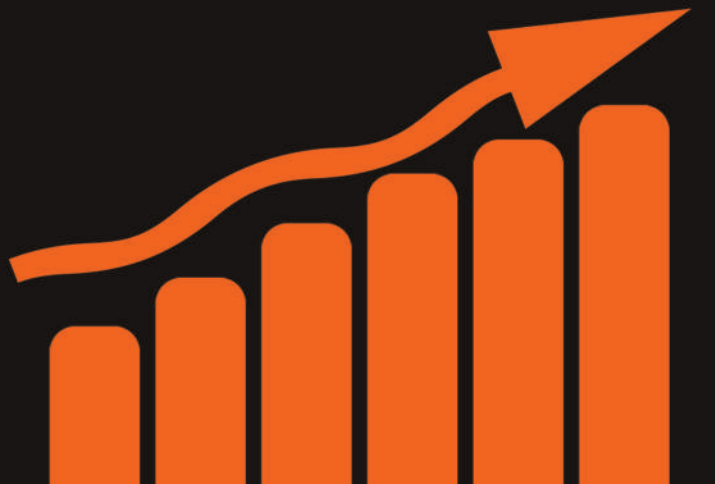




மாஹபொலு உயர்வுக் கல்வியியல் ஸ்காலர்ஷிப் டிரஸ்ட் அர் டீட்டி
மஹபொலு உயர்கல்வி புலமைப்பரிசில் நம்பிக்கை நிதியம்
Mahapola Higher Education Scholarship Trust Fund

2012

வார்டிகை வார்தாவ கா திஷுதி
வருடாந்த அறிக்கையும் கணக்குகளும்
ANNUAL REPORT & ACCOUNTS



2012

ANNUAL REPORT AND ACCOUNTS

**MAHAPOLA HIGHER EDUCATION SCHOLARSHIP
TRUST FUND**

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Vision

“To create a Scholarly Society Aims at Poverty Eradication”

Mission

"To award Scholarships for the Unprivileged Youth to Obtain Higher Education and to Create Equal Opportunities for Higher Education through the Improvement of Facilities”

Aims and Objectives of the Fund

Aims and objectives of this fund are;

- To provide higher educational facilities to youth.
- To provide assistance to deserving youth who have completed their secondary education satisfactorily, so as to enable them to complete their academic, industrial or technical education at a higher educational institute.
- To set up vocational training institutes for enabling youth to improve their skills and assist to manage them.
- To set up schools and institutes engaged in the furtherance of education and provide them financial assistance.
- To provide assistance for the improvement of the skills of persons engaged in the furtherance of education. (Measures have been taken considering grant of scholarships for higher education is the task with utmost importance.

Establishment of the Fund

Mahapola Higher Education Scholarship Trust Fund was incorporated under the Parliamentary Act No. 66 of 1981. In terms of the section 3 of the Act, its administration, Management, and control has been vested in the Board of Trustees.

Late Minister Hon. Lalith Athulathmudali founded the concept of “Mahapola” in 1980 when he was the Minister of Trade and Naval Affairs through a trade fair with the objective of offering the benefits and knowledge of the open economy to the rural community.

As a result grant of Mahapola Scholarships initiated in 1981 with 422 scholarships and this scholarship scheme has offered more than 200,000 to the students who are obtaining higher education during the past thirty years and this fund has allocated Rs. 900 Mn. in 2012 for scholarships. The amount spent by 2012 for scholarships is Rs. 680,573,470.00.

This fund is offering institutional and financial assistance to the higher education centres not come under the consolidated fund and scholarships to the youth for their higher studies and its administrative affairs are being carried out by an independent board of trustees chaired by the Hon. Chief Justice.

Board of Trustees of the Fund

Ex officio members:

- | | | |
|----|-----------------------------------------------------------------------------------------|----------------------------|
| 1. | Hon. Dr. Shirani Bandaranayake
The Chief Justice of the Supreme Court | (Hon. Chairperson) |
| 2. | Hon. Johnston Fernando
Minister of Co-operative and Internal Trade | (Hon. Founding
Trustee) |
| 3. | Mr. Sunil S Sirisena
Secretary to the Ministry of Co-operative and Internal
Trade | (Hon. Trustee) |
| 4. | Dr. Sunil Jayantha Nawarathna
Secretary , Ministry of Higher Education | (Hon. Trustee) |
| 5. | Mr. Gotabhaya Jayarathne
Secretary, Ministry of Education | (Hon. Trustee) |

Appointed Members :

- | | | |
|----|--------------------------------------------------------------------|----------------|
| 6. | Mr. S.V.D Kesaralal Gunasekara | (Hon. Trustee) |
| 7. | Prof. Mlaik Ranasinghe
Vice Chancellor , University of Moratuwa | (Hon. Trustee) |

(These trustees are paid no allowance for the participation at the meetings.)

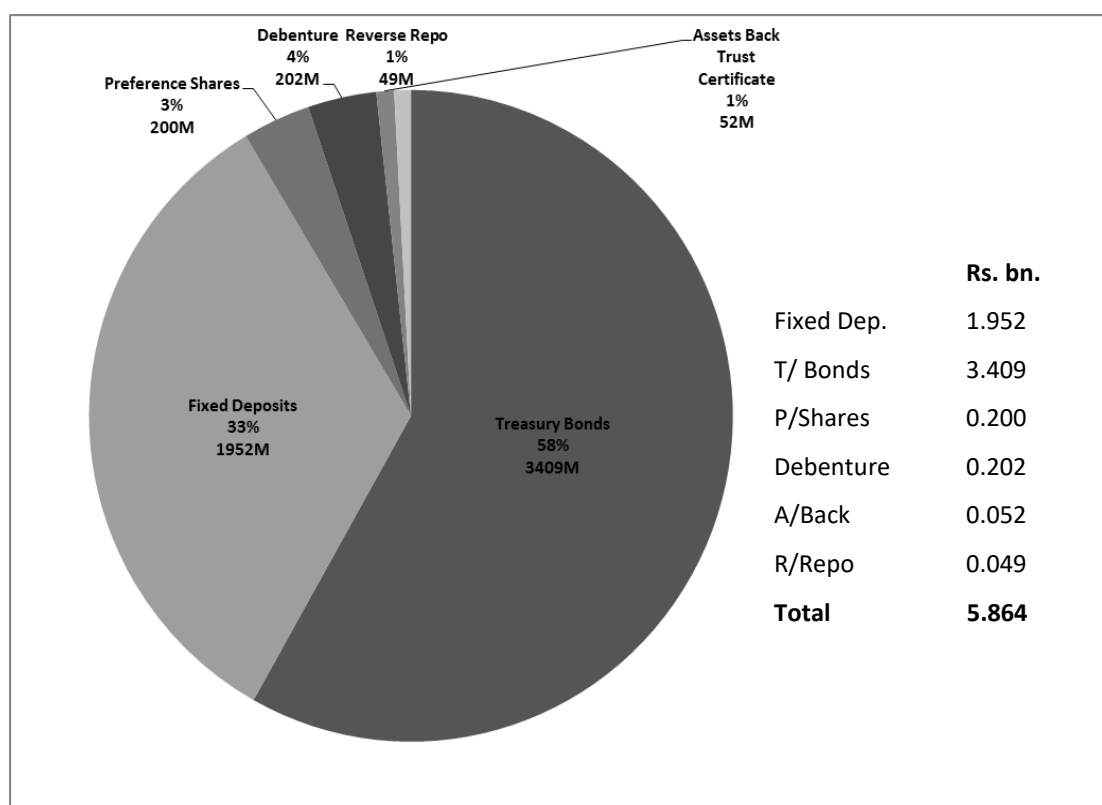
Income and Expenditure

The major source of income is the annual interest income invested from the financial assets of the fund. The annual interest income is Rs. 700,597,706/-. President's Fund has made a contribution of Rs. 734,128,031/- to the Mahapola Trust Fund by making co-contribution of 50% to the capital of the Development Lotteries Board as dividend this year. There is a tendency to decrease annual interest income in consequence of the decrease in the market interest rate.

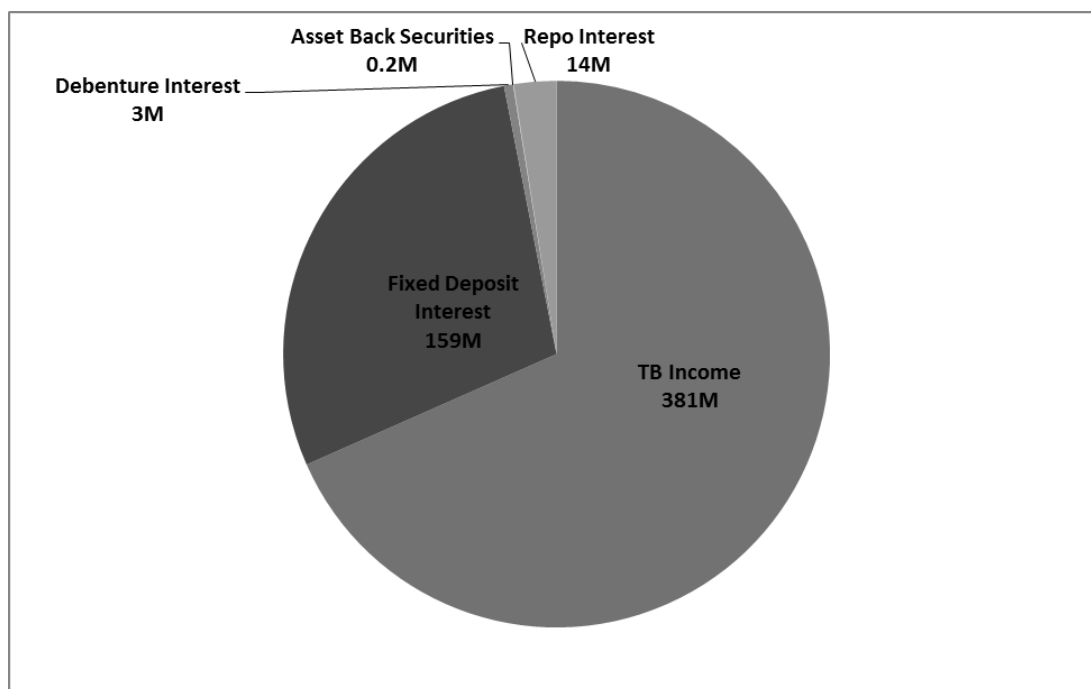
Relative to the total annual expenditure of Rs. 830,599,515/-, the total income of the fund was Rs. 1,434,725,736/- . The major task of the fund was to pay for the Mahapola scholarships and after settling that payment the surplus income of Rs. 718,920,138/- inclusive of the said income of the Development Lottery was added to the accumulative fund. Since this fund is free of income tax there is not a difference in the after – tax income.

Position of Main Fund – Investment & Income

Investment



Income



Award of Scholarships

Limited number of Mahapola Scholarships is awarded to the students who apply for them on merit basis as per their G.C.E (A/L) results. Therein the students who have secured high marks at the examination are awarded with scholarships on merit basis while Mahapola General Scholarships are awarded giving priority to the rank and considering the income of family. Among the annual number of Mahapola Scholarships, 10% are merit based while 90% have been allocated for general scholarships. Rs.50/- more than the general scholarship is paid for a merit scholarship.

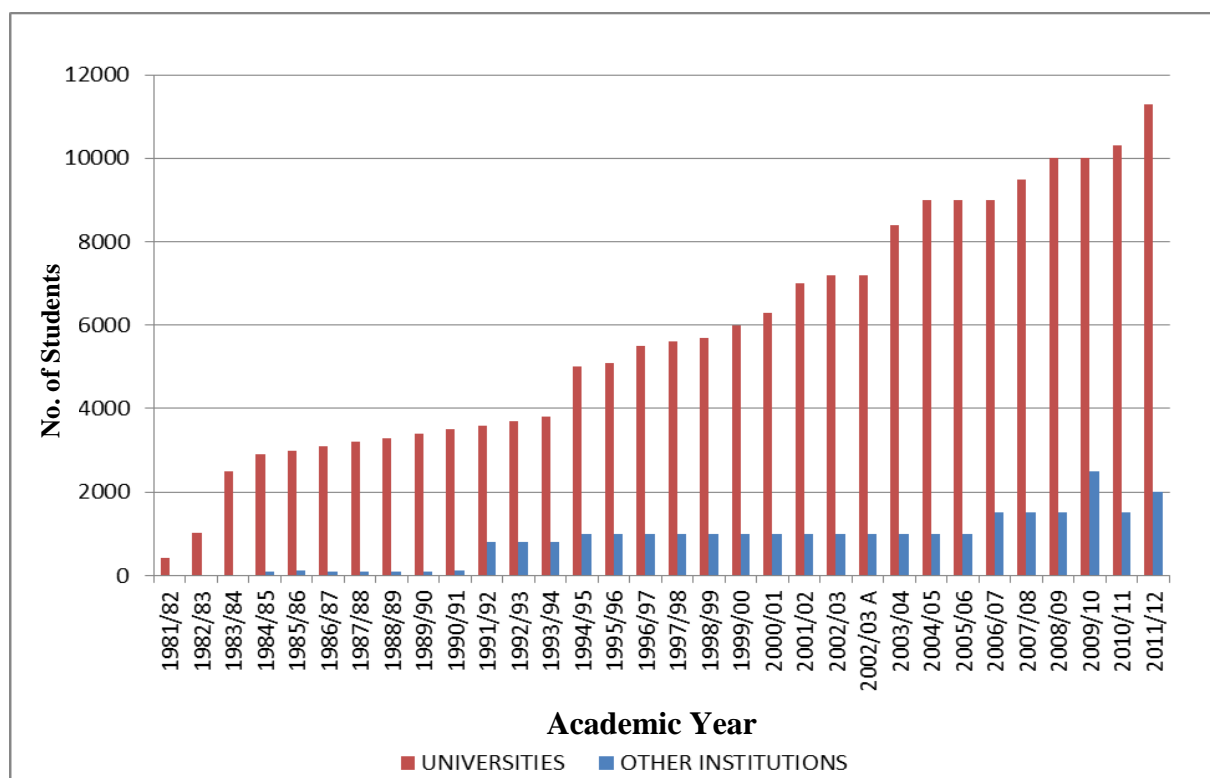
Board of Trustees of the Mahapola Scholarship Trust Fund granted approval to award 13,500 scholarships for the students have been granted university admission for the academic year 2011/2012 by the University Grants Commission based on the results of G.C.E (A/L) examination held in 2011. Around 1350 of students received merit scholarships while the rest of 12150 were awarded to the students of less income generative families based on their ranks. Compared to the total number of students who get university admission 58.84% of students were covered by the Mahapola Scholarship Programme.

