	- Sri Lanka Administrative Service		
Invet/ Trading	- Investment / Trading	Pricing/ Infra.	- Pricing / Infrastructure
MIS/ Manufact.	- Management Information System / Manufacturing	Portfolio Mgt.	- Portfolio Management
Asst. Mgt/ Agricul.	- Assets Management / Agriculture	HR/ Plantation	- Human Resources/ Plantation

Staff Officers Profile

No.	Name	Designation	Qualifications
1	Dr. B.M.S. Batagoda	Director General (Present)	BA (Hons) (SL), MSc (MSU, USA), Ph.D (UEA, UK), Attorney-at-Law
2	Mr. N.G.Dayaratne	Director General (Left on 14.02.2008)	BSc (PFT), PDEM (J'pura), HNDA, EDAF (ICASL), PGDBFA (ICASL)
3	Mr. K.P.Indran	Director (Left on 01.02.2008)	BSc, ACA, MBA
4	Mr.S.G.Senaratne	Director	ACA, FMAAT, FPFA, B Com (Spl), HNDC, DPFM
5	Mrs. S.P.M.K. Siriwardena	Director	B.Adm (Spl), DPFM
6	Miss D.M.V. Dissanayake	Deputy Director	B Com (Spl), ICASL (PI), PFFM, MAAT
7	Mr.T.V.Weerasena	Deputy Director	Post.Grd Deg.(Acct & Fin), HNDA, NDBS, APFA , NDBS
8	Mr.P.A.S. Athula Kumara	Deputy Director	BSc (Mgt)
9	Miss K.G.K.Yapa	Deputy Director (Retired on 28.05.2008)	B Com (Spl)
10	Mr. B.Lokuranamuka	Deputy Director	B Com (Hons)
11	Mr. H.A.N.Saman Kumara	Asst. Director	B Com (Spl), ICASL (F1), Dip.AF
12	Mrs. R.M.D.K. Ratnayaka	Asst. Director	BSc (Business Administration), ICASL (Finalist), PGDED
13	Mrs. Champa N. Balasuriya	Asst. Director	B Com (Spl), ICASL Licentiate, MAAT, APFA
14	Mrs. I.T.K. Iangamudali	Asst. Director	ACA, APFA
15	Miss Visakha Amarasekera	Asst. Director	BSc (Hons), MA Econ. Development, ACMA (UK), APFA
16	Mr. H.P.M. Wasantha Kumara	Asst. Director	B.A. (Spl) Hons
17	Mr. D. Marasinghe	Asst. Director (Left on 28.06.2007)	B.B.A. (Spl), CIMA (Final), ICASL (Final), MNIA (Australia), MAAT
18	Mr. S.R.Kumarage	Asst. Director (Left on 28.06.2007)	ACA
19	Mr. Ajith Priyantha	Asst. Director	BSc (Mgt), APFA