In addition to the number of scholarships recommended by the University Grants Commission, measures have been taken to award 1556 scholarships for the degree courses and professional diploma courses of the following Higher Education Centres.

Scholarships were distributed among the students of the following institutes this year.

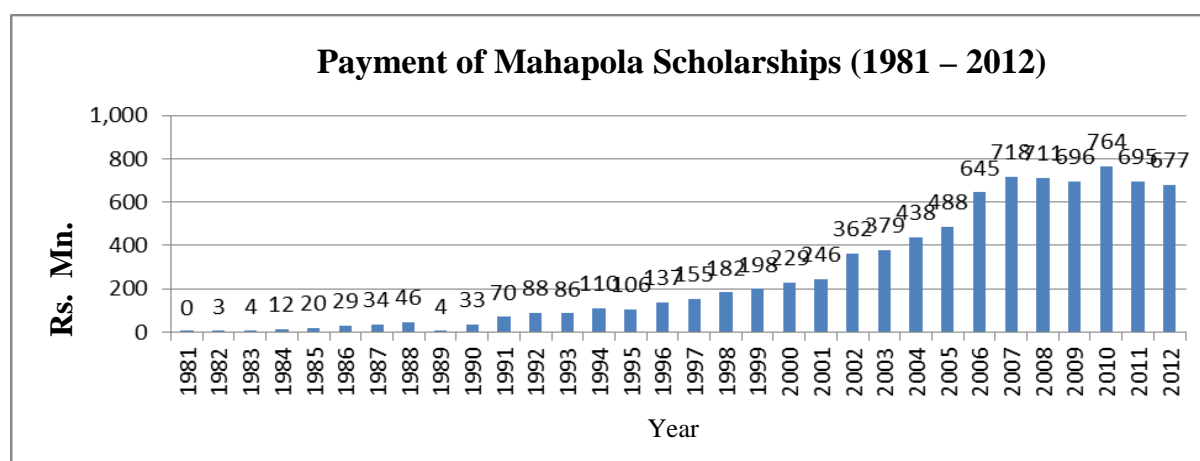
Institute		Number of Students
1.	Sri Lanka Law College	37
2.	National Institute of Technology, Moratuwa	70
3.	Buddhist and Pali University	19
4.	Buddhasravaka Bhiksu University	20
5.	National Institute of Social Development (10 Degree Programmes & 14 Diploma Programmes)	10
6.	National Institute of Advanced Technological Education (15 Divisional Centres)	1500
7.	Open University of Sri Lanka (reserved 400 scholarships)	400
		1556

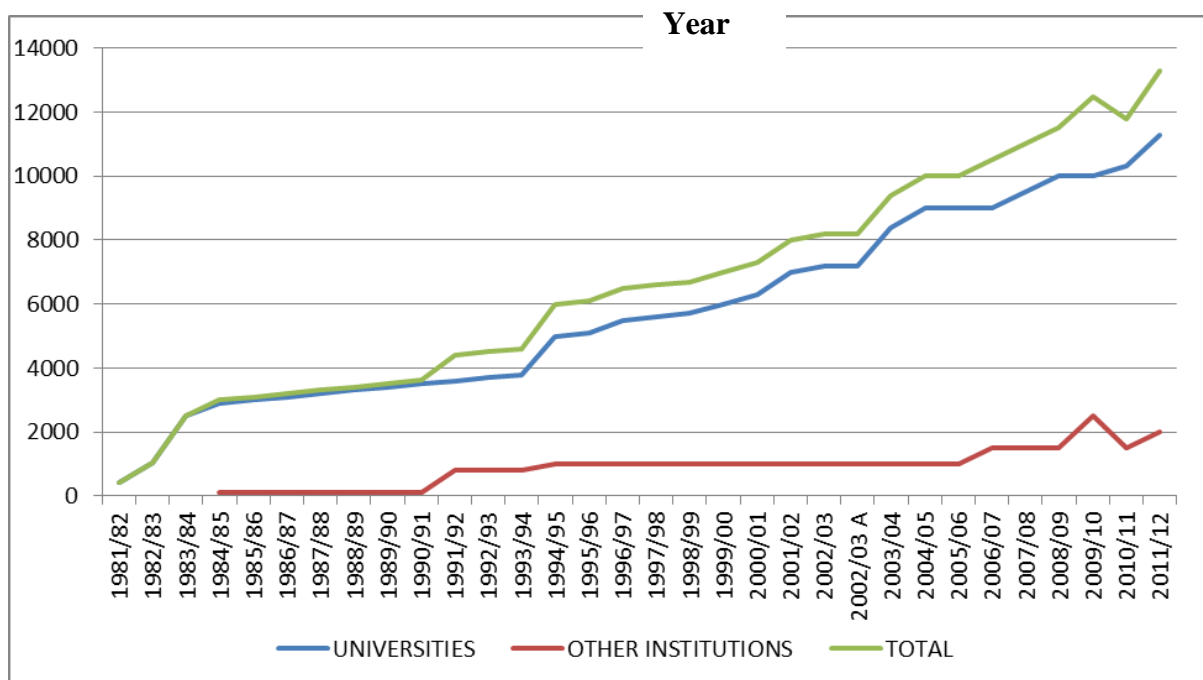
Mahapola Scholarships 1981 - 2012



Payment of Scholarships

Accordingly, inclusive of the Rs. 350/- monthly provided by the General Treasury through the University Grants Commission, each student entitled for merit scholarship receives Rs 2550/- and the students of general scholarships receive Rs. 2,500/- per each.





Mahapola Higher Education Scholarship Awards – from 1981

School Development Fund

Mahapola Scholarship Trust Fund could provide financial assistance for three schools during the year 2012 by utilizing the interest income of School Development Fund established under the fund.

Name of the School	Grants (Rs.)
1. St. Anthony's College - Kandy	5,775,930.40
2. St. Anne's College – Kurunegala Construction of the auditorium with theatre	23,601,722.33
3. Rahula College - Matara	20,000,000.00
Total	49,377,652.73

Sri Lanka Institute of Information Technology Studies (SLIIT)

As decided by the Mahapola Board of Trustees, Sri Lanka Institute of Information Technology was established in the land of 25 Acres called Ranisthan Watta in Malabe in to obtain Information Technology education for the students who were unable to enter universities. This is another service rendered by the fund apart from its major task of awarding scholarships.

Sri Lanka Institute of Information Technology (Guarantee) Limited was established under this fund as a management board for the founding of the above institute. Its construction started in 1999 with the funds of Rs 472 Mn Of Mahapola Scholarship Fund.

The student's intake of this institute for the Information Technology Courses is as follows.

Year	Number of student admissions
For Diploma Programmes 2000 - 2011	13,192
Degree Courses in 2012	1,146
Diploma Programmes in 2012	<u>1,076</u>
Total	<u><u>21,485</u></u>

Presently this institute conducts Diploma Courses and Master Degree in Information Technology. The students who have followed these courses have access for plenty of job opportunities in the field of Information Technology.

In addition, this institute has taken steps to introduce Engineering and Management Courses as well.

Board of Directors of the SLIIT as at 31.12.2012

At the end of accounting period composition of the Board of Directors is as follows.

Name	Post	Ex officio positions
Prof. Samarajeewa Karunarathna	Chairman	
Prof. Bamunuwita Gamage Lalith Deepthi Kumara	Managing Director	
Mr. Senarath Vidanalage Don Kesaralal Gunasekara	Director	Trustee- M.T.F
Mr. Thenuwara Hehendige Ranjith Thenuwara De Silva	Director	Director – M.T.F
Dr. Sunil Jayantha Nawarathne	Director	Secretary - Ministry of Higher Education
Mr. Thisa Nandasena	Director	Secretary – University Grants Commission
Thelikada Palliyaguruge Nandasiri Leelarathna	Director	
Mr. Thilan Manjith Wijesinghe	Director	
Prof. Lakshman Loyd Rathnayaka	Director	
Dr. Koliya Nayantha Pulasighe	Director	
Dr. Gankandage Mahesha Swarnamala Kapurubandara	Director	
Dr. Wijesundara Mudiyansele Malitha Nayanajith Wijesundara	Director	
Mr. Dinesh Bodhitha Saparamadu	Director	
Mr. Dilantha Vithanage	Director	
Mr. Janaka Prasad Mannaram Gamage	Director	

Financial status of Sri Lanka Institute of Information Technology (Guarantee) Ltd. As at 31.03.2013 is as follows.

Sri Lanka Institute of Information Technology (Guarantee) Limited		
Income Statement as at 31st March 2013		
	Note	Category 2012/2013 Rs. Cts.
Income	4	778,312,339.92
Direct Expenditure	5	<u>226,403,843.63</u>
Gross Profit		551,908,496.29
Other Income	6	<u>12,175,953.17</u>
		<u>564,084,449.46</u>
Administrative Expenditure	7	414,534,315.33
Expenditure on Other Activities	8	<u>17,587,653.80</u>
		<u>432,121,969.13</u>
Operating Profit		131,962,480.33
Financial Income	9	<u>91,442,312.25</u>
Pre Tax - Profit		<u>223,404,792.58</u>
Tax		<u>(24,484,071.00)</u>
After- Tax Profit		<u>198,920,721.58</u>
Other Operating Profit		
Calculated Profit		2,038,598.96
Total Net Income		2,038,598.96
Total Net Income		200,959,320.54
Net Profit – Shares		
Owner's Profit		195,572,537.68
Shareholder's profit		<u>5,386,782.87</u>
Total Net Profit		<u>200,959,320.54</u>

Accounting period of SLIIT will be from 01/04/2012 to 31.03.2013.

Sri Lanka Institute of Information Technology (Guarantee) Ltd.
Financial Statement
As at 31st March 2013

	Note	31.03.2013 Rs
Assets		
Non- current Assets		
Assets, equipment and other	10	635,059,048.82
Investment	12	726,686,334.15
Other Financial Assets	13A	4,438,195.60
Taking over – Reputation		1,575,646.16
		<u>1,367,759,224.73</u>
Current Assets		
Other Financial Assets	13B	2,728,885.24
Receivable Expenditure	14	
Deposits	15	521,600.00
Debtors and receivable payments	16	39,533,711.63
Advance Account	17	42,384,078.42
Finance and balance of the bank	18	95,364,083.44
		<u>180,532,358.73</u>
Total Assets		<u>1,548,291,583.46</u>
Fund and Liability		
Fund and Reserve		
Contribution of the Mahapola Fund	19	373,400,000.00
Other Funds		1,556,362.25
contingent Reserves		14,718,662.66
Profit B/F		898,797,627.19
		<u>1,288,472,652.10</u>
Minority Shareholders' Fund		13,853,132.48
Non-Current Assets		
Post Adjustment Surcharge		1,118,655.08
Employee benefits	20	27,451,640.61
		<u>28,570,295.69</u>
Current liabilities		
Post Adjustment Profits		2,871,196.64
Payments for the related parties	21	
Payable to creditors	22	159,845,072.94
Accrued expenses		54,679,233.62
	23	<u>217,395,503.20</u>
Funds and liabilities		<u>1,548,291,583.46</u>

National Wealth Corporation Ltd. (NWC)

A company named “National Wealth Corporation Ltd.” has been established for financial activities and it has contributed to the total capital of Mahapola Higher Education Trust Fund by investing Rs. 300 Mn and thereby it invests the finance of Mahapola Higher Education Trust Fund, treasury bills, treasury bonds and other financial instruments. The affiliated institute of this fund; “Natwealth Securities Ltd.” Plays the role of primary dealer for securities of the Central Bank of Sri Lanka, Treasury bills and bonds.

Board of Directors of National Wealth Corporation as at 31.12.2012

Name	Designation	Date of Appointment
Mr. Johan s. Fernando	Director	27/09/2012
Mr. Janaka P.M. Gamage	Director	27/09/2012
Mr. Asanga C Senavirathna	Director	02/08/2011
Mr. Ranjith Thenuwara	Director	11/11/2004
Mr. Doraisami Jeewanadan	Director	27/09/2012

Statement of Financial Position
As At 31st December 2012

For National Wealth Corporation Pvt Ltd. and affiliated and related companies Financial Statement as at 31.12.2012 (All the figures in Sri Lankan Rupees)			
	Notes	Group 31/12/2012	Company 31/12/2012
Assets			
Cash and Cash Equivalents	7	5,540,906.00	118,819.00
Financial Assets			
Adjustment to the Fair Value through Profit and Loss Account	8.1	3,157,179,525.00	210,540,441.00
Receivable loans and advances	8.2	688,772,517.00	21,153,912.00
Maturing investments	8.3	1,632,149,512.00	100,155.00
Deposits, future payments and receivable accounts	9	18,506,218.00	2,953,490.00
Investments of related companies			
Natwealth Securities Company			273,600,000.00
Tax adjustments	11	1,072,389.00	968,387.00
Property, plant and equipment	12	1,737,989.00	1,559,309.00
Total assets		5,504,959,056.00	510,994,513.00
Assets and Liabilities			
Capital and reserves			
Declared Capital	13	300,000,070.00	300,000,070.00
Special reserves		149,975,522.00	-
Retained profit		98,033,183.00	188,162,814.00
Total Equity		548,008,775.00	488,162,884.00
Liabilities			
Redeemable Preference Shares	14	200,000,000.00	
Financial Liability			
Loans and Payable	15	4,669,093,384.00	
Bank Overdraft	16	35,348.00	35,348.00
Accrued and other payable expenses		21,246,251.00	15,250,182.00
Liabilities of Income Tax	17	62,399,773.00	4,268,600.00
Collected Employee Benefits	18	4,175,525.00	3,277,498.00
Deferred Income Tax Liability	11	-	-
Total Liabilities		4,956,950,281.00	22,831,628.00
Total Equity and Liabilities		5,504,959,056.00	510,994,513.00

Statement of Financial Performance
For the Year Ended 31st December 2012

For National Wealth Corporation Pvt. Ltd. and Affiliated and Related Companies			
Comprehensive Income Report			
All values are in Sri Lankan Rupees)			
	Notes	Group 31/12/2012	Company 31/12/2012
Investment Management Fees	19	8,683,246	8,683,246
Investments and Other Operations Income / (Expenditure)	20	(274,707,004)	61,537,676
Net Investment Income		266,023,758	70,220,922
Profits / Losses on Revaluation of Securities of Transactions		150,293,622	(23,616,498)
Marketing and Advertising Expenses		(678,242)	(255,132)
Administrative Expense		(57,308,489)	(13,614,530)
VAT for Financial Services		—	—
Profit / (Loss) before Tax	21	(173,716,867)	32,734,762
Income Tax Expenditure	23	(1,676,747)	(1,676,747)
Annual Profit / (Loss)		(175,393,614)	31,058,015
Other Comprehensive Income:			
Calculated Accrued Employee Benefits		(1,031,834)	(861,614)
Tax paid on Accrued Retired Employee Benefits		288,914	288,914
Other Comprehensive Profits / Losses of the year		742,920	(572,700)
Total Comprehensive (Losses) / Annual Income		(176,136,534)	30,485,315
Earning per Share /(Losses)			
Basic	24	(5.87)	1.02
Declined	24	(5.87)	1.02

Staff

Mahapola Higher Education Trust Fund has been functioning with a minimum staff from its commencement and staff administrative expenditure was at a least level of 0.26% from its income and 0.40% of the expenditure.

Board of Trustees has decided to fill the present vacancies in the staff through internal promotions and recruit external applicants for the vacancies that would be created.

**Sgd/ M. Parakrama Bandara,
Actg. Director,
For Mahapola Higher Education Scholarship Trust Fund**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2012

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
CONSOLIDATED INCOME STATEMENT
For the year ended 31 December

	Notes	Group		Trust Fund	
		2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Revenue	9	1,508,784,172	1,595,744,687	1,434,725,736	1,203,129,252
Direct Expenses	10	(900,453,437) 608,330,735	(881,915,885) 713,828,802	-729,611,070 705,114,666	-773,617,762 429,511,490
Other Income	11	74,345,075 682,675,810	29,150,822 742,979,624	114,748,475 819,863,140	34,141,028 463,652,518
Administrative Expenses	12	(481,977,059)	(414,760,351)	(73,065,213)	(16,564,628)
Selling & Distribution Expenses	13	(22,862,906)	(13,598,904)	-	-
Other Expenses	14	(25,508,270)	(13,688,072)	-	-
		152,327,575	300,932,296	746,797,928	447,087,890
Finance Income	15	219,304,200	119,975,892	22,721	36,325
Finance Cost	16	(431,246,562) (211,942,362)	(227,597,407) (107,621,515)	(27,900,511) (27,877,790)	- 36,325
Share of Profit from an Associate		947,189,322	687,783,871	-	-
Less: Scholarship Award Expenses		(49,038,600) 898,150,722	(75,547,623) 612,236,248	- -	- -
Profit/(Loss) Before Tax		838,535,935	805,547,029	718,920,138	447,124,214
Tax Expenses	17	(14,619,306)	(55,203,016)	-	-
Profit After Tax		823,916,629	750,344,013	718,920,138	447,124,214
Profits attributable to:					
Owners of the company		817,698,686	747,747,739	718,920,138	447,124,214
Non controlling interests		6,217,943	2,596,274	-	-
		823,916,629	750,344,013	718,920,138	447,124,214

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December

	Group		Trust Fund	
	2012	2011	2012	2011
	Rs.	Rs.	Rs.	Rs.
Profit after tax	823,916,629	750,344,013	718,920,138	447,124,214
Other comprehensive income				
Changes in Fair Value under AFS	(51,957,307)	(157,103,432)	(51,957,307)	(157,103,432)
Acturial (loss)/Gain on post employment benefits	(737,011)	1,348,543	(322,049)	1,758
Tax on acturial gains/(loss) on retirement benefit obligation	288,914	5,058	-	-
Total Other comprehensive income for the year, net of taxes	(52,405,404)	(155,749,831)	(52,279,356)	(157,101,674)
Total comprehensive income for the year	771,511,225	594,594,183	666,640,782	290,022,541
Total Comprehensive Income attributable to:				
Owners of the company	765,293,282	591,997,909	666,640,782	290,022,541
Non controlling interests	6,217,943	2,596,274	-	-
	771,511,225	594,594,183	666,640,782	290,022,541

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December

DRAFT

	Notes	Group			Trust Fund		
		2012	2011	As at 01.01.2011	2012	2011	As at 01.01.2011
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
ASSETS							
Non-current assets							
Property, plant and equipment	18	591,014,886	453,508,878	470,766,863	5,867,116	1,486,423	900,904
Investment Property	19	-	-	-	12,460,179	12,460,179	12,460,179
Intangible Asset	20	1,575,646	1,575,646	1,575,646	-	-	-
Investment in Subsidiaries	21	-	-	-	573,577,393	573,577,393	573,577,393
Investment in Associates	22	785,234,346	523,858,817	514,197,382	2,200,000	2,200,000	2,200,000
Deferred Tax Assets		1,072,389	756,294	-	-	-	-
Non Current Financial Assets	23	9,015,986,222	5,822,458,902	4,176,736,590	7,030,162,356	5,704,781,117	4,137,031,119
		<u>10,394,883,489</u>	<u>6,802,158,537</u>	<u>5,163,276,481</u>	<u>7,624,267,045</u>	<u>6,294,505,111</u>	<u>4,726,169,594</u>
Current Assets							
Current Financial Assets	23	4,055,636,451	8,948,954,698	11,360,127,942	100,846,167	743,909,204	2,045,804,505
Prepayments & Other Receivable	24	86,943,379	42,965,670	39,740,515	284,877,573	199,368,073	199,028,481
Cash and Cash Equivalent	25	206,139,089	126,228,538	184,566,710	2,067,999	14,695,633	16,791,497
		<u>4,348,718,919</u>	<u>9,118,148,906</u>	<u>11,584,435,167</u>	<u>387,791,740</u>	<u>957,972,910</u>	<u>2,261,624,482</u>
TOTAL ASSETS		14,743,602,410	15,920,307,443	16,747,711,647	8,012,058,786	7,252,478,023	6,987,794,077
EQUITY AND LIABILITIES							
EQUITY							
Initial Contribution		1,462,250	1,462,250	1,462,250	1,462,250	1,462,250	1,462,250
Retained Earnings		9,297,728,939	8,480,478,349	7,755,301,995	8,010,887,878	7,292,289,789	6,845,163,816
Other Reserves		425,708,664	422,451,399	545,372,580	(116,666,492)	(64,709,185)	92,394,247
		<u>9,724,899,853</u>	<u>8,904,391,998</u>	<u>8,302,136,825</u>	<u>7,895,683,636</u>	<u>7,229,042,854</u>	<u>6,939,020,313</u>
Non Controlling Interest		16,591,850	10,752,747	8,805,913	-	-	-
		<u>9,741,491,703</u>	<u>8,915,144,745</u>	<u>8,310,942,738</u>	<u>7,895,683,636</u>	<u>7,229,042,854</u>	<u>6,939,020,313</u>
Non Current Liabilities							
Deferred Tax Liabilities		-	-	2,092,024	-	-	-
Deferred Income from Grants		1,118,655	1,118,655	1,118,655	-	-	-
Retirement Benefit Obligation	26	32,121,464	25,473,166	21,095,069	378,905	158,038	132,144
		<u>33,240,119</u>	<u>26,591,821</u>	<u>24,305,748</u>	<u>378,905</u>	<u>158,038</u>	<u>132,144</u>
Current Liabilities							
Deferred Income from Grants		5,434,578	8,036,993	10,667,067	-	-	-
Other Liabilities	27	4,731,441,556	6,745,321,900	8,100,421,127	112,209,454	767,705	751,942
Aceruals & Other Payables	28	167,724,789	142,549,332	205,824,860	1,952,248	3,570,467	3,982,180
Provisions	29	1,834,546	18,938,962	43,907,496	1,834,546	18,938,962	43,907,496
Income Tax Liabilities		62,399,773	63,723,691	51,642,611	-	-	-
Bank Overdraft		35,348	-	-	-	-	-
		<u>4,968,870,590</u>	<u>6,978,570,877</u>	<u>8,412,463,162</u>	<u>115,996,247</u>	<u>23,277,134</u>	<u>48,641,619</u>
TOTAL EQUITY AND LIABILITIES		14,743,602,410	15,920,307,443	16,747,711,647	8,012,058,786	7,252,478,023	6,987,794,076

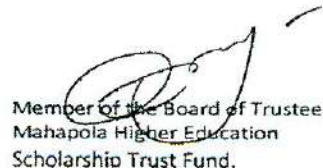


Ranjith Thenuwara
 Director, Mahapola Higher Education Scholarship Trust Fund.



Member of the Board of Trustees
 Mahapola Higher Education
 Scholarship Trust Fund.

Janaka Sugathadasa
 Secretary
 Ministry of Food Security
 CWE Secretariat Building
 No.27, Vauxhall Street
 Colombo 22, Sri Lanka



Member of the Board of Trustees
 Mahapola Higher Education
 Scholarship Trust Fund.

Upali Marasinghe
 Secretary
 Ministry of Education
 "Isurupaya"
 Battaramulla

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December

	Group										Trust Fund			
	Initial Contribution	Retained Earnings	Special Risk Reserve	Prize Reserve Account	AFS Reserve	Contingency Fund	Endowment Fund	Total	Non Controlling Interest (NCI)	Total Funds & NCI	Initial Contribution	Retained Earnings	AFS Reserve	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
Balance as at 31 December 2010	1,462,250	7,755,301,995	133,072,658	313,497,021	92,394,247	6,000,000	408,654	8,302,136,825	8,805,913	8,310,942,738	1,462,250	6,845,163,816	92,394,247	6,939,020,313
Balance as at 01 January 2011	1,462,250	7,755,301,995	133,072,658	313,497,021	92,394,247	6,000,000	408,654	8,302,136,825	8,805,913	8,310,942,738	1,462,250	6,845,163,816	92,394,247	6,939,020,313
Transfer to Special Risk Reserve	-	(16,902,864)	16,902,864	-	-	-	-	-	-	-	-	-	-	-
Prior Year Adjustment	-	(7,022,122)	-	-	-	5,996,421	1,025,701	-	-	-	-	-	-	-
Provision during the year	-	-	-	9,342,473	-	854,924	59,867,30	10,257,264	2,596,274	10,257,264	-	-	-	-
Profit for the Year	-	747,747,739	-	-	-	-	747,747,739	750,344,013	750,344,013	750,344,013	-	447,125,973	-	447,125,973
Other Comprehensive Income for the year	-	1,353,601	-	(157,103,432)	(157,103,432)	-	(155,749,831)	-	(155,749,831)	(155,749,831)	-	-	(157,103,432)	(157,103,432)
Dividends Paid	-	-	-	-	-	-	-	-	(649,440)	(649,440)	-	-	-	-
Balance as at 31 December 2011	1,462,250	8,480,478,349	149,975,522	322,839,494	(64,709,185)	12,851,346	1,494,222	8,904,391,998	10,752,747	8,915,144,745	1,462,250	7,292,289,789	(64,709,185)	7,229,042,854
Balance as at 01 January 2012	1,462,250	8,480,478,349	149,975,522	322,839,494	(64,709,185)	12,851,346	1,494,222	8,904,391,998	10,752,747	8,915,144,745	1,462,250	7,292,289,789	(64,709,185)	7,229,042,854
Provision during the year	-	-	-	53,778,757	-	1,373,676	62,140	55,214,573	-	55,214,573	-	-	-	-
Profit for the year	-	817,698,686	-	-	-	-	-	817,698,686	6,217,943	823,916,629	-	718,598,089	-	718,598,089
Other Comprehensive Income for the year	-	(448,097)	-	-	(51,957,307)	-	-	(52,405,404)	-	(52,405,404)	-	-	(51,957,307)	(51,957,307)
Dividends Paid	-	-	-	-	-	-	-	-	(378,840)	(378,840)	-	-	-	-
Balance as at 31 December 2012	1,462,250	9,297,728,939	149,975,522	376,618,251	(116,666,492)	14,225,021	1,556,362	9,724,899,853	16,591,850	9,741,491,703	1,462,250	8,010,887,878	(116,666,492)	7,895,683,636

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December

	Group		Trust Fund	
	2012	2011	2012	2011
Cash Flow From Operating Activities				
Net Profit for the year	838,535,935	805,547,029	718,920,138	447,124,214
<u>Adjustment For:</u>				
Depreciation	73,155,190	66,504,886	842,027	243,756
Impairment on Investment in Associate	90,107,550	86,917,285	-	-
Dividend Income	(3,527,258)	(743,000)	(36,000,000)	-
Profit from Associate	(898,150,722)	(612,236,248)	-	-
Profit from Disposal of PPE	(389,371)	(105,154)	-	-
Provision for Endowment Fund	62,140	59,867	-	-
Provision for Contingency Fund	1,373,676	854,924	-	-
Gratuity Expense	7,317,680	6,310,909	68,858	27,652
	<u>(730,051,114)</u>	<u>(452,436,530)</u>	<u>(35,089,116)</u>	<u>271,408</u>
Tax Paid	(15,970,405)	(45,965,196)	-	-
Net Cash Inflow/Outflow from Operating Activities Before Working Capital Changes	92,514,416	307,145,303	683,831,022	447,395,622
<u>Working Capital Changes</u>				
Increase/Decrease in Receivables	(43,977,711)	(3,225,155)	(85,509,500)	(339,594)
Increase/Decrease in Creditors	25,175,456	(63,275,529)	(1,618,220)	-411,715
Increase/Decrease in Provisions	<u>(17,104,416)</u>	<u>(24,968,535)</u>	<u>(17,104,415)</u>	<u>(24,968,536)</u>
	<u>(35,906,671)</u>	<u>(91,469,218)</u>	<u>(104,232,135)</u>	<u>(25,719,845)</u>
Net Cash Inflow/Outflow from Operating Activities	56,607,745	215,676,085	579,598,888	421,675,778
Cash Flow From Investing Activities				
Acquisition of Property Plant & Equipment	(211,374,082)	(49,387,202)	(5,222,720)	(829,275)
Proceeds from Disposal of PPE	1,102,254	245,454	-	-
Deferred Income from Grants	(2,602,415)	(2,630,074)	-	-
Profit received from Associate	600,446,400	525,000,000	-	-
Investment in Financial Assets	(366,046,724)	(746,751,727)	(622,833,762)	(422,942,366)
Dividend Income	3,527,258	743,000	36,000,000	-
Gratuity Paid	<u>(1,406,393)</u>	<u>(584,268)</u>	<u>(170,040)</u>	<u>-</u>
Net Cash Inflow/Outflow from Investing Activities	23,646,299	(273,364,817)	(592,226,522)	(423,771,641)
Cash Flow From Financing Activities				
Dividend Paid	<u>(378,840)</u>	<u>(649,440.00)</u>	<u>-</u>	<u>-</u>
Net Cash Inflow/Outflow from Finance Activities	(378,840)	(649,440)	-	-
Net Change in Cash & Cash Equivalent	79,875,203	(58,338,172)	(12,627,634)	(2,095,864)
Cash & Cash Equivalent at the begininig of the year	126,228,538	184,566,710	14,695,633	16,791,497
Cash & Cash Equivalent at the end of the year (Note 25)	<u>206,103,741</u>	<u>126,228,538</u>	<u>2,067,999</u>	<u>14,695,633</u>

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2012

CORPORATE INFORMATION

1.1 General

Mahapola Higher Education Scholarship Trust Fund (Trust Fund) is a Trust Fund established in 1981 under the Act of Parliament No. 66 of 1981 and the management and control of the Trust Fund is vested to the Board of Trustees. It is located at 6th Floor, CWE Secretariat Building, 27, Vauxhall Street, Colombo 02.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements of the Trust Fund for the year ended 31st December 2012 comprise Income Statement, Statement of Other Comprehensive Income, Statement of Financial Position, Statement of Cash Flow, Statement of Changes in Equity, Notes to the Financial Statements and Significant Accounting Policies of the Group.

1.3 Principal Activities and Nature of Operations

1.3.1 Mahapola Trust Fund

The aims and objects of the Fund shall be -

- (a) to provide higher education facilities to youths;
- (b) Provide assistance to deserving youths who have completed their secondary education satisfactory, so as to enabling them to complete their academic, industrial or technical education at a university or technical or higher education institute, as the case may be;
- (c) to set up and assist in the setting up and management of Vocational Training Institutes for enabling youth to develop their vocational skills and competence;
- (d) to set up and assist in the management and conduct of schools, institutes, foundations and similar institutions engaged in the furtherance of education; and
- (e) to provide assistance for the development and improvement of the skills and competence of lecturers, teachers, and such persons engaged in the furtherance of education.

1.3.2 Shareholding in Subsidiaries and Associate

Subsidiaries and Associate and their ownership as at December 31, 2012, December 31, 2011 and January 1, 2011 are as follows.

Subsidiary	Principal Activities	Type of Investment	Dec. 31.2012	Dec. 31.2011	Jan. 1, 2011
National Wealth Corporation (Private) Ltd. (NWCL)	Fund management and investment advisory.	Subsidiary	100%	100%	100%
Sri Lanka Institute of Information Technology (Guarantee) Limited. (SLIIT)	Provide study courses leading to Degrees, Diplomas and Certificates in Computing, Business & Engineering.	Subsidiary	100%	100%	100%
Nat Wealth Securities (Private) Ltd.	Engaged in activities as Primary Dealer.	Sub Subsidiary	100%	100%	100%
SLIIT Computing (Private) Ltd	Provide study courses in Information Technology	Sub Subsidiary	72.9%	72.9%	72.9%
Sri Lanka Technology Incubator (Private) Ltd	Promote and host the establishment regarding Information Technology Centers for started up Companies & Enterprises.	Sub Subsidiary	63.9%	63.9%	63.9%
Development Lotteries Board	Conduct lotteries to raise fund	Associate	50%	50%	50%

2. BASIS OF PREPARATION

2.1 Basis of preparation and adoption of SLAS (SLFRS and LKAS) effective for the financial period beginning on or after 01 January 2012

The Income Statement, Statement of Other Comprehensive Income, Statement of Financial Position, Statement of Cash Flow, Statement of Changes in Equity, together with the Significant Accounting Policies and Notes, ('Financial Statements'), i.e.: Consolidated Financial Statements and Separate Financial Statements of the Trust Fund, as at 31st December 2012 and for the year then ended, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) laid down by the Institute of Chartered Accountants of Sri Lanka.

For all periods up to and including the year ended 31 December 2011, the Trust Fund has prepared only its individual financial statements in accordance with the Sri Lanka Accounting Standards which were effective prior to January 1, 2012. These financial statements for the year ended 31 December 2012 are the first set of Group Financial Statements and this is the first time it has been prepared in accordance with SLFRS. Refer note 7 for explanation of the transition.

2.2 Basis of Measurement

The financial statements have been prepared on an accrual basis and under the historical cost convention unless otherwise stated.

The consolidated financial statements are presented in Sri Lankan Rupees.

2.3 Comparative Information

The accounting policies have been consistently applied by the Trust Fund and the Group with those of the previous financial year in accordance with LKAS 01 Presentation of Financial Statements, except those which had to be changed as a result of application of the new SLFRS. Further, comparative information is reclassified wherever necessary to comply with the current presentation.

2.4 Significant Judgments

In the process of applying the Group's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognised in the consolidated financial statements:

i) Determination of Sri Lanka Institute of Information Technology (SLIIT) as a Subsidiary

At the meetings held on 21.05.1999 and 02.09.1999 (32nd & 33rd Board Meetings), the Board of Trustees of Trust Fund has determined to set up SLIIT as a Company limited by guarantee by providing resources. Therefore, SLIIT is a subsidiary of the Trust Fund within the scope of LKAS 27 based on the following facts.

- SLIIT was established as a collaborative effort of the two ministries, Ministry of Internal Trade & International Commerce & Food and Ministry of Education and Trust Fund was agreed to provide resources for the investment.
- Majority of the funding of SLIIT was provided by the Trust Fund at its inception.
- In determining control over SLIIT, the Trust Fund has considered the following factors;
- Representation on the board of SLIIT
- Achievement of Trust Fund's objective through SLIIT (benefits)
- The agreement between Trust Fund and SLIIT provides the right to use the Malabe land for SLIIT and several specific conditions stated in this agreement gives trust fund the power to influence major financial and operating policies of SLIIT subject to Article of Association originally approved for SLIIT.

Section 4 of the agreement

- (a) SLIIT shall ensure that it will not in any way act contrary to the objectives and social responsibility of the Mahapola Higher Education Scholarship Trust Fund and MTF may make recommendations in relation to the activities of SLIIT Malabe Campus and SLIIT may consider such recommendation.
- (b) Major civil construction work at SLIIT shall be done with the concurrence of the MTF.
- (g) The SLIIT shall submit its long term Development Plan to MTF for its information and concurrence.
- (i) SLIIT shall ensure the quality and the standard of the academic courses are maintained at all times and keep the MTF indemnified of any legal liability that may be made against the campus authorities.
- (n) The SLIIT in making amendments, if any, to its Articles of Association on matters relating to the Malabe campus will seek concurrence of all the MTF representatives on the Board of Directors of SLIIT. In the event there is no such concurrence, the concurrence of the MTF will be required.

ii) Determination of Investment in Development Lotteries Board (DLB) as an Investment in Associate

The Board of Trustees of Trust Fund has determined that DLB is an Associate of Trust Fund within the scope of LKAS 28 based on following facts.

- Trust Fund has contributed 50% of the capital requirement of DLB.
- Representation on the board of DLB.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Trust Fund and the Group in preparation of its financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening SLFRS statement of financial position at January 1, 2011 for the purpose of transition to SLFRS, unless otherwise is indicated.

3.1 Basis for Consolidation

The consolidated financial statements comprise the financial statements of the Company and its Subsidiary as at 31st December 2012.

Subsidiaries are fully consolidated and continue to be consolidated. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

3.2 Investment in Associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity.

3.3 Property Plant and Equipment

Property, Plant and Equipment is stated at cost net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group derecognizes the replaced part, and recognizes the new part with its own associated useful life and depreciation. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the income statement as incurred.

An item of Property Plant and Equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

3.3.1 Depreciation

Depreciation is calculated on straight line basis over the estimated useful lives of all Property Plant and Equipment.

The estimated useful lives for the current and comparative years for the Group are as follows:

Equipments	4 to 5 years
Motor Vehicle	4 to 5 years
Computers, Computer Accessories and Software	3 to 4 years
Furniture & Fittings	2 to 5 years
Buildings	10 to 20 years
Books & Graduation Kits	3 to 5 years

3.3.2 Investment Property

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition also it is stated at cost.

Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal profit proceeds and the carrying amount of the asset is recognized in the income statement in the period of derecognition.

3.3.3 Impairment of non financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2012

fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

3.3.4 Foreign Currencies

a) Functional and Presentation Currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Sri Lankan Rupees, which is the Group and Company's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the transaction at the year end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income. Monetary assets & liabilities balances are translated at year end exchange rate.

3.3.5 Taxation

3.3.5.1 Current taxation

Current Income Tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted on the reporting date.

The basis of the provision for income tax for the group is as follows;

a) Mahapola Trust Fund

Trust Fund is exempt from Income Tax as per the Act No 66 of 1981 of Mahapola Higher Education Scholarship Trust Fund.

b) Sri Lanka Institute of Information Technology (Guarantee) Limited

This is a Board of Investment (BOI) approved company which enjoys a tax holiday for the business activities specified in BOI agreement for a period of five years reckoned from the year of assessment as may be determined by the BOI.

For the above purpose the year of assessment has been reckoned from the date on which the enterprise effected its first commercial operations as specified in a certificate issued by the Board. (10th January 2002)

The above exemptions period has been extended up to 10th January 2014 (further 7 years) by the supplementary agreement entered with BOI, on 25th September 2007.

After expiry of the tax exemption period of 7 years Income Tax at rate of 15% shall be payable for every succeeding year of assessment by the Institute under the above supplementary agreement.

c) National Wealth Corporation (Private) Ltd

The provision of income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act No 10 of 2006 and the amendments thereto.

3.3.5.2 Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, and unused tax credits and tax losses carried forward, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the unused tax credits and tax losses carried forward can be utilised.

3.3.6 Cash & Cash Equivalents

Cash and cash equivalents comprise cash in hand and bank, other short-term highly liquid investments with original maturities of three months or less from the date of acquisition. Bank overdrafts are shown under current liabilities on the balance sheet.

4 FINANCIAL INSTRUMENTS- INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

4.1 Financial Assets

4.1.1 Initial Recognition and Measurement

Financial Assets within the scope of LKAS 39 are classified as financial assets at Fair Value Through Profit or Loss, Loans and Receivables, Held to Maturity Investments and Available-For-Sale Financial Assets as appropriate and determine the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus transaction costs of assets in the case of investments not at fair value through profit or loss.

Financial assets are disclosed in note number 23 under the notes for the financial statements.

4.1.2 Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as follows;

4.1.2.1 Financial Assets at Fair Value Through Profit or Loss

Financial assets at Fair Value Through Profit or Loss include financial assets held-for-trading and financial assets designated upon initial recognition at Fair Value Through Profit or Loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets at Fair Value Through Profit and Loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement.

4.1.2.2 Loans and Receivables

Loans and Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the Effective Interest Rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement.

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2012

4.1.2.3 Held to Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as Held To-Maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement, Held- To-Maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognized as finance cost in the income statement.

4.1.2.4 Available for Sale Financial Investments

Available-For-Sale financial investments include equity and debt securities. Equity investments classified as Available-For- Sale are those, which are neither classified as held for trading nor designated at Fair Value Through Profit or Loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, Available-For- Sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the Available- For-Sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement in finance costs and removed from the Available-For-Sale reserve. Interest income on Available-For-Sale debt securities is calculated using the effective interest method and is recognised in profit or loss.

4.1.3 Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when,

- i) The rights to receive cash flows from the asset have expired
- ii) The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
 - The Group has transferred substantially all the risks and rewards of the asset, or
 - The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

4.1.4 Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

5. LIABILITIES AND PROVISIONS

5.1 Financial Liabilities

5.1.1 Initial Recognition and Measurement

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at Fair Value Through Profit or Loss, loans and borrowings, other financial liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and other financial liabilities carried at amortised cost. This includes directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings and other financial liabilities.

5.1.2 Subsequent Measurement

The measurement of financial liabilities depends on their classification as follows;

5.1.2.1 Other Financial Liabilities

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

5.2 Retirement Benefit Obligations

5.2.1 Defined benefit plan – Retirement Gratuity

The Group measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan using the Projected Unit Credit Method. Gains and losses arising from adjustments and changes in actuarial assumptions are charged or credited to equity through other comprehensive income.

However, as per the payment of Gratuity Act No. 12 of 1983 this liability only arises upon completion of 5 years of continued service.

5.2.2 Defined Contribution Plans- Employee Provident Fund & Employee Trust Fund

The Group contributes to Employees' Provident Fund contribution and Employees' Trust Fund contribution is covered by relevant contribution funds in line with respective regulation. Obligations for contributions to the plans covering the employees are recognized as an expense in the income statement.

Employees' Provident Fund

The Group and Employees contribute to provident fund at 12% and 8% respectively on gross salary.

Employees' Trust Fund

The Group contributes 3% on gross salary to the Employees' Trust Fund.

6. INCOME AND EXPENSES

6.1 Revenue Recognition

Revenue is recognized on an accrual basis when it is probable that the economic benefits will flow to the Group and the revenue and associated costs incurred or to be incurred can be reliably measured regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

Rendering of Services

Revenue from rendering of services is recognised in the accounting period in which the services are rendered or performed.

Other Income

Other income is recognised on an accrual basis.

6.2 Expenses

All expenditures incurred in the running of the business have been charged to income in arriving at the profit for the year. Repairs and renewals are charged to profit and loss in the year in which the expenditure is incurred.

7. FIRST- TIME ADOPTION OF SLAS (SLFRS/LKAS)

These financial statements, for the year ended 31 December 2012, are the first set of Group financial statements the Trust Fund has prepared in accordance with SLAS comprising SLFRS/LKAS. For the periods up to and including year ended 31 December 2011, the Trust Fund has prepared only its individual financial statements in accordance with previous Sri Lanka Accounting Standards.

Accordingly, the Trust Fund has prepared Group financial statements which comply with SLAS comprising SLFRS/LKAS applicable for the periods beginning on or after 01 January 2012, together with the comparative period data as at end of the year ended 31 December 2011, as described in the accounting policies.

In preparing these financial statements, the Group's opening statement of financial position was prepared as at 1 January 2011, the Group's date of transition to SLAS comprising SLFRS/LKAS. This note explains the principle adjustments made by the Group in restating its SLAS statement of financial position as at 01 January 2011 and its previously published SLAS financial statements as at and for the year ended 31 December 2011.

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
DRAFT
RECONCILIATION OF EQUITY - TRUST FUND
As at 01 January 2011 (Date of transition to SLAS (SLFRS/LKAS))

		As Per SLAS	Remeasurement / Reclassification	As Per SLFRS/LKAS
Assets				
<u>Non-current assets</u>				
Property, plant and equipment	A	13,361,083	(12,460,179)	900,904
Investment Property	A	-	12,460,179	12,460,179
Investment in Subsidiaries		573,577,393	-	573,577,393
Investment in Associate		2,200,000	-	2,200,000
Investments	B	5,028,520,635	-5,028,520,635	-
Treasury Bonds	B	-	2,558,757,440	2,558,757,440
Fixed Deposits	B	940,122,660	638,151,019	1,578,273,679
Cost of capital (interest) of investment	C	73,030,420	-73,030,420	-
		<u>6,630,812,191</u>	<u>-1,904,642,597</u>	<u>4,726,169,594</u>
<u>Current assets</u>				
Investment in Treasury Bills	B	-	1,602,570,132	1,602,570,132
Investment in Reverse Repo	B	-	443,234,373	443,234,373
Other receivables	B, D	326,622,532	(128,034,088)	198,588,445
Staff Loans	D	473,305	(33,269)	440,036
Cash and Cash equivalents	B	16,756,496	35,001	16,791,497
		<u>343,852,334</u>	<u>1,917,772,149</u>	<u>2,261,624,482</u>
Total Assets		<u>6,974,664,525</u>	<u>13,129,552</u>	<u>6,987,794,077</u>
Equity and Liabilities				
Stated Capital	E	-	6,669,610	6,669,610
Accumulated fund		6,847,591,574	(7,635,117)	6,839,956,457
AFS Reserve	B	-	92,394,247	92,394,247
School Development fund	F	78,556,934	(78,556,934)	-
		<u>6,926,148,508</u>	<u>12,871,806</u>	<u>6,939,020,314</u>
<u>Non-current liabilities</u>				
Retirement benefit obligation	G	626,340	(494,196)	132,144
		<u>626,340</u>	<u>-494,196</u>	<u>132,144</u>
<u>Current liabilities</u>				
Other Liabilities	B	3,982,180	751,942	4,734,122
Provisions		43,907,496	-	43,907,496
		<u>47,889,676</u>	<u>751,942</u>	<u>48,641,619</u>
Total Liabilities and Shareholders' Funds		<u>6,974,664,525</u>	<u>13,129,552</u>	<u>6,987,794,077</u>

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
RECONCILIATION OF COMPREHENSIVE INCOME - TRUST FUND
For the year ended 31 December 2011

DRAFT

	Notes	As Per SLAS	Effect of Transition to SLFRS/LKAS	As Per SLFRS/LKAS
Revenue				
Interest Income	B,F	538,871,268	63,291,399	602,162,667
Share of Profit from Development Lottery		600,866,586	-	600,866,586
Donation		100,000	-	100,000
		<u>1,139,837,853</u>	<u>63,291,399</u>	<u>1,203,129,253</u>
Less:				
Direct Expenses	H	-	(773,617,762)	(773,617,762)
		<u>1,139,837,853</u>	<u>(710,326,363)</u>	<u>429,511,491</u>
Other Income	I	34,155,453	(14,425)	34,141,028
		<u>1,173,993,306</u>	<u>(710,340,788)</u>	<u>463,652,518</u>
Administration Expenses	H	(752,743,460)	(736,178,832)	(16,564,628)
Finance Income	D	-	36,325	36,325
Net Income Over Expenditure		<u>421,249,846</u>	<u>(1,446,483,294)</u>	<u>447,124,215</u>
Prior year adjustment	J	(28,785,346)	28,785,346	-
Loss & Write Off	C	(2,920,000)	(2,920,000)	-
Surplus Income		<u>389,544,500</u>	<u>(1,420,617,948)</u>	<u>447,124,215</u>
Other Comprehensive Income				
Changes in Fair Value under AFS	B	-	(157,103,432)	(157,103,432)
Actuarial (loss)/Gain on post employment benefits	G	-	1,758	1,758
Total other comprehensive income		<u>-</u>	<u>(157,101,674)</u>	<u>(157,101,674)</u>
Total Comprehensive Income for the year		<u>389,544,500</u>	<u>(1,577,719,622)</u>	<u>290,022,541</u>

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
RECONCILIATION OF EQUITY - TRUST FUND
As at 31 December 2011

DRAFT

		As Per SLAS	Remeasurement / Reclassification	As Per SLFRS/LKAS
Assets				
<u>Non-current assets</u>				
Property, plant and equipment	A	13,946,602	(12,460,179)	1,486,423
Investment Property	A	-	12,460,179	12,460,179
Investment in Subsidiaries		573,577,393	-	573,577,393
Investment in Associate		2,200,000	-	2,200,000
Mahapola Portfolio at NWCL	B	5,125,204,995	(5,125,204,995)	-
Treasury Bonds	B	-	3,848,705,623	3,848,705,623
Fixed Deposits	B	1,035,050,641	821,024,853	1,856,075,494
Cost of capital (interest) of investment	C	70,110,420	(70,110,420)	-
		<u>6,820,090,050</u>	<u>-525,584,938</u>	<u>6,294,505,112</u>
<u>Current assets</u>				
Investment in Treasury Bills	B	-	666,814,902	666,814,902
Investment in Reverse Repo	B	-	77,094,302	77,094,302
Other receivables	B,D	554,149,338	(354,964,318)	199,185,021
Staff Loans	D	192,000	(8,948)	183,052
Cash and Cash equivalents	B	14,662,095	33,538	14,695,633
		<u>569,003,433</u>	<u>388,969,477</u>	<u>957,972,910</u>
Total Assets		<u>7,389,093,484</u>	<u>(136,615,461)</u>	<u>7,252,478,023</u>
Equity and Liabilities				
Stated Capital	E	-	6,669,610	6,669,610
Accumulated fund		7,237,136,074	49,946,353	7,287,082,427
AFS Reserve	B	-	(64,709,185)	-64,709,185
School Development fund	F	128,724,307	(128,724,307)	-
		<u>7,365,860,381</u>	<u>-136,817,529</u>	<u>7,229,042,852</u>
<u>Non-current liabilities</u>				
Retirement benefit obligations	G	723,675	(565,637)	158,038
		<u>723,675</u>	<u>-565,637</u>	<u>158,038</u>
<u>Current liabilities</u>				
Other Liabilities	B	3,570,466	767,705	4,338,171
Provisions		18,962,019	-	18,938,962
		<u>22,532,485</u>	<u>767,705</u>	<u>23,277,133</u>
Total Liabilities and Shareholders' Funds		<u>7,389,116,541</u>	<u>-136,615,461</u>	<u>7,252,478,023</u>

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
RECONCILIATION OF EQUITY - GROUP
As at 01 January 2011 (Date of transition to SLAS (SLFRS/LKAS))

DRAFT

	Notes	As Per SLAS *	Remeasurement / Reclassification	As Per SLFRS/LKAS
Assets				
<u>Non-current assets</u>				
Property, plant and equipment		470,766,862	-	470,766,862
Investment in Subsidiaries		177,393	-	177,393
Investment in Associate		514,197,382	-	514,197,382
Investments	B	4,586,038,204	-4,586,038,204	-
Goodwill		1,575,646	-	1,575,646
Treasury Bonds	B	53,600	2,558,757,440	2,558,811,040
Fixed Deposits	B	979,774,532	638,151,018	1,617,925,550
Cost of capital (interest) of investment	C	73,030,420	-73,030,420	-
		<u>6,625,614,039</u>	<u>-1,462,160,167</u>	<u>5,163,453,872</u>
<u>Current assets</u>				
Investment in Dealing Securities		8,772,517,287	-	8,772,517,287
Investment in Treasury Bills	B	433,552,694	1,602,570,132	2,036,122,826
Investment in Reverse Repo	B	551,487,830	-	551,487,830
Debtors & Other receivables	B, D	163,439,626	(128,034,088)	35,405,539
Advances & Prepayments		3,894,941	-	3,894,941
Staff Loans	D	473,305	(33,269)	440,036
Call Deposits		93,000,000	-	93,000,000
Cash and Cash equivalents	B	91,531,709	35,001	91,566,710
		<u>10,109,897,393</u>	<u>1,474,537,776</u>	<u>11,584,435,169</u>
Total Assets		<u>16,735,511,432</u>	<u>12,377,610</u>	<u>16,747,889,041</u>
<u>Equity and Liabilities</u>				
Stated Capital	E	-	6,669,610	6,669,610
Accumulated fund		7,757,907,146	(7,635,117)	7,750,272,029
Endowment Fund		408,655	-	408,655
Contingency Reserves		6,000,000	-	6,000,000
Special Risk Reserve		133,072,658	-	133,072,658
Prize Reserve Account		313,497,021	-	313,497,021
AFS Reserve	B	-	92,394,247	92,394,247
School Development fund	F	78,556,934	(78,556,934)	-
		<u>8,289,442,414</u>	<u>12,871,805</u>	<u>8,302,314,220</u>
Non Controlling Interest		8,805,913	-	8,805,913
<u>Non-current liabilities</u>				
Deferred Income from Grants		1,118,655	-	1,118,655
Deferred Tax liabilities		2,092,024	-	2,092,024
Retirement benefit obligations	G	21,589,264	(494,196)	21,095,068
		<u>24,799,943</u>	<u>-494,196</u>	<u>24,305,747</u>
<u>Current liabilities</u>				
Deferred Income from Grants		10,667,067	-	10,667,067
Creditors and Other Liabilities		8,272,686,902	-	8,272,686,902
Accrued Expenses		33,559,085	-	33,559,085
Provisions		43,907,496	-	43,907,496
Income Tax Liabilities		51,642,611	-	51,642,611
		<u>8,412,463,161</u>	<u>-</u>	<u>8,412,463,161</u>
Total Liabilities and Shareholders' Funds		<u>16,735,511,432</u>	<u>12,377,610</u>	<u>16,747,889,041</u>

*This presents the consolidated financial statements prepared for the MHESTF group as at 1st January 2011, before SLFRS conversion adjustments

**MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
RECONCILIATION OF COMPREHENSIVE INCOME - GROUP**

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For the year ended 31 December 2011

	Notes	As Per SLAS *	Effect of Transition to SLFRS/LKAS	As Per SLFRS/LKAS
Revenue				
Interest Income	B,F	758,075,855	54,590,032	812,665,887
Donation		100,000	-	100,000
Service Income		782,978,800	-	782,978,800
		<u>1,541,154,656</u>		<u>1,595,744,687</u>
Less:				
Direct Expenses	H	<u>(881,915,885)</u>	<u>-</u>	<u>(881,915,885)</u>
		659,238,770		713,828,802
Other Income	I	<u>61,968,673</u>	<u>(32,817,851)</u>	<u>29,150,822</u>
		721,207,443		742,979,624
Administrative Expenses	H,D	(413,530,565)	1,229,786	(414,760,351)
Selling & Distribution Expenses		(13,598,904)	-	(13,598,904)
Other Expenses		(13,688,072)	-	(13,688,072)
Prior Year Adjustment	J	(28,785,346)	(28,785,346)	-
Loss & Write Off	C	<u>(2,920,000)</u>	<u>(2,920,000)</u>	<u>-</u>
		248,684,556		300,932,297
Finance Income	I,D	86,557,208	33,418,684	119,975,892
Finance Cost		<u>(227,597,407)</u>	<u>-</u>	<u>(227,597,407)</u>
		107,644,357		193,310,782
Share of Profit from an Associate		687,783,871	-	687,783,871
Less: Scholarship Award Expenses		<u>(75,547,623)</u>	<u>-</u>	<u>(75,547,623)</u>
		612,236,247	-	612,236,247
Profit or Loss before Tax		719,880,604	-	805,547,029
Tax Expenses		<u>(55,203,016)</u>	<u>-</u>	<u>(55,203,016)</u>
Profit after Tax		664,677,588	-	750,344,013
Other Comprehensive Income				
Changes in fair value under AFS	B	-	(157,103,432)	(157,103,432)
Actuarial (loss)/gain on post employment benefit	G	-	1,348,543	1,348,543
Tax on other comprehensive income		-	5,058	5,058
Total Other Comprehensive Income		<u>-</u>	<u>(155,749,831)</u>	<u>(155,749,831)</u>
Total Comprehensive Income for the year		<u>664,677,588</u>	<u>(155,749,831)</u>	<u>594,594,182</u>

*This presents the consolidated financial statements prepared for the Trust Fund group as at 31st December 2011, before SLFRS conversion adjustments

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
RECONCILIATION OF EQUITY - GROUP
As at 31 December 2011 (Date of transition to SLAS (SLFRS/LKAS))

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		As Per SLAS *	Remeasurement / Reclassification	As Per SLFRS/LKAS
Assets				
<u>Non-current assets</u>				
Property, plant and equipment		453,508,878	-	453,508,878
Investment in Subsidiaries		177,393	-	177,393
Investment in Associate		523,858,817	-	523,858,817
Investments	B	5,048,878,398	-5,048,878,398	-
Goodwill		1,575,646	-	1,575,646
Deferred Tax Asset		756,294	-	756,294
Treasury Bonds	B	93,411	3,848,705,623	3,848,799,034
Fixed Deposits	B	1,152,635,015	821,024,853	1,973,659,868
Cost of capital (interest) of investment	C	70,110,420	-70,110,420	-
		<u>7,251,594,272</u>	<u>-449,258,342</u>	<u>6,802,335,930</u>
<u>Current assets</u>				
Investment in Dealing Securities		7,564,393,743	-	7,564,393,743
Investment in Treasury Bills	B	635,694,604	666,814,902	1,302,509,506
Investment in Reverse Repo		82,051,449	-	82,051,449
Debtors & Other receivables	B	386,066,359	(354,973,265)	31,093,094
Advances & Prepayments	D	4,657,105	1,054,713	5,711,818
Staff Loans	D	7,215,472	(1,054,713)	6,160,759
Call Deposits		27,000,000	-	27,000,000
Cash and Cash equivalents	B	99,195,000	33,538	99,228,538
		<u>8,806,273,732</u>	<u>311,875,175</u>	<u>9,118,148,907</u>
Total Assets		<u>16,057,868,003</u>	<u>(137,383,167)</u>	<u>15,920,484,837</u>
<u>Equity and Liabilities</u>				
Stated Capital	E	-	6,669,610	6,669,610
Accumulated fund		8,422,772,333	49,946,353	8,472,718,685
Endowment Fund		1,494,223	-	1,494,223
Contingency Reserves		12,851,346	-	12,851,346
Special Risk Reserve		149,975,522	-	149,975,522
Prize Reserve Account		322,839,494	-	322,839,494
AFS Reserve	B	-	(64,709,185)	(64,709,185)
School Development fund	F	128,724,307	(128,724,307)	-
		<u>9,038,657,224</u>	<u>-136,817,530</u>	<u>8,901,839,695</u>
Non Controlling Interest		10,752,747	-	10,752,747
<u>Non-current liabilities</u>				
Deferred Income from Grants		1,118,655	-	1,118,655
Retirement benefit obligations	G	26,038,803	(565,637)	25,473,166
		<u>27,157,458</u>	<u>-565,637</u>	<u>26,591,821</u>
<u>Current liabilities</u>				
Deferred Income from Grants		8,036,993	-	8,036,993
Creditors and Other Liabilities		6,860,422,805	-	6,860,422,805
Accrued Expenses		27,448,426	-	27,448,426
Provisions		18,938,962	-	18,938,962
Income Tax Liabilities		63,723,691	-	63,723,691
		<u>6,978,570,877</u>	<u>-</u>	<u>6,978,570,877</u>
Total Liabilities and Shareholders' Funds		<u>16,055,138,307</u>	<u>(137,383,167)</u>	<u>15,917,755,141</u>

*This presents the consolidated financial statements prepared for the Trust Fund group as at 31st December 2011, before SLFRS conversion adjustments

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2012

A – Investment Property

Trust Fund has recorded the land which has been leased to SLIIT under Property Plant & Equipment. Trust is earning rental income on this land. Therefore it is reclassified as an Investment Property in the financial statements of the Trust Fund as it is held to earn lease rentals.

B – Financial Investments

Under previous SLAS, Trust Fund has recognized its investment portfolio managed by National Wealth Corporation (Private) Ltd at their carrying value as a total. Under SLFRS, Trust Fund has reclassified and measured such investments according to LKAS 32 & 39 as follows;

- Investments in Treasury Bonds & Treasury Bills not held for trading – Available for Sale

SLFRS requires Available for sale investments to be measured at fair value. At the date of transition to SLFRS, the fair values of these assets are Rs. 4,161.3Mn and previous SLAS carrying amount was Rs. 4,068.9Mn. The difference of Rs. 92.4Mn between the fair value of the instruments and the previous carrying value has been recognized as a separate component of equity, in the available for sale reserve.

As at 31st December 2011, the fair value of the investments was Rs.4,515.5 Mn and SLAS carrying value was Rs.4,580.2Mn. The difference between the instruments fair value and carrying value was Rs. (64.7) Mn was recognized in the available for sale reserve and movement was charged to other comprehensive income.

- Investments in Fixed Deposits and Reverse Repurchase Agreements – Loans and Receivables

Under previous SLAS, deposits are shown at their original deposits value and the interest was charged based on straight line basis. Under SLFRS, interest should be recognized based on EIR method and amortized cost should be shown in the accounts. At the date of transition, the difference between the interest already provided under SLAS and requirement under SLFRS was Rs. 12.1Mn. It was adjusted to the retained earnings and netted off against the amount of fixed deposits.

As at 31st December 2011, the difference between the interest provision under EIR and under straight line method was Rs.7.7Mn and the net movement of Rs. 4.4Mn was recognized in the income statement.

- Investments in Fixed Deposits and Securities Sold under Repurchase Agreements – Other Liabilities

Under previous SLAS, carrying value of securities sold under re-purchase agreements was included in the total carrying value of the investment portfolio. Under SLFRS, the amortized costs of such investments were presented as other liabilities which is Rs. 751,942 in 2010 and Rs. 767,705 in 2011.

Further, a non-conversion adjustment of Rs. 5.1Mn has been incorporated to the above total investment value by the management.

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2012

Details of the financial investments are as follows;

As at 01 January 2011	Rs.	Rs.
Value recorded in SLAS Financial Statements	5,028,520,635	
Interest Receivable	96,684,365	
Non conversion adjustment	<u>5,195,890</u>	5,130,400,890
Treasury Bills (at fair value)	1,602,570,132	
Treasury Bonds (at fair value)	2,558,757,440	
Receivable under resale agreements (at amortized cost)	443,234,373	
Fixed deposits (at amortized cost)	606,768,022	
Cash	35,000	
Less: Repurchase Agreements (at amortized cost)	<u>(751,942)</u>	<u>5,210,613,024</u>
		<u>80,212,134*</u>

*This difference represents EIR adjustment made on Fixed Deposits Rs. (12,182,112/-) and the Fair Value adjustment made on Treasury Bills & Bonds Rs. 92,394,247/-, under SLFRS.

As at 31 December 2011	Rs.	Rs.
Value recorded under SLAS Financial Statements	5,125,204,995	
Interest Receivable	329,072,016	
Non conversion adjustment	<u>5,195,890</u>	5,459,472,902
Treasury Bills (at fair value)	666,814,902	
Treasury Bonds (at fair value)	3,848,705,623	
Receivable under resale agreements (at amortized cost)	77,094,302	
Fixed deposits (at amortized cost)	795,123,604	
Cash	33,538	
Less: Repurchase Agreements (at amortized cost)	<u>(767,705)</u>	<u>5,387,004,264</u>
		<u>(72,468,638)*</u>

*This difference represents EIR adjustment made on Fixed Deposits Rs. (7,759,453/-) and the Fair Value adjustment made on Treasury Bills & Bonds Rs. (64,709,185/-), under SLFRS.

C – Cost of Capital of investments

Trust Fund has capitalised the interest cost incurred on bank borrowings obtained for the investment made in SLIIT and it is being amortized over a period of 30 years. As such this cost does not qualify for recognition as an asset under SLFRS, this is derecognized against retained earnings which is Rs. 73,030,420 in 2010 and 70,110,420 in 2011.

D –Staff Loans measured at fair value

Under previous SLAS, staff loans were recorded at cost less repayments. Under SLFRS, Trust Fund has to measure the staff loans granted below the market interest rate at their fair value calculated based on the market interest rate of similar products. The fair value of such loans as at January 1, 2011 was Rs. 440,036 and their previous SLAS carrying amount was Rs.473,305. The difference between the fair value and SLAS carrying amount was Rs. 33,269 has been netted off from staff loans& recognized as pre-paid staff cost.

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As at 31st December 2011 the fair value of staff loan was Rs. 183,052 and their previous SLAS carrying amount was Rs. 192,000. The difference between the fair value and SLAS carrying amount was Rs. 8,948 has been netted off against staff loans & recognized as pre-paid staff cost.

Amortization of prepaid cost and the imputed interest on staff loans of Rs. 21,900 is recognized in the income statement for 2011.

The same adjustment was applied to the group as well.

E – Stated Capital

Trust Fund has been recorded its stated capital with accumulated fund together. At the date of transition to SLFRS, stated capital has reclassified as recorded separately in equity,

F – School Development Fund

Trust Fund has classified the fixed deposits which were identified as for the purpose of school development expenses in equity as school development fund as well as the interest income earned on it has been capitalized to the school development fund without recognising to the interest income. In the year of transition to SLFRS, the said accumulated interest over the years which was presented as a fund of Rs. 78,556,934 (Rs. 128,724,307 in 2011) was reclassified to retained earnings. Further interest earned during the year 2011 was recognized in the interest income of Rs. 50,167,373/-

G – Retirement Benefit Obligation

Under previous SLAS, Trust Fund measured retirement benefit obligation based on half salary method. At present, formula method is used to measure it. At the date of transition to SLFRS, the difference of the liability which is amounting to Rs. 494,196 between the current method and the previous method has been recognized in the retained earnings and netted against the retirement benefit obligation.

As at 31st December 2011 the difference between the half salary method and formula method of Rs. 565,637 has been netted off against the liability. The annual movement of the liability is recognized in the income statement of Rs. 27,652 as interest cost and gratuity expense and Rs. 1,758 is recognized in the other comprehensive income as actuarial gain or loss.

The same adjustment was applied to the group as well.

H – Expenses

Trust Fund has not recorded separately its direct expenses. Therefore this reclassification of expenses was done in the year 2011.

I – Other Income

Trust Fund has recorded the income which can be categorized as finance income under other income. In the year of transition those income is recorded as finance income.

The same adjustment was applied to the group as well.

J – Prior Year Adjustments

Under the previous SLAS, Trust Fund has recorded the accounting impact on profit, from the changes in accounting estimates as a separate line item in the Income Statement. This impact was separately reclassified in to the respective line items in the income statement from 2011.

8. STANDARDS ISSUED BUT NOT EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The on intends to adopt those standards when they become effective.

SLFRS 9 - Financial Instruments: Classification and Measurement

The adoption of the first phase of SLFRS 9 may have an effect on the classification and measurement of the Corporation's financial assets, but will potentially have no impact on classification and measurements of financial liabilities.

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SLFRS 10 – Consolidated Financial Statements

This standard will impact the recognition, measurement and disclosure aspects currently contained in LKAS 27- Consolidated and Separate Financial Statements and SIC 12-Consolidation of Special Purpose Entities (SPEs). Establishing a single control model that applies to all entities including SPEs is the significant change introduced under SLFRS 10.

SLFRS 11 – Joint Arrangements

This standard will impact the recognition, measurement and disclosure aspects currently contained in LKAS 31-Interest in Joint Ventures and SIC 13-Jointly Control Entities –Non Monetary Contribution by Ventures. Removal of option to proportionate consolidation of jointly controlled entities is the significant change introduced under SLFRS 11.

SLFRS 12 – Disclosure of Interest in Other Entities

SLFRS 12 establishes a single standard on disclosures related to interests in other entities. This incorporates new disclosures as well as the once previously captured in earlier version of LKAS 27, LKAS 28 and LKAS 31.

SLFRS 13 – Fair Value measurement

SLFRS 13 establishes a single source of guidance under SLAS for all fair value measurements. SLFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under SLAS when fair value is required or permitted.

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9. REVENUE

	Group		Trust Fund	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Interest Income	735,517,501	812,665,887	700,597,706	602,162,667
Donation	-	100,000	-	100,000
Service Income	773,266,672	782,978,800		
Profits from DLB	-	-	734,128,031	600,866,586
	1,508,784,172	1,595,744,687	1,434,725,736	1,203,129,252

10. DIRECT EXPENSES

	Group		Trust Fund	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Direct Expenses on Provision for Educational Services	219,880,967	183,845,746	-	-
Scholarship Award Expenses	680,572,470	698,070,139	680,572,470	698,070,139
A/L Scholarship Award Expenses	-	-	49,038,600	75,547,623
	900,453,437	881,915,885	729,611,070	773,617,762

11. OTHER OPERATING INCOME

	Group		Trust Fund	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Scholarship payment refunds Over Provision for School	22,519,200	19,445,293	22,519,200	19,445,293
Development Expenses	11,787,447	-	11,787,447	-
Income from leased land	-	-	17,431,898	14,695,735
WHT Received	27,000,000	-	27,000,000	-
Sundry income	561,864	838,525	9,930	-
Profit on disposal of PPE	389,371	105,154	-	-
Dividend Income	3,527,258	743,000	36,000,000	-
Rent Income	5,957,521	5,388,776	-	-
Amortization of Grant	2,602,415	2,630,074	-	-
	74,345,075	29,150,822	114,748,475	34,141,028

12. ADMINISTRATION EXPENSES

	Group		Trust Fund	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Directors' Emoluments	15,250,922	18,336,331	-	-
Depreciation	70,591,809	63,916,507	842,027	243,756
Auditor's Remuneration	612,280	679,020	-	-
Employee Benefit Expense	132,993,827	116,557,936	5,714,533	3,095,393
Repair and Maintenance	22,699,355	16,400,679	604,845	470,907
School Development Expenses	49,377,653	-	49,377,653	-
Other Expenses	190,451,214	198,869,879	16,526,156	12,754,572
	481,977,059	414,760,351	73,065,213	16,564,628

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13. SELLING & DISTRIBUTION EXPENSES

	Group		Trust Fund	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Business Promotion & Advertising	22,862,906	13,598,904	-	-
	22,862,906	13,598,904	-	-

14. OTHER OPERATING EXPENSES

	Group		Trust Fund	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Exchange Loss	5,827,553	2,741,916	-	-
Nation Building Tax	19,578,600	10,276,499	-	-
Withholding Tax on Dividend	102,116	175,056	-	-
Loss on irrecoverable Accounts writer	-	494,601	-	-
	25,508,270	13,688,072	-	-

15. FINANCE INCOME

	Group		Trust Fund	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Interest Income	67,742,284	32,280,502	-	-
Staff Loan Interest	556,032	522,924	-	-
Un-winding of staff loan interest	712,262	615,259	22,721	36,325
Gain from revaluation of dealing secur	150,293,622.00	-	-	-
Gain on sale of dealing securities	-	86,557,208.00	-	-
	219,304,200	119,975,892	22,721	36,325

16. FINANCE COST

	Group		Trust Fund	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Loss on sale of dealing securities	341,139,012	-	27,900,511	-
Loss on revaluation of dealing securities	-	140,680,122	-	-
Impairment on Investment in Associate	90,107,550	86,917,285	-	-
	431,246,562	227,597,407	27,900,511	-

17. INCOME TAX

	Group		Trust Fund	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Current tax on profit for the year	14,646,487	58,046,276	-	-
Deferred Income Tax (release)/charge	(27,181)	(2,843,260)	-	-
	14,619,306	55,203,016	-	-

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
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18 PROPERTY, PLANT AND EQUIPMENT - GROUP

Description	As at 01.01.2011	Additions/ Revaluations during the year	Disposals during the year	As at 31.12.2011	As at 01.01.2012	Additions/ Revaluations during the year	Disposals during the year	As at 31.12.2012
At Cost / valuation								
Land	12,460,179	-	-	12,460,179	12,460,179	-	-	12,460,179
Buildings	425,568,547	711,461	-	426,280,008	426,280,008	11,003,546	-	437,283,554
Equipment	107,735,607	11,451,712	(143,500)	119,043,819	119,043,819	12,584,420	(26,310)	131,601,929
Furniture and Fittings	51,265,910	3,906,169	(6,581)	55,165,499	55,165,499	10,822,409	(10,750)	65,977,158
Motor Vehicles	38,096,139	5,160,769	-	43,256,908	43,256,908	14,751,040	-	58,007,948
Computers and Accessories	237,915,599	14,943,181	(156,000)	252,702,781	252,702,781	18,167,776	(1,797,728)	269,072,828
Softwares	16,933,943	-	-	16,933,943	16,933,943	354,039	-	17,287,982
Books & Graduation Kits	23,889,521	3,337,156	(2,108)	27,224,569	27,224,569	5,867,793	(795)	33,091,567
Electricity Transformer&Connect.	4,524,350	-	-	4,524,350	4,524,350	-	-	4,524,350
Land Development	7,471,988	1,989,580	-	9,461,569	9,461,569	1,259,925	-	10,721,494
Building Improvements	42,000	-	-	42,000	42,000	-	-	42,000
Total	925,903,784	41,500,029	(308,189)	967,095,624	967,095,624	74,810,948	(1,835,583)	1,040,070,989
Accumulated Depreciation								
On Cost / Valuation								
Buildings	100,295,868	19,210,003	-	119,505,871	119,505,871	21,526,368	-	141,032,239
Equipment	83,805,433	8,114,796	(120,200)	91,800,029	91,800,029	9,741,199	(23,977)	101,517,250
Furniture and Fittings	40,397,798	3,847,791	(6,581)	44,239,008	44,239,008	4,705,714	(6,450)	48,938,272
Motor Vehicles	20,297,926	6,295,398	-	26,593,324	26,593,324	9,046,225	-	35,639,549
Computers and Accessories	186,702,965	22,707,293	(39,000)	209,371,258	209,371,258	20,711,091	(1,091,478)	228,990,870
Softwares	5,964,384	2,892,611	-	8,856,995	8,856,995	2,788,329	-	11,645,324
Books & Graduation Kits	19,282,698	3,432,796	(2,108)	22,713,386	22,713,386	4,632,066	(795)	27,344,656
Electricity Transformer&Connect.	-	-	-	-	-	-	-	-
Land Development	-	-	-	-	-	-	-	-
Building Improvements	2,450	4,200	-	6,650	6,650	4,200	-	10,850
Total	456,749,523	66,504,886	(167,889)	523,086,520	523,086,520	73,155,190	(1,122,700)	595,119,011
Written down value	469,154,262	(25,004,858)	(140,300)	444,009,104	444,009,104	1,655,758	(712,884)	444,951,978
Capital Work in Progress	1,612,601	7,887,173	-	9,499,774	9,499,774	136,563,133	-	146,062,908
Total	470,766,863	(17,117,684)	(140,300)	453,508,878	453,508,878	138,218,891	(712,884)	591,014,886

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18 PROPERTY, PLANT AND EQUIPMENT - TRUST FUND

Description	As at 01.01.2011	Additions/ Revaluations during the year	Disposals during the year	As at 31.12.2011	As at 01.01.2012	Additions/ Revaluations during the year	Disposals during the year	As at 31.12.2012
At Cost / valuation								
Equipment	93,300	34,596	-	127,896	127,896	111,320	(22,310)	216,906
Motor Vehicles	1,100,000	-	-	1,100,000	1,100,000	5,100,000	-	6,200,000
Computers	1,394,588	794,679	-	2,189,267	2,189,267	11,400	(667,728)	1,532,939
Total	2,587,888	829,275	-	3,417,163	3,417,163	5,222,720	(690,038)	7,949,845
Accumulated Depreciation								
On Cost / Valuation								
Equipment	91,320	2,120	-	93,440	93,440	22,093	(22,310)	93,223
Motor Vehicles	1,100,000	-	-	1,100,000	1,100,000	399,616	-	1,499,616
Computers	495,664	241,636	-	737,300	737,300	420,318	(667,728)	489,890
Total	1,686,984	243,756	-	1,930,741	1,930,741	842,027	(690,038)	2,082,729
Written down value	900,904	585,519	-	1,486,423	1,486,423	4,380,693	-	5,867,116

List of fully depreciated assets are as follows;

1. Equipment
 - Iron Safe 2,750
 - Cash Box 2,450
 - Fax Machine 33,750
 - Fans 9,900
2. Computers
 - Thibus 33,000
 - Computer PD 252,375
- 3 Motor Vehicle
 - Double Cab 1,100,000

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
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19. INVESTMENT PROPERTY

	Group			Trust Fund		
	2012	2011	As At 01.01.2011	2012	2011	As At 01.01.2011
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Free Hold Land	-	-	-	12,460,179	12,460,179	12,460,179
	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,460,179</u>	<u>12,460,179</u>	<u>12,460,179</u>

Note: This land which is at Malabe is leased out to Sri Lanka Institute of Information Technology from its inception. According to the Management Estimate, Fair Value of the Investment Property is Rs. 2,400,000,000/-.

20. INTANGIBLE ASSET

	Group			Trust Fund		
	2012	2011	As At 01.01.2011	2012	2011	As At 01.01.2011
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Goodwill	1,575,646	1,575,646	1,575,646	-	-	-
	<u>1,575,646</u>	<u>1,575,646</u>	<u>1,575,646</u>	<u>-</u>	<u>-</u>	<u>-</u>

21. INVESTMENT IN SUBSIDIARIES

	Group			Trust Fund		
	2012	2011	As At 01.01.2011	2012	2011	As At 01.01.2011
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
National Wealth Corporation	-	-	-	200,000,000	200,000,000	200,000,000
Sri Lanka Institute of Information Techn	-	-	-	373,577,393	373,577,393	373,577,393
	<u>-</u>	<u>-</u>	<u>-</u>	<u>573,577,393</u>	<u>573,577,393</u>	<u>573,577,393</u>

- (a) National Wealth Corporation (Private) Ltd (NWCL) set up as a fully owned subsidiary of Mahapola Higher Educational Trust Fund (MHETF), investing Rs.200 Mn as its issued capital on 30 June 2003 with the objective of managing fund.

Subsequently NWCL has issued Rs 100 M fully paid ordinary shares as bonus shares to the Mahapola Trust Fund increasing it issued capital up to Rs.300 M utilising it's earnings. This value has not taken into Mahapola books since it has not realized.

NWCL has set up Nat Wealth Securities (Private) Ltd (NWSL) investing its own funds in 2004 for primary dealer operations under Central Bank of Sri Lanka. Total investment of Share Capital in this company is Rs.300 Mn.

- (b) Sri Lanka Institute of Information Technology (Pvt) Ltd (SLIIT) is a fully owned subsidiary of MHETF which was established in 1999 investing an amount of Rs. 373,577,393.

SLIIT Computing (Pvt) Ltd. and Sri Lanka Technology Incubator (Pvt) Ltd are two subsidiaries of SLIIT holding 72.9% and 63.9% respectively.

22. INVESTMENT IN ASSOCIATE

	Group			Trust Fund		
	2012	2011	As At 01.01.2011	2012	2011	As At 01.01.2011
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Initial Investment	2,200,000	2,200,000	2,200,000	2,200,000	2,200,000	2,200,000
Share of Profit Receivable	496,523,645	285,736,609	198,500,361	-	-	-
50% Share of Prize Reserve Account	376,618,251	322,839,494	313,497,021	-	-	-
Less: Provision for Impairment	(90,107,550)	(86,917,285)	-	-	-	-
	<u>785,234,346</u>	<u>523,858,817</u>	<u>514,197,382</u>	<u>2,200,000</u>	<u>2,200,000</u>	<u>2,200,000</u>

23. FINANCIAL ASSETS

	Group			Trust Fund		
	2012	2011	As At 01.01.2011	2012	2011	As At 01.01.2011
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Fair Value Through Profit or Loss						
Investment in Equity	210,540,441	205,372,110	-	-	-	-
Investment in dealing securities	2,946,639,084	7,359,021,633	8,772,517,287	-	-	-
	<u>3,157,179,525</u>	<u>7,564,393,743</u>	<u>8,772,517,287</u>	<u>-</u>	<u>-</u>	<u>-</u>
Held to Maturity						
Treasury Bonds	1,632,149,512	93,411	53,600	-	-	-
	<u>1,632,149,512</u>	<u>93,411</u>	<u>53,600</u>	<u>-</u>	<u>-</u>	<u>-</u>
Available for Sale Investments (Fair Value)						
Treasury Bonds	3,405,010,385	3,848,705,623	2,558,757,440	3,405,010,385	3,848,705,623	2,558,757,440
Treasury Bills	-	666,814,902	1,602,570,132	-	666,814,902	1,602,570,132
	<u>3,405,010,385</u>	<u>4,515,520,525</u>	<u>4,161,327,571</u>	<u>3,405,010,385</u>	<u>4,515,520,525</u>	<u>4,161,327,571</u>
Loans & Receivables						
Reverse Repurchase Agreements	687,923,527	82,051,449	551,487,830	49,012,292	77,094,302	443,234,373
Preference Shares	-	-	-	200,000,000	-	-
Debentures	202,619,400	-	-	202,619,400	-	-
Treasury Bills & REPOs	158,699,524	635,694,604	433,552,694	-	-	-
Assets Back Trust Certificates	51,833,875	-	-	51,833,875	-	-
Fixed Deposits (Note 23.1)	3,776,206,925	1,973,659,867	1,617,925,550	3,222,532,571	1,856,075,493	1,578,273,679
	<u>4,877,283,251</u>	<u>2,691,405,920</u>	<u>2,602,966,074</u>	<u>3,725,998,138</u>	<u>1,933,169,795</u>	<u>2,021,508,052</u>
Non Current Financial Assets	<u>9,015,986,222</u>	<u>5,822,458,902</u>	<u>4,176,736,590</u>	<u>7,030,162,356</u>	<u>5,704,781,117</u>	<u>4,137,031,119</u>
Current Financial Assets	<u>4,055,636,451</u>	<u>8,948,954,698</u>	<u>11,360,127,942</u>	<u>100,846,167</u>	<u>743,909,204</u>	<u>2,045,804,505</u>

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23.1 Fixed Deposits

The interest earned on above Fixed Deposits will be utilised for school development activities as well.

23.2 Financial Assets (Trust Fund)

Note:

From the stated Financial Assets (Note 23) and Financial Liabilities (Note 27) following investment portfolio of Trust Fund is managed by National Wealth Corporation (Private) Ltd.

	2012	2011	2010
Treasury Bills	-	666,814,902	1,602,570,132
Treasury Bonds	3,405,010,385	3,848,705,623	2,558,757,440
Reverse Repurchase Agreement	49,012,292	77,094,302	443,234,373
Fixed Deposit	1,945,911,673	795,123,604	606,768,022
Preference Shares	200,000,000	-	-
Debentures	202,619,400	-	-
Less: Securities Sold under Repurchase	(112,209,454)	(767,705)	(751,942)
	<u>5,690,344,296</u>	<u>5,386,970,726</u>	<u>5,210,578,024</u>

24. PREPAYMENTS & RECEIVABLES

	Group			Trust Fund		
	2012	2011	As At 01.01.2011	2012	2011	As At 01.01.2011
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
VAT Receivable	13,832,748	13,670,102	599,358	-	-	-
Staff Loan	6,976,404	6,160,758	8,057,348	174,402	183,052	440,036
Prepaid Staff Loan	1,189,724	1,054,713	1,018,745	16,098	8,948	33,269
Insurance Receivable	359,963	275,412	196,822	56,697	2,940	-
Deposits in Lanka Financial Services Bu	1,080,000	1,080,000	1,080,000	-	-	-
Receivables from DLB	-	-	-	283,462,354	198,819,323	198,500,361
Income Receivable	5,299,792	6,554,902	7,677,639	-	-	-
Interest Receivable	2,716,564	545,957	7,732,474	-	-	-
Recoveries from Staff	405,298	89,480	511,453	-	-	-
Utility Deposits	521,600	401,600	381,600	-	-	-
Income Tax Prepaid	3,135,601	2,728,265	3,403,045	-	-	-
ESC Receivable	616,308	363,406	647,533	-	-	-
NBT Receivable	435,655	-	-	-	-	-
Advances	45,122,174	7,323,398	5,756,260	1,168,022	353,810	54,815
Other Prepayments	5,251,548	2,717,677	2,678,239	-	-	-
	<u>86,943,379</u>	<u>42,965,670</u>	<u>39,740,515</u>	<u>284,877,573</u>	<u>199,368,073</u>	<u>199,028,481</u>

25. CASH & CASH EQUIVALENTS

	Group			Trust Fund		
	2012	2011	As At 01.01.2011	2012	2011	As At 01.01.2011
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Call Deposits	25,000,000	27,000,000	93,000,000	-	-	-
Cash at Bank	161,905,094	99,048,048	91,386,220	2,054,344	14,695,633	16,791,497
Cash in Hand	219,145	180,490	180,490	13,655	-	-
Cash in Transit	19,014,850	-	-	-	-	-
	<u>206,139,089</u>	<u>126,228,538</u>	<u>184,566,710</u>	<u>2,067,999</u>	<u>14,695,633</u>	<u>16,791,497</u>

For the purpose of statement of Cash Flow, Cash & Cash Equivalents comprise the following

	2012	2011	2012	2011
Call Deposits	25,000,000	27,000,000	-	-
Cash at Bank	161,905,094	99,048,048	2,054,344	14,695,633
Cash in Hand	219,145	180,490	13,655	-
Cash in Transit	19,014,850	-	-	-
	<u>206,139,089</u>	<u>126,228,538</u>	<u>2,067,999</u>	<u>14,695,633</u>
Bank Overdrafts	-35,348	-	-	-
	<u>206,103,741</u>	<u>126,228,538</u>	<u>2,067,999</u>	<u>14,695,633</u>

26. RETIREMENT BENEFIT OBLIGATION

	Group			Trust Fund		
	2012	2011	As At 01.01.2011	2012	2011	As At 01.01.2011
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at the beginning of the year	25,473,166	21,095,069	18,784,458	158,038	132,144	506,090
Interest Cost	2,198,656	1,718,886	229,335	15,860	13,214	50,609
Charge for the year	5,119,024	4,592,023	4,535,377	52,998	14,438	8,539
Benefits Paid	(1,406,393)	(584,268)	(2,064,264)	(170,040)	-	-
Actuarial (Surplus) / Deficit	737,011	(1,348,543)	(389,837)	322,049	(1,758)	(433,094)
Balance as at the end of the year	<u>32,121,464</u>	<u>25,473,166</u>	<u>21,095,069</u>	<u>378,905</u>	<u>158,038</u>	<u>132,144</u>

The principal assumptions used are as follows;

Discount Rate Assumed	9% - 12%	9% - 11%	8% - 10%	12%	11%	10%
Salary Increment Rate	2% - 20%	2% - 10%	2% - 10%	2%	2%	2%
Retirement Age	55 - 65 Years	55 - 65 Years	55 - 65 Years	60 - 65 Years	60 - 65 Years	60 Years

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As At 31 December

27. OTHER LIABILITIES

	Group			Trust Fund		
	2012	2011	As At 01.01.2011	2012	2011	As At 01.01.2011
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Securities Sold under Repurchase Agreement	4,731,441,556	6,745,321,900	8,100,421,127	112,209,454	767,705	751,942
	<u>4,731,441,556</u>	<u>6,745,321,900</u>	<u>8,100,421,127</u>	<u>112,209,454</u>	<u>767,705</u>	<u>751,942</u>

28. ACCRUALS AND OTHER PAYABLES

	Group			Trust Fund		
	2012	2011	As At 01.01.2011	2012	2011	As At 01.01.2011
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Advance Received	2,976,144	21,724,026	88,473,529	-	-	254,100
Postponed Course Fees Refundable	2,482,300	2,552,467	1,914,629	-	-	-
Payable to Universities	74,872,470	63,994,344	42,981,481	-	-	-
Tax Payable	820,196	6,419,579	22,127,642	-	-	-
Refundable deposits	16,179,959	5,044,554	9,181,239	-	-	-
Re- scrutinize Fees	259,585	126,025	276,845	-	-	-
Cheque Cancellation Account	637,899	298,848	239,622	-	-	-
E-wis Career Training (Pvt) Ltd	192,318	130,818	78,318	-	-	-
Other Payable	47,552,984	35,030,516	33,734,056	-	-	-
Accrued Expenses	899,016	1,025,365	971,504	22,422	23,058	13,768
Preference Shares Interest Payable	15,910,000	-	-	-	-	-
Retention A/C	1,929,826	3,547,409	3,660,514	1,929,826	3,547,409	3,660,514
Staff Expenses (Salaries & Wages)	2,641,423	2,283,144	1,813,244	-	-	53,798
Audit fee Payable	1,599	3,167	3,167	-	-	-
Dividend Payable	369,070	369,070	369,070	-	-	-
	<u>167,724,789</u>	<u>142,549,332</u>	<u>205,824,860</u>	<u>1,952,248</u>	<u>3,570,467</u>	<u>3,982,180</u>

29. PROVISIONS

	Group			Trust Fund		
	2012	2011	As At 01.01.2011	2012	2011	As At 01.01.2011
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Provision for School Development Expenses	1,834,546	18,938,962	43,907,496	1,834,546	18,938,962	43,907,496
	<u>1,834,546</u>	<u>18,938,962</u>	<u>43,907,496</u>	<u>1,834,546</u>	<u>18,938,962</u>	<u>43,907,496</u>

30. RELATED PARTY DISCLOSURE

Details of significant related party disclosures are as follows:

31.1 Transactions with related entities

Company	Relationship	Nature of Transaction	As At 31.12.2012 Rs	As At 31.12.2011 Rs	As At 01.01.2011 Rs
(i) National Wealth Corporation (Pvt) Ltd	Subsidiary	Receivable under resale agreements	49,012,292	77,094,302	443,234,373
		Payable under repurchases	848,990	767,705	751,942
		Investment in Preference Shares	200,000,000	-	-
Transactions were taken place during the year			2012 Rs	2011 Rs	
(ii) National Wealth Corporation (Pvt) Ltd		Interest Income	16,384,040	12,642,980	
		Fund management Fee	8,683,246	8,072,317	
		Dividend Income	36,000,000	-	
(iii) Sri Lanka Institute of Information Techn	Subsidiary	Income from leased land	17,431,898	14,695,735	

31.2 Transactions with Key Management Personnel

Key management personnel are the members of the Board of Trustees of Mahapola Higher Educational Trust Fund

No significant transactions had taken place involving key management personnel & their close family members.

32. EVENTS AFTER THE BALANCE SHEET DATE

All the material events after the balance sheet date have been considered and appropriate adjustments and disclosures have been made in to the financial statements, where necessary.

MAHAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As At 31 December 2012

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has exposure to the following risk from financial instruments;

1. Credit Risk
2. Liquidity Risk
3. Market Risk

Risk Management Framework

Board of Trustees and the Board of Directors have the overall responsibility for the establishment and oversight of the Group's risk management framework, which includes developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify, quantify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk Management policies and systems are reviewed regularly to reflect changes in market

The Board of Trustees of Mahapola Higher Educational Trust Fund (MHETF) has entered into an agreement with National Wealth Corporation Limited (NWCL) which is a fully owned subsidiary of the MHETF to manage the funds of the MHETF being the Agent of the MHETF.

Board of Trustees and the Board of Directors oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risk face by the Group.

Credit Risk

Credit risk is the risk that the counter party will not meet the obligations under the financial instruments and the other receivables, leading to a financial loss. The Group is exposed to credit risk from its financing activities.

The following is a high level summary of the Financial Assets available for the Group as at 31st December 2012.

	Group Rs.	Company Rs.
Fair Value Through Profit & Loss	3,157,179,525	-
Held to Maturity	1,632,149,512	-
Available for Sale	3,405,010,385	3,405,010,385
Loans & Receivable	4,877,283,251	3,725,998,138
Other Receivables	16,954,323	283,693,453
	<u>13,088,576,995</u>	<u>7,414,701,977</u>

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial assets. The Group's approach to manage liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal & stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The tables below analyses the Group's and Trust Fund's financial liabilities into relevant maturity groups based on the remaining period at the Balance Sheet date to the contractual maturity date.

Group	On Demand	Less than 3 months	Between 3 months - 1 year
Securities Sold under Repurchase Agreements	-	4,337,841,220	393,600,335
Other Payables	-	2,643,021	66,291,826
Bank Overdraft	35,348	-	-
As at 31 December 2012	35,348	4,340,484,241	459,892,161
Securities Sold under Repurchase Agreements	-	5,872,164,308	873,157,592
Other Payables	-	2,286,311	39,603,290
As at 31 December 2011	-	5,874,450,619	912,760,882

Trust Fund	On Demand	Less than 3 months	Between 3 months - 1 year
Securities Sold under Repurchase Agreements	-	848,990	111,360,463
Other Payables	-	-	1,952,248
Bank Overdraft	-	-	-
As at 31 December 2012	-	848,990	113,312,711
Securities Sold under Repurchase Agreements	-	767,705	-
Other Payables	-	-	3,570,467
As at 31 December 2011	-	767,705	3,570,467

HAPOLA HIGHER EDUCATION SCHOLARSHIP TRUST FUND TES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2012

Market Risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. Market Price comprises four types of risk, interest rate risk, currency risk, commodity price risk and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, deposits, available for sale investments and derivative financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest

Equity Price

The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments.

AUDITOR GENERAL REPORT



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கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்

AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

TC2/F/MTF/6/12/28

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

26 May 2016

The Chairman,
Mahapola Higher Education Scholarship Trust Fund

Report of the Auditor General on the Consolidated Financial Statements of the Mahapola Higher Education Scholarship Trust Fund for the year ended 31 December 2012 in terms of Section 14(2) (c) of the Finance Act, No. 38 of 1971

The audit of Consolidated Financial Statements of the Mahapola Higher Education Scholarship Trust Fund for the year ended 31 December 2012 comprising the statement of consolidated financial position as at 31 December 2012 and the consolidated comprehensive income statement, statement of consolidated changes of equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 10(4) of the Mahapola Higher Education Scholarship Trust Fund Act, No.66 of 1981. My comments and observations which I consider should be published with the Annual Report of the Trust Fund in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

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



1.3 Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on conducting the audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810).

1.4 Basis for Disclaimer of Audit Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items and the elements making up the statement of consolidated financial position, consolidated comprehensive income statement, statement of consolidated changes in equity and the consolidated cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significant of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly I do not express an opinion on these consolidated financial statements.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

(a) **Sri Lanka Accounting Standard 01**

As the subsidiary company of the Trust Fund had incurred losses in the previous year and the year under review and it had the following liquidity problems, it was observed that the going concern of that company should be reviewed.

- (i) Redeemable preference shares of Rs.200,000,000 had been issued to the Mahapola Higher Education Scholarship Trust Fund during the year under review and the preference shares dividends payable amounting to Rs.15,910,000 had been accrued.
- (ii) Even though the dividends for ordinary shares amounting Rs.41,000,000 had been declared in the year under review, it had not been shown as dividends payable.

(b) **Sri Lanka Accounting Standard 39**

The impairment provision in the year under review for the investment in the Development Lotteries Board which is an Associate Company of the Trust Fund amounted to Rs.90,107,550 and that had been Rs.86,917,285 in the preceding year. In terms of Sri Lanka Accounting Standard 28, before identifying an impairment loss on net investment in the Associate, provisions in Section 58 of the Sri Lanka Accounting Standard 39 should be considered. However, it was observed that there was no considerable reasons for making provision relating to the Development Lotteries Board.

(c) **Sri Lanka Accounting Standard 40**

Even though it was disclosed as a note that the fair value of the land at Malambe which had been given to the Sri Lanka Institute of Information Technology by the Trust Fund on lease basis amounted to Rs.2,400,000,000, its accounted value amounted to Rs.12,460,179. An assessment report or a management representation on the fair value of this property was not made available for audit. Further it was not established whether an independent valuer with professional qualifications and experience had been engaged for this assessment.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) As bonus shares of Rs.100,000,000 received from the National Wealth Corporation Limited had not been brought to accounts the investment account and the loss for the year had been under stated by that amount.
- (b) Even though the dividend declared by the National Wealth Security Limited in respect of investment in preference shares made in that company had been Rs.15,910,000 as at 31 December 2012, it had not been brought to accounts in the financial statements of the Trust Fund as dividends receivable.
- (c) Dividend receivable amounting to Rs.5,000,000 from the National Wealth Corporation Limited had been omitted from the accounts of the Trust Fund.
- (d) The profit receivable from the Development Lotteries Board as at 31 December of the year under review had been understated by Rs.283,462,352.

2.2.3 Unexplained Differences

The following observations are made.

- (a) The interest on investment of the Trust Fund according to the Ledger Accounts amounted to Rs.775,218,903 whereas that amounting Rs.700,597,706 according to the financial statements and as such there was a difference of Rs.74,621,197 which had not been explained to audit. As a result the accuracy of the value shown in the financial statements could not be established in audit.
- (b) It was stated in a note that the School Development Fund, commenced to operate as a separate account by using an initial deposit of Rs.221,000,000, according to the decision No.45/02 of 2005 of the Board of Trustees had been eliminated from the consolidated financial statements in the year under review. The balance of that account as at 01 January 2012 amounted to Rs.350,224,315 but a sum of Rs.368,526,144 had been deducted from the retained profit, thus showing a difference of Rs.18,301,829.
- (c) The Trust Fund had contributed a sum of Rs.49,485,000 to the Advanced Level Scholarships awarded by the President's Fund in the year under review and that had been shown in the financial statements as Rs.49,038,600 thus showing a difference of Rs.446,400.
- (d) Even though the share of profit received by the Mahapola Higher Education Scholarship Trust Fund from the Development Lotteries Board in the year under review amounted to Rs.605,000,000, it was shown as Rs.600,000,000 according to the consolidated financial statements and as such there was a difference of Rs.5,000,000.

- (e) Even though the value of investment made by the National Wealth Corporation Limited as at 31 December of the year under review amounted to Rs.5,454,277,011 according to the confirmation of balances sent by that company, that amounted to Rs.5,864,837,065.

2.2.4 Transactions not supported by Adequate Authority

Even though it had been decided to use the interest received from the investment of money allocated for the School Development Fund in fixed deposits, for school development purposes, the interest of Rs.189,977,762 received from certain other fixed deposit, not belonging to this Fund had been used for school development activities.

2.2.5 Lack of evidence for audit

As the non- availability of evidence of confirmation stated against the following items of accounts they could not be satisfactorily vouched /verified in audit.

Item of Accounts	Value	Evidence not made available
	Rs.	
(a) Investments in preference shares	200,000,000	Share certificates or other confirmation documents
(b) Investments in the Development Lotteries Board	2,200,000	Certificates or other confirmation documents

- (c) In the consolidation of financial statements of the Sri Lanka Information Technology (Limited by Guarantees) Ltd. which is a subsidiary of the Trust Fund, with the financial statements of the Trust Fund, the basis on which adjustments had been made by using financial years different from each other and the working papers were not made available for audit. Accordingly the accuracy of the balances shown in the consolidated financial statements could not be established in audit.
- (d) According to the agreement entered into with the National Wealth Corporation Ltd. on 13 November 2003, it was agreed to pay a management fee for the financial management of the Trust Fund. Nevertheless, the Trust Fund had failed to explain to audit the basis of computation of the management fees of Rs.67,197,369 paid from the year 2004 to the year 2012.

2.3 Non – compliance with Laws, Rules, Regulation and Management Decisions

The following non-compliance were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliance
(a) Section 7.4.1 of the Public Enterprise Circular No.PED/12 of 02 June 2003 on Good Governance	Action had not been taken to hold Audit Committee meetings in the year under review.
(b) Section 5(a) (i) of the agreement entered into between the Trust Fund and the Sri Lanka Institute of Information Technology.	Twenty per cent of the annual net profit of the Sri Lanka Institute of Information Technology or Rs.8,000,000 whichever is more should be recovered as lease rental for the land given to that Institute on lease basis. Nevertheless, lease rental of Rs.67,293,879 for the period from the year 2005 to the year 2012 had not been recovered.

3. Financial Review

3.1 Financial Results

According to the consolidated financial statements presented, the operation of the Trust Fund for the year ended 31 December 2012 had resulted a surplus of Rs.838,535,935 as compared with the surplus of Rs.805,547,029 for the preceding year. Accordingly a favourable increase of Rs.32,988,906 in the financial results for the year under review was observed as compared with the preceding year. Increase of other income and profit from the associate company by Rs.45,194,253 and Rs.259,405,451 respectively and increase of administrative expenses and finance cost by Rs.67,216,708 and Rs.203,649,155 respectively had mainly attributed to the improvement of financial results.

4. Operating Review

4.1 Uneconomic Transactions

The following observations are made.

- (a) The Investment made in the National Wealth Corporation Limited incorporated in the year 2003 with fully owned share holding to the Trust Fund for the management of the funds of the Trust Fund amounted to Rs.200,000,000. Any dividends whatsoever had not been received from that company since the year 2004 to the year 2007. However, bonus shares amounting to Rs.100,000,000 had been issued on 12 November 2003 by utilizing the profit for the year 2003. Instead of giving dividends for ordinary shares by the company it was observed that bonus shares had been issued by retaining the relevant money.

- (b) The return on investments made by the Mahapola Higher Education Scholarship Trust Fund in the year under review and the return on investments managed by the National Wealth Corporation Limited had been 8.74 per cent and 8.95 per cent respectively. The return on investments made by the Trust Fund and by the company had shown ancillary values and as such it was observed in audit that the operating separate 2 companies for the investment of money of the Trust Fund by incurring an additional cost had been ineffective.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of paragraph 2 of the Public Enterprises Circular No. PE/PF 21 dated 24 May 2002 the financial statements should be presented to the Auditor General within 60 days after the close of the year of accounts, but the financial statements for the year 2012 had been presented to the Auditor General on 24 February 2015. However, the consolidated financial statements for the years 2013 and 2014 had not been presented to audit even by the date of this report.

5.2 Internal Audit

An Internal Audit unit had not been set up in terms of Paragraph 3 of the Management Audit Circular No. DMA 2009 (1) dated 09 June 2009, and as such any internal audit work had not been carried out. However attention had not been paid to carry out internal audit work even through the Internal Audit Unit of the Ministry.

6. Systems and Controls

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

- (a) Accounting
- (b) Assets Management
- (c) Financial Control
- (d) Investments

H.M.Gamini Wijesinghe
Auditor General